

October 02, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

The overall 12-month inflation remained fairly stable in September 2009 as in the previous four months despite the looming famine, falling marginally from 18.4 percent in August 2009 to 17.9 percent in September 2009 while the underlying 12-month inflation fell for the fifth consecutive month to stand at 6.8 percent in September 2009 from 7.3 percent in August 2009.

The Government securities market posted a 170.11 percent performance rate during the 182-day Treasury bills auction of October 1, 2009. The average 182-day Treasury bills rate was 7.991 percent during this week's auction.

The average interbank rate declined to 2.3 percent in the week ending October 1, 2009 compared with 2.4 percent in the previous week.

The Kenya Shilling on average depicted mixed reactions against all the major international currencies during the week ending October 2, 2009. Against the US dollar, the shilling depreciated to exchange at Ksh 75.18 per US dollar in the week ending October 2, 2009 compared with Ksh 74.70 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,226 million (equivalent to 3.65 months of imports) as at October 2, 2009 compared with US \$ 3,086 million (equivalent to 4.06 months of imports) as at October 2, 2008.

The Central Bank injected a total of Ksh 1.0 billion during the week ending September 30, 2009.

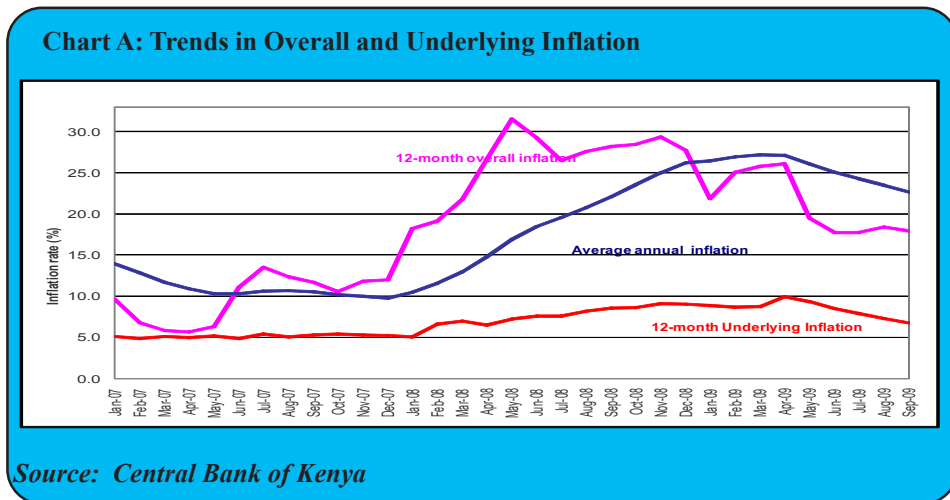
The Government gross domestic debt increased by Ksh 39.9 billion, from Ksh 518.3 billion in June 2009 to Ksh 558.2 billion as at September 25, 2009. From July 1, 2009 to September 25, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 13.18 billion.

Performance at the equities market was mixed during the week. Equity turnover increased by 11.9 percent, market capitalization declined by 1.8 percent while the NSE 20 Share Index lost 18.4 points to settle at 3022.3 points on October 1, 2009.

Inflation

Overall 12-month inflation fell by 0.5 percent from 18.4 percent in August 2009 to 17.9 percent in September 2009, despite the increase in overall CPI for September 2009. This was mainly attributed to easing inflationary pressure arising from decreases in some food prices. Though prices of food items such as sukuma wiki, cabbages, milk and sugar went up because of the drought, prices of other food items such as sifted maize flour, onions and tomatoes fell significantly pushing the food and non-alcoholic drinks 12-month inflation down by 0.7 points from 25.9 percent in August 2009 to 25.2 percent in September 2009. The overall 12-month inflation for all other categories fell with the exception of fuel and power, transport and communication and clothing and footwear categories, all of which increased by 0.2 percent, from -9.7 percent, 1.0 percent and 4.6 percent to -9.5 percent, 1.2 percent and 4.8 percent, respectively (Table 2, Chart B).

The 12-month underlying inflation, without food, transport and energy continued its downward trend from 9.4 percent in May 2009 to 6.8 percent in September 2009 (Chart A).



Government Securities Auction

The Government securities market posted a 170.11 percent performance rate during the 182-day Treasury bills auction of October 1, 2009. The Government offered for sale Treasury bills worth Ksh 6.5 billion and received bids totalling Ksh 11.1 billion.

The Government accepted bids totalling Ksh 7.5 billion, of which Ksh 7.1 billion or 94.7 percent were in competitive bids. The proceeds of the auction were partly used to meet the cost of rolling over Treasury bills maturities amounting to Ksh 6.7 billion in the week and provided new borrowing of Ksh 0.8 billion.

Treasury Bills Rates

The average 182-day Treasury bills rate declined by 8.2 basis points, from 8.073 percent in the previous auction of the same security to 7.991 percent during this week's auction (Table 1). Consequently, the 12-weeks moving average for the 182-day Treasury bills rate declined from 8.242 percent to 8.169 percent.

Table 1: Interest Rates

Auction date	20-Aug-09	27-Aug-09	03-Sep-09	10-Sep-09	17-Sep-09	24-Sep-09	01-Oct-09
Average 182 day T. Bills	8.121		8.103		8.073		7.991
Month	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09
Average savings rate	2.10	2.13	1.90	1.91	1.67	2.08	1.67
Average overdraft rate	13.84	13.46	13.78	13.66	14.13	14.41	13.94

* Revised

Source: Central Bank of Kenya

Interbank and REPO Market

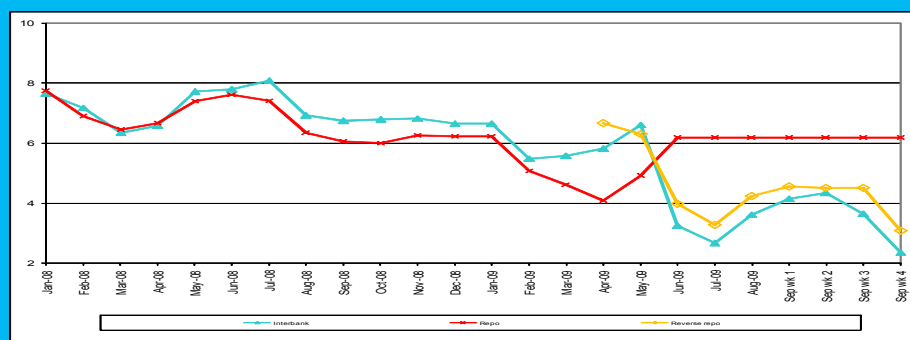
The average interbank rate declined by 10 basis points in the week ending October 1, 2009 to 2.3 percent compared with the previous week's rate of 2.4 percent. The number of deals increased from 352 in the week to September 24, 2009 to 364 in the week under review. Similarly, the volumes of transaction rose from Ksh 50.7 billion to Ksh 55.6 billion during the period under review.

Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
Sep 11- Sep 17, 2009	355	57,837	3.64
18-Sep-09	53	9,337	2.17
21-Sep-09	HOLIDAY		
22-Sep-09	111	18,614	2.31
23-Sep-09	98	12,214	2.48
24-Sep-09	90	10,524	2.48
Sep 17- Sep 24, 2009	352	50,689	2.36
25-Sep-09	87	11,937	2.39
28-Sep-09	98	12,517	2.38
29-Sep-09	86	11,635	2.28
30-Sep-09	99	17,053	2.23
01-Oct-09	92	15,022	2.17
Sep 25- Oct 1, 2009	364	55,647	2.26

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 reactions against the major international currencies during the week ending October 2, 2009 (Table 3). Against the US dollar, the shilling depreciated to exchange at Ksh 75.18 per US dollar in the week ending October 2, 2009 compared with Ksh 74.70 per US dollar in the previous week mainly due to demand from corporate activities. The shilling also depreciated against the Japanese Yen to exchange at Ksh 83.73 per 100 Japanese Yen in the week ending October 2, 2009 compared with Ksh 82.17 per 100 Japanese Yen in the previous week. The shilling strengthened against the Euro and the Sterling Pound to trade at Ksh 119.90 per Sterling Pound and Ksh 109.36 per Euro in the week ending October 2, 2009 compared with Ksh 121.65 per Sterling Pound and Ksh 110.22 per Euro, respectively, in the week ending September 25, 2009.

In the regional scene, the Kenya Shilling weakened marginally against the Uganda Shilling and strengthened marginally against the Tanzania Shilling to exchange at Ush 25.67 per Kenya Shilling and Tsh 17.46 per Kenya Shilling in the week ending October 2, 2009 compared with Ush 25.71 per Kenya Shilling and Tsh 17.40 per Kenya Shilling in the previous week respectively (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
22-Sep-09	74.83	121.96	110.30	81.81	25.73	17.39
23-Sep-09	74.74	122.69	110.74	82.35	25.72	17.43
24-Sep-09	74.74	122.46	110.30	82.36	25.66	17.29
25-Sep-09	74.50	119.51	109.53	82.16	25.74	17.48
Sep 22- Sep 25, 2009	74.70	121.65	110.22	82.17	25.71	17.40
28-Sep-09	75.12	119.32	109.89	83.98	25.80	17.42
29-Sep-09	75.45	120.32	110.43	83.84	25.71	17.44
30-Sep-09	75.00	120.29	109.69	83.37	25.60	17.54
01-Oct-09	74.82	119.38	109.03	83.17	25.70	17.52
02-Oct-09	75.51	120.17	107.77	84.30	25.56	17.36
Sep 28- Oct 2, 2009	75.18	119.90	109.36	83.73	25.67	17.46

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,226 million (equivalent to 3.65 months of imports) as at October 2, 2009, compared with US \$ 3,086 million (equivalent to 4.06 months of imports) as at October 2, 2008 (Table 4). The decline in import cover reflects a higher import bill in the past year.

Foreign exchange reserves held by the commercial banks, predominantly used by the private sector to meet external financial obligations declined from US\$ 2,023 million at the end of August 2008 to US\$ 1,534 million at end of August 2009.

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

	02-Oct-08	31-Mar-09	30-Apr-09	29-May-09	26-Jun-09	31-Jul-09	31-Aug-09	04-Sep-09	02-Oct-09
Usable Reserves	3,086	2,620	2,608	2,789	3,086	3,097	3,154	3,166	3,226
Months of Imports Cover*	4.06	3.13	3.11	3.22	3.56	3.52	3.54	3.58	3.65
Months of Imports Cover**	3.68	2.61	2.59	2.80	3.10	3.12	3.18	3.19	3.25

*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 money market was liquid in the week ending September 30, 2009 following an increase in government spending, which boosted liquidity from the market. As shown in Table 5, the Central Bank injected a total of Ksh 1.0 billion during the week. Reverse repos of Ksh 5.2 billion matured during the week ending September 30, 2009. Reserve money averaged Ksh 160.6 billion in the week and was below target by Ksh 4.1 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
24-Sep	155.2	164.7	-9.5	1.0	1.0	0.0	157.3	-7.4	-2.2	-5.2
25-Sep	157.9	164.7	-6.9	0.0	0.0	0.0	158.4	-6.4	-0.9	-5.4
28-Sep	161.0	164.7	-3.7	0.0	0.0	0.0	161.5	-3.3	3.3	-6.5
29-Sep	161.4	164.7	-3.3	0.0	0.0	0.0	162.0	-2.8	4.2	-7.0
30-Sep	163.4	164.7	-1.3	0.0	0.0	0.0	164.0	-0.7	5.8	-6.5
Average	159.8	164.7	-5.0	0.2	0.2	0.0	160.6	-4.1	2.0	-6.1

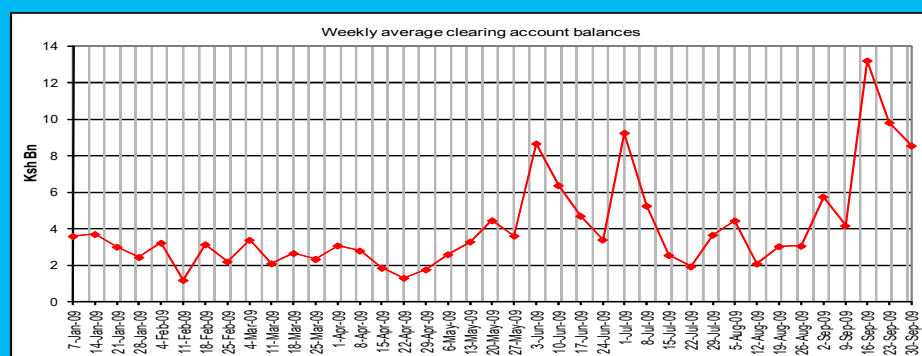
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 8.5 billion in their clearing accounts at the Central Bank in the week to September 30, 2009, compared with Ksh 9.8 billion held in the previous week (Chart 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 39.9 billion, from Ksh 518.3 billion in June 2009 to Ksh 558.2 billion as at September 25, 2009 (Table 6 and Chart D). This was attributed to increases of Ksh 4.9 billion in Treasury bills excluding repos, Ksh 25.3 billion in Treasury bonds and Ksh 10.9 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 121.7 billion as at September 25, 2009, Treasury bonds increased from Ksh 360.7 billion to Ksh 386.1 billion while the overdraft at the CBK increased from Ksh 5.1 billion to Ksh 16.0 billion. However, other domestic debt decreased from Ksh 34.9 billion to Ksh 33.7 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 increased from 75.4 percent in June 2009 to 75.9 percent as at September 25, 2009 while Treasury bills holdings decreased from 24.4 percent to 23.9 percent during the period. As a result, the maturity profile of Government securities stood at 3 years and 9 months.

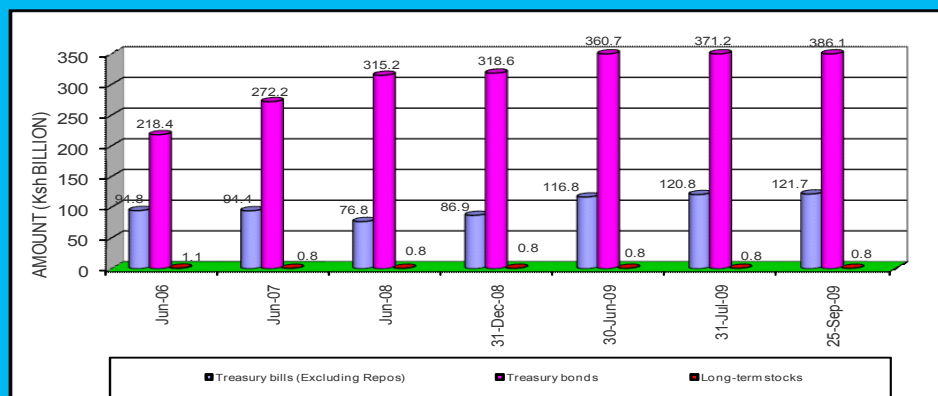
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	27th Mar 09	30th June 09	18th Sep 2009	25th Sep 2009	Changes 18th Sep-09 -25th Sep-09	30th Jun-09 -25th Sep-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	86.9 21.4	97.9 22.6	116.8 24.4	121.5 24.3	121.7 23.9	0.2 -0.3	4.9 -0.5
2. Treasury Bonds (As % of total securities)	315.2 80.2	318.6 78.4	334.4 77.2	360.7 75.4	378.5 75.6	386.1 75.9	7.6 0.3	25.3 0.5
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 0.1	0.0 0.0	0.0 0.0
4. Total Securities (1+2+3)	392.8	406.3	433.1	478.3	500.8	508.5	7.8	30.3
5. Overdraft at Central Bank	0.0	15.1	5.5	5.1	9.9	16.0	6.1	10.9
6. Other Domestic debt*	37.8	34.9	35.4	34.9	36.6	33.7	-2.9	-1.3
7. Gross Domestic Debt (4+5+6)	430.6	456.2	474.0	518.3	547.2	558.2	11.0	39.9
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	33.5	45.9	10.0	13.2	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

Chart D: Composition of Government Securities

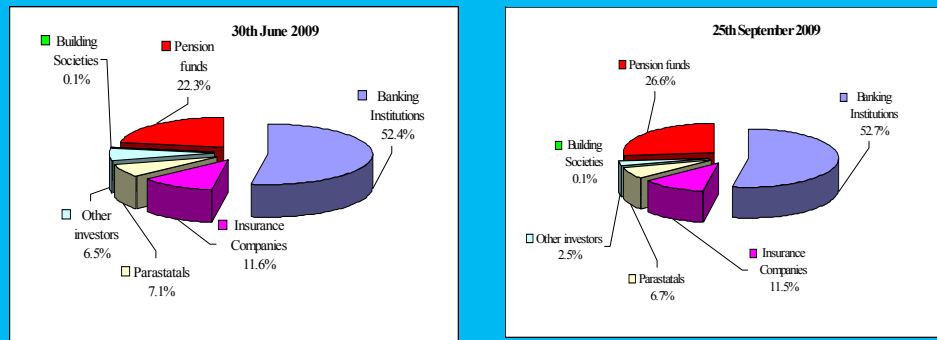


Source: Central Bank of Kenya

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 26.6 percent and 52.7 percent as at September 25, 2009. On the other hand, holdings of insurance companies, parastatals and other investors decreased from 11.6 percent, 7.1 percent and 6.5 percent, respectively, in June 2009 to 11.5 percent, 6.7 percent and 2.5 percent during the same period. Holdings of building societies however remained unchanged at 0.1 percent (Chart E).

Chart E: Composition of Government Securities by Investor

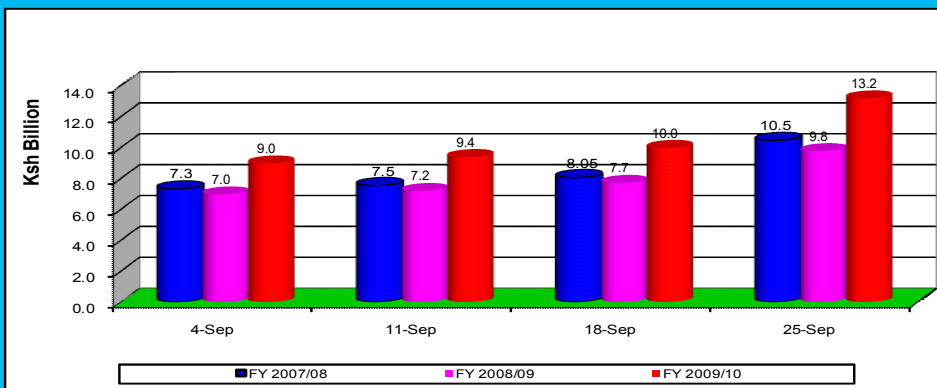


Source: Central Bank of Kenya

Cost of Domestic Borrowing

From July 1, 2009 to September 25, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 13.18 billion as shown in Chart F. The interest cost on domestic debt during the period comprised Ksh 9.9 billion in interest and other charges on Treasury Bonds, Ksh 3.27 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 a mixed performance at the equities market during the week ending October 1, 2009. Equity turnover increased by 11.9 percent as stocks worth Ksh 1,143.2 million were traded compared with Ksh 1,021.3 million traded in the previous week. The number of shares traded increased, from 59.8 million in the previous week to 60.1 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth declined by 1.8 percent or Ksh 14.1 billion to close at Ksh 775.2 billion in the week under review from Ksh 789.3 billion in the previous week. The NSE 20 Share Index lost 18.4 points to settle at 3022.3 points on October 1, 2009 from 3040.7 points on September 24, 2009. The Nairobi All Share Index lost 1.1 points to settle at 67.0 points on October 1, 2009 (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	06-Aug-09	13-Aug-09	20-Aug-09	27-Aug-09	03-Sep-09	10-Sep-09	17-Sep-09	24-Sep-09	01-Oct-09
NASI 100= Jan 2008	71.81	71.12	69.40	67.53	69.42	67.87	68.15	68.14	67.04
NSE 20 Share Index 100=1966	3,237.20	3,255.19	3,183.71	3,099.92	3,188.87	3,090.31	3,064.42	3,040.69	3,022.33
Number of Deals	7,233	7,546	8,842	5,498	7,039	6,847	6,766	5,259	6,594
Total Shares Traded (millions)	68.72	58.16	80.50	58.42	52.96	34.36	64.06	59.79	60.07
Equity Turnover (Ksh. millions)	771.91	638.29	722.18	647.46	812.45	532.49	831.29	1,021.32	1,143.20
Market Capitalization (Ksh. Bn.)	831.60	823.64	803.69	782.26	804.13	786.22	789.42	789.29	775.20
Bonds Turnover (Ksh. millions)	828.35	1,302.80	1,073.00	2,721.80	1,760.40	4,391.10	1,445.90	1,621.70	2,339.50

* 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 35.5 million shares and accounted for 59 percent of total traded volume. Safaricom traded 33.1 million shares to be the most active stock in the sector. The Finance and Investment sector traded 15.3 million shares and accounted for 25 percent of total traded volume. Equity Bank and Kenya Commercial Bank traded 5.8 million and 5.1 million shares and were the most active counters in the sector. Industrial and Allied sector traded 9.0 million shares and accounted for 15 percent of traded volume. E.A Breweries and Mumias were the most active counters and traded 3.6 million and 2.4 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond market trading improved at the Fixed Income Securities Market during the week. Bond turnover increased as bonds worth Ksh 2.3 billion were traded compared with Ksh 1.6 billion traded in the previous week.