

**October 17, 2008**



### **THE CBK WEEKLY BULLETIN**

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

The Government securities market recorded improved performance rate of 65.7 percent during the Treasury bills auction of October 16, 2008 compared to a performance rate of 44.5 percent in the previous week.

During this week's Government securities auction, the average 91-day Treasury bills rate increased from 7.758 percent in the previous week's auction to 7.767 percent. Meanwhile, the average 182-day Treasury bills rate increased from 8.292 percent in the previous week's auction to 8.391 percent.

Average interbank rate dropped to 6.72 percent in the week ending October 16, 2008 from 6.80 percent the previous week. The Repo rate also fell by 1 basis point to 5.44 percent with a volume of Ksh 7.3 billion being mopped.

During the week ending October 16, 2008, the Kenya Shilling weakened against all major foreign currencies. Against the US dollar, the Shilling weakened to exchange at an average of Ksh 75.37 compared with Ksh 73.50 per US dollar reported in the previous week.

Official usable foreign exchange reserves held by the Central Bank of Kenya increased from US dollar 2,709.4 million (equivalent to 4.2 months of imports) as at October 16, 2007 to US dollar 2,952.7 million as at October 16, 2008 (equivalent to 4 months of imports).

The Central Bank's Open Market Operations desk mopped Ksh 8.8 billion worth of repurchase agreement securities from commercial banks and redeemed maturing securities worth Ksh 4.6 billion during the week ending October 15, 2008. This resulted into an increase of commercial banks holding of repo stocks amounting to Ksh 4.2 billion by October 15, 2008.

Government gross domestic debt decreased by Ksh 0.1 billion from Ksh 450.8 billion on September 30, 2008 to Ksh. 450.7 billion on October 9, 2008. The cumulative Government expenditure on interest and other charges on domestic debt as at October 9, 2008 amounted to Ksh 10.48 billion, of which Ksh 7.93 billion was in interest on Treasury bonds and Ksh 2.55 billion on interest and other charges on Treasury bills.

There was subdued performance in the equity market during the week ending October 16, 2008. Equity turnover decreased by 35.2 percent as stocks worth Ksh 0.7 billion were traded. The number of shares traded declined from 103.4 million traded in the previous week to 79.6 million shares traded in the week under review.

**Government Securities Auction**

The Government securities market recorded improved performance with subscriptions of 65.7 percent during the Treasury bills auction of October 16, 2008 compared to 44.5 percent during the 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 2.63 billion, of which Ksh 1.62 billion was in 182 days Treasury bills.

The Government accepted bids totalling Ksh 2.15 billion, of which Ksh 1.44 billion or 67.0 percent were in competitive bids. Also, of the total accepted bids, Ksh 1.14 billion or 53.0 percent were in 182 days Treasury bills. Proceeds of the auction were to be used to meet the cost of rolling over and redeeming Treasury bills maturities totalling Ksh 3.35 billion in the week.

**Treasury bills interest rates**

During this week's Government securities auction the average 91-day Treasury bills rate went up by 0.9 basis points from 7.758 percent in the previous week's auction to 7.767 percent. (Table 1) The average 182-day Treasury bills rate went up by 9.9 basis points from 8.292 percent in the previous week's auction to 8.391 percent. However, the 12-weeks moving average for the 91-day Treasury bills rate declined from 7.851 percent in the previous week to 7.813 percent, while the 182-day Treasury bill rate declined from 8.420 percent to 8.354 percent.

**Table 1 : Interest Rates**

Auction date	18-Sep-08	25-Sep-08	2-Oct-08	9-Oct-08	16-Oct-08
Average 91 day T. Bills	7.660	7.697	7.695	7.758	7.767
Average 182 day T. Bills	8.046	8.117	8.167	8.292	8.391
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 Rates**

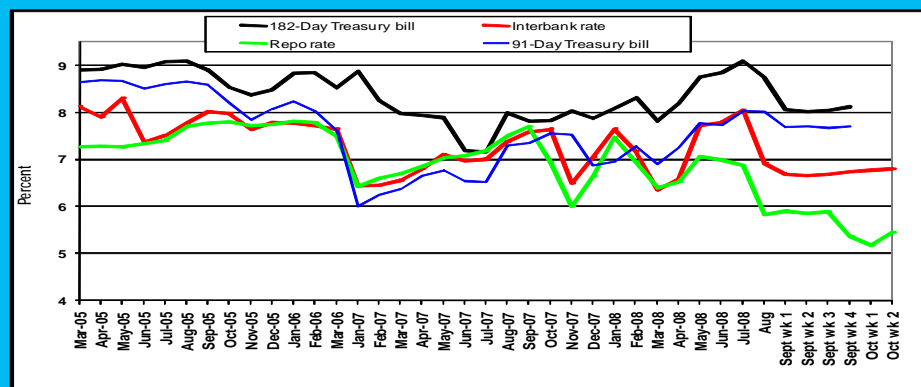
The average interbank rate dropped by 8 basis points to 6.72 percent in the week ending October 16, 2008 from 6.80 percent the previous week. The interbank volumes dropped from Ksh 62.6 billion in the previous week to Ksh 61.8 billion this week. The Repo rate dropped by 1 basis point to 5.44 percent with a volume of Ksh 7.3 billion being mopped, up from Ksh 0.1 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 (%)
3-Oct-08	99	15,498	6.79
6-Oct-08	87	15,911	6.81
7-Oct-08	95	14,951	6.82
8-Oct-08	94	16,190	6.84
9-Oct-08	HOLIDAY		
<b>3 Oct - 08 Oct- 08</b>	<b>375</b>	<b>62,550</b>	<b>6.812</b>
13-Oct-08	77	13,693	6.71
14-Oct-08	94	15,895	6.70
15-Oct-08	92	16,253	6.73
16-Oct-08	105	15,948	6.73
<b>13- 16 Oct- 08</b>	<b>368</b>	<b>61,789</b>	<b>6.719</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 October 16, 2008, the Kenya Shilling weakened against all major foreign currencies. Against the US dollar, the Shilling weakened to exchange at an average of Ksh 75.37 compared with Ksh 73.50 per US dollar in the previous week. The weakening of the Shilling against the US dollar was driven by increased demand for the foreign currency that outweighed its supply as commercial banks moved to cover their short positions (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US Dollar	Sterling Pound	Euro	Yen
3-Oct-08	72.97	129.31	101.34	69.29
6-Oct-08	72.91	128.29	99.31	70.42
7-Oct-08	73.67	129.08	100.06	71.58
8-Oct-08	73.77	129.01	100.28	73.63
9-Oct-08	74.18	127.84	101.28	73.86
<b>Oct 03 - Oct 09, 2008</b>	<b>73.50</b>	<b>128.71</b>	<b>100.45</b>	<b>71.75</b>
13-Oct-08	74.33	127.35	101.17	74.03
14-Oct-08	75.97	132.62	103.84	74.10
15-Oct-08	75.59	131.80	102.90	74.29
16-Oct-08	75.59	130.40	101.48	75.50
<b>Oct 13 - Oct 16, 2008</b>	<b>75.37</b>	<b>130.54</b>	<b>102.35</b>	<b>74.48</b>

Source: Central Bank of Kenya

Moreover, the Shilling weakened against the Sterling Pound, the Euro and the Japanese Yen in the week under review to trade on average, at Ksh 130.54, Ksh 102.35 and Ksh 74.48, respectively, compared with Ksh 128.71 per Sterling Pound, Ksh 100.45 per Euro and Ksh 71.75 per 100 Japanese Yen reported in the week ending October 9, 2008.

**Foreign Exchange Reserves**

Official usable foreign exchange reserves held by the Central Bank of Kenya increased from US dollar 2,709.4 million (equivalent to 4.2 months of imports) as at October 16, 2007 to US dollar 2,952.7 million as at October 16, 2008 (equivalent to 4 months of imports)(Table 4). This represents a build up of usable reserves by US dollar 243.3 million over the past year.

**Monetary  
Policy  
Operations**

**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	16-Oct-08
Usable Reserves	3,388.5	3,346.0	3,285.1	3,242.4	3,265.1	3,300.2	3,288.2	3,151.5	3,085.7	2,952.4
Months of Imports Cover*	4.9	4.9	4.7	4.6	4.6	4.6	4.5	4.1	4.1	4.0
Months of Imports Cover**	4.1	4.0	3.9	3.8	3.8	3.7	3.7	3.4	3.4	3.2

\*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

The Central Bank sought to mop a daily average of Ksh 4.6 billion from the market in the week ending October 15, 2008 in line with the desired reserve money target but realized a daily average of Ksh 2.2 billion as shown in Table 5.

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

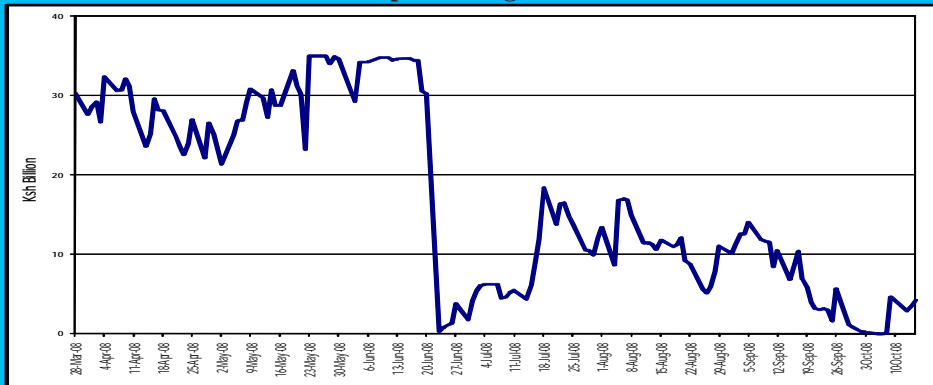
Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast (1)	Target (2)	Exc(+)/ Short(-) 3=(2-1)	Posted (4)	Realised (5)	Exc(+)/ Short(-) 6=(5-4)	Actual (8)	Exc(+)/ Short(-) 9=(10+11)	Exc(+)/ Short(-) 10	Exc(+)/ Short(-) 11
9-Oct	160.1	154.5	5.6	3.5	4.6	1.1	159.9	5.4	3.3	2.1
10-Oct	HOLIDAY									
13-Oct	163.8	155.0	8.8	7.0	2.9	-4.1	160.2	5.2	3.3	1.9
14-Oct	160.5	155.0	5.6	5.5	0.6	-4.9	157.7	2.7	0.8	1.9
15-Oct	157.7	155.0	2.8	2.5	0.7	-1.8	157.0	2.0	1.3	0.7
Average	160.5	154.8	5.7	4.6	2.2	-2.4	158.7	3.8	2.2	1.7

\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

A total of Ksh 8.8 billion was mopped up from the market through the Bank's Open Market Operations in the week ending October 15, 2008. With Ksh 4.6 billion repos maturing during the week, the level of commercial banks' repo holdings increased from Ksh 65 million as at October 8, 2008 to Ksh 4.2 billion by October 15, 2008. (Chart B) Average reserve money in the week was Ksh 158.7, billion being Ksh 3.8 billion above target.

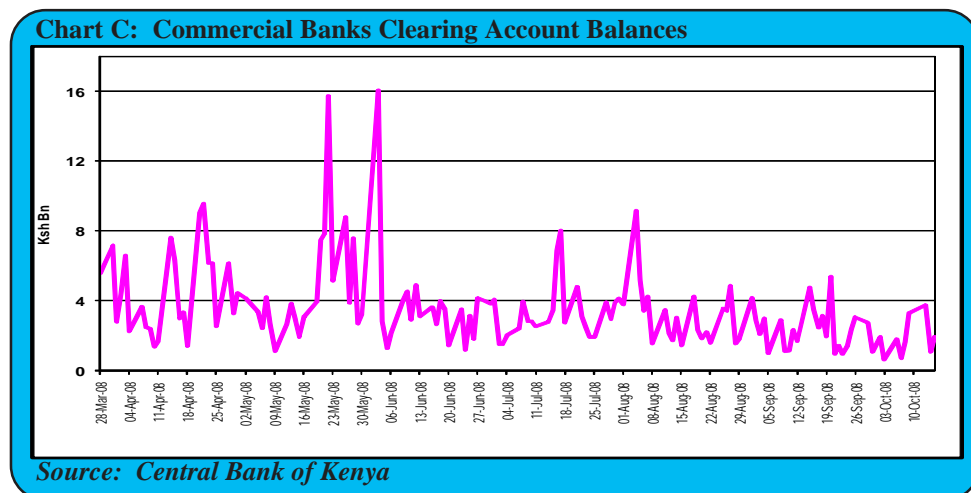
**Chart B: Commercial Banks Repo Holdings**



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 rose from Ksh 1.3 billion held in the week to October 8, 2008 to Ksh 2.5 billion in the week to October 15, 2008.



**Government  
Domestic  
Debt**

Government gross domestic debt decreased by Ksh 0.1 billion to Ksh 450.7 billion on October 9, 2008 from Ksh 450.8 billion on September 30, 2008 (Table 6 and Chart D). The fall in domestic debt during the period is attributed to a decrease of other domestic debt by Ksh 0.7 billion, which was partly offset by an increase of Treasury bills (excluding Repos) worth Ksh 0.6 billion. A comparison of government domestic debt as at June 30, 2008 and October 9, 2008 shows an increase of Ksh 20.1 billion. This is as a result of increases of Treasury bills and overdraft at the Central Bank amounting to Ksh 17.1 billion and Ksh 4.4 billion, respectively, with a marginal offsetting effect of Ksh 1.4 billion arising from Treasury bonds and other domestic debt.

The Treasury bills (excluding Repos) and overdraft at the Central Bank increased from Ksh 76.8 billion and zero as at June 30, 2008 to Ksh 93.9 billion and Ksh 4.4 billion as at October 9, 2008. The Treasury bonds and other domestic debt decreased to Ksh 314.7 billion and Ksh 37.8 billion from Ksh 315.2 billion and Ksh 36.9 billion, respectively. However, long term stocks remained unchanged at Ksh 0.8 billion (Table 6 and Chart D). Following these developments, the share of Treasury bonds in total Government securities fell from 80.2 percent on June 30, 2008 to 76.9 percent on October 9, 2008, while that of Treasury bills increased from 19.6 percent to 22.9 percent during the same period. This resulted in shortening of the average maturity of government securities from 3 years and 8 month in June 2008 to 3 years and 6 months, which is not consistent with the government debt management strategy of lengthening the maturity profile of these instruments.

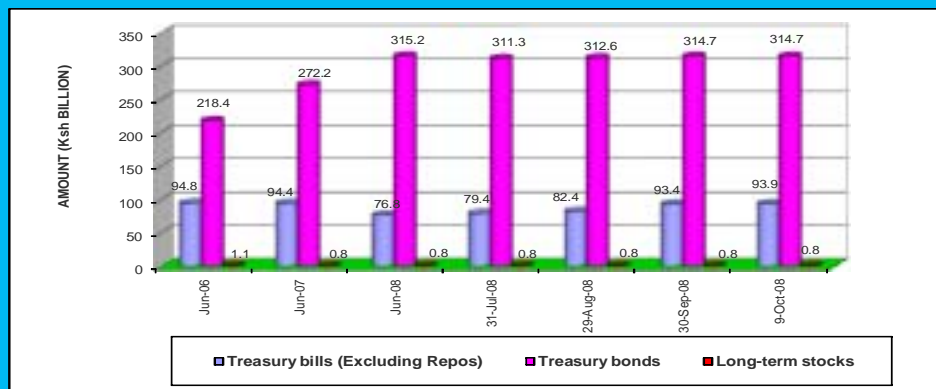
**Table 6: Government Domestic Debt (Ksh Billion)**

	Jun-08	31st Jul-08	29th Aug-08	30th Sept 08	9th Oct 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	93.9 22.9	0.6	17.1
2. Treasury Bonds (As % of total securities)	315.2 80.2	311.3 79.5	312.6 79.0	314.7 77.0	314.7 76.9	0.0	-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	0.8 0.2	0.0	0.0
4. Total Securities (1+2+3)	392.8	391.5	395.7	408.8	409.4	0.6	16.6
5. Overdraft at Central Bank	0.0	1.3	0.0	4.4	4.4	0.0	4.4
6. Other Domestic debt*	37.8	35.3	37.2	37.6	36.9	-0.7	-0.9
7. Gross Domestic Debt (4+5+6)	430.6	428.1	432.9	450.8	450.7	-0.1	20.1
8. Interest payments on domestic debt (Cumulative in FY)	42.2	3.2	6.7	10.4	10.5	0.1	

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

Source: Central Bank of Kenya

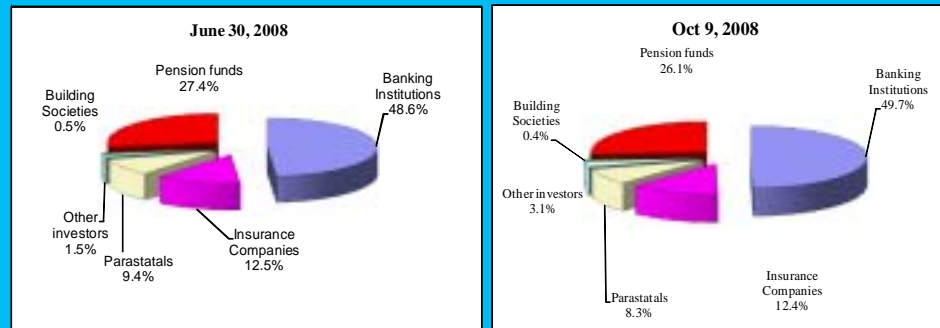
**Chart D: Composition of Government Securities**



Source: Central Bank of Kenya

The share of the banking institutions in government securities holdings increased from 48.6 percent on June 30, 2008 to 49.7 percent on October 9, 2008. Among the non-banking investors, all the categories of investors, except other investors posted lower shares of government securities holdings. The shares of pension funds, building societies, parastatals and insurance companies declined to 26.1 percent, 0.4 percent, 8.3 percent and 12.4 percent, respectively, by October 9, 2008 (Chart E).

**Chart E: Composition of Government Securities by Investor**

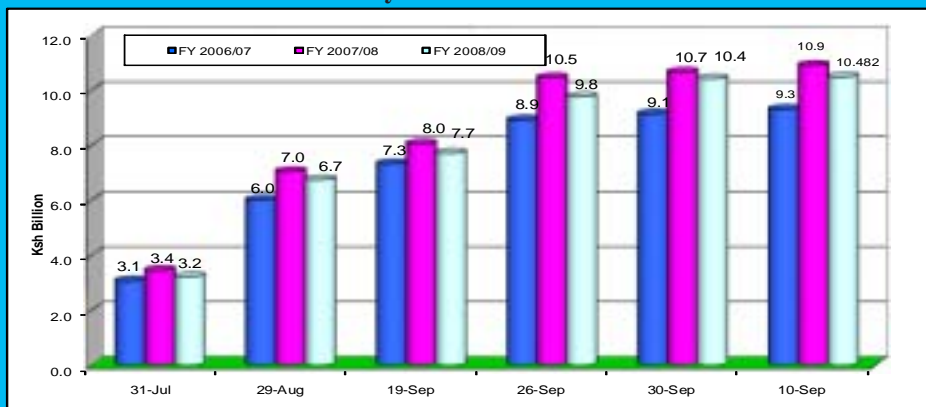


Source: Central Bank of Kenya

## Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at October 9, 2008 amounted to Ksh 10.5 billion compared with Ksh 10.9 billion reported in the same period of fiscal year 2007/08 (Chart F). The interest cost on domestic debt during the period comprised of interest worth Ksh 7.93 billion on Treasury bonds and Ksh 2.55 billion on interest and other charges on Treasury bills and Government overdraft at the Central Bank.

**Chart F: 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 16, 2008 as reflected by the key market indicators. The number of shares traded declined from 103.4 million traded in the previous week to 79.6 million shares traded in the week under review. Equity turnover decreased by 35.2 percent as stocks worth Ksh 0.7 billion were traded compared with Ksh 1.1 billion traded in the previous week. Market capitalization, as a measure of total shareholders wealth declined by Ksh 50.68 billion from Ksh 911.3 billion in the previous week to Ksh 860.7 billion in the week under review. The NSE 20 Share index dropped 211.66 points to settle at 3,767.46 points on October 16, 2008 from 3,979.12 points on October 8, 2008. The Nairobi All Share Index closed at 77.61 points down from 82.18 points in the previous week (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	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	16th Oct 2008
NASI 100= Jan 2008	95.78	100.35	98.41	96.52	92.22	84.76	90.42	87.74	82.18	77.61
NSE 20 Share Index 100=1966	4609.13	4778.15	4665.03	4564.65	4348.61	4055.23	4266.38	4180.34	3979.12	3767.46
Number of Deals	19,208	20,921	19,349	15,474	15,653	14,253	15,399	10,633	12,004	9,790
Total Shares Traded (millions)	87.70	107.58	102.42	101.82	90.82	145.89	157.34	46.90	103.40	79.60
Equity Turnover (Ksh. millions)	1,230	1,623	2,278	1,538	1,649	1,651	1,934	850	1,096	710
Market Capitalization (Ksh. Bn.)	1,074.67	1,106.92	1,080.50	1,058.31	1,013.12	953.21	998.40	972.92	911.33	860.65
Bonds Turnover (Ksh. millions)	1,802.70	2,939.20	3,359.80	2,797.35	2,344.00	2,674.00	1,913.40	652.70	981.70	1,554.15

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

Source: Nairobi Stock Exchange

The Commercial and Services sector was the most active sector. It traded 66.6 million shares and accounted for 83.6 percent of total traded volume. Safaricom traded 64.8 million shares to be the most active stock in the

market. The Finance and Investment sector traded 8.0 million shares and accounted for 10.1 percent of traded volume. KCB traded 5.0 million shares while Barclays bank traded 1.2 million shares to be the most active counters. Industrial and Allied sector traded 4.9 million shares and accounted for 6.2 percent of the traded volume. Mumias and KenGen shares were the most active counters and traded 3.2 and 0.7 million shares, respectively.

Trading at the bond market improved during the week as bonds worth Ksh 1,554.2 million were traded compared with Ksh 981.7 million traded in the previous week.