

July 03, 2009



THE CBK WEEKLY BULLETIN

**Highlights for
the Week**

Overall 12-month inflation decreased to 17.76 percent in June 2009 from 19.52 percent in May 2009. On the other hand, underlying 12-month inflation declined from 9.37 to 8.51 percent in the same period.

The Government securities market posted a performance rate of 42.39 percent during the 91-day Treasury bills auction of July 2, 2009. The average interest rate increased to 7.178 percent from 7.057 percent during the previous week's auction.

The average interbank interest rate declined to 2.4 percent in the week to July 2, 2009 to 2.4 percent from 2.9 percent in the week ending June 25, 2009.

During the week ending July 3, 2009, the Kenya Shilling on average appreciated against the major international currencies. Against the US dollar, the Shilling exchanged at an average of Ksh 76.58 in the week ending July 3, 2009 compared with Ksh 77.74 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,290 million (equivalent to 4.57 months of imports) as at July 2, 2008 to US dollar 3,083million (equivalent to 3.50 months of imports) as at July 2, 2009.

Central Bank's Open Market Operations injected Ksh 15.0 billion to commercial banks and redeemed maturing reverse repo securities worth Ksh 14.0 billion during the week ending July 1, 2009.

The Government gross domestic debt increased by Ksh 74.7 billion, from Ksh 430.6 billion in June 2008 to Ksh 505.3 billion as at June 26, 2009. From July 1, 2008 to June 26, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 45.1 billion compared with Ksh 42.0 billion in a similar period of 2007/08.

Performance at the equities market was mixed during the week while equity turnover declined by 15 percent, market capitalization increased by 3.7 percent and the NSE 20 Share index gained 111.3 points to settle at 3357.7 points on July 2, 2009.

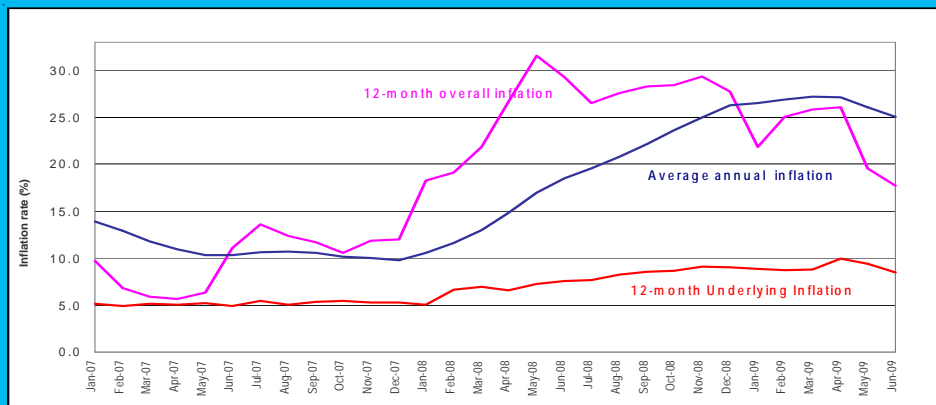
Inflation

The decrease in overall 12-month inflation to 17.76 percent in June 2009 follows from favourable weather conditions which have enabled continued fall in the prices of sukuma wiki (kales), cabbages, potatoes and other seasonal food items. On average, prices for basic foods decreased by more than 10 percent in June 2009 compared to a month earlier. However, prices of some food items like sugar and milk increased.

The lower costs of food, fuel and energy products and transport led to a decrease in inflation. For instance, food and non alcoholic drinks consumer price index decreased by 2.6 percent between May 2009 and June 2009 thus lowering the level of 12-month inflation for the category to 23.4 percent. While average prices in fuel and power category were lower in June 2009 compared to June 2008, 12-month inflation in other categories increased by between 1.6 percent in transport and telecommunication category and 15.3 percent in medical goods and services category. The only category in which inflation increased between May 2009 and June 2009 was recreation and education category which increased from 5.8 to 6.1 percent.

The underlying 12-month inflation declined from 9.37 percent in May 2009 to 8.51 percent in June 2009.

Chart A: Trends in Overall and Underlying Inflation



Source: Central Bank of Kenya

Government Securities Auction

The Central Bank of Kenya implemented the split of the 91-day and 182-day Treasury Bills auctions which will be held on alternate weeks with effect from 1st July 2009. The Government securities market posted a performance rate of 42.39 percent during the 91-day Treasury bills auction of July 2, 2009.

During the auction, the Government had offered for sale Treasury bills worth Ksh 5.5 billion and received bids totalling Ksh 2.3 billion. The Government accepted 99.9 percent of total bids received, of which Ksh 2.0 billion or 84.3 percent were in competitive bids. The proceeds of the auction was to meet the cost of rolling over Treasury bills maturities amounting to Ksh 1.9 billion in the week and provide the Government additional borrowing of Ksh 0.4 billion.

Treasury Bills Interest Rates

The average 91-day Treasury bills rate increased by 12.1 basis points, from 7.057 percent in the previous week's auction to 7.178 percent during this week's auction (Table 1). Consequently, the 12-weeks moving average for the 91-day Treasury bills rate declined from 7.371 percent to 7.357 percent during the week.

Table 1 : Interest Rates

Auction date	14-May-09	21-May-09	28-May-09	04-Jun-09	11-Jun-09	18-Jun-09	25-Jun-09	02-Jul-09
Average 91 day T. Bills	7.549	7.507	7.494	7.431	7.309	7.367	7.057	7.178
Month	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
Average savings rate	1.73	1.74	1.61	1.65	2.10	2.13	1.90	1.91
Average overdraft rate	13.43	13.91	13.85	14.39	13.84	13.46	13.78	13.66

Source: Central Bank of Kenya

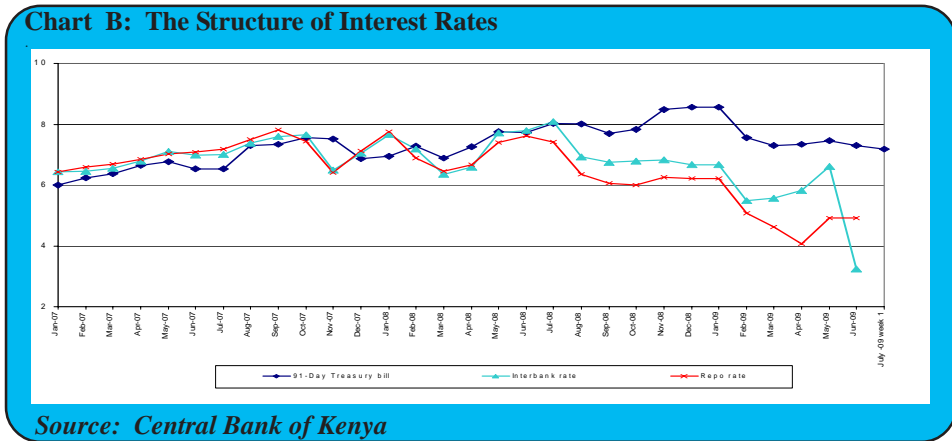
Interbank and REPO Market

The average interbank interest rate declined from 2.9 percent in the week to June 25, 2009 to 2.4 percent. Activity in the interbank market improved in the week to July 2, 2009 with the number of deals increasing from 347 in the previous week to 358 while the average volume of transaction increased from Ksh 46.8 billion to Ksh 57.4 billion (Table 2).

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
June 12 - June 18, 2009	342	42,969	2.94
19-Jun-09	76	10,006	2.99
22-Jun-09	74	10,425	3.05
23-Jun-09	79	9,349	3.01
24-Jun-09	69	9,862	2.94
25-Jun-09	49	7,205	2.64
June 19 - June 25, 2009	347	46,847	2.93
26-Jun-09	45	8,480	2.14
29-Jun-09	75	12,510	2.30
30-Jun-09	79	14,010	2.42
01-Jul-09	85	10,962	2.51
02-Jul-09	74	11,433	2.52
June 26 - July 2, 2009	358	57,395	2.38

Source: Central Bank of Kenya



The Shilling Exchange Rate

During the week ending July 3, 2009, the Kenya Shilling on average appreciated against major international currencies. Against the US dollar, the Shilling exchanged at an average of Ksh 76.58 in the week ending July 3, 2009 compared with Ksh 77.74 per US dollar in the previous week (Table 3). The stability of the Shilling against the US dollar reflected stable demand for and supply of US dollars in the domestic foreign exchange market.

The Shilling appreciated against the Sterling Pound, the Euro and the Japanese Yen in the week under review to exchange at an average of Ksh 126.26 compared with Ksh 127.55 per Sterling Pound, Ksh 107.67 compared with Ksh 108.55 per Euro, and, Ksh 79.71 compared with Ksh 81.19 per 100 Japanese Yen in the previous week respectively. In the regional foreign exchange market, the Shilling remained stable against the Uganda Shilling and appreciated marginally against the Tanzania Shilling in the week ending July 3, 2009. The local currency exchanged at Ush 27.10 per Kenya Shilling and Tsh 17.19 per Kenya shilling compared with Ush 27.10 and Tsh 16.88 per Kenya shilling in the previous week.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
22-Jun-09	77.86	128.33	108.22	81.04	27.10	16.79
23-Jun-09	78.03	126.89	108.03	82.08	26.88	16.71
24-Jun-09	77.96	128.29	109.73	81.69	27.03	16.86
25-Jun-09	77.98	128.07	108.87	81.04	27.03	16.90
26-Jun-09	76.87	126.18	107.90	80.11	27.29	17.15
June 22-26 2009	77.74	127.55	108.55	81.19	27.07	16.88
29-Jun-09	77.02	126.70	107.85	80.80	26.84	17.07
30-Jun-09	77.16	129.02	109.06	80.66	26.70	17.04
01-Jul-09	76.52	125.61	107.41	79.12	26.94	17.21
02-Jul-09	76.27	125.28	107.62	78.90	27.57	17.35
03-Jul-09	75.94	124.70	106.42	79.05	27.46	17.30
June 29-July 3	76.58	126.26	107.67	79.71	27.10	17.19

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,290 million (equivalent to 4.57 months of imports) as at July 2, 2008 to US dollar 3,083 million (equivalent to 3.50 months of imports) as at July 2, 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\$ 1,587 million as at end April 2008 to US\$ 1,733 million as at end April 2009.

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

	02-Jul-08	29-Aug-08	30-Sep-08	31-Dec-08	30-Jan-09	27-Feb-09	31-Mar-09	30-Apr-09	26-Jun-09	02-Jul-09
Usable Reserves	3,290	3,152	3,086	2,768	2,671	2,661	2,620	2,608	3,086	3,083
Months of Imports Cover*	4.57	4.14	4.06	3.35	3.19	3.17	3.13	3.11	3.56	3.50
Months of Imports Cover**	3.65	3.43	3.35	2.77	2.66	2.65	2.61	2.59	3.10	3.09

*Based on 36 month average of imports of goods and non-factor services

**Based on current year's average imports of imports of goods and non-factor services

Source: Central Bank of Kenya

Monetary Policy Operations

In the week ending July 1, 2009, Central Bank provided an average of Ksh 3.0 billion to the market in order to align liquidity in the market as shown in Table 5.

Table 5: Open Market Operations (Ksh Billion)

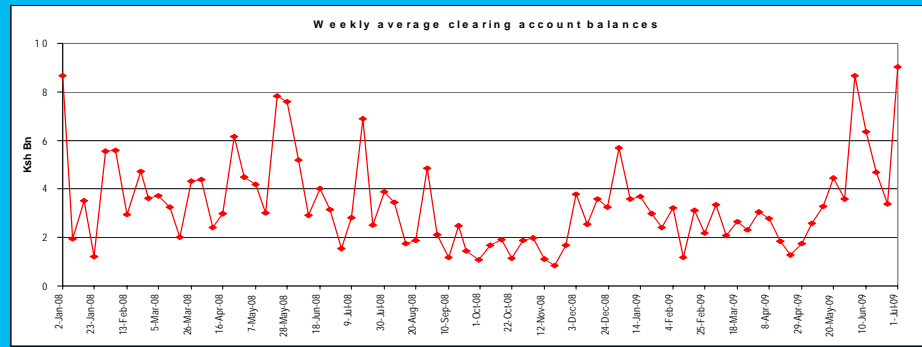
Date	Reserve Money* (Projected)			OMO (Reverse REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/Short(-)	Posted	Injected	Exc(+)/Short(-)	Actual	Exc(+)/Short(-)	Exc(+)/Short(-)	Exc(+)/Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
25-Jun	160.6	163.6	-3.0	0.0	0.0	0.0	157.9	-5.7	5.6	-11.3
26-Jun	144.0	163.6	-19.6	0.0	0.0	0.0	163.5	-0.1	11.3	-11.4
29-Jun	165.1	163.6	1.5	15.0	15.0	0.0	161.4	-2.2	8.4	-10.6
30-Jun	160.8	163.6	-2.8	0.0	0.0	0.0	160.2	-3.4	6.3	-9.7
01-Jul	159.7	165.5	-5.8	0.0	0.0	0.0	159.6	-5.9	3.7	-9.6
Average	158.0	164.0	-5.9	3.0	3.0	0.0	160.5	-3.5	7.1	-10.5

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Under open market operations, the Bank injected Ksh 15.0 billion using reverse repo facility to accommodate liquidity shortfalls in the week to July 1, 2009. During the week, maturing reverse repo securities amounted to Ksh 14.0 billion. Thus, the level of reverse repo holdings by Central Bank increased from Ksh 13.8 billion on June 24, 2009 to Ksh 15.0 billion on July 1, 2009. Reserve money averaged Ksh.160.5 billion in the week and was Ksh 3.5 billion below target.

Chart C1: Weekly Average Commercial Banks Clearing Account Balances

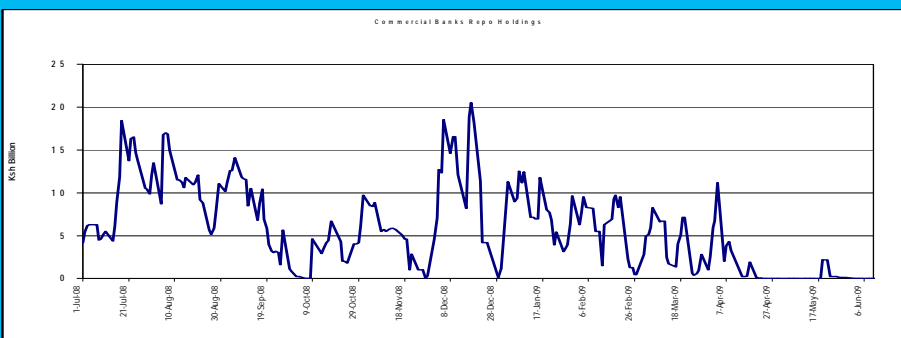


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

As shown in Chart C1, commercial banks clearing account balances at the Central Bank increased from an average of Ksh 3.4 billion held the previous week to Ksh 9.0 billion in the week to July 1, 2009.

Chart C2: Commercial Banks Repo Holdings



Source: Central Bank of Kenya

Government Domestic Debt

The Government gross domestic debt increased by Ksh 74.7 billion, from Ksh 430.6 billion in June 2008 to Ksh 505.3 billion as at June 26, 2009 (Table 6 and Chart D). This was attributed to increases of Ksh 37.9 billion in Treasury bills excluding repos, Ksh 31.9 billion in Treasury bonds, Ksh 3.8 billion in overdraft at the Central Bank of Kenya (CBK) and Ksh 1.1 billion in other domestic debt.

Treasury bills (excluding Repos) increased from Ksh 76.8 billion in June 2008 to Ksh 114.8 billion as at June 26, 2009. Treasury bonds and overdraft at CBK also increased from Ksh 315.2 billion and zero, respectively, to Ksh 347.1 billion and Ksh 3.8 billion during the period. Similarly, other domestic debt increased from Ksh 37.8 billion to Ksh 38.9 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 75.0 percent as at June 26, 2009 while Treasury bills holdings increased from 19.6 percent to 24.8 percent during the period. As a result, the maturity profile of

Government securities decreased from 3 years and 8 months to 3 years and 6 months during the period.

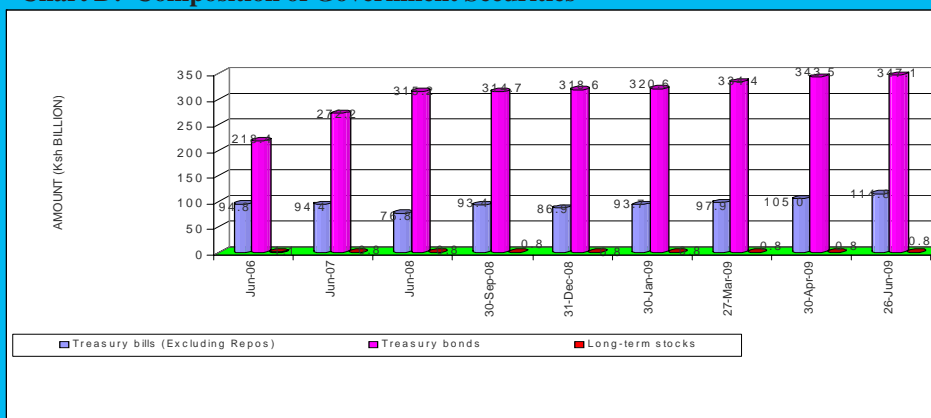
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	27th Mar 09	30th April 09	29th May 09	19th June 09	26th June 09	Changes	30th Jun-08 26th June-
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	86.9 21.4	97.9 22.6	105.0 23.4	99.1 22.1	115.6 24.9	114.8 24.8	-0.8	37.9
2. Treasury Bonds (As % of total securities)	315.2 80.2	318.6 78.4	334.4 77.2	343.5 76.5	348.3 77.7	348.3 75.0	347.1 75.0	-1.2	31.9
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	0.8 0.2	0.0	0.0
4. Total Securities (1+2+3)	392.8	406.3	433.1	449.2	448.1	464.7	462.6	-2.1	69.8
5. Overdraft at Central Bank	0.0	15.1	5.5	12.4	6.7	2.0	3.8	1.8	3.8
6. Other Domestic debt*	37.8	34.9	35.4	35.9	34.4	35.8	38.9	3.1	1.1
7. Gross Domestic Debt (4+5+6)	430.6	456.2	474.0	497.5	489.2	502.5	505.3	2.8	74.7
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	33.5	37.3	38.6	42.9	45.1	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 D: Composition of Government Securities

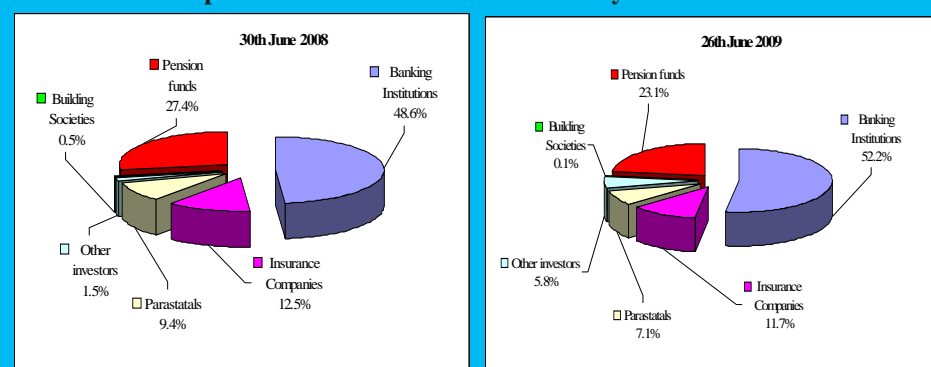


Source: Central Bank of Kenya

Holding of Government Securities

Government securities holdings by commercial banks and other investors increased from 48.6 percent and 1.5 percent in June 2008 to 52.2 percent and 5.8 percent as at June 26, 2009. However, holdings of 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 11.7 percent, 7.1 percent, 0.1 percent and 23.1 percent during the same period.

Chart E: Composition of Government Securities by Investor

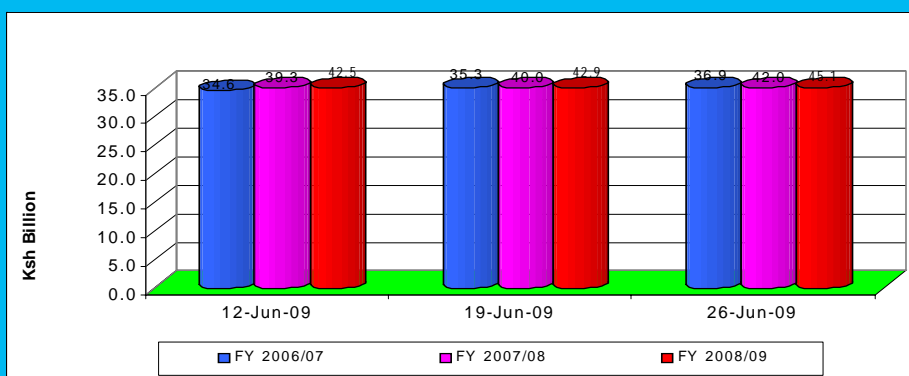


Source: Central Bank of Kenya

Cost of Domestic Borrowing

From July 1, 2008 to June 26, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 45.1 billion compared with Ksh 42.0 billion in a similar period of 2007/08 (Chart F). The interest cost on domestic debt during the period comprised Ksh 35.1 billion in interest and other charges on Treasury bonds, Ksh 9.0 billion in interest and other charges on Treasury bills and Ksh 1.0 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 mixed performance at the equities market during the week ending July 2, 2009. Equity turnover declined by 15 percent as stocks worth Ksh 1,073.4 million were traded compared with Ksh 1,264.2 million traded in the previous week. The number of shares traded decreased from 97.0 million in the previous week to 81.4 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth increased by 3.7 percent or Ksh 29.7 billion to close at Ksh 837.6 billion in the week under review from Ksh 807.6 billion in the previous week, reflecting improved prices in most stocks during the week. The NSE 20 Share index gained 111.3 points to settle at 3357.7 points on July 2, 2009 from 3246.4 points on June 25, 2009. The Nairobi All Share Index also gained 2.6 points to settle at 72.3 points on July 2, 2009 (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	7th May	14th May	21st May	28-May-09	04-Jun-09	11-Jun-09	18-Jun-09	25-Jun-09	02-Jul-09
NASI 100= Jan 2008	58.98	59.39	59.72	59.70	61.01	62.95	69.20	69.74	72.30
NSE 20 Share Index	2,829.42	2,836.16	2,877.56	2,849.43	2,924.77	2,959.47	3,202.18	3,246.43	3,357.66
Number of Deals	7,597	7,318	8,216	7,807	5,894	7,876	9,238	13,116	9,631
Total Shares Traded	69.83	46.97	77.02	100.73	72.38	76.16	102.46	96.97	81.41
Equity Turnover (Ksh.	690.50	580.52	656.59	1,129.25	448.56	822.05	996.50	1,264.18	1,073.35
Market Capitalization (Ksh.	684.79	690.04	693.35	693.13	706.59	728.99	801.46	807.62	837.30
Bonds Turnover (Ksh.	805.80	209.00	-	6,457.95	3,903.00	-	1,655.05	1,015.60	2,549.50

* 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 46 million shares and accounted for 56 percent of total traded volume. Safaricom traded 43.6 million shares to be the most active stock in the sector. The Finance and Investment sector traded 24 million shares and accounted for 30 percent of total traded volume. Equity Bank and Co-operative Bank traded 13.7 million and 5.9 million shares and were the most active counters in the sector. Industrial and Allied sector traded 10.7 million shares and accounted for 13 percent of traded volume. Mumias and Kenya Oil shares were the most active counters and traded 5.5 million and 1.6 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond market trading improved at the Fixed Income Securities Market during the week. Bond turnover increased as bonds worth Ksh 2.5 billion were traded compared with Ksh 1.0 billion traded in the previous week.