

March 5, 2010



THE CBK WEEKLY BULLETIN

**Highlights for
the Week**

The 12-month overall inflation rate was 5.2 percent, while the annual average rate, on the other hand stood at 9.3 percent in February 2010. Kenya National Bureau of Statistics revised the basket of goods and services used for computing the CPI in line with findings of the 2005/06 Kenya Integrated Household Budget Survey (KIHBS).

The Government securities market registered a performance of 191.7 percent in this week's 182-day treasury bills auction. The 182-day Treasury bills cut-off interest rate was 6.497 percent.

The average interbank rate declined by 11 basis points in the week ending March 4, 2010 to 2.18 percent from 2.29 percent the previous week.

The Kenya Shilling strengthened against the US dollar and the Sterling Pound but weakened against the Euro and the Japanese Yen during the week ending March 5, 2010. Against the US dollar, the shilling exchanged at an average of Ksh 76.85 per US dollar in the week ending March 5, 2010 compared with Ksh 76.91 per US dollar in the previous week.

Official usable foreign exchange reserves held by the Central Bank increased from US\$ 2,626 million (equivalent to 3.18 months of imports) as at March 5, 2009 to US\$ 3,216 million (equivalent to 3.47 months of imports) as at March 5, 2010.

Central Bank injected a total of Ksh 10.8 billion during the week ending March 3, 2010 against reverse repo maturities worth Ksh 12.8 billion.

Government gross domestic debt increased by Ksh 89.7 billion from Ksh 518.3 billion in June 2009 to Ksh 608.1 billion as at February 26, 2010. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 36.0 billion.

Performance at the equities market was mixed during the week. Equity turnover increased by 10.2 percent, market capitalization increased by 1.6 percent, while the NSE 20 Share index gained 48.24 points to settle at 3,675.5 points on March 4, 2010.

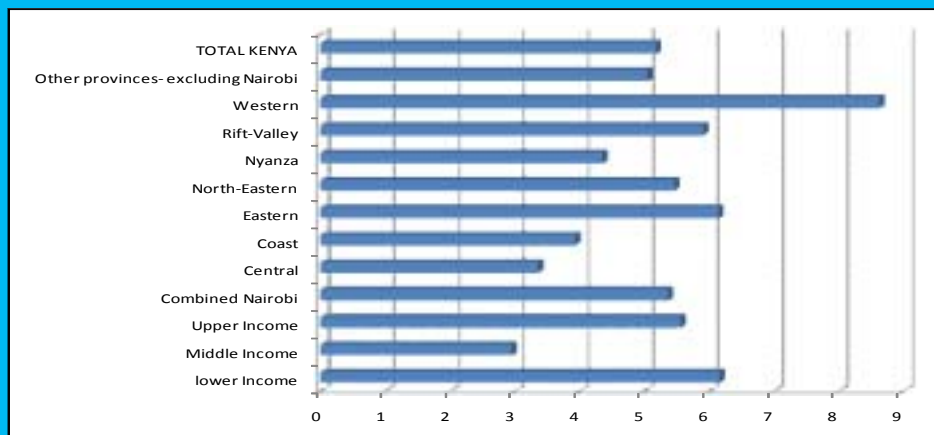
Inflation

Overall 12-month inflation rate was 5.2 percent in February 2010, while the annual average inflation was 9.3 percent in February, 2010.

The Kenya National Bureau of Statistics expanded its coverage of CPI from just a few selected towns to cover all the eight provinces, thus giving a much better reflection of price movements in the country. This resulted in 12-month inflation rates for February 2010 of 5.4 percent, 3.4 percent, 3.9 percent, 6.1 percent, 5.5 percent, 4.4 percent, 5.9 percent, and 8.6 percent for the Nairobi, Central, Coast, Eastern, North-eastern, Nyanza, Rift-valley and Western provinces, respectively. Western province experienced the highest inflation rate of 8.6 percent, while Central province had the lowest inflation rate of 3.4 percent in February, 2010. The high inflation rate for Western province reflected higher prices of food, alcoholic beverages, clothing and footwear and health in the region.

The food and non-alcoholic beverages, and the alcoholic beverages indices went up in February 2010. This resulted from a net increase in the prices of food items such as tomatoes, rice, cabbages and pawpaws. Prices of milk and maize, however, fell during the month.

Chart A: 12-Month Overall Inflation- February 2010 (Percent)



Source: Central Bank of Kenya

Government Securities Auction

The Government securities market posted an impressive performance, registering 191.7 percent in this week's auction of the 182-day treasury bills. The Government offered for sale Treasury bills worth Ksh 8.5 billion and received bids totalling Ksh 16.3 billion. A total of Ksh 8.6 billion were accepted, of which 88.7 percent were in competitive bids.

Interest Rates on Treasury Bills

The 182-day Treasury bills cut-off rate dropped by 10.2 basis points from 6.599 percent in the previous auction of 182-day treasury bills to 6.497 percent during this week's auction. (Table 1)

Table 1: Interest Rates

Auction date	07-Jan-10	14-Jan-10	21-Jan-10	28-Jan-10	04-Feb-10	11-Feb-10	18-Feb-10	25-Feb-10	04-Mar-10
Average 91 day T. Bills*		6.502		6.401		6.199		6.248	
Average 182 day T. Bills*	7.136		7.000		6.700		6.599		6.497
Average 364 day T. Bills*					7.552				
Month	Sep-09	Oct-09	Nov-09	Dec-10	Dec-10				
Average savings rate	1.65	1.85	1.71	1.73					
Average overdraft rate	13.76	14.03	14.24	14.13					

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

Source: Central Bank of Kenya

Interbank and REPO Market

The average interbank interest rate declined by 11 basis points in the week ending March 4, 2010 to 2.18 percent compared with the previous week at 2.29 percent. The volumes traded also declined in the week from Ksh 63.7 billion in the previous week to Ksh 55.7 billion in the week ending March 4, 2010 (Table 2).

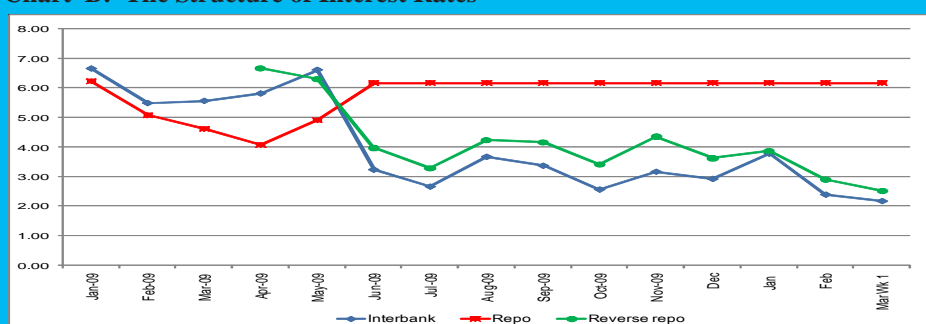
Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
19-Feb-10	95	10,543	2.29
22-Feb-10	95	10,720	2.28
23-Feb-10	118	15,916	2.30
24-Feb-10	107	16,100	2.31
25-Feb-10	86	10,445	2.30
Feb 19 - Feb 25, 2010	501	63,723	2.29
26-Feb-10	73	9,477	2.03
01-Mar-10	88	11,591	2.17
02-Mar-10	87	12,788	2.21
03-Mar-10	66	11,959	2.23
04-Mar-10	72	9,890	2.25
Feb 26 - Mar 4, 2010	386	55,705	2.18

Source: Central Bank of Kenya

The reverse repo rate, on the other hand, rose by 2 basis points from 2.50 percent in the previous week to 2.52 percent in the week ending March 4, 2010 (Chart B).

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The market was tight in the week ending March 3, 2010. Consequently, the Central Bank injected a total of Ksh 10.8 billion into the market (Table 3). Reverse repo maturities amounted to Ksh 2.5 billion during the week under review. Reserve money averaged Ksh 175.3 billion during the week and was below target by Ksh 0.1 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
25-Feb	175.7	175.2	0.4	0.0	0.0	0.0	176.0	0.8	12.7	-11.9
26-Feb	176.1	175.2	0.8	0.0	0.0	0.0	176.4	1.2	12.6	-11.4
01-Mar	158.3	175.4	-17.1	11.0	10.8	-0.2	172.2	-3.2	7.6	-10.8
02-Mar	175.0	175.4	-0.4	0.0	0.0	0.0	174.1	-1.3	7.8	-9.1
03-Mar	176.9	175.4	1.5	0.0	0.0	0.0	177.6	2.2	10.9	-8.7
Average	172.4	175.3	-2.9	2.2	2.2	0.0	175.3	-0.1	10.3	-10.4

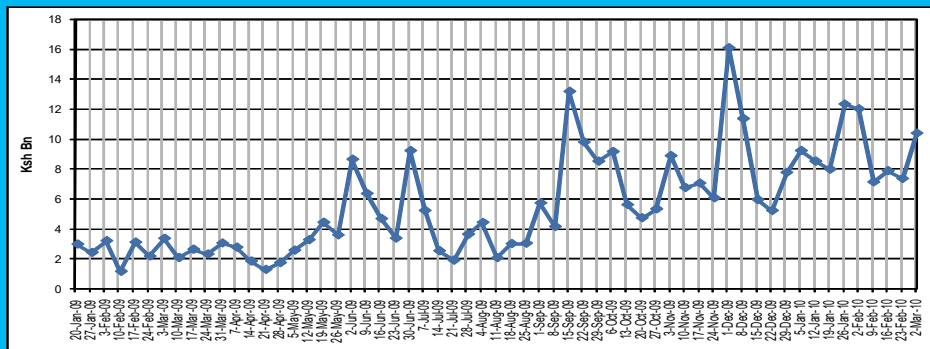
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 10.4 billion in their clearing accounts at the Central Bank in the week to March 3, 2010, compared with Ksh 7.4 billion held in the previous week (Chart C).

Chart C: 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 Sterling Pound, but weakened against the Euro and the Japanese Yen during the week ending March 5, 2010. Against the US dollar, the shilling strengthened to exchange at an average of Ksh 76.85 per US dollar in the week ending March 5, 2010 compared with Ksh 76.91 per US dollar in the week ending February 26, 2010, supported by agriculture sector foreign exchange inflows amid subdued forex demand. The shilling also strengthened against the Sterling Pound to exchange at Ksh 115.52 per Sterling Pound compared with Ksh 118.58 per Sterling Pound in the previous week. Against the Euro and the Japanese Yen, the Shilling weakened to exchange at Ksh 104.66 per Euro and Ksh 86.35 per 100 Japanese Yen in the week ending March 5, 2010, compared with Ksh 104.47 per Euro and Ksh 85.07 per 100 Japanese Yen in the previous week (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
22-Feb-10	76.78	118.98	105.13	83.90	26.06	17.56
23-Feb-10	76.84	119.24	104.68	84.25	26.12	17.59
24-Feb-10	76.97	118.94	104.24	85.10	26.05	17.60
25-Feb-10	77.06	118.20	103.79	85.96	26.28	17.62
26-Feb-10	76.90	117.53	104.48	86.13	26.61	17.71
Feb 22-26, 2010	76.91	118.58	104.47	85.07	26.22	17.62
01-Mar-10	76.81	116.29	104.47	86.14	26.66	17.70
02-Mar-10	76.94	114.27	104.70	86.17	26.65	17.59
03-Mar-10	76.89	115.68	104.84	86.55	26.75	17.58
04-Mar-10	76.85	115.91	105.04	86.92	26.65	17.63
05-Mar-10	76.74	115.45	104.24	85.96	26.78	17.63
Mar 01-05, 2010	76.85	115.52	104.66	86.35	26.70	17.62

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling strengthened against the Uganda Shilling to exchange at Ush 26.70 per Kenya Shilling in the week ending March 5, 2010 compared with Ush 26.22 per Kenya Shilling in the week ending February 26, 2009. It remained stable against the Tanzanian Shilling at Tsh 17.62 per Kenya Shilling.

Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank increased from US\$ 2,626 million (equivalent to 3.18 months of imports) as at March 5, 2009 to US\$ 3,216 million (equivalent to 3.47 months of imports) as at March 5, 2010 (Table 5). This accumulation in reserves was predominantly through purchases from domestic foreign exchange market.

Commercial banks foreign exchange reserves, which are largely used by the private sector to meet external financial obligations, stood at US\$ 1,470 million as at end January 2010 compared with US\$ 1,579 million as at end January 2009.

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

	05-Mar-09	31-Jul-09	31-Aug-09	30-Sep-09	30-Oct-09	30-Nov-09	31-Dec-09	26-Feb-10	05-Mar-10
Usable Reserves	2,626	3,097	3,154	3,243	3,302	3,392	3,309	3,235	3,216
Months of Imports Cover*	3.18	3.52	3.54	3.67	3.67	3.71	3.62	3.49	3.47
Months of Imports Cover**	2.63	3.12	3.18	3.27	3.33	3.40	3.58	3.51	3.49

*Based on 36 month average of imports of goods and non-factor services

**Based on current year's average imports of goods and non-factor services

Source: Central Bank of Kenya

Government Domestic Debt

Government gross domestic debt increased from Ksh 518.3 billion in June 2009 to Ksh 608.1 billion as at February 26, 2010 (Table 6 and Chart D). This followed net increases of Ksh 37.5 billion, Ksh 47.3 billion and Ksh 6.3 billion in Treasury bills (excluding Repos), Treasury bonds and Overdraft at the Central bank, respectively. Other domestic debt, however, decreased by Ksh 1.3 billion during the same period.

Treasury bills and Treasury bonds went up from Ksh 116.8 billion and Ksh 360.7 billion in June 2009 to Ksh 254.3 billion and Ksh 408.0 billion, respectively as at February 26, 2010. Long term stocks remained unchanged at Ksh 0.8 billion during the period.

Following these developments, the proportion of Treasury bonds in total Government securities declined from 75.4 percent in June 2009 to 72.5 percent as at February 26, 2010, while that of Treasury bills increased from 24.4 percent to 27.4 percent during the same period. Despite the decline in the proportion of Treasury bonds in the total stock of Government securities, the maturity profile of Government securities improved to 4 years and 1 month compared to 3 years 9 months in June 2009.

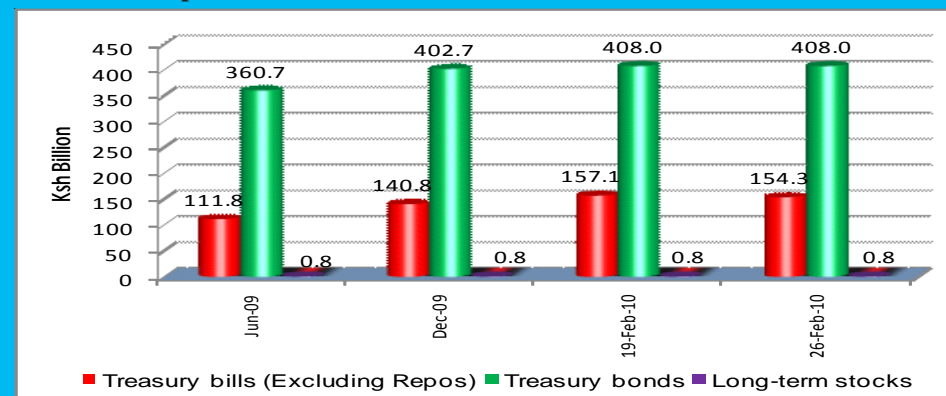
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-09	Sep-09	Dec-09	Jan-10	12th Feb 2010	19th Feb 2010	26th Jan 2010	Changes	
								19th Feb-2010 - 26th Feb-2010	30th Jun-09 - 26th Feb-2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	116.8 24.4	122.2 24.0	140.8 25.9	141.7 26.3	148.7 26.5	157.1 27.8	154.3 27.4	-2.8 -0.4	37.5 3.0
2. Treasury Bonds (As % of total securities)	360.7 75.4	386.1 75.8	402.7 74.0	395.5 73.5	412.4 73.4	408.0 72.1	408.0 72.5	0.0 0.4	47.3 -3.0
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	0.8 0.1	0.0 0.0	0.0 0.0
4. Total Securities (1+2+3)	478.3	509.0	544.3	537.9	561.8	565.8	563.1	-2.8	84.8
5. Overdraft at Central Bank	5.1	8.0	11.1	9.2	0.5	5.9	11.4	5.6	6.3
6. Other Domestic debt*	34.9	33.6	33.6	33.6	33.6	33.6	33.6	0.0	-1.3
7. Gross Domestic Debt (4+5+6)	518.3	550.6	589.0	580.7	596.0	605.3	608.1	2.7	89.7
8. Interest payments on domestic debt (Cumulative in FY)	45.9	13.5	31.2	34.4	34.9	35.3	36.0	0.7	

* Other domestic debt includes Pre-1997 Government Overdraft, clearing items in transit, advances from commercial banks and TRCs.

Source: Central Bank of Kenya

Chart D: Composition of Government Securities

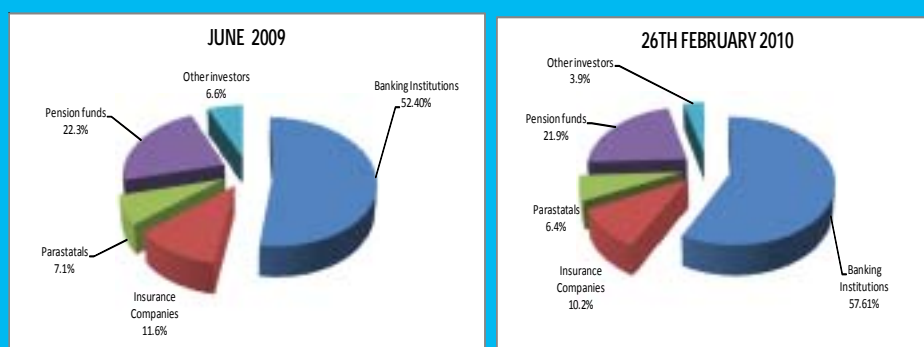


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by commercial banks increased from 52.4 percent in June 2009 to 57.6 percent as at February 26, 2010, while those of pension funds declined marginally from 22.3 percent to 21.8 percent during the same period. Similarly, holdings by insurance companies, parastatals and other investors declined from 11.6 percent, 7.1 percent and 6.6 percent, respectively, to 10.2 percent, 6.4 percent and 4.0 percent during the same period (Chart E).

Chart E: Composition of Government Securities by Investor

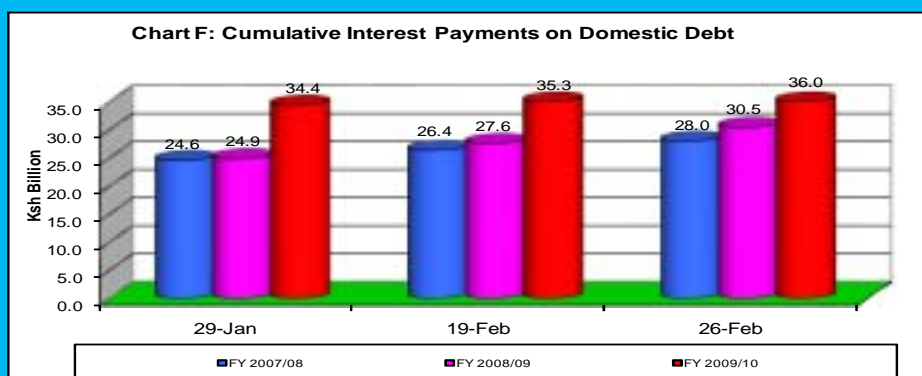


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative Government expenditure on interest and other charges on domestic debt for the fiscal year 2009/10 up to February 26, 2010 amounted to Ksh 36.0 billion compared with Ksh 30.7 billion in a similar period in the previous fiscal year (Chart F). The interest cost on domestic debt during the period comprised Ksh 27.2 billion in interest and other charges on Treasury bonds, Ksh 8.0 billion in interest and other charges on Treasury bills, and Ksh 0.8 billion in interest on both the Government overdraft at the Central Bank and the pre-1997 government overdraft.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

There was mixed performance at the equities market during the week ending March 4, 2010. Equity turnover increased by 10.2 percent as stocks worth Ksh 1,157.0 million were traded compared with Ksh 1,050.1 million traded in the previous week. The number of shares traded decreased from 95.8 million in the previous week to 91.2 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 1.6 percent or Ksh 14.5 billion to close at Ksh 936.2 billion in the week under review from Ksh 921.8 billion in the previous week. The NSE 20 Share index gained 48.24 points to settle at 3,675.5 points on March 4, 2010 from 3,627.3 points on February 25, 2010. The Nairobi All Share Index gained 1.25 points to settle at 80.41 points on March 4, 2010 (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	07-Jan-10	14-Jan-10	21-Jan-10	28-Jan-10	04-Feb-10	11-Feb-10	18-Feb-10	25-Feb-10	04-Mar-10
NASI 100= Jan 2008	73.62	78.14	79.99	78.95	79.75	78.83	78.13	79.16	80.41
NSE 20 Share Index 100=1966	3,282.58	3,426.41	3,628.53	3,572.39	3,584.24	3,591.02	3,536.72	3,627.30	3,675.54
Number of Deals	4,768	9,220	11,851	9,778	9,009	9,141	8,434	8,574	8,286
Total Shares Traded (millions)	39.58	206.97	234.03	112.05	125.24	85.31	52.91	95.77	91.21
Equity Turnover (Ksh. millions)	423.97	1,609.24	2,679.64	1,483.18	1,231.59	1,201.37	722.69	1,050.09	1,157.02
Market Capitalization (Ksh. Bn.)	857.25	909.84	931.47	919.35	928.75	918.00	909.91	921.77	936.22
Bonds Turnover (Ksh. millions)	2,448.65	3,986.35	6,946.70	11,381.60	10,316.60	13,131.70	10,730.55	7,393.45	15,917.65

* 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 55.5 million shares and accounted for 60.9 percent of total traded volume. Safaricom traded 52.9 million shares and was the most active stock in the sector. The Finance and Investment sector traded 23.5 million shares and accounted for 25.8 percent of total traded volume. Equity Bank Limited and Cooperative Bank Limited were the most active stocks in the sector, trading 5.8 million and 9.1 million shares, respectively. Industrial and Allied sector traded 10.5 million shares and accounted for 11.5 percent of traded volume. KenolKobil and Mumias Sugar Company were the most active counters, trading 1.0 million and 6.1 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond market trading increased at the Fixed Income Securities Market during the week. Bond turnover increased as bonds worth Ksh 15.9 billion were traded compared with Ksh 7.4 billion traded in the previous week.