

**October 9, 2009**



## THE CBK WEEKLY BULLETIN

### Highlights for the Week

The Government securities market posted a performance of 165.98 percent during the 364-day Treasury bill auction of October 7, 2009 and a performance rate of 145.48 percent during the 91-day Treasury bills auction of October 8, 2009. The average 91-day Treasury bills rate was 7.248 percent while the average 364-day Treasury bills rate was 8.438 percent during this week's auction.

The average interbank rate continued its downward trend declining by 15 basis points in the week ending October 8, 2009 to 2.14 percent as compared with the previous week at 2.29 percent. The number of deals and volumes increased in the week ending October 8, 2009.

The Kenya Shilling weakened against all the major international currencies during the week ending October 9, 2009. Against the US dollar, the shilling depreciated to exchange at Ksh 75.28 per US dollar compared with Ksh 75.18 per US dollar in the previous week.

The Central Bank holdings of official usable foreign exchange reserves increased from US\$ 2,971 million (equivalent to 3.90 months of imports) as at October 9, 2008 to US\$ 3,243 million (equivalent to 3.60 months of imports) as at October 9, 2009

The Central Bank stayed out of the foreign exchange market during the week ending October 7, 2009.

The Government gross domestic debt increased by Ksh 32.2 billion, from Ksh 518.3 billion in June 2009 to Ksh 550.5 billion as at October 2, 2009. From July 1, 2009 to October 2, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 14.07 billion.

Performance at the equities market declined during the week. Equity turnover decreased by 46.2 percent, market capitalization declined by 1.8 percent while the NSE 20 Share Index lost 35.1 points to settle at 2987.2 points on October 8, 2009.

**Government Securities Auction**

In the second issue of the 364 days Treasury bills auction of October 7, 2009, the securities market posted a performance of 165.98 percent. The Government offered for sale Treasury bills worth Ksh 8.5 billion and received bids totalling Ksh 14.1 billion. The Government securities market also posted a performance rate of 145.48 percent during the 91-day Treasury bills auction of October 8, 2009. The Government offered for sale Treasury bills worth Ksh 4.5 billion and received bids totalling Ksh 6.5 billion.

During the 364-day Treasury bills auction, the Government accepted bids totalling Ksh 9.3 billion, of which Ksh 9.1 billion were in competitive bids while bids worth Ksh 5.3 billion in the 91-day Treasury bills auction were accepted. The proceeds of both auctions were adequate to cover the cost of rolling over Treasury bill during the week provided for additional borrowing.

**Treasury Bills and Bonds Rates**

The average 364-day Treasury bills rate declined by 27.4 basis points, from 8.712 percent in August 2009 to 8.438 percent during this week's auction while the average 91-day Treasury bills rate declined by 5.5 basis points, from 7.303 percent in the Treasury bills auction of the same security on September 24, 2009 to 7.248 percent during this week's auction (Table 1). Consequently, the 12-weeks moving average for the 91-day Treasury bills rate declined from 7.285 percent to 7.265 percent.

**Table 1 : Interest Rates**

Auction date	14-Aug-09	27-Aug-09	03-Sep-09	10-Sep-09	17-Sep-09	24-Sep-09	01-Oct-09	08-Oct-09
Average 91 day T. Bills	7.261	7.223		7.272		7.303		7.248
Average 364 day T. Bills	8.712							8.438
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**

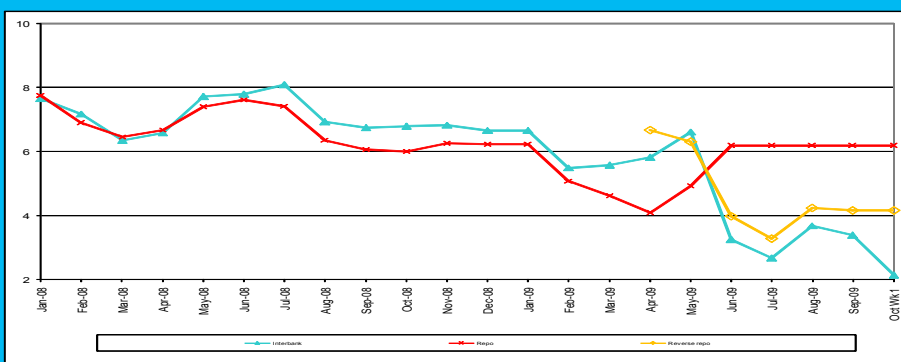
The average interbank rate continued on a downward trend falling by 15 basis points in the week ending October 8, 2009 to 2.14 percent as compared to the previous week's 2.29 percent. The number of deals and volumes increased from 462 to 469 and from Ksh 68,164 million to Ksh. 73,222 million respectively, during the week ending October 8, 2009 (Table 2 and Chart A).

**Table 2 Interbank Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
<b>Sep 25- Oct 1, 2009</b>	<b>462</b>	<b>68,164</b>	<b>2.29</b>
02-Oct-09	102	16,593	2.16
05-Oct-09	85	11,607	2.16
06-Oct-09	84	13,739	2.14
07-Oct-09	100	15,437	2.12
08-Oct-09	98	15,846	2.13
<b>Oct 2 - Oct 8, 2009</b>	<b>469</b>	<b>73,222</b>	<b>2.14</b>

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 major international currencies during the week ending October 9, 2009. Against the US dollar, the shilling depreciated to exchange at Ksh 75.28 per US dollar compared with Ksh 75.18 per US dollar in the week ending October 2, 2009, due mainly to increased end-month foreign exchange demand by the corporate sector. The shilling also depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange, respectively, at Ksh 120.20, Ksh 110.31 and Ksh 84.60 respectively, in the week ending October 9, 2009 compared with Ksh 119.90 per Sterling Pound, Ksh 109.36 per Euro and Ksh 83.73 per 100 Japanese Yen in the previous week.

In the regional scene, the Kenya Shilling weakened against both the Uganda Shilling and the Tanzania Shilling in the week ending October 9, 2009. It exchanged at Ush 25.46 per Kenya Shilling and Tsh 17.41 per Kenya Shilling compared with Ush 25.67 per Kenya Shilling and Tsh 17.46 per Kenya Shilling in the previous week (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
<b>Sep 28- Oct 2, 2009</b>	<b>75.18</b>	<b>119.90</b>	<b>109.36</b>	<b>83.73</b>	<b>25.67</b>	<b>17.46</b>
05-Oct-09	75.48	120.69	108.43	84.04	25.57	17.36
06-Oct-09	75.54	120.75	111.22	84.89	25.48	17.32
07-Oct-09	75.11	119.19	110.42	84.74	25.43	17.45
08-Oct-09	75.18	120.15	110.88	85.11	25.37	17.42
09-Oct-09	75.11	120.23	110.61	84.20	25.43	17.51
<b>Oct 5- 9, 2009</b>	<b>75.28</b>	<b>120.20</b>	<b>110.31</b>	<b>84.60</b>	<b>25.46</b>	<b>17.41</b>

Source: Central Bank of Kenya

## Foreign Exchange Reserves

The Central Bank holdings of official usable foreign exchange reserves increased from US\$ 2,971 million (equivalent to 3.90 months of imports) as at October 9, 2008 to US\$ 3,243 million (equivalent to 3.60 months of imports) as at October 9, 2009 (Table 4). The decline in import cover in comparison with similar period last year reflected increased import bill.

Commercial banks foreign exchange reserves, which are predominantly used by the private sector to meet external financial obligations, stood at US\$ 1,534 million as at end August 2009 compared with US\$ 2,023 million as at end August 2008.

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

	09-Oct-08	31-Mar-09	30-Apr-09	29-May-09	26-Jun-09	31-Jul-09	31-Aug-09	04-Sep-09	09-Oct-09
Usable Reserves	2,971	2,620	2,608	2,789	3,086	3,097	3,154	3,166	3,243
Months of Imports Cover*	3.90	3.13	3.11	3.22	3.56	3.52	3.54	3.58	3.60
Months of Imports Cover**	3.54	2.61	2.59	2.80	3.10	3.12	3.18	3.19	3.27

\*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 was liquid in the week ending October 7, 2009 following an increase in government spending, which boosted liquidity in the market. As shown in Table 5, the Central Bank stayed out of the market during the week. There were no Reverse repo maturities during the week ending October 7. Reserve money averaged Ksh 164.3 billion in the week and was below 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
01-Oct	164.5	165.2	-0.7	0.0	0.0	0.0	161.7	-3.5	4.1	-7.6
02-Oct	165.4	165.2	0.2	0.0	0.0	0.0	165.3	0.1	7.4	-7.3
05-Oct	164.9	165.2	-0.3	0.0	0.0	0.0	165.1	-0.2	5.5	-5.7
06-Oct	165.6	165.2	0.4	0.0	0.0	0.0	165.4	0.2	5.4	-5.2
07-Oct	163.7	165.2	-1.5	0.0	0.0	0.0	164.0	-1.2	2.0	-3.1
Average	164.8	165.2	-0.4	0.0	0.0	0.0	164.3	-0.9	4.9	-5.8

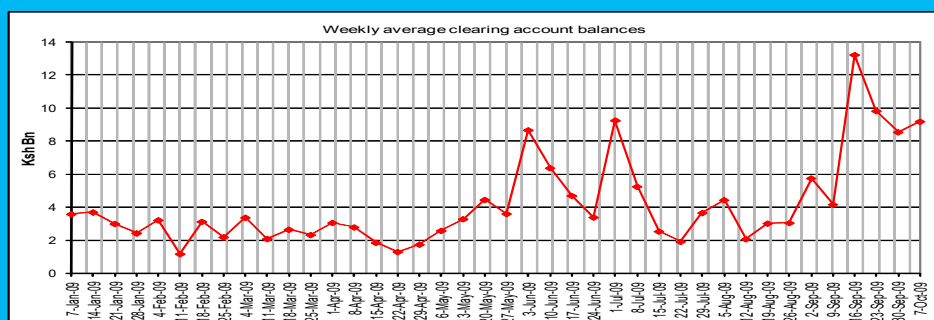
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

## Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 9.2 billion in their clearing accounts at the Central Bank in the week to October 7, 2009, compared with Ksh 8.5 billion held in the previous week (Charts B).

Chart B: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

**Government Domestic Debt**

The Government gross domestic debt increased by Ksh 32.2 billion, from Ksh 518.3 billion in June 2009 to Ksh 550.5 billion as at October 2, 2009 (Table 6 and Chart C). This was attributed to increases of Ksh 5.4 billion in Treasury bills excluding Repos, Ksh 25.3 billion in Treasury bonds and Ksh 2.9 billion in overdraft at the Central Bank of Kenya. However, the increase in gross domestic debt was offset by a decrease of Ksh 1.4 billion in other domestic debt.

Treasury bills (excluding Repos) increased from Ksh 116.8 billion in June 2009 to Ksh 122.2 billion as at October 2, 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 8.0 billion. However, other domestic debt decreased from Ksh 34.9 billion to Ksh 33.5 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 75.8 percent as at October 2, 2009 while Treasury bills holdings decreased from 24.4 percent to 24.0 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)

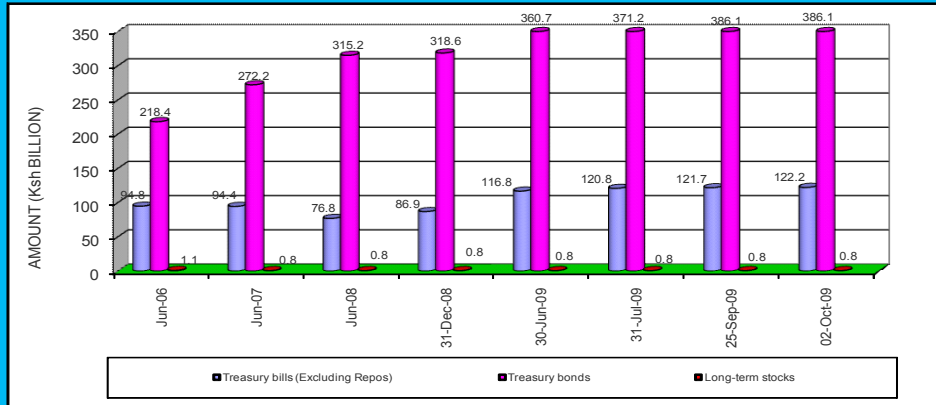
	Jun-08	31st Dec 08	27th Mar 09	30th June 09	25th Sep 2009	2nd Oct 2009	Changes 25th Sep-09 -2nd Oct-09	30th Jun-09 -2nd Oct-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	86.9 21.4	97.9 22.6	116.8 24.4	121.7 23.9	122.2 24.0	0.5 0.1	5.4 -0.4
2. Treasury Bonds (As % of total securities)	315.2 80.2	318.6 78.4	334.4 77.2	360.7 75.4	386.1 75.9	386.1 75.8	0.0 -0.1	25.3 0.4
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 0.1	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	508.5	509.0	0.5	30.7
5. Overdraft at Central Bank	0.0	15.1	5.5	5.1	16.0	8.0	-8.0	2.9
6. Other Domestic debt*	37.8	34.9	35.4	34.9	33.7	33.5	-0.2	-1.4
7. Gross Domestic Debt (4+5+6)	430.6	456.2	474.0	518.3	558.2	550.5	-7.7	32.2
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	33.5	45.9	13.2	14.1	0.9	

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

Source: Central Bank of Kenya

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**Chart C: Composition of Government Securities**

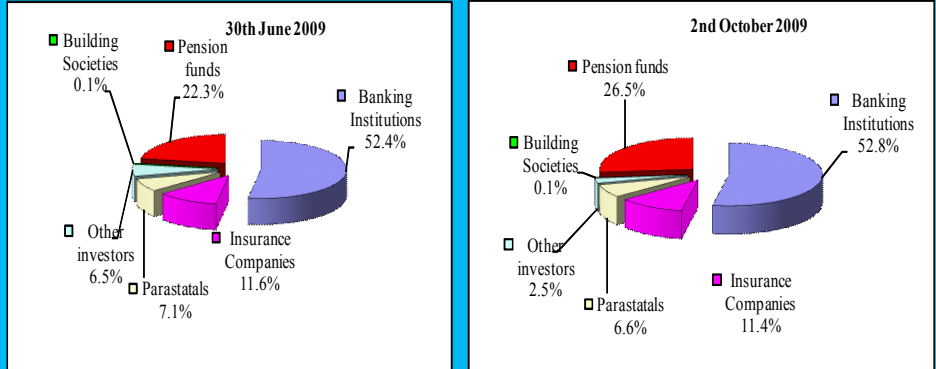


Source: Central Bank of Kenya

**Holding of Government Securities**

Pension funds and commercial banks' holdings of Government securities increased from 22.3 percent and 52.4 percent in June 2009 to 26.5 percent and 52.8 percent as at October 2, 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 11.4 percent, 6.6 percent and 2.5 percent during the same period. Holdings by building societies however remained unchanged at 0.1 percent (Chart D).

**Chart D: Composition of Government Securities by Investor**

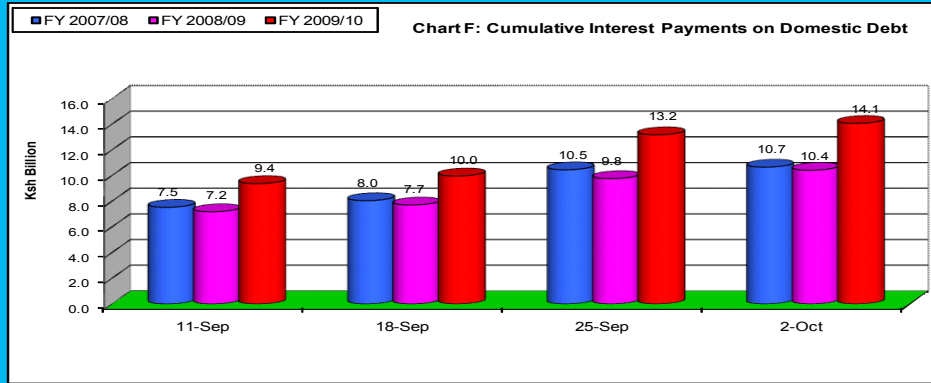


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

From July 1, 2009 to October 2, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 14.07 billion as shown in Chart E. The interest cost on domestic debt during the period comprised Ksh 10.58 billion in interest and other charges on Treasury Bonds, Ksh 3.48 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 E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

**The Stock Market**

There was a decline in performance at the equities market during the week ending October 8, 2009. Equity turnover decreased by 46.2 percent as stocks worth Ksh 615.5 million were traded compared with Ksh 1,143.2 million traded in the previous week. The number of shares traded decreased from 60.1 million in the previous week to 48.7 million shares in the week under review. Market capitalization as a measure of total shareholders wealth declined by 1.8 percent or Ksh 13.6 billion to close at Ksh 761.6 billion in the week under review, from Ksh 775.2 billion in the previous week. The NSE 20 Share Index lost 35.1 points to settle at 2987.2 points on October 8, 2009 from 3022.3 points on October 1, 2009. The Nairobi All Share Index lost 1.3 points to settle at 65.7 points on October 8, 2009 (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	13-Aug-09	20-Aug-09	27-Aug-09	03-Sep-09	10-Sep-09	17-Sep-09	24-Sep-09	01-Oct-09	08-Oct-09
NASI 100= Jan 2008	71.12	69.40	67.53	69.42	67.87	68.15	68.14	67.04	65.74
NSE 20 Share Index 100=1966	3,255.19	3,183.71	3,099.92	3,188.87	3,090.31	3,064.42	3,040.69	3,022.33	2,987.20
Number of Deals	7,546	8,842	5,498	7,039	6,847	6,766	5,259	6,594	6,025
Total Shares Traded (millions)	58.16	80.50	58.42	52.96	34.36	64.06	59.79	60.07	48.69
Equity Turnover (Ksh. millions)	638.29	722.18	647.46	812.45	532.49	831.29	1,021.32	1,143.20	615.51
Market Capitalization (Ksh. Bn.)	823.64	803.69	782.26	804.13	786.22	789.42	789.29	775.20	761.55
Bonds Turnover (Ksh. millions)	1,302.80	1,073.00	2,721.80	1,760.40	4,391.10	1,445.90	1,621.70	2,339.50	1,666.55

\* 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 32.6 million shares and accounted for 67 percent of total traded volume. Safaricom traded 31.3 million shares to be the most active stock in the sector. The Finance and Investment sector traded 10.6 million shares and accounted for 22 percent of total traded volume. Equity Bank and Co-operative Bank traded 6.3 million and 1.3 million shares and were the most active counters in the sector. Industrial and Allied sector traded 5.0 million shares and accounted for 10 percent of traded volume. Mumias and E.A Breweries were the most active counters and traded 1.7 million and 1.5 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 1.7 billion were traded compared with Ksh 2.3 billion traded in the previous week.