

December 10, 2010



THE CBK WEEKLY BULLETIN

**Highlights for
the Week**

The Government securities market posted mixed performance during the Treasury bills auctions of this week. The 364-day Treasury bills auction posted over performance of 45.6 percent while the 182-day Treasury bills auction posted underperformance 35.6 percent. The average interest rate increased by 8.4 basis points and 30 basis points for 182-day Treasury bill and the 364-day Treasury bill, respectively.

The average interbank rate declined by 2 basis points to 1.08 percent in the week ending December 9, down from 1.10 percent in the previous week

The money market was liquid in the week ending December 9, 2010 and the Central Bank stayed out of 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 December 10, 2010. Against the US dollar, the shilling appreciated marginally to exchange at an average of Ksh 80.52 compared with Ksh 80.69 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.468billion (equivalent to 3.48months of imports) as at December 10, 2010, compared to US dollar 3.436billion (equivalent to 3.45 months of imports) held on December 03, 2010, reflecting a revaluation gain during the week.

Government gross domestic debt increased by Ksh 50.2 billion from Ksh 660.3 billion in June 2010 to Ksh 710.4 billion as at December 03, 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 27.4 billion.

Performance at the equities market was mixed during the week ending December 09, 2010, with the NSE 20 Share index closing lower by 16.54 points to 4,371.8 from 4,388 on December 02, 2010 while equity turnover increased by 18.9 percent.

Government Securities Auction

The Government securities market posted mixed performance during the Treasury bills auctions this week. The 364-day Treasury bills auction posted over performance of 45.6 percent while the 182-day Treasury bills auction posted underperformance by 35.6 percent. The government had offered for sale 364-day Treasury bills worth Ksh 6.0 billion during the auction held on December 08, 2010 and received bids totalling Ksh 8.7 billion. In addition, at the auction of December 09, 2010 the Government floated 182-day Treasury bills amounting to Ksh 5.0 and received bids amounting to Ksh 3.2 billion.

The Government accepted 364-day Treasury bills bids amounting to Ksh 5.5 billion of which Ksh 5.4 billion were in competitive bids. As for the 182-day Treasury bills, the Government accepted bids amounting to Ksh 2.0 billion of which Ksh 1.7 billion were in competitive bids. The proceeds of these auctions partly financed roll over of maturing Treasury bills amounting to Ksh 18.1 billion falling due in the week.

Table 1: Interest Rates

Auction date	30-Sep-10	7-Oct-10	14-Oct-10	21-Oct-10	28-Oct-10	4-Nov-10	11-Nov-10	18-Nov-10	25-Nov-10	2-Dec-10	9-Dec-10
91 day T. Bills*		2.125		2.116		2.180		2.242		2.239	
182 day T. Bills*	2.093		2.111		2.132		2.256		2.464		2.548
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 364-day Treasury bill rate rose by 30 basis points from 3.060 percent in the previous auction to 3.360 percent during this auction while the average 182-day Treasury bill rate increased by 8.4 basis points from 2.464 percent in the previous auction of the same security to 2.548 percent during this week's auction.

Table 2: Interbank Rates

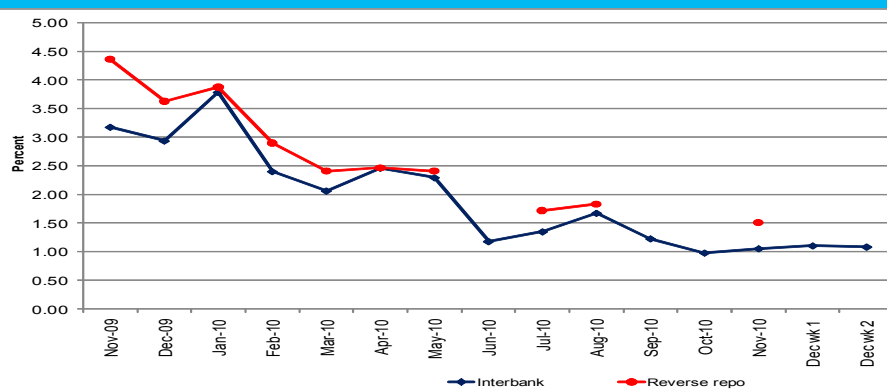
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
Nov 12 - Nov 18, 2010	76	11,682	1.08
19-Nov-10	67	10,618	1.09
22-Nov-10	71	13,465	1.10
23-Nov-10	63	11,548	1.11
24-Nov-10	64	12,997	1.09
25-Nov-10	54	9,838	1.12
Nov 19 - Nov 25, 2010	64	11,693	1.10
26-Nov-10	53	10,865	1.11
29-Nov-10	58	9,866	1.11
30-Nov-10	63	9,161	1.09
1-Dec-10	59	11,335	1.10
2-Dec-10	54	9,824	1.08
Nov 26 - Dec 02, 2010	57	10,210	1.10
3-Dec-10	61	11,395	1.07
6-Dec-10	65	14,737	1.09
7-Dec-10	57	13,877	1.08
8-Dec-10	58	13,258	1.09
9-Dec-10	75	12,645	1.09
Dec 03 - Dec 09, 2010	63	13,182	1.08

Source: Central Bank of Kenya

Interbank Market

The average interbank rate declined by 2 basis points to 1.08 percent in the week ending December 9, from 1.10 percent in the previous week. The volumes traded increased to Ksh 13.2 billion in the week ending December 9, 2010 from Ksh 10.2 billion in the previous week. The Government deposits at the Central bank declined from Ksh 43.9 billion in the week ending December 2, 2010 to Ksh 39.7 billion in the week ending December 9, 2010.

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The money market was liquid in the week ending December 9, 2010 (Table 3). Consequently the Central Bank stayed out of the money market and banks did not access the Central Bank's overnight window for liquidity accommodation.

Table 3: Open Market Operations (Ksh Billion)

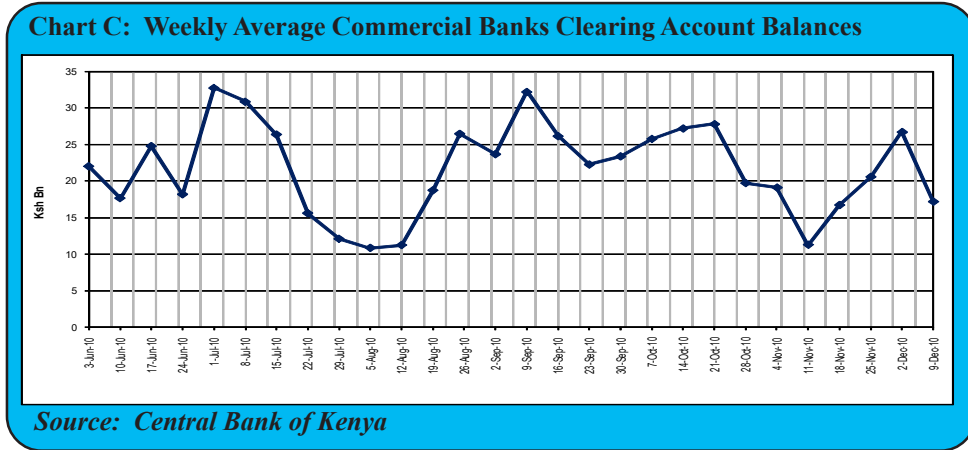
Date	Reserve Money* (Projected)			OMO (Reverse REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/Short(-)	Posted	Injected	Exc(+)/Short(-)	Actual	Exc(+)/Short(-)	Exc(+)/Short(-)	Exc(+)/Short(-)
	(1)	(2)	3=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
3-Dec	221.1	197.3	23.8	0.0	0.0	0.0	219.9	22.6	23.5	-0.9
6-Dec	214.4	199.1	15.4	0.0	0.0	0.0	215.9	16.8	16.2	0.5
7-Dec	215.7	199.1	16.6	0.0	0.0	0.0	215.3	16.2	14.3	1.9
8-Dec	216.4	199.1	17.3	0.0	0.0	0.0	216.0	16.9	14.8	2.1
9-Dec	214.7	199.1	15.6	0.0	0.0	0.0	214.1	15.1	12.6	2.5
Average	216.5	198.7	17.7	0.0	0.0	0.0	216.2	17.5	16.3	1.2

*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 17.2 billion in their clearing accounts at the Central Bank in the week to December 9, 2010, compared with Ksh 26.7 billion held the previous week (Chart B). The decline is attributed to payments of taxes to Government.



**The Shilling
Exchange
Rate**

The Kenya Shilling on average depicted mixed performance against the major international currencies during the week ending December 10, 2010 (Table 4). Against the US dollar, the shilling appreciated marginally to exchange at Ksh 80.52 in the week compared with Ksh 80.69 per US dollar in the previous week. The shilling also depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 126.91 per Sterling Pound, Ksh 107.06 per Euro and Ksh 96.55 per 100 Japanese Yen compared with Ksh 125.85 per Sterling Pound, Ksh 106.10 per Euro and Ksh 96.26 per 100 Japanese Yen in the previous week. In the local market, the Kenya shilling appreciated against the US dollar supported by offshore selling of the US dollar. In the international market, the dollar declined against both the euro and the pound sterling following the US government decision to extend tax cuts on income, dividends, and payrolls and unemployment benefits extension.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
1-Dec-10	80.90	126.05	105.38	96.93	28.57	18.33
2-Dec-10	80.32	125.40	105.41	95.58	28.42	18.51
3-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
6-Dec-10	80.44	126.65	107.49	97.05	28.52	18.38
7-Dec-10	80.48	126.77	107.35	97.42	28.68	18.31
8-Dec-10	80.55	126.47	106.46	95.96	28.68	18.32
9-Dec-10	80.57	127.51	107.18	96.03	28.64	18.34
10-Dec-10	80.56	127.16	106.82	96.27	28.64	18.37
December 06 - 10, 2010	80.52	126.91	107.06	96.55	28.63	18.34

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling strengthened against the Uganda Shilling and weakened marginally the Tanzania Shilling to exchange at Ush 28.63 per Kenya Shilling and Tsh 18.34 per Kenya Shilling in the week ending December 10, 2010, compared with 28.49 per Kenya Shilling and Tsh 18.41 per Kenya Shilling in the previous week respectively.

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.468 billion (equivalent to 3.48 months of imports) as at December 10, 2010, compared to US dollar 3.436 billion (equivalent to 3.45 months of imports) held on December 03, 2010, reflecting a revaluation gain during the week. (Table 5).

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

	13-Aug-10	20-Aug-10	29-Oct-10	12-Nov-10	19-Nov-10	26-Nov-10	3-Dec-10	10-Dec-10
Usable Reserves	3,417	3,416	3,471	3,489	3,472	3,471	3,436	3,468
Months of Imports Cover*	3.53	3.53	3.53	3.54	3.52	3.52	3.45	3.48

*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 50.2 billion from Ksh 660.3 billion in June 2010 to Ksh 710.4 billion as at December 03, 2010 (Table 6 and Chart D). This increase was on account of increases in Treasury bonds and overdraft at the Central Bank of Kenya amounting to Ksh 69.2 billion and Ksh 5.3 billion. This was, however, partially offset by decreases of Ksh 22.2 billion in Treasury bills, Ksh 1.4 billion in other domestic debt and Ksh 0.8 billion in long term stocks.

Table 6: Government Domestic Debt (Ksh Billion)

	Jun-10	Sep-10	Oct-10	26th Nov-2010	3rd Dec-2010	Changes	
						26th Nov-10-3rd Dec-10	30th Jun-10-3rd Dec-10
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	147.4 23.2	144.2 22.4	129.7 20.4	136.9 20.9	7.2 0.5	-22.2
2. Treasury Bonds (As % of total securities)	448.6 73.7	488.5 76.7	498.1 77.6	506.0 79.6	517.8 79.1	11.7 -0.5	69.2
3. Long Term Stocks (As % of total securities)	0.8 0.1	0.8 0.1	0.0 0.0	0.0 0.0	0.0 0.0	0.0 0.0	-0.8
4. Total Securities (1+2+3)	608.4	636.6	642.3	635.8	654.7	18.9	46.3
5. Overdraft at Central Bank	17.6	20.6	22.1	22.9	22.9	0.0	5.3
6. Other Domestic debt*	34.2	34.1	34.0	32.8	32.8	0.0	-1.4
7. Gross Domestic Debt (4+5+6)	660.3	691.3	698.4	691.6	710.4	18.9	50.2
8. Interest payments on domestic debt	57.8	14.49	21.61	26.78	27.4	0.7	

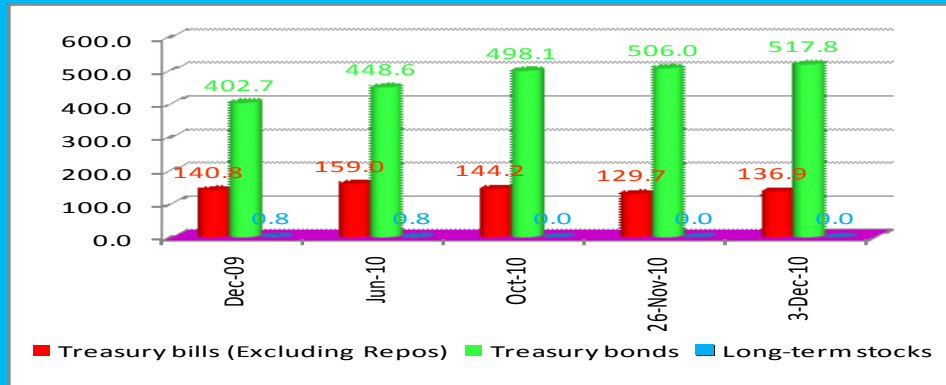
* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCS.

Source: Central Bank of Kenya

Treasury bonds and overdraft at the CBK increased from Ksh 448.6 billion and Ksh 17.6 billion in June 2010 to Ksh 517.8 billion and Ksh 22.9 billion, respectively as at December 03, 2010. Treasury bills and other domestic debt declined from Ksh 159.0 billion and Ksh 34.2 billion,

respectively in June 2010 to Ksh 136.9 billion and Ksh 32.8 billion, respectively during the same period.

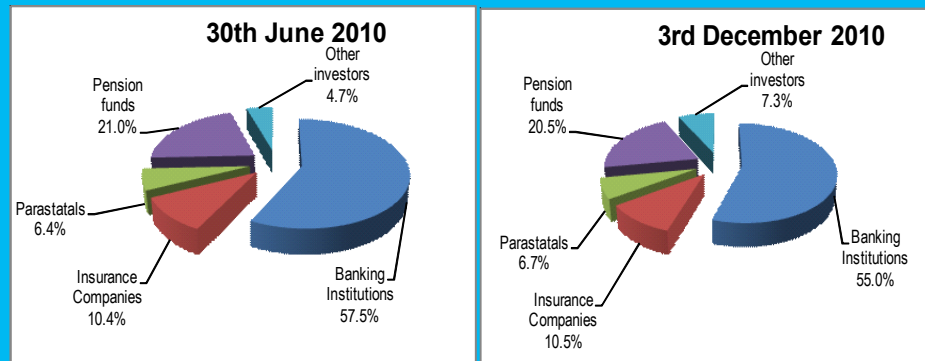
Chart D: Composition of Government Securities



Source: Central Bank of Kenya

In view of the above, the share of Treasury bonds in total gross Government domestic debt increased from 73.7 percent in June to 79.1 percent as at December 03, 2010 while that of Treasury bills declined from 26.1 percent to 20.9 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years as at December 03, 2010. This development is largely in line with the Government debt management strategy of lengthening the maturity profile of domestic debt.

Chart E: Composition of Government Securities by Investor



Source: Central Bank of Kenya

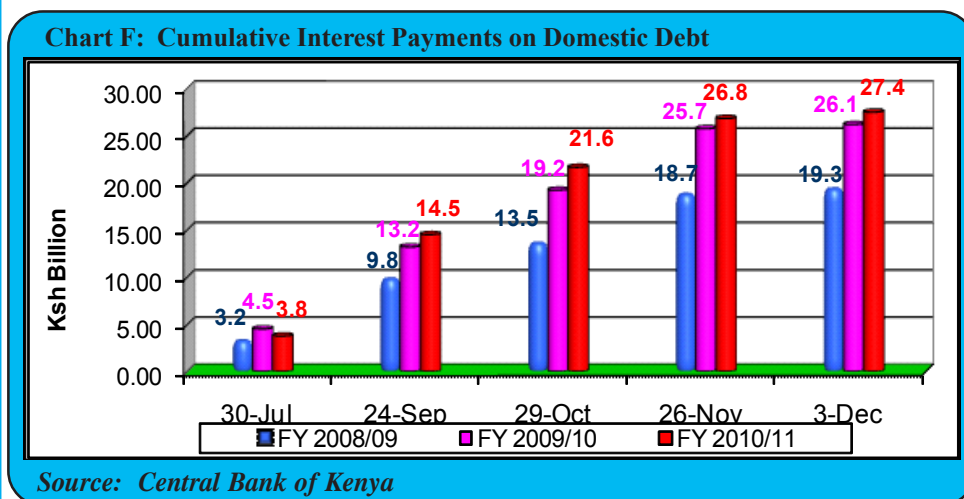
Holding of Government Securities

The holdings of Government securities by parastatals and other investors increased from 6.4 percent and 4.7 percent, respectively in June 2010 to 6.7 percent and 7.3 percent, respectively as at December 03, 2010. However, holdings of commercial banks and pension funds declined from 57.5 percent and 21.0 percent to stand at 55.0 percent and 20.5 percent, respectively during this period (Chart E).

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at December 03, 2010 of the FY 2010/11 amounted to

Ksh 27.4 billion compared with Ksh 26.1 billion in a similar period of the FY 2009/10 (Chart F). The interest cost on domestic debt during the period comprised interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 6.0 billion and 21.1 billion, respectively while interest on Government overdraft at the CBK amounted to Ksh 0.3 billion.



The Stock Market

Performance at the equities market was mixed during the week ending December 09, 2010. Turnover increased by 18.9 percent as stocks worth Ksh 1,977 million were traded compared with Ksh 1662 million traded in the previous week. The number of shares traded increased from 93.4 million in the previous week to 129.2 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 0.4 percent or Ksh. 4.1 billion to close at Ksh 1,166 billion from Ksh 1,162 billion in the previous week. The NSE 20 Share index fell by 16.54 to 4,371.8 on December 09, 2010 from 4,388.4 on December 02, 2010. The Nairobi All Share Index gained 0.34 points to 97.75 from 97.41 the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	7-Oct-10	14-Oct-10	21-Oct-10	28-Oct-10	4-Nov-10	11-Nov-10	18-Nov-10	25-Nov-10	3-Dec-10	9-Dec-10
NASI 100= Jan 2008	100.59	100.45	102.15	101.95	101.95	101.36	100.52	99.6287	97.41	97.75
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	4,371.89
Number of Deals	11,782	11,612	8,679	12,818	11,138	10,426	8,869	9,818	8,829	10,642
Total Shares Traded (millions)	138.75	118.26	105.66	120.97	110.87	146.38	97.66	109.58	93.48	129.19
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	1,977.02
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	1,166.12
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	4,696.60

* 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 69.4 million shares and accounted for 52.3 per cent of the traded volume with Safaricom trading 65.9 million shares in the sector. The Finance and Investment sector traded 39.0 million shares and accounted for 29.4 percent of total traded volume. Co-operative Bank and Kenya Commercial Bank were the most active stocks in the sector, trading 10.7 million and 10.4 million shares respectively. Industrial and Allied sector traded 22.8 million shares and accounted for 17.2 percent of traded volume. Mumias Sugar Co. was the most active counter, trading 5.8 million shares. The Alternative market segment traded 183,800 shares.

Bond Market Bond turnover at the Fixed Income Securities Market decreased from Ksh 7.1 billion traded in the previous week to Ksh 4.6 billion in the week under review. The decrease in bond turnover is attributed to shift in appetite towards the primary market, following the issue of 364-day and 182-day T-bills during the week.