

February 13, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted a good performance of 190.98 percent during the Treasury bills auction of February 12, 2009. The average 91-day Treasury bills rate was 7.346 percent while the average 182-day Treasury bills rate was 7.618 percent during this week's auction.

Average interbank rate fell by 10 basis points to 5.46 percent during the week ending February 12, 2009 from 5.56 percent in the previous week with a decline in volumes transacted. The repo rate rose, by 23 basis points to 5.48 percent from 5.25 percent in the previous week.

The Kenya Shilling strengthened against the US dollar, the Euro and the Japanese Yen but weakened against the Sterling Pound during the week ending February 12, 2009. Against the US dollar, the shilling strengthened to exchange on average at Ksh 79.22 in the week ending February 12, 2009 compared with Ksh 79.51 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,331 million (equivalent to 4.80 months of imports) as at February 12, 2008 to US dollar 2,678 million (equivalent to 3.20 months of imports) as at February 12, 2009.

Central Bank Open Market Operations desk mopped Ksh 8.7 billion from commercial banks and redeemed maturing securities worth Ksh 12.8 billion during the week ending February 11, 2009. The stock of repurchase agreement securities held by commercial banks, therefore, declined to Ksh 5.5 billion by February 11, 2009.

Government gross domestic debt increased by 5.8 percent or Ksh 24.7 billion to Ksh 455.4 billion as at February 6, 2009, from Ksh 430.6 in June 2008. From July 1, 2008 to February 6, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 26.5 billion compared with Ksh 24.8 billion in a similar period of 2007/08.

The equity market recorded subdued performance in the week under review. Equity turnover fell by 33.4 percent. In tandem, the NSE 20 Share index fell 94.38 points to settle at 2,855.87 points on February 12, 2009 from 2,950.25 points on February 5, 2009.

Government Securities Auction

The Government securities market posted a good performance of 190.98 percent during the Treasury bills auction of February 12, 2009. The Government had offered for sale Treasury bills worth Ksh 6.0 billion during the auction and received bids totalling Ksh 11.5 billion, of which Ksh 7.4 billion were in 182-day Treasury bills.

During the auction, the Government accepted bids totalling Ksh 6.7 billion, of which Ksh 3.8 billion or 56.3 percent were in competitive bids. The proceeds of the auction were adequate to cover the cost of rolling over Treasury bills maturities totalling Ksh 6.2 billion in the week and provide additional borrowing of Ksh 0.5 billion.

Treasury bills interest rates

The average 91-day Treasury bills rate went down by 35.4 basis points from 7.70 percent in the previous week's auction to 7.346 percent during this week's auction while the average 182-day Treasury bills rate declined by 37.7 basis points from 7.995 percent in the previous week's auction to 7.618 percent (Table 1). As a result, the 12-weeks moving average for the 91-day Treasury bills rate decreased from 8.422 percent in the previous week to 8.320 percent while the 182-day Treasury bills rate decreased from 8.874 percent to 8.750 percent.

Table 1 : Interest Rates

Auction date	22-Jan-09	29-Jan-09	22-Jan-09	29-Jan-09	5-Feb-09	12-Feb-09
Average 91 day T. Bills	8.391	7.991	8.391	7.991	7.700	7.346
Average 182 day T. Bills	8.854	8.285	8.854	8.285	7.995	7.618
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 Market

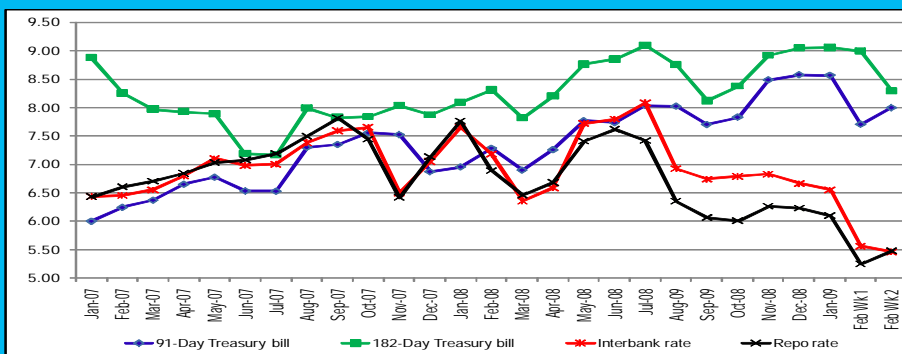
Average interbank rate fell by 9 basis points from 5.55 percent in the previous week to 5.46 percent during the week ending February 12, 2009 with a decline in volumes transacted (Table 2). Interbank volumes fell from Ksh 79.9 billion in the previous week to Ksh 73.1 billion in the week under review. The repo rate rose by 23 basis points to 5.48 percent from 5.25 percent in the previous week, with a volume of Ksh 3.3 billion being mopped down from Ksh 10.9 billion transacted in the previous week (Chart A).

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
6-Feb-09	107	16,195	5.42
9-Feb-09	94	15,915	5.41
10-Feb-09	97	14,583	5.43
11-Feb-09	93	13,263	5.50
12-Feb-09	82	13,126	5.55
6 - 12 Feb-09	473	73,082	5.46

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 the US dollar, the Euro and the Japanese Yen but weakened against the Sterling Pound during the week ending February 12, 2009 (Table 3). Against the US dollar, the shilling strengthened to exchange at Ksh 79.22 in the week ending February 12, 2009 compared with Ksh 79.51 per US dollar in the week ending February 5, 2009 due to mainly low corporate demand amid steady inflows from exports. The shilling also strengthened against the Euro and the Japanese Yen to trade, respectively, at Ksh 101.96 per Euro and Ksh 87.36 per 100 Japanese Yen in the week ending February 12, 2009 compared with Ksh 102.30 per Euro and Ksh 88.82 per 100 Japanese Yen in the week ending February 5, 2009. The shilling, however, weakened against the Sterling Pound to trade at Ksh 115.63 per Sterling Pound in the week ending February 12, 2009 compared with Ksh 113.92 per Sterling Pound in the previous week. In the international market, the US dollar strengthened against both the Sterling Pound and the Euro.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen
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
6-Feb-09	79.32	116.00	101.37	87.20
9-Feb-09	79.40	116.91	102.39	87.21
10-Feb-09	79.25	117.71	101.95	86.72
11-Feb-09	79.10	113.97	102.00	87.86
12-Feb-09	79.05	113.57	102.07	87.82
Feb 6 - 12, 2009	79.22	115.63	101.96	87.36

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,331 million (equivalent to 4.80 months of imports) as at February 12, 2008 to US dollar 2,678 million (equivalent to 3.20 months of imports) as at February 12, 2009 (Table 4). The decline in import cover reflects reduction in reserves level as well as a larger import bill. However, commercial banks foreign exchange reserves holdings increased from US\$ 1,202 million as at end December 2007 to US\$ 1,766 million as at end December 2008. The private sector external financial obligations are predominantly met using foreign exchange reserves held by commercial banks.

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

	12-Feb-08	31-Mar-08	30-Jun-08	30-Sep-08	28-Nov-08	31-Dec-08	30-Jan-09	12-Feb-09
Usable Reserves	3,331	3,285	3,300	3,086	2,736	2,768	2,671	2,678
Months of Imports Cover*	4.80	4.67	4.60	4.06	3.44	3.35	3.19	3.20
Months of Imports Cover**	3.97	3.88	3.67	3.35	2.83	2.77	2.66	2.68

*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 11, 2009, Central Bank sought to mop Ksh 1.2 billion from the market using repurchase agreement securities. The Bank mopped an average of Ksh 1.7 billion daily from the market against redemption of maturing securities averaging Ksh 2.6 billion in the week (Table 5).

Table 5: Open Market Operations (Ksh Billion)

Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Realised	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
5-Feb	158.5	167.5	-9.0	2.0	2.6	0.6	155.4	-12.1	-1.7	-10.4
8-Feb	157.7	167.5	-9.8	2.0	1.8	-0.2	155.0	-12.5	-2.6	-9.9
9-Feb	160.3	167.5	-7.2	2.0	4.3	2.3	155.6	-11.9	-2.6	-9.3
10-Feb	153.9	167.5	-13.5	0.0	0.0	0.0	155.7	-11.7	-2.9	-8.8
11-Feb	151.7	167.5	-15.8	0.0	0.0	0.0	155.6	-11.9	-2.3	-9.6
Average	156.4	167.5	-11.1	1.2	1.7	0.5	155.4	-12.0	-2.4	-9.6

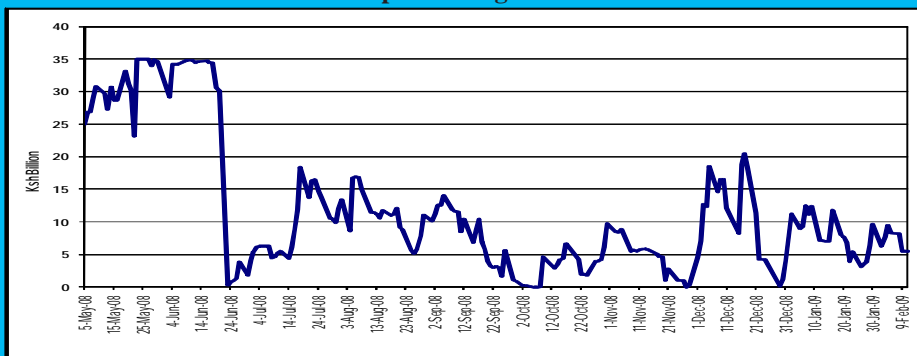
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Repurchase Agreement Securities held by Comm Banks

During the week ending February 11, 2009, Central Bank's open market operations desk mopped Ksh 8.7 billion from the market through repurchase securities agreements. During the same week, Ksh 12.8 billion worth of repo securities were redeemed resulting in a reduction in commercial banks' repo securities holding to Ksh 5.5 billion by February 11, 2009 down from Ksh 8.3 billion held by February 5, 2009. In the week, reserve money averaged Ksh 155.49 billion and was within target by Ksh 12.0 billion.

Chart B: Commercial Banks Repo Holdings

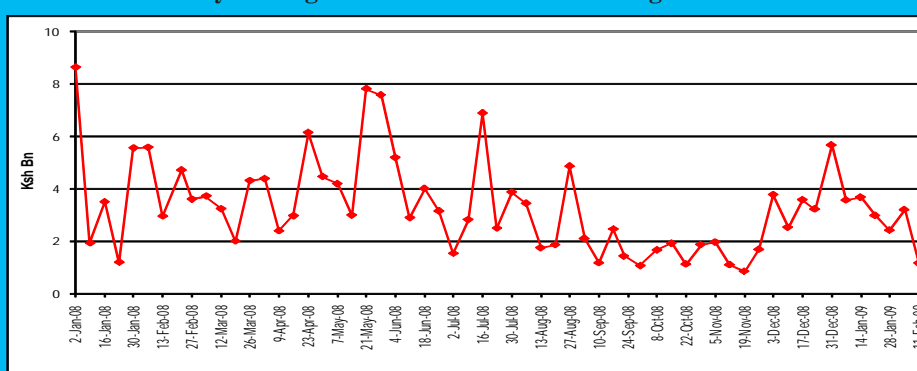


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

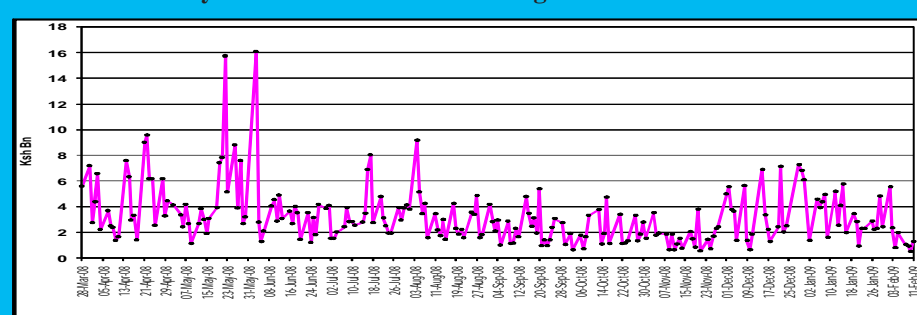
In the week ending February 11, 2009, average commercial banks clearing account balances was Ksh 1.2 billion compared with Ksh 3.2 billion held in the previous week as shown in Chart C1 and C2.

Chart C1: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Chart C2: Daily Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Government Domestic Debt

Government gross domestic debt increased by 5.8 percent, (Ksh 24.7 billion), to Ksh 455.4 billion as at February 6, 2009 from Ksh 430.6 billion in June 2008 (Table 6 and Chart D). The rise in gross domestic debt followed increases of Ksh 18.1 billion in Treasury bills excluding repos, Ksh 5.4 billion in Treasury bonds and Ksh 4.7 billion in overdraft at the Central Bank of Kenya (CBK) during the period. However, these increases were partly offset by a decrease of Ksh 3.6 billion in other domestic debt.

Treasury bills (excluding Repos) increased from Ksh 76.8 billion in June 2008 to Ksh 95.0 billion as at February 6, 2009. Treasury bonds and overdraft at CBK also increased from Ksh 315.2 billion and zero, respectively, to Ksh 320.6 billion and Ksh 4.7 billion during the period. However, other domestic debt decreased from Ksh 37.8 billion to Ksh 34.3 billion while Government 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 80.2 percent in June 2008 to 77.0 percent as at February 6, 2009 while Treasury bills holdings increased from 19.6 percent to 22.8 percent during the period. 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.

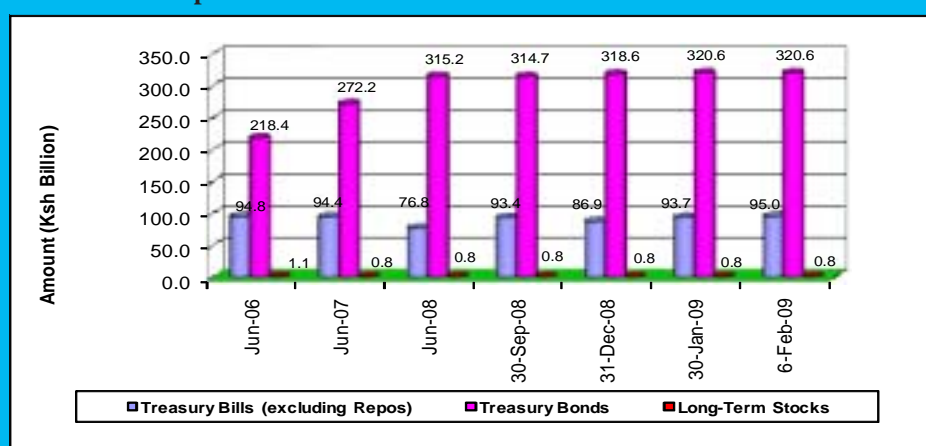
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	9th Jan 09	16th Jan 09	30th Jan 09	6th Feb 09	Change 30th Jan- 09 - 6th	30th Jun- 08 - 6th
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	86.9 21.4	85.5 21.1	89.6 22.0	93.7 22.6	95.0 22.8	1.3	18.1
2. Treasury Bonds (As % of total securities)	315.2 80.2	318.6 78.4	318.6 78.7	317.2 77.8	320.6 77.2	320.6 77.0	0.0	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	406.3	404.9	407.5	415.1	416.4	1.3	23.6
5. Overdraft at Central Bank	0.0	15.1	10.6	9.5	4.7	4.7	0.0	4.7
6. Other Domestic debt*	37.8	34.9	34.9	34.5	34.6	34.3	-0.3	-3.6
7. Gross Domestic Debt (4+5+6)	430.6	456.2	450.3	451.6	454.4	455.4	0.9	24.7
8. Interest payments on domestic debt (Cumulative in FY)	42.2	21.4	21.5	22.2	24.9	26.5	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

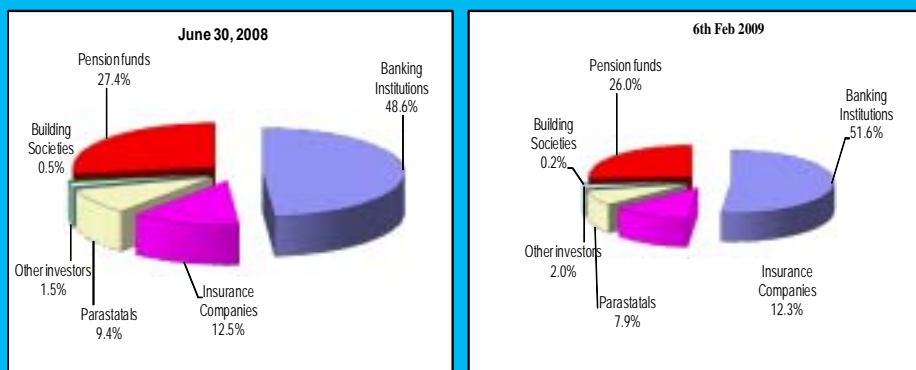
Chart D: Composition of Government Securities



Source: Central Bank of Kenya

Government securities holdings by commercial banks increased from 48.6 percent in June 2008 to 51.6 percent as at February 6, 2009 (Chart E). Similarly, holdings of other investors increased from 1.5 percent to 2.0 percent during the period. However, the proportion of securities held by insurance companies, parastatals, building societies and pension funds declined from 12.5 percent, 9.4 percent, 0.5 percent and 27.4 percent, respectively, to 12.3 percent, 7.9 percent, 0.2 percent and 26.0 percent during the period.

Chart E: Composition of Government Securities by Investor



Source: Central Bank of Kenya

Cost of Domestic Borrowing

From July 1, 2008 to February 6, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 26.5 billion compared with Ksh 24.8 billion in a similar period of 2007/08 (Chart F). The interest cost on domestic debt during the period comprised Ksh 19.9 billion in interest and other charges on Treasury bonds and Ksh 5.9 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

and Ksh 0.7 billion in interest on Government overdraft at Central Bank of Kenya.

There was subdued performance at the equity market during the week ending February 12, 2008 as reflected by key market indicators. Equity turnover fell by 33.4 percent as stocks worth Ksh 0.36 billion were traded compared with Ksh 0.54 billion traded in the previous week. The number of shares traded fell from 42.8 million in the previous week to 32.1 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth, fell by 3.1 percent from Ksh 741.29 billion in the previous week, to Ksh 718.29 billion in the week under review. The NSE 20 Share index lost 92.38 points to settle at 2,855.87 points on February 12, 2008 from 2,950.25 points on February 5, 2009. The Nairobi

Table 7: Key Weekly Market Statistics

Week Ending	11th Dec 2008	18th Dec 2008	24th Dec 2008	31st Dec 2008	8th Jan 2009	15th Jan 2009	22nd Jan 2009	29th Jan 2009	5th Feb 2009	12th Feb 2009
NASI 100= Jan 2008	69.36	71.19	71.79	73.37	73.07	71.68	68.09	67.93	64.02	62.03
NSE 20 Share Index 100=1966	3,251.03	3,367.07	3,406.04	3,521.18	3,546.01	3,447.45	3,272.49	3,262.54	2,950.25	2,855.87
Number of Deals	7,709	6,159	4,421	3,723	9,470	9,971	7,975	8,313	7,929	7,690
Total Shares Traded (millions)	33.50	26.70	18.43	50.40	29.70	42.40	45.09	55.42	42.80	32.13
Equity Turnover (Ksh. millions)	439	379	267	2,962	480	786	591	697	538	359
Market Capitalization (Ksh. Bn.)	770.17	790.54	835.51	853.88	847.18	831.16	789.51	786.52	741.29	718.29
Bonds Turnover (Ksh. millions)	1,732.40	636.35	495.95	178.00	1,082.60	2,565.40	1,236.40	1,134.00	779.75	1,497.00

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

Source: Nairobi Stock Exchange

All Share Index dropped 1.99 points and closed at 62.03 points from 64.02 points in the previous week (Table 7).

The Commercial and Services sector traded 21.7 million shares and accounted for 67.5 percent of total traded volume. Safaricom traded 19.4 million shares to be the most active stock in the sector. The Finance and Investment sector traded 6.3 million shares and accounted for 19.5 percent of traded volume. KCB traded 2.8 million shares to be the most active counter. Industrial and Allied sector traded 3.9 million shares and accounted for 12.0 percent of traded volume. KenGen and Mumias shares were the most active counters and traded 0.7 and 2.1 million shares, respectively. The other sectors had minimal trading.

Bond market trading rose sharply during the week as bonds worth Ksh 1,497.00 million were traded compared with Ksh 779.75 million traded in the previous week.

Bond Market