

May 22, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted a performance of 107.42 percent and 127.76 percent, respectively, during the Treasury bills and Treasury bond auction of May 21, 2009. The average 91-day Treasury bills rate was 7.507 percent while the average 182-day Treasury bills rate was 8.875 percent during this week's auction. The average interest rate on the 2-year discounted fixed rate Treasury bond was 10.193 percent, while the average interest rate on the 15-year discounted fixed rate Treasury bond was 13.530 percent.

The interbank interest rate declined in the week ending May 21, 2009 from 6.9 percent on May 15, 2009 to 6.3 percent. The decline reflected Central Bank's Open Market Operations that injected Ksh 7.9 billion to commercial banks to ease liquidity shortfall.

During the week ending May 22, 2009, the Kenya Shilling depreciated against all the major international currencies. Against the US dollar, the Shilling exchanged at an average of Ksh 78.08 in the week ending May 22, 2009 compared with Ksh 77.54 the previous week.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,236 million (equivalent to 4.43 months of imports) as at May 22, 2008 to US dollar 2,727 million (equivalent to 3.17 months of imports) as at May 22, 2009.

The Government gross domestic debt increased by Ksh 58.6 billion as at May 15, 2009. From July 1, 2008 to May 15, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 37.7 billion compared with Ksh 33.9 billion in a similar period of 2007/08.

The equities market improved in performance during the week ending May 21, 2009. Turnover increased by 13 percent as stocks worth Ksh 656 million were traded compared with Ksh 580 million traded in the previous week. The number of shares traded increased from 46.9 million in the previous week to 77 million shares in the week under review.

Government Securities Auction

The Government securities market posted a performance of 107.42 percent and 127.76 percent respectively during the Treasury bills and Treasury Bonds auction of May 21, 2009. The average 91-day Treasury bills rate was 7.507 percent, while the average 182-day Treasury bills rate was 8.875 percent during this week's auction (Table 1). The average interest rate on the 2-year discounted fixed rate Treasury bond was 10.193 percent while the average interest rate on the 15-year discounted fixed rate Treasury bond was 13.530 percent.

Treasury bills interest rates

The average 91-day Treasury bills rate declined by 4.2 basis points from 7.549 percent in the previous week's auction to 7.507 percent while the average 182-day Treasury bills rate decreased by 3.9 basis points from 8.914 percent to 8.875 percent. Consequently, the 12-weeks moving average for the 91-day Treasury bills rate increased from 7.348 percent in the previous week to 7.371 percent, while the 182-day Treasury bills rate increased from 8.260 percent to 8.362 percent.

Table 1 : Interest Rates

Auction date	02-Apr-09	09-Apr-09	16-Apr-09	23-Apr-09	30-Apr-09	07-May-09	14-May-09	21-May-09
Average 91 day T. Bills	7.381	7.358	7.314	7.381	7.381	7.358	7.549	7.507
Average 182 day T. Bills	8.603	8.686	8.465	8.603	8.603	8.686	8.914	8.875
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

* Revised

Source: Central Bank of Kenya

Interbank and REPO Market

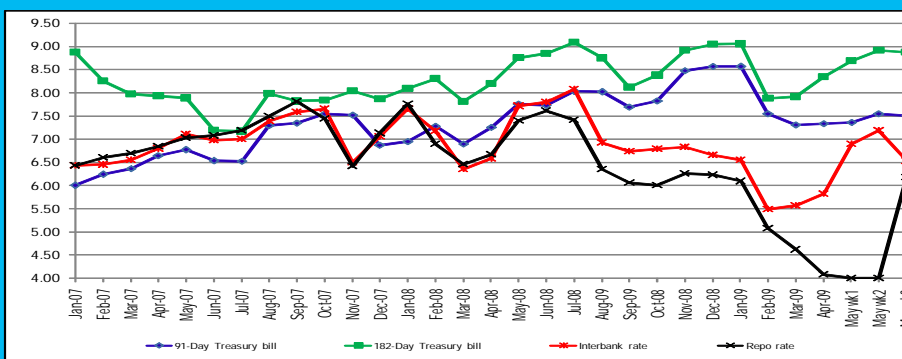
The interbank rate trended downwards in the week ending May 21, 2009. The rate declined from 6.9 percent on May 15, 2009 to 6.3 percent on May 21, 2009. Consequently, the weekly average interbank rate eased from 7.2 percent in the week ending May 14, 2009 to 6.5 percent in the week under review (Table 2). The average volume of transactions in the interbank market increased from Ksh 35.9 billion in the previous week to Ksh 47.5 billion in the week to May 21, 2009, while the number of deals declined from 413 to 372.

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
8-May-09	85	10,173	7.11
11-May-09	98	6,751	7.19
12-May-09	85	5,755	7.23
13-May-09	76	7,697	7.23
14-May-09	69	5,612	7.19
May 8 - May 14 2009	413	35,988	7.19
15-May-09	68	5,777	6.94
18-May-09	74	8,155	6.72
19-May-09	75	11,264	6.38
20-May-09	75	10,807	6.31
21-May-09	80	11,529	6.31
May 15 - May 21 2009	372	47,532	6.53

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 May 22, 2009, the Kenya Shilling depreciated against the major international currencies. Against the US dollar, the Shilling exchanged at an average of Ksh 78.08 in the week ending May 22, 2009 compared with Ksh 77.54 in the previous week (Table 3). The weakening of the Shilling against the US dollar was attributed to increased demand of US dollars in the domestic foreign exchange market relative to the local currency.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen
11-May-09	77.88	118.53	106.25	79
12-May-09	77.48	117.1	105.5	79.61
13-May-09	76.94	116.91	105.5	80.16
14-May-09	77.05	116.68	104.59	80.62
15-May-09	78.33	119.04	106.52	82
May 11-15 2009	77.54	117.65	105.67	80.28
18-May-09	78.21	118.48	105.24	82.41
19-May-09	78.34	120.50	106.31	81.13
20-May-09	78.10	120.78	106.18	81.71
21-May-09	77.79	122.45	107.09	82.07
22-May-09	77.98	123.73	108.69	82.79
May 18-22 2009	78.08	121.19	106.70	82.02

Source: Central Bank of Kenya

The Shilling weakened against the Sterling Pound, the Euro and the Japanese Yen in the week ending May 22, 2009, to trade at an average of Ksh 121.19 per Sterling Pound, Ksh 106.70 per Euro and Ksh 82.02 per 100 Japanese Yen, compared with Ksh 117.65 per Sterling Pound, Ksh 105.67 per Euro and Ksh 80.28 per 100 Japanese Yen in the previous week. In the regional market, the Kenya Shilling remained stable against the Uganda shilling and the Tanzania shilling.

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,236 million (equivalent to 4.43 months of imports) as at May 22, 2008 to US dollar 2,727 million (equivalent to 3.17 months of imports) as at May 22, 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, increased from US\$ 1,321 million as at end March 2008 to US\$ 1,607 million as at end March 2009.

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

	22-May-08	30-May-08	30-Jun-08	30-Sep-08	31-Dec-08	30-Jan-09	27-Feb-09	31-Mar-09	30-Apr-09	22-May-09
Usable Reserves	3,236	3,265	3,300	3,086	2,768	2,671	2,661	2,620	2,608	2,727
Months of Imports Cover*	4.43	4.55	4.60	4.06	3.35	3.19	3.17	3.13	3.11	3.17
Months of Imports Cover**	3.71	3.84	3.67	3.35	2.77	2.66	2.65	2.61	2.59	2.74

*Based on 36 month average of imports of goods and non-factor services

**Based on current year's average imports of imports of goods and non-factor services

Source: Central Bank of Kenya

Monetary Policy Operations

The money market liquidity condition improved in the week of May 20, 2009. During the week, Central Bank provided Ksh 7.9 billion to commercial banks using reverse repo securities to ease the liquidity shortfall compared with Ksh 16.9 billion the previous week (Table 5). Further Central Bank purchased foreign exchange equivalent to Ksh 2.1 billion. Reserve money for the week ending May 20, 2009 averaged Ksh 156.4 billion or Ksh 8.6 billion below target.

Table 5: Open Market Operations (Ksh Billion)

Date	Reserve Money*			OMO		OMO (Reverse)		Reserve money	
	Forecast	Target	Exc(+)/ Short(-)	Posted	Realised	Posted	Injected	Actual	Exc(+)/ Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	(6)	(7)	(8)	9=(8-2)
14-May	145.7	164.9	-19.2	0.0	0.0	12.0	7.7	153.9	-11.0
15-May	151.9	164.9	-13.0	0.0	0.0	5.0	0.2	158.4	-6.5
18-May	163.7	164.9	-1.2	0.0	0.0	0.0	0.0	159.6	-5.3
19-May	157.2	164.9	-7.7	2.0	2.2	0.0	0.0	155.7	-9.2
20-May	154.3	164.9	-10.6	0.0	0.0	0.0	0.0	154.2	-10.7
Average	154.6	164.9	-10.3	0.4	0.4	3.4	1.6	156.4	-8.6

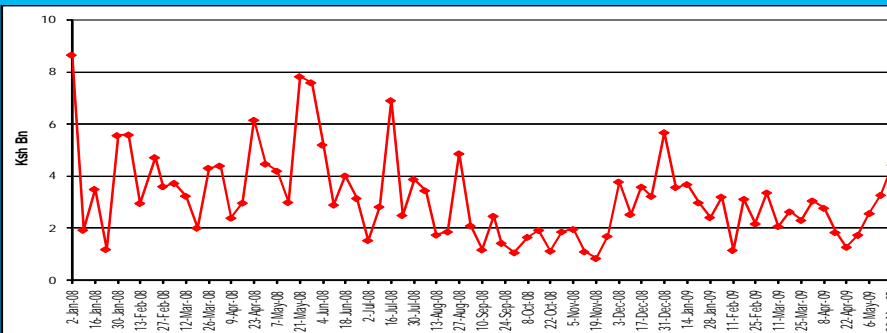
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

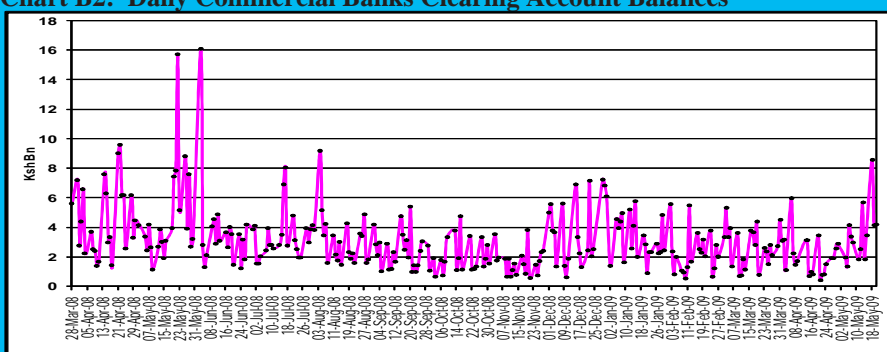
Commercial banks maintained an average of Ksh 4.4 billion in their clearing accounts at the Central Bank in the week to May 20, 2009, compared with Ksh 3.3 billion held in the previous week (Charts B1 and B2).

Chart B1: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Chart B2: Daily Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Government Domestic Debt

The Government gross domestic debt increased by Ksh 58.6 billion, from Ksh 430.6 billion in June 2008 to Ksh 489.3 billion as at May 15, 2009 (Table 6 and Chart C). This was attributed to increases of Ksh 27.5 billion in Treasury bills excluding repos, Ksh 28.3 billion in Treasury bonds and Ksh 6.3 billion in overdraft at the Central Bank. However, these increases were partly offset by a decrease of Ksh 3.5 billion in other domestic debt.

Treasury bills (excluding Repos) increased from Ksh 76.8 billion in June 2008 to Ksh 104.4 billion as at May 15, 2009. Treasury bonds and overdraft at Central Bank also increased from Ksh 315.2 billion and zero, respectively, to Ksh 343.5 billion and Ksh 6.3 billion during the period. However, other domestic debt decreased from Ksh 37.8 billion to Ksh 34.3 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 76.6 percent as at May 15, 2009 while Treasury bills holdings increased from 19.6 percent to 23.3 percent during the period. As a result, the maturity profile of Government securities increased from 3 years and 8 months to 3 years and 6 months during the period.

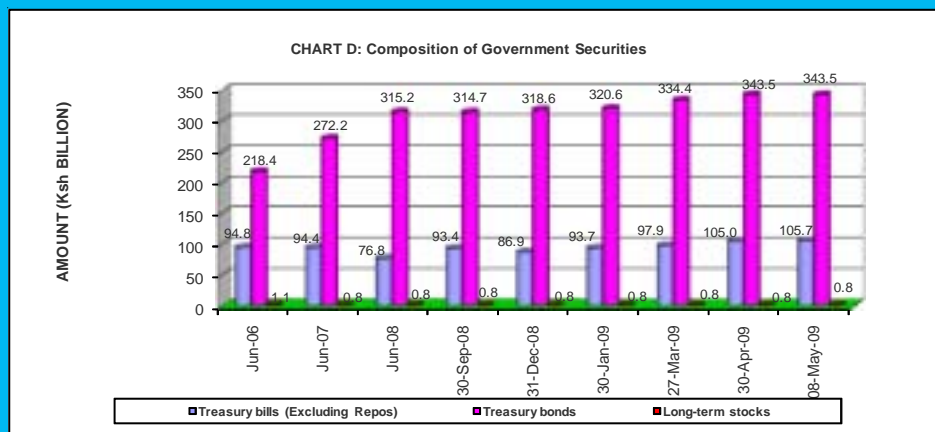
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	30th Jan 09	27th Feb 09	27th Mar 09	30th April 09	8th May 09	15th May 09	Changes 8th May-09-15th May-09	30th Jun-08-15th May-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	86.9 21.4	93.7 22.6	96.9 22.7	97.9 22.6	105.0 23.4	105.7 23.5	104.4 23.3	-1.3	27.5
2. Treasury Bonds (As % of total securities)	315.2 80.2	318.6 78.4	320.6 77.2	330.2 77.2	334.4 77.2	343.5 76.5	343.5 76.3	343.5 76.6	0.0	28.3
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	415.1	427.8	433.1	449.2	449.9	448.6	-1.3	55.8
5. Overdraft at Central Bank	0.0	15.1	4.7	16.9	5.5	12.4	6.2	6.3	0.1	6.3
6. Other Domestic debt*	37.8	34.9	34.6	34.1	35.4	35.9	35.9	34.3	-1.6	-3.5
7. Gross Domestic Debt (4+5+6)	430.6	456.2	454.4	478.8	474.0	497.5	492.0	489.3	-2.7	58.6
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	26.2	30.5	33.5	37.3	37.5	37.7	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 C: Composition of Government Securities

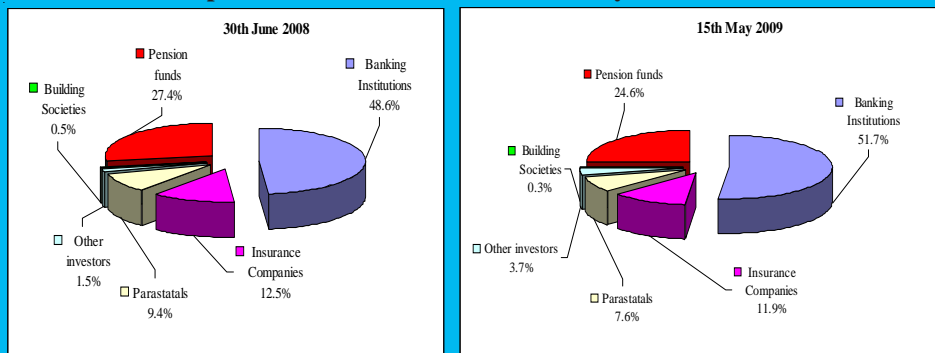


Source: Central Bank of Kenya

Holding of Government Securities

Government securities holdings by commercial banks and other investors increased from 48.6 percent and 1.5 percent, respectively, in June 2008 to 51.7 percent and 3.7 percent as at May 15, 2009. However, holdings of 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 11.9 percent, 7.6 percent, 0.3 percent and 26.4 percent during the same period.

Chart D: Composition of Government Securities by Investor



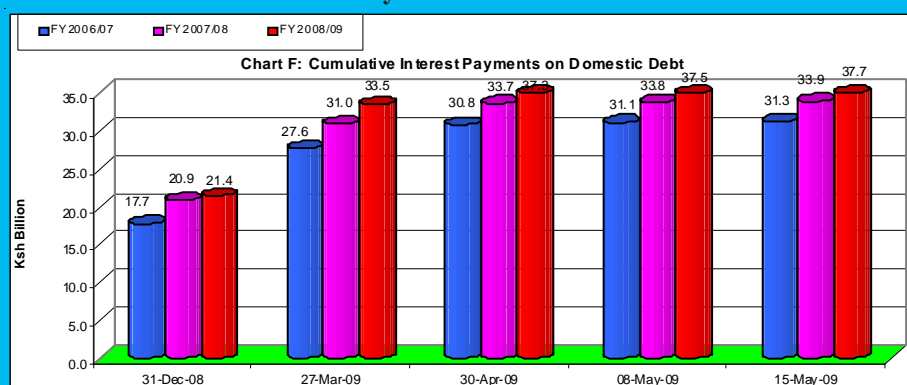
Source: Central Bank of Kenya

Cost of Domestic Borrowing

From July 1, 2008 to May 15, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 37.7 billion compared with Ksh 33.9 billion in a similar period of 2007/08 (Chart E). The interest cost on domestic debt during the period comprised Ksh

28.7 billion in interest and other charges on Treasury bonds, Ksh 8.1 billion in interest and other charges on Treasury bills and Ksh 1.0 billion in interest on Government overdraft at Central Bank.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The equities market improved in performance during the week ending May 21, 2009. Turnover increased by 13 percent as stocks worth Ksh 656 million were traded compared with Ksh 580 million traded in the previous week. The number of shares traded increased from 46.9 million in the previous week to 77 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 0.5 percent or Ksh 3.3 billion from Ksh 690 billion in the previous week, to Ksh 693.3 billion in the week under review. The NSE 20 Share index gained 41.4 points to settle at 2877.6 points on May 21, 2009 from 2836.2 points on May 14, 2009. The Nairobi All Share Index gained 0.33 points and closed at 59.72 points compared with 59.39 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	16th Apr	23rd Apr	29th Apr	7th May	14th May	21st May
NASI 100= Jan 2008	56.86	58.48	59.00	58.98	59.39	59.72
NSE 20 Share Index	2,699.40	2,764.05	2,813.02	2,829.42	2,836.16	2,877.56
Number of Deals	8,680	8,316	6,978	7,597	7,318	8,216
Total Shares Traded (millions)	29.22	83.93	39.95	69.83	46.97	77.02
Equity Turnover (Ksh.)	366.78	762.46	460.10	690.50	580.52	656.59
Market Capitalization (Ksh.)	658.64	677.99	684.05	684.79	690.04	693.35
Bonds Turnover (Ksh.)	949.61	576.10	74.10	805.80	209.00	-

* 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 58.5 million shares and accounted for 76 percent of total traded volume. Safaricom traded 54.2 million shares to be the most active stock in the sector. The Finance and Investment sector traded 13.5 million shares and accounted for 17.5 percent of total traded volume. Equity Bank and Kenya Commercial Bank traded 5.7 million and 2.6 million shares, respectively, and were the most active

counters in the sector. Industrial and Allied sector traded 4.8 million shares and accounted for 6.2 percent of traded volume. Mumias and Kengen shares were the most active counters. The other sectors had minimal trading.

Bond Market

The Fixed Income Securities Market was quiet during the week ending May 21, 2009 as no bond trading was concluded.