

August 26, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The fourth Government infrastructure bond issue registered good performance of 107.9 percent during the auction held this week. The Government had offered for sale infrastructure bonds amounting to Ksh 31.6 billion, received bids amounting to Ksh 34.1 billion and accepted bids amounting to Ksh 30.6 billion. The weighted average at the cut-off stood at 7.293 percent.

The average interbank rate declined by 19 basis points to 1.55 percent in the week ending August 25, down from 1.74 percent in the previous week.

The money market was liquid in the week ending August 25, 2010 and the Central Bank stayed out of the market. There were reverse repo maturities of Ksh 3.6 billion during the week.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending August 26, 2010. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 81.12 in the week compared with Ksh 80.65 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank decreased to US dollar 3.396 billion (equivalent to 3.51 months of imports) as at August 26, 2010, compared to US dollar 3.416 billion (equivalent to 3.53 months of imports) held on August 20, 2010. The reduction in foreign exchange reserves reflected revaluation loss during the week.

Government gross domestic debt increased by Ksh 5.0 billion as at August 20, 2010, from Ksh 659.6 billion in June 2010 to Ksh 664.6 billion. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 5.7 billion.

Performance at the equities market declined during the week ending August 25, 2010, with the NSE 20 Share Index losing 61.56 points to settle at 4,541.70 from 4,603.26 points on August 19, 2010 and equity turnover decreasing by 18.6 percent.

Government Securities Auction

The fourth Government infrastructure bond issue registered good performance of 107.9 percent during the auction held this week. The Government had offered for sale infrastructure bonds amounting to Ksh 31.6 billion and received bids amounting to Ksh 34.1 billion. The Government accepted a total of Ksh 30.6 billion of which Ksh 26.1 billion were competitive. The funds raised at the auction are earmarked to finance infrastructure projects in the roads, water and sewerage and energy sectors.

Interest Rates on Treasury Bonds

The weighted average interest rate at the cut-off interest rate for the 4th infrastructure bond stood at 7.293 percent.

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*		3.300		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 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

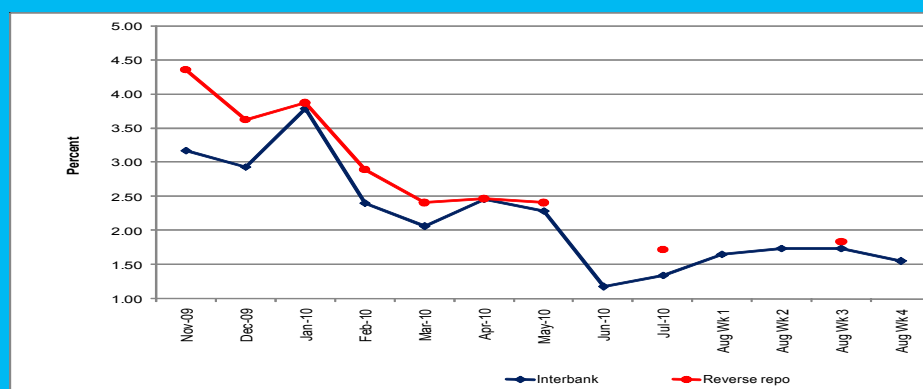
The average interbank rate declined by 19 basis points to 1.55 percent in the week ending August 25, down from 1.74 percent in the previous week. The fall in the interbank rate reflected build up of commercial banks balances at the Central Bank in anticipation of investing in the fourth Government infrastructure bond. The value traded in the interbank market declined from Ksh 52.9 billion in the previous week to Ksh 32.2 billion in the week ending August 25, 2010. The Government deposits at the Central declined from Ksh 53.6 billion in the week ending August 19, down to Ksh 40.0 billion in the week ending August 25, 2010 (Table 2), thereby contributing to the excess liquidity in the interbank market.

Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
20-Aug-10	54	7,705	1.59
23-Aug-10	69	12,577	1.55
24-Aug-10	46	6,465	1.53
25-Aug-10	48	5,501	1.51
August 13 - 19, 2010	217	32,248	1.55

Source: Central Bank of Kenya

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 25, 2010 (Table 3). Indicative of this liquidity commercial banks excess reserves at the Central Bank increased by 82.5 percent to Ksh 28.1 billion during the week under review. The reserves build up also comprised Ksh 3.6 billion from reverse repo maturities. Consistent with the build up in excess reserves, reserve money increased by 5.7 percent to Ksh 212.7 billion, a level 13.8 percent 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=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
20-Aug	197.1	184.3	12.8	0.0	0.0	0.0	201.3	17.0	15.4	1.6
23-Aug	215.7	182.9	32.9	0.0	0.0	0.0	216.9	34.1	32.4	1.6
24-Aug	215.9	182.9	33.1	0.0	0.0	0.0	216.2	33.3	32.2	1.1
25-Aug	215.9	182.9	33.1	0.0	0.0	0.0	216.4	33.5	32.4	1.1
Average	211.2	183.2	28.0	0.0	0.0	0.0	212.7	29.5	28.1	1.4

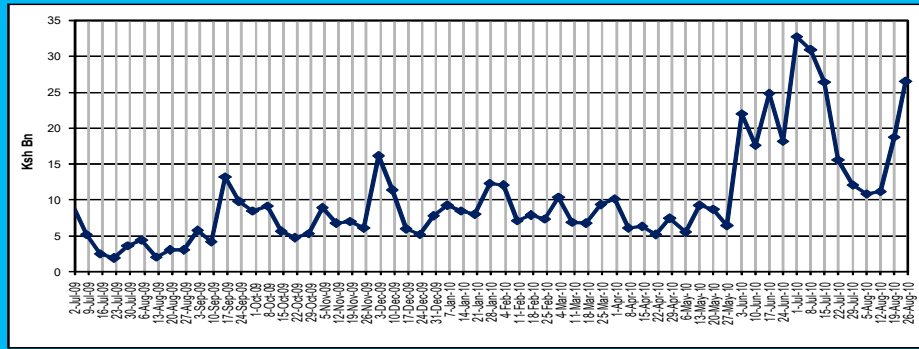
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 26.5 billion in their clearing accounts at the Central Bank in the week to August 25, 2010, compared with Ksh 18.7 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 26, 2010 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 81.12 in the week compared with Ksh 80.65 per US dollar in the previous week. The shilling depreciated against the dollar, undermined by month end importer demand and commercial banks covering their short U.S. currency positions. During the week, the shilling also depreciated against the Japanese Yen to exchange on average at Ksh 95.54 per 100 Japanese Yen in the week compared with Ksh 94.27 per 100 Japanese Yen in the previous week. The shilling appreciated against Sterling Pound, and the Euro to exchange on average at Ksh 125.69 per Sterling Pound and Ksh 102.87 per Euro in the week compared with Ksh 125.70 per Sterling Pound, and Ksh 103.40 per Euro in the previous week

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
23-Aug-10	81.09	126.32	103.15	94.96	27.81	18.75
24-Aug-10	81.36	125.47	102.83	95.73	27.72	18.68
25-Aug-10	81.24	125.26	102.86	96.09	27.81	18.68
26-Aug-10	80.78	125.73	102.66	95.38	27.94	18.75
August 23- August 26, 2010	81.12	125.69	102.87	95.54	27.82	18.72

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling strengthened against the Uganda Shilling and weakened against the Tanzania Shilling to exchange at Ush 27.82 per Kenya Shilling and Tsh 18.72 per Kenya Shilling in the week ending August 26, 2010, compared with Ush 27.61 per Kenya Shilling and Tsh 18.85 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 3.396 billion (equivalent to 3.51 months of imports) as at August 26, 2010, compared to US dollar 3.416 billion (equivalent to 3.53 months of imports) held on August 20, 2010, reflecting a 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	20-Aug-10	26-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	3,396
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	3.51

*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 5.0 billion from Ksh 659.6 billion in June 2010 to Ksh 664.6 billion as at August 20, 2010 (Table 6 and Chart C). The increase in domestic debt was on account of increases of Ksh 10.7 billion and Ksh 1.0 billion in Treasury bonds and Government overdraft at the CBK, respectively. These increases were, however, partially offset by decreases of Treasury bills (Ksh 6.6 billion) and other domestic debt (Ksh 0.1 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 18.7 billion as at August 20, 2010. Meanwhile, Treasury bills and other domestic debt declined from Ksh 158.5 billion and Ksh 34.1 billion, respectively in June 2010 to Ksh 151.9 billion and Ksh 34.0 billion, respectively as at August 20, 2010.

Table 6: Government Domestic Debt (Ksh Billion)

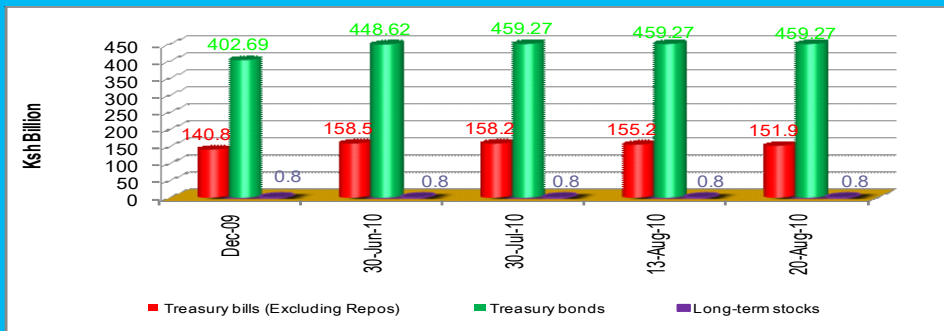
	Jun-10	30th July 2010	13th August 2010	20th August 2010	Changes	
					13th August 2010 - 20th August 2010	30th Jun-2010 - 20th August - 2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	158.5 26.1	158.2 25.6	155.2 25.2	151.9 24.8	-3.2 -0.4	-6.6
2. Treasury Bonds (As % of total securities)	448.6 73.8	459.3 74.3	459.3 74.7	459.3 75.1	0.0 0.4	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	615.2	611.9	-3.2	4.1
5. Overdraft at Central Bank	17.6	15.5	19.0	18.7	-0.3	1.0
6. Other Domestic debt*	34.1	34.0	33.9	34.0	0.1	-0.1
7. Gross Domestic Debt (4+5+6)	659.6	667.7	668.1	664.6	-3.5	5.0
8. Interest payments on domestic debt	57.8	2.62	4.54	5.70	1.2	

* 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 75.1 percent as at August 20, 2010, while that of Treasury bills declined from 26.1 percent to 24.8 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 4 years and 11 month as at August 20, 2010. This developments are consistent 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

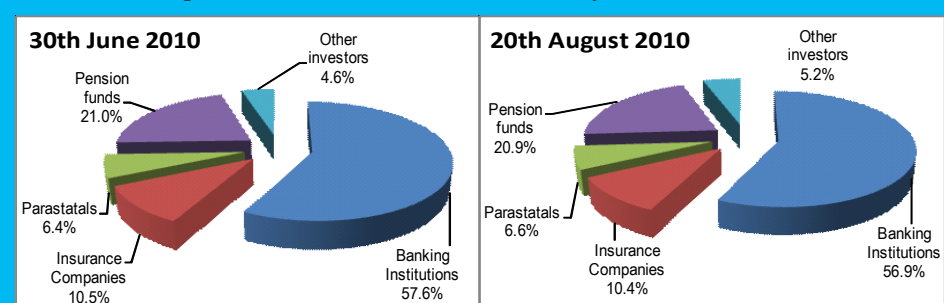


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by parastatals and other investors increased from 6.4 percent and 4.6 percent in June 2010 to 6.6 percent, and 5.2 percent, respectively as at August 20, 2010. However, holdings by commercial banks, insurance companies and pension funds declined from 57.6 percent, 10.45 percent and 21.0 percent, respectively as at June 30, 2010 to 56.9 percent, 10.34 percent and 20.9 percent during the same period (Chart D).

Chart D: Composition of Government Securities by Investor

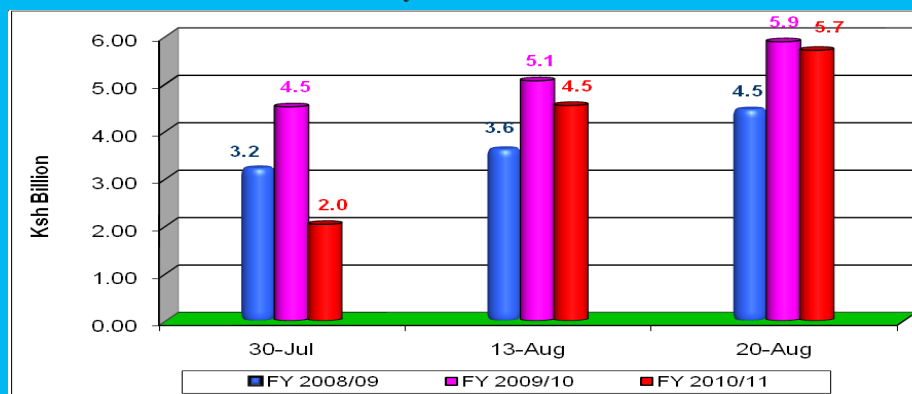


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at August 20, 2010 of the fiscal year 2010/11 amounted to Ksh 5.7 billion compared with Ksh 5.9 billion in a similar period of the fiscal year 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 3.3 billion and Ksh 2.3 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 largely declined during the week ending August 25, 2010. Turnover decreased by 18.6 percent as stocks worth Ksh 1,496.0 million were traded compared with Ksh 1,837.6 million traded in the previous week. The number of shares traded increased from 111.1 million in the previous week to 137.4 million shares in the week under review. Market capitalization as a measure of total shareholders wealth decreased by 2.6 percent or Ksh. 30.7 billion to close at Ksh 1,158.34 billion in the week under review from Ksh 1,189.1 billion in the previous week. Reflecting the trend on share prices, the NSE 20 Share Index declined by 61.56 points to settle at 4,542 points on August 25, 2010 from 4,603.3 points on August 19, 2010. The Nairobi All Share Index also declined by 2.69 points to settle at 97.8 points from 100.49 points the previous week (Table 7). The decline in equities market can be attributed to the competition in the mobile telephone industry that has triggered a decline in Safaricom share prices.

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	25-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	97.8
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	4,541.70
Number of Deals	10,890	11,435	10,247	11,157	11,601	10,387	11,033	10,179	12,230	12,358	10,351
Total Shares Traded (millions)	89.31	94.46	83.85	91.58	81.64	66.34	72.96	131.02	108.68	111.0753	137.42
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	1,496.01
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	1,158.34
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	5,220.35

* 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 103.8 million shares and accounted for 75.5 per cent of the traded volume with Safaricom trading 101.5 million shares in the sector. The Finance and Investment sector

traded 15.8 million shares and accounted for 11.5 percent of total traded volume. Co-operative Bank and Kenya Commercial Bank were the most active stocks in the sector, trading 5.7 million and 3.5 million shares, respectively. Industrial and Allied sector traded 17.0 million shares and accounted for 12.3 percent of traded volume. Mumias Sugar Company was the most active counter, trading 11.2 million shares. The Alternative market segment traded 33,800 shares.

Bond Market Bond turnover at the Fixed Income Securities Market increased from Ksh 32.3 billion traded in the previous week to Ksh 52.2 billion in the week under review. The increase in bond turnover may be attributed to possible investor portfolio reallocation from the equity market.