

February 06, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

12-month overall inflation came down to 21.87 percent in January 2009 compared with 27.72 percent in December 2008. The slowdown reflected the base effect of relatively higher inflation in January 2008 on account of food supply constraints due to the post election crisis in January 2008.

The Government securities market posted over subscription of 239.6 percent during the Treasury bills auction of February 5, 2009. The government had offered for sale Treasury bills worth Ksh 5.5 billion but received bids totalling Ksh 13.2 billion and accepted bids totalling Ksh 5.8 billion. The average 91-days Treasury bills rate shed off 29.1 basis points from 7.991 percent in the previous auction to 7.700 percent in this week's auction while the average 182-day Treasury bills rate shed off 29.0 basis points from 8.285 percent to 7.995 percent.

Average interbank rate fell by 10 basis points from 5.66 percent in the previous week to 5.56 percent during the week ending February 5, 2009 with a slight increase in volumes transacted. The repo rate rose by 34 basis points to 5.25 percent from 4.91 percent in the previous week.

Kenya Shilling strengthened against all major world currencies except the Sterling Pound during the week ending February 5, 2009. Against the US dollar, the shilling exchanged at an average of Ksh 79.51 in the week ending February 5, 2009 compared with Ksh 79.70 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,401 million (equivalent to 4.93 months of imports) as at February 5, 2008 to US dollar 2,642 million (equivalent to 3.15 months of imports) as at February 5, 2009.

Central Bank's Open Market Operations desk mopped Ksh 17.7 billion from commercial banks and redeemed maturing securities worth Ksh 12.1 billion during the week ending February 4, 2009. The stock of repurchase agreement securities held by commercial banks therefore increased to Ksh 9.5 billion on February 4, 2009 from Ksh 3.9 billion on January 28, 2009.

Government gross domestic debt increased by Ksh 16.9 billion to Ksh 454.4 billion as at January 30, 2009 from Ksh 430.6 billion in June 2008. From July 1, 2008 to January 30, 2009, the cumulative

Government expenditure on interest and other charges on domestic debt amounted to Ksh 24.9 billion compared with Ksh 24.6 billion in a similar period in the fiscal year 2007/08.

The equity market recorded subdued performance in the week under review. Equity turnover fell by 22.7 percent. In addition, the NSE 20 Share Index fell by 312.29 points to settle at 2,950.25 points on February 5, 2009 from 3,262.54 points on January 29, 2009.

Inflation

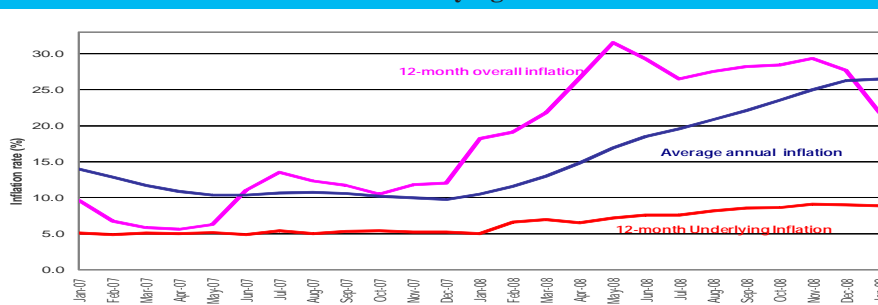
12-month overall inflation decelerated to 21.87 percent in January 2009 compared with 27.72 percent in December 2008. The slowdown reflected base effect of a relatively higher inflation in January 2008 on account of food supply constraints following the onset of the post election crisis in January 2008. However, annual average inflation stabilized at above 26.00 percent.

Food inflation decelerated to 28.9 percent in January 2009 from 37.5 percent in January 2008. Furthermore, inflation declined for other commodities of the CPI basket, other than medical goods, recreation and education and personal goods and services.

The 12-month underlying inflation (exclusive of food basket) decreased from 10.60 percent in December 2008 to 8.37 percent in January 2009, while the 12-month underlying inflation (exclusive of food, energy and transport baskets) decreased from 9.04 to 8.89 percent in the period. On the other hand, annual average inflation (exclusive of food, energy and transport baskets) moved up from 7.63 percent in December 2008 to 7.94 percent in January 2009.

Inflation for Nairobi and other urban areas decreased from 28.02 percent and 27.27 percent in December 2008 to 20.93 percent and 23.25 percent, respectively in January 2009. Nairobi middle/upper group experienced the lowest 12-month inflation having dropped from 13.97 percent in December 2008 to 12.96 percent in January 2009. Annual average inflation for the group edged up slightly from 13.96 percent in December 2008 to 14.22 percent in January 2009.

Chart A: Trends in Overall and Underlying Inflation



Source: Central Bank of Kenya

Government Securities Auction

For the fifth consecutive week the Government securities market over performed with the Treasury bills auction of February 5, 2009 recording over subscription of 239.6 percent. The government had offered for sale Treasury bills worth Ksh 5.5 billion, and received bids totalling Ksh 13.2 billion of which Ksh 10.4 billion or 78.8 percent were in 182 days Treasury bills.

The Government accepted Treasury bills bids totalling Ksh 5.8 billion of which Ksh 3.6 billion or 61.9 percent were in the competitive category. Proceeds of the auction were to redeem maturing treasury bills totalling Ksh 5.1 billion in the week and provide the Government additional borrowing of Ksh 0.7 billion.

Treasury bills interest rates

The average 91-days Treasury bills rate declined by 29.1 basis points from 7.991 percent in the previous week's auction to 7.700 percent during this week's auction while the average 182-day Treasury bills rate declined by 29.0 basis points from 8.285 percent in the previous week's auction to 7.995 percent (Table 1). As a result, the 12-weeks moving average for the 91-day Treasury bills rate declined from 8.490 percent in the previous week to 8.422 percent while the 182-days Treasury bills rate declined from 8.955 percent to 8.874 percent.

Table 1 : Interest Rates

Auction date	24-Dec-08	31-Dec-08	8-Jan-09	15-Jan-09	22-Jan-09	29-Jan-09
Average 91 day T. Bills	8.537	8.533	8.488	8.445	8.391	7.991
Average 182 day T. Bills	9.061	9.038	8.972	8.858	8.854	8.285
Month	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-09
Average savings rate	1.67	1.68	1.73	1.74	1.61	1.62
Average overdraft rate	13.49	13.11	13.43	13.91	13.85	14.40

Source: Central Bank of Kenya

Interbank and REPO Rates

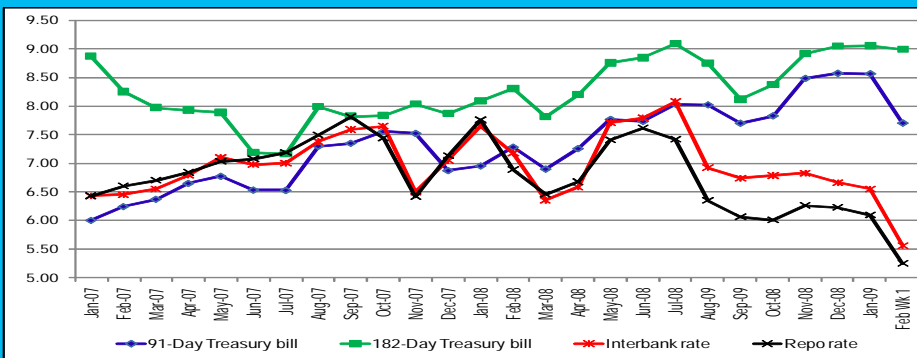
Average interbank rate fell by 10 basis points from 5.66 percent in the previous week to 5.56 percent during the week ending February 5, 2009 with a slight increase in volumes transacted (Table 2). Interbank volumes rose from Ksh 78.5 billion in the previous week to Ksh 79.9 billion in the week under review. The repo rate rose by 34 basis points to 5.25 percent from 4.91 percent in the previous week, with a volume of Ksh 10.9 billion being mopped up from Ksh 6.3 billion transacted in the previous week (Chart B)

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
23-Jan-09	82	13,910	5.65
26-Jan-09	101	18,452	5.64
27-Jan-09	104	16,005	5.67
28-Jan-09	92	15,284	5.67
29-Jan-09	75	14,827	5.66
23 - 29 Jan- 09	454	78,478	5.66
30-Jan-09	92	18,035	5.60
2-Feb-09	84	14,137	5.56
3-Feb-09	93	15,718	5.57
4-Feb-09	90	16,631	5.55
5-Feb-09	83	15,448	5.50
30 Jan - 5 Feb- 09	442	79,969	5.56

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 major world currencies except the Sterling Pound during the week ending February 5, 2009 (Table 3). Against the US dollar, the shilling strengthened to exchange at an average Ksh 79.51 compared with Ksh 79.70 per US dollar in the week ending January 29, 2009. The strengthening of the Shilling against the US dollar was steered by subdued demand for the foreign currency amid steady US dollar inflows as a result of high exports in the week. The Shilling also strengthened against the Euro and the Japanese Yen to trade, respectively, at an average of Ksh 102.30 and Ksh 88.82 in the week ending February 5, 2009 compared with Ksh 104.29 per Euro and Ksh 89.32 per 100 Japanese Yen in the week ending January 29, 2009. The Shilling, however, weakened against the Sterling Pound to trade at an average of Ksh 113.92 per Sterling Pound in the week under review compared with Ksh 111.29 per Sterling Pound in the previous week. In the international foreign exchange market, the US dollar gained against the Euro and the Japanese Yen, but lost against the Sterling Pound.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen
23-Jan-09	79.73	109.76	103.18	90.05
26-Jan-09	79.72	108.52	103.01	89.54
27-Jan-09	79.61	111.90	105.18	88.99
28-Jan-09	79.80	113.70	105.66	89.43
29-Jan-09	79.63	112.55	104.42	88.58
Jan 23-Jan 29, 2009	79.70	111.29	104.29	89.32
30-Jan-09	79.54	113.13	102.55	88.97
2-Feb-09	79.65	114.58	101.41	88.79
3-Feb-09	79.46	112.71	102.04	88.84
4-Feb-09	79.48	114.59	103.55	88.73
5-Feb-09	79.40	114.60	101.95	88.76
Jan 30 -Feb 05, 2009	79.51	113.92	102.30	88.82

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,401 million (equivalent to 4.93 months of imports) as at February 5, 2008 to US dollar 2,642 million (equivalent to 3.15 months of imports) as at February 5, 2009 (Table 4). The decline in months of imports cover reflects reduction in reserves level and a higher import bill. Foreign exchange reserves held by commercial banks, which are predominantly used by the private sector to meet external financial obligations, increased from US\$ 1,202 million as at end December 2007 to US\$ 1,766 million as at end December 2008.

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

	5-Feb-08	31-Mar-08	30-Jun-08	30-Sep-08	28-Nov-08	31-Dec-08	30-Jan-09	5-Feb-09
Usable Reserves	3,401	3,285	3,300	3,086	2,736	2,768	2,671	2,642
Months of Imports Cover*	4.93	4.67	4.60	4.06	3.44	3.35	3.19	3.15
Months of Imports Cover**	4.03	3.88	3.67	3.35	2.83	2.77	2.66	2.63

*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**

In the week to February 4, 2009, Central Bank sought to mop an average of Ksh 2.4 billion daily from the market in order to align reserve money to the target. However, the Bank realized an average of Ksh 3.5 billion as shown in Table 5.

Table 5: Open Market Operations (Ksh Billion)

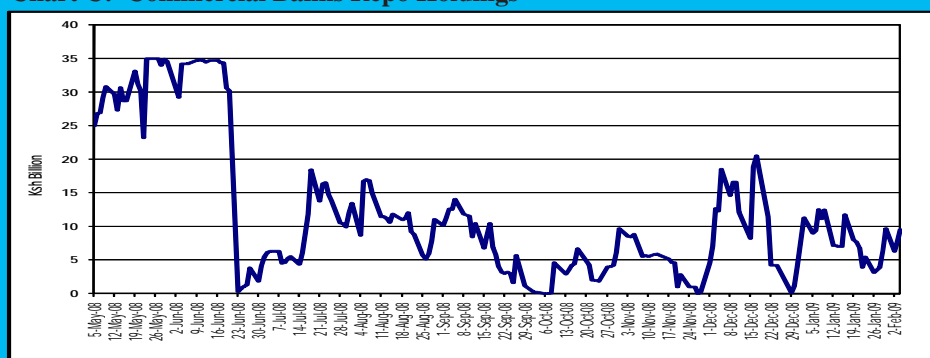
Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves		Currency Outside Banks
	Forecast (1)	Target (2)	Exc(+)/ Short(-) 3=(2-1)	Posted (4)	Realised (5)	Exc(+)/ Short(-) 6=(5-4)	Actual (8)	Exc(+)/ Short(-) 9=(10+11)	Exc(+)/ Short(-) 10	Exc(+)/ Short(-) 11	
29-Jan	155.6	168.6	-12.9	1.5	4.4	2.9	154.2	-14.4	-0.6	-13.8	
30-Jan	155.9	168.6	-12.7	3.0	4.0	1.0	152.7	-15.9	-2.8	-13.1	
2-Feb	159.7	167.5	-7.8	5.0	5.7	0.7	157.1	-10.4	1.6	-12.0	
3-Feb	156.8	167.5	-10.7	2.0	1.6	-0.4	155.1	-12.4	-1.4	-11.0	
4-Feb	155.4	167.5	-12.0	0.5	2.0	1.5	154.1	-13.4	-2.9	-10.5	
Average	156.7	167.9	-11.2	2.4	3.5	1.1	154.6	-13.3	-1.2	-12.1	

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

During the week ending February 4, 2009, Central Bank's open market operations desk mopped Ksh 17.7 billion from the market through repurchase agreement securities against redemption of Ksh 12.1 billion in maturing securities. As a result, the stock of repo securities holdings by commercial banks increased from Ksh 3.9 billion on January 28, 2009 to Ksh 9.5 billion by February 4, 2009 (Chart C). Reserve money for the week ending February 4, 2009, at Ksh 168 billion averaged Ksh 13.7 billion below target.

Chart C: Commercial Banks Repo Holdings

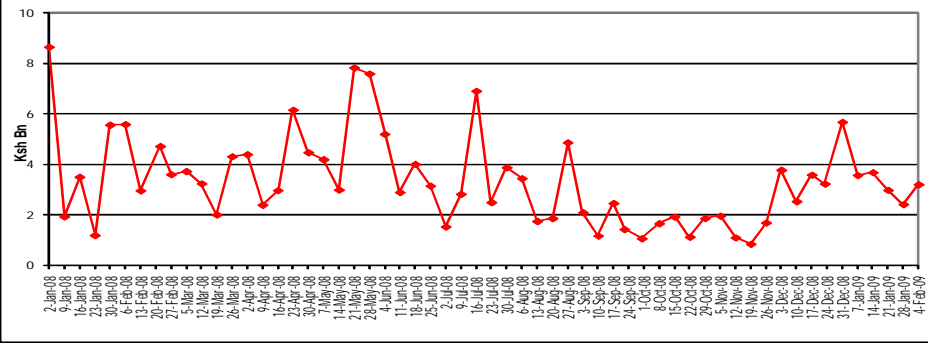


Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Accounts
Balances**

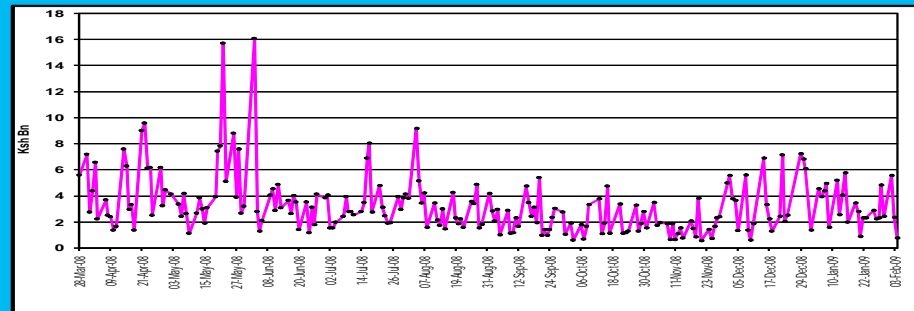
Clearing account balances of commercial banks at the Central Bank averaged Ksh 3.2 billion in the week ending February 4, 2009 up from Ksh 2.4 billion held in the previous week as shown in Chart D1.

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 16.9 billion from Ksh 430.6 billion in June 2008 to Ksh 454.4 billion on January 30, 2009 (Table 6 and Chart E). The expansion comprised increases of Ksh 16.9 billion, Ksh 4.7 billion and Ksh 5.4 billion in Treasury bills (excluding Repos), overdraft at the Central Bank of Kenya (CBK) and Treasury bonds, respectively, and a decrease of Ksh 3.2 billion in other domestic debt.

Treasury bills, Treasury bonds and overdraft at CBK increased from Ksh 76.8 billion, 315.2 billion and zero in June 2008 to Ksh 93.7 billion, Ksh 320.6 billion and Ksh 4.7 billion, respectively on January 30, 2009. Other domestic debt decreased from Ksh 37.8 billion to Ksh 34.6 billion during the period while long term stocks remained unchanged at Ksh 0.8 billion.

Following these developments, the holdings of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.2 percent as at January 30, 2009 while 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 5 months during the period.

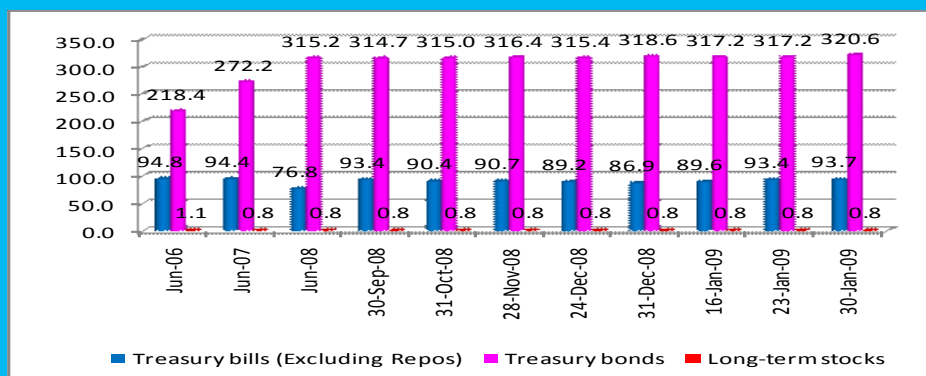
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	28th Nov 08	31st Dec 08	16th Jan-09	23rd Jan-09	30th Jan-09	Changes	
							23rd Jan-09-30th Jan-2009	30th Jan-08-30th Jan-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	90.9 22.0	86.9 21.4	89.6 22.0	93.4 22.7	93.7 22.6	0.3	16.9
2. Treasury Bonds (As % of total securities)	315.2 80.2	320.9 77.8	318.6 78.4	317.2 77.8	317.2 77.1	320.6 77.2	3.4	5.4
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
4. Total Securities (1+2+3)	392.8	412.5	406.3	407.5	411.4	415.1	3.8	23.3
5. Overdraft at Central Bank	0.0	3.9	15.1	9.5	5.5	4.7	-0.8	4.7
6. Other Domestic debt*	37.8	36.2	34.9	34.5	35.3	34.6	-0.8	-3.2
7. Gross Domestic Debt (4+5+6)	430.6	452.6	456.2	451.6	452.2	454.4	22.0	23.8
8. Interest payments on domestic debt (Cumulative in FY)	42.2	18.7	21.4	22.2	23.3	24.9	1.6	

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

Source: Central Bank of Kenya

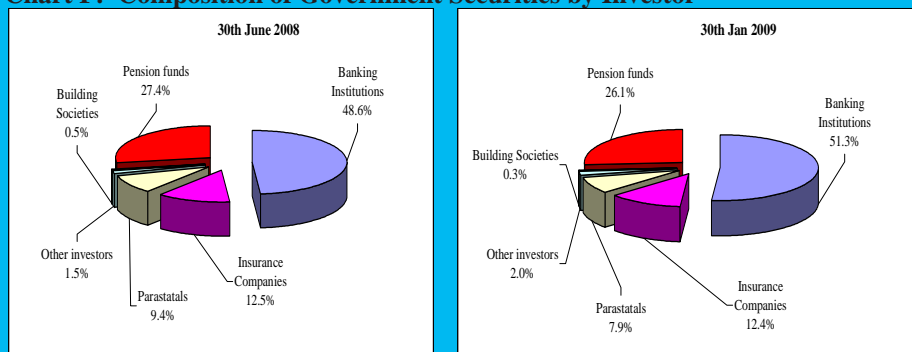
Chart E: Composition of Government Securities



Source: Central Bank of Kenya

Government securities holdings by commercial banks increased from 48.6 percent in June 2008 to 51.3 percent as at January 30, 2009. On the other hand, holdings of parastatals, insurance companies, pension funds and building societies and other investors decreased from 9.4 percent, 12.5 percent, 27.4 percent, 0.5 percent and 1.5 percent to 7.9 percent, 12.4 percent, 26.1 percent, 0.3 percent and 2.0 percent, respectively (Chart F).

Chart F: Composition of Government Securities by Investor



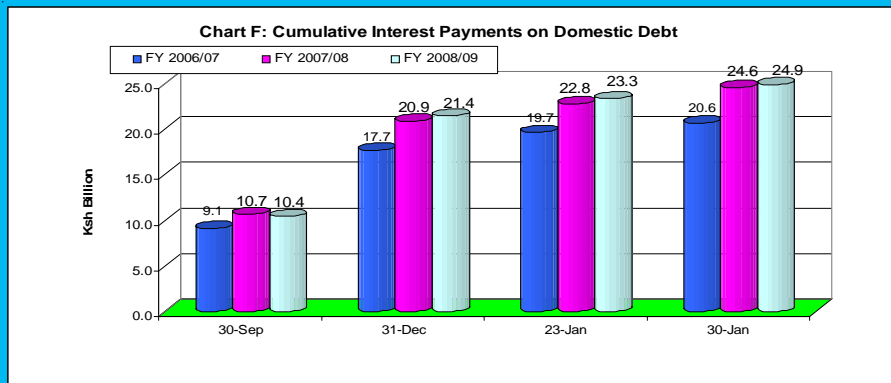
Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt from July 1 2008 to January 30, 2009 stabilised at Ksh 24.9 billion, compared with Ksh 24.6 billion in a similar period in the fiscal year 2007/08 (Chart G). The interest cost on domestic debt during the period under review comprised Ksh 18.6 billion in interest and other charges on Treasury bills, Ksh 5.6 billion in interest and

other charges on Treasury bills, and Ksh 0.7 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 stock market recorded subdued performance during the week ending February 5, 2008 in all key market indicators. Equity turnover fell by 22.7 percent as stocks worth Ksh 0.5 billion traded compared with Ksh 0.7 billion traded in the previous week. The number of shares traded fell from 55.4 million in the previous week to 42.8 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth, fell by 5.7 percent from Ksh 786.52 billion in the previous week, to Ksh 741.29 billion in the week under review. The NSE 20 Share index lost 312.29 points to settle at 2,950.25 points on February 5, 2008 from 3,262.54 points on January 29, 2009. The Nairobi All Share Index dropped 3.91 points to close at 64.02 points from 67.93 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	18th Dec 2008	24th Dec 2008	31st Dec 2008	8th Jan 2009	15th Jan 2009	22nd Jan 2009	29th Jan 2009	5th Feb 2009
NASI 100= Jan 2008	71.19	71.79	73.37	73.07	71.68	68.09	67.93	64.02
NSE 20 Share Index 100=1966	3,367.07	3,406.04	3,521.18	3,546.01	3,447.45	3,272.49	3,262.54	2,950.25
Number of Deals	6,159	4,421	3,723	9,470	9,971	7,975	8,313	7,929
Total Shares Traded (millions)	26.70	18.43	50.40	29.70	42.40	45.09	55.42	42.80
Equity Turnover (Ksh. millions)	379	267	2,962	480	786	591	697	538
Market Capitalization (Ksh. Bn.)	790.54	835.51	853.88	847.18	831.16	789.51	786.52	741.29
Bonds Turnover (Ksh. millions)	636.35	495.95	178.00	1,082.60	2,565.40	1,236.40	1,134.00	779.75

* 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 27.8 million shares and accounted for 64.9 percent of total traded volume. Safaricom traded 25.3 million shares the most active stock in the sector. The Finance and Investment sector traded 8.3 million shares and accounted for 19.5 percent of traded volume. After trading 2.9 million shares KCB was the most active counter, Industrial and Allied sector traded 6.5 million shares and accounted

for 15.1 percent of traded volume. KenGen and Mumias shares were the most active counters and traded 0.8 and 4.3 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond market trading declined during the week as bonds worth Ksh 779.75 million were traded compared with Ksh 1134.00 million traded in the previous week.