

February 26, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market registered high performance rates equivalent to 137.6 percent and 243.4 percent for the 91- day Treasury bills and the 8 - year infrastructure bond auctions of February 25, 2010, respectively. The 91-day Treasury bills cut-off rate was 6.248 percent while that for the 8 – year infrastructure bond was 9.649 percent during this week's auction.

The average interbank rate increased by 10 basis points in the week ending February 25, 2010 up to 2.29 percent as compared with the previous week at 2.19 percent.

The Kenya Shilling on average appreciated against the major international currencies during the week ending February 26, 2010. Against the US dollar, the shilling appreciated to exchange at Ksh 76.91 in the week ending February 26, 2010 compared with Ksh 77.16 per US dollar in the previous week.

Usable official foreign exchange reserves held by the Central Bank stood at US dollar 3.24 billion (equivalent to 3.49 months of imports) as at February 26, 2010, compared with US dollar 3.26 billion (equivalent to 3.51 months of imports) as at February 19, 2010.

Central Bank injected a total of Ksh 2.5 billion during the week ending February 24, 2010 against reverse repo maturities worth Ksh 12.8 billion.

Government gross domestic debt increased by Ksh 87.0 billion from Ksh 518.3 billion in June 2009 to Ksh 605.3 billion as at February 19, 2010. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 35.3 billion.

Performance at the equities market improved during the week. Equity turnover increased by 45.3 percent, market capitalization increased by 1.3 percent while the NSE 20 Share index gained 90.58 points to settle at 3627.3 points on February 25, 2010.

Government Securities Auction

The Government securities market posted a 137.6 percent performance rate for the 91-day Treasury bills auction and a 243.4 percent performance rate for the 8 – year infrastructure bond of February 25, 2010. The Government offered for sale Treasury bills worth Ksh 4.0 billion and Treasury bonds worth Ksh 14.5 billion, respectively and received bids totalling Ksh 5.5 billion for the Treasury bills and Ksh 35.3 billion for the infrastructure bond. The Government accepted Treasury bills bids totalling Ksh 5.5 billion and Treasury bond bids amounting to Ksh 16.3 billion. Of the total infrastructure bond bids received, non – competitive bids amounted to Ksh 14.8 billion, equivalent to 41.9 percent of total bids.

Interest Rates on Treasury Bills

The 91-day Treasury bills cut – off rate went up by 4.9 basis points from 6.199 percent in the previous 91 – day Treasury bills auction to 6.248 percent during this week’s auction. The 8 – year infrastructure bond, being the first of its tenure to be issued, registered a cut –off rate of 9.649 percent (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	18-Feb-10	25-Feb-10
Average 91 day T. Bills*		6.937		6.710		6.612		6.502		6.401		6.199		6.248
Average 182 day T. Bills*	7.943		7.511		7.245		7.136		7.000		6.700		6.599	
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-09	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

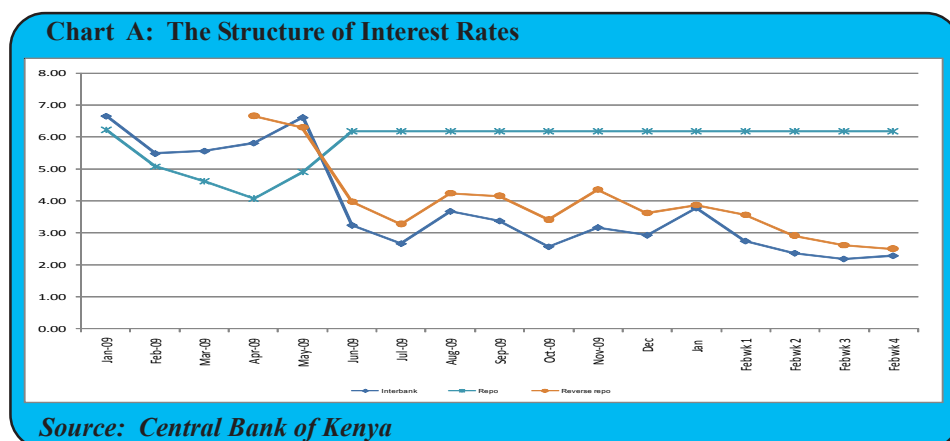
The average interbank rate increased by 10 basis points in the week ending February 25, 2010 up to 2.29 percent as compared with the previous week at 2.19 percent. The volumes traded increased in the week from Ksh 49.3 billion in the previous week to Ksh 63.7 billion in the week ending February 25, 2010.

Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
Feb 05 - Feb 11, 2010	305	37,637	2.37
12-Feb-10	72	8,155	1.83
15-Feb-10	92	12,176	2.10
16-Feb-10	92	10,311	2.30
17-Feb-10	79	8,673	2.36
18-Feb-10	87	10,000	2.37
Feb 12 - Feb 18, 2010	422	49,315	2.19
19-Feb-10	95	10,543	2.29
22-Feb-10	95	10,720	2.28
23-Feb-10	118	15,916	2.30
24-Feb-10	107	16,100	2.31
25-Feb-10	86	10,445	2.30
Feb 19 - Feb 25, 2010	501	63,723	2.29

Source: Central Bank of Kenya

The reverse repo rate declined by 11 basis points from 2.61 percent in the previous week up to 2.50 percent in the week ending February 25, 2010.



**Monetary
Policy
Operations**

The market was liquid in the week ending February 24, 2010. During the week, Central Bank injected a total of Ksh 2.5 billion into the market as shown in Table 3. Reverse repo maturities amounted to Ksh 12.8 billion while commercial banks borrowed Ksh 496 million from the overnight window, during the week. Reserve money averaged Ksh 172.0 billion and was below target by Ksh 3.0 billion in the week.

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
18-Feb	171.9	174.8	-2.9	0.0	0.0	0.0	171.9	-2.9	7.2	-10.1
19-Feb	170.8	174.8	-4.0	0.0	0.0	0.0	170.5	-4.3	6.2	-10.5
22-Feb	168.2	175.2	-7.0	2.5	2.5	0.0	172.0	-3.3	7.2	-10.5
23-Feb	172.6	175.2	-2.7	0.0	0.0	0.0	172.5	-2.8	7.9	-10.7
24-Feb	172.6	175.2	-2.7	0.0	0.0	0.0	173.4	-1.9	9.5	-11.3
Average	171.2	175.1	-3.8	0.5	0.5	0.0	172.0	-3.0	7.6	-10.6

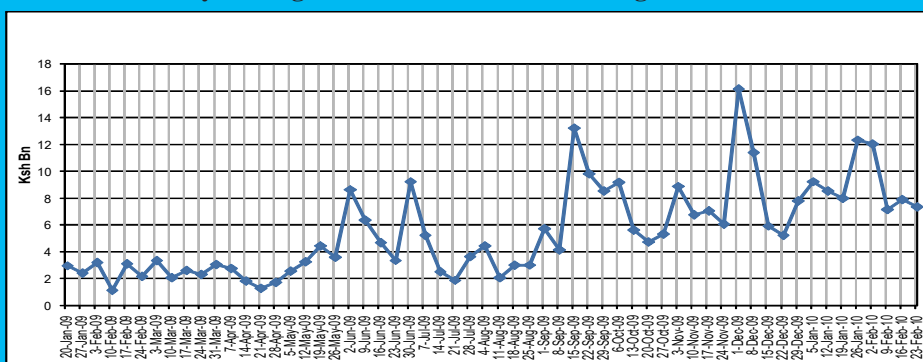
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Account
Balances**

Commercial banks maintained an average of Ksh 7.4 billion in their clearing accounts at the Central Bank in the week to February 24, 2010, compared with Ksh 7.9 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 appreciated against the major international currencies during the week ending February 26, 2010 (Table 3). Against the US dollar, the shilling appreciated to exchange at Ksh 76.91 in the week ending February 26, 2010 compared with Ksh 77.16 per US dollar in the previous week. Similarly, the shilling also appreciated against the Sterling Pound, the Japanese Yen and the Euro to exchange at Ksh 118.58 per Sterling Pound, Ksh 85.07 per 100 Japanese Yen and Ksh 104.47 per Euro compared with Ksh 120.66 per Sterling Pound, Ksh 85.14 per 100 Japanese Yen and Ksh 105.07 per Euro in the previous week. The shilling gained due to export proceeds from tea exports and the demand for the dollar by the importers.

In the regional scene, the Kenya Shilling strengthened marginally against Uganda Shilling and the Tanzania Shilling to exchange at Ush 26.22 per Kenya Shilling and Tsh 17.62 per Kenya Shilling in the week ending February 26, 2010 compared with Ush 26.11 per Kenya Shilling and Tsh 17.45 per Kenya Shilling in the previous week respectively.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
15-Feb-10	77.02	120.44	104.63	85.32	26.16	17.57
16-Feb-10	77.37	121.40	105.57	86.03	26.04	17.45
17-Feb-10	77.34	122.10	106.61	85.66	26.05	17.29
18-Feb-10	77.04	120.75	104.77	84.86	26.17	17.50
19-Feb-10	77.05	118.61	103.74	83.84	26.14	17.42
Feb 15-19, 2010	77.16	120.66	105.07	85.14	26.11	17.45
22-Feb-10	76.78	118.98	105.13	83.90	26.06	17.56
23-Feb-10	76.84	119.24	104.68	84.25	26.12	17.59
24-Feb-10	76.97	118.94	104.24	85.10	26.05	17.60
25-Feb-10	77.06	118.20	103.79	85.96	26.28	17.62
26-Feb-10	76.90	117.53	104.48	86.13	26.61	17.71
Feb 22-26, 2010	76.91	118.58	104.47	85.07	26.22	17.62

Source: Central Bank of Kenya

**Foreign
Exchange
Reserves**

Usable official foreign exchange reserves held by the Central Bank stood at US dollar 3.24 billion (equivalent to 3.49 months of imports) as at February 26, 2010, compared with US dollar 3.26 billion (equivalent to 3.51 months of imports) as at February 19, 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 1,470 million at the end of January 2010.

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	19-Feb-10	26-Feb-10
Usable Reserves	2,642	3,086	3,097	3,154	3,243	3,302	3,392	3,259	3,235
Months of Imports Cover*	3.20	3.56	3.52	3.54	3.67	3.67	3.71	3.51	3.49
Months of Imports Cover**	2.64	3.10	3.12	3.18	3.27	3.33	3.40	3.54	3.51

*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 605.3 billion as at February 19, 2010 (Table 6 and Chart C). This followed net increases of Ksh 40.3 billion, Ksh 47.3 billion and Ksh 0.7 billion in Treasury bills (excluding Repos), Treasury bonds and Overdraft at the Central bank, respectively. Other domestic debt, however, decreased by Ksh 1.3 billion during the same period.

Treasury bills and Treasury bonds increased from Ksh 116.8 billion and Ksh 360.7 billion in June 2009 to Ksh 157.1 billion and Ksh 408.0 billion, respectively as at February 19, 2010. Long term stocks remained unchanged at Ksh 0.8 billion during the period.

Following these developments, the proportion of Treasury bonds in total Government securities declined from 75.4 percent in June 2009 to 72.1 percent as at February 19, 2010 while that of Treasury bills increased from 24.4 percent to 27.8 percent during the same period. Despite the decline in the proportion of Treasury bonds in the total stock of Government securities, the maturity profile of Government securities improved to 4 years and 1 month compared to 3 years 9 months in June 2009, resulting from the continued success in the issuance of the 364-day Treasury bills.

Table 6: Government Domestic Debt (Ksh Billion)

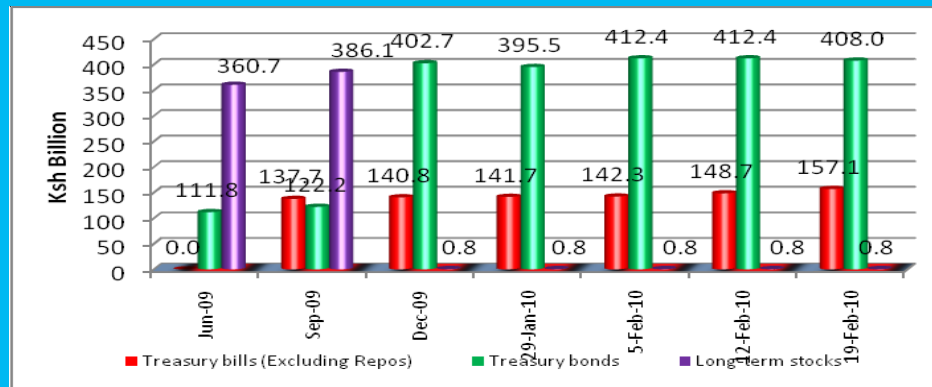
	Jun-09	Sep-09	Dec-09	Jan-10	12th Feb 2010	19th Feb 2010	Changes	
							12th Feb-2010 - 19th Feb-2010	30th Jun-09 -19th Feb-2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	116.8 24.4	122.2 24.0	140.8 25.9	141.7 26.3	148.7 26.5	157.1 27.8	8.4 1.3	40.3 3.3
2. Treasury Bonds (As % of total securities)	360.7 75.4	386.1 75.8	402.7 74.0	395.5 73.5	412.4 73.4	408.0 72.1	-4.4 -1.3	47.3 -3.3
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	544.3	537.9	561.8	565.8	4.0	87.5
5. Overdraft at Central Bank	5.1	8.0	11.1	9.2	0.5	5.9	5.3	0.7
6. Other Domestic debt*	34.9	33.6	33.6	33.6	33.6	33.6	0.0	-1.3
7. Gross Domestic Debt (4+5+6)	518.3	550.6	589.0	580.7	596.0	605.3	9.4	87.0
8. Interest payments on domestic debt (Cumulative in FY)	45.9	13.5	31.2	34.4	34.9	35.3	0.5	

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

Source: Central Bank of Kenya

Source: Central Bank of Kenya

Chart C: Composition of Government Securities

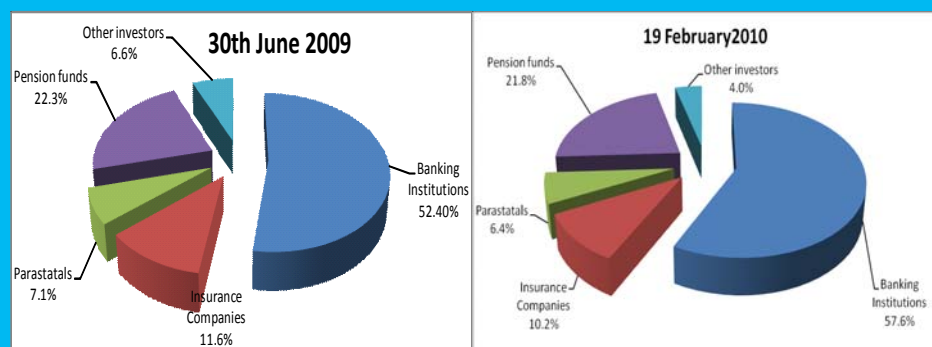


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by commercial banks increased from 52.4 percent in June 2009 to 57.6 percent as at February 19, 2010 while those of pension funds declined marginally from 22.3 percent to 21.8 percent during the same period. Similarly, holdings of insurance companies, parastatals and other investors declined from 11.6 percent, 7.1 percent and 6.6 percent, respectively to 10.2 percent, 6.4 percent and 4.0 percent during the same period (Chart D).

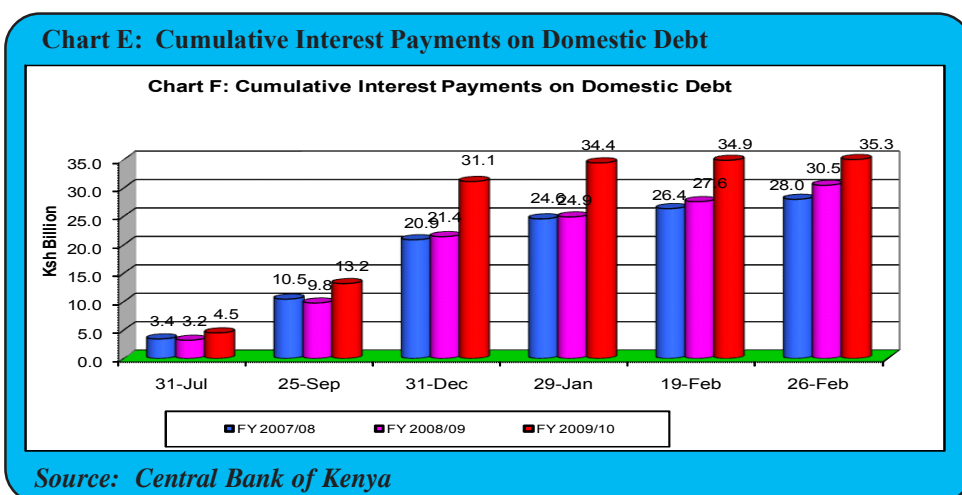
Chart D: Composition of Government Securities by Investor



Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative Government expenditure on interest and other charges on domestic debt for the FY 2009/10 up to February 19, 2010 amounted to Ksh 35.3 billion compared with Ksh 27.6 billion in a similar period in the previous fiscal year (Chart F). The interest cost on domestic debt during the period comprised Ksh 26.7 billion in interest and other charges on Treasury bonds, Ksh 7.9 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.



The Stock Market

There was an improvement in performance at the equities market during the week ending February 25, 2010. Equity turnover increased by 45.3 percent as stocks worth Ksh 1,050.1 million were traded compared with Ksh 722.7 million traded in the previous week. The number of shares traded increased, from 52.9 million in the previous week to 95.8 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 1.3 percent or Ksh 11.9 billion to close at Ksh 921.8 billion in the week under review from Ksh 909.9 billion in the previous week. The NSE 20 Share index gained 90.58 points to settle at 3627.3 points on February 25, 2010 from 3536.7 points on February 18, 2010. The Nairobi All Share Index gained 1.03 points to settle at 79.2 points on February 25, 2010 (Table 7).

Table 7: Key Weekly Market Statistics

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	18-Feb-10	25-Feb-10
70.82	71.27	71.64	73.62	78.14	79.99	78.95	79.75	78.83	78.13	79.16
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	3,536.72	3,627.30
6,437	5,434	4,278	4,768	9,220	11,851	9,778	9,009	9,141	8,434	8,574
56.73	38.00	29.61	39.58	206.97	234.03	112.05	125.24	85.31	52.91	95.77
821.72	554.03	287.68	423.97	1,609.24	2,679.64	1,483.18	1,231.59	1,201.37	722.69	1,050.09
821.21	829.82	834.17	857.25	909.84	931.47	919.35	928.75	918.00	909.91	921.77
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	10,730.55	7,393.45

January 25, 2008 (January 01, 2008 = 100)

Source: Nairobi Stock Exchange

The Commercial and Services sector traded 53.7 million shares and accounted for 56.1 percent of total traded volume. Safaricom traded 51.4 million shares to be the most active stock in the sector. The Finance and Investment sector traded 28.8 million shares and accounted for 30.1 percent of total traded volume. Cooperative Bank and Kenya Commercial Bank traded 18.2 million and 4.7 million shares and were the most active counters in the sector. Industrial and Allied sector traded 9.4 million shares and accounted for 9.8 percent of traded volume. Mumias and KenolKobil were the most active counters and traded 7.3 million and 0.6 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 7.4 billion were traded compared with Ksh 10.7 billion traded in the previous week.