

**August 13, 2010**



## THE CBK WEEKLY BULLETIN

### Highlights for the Week

The Government securities market registered performance of 114.6 percent and 41.0 percent during the 91-day and 364-day Treasury bills auctions held this week. The Government had offered for sale 91-day Treasury and 364-day Treasury bills amounting to Ksh 9.0 billion, received bids amounting to Ksh 6.6 billion and accepted Ksh 6.1 billion. The cut off-rate for the 91—day Treasury bill edged up 30.0 basis points while that of 364-day Treasury bill declined by 119.9 basis points.

The average interbank rate rose by 9 basis points to 1.74 percent in the week ending August 12, 2010 from 1.65 percent in the previous week.

The Kenya Shilling appreciated against the major international currencies during the week ending August 13, 2010. Against the US dollar, the shilling appreciated to exchange at an average of Ksh 79.85 in the week compared with Ksh 79.98 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank decreased to US dollar 3.417 billion (equivalent to 3.53 months of imports) as at August 13, 2010, compared to US dollar 3.423 billion (equivalent to 3.56 months of imports) held on August 6, 2010, reflecting a short-lived revaluation loss during the week.

The money market was liquid in the week ending August 12, 2010 and the Central Bank stayed out of the market. There were no reverse repo maturities during the week.

Government gross domestic debt increased by Ksh 8.4 billion for the period up to August 6, 2010 of the FY 2010/11. It increased from Ksh 659.6 billion in June 2010 to Ksh 668.0 billion as at August 6, 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 4.2 billion.

Performance at the equities market declined during the week ending August 12, 2010, with the NSE 20 Share Index losing 122.95 points to settle at 4,544.52 from 4,667.47 points on August 5, 2010 and equity turnover decreasing by 9.9 percent.

**Government Securities Auction**

The Government securities market registered mixed performance of 114.6 percent and 41.0 percent during the 91-day and 364-day Treasury bills auctions held this week. During the 364-day Treasury bills auction of August 11, 2010, the Government offered for sale Treasury bills amounting to Ksh 5.0 and received bids amounting to Ksh 2.0 billion. In another auction held on August 12, 2010, the 91-day Treasury bills amounting to Ksh 4.0 billion were on offer and bids amounting to Ksh 4.6 billion were received of which Ksh 3.9 billion were in competitive bids. The Government accepted a total of Ksh 6.1 billion from the two auctions. 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 8.7 billion.

**Interest Rates on Treasury Bonds**

The cut-off rate for the 91-day Treasury bill edged up by 30 basis points from 1.699 posted in August 2, 2010 to 1.999 percent. However, the cut-off rate for the 364-day Treasury bill shed 119.9 basis points from 4.199 percent posted in June 14, 2010 to 3.000 percent (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	12-Aug-10
91 day T. Bills*	3.491		2.628		1.801		1.728		1.699		1.999
182 day T. Bills*		3.300		2.450		1.800		1.999		1.999	
364 day T. Bills*		4.199									3.000
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**

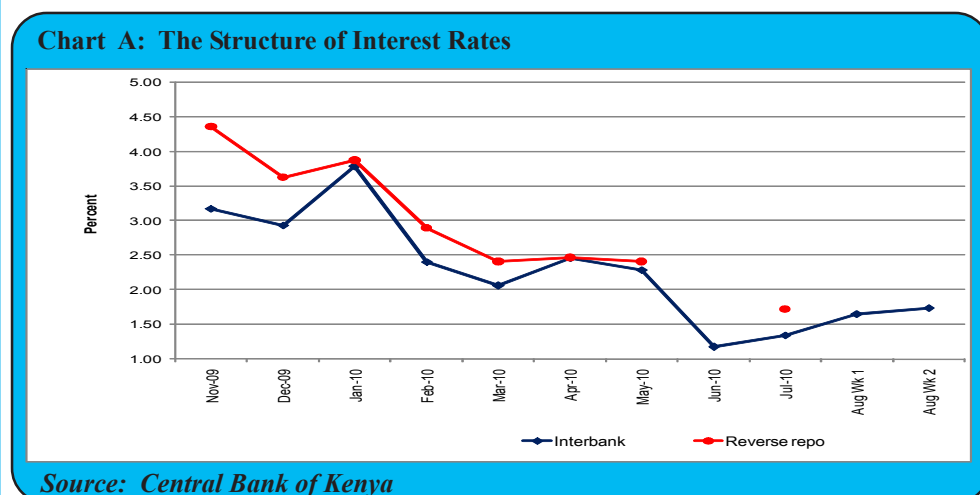
The average interbank rate rose by 9 basis points to 1.74 percent in the week ending August 12, 2010 from 1.65 percent in the previous week. The volumes traded rose from Ksh 44.3 billion in the previous week to Ksh 71.9 billion in the week ending August 12, 2010. The Government deposits at the Central Bank declined from Ksh 56.9 billion in the week ending August 5, down to Ksh 52.9 billion in the week ending August 12, 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
<b>July 23 - July 29, 2010</b>	<b>409</b>	<b>59,107</b>	<b>1.61</b>
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		<b>HOLIDAY</b>	
05-Aug-10	87	13,893	1.66
<b>July 30 - August 05, 2010</b>	<b>303</b>	<b>44,320</b>	<b>1.65</b>
06-Aug-10	81	14,927	1.68
09-Aug-10	68	13,479	1.71
10-Aug-10	81	16,069	1.73
11-Aug-10	71	13,118	1.77
12-Aug-10	76	14,405	1.79
<b>August 06 - 12, 2010</b>	<b>377</b>	<b>71,998</b>	<b>1.74</b>

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 A).



**Monetary Policy Operations**

The money market was liquid in the week ending August 12, 2010 and the Central Bank stayed out of the market as shown in Table 3. There were no reverse repo maturities during the week under review. Despite the liquidity in the market Commercial banks borrowed a total of Ksh 3.2 billion from Central Bank overnight window during the week under review. Reserve money averaged Ksh 196.3 billion during the week and was above target by Ksh 10.2 billion.

**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)
06-Aug	189.8	187.2	2.6	0.0	0.0	0.0	190.9	3.8	0.4	3.4
09-Aug	195.9	185.7	10.1	0.0	0.0	0.0	198.1	12.4	9.3	3.2
10-Aug	196.0	185.7	10.3	0.0	0.0	0.0	199.0	13.3	9.7	3.6
11-Aug	197.3	185.7	11.6	0.0	0.0	0.0	198.5	12.8	9.6	3.2
12-Aug	197.4	185.7	11.7	0.0	0.0	0.0	197.2	11.5	7.9	3.5
Average	194.8	186.1	8.7	0.0	0.0	0.0	196.3	10.2	6.8	3.4

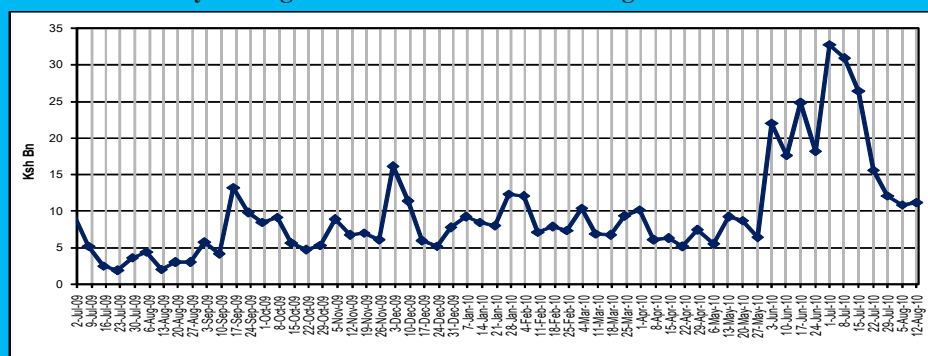
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial Banks Clearing Account Balances**

Commercial banks maintained an average of Ksh 11.2 billion in their clearing accounts at the Central Bank in the week to August 12, 2010, compared with Ksh 10.8 billion held the previous week (Chart B).

**Chart B: Weekly Average Commercial Banks Clearing Account Balances**



Source: Central Bank of Kenya

**The Shilling Exchange Rate**

The Kenya Shilling on average appreciated against the major international currencies during the week ending August 13, 2010 (Table 4). Against the US dollar, the shilling appreciated to exchange at Ksh 79.85 compared with Ksh 79.98 per US dollar in the previous week. During the week, the shilling appreciated against Sterling Pound, the and Euro to exchange on average at Ksh 125.98 per Sterling Pound, and Ksh 104.28 per Euro in the week compared with Ksh 126.71 per Sterling Pound and Ksh 105.11 per Euro in the previous week. The shilling lost against the Japanese Yen to exchange on average at Ksh 93.23 per 100 Japanese Yen in the week compared with Ksh 92.62 per 100 Japanese Yen in the previous week

The movement partly reflected developments in the international foreign exchange market that saw the US dollar stage a rebound against major currencies on growing conviction that the Federal Reserve was unlikely to start a new phase of quantitative easing to deal with a slowing economy, even though its outlook was likely to be downbeat.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
<b>August 2- August 6, 2010</b>	<b>79.98</b>	<b>126.71</b>	<b>105.11</b>	<b>92.62</b>	<b>27.67</b>	<b>19.00</b>
09-Aug-10	79.44	126.98	105.59	92.94	27.73	19.19
10-Aug-10	79.64	125.82	104.76	92.70	27.65	19.13
11-Aug-10	79.71	125.84	104.22	93.36	27.60	19.10
12-Aug-10	80.05	125.65	103.27	93.80	27.73	18.96
13-Aug-10	80.40	125.63	103.55	93.35	27.53	18.69
<b>August 9- August 13, 2010</b>	<b>79.85</b>	<b>125.98</b>	<b>104.28</b>	<b>93.23</b>	<b>27.65</b>	<b>19.01</b>

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling marginally weakened against the Uganda Shilling and strengthened on the Tanzania Shilling to exchange at Ush 27.65 per Kenya Shilling and Tsh 19.01 per Kenya Shilling in the week ending August 13, 2010, compared with Ush 27.67per Kenya Shilling and Tsh 19.00 per Kenya Shilling in the previous week respectively.

**Foreign Exchange Reserves**

The usable official foreign exchange reserves held by the Central Bank decreased to US dollar 3.417 billion (equivalent to 3.53 months of imports) as at August 13, 2010, compared to US dollar 3.423 billion (equivalent to 3.56 months of imports) held on August 6, 2010, reflecting a short-lived revaluation loss during the week (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	13-Aug-10
Usable Reserves	3,309	3,307	3,252	3,310	3,334	3,340	3,353	3,378	3,423	3,417
Months of Imports Cover*	3.62	3.50	3.41	3.47	3.47	3.47	3.49	3.51	3.56	3.53

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

Source: Central Bank of Kenya

Commercial banks foreign exchange reserves, largely used by the private sector to meet external financial obligations, stood at US \$ 1.279 billion as at end May 2010 compared with US \$ 1.326 billion as at end April 2010.

**Government Domestic Debt**

Gross Government debt increased by Ksh 8.4 billion from Ksh 659.6 billion in June 2010 to Ksh 668.0 billion at August 6, 2010 (Table 6 and Chart C). The increase in domestic debt was on account of increases of Ksh 10.7 billion and Ksh 4.8 billion in Treasury bonds and treasury bills, respectively. These increases were, however, partially offset by decreases of Government overdraft at the Central bank (Ksh 6.9 billion) and other domestic debt (Ksh 0.2 billion) during the same period.

Treasury bonds and Treasury bills increased from Ksh 448.6 billion and Ksh 158.5 billion, respectively in June 2010 to Ksh 459.3 billion and Ksh 163.3 billion as at August 06, 2010. Overdraft at CBK and other domestic debt declined from Ksh 17.6 billion and Ksh 34.1 billion, respectively in June 2010 to Ksh 10.8 billion and Ksh 33.9 billion, respectively as at August 06, 2010.

**Table 6: Government Domestic Debt (Ksh Billion)**

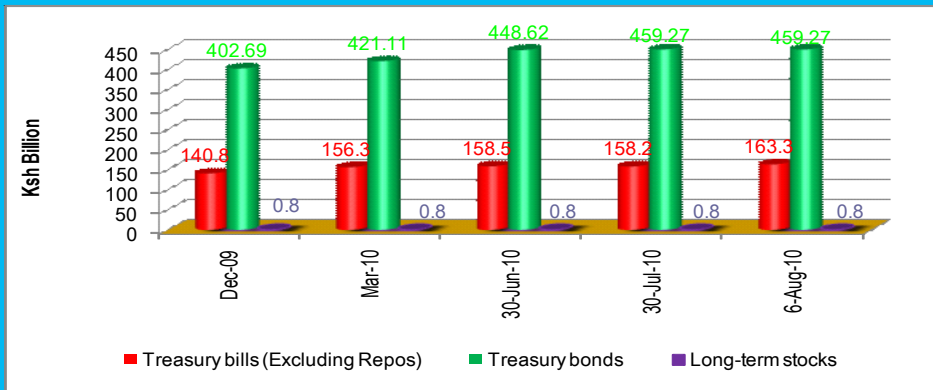
	Jun-10	23rd July 2010	30th July 2010	6th August 2010	Changes	
					30th July-2010 - 6th August-2010	30th Jun-2010 - 6th August - 2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	158.5 26.1	164.1 26.9	158.2 25.6	163.3 26.2	5.1 0.6	4.8
2. Treasury Bonds (As % of total securities)	448.6 73.8	446.1 73.0	459.3 74.3	459.3 73.7	0.0 -0.6	10.7
3. Long Term Stocks (As % of total securities)	0.8 0.1	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	623.4	5.1	15.5
5. Overdraft at Central Bank	17.6	7.6	15.5	10.8	-4.7	-6.9
6. Other Domestic debt*	34.1	33.3	34.0	33.9	-0.1	-0.2
7. Gross Domestic Debt (4+5+6)	659.6	651.8	667.7	668.0	0.3	8.4
8. Interest payments on domestic debt	57.8	1.14	2.62	4.19	1.6	

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

Source: Central Bank of Kenya

In view of the above, the share of Treasury bonds declined marginally from 73.8 percent in June to 73.7 percent as at August 6, 2010 while that of Treasury bills increased from 26.1 percent to 26.2 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 4 years and 11 months as at August 6, 2010.

**Chart C: Composition of Government Securities**

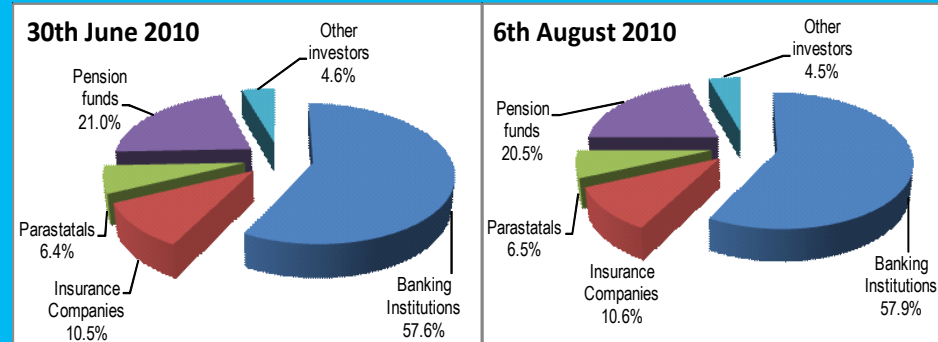


Source: Central Bank of Kenya

### Holding of Government Securities

The holdings of Government securities by commercial banks, insurance companies and parastatals increased marginally from 57.6 percent, 10.5 percent and 6.4 percent in June 2010 to 57.9 percent, 10.6 percent and 6.5 percent, respectively as at August 6, 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 20.5 percent and 4.5 percent during the same period (Chart D).

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

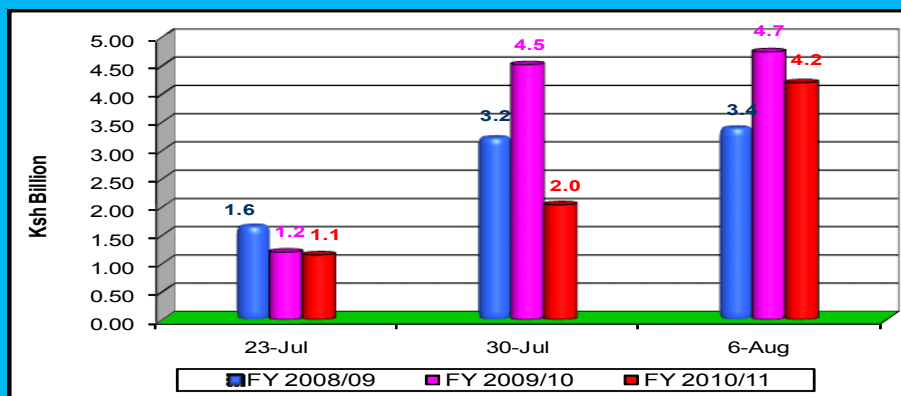


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at August 6 2010 of the FY 2010/11 amounted to Ksh 4.2 billion compared with Ksh 4.7 billion in a similar period of the FY 2009/10 (Chart E). The interest cost on domestic debt during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 1.1 billion and 3.1 billion, respectively.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

### The Stock Market

Performance at the equities market declined during the week ending August 12, 2010. Turnover decreased by 9.9 percent as stocks worth Ksh 2,065.7 million were traded compared with Ksh 2,293.5 million traded in the previous week. The number of shares traded decreased from 131.02 million in the previous week to 108.68 million shares in the week under review. Market capitalization as a measure of total shareholders wealth decreased by 3.2 percent or Ksh. 38.66 billion to close at Ksh 1,155.5 billion in the week under review from Ksh 1,194.16 billion in the previous week. The NSE 20 Share Index lost 122.95 points to settle at 4,544.5 points on August 12, 2010 from 4,667.4 points on August 5, 2010. The Nairobi All Share Index lost 3.3 points to settle at 98.86 points from 102.16 points the previous week (Table 7). The decline in performance may be attributed to re-allocation of portfolio by investors away from the equity market in anticipation for the 9-year infrastructure bond that was floated during the week.

Table 7: Key Weekly Market Statistics

Week Ending	17-Jun-10	24-Jun-10	01-Jul-10	08-Jul-10	15-Jul-10	22-Jul-10	29-Jul-10	05-Aug-10	12-Aug-10
NASI 100= Jan 2008	94.39	94.59	95.03	95.24	96.5	95.88	96.94	102.16	98.86
NSE 20 Share Index 100=1966	4,327.40	4,309.51	4,313.01	4,321.39	4,344.84	4,345.86	4,398.32	4,667.47	4,544.52
Number of Deals	10,890	11,435	10,247	11,157	11,601	10,387	11,033	10,179	12,230
Total Shares Traded (millions)	89.31	94.46	83.85	91.58	81.64	66.34	72.96	131.02	108.68
Equity Turnover (Ksh. millions)	1,794.53	1,699.56	1,492.23	1,373.04	1,210.84	1,086.56	1,468.81	2,293.54	2,065.74
Market Capitalization (Ksh. Bn.)	1,100.32	1,107.12	1,107.90	1,111.27	1,125.97	1,118.68	1,133.20	1,194.16	1,155.51
Bonds Turnover (Ksh. millions)	23,520.65	25,115.20	20,934.20	23,902.60	17,001.95	10,187.80	7,334.45	2,293.15	3,888.30

\* 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 46.7 million shares and accounted for 43 percent of the traded volume with Safaricom trading 44.9 million shares in the sector. The Finance and Investment sector traded 37.0 million shares and accounted for 34.1 percent of total traded volume. Equity Bank and Co-operative Bank were the most active stocks in the sector, trading 10.7million and 11.6million shares, respectively. Industrial and Allied sector traded 24.0 million shares and accounted for 22.1 percent of traded volume. Mumias Sugar Co was the most active counter, trading 10.4 million shares. The Alternative market segment traded 95,500 shares.

**Bond Market**

Bond turnover at the Fixed Income Securities Market increased from Ksh 22.9 billion traded in the previous week to Ksh 38.8 billion in the week under review. The increase in bond turnover may be attributed to shift in appetite towards the secondary market.