



OCTOBER 7, 2016

Highlights

Overall inflation stood at 6.3 percent in September 2016, while GDP growth remained high at 6.2 percent in the second quarter of 2016.

The money market was liquid during the week ending October 5, 2016 buoyed by government spending. Commercial banks' excess reserves above 5.25 percent averaging requirement increased to KSh 12.5 billion in the week ending October 5, 2016 from KSh 8.8 billion recorded in the previous week. The average interbank rate declined to 5.6 percent from 6.2 percent.

Inflation

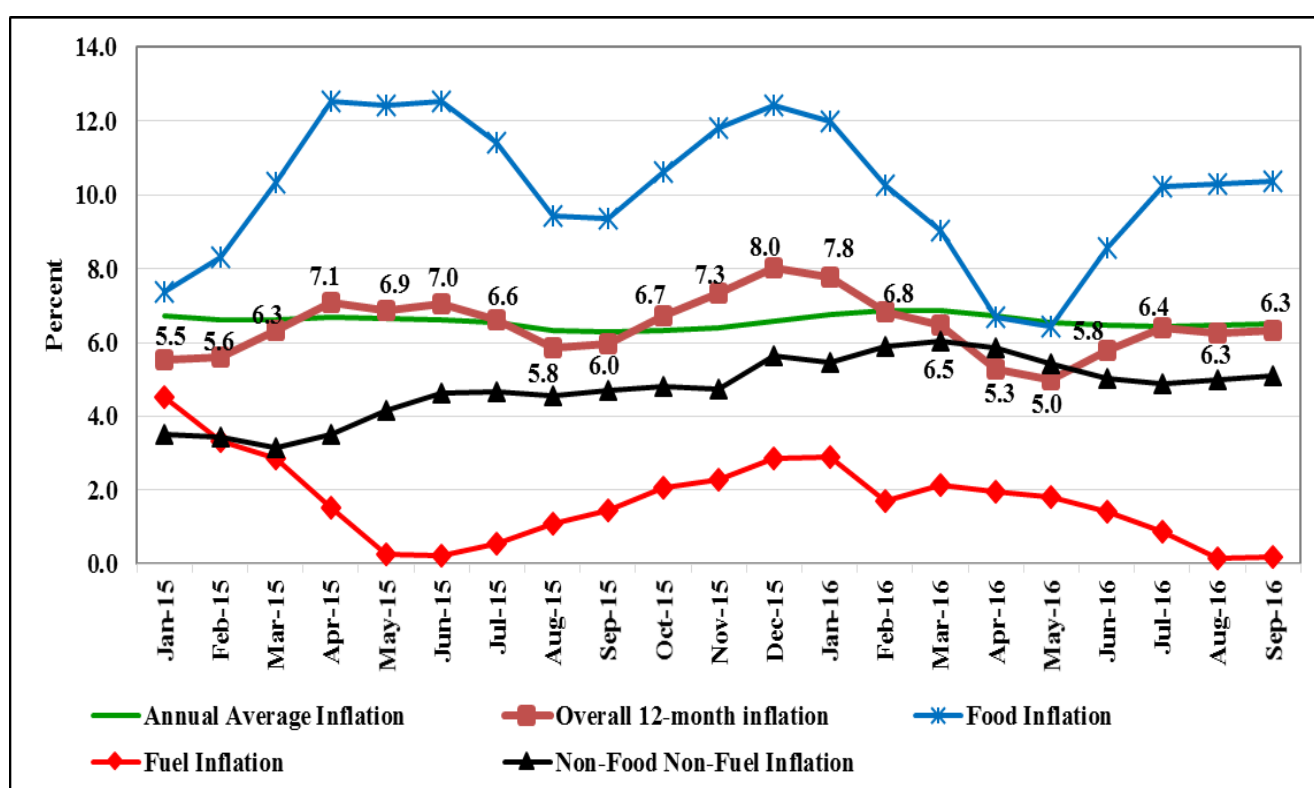
Overall inflation stood at 6.3 percent in September 2016, largely supported by high food prices (**Chart A**). Food inflation and Non-Food Non-Fuel (NFNF) inflation contributed 4.9 percentage points and 1.4 percentage points, respectively to overall inflation in September 2016.

Food inflation increased marginally to 10.4 percent in September 2016 from 10.3 percent in August 2016, largely driven by increasing prices of food items such as sugar, Irish potatoes and oranges. These three items contributed 1.7 percentage points to food inflation and 0.6 percentage points to overall inflation in September 2016. Fuel inflation remained low at 0.2 percent in September 2016 largely on account of low international oil prices. Non-Food Non-Fuel inflation increased marginally to 5.1 percent in September 2016 from 5.0 percent in August 2016.

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 October 5, 2016, buoyed by government spending. The net payments by the government during the week amounted to KSh 35.6 billion. Central Bank rolled over KSh 7.8 billion out of the KSh 24.9 billion reverse repos maturities for the week reflecting improved liquidity conditions in the interbank market (**Table 1**). The commercial banks' excess reserves above 5.25 percent averaging requirement increased to KSh 12.5 billion in the week ending October 5, 2016 from KSh 8.8 billion recorded in the previous week (**Chart B**).

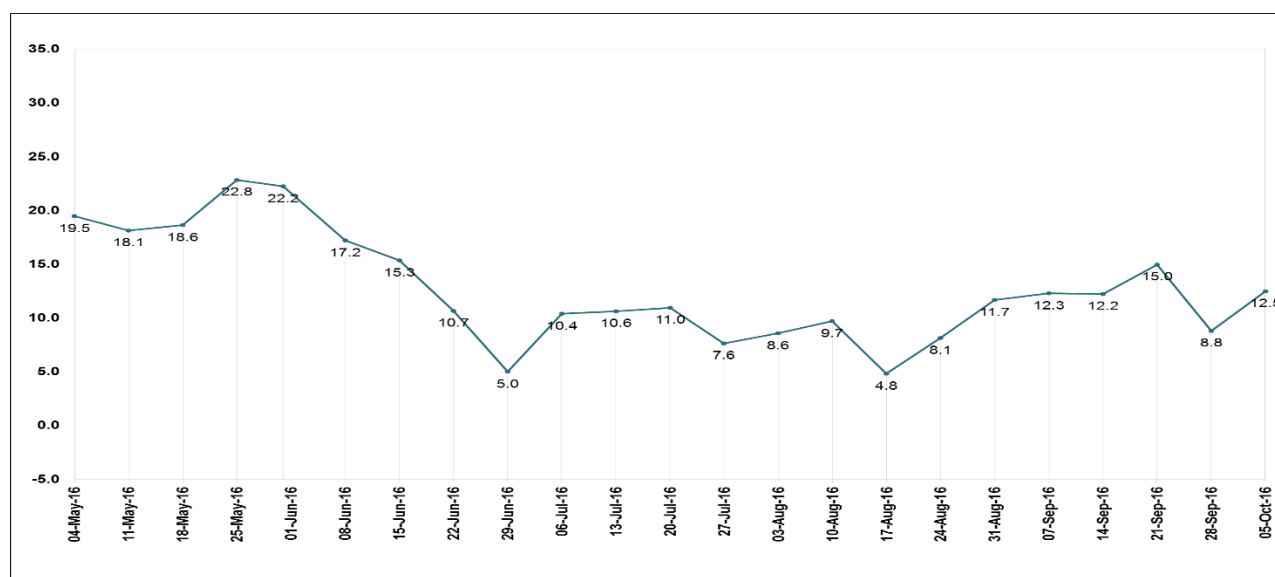
TABLE 1: INTERBANK LIQUIDITY FLOWS AND OPEN MARKET OPERATIONS (KSH BILLION)

	29-Sep-16	30-Sep-16	3-Oct-16	4-Oct-16	5-Oct-16	Total
Liquidity Flows						
Total liquidity injection \1	15.8	20.5	23.4	9.6	6.9	76.4
Repos Maturities	0.0	0.0	0.0	0.0	0.0	0.0
Reverse Repo Purchases	3.0	2.0	1.4	0.4	1.1	7.8
Term Auction Deposit maturities	0.0	0.0	0.0	0.0	0.0	0.0
T/bills redemptions	0.0	0.0	9.1	0.0	0.0	9.1
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	12.9	18.5	12.9	9.2	5.9	59.4
Total liquidity reduction \1	14.1	10.0	28.8	3.0	2.0	58.0
T/bills (Primary issues)	0.0	0.0	16.8	0.0	0.0	16.8
Tbonds Sales	0.0	0.0	0.0	0.0	0.0	0.0
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	10.0	8.4	5.8	0.4	0.2	24.9
Term Auction Deposit	0.0	0.0	0.0	0.0	0.0	0.0
Transfer from Banks -Taxes	4.1	1.5	6.1	2.5	1.8	16.1
Net liquidity injection (+)/Withdrawal (-)	1.7	10.6	-5.4	6.6	4.9	18.4
Open Market Operations Outcome						
Posted Amount						
Repo (-)						
Term Auction Deposits (-)						
Reverse repos purchases	3.0	2.0	1.4	0.4	1.1	7.8
Reserve Money Position						
Reserve money (actual)	378.9	389.4	384.4	390.3	395.2	

\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

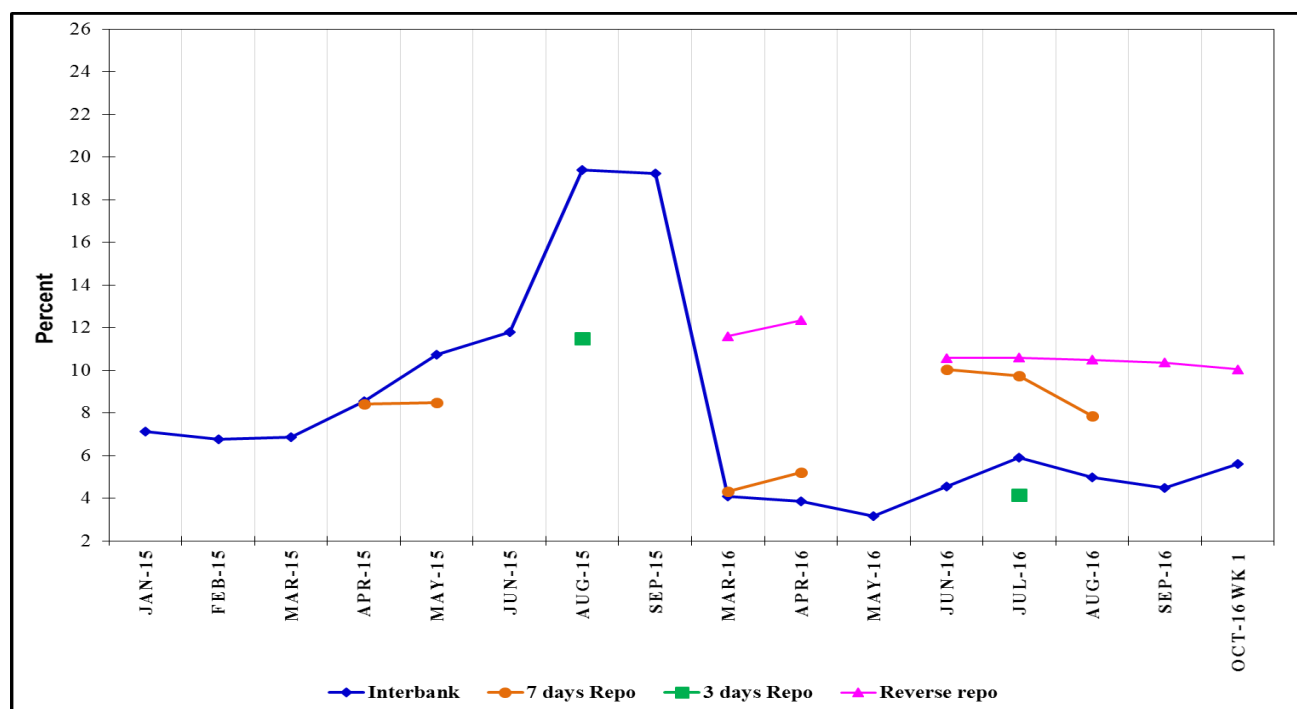
The average interbank rate declined to 5.6 percent from 6.2 percent as liquidity improved in the interbank market. The volume traded reduced to KSh 15.97 billion compared to KSh 18.44 billion transacted the previous week (Table 2 and Chart C).

TABLE 2: OPEN MARKET OPERATIONS (KSH MILLION)

Date	Number of Deals	Value (Ksh M)	Average Interbank Rate (%)	Reverse Repo Rate (%)
22-Sep-16	26	10,580	5.73	10.60
23-Sep-16	33	15,895	6.25	10.42
26-Sep-16	30	19,156	6.20	10.26
27-Sep-16	34	23,478	6.38	10.36
28-Sep-16	28	23,088	6.45	10.41
September 22-September 28, 2016	30	18,439	6.20	10.41
29-Sep-16	30	23,340	6.64	10.00
30-Sep-16	20	12,100	6.32	10.08
3-Oct-16	23	12,090	5.28	10.08
4-Oct-16	23	17,670	5.24	10.12
5-Oct-16	19	14,670	4.52	10.00
September 29-October 5, 2016	23	15,974	5.60	10.06

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 strengthened against major international currencies and depicted mixed performance against EAC currencies during the week ending Oct 6, 2016. In the EAC region, the Kenya Shilling strengthened against the Uganda and Tanzania shilling but weakened against the Rwanda and Burundi Franc (**Table 3**).

TABLE 3: KENYA SHILLING EXCHANGE RATE

	USD	Sterling Pound	Euro	100 Japanese Yen	USHS*	TSHS*	RWF*	BIF*
23rd-Sep-2016	101.21	132.50	113.78	100.58	33.45	21.55	7.52	16.50
26th-Sep-2016	101.19	131.17	113.52	100.17	33.45	21.55	8.10	16.46
27th-Sep-2016	101.30	131.19	114.04	100.87	33.44	21.53	7.66	16.49
28th-Sep-2017	101.28	131.37	113.52	100.95	33.47	21.53	7.66	16.50
29th-Sep-2017	101.31	131.77	113.61	100.79	33.46	21.53	7.65	16.49
23-29 Sep 2016	101.26	131.60	113.69	100.67	33.45	21.54	7.72	16.49
30th-Sep-2016	101.26	131.64	113.65	99.74	33.41	21.55	7.37	16.45
3rd-Oct-2016	101.22	131.47	113.47	100.02	33.48	21.55	7.66	16.46
4th-Oct-2016	101.21	130.02	113.60	99.85	33.35	21.58	7.66	16.52
5rd-Oct-2017	101.26	129.09	112.96	98.54	33.58	21.55	7.37	16.46
6th-Oct-2017	101.27	128.95	113.32	97.80	33.57	21.57	7.66	16.52
30 Sep - 6 Oct, 2016	101.25	130.23	113.40	99.19	33.48	21.56	7.55	16.48

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

The Capital Market

Equities Market

Market capitalization rose by 1.72 percent during the week, reflecting improved stock prices across the counters. Similarly, the NASI, NSE 20 and the NSE 25 indices rose by 112 basis points, 144 basis points and 149 basis points, respectively. The market was, however, constrained by supply, leading to 18.19 percent decline in equity turnover (**Table 4**).

TABLE 4: KEY MARKET INDICATORS

INDICATOR	18-Aug-16	25-Aug-16	01-Sep-16	08-Sep-16	15-Sep-16	22-Sep-16	29-Sep-16	06-Oct-16	Weekly Change (%)
NASI 100= 2008	147.32	139.14	134.47	130.87	131.63	133.45	136.01	137.53	1.12
NSE 25 Share Index	3,971.74	3,704.68	3,509.43	3,422.56	3,461.71	3,517.19	3,591.42	3,644.92	1.49
NSE 20 Share Index 100= 1996	3,484.08	3,309.76	3,179.23	3,180.29	3,239.80	3,169.64	3,217.75	3,264.03	1.44
Number of Deals	6,240.00	5,989.00	7,487.00	6,547.00	4,703.00	5,687.00	5,085.00	5,433.00	6.84
Total Shares Traded (Millions)	131.53	150.94	336.55	203.01	73.03	198.10	147.51	103.75	-29.67
Equity Turnover (Ksh. Millions)	3,228.71	3,254.44	8,030.65	5,095.32	1,615.03	4,170.16	3,152.74	2,579.24	-18.19
Market Capitalization (Ksh. Bn.)	2,121.98	2,003.82	1,936.52	1,884.50	1,895.47	1,921.77	1,958.67	1,992.42	1.72
I-REIT Turnover in (Ksh.)	1.80	12.51	3.34	0.60	0.61	7.88	0.98	2.38	142.78
I-REIT in Units - Total Deals	66.00	69.00	45.00	36.00	40.00	54.00	27.00	40.00	48.15
Bonds Turnover (Ksh. Millions)	5,496.94	5,707.85	7,600.51	6,809.48	6,526.30	5,186.82	7,206.23	5,806.35	-19.43
FTSE NSE Kenya 15 Index	178.84	166.10	155.26	154.10	156.36	159.14	160.96	167.57	4.11
FTSE NSE Kenya 25 Index	184.47	171.85	161.33	159.60	161.20	164.64	166.62	173.27	3.99
FTSE NSE Bond Index	87.92	88.62	88.05	88.45	88.45	88.45	89.11	89.26	0.17

Source: Nairobi Securities Exchange

FTSE NSE Kenya Index Series, REITS and Most Active Sectors

FTSE 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 4.11 percent and 3.99 percent higher, respectively. The real estate market segment recorded 142.78 percent increase in the Real Estate Investment Trust (I-REIT¹) turnover, signalling demand for diversified assets.

Bond Market

The volume of bonds traded declined by 19.43 percent in the week ending October 6, 2016, while the declining yields in the secondary market saw FTSE NSE Bond Index rise by 0.17 percent during the week under review.

TABLE 5: PERFORMANCE OF GOVERNMENT SECURITIES

91-Day Treasury Bills						
Date of Auction	30-Jun-16	28-Jul-16	25-Aug-16	22-Sep-16	29-Sep-16	06-Oct-16
Amount offered (Ksh M)	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0
Bids received (Ksh M)	3,385.3	3,741.1	1,682.2	6,342.9	4,722.1	6,040.0
Amount Accepted (Ksh M)	3,385.3	2,672.6	1,456.4	5,353.2	4,200.4	5,796.1
Maturities (Ksh M)	1,184.0	12,662.0	7,363.7	5,112.7	3,417.7	1,987.4
Average interest Rate (%) - 91 Days	7.0	8.3	8.6	7.9	7.8	7.8
182-Day Treasury Bills						
Date of Auction	29-Jun-16	27-Jul-16	24-Aug-16	21-Sep-16	28-Sep-16	05-Oct-16
Amount offered (Ksh M)	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0
Bids received (Ksh M)	1,215.1	13,160.0	7,962.7	10,066.1	8,678.0	12,071.2
Amount Accepted (Ksh M)	1,215.1	6,405.5	7,626.3	5,159.0	5,311.7	10,278.7
Maturities (Ksh M)	2,563.6	8,198.5	5,446.0	1,822.5	2,051.1	7,331.3
Average interest Rate (%) - 182 days	9.4	10.5	11.2	10.6	10.4	10.3
364-Day Treasury Bills						
Date of Auction	29-Jun-16	27-Jul-16	24-Aug-16	21-Sep-16	28-Sep-16	05-Oct-16
Amount offered (Ksh M)	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0
Bids received (Ksh M)	1,314.6	5,250.7	5,850.8	10,674.0	7,326.1	7,593.0
Amount Accepted (Ksh M)	1,314.6	5,214.9	5,630.0	7,278.0	7,326.1	7,584.9
Maturities (Ksh M)	72.4	1,935.9	1,669.4	459.9	3,666.6	10,803.7
Average interest Rate (%) - 364 days	10.7	11.4	12.0	10.6	10.4	10.3
Treasury Bonds						
Date of Auction			24th August 2016	21-Sep-16		
Tenor			FXD 1/2016/10	FXD 1/2016/20		
Amount offered (Ksh M)			25000	25000		
Bids received (Ksh M)			26305.2	17800.48		
Amount Accepted (Ksh M)			18312.23	12290.38		
Maturities (Ksh M)			0	0		
Average interest Rate (%)			15.0	14.6		

Source: Central Bank of Kenya

¹ 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 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

	24-Jun-16	29-Jul-16	26-Aug-16	16-Sep-16	23-Sep-16	30-Sep-16
1. Treasury Bills (Excluding Repos)	578.03	577.76	579.67	600.04	606.71	618.25
(As % of total securities)	33.41	32.75	33.09	33.52	33.76	33.97
2. Treasury Bonds	1,152.04	1,186.12	1,171.92	1,190.23	1,190.23	1,201.78
(As % of total securities)	66.59	67.25	66.91	66.48	66.24	66.03
3. Total Securities (1+2)	1,730.07	1,763.88	1,751.59	1,790.27	1,796.94	1,820.02
4. Overdraft at Central Bank	37.06	14.01	13.28	0.54	3.32	3.32
5. Other Domestic debt*	31.09	30.76	31.42	31.44	31.46	31.45
6. Gross Domestic Debt (3+4+5)	1,798.22	1,808.64	1,796.29	1,822.25	1,831.72	1,854.80

* 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

TABLE 7: COMPOSITION OF GOVERNMENT DEBT BY INSTRUMENT

	24-Jun-16	29-Jul-16	26-Aug-16	16-Sep-16	23-Sep-16	30-Sep-16
Treasury bills (Excluding Repos)	32.1	31.9	32.3	32.9	33.1	33.3
Treasury bonds	64.1	65.6	65.2	65.3	65.0	64.8
CBK Overdraft to Govt	2.1	0.8	0.7	0.0	0.2	0.2
Other domestic debt	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

Source: Central Bank of Kenya

TABLE 8: COMPOSITION OF GOVERNMENT DEBT BY HOLDER

	24-Jun-16	29-Jul-16	26-Aug-16	16-Sep-16	23-Sep-16	30-Sep-16
Banking Institutions	56.3	54.8	54.4	54.6	54.9	55.0
Insurance Companies	7.5	7.6	7.3	7.4	7.4	7.4
Parastatals	4.7	5.1	5.6	5.6	5.6	5.5
Pension funds	25.9	26.8	27.0	26.7	26.5	26.6
Other investors	5.7	5.7	5.6	5.7	5.6	5.6
Total	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)

	04-Aug-16	11-Aug-16	18-Aug-16	25-Aug-16	01-Sep-16	08-Sep-16	15-Sep-16	22-Sep-16	29-Sep-16	06-Oct-16
1. CBK Usable Foreign Exchange Reserves (USD Mn)*	7,769	7,733	7,711	7,748	7,688	7,747	7,804	7,748	7,782	7,789
2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)**	5.08	5.14	5.13	5.15	5.11	5.15	5.19	5.15	5.18	5.18

*Excludes Encumbered Reserves

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

Source: Central Bank of Kenya