

January 22, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted impressive performance of 191.0 percent during the Treasury bills auction of January 21, 2010. The Government had offered for sale Treasury bills amounting to Ksh 7.0 billion; received bids amounting to Ksh 13.4 billion and accepted bids amounting to Ksh 8.2 billion. The average 182-day Treasury bill rate declined by 23.6 basis points during the auction.

The average interbank rate continued on a downward trend for the second week running declining further by 6 basis points to 3.79 percent in the week ending January 21, 2010.

The Kenya Shilling on average depicted mixed trends against the major international currencies during the week ending January 22, 2010. Against the US dollar, the shilling depreciated to exchange at Ksh 75.96 in the week ending January 22, 2010 compared with Ksh 75.43 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank stood at US dollar 3,309 million (equivalent to 3.59 months of imports) as at January 22, 2010 compared with US dollar 2,677 million (equivalent to 3.24 months of imports) as at January 22, 2009.

Central Bank injected a total of Ksh 5.5 billion during the week ending January 20, 2010 against reverse repo maturities worth Ksh 4.3 billion. The Central bank therefore enhanced inter bank reserve by Ksh 1.2 billion during the week.

Government gross domestic debt increased by Ksh 57.7 billion from Ksh 518.3 billion in June 2009 to Ksh 576.1 billion as at January 15, 2010 of the FY 2009/10. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 31.5 billion.

Performance at the equities market improved during the week. Equity turnover increased by 66.5 percent, market capitalization improved by 2.4 percent while the NSE 20 Share Index gained 202.1 points to settle at 3628.5 points on January 21, 2010.

Government Securities Auction

The Government securities market posted impressive performance of 191.0 percent during the Treasury bills auction of January 21, 2010. The government had offered for sale 182-day Treasury bills worth Ksh 7.0 billion during the auction and received bids amounting to Ksh 13.4 billion of which Ksh 12.9 billion were in competitive bids.

The Government accepted bids amounting to Ksh 8.2 billion (or 61.2 percent) of which Ksh 7.7 million or 93.9 percent were in competitive bids. The amount raised during the auction was directed at covering treasury bills maturities falling due during the week.

Interest Rates on Treasury Bills

The average 182-day Treasury bill rate declined by 23.6 basis points from 7.136 percent in the previous auction of January 11, 2010 to 6.900 percent during this week's auction (Table 1).

Table 1: Interest Rates

| Auction date | 19-Nov-09 | 26-Nov-09 | 03-Dec-09 | 10-Dec-09 | 17-Dec-09 | 24-Dec-09 | 31-Dec-09 | 07-Jan-10 | 14-Jan-10 | 21-Jan-10 |
|--------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Average 91 day T. Bills | 7.198 | | 6.937 | | 6.710 | | 6.612 | | 6.502 | |
| Average 182 day T. Bills | | 7.943 | | 7.511 | | 7.245 | | 7.136 | | 6.900 |
| Average 364 day T. Bills | | | | 8.008 | | | | | | |
| | | | | | | | | | | |
| Month | Mar-09 | Apr-09 | May-09 | Jun-09 | Jul-09 | Aug-09 | Sep-09 | Oct-09 | Nov-09 | Dec-10 |
| Average savings rate | 1.90 | 1.91 | 1.67 | 2.08 | 1.67 | 1.65 | 1.65 | 1.85 | 1.71 | 1.73 |
| Average overdraft rate | 13.78 | 13.66 | 14.13 | 14.41 | 13.94 | 13.90 | 13.76 | 14.03 | 14.24 | 14.13 |

* Revised

Source: Central Bank of Kenya

Interbank and REPO Market

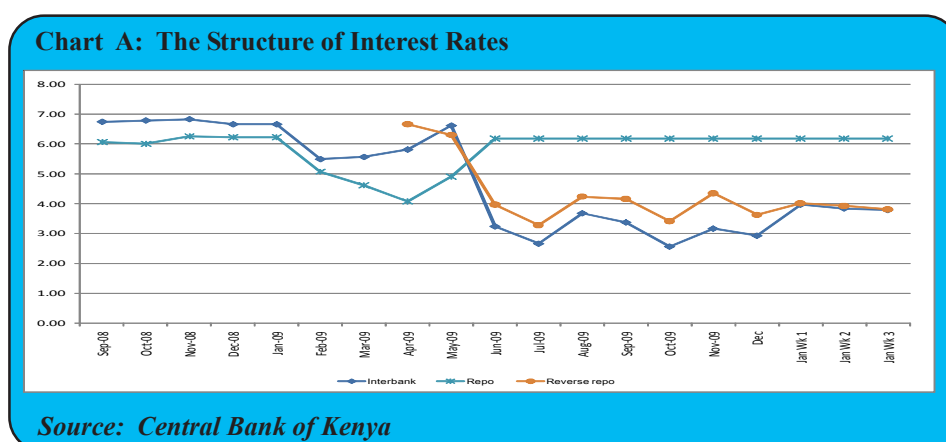
The average interbank rate decreased by 6 basis points in the week ending January 21, 2010 to 3.79 percent as compared with the previous week at 3.85 percent. The volumes traded declined in the week from Ksh 47.8 bn in the previous week to Ksh 45.7 bn in the week ending January 21, 2010.

Table 2: Interbank Rates

| Date | Number of deals | Value (Ksh M) | Average Interest Rate (%) |
|------------------------------|-----------------|---------------|---------------------------|
| 08-Jan-10 | 75 | 7,370 | 3.86 |
| 11-Jan-10 | 79 | 10,484 | 3.88 |
| 12-Jan-10 | 78 | 8,601 | 3.85 |
| 13-Jan-10 | 72 | 11,454 | 3.84 |
| 14-Jan-10 | 72 | 9,875 | 3.80 |
| Jan 08 - Jan 14, 2009 | 376 | 47,784 | 3.85 |
| 15-Jan-10 | 55 | 5,435 | 3.75 |
| 18-Jan-10 | 95 | 9,696 | 3.78 |
| 19-Jan-10 | 95 | 11,634 | 3.78 |
| 20-Jan-10 | 93 | 11,898 | 3.81 |
| 21-Jan-10 | 92 | 7,097 | 3.85 |
| Jan 15 - Jan 21, 2009 | 430 | 45,760 | 3.79 |

Source: Central Bank of Kenya

The reverse repo rate declined by 12 basis points from 3.93 percent in the previous week to 3.81 percent in the week ending January 21, 2010 (Table 2 and Chart A).



Monetary Policy Operations

The market was fairly tight in the week ending January 20, 2010. During the week, Central Bank injected a total of Ksh 5.5 billion into the market as shown in Table 3. Reverse repo maturities amounted to Ksh 4.3 billion during the week under review. Besides the Ksh 1.2 billion net injection via the reverse repo window, commercial banks borrowed Ksh 139 million from the overnight window, during the week. Reserve money averaged Ksh 173.3 billion during the week and was below target by Ksh 0.5 billion.

Table 3: Open Market Operations (Ksh Billion)

| Date | Reserve Money* (Projected) | | | OMO (Reverse REPO) | | | Reserve money performance | | Bank Reserves | Currency Outside Banks |
|---------|----------------------------|--------|------------------|--------------------|----------|------------------|---------------------------|------------------|------------------|------------------------|
| | Forecast | Target | Exc(+)/ Short(-) | Posted | Injected | Exc(+)/ Short(-) | Actual | Exc(+)/ Short(-) | Exc(+)/ Short(-) | Exc(+)/ Short(-) |
| | (1) | (2) | 3=(2-1) | (4) | (5) | 6=(5-4) | (8) | 9=(10+11) | 10 | 11 |
| 14-Jan | 174.5 | 173.9 | 0.6 | 0.0 | 0.0 | 0.0 | 175.5 | 1.5 | 8.1 | -6.6 |
| 15-Jan | 176.4 | 173.9 | 2.5 | 0.0 | 0.0 | 0.0 | 177.6 | 3.7 | 10.7 | -7.0 |
| 18-Jan | 174.0 | 173.7 | 0.3 | 0.0 | 0.0 | 0.0 | 173.4 | -0.2 | 7.8 | -8.0 |
| 19-Jan | 170.2 | 173.7 | -3.4 | 0.0 | 0.0 | 0.0 | 170.3 | -3.4 | 4.8 | -8.2 |
| 20-Jan | 165.3 | 173.7 | -8.4 | 4.0 | 5.5 | 1.5 | 169.7 | -4.0 | 5.1 | -9.0 |
| Average | 172.1 | 173.8 | -1.7 | 0.8 | 1.1 | 0.3 | 173.3 | -0.5 | 7.3 | -7.8 |

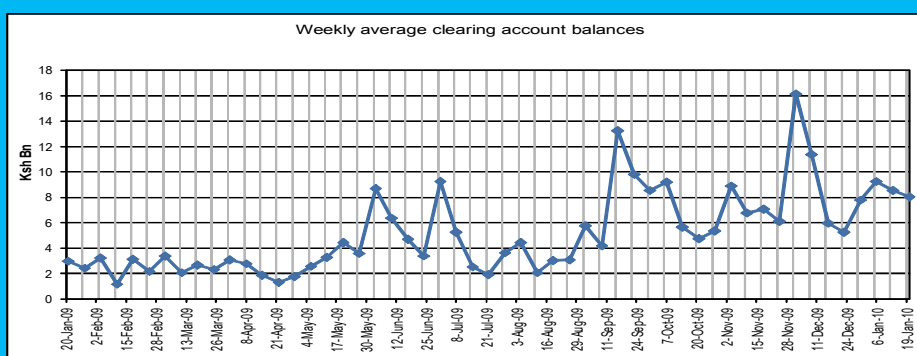
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 8.0 billion in their clearing accounts at the Central Bank in the week to January 20, 2010, compared with Ksh 8.5 billion held in the previous week (Charts B). For the second consecutive week, banks eased on their demand for precautionally balances after the end of year festivities.

Chart B: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling on average depicted mixed trends against the major international currencies during the week ending January 22, 2010 (Table 4). Against the US dollar, the shilling depreciated marginally to exchange at Ksh 75.96 in the week ending January 22, 2010 compared with Ksh 75.43 per US dollar in the previous week. Similarly, the shilling also depreciated against the Sterling Pound and the Japanese Yen to exchange at Ksh 123.80 per Sterling Pound and Ksh 83.61 per 100 Japanese Yen compared with Ksh 122.11 per Sterling Pound and Ksh 82.25 per 100 Japanese Yen in the previous week respectively. However, the shilling appreciated against the Euro to exchange at Ksh 109.30 per Euro compared with Ksh 108.63 per Euro in the previous week.

In the regional scene, the Kenya Shilling strengthened marginally against Uganda Shilling and the Tanzania Shilling to exchange at Ush 25.69 per Kenya Shilling and Tsh 17.76 per Kenya Shilling in the week ending January 22, 2010 compared with Ush 25.51 per Kenya Shilling and Tsh 17.72 per Kenya Shilling in the previous week respectively.

Table 4: Kenya Shilling Exchange Rates

| | US dollar | Sterling Pound | Euro | Japanese Yen | USHS | TSHS |
|------------------------|--------------|----------------|---------------|--------------|--------------|--------------|
| 11-Jan-10 | 75.38 | 121.16 | 109.31 | 81.71 | 25.51 | 17.73 |
| 12-Jan-10 | 75.36 | 121.38 | 109.23 | 81.76 | 25.48 | 17.68 |
| 13-Jan-10 | 75.53 | 122.19 | 109.43 | 82.80 | 25.47 | 17.68 |
| 14-Jan-10 | 75.43 | 122.66 | 109.62 | 82.16 | 25.52 | 17.74 |
| 15-Jan-10 | 75.44 | 123.16 | 108.88 | 82.82 | 25.58 | 17.75 |
| Jan 11-15, 2010 | 75.43 | 122.11 | 109.30 | 82.25 | 25.51 | 17.72 |
| 18-Jan-10 | 75.86 | 123.55 | 109.09 | 83.44 | 25.37 | 17.71 |
| 19-Jan-10 | 76.05 | 124.82 | 109.50 | 84.03 | 25.49 | 17.60 |
| 20-Jan-10 | 75.99 | 123.83 | 107.87 | 83.29 | 25.79 | 17.78 |
| 21-Jan-10 | 75.98 | 123.60 | 107.11 | 82.97 | 25.86 | 17.91 |
| 22-Jan-10 | 75.93 | 123.17 | 107.32 | 84.33 | 25.94 | 17.79 |
| Jan 18-22, 2010 | 75.96 | 123.80 | 108.18 | 83.61 | 25.69 | 17.76 |

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank stood at US dollar 3,309 million (equivalent to 3.59 months of imports) as at January 22, 2010, compared with US dollar 2,677 million (equivalent to 3.24 months of imports) as at January 22, 2009 (Table 5). Reflecting a larger import bill, the cover on the reserves declined from 3.62 as at December 31, 2009.

Foreign exchange reserves held by the commercial banks, predominantly used by the private sector to meet external financial obligations stood at US dollar 1,215 million at the end of November 2009 compared with US dollar 1,765 million at end of December 2008.

Table 5: Official Foreign Exchange Reserves (US\$ Million)

| | 22-Jan-09 | 26-Jun-09 | 31-Jul-09 | 31-Aug-09 | 30-Sep-09 | 30-Oct-09 | 30-Nov-09 | 31-Dec-09 | 22-Jan-10 |
|---------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Usable Reserves | 2,677 | 3,086 | 3,097 | 3,154 | 3,243 | 3,302 | 3,392 | 3,309 | 3,309 |
| Months of Imports Cover* | 3.24 | 3.56 | 3.52 | 3.54 | 3.67 | 3.67 | 3.71 | 3.62 | 3.59 |
| Months of Imports Cover** | 2.68 | 3.10 | 3.12 | 3.18 | 3.27 | 3.33 | 3.40 | 3.32 | 3.32 |

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

**Based on current year's average imports of goods and non-factor services

Source: Central Bank of Kenya

Government Domestic Debt

Government gross domestic debt increased by Ksh 57.7 billion from Ksh 518.3 billion in June 2009 to Ksh 576.1 billion as at January 15, 2010 (Table 6 and Chart C). The increase was as a result of increases of Ksh 21.2 billion and Ksh 41.4 billion in Treasury bills (excluding Repos) and Treasury bonds, respectively. These increases were partly offset by decreases of Ksh 3.6 billion and Ksh 1.3 billion in overdraft at the Central Bank of Kenya (CBK) and other domestic debt, respectively.

Treasury bills and Treasury bonds increased from Ksh 116.8 billion and 360.7 billion in June 2009 to Ksh 138.0 billion and Ksh 402.2 billion, respectively as at January 15, 2010. Government overdraft at CBK and other domestic debt decreased from Ksh 5.1 billion and Ksh 34.9 billion, respectively to Ksh 1.6 billion and Ksh 33.6 billion. Long term stocks remained unchanged from Ksh 0.8 billion during the period.

Following these developments, the share of Treasury bonds in total Government securities declined from 75.4 percent in June 2009 to 74.4 percent as at January 15, 2010 while that of Treasury bills increased from 24.4 percent to 25.5 percent. The maturity profile of Government securities stood at 4 years 3 months.

Table 6: Government Domestic Debt (Ksh Billion)

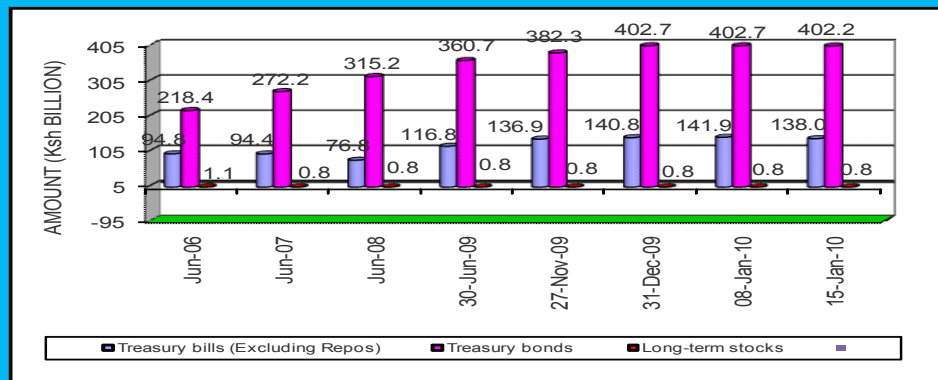
| | Jun-09 | Jul-09 | Aug-09 | Sep-09 | Oct-09 | Nov-09 | 8th Jan 2010 | 15th Jan 2010 | Changes | |
|-------------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------------------|-----------------------------|
| | | | | | | | | | 24th Dec-09 - 15th Jan-2010 | 30th Jun-09 - 15th Jan-2010 |
| 1. Treasury Bills (Excluding Repos) (As % of total securities) | 116.8 24.4 | 120.8 24.5 | 127.6 25.2 | 122.2 24.0 | 133.6 25.5 | 137.7 26.5 | 141.9 26.0 | 138.0 25.5 | -3.9 -0.5 | 21.2 1.1 |
| 2. Treasury Bonds (As % of total securities) | 360.7 75.4 | 371.2 75.3 | 378.5 74.7 | 386.1 75.8 | 389.9 74.4 | 381.0 73.3 | 402.7 73.8 | 402.2 74.4 | -0.5 0.5 | 41.4 -1.1 |
| 3. Long Term Stocks (As % of total securities) | 0.8 0.2 | 0.8 0.2 | 0.8 0.1 | 0.8 0.1 | 0.8 0.1 | 0.8 0.1 | 0.8 0.1 | 0.8 0.1 | 0.0 0.0 | 0.0 0.0 |
| 4. Total Securities (1+2+3) | 478.3 | 492.8 | 506.8 | 509.0 | 524.2 | 519.5 | 545.4 | 540.9 | -4.4 | 62.6 |
| 5. Overdraft at Central Bank | 5.1 | 3.9 | 6.1 | 8.0 | 9.3 | 9.8 | 11.3 | 1.6 | -9.7 | -3.6 |
| 6. Other Domestic debt* | 34.9 | 33.7 | 34.2 | 33.6 | 33.6 | 33.6 | 33.6 | 33.6 | 0.0 | -1.3 |
| 7. Gross Domestic Debt (4+5+6) | 518.3 | 530.4 | 547.2 | 550.6 | 567.1 | 562.9 | 590.2 | 576.1 | -14.1 | 57.7 |
| 8. Interest payments on domestic debt (Cumulative in FY) | 45.9 | 3.9 | 9.0 | 13.5 | 19.6 | 25.7 | 31.2 | 31.5 | 0.3 | |

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

Source: Central Bank of Kenya

Source: Central Bank of Kenya

Chart C: Composition of Government Securities

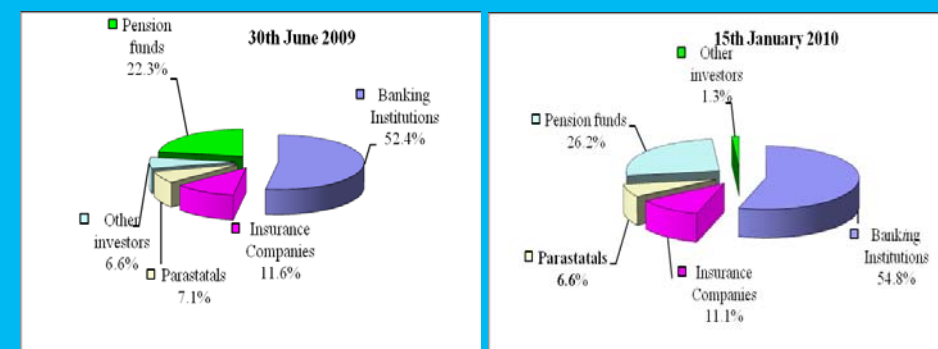


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by commercial banks and pension funds increased from 52.4 percent and 22.3 percent, respectively in June 2009 to 54.8 percent and 26.2 percent, respectively as at January 15, 2010. However, holdings of insurance companies, parastatals and other investors declined from 11.6 percent, 7.1 percent and 6.6 percent, respectively to 11.1 percent, 6.6 percent and 1.3 percent during the same period (Chart D).

Chart D: Composition of Government Securities by Investor

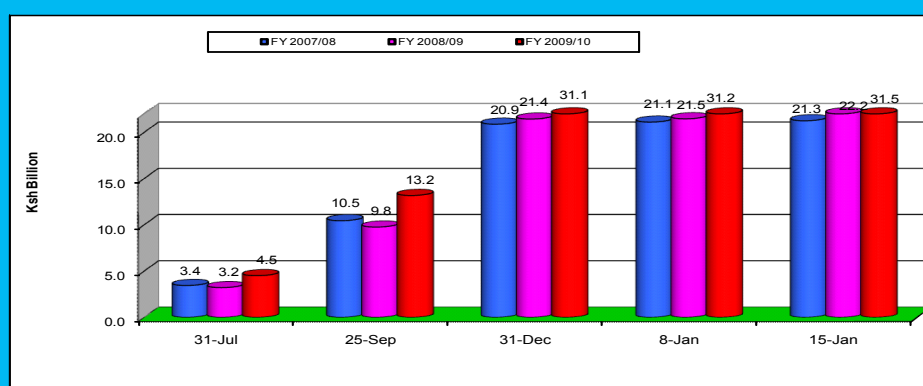


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt for the period up to January 15, 2010 of the FY 2009/10 amounted to Ksh 31.5 billion compared with Ksh 22.2 billion in a similar period in the fiscal year 2008/09 (Chart E). The interest cost on domestic debt during the period comprised Ksh 23.7 billion in interest and other charges on Treasury bonds, Ksh 7.3 billion in interest and other charges on Treasury bills, and Ksh 0.5 billion in interest on both Government overdraft at CBK and the pre-1997 government overdraft.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was improved performance at the equities market during the week ending January 21, 2010. Equity turnover increased by 66.5 percent as stocks worth Ksh 2,679.6 million were traded compared with Ksh 1,609.2 million traded in the previous week. The number of shares traded increased from 207.0 million in the previous week to 234.0 million shares in the week under review. Market capitalization as a measure of total shareholders wealth improved by 2.4 percent or Ksh 21.7 billion to close at Ksh 931.5 billion in the week under review from Ksh 909.8 billion in the previous week. The NSE 20 Share Index gained 202.1 points to settle at 3628.5 points on January 21, 2010 from 3426.4 points on January 14, 2010. The Nairobi All Share Index gained 1.9 points to settle at 80.0 points on January 21, 2010 (Table 7).

Table 7: Key Weekly Market Statistics

| Week Ending | 19-Nov-09 | 26-Nov-09 | 03-Dec-09 | 10-Dec-09 | 17-Dec-09 | 24-Dec-09 | 31-Dec-09 | 07-Jan-10 | 14-Jan-10 | 21-Jan-10 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| NASI 100= Jan 2008 | 68.86 | 72.08 | 70.51 | 70.14 | 70.82 | 71.27 | 71.64 | 73.62 | 78.14 | 79.99 |
| NSE 20 Share Index 100=1966 | 3,111.95 | 3,191.93 | 3,170.51 | 3,181.76 | 3,186.76 | 3,209.67 | 3,247.44 | 3,282.58 | 3,426.41 | 3,628.53 |
| Number of Deals | 6,382 | 6,694 | 6,772 | 7,095 | 6,437 | 5,434 | 4,278 | 4,768 | 9,220 | 11,851 |
| Total Shares Traded (millions) | 76.33 | 179.27 | 55.83 | 62.49 | 56.73 | 38.00 | 29.61 | 39.58 | 206.97 | 234.03 |
| Equity Turnover (Ksh. millions) | 1,119.81 | 1,206.34 | 577.30 | 624.78 | 821.72 | 554.03 | 287.68 | 423.97 | 1,609.24 | 2,679.64 |
| Market Capitalization (Ksh. Bn.) | 797.69 | 834.97 | 816.68 | 812.21 | 821.21 | 829.82 | 834.17 | 857.25 | 909.84 | 931.47 |
| Bonds Turnover (Ksh. millions) | 1,893.90 | 1,720.90 | 2,437.45 | 6,416.00 | 4,863.40 | 1,822.55 | 547.30 | 2,448.65 | 3,986.35 | 6,946.70 |

* The Nairobi All Share Index (NASI) effected on February 25, 2008 (January 01, 2008 = 100)

Source: Nairobi Stock Exchange

The Commercial and Services sector traded 170.8 million shares and accounted for 73.0 percent of total traded volume. Safaricom traded 161.8 million shares to be the most active stock in the sector. The Finance and Investment sector traded 48.0 million shares and accounted for 20.5 percent of total traded volume. Equity Bank and Kenya Commercial Bank traded 28.5 million and 7.8 million shares and were the most active counters in the sector. Industrial and Allied sector traded 14.7 million shares and accounted for 6.3 percent of traded volume. Mumias and KenolKobil were the most active counters and traded 10.4 million and 1.3 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond market trading improved at the Fixed Income Securities Market during the week. Bond turnover increased as bonds worth Ksh 6.9 billion were traded compared with Ksh 4.0 billion traded in the previous week.