

July 23 , 2010



THE CBK WEEKLY BULLETIN

**Highlights for
the Week**

During this week's auctions, the Government securities market posted mixed performance. The 182-day Treasury bill auction posted underperformance of 18 percent, while the 25-year Treasury bond auction posted over performance of 5.5 percent. The Government had offered for sale 182-day Treasury bills amounting to Ksh 9.0 billion, received bids amounting to Ksh 7.4 billion and accepted all bids. In the case of the 25-year Treasury bond, Ksh 15.0 billion was on offer, bids amounting to Ksh 15.8 billion were received and bids amounting to Ksh 15.0 billion were accepted. The cut off-rate of the 182-day Treasury bill edged up 19.9 basis points, while the average rate for the 25-year Treasury bond declined by 61.9 basis points from the previous auction.

The average interbank rate rose by 9 basis points to 1.33 percent in the week ending July 22, 2010 from 1.24 percent in the previous week.

The money market was liquid in the week ending July 22, 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 23, 2010. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 81.67 compared with Ksh 81.61 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.353 billion (equivalent to 3.49 months of imports) as at July 23, 2010, compared to US dollar 3.340 billion (equivalent to 3.47 months of imports) held on July 16, 2010, reflecting revaluation gain during the week.

Government gross domestic debt decreased by Ksh 5.3 billion from Ksh 659.5 billion in June 2010 to Ksh 654.3 billion as at July 16, 2010 of the fiscal year 2010/11. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 0.3 billion.

Performance at the equities market generally declined during the week ending July 22, 2010, with the NSE 20 Share Index marginally gaining 1.02 points to settle at 4,345.86 from 4,344.84 points on July 15, 2010 and equity turnover declining by 10.3 percent owing to price declines in some counters.

Government Securities Auction

During this week’s auctions the Government securities market posted mixed performance. The 182-day Treasury bill auction posted underperformance of 18 percent, while the 25-year Treasury bond auction posted over performance of 5.5 percent. During the auction of July 22, 2010, the Government had offered for sale 182-day Treasury bills amounting to Ksh 9.0 billion and received bids amounting to Ksh 7.4 billion of which Ksh 7.0 billion were in competitive bids. However, during the auction of July 21, 2010, the Government had offered for sale 25-year Treasury bond worth Ksh 15.0 billion and received bids amounting to Ksh 15.8 billion.

The Government accepted bids amounting to Ksh 7.4 billion and Ksh 15.0 billion for 182-day Treasury bills and 25-year Treasury bonds, respectively. The proceeds of these auctions were directed at meeting the cost of maturities of Government securities amounting to Ksh 8.2 billion falling due in the week and provide Government additional borrowing of Ksh 9.4 billion.

The cut-off for the 182-day Treasury bill edged up 19.9 basis points from 1.800 percent posted on July 12, 2010 to 1.999.percent (Table 1).

The average rate for the 25-year Treasury bond declined by 61.9 basis points from 10.458 percent posted on June 23, 2010 to 9.839 percent.

Interest Rates on Treasury Bills

Interest Rates on Treasury Bonds

Table 1: Interest Rates

Auction date	3-Jun-10	10-Jun-10	17-Jun-10	24-Jun-10	1-Jul-10	8-Jul-10	15-Jul-10	22-Jul-10
91 day T. Bills*	3.491		2.628		1.801		1.728	
182 day T. Bills*		3.300		2.450		1.800		1.742
364 day T. Bills*		4.199						
Month	Nov-09	Dec-00	Jan-10	Feb-10	Mar-10	Apr-10	May-10	May-10
Average savings rate	1.71	1.73	1.75	1.81	1.81	1.81	1.76	1.76
Average overdraft rate	14.24	14.13	14.25	14.25	14.06	14.50	14.38	14.38

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

Source: Central Bank of Kenya

Interbank Market

The average interbank rate rose by 9 basis points to 1.33 percent in the week ending July 22, 2010 from 1.24 percent in the previous week. The volumes traded rose from Ksh 40.3 billion in the previous week to Ksh 65.3 billion in the week ending July 22, 2010 (Table 2). The Government deposits at the Central Bank rose from Ksh 39.1 billion in the week ending July 15 up to Ksh 49.2 billion in the week ending July 22, 2010.

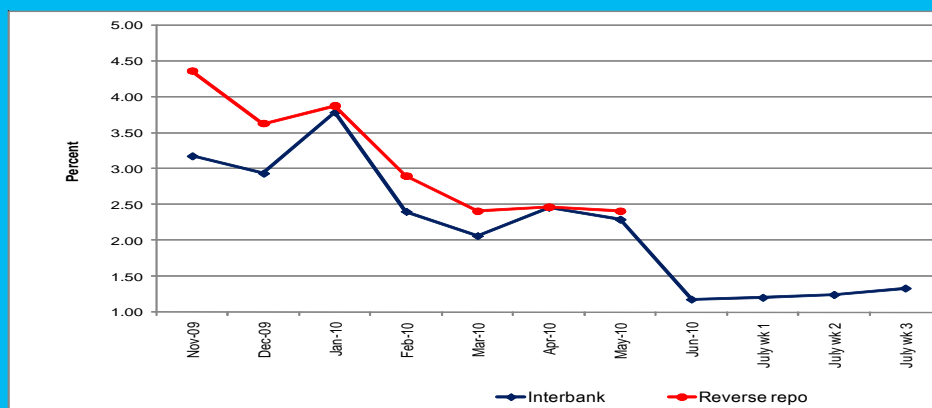
Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
9-Jul-10	67	5,221	1.24
12-Jul-10	70	8,535	1.21
13-Jul-10	68	7,764	1.22
14-Jul-10	72	8,190	1.25
15-Jul-10	87	10,626	1.26
July 9 - July 15, 2010	364	40,336	1.24
16-Jul-10	86	11,800	1.27
19-Jul-10	94	12,625	1.31
20-Jul-10	90	13,328	1.32
21-Jul-10	93	13,272	1.36
22-Jul-10	90	14,265	1.40
July 16 - July 22, 2010	453	65,291	1.33

Source: Central Bank of Kenya

The Central Bank stayed out of the money market during the week. The reverse repo rate was 1.95 percent as at the last reverse repo transaction on May 26, 2010 (Chart A).

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

The money market was liquid in the week ending July 22, 2010 and the Central Bank stayed out of the money market. There were no reverse repo maturities during the week under review. Despite the high levels of liquidity, commercial banks borrowed a total of Ksh 7.7 billion from Central Bank overnight window during the week under review. Reserve money averaged Ksh 196.1 billion during the week and was above target by Ksh 9.6 billion (Table 3).

Monetary Policy Operations

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)
16-Jul	205.0	185.0	20.0	0.0	0.0	0.0	202.0	17.0	22.2	-5.2
19-Jul	197.1	186.8	10.4	0.0	0.0	0.0	198.1	11.3	16.2	-4.9
20-Jul	194.0	186.8	7.2	0.0	0.0	0.0	195.1	8.4	13.7	-5.3
21-Jul	191.1	186.8	4.3	0.0	0.0	0.0	193.4	6.6	12.5	-5.9
22-Jul	189.7	186.8	2.9	0.0	0.0	0.0	191.6	4.8	11.0	-6.2
Average	195.4	186.4	9.0	0.0	0.0	0.0	196.1	9.6	15.1	-5.5

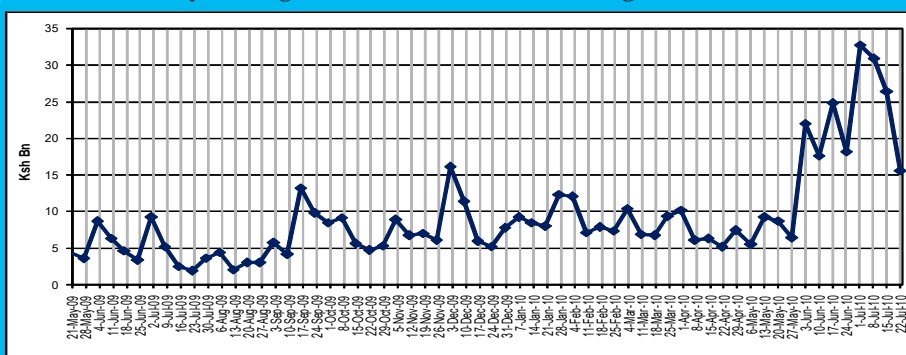
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 15.6 billion in their clearing accounts at the Central Bank in the week to July 22, 2010, compared with Ksh 26.4 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 depreciated against the major international currencies during the week ending July 23, 2010 (Table 4). Against the US \$, the shilling depreciated to exchange at Ksh 81.67 compared with Ksh 81.61 per US \$ in the previous week. During the week, the shilling depreciated against Sterling Pound, the Euro and Japanese Yen to exchange on average at Ksh 124.73 per Sterling Pound, Ksh 105.28 per Euro and Ksh 94.05 per 100 Japanese Yen in the week compared with Ksh 123.82 per Sterling Pound, Ksh 103.64 per Euro and Ksh 92.37 per 100 Japanese Yen, respectively, in the previous week.

The movement partly reflected developments in the international foreign exchange market that saw the US \$ depreciate against both the Pound and the Euro weighed down by news of a drop in retail sales and net long term capital inflows in the U.S. raising concerns about U.S. economic growth.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
12-Jul-10	81.51	122.15	102.58	91.67	27.79	18.49
13-Jul-10	81.81	122.63	102.80	92.33	27.82	18.37
14-Jul-10	81.68	124.23	103.84	91.81	27.80	18.36
15-Jul-10	81.60	124.56	103.89	92.60	27.63	18.20
16-Jul-10	81.44	125.50	105.11	93.46	27.63	18.32
July 05- July 09, 2010	81.61	123.82	103.64	92.37	27.73	18.35
19-Jul-10	81.54	124.78	105.17	94.08	27.67	18.36
20-Jul-10	81.59	124.80	106.10	93.82	27.64	18.32
21-Jul-10	81.84	125.28	105.54	93.92	27.63	18.29
22-Jul-10	81.82	124.14	104.45	94.61	27.59	18.33
23-Jul-10	81.58	124.68	105.10	93.81	27.67	18.42
July 19- July 23, 2010	81.67	124.73	105.28	94.05	27.64	18.35

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling marginally weakened against the Uganda Shilling and remained unchanged against the Tanzania Shilling to exchange at Ush 27.64 per Kenya Shilling and Tsh 18.35 per Kenya Shilling in the week ending July 23, 2010, compared with Ush 27.73 per Kenya Shilling and Tsh 18.35 per Kenya Shilling, respectively, in the previous week.

**Foreign
Exchange
Reserves**

The usable official foreign exchange reserves held by the Central Bank increased to US \$ 3.353 billion (equivalent to 3.49 months of imports) as at July 23, 2010, compared to US \$ 3.340 billion (equivalent to 3.47 months of imports) held on July 16, 2010, reflecting revaluation gain during the week (Table 5).

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

	31-Dec-09	26-Feb-10	30-Apr-10	27-May-10	25-Jun-10	2-Jul-10	9-Jul-10	16-Jul-10	23-Jul-10
Usable Reserves	3,309	3,235	3,307	3,252	3,310	3,295	3,334	3,340	3,353
Months of Imports Cover*	3.62	3.49	3.50	3.41	3.47	3.42	3.47	3.47	3.49

*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 \$ 1.211 billion as at end of June 2010 compared with US \$ 1.279 billion as at end May 2010.

**Government
Domestic
Debt**

Government gross domestic debt decreased by Ksh 5.3 billion from Ksh 659.5 billion in June 2010 to Ksh 654.3 billion at July 16, 2010 (Table 6). The decline in domestic debt was on account of decreases of Ksh 5.4 billion and Ksh 0.2 billion in the overdraft at the Central Bank and other domestic debt, respectively. However, these decreases were partially offset by an increase of Ksh 0.4 billion in Treasury bills issued during the same period.

Overdraft at the Central Bank and other domestic debt declined from Ksh 17.6 billion and Ksh 34.1 billion, respectively as at June 30, 2010 to Ksh 12.2 billion and Ksh 33.9 billion, respectively, as at July 16, 2010. However, Treasury bills increased by Ksh 0.4 billion, while Treasury bonds and long term stocks remained unchanged.

Table 6: Government Domestic Debt (Ksh Billion)

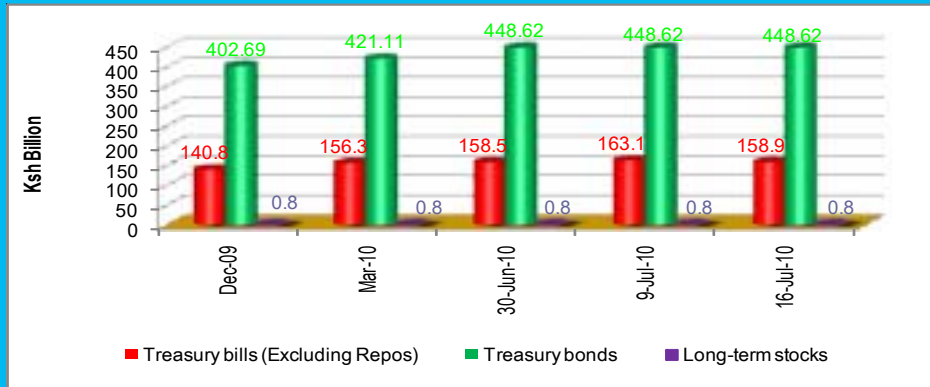
	Mar-10	30th June 2010	9th July 2010	16th July 2010	Changes	
					30th June-2010 -16th July-2010	30th Jun-2010 - 16th July -2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	156.3 27.0	158.5 26.1	163.1 26.6	158.9 26.1	-4.3 -0.5	0.4
2. Treasury Bonds (As % of total securities)	421.1 72.8	448.6 73.8	448.6 73.2	448.6 73.8	0.0 0.5	0.0
3. Long Term Stocks (As % of total securities)	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)	578.2	607.9	612.5	608.2	-4.3	0.4
5. Overdraft at Central Bank	5.9	17.6	13.1	12.2	-0.9	-5.4
6. Other Domestic debt*	33.0	34.1	33.8	33.9	0.0	-0.2
7. Gross Domestic Debt (4+5+6)	617.1	659.6	659.5	654.3	-5.2	-5.3
8. Interest payments on domestic debt	43.0	57.8	0.1	0.3	0.2	

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

Source: Central Bank of Kenya

The share of Treasury bonds and Treasury bills in total Government securities as at June 16, 2010 remained unchanged from the June 2010 position (Chart C).

Chart C: Composition of Government Securities

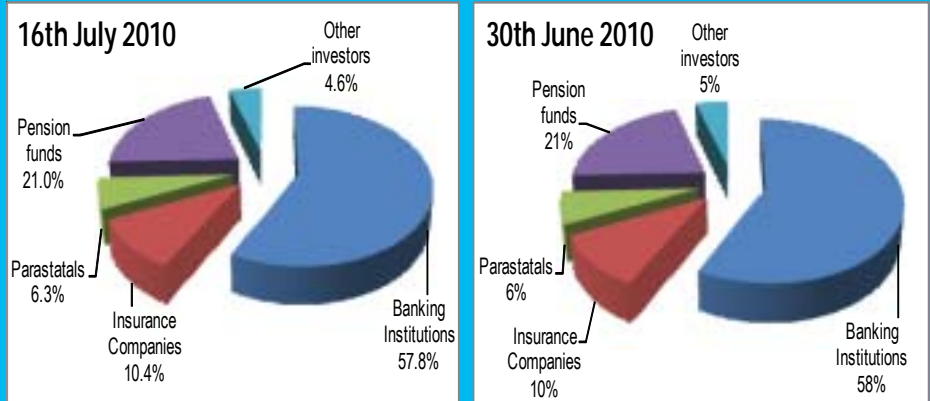


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by insurance company and parastatals increased from 10.0 percent and 6.0 percent in June 2010 to 10.4 percent and 6.3 percent, respectively, as at July 16, 2010. Consequently, holdings of commercial banks and other investors declined from 58.0 percent and 5.0 percent, respectively, as at June 30, 2010 to 57.8 percent and 4.6 percent during the same period (Chart D).

Chart D: Composition of Government Securities by Investor

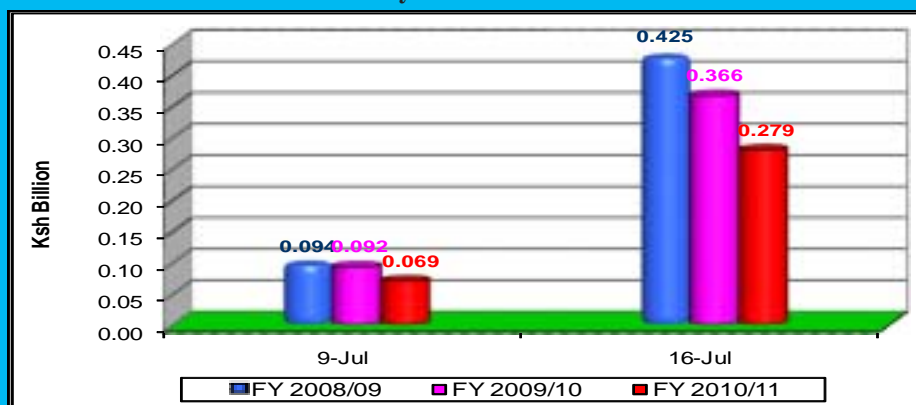


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt during the second week of the fiscal year 2010/11 amounted to Ksh 0.3 billion compared with Ksh 0.4 billion in a similar period of the fiscal year 2009/10 (Chart E). The interest cost on domestic debt during the period was on account of interest and other charges on Treasury bills.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

Performance at the equities market generally declined during the week ending July 22, 2010. Turnover declined by 10.3 percent as stocks worth Ksh 1,086.6 million were traded compared with Ksh 1,210.8 million traded in the previous week. The number of shares traded decreased from 81.6 million in the previous week to 66.3 million shares in the week under review. Market capitalization as a measure of total shareholders wealth decreased by 0.6 percent or Ksh. 7.3 billion to close at Ksh 1,119 billion in the week under review from Ksh 1,126 billion in the previous week. The NSE 20 Share Index marginally gained 1.02 points to settle at 4,345.86 points on July 22, 2010 from 4,344.84 points on July 15, 2010. The Nairobi All Share Index lost 0.62 points to settle at 95.8 points from 96.5 points the previous week (Table 7). The slowdown in performance in the equities market would be attributed to a possible pull out by foreign investors due to the weakening Euro and heightened political climate as the August 4 referendum approaches.

Table 7: Key Weekly Market Statistics

Week Ending	10-Jun-10	17-Jun-10	24-Jun-10	1-Jul-10	8-Jul-10	15-Jul-10	22-Jul-10
NASI 100= Jan 2008	92.76	94.39	94.59	95.03	95.24	96.5	95.88
NSE 20 Share Index 100=1966	4,263.06	4,327.40	4,309.51	4,313.01	4,321.39	4,344.84	4,345.86
Number of Deals	11,540	10,890	11,435	10,247	11,157	11,601	10,387
Total Shares Traded (millions)	80.70	89.31	94.46	83.85	91.58	81.64	66.34
Equity Turnover (Ksh. millions)	1,363.81	1,794.53	1,699.56	1,492.23	1,373.04	1,210.84	1,086.56
Market Capitalization (Ksh. Bn.)	1,081.34	1,100.32	1,107.12	1,107.90	1,111.27	1,125.97	1,118.68
Bonds Turnover (Ksh. millions)	24,498.60	23,520.65	25,115.20	20,934.20	23,902.60	17,001.95	10,187.80

* 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 30.8 million shares accounting for 46.4 percent of the traded volume, with Safaricom trading 28.1 million shares. The Finance and Investment sector traded 25.1 million shares and accounted for 37.8 percent of total traded volume. Equity Bank and Kenya Commercial Bank were the most active stocks in the sector, trading

11.9 million and 4.7 million shares, respectively. Industrial and Allied sector traded 9.8 million shares and accounted for 14.8 percent of traded volume. Mumias Sugar Co. was the most active counter, trading 3.92 million shares. The Alternative market segment traded 45,400 shares.

Bond Market

Bond turnover at the Fixed Income Securities Market declined from Ksh 17.0 billion traded in the previous week to Ksh 10.1 billion in the week under review. The drop in bond turnover may be attributed to shift in appetite towards the primary market following re-issue of the 25-year Treasury bond on July 21, 2010.