



SEPTEMBER 2, 2016

Highlights

Overall inflation remained elevated at 6.3 percent in August 2016 compared to 6.4 percent in July 2016, on account of high food prices. Fuel inflation declined to 0.1 percent in August 2016 from 0.9 percent in July 2016, while Non-Food Non-Fuel (NFNF) inflation remained stable at 5.0 percent.

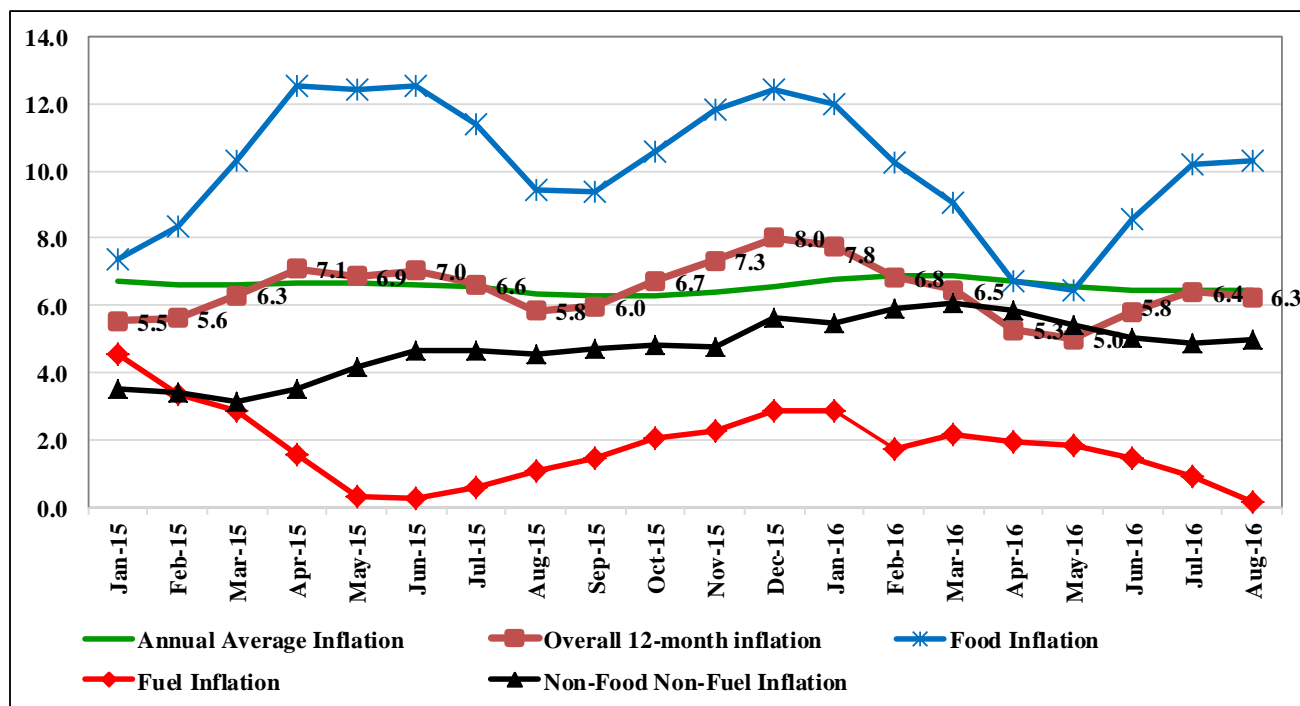
The money market was relatively liquid during the week ending August 31, 2016 supported by government end month payments and reverse repos purchases. The average interbank rate increased to 5.36 percent from 4.06 percent reflecting tightness attributed to a bond issue at the start of the week.

Capital market performance was mixed across major segments.

Inflation

Overall inflation remained elevated at 6.3 percent in August 2016 compared to 6.4 percent in July 2016, on account of high food prices (**Chart A**). Food inflation increased marginally to 10.3 percent in August 2016 from 10.2 percent in July 2016, largely driven by increasing prices of key food items. These food items contributed 1.0 percentage points to food inflation which translated to 0.4 percentage points to overall inflation in August 2016. Fuel inflation declined to 0.1 percent in August 2016 from 0.9 percent in July 2016. The relatively low prices of petrol, cooking gas and electricity largely offset the impact of an increase in excise tax on kerosene and road maintenance levy on petrol and diesel, effected in July 2016. Meanwhile, NFNF inflation remained stable at 5.0 percent in July and August 2016.

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



Source: Central Bank of Kenya

Monetary Policy Operations

The money market was relatively liquid during the week ending August 31, 2016 with commercial banks’ excess reserves above 5.25 percent averaging requirement increasing to KSh 11.7 billion from KSh 8.1 billion the previous week. There was some tightness in the money market at the beginning of the week due to bond issue but CBK intervened through reverse repo purchases. The end month payments by government also boosted liquidity in the interbank market (Table 1 and Chart B).

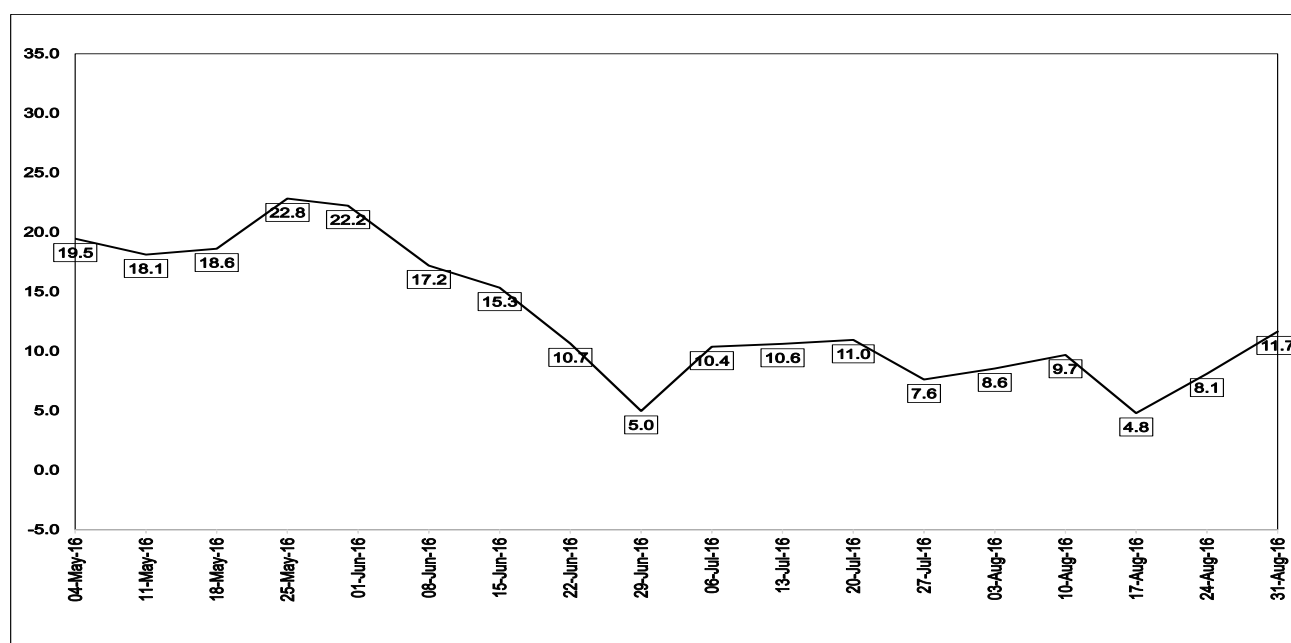
Reserve money stood at KSh 389.7bn on August 31, 2016.

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

	25-Aug-16	26-Aug-16	29-Aug-16	30-Aug-16	31-Aug-16	Total
Liquidity Flows						
Total liquidity injection \1	3.4	12.9	25.3	12.4	15.8	69.8
Repos Maturities	0.0	0.0	2.1	0.0	0.0	2.1
Reverse Repo Purchases	0.0	7.0	4.6	1.8	1.8	15.2
Term Auction Deposit maturities	0.0	0.0	0.0	0.0	0.0	0.0
T/bills redemptions	0.0	0.0	14.5	0.0	0.0	14.5
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	3.4	5.9	4.1	10.6	14.0	38.0
Total liquidity reduction \1	3.0	5.5	40.8	6.8	12.4	68.5
T/bills (Primary issues)	0.0	0.0	14.7	0.0	0.0	14.7
Tbonds Sales	0.0	0.0	18.3	0.0	0.0	18.3
T/bills/Tbonds (OMO Tap Sales)	0.0	0.0	-	0.0	0.0	0.0
Repos	0.0	0.0	-	0.0	8.0	8.0
Reverse Repos maturities	0.0	2.5	0.5	1.8	2.1	6.9
Term Auction Deposit	0.0	0.0	-	0.0	0.0	0.0
Transfer from Banks -Taxes	2.7	1.8	5.2	4.9	2.3	16.9
Net liquidity injection (+)/Withdrawal (-)	0.4	7.4	-15.5	5.6	3.4	1.3
Open Market Operations Outcome						
Posted Amount - Mop up					8.0	8.0
Realised Amount - Mop up					8.0	8.0
Repo (-)					8.0	8.0
Term Auction Deposits (-)						
Reverse Repo (+)						
Bids accepted (+)		7.0	4.6	1.8	1.8	15.2
Reserve Money Position						
Reserve money (actual)	382.3	389.6	381.0	386.5	389.7	

\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

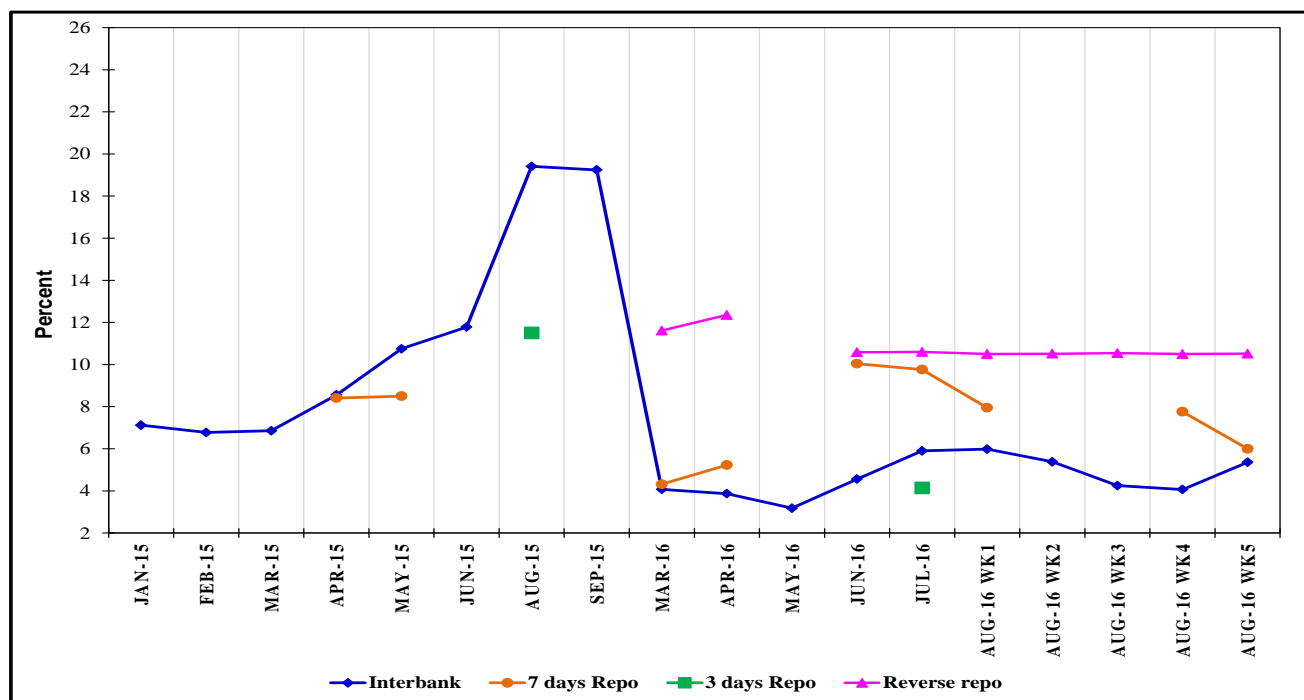
The average interbank rate rose to 5.36 percent from 4.06 percent with daily average rates above the previous week’s average. The volume traded declined to KSh 10.9 billion from to KSh 16.4 billion transacted the previous week. The 7-day average repo rate declined to 6.0 percent from 7.8 percent recorded the previous week. The reverse repo rate averaged 10.52 percent during the 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 (%)	Reverse Repo Rate (%)
18-Aug-16	28	18,630	4.02		
19-Aug-16	26	14,060	4.07		
22-Aug-16	20	13,250	4.12	7.76	
23-Aug-16	28	21,800	3.91		
24-Aug-16	28	14,100	4.20		
August 18-August 24, 2016	26	16,368	4.06	7.76	
25-Aug-16	26	10,180	4.55		
26-Aug-16	21	7,055	5.62		10.50
29-Aug-16	17	10,000	5.70		10.52
30-Aug-16	21	14,780	5.57		10.52
31-Aug-16	25	12,560	5.36	6.00	
August 25-August 31, 2016	22	10,915	5.36	6.00	10.52

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 stabilized against the US Dollar and posted marginal gains against other international currencies during the week ending September 1, 2016. In the EAC region it strengthened against the Uganda Shilling and the Rwanda Franc, weakened against the Tanzania Shilling and stabilized against the Burundi Franc (**Table 3**).

TABLE 3: KENYA SHILLING EXCHANGE RATE

	USD	Sterling Pound	Euro	100 Japanese Yen	USHS*	TSHS*	RWF*	BIF*
19-Aug-16	101.37	133.24	114.71	101.13	33.24	21.57	7.39	16.41
22-Aug-16	101.36	132.09	114.75	101.26	33.25	21.59	7.94	16.40
23-Aug-16	101.38	133.48	114.85	101.23	33.24	21.57	7.36	16.54
24-Aug-16	101.35	133.65	114.84	101.20	33.23	21.58	7.40	16.59
25-Aug-16	101.37	134.46	114.12	100.92	33.26	21.57	7.36	16.52
19 - 25 Aug 2016	101.37	133.38	114.66	101.15	33.25	21.58	7.49	16.49
26-Aug-16	101.37	133.76	114.44	100.86	33.28	21.57	7.89	16.40
29-Aug-16	101.38	133.98	114.52	101.08	33.27	21.57	7.36	16.53
30-Aug-16	101.39	132.54	113.21	99.17	33.24	21.55	7.71	16.55
31-Aug-16	101.36	132.88	113.08	98.78	33.25	21.58	7.71	16.52
1-Sep-16	101.33	132.98	112.86	98.04	33.31	21.57	7.91	16.44
26 Aug - 1 Sep 2016	101.36	133.23	113.62	99.59	33.27	21.57	7.72	16.49

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

The Capital Market

The capital market indicators recorded mixed performance, with both the equity and bond markets segments recording gains and losses in the week ending September 01, 2016.

Equities Market

Equity share prices declined as reflected by changes in the NASI, NSE 25¹ and NSE 20² share indices. Market capitalization declined by 3.36 percent due to depressed share prices mainly those of banks and bank related stocks attributed to uncertainty arising from the interest rate capping law assented on August 24, 2016. Equity turnover increased by 146.76 percent on account of 122.97 percent increase in share traded (**Table 4**).

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 WEEKLY MARKET STATISTICS

INDICATOR	21-Jul-16	28-Jul-16	4-Aug-16	11-Aug-16	18-Aug-16	25-Aug-16	1-Sep-16	Weekly Change (%)
NASI 100= 2008	138.82	141.94	143.39	143.63	147.32	139.14	134.47	-3.36
NSE 25 Share Index	3,848.99	3,935.31	3,939.55	3,921.41	3,971.74	3,704.68	3,509.43	-5.27
NSE 20 Share Index 100= 1996	3,515.00	3,468.29	3,464.48	3,450.10	3,484.08	3,309.76	3,179.23	-3.94
Number of Deals	5,476.00	5,609.00	6,022.00	6,024.00	6,240.00	5,989.00	7,487.00	25.01
Total Shares Traded (Millions)	147.75	138.55	129.18	77.13	131.53	150.94	336.55	122.97
Equity Turnover (Ksh. Millions)	3,484.72	2,997.86	3,035.53	2,454.61	3,228.71	3,254.44	8,030.65	146.76
Market Capitalization (Ksh. Bn.)	1,993.27	2,042.47	2,065.16	2,068.71	2,121.98	2,003.82	1,936.52	-3.36
I-REIT Turnover in (Ksh.Millions)	0.49	2.64	3.28	1.41	1.80	12.51	3.34	-73.30
I-REIT in Units - Total Deals	30.00	55.00	46.00	40.00	66.00	69.00	45.00	-34.78
Bonds Turnover (Ksh. Millions)	3,846.25	6,613.16	7,064.11	4,661.35	5,496.94	5,707.85	7,600.51	33.16
FTSE NSE Kenya 15 Index	171.30	174.56	177.56	175.70	178.84	166.10	155.26	-6.53
FTSE NSE Kenya 25 Index	173.37	177.61	182.11	180.10	184.47	171.85	161.33	-6.12
FTSE NSE Bond Index	90.44	90.87	89.92	88.33	87.92	88.62	88.05	-0.64

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, respectively ended the week 6.53 percent and 6.12 percent lower. The real estate market segment recorded subdued activity with Real Estate Investment Trust (I-REIT⁴) turnover down 73.30 percent, which signals reduced demand for Asset-Backed Securities. The Banking Industry and Telecommunication and Technology sector dominated trading, accounting for 48.05

The Bond Market

The bonds turnover rise by 33.16 percent in the week ending September 01, 2016, with the number of deals increasing from 64 to 85. The FTSE NSE Bond Index fell by 0.64 percent reflecting a marginal increase in secondary market yields.

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	30-Jun-16	14-Jul-16	21-Jul-16	28-Jul-16	4-Aug-16	11-Aug-16	18-Aug-16	25-Aug-16	1-Sep-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	4,000.0	4,000.0
Bids received (Ksh M)	3,385.3	3,219.5	2,811.5	3,741.1	15,175.4	14,016.5	3,577.3	1,682.2	7,986.7
Amount Accepted (Ksh M)	3,385.3	2,230.0	2,811.5	2,672.6	10,363.2	11,547.5	2,915.9	1,456.4	5,364.9
Maturities (Ksh M)	1,184.0	9,946.1	9,086.9	12,662.0	6,675.7	5,229.8	4,883.8	7,363.7	4,907.4
Average interest Rate (%) - 91 Days	7.0	7.6	7.9	8.3	8.3	8.5	8.6	8.6	8.3
182-Day Treasury Bills									
Date of Auction	29-Jun-16	13-Jul-16	20-Jul-16	27-Jul-16	3-Aug-16	10-Aug-16	17-Aug-16	24-Aug-16	31-Aug-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	6,000.0	6,000.0
Bids received (Ksh M)	1,215.1	3,009.5	13,893.0	13,160.0	12,656.4	10,755.3	9,258.9	7,962.7	9,188.9
Amount Accepted (Ksh M)	1,215.1	2,707.3	13,775.9	6,405.5	11,651.0	6,007.4	8,634.0	7,626.3	6,523.6
Maturities (Ksh M)	2,563.6	13,915.1	9,546.7	8,198.5	12,899.9	6,994.7	12,414.3	5,446.0	6,499.9
Average interest Rate (%) - 182 days	9.4	9.9	10.2	10.5	10.7	10.8	11.0	11.2	11.1
364-Day Treasury Bills									
Date of Auction	29-Jun-16	13-Jul-16	20-Jul-16	27-Jul-16	3-Aug-16	10-Aug-16	17-Aug-16	24-Aug-16	31-Aug-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	6,000.0	6,000.0
Bids received (Ksh M)	1,314.6	6,902.8	3,286.4	5,250.7	7,298.4	4,590.6	6,180.0	5,850.8	15,184.9
Amount Accepted (Ksh M)	1,314.6	6,635.9	3,286.4	5,214.9	6,100.3	4,590.6	5,224.3	5,630.0	8,848.2
Maturities (Ksh M)	72.4	850.5	386.6	1,935.9	5,804.9	4,347.2	1,873.8	1,669.4	1,451.2
Average interest Rate (%) - 364 days	10.7	10.9	11.0	11.4	11.4	11.7	11.9	12.0	11.5
Treasury Bonds									
Date of Auction	20th July 2016		20th July 2016				24th August 2016		
Tenor	FXD 2/2016/5		FXD 1/2008/2016				FXD 1/2016/10		
Amount offered (Ksh M)	30000						25000		
Bids received (Ksh M)	40876.58						26306.2		
Amount Accepted (Ksh M)	33504.36						18312.23		
Maturities (Ksh M)	0						0		
Average interest Rate (%)	14.1		14.8				15.0		

Source: Central Bank of Kenya

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

	27-May-16	24-Jun-16	01-Jul-16	08-Jul-16	15-Jul-16	22-Jul-16	29-Jul-16	05-Aug-16	12-Aug-16	19-Aug-16	26-Aug-16
1. Treasury Bills (Excluding Repos)	540.84	578.03	588.09	590.39	588.11	575.86	577.76	570.21	574.41	581.07	579.67
(As % of total securities)	33.38	33.41	33.95	34.03	33.80	33.33	32.75	32.47	32.63	32.88	33.09
2. Treasury Bonds	1,079.52	1,152.04	1,144.32	1,144.32	1,152.04	1,152.04	1,186.12	1,186.12	1,186.12	1,186.12	1,171.92
(As % of total securities)	66.62	66.59	66.05	65.97	66.20	66.67	67.25	67.53	67.37	67.12	66.91
3. Total Securities (1+2)	1,620.35	1,730.07	1,732.41	1,734.71	1,740.15	1,727.90	1,763.88	1,756.33	1,760.53	1,767.19	1,751.59
4. Overdraft at Central Bank	41.49	37.06	44.20	44.20	44.20	13.66	14.01	13.28	13.28	6.43	13.28
5. Other Domestic debt*	31.60	31.09	31.07	31.10	30.76	30.77	30.76	30.78	30.76	31.42	31.42
6. Gross Domestic Debt (3+4+5)	1,693.45	1,798.22	1,807.68	1,810.02	1,815.12	1,772.32	1,808.64	1,800.39	1,804.56	1,805.04	1,796.29

* 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

	27-May-16	24-Jun-16	1-Jul-16	8-Jul-16	15-Jul-16	22-Jul-16	29-Jul-16	5-Aug-16	12-Aug-16	19-Aug-16	26-Aug-16
Treasury bills (Excluding Repos)	31.9	32.1	32.5	32.6	32.4	32.5	31.9	31.7	31.8	32.2	32.3
Treasury bonds	63.7	64.1	63.3	63.2	63.5	65.0	65.6	65.9	65.7	65.7	65.2
CBK Overdraft to Govt	2.5	2.1	2.4	2.4	2.4	0.8	0.8	0.7	0.7	0.4	0.7
Other domestic debt	1.9	1.7	1.7	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	100.0	100.0	100.0

Source: Central Bank of Kenya

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TABLE 8: COMPOSITION OF GOVERNMENT DEBT BY HOLDER

	27-May-16	24-Jun-16	1-Jul-16	8-Jul-16	15-Jul-16	22-Jul-16	29-Jul-16	5-Aug-16	12-Aug-16	19-Aug-16	26-Aug-16
Banking Institutions	57.5	56.3	56.2	56.0	55.7	55.0	54.8	54.6	54.5	54.1	54.4
Insurance Companies	7.9	7.5	7.4	7.4	7.4	7.6	7.6	7.7	7.6	7.4	7.3
Parastatals	4.7	4.7	5.0	5.0	5.1	5.2	5.1	5.3	5.3	5.6	5.6
Pension funds	26.1	25.9	25.8	26.1	26.2	26.4	26.8	26.8	26.9	27.2	27.0
Other investors	3.8	5.7	5.6	5.6	5.6	5.8	5.7	5.7	5.6	5.6	5.6
Total	100.0	100.0	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)

	28-Apr-16	21-Jul-16	28-Jul-16	4-Aug-16	11-Aug-16	18-Aug-16	25-Aug-16	1-Sep-16
1. CBK Usable Foreign Exchange Reserves (USD Mn)*	7,618	7,831	7,782	7,769	7,733	7,711	7,748	7,688
2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)**	4.96	5.12	5.09	5.08	5.14	5.13	5.15	5.11

*Excludes Encumbered Reserves

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

Source: Central Bank of Kenya