

July 17, 2009



## THE CBK WEEKLY BULLETIN

### Highlights for the Week

The Government securities market posted a performance rate of 78.6 percent during the 91-day Treasury bills auction of July 16, 2009. The average 91-day Treasury bills interest rate went up by 8.6 basis points during this week's auction.

The average interbank interest rate remained stable at 2.54 percent in the week ending July 15, 2009.

The Kenya Shilling weakened against all the major international currencies during the week ending July 17, 2009. Against the US dollar, the shilling weakened to exchange at Ksh 77.19 in the week ending July 17, 2009 compared with Ksh 76.69 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,062 million (equivalent to 3.48 months of imports) as at July 17, 2009 compared with US\$ 3,269 million (equivalent to 4.54 months of imports) as at July 17, 2008.

Central Bank's Open Market Operations injected Ksh 7.0 billion into the market and redeemed maturing reverse repo securities worth Ksh 8.9 billion during the week ending July 15, 2009

The Government gross domestic debt decreased by Ksh 5.4 billion, from Ksh 518.3 billion in June 2009 to Ksh 513.0 billion as at July 10, 2009. From July 1, 2009 to July 10, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 0.1 billion.

Performance at the equities market declined during the week. Equity turnover and market capitalization fell by 31 percent and 1 percent respectively, while the NSE 20 Share index lost 55.8 points to settle at 3256.8 points on July 16, 2009.

**Government Securities Auction**

The Government securities market posted a performance rate of 78.6 percent during the 91 day Treasury bills auction of July 16, 2009. The Government offered for sale Treasury bills worth Ksh 6.0 billion and received bids totalling Ksh 4.7 billion, of which Ksh 98.8 percent were in competitive bids.

The Government accepted Treasury bills bids totalling Ksh 4.5 billion, of which Ksh 3.9 billion or 86.7 percent were in competitive bids. Proceeds of the auction were to be used to meet the cost of rolling over Treasury bills maturities amounting to Ksh 5.9 billion of which Ksh 0.7 billion were in 91- days Treasury bills.

**Treasury Bills Interest Rates**

The average 91-day Treasury bills interest rate went up 8.6 basis points, from 7.178 percent in the Treasury bills auction of the same security on July 6, 2009 to 7.264 percent during the current week's auction (Table 1). Consequently, the 12-week moving average interest rate for the 91-day Treasury bills increased from 7.357 percent to 7.364 percent.

**Table 1 : Interest Rates**

Auction date	28-May-09	04-Jun-09	11-Jun-09	18-Jun-09	25-Jun-09	02-Jul-09	09-Jul-09	16-Jul-09
Average 91 day T. Bills	7.494	7.431	7.309	7.367	7.057	7.178		7.264
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**

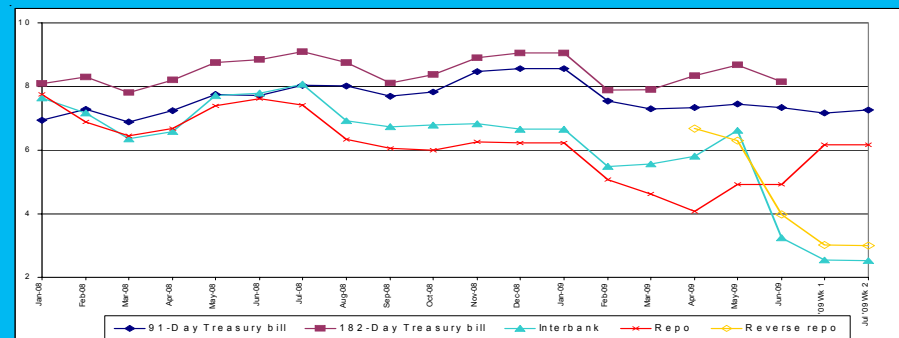
The average interbank interest rate (Table 2) remained the same at 2.54 percent in the week ending July 15, 2009 as in the previous week. The number of deals declined from 412 to 383 during the week. Further, the average volume of transactions decreased from Ksh 59.9 billion to Ksh 50 billion in the week to July 15, 2009, reflecting an easing of liquidity in the banking system.

**Table 2: Interbank Deals, Volumes and Interest Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
03-Jul-09	98	12,595	2.49
06-Jul-09	73	12,420	2.51
07-Jul-09	86	11,467	2.56
08-Jul-09	75	11,165	2.59
09-Jul-09	80	12,244	2.56
<b>July 3 - July 9, 2009</b>	<b>412</b>	<b>59,891</b>	<b>2.54</b>
09-Jul-09	80	12,244	2.56
10-Jul-09	78	11,140	2.53
13-Jul-09	81	8,859	2.53
14-Jul-09	70	8,796	2.54
15-Jul-09	74	9,000	2.52
<b>July 9 - July 15, 2009</b>	<b>383</b>	<b>50,039</b>	<b>2.54</b>

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

### The Shilling Exchange Rate

The Kenya Shilling weakened against all the major international currencies during the week ending July 17, 2009 (Table 3). Against the US dollar, the shilling weakened to exchange at Ksh 77.19 in the week ending July 17, 2009 compared with Ksh 76.69 per US dollar in the previous week, mainly due increased corporate demand. The shilling also weakened against the Sterling Pound, the Euro and the Japanese Yen to trade, respectively, at Ksh 125.84 per Sterling Pound, Ksh 108.15 per Euro and Ksh 82.77 per 100 Japanese Yen in the week ending July 17, 2009 compared with Ksh 124.18 per Sterling Pound, Ksh 106.89 per Euro and Ksh 81.47 per 100 Japanese Yen in the week ending July 10, 2009. In the international market, the US dollar weakened against the Euro, the sterling Pound and the Japanese Yen.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
06-Jul-09	75.95	123.49	106.12	79.67	27.82	17.38
07-Jul-09	76.40	124.17	106.70	80.10	27.78	17.28
08-Jul-09	76.93	123.50	106.69	81.75	27.75	17.09
09-Jul-09	77.41	124.73	107.76	83.13	27.58	16.98
10-Jul-09	76.79	124.99	107.18	82.69	28.26	17.14
<b>Jul 06 - 10, 2009</b>	<b>76.69</b>	<b>124.18</b>	<b>106.89</b>	<b>81.47</b>	<b>27.84</b>	<b>17.17</b>
13-Jul-09	76.86	124.05	106.97	83.33	28.17	16.98
14-Jul-09	77.54	126.26	108.50	83.18	27.66	17.09
15-Jul-09	77.45	126.79	108.48	82.98	27.41	17.13
16-Jul-09	77.31	126.50	108.62	82.36	27.13	17.16
17-Jul-09	76.82	125.61	108.19	82.01	27.47	17.31
<b>Jul 13 - 17, 2009</b>	<b>77.19</b>	<b>125.84</b>	<b>108.15</b>	<b>82.77</b>	<b>27.57</b>	<b>17.13</b>

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling also weakened against both the Uganda Shilling and the Tanzania Shilling in the week ending July 17, 2009 to exchange respectively, at Ush 27.57 per Kenya Shilling and Tsh 17.13 per Kenya Shilling, compared with Ush 27.84 per Kenya Shilling and Tsh 17.17 per Kenya Shilling in the previous week.

## Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,062 million (equivalent to 3.48 months of imports) as at July 17, 2009, down from US\$ 3,269 million (equivalent to 4.54 months of imports) as at July 17, 2008 (Table 4). The decline in import cover reflected decline in the level of reserves and increased import bill.

Foreign exchange reserves held by the commercial banks, predominantly use by the private sector to meet external financial obligations decreased from US\$ 2,341 million as at end June 2008 to US\$ 1,602 million as at end June 2009.

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

	17-Jul-08	30-Sep-08	31-Dec-08	30-Jan-09	27-Feb-09	31-Mar-09	30-Apr-09	26-Jun-09	17-Jul-09
Usable Reserves	3,269	3,086	2,768	2,671	2,661	2,620	2,608	3,086	3,062
Months of Imports Cover*	4.54	4.06	3.35	3.19	3.17	3.13	3.11	3.56	3.48
Months of Imports Cover**	3.63	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 goods and non-factor services

Source: Central Bank of Kenya

## Monetary Policy Operations

Liquidity in the money market improved in the week ending July 15, 2009 reflecting liquidity injection by the Central Bank amounting to Ksh 7.0 billion using the reverse repurchase agreement securities as shown in Table 5. During the week, maturing reverse repo securities amounted to Ksh 8.9 billion. Reserve money averaged Ksh 158.0 billion in the week and remained below target by Ksh 6.9 billion.

**Table 5: Open Market Operations (Ksh Billion)**

Date	Reserve Money* (Projected)			OMO		OMO (Reverse REPO)		Reserve money performance	
	Forecast	Target	Exc(+)/ Short(-)	Posted	Realised	Posted	Injected	Actual	Exc(+)/ Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	(6)	(7)	(8)	9=(8-2)
09-Jul	160.6	164.9	-4.3	0.0	0.0	0.0	0.0	159.0	-6.0
10-Jul	158.5	164.9	-6.4	0.0	0.0	0.0	0.0	159.0	-5.9
13-Jul	150.4	164.9	-14.5	0.0	0.0	7.0	7.0	157.3	-7.6
14-Jul	157.4	164.9	-7.5	0.0	0.0	0.0	0.0	156.8	-8.1
15-Jul	157.1	164.9	-7.8	0.0	0.0	0.0	0.0	157.8	-7.1
Average	0.2	164.9	-8.1	0.0	0.0	1.4	1.4	158.0	-6.9

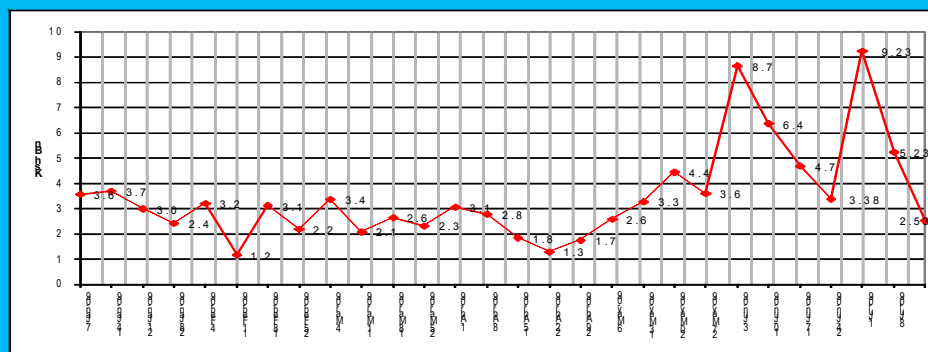
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

## Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 2.5 billion in their clearing accounts at the Central Bank in the week to July 15, 2009, compared with Ksh 5.2 billion held in the previous week (Charts B).

Chart B: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

### Government Domestic Debt

The Government gross domestic debt decreased by Ksh 5.4 billion, from Ksh 518.3 billion in June 2009 to Ksh 513.0 billion as at July 10, 2009 (Table 6 and Chart C). This was attributed to decreases of Ksh 5.0 billion and Ksh 1.3 billion in Treasury bills, excluding repos, and in other domestic debt, respectively. This was however offset by an increase in the overdraft at the Central Bank of Kenya of Ksh 0.9 billion.

Treasury bills (excluding repos) decreased from Ksh 116.8 billion in June 2009 to Ksh 111.8 billion as at July 10, 2009, while other domestic debt decreased from Ksh 34.9 billion to Ksh 33.7 billion. Treasury bonds and long-term stocks remained unchanged at Ksh 360.7 billion and Ksh 0.8 billion, respectively, while overdraft at the Central Bank of Kenya increased from Ksh 5.1 billion to Ksh 6.0 billion during the period.

Following these developments, Treasury bills holdings decreased from 24.4 percent to 23.6 percent of total Government securities during the period, while the proportion of Treasury bonds increased from 75.4 percent in June 2009 to 76.2 percent as at July 10, 2009. As a result, the maturity profile of Government securities decreased from 3 years and 9 months to 3 years and 8 months during the period.

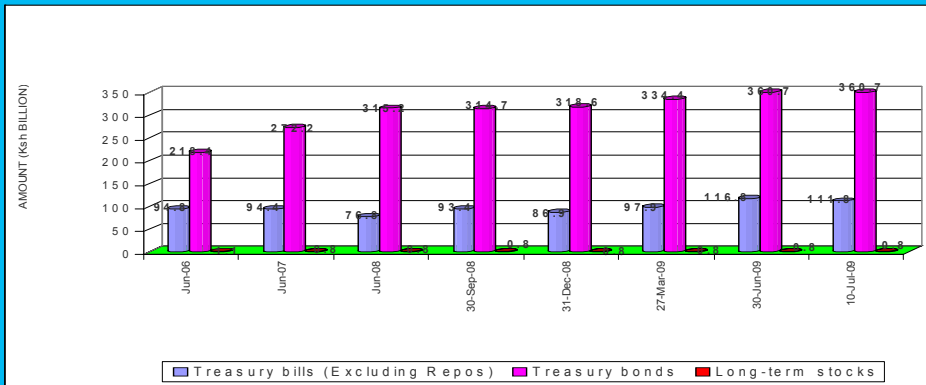
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	27th Mar 09	30th April 09	29th May 09	19th June 09	30th June 09	10th July 09	Changes 30th June-09-10th July
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	116.8 24.4	111.8 23.6	-5.0 -0.8
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	360.7 75.4	360.7 76.2	0.0 0.8
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	0.8 0.2	0.0 0.0
4. Total Securities (1+2+3)	392.8	406.3	433.1	449.2	448.1	464.7	478.3	473.3	-5.0
5. Overdraft at Central Bank	0.0	15.1	5.5	12.4	6.7	2.0	5.1	6.0	0.9
6. Other Domestic debt*	37.8	34.9	35.4	35.9	34.4	35.8	34.9	33.7	-1.3
7. Gross Domestic Debt (4+5+6)	430.6	456.2	474.0	497.5	489.2	502.5	518.3	513.0	-5.4
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	33.5	37.3	38.6	42.9	45.9	0.1	-45.9

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

Source: Central Bank of Kenya

**Chart C: Composition of Government Securities**

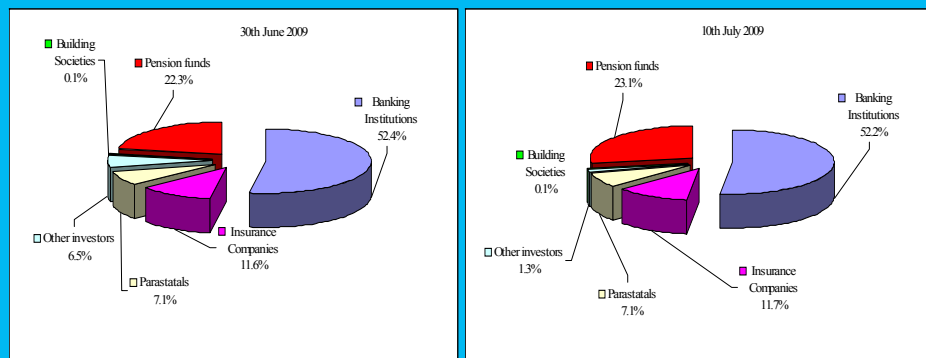


Source: Central Bank of Kenya

**Holding of Government Securities**

Government securities holdings (Chart D) by commercial banks and other investors decreased from 52.4 percent and 6.5 percent, respectively, as of 30th June, 2009 to 51.9 percent and 1.3 percent as at July 10, 2009. On the other hand, holdings by insurance companies and pension funds increased from 11.6 percent and 22.3 percent, respectively to 11.7 percent and 23.1 percent during the period. Holdings by building societies however remained unchanged at 0.1 percent.

**Chart D: Composition of Government Securities by Investor**

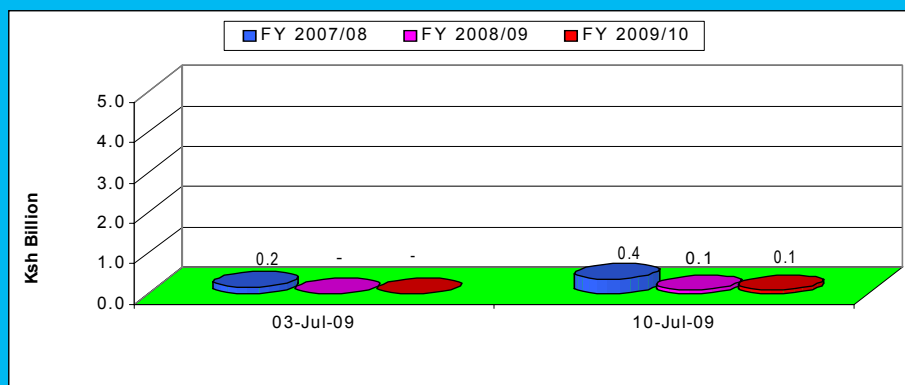


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

From July 1, 2009 to July 10, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 0.1 billion as shown in Chart E. The interest cost on domestic debt during the period was entirely on Treasury bills.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

## The Stock Market

There was a decline in performance at the equities market during the week ending July 16, 2009. Equity turnover declined by 31 percent as stocks worth Ksh 573.0 million were traded compared with Ksh 826.8 million traded in the previous week. The number of shares traded decreased, from 76.4 million in the previous week to 60.8 million shares in the week under review. Market capitalization as a measure of total shareholders wealth decreased by 1.0 percent or Ksh 8.1 billion to Ksh 824.0 billion in the week under review from Ksh 832.1 billion in the previous week, reflecting reduced prices in most stocks during the week. The NSE 20 Share index lost 55.8 points to settle at 3256.8 points on July 16, 2009 from 3312.6 points on July 09, 2009. The Nairobi All Share Index also lost 0.7 points to settle at 71.2 points on July 16, 2009. (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	14th May	21st May	28-May-09	04-Jun-09	11-Jun-09	18-Jun-09	25-Jun-09	02-Jul-09	09-Jul-09	16-Jul-09
NASI 100=Jan 2008	59.39	59.72	59.70	61.01	62.95	69.20	69.74	72.30	71.85	71.15
NSE 20 Share Index	2,836.16	2,877.56	2,849.43	2,924.77	2,959.47	3,202.18	3,246.43	3,357.66	3,312.64	3,256.75
Number of Deals	7,318	8,216	7,807	5,894	7,876	9,238	13,116	9,631	10,026	8,926
Total Shares Traded	46.97	77.02	100.73	72.38	76.16	102.46	96.97	81.41	76.43	60.76
Equity Turnover (Ksh)	580.52	656.59	1,129.25	448.56	822.05	996.50	1,264.18	1,073.35	826.83	573.02
Market Capitalization (Ksh)	690.04	693.35	693.13	706.59	728.99	801.46	807.62	837.30	832.05	824.02
Bonds Turnover (Ksh)	209.00	-	6,457.95	3,903.00	-	1,655.05	1,015.60	2,549.50	1,712.55	1,807.90

\* 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 37 million shares and accounted for 61 percent of the total traded volume. Safaricom traded 35.1 million shares to be the most active stock in the sector. The Finance and Investment sector traded 17.2 million shares and accounted for 28 percent of total traded volume. Equity Bank and Co-operative Bank traded 10.4 million and 3.5 million shares respectively and were the most active counters in the sector. The Industrial and Allied sector traded 5.4 million

shares and accounted for 9 percent of the total traded volume. Mumias and KenGen were the most active counters and traded 3.5 million and 0.9 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 1.8 billion were traded compared with Ksh 1.7 billion traded in the previous week.