

December 11, 2008



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted a performance of 113.4 percent during the Treasury bills auction of December 11, 2008. The Government had offered for sale Treasury bills worth Ksh 5.5 billion and received bids totalling Ksh 6.2 billion but accepted bids totalling Ksh 5.97 billion. As a result, the average 91-day Treasury bills rate declined by 6.2 basis points, while the average 182-day Treasury bills rate declined by 7.1 basis points.

Average interbank rate fell by 28 basis points from 7.04 percent in the previous week to 6.74 percent during the week ending December 11, 2008 with a drop in volumes transacted. The repo rate also fell, by 31 basis points to 6.34 percent from 6.65 percent in the previous week.

During the week ending December 11, 2008 the Kenya Shilling strengthened against the US dollar and the Sterling Pound but weakened against the Euro and the Japanese Yen. Against the US dollar, the Shilling exchanged at an average of Ksh 78.88 compared with Ksh 79.27 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank decreased by US dollar 109 million from US dollar 2,804 million (equivalent to 4.32 months of imports) as at December 11, 2007 to US dollar 2,695 million (equivalent to 3.39 months of imports) as at December 11, 2008.

Central Bank's Open Market Operations desk mopped Ksh 28.4 billion from commercial banks using repo securities against redemptions of Ksh 24.6 billion during the week ending December 10, 2008.

Government gross domestic debt increased by Ksh 22.4 billion from Ksh 430.6 billion in June 2008 to Ksh 453.0 billion on December 5 2008. Consequently, the share of Treasury bonds in total Government securities decreased to 77.6 percent on December 5, 2008 while that of Treasury bills increased to 22.2 percent. The cumulative Government expenditure on interest and other charges on domestic debt from July 1 to December 5, 2008 amounted to Ksh 19.3 billion of which of Ksh 15.4 billion in interest and other charges on Treasury bonds.

The equity market recorded mixed performance in the week under review. Equity turnover fell by 24.3 percent owing to a drop in number of shares traded. In contrast, the NSE 20 Share index gained 79.06 points to settle at 3,251.03 points on December 11, 2008 from 3,162.43 points on December 04, 2008.

Government Securities Auction

The Government securities market posted a performance of 113.4 percent during the Treasury bills auction of December 11, 2008. The government had offered for sale Treasury bills worth Ksh 5.5 billion during the auction and received bids totalling Ksh 6.2 billion of which Ksh 3.8 billion were in 182 days Treasury bills.

During the auction the Government accepted bids totalling Ksh 5.97 billion. Of the accepted bids, Ksh 5.0 billion or 83.8 percent were in competitive bids. However, the proceeds of the auction were not adequate to cover the full cost of rolling over Treasury bills maturities totalling Ksh 6.5 billion in the week thus resulting in a net repayment of Ksh 575.6 million.

Treasury bills interest rates

The average 91-days Treasury bills rate declined by 6.2 basis points from 8.619 percent in the previous week's auction to 8.557 percent during this week's auction while the average 182-days Treasury bills rate declined by 7.1 basis points from 9.078 percent in the previous week's auction to 9.007 (Table 1). The 12-weeks moving average for the 91-days Treasury bills rate increased from 8.098 percent in the previous week to 8.173 percent while the 182-days Treasury bills rate increased from 8.596 percent to 8.676 percent.

Table 1 : Interest Rates

Auction date	6-Nov-08	13-Nov-08	20-Nov-08	27-Nov-08	4-Dec-08	11-Dec-08
Average 91 day T. Bills	8.362	8.522	8.570	8.623	8.619	8.557
Average 182 day T. Bills	8.779	8.964	8.103	9.173	9.078	9.007
Month	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08
Average savings rate	1.70	1.67	1.68	1.73	1.74	
Average overdraft rate	13.30	13.49	13.11	13.43	13.91	

Source: Central Bank of Kenya

Interbank and REPO Rates

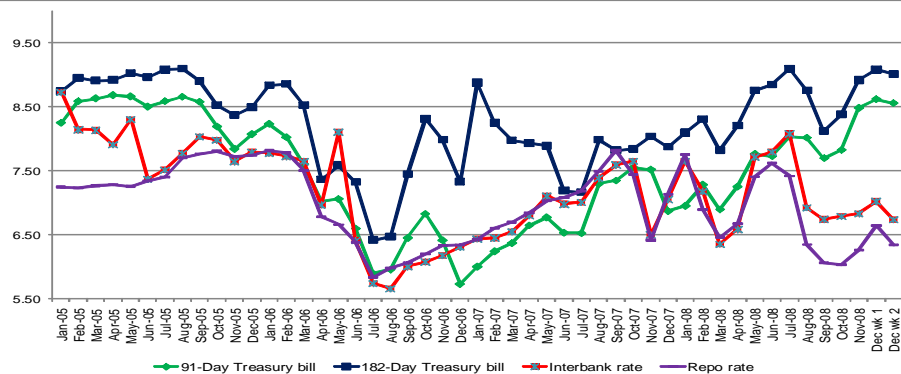
Average interbank rate fell by 28 basis points from 7.04 percent in the previous week to 6.74 percent during the week ending December 11, 2008 with a drop in volumes transacted. Interbank volumes declined from Ksh 68.2 billion in the previous week to Ksh 50.1 billion in the week under review (Table 2). The repo rate also fell, by 31 basis points to 6.34 percent from 6.65 percent in the previous week, with a volume of Ksh 17.7 billion being mopped up from Ksh 13.3 billion transacted in the previous week.(Chart A).

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
28 Nov- 04 Dec- 08	436	68,178	7.038
5-Dec-08	81	11,272	6.90
8-Dec-08	59	8,171	6.73
9-Dec-08	86	10,063	6.68
10-Dec-08	92	10,799	6.68
11-Dec-08	83	9,830	6.69
05 - 11 Dec- 08	401	50,135	6.735

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

During the week ending December 11, 2008 the Kenya Shilling strengthened against the US dollar and the Sterling Pound but weakened against the Euro and the Japanese Yen. Against the US dollar, the Shilling exchanged at an average of Ksh 78.88 compared with Ksh 79.27 per US dollar in the previous week (Table 3). The strengthening of the shilling against the US dollar was steered by low demand for foreign exchange coupled with increased interbank forex sales.

Table 3: Kenya Shilling Exchange Rates

	US Dollar	Sterling Pound	Euro	Yen
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
Nov 28- Dec 04, 2008	79.27	119.10	100.68	84.25
5-Dec-08	79.28	116.51	100.97	85.52
8-Dec-08	79.24	117.53	101.60	85.29
9-Dec-08	78.88	117.03	101.52	85.15
10-Dec-08	78.60	116.17	101.57	84.83
11-Dec-08	78.37	117.20	102.84	84.90
Dec 05- Dec 11, 2008	78.88	116.89	101.70	85.14

Source: Central Bank of Kenya

The Shilling also strengthened against the Sterling Pound to trade at average of Ksh 116.89 in the week under review compared with Ksh 119.10 per Sterling Pound in the previous week. However, the Shilling weakened against the Euro and the Japanese yen to trade, respectively, at Ksh 101.70 and Ksh 85.14 compared with Ksh 100.68 per Euro and Ksh 84.25 per 100 Japanese Yen reported in the previous week. In the international foreign exchange market, the US dollar strengthened against the Sterling Pound but weakened against the Euro and 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 109 million from US dollar 2,804 million (equivalent to 4.32 months of imports) as at December 11, 2007 to US dollar 2,695 million (equivalent to 3.39 months of imports) as at December 11, 2008. The lower imports coverage of foreign exchange reserves as at December 11, 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)

	11-Dec-07	31-Mar-08	30-Jun-08	29-Aug-08	30-Sep-08	31-Oct-08	28-Nov-08	11-Dec-08
Usable Reserves	2,804	3,285	3,300	3,152	3,086	2,790	2,736	2,695
Months of Imports Cover*	4.05	4.67	4.60	4.14	4.06	3.67	3.44	3.39
Months of Imports Cover**	3.33	3.88	3.67	3.43	3.35	3.03	2.83	2.78

*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's Open Market Operations desk mopped Ksh 28.4 billion through repurchase agreement securities in the week ending December 10, 2008. During the week, the Central Bank redeemed maturing repo securities worth Ksh 24.6 billion. The stock of repo securities held by commercial banks therefore increased from Ksh 12.7 billion on December 03, 2008 to Ksh 16.5 billion on December 10, 2008. The average reserve money in the week was Ksh. 157.7 billion, or Ksh 7.6 billion below target.

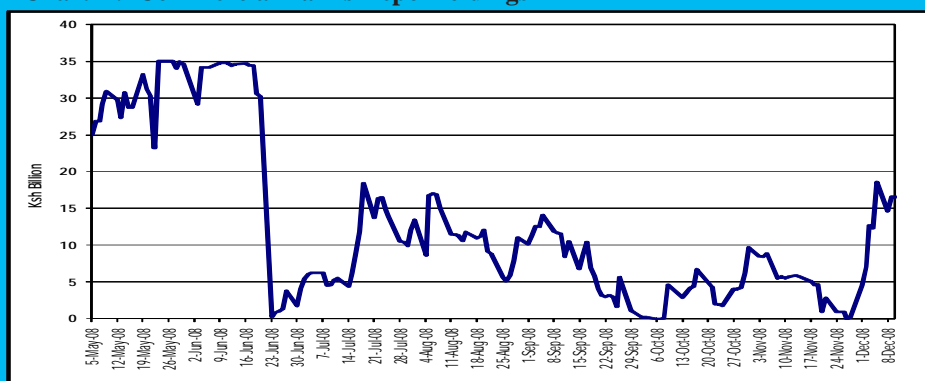
Table 5: Open Market Operations (Ksh Billion)

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
4-Dec	161.2	164.7	-3.6	5.0	3.8	-1.2	157.1	-7.6	-6.4	-1.2
5-Dec	159.3	164.7	-5.4	3.0	8.6	5.6	156.1	-8.6	-14.2	5.6
8-Dec	175.1	165.6	9.5	9.5	13.9	4.4	160.0	-5.6	-10.0	4.4
9-Dec	159.6	165.6	-6.0	3.0	2.2	-0.8	157.9	-7.8	-6.9	-0.8
10-Dec	154.5	165.6	-11.1	0.0	0.0	0.0	157.2	-8.4	-8.4	0.0
Average	161.9	165.3	-3.3	4.1	5.7	1.6	157.7	-7.6	-9.2	1.6

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Chart B: Commercial Banks Repo Holdings

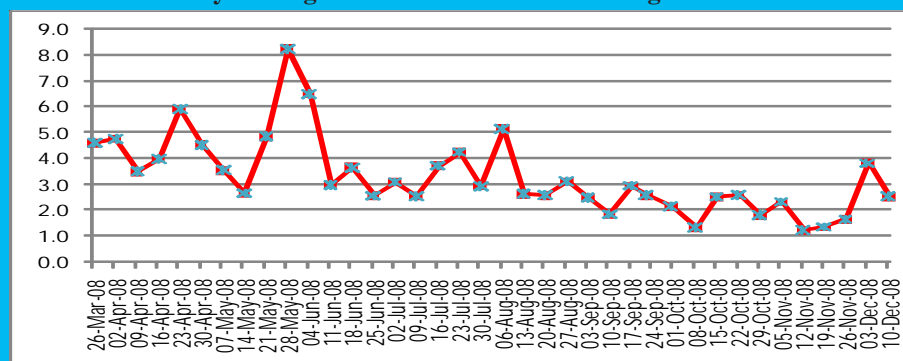


Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Accounts
Balances**

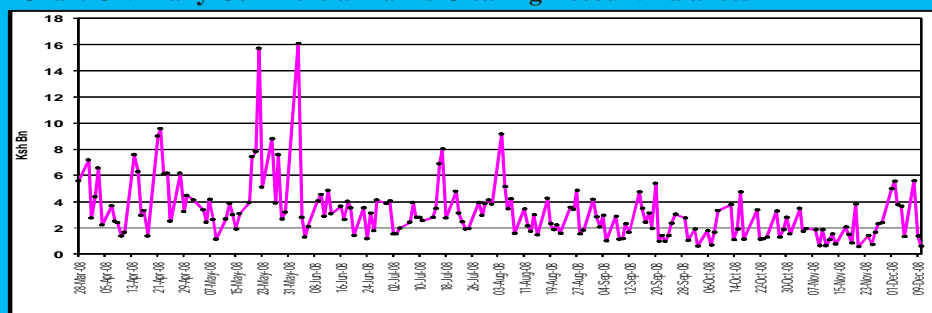
As shown in Chart C1, the average commercial banks clearing account balances at the Central Bank reduced from Ksh 3.81 billion held in the previous week to Ksh 2.53 billion held in the week to December 10, 2008.

Chart C1: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Chart C2: Daily Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

**Government
Domestic
Debt**

Government gross domestic debt increased by Ksh 22.4 billion from Ksh 430.6 billion (21.1 percent of GDP) in June 2008 to Ksh 453.0 billion (20.7 percent of GDP) on December 5, 2008 (Table 6 and Chart D). Gross domestic debt increased during the period as a result of increases of Ksh 13.8 billion, Ksh 1.2 billion and Ksh 10.3 billion in Treasury bills (excluding Repos), Treasury bonds and overdraft at the Central Bank of Kenya, respectively. These increases were, however, marginally offset by a decrease of Ksh 3.0 billion in other domestic debt.

Treasury bills, Treasury bonds and overdraft at CBK increased from Ksh 76.8 billion, Ksh 315.2 billion and zero in June 2008 to Ksh 90.7 billion, Ksh 316.4 billion and Ksh 10.3 billion, respectively on December 5, 2008. On the other hand, other domestic debt decreased from Ksh 37.8 billion to Ksh 34.9 billion during the period while long term stocks remained unchanged from Ksh 0.8 billion.

As a result, the share of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.6 percent on December 5, 2008 while that of Treasury bills increased from 19.6 percent to 22.2 percent. Consequently, the maturity profile of Government securities declined from 3 years and 8 months to 3 years and 6 months during the period.

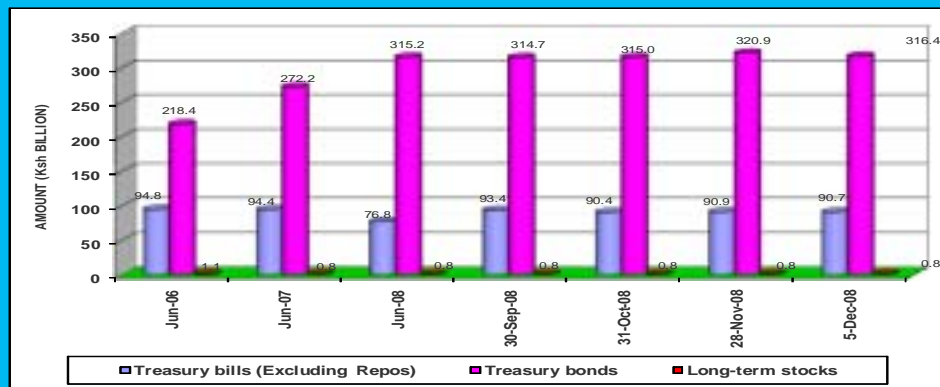
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	29th Aug-08	30th Sept 08	31st Oct 08	28th Nov 08	5th Dec 08	Changes	
							31st Oct 08 - 5th Dec 08	30th Jun 08 - 5th Dec 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	90.9 22.0	90.7 22.2	-0.2	13.8
2. Treasury Bonds (As % of total securities)	315.2 80.2	312.6 79.0	314.7 77.0	315.0 77.6	320.9 77.8	316.4 77.6	-4.5	1.2
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	412.5	407.8	-4.7	15.0
5. Overdraft at Central Bank	0.0	0.0	4.4	14.1	3.9	10.3	6.4	10.3
6. Other Domestic debt*	37.8	37.8	36.0	34.5	35.0	34.9	-0.1	-3.0
7. Gross Domestic Debt (4+5+6)	430.6	433.6	449.3	454.7	451.4	453.0	1.6	22.4
8. Interest payments on domestic debt (Cumulative in FY)	42.2	6.7	10.4	13.5	18.7	19.3	0.6	

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

Source: Central Bank of Kenya

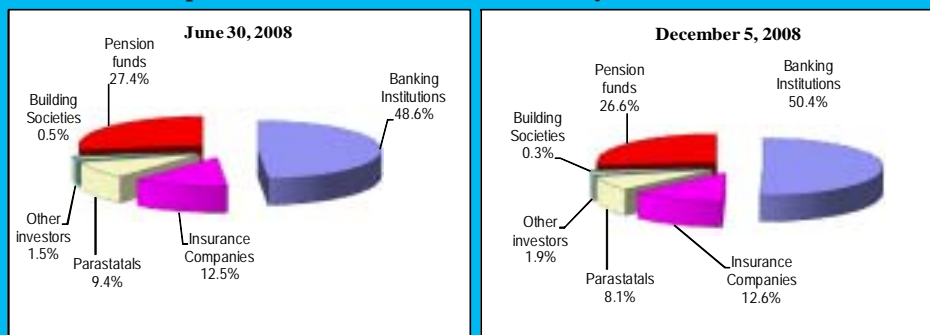
Chart D: Composition of Government Securities



Source: Central Bank of Kenya

The proportion of Government securities held by commercial banks, insurance companies and other investors increased from 48.6 percent, 12.5 percent and 1.5 percent in June 2008 to 50.4 percent, 12.6 percent and 1.9 percent, respectively, as at December 5, 2008. However, the percentage shares of parastatals, pension funds and building societies decreased from 9.4 percent, 27.4 percent and 0.5 percent to 8.1 percent, 26.6 percent and 0.3 percent, respectively (Chart E).

Chart E: Composition of Government Securities by Investor



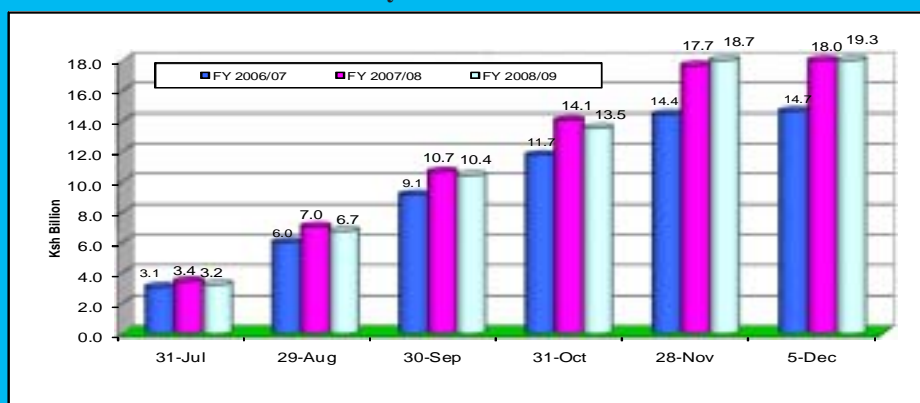
Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt from July 1 to December 5, 2008 amounted to Ksh 19.3 billion compared with Ksh 18.0 billion in a similar period in the fiscal year 2007/08 (Chart F). The interest cost on domestic debt during the period comprised Ksh 15.4 billion in interest and other charges on Treasury bonds, Ksh 3.8 billion in interest and other charges on Treasury bills, and Ksh 0.2

billion in interest on both long term stock, Government overdraft at Central Bank of Kenya and the pre-1997 government overdraft.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was mixed performance at the equity market during the week ending December 11, 2008 as reflected by key market indicators. Equity turnover fell by 24.3 percent as stocks worth Ksh 0.4 billion were traded compared with Ksh 0.6 billion traded in the previous week. The number of shares traded declined from 37.1 million in the previous week to 33.5 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth, rose by 2.7 percent from Ksh 750.08 billion in the previous week, to Ksh 770.17 billion in the week under review. The NSE 20 Share index gained 79.06 points to settle at 3,251.03 points on December 11, 2008 from 3,162.43 points on December 04, 2008. The Nairobi All Share Index also gained 2.55 points and closed at 69.36 points from 66.81 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	11th Dec 2008
NASI 100= Jan 2008	82.18	77.61	71.01	63.96	83.19	77.11	74.97	72.35	66.81	69.36
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	3,251.03
Number of Deals	12,004	9,790	8,035	10,272	8,430	19,746	11,165	8,873	7,904	7,709
Total Shares Traded (millions)	103.40	79.60	43.57	63.08	93.26	98.21	64.69	51.99	37.10	33.50
Equity Turnover (Ksh. millions)	1,096	710	606	622	993	1,352	785	654	580	439
Market Capitalization (Ksh. Bn.)	911.33	860.65	787.08	708.69	924.35	856.42	832.51	803.38	750.08	770.17
Bonds Turnover (Ksh. millions)	981.70	1,554.15	272.00	1,538.05	1,098.10	843.15	412.25	377.20	4,274.20	1,732.40

* 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 21.5 million shares and accounted for 64.3 percent of total traded volume. Safaricom traded 18.4 million shares to be the most active stock in the sector. The Finance and Investment sector traded 6.0 million shares and accounted for 18.0 percent of traded volume. KCB traded 2.7 million shares to be the most active counter. Industrial and Allied sector traded 5.5 million shares and accounted for 16.5 percent of traded volume. Olympia capital and Mumias

shares were the most active counters and traded 3.7 and 0.6 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond market trading declined during the week as bonds worth Ksh 1732.4 million were traded compared with Ksh 4274.2 million traded in the previous week.