

August 28, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted a 31.2 percent performance rate during the 91-day Treasury bills auction of August 27, 2009. The average 91-day Treasury bills rate was 7.223 percent during this week's auction.

The average interbank rate increased by 27 basis points in the week ending Aug 27, 2009 to 4.01 percent from 3.74 percent in the previous week. The number of deals and value declined in the week ending August 27, 2009.

The Kenya Shilling strengthened against major international currencies during the week ending August 28, 2009 (Table 3). Against the US dollar, the shilling strengthened to Ksh 76.26 in the week ending August 28, 2009 compared with Ksh 76.38 in the previous week.

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,157 million (equivalent to 3.54 months of imports) as at August 28, 2009, compared with US\$ 3,152 million (equivalent to 4.14 months of imports) as at August 29, 2008.

Government gross domestic debt increased by Ksh 14.6 billion, from Ksh 518.3 billion in June 2009 to Ksh 532.9 billion as at August 21, 2009. From July 1, 2009 to August 21, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 5.9 billion.

Performance at the equities market declined during the week. Equity turnover declined by 10.3 percent, market capitalization declined by 2.7 percent while the NSE 20 Share Index lost 83.8 points to settle at 3099.9 points on August 27, 2009.

Government Securities Auction

The Government securities market posted a 31.2 percent performance rate during the 91-day Treasury bills auction of August 27, 2009. The Government offered for sale Treasury bills worth Ksh 5.0 billion and received bids totalling Ksh 1.6 billion.

The Government accepted all the Treasury bills bids totalling Ksh 1.6 billion, of which Ksh 1.1 billion or 69.7 percent were in competitive bids. The proceeds of the auction were partly to be used to meet the cost of rolling over Treasury bills maturities amounting to Ksh 3.3 billion in the week and provided a net repayment of Ksh 1.8 billion.

Table 1 : Interest Rates

Auction date	16-Jul-09	23-Jul-09	30-Jul-09	06-Aug-09	13-Aug-09	20-Aug-09	27-Aug-09
Average 91 day T. Bills	7.264		7.263		7.261		7.223
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

Treasury Bills Rates

The average 91-day Treasury bills rate declined by 3.8 basis points, from 7.261 percent in the previous auction of the same security to 7.223 percent during this week's auction (Table 1). Consequently, the 12-weeks moving average for the 91-day Treasury bills rate declined from 7.337 percent to 7.325 percent.

Interbank and REPO Market

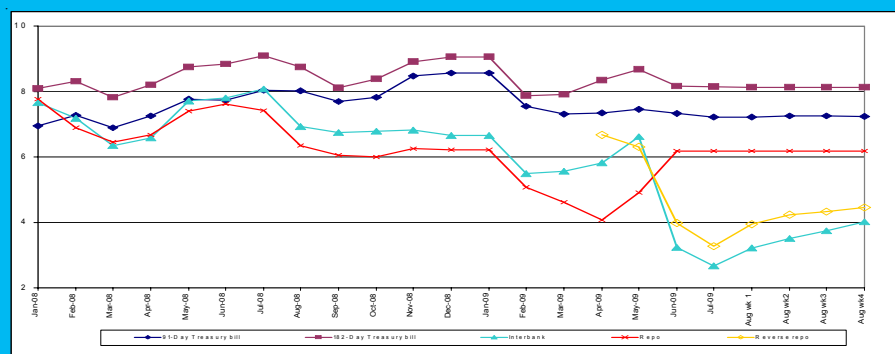
The average interbank rate increased by 27 basis points in the week ending August 27, 2009 to 4.01 percent compared with 3.14 percent in the previous week. at 3.74 percent. The number of deals and volumes declined from 476 to 385 and from Ksh 64,312 to Ksh 48,861 respectively during the week (Table 2, Chart A). The decline in the number of deals and value is partly due to fewer trading days this week on account of the holiday. The interbank rate went up on account of tight trading in the week.

Table 2 Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
14-Aug-09	95	12,904	3.63
17-Aug-09	100	12,506	3.68
18-Aug-09	97	14,503	3.74
19-Aug-09	93	12,211	3.82
20-Aug-09	91	12,188	3.83
Aug 14 - Aug 20, 2009	476	64,312	3.74
21-Aug-09	102	12,271	3.87
24-Aug-09	104	11,823	3.96
26-Aug-09	91	11,906	4.08
27-Aug-09	88	12,861	4.13
Aug 21 - Aug 27, 2009	385	48,861	4.01

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling strengthened against major international currencies during the week ending August 28, 2009 (Table 3). Against the US dollar, the shilling strengthened to Ksh 76.26 in the week ending August 28, 2009 compared with Ksh 76.38 in the previous week mainly due to minimal corporate activity. The shilling also strengthened against the Sterling Pound to trade at Ksh 124.55 compared with Ksh 126.45 per Sterling Pound in the week ending August 28, 2009. However, the shilling weakened against the Euro to trade at 109.17 per Euro in the week ending August 28, 2009 compared with Ksh 108.17 per Euro in the previous week. The Kenya Shilling weakened marginally against the Japanese Yen to trade at Ksh 80.99 per 100 Japanese Yen in the week ending August 28, 2009 compared with Ksh 80.95 per 100 Japanese Yen in the previous week.

In the regional scene, the Kenya Shilling remained little changed against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 27.03 per Kenya Shilling and Tsh 17.24 per Kenya Shilling in the week ending August 28, 2009 compared with Ush 27.04 per Kenya Shilling and Tsh 17.25 per Kenya Shilling in the previous week respectively.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
17-Aug-09	76.38	125.13	107.81	81.01	26.97	17.37
18-Aug-09	76.44	125.27	107.96	80.46	26.89	17.22
19-Aug-09	76.39	125.96	107.72	80.98	27.03	17.25
20-Aug-09	76.36	126.52	108.75	80.89	27.11	17.22
21-Aug-09	76.32	125.53	108.60	81.41	27.19	17.21
Aug 17-21, 2009	76.38	125.68	108.17	80.95	27.04	17.25
24-Aug-09	76.29	125.74	109.27	80.34	27.10	17.24
26-Aug-09	76.28	124.67	109.20	80.97	27.01	17.22
27-Aug-09	76.26	123.73	108.44	81.37	27.05	17.24
28-Aug-09	76.23	124.07	109.35	81.28	26.96	17.25
Aug 24-28, 2009	76.26	124.55	109.06	80.99	27.03	17.24

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,141 million (equivalent to 3.52 months of imports) as at August 21, 2009, down from US dollar 3,156 million (equivalent to 4.18 months

of imports) as at August 21, 2008 (Table 4). The decline in import cover reflected decline in reserves level and increased import bill.

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,157 million (equivalent to 3.54 months of imports) as at August 28, 2009, compared with US\$ 3,152 million (equivalent to 4.14 months of imports) as at August 29, 2008 (Table 4). The decline in import cover reflects a higher import bill.

Foreign exchange reserves held by the commercial banks, predominantly used by the private sector to meet external financial obligations, decreased from US\$ 2,177 million as at end July 2008 to US\$ 1,614 million as at end July 2009.

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

	21-Aug-08	29-Aug-08	31-Mar-09	30-Apr-09	26-Jun-09	31-Jul-09	21-Aug-09	28-Aug-09
Usable Reserves	3,156	3,152	2,620	2,608	3,086	3,107	3,141	3,157
Months of Imports Cover*	4.18	4.14	3.13	3.11	3.66	3.53	3.52	3.54
Months of Imports Cover**	3.43	3.43	2.61	2.59	3.10	3.13	3.16	3.18

*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

During the week ending August 26, 2009, market liquidity continued to be below the desired level. To improve liquidity conditions, Central Bank of Kenya injected Ksh 15.0 billion through reverse repo securities against maturing reverse repo amounting to Ksh 11.4 billion. Reserve money averaged Ksh 155.2 billion in the week and remained below target by Ksh 7.7 billion.

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(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
20-Aug	155.3	162.9	-7.6	0.0	0.0	0.0	157.1	-5.8	0.4	-6.1
21-Aug	157.4	162.9	-5.4	0.0	0.0	0.0	155.7	-7.1	-0.4	-6.8
24-Aug	144.1	162.9	-18.8	10.0	10.0	0.0	153.7	-9.2	-1.9	-7.3
26-Aug	149.0	162.9	-13.8	5.0	5.0	0.0	154.1	-8.8	-2.5	-6.3
Average	151.5	162.9	-11.4	3.8	3.7	0.0	155.2	-7.7	-1.1	-6.6

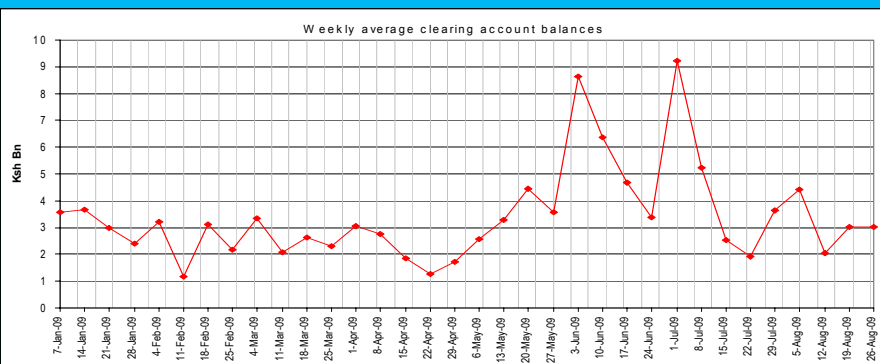
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 3.0 billion in their clearing accounts at the Central Bank in the week to August 29, 2009 (Charts B).

Chart B: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Government Domestic Debt

The Government gross domestic debt increased by Ksh 14.6 billion, from Ksh 518.3 billion in June 2009 to Ksh 532.9 billion as at August 21, 2009 (Table 6 and Chart C). This was attributed to increases of Ksh 10.9 billion in Treasury bills excluding repos and Ksh 10.5 billion in Treasury bonds. However, the increase was offset by decreases of Ksh 4.7 billion in the overdraft at the Central Bank of Kenya and Ksh 2.1 billion in other domestic debt.

Treasury bills (excluding Repos) increased from Ksh 116.8 billion in June 2009 to Ksh 127.6 billion as at August 21, 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 32.9 billion and Ksh. 0.5 billion. 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 74.3 percent as at August 21, 2009 while Treasury bills holdings increased from 24.4 percent to 25.5 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.

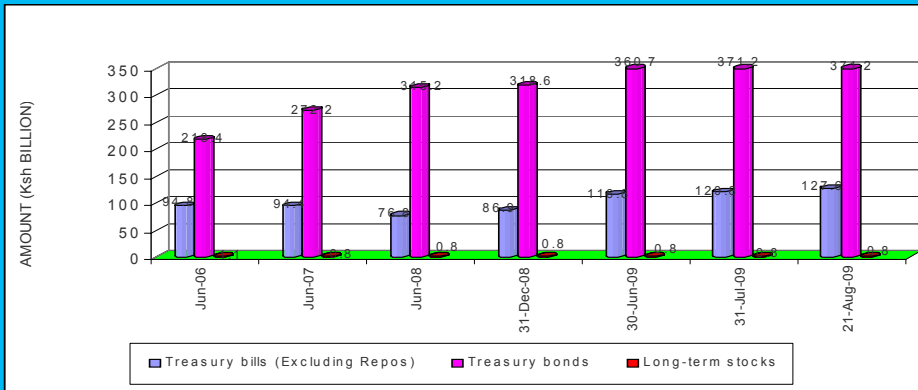
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	27th Mar 09	30th June 09	14th Aug 2009	21st Aug 2009	Changes 14th Aug-09 -21st Aug-09	30th Jun-09 -21st 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	122.0 24.7	127.6 25.5	5.6 0.8	10.9 1.1
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 75.1	371.2 74.3	0.0 -0.8	10.5 -1.1
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	494.0	499.6	5.6	21.3
5. Overdraft at Central Bank	0.0	15.1	5.5	5.1	0.0	0.5	0.5	-4.7
6. Other Domestic debt*	37.8	34.9	35.4	34.9	33.3	32.9	-0.5	-2.1
7. Gross Domestic Debt (4+5+6)	430.6	456.2	474.0	518.3	527.3	532.9	5.6	14.6
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	33.5	45.9	5.1	5.9	0.8	

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

Source: Central Bank of Kenya

Chart C: Composition of Government Securities

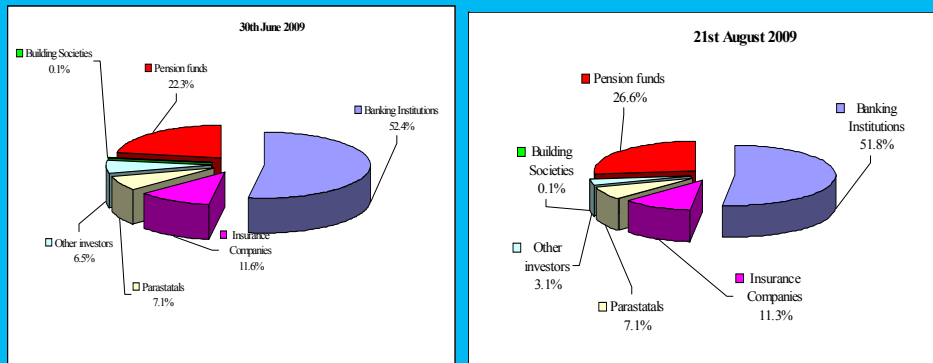


Source: Central Bank of Kenya

Holding of Government Securities

Government securities holdings by pension funds increased from 22.3 percent in June 2009 to 26.6 percent as at August 21, 2009. 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 51.8 percent, 11.3 percent, and 3.1 percent during the same period. Holdings of building societies and parastatals however remained unchanged at 0.1 percent and 7.1 percent respectively.

Chart D: Composition of Government Securities by Investor

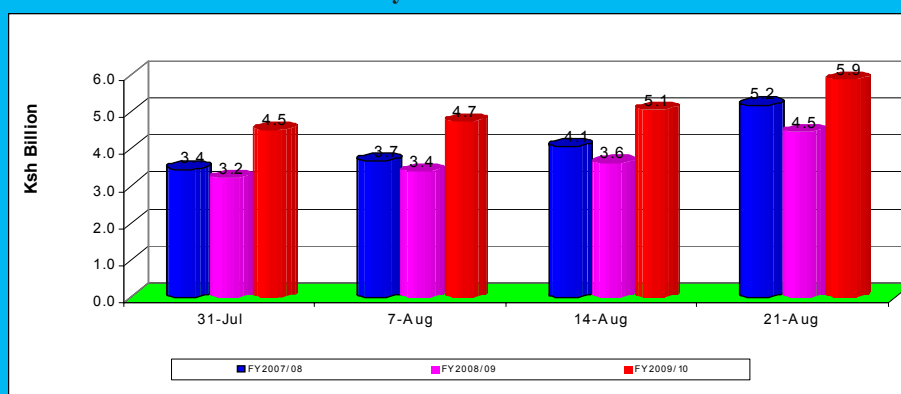


Source: Central Bank of Kenya

Cost of Domestic Borrowing

From July 1, 2009 to August 21, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 5.9 billion as shown in Chart E. The interest cost on domestic debt during the period comprised Ksh 4.1 billion in interest and other charges on Treasury Bonds and Ksh 1.8 billion in interest and other charges on Treasury Bills.

Chart E: 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 27, 2009. Equity turnover declined by 10.3 percent as stocks worth Ksh 647.5 million were traded compared with Ksh 722.2 million traded in the previous week. The number of shares traded decreased, from 80.5 million in the previous week to 58.4 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth declined by 2.7 percent or Ksh 21.4 billion to close at Ksh 782.3 billion in the week under review from Ksh 803.7 billion in the previous week. The NSE 20 Share Index lost 83.8 points to settle at 3099.9 points on August 27, 2009 from 3183.7 points on August 20, 2009. The Nairobi All Share Index lost 1.9 points to settle at 67.5 points on August 27, 2009 (Table 7).

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	20-Aug-09	27-Aug-09
NASI 100=Jan 2008	69.74	72.30	71.85	71.15	71.79	70.99	71.81	71.12	69.40	67.53
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	3,183.71	3,099.92
Number of Deals	13,116	9,631	10,026	8,926	8,196	8,410	7,233	7,546	8,842	5,498
Total Shares Traded	96.97	81.41	76.43	60.76	52.61	59.02	68.72	58.16	80.50	58.42
Equity Turnover (Ksh.)	1,264.18	1,073.35	826.83	573.02	633.49	687.17	771.91	638.29	722.18	647.46
Market Capitalization (Ksh.)	807.62	837.30	832.05	824.02	831.36	822.15	831.60	823.64	803.69	782.26
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	1,073.00	2,721.80

* 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 37.6 million shares and accounted for 64 percent of total traded volume. Safaricom traded 35.3 million shares to be the most active stock in the sector. The Finance and Investment sector traded 12.9 million shares and accounted for 22 percent of total traded volume. Equity Bank and Co-operative Bank traded 6.3 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 13 percent of traded volume. Mumias and E.A Breweries were the most active counters and traded 4.8 million and 1.3 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 2.7 billion were traded compared with Ksh 1.1 billion traded in the previous week.