

October 31, 2008



THE CBK WEEKLY BULLETIN

Highlights for the Week

The performance of the Government securities auction improved to 127.4 percent during the Treasury bills auction of October 30, 2008 compared to 40.6 percent during the previous week's auction. The average 91-day Treasury bills rate edged up from 7.786 percent in the previous week's auction to 8.120 percent during the auction of October 30, 2008, while the average 182-day Treasury bills rate edged up from 8.440 percent to 8.596 percent over the same period.

The average interbank rate rose to 6.96 percent in the week ending October 30, 2008 from 6.69 percent the previous week. The average Repo rate rose by 23 basis points to 5.52 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 30, 2008. Against the US dollar, the shilling weakened to trade at an average of Ksh 79.99 compared with Ksh 77.85 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank increased from US dollar 2,717.5 million (equivalent to 4.18 months of imports) as at October 30, 2007 to US dollar 2,760.9 million as at October 30, 2008 (equivalent to 3.63 months of imports).

The Central Bank's Open Market Operations desk mopped Ksh 6 billion from commercial banks and redeemed maturing securities worth Ksh 3.8 billion during the week ending October 29, 2008. The stock of repurchase agreement securities held by commercial banks, therefore, increased by Ksh 2.2 billion to Ksh 4.2 billion on October 29, 2008. Reserve money for the week ending October 29, 2008 averaged Ksh 155.2 billion and was below the target by Ksh 0.04 billion.

The Government's gross domestic debt increased from Ksh 430.6 billion in June 2008 to Ksh 450.2 billion as at October 24, 2008. The cumulative Government expenditure on interest and other charges on domestic debt from July 1 to October 24, 2008 amounted to Ksh 10.7 billion.

There was mixed performance in the equity market during the week ending October 30, 2008. Equity turnover rose slightly by 2.7 percent as stocks worth Ksh 0.62 billion were traded compared with Ksh 0.61 billion traded in the previous week. The number of shares traded rose from 43.6 million in the previous week to 63.1 million shares in the week under review. Market capitalization declined by Ksh 78.39 billion from Ksh 787.08 billion in the previous week to Ksh 708.69 billion in the week under review. The NSE 20 Share index dropped 283.84 points to settle at 3,175.49 points on October 30, 2008 from 3,459.33 points on October 23, 2008.

Government Securities Auction

The performance of the Government securities market improved during the Treasury bills auction of October 30, 2008 compared to the last week's auction. The Government had offered for sale Treasury bills worth Ksh 4.0 billion at the auction and received bids totalling Ksh 5.1 billion. The performance of the Treasury bills auction was therefore 127.4 percent compared to 40.6 percent in the previous week's auction.

Proceeds of the Treasury bills auction were to be used to meet the cost of rolling over Treasury bills maturities totalling Ksh 3.1 billion in the week and provide the Government with additional borrowing of Ksh 1.05 billion. The Government accepted bids totalling Ksh 4.1 billion of which Ksh 3.4 billion, or 83.3 percent, were in competitive bids. Of the accepted bids, Ksh 2.3 billion, or 56.1 percent, were in the 91 day Treasury bills.

Treasury bills interest rates

The average 91-day Treasury bills rate edged up by 33.4 basis points from 7.786 percent in the previous week's auction to 8.120 percent during the auction of October 30, 2008 while the average 182-day Treasury bills rate edged up by 15.6 basis points from 8.440 percent in the previous week's auction to 8.596 percent (Table 1). As a result, the 12-weeks moving average for the 91-day Treasury bills rate increased from 7.778 percent in the previous week to 7.780 percent, while the corresponding 182-day Treasury bills rate decreased from 8.294 percent to 8.266 percent.

Table 1 : Interest Rates

Auction date	2-Oct-08	9-Oct-08	16-Oct-08	23-Oct-08	30-Oct-08
Average 91 day T. Bills	7.695	7.758	7.767	7.786	8.120
Average 182 day T. Bills	8.167	8.292	8.391	8.440	8.596
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

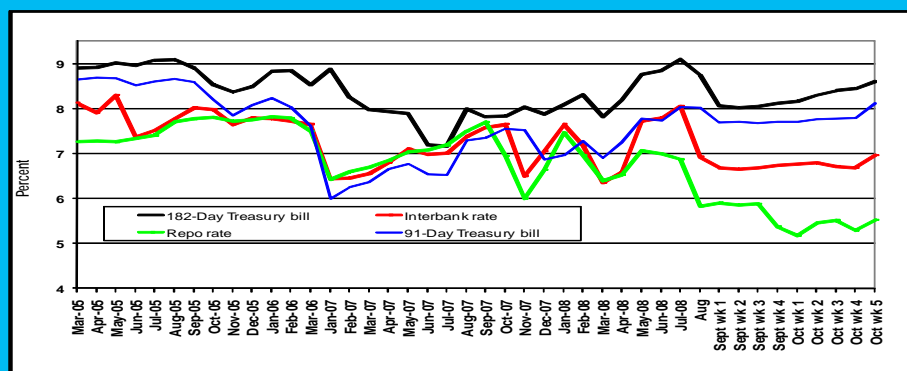
The average interbank rate increased by 27 basis points to 6.96 percent in the week ending October 30, 2008 from 6.69 percent the previous week. Interbank volumes rose from Ksh 62.8 billion in the previous week to Ksh 76.8 billion this week. The average Repo rate rose by 23 basis points to 5.52 percent with a volume of Ksh 9.9 billion being mopped, up from Ksh 4.8 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 (%)
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
24-Oct-08	105	21,342	6.92
27-Oct-08	95	17,939	6.95
28-Oct-08	91	15,279	6.97
29-Oct-08	82	11,782	6.98
30-Oct-08	75	10,470	6.97
24- 30 Oct- 08	448	76,812	6.958

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 strengthened against the Sterling Pound and the Euro during the week ending October 30, 2008. Thus, against the US dollar, the shilling weakened to exchange at an average of Ksh 79.99 compared with Ksh 77.84 per US dollar in the previous week (Table 3). The weakening of the shilling against the US dollar was driven by increased demand for foreign currency and reflected the strengthening of the US dollar against major world currencies.

Table 3: Kenya Shilling Exchange Rates

	US Dollar	Sterling Pound	Euro	Yen
17-Oct-08	77.29	134.03	104.26	69.29
18-Oct-08	76.39	131.28	101.88	70.42
19-Oct-08	78.18	127.19	100.39	71.58
23-Oct-08	79.50	129.54	101.99	73.86
Oct 17 - Oct 23, 2008	77.84	130.51	102.13	71.29
24-Oct-08	80.12	128.06	102.24	83.95
27-Oct-08	79.79	125.33	100.06	85.58
28-Oct-08	79.96	125.54	100.20	83.60
29-Oct-08	80.07	128.45	101.74	82.60
30-Oct-08	80.00	132.61	105.45	81.39
Oct 24 - Oct 30, 2008	79.99	128.00	101.94	83.42

Source: Central Bank of Kenya

During the week under review the Shilling weakened against the Japanese Yen to exchange at an average of Ksh 83.42 compared with Ksh 71.29 per 100 Japanese Yen in the previous week. However, the local currency strengthened against the Sterling Pound and the Euro during the week under review to exchange at an average of Ksh 128.00 and Ksh 101.94, respectively, compared with Ksh 130.51 per Sterling Pound and Ksh 102.11 per Euro in the week ending October 23, 2008. In the international scene, the US dollar strengthened against the Sterling Pound and the Euro but weakened against the Japanese Yen.

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank of Kenya increased from US dollar 2,717.5 million (equivalent to 4 months of imports) as at October 30, 2007 to US dollar 2,760.9 million as at October 30, 2008 (equivalent to 3.63 months of imports). This represents a build up of usable reserves by US dollar 43.4 million over the past year. The decline in the months of import cover is, however, due to increased level of imports reflecting high oil prices during the period under review.

**Monetary
Policy
Operations**

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

	30-Oct-07	31-Mar-08	30-Apr-08	30-May-08	30-Jun-08	31-Jul-08	29-Aug-08	30-Sep-08	30-Oct-08
Usable Reserves	2,717.5	3,285.1	3,242.4	3,265.1	3,300.2	3,288.2	3,151.5	3,085.7	2,760.9
Months of Imports Cover*	4.2	4.7	4.6	4.6	4.6	4.5	4.1	4.1	3.6
Months of Imports Cover**	3.5	3.9	3.8	3.8	3.7	3.7	3.4	3.4	3.0

*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

In the week to October 29, 2008, the Central Bank sought to mop a daily average of Ksh 1.7 billion from the market in order to align reserve money to the target. However the Central Bank realized an average of Ksh 1.2 billion as shown in Table 5.

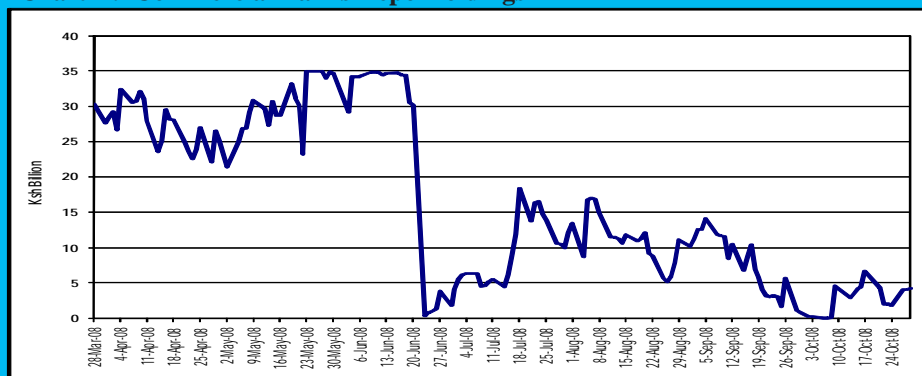
During the week ending October 29, 2008, the Central Bank's Open Market Operations desk mopped Ksh 6 billion from the market through repurchase securities agreements against redemption in maturing securities worth Ksh 3.8 billion. As a result, the stock of repo securities holdings by commercial banks increased from Ksh 2 billion as at October 23, 2008 to Ksh 4.2 billion as at October 29, 2008 (Chart B). The actual reserve money for the week ending October 29, 2008 averaged Ksh 155.2 billion, which was below the target by Ksh 0.04 billion.

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
23-Oct	153.4	155.3	-1.8	0.5	0.0	-0.5	154.9	-0.3	0.4	-0.7
24-Oct	156.1	155.3	0.8	1.0	1.8	0.8	154.2	-1.1	0.4	-1.5
27-Oct	159.7	155.3	4.4	4.0	4.0	0.0	156.3	1.0	2.4	-1.4
28-Oct	156.3	155.3	1.1	2.0	0.0	-2.0	155.0	-0.3	1.0	-1.3
29-Oct	155.4	155.3	0.2	1.0	0.2	-0.8	155.7	0.4	1.7	-1.3
Average	156.2	155.3	0.9	1.7	1.2	-0.5	155.2	0.0	1.2	-1.2

Source: Central Bank of Kenya

Chart B: Commercial Banks Repo Holdings

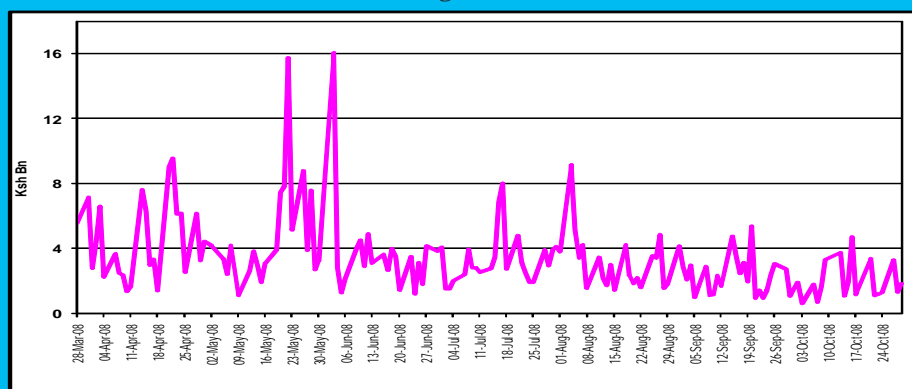


Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Accounts
Balances**

In the week ending October 29, 2008, the average commercial banks clearing account balances was Ksh 1.8 billion compared with Ksh 2.6 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's gross domestic debt increased from Ksh 430.6 billion in June 2008 to Ksh 450.2 billion as at October 24, 2008 as programmed (Table 6 and Chart D). However, 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 15 billion and Ksh 6.2 billion in Treasury bills (excluding Repos) and overdraft at the Central Bank, 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.

Treasury bills and overdraft at the Central Bank increased from Ksh 76.8 billion and zero in June 2008 to Ksh 91.9 billion and Ksh 6.2 billion, respectively, as at October 24, 2008. The level of Government overdraft at the Central Bank remained well within the authorized limit of Ksh 16.9 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 36.7 billion, respectively, while long term stocks remained unchanged at Ksh 0.8 billion during the period.

Following these developments, the percentage of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.3 percent as at October 24, 2008, while the share of Treasury bills increased from 19.6 percent to 22.6 percent. As a result, the maturity profile of Government securities declined from 3 years and 8 months to 3 years and 6 months during the period.

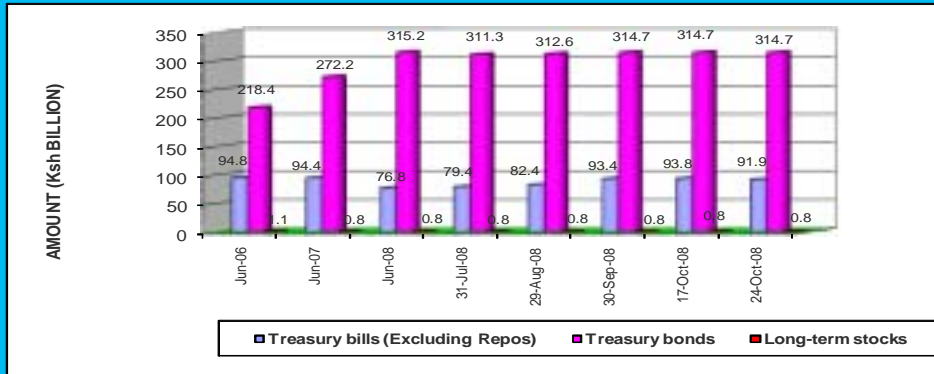
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Jul-08	29th Aug-08	30th Sept 08	17th Oct 08	24th Oct 08	Changes	
							30th Sep 08 - 24th Oct 08	30th Jun 08 - 24th 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	91.9 22.6	-1.9	15.0
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	314.7 77.3	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	0.8 0.2	0.0	0.0
4. Total Securities (1+2+3)	392.8	391.5	395.7	408.8	409.2	407.3	-1.9	14.5
5. Overdraft at Central Bank	0.0	1.3	0.0	4.4	4.4	6.2	1.8	6.2
6. Other Domestic debt*	37.8	35.3	37.2	37.6	36.7	36.7		-1.1
7. Gross Domestic Debt (4+5+6)	430.6	428.1	432.9	450.8	450.4	450.2	-0.2	19.6
8. Interest payments on domestic debt (Cumulative in FY)	42.2	3.2	6.7	10.4	10.6	10.7	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

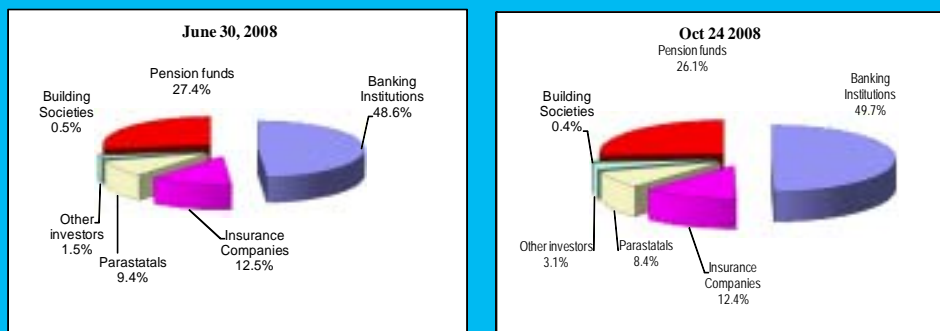
Chart D: Composition of Government Securities



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 3.1 percent, respectively, as at October 24, 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 8.4 percent, 26.1 percent, 0.4 percent and 12.4 percent, respectively during the period.

Chart E: Composition of Government Securities by Investor

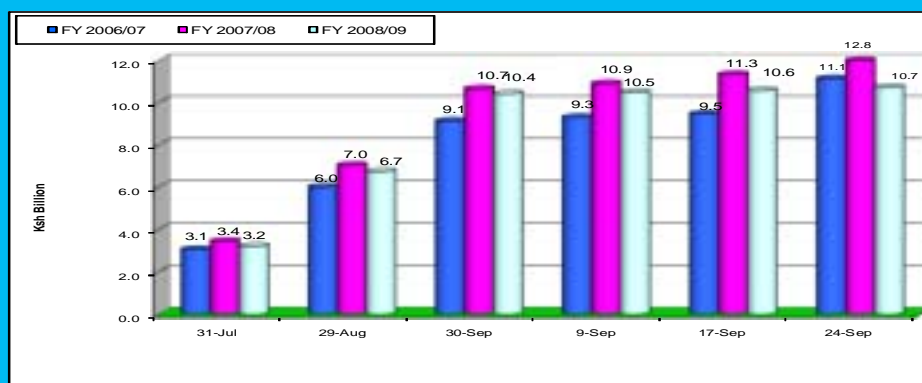


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 10.7 billion for the period July 1 to October 24, 2008 compared with Ksh 12.8 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 2.7 billion in interest and other charges on Treasury bills, and Ksh 0.1 billion in interest on Government overdraft at the Central Bank. However, the Government’s capacity to service domestic debt increased during the period as the proportion of interest payments in ordinary revenue decreased from 9.4 percent to 8.1 percent.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The equity market recorded mixed performance during the week ending October 30, 2008, as reflected by key market indicators (Table 7). The number of shares rose from 43.6 million in the previous week to 63.1 million shares traded in the week under review. Equity turnover improved slightly by 2.7 percent as stocks worth Ksh 0.62 billion were traded compared with Ksh 0.61 billion traded in the previous week. Market capitalization, which measures total shareholders wealth, declined by Ksh 78.39 billion from Ksh 787.08 billion in the previous week to Ksh 708.69 billion in the week under review. The NSE 20 Share index dropped 283.84 points to settle at 3,175.49 points on October 30, 2008 from 3,459.33 points on October 23, 2008. The Nairobi All Share Index closed at 63.96 points down from 71.01 points in the previous week.

Table 7: Key Weekly Market Statistics

Week Ending	4th Sept 2008	11th Sept 2008	18th Sept 2008	25 th Sept 2008	2nd Oct 2008	8th Oct 2008	16th Oct 2008	23rd Oct 2008	30th Oct 2008
NASI 100= Jan 2008	96.52	92.22	84.76	90.42	87.74	82.18	77.61	71.01	63.96
NSE 20 Share Index 100=1966	4564.65	4348.61	4055.23	4266.38	4180.34	3979.12	3767.46	3459.33	3175.49
Number of Deals	15,474	15,653	14,253	15,399	10,633	12,004	9,790	8,035	10,272
Total Shares Traded (millions)	101.82	90.82	145.89	157.34	46.90	103.40	79.60	43.57	63.08
Equity Turnover (Ksh. millions)	1,538	1,649	1,651	1,934	850	1,096	710	606	622
Market Capitalization (Ksh. Bn.)	1,058.31	1,013.12	953.21	998.40	972.92	911.33	860.65	787.08	708.69
Bonds Turnover (Ksh. millions)	2,797.35	2,344.00	2,674.00	1,913.40	652.70	981.70	1,554.15	272.00	1,538.05

* 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 48.8 million shares and accounted for 77.4 percent of total traded volume. Safaricom traded 45.9 million shares and was the most active stock in the market. The Finance and Investment sector traded 7.8 million shares and accounted for 12.4 percent of the traded volume. KCB traded 4.4 million shares, while Centum Investments traded 0.6 million shares to be the most active counter. Industrial and Allied sector traded 6.3 million shares and accounted for 10.0 percent of the traded volume. Mumias and Kengen shares were the most active counters and traded 3.8 and 0.9 million shares, respectively.

Bond Market

Trading at the bond market shot up during the week as bonds worth Ksh 1538.1 million were traded compared with Ksh 272 million traded in the previous week.