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THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market recorded subdued performance of 34.4 percent during the Treasury bills auction of October 2, 2008 following tight liquidity conditions. The Government had offered for sale Treasury bills worth Ksh 4.5 billion during the auction and received bids totalling Ksh 1.55 billion. The Government accepted bids totalling Ksh 1.51 billion of which Ksh 689.0 million or 45.6 percent were in 91 days Treasury bills.

The average 91-day Treasury bills rate shed off 0.2 basis points from 7.697 percent in the previous week's auction to 7.695 percent while the average 182-day Treasury bills rate went up by 5.0 basis points from 8.117 percent in the previous week's auction to 8.167 percent. As a result, the 12-weeks moving average for the 91-day Treasury bills rate declined from 7.903 percent in the previous week to 7.882 percent while the 182-day Treasury bill rate declined from 8.563 percent to 8.491 percent.

Average interbank rate rose to 6.77 percent in the week ending October 2, 2008 from 6.74 percent the previous week. The Repo rate declined to 5.18 percent with a volume of Ksh 4.9 billion being mopped.

The Monetary Policy Committee (MPC) met on September 29, 2008. It decided to retain the Central Bank Rate (CBR) at 9 percent.

The Kenya Shilling weakened against the US dollar and the Japanese Yen but strengthened against the Sterling Pound and the Euro during the week ending October 02, 2008. Against the US dollar, the shilling exchanged at an average of Ksh 73.52 per US dollar compared with Ksh 72.91 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank of Kenya increased from US dollar 2,703.0 million (equivalent to 4.17 months of imports) as at October 02, 2007 to US dollar 3,086.0 million as at October 02, 2008 (equivalent to 4.06 months of imports).

Central Bank Open Market Operations desk mopped Ksh 5.5 billion from commercial banks and redeemed maturing securities worth Ksh 7.7 billion during the week ending September 30, 2008. The stock of repurchase agreement securities held by commercial banks, therefore, declined to Ksh 0.83 billion as at September 30, 2008.

Government gross domestic debt increased to Ksh. 441.1 billion on September 26, 2008 from Ksh 432.9 billion on August 29, 2008. During the same period the share of Treasury bonds in total Government securities fell from 79.0 percent to 77.5 percent resulting in a shorter average maturity profile of 3 years and 6 months. Cumulative Government expenditure on interest and other charges on domestic debt from July 1, 2008 to September 26, 2008 amounted to Ksh 9.8 billion compared to Ksh 10.5 billion reported in the same period of fiscal year 2007/08. The interest cost on domestic debt comprised Ksh 8.74 billion in interest and other charges and Ksh 1.02 billion in commissions to the Central Bank of Kenya.

There was subdued performance recorded at the equity market during the week ending October 2, 2008. Equity turnover declined by 56.0 percent with stocks worth Ksh 0.85 billion traded. The number of shares traded also declined from 157.3 million to 46.9 million shares. Market capitalization fell by Ksh 25.48 billion and the NSE 20 Share index dropped 86.04 points to settle at 4180.34 points on October 2, 2008 from 4266.38 points on September 25, 2008.

Inflation

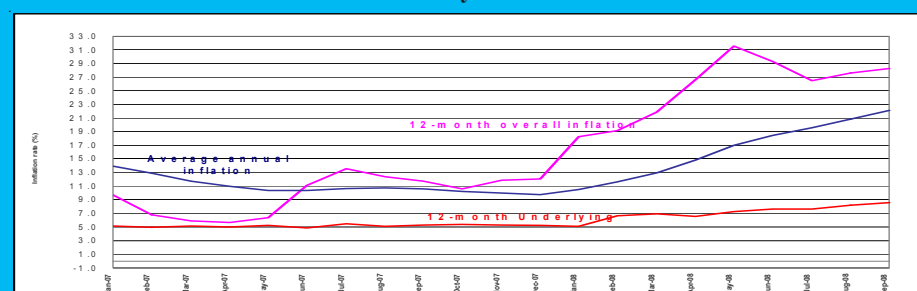
Month-on-month inflation increased from 27.6 percent in August 2008 to 28.3 percent in September 2008. Similarly, average annual overall inflation increased from 20.8 percent to 22.1 percent while inflationary pressures have generally been high since January 2008, inflation attained a high of 31.5 percent in May 2008 and has since generally tended to decline. The high inflation mainly reflects the adverse effects of high crude oil prices; exchange rate depreciation, higher foreign inflation; higher electricity costs and post election shocks.

Month-on-month underlying inflation increased from 8.2 percent in August 2008 to 8.6 percent in September 2008. Similarly, average annual underlying inflation increased from 6.45 percent to 6.72 percent. The increase in underlying inflation reflected increased inflation for 5 out of the 7 basket items whose price changes are considered in measuring underlying inflation. The 5 categories of goods and services that experienced higher inflation are: “housing”, “household goods and services”, “medical goods and services”, “recreation and education” and “personal goods and services”. Housing inflation has been increasing due to the acute shortage of houses, increased cost of building materials and rising cost of land.

All income groups have experienced double-digit inflation since January 2008. The “Nairobi lower income” group has been the hardest hit with inflation ranging between 10 percent and 35 percent. Inflation for the “rest of urban towns” has ranged between 18 percent and 31 percent, which is comparable to the “Nairobi lower income” group. The “Nairobi upper/middle income” group has been less hit with inflation ranging between 10 percent and 18 percent. The high incidence of inflation on “Nairobi lower income” group is explained by the fact that this income group spends a relatively larger share of its income on the food basket whose inflation has been the highest. On the other hand, the “Nairobi upper/middle income” group spends the lowest share on food items and hence, has not been severely affected.

Across the various baskets, four categories of goods and services have experienced double-digit inflation throughout between January and September 2008. These are “food and non-alcoholic drink”, “transport and communications”, “fuel and power”, and “alcohol and tobacco”. “Food and non-alcoholic drink” category has experienced the highest inflation, recording a low of 25 percent and a high of 44 percent between January and September 2008. Transport and communication inflation hit a low of 18 percent in August 2008 and a high of 21 percent in June 2008 while “fuel and power” recorded a low of 11 percent and a high of 32 percent in January 2008 and September 2008 respectively. Inflation for “alcohol and tobacco” category, though at double-digit with a low of 13 percent in January 2008 and a high of 16 percent in August 2008 was less pronounced compared

Chart A: Trends in Overall and Underly Inflation



Source: Central Bank of Kenya

to that of “food and non-alcoholic drink”, “transport and communications” and “fuel and power”.

The inflation outlook is positive due to the following factors: the importation of maize to fill current shortfalls; adverse effects of the post-election violence are waning; crude oil prices are declining in the world market and pump prices are gradually being lowered. Additionally, the expected rains between October and December 2008 will stimulate increased domestic production and supply of basic foodstuffs and boost hydro-based power generation, hence less reliance on use of diesel to generate power.

The risk factors for inflation however, include depreciation of the Kenya Shilling, high crude oil prices inspite of recent declines and the high inflation in Kenya’s major trading partners.

Government Securities Auction

The Government securities market recorded subdued performance of 34.4 percent during the Treasury bills auction of October 2, 2008 following tight liquidity conditions. The government had offered for sale Treasury bills worth Ksh 4.5 billion during the auction and received bids totalling Ksh 1.55 billion of which Ksh 708.6 million were in 91 days Treasury bills.

The Government accepted bids totalling Ksh 1.51 billion of which Ksh 689.0 million or 45.6 percent were in 91 days Treasury bills. Of the accepted bids, Ksh 1.1 billion or 73.3 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 1.5 billion in the week and, provide the Government with additional borrowing of Ksh 5.45 million.

Treasury bills interest rates

During this week’s Government securities auction the average 91-day Treasury bills rate shed off 0.2 basis points from 7.697 percent in the previous week’s auction to 7.695 percent. Meanwhile the average 182-day Treasury bills rate went up by 5.0 basis points from 8.117 percent in the previous week’s auction to 8.167 percent. As a result, the 12-weeks moving average for the 91-day Treasury bills rate declined from 7.903 percent in the previous week to 7.882 percent while the 182-day Treasury bill rate declined from 8.563 percent to 8.491 percent during the auction.

Table 1 : Interest Rates

Auction date	28-Aug-08	04-Sep-08	11-Sep-08	18-Sep-08	25-Sep-08
Average 91 day T. Bills	7.741	7.686	7.689	7.660	7.697
Average 182 day T. Bills	8.146	8.058	8.025	8.046	8.117
Month	Apr-08	May-08	Jun-08	Jul-08	Aug-08
Average savings rate	1.71	1.71	1.70	1.67	1.68
Average overdraft rate	13.46	13.53	13.30	13.49	13.11

Source: Central Bank of Kenya

Interbank and REPO

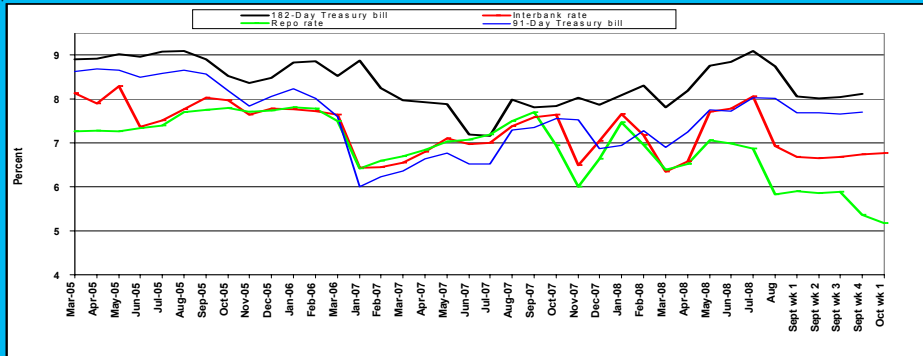
Average interbank rate rose by 3 basis points to 6.77 percent in the week ending October 2, 2008, from 6.74 percent the previous week. The interbank volumes fell from Ksh 77.3 billion in the previous week to Ksh 56.3 billion this week as liquidity tightened. The Repo rate declined by 18 basis points to 5.18 percent with a volume of Ksh 4.9 billion being mopped, up from Ksh 3.6 billion mopped in the previous week (Table 2 and Chart B).

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
19-Sep-08	90	14,813	6.68
22-Sep-08	94	13,899	6.70
23-Sep-08	99	18,386	6.70
24-Sep-08	95	14,423	6.79
25-Sep-08	98	15,781	6.81
19 - 25 Sep - 08	476	77,302	6.735
26-Sep-08	92	15,573	6.78
29-Sep-08	107	15,329	6.76
30-Sep-08	84	11,143	6.76
01-Oct-08			
02-Oct-08	85	14,292	6.78
26 Sep - 02 Oct - 08	368	56,337	6.767

Source: Central Bank of Kenya

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

The Central Bank Rate

The Monetary Policy Committee (MPC) met on September 29, 2008. It decided to retain the Central Bank Rate (CBR) at 9 percent.

The Shilling Exchange Rate

The Kenya Shilling weakened against the US dollar and the Japanese Yen but strengthened against the Sterling Pound and the Euro during the week ending October 02, 2008. The weakening of the Shilling against the US dollar was steered by increased demand for foreign exchange by importers amid limited inflows of foreign exchange (Table 3). Thus, against the US dollar, the Shilling exchanged at an average of Ksh 73.52 in the week under review, compared with Ksh 72.91 per US dollar in the week ending September 25, 2008.

Moreover, the Shilling weakened against the Japanese Yen to trade, on average, at Ksh 69.61 compared with Ksh 68.73 per 100 Japanese Yen in the previous week. However, the Shilling strengthened against the Sterling Pound and the Euro to exchange at Ksh 133.08 and Ksh 105.59 respectively, compared with Ksh 134.18 per Sterling Pound and Ksh 106.25 per Euro in the week ending September 25, 2008.

Table 3: Kenya Shilling Exchange Rates

	US Dollar	Sterling Pound	Euro	Yen
19-Sep-08	72.98	131.86	103.72	68.42
22-Sep-08	71.93	131.65	104.19	67.45
23-Sep-08	72.80	135.11	107.73	69.09
24-Sep-08	73.10	135.34	107.14	69.02
25-Sep-08	73.74	136.95	108.49	69.69
Sep 19 - 25, 2008	72.91	134.18	106.25	68.73
26-Sep-08	73.88	136.20	108.37	69.87
29-Sep-08	73.83	134.34	106.31	69.43
30-Sep-08	73.22	132.10	105.28	70.03
02-Oct-08	73.17	129.69	102.42	69.12
Sep 26 - Oct 02, 2008	73.52	133.08	105.59	69.61

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank of Kenya increased from US dollar 2,703.0 million (equivalent to 4.17 months of imports) as at October 02, 2007 to US dollar 3,086.0 million as at October 02, 2008 (equivalent to 4.06 months of imports). This represents a build up of usable reserves by US dollar 383.0 million over the past year (Table 4).

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

	31-Jul-07	24-Dec-07	31-Jan-08	29-Feb-08	31-Mar-08	30-Apr-08	30-May-08	30-Jun-08	31-Jul-08	29-Aug-08	30-Sep-08
Usable Reserves	2,688.3	2,789.6	3,388.5	3,346.0	3,295.1	3,242.4	3,265.1	3,300.2	3,288.2	3,151.5	3,085.7
Months of Imports Cover*	4.21	4.23	4.93	4.87	4.67	4.58	4.55	4.60	4.45	4.14	4.06
Months of Imports Cover**	3.47	3.51	4.07	4.02	3.88	3.83	3.84	3.67	3.66	3.43	3.35

*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 to September 30, 2008, Central Bank sought to mop Ksh 1.5 billion daily from the market in order to align reserve money to the target. The Bank realized an average of Ksh 1.4 billion as shown in Table 5.

Table 5: Open Market Operations (Ksh Billion)

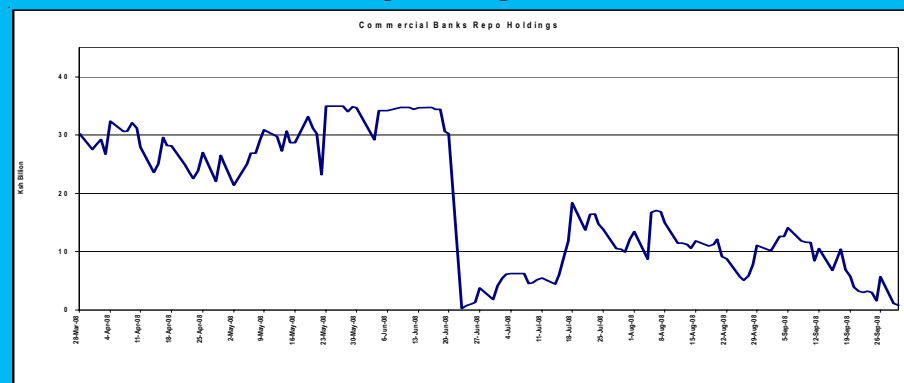
Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Realised	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
25-Sep	152.5	152.3	0.2	0.5	0.6	0.1	152.2	-0.1	1.5	-1.6
26-Sep	152.6	152.3	0.3	0.5	4.3	3.8	153.6	1.3	2.2	-0.9
29-Sep	154.6	152.3	2.3	3.0	0.6	-2.4	153.1	0.8	1.9	-1.1
30-Sep	153.4	152.3	1.1	2.0	0.0	-2.0	152.8	0.5	-1.3	1.7
Average	153.3	152.3	1.0	1.5	1.4	-0.1	152.9	0.6	1.1	-0.5

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

During the week ending September 30, 2008, the Central Bank's open market operations desk mopped Ksh 5.5 billion from the market through repurchase securities agreements against redemption in maturing securities worth Ksh 7.7 billion. As a result, the stock of repo securities holdings by commercial banks declined from Ksh 3.0 billion as at September 24, 2008 to Ksh 0.83 billion by September 30, 2008 (Chart C). Reserve money for the week ending September 30, 2008 averaged Ksh 152.9 billion and remained above the target by Ksh 0.6 billion.

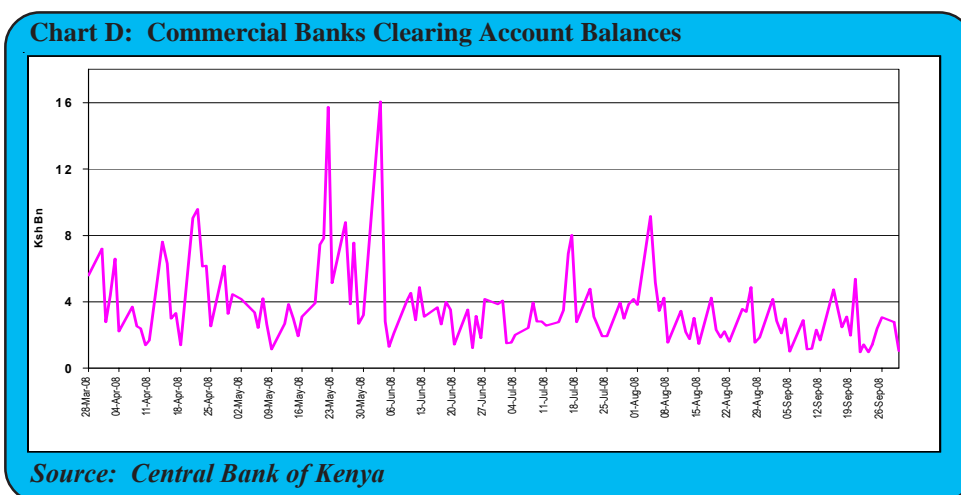
Chart C: Commercial Banks Repo Holdings



Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Accounts
Balances**

In the week ending September 30, 2008, average commercial banks clearing account balances was Ksh 2.1 billion compared with Ksh 2.6 billion held in the previous week as shown in Chart D.



**Government
Domestic
Debt**

Government gross domestic debt increased to Ksh. 441.1 billion on September 26, 2008 from Ksh 432.9 billion on August 29, 2008 (Table 4 and Chart E). The rise in domestic debt during the period is attributed to increases in Treasury bills (excluding Repos) of Ksh 7.2 billion and overdraft at the Central Bank of Ksh 3.9 billion which was partly offset by decreases in Treasury bonds of Ksh 2.0 billion and other domestic debt of Ksh 0.9 billion. Comparing June 30, 2008 with September 26, 2008 shows that Government domestic debt increased by Ksh 10.5 billion as a result of increases of Treasury bills (excluding Repos) of Ksh 12.7 billion, overdraft at the Central Bank of Ksh 3.9 billion, decreases of Treasury bonds of Ksh 4.6 billion and other domestic debt of Ksh 1.5 billion.

Treasury bills (excluding Repos) and overdraft at the Central Bank increased from Ksh 82.4 billion and virtually zero as at August 29, 2008 to Ksh 89.6 billion and Ksh 3.9 billion during the period. However, Treasury bonds decreased to Ksh 310.6 billion from Ksh 312.6 billion while long terms stocks remained unchanged from Ksh 0.8 billion (Chart D).

Following these developments the share of Treasury bonds in total Government securities fell from 79.0 percent to 77.5 percent while that of Treasury bills increased from 20.8 percent to 22.3 percent during the period. Also, the average maturity profile stood at 3years and 6 months.

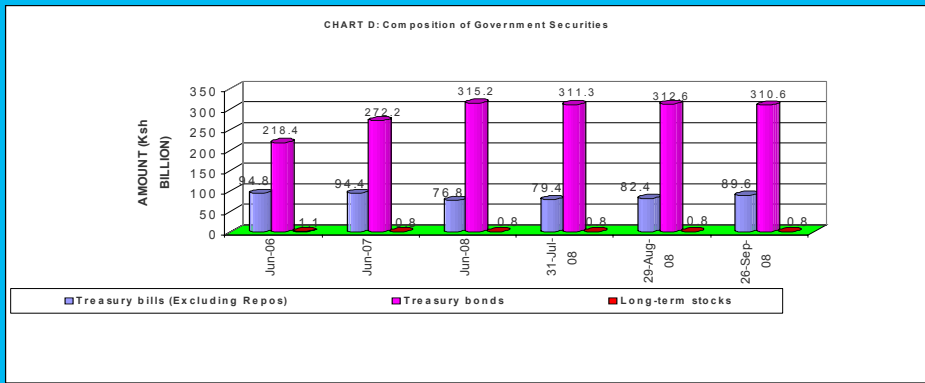
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-07	Dec-07	Jun-08	31st Jul-08	29th Aug-08	26th Sept 08	Changes	
							29th Aug 08 - 26th Sep 08	30th Jun 08 - 26th Sep 08
1. Treasury Bills (Excluding Repos) (As % of total securities)	94.4 25.7	90.8 22.9	76.8 19.6	79.4 20.3	82.4 20.8	89.6 22.3	7.2	12.7
2. Treasury Bonds (As % of total securities)	272.2 74.1	304.7 76.9	315.2 80.2	311.3 79.5	312.6 79.0	310.6 77.5	-2.0	-4.6
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)	367.4	396.3	392.8	391.5	395.7	400.9	5.2	8.1
5. Overdraft at Central Bank	0.0	2.0	0.0	1.3	0.0	3.9	3.9	3.9
6. Other Domestic debt*	37.3	39.8	37.8	35.3	37.2	36.3	-0.9	-1.5
7. Gross Domestic Debt (4+5+6)	404.7	438.1	430.6	428.1	432.9	441.1	8.2	10.5
8. Interest payments on domestic debt (Cumulative in FY)	36.9	20.9	42.2	3.2	6.7	9.8	3.0	

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

Source: Central Bank of Kenya

Chart E: Composition of Government Securities

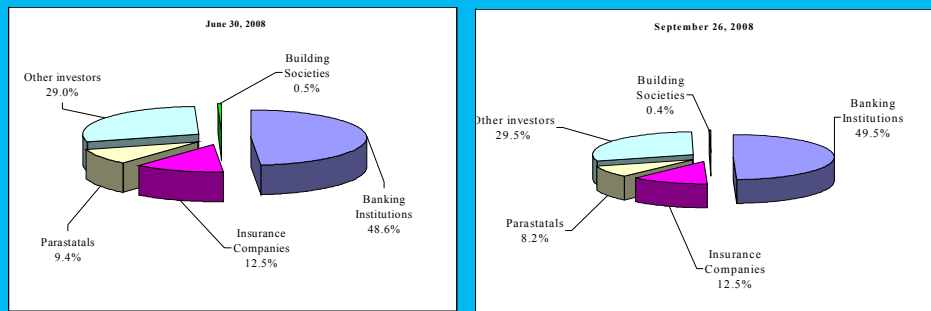


Source: Central Bank of Kenya

Cost of Domestic Borrowing

As shown in Chart F the proportion of bank investors in government securities stood at 49.5 percent on September 26, 2008 compared with 48.6 percent on June 30, 2008. Among the non-bank investors, parastatals and building societies posted declining shares of government securities from 9.4 percent and 0.5 percent to 8.2 percent and 0.4 percent, respectively. The share of government securities by insurance companies remained unchanged at 12.5 percent and that of other investors increased to 29.5 percent from 29.0 percent.

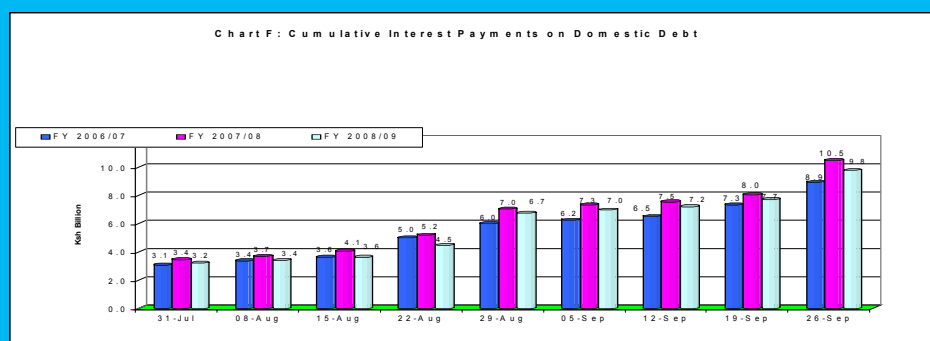
Chart E: Composition of Government Securities by Investor



Source: Central Bank of Kenya

Cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 9.8 billion as at September 26, 2008 compared with Ksh 10.5 billion reported in the same period of the fiscal year 2007/08 (Chart G). The interest cost on domestic debt during the period comprised of Ksh 8.74 billion in interest and other charges and Ksh 1.02 billion in commission to the Central Bank of Kenya.

Chart G: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was subdued performance in the equity market during the week ending October 2, 2008 as reflected in key market indicators. The number of shares traded fell from 157.3 million traded in the previous week to 46.9 million shares traded in the week under review. Equity turnover also declined by 56.0 percent as stocks worth Ksh 0.85 billion were traded compared with Ksh 1.93 billion traded in the previous week. Market capitalization, as a measure of total shareholders wealth declined by Ksh 25.5 billion from Ksh 998.4 billion in the previous week to Ksh 972.9 billion in the week under review. The NSE 20 Share index dropped 86.04 points to settle at 4180.34 points on October 2, 2008 from 4266.38 points on September 25, 2008. The Nairobi All Share Index closed at 87.74 points from 90.04 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	10th July 2008	17th July 2008	24th July 2008	31st July 2008	7th Aug 2008	14th Aug 2008	21st Aug 2008	28th Aug 2008	4th Sept 2008	11th Sept 2008	18th Sept 2008	25th Sept 2008	2nd Oct 2008
NASI 100=Jan 2008	108.27	108.13	105.98	103.27	99.35	95.78	100.35	98.41	96.52	92.22	84.76	90.42	87.74
NSE 20 Share Index 100=1966	5056.42	5058.89	4967.27	4868.27	4686.22	4609.13	4778.15	4665.03	4564.65	4348.61	4055.23	4266.38	4180.34
Number of Deals	34,057	28,564	26,634	26,665	20,934	19,208	20,921	19,349	15,474	15,653	14,253	15,399	10,633
Total Shares Traded (millions)	198.90	145.90	221.70	254.31	142.50	87.70	107.58	102.42	101.82	90.82	145.89	157.34	46.90
Equity Turnover (Ksh. millions)	2,627	2,127	5,258	2,943	1,726	1,230	1,623	2,278	1,538	1,649	1,651	1,934	850
Market Capitalization (Ksh. Bn.)	1,198.02	1,188.78	1,166.81	1,122.24	1,085.54	1,074.67	1,106.92	1,080.50	1,058.31	1,013.12	953.21	998.40	972.92
Bonds Turnover (Ksh. millions)	100.00	900.85	369.10	614.15	453.60	1,802.70	2,939.20	3,369.80	2,797.35	2,344.00	2,674.00	1,913.40	652.70

Source: Nairobi Stock Exchange

The commercial and services sector was the most active sector. It traded 33.1 million shares and accounted for 70.5 percent of total traded volume. Safaricom traded 30.8 million shares to be the most active stock in the market. The finance and investment sector traded 8.0 million shares and accounted for 17.0 percent of traded volume. Kenya Commercial Bank (KCB) traded 3.7 million shares while Barclays Bank traded 1.4 million shares to be the most active counters. Industrial and Allied sector traded 5.7 million shares and accounted for 12.1 percent of the traded volume. Mumias and KenGen shares were the most active counters and traded 3.4 and 1.0 million shares, respectively.

Trading at the bond market declined during the week as bonds worth Ksh 652.7 million were traded compared with Ksh 1913.4 million traded in the previous week.