

**February 27, 2009**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The Government securities market posted a performance of 59.97 percent during the Treasury bills auction of February 26, 2009. The average 91-day Treasury bills rate was 7.235 percent while the average 182 day Treasury bills rate was 7.661 percent during this week's auction.

The average interbank rate fell by 7 basis points from 5.50 percent in the previous week to 5.43 percent during the week ending February 26, 2009 with an increase in volumes transacted. The repo rate continued to slide and settled at 4.84 percent with a volume of Ksh 3.2 billion mopped.

The Kenya Shilling weakened against all major international currencies, except the Japanese Yen, during the week ending February 26, 2009. Against the US dollar, the shilling traded at an average of Ksh 79.72 per US dollar in the week ending February 26, 2009 compared with Ksh 79.66 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,343 million (equivalent to 4.73 months of imports) as at February 26, 2008 to US dollar 2,650 million (equivalent to 3.16 months of imports) as at February 26, 2009.

Central Bank's Open Market Operations desk mopped Ksh 9.5 billion from commercial banks and redeemed maturing securities worth Ksh 17.9 billion during the week ending February 25, 2009. The stock of repurchase agreement securities held by commercial banks therefore declined to Ksh 1.31 billion on February 25, 2009 from Ksh 9.7 billion on February 18, 2009.

The Government gross domestic debt increased by Ksh 26.9 billion as at February 20, 2009. From July 1 2008 to February 20, 2009, cumulatively. Government expenditure on interest and other charges on domestic debt amounted to Ksh 27.6 billion compared with Ksh 25.1 billion in a similar period of 2007/08.

The equity market was subdued during the week under review as the bearish market effects continued. Equity turnover fell by 37.6 percent, market capitalization fell by 8.5 percent while the NSE 20 Share index fell by 203.02 points to 2,511.47 points on February 26, 2009 from 2,714.49 points on February 19, 2009.

**Government Securities Auction**

The Government securities market posted a performance of 59.97 percent during the Treasury bills auction of February 26, 2009. The Government had offered for sale Treasury bills worth Ksh 6.5 billion during the auction but received bids totalling Ksh 3.9 billion, of which Ksh 2.1 billion were in 182 day Treasury bills and Ksh 1.8 billion were in 91-day Treasury bills.

During the auction, the Government accepted bids totalling Ksh 3.6 billion, of which Ksh 2.8 billion or 78.5 percent were in competitive bids. Proceeds of the auction were to be used to meet part of the cost of rolling over Treasury bills maturities of Ksh 6.5 billion during the week.

**Treasury bills interest rates**

The average 91-day Treasury bills rate increased by 7.8 basis points, from 7.157 percent in the previous week's auction to 7.235 percent during this week's auction while the average 182-day Treasury bills rate increased by 1.5 basis points, from 7.646 percent in the previous week's auction to 7.661 percent (Table 1). As a result, the 12-weeks moving average for the 91-day Treasury bills rate decreased from 8.197 percent in the previous week to 8.082 percent while the 182-day Treasury bills rate decreased from 8.623 percent to 8.505 percent.

**Table 1 : Interest Rates**

Auction date	15-Jan-00	22-Jan-09	29-Jan-09	5-Feb-09	12-Feb-09	19-Feb-09	26-Feb-09
Average 91 day T. Bills	8.445	8.391	7.991	7.700	7.346	7.157	7.235
Average 182 day T. Bills	8.858	8.854	8.285	7.995	7.618	7.646	7.661
Month	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-09	Jan-09
Average savings rate	1.67	1.68	1.73	1.74	1.61	1.65*	2.10
Average overdraft rate	13.49	13.11	13.43	13.91	13.85	14.40	14.35

\* Revised

Source: Central Bank of Kenya

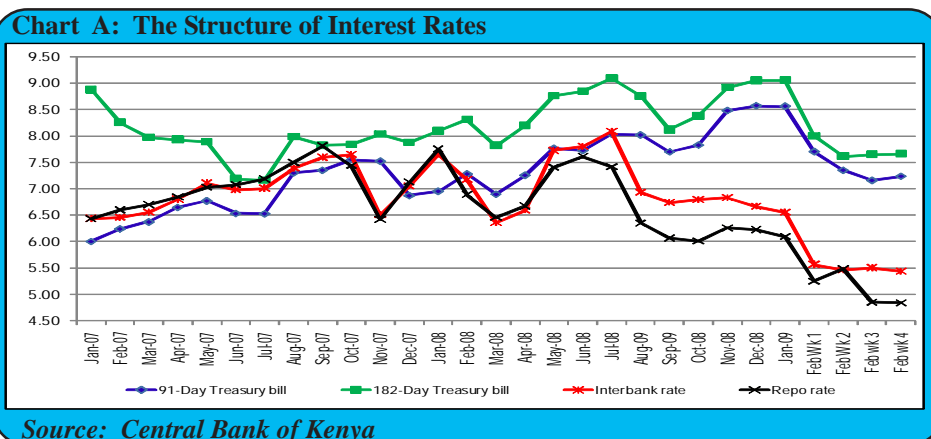
**Interbank and REPO Market**

The average interbank rate fell by 7 basis points, from 5.50 percent in the previous week to 5.43 percent during the week ending February 26, 2009 with an increase in volumes transacted. Interbank volumes rose from Ksh 64.7 billion in the previous week to Ksh 81 billion in the week under review. The repo rate fell, by 1 basis point from 4.85 percent to 4.84 percent in the previous week, with a volume of Ksh 3.2 billion mopped down compared with Ksh 10.9 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 (%)
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
<b>13 - 19 Feb-09</b>	<b>393</b>	<b>64,734</b>	<b>5.50</b>
20-Feb-09	84	16,136	5.39
23-Feb-09	98	17,657	5.36
24-Feb-09	110	17,017	5.36
25-Feb-09	116	16,148	5.51
26-Feb-09	99	14,039	5.54
<b>20 - 26 Feb-09</b>	<b>507</b>	<b>80,997</b>	<b>5.43</b>

Source: Central Bank of Kenya



### The Shilling Exchange Rate

The Kenya Shilling weakened against all major international currencies, except the Japanese Yen, during the week ending February 26, 2009 (Table 3). Against the US dollar, the shilling traded at an average of Ksh 79.72 per US dollar in the week ending February 26, 2009 compared with Ksh 79.66 per US dollar in the previous week. The weakening of the Shilling against the US dollar was attributed to increased end-of-month corporate demand for the US dollar that surpassed inflows. The shilling also weakened against the Sterling Pound and the Euro in the week ending February 26, 2009 to trade, respectively, at Ksh 114.90 per Sterling Pound and Ksh 101.65 per Euro compared with Ksh 113.55 per Sterling Pound and Ksh 101.14 per Euro in the previous week. However, the Shilling strengthened against the Japanese Yen in the week under review to exchange at an average of Ksh 83.61 per 100 Japanese Yen, compared with Ksh 86.40 per 100 Japanese Yen in the previous week. In the international foreign exchange market, the US dollar weakened against the Sterling Pound but strengthened against the Euro and the Japanese Yen.

**Table 3: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen
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
<b>Feb 13 - 19, 2009</b>	<b>79.66</b>	<b>113.55</b>	<b>101.14</b>	<b>86.40</b>
20-Feb-09	79.59	113.29	100.28	84.58
23-Feb-09	79.69	115.59	102.69	85.73
24-Feb-09	79.84	116.17	101.60	83.86
25-Feb-09	79.77	115.96	102.33	82.31
26-Feb-09	79.71	113.47	101.36	81.55
<b>Feb 20 - 26, 2009</b>	<b>79.72</b>	<b>114.90</b>	<b>101.65</b>	<b>83.61</b>

Source: Central Bank of Kenya

**Foreign Exchange Reserves**

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,343 million (equivalent to 4.73 months of imports) as at February 26, 2008 to US dollar 2,650 million (equivalent to 3.16 months of imports) as at February 26, 2009 (Table 4). The decline in import cover reflects reduction in reserves level as well as increased import bill. Commercial banks foreign exchange reserves holdings, which are predominantly used 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)**

	26-Feb-08	31-Mar-08	30-Jun-08	30-Sep-08	28-Nov-08	31-Dec-08	30-Jan-09	26-Feb-09
Usable Reserves	3,343	3,285	3,300	3,086	2,736	2,768	2,671	2,650
Months of Imports Cover*	4.73	4.67	4.60	4.06	3.44	3.35	3.19	3.16
Months of Imports Cover**	3.90	3.88	3.67	3.35	2.83	2.77	2.66	2.65

\*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 25, 2009, Central Bank sought to mop an average of Ksh 2.5 billion daily from the market in order to align reserve money to the target. However, the Bank realized an average of Ksh 1.9 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	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
19-Feb	159.2	167.5	-8.3	5.0	4.7	-0.3	153.9	-13.6	-0.9	-12.7
20-Feb	155.4	167.5	-12.1	2.5	3.9	1.4	151.9	-15.6	-2.2	-13.4
23-Feb	156.9	167.5	-10.6	5.0	0.9	-4.1	153.9	-13.6	-0.4	-13.2
24-Feb	150.5	167.5	-17.0	0.0	0.0	0.0	150.1	-17.4	-3.6	-13.8
25-Feb	149.3	167.5	-18.1	0.0	0.0	0.0	150.5	-17.0	102.4	-119.3
Average	154.3	167.5	-13.2	2.5	1.9	-0.6	152.0	-15.4	19.1	-34.5

\*Reserve money comprises bank reserves and currency outside banks

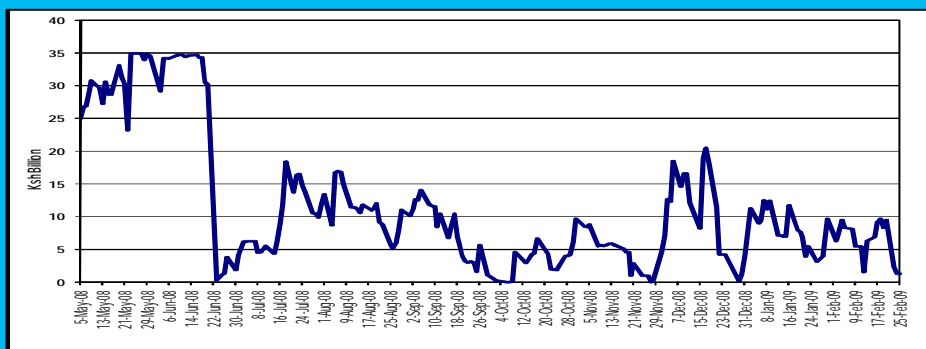
Source: Central Bank of Kenya

**Repurchase Agreement Securities held by Comm Bks**

During the week ending February 25, 2009, Central Bank's open market operations desk mopped Ksh 9.5 billion from the market through repurchase securities agreements against redemptions of Ksh 17.9 billion in maturing securities. As a result, the stock of repo securities holdings by commercial banks declined from Ksh 9.7 billion on February 18, 2009 to Ksh 1.3 billion by February 25, 2009. Reserve money for the week ending February 25, 2009 averaged Ksh 152.0 billion.

**Commercial Banks Clearing Account Balances**

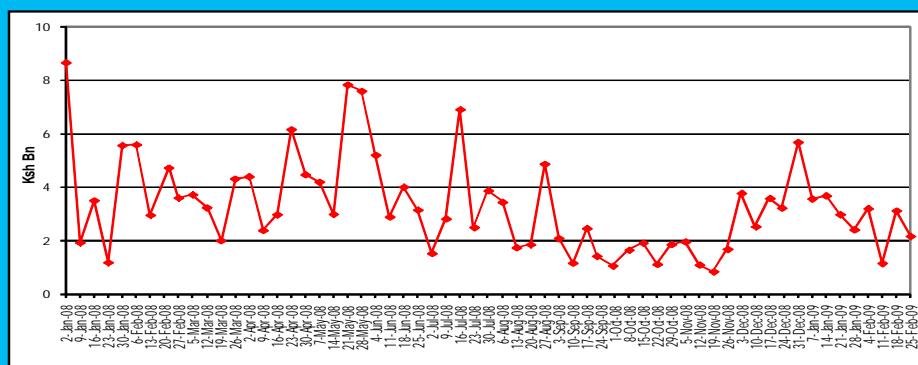
**Chart B: Commercial Banks Repo Holdings**



Source: Central Bank of Kenya

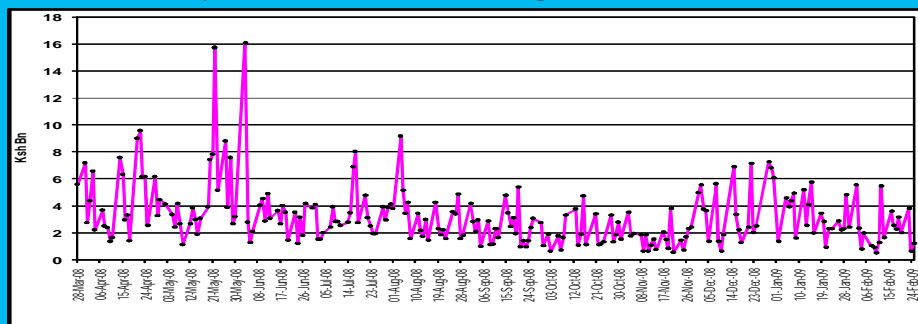
Clearing account balances of commercial banks at the Central Bank averaged Ksh 2.2 billion in the week ending February 25, 2009 down from Ksh 3.1 billion held in the previous week as shown in Chart C1.

**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**

The Government gross domestic debt increased by Ksh 26.9 billion, from Ksh 430.6 billion in June 2008 to Ksh 457.5 billion as at February 20, 2009 (Table 6 and Chart D). This was attributed to increases of Ksh 19.3 billion in Treasury bills excluding repos, Ksh 5.4 billion in Treasury bonds and Ksh 5.2 billion in overdraft at the Central Bank of Kenya (CBK). However, these increases were partly offset by a decrease of Ksh 3.0 billion in other domestic debt.

Treasury bills (excluding Repos) increased from Ksh 76.8 billion in June 2008 to Ksh 96.2 billion as at February 20, 2009. Treasury bonds and overdraft at CBK also increased from Ksh 315.2 billion and zero, respectively, to Ksh 320.6 billion and Ksh 5.2 billion during the period. However, other domestic debt decreased from Ksh 37.8 billion to Ksh 34.8 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 76.8 percent as at February 20, 2009 while Treasury bills holdings increased from 19.6 percent to 23.0 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.

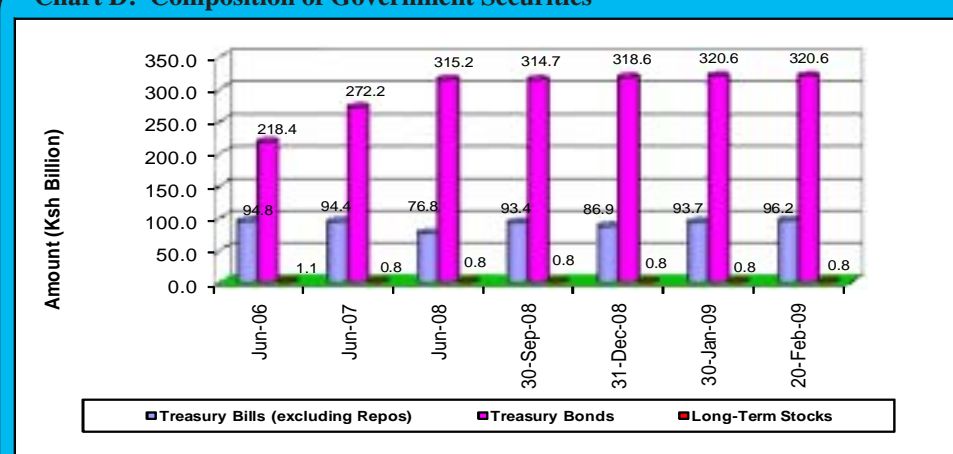
**Table 6: Government Domestic Debt (Ksh Billion)**

	Jun-08	31st Dec 08	30th Jan 09	13th Feb 09	20th Feb 09	Changes 6th Feb 09 - 20th Feb 09	30 th Jun 08 - 20th Feb 09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	86.9 21.4	93.7 22.6	95.7 22.9	96.2 23.0	0.4	19.3
2. Treasury Bonds (As % of total securities)	315.2 80.2	318.6 78.4	320.6 77.2	320.6 76.9	320.6 76.8	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	417.1	417.5	0.4	24.8
5. Overdraft at Central Bank	0.0	15.1	4.7	4.7	5.2	0.5	5.2
6. Other Domestic debt*	37.8	34.9	34.6	34.5	34.8	0.3	-3.0
7. Gross Domestic Debt (4+5+6)	430.6	456.2	454.4	456.3	457.5	1.2	26.9
8. Interest payments on domestic debt (Cumulative in FY)	42.2	21.4	26.2	26.8	27.6	0.8	

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

Source: Central Bank of Kenya

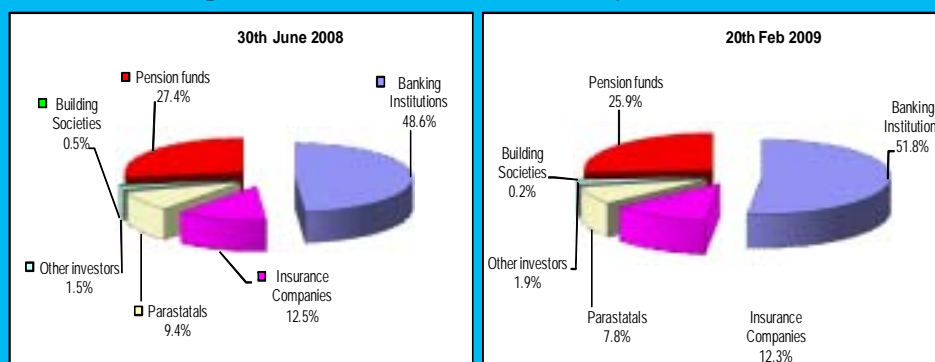
**Chart D: Composition of Government Securities**



Source: Central Bank of Kenya

Government securities holdings by commercial banks increased from 48.6 percent in June 2008 to 51.8 percent as at February 20, 2009 while holdings of other investors increased from 1.5 percent to 1.9 percent (Chart E). However, the proportion of securities held by insurance companies, building societies, 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, 7.8 percent and 25.9 percent during the period.

Chart E: Composition of Government Securities by Investor

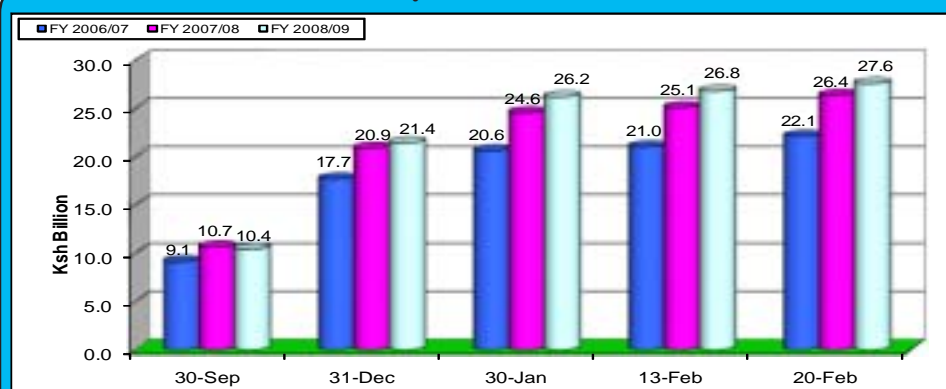


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

From July 1, 2008 to February 20, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 27.6 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 20.3 billion in interest and other charges on Treasury bonds, Ksh 6.5 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 F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

### The Stock Market

There was subdued performance at the equity market during the week ending February 26, 2009. Equity turnover fell by 37.6 percent as stocks worth Ksh 0.27 billion were traded compared with Ksh 0.44 billion traded in the previous week. The number of shares traded fell from 39.44 million in the previous week to 32.81 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth, fell by 8.5 percent from Ksh 682.82 billion in the previous week, to Ksh 624.56 billion in the week under review. The NSE 20 Share index shed off 203.02 points to settle at 2,511.47 points on February 26, 2009 from 2,714.49 points on February 19, 2009. The Nairobi All Share Index dropped 5.04 points and closed at 53.93 points compared with 58.97 points in the previous week (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	31st Dec 2008	8th Jan 2009	15th Jan 2009	22nd Jan 2009	29th Jan 2009	5th Feb 2009	12th Feb 2009	19th Feb 2009	26th Feb 2009
NASI 100= Jan 2008	73.37	73.07	71.68	68.09	67.93	64.02	62.03	58.97	53.93
NSE 20 Share Index 100=1966	3,521.18	3,546.01	3,447.45	3,272.49	3,262.54	2,950.25	2,855.87	2,714.49	2,511.47
Number of Deals	3,723	9,470	9,971	7,975	8,313	7,929	7,690	8,409	7,209
Total Shares Traded (millions)	50.40	29.70	42.40	45.09	55.42	42.80	32.13	39.44	32.81
Equity Turnover (Ksh. millions)	2,962	480	786	591	697	538	359	439	274
Market Capitalization (Ksh. Bn.)	853.88	847.18	831.16	789.51	786.52	741.29	718.29	682.82	624.56
Bonds Turnover (Ksh. millions)	178.00	1,082.60	2,565.40	1,236.40	1,134.00	779.75	1,497.00	906.35	1,011.95

\* 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 21.7 million shares and accounted for 62 percent of total traded volume. Safaricom traded 19.2 million shares to be the most active stock in the sector. The Finance and Investment sector traded 5.7 million shares and accounted for 16.4 percent of total traded volume. Kenya Commercial Bank traded 2.5 million shares to be the most active counter in the sector. Industrial and Allied sector traded 7.5 million shares and accounted for 21.3 percent of traded volume. KenGen and Mumias shares were the most active counters and traded 0.5 million and 6.0 million shares, respectively. The other sectors had minimal trading.

### Bond Market

Bond market trading increased during the week as bonds worth Ksh 1.01 billion were traded compared with Ksh 906.35 million traded in the previous week.