

May 7, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The overall 12-month inflation declined from 12.4 percent in April 2009 to 3.7 percent in April 2010 following easing out of drought conditions towards the end of 2009. Favourable weather conditions continue to prevail since the beginning of 2010. Similarly, the annual average inflation rate declined from 16.7 percent in April 2009 to 6.3 percent in April 2010. However, inflation picked up by 0.6 percent in April 2010 compared to decline of 0.2 percent in March 2010. The inflation in April 2010 was largely in the food and non alcoholic beverages component where the average price increased by 1.2 percent.

During this week's auction, the Government securities posted oversubscription of 35.4 percent. The Government had offered for sale 91-day Treasury bills amounting to Ksh 3.5 billion, received bids amounting to Ksh 4.7 billion and accepted bids amounting to Ksh 4.0 billion. The cut-off rate for the 91-day Treasury bill declined by 40.2 basis points to settle at 4.498 percent from 4.900 percent posted in the previous auction.

The average interbank rate increased slightly by 6 basis points to 2.61 percent in the week ending May 6, 2010 from 2.55 percent in the previous week. The reverse repo rate rose by 8 basis points from 2.53 percent in the previous week up to 2.61 percent in the week ending May 6, 2010

To ease the liquidity tightness in the money market, the Central Bank injected a total of Ksh 17.6 billion through reverse repo purchases during the week ending May 5, 2010. Reverse repo maturities amounted to Ksh 24.4 billion during the week.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending May 7, 2010. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 77.53 in the week ending May 7, 2010 compared with Ksh 77.32 per US dollar in the previous week.

Reflecting foreign exchange purchases, the usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.34 billion (equivalent to 3.53 months of imports) as at May 7, 2010, compared to US dollar 3.31 billion (equivalent to 3.50 months of imports) held on April 30, 2010.

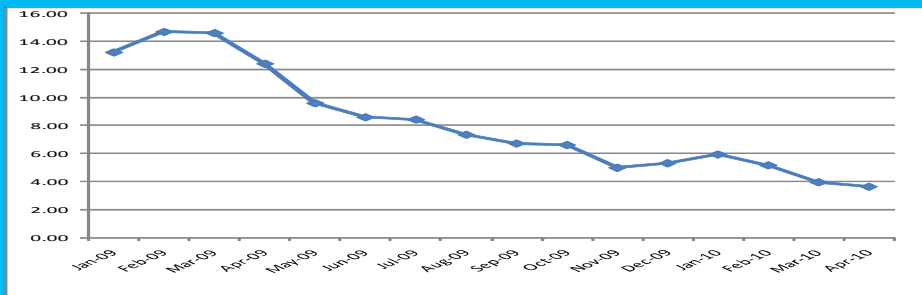
Government gross domestic debt increased by Ksh 135.2 billion from Ksh 518.3 billion in June 2009 to Ksh 653.6 billion at the end of April 2010 of the FY 2009/10. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 49.0 billion.

Performance at the equities market improved during the week. The NSE 20 Share index remained stable to settle at 4,270.74 points on May 6, 2010 compared to 4270.87 points on April 29, 2010.

Inflation

Overall 12-month inflation was 3.7 percent in April 2010, a decline equivalent to 8.8 percent from 12.4 percent in April 2009 (Chart A). The downward trend which has persisted for over a year was attributed to declining price levels of virtually all the CPI categories of goods and services during the period. The food and non-alcoholic beverages basket experienced the largest decline, from 17.4 percent in April 2009 to 3.8 percent in April 2010 owing to the increase in availability of food following the rainfall experienced in most parts of the country towards the end of 2009 through to April 2010. Other significant decreases were in the restaurants and hotels, health and furnishings, household equipment and routine household maintenance baskets, which declined by 8.7 percent, 7.2 percent and 5.8 percent, respectively. The 12-month inflation rates for all income groups fell in April 2010 from the March 2010 position with the exception of the “Nairobi upper” income group’s inflation, which though stable was the highest at 6.3 percent. The “Nairobi lower”, “Nairobi middle” and “Other provinces excluding Nairobi” all experienced declining 12-month inflation from 4.1 percent, 2.9 percent and 4.0 percent in March 2010 to 4.0 percent, 2.6 percent and 3.6 percent in April 2010, respectively. Despite the overall decline in inflation, April 2010 experienced a rising CPI on account of increases in the prices of food items including tomatoes, onions and beef, among others, which outweighed the declining prices of items such as milk, kales and potatoes. The annual average inflation rate declined from 16.7 percent in April 2009 to 6.3 percent in April 2010.

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



Source: Central Bank of Kenya

Government Securities Auction

During this week’s auction, the Government securities posted good performance of 135.4 percent. The Government had offered for sale 91-day Treasury bills amounting to Ksh 3.5 billion during the auction of May 6, 2010 and received bids amounting to Ksh 4.7 billion.

The Government accepted Treasury bills bids amounting to Ksh 4.0 billion of which Ksh 3.6 billion (or 90.0 percent) were in competitive bids. The proceeds of this week's auction will be used to support the budget.

Interest Rates on Treasury Bills

During this week's auction, the cut-off rate for the 91-day Treasury bill declined by 40.2 basis points from 4.900 percent posted on April 26 2010 to 4.498 percent.

Interbank and REPO Market

The average interbank rate increased slightly by 6 basis points to 2.61 percent in the week ending May 6, 2010 from 2.55 percent in the previous week (Table 1). The volumes traded increased from Ksh 51.7 billion in the previous week to Ksh 77.3 billion in the week ending May 6, 2010 (Table 2).

Table 1: Interest Rates

	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr wk 4	May wk 1
Interbank	3.17	2.93	3.79	2.40	2.06	2.55	2.61
Repo							
Reverse repo	4.36	3.63	3.87	2.90	2.41	2.53	2.61

Source: Central Bank of Kenya

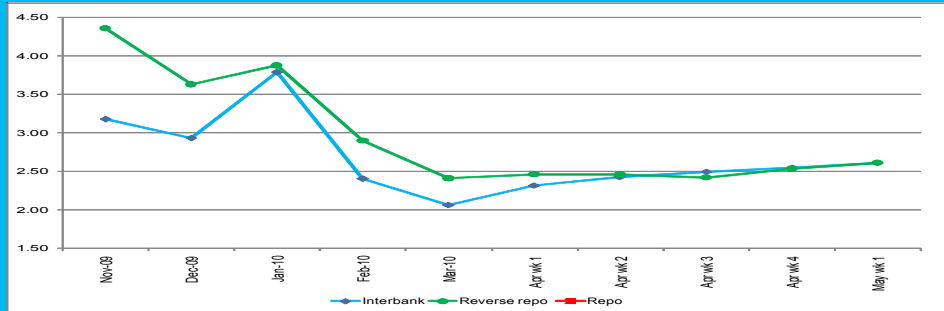
Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
Apr 16 - 22, 2010	343	51,826	2.49
23-Apr-10	61	8,852	2.50
26-Apr-10	64	8,499	2.57
27-Apr-10	68	11,421	2.55
28-Apr-10	69	10,059	2.56
29-Apr-10	72	12,832	2.57
Apr 23 - 29, 2010	334	51,663	2.55
30-Apr-10	76	15,936	2.55
03-May-10	78	14,519	2.60
04-May-10	85	14,575	2.60
05-May-10	79	15,148	2.64
06-May-10	75	17,049	2.67
Apr 30 - May 06, 2010	393	77,227	2.61

Source: Central Bank of Kenya

The reverse repo rate rose by 8 basis points from 2.53 percent in the previous week up to 2.61 percent in the week ending May 6, 2010 (Table 1 and 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 May 5, 2010 and the Central Bank injected a total of Ksh 17.6 billion as shown in Table 3. There were reverse repo maturities of Ksh 24.4 billion and commercial banks borrowed Ksh 280 million from the overnight window during the week. Reserve money averaged Ksh 177.8 billion during the week and was below target by Ksh 0.2 billion (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
29-Apr	176.0	177.7	-1.8	0.0	0.0	0.0	176.9	-0.8	3.2	-4.0
30-Apr	175.5	177.7	-2.2	1.0	2.6	1.6	179.0	1.3	4.6	-3.4
03-May	165.2	178.2	-13.0	12.0	12.0	0.0	178.0	-0.2	3.9	-4.1
04-May	175.7	178.2	-2.5	3.0	3.0	0.0	177.8	-0.4	2.3	-2.7
05-May	179.8	178.2	1.6	0.0	0.0	0.0	177.2	-1.0	0.8	-1.8
Average	174.4	178.0	-3.6	3.2	3.5	0.3	177.8	-0.2	3.0	-3.2

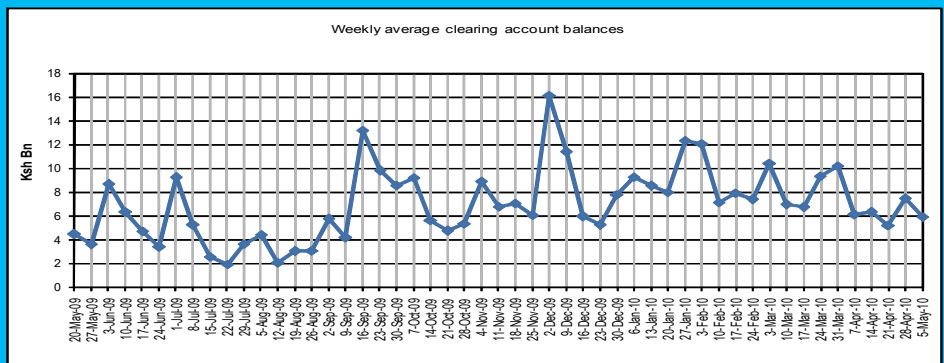
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 5.9 billion in their clearing accounts at the Central Bank in the week to May 5, 2010, compared with Ksh 7.4 billion held 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 on average depicted mixed performance against the major international currencies during the week ending May 7, 2010 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 77.53 compared with Ksh 77.32 per US dollar in the previous week. During the week, the shilling depreciated against the Japanese Yen to exchange at Ksh 82.55 per 100 Japanese Yen compared with Ksh 82.40 per 100 Japanese Yen. Against the Sterling Pound and the Euro, the shilling appreciated to exchange at Ksh 116.94 per Sterling Pound and Ksh 100.58 per Euro compared with Ksh 118.60 per Sterling Pound and Ksh 102.74 per Euro in the previous week.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
26-Apr-10	77.30	119.63	103.42	82.16	26.91	17.79
27-Apr-10	77.33	119.35	103.37	82.37	27.00	17.84
28-Apr-10	77.34	118.10	102.17	82.95	27.04	17.84
29-Apr-10	77.35	117.19	102.27	82.31	27.28	17.83
30-Apr-10	77.27	118.71	102.45	82.18	27.62	17.90
April 26- April 30, 2010	77.32	118.60	102.74	82.40	27.17	17.84
03-May-10	77.16	117.68	102.15	82.07	27.42	17.98
04-May-10	77.23	117.64	101.82	81.36	27.33	18.09
05-May-10	77.42	117.31	100.46	81.60	27.43	17.99
06-May-10	77.75	117.23	99.39	82.91	27.48	17.90
07-May-10	78.09	114.83	99.09	84.82	27.47	17.83
May 03- May 07, 2010	77.53	116.94	100.58	82.55	27.42	17.96

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling strengthened marginally against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 27.42 per Kenya Shilling and Tsh 17.96 per Kenya Shilling in the week ending May 7, 2010, compared with Ush 27.17 per Kenya Shilling and Tsh 17.84 per Kenya Shilling in the previous week.

**Foreign
Exchange
Reserves**

Usable official foreign exchange reserves held by the Central Bank stood at US dollar 3.34billion (equivalent to 3.53 months of imports) as at May 7, 2010, compared to US dollar 3.31 billion (equivalent to 3.50 months of imports) on April 30, 2010 (Table 5).

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

	09-Apr-09	30-Oct-09	30-Nov-09	31-Dec-09	26-Feb-10	26-Mar-10	30-Apr-10	07-May-10
Usable Reserves	2,623	3,302	3,392	3,309	3,235	3,224	3,307	3,336
Months of Imports Cover*	3.13	3.67	3.71	3.62	3.49	3.43	3.50	3.53

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

Source: Central Bank of Kenya

Commercial banks foreign exchange reserves, which are largely used by the private sector to meet external financial obligations, stood at US\$ 1.43 billion as at end of March 2010 compared with US\$ 1.61 billion as at end March 2009.

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 the end of April 2010 (Table 6 and Chart D). The increase was as a result of increases of Ksh 59.3 billion and Ksh 81.6 billion in Treasury bills (excluding Repos) and Treasury bonds, respectively. However, these increases were partly offset by decreases of Ksh 4.0 billion and Ksh 1.7 billion in overdraft at the Central Bank of Kenya (CBK) and other domestic debt, respectively.

Treasury bills and Treasury bonds increased from Ksh 116.8 billion and 360.7 billion in June 2009 to Ksh 176.1 billion and Ksh 442.4 billion, respectively at the end of April 2010. However, Government overdraft at CBK and other domestic debt declined during the period, while long term stocks remained unchanged during the period.

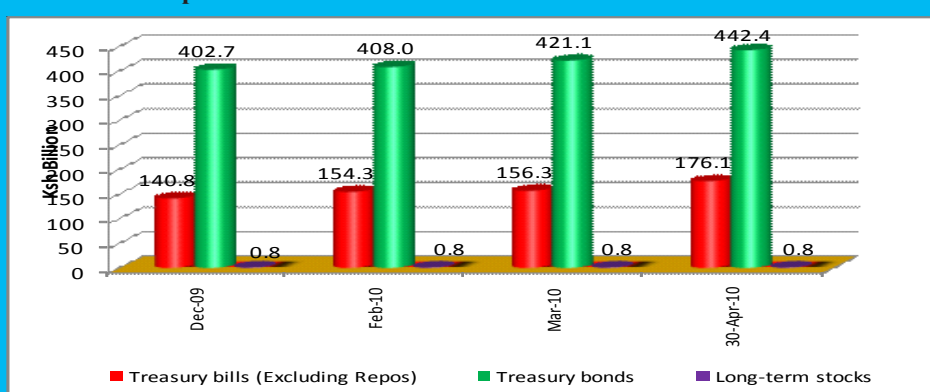
Following these developments, the share of Treasury bonds in total Government securities declined from 75.4 percent in June 2009 to 71.4 percent as at the end of April 2010, while that of Treasury bills increased from 24.4 percent to 28.4 percent which resulted to the maturity profile of Government securities standing at 4 years and 3 months compared to 3 years and 7 months in June 2009.

Table 6: Government Domestic Debt (Ksh Billion)

	Jun-09	Sep-09	Dec-09	26th Mar 2010	23rd April 2010	30th April 2010	Changes	
							23rd April-2010 - 30th April-2010	30th Jun-09 -30th Apr-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	171.3 28.1	176.1 28.4	4.8 0.3	59.3 4.0
2. Treasury Bonds (As % of total securities)	360.7 75.4	386.1 75.8	402.7 74.0	421.1 72.8	437.5 71.8	442.4 71.4	4.9 -0.3	81.6 -4.0
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	0.0 0.0	0.0 0.0
4. Total Securities (1+2+3)	478.3	509.0	544.3	578.2	609.5	619.2	9.7	141.0
5. Overdraft at Central Bank	5.1	8.0	11.1	5.9	0.0	1.1	1.1	-4.0
6. Other Domestic debt*	34.9	33.6	33.6	33.0	33.0	33.2	0.2	-1.7
7. Gross Domestic Debt (4+5+6)	518.3	550.6	589.0	617.1	642.6	653.6	11.0	135.2
8. Interest payments on domestic debt (Cumulative in FY)	45.9	13.5	31.2	43.0	48.6	49.0	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

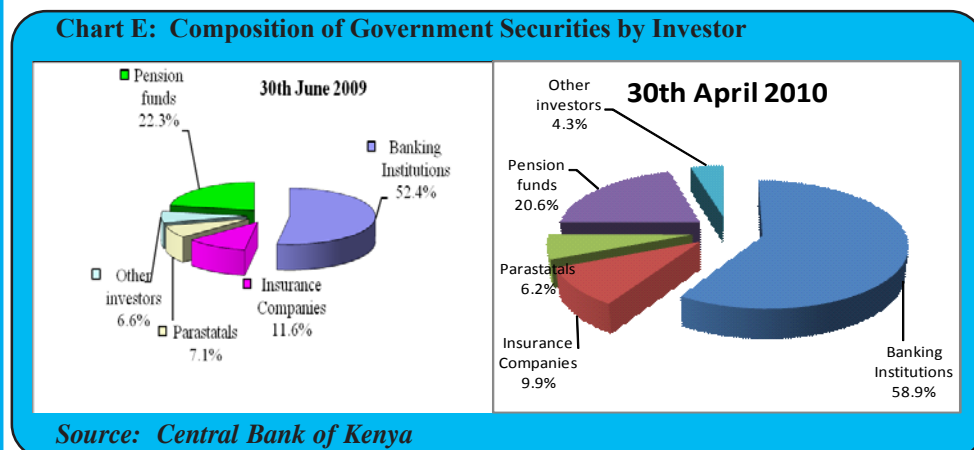
Chart D: Composition of Government Securities



Source: Central Bank of Kenya

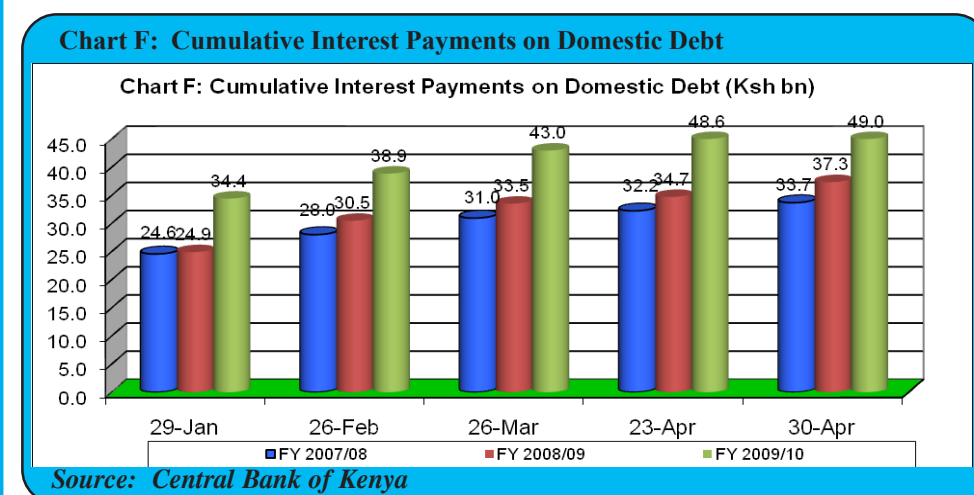
Holding of Government Securities

The holdings of Government securities by commercial banks increased from 52.4 percent in June 2009 to 58.9 percent as at April 30, 2010. However, holdings of 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 9.9 percent, 6.2 percent, 20.6 percent and 4.3 percent as at April 30, 2010 (Chart E).



Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt for the period up the end of April 2010 of the FY 2009/10 amounted to Ksh 49.0 billion compared with Ksh 37.3 billion in a similar period in the fiscal year 2008/09 (Chart F). The interest cost on domestic debt during the period comprised Ksh 36.1 billion in interest and other charges on Treasury bonds, Ksh 12.1 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.



The Stock Market

Performance at the equities market improved during the week ending May 6, 2010. Equity turnover increased by 7.2 percent as stocks worth Ksh 1,807.1 million were traded compared with Ksh 1,685.0 million traded in the previous week. The number of shares traded increased from 99.5 million in the previous week to 143.7 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 1.1 percent or Ksh. 11.1 billion to close at Ksh 1,062.7 billion in the week under review from Ksh 1,051.6 billion in the previous week. The NSE 20 Share index remained stable to settle at 4,270.74 points on May 6, 2010 from 4,270.87 points on April 29, 2010. The Nairobi All Share Index gained 0.95 points to settle at 91.26 points on May 6, 2010 from 90.31 points the previous week (Table 7).

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
NASI 100= Jan 2008	84.40	85.01	87.91	88.72	90.31	91.26
NSE 20 Share Index 100=1966	4,072.93	4,062.91	4,099.44	4,181.41	4,270.87	4,270.74
Number of Deals	7,848	7,855	9,728	10,625	12,588	11,193
Total Shares Traded (millions)	128.70	77.89	97.69	112.65	99.5	143.67
Equity Turnover (Ksh. millions)	1,405.55	1,294.35	1,368.14	2,201.38	1,684.97	1,807.09
Market Capitalization (Ksh. Bn.)	983.12	989.93	1,023.64	1,033.02	1,051.56	1,062.68
Bonds Turnover (Ksh. millions)	9,737.80	6,216.70	6,222.60	4,339.35	5,922.40	7,865.75

* 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 101.9 million shares and accounted for 70.9 percent of total traded volume. Safaricom traded 99.0 million shares and was the most active stock in the sector. The Finance and Investment sector traded 21.3 million shares and accounted for 14.8 percent of total traded volume. Equity Bank and Kenya Commercial Bank were the most active stocks in the sector, trading 9.7 million and 3.0 million shares, respectively. Industrial and Allied sector traded 18.9 million shares and accounted for 13.1 percent of traded volume. Mumias Sugar Company and KenolKobil were the most active counters, trading 11.6 and 3.8 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond turnover at the Fixed Income Securities Market increased from Ksh 5.9 billion traded in the previous week to Ksh 7.9 billion in the week under review.