

October 29, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The 182-day Treasury bills auction posted performance of 87.7 percent, while the 10-year Treasury bond auction posted performance of 161.0 percent. The Government had offered for sale 182-day Treasury bills amounting to Ksh 8.0 billion, received bids amounting to Ksh 7.0 billion and accepted bids amounting to Ksh 6.6 billion. Treasury bonds worth Ksh 15.0 billion was on offer and bids amounting to Ksh 24.1 billion were received of which Ksh 14.5 billion were accepted. The weighted average rate for 182- day Treasury bill and the 10-year Treasury bond went up by 1.8 basis points and 1.3 basis points to 2.111 and 8.646, respectively.

The average interbank rate increased to 1.05 percent in the week ending October 28, 2010 from 0.94 percent in the previous week.

The money market was liquid in the week ending October 28, 2010 and the Central Bank stayed out of the market.

The Kenya Shilling depicted marginal appreciation against the major international currencies during the week ending October 29, 2010. Against the US dollar, the shilling appreciated marginally to exchange at an average of Ksh 80.74 in the week compared with Ksh 80.77 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank decreased to US dollar 3.471 billion (equivalent to 3.53 months of imports) as at October 29, 2010 compared to US dollar 3.484 billion (equivalent to 3.54 months of imports) held on October 22, 2010.

Government gross domestic debt increased by Ksh 33.3 billion from Ksh 660.3 billion in June 2010 to Ksh 693.5 billion as at October 22, 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 18.5 billion.

Performance at the equities market declined during the week ending October 28, 2010, with the NSE 20 Share index losing 23.61 points to settle at 4,640 points from 4,608 points on October 21, 2010, while equity turnover closed the week at Ksh 2,410.7 million from Kshs 2,467 million in the previous week.

Government Securities Auction

The 182-day Treasury bills auction posted performance of 87.7 percent while the 10-year Treasury bond auction posted performance of 161.0 percent. The Government had offered for sale 182-day Treasury bills amounting to Ksh 8.0 billion and received bids amounting to Ksh 7.0 billion of which Ksh 6.7 billion were competitive. In the case of the 10-year bond Ksh 15.0 billion was on offer and bids amounting to Ksh 24.1 billion were received of which Ksh 22.0 were competitive.

The Government accepted bids amounting to Ksh 6.6 billion and Ksh 14.5 billion for 182-day Treasury bills and 10-year Treasury bonds, respectively. The proceeds of these auctions were directed at meeting the cost of maturities of Government securities amounting to Ksh 11.7 billion falling due in the week and provide Government additional borrowing of Ksh 9.4 billion.

Interest Rates on Treasury Bills

The average rate for the 182-day Treasury bill increased from 2.111 percent posted on October 18, 2010 to 2.132 percent on October 28, 2010 (Table 1A).

Interest Rates on Treasury Bond

The average rate for the 10-year Treasury bond increased from 8.633 percent posted on April 26, 2010 to 8.646 percent on October 28, 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
91 day T. Bills*	2.022		2.125		2.116	
182 day T. Bills*		2.093		2.111		2.132
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
91 day T. Bills*	2.202		2.299		2.299	
182 day T. Bills*		2.199		2.199		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 increased to 1.05 percent in the week ending October 28 from 0.94 percent in the previous week (Table 2 and Chart A). The volumes traded declined from Ksh 56.5 billion in the previous week to Ksh 10.6 billion in the week ending October 28, 2010. The Government deposits at the Central Bank declined from Ksh 49.4 billion in the week ending October 21 to Ksh 47.9 billion in the week ending October 28, 2010.

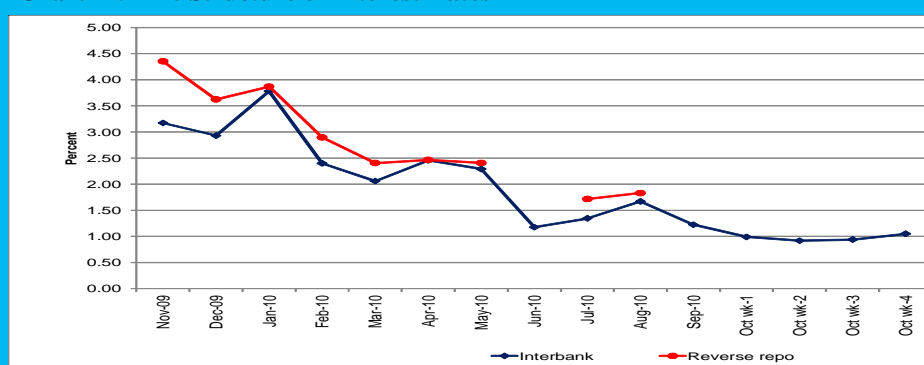
Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
15-Oct-10	58	7,765	0.90
18-Oct-10	61	12,574	0.90
19-Oct-10	81	20,325	0.96
20-Oct-10	HOLIDAY		
21-Oct-10	82	15,835	1.00
Oct 15 - Oct 21, 2010	282	56,498	0.94
22-Oct-10	78	13,368	1.02
25-Oct-10	81	14,878	1.05
26-Oct-10	57	6,991	1.08
27-Oct-10	61	8,183	1.04
28-Oct-10	58	9,544	1.05
Oct 22- Oct 28, 2010	67	10,593	1.05

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 28, 2010 and the Central Bank stayed out of the market (Table 3). Despite the high level of liquidity, commercial banks borrowed a total of Ksh 1.2 billion from the Central Bank through the overnight window during the week under review. Reserve money averaged Ksh 208.5 billion during the week and was above target by Ksh 19.2 billion.

Table 3: Open Market Operations (Ksh Billion)

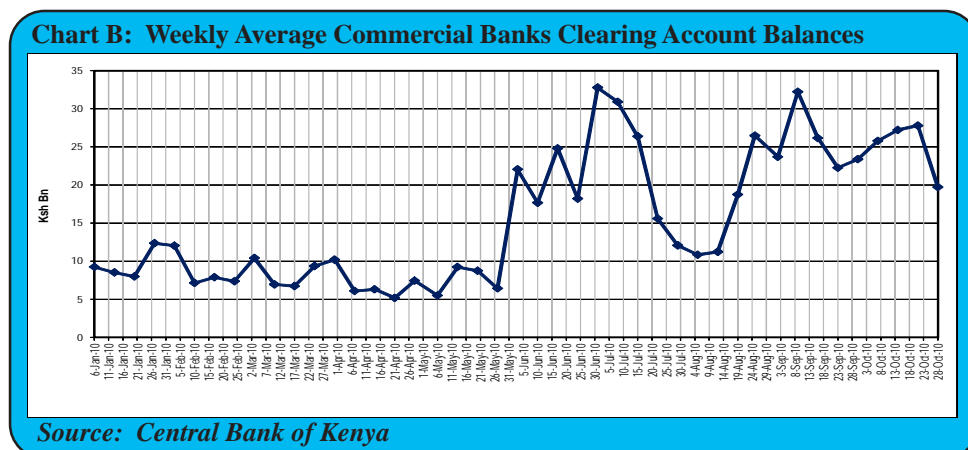
Date	Reserve Money* (Projected)			OMO (Reverse REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Injected	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
22-Oct	210.9	188.7	22.2	0.0	0.0	0.0	211.7	23.0	19.9	3.1
25-Oct	204.8	189.5	15.3	0.0	0.0	0.0	207.4	17.9	14.9	3.0
26-Oct	206.6	189.5	17.1	0.0	0.0	0.0	206.6	17.1	13.3	3.9
27-Oct	207.4	189.5	17.9	0.0	0.0	0.0	207.4	17.9	14.6	3.3
28-Oct	208.5	189.5	19.0	0.0	0.0	0.0	209.6	20.1	16.0	4.1
Average	207.6	189.3	18.3	0.0	0.0	0.0	208.5	19.2	15.7	3.5

*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 19.8 billion in their clearing accounts at the Central Bank in the week to October 28, 2010, compared with Ksh 27.8 billion held the previous week (Chart B).



The Shilling Exchange Rate

The Kenya Shilling on average depicted mixed performance against the major international currencies during the week ending October 29, 2010 (Table 4). Against the US dollar, the Shilling appreciated marginally to exchange at Ksh 80.74 per US dollar in the week compared with Ksh 80.77 per US dollar in the previous week. During the week, the Shilling also appreciated marginally against the Sterling Pound and the Euro to exchange on average at Ksh 127.75 per Sterling Pound and Ksh 112.31 per Euro in the week compared with Ksh 127.90 per Sterling Pound and Ksh 112.47 per Euro in the previous week. Against the Japanese Yen, the Shilling depreciated marginally to exchange on average at Ksh 99.56 per 100 Japanese Yen compared with Ksh 99.48 per 100 Japanese Yen previously.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
18-Oct-10	80.67	128.55	111.99	99.34	28.03	18.54
19-Oct-10	80.76	128.07	112.33	99.10	28.07	18.51
21-Oct-10	80.84	127.78	112.81	99.78	28.16	18.50
22-Oct-10	80.80	127.18	112.74	99.69	28.17	18.51
October 18- October 22, 2010	80.77	127.90	112.47	99.48	28.11	18.51
25-Oct-10	80.64	127.07	113.35	99.74	28.26	18.56
26-Oct-10	80.68	127.33	112.73	99.97	28.27	18.57
27-Oct-10	80.75	127.80	111.54	98.82	28.30	18.54
28-Oct-10	80.83	127.86	111.80	99.13	28.30	18.53
29-Oct-10	80.79	128.71	112.13	100.14	28.28	18.51
October 25- October 29, 2010	80.74	127.75	112.31	99.56	28.28	18.54

Source: Central Bank of Kenya

In the local market, the Kenya Shilling gained marginally against the US dollar with the end month corporate dollar demand met by dollar inflows from tourism and exporters. In the international market, the US Dollar gained against both the Pound Sterling and the Euro.

On the regional scene, the Kenya Shilling strengthened marginally against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 28.28 per Kenya Shilling and Tsh 18.54 per Kenya Shilling in the week ending October

29, 2010, compared with Ush 28.11 per Kenya Shilling and Tsh 18.51 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 3.471 billion (equivalent to 3.53 months of imports) as at October 29, 2010 compared to US dollar 3.484 billion (equivalent to 3.54 months of imports) held on October 22, 2010 (Table 5).

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

	25-Jun-10	26-Aug-10	17-Sep-10	24-Sep-10	1-Oct-10	8-Oct-10	15-Oct-10	22-Oct-10	29-Oct-10
Usable Reserves	3,310	3,396	3,454	3,476	3,487	3,491	3,492	3,484	3,471
Months of Imports Cover*	3.47	3.51	3.55	3.57	3.54	3.55	3.55	3.54	3.53

*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 33.3 billion from Ksh 660.3 billion in June 2010 to Ksh 693.5 billion at October 22, 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 49.5 billion and Ksh 4.4 billion, respectively, which was, however, partly offset by decreases of Ksh 19.7 billion in Treasury bills.

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 498.1 billion and Ksh 22.1 billion as at October 22, 2010. Treasury bills declined from Ksh 159.0 billion in June 2010 to Ksh 139.3 as at October 22, 2010.

Table 6: Government Domestic Debt (Ksh Billion)

	Jun-10	Jul-10	Aug-10	15th Oct-2010	22nd Oct-2010	Changes	
						15th Oct-10 - 22nd Oct-10	30th Jun-10 - 22nd Oct-10
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	158.2 25.6	151.8 23.7	142.8 22.2	139.3 21.9	-3.5 -0.3	-19.7
2. Treasury Bonds (As % of total securities)	448.6 73.7	459.3 74.3	488.5 76.2	501.2 77.8	498.1 78.1	-3.1 0.3	49.5
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	644.0	637.4	-6.6	29.0
5. Overdraft at Central Bank	17.6	15.5	22.5	22.1	22.1	0.0	4.4
6. Other Domestic debt*	34.2	34.0	34.5	34.2	34.0	-0.2	-0.2
7. Gross Domestic Debt (4+5+6)	660.3	667.7	698.0	700.3	693.5	-6.8	33.3
8. Interest payments on domestic debt	57.8	2.62	9.38	17.80	18.54	0.7	

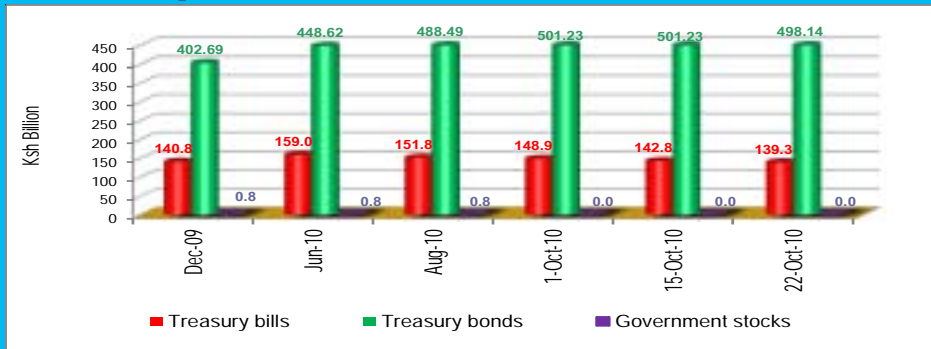
* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCs.

Source: Central Bank of Kenya

In view of the above, the share of Treasury bonds increased from 73.8 percent in June to 78.1 percent as at October 22, 2010, while that of Treasury bills declined from 26.1 percent to 21.9 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years as at October 22, 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

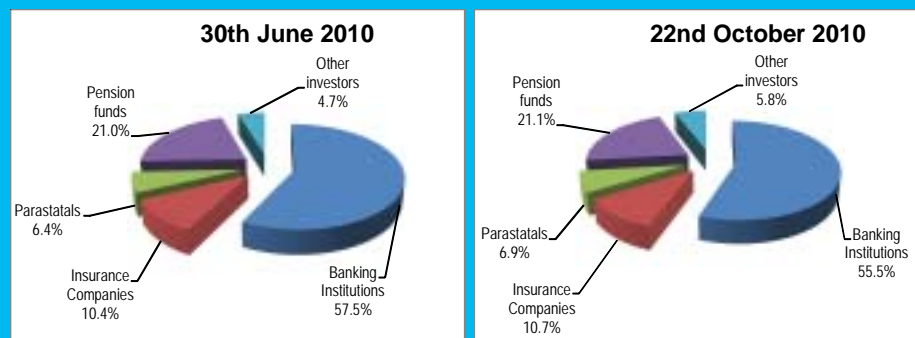


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by parastatals, insurance companies, pension funds and other investors increased from 6.4 percent, 10.4 percent, 21.0 percent and 4.7 percent, respectively in June 2010 to 6.9 percent, 10.7 percent, 21.1 percent and 5.8 percent, respectively, as at October 22, 2010. However, holdings of commercial banks declined from 57.5 percent to 55.5 percent during this period (Chart D).

Chart D: Composition of Government Securities by Investor

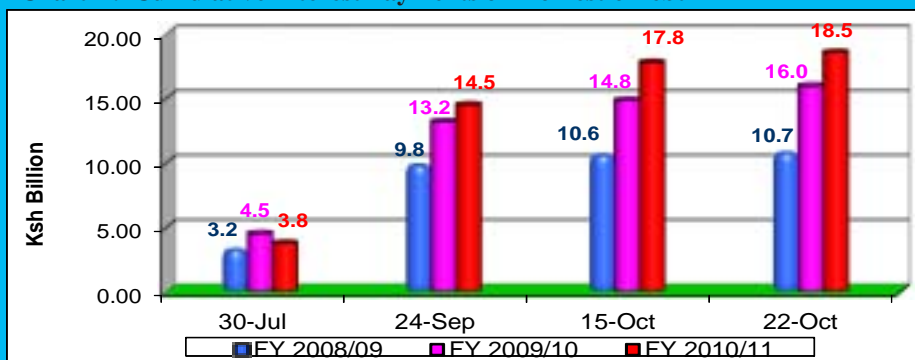


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at October 22, 2010 of the fiscal year 2010/11 amounted to Ksh 18.5 billion compared with Ksh 16.0 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 bills and Treasury bonds amounting to Ksh 5.2 billion and 13.1 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 28, 2010. Turnover declined by 2.6 percent as stocks worth Ksh 2,410.7 million were traded compared with Ksh 2,467.0 million traded in the previous week. The number of shares traded increased from 105.7 million in the previous week to 121.0 million shares in the week under review. Market capitalization as a measure of total shareholders wealth decreased by 0.1 percent or Ksh. 1.4 billion to close at Ksh 1,213 billion from Ksh 1,214 billion in the previous week. The NSE 20 Share index lost 23.61 points to settle at 4,640 points on October 28, 2010 from 4,664 points on October 21, 2010. The Nairobi All Share Index lost 0.20 points to settle at 101.95 points from 102.15 points the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	16-Sep-10	23-Sep-10	30-Sep-10	7-Oct-10	14-Oct-10	21-Oct-10	28-Oct-10
NASI 100= Jan 2008	97.76	98.33	98.92	100.59	100.45	102.15	101.95
NSE 20 Share Index 100=1966	4,541.25	4,601.81	4,629.80	4,626.19	4,608.36	4,664.03	4,640.42
Number of Deals	10,196	11,132	11,563	11,782	11,612	8,679	12,818
Total Shares Traded (millions)	95.98	100.54	101.23	138.75	118.26	105.66	120.97
Equity Turnover (Ksh. millions)	2,067.06	1,777.21	1,883.94	2,743.85	2,285.00	2,467.01	2,410.67
Market Capitalization (Ksh. Bn.)	1,157.62	1,164.59	1,173.70	1,194.89	1,194.20	1,214.39	1,212.98
Bonds Turnover (Ksh. millions)	8,982.30	6,490.10	4,720.10	8,811.05	6,324.50	6,680.25	7,448.35

* 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 57.1 million shares and accounted for 47.2 per cent of the traded volume with Safaricom trading 45.7 million shares in the sector. The Finance and Investment sector traded 29.8 million shares and accounted for 24.7 percent of total traded volume. Kenya Commercial Bank and Equity Bank were the most active stocks in the sector, trading 9.6 million and 8.9 million shares, respectively. Industrial and Allied sector traded 33.3 million shares and accounted for 27.5 percent of traded volume. Mumias Sugar Co. was the most active counter, trading 13.8 million shares. The Alternative market segment traded 65,700 shares.

Bond Market

Bond turnover at the Fixed Income Securities Market increased from Ksh 6.7 billion traded in the previous week to Ksh 7.4 billion in the week under review.