

November 12, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted a performance rate of 62.4 percent during the auction held this week. The Government had offered for sale 182-day Treasury bills amounting to Ksh 7.0 billion, received bids amounting to Ksh 4.4 billion and accepted bids amounting to Ksh 4.2 billion. The average 182-day Treasury bill rate increased by 12.4 basis points to 2.256 percent.

The average interbank rate rose by 2 basis points to 1.02 percent in the week ending November 11, from 1.00 percent in the previous week.

The money market was tight in the week ending November 11, 2010 and the Central Bank injected a total of Ksh 7.7 billion into the market, during the week.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending November 12, 2010. Against the US dollar, the shilling depreciated marginally to exchange at an average of Ksh 80.55 in the week compared with Ksh 80.54 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank decreased to US dollar 3.489 billion (equivalent to 3.54 months of imports) as at November 12, 2010, compared to US dollar 3.492 billion (equivalent to 3.54 months of imports) held on November 05, 2010, reflecting a revaluation loss during the week.

Government gross domestic debt increased by Ksh 47.8 billion from Ksh 660.3 billion in June 2010 to Ksh 708.1 billion as at November, 2010 of the fiscal year 2010/11. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 22.13 billion.

Performance at the equities market largely declined during the week ending November 11, 2010, with the NSE 20 Share index losing 41.54 points to settle at 4,587 from 4,629 points on November 4, 2010 while equity turnover declined by 5.2 percent.

Government Securities Auction

The Government securities market posted a performance rate of 62.4 percent during the auction held this week. The Government had offered for sale 182-day Treasury bills amounting to Ksh 7.0 billion and received bids amounting to Ksh 4.4 billion. Bids amounting to Ksh 4.2 billion were accepted of which Ksh 3.8 billion were competitive. The proceeds of the auction were targeted at meeting part of the cost of government securities maturities falling due in the week amounting to Ksh 11.7 billion.

Interest Rates on Treasury Bills

The average 182-day Treasury bill rate rose by 12.4 basis points to 2.256 percent compared with 2.132 percent posted on November 01, 2010.

Table 1A: Interest Rates (Weighted Treasury Bill Rates)

Auction date	23-Sep-10	30-Sep-10	7-Oct-10	14-Oct-10	21-Oct-10	28-Oct-10	4-Nov-10	11-Nov-10
91 day T. Bills*	2.022		2.125		2.116		2.180	
182 day T. Bills*		2.093		2.111		2.132		2.256
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

Table 1B: Interest Rates (Cut off Treasury Bill Rates)

Auction date	23-Sep-10	30-Sep-10	7-Oct-10	14-Oct-10	21-Oct-10	28-Oct-10	4-Nov-10	11-Nov-10
91 day T. Bills*	2.202		2.299		2.299		2.214	
182 day T. Bills*		2.199		2.199		2.345		2.345
364 day T. Bills*			3.249					
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		

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

Source: Central Bank of Kenya

Interbank and Repo Market

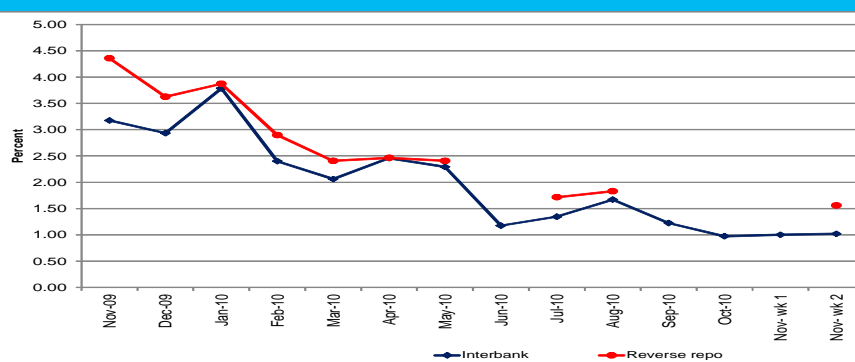
The average interbank rate rose by 2 basis points to 1.02 percent in the week ending November 11, from 1.00 percent in the previous week (Table 2 and Chart A). The volumes traded increased from Ksh 12.0 billion in the previous week to Ksh 14.2 billion in the week ending November 11, 2010. The Government deposits at the Central bank rose from Ksh 47.8 billion in the week ending November 04, to Ksh 50.9 billion in the week ending November 11, 2010.

Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
29-Oct-10	39	7,415	1.02
1-Nov-10	71	14,592	1.00
2-Nov-10	75	15,083	1.00
3-Nov-10	60	10,901	1.00
4-Nov-10	73	12,110	1.01
Oct 29- Nov 4, 2010	64	12,020	1.00
5-Nov-10	72	20,282	0.99
8-Nov-10	59	12,701	1.01
9-Nov-10	72	13,573	1.01
10-Nov-10	68	14,001	1.04
11-Nov-10	70	10,450	1.05
Nov 5 - Nov 11, 2010	68	14,201	1.02

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

The reverse repo rate was 1.227 percent as at the last reverse repo transaction on November 10, 2010.

Monetary Policy Operations

The money market was tight in the week ending November 11, 2010 and the Central Bank injected a total of Ksh 7.7 billion into the market, during the week (Table 3). Commercial Banks did not borrow from the Central Bank overnight window during the week under review. Reserve money averaged Ksh 209.3 billion during the week and was above target by Ksh 17.1 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)
5-Nov	211.1	191.0	20.1	0.0	0.0	0.0	209.9	18.9	13.2	5.7
8-Nov	202.6	192.5	10.1	4.0	6.3	-2.3	209.7	17.2	11.1	6.1
9-Nov	209.0	192.5	16.5	0.0	0.0	0.0	208.7	16.1	9.6	6.5
10-Nov	205.9	192.5	13.3	2.0	1.4	0.6	208.6	16.1	10.1	6.0
11-Nov	208.9	192.5	16.3	0.0	0.0	0.0	209.7	17.2	11.1	6.0
Average	207.5	192.2	15.3	1.2	1.5	-0.3	209.3	17.1	11.0	6.1

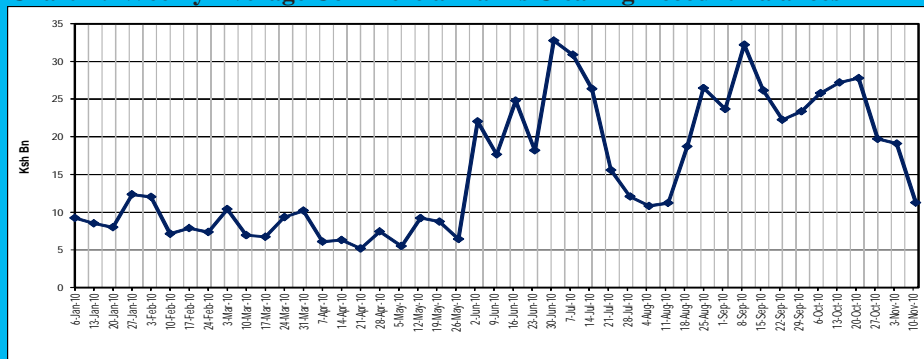
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Account
Balances**

Commercial banks maintained an average of Ksh 11.3 billion in their clearing accounts at the Central Bank in the week to November 11, 2010, compared with Ksh 19.1 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 depicted mixed performance against the major international currencies during the week ending November 12, 2010 (Table 4). Against the US Dollar, the Shilling depreciated marginally. The shilling appreciated against the Sterling Pound, the Euro, the Japanese Yen to exchange on average at Ksh 129.62 per Sterling Pound, Ksh 111.13 per Euro and Ksh 98.58 per 100 Japanese Yen in the week compared with Ksh 129.71 per Sterling Pound, Ksh 113.15 per Euro and Ksh 99.86 per 100 Japanese Yen in the previous week. The appreciation reflected weakening of these currencies against the US Dollar.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
1-Nov-10	80.75	129.80	113.01	100.35	28.30	18.57
2-Nov-10	80.74	129.66	112.51	100.19	28.30	18.55
3-Nov-10	80.56	129.17	112.81	99.93	28.45	18.58
4-Nov-10	80.53	129.79	113.73	99.65	28.41	18.58
5-Nov-10	80.14	130.14	113.70	99.17	28.51	18.65
November 01- 05, 2010	80.54	129.71	113.15	99.86	28.39	18.59
8-Nov-10	80.33	129.63	112.16	98.97	28.34	18.55
9-Nov-10	80.62	129.96	111.82	99.55	28.28	18.48
10-Nov-10	80.63	129.09	111.01	98.57	28.39	18.48
11-Nov-10	80.55	130.02	111.01	97.95	28.31	18.52
12-Nov-10	80.60	129.38	109.66	97.86	28.41	18.49
November 08- 12, 2010	80.55	129.62	111.13	98.58	28.35	18.50

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling weakened marginally against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 28.35 per Kenya Shilling and Tsh 18.50 per Kenya Shilling in the week ending

November 12, 2010, compared with Ush 28.39 per Kenya Shilling and Tsh 18.59 per Kenya Shilling in the previous week, respectively.

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank decreased to US Dollar 3.489 billion (equivalent to 3.54 months of imports) as at November 12, 2010, compared to US dollar 3.492 billion (equivalent to 3.54 months of imports) held on November 05, 2010, reflecting a revaluation loss during the week (Table 5).

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

	24-Sep-10	1-Oct-10	8-Oct-10	15-Oct-10	22-Oct-10	29-Oct-10	5-Nov-10	12-Nov-10
Usable Reserves	3,476	3,487	3,491	3,492	3,484	3,471	3,492	3,489
Months of Imports Cover*	3.57	3.54	3.55	3.55	3.54	3.53	3.54	3.54

*Based on 36 month average of

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government debt increased by Ksh 47.8 billion from Ksh 660.3 billion in June 2010 to Ksh 708.1 billion at November 05, 2010 (Table 6 and Chart C). This increase was on account of increases in Treasury bonds and overdraft at the Central Bank amounting to Ksh 63.4 billion and Ksh 5.3 billion, respectively and partially offset by decreases of Ksh 19.9 billion in Treasury bills and Ksh 0.2 billion in other domestic debt and Ksh 0.8 billion in long term stocks outstanding.

Treasury bonds and overdraft at the Central Bank increased from Ksh 448.6 billion and Ksh 17.6 billion, respectively, in June 2010 to Ksh 512.0 billion and Ksh 22.9 billion as at November 5, 2010. Treasury bills declined from Ksh 159.0 billion in June 2010 to Ksh 139.2 billion during the same period.

Table 6: Government Domestic Debt (Ksh Billion)

	Jun-10	Jul-10	Aug-10	29th Oct-2010	5th Nov-2010	Changes	
						29th Oct-10- 5th Nov-10	30th Jun-10- 5th Nov-10
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	158.2 25.6	151.8 23.7	144.2 22.4	139.2 21.4	-5.0 -1.1	-19.9
2. Treasury Bonds (As % of total securities)	448.6 73.7	459.3 74.3	488.5 76.2	498.1 77.6	512.0 78.6	13.8 1.1	63.4
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	642.3	651.2	8.9	42.7
5. Overdraft at Central Bank	17.6	15.5	22.5	22.1	22.9	0.9	5.3
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	698.4	708.1	9.7	47.8
8. Interest payments on domestic debt	57.8	2.62	9.38	21.61	22.13	0.5	

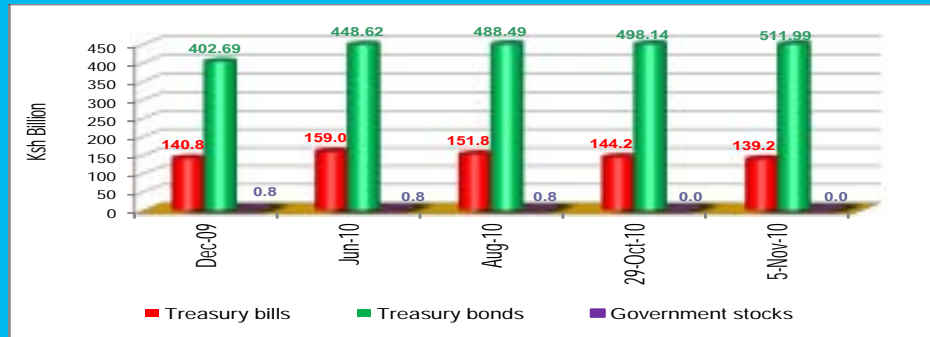
*Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCs.

Source: Central Bank of Kenya

In view of the above, the share of Treasury bonds in total securities increased from 73.7 percent in June to 78.6 percent as at November 05, 2010, while that of Treasury bills declined from 26.1 percent to 21.4 percent. The average

time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years as at November 05, 2010. This development is largely in line with the Government debt management strategy of lengthening the maturity profile of domestic debt.

Chart C: Composition of Government Securities

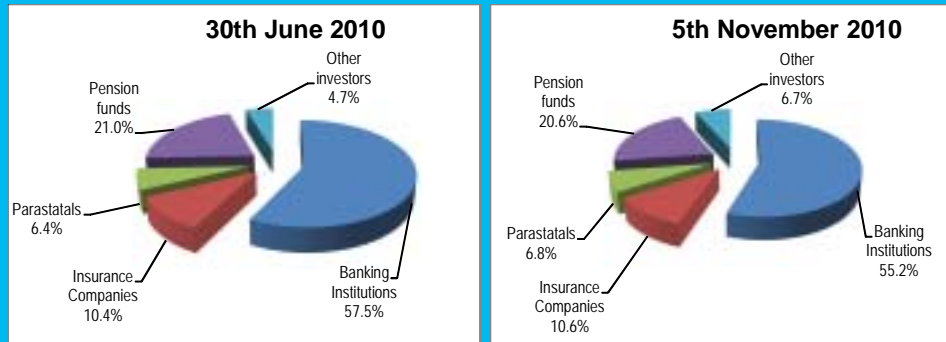


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by parastatals, insurance companies and other investors increased from 6.4 percent, 10.4 percent and 4.7 percent, respectively, in June 2010 to 6.8 percent, 10.6 percent and 6.7 percent, respectively, as at November 05, 2010. However, holdings of commercial banks and pension funds declined from 57.5 percent and 21.0 percent to 55.2 percent and 20.6 percent, respectively during this period (Chart D).

Chart D: Composition of Government Securities by Investor

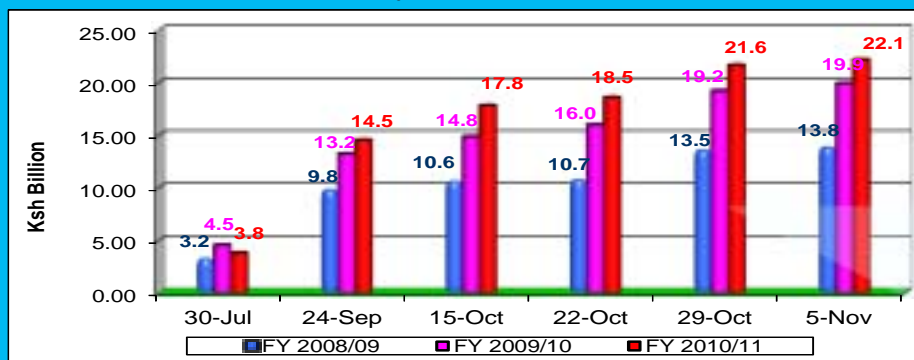


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at November 05, 2010 of the fiscal year 2010/11 amounted to Ksh 22.1 billion compared with Ksh 19.9 billion in a similar period of the fiscal year 2009/10 (Chart E). The interest cost on domestic debt during the period comprised of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 5.6 billion and 16.2 billion, respectively, while interest on Government overdraft at the Central Bank amounted to Ksh 0.3 billion.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

Performance at the equities market declined during the week ending November 11, 2010. Turnover declined by 5.2 percent as stocks worth Ksh 2,126.4 million were traded compared with Ksh 2,243.3 million traded in the previous week. The number of shares traded increased from 111.0 million in the previous week to 146.4 million shares in the week under review. Market capitalization as a measure of total shareholders wealth decreased by 0.6 percent or Ksh. 7.0 billion to close at Ksh 1,209 billion from Ksh 1,216 billion in the previous week. The NSE 20 Share index lost 41.54 points to 4,587 on November 11, 2010 from 4,629 on November 4, 2010. The Nairobi All Share Index lost 0.59 to 101.36 from 101.95 the previous week. (Table 7). The decline in performance may be attributed to the wait and see attitude by investors in anticipation of profit taking as companies declare profits, and shift in investor interest into the bond market where secondary trading of the Housing Finance Company bond (HFCK) commenced during the week.

Table 7: Key Weekly Market Statistics

Week Ending	7-Oct-10	14-Oct-10	21-Oct-10	28-Oct-10	4-Nov-10	11-Nov-10
NASI 100= Jan 2008	100.59	100.45	102.15	101.95	101.95	101.36
NSE 20 Share Index 100=1966	4,626.19	4,608.36	4,664.03	4,640.42	4,629.03	4,587.49
Number of Deals	11,782	11,612	8,679	12,818	11,138	10,426
Total Shares Traded (millions)	138.75	118.26	105.66	120.97	110.87	146.38
Equity Turnover (Ksh. millions)	2,743.85	2,285.00	2,467.01	2,410.67	2,243.27	2,126.41
Market Capitalization (Ksh. Bn.)	1,194.89	1,194.20	1,214.39	1,212.98	1,216.05	1,209.09
Bonds Turnover (Ksh. millions)	8,811.05	6,324.50	6,680.25	7,448.35	4,412.25	7,929.35

* 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 91.6 million shares and accounted for 62.6 per cent of the traded volume with Safaricom trading 86.7 million shares in the sector. The Finance and Investment sector traded 28.4 million shares and accounted for 19.4 percent of total traded volume. Equity Bank and Co-operative Bank were the most active stocks in the sector, trading 11.0 million and 7.1 million shares, respectively. Industrial and Allied sector traded 26.0 million shares and accounted for 17.7 percent of traded volume. KenolKobil was the most active counter, trading 12.0 million shares. The Alternative market segment traded 85.2 shares.

Bond Market

Bond turnover at the Fixed Income Securities Market increased from Ksh 4.4 billion traded in the previous week to Ksh 7.9 billion in the week under review. The increase in bond turnover is attributed to shift in appetite towards the secondary market, following the commencement of trading of the seven billion HFCK bond during the week.