

November 06, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

The overall 12-month inflation was 6.6 percent in October 2009. This reflected the change in the computation method from the arithmetic mean based rate to the geometric mean based rate, which is more stable. The baskets used in the exercise, however, remained the same. 12-month inflation, which has been on a steady decline fell by 12 percent points from 18.6 percent in October 2008 to 6.6 percent in October 2009. Similarly the new underlying inflation fell from 10.4 percent in October 2008 to 5.2 percent in October 2009.

The Government securities market posted an impressive performance rate of 218.56 percent during the Treasury bills auction of November 5, 2009. The average 91-day Treasury bills rate was 7.232 percent during the week.

The average interbank rate increased by 21 basis points in the week ending November 05, 2009 to 3.30 percent as compared with the previous week at 3.09 percent.

The Kenya Shilling on average depicted mixed reaction against all the major international currencies during the week ending November 06, 2009. Against the US dollar, the shilling appreciated marginally to exchange at Ksh 75.22 in the week ending November 06, 2009 compared with Ksh 75.25 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,302 million (equivalent to 3.67 months of imports) as at November 06, 2009 compared with US dollar 2,747 million (equivalent to 3.61 months of imports) as at November 06, 2008.

Central Bank's Open Market Operations injected Ksh 1.5 billion to commercial banks and redeemed maturing reverse repo securities worth Ksh 5.5 billion during the week ending November 4, 2009.

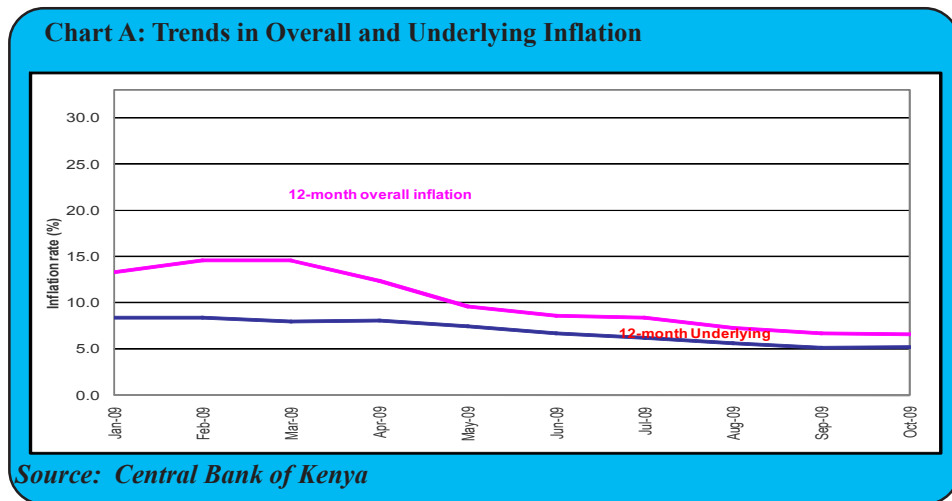
The Government gross domestic debt increased by Ksh 48.8 billion, from Ksh 518.3 billion in June 2009 to Ksh 567.1 billion as at October 30, 2009. From July 1, 2009 to October 30, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 19.19 billion.

Performance at the equities market was mixed during the week. Equity turnover decreased by 7.2 percent, market capitalization improved by 0.2 percent, while the NSE 20 Share index gained 11.1 points to settle at 3077.1 points on November 05, 2009.

Inflation

12-month inflation fell marginally by 0.1 percent from 6.7 percent in September 2009 to 6.6 percent in October 2009 owing to the marginal increases in the various indices. For instance the food index went up by only 0.55 percent during the month as the prices of most food items fell following increased production of seasonal food items as a result of the rains currently being experienced in the country. With the exception of English potatoes, beans, sugar and cabbages, the prices of sifted maize flour, tomatoes, onions and loose maize grains fell significantly by 3.45, 3.49, 6.04 and 1.47 percent, respectively.

12-month underlying inflation, without food, transport and energy remained constant in October 2009 at the previous month’s level of 5.2 percent (Chart A).



Government Securities Auction

The Government securities market posted an impressive performance rate of 218.56 percent during the Treasury bills auction of November 5, 2009. During the auction, the Government had offered for sale Treasury bills worth Ksh 2.5 billion and received bids totalling Ksh 5.5 billion. The Government accepted bids totalling Ksh 2.9 billion, of which Ksh 2.5 billion were in competitive bids. Proceeds of the auction were used to meet the cost of rolling over Treasury bills maturities amounting to Ksh 1.8 billion in the week and provided the Government new borrowing of Ksh 1.1 billion.

Treasury Bills Rates

The average 91-day Treasury bills rate declined by 3.2 basis points, from 7.264 percent in the previous week’s auction of the same security to 7.232 percent during this week’s auction (Table 1). Consequently, the 12-weeks moving average for the 91-day Treasury bills rate declined from 7.251 percent to 7.244 percent during the week.

Table 1: Interest Rates

Auction date	10-Sep-09	17-Sep-09	24-Sep-09	01-Oct-09	08-Oct-09	15-Oct-09	22-Oct-09	29-Oct-09	05-Nov-09
Average 91 day T. Bills	7.272		7.303		7.248		7.264		7.232
Average 182 day T. Bills		8.073		7.991		7.969		8.070	
Average 364 day T. Bills					8.438				
Month	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Average savings rate	2.13	1.90	1.91	1.67	2.08	1.67	1.65	1.65	
Average overdraft rate	13.46	13.78	13.66	14.13	14.41	13.94	13.90	13.76	

* Revised

Source: Central Bank of Kenya

Interbank and REPO Market

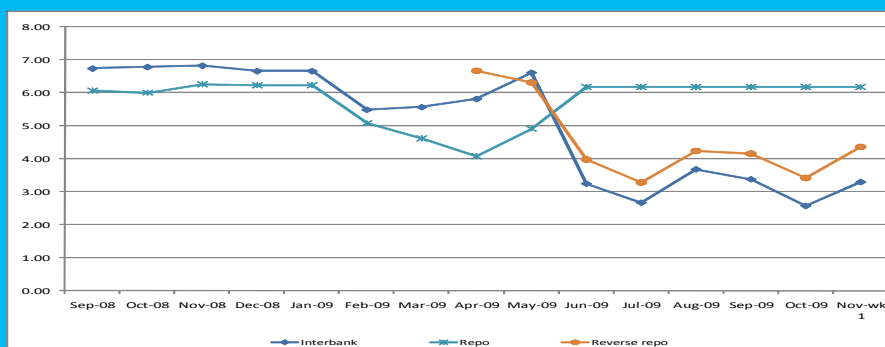
The average interbank rate increased by 21 basis points in the week ending November 05, 2009 to 3.30 percent as compared with the previous week at 3.09 percent. The number of deals and volumes increased from 380 and Ksh 54.25 billion respectively in the week ending November 05, 2009 to 419 and Ksh 87.24 billion during the week (Table 2 and Chart B).

Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
23-Oct-09	73	12,976	3.07
26-Oct-09	80	12,539	3.05
27-Oct-09	65	9,758	3.09
28-Oct-09	86	10,188	3.11
29-Oct-09	76	8,787	3.14
Oct 23 - Oct 29, 2009	380	54,248	3.09
30-Oct-09	92	14,035	3.20
02-Nov-09	84	21,089	3.26
03-Nov-09	84	18,936	3.35
04-Nov-09	71	14,769	3.33
05-Nov-09	88	18,412	3.35
Oct 30 - Nov 05, 2009	419	87,240	3.30

Source: Central Bank of Kenya

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling on average depicted mixed reaction against the major international currencies during the week ending November 06, 2009 (Table 3). Against the US dollar, the shilling appreciated marginally to exchange at Ksh 75.22 in the week ending November 06, 2009 compared with Ksh 75.25 per US dollar in the previous week mainly due to demand from the corporate activities. The shilling appreciated against the Euro to exchange at Ksh 111.78 per Euro in the week ending November 06, 2009 compared with Ksh 111.84 per Euro in the previous week. Against the Sterling Pound and the Japanese Yen, the shilling depreciated to exchange at Ksh 123.97 per Sterling Pound and Ksh 83.27 per 100 Japanese Yen in the week ending November 06, 2009 compared with Ksh 123.29 per Sterling Pound, and Ksh 82.41 per 100 Japanese Yen in the previous week, respectively.

In the regional scene, the Kenya Shilling strengthened marginally against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 24.99 per Kenya Shilling and Tsh 17.62 per Kenya Shilling in the week ending November 06, 2009 compared with Ush 24.96 per Kenya Shilling and Tsh 17.56 per Kenya Shilling in the previous week respectively.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
26-Oct-09	75.20	122.57	112.96	81.96	24.87	17.52
27-Oct-09	75.28	122.98	112.18	81.79	24.93	17.56
28-Oct-09	75.30	123.11	111.60	82.39	24.90	17.50
29-Oct-09	75.24	123.28	110.86	83.21	25.04	17.61
30-Oct-09	75.24	124.50	111.62	82.68	25.07	17.61
Oct 26- 30, 2009	75.25	123.29	111.84	82.41	24.96	17.56
02-Nov-09	75.23	123.70	111.03	83.52	24.99	17.60
03-Nov-09	75.25	123.28	111.33	83.38	24.95	17.58
04-Nov-09	75.43	124.12	111.91	83.37	24.91	17.59
05-Nov-09	75.20	124.23	112.34	83.11	25.05	17.65
06-Nov-09	75.00	124.53	112.27	82.80	25.04	17.70
Nov 02-06, 2009	75.22	123.97	111.78	83.24	24.99	17.62

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,302 million (equivalent to 3.67 months of imports) as at November 06, 2009, compared with US dollar 2,747 million (equivalent to 3.61 months of imports) as at November 06, 2008 (Table 4).

Foreign exchange reserves held by the commercial banks, predominantly used by the private sector to meet external financial obligations, declined from US\$ 1,861 million at the end of September 2008 to US\$ 1,527 million at end of September 2009.

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

	30-Oct-08	30-Apr-09	29-May-09	26-Jun-09	31-Jul-09	31-Aug-09	30-Sep-09	30-Oct-09
Usable Reserves	2,747	2,608	2,789	3,086	3,097	3,154	3,243	3,302
Months of Imports Cover*	3.61	3.11	3.22	3.56	3.52	3.54	3.67	3.67
Months of Imports Cover**	3.28	2.59	2.80	3.10	3.12	3.18	3.27	3.33

*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**

Liquidity in the money market eased in the week ending November 4, 2009 following increased Government payments mainly for end October emoluments for civil servants. During the week, Central Bank provided liquidity amounting to Ksh 1.5 billion to commercial banks using the reverse repurchase agreement securities compared with Ksh 5.5 billion provided the previous week as shown in Table 5. Reserve money averaged Ksh 167.8 billion in the week and remained above target by Ksh 0.9 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
29-Oct	158.9	166.6	-7.7	1.5	1.5	0.0	160.1	-6.5	-0.8	-5.7
30-Oct	162.3	166.6	-4.3	0.0	0.0	0.0	163.6	-3.0	2.0	-5.0
02-Nov	170.2	167.1	3.2	0.0	0.0	0.0	172.5	5.5	11.0	-5.5
03-Nov	174.3	167.1	7.2	0.0	0.0	0.0	173.7	6.6	11.2	-4.6
04-Nov	170.0	167.1	2.9	0.0	0.0	0.0	169.2	2.1	5.8	-3.7
Average	167.1	166.9	0.2	0.3	0.3	0.0	167.8	0.9	5.8	-4.9

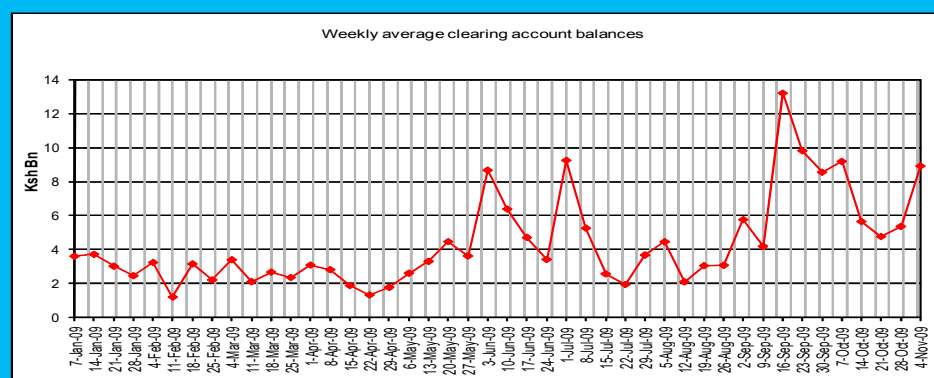
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Account
Balances**

Commercial banks maintained an average of Ksh 8.9 billion in their clearing accounts at the Central Bank in the week to November 4, 2009, compared with Ksh 5.3 billion held in the previous week (Charts C).

Chart C: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Government Domestic Debt

The Government gross domestic debt increased by Ksh 48.8 billion, from Ksh 518.3 billion in June 2009 to Ksh 567.1 billion as at October 30, 2009 (Table 6 and Chart D). This was attributed to increases of Ksh 16.8 billion in Treasury bills excluding repos, Ksh 29.1 billion in Treasury bonds and Ksh 4.3 billion in overdraft at the Central Bank of Kenya. However, the increase in gross domestic debt was offset by a decrease of Ksh 1.3 billion in other domestic debt.

Treasury bills (excluding repos) increased from Ksh 116.8 billion in June 2009 to Ksh 133.6 billion as at October 30, 2009, Treasury bonds increased from Ksh 360.7 billion to Ksh 389.9 billion, while the overdraft at the CBK increased from Ksh 5.1 billion to Ksh 9.3 billion. However, other domestic debt decreased from Ksh 34.9 billion to Ksh 33.6 billion during the period. 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 75.4 percent in June 2009 to 74.4 percent as at October 30, 2009, while Treasury bills holdings increased from 24.4 percent to 25.5 percent during the period. As a result, the maturity profile of Government securities stood at 3 years and 10 months.

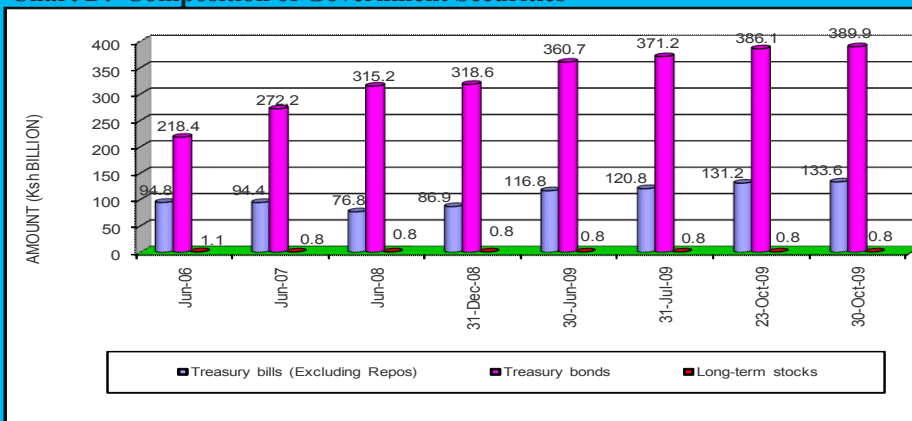
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	27th Mar 09	30th June 09	23rd Oct 2009	30th Oct 2009	Changes	
							23rd Oct-09 - 30th Oct-09	30th Jun-09 -30th Oct-09
1. Treasury Bills (Excluding Repos)	76.8	86.9	97.9	116.8	131.2	133.6	2.3	16.8
(As % of total securities)	19.6	21.4	22.6	24.4	25.3	25.5	0.1	1.1
2. Treasury Bonds	315.2	318.6	334.4	360.7	386.1	389.9	3.8	29.1
(As % of total securities)	80.2	78.4	77.2	75.4	74.5	74.4	-0.1	-1.0
3. Long Term Stocks	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	0.1	0.1	0.0	0.0
4. Total Securities (1+2+3)	392.8	406.3	433.1	478.3	518.1	524.2	6.1	45.9
5. Overdraft at Central Bank	0.0	15.1	5.5	5.1	1.5	9.3	7.9	4.2
6. Other Domestic debt*	37.8	34.9	35.4	34.9	33.6	33.6	-0.1	-1.3
7. Gross Domestic Debt (4+5+6)	430.6	456.2	474.0	518.3	553.2	567.1	14.0	48.8
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	33.5	45.9	16.0	19.2	3.2	

* Other domestic debt includes Pre-1997 Government Overdraft, clearing items in transit, advances from commercial banks and TRCs.
Source: Central Bank of Kenya

Source: Central Bank of Kenya

Chart D: Composition of Government Securities

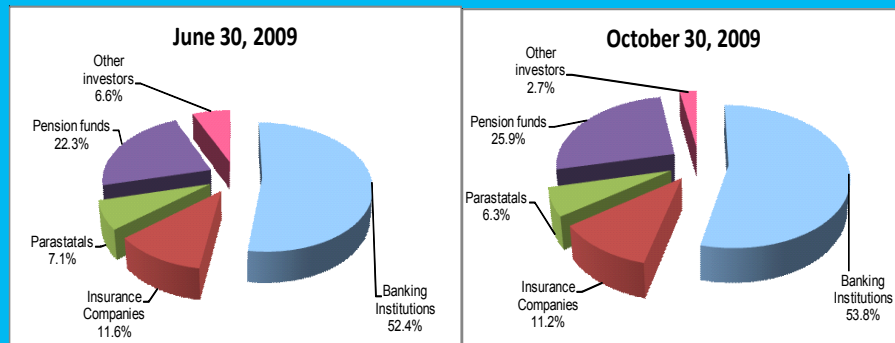


Source: Central Bank of Kenya

Holding of Government Securities

Government securities holdings by pension funds and commercial banks increased from 22.3 percent and 52.4 percent in June 2009 to 25.9 percent and 53.8 percent, respectively, as at October 30, 2009. On the other hand, holdings of insurance companies, parastatals and other investors decreased from 11.6 percent, 7.1 percent and 6.6 percent, respectively, in June 2009 to 11.2 percent, 6.3 percent and 2.7 percent as at October 30, 2009.

Chart E: Composition of Government Securities by Investor

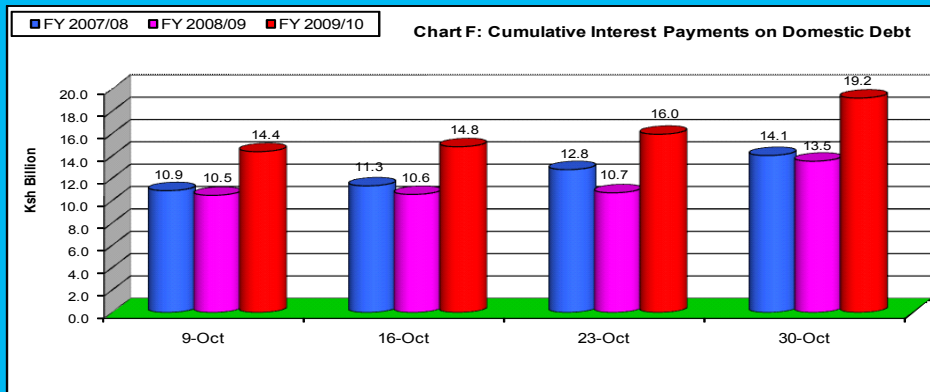


Source: Central Bank of Kenya

Cost of Domestic Borrowing

From July 1, 2009 to October 30, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 19.19 billion as shown in Chart F. The interest cost on domestic debt during the period comprised Ksh 14.49 billion in interest and other charges on Treasury Bonds, Ksh 4.69 billion in interest and other charges on Treasury Bills and Ksh 0.01 billion in interest on Government overdraft at Central Bank of Kenya.

Chart F: 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 November 05, 2009. Equity turnover decreased by 7.2 percent as stocks worth Ksh 1,005.1 million were traded compared with Ksh 1,082.8 million traded in the previous week. The number of shares traded decreased, from 99.3 million in the previous week to 77.1 million shares in the week under review. Market capitalization as a measure of total shareholders wealth

improved marginally by 0.2 percent or Ksh 1.7 billion to close at Ksh 782.1 billion in the week under review from Ksh 780.4 billion in the previous week. The NSE 20 Share index gained 11.1 points to settle at 3077.1 points on November 05, 2009 from 3066.0 points on October 29, 2009. The Nairobi All Share Index also gained 0.1 points to settle at 67.5 points on November 05, 2009 (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	10-Sep-09	17-Sep-09	24-Sep-09	01-Oct-09	08-Oct-09	15-Oct-09	22-Oct-09	29-Oct-09	05-Nov-09
NASI 100= Jan 2008	67.87	68.15	68.14	67.04	65.74	66.16	66.97	67.37	67.52
NSE 20 Share Index 100=1966	3,090.31	3,064.42	3,040.69	3,022.33	2,987.20	3,001.21	3,049.99	3,066.01	3,077.11
Number of Deals	6,847	6,766	5,259	6,594	6,025	5,878	4,861	6,160	6,545
Total Shares Traded (millions)	34.36	64.06	59.79	60.07	48.69	64.34	62.65	99.34	77.12
Equity Turnover (Ksh. millions)	532.49	831.29	1,021.32	1,143.20	615.51	557.06	1,656.08	1,082.83	1,005.12
Market Capitalization (Ksh. Bn.)	786.22	789.42	789.29	775.20	761.55	766.41	775.81	780.38	782.10
Bonds Turnover (Ksh. millions)	4,391.10	1,445.90	1,621.70	2,339.50	1,666.55	3,256.75	1,238.30	4,912.05	2,169.15

* 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 52.2 million shares and accounted for 68 percent of total traded volume. Safaricom traded 50.3 million shares to be the most active stock in the sector. The Finance and Investment sector traded 11.8 million shares and accounted for 15 percent of total traded volume. Equity Bank and Co-operative Bank traded 6.6 million and 2.0 million shares and were the most active counters in the sector. Industrial and Allied sector traded 11.3 million shares and accounted for 14 percent of traded volume. Mumias and Athi River Mining were the most active counters and traded 5.2 million and 2.1 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 2.2 billion were traded compared with Ksh 4.9 billion traded in the previous week.