

Sept 9, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

The government offered for sale Treasury bills worth Ksh 10 billion in 91-day, 182-day and 364-day tenures and received total bids amounting to Ksh 12.4 billion, during the week ending September 9, 2011. The 91-day Treasury bill recorded the highest performance rate, equivalent to 440.6 percent, and accounted for Ksh 8.8 billion of the total bids received. Interest rates on the 91-day and 364 day bills edged up by 140.4 and 147.0 basis points, respectively to 11.685 and 12.536 percent, compared with the previous auction of similar paper. The 182-day interest rate declined during the week to 9.285 percent.

The average interbank rate declined to 12.34 percent during the week ending September 07, 2011 from 25.45 percent in the previous week, reflecting a liquid interbank market. The Central Bank was not in the money market during the week.

The Kenya Shilling strengthened against major international currencies on September 9, 2011 compared to September 2, 2011, due to increased inflows from the agricultural sector.

The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,987 million to US dollar 3,907 million in the week ending September 9, 2011.

Gross Government debt increased by Ksh 12.4 billion from Ksh 764.1 billion in June 2011 to Ksh 776.6 billion as at September 2, 2011. During the week ending September 2, 2011, however, gross Government debt declined by Ksh 3.5 billion following further reduction in the stocks of Treasury bills.

Activities at the equities and bonds markets shows improved performance during the week ending September 8. Although both the NSE 20 Share Index and the Nairobi All Share Index (NASI) closed the week marginally down, it showed improvement over last week. The volume of shares traded, however, increased by 137 percent and equity turnover, increased by 73.1 percent. The bonds segment of the market likewise showed a 55.5 percent rise in trading activity during the week.

Government Securities Auction

The government offered for sale Treasury bills worth Ksh 10 billion, disaggregated into Ksh 2 billion, 3 billion and 5 billion for the 91-day, 182-day and 364-day tenures respectively, during the week ending September 9, 2011. The total bids received amounted to Ksh 12.4 billion, of which Ksh 8.8 billion was in 91-day bills, Ksh 2.6 billion in 182-day bills and Ksh 1.0 billion in 364-day bills. Total competitive bids amounted to Ksh 10.9 billion, equivalent to 88.2 percent of total bids. The Government accepted bids worth Ksh 10.7 billion during the week.

Interest Rate on Treasury Bills

The weighted average interest rates on the 91-day and 364 day bills increased by 140.4 and 147.0 basis points, respectively to 11.685 and 12.536 percent, compared with the previous auction of similar paper while that of the 182-day bill declined by 107.1 basis to 9.285 percent during the week (Table 1).

Table 1 : Interest Rates

Auction date	29-Jul-11	5-Aug-11	12-Aug-11	19-Aug-11	26-Aug-11	2-Sep-11	9-Sep-11
91 day T. Bills*	9.010	9.015	9.145	9.258	9.708	10.281	11.685
182 day T. Bills*	9.799		10.308		10.356		9.285
364 day T. Bills*			11.066				12.536
Month	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jul-11	Aug-11
Average savings rate	1.25	1.41	1.37	1.38	1.38	1.37	
Average overdraft rate	13.93	13.65	13.60	13.68	13.72	13.89	

*Weighted rates for accepted bids

Source: Central Bank of Kenya

The proceeds of the auction financed redemptions of Treasury bills maturities amounting to Ksh 2.01 billion during the week, and the balance was new money to finance the budget deficit.

Interbank and REPO Rates

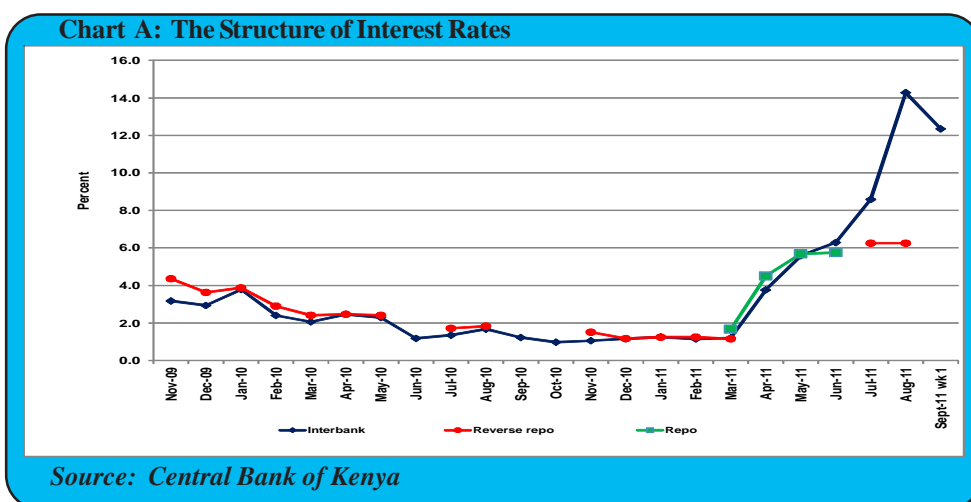
The average interbank rate declined to 12.34 percent during the week ending September 07, 2011 from 25.45 percent in the previous week, reflecting a liquid interbank market. The average interbank volumes traded increased to Ksh 9.55 billion in the week ending September 07, 2011 from Ksh 7.90 billion in the previous week (Table 2 and Chart A).

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
25-Aug-11	62	8,929	26.37
26-Aug-11	59	8,034	28.44
29-Aug-11	53	6,060	27.73
30-Aug-11	67	8,590	19.25
31-Aug-11	HOLIDAY		
Aug 25- Aug 31, 2011	60	7,903	25.45
1-Sep-11	74	8,958	16.25
2-Sep-11	79	10,968	14.09
5-Sep-11	79	11,551	12.14
6-Sep-11	72	8,460	10.40
7-Sep-11	65	7811.5	8.82
Sept 01- Sept 07, 2011	74	9,549	12.34

Source: Central Bank of Kenya

The reverse repo rate was unchanged at 6.25 percent recorded in the last reverse repo transactions on August 9, 2011.



Monetary Policy Operations

The money market was liquid during the week ending September 07, 2011. The liquidity derived from the money released by allowing banks to average their required reserves over a period of one month. Commercial bank borrowing from the Central Bank overnight window declined to Ksh 0.67 billion in the week ending September 07, 2011 compared with Ksh 10.86 billion in the previous week. Reserve money averaged Ksh 238.8 billion during the week and was above target by Ksh 16.6 billion (Table 3).

Table 3: Open Market Operations Ksh Billion

Date	Reserve Money* (Projected)			OMO (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=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
1-Sep-11	238.2	222.2	16.0	0.0	0.0	0.0	237.2	15.0	6.7	8.4
2-Sep-11	236.3	222.2	14.1	0.0	0.0	0.0	237.4	15.3	6.2	9.0
5-Sep-11	240.7	222.2	18.5	0.0	0.0	0.0	239.6	17.5	8.2	9.2
6-Sep-11	241.5	222.2	19.4	0.0	0.0	0.0	240.8	18.6	7.9	10.8
7-Sep-11	239.7	222.2	17.5	0.0	0.0	0.0	240.0	17.9	7.2	10.7
Average	239.3	222.2	17.0	0.0	0.0	0.0	238.8	16.6	7.3	9.3

Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

The Central bank introduced reserve averaging of the cash ratio account over a period of one month and therefore commercial banks had access to their cash ratio funds for liquidity management. As a result commercial banks maintained an average of Ksh 77.3 billion in their settlement accounts at the Central Bank in the week to September 07, 2011, up from Ksh 39.1 billion in the previous week (Chart B).

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank decreased from US dollar 3,987 million (equivalent to 3.68 months of imports) as at September 2, 2011 to US dollar 3,907 million (equivalent to 3.62 months of imports) as at September 9, 2011 reflecting a revaluation loss due to the depreciation of the Euro and Sterling Pound in the international markets (Table 5).

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

	29-Jul-11	12-Aug-11	19-Aug-11	26-Aug-11	2-Sep-11	9-Sep-11
Usable Reserves*	3,976	3,948	3,967	3,967	3,987	3,907
Months of Imports Cover**	3.73	3.69	3.68	3.68	3.70	3.62

*Excludes encumbered reserves

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

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government debt increased by Ksh 12.4 billion from Ksh 764.1 billion in June 2011 to Ksh 776.6 billion as at September 2, 2011 (Table 6 and Chart C). This reflected increases in the stock of Treasury bonds and Government overdraft at the Central Bank by Ksh 8.2 billion and Ksh 17.8 billion respectively. This increase was, however, partially offset by net redemptions of Treasury bills and other government debt, equivalent to Ksh 13.2 billion and Ksh 1.3 billion, respectively (Chart C). In the previous week, a similar trend was observed for treasury securities outstanding. However, the Government overdraft at the Central Bank, was unchanged at Ksh 25.4 billion.

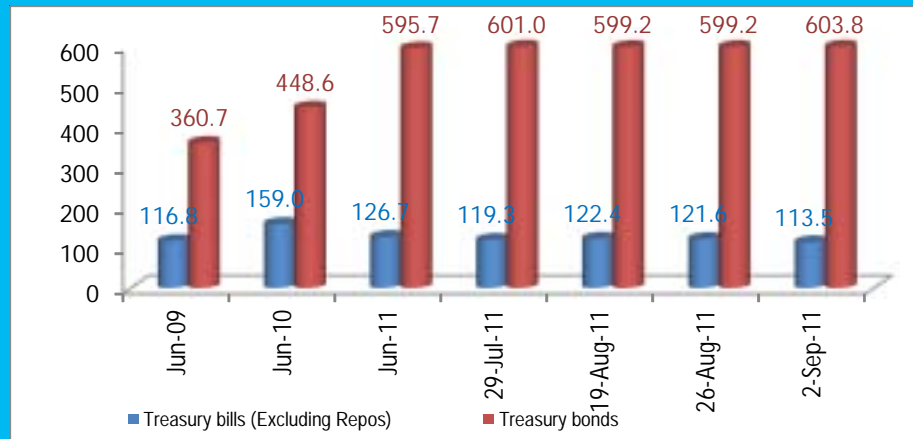
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-11	Jul-11	26th Aug-2011	2nd Sep-2011	Changes	
					26th Aug 2011- 2nd Sep 2011	30th Jun 2011- 2nd Sep 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	119.3 16.6	121.6 16.9	113.5 15.8	-8.2	-13.2
2. Treasury Bonds (As % of total securities)	595.7 82.5	601.0 83.4	599.2 83.1	603.8 84.1	4.7	8.2
3. Total Securities (1+2+3)	722.4	720.3	720.8	718.3	-2.5	-4.1
4. Overdraft at Central Bank	7.6	19.9	25.4	25.4	0.0	17.8
5. Other Domestic debt*	34.2	34.1	33.9	32.9	-1.0	-1.3
6. Gross Domestic Debt (4+5+6)	764.14	774.27	780.09	776.59	-3.5	12.4
7. Interest payments on domestic debt	69.2	2.75	7.68	11.14	3.46	

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

Source: Central Bank of Kenya

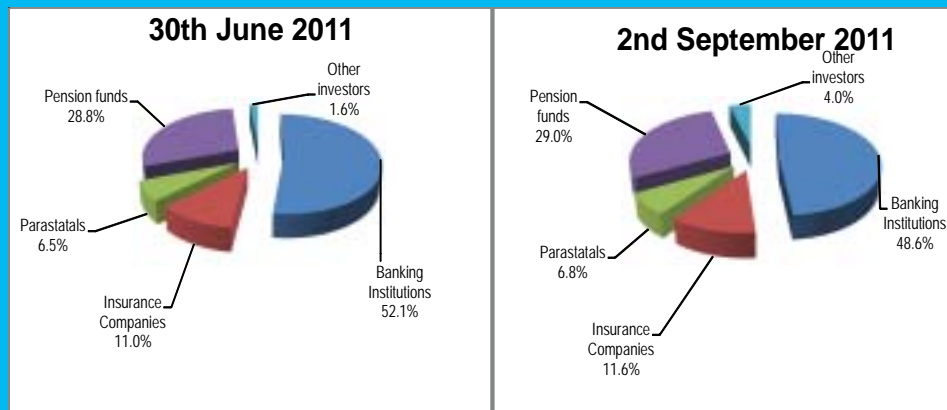
Chart C: Composition of Government Securities



Source: Central Bank of Kenya

Treasury bills declined from Ksh 126.7 billion in June 2011 to Ksh 113.5 billion as at September 2, 2011. As a result, the share of Treasury bills in total government securities declined from 17.5 percent to 15.8 percent. Concurrently, Treasury bond holdings increased and consequently the share in total government securities outstanding increased during the period (Table 6). The average time to maturity of Government securities increased from 5 years 10 months in June 2011 to 5 years 11 months as at September 2, 2011.

Chart D: Composition of Government Securities by Investors

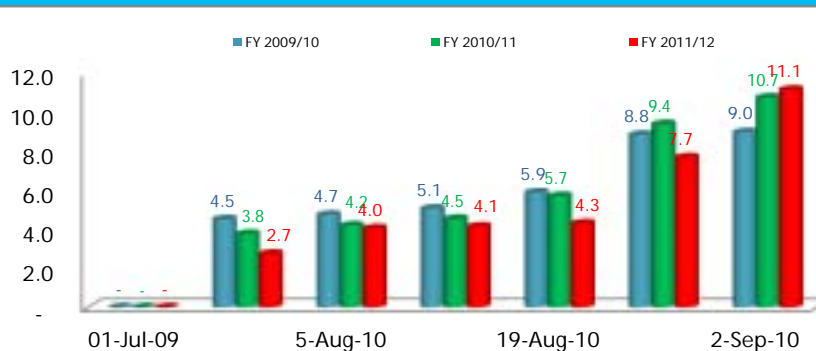


Source: Central Bank of Kenya

Holding of Govt Securities

The share of Government securities held by banking institutions decreased from 52.1 percent in June 2011 to 48.6 percent as at September 2, 2011. Holdings of insurance, pension fund and other investors increased from 11.0 percent, 28.8 percent and 1.6 percent to 11.6 percent, 29.0 percent and 4.0 percent, respectively (Chart D).

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt from July 1, 2011 to September 2, 2011 amounted to Ksh 11.14 billion compared with Ksh 10.74 billion in the same period of the fiscal year 2010/11 (Chart E). The cost during the period was on account of interest and other charges on Treasury bills and treasury bonds amounting to Ksh 0.93 billion and Ksh 10.05 billion, respectively. Government overdraft at central bank accounted for Ksh 0.16 billion.

The Stock Market

The stock market performance was mixed across main market segments with a decline in equities and improvement in the bonds market during the week ending September 8, 2011.

The NSE 20 Share Index closed the week at 3,400.7 points on September 8, 2011, marginally down from 3,402.1 points on September 1, 2011. The NASI also declined to 74.62 points from 75.24 points during the previous week. The number of shares transacted increased to 223.6 million, from 94.3 million shares the previous week. Reflecting the increase in volume of shares traded, equity turnover increased by Ksh 599.8 million to trade stocks worth Ksh 1,420.4 million by close of September 8, 2011, from Ksh 820.6 million traded during the previous week. Market Capitalization as a measure of total shareholders' wealth, on the other hand, fell by 1.5 percent or Ksh 14 billion to Ksh 925.21 billion from last week's value of Ksh 939 billion.

Table 7: Key Weekly Market Statistics

Week Ending	21-Jul-11	28-Jul-11	4-Aug-11	11-Aug-11	19-Aug-11	25-Aug-11	1-Sep-11	8-Sep-11
NASI 100= Jan 2008	85.40	84.65	84.75	78.95	78.82	76.14	75.24	74.62
NSE 20 Share Index 100=1966	3,756.89	3,733.30	3,744.59	3,519.28	3,540.42	3,444.28	3,402.00	3,400.68
Number of Deals	8,579.00	6,726.00	7,215	7,413	6,609	6,722	5,022	4,563
Total Shares Traded (millions)	161.97	100.80	154.43	84.59	155.35	100.31	94.33	223.58
Equity Turnover (Ksh. millions)	2,461.18	2,037.10	1,339.11	1,394.12	1,384.67	1,343.85	820.65	1,420.41
Market Capitalization (Ksh. Bn.)	1,063.39	1,054.10	1,057.69	985.19	983.60	950.20	939.05	925.21
Bonds Turnover (Ksh. millions)	4,495.90	10,699.25	15,374.30	10,297.75	10,414.50	6,883.80	6,518.50	10,138.05

Source: Nairobi Stock Exchange

Telecommunication and Technology sector dominated trading, with 185.5 million shares, accounting for 80.4 percent of all shares transacted at the bourse. Of this, Safaricom was the most active counter, with 185.4 million shares transacted. Banking counter followed, with 17.4 million shares traded, and Petroleum and Energy sector was third with 10.9 million shares. Barclays Bank and Kenol Kobil dominated Banking and Petroleum and Energy sectors, respectively. The least active sector was Agriculture, with 143,200 shares traded.

Bond Market

Bonds trading at the Fixed Income Securities Market edged up by 55.5 percent; from Ksh 6.52 billion for the week ended September 1, 2011 to Ksh 10.14 billion for the week ending September 8, 2011. The number of deals transacted increased to 132 by close of the week on September 8, 2011 from 103 deals the previous week.