

June 25, 2010



## THE CBK WEEKLY BULLETIN

### Highlights for the Week

During this week's auctions, the Government securities posted oversubscriptions of 188.0 percent and 261.0 percent for the 182-day Treasury bill and 25-year Treasury bond, respectively. The Government offered for sale a 182-day Treasury bill amounting to Ksh 3.0 billion, received bids amounting to Ksh 8.6 billion and accepted bids amounting to ksh 3.2 billion. For the 25-year Treasury bond Kshs 7.5 billion were offered, bids worth Ksh 27.1 billion were received, and the total amount offered was accepted. The cut-off rate for the 25-year Treasury bond settled at 10.458 percent while that of the 182-day Treasury bill declined by 85.0 basis points to settle at 2.450 percent during this week's auctions.

The average interbank interest rate rose slightly by 8 basis points to 1.19 percent in the week ending June 24, 2010 from 1.11 percent in the previous week.

The Kenya Shilling weakened against all the major international currencies during the week ending June 25, 2010. Against the US dollar, the shilling exchanged at Ksh 80.94 per US dollar compared with Ksh 80.67 in the previous week, driven by increased end month dollar demand by the importers.

The Central Bank holdings of official usable foreign exchange reserves increased to US\$ 3.310 billion (equivalent to 3.47 months of imports) as at June 25, 2010 compared to US\$ 3.301 billion (equivalent to 3.46 months of imports) as at June 18, 2010.

The market was liquid in the week ending June 24, 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 131.1 billion from Ksh 518.3 billion in June 2009 to Ksh 649.5 billion as at June 18, 2010. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 54.1 billion.

Performance at the equities market declined during the week ending June 24, 2010. The NSE 20 Share index dropped 17.9 points to settle at 4,309.51 from 4,327.4 points on June 17, 2010, while equity turnover declined by 5.3 percent owing to price declines in some counters.

**Government Securities Auction**

During this week's auctions, the Government securities performed at 288.0 percent and 361.0 percent for the 182-day Treasury bill and 25-year Treasury bond, respectively.

The Government offered for sale 182-day Treasury bills amounting to Ksh 3.0 billion during the auction of June 24, 2010 and received bids amounting to Ksh 8.6 billion. The Government accepted bids amounting to Ksh 3.2 billion of which Ksh 2.9 billion were in competitive bids. At the auction of June 23, 2010, a 25-year Treasury bond worth Ksh 7.5 billion was on offer and bids amounting to Ksh 27.1 billion were received. Bids amounting to Ksh 7.5 billion were accepted, of which 6.3 were in competitive bids.

The proceeds of this week's auctions was adequate to cover the cost of redemptions of Government securities maturities amounting to Ksh 10.4 billion falling due during the week and provide government additional borrowing amounting to Ksh472.0 million.

**Interest Rates on Treasury Bills and Bonds**

The 182-day Treasury bill cut-off rate declined by 85.0 basis points from 3.300 percent posted on June 10, 2010 to 2.450 percent. The cut-off rate for the 25-year Treasury bond settled at 10.458 percent (Table 1).

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

Auction date	13-May-10	20-May-10	27-May-10	03-Jun-10	10-Jun-10	17-Jun-10	24-Jun-10
91 day T. Bills*		3.998		3.491		2.628	
182 day T. Bills*	4.599		4.001		3.300		2.450
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**

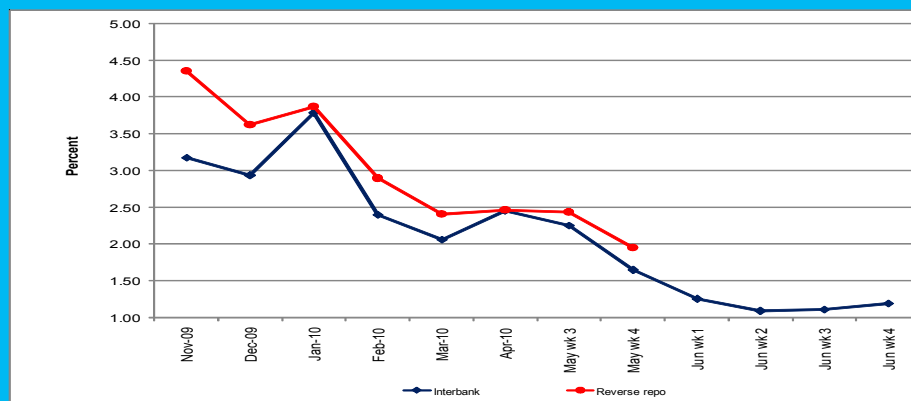
The average interbank rate rose by 8 basis points to 1.19 percent in the week ending June 24, 2010 from 1.11 percent in the previous week. The volumes traded increased from Ksh 47.7 billion in the previous week to Ksh 51.2 billion in the week ending June 24, 2010. The Government deposits at the Central Bank picked from an average of Ksh 52.7 bn in the week ending June 17, and rose to Ksh 69.9 bn by June 21, 2010. As the week progressed, Government deposits declined to an average of Ksh 52.2 billion in the week ending June 24, 2010.

**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	97	8,327	1.12
16-Jun-10	69	7,455	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>
18-Jun-10	97	11,657	1.13
21-Jun-10	91	10,396	1.14
22-Jun-10	88	12,300	1.16
23-Jun-10	84	9,047	1.26
24-Jun-10	71	7,810	1.28
<b>June 18 - June 24, 2010</b>	<b>431</b>	<b>51,208</b>	<b>1.19</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 24, 2010 and the Central Bank stayed out of the money market as shown in Table 3. There were no reverse repo maturities during the week. Commercial banks borrowed a total of Ksh 4,167 million from Central Bank overnight window during the week. Reserve money averaged Ksh 193.3 billion during the week and was above target by Ksh 12.0 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
18-Jun	190.0	180.9	11.9	0.0	0.0	0.0	191.1	10.2	14.4	-2.8
21-Jun	187.2	181.4	14.0	0.0	0.0	0.0	187.1	5.7	26.1	-3.0
22-Jun	186.9	181.4	14.0	0.0	0.0	0.0	189.2	7.9	24.4	-2.5
23-Jun	196.0	181.4	14.0	0.0	0.0	0.0	197.5	16.1	25.0	-2.4
24-Jun	200.4	181.4	14.0	0.0	0.0	0.0	201.4	20.0	16.4	-2.6
Average	192.1	181.3	13.6	0.0	0.0	0.0	193.3	12.0	21.3	-2.6

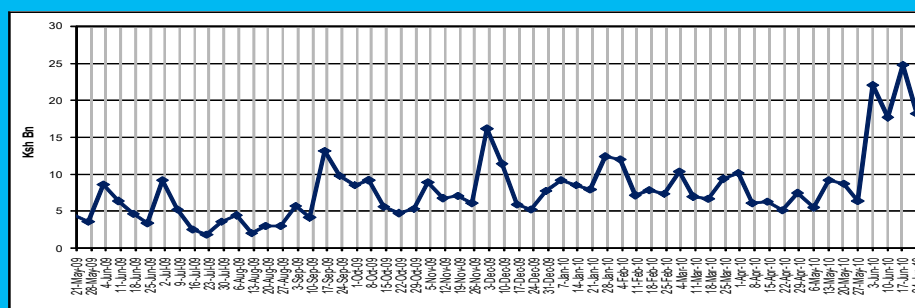
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial Banks Clearing Account Balances**

Commercial banks maintained an average of Ksh 18.2 billion in their clearing accounts at the Central Bank in the week to June 24, 2010, compared with Ksh 24.8 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 weakened against all the major international currencies during the week ending June 25, 2010 (Table 4). Against the US dollar, the shilling weakened to exchange at Ksh 80.94 per US dollar compared with Ksh 80.67 per US dollar in the previous week, driven by increased end month dollar demand by the importers. The shilling also weakened against the Sterling Pound and the Euro to exchange respectively, at Ksh 120.49 per Sterling Pound and Ksh 99.86 per Euro compared with Ksh 118.93 per Sterling Pound and Ksh 99.02 per Euro in the previous week. Both the Sterling pound and the Euro strengthened against the US dollar in the international foreign exchange market over the period. Against the Japanese Yen, the shilling traded at 89.68 per 100 Japanese Yen during the same period compared with Ksh 88.30 per 100 Japanese Yen in the previous week.

**Table 4: Kenya Shilling Exchange Rate**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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>
21-Jun-10	80.53	120.11	100.26	88.79	27.97	18.22
22-Jun-10	80.64	118.89	99.24	88.83	27.97	18.11
23-Jun-10	80.99	120.13	99.36	89.62	27.84	18.09
24-Jun-10	80.94	121.25	99.83	90.07	27.73	18.07
25-Jun-10	81.62	122.08	100.62	91.12	27.62	17.92
<b>June 21- June 25, 2010</b>	<b>80.94</b>	<b>120.49</b>	<b>99.86</b>	<b>89.68</b>	<b>27.82</b>	<b>18.08</b>

*Source: Central Bank of Kenya*

In the regional scene, the Kenya Shilling weakened against both the Uganda Shilling and the Tanzanian Shilling. It exchanged at Ush 27.82 per Kenya Shilling and Tsh 18.08 per Kenya Shilling in the week ending June 25, 2010 compared with Ush 27.86 per Kenya Shilling and Tsh 18.10 per Kenya Shilling in the previous week.

**Foreign Exchange Reserves**

The Central Bank holdings of official usable foreign exchange reserves increased to US\$ 3.310 billion (equivalent to 3.47 months of imports) as at June 25, 2010 compared to US\$ 3.301 billion (equivalent to 3.46 months of imports) as at June 18, 2010 (Table 5). The increase in reserves was mainly the result of foreign exchange purchases by the Bank from the interbank market during the week (Table 5)

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

	25-May-09	31-Dec-09	26-Feb-10	26-Mar-10	30-Apr-10	27-May-10	18-Jun-10	25-Jun-10
Usable Reserves	2,717	3,309	3,235	3,224	3,307	3,252	3,301	3,310
Months of Imports Cover*	3.24	3.62	3.49	3.43	3.50	3.41	3.46	3.47

\*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 131.1 billion from Ksh 518.3 billion in June 2009 to Ksh 649.5 billion as at June 18, 2010 (Table 6 and Chart D). The growth of domestic debt was on account of increases of Ksh 45.6 billion, Ksh 80.9 billion and Ksh 5.4 billion in Treasury bills (excluding Repos), Treasury bonds and overdraft at Central Bank, respectively. Other domestic debt declined by Ksh 0.7 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 162.4 billion, Ksh 441.6 billion and Ksh 10.6 billion, respectively as at June 18, 2010. However, other domestic debt declined from Ksh 34.9 billion to Ksh 34.2 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 73.0 percent as at June 18, 2010, while that of Treasury bills increased from 24.4 percent to 26.8 percent. The increase in the share of Treasury bills in total Government securities was largely due to the introduction of the 364-day Treasury bill in August 2009 to replace the 1-year Treasury bond. These developments resulted in 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 18, 2010.

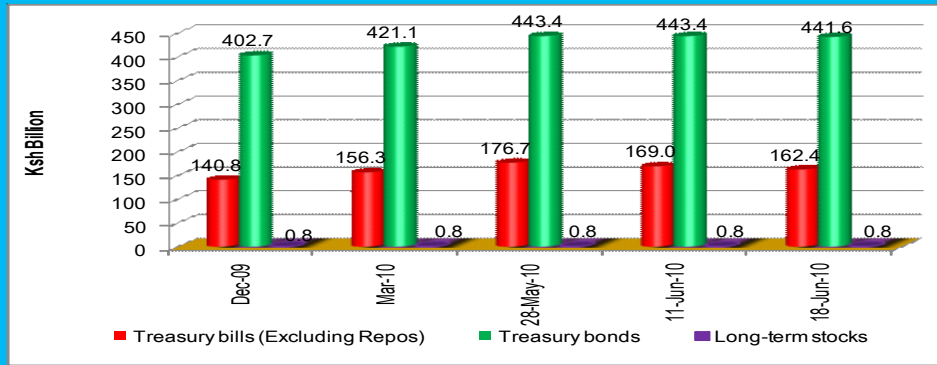
**Table 6: Government Domestic Debt (Ksh Billion)**

	Jun-09	Sep-09	Dec-09	Mar-10	11th June 2010	18th June 2010	Changes	
							11th June-2010 - 18th June-2010	30th Jun-09 -18th 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	169.0 27.6	162.4 26.8	-6.7 -0.7	45.6 2.4
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 72.3	441.6 73.0	-1.8 0.7	80.9 -2.4
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	613.2	604.7	-8.5	126.4
5. Overdraft at Central Bank	5.1	8.0	11.1	5.9	8.4	10.6	2.2	5.4
6. Other Domestic debt*	34.9	33.6	33.6	33.0	33.9	34.2	0.3	-0.7
7. Gross Domestic Debt (4+5+6)	518.3	550.6	589.0	617.1	655.5	649.5	-6.0	131.1
8. Interest payments on domestic debt (Cumulative in FY)	45.9	13.5	31.2	43.0	53.4	54.1	0.7	

\* 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**

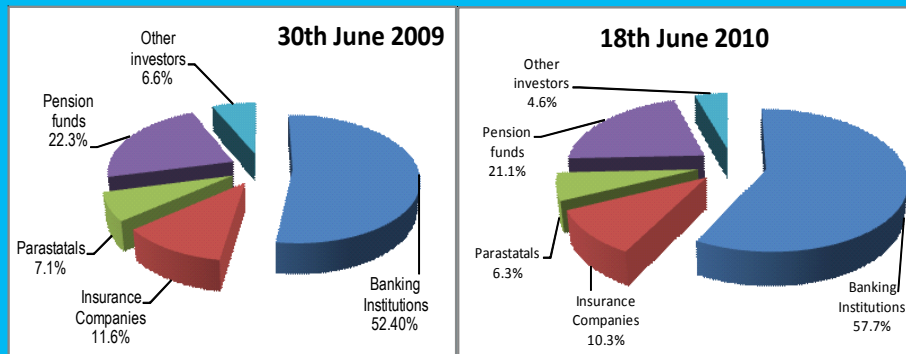


Source: Central Bank of Kenya

**Holdings of Government Securities**

The holdings of Government securities by commercial banks increased from 52.4 percent in June 2009 to 57.7 percent as at June 18, 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, 21.1 percent and 4.6 percent during the same period (Chart D).

**Chart D: Composition of Government Securities by Investor**



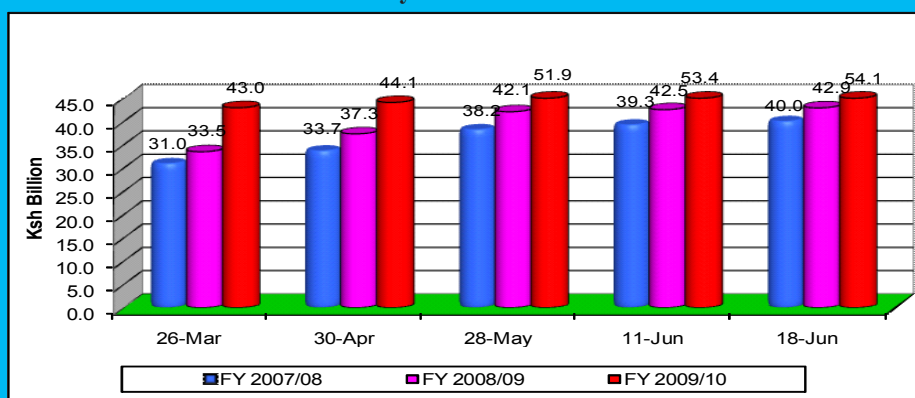
Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

The cumulative Government expenditure on interest and other charges on domestic debt for the period up June 18, 2010 of the FY 2009/10 amounted to Ksh 54.1 billion compared with Ksh 42.9 billion in a similar period in the fiscal year 2008/09 (Chart F). The interest cost on domestic debt during the period comprised Ksh 42.4 billion in interest and other charges on Treasury bonds, Ksh 10.9 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 FY 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 declined during the week ending June 24, 2010. Turnover declined by 5.3 percent as stocks worth Ksh 1699 million were traded compared with Ksh 1794 million traded in the previous week. The number of shares traded however increased from 89.3 million in the previous week to 94.5 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 0.6 percent or Ksh. 6.8 billion to close at Ksh 1,107 billion in the week under review from Ksh 1,100 billion in the previous week. The NSE 20 Share index lost 17.9 points to settle at 4309.5 points on June 24, 2010 from 4327 points on June 17, 2010. The Nairobi All Share Index gained marginally to settle at 94.59 points from 94.39 points the previous week (Table 7). Several companies including Safaricom, Jubilee Insurance, Kenya Re and Kapchorua Tea made corporate announcements on various issues such as acquisition, quarter results that elicited market reactions.

**Table 7: Key Weekly Market Statistics**

Week Ending	06-May-10	13-May-10	20-May-10	26-May-10	03-Jun-10	10-Jun-10	17-Jun-10	24-Jun-10
NASI 100= Jan 2008	91.26	90.39	92.14	91.87	92.65	92.76	94.39	94.59
NSE 20 Share Index 100=1966	4,270.74	4,251.20	4,306.30	4,262.24	4,234.29	4,263.06	4,327.40	4,309.51
Number of Deals	11,193	11,837	11,780	10,121	10,819	11,540	10,890	11,435
Total Shares Traded (millions)	143.67	188.92	209.83	275.75	152.46	80.70	89.31	94.46
Equity Turnover (Ksh. millions)	1,807.09	1,998.38	2,160.46	2,880.27	2,281.52	1,363.81	1,794.53	1,699.56
Market Capitalization (Ksh. Bn.)	1,062.68	1,053.76	1,074.15	1,070.96	1,080.06	1,081.34	1,100.32	1,107.12
Bonds Turnover (Ksh. millions)	7,865.75	9,309.95	7,630.00	7,342.45	11,766.15	24,498.60	23,520.65	25,115.20

\* 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 47.3 million shares and accounted for half of the total traded volume with Safaricom trading 42.7 million shares in the sector. The Finance and Investment sector traded 33.5 million shares and accounted for 35.4 percent of total traded volume. Equity Bank and Cooperative Bank were the most active stocks in the sector, trading 12.3 million and 11.2 million shares, respectively. Industrial and Allied sector traded 13.2 million shares and accounted for 14 percent of traded volume. Mumias Sugar Company was the most active counter, trading 4.6 million shares. The Alternative market segment trade 40,000 shares.

**The Bond Market**

Bond turnover at the Fixed Income Securities Market improved from Ksh 23.5 billion traded in the previous week to Ksh 25.1 billion in the week under review. The mix of primary bond trading and the equities market performance coupled with declining short term interest rates contributed factors to the improved secondary bond trading.