

**November 19, 2010**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The Government securities market recorded oversubscription of 67.7 percent during the Treasury bills auction of November 18, 2010. The Government had offered for sale Treasury bills worth Ksh 3.5 billion, received bids totalling Ksh 5.9 billion and accepted bills bids totalling Ksh 3.9 billion. The average 91-day Treasury bills rate increased by 6.2 basis points during this week's auction.

The average interbank rate increased by 6 basis points to 1.08 percent in the week ending November 18, from 1.02 percent in the previous week.

Central Bank injected Ksh 7.7 billion through reverse repos to augment money market liquidity in the week ending November 18, 2010.

The Kenya Shilling appreciated against the major international currencies during the week ending November 19, 2010. Against the US dollar, the appreciation was marginal to Ksh 80.34 compared with Ksh 80.55 per US dollar in the previous week.

Usable official foreign exchange reserves held by the Central Bank declined to US dollar 3.47 billion (equivalent to 3.52 months of imports) as at November 19, 2010, compared to US dollar 3.49 billion (equivalent to 3.54 months of imports) held on November 12, 2010, reflecting revaluation loss during the week.

Government gross domestic debt increased by Ksh 39.7 billion from Ksh 660.3 billion in June 2010 to Ksh 700.0 billion as at November 12, 2010 during the fiscal year 2010/11. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 22.21 billion.

Performance at the equities market declined during the week ending November 18, 2010, with the NSE 20 Share index losing 32.21 points to settle at 4,555 from 4,587 on November 11, 2010, while equity turnover decreased by 3.5 percent.

**Government Securities Auction**

The Government securities market recorded oversubscription of 67.7 percent during the Treasury bill auction of November 18 2010. The Government had offered for sale 91-day Treasury bills worth Ksh 3.5 billion and received bids totalling Ksh 5.9 billion out of which Ksh 5.7 billion were competitive bids.

The Government accepted Treasury bills bids amounting to Ksh 3.9 billion out of which Ksh 3.7 billion were competitive bids. The proceeds of the auction were directed at supporting the budget.

**Interest Rates on Treasury Bills**

The average 91-day Treasury bills rate increased by 6.2 basis points from 2.18 percent in the previous auction for the bill to 2.24 percent (Table 1).

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

Auction date	30-Sep-10	7-Oct-10	14-Oct-10	21-Oct-10	28-Oct-10	4-Nov-10	11-Nov-10	18-Nov-10
91 day T. Bills*		2.125		2.116		2.180		2.242
182 day T. Bills*	2.093		2.111		2.132		2.256	
364 day T. Bills*		3.060						
Month	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10		
Average savings rate	1.76	1.75	1.55	1.50	1.47	1.46		
Average overdraft rate	14.38	14.23	14.03	13.97	13.81	13.64		

\*Weighted rates

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

Auction date	30-Sep-10	7-Oct-10	14-Oct-10	21-Oct-10	28-Oct-10	4-Nov-10	11-Nov-10	18-Nov-10
91 day T. Bills*		2.299		2.299		2.214		2.299
182 day T. Bills*	2.199		2.199		2.345		2.345	
364 day T. Bills*		3.249						
Month	May-10	Jun-10	Jul-10	Aug-10	Sep-10			
Average savings rate	1.76	1.75	1.55	1.50	1.47			
Average overdraft rate	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**

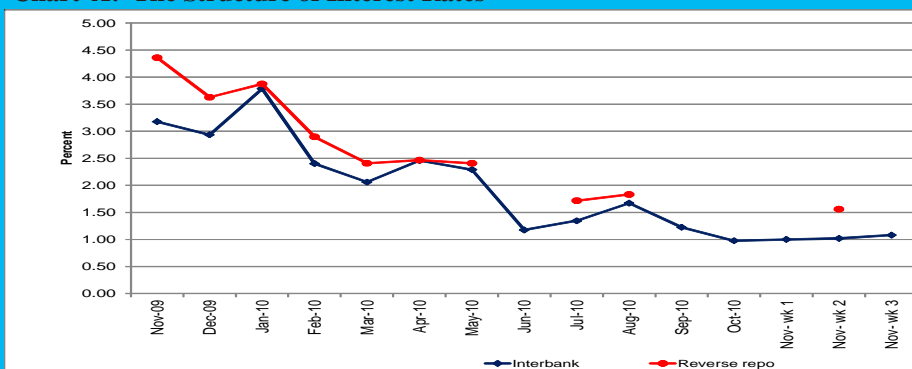
The average interbank rate increased by 6 basis points to 1.08 percent in the week ending November 18, from 1.02 percent in the previous week (Table 2 and Chart A). The volumes traded declined from Ksh 14.2 billion in the previous week to Ksh 11.7 billion in the week ending November 18, 2010. The Government deposits at the Central bank declined marginally from Ksh 50.8 billion in the week ending November 11, to Ksh 49.4 billion in the week ending November 18, 2010.

Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
<b>Nov 5 - Nov 11, 2010</b>	<b>68</b>	<b>14,201</b>	<b>1.02</b>
12-Nov-10	68	8,641	1.08
15-Nov-10	76	12,904	1.07
16-Nov-10	78	11,731	1.05
17-Nov-10	77	12,421	1.07
18-Nov-10	81	12,713	1.10
<b>Nov 12 - Nov 18, 2010</b>	<b>76</b>	<b>11,682</b>	<b>1.08</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 Ksh 7.7 billion through reverse repos during the week ending November 18, 2010 to augment inter bank liquidity (Table 3). The reverse repo rate averaged 1.23 percent, and was aligned to other short term money market rates.

On account of the skewed liquidity distribution, commercial banks also borrowed Ksh 1.2 billion from the Central Bank's overnight window during the week under review. Reserve money averaged Ksh 213.4 billion during the week and was above target by Ksh 19.6 billion.

Table 3: Open Market Operations (Ksh Billion)

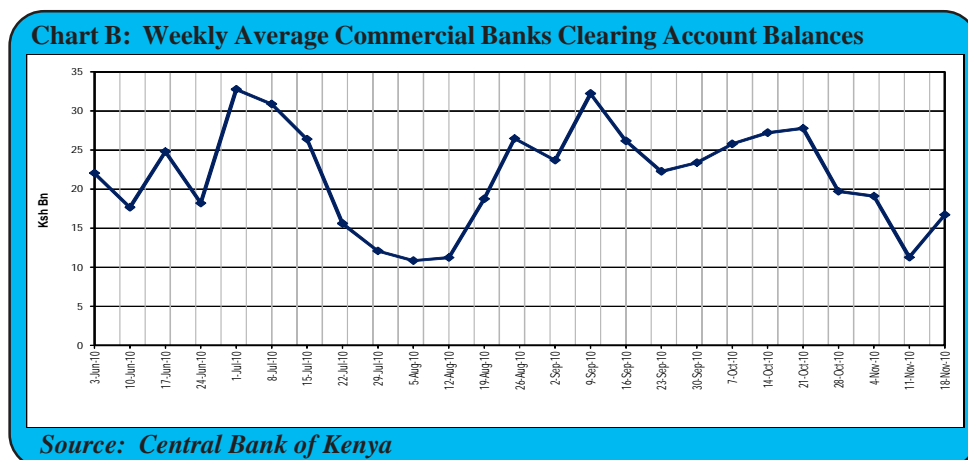
Date	Reserve Money* (Projected)			OMO (Reverse REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/Short(-)	Posted	Injected	Exc(+)/Short(-)	Actual	Exc(+)/Short(-)	Exc(+)/Short(-)	Exc(+)/Short(-)
	(1)	(2)	3=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
12-Nov	213.6	192.5	21.1	0.0	0.0	0.0	214.6	22.1	16.8	5.3
15-Nov	213.1	194.1	19.1	0.0	0.0	0.0	214.7	20.6	15.8	4.8
16-Nov	215.9	194.1	21.9	0.0	0.0	0.0	215.0	20.9	16.0	4.9
17-Nov	212.2	194.1	18.2	0.0	0.0	0.0	211.3	17.2	13.3	4.0
18-Nov	209.6	194.1	15.5	0.0	0.0	0.0	211.3	17.3	13.2	4.1
<b>Average</b>	<b>212.9</b>	<b>193.8</b>	<b>19.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>213.4</b>	<b>19.6</b>	<b>15.0</b>	<b>4.6</b>

\*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 16.7 billion in their clearing accounts at the Central Bank in the week to November 18, 2010, compared with Ksh 11.3 billion held the previous week (Chart B).



**The Shilling Exchange Rate**

The Kenya Shilling on average appreciated against major international currencies during the week ending November 19, 2010 (Table 4). Against the US dollar, the shilling appreciated marginally to exchange at Ksh 80.34 in the week compared with Ksh 80.55 per US dollar in the previous week. During the week, the shilling appreciated against the Sterling Pound, the Euro the Japanese Yen and to exchange on average at Ksh 128.57 per Sterling Pound, Ksh 109.30 per Euro and Ksh 96.62 per 100 Japanese Yen compared with Ksh 129.62 per Sterling Pound, Ksh 111.13 per Euro and Ksh 98.58 per 100 Japanese Yen in the previous week.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
<b>November 08- 12, 2010</b>	<b>80.55</b>	<b>129.62</b>	<b>111.13</b>	<b>98.58</b>	<b>28.35</b>	<b>18.50</b>
15-Nov-10	80.51	129.74	110.14	97.21	28.44	18.61
16-Nov-10	80.46	129.19	109.56	97.05	28.40	18.67
17-Nov-10	80.45	127.79	108.61	96.40	28.53	18.71
18-Nov-10	80.16	127.60	108.90	96.32	28.50	18.69
19-Nov-10	80.10	128.52	109.27	96.12	28.53	18.70
<b>November 15- 19, 2010</b>	<b>80.34</b>	<b>128.57</b>	<b>109.30</b>	<b>96.62</b>	<b>28.48</b>	<b>18.68</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 28.48 per Kenya Shilling and Tsh 18.68 per Kenya Shilling in the week ending November 19, 2010, compared with 28.35 per Kenya Shilling and Tsh 18.50 per Kenya Shilling in the previous week, respectively.

## Foreign Exchange Reserves

Usable official foreign exchange reserves held by the Central Bank decreased to US dollar 3.47 billion (equivalent to 3.52 months of imports) as at November 19, 2010, compared to US dollar 3.49 billion (equivalent to 3.54 months of imports) held on November 12, 2010, reflecting a revaluation loss during the week (Table 5).

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

	13-Aug-10	20-Aug-10	15-Oct-10	22-Oct-10	29-Oct-10	5-Nov-10	12-Nov-10	19-Nov-10
Usable Reserves	3,417	3,416	3,492	3,484	3,471	3,492	3,489	3,472
Months of Imports Cover*	3.53	3.53	3.55	3.54	3.53	3.54	3.54	3.52

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

Source: Central Bank of Kenya

## Government Domestic Debt

Gross Government domestic debt increased by Ksh 39.7 billion from Ksh 660.3 billion in June 2010 to Ksh 700.0 billion as at November 12, 2010 (Table 6 and Chart C). The increase in domestic debt was within the Government's borrowing programme and reflected new borrowing through Treasury bonds amounting to Ksh 63.4 billion. The stock of Treasury bills and other domestic debt, however, declined by Kshs 14.6 billion and Ksh 7.4 billion, respectively. The Government repayed its overdraft at the Central Bank by Kshs 1 billion. The decline in the other domestic debt was largely on account of repayment of Ksh 7.0 billion by Government in respect of its pre-1997 overdraft (now securitized) at the Central Bank. The securitized debt outstanding, therefore, declined from Ksh 32.2 billion as at November 5, 2010 to Ksh 25.2 billion as at November 12, 2010.

The stock of Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 512.0 billion as at November 12, 2010. The stock of Treasury bills, overdraft at the Central Bank and other domestic debt declined by a lesser margin from Ksh 159.0 billion, Ksh 17.6 billion and Ksh 34.2 billion, respectively in June 2010 to Ksh 144.5 billion, Ksh 16.7 billion and Ksh 26.8 billion, respectively during the same period.

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

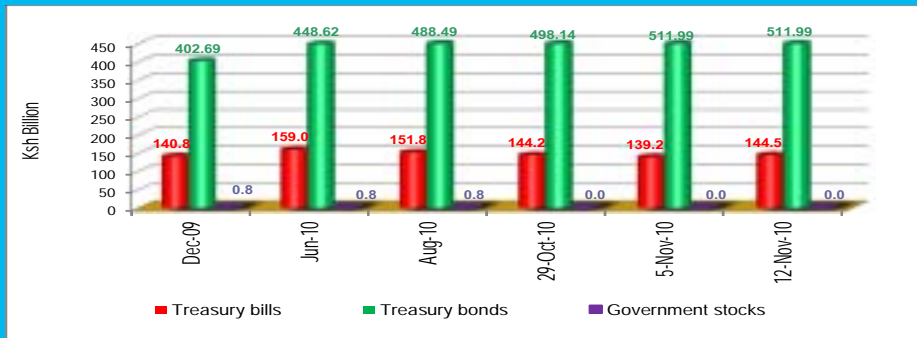
	Jun-10	Jul-10	Aug-10	Oct-10	5th Nov-2010	12th Nov-2010	Changes	
							5th Oct-10 - 12th Nov-10	30th Jun-10 - 12th Nov-10
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	158.2 25.6	151.8 23.7	144.2 22.4	139.2 21.4	144.5 22.0	5.3 0.6	-14.6
2. Treasury Bonds (As % of total securities)	448.6 73.7	459.3 74.3	488.5 76.2	498.1 77.6	512.0 78.6	512.0 78.0	0.0 -0.6	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	0.0 0.0	-0.8
4. Total Securities (1+2+3)	608.4	618.2	641.0	642.3	651.2	656.5	5.3	48.1
5. Overdraft at Central Bank	17.6	15.5	22.5	22.1	22.9	16.7	-6.2	-1.0
6. Other Domestic debt*	34.2	34.0	34.5	34.0	34.0	26.8	-7.2	-7.4
7. Gross Domestic Debt (4+5+6)	660.3	667.7	698.0	698.4	708.1	700.0	-8.1	39.7
8. Interest payments on domestic debt	57.8	2.62	9.38	21.61	22.13	22.21	0.1	

\*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 domestic debt increased from 73.7 percent in June to 78.0 percent as at November 12, 2010, while that of Treasury bills declined from 26.1 percent to 22.0 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years as at November 12, 2010. This development is consistent with the Government debt management strategy of lengthening the maturity profile of domestic debt.

**Chart C: Composition of Government Securities**

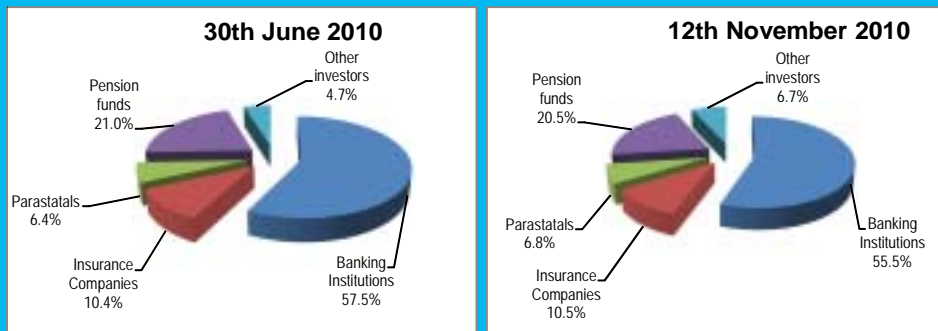


Source: Central Bank of Kenya

**Holding of Government Securities**

The holdings of Government securities by parastatals and other investors increased from 6.4 percent and 4.6 percent, respectively in June 2010 to 6.8 percent and 6.7 percent, respectively as at November 12, 2010. However, holdings of commercial banks and pension funds declined from 57.6 percent and 21.0 percent to 55.5 percent and 20.5 percent, respectively during this period (Chart D).

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

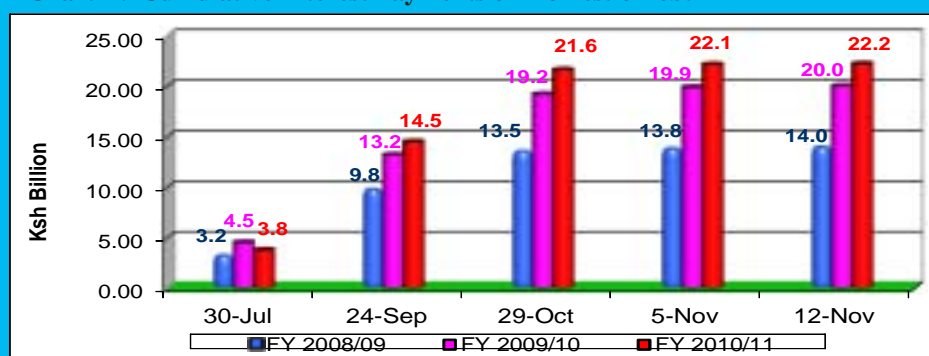


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

Cumulative Government expenditure on interest and other charges on domestic debt as at November 12, 2010 in the fiscal year 2010/11 amounted to Ksh 22.2 billion compared with Ksh 20.0 billion in a similar period of the fiscal year 2009/10 (Chart E). The interest cost on domestic debt during the period reflected 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 18, 2010. Turnover declined by 3.5 percent as stocks worth Ksh 2,052.5 million were traded compared with Ksh 2,126.4 million traded in the previous week. The number of shares traded decreased from 146.4 million in the previous week to 97.7 million shares in the week under review. The NSE 20 Share index lost 32.21 points to settle at 4,555 points on November 18, 2010 from 4,587 points on November 11, 2010. The Nairobi All Share Index lost 0.84 points to settle at 100.52 from 101.36 points the previous week (Table 7). Consistent with the decline in average share prices, market capitalization as a measure of total shareholders wealth decreased by 0.8 percent, or Ksh 9.9 billion to close at Ksh 1,199 billion from Ksh 1,209 billion in the previous week. The continued decline in equities performance from the previous week may be attributed to “await and see” attitude by investors as companies prepare to declare profits, and a possible re-allocation of portfolio by investors away from the equity market to the Housing Finance Company (HFCK) bond launched last 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	18-Nov-10
NASI 100= Jan 2008	100.59	100.45	102.15	101.95	101.95	101.36	100.52
NSE 20 Share Index 100=1966	4,626.19	4,608.36	4,664.03	4,640.42	4,629.03	4,587.49	4,555.28
Number of Deals	11,782	11,612	8,679	12,818	11,138	10,426	8,869
Total Shares Traded (millions)	138.75	118.26	105.66	120.97	110.87	146.38	97.66
Equity Turnover (Ksh. millions)	2,743.85	2,285.00	2,467.01	2,410.67	2,243.27	2,126.41	2,052.47
Market Capitalization (Ksh. Bn.)	1,194.89	1,194.20	1,214.39	1,212.98	1,216.05	1,209.09	1,199.17
Bonds Turnover (Ksh. millions)	8,811.05	6,324.50	6,680.25	7,448.35	4,412.25	7,929.35	8,010.60

\* 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 56.7 million shares and accounted for 58.1 percent of the traded volume with Safaricom trading 43.6 million shares in the sector. The Finance and Investment sector traded 22.9 million shares and accounted for 23.4 percent of total traded volume.

Co-operative Bank and Equity Bank were the most active stocks in the sector, trading 8.0 million and 5.7 million shares, respectively. Industrial and Allied sector traded 17.8 million shares and accounted for 18.2 percent of traded volume. Mumias Sugar Company was the most active counter, trading 6.7 million shares. The Alternative market segment traded 6.7 shares.

**Bond Market**

Bond turnover at the Fixed Income Securities Market stabilised at Ksh 8.0 billion compared with Ksh 7.9 billion traded in the previous week.