



DECEMBER 2, 2016

Highlights

Overall inflation accelerated to 6.7 percent in November 2016 from 6.5 percent in October, mainly on account of rising food prices. Fuel inflation increased by 50 basis points from 0.1 percent in the previous month to 0.6 percent in November 2016. Similarly, Non-Food Non-Fuel (NFNF) inflation increased marginally to 5.5 percent in November 2016 from 5.4 percent in October.

Liquidity tightened in the money market in the week ending November 30, 2016, on account of issuance of government securities. The average interbank rate rose to 6.1 percent in the week ending November 30, 2016 from 5.3 percent in the previous week.

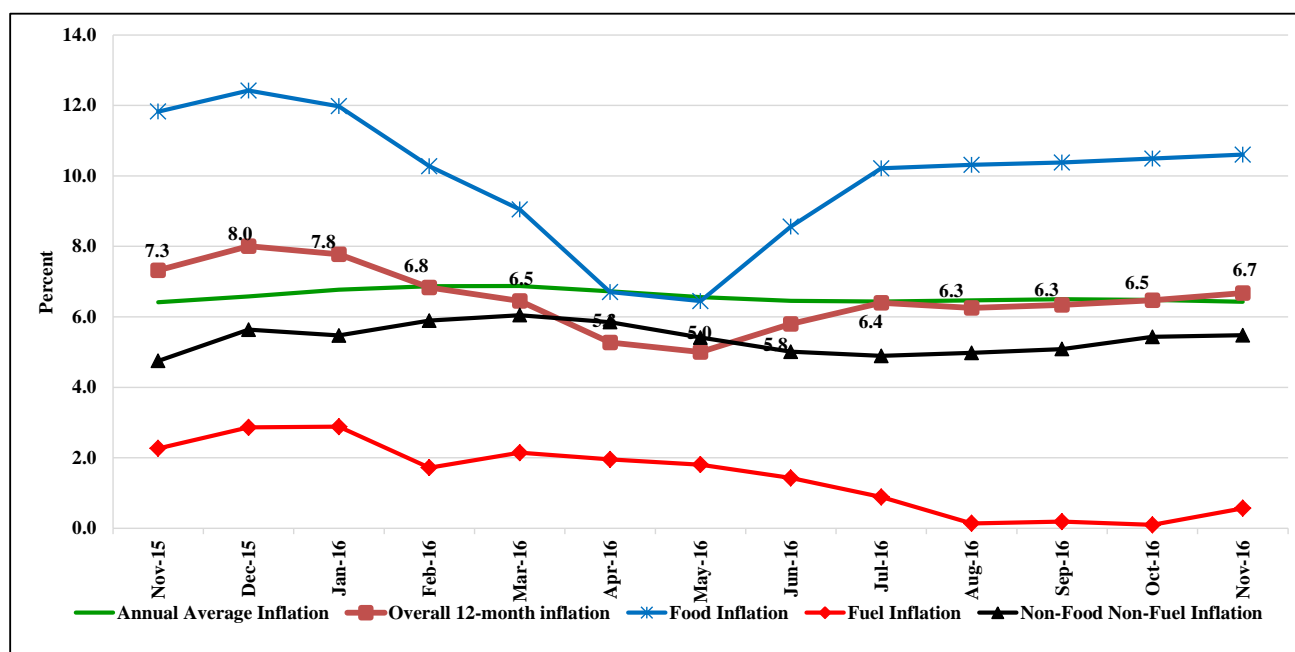
Inflation

Overall inflation accelerated to 6.7 percent in November 2016 from 6.5 percent in October, mainly on account of rising food prices (**Chart A**). Food inflation increased marginally to 10.6 percent in November 2016 from 10.5 percent in October. This reflects increase in prices of a few but key food items, which contributed 2.3 percentage points to food inflation translating to 0.9 percentage points to overall inflation in November 2016. Fuel inflation increased significantly to 0.6 percent in November 2016 from 0.1 percent in October, largely on account of increasing house rents and international oil prices. The contribution of transport to fuel inflation increased from 0.12 percentage points in October 2016 to 0.44 percentage points in November. NFNF inflation increased marginally to 5.5 percent in November 2016 from 5.4 percent in October signaling the onset of price hikes as the end of year festivities begin.

GDP growth in the second quarter 2016

The economy maintained high growth momentum in the second quarter of 2016. It grew by 6.2 percent up from 5.9 percent recorded in the first quarter of 2016. The improved performance was attributed to favourable weather conditions which supported agriculture sector and electricity generation, and high government spending on infrastructure which boosted the construction sector. In addition, the improved security situation boosted recovery of the tourism sector, while low international oil prices supported the productive sectors of the economy.

CHART A: EVOLUTION OF INFLATION RATES



Source: Central Bank of Kenya

Monetary Policy Operations

Liquidity tightened in the money market in the week ending November 30, 2016, on account of issuance of government securities. The tightness was further exacerbated by the consolidation of money by one bank for the payout of Safaricom dividends. To ease the liquidity tightness in the interbank market, Central Bank injected KSh 11.4 billion through reverse repos purchases (**Table 1**). Commercial banks’ excess reserves above 5.25 percent average reserve requirement declined to KSh 13.2 billion in the week ending November 30, 2016, from KSh 19.1 billion recorded in the previous week (**Chart B**).

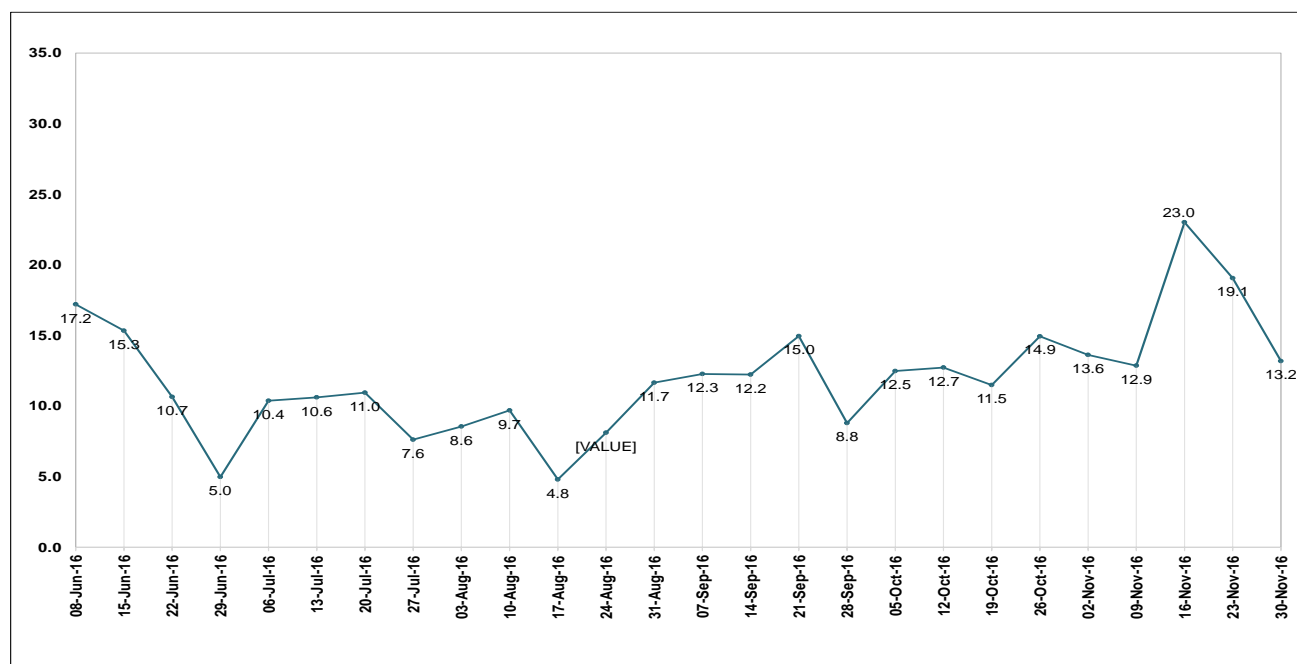
TABLE 1: INTERBANK LIQUIDITY FLOWS AND OPEN MARKET OPERATIONS (KSH BILLION)

	24-Nov-16	25-Nov-16	28-Nov-16	29-Nov-16	30-Nov-16	Total
Liquidity Flows						
Total liquidity injection \1	10.2	14.8	17.8	13.8	14.5	71.0
Repos Maturities	0.0	0.0	0.0	0.0	0.0	0.0
Reverse Repo Purchases	0.4	11.2	4.7	0.5	4.2	21.0
Term Auction Deposit maturities	0.0	0.0	0.0	0.0	0.0	0.0
T/bills redemptions	0.0	0.0	8.4	0.0	0.0	8.4
T/bills rediscounts	0.0	0.0	0.0	0.0	0.0	0.0
T/bonds redemptions	0.0	0.0	0.0	0.0	0.0	0.0
T/bonds Interest	0.0	0.0	2.7	0.0	0.0	2.7
T/bonds rediscounts	0.0	0.0	0.0	0.0	0.0	0.0
Govt payments	9.8	3.6	1.9	13.3	10.2	38.9
Total liquidity reduction \1	2.5	10.9	45.0	9.2	7.5	75.0
T/bills (Primary issues)	0.0	0.0	16.1	0.0	0.0	16.1
Tbonds Sales	0.0	0.0	22.2	0.0	0.0	22.2
T/bills/Tbonds (OMO Tap Sales)	0.0	0.0	0.0	0.0	0.0	0.0
Repos	0.0	0.0	0.0	0.0	0.0	0.0
Reverse Repos maturities	0.4	2.2	3.7	0.4	2.8	9.6
Term Auction Deposit	0.0	0.0	0.0	0.0	0.0	0.0
Transfer from Banks -Taxes	2.1	6.2	3.0	6.9	2.7	20.8
Net liquidity injection (+)/Withdrawal (-)	7.7	3.9	-27.2	4.5	7.0	-4.0
Open Market Operations Outcome						
Posted Amount						
Repo (-)	0.0	0.0	0.0	0.0	0.0	0.0
Term Auction Deposits (-)	0.0	0.0	0.0	0.0	0.0	0.0
Reverse repos purchases	0.4	11.2	4.7	0.5	4.2	21.0
Reserve Money Position						
Reserve money (actual)	398.6	401.1	374.4	382.2	389.3	

\1 Only main transactions increasing or reducing liquidity are included.

Source: Central Bank of Kenya

CHART B: EVOLUTION OF FREE RESERVES



Source: Central Bank of Kenya

Monetary Policy Decision

During the MPC meeting held on November 28, 2016, the Monetary Policy Committee observed that the month on month inflation stood at 6.5 percent and was within the government target range of 5 ± 2.5 percent. The foreign exchange rate was stable despite the increased demand for the dollar from the corporate sector and the subdued inflows. The committee therefore retained the policy rate at 10.0 percent to continue anchoring inflationary expectations.

Activity in the Interbank Market

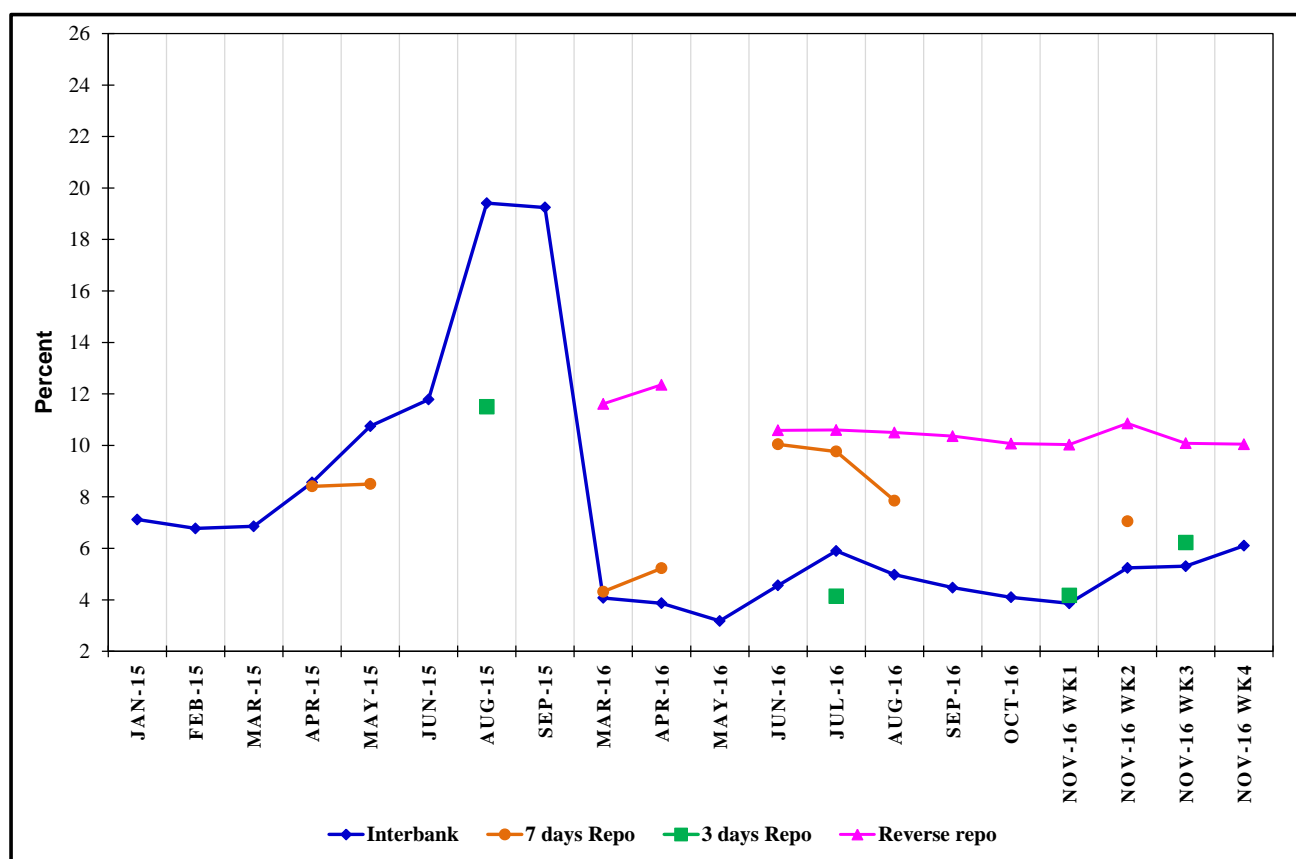
The average interbank rate rose to 6.1 percent in the week ending November 30, 2016 from 5.3 percent in the previous week as liquidity tightened in the market. The number of transactions went up on the last two days of the week due to the consolidation of funds by one bank for the payout of Safaricom dividends. (Table 2 and Chart C).

TABLE 2: OPEN MARKET OPERATIONS (KSH MILLION)

Date	Number of Deals	Value (Ksh M)	Average Interbank Rate (%)	Reverse Repo Rate (%)
17-Nov-16	23	10,110	4.80	
18-Nov-16	27	12,400	5.33	
21-Nov-16	28	17,745	4.94	
22-Nov-16	32	14,605	5.33	10.16
23-Nov-16	24	10,075	6.14	10.01
Nov 17-23, 2016	27	12,987	5.31	10.09
24-Nov-16	28	15,600	5.92	10.00
25-Nov-16	28	14,795	5.80	10.09
28-Nov-16	27	18,175	5.87	10.06
29-Nov-16	30	16,705	6.36	10.09
30-Nov-16	43	24,585	6.56	10.00
Nov 24-30, 2016	31	17,972	6.10	10.05

Source: Central Bank of Kenya

CHART C: STRUCTURE OF SHORT-TERM INTEREST RATES



Source: Central Bank of Kenya

Kenya Shilling Exchange Rate

The Kenya Shilling exchange rate recorded mixed performance against major international currencies as well as EAC currencies during the week ending December 1, 2016. It strengthened against the Euro and the Japanese Yen but weakened against the US Dollar and the Pound Sterling. In the EAC region, it strengthened against the Uganda Shilling and the Rwanda Franc but weakened against the Tanzania Shilling and the Burundi Franc (**Table 3**).

TABLE 3: KENYA SHILLING EXCHANGE RATE

	USD	Sterling Pound	Euro	100 Japanese Yen	USHS*	TSHS*	RWF*	BIF*
18-Nov-16	101.83	126.81	109.03	93.05	35.24	21.41	7.96	16.60
21-Nov-16	101.84	125.70	107.97	91.66	35.25	21.42	7.96	16.50
22-Nov-16	101.86	127.05	108.32	91.90	35.39	21.42	7.96	16.45
23-Nov-16	101.85	126.45	108.07	91.78	35.47	21.42	7.96	16.50
24-Nov-16	101.87	126.01	107.48	90.62	35.54	21.40	7.97	16.50
18-24 November 2016	101.85	126.40	108.17	91.80	35.38	21.42	7.96	16.51
25-Nov-16	101.87	126.94	107.69	90.02	35.51	21.40	8.16	16.41
28-Nov-16	101.89	126.70	108.09	90.23	35.58	21.39	7.97	16.50
29-Nov-16	101.88	126.42	107.96	90.90	35.58	21.40	7.97	16.50
30-Nov-16	101.88	127.10	108.07	90.39	35.58	21.40	8.17	16.42
1-Dec-16	101.85	127.63	108.14	89.34	35.57	21.40	7.98	16.42
25 November-1 December 2016	101.87	126.96	107.99	90.18	35.57	21.40	8.05	16.45

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

The Capital Market

Nairobi Securities Exchange recorded mixed performance in the week ended December 1, 2016 with both the equities and bond market segment recording gains and losses.

Equity Market

Equity share prices declined over the week as reflected in the NSE 25¹, NSE 20² and NASI share indices. Consequently, shareholders wealth measured by market capitalization declined by 1.44 percent on account of overall fall in prices (**Table 4**). Equity turnover rose by 31.26 percent during the week to December 1, 2016, on account of 2.47 percent rise in the volume of shares traded. The gains in sectors of the equity market may also be attributable to bargain hunting activities from investors, given the decline in share prices over the previous week.

¹ The NSE 25 Share Index is a benchmark index of a company shares with primary listing of at least 20% of its shares quoted on the NSE, the company must have been continuously quoted for at least 1 year, has minimum market capitalization of KSh 1 billion and be a “blue chip” company with superior profitability and dividend record.

² The NSE 20 Share Index is a price weight index calculated as a mean of the shares of 20 publicly listed companies, selected based on a weighted market performance.

TABLE 4: KEY MARKET INDICATORS

INDICATOR	19-Oct-16	27-Oct-16	3-Nov-16	10-Nov-16	17-Nov-16	24-Nov-16	1-Dec-16	Weekly Change (%)
NASI 100= 2008	136.13	136.82	138.31	139.89	139.96	138.39	136.74	-1.19
NSE 25 Share Index	3,598.39	3,617.27	3,647.90	3,686.03	3,709.91	3,681.55	3,599.17	-2.24
NSE 20 Share Index 100= 1996	3,239.00	3,201.55	3,227.24	3,246.72	3,283.77	3,273.71	3,250.62	-0.71
Number of Deals	4,106	5,858	6,095	6,233	6,054	5,445	5,043	-7.38
Total Shares Traded (Millions)	48.10	87.53	84.86	116.95	91.79	100.21	102.68	2.47
Equity Turnover (Ksh. Millions)	1,038.32	1,825.65	1,790.65	2,727.92	2,232.48	1,901.46	2,495.91	31.26
Market Capitalization (Ksh. Bn.)	1,972.19	1,982.14	2,047.66	2,026.78	2,027.74	2,009.91	1,980.97	-1.44
I-REIT Turnover in (Ksh.)	0.19	0.27	0.26	0.27	0.71	0.92	0.20	-78.70
I-REIT in Units - Total Deals	21	18	21	23	35	29	26	-10.34
Bonds Turnover (Ksh. Millions)	9,606.85	10,556.20	11,373.10	9,533.29	6,751.20	6,649.85	5,095.10	-23.38
FTSE NSE Kenya 15 Index	164.54	164.71	166.40	168.62	170.84	170.07	165.69	-2.58
FTSE NSE Kenya 25 Index	169.94	170.55	172.34	174.99	176.43	174.71	170.40	-2.47
FTSE NSE Bond Index	89.50	89.66	89.82	90.27	90.31	90.19	90.22	0.03

Source: Nairobi Securities Exchange

FTSE NSE Kenya Index Series, REITS and Most Active Sectors

FTSE³ NSE Kenya 15 Index and FTSE NSE Kenya 25 Index, which measure performance of 15 largest companies by market capitalization and 25 most liquid stocks at the NSE, ended the week 2.58 percent and 2.47 percent lower, respectively. The Telecommunication & Technology and Energy& Petroleum sectors dominated trading accounting for 39.74 percent and 29.70 percent, respectively of the total shares traded over the period under review.

The Income Real Estate Investment Trust (I-REIT⁴) turnover decreased by 78.70 percent and number of deals declined by 10.34 percent, signaling reduced demand for asset backed securities.

Bond Market

Volume of bonds traded declined by 23.38 percent in the week ending December 1, 2016, to close at KSh 5,095.10 million with number of deals declining to 92 from 178 deals the previous week. This can be attributed to the issuance of a new bond dated November 28, 2016. The declining yields in the secondary market saw the FTSE Bond Index rise by 0.03 percent.

³ FTSE refers to Financial Times Stock Exchange, which is an average of share prices in the 100 largest, most actively traded companies on the London Stock Exchange. The two NSE indices are indexed on FTSE

⁴ I-REIT is a collective investment vehicle that allows investors to pool capital, which is then invested in a portfolio of selected properties for a return. Investors gain through capital appreciation and rental income, with the latter being distributed to unit-holders annually.

CBK Weekly Statistical Bulletin of Key Monetary and Financial Indicators

TABLE 5: PERFORMANCE OF GOVERNMENT SECURITIES

91-Day Treasury Bills								
Date of Auction	28-Jul-16	25-Aug-16	29-Sep-16	27-Oct-16	17-Nov-16	24-Nov-16	1-Dec-16	
Amount offered (Ksh M)	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	
Bids received (Ksh M)	3,741.1	1,682.2	4,722.1	4,335.7	5,842.2	5,911.3	5,664.1	
Amount Accepted (Ksh M)	2,672.6	1,456.4	4,200.4	4,335.7	2,021.4	5,908.4	5,624.8	
Maturities (Ksh M)	12,662.0	7,363.7	3,417.7	2,714.4	2,977.5	1,484.5	5,457.7	
Average interest Rate (%) - 91 Days	8.3	8.6	7.8	8.0	8.2	8.3	8.4	
182-Day Treasury Bills								
Date of Auction	27-Jul-16	24-Aug-16	28-Sep-16	26-Oct-16	16-Nov-16	23-Nov-16	30-Nov-16	
Amount offered (Ksh M)	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0	
Bids received (Ksh M)	13,160.0	7,962.7	8,678.0	7,356.5	10,949.6	6,936.3	6,801.8	
Amount Accepted (Ksh M)	6,405.5	7,626.3	5,311.7	7,356.5	6,631.4	6,915.3	6,741.1	
Maturities (Ksh M)	8,198.5	5,446.0	2,051.1	9,520.1	6,396.0	5,649.1	7,332.9	
Average interest Rate (%) - 182 days	10.5	11.2	10.4	10.3	10.3	10.4	10.5	
364-Day Treasury Bills								
Date of Auction	27-Jul-16	24-Aug-16	28-Sep-16	26-Oct-16	16-Nov-16	23-Nov-16	30-Nov-16	
Amount offered (Ksh M)	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0	
Bids received (Ksh M)	5,250.7	5,850.8	7,326.1	5,422.8	9,138.4	5,316.7	4,417.6	
Amount Accepted (Ksh M)	5,214.9	5,630.0	7,326.1	5,422.8	7,230.8	3,266.8	4,372.6	
Maturities (Ksh M)	1,935.9	1,669.4	3,666.6	8,529.4	5,173.1	1,290.5	3,456.7	
Average interest Rate (%) - 364 days	11.4	12.0	10.4	10.6	10.8	10.8	10.9	
Treasury Bonds								
Date of Auction	24th August 2016		20-Oct-16		23-Nov-16		23-Nov-16	
Tenor	FXD 1/2016/10		IFB1/2016/16 (Tap sale)		FXD 3/2007/15		FXD 1/2008/20	
Amount offered (Ksh M)	25000		10,000.0		30,000.0			
Bids received (Ksh M)	26305.2		4,773.4		14,490.3		8,398.0	
Amount Accepted (Ksh M)	18312.23		4,471.4		14,286.0		7,876.6	
Maturities (Ksh M)	0		0.0		0.0			
Average interest Rate (%)	15.0		13.2		13.6		14.3	

Source: Central Bank of Kenya

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

	24-Jun-16	29-Jul-16	26-Aug-16	30-Sep-16	28-Oct-16	18-Nov-16	25-Nov-16
1. Treasury Bills (Excluding Repos)	578.03	577.76	579.67	618.25	631.84	609.50	611.95
(As % of total securities)	33.41	32.75	33.09	33.97	34.04	33.11	33.19
2. Treasury Bonds	1,152.04	1,186.12	1,171.92	1,201.78	1,224.21	1,231.57	1,231.57
(As % of total securities)	66.59	67.25	66.91	66.03	65.96	66.89	66.81
3. Total Securities (1+2)	1,730.07	1,763.88	1,751.59	1,820.02	1,856.05	1,841.07	1,843.52
4. Overdraft at Central Bank	37.06	14.01	13.28	3.32	0.00	0.00	9.96
5. Other Domestic debt*	31.09	30.76	31.42	31.45	31.21	32.05	32.05
6. Gross Domestic Debt (3+4+5)	1,798.22	1,808.64	1,796.29	1,854.80	1,887.26	1,873.12	1,885.54

* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government

Source: Central Bank of Kenya

TABLE 7: COMPOSITION OF GOVERNMENT DEBT BY INSTRUMENT (%)

	24-Jun-16	29-Jul-16	26-Aug-16	30-Sep-16	28-Oct-16	18-Nov-16	25-Nov-16
Treasury bills (Excluding Repos)	32.1	31.9	32.3	33.3	33.5	32.5	32.5
Treasury bonds	64.1	65.6	65.2	64.8	64.9	65.7	65.3
CBK Overdraft to Govt	2.1	0.8	0.7	0.2	0.0	0.0	0.5
Other domestic debt	1.7	1.7	1.7	1.7	1.7	1.7	1.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

TABLE 8: COMPOSITION OF GOVERNMENT DEBT BY HOLDER (%)

	24-Jun-16	29-Jul-16	26-Aug-16	30-Sep-16	28-Oct-16	18-Nov-16	25-Nov-16
Banking Institutions	56.3	54.8	54.4	55.0	53.1	53.2	53.3
Insurance Companies	7.5	7.6	7.3	7.4	7.1	7.1	7.1
Parastatals	4.7	5.1	5.6	5.5	5.6	5.9	5.8
Pension funds	25.9	26.8	27.0	26.6	27.1	27.3	27.3
Other investors	5.7	5.7	5.6	5.6	7.1	6.5	6.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

TABLE 9: OFFICIAL FOREIGN RESERVES US\$ MILLION (USABLE)

	6-Oct-16	13-Oct-16	19-Oct-16	27-Oct-16	3-Nov-16	10-Nov-16	17-Nov-16	24-Nov-16	1-Dec-16
1. CBK Usable Foreign Exchange Reserves (USD Mn)*	7,789	7,744	7,729	7,683	7,628	7,536	7,485	7,336	7,289
2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)**	5.10	5.07	5.06	5.03	4.99	4.93	4.90	4.80	4.77

*Excludes Encumbered Reserves

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

Source: Central Bank of Kenya