

October 23, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted a performance rate of 88.88 percent during the Treasury bonds auction of October 21, 2009 and 73.12 percent during the Treasury bills auction of October 22, 2009. The average 91-day Treasury bills rate was at 7.264 percent, while the average interest rate on the 15-year bond was 13.709 percent.

The average interbank rate increased by 44 basis points in the week ending October 22, 2009 to 2.75 percent as compared to the previous week at 2.31 percent.

The Kenya Shilling on average depicted mixed performance against all the major international currencies during the week ending October 23, 2009. Against the US dollar, the shilling appreciated to exchange at Ksh 75.19 in the week ending October 23, 2009 compared with KSh 75.27 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,292 million (equivalent to 3.65 months of imports) as at October 23, 2009 compared with US dollar 2,895 million (equivalent to 3.80 months of imports) as at October 23, 2008.

Central Bank's Open Market Operations injected Ksh 7.1 billion to commercial banks and redeemed maturing reverse repo securities worth Ksh 4.4 billion during the week ending October 21, 2009.

The Government gross domestic debt increased by Ksh 43.4 billion, from Ksh 518.3 billion in June 2009 to Ksh 561.8 billion as at October 16, 2009. From July 1, 2009 to October 16, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 14.83 billion.

Performance at the equities market improved during the week. Equity turnover increased by 197 percent, market capitalization improved by 1.2 percent, while the NSE 20 Share index gained 48.8 points to settle at 3,050.0 points on October 22, 2009.

Government Securities Auction

The Government securities market posted a performance rate of 88.88 percent during the Treasury bonds auction of October 21, 2009 and 73.12 percent during the Treasury bills auction of October 22, 2009. During the bonds auction, the Government issued a 15-year fixed coupon discounted Treasury bond at a coupon rate of 12.5 percent and received bids totalling Ksh 10.7 billion. The Government accepted bids totalling Ksh 8.7 billion which were adequate to cover redemptions of Ksh 5.6 billion and provide the Government additional borrowing of Ksh 3.1 billion.

During the bills auction, the Government had offered for sale Treasury bills worth Ksh 5.0 billion and received bids totalling Ksh 3.7 billion. The Government accepted bids totalling Ksh 3.5 billion of which Ksh 3.2 billion were in competitive bids. Proceeds of the auction were to be used to meet the cost of rolling over Treasury bills maturities amounting to Ksh 1.2 billion in the week and provide the Government additional borrowing of Ksh 2.3 billion.

Treasury Bills Rates

The average 91-day Treasury bills rate increased by 1.6 basis points from 7.248 percent in the previous week's auction of the same security to 7.264 percent during this week's auction (Table 1). However, the 12-weeks moving average for the 91-day Treasury bills rate declined from 7.265 percent to 7.251 percent during the week.

Table 1 : Interest Rates

Auction date	3-Sep-09	10-Sep-09	17-Sep-09	24-Sep-09	1-Oct-09	8-Oct-09	15-Oct-09	22-Oct-09
Average 91 day T. Bills		7.272		7.303		7.248		7.264
Average 182 day T. Bills	8.103		8.073		7.991		7.969	
Average 364 day T. Bills						8.438		
Month	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-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

Source: Central Bank of Kenya

Treasury Bonds Rates

The average interest rates on the 15-year Treasury bond increased by 17.9 basis points from 13.530 percent for a bond of a similar tenor issued in May 2009 to 13.709 percent during this week's auction.

Interbank and REPO Market

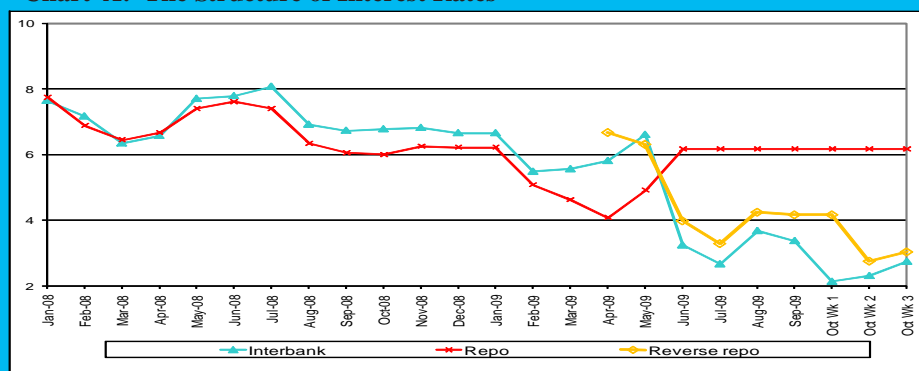
The average interbank rate increased by 44 basis points in the week ending October 20, 2009 to 2.75 percent as compared to the previous week at 2.31 percent. The number of deals and volumes declined from 434 and Ksh 71.3 billion, respectively, in the week to October 15, 2009 to 337 and Ksh 61.4 billion during the week (Table 2 and Chart A).

Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
Oct 2 - Oct 8, 2009	469	73,222	2.14
9-Oct-09	90	13,440	2.12
12-Oct-09	93	14,517	2.21
13-Oct-09	83	14,206	2.33
14-Oct-09	89	15,372	2.41
15-Oct-09	79	13,812	2.48
Oct 9 - Oct 15, 2009	434	71,347	2.31
16-Oct-09	81	15,357	2.58
19-Oct-09	87	14,498	2.61
21-Oct-09	88	15,546	2.85
22-Oct-09	81	16,028	2.94
Oct 16 - Oct 22, 2009	337	15,357	2.75

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling on average depicted mixed performance against the major international currencies during the week ending October 23, 2009 (Table 3). Against the US dollar and the Japanese Yen, the shilling appreciated to exchange at Ksh 75.19 and Ksh 82.47 in the week ending October 23, 2009 compared with Ksh 75.27 and Ksh 83.74 per US dollar and 100 Japanese Yen, respectively, in the previous week. The appreciation of the US dollar was mainly due to demand from the corporate activities. The shilling weakened against the Sterling Pound and the Euro to trade at Ksh 123.93 per Sterling Pound and Ksh 112.44 per Euro in the week ending October 23, 2009 compared with Ksh 120.38 per Sterling Pound, and Ksh 111.76 per Euro, respectively, in the week ending October 16, 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 25.04 per Kenya Shilling and Tsh 17.58 per Kenya Shilling in the week ending October 23, 2009 compared with Ush 25.41 per Kenya Shilling and Tsh 17.50 per Kenya Shilling in the previous week, respectively.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
12-Oct-09	75.12	118.91	110.46	83.23	25.41	17.50
13-Oct-09	75.39	118.82	111.36	83.74	25.60	17.48
14-Oct-09	75.41	120.48	112.27	84.77	25.43	17.47
15-Oct-09	75.19	120.93	112.52	84.16	25.40	17.52
16-Oct-09	75.22	122.76	112.22	82.79	25.23	17.56
Oct 12- 16, 2009	75.27	120.38	111.76	83.74	25.41	17.50
19-Oct-09	75.28	122.75	112.08	82.88	25.17	17.55
21-Oct-09	75.30	123.53	112.45	83.01	24.99	17.51
22-Oct-09	75.09	124.56	112.51	82.15	25.04	17.71
23-Oct-09	75.11	124.87	112.71	81.85	24.96	17.55
Oct 19- 23, 2009	75.19	123.93	112.44	82.47	25.04	17.58

Source: Central Bank of Kenya

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,292 million (equivalent to 3.65 months of imports) as at October 23, 2009, compared with US dollar 2,895 million (equivalent to 3.80 months of imports) as at October 23, 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\$ 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)

	23-Oct-08	30-Apr-09	29-May-09	26-Jun-09	31-Jul-09	31-Aug-09	30-Sep-09	23-Oct-09
Usable Reserves	2,895	2,608	2,789	3,086	3,097	3,154	3,243	3,292
Months of Imports Cover*	3.80	3.11	3.22	3.56	3.52	3.54	3.67	3.65
Months of Imports Cover**	3.45	2.59	2.80	3.10	3.12	3.18	3.27	3.32

*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

Liquidity in the money market continued to be tight in the week ending October 21, 2009 as reflected by injection of liquidity by Central Bank in the week. To ensure continued market stability, Central Bank provided liquidity amounting to Ksh 7.1 billion to commercial banks using the reverse repurchase agreement securities as shown in Table 5. During the week, maturing reverse repo securities amounted to Ksh 4.4 billion. Reserve money averaged Ksh 161.0 billion in the week and remained below target by Ksh 4.9 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
15-Oct	160.4	165.7	-5.3	0.0	0.0	0.0	160.5	-5.2	0.7	-5.9
16-Oct	165.1	165.7	-0.6	0.0	0.0	0.0	162.4	-3.2	3.0	-6.2
19-Oct	161.6	166.1	-4.6	0.0	0.0	0.0	160.2	-6.0	0.6	-6.6
21-Oct	153.3	166.1	-12.8	6.0	7.1	1.1	161.0	-5.2	0.9	-6.1
Average	160.1	165.9	-5.8	1.5	1.8	0.3	161.0	-4.9	1.3	-6.2

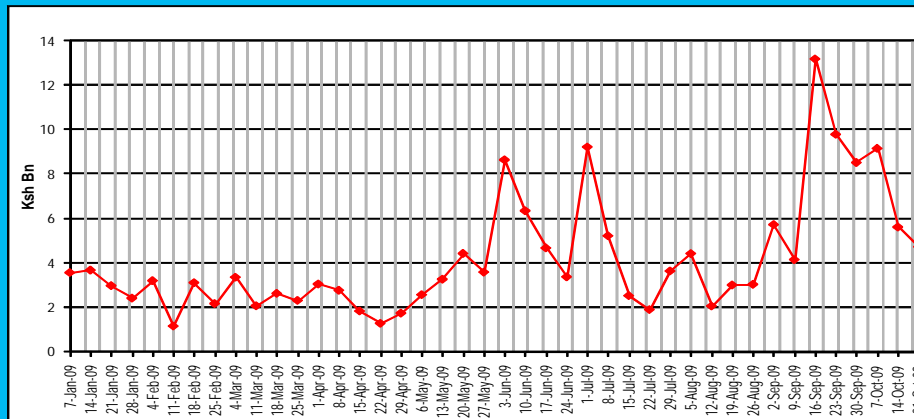
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Account
Balances**

Commercial banks maintained an average of Ksh 4.7 billion in their clearing accounts at the Central Bank in the week to October 21, 2009, compared with Ksh 5.6 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 43.4 billion, from Ksh 518.3 billion in June 2009 to Ksh 561.8 billion as at October 16, 2009 (Table 6 and Chart C). This was attributed to increases of Ksh 16.2 billion in Treasury bills excluding repos, Ksh 25.3 billion in Treasury bonds and Ksh 2.9 billion in overdraft at the Central Bank. However, the increase in gross domestic debt was offset by a decrease of Ksh 1.0 billion in other domestic debt.

Treasury bills (excluding Repos) increased from Ksh 116.8 billion in June 2009 to Ksh 133.0 billion as at October 16, 2009, Treasury bonds increased from Ksh 360.7 billion to Ksh 386.1 billion, while the overdraft at the Central Bank increased from Ksh 5.1 billion to Ksh 8.1 billion over the same period. However, other domestic debt decreased from Ksh 34.9 billion to Ksh 33.9 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 74.3 percent as at October 16, 2009, while Treasury bills holdings increased from 24.4 percent to 25.6 percent during the period. As a result, the maturity profile of Government securities stood at 3 years and 8 months.

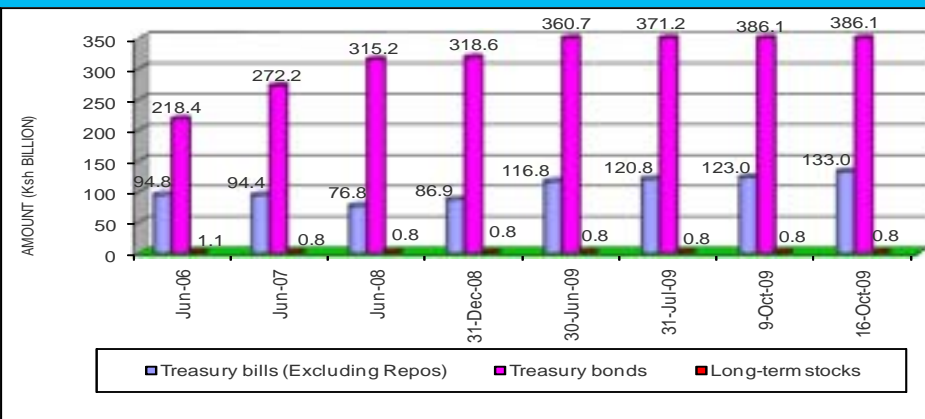
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	27th Mar 09	30th June 09	9th Oct 2009	16th Oct 2009	Changes 9th Oct-09 -16th Oct-09	30th Jun-09 - 16th 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	123.0 24.1	133.0 25.6	10.0 1.5	16.2 1.2
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 75.7	386.1 74.3	0.0 -1.5	25.3 -1.2
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	509.9	519.9	10.0	41.6
5. Overdraft at Central Bank	0.0	15.1	5.5	5.1	8.1	8.1	0.0	2.9
6. Other Domestic debt*	37.8	34.9	35.4	34.9	33.9	33.9	0.0	-1.0
7. Gross Domestic Debt (4+5+6)	430.6	456.2	474.0	518.3	551.8	561.8	10.0	43.4
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	33.5	45.9	14.4	14.8	0.4	

* 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

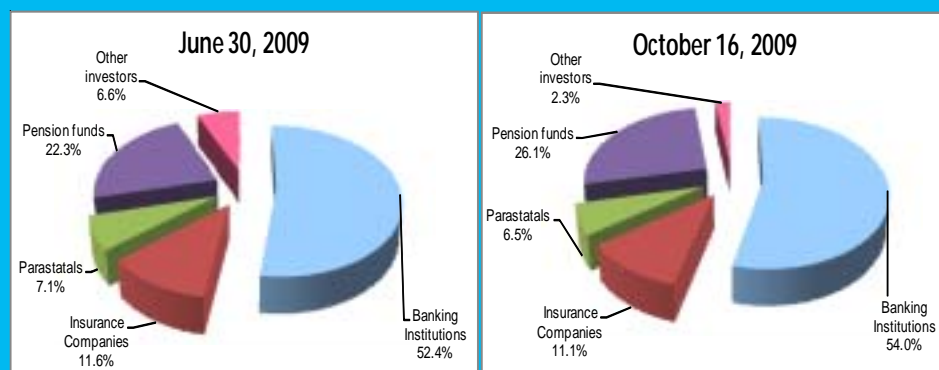


Source: Central Bank of Kenya

Holding of Government Securities

Government securities holdings by pension funds and commercial banks increased from 22.3 percent and 52.4 percent in June 2009 to 26.6 percent and 54.0 percent, respectively, as at October 16, 2009 (Chart D). 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 11.1 percent, 6.5 percent and 2.3 percent during the same period.

Chart D: Composition of Government Securities by Investor

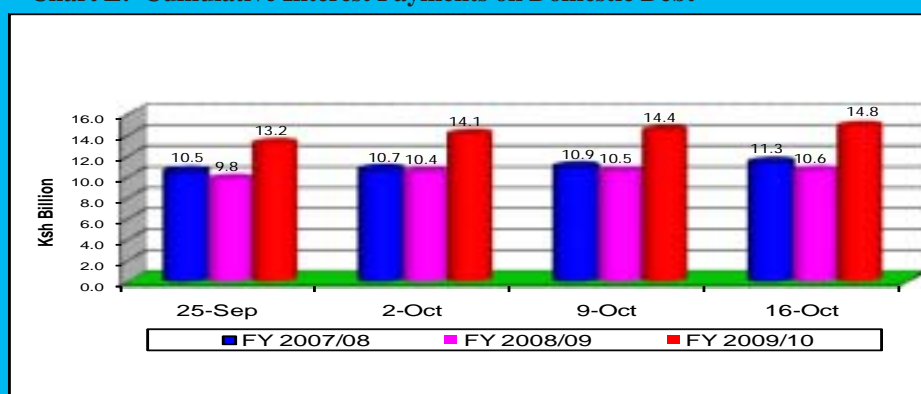


Source: Central Bank of Kenya

Cost of Domestic Borrowing

From July 1, 2009 to October 16, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 14.83 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 4.24 billion in interest and other charges on Treasury Bills and Ksh 0.01 billion in interest on Government overdraft at the Central Bank.

Chart E: 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 October 22, 2009. Equity turnover increased by 197 percent as stocks worth Ksh 1,656.1 million were traded compared with Ksh 557.1 million traded in the previous week. The increase in turnover could be attributed to Athi River Mining which moved over 10 million shares during the week. The number of shares traded decreased, from 64.3 million in the previous week to 62.7 million shares in the week under review. Market capitalization as a measure of total shareholders wealth improved by 1.2 percent or Ksh 9.4 billion to close at Ksh 775.8 billion in the week under review from Ksh 766.4 billion in the previous week. The NSE 20 Share index gained 48.8 points to settle at 3,050.0 points on October 22, 2009 from 3,001.2 points on October 15, 2009. The Nairobi All Share Index also gained 0.8 points to settle at 67.0 points on October 22, 2009 (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	27-Aug-09	3-Sep-09	10-Sep-09	17-Sep-09	24-Sep-09	1-Oct-09	8-Oct-09	15-Oct-09	22-Oct-09
NASI 100=Jan 2008	67.53	69.42	67.87	68.15	68.14	67.04	65.74	66.16	66.97
NSE 20 Share Index 100=1966	3,099.92	3,188.87	3,090.31	3,064.42	3,040.69	3,022.33	2,987.20	3,001.21	3,049.99
Number of Deals	5,498	7,039	6,847	6,766	5,259	6,594	6,025	5,878	4,861
Total Shares Traded (millions)	58.42	52.96	34.36	64.06	59.79	60.07	48.69	64.34	62.65
Equity Turnover (Ksh. millions)	647.46	812.45	532.49	831.29	1,021.32	1,143.20	615.51	557.06	1,656.08
Market Capitalization (Ksh. Bn.)	782.26	804.13	786.22	789.42	789.29	775.20	761.55	766.41	775.81
Bonds Turnover (Ksh. millions)	2,721.80	1,760.40	4,391.10	1,445.90	1,621.70	2,339.50	1,666.55	3,256.75	1,238.30

* 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 28.0 million shares and accounted for 45 percent of total traded volume. Safaricom traded 26.5 million shares to be the most active stock in the sector. The Finance and Investment sector traded 17.7 million shares and accounted for 28 percent of total traded volume. Equity Bank and Kenya Commercial Bank traded 11.8 million and 2.7 million shares and were the most active counters in the sector. Industrial and Allied sector traded 16.8 million shares and accounted for 27 percent of traded volume. Athi River Mining and KenGen were the most active counters and traded 10.4 million and 3.0 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 1.2 billion were traded compared with Ksh 3.3 billion traded in the previous week.