



FEBRUARY 3, 2017

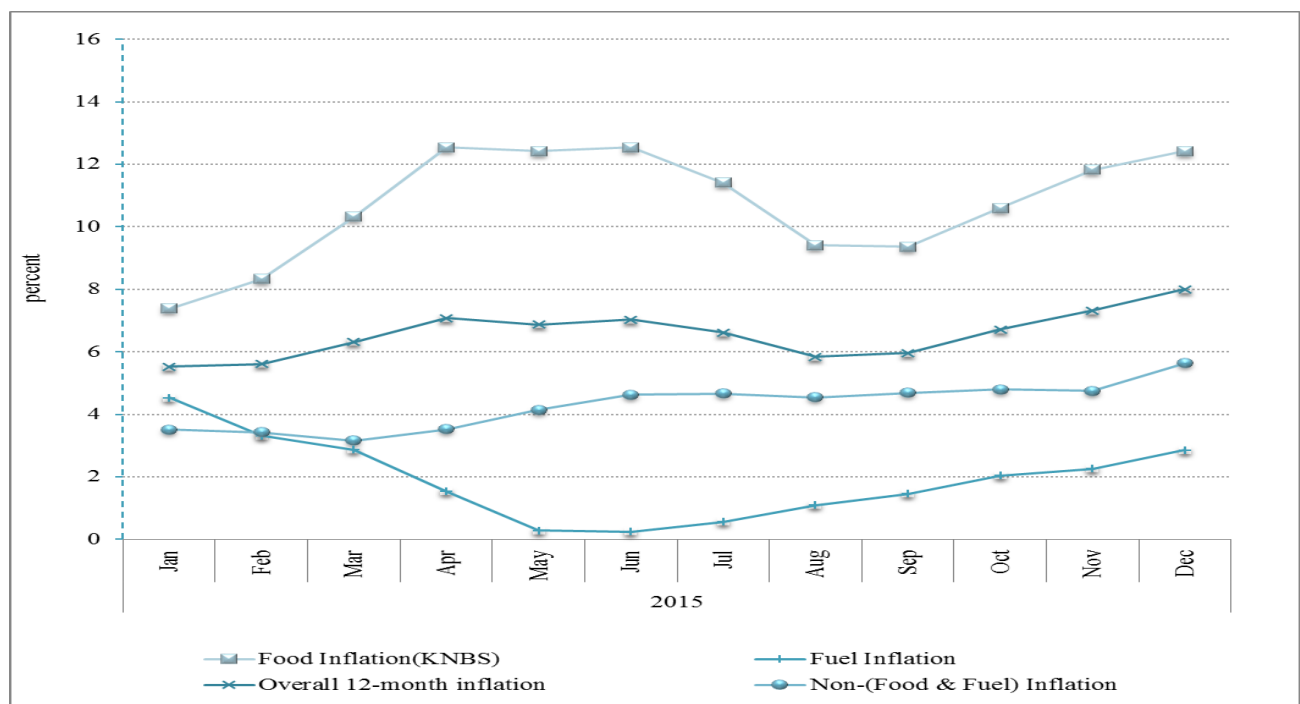
Highlights

Overall inflation accelerated to 7.0 percent in January 2017 from 6.4 percent in December 2016 on account of elevated food prices and rising fuel costs. However, Non-Food Non-Fuel (NFNF) inflation declined marginally to 4.5 percent in January 2017 from 4.6 percent in December 2016.

The money market was fairly tight during the week ending January 25, 2017, largely on account of remittances of taxes. The weighted average interbank rate was stable at 8.34 percent in the week ending January 25, 2017 compared to 8.29 percent in the previous week.

The capital markets performance recovered from a four-week downward trend in the equities market but the bond market trading declined for the third week in a row.

CHART A: DEVELOPMENTS IN INFLATION



Source: KNBS and Central Bank of Kenya

Inflation

Overall inflation accelerated to 7.0 percent in January 2017 from 6.4 percent in December 2016 on account of elevated food prices and rising fuel costs (Chart A). Food inflation increased by 115 basis points to 11.75 percent in January 2017 from 10.6 percent in December 2016. Food inflation was largely driven by increase in prices of some key food items (kale (sukuma wiki); cabbages; sifted maize flour; Irish potatoes; loose maize grain; mangoes; beans; fresh packed milk; and spinach) which contributed 1.2 percentage points to overall inflation in January 2017. Fuel inflation increased to 0.67 percent in January 2017 from 0.14 percent in December 2016, mainly driven by rising prices of petrol and electricity. However, NFNF inflation declined marginally to 4.5 percent in January 2017 from 4.6 percent in December 2016 reflecting the dissipation of the effects of excise tax revisions on cigarettes and beer that were implemented in December 2015.

Monetary Policy Stance

The Monetary Policy Committee (MPC) met on January 30, 2017 to review the outcome of its previous policy decisions and recent economic developments and decided to retain the Central Bank Rate (CBR) at 10.0 percent in order to anchor inflation expectations.

Monetary Policy Operations

The money market was relatively liquid during the week ending February 1, 2017 supported by net government payments and Open Market Operations (OMO). A net amount of KSh 8.3 billion was availed through OMO to complement other sources of liquidity in the interbank market (**Table 1**).

The commercial banks' reserve position worsened to a deficit of KSh 5.6 billion on the 5.25 percent average reserve requirement in the CRR cycle in the week ending February 1, 2017, compared with a shortfall of KSh 1.2 billion recorded in the previous week (**Chart B**).

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

| | 26-Jan-17 | 27-Jan-17 | 30-Jan-17 | 31-Jan-17 | 1-Feb-17 | Total |
|---|------------|-------------|-------------|-------------|-------------|-------------|
| Liquidity Flows | | | | | | |
| Total liquidity injection \¹ | 4.3 | 4.5 | 18.4 | 33.3 | 8.8 | 69.3 |
| Repos Maturities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reverse Repo Purchases | 0.8 | 1.2 | 0.7 | 14.9 | 3.3 | 20.9 |
| Term Auction Deposit maturities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| T/bills redemptions | 0.0 | 0.0 | 12.8 | 0.0 | 0.0 | 12.8 |
| 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 | 3.5 | 3.3 | 4.9 | 18.4 | 5.6 | 35.7 |
| Total liquidity reduction \¹ | 3.9 | 5.4 | 19.7 | 16.5 | 14.1 | 59.6 |
| T/bills (Primary issues) | 0.0 | 0.0 | 9.1 | 0.0 | 0.0 | 9.1 |
| Tbonds Sales | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| T/bills/Tbonds (OMO Tap Sales) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repos | 0.0 | 2.2 | 1.6 | 0.0 | 8.8 | 12.6 |
| Reverse Repos maturities | 1.0 | 1.5 | 1.0 | 14.6 | 3.3 | 21.3 |
| Term Auction Deposit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transfer from Banks -Taxes | 2.9 | 1.7 | 6.5 | 1.9 | 2.0 | 14.9 |
| Net liquidity injection (+)/Withdrawal (-) | 0.4 | -0.9 | -1.3 | 16.8 | -5.3 | 9.7 |

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

Source: Central Bank of Kenya

CHART B: COMMERCIAL BANKS EXCESS RESERVES



Source: Central Bank of Kenya

Activity in the Interbank Market

The average interbank rate declined by 110.6 basis points to 7.23 percent in the week ending February 1, 2017 compared to 8.34 percent recorded in the previous week. The volumes transacted remained

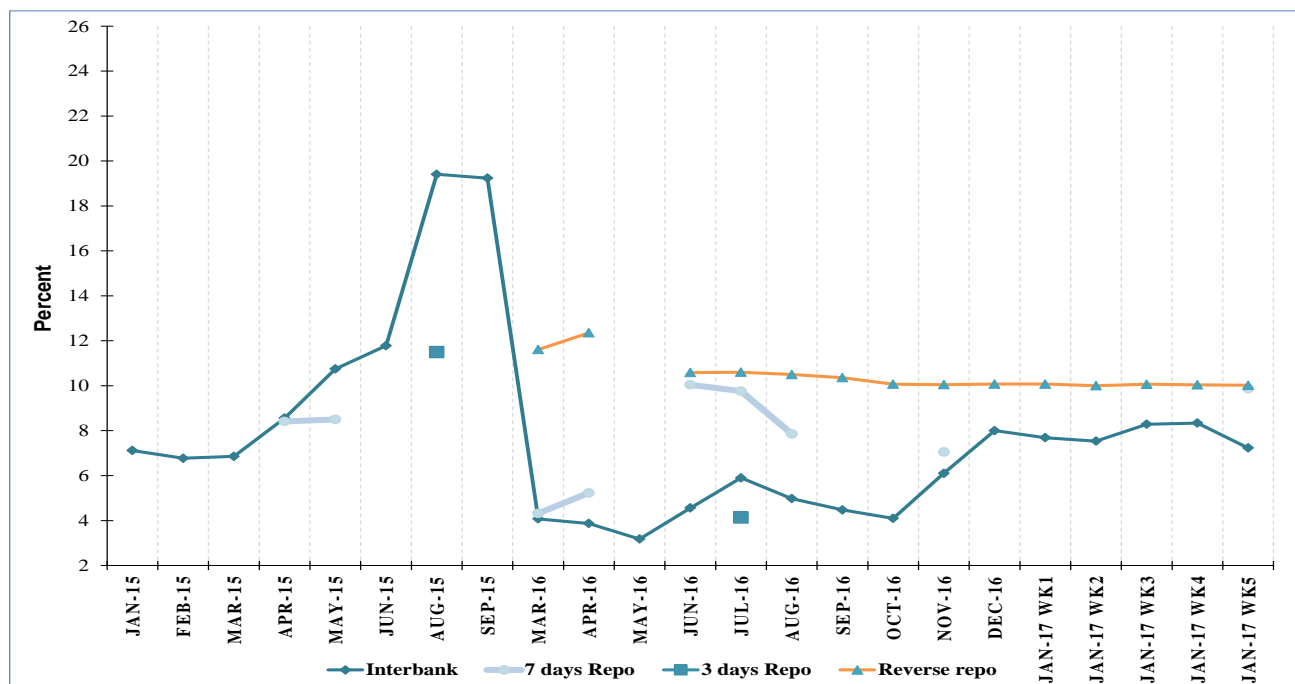
largely unchanged at KSh 15.6 billion compared to KSh 15.9 billion. Reverse repo purchases traded at a marginally lower average rate of 10.02 percent in the week ending February 1, 2017 (Table 2 and Chart C).

TABLE 2: OPEN MARKET OPERATIONS (KSH MILLION)

| Date | Number of Deals | Value (KSh M) | Average Interbank Rate (%) | Reverse Repo Rate (%) |
|-----------------------------------|-----------------|---------------|----------------------------|-----------------------|
| 19-Jan-17 | 42 | 13,990 | 9.22 | |
| 20-Jan-17 | 42 | 15,560 | 8.75 | 10.00 |
| 23-Jan-17 | 41 | 19,700 | 8.35 | 10.10 |
| 24-Jan-17 | 42 | 18,170 | 7.84 | 10.02 |
| 25-Jan-17 | 31 | 11,950 | 7.53 | 10.06 |
| Jan 19, 2017- Jan 25, 2017 | 40 | 15,874 | 8.34 | 10.05 |
| 26-Jan-17 | 38 | 14,760 | 7.19 | 10.05 |
| 27-Jan-17 | 40 | 17,475 | 7.77 | 10.00 |
| 30-Jan-17 | 33 | 20,030 | 7.23 | - |
| 31-Jan-17 | 30 | 12,325 | 7.38 | - |
| 1-Feb-17 | 35 | 13,880 | 6.60 | - |
| Jan 26, 2017 - Feb 1, 2017 | 35 | 15,694 | 7.23 | 10.02 |

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 registered mixed performance against major international currencies as well as EAC currencies during the week ending February 2, 2017. The Shilling strengthened against the US Dollar, the Euro and the Japanese Yen but

weakened against the Pound Sterling. In the EAC region, the shilling strengthened against the Burundi Franc but weakened against the Uganda Shilling, the Tanzania Shilling and the Rwanda Franc (Table 3).

TABLE 3: KENYA SHILLING EXCHANGE RATE

| | USD | Sterling Pound | Euro | 100 Japanese Yen | USHS* | TSHS* | RWF* | BIF* |
|-------------------------|---------------|----------------|---------------|------------------|--------------|--------------|-------------|--------------|
| 20-Jan-17 | 103.83 | 128.27 | 110.90 | 90.48 | 34.62 | 21.52 | 7.86 | 16.15 |
| 23-Jan-17 | 103.80 | 128.85 | 111.45 | 91.31 | 34.58 | 21.77 | 7.92 | 16.03 |
| 24-Jan-17 | 103.95 | 130.04 | 111.78 | 92.09 | 34.58 | 21.74 | 7.86 | 16.14 |
| 25-Jan-17 | 103.99 | 130.14 | 111.64 | 91.56 | 34.55 | 21.59 | 8.02 | 16.13 |
| 26-Jan-17 | 104.00 | 131.62 | 111.78 | 91.61 | 34.52 | 21.54 | 8.02 | 16.13 |
| 20-26 Jan 2017 | 103.92 | 129.78 | 111.51 | 91.41 | 34.57 | 21.63 | 7.94 | 16.12 |
| 27-Jan-17 | 103.96 | 130.80 | 111.06 | 90.38 | 34.53 | 21.35 | 7.86 | 16.29 |
| 30-Jan-17 | 103.97 | 130.69 | 111.25 | 90.32 | 34.61 | 21.47 | 7.86 | 16.14 |
| 31-Jan-17 | 103.96 | 130.09 | 111.16 | 91.55 | 34.53 | 21.50 | 8.03 | 16.23 |
| 1-Feb-17 | 103.86 | 129.69 | 111.67 | 91.62 | 34.52 | 21.52 | 7.87 | 16.25 |
| 2-Feb-17 | 103.82 | 131.58 | 112.06 | 92.21 | 34.48 | 21.53 | 7.87 | 16.25 |
| 27 Jan- 2 Feb 17 | 103.91 | 130.57 | 111.44 | 91.21 | 34.53 | 21.47 | 7.90 | 16.23 |

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

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The Capital Market

Overall, equities prices increased in the week ending February 2, 2017, for the first time in four weeks. The NSE, NASI 25 and NSE 20 Share Index closed the week higher than the previous week.

Similarly, the equity turnover rose by 6.78 percent on account of a 28.08 percent rise in the volume of shares traded as well as increase in prices. Reflecting this recovery, shareholders' wealth measured by market capitalization, rose by 0.83 percent during the week (**Table 4**).

TABLE 4: KEY WEEKLY MARKET STATISTICS

| INDICATOR | 15-Dec-16 | 22-Dec-16 | 29-Dec-16 | 05-Jan-17 | 12-Jan-17 | 19-Jan-17 | 26-Jan-17 | 02-Feb-17 | Weekly Change (Percent) |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------------------|
| NASI 100= 2008 | 130.95 | 132.04 | 131.30 | 131.45 | 124.75 | 124.21 | 122.42 | 123.43 | 0.83 |
| NSE 25 Share Index | 3,466.52 | 3,459.04 | 3,455.66 | 3,481.64 | 3,262.53 | 3,234.77 | 3,160.28 | 3,174.11 | 0.44 |
| NSE 20 Share Index 100= 1996 | 3,129.78 | 3,106.91 | 3,156.59 | 3,170.71 | 3,014.36 | 2,924.90 | 2,824.32 | 2,833.09 | 0.31 |
| Number of Deals | 3,687 | 4,687 | 1,980 | 3,149 | 4,789 | 4,839 | 4,581 | 4,316 | -5.78 |
| Total Shares Traded (Million) | 51.33 | 96.56 | 36.23 | 167.10 | 124.03 | 124.12 | 109.79 | 140.58 | 28.04 |
| Equity Turnover (KSh Million) | 1,252.52 | 1,995.31 | 921.22 | 2,312.80 | 2,579.69 | 3,200.87 | 2,924.39 | 3,122.69 | 6.78 |
| Market Capitalization (KSh Billion) | 1,896.95 | 1,912.71 | 1,901.97 | 1,904.16 | 1,806.88 | 1,799.06 | 1,772.92 | 1,787.61 | 0.83 |
| I-REIT Turnover in (KSh Million) | 0.94 | 0.09 | 0.12 | 18.65 | 0.28 | 0.46 | 0.06 | 0.27 | 350.00 |
| I-REIT in Units - Total Deals | 16.00 | 16.00 | 11.00 | 18.00 | 20.00 | 25.00 | 5.00 | 13.00 | 160.00 |
| Bonds Turnover (KSh Million) | 5,395.44 | 7,857.91 | 5,095.60 | 3,314.45 | 6,208.51 | 10,653.85 | 8,487.17 | 6,061.50 | -28.58 |
| FTSE NSE Kenya 15 Index | 159.64 | 158.63 | 159.07 | 159.84 | 150.86 | 147.33 | 144.74 | 141.55 | -2.20 |
| FTSE NSE Kenya 25 Index | 163.83 | 163.96 | 164.30 | 163.65 | 154.95 | 152.44 | 150.28 | 148.11 | -1.44 |
| FTSE NSE Bond Index | 89.96 | 89.96 | 90.05 | 90.00 | 89.94 | 89.86 | 89.63 | 89.70 | 0.08 |

Source: Nairobi Securities Exchange

FTSE NSE Kenya Index Series, REITS and Most Active Sectors

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 NSE declined by 2.20 percent and 1.44 percent, respectively. Telecommunications and Technology and Banking sectors dominated trading, accounting for 86.49 percent of the total shares traded. Turnover in the real estate market segment, Income-Real Estate Investment Trust (I-REIT²) was up 350 percent,

with deals traded higher by 160.0 percent, signalling higher investor appetite for asset-backed securities.

Bond Market

The volume of bonds traded declined by 28.58 percent from KSh 8,487.17 billion transacted in the previous week. Deals transacted increased to 265 from 220 deals of the previous week. The FTSE Bond Index increased slightly by 0.08 percent, signalling a decline 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 | 29-Dec-16 | 05-Jan-17 | 12-Jan-17 | 19-Jan-17 | 26-Jan-17 | 02-Feb-17 |
| 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) | 1,367.7 | 3,471.7 | 3,446.9 | 4,933.6 | 5,840.1 | 3,735.4 |
| Amount Accepted (Ksh M) | 1,367.4 | 3,452.1 | 3,446.4 | 4,806.4 | 5,557.4 | 2,629.7 |
| Maturities (Ksh M) | 4,267.1 | 5,905.8 | 4,766.7 | 1,380.2 | 4,384.0 | 4,443.9 |
| Average interest Rate (%) - 91 Days | 8.6 | 8.6 | 8.6 | 8.7 | 8.7 | 8.7 |
| 182-Day Treasury Bills | | | | | | |
| Date of Auction | 28-Dec-16 | 04-Jan-17 | 11-Jan-17 | 18-Jan-17 | 25-Jan-17 | 01-Feb-17 |
| 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) | 2,140.8 | 2,411.0 | 5,621.0 | 5,585.4 | 5,078.3 | 15,335.2 |
| Amount Accepted (Ksh M) | 1,145.9 | 1,936.3 | 1,542.7 | 5,573.1 | 2,218.5 | 15,115.5 |
| Maturities (Ksh M) | 1,247.7 | 2,903.2 | 2,838.3 | 14,457.8 | 6,733.4 | 12,201.2 |
| Average interest Rate (%) - 182 days | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.6 |
| 364-Day Treasury Bills | | | | | | |
| Date of Auction | 28-Dec-16 | 04-Jan-17 | 11-Jan-17 | 18-Jan-17 | 25-Jan-17 | 01-Feb-17 |
| Amount offered (Ksh M) | | 6,000.0 | 6,000.0 | 6,000.0 | 6,000.0 | 6,000.0 |
| Bids received (Ksh M) | | 3,849.4 | 2,919.8 | 2,677.3 | 1,339.6 | 7,718.3 |
| Amount Accepted (Ksh M) | | 3,354.4 | 1,333.6 | 2,461.3 | 1,339.6 | 6,062.1 |
| Maturities (Ksh M) | | 3,569.1 | 4,804.4 | 3,937.2 | 1,666.3 | 7,013.0 |
| Average interest Rate (%) - 364 days | | 11.0 | 11.0 | 11.0 | 10.9 | 10.9 |
| Treasury Bonds | | | | | | |
| Date of Auction | 29-Dec-16 | | | | | |
| Tenor | FXD3/2016/2 (Tap Sale) | | | | | |
| Amount offered (Ksh M) | 20,000.0 | | | | | |
| Bids received (Ksh M) | 1,354.0 | | | | | |
| Amount Accepted (Ksh M) | 1,353.8 | | | | | |
| Maturities (Ksh M) | 0.0 | | | | | |
| Average interest Rate (%) | 12.5 | | | | | |

Source: Central Bank of Kenya

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

| | 28-Oct-16 | 25-Nov-16 | 30-Dec-16 | 06-Jan-17 | 13-Jan-17 | 20-Jan-17 | 27-Jan-17 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 1. Treasury Bills (Excluding Repos) | 631.84 | 611.95 | 620.19 | 613.67 | 610.57 | 604.78 | 598.48 |
| (As % of total securities) | 34.04 | 33.19 | 33.17 | 32.92 | 32.80 | 32.59 | 32.36 |
| 2. Treasury Bonds | 1,224.21 | 1,231.57 | 1,249.34 | 1,250.70 | 1,250.70 | 1,250.70 | 1,250.70 |
| (As % of total securities) | 65.96 | 66.81 | 66.83 | 67.08 | 67.20 | 67.41 | 67.64 |
| 3. Total Securities (1+2) | 1,856.05 | 1,843.52 | 1,869.53 | 1,864.37 | 1,861.27 | 1,855.48 | 1,849.17 |
| 4. Overdraft at Central Bank | 0.00 | 9.96 | 29.93 | 29.38 | 15.58 | 1.12 | 13.58 |
| 5. Other Domestic debt* | 31.21 | 32.05 | 31.39 | 31.38 | 31.52 | 31.53 | 32.10 |
| 6. Gross Domestic Debt (3+4+5) | 1,887.26 | 1,885.54 | 1,930.86 | 1,925.12 | 1,908.37 | 1,888.14 | 1,894.85 |

* 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 PERCENT)

| | 24-Jun-16 | 29-Jul-16 | 28-Oct-16 | 25-Nov-16 | 30-Dec-16 | 06-Jan-17 | 13-Jan-17 | 20-Jan-17 | 27-Jan-17 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Treasury bills (Excluding Repos) | 32.1 | 31.9 | 33.5 | 32.5 | 32.1 | 31.9 | 32.0 | 32.0 | 31.6 |
| Treasury bonds | 64.1 | 65.6 | 64.9 | 65.3 | 64.7 | 65.0 | 65.5 | 66.2 | 66.0 |
| CBK Overdraft to Govt | 2.1 | 0.8 | 0.0 | 0.5 | 1.6 | 1.5 | 0.8 | 0.1 | 0.7 |
| Other domestic debt | 1.7 | 1.7 | 1.7 | 1.7 | 1.6 | 1.6 | 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 |

Source: Central Bank of Kenya

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

| | 24-Jun-16 | 29-Jul-16 | 26-Aug-16 | 30-Sep-16 | 28-Oct-16 | 25-Nov-16 | 30-Dec-16 | 06-Jan-17 | 13-Jan-17 | 20-Jan-17 | 27-Jan-17 |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Banking Institutions | 56.3 | 54.8 | 54.4 | 55.0 | 53.1 | 53.3 | 52.5 | 52.5 | 52.3 | 51.8 | 51.6 |
| Insurance Companies | 7.5 | 7.6 | 7.3 | 7.4 | 7.1 | 7.1 | 7.3 | 7.3 | 7.4 | 7.5 | 7.5 |
| Parastatals | 4.7 | 5.1 | 5.6 | 5.5 | 5.6 | 5.8 | 5.6 | 5.6 | 5.7 | 5.7 | 5.7 |
| Pension funds | 25.9 | 26.8 | 27.0 | 26.6 | 27.1 | 27.3 | 28.0 | 28.0 | 28.1 | 28.4 | 28.6 |
| Other investors | 5.7 | 5.7 | 5.6 | 5.6 | 7.1 | 6.5 | 6.5 | 6.5 | 6.6 | 6.7 | 6.7 |
| 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

TABLE 9: OFFICIAL FOREIGN RESERVES US\$ MILLION (USABLE)

| | 05-Jan-17 | 12-Jan-17 | 19-Jan-17 | 26-Jan-17 | 02-Feb-17 |
|---|-----------|-----------|-----------|-----------|-----------|
| 1. CBK Usable Foreign Exchange Reserves (USD Million)* | 7,056 | 6,944 | 6,853 | 6,944 | 6,947 |
| 2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)** | 4.66 | 4.59 | 4.52 | 4.59 | 4.59 |

*Excludes Encumbered Reserves

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

Source: Central Bank of Kenya