

August 20, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market registered performance of 153.4 percent during the 182-day auction held this week. The Government had offered for sale Treasury bills amounting to Ksh 4.0 billion, received bids amounting to Ksh 6.1 billion and accepted all bids. The cut-off rate for the 182-day Treasury bill edged up 15.1 basis points.

The average interbank rate remained steady at 1.74 percent in the week ending August 19, 2010 similar to its level in the previous week.

The money market was liquid in the week ending August 19, 2010. However the liquidity was skewed hence the Central Bank injected a total of Ksh 3.6 billion into the market during the week. There were no reverse repo maturities during the week.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending August 20, 2010. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 80.65 in the week compared with Ksh 79.85 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank remained unchanged at US dollar 3.416 billion (equivalent to 3.53 months of imports) as at August 20, 2010.

Government gross domestic debt increased by Ksh 8.5 billion for the period up to August 13, 2010 of the FY 2010/11. It increased from Ksh 659.6 billion in June 2010 to Ksh 668.1 billion as at August 13, 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 4.5 billion.

Performance at the equities market was mixed during the week ending August 19, 2010, with the NSE 20 Share Index gaining 58.74 points to settle at 4,603.26 from 4,544.52 points on August 12, 2010 and equity turnover decreasing by 11.0 percent.

Government Securities Auction

The Government securities market registered performance of 153.4 percent during the 182-day Treasury bills auction held this week. The Government had offered for sale Treasury bills amounting to Ksh 4.0 and received bids amounting to Ksh 6.1 billion of which Ksh 5.8 billion were competitive bids. The Government accepted a total of Ksh 6.1 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 10.0 billion.

Interest Rates on Treasury Bonds

The cut-off rate for the 182-day Treasury bill edged up by 15.1 basis points from 1.999 percent posted in August 5, 2010 to 2.150 percent in August 19, 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	12-Aug-10	19-Aug-10
91 day T. Bills*	3.491		2.628		1.801		1.728		1.699		1.999	
182 day T. Bills*		3.800		2.450		1.800		1.999		1.999		2.150
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 overnight 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 remained steady at 1.74 percent in the week ending August 19, 2010 similar to its level in the previous week (Table 2 and Chart A). The volumes traded declined from Ksh 71.9 billion in the previous week to Ksh 52.9 billion in the week ending August 19, 2010. The Government deposits at the Central Bank rose marginally from Ksh 52.9 billion in the week ending August 12, 2010 up to Ksh 53.6 billion in the week ending August 19, 2010.

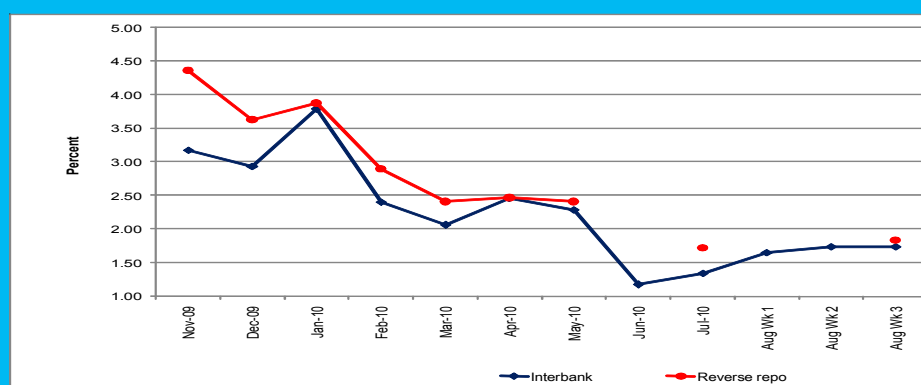
Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
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
August 06 - 12, 2010	377	71,998	1.74
13-Aug-10	73	14,993	1.80
16-Aug-10	67	14,663	1.83
17-Aug-10	58	8,145	1.77
18-Aug-10	48	6,886	1.69
19-Aug-10	60	8,185	1.62
August 13 - 19, 2010	306	52,872	1.74

Source: Central Bank of Kenya

The reverse repo rate was 1.83 percent as at the last reverse repo transaction on August 16, 2010.

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The money market was liquid in the week ending August 19, 2010. However the liquidity was skewed hence the Central Bank injected a total of Ksh 3.6 billion into the market during the week 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 0.6 billion from Central Bank overnight window during the week under review. Reserve money averaged Ksh 203.4 billion during the week and was above target by Ksh 18.9 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)
13-Aug	197.7	185.7	11.9	0.0	0.0	0.0	199.6	13.8	11.0	2.8
16-Aug	202.7	184.3	18.4	3.0	3.6	-0.6	205.2	20.9	18.1	2.8
17-Aug	206.4	184.3	22.1	0.0	0.0	0.0	207.1	22.8	20.4	2.4
18-Aug	204.9	184.3	20.6	0.0	0.0	0.0	205.8	21.5	19.7	1.8
19-Aug	203.2	184.3	18.9	0.0	0.0	0.0	202.0	17.7	16.1	1.6
Average	202.5	184.6	17.8	0.8	0.9	-0.2	203.4	18.8	16.4	2.4

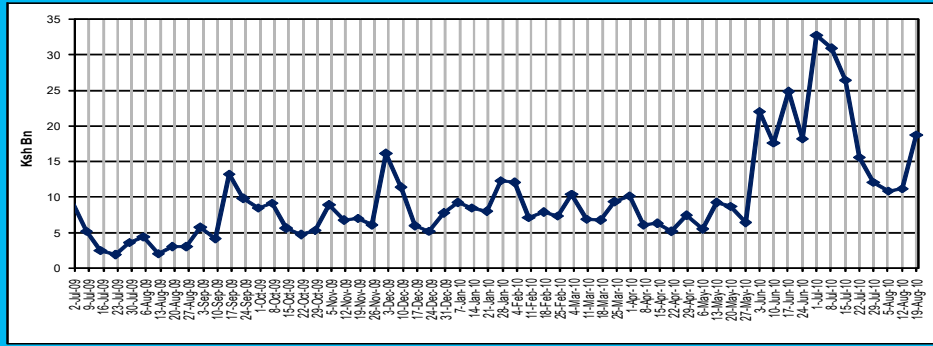
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 18.7 billion in their clearing accounts at the Central Bank in the week to August 19, 2010, compared with Ksh 11.2 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 depicted mixed performance against the major international currencies during the week ending August 20, 2010 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 80.65 compared with Ksh 79.85 per US dollar in the previous week. During the week, the shilling appreciated against the Sterling Pound and the Euro to exchange on average at Ksh 125.70 per Sterling Pound and Ksh 103.40 per Euro in the week compared with Ksh 125.98 per Sterling Pound and Ksh 104.28 per Euro in the previous week. The shilling lost against the Japanese Yen to exchange on average at Ksh 94.27 per 100 Japanese Yen in the week compared with Ksh 93.23 per 100 Japanese Yen in the previous week.

The movement partly reflected developments in the international foreign exchange market that saw the dollar appreciate against both the sterling pound and the euro.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
August 9- August 13, 2010	79.85	125.98	104.28	93.23	27.65	19.01
16-Aug-10	80.42	125.68	103.00	93.71	27.54	18.93
17-Aug-10	80.49	126.14	103.44	94.38	27.50	18.85
18-Aug-10	80.53	125.02	103.38	94.21	27.57	18.88
19-Aug-10	80.78	125.62	103.45	94.11	27.61	18.80
20-Aug-10	81.02	126.05	103.74	94.92	27.81	18.76
August 16- August 20, 2010	80.65	125.70	103.40	94.27	27.61	18.85

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling weakened against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 27.61 per Kenya Shilling and Tsh 18.85 per Kenya Shilling in the week ending August 20, 2010, compared with Ush 27.65 per Kenya Shilling and Tsh 19.01 per Kenya Shilling in the previous week, respectively.

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank remained unchanged at US dollar 3.416 billion (equivalent to 3.53 months of imports) as at August 20, 2010, compared to US dollar 3.417 billion (equivalent to 3.53 months of imports) held on August 13, 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	13-Aug-10	20-Aug-10
Usable Reserves	3,309	3,307	3,252	3,310	3,334	3,340	3,353	3,378	3,423	3,417	3,416
Months of Imports Cover*	3.62	3.50	3.41	3.47	3.47	3.47	3.49	3.51	3.56	3.53	3.53

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

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government debt increased by Ksh 8.5 billion from Ksh 659.6 billion in June 2010 to Ksh 668.1 billion as at August 13, 2010 (Table 6 and Chart C). The increase in domestic debt was on account of increases of Ksh 10.7 billion and Ksh 1.4 billion in Treasury bonds and Government overdraft at the CBK, respectively. These increases were, however, partially offset by decreases of Treasury bills (Ksh 3.3 billion) and other domestic debt (Ksh 0.2 billion) during the same period.

Treasury bonds and Government overdraft at the CBK increased from Ksh 448.6 billion and Ksh 17.6 billion, respectively in June 2010 to Ksh 459.3 billion and Ksh 19.0 billion as at August 13, 2010. Treasury bills and other domestic debt declined from Ksh 158.5 billion and Ksh 34.1 billion, respectively in June 2010 to Ksh 155.2 billion and Ksh 33.9 billion, respectively as at August 13, 2010.

Table 6: Government Domestic Debt (Ksh Billion)

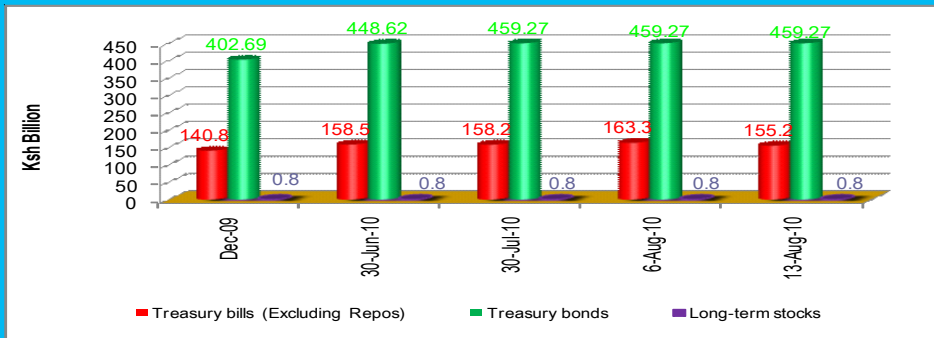
	Jun-10	30th July 2010	6th August 2010	13th August 2010	Changes	
					6th August 2010 - 13th August 2010	30th Jun-2010 - 13th August - 2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	158.5 26.1	158.2 25.6	163.3 26.2	155.2 25.2	-8.2 -1.0	-3.3
2. Treasury Bonds (As % of total securities)	448.6 73.8	459.3 74.3	459.3 73.7	459.3 74.7	0.0 1.0	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	618.2	623.4	615.2	-8.2	7.3
5. Overdraft at Central Bank	17.6	15.5	10.8	19.0	8.3	1.4
6. Other Domestic debt*	34.1	34.0	33.9	33.9	0.0	-0.2
7. Gross Domestic Debt (4+5+6)	659.6	667.7	668.0	668.1	0.1	8.5
8. Interest payments on domestic debt	57.8	2.62	4.19	4.24	0.1	

* 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 increased from 73.8 percent in June to 74.7 percent as at August 13, 2010, while that of Treasury bills declined from 26.1 percent to 25.2 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 13, 2010. This development is largely in line with the Government borrowing strategy of lengthening the maturity profile of domestic debt and maintaining a mix of 75 percent for Treasury bonds and 25 percent for Treasury bills.

Chart C: Composition of Government Securities

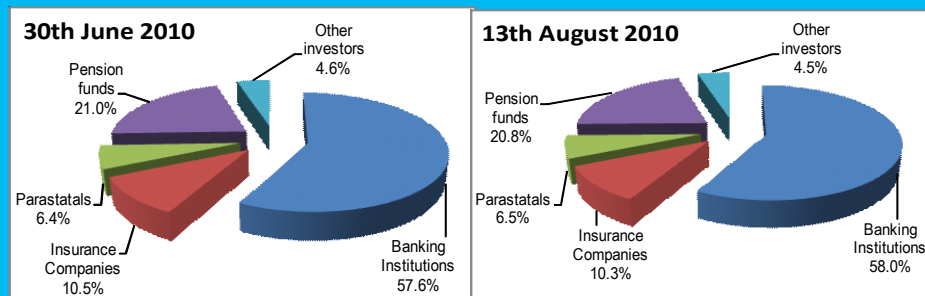


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by commercial banks and parastatals increased marginally from 57.6 percent and 6.4 percent in June 2010 to 58.0 percent and 6.5 percent, respectively as at August 13, 2010. However, holdings by insurance companies, pension funds and other investors declined from 10.5 percent, 21.0 percent and 4.6 percent, respectively as at June 30, 2010 to 10.3 percent, 20.8 percent and 4.5 percent as at August 13, 2010 (Chart D).

Chart D: Composition of Government Securities by Investor

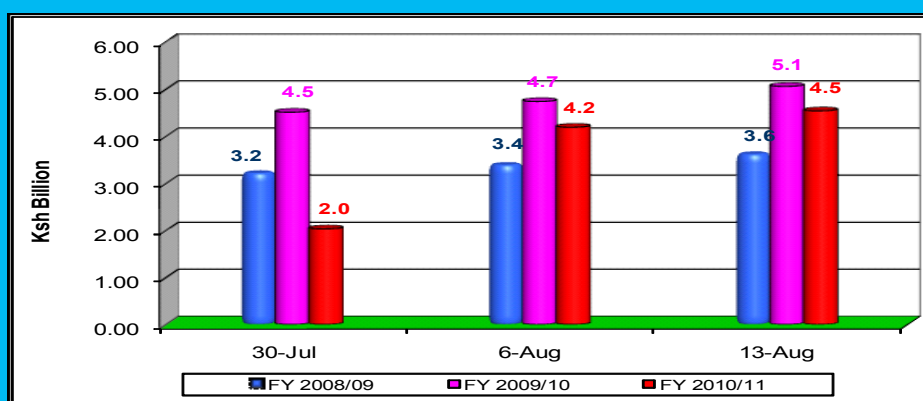


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at August 13, 2010 of the FY 2010/11 amounted to Ksh 4.5 billion compared with Ksh 5.1 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 1.5 billion and Ksh 3.0 billion, respectively, while interest on Government overdraft at the CBK amounted to Ksh 0.1 billion.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

Performance at the equities market was mixed during the week ending August 19, 2010. Turnover decreased by 11.0 percent as stocks worth Ksh 1,837.6 million were traded compared with Ksh 2,065.7 million traded in the previous week. The number of shares traded increased from 108.6 million in the previous week to 111.1 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 2.9 percent or Ksh. 33.6 billion to close at Ksh 1,189.1 billion in the week under review from Ksh 1,155.5 billion in the previous week. The NSE 20 Share Index gained 58.74 points to settle at 4,603.3 points on August 19, 2010 from 4,544.5 points on August 12, 2010. The Nairobi All Share Index gained 1.63 points to settle at 100.49 points from 98.86 points the previous week (Table 7).

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	19-Aug-10
NASI 100= Jan 2008	94.39	94.59	95.03	95.24	96.5	95.88	96.94	102.16	98.86	100.49
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	4,603.26
Number of Deals	10,890	11,435	10,247	11,157	11,601	10,387	11,033	10,179	12,230	12,358
Total Shares Traded (millions)	89.31	94.46	83.85	91.58	81.64	66.34	72.96	131.02	108.68	111.0753
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	1,837.56
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	1,189.07
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	3,225.05

* 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 65.4 million shares and accounted for 58.9 percent of the traded volume with Safaricom trading 62.4 million shares in the sector. The Finance and Investment sector traded 29.1 million shares and accounted for 26.2 percent of total traded volume.

Kenya Commercial Bank and Co-operative Bank were the most active stocks in the sector, trading 9.3 million and 6.5 million shares, respectively. Industrial and Allied sector traded 14.9 million shares and accounted for 13.5 percent of traded volume. Mumias Sugar Company was the most active counter, trading 8.5 million shares. The Alternative market segment traded 159,200 shares.

Bond Market

Bond turnover at the Fixed Income Securities Market decreased from Ksh 38.8 billion traded in the previous week to Ksh 32.3 billion in the week under review. The decrease in bond turnover may be attributed to shift in appetite towards the primary market.