

September 24, 2010



THE CBK WEEKLY BULLETIN

Highlights for the Week

The 91-day Treasury bills auction posted underperformance of 32.1 percent, while the 2-year Treasury bond auction posted over performance of 2.9 percent. The Government had offered for sale 91-day Treasury bills amounting to Ksh 4.0 billion, received bids amounting to Ksh 2.7 billion and accepted bids amounting to Ksh 1.5 billion. In the case of Treasury bonds, Ksh 13.0 billion was on offer, bids amounting to Ksh 13.4 billion were received and bids amounting to Ksh 12.8 billion were accepted. The average rate for 91- day Treasury bill and the 2-year Treasury bond declined by 7.8 basis points and 328.8 basis points, respectively.

The average interbank rate declined by 5 basis points to 1.10 percent in the week ending September 23, from 1.15 percent in the previous week. The slight movement in the interbank rate is indicative of stable liquidity in the market.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending September 24, 2010. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 80.94 in the week compared with Ksh 80.82 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.476billion (equivalent to 3.57months of imports) as at September 24, 2010, compared to US dollar 3.453billion (equivalent to 3.55 months of imports) held on September 17, 2010, reflecting a short-lived revaluation gain during the week under review.

The money market was liquid in the week ending September 23, 2010 and the Central Bank stayed out of the market. There were no reverse repo maturities.

Government gross domestic debt increased by Ksh 32.2 billion from Ksh 659.6 billion in June 2010 to Ksh 691.8 billion as at September 17, 2010. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 11.5 billion.

Performance at the equities market was mixed during the week ending September 23, 2010, with the NSE 20 Share index gaining 60.56 points to settle at 4,601.81 from 4,541.25 points on September 16, 2010 and equity turnover declining by 14.0 percent.

Government Securities Auction

The market posted mixed performance during this week's Government securities auctions. The 91-day Treasury bills auction underperformed by 32.1 percent, while the 2-year Treasury bond auction overperformed by 2.9 percent in relation to amounts offered. During the auction of September 23, 2010 the Government offered for sale 91-day Treasury bills amounting to Ksh 4.0 billion and received bids amounting to Ksh 2.7 billion of which Ksh 2.4 billion were in competitive bids. However, during the auction of September 22, 2010 the Government offered for sale 2-year Treasury bonds worth Ksh 13.0 billion and received bids amounting to Ksh 13.4 billion. The Government accepted bids amounting to Ksh 1.5 billion and Ksh 12.8 billion for the 91-day Treasury bills and the 2-year Treasury bond, respectively. The proceeds of these auctions were directed at meeting the cost of maturities of Government securities amounting to Ksh 0.2 billion falling due in the week and therefore, provided Government additional borrowing of Ksh 14.1 billion.

Interest Rates on Treasury/Bills Bonds

The average rate for the 91-year Treasury bills declined by 7.8 basis points from 2.047 percent on September 9, 2010 to 2.022 percent (Table 1). The average rate for the 2-year Treasury bond declined by 323.8 basis points from 6.936 percent posted on March 29, 2010 to 3.698 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
91 day T. Bills*		2.202		2.100		2.022
182 day T. Bills*	2.150		2.199		2.199	
364 day T. Bills*						
Month	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10
Average savings rate	1.81	1.81	1.76	1.75	1.55	1.50
Average overdraft rate	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

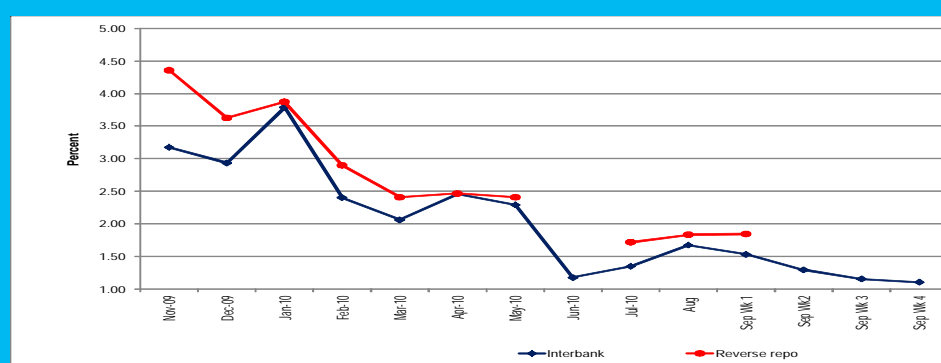
The average interbank rate declined by 5 basis points to 1.10 percent in the week ending September 23, down from 1.15 percent in the previous week. The volumes traded increased from Ksh 37.0 billion in the previous week to Ksh 49.7 billion in the week ending September 23, 2010. The slight fall in the interbank rates indicates that the market was liquid during the week (Table 2 and Chart A).

Table 2: Interbank Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
17-Sep-10	61	7,700	1.12
20-Sep-10	72	11,455	1.11
21-Sep-10	70	10,406	1.10
22-Sep-10	73	9,133	1.07
23-Sep-10	67	10,989	1.07
Sept 17 - Sept 23, 2010	343	49,682	1.10

Source: Central Bank of Kenya

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 23, 2010 and the Central Bank stayed out of the market (Table 3). There were no reverse repo maturities during the week. Despite the high levels of liquidity commercial banks borrowed a total of 445 million from Central Bank's overnight window. Reserve money averaged Ksh 208.0 billion during the week and was above target by Ksh 21.8 billion. The excess reserve money was reflected in commercial banks clearing account balances at the Central Bank.

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)
17-Sep	210.2	185.5	24.7	0.0	0.0	0.0	208.0	22.5	17.4	5.1
20-Sep	208.9	186.4	22.5	0.0	0.0	0.0	209.8	23.4	18.5	4.9
21-Sep	206.9	186.4	20.5	0.0	0.0	0.0	207.8	21.4	17.1	4.3
22-Sep	206.6	186.4	20.2	0.0	0.0	0.0	207.9	21.5	17.2	4.3
23-Sep	206.2	186.4	19.8	0.0	0.0	0.0	206.6	20.2	16.8	3.4
Average	207.8	186.2	21.5	0.0	0.0	0.0	208.0	21.8	17.4	4.4

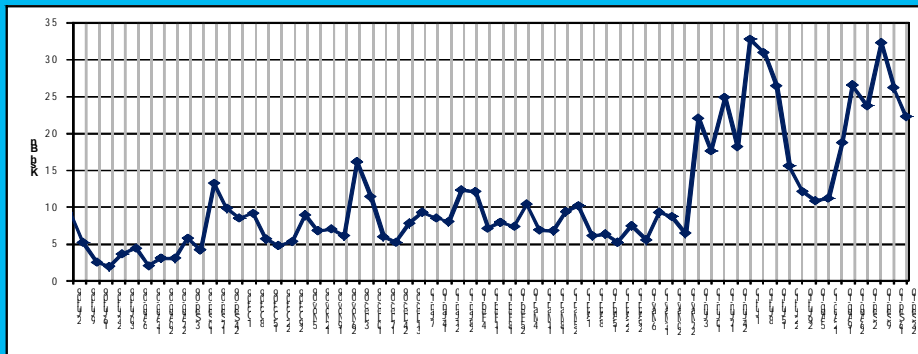
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Account
Balances**

Commercial banks maintained an average of Ksh 22.3 billion in their clearing accounts at the Central Bank in the week to September 23, 2010, compared with Ksh 26.2 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 24, 2010 (Table 4). Against the US dollar, the shilling depreciated marginally to exchange at Ksh 80.94 during the week under review. The shilling also depreciated against the Sterling Pound and the Euro to exchange on average at Ksh 126.69 per Sterling Pound and Ksh 107.17 per Euro compared with Ksh 125.43 per Sterling Pound and Ksh 104.70 per Euro in the previous week. But the shilling appreciated against the Japanese Yen to exchange at Ksh 95.13 per 100 Japanese Yen compared with Ksh 95.51 per 100 Japanese Yen.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
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
20-Sep-10	80.79	126.55	105.65	94.26	27.85	18.78
21-Sep-10	80.99	126.15	106.03	94.72	27.83	18.71
22-Sep-10	80.84	126.73	107.44	95.16	27.86	18.77
23-Sep-10	80.95	126.82	108.47	95.78	27.77	18.68
24-Sep-10	81.16	127.18	108.25	95.73	27.71	18.75
September 20- 24, 2010	80.94	126.69	107.17	95.13	27.80	18.74

Source: Central Bank of Kenya

In the local market, the Kenya shilling depreciated against the US dollar due to dollar demand from the energy and telecommunication sectors.

In the international market, the sterling pound appreciated against the dollar as it tracked the Euro, which appreciated against the US dollar buoyed by successful Irish, Spanish and Greek government bond auctions in addition to clear signals of a return to quantitative easing by the Fed.

On the regional scene, the Kenya Shilling weakened against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 27.80 per Kenya Shilling and Tsh 18.74 per Kenya Shilling in the week ending September 24, 2010, compared with Ush 27.81 per Kenya Shilling and Tsh 18.80 per Kenya Shilling in the previous week respectively.

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.476 billion (equivalent to 3.57 months of imports) as at September 24, 2010, compared to US dollar 3.454 billion (equivalent to 3.55 months of imports) held September 17, 2010, reflecting a short-lived revaluation gain during the week (Table 5).

Foreign Exchange Reserves

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

	1-Apr-10	9-Apr-10	16-Apr-10	23-Apr-10	30-Apr-10	27-May-10	25-Jun-10	26-Aug-10	10-Sep-10	17-Sep-10	24-Sep-10
Usable Reserves	3,223	3,258	3,319	3,308	3,307	3,252	3,310	3,396	3,427	3,454	3,476
Months of Imports Cover*	3.43	3.45	3.51	3.50	3.50	3.41	3.47	3.51	3.52	3.55	3.57

*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 32.2 billion from Ksh 659.6 billion in June 2010 to Ksh 691.8 billion at September 17, 2010 (Table 6 and Chart D). This increase was on account of increases in Treasury bonds and other domestic debt amounting to Ksh 39.9 billion and Ksh 0.2 billion, respectively which was, however, partly offset by decreases of Ksh 6.4 billion and Ksh 1.5 billion in Treasury bills and the overdraft to Government at the Central Bank, respectively.

Table 6: Government Domestic Debt (Ksh Billion)

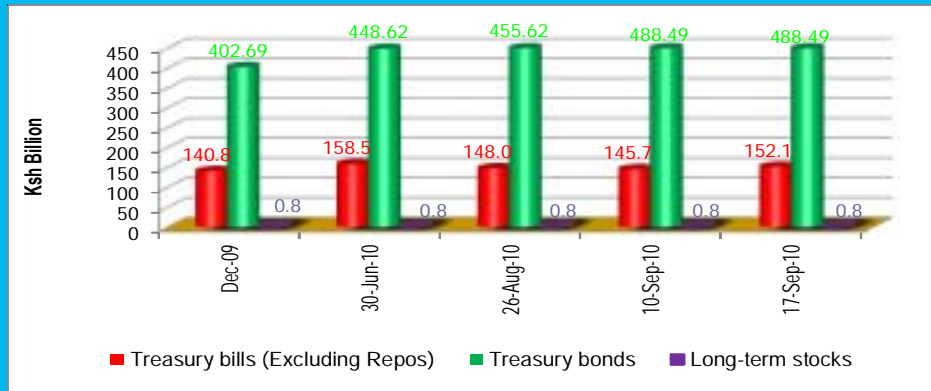
	Jun-10	26th Aug-10	10th Sept-10	17th Sept-2010	Changes	
					10th Sept-10 - 17th Sept-10	30th Jun-10 - 17th Sept-10
1. Treasury Bills (Excluding Repos) (As % of total securities)	158.5 26.1	148.0 24.5	145.7 23.0	152.1 23.7	6.4 0.8	-6.4
2. Treasury Bonds (As % of total securities)	448.6 73.8	455.6 75.4	488.5 76.9	488.5 76.2	0.0 -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	604.4	635.0	641.4	6.4	33.5
5. Overdraft at Central Bank	17.6	22.5	22.3	16.1	-6.1	-1.5
6. Other Domestic debt*	34.1	34.0	34.1	34.3	0.2	0.2
7. Gross Domestic Debt (4+5+6)	659.6	660.9	691.3	691.8	0.5	32.2
8. Interest payments on domestic debt	57.8	9.38	11.28	11.49	0.2	

* 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 Government other domestic debt increased from Ksh 448.6 billion and Ksh 34.1 billion, respectively, in June 2010 to Ksh 488.5 billion and Ksh 34.3 billion as at September 17, 2010. Treasury bills and overdraft at the Central Bank declined from Ksh 158.5 billion and Ksh 17.6 billion, respectively, in June 2010 to Ksh 145.7 billion and Ksh 16.1 billion, respectively, during the same period.

Chart C: Composition of Government Securities



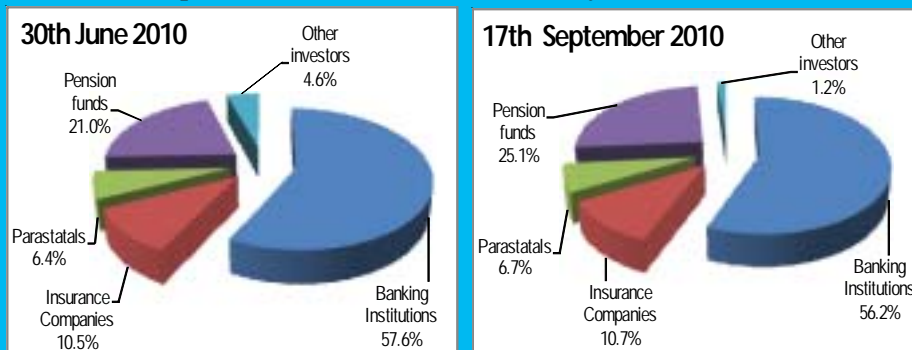
Source: Central Bank of Kenya

In view of the above, the share of Treasury bonds increased from 73.8 percent in June to 76.2 percent as at September 17, 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 17, 2010. This development is consistent 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.

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 6.7 percent, 25.1 percent and 10.7 percent, respectively as at September 17, 2010. With a share of 56.2 percent, commercial banks were the dominant investor in Government securities (Chart E).

Chart D: Composition of Government Securities by Investor

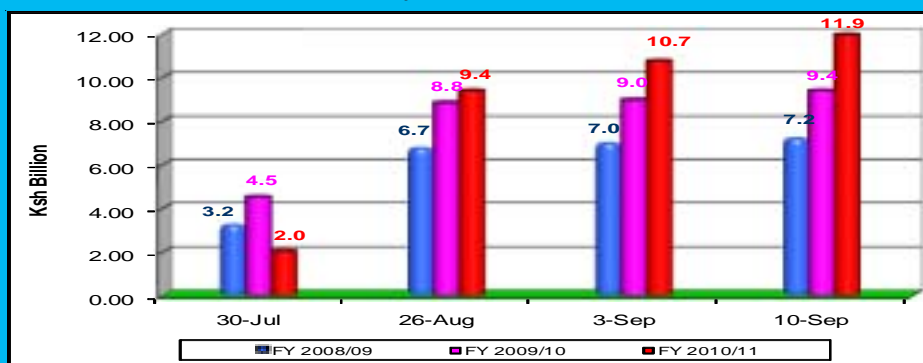


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at September 17, 2010 of the fiscal year 2010/11 amounted to Ksh 11.5 billion compared with Ksh 10.0 billion in a similar period of the fiscal year 2009/10 (Chart F). 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 3.1 billion and 8.3 billion, respectively, while interest on Government overdraft at the Central Bank 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 23, 2010. Turnover declined by 14.0 percent as stocks worth Ksh 1,777.2 million were traded compared with Ksh 2,067.1 million traded in the previous week. The number of shares traded increased from 96.0 million in the previous week to 100.5 million shares in the week under review. The NSE 20 Share Index gained 60.56 points to settle at 4,602 points on September 23, 2010 from 4,541 points on September 16, 2010. The Nairobi All Share Index gained 0.57 points to settle at 98.3 points from 97.8 points the previous week. Reflecting the increase in share prices, market capitalization, as a measure of total shareholders wealth increased by 0.6 percent or Ksh. 7.0 billion to close at Ksh 1,165 billion in the week under review from Ksh 1,158 billion in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	5-Aug-10	12-Aug-10	19-Aug-10	25-Aug-10	2-Sep-10	9-Sep-10	16-Sep-10	23-Sep-10
NASI 100= Jan 2008	102.16	98.86	100.49	97.8	96.11	95.38	97.76	98.33
NSE 20 Share Index 100=1966	4,667.47	4,544.52	4,603.26	4,541.70	4,466.96	4,457.47	4,541.25	4,601.81
Number of Deals	10,179	12,230	12,358	10,351	11,230	10,076	10,196	11,132
Total Shares Traded (millions)	131.02	108.68	111.0753	137.42	73.31	81.47	95.98	100.54
Equity Turnover (Ksh. millions)	2,293.54	2,065.74	1,837.56	1,496.01	1,185.77	1,608.37	2,067.06	1,777.21
Market Capitalization (Ksh. Bn.)	1,194.16	1,155.51	1,189.07	1,158.34	1,138.18	1,129.65	1,157.62	1,164.59
Bonds Turnover (Ksh. millions)	2,293.15	3,888.30	3,225.05	5,220.35	13,584.95	6,121.90	8,982.30	6,490.10

* 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 59.2 million shares and accounted for 58.9 per cent of the traded volume with Safaricom trading 56.8 million shares in the sector. The Finance and Investment sector traded 25.0 million shares and accounted for 24.9 percent of total traded volume. Equity Bank and Kenya Commercial Bank were the most active stocks in the sector, trading 10.3 million and 5.0 million shares respectively. Industrial and Allied sector traded 15.6 million shares and accounted for 15.5 percent of traded volume. Mumias Sugar Company was the most active counter, trading 7.5 million shares. The Alternative market segment traded 126,300 shares.

Bond Market

Bond turnover at the Fixed Income Securities Market decreased from Ksh 9.0 billion traded in the previous week to Ksh 6.5 billion in the week under review. The decrease in bond turnover can be attributed to a shift in investor's appetite from the secondary market to the primary market following the 2-year Treasury bond offer during the week.