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Highlights

The money market was relatively liquid during the week ending September 7, 2016. Consequently, the average interbank rate declined to 4.03 percent from 5.36 percent.

Performance in capital market generally declined over the week ending September 8, 2016.

Monetary Policy Operations

The money market was relatively liquid during the week ending September 7, 2016. Commercial banks' excess reserves, above the 5.25 percent averaging requirement, increased to KSh 12.3 billion from KSh 11.7 billion the previous week (**Table 1 and Chart A**). CBK injected liquidity through reverse repo purchases to ease the tightness witnessed in the market arising from purchase of government securities.

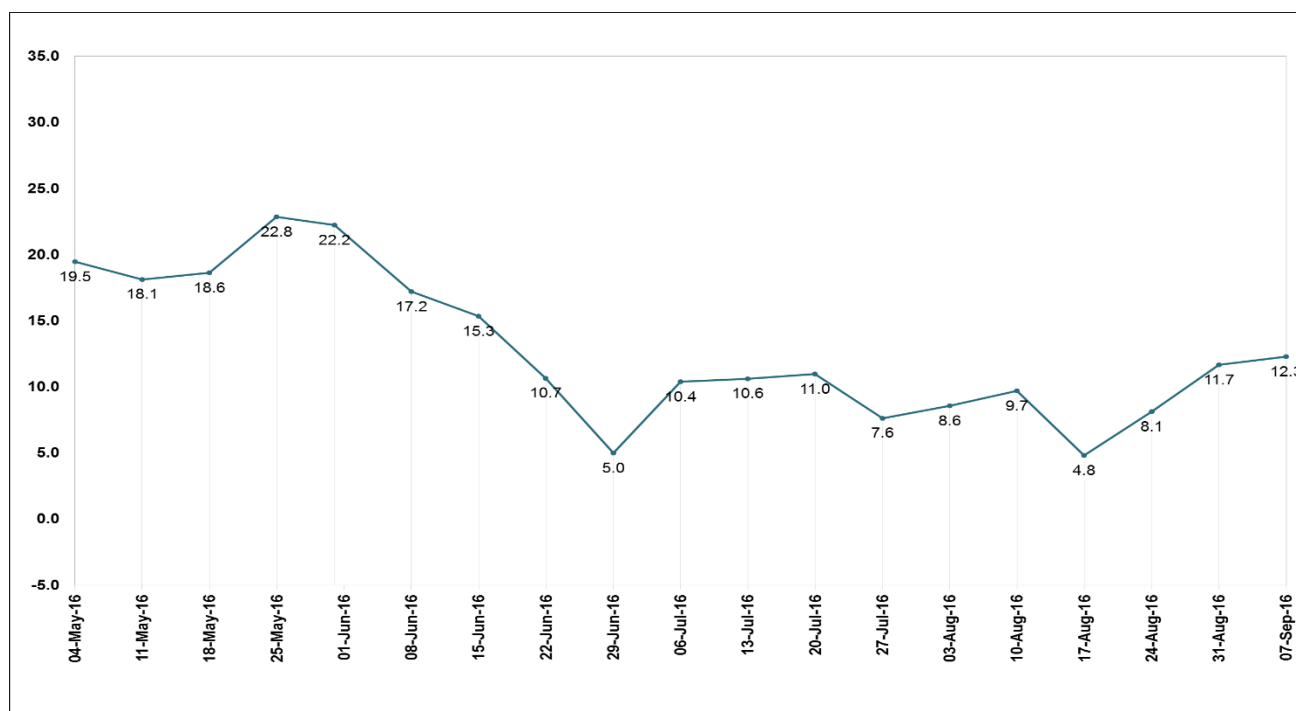
CBK Weekly Statistical Bulletin of Key Monetary and Financial Indicators

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

| | 1-Sep-16 | 2-Sep-16 | 5-Sep-16 | 6-Sep-16 | 7-Sep-16 | Total |
|---|------------|-------------|-------------|------------|-------------|-------------|
| Liquidity Flows | | | | | | |
| Total liquidity injection \1 | 6.3 | 8.1 | 18.8 | 7.8 | 13.1 | 54.1 |
| Repos Maturities | 0.0 | 0.0 | 0.0 | 0.0 | 8.0 | 8.0 |
| Reverse Repo Purchases | 0.0 | 3.3 | 4.2 | 2.4 | 0.2 | 10.1 |
| Term Auction Deposit maturities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| T/bills redemptions | 0.0 | 0.0 | 12.9 | 0.0 | 0.0 | 12.9 |
| 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 | 6.3 | 3.8 | 1.8 | 2.8 | 4.9 | 19.6 |
| Total liquidity reduction \1 | 3.5 | 12.2 | 28.3 | 4.2 | 3.6 | 51.9 |
| T/bills (Primary issues) | 0.0 | 0.0 | 20.7 | 0.0 | 0.0 | 20.7 |
| Tbonds Sales | 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 |
| Repos | 0.0 | 0.0 | - | 0.0 | 0.0 | 0.0 |
| Reverse Repos maturities | 0.0 | 10.0 | 5.7 | 0.4 | 0.2 | 16.3 |
| Term Auction Deposit | 0.0 | 0.0 | - | 0.0 | 0.0 | 0.0 |
| Transfer from Banks -Taxes | 2.4 | 2.2 | 1.9 | 3.8 | 3.4 | 13.6 |
| Net liquidity injection (+)/Withdrawal (-) | 2.8 | -4.1 | -9.5 | 3.5 | 9.4 | 2.2 |
| Open Market Operations Outcome | | | | | | |
| Posted Amount - Mop up | | | | | | 0.0 |
| Realised Amount - Mop up | | | | | | 0.0 |
| Repo (-) | | | | | | 0.0 |
| Term Auction Deposits (-) | | | | | | |
| Reverse Repo (+) | | | | | | |
| Bids accepted (+) | | 3.3 | 4.2 | 2.4 | 0.2 | 10.1 |
| Reserve Money Position | | | | | | |
| Reserve money (actual) | 393.1 | 389.2 | 377.1 | 378.5 | 387.8 | |

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

Source: Central Bank of Kenya

CHART A: STRUCTURE OF SHORT-TERM INTEREST RATES


Source: Central Bank of Kenya

Activity in the Interbank Market

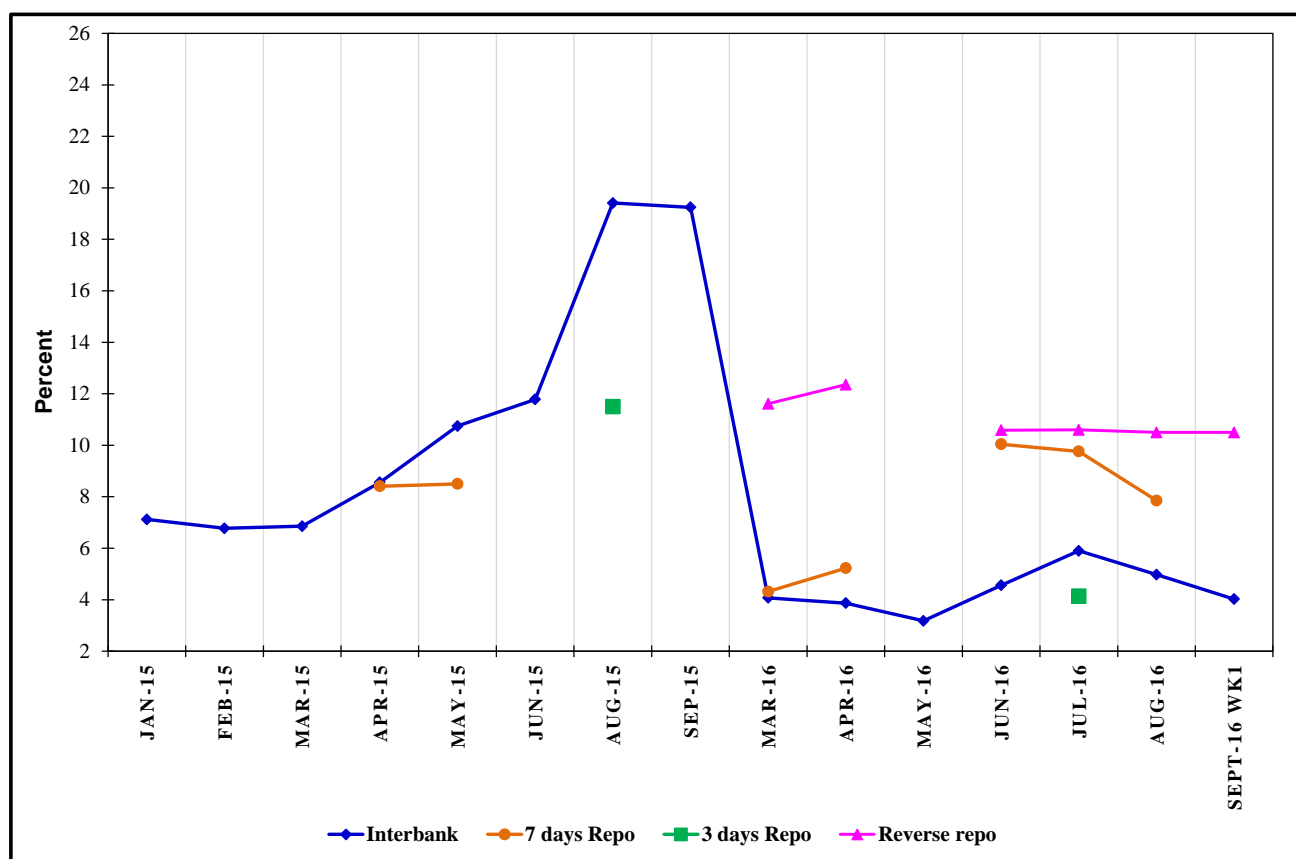
The average interbank rate declined to 4.03 percent from 5.36 percent as liquidity conditions improved in the interbank market. The volume traded increased to KSh 12.2 billion compared to KSh 10.9 billion transacted the previous week. The average reverse repo rate remained stable at 10.51 percent during the week. (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 (%) |
|--------------------------------------|-----------------|---------------|----------------------------|-----------------------|
| 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 | |
| August 25-August 31, 2016 | 22 | 10,915 | 5.36 | 10.52 |
| 1-Sep-16 | 19 | 10,950 | 4.80 | |
| 2-Sep-16 | 21 | 13,970 | 4.38 | 10.54 |
| 5-Sep-16 | 25 | 12,585 | 4.07 | 10.50 |
| 6-Sep-16 | 19 | 12,210 | 3.71 | 10.50 |
| 7-Sep-16 | 15 | 11,095 | 3.16 | 10.50 |
| September 1-September 7, 2016 | 20 | 12,162 | 4.03 | 10.51 |

Source: Central Bank of Kenya

CHART B: EVOLUTION OF FREE RESERVES



Source: Central Bank of Kenya

Kenya Shilling Exchange Rate

The Kenya Shilling exchange rate displayed mixed performance against major international and regional currencies during the week ending September 8, 2016. The Shilling strengthened against the USD, Euro and the Japanese Yen and weakened against the Sterling Pound; mainly reflecting developments in the international market. In the EAC region, the Kenya Shilling strengthened against the Uganda Shilling and the Rwanda Franc, stabilized against the Tanzania shilling but weakened against the Burundi Franc.

TABLE 3: KENYA SHILLING EXCHANGE RATE

| | USD | Sterling Pound | Euro | 100 Japanese Yen | USHS* | TSHS* | RWF* | BIF* |
|----------------------------|---------------|----------------|---------------|------------------|--------------|--------------|-------------|--------------|
| 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 |
| 2nd-Sep-16 | 101.30 | 134.27 | 112.78 | 97.41 | 33.32 | 21.58 | 8.17 | 16.42 |
| 5th-Sep-16 | 101.24 | 135.02 | 113.41 | 97.66 | 33.34 | 21.58 | 8.17 | 16.43 |
| 6th-Sep-16 | 101.27 | 134.88 | 112.90 | 97.98 | 33.30 | 21.57 | 7.37 | 16.60 |
| 7th-Sep-17 | 101.32 | 135.35 | 113.10 | 98.06 | 33.36 | 21.57 | 7.93 | 16.42 |
| 8th-Sep-17 | 101.32 | 135.44 | 113.95 | 99.88 | 33.41 | 21.56 | 7.37 | 16.52 |
| 2nd-8th Sep 2016 | 101.29 | 134.99 | 113.23 | 98.19 | 33.34 | 21.57 | 7.80 | 16.48 |

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

The Capital Market

The capital markets performance was generally subdued in the week ending September 08, 2016.

Equities Market

The equities share prices declined during the week as reflected by changes in the NASI, NSE 25¹ and NSE 20² share indices. Similarly, market capitalization shed off 2.69 percent in value and equity turnover declined by 36.55 percent following a 39.68 per cent fall in the volume of shares 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 | 8-Sep-16 | Weekly Change (%) |
|------------------------------------|-----------|-----------|----------|-----------|-----------|-----------|----------|----------|-------------------|
| NASI 100= 2008 | 138.82 | 141.94 | 143.39 | 143.63 | 147.32 | 139.14 | 134.47 | 130.87 | -2.68 |
| 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 | 3,422.56 | -2.48 |
| 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 | 3,180.29 | 0.03 |
| Number of Deals | 5,476.00 | 5,609.00 | 6,022.00 | 6,024.00 | 6,240.00 | 5,989.00 | 7,487.00 | 6,547.00 | -12.56 |
| Total Shares Traded (Millions) | 147.75 | 138.55 | 129.18 | 77.13 | 131.53 | 150.94 | 336.55 | 203.01 | -39.68 |
| 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 | 5,095.32 | -36.55 |
| 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 | 1,884.50 | -2.69 |
| I-REIT Turnover in (Ksh. Millions) | 0.49 | 2.64 | 3.28 | 1.41 | 1.80 | 12.51 | 3.34 | 0.60 | -82.03 |
| I-REIT in Units - Total Deals | 30.00 | 55.00 | 46.00 | 40.00 | 66.00 | 69.00 | 45.00 | 36.00 | -20.00 |
| 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 | 6,809.48 | -10.41 |
| FTSE NSE Kenya 15 Index | 171.30 | 174.56 | 177.56 | 175.70 | 178.84 | 166.10 | 155.26 | 154.10 | -0.75 |
| FTSE NSE Kenya 25 Index | 173.37 | 177.61 | 182.11 | 180.10 | 184.47 | 171.85 | 161.33 | 159.60 | -1.07 |
| FTSE NSE Bond Index | 90.44 | 90.87 | 89.92 | 88.33 | 87.92 | 88.62 | 88.05 | 88.45 | 0.45 |

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, were 0.75 percent and 1.07 percent lower, respectively by end of the week under review. The real estate market segment recorded low activity as reflected in 82.03 per cent fall in the Real Estate Investment Trust (I-REIT⁴) turnover and 20 per cent decline in the number of deals transacted. This may signal reduced demand for risky assets like asset-backed securities and equities. The Banking and Telecommunication & Technology sectors accounted for 81.93 per cent of total shares traded, respectively.

The Bond Market

The bonds turnover declined by 10.41 percent despite deals transacted increasing from 85 to 133 during week ending September 08, 2016. The FTSE NSE Government Bond Index increased by 0.45 percent reflecting a decrease in secondary market yields. The low activity in the bonds market may be partly explained by investors' preference for the Treasury bills market where the Government issued 91-, 182- and 364-days tenors to raise KSh 16,000 million and received bids worth KSh 39,838 million or 248.99 percent subscription rate 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 | 30-Jun-16 | 28-Jul-16 | 25-Aug-16 | 1-Sep-16 | 8-Sep-16 |
| Amount offered (Ksh M) | 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 | 7,986.7 | 10,970.2 |
| Amount Accepted (Ksh M) | 3,385.3 | 2,672.6 | 1,456.4 | 5,364.9 | 4,698.2 |
| Maturities (Ksh M) | 1,184.0 | 12,662.0 | 7,363.7 | 4,907.4 | 4,739.7 |
| Average interest Rate (%) - 91 Days | 7.0 | 8.3 | 8.6 | 8.3 | 8.1 |
| 182-Day Treasury Bills | | | | | |
| Date of Auction | 29-Jun-16 | 27-Jul-16 | 24-Aug-16 | 31-Aug-16 | 7-Sep-16 |
| Amount offered (Ksh M) | 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 | 9,188.9 | 10,921.9 |
| Amount Accepted (Ksh M) | 1,215.1 | 6,405.5 | 7,626.3 | 6,523.6 | 10,315.4 |
| Maturities (Ksh M) | 2,563.6 | 8,198.5 | 5,446.0 | 6,499.9 | 7,982.9 |
| Average interest Rate (%) - 182 days | 9.4 | 10.5 | 11.2 | 11.1 | 10.9 |
| 364-Day Treasury Bills | | | | | |
| Date of Auction | 29-Jun-16 | 27-Jul-16 | 24-Aug-16 | 31-Aug-16 | 7-Sep-16 |
| Amount offered (Ksh M) | 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 | 15,184.9 | 17,945.6 |
| Amount Accepted (Ksh M) | 1,314.6 | 5,214.9 | 5,630.0 | 8,848.2 | 11,584.7 |
| Maturities (Ksh M) | 72.4 | 1,935.9 | 1,669.4 | 1,451.2 | 5,318.5 |
| Average interest Rate (%) - 364 days | 10.7 | 11.4 | 12.0 | 11.5 | 11.1 |
| Treasury Bonds | | | | | |
| Date of Auction | | | 24th August 2016 | | |
| Tenor | | | FXD 1/2016/10 | | |
| Amount offered (Ksh M) | | | 25000 | | |
| Bids received (Ksh M) | | | 26305.2 | | |
| Amount Accepted (Ksh M) | | | 18312.23 | | |
| Maturities (Ksh M) | | | 0 | | |
| Average interest Rate (%) | | | 15.0 | | |

Source: Central Bank of Kenya

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

| | 27-May-16 | 24-Jun-16 | 29-Jul-16 | 19-Aug-16 | 26-Aug-16 | 02-Sep-16 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 1. Treasury Bills (Excluding Repos) | 540.84 | 578.03 | 577.76 | 581.07 | 579.67 | 581.02 |
| (As % of total securities) | 33.38 | 33.41 | 32.75 | 32.88 | 33.09 | 32.80 |
| 2. Treasury Bonds | 1,079.52 | 1,152.04 | 1,186.12 | 1,186.12 | 1,171.92 | 1,190.23 |
| (As % of total securities) | 66.62 | 66.59 | 67.25 | 67.12 | 66.91 | 67.20 |
| 3. Total Securities (1+2) | 1,620.35 | 1,730.07 | 1,763.88 | 1,767.19 | 1,751.59 | 1,771.24 |
| 4. Overdraft at Central Bank | 41.49 | 37.06 | 14.01 | 6.43 | 13.28 | 13.28 |
| 5. Other Domestic debt* | 31.60 | 31.09 | 30.76 | 31.42 | 31.42 | 31.42 |
| 6. Gross Domestic Debt (3+4+5) | 1,693.45 | 1,798.22 | 1,808.64 | 1,805.04 | 1,796.29 | 1,815.94 |

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

Source: Central Bank of Kenya

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TABLE 7: COMPOSITION OF GOVERNMENT DEBT BY INSTRUMENT

| | 24-Jun-16 | 29-Jul-16 | 5-Aug-16 | 12-Aug-16 | 19-Aug-16 | 26-Aug-16 | 2-Sep-16 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Treasury bills (Excluding Repos) | 32.1 | 31.9 | 31.7 | 31.8 | 32.2 | 32.3 | 32.0 |
| Treasury bonds | 64.1 | 65.6 | 65.9 | 65.7 | 65.7 | 65.2 | 65.5 |
| CBK Overdraft to Govt | 2.1 | 0.8 | 0.7 | 0.7 | 0.4 | 0.7 | 0.7 |
| 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

| | 27-May-16 | 24-Jun-16 | 29-Jul-16 | 19-Aug-16 | 26-Aug-16 | 2-Sep-16 |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Banking Institutions | 57.5 | 56.3 | 54.8 | 54.1 | 54.4 | 54.5 |
| Insurance Companies | 7.9 | 7.5 | 7.6 | 7.4 | 7.3 | 7.4 |
| Parastatals | 4.7 | 4.7 | 5.1 | 5.6 | 5.6 | 5.8 |
| Pension funds | 26.1 | 25.9 | 26.8 | 27.2 | 27.0 | 26.8 |
| Other investors | 3.8 | 5.7 | 5.7 | 5.6 | 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)

| | 28-Apr-16 | 21-Jul-16 | 28-Jul-16 | 4-Aug-16 | 11-Aug-16 | 18-Aug-16 | 25-Aug-16 | 1-Sep-16 | 8-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 | 7,747 |
| 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 | 5.15 |

*Excludes Encumbered Reserves

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

Source: Central Bank of Kenya