

**April 1, 2011**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The overall 12-month inflation rate increased for the fifth consecutive month to reach 9.2 percent in March 2011, from 6.5 percent in February 2011.

The Government offered for sale 91-day Treasury bills to raise Ksh 2.0 billion, and received bids worth Ksh 6.4 billion of which Ksh 2.4 billion was accepted. The 91-day Treasury bill average rate edged up 8.4 basis points to 2.989 percent.

The average interbank rate rose by 17 basis points to 1.34 percent in the week ending March 30, 2011, from 1.17 percent in the previous week.

The Central bank mopped a total of Ksh 2.9 billion in the week ending March 30, 2011. Reverse repo maturities amounted to Ksh 7.4 billion, during the week.

The Kenya Shilling on average appreciated against the major international currencies, as well as the EAC currencies, during the week ending March 31, 2011. Against the US dollar, it exchanged at an average of Ksh. 83.66 per US dollar compared with 84.88 per US dollar the previous week.

The usable official foreign exchange reserves held by the Central Bank decreased slightly from US dollar 3,935 million (equivalent to 3.90 months of imports) as at March 24, 2011, to US dollar 3,887 million (equivalent to 3.77 months of imports) as at March 31, 2011 reflecting revaluation loss during the week.

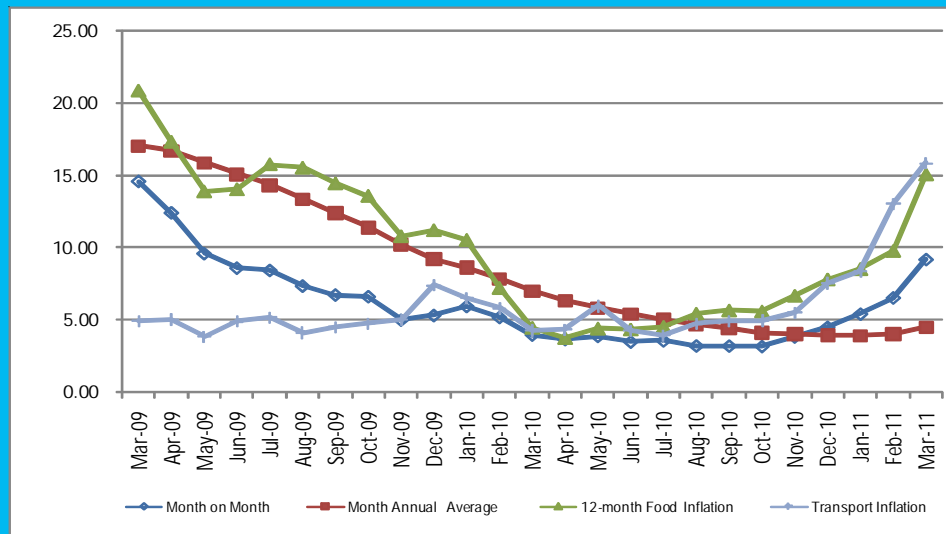
Government gross domestic debt increased by Ksh 82.2 billion from Ksh 660.3 billion in June 2010 to Ksh 742.4 billion as at March 25, 2011. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 44.4 billion.

Performance at the equities market improved during the week ending March 31, 2011 with the NSE 20 Share Index gaining 13.6 points to settle at 3,887.1 from 3,873.4 points on March 24, 2011. The equity turnover increased by 119.9 percent.

**Inflation**

The overall 12-month inflation rate increased from 6.5 percent in February 2011 to 9.2 percent in March 2011. The sharp rise in overall inflation was largely attributed to the escalating food prices due to the drought conditions in the country, and the rising international crude oil prices which affected mainly the transport and food sectors. Overall food and transport inflation increased from 9.8 and 15.4 percent respectively in February to 15.1 and 15.9 percent in March, 2011. The 'Nairobi lower' and the 'rest of urban' income groups were hardest hit, experiencing overall inflation rates equivalent to 11.0 and 9.0 percent respectively (Chart A).

**Chart A: Annual Inflation, 12-month Overall Inflation and Food and Alcoholic Beverages Inflation**



Source: Central Bank of Kenya

**Government Securities Auction**

The Government offered for sale 91-day Treasury bills amounting to Ksh 2.0 billion in the week ending March 31, 2011. Bids received amounted to Ksh 6.4 billion, a 319.6 percent performance. The Government accepted bids worth Ksh 2.4 billion. The proceeds will partially fund maturities falling due during the week amounting to Ksh 9.2 billion.

**Interest Rates on Treasury Bills**

The 91-day Treasury bill rate edged up 8.4 basis points to settle at 2.989 percent from 2.905 percent last week.

**Table 1: Interest Rates**

Auction date	3-Feb-11	10-Feb-11	17-Feb-11	24-Feb-11	3-Mar-11	10-Mar-11	17-Mar-11	25-Mar-11	31-Mar-11
91 day T. Bills*	2.555	2.595	2.592	2.603	2.627	2.760	2.784	2.905	2.989
182 day T. Bills*		2.749		2.764		2.848		3.271	
364 day T. Bills*	3.722				3.996				
Month	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11		
Average savings rate	1.55	1.50	1.47	1.46	1.40	1.45	1.25		
Average overdraft rate	14.03	13.97	13.81	13.64	13.77	13.69	13.93		

\*Weighted rates for accepted bids

Source: Central Bank of Kenya

**Interbank  
and REPO  
Rates**

The average interbank rate rose by 17 basis points to 1.34 percent in the week ending March 30, 2011. The average volumes traded increased to Ksh 9.17 billion the week ending March 30, 2011 from Ksh 7.65 billion in the previous week. The Government deposits at the Central Bank rose from Ksh 41.2 billion in the week ending March 23, 2011 to Ksh 54.1 billion in the week ending March 30, 2011.

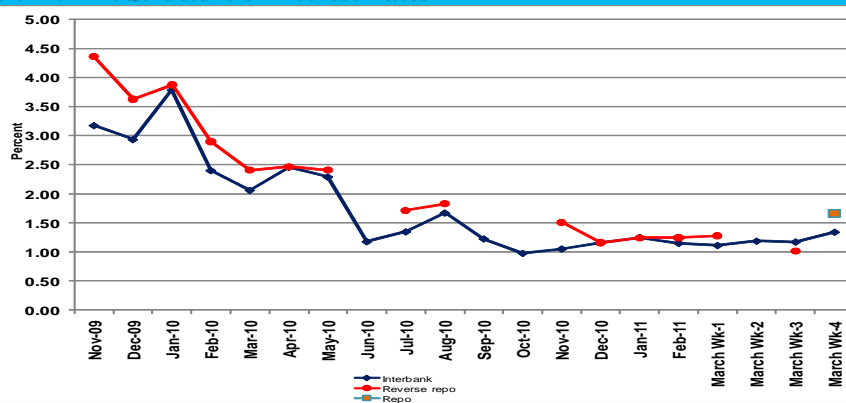
**Table 2: Interbank Transactions**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
17-Mar-11	69	11,019	1.21
18-Mar-11	62	10,584	1.21
21-Mar-11	39	5,229	1.21
22-Mar-11	41	3,550	1.13
23-Mar-11	45	5,455	1.09
<b>March 17- March 23, 2011</b>	<b>54</b>	<b>7,652</b>	<b>1.17</b>
24-Mar-11	40	5,265	1.06
25-Mar-11	37	6,425	1.02
28-Mar-11	82	16,904	1.25
29-Mar-11	69	14,674	1.47
30-Mar-11	63	10,340	1.90
<b>March 24- March 30, 2011</b>	<b>52</b>	<b>9,176</b>	<b>1.34</b>

Source: Central Bank of Kenya

The repo rate was 1.663 percent as at the last repo transaction on March 25, 2011.

**Chart B: The Structure of Interest Rates**



Source: Central Bank of Kenya

**Monetary  
Policy  
Operations**

The Central bank mopped a total of Ksh 2.9 billion in the week ending March 30, 2011 (Table 3). Reverse repo maturities amounted to Ksh 7.4 billion, during the week. Commercial banks borrowed a total of Ksh 9.9 billion from the overnight window. Reserve money averaged Ksh 213.7 billion during the week and was above target by Ksh 1.9 billion.

**Table 3: Open Market Operations (Ksh Billion)**

Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/Short(-)	Posted	Mopped	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)
24-Mar	221.1	211.8	9.3	0.0	0.0	0.0	221.1	9.3	10.1	-0.8
25-Mar	228.1	211.8	16.3	10.0	2.9	7.2	224.9	13.1	14.1	-1.0
28-Mar	203.9	211.8	-7.9	0.0	0.0	0.0	207.4	-4.4	-3.8	-0.5
29-Mar	205.1	211.8	-6.7	0.0	0.0	0.0	206.5	-5.3	-5.0	-0.3
30-Mar	202.2	211.8	-9.6	0.0	0.0	0.0	208.4	-3.4	-3.6	0.2
Average	212.1	211.8	0.3	2.0	0.6	1.4	213.7	1.9	2.3	-0.5

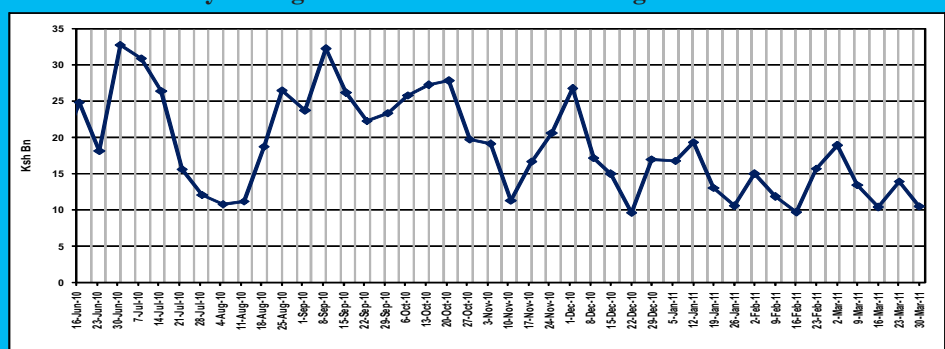
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial Banks Clearing Account Balances**

Commercial banks maintained an average of Ksh 10.5 billion in their clearing accounts at the Central Bank in the week to March 30, 2011, compared with Ksh 13.9 billion held the previous week (Chart C).

**Chart C: Weekly Average Commercial Banks Clearing Account Balances**



Source: Central Bank of Kenya

**The Shilling Exchange Rate**

The Kenya Shilling on average appreciated against major international currencies during the week ending March 31, 2011 (Table 4). In the week, it exchanged at an average of Ksh 83.66 per US dollar, Ksh 134.16 per Sterling Pound, Ksh 118.01 per Euro, and Ksh 101.73 per 100 Japanese Yen, compared to Ksh 84.88 per US dollar, Ksh 138.18 per Sterling Pound, Ksh 120.17 per Euro, and Ksh 104.87 per 100 Japanese Yen, in the week ending March 24, 2011.

The strengthening of the Kenyan shilling against the dollar was supported by increased dollar inflows from the agricultural sector.

The Kenya Shilling also strengthened against all the EAC currencies during the week. It exchanged at an average of Uganda shilling (Ush) 28.71 per Kenya shilling, Tanzania shilling (Tsh) 17.97 per Kenya shilling, Rwanda Franc (RWF) 7.17 per Kenya shilling and Burundi Franc (BIF) 14.72 per Kenya shilling in the week ending March 31, 2011, compared to an average of Ush 28.29 per Kenya shilling, Tsh 17.73 per Kenya shilling, RWF 7.06 per Kenya shilling and BIF 14.54 per Kenya shilling in the week ending March 24, 2011.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
21-Mar-11	84.59	137.09	119.73	104.55	28.34	17.80	7.09	14.59
22-Mar-11	85.15	138.87	121.11	105.15	28.16	17.70	7.04	14.49
23-Mar-11	84.78	138.79	120.13	104.86	28.37	17.76	7.07	14.57
24-Mar-11	84.99	137.96	119.73	104.92	28.30	17.68	7.05	14.53
<b>March 21-24, 2011</b>	<b>84.88</b>	<b>138.18</b>	<b>120.17</b>	<b>104.87</b>	<b>28.29</b>	<b>17.73</b>	<b>7.06</b>	<b>14.54</b>
March 21-24, 2011	84.88	138.18	120.17	104.87	28.29	17.73	7.06	14.54
28-Mar-11	84.29	134.96	118.49	103.17	28.53	17.74	7.11	14.65
29-Mar-11	83.82	134.29	118.37	102.66	28.66	17.97	7.15	14.67
30-Mar-11	83.55	133.74	117.67	100.76	28.76	18.04	7.18	14.76
31-Mar-11	82.99	133.64	117.51	100.35	28.88	18.12	7.22	14.82
<b>March 28 - 31, 2011</b>	<b>83.66</b>	<b>134.16</b>	<b>118.01</b>	<b>101.73</b>	<b>28.71</b>	<b>17.97</b>	<b>7.17</b>	<b>14.72</b>

Source: Central Bank of Kenya

### Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank decreased slightly from US dollar 3,935 million (equivalent to 3.90 months of imports) as at March 24, 2011, to US dollar 3,887 million (equivalent to 3.77 months of imports) as at March 31, 2011 reflecting a revaluation loss during the week (Table 5).

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

	31-Dec-10	6-Jan-11	17-Feb-11	24-Feb-11	3-Mar-11	10-Mar-11	17-Mar-11	24-Mar-11	31-Mar-11
Usable Reserves*	3,466	3,466	3,495	3,610	3,645	3,663	3,931	3,935	3,887
Months of Imports Cover**	3.48	3.48	3.46	3.57	3.61	3.63	3.89	3.90	3.77

\*Excludes encumbered reserves

\*\*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 82.2 billion from Ksh 660.3 billion in June 2010 to Ksh 742.4 billion as at March 25, 2011 (Table 6 and Chart D). This increase was in Treasury bonds, other domestic debt and overdraft at the Central Bank amounting to Ksh 111.1 billion. This was, however, partially offset by decreases of Ksh 29.0 billion in both Treasury bills and long term stocks.

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

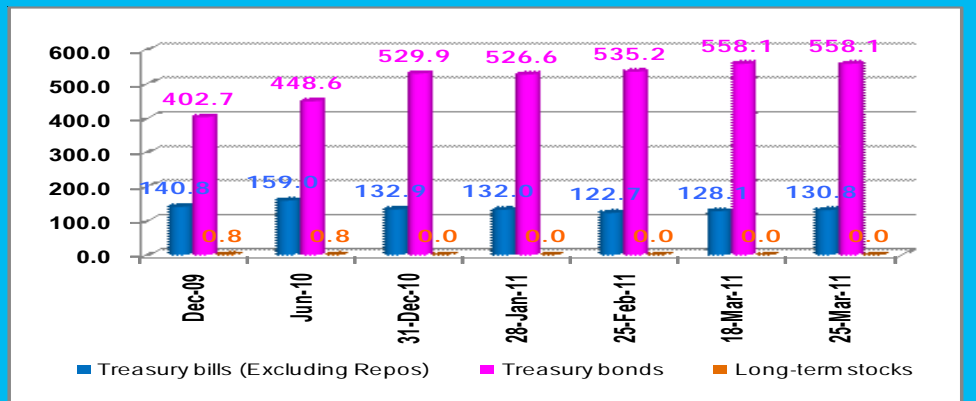
	25th Feb-2011	11th Mar-2011	18th Mar-2011	25th Mar-2011	Changes	
					18th Mar-11-25th Mar-11	30th Jun-10-25th Mar-11
1. Treasury Bills (Excluding Repos) (As % of total securities)	122.7 18.7	126.2 18.4	128.1 18.7	130.8 19.0	2.7	-28.2
2. Treasury Bonds (As % of total securities)	535.2 81.3	558.1 81.6	558.1 81.3	558.1 81.0	0.0	109.5
3. Long Term Stocks (As % of total securities)	0.0 0.0	0.0 0.0	0.0 0.0	0.0 0.0	0.0	-0.8
<b>4. Total Securities (1+2+3)</b>	<b>657.9</b>	<b>684.4</b>	<b>686.3</b>	<b>689.0</b>	<b>2.7</b>	<b>80.5</b>
5. Overdraft at Central Bank	22.9	20.3	18.2	18.2	0.0	0.6
6. Other Domestic debt*	33.6	35.1	35.2	35.2	0.0	1.0
<b>7. Gross Domestic Debt (4+5+6)</b>	<b>714.4</b>	<b>739.8</b>	<b>739.7</b>	<b>742.4</b>	<b>2.7</b>	<b>82.2</b>
8. Interest payments on domestic debt	41.6	41.8	43.7	44.4	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

Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 558.1 billion as at March 25, 2011, while Treasury bills declined from Ksh 159.0 billion to Ksh 130.8 billion over the same period. As a result, the share of Treasury bonds in total domestic debt increased from 73.7 percent in June 2010 to 81.0 percent as at March 25, 2011, while that of Treasury bills declined from 26.1 percent to 19.0 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years 2 month during this period.

Chart D: Composition of Government Securities

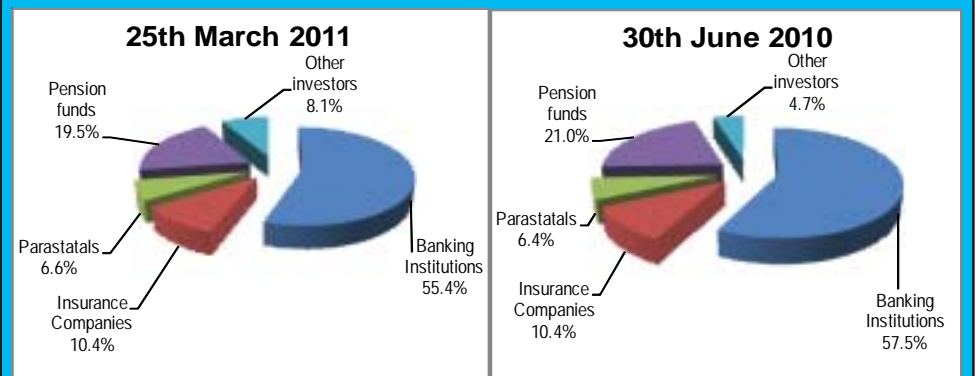


Source: Central Bank of Kenya

### Holding of Government Securities

The holdings of Government securities by parastatals and other investors increased from 6.4 percent and 4.7 percent respectively in June 2010 to 6.6 percent and 8.1 percent, respectively as at March 25, 2011. Holdings of commercial banks and pension funds declined from 57.5 percent and 21.0 percent, to 55.4 percent, and 19.5 percent, respectively during the same period (Chart E).

Chart E: Composition of Government Securities by Investor

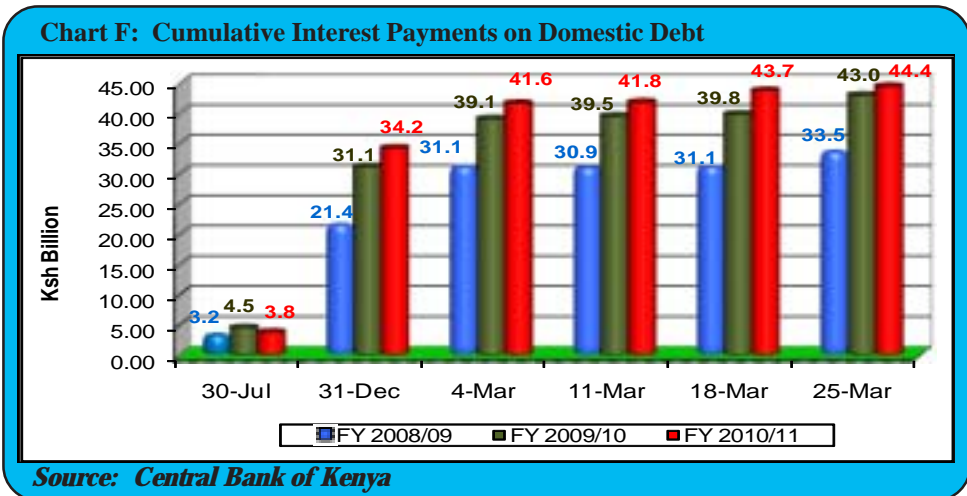


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt as at March 25, 2011 amounted to Ksh 44.4 billion compared with Ksh 43.7 billion in a similar period of the fiscal year 2009/10 (Chart F). The cost during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 8.1 billion and Ksh 35.7 billion,

respectively, while interest on Government overdraft at the Central Bank amounted to Ksh 0.6 billion.



### The Stock Market

Performance at the equities market improved during the week ending March 31, 2011. Turnover increased by 119.9 percent as stocks worth Ksh 2,396.7 million were traded compared to Ksh 1,089.7 million traded in the previous week. The number of shares traded increased from 55.1 million to 161.5 shares during the period under review. Market capitalization as a measure of total shareholders wealth increased to 1,090.2 from last week's level of 1,086. The NSE 20 Share Index gained 13.6 points to settle at 3,887.1 points on March 31, 2011 from 3,873.4 points on March 24, 2011. The Nairobi All Share Index rose to 89.5 from 89.2 points in the previous week (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	3-Feb-11	10-Feb-11	17-Feb-11	24-Feb-11	3-Mar-11	10-Mar-11	17-Mar-11	24-Mar-11	31-Mar-11
NASI 100= Jan 2008	97.75	97.63	97.77	97.52	95.08	89.24	92.27	89.22	89.50
NSE 20 Share Index 100=1966	4,386.69	4,326.57	4,284.90	4,264.66	4,182.58	3,915.01	3,993.53	3,873.45	3,887.07
Number of Deals	9,775.00	9,408.00	9,730.00	10,357.00	9,585.00	9,269.00	9,380.00	7,574.00	7,626.00
Total Shares Traded (millions)	84.61	72.64	72.25	95.57	108.07	79.44	111.04	55.11	161.59
Equity Turnover (Ksh. millions)	1,397.63	1,706.72	1,236.49	1,795.99	1,996.43	1,244.90	2,063.68	1,089.73	2,396.78
Market Capitalization (Ksh. Bn.)	1,177.00	1,189.87	1,190.38	1,187.55	1,157.81	1,086.38	1,123.77	1,086.36	1,090.21
Bonds Turnover (Ksh. millions)	7,645.80	10,690.85	17,247.40	12,617.15	9,202.50	10,430.75	8,159.15	5,819.15	10,275.55

\* 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 93.3 million shares or 57.7 percent of the traded volume. Of this, the Safaricom counter saw 91.6 million shares change hands during the week. The Finance and Investment sector traded 34.4 million shares, while Industrial and Allied

sector traded 33.6 million shares. These sectors accounted for 21.3 percent and 20.8 percent of total volume transacted, respectively.

Kenya Commercial Bank and Equity Bank were the most active stocks in the Finance and Investment sector, trading 17.2 million and 8.3 million shares, respectively. Kenya Power and Lighting Co. Ltd. and KenGen Ltd were the most active counters in the Industrial and Allied sector, with 23.1 million and 2.3 million shares traded, respectively. The biggest closing price gain between March 24 and March 31, 2011, was on Athi River Mining at Ksh 15 per share, followed by East African Breweries Ltd at Ksh 10 per share. The biggest closing price loss was on British American Tobacco Kenya and Bamburi Cement Ltd, both at Ksh 8 per share. The Alternative market segment traded 16,600 down from 45,400 in the previous period.

**Bond Market**

Bond turnover at the Fixed Income Securities Market increased by 76.6 percent, from Ksh 5.8 billion traded in the previous week to Ksh 10.2 billion in the week under review. The number of deals transacted also rose from 73 to 177 during the period under review.