

April 1, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The overall 12-month inflation declined to 4.0 percent in March 2010, from 5.2 percent in February 2010. The decline in inflation resulted from a fall in the indices of food and non alcoholic drinks, tobacco and narcotic recreation and culture and communications.

The Government securities market posted an oversubscription of 95.5 percent during this week's auction. The Government had offered for sale Treasury bills amounting to Ksh 8.0 billion, received bids amounting to Ksh 15.6 billion and accepted bids amounting to ksh 10.2 billion. The cut of rate of 182-day Treasury bill declined by 35.8 basis points.

The average interbank declined slightly by 17 basis points to 2.06 percent in the week ending March 31, 2010 from 2.23 percent in the previous week.

The Kenya Shilling depreciated against major international currencies during the week ending April 1, 2010 (Table 4). Against the US dollar, Sterling Pound and Euro, the shilling traded at Ksh 77.31, Ksh 116.46 and Ksh 104.09 respectively.

Gross official foreign exchange reserves held by the Central Bank stood at US\$ 3.22 billion (equivalent to 3.43 months of imports) as at April 1, 2010, compared with US\$ 3.31 billion (equivalent to 3.62 months of imports) as at December 31, 2009. The decline reflect the combined effect of reduced purchases of foreign exchange and allocation for official payments including external debt service.

Central Bank injected a total of Ksh 10.5 billion market during the week ending March 31, 2010. There were repo maturities of Ksh 7.9 billion.

Government gross domestic debt increased by Ksh 98.8 billion from Ksh 518.3 billion in June 2009 to Ksh 617.1 billion as at March 26, 2010. The cumulative Government expenditure on interest and other charges on domestic debt for FY 2009/2010 to March 26, 2010 increased by 28.4 percent to Ksh 39.8 billion compared with 33.2 billion over a similar period in FY 2008/2010.

Performance at the equities market was mixed during the week. Equity turnover decreased by 35.9 percent, market capitalization increased by 0.4 percent while the NSE 20 Share index gained 30.1 points to settle at 4,072.9 points on April 1, 2010.

Inflation

12-month inflation declined from 5.2 percent in February 2010 to 4.0 percent in March 2010. The decline in inflation was as a result of fall in the indices of Food and non alcoholic beverages, Alcoholic Beverages, Tobacco & Narcotics, Recreation & Culture and communication. Food and non alcoholic beverages' index which accounts for 36.04 percent of all the weight in the new CPI fell by 0.80 percent from 107.3 points in February 2010 to 106.4 points in March 2010. This was attributed to a fall in the prices of milk, maize flour, potatoes, *sukuma wiki* (kale) and cabbages. On the other hand, the indices of Clothing and Footwear, Housing, Water, Electricity, Gas and other Fuels increased during the month under review. The index for Housing, Water, Electricity and Gas rose by 0.4 percent as a result of rise in the cost of electricity. The indices of Education, Restaurant and Hotels and Miscellaneous Goods and Services remained stable during the month of March compared to February 2010.

Government Securities Auction

The Government securities market posted an oversubscription of 95.5 percent during this week's auction. The Government had offered for sale 182-day Treasury bills amounting to Ksh 8.0 billion during the auction of April 1, 2010 and received bids amounting to Ksh 15.6 billion of which Ksh 15.3 billion were in competitive bids.

The Government accepted Treasury bills amounting to Ksh 10.2 billion of which Ksh 9.9 billion (or 97.1 percent) were in competitive bids. The proceeds of the auction were adequate to cover the cost of redemptions of Government securities amounting to Ksh 8.8 billion falling due during the week and provide government additional borrowing totalling Ksh 1.4 billion.

Interest Rates on Treasury Bills

The cut of rate for the 182-day Treasury bill rate declined by 35.8 basis points from 6.200 percent in the previous auction of March 18,, 2010 to 5.940 percent during this week's auction.

Table 1: Interest Rates

Auction date	04-Feb-10	11-Feb-10	18-Feb-10	25-Feb-10	04-Mar-10	11-Mar-10	18-Mar-10
Average 91 day T. Bills*		6.199		6.248		6.099	
Average 182 day T. Bills*	6.700		6.599		6.497		6.298
Average 364 day T. Bills*	7.552						
Month	Aug-09	Sep-09	Oct-09	Nov-09	Dec-00	Jan-10	Feb-10
Average savings rate	1.65	1.65	1.85	1.71	1.73	1.75	1.81
Average overdraft rate	13.90	13.76	14.03	14.24	14.13	14.25	14.25

*Refers to cut off rate beginning 21st January 2010.

Source: Central Bank of Kenya

Interbank and REPO Market

The average interbank declined by 17 basis points to 2.06 percent in the week ending March 31, 2010 from 2.23 percent in the previous week. The volumes traded rose from Ksh 32.7 billion in the previous week to Ksh 36.4 billion in the week ending March 31, 2010.

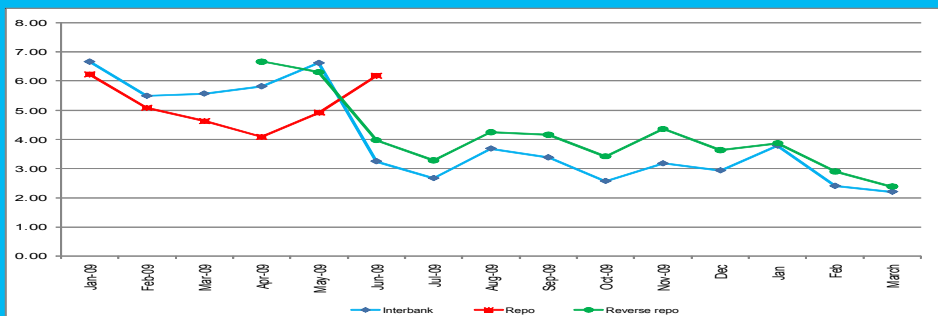
Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
05-Mar-10	79	9,830	2.23
08-Mar-10	101	12,439	2.29
09-Mar-10	102	11,151	2.27
10-Mar-10	94	10,839	2.29
11-Mar-10	30	8,136	2.25
Mar 5 - Mar 11, 2010	466	52,395	2.27
12-Mar-10	73	8,009	2.19
15-Mar-10	84	11,278	2.20
16-Mar-10	92	11,304	2.24
17-Mar-10	93	13,249	2.32
18-Mar-10	92	13,546	2.38
Mar 12 - Mar 18, 2010	434	57,385	2.27
19-Mar-10	88	7,028	2.41
22-Mar-10	72	8,989	2.36
23-Mar-10	75	5,739	2.28
24-Mar-10	62	6,340	2.18
25-Mar-10	64	5,565	1.93
Mar 19 - Mar 25, 2010	341	32,660	2.23
26-Mar-10	82	8,194	1.80
29-Mar-10	89	12,080	2.08
30-Mar-10	77	6,677	2.19
31-Mar-10	67	9,407	2.17
Mar 26 - Mar 31, 2010	315	36,359	2.06

Source: Central Bank of Kenya

The reverse repo rate declined by 25 basis points from 2.66 percent in the previous week to 2.41 percent in the week ending March 31, 2010 (Chart A).

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The interbank market was tight in the week ending March 31, 2010. To ease the tightness, Central bank injected a total of Ksh 10.5 billion as shown in Table 3. Commercial banks also borrowed Ksh 920 million from the overnight window during the week. However, there were reverse repo maturities of Ksh 7.9 billion. Reserve money averaged Ksh 177.2 billion and was Ksh 1.3 billion above target.

Table 3: 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
25-Mar	183.6	175.9	7.7	0.0	0.0	0.0	183.5	7.6	18.6	-11.0
26-Mar	180.5	175.9	4.6	0.0	0.0	0.0	181.1	5.2	16.3	-11.1
29-Mar	163.3	175.9	-12.6	9.0	6.2	-2.8	169.4	-6.5	4.4	-10.9
30-Mar	169.9	175.9	-6.1	3.5	4.3	0.8	173.1	-2.8	6.9	-9.7
31-Mar	178.5	175.9	2.6	0.0	0.0	0.0	178.9	3.0	12.1	-9.1
Average	175.2	175.9	-0.8	2.5	2.1	-0.4	177.2	1.3	11.7	-10.4

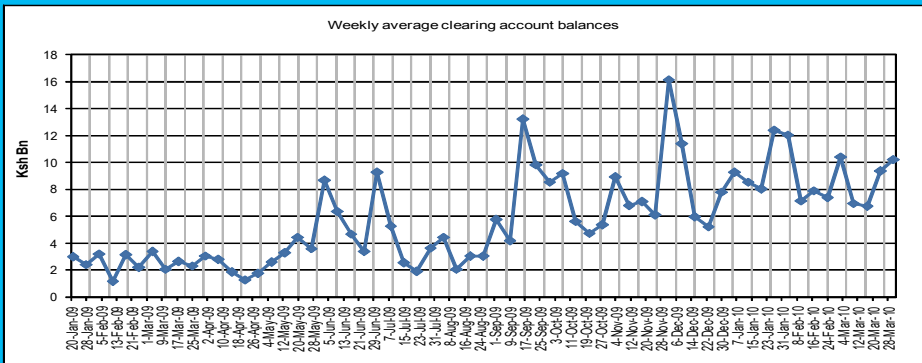
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 10.2 billion in their clearing accounts at the Central Bank in the week to March 31, 2010, compared with Ksh 9.4 billion held in the previous week (Charts C).

Chart C: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling depreciated against major international currencies during the week ending April 1, 2010 (Table 4). Against the US dollar, Sterling Pound and Euro, the shilling traded at Ksh 77.31, Ksh 116.46 and Ksh 104.09 respectively. These developments reflect strengthening of the US dollar in the international foreign currency market following positive economic prospects in the US compared with other economic regions. During the week the shilling appreciated against the Japanese Yen to exchange at Ksh 83.17 from Ksh 84.63 the previous week.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
22-Mar-10	76.95	115.12	103.98	85.04	27.81	17.69
23-Mar-10	77.05	116.12	104.26	85.28	27.71	17.65
24-Mar-10	77.05	115.38	103.41	85.12	27.62	17.66
25-Mar-10	77.46	115.27	103.11	84.15	27.32	17.50
26-Mar-10	77.31	115.04	103.19	83.55	27.07	17.59
Mar 22-26, 2010	77.16	115.39	103.59	84.63	27.51	17.62
29-Mar-10	77.30	115.52	103.82	83.44	26.62	17.58
30-Mar-10	77.30	116.22	104.46	83.65	26.97	17.56
31-Mar-10	77.33	116.52	103.72	82.92	26.96	17.57
01-Apr-10	77.30	117.57	104.35	82.67	26.84	17.60
Mar 29- April 01, 2010	77.31	116.46	104.09	83.17	26.85	17.58

Source: Central Bank of Kenya

In the regional scene, the Kenya shilling weakened marginally against both the Uganda shilling and the Tanzania shilling to exchange at Ush 26.85 and Tsh 17.58 in the week ending April 1, 2010 compared with Ush 27.51 and Tsh 17.62 in the previous week, respectively.

Foreign Exchange Reserves

Gross official foreign exchange reserves held by the Central Bank stood at US\$ 3.22 billion (equivalent to 3.43 months of imports) as at April 1, 2010 compared with US\$ 2.62 billion (equivalent to 3.16 months of imports) as at April 1, 2009 (Table 5). Relative to the previous week, the change in official reserves was marginal.

Table 5: Official Foreign Exchange Reserves (US\$ Million)

	01-Apr-09	30-Sep-09	30-Oct-09	30-Nov-09	31-Dec-09	26-Feb-10	26-Mar-10	01-Apr-10
Usable Reserves	2,615	3,243	3,302	3,392	3,309	3,235	3,224	3,223
Months of Imports Cover*	3.16	3.67	3.67	3.71	3.62	3.49	3.43	3.43
Months of Imports Cover**	2.62	3.27	3.33	3.40	3.58	3.51	3.46	3.46

*Based on 36 month average of imports of goods and

**Based on current year's average imports of goods and non-factor

Source: Central Bank of Kenya

Commercial banks foreign exchange reserves, which are largely used by the private sector to meet external financial obligations, stood at US\$ 1.53 billion as at end of February 2010 compared with US\$ 1.61 billion as at end February 2009.

Government Domestic Debt

Government gross domestic debt increased from Ksh 518.3 billion in June 2009 to Ksh 617.1 billion as at March 26, 2010 (Table 6 and Chart C). This followed net increases of Ksh 39.6 billion in Treasury bills (excluding Repos) Ksh 60.4 billion in Treasury bonds and 0.7 billion in Government overdraft. However, domestic debt decreased by Ksh 1.9 billion during the same period.

Treasury bills and Treasury bonds increased from Ksh 116.8 billion and Ksh 360.7 billion in June 2009 to Ksh 156.3 billion and Ksh 421.1 billion, respectively as at March 26, 2010. Long term stocks remained unchanged at Ksh 0.8 billion during the period.

Meanwhile, the proportion of Treasury bonds in total Government securities declined from 75.4 percent in June 2009 to 72.8 percent as at March 26, 2010 while that of Treasury bills increased from 24.4 percent to 27.0 percent during the same period. The debt maturity profile of Government securities, based on the days to maturity increased to 4 years and 1 month compared to 3 years 9 months in June 2009 reflecting the successful issuance of longer dated securities during the fiscal year.

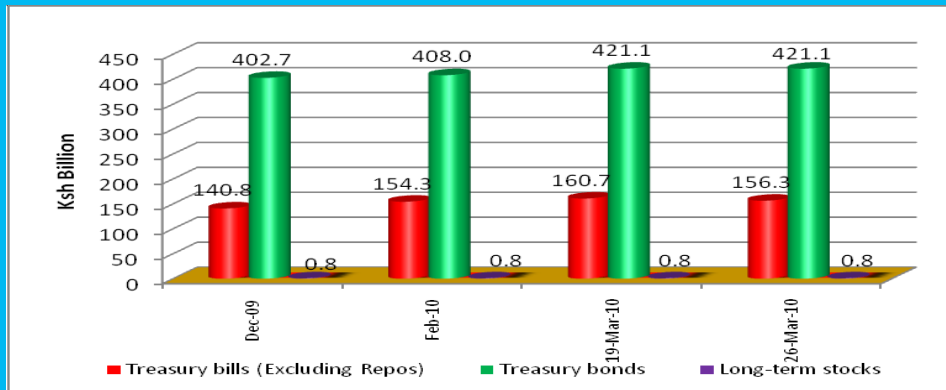
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-09	19th Feb 2010	26th Feb 2010	19th Mar 2010	26th Mar 2010	Changes	
						19th Mar-2010 - 26th Mar-2010	30th Jun-09 -26 Mar-2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	116.8 24.4	157.1 27.8	154.3 27.4	160.7 27.6	156.3 27.0	-4.4 -0.5	39.6 2.6
2. Treasury Bonds (As % of total securities)	360.7 75.4	408.0 72.1	408.0 72.5	421.1 72.3	421.1 72.8	0.0 0.5	60.4 -2.6
3. Long Term Stocks (As % of total securities)	0.8 0.2	0.8 0.1	0.8 0.1	0.8 0.1	0.8 0.1	0.0 0.0	0.0 0.0
4. Total Securities (1+2+3)	478.3	565.8	563.1	582.6	578.2	-4.4	99.9
5. Overdraft at Central Bank	5.1	5.9	11.4	3.8	5.9	2.1	0.7
6. Other Domestic debt*	34.9	33.6	33.6	33.1	33.0	-0.1	-1.9
7. Gross Domestic Debt (4+5+6)	518.3	605.3	608.1	619.5	617.1	-2.4	98.8
8. Interest payments on domestic debt (Cumulative in FY)	45.9	35.3	36.0	39.8	43.0	3.1	

* 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

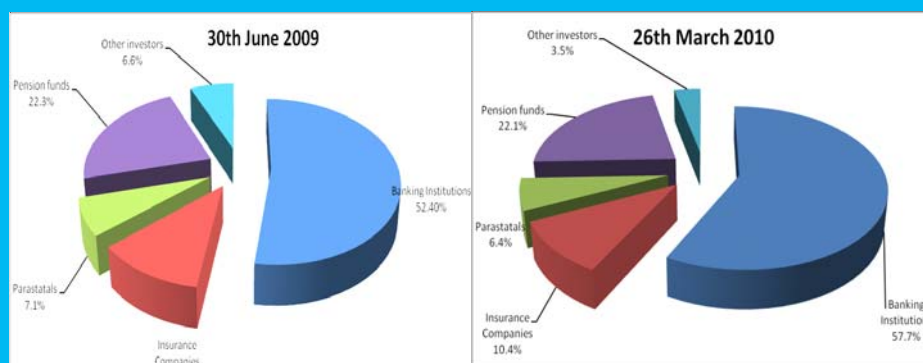


Source: Central Bank of Kenya

Holding of Government Securities

Commercial banks increased their dominance in the Government Securities market by raising their share holding from 52.4 percent in June 2009 to 57.7 percent as at March 26, 2010. Consequently the share holding of pension funds, insurance companies, parastatals, and other holders in the total securities outstanding declined respectively from 22.3 percent, 11.6 percent, 7.1 percent and 6.6 percent to 22.1 percent, 10.4 percent, 6.4 percent and 3.5 percent, during the same period (Chart E).

Chart E: Composition of Government Securities by Investor

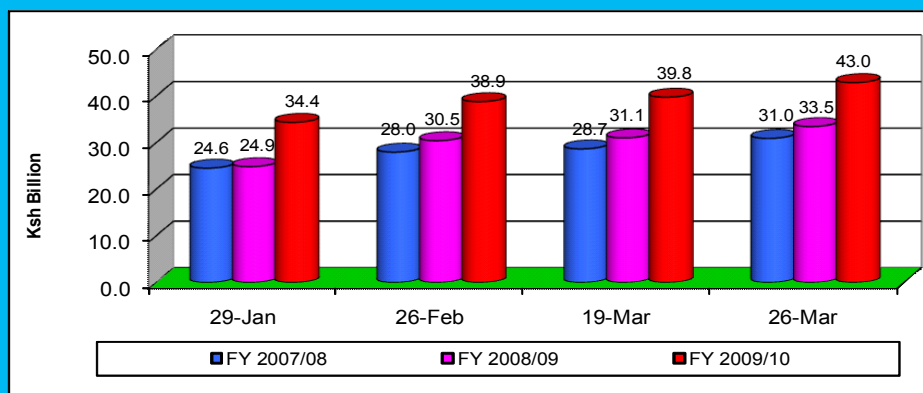


Source: Central Bank of Kenya

Cost of Domestic Borrowing

From 1st July 2009 to 26th March 2010, cumulative Government expenditure on interest and other charges on domestic debt increased by 28.4 percent to Ksh 43.0 billion compared with Ksh 33.5 billion in a similar period in the previous fiscal year (Chart F). The interest cost on domestic debt during the period comprised Ksh 33.2 billion in interest and other charges on Treasury bonds, Ksh 8.9 billion in interest and other charges on Treasury bills, and Ksh 0.9 billion in interest on both the Government overdraft at CBK and the pre-1997 government overdraft.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The equities market recorded mixed performance during the week ending April 1, 2010. Equity turnover decreased by 35.9 percent as stocks worth Ksh 1,405.5 million were traded compared with Ksh 2,191.7 million traded in the previous week. The number of shares traded decreased from 180.9 million in the previous week to 128.7 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 0.4 percent or Ksh. 3.7 billion to close at Ksh 983.1 billion in the week under review from Ksh 979.4 billion in the previous week. The NSE 20 Share index gained 30.1 points to settle at 4,072.9 points on April 1, 2010 from 4,042.9 points on March 25, 2010. The Nairobi All Share Index gained 0.32 points to settle at 84.4 points on April 1, 2010 (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	04-Feb-10	11-Feb-10	18-Feb-10	25-Feb-10	04-Mar-10	11-Mar-10	18-Mar-10	25-Mar-10	01-Apr-10
NASI 100= Jan 2008	79.75	78.83	78.13	79.16	80.41	83.29	83.32	84.11	8,443.00
NSE 20 Share Index 100=1966	3,584.24	3,591.02	3,536.72	3,627.30	3,675.54	3,964.86	4,008.17	4,042.87	4,072.93
Number of Deals	9,009	9,141	8,434	8,574	8,286	10,048	11,452	10,458	7,848
Total Shares Traded (millions)	125.24	85.31	52.91	95.77	91.21	117.90	129.94	180.85	128.70
Equity Turnover (Ksh. millions)	1,231.59	1,201.37	722.69	1,050.09	1,157.02	1,585.85	2,153.13	2,191.66	1,405.55
Market Capitalization (Ksh. Bn.)	928.75	918.00	909.91	921.77	936.22	969.88	970.24	979.37	983.12
Bonds Turnover (Ksh. millions)	10,316.60	13,131.70	10,730.55	7,393.45	15,917.65	13,164.20	6,398.15	8,090.30	9,737.80

* 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 97.2 million shares and accounted for 74.4 percent of total traded volume. Safaricom traded 94.0 million shares and was the most active stock in the sector. The Finance and Investment sector traded 19.6 million shares and accounted for 15.0 percent of total traded volume. Equity Bank and Kenya Reinsurance were the most active stocks in the sector, trading 7.8 million and 2.7 million shares, respectively. Industrial and Allied sector traded 10.2 million shares and accounted for 8.8 percent of traded volume. Mumias Sugar Company and KenolKobil were the most active counters, trading 4.0 and 3.7 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond market trading increased at the Fixed Income Securities Market during the week. Bond turnover increased as bonds worth Ksh 9.7 billion were traded compared with Ksh 8.1 billion traded in the previous week.