

February 5 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The overall 12-month inflation declined by 60 basis points to 4.7 percent in January 2010, from 5.3 percent in December 2009. Generally, the 12-month inflation has been on a single digit downward trend for last nine months.

The Government securities market posted mixed performance of 96.0 percent and 108.0 percent during the 364-day and 182-day Treasury bill auctions, respectively. The Government had offered for sale 364 days Treasury bills amounting to Ksh 8.5 billion, received bids amounting to Ksh 8.143 billion and accepted bids amounting to Ksh 8.149 (at cost). For the 182 days Treasury bills, the Government offered Ksh 7.0 billion; received bids amounting to Ksh 7.6 billion and accepted bids worth Ksh 7.571 billion (at cost). The cut-off rates declined by 65.5 basis points and 30.0 basis points for the 364 days and 182 days Treasury bills, respectively.

The average interbank rate trended downwards dropping significantly by 77 basis points in the week ending February 4, 2010 to 2.75 percent compared with 3.52 percent the previous week.

The Kenya Shilling recorded mixed performance against the major international currencies during the week ending February 5, 2010. Against the US dollar, the shilling depreciated to exchange at Ksh 76.16 in the week ending February 5, 2010 compared with Ksh 75.79 per US dollar in the previous week

Gross official foreign exchange reserves held by the Central Bank stood at US dollar 3.30 billion (equivalent to 3.55 months of imports) as at January 29, 2010, compared with US dollar 2.67 billion (equivalent to 3.19 months of imports) as at January 30, 2009.

Central Bank injected a total of Ksh 10.5 billion during the week ending February 3, 2010 against reverse repo maturities worth Ksh 2.1 billion. The Central bank therefore enhanced inter bank reserve repo by Ksh 8.4 billion during the week.

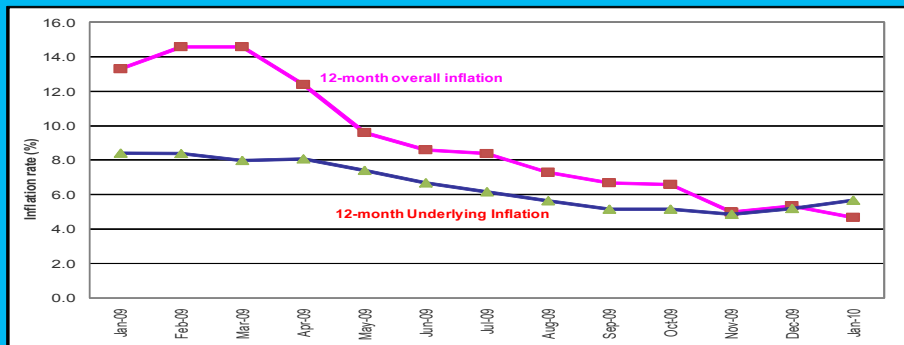
Government gross domestic debt increased by Ksh 61.8 billion from Ksh 518.3 billion in June 2009 to Ksh 580.2 billion as at January 29, 2010 of the FY 2009/10. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 34.4 billion.

Performance at the equities market was mixed during the week. Equity turnover decreased by 17.0 percent, market capitalization improved by 1.0 percent while the NSE 20 Share Index gained 11.8 points to settle at 3584.2 points on February 4, 2010.

Inflation

12-month inflation declined in January 2010 to reach 4.7 percent. This was largely propelled by decreases in the prices of foods such as maize flour, maize grain, onions, sugar and cabbages, which outweighed the increases in the prices of other foods during the month. The price of medical goods and services, recreation and education, and personal goods and services also declined during the month. The CPI's of all the other categories went up with the Alcohol and tobacco category experiencing the largest increase with a corresponding inflation rate of 14.6 percent. The other categories including clothing and footwear, transport and communication, fuel and power and housing experienced increases in the 12-month inflation to 6.8 percent, 5.2 percent, 5.1 percent and 5.3 percent, respectively. The overall decline in 12-month inflation was mainly influenced by the decline in the "Lower income "group's inflation which fell from 3.8 percent to 1.1 percent in January 2010 as inflation for both the 'Middle/Upper' and the 'Rest of urban' income groups went up in January 2010 from 7.1 percent and 6.0 percent to 7.2 percent and 6.4 percent, respectively.

Chart A: Trends in Overall and Underlying Inflation



Source: Central Bank of Kenya

Government Securities Auction

The Government securities market posted mixed performance of 96.0 percent and 108.0 percent during the 364-day and 182-day Treasury bill auctions, respectively. The Government had offered for sale 364 days Treasury bills amounting to Ksh 8.5 billion during the Treasury bills auction of January 3, 2010 and received bids amounting to Ksh 8.1 billion of which 97.5 percent were in competitive bids. During the 182 days Treasury bills auction of January 4, 2010 the Government offered Ksh 7.0 billion and received bids amounting to Ksh 7.6 billion of which 94.2 percent were in competitive bids.

The Government accepted Treasury bills worth Ksh 8.1 billion and Ksh 7.6 billion for 364 days and 182 days maturities, respectively. The proceeds of

the auctions were adequate to cover the cost of redemption of Government securities maturing in the week amounting to Ksh 9.9 billion and provide Government additional borrowing amounting to Ksh 5.8 billion.

The cut-off rate for the 364- day Treasury bills declined by 65.5 basis points from 8.155 percent in the previous auction of December, 14, 2009 to 7.500 percent during this week's auction. The cut-off rate for the 182-day Treasury bills declined by 30.0 basis points from 7.000 percent in the previous auction of January 25, 2010 to 6.700 percent during this week's auction.

Table 1: Interest Rates

Auction date	26-Nov-09	03-Dec-09	10-Dec-09	17-Dec-09	24-Dec-09	31-Dec-09	07-Jan-10	14-Jan-10	21-Jan-10	28-Jan-10	04-Feb-10
Average 91 day T. Bills		6.937		6.710		6.612		6.502		6.226	
Average 182 day T. Bills	7.943		7.511		7.245		7.136		7.000		6.700
Average 364 day T. Bills			8.008								
Month	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-10	Dec-10
Average savings rate	1.90	1.91	1.67	2.08	1.67	1.65	1.65	1.85	1.71	1.73	
Average overdraft rate	13.78	13.66	14.13	14.41	13.94	13.90	13.76	14.03	14.24	14.13	

* Revised

Source: Central Bank of Kenya

Interbank and REPO Market

The average interbank rate decreased by 77 basis points in the week ending February 4, 2010 down to 2.75 percent as compared with the previous week at 3.52 percent. The volumes traded increased in the week from Ksh 34.0 billion in the previous week to Ksh 49.5 billion in the week ending February 4, 2010. The number of deals increased from 357 in the previous week to 398 deals in the week ending February 4, 2010 (Table 2).

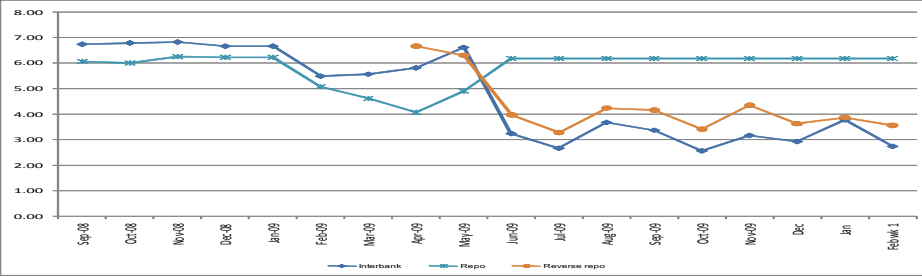
Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
22-Jan-10	85	8,328	3.89
25-Jan-10	71	7,623	3.79
26-Jan-10	61	5,933	3.58
27-Jan-10	74	5,860	3.35
28-Jan-10	66	6,249	2.98
Jan 22 - Jan 28, 2010	357	33,993	3.52
29-Jan-10	67	9,414	2.25
01-Feb-10	87	11,316	3.01
02-Feb-10	84	9,034	2.85
03-Feb-10	88	12,346	2.90
04-Feb-10	72	7,400	2.73
Jan 29 - Feb 04, 2010	398	49,510	2.75

Source: Central Bank of Kenya

The reverse repo rate declined slightly by 2 basis points from 4.04 percent in the previous week up to 4.02 percent in the week ending January 7, 2010 (Chart B).

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The market was fairly tight in the week ending February 3, 2010. During the week, Central Bank injected a total of Ksh 10.5 billion into the market as shown in Table 3. Reverse repo maturities amounted to Ksh 2.1 billion during the week under review. Besides the Ksh 8.4 billion net injection via the reverse repo window, commercial banks borrowed Ksh 455 million from the overnight window, during the week. Reserve money averaged Ksh 175.1 billion during the week and was above target by Ksh 1.4 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=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
28-Jan	180.9	173.4	7.5	0.0	0.0	0.0	179.8	6.4	18.5	-12.1
29-Jan	177.7	173.4	4.3	0.0	0.0	0.0	180.2	6.9	18.8	-11.9
01-Feb	161.2	173.9	-12.7	10.0	10.5	0.5	172.0	-1.9	9.5	-11.4
02-Feb	173.5	173.9	-0.3	0.0	0.0	0.0	171.1	-2.8	7.5	-10.3
03-Feb	170.2	173.9	-3.6	0.0	0.0	0.0	172.3	-1.6	7.2	-8.8
Average	172.7	173.7	-1.0	2.0	2.1	0.1	175.1	1.4	12.3	-10.9

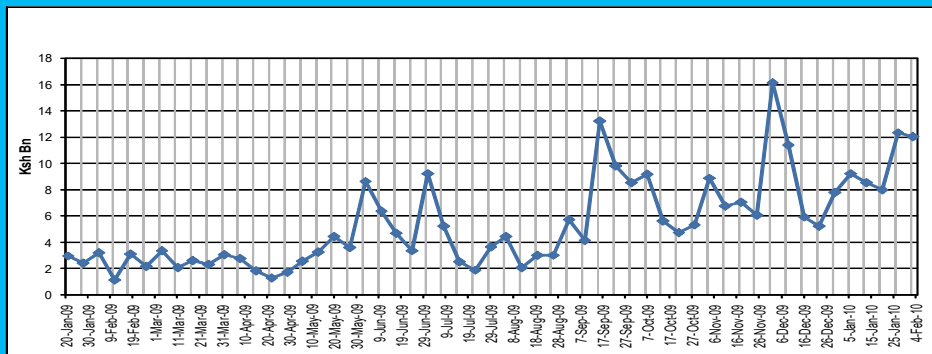
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 12.0 billion in their clearing accounts at the Central Bank in the week to February 3, 2010, compared with Ksh 12.4 billion held in 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 recorded mixed performance against the major international currencies during the week ending February 5, 2010 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 76.16 in the week ending February 5, 2010 compared with Ksh 75.79 per US dollar in the previous week. The shilling also depreciated against the Japanese Yen to exchange at Ksh 84.29 per 100 Japanese Yen compared with Ksh 83.11 per 100 Japanese Yen in the previous week. Against the Sterling Pound and the Euro, the shilling appreciated to exchange, respectively, at Ksh 121.17 per Sterling Pound and Ksh 105.70 per Euro in the week ending February 5, 2010 compared with Ksh 122.53 per Sterling Pound and Ksh 108.27 per Euro in the previous week.

In the regional scene, the Kenya Shilling strengthened marginally against Uganda Shilling to exchange at Ush 25.75 per Kenya Shilling compared with Ush 25.53 in the previous week. It weakened against the Tanzanian Shilling to exchange at Tsh 17.66 per Kenya Shilling compared with Tsh 17.71 per Kenya Shilling in the previous week.

Table 4: Kenya Shilling Exchange Rates

DATE	US DOLLAR	STERLING	EURO	JYP YEN	USHS	TSHS
25-Jan-10	75.96	122.53	107.60	84.24	25.41	17.77
26-Jan-10	76.10	123.29	107.18	84.78	25.68	17.65
27-Jan-10	76.28	122.98	107.27	85.47	25.68	17.67
28-Jan-10	76.32	123.59	106.94	84.70	25.58	17.67
29-Jan-10	75.89	122.42	105.86	84.51	25.70	17.66
Jan-25-29, 2010	75.79	122.53	108.27	83.11	25.53	17.71
01-Feb-10	75.97	121.18	105.51	84.25	25.70	17.65
02-Feb-10	76.05	121.36	105.95	83.92	25.62	17.68
03-Feb-10	76.12	121.95	106.33	84.21	25.68	17.69
04-Feb-10	76.09	120.93	105.63	83.82	25.92	17.66
05-Feb-10	76.58	120.44	105.08	85.23	25.85	17.60
Feb 01-05,2010	76.16	121.17	105.70	84.29	25.75	17.66

Source: Central Bank of Kenya

**Foreign
Exchange
Reserves**

Gross official foreign exchange reserves held by the Central Bank stood at US dollar 3.30 billion (equivalent to 3.55 months of imports) as at January 29, 2010, compared with US dollar 2.67 billion (equivalent to 3.19 months of imports) as at January 30, 2009 (Table 5).

The foreign exchange reserves held by the commercial banks, predominantly used by the private sector to meet external financial obligations stood at US dollar 1,215 million at the end of December 2009 compared with US dollar 1,765 million at end of December 2008.

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

	30-Jan-09	26-Jun-09	31-Jul-09	31-Aug-09	30-Sep-09	30-Oct-09	30-Nov-09	31-Dec-09	29-Jan-10
Usable Reserves	2,671	3,086	3,097	3,154	3,243	3,302	3,392	3,309	3,297
Months of Imports Cover*	3.19	3.56	3.52	3.54	3.67	3.67	3.71	3.62	3.55
Months of Imports Cover**	2.67	3.1	3.12	3.18	3.27	3.33	3.4	3.32	3.58

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

**Based on current year's average imports of goods and non-factor services

Source: Central Bank of Kenya

Government Domestic Debt

Government gross domestic debt increased from Ksh 518.3 billion in June 2009 to Ksh 580.2 billion as at January 29, 2010 (Table 6 and Chart D). This was as a result of increases of Ksh 24.9 billion, Ksh 34.7 billion and Ksh 4.1 billion in Treasury bills (excluding Repos), Treasury bonds and overdraft at the Central Bank of Kenya, which was offset by a decrease of Ksh 1.9 billion in other domestic debt.

Treasury bills and Treasury bonds increased from Ksh 116.8 billion and Ksh 360.7 billion in June 2009 to Ksh 141.7 billion and Ksh 395.5 billion, respectively as at January 29, 2010. Long term stocks remained unchanged from Ksh 0.8 billion during the period.

As a result of these developments, the proportion of Treasury bonds in total Government securities declined from 75.4 percent in June 2009 to 73.5 percent as at January 8, 2010 while that of Treasury bills increased from 24.4 percent to 26.3 percent. Similarly, the maturity profile of Government securities improved to 4 years 3 months compared to 3 years 9 months in June 2009.

Table 6: Government Domestic Debt (Ksh Billion)

	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	22nd Jan 2010	29th Jan 2010	Changes	
									22nd Jan-09 - 29th Jan-2010	30th Jun-09 - 29th Jan-2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	116.8 24.4	120.8 24.5	127.6 25.2	122.2 24.0	133.6 25.5	137.7 26.5	142.2 26.1	141.7 26.3	-0.5 0.3	24.9 1.9
2. Treasury Bonds (As % of total securities)	360.7 75.4	371.2 75.3	378.5 74.7	386.1 75.8	389.9 74.4	381.0 73.3	402.2 73.8	395.5 73.5	-6.7 -0.3	34.7 -1.9
3. Long Term Stocks (As % of total securities)	0.8 0.2	0.8 0.2	0.8 0.1	0.8 0.1	0.8 0.1	0.8 0.1	0.8 0.1	0.8 0.1	0.0 0.0	0.0 0.0
4. Total Securities (1+2+3)	478.3	492.8	506.8	509.0	524.2	519.5	545.1	537.9	-7.2	59.6
5. Overdraft at Central Bank	5.1	3.9	6.1	8.0	9.3	9.8	2.6	9.2	6.6	4.1
6. Other Domestic debt*	34.9	33.7	34.2	33.6	33.6	33.6	33.0	33.1	0.0	-1.9
7. Gross Domestic Debt (4+5+6)	518.3	530.4	547.2	550.6	567.1	562.9	580.8	580.2	-0.6	61.8
8. Interest payments on domestic debt (Cumulative in FY)	45.9	3.9	9.0	13.5	19.6	25.7	32.2	34.4	2.2	

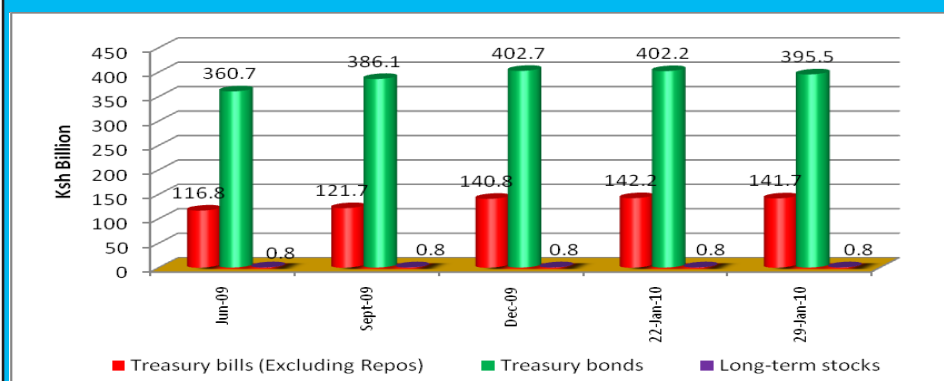
* Other domestic debt includes Pre-1997 Government Overdraft, clearing items in transit, advances from commercial

Source: Central Bank of Kenya

Holding of Government Securities

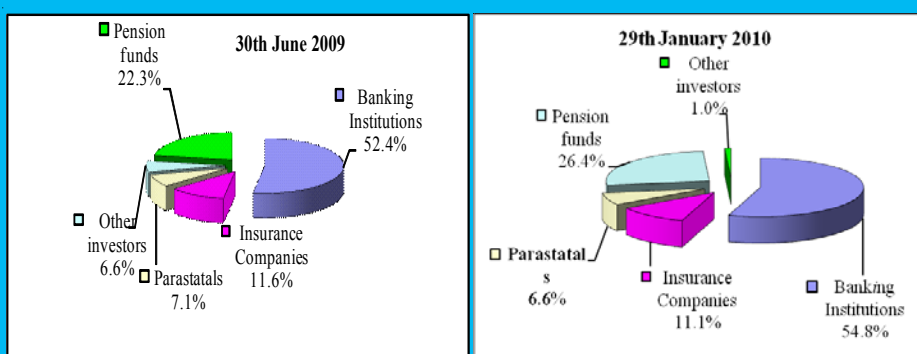
The holdings of Government securities by commercial banks and pension funds increased from 52.4 percent and 22.3 percent, respectively in June 2009 to 54.8 percent and 26.4 percent respectively as at January 29, 2010. However, holdings of insurance companies, parastatals and other investors declined from 11.6 percent, 7.1 percent and 6.6 percent, respectively to 11.1 percent, 6.6 percent and 1.0 percent during the same period (Chart E).

Chart D: Composition of Government Securities



Source: Central Bank of Kenya

Chart E: Composition of Government Securities by Investor

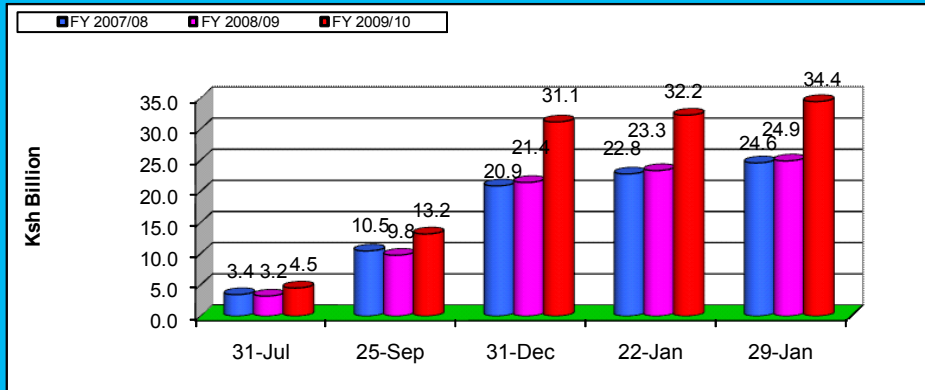


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt for the period up to January 29, 2010 of the FY 2009/10 amounted to Ksh 34.4 billion compared with Ksh 24.9 billion in a similar period in the fiscal year 2008/09 (Chart F). The interest cost on domestic debt during the period comprised Ksh 26.2 billion in interest and other charges on Treasury bonds, Ksh 7.5 billion in interest and other charges on Treasury bills, and Ksh 0.7 billion in interest on both the Government overdraft at CBK and the pre-1997 government overdraft.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was a mixed performance at the equities market during the week ending February 4, 2010. Equity turnover decreased by 17.0 percent as stocks worth Ksh 1,231.6 million were traded compared with Ksh 1,483.2 million traded in the previous week. The number of shares traded increased, from 112.1 million in the previous week to 125.2 million shares in the week under review. Market capitalization as a measure of total shareholders wealth improved by 1.0 percent or Ksh 9.4 billion to close at Ksh 928.8 billion in the week under review from Ksh 919.4 billion in the previous week. The NSE 20 Share Index gained 11.8 points to settle at 3584.2 points on February 4, 2010 from 3572.4 points on January 28, 2010. The Nairobi All Share Index gained 0.8 points to settle at 79.8 points on February 4, 2010 (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	03-Dec-09	10-Dec-09	17-Dec-09	24-Dec-09	31-Dec-09	07-Jan-10	14-Jan-10	21-Jan-10	28-Jan-10	04-Feb-10
NASI 100= Jan 2008	70.51	70.14	70.82	71.27	71.64	73.62	78.14	79.99	78.95	79.75
NSE 20 Share Index 100=1966	3,170.51	3,181.76	3,186.76	3,209.67	3,247.44	3,282.58	3,426.41	3,628.53	3,572.39	3,584.24
Number of Deals	6,772	7,095	6,437	5,434	4,278	4,768	9,220	11,851	9,778	9,009
Total Shares Traded (millions)	55.83	62.49	56.73	38.00	29.61	39.58	206.97	234.03	112.05	125.24
Equity Turnover (Ksh. millions)	577.30	624.78	821.72	554.03	287.68	423.97	1,609.24	2,679.64	1,483.18	1,231.59
Market Capitalization (Ksh. Bn.)	816.68	812.21	821.21	829.82	834.17	857.25	909.84	931.47	919.35	928.75
Bonds Turnover (Ksh. millions)	2,437.45	6,416.00	4,863.40	1,822.55	547.30	2,448.65	3,986.35	6,946.70	11,381.60	10,316.60

* 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 94.8 million shares and accounted for 75.7 percent of total traded volume. Safaricom traded 92.5 million shares to be the most active stock in the sector. The Finance and Investment sector traded 10.7 million shares accounting for 8.5 percent of total traded volume. Co-operative Bank and Equity Bank traded 2.8 million and 2.1 million shares and were the most active counters in the sector.

Industrial and Allied sector traded 19.5 million shares equivalent to 15.5 percent of the traded volume, with Mumias and Kenol Kobil which were the most active counters trading 16.3 million and 1.1 million shares, respectively. The other sectors had minimal trading.

Bond Market Bond market trading declined at the Fixed Income Securities Market during the week. Bond turnover decreased as bonds worth Ksh 10.3 billion were traded compared with Ksh 11.4 billion traded in the previous week.