

**April 29, 2011**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The overall 12-month inflation rate increased for the sixth consecutive month to reach 12.1 percent in April 2011 from 9.2 percent in March 2011. Similarly, average annual inflation increased from 4.5 percent in March 2011 to 5.2 percent in April 2011.

The government offered for sale 91-day Treasury bill amounting Ksh 2.0 billion during the week ending 29 April 2011 and received bids amounting to Ksh 4.9 billion, a performance rate of 245.4 percent. The interest on the 91-day paper edged up by 5.3 basis points to 3.577 percent compared to the last auction of similar paper.

The average interbank rate rose by 145 basis points to 5.45 percent in the week ending April 27, 2011 from 4.00 percent in the previous week.

The Kenya Shilling depicted mixed performance against the major international currencies in the week ending April 29, 2011. Against the US dollar, the shilling appreciated to exchange at an average of Ksh 83.64 in the week compared with Ksh 83.94 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,928 million (equivalent to 3.79 months of imports) as at April 21, 2011 to US dollar 3,956 million (equivalent to 3.82 months of imports) as at April 29, 2011.

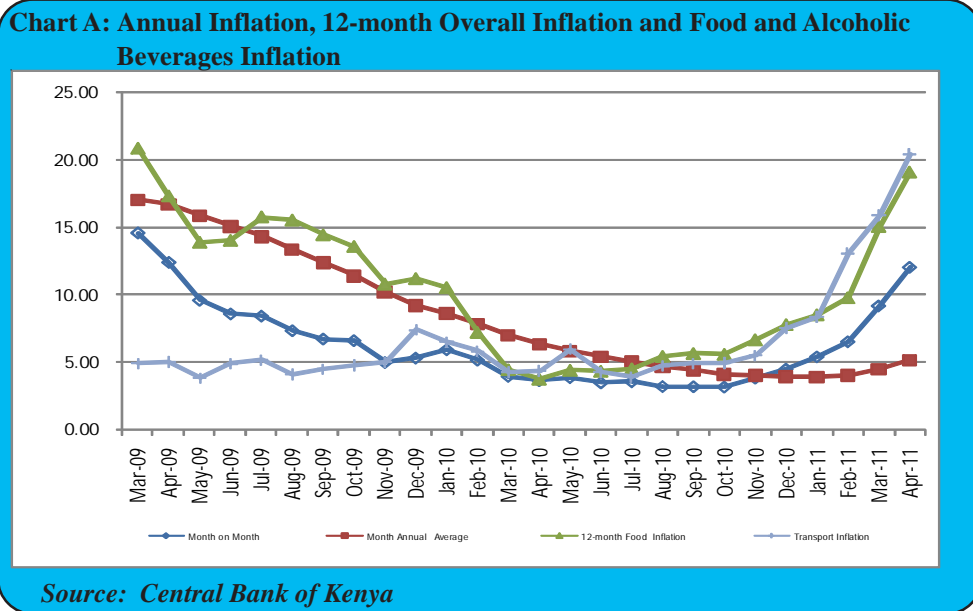
Government gross debt increased by Ksh. 70.8 billion from Ksh 660.3 billion in June 2010 to Ksh 731.1 billion at April 21, 2011. The cumulative Government expenditure on interest and other charges on domestic debt as at April 21, 2011 of the fiscal year 2010/11 amounted to Ksh 48.4 billion.

Performance at the equities market was mixed during the week ending April 28, 2011 with the NSE 20 Share Index losing 1.9 points to settle at 4005.8 from 4007.7 points on April 20, 2011, while equity turnover increased by 32.7 percent.

**Inflation**

The overall 12-month inflation rate increased by 2.9 percent from 9.2 percent in March 2011 to 12.1 percent in April 2011. The sharp rise in overall inflation was largely attributed to the escalating food prices, following the drought conditions in the country, and the rising international crude oil prices, which impacted negatively on the other sectors, especially the transport and food sectors. Overall, food and transport inflation increased by 4.0 and 4.5 percent from the March 2011 position to stand at 19.1 and 20.4 percent in April, 2011, respectively. The 'Nairobi lower' and the 'rest of urban' income groups were hardest hit, experiencing overall inflation rates equivalent to 14.0 and 11.9 percent, respectively, and respective food inflation rates equivalent to 22.7 and 18.7 percent in April 2011 (Chart A).

All the other consumer baskets experienced rising inflation rates during the month.



**Government Securities Auction**

The government offered for sale 91-day Treasury bill amounting Ksh 2.0 billion during the week ending 29, April 2011. During the auction, a total of Ksh 4.9 billion bids were received resulting to a performance rate of 245.4 percent. Of the total bids received, Ksh 4.5 billion (or 91.8 percent) was competitive bids. The government accepted 4.8 billion of which Ksh 4.4 billion was competitive bids.

The proceeds of the auction were to be used to meet redemptions of Treasury bills maturities amounting to Ksh 8.2 billion during the week.

**Interest Rates on Treasury Bills**

The weighted average rate of the accepted 91-day Treasury bills increased by 5.3 basis points from 3.524 percent in the previous auction of a similar tenure to 3.577 percent (Table 1).

**Table 1: Interest Rates**

Auction date	3-Feb-11	17-Feb-11	24-Feb-11	3-Mar-11	25-Mar-11	31-Mar-11	8-Apr-11	15-Apr-11	21-Apr-11	28-Apr-11
91 day T. Bills*	2.555	2.592	2.603	2.627	2.905	2.989	3.157	3.461	3.524	3.577
182 day T. Bills*			2.764		3.271		3.442		3.580	
364 day T. Bills*	3.722			3.996				4.998		
Month	Jul-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11			
Average savings rate	1.55	1.47	1.46	1.40	1.45	1.25	1.41			
Average overdraft rate	14.03	13.81	13.64	13.77	13.69	13.93	13.65			

\*Weighted rates for accepted bids

Source: Central Bank of Kenya

### Interbank and REPO Rates

The average interbank rate rose by 145 basis points to 5.45 percent in the week ending April 27, 2011. The average volumes traded decreased to Ksh 13.55 billion in the week ending April 27, 2011 from Ksh 13.80 billion in the previous week. The Government build - up of deposits at the Central Bank increased from Ksh 40 billion in the week ending April 19, to Ksh 53.8 billion in the week ending April 27, 2011 partially amplified liquidity tightness in the money market (Table 2 and Chart B).

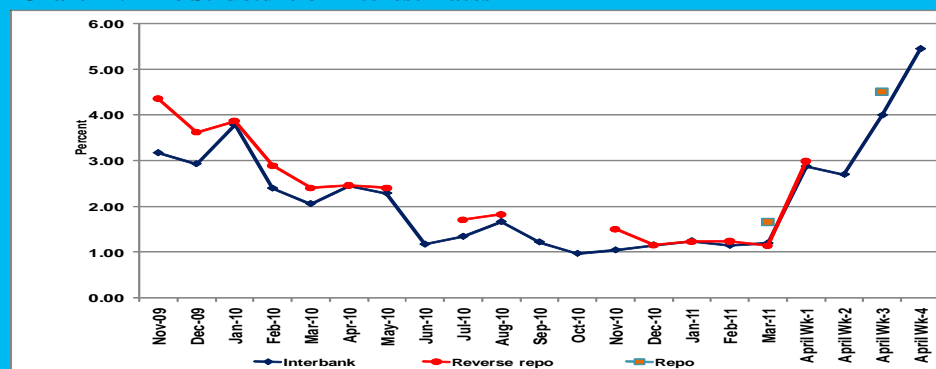
**Table 2: Interbank Transactions**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
14-Apr-11	85	14,760	3.27
15-Apr-11	77	14,869	3.85
18-Apr-11	71	11,602	4.32
19-Apr-11	75	13,976	4.54
<b>April 14- April 19, 2011</b>	<b>77</b>	<b>13,802</b>	<b>4.00</b>
20-Apr-11	69	10,841	4.78
21-Apr-11	78	12,151	5.34
26-Apr-11	88	16,860	5.75
27-Apr-11	86	14,365	5.93
<b>April 20- April 27, 2011</b>	<b>80</b>	<b>13,554</b>	<b>5.45</b>

Source: Central Bank of Kenya

The repo rate was 4.500 percent as at the last repo transaction on April 18, 2011.

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



Source: Central Bank of Kenya

**Monetary  
Policy  
Operations**

Reflecting the tightness in the money market during the week ending April 27, 2011, commercial banks borrowed a total of Ksh 28.6 billion from the Central Bank overnight window. Reserve money averaged Ksh 218.0 billion during the week and was above target by Ksh 7.5 billion (Table 3).

**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)
20-Apr	216.8	210.7	6.1	0.0	0.0	0.0	220.8	10.1	4.9	5.2
21-Apr	211.8	210.7	1.2	0.0	0.0	0.0	215.3	4.6	0.1	4.5
26-Apr	208.6	210.3	-1.7	0.0	0.0	0.0	218.5	8.2	3.4	4.8
27-Apr	210.1	210.3	-0.2	0.0	0.0	0.0	217.3	7.0	1.4	5.6
Average	211.8	210.5	1.3	0.0	0.0	0.0	218.0	7.5	2.5	5.0

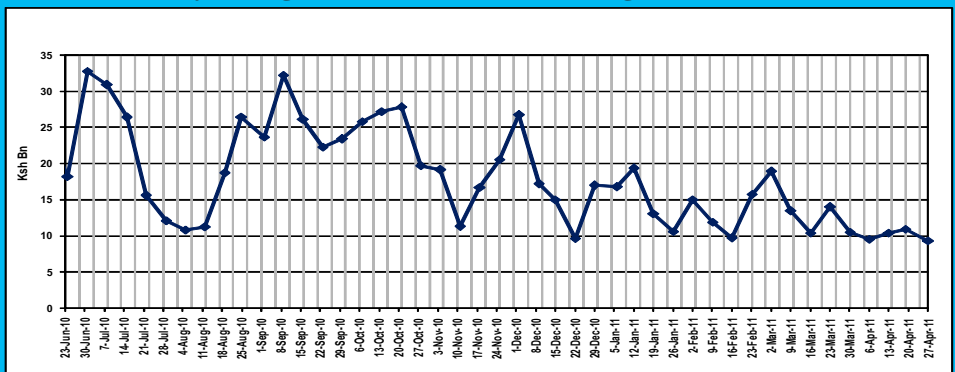
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial  
Banks  
Clearing  
Account  
Balances**

Commercial banks maintained an average of Ksh 9.3 billion in their clearing accounts at the Central Bank in the week to April 27, 2011 compared with Ksh 10.9 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 depicted mixed performance against the major international currencies during the week ending April 29, 2011 (Table 4). Against the US dollar, the shilling appreciated to exchange at Ksh 83.64 in the week compared with Ksh 83.94 per US dollar in the previous week. The shilling depreciated against the Sterling Pound, the Euro and remained stable against the Japanese Yen to exchange on average at Ksh 138.68 per Sterling Pound, Ksh 123.11 per Euro and Ksh 101.63 per 100 Japanese Yen compared with Ksh 137.11 per Sterling Pound and Ksh 120.88 per Euro in the previous week.

The weakening of the Kenya shilling is an over reaction driven by expectation of future shortages due to oil price movements largely attributed to political turbulence in the crude oil producing countries in North Africa and the Middle East.

In the EAC region, the Kenya Shilling strengthened against the Tanzania shilling, Uganda shilling, Rwandan Franc and Burundi Franc to exchange at Tsh 18.05 per Kenya Shilling, Ush 28.40 per Kenya Shilling, RWF 7.17 per Kenya Shilling and BIF 14.70 per Kenya Shilling in the week ending April 29, 2011, compared with Tsh 18.01 per Kenya Shilling, Ush 28.32 per Kenya Shilling, RWF 7.15 per Kenya Shilling and BIF 14.66 per Kenya Shilling in the previous week.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
18-Apr-11	84.01	136.74	120.70	101.18	28.27	17.98	7.14	14.65
19-Apr-11	83.84	136.19	119.22	101.70	28.38	18.03	7.16	14.66
20-Apr-11	83.92	137.26	120.90	101.27	28.36	18.01	7.16	14.66
21-Apr-11	83.98	138.25	122.68	102.38	28.28	18.01	7.14	14.65
<b>April 18 - 21, 2011</b>	<b>83.94</b>	<b>137.11</b>	<b>120.88</b>	<b>101.63</b>	<b>28.32</b>	<b>18.01</b>	<b>7.15</b>	<b>14.66</b>
26-Apr-11	83.93	138.12	121.91	101.18	28.30	17.99	7.15	14.67
27-Apr-11	83.57	137.90	122.67	101.70	28.40	18.08	7.18	14.71
28-Apr-11	83.63	139.79	124.13	101.27	28.50	18.03	7.17	14.71
29-Apr-11	83.42	138.91	123.74	102.38	28.41	18.10	7.19	14.72
<b>April 26 - 29, 2011</b>	<b>83.64</b>	<b>138.68</b>	<b>123.11</b>	<b>101.63</b>	<b>28.40</b>	<b>18.05</b>	<b>7.17</b>	<b>14.70</b>

Source: Central Bank of Kenya

### Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,928 million (equivalent to 3.79 months of imports) as at April 21, 2011 to US dollar 3,956 million (equivalent to 3.82 months of imports) as at April 29, 2011 (Table 5).

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

	6-Jan-11	24-Feb-11	24-Mar-11	31-Mar-11	15-Apr-11	21-Apr-11	29-Apr-11
Usable Reserves*	3,466	3,610	3,935	3,887	3,930	3,928	3,956
Months of Imports Cover**	3.48	3.57	3.90	3.77	3.81	3.79	3.82
Months of Imports Cover**							

\*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 stood at Ksh 731.1 billion as at April 21, 2011, an increase of Ksh 70.8 billion from Ksh 660.3 billion by end June 2010 (Table 6 and Chart D). As at April 21, 2011, Government securities accounted for 99.2 percent of the total domestic debt, while overdraft at Central Bank and other Government debt accounted for 3.1 percent and 4.7 percent, respectively.

Government securities comprise the largest share of Government debt, usually over 90%. Of the Ksh 674.2 billion debt held in form of Government securities as at 21<sup>st</sup> April 2011, 84.1% (Ksh 566.9 billion) were in Treasury bonds, while 15.9% (107.3 billion) were in Treasury bills.

The maturity profile has changed over time from a predominance of Treasury bills to Treasury bonds. By end June 2010, Treasury bills totaled Ksh 159.0 billion but by 21<sup>st</sup> April 2011 the level had declined by Ksh 51.7 billion to stand at Ksh 107.3 billion. The decline in Treasury bills was compensated by Treasury bonds which increased from Ksh 448.6 billion in June 2010 to Ksh 566.9 billion, an increase of Ksh 118.3 billion.

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

	Dec-10	Mar-11	15th Apr-2011	21st Apr-2011	Changes	
					15th Apr-11 - 21st Apr-11	30th Jun-10 - 21st Apr-11
1. Treasury Bills (Excluding Repos) (As % of total securities)	132.9 20.1	128.4 18.4	125.6 18.0	107.3 15.9	-18.2	-51.7
2. Treasury Bonds (As % of total securities)	529.9 79.9	570.8 81.6	570.8 82.0	566.9 84.1	-3.9	118.3
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
4. Total Securities (1+2+3)	662.8	699.2	696.3	674.2	-22.2	65.8
5. Overdraft at Central Bank	22.7	19.7	19.5	22.9	3.4	5.3
6. Other Domestic debt*	34.8	35.2	34.1	33.9	-0.2	-0.3
7. Gross Domestic Debt (4+5+6)	720.2	754.1	750.0	731.1	-18.9	70.8
8. Interest payments on domestic debt	34.2	47.2	47.3	48.4	1.0	

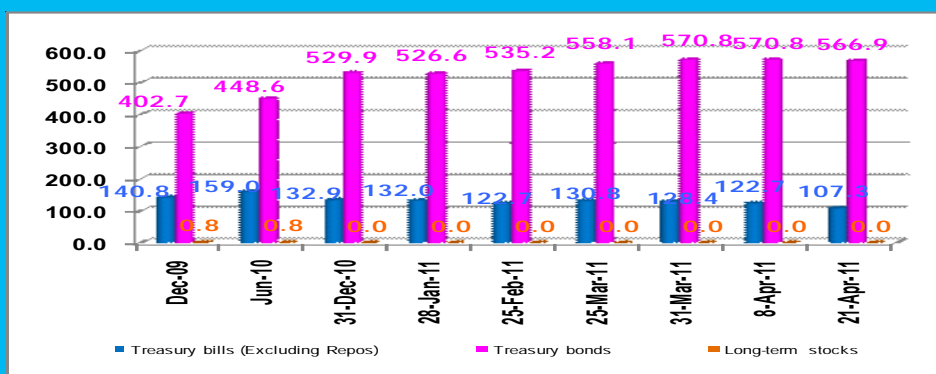
\* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCs.

**Source: Central Bank of Kenya**

As a result, the share of Treasury bonds in total Government securities increased from 73.7 percent in June to 84.1 percent as at April 21, 2011, while that of Treasury bills declined from 26.1 percent to 15.9 percent.

The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years 10 months as at April 21, 2011. The lengthening of the maturity profile of Government debt, among Banking institutions continue to hold the largest share of Government securities, though this percentage has been declining gradually. In absolute terms, holdings of Government securities by banks increased from Ksh 350 billion in June 2010 to Ksh 364.2 billion as at April 21, 2011. However, as percentage of total Government securities, the share of banks declined from 57.5 percent in June 2010 to 54.0 percent as at April 21, 2011.

Chart D: Composition of Government Securities

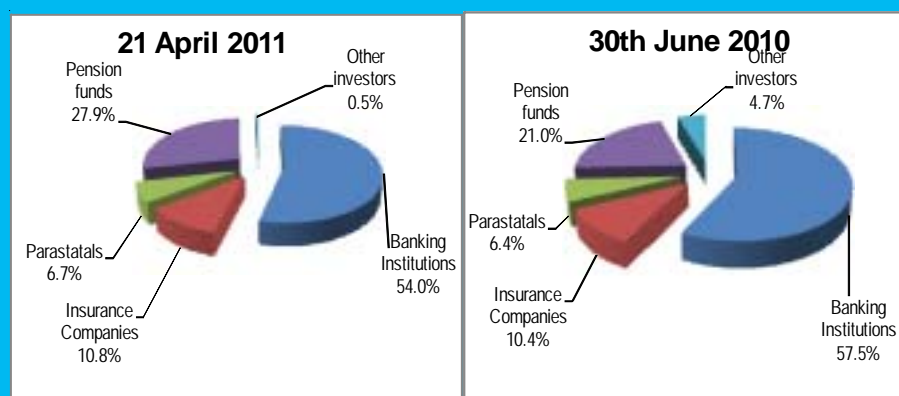


Source: Central Bank of Kenya

### Holding of Government Securities

The holdings of Government securities by parastatals, insurance companies and pension funds increased from 6.4 percent, 10.4 percent and 21.0 percent, respectively in June 2010 to 6.7 percent, 10.8 percent and 27.9 percent, respectively as at April 21, 2011. However, Government securities holdings of 'other investors' declined from 4.7 percent to 0.5 percent during the same period (Chart E).

Chart E: Composition of Government Securities by Investor

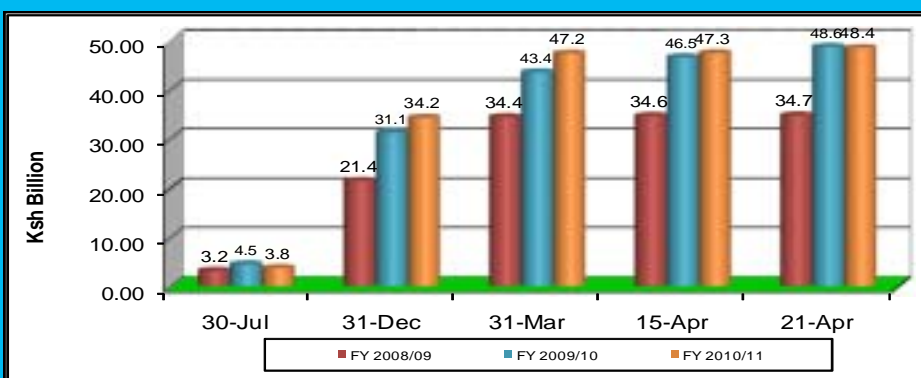


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at April 21, 2011 of the fiscal year 2010/11 amounted to Ksh 48.4 billion compared with Ksh 48.6 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 8.2 billion and Ksh 39.5 billion, respectively, while interest on Government overdraft at the Central Bank amounted to Ksh 0.7 billion.

Chart F: 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 April 28, 2011. Turnover increased by 32.7 percent as stocks worth Ksh 1,700.7 million were traded compared to Ksh 1,281.6 million traded in the previous week. The number of shares traded decreased from 81.2 million to 65.2 million shares during the period under review. Market capitalization as a measure of total shareholders wealth increased to 1,150.4 from last week's level of 1,141.6. The NSE 20 Share Index lost 1.9 points to settle at 4005.8 points on April 28, 2011 from 4007.7 points on April 20, 2011. The Nairobi All Share Index rose to 93.81 from 93.72 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	10-Feb-11	17-Feb-11	24-Feb-11	3-Mar-11	10-Mar-11	17-Mar-11	24-Mar-11	31-Mar-11	7-Apr-11	14-Apr-11	20-Apr-11	28-Apr-11
NASI 100= Jan 2008	97.63	97.77	97.52	95.08	89.24	92.27	89.22	89.50	93.29	93.70	93.72	93.81
NSE 20 Share Index 100=1966	4,326.57	4,284.90	4,264.66	4,182.58	3,915.01	3,993.53	3,873.45	3,887.07	3,993.07	3,998.60	4,007.73	4005.78
Number of Deals	9,408.00	9,730.00	10,357.00	9,585.00	9,269.00	9,380.00	7,574.00	7,626.00	7,765.00	9,005.00	6,642.00	6,212.00
Total Shares Traded (millions)	72.64	72.25	95.57	108.07	79.44	111.04	55.11	161.59	156.82	163.20	81.27	65.20
Equity Turnover (Ksh. millions)	1,706.72	1,236.49	1,795.99	1,996.43	1,244.90	2,063.68	1,089.73	2,396.78	1,869.35	2,399.80	1,281.67	1,700.74
Market Capitalization (Ksh. Bn.)	1,189.87	1,190.38	1,187.55	1,157.81	1,086.38	1,123.77	1,086.36	1,090.21	1,136.41	1,141.40	1,141.64	1,150.38
Bonds Turnover (Ksh. millions)	10,690.85	17,247.40	12,617.15	9,202.50	10,430.75	8,159.15	5,819.15	10,275.55	10,406.20	11,081.75	6,593.25	3,953.00

\* 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 33.3 million shares or 51.1 percent of the traded volume. Of this, the Safaricom counter saw 25.3 million shares change hands during the week. The Finance and Investment sector traded 16.6 million shares, while Industrial and Allied sector traded 14.9 million shares. These sectors accounted for 25.5 percent and 22.9 percent of total volume transacted, respectively.



Kenya Commercial Bank and Equity Bank were the most active stocks in the Finance and Investment sector, trading 5.0 million and 5.8 million shares, respectively. Carbacid Investment Ltd. and Kenya Power and Lighting Co. Ltd. were the most active counters in the Industrial and Allied sector, with 4.6 million and 3.7 million shares traded, respectively. The biggest closing price gain between April 21 and April 28, 2011 was on Bamburi Cement Ltd at Ksh 5 per share, followed by Scangroup Ltd at Ksh 3.5 per share. The biggest closing price loss was on Carbacid Investment Ltd at Ksh 10 per share. The Alternative market segment traded 38,300 up from 18,900 in the previous period.

**Bond Market**

Bond turnover at the Fixed Income Securities Market decreased by 40.0 percent, from Ksh 6.5 billion traded in the previous week to Ksh 3.9 billion in the week under review. The number of deals transacted reduced from 76 to 45 during the period under review.