

November 14, 2008



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted a performance of 110.4 percent during the Treasury bills auction of November 13, 2008. The Government had offered for sale Treasury bills worth Ksh 5.5 billion and received bids totalling Ksh 6.1 billion. The average 91-day Treasury bills increased from 8.362 percent in the previous week's auction to 8.522 percent while the average 182-day Treasury bills rate increased from 8.779 percent to 8.964 percent in this week's auction.

Average interbank rate declined by 11 basis points from 6.86 percent in the previous week to 6.74 percent during the week ending November 13, 2008 despite an increase in volumes transacted. The competitive repo rate also increased by 15 basis points from 6.11 percent to 6.254 percent in the previous week .

The Kenya Shilling strengthened against all major foreign currencies during the week ending November 13, 2008. Against the US dollar, the Shilling strengthened to exchange at an average of Ksh 77.12 compared with Ksh 78.65 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank increased from US dollar 2,768.5 million (equivalent to 4.27 months of imports) as at November 13, 2007 to US dollar 2,771.4 million (equivalent to 3.64 months of imports) as at November 13, 2008.

Central Bank's Open Market Operations desk mopped Ksh 9.6 billion from commercial banks using repo securities against redemptions of Ksh 12.6 billion during the week ending November 12, 2008.

Government gross domestic debt increased from Ksh 430.6 billion in June 2008 to Ksh 453.0 billion as at November 7, 2008 following planned domestic borrowing activities to finance the budget deficit. However, as a proportion of GDP, domestic debt remained unchanged at about 21.1 percent. From July 1 to November 7, 2008, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 13.8 billion compared with Ksh 14.2 billion in a similar period in the fiscal year 2007/08.

The equity market recorded improved performance. Equity turnover increased by 36.1 percent owing to the increased number of shares traded and improved prices across most counters. Consequently, the NSE 20 Share index gained 361.2 points to settle at 3662.50 points on November 13, 2008 from 4023.70 points on November 5, 2008.

Government Securities Auction

The Government securities market posted a performance of 110.4 percent during the Treasury bills auction of November 13, 2008. The Government had offered for sale Treasury bills worth Ksh 5.5 billion during the auction and received bids totalling Ksh 6.1 billion of which Ksh 4.0 billion were in the 182-day Treasury bills.

During the auction, the Government accepted bids totalling Ksh 5.5 billion of which Ksh 3.6 billion or 65.5 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 4.6 billion in the week and provide Government additional borrowing of 0.9 billion.

Treasury bills interest rates

The average 91-day Treasury bills rate edged up by 16.0 basis points from 8.362 percent in the previous week's auction to 8.522 percent during this week's auction while the average 182-day Treasury bills rate increased by 18.5 basis points from 8.779 percent in the previous week's auction to 8.964 percent. Following these developments, the 12-weeks moving average for the 91-day Treasury bills rate increased from 7.849 percent in the previous week to 7.874 percent while the 182-day Treasury bills rate increased from 8.245 percent to 8.335 percent. Details are provided in Table 1.

Table 1 : Interest Rates

Auction date	16-Oct-08	23-Oct-08	30-Oct-08	6-Nov-08	13-Nov-08
Average 91 day T. Bills	7.767	7.786	8.120	8.362	8.522
Average 182 day T. Bills	8.391	8.440	8.596	8.779	8.964
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

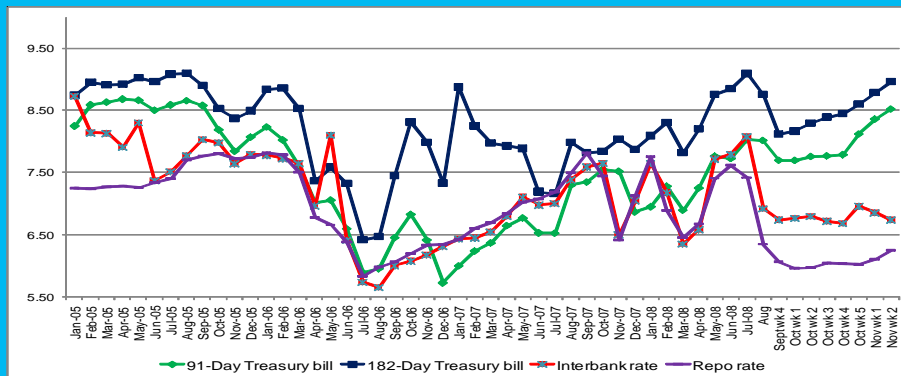
The average interbank rate declined by 11 basis points from 6.86 percent in the previous week to 6.74 percent during the week ending November 13, 2008 despite an increase in volumes transacted. Interbank volumes rose from Ksh 48.1 billion in the previous week to Ksh 61.6 billion in the week under review (Table 2). The competitive repo rate also increased by 15 basis points from 6.11 percent to 6.254 percent in the previous week (Chart A) with a volume of Ksh 12.6 billion being mopped up from Ksh 12.4 billion transacted in the previous week.

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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		
24- 30 Oct- 08	295	48,128	6.855
7-Nov-08	76	12,048	6.77
10-Nov-08	83	12,266	6.75
11-Nov-08	101	13,179	6.73
12-Nov-08	90	11,000	6.73
13-Nov-08	90	13,108	6.73
31- 6 Nov- 08	440	61,601	6.744

Source: Central Bank of Kenya

Chart A: 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 13, 2008. Against the US dollar, the Shilling strengthened to exchange at an average of Ksh 77.12 compared with Ksh 78.65 per US dollar in the previous week. The strengthening of the Shilling against the US dollar was steered by positive sentiments amid reduced demand for the foreign currency (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US Dollar	Sterling Pound	Euro	Yen
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
7-Nov-08	76.44	119.76	97.40	78.43
10-Nov-08	76.15	119.83	97.79	76.91
11-Nov-08	76.61	120.13	97.63	78.19
12-Nov-08	77.31	119.15	97.04	79.13
13-Nov-08	79.09	118.82	98.78	82.42
Nov 07 - Nov 13, 2008	77.12	119.54	97.73	79.02

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 119.54, Ksh 97.73 and Ksh 79.02, respectively, compared with Ksh 126.29 per Sterling Pound, Ksh 100.61 per Euro and Ksh 79.38 per 100 Japanese Yen reported in the week ending November 05, 2008. 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 compared with the previous week.

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank increased by US dollar 2.9 million from US dollar 2,768.5 million (equivalent to 4.27 months of imports) as at November 13, 2007 to US dollar 2,771.4 million (equivalent to 3.64 months of imports) as at November 13, 2008. The lower imports coverage of foreign exchange reserves as at November 13, 2008 reflects a relatively larger import bill on account of the sharp rise in oil prices in the last three years. Meanwhile, foreign exchange reserves held by commercial banks rose to Ksh 1,646.1 million as at end October 2008 compared with Ksh 861.7 million as at end October 2007. Hence, globally, gross foreign exchange reserves stood at Ksh 4,436.2 million (equivalent to 5.58 months of imports) as at end of October 2008.

While official foreign exchange reserves are held to meet official external 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)

	13-Nov-07	24-Dec-07	31-Mar-08	30-Jun-08	31-Jul-08	29-Aug-08	30-Sep-08	31-Oct-08	13-Nov-08
Usable Reserves	2,768.5	2,789.6	3,285.1	3,300.2	3,288.2	3,151.5	3,085.7	2,790.1	2,771.4
Months of Imports Cover*	4.27	4.23	4.67	4.60	4.45	4.14	4.06	3.67	3.64
Months of Imports Cover**	3.29	3.51	3.88	3.67	3.66	3.43	3.35	3.03	3.01

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

**Based on current year's average imports of 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 3.9 billion daily from the market in the week ending November 12, 2008 in line with the desired reserve money target, but realized an average of Ksh 2.4 billion (Table 5).

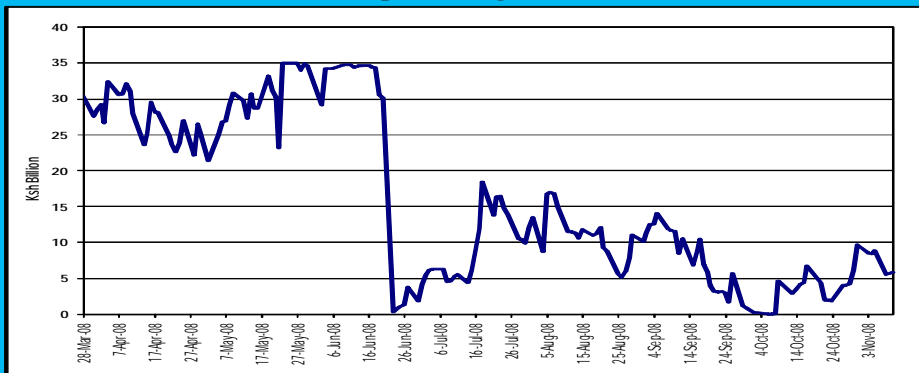
Table 5: Open Market Operations (Ksh Billion)

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
6-Nov										
7-Nov	165.6	156.7	8.9	5.5	3.8	-1.7	162.8	6.0	2.8	3.3
10-Nov	168.6	157.6	10.9	8.0	5.5	-2.5	162.7	5.1	1.8	3.3
11-Nov	162.5	157.6	4.9	1.5	0.2	-1.3	160.8	3.2	-0.1	3.3
12-Nov	160.2	157.6	2.5	0.5	0.1	-0.4	160.8	3.2	0.0	3.3
Average	164.2	157.4	6.8	3.9	2.4	-1.5	161.8	4.4	1.1	3.3

Source: Central Bank of Kenya

The Central Bank's Open Market Operations desk mopped Ksh 9.6 billion through repurchase agreement securities in the week ending November 12, 2008. During the week, the Central Bank redeemed maturing repo securities worth Ksh 12.6 billion. The stock of repo securities held by commercial banks therefore decreased from Ksh 8.9 billion on November 5, 2008 to Ksh 5.8 billion on November 12, 2008. The average reserve money in the week was Ksh. 161.8 billion, or Ksh 4.4 billion above target.

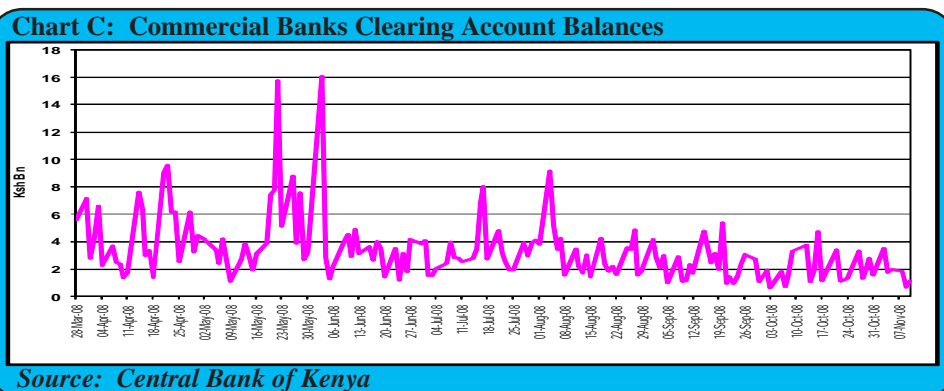
Chart B: Commercial Banks Repo Holdings



Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Accounts
Balances**

As shown in Chart C, the average commercial banks clearing account balances at the Central Bank decreased from Ksh 2.3 billion held in the previous week to Ksh 1.72 billion held in the week to November 12, 2008. This shows that banks are economising on their resources mainly on account of increasing confidence in the interbank market. Consistently, the volume of transactions in the interbank market is large.



**Government
Domestic
Debt**

Government gross domestic debt increased from Ksh 430.6 billion in June 2008 to Ksh 453.0 billion as at November 7, 2008 following planned domestic borrowing activities to finance the budget deficit (Table 6 and Chart D). However, as a proportion of GDP, domestic debt remained unchanged at about 21.1 percent during the period due to a proportionate growth in GDP. The rise in the debt during the period followed increases of Ksh 14.6 billion and Ksh 11.1 billion in Treasury bills (excluding Repos) and overdraft at the Central Bank of Kenya, respectively, which were partly offset by decreases of Ksh 0.2 billion and Ksh 3.1 billion in Treasury bonds and other domestic debt respectively during the period.

Treasury bills and overdraft at CBK increased from Ksh 76.8 billion and zero in June 2008 to Ksh 91.5 billion and Ksh 11.1 billion, respectively as at November 7, 2008. Despite the rise, the level of Government overdraft at CBK remained well within the authorized limit of Ksh 16.9 billion. However, Treasury bonds and other domestic debt decreased from Ksh 315.2 billion and Ksh 37.8 billion to Ksh 315.0 billion and Ksh 34.7 billion respectively during the period.

As a result of these developments, the share of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.4 percent as at November 7, 2008 while Treasury bills increased from 19.6 percent to 22.5 percent. Consequently, 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	31st Oct 08	7th Nov 08	Changes	
							31st Oct 08 - 7th Nov 08	30th Jun 08 - 7th Nov 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	90.4 22.3	91.5 22.5	1.1	14.6
2. Treasury Bonds (As % of total securities)	315.2 80.2	311.3 79.5	312.6 79.0	314.7 77.0	315.0 77.6	315.0 77.4	0.0	-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	0.0	0.0
4. Total Securities (1+2+3)	392.8	391.5	395.7	408.8	406.2	407.2	1.1	14.4
5. Overdraft at Central Bank	0.0	1.3	0.0	4.4	14.1	11.1	-3.0	11.1
6. Other Domestic debt*	37.8	35.3	37.2	37.6	34.9	34.7	-3.1	-3.1
7. Gross Domestic Debt (4+5+6)	430.6	428.1	432.9	450.8	455.1	453.0	-2.1	22.4
8. Interest payments on domestic debt (Cumulative in FY)	42.2	3.2	6.7	10.4	13.5	13.8	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

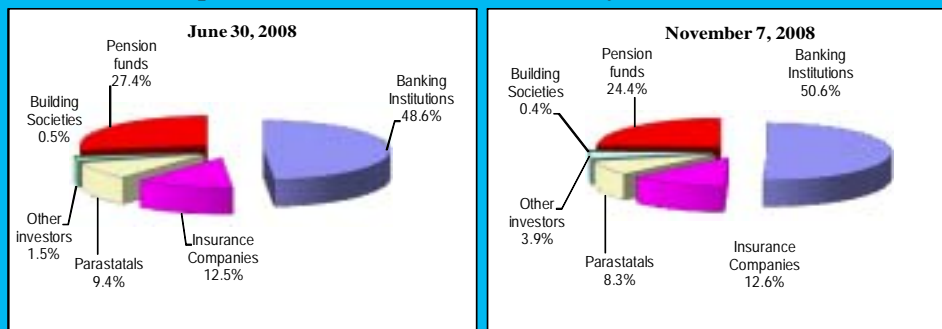
Chart D: Composition of Government Securities



Source: Central Bank of Kenya

The percentage 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 50.6 percent, 12.6 percent and 3.9 percent, respectively, as at November 7, 2008 (Chart E). However, holdings of the securities by parastatals, pension funds and building societies decreased from 9.4 percent, 27.4 percent and 0.5 percent to 8.3 percent, 24.4 percent and 0.4 percent respectively during the period.

Chart E: Composition of Government Securities by Investor

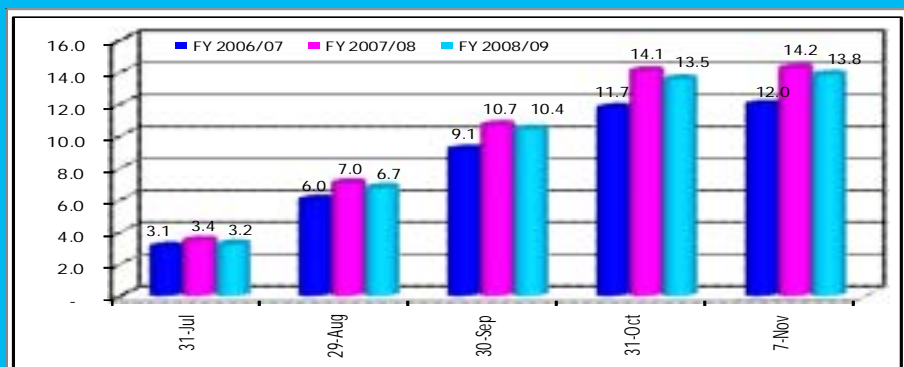


Source: Central Bank of Kenya

Cost of Domestic Borrowing

From July 1 to November 7, 2008, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 13.8 billion compared with Ksh 14.2 billion in a similar period in the fiscal year 2007/08 (Chart F). The interest cost on domestic debt during the period comprised Ksh 10.6 billion in interest and other charges on Treasury bonds, Ksh 3.0 billion in interest and other charges on Treasury bills, and Ksh 0.2 billion in interest on Government overdraft at Central Bank of Kenya. However, the Government’s capacity to service domestic debt increased during the period as the proportion of interest payments in ordinary revenue decreased from 9.7 percent to 9.6 percent.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

Performance at the equity market improved during the week ending November 13, 2008 as reflected by key market indicators. Equity turnover increased by 36.1 percent as stocks worth Ksh 1.4 billion were traded compared with Ksh 1.0 billion traded in the previous week boosted by the trading of Safaricom and KCB shares. The number of shares traded increased from 93.3 million traded in the previous week to 98.2 million shares traded in the week under review. Market capitalization, as a measure of total shareholders wealth, however, fell by 7.3 percent from Ksh 924.35 billion in the previous week to Ksh 856.4 billion in the week under review. The NSE 20 Share index gained 361.2 points to settle at 3,662.50 points on November 13, 2008 from 4,023.70 points on November 5, 2008. The Nairobi All Share Index also gained 6.1 points and closed at 77.1 points from 83.2 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	11th Sept 2008	18th Sept 2008	25th Sept 2008	2nd Oct 2008	8th Oct 2008	16th Oct 2008	23rd Oct 2008	30th Oct 2008	5th Nov 2008	13th Nov 2008
NASI 100= Jan 2008	92.22	84.76	90.42	87.74	82.18	77.61	71.01	63.96	83.19	77.11
NSE 20 Share Index 100=1966	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	3,662.50
Number of Deals	15,653	14,253	15,399	10,633	12,004	9,790	8,035	10,272	8,430	19,746
Total Shares Traded (millions)	90.82	145.89	157.34	46.90	103.40	79.60	43.57	63.08	93.26	98.21
Equity Turnover (Ksh. millions)	1,649	1,651	1,934	850	1,096	710	606	622	993	1,352
Market Capitalization (Ksh. Bn.)	1,013.12	953.21	998.40	972.92	911.33	860.65	787.08	708.69	924.35	856.42
Bonds Turnover (Ksh. millions)	2,344.00	2,674.00	1,913.40	652.70	981.70	1,554.15	272.00	1,538.05	1,098.10	843.15

* 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 76.7 million shares and accounted for 78.1 percent of total traded volume. Safaricom traded 71.7 million shares to be the most active stock in the sector. The Finance and Investment sector traded 11.4 million shares and accounted for 11.6 percent of traded volume. KCB traded 5.6 million shares to be the most active counter. Industrial and Allied sector traded 9.9 million shares and accounted for 10.0 percent of traded volume. Olympia capital and Eveready shares continued to be the most active counters and traded 4.6 and 2.0 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond market trading declined during the week as bonds worth Ksh 843.2 million were traded compared with Ksh 1098.1 million traded in the previous week (Table 7).