

**December 04, 2009**



## THE CBK WEEKLY BULLETIN

### Highlights for the Week

The overall 12-month inflation fell for the ninth consecutive month to reach 5.0 percent in November 2009 from 14.62 percent in February 2009 and 6.6 percent in October 2009. This reflected the change in the computation method which stabilized the erratic food prices, as well as a fall in the general price levels of some of the items in the various baskets.

The infrastructure Bond auction posted a performance rate of 225.9 percent while the 91-day Treasury bills auction posted a performance rate of 151.3 percent. The interest rate on the 12-year infrastructure bond at 12.537 was lower than the bond of the same tenure issued in February 2009 by 96.8 basis points. The average 91-day Treasury bill interest rate declined by 26.1 basis points to 6.937 percent compared to the previous auction.

The average interbank rate declined by 40 basis points in the week ending December 3, 2009 to 2.36 percent compared with 2.76 percent the previous week.

The Kenya Shilling on average depreciated against the major international currencies during the week ending December 04, 2009. Against the US dollar, the shilling depreciated to exchange at Ksh 74.88 in the week ending December 04, 2009 compared with Ksh 74.65 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank stood at US dollar 3,391 million (equivalent to 3.72 months of imports) as at December 04, 2009 compared with US dollar 2,719 million (equivalent to 3.57 months of imports) as at December 04, 2008.

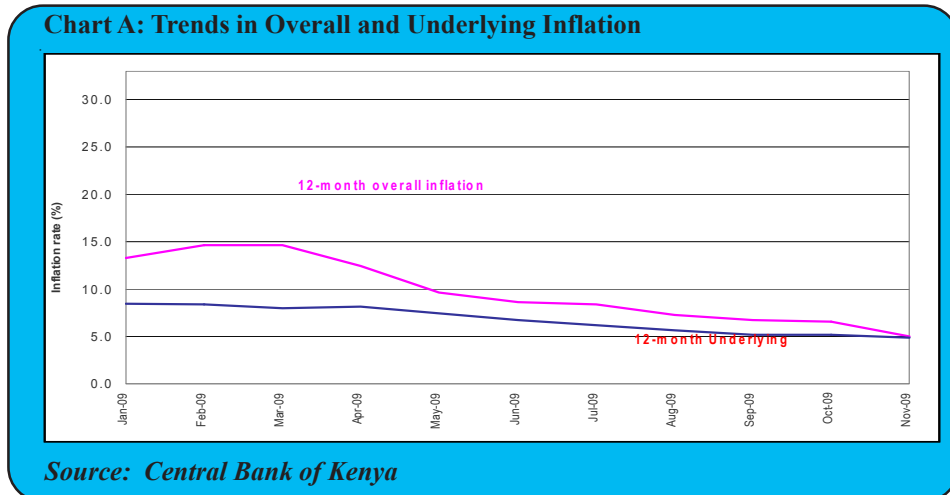
Central Bank stayed out of the market during the week ending December 2, 2009.

Government gross domestic debt increased by Ksh 45.0 billion from Ksh 518.3 billion in June 2009 to Ksh 563.4 billion as at November 27 2009 of the FY 2009/10. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 25.7 billion.

Performance at the equities market declined during the week. Equity turnover decreased by 52.1 percent, market capitalization declined by 2.2 percent while the NSE 20 Share index lost 21.4 points to settle at 3170.5 points on December 3, 2009.

**Inflation**

The overall 12-month inflation fell by 1.6 percent from 6.6 percent in October 2009 to 5.0 percent in November 2009. The most significant decrease was in the housing category, which was heavily influenced by the “Nairobi Low-income group” whose index fell from 120.1 points to 114.8 points in November 2009. The 12-month underlying inflation, (without food, transport and energy) fell marginally by 0.33 points to stand at 4.8 percent in November 2009.



**Government Securities Auction**

The Government securities market posted impressive performance during the infrastructure bonds and Treasury bills auctions of this week. The government offered for sale 12-year infrastructure Bonds worth Ksh 18.5 billion during the auction held on December 2, 2009 and received bids totalling Ksh 41.8 billion, a subscription rate of 225.9 percent. In addition, during the Treasury bills auction held on December 3, 2009 the Government offered for sale 91-day Treasury bills amounting to Ksh 4.0 billion and received bids amounting to Ksh 6.1 billion, a performance rate of 151.3 percent.

The Government accepted infrastructure bonds bids amounting to Ksh 18.4 billion of which Ksh 13.0 billion or 70.3 percent were in competitive bids. In addition, 91-day Treasury bills bids totalling Ksh 4.6 billion were accepted of which Ksh 3.4 billion or 73.9 percent were in competitive bids. The proceeds of the Treasury bills auction were adequate to cover the cost of rolling over Treasury bills maturities falling due in the week, while those of the infrastructure bond will be used to finance infrastructure projects in the roads, water and energy sectors.

**Table 1: Interest Rates**

Auction date	08-Oct-09	15-Oct-09	22-Oct-09	29-Oct-09	05-Nov-09	12-Nov-09	19-Nov-09	26-Nov-09	03-Dec-09
Average 91 day T. Bills	7.248		7.264		7.232		7.198		6.937
Average 182 day T. Bills		7.969		8.070		8.061		7.943	
Average 364 day T. Bills	8.438								
Month	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Average savings rate	2.13	1.90	1.91	1.67	2.08	1.67	1.65	1.65	1.85
Average overdraft rate	13.46	13.78	13.66	14.13	14.41	13.94	13.90	13.76	14.03

Source: Central Bank of Kenya

### Treasury Bills Rates

The average 91-day Treasury bill interest rate declined by 26.1 basis points from 7.198 percent in the previous auction to 6.937 percent in the current week's auction. Consequently, the 12-week moving average for the 91-day Treasury bill rate declined from 7.246 percent in the previous auction to 7.224 percent.

The average interest rate on the 12-year infrastructure bond issued on December 02 2009 was 12.537 percent or 96.8 basis points lower than a similar bond issued in February 2009.

### Interbank and REPO Market

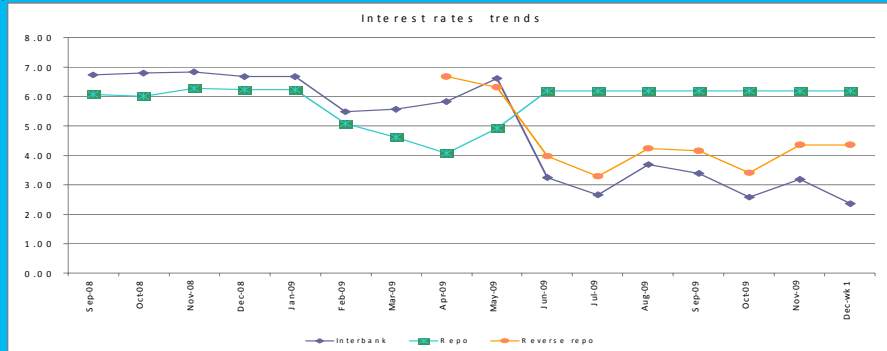
The average interbank rate declined by 40 basis points in the week ending December 3, 2009 to 2.36 percent from 2.76 percent in the previous week. The number of deals and volumes declined from 475 and Ksh 77.87 billion to 340 and Ksh 49.21 billion respectively, in the week ending December 3, 2009.

**Table 2: Interbank Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
Nov 13 - Nov 19, 2009	381	61,190	3.21
20-Nov-09	100	15,512	2.85
23-Nov-09	91	14,111	2.81
24-Nov-09	98	16,103	2.77
25-Nov-09	99	16,082	2.72
26-Nov-09	87	15,979	2.65
Nov 20 - Nov 26, 2009	475	77,787	2.76
27-Nov-09	81	13,997	2.55
30-Nov-09	78	10,057	2.48
01-Dec-09	63	8,242	2.42
02-Dec-09	55	9,312	2.32
03-Dec-09	63	7,598	2.03
Nov 27 - Dec 3, 2009	340	49,205	2.36

Source: Central Bank of Kenya

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

**The Shilling Exchange Rate**

The Kenya Shilling on average depreciated against the major international currencies during the week ending December 04, 2009 (Table 3). Against the US dollar, the shilling depreciated to exchange at Ksh 74.88 in the week ending December 04, 2009 compared with Ksh 74.65 per US dollar in the previous week. The shilling also depreciated against the Sterling Pound, the Euro, and the Japanese Yen to exchange at Ksh 123.97 per Sterling Pound, Ksh 112.74 per Euro and Ksh 85.69 per 100 Japanese Yen in the week ending December 04, 2009 compared with Ksh 123.70 per Sterling Pound, Ksh 111.75 per Euro and Ksh 84.90 per 100 Japanese Yen in the previous week respectively.

On the regional scene, the Kenya Shilling weakened marginally against Uganda Shilling and the Tanzania Shilling to exchange at Ush 25.11 per Kenya Shilling and Tsh 17.72 per Kenya Shilling in the week ending December 04, 2009 compared with Ush 25.19 per Kenya Shilling and Tsh 17.77 per Kenya Shilling in the previous week respectively.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
23-Nov-09	74.75	123.75	111.62	84.11	25.16	17.75
24-Nov-09	74.69	123.80	111.52	84.09	25.18	17.76
25-Nov-09	74.74	124.26	112.00	84.49	25.16	17.75
26-Nov-09	74.50	124.26	112.36	85.72	25.24	17.80
27-Nov-09	74.54	122.43	111.24	86.07	25.23	17.80
<b>Nov 23-27, 2009</b>	<b>74.65</b>	<b>123.70</b>	<b>111.75</b>	<b>84.90</b>	<b>25.19</b>	<b>17.77</b>
30-Nov-09	74.91	124.08	112.72	86.53	25.10	17.71
01-Dec-09	74.89	122.97	112.37	85.66	25.11	17.71
02-Dec-09	74.77	124.07	112.83	85.96	25.15	17.74
03-Dec-09	74.82	124.74	112.87	85.20	25.14	17.73
04-Dec-09	75.02	123.97	112.90	85.10	25.07	17.68
<b>Nov 30-Dec 04, 2009</b>	<b>74.88</b>	<b>123.97</b>	<b>112.74</b>	<b>85.69</b>	<b>25.11</b>	<b>17.72</b>

Source: Central Bank of Kenya

**Foreign Exchange Reserves**

Official usable foreign exchange reserves held by the Central Bank stood at US dollar 3,391 million (equivalent to 3.72 months of imports) as at December 04, 2009, compared with US dollar 2,719 million (equivalent to 3.57 months of imports) as at December 04, 2008 (Table 4).

Foreign exchange reserves held by the commercial banks, predominantly used by the private sector to meet external financial obligations declined from US\$ 1,807 million at the end of October 2008 to US\$ 1,536 million at end of October 2009.

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

	04-Dec-08	29-May-09	26-Jun-09	31-Jul-09	31-Aug-09	30-Sep-09	30-Oct-09	04-Dec-09
Usable Reserves	2,719	2,789	3,086	3,097	3,154	3,243	3,302	3,391
Months of Imports Cover*	3.57	3.22	3.56	3.52	3.54	3.67	3.67	3.72
Months of Imports Cover**	3.24	2.80	3.10	3.12	3.18	3.27	3.33	3.41

\*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

The market was fairly liquid during the week ending December 2, 2009 following Treasury bill and bond redemptions as well as increased Government spending. During the week, Central Bank stayed out of the market as shown in Table 5. There were no reverse repo maturities for the week under review. Reserve money averaged Ksh 175.6 billion during the week under review and was above target by Ksh 4.9 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
26-Nov	168.3	168.0	0.2	0.0	0.0	0.0	168.4	0.3	6.7	-6.4
27-Nov	171.0	168.0	3.0	0.0	0.0	0.0	171.0	2.9	9.0	-6.1
30-Nov	177.9	168.5	9.4	0.0	0.0	0.0	178.3	9.8	15.4	-5.6
01-Dec	179.3	174.5	4.8	0.0	0.0	0.0	179.5	5.1	13.5	-8.5
02-Dec	180.1	174.5	5.6	0.0	0.0	0.0	180.6	6.1	14.6	-8.5
Average	175.3	170.7	4.6	0.0	0.0	0.0	175.6	4.9	11.9	-7.0

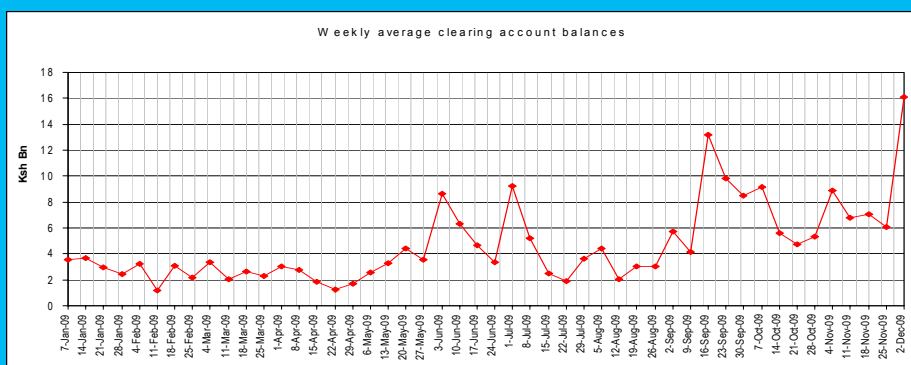
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

### Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 16.1 billion in their clearing accounts at the Central Bank in the week to December 2, 2009, compared with Ksh 6.1 billion held in the previous week (Charts C).

**Chart C: Weekly Average Commercial Banks Clearing Account Balances**



Source: Central Bank of Kenya

### Government Domestic Debt

Government gross domestic debt increased by Ksh 45.0 billion from Ksh 518.3 billion in June 2009 to Ksh 563.4 billion as at November 27 2009 (Table 6 and Chart D). The increase was as a result of increases of Ksh 20.1 billion, Ksh 21.5 billion and Ksh 4.7 billion in Treasury bills (excluding Repos), Treasury bonds and overdraft at the Central Bank of Kenya, respectively.

Treasury bills, Treasury bonds, overdraft at Central Bank of Kenya and other domestic debt increased from Ksh 116.8 billion, 360.7 billion, Ksh 5.1 billion and Ksh 34.9 billion in June 2009 to Ksh 136.9 billion, Ksh 382.3 billion, Ksh 9.8 billion and 33.6 billion, respectively as at November 27 2009. Long term stocks remained unchanged from Ksh 0.8 billion during the same period.

**Table 6: Government Domestic Debt (Ksh Billion)**

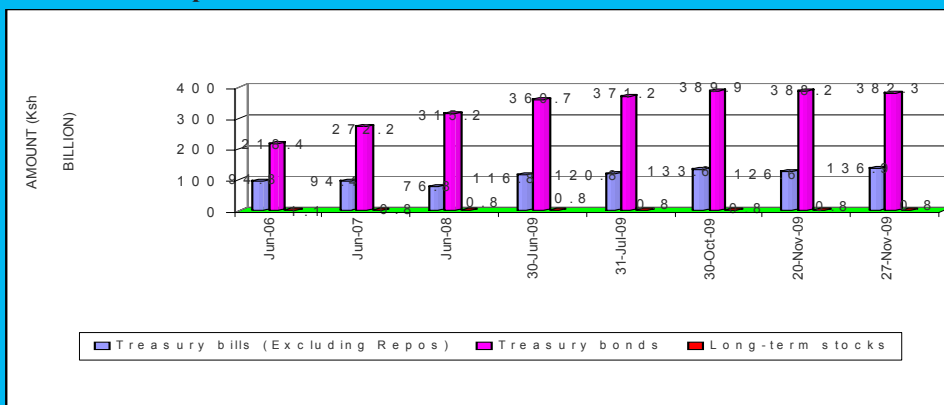
	Jun-08	Jun-09	31st July 2009	28th Aug 2009	25th Sep 2009	30th Oct 2009	20th Nov 2009	27th Nov 2009	Changes	
									30th Oct-09-27th Nov-09	30th Jun-09-27th Nov-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	116.8 24.4	120.8 24.5	129.4 25.4	121.7 23.9	133.6 25.5	126.6 24.6	136.9 26.3	10.4 1.8	20.1 1.9
2. Treasury Bonds (As % of total securities)	315.2 80.2	360.7 75.4	371.2 75.3	378.5 74.4	386.1 75.9	389.9 74.4	388.2 75.3	382.3 73.5	-5.9 -1.8	21.5 -1.9
3. Long Term Stocks (As % of total securities)	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.1	0.8 0.1	0.8 0.1	0.8 0.1	0.8 0.1	0.0 0.0	0.0 0.0
4. Total Securities (1+2+3)	392.8	478.3	492.8	508.7	508.5	524.2	515.5	520.0	4.5	41.7
5. Overdraft at Central Bank	0.0	5.1	3.9	6.1	16.0	9.3	7.8	9.8	2.0	4.7
6. Other Domestic debt*	37.8	34.9	33.7	33.8	33.7	33.6	33.6	33.6	0.0	-1.4
7. Gross Domestic Debt (4+5+6)	430.6	518.3	530.4	548.6	558.2	567.1	556.9	563.4	6.5	45.0
8. Interest payments on domestic debt (Cumulative in FY)	42.2	45.9	4.5	9.8	13.2	19.2	20.5	25.7	5.2	

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

Source: Central Bank of Kenya

Following these developments, the share of Treasury bonds in total Government securities declined from 75.4 percent in June 2009 to 73.5 percent as at November 27 2009 while that of Treasury bills increased from 24.4 percent to 26.3 percent. As a result, the maturity profile of Government securities stood at 3 years 11 months.

**Chart D: Composition of Government Securities**

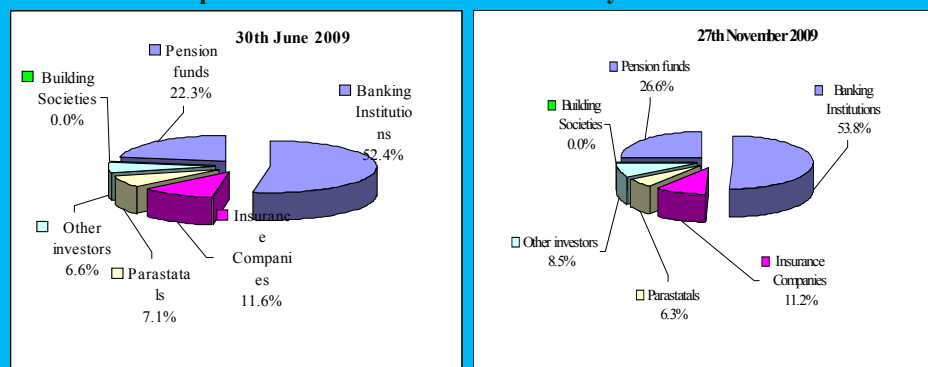


Source: Central Bank of Kenya

### Holding of Government Securities

The holdings of Government securities by commercial banks, pension funds and other investors increased from 52.4 percent, 22.3 percent and 6.6 percent, respectively in June 2009 to 53.8 percent, 26.6 percent and 8.5 percent, respectively as at November 27 2009. On the other hand, holdings by insurance companies and parastatals declined from 11.6 percent and 7.1 percent, respectively to 11.2 percent and 6.3 percent during the same period (Chart E).

**Chart E: Composition of Government Securities by Investor**

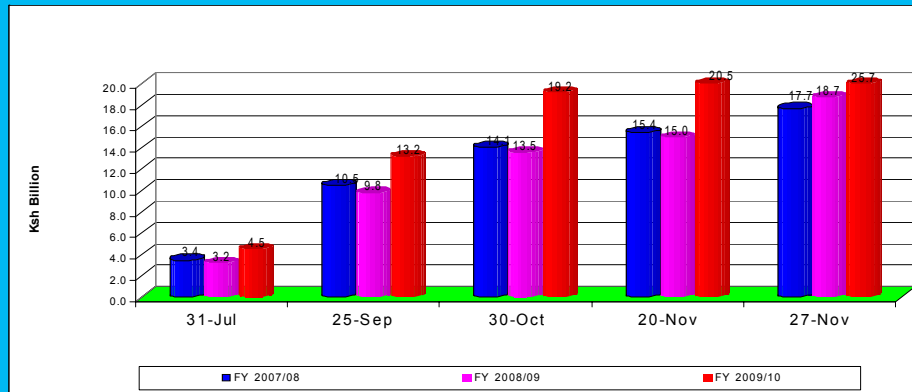


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt for the period up to November 27 2009 of the FY 2009/10 amounted to Ksh 25.7 billion compared with Ksh 18.7 billion in a similar period in the fiscal year 2008/09 (Chart F). The interest cost on domestic debt during the period comprised Ksh 19.8 billion in interest and other charges on Treasury bonds, Ksh 5.5 billion in interest and other charges on Treasury bills, and Ksh 0.4 billion in interest on both Government overdraft at CBK and the pre-1997 government overdraft.

**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 December 3, 2009. Equity turnover decreased by 52.1 percent as stocks worth Ksh 577.3 million were traded compared with Ksh 1,206.3 million traded in the previous week. The number of shares traded decreased, from 179.3 million in the previous week to 55.8 million shares in the week under review. Market capitalization as a measure of total shareholders wealth declined by 2.2 percent or Ksh 18.3 billion to close at Ksh 816.7 billion in the week under review from Ksh 835.0 billion in the previous week. The NSE 20 Share index lost 21.4 points to settle at 3170.5 points on December 3, 2009 from 3191.93 points on November 26, 2009. The Nairobi All Share Index also lost 1.6 points to settle at 70.5 points on December 3, 2009 (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	22-Oct-09	29-Oct-09	05-Nov-09	12-Nov-09	19-Nov-09	26-Nov-09	03-Dec-09
NASI 100= Jan 2008	66.97	67.37	67.52	68.41	68.86	72.08	70.51
NSE 20 Share Index 100=1966	3,049.99	3,066.01	3,077.11	3,131.47	3,111.95	3,191.93	3,170.51
Number of Deals	4,861	6,160	6,545	6,584	6,382	6,694	6,772
Total Shares Traded (millions)	62.65	99.34	77.12	55.16	76.33	179.27	55.83
Equity Turnover (Ksh. millions)	1,656.08	1,082.83	1,005.12	1,378.54	1,119.81	1,206.34	577.30
Market Capitalization (Ksh. Bn.)	775.81	780.38	782.10	792.41	797.69	834.97	816.68
Bonds Turnover (Ksh. millions)	1,238.30	4,912.05	2,169.15	3,165.85	1,893.90	1,720.90	2,437.45

\* 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 39.8 million shares and accounted for 71.2 percent of total traded volume. Safaricom traded 37.8 million shares to be the most active stock in the sector. The Finance and Investment sector traded 11.2 million shares and accounted for 20.0 percent of total traded volume. Equity Bank and Co-operative Bank traded 5.3 million and 1.9 million shares and were the most active counters in the sector. Industrial and Allied sector traded 4.6 million shares and accounted for 8.3



percent of traded volume. Mumias and KenGen were the most active counters and traded 1.9 million and 1.4 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 2.4 billion were traded compared with Ksh 1.7 billion traded in the previous week.