

October 15, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market registered good performance of 167.9 percent during the auction held this week. The Government offered for sale 182-day Treasury bills amounting to Ksh 7.0 billion, received bids amounting to Ksh 11.8 billion and accepted bids worth Ksh 8.7 billion. The cut off rate remained unchanged at 2.199 percent during the auction.

The average interbank rate declined by 7 basis points to 0.92 percent in the week ending October 14 from 0.99 percent in the previous week.

The money market was liquid in the week ending October 14, 2010 and the Central Bank stayed out of the market.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending October 15, 2010. Against the US dollar, the shilling appreciated to exchange at an average of Ksh 80.62 in the week compared with Ksh 80.71 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank remained at US dollar 3.492 billion (equivalent to 3.55 months of imports) as at October 15, 2010.

Government gross domestic debt increased by Ksh 39.4 billion from Ksh 660.3 billion in June 2010 to Ksh 699.7 billion as at October 8, 2010 of the FY 2010/11. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 16.6 billion.

Performance at the equities market declined during the week ending October 14, 2010, with the NSE 20 Share Index declining by 17.83 points to settle at 4,608 from 4,626 points on October 7, 2010 while equity turnover closed at Ksh 2,285 million from Ksh 2,744 million traded the previous week.

Government Securities Auction

The Government securities market registered good performance of 167.9 percent during the auction held this week. The Government offered for sale 182-day Treasury bills amounting to Ksh 7.0 billion and received bids totalling Ksh 11.8 billion. The Government accepted bids amounting to Ksh 8.7 billion of which Ksh 8.4 billion were competitive. The money raised in the auction was to be used partly to redeem Government securities maturing in the week amounting to Ksh 12.3 billion.

Interest Rates on Treasury Bills

The cut-off rate for the 182-day Treasury bill remained unchanged at 2.199 percent. (Table 1).

Table 1: Interest Rates

Auction date	26-Aug-10	02-Sep-10	09-Sep-10	16-Sep-10	23-Sep-10	30-Sep-10	07-Oct-10	14-Oct-10
91 day T. Bills*	2.202		2.100		2.202		2.299	
182 day T. Bills*		2.199		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

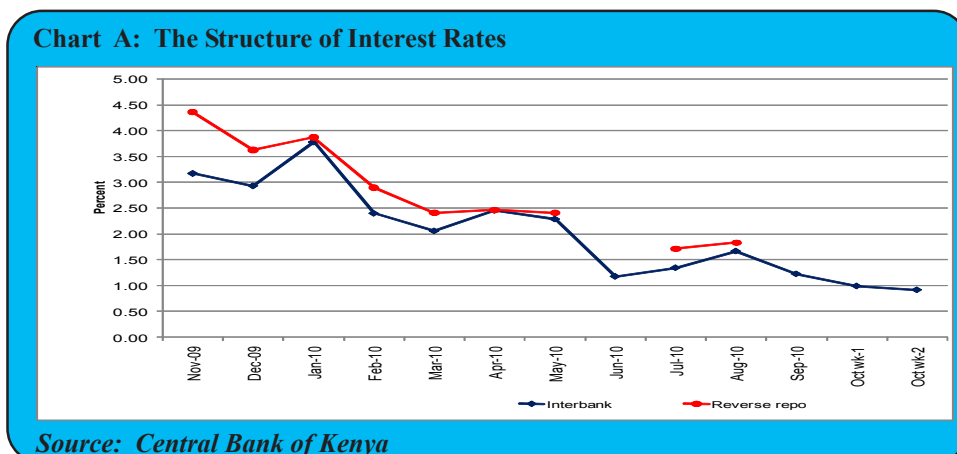
The average interbank rate declined by 7 basis points to 0.92 percent in the week ending October 14, 2010 from 0.99 percent in the previous week (Table 2). The volumes traded decreased from Ksh 58.3 billion in the previous week to Ksh 43.9 billion in the week ending October 14, 2010. The Government deposits at the Central bank rose from Ksh 44.0 billion in the week ending October 7 to Ksh 45.6 billion in the week ending October 14, 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
Sept 24 - Sept 30, 2010	308	50,036	1.05
01-Oct-10	53	8,889	1.01
04-Oct-10	60	12,553	0.99
05-Oct-10	64	13,560	0.99
06-Oct-10	55	12,999	0.98
07-Oct-10	49	10,295	0.98
Oct 01 - Oct 07, 2010	281	58,296	0.99
08-Oct-10	52	7,085	0.94
11-Oct-10	63	10,548	0.93
12-Oct-10	55	10,206	0.91
13-Oct-10	46	7,540	0.90
14-Oct-10	59	8,517	0.91
Oct 08 - Oct 14, 2010	275	43,897	0.92

Source: Central Bank of Kenya

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



Monetary Policy Operations

The money market was liquid in the week ending October 14, 2010 and the Central Bank stayed out of the market (Table 3). Commercial Banks did not borrow from the Central Bank overnight window during the week under review. Reserve money averaged Ksh 216.3 billion during the week and was above target by Ksh 28.5 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)
08-Oct	218.8	187.2	31.6	0.0	0.0	0.0	219.8	32.6	27.9	4.8
11-Oct	217.7	187.9	29.8	0.0	0.0	0.0	216.3	28.3	23.3	5.1
12-Oct	215.4	187.9	27.4	0.0	0.0	0.0	214.6	26.6	21.5	5.1
13-Oct	215.9	187.9	28.0	0.0	0.0	0.0	215.5	27.6	23.1	4.5
14-Oct	215.5	187.9	27.6	0.0	0.0	0.0	215.2	27.2	23.7	3.5
Average	216.7	187.8	28.9	0.0	0.0	0.0	216.3	28.5	23.9	4.6

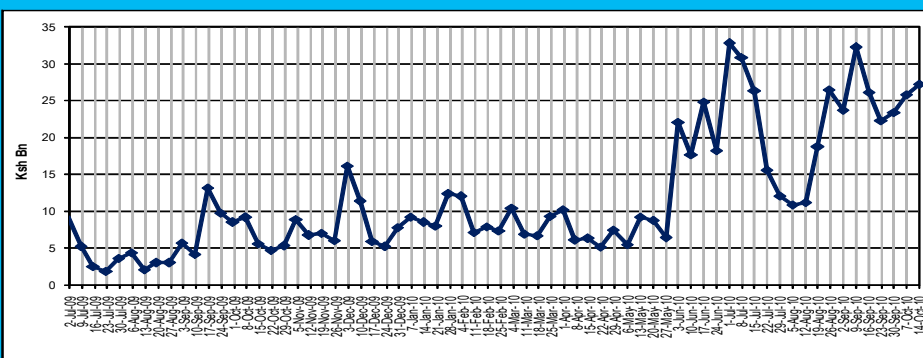
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 27.2 billion in their clearing accounts at the Central Bank in the week ending October 14, 2010, compared with Ksh 25.8 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 15, 2010 (Table 4). Against the US dollar, the shilling appreciated to exchange at Ksh 80.62 in the week compared with Ksh 80.71 per US dollar in the previous week. During the week, the shilling depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 128.48 per Sterling Pound, Ksh 112.74 per Euro and Ksh 98.75 per 100 Japanese Yen in the week compared with Ksh 127.96 per Sterling Pound, Ksh 111.70 per Euro and Ksh 97.14 per 100 Japanese Yen in the previous week.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
04-Oct-10	80.84	127.70	111.32	96.96	27.77	18.42
05-Oct-10	80.84	127.89	110.85	96.55	27.83	18.36
06-Oct-10	80.72	128.44	111.78	97.07	27.86	18.29
07-Oct-10	80.63	128.04	112.29	97.28	27.88	18.42
08-Oct-10	80.54	127.75	112.25	97.83	27.94	18.67
October 04- October 08, 2010	80.71	127.96	111.70	97.14	27.86	18.43
11-Oct-10	80.56	128.42	112.57	98.25	27.93	18.35
12-Oct-10	80.74	128.30	111.73	98.58	27.96	18.70
13-Oct-10	80.73	127.84	112.68	98.63	27.99	18.65
14-Oct-10	80.59	128.87	113.49	99.20	28.06	18.64
15-Oct-10	80.50	128.99	113.24	99.09	28.09	18.64
October 11- October 15, 2010	80.62	128.48	112.74	98.75	28.01	18.60

Source: Central Bank of Kenya

In the local market the Kenya shilling appreciated against the US dollar supported by proceeds from farm sector exports. In the international market, the dollar continued to weaken against both the sterling pound and the euro in the week.

On the regional scene, the Kenya Shilling strengthened against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 28.01 per Kenya Shilling and Tsh 18.60 per Kenya Shilling in the week ending October 15, 2010, compared with Ush 27.86 per Kenya Shilling and Tsh 18.43 per Kenya Shilling the previous week respectively.

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank remained at US dollar 3.492 billion (equivalent to 3.55 months of imports) as at October 15, 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	01-Oct-10	08-Oct-10	15-Oct-10
Usable Reserves	3,252	3,310	3,396	3,427	3,454	3,476	3,487	3,491	3,492
Months of Imports Cover*	3.41	3.47	3.51	3.52	3.55	3.57	3.54	3.55	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 39.4 billion from Ksh 660.3 billion in June 2010 to Ksh 699.7 billion as at October 8, 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 52.6 billion and Ksh 5.3 billion, respectively which was, however, partly offset by decreases of Ksh 17.5 billion, Ksh 0.8 billion and Ksh 0.2 billion in Treasury bills, long term stocks 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 501.2 billion and Ksh 22.9 billion as at October 8, 2010. Treasury bills and other domestic debt declined from Ksh 159.0 billion and Ksh 34.2 billion, respectively in June 2010 to Ksh 141.5 billion and Ksh 34.0 billion, respectively during the same period.

Table 6: Government Domestic Debt (Ksh Billion)

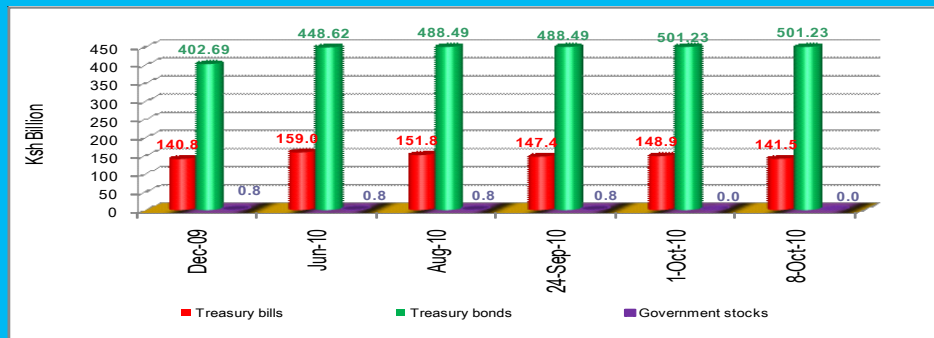
	Jun-10	Jul-10	Aug-10	1st Oct-2010	8th Oct-2010	Changes	
						1st Oct-10- 8th Oct-10	30th Jun-10- 8th Oct-10
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	158.2 25.6	151.8 23.7	148.9 22.9	141.5 22.0	-5.9 -0.9	-17.5
2. Treasury Bonds (As % of total securities)	448.6 73.7	459.3 74.3	488.5 76.2	501.2 77.1	501.2 78.0	0.0 0.9	52.6
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	650.2	642.7	-7.4	34.3
5. Overdraft at Central Bank	17.6	15.5	22.5	20.6	22.9	2.4	5.3
6. Other Domestic debt*	34.2	34.0	34.5	34.1	34.0	-0.1	-0.2
7. Gross Domestic Debt (4+5+6)	660.3	667.7	698.0	704.8	699.7	-5.1	39.4
8. Interest payments on domestic debt	57.8	2.62	9.38	16.19	16.63	0.4	

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

Source: Central Bank of Kenya

In view of the above, the share of Treasury bonds increased from 73.8 percent in June to 78.0 percent as at October 8, 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 October 8, 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

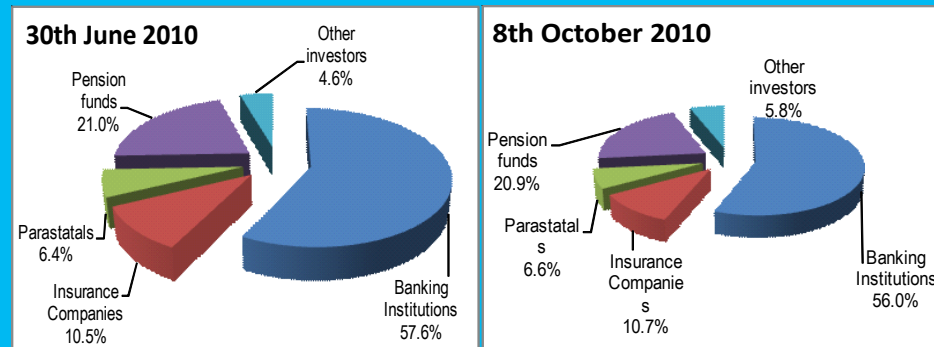


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by parastatals, insurance companies and other investors increased from 6.4 percent, 10.5 percent and 4.6 percent in June 2010 to 6.6 percent, 10.7 percent and 5.8 percent, respectively as at October 8, 2010. However, holdings by commercial banks and pension funds declined from 57.6 percent and 21.0 percent to 56.0 percent and 20.9 percent, respectively (Chart D).

Chart D: Composition of Government Securities by Investor

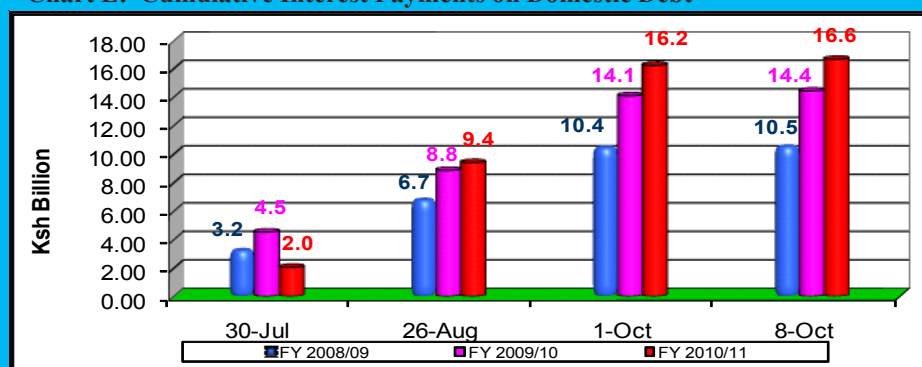


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at October 8, 2010 of the FY 2010/11 amounted to Ksh 16.6 billion compared with Ksh 14.4 billion in a similar period of the FY 2009/10 (Chart E). 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 3.9 billion and 12.5 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 declined during the week ending October 14, 2010. Turnover decreased by 16.7 percent as stocks worth Ksh 2285.0 million were traded compared with Ksh 2744.0 million traded in the previous week. The number of shares traded decreased from 138.7 million in the previous week to 118.2 million shares in the week under review. Market capitalization as a measure of total shareholders wealth decreased by 0.1 percent or Ksh. 0.7 billion to close at Ksh 1,194 billion in the week under review, from Ksh 1,195 billion in the previous week. The NSE 20 Share Index declined by 17.83 points to settle at 4,608 points on October 14, 2010 from 4,626 points on October 7, 2010. The Nairobi All Share Index declined by 0.14 points to settle at 100.45 points from 100.59 points the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	12-Aug-10	19-Aug-10	25-Aug-10	02-Sep-10	09-Sep-10	16-Sep-10	23-Sep-10	30-Sep-10	07-Oct-10	14-Oct-10
NASI 100= Jan 2008	98.86	100.49	97.8	96.11	95.38	97.76	98.33	98.92	100.59	100.45
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	4,608.36
Number of Deals	12,230	12,358	10,351	11,230	10,076	10,196	11,132	11,563	11,782	11,612
Total Shares Traded (millions)	108.68	111.0753	137.42	73.31	81.47	95.98	100.54	101.23	138.75	118.26
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	2,285.00
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	1,194.20
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	6,324.50

* 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 49.6 million shares and accounted for 42.0 per cent of the traded volume, with Safaricom trading 46.0 million shares in the sector. The Finance and Investment sector traded 49.8 million shares and accounted for 42.2 percent of total traded volume. Equity Bank and Kenya Commercial Bank were the most active stocks in the sector, trading 36.4 million and 5.8 million shares respectively. Industrial

and Allied sector traded 18.1million shares and accounted for 15.3 percent of traded volume. Mumias Sugar Co was the most active counter, trading 9.2 million shares. The Alternative market segment traded 219,400 shares.

Bond Market

Bond turnover at the Fixed Income Securities Market decreased from Ksh 8.8 billion traded in the previous week to Ksh 6.3 billion in the week under review.