

December 16, 2010



THE CBK WEEKLY BULLETIN

**Highlights for
the Week**

The Government securities market posted oversubscription of 30.4 percent during the 91-day Treasury bills auction of this week. The 91-day Treasury bill rate increased by 7.4 basis points to settle at 2.313 percent.

The average interbank rate rose by 4 basis points to 1.12 percent in the week ending December 15, up from 1.08 percent in the previous week.

The money market was liquid in the week ending December 15, 2010 and the Central Bank stayed out of the market during the week.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending December 16, 2010. Against the US dollar, the shilling depreciated marginally to exchange at an average of Ksh 80.56 compared with Ksh 80.52 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.495 billion (equivalent to 3.51 months of imports) as at December 16, 2010, compared to US dollar 3.468 billion (equivalent to 3.48 months of imports) held on December 10, 2010, reflecting a revaluation gain during the week.

Government gross domestic debt increased by Ksh 50.1 billion from Ksh 660.3 billion in June 2010 to Ksh 710.4 billion as at December 10, 2010 of the fiscal year 2010/11. The cumulative government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 28.6 billion.

Performance at the equities market was mixed during the week ending December 16, 2010 with the NSE 20 Share Index losing 3.58 points to settle at 4,368.3 from 4,371.8 points on December 9, 2010, while equity turnover decreased by 35.6percent.

Government Securities Auction

The Government securities market registered an over performance of 30.4 percent during the Treasury bills auction of this week. The government had offered for sale 91-day Treasury bills worth Ksh 4.0 billion during the auction held on December 16, 2010 and received bids totalling Ksh 5.2 billion. The Government accepted bids amounting to Ksh 4.5 billion of which Ksh 4.4 billion were in competitive bids. The proceeds of the auction were directed at supporting the budget.

Interest Rates on Treasury Bills

The average 91-day Treasury bill rate went up by 7.4 basis points from 2.290 percent in the previous auction of the same security to 2.313 percent during this week's auction.

Table 1: Interest Rates

Auction date	30-Sep-10	28-Oct-10	4-Nov-10	11-Nov-10	18-Nov-10	25-Nov-10	2-Dec-10	9-Dec-10	16-Dec-10
91 day T. Bills*			2.180		2.242		2.239		2.313
182 day T. Bills*	2.093	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

Interbank Market

The average interbank rate rose by 4 basis points to 1.12 percent in the week ending December 15, 2010 up from 1.08 percent in the previous week. The average volumes traded decreased to Ksh 12.5 billion in the week ending December 15, 2010 from Ksh 13.2 billion in the previous week. The Government deposits at the Central Bank declined from Ksh 39.7 billion in the week ending December 9, to Ksh 37.2 billion in the week ending December 15, 2010.

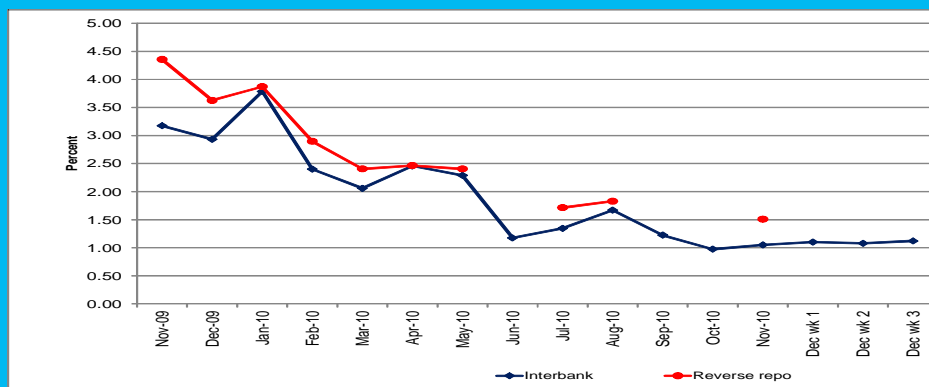
The reverse repo rate was 1.460 percent as at the last reverse repo transaction on November 22, 2010.

Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
10-Dec-10	72	12,148	1.11
14-Dec-10	62	9,990	1.14
15-Dec-10	76	15,411	1.11
Dec 10 - Dec 15, 2010	70	12,516	1.12

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 December 15, 2010 and the Central Bank stayed out of the market during the week (Table 3). Commercial Banks did not borrow from the Central Bank overnight window. Reserve money averaged Ksh 216.0 billion during the week and was above target by Ksh 15.8 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)
10-Dec	211.1	199.1	12.0	0.0	0.0	0.0	210.7	11.7	8.7	3.0
14-Dec	220.7	200.8	19.9	0.0	0.0	0.0	219.1	18.3	16.4	1.9
15-Dec	218.2	200.8	17.4	0.0	0.0	0.0	218.2	17.4	14.0	3.3
Average	216.7	200.2	16.4	0.0	0.0	0.0	216.0	15.8	13.0	2.7

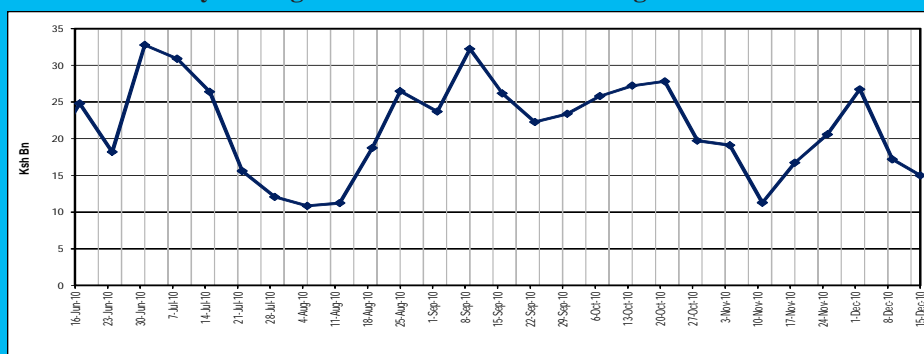
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 15.0 billion in their clearing accounts at the Central Bank in the week to December 15, 2010, compared with Ksh 17.2 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 December 16, 2010 (Table 4). Against the US dollar and the Euro, the shilling depreciated marginally to exchange at Ksh 80.56 per US dollar and Ksh 107.28 per Euro in the week compared with Ksh 80.52 per US dollar and Ksh 107.06 per Euro in the previous week. The shilling appreciated marginally against both the Sterling Pound and the Japanese Yen, to exchange on average at Ksh 126.66 per Sterling Pound and Ksh 96.09 per 100 Japanese Yen compared with Ksh 126.91 per Sterling Pound and Ksh 96.55 per 100 Japanese Yen in the previous week. The Kenya shilling depreciation against the US dollar largely reflected the dollar declined against both the euro and the pound sterling during the week, as a result of increased uncertainty attributed to Moody's warning that it could move a step closer to cutting the U.S AAA rating, if the tax and unemployment benefit package becomes law.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
14-Dec-10	80.52	127.75	107.89	96.41	28.69	18.10
15-Dec-10	80.52	126.73	107.29	96.15	28.56	17.91
16-Dec-10	80.63	125.50	106.65	95.72	28.55	17.80
December 14 - 16, 2010	80.56	126.66	107.28	96.09	28.60	17.94

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.495 billion (equivalent to 3.51 months of imports) as at December 16, 2010, compared to US dollar 3.468 billion (equivalent to 3.48 months of imports) held on December 10, 2010, reflecting a revaluation gain during the week.

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

	20-Aug-10	29-Oct-10	12-Nov-10	19-Nov-10	26-Nov-10	10-Dec-10	17-Dec-10
Usable Reserves*	3,416	3,471	3,489	3,472	3,471	3,468	3,495
Months of Imports Cover**	3.53	3.53	3.54	3.52	3.52	3.48	3.51

*Excludes encumbered reserves

**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 50.1 billion from Ksh 660.3 billion in June 2010 to Ksh 710.4 billion as at December 10, 2010 (Table 6 and Chart C). This increase was on account of an increase in Treasury bonds amounting to Ksh 69.2. This was, however, partially offset by decreases of Ksh 16.3 billion, Ksh 0.7 billion and Ksh 1.3 billion in Treasury bills, overdraft at the CBK and other domestic debt, respectively.

Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 517.8 billion as at December 10, 2010. Treasury bills, overdraft at the Central Bank and other domestic debt declined from Ksh 159.0 billion, Ksh 17.6 billion and Ksh 34.2 billion, respectively in June 2010 to Ksh 142.7 billion, Ksh 17.0 billion and Ksh 32.9 billion, respectively during the same period.

Table 6: Government Domestic Debt (Ksh Billion)

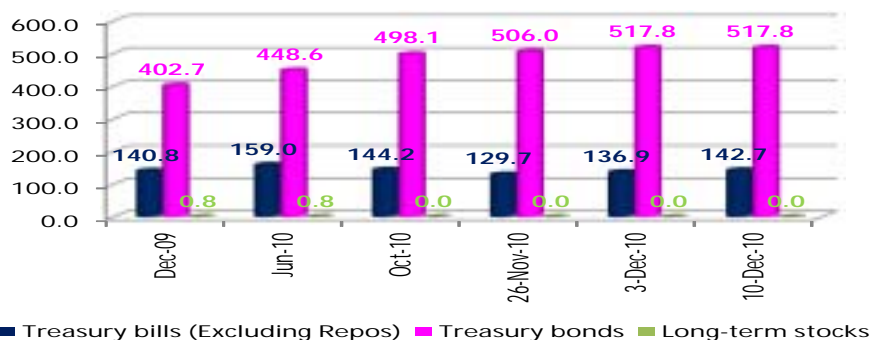
	Jun-10	Sep-10	Nov-2010	3rd Dec-2010	10th Dec-2010	Changes	
						3rd Dec-10 - 10th Dec-10	30th Jun-10 - 10th Dec-10
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	147.4 23.2	129.7 20.4	136.9 20.9	142.7 21.6	5.8 0.7	-16.3
2. Treasury Bonds (As % of total securities)	448.6 73.7	488.5 76.7	506.0 79.6	517.8 79.1	517.8 78.4	0.0 -0.7	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	635.8	654.7	660.5	5.8	52.1
5. Overdraft at Central Bank	17.6	20.6	22.9	22.9	17.0	-5.9	-0.7
6. Other Domestic debt*	34.2	34.1	32.8	32.8	32.9	0.1	-1.3
7. Gross Domestic Debt (4+5+6)	660.3	691.3	691.6	710.4	710.4	0.0	50.1
8. Interest payments on domestic debt	57.8	14.49	26.78	27.4	28.6	1.1	

*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 increased from 73.7 percent in June to 78.4 percent as at December 10, 2010, while that of Treasury bills declined from 26.1 percent to 21.6 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years as at December 10, 2010. This development is largely in line with the Government debt management strategy of lengthening the maturity profile of domestic debt.

Chart C: Composition of Government Securities

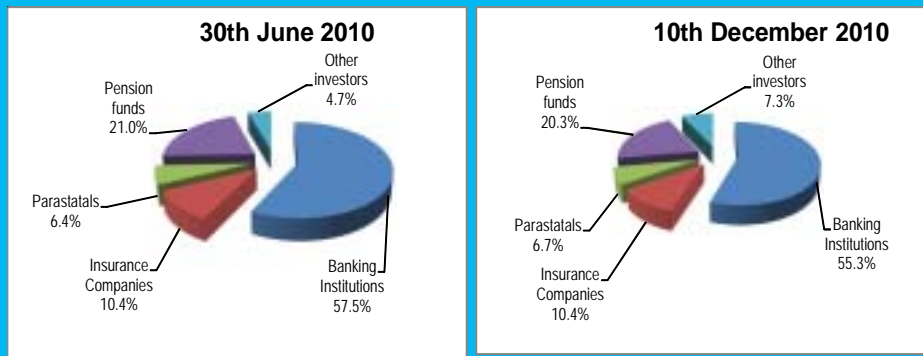


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by parastatals and other investors increased from 6.4 percent and 4.7 percent, respectively in June 2010 to 6.7 percent and 7.3 percent, respectively as at December 10, 2010. However, holdings of commercial banks, pension funds and insurance companies declined from 57.5 percent, 21.0 percent and 10.5 percent to stand at 55.3 percent, 20.3 percent and 10.4 percent, respectively during this period (Chart D).

Chart D: Composition of Government Securities by Investor

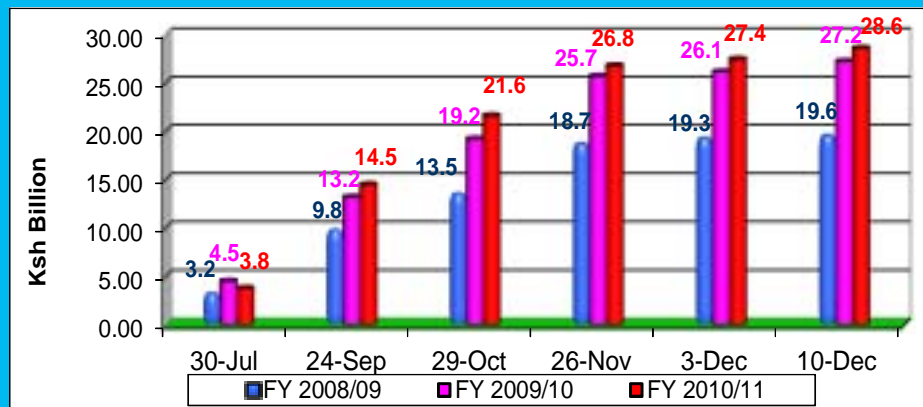


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at December 10, 2010 of the fiscal year 2010/11 amounted to Ksh 28.6 billion compared with Ksh 27.2 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 6.0 billion and 22.2 billion, respectively while interest on Government overdraft at the CBK amounted to Ksh 0.4 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 December 16, 2010. Turnover in the week decreased by 35.6 percent as stocks worth Ksh1,273 million were traded compared with Ksh 1,977 million traded in the previous week. The number of shares traded increased from 129.2 million in the previous week to 239.2 million shares in the week under review. Market capitalization as a measure of total shareholders wealth decreased by 1.3 percent or Ksh 15.1 billion to close at Ksh 1,151 billion from Ksh 1,166 billion in the previous week. The NSE 20 Share Index lost 3.58 points to settle at 4,368.3 points on December 16, 2010 from 4,371.8 points on December 2, 2010. The Nairobi All Share Index lost 1.27 points to settle at 96.48 from 97.75 points the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	4-Nov-10	11-Nov-10	18-Nov-10	25-Nov-10	3-Dec-10	9-Dec-10	16-Dec-10
NASI 100= Jan 2008	101.95	101.36	100.52	99.6287	97.41	97.75	96.48
NSE 20 Share Index 100=1966	4,629.03	4,587.49	4,555.28	4,528.26	4,388.43	4,371.89	4,368.31
Number of Deals	11,138	10,426	8,869	9,818	8,829	10,642	8,240
Total Shares Traded (millions)	110.87	146.38	97.66	109.58	93.48	129.19	239.15
Equity Turnover (Ksh. millions)	2,243.27	2,126.41	2,052.47	2,109.04	1,662.33	1,977.02	1,273.10
Market Capitalization (Ksh. Bn.)	1,216.05	1,209.09	1,199.17	1,188.50	1,162.00	1,166.12	1,151.01
Bonds Turnover (Ksh. millions)	4,412.25	7,929.35	8,010.60	9,622.65	7,173.50	4,696.60	5,900.90

* 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 45.5 million shares and accounted for 19 per cent of the traded volume with Safaricom trading 41.1 million shares in the sector. The Finance and Investment sector traded 17.7 million shares and accounted for 7.4 percent of total traded volume. Co-operative Bank and Kenya Commercial Bank were the most active stocks in the sector, trading 7.5 million and 3.6 million shares, respectively. Industrial and Allied sector traded 175.8 million shares and accounted for 73.5 percent of traded volume. Kenya Power and Lighting Company was the most active counter, trading 163.1 million shares. The Alternative market segment traded 13, 200 shares.

Bond Market

Bond turnover at the Fixed Income Securities Market increased from Ksh 4.6 billion traded in the previous week to Ksh 5.9 billion in the week under review.