

**May 14, 2010**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

During this week's auction the Government securities posted oversubscription of 28.5 percent. The Government had offered for sale 182-day Treasury bills amounting to Ksh 6.0 billion, received bids amounting to Ksh 7.7 billion and accepted bids amounting to Ksh 5.9 billion. The cut-off rate for the 182-day Treasury bill declined by 35.1 basis points to settle at 4.599 percent.

The average interbank increased slightly by 4 basis points to 2.65 percent in the week ending May 13, 2010 from 2.61 percent in the previous week.

The Kenya Shilling on average recorded mixed performance against the major international currencies during the week ending May 14, 2010. Against the US dollar, the shilling weakened to exchange at Ksh 77.91 per US dollar compared with Ksh 77.53 per US dollar in the previous week.

The Central Bank holdings of official usable foreign exchange reserves stood at US\$ 3.32 billion (equivalent to 3.51 months of imports) as at May 14, 2010 compared to US\$ 3.34 billion (equivalent to 3.53 months of imports) as at May 7, 2010 .

To ease the liquidity tightness in the money market, the Central Bank injected a total of Ksh 25.4 billion through reverse repo purchases during the week ending May 13, 2010. Reverse repo maturities amounted to Ksh 19.6 billion during the week.

Government gross domestic debt increased by Ksh 131.7 billion from Ksh 518.3 billion in June 2009 to Ksh 650.0 billion as at May 07, 2010 of the fiscal year 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 was mixed during the week. The NSE 20 Share index lost 19.54 points to settle at 4,251.20 points on May 13, 2010.

**Government Securities Auction**

During this week's auction the Government securities posted good performance of 128.5 percent. The Government had offered for sale 182-day Treasury bills amounting to Ksh 6.0 billion during the auction of May 13, 2010 and received bids amounting to Ksh 7.7 billion.

The Government accepted Treasury bills bids amounting to Ksh 5.9 billion of which Ksh 5.4 billion (or 91.5 percent) were in competitive bids. The proceeds of this week's auction will be applied towards offsetting the cost of redemptions of Government securities amounting to Ksh 10.8 billion that fell due in the week.

**Interest Rates on Treasury Bills**

During this week's auction the cut-off rate for the 182-day Treasury bill declined by 35.1 basis points from 4.950 percent posted on May 3 2010 to 4.599 percent.

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

Auction date	01-Apr-10	08-Apr-10	15-Apr-10	22-Apr-10	29-Apr-10	06-May-10	13-May-10
Average 91 day T. Bills*		5.538		4.900		4.498	
Average 182 day T. Bills*	5.940		5.450		4.950		4.599
Average 364 day T. Bills*			6.090				
Month	Sep-09	Oct-09	Nov-09	Dec-00	Jan-10	Feb-10	Mar-10
Average savings rate	1.65	1.85	1.71	1.73	1.75	1.81	1.81
Average overdraft rate	13.76	14.03	14.24	14.13	14.25	14.25	14.06

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

Source: Central Bank of Kenya

**Interbank and REPO Market**

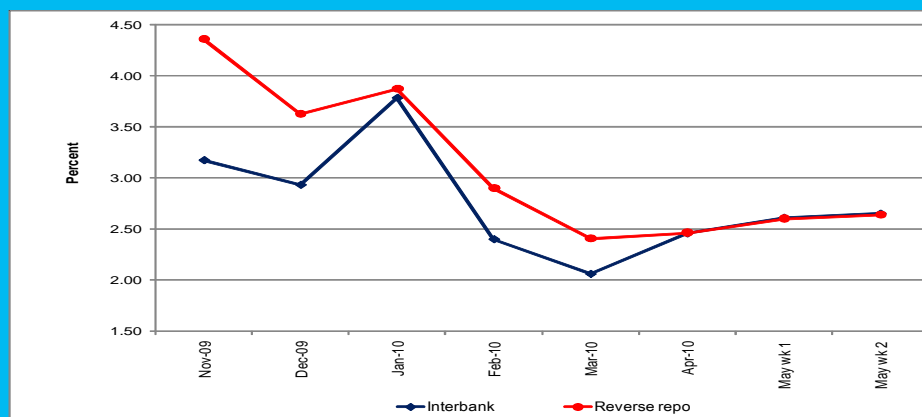
The average interbank increased slightly by 6 basis points to 2.65 percent in the week ending May 13, 2010 from 2.61 percent in the previous week. The volumes traded increased from Ksh 77.2 billion in the previous week to Ksh 59.7 billion in the week ending May 13, 2010. The reverse repo rate also rose by 4 basis points from 2.60 percent in the previous week to 2.64 percent in the week ending May 13, 2010 (Chart A).

**Table 2: Interbank Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
<b>Apr 23 - 29, 2010</b>	<b>334</b>	<b>51,663</b>	<b>2.55</b>
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
<b>Apr 30 - May 06, 2010</b>	<b>393</b>	<b>77,227</b>	<b>2.61</b>
07-May-10	77	15,264	2.71
10-May-10	74	14,546	2.70
11-May-10	61	12,967	2.68
12-May-10	61	8,885	2.62
13-May-10	56	8,082	2.53
<b>May 07 - May 13, 2010</b>	<b>329</b>	<b>59,744</b>	<b>2.65</b>

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

### Monetary Policy Operations

The market was tight in the week ending May 13, 2010 and the Central Bank injected a total of Ksh 25.4 billion (Table 3). There were reverse repo maturities of Ksh 19.6 billion. There were no commercial banks borrowing through the overnight window during the week. Reserve money averaged Ksh 183.6 billion during the week and was above target by Ksh 5.0 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
07-May	178.6	178.2	0.4	2.0	4.1	2.1	182.7	4.5	5.7	-1.1
10-May	164.7	178.6	-13.9	16.0	15.7	-0.3	181.8	3.2	4.4	-1.3
11-May	177.3	178.6	-1.4	3.0	5.5	2.5	183.5	4.8	6.1	-1.3
12-May	182.5	178.6	3.9	0.0	0.0	0.0	183.4	4.7	6.8	-2.1
13-May	186.3	178.6	7.6	0.0	0.0	0.0	186.6	8.0	11.0	-3.0
Average	177.9	178.6	-0.7	4.2	5.1	0.9	183.6	5.0	6.8	-1.7

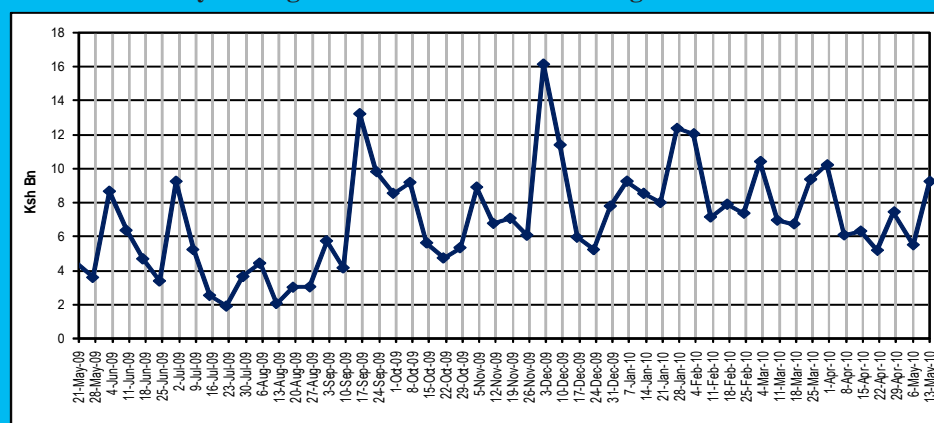
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

### Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 9.2 billion in their clearing accounts at the Central Bank in the week to May 12, 2010, compared with Ksh 5.5 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 recorded mixed performance against the major international currencies during the week ending May 14, 2010 (Table 4). Against the US dollar, the shilling weakened to exchange at Ksh 77.91 per US dollar compared with Ksh 77.53 per US dollar in the previous week. The shilling also weakened against the Japanese Yen to exchange at Ksh 83.92 per 100 Japanese Yen in the week ending May 14, 2010 compared with Ksh 82.55 per 100 Japanese Yen in the previous week. During the week, the shilling strengthened against the Sterling Pound and the Euro to exchange, respectively, at Ksh 115.37 per Sterling Pound and Ksh 99.00 per Euro compared with Ksh 116.94 per Sterling Pound and Ksh 100.58 per Euro in the previous week. In the international foreign exchange market both the Sterling pound and the Euro weakened against the US dollar.

**Table 4: Kenya Shilling Exchange Rate**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
<b>May 03- May 07, 2010</b>	<b>77.53</b>	<b>116.94</b>	<b>100.58</b>	<b>82.55</b>	<b>27.42</b>	<b>17.96</b>
10-May-10	77.97	115.98	101.06	84.06	27.34	17.88
11-May-10	77.82	115.07	98.85	84.13	27.56	18.03
12-May-10	77.89	116.15	98.58	84.05	27.60	18.07
13-May-10	77.80	115.72	98.54	83.35	27.51	18.12
14-May-10	78.05	113.95	97.99	84.01	27.55	18.04
<b>May 10- May 14, 2010</b>	<b>77.91</b>	<b>115.37</b>	<b>99.00</b>	<b>83.92</b>	<b>27.51</b>	<b>18.03</b>

Source: Central Bank of Kenya

In the regional scene, the Kenya Shilling strengthened against both the Uganda Shilling and the Tanzanian Shilling. It exchange at Ush 27.51 per Kenya Shilling and Tsh 18.03 per Kenya Shilling in the week ending May 14, 2010 compared with Ush 27.42 per Kenya Shilling and Tsh 17.96 per Kenya Shilling in the previous week.

**Foreign  
Exchange  
Reserves**

The Central Bank holdings of official usable foreign exchange reserves stood at US\$ 3.32 billion (equivalent to 3.51 months of imports) as at May 14, 2010 compared to US\$ 3.34 billion (equivalent to 3.53 months of imports) as at May 7, 2010 (Table 5).

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

	14-May-09	30-Oct-09	30-Nov-09	31-Dec-09	26-Feb-10	26-Mar-10	30-Apr-10	07-May-10	14-May-10
Usable Reserves	2,691	3,302	3,392	3,309	3,235	3,224	3,307	3,336	3,318
Months of Imports Cover*	3.21	3.67	3.71	3.62	3.49	3.43	3.50	3.53	3.51

\*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 131.7.2 billion (or 25.4 percent) from Ksh 518.3 billion in June 2009 to Ksh 650.0 billion on May 07, 2010 (Table 6 and Chart C). The increase was as a result of increases of Ksh 56.0 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 1.9 billion in overdraft at the Central Bank 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 172.8 billion and Ksh 442.4 billion, respectively as at May 07, 2010. However, Government overdraft at Central Bank 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 71.8 percent as at May 07, 2010 while that of Treasury bills increased from 24.4 percent to 28.1 percent which resulted to a maturity profile of Government securities of 4 years and 3 months.

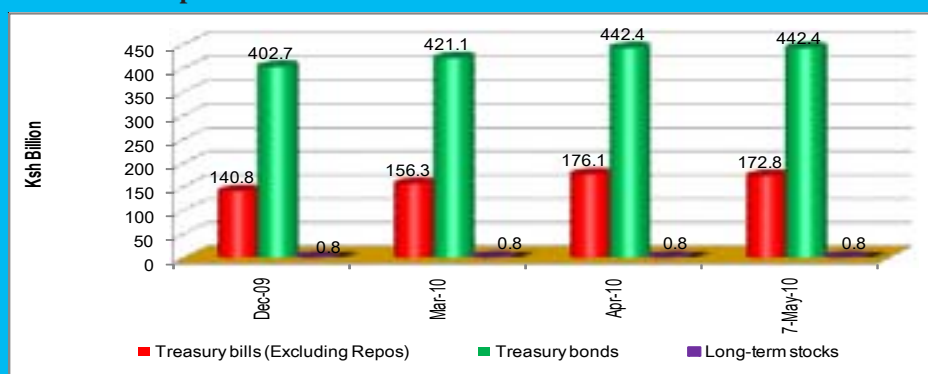
**Table 6: Government Domestic Debt (Ksh Billion)**

	Jun-09	Sep-09	Dec-09	26th Mar 2010	30th April 2010	7th May 2010	Changes	
							30th April-2010 - 7th May-2010	30th Jun-09 - 7th May 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	176.1 28.4	172.8 28.1	-3.3 0.0	56.0 3.6
2. Treasury Bonds (As % of total securities)	360.7 75.4	386.1 75.8	402.7 74.0	421.1 72.8	442.4 71.4	442.4 71.8	0.0 0.1	81.6 -3.6
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	619.2	615.9	-3.3	137.6
5. Overdraft at Central Bank	5.1	8.0	11.1	5.9	1.1	1.1	0.0	-4.0
6. Other Domestic debt*	34.9	33.6	33.6	33.0	33.2	33.0	0.0	-1.9
7. Gross Domestic Debt (4+5+6)	518.3	550.6	589.0	617.1	653.6	650.0	-3.5	131.7
8. Interest payments on domestic debt (Cumulative in FY)	45.9	13.5	31.2	43.0	49.0	49.0	0.0	

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

Source: Central Bank of Kenya

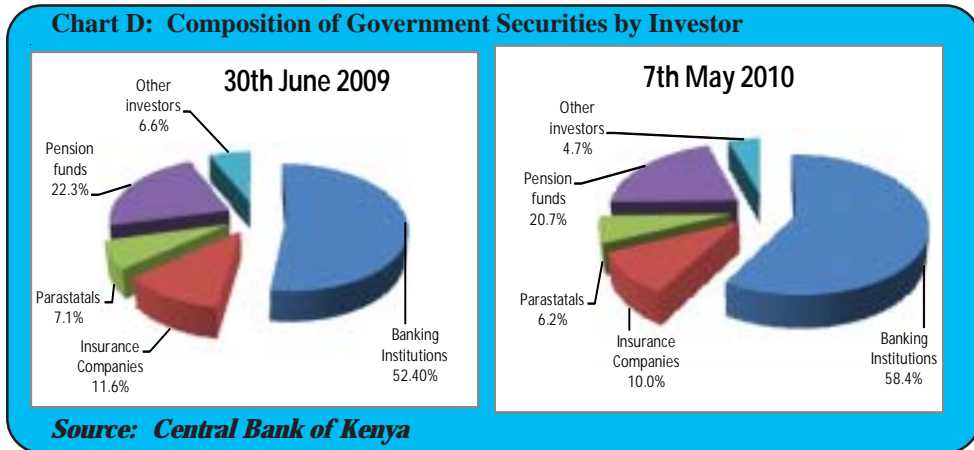
**Chart C: Composition of Government Securities**



Source: Central Bank of Kenya

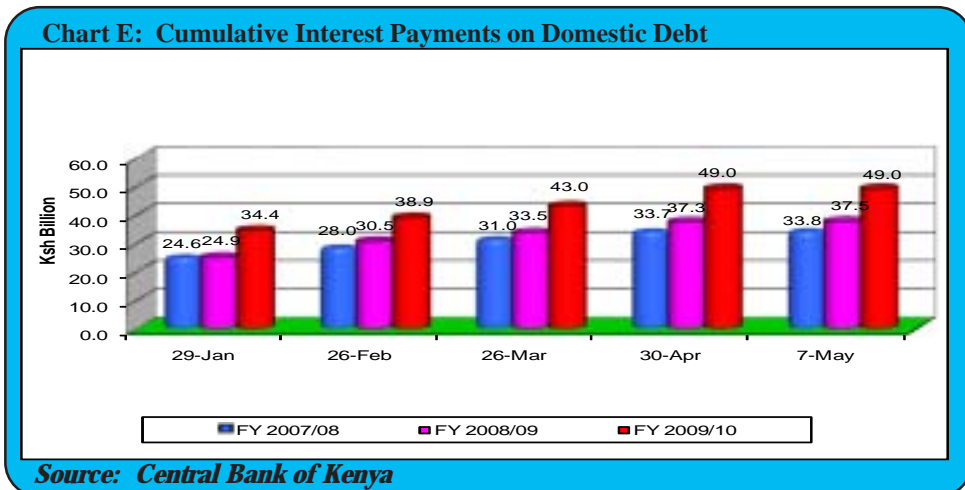
**Holdings of Government Securities**

The holdings of Government securities by commercial banks increased from 52.4 percent in June 2009 to 58.4 percent as at May 07, 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 10.0 percent, 6.2 percent, 20.7 percent and 4.7 percent during the same period (Chart D).



**Cost of Domestic Borrowing**

The cumulative Government expenditure on interest and other charges on domestic debt for the period upto May 07, 2010 of the fiscal year 2009/10 amounted to Ksh 49.0 billion compared with Ksh 37.5 billion in a similar period in the fiscal year 2008/09 (Chart E). The interest cost on domestic debt during the period comprised Ksh 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 Central Bank and the pre-1997 government overdraft.



**The Stock Market**

Performance at the equities market was mixed during the week ending May 13, 2010. Equity turnover increased by 10.6 percent as stocks worth Ksh 1,998.4 million were traded compared with Ksh 1,807.1 million traded in the previous week. The number of shares traded increased from 143.7 million in the previous week to 188.9 million shares in the week under review. Market capitalization as a measure of total shareholders wealth

decreased by 0.8 percent or Ksh. 8.9 billion to close at Ksh 1,053.6 billion in the week under review from Ksh 1,062.7 billion in the previous week. The NSE 20 Share index lost 19.54 points to settle at 4,251.2 points on May 13, 2010 from 4,270.74 points on May 6, 2010. The Nairobi All Share Index lost 0.87 points to settle at 90.39 points on May 13, 2010 from 91.26 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	13-May-10
NASI 100= Jan 2008	84.40	85.01	87.91	88.72	90.31	91.26	90.39
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
Number of Deals	7,848	7,855	9,728	10,625	12,588	11,193	11,837
Total Shares Traded (millions)	128.70	77.89	97.69	112.65	99.5	143.67	188.92
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
Market Capitalization (Ksh. Bn.)	983.12	989.93	1,023.64	1,033.02	1,051.56	1,062.68	1,053.76
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

\* 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 145.5 million shares and accounted for 77.0 percent of total traded volume. Safaricom traded 141.4 million shares and was the most active stock in the sector. The Finance and Investment sector traded 24.9 million shares and accounted for 13.2 percent of total traded volume. Kenya Commercial Bank and Equity Bank were the most active stocks in the sector, trading 8.8 million and 6.1 million shares, respectively. Industrial and Allied sector traded 17.1 million shares and accounted for 9.1 percent of traded volume. Mumias Sugar Company and KenolKobil were the most active counters, trading 9.9 and 4.7 million shares, respectively. The other sectors had minimal trading.

## Bond Market

Bond turnover at the Fixed Income Securities Market increased from Ksh 7.9 billion traded in the previous week to Ksh 9.3 billion in the week under review.