

**November 21, 2008**



### **THE CBK WEEKLY BULLETIN**

#### **Highlights for the Week**

The Government securities market posted a performance of 82.31 percent and 161.21 percent for the Treasury bills and Treasury bonds respectively during the auction of November 20, 2008. The Government had offered for sale Treasury bills worth Ksh 4.0 billion and received bids totalling Ksh 3.3 billion. Bids totalling Ksh 1.7 billion were accepted. During the same auction, Treasury bonds worth Ksh 5.0 billion were offered for sale and bids totalling Ksh 8.1 billion were received. The Government accepted bids totalling Ksh 5.4 billion. The average 91-day Treasury bills rate edged up 4.8 basis points from 8.522 percent in the previous week's auction to 8.570 percent during the auction while the average 182-day Treasury bills rate went up by 13.9 basis points from 8.964 percent in the previous week's auction to 9.103 percent. The average interest rate on the 1-year discounted zero coupon rate Treasury bonds edged up by 29.0 basis points from 9.653 percent for a bond of similar tenor issued in July 2008 to 9.943 percent during this week's auction.

The average interbank rate rose by 4 basis points from 6.74 percent in the previous week to 6.78 percent during the week ending November 20, 2008 with an increase in volumes transacted. The repo rate however, edged up 15 basis points to 6.41 percent from 6.26 percent in the previous week.

The Kenya Shilling weakened against the US dollar, the Euro and the Japanese Yen, but strengthened against the Sterling Pound during the week ending November 20, 2008. Against the US dollar, the Shilling exchanged at an average of Ksh 78.70 compared with Ksh 77.12 per US dollar in the previous week.

The Central Bank of Kenya holdings of official usable foreign exchange reserves stood at US dollar 2,680.8 million, equivalent to 3.37 months of imports as at November 20, 2008.

Central Bank's Open Market Operations desk mopped Ksh 7.1 billion from commercial banks using repo securities against redemptions of Ksh 8.3 billion during the week ending November 19, 2008. Net Government indebtedness to CBK has reduced from Ksh 5.1 billion in the week ending November 12, 2008 to 2.2 billion in the week ending November 19, 2008.

Government gross domestic debt increased from Ksh 430.6 billion in June 2008 to Ksh 451.6 billion as at November 14, 2008. However, as a percentage of GDP, domestic debt decreased from 21.1 percent to 20.7 percent during the period following a faster growth in GDP.

The equity market recorded subdued performance. Equity turnover fell by 41.9 percent owing to the drop in the number of shares traded and depressed prices across most counters. Consequently, the NSE 20 Share index fell 167.17 points to settle at 3,514.30 points on November 5, 2008 from 3,662.50 points on November 13, 2008.

**Government Securities Auction**

The Government securities market posted mixed performance during the Treasury bills and Treasury bonds auction of November 20, 2008. The Government had offered for sale Treasury bills worth Ksh 4.0 billion during the Treasury bills auction and received bids totalling Ksh 3.3 billion of which Ksh 2.3 billion were in 182 days Treasury bills.

During the same auction, the Government had offered for sale Treasury bonds worth Ksh 5.0 billion and received bids totalling Ksh 8.1 billion. The performance of the auction was therefore 82.31 percent and 161.21 percent for the Treasury bills and Treasury bonds, respectively.

During the Treasury bills auction the Government accepted bids totalling Ksh 1.7 billion of which Ksh 1.3 billion or 76.5 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 4.0 billion in the week. During the same auction, the Government had offered for sale 1-year discounted zero coupon rate Treasury bonds amounting to Ksh 5.0 billion. The Government accepted bids totalling Ksh 5.4 billion of which Ksh 4.9 billion or 90.7 percent were in competitive bids. Proceeds of the auction were to be used to provide the Government additional borrowing of Ksh 5.4 billion.

**Treasury bills interest rates**

The average 91-day Treasury bills rate edged up 4.8 basis points from 8.522 percent in the previous week's auction to 8.570 percent during the auction while the average 182-day Treasury bills rate went up by 13.9 basis points from 8.964 percent in the previous week's auction to 9.103 percent. Consequently, the 12-weeks moving average for the 91-day Treasury bills rate increased from 7.874 percent in the previous week to 7.943 percent while the 182-day Treasury bills rate increased from 8.335 percent to 8.415 percent.

**Treasury bonds interest rates**

The average interest rate on the 1-year discounted zero coupon rate Treasury bonds edged up during this week's auction. It increased by 29.0 basis points from 9.653 percent for a bond of similar tenor issued in July 2008 to 9.943 percent during this week's auction.

**Table 1 : Interest Rates**

Auction date	23-Oct-08	30-Oct-08	6-Nov-08	13-Nov-08	20-Nov-08
Average 91 day T. Bills	7.786	8.120	8.362	8.522	8.522
Average 182 day T. Bills	8.440	8.596	8.779	8.964	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

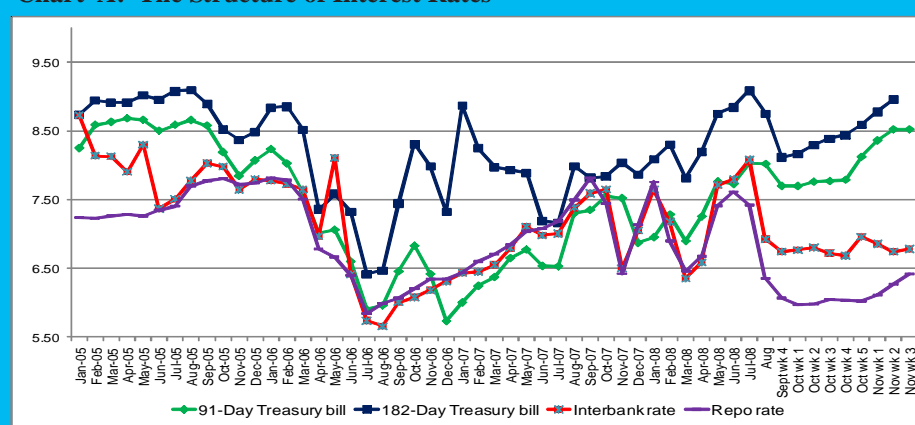
The average interbank rate rose by 4 basis points from 6.74 percent in the previous week to 6.78 percent during the week ending November 20, 2008 with an increase in volumes transacted as shown in Table 2. The repo rate, however, edged up 15 basis points to 6.41 percent from 6.26 percent in the previous week with an average volume of Ksh 3.9 billion being mopped down from Ksh 12.6 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 (%)
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
<b>24-30 Oct-08</b>	<b>440</b>	<b>61,601</b>	<b>6.746</b>
14-Nov-08	97	14,695	6.75
17-Nov-08	86	11,579	6.75
18-Nov-08	101	14,080	6.78
19-Nov-08	106	12,802	6.81
20-Nov-08	97	15,435	6.83
<b>31-6 Nov-08</b>	<b>487</b>	<b>68,591</b>	<b>6.784</b>

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 November 20, 2008 the Kenya Shilling weakened against the US dollar, the Euro and the Japanese Yen, but strengthened against the Sterling Pound. Against the US dollar, the Shilling exchanged at an average of Ksh 78.70 compared with Ksh 77.12 per US dollar in the previous week (Table 3). The weakening of the Shilling against the US dollar reflected large demand for foreign exchange and strengthening of the US dollar in the international foreign exchange market.

**Table 3: Kenya Shilling Exchange Rates**

	US Dollar	Sterling Pound	Euro	Yen
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
<b>Nov 07 - Nov 13, 2008</b>	<b>77.12</b>	<b>119.54</b>	<b>97.73</b>	<b>79.02</b>
14-Nov-08	79.89	118.23	101.42	82.38
17-Nov-08	78.12	115.04	98.19	80.56
18-Nov-08	78.54	117.68	98.91	81.33
19-Nov-08	78.46	117.29	99.07	81.20
20-Nov-08	78.48	117.40	98.06	82.42
<b>Nov 14 - Nov 20, 2008</b>	<b>78.70</b>	<b>117.13</b>	<b>99.13</b>	<b>81.58</b>

Source: Central Bank of Kenya

The Shilling weakened against the Euro and the Japanese Yen in the week under review to trade at an average of Ksh 99.13 and Ksh 81.58, respectively, compared with Ksh 97.73 per Euro and Ksh 79.02 per 100 Japanese Yen reported in the week ending November 13, 2008. However, the local currency strengthened against the Sterling Pound to exchange at an average of Ksh 117.13 compared with Ksh 119.54 per Sterling Pound 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 during the week ended November 20, 2008.

### Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank decreased by US dollar 28.1 million from US dollar 2,708.9 million (equivalent to 4.18 months of imports) as at November 19, 2007 to US dollar 2,680.8 million (equivalent to 3.37 months of imports) as at November 20, 2008. The lower imports coverage of foreign exchange reserves as at November 20, 2008, reflects a relatively larger import bill on account of the sharp rise in oil prices over the last three years.

Meanwhile, foreign exchange reserves held by commercial banks rose to US dollar 1,809.2 million as at end of October 2008 compared with US dollar 1,138.2 million as at end October 2007. The gross foreign exchange reserves stood at US dollar 4,735.0 million (equivalent to 5.83 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)**

	19-Nov-07	24-Dec-07	31-Mar-08	30-Jun-08	31-Jul-08	29-Aug-08	30-Sep-08	31-Oct-08	20-Nov-08
Usable Reserves	2,708.9	2,789.6	3,285.1	3,300.2	3,288.2	3,151.5	3,085.7	2,790.1	2,680.8
Months of Imports Cover*	4.18	4.23	4.67	4.60	4.45	4.14	4.06	3.67	3.37
Months of Imports Cover**	3.29	3.51	3.88	3.67	3.66	3.43	3.35	3.03	2.91

\*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 2.3 billion daily from the market in the week ending November 19, 2008 in line with the desired reserve money target, but realized an average of Ksh 1.4 billion (Table 5).

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

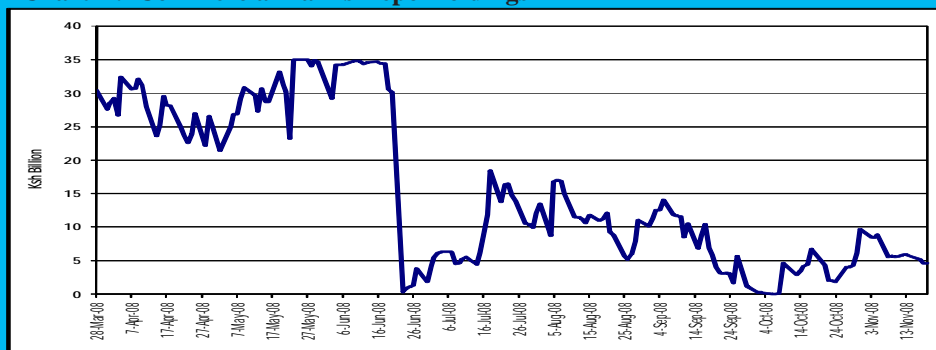
Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/Short(-)	Posted	Realised	Exc(+)/Short(-)	Actual	Exc(+)/Short(-)	Exc(+)/Short(-)	Exc(+)/Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
13-Nov	162.3	157.6	4.7	2.5	3.0	0.5	160.0	2.4	2.7	-0.3
14-Nov	160.6	157.6	3.0	2.5	0.0	-2.5	161.4	3.8	3.7	0.1
17-Nov	165.2	159.0	6.2	4.5	4.1	-0.4	161.6	2.6	3.5	-0.9
18-Nov	161.9	159.0	2.9	1.5	0.0	-1.5	161.7	2.7	3.0	-0.3
19-Nov	160.6	159.0	1.7	0.5	0.0	-0.5	160.7	1.8	2.3	-0.5
Average	162.1	158.4	3.7	2.3	1.4	-0.9	161.1	2.7	3.0	-0.4

\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

The Central Bank's Open Market Operations desk mopped Ksh 7.1 billion through repurchase agreement securities in the week ending November 19, 2008. During the week, the Central Bank redeemed maturing repo securities worth Ksh 8.3 billion. The stock of repo securities held by commercial banks therefore decreased from Ksh 5.8 billion on November 12, 2008 to Ksh 4.6 billion on November 19, 2008. The average reserve money in the week was Ksh. 161.1 billion, or Ksh 2.7 billion above target.

**Chart B: Commercial Banks Repo Holdings**

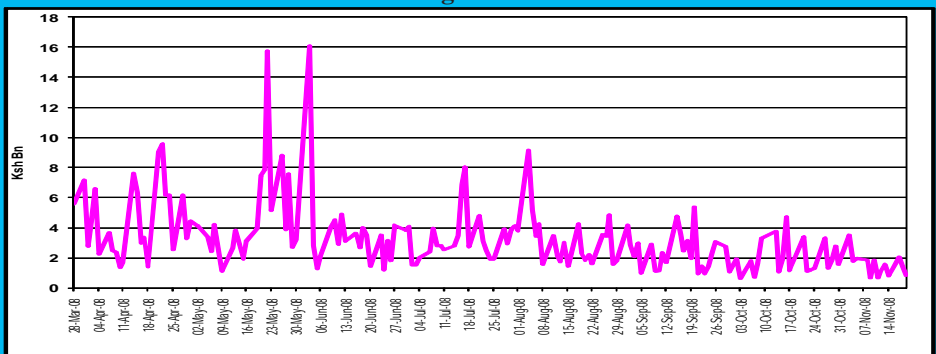


Source: Central Bank of Kenya

**Commercial  
Banks  
Clearing  
Accounts  
Balances**

As shown in Chart C, the average commercial banks clearing account balances at the Central Bank increased from Ksh 1.23 billion held in the previous week to Ksh 1.35 billion held in the week to November 19, 2008.

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



Source: Central Bank of Kenya

**Government Domestic Debt**

Due to planned domestic borrowing to finance the budget deficit, Government gross domestic debt increased from Ksh 430.6 billion in June 2008 to Ksh 451.6 billion as at November 14, 2008 (Table 6 and Chart D). However, as a percentage of GDP, domestic debt decreased from 21.1 percent to 20.7 percent during the period following a faster growth in GDP. Domestic debt increased by Ksh 21.0 billion during the period following increases of Ksh 15.5 billion and Ksh 8.6 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 2.9 billion in Treasury bonds and other domestic debt, respectively.

Treasury bills and overdraft at CBK increased from Ksh 76.8 billion and zero in June 2008 to Ksh 92.4 billion and Ksh 8.6 billion, respectively as at November 14, 2008. The level of Government overdraft at CBK remained well within the legal 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 34.9 billion, respectively, during the period.

Following these developments, the proportion of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.2 percent as at November 14, 2008, while Treasury bills increased from 19.6 percent to 22.6 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.

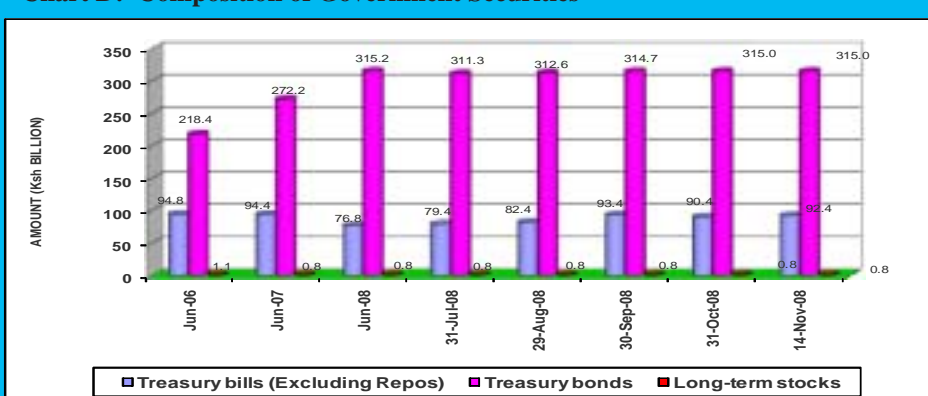
**Table 6: Government Domestic Debt (Ksh Billion)**

	Jun-08	29th Aug-08	30th Sept 08	31st Oct 08	14th Nov 08	Changes	
						31st Oct 08 - 14th Nov 08	30th Jun 08 - 14th Nov 08
1. Treasury Bills (Excluding Repos)	76.8	82.4	93.4	90.4	92.4	2.0	15.5
(As % of total securities)	19.6	20.8	22.8	22.3	22.6		
2. Treasury Bonds	315.2	312.6	314.7	315.0	315.0	0.0	-0.2
(As % of total securities)	80.2	79.0	77.0	77.6	77.2		
3. Long Term Stocks	0.8	0.8	0.8	0.8	0.8	0.0	0.0
(As % of total securities)	0.2	0.2	0.2	0.2	0.2		
4. Total Securities (1+2+3)	392.8	395.7	408.8	406.2	408.2	2.0	15.4
5. Overdraft at Central Bank	0.0	0.0	4.4	14.1	8.6	-5.5	8.6
6. Other Domestic debt*	37.8	37.8	36.0	34.5	34.9	-2.9	-2.9
7. Gross Domestic Debt (4+5+6)	430.6	433.6	449.3	454.7	451.6	-3.1	21.0
8. Interest payments on domestic debt (Cumulative in FY)	42.2	6.7	10.4	13.5	14.0	0.4	

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

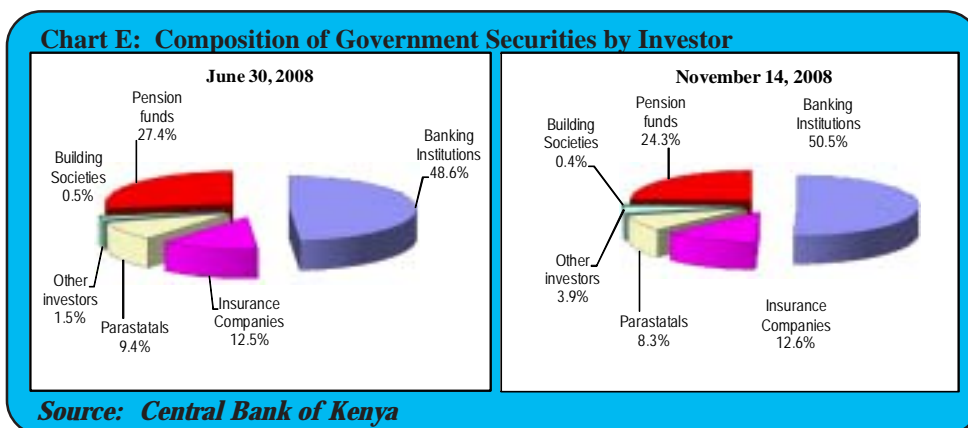
Source: Central Bank of Kenya

**Chart D: Composition of Government Securities**



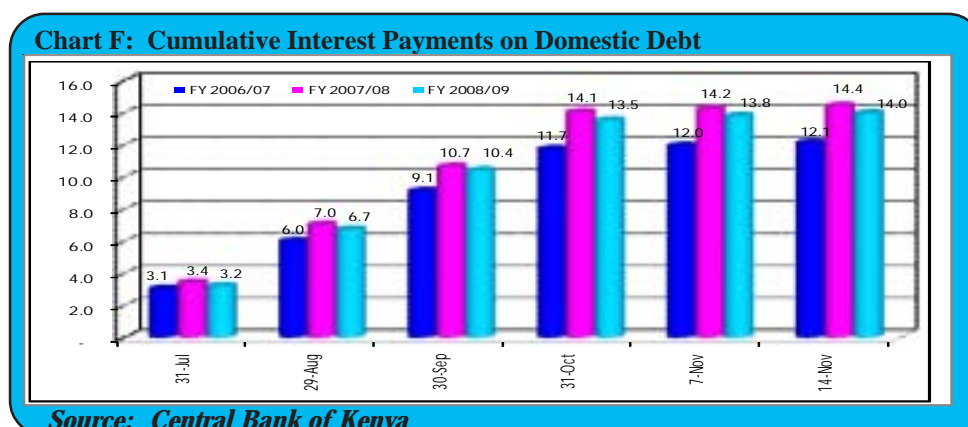
Source: Central Bank of Kenya

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 50.5 percent, 12.6 percent and 3.9 percent, respectively, as at November 14, 2008 (Chart E). However, holdings by parastatals, pension funds and building societies decreased from 9.4 percent, 27.4 percent and 0.5 percent to 8.3 percent, 24.3 percent and 0.4 percent respectively during the period.



### Cost of Domestic Borrowing

Cumulative Government expenditure on interest and other charges on domestic debt from July 1 to November 14, 2008 totaled Ksh 14.0 billion compared with Ksh 14.4 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 3.2 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 proportion of domestic interest payments in ordinary revenue decreased from 9.4 percent to 9.1 percent during the period reflecting increased capacity by the Government to service domestic debt.



### The Stock Market

There was subdued performance at the equity market during the week ending November 20, 2008 as reflected by key market indicators. Equity turnover declined by 41.9 percent as stocks worth Ksh 0.8 billion were traded compared with Ksh 1.4 billion in the previous week. The number of shares traded declined from 98.2 million in the previous week to 64.7 million shares in the week under review. Market capitalization, as a measure of total shareholders wealth declined by 2.9 percent from Ksh 856.42

billion in the previous week to Ksh 832.51 billion in the week under review. The NSE 20 Share index lost 167.17 points to settle at 3,514.30 points on November 20, 2008 from 3,662.50 points on November 13, 2008. The Nairobi All Share Index also lost 2.39 points and closed at 74.97 points from 77.36 points in the previous week (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	2nd Oct 2008	8th Oct 2008	16th Oct 2008	23rd Oct 2008	30th Oct 2008	5th Nov 2008	13th Nov 2008	20th Nov 2008
NASI 100= Jan 2008	87.74	82.18	77.61	71.01	63.96	83.19	77.11	74.97
NSE 20 Share Index 100=1966	4,180.34	3,979.12	3,767.46	3,459.33	3,175.49	4,023.70	3,662.50	3,514.30
Number of Deals	10,633	12,004	9,790	8,035	10,272	8,430	19,746	11,165
Total Shares Traded (millions)	46.90	103.40	79.60	43.57	63.08	93.26	98.21	64.69
Equity Turnover (Ksh. millions)	850	1,096	710	606	622	993	1,352	785
Market Capitalization (Ksh. Bn.)	972.92	911.33	860.65	787.08	708.69	924.35	856.42	832.51
Bonds Turnover (Ksh. millions)	652.70	981.70	1,554.15	272.00	1,538.05	1,098.10	843.15	412.25

\* 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 49.1 million shares and accounted for 75.9 percent of total traded volume. Safaricom traded 46.6 million shares to be the most active stock in the sector. The Finance and Investment sector traded 5.8 million shares and accounted for 8.9 percent of traded volume. KCB traded 2.7 million shares to be the most active counter. Industrial and Allied sector traded 9.2 million shares and accounted for 14.2 percent of traded volume. Olympia capital and Mumias shares were the most active counters and traded 6.1 and 1.1 million shares, respectively. The other sectors had minimal trading.

### Bond Market

Bond market trading declined during the week as bonds worth Ksh 412.3 million were traded compared with Ksh 843.2 million traded in the previous week.