

April 03, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

Overall 12-month inflation increased from 25.1 percent in February 2009 to 25.8 percent in March 2009 due to rises in the prices of most of the seasonal food products. The 12-month underlying inflation was 8.8 percent in March 2009.

The Government securities market posted an oversubscription of 109.5 percent during the Treasury bills auction of April 2, 2009. The Government had offered for sale Treasury bills worth Ksh 5.5 billion, received bids totalling Ksh 6.0 billion and accepted bids totalling Ksh 5.5 billion. The average 91-day Treasury bills rate declined marginally by 0.4 basis points from 7.359 percent in the previous auction to 7.355 percent during this week's auction, while the average 182-day Treasury bills rate declined by 9.4 basis points from 8.228 percent in the previous week's auction to 8.134 percent.

The average interbank interest rate increased by 4 basis points from 5.57 percent in the previous week to 5.61 percent during the week ending April 2, 2009. The repo rate, however, declined by 7 basis points from 4.22 percent in the previous week to 4.15 percent in the current week.

The Kenya Shilling strengthened against all major international currencies during the week ending April 2, 2009. Against the US dollar, the shilling traded at an average of Ksh 80.22 in the week ending April 2, 2009 compared with Ksh 80.47 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,284 million (equivalent to 4.64 months of imports) as at April 2, 2008 to US dollar 2,615 million (equivalent to 3.12 months of imports) as at April 2, 2009.

Central Bank's Open Market Operations desk mopped Ksh 7.7 billion from commercial banks using repo securities against redemptions of Ksh 2.3 billion during the week ending April 1, 2009.

Government gross domestic debt increased by Ksh 43.3 billion from Ksh 430.6 billion in June 2008 to Ksh 474.0 billion as at March 27, 2009. The cumulative Government expenditure on interest and other charges on domestic debt for the period up to March 27 2009 of the FY 2008/09 amounted to Ksh 33.5 billion compared with Ksh 31.0 billion in a similar period in the fiscal year 2007/08.

Performance at the equities market was mixed during the week. Turnover declined by 4.1 percent, market capitalization improved by 4.7 percent, while the NSE 20 Share index gained 145.75 points to settle at 2,808.94 points on April 2, 2009.

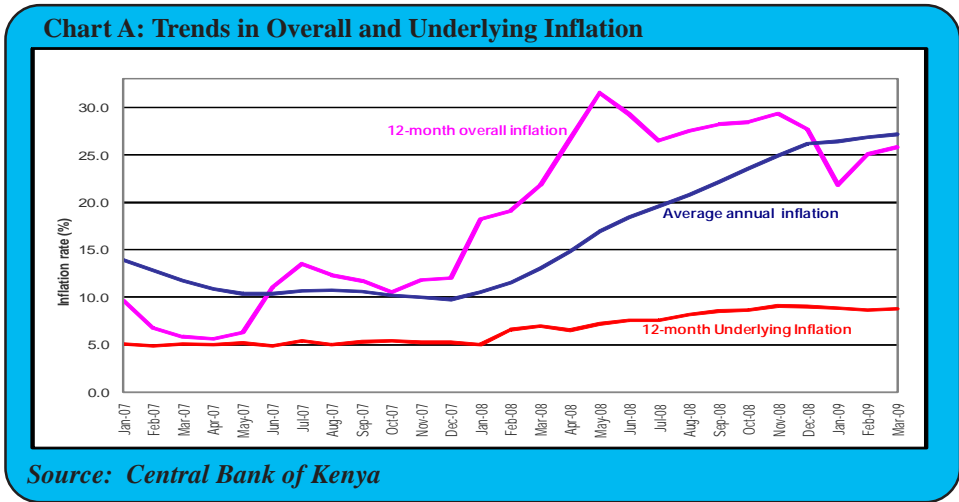
Inflation

Overall 12-month inflation increased from 25.1 percent in February 2009 to 25.8 percent in March 2009. Prices of potatoes, sukuma wiki (Kales), tomatoes and seasonal vegetables increased pushing the overall index upward. Similarly, average annual inflation increased from 26.9 percent in February 2009 to 27.2 percent in March 2009.

The 12-month underlying inflation increased from 8.7 percent in February 2009 to 8.8 percent in March 2009 mainly as a result of higher cost of housing. Average underlying inflation also increased from 8.1 percent in February 2009 to 8.3 percent in March 2009.

Inflation for four categories of goods and services in the CPI basket increased in March 2009. Inflation for the food and drink stood at 34.8 percent, inflation for housing was 9.7 percent, inflation for medical goods and services was 17.2 percent, and inflation for transport and communication was 4.1 percent. The other categories recorded lower inflation in the month of March 2009 compared with February 2009. Inflation for the other categories was as follows: alcohol and tobacco was 12.3 percent, fuel and power was 6.1 percent, recreation and education was 5.0 percent, personal goods and services was 10.5 percent, clothing and footwear was 4.4 percent, and household goods and services was 10.5 percent.

All income groups experienced higher 12-month inflation in March 2009 compared with February 2009. Inflation for the Nairobi lower income group increased from 31.9 percent in February 2009 to 37.6 percent in March 2009, since this group was the hardest hit by rise in food prices. Inflation for the “Rest of Kenya” income group was 23.4 percent while inflation for the “Combined Nairobi” income group was 34.7 percent in March 2009. Inflation for the Nairobi middle/upper income group was the lowest in March 2009 at 17.3 percent compared with 13.3 percent in February 2009.



Government Securities Auction

The Government securities market posted an oversubscription of 109.5 percent during the Treasury bills auction of April 2, 2009. The Government had offered for sale Treasury bills worth Ksh 5.5 billion and received bids totalling Ksh 6.0 billion. Of the received bids Ksh 4.6 billion were in 182-day Treasury bills.

The Government accepted Treasury bills bids totalling Ksh 5.5 billion of which Ksh 5.1 billion or 92.7 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 1.8 billion in the week and provide the Government additional borrowing of Ksh 3.7 billion.

Treasury bills interest rates

The average 91-day Treasury bill rate declined marginally by 0.4 basis points from 7.359 percent in the previous week's auction to 7.355 percent during this week's auction, while the average 182-day Treasury bill rate declined by 9.4 basis points from 8.228 percent in the previous week's auction to 8.134 percent (Table 1). Consequently, the 12-weeks moving average for the 91-day Treasury bill rate decreased from 7.672 percent in the previous week to 7.577 percent, while the 182-day Treasury bill rate decreased from 8.149 percent to 8.080 percent.

Table 1 : Interest Rates

Auction date	19-Feb-09	26-Feb-09	5-Mar-09	12-Mar-09	19-Mar-09	26-Mar-09	2-Apr-09
Average 91 day T. Bills	7.157	7.235	7.294	7.292	7.360	7.359	7.355
Average 182 day T. Bills	7.646	7.661	7.721	7.853	8.101	8.228	8.134
Month	Aug-08	Sep-08	Oct-08	Nov-08	Dec-09	Jan-09	Feb-09
Average savings rate	1.68	1.73	1.74	1.61	1.65	2.10	2.13
Average overdraft rate	13.11	13.43	13.91	13.85	14.39	13.84	13.46

Source: Central Bank of Kenya

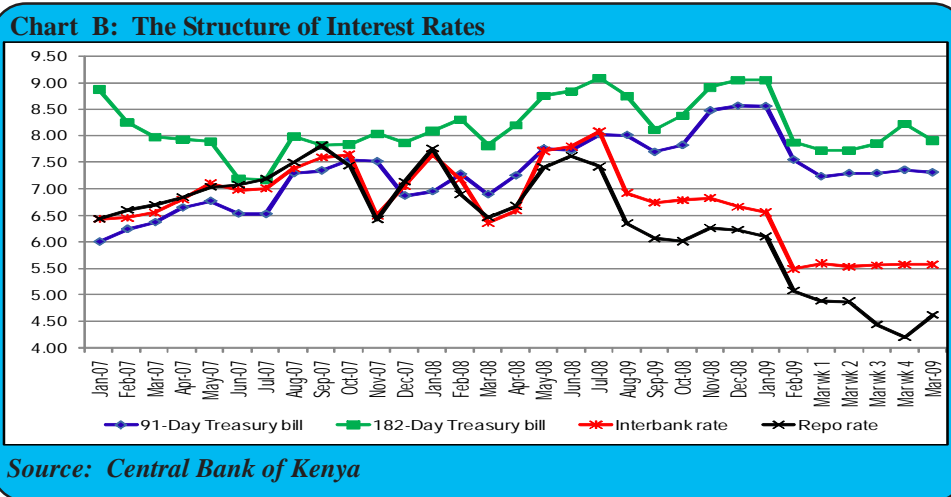
Interbank and REPO Rates

The average interbank interest rate increased by 4 basis points from 5.57 percent in the previous week to 5.61 percent during the week ending April 2, 2009, with a decline in volumes transacted (Table 2). Interbank volumes declined by Ksh 2.4 billion from Ksh 57.4 billion in the previous week to Ksh 55.0 billion in the week under review. The repo rate declined by 7 basis points from 4.22 percent in the previous week to 4.15 percent in the current week (Chart B).

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
13 - 19 Mar-09	383	58,766	5.55
20-Mar-09	92	11,716	5.47
23-Mar-09	93	11,954	5.53
24-Mar-09	91	9,941	5.58
25-Mar-09	91	11,110	5.62
26-Mar-09	91	12,724	5.66
Mar 20 - 26 2009	458	57,445	5.57
27-Mar-09	92	11,594	5.64
30-Mar-09	88	13,545	5.62
31-Mar-09	74	10,586	5.63
1-Apr-09	78	10,687	5.60
2-Apr-09	75	8,625	5.58
Mar 27 - Apr 2 2009	407	55,037	5.61

Source: Central Bank of Kenya



The Shilling Exchange Rate

During the week ending April 2, 2009, the Kenya Shilling strengthened against all major international currencies (Table 3). Against the US dollar, the shilling traded at an average of Ksh 80.22 per US dollar in the week ending April 2, 2009 compared with Ksh 80.47 per US dollar in the previous week. The strengthening of the Shilling against the US dollar was due to high foreign exchange inflows attributed to export proceeds amid muted corporate demand for foreign exchange. Moreover, the shilling strengthened against the Sterling Pound, the Euro and the Japanese Yen in the week under review to exchange, respectively, at Ksh 115.21 per Sterling Pound, Ksh 106.72 per Euro and Ksh 81.83 per 100 Japanese Yen compared with Ksh 117.46 per Sterling Pound, Ksh 109.48 per Euro and Ksh 83.08 per 100 Japanese Yen in the week ending March 26, 2009. In the international foreign exchange market, the US dollar strengthened against the Sterling Pound, the Euro and the Japanese Yen.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen
20-Mar-09	80.77	116.64	110.21	85.30
23-Mar-09	80.67	117.45	110.20	83.86
24-Mar-09	80.58	118.56	110.11	82.09
25-Mar-09	80.47	118.07	108.43	82.43
26-Mar-09	79.86	116.60	108.47	81.73
Mar 20 - 26, 2009	80.47	117.46	109.48	83.08
27-Mar-09	79.99	115.61	108.59	81.66
30-Mar-09	80.27	113.87	106.24	82.94
31-Mar-09	80.43	114.84	106.42	82.13
1-Apr-09	80.31	115.11	105.83	81.27
2-Apr-09	80.11	116.60	106.50	81.11
Mar 27 -Apr 2, 2009	80.22	115.21	106.72	81.83

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,284 million (equivalent to 4.64 months of imports) as at April 2, 2008 to US dollar 2,615 million (equivalent to 3.12 months of imports) as at April 2, 2009 (Table 4). The decline in import cover reflects reduction in reserves level as well as increased import bill. Commercial banks foreign exchange reserves holdings, which are predominantly used by private sector to meet external financial obligations, increased from US\$ 1,092 million as at end February 2008 to US\$ 1,610 million as at end February 2009.

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

	2-Apr-08	30-May-08	30-Jun-08	30-Sep-08	31-Dec-08	30-Jan-09	27-Feb-09	31-Mar-09	2-Apr-09
Usable Reserves	3,284	3,265	3,300	3,086	2,768	2,671	2,661	2,620	2,615
Months of Imports Cover*	4.64	4.55	4.60	4.06	3.35	3.19	3.17	3.13	3.12
Months of Imports Cover**	3.88	3.84	3.67	3.35	2.77	2.66	2.65	2.61	2.60

*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

Central Bank offered for sale Ksh 2.2 billion on average to the market using the repurchase agreement securities in the week to April 1, 2009 and realized Ksh 1.5 billion on average 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
26-Mar	152.4	164.2	-11.8	0.5	0.5	0.0	151.9	-12.4	-0.7	-11.6
27-Mar	153.1	164.2	-11.2	2.0	1.9	-0.1	151.5	-12.7	-1.4	-11.4
30-Mar	155.3	164.2	-8.9	4.0	0.4	-3.6	153.3	-10.9	-0.6	-10.3
31-Mar	154.3	164.2	-9.9	1.5	1.5	0.0	155.5	-8.7	1.2	-10.0
1-Apr	156.1	164.6	-8.5	3.0	3.5	0.5	154.3	-10.2	-0.5	-9.7
Average	154.2	164.3	-10.1	2.2	1.5	-0.7	153.3	-11.0	-0.4	-10.6

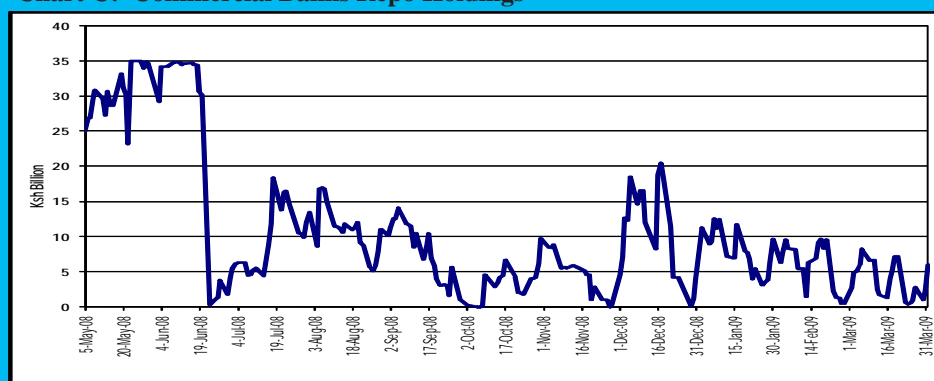
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Repurchase Agreement Securities held by Commercial Banks

Central Bank mopped a total of Ksh 7.7 billion worth of repurchase order agreement securities from commercial banks in the week ending April 1, 2009 against redemptions of Ksh 2.3 billion. As a result, the stock of repurchase agreement securities held by commercial banks with Central Bank rose to Ksh 6.0 billion on April 1, 2009 from 1.0 billion on March 26, 2009 as shown in Chart C. Reserve money for the week ending April 1, 2009 averaged Ksh 153.3 billion and remained below target by Ksh 11.0 billion.

Chart C: Commercial Banks Repo Holdings

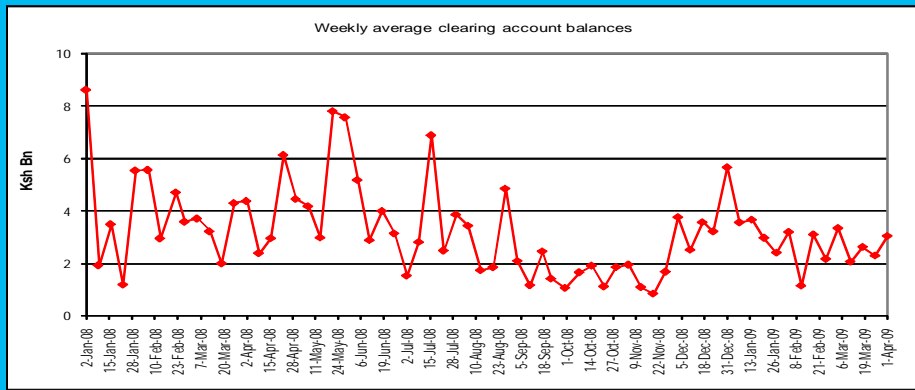


Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

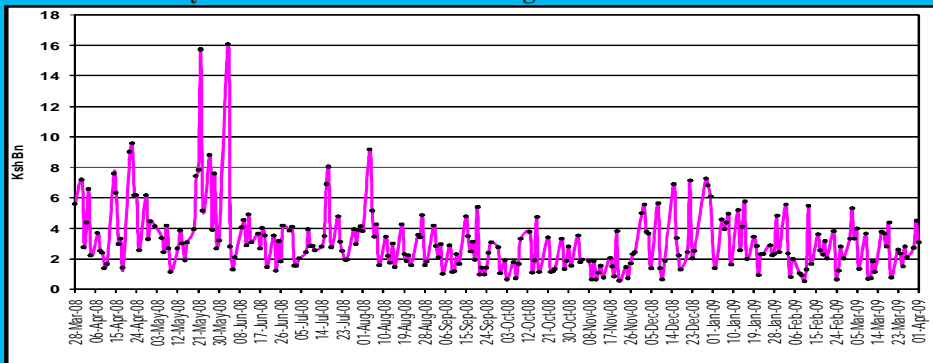
Commercial banks maintained an average of Ksh 3.1 billion in their clearing accounts at the Central Bank in the week to April 1, 2009, compared with Ksh 2.3 billion held in the previous week (Chart D1 and D2).

Chart D1: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Chart D2: Daily Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Government Domestic Debt

Government gross domestic debt increased by Ksh 43.3 billion from Ksh 430.6 billion in June 2008 to Ksh 474.0 billion as at March 27, 2009 (Table 6 and Chart E). The growth in gross domestic debt during the period was as a result of increases of Ksh 21.1 billion, Ksh 19.2 billion and Ksh 5.5 billion in Treasury bills (excluding Repos), Treasury bonds and overdraft at the Central Bank, respectively. However, these increases were partly offset by a decrease of Ksh 2.4 billion in other domestic debt.

Treasury bills, Treasury bonds and overdraft at Central Bank increased from Ksh 76.8 billion, 315.2 billion and zero in June 2008 to Ksh 97.9 billion, Ksh 334.4 billion and Ksh 5.5 billion, respectively, as at March 27, 2009. However, other domestic debt decreased from Ksh 37.8 billion to Ksh 35.4 billion during the period while long term stocks remained unchanged from Ksh 0.8 billion.

Consequently, the share of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.2 percent as at March 27, 2009 while that 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.

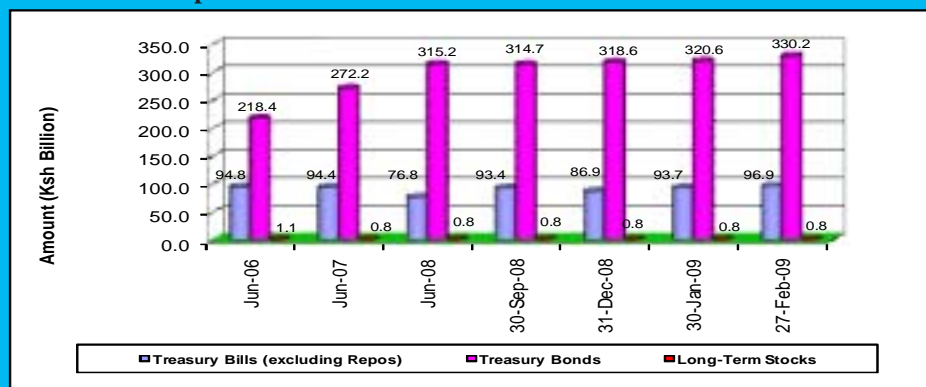
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	6th Mar 09	13th Mar 09	20th Mar 09	27th Mar 09	Changes 20th Mar-09 -27th Mar-09	30 th Jun-08 -27th Mar-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	93.9 22.1	95.5 22.4	96.7 22.6	97.9 22.6	4.0	21.1
2. Treasury Bonds (As % of total securities)	315.2 80.2	330.2 77.7	330.2 77.4	330.2 77.2	334.4 77.2	4.3	19.2
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	424.8	426.4	427.6	433.1	8.3	40.3
5. Overdraft at Central Bank	0.0	7.1	5.8	6.1	5.5	-1.6	5.5
6. Other Domestic debt*	37.8	34.5	34.3	34.9	35.4	0.9	-2.4
7. Gross Domestic Debt (4+5+6)	430.6	466.4	466.5	468.5	474.0	7.5	43.3
8. Interest payments on domestic debt	42.2	30.7	30.9	31.1	33.5	2.8	

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

Source: Central Bank of Kenya

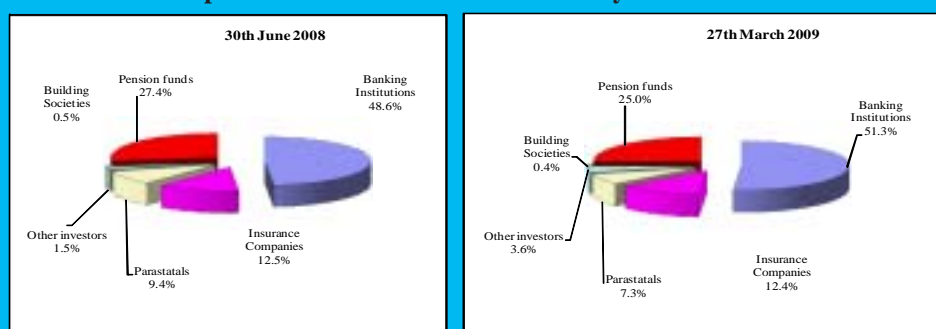
Chart E: Composition of Government Securities



Source: Central Bank of Kenya

Government securities holdings by commercial banks and other investors increased from 48.6 percent and 1.5 percent respectively in June 2008 to 51.3 percent and 3.6 percent, respectively as at March 27, 2009. However, holdings of parastatals, insurance companies, pension funds and building societies decreased from 9.4 percent, 12.5 percent, 27.4 percent, 0.5 percent to 7.3 percent, 12.4 percent, 25.0 percent and 0.4 percent respectively during the same period (Chart F).

Chart F: Composition of Government Securities by Investor



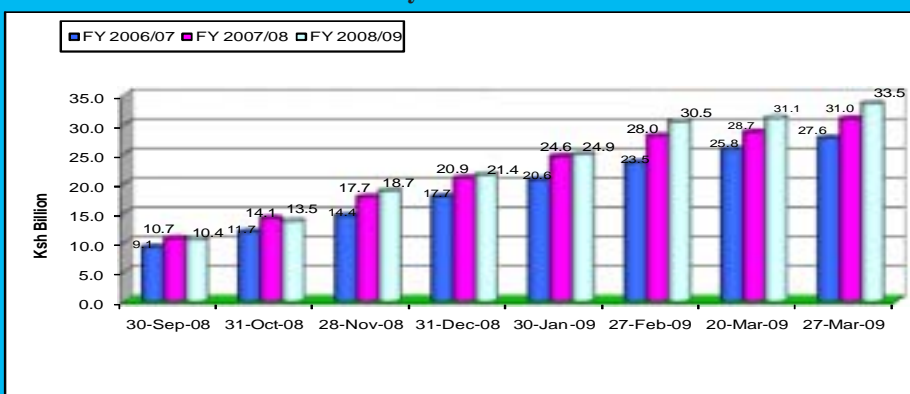
Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt for the period up to March 27, 2009 of the FY 2008/09 amounted to Ksh 33.5 billion compared with Ksh 31.0 billion in a similar period in the fiscal year 2007/08 (Chart G). The interest cost on domestic debt during the period comprised Ksh 25.5 billion in interest and other charges on Treasury bonds, Ksh 7.2 billion in interest and

other charges on Treasury bills, and Ksh 0.8 billion in interest on both long term stock, Government overdraft at CBK and the pre-1997 government overdraft.

Chart G: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was a mixed performance at the equities market during the week ending April 2, 2009. Turnover declined by 4.1 percent as stocks worth Ksh 0.4 billion were traded compared with Ksh 0.5 billion in the previous week. The number of shares traded increased, from 40.4 million in the previous week to 46.5 million shares in the week under review. Market capitalization as a measure of total shareholders wealth improved by 4.7 percent or Ksh 30.7 billion from Ksh 657.7 billion in the previous week, to Ksh 688.4 billion in the week under review, attributed mainly to price improvements in most counters. The NSE 20 Share index gained 145.75 points to settle at 2,808.94 points on April 2, 2009 from 2,663.19 points on March 26, 2009. The Nairobi All Share Index gained 2.65 points and closed at 59.43 points compared with 56.78 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	19th Feb 2009	26th Feb 2009	5th Mar 2009	12th Mar 2009	19th Mar 2009	26th Mar 2009	2nd Apr 2009
NASI 100= Jan 2008	58.97	53.93	51.27	52.92	57.05	56.78	59.43
NSE 20 Share Index 100=1966	2,714.49	2,511.47	2,360.01	2,453.36	2,668.11	2,663.19	2,808.94
Number of Deals	8,409	7,209	7,236	7,265	9,889	7,570	8,702
Total Shares Traded (millions)	39.44	32.81	50.46	46.66	47.66	40.41	46.47
Equity Turnover (Ksh. millions)	438.86	273.61	723.46	477.68	623.46	464.33	445.20
Market Capitalization (Ksh. Bn.)	682.82	624.56	593.82	612.96	660.71	657.66	688.37
Bonds Turnover (Ksh. millions)	906.35	1,011.95	3,436.25	2,650.90	1,700.85	1,265.85	467.10

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

Source: Nairobi Stock Exchange

The Commercial and Services sector traded 28.2 million shares and accounted for 60.6 percent of total traded volume. Safaricom traded 26.2 million shares to be the most active stock in the sector. The Finance and

Investment sector traded 10.9 million shares and accounted for 23.4 percent of total traded volume. Equity Bank and Co-operative Bank traded 4.4 million and 2.7 million shares and were the most active counters in the sector. Industrial and Allied sector traded 7.3 million shares and accounted for 15.6 percent of traded volume. Mumias and Kengen shares were the most active counters and traded 4.1 million and 1.8 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond market trading declined at the Fixed Income Securities Market during the week. Bond turnover declined as bonds worth Ksh 0.5 billion were traded compared with Ksh 1.3 billion traded in the previous week. The decline could be attributed to the shift to the primary market as well as to the equities market.