

November 28, 2008



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted a performance of 128.1 percent during the Treasury bills auction of November 27, 2008. The Government had offered for sale Treasury bills worth Ksh 4.0 billion during the auction, received bids totalling Ksh 5.1 billion and accepted bids totalling Ksh 4.1 billion. As a result, the average 91-days Treasury bills rate edged up 5.3 basis points from 8.570 percent in the previous week's auction to 8.623 percent during this week's auction, while the average 182-days Treasury bills rate went up by 7.0 basis points from 9.103 percent in the previous week's auction to 9.173 percent.

The average interbank rate rose by 15 basis points from 6.78 percent in the previous week to 6.93 percent during the week ending November 27, 2008 with an increase in volumes transacted. The repo rate edged upwards, by 11 basis points to 6.47 percent from 6.36 percent in the previous week.

During the week ending November 27, 2008 the Kenya Shilling stabilised against the US dollar but weakened against the other major foreign currencies. Against the US dollar, the Shilling traded at an average of Ksh 78.71 compared with Ksh 78.70 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank decreased by US dollar 129.5 million from US dollar 2,849.0 million (equivalent to 4.12 months of imports) as at November 27, 2007 to US dollar 2,719.5 million (equivalent to 3.42 months of imports) as at November 27, 2008.

Central Bank's Open Market Operations mopped Ksh 3.9 billion worth of repurchase agreement securities from commercial banks and redeemed maturing securities worth Ksh 7.5 billion during the week ending November 26, 2008.

Government gross domestic debt increased from Ksh 430.6 billion (21.1 percent of GDP) in June 2008 to Ksh 450.8 billion (20.6 percent of GDP) on November 21 2008. Treasury bills increased from Ksh 76.8 billion in June 2008 to Ksh 93.3 billion, while Treasury bonds decreased from Ksh 315.2 billion to Ksh 315.0 billion in the same period. As a result, the maturity profile of Government securities declined from 3 years and 8 months to 3 years and 5 months during the same period. The cumulative Government expenditure on interest and other charges on domestic debt from July 1 to November 21, 2008 amounted to Ksh 15.0 billion of which Ksh 11.4 was in interest and other charges on Treasury bonds.

The equity market recorded subdued performance. Equity turnover fell by 16.7 percent owing to the drop in the number of shares traded and depressed prices across most counters. Consequently, the NSE 20 Share index fell 116.35 points to settle at 3,397.95 points on November 27, 2008 from 3,514.30 points on November 20, 2008.

Government Securities Auction

The Government securities market posted a performance of 128.1 percent during the Treasury bills auction of November 27, 2008. The Government had offered for sale Treasury bills worth Ksh 4.0 billion during the auction and received bids totalling Ksh 5.1 billion, of which Ksh 2.4 billion or 47.0 percent were in 182 days Treasury bills.

During the Treasury bills auction the Government accepted bids totalling Ksh 4.1 billion, or 80.4 percent of the bids received. Of the accepted bids, Ksh 3.3 billion, or 80.5 percent were in competitive bids. Compared with the cost of rolling over Treasury bills maturities totalling Ksh 4.3 billion in the week, the proceeds of the auction resulted to a net repayment of Ksh 0.2 billion.

Treasury bills interest rates

The average 91-days Treasury bills rate edged up 5.3 basis points from 8.570 percent in the previous week's auction to 8.623 percent during this week's auction, while the average 182-days Treasury bills rate went up by 7.0 basis points from 9.103 percent in the previous week's auction to 9.173 percent. As a result, the 12-weeks moving average for the 91-day Treasury bills rate increased from 7.943 percent in the previous week to 8.021 percent, while the 182-day Treasury bills rate increased from 8.415 percent to 8.508 percent.

Table 1 : Interest Rates

Auction date	23-Oct-08	30-Oct-08	6-Nov-08	13-Nov-08	20-Nov-08	27-Nov-08
Average 91 day T. Bills	7.786	8.120	8.362	8.522	8.570	8.523
Average 182 day T. Bills	8.440	8.596	8.779	8.964	8.103	9.173
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

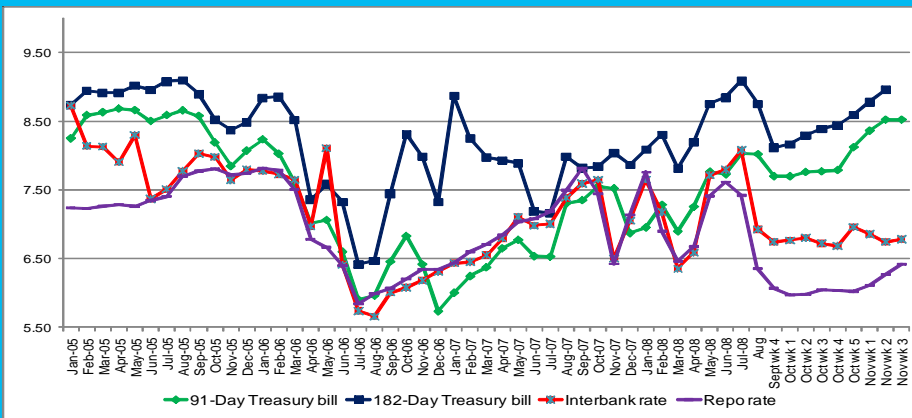
The average interbank rate rose by 15 basis points from 6.78 percent in the previous week to 6.93 percent during the week ending November 27, 2008 with an increase in volumes transacted. Interbank volumes increased from Ksh 68.6 billion in the previous week to Ksh 83.3 billion in the week under review (Table 2). The repo rate increased by 11 basis points to 6.47 percent from 6.36 percent in the previous week, with a volume of Ksh 2.9 billion being mopped down from Ksh 3.9 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 (%)
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
14- 20 Nov- 08	487	68,591	6.772
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
21- 27 Nov- 08	553	83,277	6.932

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 27, 2008 the Kenya Shilling stabilised against the US dollar but weakened against other major foreign currencies. Against the US dollar, the Shilling traded at an average of Ksh 78.71 compared with Ksh 78.70 per US dollar in the previous week (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US Dollar	Sterling Pound	Euro	Yen
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
Nov 14 - Nov 20, 2008	78.70	117.13	99.13	81.58
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
Nov 21- Nov 27, 2008	78.71	118.85	100.42	82.48

Source: Central Bank of Kenya

The Shilling weakened against the Sterling Pound, the Euro and the Japanese Yen in the week under review to exchange at an average of Ksh 118.85, Ksh 100.42 and Ksh 82.48, respectively, compared with Ksh 117.13 per Sterling Pound, Ksh 99.13 per Euro and Ksh 81.58 per 100 Japanese Yen reported in the previous week. In the international foreign exchange market, the US dollar weakened against the Sterling Pound, 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 129.5 million from US dollar 2,849.0 million (equivalent to 4.12 months of imports) as at November 27, 2007 to US dollar 2,719.5 million (equivalent to 3.42 months of imports) as at November 27, 2008. The lower imports coverage of foreign exchange reserves as at November 27, 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\$ 1,809.2 million as at end October 2008 compared with US\$ 1,138.2 million as at end October 2007. Globally, gross foreign exchange reserves stood

at US\$ 4,737.7 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)

	27-Nov-07	24-Dec-07	31-Mar-08	30-Jun-08	31-Jul-08	29-Aug-08	30-Sep-08	31-Oct-08	27-Nov-08
Usable Reserves	2,849.0	2,789.6	3,285.1	3,300.2	3,288.2	3,151.5	3,085.7	2,790.1	2,719.5
Months of Imports Cover*	4.12	4.23	4.67	4.60	4.45	4.14	4.06	3.67	3.42
Months of Imports Cover**	3.38	3.51	3.88	3.67	3.66	3.43	3.35	3.03	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

In the week ending November 26, 2008, the Central Bank sought to mop an average of Ksh 0.9 billion daily from the market in line with the desired reserve money target, but realized an average of Ksh 0.8 billion (Table 5).

Table 5: Open Market Operations (Ksh Billion)

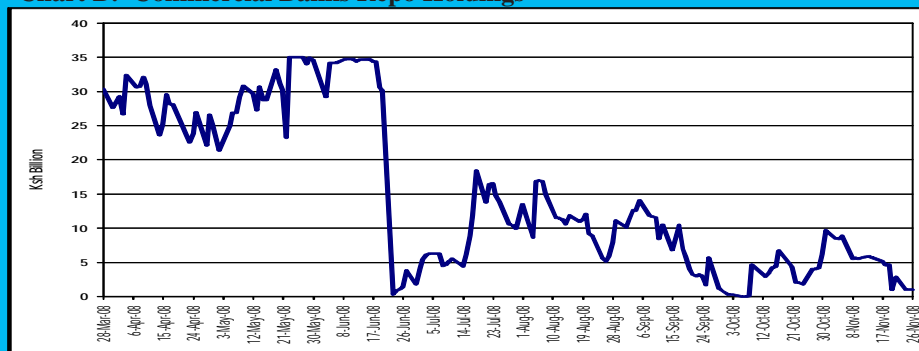
Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Realised	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
20-Nov	162.1	159.0	3.2	1.0	1.0	0.0	161.9	3.0	5.1	-2.1
21-Nov	161.0	159.0	2.1	2.0	1.9	-0.2	158.6	-0.3	1.8	-2.1
24-Nov	159.4	161.2	-1.8	1.0	1.0	0.0	159.2	-2.0	0.4	-2.4
25-Nov	157.5	161.2	-3.7	0.0	0.0	0.0	158.3	-2.9	-0.3	-2.6
26-Nov	157.3	161.2	-3.9	0.5	0.0	-0.5	159.3	-1.9	0.7	-2.6
Average	159.5	160.3	-0.8	0.9	0.8	-0.1	159.5	-0.8	1.6	-2.4

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Central Bank's Open Market Operations desk mopped Ksh 3.9 billion through repurchase securities agreements in the week ending November 26, 2008 and redeemed maturing securities amounting to Ksh 7.5 billion. The stock of repurchase agreement securities held by commercial banks therefore declined from Ksh 4.6 billion on November 19, 2008 to Ksh 1.0 billion on November 26, 2008. Average reserve money in the week was Ksh. 159.5 billion and was below the target by Ksh 0.8 billion.

Chart B: Commercial Banks Repo Holdings

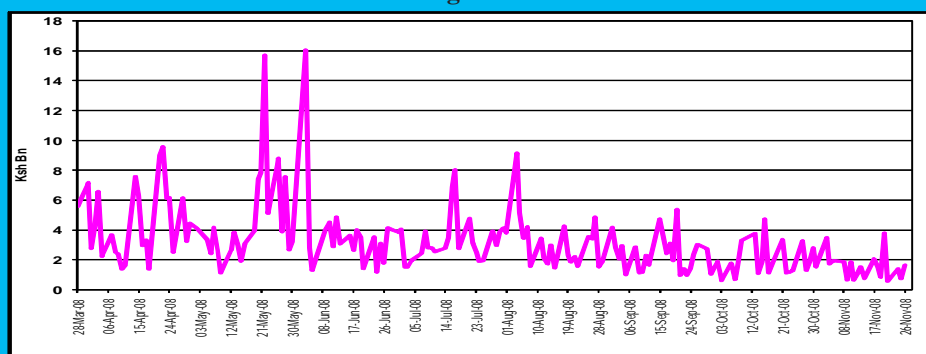


Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Accounts
Balances**

As shown in Chart C, the average commercial banks clearing account balances at the Central Bank was Ksh 1.7 billion in the week to November 26, 2008 compared with Ksh 1.4 billion held in the week to November 19, 2008.

Chart C: Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

**Government
Domestic
Debt**

Government gross domestic debt increased by Ksh 20.2 billion from Ksh 430.6 billion (21.1 percent of GDP) in June 2008 to Ksh 450.8 billion (20.6 percent of GDP) on November 21 2008 (Table 6 and Chart D). Domestic debt increased during the period as a result of increases of Ksh 16.4 billion and Ksh 4.9 billion in Treasury bills (excluding Repos) and overdraft at the Central Bank of Kenya, respectively. These increases were, however, marginally offset by decreases of Ksh 0.2 billion and Ksh 0.9 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 Ksh93.3 billion and Ksh 4.9 billion, respectively, on November 21, 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 36.9 billion, respectively, 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 77.0 percent on November 21, 2008 while that of Treasury bills increased from 19.6 percent to 22.8 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	21th Nov 08	Changes	
							31st Oct 08 21st Nov 08	30th Jun 08 21st Nov 08
1. Treasury Bills (Excluding Repos)	76.8	82.4	93.4	90.4	92.4	93.3	0.9	16.4
(As % of total securities)	19.6	20.8	22.8	22.3	22.6	22.8		
2. Treasury Bonds	315.2	312.6	314.7	315.0	315.0	315.0	0.0	-0.2
(As % of total securities)	80.2	79.0	77.0	77.6	77.2	77.0		
3. Long Term Stocks	0.8	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	0.2		
4. Total Securities (1+2+3)	392.8	395.7	408.8	406.2	408.2	409.0	0.9	16.3
5. Overdraft at Central Bank	0.0	0.0	4.4	14.1	8.6	4.9	-3.7	4.9
6. Other Domestic debt*	37.8	37.8	36.0	34.5	34.9	36.9	2.0	-0.9
7. Gross Domestic Debt (4+5+6)	430.6	433.6	449.3	454.7	451.6	450.8	-0.8	20.2
8. Interest payments on domestic debt (Cumulative in FY)	42.2	6.7	10.4	13.5	14.0	15.0	1.0	

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

Source: Central Bank of Kenya

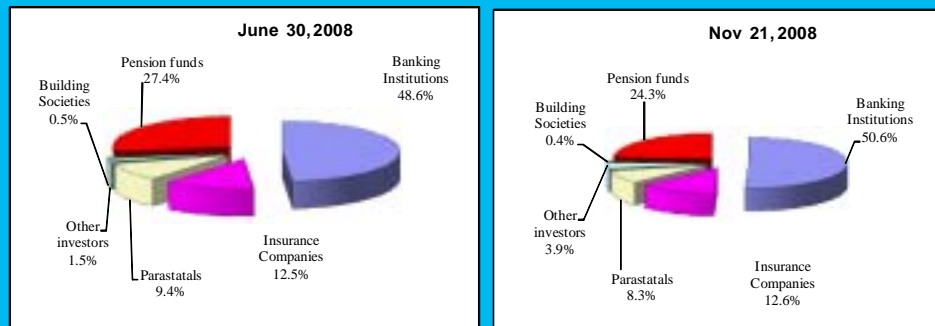
Chart D: Composition of Government Securities



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 50.6 percent, 12.6 percent and 3.9 percent, respectively, as at November 21, 2008. 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 (Chart E).

Chart E: Composition of Government Securities by Investor

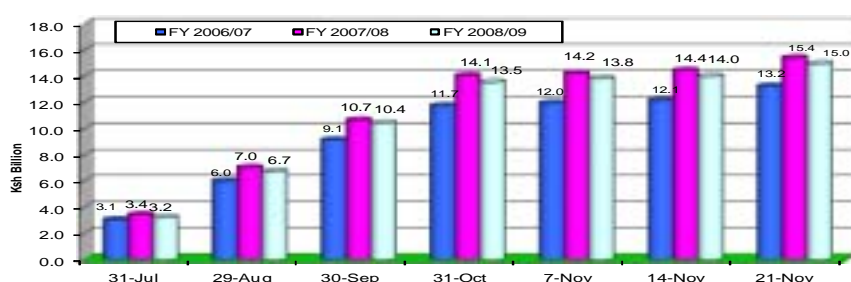


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt from July 1 to November 21, 2008 amounted to Ksh 15.0 billion compared with Ksh 15.4 billion in a similar period in the fiscal year 2007/08 (Chart F). The interest cost on domestic debt during the period comprised Ksh 11.4 billion in interest and other charges on Treasury bonds, Ksh 3.4 billion in interest and other charges on Treasury bills, and an amount of Ksh 0.2 billion in interest on Government stocks, Government overdraft at Central Bank of Kenya and Pre-1997 Government overdraft.

Chart F: 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 November 27, 2008 as reflected by key market indicators. Equity turnover declined by 16.7 percent with stocks worth Ksh 0.7 billion traded compared with Ksh 0.8 billion in the previous week. The number of shares traded declined from 64.7 million in the previous week to 51.9 million shares in the week under review. Market capitalization, as a measure of total shareholders wealth declined by 3.5 percent from Ksh 832.51 billion in the previous week to Ksh 803.38 billion in the week under review. The NSE 20 Share index lost 116.35 points to settle at 3,397.95 points on November 27, 2008 from 3,514.30 points on November 20, 2008. The Nairobi All Share Index also lost 3.00 points and closed at 72.35 points from 74.97 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
NASI 100= Jan 2008	82.18	77.61	71.01	63.96	83.19	77.11	74.97	72.35
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
Number of Deals	12,004	9,790	8,035	10,272	8,430	19,746	11,165	8,873
Total Shares Traded (millions)	103.40	79.60	43.57	63.08	93.26	98.21	64.69	51.99
Equity Turnover (Ksh. millions)	1,096	710	606	622	993	1,352	785	654
Market Capitalization (Ksh. Bn.)	911.33	860.65	787.08	708.69	924.35	856.42	832.51	803.38
Bonds Turnover (Ksh. millions)	981.70	1,554.15	272.00	1,538.05	1,098.10	843.15	412.25	377.20

* 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 38.2 million shares and accounted for 73.5 percent of total traded volume. Safaricom traded 35.8 million shares to be the most active stock in the sector. The Finance and Investment sector traded 7.3 million shares and accounted for 14.0 percent of traded volume. KCB traded 4.8 million shares to be the most active counter. Industrial and Allied sector traded 6.2 million shares and accounted for 11.9 percent of traded volume. Olympia capital and Mumias shares were the most active counters and traded 3.4 and 1.2 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond market trading declined during the week as bonds worth Ksh 377.2 million were traded compared with Ksh 412.3 million traded in the previous week.