

December 31, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted subdued performance of 63.0 percent during the 91-day Treasury bills auction of this week. Consequently, the 91-day Treasury bill rate increased by 4.4 basis points to settle at 2.357 percent.

The average interbank rate rose by 6 basis points to 1.28 percent in the week ending December 29, up from 1.22 percent in the previous week.

The money market was tight in the week ending December 29, 2010 as a result the Central Bank injected Ksh 13.9 billion into the market during the week. There were reverse repo maturities of Ksh 17.4 billion during the week.

The Kenya Shilling depicted mixed performance against major international currencies during the week ending December 30, 2010. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 80.64 compared with Ksh 80.52 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank stood at US dollar 3.466 billion as at December 30, 2010, a marginal change from the previous position of US dollar 3.468 billion held on December 24, 2010.

Government gross domestic debt increased by Ksh 45.6 billion from Ksh 660.3 billion in June 2010 to Ksh 705.9 billion as at December 24, 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 31.4 billion.

Performance at the equities market was mixed during the week ending December 30, 2010, with the NSE 20 Share Index gaining 59.43 points to settle at 4,396.5 from 4,337.1 points on December 23, 2010, while equity turnover decreased by 61.6 percent.

Government Securities Auction

The Government securities market posted subdued performance of 63.0 percent during the Treasury bills auction of this week. The Government had offered for sale 91-day Treasury bills worth Ksh 4.5 billion during the auction held on December 30, 2010 and received bids totalling Ksh 2.8 billion. The Government accepted bids amounting to Ksh 1.4 billion of which Ksh 1.1 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 4.4 basis points from 2.313 percent in the previous auction of the same security to 2.357 percent during this week's auction.

Table 1: Interest Rates

Auction date	4-Nov-10	11-Nov-10	18-Nov-10	25-Nov-10	2-Dec-10	9-Dec-10	16-Dec-10	23-Dec-10	31-Dec-10
91 day T. Bills*	2.180		2.242		2.239		2.313		2.357
182 day T. Bills*		2.256		2.464		2.548		2.631	
364 day T. Bills*									
Month	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10				
Average savings rate	1.55	1.50	1.47	1.46	1.40				
Average overdraft rate	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 6 basis points to 1.28 percent in the week ending December 29, up from 1.22 percent in the previous week. The average volumes traded increased to Ksh 10.17 billion in the week ending December 29, 2010 from Ksh 10.0 billion in the previous week (Table 2). The Government deposits at the Central bank declined from Ksh 70.2 billion in the week ending December 22, to Ksh 61.1 billion in the week ending December 29, 2010.

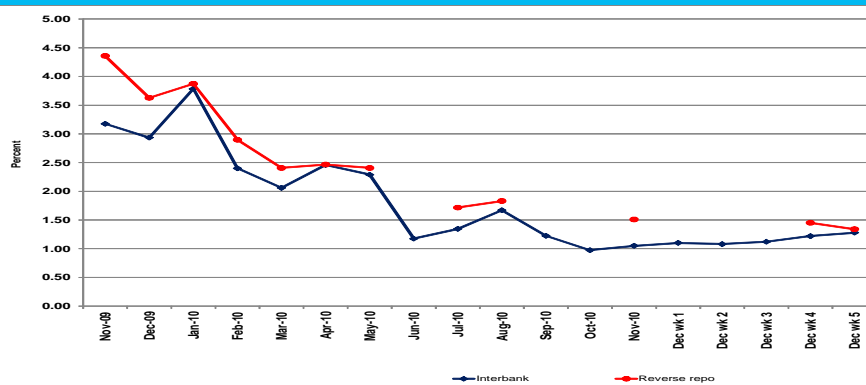
Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
Dec 16 - Dec 22, 2010	72	10,036	1.22
23-Dec-10	61	10,833	1.26
24-Dec-10	51	10,780	1.24
27-Dec-10	N/A	N/A	N/A
28-Dec-10	63	11,668	1.30
29-Dec-10	53	7,414	1.33
Dec 23 - Dec 29, 2010	57	10,174	1.28

Source: Central Bank of Kenya

The reverse repo rate was 1.340 percent as at the last reverse repo transaction on December 27, 2010 (Chart A).

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 29, 2010. Following this development the Central Bank injected Ksh 13.9 billion into the market during the week (Table 3). There were reverse repo maturities of Ksh 17.4 billion during the week. Commercial banks borrowed Ksh 0.3 billion from the Central Bank overnight window. Reserve money averaged Ksh 222.4 billion during the week which was above target by Ksh 19.8 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)
23-Dec	224.5	202.6	21.9	0.0	0.0	0.0	224.1	21.5	12.7	8.8
24-Dec	225.0	202.6	22.4	0.0	0.0	0.0	224.6	22.0	12.3	9.7
27-Dec	225.2	202.6	22.7	0.0	0.0	0.0	227.1	24.6	14.6	10.0
28-Dec	202.8	202.6	0.2	15.0	13.9	1.1	217.9	15.3	4.8	10.5
29-Dec	218.2	202.6	15.6	0.0	0.0	0.0	218.3	15.7	6.2	9.5
Average	219.1	202.6	16.6	3.0	2.8	0.2	222.4	19.8	10.1	9.7

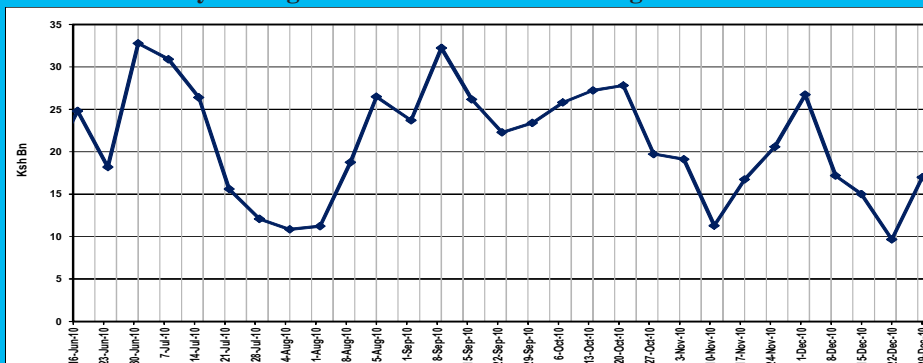
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 16.9 billion in their clearing accounts at the Central Bank in the week to December 29, 2010, compared with Ksh 9.7 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

On average, the Kenya Shilling depicted mixed performance against major international currencies during the week ending December 30, 2010 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 80.64 per US dollar compared with Ksh 80.52 per US dollar the previous week. The Kenya shilling appreciated against the Sterling pound to trade at Ksh 124.60 per Sterling pound compared with Ksh 124.68 the previous week, but lost against the Euro to exchange at Ksh 106.31 per Euro in the week compared with Ksh Ksh 105.88 per Euro in the previous week. Against the Japanese Yen, the Kenya shilling depreciated to exchange on average at Ksh 98.07 per 100 Japanese Yen compared with Ksh 96.37 per 100 Japanese Yen in the previous week.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
December 20 - 23, 2010	80.52	124.68	105.88	96.37	28.56	18.06
27-Dec-10	80.66	124.47	105.94	97.40	28.58	18.09
28-Dec-10	80.61	124.73	106.67	97.80	28.69	18.06
29-Dec-10	80.63	124.09	105.83	98.03	28.76	18.21
30-Dec-10	80.67	125.10	106.81	99.04	28.73	18.09
December 27 - 30, 2010	80.64	124.60	106.31	98.07	28.69	18.11

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling strengthened against the Tanzania Shilling and the Uganda Shilling to exchange at Tsh 18.11 per Kenya Shilling and Ush 28.69 per Kenya Shilling in the week ending December 30, 2010, compared with Tsh 18.06 per Kenya Shilling and Ush 28.56 per Kenya Shilling in the previous week.

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank were US dollar 3.466 billion (equivalent to 3.48 months of imports) as at December 30, 2010, a marginal change from the previous position of US dollar 3.468 billion (equivalent to 3.48 months of imports) held on December 24, 2010.

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

	29-Oct-10	12-Nov-10	26-Nov-10	10-Dec-10	17-Dec-10	24-Dec-10	30-Dec-10
Usable Reserves*	3,471	3,489	3,471	3,468	3,495	3,468	3,466
Months of Imports Cover**	3.53	3.54	3.52	3.48	3.51	3.48	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 45.6 billion from Ksh 660.3 billion in June 2010 to Ksh 705.9 billion as at December 24, 2010 (Table 6 and Chart C). This increase was on account of increases in Treasury bonds, overdraft at the Central Bank and other domestic debt amounting to Ksh 69.6 billion. This was, however, partially offset by decreases of Ksh 24.0 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 24, 2010, while Treasury bills declined from Ksh 159.0 billion in June 2010 to Ksh 135.9 billion during the same period.

Table 6: Government Domestic Debt (Ksh Billion)

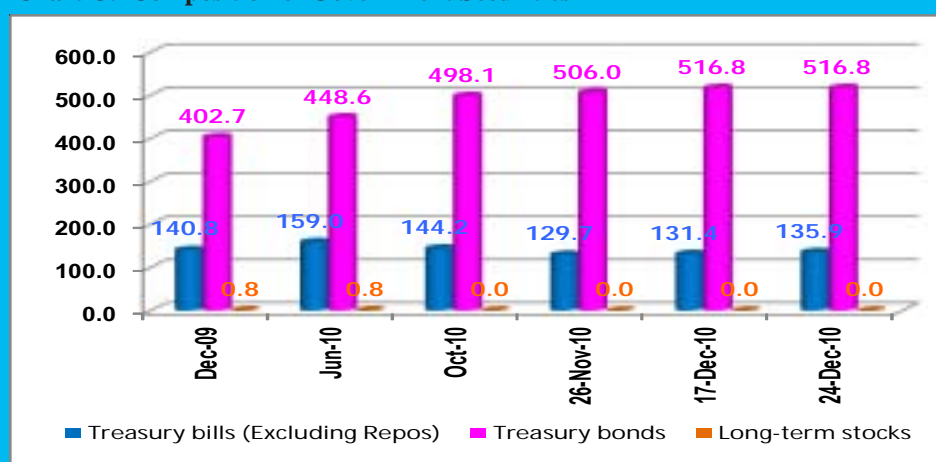
	Jun-10	Nov-2010	17th Dec-2010	24th Dec-2010	Changes	
					17th Dec-10-24th Dec-10	30th Jun-10-24th Dec-10
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	129.7 20.4	131.4 20.3	135.9 20.8	4.5 0.6	-23.2
2. Treasury Bonds (As % of total securities)	448.6 73.7	506.0 79.6	516.8 79.7	516.8 79.2	0.0 -0.6	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	648.2	652.7	4.5	44.3
5. Overdraft at Central Bank	17.6	22.9	17.9	18.3	0.4	0.7
6. Other Domestic debt*	34.2	32.8	38.8	34.9	-4.0	0.7
7. Gross Domestic Debt (4+5+6)	660.3	691.6	704.9	705.9	0.9	45.6
8. Interest payments on domestic debt	57.8	26.78	29.6	31.4	1.8	

* 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 79.2 percent as at December 24, 2010 while that of Treasury bills declined from 26.1 percent to 20.8 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years 1 month as at December 24, 2010. This development is largely in line with the Government debt management strategy of lengthening the maturity profile of domestic debt.

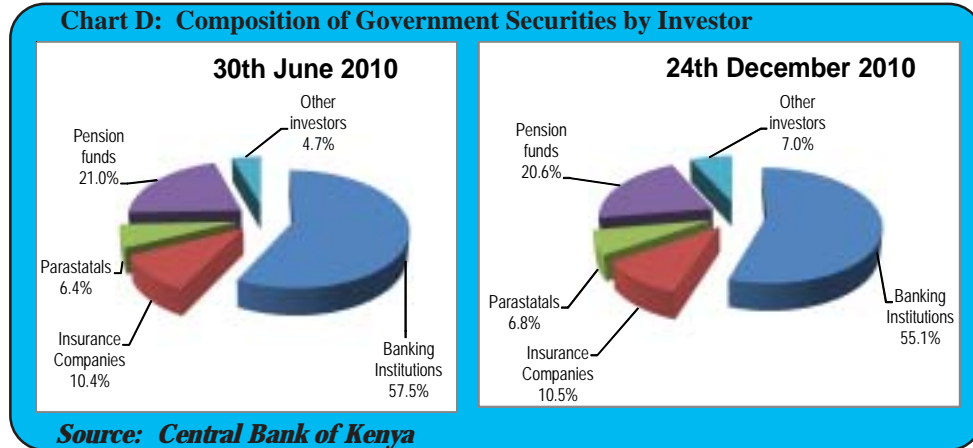
Chart C: Composition of Government Securities



Source: Central Bank of Kenya

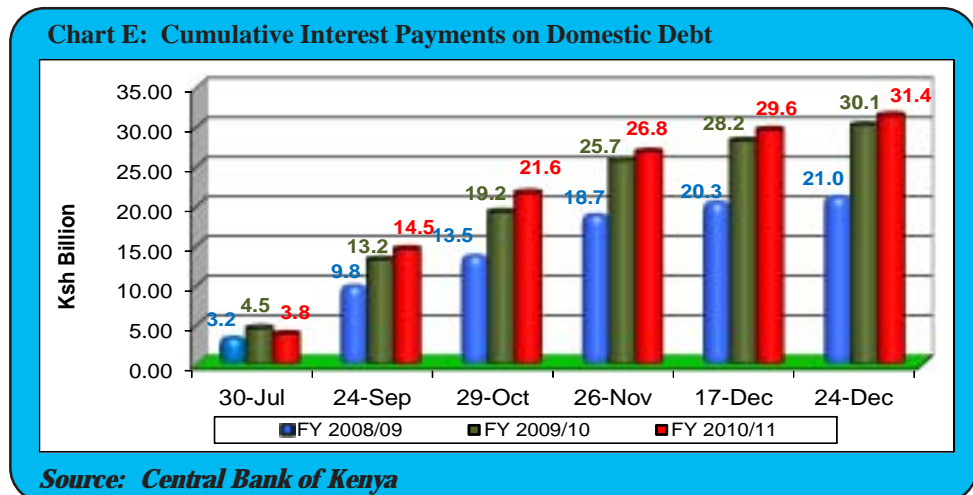
Holding of Government Securities

The holdings of Government securities by parastatals, insurance companies and other investors increased from 6.4 percent, 10.4 percent and 4.6 percent, respectively in June 2010 to 6.8 percent, 10.5 percent and 7.0 percent, respectively as at December 24, 2010. However, holdings of commercial banks and pension funds declined from 57.5 percent and 21.0 percent to stand at 55.1 percent and 20.6 percent, respectively during the same period (Chart D).



Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at December 24, 2010 of the fiscal year 2010/11 amounted to Ksh 31.4 billion compared with Ksh 30.1 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 24.2 billion, respectively, while interest on Government overdraft at the Central Bank and Government stocks amounted to Ksh 0.4 billion.



The Stock Market

Performance at the equities market was mixed during the week ending December 30, 2010. Turnover decreased by 61.6 percent as stocks worth Ksh 547.0 million were traded compared with Ksh 1,424 million traded in the previous week. The number of shares traded decreased from 75.8 million

in the previous week to 32.4 million shares in the week under review. Market capitalization, a measure of total shareholders wealth, increased by 0.8 percent or 9.0 billion to close at Ksh 1,160 billion from Ksh 1,151 billion in the previous week. The NSE 20 Share index gained 59.43 points to settle at 4,396.5 points on December 30, 2010 from 4,337.1 points on December 23, 2010. The Nairobi All Share Index gained 0.78 points to settle at 97.27 from 96.49 points the previous week (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	30-Dec-10
NASI 100= Jan 2008	101.36	100.52	99.6287	97.41	97.75	96.48	96.49	97.27
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	4,396.49
Number of Deals	10,426	8,869	9,818	8,829	10,642	8,240	9,487.00	5,124.00
Total Shares Traded (millions)	146.38	97.66	109.58	93.48	129.19	239.15	75.86	32.45
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	547.03
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	1,160.41
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	3,591.90

* 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 16.2 million shares and accounted for 50.1 per cent of the traded volume with Safaricom trading 14.5 million shares in the sector. The Finance and Investment sector traded 10.9 million shares and accounted for 33.9 percent of total traded volume. Kenya Commercial Bank and Equity Bank were the most active stocks in the sector, trading 2.1 million and 5.2 million shares, respectively. Industrial and Allied sector traded 5.0 million shares and accounted for 15.5 percent of traded volume. Mumias Sugar Company was the most active counter, trading 1.6 million shares. The Alternative Market segment traded 13,800 shares.

Bond Market

Bond turnover at the Fixed Income Securities Market decreased from Ksh 5.5 billion traded in the previous week to Ksh 3.5 billion in the week under review.