

**October 8, 2010**



### **THE CBK WEEKLY BULLETIN**

#### **Highlights for the Week**

The two auctions this week performed well with recorded performances of 171.92 percent for the 364-day bill and 99.06 percent for the 91-day bill. From the bids received, the Government accepted bids worth KSh 7.09 billion and KSh 3.74 billion, respectively, from the anticipated proceeds of the 364-day bill and 91-day bill. Collectively, the total receipts exceeded the value of Treasury bills falling due during the week.

The average interbank rate declined by 6 basis points to 0.99 percent in the week ending October 7, 2010, down from 1.05 percent in the previous week.

The money market was liquid in the week ending October 7, 2010 and the Central Bank stayed out of the market. There were no reverse repo maturities during the week.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending October 8, 2010. Against the U.S. dollar, the shilling appreciated to exchange at an average of KSh 80.71 in the week compared with KSh 80.86 per U.S. dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased to U.S. dollar 3.491 billion (equivalent to 3.55 months of imports) as at October 8, 2010 compared with U.S. dollar 3.487 billion (equivalent to 3.54 months of imports) held on October 1, 2010.

Government gross domestic debt increased by KSh 44.6 billion from KSh 660.3 billion in June 2010 to KSh 704.8 billion as at October 1, 2010. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to KSh 16.2 billion.

Performance at the equities market largely improved during the week ending October 7, 2010 with the NSE 20 Share index losing 4.0 points to settle at 4,626 from 4,630 points on September 30, 2010 and equity turnover gaining by 45.6 percent.

**Government Securities Auction**

The two successive auctions this week performed well with recorded performances of 171.92 percent for the 364-day bill and 99.06 percent for the 91- day bill. From the bids received, the Government accepted bids worth KSh 7.09 billion and KSh 3.74 billion from the anticipated proceeds of the 364-day bill and 91-day bill, respectively. Collectively, the total receipts exceeded the value of Treasury bills falling due during the week (Table 1).

**Interest Rates on Treasury Bills**

The average rate for the 364-day Treasury bills went up by 9.8 basis points from 2.962 percent posted on August, 12, 2010 to 3.06 percent this week. Similarly, the average rate for the 91-day Treasury bill went up by 10.3 basis points to stand at 2.125 percent.

**Table 1: Interest Rates**

Auction date	19-Aug-10	26-Aug-10	2-Sep-10	9-Sep-10	16-Sep-10	23-Sep-10	30-Sep-10	7-Oct-10
91 day T. Bills*		2.202		2.100		2.202		2.299
182 day T. Bills*	2.150		2.199		2.199		2.199	
364 day T. Bills*								3.249
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

**Interbank and Repo Market**

The average interbank rate declined by 6 basis points to 0.99 percent in the week ending October 7, 2010, down from 1.05 percent in the previous week (Table 2 and Chart A). The volumes traded increased from KSh 50.0 billion in the previous week to KSh 58.3 billion in the week ending October 7, 2010. The Government deposits at the Central Bank declined from KSh 51.6 billion in the week ending September 30, 2010, up to KSh 44.0 billion in the week ending October 7, 2010.

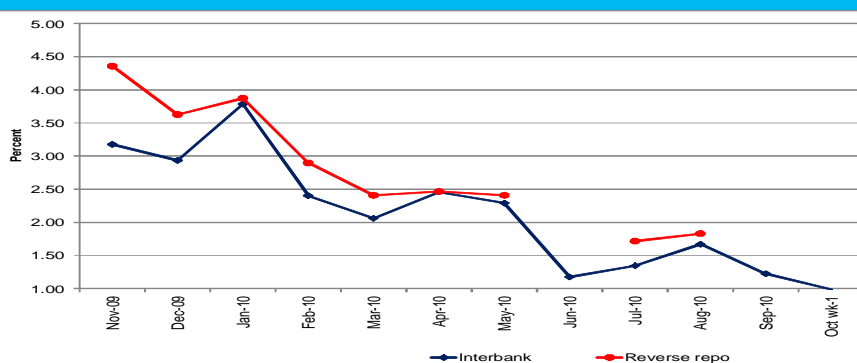
**Table 2: Interbank Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
<b>Sept 24 - Sept 30, 2010</b>	<b>308</b>	<b>50,036</b>	<b>1.05</b>
1-Oct-10	53	8,889	1.01
4-Oct-10	60	12,553	0.99
5-Oct-10	64	13,560	0.99
6-Oct-10	55	12,999	0.98
7-Oct-10	49	10,295	0.98
<b>Oct 01 - Oct 07, 2010</b>	<b>281</b>	<b>58,296</b>	<b>0.99</b>

Source: Central Bank of Kenya

The reverse repo rate was 1.84 percent as at the last reverse repo transaction on August 30, 2010.

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

### Monetary Policy Operations

The money market was liquid in the week ending October 7, 2010 and the Central Bank stayed out of the market (Table 3). There were no reverse repo maturities during the week. Commercial Banks did not borrow from Central Bank overnight window during the week under review. Reserve money averaged KSh 213.7 billion during the week and was above target by KSh 26.0 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)
1-Oct	210.4	187.2	23.2	0.0	0.0	0.0	210.7	23.5	18.2	2.8
4-Oct	217.6	187.2	30.4	0.0	0.0	0.0	212.8	25.6	15.0	2.7
5-Oct	211.6	187.2	24.5	0.0	0.0	0.0	212.3	25.1	17.9	3.0
6-Oct	212.1	187.2	24.9	0.0	0.0	0.0	212.0	24.8	17.9	3.2
7-Oct	216.8	187.2	29.6	0.0	0.0	0.0	218.4	31.2	21.1	3.6
Average	213.7	187.2	26.5	0.0	0.0	0.0	213.2	26.0	18.0	3.1

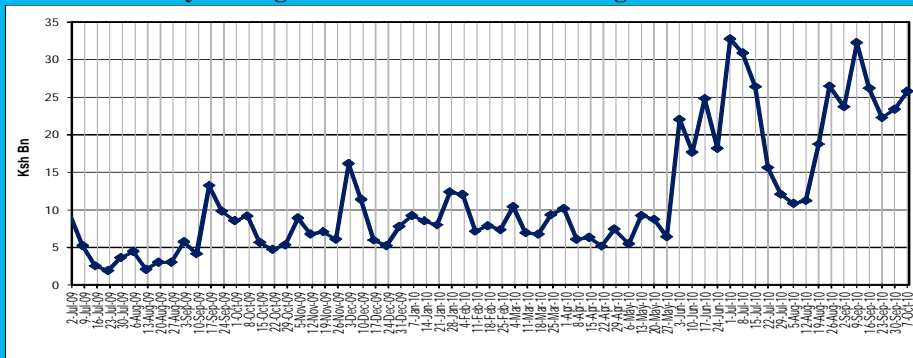
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

### Commercial Banks Clearing Account Balances

Commercial banks maintained an average of KSh 25.8 billion in their clearing accounts at the Central Bank in the week to October 7, 2010, compared with KSh 23.4 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 depicted mixed performance against the major international currencies during the week ending October 8, 2010 (Table 4). Against the U.S. dollar, the Kenya Shilling appreciated to exchange at KSh 80.71 in the week compared with KSh 80.86 per U.S. dollar in the previous week. During the week, the Kenya Shilling depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at KSh 127.96 per Sterling Pound, KSh 111.70 per Euro and KSh 97.14 per 100 Japanese Yen in the week compared with KSh 127.78 per Sterling Pound, KSh 109.51 per Euro and KSh 96.51 per 100 Japanese Yen in the previous week.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
<b>September 27- October 01,</b>	<b>80.86</b>	<b>127.78</b>	<b>109.51</b>	<b>96.51</b>	<b>27.77</b>	<b>18.64</b>
4-Oct-10	80.84	127.70	111.32	96.96	27.77	18.42
5-Oct-10	80.84	127.89	110.85	96.55	27.83	18.36
6-Oct-10	80.72	128.44	111.78	97.07	27.86	18.29
7-Oct-10	80.63	128.04	112.29	97.28	27.88	18.42
8-Oct-10	80.54	127.75	112.25	97.83	27.94	18.67
<b>October 04- October 01, 20</b>	<b>80.71</b>	<b>127.96</b>	<b>111.70</b>	<b>97.14</b>	<b>27.86</b>	<b>18.43</b>

Source: Central Bank of Kenya

The appreciation of the Kenya Shilling against the U.S. dollar was supported by positive market sentiment, waning month-end dollar demand and the weakening of the U.S. dollar against both the Sterling Pound and the Euro.

On the regional scene, the Kenya Shilling strengthened against the Uganda Shilling and weakened against the Tanzania Shilling to exchange at US\$ 27.86 per Kenya Shilling and TSh 18.43 per Kenya Shilling in the week ending October 8, 2010, compared with US\$ 27.77 per Kenya Shilling and TSh 18.64 per Kenya Shilling, respectively, in the previous week.

### Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased to U.S. dollar 3.491 billion (equivalent to 3.55 months of imports) as at October 8, 2010, compared to U.S. dollar 3.487 billion (equivalent to 3.54 months of imports) held on October 1, 2010 (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	8-Oct-10
Usable Reserves	3,252	3,310	3,396	3,427	3,454	3,476	3,487	3,491
Months of Imports Cover*	3.41	3.47	3.51	3.52	3.55	3.57	3.54	3.55

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

Source: Central Bank of Kenya

### Government Domestic Debt

Gross Government debt increased by KSh 44.6 billion from KSh 660.3 billion in June 2010 to KSh 704.8 billion in October 1, 2010 (Table 6 and Chart C). The increase resulted from increases in the Treasury bonds and the overdraft at the Central Bank, which went up during the period by KSh 52.6 billion and KSh 2.9 billion, respectively. On the other hand, holdings of Treasury bills declined by an equivalent of KSh 10.1 billion, while the remaining long term Government stocks amounting to KSh 0.8 billion matured during the period. Other domestic debt declined, albeit marginally, during the period under review.

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

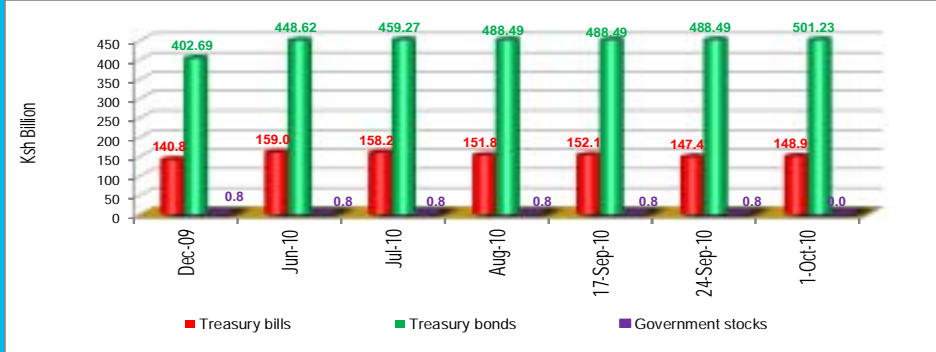
	Jun-10	Jul-10	Aug-10	24th Sept-2010	1st Oct-2010	Changes	
						24th Sept-10-1st Oct-10	30th Jun-10 -1st Oct-10
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	158.2 25.6	151.8 23.7	147.4 23.2	148.9 22.9	1.5 -0.2	-10.1
2. Treasury Bonds (As % of total securities)	448.6 73.7	459.3 74.3	488.5 76.2	488.5 76.7	501.2 77.1	12.7 0.4	52.6
3. Long Term Stocks (As % of total securities)	0.8 0.1	0.8 0.1	0.8 0.1	0.8 0.1	0.0 0.0	-0.8 -0.1	-0.8
4. Total Securities (1+2+3)	608.4	618.2	641.0	636.6	650.2	13.5	41.7
5. Overdraft at Central Bank	17.6	15.5	22.5	20.6	20.6	-0.1	2.9
6. Other Domestic debt*	34.2	34.0	34.5	34.1	34.1	0.0	-0.1
7. Gross Domestic Debt (4+5+6)	660.3	667.7	698.0	691.3	704.8	13.5	44.6
8. Interest payments on domestic debt	57.8	2.62	9.38	14.49	16.19	1.7	

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

Source: Central Bank of Kenya

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 501.2 billion and KSh 20.6 billion as at October 1, 2010. Treasury bills and other domestic debt declined from KSh 159.0 billion and KSh 34.2 billion, respectively, in June 2010 to KSh 148.9 billion and KSh 34.1 billion, respectively, as at October 1, 2010.

**Chart C: Composition of Government Securities**



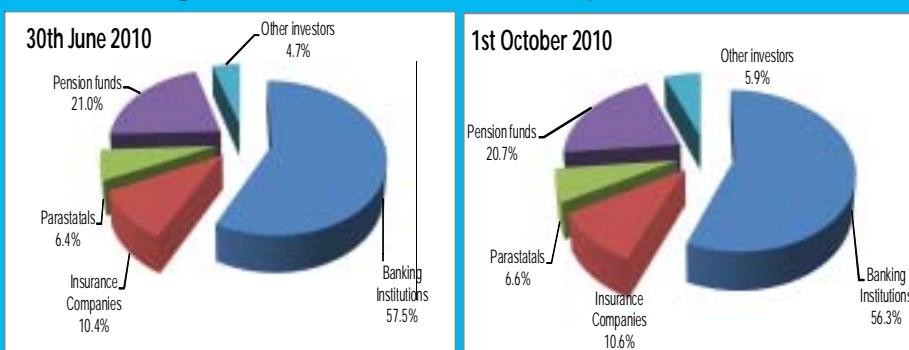
Source: Central Bank of Kenya

In view of the above, the share of Treasury bonds increased from 73.7 percent in June 2010 to 77.7 percent as at October 1, 2010, while that of Treasury bills declined from 26.1 percent to 22.9 percent during the same period. The average length of time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years as at October 1, 2010. This development supports the Government debt management strategy of lengthening the maturity profile of domestic debt, while maintaining a mix of 75 percent of total Government securities in Treasury bonds and 25 percent in Treasury bills.

### Holding of Government Securities

The holdings of Government securities by parastatals, insurance companies and other holders increased from 6.4 percent, 10.4 percent and 4.7 percent in June 2010 to 6.6 percent, 10.6 percent and 5.9 percent, respectively, as at October 1, 2010. Commercial banks and pension funds were, however, the dominant players in the securities market holding 56.3 percent and 20.7 percent of total Government securities, respectively, as at October 1, 2010 (Chart D).

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

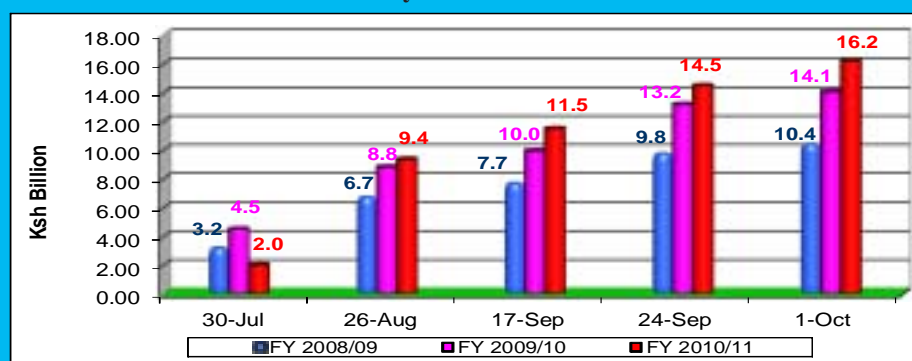


Source: Central Bank of Kenya

## Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at October 1, 2010 of the fiscal year 2010/11 amounted to KSh 16.2 billion compared with KSh 14.1 billion in a similar period of the fiscal year 2009/10 (Chart E). The interest cost on domestic debt during the period comprised interest and other charges on Treasury bonds and Treasury bills amounting to KSh 12.5 billion and 3.5 billion, respectively, while interest on Government overdraft at the Central Bank amounted to KSh 0.2 billion.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

## The Stock Market

Performance at the equities market largely improved during the week ending October 7, 2010. Turnover increased by 45.6 percent as stocks worth KSh 2744.0 million were traded compared with KSh 1884.0 million traded in the previous week. The number of shares traded increased from 101.2 million in the previous week to 138.7 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 1.8 percent or KSh. 21 billion to close at KSh 1,195 billion in the week under review from KSh 1,174 billion in the previous week. The NSE 20 Share index lost 4.0 points to settle at 4,626 points on October 7, 2010 from 4,630 points on September 30, 2010. The Nairobi All Share Index (NASI) gained 1.69 points to settle at 100.59 points from 98.9 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	7-Oct-10
NASI 100= Jan 2008	98.86	100.49	97.8	96.11	95.38	97.76	98.33	98.92	100.59
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	4,626.19
Number of Deals	12,230	12,358	10,351	11,230	10,076	10,196	11,132	11,563	11,782
Total Shares Traded (millions)	108.68	111.0753	137.42	73.31	81.47	95.98	100.54	101.23	138.75
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	2,743.85
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	1,194.89
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	8,811.05

\* 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 74.7 million shares and accounted for 54.8 per cent of the traded volume with Safaricom trading 68.9 million shares in the sector. The Finance and Investment sector traded 50.8 million shares and accounted for 37.3 percent of total traded volume. Equity Bank and Kenya Commercial Bank were the most active stocks in the sector, trading 18.2million and 19.2 million shares respectively. Industrial and Allied sector traded 10.2 million shares and accounted for 7.5 percent of traded volume. Mumias Sugar Co was the most active counter, trading 3.0 million shares. The Alternative market segment traded 33, 502 shares.

**Bond Market** Bond turnover at the Fixed Income Securities Market increased from KSh 4.7 billion traded in the previous week to KSh 8.8 billion in the week under review.