

September 04, 2009



THE CBK WEEKLY BULLETIN

Highlights for the Week

The overall 12-month inflation for August 2009 increased gradually for the second consecutive month to 18.44 percent from 17.79 percent in July 2009 and 17.76 percent in June 2009 while the underlying 12-month inflation persisted on a downward trend for the fourth consecutive month to stand at 7.32 percent in August 2009 from 7.90 percent in July 2009.

The Government securities market posted a 162.87 percent performance rate during the 182-day Treasury bills auction of September 3, 2009. The average 182-day Treasury bills rate was 8.10 percent during this week's auction.

The average interbank rate increased by 13 basis points in the week ending Sep 3, 2009 to 4.14 percent as compared with the previous week at 4.01 percent. The number of deals and value increased in the week ending September 3, 2009.

The Kenya Shilling depreciated against the US dollar and the Japanese Yen but appreciated against the Sterling Pound and the Euro in the week ending September 4, 2009. Against the US dollar, the shilling depreciated to exchange at Ksh 76.30 per US dollar compared with Ksh 76.26 per US dollar in the previous week.

The Central Bank holdings of official usable foreign exchange reserves amounted to US\$ 3,166 million (equivalent to 3.58 months of imports) as at September 4, 2009 compared with US dollar 3,086 million (equivalent to 4.06 months of imports) in similar period in 2008.

Central Bank's Open Market Operations injected Ksh 1.0 billion to commercial banks during the week ending September 2, 2009.

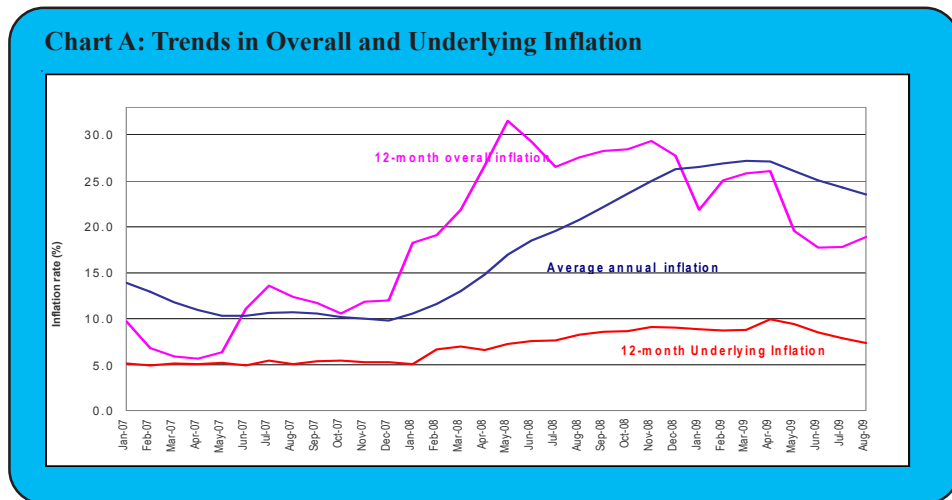
The Government gross domestic debt increased by Ksh 30.3 billion, from Ksh 518.3 billion in June 2009 to Ksh 548.6 billion as at August 28, 2009. From July 1, 2009 to August 28, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 9.8 billion.

Performance at the equities market improved during the week. Equity turnover increased by 25.5 percent, market capitalization improved by 2.8 percent while the NSE 20 Share index gained 89.0 points to settle at 3188.9 points on September 3, 2009.

Inflation

12 month inflation increased marginally from 17.8 percent in July 2009 to 18.4 percent in August 2009, reversing the downward trend experienced since the beginning of the second quarter of 2009. This was mainly attributed to inflationary pressure arising from increasing food and fuel prices. Prices of seasonal foods such as sukuma wiki, tomatoes and cabbages went up because of the current drought, pushing the food and non-alcoholic drinks CPI up by 1.4 percent from 471.8 to 478.3 points. Fuel and power CPI also increased as a result of increased electricity costs occasioned by the current drought. 12 month inflation for all categories except food and non-alcoholic drinks declined in August 2009 compared to July 2009, with that for fuel and energy category falling to -9.7 percent .

The 12-month underlying inflation, which excludes food, transport and energy components continued with its gradual decline since May 2009, to reach 7.3 percent in August 2009 from 7.9 percent in July 2009.



Government Securities Auction

The Government securities market posted a 162.87 percent performance rate during the 182-day Treasury bills auction of September 3, 2009. The Government offered for sale Treasury bills worth Ksh 7.0 billion and received bids totalling Ksh 11.4 billion.

The Government accepted Treasury bills bids totalling Ksh 9.3 billion, of which Ksh 8.4 billion or 90.6 percent were in competitive bids. The proceeds of the auction were to cover the cost of rolling over Treasury bills maturities amounting to Ksh 8.5 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 1.8 basis points, from 8.121 percent in the previous auction of the same security to 8.103 percent during this week's auction (Table 1). Consequently, the 12-weeks moving average for the 182-day Treasury bills rate declined from 8.361 percent to 8.313 percent.

Table 1 : Interest Rates

Auction date	23-Jul-09	30-Jul-09	06-Aug-09	13-Aug-09	20-Aug-09	27-Aug-09	03-Sep-09
Average 182 day T. Bills	8.151		8.126		8.121		8.103
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

Source: Central Bank of Kenya

Interbank and REPO Market

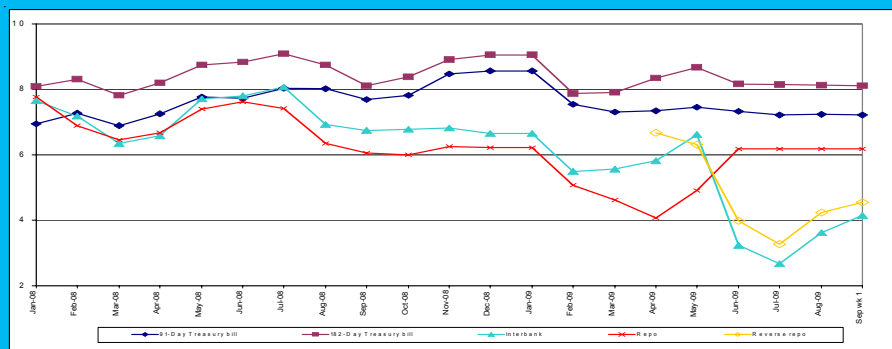
The average interbank rate increased by 13 basis points in the week ending Sep 03, 2009 to 4.14 percent as compared to the previous week at 4.01 percent. The number of deals and value increased from 385 to 508 and from Ksh 48,861 to Ksh. 84,300 respectively during the week ending Sep 03, 2009 (Table 2).

Table 2 Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
21-Aug-09	102	12,271	3.87
24-Aug-09	104	11,823	3.96
26-Aug-09	91	11,906	4.08
27-Aug-09	88	12,861	4.13
Aug 21 - Aug 27, 2009	385	48,861	4.01
28-Aug-09	77	10,490	4.15
31-Aug-09	106	17,700	4.17
01-Sep-09	106	16,213	4.12
02-Sep-09	111	18,692	4.11
03-Sep-09	108	21,205	4.16
Aug 28 - Sep 03, 2009	508	84,300	4.14

Source: Central Bank of Kenya

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling recorded mixed performance against the major international currencies during the week ending September 4, 2009. It depreciated against the US dollar and the Japanese Yen but appreciated against the Sterling Pound and the Euro. Against the US dollar, the shilling depreciated to exchange at Ksh 76.30 per US dollar in the week ending September 4, 2009 compared with Ksh 76.26 per US dollar in the week ending August 28, 2009 due mainly to increased interbank activities. The shilling also depreciated against the Japanese Yen to exchange at Ksh 82.26 per 100 Japanese in the week ending September 4, 2009 compared with Ksh 80.99 per 100 Japanese Yen in the previous week. Against the Sterling Pound and the Euro, the Shilling appreciated to exchange at an average of Ksh 124.05 per Sterling Pound and Ksh 108.92 per Euro, respectively in the week ending September 4, 2009 compared with Ksh 124.55 per Sterling Pound and Ksh 109.06 per Euro in the week ending August 28, 2009. In the international market, the US dollar remained stable against both the Sterling Pound and the Euro but weakened against the Japanese Yen in the week ending September 4, 2009.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
24-Aug-09	76.29	125.74	109.27	80.34	27.10	17.24
26-Aug-09	76.28	124.67	109.20	80.97	27.01	17.22
27-Aug-09	76.26	123.73	108.44	81.37	27.05	17.24
28-Aug-09	76.23	124.07	109.35	81.28	26.96	17.25
Aug 24- 28, 2009	76.26	124.55	109.06	80.99	27.03	17.24
31-Aug-09	76.23	123.45	108.71	82.18	26.96	17.28
01-Sep-09	76.26	124.35	109.48	81.96	26.95	17.28
02-Sep-09	76.24	123.32	108.54	82.03	26.96	17.28
03-Sep-09	76.43	124.50	109.21	82.80	26.59	17.21
04-Sep-09	76.34	124.64	108.65	82.36	26.13	17.18
Aug 31- Sep 4, 2009	76.30	124.05	108.92	82.26	26.72	17.25

Source: Central Bank of Kenya

In the regional scene, the Kenya Shilling depreciated against the Uganda Shilling in the week ending September 4, 2009 to exchange at Ush 26.72 per Kenya Shilling compared with Ush 27.03 per Kenya Shilling in the previous week. It however, remained stable against the Tanzanian shilling to trade at Tsh 17.25 per Kenya Shilling.

Foreign Exchange Reserves

The Central Bank holdings of official usable foreign exchange reserves amounted to US\$ 3,166 million (equivalent to 3.58 months of imports) as at September 4, 2009 (equivalent to 4.06 months of imports) as at September 4, 2008 (Table 3). The decline in import cover in comparison with similar period last year reflected increased import bill.

Foreign exchange reserves held by the commercial banks decreased from US\$ 2,177 million as at end July 2008 to US\$ 1,614 million as at end July

2009. Commercial bank foreign exchange reserves are predominantly used by the private sector to meet external financial obligations.

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

	04-Sep08	31-Dec-08	31-Mar-09	30-Apr-09	29-May-09	26-Jun-09	31-Jul-09	31-Aug-09	04-Sep-09
Usable Reserves	3,086	2,768	2,620	2,608	2,789	3,086	3,097	3,154	3,166
Months of Imports Cover*	4.06	3.35	3.13	3.11	3.22	3.56	3.52	3.54	3.58
Months of Imports Cover**	3.35	2.77	2.61	2.59	2.80	3.10	3.12	3.18	3.19

*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 liquidity improved in the week ending September 2, 2009 following enhanced government spending. As shown in Table 5, Central Bank provided liquidity amounting to Ksh 1.0 billion to commercial banks using the reverse repurchase agreement securities. During the week, maturing reverse repo securities was Ksh 15.0 billion. Reserve money averaged Ksh 158.5 billion in the week and remained below target by Ksh 5.1 billion.

Table 5: Open Market Operations (Ksh Billion)

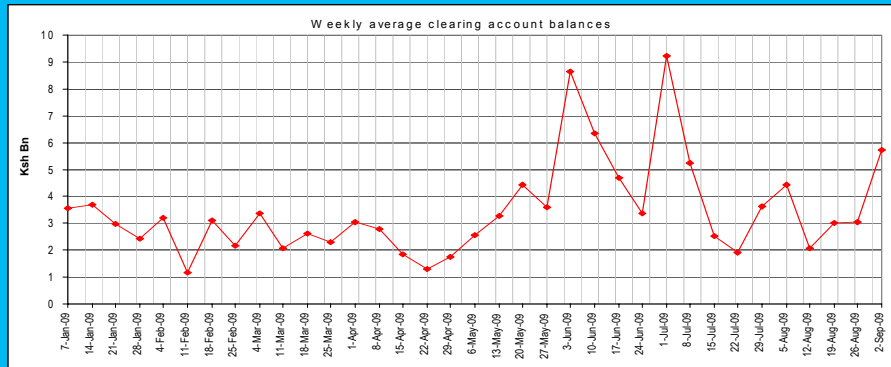
Date	Reserve Money* (Projected)			OMO (Reverse REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Injected	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
27-Aug	154.7	162.9	-8.2	1.0	1.0	0.0	156.1	-6.7	0.4	-7.2
28-Aug	160.1	162.9	-2.8	0.0	0.0	0.0	161.0	-1.9	5.8	-7.7
31-Aug	156.8	162.9	-6.1	0.0	0.0	0.0	157.2	-5.7	2.4	-8.1
01-Sep	160.8	164.7	-3.9	0.0	0.0	0.0	161.5	-3.2	4.4	-7.6
02-Sep	157.3	164.7	-7.4	0.0	0.0	0.0	156.8	-7.9	-1.0	-7.0
Average	158.0	163.6	-5.7	0.2	0.2	0.0	158.5	-5.1	2.4	-7.5

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 5.7 billion in their clearing accounts at the Central Bank in the week to September 2, 2009, compared with Ksh 3.0 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 30.3 billion, from Ksh 518.3 billion in June 2009 to Ksh 548.6 billion as at August 28, 2009 (Table 6 and Chart D). This was attributed to increases of Ksh 12.6 billion in Treasury bills excluding repos, Ksh 17.7 billion in Treasury bonds and Ksh 1.0 billion in overdraft at the Central Bank of Kenya. However, the increase was partly offset by decreases of Ksh 1.1 billion in other domestic debt.

Treasury bills (excluding Repos) increased from Ksh 116.8 billion in June 2009 to Ksh 129.4 billion as at August 28, 2009, Treasury bonds increased from Ksh 360.7 billion to Ksh 378.5 billion while the overdraft at the CBK increased from Ksh 5.1 billion to Ksh 6.1 billion during the period. Other domestic debt decreased from Ksh 34.9 billion to Ksh 33.8 billion. 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 August 28, 2009 while Treasury bills holdings increased from 24.4 percent to 25.4 percent during the period. As a result, the maturity profile of Government securities decreased from 3 years and 9 months to 3 years and 8 months during the period.

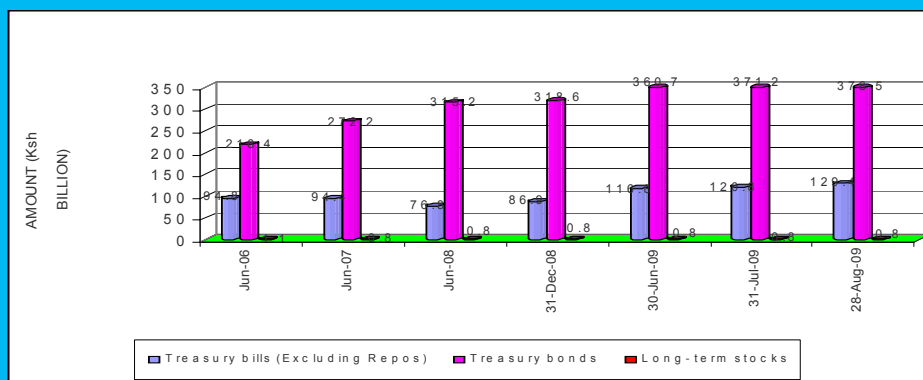
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-08	31st Dec 08	27th Mar 09	30th June 09	14th Aug 2009	21st Aug 2009	28th Aug 2009	Changes 21st Aug-09 - 28th Aug-09	30th Jun-09 - 28th Aug-09
1. Treasury Bills (Excluding Repos)	76.8	86.9	97.9	116.8	122.0	127.6	129.4	1.8	12.6
(As % of total securities)	19.6	21.4	22.6	24.4	24.7	25.5	25.4	-0.1	1.0
2. Treasury Bonds	315.2	318.6	334.4	360.7	371.2	371.2	378.5	7.3	17.7
(As % of total securities)	80.2	78.4	77.2	75.4	75.1	74.3	74.4	0.1	-1.0
3. Long Term Stocks	0.8	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	0.2	0.2	0.1	0.0	0.0
4. Total Securities (1+2+3)	392.8	406.3	433.1	478.3	494.0	499.6	508.7	9.1	30.4
5. Overdraft at Central Bank	0.0	15.1	5.5	5.1	0.0	0.5	6.1	5.7	1.0
6. Other Domestic debt [†]	37.8	34.9	35.4	34.9	33.3	34.2	33.8	-0.4	-1.1
7. Gross Domestic Debt (4+5+6)	430.6	456.2	474.0	518.3	527.3	534.3	548.6	14.3	30.3
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	33.5	45.9	5.1	5.9	9.8	3.9	

[†] Other domestic debt includes Pre-1997 Government Overdraft, clearing items in transit, advances from commercial banks and TRCs.

Source: Central Bank of Kenya

Chart E: Composition of Government Securities

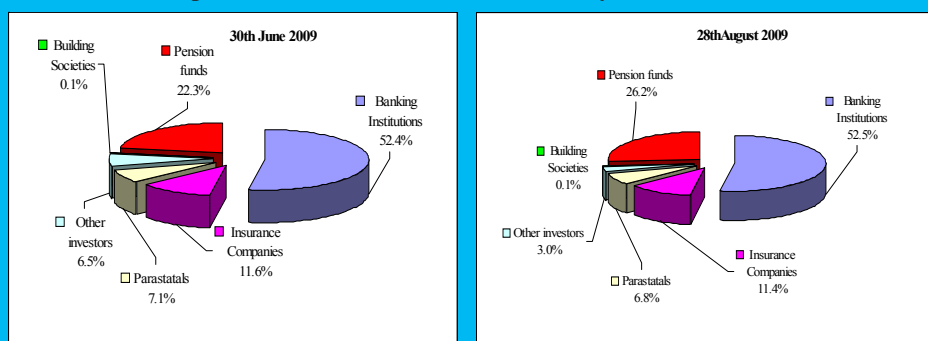


Source: Central Bank of Kenya

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 26.2 percent and 52.5 percent in August 28, 2009 respectively. On the other hand, holdings of insurance companies, parastatals and other investors decreased from 11.6 percent, 7.1 percent and 6.5 percent in June 2009 to 11.4 percent, 6.8 percent and 3.0 percent during the same period. Holdings of building societies however remained unchanged at 0.1 percent (Chart F).

Chart F: Composition of Government Securities by Investor

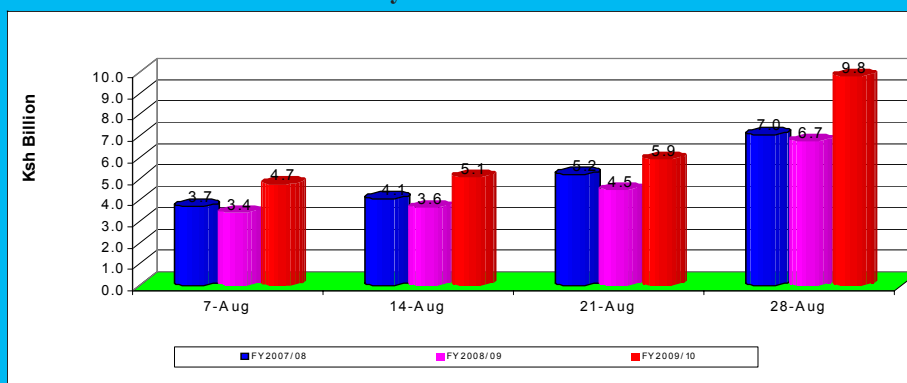


Source: Central Bank of Kenya

Cost of Domestic Borrowing

From July 1, 2009 to August 28, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 9.8 billion as shown in Chart G. The interest cost on domestic debt during the period comprised Ksh 7.9 billion in interest and other charges on Treasury Bonds and Ksh 1.9 billion in interest and other charges on Treasury Bills.

Chart G: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

Performance at the equities market improved during the week ending September 3, 2009. Equity turnover increased by 25.5 percent as stocks worth Ksh 812.4 million were traded compared with Ksh 647.5 million traded in the previous week. The number of shares traded decreased, from 58.4 million in the previous week to 53.0 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth improved by 2.8 percent or Ksh 21.8 billion to close at Ksh 804.1 billion in the week under review from Ksh 782.3 billion in the previous week. The NSE 20 Share index gained 89.0 points to settle at 3188.9 points on September 3, 2009 from 3099.9 points on August 27, 2009. The Nairobi All Share Index gained 1.9 points to settle at 69.4 points on September 3, 2009. (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	09-Jul-09	16-Jul-09	23-Jul-09	30-Jul-09	06-Aug-09	13-Aug-09	20-Aug-09	27-Aug-09	03-Sep-09
NASI 100=Jan 2008	71.85	71.15	71.79	70.99	71.81	71.12	69.40	67.53	69.42
NSE 20 Share Index	3,312.64	3,256.75	3,317.62	3,246.09	3,237.20	3,255.19	3,183.71	3,099.92	3,188.87
Number of Deals	10,026	8,926	8,196	8,410	7,233	7,546	8,842	5,498	7,039
Total Shares Traded	76.43	60.76	52.61	59.02	68.72	58.16	80.50	58.42	52.96
Equity Turnover (Ksh)	826.83	573.02	633.49	687.17	771.91	638.29	722.18	647.46	812.45
Market Capitalization (Ksh)	832.05	824.02	831.36	822.15	831.60	823.64	803.69	782.26	804.13
Bonds Turnover (Ksh)	1,712.55	1,807.90	1,087.15	1,375.00	828.35	1,302.80	1,073.00	2,721.80	1,760.40

* 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 32.1 million shares and accounted for 61 percent of total traded volume. Safaricom traded 19.7 million shares to be the most active stock in the sector. The Finance and Investment sector traded 14.1 million shares and accounted for 27 percent of total traded volume. Equity Bank and Co-operative Bank traded 5.5 million and 3.2 million shares and were the most active counters in the sector. Industrial and Allied sector traded 6.2 million shares and accounted for 12 percent of traded volume. Mumias and E.A Breweries were the most

active counters and traded 4.5 million and 0.5 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 1.8 billion were traded compared with Ksh 2.7 billion traded in the previous week.