

October 09, 2008



THE CBK WEEKLY BULLETIN

Highlights for the Week

The performance of the Government securities market improved during the Treasury bills auction of October 09, 2008. The Government had offered for sale Treasury bills worth Ksh 4.0 billion during the auction and received bids totalling Ksh 1.8 billion resulting in a performance of 44.5 percent compared with 34.4 percent in the previous week. The average 91-day Treasury bills rate increased from 7.695 percent in the previous week's auction to 7.758 percent while the average 182-day Treasury bills rate increased from 8.167 percent to 8.292 percent.

Average interbank rate rose from 6.77 percent in the previous week to 6.80 percent in the week ending October 8, 2008. The Repo rate rose to 5.45 percent with a volume of Ksh 0.1 billion being mopped.

During the week ending October 09, 2008, the Kenya Shilling strengthened against the US dollar, the Sterling Pound and the Euro, but weakened against the Japanese Yen. Against the US dollar, the Shilling exchanged at an average of Ksh 73.50 compared with Ksh 73.52 per US dollar reported in the previous week.

Official usable foreign exchange reserves held by the Central Bank of Kenya increased from US dollar 2,707.8 million (equivalent to 4.2 months of imports) as at October 09, 2007 to US dollar 2,970.7 million as at October 09, 2008 (equivalent to 3.9 months of imports).

Central Bank Open Market Operations desk mopped Ksh 45 million worth of repurchase agreement securities from commercial banks and redeemed maturing securities worth Ksh 829 million during the week ending 08 October 2008.

Government gross domestic debt increased from Ksh 430.6 billion in June 2008 to Ksh 450.8 billion as at September 30, 2008. However, domestic debt as a percentage of GDP remained unchanged at 21.1 percent during the period due to faster growth in GDP. During the first quarter of the fiscal year 2008/09, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 10.4 billion compared with Ksh 10.7 billion in a similar period in the fiscal year 2007/08. However, the percentage of the interest in ordinary revenue decreased from 10.5 percent to 9.8 percent during the period.

There was mixed performance at the equity market during the week ending October 8, 2008. The equity turnover increased by 28.9 percent with stocks worth Ksh 1.1 billion traded. The number of shares traded also rose from 46.9 million to 103.4 million shares.

Government Securities Auction

The performance of the Government securities market improved during the Treasury bills auction of October 9, 2008. The Government had offered for sale Treasury bills worth Ksh 4.0 billion during the auction and received bids totalling Ksh 1.8 billion resulting in a performance of 44.5 percent compared with 34.4 percent in the previous week. The subdued performance of the auction was partly due to a lower amount of rollovers compared with the offered amount as Treasury bills redemptions amounted to Ksh 1.86 billion.

The purpose of the auction was to raised funds to meet the cost of rolling over Treasury bills maturities in the week and provide the Government with additional borrowing of Ksh 2.14 billion. The Government accepted bids totalling Ksh 1.7 billion of which, Ksh 1.2 billion or 69.4 percent were in 182 days Treasury bills. In addition, competitive bids comprised 67.1 percent of the accepted bids.

Treasury bills interest rates

Interest rates on Treasury bills increased during the auction of October 9, 2008. The average 91-day Treasury bills rate edged up by 6.3 basis points from 7.695 percent in the previous week's auction to 7.758 percent, while the average 182-day Treasury bills rate increased by 12.5 basis points from 8.167 percent to 8.292 percent. However, the 12-weeks moving average for the 91-day Treasury bills rate fell from 7.882 percent in the previous week to 7.851 percent, while the 182-day Treasury bill rate declined from 8.491 percent to 8.420 percent.

Table 1 : Interest Rates

Auction date	11-Sep-08	18-Sep-08	25-Sep-08	2-Oct-08	9-Oct-08
Average 91 day T. Bills	7.689	7.660	7.697	7.695	7.758
Average 182 day T. Bills	8.025	8.046	8.117	8.167	8.292
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

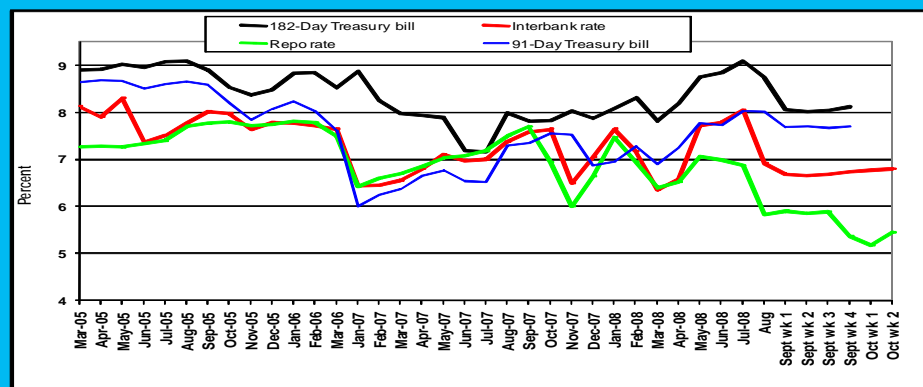
The average interbank rate rose by 3 basis points from 6.77 percent in the previous week to 6.80 percent in the week ending October 8, 2008. Interbank volumes rose from Ksh 56.3 billion in the previous week to Ksh 62.6 billion this week. On the other hand, the Repo rate rose by 27 basis points to 5.45 percent with a volume of Ksh 0.1 billion being mopped, down from Ksh 4.9 billion mopped in the previous week (Table 2 and Chart A)

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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	H O L I D A Y		
02-Oct-08	85	14,292	6.78
26 Sep -02 Oct- 08	368	56,337	6.767
03-Oct-08	99	15,498	6.79
06-Oct-08	87	15,911	6.81
07-Oct-08	95	14,951	6.82
08-Oct-08	94	16,190	6.84
3 Oct - 08 Oct- 08	375	62,550	6.812

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling depicted mixed performance in exchange against major foreign currencies during the week ending October 09, 2008. Against the US dollar, the shilling strengthened to trade at an average of Ksh 73.50 compared with Ksh 73.52 per US dollar in the previous week. Strengthening of the Shilling against the US dollar owed to steady foreign exchange inflows amid muted demand for the US dollar (Table 3).

Table 3: Kenya Shilling Exchange Rates

	U S Dollar	Sterling Pound	Euro	Yen
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
03-Oct-08	72.97	129.31	101.34	69.29
06-Oct-08	72.91	128.29	99.31	70.42
07-Oct-08	73.67	129.08	100.06	71.58
08-Oct-08	73.77	129.01	100.28	73.63
09-Oct-08	74.18	127.84	101.28	73.86
Oct 03 - Oct 09, 2008	73.50	128.71	100.45	71.75

Source: Central Bank of Kenya

Moreover, the Shilling strengthened against the Sterling Pound and the Euro in the week under review to trade, respectively, at an average of Ksh 128.71 and Ksh 100.45, compared with Ksh 133.08 per Sterling Pound and Ksh 105.59 per Euro in the previous week. However, the local currency weakened against the Japanese Yen to exchange on average at Ksh 71.75 compared with Ksh 69.61 per 100 Japanese Yen reported in the week ending October 02, 2008.

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank of Kenya increased from US dollar 2,707.8 million (equivalent to 4.2 months of imports) as at October 09, 2007 to US dollar 2,970.7 million as at October 09, 2008 (equivalent to 3.9 months of imports) (Table 4). This represents a build up of usable reserves by US dollar 262.9 million over the past year.

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

	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	09-Oct-08
Usable Reserves	3,388.5	3,346.0	3,285.1	3,242.4	3,266.1	3,300.2	3,288.2	3,151.5	3,085.7	2,970.7
Months of Imports Cover*	4.93	4.87	4.67	4.58	4.55	4.60	4.45	4.14	4.06	3.90
Months of Imports Cover**	4.07	4.02	3.88	3.83	3.84	3.67	3.66	3.43	3.35	3.23

*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

In the week to October 08, 2008, the Central Bank sought to mop Ksh 1.2 billion daily from the market using repurchase agreement securities in order to align reserve money to the desired path.

However, during the week ending October 08, 2008, the Central Bank's open market operations desk mopped only Ksh 45 million from the market through repurchase agreements securities against redemption of Ksh 829 million in maturing securities. As a result, the stock of repo securities held by commercial banks declined from Ksh 829 million on September 30, 2008 to Ksh 65 million on October 08, 2008 (Chart B). Reserve money for the week ending October 08, 2008 averaged Ksh 156.2 billion and was Kshs. 1.7 billion above the target (Table 5).

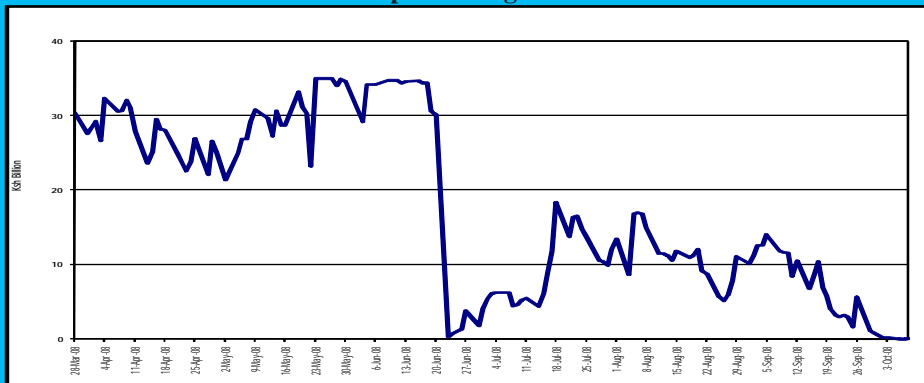
Table 5: Open Market Operations (Ksh Billion)

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(-)	
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
02-Oct	151.8	154.5	-2.7	0.0	0.000	0.0	155.6	1.0	1.2	-0.2
03-Oct	154.9	154.5	0.4	1.0	0.000	-1.0	154.8	0.3	0.0	0.3
06-Oct	156.1	154.5	1.6	1.5	0.020	-1.5	156.2	1.7	1.2	0.5
07-Oct	156.1	154.5	1.6	1.5	0.000	-1.5	156.8	2.3	0.2	2.1
08-Oct	156.7	154.5	2.2	2.0	0.045	-2.0	157.9	3.4	1.3	2.1
Average	155.1	154.5	0.6	1.2	0.013	-1.2	156.2	1.7	0.8	1.0

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

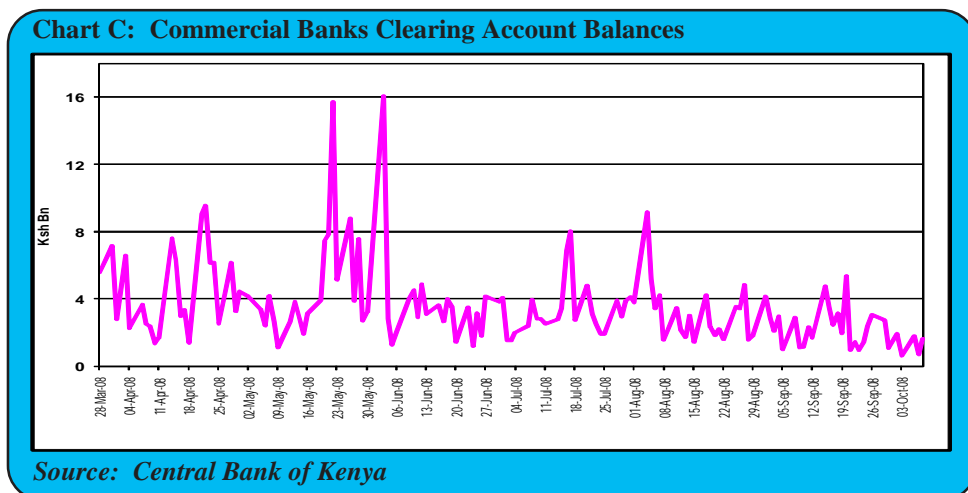
Chart B: Commercial Banks Repo Holdings



Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Accounts
Balances**

In the week ending October 08, 2008, average commercial banks clearing account balances was Ksh 1.3 billion compared with Ksh 2.1 billion held in the previous week as shown in Chart C.



**Government
Domestic
Debt**

The Government met its financing requirement for the first quarter of the fiscal year 2008/09. Consequently, Government gross domestic debt increased from Ksh 430.6 billion in June 2008 to Ksh 450.8 billion as at September 30, 2008 (Table 6 and Chart D). However, domestic debt as a percentage of GDP remained unchanged at 21.1 percent during the period due to a faster growth in GDP. Domestic debt increased during the period following increases of Ksh 16.5 billion and Ksh 4.4 billion in Treasury bills (excluding Repos) and overdraft at the Central Bank of Kenya (CBK), respectively. These increases were, however, partly offset by decreases of Ksh 0.5 billion and Ksh 0.3 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 93.4 billion and Ksh 4.4 billion respectively, as at September 30, 2008. Despite the rise, the level of Government overdraft at CBK remained well within the limit of Ksh 14.8 billion. However, Treasury bonds and other domestic debt decreased from Ksh 315.2 billion and Ksh 37.8 billion to Ksh 314.7 billion and Ksh 37.6 billion, respectively during the period. Outstanding long term stocks remained unchanged from Ksh 0.8 billion during the period.

As a result of the above developments, the percentage of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.0 percent as at September 30, 2008 while Treasury bills increased from 19.6 percent to 22.8 percent in the period. Consequently, the maturity profile of Government securities decreased from 3 years and 8 months to 3 years and 6 months during the period.

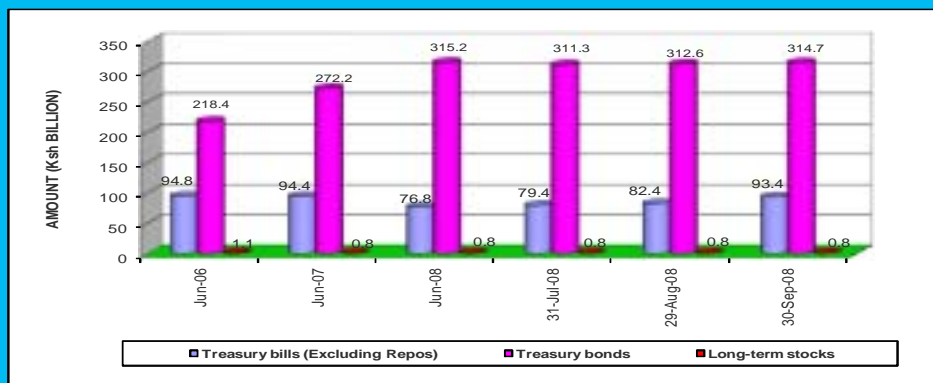
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Jul-08	29th Aug-08	30th Sept 08	Changes	
					29th Aug 08 - 30th Sep 08	30th Jun 08 - 30th Sep 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	10.9	16.5
2. Treasury Bonds (As % of total securities)	315.2 80.2	311.3 79.5	312.6 79.0	314.7 77.0	2.2	-0.5
3. Long Term Stocks (As % of total securities)	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.0	0.0
4. Total Securities (1+2+3)	392.8	391.5	395.7	408.8	13.1	16.0
5. Overdraft at Central Bank	0.0	1.3	0.0	4.4	4.4	4.4
6. Other Domestic debt*	37.8	35.3	37.2	37.6	0.4	-0.3
7. Gross Domestic Debt (4+5+6)	430.6	428.1	432.9	450.8	17.9	20.2
8. Interest payments on domestic debt (Cumulative in FY)	42.2	3.2	6.7	10.4	3.7	

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

Source: Central Bank of Kenya

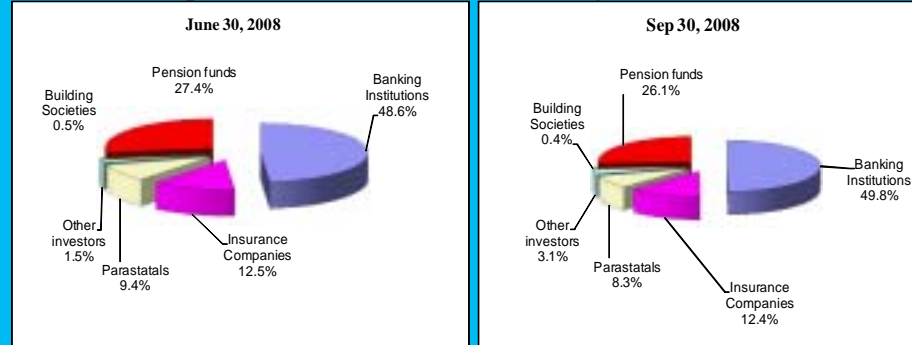
Chart D: Composition of Government Securities



Source: Central Bank of Kenya

Government securities holdings by commercial banks and other investors increased from 48.6 percent and 1.5 percent in June 2008 to 49.8 percent and 3.1 percent, respectively, as at September 30, 2008 (Chart E). However, holdings by parastatals, pension funds, building societies and insurance companies decreased from 9.4 percent, 27.4 percent, 0.5 percent and 12.5 percent to 8.3 percent, 26.1 percent, 0.4 percent and 12.4 percent, respectively during the period.

Chart E: Composition of Government Securities by Investor

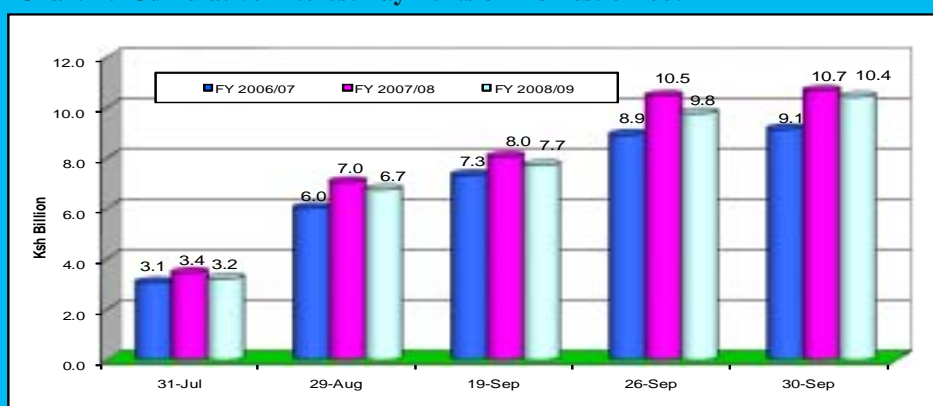


Source: Central Bank of Kenya

Cost of Domestic Borrowing

During the first quarter of the fiscal year 2008/09, the cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 10.4 billion compared with Ksh 10.7 billion in a similar period in the fiscal year 2007/08 (Chart F). The interest cost on domestic debt during the period comprised Ksh 7.9 billion in interest and other charges on Treasury bonds, Ksh 2.4 billion in interest and other charges on Treasury bills, and Ksh 0.1 billion in interest on Government overdraft at Central Bank of Kenya. However, the percentage of the interest in ordinary revenue decreased from 10.5 percent to 9.8 percent during the period following a faster growth in revenue. This is an indication that the Government's capacity to service domestic debt increased during the period.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was mixed performance recorded in the equity market during the week ending October 8, 2008 as reflected by key market indicators. The number of shares traded rose sharply from 46.9 million traded in the previous week to 103.4 million shares traded in the week under review. Equity turnover increased by 28.9 percent as stocks worth Ksh 1.1 billion were traded compared with Ksh 0.8 billion traded in the previous week. Market capitalization, as a measure of total shareholders wealth declined by Ksh 61.6 billion from Ksh 972.9 billion in the previous week to Ksh 911.3 billion in the week under review. The NSE 20 Share index dropped 201.22 points to settle at 3,979.12 points on October 8, 2008, from 4,180.34 points on October 2, 2008. The Nairobi All Share Index closed at 82.18 points from 87.74 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	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	8th Oct 2008
NASI 100= Jan 2008	99.35	95.78	100.35	98.41	96.52	92.22	84.76	90.42	87.74	82.18
NSE 20 Share Index 100=1966	4696.22	4609.13	4778.15	4665.03	4564.65	4348.61	4055.23	4266.38	4180.34	3979.12
Number of Deals	20,934	19,208	20,921	19,349	15,474	15,653	14,253	15,399	10,633	12,004
Total Shares Traded (millions)	142.50	87.70	107.58	102.42	101.82	90.82	145.89	157.34	46.90	103.40
Equity Turnover (Ksh. millions)	1,726	1,230	1,623	2,278	1,538	1,649	1,651	1,934	850	1,096
Market Capitalization (Ksh. Bn.)	1,095.54	1,074.67	1,106.92	1,080.50	1,058.31	1,013.12	953.21	998.40	972.92	911.33
Bonds Turnover (Ksh. millions)	453.60	1,802.70	2,939.20	3,359.80	2,797.35	2,344.00	2,674.00	1,913.40	652.70	865.20

* The Nairobi All Share Index (NASI) effected on February 25, 2008 - January 01, 2008 = 100

Source: Nairobi Stock Exchange

The Commercial and Services sector was the most active sector and traded 81.5 million shares and accounted for 84.5 percent of total traded volume. Safaricom traded 79.7 million shares to be the most active stock in the market. The Finance and Investment sector traded 7.1 million shares and accounted for 7.4 percent of traded volume. KCB traded 4.8 million shares while Kenya-Re traded 0.6 million shares to be the most active counters. Industrial and Allied sector traded 7.5 million shares and accounted for 7.8 percent of the traded volume. Mumias and KenGen shares were the most active counters and traded 5.0 and 0.8 million shares, respectively.

Trading at the bond market improved during the week as bonds worth Ksh 865.2 million were traded compared with Ksh 652.7 million traded in the previous week.