

**July 9 , 2010**



**THE CBK WEEKLY BULLETIN**

**Highlights for  
the Week**

The Government securities market posted an oversubscription rate of 97.6 percent during the week's 182 day Treasury bills auction with a continued decline in interest rate. The week's cut-off rate settled at 1.8 percent.

The average interbank rate declined slightly by 3 basis points to 1.20 percent in the week ending July 8, 2010 from 1.23 percent in the previous week.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending July 9, 2010. Against the US dollar, the shilling appreciated to exchange at an average of Ksh 81.52 in the week compared with Ksh 81.72 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased to US \$ 3.334 billion (equivalent to 3.47 months of imports) as at July 9, 2010, compared to US \$ 3.295 billion (equivalent to 3.42 months of imports) held on July 2, 2010, reflecting a short-lived revaluation gain during the week.

The market was liquid in the week ending July 8, 2010 and the Central Bank stayed out of the money market. There were no reverse repo maturities during the week.

Government gross domestic debt increased by Ksh 141.3 billion from Ksh 518.3 billion in June 2009 to Ksh 659.6 billion as at June 2010 of the fiscal year 2009/10. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 57.8 billion.

Performance at the equities market was mixed during the week ending July 8, 2010. The NSE 20 Share Index gained 8.4 points to settle at 4,321.39 from 4,313.01 points on July 1, 2010, while equity turnover declined by 8.0 percent owing to price declines in some counters.

**Government Securities Auction**

The Government securities market continued posting impressive performance during the auctions of July 8, 2010. During the week, the 182-day Treasury bills worth Ksh 6.0 billion were offered. A total of Ksh 11.9 billion bids were received representing 197.6 percent subscription rate. Of the total bids received, Ksh 7.7 billion bids were accepted out of which Ksh 7.4 billion (or 98.7 percent) was competitive bids.

**Interest Rates on Treasury Bills**

The declining trend of the interest rates continued this week, with the 182-day Treasury bills cut-off rate registering 65 basis points below the 2.45 percent recorded in the previous 182-day Treasury bill auction of June 25, 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	08-Jul-10
91 day T. Bills*	3.998		3.491		2.628		1.801	
182 day T. Bills*		4.001		3.300		2.450		1.800
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 Market**

The average interbank rate declined by 3 basis points to 1.20 percent in the week ending July 8, 2010 from 1.23 percent in the previous week. The volumes traded rose from Ksh 26.4 billion in the previous week to Ksh 30.3 billion in the week ending July 8, 2010. The Government deposits at the Central Bank declined from an average of Ksh 41.5 billion in the week ending July 1, down to Ksh 39.2 billion in the week ending July 8, 2010.

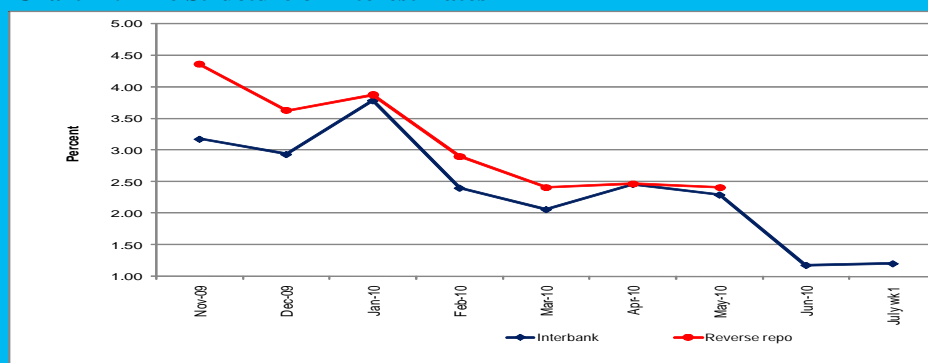
**Table 2: Interbank Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
<b>June 25 - July 1, 2010</b>	<b>304</b>	<b>26,386</b>	<b>1.23</b>
02-Jul-10	72	4,403	1.17
05-Jul-10	60	5,410	1.21
06-Jul-10	68	8,568	1.17
07-Jul-10	72	6,700	1.21
08-Jul-10	68	5,254	1.23
<b>July 2 - July 8, 2010</b>	<b>340</b>	<b>30,334</b>	<b>1.20</b>

Source: Central Bank of Kenya

The reverse repo rate was 1.95 percent as at the last reverse repo transaction on May 26, 2010.

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

**Monetary Policy Operations**

The market was liquid in the week ending July 8, 2010 and the Central Bank stayed out of the money market (Table 3). There were no reverse repo maturities during the week under review. Despite the high levels of liquidity, commercial banks borrowed a total of Ksh 591 million from Central Bank overnight window during the week under review. Reserve money averaged Ksh 211.6 billion during the week and was above target by Ksh 28.4 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=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
02-Jul	214.7	183.2	31.5	0.0	0.0	0.0	214.1	31.0	36.3	-5.3
05-Jul	212.4	183.2	29.2	0.0	0.0	0.0	212.2	29.0	33.7	-4.7
06-Jul	212.4	183.2	29.3	0.0	0.0	0.0	211.4	28.2	31.9	-3.7
07-Jul	209.7	183.2	26.6	0.0	0.0	0.0	210.4	27.2	30.8	-3.5
08-Jul	208.7	183.2	25.5	0.0	0.0	0.0	208.8	25.6	29.0	-3.4
<b>Average</b>	<b>211.6</b>	<b>183.2</b>	<b>28.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>211.4</b>	<b>28.2</b>	<b>32.3</b>	<b>-4.1</b>

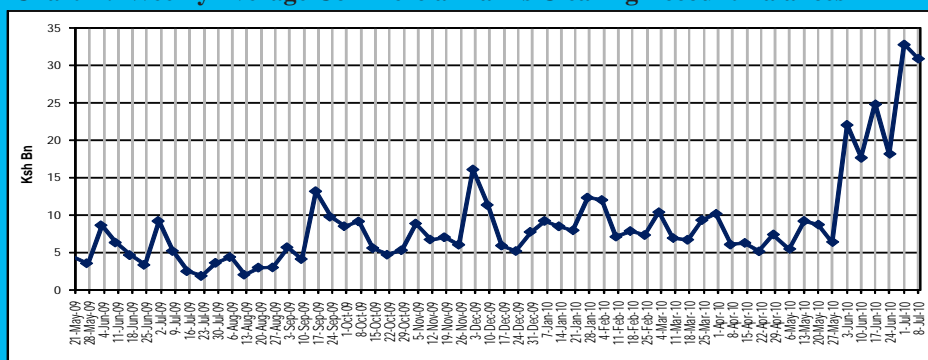
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial Banks Clearing Account Balances**

Commercial banks maintained an average of Ksh 30.9 billion in their clearing accounts at the Central Bank in the week to July 8, 2010, compared with Ksh 32.8 billion held 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 performance against the major international currencies during the week ending July 9, 2010 (Table 4). Against the US dollar, the shilling appreciated to exchange at Ksh 81.52 compared with Ksh 81.72 per US dollar in the previous week. During the week, the shilling depreciated against Sterling Pound, the Euro and Japanese Yen to exchange on average at Ksh 123.62 per Sterling Pound, Ksh 102.68 per Euro and Ksh 92.61 per 100 Japanese Yen in the week compared with Ksh 122.95 per Sterling Pound, Ksh 100.57 per Euro and Ksh 92.20 per 100 Japanese Yen in the previous week.

The movement partly reflected developments in the international foreign exchange market that saw the US dollar depreciate against both the Pound and the Euro weighed down by a raft of weak reports on consumer spending and factory activity that have heightened fears the economy could slip back into a recession.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
<b>June 28- July 02, 2010</b>	<b>81.72</b>	<b>122.95</b>	<b>100.57</b>	<b>92.20</b>	<b>27.80</b>	<b>17.98</b>
05-Jul-10	81.66	123.79	101.97	92.67	27.80	18.18
06-Jul-10	81.49	123.58	102.29	92.83	27.83	18.35
07-Jul-10	81.54	123.37	102.65	93.27	27.81	18.53
08-Jul-10	81.48	123.81	103.10	92.31	27.80	18.47
09-Jul-10	81.45	123.54	103.38	91.98	27.81	18.45
<b>July 05- July 09, 2010</b>	<b>81.52</b>	<b>123.62</b>	<b>102.68</b>	<b>92.61</b>	<b>27.81</b>	<b>18.40</b>

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling marginally strengthened against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 27.81 per Kenya Shilling and Tsh 18.40 per Kenya Shilling in the week ending July 9, 2010, compared with Ush 27.80 per Kenya Shilling and Tsh 17.98 per Kenya Shilling in the previous week respectively.

**Foreign  
Exchange  
Reserves**

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.334 billion (equivalent to 3.47 months of imports) as at July 9, 2010, compared to US dollar 3.295 billion (equivalent to 3.42 months of imports) held on July 2, 2010, reflecting a short-lived revaluation gain during the week (Table 5).

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

	31-Dec-09	26-Feb-10	26-Mar-10	30-Apr-10	27-May-10	25-Jun-10	02-Jul-10	09-Jul-10
Usable Reserves	3,309	3,235	3,224	3,307	3,252	3,310	3,295	3,334
Months of Imports Cover*	3.62	3.49	3.43	3.50	3.41	3.47	3.42	3.47

\*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 May 2010 compared with US\$ 1.326 billion as at end April 2010.

## Government Domestic Debt

Government gross domestic debt expanded by Ksh 141.3 billion (or 27.3 percent) during the fiscal year ending June 2010 from Ksh 518.3 billion in June 2009 to Ksh 659.6 billion (Table 6 and Chart C). During the period, Treasury bills, Treasury bonds and Government overdraft at the Central Bank grew by Ksh 41.7 billion, Ksh 87.9 billion and Ksh 12.5 billion, respectively.

Treasury bills, Treasury bonds and overdraft at Central Bank increased from Ksh 116.8 billion, 360.7 billion and Ksh 5.1 billion, respectively in June 2009 to Ksh 158.5 billion, Ksh 448.6 billion and Ksh 17.6 billion, respectively as at June 30, 2010. However, other domestic debt declined by Ksh 0.8 billion from Ksh 34.9 billion to Ksh 34.1 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 73.8 percent as at June 30, 2010, while that of Treasury bills increased from 24.4 percent to 26.1 percent. The increase in the share of Treasury bills in total Government securities was largely on account of introduction of 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 6 months as at June 30, 2010.

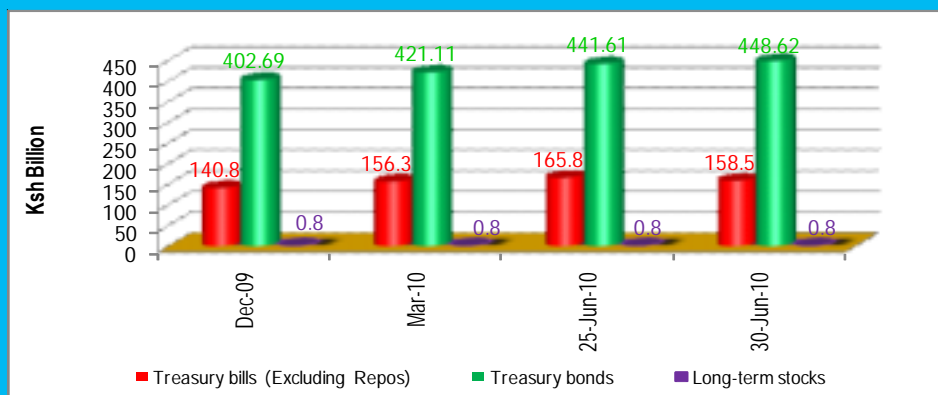
**Table 6: Government Domestic Debt (Ksh Billion)**

	Jun-09	Dec-09	Mar-10	25th June 2010	30th June 2010	Changes	
						25th Jun-2010 - 30th Jun-2010	30th Jun-09 - 30th Jun-2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	116.8 24.4	140.8 25.9	156.3 27.0	165.8 27.3	158.5 26.1	-7.3 -1.2	41.7
2. Treasury Bonds (As % of total securities)	360.7 75.4	402.7 74.0	421.1 72.8	441.6 72.6	448.6 73.8	7.0 1.2	87.9
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	0.0 0.0	0.0
4. Total Securities (1+2+3)	478.3	544.3	578.2	608.1	607.9	-0.2	129.6
5. Overdraft at Central Bank	5.1	11.1	5.9	15.5	17.6	2.1	12.5
6. Other Domestic debt*	34.9	33.6	33.0	33.9	34.1	0.2	-0.8
7. Gross Domestic Debt (4+5+6)	518.3	589.0	617.1	657.5	659.6	2.1	141.3
8. Interest payments on domestic debt	45.9	31.2	43.0	55.6	57.8	2.1	

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

Source: Central Bank of Kenya

**Chart C: Composition of Government Securities**

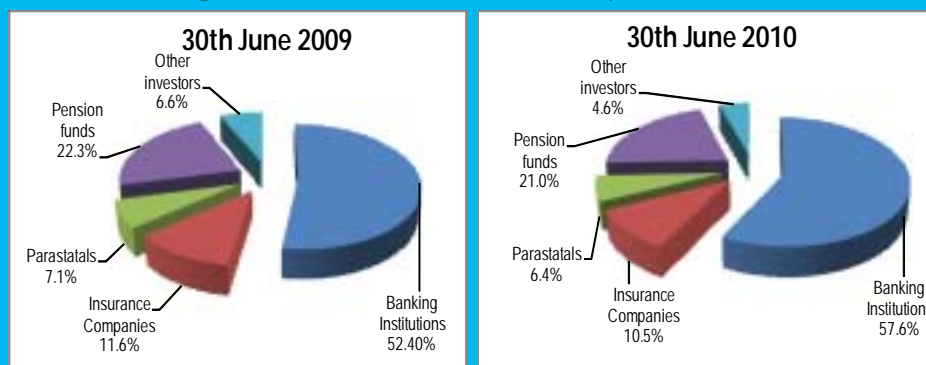


Source: Central Bank of Kenya

### 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 June 30, 2010. However, holdings of 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 10.5 percent, 6.4 percent, 21.0 percent and 4.6 percent during the same period (Chart D).

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

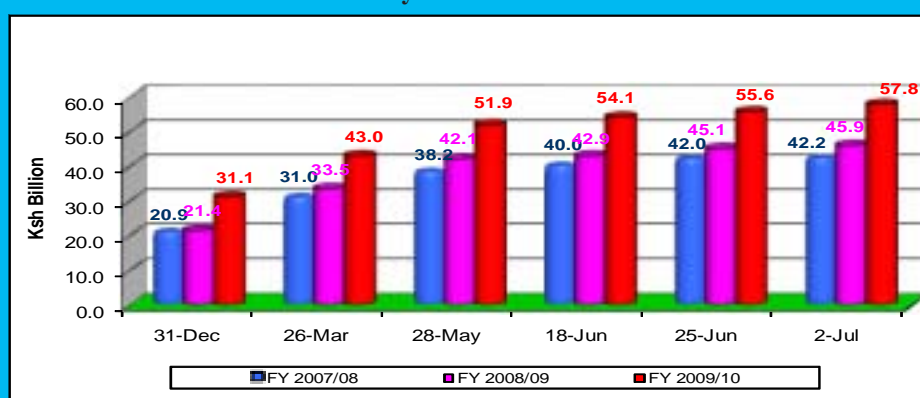


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt from July 1, 2009 to June 30, 2010 amounted to Ksh 57.8 billion compared with Ksh 45.9 billion in a similar period in the fiscal year 2008/09, equivalent to an increase of 24.7percent (Chart E). The interest cost on domestic debt during the period comprised Ksh 44.9 billion in interest and other charges on Treasury bonds, Ksh 11.2 billion in interest and other charges on Treasury bills, and Ksh 1.2 billion in interest on both Government overdraft at CBK and the pre-1997 government overdraft. Although the cumulative interest payments are higher compared to similar period of the fiscal year 2008/09 it is within the projected amount of Ksh 57.9 billion.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

### The Stock Market

Performance at the equities market was mixed during the week ending July 8, 2010. Turnover declined by 8.0 percent as stocks worth Ksh 1,373.0 million were traded compared with Ksh 1,492 million traded in the previous week. The number of shares traded increased from 83.9 million in the previous week to 91.6 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 0.3 percent or Ksh. 3.4 billion to close at Ksh 1,111 billion in the week under review from Ksh 1,108 billion in the previous week. The NSE 20 Share Index gained 8.4 points to settle at 4,321.39 points on July 8, 2010 from 4,313.0 points on July 1, 2010. The Nairobi All Share Index remained stable at 95 points (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	10-Jun-10	17-Jun-10	24-Jun-10	01-Jul-10	08-Jul-10
NASI 100= Jan 2008	92.76	94.39	94.59	95.03	95.24
NSE 20 Share Index 100=1966	4,263.06	4,327.40	4,309.51	4,313.01	4,321.39
Number of Deals	11,540	10,890	11,435	10,247	11,157
Total Shares Traded (millions)	80.70	89.31	94.46	83.85	91.58
Equity Turnover (Ksh. millions)	1,363.81	1,794.53	1,699.56	1,492.23	1,373.04
Market Capitalization (Ksh. Bn.)	1,081.34	1,100.32	1,107.12	1,107.90	1,111.27
Bonds Turnover (Ksh. millions)	24,498.60	23,520.65	25,115.20	20,934.20	23,902.60

\* 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 43 million shares and accounted for 46.9 percent of the traded volume with Safaricom trading 39.9 million shares in the sector. The Finance and Investment sector traded 56.8 million shares and accounted for 78.6 percent of total traded volume. Kenya Commercial Bank and Equity Bank were the most active stocks in the sector, trading 31.2 million and 11.5 million shares, respectively. Industrial and Allied sector traded 11.4 million shares and accounted for 11.1 percent of traded volume. Kenya Power and Lighting Co. was the most active counter, trading 4.5 million shares. The Alternative market segment traded 22,300 shares.

### **Bond Market**

Bond turnover at the Fixed Income Securities Market improved from Ksh 20.9 billion traded in the previous week to Ksh 23.9 billion in the week under review.