



NOVEMBER 4, 2016

Highlights

Overall inflation increased to 6.5 percent in October 2016, from 6.3 percent in September 2016 whereas, Non-Food Non-Fuel (NFNF) inflation increased from 5.1 percent in September to 5.4 percent in October 2016.

The money market was liquid during the week ending November 2, 2016 supported by net government payments. Commercial banks' excess reserves above 5.25 percent averaging requirement declined to KSh 13.6bn in the week ending November 2, 2016 from KSh 14.9bn recorded in the previous week. The average interbank rate declined to 4.2 percent in the week ending November 2, 2016 from 4.4 percent recorded in the previous week.

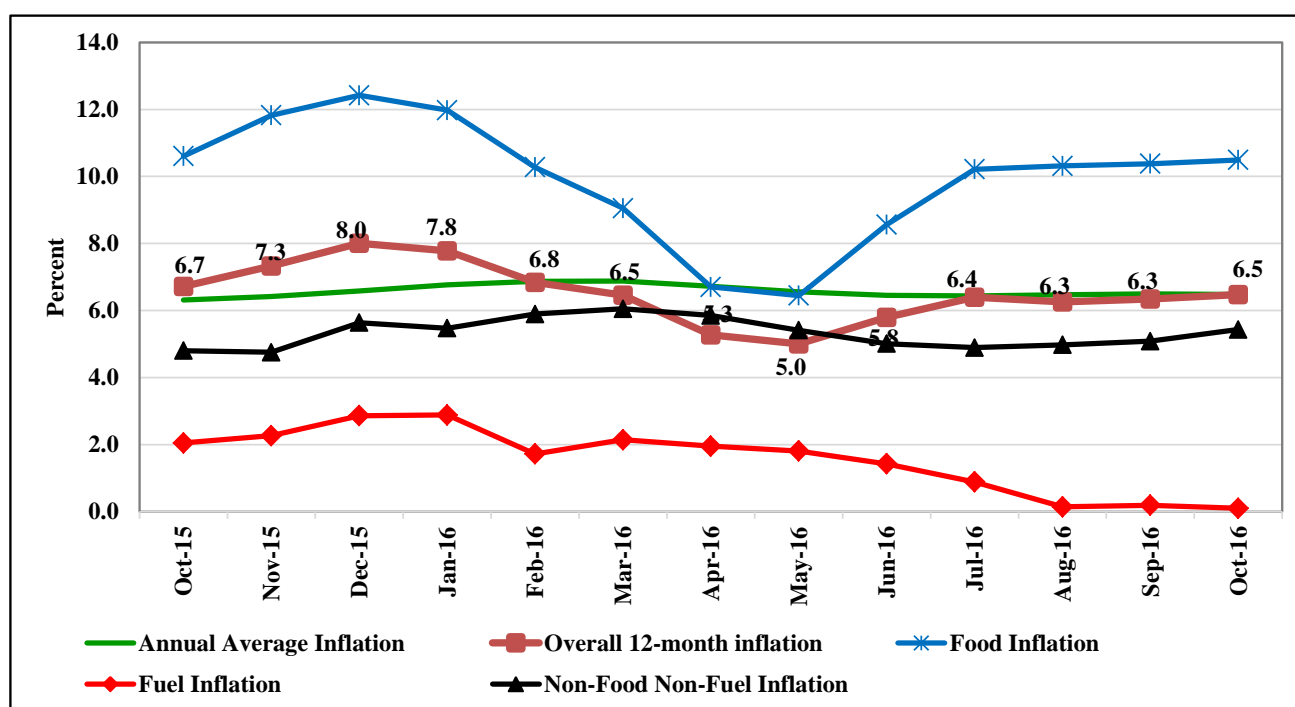
Inflation

Overall inflation increased to 6.5 percent in October 2016, from 6.3 percent in September 2016, mainly on account of rising food prices. Food inflation increased marginally to 10.5 percent in October 2016 from 10.4 percent in September 2016, largely driven by increasing prices of some food items. The prices of sugar, Irish potatoes, ripe bananas and beans increased by 13.4 percent, 8.8 percent, 11.1 percent and 9.0 percent, respectively. These four items contributed 0.5 percentage points to overall inflation in October 2016. Fuel inflation declined to 0.1 percent in October 2016 from 0.2 percent in September 2016 largely on account of stable energy and fuel prices. Key fuel items (*petrol, gas, electricity, diesel, kerosene*) exerted downward pressure to overall inflation by 0.36 percentage points in October 2016. However, house rents exerted upward pressure to overall inflation by 0.23 percentage points, which could be on account of increased enforcement and compliance of rental income tax law by Kenya Revenue Authority. Non-Food Non-Fuel (NFNF) inflation increased from 5.1 percent in September to 5.4 percent in October 2016 largely driven by inflation of the 'clothing and footwear' category.

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 supported by 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

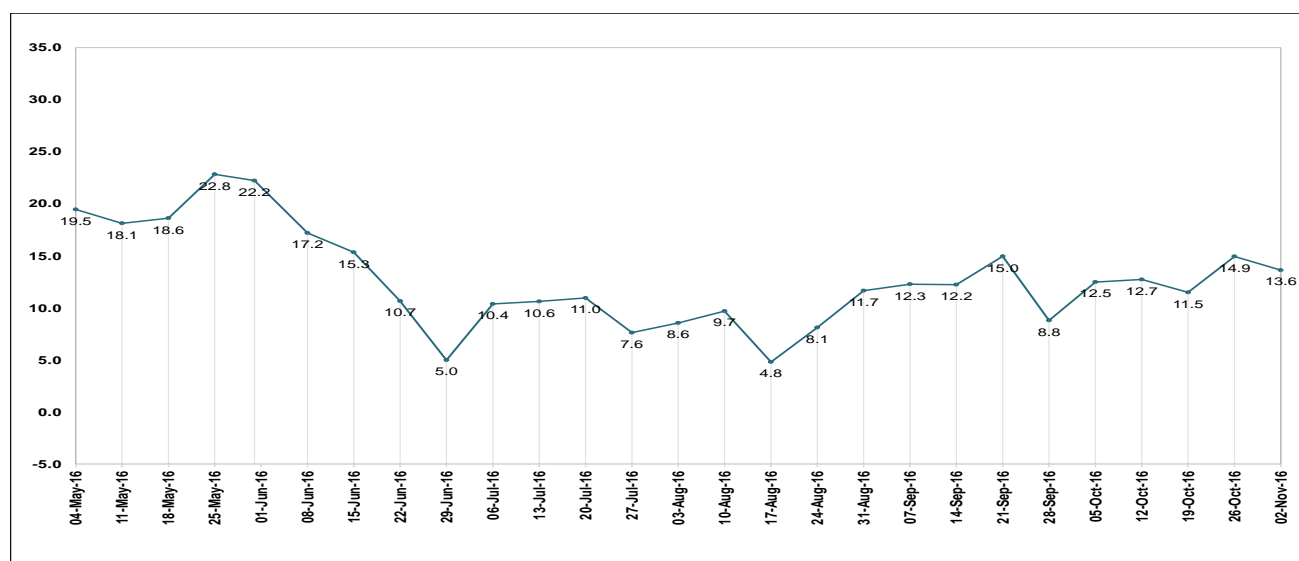
The money market was liquid during the week ending November 2, 2016 supported by net government payments (**Table 1**). The government paid out end month salaries during the week. Commercial banks' excess reserves above 5.25 percent averaging requirement declined to KSh 13.6bn in the week ending November 2, 2016 from KSh 14.9bn recorded in the previous week due to reverse repo maturities. (**Chart B**).

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

	27-Oct-16	28-Oct-16	31-Oct-16	1-Nov-16	2-Nov-16	Total
Liquidity Flows						
Total liquidity injection \1	5.8	13.1	41.9	13.2	2.7	76.7
Repos Maturities	0.0	0.0	0.0	0.0	0.0	0.0
Reverse Repo Purchases	0.1	3.7	6.4	0.4	0.2	10.8
Term Auction Deposit maturities	0.0	0.0	0.0	0.0	0.0	0.0
T/bills redemptions	0.0	0.0	20.8	0.0	0.0	20.8
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	0.0	0.0	0.0	0.0
T/bonds rediscounts	0.0	0.0	0.0	0.0	0.0	0.0
Govt payments	5.7	9.4	14.8	12.8	2.5	45.1
Total liquidity reduction \1	3.2	20.0	33.9	7.2	3.2	67.4
T/bills (Primary issues)	0.0	0.0	17.1	0.0	0.0	17.1
Tbonds Sales	0.0	0.0	0.0	0.0	0.0	0.0
T/bills/Tbonds (OMO Tap Sales)	0.0	0.0	4.5	0.0	0.0	4.5
Repos	0.0	0.0	0.0	0.0	0.0	0.0
Reverse Repos maturities	0.0	15.6	4.0	0.4	0.2	20.2
Term Auction Deposit	0.0	0.0	0.0	0.0	0.0	0.0
Transfer from Banks -Taxes	1.3	4.4	8.3	6.7	2.9	23.7
Net liquidity injection (+)/Withdrawal (-)	2.6	-6.9	8.0	6.0	-0.5	9.2
Open Market Operations Outcome						
Posted Amount						
Repo (-)						
Term Auction Deposits (-)						
Reverse repos purchases	0.1		6.4	0.4	0.2	7.1
Reserve Money Position						
Reserve money (actual)	390.8	385.4	397.7	402.7	402.6	

\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

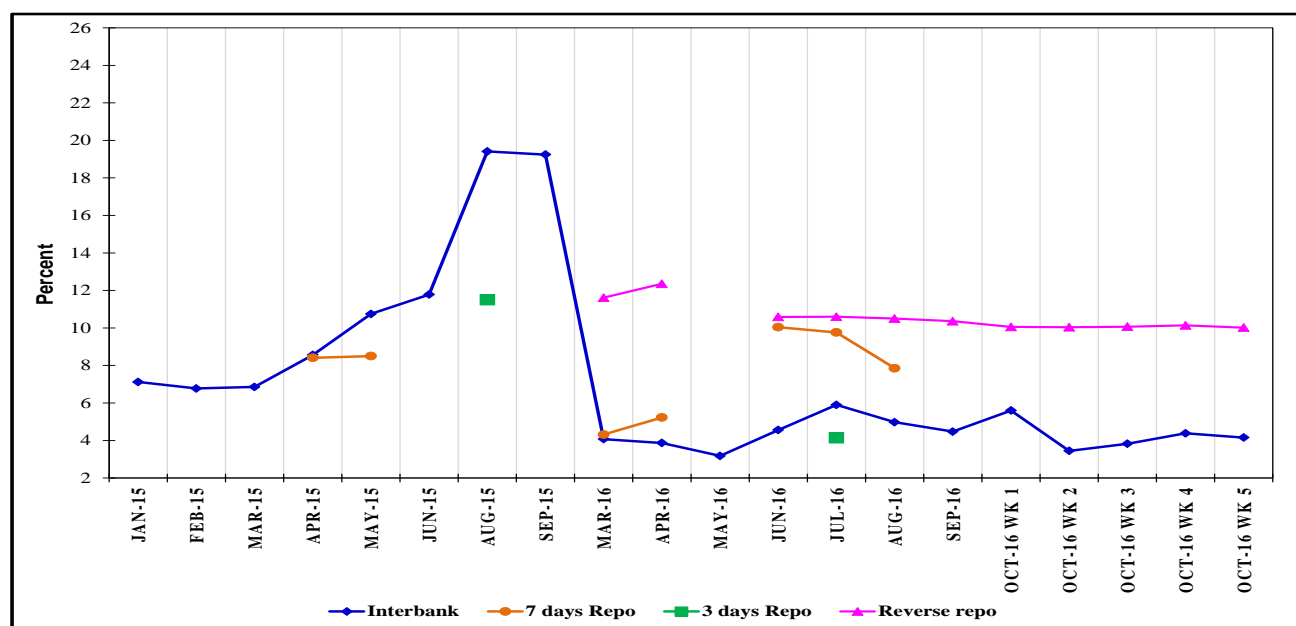
Activity in the Interbank Market

The average interbank rate declined to 4.2 percent in the week ending November 2, 2016 from 4.4 percent recorded in the previous week as liquidity conditions improved on account of government payments. Similarly the volume traded declined to KSh 10.6 billion from KSh 19.4bn. (Table 2 and Chart B).

TABLE 2: OPEN MARKET OPERATIONS (KSH MILLION)

Date	Number of Deals	Value (Ksh M)	Average Interbank Rate (%)	Reverse Repo Rate (%)
21-Oct-16	40	30,940	4.34	10.17
24-Oct-16	26	20,930	4.39	10.10
25-Oct-16	26	10,310	4.76	10.14
26-Oct-16	24	15,378	4.05	
October 21-26, 2016	29	19,390	4.38	10.14
27-Oct-16	27	13,178	4.03	
28-Oct-16	31	9,958	4.80	10.05
31-Oct-16	23	11,480	4.03	10.01
1-Nov-16	18	9,980	3.78	10.00
2-Nov-16	18	8,550	4.15	10.00
October 27-Nov 2, 2016	23	10,629	4.16	10.02

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

TABLE 3: KENYA SHILLING EXCHANGE RATE

	USD	Sterling Pound	Euro	100 Japanese Yen	USHS*	TSHS*	RWF*	BIF*
21-Oct-16	101.32	124.59	111.12	98.15	34.00	21.56	7.36	16.52
24-Oct-16	101.37	123.60	110.25	97.74	33.95	21.54	7.36	16.52
25-Oct-16	101.40	123.98	110.39	97.39	34.06	21.54	7.36	16.52
26-Oct-16	101.39	123.29	110.26	97.19	34.06	21.55	7.97	16.50
27-Oct-16	101.38	123.86	110.56	96.98	34.13	21.52	8.10	16.54
21-27 October 2016	101.37	123.87	110.52	97.49	34.04	21.54	7.63	16.52
28-Oct-16	101.43	123.94	110.74	96.40	34.20	21.53	8.09	16.53
31-Oct-16	101.46	123.60	111.13	96.88	34.10	21.51	8.08	16.49
1-Nov-16	101.48	123.36	111.05	96.57	34.10	21.53	8.09	16.54
2-Nov-16	101.52	124.22	112.00	97.16	34.18	21.51	7.35	16.51
3-Nov-16	101.57	125.12	112.64	98.32	34.21	21.49	7.35	16.64
28 October-3 November 2016	101.49	124.05	111.51	97.06	34.16	21.52	7.79	16.54

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

The Capital Market

The capital market recorded improved performance except in terms of shares traded, equity turnover and I-REIT turnover in the week ending November 3, 2016.

Equity Market

Equities share prices improved as reflected by changes in NSE 20¹, NSE 25² and NASI share indices. Consequently, market capitalization rose by 3.31 percent due to improved share prices, while the number of deals rose by 4.05 percent. However, equity turnover fell by 1.92 percent on account of 3.05 percent decline in shares traded (**Table 4**).

¹ 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.

² 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.

TABLE 4: KEY MARKET INDICATORS

INDICATOR	22-Sep-16	29-Sep-16	06-Oct-16	13-Oct-16	19-Oct-16	27-Oct-16	03-Nov-16	Weekly Change (%)
NASI 100= 2008	133.45	136.01	137.53	137.15	136.13	136.82	138.31	1.09
NSE 25 Share Index	3,517.19	3,591.42	3,644.92	3,630.42	3,598.39	3,617.27	3,647.90	0.85
NSE 20 Share Index 100= 1996	3,169.64	3,217.75	3,264.03	3,242.32	3,239.00	3,201.55	3,227.24	0.80
Number of Deals	5,687.00	5,085.00	5,433.00	5,273.00	4,106.00	5,858.00	6,095.00	4.05
Total Shares Traded (Millions)	198.10	147.51	103.75	120.14	48.10	87.53	84.86	-3.05
Equity Turnover (Ksh. Millions)	4,170.16	3,152.74	2,579.24	2,836.78	1,038.32	1,825.65	1,790.65	-1.92
Market Capitalization (Ksh. Bn.)	1,921.77	1,958.67	1,992.42	1,986.91	1,972.19	1,982.14	2,047.66	3.31
I-REIT Turnover in (Ksh.)	7.88	0.98	2.38	2.16	0.19	0.27	0.26	-3.70
I-REIT in Units - Total Deals	54.00	27.00	40.00	32.00	21.00	18.00	21.00	16.67
Bonds Turnover (Ksh. Millions)	5,186.82	7,206.23	5,806.35	7,108.64	9,606.85	10,556.20	11,373.10	7.74
FTSE NSE Kenya 15 Index	159.14	160.96	167.57	165.31	164.54	164.71	166.40	1.03
FTSE NSE Kenya 25 Index	164.64	166.62	173.27	171.13	169.94	170.55	172.34	1.05
FTSE NSE Bond Index	88.45	89.11	89.26	90.14	89.50	89.66	89.82	0.18

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 1.03 percent and 1.05 percent higher, respectively. The real estate market segment recorded mixed activity with the Real Estate Investment Trust (I-REIT⁴) turnover down 3.70 percent, while the number of deals was up by 16.67 percent.

The Telecommunication & Technology, Banking and Insurance sectors dominated trading accounting for 73.39 percent of the total shares traded over the period under review.

Bond Market

The bond turnover rose by 7.74 percent in the week ending November 3, 2016 with the number of deals down to 21 from 115 deals in the previous week. The FTSE NSE Bond Index increased marginally by 0.18 percent during the week.

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.

TABLE 5: PERFORMANCE OF GOVERNMENT SECURITIES

91-Day Treasury Bills							
Date of Auction	28-Jul-16	25-Aug-16	29-Sep-16	06-Oct-16	13-Oct-16	20-Oct-16	27-Oct-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	6,040.0	4,685.5	1,359.1	4,335.7
Amount Accepted (Ksh M)	2,672.6	1,456.4	4,200.4	5,796.1	4,685.5	1,359.1	4,335.7
Maturities (Ksh M)	12,662.0	7,363.7	3,417.7	1,987.4	2,265.7	2,810.9	2,714.4
Average interest Rate (%) - 91 Days	8.3	8.6	7.8	7.8	7.7	7.7	8.0
182-Day Treasury Bills							
Date of Auction	27-Jul-16	24-Aug-16	28-Sep-16	05-Oct-16	12-Oct-16	19-Oct-16	26-Oct-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	12,071.2	13,878.3	10,004.4	7,356.5
Amount Accepted (Ksh M)	6,405.5	7,626.3	5,311.7	10,278.7	12,895.9	8,104.7	7,356.5
Maturities (Ksh M)	8,198.5	5,446.0	2,051.1	7,331.3	8,282.7	9,355.3	9,520.1
Average interest Rate (%) - 182 days	10.5	11.2	10.4	10.3	10.3	10.3	10.3
364-Day Treasury Bills							
Date of Auction	27-Jul-16	24-Aug-16	28-Sep-16	05-Oct-16	12-Oct-16	19-Oct-16	26-Oct-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	7,593.0	6,173.4	4,737.1	5,422.8
Amount Accepted (Ksh M)	5,214.9	5,630.0	7,326.1	7,584.9	5,721.6	4,736.2	5,422.8
Maturities (Ksh M)	1,935.9	1,669.4	3,666.6	10,803.7	9,606.9	19,834.7	8,529.4
Average interest Rate (%) - 364 days	11.4	12.0	10.4	10.3	10.3	10.4	10.6
Treasury Bonds							
Date of Auction		24th August 2016				19-Oct-16	20-Oct-16
Tenor		FXD 1/2016/10				IFB1/2016/15	IFB1/2016/16 (TAP SALE)
Amount offered (Ksh M)		25000				30,000.0	10,000.0
Bids received (Ksh M)		26305.2				35,087.5	4,773.4
Amount Accepted (Ksh M)		18312.23				30,571.5	4,471.4
Maturities (Ksh M)		0				10,241.4	0.0
Average interest Rate (%)		15.0				13.2	13.2

Source: Central Bank of Kenya

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

	24-Jun-16	29-Jul-16	26-Aug-16	30-Sep-16	07-Oct-16	14-Oct-16	21-Oct-16	28-Oct-16
1. Treasury Bills (Excluding Repos)	578.03	577.76	579.67	618.25	627.05	631.84	636.31	631.84
(As % of total securities)	33.41	32.75	33.09	33.97	34.29	34.46	34.62	34.04
2. Treasury Bonds	1,152.04	1,186.12	1,171.92	1,201.78	1,201.78	1,201.78	1,201.78	1,224.21
(As % of total securities)	66.59	67.25	66.91	66.03	65.71	65.54	65.38	65.96
3. Total Securities (1+2)	1,730.07	1,763.88	1,751.59	1,820.02	1,828.83	1,833.61	1,838.09	1,856.05
4. Overdraft at Central Bank	37.06	14.01	13.28	3.32	0.00	0.00	0.00	0.00
5. Other Domestic debt*	31.09	30.76	31.42	31.45	31.47	31.22	31.20	31.21
6. Gross Domestic Debt (3+4+5)	1,798.22	1,808.64	1,796.29	1,854.80	1,860.29	1,864.83	1,869.28	1,887.26

* 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	07-Oct-16	14-Oct-16	21-Oct-16	28-Oct-16
Treasury bills (Excluding Repos)	32.1	31.9	32.3	33.3	33.7	33.9	34.0	33.5
Treasury bonds	64.1	65.6	65.2	64.8	64.6	64.4	64.3	64.9
CBK Overdraft to Govt	2.1	0.8	0.7	0.2	0.0	0.0	0.0	0.0
Other domestic debt	1.7	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	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	07-Oct-16	14-Oct-16	21-Oct-16	28-Oct-16
Banking Institutions	56.3	54.8	54.4	55.0	54.9	54.7	54.2	53.1
Insurance Companies	7.5	7.6	7.3	7.4	7.4	7.3	7.2	7.1
Parastatals	4.7	5.1	5.6	5.5	5.5	5.5	5.6	5.6
Pension funds	25.9	26.8	27.0	26.6	26.7	26.9	26.8	27.1
Other investors	5.7	5.7	5.6	5.6	5.6	5.6	6.3	7.1
Total	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)

	01-Sep-16	08-Sep-16	15-Sep-16	22-Sep-16	29-Sep-16	06-Oct-16	13-Oct-16	19-Oct-16	27-Oct-16	03-Nov-16
1. CBK Usable Foreign Exchange Reserves (USD Mn)*	7,688	7,747	7,805	7,748	7,782	7,789	7,744	7,729	7,683	7,628
2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)**	5.11	5.15	5.19	5.15	5.18	5.20	5.17	5.16	5.13	5.09

*Excludes Encumbered Reserves

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

Source: Central Bank of Kenya