



AUGUST 2, 2013

Highlights

Overall 12-month inflation increased to 6.0 percent in July 2013 from 4.9 percent in June 2013 due to a rise in both food and fuel inflation. Non-food nonfuel inflation increased by 17.5 basis points to 4.04 percent in July 2013 from 3.86 percent in June 2013.

The money market liquidity was relatively tight during the week ending July 31, 2013. The tight liquidity is attributed to a build-up of Government deposits as Government finalizes payments arrangements for the new Ministries. The Central Bank liquidity management transactions through repo securities resulted in Ksh 18.9 billion net injection to alleviate the liquidity tightness.

The average interbank rate rose by 141.5 basis points to 8.54 percent during the week ending July 31, 2013 from 7.13 percent in the previous week.

The Kenya Shilling exchange rate changed marginally against the US dollar in the week ending August 1, 2013. It traded at an average of Ksh 87.31 per US dollar compared to Ksh 87.23 per US dollar in the week ending July 25, 2013.

The usable official foreign exchange reserves held by Central Bank increased marginally from US dollar 5,747 million as at July 25, 2013 to US dollar 5,763 million as at August 1, 2013.

The Government offered for sale Treasury bills worth Ksh 9.0 billion, during the week ending August 02, 2013. A total of Ksh 5.5 billion was accepted out of Ksh 5.6 billion bids received.

Gross Government domestic debt stood at Ksh 1,046.1 billion on July 26, 2013, or Ksh 4.9 billion lower than Ksh 1,051.0 billion at the end of June 2013.

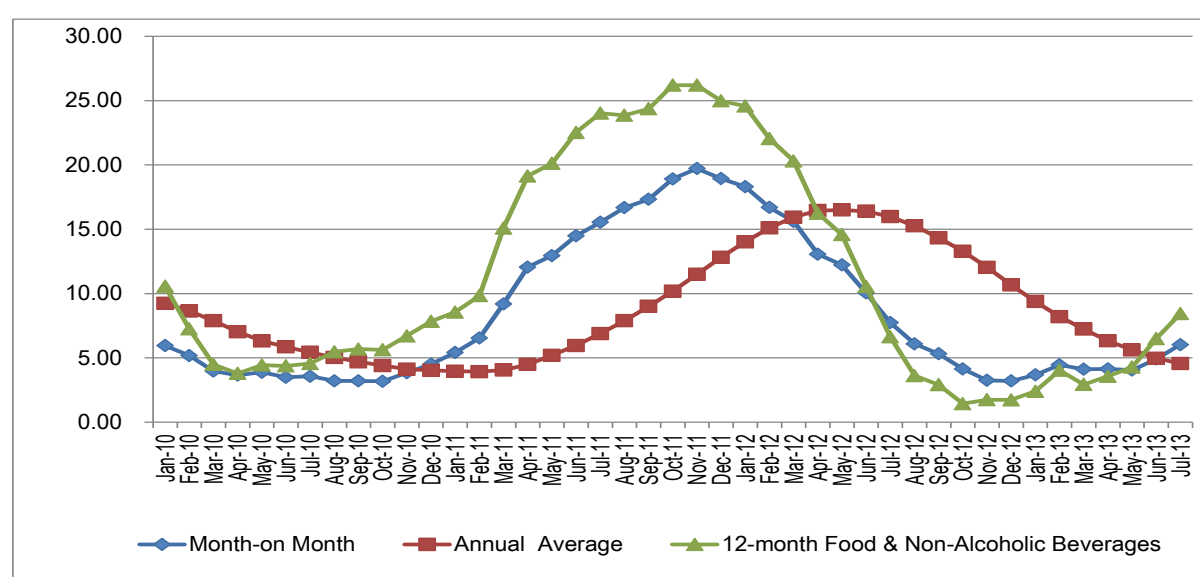
Capital markets recorded subdued activity in the week ending August 1, 2013 compared with the previous week's performance. All market performance indicators and Index Series declined. Market capitalization shed 0.13 percent. Equities and bonds turnover, and number of shares traded closed lower during the week.

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Inflation

Overall 12-month inflation increased by 111 basis points to 6.0 percent in July 2013 from 4.9 percent in June 2013 (Chart A). The increase in the overall inflation in July 2013 was reflected in all the components of the consumer basket except the ‘clothing and footwear’ basket. The highest contributor to the overall inflation was food inflation which rose from 6.5 percent in June 2013 to 8.2 percent in July 2013. This was reflected in the rise of the food and non-alcoholic beverages inflation from 6.5 percent in June 2013 to 8.4 percent in July 2013. Fuel inflation rose to 4.6 percent in July 2013 from 3.5 percent in June 2013 reflecting an increase in the pump prices.

CHART A: MONTH-ON-MONTH ANNUAL AVERAGE AND 12-MONTH FOOD & NON-ALCOHOLIC BEVERAGES INFLATION RATES



Source: Kenya National Bureau of Statistics

Monetary Policy Operations

The money market liquidity was relatively tight during the week ending July 31, 2013. The tightness is attributed to build-up of government deposits at the central Bank as Government finalizes payments arrangements for the new Ministries. The Central Bank liquidity management transactions through repo securities resulted in Ksh 18.9 billion net injection to alleviate the tightness. Sales of repo securities comprised Ksh 10.3 billion in repo securities against maturities of Ksh 18.1 billion in repo securities and Ksh 11.1 billion in term auction deposits. Reserve money averaged Ksh 280.6 billion during the week and was Ksh 5.4 billion below target (Table 1).

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TABLE 1: OPEN MARKET OPERATIONS (KSH BILLION)

Date	Reserve Money* (Projected)			OMO			Reserve money performance		Bank Reserves	Currency Outside Banks	
	Forecast	Target	Exc(+)/ Short(-)	Posted	Mop up		Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
					Repo	Term Auction Deposit					
	(1)	(2)	3=(1-2)	(4)	(5)	(6)	7=(5+6-4)	(8)	9=(8-2)	(10)	(11)
25-Jul-13	283.9	286.0	-2.1	10.0	5.1	0.0	-4.9	278.1	-7.9	-1.4	-6.5
26-Jul-13	285.4	286.0	-0.7	9.0	5.2	0.0	-3.8	280.9	-5.2	1.0	-6.1
29-Jul-13	278.1	286.0	-7.9	0.0	0.0	0.0	0.0	278.4	-7.6	-1.7	-5.9
30-Jul-13	282.8	286.0	-3.2	0.0	0.0	0.0	0.0	283.8	-2.3	3.0	-5.3
31-Jul-13	283.4	286.0	-2.6	0.0	0.0	0.0	0.0	282.0	-4.1	1.2	-5.3
Average	282.7	286.0	-3.3	3.8	2.1	0.0	-1.7	280.6	-5.4	0.4	-5.8

Sources: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate rose by 141.5 basis points, to 8.54 percent during the week ending July 31, 2013 from 7.13 percent in the previous week reflecting tight liquidity in the money market. The interbank volumes transacted remained little changed at an average of Ksh 18.2 billion compared with Ksh 18.7 billion recorded in the previous week (Table 2 and Chart A).

TABLE 2: INTERBANK DEALS, VOLUMES AND INTEREST RATES

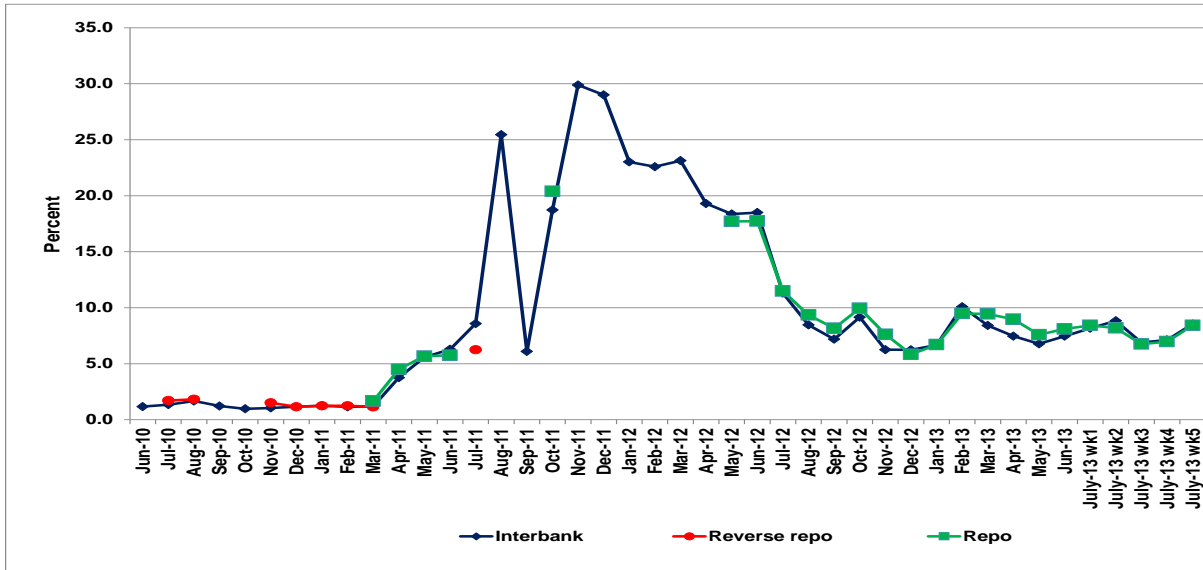
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
18-Jul-13	55	22,463	6.69
19-Jul-13	53	20,988	6.91
22-Jul-13	48	18,157	7.12
23-Jul-13	55	15,749	7.35
24-Jul-13	60	16,343	7.56
July 18-July 24, 2013	54	18,740	7.13
25-Jul-13	58	14,528	7.72
26-Jul-13	53	14,270	8.10
29-Jul-13	65	14,790	8.55
30-Jul-13	84	22,090	8.97
31-Jul-13	88	25,390	9.38
July 25-July 31, 2013	70	18,214	8.54

Sources: Central Bank of Kenya

The average repo rate increased to 8.46 percent during the week ending July 31, 2013 from 6.97 percent recorded in the previous week.

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CHART B: STRUCTURE OF INTEREST RATES

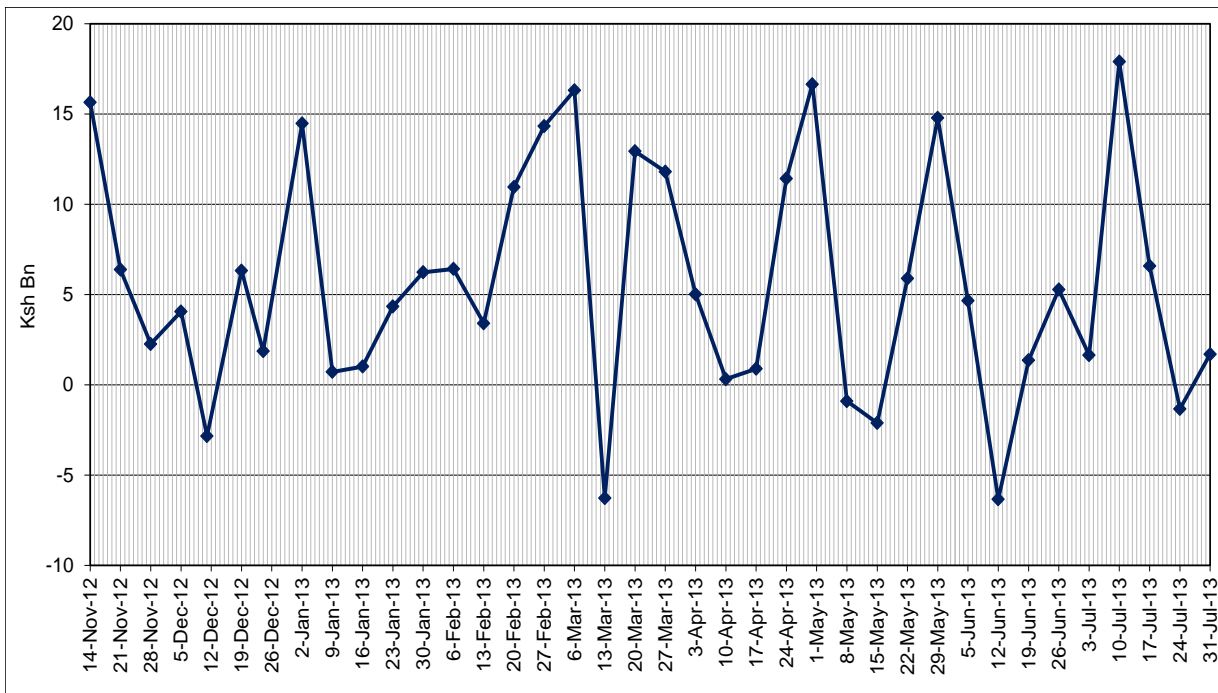


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks recorded a surplus of Ksh 1.69 billion in their settlement account at the Central Bank in relation to the monthly average cash reserve requirements of 5.25 percent (Ksh 93.2 billion) in the week to July 31, 2013 compared with a shortfall of Ksh 1.34 billion recorded in the previous week (Chart C).

CHART C: WEEKLY AVERAGE DEVIATION FROM CRR IN THE CLEARING ACCOUNT



Source: Central Bank of Kenya

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The Shilling Exchange Rate

The Kenya Shilling exchange rate recorded marginal loss against major international currencies in the week ending August 1, 2013. It depreciated by 0.09 percent, 0.11 percent, 0.79 percent and 1.75 percent against the US dollar, the Sterling Pound, the Euro and the Japanese Yen respectively to trade at an average of Ksh 87.31 per US dollar, Ksh 133.70 per Sterling Pound, Ksh 115.85 per Euro and Ksh 88.95 per 100 Japanese Yen in the week under review.

In the EAC region, the Kenya Shilling strengthened against the Uganda shilling but weakened against other EAC currencies to trade at an average of Ush 29.63, Tsh 18.58, RWF 7.44 and BIF 17.61 in the week ending August 1, 2013 compared to Ush 29.59, Tsh 18.60, RWF 7.44 and BIF 17.71 in the week ending July 25, 2013.

TABLE 3: KENYA SHILLING EXCHANGE RATES

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
19-Jul-13	87.16	132.64	114.49	87.11	29.69	18.62	7.43	17.67
22-Jul-13	87.08	133.07	114.53	87.09	29.65	18.61	7.45	17.87
23-Jul-13	87.17	133.87	114.99	87.60	29.60	18.61	7.45	17.85
24-Jul-13	87.34	134.08	115.27	87.47	29.54	18.60	7.43	17.60
25-Jul-13	87.41	134.12	115.45	87.83	29.46	18.55	7.43	17.59
19 - 25 Jul 2013	87.23	133.56	114.95	87.42	29.59	18.60	7.44	17.71
26-Jul-13	87.40	134.48	116.06	88.47	29.46	18.55	7.43	17.59
29-Jul-13	87.24	134.30	115.86	89.22	29.77	18.59	7.44	17.62
30-Jul-13	87.23	133.81	115.66	88.96	29.74	18.64	7.44	17.62
31-Jul-13	87.28	133.31	115.75	89.37	29.62	18.57	7.44	17.62
1-Aug-13	87.40	132.59	115.94	88.72	29.58	18.52	7.44	17.62
26-1 Aug-13	87.31	133.70	115.85	88.95	29.63	18.58	7.44	17.61

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank stabilized at US dollar 5,763 million as at August 1, 2013 compared to US dollar 5,747 million as at July 25, 2013. In terms of the months of imports cover, the foreign exchange reserves declined marginally from 4.15 months to 4.12 months of import cover over the same period and this was above the statutory minimum of 4 months holdings (Table 4).

TABLE 4: OFFICIAL FOREIGN RESERVES US\$ MILLION (USABLE)

	2-May-13	9-May-13	16-May-13	23-May-13	30-May-13	6-Jun-13	13-Jun-13	20-Jun-13	27-Jun-13	4-Jul-13	11-Jul-13	18-Jul-13	25-Jul-13	1-Aug-13
Usable Reserves*	5,668	5,744	5,805	5,821	5,805	5,800	5,801	5,885	5,843	5,812	5,771	5,722	5,747	5,763
Months of Imports Cover**	4.19	4.25	4.29	4.27	4.26	4.26	4.26	4.32	4.29	4.22	4.16	4.13	4.15	4.12

*Excludes encumbered reserves

**Based on 36 month average of imports of goods and non-factor services

Source: Central Bank of Kenya

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Government Securities Auction

The Government offered for sale Ksh 3.0 billion in each of the 91-day, 182-day and 364-day Treasury bills during the week ending August 02, 2013. Total bids received amounted to Ksh 5.6 billion, of which Ksh 1.0 billion, Ksh 2.0 billion and Ksh 2.6 billion was in the 91-day, 182-day and 364-day Treasury bills, representing performance rates of 33.4 percent, 67.2 percent and 86.0 percent, respectively. The Government accepted Ksh 1.0 billion in the 91-day Treasury bill, Ksh 2.0 billion in the 182-day treasury bills and Ksh 2.6 billion in the 364-day Treasury bills, during the week. Total non-competitive bids received amounted to Ksh 1.0 billion.

Interest Rates on Government securities

Weighted average interest rates on the 91-day, 182-day and 364-day Treasury bills increased by 189.1 basis points, 7.9 basis points and 93.4 basis points, respectively to reach 8.754 percent, 6.872 percent and 10.883 percent, during this week's auction.

TABLE 5: GOVERNMENT SECURITIES INTEREST RATES

	22-Mar-13	31-May-13	7-Jun-13	14-Jun-13	5-Jul-13	12-Jul-13	19-Jul-13	26-Jul-13	2-Aug-13
91-day T. Bills*	10.318	7.569	6.721	5.424	5.496	5.759	6.293	6.863	8.754
182-day T. Bills*	10.602	8.840	7.899	6.117	6.000	6.320	6.484	6.793	6.872
364-day T. Bills*	12.674	9.383	8.504	8.270	8.356	8.356	9.055	9.949	10.883
5 year FXD T. Bonds									
10year FXD T. Bonds	13.720								
15year FXD T. Bonds									
15year FXD T. Bonds	13.629							13.769	
20 year FXD T. Bonds									

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt stood at Ksh 1046.1 billion on July 26, 2013, or Ksh 4.9 billion above Ksh 1051.0 billion at the end of June 2013. The decline reflected net redemptions of Kshs 7.4 billion Treasury bills, Kshs 6.0 billion in Treasury bonds, Kshs 0.1 billion in other domestic debt and a partially offsetting Ksh 8.6 billion increase in government overdraft.

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

	Jun 2012	Jun 2013	5th July 2013	19th July 2013	26th July 2013	Changes	
						19th July 2013 -26th July 2013	28th Jun 2013 - 26th Jul 2013
1. Treasury Bills (Excluding Repos) (As % of total securities)	132.0 16.1	267.8 26.5	265.7 25.7	264.3 25.6	260.4 26.1	-3.9	-7.4
2. Treasury Bonds (As % of total securities)	687.0 83.9	744.2 73.5	769.2 74.3	769.2 74.4	738.1 73.9	-31.1	-6.0
3. Total Securities (1+2)	819.0	1011.9	1034.9	1033.5	998.5	-35.0	-13.4
4. Overdraft at Central Bank	7.3	7.0	9.0	10.5	15.6	5.1	8.6
5. Other Domestic debt*	32.6	32.0	31.9	31.9	31.9	0.0	-0.1
6. Gross Domestic Debt (3+4+5)	858.8	1051.0	1075.8	1075.9	1046.1	-29.9	-4.9
7. Interest payments on domestic debt	82.3	110.2	0.5	0.8	2.1	1.3	

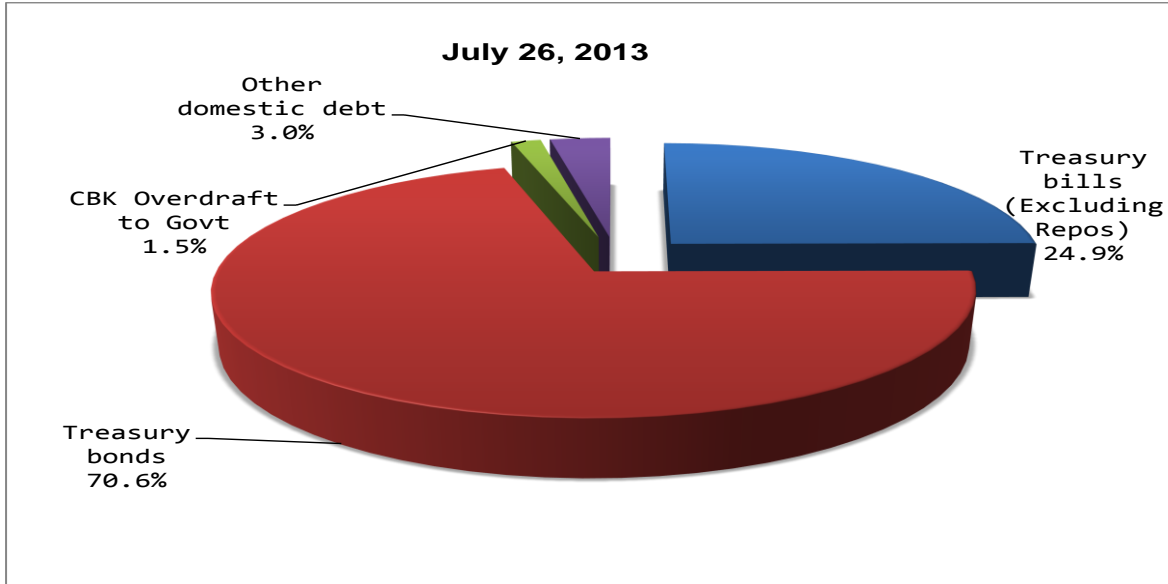
* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and Tax Reserve Certificates .

Source: Central Bank of Kenya

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Gross government domestic debt declined by Ksh 29.9 billion, largely on account of net redemption in Treasury bills (Ksh 3.9 billion) and Treasury bonds (Ksh 31.1 billion) (Table 6.) The average time to maturity of Government securities stabilized at the end of June, 2013 level of 5 years and 2 months.

CHART D: COMPOSITION OF GOVERNMENT SECURITIES

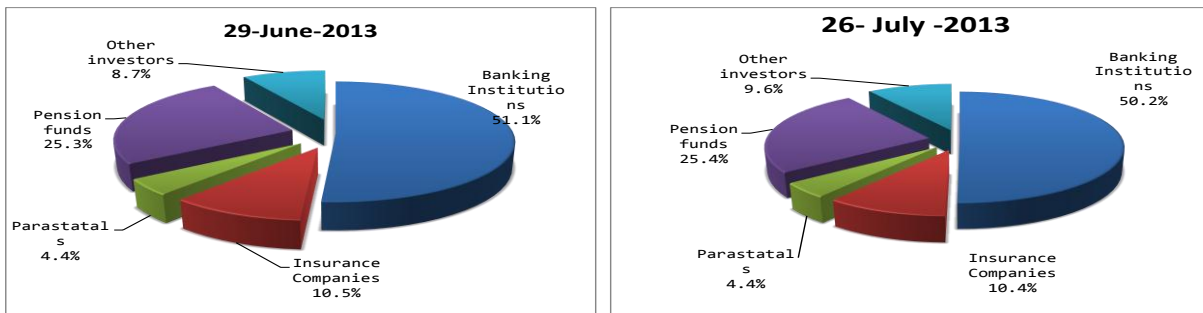


Source: Central Bank of Kenya

Holding of Government Securities

Government securities accounted for 95.5 percent of gross domestic debt on July 26, 2013 (Chart D) with Treasury bonds alone accounting for 70.6 percent. The share of Government securities held by Banking institutions and Insurance companies declined from 51.1 percent and 10.5 percent, respectively, in June 2013 to 50.2 percent and 10.4 percent on July 26, 2013. Government securities held by Pension funds and other investors, which comprise of Sacco's, listed and private companies, self-help groups, educational institutions, religious institutions and individuals, increased from 25.3 percent and 8.7 percent, respectively, to 25.4 percent and 9.6 percent, while the share of securities held by parastatals stabilized at 4.4 percent (Chart E).

CHART E: COMPOSITION OF GOVERNMENT SECURITIES BY INVESTORS



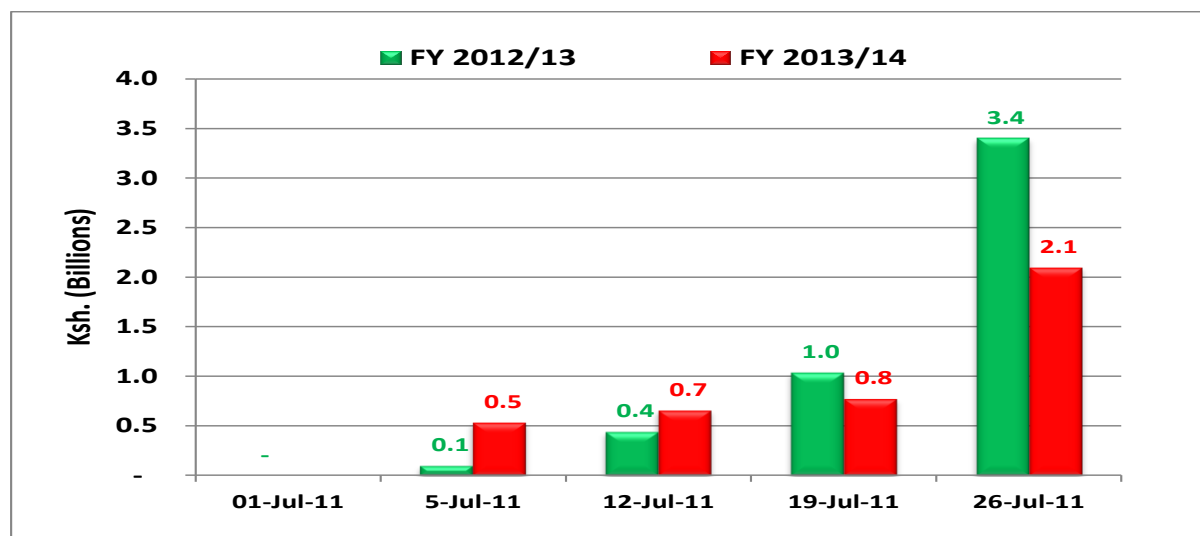
Source: Central Bank of Kenya

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Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt during the week ending July 26, 2013 amounted to Ksh 2.1 billion compared with Ksh 3.4 billion during a similar period of the Fiscal Year 2012/13 (Chart F). The cost during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 0.5 billion and Ksh 1.6 billion, respectively.

CHART F: CUMULATIVE INTEREST PAYMENTS ON DOMESTIC DEBT (KSH BILLION)



Source: Central Bank of Kenya

Capital Markets Report

Capital Markets performance declined in the week ending August 1, 2013 compared to the week ending July 25, 2013 week. Equities turnover declined by 12.40 percent as bonds turnover shed 15.30 percent. All equities and bonds indices as well as market capitalization edged lower than in the previous week.

Equities Market

The NSE 20 Share Index closed the week at 4,781.40 points lower higher than last week's 4,796.30 points (Table 7). NASI declined to 123.03 points from 123.22 points recorded on July 25, 2013. Similarly, market capitalization that measures shareholders' wealth was Ksh 1,729.87 billion down from Ksh 1,732.12 billion. Equity turnover declined to Ksh 1,773.49 million due to low supply of shares and falling prices.

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TABLE 7: KEY WEEKLY MARKET STATISTICS

Week Ending	13-Jun-13	20-Jun-13	27-Jun-13	4-Jul-13	11-Jul-13	18-Jul-13	25-Jul-13	1-Aug-13
NASI 100= Jan 2008	122.97	120.33	115.33	116.23	119.87	123.42	123.22	123.03
NSE 20 Share Index 100=1966	4,838.01	4,713.39	4,584.50	4,574.10	4,658.46	4,800.16	4,796.30	4,781.40
Number of Deals	9,168.00	8,916.00	7,564.00	6,201.00	6,782.00	8,251.00	8,007.00	7,993.00
Total Shares Traded (millions)	121.58	219.83	131.78	123.98	137.96	189.54	103.42	89.42
Equity Turnover (Ksh. millions)	2,542.28	3,226.74	2,532.51	2,110.46	2,843.10	2,929.34	2,024.50	1,773.49
Market Capitalization (Ksh. Bn.)	1,669.05	1,633.17	1,604.69	1,626.64	1,677.64	1,727.31	1,432.12	1,729.87
Bonds Turnover (Ksh. millions)	21,477.75	12,459.20	20,264.25	9,290.25	8,592.05	8,731.20	6,073.90	5,144.30
FTSE NSE Kenya 15 Index	160.28	156.36	188.31	149.73	156.41	160.92	161.03	160.15
FTSE NSE Kenya 25 Index	164.45	160.43	152.52	153.96	160.44	164.98	165.19	163.93
FTSE NSE Bond Index	92.73	94.51	93.61	94.02	94.40	94.38	94.80	94.83

* The Nairobi All Share Index (NASI) effected on February 25, 2008 (January 1, 2008 = 100)

Source: Nairobi Securities Exchange

Telecoms and Technology, Banking and Energy Petroleum were the top three most active sectors, transacting 45.46 million or 50.9 percent; 24.53 million or 27.5 percent and 6.50 million or 7.30 percent of all shares traded, respectively. Safaricom, Barclays and KCB were the three most active counters with 45.46 million, 7.72 million and 6.96 million shares being traded, respectively. Automobile and Accessories sector was the least active, with 79, 700 shares traded. The Growth Enterprise Market Segment (GEMS) had 95,400 million shares traded in the week.

The biggest closing and average price gain for the week was for Jubilee Holdings at Ksh 5 and Ksh 6.80 per share, respectively. The biggest closing and average price losses was for EABL at Ksh 12 and Ksh 5.60 per share, respectively. Of the 54 active counters, 21 had average price gain in the week.

FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, closed the week at 160.15 points down from 161.03 points. FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at NSE, was down to 163.93 points from 165.19 points of last week. FTSE NSE Bond Index declined to 94.83 points from 94.90 points as trading yields rose.

The Bond Market

Bonds trading activity declined by 15.30 percent as turnover closed at Ksh 5,144.30 million from Ksh 6,073.90 million in the previous week. However, corresponding deals declined to 93 from 120 recorded in the previous week.