

January 08 2010



## THE CBK WEEKLY BULLETIN

### Highlights for the Week

The overall 12-month inflation was 5.3 percent in December 2009, up from 5.0 percent in November 2009. Similarly, 12-month inflation without food, energy and transport went up from 4.8 percent in November 2009 to 5.2 percent in December 2009.

The Government securities market posted a 165.0 percent performance in the 182-day Treasury bills auction of January 7, 2010. The Government offered for sale a total of Ksh 7.0 billion worth of 182-day Treasury bills during the week and received bids amounting to Ksh 11.5 billion. Total bids accepted during the auction amounted to Ksh 7.35 billion. At the auction, the average 182-day Treasury bill rate declined from 7.245 percent previously to 7.136 percent this week.

The average interbank rate increased by 15 basis points in the week ending January 7, 2010 up to 3.97 percent as compared with the previous week at 3.83 percent.

The Kenya Shilling depicted mixed trends against the major international currencies during the week ending January 08, 2010. Against the US dollar, the shilling appreciated to exchange at Ksh 75.64 in the week ending January 08, 2010 compared with Ksh 75.74 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,309 million (equivalent to 3.59 months of imports) as at January 08, 2010 compared with US dollar 2,753 million (equivalent to 3.33 months of imports) as at January 08, 2009.

Central Bank injected a total of Ksh 9.9 billion during the week ending January 6, 2010 through open market operations and matured reverse repos of Ksh 15.9 billion during the week.

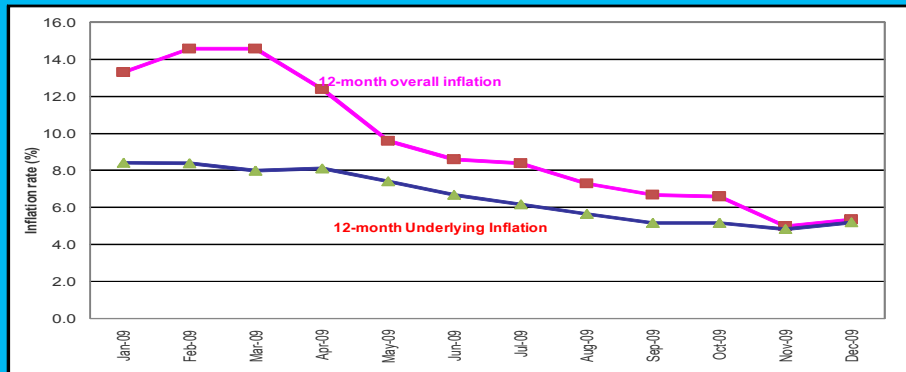
Government gross domestic debt increased by Ksh 70.6 billion in the first half of the FY 2009/10. Total stock of domestic debt increased from Ksh 518.3 billion at the end of June 2009 to Ksh 588.9 billion as at December 31, 2009. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 31.1 billion.

Performance at the equities market improved during the week. Equity turnover increased by 47.4 percent, market capitalization improved by 2.8 percent while the NSE 20 Share index gained 35.2 points to settle at 3282.6 points on January 07, 2010.

**Inflation**

The 12-month inflation increased marginally by 0.3 percent from 5.0 percent in November 2009 to 5.3 percent in December 2009 (Chart A). All categories of CPI except the food and non-alcoholic drinks category increased during the month. The most significant increases in CPI were in the alcohol and tobacco, transport and communication and the fuel and power basket which rose by 3.4, 2.0 and 2.0 points respectively. The 12- Month inflation for food declined for the fifth consecutive month in December 2009 following reduced prices of some food items resulting in overall decrease in the CPI. For example, the prices of beef with bones, English potatoes, fresh milk and beans went up by 1.9, 9.0, 1.7, and 2.4 percent respectively, while those of maize flour, tomatoes, onions and loose maize grain fell by 5.6, 8.4, 12.2, and 5.1 percent respectively in December 2009. 12-month inflation excluding food, transport and energy fell marginally by 0.4 points to stand at 5.2 percent in December 2009.

**Chart A: Trends in Overall and Underlying Inflation**



Source: Central Bank of Kenya

**Government Securities Auction**

The 182-day Treasury bill was oversubscribed by 65.0 percent during the auction of January 7, 2010. The government offered for sale 182-day Treasury bills worth Ksh 7.0 billion during the auction and received bids totalling Ksh 11.5 billion. The Government accepted bids amounting to Ksh 7.35 billion of which Ksh 6.77 billion or 92.1 percent were in competitive bids. The proceeds of the auction were less than the maturities falling due in the week which are equivalent to Ksh 11.5 billion and therefore are expected to cover only part of the cost of rolling over government securities maturities.

**Treasury Bills Rates**

The average 182-day Treasury bill rate declined by 109 basis points from 7.245 percent in the previous auction to 7.136 percent in this week's auction.

**Table 1: Interest Rates**

Auction date	08-Oct-09	15-Oct-09	22-Oct-09	29-Oct-09	05-Nov-09	12-Nov-09	19-Nov-09	26-Nov-09	03-Dec-09	10-Dec-09	17-Dec-09	24-Dec-09
Average 91 day T. Bills	7.248		7.264		7.232		7.198		6.937		6.710	
Average 182 day T. Bills		7.969		8.070		8.061		7.943		7.511		7.245
Average 364 day T. Bills	8.438									8.008		
Month	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	
Average savings rate	2.13	1.90	1.91	1.67	2.08	1.67	1.65	1.65	1.85	1.71		
Average overdraft rate	13.46	13.78	13.66	14.13	14.41	13.94	13.90	13.76	14.03	14.24		

\* Revised

Source: Central Bank of Kenya

**Interbank and REPO Market**

The average interbank rate increased by 15 basis points in the week ending January 7, 2010 up to 3.97 percent as compared with the previous week at 3.83 percent (Table 2). The volumes traded increased in the week from Ksh 45.1 billion in the previous week to Ksh 54.6 billion.

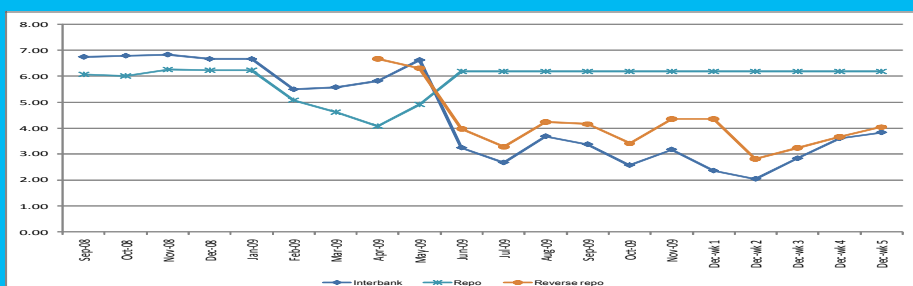
**Table 2: Interbank Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
18-Dec-09	89	11,254	3.41
21-Dec-09	93	14,166	3.57
22-Dec-09	77	9,190	3.68
23-Dec-09	62	6,935	3.75
<b>Dec 18 - Dec 23, 2009</b>	<b>321</b>	<b>41,545</b>	<b>3.60</b>
24-Dec-09	67	8,155	3.67
28-Dec-09	70	11,935	3.76
29-Dec-09	93	13,762	3.90
30-Dec-09	74	11,194	3.99
<b>Dec 24 - Dec 30, 2009</b>	<b>304</b>	<b>45,046</b>	<b>3.83</b>
31-Dec-09	66	7,944	3.95
04-Jan-10	86	14,416	3.95
05-Jan-10	70	9,428	3.99
06-Jan-10	71	11,599	3.98
07-Jan-10	82	11,254	4.00
<b>Dec 31 - Jan 06, 2009</b>	<b>375</b>	<b>54,641</b>	<b>3.97</b>

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 January 6, 2010. During the week, Central Bank injected at total of Ksh 9.9 billion into the market as shown in Table 3. There were reverse repo maturities of Ksh 15.9 billion during the week under review. Commercial banks borrowed Ksh 4.0 million from the overnight window. Reserve money averaged Ksh 177.3 billion during the week under review and was above target by Ksh 3.0 billion.

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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
31-Dec	182.2	174.5	7.7	4.3	0.6	-3.7	181.9	7.4	12.3	-4.9
04-Jan	174.9	174.2	0.7	2.0	3.0	1.0	178.6	4.4	8.9	-4.5
05-Jan	174.4	174.2	0.1	0.0	0.0	0.0	174.3	0.1	4.5	-4.4
06-Jan	167.4	174.2	-6.8	7.0	6.4	-0.6	174.4	0.2	4.5	-4.3
Average	174.7	174.3	0.4	3.3	2.5	-0.8	177.3	3.0	7.6	-4.5

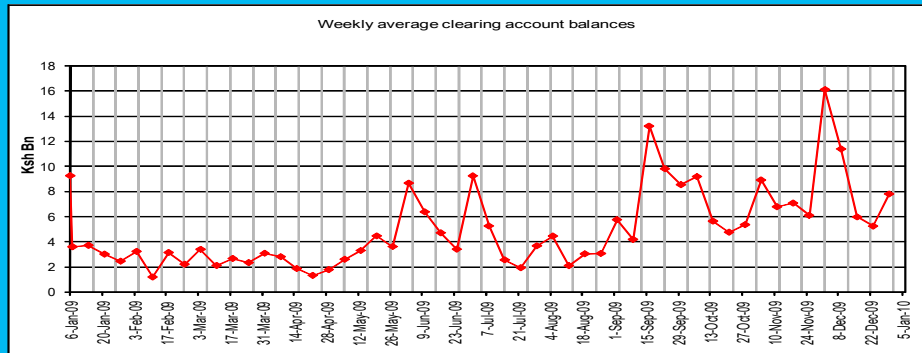
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

## Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 9.2 billion in their clearing accounts at the Central Bank in the week to January 6, 2010, compared with Ksh 7.8 billion held in the previous week (Charts C).

Chart C: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

## The Shilling Exchange Rate

The Kenya Shilling depicted mixed trends against the major international currencies during the week ending January 08, 2010 (Table 4). Against the US dollar, the shilling appreciated marginally to exchange at Ksh 75.64 in the week ending January 08, 2010 compared with Ksh 75.74 per US dollar in the previous week. The shilling also appreciated against the Euro, and the Japanese Yen to exchange at Ksh 108.63 per Euro and Ksh 81.86 per 100 Japanese Yen in the week ending January 08, 2010 compared with Ksh 108.82 per Euro and Ksh 82.38 per 100 Japanese Yen in the previous week respectively. The shilling depreciated against the Sterling Pound to exchange at Ksh 121.25 per Sterling Pound compared with Ksh 121.07 per Sterling Pound in the previous week.

In the regional scene, the Kenya Shilling strengthened marginally against Uganda Shilling and the Tanzania Shilling to exchange at Ush 25.31 per Kenya Shilling and Tsh 17.66 per Kenya Shilling in the week ending January 08, 2010 compared with Ush 25.12 per Kenya Shilling and Tsh 17.58 per Kenya Shilling in the previous week respectively.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
28-Dec-09	75.66	120.77	108.87	82.64	25.11	17.43
29-Dec-09	75.80	121.31	108.96	82.65	25.11	17.63
30-Dec-09	75.69	120.30	108.52	82.20	25.19	17.65
31-Dec-09	75.82	121.89	108.94	82.04	25.07	17.62
<b>Dec 28-31, 2009</b>	<b>75.74</b>	<b>121.07</b>	<b>108.82</b>	<b>82.38</b>	<b>25.12</b>	<b>17.58</b>
04-Jan-10	75.84	122.14	108.50	81.73	25.08	17.66
05-Jan-10	75.59	121.85	109.20	82.27	25.32	17.70
06-Jan-10	75.55	120.78	108.45	82.20	25.39	17.66
07-Jan-10	75.67	120.95	108.84	82.07	25.33	17.62
08-Jan-10	75.57	120.54	108.14	81.01	25.41	17.67
<b>Jan 04-08, 2010</b>	<b>75.64</b>	<b>121.25</b>	<b>108.63</b>	<b>81.86</b>	<b>25.31</b>	<b>17.66</b>

Source: Central Bank of Kenya

### Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank stood at US\$ 3,309 million (equivalent to 3.59 months of imports) as at January 08, 2010, compared with US dollar 2,753 million (equivalent to 3.33 months of imports) as at January 08, 2009 (Table 5).

Foreign exchange reserves held by the commercial banks, predominantly used by the private sector to meet external financial obligations stood at US\$ 1,386 million at the end of November 2009 compared with US\$ 1,654 million at end of November 2008.

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

	08-Jan-09	26-Jun-09	31-Jul-09	31-Aug-09	30-Sep-09	30-Oct-09	30-Nov-09	08-Jan-10
Usable Reserves	2,753	3,086	3,097	3,154	3,243	3,302	3,392	3,309
Months of Imports Cover*	3.33	3.56	3.52	3.54	3.67	3.67	3.71	3.59
Months of Imports Cover**	2.76	3.10	3.12	3.18	3.27	3.33	3.40	3.32

\*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 grew by Ksh 70.6 billion from Ksh 518.3 billion at the end of June 2009 to Ksh 588.9 billion at the end of December 2009 (Table 6 and Chart D). The growth reflected increases of Ksh 24.0 billion, Ksh 41.9 billion and Ksh 6.0 billion in Treasury bills (excluding Repos), Treasury bonds and overdraft at the Central Bank of Kenya (CBK), respectively. Other domestic debt, however, declined during the period by Ksh 1.4 billion.

Treasury bills, Treasury bonds and overdraft at CBK increased from Ksh 116.8 billion, 360.7 billion and Ksh 5.1 billion in June 2009 to Ksh

140.8 billion, Ksh 402.7 billion and Ksh 11.1 billion, respectively as at December 31, 2009. Outstanding Long term stocks remained unchanged at Ksh 0.8 billion during the period.

Following these developments, the share of Treasury bonds in total Government securities declined from 75.4 percent in June 2009 to 74.0 percent as at December 31, 2009 while that of Treasury bills increased from 24.4 percent to 25.9 percent during the period. The maturity profile of Government securities stood at 4 years and 3 months.

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

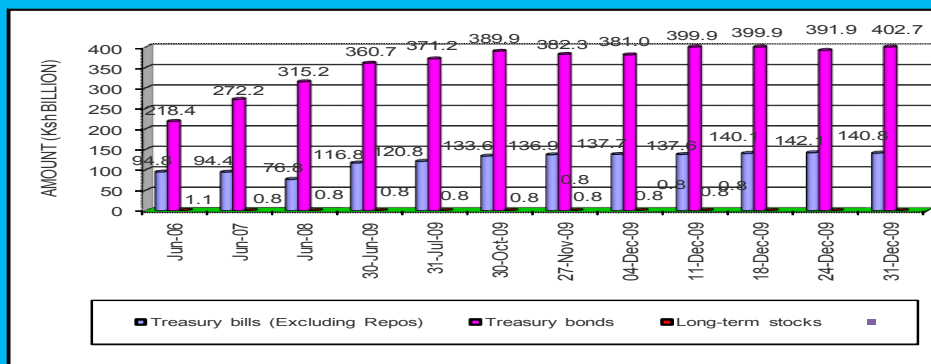
	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	24th Dec 2009	31st Dec 2009	Changes	
									24th Dec-09 - 31st Dec-09	30th Jun-09 - 31st Dec-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	116.8 24.4	120.8 24.5	127.6 25.2	122.2 24.0	133.6 25.5	137.7 26.5	142.1 26.6	140.8 25.9	-1.2 -0.7	24.0 1.5
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	391.9 73.3	402.7 74.0	10.8 0.7	41.9 -1.4
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	534.7	544.3	9.6	66.0
5. Overdraft at Central Bank	5.1	3.9	6.1	8.0	9.3	9.8	20.8	11.1	-9.7	6.0
6. Other Domestic debt*	34.9	33.7	34.2	33.6	33.6	33.6	33.5	33.5	0.0	-1.4
7. Gross Domestic Debt (4+5+6)	518.3	530.4	547.2	550.6	567.1	562.9	589.0	588.9	-0.1	70.6
8. Interest payments on domestic debt (Cumulative in FY)	45.9	3.9	9.0	13.5	19.6	25.7	30.1	31.1	1.0	

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

Source: Central Bank of Kenya

Source: Central Bank of Kenya

**Chart D: Composition of Government Securities**

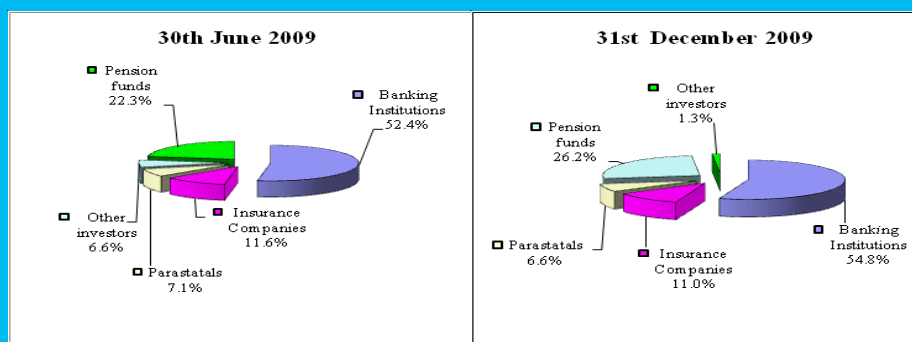


Source: Central Bank of Kenya

### 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 26.2 percent, respectively as at December 31, 2009. On the other hand, holdings of insurance companies, parastatals and other investors declined from 11.6 percent, 7.1 percent and 6.6 percent, respectively to 11.0 percent, 6.6 percent and 1.3 percent during the same period (Chart E).

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

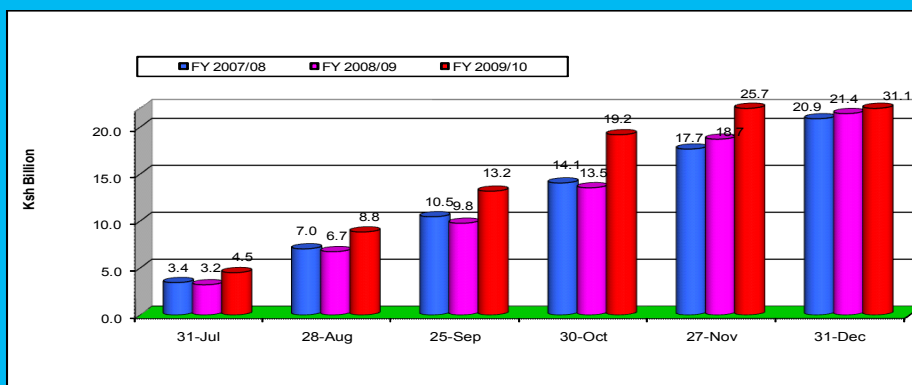


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt for the first six months of the FY 2009/10 amounted to Ksh 31.1 billion compared with Ksh 21.4 billion in a similar period in the fiscal year 2008/09 (Chart F). The interest cost on domestic debt during the period comprised Ksh 23.7 billion in interest and other charges on Treasury bonds, Ksh 6.9 billion in interest and other charges on Treasury bills, and Ksh 0.6 billion in interest on both 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 improved performance at the equities market during the week ending January 07, 2010. Equity turnover increased by 47.4 percent as stocks worth Ksh 424.0 million were traded compared with Ksh 287.7 million traded in the previous week. The number of shares traded increased, from 29.6 million in the previous week to 39.6 million shares in the week under review. Market capitalization as a measure of total shareholders wealth improved by 2.8 percent or Ksh 23.1 billion to close at Ksh 857.3 billion in the week under review from Ksh 834.2 billion in the previous week. The NSE 20 Share index gained 35.2 points to settle at 3282.6 points on January 07, 2010 from 3247.44 points on December 31, 2009. The Nairobi All Share Index gained 2.0 points to settle at 73.6 points on January 07, 2010 (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	05-Nov-09	12-Nov-09	19-Nov-09	26-Nov-09	03-Dec-09	10-Dec-09	17-Dec-09	24-Dec-09	31-Dec-09	07-Jan-10
NASI 100= Jan 2008	67.52	68.41	68.86	72.08	70.51	70.14	70.82	71.27	71.64	73.62
NSE 20 Share Index 100=1966	3,077.11	3,131.47	3,111.95	3,191.93	3,170.51	3,181.76	3,186.76	3,209.67	3,247.44	3,282.58
Number of Deals	6,545	6,584	6,382	6,694	6,772	7,095	6,437	5,434	4,278	4,768
Total Shares Traded (millions)	77.12	55.16	76.33	179.27	55.83	62.49	56.73	38.00	29.61	39.58
Equity Turnover (Ksh. millions)	1,005.12	1,378.54	1,119.81	1,206.34	577.30	624.78	821.72	554.03	287.68	423.97
Market Capitalization (Ksh. Bn.)	782.10	792.41	797.69	834.97	816.68	812.21	821.21	829.82	834.17	857.25
Bonds Turnover (Ksh. millions)	2,169.15	3,165.85	1,893.90	1,720.90	2,437.45	6,416.00	4,863.40	1,822.55	547.30	2,448.65

\* 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 32.2 million shares and accounted for 81.4 percent of total traded volume. Safaricom traded 31.0 million shares to be the most active stock in the sector. The Finance and Investment sector traded 3.7 million shares and accounted for 9.3 percent of total traded volume. Co-operative Bank and Equity Bank traded 1.2 million and 0.8 million shares and were the most active counters in the sector. Industrial and Allied sector traded 3.3 million shares and accounted for 8.4 percent of traded volume. Mumias and E.A Breweries were the most active counters and traded 1.3 million and 0.7 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 2.4 billion were traded compared with Ksh 0.5 billion traded in the previous week.