

**December 23, 2010**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The Government securities market recorded mixed performance in the issuance of new treasury securities during the week ending December 23, 2010. The 2-year and 15-year Treasury bonds auction was oversubscribed by 61.8 percent, while the 182-day Treasury bill offer was under subscribed by 61.4 percent. The 2-year and 15-year Treasury bonds average interest rates increased by 88.8 basis points and 94.3 basis points, respectively compared with the previous auction of bonds of similar tenure, while the average interest rate on the 182-day Treasury bill declined to 2.631 percent from 2.595 percent for the previous issue.

The average interbank rate rose by 10 basis points to 1.22 percent in the week ending December 22, from 1.12 percent in the previous week. The tightness in the interbank liquidity was attributed to outflows through tax payments to Government. The Central Bank, therefore, injected a total of Ksh 17.4 billion into the market during the week to ease the liquidity tightness.

The Kenya Shilling appreciated marginally against major international currencies during the week ending December 23, 2010. Against the US dollar, the shilling appreciated to exchange at an average of Ksh 80.52 compared with Ksh 80.56 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank declined to US dollar 3.468 billion (equivalent to 3.48 months of imports) as at December 24, 2010, compared to US dollar 3.495 billion (equivalent to 3.51 months of imports) held on December 17, 2010, reflecting a revaluation loss during the week.

Government gross domestic debt increased by Ksh 44.7 billion from Ksh 660.3 billion in June 2010 to Ksh 704.9 billion as at December 17, 2010 in the fiscal year 2010/11. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 29.6 billion.

Performance at the equities market was mixed during the week ending December 23, 2010, with the NSE 20 Share index losing 31.25 points to close at 4,337.1 from 4,368.3 on December 16, 2010, while equity turnover increased by 11.9 percent.

Data released by the Kenya National Bureau of Statistics indicate that the economy grew by 6.1 percent during the third quarter of 2010 compared with 0.5 percent growth recorded for the same quarter in the previous year.

**Government Securities Auction**

The Government securities market posted mixed performance in the issuance of new treasury securities in the week ending December 23, 2010. The government had offered for sale 2-year and 15-year Treasury bonds worth Ksh 15 billion during the auction held on December 22, 2010 and received bids totalling Ksh 24.3 billion, representing 161.8 percent performance. The Government also offered for sale 182-day treasury bills worth Ksh 5.0 million and received bids of Ksh 1.9 billion or 61.4 percent undersubscription.

The Government accepted 2-year and 15-year Treasury bonds bids and 182-day Treasury bill bids amounting to Ksh 8.9 billion, Ksh 6.3 billion and Ksh 1.7 billion, respectively. The proceeds of these auctions were directed at meeting cost of Treasury bills maturities amounting to Ksh 3.0 billion and provide Government additional borrowing amounting to Ksh 9.1 billion.

**Interest Rates on Treasury Bonds**

The average interest rate on the 2-year and 15 year Treasury bonds increased by 88.8 basis points and 94.3 basis points, respectively to 4.586 percent and 10.923 percent compared with levels recorded in the previous issue. Meanwhile, the average interest on the 182-day Treasury bill increased by 8.3 basis points to 2.631 percent from the level recorded in the previous issue (Table 1)

**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	23-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		2.631
364 day T. Bills*		3.060								
Month	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10			
Average savings rate	1.76	1.75	1.55	1.50	1.47	1.46	1.40			
Average overdraft rate	14.38	14.23	14.03	13.97	13.81	13.64	13.77			

\*Weighted rates

Source: Central Bank of Kenya

**Interbank Market**

The average interbank rate rose by 10 basis points to 1.22 percent in the week ending December 22, from 1.12 percent in the previous week. The average volumes traded decreased to Ksh 10.0 billion in the week ending December 22, 2010 from Ksh 12.5 billion in the previous week. The Government deposits at the Central Bank rose from Ksh 37.2 billion in the week ending December 15, to Ksh 70.2 billion in the week ending December 22, 2010, on account of tax revenue payments.

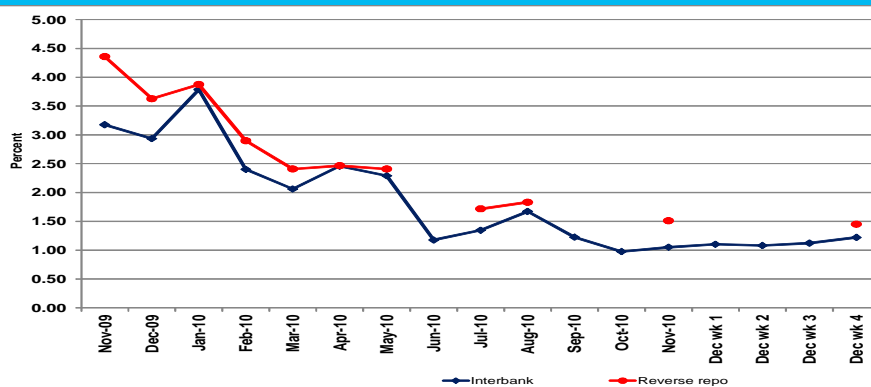
The reverse repo rate was 1.434 percent as at the last reverse repo transaction on December 21, 2010.

**Table 2: Interbank Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
10-Dec-10	72	12,148	1.11
14-Dec-10	62	9,990	1.14
15-Dec-10	76	15,411	1.11
<b>Dec 10 - Dec 15, 2010</b>	<b>70</b>	<b>12,516</b>	<b>1.12</b>
16-Dec-10	82	13,322	1.14
17-Dec-10	79	12,170	1.16
20-Dec-10	80	9,980	1.24
21-Dec-10	54	7,043	1.28
22-Dec-10	67	7,664	1.28
<b>Dec 16 - Dec 22, 2010</b>	<b>72</b>	<b>10,036</b>	<b>1.22</b>

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

**Monetary Policy Operations**

The money market was tight in the week ending December 22, 2010 and the Central Bank injected a total of Ksh 17.4 billion into the market, while commercial banks borrowed an additional Ksh 2.2 billion from the Central Bank overnight window. Reserve money averaged Ksh 210.9 billion during the week and was above target by Ksh 9.1 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)
16-Dec	216.7	200.8	15.9	0.0	0.0	0.0	215.2	14.4	11.6	2.8
17-Dec	212.2	200.8	11.4	0.0	0.0	0.0	208.5	7.6	5.7	1.9
20-Dec	200.9	202.6	-1.7	10.0	8.4	1.6	206.5	4.0	1.8	2.2
21-Dec	204.6	202.6	2.0	5.0	9.0	-4.0	212.7	10.1	7.0	3.1
22-Dec	212.7	202.6	10.2	0.0	0.0	0.0	211.7	9.1	5.1	4.0
Average	209.4	201.9	7.5	3.0	3.5	-0.5	210.9	9.1	6.2	2.8

\*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 9.7 billion in their clearing accounts at the Central Bank in the week to December 22, 2010, compared with Ksh 15.0 billion held the previous week (Chart B). The decline was largely on account of tax payments to government.

Chart B: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

**The Shilling Exchange Rate**

On average, the Kenya Shilling strengthened marginally against major international currencies during the week ending December 23, 2010 (Table 4). Against the US dollar, Sterling pound and the Euro, the shilling appreciated to exchange at Ksh 80.52 per US dollar, Ksh 124.68 per Sterling pound and Ksh 105.88 per Euro compared with Ksh 80.56 per US dollar, Ksh 126.66 per Sterling pound and Ksh 107.28 per Euro in the previous week. The shilling depreciated against the Japanese Yen, to exchange on average at Ksh 96.37 per 100 Japanese Yen compared with Ksh 96.09 per 100 Japanese Yen in the previous week. The appreciation of the Kenya shilling largely reflected international currency movements during which the Sterling pound and the Euro lost due to a widening budget deficit in the UK and downgraded ratings of Euro zone countries, respectively.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
<b>December 14 - 16, 2010</b>	<b>80.56</b>	<b>126.66</b>	<b>107.28</b>	<b>96.09</b>	<b>28.60</b>	<b>17.94</b>
20-Dec-10	80.53	124.98	106.05	96.01	28.50	17.89
21-Dec-10	80.49	125.10	106.06	96.12	28.46	17.83
22-Dec-10	80.49	124.65	105.80	96.11	28.60	18.23
23-Dec-10	80.57	124.28	105.79	96.90	28.61	18.12
<b>December 20 - 23, 2010</b>	<b>80.52</b>	<b>124.68</b>	<b>105.88</b>	<b>96.37</b>	<b>28.56</b>	<b>18.06</b>

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling strengthened against the Tanzania Shilling and weakened marginally against the Uganda Shilling to exchange at Tsh 18.06 per Kenya Shilling and Ush 28.56 per Kenya Shilling in the week ending December 23, 2010, compared with Tsh 17.94 per Kenya Shilling and Ush 28.60 per Kenya Shilling in the previous week, respectively.

**Foreign Exchange Reserves**

The usable official foreign exchange reserves held by the Central Bank declined to US dollar 3.468 billion (equivalent to 3.48 months of imports) as at December 24, 2010, compared to US dollar 3.495 billion (equivalent to 3.51 months of imports) held on December 17, 2010, reflecting a revaluation loss during the week (Table 5).

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

	29-Oct-10	12-Nov-10	19-Nov-10	26-Nov-10	10-Dec-10	17-Dec-10	24-Dec-10
Usable Reserves*	3,471	3,489	3,472	3,471	3,468	3,495	3,468
Months of Imports Cover**	3.53	3.54	3.52	3.52	3.48	3.51	3.48

\*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 44.7 billion from Ksh 660.3 billion in June 2010 to Ksh 704.9 billion as at December 17, 2010 (Table 6 and Chart C). This increase reflected a total increase in Treasury bonds, overdraft at the Central Bank and other domestic debt amounting to Ksh 73.1 billion. This was, however, partially offset by decreases of Ksh 28.5 billion in Treasury bills and long term stocks.

Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 516.8 billion as at December 17, 2010, while Treasury bills declined from Ksh 159.0 billion in June 2010 to Ksh 131.4 billion during the same period.

**Table 6: Government Domestic Debt (Ksh Billion)**

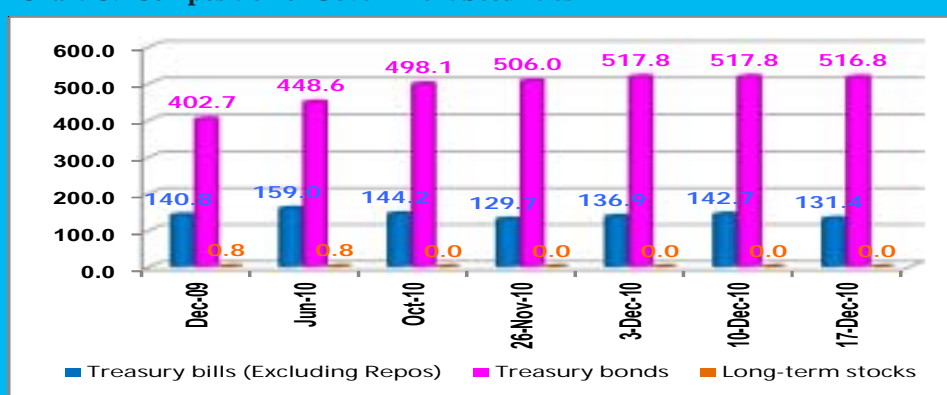
	Jun-10	Nov-2010	10th Dec-2010	17th Dec-2010	Changes	
					10th Dec-10-17th Dec-10	30th Jun-10-17th Dec-10
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	129.7 20.4	142.7 21.6	131.4 20.3	-11.3 -1.3	-27.7
2. Treasury Bonds (As % of total securities)	448.6 73.7	506.0 79.6	517.8 78.4	516.8 79.7	-1.0 1.3	68.2
3. Long Term Stocks (As % of total securities)	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	635.8	660.5	648.2	-12.3	39.7
5. Overdraft at Central Bank	17.6	22.9	17.0	17.9	0.9	0.3
6. Other Domestic debt*	34.2	32.8	32.9	38.8	5.9	4.6
7. Gross Domestic Debt (4+5+6)	660.3	691.6	710.4	704.9	-5.5	44.7
8. Interest payments on domestic debt	57.8	26.78	28.6	29.6	1.0	

\* 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 79.7 percent as at December 17, 2010 while that of Treasury bills declined from 26.1 percent to 20.3 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years as at December 17, 2010. This development is largely in line with the Government debt management strategy of lengthening the maturity profile of domestic debt.

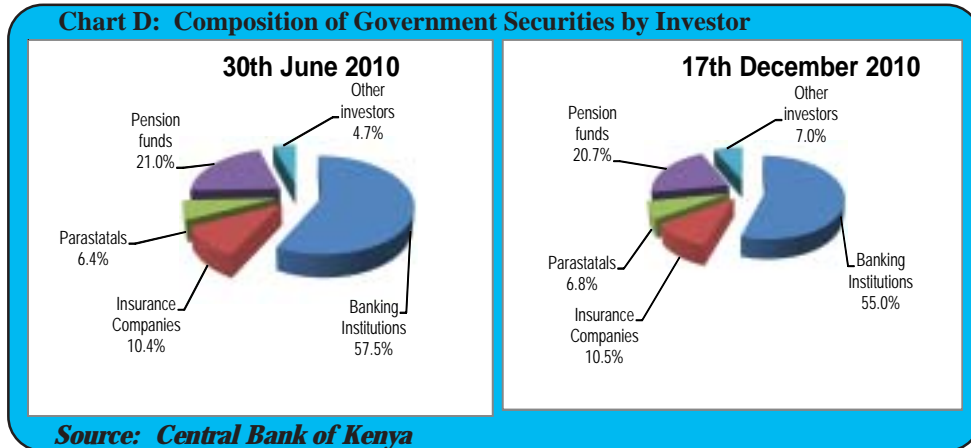
**Chart C: Composition of Government Securities**



Source: Central Bank of Kenya

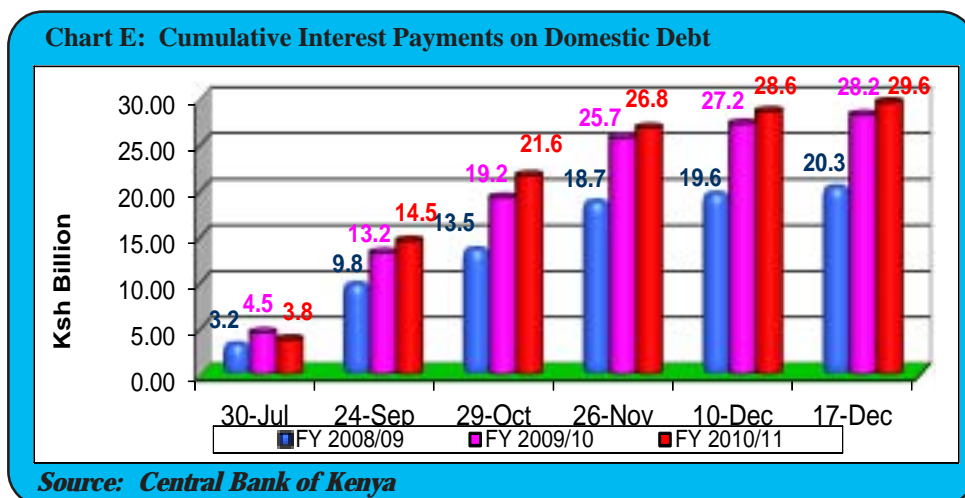
**Holding of Government Securities**

Analysis of government securities by investor groups show mixed trends. The shares of the two largest holders, commercial banks and pension funds declined from 57.5 percent and 21.0 percent in June 2010, respectively to 55.0 percent and 20.7 percent by December 17, 2010 (Chart D). Meanwhile, the holdings of Government securities by insurance companies, parastatals and other investors increased from 10.4 percent, 6.4 percent and 4.7 percent, respectively to 10.5 percent, 6.8 percent and 7.0 percent, respectively over the same period.



**Cost of Domestic Borrowing**

The cumulative Government expenditure on interest and other charges on domestic debt as at December 17, 2010 of the fiscal year 2010/11 amounted to Ksh 29.6 billion, close to 28.2 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 6.8 billion and 22.4 billion, respectively, while interest on Government overdraft at the Central Bank amounted to Ksh 0.4 billion.



**The Stock Market**

Performance at the equities market was mixed during the week ending December 23, 2010. Turnover increased by 11.9 percent as stocks worth Ksh 1,424 million were traded compared with Ksh 1,273 million traded in

the previous week. The number of shares traded decreased from 239.1 million in the previous week to 75.8 million shares in the week under review. Market capitalization as a measure of total shareholders wealth remained unchanged at Ksh 1,151 billion. The NSE 20 Share index lost 31.25 points to settle at 4,337.1 on December 23, 2010 from 4,368.3 on December 16, 2010. The Nairobi All Share Index remained unchanged at 96.5 points (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	11-Nov-10	18-Nov-10	25-Nov-10	3-Dec-10	9-Dec-10	16-Dec-10	23-Dec-10
NASI 100= Jan 2008	101.36	100.52	99.6287	97.41	97.75	96.48	96.49
NSE 20 Share Index 100=1966	4,587.49	4,555.28	4,528.26	4,388.43	4,371.89	4,368.31	4,337.06
Number of Deals	10,426	8,869	9,818	8,829	10,642	8,240	9,487
Total Shares Traded (millions)	146.38	97.66	109.58	93.48	129.19	239.15	75.86
Equity Turnover (Ksh. millions)	2,126.41	2,052.47	2,109.04	1,662.33	1,977.02	1,273.10	1,424.85
Market Capitalization (Ksh. Bn.)	1,209.09	1,199.17	1,188.50	1,162.00	1,166.12	1,151.01	1,151.17
Bonds Turnover (Ksh. millions)	7,929.35	8,010.60	9,622.65	7,173.50	4,696.60	5,900.90	5,511.95

\* 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 60.1 per cent of the traded volume with Safaricom trading 41.7 million shares in the sector. The Finance and Investment sector traded 17.3 million shares and accounted for 22.9 percent of total traded volume. The Co-operative Bank and Kenya Commercial Bank were the most active stocks in the sector, trading 4.49 million and 4.96 million shares respectively. Industrial and Allied sector traded 12.3 million shares and accounted for 16.3 percent of traded volume. Mumias Sugar Co. was the most active counter, trading 3.1 million shares. The Alternative market segment traded 44,200 shares.

## Bond Market

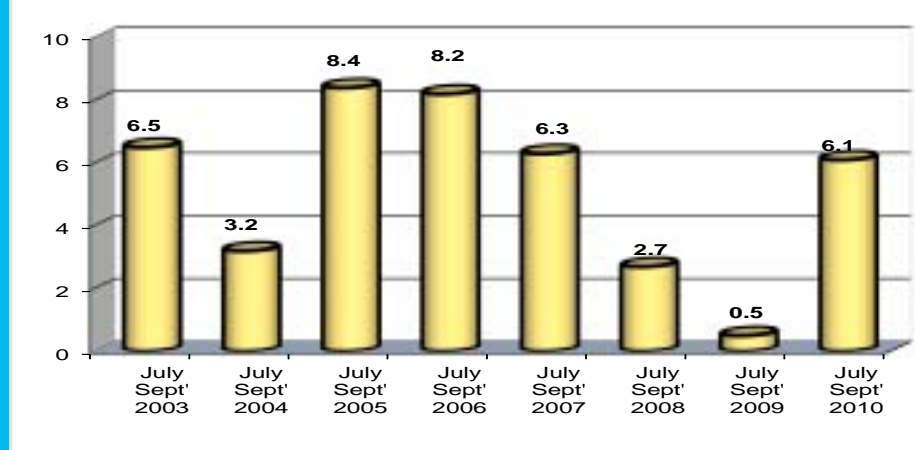
Bond turnover at the Fixed Income Securities Market decreased from Ksh 5.9 billion traded in the previous week to Ksh 5.5 billion in the week under review.

## GDP for the 3rd Quarter 2010

The Kenya National Bureau of Statistics released third quarter 2010 GDP statistic. The GDP increased by 6.1 percent during the third quarter of 2010 compared with 0.5 percent growth recorded for the same quarter in 2009 (Chart F). The average growth in GDP for the first three quarters in 2010 was 5.4 percent, compared with 2.1 percent and 2.3 percent for similar periods in 2008 and 2009, respectively. The turnaround is attributed to favourable weather conditions, enhanced liquidity in the banking sector and prudent macroeconomic management.

While all sectors recorded positive growth in the third quarter of 2010, the largest increases were recorded in financial intermediation (20.3 percent), electricity and water supply (24.4 percent) and construction (14.6 percent). The electricity and water supply sector benefited from the good rainfall beginning the end of 2009 through 2010, which reversed the drought conditions in 2009. The agricultural sector, which constitutes 24.4 percent of GDP, however, remained a key driver of GDP during the quarter under review recording growth of 6.8 percent compared with a decline of 3.4 percent in the third quarter of 2009.

Chart F: Real GDP Growth Rates in the Third Quarters (%)



Source: Kenya National Bureau of Statistics