

August 06, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The overall 12-month inflation increased marginally by 0.1 percent from 3.5 percent in June 2010 to 3.6 percent in July 2010, while the annual average inflation continued on a downward trend falling by 0.4 percent, to 5.0 percent in July 2010.

The Government securities market registered subdued performance of 60.9 percent. The Government had offered for sale 182-day Treasury bills amounting to Ksh 6.0 billion, received and accepted all bids amounting to Ksh 3.7 billion. The cut off-rate for the 182-day Treasury bill remained unchanged at 1.999 percent.

The average interbank rate rose by 4 basis points to 1.65 percent in the week ending August 5, 2010 from 1.61 percent in the previous week.

The Kenya Shilling on average strengthened against the US dollar and the Euro during the week ending August 6, 2010. Against the US dollar, the shilling appreciated to exchange at Ksh 79.98 from Ksh 80.83 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased further to US dollar 3.422 billion (equivalent to 3.56 months of imports) as at August 6, 2010, compared to US dollar 3.378 billion (equivalent to 3.51 months of imports) held on July 30, 2010.

Central Bank injected a total of Ksh 10.8 billion during the week ending March 3, 2010 against reverse repo maturities worth Ksh 12.8 billion.

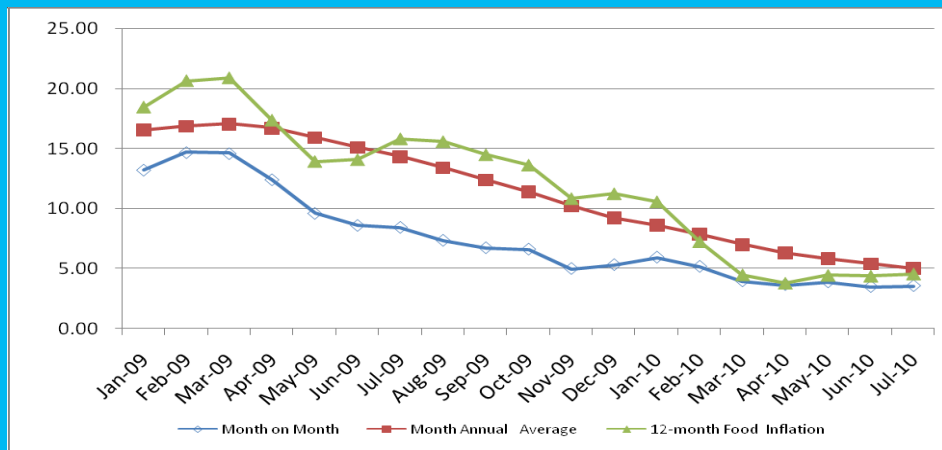
Government gross domestic debt increased by 1.2 percent or Ksh 8.1 billion during the first month of the FY 2010/11. It increased from Ksh 659.6 billion in June 2010 to Ksh 667.7 billion as at July 30th, 2010 of the FY 2010/11. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 2.0 billion.

Performance at the equities market improved during the week ending August 5, 2010, with the NSE 20 Share index gaining 269.15 points to settle at 4,667.47 from 4,398.32 points on July 29, 2010 and equity turnover increasing by 56.1 percent.

Inflation

Overall 12- month inflation increased to 3.6 percent in July from 3.5 percent in June 2010. The marginal increase was largely attributed to rising food prices for the “Nairobi Lower” and “Nairobi Middle” income groups during the month, with the onset of the dry weather. Overall food inflation during the month was equivalent to 4.6 percent compared with 4.4 percent in June 2010, while the “Nairobi Lower” and “Nairobi Middle” income groups experienced respectively 6.7 percent and 3.2 percent food inflation. The prices of seasonal foods such as kales, cabbages, milk and potatoes all went up due to scarcity with notable declines in tomatoes and maize flour, during the period. From the CPI data received from the KNBS, it was clear that food prices in Nairobi’s lower and middle income groups actually drove up the overall food CPI, and consequently the overall inflation, since the “Nairobi upper” and the “rest of the country” income groups both experienced declining food inflation during the month(Chart A).

Chart A: 12-Month Overall Inflation- March 2010 (Percent)



Source: Central Bank of Kenya

Government Securities Auction

The Government securities market posted subdued performance of 60.9 percent during the auction of August 05, 2010. The underperformance may have been on account of the wait and see posture displayed by the market participants as Kenyans prepared to participate in the national referendum to pass the new constitution on August 04, 2010. The Government had offered for sale 182-day Treasury bills amounting to Ksh 6.0 billion and received bids amounting to Ksh 3.7 billion of which Ksh 3.3 billion were in competitive bids.

The Government accepted all bids amounting to Ksh 3.7 billion. The proceeds of the auction were directed at meeting part of the cost of Treasury bills maturities falling due in the week amounting to Ksh 11.9 billion.

Interest Rates on Treasury Bills

The cut-off rate for the 182-day Treasury bill remained unchanged at 1.999 percent posted on August 5, 2010. (Table 1)

Table 1: Interest Rates

Auction date	03-Jun-10	10-Jun-10	17-Jun-10	24-Jun-10	01-Jul-10	08-Jul-10	15-Jul-10	22-Jul-10	29-Jul-10	05-Aug-10
91 day T. Bills*	3.491		2.628		1.801		1.728		1.699	
182 day T. Bills*		3.300		2.450		1.800		1.999		1.999
364 day T. Bills*		4.199								
Month	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10		
Average savings rate	1.71	1.73	1.75	1.81	1.81	1.81	1.76	1.75		
Average overdraft rate	14.24	14.13	14.25	14.25	14.06	14.50	14.38	14.23		

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

Source: Central Bank of Kenya

Interbank Market

The average interbank rate rose by 4 basis points to 1.65 percent in the week ending August 5, 2010 from 1.61 percent in the previous week. The volumes traded declined from Ksh 59.1 billion in the previous week to Ksh 44.3 billion in the week ending August 5, 2010. The Government deposits at the Central Bank rose from Ksh 54.0 billion in the week ending July 29 up to Ksh 56.9 billion in the week ending August 5, 2010 (Table 2).

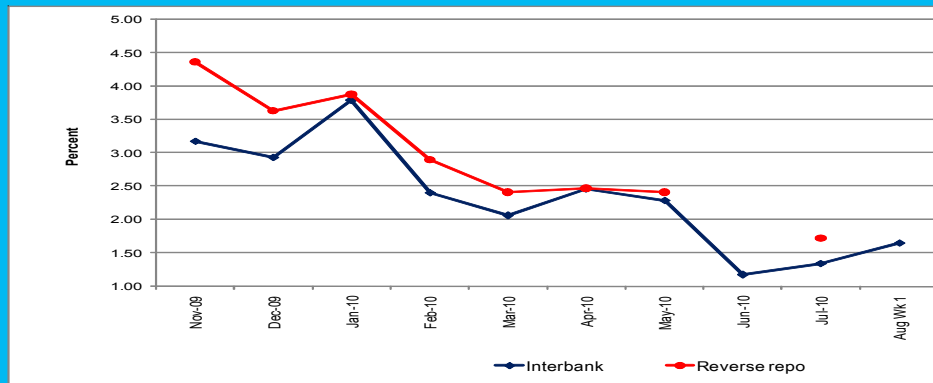
Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
23-Jul-10	104	19,242	1.47
26-Jul-10	89	13,593	1.55
27-Jul-10	75	9,652	1.63
28-Jul-10	82	10,081	1.70
29-Jul-10	59	6,539	1.72
July 23 - July 29, 2010	409	59,107	1.61
30-Jul-10	57	6,335	1.67
02-Aug-10	71	9,770	1.64
03-Aug-10	88	14,322	1.62
04-Aug-10	HOLIDAY		
05-Aug-10	87	13,893	1.66
July 30 - August 05, 2010	303	44,320	1.65

Source: Central Bank of Kenya

The reverse repo rate was 1.72 percent as at the last reverse repo transaction on July 26, 2010 (Chart B).

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The money market was liquid in the week ending August 5, 2010 and the Central Bank stayed out of the market as shown in Table 3. There were reverse repo maturities of Ksh 6.5 billion during the week under review. Despite the liquidity in the market Commercial banks borrowed a total of Ksh 1.9 billion from Central Bank overnight window during the week under review. Reserve money averaged Ksh 193.4 billion during the week and was above target by Ksh 5.9 billion (Table 3).

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=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
30-Jul	200.7	188.6	12.1	0.0	0.0	0.0	200.8	12.2	13.2	-1.1
02-Aug	190.1	187.2	2.9	0.0	6.5	-6.5	190.7	3.5	3.8	-0.3
03-Aug	190.1	187.2	3.0	0.0	0.0	0.0	190.9	3.7	1.6	2.1
04-Aug	HOLIDAY									
05-Aug	191.4	187.2	4.2	0.0	0.0	0.0	191.2	4.1	1.1	3.0
Average	193.1	187.5	5.5	0.0	1.6	-1.6	193.4	5.9	4.9	0.9

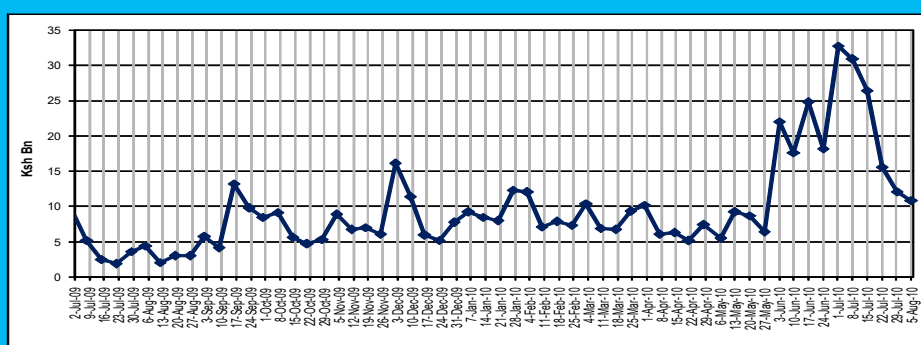
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 10.5 billion in their clearing accounts at the Central Bank in the week to August 5, 2010, compared with Ksh 12.1 billion held the previous week (Chart C). The balances held in the clearing amounts have declined since beginning of July 2010 reflecting outflows to Government through tax payments and uptake of new Government securities by the banks.

Chart C: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling on average strengthened against the US dollar and the Euro during the week ending August 6, 2010 (Table 4). Against the US dollar and the Euro, the shilling appreciated to exchange at Ksh 79.98 from Ksh 80.83 per US dollar in the previous week, and Ksh 105.11 compared with Ksh 105.15 per Euro respectively. Appreciation of the Kenya shilling against the US dollar partly reflected positive market sentiment on the outcome of the referendum vote on the proposed constitution and international currency movements during which the dollar depreciated against both the Sterling Pound and the Euro due to concerns about the strength of the US recovery. The Kenya shilling lost against the Sterling Pound to trade at Ksh 126.71 compared with Ksh 125.79 per Sterling Pound during the week ending July 30, 2010. The appreciation of the sterling pound against the US dollar in the international markets followed the release of positive data on the United Kingdom economy. Against the Japanese Yen, the shilling appreciated to exchange on average at Ksh 92.62 per 100 Japanese Yen in the week compared with Ksh 92.68 per 100 Japanese Yen the previous week (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
26-Jul-10	81.40	125.82	105.25	93.10	27.64	18.37
27-Jul-10	81.15	125.92	105.58	93.31	27.62	18.55
28-Jul-10	80.66	125.90	104.97	91.72	27.76	18.75
29-Jul-10	80.68	126.01	105.06	92.43	27.75	18.79
30-Jul-10	80.23	125.30	104.88	92.82	27.83	18.91
July 26- July 30, 2010	80.83	125.79	105.15	92.68	27.72	18.67
02-Aug-10	80.27	126.28	104.96	92.69	27.82	18.91
03-Aug-10	80.15	127.27	105.42	92.67	27.61	18.97
05-Aug-10	79.90	126.72	105.03	92.72	27.57	19.00
06-Aug-10	79.60	126.56	105.02	92.39	27.69	19.12
August 2- August 6, 2010	79.98	126.71	105.11	92.62	27.67	19.00

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling gained against the Tanzania Shilling to trade at Tsh 19.00 compared with Tsh 18.67 per Kenya Shilling in the week ending July 30, 2010. Against the Uganda shilling, the Kenya

shilling weakened to exchange at Ush 27.67 compared with Ush 27.72 per Kenya Shilling in the previous week.

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased further to US dollar 3.422 billion (equivalent to 3.56 months of imports) as at August 6, 2010, compared to US dollar 3.378 billion (equivalent to 3.51 months of imports) held on July 30, 2010 (Table 5).

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

	31-Dec-09	30-Apr-10	27-May-10	25-Jun-10	09-Jul-10	16-Jul-10	23-Jul-10	30-Jul-10	06-Aug-10
Usable Reserves	3,309	3,307	3,252	3,310	3,334	3,340	3,353	3,378	3,423
Months of Imports Cover*	3.62	3.50	3.41	3.47	3.47	3.47	3.49	3.51	3.56

*Based on 36 month average of imports of goods and non-factor services

Source: Central Bank of Kenya

Government Domestic Debt

During the first month of FY 2010/11 the gross domestic debt increased by 1.2 percent or Ksh 8.1 billion from Ksh 659.6 billion in June 2010 to Ksh 667.7 billion as at July 30, 2010 (Table 6 and Chart D). The increase in domestic debt was on account of an increase of Ksh 10.7 billion in Treasury bonds. However, these increases were partially offset by redemptions of Treasury bills (Ksh 0.3 billion), repayment of Government overdraft at the Central bank (Ksh 2.1 billion) and repayment of other domestic debt (Ksh 0.1 billion) during the same period.

Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 459.3 billion as at July 30, 2010. Treasury bills, Overdraft at CBK, and other domestic debt declined from Ksh 158.5, Ksh 17.6 billion, and Ksh 34.1 billion, respectively in June 2010 to Ksh 158.2 billion, Ksh 15.5 billion and Ksh 34.0 billion, respectively as at July 30, 2010.

Table 6: Government Domestic Debt (Ksh Billion)

	Jun-10	23rd July 2010	30th July 2010	Changes	
				23rd July-2010 - 30th July-2010	30th Jun-2010 - 30th July -2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	158.5 26.1	164.1 26.9	158.2 25.6	-5.9 -1.3	-0.3
2. Treasury Bonds (As % of total securities)	448.6 73.8	446.1 73.0	459.3 74.3	13.2 1.3	10.7
3. Long Term Stocks (As % of total securities)	0.8 0.1	0.8 0.1	0.8 0.1	0.0 0.0	0.0
4. Total Securities (1+2+3)	607.9	610.9	618.2	7.3	10.4
5. Overdraft at Central Bank	17.6	7.6	15.5	7.9	-2.1
6. Other Domestic debt*	34.1	33.3	34.0	0.7	-0.1
7. Gross Domestic Debt (4+5+6)	659.6	651.8	667.7	16.0	8.1
8. Interest payments on domestic debt	57.8	1.14	2.03	0.9	

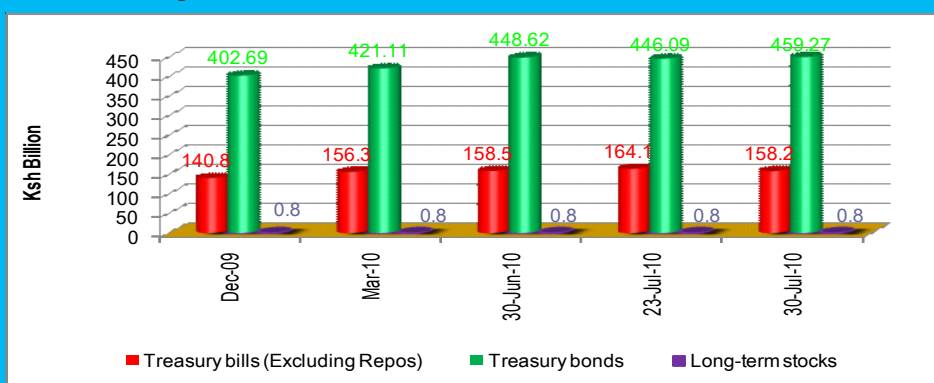
* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCs.

Source: Central Bank of Kenya

Source: Central Bank of Kenya

In view of the above, the share of Treasury bonds rose from 73.8 percent in June to 74.3 percent as at July 30, 2010 while that of Treasury bills declined from 26.1 percent to 25.6 percent. The average time to maturity of Government securities was 4 years and 11 months during the same period.

Chart D: Composition of Government Securities

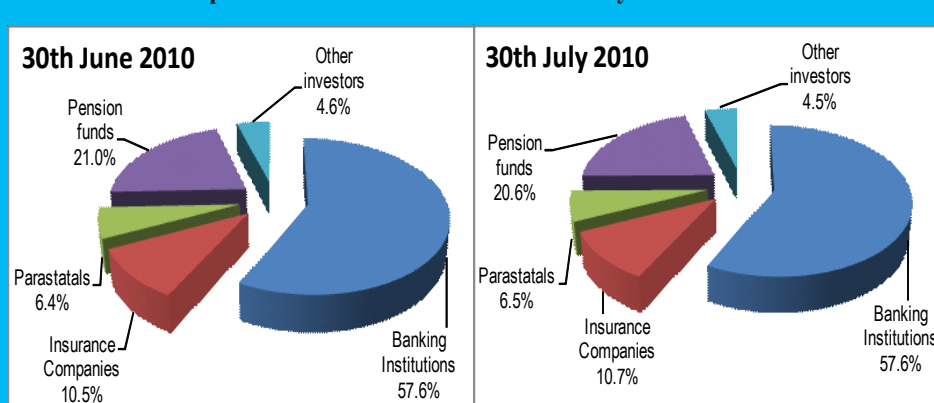


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by insurance company and parastatals increased marginally from 10.5 percent and 6.4 percent in June 2010 to 10.7 percent and 6.5 percent, respectively as at July 30, 2010. The holdings of pension funds and other investors declined from 21.0 percent and 4.6 percent, respectively as at June 30, 2010 to 20.6 percent and 4.5 percent during the same period. However, the holding of commercial banks remained unchanged from 57.6 percent over the same period (Chart E).

Chart E: Composition of Government Securities by Investor

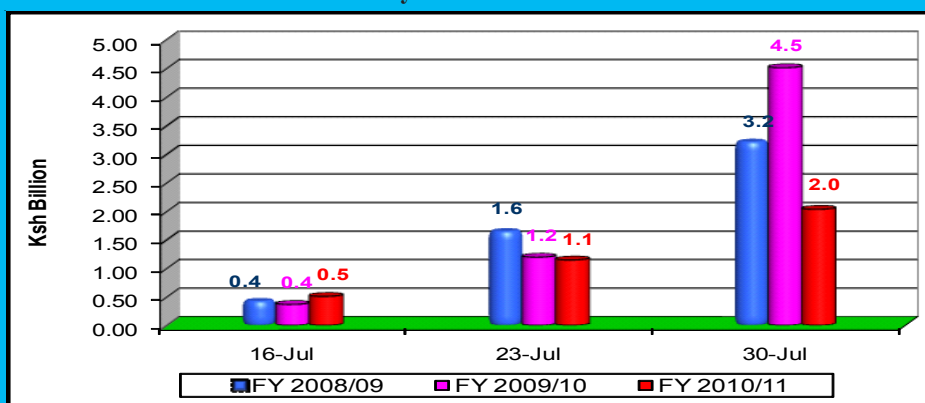


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt during first month of the FY 2010/11 amounted to Ksh 2.0 billion compared with Ksh 4.5 billion in a similar period of the FY 2009/10 (Chart F). The interest cost on domestic debt during the period was on account of interest and other charges on Treasury bills and Treasury bonds each amounting to Ksh 1.0 billion.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

Performance at the equities market improved during the week ending August 5, 2010. Turnover increased by 56.1 percent as stocks worth Ksh 2,293.5 million were traded compared with Ksh 1,468.8 million traded in the previous week. The number of shares traded increased from 73.0 million in the previous week to 131.0 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 5.4 percent or Ksh. 61.0 billion to close at Ksh 1,194.16 billion in the week under review from Ksh 1,133.2 billion in the previous week. The NSE 20 Share index gained 269.15 points to settle at 4,667.47 points on August 5, 2010 from 4,398.32 points on July 29, 2010. The Nairobi All Share Index gained 5.22 points to settle at 102.16 points from 96.94 points the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	10-Jun-10	17-Jun-10	24-Jun-10	01-Jul-10	08-Jul-10	15-Jul-10	22-Jul-10	29-Jul-10	05-Aug-10
NASI 100= Jan 2008	92.76	94.39	94.59	95.03	95.24	96.5	95.88	96.94	102.16
NSE 20 Share Index 100=1966	4,263.06	4,327.40	4,309.51	4,313.01	4,321.39	4,344.84	4,345.86	4,398.32	4,667.47
Number of Deals	11,540	10,890	11,435	10,247	11,157	11,601	10,387	11,033	10,179
Total Shares Traded (millions)	80.70	89.31	94.46	83.85	91.58	81.64	66.34	72.96	131.02
Equity Turnover (Ksh. millions)	1,363.81	1,794.53	1,699.56	1,492.23	1,373.04	1,210.84	1,086.56	1,468.81	2,293.54
Market Capitalization (Ksh. Bn.)	1,081.34	1,100.32	1,107.12	1,107.90	1,111.27	1,125.97	1,118.68	1,133.20	1,194.16
Bonds Turnover (Ksh. millions)	24,498.60	23,520.65	25,115.20	20,934.20	23,902.60	17,001.95	10,187.80	7,334.45	2,293.15

* 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 66.6 million shares and accounted for 50.8 per cent of the traded volume with Safaricom trading 63.3 million shares in the sector during the week. The Finance and Investment sector traded 39.0 million shares and accounted for 29.8 percent of total traded volume. Equity Bank and Kenya Commercial Bank were

the most active stocks in the sector, trading 14.7 million and 11.5 million shares, respectively. Industrial and Allied sector traded 25.1 million shares and accounted for 19.1 percent of traded volume. Mumias Sugar Co was the most active counter, trading 8.8 million shares. The Alternative market segment traded 64,000 shares during the week under review.

Bond Market

Bond turnover at the Fixed Income Securities Market declined from Ksh 7.3 billion traded in the previous week to Ksh 2.3 billion in the week under review.