

**December 05, 2008**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

Although overall 12-month inflation increased from 28.4 percent in October 2008 to 29.4 percent in November 2008, the 3-months annualised inflation continued to decline since September 2008. The 3-months annualised inflation was 9.69 percent in September 2008 and declined to 7.77 percent in November 2008.

The Government securities market posted a performance of 156.2 percent during the Treasury bills auction of December 4, 2008. The Government had offered for sale Treasury bills worth Ksh 5.0 billion, received bids totalling Ksh 7.8 billion but accepted bids totalling Ksh 5.7 billion. As a result, the average 91-day Treasury bills rate declined by 0.4 basis points from 8.623 percent in the previous week's auction to 8.619 percent during this week's auction, while the average 182-day Treasury bills rate declined by 9.5 basis points from 9.173 percent to 9.078 percent.

The average interbank rate rose by 9 basis points from 6.93 percent in the previous week to 7.02 percent during the week ending December 04, 2008 with a drop in volumes transacted. The repo rate edged upwards, by 18 basis points to 6.65 percent from 6.47 percent in the previous week.

During the week ending December 4, 2008 the Kenya Shilling weakened against all major foreign currencies. Against the US dollar, the Shilling traded at an average of Ksh 79.27 compared with Ksh 78.71 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank decreased by US dollar 114 million from US dollar 2,832 million (equivalent to 4.10 months of imports) as at December 4, 2007 to US dollar 2,718 million (equivalent to 3.42 months of imports) as at December 4, 2008.

Central Bank's Open Market Operations desk mopped Ksh 13.0 billion from commercial banks using repo securities against redemptions of Ksh 1.3 billion during the week ending December 03, 2008.

Government gross domestic debt increased by Ksh 20.8 billion between the end of June and November 28, 2008 which was largely attributed to increases of Treasury bills (excluding Repos) amounting to Ksh 14.0 billion. Following this development, the share of Treasury bonds in total Government securities decreased to 77.8 percent on November 28, 2008, while that of Treasury bills increased to 22.0 percent. The cumulative

Government expenditure on interest and other charges on domestic debt from July 1 to November 28, 2008 amounted to Ksh 18.7 billion.

The equity market registered subdued performance. Equity turnover fell by 11.3 percent owing to an increase in number of shares traded. Consequently, the NSE 20 Share index fell 266.85 points to settle at 3162.05 points on December 04, 2008 from 3397.96 points on November 27, 2008.

## **Inflation**

Overall 12-month inflation increased from 28.4 percent in October 2008 to 29.4 percent in November 2008. The increase reflected increases in the prices of food items, including maize flour and maize grain. Average annual inflation also increased from 23.6 percent in October 2008 to 25.0 percent in November 2008.

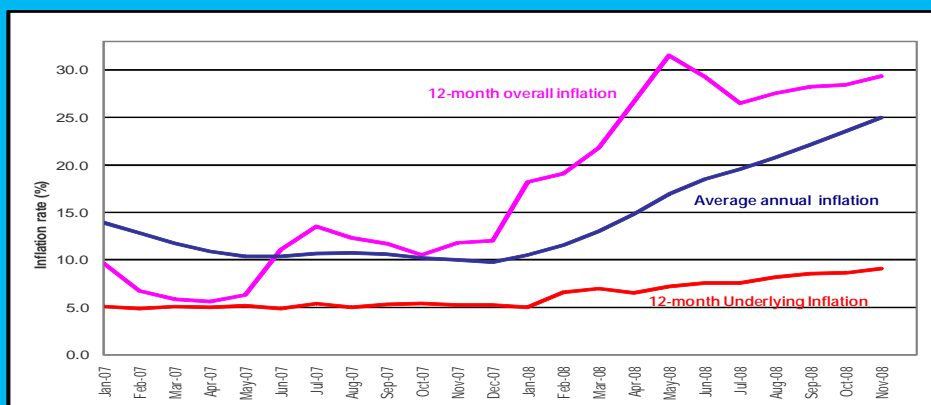
In spite of the increase in the 12-months overall inflation, the 3-months annualised inflation declined from 9.69 percent in September 2008 to 7.77 percent in November 2008. This shows that current inflationary pressures have been easing since September 2008.

Similarly, the 12-month underlying inflation increased from 8.7 percent in October 2008 to 9.1 percent in November 2008. Pressure on underlying inflation was mainly from higher medical and housing costs during the period. Average underlying inflation rose from 7.0 percent in October 2008 to 7.3 percent in November 2008.

Inflation for seven categories of goods and services in the CPI basket was higher in November 2008 than in October 2008. Inflation for the food and drink category of goods and services increased from 37.6 percent in October 2008 to 39.4 percent in November 2008, reflecting higher prices of food items, in particular, maize flour and maize grain. Inflation for the medical goods and services increased from 13.6 percent in October 2008 to 14.6 percent in November 2008, while inflation for the housing category of goods and services increased from 6.5 percent to 7.4 percent during the period. Similarly, inflation for the household goods and services category, and the personal goods and services category increased from 12.0 percent and 9.8 percent, respectively, in October 2008 to 12.7 percent and 10.3 percent in November 2008. Inflation for the clothing and footwear, and recreation and education categories of goods and services increased by 0.1 percent in November 2008, to record 6.0 percent and 7.1 percent, respectively.

On the other hand, inflation for the fuel and power category declined from 28.8 percent in October 2008 to 26.9 percent in November 2008, mainly due to decreases in the cost of diesel and petrol. Inflation for the transport and communication category also declined from 18.9 percent in October 2008 to 13.4 percent in November 2008, while inflation for the alcohol and tobacco category declined by 0.9 percent, from 16.0 percent to 15.1 percent during the period.

Chart A: Trends in Overall and Underlying Inflation



Source: Central Bank of Kenya

All income groups experienced higher 12-month inflation in November 2008 compared with the year to October 2008. Inflation for the Nairobi lower income group was the highest among all income groups at 32.3 percent compared with 31.4 percent in October 2008. Inflation for the “Rest of Kenya” income group was 30.0 percent in November 2008 compared with 28.3 percent in October 2008, while inflation for the “Combined Nairobi” income group increased from 28.7 percent in October 2008 to 28.8 percent in November 2008. Inflation for the Nairobi middle/upper income group was the lowest in November 2008 at 15.5 percent compared with 14.3 percent in October 2008.

**Government Securities Auction**

The Government securities market posted a performance of 156.2 percent during the Treasury bills auction of December 4, 2008. The Government had offered for sale Treasury bills worth Ksh 5.0 billion during the auction and received bids totalling Ksh 7.8 billion of which Ksh 2.4 billion were in 182 days Treasury bills.

During the auction the Government accepted bids totalling Ksh 5.7 billion or 73.1 percent of the bids received. Of the accepted bids, Ksh 4.3 billion or 75.4 percent were in competitive bids. Proceeds of the auction were to be used to meet the cost of rolling over Treasury bills maturities totalling Ksh 5.2 billion in the week and provide Government additional borrowing of Ksh 0.54 billion.

**Treasury bills interest rates**

The average 91-day Treasury bills rate declined by 0.4 basis points from 8.623 percent in the previous week’s auction to 8.619 percent during the auction, while the average 182-day Treasury bills rate declined by 9.5 basis points from 9.173 percent in the previous week’s auction to 9.078 percent (Table 1). As a result, the 12-weeks moving average for the 91-day Treasury bills rate increased from 8.021 percent in the previous week to 8.098 percent, while the 182-day Treasury bills rate increased from 8.508 percent to 8.596 percent.

**Table 1 : Interest Rates**

Auction date	30-Oct-08	6-Nov-08	13-Nov-08	20-Nov-08	27-Nov-08	4-Dec-08
Average 91 day T. Bills	8.120	8.362	8.522	8.570	8.623	8.619
Average 182 day T. Bills	8.596	8.779	8.964	8.103	9.173	9.078
Month	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Average savings rate	1.71	1.70	1.67	1.68	1.73	1.74
Average overdraft rate	13.53	13.30	13.49	13.11	13.43	13.91

Source: Central Bank of Kenya

**Interbank and Repo Rates**

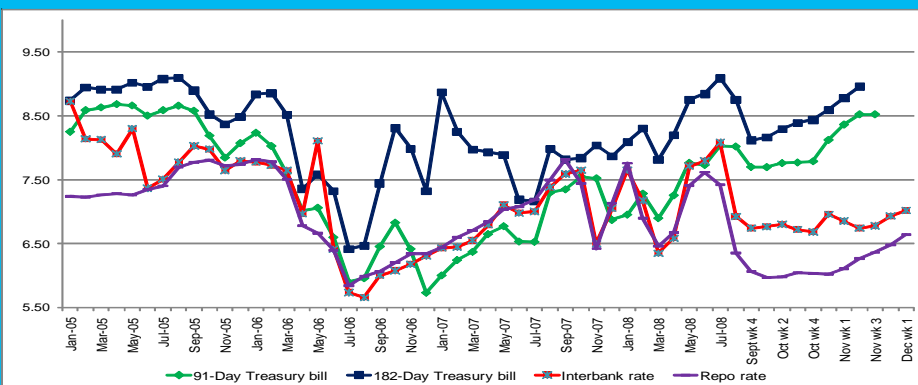
The average interbank rate rose by 9 basis points from 6.93 percent in the previous week to 7.02 percent during the week ending December 04, 2008 with a drop in volumes transacted. Interbank volumes declined from Ksh 83.3 billion in the previous week to Ksh 68.2 billion in the week under review (Table 2). The repo rate, edged upwards by 18 basis points to 6.65 percent from 6.47 percent in the previous week, with a volume of Ksh 13.3 billion being mopped up from Ksh 2.85 billion transacted in the previous week.( Chart B).

**Table 2: Interbank Deals, Volumes and Interest Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
21-Nov-08	106	14,922	6.86
24-Nov-08	105	15,794	6.89
25-Nov-08	106	16,838	6.93
26-Nov-08	107	17,838	6.97
27-Nov-08	129	17,885	7.01
<b>21- 27 Nov- 08</b>	<b>553</b>	<b>83,277</b>	<b>6.912</b>
28-Nov-08	104	17,272	7.05
1-Dec-08	85	12,825	7.05
2-Dec-08	80	14,856	7.05
3-Dec-08	80	11,431	7.01
4-Dec-08	87	11,795	6.95
<b>28 Nov - 04 Dec- 08</b>	<b>436</b>	<b>68,178</b>	<b>7.020</b>

Source: Central Bank of Kenya

**Chart B: The Structure of Interest Rates**



Source: Central Bank of Kenya

**The Shilling Exchange Rate**

During the week ending December 4, 2008 the Kenya Shilling weakened against all major foreign currencies. Against the US dollar, the Shilling traded at an average of Ksh 79.27 compared with Ksh 78.71 per US dollar in the previous week (Table 3).

**Table 3: Kenya Shilling Exchange Rates**

	US Dollar	Sterling Pound	Euro	Yen
21-Nov-08	78.64	116.86	98.60	82.86
24-Nov-08	78.78	117.68	99.55	82.63
25-Nov-08	78.76	118.86	101.03	81.67
26-Nov-08	78.77	120.54	101.81	82.80
27-Nov-08	78.63	120.29	101.10	82.45
<b>Nov 21- Nov 27, 2008</b>	<b>78.71</b>	<b>118.85</b>	<b>100.42</b>	<b>82.48</b>
28-Nov-08	77.88	119.76	100.41	81.81
1-Dec-08	79.08	120.63	100.05	83.01
2-Dec-08	79.83	118.55	100.52	85.33
3-Dec-08	79.89	118.93	101.53	85.64
4-Dec-08	79.69	117.63	100.90	85.47
<b>Nov 28- Dec 04, 2008</b>	<b>79.27</b>	<b>119.10</b>	<b>100.68</b>	<b>84.25</b>

Source: Central Bank of Kenya

The Shilling also weakened against the Sterling Pound, the Euro and the Japanese Yen in the week under review to exchange at an average of Ksh 119.10, Ksh 100.68 and Ksh 84.25, respectively, compared with Ksh 118.85 per Sterling Pound, Ksh 100.42 per Euro and Ksh 82.48 per 100 Japanese Yen in the previous week. In the international foreign exchange market, the US dollar strengthened against the Sterling Pound and the Euro but weakened against the Japanese Yen in the week under review.

### Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank decreased by US dollar 114 million from US dollar 2,832 million (equivalent to 4.10 months of imports) as at December 4, 2007 to US dollar 2,718 million (equivalent to 3.42 months of imports) as at December 4, 2008. The lower imports coverage of foreign exchange reserves as at December 4, 2008, reflects a relatively larger import bill on account of the sharp rise in oil prices particularly in 2008. Meanwhile, foreign exchange reserves held by commercial banks rose to US\$ 1,809 million as at end October 2008 compared with US\$ 1,138 million as at end October 2007. Globally, gross foreign exchange reserves stood at US\$ 4,738 million (equivalent to 5.84 months of imports) as at end of October 2008.

While official foreign exchange reserves are held to meet official financial obligations and smoothen exchange rate fluctuations, private sector external financial obligations are predominantly met using foreign exchange reserves held by commercial banks.

**Table 4: Official Foreign Exchange Reserves (US\$ Million)**

	4-Dec-07	31-Mar-08	30-Jun-08	29-Aug-08	30-Sep-08	31-Oct-08	28-Nov-08	4-Dec-08
Usable Reserves	2,832	3,285	3,300	3,152	3,086	2,790	2,736	2,718
Months of Imports Cover*	4.10	4.67	4.60	4.14	4.06	3.67	3.44	3.42
Months of Imports Cover**	3.36	3.88	3.67	3.43	3.35	3.03	2.83	2.81

\*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

### Monetary Policy Operations

The Central Bank sought to mop an average of Ksh 3.7 billion daily from the market in the week ending December 03, 2008 in line with the desired reserve money target, but realized an average of Ksh 2.6 billion (Table 5).

**Table 5: Open Market Operations (Ksh Billion)**

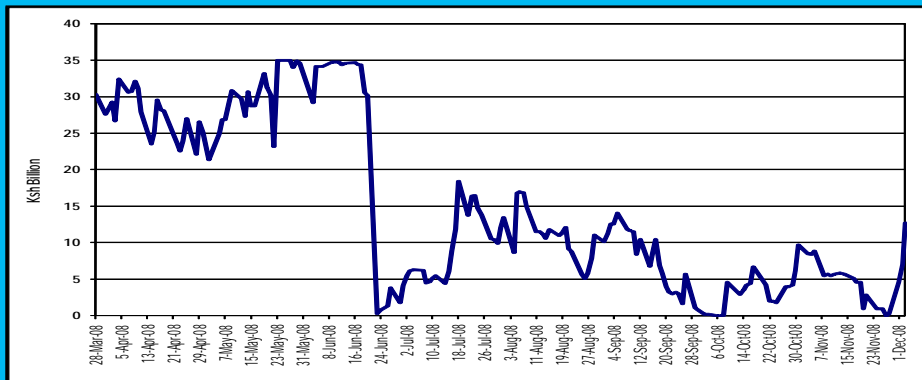
Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/Short(-)	Posted	Realised	Exc(+)/Short(-)	Actual	Exc(+)/Short(-)	Exc(+)/Short(-)	Exc(+)/Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
27-Nov	156.8	161.2	-4.4	0.0	0.0	0.0	160.8	-0.4	1.4	-1.8
28-Nov	159.8	161.2	-1.3	0.5	0.3	-0.2	160.8	-0.4	1.5	-1.9
1-Dec	167.4	164.7	2.6	4.5	4.6	0.1	163.3	-1.4	0.5	-1.9
2-Dec	163.3	164.7	-1.4	6.5	2.5	-4.0	160.7	-4.1	3.5	-7.6
3-Dec	161.0	164.7	-3.7	7.0	5.6	-1.4	156.8	-7.9	-0.4	-7.5
Average	161.7	163.3	-1.6	3.7	2.6	-1.1	160.5	-2.8	1.3	-4.1

\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

The Central Bank’s Open Market Operations desk mopped Ksh 13.0 billion through repurchase agreement securities in the week ending December 03, 2008. During the week, the Central Bank redeemed maturing repo securities worth Ksh 1.3 billion. The stock of repo securities held by commercial banks therefore increased from Ksh 1 billion on November 27, 2008 to Ksh 12.7 billion on December 03, 2008. The average reserve money in the week was Ksh. 160.5 billion, or Ksh 2.8 billion below target.

**Chart C: Commercial Banks Repo Holdings**

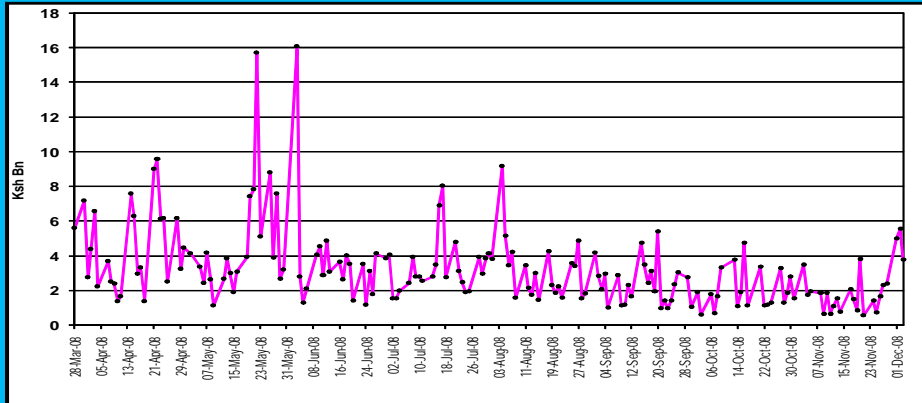


Source: Central Bank of Kenya

**Commercial Banks Clearing Account Balances**

As shown in Chart D, the average commercial banks clearing account balances at the Central Bank increased from Ksh 1.65 billion held in the previous week to Ksh 3.81 billion held in the week to December 03, 2008.

**Chart D: Commercial Banks Clearing Account Balances**



Source: Central Bank of Kenya



**Government Domestic Debt**

Government gross domestic debt increased by Ksh 20.8 billion from Ksh 430.6 billion (21.1 percent of GDP) in June 2008 to Ksh 451.8 billion (20.7 percent of GDP) on November 28 2008 (Table 6 and Chart E). Gross domestic debt increased during the period as a result of increases of Ksh 14.0 billion, Ksh 5.7 and Ksh 3.9 billion in Treasury bills (excluding Repos), Treasury bonds and overdraft at the Central Bank, respectively. These increases were, however, offset by a decrease of Ksh 2.9 billion in other domestic debt.

Treasury bills, Treasury bonds and overdraft at Central Bank increased from Ksh 76.8 billion, Ksh 315.2 billion and zero in June 2008 to Ksh 90.9 billion, Ksh 320.9 billion and Ksh 3.9 billion, respectively, on November 28, 2008. On the other hand, other domestic debt decreased from Ksh 37.8 billion to Ksh 35.0 billion during the period, while long term stocks remained unchanged from Ksh 0.8 billion.

Following these developments, the share of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.8 percent on November 28, 2008, while that of Treasury bills increased from 19.6 percent to 22.0 percent. As a result, the maturity profile of Government securities declined from 3 years and 8 months to 3 years and 5 months during the period.

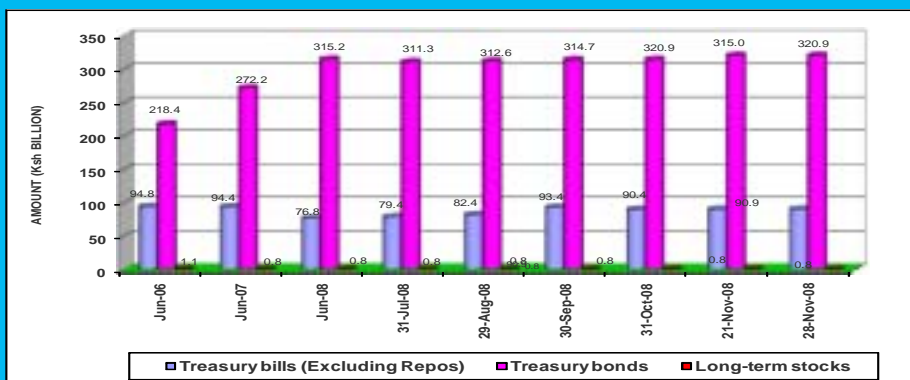
**Table 6: Government Domestic Debt (Ksh Billion)**

	Jun-08	29th Aug-08	30th Sept 08	31st Oct 08	21th Nov 08	28th Nov 08	Changes	
							31st Oct 08 - 28th Nov 08	30th Jun 08 - 28th Nov 08
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	82.4 20.8	93.4 22.8	90.4 22.3	93.3 22.8	90.9 22.0	-2.4	14.0
2. Treasury Bonds (As % of total securities)	315.2 80.2	312.6 79.0	314.7 77.0	315.0 77.6	315.0 77.0	320.9 77.8	5.9	5.7
3. Long Term Stocks (As % of total securities)	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.0	0.0
4. Total Securities (1+2+3)	392.8	395.7	408.8	406.2	409.0	412.5	3.5	19.7
5. Overdraft at Central Bank	0.0	0.0	4.4	14.1	4.9	3.9	-1.0	3.9
6. Other Domestic debt*	37.8	37.8	36.0	34.5	36.9	35.0	-1.9	-2.9
7. Gross Domestic Debt (4+5+6)	430.6	433.6	449.3	454.7	450.8	451.4	0.6	20.8
8. Interest payments on domestic debt (Cumulative in FY)	42.2	6.7	10.4	13.5	15.0	18.7	3.8	

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

Source: Central Bank of Kenya

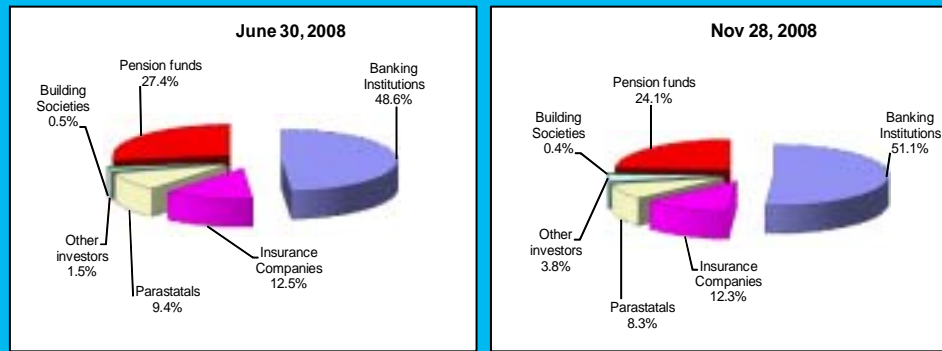
**Chart E: Composition of Government Securities**



Source: Central Bank of Kenya

The proportion of Government securities held by commercial banks and other investors increased from 48.6 percent and 1.5 percent in June 2008 to 51.1 percent and 3.8 percent, respectively, on November 28, 2008. However, the percentage shares of insurance companies, parastatals, pension funds and building societies decreased from 12.5 percent, 9.4 percent, 27.4 percent and 0.5 percent to 12.3 percent, 8.3 percent, 24.1 percent and 0.4 percent, respectively (Chart F).

**Chart F: Composition of Government Securities by Investor**

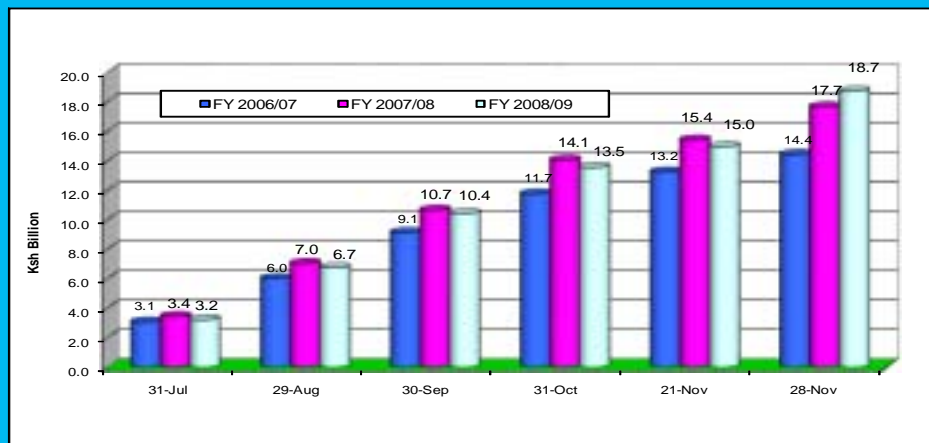


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt from July 1 to November 28, 2008 amounted to Ksh 18.7 billion compared with Ksh 17.7 billion in a similar period in the fiscal year 2007/08 (Chart G). The interest cost on domestic debt during the period comprised Ksh 15.0 billion in interest and other charges on Treasury bonds, Ksh 3.6 billion in interest and other charges on Treasury bills, and Ksh 0.14 billion in interest on both Government overdraft at Central Bank and the pre-1997 government overdraft.

**Chart G: Cumulative Interest Payments on Domestic Debt**



Source: Central Bank of Kenya

### The Stock Market

There was subdued performance at the equity market during the week ending December 04, 2008 as reflected by key market indicators. Equity turnover fell by 11.3 percent as stocks worth Ksh 0.6 billion were traded compared with Ksh 0.7 billion in the previous week. The number of shares traded declined from 51.9 million in the previous week to 37.1 million in



the week under review. Market capitalization, as a measure of total shareholders wealth declined by 7.7 percent from Ksh 803.38 billion in the previous week to Ksh 741.86 billion in the week under review. The NSE 20 Share index fell 266.85 points to settle at 3,162.05 points on December 04, 2008 from 3,397.96 points on November 27, 2008. The Nairobi All Share Index also lost 5.54 points and closed at 66.81 points from 72.35 points in the previous week (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	8th Oct 2008	16th Oct 2008	23rd Oct 2008	30th Oct 2008	5th Nov 2008	13th Nov 2008	20th Nov 2008	27th Nov 2008	4th Dec 2008
NASI 100= Jan 2008	82.18	77.61	71.01	63.96	83.19	77.11	74.97	72.35	66.81
NSE 20 Share Index 100=1966	3,979.12	3,767.46	3,459.33	3,175.49	4,023.70	3,662.50	3,514.30	3,397.95	3,162.43
Number of Deals	12,004	9,790	8,035	10,272	8,430	19,746	11,165	8,873	7,904
Total Shares Traded (millions)	103.40	79.60	43.57	63.08	93.26	98.21	64.69	51.99	37.10
Equity Turnover (Ksh. millions)	1,096	710	606	622	993	1,352	785	654	580
Market Capitalization (Ksh. Bn.)	911.33	860.65	787.08	708.69	924.35	856.42	832.51	803.38	741.86
Bonds Turnover (Ksh. millions)	981.70	1,554.15	272.00	1,538.05	1,098.10	843.15	412.25	377.20	1,068.15

\* 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 25.5 million shares and accounted for 68.7 percent of total traded volume. Safaricom traded 22.0 million shares to be the most active stock in the sector. The Finance and Investment sector traded 5.9 million shares and accounted for 15.9 percent of traded volume. Kenya Commercial Bank traded 2.1 million shares to be the most active counter. Industrial and Allied sector traded 5.5 million shares and accounted for 14.9 percent of traded volume. Olympia capital and Eveready shares were the most active counters and traded 2.9 and 1.2 million shares, respectively. The other sectors had minimal trading.

## The Bond Market

Bond market trading increased during the week as bonds worth Ksh 1,068.2 million were traded compared with Ksh 377.2 million in the previous week.