

June 26, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted a performance rate of 148.34 percent during the Treasury bonds auction of June 24, 2009 and 53.46 percent during the Treasury bills auction of June 25, 2009. The average 91-day Treasury bills rate decreased by 31 basis points to 7.06 while the average 182-day Treasury bills rate went up by 7.6 basis points to 8.15 during this week's auction. The average interest rates on the 2-year and the 20-year re-opened Treasury bonds were 10.06 percent and 14.61 percent respectively.

The average interbank interest rate declined slightly to 2.93 percent in the week to June 25, 2009 from 2.94 percent the previous week.

During the week ending June 26, 2009, the Kenya Shilling on average depicted mixed performance against the major international currencies. It remained stable against the US Dollar against which it exchanged at an average of Ksh 77.74 per US Dollar compared with Ksh 77.97 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,301 million (equivalent to 4.58 months of imports) as at June 26, 2008 to US dollar 3,087 million (equivalent to 3.56 months of imports) as at June 26, 2009.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,268 million (equivalent to 4.54 months of imports) as at June 19, 2008 to US dollar 3,057 million (equivalent to 3.53 months of imports) as at June 19, 2009.

Central Bank's Open Market Operations injected a total of Ksh 14.5 in the week ending June 24, 2009.

The Government gross domestic debt increased by Ksh 71.9 billion, from Ksh 430.6 billion in June 2008 to Ksh 502.5 billion as at June 19, 2009. From July 1, 2008 to June 19, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 42.9 billion compared with Ksh 40.0 billion in a similar period of 2007/08.

Performance at the equities market improved during the week. Equity turnover improved by 27 percent, market capitalization increased by 1.0 percent while the NSE 20 Share index gained 44.2 points to settle at 3246.4 points on June 25, 2009.

Government Securities Auction

The Government securities market posted a performance rate of 148.34 percent during the Treasury bonds auction of June 24, 2009 and 53.46 percent during the Treasury bills auction of June 25, 2009. During the bonds auction, the Government reopened 2-year and 20-year fixed coupon discounted Treasury bonds at coupon rates of 8.75 percent and 13.75 percent respectively, and received bids totalling Ksh 19.3 billion. The Government accepted bids totalling Ksh 13.1 billion which was adequate to cover redemptions of Ksh 1.2 billion and provide the Government with additional borrowing of Ksh 11.9 billion.

In the Treasury bills auction, the Government offered for sale Treasury bills worth Ksh 6.5 billion and received bids totalling Ksh 3.5 billion, of which Ksh 2.5 billion were for 182 days Treasury bills. The Government accepted bids totalling Ksh 3.1 billion of which Ksh 2.2 billion or 70.3 percent were for 182 days Treasury bills. The proceeds of the auction will be used to meet the cost of rolling over Treasury bills maturities amounting to Ksh 1.7 billion in the week and provide the Government an additional borrowing of Ksh 1.4 billion.

Treasury Bills Interest Rates

The average 91-day Treasury bills rate declined by 31 basis points from 7.37 percent in the previous week’s auction to 7.06 percent during the current week’s auction, while the average 182-day Treasury bills rate rose by 7.6 basis points from 8.08 percent to 8.15 percent (Table 1). Consequently, the 12-weeks moving average for the 91-day Treasury bills rate declined from 7.40 percent to 7.37 percent, while the 182-day Treasury bills rate remained unchanged at 8.47 percent.

Table 1 : Interest Rates

Auction date	07-May-09	14-May-09	21-May-09	28-May-09	04-Jun-09	11-Jun-09	18-Jun-09	25-Jun-09
Average 91 day T. Bills	7.358	7.549	7.507	7.494	7.431	7.309	7.367	7.057
Average 182 day T. Bills	8.686	8.914	8.875	8.674	8.362	8.039	8.077	8.153
Month	Sep-08	Oct-08	Nov-08	Dec-09	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

Treasury Bonds Interest Rates

The average interest rates on the 2-year re-opened Treasury bond decreased by 14 basis points from 10.20 percent for the same bond issued in May 2009 to 10.06 percent during the auction of June 24, 2009. Similarly, the average interest rates on the 20-year re-opened Treasury bond decreased by 13 basis, from 14.74 percent for the same bond issued in June 2008, to 14.61 percent during this week’s auction.

Interbank and REPO Market

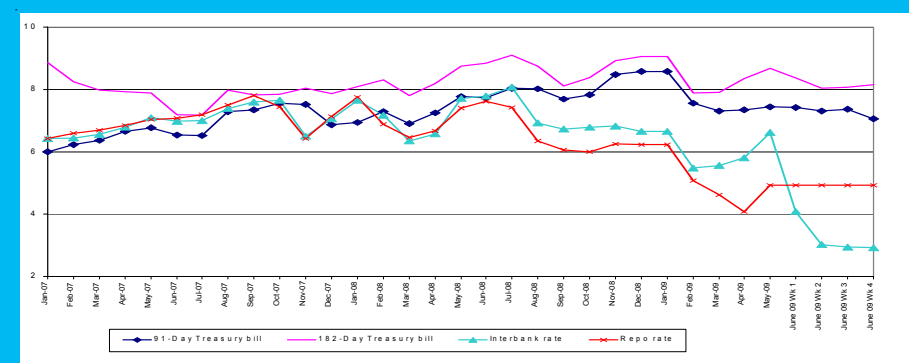
The average interbank interest rate declined slightly from 2.94 percent in the week to June 18, 2009 to 2.93 percent in the week under review. Activity in the interbank market improved in the week to June 25, 2009 with the number of deals increasing from 342 in the previous week to 347, and the average volume of transactions also increased from Ksh 43.0 billion to Ksh 46.8 billion over the same period (Table 2).

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
12-Jun-09	66	9,440	2.49
15-Jun-09	67	8,206	2.91
16-Jun-09	68	8,498	3.13
17-Jun-09	67	7,488	3.18
18-Jun-09	74	9,337	3.00
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

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

During the week ending June 26, 2009, the Kenya Shilling on average depicted mixed performance against the major international currencies; remaining fairly stable against the US Dollar, the Euro and the Sterling Pound, but weakening against the Japanese Yen. Against the US dollar, the Shilling exchanged at an average of Ksh 77.74 in the week ending June 26, 2009 compared with Ksh 77.97 per US dollar the previous week (Table 3). The stability of the Shilling against the US dollar was attributed to stable demand and supply of US dollars in the domestic foreign exchange market relative to the local currency.

Against the Euro and the Sterling Pound the shilling exchanged at an average of Ksh 108.55 and Ksh 127.55 respectively during the week compared with Ksh 108.33 and Ksh 127.40 the previous week. However, the local unit

weakened against the Japanese Yen in the week ending June 26, 2009 to trade at an average of Ksh 81.19 per 100 Japanese Yen compared with Ksh 80.51 per 100 Japanese Yen in the previous week. On the regional front the Shilling remained stable against the Uganda Shilling and the Tanzania Shilling during the week ending June 26, 2009, exchanging at an average of Ush 27.07 per Kenya Shilling and Tsh 16.88 per Kenya shilling, compared with Ush 27.47 and Tsh 16.73 in the previous week.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
15-Jun-09	77.99	126.58	108.10	79.30	27.69	16.73
16-Jun-09	77.94	127.08	107.83	80.55	27.74	16.72
17-Jun-09	78.08	128.27	108.36	80.86	27.66	16.66
18-Jun-09	77.95	127.74	108.78	81.34	27.10	16.73
19-Jun-09	77.89	127.32	108.56	80.52	27.16	16.81
June 15-19 2009	77.97	127.40	108.33	80.51	27.47	16.73
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

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,301 million (equivalent to 4.58 months of imports) as at June 26, 2008 to US dollar 3,087 million (equivalent to 3.56 months of imports) as at June 26, 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, declined from US\$ 1,809 million as at end May 2008 to US\$ 1,441 million as at end May 2009.

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

	26-Jun-08	29-Aug-08	30-Sep-08	31-Dec-08	30-Jan-09	27-Feb-09	31-Mar-09	30-Apr-09	29-May-09	26-Jun-09
Usable Reserves	3,301.34	3,152	3,086	2,768	2,671	2,661	2,620	2,608	2,789	3,087
Months of Imports Cover*	4.58	4.14	4.06	3.35	3.19	3.17	3.13	3.11	3.22	3.56
Months of Imports Cover**	3.66	3.43	3.35	2.77	2.66	2.65	2.61	2.59	2.80	3.10

*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 injected Ksh 14.5 billion to the market using the reverse repurchase agreement securities (Table 5). Reserve money averaged Ksh 153.7 billion in the week and remained below target by Ksh 9.9 billion.

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
18-Jun	155.6	163.6	-7.9	1.0	0.4	-0.6	155.8	-7.8	1.2	-9.0
19-Jun	153.7	163.6	-9.9	1.0	0.1	-0.9	154.2	-9.4	0.2	-9.6
22-Jun	145.0	163.6	-18.6	8.0	6.0	-2.0	151.3	-12.3	-2.1	-10.2
23-Jun	144.2	163.6	-19.4	8.0	8.0	0.0	152.1	-11.5	-1.5	-10.0
24-Jun	155.9	163.6	-7.7	0.0	0.0	0.0	155.1	-8.5	1.1	-9.6
Average	150.9	163.6	-12.7	3.6	2.9	-0.7	153.7	-9.9	-0.2	-9.7

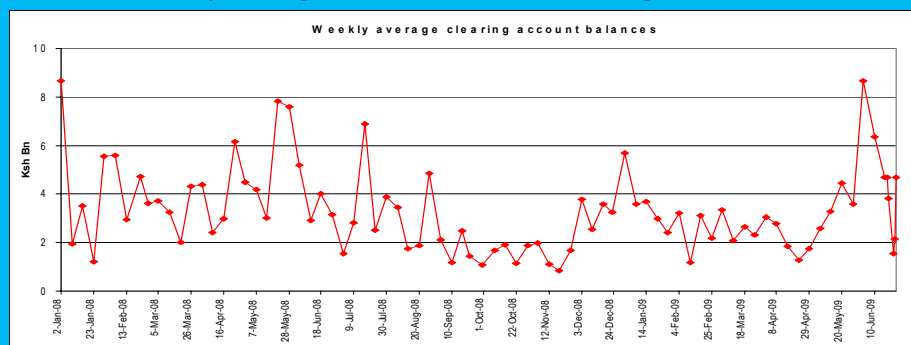
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

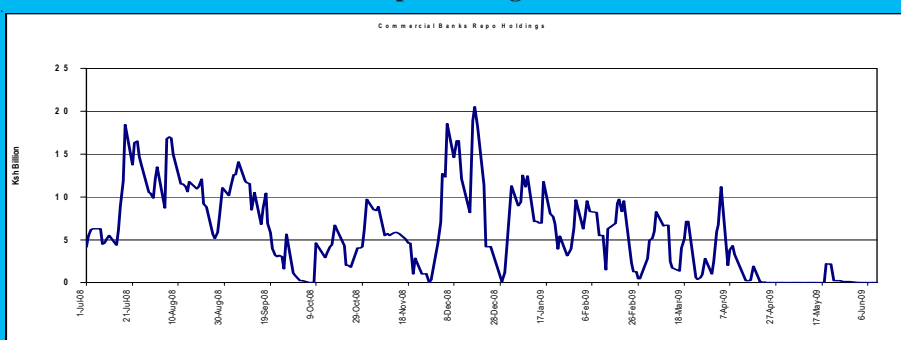
Commercial banks maintained an average of Ksh 3.4 billion in their clearing accounts at the Central Bank in the week to June 24, 2009, compared with Ksh 4.7 billion held in the previous week (Chart B1). Commercial banks held no repurchase agreement securities during the week (Chart B2).

Chart B1: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Chart B2: Commercial Banks Repo Holdings



Source: Central Bank of Kenya

Government Domestic Debt

The Government gross domestic debt increased by Ksh 71.9 billion from Ksh 430.6 billion in June 2008 to Ksh 502.5 billion as at June 19, 2009 (Table 6 and Chart C). This was attributed to increases of Ksh 38.8 billion in Treasury bills excluding repos, Ksh 33.1 billion in Treasury bonds and Ksh 2.0 billion in overdraft at the Central Bank of Kenya. However, these increases were partly offset by a decrease of Ksh 2.0 billion in other domestic debt.

Treasury bills (excluding Repos) increased from Ksh 76.8 billion in June 2008 to Ksh 115.6 billion as at June 19, 2009. Treasury bonds and overdraft at CBK also increased from Ksh 315.2 billion and zero, respectively, to Ksh 348.3 billion and Ksh 2.0 billion during the period. However, other domestic debt decreased from Ksh 37.8 billion to Ksh 35.8 billion, while Government long term stocks remained unchanged at Ksh 0.8 billion during the same period.

Following these developments, the share of Treasury bonds in total issued Government securities decreased from 80.2 percent in June 2008 to 75.0 percent as at June 19, 2009, while that of Treasury bills holdings increased from 19.6 percent to 24.9 percent during the period. The maturity profile of Government securities therefore decreased from 3 years and 8 months to 3 years and 6 months during the period.

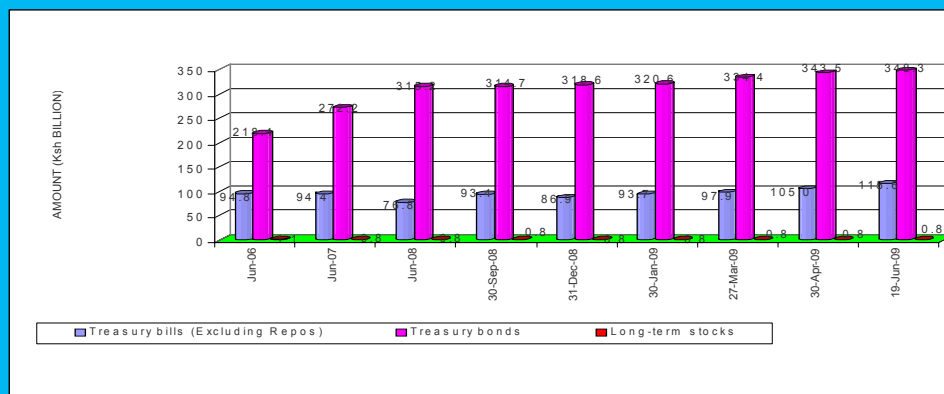
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	27th Mar 09	30th April 09	29th May 09	5th June 09	12th June 09	19th June 09	Changes 12th June-09 -19th	30th Jun-08 -19th June-
1. Treasury Bills (Excluding Repos)	76.8	86.9	97.9	105.0	99.1	102.2	103.9	115.6	11.7	38.8
(As % of total securities)	19.6	21.4	22.6	23.4	22.1	22.6	22.9	24.9		
2. Treasury Bonds	315.2	318.6	334.4	343.5	348.3	348.3	348.3	348.3	0.0	33.1
(As % of total securities)	80.2	78.4	77.2	76.5	77.7	77.2	76.9	75.0		
3. Long Term Stocks	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.0	0.0
(As % of total securities)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2		
4. Total Securities (1+2+3)	392.8	406.3	433.1	449.2	448.1	451.3	453.0	464.7	11.7	71.9
5. Overdraft at Central Bank	0.0	15.1	5.5	12.4	6.7	5.1	3.7	2.0	-1.6	2.0
6. Other Domestic debt*	37.8	34.9	35.4	35.9	34.4	34.3	34.2	35.8	1.6	-2.0
7. Gross Domestic Debt (4+5+6)	430.6	456.2	474.0	497.5	489.2	490.7	490.9	502.5	11.6	71.9
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	33.5	37.3	38.6	42.1	42.3	42.9	0.6	

* 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

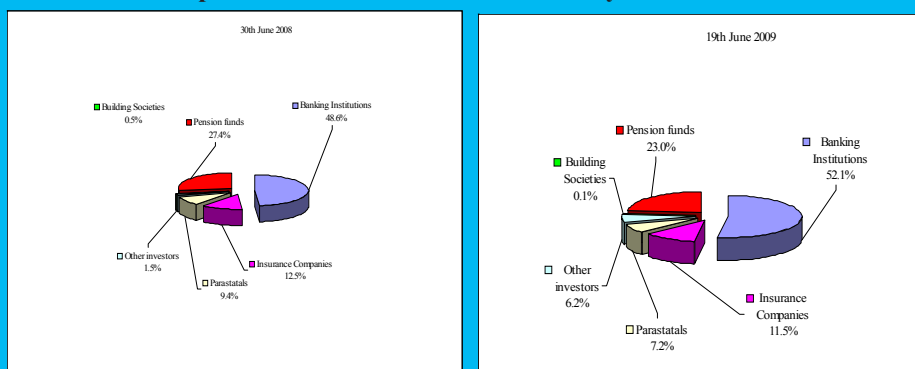


Source: Central Bank of Kenya

Holding of Government Securities

Holdings of Government securities by commercial banks and other investors increased from 48.6 percent and 1.5 percent respectively in June 2008 to 52.1 percent and 6.2 percent as at June 19, 2009. However, holdings by 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 11.5 percent, 7.2 percent, 0.1 percent and 23.0 percent during the same period.

Chart D: Composition of Government Securities by Investor

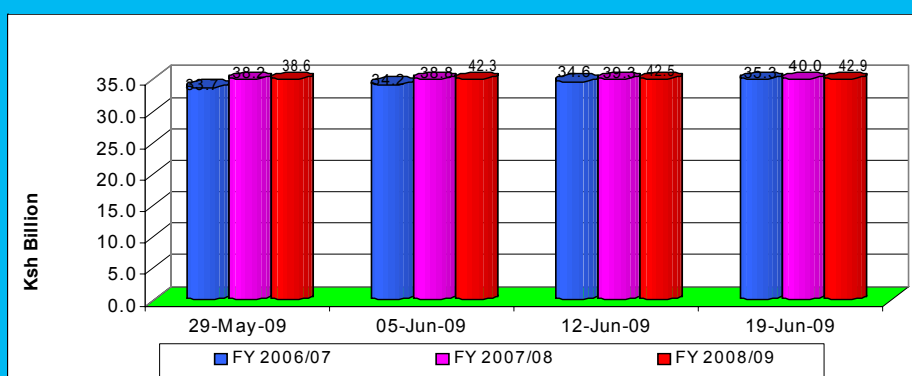


Source: Central Bank of Kenya

Cost of Domestic Borrowing

From July 1 2008 to June 19, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 42.9 billion compared with Ksh 40.0 billion in a similar period of 2007/08 (Chart E). The cost of domestic borrowing during the period comprised Ksh 33.3 billion in interest and other charges on Treasury bonds, Ksh 8.6 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 E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was improved performance at the equities market during the week ending June 25, 2009. Equity turnover improved by 27 percent as stocks worth Ksh 1,264.2 million were traded compared with Ksh 996.5 million traded in the previous week. The number of shares traded decreased, from 102.5 million in the previous week to 97.0 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 1.0 percent or Ksh 6.2 billion to close at Ksh 807.6 billion in the week under review, from Ksh 801.5 billion in the previous week, reflecting improved prices in most stocks during the week. The NSE 20 Share index gained 44.2 points to settle at 3246.4 points on June 25, 2009 compared

with 3202.2 points on June 18, 2009. The Nairobi All Share Index also gained 0.5 points to settle at 69.7 points on June 25, 2009. (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	16th Apr	23rd Apr	29th Apr	7th May	14th May	21st May	28-May-09	04-Jun-09	11-Jun-09	18-Jun-09	25-Jun-09
NASI 100= Jan 2008	56.86	58.48	59.00	58.98	59.39	59.72	59.70	61.01	62.95	69.20	69.74
NSE 20 Share Index	2,699.40	2,764.05	2,813.02	2,829.42	2,836.16	2,877.56	2,849.43	2,924.77	2,959.47	3,202.18	3,246.43
Number of Deals	8,680	8,316	6,978	7,597	7,318	8,216	7,807	5,894	7,876	9,238	13,116
Total Shares Traded	29.22	83.93	39.95	69.83	46.97	77.02	100.73	72.38	76.16	102.46	96.97
Equity Turnover (Ksh.	366.78	762.46	460.10	690.50	580.52	656.59	1,129.25	448.56	822.05	996.50	1,264.18
Market Capitalization (Ksh.	658.64	677.99	684.05	684.79	690.04	693.35	693.13	706.59	728.99	801.46	807.62
Bonds Turnover (Ksh.	949.61	576.10	74.10	805.80	209.00	-	6,457.95	3,903.00	-	1,655.05	1,015.60

* The Nairobi All Share Index (NASI) effected on February 25, 2008 (January 01, 2008 = 100)

Source: Nairobi Stock Exchange

During the week, Commercial and Services sector traded 48 million shares accounting for 50 percent of the total traded volume. Safaricom traded 45.2 million shares to be the most active stock in the sector. The Finance and Investment sector traded 38 million shares or 39 percent of the total traded volume, with Equity Bank and Co-operative Bank moving 23.5 million and 6.6 million shares respectively to become the most active counters in the sector. Industrial and Allied sector traded 10.0 million shares accounting for 10 percent of the traded volume. Mumias and KenGen shares were the most active counters in the sector and traded 5.4 million and 1.7 million shares respectively. The other sectors had minimal trading.

Bond Market Bond market trading declined at the Fixed Income Securities Market during the week. Bond turnover decreased as bonds worth Ksh 1.0 billion were traded compared with Ksh 1.7 billion traded in the previous week