

June 4, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The overall 12-month inflation increased to 3.9 percent from 3.7 percent in April 2010. This amounted to a reversal of the declining trend which had persisted for over one year from February 2009, with the exception of a one month marginal increase in January 2010. The increase resulted from rising transportation costs during the period under review.

The Government securities market posted subscription of 338 percent during this week's Treasury bills auction. The government had offered for sale 91-day Treasury bills worth Ksh 2.0 billion and received bids totalling Ksh 6.8 billion. Treasury bills bids totalling Ksh 2.1 billion were accepted. The cut off rate for the 91-day Treasury bill declined by 50.7 basis points during this week's auction.

The average interbank declined by 40 basis points to 1.25 percent in the week ending June 3, 2010 from 1.65 percent in the previous week. The decline reflected increased inter bank liquidity arising from drawdown of Government deposits held at the Central Bank.

The market was liquid in the week ending June 3, 2010 and the Central Bank stayed out of the money market. Reverse repo maturities amounted to Ksh 16.9 billion during the week.

The Kenya Shilling on average recorded mixed performance against the major international currencies during the week ending June 4, 2010. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 79.97 in the week compared with Ksh 79.58 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.284 billion (equivalent to 3.44 months of imports) as at June 4, 2010, compared to US dollar 3.252 billion (equivalent to 3.41 months of imports) held on May 27, 2010, reflecting a short-lived revaluation gain during the week.

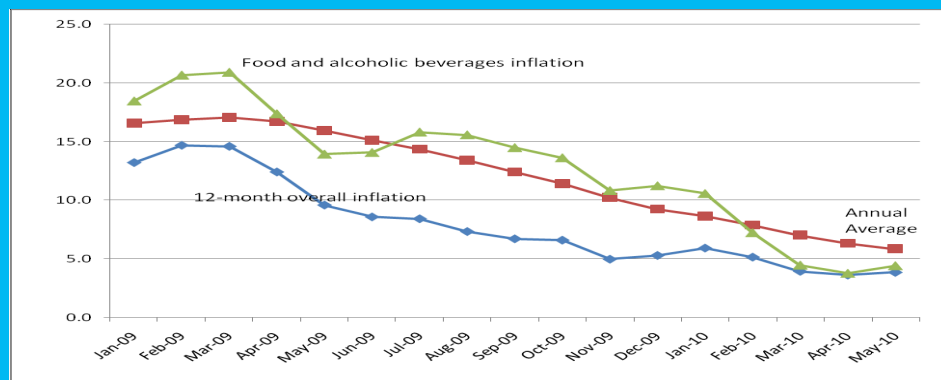
Government gross domestic debt increased by Ksh 145.8 billion from Ksh 518.3 billion in June 2009 to Ksh 664.1 billion as at May 28, 2010 of the FY 2009/10. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 51.9 billion.

Performance at the equities market was mixed during the week. The NSE 20 Share index lost 27.95 points to settle at 4,234.29 points on June 3, 2010.

Inflation

The overall 12-month inflation increased to 3.9 percent from 3.7 percent in April 2010 (Chart A). The increase in overall 12-month inflation was largely attributed to rising costs of transportation which reflected the high international crude oil prices and damage to the road network in some areas due to heavy rains and flooding. The International crude oil prices rose from US dollars 60.2 per barrel in May 2009 to US dollars 82.1 per barrel in May 2010. Consequently the pump prices moved from Ksh 77.9 per litre of premium gas in May 2009 to an average of Ksh 86.2 per litre in May 2010. While there were notable rises and declines in the prices of various food commodities, the net effect was an increase in the food CPI. Seasonal foods such as tomatoes, onions, kale and Irish-potatoes all experienced price increases while maize flour, milk, and oranges experienced declines in their retail prices. It is noteworthy that food prices in Nairobi drove up the overall food CPI, as the rest of the country experienced negligible rises in the food CPI following increased production due to favourable weather. The CPI's of the other consumer baskets, however, declined as a result of the reduction in the price of electricity following increased rainfall which raised the water levels in the dams, thus enhancing hydropower generation capacity and reducing dependence on expensive fuel driven generators.

Chart A: 12-Month Overall Inflation (%) Jan 2009 – Apr 2010



Source: Central Bank of Kenya

Government Securities Auction

The Government securities market posted subscription of 338 percent during this week's Treasury bills auction. The government had offered for sale 91-day Treasury bills worth Ksh 2.0 billion during the auction of June 3, 2010 and received bids totalling Ksh 6.8 billion.

The Government accepted treasury bills bids amounting to Ksh 2.1 billion of which Ksh 1.9 billion or 90.4 percent were in competitive bids. The total proceeds of the auction will provide additional borrowing to the government since there was no redemptions falling due then.

Interest Rates on Treasury Bills

During this week's auction, the cut off rate for the 91-day Treasury bill declined by 50.7 basis points from 3.998 percent on May 24, 2010 to 3.491 percent.

Table 1: Interest Rates

	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May wk 3	May wk 4	Jun wk 1
Interbank	3.17	2.93	3.79	2.40	2.06	2.46	2.25	1.65	1.25
Reverse repo	4.36	3.63	3.87	2.90	2.41	2.47	2.44	1.95	1.95

Source: Central Bank of Kenya

Interbank and REPO Market

The average interbank declined by 40 basis points to 1.25 percent in the week ending June 3, 2010 from 1.65 percent in the previous week. The volumes traded decreased from Ksh 58.2 billion in the previous week to Ksh 52.5 billion in the week ending June 3, 2010. The fall in the interbank rate reflected increased liquidity in the money market supported by sharp increase in Government payments. As a result, Government deposits at the Central Bank decreased to an average of Ksh 54.2 billion in the week ending June 3, 2010 compared with an average of Ksh 84.5 billion in similar period in the previous week (Table 2).

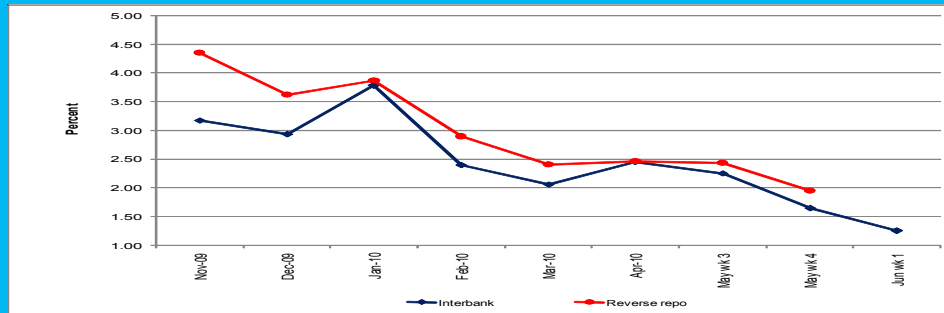
Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
21-May-10	66	14,113	1.72
24-May-10	72	12,684	1.71
25-May-10	69	10,860	1.70
26-May-10	77	10,360	1.62
27-May-10	69	10,202	1.50
May 21 - May 27, 2010	353	58,219	1.65
28-May-10	68	10,878	1.40
31-May-10	92	13,588	1.30
02-Jun-10	83	13,630	1.19
03-Jun-10	102	14,418	1.12
May 28 - Jun 3, 2010	345	52,514	1.25

Source: Central Bank of Kenya

The Central Bank stayed out of the money market. The reverse repo rate was 1.95 percent in the previous week (Table 1 and Chart B).

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The market was liquid in the week ending June 3, 2010 and the Central Bank stayed out of the money market as shown in Table 3. There were reverse repo maturities of Ksh 16.9 billion. One commercial bank borrowed Ksh 1.39 billion at Central Bank’s overnight window during the week. Reserve money averaged Ksh 194.7 billion and was Ksh 14.9 billion above target (Table 3).

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
28-May	192.5	179.6	13.0	0.0	0.0	0.0	194.1	14.5	19.2	-4.6
31-May	191.8	179.6	12.2	0.0	0.0	0.0	195.7	16.1	19.9	-3.8
02-Jun	194.2	180.0	14.2	0.0	0.0	0.0	195.7	15.7	20.1	-4.4
03-Jun	194.0	180.0	14.0	0.0	0.0	0.0	193.1	13.1	16.1	-3.0
Average	193.1	179.8	13.4	0.0	0.0	0.0	194.7	14.9	18.8	-3.9

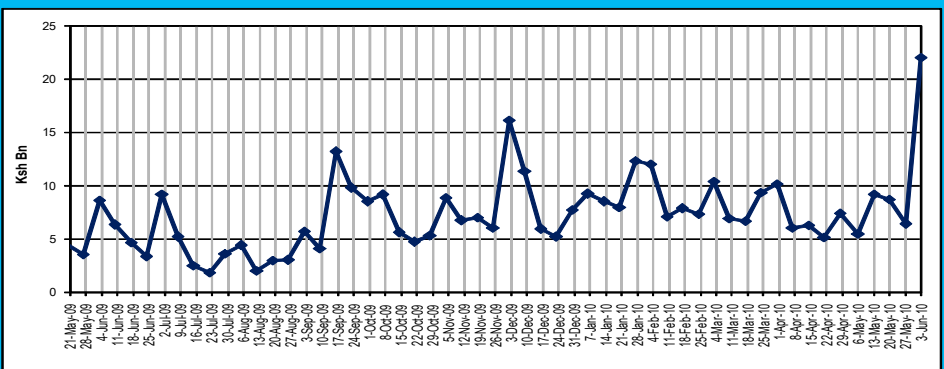
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 22.0 billion in their clearing accounts at the Central Bank in the week to June 3, 2010, compared with Ksh 6.4 billion held in the previous week (Chart C). The spike reflects inflows from rundown of Government deposits at the Central Bank.

Chart C: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling on average recorded mixed performance against the major international currencies during the week ending June 4, 2010 (Table 4). Against the US dollar and the Sterling pound the shilling depreciated to exchange at Ksh 79.97 per US dollar and Ksh 117.09 per Sterling Pound compared with Ksh 79.58 per US dollar and Ksh 114.75 per Sterling Pound in the previous week respectively. Against the Euro and Japanese Yen the shilling appreciated to exchange at Ksh 97.98 per Euro and Ksh 86.93 per 100 Japanese Yen compared to Ksh 98.25 per Euro and Ksh 88.24 per 100 Japanese Yen in the previous week respectively.

The movement partly reflected developments in the international foreign exchange market that saw the Dollar strengthen against the Euro following concerns that the Greek debt crisis could spread to the banking system. In the domestic market, demand from the energy sector put additional pressure on the shilling.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
24-May-10	79.25	114.70	99.10	87.87	27.82	18.51
25-May-10	79.55	114.03	97.77	88.33	27.85	18.57
26-May-10	79.79	114.69	98.01	88.47	28.20	18.93
27-May-10	79.75	115.57	98.11	88.29	28.11	19.21
May 24- May 27, 2010	79.58	114.75	98.25	88.24	28.00	18.80
31-May-10	79.75	115.49	98.18	87.16	27.74	17.81
02-Jun-10	79.89	117.62	97.58	87.33	28.04	17.93
03-Jun-10	80.01	117.84	98.43	86.65	28.25	18.00
04-Jun-10	80.22	117.40	97.74	86.58	28.42	17.83
May 31- June 4, 2010	79.97	117.09	97.98	86.93	28.11	17.89

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling strengthened marginally against the Uganda Shilling and weakened marginally against the Tanzania Shilling to exchange at Ush 28.11 per Kenya Shilling and Tsh 17.89 per Kenya Shilling in the week ending June 4, 2010, compared with Ush 28.00 per Kenya Shilling and Tsh 18.80 per Kenya Shilling in the previous week respectively.

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank marginally increased to US dollar 3.284 billion (equivalent to 3.44 months of imports) as at June 4, 2010, compared to US dollar 3.252 billion (equivalent to 3.41 months of imports) held on May 27, 2010 (Table 5).

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

	21-May-09	30-Oct-09	30-Nov-09	31-Dec-09	26-Feb-10	26-Mar-10	30-Apr-10	27-May-10	04-Jun-10
Usable Reserves	2,699	3,302	3,392	3,309	3,235	3,224	3,307	3,252	3,284
Months of Imports Cover*	3.22	3.67	3.71	3.62	3.49	3.43	3.50	3.41	3.44

*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\$ 1.3 billion as at end April 2010 compared with US\$ 1.4 billion as at end March 2010.

Government Domestic Debt

Government gross domestic debt increased by Ksh 145.8 billion (or 28 percent) from Ksh 518.3 billion in June 2009 to Ksh 664.1 billion at May 28, 2010 (Table 6 and Chart D). This increase was on account of increases of Ksh 59.9 billion, Ksh 82.7 billion and Ksh 5.1 billion in Treasury bills (excluding Repos), Treasury bonds and Overdraft at the central bank respectively. However, these increases were partly offset by a decrease of Ksh 1.8 billion in other domestic debt.

Treasury bills and Treasury bonds increased from Ksh 116.8 billion and 360.7 billion in June 2009 to Ksh 176.7 billion and Ksh 443.4 billion, respectively as at May 28, 2010. Similarly, Government overdraft at CBK increased from Ksh 5.1 billion to Ksh 10.2 billion while other domestic debt declined from Ksh 34.9 billion to Ksh 33.1 billion during the period. Long term stocks remained unchanged at Ksh 0.8 billion during the period.

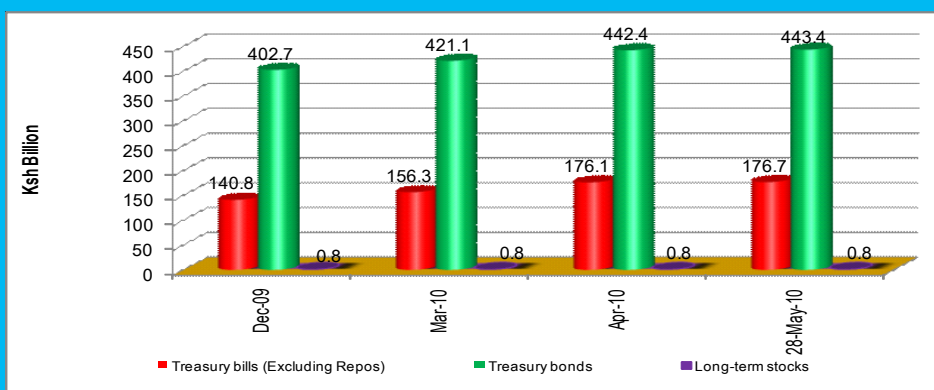
Following these developments, the share of Treasury bonds in total Government securities declined from 75.4 percent in June 2009 to 71.4 percent as at May 28, 2010 while that of Treasury bills increased from 24.4 percent to 28.5 percent. The increase in the share of Treasury bills in total Government securities reflects the introduction of 364-day Treasury bill in August 2009 to replace the 1-year Treasury bond. In addition, the government Treasury bond issues are currently restricted to the benchmark bonds of 5-year, 10-year, 15-year and 20-year tenures for conventional bonds. As a result, the average time to maturity of Government domestic debt lengthened from 3 years 6 months in June 2009 to 4 years and 3 months.

Table 6: Government Domestic Debt (Ksh Billion)

	Jun-09	Sep-09	Dec-09	Mar-10	April-10	21th May 2010	28th May 2010	Changes	
								21th April-2010 - 28th May-2010	30th Jun-09 - 28th May-2010
1. Treasury Bills (Excluding Repos)	116.8	122.2	140.8	156.3	176.1	171.7	176.7	4.9	59.9
(As % of total securities)	24.4	24.0	25.9	27.0	28.4	27.9	28.5	0.3	4.0
2. Treasury Bonds	360.7	386.1	402.7	421.1	442.4	442.4	443.4	1.1	82.7
(As % of total securities)	75.4	75.8	74.0	72.8	71.4	71.9	71.4	-0.3	-4.0
3. Long Term Stocks	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.0	0.0
(As % of total securities)	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
4. Total Securities (1+2+3)	478.3	509.0	544.3	578.2	619.2	614.8	620.9	6.0	142.6
5. Overdraft at Central Bank	5.1	8.0	11.1	5.9	1.1	0.0	10.2	10.2	5.1
6. Other Domestic debt*	34.9	33.6	33.6	33.0	33.2	33.2	33.1	0.1	-1.8
7. Gross Domestic Debt (4+5+6)	518.3	550.6	589.0	617.1	653.6	648.0	664.1	16.1	145.8
8. Interest payments on domestic debt (Cumulative in FY)	45.9	13.5	31.2	43.0	46.5	46.8	51.9	5.2	

Source: Central Bank of Kenya

Chart D: Composition of Government Securities

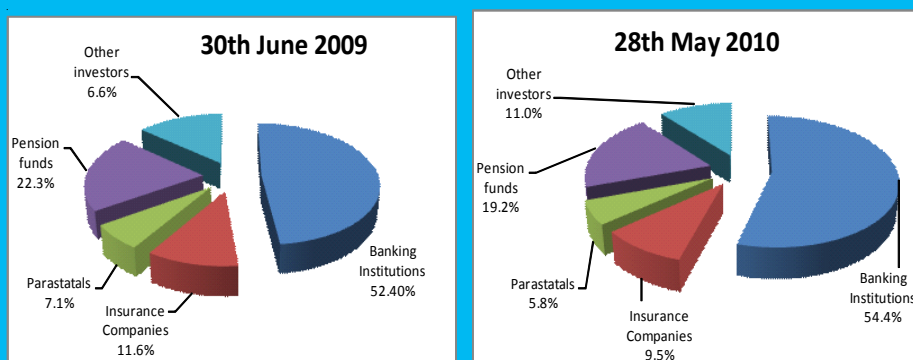


Source: Central Bank of Kenya

Holding of Government Securities

The share of Government securities held by commercial banks and other investors increased from 52.4 percent and 6.6 percent in June 2009 to 54.4 percent and 11.0 percent as at May 28, 2010 respectively. However, holdings of insurance companies, parastatals and pension funds declined from 11.6 percent, 7.1 percent and 22.3 percent, respectively to 9.5 percent, 5.8 percent and 19.2 percent during the same period (Chart E).

Chart E: Composition of Government Securities by Investor

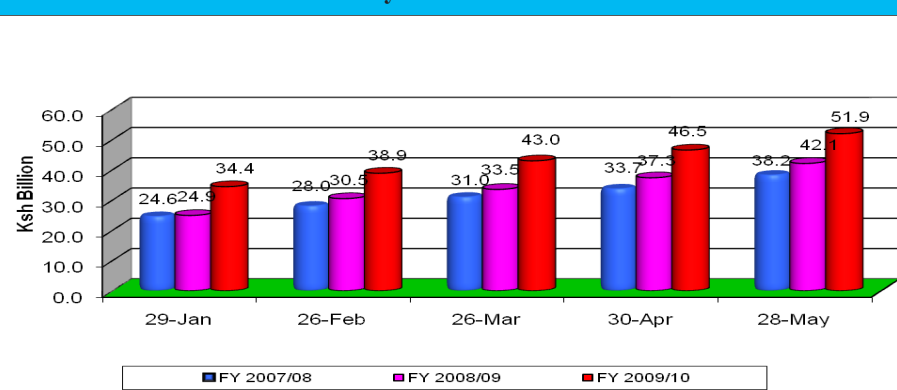


Source: Central Bank of Kenya

Cost of Domestic Borrowing

From 1st July 2009 to 28th, May 2010, cumulative Government expenditure on interest and other charges on domestic debt for the FY 2009/10 amounted to Ksh 51.9 billion, which was higher by Ksh 9.8 billion as compared to a similar period in the fiscal year 2008/09 (Chart E). The interest cost on domestic debt during the period comprised Ksh 40.9 billion in interest and other charges on Treasury bonds, Ksh 10.2 billion in interest and other charges on Treasury bills, and Ksh 0.8 billion in interest on both Government overdraft at Central Bank and the pre-1997 government overdraft. Although the cumulative interest payments are higher compared to similar period of the FY 2008/09, it is within the projected amount of Ksh 58.0 billion for the FY 2009/10.

Chart F: 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 June 3, 2010. Equity turnover decreased by 20.8 percent as stocks worth Ksh 2,281.5 million were traded compared with Ksh 2,880.3 million traded in the previous week. The number of shares traded decreased from 275.7 million in the previous week to 152.5 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 0.8 percent or Ksh. 9.2 billion to close at Ksh 1,080.1 billion in the week under review from Ksh 1,070.9 billion in the previous week. The NSE 20 Share index lost 27.95 points to settle at 4,234.29 points on June 3, 2010 from 4,262.24 points on May 27, 2010. The Nairobi All Share Index gained 0.78 points to settle at 92.65 points on June 3, 2010 from 91.87 points the previous week (Table 7). The mixed performance in the equities market is attributed to wild price swings across various counters and associated speculative tendencies from retail investors. Foreign investors would also be waiting to capitalize on the depreciating exchange rate.

Table 7: Key Weekly Market Statistics

Week Ending	01-Apr-10	08-Apr-10	15-Apr-10	22-Apr-10	29-Apr-10	06-May-10	13-May-10	20-May-10	26-May-10	03-Jun-10
NASI 100= Jan 2008	84.40	85.01	87.91	88.72	90.31	91.26	90.39	92.14	91.87	92.65
NSE 20 Share Index 100=1966	4,072.93	4,062.91	4,099.44	4,181.41	4,270.87	4,270.74	4,251.20	4,306.30	4,262.24	4,234.29
Number of Deals	7,848	7,855	9,728	10,625	12,588	11,193	11,837	11,780	10,121	10,819
Total Shares Traded (millions)	128.70	77.89	97.69	112.65	99.5	143.67	188.92	209.83	275.75	152.46
Equity Turnover (Ksh. millions)	1,405.55	1,294.35	1,368.14	2,201.38	1,684.97	1,807.09	1,998.38	2,160.46	2,880.27	2,281.52
Market Capitalization (Ksh. Bn.)	983.12	989.93	1,023.64	1,033.02	1,051.56	1,062.68	1,053.76	1,074.15	1,070.96	1,080.06
Bonds Turnover (Ksh. millions)	9,737.80	6,216.70	6,222.60	4,339.35	5,922.40	7,865.75	9,309.95	7,630.00	7,342.45	11,766.15

* 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 113.6 million shares and accounted for 74.5 percent of total traded volume. Safaricom traded 110.8 million shares and was the most active stock in the sector. The Finance and Investment sector traded 28.1 million shares and accounted for 18.4 percent of total traded volume. Equity Bank and Co-operative Bank were the most active stocks in the sector, trading 8.4 million and 8.1 million shares, respectively. Industrial and Allied sector traded 10.3 million shares and accounted for 6.8 percent of traded volume. Mumias Sugar Company and KenolKobil were the most active counters, trading 3.1 and 2.0 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond turnover at the Fixed Income Securities Market increased from Ksh 7.3 billion traded in the previous week to Ksh 11.8 billion in the week under review. The increase in bond turnover could be attributed to shift in investors' appetite from the the primary market to the secondary market, following declining yields in the primary market.