

**November 5, 2010**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The overall 12-month inflation declined for the third consecutive month to 3.1 percent in October 2010. Similarly, the average annual inflation, which has been on a downward trend from January this year, declined further during the month from 4.4 percent in September 2010 to 4.1 percent in October 2010.

The Government securities market overperformed by 42.5 percent during the auction held this week. The Government had offered for sale 91-day Treasury bills amounting to Ksh 5.0 billion, received bids amounting to Ksh 7.1 billion and accepted bids amounting to Ksh 5.3 billion. The average 91-day Treasury bill rate edged up 6.4 basis points to settle at 2.180 percent.

The average interbank rate stabilized at 1.00 percent in the week ending November 4, from 1.05 percent in the previous week.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending November 05, 2010. Against the US dollar, the shilling appreciated marginally to exchange at an average of Ksh 80.54 in the week compared with Ksh 80.74 in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.492 billion (equivalent to 3.54 months of imports) as at November 05, 2010, compared to US dollar 3.471 billion (equivalent to 3.53 months of imports) held on October 29, 2010, reflecting a short-lived revaluation gain during the week.

The money market was liquid in the week ending November 4, 2010 and the Central Bank stayed out of the market.

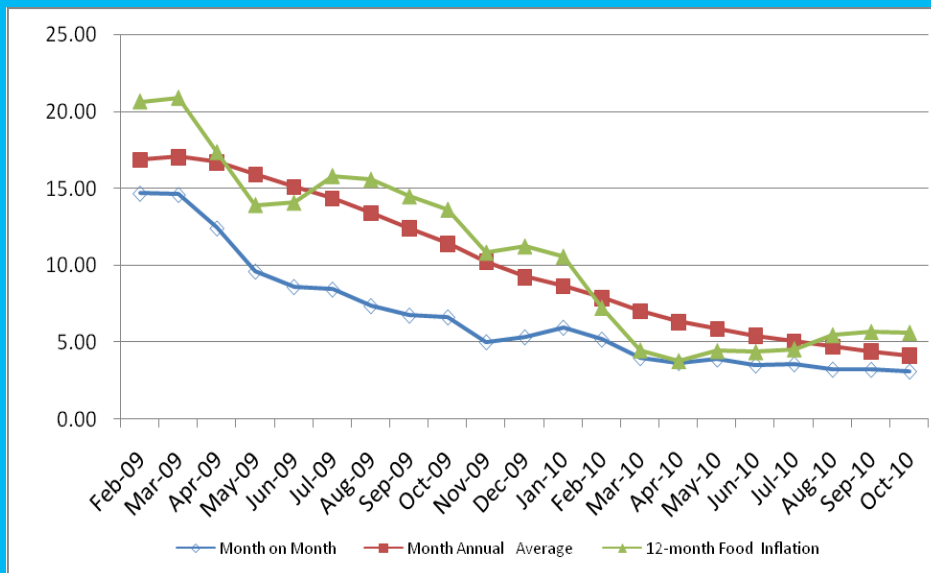
Government gross domestic debt increased by 5.7 percent from Ksh 660.3 billion in June 2010 to Ksh 698.4 billion as at October 29, 2010 in the FY 2010/11. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 21.6 billion.

Performance at the equities market declined during the week ending November 4, 2010, with the NSE 20 Share Index losing 11 points to settle at 4,629 from 4,640 points on October 28, 2010, while equity turnover fell by 6.9 percent.

**Inflation**

Overall 12- month inflation declined from 3.2 percent in September 2010 to 3.1 percent in October 2010 (Chart A). During the month of October, the alcoholic beverages, tobacco and narcotics basket, the health basket and the communications basket experienced the most significant decline in inflation by 1.6 percent, 0.8 percent and 0.3 percent, respectively. Meanwhile, housing, water, electricity, gas and other fuels basket recorded the most significant upward movement in 12- month inflation from 1.4 percent in September 2010 to 2.1 percent following rising prices of gas and other fuels during the month. The food basket recorded a net decline in inflation during the month despite varying price movements of composite items. For instance, the prices of bread, wheat flour, milk and beef went up while those of the more seasonal items such as kales, cabbages, and onions fell in October 2010.

**Chart A: Annual Average, 12-month Overall Inflation and Food and Alcoholic Beverages Inflation**



Source: Central Bank of Kenya

**Government Securities Auction**

The Government securities market overperformed by 42.5 percent during the auction held this week. The Government had offered for sale 91-day Treasury bills amounting to Ksh 5.0 billion and received bids amounting to Ksh 7.1 billion. The Government accepted bids amounting to Ksh 5.3 billion of which Ksh 5.1 billion were competitive. The proceeds of the auction was entirely new borrowing to support the budget.

**Interest Rates on Treasury Bills**

The average 91-day Treasury bill rate edged up 6.4 basis point to 2.180 percent compared with 2.116 percent in October 25, 2010 (Table 1).

**Table 1: Interest Rates**

Auction date	23-Sep-10	30-Sep-10	07-Oct-10	14-Oct-10	21-Oct-10	28-Oct-10	04-Nov-10
91 day T. Bills*	2.022		2.125		2.116		2.180
182 day T. Bills*		2.093		2.111		2.132	
364 day T. Bills*			3.060				
Month	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	
Average savings rate	1.81	1.76	1.75	1.55	1.50	1.47	
Average overdraft rate	14.50	14.38	14.23	14.03	13.97	13.81	

\*Weighted rates

Source: Central Bank of Kenya

**Interbank Market**

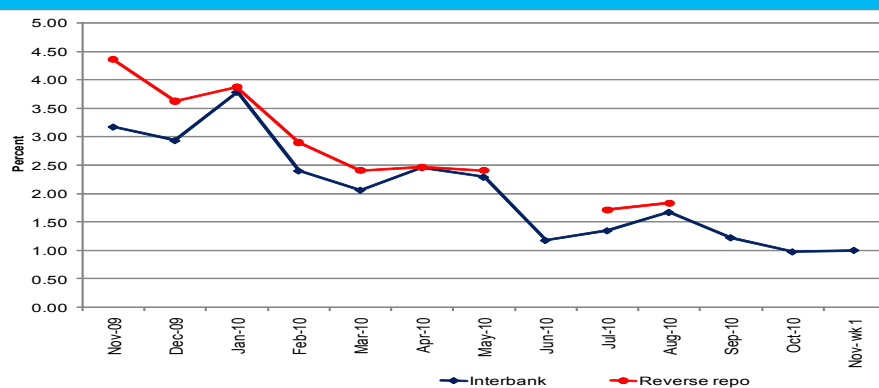
The average interbank rate was stable at 1.00 percent in the week ending November 4, compared with 1.05 percent in the previous week. The volumes traded increased from Ksh 10.6 billion in the previous week to Ksh 12.0 billion in the week ending November 4, 2010 (Table 2). The Government deposits at the Central bank declined from Ksh 47.9 billion in the week ending October 28 to Ksh 47.8 billion in the week ending November 4, 2010.

**Table 2: Interbank Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
15-Oct-10	58	7,765	0.90
18-Oct-10	61	12,574	0.90
19-Oct-10	81	20,325	0.96
20-Oct-10		HOLIDAY	
21-Oct-10	82	15,835	1.00
<b>Oct 15 - Oct 21, 2010</b>	<b>282</b>	<b>56,498</b>	<b>0.94</b>
22-Oct-10	78	13,368	1.02
25-Oct-10	81	14,878	1.05
26-Oct-10	57	6,991	1.08
27-Oct-10	61	8,183	1.04
28-Oct-10	58	9,544	1.05
<b>Oct 22 - Oct 28, 2010</b>	<b>67</b>	<b>10,593</b>	<b>1.05</b>
29-Oct-10	39	7,415	1.02
01-Nov-10	71	14,592	1.00
02-Nov-10	75	15,083	1.00
03-Nov-10	60	10,901	1.00
04-Nov-10	73	12,110	1.01
<b>Oct 29 - Nov 4, 2010</b>	<b>64</b>	<b>12,020</b>	<b>1.00</b>

Source: Central Bank of Kenya

**Chart B: The Structure of Interest Rates**



Source: Central Bank of Kenya

**Monetary  
Policy  
Operations**

Commercial banks reserves at the Central Bank averaged Ksh 19.5 billion in the week ending November 4, 2010, indicating a liquid market (Table 3). Reserve money averaged Ksh 212.2 billion during the week, thereby exceeding the target by Ksh 21.5 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=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
29-Oct	217.2	189.5	27.7	0.0	0.0	0.0	217.0	27.5	27.5	0.0
01-Nov	209.6	191.0	18.6	0.0	0.0	0.0	210.2	19.2	18.2	1.0
02-Nov	211.3	191.0	20.3	0.0	0.0	0.0	209.7	18.7	16.1	2.6
03-Nov	213.7	191.0	22.7	0.0	0.0	0.0	212.5	21.5	18.6	3.0
04-Nov	211.6	191.0	20.6	0.0	0.0	0.0	211.5	20.5	17.1	3.4
Average	212.7	190.7	22.0	0.0	0.0	0.0	212.2	21.5	19.5	2.0

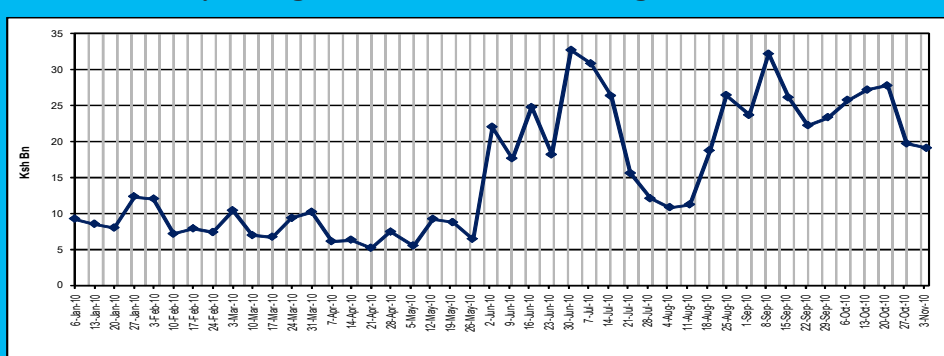
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial  
Banks  
Clearing  
Account  
Balances**

Commercial banks maintained an average of Ksh 19.1 billion in their clearing accounts at the Central Bank in the week to November 4, 2010, compared with Ksh 19.8 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 major international currencies during the week ending October 29, 2010 (Table 4). Against the US dollar, the shilling appreciated marginally to exchange at Ksh 80.54 compared with Ksh 80.74 per US dollar in the previous week. The shilling was boosted by a weakening dollar worldwide as markets reacted to quantitative easing programme measures by the Federal Reserve Bank. The shilling depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 129.71 per Sterling Pound, Ksh 113.15 per Euro and Ksh 99.86 per 100 Japanese Yen in the week

compared with Ksh 127.75 per Sterling Pound, Ksh 112.31 per Euro and Ksh 99.56 per 100 Japanese Yen in the previous week.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
25-Oct-10	80.64	127.07	113.35	99.74	28.26	18.56
26-Oct-10	80.68	127.33	112.73	99.97	28.27	18.57
27-Oct-10	80.75	127.80	111.54	98.82	28.30	18.54
28-Oct-10	80.83	127.86	111.80	99.13	28.30	18.53
29-Oct-10	80.79	128.71	112.13	100.14	28.28	18.51
<b>October 25- October 29, 2010</b>	<b>80.74</b>	<b>127.75</b>	<b>112.31</b>	<b>99.56</b>	<b>28.28</b>	<b>18.54</b>
01-Nov-10	80.75	129.80	113.01	100.35	28.30	18.57
02-Nov-10	80.74	129.66	112.51	100.19	28.30	18.55
03-Nov-10	80.56	129.17	112.81	99.93	28.45	18.58
04-Nov-10	80.53	129.79	113.73	99.65	28.41	18.58
05-Nov-10	80.14	130.14	113.70	99.17	28.51	18.65
<b>November 01- 05, 2010</b>	<b>80.54</b>	<b>129.71</b>	<b>113.15</b>	<b>99.86</b>	<b>28.39</b>	<b>18.59</b>

Source: Central Bank of Kenya

In the local market the Kenya shilling appreciated against the dollar supported by strong inflows from tourism, tea and horticulture sectors.

On the regional scene, the Kenya Shilling strengthened marginally against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 28.39 per Kenya Shilling and Tsh 18.59 per Kenya Shilling in the week ending November 05, 2010, compared with Ush 28.28 per Kenya Shilling and Tsh 18.54 per Kenya Shilling in the previous week respectively

### Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.492 billion (equivalent to 3.54 months of imports) as at November 05, 2010, compared to US dollar 3.471 billion (equivalent to 3.53 months of imports) held on October 29, 2010, reflecting a revaluation gain during the week (Table 5).

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

	25-Jun-10	26-Aug-10	17-Sep-10	24-Sep-10	01-Oct-10	08-Oct-10	15-Oct-10	22-Oct-10	29-Oct-10	05-Nov-10
Usable Reserves	3,310	3,396	3,454	3,476	3,487	3,491	3,492	3,484	3,471	3,492
Months of Imports Cover*	3.47	3.51	3.55	3.57	3.54	3.55	3.55	3.54	3.53	3.54

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

Source: Central Bank of Kenya

### Government Domestic Debt

Gross Government debt increased by 5.7 percent from Ksh 660.3 billion in June 2010 to Ksh 698.4 billion at October 29, 2010 (Table 6 and Chart D). This reflected increased uptake of Treasury bonds and overdraft at the CBK amounting to Ksh 49.5 billion and Ksh 4.4 billion, respectively

which was, however, partly offset by decreases of Ksh 14.9 billion in Treasury bills and Ksh 0.2 billion in other domestic debt.

The stock of Treasury bonds and overdraft at the CBK increased from Ksh 448.6 billion and Ksh 17.6 billion, respectively in June 2010 to Ksh 498.1 billion and Ksh 22.1 billion as at October 29, 2010. But the stock of Treasury bills declined from Ksh 159.0 billion in June 2010 to Ksh 144.2 billion during the same period.

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

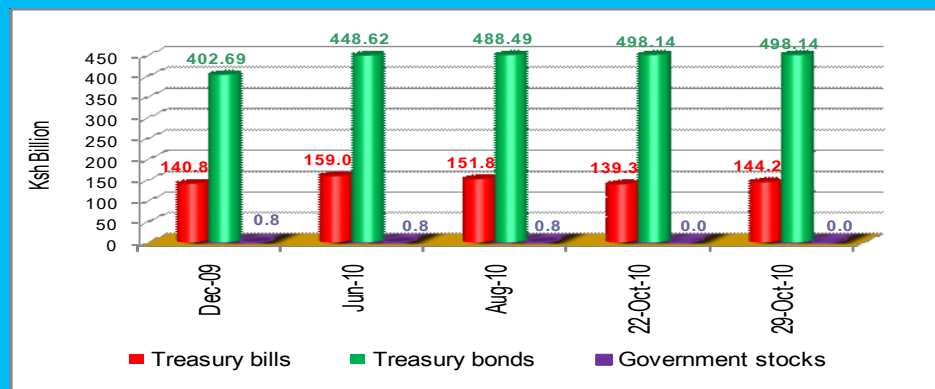
	Jun-10	Jul-10	Aug-10	22nd Oct-2010	29th Oct-2010	Changes	
						22nd Oct-10 - 29th Oct-10	30th Jun-10 - 29th Oct-10
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	158.2 25.6	151.8 23.7	139.3 21.9	144.2 22.4	4.9 0.6	-14.9
2. Treasury Bonds (As % of total securities)	448.6 73.7	459.3 74.3	488.5 76.2	498.1 78.1	498.1 77.6	0.0 -0.6	49.5
3. Long Term Stocks (As % of total securities)	0.8 0.1	0.8 0.1	0.8 0.1	0.0 0.0	0.0 0.0	0.0 0.0	-0.8
4. Total Securities (1+2+3)	608.4	618.2	641.0	637.4	642.3	4.9	33.9
5. Overdraft at Central Bank	17.6	15.5	22.5	22.1	22.1	0.0	4.4
6. Other Domestic debt*	34.2	34.0	34.5	34.0	34.0	0.0	-0.2
7. Gross Domestic Debt (4+5+6)	660.3	667.7	698.0	693.5	698.4	4.8	38.1
8. Interest payments on domestic debt	57.8	2.62	9.38	18.54	21.61	3.1	

\* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCs.  
Source: Central Bank of Kenya

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In view of the above, the share of Treasury bonds increased from 73.7 percent in June to 77.6 percent as at October 29, 2010 while that of Treasury bills declined from 26.1 percent to 22.4 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years as at October 29, 2010. This development is consistent with the Government debt management strategy of lengthening the maturity profile of domestic debt.

**Chart D: Composition of Government Securities**



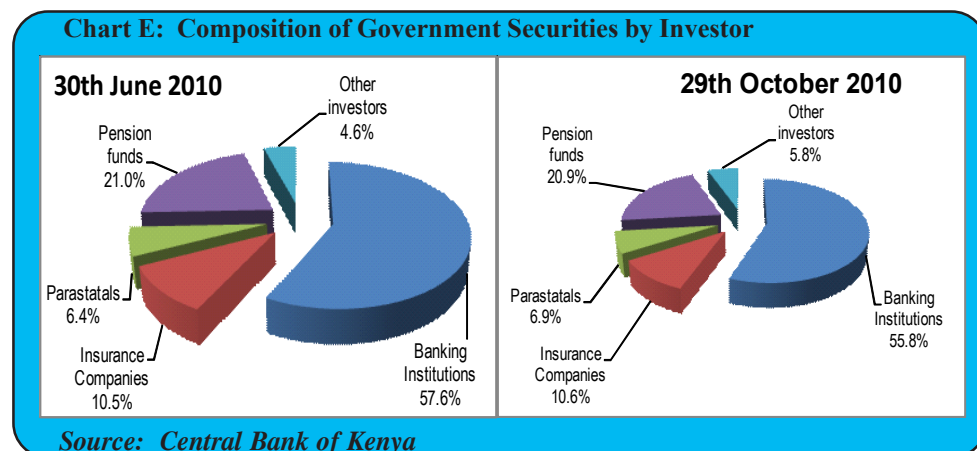
Source: Central Bank of Kenya

**Holding of Government Securities**

The holdings of Government securities by parastatals, insurance companies and other investors increased from 6.4 percent, 10.5 percent and 4.6 percent, respectively in June 2010 to 6.9 percent, 10.6 percent and 5.8 percent, respectively as at October 29, 2010. However, holdings of

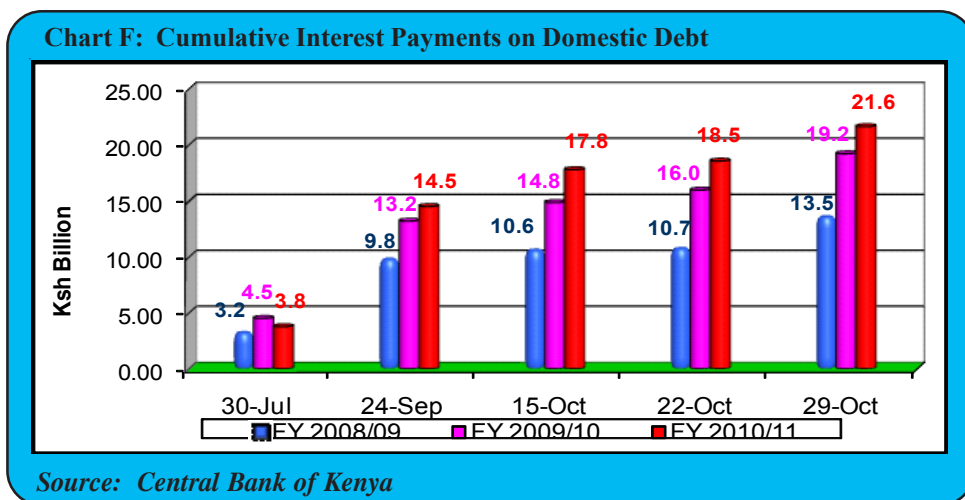


commercial banks and pension funds declined from 57.6 percent and 21.0 percent to 55.5 percent and 20.9 percent, respectively during this period (Chart E).



### Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at October 29, 2010 in FY 2010/11 amounted to Ksh 21.6 billion compared with Ksh 19.2 billion in a similar period of the FY 2009/10 (Chart F). The interest cost on domestic debt during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 5.3 billion and 16.0 billion, respectively and interest on Government overdraft at the CBK of Ksh 0.3 billion.



### The Stock Market

Performance at the equities market declined during the week ending November 4, 2010. Turnover declined by 6.9 percent as stocks worth Ksh 2243.3 million were traded compared with Ksh 2410.7 million traded in the previous week. The number of shares traded declined from 121.0 million in the previous week to 111.0 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 0.3 percent or Ksh. 3.1 billion to close at Ksh 1,216 billion from Ksh 1,213 billion in the previous week. This may be attributed to

improvement of price in some counters. The NSE 20 Share index lost 11.39 points to settle at 4,629 points on November 4, 2010 from 4,640 points on October 28, 2010. The Nairobi All Share Index remained stable at 101.95 points (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	16-Sep-10	23-Sep-10	30-Sep-10	07-Oct-10	14-Oct-10	21-Oct-10	28-Oct-10	04-Nov-10
NASI 100= Jan 2008	97.76	98.33	98.92	100.59	100.45	102.15	101.95	101.95
NSE 20 Share Index 100=1966	4,541.25	4,601.81	4,629.80	4,626.19	4,608.36	4,664.03	4,640.42	4,629.03
Number of Deals	10,196	11,132	11,563	11,782	11,612	8,679	12,818	11,138
Total Shares Traded (millions)	95.98	100.54	101.23	138.75	118.26	105.66	120.97	110.87
Equity Turnover (Ksh. millions)	2,067.06	1,777.21	1,883.94	2,743.85	2,285.00	2,467.01	2,410.67	2,243.27
Market Capitalization (Ksh. Bn.)	1,157.62	1,164.59	1,173.70	1,194.89	1,194.20	1,214.39	1,212.98	1,216.05
Bonds Turnover (Ksh. millions)	8,982.30	6,490.10	4,720.10	8,811.05	6,324.50	6,680.25	7,448.35	4,412.25

\* 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 51.0 million shares and accounted for 45.9 per cent of the traded volume with Safaricom trading 43.4 million shares in the sector. The Finance and Investment sector traded 27.1 million shares and accounted for 24.4 percent of total traded volume. Equity Bank and Co-operative Bank were the most active stocks in the sector, trading 7.7 million and 7.6 million shares respectively. The Industrial and Allied sector traded 32.0 million shares and accounted for 28.8 percent of traded volume. KenolKobil was the most active counter, trading 13.0 million shares. The Alternative market segment traded 104.4 shares.

**Bond Market**

Bond turnover at the Fixed Income Securities Market decreased from Ksh 7.4 billion traded in the previous week to Ksh 4.4 billion in the week under review. The decrease in bond turnover is attributed to a shift in investor's appetite from the secondary market to Treasury bill market following the issue of 91 Treasury bill during the week.