

July 30 , 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The 91-day Treasury bills auction posted a performance rate of 102.1 percent. The Government had offered for sale 91-day Treasury bills amounting to Ksh 5.0 billion, but received bids amounting to Ksh 5.1 billion and accepted all bids. The cut off-rate for the 91-day Treasury bill declined by 2.9 basis points.

The average interbank rate rose by 28 basis points to 1.61 percent in the week ending July 29, 2010 from 1.33 percent in the previous week.

The Kenya Shilling appreciated against the US dollar and the Euro but weakened against the Sterling Pound during the week ending July 30, 2010. Against the US dollar, the shilling gained to exchange at an average of Ksh 80.83 compared with Ksh 81.67 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.378 billion (equivalent to 3.51 months of imports) as at July 30, 2010, compared to US dollar 3.353 billion (equivalent to 3.49 months of imports) held on July 23, 2010.

The money market was tight in the week ending July 29, 2010 and the Central Bank injected a total of Ksh 6.5 billion into the market. There were no reverse repo maturities during the week.

Government reduced its outstanding stock of gross domestic debt for the third consecutive week. It repaid by Ksh 7.9 billion thereby reducing gross debt from Ksh 659.6 billion in June 2010 to Ksh 651.8 billion as at July 23, 2010 of the FY 2010/11. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 0.9 billion.

Performance at the equities market improved during the week ending July 29, 2010, with the NSE 20 Share index gaining 52.46 points to settle at 4,398.32 from 4,345.86 points on July 22, 2010. Equity turnover increased by 35.2 percent.

Government Securities Auction

The Government securities market posted a performance of 102.1 percent during the auction of July 29, 2010. The Government had offered for sale 91-day Treasury bills amounting to Ksh 5.0 billion and received bids amounting to Ksh 5.1 billion of which Ksh 5.0 billion were in competitive bids. The Government accepted all bids amounting to Ksh 5.1 billion. The proceeds of the auction will be directed at supporting the Government budget.

Interest Rates on Treasury Bills

The cut-off rate for the 91-day Treasury bill shed 2.9 basis points from 1.728 percent posted on July 15, 2010 to 1.699 percent (Table 1).

Interest Rates on Treasury Bonds

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 .

Table 1: Interest Rates

Auction date	03-Jun-10	10-Jun-10	17-Jun-10	24-Jun-10	01-Jul-10	08-Jul-10	15-Jul-10	22-Jul-10	29-Jul-10
91 day T. Bills*	3.491		2.628		1.801		1.728		1.699
182 day T. Bills*		3.300		2.450		1.800		1.742	
364 day T. Bills*		4.199							
Month	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	
Average savings rate	1.71	1.73	1.75	1.81	1.81	1.81	1.76	1.75	
Average overdraft rate	14.24	14.13	14.25	14.25	14.06	14.50	14.38	14.23	

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

Source: Central Bank of Kenya

Interbank Market

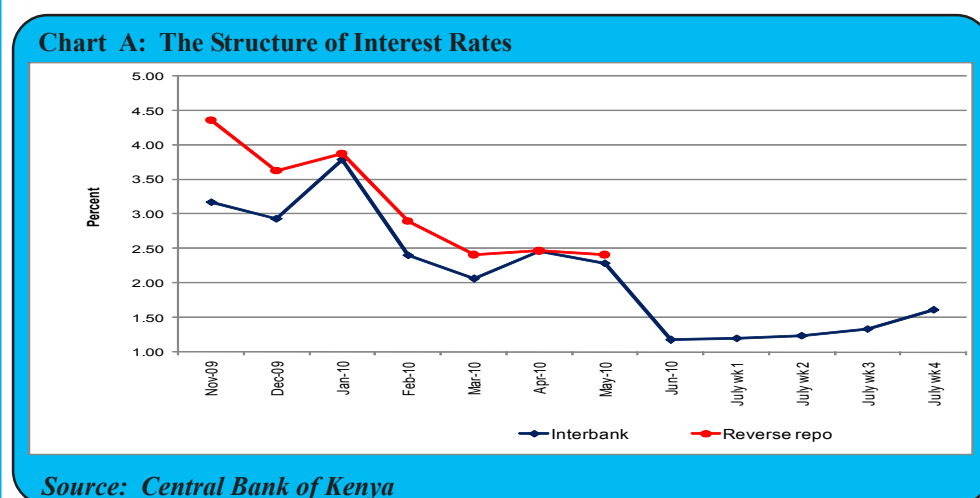
The average interbank rate rose by 28 basis points to 1.61 percent in the week ending July 29, 2010 from 1.33 percent in the previous week. Consistent with tighter liquidity, the volumes traded declined from Ksh 65.3 billion in the previous week to Ksh 59.1 billion in the week ending July 29, 2010. The Government deposits at the Central Bank rose from Ksh 49.2 billion in the week ending July 22 up to Ksh 54.0 billion in the week ending July 29, 2010 (Table 2).

Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
23-Jul-10	104	19,242	1.47
26-Jul-10	89	13,593	1.55
27-Jul-10	75	9,652	1.63
28-Jul-10	82	10,081	1.70
29-Jul-10	59	6,539	1.72
July 23 - July 29, 2010	409	59,107	1.61

Source: Central Bank of Kenya

The reverse repo rate was 1.72 percent as at the last reverse repo transaction on July 26, 2010



Monetary Policy Operations

The money market was tight in the week ending July 29, 2010 and the Central Bank injected a total of Ksh 6.5 billion into the market as shown in Table 3. There were no reverse repo maturities during the week under review. Commercial banks borrowed a total of Ksh 5.2 billion from Central Bank overnight window during the week under review. Reserve money averaged Ksh 191.5 billion during the week and was above target by Ksh 3.3 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)
23-Jul	188.8	186.8	2.0	0.0	0.0	0.0	188.7	1.9	8.3	-6.3
26-Jul	179.8	188.6	-8.8	10.0	6.5	3.5	189.1	0.5	6.9	-6.4
27-Jul	188.6	188.6	0.0	0.0	0.0	0.0	189.7	1.1	7.8	-6.7
28-Jul	188.0	188.6	-0.6	0.0	0.0	0.0	190.3	1.7	8.1	-6.4
29-Jul	199.5	188.6	10.9	0.0	0.0	0.0	199.5	10.9	16.8	-5.9
Average	189.0	188.2	0.7	2.0	1.3	0.7	191.5	3.3	9.6	-6.3

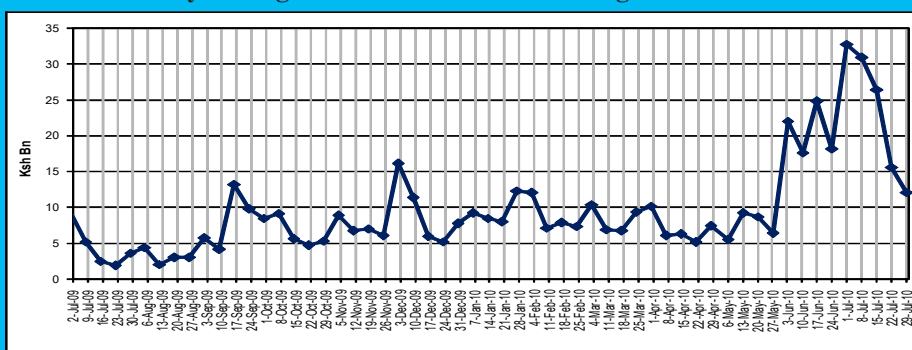
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 12.1 billion in their clearing accounts at the Central Bank in the week to July 29, 2010, compared with Ksh 15.6 billion held the previous week (Chart B). The decline in excess reserves since the beginning of July is attributed to new investments opportunities particularly the uptake of Government Securities.

Chart B: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling strengthened against the US dollar and the Euro during the week ending July 30, 2010 (Table 4). Against the US dollar and the Euro, the shilling appreciated to exchange at Ksh 80.83 compared with Ksh 81.67 per US dollar in the previous week, and Ksh 105.15 compared with Ksh 105.28 per Euro respectively. The Kenya shilling however depreciated against the Sterling pound to trade at Ksh 125.79 during the week ending July 30, 2010 compared with Ksh 124.73 per Sterling pound in the previous week. The weakening of the Kenya shilling reflects a stronger Sterling pound relative to the US dollar international markets as the British economy posted improved performance of 1.1 percent in the second quarter of 2010, compared with the expected growth of 0.6 percent. Against the Japanese Yen, the shilling appreciated to exchange at an average of Ksh 92.68 per 100 Japanese Yen in the week compared with Ksh 94.05 per 100 Japanese Yen the previous week.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
26-Jul-10	81.40	125.82	105.25	93.10	27.64	18.37
27-Jul-10	81.15	125.92	105.58	93.31	27.62	18.55
28-Jul-10	80.66	125.90	104.97	91.72	27.76	18.75
29-Jul-10	80.68	126.01	105.06	92.43	27.75	18.79
30-Jul-10	80.23	125.30	104.88	92.82	27.83	18.91
July 26- July 30, 2010	80.83	125.79	105.15	92.68	27.72	18.67

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling gained against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 27.72 per Kenya Shilling and Tsh 18.67 per Kenya Shilling in the week ending July 30, 2010, compared with Ush 27.64 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 \$ 3.378 billion (equivalent to 3.51 months of imports) as at July 30, 2010, compared to US \$ 3.353 billion (equivalent to 3.49 months of imports) held on July 23, 2010 (Table 5).

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

	31-Dec-09	30-Apr-10	27-May-10	25-Jun-10	02-Jul-10	09-Jul-10	16-Jul-10	23-Jul-10	30-Jul-10
Usable Reserves	3,309	3,307	3,252	3,310	3,295	3,334	3,340	3,353	3,378
Months of Imports Cover*	3.62	3.50	3.41	3.47	3.42	3.47	3.47	3.49	3.51

*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 continued to drop for the third consecutive week. During the first three weeks of fiscal year 2010/11 the gross domestic debt has declined by Ksh 7.9 billion from Ksh 659.6 billion in June 2010 to Ksh 651.8 billion as at July 23, 2010 (Table 6 and Chart C). The decline in domestic debt was on account of repayment of Ksh 10.1 billion in overdraft at CBK, and net redemptions of Ksh 2.5 billion and Ksh 0.8 billion, respectively in Treasury bonds outstanding and other domestic debt. However, these decreases were partially offset by increases of Ksh 5.6 billion in Treasury bills during the same period.

Overdraft at CBK, Treasury bonds and other domestic debt declined from Ksh 17.6 billion, Ksh 448.6 billion and Ksh 34.1 billion, respectively in June 2010 to Ksh 7.6 billion, Ksh 446.1 billion and Ksh 33.3 billion, respectively as at July 23, 2010. Treasury bills increased by Ksh 5.6 billion while long term stocks remained unchanged.

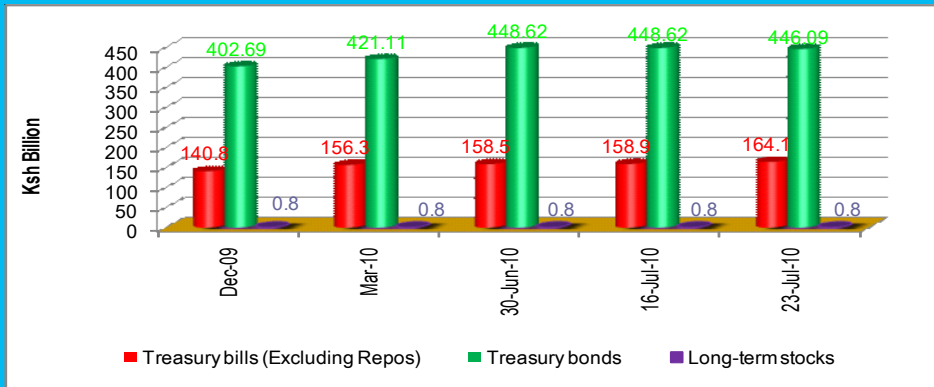
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-10	9th July 2010	16th July 2010	23rd July 2010	Changes	
					16th July-2010 - 23rd July-2010	30th Jun-2010 - 23rd July -2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	158.5 26.1	163.1 26.6	158.9 26.1	164.1 26.9	5.2 0.7	5.6
2. Treasury Bonds (As % of total securities)	448.6 73.8	448.6 73.2	448.6 73.8	446.1 73.0	-2.5 -0.7	-2.5
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)	607.9	612.5	608.2	610.9	2.7	3.0
5. Overdraft at Central Bank	17.6	13.1	12.2	7.6	-4.6	-10.1
6. Other Domestic debt*	34.1	33.8	33.9	33.3	-0.6	-0.8
7. Gross Domestic Debt (4+5+6)	659.6	659.5	654.3	651.8	-2.6	-7.9
8. Interest payments on domestic debt	57.8	0.07	0.51	1.14	0.6	

Source: Central Bank of Kenya

In view of the foregoing, the share of Treasury bonds declined from 73.8 percent in June to 73.0 percent as at July 23, 2010 while that of Treasury bills increased from 26.1 percent to 26.9 percent. The average time to maturity of Government securities stood at 4 years and 6 months during the same period.

Chart C: Composition of Government Securities

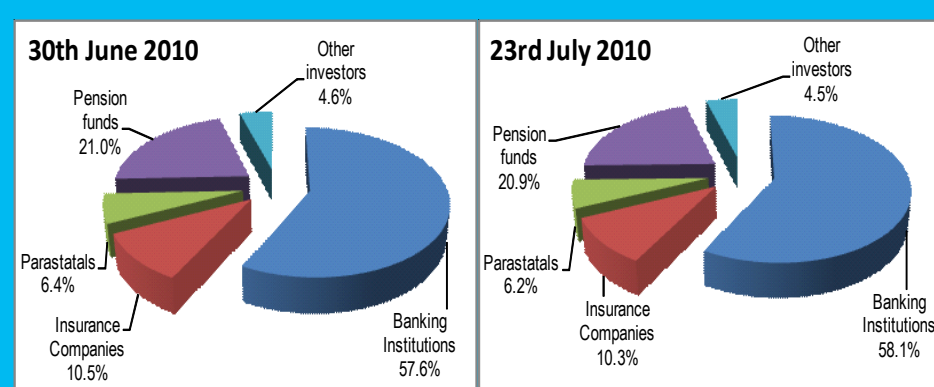


Source: Central Bank of Kenya

Holding of Government Securities

The share of Government securities held by commercial banks increased from 57.6% in June 2010 to 58.1% in July 2010. During the same period, the share by the insurance companies and parastatals decreased from 10.5% and 6.4% in June 2010 to 10.3 percent and 6.2 percent, respectively. (Chart D).

Chart D: Composition of Government Securities by Investor

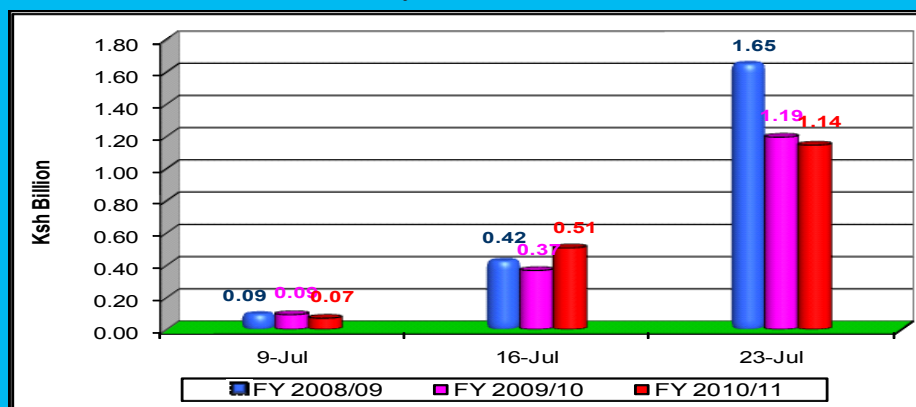


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt during the third week of the fiscal year 2010/11 amounted to Ksh 1.14 billion compared with Ksh 1.19 billion in a similar period of the fiscal year 2009/10 (Chart E). The interest costs on domestic debt during the period was composed of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 0.56 billion and Ksh 0.58 billion, respectively.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

Performance at the equities market improved during the week ending July 29, 2010. Turnover increased by 35.2 percent as stocks worth Ksh 1,468.8 million were traded compared with Ksh 1,086.6 million traded in the previous week. The number of shares traded increased from 66.3 million in the previous week to 73.0 million shares in the week under review. Market capitalization, as a measure of total shareholders wealth, increased by 1.3 percent or Ksh. 14.3 billion to close at Ksh 1,133.2 billion in the week under review from Ksh 1,118.7 billion in the previous week. The NSE 20 Share index gained 52.46 points to settle at 4,398.32 points on July 29, 2010 from 4,345.86 points on July 22, 2010. The Nairobi All Share Index gained 1.06 points to settle at 96.94 points from 95.8 points the previous week (Table 7). The improvement in performance may be attributed to re-allocation of portfolio by investors across the board in favour of the equity market.

Table 7 Key Weekly Markets Statistics

Week Ending	10-Jun-10	17-Jun-10	24-Jun-10	01-Jul-10	08-Jul-10	15-Jul-10	22-Jul-10	29-Jul-10
NASI 100= Jan 2008	92.76	94.39	94.59	95.03	95.24	96.5	95.88	96.94
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	4,398.32
Number of Deals	11,540	10,890	11,435	10,247	11,157	11,601	10,387	11,033
Total Shares Traded (millions)	80.70	89.31	94.46	83.85	91.58	81.64	66.34	72.96
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	1,468.81
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	1,133.20
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	7,334.45

* 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 30.5 million shares and accounted for 41.8 per cent of the traded volume with Safaricom trading 28.9 million shares in the sector. The Finance and Investment sector traded 28.9 million shares and accounted for 39.7 percent of total traded volume. Equity Bank and Co-operative Bank were the most active stocks in the sector, trading 7.4 million and 6.7 million shares, respectively. Industrial and Allied sector traded 13.0 million shares and accounted for 17.8 percent of traded volume. Mumias Sugar Co was the most active counter, trading 6.1 million shares. The Alternative Market segment traded 61,800 shares.

Bond Market

Bond turnover at the Fixed Income Securities Market declined from Ksh 10.1 billion traded in the previous week to Ksh 7.3 billion in the week under review. The drop in bond turnover may be attributed to shift in appetite towards the primary market.