

August 14, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

The overall 12-month inflation for July 2009 remained virtually constant at the June 2009 level of 17.8 percent, halting the downward trend experienced in the previous two months, while the underlying 12-month inflation declined for the third consecutive month from 8.5 percent in June 2009 to 7.9 percent in July 2009.

The Government securities market posted a performance of 204.6 percent during the 364-day Treasury bill auction of August 12, 2009 and a performance rate of 49.8 percent during the 91-day Treasury bills auction of August 13, 2009. The average 91-day Treasury bills rate was 7.261 percent while the average 364-day Treasury bills rate was 8.712 percent during this week's auction.

The average interbank rate increased by 30 basis points in the week ending August 13, 2009 to 3.51 percent compared with the previous week at 3.21 percent.

The Kenya Shilling strengthened against all the major international currencies during the week ending August 14, 2009. Against the US dollar, the shilling strengthened marginally to exchange at Ksh 76.41 in the week ending August 14, 2009 compared with Ksh 76.44 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,116 million (equivalent to 3.50 months of imports) as at August 14, 2009 compared with US dollar 3,209 million (equivalent to 4.25 months of imports) as at August 14, 2008.

Central Bank's Open Market Operations desk injected Ksh 7.6 billion to commercial banks using reverse repo securities against redemptions of Ksh 2.9 billion during the week ending August 12, 2009.

The Government gross domestic debt increased by Ksh 8.1 billion, from Ksh 518.3 billion in June 2009 to Ksh 526.4 billion as at August 7, 2009. From July 1, 2009 to August 7, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 4.7 billion.

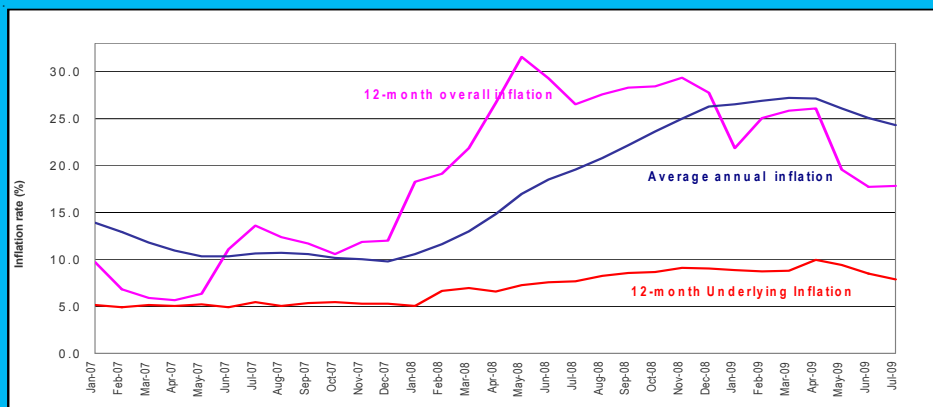
Performance at the equities market declined during the week. Equity turnover reduced by 17.3 percent, market capitalization declined by 1.0 percent while the NSE 20 Share Index gained 18 points to settle at 3255.2 points on August 13, 2009.

Inflation

The change in trend in the overall 12-month inflation reflected a rise in the cost of fuel and power which counteracted the falling food prices, especially seasonal food items such as sukuma wiki (kale), cabbages and English potatoes. On a monthly basis, fuel and power inflation rose by 2.2 percent, following rising fuel costs necessitated by the shortage of water-generated power, while food inflation fell by 2.1 percent as a result near normal rains experienced in the bread basket region. Monthly inflation for all other categories declined marginally with the exception of Transport and Communication, which rose by 0.3 percent following the rise in fuel costs.

The underlying 12-month inflation declined from 8.51 percent in June 2009 to 7.90 percent in July 2009.

Chart A: Trends in Overall and Underlying Inflation



Source: Central Bank of Kenya

Government Securities Auction

The first issue of the 364 days Treasury bills was introduced in the auction of August 12, 2009. The securities market posted a performance rate of 204.6 percent after the Government had offered for sale Treasury bills worth Ksh 8.5 billion. The Government received bids totalling Ksh 17.4 billion, of which 88.0 percent were in competitive bids. The Government securities market also posted a performance rate of 49.8 percent during the 91-day Treasury bills auction of August 13, 2009. The Government offered for sale Treasury bills worth Ksh 4.5 billion and received bids totalling Ksh 2.2 billion.

During the 364-day Treasury bills auction, the Government accepted bids totalling Ksh 8.7 billion, of which Ksh 6.6 billion were in competitive bids while the Government accepted bids worth Ksh 2.2 billion in the 91-day Treasury bills auction. The proceeds of the auctions were adequate to cover the cost of rolling over Treasury bills maturities during the week and provided for additional borrowing.

Treasury Bills Interest Rates

The average 364-day Treasury bills rate was at 8.712 percent during the week while the average 91-day Treasury bills rate declined by 0.2 basis points, from 7.263 percent in the Treasury bills auction of the same security on July 30, 2009 to 7.261 percent during this week's auction (Table 1 & Chart B). Consequently, the 12-weeks moving average for the 91-day Treasury bills rate declined from 7.347 percent to 7.337 percent.

Table 1 : Interest Rates

Auction date	02-Jul-09	09-Jul-09	16-Jul-09	23-Jul-09	30-Jul-09	06-Aug-09	13-Aug-09
Average 91 day T. Bills	7.178		7.264		7.263		7.261
Average 364 day T. Bills							8.712

Month	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
Average savings rate	1.74	1.61	1.65	2.10	2.13	1.90	1.91
Average overdraft rate	13.91	13.85	14.39	13.84	13.46	13.78	13.66

Source: Central Bank of Kenya

Interbank and REPO Market

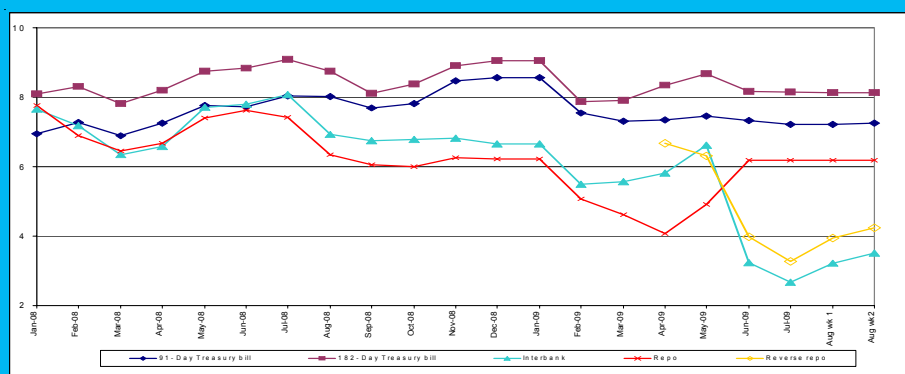
The average interbank rate increased by 30 basis points in the week ending August 13, 2009 to 3.51 percent as compared to the previous week at 3.21 percent (Table 2). The number of deals and volumes reduced from 493 to 458 and from Ksh 62,081 million to Ksh 54,847 million respectively, during the week.

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
31-Jul-09	78	8,125	3.03
01-Aug-09	104	12,436	3.11
04-Aug-09	117	15,700	3.25
05-Aug-09	97	12,597	3.33
06-Aug-09	97	13,223	3.34
July 31 - Aug 06, 2009	493	62,081	3.21
07-Aug-09	108	14,136	3.41
10-Aug-09	82	9,025	3.45
11-Aug-09	97	12,650	3.48
12-Aug-09	88	10,083	3.59
13-Aug-09	83	8,953	3.62
Aug 07 - Aug 13, 2009	458	54,847	3.51

Source: Central Bank of Kenya

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling strengthened against all the major international currencies during the week ending August 14, 2009 (Table 3). Against the US dollar, the shilling strengthened marginally to exchange at Ksh 76.41 in the week ending August 14, 2009 compared with Ksh 76.44 per US dollar in the previous week mainly due to little corporate activity. The shilling also strengthened against the Sterling Pound, the Euro and the Japanese Yen to trade, respectively, at Ksh 126.45 per Sterling Pound, Ksh 108.49 per Euro and Ksh 79.42 per 100 Japanese Yen in the week ending August 14, 2009 compared with Ksh 128.90 per Sterling Pound, Ksh 109.69 per Euro and Ksh 80.38 per 100 Japanese Yen in the week ending August 7, 2009.

In the regional scene, the Kenya Shilling strengthened against the Tanzania Shilling and weakened against the Uganda Shilling to exchange at Tsh 17.33 per Kenya Shilling and Ush 27.17 per Kenya Shilling respectively in the week ending August 14, 2009 compared with Tsh 17.29 per Kenya Shilling and Ush 27.35 per Kenya Shilling in the previous week.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
03-Aug-09	76.62	128.03	109.02	80.88	27.44	17.28
04-Aug-09	76.49	129.56	110.05	80.34	27.39	17.33
05-Aug-09	76.32	129.14	109.84	80.31	27.45	17.32
06-Aug-09	76.35	129.63	109.89	80.25	27.28	17.28
07-Aug-09	76.43	128.13	109.66	80.13	27.18	17.22
Aug 03 - 07, 2009	76.44	128.90	109.69	80.38	27.35	17.29
10-Aug-09	76.24	127.18	108.23	78.37	27.25	17.26
11-Aug-09	76.19	125.58	107.78	78.72	27.07	17.36
12-Aug-09	76.57	126.05	108.17	80.14	27.22	17.34
13-Aug-09	76.60	126.83	109.19	79.71	27.16	17.34
14-Aug-09	76.46	126.63	109.06	80.17	27.14	17.33
Aug 10 - 14, 2009	76.41	126.45	108.49	79.42	27.17	17.33

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,116 million (equivalent to 3.5 months of imports) as at August 14, 2009, down from US dollar 3,209 million (equivalent to 4.25 months of imports) as at August 14, 2008 (Table 4). The decline in import cover reflected decline in reserves level and increased import bill.

Foreign exchange reserves held by the commercial banks, predominantly used by the private sector to meet external financial obligations, decreased from US\$ 2,341 million as at end June 2008 to US\$ 1,602 million as at end June 2009.

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

	14-Aug-08	30-Sep-08	31-Dec-08	31-Mar-09	30-Apr-09	26-Jun-09	31-Jul-09	14-Aug-09
Usable Reserves	3,209	3,086	2,768	2,620	2,608	3,086	3,107	3,116
Months of Imports Cover*	4.25	4.06	3.35	3.13	3.11	3.56	3.53	3.50
Months of Imports Cover**	3.49	3.35	2.77	2.61	2.59	3.10	3.13	3.14

*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 1.5 billion on average to the market using the reverse repo securities in the week to August 12, 2009 in order to ease the liquidity constraints in the market as shown in Table 5.

Table 5: Open Market Operations (Ksh Billion)

Date	Reserve Money* (Projected)		OMO (Reverse REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks	
	Forecast	Target	Exc(+)/ Short(-)	Posted	Injected	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(7)	8=(9+10)	9	10
06-Aug	157.0	162.9	-5.9	0.0	0.0	0.0	156.9	-6.0	-0.7	-5.3
07-Aug	158.0	162.9	-4.9	0.0	0.0	0.0	157.2	-5.7	-1.1	-4.7
10-Aug	153.4	162.9	-9.5	4.0	4.0	0.0	156.7	-6.1	-1.2	-4.9
11-Aug	156.0	162.9	-6.9	1.0	1.0	0.0	156.2	-6.7	-2.7	-4.0
12-Aug	154.0	162.9	-8.9	2.5	2.7	0.2	156.7	-6.2	-2.0	-4.2
Average	155.7	162.9	-7.2	1.5	1.5	0.0	156.7	-6.2	-1.5	-4.6

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

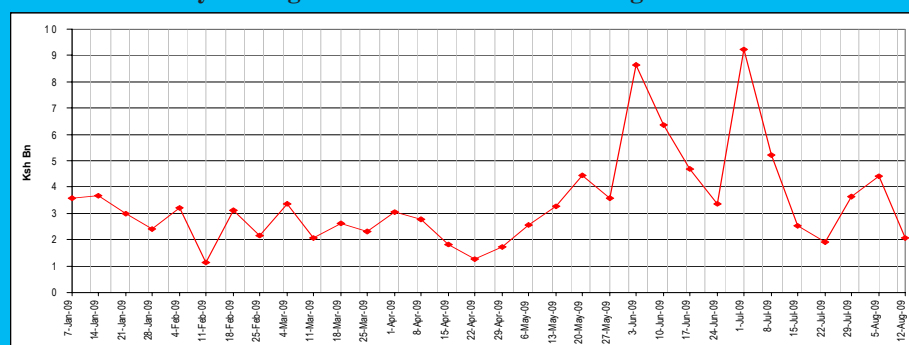
Repurchase agreement securities held by commercial banks

Central Bank injected a total of Ksh 7.6 billion using reverse repo securities to commercial banks in the week ending August 12, 2009 against redemptions of Ksh 2.9 billion. As a result, the stock of reverse repo securities held by Central Bank rose to Ksh 7.7 billion on August 12, 2009 from 3.0 billion on August 5, 2009. Reserve money for the week ending August 12, 2009 averaged Ksh 156.7 billion and remained below target by Ksh 6.2 billion.

Commercial banks clearing account balances at the central bank

Commercial banks maintained an average of Ksh 2.1 billion in their clearing accounts at the Central Bank in the week to August 12, 2009, compared with Ksh 4.4 billion held in the previous week (Chart C).

Chart C: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Government Domestic Debt

The Government gross domestic debt increased by Ksh 8.1 billion, from Ksh 518.3 billion in June 2009 to Ksh 526.4 billion as at August 7, 2009 (Table 6 and Chart D). This was attributed to increases of Ksh 4.0 billion in Treasury bills excluding repos and Ksh 10.5 billion in Treasury bonds. However, the increase was offset by decreases of Ksh 5.1 billion in the overdraft at the Central Bank of Kenya and Ksh 1.3 billion in other domestic debt.

Treasury bills (excluding Repos) increased from Ksh 116.8 billion in June 2009 to Ksh 120.8 billion as at August 7, 2009 while Treasury bonds increased from Ksh 360.7 billion to Ksh 371.2 billion during the period. However, other domestic debt and overdraft at the CBK decreased from Ksh 34.9 billion and Ksh 5.1 billion, respectively, to Ksh 33.6 billion and zero. Long-term stocks remained unchanged at Ksh 0.8 billion during the period.

Following these developments, the holdings of Treasury bonds in total Government securities decreased from 75.4 percent in June 2009 to 75.3 percent as at August 7, 2009 while Treasury bills holdings increased from 24.4 percent to 24.5 percent during the period. As a result, the maturity profile of Government securities decreased from 3 years and 9 months to 3 years and 8 months during the period.

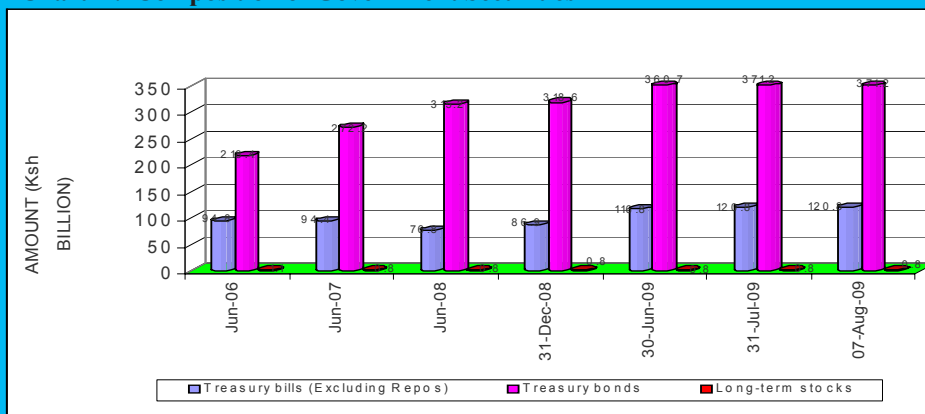
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	27th Mar 09	30th June 09	31st July 2009	7th Aug 2009	Changes	30th Jun-08 - 7th Aug-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	86.9 21.4	97.9 22.6	116.8 24.4	120.8 24.5	120.8 24.5	0.0 0.0	4.0 0.1
2. Treasury Bonds (As % of total securities)	315.2 80.2	318.6 78.4	334.4 77.2	360.7 75.4	371.2 75.3	371.2 75.3	0.0 0.0	10.5 -0.1
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	0.0 0.0
4. Total Securities (1+2+3)	392.8	406.3	433.1	478.3	492.8	492.8	0.0	14.5
5. Overdraft at Central Bank	0.0	15.1	5.5	5.1	3.9	0.0	-3.9	-5.1
6. Other Domestic debt*	37.8	34.9	35.4	34.9	33.7	33.6	-0.1	-1.3
7. Gross Domestic Debt (4+5+6)	430.6	456.2	474.0	518.3	530.4	526.4	-4.0	8.1
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	33.5	45.9	4.5	4.7	0.2	

* 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

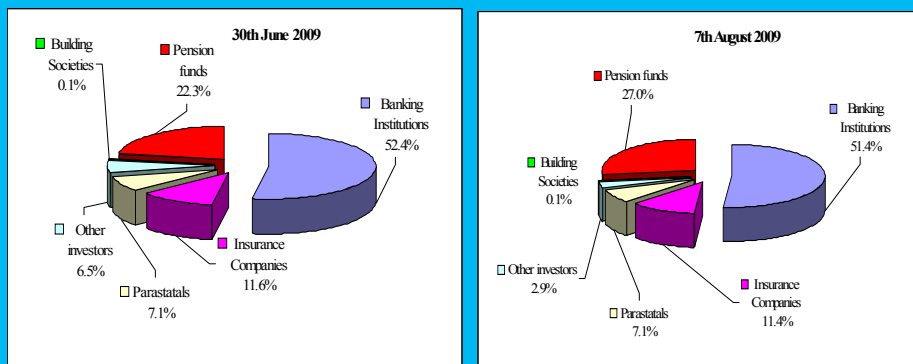


Source: Central Bank of Kenya

Holding of Government Securities

Government securities holdings by pension funds increased from 22.3 percent in June 2009 to 27.0 percent as at August 7, 2009 (Chart E). On the other hand, holdings of commercial banks, insurance companies and other investors decreased from 52.4 percent, 11.6 percent and 6.5 percent, respectively, in June 2009 to 51.4 percent, 11.4 percent and 2.9 percent during the same period. Holdings of building societies and parastatals however remained unchanged at 0.1 percent and 7.1 percent respectively.

Chart E: Composition of Government Securities by Investor

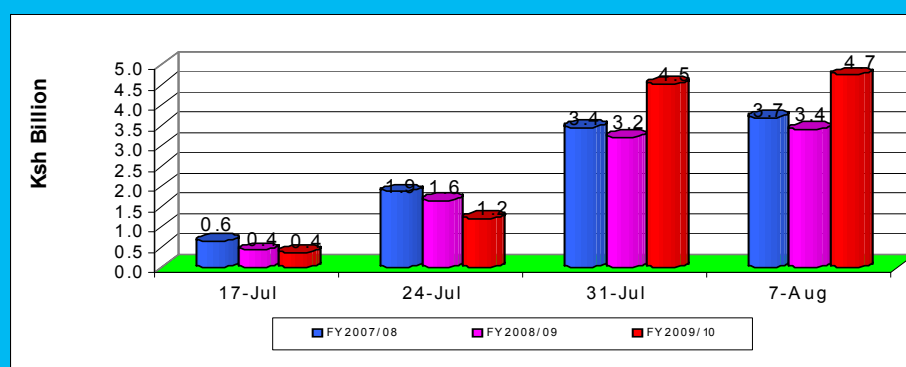


Source: Central Bank of Kenya

Cost of domestic borrowing

From July 1, 2009 to August 7, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 4.7 billion as shown in Chart F. The interest cost on domestic debt during the period comprised Ksh 3.6 billion in interest and other charges on Treasury Bonds and Ksh 1.1 billion in interest and other charges on Treasury Bills.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was a decline in performance at the equities market during the week ending August 13, 2009 (Table 7). Equity turnover reduced by 17.3 percent as stocks worth Ksh 638.3 million were traded compared with Ksh 771.9 million traded in the previous week. The number of shares traded reduced from 68.7 million in the previous week to 58.2 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth declined by 1.0 percent or Ksh 8.0 billion to close at Ksh 823.6 billion in the week under review from Ksh 831.6 billion in the previous week. The NSE 20 Share Index gained 18 points to settle at 3255.2 points on August 13, 2009 from 3237.2 points on August 6, 2009. The Nairobi All Share Index lost 0.7 points to settle at 71.1 points on August 13, 2009.

Table 7: Key Weekly Market Statistics

Week Ending	25-Jun-09	02-Jul-09	09-Jul-09	16-Jul-09	23-Jul-09	30-Jul-09	06-Aug-09	13-Aug-09
NASI 100= Jan 2008	69.74	72.30	71.85	71.15	71.79	70.99	71.81	71.12
NSE 20 Share Index	3,246.43	3,357.66	3,312.64	3,256.75	3,317.62	3,246.09	3,237.20	3,255.19
Number of Deals	13,116	9,631	10,026	8,926	8,196	8,410	7,233	7,546
Total Shares Traded	96.97	81.41	76.43	60.76	52.61	59.02	68.72	58.16
Equity Turnover (Ksh.)	1,264.18	1,073.35	826.83	573.02	633.49	687.17	771.91	638.29
Market Capitalization (Ksh.)	807.62	837.30	832.05	824.02	831.36	822.15	831.60	823.64
Bonds Turnover (Ksh.)	1,015.60	2,549.50	1,712.55	1,807.90	1,087.15	1,375.00	828.35	1,302.80

* 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 37.4 million shares and accounted for 64 percent of total traded volume. Safaricom traded 36.4 million shares to be the most active stock in the sector. The Finance and Investment sector traded 13.4 million shares and accounted for 23 percent of total traded volume. Equity Bank and Kenya Commercial Bank traded 4.5 million and 4.3 million shares and were the most active counters in the sector. Industrial and Allied sector traded 6.9 million shares and accounted for 12 percent of traded volume. Mumias and KenGen were the most active counters and traded 3.7 million and 1.9 million shares, respectively. The other sectors had minimal trading.

Bond Market Bond market trading improved at the Fixed Income Securities Market during the week. Bond turnover increased as bonds worth Ksh 1.3 billion were traded compared with Ksh 0.8 billion traded in the previous week.