

March 20, 2009



**Highlights for
the Week**

THE CBK WEEKLY BULLETIN

The Government securities auction of March 19, 2009 registered oversubscriptions of Treasury bills and Treasury bonds of 104.7 percent and 168.8 percent, respectively. The government had offered for sale Treasury bills worth Ksh 6.5 billion, received bids totalling Ksh 6.8 billion and accepted bids totalling 6.3 billion. In addition, Treasury bonds amounting to Ksh 8.5 billion were offered, bids amounting to Ksh 14.3 billion were received and bids totalling Ksh 8.5 billion were accepted. The average 91-day Treasury bills rate edged up 6.8 basis points from 7.3 percent in the previous auction to 7.4 percent during this week's auction, while the average 182-day Treasury bill rate rose 24.8 basis points from 7.9 percent in the previous auction to 8.1 percent. However, average interest rate on 2-year Treasury bond declined by 78.4 basis points from 10.7 percent for a bond of similar tenor issued in December 2008 to 9.9 percent.

The average interbank rate increased by 2 basis points from 5.5 percent in the previous week to 5.6 percent during the week ending March 19, 2009. The repo rate, however declined by 43 basis points from 4.9 percent in the previous week to 4.4 percent in the current week, with a volume of Ksh 7 billion mopped.

The Kenya Shilling weakened against all the major international currencies during the week ending March 19, 2009. Against the US dollar, the shilling weakened to exchange at Ksh 80.4 in the week ending February 19, 2009 compared with Ksh 80.1 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 2,610 million (equivalent to 3.11 months of imports) as at March 19, 2009, down from US dollar 3,340 million (equivalent to 4.74 months of imports) as at March 19, 2008.

Central Bank's open market operations mopped Ksh 5.5 billion worth of repurchase agreement securities from commercial banks and redeemed maturing securities worth Ksh 7.0 billion during the week ending March 18, 2009.

Government gross domestic debt increased by Ksh 35.9 billion from Ksh 430.6 billion in June 2008 to Ksh 466.5 billion as at March 13, 2009. In addition, the cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 30.9 billion during the period.

Performance at the equities market improved during the week. Turnover increased by 30.5 percent, while market capitalization improved by 7.8 percent and the NSE 20 Share index gained 214.8 points to settle at 2668.1 points on March 19, 2009.

Government Securities Auction

The Government securities market posted oversubscription during the Treasury bills and Treasury bonds auction of March 19, 2009. The government had offered for sale Treasury bills worth Ksh 6.5 billion during the Treasury bills auction and received bids totalling Ksh 6.8 billion, of which Ksh 3.4 billion were in 182 days Treasury bills. The Government offered for sale 2-years Treasury bonds worth Ksh 8.5 billion and received bids totalling Ksh 14.3 billion. The performance of the auction was 104.7 percent and 168.8 percent for the Treasury bills and Treasury bonds, respectively.

The Government accepted bids for Treasury bills totalling Ksh 6.3 billion or 92.1 percent of the bids received, of which Ksh 3.2 billion or 79.9 percent were in competitive bids. Proceeds of the auction were to be used to meet the cost of rolling over Treasury bills maturities totalling Ksh 5.0 billion in the week and provide the Government with additional borrowing of Ksh 1.2 billion.

In addition, the Government accepted Treasury bond bids totalling Ksh 8.5 billion of which Ksh 8.1 billion or 95.3 percent were in competitive bids. Proceeds of the auction were to be used to meet the cost of redemptions of Treasury bond maturities in the month totalling Ksh 4.4 billion and provide the Government additional borrowing of Ksh 4.1 billion.

Treasury bill interest rates

The average 91-day Treasury bill rate increased by 6.8 basis points from 7.3 percent in the previous week's auction to 7.4 percent in this week's auction while the average 182-day Treasury bills rate edged up 24.8 basis points from 7.9 percent in the previous week's auction to 8.1 percent in the week under review (Table 1).

Table 1 : Interest Rates

Auction date	5-Feb-09	12-Feb-09	19-Feb-09	26-Feb-09	5-Mar-09	12-Mar-09	19-Mar-09
Average 91 day T. Bills	7.700	7.346	7.157	7.235	7.294	7.292	7.360
Average 182 day T. Bills	7.995	7.618	7.646	7.661	7.721	7.853	8.101
Month	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09
Average savings rate	1.68	1.73	1.74	1.61	1.65	2.10	2.13
Average overdraft rate	13.11	13.43	13.91	13.85	14.39	13.84	13.46

* Revised

Source: Central Bank of Kenya

Interbank and REPO Rates

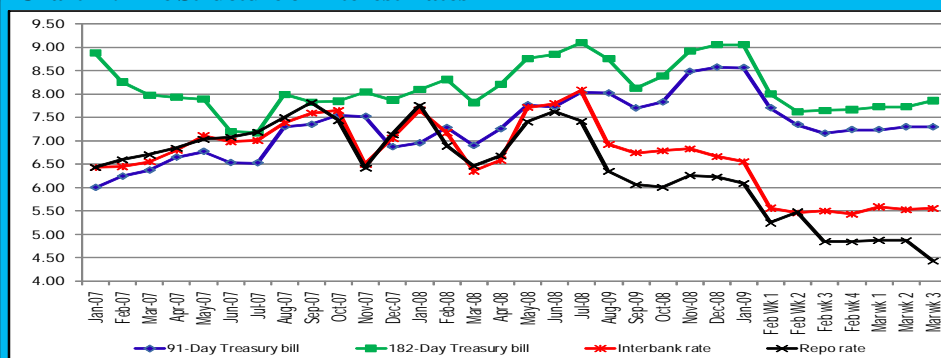
The average interbank interest rate increased by 2 basis points from 5.5 percent in the previous week to 5.6 percent during the week ending March 19, 2009 with a decline in volumes transacted (Table 2). Interbank volumes declined by Ksh 5.8 billion from Ksh 64.5 billion in the previous week to Ksh 58.8 billion in the week under review. The repo rate declined by 43 basis points from 4.87 percent in the previous week to 4.4 percent in the current week. The volume mopped was Ksh 7 billion compared with Ksh 5.9 billion transacted in the previous week (Chart A).

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
6-Mar-09	81	11,199	5.51
9-Mar-09	74	11,791	5.50
10-Mar-09	89	12,314	5.47
11-Mar-09	91	13,501	5.53
12-Mar-09	82	15,713	5.62
06 - 12 Mar-09	417	64,518	5.53
13-Mar-09	93	15,517	5.66
16-Mar-09	75	12,493	5.61
17-Mar-09	72	11,555	5.57
18-Mar-09	72	11,089	5.49
19-Mar-09	71	8,112	5.44
13 - 19 Mar-09	383	58,766	5.55

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 March 19, 2009 (Table 3). Against the US dollar, the shilling weakened to exchange at Ksh 80.4 in the week ending March 19, 2009 compared with Ksh 80.1 per US dollar in the previous week. This development is mainly due to demand pressure from domestic interbank and corporate players. The shilling also weakened against the Sterling Pound, the Euro and the Japanese Yen to trade, respectively, at Ksh 113.0 per Sterling Pound, Ksh 105.0 per Euro and Ksh 82.3 per 100 Japanese Yen in the week ending March 19, 2009 compared with Ksh 111.6 per Sterling Pound, Ksh 101.6 per Euro and Ksh 81.8 per 100 Japanese Yen in the week ending March 12, 2009. In the international market, the US dollar weakened against both the Euro and the sterling Pound.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen
6-Mar-09	80.03	113.48	100.93	81.77
9-Mar-09	79.93	112.78	101.18	81.34
10-Mar-09	80.18	110.92	101.82	81.22
11-Mar-09	80.28	109.92	101.51	81.66
12-Mar-09	80.19	111.12	102.74	83.23
Mar 6 - 12, 2009	80.12	111.64	101.64	81.84
13-Mar-09	80.13	111.42	103.37	81.84
16-Mar-09	80.12	112.62	103.63	81.68
17-Mar-09	80.21	113.19	104.39	81.27
18-Mar-09	80.39	112.83	104.71	81.65
19-Mar-09	81.11	115.11	108.98	84.91
Mar 13 - 19, 2009	80.39	113.03	105.02	82.27

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 2,610 million (equivalent to 3.11 months of imports) as at March 19, 2009, down from US dollar 3,340 million (equivalent to 4.74 months of imports) as at March 19, 2008 (Table 4). The decline in import cover reflected a decline in the level of reserves following exchange rate revaluation losses, and a larger import bill. The Central Bank made no purchases of forex from the domestic interbank market while it continued to meet Government external obligations.

Foreign exchange reserves held by the commercial banks increased from US\$ 1,092 million as at end February 2008 to US\$ 1,610 million as at end February 2009. Commercial bank reserves are predominantly used by private sector to meet external financial obligations.

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

	19-Mar-08	30-Jun-08	30-Sep-08	28-Nov-08	31-Dec-08	30-Jan-09	27-Feb-09	19-Mar-09
Usable Reserves	3,340	3,300	3,086	2,736	2,768	2,671	2,661	2,610
Months of Imports Cover*	4.74	4.60	4.06	3.44	3.35	3.19	3.17	3.11
Months of Imports Cover**	3.94	3.67	3.35	2.83	2.77	2.66	2.65	2.60

*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

In the week to March 18, 2009, Central Bank sought to mop an average Ksh 1.5 billion from the market using repurchase agreement securities. An average of Ksh 1.1 billion was mopped from the market against redemption of maturing securities averaging Ksh 2.3 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
12-Mar	156.6	164.2	-7.6	1.0	0.3	-0.7	153.1	-11.1	-1.8	-9.3
13-Mar	154.1	164.2	-10.1	1.0	0.5	-0.5	155.4	-8.8	-1.5	-7.4
16-Mar	156.6	164.2	-7.6	0.5	0.8	0.3	157.0	-7.2	0.5	-7.7
17-Mar	157.0	164.2	-7.3	2.5	2.7	0.2	157.3	-7.0	0.4	-7.4
18-Mar	157.7	164.2	-6.5	2.5	1.1	-1.4	156.6	-7.6	-0.4	-7.2
Average	156.4	164.2	-7.8	1.5	1.1	-0.4	155.9	-8.3	-0.5	-7.8

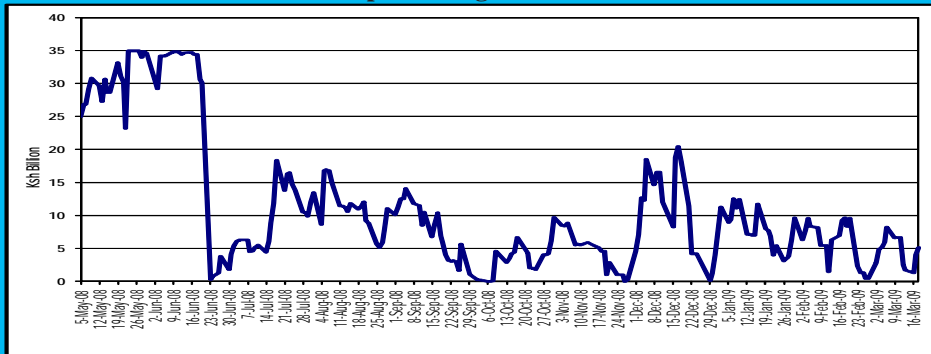
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

During the week, the Central Bank open market operations desk mopped Ksh 5.5 billion from the market through repurchase agreement securities. During the same week, Ksh 7.0 billion worth of repo securities were redeemed resulting in a decline in commercial banks' repo securities holding to Ksh 5.1 billion by March 18, 2009, up from Ksh 6.7 billion held on March 11, 2009. In the week, reserve money averaged Ksh 155.9 billion and was below target by Ksh 8.3 billion (Table 5 and Chart B).

Commercial Banks Clearing Accounts Balances

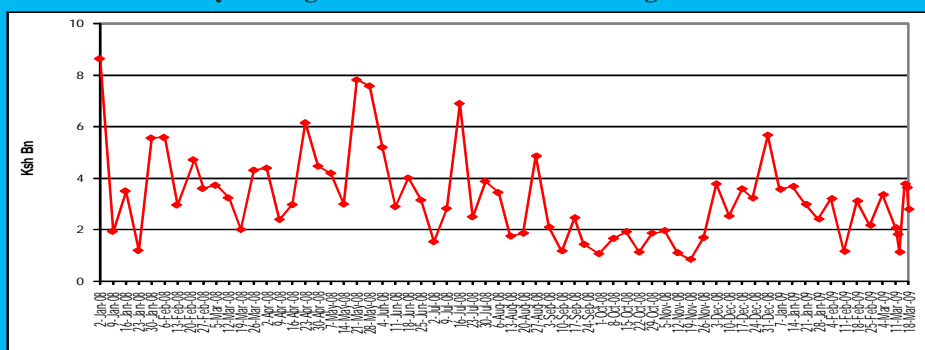
Chart B: Commercial Banks Repo Holdings



Source: Central Bank of Kenya

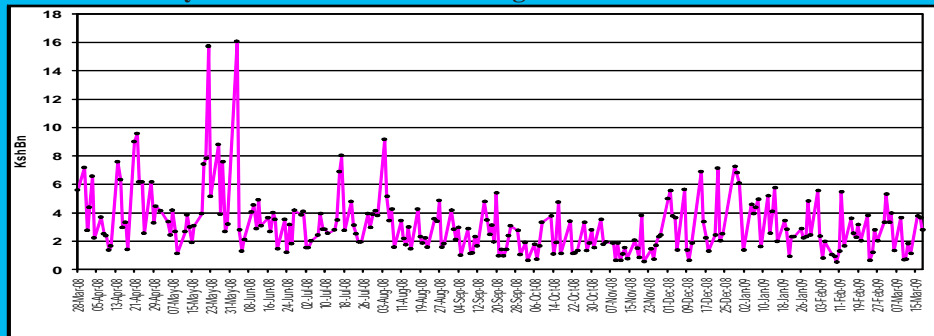
In the week ending March 18, 2009, average commercial banks' clearing account balances amounted to Ksh 2.6 billion compared with Ksh 2.1 billion held in the previous week as shown in Charts C1 and C2.

Chart C1: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Chart C2: Daily Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Government Domestic Debt

Government gross domestic debt increased by Ksh 35.9 billion from Ksh 430.6 billion in June 2008 to Ksh 466.5 billion as at March 13, 2009 (Table 6 and Chart D). The growth in gross domestic debt during the period was as a result of increases of Ksh 18.6 billion, Ksh 15.0 billion and Ksh 5.8 billion in Treasury bills (excluding Repos), Treasury bonds and overdraft at the Central Bank, respectively. These increases were partly offset by a decrease of Ksh 3.5 billion in other domestic debt.

Treasury bills, Treasury bonds and overdraft at Central Bank increased from Ksh 76.8 billion, 315.2 billion and zero in June 2008 to Ksh 95.5 billion, Ksh 330.2 billion and Ksh 5.8 billion, respectively on March 13 2009. However, during the period, other domestic debt decreased from Ksh 37.8 billion to Ksh 34.3 billion while long term stocks remained unchanged from Ksh 0.8 billion.

Following these developments, the holdings of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.4 percent as at March 13, 2009 while Treasury bills increased from 19.6 percent to 22.4 percent. Consequently, the maturity profile of Government securities declined from 3 years and 8 months to 3 years and 5 months during the period.

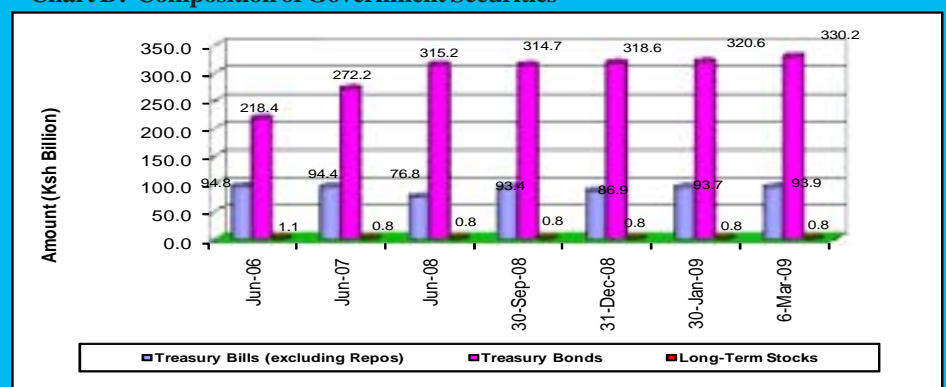
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	8th Mar 09	13th Mar 09	Changes 6th Mar-09 - 13th Mar-09	30 th Jun-08 - 13th Mar-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	86.9 21.4	93.9 22.1	95.5 22.4	1.6	18.6
2. Treasury Bonds (As % of total securities)	315.2 80.2	318.6 78.4	330.2 77.7	330.2 77.4	0.0	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	424.8	426.4	1.6	33.6
5. Overdraft at Central Bank	0.0	15.1	7.1	5.8	-1.3	5.8
6. Other Domestic debt*	37.8	34.9	34.5	34.3	-0.2	-3.5
7. Gross Domestic Debt (4+5+6)	430.6	456.2	466.4	466.5	0.1	35.9
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	30.7	30.9	0.2	

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

Source: Central Bank of Kenya

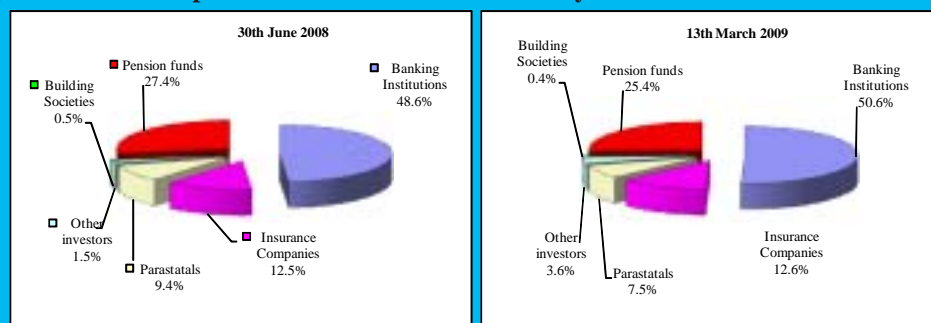
Chart D: Composition of Government Securities



Source: Central Bank of Kenya

Holdings of government securities by commercial banks, insurance companies and other investors increased from 48.6 percent, 12.5 percent and 1.5 percent respectively in June 2008 to 50.6 percent, 12.6 percent and 3.6 percent, respectively as at March 13 2009. On the other hand, holdings by parastatals, pension funds and building societies decreased from 9.4 percent, 27.4 percent, 0.5 percent to 7.5 percent, 25.4 percent and 0.4 percent, respectively. (Chart E).

Chart E: Composition of Government Securities by Investor

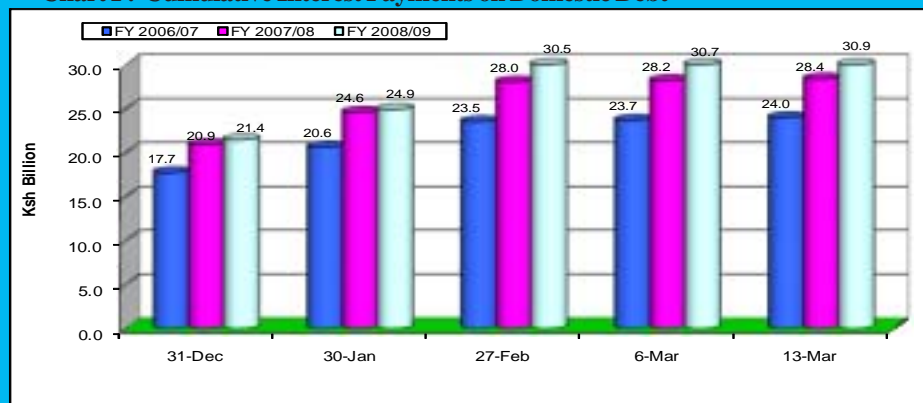


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative government expenditure on interest and other charges on domestic debt during the period up to March 13, 2009 of the FY 2008/09 amounted to Ksh 30.9 billion compared with Ksh 28.4 billion in a similar period in the fiscal year 2007/08 (Chart F). The interest cost on domestic debt during the period comprised Ksh 23.0 billion in interest and other charges on Treasury bonds, Ksh 7.1 billion in interest and other charges on Treasury bills, and Ksh 0.8 billion in interest on both long term stock, Government overdraft at Central Bank and the pre-1997 Government overdraft.

Chart F: 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 March 19, 2009. Turnover increased by 30.5 percent as stocks worth Ksh 0.6 billion were traded compared with Ksh 0.5 billion traded in the previous week. The number of shares traded also increased from 46.7 million in the previous week to 47.7 million shares in the week under review. Market capitalization as a measure of total shareholders wealth, improved by 7.8 percent or Ksh 47.8 billion from Ksh 612.9 billion in the previous week to Ksh 660.7 billion in the week under review, attributed mainly to price improvements in most counters. The NSE 20 Share index gained 214.8 points from 2,453.4 points on March 12, 2009 to settle at 2,668.11 points on March 19, 2009. The Nairobi All Share Index gained 4.1 points and closed at 57.1 points compared with 52.9 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	19th Feb 2009	26th Feb 2009	5th Mar 2009	12th Mar 2009	19th Mar 2009
NASI 100= Jan 2008	58.97	53.93	51.27	52.92	57.05
NSE 20 Share Index 100=1966	2,714.49	2,511.47	2,360.01	2,453.36	2,668.11
Number of Deals	8,409	7,209	7,236	7,265	9,889
Total Shares Traded (millions)	39.44	32.81	50.46	46.66	47.66
Equity Turnover (Ksh. millions)	438.86	273.61	723.46	477.68	623.46
Market Capitalization (Ksh. Bn.)	682.82	624.56	593.82	612.96	660.71
Bonds Turnover (Ksh. millions)	906.35	1,011.95	3,436.25	2,650.90	1,700.85

* 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 27.3 million shares and accounted for 57.1 percent of total traded volume. Safaricom traded 21.5 million shares to be the most active stock in the sector. The Finance and Investment sector traded 10.2 million shares and accounted for 21.3 percent of total traded volume. Kenya Commercial Bank and Co-operative Bank traded 3.9 million and 1.7 million shares to be the most active counters in the sector. Industrial and Allied sector traded 9.1 million shares and accounted for 19.1 percent of traded volume. Mumias and Kengen shares were the most active counters and traded 5.9 million and 1.2 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 declined as bonds worth Ksh 1.7 billion were traded compared with Ksh 2.65 billion traded in the previous week. The decline is attributable to the shift to the primary market.