

July 2 , 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market recorded an oversubscription rate of 131 percent during the week's 91 day Treasury bills auction, recording an interest rate of 1.801 percent.

The average interbank interest rate rose slightly by 4 basis points to 1.23 percent in the week ending July 1, 2010 from 1.19 percent in the previous week.

The market was liquid in the week ending July 1, 2010 and the Central Bank stayed out of the money market. There were no reverse repo maturities during the week.

The Kenya Shilling depreciated against the major international currencies during the week ending July 02, 2010. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 81.72 in the week compared with Ksh 80.94 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank decreased to US dollar 3.295 billion (equivalent to 3.42 months of imports) as at July 02, 2010, compared to US dollar 3.310 billion (equivalent to 3.47 months of imports) held on June 25, 2010.

Government gross domestic debt increased by Ksh 139.2 billion from Ksh 518.3 billion in June 2009 to Ksh 657.5 billion as at June 25, 2010. Cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 55.6 billion.

Performance at the equities market declined during the week ending July 1, 2010. Equity turnover declined by 12.2 percent owing to price declines in some counters.

Government Securities Auction

Government securities were oversubscribed yet again during the auction of July 1, 2010 despite declining interest rates. The Bank offered for sale 91 day Treasury bills amounting to Ksh 4.0 billion and received bids totalling Ksh 9.2 billion which was equivalent to 231 percent subscription rate. A total of Ksh 4.6 billion bids were accepted, of which Ksh 4.5 billion were competitive bids.

Interest Rates on Treasury Bills

The declining trend of interest rates continued this week, with the 91 day Treasury bills cut-off rate registering 82.7 basis point below the 2.628 percent recorded in the previous 91 day Treasury bill auction of June 17, 2010 (Table 1).

Table 1: Interest Rates

Auction date	20-May-10	27-May-10	03-Jun-10	10-Jun-10	17-Jun-10	24-Jun-10	01-Jul-10
91 day T. Bills*	3.998		3.491		2.628		1.801
182 day T. Bills*		4.001		3.300		2.450	
364 day T. Bills*				4.199			
Month	Nov-09	Dec-00	Jan-10	Feb-10	Mar-10	Apr-10	May-10
Average savings rate	1.71	1.73	1.75	1.81	1.81	1.81	1.76
Average overdraft rate	14.24	14.13	14.25	14.25	14.06	14.50	14.38

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

Source: Central Bank of Kenya

Interbank and REPO Market

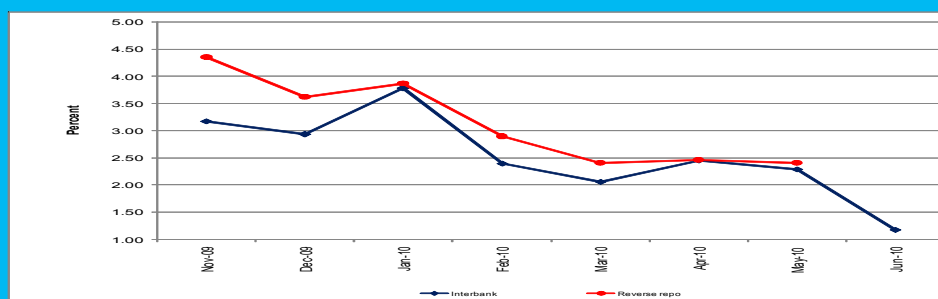
The average interbank rate rose by 4 basis points to 1.23 percent in the week ending July 1, 2010 from 1.19 percent in the previous week. The volumes traded declined from Ksh 51.2 billion in the previous week to Ksh 26.4 billion in the week ending July 1, 2010 (Table 2). The Government deposits at the Central Bank declined from an average of Ksh 48.5 billion in the week ending June 25, 2010 to Ksh 41.5 billion in the week ending July 1, 2010. The Central Bank stayed out of the money market during the week.

Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
04-Jun-10	105	14,500	1.10
07-Jun-10	96	15,416	1.07
08-Jun-10	80	12,750	1.10
09-Jun-10	92	14,610	1.09
10-Jun-10	83	12,356	1.09
June 04 - Jun 10, 2010	456	69,631	1.09
11-Jun-10	97	15,655	1.03
14-Jun-10	75	7,943	1.10
15-Jun-10	87	8,927	1.12
16-Jun-10	69	7,485	1.13
17-Jun-10	89	7,669	1.16
June 11 - June 17, 2010	417	47,678	1.11
18-Jun-10	97	11,657	1.13
21-Jun-10	91	10,396	1.14
22-Jun-10	88	12,300	1.16
23-Jun-10	84	9,047	1.26
24-Jun-10	71	7,810	1.28
June 18 - June 24, 2010	431	51,208	1.19
25-Jun-10	66	5,583	1.28
28-Jun-10	62	6,932	1.27
29-Jun-10	65	5,630	1.21
30-Jun-10	54	4,246	1.19
01-Jul-10	57	3,996	1.19
June 25 - July 1, 2010	304	26,386	1.23

Source: Central Bank of Kenya

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The market was liquid in the week ending July 1, 2010 and the Central Bank stayed out of the money market as shown in Table 3. There were no reverse repo maturities during the week under review. Commercial banks did not borrow from Central Bank overnight window during the week. Reserve money averaged Ksh 209.2 billion during the week and was above target by Ksh 27.8 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)
25-Jun	206.2	181.4	24.8	0.0	0.0	0.0	206.0	24.6	27.3	-2.7
28-Jun	207.8	181.4	26.5	0.0	0.0	0.0	208.3	26.9	28.9	-2.0
29-Jun	208.9	181.4	27.5	0.0	0.0	0.0	208.1	26.8	28.2	-1.4
30-Jun	211.1	181.4	29.8	0.0	0.0	0.0	211.3	29.9	31.3	-1.4
01-Jul	210.5	181.4	29.1	0.0	0.0	0.0	212.0	30.7	31.0	-0.4
Average	208.9	181.4	27.5	0.0	0.0	0.0	209.2	27.8	29.3	-1.6

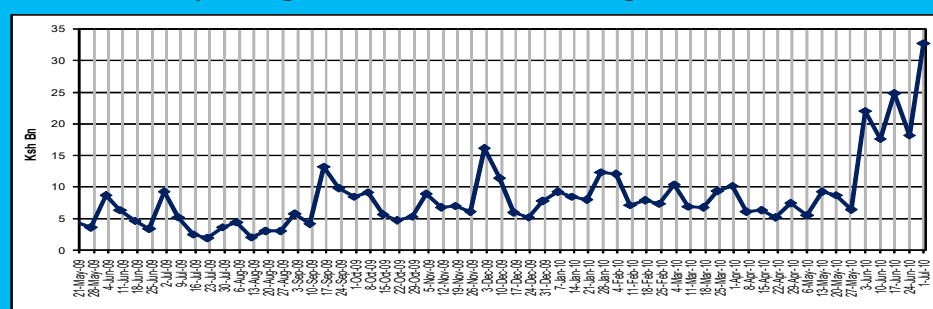
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 32.8 billion in their clearing accounts at the Central Bank in the week to July 1, 2010, compared with Ksh 18.2 billion held the previous week (Chart C). The sharp increase reflected increased Government spending at the end of the fiscal year.

Chart C: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling on average depreciated against the major international currencies during the week ending July 02, 2010 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 81.72 compared with Ksh 80.94 per US dollar in the previous week. The shilling also depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 122.95 per Sterling Pound, Ksh 100.57 per Euro and Ksh 92.20 per 100 Japanese Yen in the week compared with Ksh 120.49 per Sterling Pound, Ksh 99.86 per Euro and Ksh 89.68 per 100 Japanese Yen in the previous week.

The movement partly reflected developments in the international foreign exchange market that saw the US dollar appreciate against the euro as investors pulled back from riskier assets.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
21-Jun-10	80.53	120.11	100.26	88.79	27.97	18.22
22-Jun-10	80.64	118.89	99.24	88.83	27.97	18.11
23-Jun-10	80.99	120.13	99.36	89.62	27.84	18.09
24-Jun-10	80.94	121.25	99.83	90.07	27.73	18.07
25-Jun-10	81.62	122.08	100.62	91.12	27.62	17.92
June 21- June 25, 2010	80.94	120.49	99.86	89.68	27.82	18.08
28-Jun-10	81.47	122.47	100.75	91.15	27.65	18.02
29-Jun-10	81.76	123.29	100.20	92.14	27.83	17.96
30-Jun-10	81.92	123.19	100.05	92.47	27.91	17.95
01-Jul-10	81.80	122.02	99.86	92.55	27.83	17.82
02-Jul-10	81.66	123.79	101.97	92.67	27.80	18.18
June 28- July 02, 2010	81.72	122.95	100.57	92.20	27.80	17.98

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling marginally weakened against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 27.80 per Kenya Shilling and Tsh 17.98 per Kenya Shilling in the week ending July 02, 2010, compared with Ush 27.82 per Kenya Shilling and Tsh 18.08 per Kenya Shilling in the previous week, respectively.

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank decreased to US dollar 3.295 billion (equivalent to 3.42 months of imports) as at July 02, 2010, compared to US dollar 3.310 billion (equivalent to 3.47 months of imports) held on June 25, 2010, reflecting a short-lived revaluation loss during the week (Table 5).

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

	25-May-09	31-Dec-09	26-Feb-10	26-Mar-10	30-Apr-10	27-May-10	25-Jun-10	02-Jul-10
Usable Reserves	2,717	3,309	3,235	3,224	3,307	3,252	3,310	3,295
Months of Imports Cover*	3.24	3.62	3.49	3.43	3.50	3.41	3.47	3.42

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

Source: Central Bank of Kenya

Commercial banks' foreign exchange reserves, largely used by the private sector to meet external financial obligations, stood at US\$ 1.279 billion as at end of May 2010 compared with US\$ 1.326 billion as at end of April 2010.

Government Domestic Debt

Government gross domestic debt grew by Ksh 139.2 billion (or 26.9 percent) from Ksh 518.3 billion in June 2009 to Ksh 657.5 billion as at June 25, 2010 (Table 6 and Chart D). The growth of domestic debt was occasioned by increases of Ksh 49.0 billion, Ksh 80.9 billion and Ksh 10.4 billion in Treasury bills (excluding Repos), Treasury bonds and overdraft at the Central Bank, respectively. Other domestic debt declined by Ksh 1.1 billion during the same period.

Treasury bills, Treasury bonds and overdraft at CBK increased from Ksh 116.8 billion, 360.7 billion and Ksh 5.1 billion, respectively in June 2009 to Ksh 165.8 billion, Ksh 441.6 billion and Ksh 15.5 billion, respectively as at June 25, 2010. However, other domestic debt declined from Ksh 34.9 billion to Ksh 33.9 billion during the same period, while long term stocks remained unchanged.

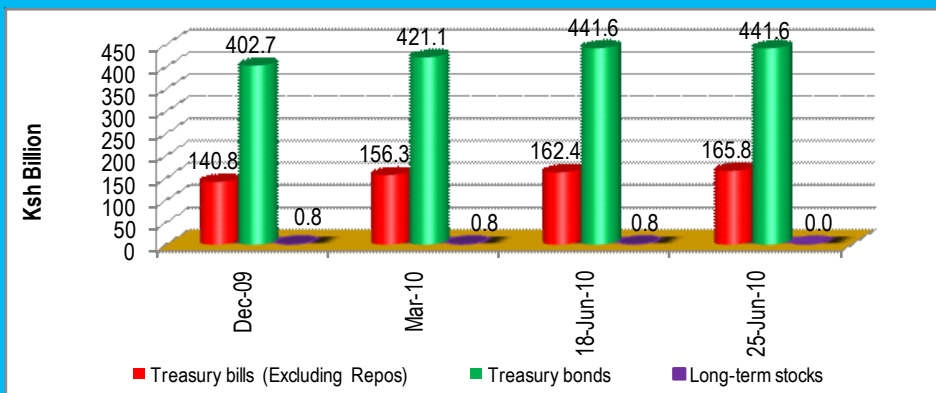
Following these developments, the share of Treasury bonds in total Government securities declined from 75.4 percent in June 2009 to 72.6 percent as at June 25, 2010, while that of Treasury bills increased from 24.4 percent to 27.3 percent. The increase in the share of Treasury bills in total Government securities was largely on account of introduction of the 364-day Treasury bill in August 2009 to replace the 1-year Treasury bond. Despite the increase in the share of short term securities in total Government securities, the average time to maturity of Government domestic debt increased from 3 years 6 months in June 2009 to 4 years and 3 month as at June 25, 2010.

Table 6: Government Domestic Debt (Ksh Billion)

	Jun-09	Sep-09	Dec-09	Mar-10	11th June 2010	18th June 2010	25th June 2010	Changes	
								25th June-2010 11th June-2010	30th Jun-09 - 25th June-2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	116.8 24.4	122.2 24.0	140.8 25.9	156.3 27.0	169.0 27.6	162.4 26.8	165.8 27.3	3.4 0.4	49.0 2.8
2. Treasury Bonds (As % of total securities)	360.7 75.4	386.1 75.8	402.7 74.0	421.1 72.8	443.4 72.3	441.6 73.0	441.6 72.6	0.0 -0.4	80.9 -2.8
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	0.8 0.1	0.0 0.0	0.0 0.0
4. Total Securities (1+2+3)	478.3	509.0	544.3	578.2	613.2	604.7	608.1	3.4	129.8
5. Overdraft at Central Bank	5.1	8.0	11.1	5.9	8.4	10.6	15.5	4.9	10.4
6. Other Domestic debt*	34.9	33.6	33.6	33.0	33.9	34.2	33.9	-0.3	-1.1
7. Gross Domestic Debt (4+5+6)	518.3	550.6	589.0	617.1	655.5	649.5	657.5	8.0	139.2
8. Interest payments on domestic debt	45.9	13.5	31.2	43.0	53.4	54.1	55.6	1.5	

Source: Central Bank of Kenya

Chart D: Composition of Government Securities

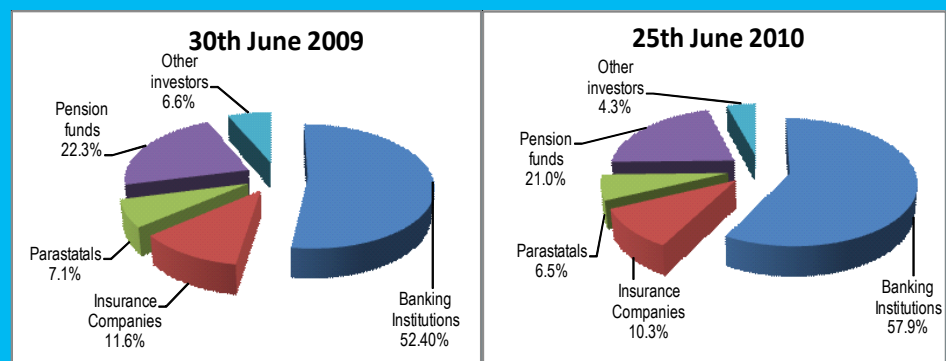


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by commercial banks increased from 52.4 percent on June 30, 2009 to 57.9 percent as at June 25, 2010. However, holdings by insurance companies, parastatals, pension funds and other investors declined from 11.6 percent, 7.1 percent, 22.3 percent and 6.6 percent, respectively as at June 30, 2009 to 10.3 percent, 6.5 percent, 21.0 percent and 4.3 percent during the same period (Chart E).

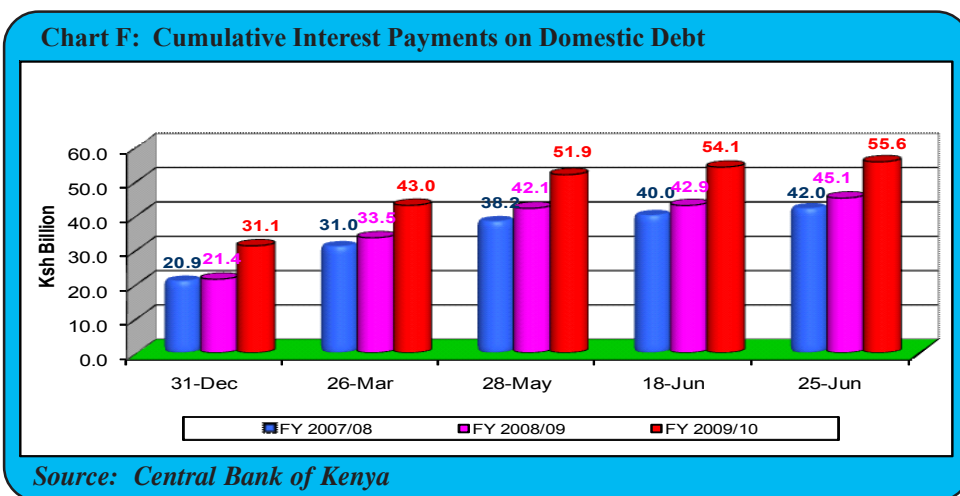
Chart E: Composition of Government Securities by Investor



Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt from July 1, 2009 to June 25, 2010 amounted to Ksh 55.6 billion compared with Ksh 45.1 billion in a similar period in the fiscal year 2008/09, an increase of 23.3 percent. (Chart F). The interest cost on domestic debt during the period comprised Ksh 43.9 billion in interest and other charges on Treasury bonds, Ksh 10.9 billion in interest and other charges on Treasury bills, and Ksh 0.8 billion in interest on both Government overdraft at CBK and the pre-1997 government overdraft. Although the cumulative interest payments are higher compared to the similar period of the FY 2008/09 it is within the projected amount of Ksh 57.9 billion.



The Stock Market

Performance at the equities market declined during the week ending July 1, 2010. Turnover declined by 12.2 percent as stocks worth Ksh 1,492 million were traded compared with Ksh 1,699.6 million traded in the previous week. The number of shares traded decreased from 94.5 million in the previous week to 83.9 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased marginally by 0.1 percent or Ksh. 0.8 billion to close at Ksh 1,108 billion in the week under review from Ksh 1,107.29 billion in the previous week. The NSE 20 Share index gained 3.5 points to settle at 4,313.0 points on July 1, 2010 from 4,309.5 points on June 24, 2010. The Nairobi All Share Index also gained marginally to settle at 95.03 points compared with 94.59 points the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	10-Jun-10	17-Jun-10	24-Jun-10	01-Jul-10
NASI 100= Jan 2008	92.76	94.39	94.59	95.03
NSE 20 Share Index 100=1966	4,263.06	4,327.40	4,309.51	4,313.01
Number of Deals	11,540	10,890	11,435	10,247
Total Shares Traded (millions)	80.70	89.31	94.46	83.85
Equity Turnover (Ksh. millions)	1,363.81	1,794.53	1,699.56	1,492.23
Market Capitalization (Ksh. Bn.)	1,081.34	1,100.32	1,107.12	1,107.90
Bonds Turnover (Ksh. millions)	24,498.60	23,520.65	25,115.20	20,934.20

* 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 41.9 million shares and accounted for half of total traded volume with Safaricom trading 39.3 million shares in the sector. The Finance and Investment sector traded 31.8 million shares and accounted for 37.9 percent of the total traded volume. Equity Bank and Cooperative Bank were the most active stocks in the sector, trading 13.9 million and 6.9 million shares, respectively. The Industrial and Allied sector traded 9.3 million shares and accounted for 11.1 percent of the traded volume. Mumias Sugar Company was the most active counter, trading 2.9 million shares. The Alternative market segment traded 95,800 shares.

Bond Market Bond turnover at the Fixed Income Securities Market declined from Ksh 25.1 billion in the previous week to Ksh 20.9 billion in the week under review.