

**June 18, 2010**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

During this week's auction the Government offered for sale 91-day Treasury bills amounting to Ksh 2.0 billion and received bids amounting to Ksh 7.6 billion, an oversubscription of 281.9 percent. Bids amounting to Ksh 3.4 billion were accepted. The cut-off rate for the 91-day Treasury bill declined by 86.3 basis points to 2.268 percent.

The average interbank interest rate rose slightly by 2 basis points to 1.11 percent in the week ending June 17, 2010 from 1.09 percent in the previous week.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending June 18, 2010. Against the US dollar, the shilling appreciated to exchange at an average of Ksh 80.67 in the week 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 3.301 billion (equivalent to 3.46 months of imports) as at June 18, 2010, compared to US dollar 3.260 billion (equivalent to 3.42 months of imports) held on June 11, 2010, reflecting a revaluation gain during the week.

The market was liquid in the week ending June 17, 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 137.2 billion from Ksh 518.3 billion in June 2009 to Ksh 655.5 billion as at June 11, 2010. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 53.4 billion.

Performance at the equities market improved during the week. The NSE 20 Share index gained 64.34 points to settle at 4,327.4 points on June 17, 2010, while equity turnover increased by 31.6 percent.

**Government Securities Auction**

During this week's auction the Government securities posted an oversubscription of 281.9 percent. The Government offered for sale 91-day Treasury bills amounting to Ksh 2.0 billion during the auction of June 17, 2010 and received bids amounting to Ksh 7.6 billion. Bids accepted amounted to Ksh 3.4 billion of which Ksh 3.2 billion were in competitive bids. The proceeds of this week's auction were directed at supporting the budget.

**Interest Rates on Treasury Bills and Bonds**

The 91-day Treasury bill cut-off rate declined by 86.3 basis points from 3.491 percent posted on June 03, 2010 to 2.628 percent.

**Table 1: Interest Rates (%)**

Auction date	6-May-10	13-May-10	20-May-10	27-May-10	3-Jun-10	10-Jun-10	17-Jun-10
91 day T. Bills*	4.498		3.998		3.491		2.628
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	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 and REPO Market**

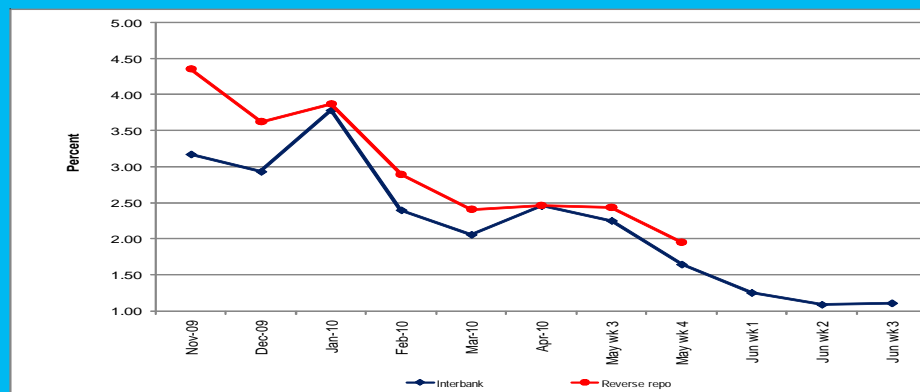
The average interbank interest rate rose slightly by 2 basis points to 1.11 percent in the week ending June 17, 2010 from 1.09 percent in the previous week. The volumes traded declined from Ksh 69.6 billion in the previous week to Ksh 47.7 billion in the week ending June 17, 2010. The stability of the interbank rate during the week reflected the continued high liquidity conditions in the money market. Government deposits at the Central Bank declined to an average of Ksh 43.5 billion in the week ending June 17, 2010 compared with an average of Ksh 52.6 billion in similar period last week.

**Table 2: Interbank Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
<b>June 04 - Jun 10, 2010</b>	<b>456</b>	<b>69,631</b>	<b>1.09</b>
11-Jun-10	97	15,655	1.03
14-Jun-10	75	7,943	1.10
15-Jun-10	87	8,927	1.12
16-Jun-10	69	7,485	1.13
17-Jun-10	89	7,669	1.16
<b>June 11 - June 17, 2010</b>	<b>417</b>	<b>47,678</b>	<b>1.11</b>

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 17, 2010 and the Central Bank stayed out of the money market (Table 3). There were also no reverse repo maturities during the week, and commercial banks did not borrow from the Central Bank overnight window. Reserve money averaged Ksh 200.4 billion during the week and was above target by Ksh 19.6 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=(2-1)	(4)	(5)	6=(5-4)	(8)	9=(10+11)	10	11
11-Jun	192.4	180.5	11.9	0.0	0.0	0.0	193.8	13.3	14.4	-1.0
14-Jun	204.9	180.9	14.0	0.0	0.0	0.0	206.2	25.2	26.1	-0.9
15-Jun	205.0	180.9	14.0	0.0	0.0	0.0	204.2	23.3	24.4	-1.1
16-Jun	204.0	180.9	14.0	0.0	0.0	0.0	203.5	22.5	25.0	-2.4
17-Jun	201.3	180.9	14.0	0.0	0.0	0.0	194.6	13.7	16.4	-2.7
Average	201.5	180.8	13.6	0.0	0.0	0.0	200.4	19.6	21.3	-1.6

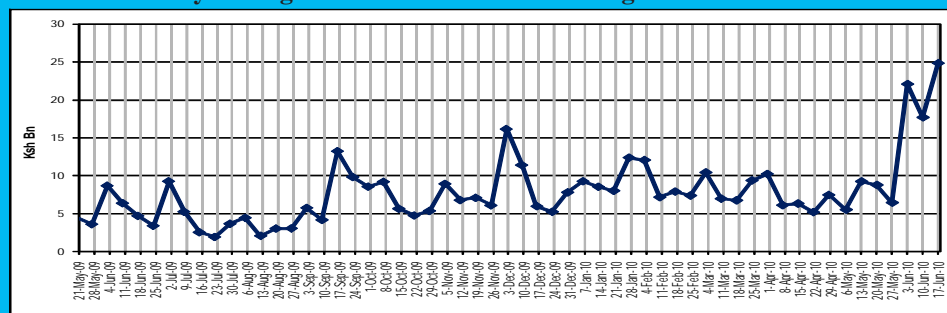
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial Banks Clearing Account Balances**

Commercial banks maintained an average of Ksh 24.8 billion in their clearing accounts at the Central Bank in the week to June 17, 2010, compared with Ksh 17.7 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 18, 2010 (Table 4). Against the US dollar, the shilling appreciated to exchange at Ksh 80.67 compared with Ksh 81.61 per US dollar in the previous week. The shilling also appreciated against Japanese Yen to exchange on average at Ksh 88.30 per 100 Japanese Yen in the week compared with Ksh 89.29 per 100 Japanese Yen in the previous week. Against the Sterling Pound and the Euro, the shilling depreciated to exchange at Ksh 118.93 and Ksh 99.02, respectively, compared with Ksh 118.64 per Sterling Pound and Ksh 97.93 per Euro in the previous week. The movement partly reflected developments in the international foreign exchange market that saw the US Dollar weakening against both the euro and the sterling pound as risk aversion subsided allowing investors to move to hold more risky assets.

**Table 4: Kenya Shilling Exchange Rate**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
<b>June 7- June 11, 2010</b>	<b>81.61</b>	<b>118.64</b>	<b>97.93</b>	<b>89.29</b>	<b>27.92</b>	<b>17.84</b>
14-Jun-10	80.68	118.14	98.41	87.80	27.66	18.01
15-Jun-10	80.70	118.78	98.39	88.38	27.85	18.03
16-Jun-10	80.55	119.35	99.28	88.04	27.86	18.09
17-Jun-10	80.72	118.69	99.07	88.40	27.99	18.24
18-Jun-10	80.71	119.69	99.97	88.90	27.96	18.15
<b>June 14- June 18, 2010</b>	<b>80.67</b>	<b>118.93</b>	<b>99.02</b>	<b>88.30</b>	<b>27.86</b>	<b>18.10</b>

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling marginally weakened against the Uganda Shilling, but strengthened against the Tanzania Shilling to exchange at Ush 27.86 per Kenya Shilling and Tsh 18.10 per Kenya Shilling in the week ending June 18, 2010, compared with Ush 27.92 per Kenya Shilling and Tsh 17.84 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 3.301 billion (equivalent to 3.46 months of imports) as at June 18, 2010, compared to US dollar 3.260 billion (equivalent to 3.42 months of imports) held on June 11, 2010, reflecting a revaluation gain during the week (Table 5).

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

	21-May-09	31-Dec-09	26-Feb-10	26-Mar-10	30-Apr-10	27-May-10	11-Jun-10	18-Jun-10
Usable Reserves	2,699	3,309	3,235	3,224	3,307	3,252	3,260	3,301
Months of Imports Cover*	3.22	3.62	3.49	3.43	3.50	3.41	3.42	3.46

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

## Government Domestic Debt

Government gross domestic debt grew by Ksh 137.2 billion from Ksh 518.3 billion in June 2009 to Ksh 655.5 billion at June 11, 2010 (Table 6 and Chart C). The growth of domestic debt was on account of increases of Ksh 52.2 billion, Ksh 82.7 billion and Ksh 3.3 billion in Treasury bills (excluding Repos), Treasury bonds and overdraft at Central Bank, respectively. Other domestic debt declined by Ksh 1.0 billion during the same period.

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 169.0 billion, Ksh 443.4 billion and Ksh 8.4 billion, respectively, as at June 11, 2010. However, other domestic debt declined from Ksh 34.9 billion to Ksh 33.9 billion during the same period, and 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 72.3 percent as at June 11, 2010, while that of Treasury bills increased from 24.4 percent to 27.6 percent. The increase in the share of Treasury bills in total Government securities was largely on account of introduction of the 364-day Treasury bill in August 2009 to replace the 1-year Treasury bond. These developments resulted in the lengthening of the average time to maturity of Government domestic debt from 3 years 6 months in June 2009 to 4 years and 4 months as at June 11, 2010.

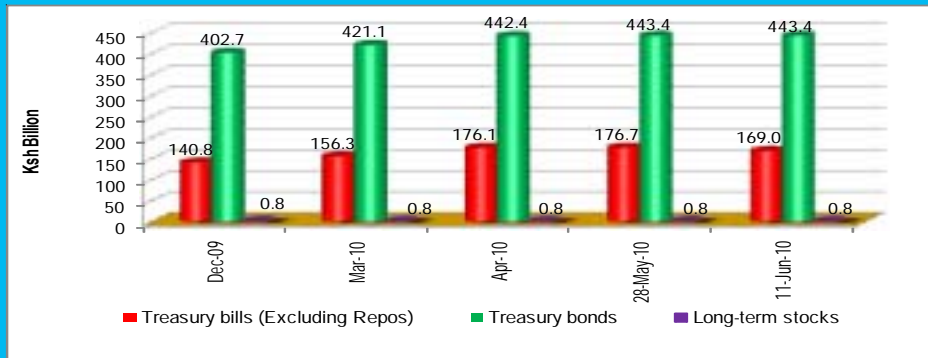
**Table 6: Government Domestic Debt (Ksh Billion)**

	Jun-09	Sep-09	Dec-09	Mar-10	4th June 2010	11th June 2010	Changes	
							4th June-2010 - 11th June-2010	30th Jun-09 - 11th 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	167.0 27.3	169.0 27.6	2.1 0.2	52.2 3.1
2. Treasury Bonds (As % of total securities)	360.7 75.4	386.1 75.8	402.7 74.0	421.1 72.8	443.4 72.6	443.4 72.3	0.0 -0.2	82.7 -3.1
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	611.2	613.2	2.1	134.9
5. Overdraft at Central Bank	5.1	8.0	11.1	5.9	9.3	8.4	-0.9	3.3
6. Other Domestic debt*	34.9	33.6	33.6	33.0	33.1	33.9	0.8	-1.0
7. Gross Domestic Debt (4+5+6)	518.3	550.6	589.0	617.1	653.6	655.5	1.9	137.2
8. Interest payments on domestic debt	45.9	13.5	31.2	43.0	52.3	53.4	1.1	

\* 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

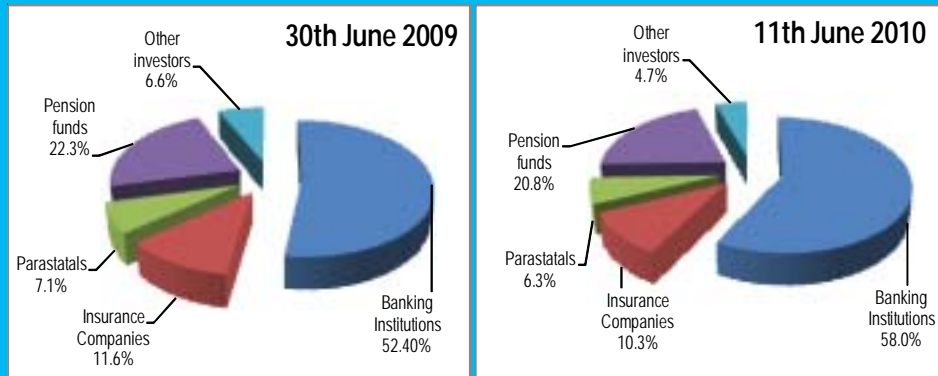


Source: Central Bank of Kenya

**Holdings of Government Securities**

The holdings of Government securities by commercial banks increased from 52.4 percent in June 2009 to 58.0 percent as at June 11, 2010. However, holdings by 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 10.3 percent, 6.3 percent, 20.8 percent and 4.7 percent during the same period (Chart D).

Chart D: Composition of Government Securities by Investor

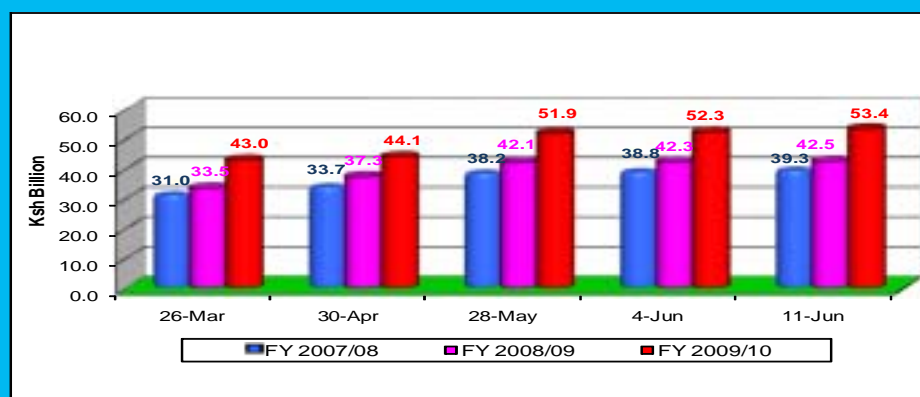


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

The cumulative Government expenditure on interest and other charges on domestic debt for the period up June 11 2010 of the fiscal year 2009/10 amounted to Ksh 53.4 billion compared with Ksh 42.5 billion in a similar period in the fiscal year 2008/09 (Chart E). The interest cost on domestic debt during the period comprised Ksh 42.1 billion in interest and other charges on Treasury bonds, Ksh 10.5 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 is higher compared to similar period of the fiscal year 2008/09, it is within the projected amount of Ksh 58.0 billion.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

## The Stock Market

Performance at the equities market improved during the week ending June 17, 2010. Equity turnover increased by 31.7 percent as stocks worth Ksh 1,795 million were traded compared with Ksh 1,364 million traded in the previous week. The number of shares traded increased from 80.7 million in the previous week to 89.3 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 1.8 percent or Ksh. 19 billion to close at Ksh 1,100.3 billion in the week under review from Ksh 1,081.3 billion in the previous week. The NSE 20 Share index gained 64.34 points to settle at 4,327.4 points on June 17, 2010 from 4,263.06 points on June 10, 2010. The Nairobi All Share Index gained 1.63 points to settle at 94.39 points on June 17, 2010 from 92.76 points the previous week (Table 7). The improved performance in the equities market could be attributed to increased trading in the Equity Bank and Kenya Commercial Bank counters ahead of the share rights issue.

Table 7: Key Weekly Market Statistics

Week Ending	29-Apr-10	06-May-10	13-May-10	20-May-10	26-May-10	03-Jun-10	10-Jun-10	17-Jun-10
NASI 100= Jan 2008	90.31	91.26	90.39	92.14	91.87	92.65	92.76	94.39
NSE 20 Share Index 100=1966	4,270.87	4,270.74	4,251.20	4,306.30	4,262.24	4,234.29	4,263.06	4,327.40
Number of Deals	12,588	11,193	11,837	11,780	10,121	10,819	11,540	10,890
Total Shares Traded (millions)	99.5	143.67	188.92	209.83	275.75	152.46	80.70	89.31
Equity Turnover (Ksh. millions)	1,684.97	1,807.09	1,998.38	2,160.46	2,880.27	2,281.52	1,363.81	1,794.53
Market Capitalization (Ksh. Bn.)	1,051.56	1,062.68	1,053.76	1,074.15	1,070.96	1,080.06	1,081.34	1,100.32
Bonds Turnover (Ksh. millions)	5,922.40	7,865.75	9,309.95	7,630.00	7,342.45	11,766.15	24,498.60	23,520.65

\* 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 40.2 million shares and accounted for 45.0 percent of total traded volume. Safaricom traded 36.9 million shares and was the most active stock in the sector. The Finance and Investment sector traded 34.1 million shares and accounted for 38.1 percent

of total traded volume. Equity Bank and Kenya Commercial Bank were the most active stocks in the sector, trading 11.1 million and 9.9 million shares, respectively. Industrial and Allied sector traded 14.0 million shares and accounted for 15.7 percent of traded volume. Mumias Sugar Company and Kenya Power and Lighting Co. were the most active counters, trading 5.4 and 4.4 million shares, respectively. The other sectors had minimal trading.

**The Bond  
Market**

Bond turnover at the Fixed Income Securities Market declined from Ksh 24.5 billion traded in the previous week to Ksh 23.5 billion in the week under review. The decline in bond turnover could be attributed to shift in investors' appetite from the secondary market to equities and primary offers.