

December 3, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The overall 12-month inflation went up from 3.2 percent in October 2010 to 3.8 percent in November 2010. The average annual inflation, continued the downward trend declining from 4.1 percent in October 2010 to 4.0 percent in November 2010.

The Government securities market recorded oversubscription of 189 percent during the Treasury bills auction of December 02, 2010. The government had offered for sale 91-day Treasury bills worth Ksh 4.0 billion, received bids totalling Ksh 11.5 billion and accepted bids amounting to Ksh 5.8 billion. The average 91-day Treasury bills rate declined by 0.3 basis points during this week's auction.

The average interbank rate remained stable at 1.10 percent in the week ending December 2, a similar level to the previous week.

The money market was liquid in the week ending December 2, 2010 and the Central Bank stayed out of the market, during the week. There were reverse repo maturities of Ksh 3.6 billion during the week.

The Kenya Shilling depicted mixed performance against major international currencies during the week ending December 03, 2010. Against the US dollar, the shilling depreciated marginally to exchange at an average of Ksh 80.69 in the week compared with Ksh 80.25 per US dollar in the previous week.

Usable official foreign exchange reserves held by the Central Bank decreased to US \$ 3.436 billion (equivalent to 3.45 months of imports) as at December 03, 2010, compared to US\$ 3.471 billion (equivalent to 3.52 months of imports) held on November 26, 2010, reflecting a revaluation loss during the week.

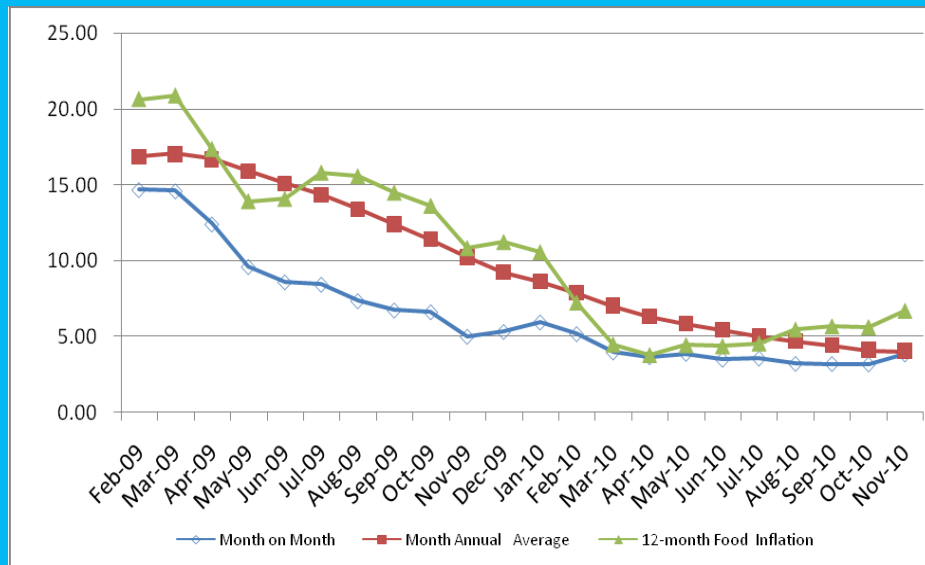
Government gross domestic debt increased by Ksh 31.3 billion from Ksh 660.3 billion in June 2010 to Ksh 691.8 billion as at November 26, 2010 of the FY 2010/11. Cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 26.8 billion.

Performance at the equities market declined during the week ending December 02, 2010 with the NSE 20 Share Index losing 139.83 points to settle at 4,388 from 4,528 points on November 25, 2010 while equity turnover declined by 21.2 percent.

Inflation

Overall 12-month inflation increased from 3.2 percent in October 2010 to 3.8 percent in November 2010 (Chart A). The overall increase in inflation was attributed to rising prices in virtually all baskets of goods and services during the month of November, with the exception of furnishings, household equipment and routine household maintenance basket and the health basket. The food basket's inflation rose from 5.6 percent in October 2010 to 6.7 percent in November 2010. This was attributed to increases in retail prices of food items such as beef, milk, rice, and bread during the month. The transport basket, the housing, water, electricity and other fuels basket and the communications basket's inflation went up during the month by 0.6 percent, 0.5 percent and 0.5 percent, respectively. The transport index was driven up by rising pump prices of the various fuels as well as increased fares for public transport during the month, while the housing, water, electricity and other fuels index was driven mainly by higher costs of kerosene and cooking gas during the month. The rising communications index reflected subsiding effects of the price wars initiated by industry players in August 2010.

Chart A: Annual Average, 12-month Overall Inflation and Food and Alcoholic Beverages Inflation



Source: Central Bank of Kenya

Government Securities Auction

The Government securities market recorded oversubscription of 189 percent during the Treasury bills auction of December 02, 2010. The government had offered for sale 91-day Treasury bills worth Ksh 4.0 billion and received bids totalling Ksh 11.5 billion of which Ksh 11.3 billion were competitive bids. The government accepted bids amounting to Ksh 5.8 billion of which Ksh 5.6 billion were competitive bids. The proceeds of the auction were directed at supporting the budget.

Table 1: Interest Rates

Auction date	30-Sep-10	07-Oct-10	14-Oct-10	21-Oct-10	28-Oct-10	04-Nov-10	11-Nov-10	18-Nov-10	25-Nov-10
91 day T. Bills*		2.125		2.116		2.180		2.242	
182 day T. Bills*	2.093		2.111		2.132		2.256		2.464
364 day T. Bills*		3.060							
Month	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10			
Average savings rate	1.76	1.75	1.55	1.50	1.47	1.46			
Average overdraft rate	14.38	14.23	14.03	13.97	13.81	13.64			

*Weighted rates

Source: Central Bank of Kenya

Interest Rates on Treasury Bills

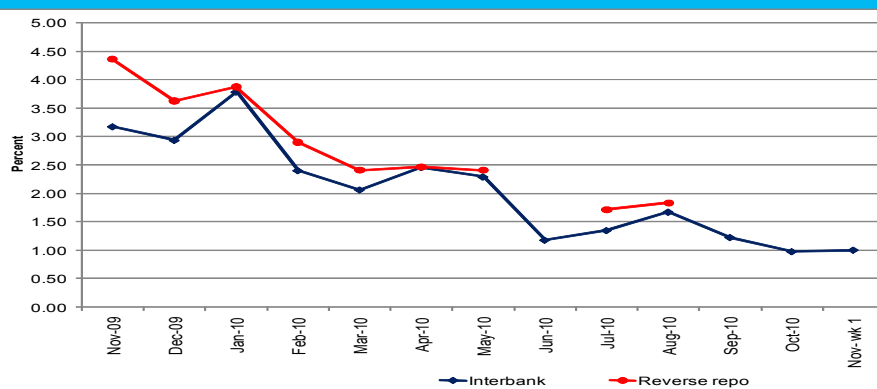
The average 91-day Treasury bill rate declined by 0.3 basis points from 2.242 percent in the previous auction of a similar security to 2.239 percent (Table 1).

Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
Nov 5 - Nov 11, 2010	68	14,201	1.02
12-Nov-10	68	8,641	1.08
15-Nov-10	76	12,904	1.07
16-Nov-10	78	11,731	1.05
17-Nov-10	77	12,421	1.07
18-Nov-10	81	12,713	1.10
Nov 12 - Nov 18, 2010	76	11,682	1.08
19-Nov-10	67	10,618	1.09
22-Nov-10	71	13,465	1.10
23-Nov-10	63	11,548	1.11
24-Nov-10	64	12,997	1.09
25-Nov-10	54	9,838	1.12
Nov 19 - Nov 25, 2010	64	11,693	1.10
26-Nov-10	53	10,865	1.11
29-Nov-10	58	9,866	1.11
30-Nov-10	63	9,161	1.09
01-Dec-10	59	11,335	1.10
02-Dec-10	54	9,824	1.08
Nov 26 - Dec 02, 2010	57	10,210	1.10

Source: Central Bank of Kenya

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The average interbank rate remained stable at 1.10 percent in the week ending December 2, a similar level in the previous week (Table 2 and Chart B). The volumes traded declined slightly to Ksh 10.2 billion in the week ending December 2, 2010 from Ksh 11.7 billion in the previous week. Government deposits at the Central Bank declined from Ksh 48.3 billion in the week ending November 25, 2010 to Ksh 43.9 billion in the week ending December 2, 2010.

The money market was liquid in the week ending December 2, 2010 and the Central Bank stayed out of the market during the week (Table 3). There were reverse repo maturities of Ksh 3.6 billion during the week. Despite the liquidity, commercial banks borrowed Ksh 1.4 billion from the Central Bank overnight window during the week under review. Reserve money averaged Ksh 221.6 billion during the week and was above target by Ksh 25.3 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)
26-Nov	220.4	195.6	24.8	0.0	0.0	0.0	220.3	24.7	28.0	-3.3
29-Nov	221.2	195.6	25.6	0.0	0.0	0.0	222.0	26.4	29.6	-3.2
30-Nov	196.1	195.6	0.5	0.0	0.0	0.0	224.6	29.0	31.0	-2.0
01-Dec	223.3	197.3	26.0	0.0	0.0	0.0	220.2	22.9	24.6	-1.8
02-Dec	220.2	197.3	22.9	0.0	0.0	0.0	220.7	23.3	24.4	-1.1
Average	216.2	196.3	20.0	0.0	0.0	0.0	221.6	25.3	27.5	-2.3

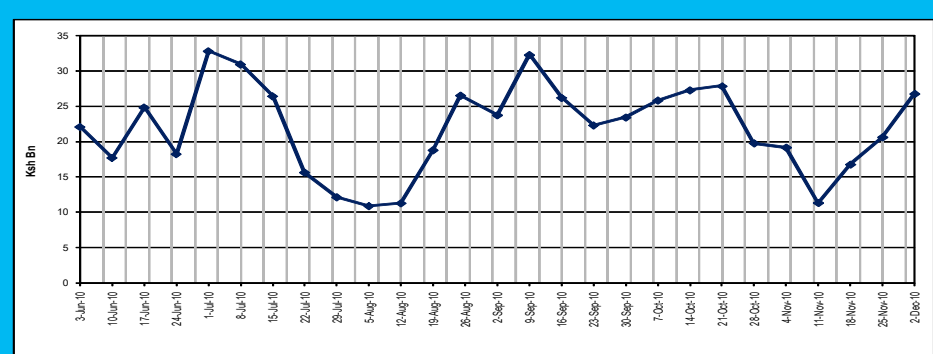
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 26.7 billion in their clearing accounts at the Central Bank in the week to December 2, 2010, compared with Ksh 20.6 billion held the previous week (Chart C).

Chart C: 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 major international currencies during the week ending December 03, 2010 (Table 4). Against the US dollar, the shilling depreciated marginally to exchange at Ksh 80.69 in the week compared with Ksh 80.25 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 125.85 per Sterling Pound and Ksh 106.10 per Euro in the week compared with Ksh 127.19 per Sterling Pound and Ksh 108.09 per Euro in the previous week. Against the Japanese

Yen, the shilling depreciated marginally to exchange at Ksh 96.26 per 100 Japanese Yen compared with Ksh 96.07 per 100 Japanese Yen the previous week. In the local market, the Kenya shilling depreciated against the US dollar in the week undermined by corporate month-end dollar demand as well as increased risk aversion in global markets following renewed concerns about the Europe's debt crisis.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
22-Nov-10	80.04	128.19	109.98	95.69	28.54	18.56
23-Nov-10	80.16	127.67	108.78	96.04	28.54	18.59
24-Nov-10	80.35	127.16	107.69	96.55	28.50	18.50
25-Nov-10	80.29	126.51	106.98	96.18	28.53	18.50
26-Nov-10	80.39	126.42	107.01	95.91	28.55	18.50
November 22- 26, 2010	80.25	127.19	108.09	96.07	28.53	18.53
29-Nov-10	80.78	126.10	106.94	96.10	28.47	18.39
30-Nov-10	80.97	125.99	106.33	96.49	28.56	18.35
01-Dec-10	80.90	126.05	105.38	96.93	28.57	18.33
02-Dec-10	80.32	125.40	105.41	95.58	28.42	18.51
03-Dec-10	80.46	125.69	106.43	96.21	28.44	18.46
November 29- December 03, 2010	80.69	125.85	106.10	96.26	28.49	18.41

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling weakened marginally against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 28.49 per Kenya Shilling and Tsh 18.41 per Kenya Shilling in the week ending December 03, 2010 compared with 28.53 per Kenya Shilling and Tsh 18.53 per Kenya Shilling in the previous week, respectively.

Foreign Exchange Reserves

Usable official foreign exchange reserves held by the Central Bank decreased to US\$ 3.436billion (equivalent to 3.45months of imports) as at December 03, 2010, compared to US\$ 3.471billion (equivalent to 3.52 months of imports) held on November 26, 2010, reflecting a revaluation loss during the week. (Table 5).

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

	13-Aug-10	20-Aug-10	29-Oct-10	05-Nov-10	12-Nov-10	19-Nov-10	26-Nov-10	03-Dec-10
Usable Reserves	3,417	3,416	3,471	3,492	3,489	3,472	3,471	3,436
Months of Imports Cover*	3.53	3.53	3.53	3.54	3.54	3.52	3.52	3.45

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

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government debt increased by Ksh 31.3 billion from Ksh 660.3 billion in June 2010 to Ksh 691.80 billion as at November 26, 2010 (Table 6 and Chart D). This increase reflected borrowing through Treasury bonds and overdraft at the Central Bank of Kenya amounting to Ksh 57.4 billion and Ksh 5.3 billion, respectively. The stock of Treasury bills and other domestic debt declined by Ksh 29.3 billion and Ksh 1.4 billion, respectively.

The Stock of Treasury bonds and overdraft at the CBK increased from Ksh 448.6 billion and Ksh 17.6 billion in June 2010 to Ksh 506.0 billion and Ksh 22.9 billion, respectively as at November 26, 2010. The Stock of Treasury bills and other domestic debt declined from Ksh 159.0 billion and Ksh 34.2 billion, respectively in June 2010 to Ksh 129.7 billion and Ksh 32.8 billion, respectively as at November 26, 2010.

Table 6: Government Domestic Debt (Ksh Billion)

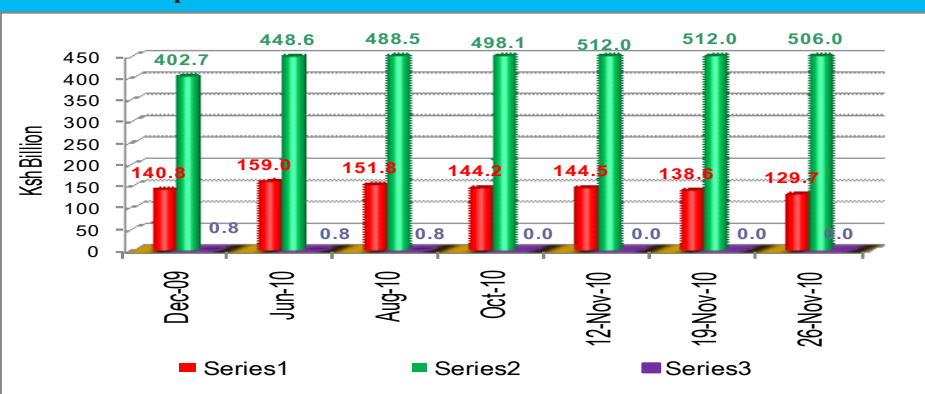
	Jun-10	Sep-10	Oct-10	19th Nov-2010	26th Nov-2010	Changes	
						19th Oct-10 - 26th Nov-10	30th Jun-10 - 26th Nov-10
1. Treasury Bills (Excluding Repos)	159.0	147.4	144.2	138.6	129.7	-8.8	-29.3
(As % of total securities)	26.1	23.2	22.4	21.3	20.4	-0.9	
2. Treasury Bonds	448.6	488.5	498.1	512.0	506.0	-5.9	57.4
(As % of total securities)	73.7	76.7	77.6	78.7	79.6	0.9	
3. Long Term Stocks	0.8	0.8	0.0	0.0	0.0	0.0	-0.8
(As % of total securities)	0.1	0.1	0.0	0.0	0.0	0.0	
4. Total Securities (1+2+3)	608.4	636.6	642.3	650.6	635.8	-14.8	27.4
5. Overdraft at Central Bank	17.6	20.6	22.1	16.7	22.9	6.2	5.3
6. Other Domestic debt*	34.2	34.1	34.0	26.9	32.8	6.0	-1.4
7. Gross Domestic Debt (4+5+6)	660.3	691.3	698.4	694.1	691.6	-2.6	31.3
8. Interest payments on domestic debt	57.8	14.49	21.61	22.58	26.78	4.2	

* 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

The share of Treasury bonds increased from 73.7 percent in June 2010 to 79.6 percent as at November 26, 2010, while that of Treasury bills declined from 26.1 percent to 20.4 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years as at November 26, 2010. This development is largely in line with the Government debt management strategy of lengthening the maturity profile of domestic debt.

Chart D: Composition of Government Securities

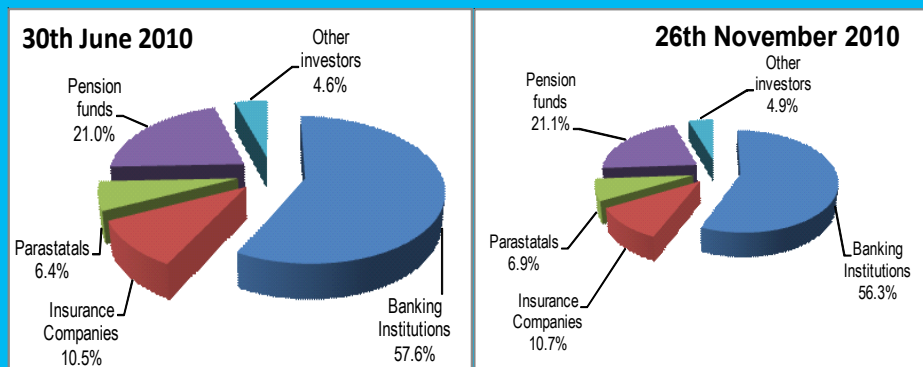


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by parastatals, pension funds, insurance companies and other investors increased from 6.4 percent, 21.0 percent, 10.5 percent and 4.6 percent, respectively in June 2010 to 6.9 percent, 21.1 percent, 10.7 percent, and 4.9 percent, respectively as at November 26, 2010. However, holdings of commercial banks declined from 57.6 percent to stand at 56.3 percent during this period (Chart E).

Chart E: Composition of Government Securities by Investor

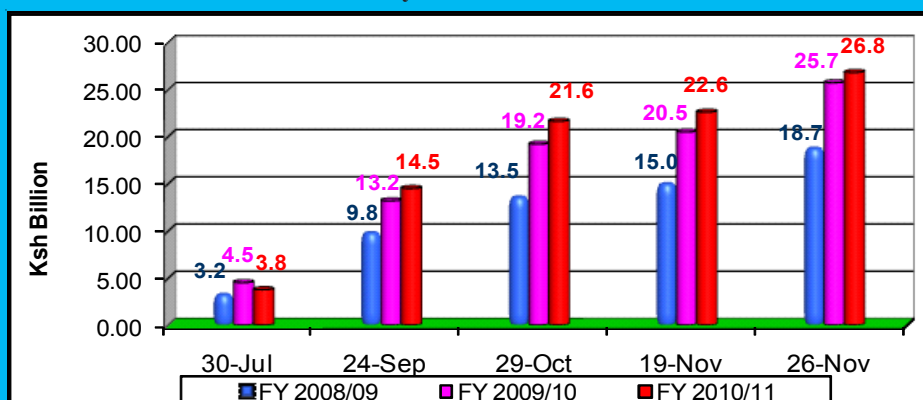


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative Government expenditure on interest and other charges on domestic debt as at November 26, 2010 of the FY 2010/11 amounted to Ksh 26.8 billion compared with Ksh 25.7 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 amounting to Ksh 5.9 billion and 20.6 billion, respectively, while interest on Government overdraft at the CBK amounted to Ksh 0.3 billion.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

Performance at the equities market declined during the week ending December 02, 2010. Turnover declined by 21.2 percent as stocks worth Ksh 1,662.3 million were traded compared with Ksh 2,109.0 million traded in the previous week. The number of shares traded decreased from 109.5 million in the previous week to 93.4 million shares in the week under review. Market capitalization as a measure of total shareholders wealth decreased by 2.2 percent or Ksh. 26.5 billion to close at Ksh 1,162 billion from Ksh 1,188 billion in the previous week. The NSE 20 Share index lost 139.83 points to settle at 4,388 points on December 02, 2010 from 4,528 points on November 25, 2010. The Nairobi All Share Index lost 2.22 points to settle at 97.41 from 99.6 points the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	07-Oct-10	14-Oct-10	21-Oct-10	28-Oct-10	04-Nov-10	11-Nov-10	18-Nov-10	25-Nov-10	02-Dec-10
NASI 100= Jan 2008	100.59	100.45	102.15	101.95	101.95	101.36	100.52	99.6287	97.41
NSE 20 Share Index 100=1966	4,626.19	4,608.36	4,664.03	4,640.42	4,629.03	4,587.49	4,555.28	4,528.26	4,388.43
Number of Deals	11,782	11,612	8,679	12,818	11,138	10,426	8,869	9,818	8,829
Total Shares Traded (millions)	138.75	118.26	105.66	120.97	110.87	146.38	97.66	109.58	93.48
Equity Turnover (Ksh. millions)	2,743.85	2,285.00	2,467.01	2,410.67	2,243.27	2,126.41	2,052.47	2,109.04	1,662.33
Market Capitalization (Ksh. Bn.)	1,194.89	1,194.20	1,214.39	1,212.98	1,216.05	1,209.09	1,199.17	1,188.50	1,162.00
Bonds Turnover (Ksh. millions)	8,811.05	6,324.50	6,680.25	7,448.35	4,412.25	7,929.35	8,010.60	9,622.65	7,173.50

* 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 45.4 million shares and accounted for 49.4 percent of the traded volume with Safaricom trading 41.4 million shares in the sector. The Finance and Investment sector traded 33.1 million shares and accounted for 36.0 percent of total traded volume. Equity Bank and Kenya Commercial Bank were the most active stocks in the sector, trading 8.7 million and 8.3 million shares, respectively. Industrial and Allied sector traded 13.1 million shares and accounted for 14.3 percent of traded volume. Mumias Sugar Co. was the most active counter, trading 4.5 million shares. The Alternative market segment traded 43,400 shares.

Bond Market Bond turnover at the Fixed Income Securities Market decreased from Ksh 9.6 billion traded in the previous week to Ksh 7.1 billion in the week under review.