

March 06, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

Overall 12-month inflation increased from 21.9 percent in January 2009 to 25.1 percent in February 2009 due to increases in the prices of most of the seasonal food products. The 12-month underlying inflation was 8.7 percent in February 2009.

The Government securities market posted an impressive performance of 139.79 percent during the Treasury bills auction of March 5, 2009. The average 91-day Treasury bills rate was 7.294 percent while the average 182-day Treasury bills rate was 7.721 percent during this week's auction.

The average interbank rate edged up by 15 basis points, from 4.84 percent in the previous week to 4.88 percent during the week ending March 5, 2009. The repo rate also edged up, by 4 basis points from 4.84 percent to 4.88 percent in the week, with a volume of Ksh 5.1 billion mopped.

The Kenya Shilling strengthened against all major international currencies except the US dollar during the week ending March 05, 2009. Against the US dollar, the shilling traded at an average of Ksh 79.97 compared with Ksh 79.72 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,346 million (equivalent to 4.75 months of imports) as at March 05, 2008 to US dollar 2,626 million (equivalent to 3.13 months of imports) as at March 05, 2009.

The Central Bank mopped Ksh 8.5 billion through repurchase agreement securities and redeemed maturing securities worth Ksh 1.1 billion during the week ending March 04, 2009.

During the current financial year, the Government's gross domestic debt increased by Ksh 48.2 billion to Ksh 478.8 billion as at February 27, 2009. From July 1 to February 27, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 30.5 billion compared with Ksh 28.0 billion in a similar period of 2007/08.

The equities market had mixed performance during the week ending March 5, 2009. Equity turnover improved by 164 percent to Ksh 723 million, market capitalization declined by 5 percent to Ksh 593.8 million, while the NSE 20 share index lost 151.5 points to settle at 2,360 points on March 5, 2009.

Inflation

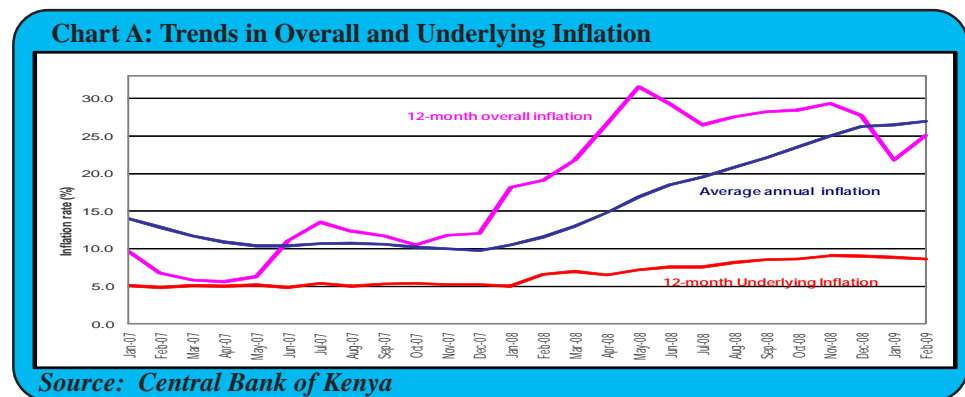
Overall 12-month inflation increased from 21.9 percent in January 2009 to 25.1 percent in February 2009. This was due to increases in the prices of maize flour, maize grain, Sukuma wiki and most of the seasonal food items in general. Similarly, average annual inflation increased from 26.5 percent in January 2009 to 26.9 percent in February 2009.

The 12-month underlying inflation declined from 8.9 percent in January 2009 to 8.7 percent in February 2009. Average underlying inflation however increased from 7.9 percent in January 2009 to 8.1 percent in February 2009. Chart A shows trends in overall and underlying inflation from January 2007 to February 2009.

Inflation was more pronounced in three categories of goods and services. Inflation for the food and drink category increased from 28.9 percent in January 2009 to 33.9 percent in February 2009, reflecting higher prices of food items. Inflation for the housing category rose from 6.8 percent in January 2009 to 8.2 percent in February 2009, while inflation for medical goods and services category increased from 16.2 percent to 17.0 percent due to increases in the cost of dental services, consultation fees, bed and delivery charges.

The other categories recorded lower inflation in the month of February 2009 compared with January 2009. The inflation rates were as follows: alcohol and tobacco (12.8 percent), household goods and services (11.1 percent), personal goods and services (10.7 percent), fuel and power (8.9 percent), recreation and education (5.4 percent), clothing and footwear (5.4 percent), and transport and communication (3.6 percent).

All income groups experienced higher 12-month inflation in February 2009 compared with January 2009. Inflation for the Nairobi lower income group increased from 25.0 percent in January 2009 to 31.9 percent in February 2009. This group was the hardest hit by the rise in consumer prices. Inflation for the "Rest of Kenya" was 22.3 percent in February 2009 compared with 20.9 percent in January 2009 while inflation for the "Combined Nairobi" increased from 23.3 percent in January 2009 to 29.3 percent in February 2009. Inflation for the Nairobi middle/upper income group was the lowest in February 2009 at 13.3 percent compared with 13.0 percent in January 2009.



Government Securities Auction

The Government securities market posted an impressive performance of 139.79 percent during the Treasury bills auction of March 5, 2009. The Government had offered for sale Treasury bills worth Ksh 6.5 billion during the auction and received bids totalling Ksh 9.1 billion, of which Ksh 6.4 billion were in 182-day Treasury bills and Ksh 2.7 billion in 91-day Treasury bills.

During the auction, the Government accepted bids totalling Ksh 7.8 billion, of which Ksh 7.1 billion or 91.0 percent were in competitive bids. The proceeds of the auction covered the cost of rolling over Treasury bills maturities totalling Ksh 6.2 billion in the week and new borrowing of Ksh 1.5 billion.

Treasury bills interest rates

The average 91-day Treasury bills rate increased by 5.9 basis points, from 7.235 percent in the previous week's auction to 7.294 percent during this week's auction, while the average 182-day Treasury bills rate increased by 6.0 basis points, from 7.661 percent in the previous week's auction to 7.721 percent (Table 1). The 12-weeks moving average for the 91-day Treasury bills rate decreased from 8.082 percent in the previous week to 7.977 percent while the 182-day Treasury bills rate decreased from 8.505 percent to 8.398 percent.

Table 1 : Interest Rates

Auction date	22-Jan-09	29-Jan-09	5-Feb-09	12-Feb-09	19-Feb-09	26-Feb-09	5-Mar-09
Average 91 day T. Bills	8.391	7.991	7.700	7.346	7.157	7.235	7.294
Average 182 day T. Bills	8.854	8.285	7.995	7.618	7.646	7.661	7.721
Month	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-09	Jan-09
Average savings rate	1.67	1.68	1.73	1.74	1.61	1.65	2.10
Average overdraft rate	13.49	13.11	13.43	13.91	13.85	14.40	14.35

Source: Central Bank of Kenya

Interbank and REPO Rates

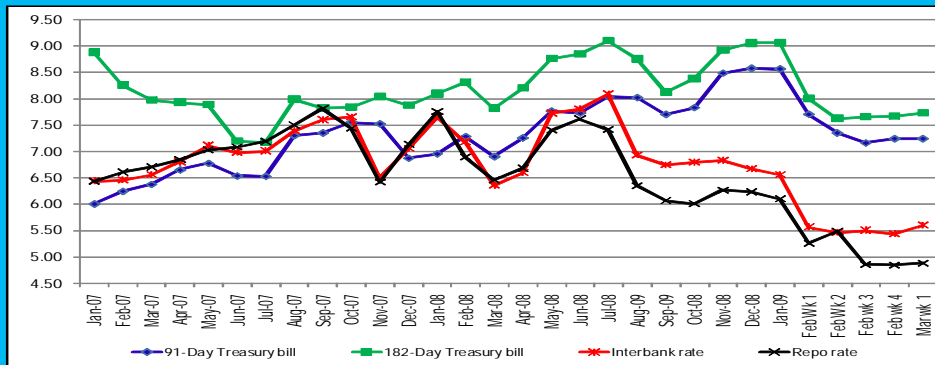
The average interbank rate edged up by 15 basis points, from 5.43 percent in the previous week to 5.59 percent during the week ending March 5, 2009 with a decline in volumes transacted (Table 2). Interbank volumes declined by Ksh 5.9 billion from Ksh 81 billion in the previous week to Ksh 75.1 billion in the week under review. The repo rate also edged up, by 4 basis points from 4.84 percent to 4.88 percent in the current week, with a volume of Ksh 5.1 billion mopped compared with Ksh 3.2 billion in the previous week (Chart B).

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
20-Feb-09	84	16,136	5.39
23-Feb-09	98	17,657	5.36
24-Feb-09	110	17,017	5.36
25-Feb-09	116	16,148	5.51
26-Feb-09	99	14,039	5.54
20 - 26 Feb-09	507	80,997	5.43
27-Feb-09	98	16,569	5.61
2-Mar-09	77	12,564	5.58
3-Mar-09	87	15,385	5.58
4-Mar-09	91	17,130	5.58
5-Mar-09	76	13,464	5.58
20 - 26 Feb-09	429	75,112	5.59

Source: Central Bank of Kenya

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling strengthened against all major international currencies except the US dollar during the week ending March 05, 2009 (Table 3). Against the US dollar, the shilling traded at an average of Ksh 79.97 per US dollar compared with Ksh 79.72 per US dollar in the previous week. The weakening of the Shilling against the US dollar was attributed to increased end-of-month corporate demand for the US dollar that surpassed inflows. The shilling however, strengthened against the Sterling Pound, the Euro and the Japanese Yen in the week ending March 05, 2009 to trade at Ksh 113.26 per Sterling Pound, Ksh 100.90 per Euro and Ksh 81.54 per 100 Japanese Yen compared with Ksh 114.90 per Sterling Pound, Ksh 101.65 per Euro and Ksh 83.61 per 100 Japanese Yen, respectively, in the previous week. In the international foreign exchange market, the US dollar strengthened against the Sterling Pound, the Euro and the Japanese Yen.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen
20-Feb-09	79.59	113.29	100.28	84.58
23-Feb-09	79.69	115.59	102.69	85.73
24-Feb-09	79.84	116.17	101.60	83.86
25-Feb-09	79.77	115.96	102.33	82.31
26-Feb-09	79.71	113.47	101.36	81.55
Feb 20 - 26, 2009	79.72	114.90	101.65	83.61
27-Feb-09	79.69	113.85	101.46	81.59
2-Mar-09	79.72	113.55	100.42	81.78
3-Mar-09	80.07	113.06	101.24	82.07
4-Mar-09	80.33	112.62	100.48	81.65
5-Mar-09	80.04	113.20	100.91	80.60
Feb 27-Mar 5, 2009	79.97	113.26	100.90	81.54

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,346 million (equivalent to 4.75 months of imports) as at March 05, 2008 to US dollar 2,626 million (equivalent to 3.13 months of imports) as at March 05, 2009 (Table 4). The decline in the import cover reflects reduction in reserves level and a higher import bill. However, commercial banks foreign exchange reserves holdings, which are predominantly used by the private sector to meet external financial obligations, increased from US\$ 1,055 million as at end January 2008 to US\$ 1,580 million as at end January 2009.

**Monetary
Policy
Operations**

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

	5-Mar-08	30-Jun-08	30-Sep-08	28-Nov-08	31-Dec-08	30-Jan-09	27-Feb-09	5-Mar-09
Usable Reserves	3,346	3,300	3,086	2,736	2,768	2,671	2,661	2,626
Months of Imports Cover*	4.75	4.60	4.06	3.44	3.35	3.19	3.17	3.13
Months of Imports Cover**	3.95	3.67	3.35	2.83	2.77	2.66	2.65	2.61

*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

In the week to March 04, 2009, Central Bank sought to mop an average Ksh 1.7 billion daily from the market using repurchase agreement securities as shown in Table 5. The Bank mopped an average of Ksh 1.0 billion daily from the market against daily redemption of maturing securities averaging Ksh 0.2 billion in the week.

Table 5: Open Market Operations (Ksh Billion)

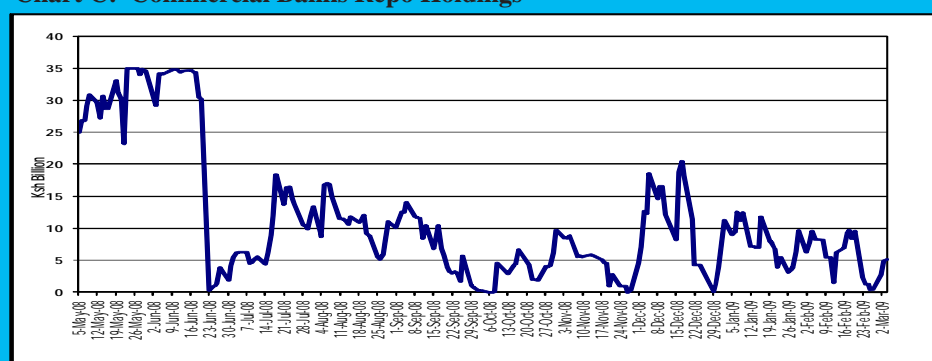
Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Realised	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
26-Feb	150.9	167.5	-16.6	0.0	0.0	0.0	151.3	-16.1	-4.4	-11.8
27-Feb	152.3	167.5	-15.2	1.0	0.2	-0.8	152.0	-15.5	-5.0	-10.6
2-Mar	157.2	164.2	-7.1	3.0	2.6	-0.5	153.4	-10.9	-0.4	-10.5
3-Mar	152.5	164.2	-11.7	0.5	2.1	1.6	156.3	-8.0	1.7	-9.7
4-Mar	156.7	164.2	-7.5	4.0	0.2	-3.8	156.3	-7.9	0.0	-7.9
Average	153.9	165.5	-11.6	1.7	1.0	-0.7	153.8	-11.7	-1.6	-10.1

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

During the week ending March 04, 2009, the Central Bank's open market operations desk mopped Ksh 8.5 billion from the market through repurchase securities agreements. During the same week, Ksh 1.1 billion worth of repo securities were redeemed resulting in an increase in commercial banks' repo securities holding to Ksh 5.2 billion by March 04, 2009 up from Ksh 1.31 billion held on February 25, 2009 (Chart C). The reserve money averaged Ksh 153.8 billion and was below target by Ksh 11.7 billion. The shortfall in reserve money is attributed to underperformance on the net foreign assets profile.

Chart C: Commercial Banks Repo Holdings

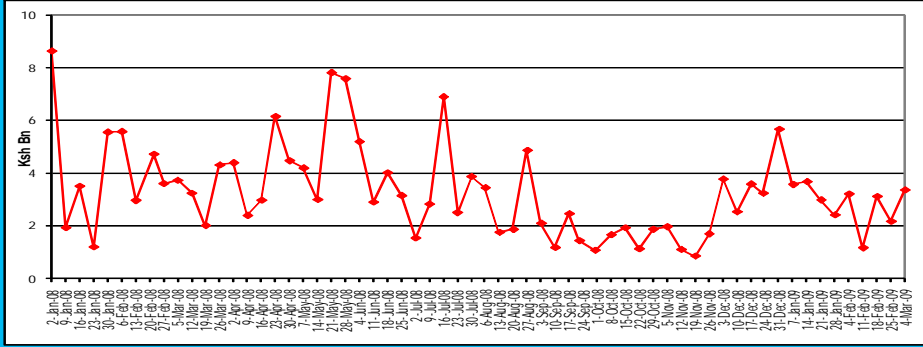


Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Accounts
Balances**

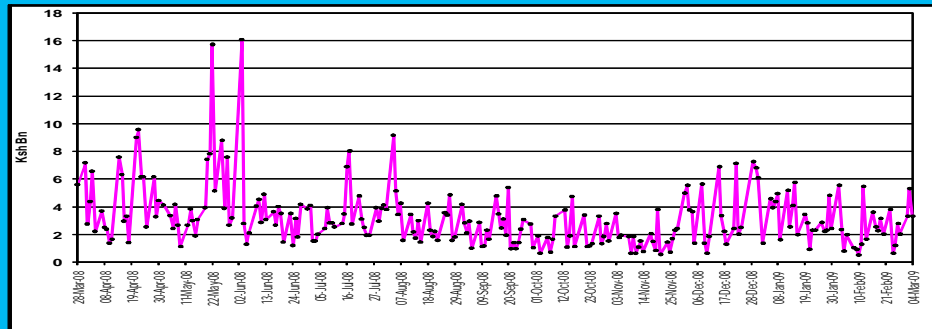
In the week ending March 04, 2009, average commercial banks clearing account balances were Ksh 3.4 billion compared with Ksh 2.2 billion held in the previous week (Chart D1 and D2).

Chart D1: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Chart D2: Daily Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Government Domestic Debt

The Government gross domestic debt increased by Ksh 48.2 billion, from Ksh 430.6 billion in June 2008 to Ksh 478.8 billion as at February 27, 2009 (Table 6 and Chart E). This comprised increases of Ksh 20.1 billion in Treasury bills excluding repos, Ksh 15.0 billion in Treasury bonds and Ksh 16.9 billion in overdraft at the Central Bank, and a partially offsetting decline of Ksh 3.7 billion in other domestic debt.

Treasury bills (excluding Repos) increased from Ksh 76.8 billion in June 2008 to Ksh 96.9 billion as at February 27, 2009. Treasury bonds and overdraft at CBK also increased from Ksh 315.2 billion and zero, to Ksh 330.2 billion and Ksh 16.9 billion, respectively, during the period. However, other domestic debt decreased by Ksh 0.7 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 77.2 percent as at February 27, 2009, while Treasury bills holdings increased from 19.6 percent to 22.7 percent during the period. As a result, the maturity profile of Government securities increased from 3 years and 8 months to 3 years and 9 months during the period.

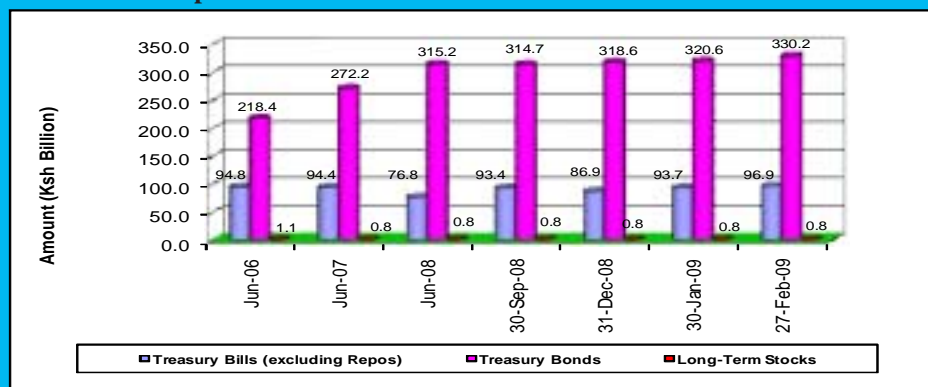
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	20th Feb 09	27th Feb 09	Changes 20th Feb-09 -27th Feb-	30 th Jun-08 27th Feb-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	86.9 21.4	96.2 23.0	96.9 22.7	0.8	20.1
2. Treasury Bonds (As % of total securities)	315.2 80.2	318.6 78.4	320.6 76.8	330.2 77.2	9.5	15.0
3. Long Term Stocks (As % of total securities)	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.0	0.0
4. Total Securities (1+2+3)	392.8	406.3	417.5	427.8	10.3	35.1
5. Overdraft at Central Bank	0.0	15.1	5.2	16.9	11.7	16.9
6. Other Domestic debt*	37.8	34.9	34.8	34.1	-0.7	-3.7
7. Gross Domestic Debt (4+5+6)	430.6	456.2	457.5	478.8	21.3	48.2
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	27.6	30.5	2.9	

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

Source: Central Bank of Kenya

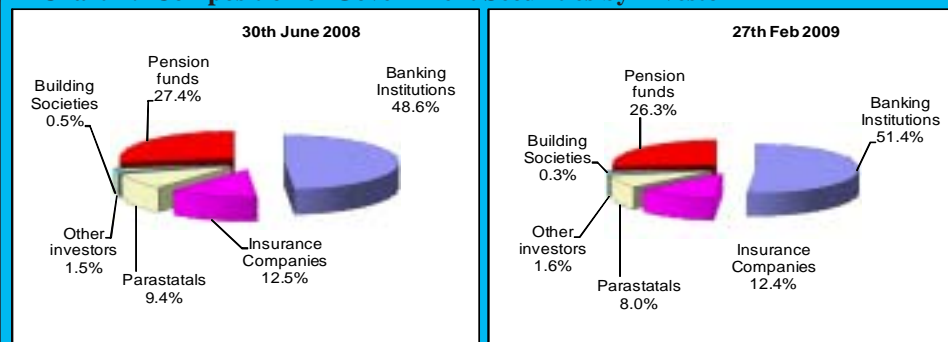
Chart E: Composition of Government Securities



Source: Central Bank of Kenya

Government securities holdings by commercial banks increased from 48.6 percent in June 2008 to 50.2 percent as at February 27, 2009. Similarly, holdings for other investors and insurance companies increased from 1.5 percent and 12.5 percent, respectively, to 3.8 percent and 12.6 percent (Chart F). However, the proportion of securities held by building societies, parastatals and pension funds declined from 0.5 percent, 9.4 percent and 27.4 percent, respectively, to 0.4 percent, 7.7 percent and 25.3 percent during the period.

Chart F: Composition of Government Securities by Investor



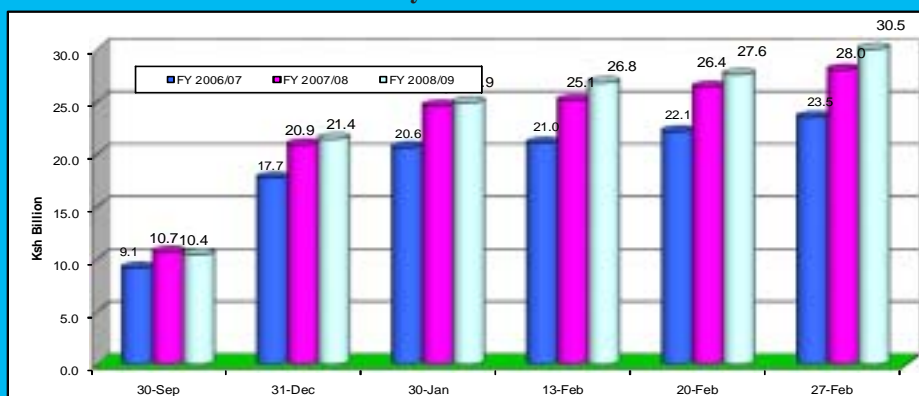
Source: Central Bank of Kenya

Cost of Domestic Borrowing

From July 1 to February 27, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 30.5 billion compared with Ksh 28.0 billion in a similar period of 2007/08 (Chart G). The interest cost on domestic debt during the current period comprised Ksh 23.0 billion in interest and other charges on Treasury bonds,

Ksh 6.7 billion in interest and other charges on Treasury bills and Ksh 0.8 billion in interest on Government overdraft at Central Bank.

Chart G: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The equities market recorded mixed performance during the week ending March 5, 2009. Equity turnover improved by 164 percent as stocks worth Ksh 0.72 billion were traded compared with Ksh 0.27 billion traded in the previous week. The number of shares traded increased from 32.8 million in the previous week to 50.5 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth, however, declined by 5 percent from Ksh 624.6 billion in the previous week, to Ksh 593.8 billion in the week under review, attributed mainly to price declines in most counters. Only 4 counters recorded price improvements ranging from 1 – 6 percent during the week. The NSE 20 Share index lost 151.5 points to settle at 2360 points on March 5, 2009, from 2576.7 points on February 26, 2009. The Nairobi All Share Index dropped 2.7 points and closed at 51.3 points compared with 53.9 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	31st Dec 2008	8th Jan 2009	15th Jan 2009	22nd Jan 2009	29th Jan 2009	5th Feb 2009	12th Feb 2009	19th Feb 2009	26th Feb 2009	5th Mar 2009
NASI 100= Jan 2008	73.37	73.07	71.68	68.09	67.93	64.02	62.03	58.97	53.93	51.27
NSE 20 Share Index 100=1966	3,521.18	3,546.01	3,447.45	3,272.49	3,262.54	2,950.25	2,855.87	2,714.49	2,511.47	2,360.01
Number of Deals	3,723	9,470	9,971	7,975	8,313	7,929	7,690	8,409	7,209	7,236
Total Shares Traded (millions)	50.40	29.70	42.40	45.09	55.42	42.80	32.13	39.44	32.81	50.46
Equity Turnover (Ksh. millions)	2,962	480	786	591	697	538	359	439	274	723
Market Capitalization (Ksh. Bn.)	853.88	847.18	831.16	789.51	786.52	741.29	718.29	682.82	624.56	593.82
Bonds Turnover (Ksh. millions)	178.00	1,082.60	2,565.40	1,236.40	1,134.00	779.75	1,497.00	906.35	1,011.95	3,145.35

* 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 33.6 million shares and accounted for 66 percent of total traded volume. The most active stock, Safaricom, traded 31 million shares at prices ranging from Ksh 2.55 and Ksh 2.70. Industrial and Allied sector traded 9.9 million shares and accounted for 19.6 percent of traded volume. Mumias and E.A. Breweries shares were the most active counters and traded 4.0 million and 3.9 million

shares, respectively. The Finance and Investment sector traded 6.6 million shares and accounted for 13.2 percent of total traded volume. Kenya Commercial Bank and Co-operative Bank traded 1.9 million and 1.8 million shares to be the most active counters in the sector. The other sectors had minimal trading.

Bond Market

There was improved trading at the bond market. Bond turnover increased during the week to Ksh 3.1 billion from Ksh 1.01 billion traded in the previous week. Increased trading at the fixed income market reflected a shift in investor preferences from the equities market that remain on a downward trend.