

July 31, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted a performance rate of 87.5 percent during the 91-day Treasury bills auction of July 30, 2009, and the average 91-day Treasury bills rate went down by 0.1 basis points to 7.263 percent.

The average interbank rate trended upwards during the week ending July 30, 2009 to 3.06 percent compared to the previous week at 2.63 percent.

The Kenya Shilling strengthened against all the major international currencies during the week ending July 31, 2009. Against the US dollar, the shilling strengthened marginally to exchange at Ksh 76.62 in the week ending July 31, 2009 compared with Ksh 76.81 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,107 million (equivalent to 3.53 months of imports) as at July 31, 2009 compared with US dollar 3,288 million (equivalent to 4.57 months of imports) as at July 31, 2008.

Central Bank's Open Market Operations injected Ksh 11.0 billion to commercial banks and redeemed maturing reverse repo securities worth Ksh 10.5 billion during the week ending July 29, 2009.

The Government gross domestic debt decreased by Ksh 10.9 billion, from Ksh 518.3 billion in June 2009 to Ksh 507.5 billion as at July 24, 2009. From July 1, 2009 to July 24, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 1.2 billion.

Performance at the equities market was mixed during the week. Equity turnover improved by 8.5 percent, market capitalization declined by 1.0 percent while the NSE 20 Share index lost 71.5 points to settle at 3246.1 points on July 30, 2009.

Government Securities Auction

The Government securities market posted a performance rate of 87.5 percent during the 91 day Treasury bills auction of July 30, 2009. The Government offered for sale Treasury bills worth Ksh 6.0 billion and received bids totalling Ksh 5.2 billion.

The Government accepted Treasury bills bids totalling Ksh 4.7 billion, of which Ksh 2.6 billion or 54.8 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 4.6 billion, of which Ksh 1.4 billion were in 91- days Treasury bills, and also provide additional borrowing of Ksh 0.1 billion.

Treasury Bills Rates

The average 91-day Treasury bills rate went down by 0.1 basis points, from 7.264 percent in the Treasury bills auction of the same security on July 16, 2009 to 7.263 percent on the July 30, 2009 auction (Table 1). Consequently, the 12-weeks moving average for the 91-day Treasury bills rate declined from 7.351 percent to 7.347 percent.

Table 1 : Interest Rates

| Auction date | 18-Jun-09 | 25-Jun-09 | 02-Jul-09 | 09-Jul-09 | 16-Jul-09 | 23-Jul-09 | 30-Jul-09 |
|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Average 91 day T. Bills | 7.367 | 7.057 | 7.178 | | 7.264 | | 7.263 |
| Month | Oct-08 | Nov-08 | Dec-08 | Jan-09 | Feb-09 | Mar-09 | Apr-09 |
| Average savings rate | 1.74 | 1.61 | 1.65 | 2.10 | 2.13 | 1.90 | 1.91 |
| Average overdraft rate | 13.91 | 13.85 | 14.39 | 13.84 | 13.46 | 13.78 | 13.66 |

Source: Central Bank of Kenya

Interbank and REPO Market

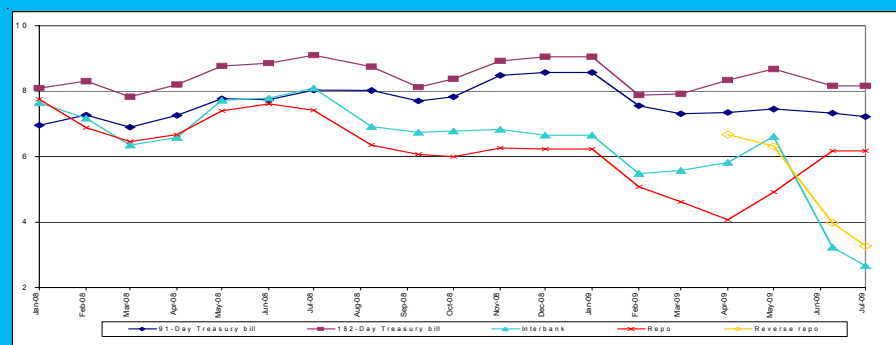
The average interbank interest rate trended upwards to 3.06 percent in the week ending July 30, 2009 compared to the previous week's 2.63 percent. The number of deals and volumes declined from 442 to 421 and from Ksh 51.1 billion to Ksh. 44.2billion respectively during the week. This reflected a situation of tight trading in the interbank market.

Table 2: Interbank Deals, Volumes and Interest Rates

| Date | Number of deals | Value (Ksh M) | Average Interest Rate (%) |
|-------------------------|-----------------|---------------|---------------------------|
| 17-Jul-09 | 79 | 9,198 | 2.36 |
| 18-Jul-09 | 95 | 12,428 | 2.46 |
| 21-Jul-09 | 98 | 10,098 | 2.62 |
| 22-Jul-09 | 87 | 9,409 | 2.78 |
| 23-Jul-09 | 83 | 9,973 | 2.93 |
| July 16 - July 22, 2009 | 442 | 51,106 | 2.63 |
| 24-Jul-09 | 72 | 7,685 | 2.87 |
| 25-Jul-09 | 93 | 10,707 | 2.98 |
| 28-Jul-09 | 87 | 8,465 | 3.12 |
| 29-Jul-09 | 86 | 8,702 | 3.18 |
| 30-Jul-09 | 83 | 8,616 | 3.15 |
| July 23 - July 30, 2009 | 421 | 44,175 | 3.06 |

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling strengthened against all the major international currencies during the week ending July 31, 2009 (Table 3). Against the US dollar, the shilling strengthened marginally to exchange at Ksh 76.62 compared with Ksh 76.81 per US dollar in the previous week mainly due to little corporate activity. The shilling also strengthened against the Sterling Pound, the Euro and the Japanese Yen to trade, respectively, at Ksh 126.19 per Sterling Pound, Ksh 108.60 per Euro and Ksh 80.79 per 100 Japanese Yen in the week under review compared with Ksh 126.34 per Sterling Pound, Ksh 108.98 per Euro and Ksh 81.50 per 100 Japanese Yen in the week ending July 24, 2009. On the international market, the US dollar strengthened against the Euro and the sterling Pound.

Table 3: Kenya Shilling Exchange Rates

| | US dollar | Sterling Pound | Euro | Japanese Yen | USHS | TSHS |
|--------------------------|--------------|----------------|---------------|--------------|--------------|--------------|
| 20-Jul-09 | 76.83 | 125.82 | 108.43 | 81.25 | 27.30 | 17.31 |
| 21-Jul-09 | 76.89 | 126.80 | 109.23 | 81.77 | 27.28 | 17.32 |
| 22-Jul-09 | 76.90 | 125.86 | 109.22 | 82.19 | 27.31 | 17.16 |
| 23-Jul-09 | 76.85 | 126.82 | 109.52 | 81.44 | 27.33 | 17.36 |
| 24-Jul-09 | 76.55 | 126.37 | 108.51 | 80.84 | 27.42 | 17.37 |
| Jul 20 - 24, 2009 | 76.81 | 126.34 | 108.98 | 81.50 | 27.33 | 17.31 |
| 27-Jul-09 | 76.54 | 126.23 | 109.03 | 80.76 | 27.50 | 17.41 |
| 28-Jul-09 | 76.68 | 126.75 | 109.49 | 80.64 | 27.52 | 17.36 |
| 29-Jul-09 | 76.62 | 125.50 | 108.30 | 81.35 | 27.28 | 17.33 |
| 30-Jul-09 | 76.64 | 125.87 | 107.95 | 80.75 | 27.43 | 17.33 |
| 31-Jul-09 | 76.61 | 126.59 | 108.21 | 80.48 | 27.52 | 17.30 |
| Jul 27 - 31, 2009 | 76.62 | 126.19 | 108.60 | 80.79 | 27.45 | 17.35 |

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling strengthened marginally against both the Uganda Shilling and the Tanzania Shilling in the week ending July 31, 2009 to exchange respectively, at Ush 27.45 per Kenya Shilling and Tsh 17.35 per Kenya Shilling compared with Ush 27.33 per Kenya Shilling and Tsh 17.31 per Kenya Shilling in the previous week.

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,107 million (equivalent to 3.53 months of imports) as at July 31, 2009, down from US dollar 3,288 million (equivalent to 4.57 months of imports) as at July 31, 2008 (Table 4). The decline in import cover reflected decline in reserves level 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)

| | 31-Jul-08 | 30-Sep-08 | 31-Dec-08 | 30-Jan-09 | 27-Feb-09 | 31-Mar-09 | 30-Apr-09 | 26-Jun-09 | 31-Jul-09 |
|---------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Usable Reserves | 3,288 | 3,086 | 2,768 | 2,671 | 2,661 | 2,620 | 2,608 | 3,086 | 3,107 |
| Months of Imports Cover* | 4.57 | 4.06 | 3.35 | 3.19 | 3.17 | 3.13 | 3.11 | 3.56 | 3.53 |
| Months of Imports Cover** | 3.65 | 3.35 | 2.77 | 2.66 | 2.65 | 2.61 | 2.59 | 3.10 | 3.13 |

*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

The Central Bank provided liquidity amounting to Ksh 11.0 billion to commercial banks using the reverse repurchase agreement securities during the week ending July 29th, 2009 as shown in Table 5. Over the same period, maturing reverse repo securities amounted to Ksh 10.5 billion. Reserve money averaged Ksh 153.1 billion in the week and remained below target by an average of Ksh 7.9 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) |
| 23-Jul | 153.6 | 161.0 | -7.4 | 0.0 | 0.0 | 0.0 | 0.0 | 154.2 | -6.8 |
| 24-Jul | 156.3 | 161.0 | -4.7 | 0.0 | 0.0 | 0.0 | 0.0 | 156.6 | -4.4 |
| 27-Jul | 138.1 | 161.0 | -22.9 | 0.0 | 0.0 | 11.0 | 11.0 | 150.6 | -10.4 |
| 28-Jul | 151.3 | 161.0 | -9.7 | 0.0 | 0.0 | 0.0 | 0.0 | 150.6 | -10.4 |
| 29-Jul | 152.2 | 161.0 | -8.8 | 0.0 | 0.0 | 0.0 | 0.0 | 153.4 | -7.6 |
| Average | 150.3 | 161.0 | -10.7 | 0.0 | 0.0 | 2.2 | 2.2 | 153.1 | -7.9 |

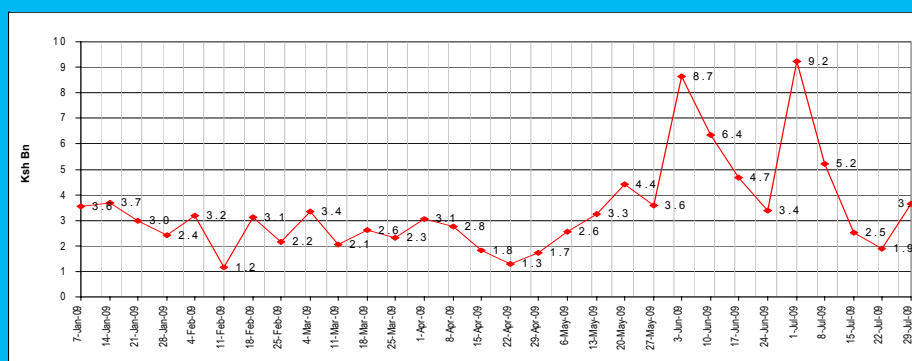
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 3.6 billion in their clearing accounts at the Central Bank in the week to July 29, 2009, compared with Ksh 1.9 billion held in the previous week (Charts C).

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 10.9 billion, from Ksh 518.3 billion in June 2009 to Ksh 507.6 billion as at July 24, 2009 (Table 6 and Chart D). This was attributed to decreases of Ksh 5.3 billion in Treasury bills excluding repos, Ksh 4.4 billion in the overdraft at the Central Bank of Kenya and Ksh 1.2 billion and in other domestic debt.

Treasury bills (excluding Repos) decreased from Ksh 116.8 billion in June 2009 to Ksh 111.5 billion as at July 24, 2009, and other domestic debt also 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 CBK decreased from Ksh 5.1 billion to Ksh 0.7 billion during the period.

Following these developments, the holdings of Treasury bonds in total Government securities increased from 75.4 percent in June 2009 to 76.3 percent as at July 24, 2009, while Treasury bills holdings decreased from 24.4 percent to 23.6 percent during the period. As a result, the maturity profile of Government securities decreased from 3 years and 9 months to 3 years and 7 months.

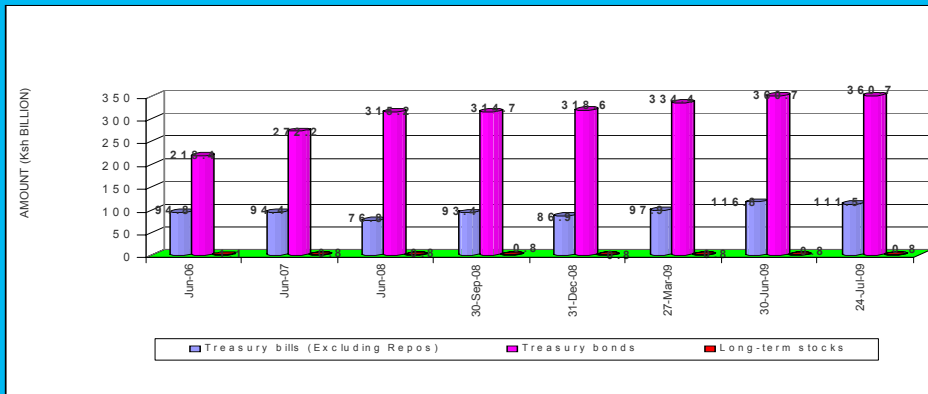
Table 6: Government Domestic Debt (Ksh Billion)

| | Jun-08 | 31st Dec 08 | 27th Mar 09 | 30th June 09 | 10th July 09 | 17th July 2009 | 24th July 2009 | Changes 17th July-09 - 24th July-09 | 30th Jun-08 - 24th July-09 |
|---|---------------|---------------|---------------|---------------|---------------|----------------|----------------|---|-------------------------------|
| 1. Treasury Bills (Excluding Repos) (As % of total securities) | 76.8 19.6 | 86.9 21.4 | 97.9 22.6 | 116.8 24.4 | 111.8 23.6 | 113.2 23.8 | 111.5 23.6 | -1.6 -0.3 | -5.3 -0.8 |
| 2. Treasury Bonds (As % of total securities) | 315.2 80.2 | 318.6 78.4 | 334.4 77.2 | 360.7 75.4 | 360.7 76.2 | 360.7 76.0 | 360.7 76.3 | 0.0 0.3 | 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 | 0.0 0.0 | 0.0 0.0 |
| 4. Total Securities (1+2+3) | 392.8 | 406.3 | 433.1 | 478.3 | 473.3 | 474.7 | 473.0 | -1.6 | -5.3 |
| 5. Overdraft at Central Bank | 0.0 | 15.1 | 5.5 | 5.1 | 6.0 | 6.0 | 0.7 | -5.3 | -4.4 |
| 6. Other Domestic debt* | 37.8 | 34.9 | 35.4 | 34.9 | 33.7 | 33.8 | 33.7 | -0.1 | -1.2 |
| 7. Gross Domestic Debt (4+5+6) | 430.6 | 456.2 | 474.0 | 518.3 | 513.0 | 514.5 | 507.5 | -7.0 | -10.9 |
| 8. Interest payments on domestic debt (Cumulative in FY) | 42.2 | 22.7 | 33.5 | 45.9 | 0.1 | 0.4 | 1.2 | 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 C: Composition of Government Securities

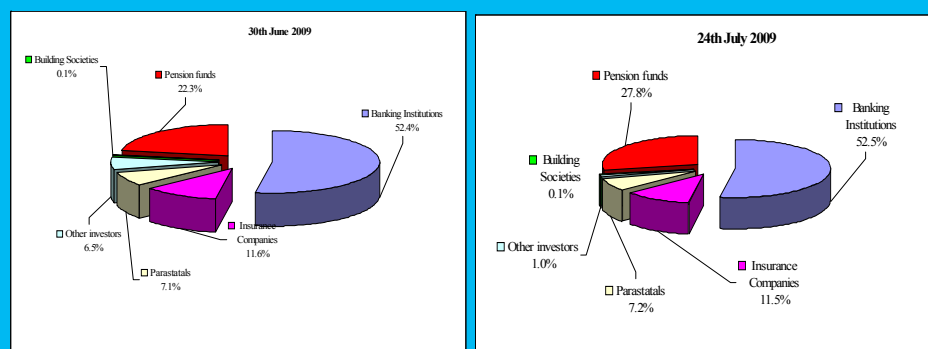


Source: Central Bank of Kenya

Holding of Government Securities

Government securities holdings by insurance companies and other investors decreased from 11.6 percent and 6.5 percent, respectively, in June 2009 to 11.5 percent and 1.0 percent as at July 24, 2009. On the other hand, holdings by commercial banks, parastatals and pension funds increased from 52.4 percent, 7.1 percent and 22.3 percent, respectively to 52.5 percent, 7.2 percent and 27.8 percent during the period. Holdings by building societies however remained unchanged at 0.1 percent.

Chart D: Composition of Government Securities by Investor

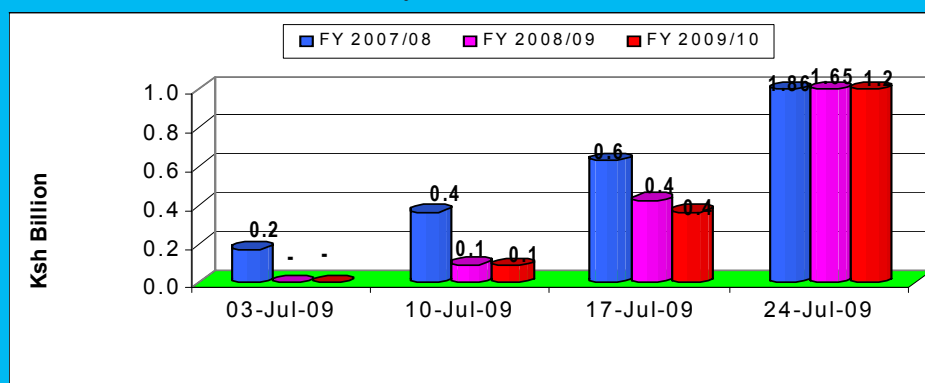


Source: Central Bank of Kenya

Cost of Domestic Borrowing

From July 1, 2009 to July 24, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 1.2 billion as shown in Chart F. The interest cost on domestic debt during the period comprised Ksh 0.5 billion in interest and other charges on Treasury Bonds and Ksh 0.7 billion in interest and other charges on Treasury Bills.

Chart E: 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 30, 2009. Equity turnover improved by 8.5 percent as stocks worth Ksh 687.2 million were traded, compared with Ksh 633.5 million traded in the previous week. The number of shares traded increased, from 52.6 million in the previous week to 59.0 million shares in the week under review. Market capitalization as a measure of total shareholders' wealth declined by 1.0 percent or Ksh 9.2 billion to close at Ksh 822.2 billion in the week under review from Ksh 831.4 billion in the previous week. The NSE 20 Share index lost 71.5 points to settle at 3246.1 points on July 30, 2009, from 3317.6 points on July 23, 2009. The Nairobi All Share Index also lost 0.8 points to settle at 71.0 points on July 30, 2009. (Table 7).

Table 7: Key Weekly Market Statistics

| Week Ending | 28-May-09 | 04-Jun-09 | 11-Jun-09 | 18-Jun-09 | 25-Jun-09 | 02-Jul-09 | 09-Jul-09 | 16-Jul-09 | 23-Jul-09 | 30-Jul-09 |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| NASI 100=Jan 2008 | 59.70 | 61.01 | 62.95 | 69.20 | 69.74 | 72.30 | 71.85 | 71.15 | 71.79 | 70.99 |
| NSE20 Share Index | 2,849.43 | 2,924.77 | 2,959.47 | 3,202.18 | 3,246.43 | 3,357.66 | 3,312.64 | 3,256.75 | 3,317.62 | 3,246.09 |
| Number of Deals | 7,807 | 5,894 | 7,876 | 9,238 | 13,116 | 9,631 | 10,026 | 8,926 | 8,196 | 8,410 |
| Total Shares Traded | 100.73 | 72.38 | 76.16 | 102.46 | 96.97 | 81.41 | 76.43 | 60.76 | 52.61 | 59.02 |
| Equity Turnover (Ksh. | 1,129.25 | 448.56 | 822.05 | 996.50 | 1,264.18 | 1,073.35 | 826.83 | 573.02 | 633.49 | 687.17 |
| Market Capitalization (Ksh. | 693.13 | 706.59 | 728.99 | 801.46 | 807.62 | 837.30 | 832.05 | 824.02 | 831.36 | 822.15 |
| Bonds Turnover (Ksh. | 6,457.95 | 3,903.00 | - | 1,655.05 | 1,015.60 | 2,549.50 | 1,712.55 | 1,807.90 | 1,087.15 | 1,375.00 |

* 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 28.2 million shares and accounted for 48 percent of total traded volume. Safaricom traded 26.0 million shares to be the most active stock in the sector. The Finance and Investment sector traded 22.7 million shares and accounted for 39 percent of total traded volume. Equity Bank and Co-operative Bank traded 15.5 million and 3.2 million shares and were the most active counters in the sector. Industrial and Allied sector traded 7.5 million shares and accounted

for 13 percent of traded volume. KenGen and Mumias were the most active counters and traded 4.4 million and 1.9 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 1.4 billion were traded compared with Ksh 1.1 billion traded in the previous week.