

November 07, 2008



THE CBK WEEKLY BULLETIN

Highlights for the Week

The week's auction of the Government treasury bills was successful, with bids totalling Ksh 4.2 billion accepted, of which Ksh 2.7 billion or 65.2 percent were in the competitive category.

The average 91-day Treasury bills rate edged up by 24.2 basis points from 8.120 percent in the previous week's auction to 8.362 percent during the auction, while the average 182-day Treasury bills rate upped by 18.3 basis points from 8.596 percent in the previous week's auction to 8.779 percent.

The average interbank rate declined by 10 basis points from 6.96 percent in the previous week to 6.86 percent during the week ending November 5, 2008 with a decline in volumes transacted. The competitive repo rate, however, edged up 9 basis points to 6.11 percent from 6.02 percent in the previous week.

The Kenya Shilling strengthened against all the major foreign currencies during the week ending November 05, 2008. Against the US dollar, the Shilling strengthened to trade at an average of Ksh 78.65 compared with Ksh 79.99 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank increased from US dollar 2,745.58 million (equivalent to 4.23 months of imports) as at November 05, 2007 to US dollar 2,802.95 million as at November 05, 2008 (equivalent to 3.68 months of imports).

Central Bank's Open Market Operations desk mopped Ksh 16.4 billion from commercial banks using repo securities against redemptions of Ksh 11.7 billion during the week ending November 5, 2008.

Government gross domestic debt increased by Ksh 24.5 billion from Ksh 430.6 billion in June 2008 to Ksh 455.1 billion on October 31, 2008. The cumulative Government expenditure on interest and other charges on domestic debt from July 1 to October 31, 2008 amounted to Ksh 11.0 billion compared with Ksh 14.1 billion in a similar period in the fiscal year 2007/08.

The equity market recorded improved performance. Equity turnover increased by 60 percent owing to the increased number of shares traded and improved prices across most counters. Consequently, the NSE 20 Share index gained 848.2 points to settle at 4,023.7 points on November 5, 2008 from 3,175.5 points on October 30, 2008.

Overall 12-month inflation increased from 28.2 percent in September 2008 to 28.4 percent in October 2008. The increase in overall inflation reflected

Inflation

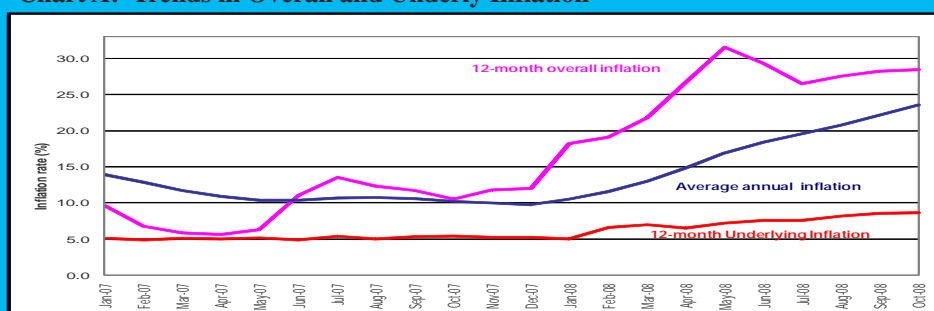
higher prices of food items, mainly the prices of beans, wheat flour, and potatoes. Similarly, average annual inflation increased from 22.1 percent in September 2008 to 23.6 percent in October 2008.

The 12-month underlying inflation increased from 8.6 percent in September 2008 to 8.7 percent in October 2008. Pressure on underlying inflation was mainly from higher prices of the household and personal goods and services during the period. Average underlying inflation rose from 6.7 percent in September 2008 to 7.0 percent in October 2008.

Five categories of goods and services in the CPI basket recorded higher 12-month inflation in October 2008 than in September 2008. Inflation for the food and drink category of goods and services increased by 0.4 percent from 37.2 percent in September 2008 to 37.6 percent in October 2008. This is attributed to the higher prices of food items. Inflation for the alcohol and tobacco category of goods and services increased from 15.6 percent in September 2008 to 16.0 percent in October 2008, while inflation for the personal goods and services category increased from 9.1 percent to 9.8 percent during the period. Similarly, inflation for the household goods and services category and the clothing and footwear category of goods and services increased to 12.0 percent and 5.9 percent in October 2008, respectively from 10.5 percent and 5.8 in the previous month.

Inflation for the fuel and power category declined from 31.6 percent in September 2008 to 28.8 percent in October 2008 mainly due to decreases

Chart A: Trends in Overall and Underly Inflation



Source: Central Bank of Kenya

in the cost of paraffin, diesel and petrol following lower international crude oil prices. Inflation for the transport and communication category also declined from 19.1 percent in September 2008 to 18.9 percent in October 2008, while inflation for the recreation and education goods and services declined by 0.7 percent from 7.7 percent to 7.0 percent during the period. Further, inflation for the housing category and, medical goods and services category declined from 6.8 percent and 14.0 percent, respectively, in September 2008 to 6.5 percent and 13.6 percent in October 2008.

All income groups experienced higher 12-month inflation in October 2008 compared with the year to September 2008 except for the "Rest of Kenya" income group whose inflation declined from 28.7 percent to 28.3 percent during the period. Inflation for the Nairobi lower income group, the highest among all income groups, was 31.4 percent in October 2008 compared with 30.2 percent in September 2008. Meanwhile, inflation for the "Combined Nairobi" income group was 28.7 percent compared with 27.5

percent in September 2008. Inflation for the Nairobi middle/upper income group was the lowest in October 2008 at 14.3 percent compared with 13.6 percent in September 2008.

Government Securities Auction

The performance of the Government securities market improved with subscription of 128.7 percent during the Treasury bills auction of November 7, 2008, from 127.4 percent in the previous auction. The Government had offered for sale Treasury bills worth Ksh 4.0 billion during this auction and received bids totalling Ksh 5.2 billion of which Ksh 3.0 billion were in 182 days Treasury bills. The Government accepted bids totalling Ksh 4.2 billion of which Ksh 2.7 billion, or 65.2 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 2.9 billion in the week and provide Government additional borrowing of 1.4 billion.

Treasury bills interest rates

The average 91-day Treasury bills rate edged up by 24.2 basis points from 8.120 percent in the previous week's auction to 8.362 percent during the auction. The average 182-day Treasury bills rate rose by 18.3 basis points from 8.596 percent in the previous week's auction to 8.779 percent. As a result, the 12-weeks moving average for the 91-day Treasury bills rate increased from 7.780 percent in the previous week to 7.849 percent, while the 182-day Treasury bills rate decreased from 8.266 percent to 8.245 percent.

Table 1 : Interest Rates

Auction date	9-Oct-08	16-Oct-08	23-Oct-08	30-Oct-08	6-Nov-08
Average 91 day T. Bills	7.758	7.767	7.786	8.120	8.362
Average 182 day T. Bills	8.292	8.391	8.440	8.596	8.779
Month	May-08	Jun-08	Jul-08	Aug-08	Sep-08
Average savings rate	1.71	1.70	1.67	1.68	1.73
Average overdraft rate	13.53	13.30	13.49	13.11	13.43

Source: Central Bank of Kenya

Interbank and Repo Rates

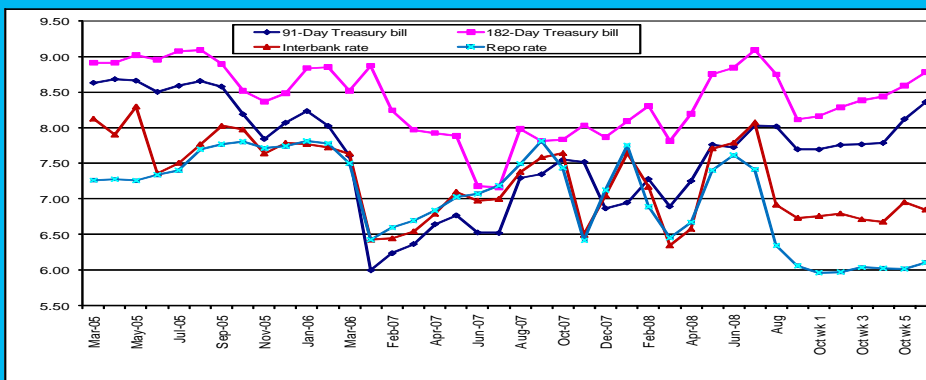
Average interbank rate declined by 10.3 basis points from 6.958 percent in the previous week to 6.855 percent during the week ending November 5, 2008 with a decline in volumes transacted. Interbank volumes declined from Ksh 76.8 billion in the previous week to Ksh 48.1 billion in the week under review. The competitive repo rate however, edged up 9 basis points from 6.02 percent to 6.11 percent in the previous week with a volume of Ksh 12.4 billion being mopped (Table 2 and Chart B).

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
24-Oct-08	105	21,342	6.92
27-Oct-08	95	17,939	6.95
28-Oct-08	91	15,279	6.97
29-Oct-08	82	11,782	6.98
30-Oct-08	75	10,470	6.97
24- 30 Oct- 08	448	76,812	6.958
31-Oct-08	68	11,938	6.95
3-Nov-08	67	10,335	6.88
4-Nov-08	70	11,475	6.80
5-Nov-08	90	14,380	6.80
6-Nov-08	HOLIDAY		
31- 6 Nov- 08	295	48,128	6.855

Source: Central Bank of Kenya

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling strengthened against all major foreign currencies during the week ending November 05, 2008. Against the US dollar, the Shilling strengthened to trade at an average of Ksh 78.65 compared with Ksh 79.99 per US dollar in the previous week. The strengthening of the Shilling against the US dollar was driven by reduced corporate demand in the inter-bank trading (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US Dollar	Sterling Pound	Euro	Yen
24-Oct-08	80.12	128.06	102.24	83.95
27-Oct-08	79.79	125.33	100.06	85.58
28-Oct-08	79.96	125.54	100.20	83.60
29-Oct-08	80.07	128.45	101.74	82.60
30-Oct-08	80.00	132.61	105.45	81.39
Oct 24 - Oct 30, 2008	79.99	128.00	101.94	83.42
31-Oct-08	79.65	130.22	101.99	81.20
3-Nov-08	79.34	129.80	102.13	79.79
4-Nov-08	78.96	123.39	99.53	79.85
5-Nov-08	76.64	121.74	98.81	76.69
Oct 31 - Nov 05, 2008	78.65	126.29	100.61	79.38

Source: Central Bank of Kenya

The Shilling also strengthened against the Sterling Pound, the Euro and the Japanese Yen in the week under review to trade at an average of Ksh 126.29, Ksh 100.61 and Ksh 79.38, respectively, compared with Ksh 128.00 per Sterling Pound, Ksh 101.94 per Euro and Ksh 83.42 per 100 Japanese Yen reported in the week ending October 30, 2008. In the international scene, the US dollar weakened against the Sterling Pound and the Euro, but strengthened against the Japanese Yen in the week under review compared with the previous week.

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank increased by US dollar 57.4 million from US dollar 2,745.58 million (equivalent to 4.23 months of imports) as at November 05, 2007 to US dollar 2,802.95 million (equivalent to 3.68 months of imports) as at November 05, 2008. The lower imports coverage of foreign exchange reserves as at November 05, 2008, reflects a relatively larger import bill on account of the sharp rise in oil prices during the period under review. Meanwhile, foreign exchange reserves held by commercial banks rose to Ksh 1,646.09 million as at end October 2008 compared with Ksh 861.65 million as at end October 2007. Hence, globally gross foreign exchange reserves stood at Ksh 4,436.19 million (equivalent to 5.58 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 banks.

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

	5-Nov-07	30-Oct-07	30-May-08	30-Jun-08	31-Jul-08	29-Aug-08	30-Sep-08	31-Oct-08	5-Nov-08
Usable Reserves	2,745.6	2,717.5	3,265.1	3,300.2	3,288.2	3,151.5	3,085.7	2,790.1	2,803.0
Months of Imports Cover*	4.23	4.18	4.55	4.60	4.45	4.14	4.06	3.67	3.68
Months of Imports Cover**	3.53	3.47	3.84	3.67	3.66	3.43	3.35	3.03	3.05

*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 4.7 billion daily from the market in the week ending November 5, 2008 in line with the desired reserve money target, but realized an average of Ksh 3.3 billion (Table 5).

Table 5: Open Market Operations (Ksh Billion)

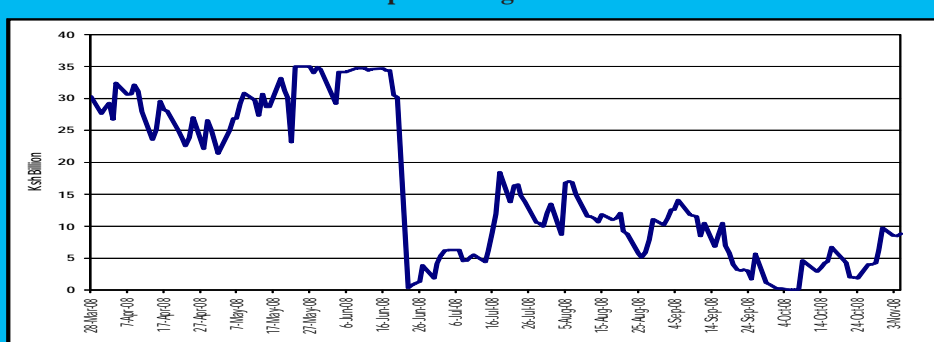
Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/Short(-)	Posted	Realised	Exc(+)/Short(-)	Actual	Exc(+)/Short(-)	Exc(+)/Short(-)	Exc(+)/Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
30-Oct	158.8	155.3	3.5	4.0	4.0	0.0	155.9	0.7	3.2	-2.6
31-Oct	157.9	155.3	2.6	4.0	3.6	-0.4	157.4	2.1	2.3	-0.2
3-Nov	166.7	156.7	10.0	10.0	8.3	-1.7	159.4	2.7	2.8	-0.1
4-Nov	159.4	156.7	2.6	3.0	0.1	-2.9	159.4	2.7	1.3	1.4
5-Nov	160.5	156.7	3.8	2.5	0.4	-2.1	160.1	3.4	1.5	1.9
Average	160.7	156.1	4.5	4.7	3.3	-1.4	158.5	2.3	2.2	0.1

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

The Central Bank's Open Market Operations desk mopped Ksh 16.4 billion through repurchase agreement securities in the week ending November 5, 2008. During the week, the Central Bank redeemed maturing repo securities worth Ksh 11.7 billion. The stock repo securities held by commercial banks therefore increased from Ksh 4.2 billion on October 29, 2008 to Ksh 8.8 billion on November 5, 2008. The average reserve money in the week was Ksh. 158.5 billion, or Ksh 2.3 billion above target.

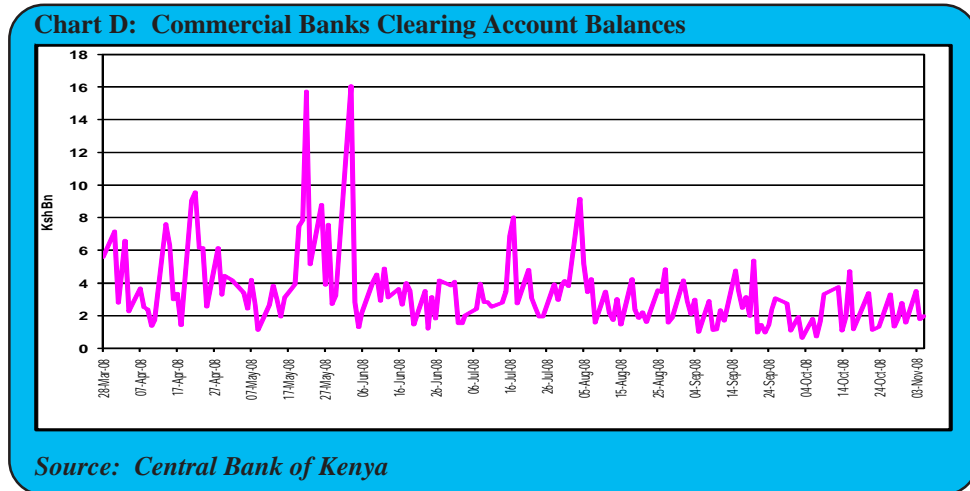
Chart C: Commercial Banks Repo Holdings



Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Accounts
Balances**

As shown in Chart D, the average commercial banks clearing account balances at the Central Bank increased from Ksh 1.8 billion held in the previous week to Ksh 2.3 billion held in the week to November 5, 2008.



**Government
Domestic
Debt**

Government gross domestic debt increased by Ksh 24.5 billion from Ksh 430.6 billion in June 2008 to Ksh 455.1 billion on October 31 2008 following planned domestic borrowing to finance the fiscal deficit (Table 6 and Chart E). The increase in the domestic debt comprised increases of Ksh 13.5 billion and Ksh 14.1 billion in Treasury bills (excluding Repos) and overdraft at the Central Bank, respectively, and partially offsetting decreases of Ksh 0.2 billion and Ksh 2.9 billion in Treasury bonds and other domestic debt, respectively.

Treasury bills and the overdraft at CBK increased from Ksh 76.8 billion and zero in June 2008 to Ksh 90.4 billion and Ksh 14.1 billion, respectively, on October 31, 2008. Treasury bonds and other domestic debt decreased from Ksh 315.2 billion and Ksh 37.8 billion to Ksh 315.0 billion and Ksh 34.9 billion, respectively, during the period. Meanwhile, long term stocks remained unchanged at Ksh 0.8 billion. The level of Government overdraft at Central Bank remained within the authorized limit of Ksh 16.9 billion.

Following these developments, the percentage of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.6 percent on October 31, 2008 while Treasury bills increased from 19.6 percent to 22.3 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.

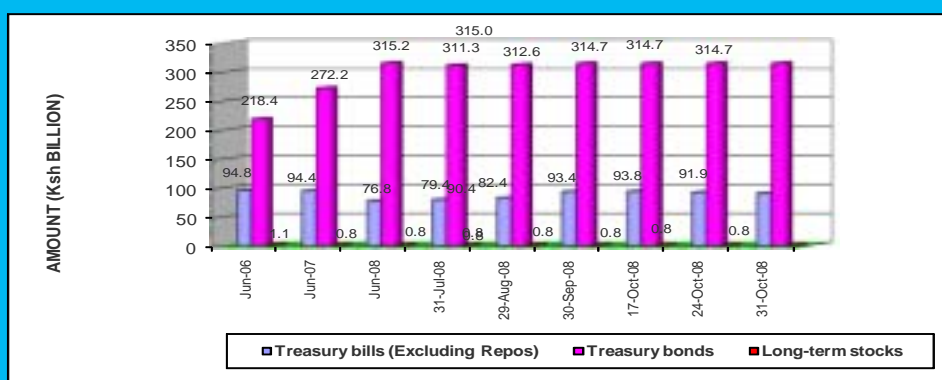
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Jul-08	29th Aug-08	30th Sept 08	17th Oct 08	24th Oct 08	31st Oct 08	Changes	
								30th Sep 08 - 31st Oct 08	30th Jun 08 - 31st Oct 08
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	79.4 20.3	82.4 20.8	93.4 22.8	93.8 22.9	91.9 22.6	90.4 22.3	-1.5	13.5
2. Treasury Bonds (As % of total securities)	315.2 80.2	311.3 79.5	312.6 79.0	314.7 77.0	314.7 76.9	314.7 77.3	315.0 77.6	0.3	-0.2
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	0.8 0.2	0.0	0.0
4. Total Securities (1+2+3)	392.8	391.5	395.7	408.8	409.2	407.3	406.2	-1.2	13.4
5. Overdraft at Central Bank	0.0	1.3	0.0	4.4	4.4	6.2	14.1	7.9	14.1
6. Other Domestic debt*	37.8	35.3	37.2	37.6	36.7	36.7	34.9	-2.9	-2.9
7. Gross Domestic Debt (4+5+6)	430.6	428.1	432.9	450.8	450.4	450.2	455.1	4.9	24.5
8. Interest payments on domestic debt (Cumulative in FY)	42.2	3.2	6.7	10.4	10.6	10.7	11.0	0.3	

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

Source: Central Bank of Kenya

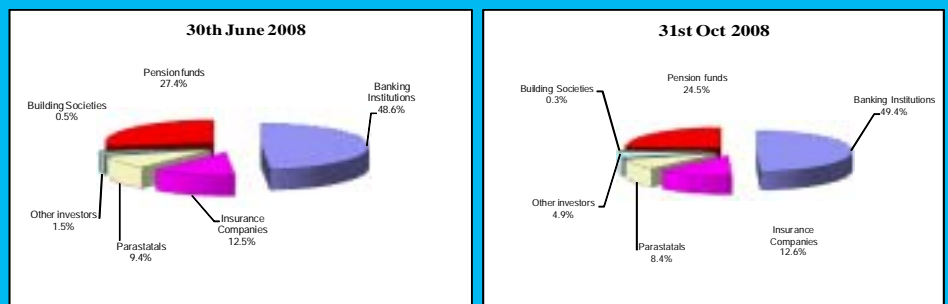
Chart E: Composition of Government Securities



Source: Central Bank of Kenya

The proportion of Government securities held by commercial banks, insurance companies and other investors increased from 48.6 percent, 12.5 percent and 1.5 percent in June 2008 to 49.4 percent, 12.6 percent and 4.9 percent, respectively, as at October 31, 2008. However, holdings by parastatals, pension funds and building societies decreased from 9.4 percent, 27.4 percent and 0.5 percent to 8.4 percent, 24.5 percent and 0.3 percent, respectively (Chart F).

Chart F: Composition of Government Securities by Investor



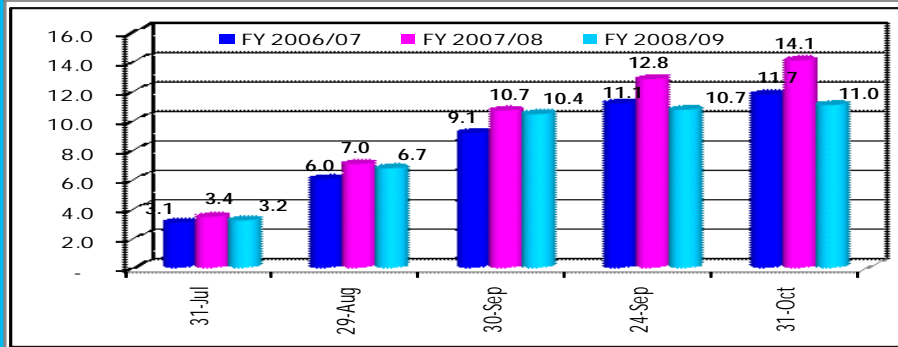
Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt from July 1 to October 31, 2008 amounted to Ksh 11.0 billion compared with Ksh 14.1 billion in a similar period in the fiscal year 2007/08 (Chart G). The interest cost on domestic debt during

the period comprised Ksh 8.1 billion in interest and other charges on Treasury bonds, Ksh 2.9 billion in interest and other charges on Treasury bills, and Ksh 0.02 billion in interest on Government overdraft at Central Bank.

Chart G: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was improved performance at the equity market during the week ending November 6, 2008 as reflected by key market indicators. Equity turnover increased by 60 percent as stocks worth Ksh 1 billion were traded compared with Ksh 0.6 billion traded in the previous week. The number of shares traded increased from 63.1 million in the previous week to 93.3 million shares in the week under review. Market capitalization, as a measure of total shareholders wealth increased by 30.4 percent from Ksh 708.7 billion in the previous week to Ksh 924.4 billion in the week under review. The NSE 20 Share index gained 848.2 points to settle at 4,023.7 points on November 5, 2008 from 3,175.5 points on October 30, 2008. The Nairobi All Share Index also gained 19.2 points and closed at 83.2 points from 64 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	4th Sept 2008	11th Sept 2008	18th Sept 2008	25th Sept 2008	2nd Oct 2008	8th Oct 2008	16th Oct 2008	23rd Oct 2008	30th Oct 2008	30th Oct 2008
NASI 100= Jan 2008	96.52	92.22	84.76	90.42	87.74	82.18	77.61	71.01	63.96	83.19
NSE 20 Share Index 100=1966	4,564.65	4,348.61	4,055.23	4,266.38	4,180.34	3,979.12	3,767.46	3,459.33	3,175.49	4,023.70
Number of Deals	15,474	15,653	14,253	15,399	10,633	12,004	9,790	8,035	10,272	8,430
Total Shares Traded (millions)	101.82	90.82	145.89	157.34	46.90	103.40	79.60	43.57	63.08	93.26
Equity Turnover (Ksh. millions)	1,538	1,649	1,651	1,934	850	1,096	710	606	622	993
Market Capitalization (Ksh. Bn.)	1,058.31	1,013.12	953.21	998.40	972.92	911.33	860.65	787.08	708.69	924.35
Bonds Turnover (Ksh. millions)	2,797.35	2,344.00	2,674.00	1,913.40	652.70	981.70	1,554.15	272.00	1,538.05	205.60

* 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 75.8 million shares and accounted for 81 percent of total traded volume. Safaricom traded 70.3 million shares to be the most active stock in the sector. The Finance and Investment sector traded 9.6 million shares and accounted for 10 percent of traded volume. Kenya Commercial Bank traded 3.1 million shares. Industrial and Allied sector traded 7.6 million shares and accounted for 8.2 percent of traded volume. Olympia capital and Kenya Re shares continued

as the most active counters and traded 3.8 and 2.3 million shares, respectively. The other sectors had minimal trading.

**The Bond
Market**

Bond market trading declined during the week as bonds worth Ksh 205.6 million were traded compared with Ksh 1.5 billion traded in the previous week.