

May 21, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

For the week end May 20, 2010, the Government securities market posted oversubscription of 182.0 percent and 56.4 percent during the Treasury bills and Treasury bonds auctions, respectively. The government had offered for sale 91-day Treasury bills and 5-year Treasury bonds worth Ksh 3.0 billion and Ksh 12.0 billion, respectively and received bids totalling Ksh 8.5 billion and Ksh 18.7 billion, respectively. Treasury bills bids totalling Ksh 5.0 billion and Treasury bond bids totalling Ksh 12.0 billion were accepted. The cut off rates for the 91-day Treasury bill and 5-year treasury bond declined by 50.0 basis points and 279.0 basis points, respectively during this week's auction.

The average interbank rate declined by 52 basis points to 2.13 percent in the week ending May 20, 2010 from 2.65 percent in the previous week.

The Kenya Shilling on average recorded mixed performance against the major international currencies during the week ending May 21, 2010. Against the US dollar, the shilling weakened to exchange at Ksh 78.88 per US dollar compared with Ksh 77.91 per US dollar in the previous week.

The Central Bank holdings of official usable foreign exchange reserves stood at US\$ 3.25 billion (equivalent to 3.41 months of imports) as at May 21, 2010 compared to US\$ 3.32 billion (equivalent to 3.51 months of imports) as at May 14, 2010.

To ease the liquidity tightness in the money market, the Central Bank injected a total of Ksh 14.6 billion through reverse repo purchases during the week ending May 20, 2010. Reverse repo maturities amounted to Ksh 25.4 billion during the week.

Government gross domestic debt increased by Ksh 134.7.7 billion from Ksh 518.3 billion in June 2009 to Ksh 653.1 billion as at May 14, 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 46.8 billion.

Performance at the equities market improved during the week. The NSE 20 Share Index gained 55.10 points to settle at 4,306.30 points on May 20, 2010.

Government Securities Auction

The Government securities market posted oversubscription of 182 percent and 56.4 percent during the Treasury bills and Treasury bonds auctions, respectively of this week. The government had offered for sale 91-day Treasury bills worth Ksh 3.0 billion during the Treasury bills auction of May 20 2010 and received bids totalling Ksh 8.5 billion. During the auction of May 19, 2010 the 5 -year Treasury bond worth Ksh 12. 0 billion was offered and bids totalling Ksh 18.7 billion were received.

The Government accepted Treasury bills bids totalling Ksh 5.0 billion of which Ksh 4.6 billion or 92.0 percent were in competitive bids. In addition, the Government accepted Treasury bond bids totalling Ksh 12.0 billion of which Ksh 10.1 billion or 84.2 percent were in competitive bids. Proceeds of this week's auctions were to be used to meet the cost of redemptions of Treasury bonds maturities totalling Ksh 10.7 billion falling due in the week and provide the Government additional borrowing of Ksh 6.3 billion.

Interest Rates on Treasury Bills and Bonds

The cut off rate for the 5-year Treasury bond declined during this week's auction by 279.0 basis points from 9.750 percent for a bond of similar tenor issued in January 2, 2010 to 6.960 percent.

Table 1: Interest Rates (%)

	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May wk 1	May wk 2	May wk 3
Interbank	3.17	2.93	3.79	2.40	2.06	2.46	2.61	2.65	2.13
Reverse repo	4.36	3.63	3.87	2.90	2.41	2.47	2.60	2.64	2.44

Source: Central Bank of Kenya

Interbank and REPO Market

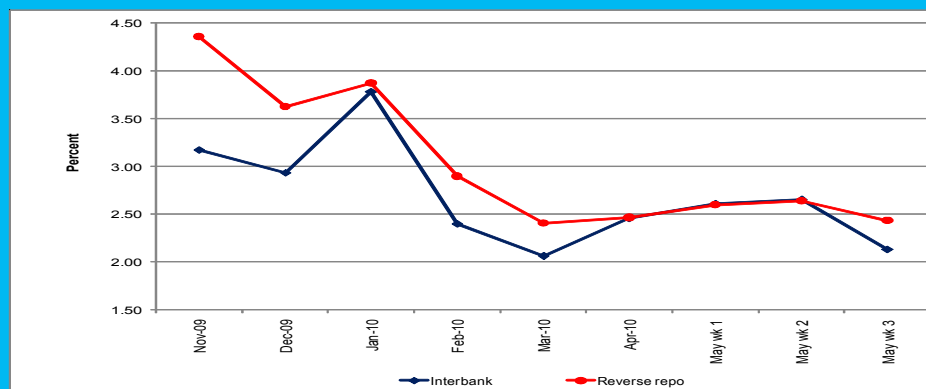
The average interbank declined by 52 basis points to 2.13 percent in the week ending May 20, 2010 from 2.65 percent in the previous week. The volumes traded declined marginally from Ksh 59.7 billion in the previous week to Ksh 59.2 billion in the week ending May 20, 2010. The easing of tightness in interbank liquidity is attributed to 4.9 percent reduction of Government deposits at the Central Bank to Ksh 69.5 billion.

Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
May 07 - May 13, 2010	329	59,744	2.65
14-May-10	59	8,508	2.31
17-May-10	75	14,231	2.26
18-May-10	68	13,334	2.14
19-May-10	63	10,824	2.02
20-May-10	69	12,286	1.93
May 14 - May 20, 2010	334	59,183	2.13

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 20, 2010 and the Central Bank injected a total of Ksh 14.6 billion as shown in Table 3. There were reverse repo maturities of Ksh 25.4 billion. One commercial bank borrowed Ksh 11 million through Central bank overnight window during the week. Reserve money averaged Ksh 180.2 billion during the week and was above target by Ksh 1.2 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
14-May	182.6	178.6	3.9	0.0	0.0	0.0	183.7	5.1	8.6	-3.5
17-May	173.4	179.1	-5.7	6.0	6.6	0.6	179.2	0.1	3.7	-3.6
18-May	174.2	179.1	-4.9	5.0	4.6	-0.4	179.5	0.4	4.4	-4.0
19-May	176.4	179.1	-2.7	3.0	3.3	0.3	181.7	2.6	7.2	-4.6
20-May	178.8	179.1	-0.3	0.0	0.0	0.0	176.9	-2.2	3.1	-5.2
Average	177.1	179.0	-1.9	2.8	2.9	0.1	180.2	1.2	5.4	-4.2

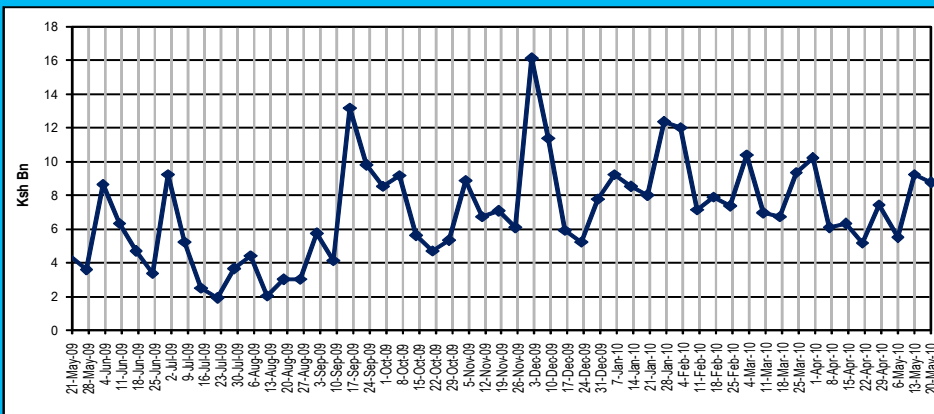
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 8.8 billion in their clearing accounts at the Central Bank in the week to May 20, 2010, compared with Ksh 9.2 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 May 21, 2010 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 78.88 per US dollar compared with Ksh 77.91 per US dollar in the previous week. The shilling also weakened against the Japanese Yen to exchange at Ksh 86.09 per 100 Japanese Yen in the week ending May 21, 2010 compared with Ksh 83.92 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 113.40 per Sterling Pound and Ksh 97.44 per Euro compared with Ksh 115.37 per Sterling Pound and Ksh 99.00 per Euro in the previous week.

The behaviour of the Kenya shilling during the week largely mirrored developments in the US dollar exchange rate. During the week, the US dollar gained against both the Sterling Pound and the Euro supported by positive economic data from the US and negative news in both the Euro zone and the United Kingdom. Concerns that fiscal tightening measures by the new government would hamper recovery resulted in a weak Sterling Pound during the week. Investors' response to the debt crisis in Europe resulted in a weaker Euro as most shied away from the Euro during the week.

Table 4: Kenya Shilling Exchange Rate

Date	US Dollar	Pound Sterling	Euro	Japanese Yen	USHS	TSHS
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
May 10 - May 14, 2010	77.91	115.37	99.00	83.92	27.51	18.03
17-May-10	78.35	112.47	96.22	85.07	27.59	18.07
18-May-10	78.64	113.78	97.32	84.94	27.61	18.09
19-May-10	78.78	112.55	95.94	85.74	27.86	18.16
20-May-10	79.17	113.63	97.72	86.59	27.66	18.22
21-May-10	79.44	114.57	100.00	88.08	27.66	18.31
May 17- May 21, 2010	78.88	113.40	97.44	86.09	27.68	18.17

Source: Central Bank of Kenya

In the regional scene, the Kenya Shilling appreciated marginally against both the Uganda Shilling and the Tanzanian Shilling. It exchange at Ush 27.68 per Kenya Shilling and Tsh 18.17 per Kenya Shilling in the week ending May 21, 2010 compared with Ush 27.51 per Kenya Shilling and Tsh 18.03 per Kenya Shilling in the previous week.

Foreign Exchange Reserves

The Central Bank holdings of official usable foreign exchange reserves stood at US\$ 3.25 billion (equivalent to 3.41 months of imports) as at May 21, 2010 compared to US\$ 3.32 billion (equivalent to 3.51 months of imports) as at May 14, 2010 (Table 5). The slight decline in the official reserves largely reflected revaluation losses resulting from the weak Sterling Pound and the Euro during the week (Table 5).

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

	21-May-09	30-Oct-09	30-Nov-09	31-Dec-09	26-Feb-10	26-Mar-10	30-Apr-10	14-May-10	21-May-10
Usable Reserves	2,699	3,302	3,392	3,309	3,235	3,224	3,307	3,318	3,249
Months of Imports Cover*	3.22	3.67	3.71	3.62	3.49	3.43	3.50	3.51	3.41

*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 134.7.2billion (or 26.0 percent) from Ksh 518.3 billion in June 2009 to Ksh 653.1 billion at May 14, 2010 (Table 6 and Chart D). The increase was as a result of increases of Ksh 60.1 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 5.1 billion and Ksh 1.8 billion in overdraft at 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 176.98 billion and Ksh 442.4 billion, respectively as at May 14, 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 71.8 percent as at May 14, 2010 while that of Treasury bills increased from 24.4 percent to 28.5 percent which resulted to the maturity profile of Government securities to stand at 4 years and 3 month.

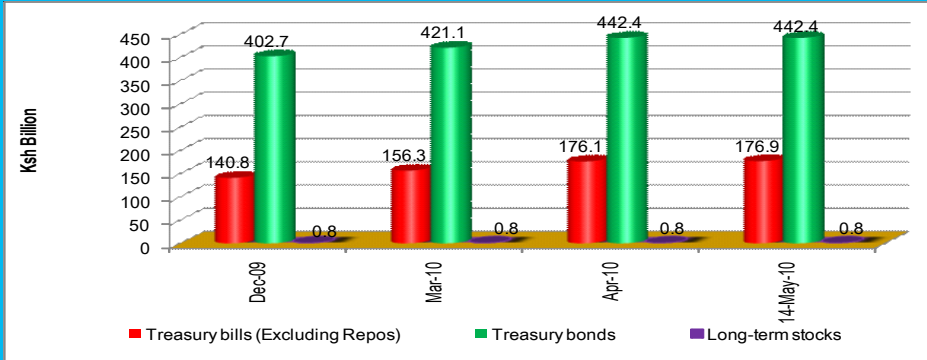
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-09	Sep-09	Dec-09	26th Mar 2010	30th April 2010	7th May 2010	14th May 2010	Changes	
								30th April-2010 - 14th May-2010	30th Jun-09 -14th 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	176.9 28.5	4.1 0.4	60.1 4.1
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	442.4 71.4	0.0 -0.4	81.6 -4.1
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	0.8 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	620.0	4.1	141.7
5. Overdraft at Central Bank	5.1	8.0	11.1	5.9	1.1	1.1	0.0	-1.1	-5.1
6. Other Domestic debt*	34.9	33.6	33.6	33.0	33.2	33.0	33.1	0.1	-1.8
7. Gross Domestic Debt (4+5+6)	518.3	550.6	589.0	617.1	653.6	650.0	653.1	3.0	134.7
8. Interest payments on domestic debt (Cumulative in FY)	45.9	13.5	31.2	43.0	44.1	46.8	46.8	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

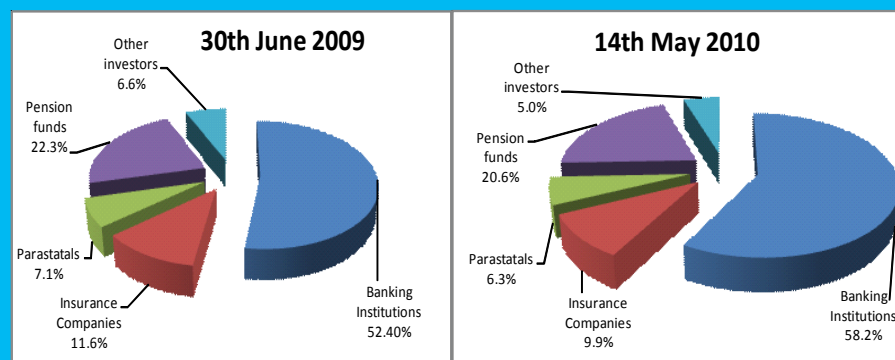


Source: Central Bank of Kenya

Holdings of Government Securities

The holdings of Government securities by commercial banks increased from 52.4 percent in June 2009 to 58.2 percent as at May 14, 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, 6.3 percent, 20.6 percent and 5.0 percent during the same period (Chart D).

Chart D: Composition of Government Securities by Investor

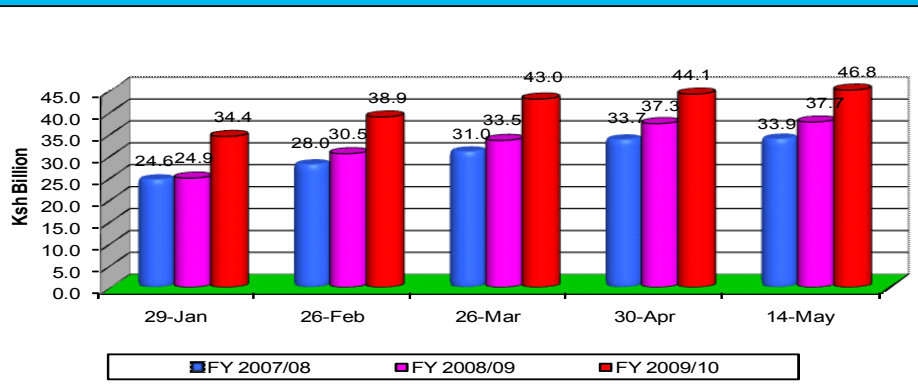


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt for the period May 7, 2010 of the FY 2009/10 amounted to Ksh 46.8 billion compared with Ksh 37.7 billion in a similar period in the fiscal year 2008/09 (Chart E). The interest cost on domestic debt during the period comprised Ksh 36.2 billion in interest and other charges on Treasury bonds, Ksh 9.8 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.

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 May 20, 2010. Equity turnover increased by 8.1 percent as stocks worth Ksh 2,160.5 million were traded compared with Ksh 1,998.4 million traded in the previous week. The number of shares traded increased from 188.9 million in the previous week to 209.8 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 1.9 percent or Ksh. 20.4 billion to close at Ksh 1,074.2 billion in the week under review from Ksh 1,053.6 billion in the previous week. The NSE 20 Share Index gained 55.10 points to settle at 4,306.30 points on May 20, 2010 from 4,251.2 points on May 13, 2010. The Nairobi All Share Index gained 1.75 points to settle at 92.14 points on May 20, 2010 from 90.39 points the previous week (Table 7). The improved performance in the equities market is attributed to economic growth recovery expectations and the on-going reforms in the capital market and stock exchange that are geared towards enhancement of investor confidence in the stock market.

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	20-May-10
NASI 100= Jan 2008	84.40	85.01	87.91	88.72	90.31	91.26	90.39	92.14
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	4,306.30
Number of Deals	7,848	7,855	9,728	10,625	12,588	11,193	11,837	11,780
Total Shares Traded (millions)	128.70	77.89	97.69	112.65	99.5	143.67	188.92	209.83
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	2,160.46
Market Capitalization (Ksh. Bn.)	983.12	989.93	1,023.64	1,033.02	1,051.56	1,062.68	1,053.76	1,074.15
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	7,630.00

* 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 173.4 million shares and accounted for 82.7 percent of total traded volume. Safaricom traded 169.2 million shares and was the most active stock in the sector. The Finance and Investment sector traded 24.6 million shares and accounted for 11.7 percent of total traded volume. Equity Bank and Co-operative Bank were the most active stocks in the sector, trading 11.3 million and 4.1 million shares, respectively. Industrial and Allied sector traded 11.3 million shares and accounted for 5.4 percent of traded volume. Mumias Sugar Company and KenolKobil were the most active counters, trading 6.0 and 2.0 million shares, respectively. The other sectors had minimal trading.

Bond Market

Bond turnover at the Fixed Income Securities Market decreased from Ksh 9.3 billion traded in the previous week to Ksh 7.6 billion in the week under review. The drop in bond turnover could be attributed to shift in investors' appetite from the secondary market to the primary market following the issue of a 5-year bond during the week.