

May 28, 2010



## THE CBK WEEKLY BULLETIN

### Highlights for the Week

The Government securities market posted oversubscription of 43.0 percent during this week's Treasury bills auction. The government had offered for sale 182-day Treasury bills worth Ksh 3.5 billion, received bids totalling Ksh 5.0 billion and accepted bids amounting to Ksh 3.5 billion. The cut off rate for the 182-day Treasury bill declined by 59.8 basis points during this week's auction.

The average interbank declined by 52 basis points to 1.73 percent in the week ending May 26, 2010 from 2.25 percent in the previous week.

The Kenya Shilling depreciated against the major international currencies during the week ending May 27, 2010. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 79.58 in the week compared with Ksh 78.88 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank marginally increased to US dollar 3.252 billion (equivalent to 3.41 months of imports) as at May 27, 2010, compared to US dollar 3.249 billion (equivalent to 3.41 months of imports) held on May 21, 2010.

The Central Bank injected a total of Ksh 16.9 billion through reverse repo purchases during the week ending May 27, 2010 and matured reverse repo earlier held by commercial banks amounting to Ksh 14.6 billion.

Government gross domestic debt increased by Ksh 129.7 billion from Ksh 518.3 billion in June 2009 to Ksh 648.0 billion as at May 21, 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 47.3 billion.

Performance at the equities market was mixed during the week. The NSE 20 Share Index lost 44.06 points to settle at 4,262.24 points on May 27, 2010.

**Government Securities Auction**

The Government securities market posted oversubscription of 43.0 percent during this week's Treasury bills auction. The government had offered for sale 182-day Treasury bills worth Ksh 3.5 billion during the auction of May 27, 2010 and received bids totalling Ksh 5.0 billion.

Treasury bills bids totalling Ksh 3.5 billion were accepted of which Ksh 2.8 billion or 80.00 percent were in competitive bids. Proceeds of this week's auction would be used to partly offset the cost of redemptions of Treasury maturities totalling Ksh 13.3 billion falling due in the week.

**Interest Rates on Treasury Bills and Bonds**

The cut off rate for the 182-day Treasury bill declined by 59.8 basis points from 4.490 percent on May 14,2010 to 4.001 percent during this week's auction.

**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	May wk 4
Interbank	3.17	2.93	3.79	2.40	2.06	2.46	2.61	2.65	2.25	1.73
Reverse repo	4.36	3.63	3.87	2.90	2.41	2.47	2.60	2.64	2.44	1.95

Source: Central Bank of Kenya

**Interbank and REPO Market**

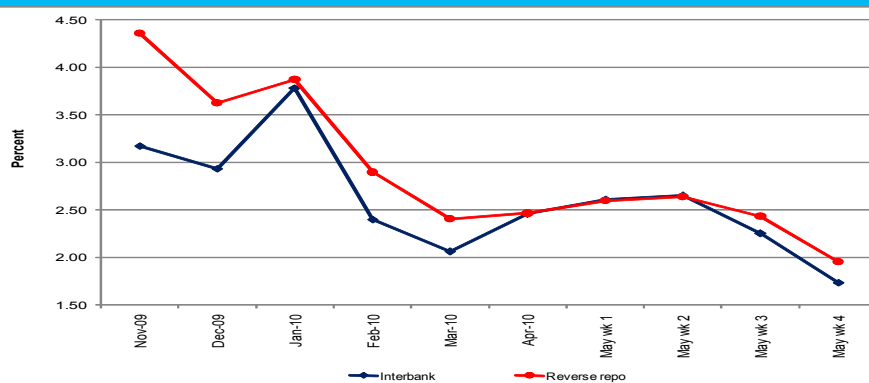
The average interbank rate declined by 52 basis points to 1.73 percent in the week ending May 26, 2010 from 2.25 percent in the previous week. The volumes traded increased from Ksh 55.0 billion in the previous week to Ksh 60.3 billion in the week ending May 26, 2010.

**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
<b>May 07 - May 13, 2010</b>	<b>329</b>	<b>59,744</b>	<b>2.65</b>
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
<b>May 14 - May 20, 2010</b>	<b>334</b>	<b>59,183</b>	<b>2.13</b>

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The Central Bank injected a total of Ksh 16.9 billion through reverse repo purchases during the week under review and matured Ksh 14.6 billion reverse repos earlier held in commercial banks (Table 3). One commercial bank borrowed Ksh 63 million through Central bank overnight window during the week. During the week, the reverse repo rate declined by 48 basis points from 2.44 percent in the previous week to 1.95 percent in the week ending May 26, 2010.

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
21-May	176.2	179.1	-2.9	0.0	0.0	0.0	177.5	-1.6	3.5	-5.1
24-May	162.8	179.6	-16.8	14.0	11.9	-2.1	178.2	-1.3	4.3	-5.6
25-May	172.1	179.6	-7.4	4.0	4.6	0.6	176.1	-3.4	1.6	-5.1
26-May	172.3	179.6	-7.3	3.0	0.4	-2.6	174.2	-5.4	0.1	-5.5
27-May	174.9	179.6	-4.7	0.0	0.0	0.0	174.9	-4.7	0.8	-5.5
Average	171.7	179.5	-7.8	4.2	3.4	-0.8	176.2	-3.3	2.1	-5.3

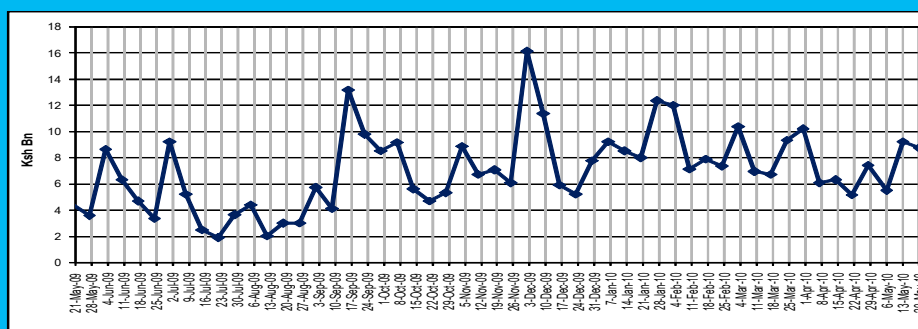
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 6.6 billion in their clearing accounts at the Central Bank in the week to May 26, 2010 compared with Ksh 10.1 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 depreciated against the major international currencies during the week ending May 27, 2010 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 79.58 compared with Ksh 78.88 per US dollar in the previous week. During the week, the shilling also depreciated against the Sterling Pound, the Euro and Japanese Yen to exchange on average at Ksh 114.75 per Sterling Pound, Ksh 98.25 per Euro and Ksh 88.24 per 100 Japanese Yen compared with Ksh 113.40 per Sterling Pound, Ksh 97.44 per Euro and Ksh 86.09 per 100 Japanese Yen in the previous week. The behaviour of the Kenya Shilling largely reflected the increased currency volatility in the international foreign exchange market as the Euro zone debt crisis continues to unfold.

**Table 4: Kenya Shilling Exchange Rate**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
<b>May 17- May 21, 2010</b>	<b>78.88</b>	<b>113.40</b>	<b>97.44</b>	<b>86.09</b>	<b>27.68</b>	<b>18.17</b>
24-May-10	79.25	114.70	99.10	87.87	27.82	18.51
25-May-10	79.55	114.03	97.77	88.33	27.85	18.57
26-May-10	79.79	114.69	98.01	88.47	28.20	18.93
27-May-10	79.75	115.57	98.11	88.29	28.11	19.21
<b>May 24- May 27, 2010</b>	<b>79.58</b>	<b>114.75</b>	<b>98.25</b>	<b>88.24</b>	<b>28.00</b>	<b>18.80</b>

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 28.00 per Kenya Shilling and Tsh 18.80 per Kenya Shilling in the week ending May 27, 2010, compared with Ush 27.68 per Kenya Shilling and Tsh 18.17 per Kenya Shilling in the previous week.

**Foreign Exchange Reserves**

The usable official foreign exchange reserves held by the Central Bank marginally increased to US dollar 3.252 billion (equivalent to 3.41 months of imports) as at May 27, 2010, compared to US dollar 3.249 billion (equivalent to 3.41 months of imports) held on May 21, 2010 (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	27-May-10
Usable Reserves	2,699	3,302	3,392	3,309	3,235	3,224	3,307	3,318	3,249	3,252
Months of Imports Cover*	3.22	3.67	3.71	3.62	3.49	3.43	3.50	3.51	3.41	3.41

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

Source: Central Bank of Kenya

**Government  
Domestic  
Debt**

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 gross domestic debt increased by Ksh 129.7 billion (or 25.0 percent) from Ksh 518.3 billion in June 2009 to Ksh 648.0 billion as at May 21, 2010 (Table 6 and Chart C). The increase was on account of increases of Ksh 54.9 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 1.7 billion in overdraft 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 171.7 billion and Ksh 442.4 billion, respectively as at May 21, 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 71.9 percent as at May 21, 2010 while that of Treasury bills increased from 24.4 percent to 27.9 percent. The increase in the share of Treasury bills in total Government securities is mainly on account of introduction of 364-day Treasury bill in August 2009 to replace the 1-year Treasury bond. The average time to maturity of Government domestic debt lengthened from 3 years 6 months in June 2009 to stand at 4 years and 3 month.

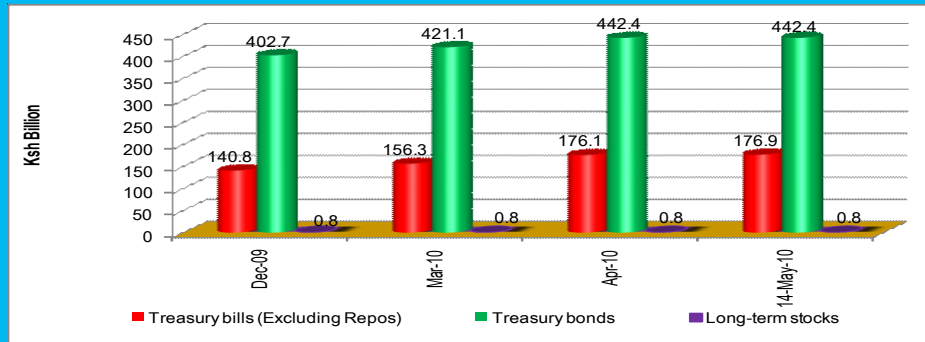
**Table 6: Government Domestic Debt (Ksh Billion)**

	Jun-09	Sep-09	Dec-09	Mar-10	14th May 2010	21st May 2010	Changes	
							14 May-2010 - 21st May-2010	30th Jun-09 - 21st 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	176.9 28.5	171.7 27.9	-5.1 -0.6	54.9 3.5
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 71.9	0.0 0.6	81.6 -3.5
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	620.0	614.8	-5.1	136.6
5. Overdraft at Central Bank	5.1	8.0	11.1	5.9	0.0	0.0	0.0	-5.1
6. Other Domestic debt*	34.9	33.6	33.6	33.0	33.1	33.2	0.1	-1.7
7. Gross Domestic Debt (4+5+6)	518.3	550.6	589.0	617.1	653.1	648.0	-5.0	129.7
8. Interest payments on domestic debt (Cumulative in FY)	45.9	13.5	31.2	43.0	46.8	47.3	0.5	

\* 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**

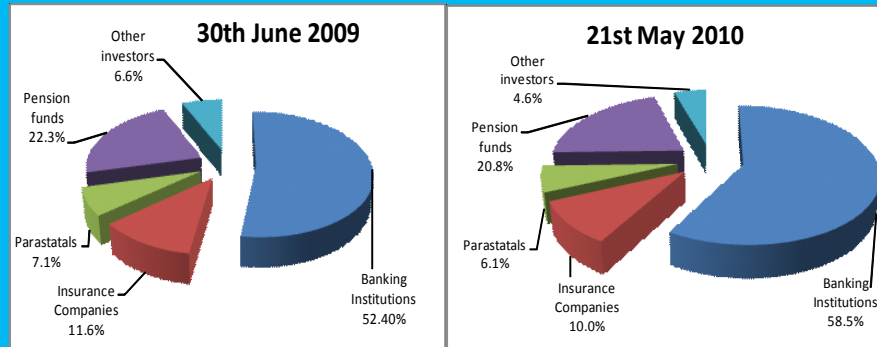


Source: Central Bank of Kenya

**Holdings of Government Securities**

The holdings of Government securities by commercial banks increased from 52.4 percent in June 2009 to 58.5 percent as at May 21, 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, 6.1 percent, 20.8 percent and 4.6 percent during the same period (Chart D).

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

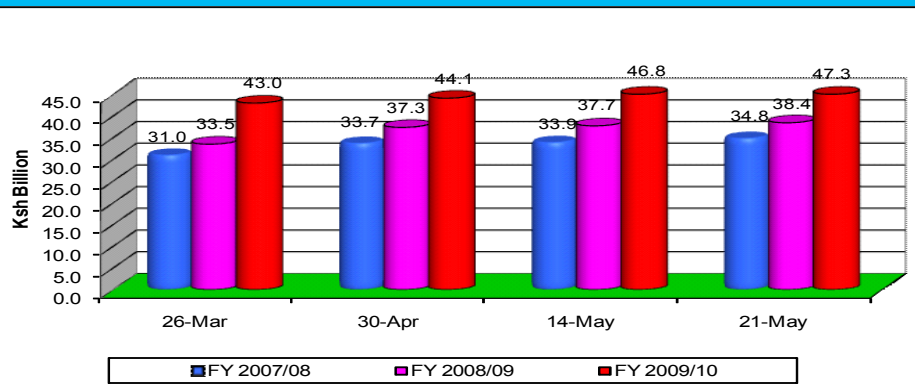


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

The cumulative Government expenditure on interest and other charges on domestic debt for the period May 21, 2010 of the FY 2009/10 amounted to Ksh 47.3 billion compared with Ksh 38.4 billion in a similar period in the fiscal year 2008/09 (Chart E). The interest cost on domestic debt during the period comprised Ksh 36.3 billion in interest and other charges on Treasury bonds, Ksh 10.2 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 are higher compared to similar period of the FY 2008/09, it is within the projected amount of Ksh 58.0 billion for the FY 2009/10.

**Chart E: Cumulative Interest Payments on Domestic Debt**



Source: Central Bank of Kenya

## The Stock Market

Performance at the equities market was mixed during the week ending May 26, 2010. Equity turnover increased by 33.3 percent as stocks worth Ksh 2,880.3 million were traded compared with Ksh 2,160.5 million traded in the previous week. The number of shares traded increased from 209.8 million in the previous week to 275.7 million shares in the week under review. Market capitalization as a measure of total shareholders wealth decreased by 0.3 percent or Ksh. 3.2 billion to close at Ksh 1,070.9 billion in the week under review from Ksh 1,074.2 billion in the previous week. The NSE 20 Share Index lost 44.06 points to settle at 4,262.24 points on May 27, 2010 from 4,306.30 points on May 20, 2010. The Nairobi All Share Index remained stable at 91.87 points on May 27, 2010 from 92.14 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	20-May-10	26-May-10
NASI 100= Jan 2008	84.40	85.01	87.91	88.72	90.31	91.26	90.39	92.14	91.87
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	4,262.24
Number of Deals	7,848	7,855	9,728	10,625	12,588	11,193	11,837	11,780	10,121
Total Shares Traded (millions)	128.70	77.89	97.69	112.65	99.5	143.67	188.92	209.83	275.75
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	2,880.27
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	1,070.96
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	7,342.45

\* 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 239.7million shares and accounted for 86.9 percent of total traded volume. Safaricom traded 235.8 million shares and was the most active stock in the sector. The Finance and Investment sector traded 25.1 million shares and accounted for 9.1 percent of total traded volume. Equity Bank and Co-operative Bank were the most active stocks in the sector, trading 13.5 million and 5.4 million shares, respectively. Industrial and Allied sector traded 10.4 million shares and accounted for 3.8 percent of traded volume. Mumias

Sugar Company and East African Breweries Ltd were the most active counters, trading 3.5 and 2.7 million shares, respectively. The other sectors had minimal trading.

**Bond Market**

Bond turnover at the Fixed Income Securities Market decreased from Ksh 7.6 billion traded in the previous week to Ksh 7.3 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.