

September 17, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market registered good performance of 119.2 percent during the auction held this week. The Government had offered for sale 182-day Treasury bills amounting to Ksh 6.5 billion, received bids amounting to Ksh 7.7 billion and accepted bids worth Ksh 6.5 billion. The cut off rate remained unchanged at 2.199 percent during this week's auction.

The average interbank rate declined by 14 basis points to 1.15 percent in the week ending September 16, 2010 down from 1.29 percent in the previous week.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending September 17, 2010. Against the US dollar, the shilling appreciated to exchange at an average of Ksh 80.82 in the week compared with Ksh 81.06 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.453 billion (equivalent to 3.55 months of imports) as at September 17, 2010, compared to US dollar 3.427 billion (equivalent to 3.52 months of imports) held on September 10, 2010, reflecting a short-lived revaluation gain during the week.

The money market was liquid in the week ending September 16, 2010 and the Central Bank stayed out of the market. There were no reverse repo maturities during the week.

Government gross domestic debt increased by Ksh 31.7 billion from Ksh 659.6 billion in June 2010 to Ksh 691.3 billion as at September 10, 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 11.9 billion.

Performance at the equities market improved during the week ending September 16, 2010, with the NSE 20 Share Index gaining 83.78 points to settle at 4,541.25 from 4,457.47 points on September 9, 2010 and equity turnover increased by 28.5 percent.

Government Securities Auction

The Government securities market registered good performance of 119.2 percent during the auction held this week. The Government had offered for sale 182-day Treasury bills amounting to Ksh 6.5 billion and received bids amounting to Ksh 7.7 billion. The Government accepted bids amounting to Ksh 6.5 billion of which Ksh 6.2 billion were competitive. The proceeds of the auction were directed at meeting part cost of Government securities maturities due in the week amounting to Ksh 11.2 billion.

Interest Rates on Treasury Bonds

The cut-off rate for the 182-day Treasury bill remained unchanged at 2.199 percent recorded on September 16, 2010 (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	16-Sep-10
91 day T. Bills*		1.999		2.202		2.100	
182 day T. Bills*	1.999		2.150		2.199		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 14 basis points to 1.15 percent in the week ending September 16, down from 1.29 percent in the previous week. The volumes traded declined from Ksh 41.4 billion in the previous week to Ksh 37.0 billion in the week ending September 16, 2010. The Government deposits at the Central Bank rose slightly from Ksh 39.3 billion in the week ending September 9, up to Ksh 40.2 billion in the week ending September 16, 2010.

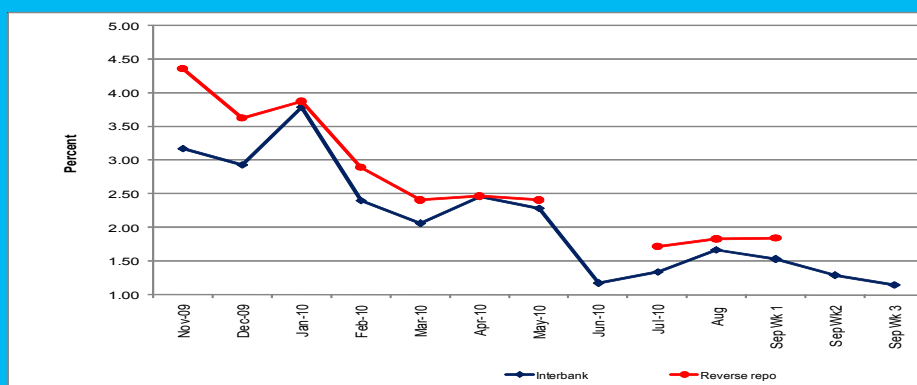
Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
August 26 - Sept 02, 2010	289	41,820	1.53
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
Sept 03 - Sept 09, 2010	297	41,399	1.29
10-Sep-10	55	7,125	1.17
13-Sep-10	70	9,496	1.20
14-Sep-10	53	6,866	1.13
15-Sep-10	65	7,855	1.11
16-Sep-10	52	5,698	1.12
Sept 10 - Sept 16, 2010	295	37,040	1.15

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 16, 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's overnight window during the week under review. Reserve money averaged Ksh 214.4 billion during the week and was above target by Ksh 29.1 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)
10-Sep	217.3	184.6	32.7	0.0	0.0	0.0	218.5	33.9	26.3	7.5
13-Sep	213.3	185.5	27.8	0.0	0.0	0.0	213.4	27.8	20.6	7.2
14-Sep	214.9	185.5	29.4	0.0	0.0	0.0	214.6	29.1	22.0	7.1
15-Sep	214.4	185.5	28.9	0.0	0.0	0.0	212.7	27.2	22.7	4.5
16-Sep	210.5	185.5	25.0	0.0	0.0	0.0	213.0	27.5	22.4	5.1
Average	214.1	185.3	28.8	0.0	0.0	0.0	214.4	29.1	22.8	6.3

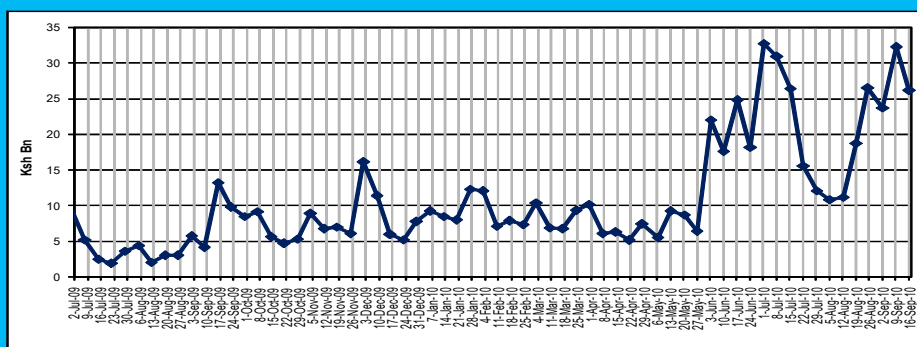
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 26.2 billion in their clearing accounts at the Central Bank in the week to September 16, 2010, compared with Ksh 32.2 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 September 10, 2010 (Table 4). Against the US dollar, the shilling appreciated to exchange at Ksh 80.82 in the week compared with Ksh 81.06 per US dollar in the previous week. The shilling also appreciated against the Japanese Yen to exchange at Ksh 95.51 per 100 Japanese Yen compared with Ksh 96.57 per 100 Japanese Yen. During the week, the shilling depreciated against the Sterling Pound and the Euro to exchange on average at Ksh 125.43 per Sterling Pound and Ksh 104.70 per Euro in the week compared with Ksh 124.91 per Sterling Pound and Ksh 103.42 per Euro in the previous week.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
September 06- 10, 2010	81.06	124.91	103.42	96.57	27.87	18.76
13-Sep-10	80.89	124.99	103.59	96.30	27.84	18.81
14-Sep-10	80.93	124.38	104.18	97.15	27.83	18.76
15-Sep-10	80.86	125.34	104.97	95.30	27.76	18.80
16-Sep-10	80.84	125.88	104.93	94.79	27.78	18.81
17-Sep-10	80.59	126.55	105.83	93.99	27.83	18.82
September 13- 17, 2010	80.82	125.43	104.70	95.51	27.81	18.80

Source: Central Bank of Kenya

In the local market, the Kenyan shilling strengthened against the dollar on the back of improved appetite for riskier emerging market assets. The shilling however depreciated against both the pound and the euro as the two currencies gained vis-à-vis the dollar in the international market. In the international market, the dollar depreciated against both the sterling pound and the euro in the period under review. The sterling pound appreciated against the dollar supported by mostly positive economic data on consumer confidence and prices and the euro also appreciated against the dollar buoyed by positive data on growth outlook and Basel's step towards a more resilient banking system.

On the regional scene, the Kenya Shilling weakened against the Uganda Shilling and strengthened against the Tanzania Shilling to exchange at Ush 27.81 per Kenya Shilling and Tsh 18.80 per Kenya Shilling in the week ending September 17, 2010, compared with Ush 27.87 per Kenya Shilling and Tsh 18.76 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 3.454 billion (equivalent to 3.55 months of imports) as at September 17, 2010, compared to US dollar 3.427 billion (equivalent to 3.52 months of imports) held September 10, 2010, reflecting a short-lived revaluation gain during the week (Table 5).

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

	26-Feb-10	26-Mar-10	01-Apr-10	09-Apr-10	16-Apr-10	23-Apr-10	30-Apr-10	27-May-10	25-Jun-10	26-Aug-10	03-Sep-10	10-Sep-10	17-Sep-10
Usable Reserves	3,235	3,224	3,223	3,258	3,319	3,308	3,307	3,252	3,310	3,396	3,414	3,427	3,454
Months of Imports Cover*	3.49	3.43	3.43	3.45	3.51	3.50	3.50	3.41	3.47	3.51	3.52	3.52	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 31.7 billion from Ksh 659.6 billion in June 2010 to Ksh 691.3 billion at September 10, 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 4.8 billion, respectively which was, however, partly offset by a decrease of Ksh 12.8 billion in Treasury bills.

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 22.35 billion as at September 10, 2010. Treasury bills declined from Ksh 158.5 billion in June 2010 to Ksh 145.7 billion during the same period.

Table 6: Government Domestic Debt (Ksh Billion)

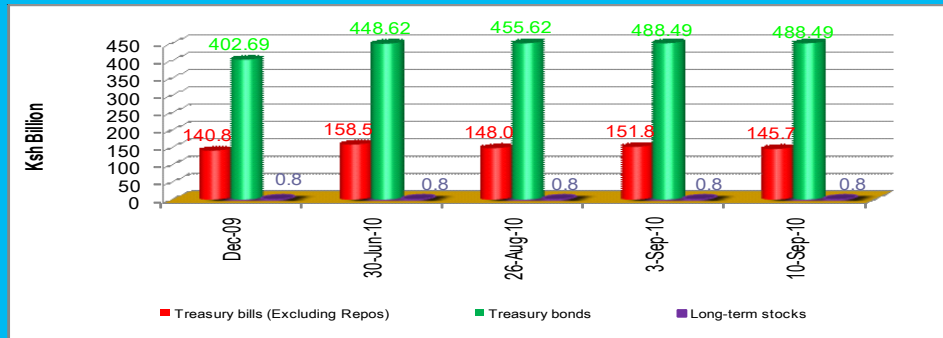
	Jun-10	26th August 2010	3rd September 2010	10th September 2010	Changes	
					3rd September 2010 - 10th September	30th Jun-2010 - 10th September 2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	158.5 26.1	148.0 24.5	151.8 23.7	145.7 23.0	-6.1 -0.7	-12.8
2. Treasury Bonds (As % of total securities)	448.6 73.8	455.6 75.4	488.5 76.2	488.5 76.9	0.0 0.7	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	604.4	641.0	635.0	-6.1	27.1
5. Overdraft at Central Bank	17.6	22.5	19.5	22.3	2.8	4.6
6. Other Domestic debt*	34.1	34.0	34.0	34.1	0.1	0.0
7. Gross Domestic Debt (4+5+6)	659.6	660.9	694.6	691.3	-3.2	31.7
8. Interest payments on domestic debt	57.8	9.38	10.74	11.94	1.2	

* 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 76.9 percent as at September 10, 2010 while that of Treasury bills declined from 26.1 percent to 23.0 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years as at September 10, 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

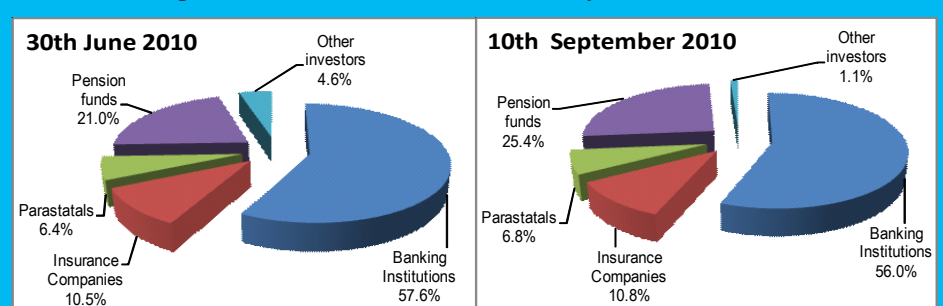


Source: Central Bank of Kenya

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 6.8 percent, 25.4 percent and 10.8 percent, respectively as at September 10, 2010. However, holdings of commercial banks and other investors declined from 57.6 percent and 4.6 percent to 56.0 percent and 1.1 percent, respectively (Chart D).

Chart D: Composition of Government Securities by Investor

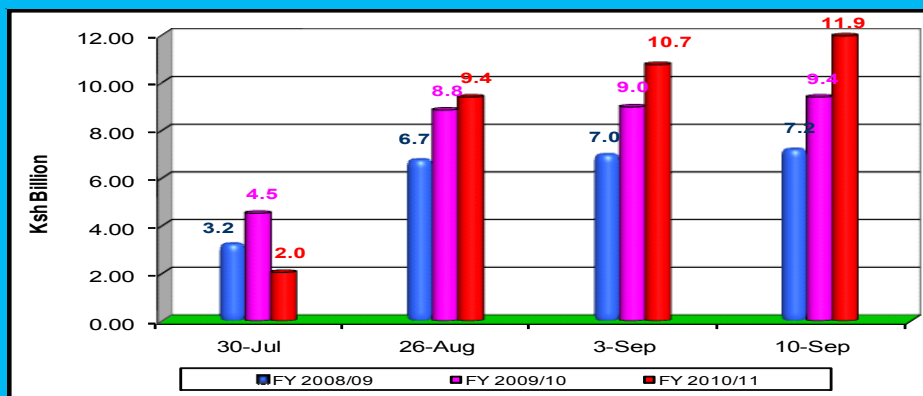


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at September 10, 2010 of the FY 2010/11 amounted to Ksh 11.9 billion compared with Ksh 9.4 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 3.0 billion and 8.8 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 improved during the week ending September 16, 2010. Turnover increased by 28.5 percent as stocks worth Ksh 2,067.1 million were traded compared with Ksh 1,608.4 million traded in the previous week. The number of shares traded increased from 81.5 million in the previous week to 96.0 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 2.5 percent or Ksh. 28.0 billion to close at Ksh 1,158 billion in the week under review from Ksh 1,130 billion in the previous week. The NSE 20 Share Index gained 83.78 points to settle at 4,541 points on September 16, 2010 from 4,457 points on September 9, 2010. The Nairobi All Share Index gained 2.38 points to settle at 97.8 points from 95.4 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 52.1 million shares and accounted for 54.3 per cent of the traded volume with Safaricom trading 47.0 million shares in the sector. The Finance and Investment sector traded 28.0 million shares and accounted for 29.1 percent of total traded volume. Kenya Commercial Bank and Coop Bank were the most active stocks in the sector, trading 8.7 million and 7.8 million shares respectively. Industrial

and Allied sector traded 15.6 million shares and accounted for 16.3 percent of traded volume. Mumias Sugar Co was the most active counter, trading 6.7 million shares. The Alternative market segment traded 30,600 shares.

Bond Market

Bond turnover at the Fixed Income Securities Market increased from Ksh 6.1 billion traded in the previous week to Ksh 9.0 billion in the week under review.