

February 12, 2010



## THE CBK WEEKLY BULLETIN

### Highlights for the Week

The Government securities market posted a 122.4 percent performance rate during the 91-day Treasury bills auction of February 11, 2010. The cut-off rate for the auction was 6.199 percent.

The average interbank rate continued on a downward trend for the second week running this month, declining further by 38 basis points in the week ending February 11, 2010 down to 2.37 percent compared with the previous week at 2.75 percent.

The Kenya Shilling on average depicted mixed trends against the major international currencies during the week ending February 12, 2010. Against the US dollar, the shilling depreciated to exchange at Ksh 76.69 in the week ending February 12, 2010 compared with Ksh 76.16 per US dollar in the previous week.

Usable official foreign exchange reserves held by the Central Bank stood at US dollar 3.26 billion (equivalent to 3.52 months of imports) as at February 12, 2010, compared with US dollar 3.29 billion (equivalent to 3.53 months of imports) as at February 05, 2010.

Central Bank injected a total of Ksh 18.5 billion during the week ending February 10, 2010 against reverse repo maturities worth Ksh 10.5 billion. The Central bank therefore enhanced inter bank reserve repo by Ksh 8.0 billion during the week.

Government gross domestic debt increased by Ksh 69.9 billion from Ksh 518.3 billion in June 2009 to Ksh 588.3 billion as at February 5, 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 34.5 billion.

Performance at the equities market was mixed during the week. Equity turnover decreased by 2.5 percent, market capitalization declined by 1.2 percent while the NSE 20 Share Index gained 6.8 points to settle at 3591.0 points on February 11, 2010.

**Government Securities Auction**

The Government securities market posted a 122.4 percent performance rate during the 91-day Treasury bills auction of February 11, 2010. The Government offered for sale Treasury bills worth Ksh 4.0 billion and received bids totalling Ksh 4.9 billion. The Government accepted bids totalling Ksh 4.35 billion, of which Ksh 4.18 billion were in competitive bids.

**Interest Rates on Treasury Bills**

The cut-off rate for the 91-day Treasury bills auction declined by 20.2 basis points from 6.401 percent in the previous auction to 6.199 percent during this week's auction (Table 1).

**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	11-Feb-10
Average 91 day T. Bills*		6.937		6.710		6.612		6.502		6.401		6.199
Average 182 day T. Bills*	7.943		7.511		7.245		7.136		7.000		6.700	
Average 364 day T. Bills*			8.008								7.552	
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		

\*Refers to cut off rate beginning 21st January 2010.

Source: Central Bank of Kenya

**Interbank and REPO Market**

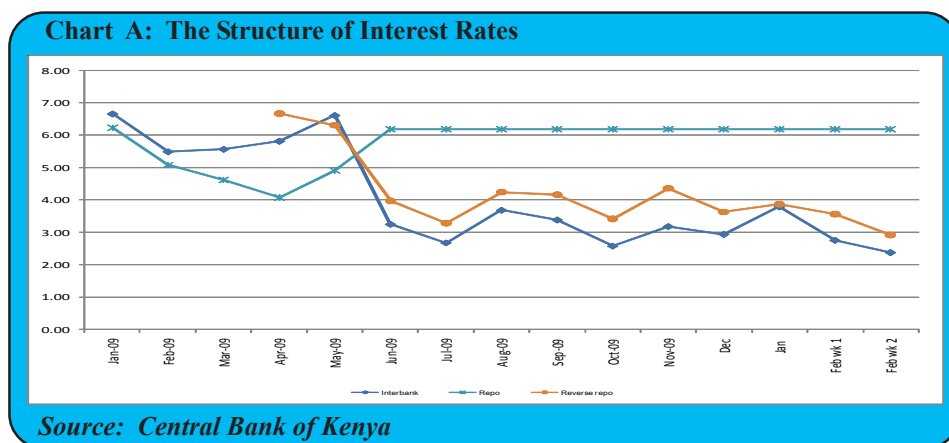
The average interbank rate decreased by 38 basis points in the week ending February 11, 2010 down to 2.37 percent as compared with the previous week at 2.75 percent. The volumes traded declined in the week from Ksh 49.5 bn in the previous week to Ksh 37.6 bn in the week ending February 11, 2010 (Table 2).

**Table 2: Interbank Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
<b>Jan 29 - Feb 04, 2010</b>	<b>398</b>	<b>49,510</b>	<b>2.75</b>
05-Feb-10	68	6,893	2.48
08-Feb-10	67	8,585	2.64
09-Feb-10	53	7,225	2.52
10-Feb-10	48	6,839	2.24
11-Feb-10	69	8,095	1.98
<b>Feb 05 - Feb 11, 2010</b>	<b>305</b>	<b>37,637</b>	<b>2.37</b>

Source: Central Bank of Kenya

The reverse repo rate declined to 2.91 percent in the week ending February 11, 2010 from the January 2010 average of 3.87 percent (Chart A).



**Monetary Policy Operations**

The market was tight in the week ending February 10, 2010. During the week, Central Bank injected a total of Ksh 18.5 billion into the market as shown in Table 3 with reverse repo maturities amounted to Ksh 10.5 billion. Commercial banks did not borrow from the overnight window, during the week. Reserve money averaged Ksh 173.8 billion during the week and was below target by Ksh 0.3 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
04-Feb	172.6	173.9	-1.3	0.0	0.0	0.0	171.6	-2.3	7.4	-9.7
05-Feb	171.0	173.9	-2.9	0.0	0.0	0.0	172.3	-1.6	6.6	-8.2
08-Feb	156.4	174.3	-18.0	17.0	17.0	0.0	171.5	-2.8	4.9	-7.7
09-Feb	174.8	174.3	0.4	3.0	1.5	-1.5	176.7	2.4	9.1	-6.7
10-Feb	173.4	174.3	-0.9	0.0	0.0	0.0	177.1	2.8	10.1	-7.3
Average	169.6	174.1	-4.5	4.0	3.7	-0.3	173.8	-0.3	7.6	-7.9

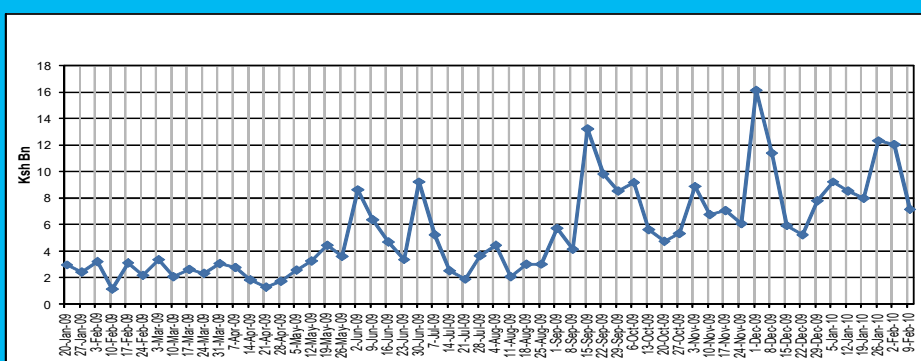
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial Banks Clearing Account Balances**

Commercial banks maintained an average of Ksh 7.14 billion in their clearing accounts at the Central Bank in the week to February 10, 2010, compared with Ksh 12.0 billion held in 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 trends against the major international currencies during the week ending February 12, 2010 (Table 4). Against the US dollar, the shilling depreciated marginally to exchange at Ksh 76.69 in the week ending February 12, 2010 compared with Ksh 76.16 per US dollar in the previous week. Similarly, the shilling also depreciated against the Japanese Yen to exchange at Ksh 85.82 per 100 Japanese Yen compared with Ksh 84.29 per 100 Japanese Yen in the previous week respectively. However, the shilling appreciated against Sterling Pound and the Euro to exchange at Ksh 119.98 per Sterling Pound and Ksh 105.14 per Euro compared with Ksh 121.17 per Sterling Pound and Ksh 105.70 per Euro in the previous week respectively.

In the regional scene, the Kenya Shilling strengthened marginally against Uganda Shilling and weakened marginally against the Tanzania Shilling to exchange at Ush 25.89 per Kenya Shilling and Tsh 17.59 per Kenya Shilling in the week ending February 12, 2010 compared with Ush 25.75 per Kenya Shilling and Tsh 17.66 per Kenya Shilling in the previous week respectively.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
<b>Feb 01-05, 2010</b>	<b>76.16</b>	<b>121.17</b>	<b>105.70</b>	<b>84.29</b>	<b>25.75</b>	<b>17.66</b>
08-Feb-10	76.88	119.56	104.69	85.82	25.82	17.46
09-Feb-10	76.93	120.28	105.47	85.82	25.77	17.52
10-Feb-10	76.72	120.36	105.56	85.82	25.87	17.58
11-Feb-10	76.41	119.56	105.34	85.82	25.97	17.67
12-Feb-10	76.50	120.12	104.65	85.82	26.01	17.69
<b>Feb 08-12, 2010</b>	<b>76.69</b>	<b>119.98</b>	<b>105.14</b>	<b>85.82</b>	<b>25.89</b>	<b>17.59</b>

Source: Central Bank of Kenya

## Foreign Exchange Reserves

Usable official foreign exchange reserves held by the Central Bank stood at US dollar 3.26 billion (equivalent to 3.52 months of imports) as at February 12, 2010, compared with US dollar 3.28 billion (equivalent to 3.53 months of imports) as at February 5, 2010 (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.

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

	05-Feb-09	26-Jun-09	31-Jul-09	31-Aug-09	30-Sep-09	30-Oct-09	30-Nov-09	31-Dec-09	05-Feb-10	12-Feb-10
Usable Reserves	2,642	3,086	3,097	3,154	3,243	3,302	3,392	3,309	3,278	3,262
Months of Imports Cover*	3.20	3.56	3.52	3.54	3.67	3.67	3.71	3.62	3.53	3.52
Months of Imports Cover**	2.64	3.10	3.12	3.18	3.27	3.33	3.40	3.58	3.56	3.54

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

\*\*Based on current year's average imports of 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 588.3 billion as at February 5, 2010 (Table 6 and Chart C). This was as a result of increases of Ksh 25.5 billion, Ksh 51.7 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 11.3 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 142.3 billion and Ksh 412.4 billion, respectively as at February 5, 2010. Long term stocks remained unchanged from Ksh 0.8 billion during the period.

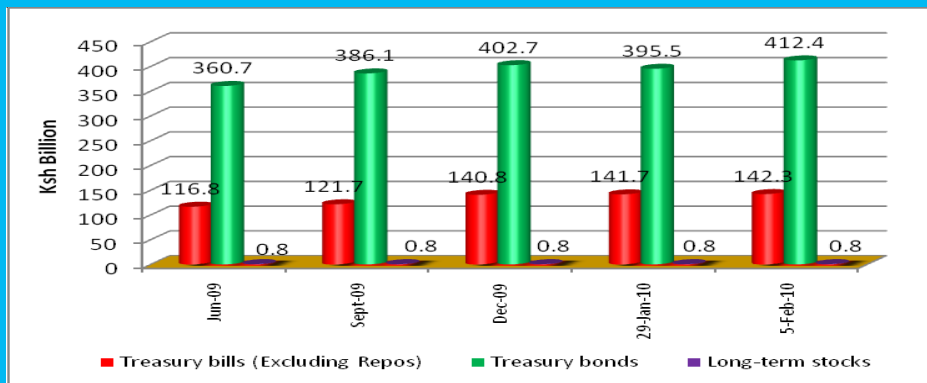
As a result of these developments, the proportion of Treasury bonds in total Government securities declined from 75.4 percent in June 2009 to 74.2 percent as at February 5, 2010, while that of Treasury bills increased from 24.4 percent to 25.6 percent. Similarly, the maturity profile of Government securities improved to 4 years 2 months compared to 3 years 9 months in June 2009.

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

	June 09	Sep-09	Nov-09	31st Dec 2009	29th Jan 2010	5th Feb 2010	Changes	
							29th Jan-10 -5th Feb-10	30th Jun-09 -5th Feb-10
1. Treasury Bills (Excluding Repos) (As % of total securities)	116.8 24.4	122.2 24.0	137.7 26.5	140.8 25.9	141.7 26.3	142.3 25.6	0.6 -0.7	25.5 1.2
2. Treasury Bonds (As % of total securities)	360.7 75.4	386.1 75.8	381.0 73.3	402.7 74.0	395.5 73.5	412.4 74.2	17.0 0.7	51.7 -1.2
3. Long Term Stocks (As % of total securities)	0.8 0.2	0.8 0.1	0.8 0.1	0.8 0.1	0.8 0.1	0.8 0.1	0.0 0.0	0.0 0.0
4. Total Securities (1+2+3)	478.3	509.0	519.5	544.3	537.9	555.5	17.6	77.2
5. Overdraft at Central Bank	5.1	8.0	9.8	11.1	9.2	9.2	0.0	4.1
6. Other Domestic debt*	34.9	33.6	33.6	33.5	33.1	23.6	-9.5	-11.3
7. Gross Domestic Debt (4+5+6)	518.3	550.6	562.9	588.9	580.2	588.3	8.1	69.9
8. Interest payments on domestic debt (Cumulative in FY)	45.9	13.5	25.7	31.1	34.4	34.5	0.1	

Source: Central Bank of Kenya

**Chart C: Composition of Government Securities**

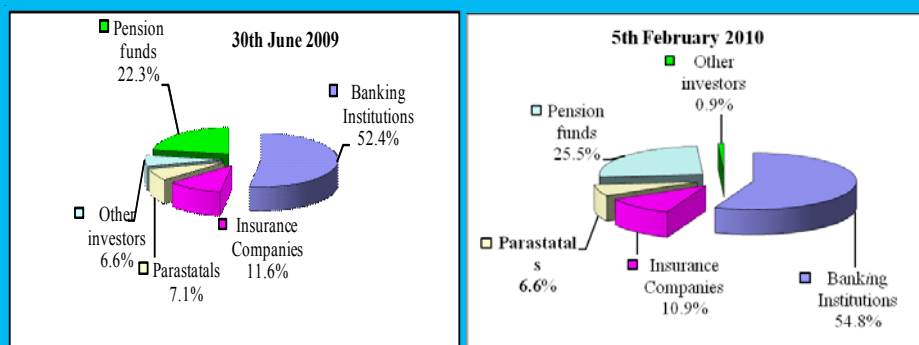


Source: Central Bank of Kenya

### 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 25.5 percent respectively as at February 5, 2010. However, holdings of insurance companies, parastatals and other investors declined from 11.6 percent, 7.1 percent and 6.6 percent to 10.9 percent, 6.6 percent and 0.9 percent respectively during the same period (Chart D).

**Chart D: Composition of Government Securities by Investor**

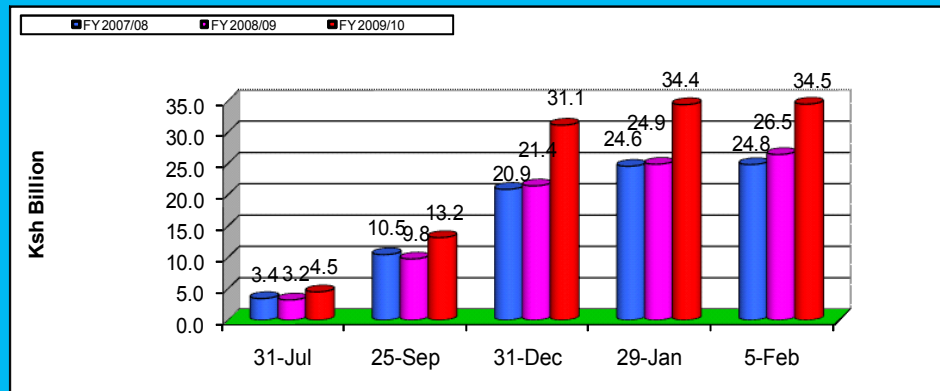


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt for the period up to February 5, 2010 of the FY 2009/10 amounted to Ksh 34.5 billion compared with Ksh 26.5 billion in a similar period in the fiscal year 2008/09 (Chart E). The interest cost on domestic debt during the period comprised Ksh 26.3 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 E: 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 11, 2010. Equity turnover decreased by 2.5 percent as stocks worth Ksh 1.20 billion were traded compared with Ksh 1.23 billion traded in the previous week. The number of shares traded decreased, from 125.2 million in the previous week to 85.3 million shares in the week under review. Market capitalization as a measure of total shareholders wealth declined by 1.2 percent or Ksh 10.7 billion to close at Ksh 918.0 billion in the week under review from Ksh 928.8 billion in the previous week. The NSE 20 Share index gained 6.8 points to settle at 3591.0 points on February 11, 2010 from 3584.2 points on February 04, 2010. The Nairobi All Share Index lost 1.0 point to settle at 78.8 points on February 11, 2010 (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	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	11-Feb-10
NASI 100= Jan 2008	70.14	70.82	71.27	71.64	73.62	78.14	79.99	78.95	79.75	78.83
NSE 20 Share Index 100=1966	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	3,591.02
Number of Deals	7,095	6,437	5,434	4,278	4,768	9,220	11,851	9,778	9,009	9,141
Total Shares Traded (millions)	62.49	56.73	38.00	29.61	39.58	206.97	234.03	112.05	125.24	85.31
Equity Turnover (Ksh. millions)	624.78	821.72	554.03	287.68	423.97	1,609.24	2,679.64	1,483.18	1,231.59	1,201.37
Market Capitalization (Ksh. Bn.)	812.21	821.21	829.82	834.17	857.25	909.84	931.47	919.35	928.75	918.00
Bonds Turnover (Ksh. millions)	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	13,131.70

\* 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 31.7 million shares and accounted for 37.1 percent of total traded volume. Safaricom traded 28.9 million shares to be the most active stock in the sector. The Finance and Investment sector traded 41.7 million shares and accounted for 48.9 percent of total traded volume. Co-operative Bank and Kenya Commercial Bank traded 18.9 million and 15.0 million shares and were the most active counters in the sector. Industrial and Allied sector traded 11.2 million shares and accounted for 13.2 percent of traded volume. Mumias and KenolKobil were the most active counters and traded 7.9 million and 1.1 million shares, respectively. The other sectors had minimal trading.

**Bond Market**

Bond market trading improved at the Fixed Income Securities Market during the week. Bond turnover increased as bonds worth Ksh 13.1 billion were traded compared to Ksh 10.3 billion traded in the previous week.