

January 02, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

Overall 12-month inflation declined from 29.4 percent in November 2008 to 27.7 percent in December 2008, while the 12-month underlying inflation declined from 9.1 percent to 9.0 percent during the same period.

The Government securities market posted a subdued performance of 58.82 percent during the Treasury bills auction of December 31, 2008. The government had offered for sale Treasury bills worth Ksh 3.0 billion during the auction, received bids totalling Ksh 1.8 billion and accepted all bids. The average 91-day Treasury bills rate and the 182-day Treasury bills rate declined by 0.4 basis points and 2.3 basis points, respectively.

Average interbank rate rose by 3 basis points from 6.47 percent in the previous week to 6.50 percent during the week ending December 31, 2008 with a drop in volumes transacted. The repo rate rose, by 2 basis points to 6.00 percent from 5.98 percent in the previous week.

The Kenya Shilling appreciated against the US dollar, the Euro and the Japanese Yen in the week ending December 31, 2008 but depreciated against the Sterling Pound. Against the US dollar, the shilling traded at an average of Ksh 76.28 per US dollar compared with Ksh 76.48 per US dollar in the week ending December 24, 2008.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 2,811 million (equivalent to 4.05 months of imports) as at December 31, 2007 to US dollar 2,768 million (equivalent to 3.35 months of imports) as at December 31, 2008.

The stock of repurchase agreement securities held by commercial banks declined to Ksh 4.0 billion on December 31, 2008 from Ksh 4.2 billion on December 23, 2008. This was after the Central Bank Open Market Operations desk mopped Ksh 3.9 billion from commercial banks and redeemed maturing securities amounting to Ksh 4.2 billion during the week.

Government gross domestic debt increased by Ksh 25.0 billion from Ksh 430.6 billion in June 2008 to Ksh 455.6 billion on December 24 2008. As a result, the cumulative Government expenditure on interest and other charges on domestic debt from July 1 to December 24, 2008 amounted to Ksh 22.3 billion compared to Ksh 20.9 billion in a similar period in the fiscal year 2007/08.

The Nairobi Stock Exchange (NSE) recorded mixed performance in the week under review. Equity turnover rose steeply by 931.7 percent owing to an increase in both the number of shares traded and the share prices. The NSE 20 Share index gained 115.14 points to settle at 3,521.18 points on December 31, 2008 from 3,406.04 points on December 24, 2008. Turnover at the bond market declined.

Inflation

Overall 12-month inflation declined from 29.4 percent in November 2008 to 27.7 percent in December 2008. The decline in overall inflation reflected lower prices of food items, mainly the prices of maize flour. Average annual inflation however increased from 25.0 percent in November 2008 to 26.2 percent in December 2008.

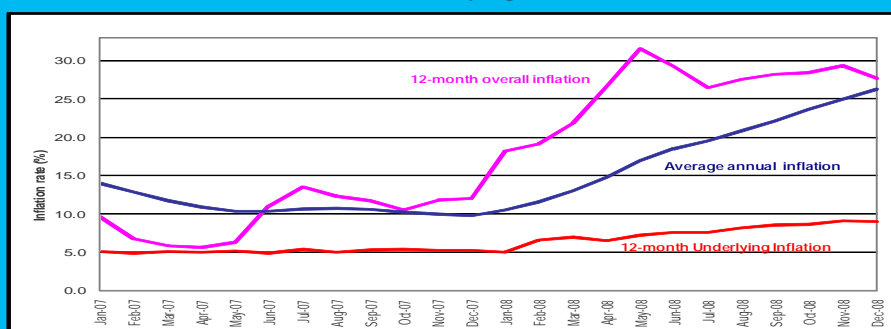
The 12-month underlying inflation declined from 9.1 percent in November 2008 to 9.0 percent in December 2008. Average underlying inflation however increased from 7.3 percent in November 2008 to 7.6 percent in December 2008.

Inflation for seven categories of goods and services in the CPI basket declined in December 2008. Inflation for the food and drink category declined from 39.4 percent in November 2008 to 37.5 percent in December 2008, reflecting lower prices of food items. Inflation for the alcohol and tobacco category declined from 15.1 percent in November 2008 to 14.6 percent in December 2008, while inflation for the fuel and power category declined from 26.9 percent to 18.0 percent during the same period, reflecting decreases in the cost of diesel, petrol and paraffin as well as lower electricity costs. Inflation for the housing, and transport and communication categories, declined from 7.4 percent and 13.4 percent in November 2008, respectively, to 7.2 percent and 10.9 percent in December 2008. Similarly, inflation for the recreation and education category, and the personal goods and services category declined from 7.1 percent and 10.3 percent, respectively, in November 2008 to 7.0 percent and 9.9 percent in December 2008.

On the other hand, inflation for the clothing and footwear category increased from 6.0 percent in November 2008 to 6.1 percent in December 2008 while that of household goods and services increased from 12.7 percent in November 2008 to 12.9 percent in December 2008. Inflation for the medical goods and services category also increased from 14.6 percent to 15.7 percent during the same period.

All income groups experienced lower 12-month inflation in December 2008 compared with the year to November 2008. Inflation for the Nairobi lower income group declined from 32.3 percent in November 2008 to 29.7 percent in December 2008. Inflation for the "Rest of Kenya" income group was 28.0 percent in December 2008 compared with 30.0 percent in November 2008 while inflation for the "Combined Nairobi" income group declined from 28.8 percent in November 2008 to 27.3 percent in December 2008. Inflation for the Nairobi middle/upper income group was the lowest in December 2008 at 14.0 percent compared with 15.5 percent in November 2008.

Chart A: Trends in Overall and Underlying Inflation



Source: Central Bank of Kenya

Government Securities Auction

The Government securities market posted a subdued performance of 58.82 percent during the Treasury bills auction of December 31, 2008. The government had offered for sale Treasury bills worth Ksh 3.0 billion during the auction and received bids totalling Ksh 1.8 billion.

During the auction under review the Government accepted all bids. Of the accepted bids, Ksh 1.4 billion or 78.4 percent were in competitive bids. However, the proceeds of the auction could not cover the full cost of Treasury bills maturities, at Ksh 3.2 billion, thus resulting in net repayment of Ksh 1.3 billion.

Treasury bills interest rates

The average 91-day Treasury bills rate declined by 0.4 basis points from 8.537 percent in the previous week's auction to 8.533 percent during the auction while the average 182-day Treasury bills rate declined by 2.3 basis points from 9.061 percent in the previous week's auction to 9.038 percent (Table 1). The 12-weeks moving average for the 91-days Treasury bills rate increased from 8.319 percent in the previous week to 8.383 percent while the 182-days Treasury bills rate increased from 8.829 percent to 8.891 percent.

Table 1 : Interest Rates

Auction date	20-Nov-08	27-Nov-08	11-Dec-08	19-Dec-08	24-Dec-08	31-Dec-08
Average 91 day T. Bills	8.623	8.619	8.557	8.604	8.537	8.533
Average 182 day T. Bills	9.173	9.078	9.007	9.063	9.061	9.038
Month	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08
Average savings rate	1.70	1.67	1.68	1.73	1.74	1.61
Average overdraft rate	13.30	13.49	13.11	13.43	13.91	13.85

Source: Central Bank of Kenya

Interbank and REPO Rates

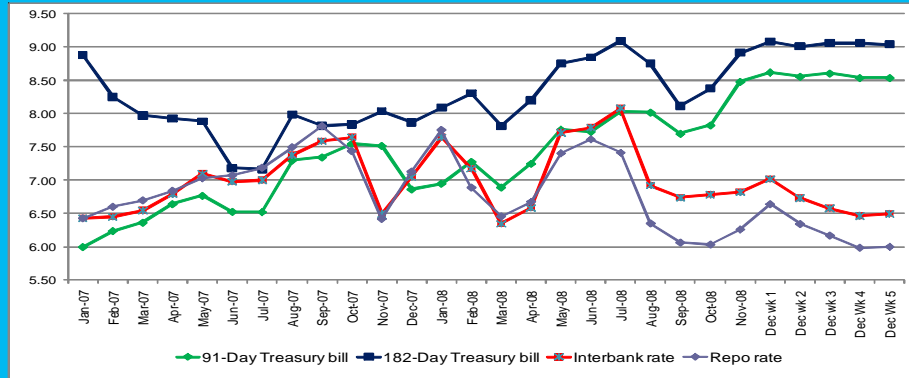
Average interbank rate rose by 3 basis points from 6.47 percent in the previous week to 6.50 percent during the week ending December 31, 2008 with a drop in volumes transacted. Interbank volumes declined from Ksh 42.1 billion in the previous week to Ksh 25.9 billion in the week. The repo rate also rose, by 2 basis points to 6.00 percent from 5.98 percent in the previous week (Table 2 and Chart B). The Central Bank intervened on both sides of the market, injecting Ksh 2.8 billion and mopping Ksh 4.0 billion.

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
19-Dec-08	73	9,762	6.50
22-Dec-08	69	11,738	6.46
23-Dec-08	80	11,413	6.45
24-Dec-08	79	9,160	6.49
25-Dec-08	HOLIDAY		
19-25 Dec- 08	301	42,073	6.474
26-Dec-08	HOLIDAY		
29-Dec-08	95	13,565	6.51
30-Dec-08	82	12,290	6.51
31-Dec-08	87	14,328	6.47
1-Jan-09	HOLIDAY		
26 - 31 Dec- 08	177	25,855	6.500

Source: Central Bank of Kenya

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling appreciated against the US dollar, the Euro and the Japanese Yen in the week ending December 31, 2008 but depreciated against the Sterling Pound (Table 2). The shilling gained against the US dollar to trade at an average of Ksh 76.28 per US dollar in the week ending December 31, 2008 compared with Ksh 76.48 per US dollar in the week ending December 24, 2008. The shilling also gained against the Euro to trade at Ksh 107.43 per Euro and against the Japanese Yen to trade at Ksh 84.91 per 100 Japanese Yen compared with Ksh 107.51 per Euro and Ksh 85.00 per 100 Japanese Yen in the week ending December 24, 2008. The shilling depreciated marginally against the Sterling Pound to exchange at Ksh 114.14 per Sterling Pound in the week ending December 31, 2008 compared with Ksh 114.12 per Sterling Pound in the previous week.

Table 3: Kenya Shilling Exchange Rates

	US Dollar	Sterling Pound	Euro	Yen
19-Dec-08	76.31	115.50	108.76	85.43
22-Dec-08	75.64	112.95	105.92	84.15
23-Dec-08	76.88	113.98	107.61	85.15
24-Dec-08	77.08	114.06	107.73	85.27
Dec 19 - 24, 2008	76.48	114.12	107.51	85.00
29-Dec-08	76.31	115.50	108.76	85.43
30-Dec-08	75.64	112.95	105.92	84.15
31-Dec-08	76.88	113.98	107.61	85.15
Dec 29 - 31, 2008	76.28	114.14	107.43	84.91

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 2,811 million (equivalent to 4.05 months of imports) as at December 31, 2007 to US dollar 2,768 million (equivalent to 3.35 months of imports) as at December 31, 2008 (Table 3). The lower imports coverage of official reserves as at December 31, 2008 reflects the decline of reserves and a larger import bill. Foreign exchange reserves held by commercial banks however rose by US\$ 556 million from US\$ 1,098 million as at end November 2007 to US\$ 1,655 million as at end November 2008.

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

	31-Dec-07	31-Mar-08	30-Jun-08	29-Aug-08	30-Sep-08	31-Oct-08	28-Nov-08	31-Dec-08
Usable Reserves	2,811	3,285	3,300	3,152	3,086	2,790	2,736	2,768
Months of Imports Cover*	4.05	4.67	4.60	4.14	4.06	3.67	3.44	3.35
Months of Imports Cover**	3.35	3.88	3.67	3.43	3.35	3.03	2.83	2.77

*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 December 31, 2008, Central Bank sought to mop an average of Ksh 0.3 billion daily from the market and realized an average of Ksh 1.0 billion as shown in Table 5.

Table 5: Open Market Operations (Ksh Billion)

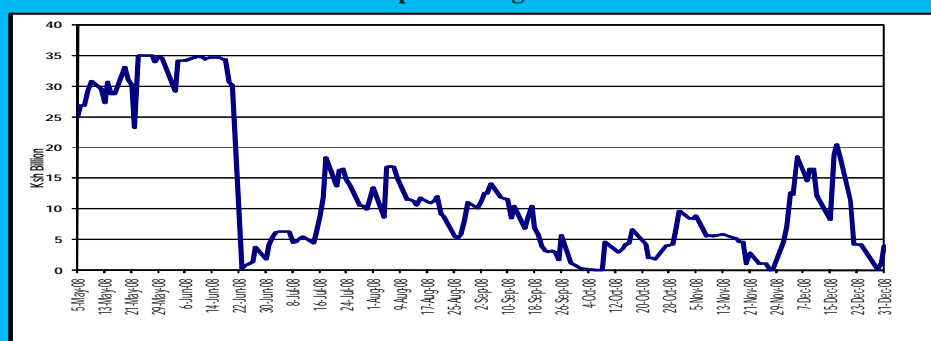
Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Realised	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10-11)	10	11
24-Dec	155.9	170.7	-14.8	0.0	0.0	0.0	166.5	-4.3	-0.2	-4.1
29-Dec	164.4	170.7	-6.3	0.0	0.0	0.0	170.8	0.1	4.5	-4.4
30-Dec	171.7	170.7	1.0	1.0	1.2	0.2	167.3	-3.4	3.6	-7.1
31-Dec	164.9	170.7	-5.9	0.0	2.7	2.7	162.8	-7.9	2.3	-10.2
Average	164.2	170.7	-6.5	0.3	1.0	0.7	166.9	-3.9	2.6	-6.4

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

During the four-day week ending December 31, 2008, Central Bank's open market operations desk mopped Ksh 3.9 billion from the market through repurchase securities agreements. During the same period, Ksh 4.2 billion worth of repo securities were redeemed resulting in a reduction in commercial banks' repo securities holding to Ksh 4.0 billion by December 31, 2008 down from Ksh 4.2 billion held by December 23, 2008. In the week, reserve money averaged Ksh 166.9 billion and was within target by Ksh 3.9 billion.

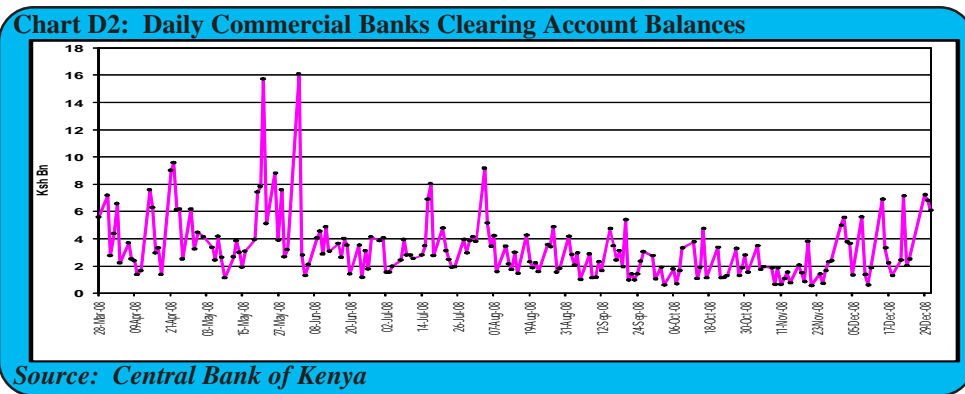
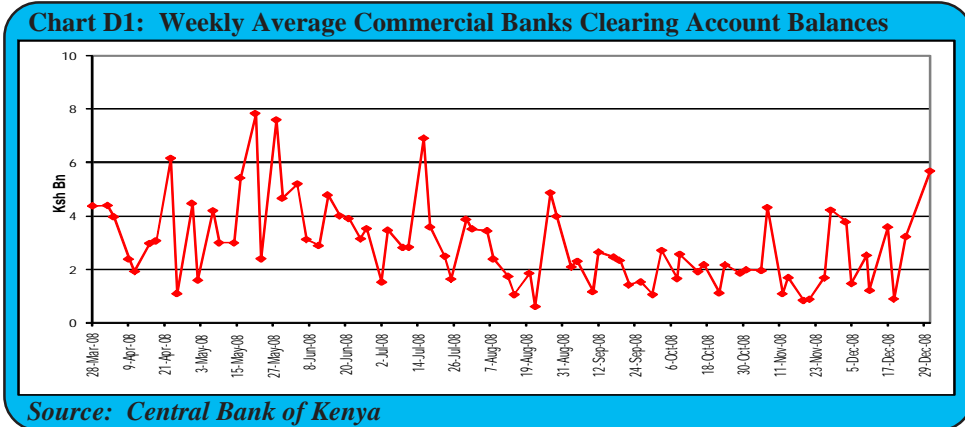
Chart C: Commercial Banks Repo Holdings



Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

As shown in Charts D1 and D2, commercial banks clearing account balances held at the Central Bank averaged Ksh 5.7 billion in the week to December 31, 2008 compared with Ksh 3.2 billion held in the previous week.



Government Domestic Debt

Government gross domestic debt increased by Ksh 25.0 billion from Ksh 430.6 billion in June 2008 to Ksh 455.6 billion on December 24 2008 (Table 6 and Chart E). Gross domestic debt increased during the period as a result of increases of Ksh 12.3 billion, Ksh 15.2 billion and Ksh 0.2 billion in Treasury bills (excluding Repos), overdraft at the Central Bank and Treasury bonds, respectively. However, these increases were partly offset by a decrease of Ksh 2.8 billion in other domestic debt..

Treasury bills, Treasury bonds and overdraft at Central Bank increased from Ksh 76.8 billion, 315.2 billion and zero in June 2008 to Ksh 89.2 billion, Ksh 315.4 billion and Ksh 15.2 billion, respectively, on December 24, 2008. However, other domestic debt decreased from Ksh 37.8 billion to Ksh 35.0 billion during the period, while long term stocks remained unchanged at Ksh 0.8 billion.

Reflecting these trends, the holdings of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.8 percent as at December 24, 2008, while the share of Treasury bills increased from 19.6 percent to 22.0 percent. Consequently, the maturity profile of Government securities declined from 3 years and 8 months to 3 years and 5 months during the period.

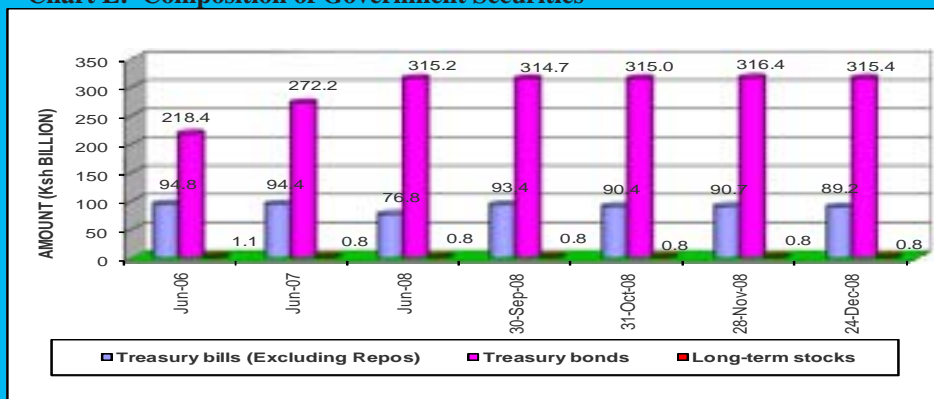
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Oct 08	28th Nov 08	19th Dec 08	24th Dec 08	Changes	
						19th Dec 08 - 24th Dec 08	30th Jun 08 - 24th Dec 08
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	90.4 22.3	90.9 22.0	90.7 22.2	89.2 22.0	-1.5	12.3
2. Treasury Bonds (As % of total securities)	315.2 80.2	315.0 77.6	320.9 77.8	316.4 77.6	315.4 77.8	-1.0	0.2
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	406.2	412.5	407.8	405.4	-2.5	12.6
5. Overdraft at Central Bank	0.0	14.1	3.9	11.8	15.2	3.4	15.2
6. Other Domestic debt*	37.8	34.5	36.2	37.3	35.0	-2.3	-2.8
7. Gross Domestic Debt (4+5+6)	430.6	454.7	452.6	457.0	455.6	-1.3	25.0
8. Interest payments on domestic debt (Cumulative in FY)	42.2	13.5	18.7	20.1	22.3	2.2	

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

Source: Central Bank of Kenya

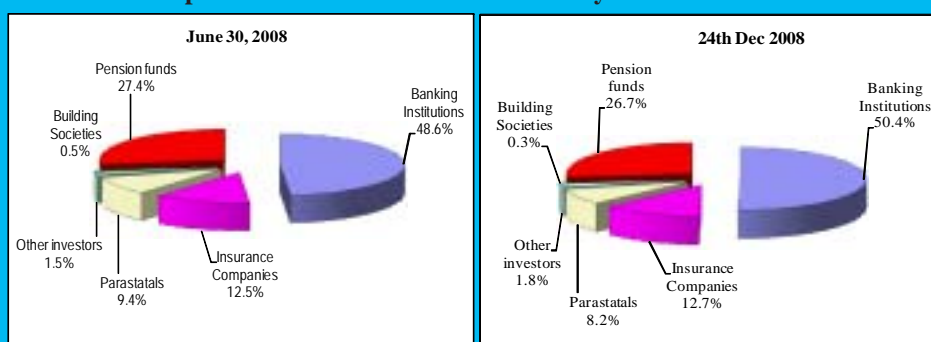
Chart E: Composition of Government Securities



Source: Central Bank of Kenya

The share of Government securities holdings by commercial banks, insurance companies and other investors increased from 48.6 percent, 12.5 percent and 1.5 percent in June 2008 to 50.4 percent, 12.7 percent and 1.8 percent, respectively, as at December 24, 2008. However, holdings of parastatals, pension funds and building societies decreased from 9.4 percent, 27.4 percent and 0.5 percent to 8.2 percent, 26.7 percent and 0.3 percent, respectively (Chart F).

Chart F: Composition of Government Securities by Investor



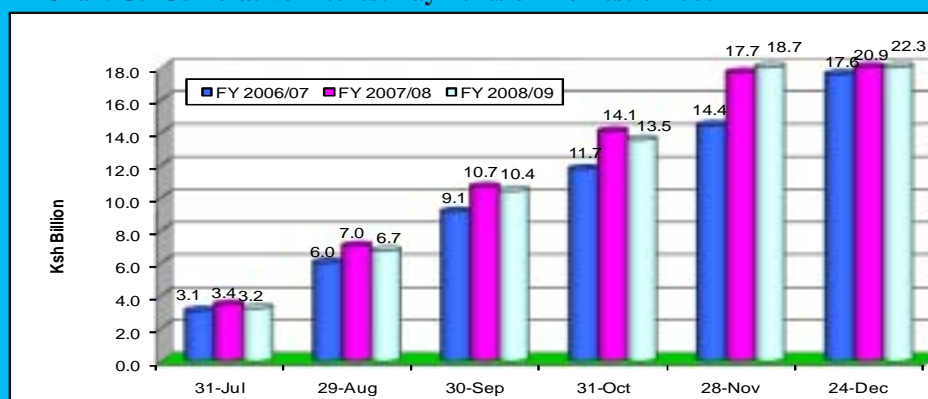
Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt from July 1 to December 24, 2008 amounted to Ksh 22.3 billion compared with Ksh 20.9 billion in a similar period in the fiscal year 2007/08 (Chart G). The interest cost on domestic debt during the period comprised Ksh 17.5 billion in interest and other charges on

Treasury bonds, Ksh 4.6 billion in interest and other charges on Treasury bills, and Ksh 0.2 billion in interest on both long term stock, Government overdraft at Central Bank and the pre-1997 Government overdraft.

Chart G: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The Nairobi Stock Exchange (NSE) recorded mixed performance with improvement at the equities segment and reduction in the bonds segment. Equity turnover increased with stocks worth Ksh 2.76 billion traded in the week compared with Ksh 0.27 billion traded in the previous week. The number of shares traded also rose from 18.4 million shares in the previous week to 44.7 million shares traded in the week to December 31, 2008. Market capitalization, a measure of total shareholders wealth, increased by 2.2 percent from Ksh 835.5 billion in the previous week to Ksh 853.9 billion. The NSE 20 Share index gained 115.1 points to settle at 3,521.2 points on December 31, 2008 from 3,406.0 points on December 24, 2008. Similarly, the Nairobi All Share Index gained 1.6 points and closed at 73.4 points from 71.8 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	30th Oct 2008	5th Nov 2008	13th Nov 2008	20th Nov 2008	27th Nov 2008	4th Dec 2008	11th Dec 2008	18th Dec 2008	24th Dec 2008	31st Dec 2008
NASI 100= Jan 2008	63.96	83.19	77.11	74.97	72.35	66.81	69.36	71.19	71.79	73.37
NSE 20 Share Index 100=1966	3,175.49	4,023.70	3,662.50	3,514.30	3,397.95	3,162.43	3,251.03	3,367.07	3,406.04	3,521.18
Number of Deals	10,272	8,430	19,746	11,165	8,873	7,904	7,709	6,159	4,421	2,232
Total Shares Traded (millions)	63.08	93.26	98.21	64.69	51.99	37.10	33.50	26.70	18.43	44.68
Equity Turnover (Ksh. millions)	622	993	1,352	785	654	580	439	379	267	2,759
Market Capitalization (Ksh. Bn.)	708.69	924.35	856.42	832.51	803.38	750.08	770.17	790.54	835.51	853.88
Bonds Turnover (Ksh. millions)	1,538.05	1,098.10	843.15	412.25	377.20	4,274.20	1,732.40	636.35	495.95	178.00

* 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 25.4 million shares and accounted for 56.8 percent of total traded volume. Safaricom traded 28.6 million shares and was the most active stock in the sector. The Finance and Investment sector traded 17.6 million shares and accounted for 39.4 percent of traded volume, with Equity Bank, the most active counter in the sector, trading 15.9 million shares. Industrial and Allied sector traded 1.5 million shares and accounted for 3.3 percent of traded volume. KenGen

and Mumias shares were the most active counters and traded 0.3 million and 1.9 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond market trading declined during the week with bonds worth Ksh 178 million traded compared with Ksh 495.9 million traded in the previous week.