



**JULY 29, 2016**

### **Highlights**

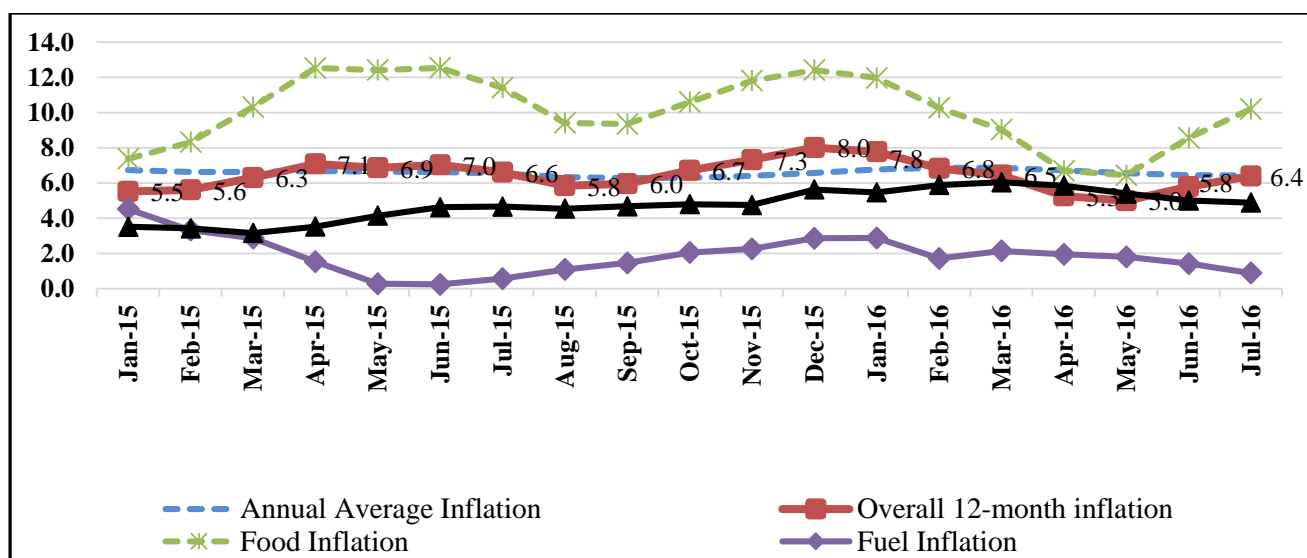
*Overall inflation accelerated to 6.4 percent in July from 5.8 percent in June 2016 on account of rising food prices. However, Non-Food Non-Fuel (NFNF) decelerated for the third consecutive month to 4.9 percent in July 2016 from 5.01 percent in June.*

*The money market was relatively tight in the week ending July 27, 2016 owing to VAT payments and issuance of a Treasury bond. The average interbank rate increased to 4.8 percent in the week ending July 27, 2016 from 4.2 percent in the previous week.*

*Overall, the capital market recorded mixed performance in the week ending July 28, 2016.*

### **Inflation**

Overall inflation accelerated to 6.4 percent in July from 5.8 percent in June 2016 on account of rising food prices (**Chart A**). Food inflation increased to 10.2 percent in July from 8.6 percent in June 2016, largely driven by increases in prices of few but key food items. Meanwhile, fuel inflation declined to 0.89 percent in July 2016 from 1.43 percent in June 2016, largely on account of low prices of cooking gas and electricity. NFNF inflation also decelerated to 4.9 percent in July 2016 from 5.01 percent in June 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 tight in the week ending July 27, 2016 owing to VAT payments and issuance of a Treasury bond. Liquidity flows through Government payments were subdued compared to substantial tax payment. To mitigate the liquidity shortfall in the interbank money market, the Central Bank injected KSh 27.4 billion through reverse repo purchases (Table 1).

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

	21-Jul-16	22-Jul-16	25-Jul-16	26-Jul-16	27-Jul-16	Total
<b>Liquidity Flows</b>						
<b>Total liquidity injection</b>	<b>20.2</b>	<b>5.1</b>	<b>47.4</b>	<b>6.6</b>	<b>7.6</b>	<b>86.9</b>
Repos Maturities	15.0	5.0	0.0	0.0	0.0	20.0
Term Auction Deposit maturities	2.0	0.0	0.0	2.0	0.0	4.0
T/bills redemptions	0.0	0.0	19.0	0.0	0.0	19.0
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	3.8	0.0	0.0	3.8
T/bonds rediscounts	0.0	0.0	4.0	0.0	0.0	4.0
Govt payments	2.7	0.1	0.1	1.2	2.6	6.7
<b>Total liquidity reduction</b>	<b>7.0</b>	<b>20.5</b>	<b>56.0</b>	<b>4.1</b>	<b>2.5</b>	<b>90.0</b>
T/bills (Primary issues)	0.0	0.0	19.9	0.0	0.0	19.9
Tbonds Sales	0.0	0.0	33.5	0.0	0.0	33.5
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
Term Auction Deposit	0.0	0.0	0.0	0.0	0.0	0.0
Transfer from Banks -Taxes	6.3	17.9	1.6	2.4	2.5	30.6
<b>Net liquidity injection (+)/Withdrawal (-)</b>	<b>13.2</b>	<b>-15.4</b>	<b>-8.6</b>	<b>2.5</b>	<b>5.1</b>	<b>-3.1</b>
<b>Open Market Operations Outcome</b>						
<b>Posted Amount - Mop up</b>	<b>0.0</b>	<b>0.0</b>	<b>15.0</b>	<b>5.0</b>	<b>3.0</b>	<b>23.0</b>
<b>Realised Amount - Mop up</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
Repo (-)	0.0	0.0	0.0	0.0	0.0	0.0
Term Auction Deposits (-)	0.0	0.0	0.0	0.0	0.0	0.0
<b>Reverse Repo (+)</b>	<b>0.0</b>	<b>0.0</b>	<b>20.5</b>	<b>1.9</b>	<b>5.0</b>	<b>27.4</b>
<b>Reserve Money Position</b>						
Reserve money (actual)	398.7	376.6	366.9	368.9	373.4	

Source: Central Bank of Kenya

### Activity in the Interbank Market

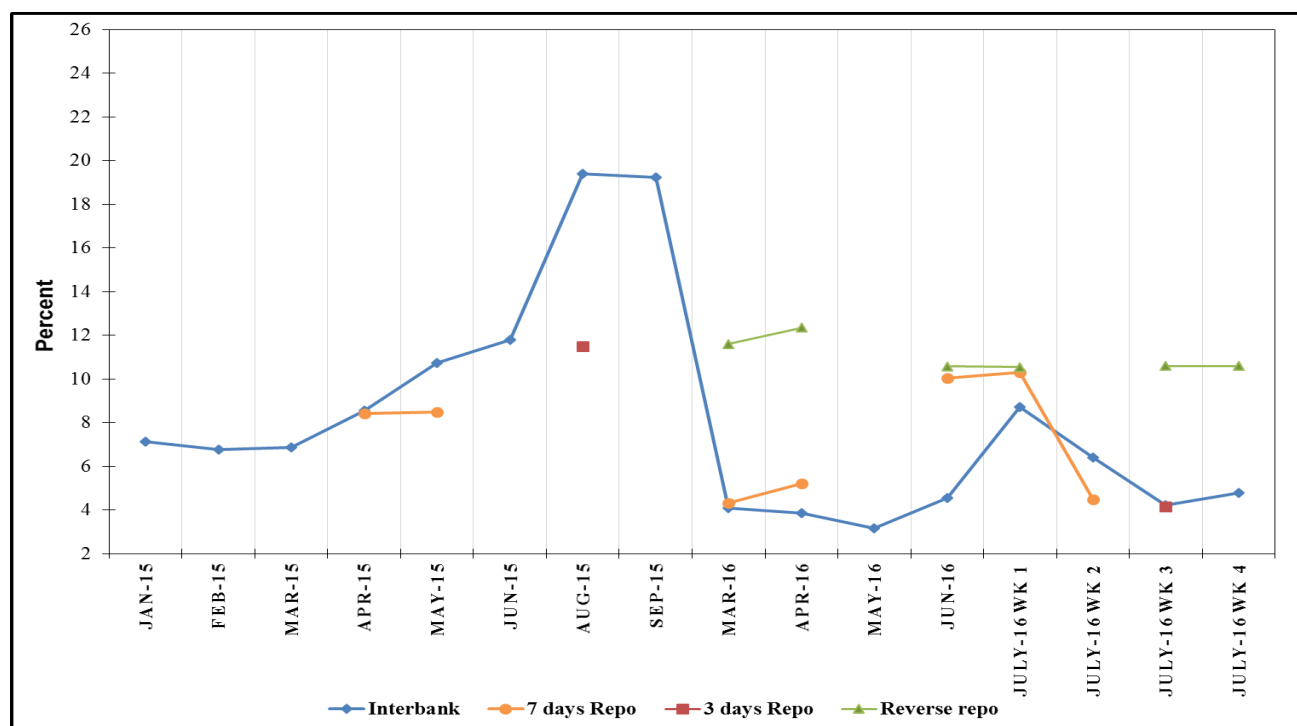
The average interbank rate increased to 4.79 percent in the week ending July 27, 2016 from 4.21 percent in the previous week. Increased volumes were traded in the interbank market as banks sought to cover their liquidity positions after VAT payments (**Table 2 and Chart B**).

**TABLE 2: OPEN MARKET OPERATIONS (KSH MILLION)**

Date	Number of deals	Value (Ksh M)	Average Interbank Rate (%)	Reverse Repo Rate (%)
14-Jul-16	32	16,970	4.46	10.60
15-Jul-16	27	13,875	4.33	
18-Jul-16	24	8,725	4.67	10.60
19-Jul-16	22	9,930	4.05	10.60
20-Jul-16	17	10,300	3.53	10.60
<b>July 15, 2016 - July 20, 2016</b>	<b>24</b>	<b>11,960</b>	<b>4.21</b>	<b>10.60</b>
21-Jul-16	24	17,550	3.71	
22-Jul-16	31	24,150	4.07	
25-Jul-16	34	19,305	4.80	10.62
26-Jul-16	24	13,935	5.69	10.60
27-Jul-16	27	16,100	5.70	10.50
<b>July 21, 2016 - July 27, 2016</b>	<b>28</b>	<b>18,208</b>	<b>4.79</b>	<b>10.57</b>

Source: Central Bank of Kenya

**CHART B: STRUCTURE OF SHORT-TERM INTEREST RATES**

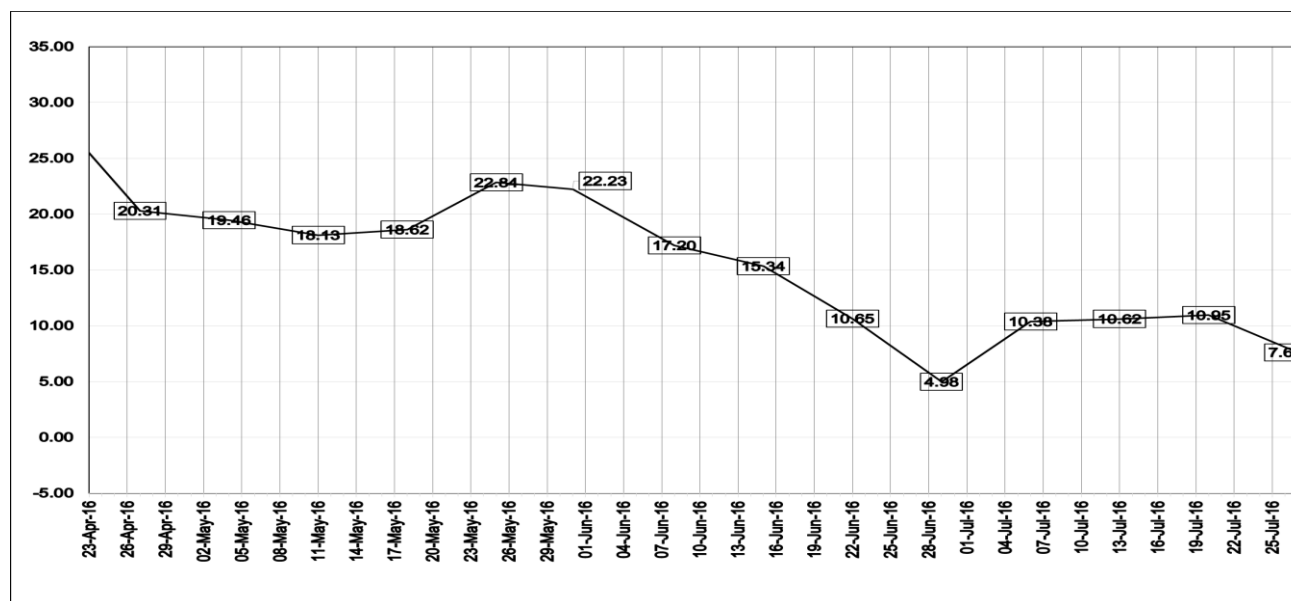


Source: Central Bank of Kenya

## Commercial Banks Clearing Account Balances

Commercial banks' excess reserves declined to KSh 7.69 billion in relation to the 5.25 percent reserve requirement as at July 27, 2016 (**Chart C**).

**CHART C: EVOLUTION OF FREE RESERVES**



Source: Central Bank of Kenya

## Kenya Shilling Exchange Rate

The Kenya Shilling exchange rate depicted mixed performance against international currencies, mainly reflecting developments in international markets. It strengthened against the US Dollar, the Sterling Pound and the Euro but weakened against the Japanese Yen during the week ending July 28, 2016. In the EAC region, the Kenya Shilling strengthened against 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*
15-Jul-16	101.34	134.74	112.58	95.82	33.24	21.59	7.72	16.57
18-Jul-15	101.38	134.80	112.40	95.87	33.19	21.59	7.36	16.38
19-Jul-15	101.48	134.40	112.24	96.13	33.13	21.58	7.53	16.31
20-Jul-15	101.57	133.30	111.90	95.48	33.11	21.56	7.54	16.34
21-Jul-15	101.58	133.76	111.76	95.19	33.16	21.55	7.39	16.34
<b>15-22 July 2016</b>	<b>101.47</b>	<b>134.20</b>	<b>112.17</b>	<b>95.70</b>	<b>33.16</b>	<b>21.58</b>	<b>7.51</b>	<b>16.39</b>
22-Jul-16	101.55	134.35	112.02	96.06	33.18	21.56	7.35	16.35
25-Jul-16	101.55	132.95	111.86	95.86	33.28	21.56	7.54	16.33
26-Jul-16	101.39	133.06	111.27	95.58	33.26	21.59	7.36	16.38
27-Jul-16	101.32	133.03	111.43	96.97	33.36	21.61	7.37	16.39
28-Jul-16	101.39	133.13	111.52	95.89	33.34	21.58	7.77	16.36
<b>22-28 July 2016</b>	<b>101.44</b>	<b>133.31</b>	<b>111.62</b>	<b>96.07</b>	<b>33.28</b>	<b>21.58</b>	<b>7.48</b>	<b>16.36</b>

\* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

## The Capital Market

The equities market segment recorded mixed performance in the week ending July 28, 2016, while the bond market segment recorded improved performance.

### Equities Market

The overall share prices as reflected by NASI<sup>1</sup> and shares grouped under the NSE 25<sup>2</sup> index increased by 2.25 percent and 2.24 percent respectively. However shares grouped under the NSE 20<sup>3</sup> index declined by 1.33 percent during the week under review. Market capitalization which measures shareholders' wealth rose by 2.32 percent, reflecting overall increase in share prices. Equity turnover declined by 13.97 percent due to 6.23 percent decrease in shares traded (**Table 4**).

**TABLE 4: KEY WEEKLY MARKET STATISTICS**

INDICATOR	15-Jun-16	23-Jun-16	30-Jun-16	08-Jul-16	14-Jul-16	21-Jul-16	28-Jul-16	Weekly Change (%)
NASI 100= 2008	146.50	144.33	140.60	140.84	138.76	138.82	141.94	2.25
NSE 25 Share Index	4,135.98	182.29	3,955.56	3,978.48	3,901.32	3,848.99	3,935.31	2.24
NSE 20 Share Index 100= 1996	3,799.16	3,744.58	3,640.61	3,664.78	3,609.81	3,515.00	3,468.29	-1.33
Number of Deals	5,239.00	5,960.00	5,641.00	4,033.00	5,973.00	5,476.00	5,609.00	2.43
Total Shares Traded (Millions)	89.78	155.17	113.56	106.83	131.05	147.75	138.55	-6.23
Equity Turnover (Ksh. Millions)	2,605.50	3,965.87	2,830.96	3,316.61	3,414.85	3,484.72	2,997.86	-13.97
Market Capitalization (Ksh. Bn.)	2,078.54	2,059.64	1,994.81	2,025.28	1,995.21	1,993.27	2,042.47	2.47
I-REIT Turnover in (Ksh. Millions)	2.81	6.82	8.35	0.79	0.86	0.49	2.64	438.35
I-REIT in Units - Total Deals	47.00	81.00	61.00	30.00	46.00	30.00	55.00	83.33
Bonds Turnover (Ksh. Millions)	10,672.64	13,531.49	7,278.10	2,549.50	6,280.44	3,846.25	6,613.16	71.94
FTSE NSE Kenya 15 Index	184.41	181.20	175.70	175.88	173.71	171.30	174.56	1.90
FTSE NSE Kenya 25 Index	185.84	182.29	176.47	176.85	174.81	173.37	177.61	2.45
FTSE NSE Bond Index	87.99	88.80	87.98	88.93	89.52	90.44	90.87	0.48

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, closed the week 1.90 percent and 2.45 percent higher, respectively. The real estate market segment recorded improved activity with Real Estate Investment Trust (I-REIT) turnover up 438.35 percent and number of deals up by 83.33

<sup>1</sup> NASI refers to Nairobi All Share Index. It is a benchmark index for all companies listed and actively trading on the NSE

<sup>2</sup> 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" with superior profitability and dividend record.

<sup>3</sup> 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.

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percent, signalling appetite for asset-backed securities. Telecommunication and Technology, Energy and Petroleum and Banking sectors dominated trading, accounting for 91.15 percent of the total shares traded.

### The Bond Market

The bonds turnover rose by 71.94 percent in the week ending July 28, 2016, with corresponding deals up by 7 from 54 deals of the previous week. The FTSE NSE Government Bond Index rose by 0.48 percent reflecting decline in secondary market yields.

**TABLE 5: PERFORMANCE OF GOVERNMENT SECURITIES**

<b>91-Day Treasury Bills</b>							
Date of Auction	26-May-16	23-Jun-16	30-Jun-16	07-Jul-16	14-Jul-16	21-Jul-16	28-Jul-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)	10,212.9	5,325.8	3,385.3	1,956.1	3,219.5	2,811.5	3,741.1
Amount Accepted (Ksh M)	7,284.2	5,031.1	3,385.3	1,956.1	2,230.0	2,811.5	2,672.6
Maturities (Ksh M)	8,569.5	3,164.7	1,184.0	5,305.2	9,946.1	9,086.9	12,662.0
Average interest Rate (%) - 91 Days	7.7	7.1	7.0	7.0	7.6	7.9	8.3
<b>182-Day Treasury Bills</b>							
Date of Auction	25-May-16	22-Jun-16	29-Jun-16	06-Jul-16	13-Jul-16	20-Jul-16	27-Jul-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)	10,543.1	10,743.7	1,215.1	2,776.9	3,009.5	13,893.0	13,160.0
Amount Accepted (Ksh M)	5,402.0	10,268.5	1,215.1	2,776.9	2,707.3	13,775.9	6,405.5
Maturities (Ksh M)	478.6	5,289.2	2,563.6	2,707.3	13,915.1	9,546.7	8,198.5
Average interest Rate (%) - 182 days	10.0	9.2	9.4	9.6	9.9	10.2	10.5
<b>364-Day Treasury Bills</b>							
Date of Auction	25-May-16	22-Jun-16	29-Jun-16	06-Jul-16	13-Jul-16	20-Jul-16	27-Jul-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)	16,092.7	3,452.2	1,314.6	1,086.0	6,902.8	3,286.4	5,250.7
Amount Accepted (Ksh M)	9,168.5	3,452.2	1,314.6	1,086.0	6,635.9	3,286.4	5,214.9
Maturities (Ksh M)	1,092.0	591.5	72.4	355.6	850.5	386.6	1,935.9
Average interest Rate (%) - 364 days	11.3	10.7	10.7	11.0	10.9	11.0	11.4
<b>Treasury Bonds</b>							
Date of Auction					20th July 2016	20th July 2016	
Tenor					FXD 2/2016/5	FXD 1/2008/2016	
Amount offered (Ksh M)					30,000.00		
Bids received (Ksh M)					40,876.58		
Amount Accepted (Ksh M)					33,504.36		
Maturities (Ksh M)					0.00		
Average interest Rate (%)					14.1	14.8	

Source: Central Bank of Kenya

**TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)**

	29-Apr-16	27-May-16	24-Jun-16	01-Jul-16	08-Jul-16	15-Jul-16	22-Jul-16
1. Treasury Bills (Excluding Repos)	507.90	540.84	578.03	588.09	590.39	588.11	575.86
(As % of total securities)	31.50	33.38	33.41	33.95	34.03	33.80	33.33
2. Treasury Bonds	1,104.68	1,079.52	1,152.04	1,144.32	1,144.32	1,152.04	1,152.04
(As % of total securities)	68.50	66.62	66.59	66.05	65.97	66.20	66.67
<b>3. Total Securities (1+2)</b>	<b>1,612.58</b>	<b>1,620.35</b>	<b>1,730.07</b>	<b>1,732.41</b>	<b>1,734.71</b>	<b>1,740.15</b>	<b>1,727.90</b>
4. Overdraft at Central Bank	44.87	41.49	37.06	44.20	44.20	44.20	13.66
5. Other Domestic debt*	31.77	31.60	31.09	31.07	31.10	30.76	30.77
<b>6. Gross Domestic Debt (3+4+5)</b>	<b>1,689.22</b>	<b>1,693.45</b>	<b>1,798.22</b>	<b>1,807.68</b>	<b>1,810.02</b>	<b>1,815.12</b>	<b>1,772.32</b>

\* 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

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**TABLE 7: COMPOSITION OF GOVERNMENT DEBT BY INSTRUMENT**

	29-Apr-16	27-May-16	24-Jun-16	01-Jul-16	08-Jul-16	15-Jul-16	22-Jul-16
Treasury bills (Excluding Repos)	30.1	31.9	32.1	32.5	32.6	32.4	32.5
Treasury bonds	65.4	63.7	64.1	63.3	63.2	63.5	65.0
CBK Overdraft to Govt	2.7	2.5	2.1	2.4	2.4	2.4	0.8
Other domestic debt	1.9	1.9	1.7	1.7	1.7	1.7	1.7
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Central Bank of Kenya

**TABLE 8: COMPOSITION OF GOVERNMENT DEBT BY HOLDER**

	29-Apr-16	27-May-16	24-Jun-16	01-Jul-16	08-Jul-16	15-Jul-16	22-Jul-16
Banking Institutions	56.5	57.5	56.3	56.2	56.0	55.7	55.0
Insurance Companies	7.9	7.9	7.5	7.4	7.4	7.4	7.6
Parastatals	4.6	4.7	4.7	5.0	5.0	5.1	5.2
Pension funds	25.2	26.1	25.9	25.8	26.1	26.2	26.4
Other investors	5.8	3.8	5.7	5.6	5.6	5.6	5.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Central Bank of Kenya

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

	05-May-16	12-May-16	19-May-16	26-May-16	02-Jun-16	09-Jun-16	16-Jun-16	23-Jun-16	30-Jun-16	07-Jul-16	14-Jul-16	21-Jul-16	28-Jul-16
1. CBK Usable Foreign Exchange Reserves (USD Mn)*	7,707	7,693	7,662	7,649	7,668	7,631	7,599	7,517	7,237	7,878	7,841	7,831	7,782
2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)**	5.04	5.03	5.01	5.00	5.01	4.99	4.97	4.91	4.73	5.15	5.13	5.12	5.09

\*Excludes Encumbered Reserves

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

Source: Central Bank of Kenya