

February 20, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted a performance of 105.29 percent during the Treasury bills auction and 134.25 percent during the infrastructure bond auction, of February 19, 2009. The Government successfully raised the funds advertised on both instruments. The average 91-day Treasury bills rate was 7.157 percent, the average 182 day Treasury bills rate was 7.646 percent and the average redemption yield on the bond was 13.5 percent during this week's auction.

Average interbank rate rose by 4 basis points from 5.46 percent in the previous week to 5.50 percent during the week ending February 19, 2009 with a decline in volumes transacted. The repo rate fell, by 63 basis points to 4.85 percent from 5.48 percent in the previous week and average interest rate on the 12 year bond was 13.5 per cent.

The Kenya Shilling strengthened against all the major international currencies during the week ending February 19, 2009 except for the US dollar, against which the shilling weakened. Against the US dollar, the shilling exchanged at Ksh 79.66 in the week ending February 19, 2009 compared with Ksh 79.22 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,402 million (equivalent to 4.81 months of imports) as at February 19, 2008 to US dollar 2,626 million (equivalent to 3.13 months of imports) as at February 19, 2009. The reserve cover, however stabilised close to the January 2009 level of 3.19 months.

Central Bank's Open Market Operations desk mopped Ksh 13.9 billion from commercial banks and redeemed maturing securities worth Ksh 10.7 billion during the week ending February 18, 2009. The stock of repurchase agreement securities held by commercial banks therefore increased to Ksh 9.7 billion on February 18, 2009 from Ksh 5.5 billion on February 11, 2009.

The Government gross domestic debt increased by 5.9 per cent or Ksh 25.7 billion, to Ksh 456.3 billion as at February 13, 2009 from Ksh 430.6 billion in June 2008. From July 1 to February 13, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 26.8 billion compared with Ksh 25.1 billion in a similar period of 2007/08.

The equity market recorded mixed performance in the week under review. Equity turnover rose by 22.4 percent. In contrast, the NSE 20 Share index fell by 141.38 points to 2714.49 points on February 19, 2009 from 2855.87 points on February 12, 2009.

Government Securities Auction

The Government securities market posted a performance of 105.29 percent during the Treasury bills auction of February 19, 2009. The Government had offered for sale Treasury bills worth Ksh 6.0 billion during the auction and received bids totalling Ksh 6.3 billion, of which Ksh 3.4 billion were in 182 day Treasury bills and Ksh 2.9 billion were in 91 day Treasury bills.

During the auction, the Government accepted bids totalling Ksh 4.8 billion, of which Ksh 4.1 billion or 86.5 percent were in competitive bids. The proceeds of the auction were adequate to cover the cost of rolling over Treasury bills maturities totalling Ksh 4.0 billion in the week and provide additional borrowing of Ksh 0.8 billion.

During this week's auction, the Government offered for sale the first 12-year infrastructure bond, which posted a performance of 134.25 percent. Total amount advertised was Ksh 18.5 billion at a coupon rate of 12.5 percent, but the Government received bids worth Ksh 24.8 billion (at cost). The Government accepted bids totalling Ksh 18.6 billion, at an average interest rate of 13.5 percent, a rate within the range of similar bond products trading in the market. The money raised through the bond is earmarked to finance specific infrastructure projects in water, sewerage, roads and irrigation.

Treasury bills interest rates

The average 91-day Treasury bills rate declined by 18.9 basis points from 7.346 percent in the previous week's auction to 7.157 percent during this week's auction while the average 182-day Treasury bills rate increased by 2.8 basis points from 7.618 percent in the previous week's auction to 7.646 percent (Table 1). As a result, the 12-weeks moving average for the 91-day Treasury bills rate decreased from 8.320 percent in the previous week to 8.197 percent while the 182-day Treasury bills rate decreased from 8.750 percent to 8.623 percent.

Table 1 : Interest Rates

Auction date	22-Jan-09	29-Jan-09	22-Jan-09	29-Jan-09	05-Feb-09	12-Feb-09	19-Feb-09
Average 91 day T. Bills	8.391	7.991	8.391	7.991	7.700	7.346	7.157
Average 182 day T. Bills	8.854	8.285	8.854	8.285	7.995	7.618	7.646
Month	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-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

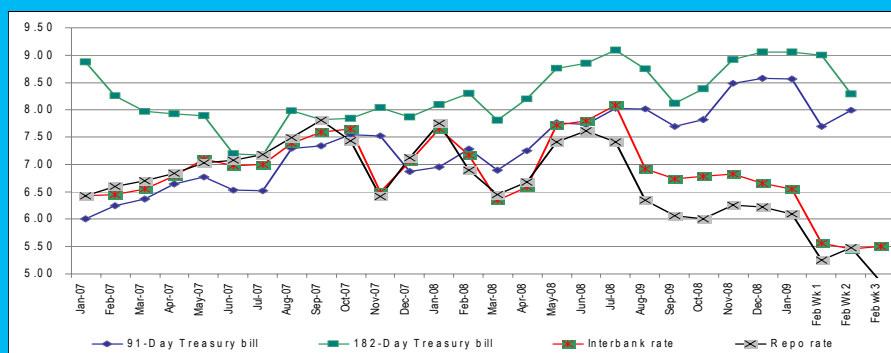
Short term money market interest rates recorded mixed trend. The average interbank rate rose by 4 basis points from 5.46 percent in the previous week to 5.50 percent during the week ending February 19, 2009 with a decline in volumes transacted. Interbank volumes fell from Ksh 73.1 billion in the previous week to Ksh 64.7 billion in the week under review. The repo rate fell, by 63 basis points to 4.85 percent from 5.48 percent in the previous week, with a volume of Ksh 10.9 billion mopped compared with Ksh 3.3 billion transacted in the previous week.(Table 2 and Chart A).

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
06-Feb-09	107	16,195	5.42
09-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
13-Feb-09	81	13,125	5.57
16-Feb-09	79	12,008	5.48
17-Feb-09	77	14,309	5.50
18-Feb-09	75	12,479	5.49
19-Feb-09	81	12,813	5.46
13 - 19 Feb -09	393	64,734	5.50

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 all the major international currencies during the week ending February 19, 2009 except the US dollar, against which the shilling weakened (Table 3). Against the US dollar, the shilling weakened to exchange at Ksh 79.66 in the week ending February 19, 2009 compared with Ksh 79.22 per US dollar in the previous week as corporate demand surpassed inflows from exports. The shilling, however, strengthened against the Sterling Pound, the Euro and the Japanese Yen. In the international market, the US dollar gained against the Euro but lost against the sterling Pound.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen
06-Feb-09	79.32	116.00	101.37	87.20
09-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
13-Feb-09	79.65	114.52	102.90	87.51
16-Feb-09	79.55	112.94	101.44	86.79
17-Feb-09	79.62	113.16	100.72	86.12
18-Feb-09	79.75	113.53	100.41	86.30
19-Feb-09	79.71	113.58	100.27	85.28
Feb 13 - 19, 2009	79.66	113.55	101.14	86.40

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,402 million (equivalent to 4.81 months of imports) as at February 19, 2008 to US dollar 2,626 million (equivalent to 3.13 months of imports) as at February 19, 2009 (Table 3). The decline in import cover reflects capital outflow in respect of official debt repayment, valuation change and a

larger import bill. Commercial banks foreign exchange reserves holdings, which are predominantly use by private sector to meet external financial obligations, increased from US\$ 1,055 million as at end January 2008 to US\$ 1,580 million as at end January 2009.

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

	19-Feb-08	31-Mar-08	30-Jun-08	30-Sep-08	28-Nov-08	31-Dec-08	30-Jan-09	19-Feb-09
Usable Reserves	3,402	3,285	3,300	3,086	2,736	2,768	2,671	2,626
Months of Imports Cover*	4.81	4.67	4.60	4.06	3.44	3.35	3.19	3.13
Months of Imports Cover**	3.97	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 18, 2009, Central Bank sought to mop an average of Ksh 1.5 billion daily from the market in order to align reserve money to the target. However, the Bank realized an average of Ksh 2.8 billion as shown in Table 5. The excess mop up is attributed to liquidity flows above forecast levels.

Table 5: Open Market Operations (Ksh Billion)

Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside
	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
12-Feb	156.1	167.5	-11.4	0.0	0.4	0.4	158.2	-9.3	1.7	-11.0
13-Feb	158.6	167.5	-8.9	1.5	4.3	2.8	155.7	-11.7	-1.1	-10.6
16-Feb	161.6	167.5	-5.9	4.0	6.5	2.5	155.7	-11.8	-0.2	-11.6
17-Feb	156.6	167.5	-10.9	1.0	2.4	1.4	155.1	-12.4	-1.2	-11.2
18-Feb	155.3	167.5	-12.1	1.0	0.4	-0.6	153.8	-13.7	-1.6	-12.1
Average	157.6	167.5	-9.8	1.5	2.8	1.3	155.7	-11.8	-0.5	-11.3

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Repurchase Agreement Securities held by Comm Banks

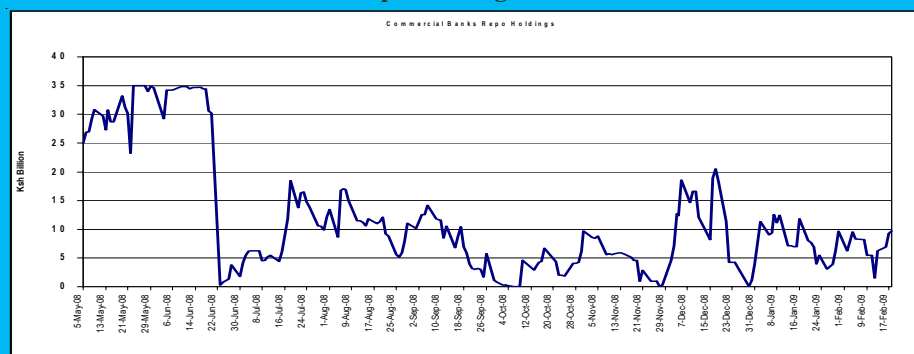
During the week ending February 18, 2009, Central Bank's open market operations desk mopped Ksh 13.9 billion from the market through repurchase securities agreements against redemption of Ksh 10.7 billion in maturing securities. As a result, the stock of repo securities holdings by commercial banks increased from Ksh 5.5 billion on February 11, 2009 to Ksh 9.7 billion by February 18, 2009. Reserve money for the week ending February 18, 2009 averaged Ksh 155.7 billion.

Commercial Banks Clearing Account Balances

Clearing account balances of commercial banks at the Central Bank averaged Ksh 3.1 billion in the week ending February 18, 2009 up from Ksh 1.2 billion held in the previous week as shown in Chart C.

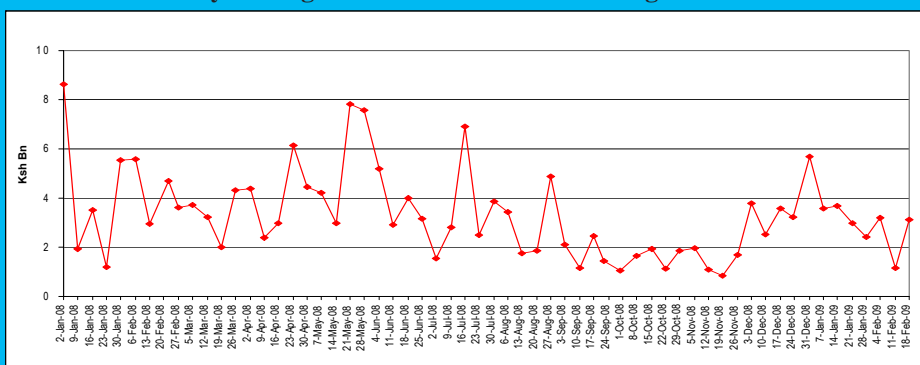
The Government gross domestic debt increased by Ksh 25.7 billion, from Ksh 430.6 billion in June 2008 to Ksh 456.3 billion as at February 13, 2009 (Table 4 and Chart D). The expansion of gross debt comprised increases of Ksh 18.9 billion in Treasury bills (excluding repos), Ksh 5.4 billion in Treasury bonds, Ksh 4.7 billion in overdraft at the Central Bank of Kenya (CBK), and a partially offsetting decrease of Ksh 3.3 billion in other domestic debt.

Chart B: Commercial Banks Repo Holdings



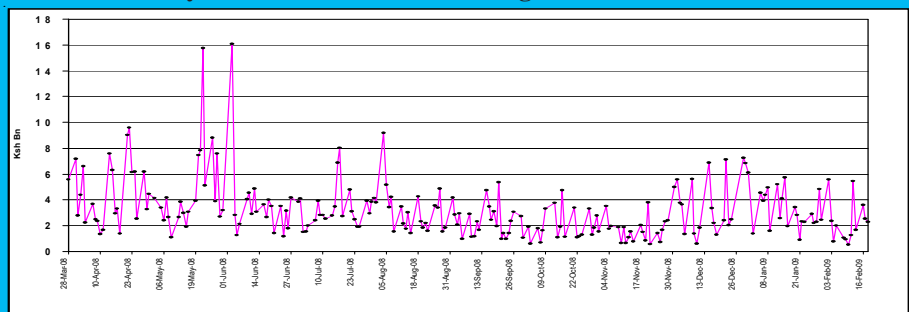
Source: Central Bank of Kenya

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

Treasury bills (excluding Repos) increased from Ksh 76.8 billion in June 2008 to Ksh 95.7 billion as at February 13, 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 34.5 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 76.9 percent as at February 13, 2009 while Treasury bills holdings increased from 19.6 percent to 22.9 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.

Government securities holdings of commercial banks increased from 48.6 percent in June 2008 to 51.8 percent as at February 13, 2009 while holdings of other investors increased from 1.5 percent to 1.9 percent (Chart E). The proportion of securities held by insurance companies, building societies,

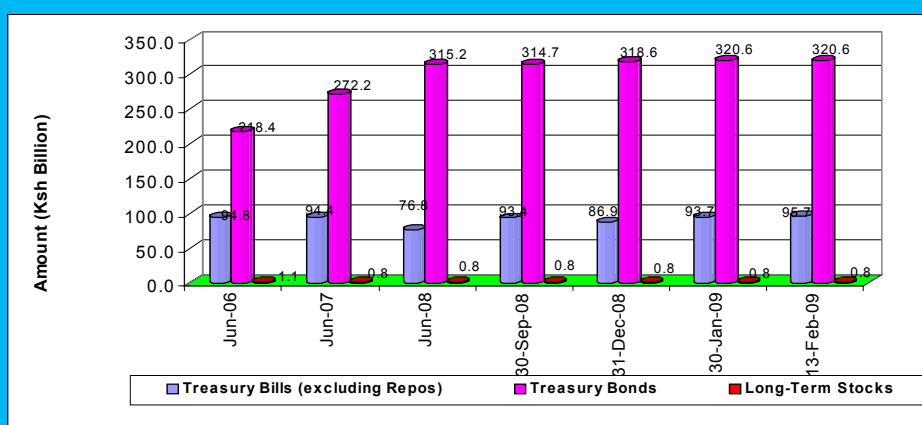
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	30th Jan 09	6th Feb 09	13th Feb 09	Changes 6th Feb 09 - 13th Feb 09	30th Jun 08 - 13th Feb 09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	86.9 21.4	93.7 22.6	95.0 22.8	95.7 22.9	0.7	18.9
2. Treasury Bonds (As % of total securities)	315.2 80.2	318.6 78.4	320.6 77.2	320.6 77.0	320.6 76.9	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	0.0	0.0
4. Total Securities (1+2+3)	392.8	406.3	415.1	416.4	417.1	0.7	24.3
5. Overdraft at Central Bank	0.0	15.1	4.7	4.7	4.7	0.0	4.7
6. Other Domestic debt*	37.8	34.9	34.6	34.3	34.5	0.2	-3.3
7. Gross Domestic Debt (4+5+6)	430.6	456.2	454.4	455.4	456.3	1.0	25.7
8. Interest payments on domestic debt (Cumulative in FY)	42.2	21.4	24.9	26.5	26.8	0.4	

* 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 D: Composition of Government Securities



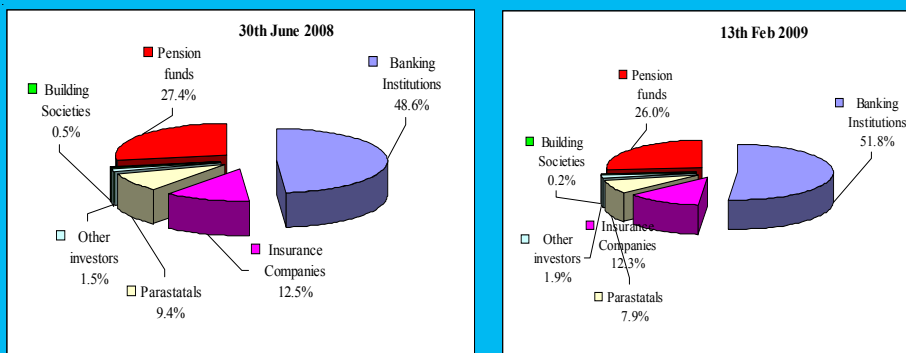
Source: Central Bank of Kenya

parastatals and pension funds declined from 12.5 percent, 0.5 percent, 9.4 percent and 27.4 percent, respectively, to 12.3 percent, 0.2 percent, 7.9 percent and 26.0 percent during the period.

Cost of Domestic Borrowing

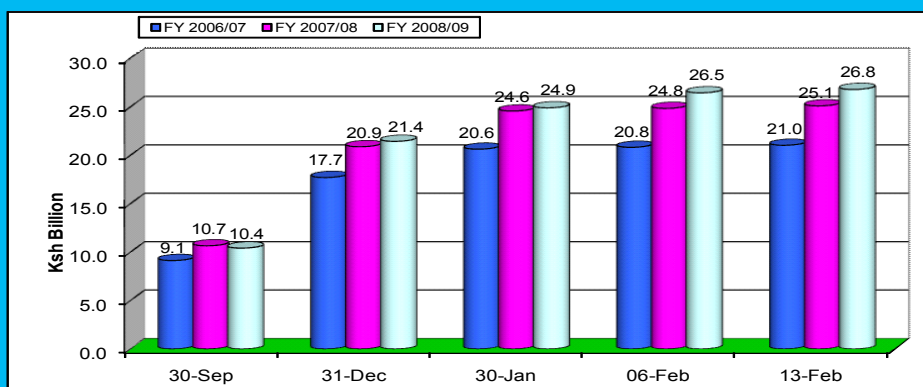
From July 1 to February 13, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 26.8 billion compared with Ksh 25.1 billion in a similar period of 2007/08 (Chart F). The interest cost on domestic debt during the period comprised Ksh 19.9 billion in interest and other charges on Treasury bonds, Ksh 6.1 billion in interest and other charges on Treasury bills and Ksh 0.8 billion in interest on Government overdraft at Central Bank of Kenya.

Chart E: Composition of Government Securities by Investor



Source: Central Bank of Kenya

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was mixed performance at the equity market during the week ending February 19, 2008 as reflected by key market indicators. Equity turnover rose by 22.4 percent as stocks worth Ksh 0.44 billion were traded compared with Ksh 0.36 billion traded in the previous week. The number of shares traded rose from 32.1 million in the previous week to 39.4 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth, fell by 4.9 percent from Ksh 718.29 billion in the previous week, to Ksh 682.82 billion in the week under review. The NSE 20 Share index shed off 141.38 points to settle at 2714.49 points on February 19, 2008 from 2855.87 points on February 12, 2009. The Nairobi All Share Index dropped 3.06 points and closed at 58.97 points from 62.03 points in the previous week (Table 7).

The Commercial and Services sector traded 23.5 million shares and accounted for 59.6 percent of total traded volume. Safaricom traded 17.9 million shares to be the most active stock in the sector. The Finance and Investment sector traded 6.6 million shares and accounted for 16.7 percent of traded volume. Co-operative Bank traded 2.5 million shares to be the most active counter. Industrial and Allied sector traded 7.8 million shares and accounted for 19.9 percent of traded volume. KenGen and Mumias shares were the most active counters and traded 1.1 and 6.0 million shares, respectively. The other sectors had minimal trading.

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	19th 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	58.97
NSE20 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	2,714.49
Number of Deals	7,709	6,159	4,421	3,723	9,470	9,971	7,975	8,313	7,929	7,690	8,409
Total Shares Traded (millions)	33.50	26.70	18.43	50.40	29.70	42.40	45.09	55.42	42.80	32.13	39.44
Equity Turnover (Ksh. millions)	439	379	267	2,962	480	786	591	697	538	359	439
Market Capitalization (Ksh. Bn.)	770.17	790.54	835.51	853.88	847.18	831.16	789.51	786.52	741.29	718.29	682.82
Bonds Turnover (Ksh. millions)	1,732.40	636.35	495.95	178.00	1,082.60	2,555.40	1,236.40	1,134.00	779.75	1,497.00	906.35

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

Source: Nairobi Stock Exchange

Bond Market

Bond market trading declined during the week as bonds worth Ksh 906.35 million were traded compared with Ksh 1497 million traded in the previous week