



JUNE 2, 2017

Highlights

Overall inflation increased to 11.7 percent in May 2017 from 11.5 percent in April 2017, on account of continued increase in food prices. The food inflation momentum is beginning to ease reflecting favourable weather conditions and Government interventions.

Liquidity in the money market remained relatively stable during the week ending May 31, 2017, largely on account of net OMO maturities. The weighted average interbank rate declined to 3.76 percent compared to 5.03 percent recorded in the previous week.

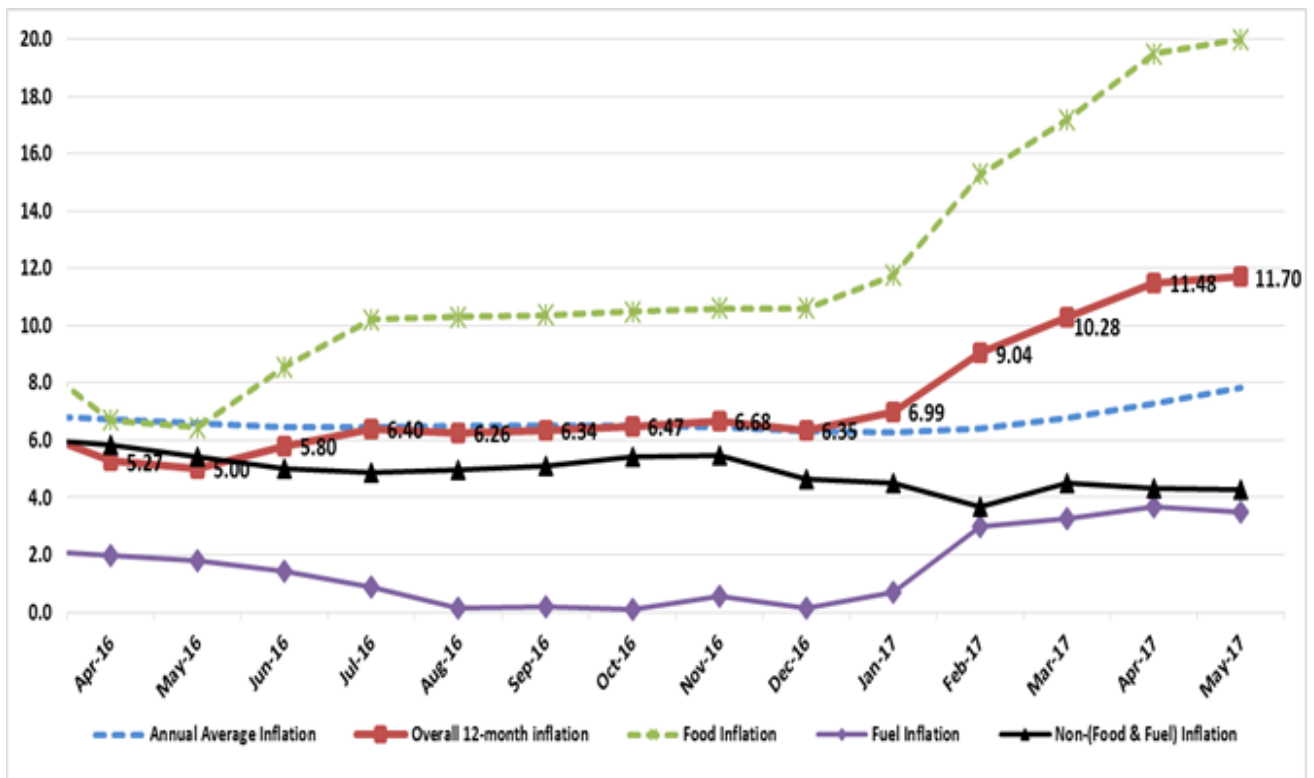
The capital markets recorded strong performance across both the equity and bond price indices during the week ending June 1, 2017.

Inflation

Overall inflation continued to rise for the fourth consecutive month, largely supported by increases in prices of key food items arising from the drought in the first quarter of 2017. It increased to 11.7 percent in May 2017 from 11.5 percent in April 2017. Food inflation increased to 20.0 percent in May

2017 from 19.5 percent in April 2017. Fuel inflation decreased to 3.5 percent in May 2017 from 3.7 percent in April 2017. Non-food non-fuel (NFNF) inflation stabilized at 4.3 percent in April and May 2017, reflecting appropriate monetary policy stance in place and minimal second round effects from the rising food inflation (**Chart A**).

CHART A: DEVELOPMENTS IN INFLATION



Source: KNBS and Central Bank of Kenya

Monetary Policy Operations

Liquidity in the money market remained relatively stable during the week ending May 31, 2017, largely on account of net OMO maturities. Interbank market transactions during the week resulted to a marginal liquidity injection of KSh 0.8 billion (Table 1).

Commercial banks’ excess reserves above 5.25 percent averaging requirement decreased slightly to KSh 12.7 billion, from the previous week’s KSh 13.8 billion (Chart B).

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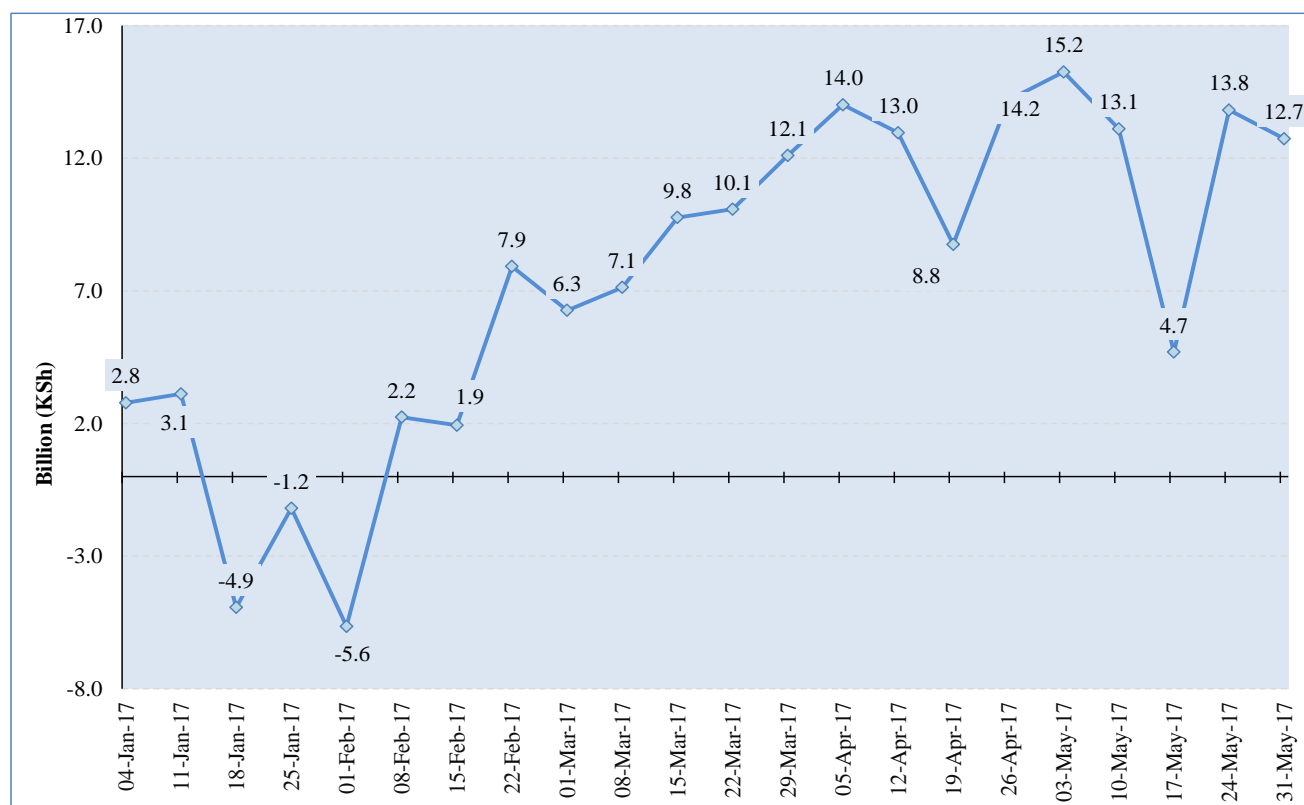
TABLE 1: INTERBANK LIQUIDITY FLOWS AND OPEN MARKET OPERATIONS (KSH BILLION)

	25-May-17	26-May-17	29-May-17	30-May-17	31-May-17	Total
Liquidity Flows						
Total liquidity injection \¹	12.7	8.3	37.0	25.7	5.7	89.5
Repos Maturities	10.0	5.8	0.0	0.0	0.0	15.8
Reverse Repo Purchases	0.0	0.0	0.0	1.3	0.0	1.3
Term Auction Deposit maturities	0.0	0.0	15.0	0.0	0.0	15.0
T/bills redemptions	0.0	0.0	19.2	0.0	0.0	19.2
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	2.7	2.5	0.0	24.4	5.7	35.4
Total liquidity reduction \¹	17.4	6.9	48.6	13.6	2.2	88.6
T/bills (Primary issues)	0.0	0.0	28.1	0.0	0.0	28.1
Tbonds Sales	0.0	0.0	0.0	0.0	0.0	0.0
T/bills/Tbonds (OMO Tap Sales)	0.0	0.0	15.2	0.0	0.0	15.2
Repos	0.0	0.0	0.0	10.0	0.0	10.0
Reverse Repos maturities	0.0	0.0	0.0	1.3	0.0	1.3
Term Auction Deposit	15.0	0.0	0.0	0.0	0.0	15.0
Transfer from Banks -Taxes	2.4	6.8	5.3	2.3	2.2	19.0
Net liquidity injection (+)/Withdrawal (-)	-4.63	1.48	-11.60	12.05	3.5	0.8
Open Market Operations Outcome						
Posted Amount	15.0	-	-	10.0	-	25.0
Realised Amount - Mop up	15.0	-	-	10.0	-	25.0
Repo (-)	0.0	0.0	0.0	10.0	0.0	10.0
Term Auction Deposits (-)	15.0	0.0	0.0	0.0	0.0	15.0
Reserve Money Position						
Reserve money (actual)	401.4	399.5	391.1	401.7	404.4	399.6

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

Source: Central Bank of Kenya

CHART B: COMMERCIAL BANKS EXCESS RESERVES



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Source: Central Bank of Kenya

Activity in the Interbank Market

The weighted average interbank rate declined to 3.8 percent in the week ending May 31, 2017 from 5.0 percent in the previous week. The volumes transacted rose to KSh 13.6 billion from KSh 10.6 billion in the previous week, while the average number of deals stood at 22 compared to 24. Meanwhile, repo sales

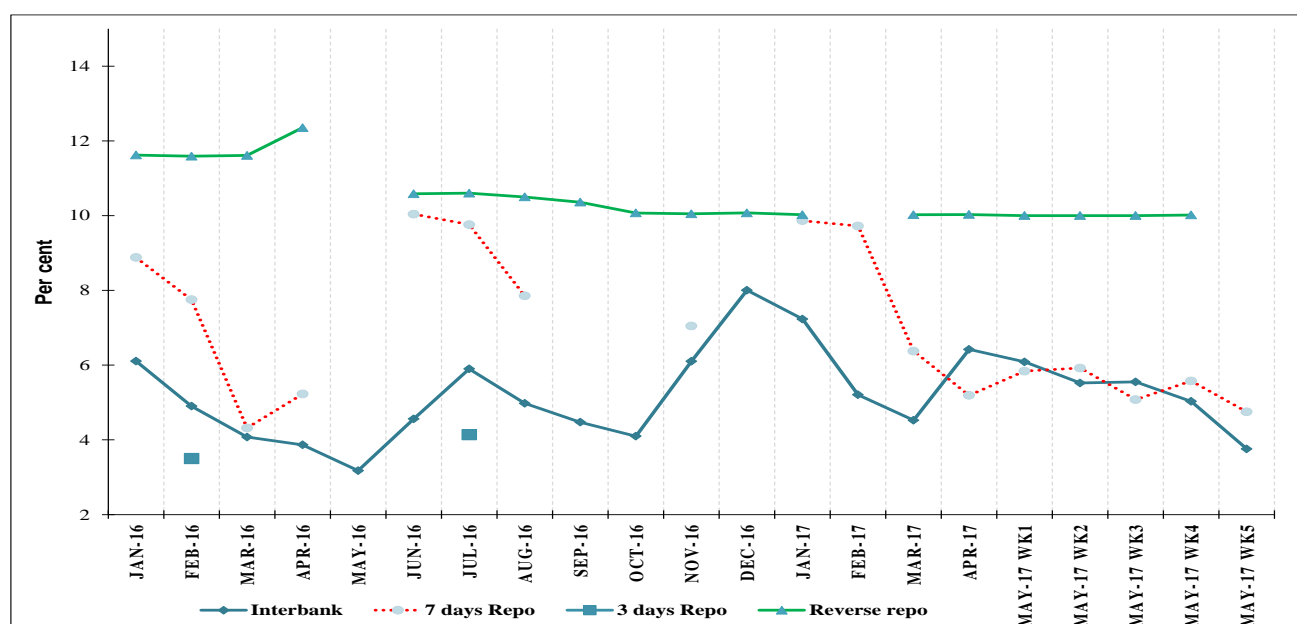
traded at a slightly lower average rate of 4.7 percent in the week ending May 31, 2017 compared to 5.6 percent in the previous week (Table 2 and Chart C).

TABLE 2: OPEN MARKET OPERATIONS (KSh MILLION)

Date	Number of Deals	Value (KSh M)	Average Interbank Rate (%)	7 days Average Repo Rate (%)
18-May-17	24	8,225	6.16	5.13
19-May-17	34	10,304	5.97	6.03
22-May-17	26	13,330	4.83	-
23-May-17	23	15,050	3.99	-
24-May-17	15	6,170	4.19	-
May 18, 2017 - May 24, 2017	24	10,616	5.03	5.58
25-May-17	14	9,400	3.80	-
26-May-17	24	16,500	3.68	-
29-May-17	29	24,100	3.49	-
30-May-17	22	8,545	4.04	4.75
31-May-17	21	9,695	3.79	-
May 25, 2017 - May 31, 2017	22	13,648	3.76	4.75

Source: Central Bank of Kenya

CHART C: STRUCTURE OF INTEREST RATES



Source: Central Bank of Kenya

Kenya Shilling Exchange Rate

The Kenya Shilling exchange rate depicted mixed performance against major international and EAC currencies during the week ending May 31, 2017. The Shilling stabilized against the US Dollar but strengthened against the

Pound Sterling. It changed marginally against other currencies in the EAC region (Table 3).

TABLE 3: KENYA SHILLING EXCHANGE RATE

	USD	Sterling Pound	Euro	100 Japanese Yen	USHS*	TSHS*	RWF*	BIF*
19-May-17	103.34	133.75	114.97	92.78	35.06	21.65	8.13	16.40
22-May-17	103.31	134.58	115.63	92.66	35.09	21.65	8.17	16.45
23-May-17	103.29	134.29	116.12	92.64	35.05	21.66	7.97	16.63
24-May-17	103.30	134.23	115.86	92.98	35.00	21.66	7.97	16.65
25-May-17	103.30	133.84	115.60	92.33	34.90	21.66	7.97	16.63
19-25 May 2017	103.31	134.14	115.63	92.67	35.02	21.65	8.04	16.55
26-May-17	103.31	133.72	115.76	92.42	34.90	21.65	7.97	16.63
29-May-17	103.34	132.53	115.32	92.95	34.91	21.64	7.96	16.63
30-May-17	103.36	132.67	115.51	92.86	34.88	21.62	7.96	16.63
31-May-17	103.38	133.06	115.63	93.21	34.85	21.63	7.96	16.63
26-31 May 2017	103.35	132.99	115.55	92.86	34.88	21.64	7.96	16.63

Source: Central Bank of Kenya

The Capital Market

The capital markets recorded strong performance across both the equity and bond price indices during the week ending June 1, 2017. However, volumes traded fell short of the previous week due to a short trading period. REITs market segment improved in both turnover and deals transacted.

Equity Market

Share prices rose in the week ending June 1, 2017 as indicated by gains in the NASI, NSE 25 and NSE 20 price indices. Shareholder wealth, as measured by market capitalization, increased by 1.96 percent. Equity turnover, however, decreased by 38.8 percent, due to a 45.8 percent decline in the volume of shares traded (Table 4).

TABLE 4: KEY WEEKLY MARKET STATISTICS

INDICATOR	20-Apr-17	27-Apr-17	4-May-17	11-May-17	18-May-17	25-May-17	1-Jun-17	Weekly Change (%)
NASI 100= 2008	133.78	133.20	134.58	137.64	138.85	145.55	148.40	1.96
NSE 25 Share Index	3,536.93	3,534.00	3,551.26	3,620.80	3,685.50	3,883.64	3,926.32	1.10
NSE 20 Share Index 100= 1996	3,149.33	3,164.00	3,144.38	3,195.70	3,244.69	3,410.89	3,441.05	0.88
Number of Deals	4,136	4,696	4,230	6,068	6,650	6,150.00	5,509.00	-10.42
Total Shares Traded (Million)	230.34	97.38	82.50	133.51	193.34	194.23	105.20	-45.84
Equity Turnover (KSh Million)	4,149.43	2,768.86	2,341.64	3,051.53	4,303.93	4,507.16	2,757.59	-38.82
Market Capitalization (KSh Billion)	1,942.49	1,934.61	1,954.12	1,999.00	2,016.35	2,113.87	2,155.36	1.96
I-REIT Turnover in (KSh Million)	0.05	0.43	0.33	0.66	0.24	0.08	0.27	243.31
I-REIT in Units - Total Deals	4.00	12.00	21.00	28.00	14.00	10.00	34.00	240.00
Bonds Turnover (KSh Million)	3,977.40	10,647.71	8,706.15	13,791.38	6,687.15	16,421.90	11,633.99	-29.16
FTSE NSE Kenya 15 Index	164.59	164.10	165.27	169.10	173.37	180.97	182.06	0.60
FTSE NSE Kenya 25 Index	168.76	168.20	170.11	174.07	177.71	185.31	186.10	0.43
FTSE NSE Bond Index	89.84	89.90	89.96	89.98	90.04	91.37	91.48	0.12

Source: Nairobi Securities Exchange

FTSE NSE Kenya Index Series, REITS and Most Active Sectors

The FTSE¹ 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 Nairobi Securities Exchange (NSE), rose by 0.6 and 0.4 percent, respectively.

Telecommunication & Technology, Banking, and Energy & Petroleum sectors accounted for 85.7 percent of the total shares traded during the period under review.

Turnover in the Income-Real Estate Investment Trust (I-REIT²) increased by 243.3 percent, with the number of deals growing by 240 percent over

the week ending June 1, 2017, highlighting investor appetite for asset-backed securities.

Bond Market

The volume of bonds traded declined by 29.2 percent with corresponding deals down to 145 from 176 in the previous week, perhaps due to a short trading week. The FTSE Bond Index, however, increased by 0.02 percent, reflecting easing in secondary market yields.

¹ 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
² 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.

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TABLE 5: PERFORMANCE OF GOVERNMENT SECURITIES

91-Day Treasury Bills							
Date of Auction	30-Mar-17	27-Apr-17	4-May-17	11-May-17	18-May-17	25-May-17	1-Jun-17
Amount offered (Ksh M)	10,000.0	10,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0
Bids received (Ksh M)	11,223.1	12,373.5	11,828.9	11,942.9	8,847.4	5,171.6	8,368.2
Amount Accepted (Ksh M)	7,084.8	11,239.8	3,602.9	6,705.5	2,234.0	2,645.1	3,125.6
Maturities (Ksh M)	1,393.8	5,657.4	1,381.9	1,532.8	1,813.1	5,910.5	8,778.8
Average interest Rate (%) - 91 Days	8.8	8.8	8.8	8.7	8.7	8.6	8.5
182-Day Treasury Bills							
Date of Auction	29-Mar-17	26-Apr-17	3-May-17	10-May-17	17-May-17	24-May-17	31-May-17
Amount offered (Ksh M)			10,000.0	10,000.0	10,000.0	10,000.0	10,000.0
Bids received (Ksh M)			25,376.5	19,616.9	16,815.9	15,070.4	15,495.7
Amount Accepted (Ksh M)			20,401.7	12,516.9	15,452.4	13,608.2	13,919.6
Maturities (Ksh M)			6,660.0	6,932.5	7,220.5	7,053.2	7,400.1
Average interest Rate (%) - 182 days			10.5	10.4	10.4	10.4	10.4
364-Day Treasury Bills							
Date of Auction	29-Mar-17	26-Apr-17	3-May-17	10-May-17	17-May-17	24-May-17	31-May-17
Amount offered (Ksh M)	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0
Bids received (Ksh M)	13,275.7	8,245.6	9,892.6	10,754.8	15,748.4	13,821.3	13,928.2
Amount Accepted (Ksh M)	9,287.4	7,987.5	8,879.0	10,546.7	14,815.9	11,869.9	11,566.5
Maturities (Ksh M)	4,883.3	8,932.5	6,846.0	6,665.8	10,201.1	6,562.6	7,459.8
Average interest Rate (%) - 364 days	10.9	10.9	10.9	10.9	10.9	10.9	10.9
Treasury Bonds							
Date of Auction	29-Mar-17	27-Apr-17	17-May-17				
Tenor	FXD 3/2013/5	FXD1/2009/11	FXD 2/2010/10	FXD 1/2009/15			
Amount offered (Ksh M)	15,000.0	7,000.0	40,000.0				
Bids received (Ksh M)	12,109.4	6,143.05	14,494.9	24,354.9			
Amount Accepted (Ksh M)	7,842.8	4,009.60	8,532.8	11,463.4			
Maturities (Ksh M)	0.0	0	31,079.6				
Average interest Rate (%)	12.404	12.0	12.472	13.141			

Source: Central Bank of Kenya

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

	27-Jan-17	24-Feb-17	31-Mar-17	28-Apr-17	05-May-17	12-May-17	19-May-17	26-May-17
1. Treasury Bills (Excluding Repos)	598.48	607.90	615.77	626.90	624.90	636.88	653.67	673.30
(As % of total securities)	32.36	33.21	32.69	32.25	32.06	32.47	33.13	33.96
2. Treasury Bonds	1,250.70	1,222.61	1,268.16	1,317.02	1,324.29	1,324.29	1,319.29	1,309.35
(As % of total securities)	67.64	66.79	67.31	67.75	67.94	67.53	66.87	66.04
3. Total Securities (1+2)	1,849.17	1,830.51	1,883.93	1,943.92	1,949.18	1,961.17	1,972.95	1,982.65
4. Overdraft at Central Bank	13.58	25.13	30.27	-	2.68	-	-	-
5. Other Domestic debt*	32.10	30.97	31.06	30.75	30.76	35.95	35.95	35.93
6. Gross Domestic Debt (3+4+5)	1,894.85	1,886.61	1,945.25	1,974.67	1,982.62	1,997.11	2,008.90	2,018.58

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

Source: Central Bank of Kenya

TABLE 7: COMPOSITION OF GOVERNMENT DEBT BY INSTRUMENT (IN PER CENT)

	27-Jan-17	24-Feb-17	31-Mar-17	28-Apr-17	5-May-17	12-May-17	19-May-17	26-May-17
Treasury bills (Excluding Repos)	31.6	32.2	31.7	31.7	31.5	31.9	32.5	33.4
Treasury bonds	66.0	64.8	65.2	66.7	66.8	66.3	65.7	64.9
CBK Overdraft to Govt	0.7	1.3	1.6	0.0	0.1	0.0	0.0	0.0
Other domestic debt	1.7	1.6	1.6	1.6	1.6	1.8	1.8	1.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

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TABLE 8: COMPOSITION OF GOVERNMENT DEBT BY HOLDER (IN PER CENT)

	27-Jan-17	24-Feb-17	31-Mar-17	21-Apr-17	28-Apr-17	5-May-17	12-May-17	19-May-17	26-May-17
Banking Institutions	51.6	51.0	54.1	54.9	55.1	55.2	55.3	55.0	56.2
Insurance Companies	7.5	7.5	7.1	7.0	7.0	7.0	6.9	6.9	6.9
Parastatals	5.7	5.8	6.5	6.5	6.5	6.5	6.4	6.5	6.6
Pension funds	28.6	29.0	28.2	27.8	27.5	27.5	27.5	27.8	27.9
Other investors	6.7	6.7	4.0	3.9	3.9	3.9	3.9	3.8	2.4
Total	100.0	100.0	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)

	20-Apr-17	27-Apr-17	4-May-17	11-May-17	18-May-17	25-May-17	31-May-17
1. CBK Usable Foreign Exchange Reserves (USD Million)*	7,959	8,309	8,304	8,251	8,248	8,236	8,262
2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)**	5.26	5.49	5.49	5.45	5.45	5.44	5.46

**Excludes Encumbered Reserves*

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

Source: Central Bank of Kenya