

October 24, 2008



THE CBK WEEKLY BULLETIN

Highlights for the Week

Performance of the Government securities market was subdued during the Treasury bills and Treasury bonds auction of October 23, 2008. The performance was 40.6 percent and 67.5 percent for Treasury bills and Treasury bonds, respectively.

During the auction, the average 91-day Treasury bills rate edged up from 7.767 percent in the previous week's auction to 7.786 percent during the auction of October 23, 2008. The average 182-day Treasury bills rate edged up from 8.391 percent in the previous week's auction to 8.440 percent. Similarly, the average interest rate on the 5-year discounted fixed rate Treasury bonds increased from 10.860 percent for a bond of similar tenor issued in August 2008 to 11.549 percent.

The average interbank rate dropped to 6.69 percent in the week ending October 23, 2008 from 6.72 percent in the previous week. The Repo rate also declined by 23 basis points to 5.29 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 23, 2008. Against the US dollar, the Shilling weakened to trade at an average of Ksh 77.85 compared with Ksh 75.37 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank increased from US dollar 2,719.7 million (equivalent to 4 months of imports) as at October 23, 2007 to US dollar 2,894.9 million as at October 23, 2008 (equivalent to 4 months of imports).

Central Bank Open Market Operations desk mopped Ksh 7.9 billion from commercial banks and redeemed maturing securities worth Ksh 10.2 billion during the week ending October 22, 2008. The stock of repurchase agreement securities held by commercial banks, declined to Ksh 2.0 billion on October 22, 2008.

Government gross domestic debt increased from Ksh 430.6 billion in June 2008 to Ksh 450.4 billion as at October 17, 2008 following planned domestic borrowing. Cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 10.6 billion for the period July 1 to October 17, 2008 compared with Ksh 11.3 billion in a similar period in the fiscal year 2007/08.

The equity market recorded subdued performance during the week ending October 23, 2008. Equity turnover decreased by 14.7 percent as stocks worth Ksh 0.6 billion were traded compared with Ksh 0.7 billion traded in the previous week. The NSE 20 Share index dropped 308.13 points to settle at 3459.33 points on October 23, 2008 from 3767.46 points on October 16, 2008.

Government Securities Auction

The performance of the Government securities market was subdued during the Treasury bills and Treasury bonds auction of October 23, 2008. The Government offered for sale Treasury bills worth Ksh 4.0 billion during the Treasury bills auction but received bids totalling Ksh 1.62 billion. During the same auction, the Government offered for sale Treasury bonds totalling Ksh 7.0 billion and received bids totalling Ksh 4.73 billion. The performance of the auctions was therefore 40.6 percent and 67.5 percent for Treasury bills and Treasury bonds, respectively. These performance was partly attributed to fewer rollovers as Treasury bills and bonds redemptions amounted to Ksh 7.5 billion compared with the offered total amount of Ksh 11.0 billion.

Proceeds of the Treasury bills auction were to be used to meet the cost of rolling over Treasury bills maturities totalling Ksh 3.5 billion in the week and provide the Government with additional borrowing of Ksh 0.5 billion. The Government accepted bids totalling Ksh 1.53 billion, of which Ksh 1.1 billion or 71.9 percent were in competitive bids.

During the same auction, the Government offered for sale 5-year discounted fixed coupon Treasury bonds amounting to Ksh 7.0 billion at a coupon rate of 9.50 percent. Proceeds of the bond auction were to be used to meet the cost of redemptions of Treasury bonds maturities totalling Ksh 4.0 billion in the month and provide the Government with additional borrowing of Ksh 3.0 million. The Government accepted bids totalling Ksh 4.08 billion which were adequate to cover the redemptions, and provide additional borrowing of Ksh 0.08 billion.

Treasury bills interest rates

The average 91-day Treasury bills rate edged up by 1.9 basis points from 7.767 percent in the previous week's auction to 7.786 percent during the auction of October 23, 2008. Meanwhile, the average 182-day Treasury bills rate edged up by 4.9 basis points from 8.391 percent in the previous week's auction to 8.440 percent (Table 1). Consequently, the 12-weeks moving average for the 91-day Treasury bills rate increased from 7.767 percent in the previous week to 7.778 percent while the 182-day Treasury bills rate decreased from 8.391 percent to 8.294 percent.

Table 1 : Interest Rates

Auction date	25-Sep-08	2-Oct-08	9-Oct-08	16-Oct-08	23-Oct-08
Average 91 day T. Bills	7.697	7.695	7.758	7.767	7.786
Average 182 day T. Bills	8.117	8.167	8.292	8.391	8.440
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

Treasury bonds interest rates

During the Treasury bond auction of October 23, 2008, the average interest rate on the 5-year discounted fixed rate Treasury bonds increased by 68.9 basis points from 10.860 percent for a bond of similar tenor issued in August 2008 to 11.549 percent following tight liquidity in the market.

Interbank and REPO Rates

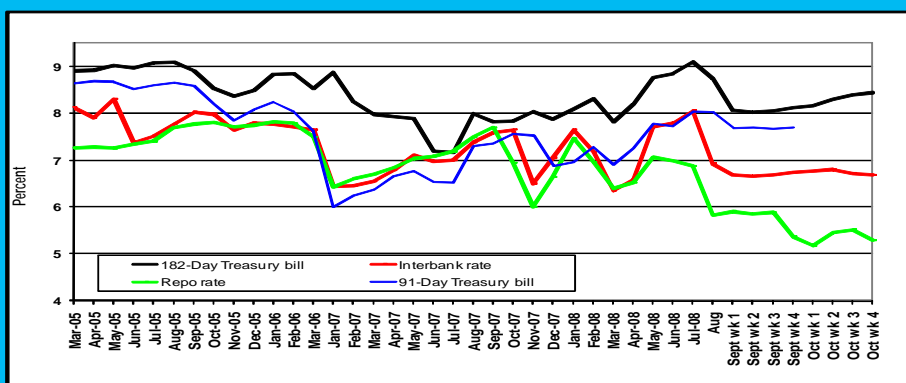
The average interbank rate dropped by 3 basis points to 6.69 percent in the week ending October 23, 2008 from 6.72 percent in the previous week. Interbank volumes rose from Ksh 61.8 billion in the previous week to Ksh 62.8 billion this week (Table 2). The Repo rate dropped by 23 basis points to 5.29 percent with a volume of Ksh 4.8 billion being mopped-up down Ksh 7.3 billion mopped in the previous week (Chart A).

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
13- 16 Oct- 08	368	61,789	6.719
17-Oct-08	105	16,108	6.55
21-Oct-08	91	12,147	6.66
22-Oct-08	113	18,690	6.72
23-Oct-08	104	15,887	6.81
17- 23 Oct- 08	413	62,832	6.686

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling weakened against the US dollar and the Japanese Yen but marginally strengthened against the Sterling Pound and the Euro during the week ending October 23, 2008. Thus, against the US dollar, the shilling weakened to trade at an average of Ksh 77.85 compared with Ksh 75.37 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 (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US Dollar	Sterling Pound	Euro	Yen
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
Oct 13 - Oct 16, 2008	75.37	130.54	102.35	74.48
17-Oct-08	77.29	134.03	104.26	76.18
20-Oct-08	HOILIDAY			
21-Oct-08	76.39	131.28	101.88	75.26
22-Oct-08	78.18	127.19	100.39	78.42
23-Oct-08	79.53	129.54	101.90	81.39
Oct 17 - Oct 23, 2008	77.85	130.51	102.11	77.81

Source: Central Bank of Kenya

Moreover, the Shilling weakened against the Japanese Yen during the week under review to exchange at an average of Ksh 77.81 compared with Ksh 74.48 per 100 Japanese Yen in the previous week. However, the local currency strengthened against the Sterling Pound and the Euro in the week in focus to exchange at an average of Ksh 130.51 and Ksh 102.11, respectively, compared with Ksh 130.54 per Sterling Pound and Ksh 102.35 per Euro in the week ending October 16, 2008. In the international scene, the US dollar strengthened against the Sterling Pound and the Euro but weakened against the Japanese Yen in the week under review compared with the previous week.

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank of Kenya increased from US dollar 2,719.7 million (equivalent to 4 months of imports) as at October 23, 2007 to US dollar 2,894.9 million as at October 23, 2008 (equivalent to 4 months of imports) (Table 4). This represents a build up of usable reserves by US dollar 175.2 million over the past year.

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

	29-Feb-08	31-Mar-08	30-Apr-08	30-May-08	30-Jun-08	31-Jul-08	29-Aug-08	30-Sep-08	23-Oct-08
Usable Reserves	3,346.0	3,285.1	3,242.4	3,265.1	3,300.2	3,288.2	3,151.5	3,085.7	2,894.9
Months of Imports Cover*	4.9	4.7	4.6	4.6	4.6	4.5	4.1	4.1	4
Months of Imports Cover**	4.0	3.9	3.8	3.8	3.7	3.7	3.4	3.4	3

*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 October 22, 2008, Central Bank sought to mop Ksh 3.4 billion daily from the market in order to align reserve money to the target. The Bank realized an average of Ksh 2.0 billion as shown in Table 5.

Table 5: Open Market Operations (Ksh Billion)

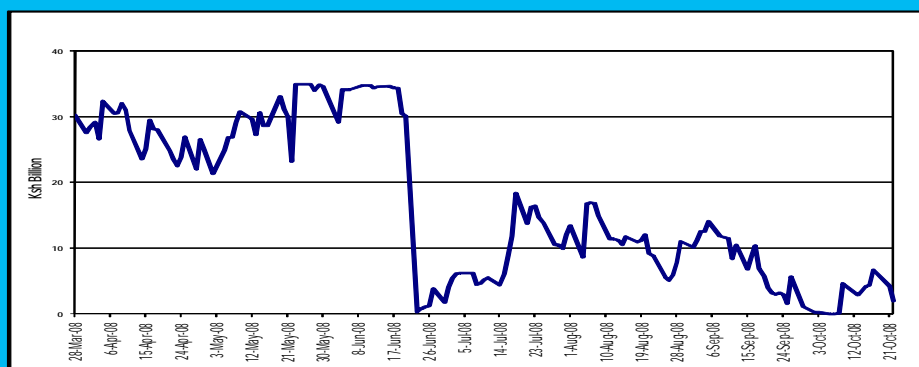
Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Realised	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
16-Oct	160.2	155.0	5.2	4.0	3.1	-0.9	159.3	4.4	4.3	0.0
17-Oct	160.9	155.0	5.9	5.0	2.8	-2.2	155.6	0.6	0.7	-0.1
21-Oct	161.9	155.3	6.6	4.0	2.0	-2.0	157.3	2.1	2.6	-0.5
22-Oct	154.5	155.3	-0.7	0.5	0.0	-0.5	154.8	-0.4	0.3	-0.8
Average	159.4	155.1	4.3	3.4	2.0	-1.4	156.8	1.7	2.0	-0.4

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

During the week ending October 22, 2008, the Central Bank's open market operations desk mopped a total of Ksh 7.9 billion from the market through repurchase agreements securities against redemption in maturing securities worth Ksh 10.2 billion. As a result, the stock of repo security holdings by commercial banks declined from Ksh 4.2 billion as at October 15, 2008 to Ksh 2.0 billion as at October 22, 2008 (Chart B). Reserve money for the week ending October 22, 2008 averaged Ksh 156.8 billion. It remained above the target by Ksh 1.7 billion.

Chart B: Commercial Banks Repo Holdings

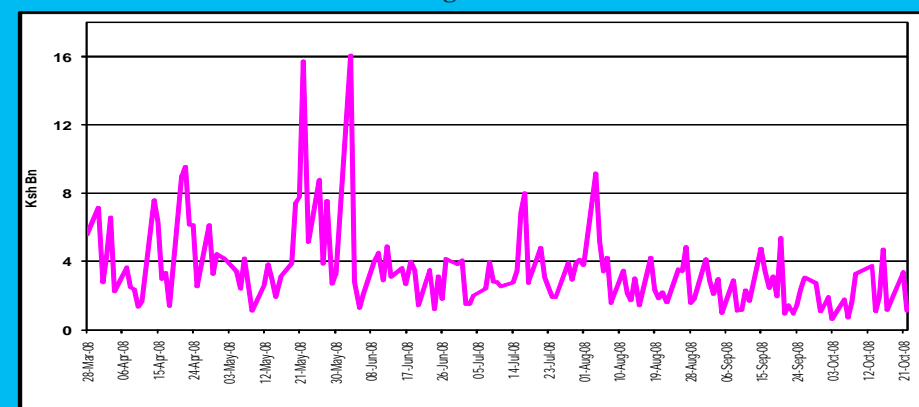


Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

In the week ending October 22, 2008, average commercial banks clearing account balances was Ksh 2.6 billion compared with Ksh 2.5 billion held in the previous week as shown in Chart C.

Chart C: Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Government Domestic Debt

Government gross domestic debt increased from Ksh 430.6 billion in June 2008 to Ksh 450.4 billion as at October 17, 2008 following planned domestic borrowing to finance the deficit (Table 6 and Chart D). However, the domestic debt as a percentage of GDP decreased from 21.1 percent to 20.9 percent during the period following a faster growth in GDP. Domestic debt increased during the period following increases of Ksh 16.9 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 1.1 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 93.8 billion and Ksh 4.4 billion, respectively, as at October 17, 2008. The level of Government overdraft at CBK remained well within the authorized limit of Ksh 14.8 billion despite the rise. However, the Treasury bonds and other domestic debt decreased from Ksh 315.2 billion and Ksh 37.8 billion to Ksh 314.7 billion and Ksh 36.7 billion, respectively, during the period. Meanwhile, long term stocks remained unchanged from Ksh 0.8 billion.

Following these developments, the percentage of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 76.9 percent as at October 17, 2008, while Treasury bills increased from 19.6 percent to 22.9 percent in the period. As a result, the maturity profile of Government securities decreased from 3 years and 8 months to 3 years and 6 months.

Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Jul-08	29th Aug-08	30th Sept 08	17th Oct 08	Changes	
						30th Sep 08 - 17th Oct 08	30th Jun 08 - 17th Oct 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	93.8 22.9	0.4	16.9
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	409.2	0.4	16.4
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	36.7	-0.8	-1.1
7. Gross Domestic Debt (4+5+6)	430.6	428.1	432.9	450.8	450.4	-0.4	19.8
8. Interest payments on domestic debt (Cumulative in FY)	42.2	3.2	6.7	10.4	10.6	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

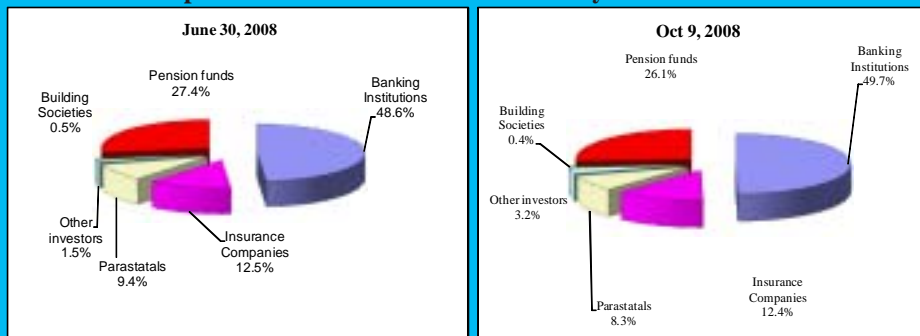
Chart D: Composition of Government Securities



Source: Central Bank of Kenya

As shown in Chart E, the proportion of Government securities held by commercial banks and other investors increased from 48.6 percent and 1.5 percent in June 2008 to 49.7 percent and 3.2 percent, respectively, as at October 17, 2008. 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

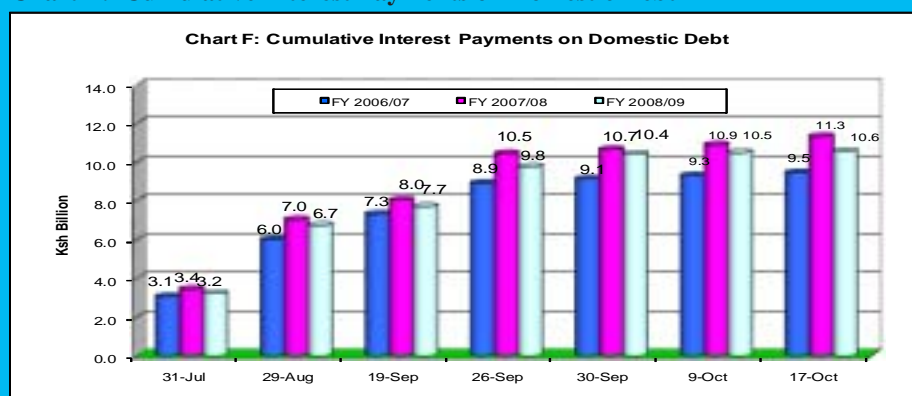


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 10.6 billion July 1 to October 17, 2008 compared with Ksh 11.3 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 2.6 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 Government's capacity to service domestic debt increased during the period as the proportion of the interest in ordinary revenue decreased from 9.4 percent to 8.4 percent.

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 23, 2008 as reflected by key market indicators. The number of shares traded declined from 79.6 million traded in the previous week to 43.6 million shares in the week under review. Equity turnover decreased by 14.7 percent as stocks worth Ksh 0.6 billion were traded compared with Ksh 0.7 billion traded in the previous week. Market capitalization, declined by Ksh 73.62 billion from Ksh 860.7 billion in the previous week to Ksh 787.08 billion in the week under review. The NSE 20 Share index dropped 308.13 points to settle at 3459.33 points on October 23, 2008 from 3767.46 points on October 16, 2008. The Nairobi All Share Index closed at 71.01 points down from 77.61 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	28th Aug 2008	4th Sept 2008	11th Sept 2008	18th Sept 2008	25th Sept 2008	2nd Oct 2008	8th Oct 2008	16th Oct 2008	23rd Oct 2008
NASI 100= Jan 2008	98.41	96.52	92.22	84.76	90.42	87.74	82.78	77.61	71.01
NSE 20 Share Index 100=1966	4665.03	4564.65	4348.61	4055.23	4266.38	4180.34	3979.12	3767.46	3459.33
Number of Deals	19,349	15,474	15,653	14,253	15,399	10,633	12,004	9,790	8,035
Total Shares Traded (millions)	102.42	101.82	90.82	145.89	157.34	46.90	103.40	79.60	43.57
Equity Turnover (Ksh. millions)	2,278	1,538	1,649	1,651	1,934	850	1,096	710	606
Market Capitalization (Ksh. Bn.)	1,080.50	1,058.31	1,013.12	953.21	998.40	972.92	911.33	860.65	787.08
Bonds Turnover (Ksh. millions)	3,359.80	2,797.35	2,344.00	2,674.00	1,913.40	652.70	981.70	1,554.15	272.00

* 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 32.5 million shares and accounted for 74.5 percent of total traded volume. Safaricom traded 29.1 million shares to be the most active stock in the market. The Finance and Investment sector traded 6.6 million shares and accounted for 15.1 percent of traded volume. KCB traded 4.4 million shares while Barclays bank traded 0.4 million shares to be the most active counters.

The Industrial and Allied sector traded 4.5 million shares and accounted for 10.2 percent of the traded volume. Mumias and KenGen shares were the most active counters and traded 1.2 and 1.3 million shares, respectively.

Trading at the bond market declined sharply during the week as bonds worth Ksh 272 million were traded compared with Ksh 1554.2 million traded in the previous week.