

December 24, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted impressive performance of 202.5 percent during the Treasury bonds auction of December 23, 2009. The Government had re-opened for sale the 20-year fixed rate Treasury bond and offered Ksh 10.0 billion; received bids amounting to Ksh 20.2 billion and accepted bids worth Ksh 10.9 billion. During the auction, the average 20-year Treasury bond rate declined by 92.3 basis points to stand at 13.691 percent.

The average interbank rate increased by 77 basis points in the week ending December 23, 2009 to stand at 3.60 percent.

The Kenya Shilling depreciated marginally against the US dollar but appreciated against the Sterling Pound, the Euro and the Japanese Yen during the week ending December 24, 2009. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 75.47 per US dollar in the week ending December 24, 2009 compared with Ksh 75.44 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank increased from US\$ 2,769 million (equivalent to 3.34 months of imports) as at December 24, 2008 to US\$ 3,319 million (equivalent to 3.60 months of imports) as at December 24, 2009.

Central Bank injected a total of Ksh 19.5 billion during the week ending December 23, 2009. There were reverse repo maturities of Ksh 15.9 billion during the week, under review.

Government gross domestic debt increased by Ksh 70.1 billion in the FY 2009/10, from Ksh 518.3 billion in June 2009 to Ksh 588.4 billion as at December 18, 2009. Cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 28.2 billion.

Performance at the equities market was mixed during the week. Equity turnover decreased by 43.0 percent, market capitalization improved by 0.3 percent while the NSE 20 Share index gained 2.8 points to settle at 3189.6 points on December 23, 2009.

Government Securities Auction

The Government securities market posted an impressive performance of 202.5 percent during the Treasury bonds auction of December 23 2009. The government had re-opened the 20-year fixed rate Treasury bond and offered for sale bonds worth Ksh 10.0 billion. Bids received totalled Ksh 20.2 billion.

The Government accepted bids amounting to Ksh 10.9 billion of which Ksh 8.9 billion or 81.7 percent were in competitive bids. The proceeds of the auction were adequate to cover the cost of rolling over government securities' maturities amounting to Ksh 8.0 billion falling due in the week and provide Government additional borrowing amounting to Ksh 2.9 billion.

Interest Rates on Treasury Bonds

The average 20-year Treasury bond rate declined by 92.3 basis points from 14.614 percent in the previous auction of the same bond held in June 29 2009 to 13.691 percent during this week's auction.

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	10-Dec-09	17-Dec-09	24-Dec-09
Average 91 day T. Bills	7.248		7.264		7.232		7.198		6.937		6.710	
Average 182 day T. Bills		7.969		8.070		8.061		7.943		7.511		
Average 364 day T. Bills	8.438									8.008		
Month	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-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			

* Revised

Source: Central Bank of Kenya

Interbank and REPO Market

The average interbank rate increased by 77 basis points in the week ending December 23, 2009 to stand at 3.60 percent compared with 2.83 percent the previous week. The volumes traded declined in the week from Ksh 59.7 in the previous week to Ksh 41.5 in the week ending December 23, 2009.

The reverse repo rate increased by 43 basis points from 3.24 percent in the previous week to 3.67 percent in the week ending December 23, 2009.

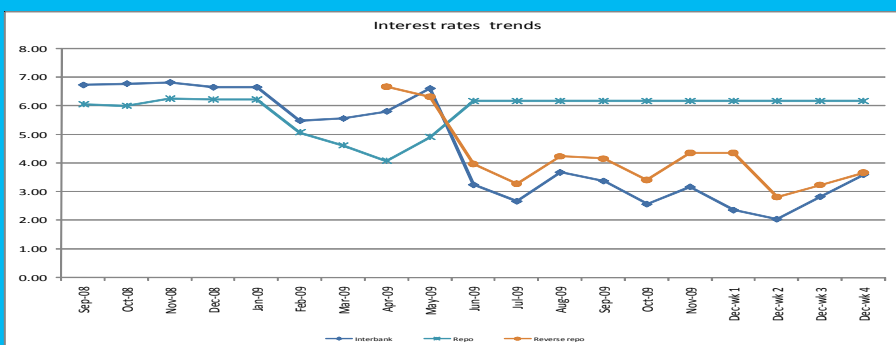
Table 2: Interbank Rates

Date	Value (Ksh M)	Average Interest Rate (%)
11-Dec-09	12,209	2.48
14-Dec-09	13,024	2.62
15-Dec-09	9,093	2.88
16-Dec-09	10,931	3.01
17-Dec-09	14,541	3.18
Dec 11 - Dec 17, 2009	59,798	2.83
18-Dec-09	11,254	3.41
21-Dec-09	14,166	3.57
22-Dec-09	9,190	3.68
23-Dec-09	6,935	3.75
Dec 18 - Dec 23, 2009	41,545	3.60

Source: Central Bank of Kenya

**Monetary
Policy
Operations**

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

As reflected in the rise of the interbank rate, the money market was tight during the week ending December 23, 2009 following low government spending in relation to tax revenue receipts. The Central bank intervened, injecting a total of Ksh 19.5 bn into the market as shown in Table 3. There were reverse repo maturities of Ksh 15.9 bn during the week under review which resulted in a net liquidity injection of Ksh 3.6 billion. Reserve money averaged Ksh 172.5 billion during the week under review and was below target by Ksh 1.3 billion.

Table 3: 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
17-Dec	175.0	173.0	2.0	0.0	0.0	0.0	170.1	-2.9	2.5	-5.3
18-Dec	167.0	173.0	-6.0	3.0	3.0	0.0	169.4	-3.6	1.8	-5.4
21-Dec	167.6	174.5	-6.9	3.0	3.0	0.0	173.5	-1.0	3.9	-5.0
22-Dec	163.0	174.5	-11.5	10.5	10.2	-0.3	173.9	-0.6	3.7	-4.3
23-Dec	172.6	174.5	-1.9	2.0	3.3	1.3	175.9	1.4	2.9	-1.5
Average	169.0	173.9	-4.9	3.7	3.9	0.2	172.5	-1.3	3.0	-4.3

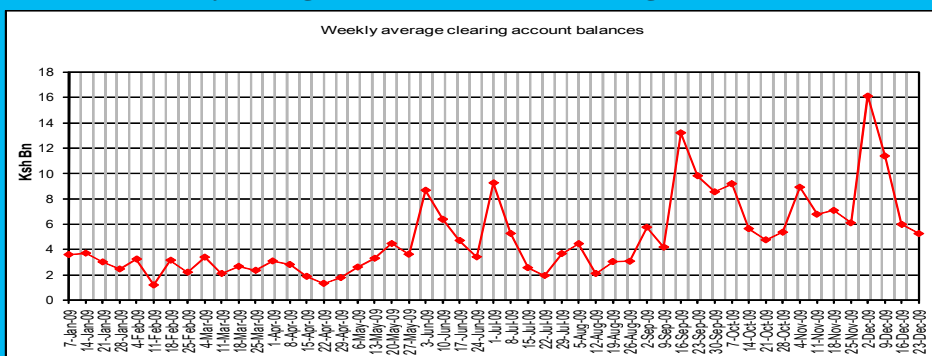
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Account
Balances**

Commercial banks maintained an average of Ksh 5.2 billion in their clearing accounts at the Central Bank in the week to December 23, 2009, compared with Ksh 6.0 billion held in the previous week (Charts B).

Chart B: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling depreciated against the US dollar but appreciated against the Sterling Pound, the Euro and the Japanese Yen during the week ending December 24, 2009. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 75.47 per US dollar compared with Ksh 75.44 per US dollar in the previous week. The marginal depreciation was largely attributed to increase in interbank activity by commercial banks to square their dollar position before the end of the year. The shilling appreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange at an average of Ksh 121.03 per Sterling Pound, Ksh 107.97 per Euro and 82.80 per 100 Japanese Yen, respectively in the week under review compared with an average of Ksh 122.64 per Sterling Pound, Ksh 109.65 per Euro and 84.44 per 100 Japanese Yen in the previous week (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
14-Dec-09	75.63	123.18	110.99	85.23	25.51	17.71
15-Dec-09	75.35	122.78	110.36	84.79	25.44	17.77
16-Dec-09	75.31	122.47	109.67	84.19	25.60	17.76
17-Dec-09	75.46	122.67	108.72	83.77	25.43	17.73
18-Dec-09	75.46	122.10	108.51	84.20	25.39	17.71
Dec 14-18, 2009	75.44	122.64	109.65	84.44	25.47	17.74
21-Dec-09	75.12	121.24	107.70	83.15	25.45	17.77
22-Dec-09	75.27	120.85	107.59	82.48	25.28	17.70
23-Dec-09	75.94	121.17	108.24	82.82	25.08	17.47
24-Dec-09	75.54	120.85	108.35	82.74	25.15	17.55
Dec 21-24, 2009	75.47	121.03	107.97	82.80	25.24	17.62

Source: Central Bank of Kenya

Foreign Exchange Reserves

In the regional scene, the Kenya Shilling depreciated against both the Uganda Shilling and the Tanzania Shilling to exchange at an average of Ush 25.24 per Kenya Shilling and Tsh 17.62 per Kenya Shilling in the week ending December 24, 2009 compared with an average of Ush 25.47 per Kenya Shilling and Tsh. 17.74 per Kenya Shilling in the week ending December 18, 2009.

Official usable foreign exchange reserves held by the Central Bank increased from US\$ 2,769 million (equivalent to 3.34 months of imports) as at December 24, 2008 to US\$ 3,319 million (equivalent to 3.60 months of imports) as at December 24, 2009 (Table 5). This build up in reserves were predominantly through interbank purchases from domestic interbank foreign exchange market. On a monthly basis, the official usable foreign exchange reserves cover declined from 3.71 months in November 2009 on account of increased external official transactions in December.

Table 5: Official Foreign Exchange Reserves (US\$ Million)

	24-Dec-08	29-May-09	26-Jun-09	31-Jul-09	31-Aug-09	30-Sep-09	30-Oct-09	30-Nov-09	24-Dec-09
Usable Reserves	2,769	2,789	3,086	3,097	3,154	3,243	3,302	3,392	3,319
Months of Imports Cover*	3.34	3.22	3.56	3.52	3.54	3.67	3.67	3.71	3.60
Months of Imports Cover**	2.74	2.80	3.10	3.12	3.18	3.27	3.33	3.40	3.60

*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

Commercial banks foreign exchange reserves, which are used mainly by the private sector to meet external financial obligations, stood at US\$ 1,386 million as at end November 2009 compared with US\$ 1,654 million as at end November 2008.

Government Domestic Debt

Government gross domestic debt increased by Ksh 70.1 billion from Ksh 518.3 billion at the end of June 2009 to Ksh 588.4 billion as at December 18, 2009 (Table 6). The rise in domestic debt reflected increases of Ksh 23.3 billion, Ksh 39.2 billion and Ksh 8.7 billion in Treasury bills (excluding Repos), Treasury bonds and overdraft at the Central Bank of Kenya (CBK), respectively. The stock of other domestic debt, however, fell during the same period by an amount equivalent to Ksh 1.1 bn.

Treasury bills, Treasury bonds and the overdraft at CBK increased from Ksh 116.8 billion, 360.7 billion and Ksh 5.1 billion respectively at the end of June 2009 to Ksh 140.1 billion, Ksh 399.1 billion and Ksh 13.8 billion respectively as at December 18, 2009. Long term stocks remained unchanged from Ksh 0.8 billion during the period.

Following these developments, the share of Treasury bonds in total Government securities declined from 75.4 percent in June 2009 to 74.0 percent as at December 18, 2009 while that of Treasury bills increased from 24.4 percent to 25.9 percent during the same period. The maturity profile of Government securities stood at 3 years 11 months.

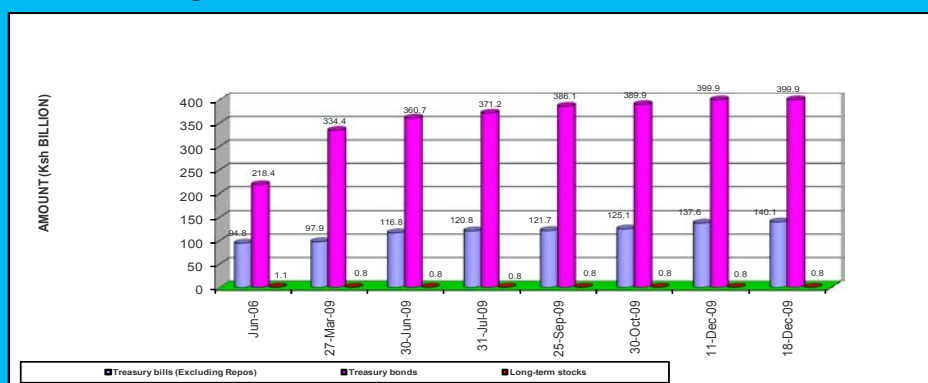
Table 6: Government Domestic Debt (Ksh Billion)

	June 09	July 2009	Aug-09	Sep-09	Oct-09	Nov-09	11th Dec 2009	18th Dec 2009	Changes	
									11th Dec-09 - 18th Dec-09	30th Jun-09 - 18th Dec-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	116.8 24.4	120.8 24.5	127.6 25.2	122.2 24.0	133.6 25.5	137.7 26.5	137.6 25.6	140.1 25.9	2.5 0.3	23.3 1.5
2. Treasury Bonds (As % of total securities)	360.7 75.4	371.2 75.3	378.5 74.7	386.1 75.8	389.9 74.4	381.0 73.3	399.9 74.3	399.9 74.0	0.0 -0.3	39.2 -1.5
3. Long Term Stocks (As % of total securities)	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	0.8 0.1	0.0 0.0	0.0 0.0
4. Total Securities (1+2+3)	478.3	492.8	506.8	509.0	524.2	519.5	538.3	540.8	2.5	62.5
5. Overdraft at Central Bank	5.1	3.9	6.1	8.0	9.3	9.8	12.4	13.8	1.4	8.7
6. Other Domestic debt*	34.9	33.7	34.2	33.6	33.6	33.6	33.6	33.8	0.2	-1.1
7. Gross Domestic Debt (4+5+6)	518.3	530.4	547.2	550.6	567.1	562.9	584.3	588.4	4.1	70.1
8. Interest payments on domestic debt (Cumulative in FY)	45.9	3.9	9.0	13.5	19.6	25.7	27.2	28.2	1.0	

* Other domestic debt includes Pre-1997 Government Overdraft, clearing items in transit, advances from commercial banks and TRCs.
Source: Central Bank of Kenya

Source: Central Bank of Kenya

Chart C: Composition of Government Securities

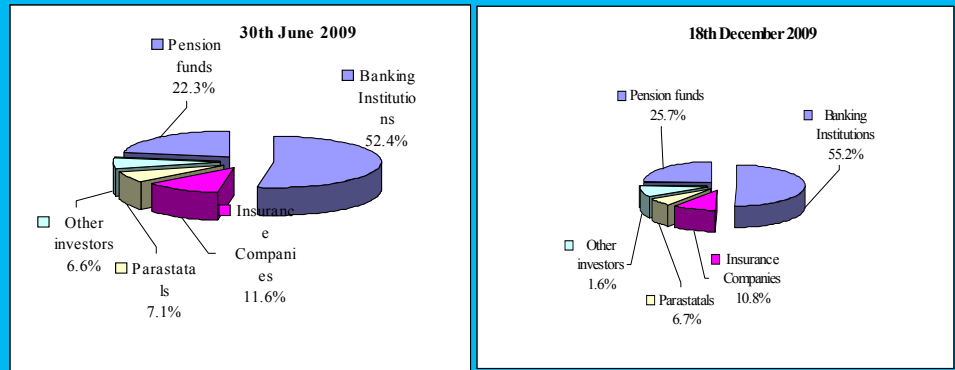


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by commercial banks and pension funds increased from 52.4 percent and 22.3 percent respectively in June 2009 to 55.7 percent and 25.6 percent, respectively as at December 18, 2009. Meanwhile, holdings by insurance companies, parastatals and other investors declined from 11.6 percent, 7.1 percent and 6.7 percent to 10.8 percent, 6.7 percent and 1.6 percent, respectively during the same period (Chart D).

Chart D: Composition of Government Securities by Investor

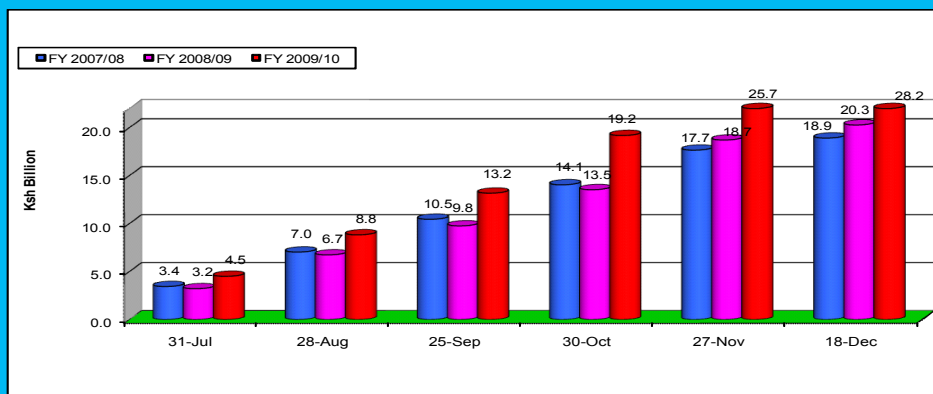


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt for the period up to December 18, 2009 of the FY 2009/10 amounted to Ksh 28.2 billion compared with Ksh 20.3 billion in a similar period in the FY 2008/09 (Chart E). The interest cost on domestic debt during the period comprised Ksh 21.1 billion in interest and other charges on Treasury bonds, Ksh 6.7 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. The interest cost was larger than in the last two successive years due to higher borrowing by Government.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was mixed performance at the equities market during the week ending December 23, 2009. Equity turnover decreased by 43.0 percent as stocks worth Ksh 468.4 million were traded compared with Ksh 821.7 million traded in the previous week. The number of shares traded decreased, from 56.7

million in the previous week to 33.8 million shares in the week under review. Market capitalization as a measure of total shareholders wealth improved by 0.3 percent or Ksh 2.8 billion to close at Ksh 824.0 billion in the week under review from Ksh 821.2 billion in the previous week. The NSE 20 Share index gained 2.8 points to settle at 3189.6 points on December 23, 2009 from 3186.8 points on December 17, 2009. The Nairobi All Share Index closed at 70.8 points on December 23, 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	10-Dec-09	17-Dec-09	23-Dec-09
NASI 100= Jan 2008	66.97	67.37	67.52	68.41	68.86	72.08	70.51	70.14	70.82	70.76
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	3,181.76	3,186.76	3,189.59
Number of Deals	4,861	6,160	6,545	6,584	6,382	6,694	6,772	7,095	6,437	4,685
Total Shares Traded (millions)	62.65	99.34	77.12	55.16	76.33	179.27	55.83	62.49	56.73	33.80
Equity Turnover (Ksh. millions)	1,656.08	1,082.83	1,005.12	1,378.54	1,119.81	1,206.34	577.30	624.78	821.72	468.44
Market Capitalization (Ksh. Bn.)	775.81	780.38	782.10	792.41	797.69	834.97	816.68	812.21	821.21	823.96
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	6,416.00	4,863.40	1,737.05

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

Source: Nairobi Stock Exchange

The Commercial and Services sector traded 21.9 million shares and accounted for 64.7 percent of total traded volume. Safaricom traded 21.0 million shares to be the most active stock in the sector. The Finance and Investment sector traded 6.9 million shares and accounted for 20.5 percent of total traded volume. Co-operative Bank and Equity Bank traded 2.8 million and 1.2 million shares and were the most active counters in the sector. Industrial and Allied sector traded 4.4 million shares and accounted for 13.2 percent of traded volume. Mumias and Sameer Africa were the most active counters and traded 1.2 million and 1.0 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 decreased as bonds worth Ksh 1.7 billion were traded compared with Ksh 4.9 billion traded in the previous week.