

October 1, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The overall 12-month inflation for September 2010 remained constant at 3.2 percent. Similarly, the average annual inflation declined during the month by 0.3 percent, from 4.7 percent in August 2010 to 4.4 percent in September 2010.

The 182-day Treasury bills auction of September 30, 2010 posted an oversubscription of 93.15 percent. The Government had offered for sale 182-day Treasury bills amounting to Ksh 6.0 billion and received bids totalling Ksh 11.6 billion of which Ksh 11.3 billion were competitive bids. The average rate for the 182-year Treasury bills declined by 2.0 basis points from 2.113 percent posted on September, 20, 2010 to 2.093 percent.

The average interbank rate declined by 5 basis points to 1.05 percent in the week ending September 30, down from 1.10 percent the previous week.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending October 01, 2010. Against the US dollar, the shilling appreciated marginally to exchange at an average of Ksh 80.86 in the week compared with Ksh 80.94 per US dollar the previous week.

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.487 billion (equivalent to 3.57 months of imports) as at October 01, 2010, compared to US dollar 3.476 billion (equivalent to 3.57 months of imports) held on September 24, 2010.

The money market was liquid in the week ending September 30, 2010 and the Central Bank stayed out of the market. There were no reverse repo maturities during the week.

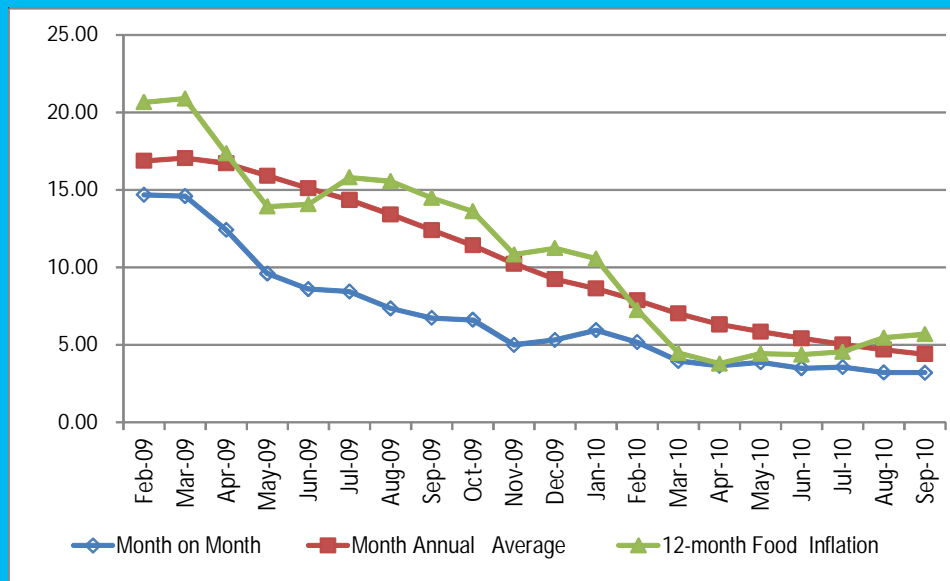
Gross Government debt increased by Ksh 31.1 billion from Ksh 660.3 billion in June 2010 to Ksh 691.3 billion while the cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 14.5 billion as at September 24, 2010.

Performance at the equities market improved during the week ending September 30, 2010, with the NSE 20 Share index gaining 27.99 points to settle at 4,630 from 4,601.81 points on September 23, 2010 and equity turnover gaining by 6.0 percent.

Inflation

Overall 12-month inflation edged slightly downwards by 0.01 percent in September 2010 to 3.21 percent from 3.22 percent in August 2010. Despite the marginal net decline, there were significant upward movements in all baskets except the communication and recreation baskets. The restaurants and hotels and the health baskets experienced increases of 1.7 percent and 1.0 percent, respectively, between August and September 2010. The prices of seasonal food items such as tomatoes, maize flour and maize grain fell during the month. The communications index also went down by 1.1 percent during the month as a result of the price wars among the service providers in August 2010.

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



Source: Central Bank of Kenya

Government Securities Auction

The 182-day Treasury bills auction of September 30, 2010 posted an oversubscription of 93.15 percent. During the auction the Government offered for sale Treasury bills amounting to Ksh 6.0 billion and received bids amounting to Ksh 11.6 billion of which Ksh 11.3 billion were competitive bids. Bids accepted amounted to Ksh 7.6 billion. There were no maturities falling due in the week.

Interest Rates on Treasury Bills

The average rate for the 182-year Treasury bills declined by 2.0 basis points from 2.113 percent posted on September, 20, 2010 to 2.093 percent. The cut-off rate, however, remained the same as the previous auction at 2.199 percent.

Interbank Market

Table 1: Interest Rates

Auction date	12-Aug-10	19-Aug-10	26-Aug-10	2-Sep-10	9-Sep-10	16-Sep-10	23-Sep-10	30-Sep-10
91 day T. Bills*	1.999		2.202		2.100		2.022	
182 day T. Bills*		2.150		2.199		2.199		2.199
364 day T. Bills*	3.000							
Month	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10
Average savings rate	1.75	1.81	1.81	1.81	1.76	1.75	1.55	1.50
Average overdraft rate	14.25	14.25	14.06	14.50	14.38	14.23	14.03	13.97

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

Source: Central Bank of Kenya

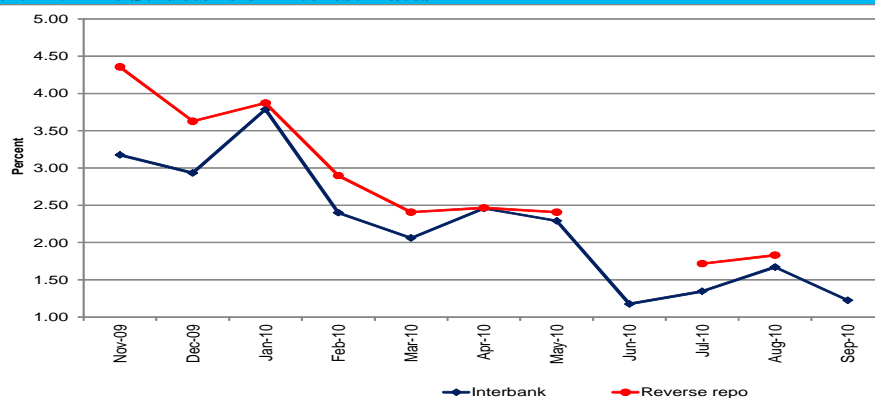
The average interbank rate declined by 5 basis points to 1.05 percent in the week ending September 30, down from 1.10 percent the previous week. The volumes traded increased marginally from Ksh 49.7 billion the previous week to Ksh 50.0 billion in the week ending September 30, 2010. The Government deposits at the Central bank declined from Ksh 57.4 billion in the week ending September 23, 2010 to Ksh 51.7 billion in the week ending September 30, 2010.

Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
17-Sep-10	61	7,700	1.12
20-Sep-10	72	11,455	1.11
21-Sep-10	70	10,406	1.10
22-Sep-10	73	9,133	1.07
23-Sep-10	67	10,989	1.07
Sept 17 - Sept 23, 2010	343	49,682	1.10
24-Sep-10	60	11,570	1.06
27-Sep-10	66	11,922	1.07
28-Sep-10	64	9,816	1.05
29-Sep-10	62	9,383	1.05
30-Sep-10	56	7,346	1.04
Sept 24 - Sept 30, 2010	308	50,036	1.05

Source: Central Bank of Kenya

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

**Monetary
Policy
Operations**

The money market was liquid in the week ending September 30, 2010 and the Central Bank stayed out of the market (Table 3). There were no reverse repo maturities during the week, and commercial banks did not borrow from the Central Bank overnight window. Reserve money averaged Ksh 207.5 billion during the week and was above target by Ksh 21.1 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)
24-Sep	205.4	186.4	19.0	0.0	0.0	0.0	207.4	21.0	18.2	2.8
27-Sep	203.4	186.4	17.0	0.0	0.0	0.0	204.0	17.6	15.0	2.7
28-Sep	205.4	186.4	19.0	0.0	0.0	0.0	207.3	20.9	17.9	3.0
29-Sep	207.7	186.4	21.3	0.0	0.0	0.0	207.5	21.1	17.9	3.2
30-Sep	210.4	186.4	24.0	0.0	0.0	0.0	211.1	24.7	21.1	3.6
Average	206.5	186.4	20.1	0.0	0.0	0.0	207.5	21.1	18.0	3.1

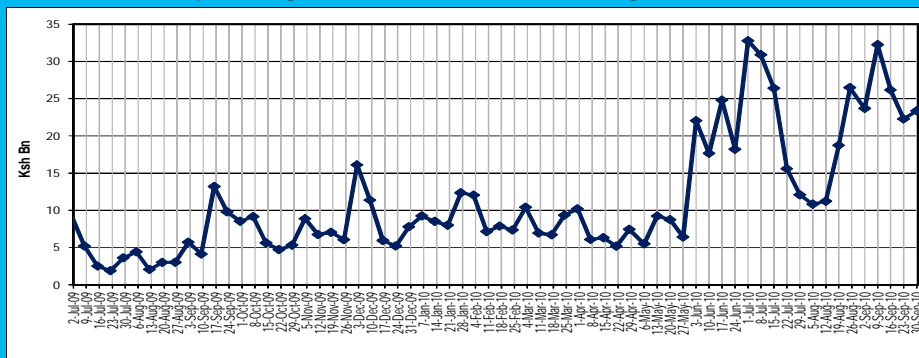
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Account
Balances**

Commercial banks maintained an average of Ksh 23.4 billion in their clearing accounts at the Central Bank in the week to September 30, 2010, compared with Ksh 22.3 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 the major international currencies during the week ending October 01, 2010 (Table 4). Against the US dollar, the shilling appreciated marginally to exchange at Ksh 80.86 in the week compared with Ksh 80.94 per US dollar in the previous week. Over the same period, the shilling depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 127.78 per Sterling Pound, Ksh 109.51 per Euro and Ksh 96.51 per 100 Japanese Yen in the week compared with Ksh 126.69 per Sterling Pound Ksh 107.17 per Euro and Ksh 95.13 per 100 Japanese Yen in the previous week.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
20-Sep-10	80.79	126.55	105.65	94.26	27.85	18.78
21-Sep-10	80.99	126.15	106.03	94.72	27.83	18.71
22-Sep-10	80.84	126.73	107.44	95.16	27.86	18.77
23-Sep-10	80.95	126.82	108.47	95.78	27.77	18.68
24-Sep-10	81.16	127.18	108.25	95.73	27.71	18.75
September 20- 24, 2010	80.94	126.69	107.17	95.13	27.80	18.74
27-Sep-10	80.89	128.03	108.84	96.03	27.78	18.78
28-Sep-10	80.94	127.90	108.85	96.10	27.74	18.72
29-Sep-10	80.85	128.03	109.84	96.66	27.79	18.65
30-Sep-10	80.78	127.85	109.67	96.86	27.76	18.58
1-Oct-10	80.84	127.09	110.33	96.88	27.77	18.46
September 27- October 01,	80.86	127.78	109.51	96.51	27.77	18.64

Source: Central Bank of Kenya

On the regional front, the Kenya Shilling weakened against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 27.77 per Kenya Shilling and Tsh 18.64 per Kenya Shilling in the week ending October 01, 2010, compared with Ush 27.80 per Kenya Shilling and Tsh 18.74 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 3.487 billion (equivalent to 3.57 months of imports) as at October 01, 2010, compared to US dollar 3.476 billion (equivalent to 3.57 months of imports) held September 24, 2010, reflecting a revaluation gain during the week (Table 5).

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

	27-May-10	25-Jun-10	26-Aug-10	10-Sep-10	17-Sep-10	24-Sep-10	1-Oct-10
Usable Reserves	3,252	3,310	3,396	3,427	3,454	3,476	3,487
Months of Imports Cover*	3.41	3.47	3.51	3.52	3.55	3.57	3.57

*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 Ksh 31.1 billion from Ksh 660.3 billion in June 2010 to Ksh 691.3 billion at September 24, 2010 (Table 6 and Chart D). The increase in debt resulted from an increases in Treasury bonds and overdraft at the Central Bank amounting to Ksh 39.9 billion and Ksh 3.0 billion, respectively, which was, however, partly offset by decreases of Ksh 10.6 billion and Ksh 1.1 billion in Treasury bills and other domestic debt, respectively.

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 488.5 billion and Ksh 20.6 billion as at September 24, 2010. Treasury bills and

other domestic debt declined from Ksh 159.0 billion and Ksh 34.2 billion, respectively, in June 2010 to Ksh 148.4 billion and Ksh 33.1 billion, respectively, during the same period.

Table 6: Government Domestic Debt (Ksh Billion)

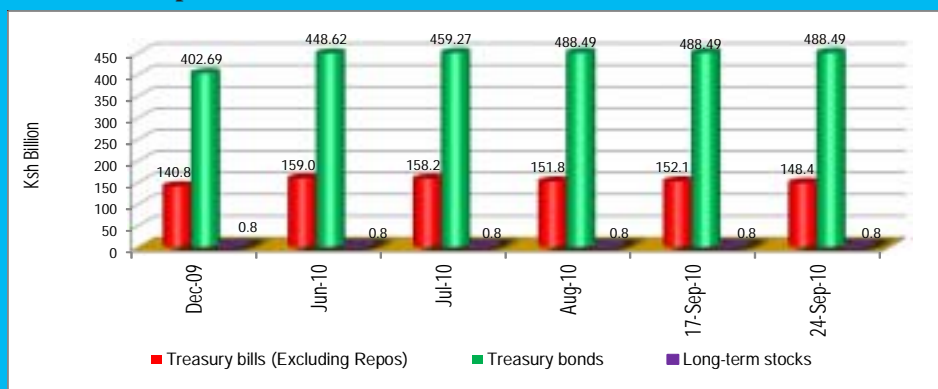
	Jun-10	Jul-10	Aug-10	17th Sept-2010	24th Sept-2010	Changes	
						17th Sept-10-24th Sep-10	30th Jun-10-24th Sep-10
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	158.2 25.6	151.8 23.7	152.1 23.7	148.4 23.3	-3.7 -0.4	-10.6
2. Treasury Bonds (As % of total securities)	448.6 73.7	459.3 74.3	488.5 76.2	488.5 76.2	488.5 76.6	0.0 0.4	39.9
3. Long Term Stocks (As % of total securities)	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
4. Total Securities (1+2+3)	608.4	618.2	641.0	641.4	637.6	-3.7	29.2
5. Overdraft at Central Bank	17.6	15.5	22.5	16.1	20.6	4.5	3.0
6. Other Domestic debt*	34.2	34.0	34.5	34.3	33.1	-1.2	-1.1
7. Gross Domestic Debt (4+5+6)	660.3	667.7	698.0	691.8	691.3	-0.5	31.1
8. Interest payments on domestic debt	57.8	2.62	9.38	11.49	14.49	3.0	

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

Source: Central Bank of Kenya

Consequently, the share of Treasury bonds increased from 73.7 percent in June to 76.6 percent as at September 24, 2010, while that of Treasury bills declined from 26.1 percent to 23.3 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years as at September 24, 2010. This development supports the Government debt management strategy of lengthening the maturity profile of domestic debt.

Chart D: Composition of Government Securities

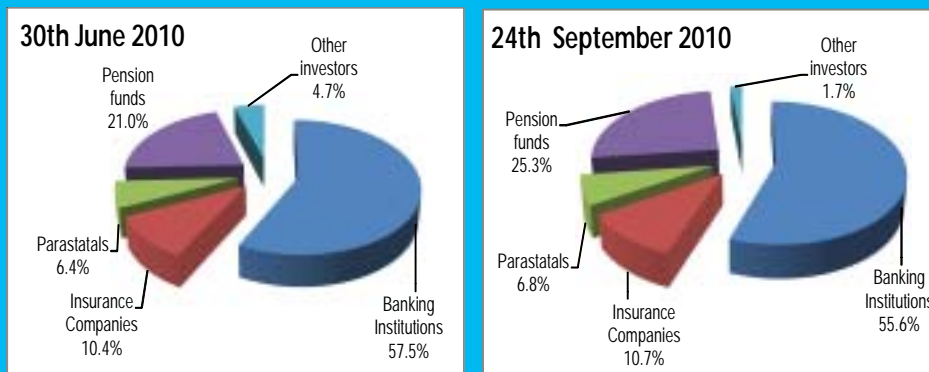


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by parastatals, pension funds and insurance companies increased from 6.4 percent, 21.0 percent and 10.4 percent in June 2010 to 6.8 percent, 25.3 percent and 10.7 percent, respectively, as at September 24, 2010. With a share of 55.6 percent, commercial banks were the dominant player in the Government securities market (Chart E).

Chart E: Composition of Government Securities by Investor

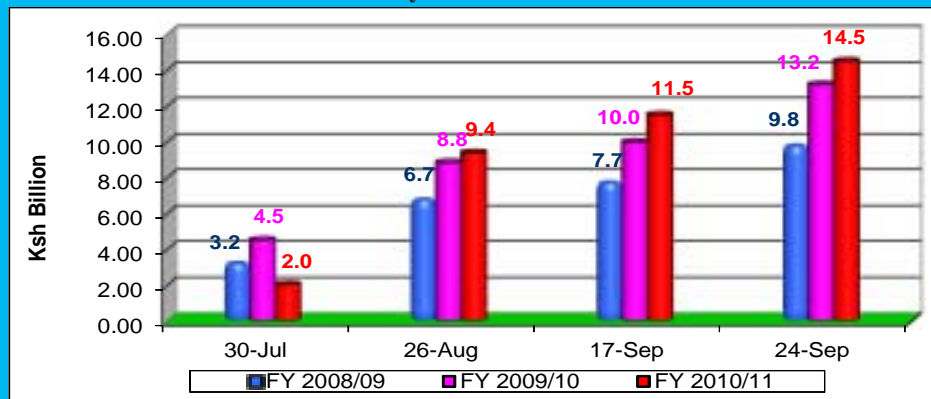


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at September 24, 2010 of the fiscal year 2010/11 amounted to Ksh 14.5 billion compared with Ksh 13.2 billion in a similar period of the fiscal year 2009/10 (Chart F). The interest cost on domestic debt during the period comprises interest and other charges on Treasury bonds and Treasury bills amounting to Ksh 10.9 billion and 3.5 billion, respectively, while interest on Government overdraft at the Central Bank amounted to Ksh 0.1 billion.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

Performance at the equities market improved during the week ending September 30, 2010. Turnover increased by 6.0 percent as stocks worth Ksh 1,884.0 million were traded compared with Ksh 1,777.2 million traded in the previous week. The number of shares traded increased from 100.5 million in the previous week to 101.2 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 0.8 percent or Ksh. 9.1 billion to close at Ksh 1,174 billion in the week under review, from Ksh 1,165 billion in the previous week. The NSE 20 Share index gained 27.99 points to settle at 4,630 points on September 30, 2010 from 4,602 points on September 23, 2010. The Nairobi All Share Index gained 0.59 points to settle at 98.9 points from 98.3 points the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	12-Aug-10	19-Aug-10	25-Aug-10	2-Sep-10	9-Sep-10	16-Sep-10	23-Sep-10	30-Sep-10
NASI 100= Jan 2008	98.86	100.49	97.8	96.11	95.38	97.76	98.33	98.92
NSE 20 Share Index 100=1966	4,544.52	4,603.26	4,541.70	4,466.96	4,457.47	4,541.25	4,601.81	4,629.80
Number of Deals	12,230	12,358	10,351	11,230	10,076	10,196	11,132	11,563
Total Shares Traded (millions)	108.68	111.0753	137.42	73.31	81.47	95.98	100.54	101.23
Equity Turnover (Ksh. millions)	2,065.74	1,837.56	1,496.01	1,185.77	1,608.37	2,067.06	1,777.21	1,883.94
Market Capitalization (Ksh. Bn.)	1,155.51	1,189.07	1,158.34	1,138.18	1,129.65	1,157.62	1,164.59	1,173.70
Bonds Turnover (Ksh. millions)	3,888.30	3,225.05	5,220.35	13,584.95	6,121.90	8,982.30	6,490.10	4,720.10

* 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 45.6 million shares and accounted for 45.0 per cent of the traded volume with Safaricom trading 41.6 million shares in the sector. The Finance and Investment sector traded 27.2 million shares and accounted for 26.9 percent of total traded volume. Equity Bank and Kenya Commercial Bank were the most active stocks in the sector, trading 9.8 million and 7.0 million shares, respectively. Industrial and Allied sector traded 27.5 million shares and accounted for 27.2 percent of traded volume. Mumias Sugar Co. was the most active counter, trading 12.9 million shares. The Alternative market segment traded 83,800 shares.

Bond Market

Bond turnover at the Fixed Income Securities Market decreased from Ksh 6.5 billion traded in the previous week to Ksh 4.7 billion in the week under review.