

January 23, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted high subscription rates: 165.1 percent for the Treasury bills and 141.3 percent for the Treasury bonds, during the auction of January 22, 2009. The Government had offered for sale Treasury bills worth Ksh 4.0 billion during the Treasury bills auction and received bids totalling Ksh 6.6 billion of which Ksh 3.9 billion were in 91 days Treasury bills. On Treasury bonds, the Government had offered for sale 1-year zero coupon Treasury bonds worth Ksh 5.0 billion and received bids totalling Ksh 7.1 billion.

The average 91-day Treasury bills rate and the 182-day Treasury bills rate declined by 5.4 and 0.4 basis points during the week. In addition, the average interest rates on 1-year Treasury bonds declined by 8.3 basis points when compared with a bond of similar tenor issued in November 2008.

Average interbank rate fell by 31 basis points from 6.06 percent in the previous week to 5.75 percent during the week ending January 22, 2009 with an increase in volumes transacted. The repo rate also fell, by 23 basis points to 4.77 percent from 5.00 percent in the previous week.

Kenya Shilling weakened against the US dollar and the Japanese Yen but strengthened against the Sterling Pound and the Euro during the week ending January 22, 2009. Against the US dollar, the shilling exchanged at an average of Ksh 79.43 in the week ending January 22, 2009 compared with Ksh 78.09 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,409 million (equivalent to 4.91 months of imports) as at January 22, 2008 to US dollar 2,677 million (equivalent to 3.19 months of imports) as at January 22, 2009.

Central Bank Open Market Operations desk mopped Ksh 16.5 billion from commercial banks and redeemed maturing securities amounting to Ksh 17.4 billion during the week.

Government gross domestic debt increased by Ksh 21.0 billion from Ksh 430.6 billion in June 2008 to Ksh 451.6 billion on January 16, 2009. The cumulative Government expenditure on interest and other charges on domestic debt from July 1, 2008 to January 16, 2009 amounted to Ksh 22.2 billion compared with Ksh 21.3 billion in a similar period in the fiscal year 2007/08.

The equity market recorded subdued performance in the week under review. Equity turnover declined by 24.8 percent, partly due to the fall in the NSE 20 Share index by 174.96 points to 3,272.49 points on January 22, 2009 from 3,447.45 points on January 15, 2009.

Government Securities Auction

During the Government securities auction of January 22, 2009 the government offered for sale Treasury bills and 1- year zero coupon Treasury bonds worth Ksh 4.0 and Ksh 5.0 billion, respectively and received bids totalling Ksh 6.6 billion (165.1 percent subscription) and Ksh 7.1 billion(141.3 percent subscription), respectively.

The Government accepted Treasury bills bids totalling Ksh 4.2 billion of which Ksh 2.4 billion or 86.1 percent were in competitive bids. Proceeds of the auction were to be used to meet the cost of rolling over Treasury bills maturities totalling Ksh 3.9 billion in the week and provide the Government additional borrowing of Ksh 0.3 billion.

At the auction for Treasury bonds, the Government accepted bids totalling Ksh 6.1 billion of which Ksh 5.3 billion or 87.4 percent were in competitive bids. Proceeds of the auction were for redemptions of Treasury bonds maturities totalling Ksh 4.7 billion in the month. The balance of Ksh 1.4 billion was new borrowing.

Treasury bills interest rates

The average 91-days Treasury bills rate declined by 5.4 basis points from 8.445 percent in the previous week's auction to 8.391 percent during this week's auction while the average 182-day Treasury bills rate declined by 0.4 basis points from 8.858 percent in the previous week's auction to 8.854 percent (Table 1). The 12-weeks moving average for the 91-day Treasury bills rate increased from 8.498 percent in the previous week to 8.521 percent, while the 182-days Treasury bills rate increased from 8.974 percent to 8.996 percent, reflecting higher rates during past weeks.

Table 1 : Interest Rates

Auction date	19-Dec-08	24-Dec-08	31-Dec-08	8-Jan-09	15-Jan-09	22-Jan-09
Average 91 day T. Bills	8.604	8.537	8.533	8.488	8.445	8.391
Average 182 day T. Bills	9.063	9.061	9.038	8.972	8.858	8.854
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

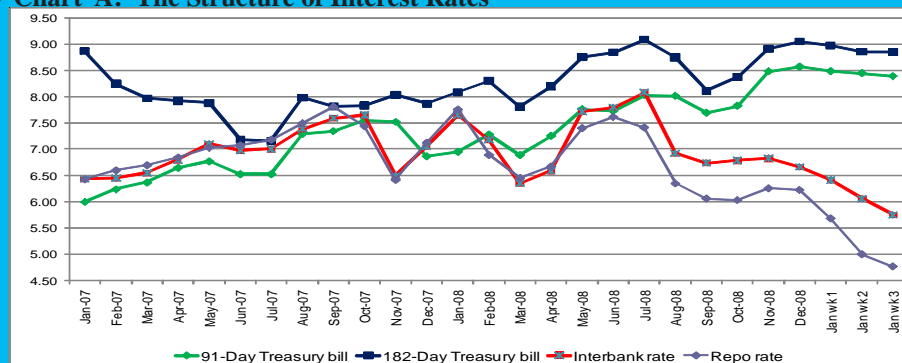
Interbank and REPO Market

Average interbank rate fell by 31 basis points from 6.06 percent in the previous week to 5.75 percent during the week ending January 22, 2009 with an increase in volumes transacted. Interbank volumes rose from Ksh 54.9 billion in the previous week to Ksh 56.7 billion in the week under review. The repo rate also fell, by 23 basis points to 4.77 percent from 5.00 percent in the previous week, with a volume of Ksh 9.4 billion being mopped compared with Ksh 13.1 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 (%)
9-Jan-09	84	10,346	6.25
12-Jan-09	85	9,715	6.10
13-Jan-09	88	12,775	5.99
14-Jan-09	87	11,992	6.00
15-Jan-09	71	10,049	5.98
09 - 15 Jan- 09	257	54,877	6.06
16-Jan-09	69	10,082	5.95
19-Jan-09	72	9,598	5.77
20-Jan-09	80	12,287	5.71
21-Jan-09	98	11,688	5.68
22-Jan-09	90	13,058	5.66
16 - 22 Jan- 09	221	56,713	5.75

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

Kenya Shilling weakened against the US dollar and the Japanese Yen but strengthened against the Sterling Pound and the Euro during the week ending January 22, 2009 (Table 2). Against the US dollar, the shilling weakened to exchange at an average Ksh 79.43 in the week ending January 22, 2009 compared with Ksh 78.09 per US dollar in the week ending January 15, 2009. The weakening of the Shilling against the US dollar was driven by increased US dollar demand mainly due to expected increase in oil and maize imports. The Shilling also weakened against the Japanese Yen to trade at an average of Ksh 88.19 per 100 Japanese Yen in the week ending January 22, 2009 compared with Ksh 86.91 per 100 Japanese Yen in the previous week. It, however, strengthened against the Sterling Pound and the Euro to trade, respectively, at an average of Ksh 114.14 per Sterling Pound and Ksh 104.27 per Euro in the week ending January 22, 2009 compared with Ksh 116.93 per Sterling Pound and Ksh 104.33 per Euro in the previous week. In the international foreign exchange market, the US dollar gained against the Sterling Pound, the Euro and the Japanese Yen.

Table 3: Kenya Shilling Exchange Rates

	US Dollar	Sterling Pound	Euro	Yen
9-Jan-09	77.44	117.74	105.79	84.95
12-Jan-09	77.67	117.32	104.19	86.15
13-Jan-09	77.89	114.74	103.34	87.17
14-Jan-09	78.63	114.73	104.46	87.62
15-Jan-09	78.83	115.15	103.85	88.65
Jan 09 - 15, 2009	78.09	115.93	104.33	86.91
16-Jan-09	79.76	118.13	105.61	88.28
19-Jan-09	78.74	117.02	105.08	86.71
20-Jan-09	78.95	112.55	102.80	87.35
21-Jan-09	79.70	111.47	103.62	88.83
22-Jan-09	80.01	111.55	104.25	89.77
Jan 16 - 22, 2009	79.43	114.14	104.27	88.19

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,409 million (equivalent to 4.91 months of imports) as at January 22, 2008 to US dollar 2,677 million (equivalent to 3.19 months of imports) as at January 22, 2009 (Table 4). The decline in import cover reflects reduction in reserves level on account of official debt repayments as well as a larger 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)

	22-Jan-08	31-Mar-08	30-Jun-08	29-Aug-08	30-Sep-08	31-Oct-08	28-Nov-08	31-Dec-08	22-Jan-09
Usable Reserves	3,409	3,285	3,300	3,152	3,086	2,790	2,736	2,768	2,677
Months of Imports Cover*	4.91	4.67	4.60	4.14	4.06	3.67	3.44	3.35	3.19
Months of Imports Cover**	4.07	3.88	3.67	3.43	3.35	3.03	2.83	2.77	2.67

*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

Central Bank offered for sale Ksh 2.5 billion on average to the market using the repurchase agreement securities in the week to January 21, 2009 and realized Ksh 3.3 billion on average as shown in Table 5.

Table 5: Open Market Operations (Ksh Billion)

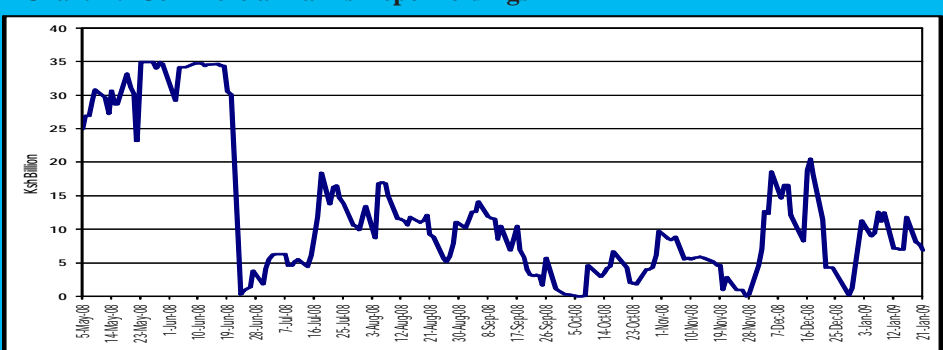
Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Realised	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
15-Jan	161.3	168.6	-7.2	3.0	3.9	0.9	159.3	-9.2	1.9	-11.2
18-Jan	158.5	168.6	-10.1	2.5	5.9	3.4	154.1	-14.5	-2.0	-12.4
19-Jan	159.4	168.6	-9.2	5.0	6.4	1.4	155.7	-12.8	-0.6	-12.3
20-Jan	154.4	168.6	-14.1	1.0	0.3	-0.7	154.9	-13.7	-1.2	-12.5
21-Jan	154.5	168.6	-14.1	1.0	0.0	-1.0	152.1	-16.4	-3.2	-13.2
Average	157.6	168.6	-11.0	2.5	3.3	0.8	155.2	-13.3	-1.0	-12.3

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Central Bank mopped Ksh 16.5 billion worth of repurchase order agreement securities from commercial banks in the week ending January 21, 2009 against redemptions of Ksh 17.4 billion. As a result, the stock of repurchase agreement securities held by commercial banks with Central Bank declined to Ksh 6.8 billion on January 21, 2009 from 6.9 billion on January 14, 2009 as shown in Chart B. Reserve money for the week ending January 21, 2008 averaged Ksh 155.2 billion, or 7.7 percent within target.

Chart B: Commercial Banks Repo Holdings

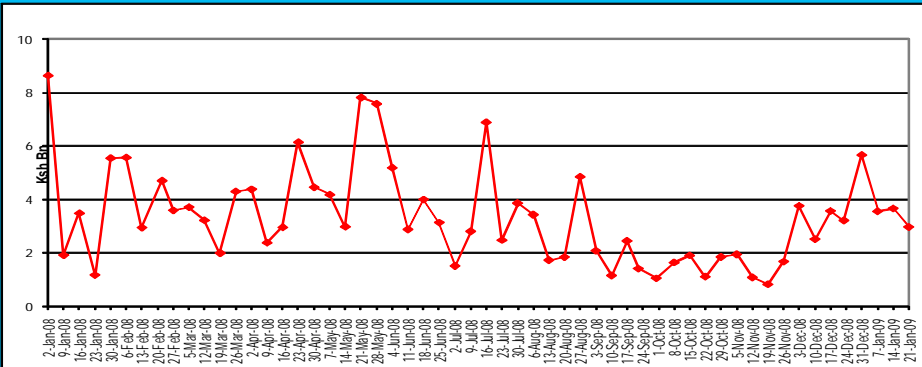


Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Account
Balances**

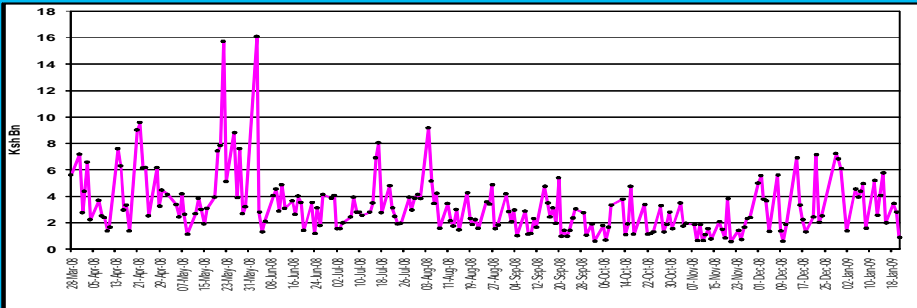
Commercial banks maintained an average of Ksh 3.0 billion in their clearing accounts at the Central Bank in the week to January 21, 2009, compared with Ksh 3.7 billion held in the previous week (Chart C1). To ease liquidity shortfalls during the week Ksh 3.6 billion was borrowed by commercial banks from the Central Bank overnight window.

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 Ksh 21.0 billion from Ksh 430.6 billion in June 2008 to Ksh 451.6 billion on January 16, 2009 (Table 6 and Chart D). The increases comprise of Ksh 12.8 billion, Ksh 9.5 billion and Ksh 2.0 billion in Treasury bills (excluding Repos), overdraft at the Central Bank of Kenya (CBK) and Treasury bonds, respectively, and a partially offsetting decrease of Ksh 3.3 billion in other domestic debt.

Treasury bills, Treasury bonds and overdraft at CBK increased from Ksh 76.8 billion, Ksh 315.2 billion and zero in June 2008, respectively to Ksh 89.6 billion, Ksh 317.2 billion and Ksh 9.5 billion, respectively on January 16 2009. However, other domestic debt decreased from Ksh 37.8 billion to Ksh 34.5 billion during the period while long term stocks remained unchanged at Ksh 0.8 billion.

Following these developments, the holding of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.8 percent as at January 16, 2009 while that of Treasury bills increased from 19.6 percent to 22.0 percent. The maturity profile of Government securities declined from 3 years and 8 months to 3 years and 5 months

during the period, the debt composition remained within the 30:70 ratio of Treasury bills to Treasury bonds.

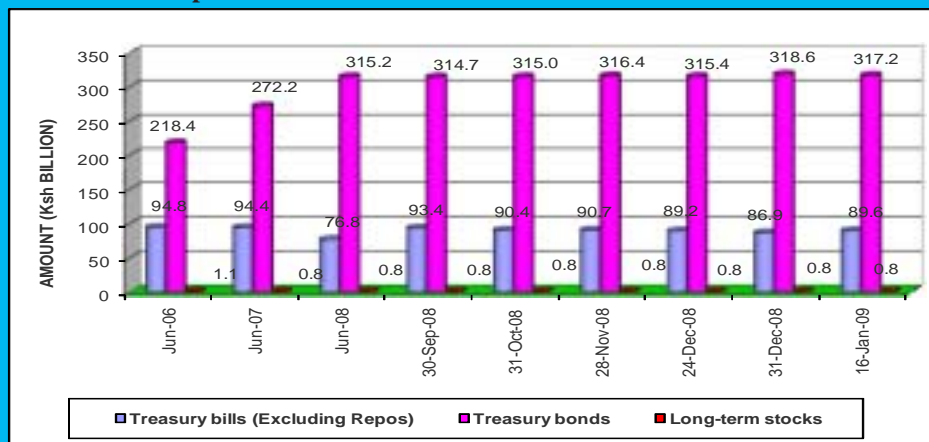
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	28th Nov 08	31st Dec 08	9th Jan-09	16th Jan-09	Changes	
						9th Jan-09 - 16th Jan-09	30th Jun-08 - 16th Jan-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	90.9 22.0	86.9 21.4	85.5 21.1	89.6 22.0	4.1	12.8
2. Treasury Bonds (As % of total securities)	315.2 80.2	320.9 77.8	318.6 78.4	318.6 78.7	317.2 77.8	-1.4	2.0
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	412.5	406.3	404.9	407.5	2.6	14.8
5. Overdraft at Central Bank	0.0	3.9	15.1	10.6	9.5	-1.1	9.5
6. Other Domestic debt*	37.8	36.2	34.9	34.9	34.5	-0.3	-3.3
7. Gross Domestic Debt (4+5+6)	430.6	452.6	456.2	450.3	451.6	1.3	21.0
8. Interest payments on domestic debt (Cumulative in FY)	42.2	18.7	21.4	21.5	22.2	0.7	

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

Source: Central Bank of Kenya

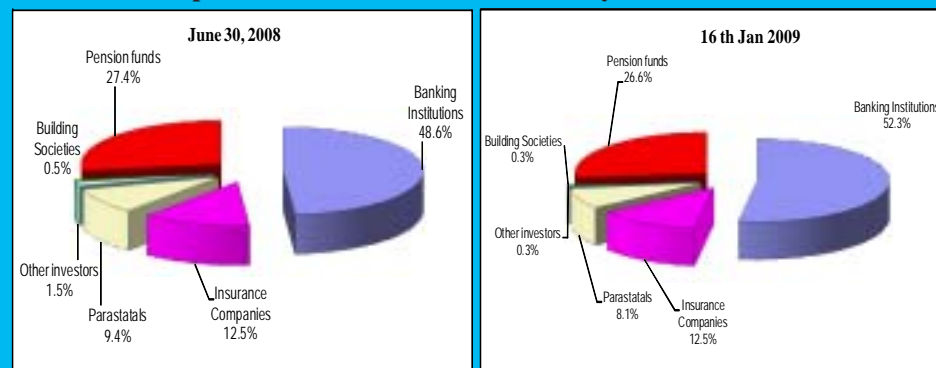
Chart D: Composition of Government Securities



Source: Central Bank of Kenya

Government securities holdings by commercial banks increased from 48.6 percent in June 2008 to 52.3 percent as at January 16 2009. On the other hand, holdings of parastatals, pension funds, building societies and other investors decreased from 9.4 percent, 27.4 percent, 0.5 percent and 1.5 percent, respectively to 8.1 percent, 26.6 percent, 0.3 percent and 0.3 percent, respectively. However, the holdings of government securities by insurance companies remained unchanged at 12.5 percent as at June 2008 (Chart E).

Chart E: Composition of Government Securities by Investor

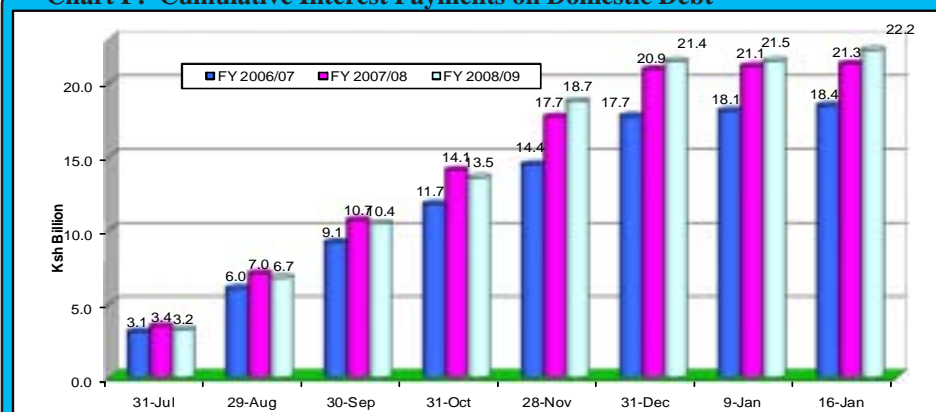


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt from July 1, 2008 to January 16, 2009 amounted to Ksh 22.2 billion compared with Ksh 21.3 billion in a similar period in the fiscal year 2007/08 (Chart F). Treasury bonds, the larger component of domestic debt accounted for Ksh 16.7 billion of the interest and other charges, while Treasury bills accounted for Ksh 5.2 billion and Ksh 0.4 billion of interest and other charges derived from long term stock, Government overdraft at CBK and the pre-1997 government overdraft.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was subdued performance at the equity and the bond market during the week ending January 22, 2008 as reflected by key market indicators. Equity turnover declined by 24.8 percent as stocks worth Ksh 0.6 billion were traded compared with Ksh 0.8 billion traded in the previous week. While the number of shares traded rose from 42.4 million in the previous week to 45.1 million shares traded in the week under review, the NSE 20 Share index lost 174.96 points to settle at 3,272.49 points on January 22, 2008 from 3,447.45 points on January 15, 2009. The Nairobi All Share Index dropped 3.59 points and closed at 68.09 points from 71.68 points in the previous week (Table 7). Market capitalization as a measure of total shareholders wealth fell by 5.0 percent from Ksh 831.16 billion in the previous week, to Ksh 789.51 billion in the week under review.

Table 7: Key Weekly Market Statistics

Week Ending	27th Nov 2008	4th Dec 2008	11th Dec 2008	18th Dec 2008	24th Dec 2008	31st Dec 2008	8th Jan 2009	15th Jan 2009	22nd Jan 2009
NASI 100= Jan 2008	72.35	66.81	69.36	71.19	71.79	73.37	73.07	71.68	68.09
NSE 20 Share Index 100=1966	3,397.95	3,162.43	3,251.03	3,367.07	3,406.04	3,521.18	3,546.01	3,447.45	3,272.49
Number of Deals	8,873	7,904	7,709	6,159	4,421	3,723	9,470	9,971	7,975
Total Shares Traded (millions)	51.99	37.10	33.50	26.70	18.43	50.40	29.70	42.40	45.09
Equity Turnover (Ksh. millions)	654	580	439	379	267	2,962	480	786	591
Market Capitalization (Ksh. Bn.)	803.38	750.08	770.17	790.54	835.51	853.88	847.18	831.16	789.51
Bonds Turnover (Ksh. millions)	377.20	4,274.20	1,732.40	636.35	495.95	178.00	1,082.60	2,565.40	1,236.40

* 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 27.6 million shares and accounted for 58.9 percent of total traded volume. Safaricom traded 24.9 million shares to be the most active stock in the sector. The Finance and Investment sector traded 8.2 million shares and accounted for 41.7 percent of traded volume. KCB was the most active counter trading 3.1 million shares. Industrial and Allied sector traded 9.1 million shares and accounted for 20.2 percent of traded volume. KenGen and Mumias shares were the most active counters, trading 4.5 and 3.6 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond market trading declined during the week as bonds worth Ksh 1,236.4 million were traded compared with Ksh 2565.4 million traded in the previous week.