

September 10, 2010



## THE CBK WEEKLY BULLETIN

### Highlights for the Week

The Government securities market registered good performance of 182.0 percent during the auction held this week. The Government had offered for sale 91-day Treasury bills amounting to Ksh 3.5 billion, received bids amounting to Ksh 6.4 billion and accepted all the bids. The cut off rate declined by 10.2 basis points during this week's auction.

The average interbank rate declined by 23 basis points to 1.29 percent in the week ending September 9, down from 1.52 percent in the previous week.

The Kenya Shilling depreciated against the major international currencies during the week ending September 10, 2010. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 81.06 in the week compared with Ksh 80.88 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.427 billion (equivalent to 3.52 months of imports) as at September 10, 2010, compared to US dollar 3.414 billion (equivalent to 3.52 months of imports) held on September 3, 2010, reflecting a short-lived revaluation gain during the week.

The money market was liquid in the week ending September 9, 2010 and the Central Bank stayed out of the market. There were reverse repo maturities of Ksh 8.2 billion during the week.

Government gross domestic debt increased by Ksh 34.6 billion from Ksh 659.6 billion in June 2010 to Ksh 694.6 billion as at September 3, 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 10.7 billion.

Performance at the equities market was mixed during the week ending September 9, 2010, with the NSE 20 Share Index losing 9.49 points to settle at 4,457.47 from 4,466.96 points on September 2, 2010 while equity turnover increased by 35.6 percent.

## Government Securities Auction

The Government securities market registered good performance of 182.0 percent during the auction held this week. The Government had offered for sale 91-day Treasury bills amounting to Ksh 4.5 billion and received bids amounting to Ksh 6.4 billion. The Government accepted a total of Ksh 6.4 billion bids of which Ksh 5.7 billion were competitive. The proceeds of the auction were directed at supporting the Government budget.

## Interest Rates on Treasury Bonds

The cut-off rate for the 91-day Treasury bill declined by 10.2 basis points from 2.202 percent recorded on August 30, 2010 to 2.100 percent during this week's auction (Table 1).

**Table 1: Interest Rates**

Auction date	05-Aug-10	12-Aug-10	19-Aug-10	26-Aug-10	02-Sep-10	09-Sep-10
91 day T. Bills*		1.999		2.202		2.100
182 day T. Bills*	1.999		2.150		2.199	
364 day T. Bills*		3.000				
Month	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10
Average savings rate	1.75	1.81	1.81	1.81	1.76	1.75
Average overdraft rate	14.25	14.25	14.06	14.50	14.38	14.23

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

Source: Central Bank of Kenya

## Interbank Market

The average interbank rate declined by 23 basis points to 1.29 percent in the week ending September 9, down from 1.53 percent in the previous week. The volumes traded declined marginally from Ksh 41.8 billion in the previous week to Ksh 41.4 billion in the week ending September 9, 2010. The Government deposits at the Central bank declined from Ksh 60.2 billion in the week ending September 2, down to Ksh 39.3 billion in the week ending September 9, 2010.

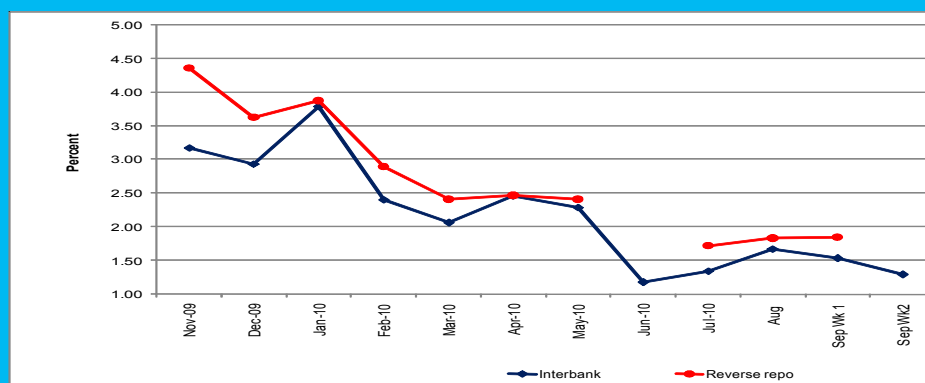
**Table 2: Interbank Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
<b>August 13 - 19, 2010</b>	<b>306</b>	<b>52,872</b>	<b>1.74</b>
20-Aug-10	54	7,705	1.59
23-Aug-10	69	12,577	1.55
24-Aug-10	46	6,465	1.53
25-Aug-10	48	5,501	1.51
<b>August 13 - 19, 2010</b>	<b>217</b>	<b>32,248</b>	<b>1.55</b>
26-Aug-10	37	4,890	1.48
30-Aug-10	72	10,737	1.55
31-Aug-10	62	10,427	1.57
01-Sep-10	61	9,618	1.59
02-Sep-10	57	6,148	1.44
<b>August 26 - Sept 02, 2010</b>	<b>289</b>	<b>41,820</b>	<b>1.53</b>
03-Sep-10	47	4,361	1.37
06-Sep-10	65	10,012	1.36
07-Sep-10	64	10,825	1.29
08-Sep-10	66	9,088	1.23
09-Sep-10	55	7,113	1.21
<b>Sept 03 - Sept 09, 2010</b>	<b>297</b>	<b>41,399</b>	<b>1.29</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).

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

### Monetary Policy Operations

The money market was liquid in the week ending September 9, 2010 and the Central Bank stayed out of the market (Table 3). There were reverse repo maturities of Ksh 8.2 billion during the week. Commercial Banks did not borrow from Central Bank's overnight window during the week under review. Reserve money averaged Ksh 220.4 billion during the week and was above target by Ksh 36.0 billion.

Table 3: Open Market Operations (Ksh Billion)

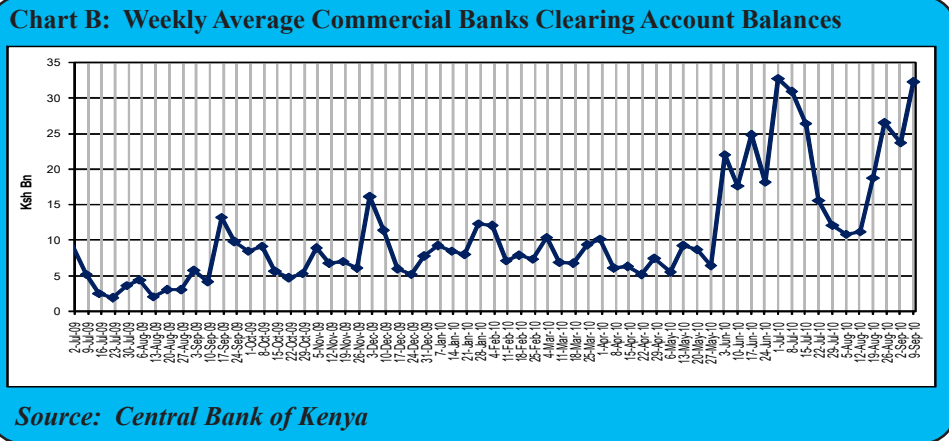
Date	Reserve Money* (Projected)			OMO (Reverse REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/Short(-)	Posted	Injected	Exc(+)/Short(-)	Actual	Exc(+)/Short(-)	Exc(+)/Short(-)	Exc(+)/Short(-)
	(1)	(2)	3=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
03-Sep	216.4	183.7	32.7	0.0	0.0	0.0	216.6	32.8	28.2	4.6
06-Sep	212.5	184.6	27.9	0.0	0.0	0.0	222.0	37.4	32.1	5.2
07-Sep	221.0	184.6	36.4	0.0	0.0	0.0	221.6	37.0	30.1	6.9
08-Sep	221.6	184.6	37.0	0.0	0.0	0.0	221.7	37.1	29.5	7.6
09-Sep	220.0	184.6	35.4	0.0	0.0	0.0	220.1	35.5	29.0	6.5
Average	218.3	184.4	33.9	0.0	0.0	0.0	220.4	36.0	29.8	6.2

\*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 32.2 billion in their clearing accounts at the Central Bank in the week to September 9, 2010, compared with Ksh 23.7 billion held the previous week (Chart B).



**The Shilling Exchange Rate**

The Kenya Shilling on average depreciated against the major international currencies during the week ending September 10, 2010 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 81.06 in the week compared with Ksh 80.88 per US dollar in the previous week. During the week, the shilling also depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 124.91 per Sterling Pound, Ksh 103.42 per Euro and Ksh 96.57 per 100 Japanese Yen in the week compared with Ksh 124.87 per Sterling Pound, Ksh 103.06 per Euro and Ksh 95.81 per 100 Japanese Yen in the previous week. In the local market, Kenya shilling lost against the dollar weighed down by increased dollar demand from the oil sector. In the international market, the dollar gained against the sterling pound but slid against the euro buoyed mostly by positive upward revised Q2 GDP figures and the sterling pound depreciated against the dollar weighed down by the mostly negative economic numbers from various sectors.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
30-Aug-10	80.87	125.62	103.02	95.10	28.01	18.79
31-Aug-10	81.07	125.07	102.50	96.30	28.00	18.77
01-Sep-10	80.97	124.68	102.92	95.95	27.97	18.80
02-Sep-10	80.77	124.49	103.38	95.87	27.98	18.88
03-Sep-10	80.73	124.48	103.50	95.84	27.90	18.82
<b>August 30- September 03, 2010</b>	<b>80.88</b>	<b>124.87</b>	<b>103.06</b>	<b>95.81</b>	<b>27.97</b>	<b>18.81</b>
06-Sep-10	80.67	124.87	104.11	95.64	27.87	18.86
07-Sep-10	80.94	124.41	103.59	96.29	27.86	18.81
08-Sep-10	81.15	124.86	103.24	97.15	28.00	18.72
09-Sep-10	81.26	125.42	103.15	97.09	27.86	18.75
10-Sep-10	81.27	124.98	103.02	96.66	27.75	18.67
<b>September 06- 10, 2010</b>	<b>81.06</b>	<b>124.91</b>	<b>103.42</b>	<b>96.57</b>	<b>27.87</b>	<b>18.76</b>

*Source: Central Bank of Kenya*

On the regional scene, the Kenya Shilling weakened against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 27.87 per Kenya Shilling and Tsh 18.76 per Kenya Shilling in the week ending September 10, 2010, compared with Ush 27.97 per Kenya Shilling and Tsh 18.81 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 3.427 billion (equivalent to 3.52 months of imports) as at September 10, 2010, compared to US dollar 3.414 billion (equivalent to 3.52 months of imports) held September 3, 2010, reflecting a short-lived revaluation gain during the week (Table 5).

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

	25-Jun-10	06-Aug-10	13-Aug-10	20-Aug-10	26-Aug-10	03-Sep-10	10-Sep-10
Usable Reserves	3,310	3,423	3,417	3,416	3,396	3,414	3,427
Months of Imports Cover*	3.47	3.56	3.53	3.53	3.51	3.52	3.52

\*Based on 36 month average of imports of

Source: Central Bank of Kenya

## Government Domestic Debt

Gross Government debt increased by Ksh 34.6 billion from Ksh 659.6 billion in June 2010 to Ksh 694.6 billion at September 3, 2010 (Table 6 and Chart D). This increase was on account of increases in Treasury bonds and overdraft at the CBK amounting to Ksh 39.9 billion and Ksh 1.8 billion, respectively which was, however, partly offset by decreases of Ksh 6.7 billion and Ksh 0.1 billion in Treasury bills and other domestic debt, respectively. The upsurge in domestic debt during the week is largely on account of successful issuance of the fourth infrastructure bond in which Government raised Ksh 30.6 billion to finance infrastructure projects identified in the FY 2010/11 budget.

Treasury bonds and Government overdraft at the CBK increased from Ksh 448.6 billion and Ksh 17.6 billion, respectively in June 2010 to Ksh 488.5 billion and Ksh 19.5 billion as at September 3, 2010. Treasury bills and other domestic debt declined from Ksh 158.5 billion and Ksh 34.1 billion, respectively in June 2010 to Ksh 151.8 billion and Ksh 34.0 billion, respectively during the same period.

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

	Jun-10	30th July 2010	26th August 2010	3rd September 2010	Changes	
					27th August 2010 - 3rd September 2010	30th Jun-2010 - 3rd September - 2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	158.5 26.1	158.2 25.6	148.0 24.5	151.8 23.7	3.8 -0.8	-6.7
2. Treasury Bonds (As % of total securities)	448.6 73.8	459.3 74.3	455.6 75.4	488.5 76.2	32.9 0.8	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	0.0 0.0	0.0
4. Total Securities (1+2+3)	607.9	618.2	604.4	641.0	36.6	33.2
5. Overdraft at Central Bank	17.6	15.5	22.5	19.5	-3.0	1.8
6. Other Domestic debt*	34.1	34.0	34.0	34.0	0.0	-0.1
7. Gross Domestic Debt (4+5+6)	659.6	667.7	660.9	694.6	33.6	34.9
8. Interest payments on domestic debt	57.8	2.62	9.38	10.74	1.4	

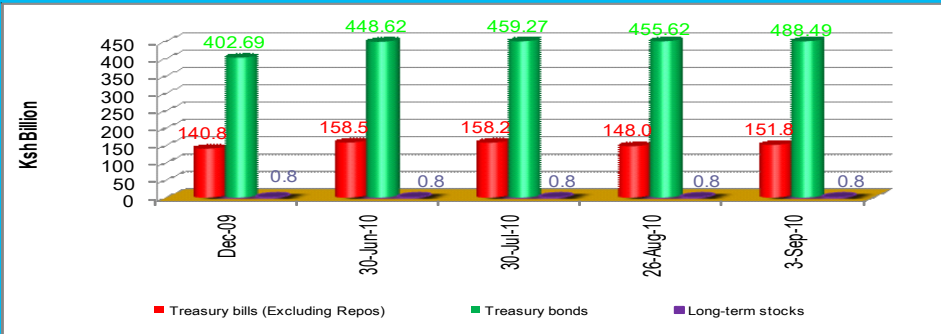
\* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCs.

Source: Central Bank of Kenya

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In view of the above, the share of Treasury bonds increased from 73.8 percent in June to 76.2 percent as at September 3, 2010 while that of Treasury bills declined from 26.1 percent to 23.7 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years as at September 3, 2010. This development is largely in line with the Government debt management strategy of lengthening the maturity profile of domestic debt and maintaining a mix of 75 percent for Treasury bonds and 25 percent for Treasury bills.

**Chart C: Composition of Government Securities**

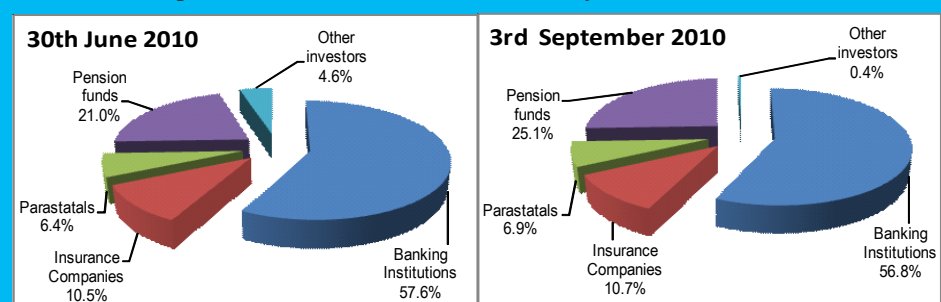


Source: Central Bank of Kenya

**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 10.5 percent in June 2010 to 6.9 percent, 25.1 percent and 10.7 percent, respectively as at September 3, 2010. However, holdings of commercial banks and other investors declined from 57.6 percent and 4.6 percent to 56.8 percent and 0.4 percent, respectively (Chart D).

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

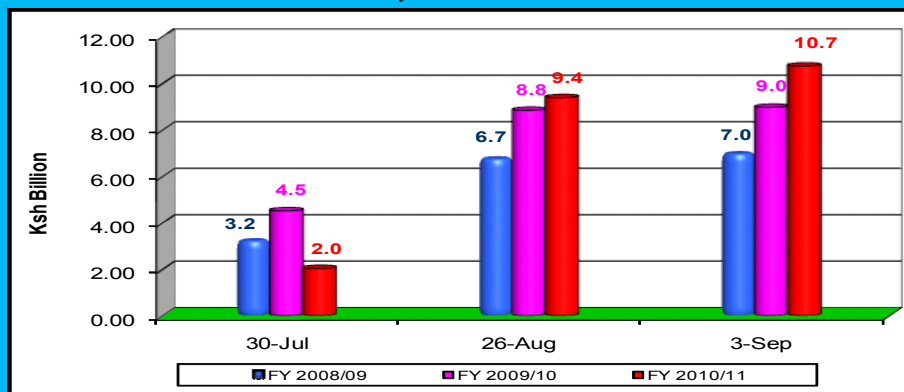


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

The cumulative Government expenditure on interest and other charges on domestic debt as at September 3, 2010 of the FY 2010/11 amounted to Ksh 10.7 billion compared with Ksh 9.0 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 2.7 billion and 7.9 billion, respectively while interest on Government overdraft at the CBK amounted to Ksh 0.1 billion.

**Chart E: Cumulative Interest Payments on Domestic Debt**



Source: Central Bank of Kenya

## The Stock Market

Performance at the equities market was mixed during the week ending September 9, 2010. Turnover increased by 35.6 percent as stocks worth Ksh 1,608.4 million were traded compared with Ksh 1,185.8 million traded in the previous week. The number of shares traded increased from 73.3 million in the previous week to 81.5 million shares in the week under review. Market capitalization as a measure of total shareholders wealth decreased by 0.7 percent or Ksh. 8.5 billion to close at Ksh 1,130 billion in the week under review from Ksh 1,138 billion in the previous week. The decline was as a result of price declines in some of the heavily traded counters. The NSE 20 Share Index lost 9.49 points to settle at 4,457 points on September 9, 2010 from 4,467 points on September 2, 2010. The Nairobi All Share Index lost 0.8 points to settle at 95.4 points from 96.1 points the previous week (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	22-Jul-10	29-Jul-10	05-Aug-10	12-Aug-10	19-Aug-10	25-Aug-10	02-Sep-10	09-Sep-10
NASI 100= Jan 2008	95.88	96.94	102.16	98.86	100.49	97.8	96.11	95.38
NSE 20 Share Index 100=1966	4,345.86	4,398.32	4,667.47	4,544.52	4,603.26	4,541.70	4,466.96	4,457.47
Number of Deals	10,387	11,033	10,179	12,230	12,358	10,351	11,230	10,076
Total Shares Traded (millions)	66.34	72.96	131.02	108.68	111.0753	137.42	73.31	81.47
Equity Turnover (Ksh. millions)	1,086.56	1,468.81	2,293.54	2,065.74	1,837.56	1,496.01	1,185.77	1,608.37
Market Capitalization (Ksh. Bn.)	1,118.68	1,133.20	1,194.16	1,155.51	1,189.07	1,158.34	1,138.18	1,129.65
Bonds Turnover (Ksh. millions)	10,187.80	7,334.45	2,293.15	3,888.30	3,225.05	5,220.35	13,584.95	6,121.90

\* 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 47.1 million shares and accounted for 57.9 per cent of the traded volume with Safaricom trading 43.0 million shares in the sector. The Finance and Investment sector traded 18.7 million shares and accounted for 22.9 percent of total traded volume.

Kenya Commercial Bank and Equity Bank were the most active stocks in the sector, trading 5.4 million each. Industrial and Allied sector traded 15.4 million shares and accounted for 18.9 percent of traded volume. Mumias Sugar Co was the most active counter, trading 6.9 million shares. The Alternative market segment traded 46,800 shares.

**Bond Market** Bond turnover at the Fixed Income Securities Market decreased from Ksh 13.6 billion traded in the previous week to Ksh 6.1 billion in the week under review.