

June 11, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

During this week's auctions the Government securities posted performance of 558.7 percent and 424.0 percent for the 182- and 364-day Treasury bills, respectively. The Government had offered for sale 182- day Treasury bills amounting to Ksh 3.0 billion, received bids amounting to Ksh 16.4 billion and accepted bids amounting to Ksh 2.5 billion. During the 364 - days Treasury bills auction, Treasury bills worth Ksh 4.0 billion were on offer; the government received bids amounting to Ksh 16.8 billion and accepted bids amounting to Ksh 4.0 billion. The cut- off rate for the 182- day Treasury bill declined by 70.1 basis points while that of 364 - day Treasury bill declined by 189.1 basis points during this week's auction.

The average interbank declined by 16 basis points to 1.09 percent in the week ending June 10, 2010 from 1.25 percent in the previous week. The decline reflect high liquidity in the interbank market following enhanced Government payments out of deposits held at the Central Bank.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending June 11, 2010. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 81.61 in the week compared with Ksh 79.97 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank decreased to US dollar 3.260 billion (equivalent to 3.42 months of imports) as at June 11, 2010, compared to US dollar 3.284 billion (equivalent to 3.44 months of imports) held on June 4, 2010, reflecting a short-lived revaluation loss during the week.

Government gross domestic debt increased by Ksh 135.2 billion from Ksh 518.3 billion in June 2009 to Ksh 653.6 billion as at June 04, 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 52.3 billion.

Performance at the equities market was mixed during the week.

Government Securities Auction

During this week's auctions the Government securities posted performance of 558.7 percent and 424.0 percent for the 182-day and 364-day Treasury bills, respectively. The Government had offered for sale 182-day Treasury bills amounting to Ksh 3.0 billion during the auction of June 10, 2010 and received bids amounting to Ksh 16.4 billion. At the auction of June 9, 2010, 364-day Treasury bills worth Ksh 4.0 billion were on offer and bids amounting to Ksh 16.8 billion were received.

The Government accepted 182- day Treasury bills bids amounting to Ksh 2.5 billion of which Ksh 2.2 billion were in competitive bids. For the 364-day Treasury bills auction, the Government accepted bids amounting to Ksh 4.0 billion of which Ksh 3.7 billion were in competitive bids. The proceeds of this week's auctions was directed at offsetting part of the cost of redemptions of Government securities that amounted to Ksh 10.5 billion.

Interest Rates on Treasury Bills and Bonds

The 182-day Treasury bill cut-off rate declined by 70.1 basis points from 4.001 percent posted on May 31, 2010 to 3.300 percent while that of the 364-day Treasury bill declined by 189.1 basis points from 6.125 percent posted during the auction of April 19, 2010 to 4.199 percent (Table 1).

Table 1: Interest Rates (%)

Auction date	06-May-10	13-May-10	20-May-10	27-May-10	03-Jun-10	10-Jun-10
91 day T. Bills*	4.498		3.998		3.491	
182 day T. Bills*		4.599		4.001		3.300
364 day T. Bills*						4.199
Month	Nov-09	Dec-00	Jan-10	Feb-10	Mar-10	Apr-10
Average savings rate	1.71	1.73	1.75	1.81	1.81	1.81
Average overdraft rate	14.24	14.13	14.25	14.25	14.06	14.50

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

Source: Central Bank of Kenya

Interbank and REPO Market

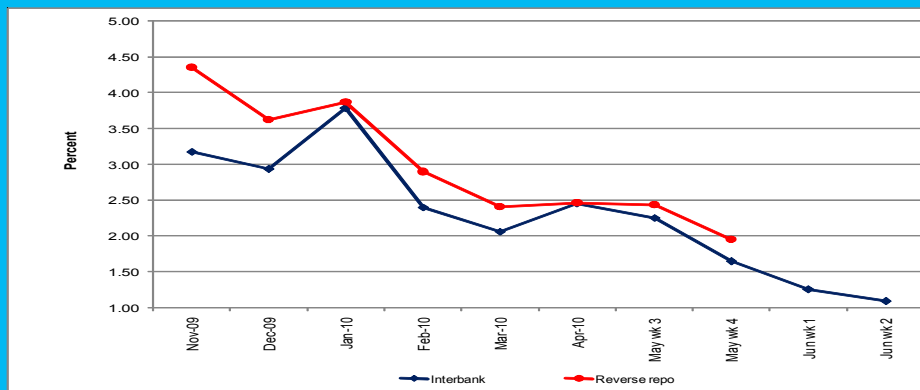
The average interbank declined by 16 basis points to 1.09 percent in the week ending June 10, 2010 from 1.25 percent in the previous week. The volumes traded increased from Ksh 52.5 billion in the previous week to Ksh 69.6 billion in the week ending June 10, 2010. The decline in the interbank rate reflected high liquidity in the money market following enhanced Government payments out of deposits held at the Central Bank.

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
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

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The market was liquid in the week ending June 10, 2010 and the Central Bank stayed out of the money market as shown in Table 3. Reserve money averaged Ksh 193.4 billion during the week and was above target by Ksh 13.0 billion. The excess reserve money was in commercial banks clearing account balances.

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
04-Jun	194.0	180.0	14.0	0.0	0.0	0.0	193.5	13.5	16.4	-3.0
07-Jun	191.7	180.5	14.0	0.0	0.0	0.0	193.7	13.2	15.7	-2.5
08-Jun	192.9	180.5	14.0	0.0	0.0	0.0	194.4	13.9	15.3	-1.4
09-Jun	193.4	180.5	14.0	0.0	0.0	0.0	193.4	12.9	14.7	-1.7
10-Jun	191.7	180.5	14.0	0.0	0.0	0.0	192.0	11.5	13.5	-2.0
Average	192.7	180.4	14.0	0.0	0.0	0.0	193.4	13.0	15.1	-2.1

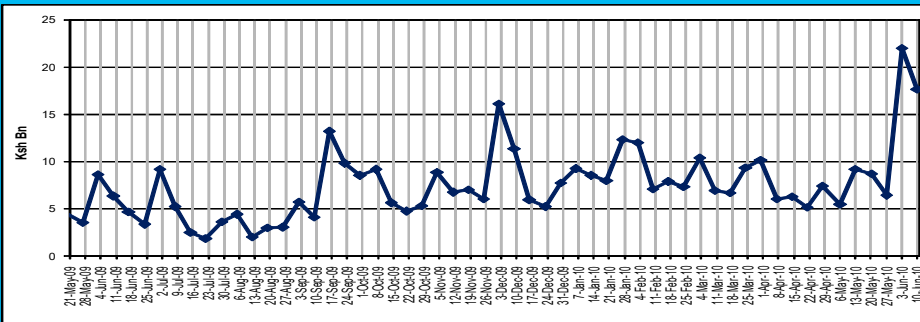
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 17.7 billion in their clearing accounts at the Central Bank in the week to June 10, 2010, compared with Ksh 22.0 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 June 11, 2010 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 81.61 compared with Ksh 79.97 per US dollar in the previous week. During the week, the shilling also depreciated against the Sterling Pound and Japanese Yen to exchange on average at Ksh 118.64 per Sterling Pound and Ksh 89.29 per 100 Japanese Yen compared with Ksh 117.09 per Sterling Pound and Ksh 86.93 per 100 Japanese Yen in the previous week. Against the Euro, the shilling appreciated to exchange at Ksh 97.93 per Euro compared to Ksh 97.98 per Euro in the previous week. The weakening of the Kenya shilling partly reflected developments in the international foreign exchange market that saw the US dollar strengthen against the Euro and the Sterling Pound reflecting a fall in risk appetite across the global markets due to the sovereign debt crisis in the Euro zone. In the domestic market, the Kenya shilling weakened in the beginning of the week amid rising risk aversion globally, increasing demand for the dollar, perceived pre-budget jitters by investors, and the panic buying and risk aversion linked to uncertainty over the Euro economy that has prompted investors to ditch other currencies in favour of the dollar.

Table 4: Kenya Shilling Exchange Rate

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
07-Jun-10	81.56	117.77	97.32	89.38	28.02	17.90
08-Jun-10	82.10	119.09	98.25	89.41	27.92	17.73
09-Jun-10	81.95	118.41	97.92	89.85	27.92	17.72
10-Jun-10	81.75	119.08	98.43	89.72	27.88	17.86
11-Jun-10	80.69	118.84	97.72	88.12	27.85	18.01
June 7- June 11, 2010	81.61	118.64	97.93	89.29	27.92	17.84

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling weakened against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 27.92 per Kenya Shilling and Tsh 17.84 per Kenya Shilling in the week ending June 11, 2010, compared with Ush 28.11 per Kenya Shilling and Tsh 17.89 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 3.260 billion (equivalent to 3.42 months of imports) as at June 11, 2010, compared to US dollar 3.284 billion (equivalent to 3.44 months of imports) held on June 4, 2010, reflecting a short-lived revaluation loss during the week (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	11-Jun-10
Usable Reserves	2,699	3,302	3,392	3,309	3,235	3,224	3,307	3,252	3,284	3,260
Months of Imports Cover*	3.22	3.67	3.71	3.62	3.49	3.43	3.50	3.41	3.44	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\$ 1.3 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 135.2 billion (or 26.1 percent) from Ksh 518.3 billion in June 2009 to Ksh 653.6 billion at June 04, 2010 (Table 6 and Chart D). The growth of domestic debt was on account of increases of Ksh 50.4 billion, Ksh 82.7 billion and Ksh 4.2 billion in Treasury bills (excluding Repos), Treasury bonds and overdraft at CBK, respectively. Other domestic debt declined by Ksh 1.8 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 167.0 billion, Ksh 443.4 billion and Ksh 9.3 billion, respectively as at June 04, 2010. However, other domestic debt declined from Ksh 34.9 billion to Ksh 33.1 billion during the same period while long term stocks remained unchanged.

In view of the above, the share of Treasury bonds in total Government securities declined from 75.4 percent in June 2009 to 72.6 percent as at June 04, 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 the 364-day Treasury bill introduced in August 2009 to replace the 1-year Treasury bond. The 364-day Treasury bill is issued every two months. The average time to maturity of Government domestic debt lengthened from 3 years 6 months in June 2009 to 4 years and 4 month as at June 4, 2010.

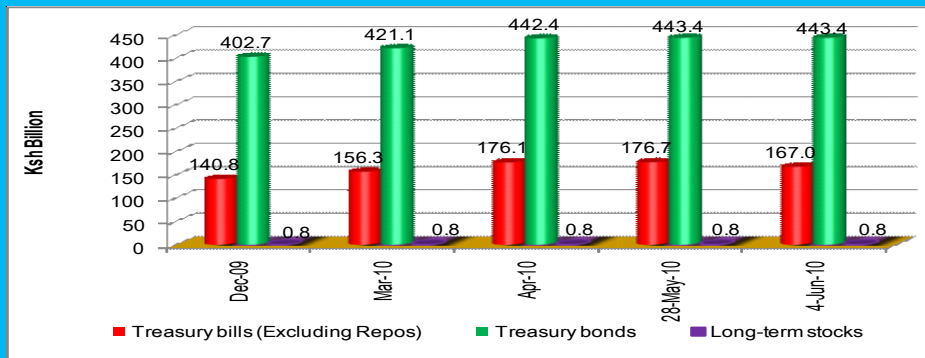
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-09	Sep-09	Dec-09	Mar-10	28th May 2010	4th June 2010	Changes	
							28th May-2010 - 4th June 2010	30th Jun-09 -4th 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	176.7 27.0	167.0 27.3	-9.7 -1.1	50.2 2.9
2. Treasury Bonds (As % of total securities)	360.7 75.4	386.1 78.8	402.7 74.0	421.1 72.8	443.4 71.4	443.4 72.6	0.0 1.1	82.7 -2.9
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	0.8 0.1	0.0 0.0	0.0 0.0
4. Total Securities (1+2+3)	478.3	509.0	544.3	578.2	620.9	611.2	-9.7	132.9
5. Overdraft at Central Bank	5.1	8.0	11.1	5.9	10.2	9.3	-0.9	4.2
6. Other Domestic debt*	34.9	33.6	33.6	33.0	33.1	33.1	0.0	-1.8
7. Gross Domestic Debt (4+5+6)	518.3	550.6	589.0	617.1	664.1	653.6	-10.6	135.2
8. Interest payments on domestic debt (Cumulative in FY)	45.9	13.5	31.2	43.0	51.9	52.3	0.4	

* 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

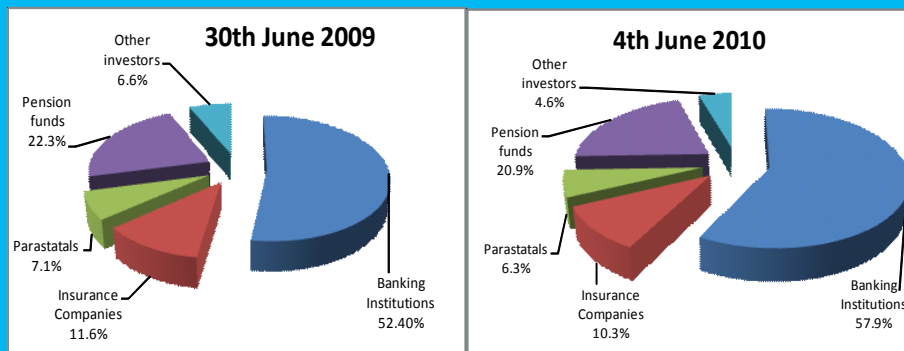


Source: Central Bank of Kenya

Holdings of Government Securities

The holdings of Government securities by commercial banks increased from 52.4 percent in June 2009 to 57.9 percent as at June 04, 2010. Reflecting the enhanced prominence of banks in the Government’s securities market, holdings of insurance companies, parastatals, pension funds and other investors declined (Chart D).

Chart D: Composition of Government Securities by Investor

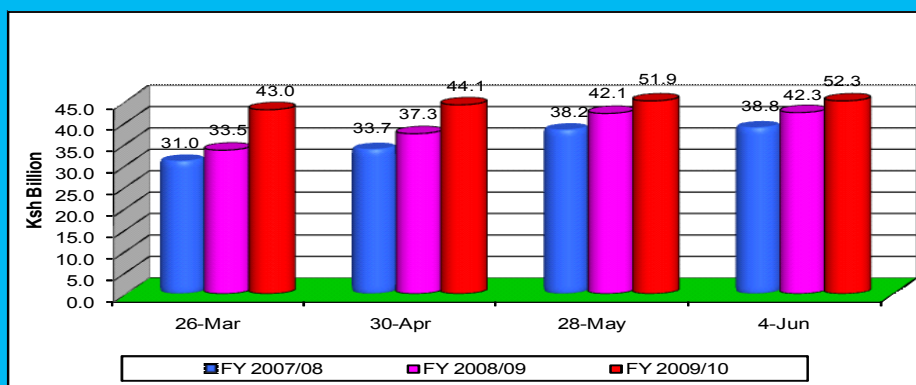


Source: Central Bank of Kenya

Cost of Domestic Borrowing

On account of a relatively larger stock of Government domestic debt, the cumulative Government expenditure on interest and other charges on domestic debt for the period up June 04, 2010 of the FY 2009/10 increased to Ksh 52.3 billion from Ksh 42.3 billion in a similar period in the fiscal year 2008/09 (Chart F). The interest cost on domestic debt during the period under review comprised Ksh 41.1 billion in interest and other charges on Treasury bonds, Ksh 10.4 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 is higher compared to similar period of the FY 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 June 10, 2010. Activity at the equities market declined in both the number of shares traded and turnover (Table 7). Market capitalization as a measure of total shareholders wealth increased by 0.1 percent, or Ksh. 1.2 billion to close at Ksh 1,081.3 billion in the week under review from Ksh 1,080.1 billion in the previous week. While the NSE 20 Share index gained 28.77 points to settle at 4,263.06 points on June 10, 2010 from 4,234.29 points on June 3, 2010, the Nairobi All Share Index gained 0.11 points to settle at 92.76 points on June 10, 2010 from 92.65 points the previous week. The low activity at the equities market is attributed to shift in investor preference to the primary market for Government securities where the treasury bill issues were heavily oversubscribed.

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	10-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	92.76
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	4,263.06
Number of Deals	7,848	7,855	9,728	10,625	12,588	11,193	11,837	11,780	10,121	10,819	11,540
Total Shares Traded (millions)	128.70	77.89	97.69	112.65	99.5	143.67	188.92	209.83	275.75	152.46	80.70
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	1,363.81
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	1,081.34
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	24,498.60

* 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 43.7 million shares and accounted for 54.2 percent of total traded volume. Safaricom traded 41.1 million shares and was the most active stock in the sector. The Finance and Investment sector traded 25.3 million shares and accounted for 31.4 percent of total traded volume. Equity Bank and Co-operative

Bank were the most active stocks in the sector, trading 10.6 million and 4.3 million shares, respectively. Industrial and Allied sector traded 11.2 million shares and accounted for 13.9 percent of traded volume. Mumias Sugar Company and Kenya Power and Lighting Co. were the most active counters, trading 4.3 and 3.7 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond turnover at the Fixed Income Securities Market increased from Ksh 11.8 billion traded in the previous week to Ksh 24.5 billion in the week under review.