

August 5, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

The overall 12-month inflation rate's upward trend persisted for the ninth consecutive month to 15.5 percent in July 2011. Similarly, the average annual inflation increased in the month of July 2011 to stand at 7.9 percent, from 6.9 percent in June 2011.

The Government securities market recorded 250.6 percent performance in this week's 91-day Treasury bill auction. The Government advertised for Treasury bills worth Ksh 2.0 billion and received bids worth Ksh 5.0 billion. The average 91 day Treasury bills rate settled at 9.015 percent.

The average interbank rate declined by 3 basis points to 8.02 percent during the week ending August 3, 2011 from 8.05 percent in the previous week. During the week under review, the Central Bank injection of Ksh 32.9 billion to the market through reverse repo operations.

The Kenya Shilling depreciated against major international currencies in the week ending August 5, 2011. Against the US dollar, the Kenya shilling depreciated to exchange at an average of Ksh 91.61 in the week compared with Ksh 90.62 per US dollar in the week ending July 29, 2011.

The usable official foreign exchange reserves held by the Central Bank decreased from US dollar 3,976 million (equivalent to 3.73 months of imports) as at July 29, 2011, to US dollar 3,941 million (equivalent to 3.70 months of imports) as at August 5, 2011.

Government gross domestic debt increased by Ksh 10.1 billion from Ksh 764.1 billion in June 2011 to Ksh 774.3 billion as at July 29, 2011. Similarly, during the week ending July 29, 2011, gross domestic debt increased by Ksh 9.1 billion from Ksh 765.1 billion held at the end of the previous week.

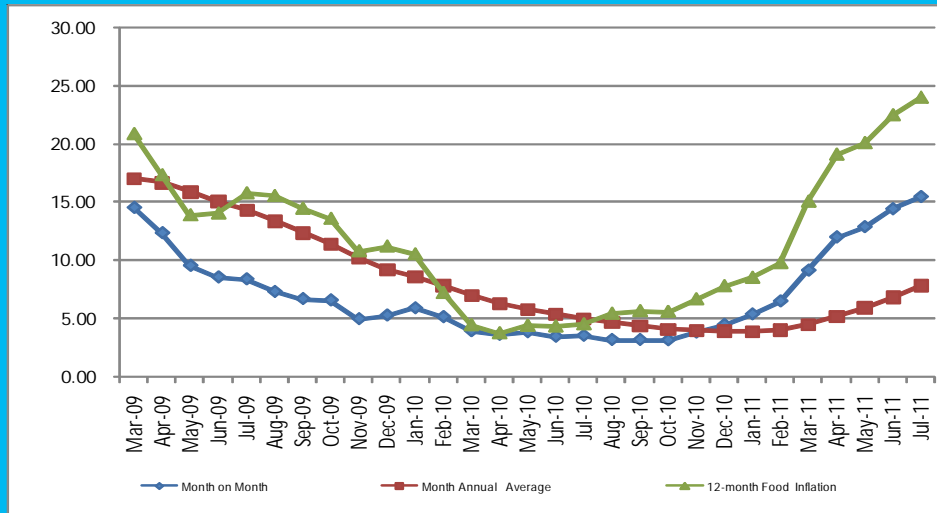
Trading at the equities and bonds markets generally moved up during the week ending August 4, 2011. The NSE 20 Share Index gained 11.3 points, while the Nairobi All Share Index (NASI) gained 0.10 points. Similarly, the volume of shares traded increased by 53.2 percent but equity turnover fell by 34.3 percent. The bonds segment of the market saw 43.7 percent increase in trading activity during the week.

Inflation

Overall 12-month inflation rate increased by 103 basis points from 14.5 percent in June 2011 to 15.5 percent in July 2011. In July 2011, the prices of all the baskets of goods and services increased, led by the restaurant and hotels and the food baskets. Food inflation increased from 22.5 percent in June 2011 to 24.0 percent in July 2011 while inflation for restaurants and hotels rose from 13.7 percent to 15.8 percent during the same period.

The rise in food inflation persisted during the month due to the drought conditions in some parts of the country and poor distribution of food from the bread basket regions. Notable price increases were seen in food items such as maize flour, maize grain, sugar and rice. At the same time, with rains being experienced in other parts of the country, prices of food items such as potatoes, onions, sukuma wiki, cabbages and carrots declined during the month.

Chart A: Overall Annual Average & Month-on-Month, Food and Alcoholic Beverages and Transport Inflation



Source: Central Bank of Kenya

Government Securities Auction

The Government securities market posted a 250.6 percent performance rate in the 91 day auction during the week. Out of the Ksh 2.0 billion offered, Ksh 5.0 billion subscriptions were received and Ksh 3.2 billion worth of Treasury bills accepted.

Interest Rates on Treasury Bills

The average interest rates for the 91-day Treasury bills edged up by 0.5 basis points from 9.010 percent in the previous auction of the same tenure to 9.015 percent during this week's auction (Table 1).

**Interbank
and REPO
Rates**

The average interbank rate declined by 3 basis points to 8.02 percent during the week ending August 3, 2011 from 8.05 percent in the previous week supported by improved interbank liquidity following the Central Bank injection of Ksh 32.9 billion to the market through reverse repo operations (Table 1 and Chart B).

Table 1: Interest Rates

Auction date	10-Jun-11	17-Jun-11	24-Jun-11	1-Jul-11	8-Jul-11	15-Jul-11	22-Jul-11	29-Jul-11	5-Aug-11
91 day T. Bills*	9.016	9.006	8.995	8.988	8.954	8.999	9.004	9.010	9.015
182 day T. Bills*	9.949	9.906		9.854		9.845		9.799	
364 day T. Bills*	10.249				10.220				
Month	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	
Average savings rate	1.40	1.45	1.25	1.41	1.37	1.38	1.38		
Average overdraft rate	13.77	13.69	13.93	13.65	13.60	13.68	13.72		

*Weighted rates for accepted bids

Source: Central Bank of Kenya

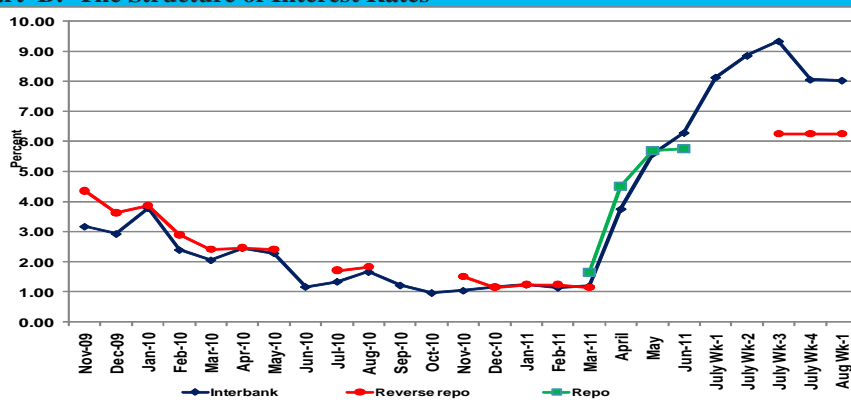
The average volumes traded decreased to Ksh 7.06 billion in the week ending August 3, 2011 from Ksh 9.97 billion in the previous week. The reverse repo rate was 6.25 percent for the reverse repo transactions during the week ending August 3, 2011 (Table 2).

Table 2: Interbank Transactions

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
21-Jul-11	50	9,835	7.96
22-Jul-11	54	9,119	8.00
25-Jul-11	68	11,895	7.96
26-Jul-11	54	12,601	8.14
27-Jul-11	45	6,416	8.20
July 21- July 27, 2011	54	9,973	8.05
28-Jul-11	56	10,404	8.44
29-Jul-11	51	7,095	8.63
1-Aug-11	42	9,000	9.01
2-Aug-11	26	2,567	7.80
3-Aug-11	32	6,249	6.23
July 28- Aug 3, 2011	41	7,063	8.02

Source: Central Bank of Kenya

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

**Monetary
Policy
Operations**

The money market was tight during the week ending August 3, 2011 and the Central Bank injected Ksh 32.9 billion to the market through reverse repo operations. Consequently, commercial banks borrowing from the Central Bank overnight window decreased to Ksh 1.93 billion in the week ending August 3, 2011 compared with Ksh 11.97 billion in the previous week. Reserve money averaged Ksh 232.2 billion during the week and was above target by Ksh 13.0 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	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)
28-Jul-11	218.5	218.7	-0.2	0.0	0.0	0.0	223.0	4.3	1.7	2.6
29-Jul-11	225.2	218.7	6.5	0.0	0.0	0.0	225.7	7.0	4.5	2.5
1-Aug-11	210.0	219.5	-9.5	18.0	18.2	0.2	228.2	8.6	5.4	3.3
2-Aug-11	229.1	219.5	9.5		14.7		244.2	24.7	19.0	5.7
3-Aug-11	239.8	219.5	20.3	0.0	0.0	0.0	240.1	20.6	14.6	6.0
Average	224.5	219.2	5.3	4.5	6.6	0.1	232.2	13.0	9.0	4.0

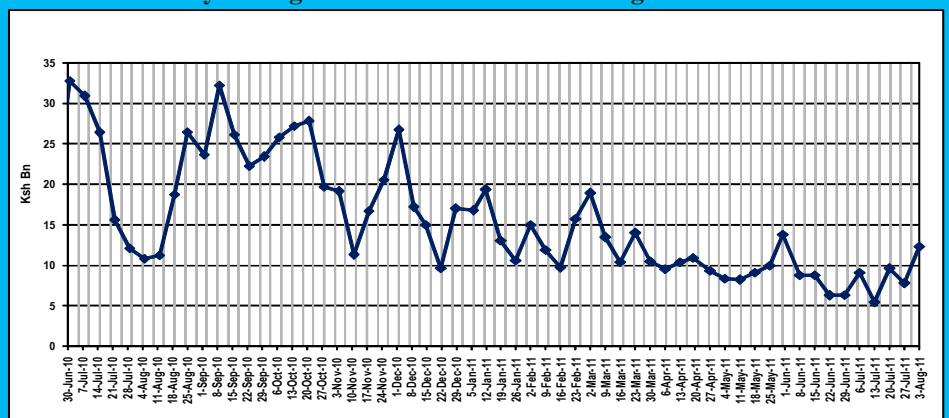
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Account
Balances**

Commercial banks maintained an average of Ksh 12.32 billion in their clearing accounts at the Central Bank in the week to August 3, 2011, up from Ksh 7.77 billion in 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 depreciated against major international currencies in the week ending August 5, 2011. Against the US dollar, the Kenya shilling depreciated to exchange at an average of Ksh 91.61 in the week compared with Ksh 90.62 per US dollar in the week ending August 5, 2011. The Kenya shilling also depreciated against the Sterling Pound, and the Japanese Yen to exchange on average at Ksh 149.65 per Sterling Pound and 117.36 per 100 Japanese Yen compared with Ksh 148.15 per Sterling Pound and 116.31 per 100 Japanese Yen in the previous week. The depreciation of the Kenya Shilling against the US dollar is attributed to increased dollar demand from the energy sector.

In the EAC region, the Kenya Shilling strengthened slightly against the Uganda Shilling, and the Tanzania Shilling, and weakened against the Rwanda Franc and the Burundi Franc, respectively. On average, the Kenya shilling exchange at Ushs 29.00 per Kenya Shilling, Tshs 17.40 per Kenya shilling, and RWF 6.54 per Kenya shilling and BIF 13.45 per Kenya Shilling during the week, compared to Ushs 28.71 per Kenya Shilling, Tshs 17.39 per Kenya shilling, and RWF 6.63 per Kenya shilling and BIF 13.56 per Kenya Shilling, in the week ending August 5, 2011 (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
25-Jul-11	90.29	147.27	129.75	115.14	28.80	17.32	6.65	13.67
26-Jul-11	90.38	147.74	131.02	115.75	28.75	17.33	6.64	13.56
27-Jul-11	90.51	148.60	131.32	116.47	28.71	17.31	6.63	13.54
28-Jul-11	90.84	148.39	130.44	116.76	28.68	17.50	6.61	13.51
29-Jul-11	91.10	148.74	130.16	117.42	28.62	17.47	6.59	13.50
July 25 - 29, 2011	90.62	148.15	130.54	116.31	28.71	17.39	6.63	13.56
1-Aug-11	90.98	149.50	131.06	117.16	29.13	17.52	6.60	13.49
2-Aug-11	91.21	148.75	129.91	117.93	28.97	17.44	6.56	13.52
3-Aug-11	91.58	149.23	130.05	118.76	28.94	17.38	6.54	13.47
4-Aug-11	91.94	150.43	131.43	115.74	29.04	17.37	6.51	13.42
5-Aug-11	92.35	150.34	130.32	117.21	28.91	17.32	6.48	13.36
August 01 - 05, 2011	91.61	149.65	130.55	117.36	29.00	17.40	6.54	13.45

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank decreased from US dollar 3,976 million (equivalent to 3.73 months of imports) as at July 29, 2011 to US dollar 3,941 million (equivalent to 3.70 months of imports) as at August 5, 2011, reflecting revaluation loss during the week (Table 5).

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

	31-Mar-11	29-Apr-11	27-May-11	24-Jun-11	15-Jul-11	22-Jul-11	29-Jul-11	5-Aug-11
Usable Reserves*	3,887	3,956	3,907	3,957	3,918	3,931	3,976	3,941
Months of Imports Cover**	3.77	3.82	3.79	3.72	3.68	3.69	3.73	3.70

*Excludes encumbered reserves

**Based on 36 month average of imports of goods

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government debt increased by Ksh 10.1 billion from Ksh 764.1 billion in fiscal year 2010/11 to Ksh 774.3 billion at the end of July, 2011 (Table 6). This reflected Ksh 12.4 billion and Ksh 5.3 billion increases in the Government overdraft and the stock of Treasury bonds respectively. These increases were, however, offset by the decline in Treasury bills holdings and other domestic debt equivalent to Ksh 7.4 billion and Ksh 0.1 billion, respectively, during the week.

Table 6: Government Domestic Debt (Ksh Billion)

	Sep-10	Dec-10	Mar-11	Jun-11	22nd July-2011	29th July-2011	Changes	
							22nd Jul 2011-29th July 2011	30th Jun 2011-29th July 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	147.4 23.2	132.9 20.1	128.4 18.4	126.7 17.5	125.3 17.4	119.3 16.6	-6.0	-7.4
2. Treasury Bonds (As % of total securities)	488.5 76.7	529.9 79.9	570.8 81.6	595.7 82.5	595.7 82.6	601.0 83.4	5.3	5.3
3. Long Term Stocks (As % of total securities)	0.8 0.1	0.0 0.0	0.0 0.0	0.0 0.0	0.0 0.0	0.0 0.0	0.0	0.0
4. Total Securities (1+2+3)	636.6	662.8	699.2	722.4	721.0	720.3	-0.7	-2.1
5. Overdraft at Central Bank	20.6	22.7	19.7	7.6	9.3	19.9	10.6	12.4
6. Other Domestic debt*	34.1	34.8	35.2	34.2	34.8	34.1	-0.8	-0.1
7. Gross Domestic Debt (4+5+6)	691.3	720.2	754.1	764.14	765.14	774.27	9.13	10.13
8. Interest payments on domestic debt	14.49	34.2	47.2	69.2	0.62	2.75	2.13	

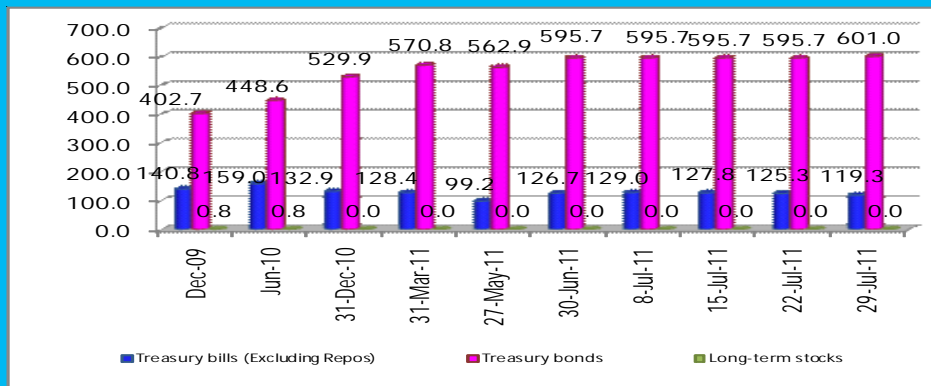
*Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and T.R.C.s.

Source: Central Bank of Kenya

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Treasury bills declined from Ksh 126.7 billion, held at the end of June 2011 to Ksh 119.3 billion at the end of July 2011, while Treasury bonds increased from Ksh 595.7 billion to Ksh 601.0 billion during the same period. As a result, the share of Treasury bonds in total securities increased from 82.5 percent in June 2011 to 83.4 percent as at July 29, 2011, while that of Treasury bills declined from 17.5 percent to 16.6 percent, during the same period. Following this, the average time to maturity of Government securities increased from 5 years 10 months in June 2011 to 6 years as at end July, 2011 (Chart D).

Chart D: Composition of Government Securities

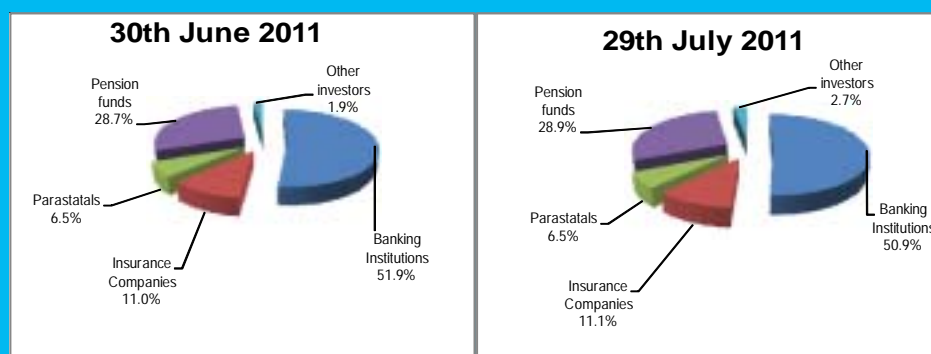


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by banking institutions declined from 51.9 percent in June 2011 to 50.9 percent as at July 29, 2011. All the other Government securities holders increased their shares with the exception of parastatals, which maintained the same share, equivalent to 6.5 percent, as at July 29, 2011. Holdings of 'other holders' increased from 1.9 percent in June 2011 to 2.7 percent as at July 29, 2011 (Chart E).

Chart E: Composition of Government Securities by Investor

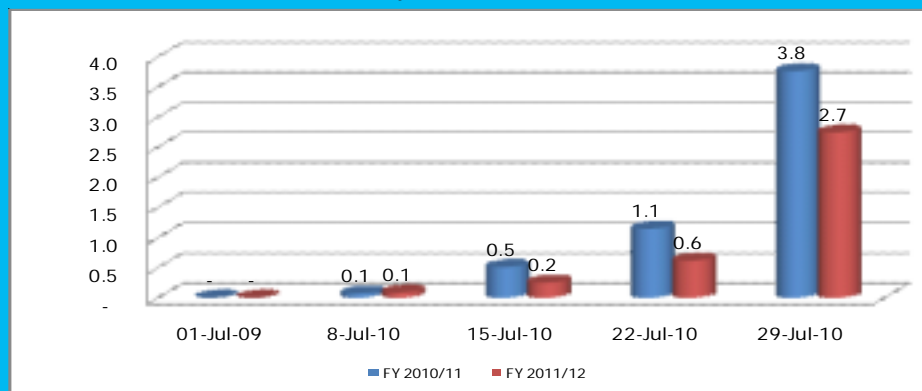


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt for the month of July 2011 amounted to Ksh 2.7 billion compared with Ksh 3.8 billion incurred in a similar period of the fiscal year 2010/11. The cost during the period was on account of interest and other charges on Treasury bonds and bills amounting to Ksh 2.37 billion and Ksh 0.37 billion, respectively (Chart F).

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The NSE 20 Share Index closed at 3,744.6 points on August 4, 2011, up from 3733.3 points on August 4, 2011. Similarly, the Nairobi All Share Index (NASI) was up to 84.75 points from 84.65 points during the same period. The number of shares transacted increased by 53.6 million shares to 154.4 million from 100.8 million shares. Market Capitalization as a measure of total shareholders' wealth increased by 0.3 percent or Ksh 3.6 billion to Ksh 1,057.7 billion from last week's value of Ksh 1,054.1 billion. However, the equity turnover declined by Ksh 698 million to trade stocks worth Ksh 1,339.1 million by close of August 4, 2011, from Ksh 2,037.1 million for the previous week.

Table 7: Key Weekly Market Statistics

Week Ending	23-Jun-11	30-Jun-11	7-Jul-11	14-Jul-11	21-Jul-11	28-Jul-11	4-Aug-11
NASI 100= Jan 2008	90.85	91.36	90.18	86.01	85.40	84.65	84.75
NSE 20 Share Index 100=1966	3,970.59	3,968.12	3,906.71	3,746.00	3,756.89	3,733.30	3,744.59
Number of Deals	9,104.00	8,590.00	8,154.00	7,611.00	8,579.00	6,726.00	7,215
Total Shares Traded (millions)	69.85	102.65	93.68	67.20	161.97	100.80	154.43
Equity Turnover (Ksh. millions)	1,208.24	1,741.55	1,385.82	1,389.97	2,461.18	2,037.10	1,339.11
Market Capitalization (Ksh. Bn.)	1,115.24	1,121.44	1,107.06	1,070.98	1,063.39	1,054.10	1,057.69
Bonds Turnover (Ksh. millions)	12,216.75	14,548.75	8,632.05	9,467.25	4,495.90	10,699.25	15,374.30

* The Nairobi All Share Index (NASI) effected on February 25, 2008 (January 01, 2008 = 100)

Source: Nairobi Stock Exchange

There was re-classification of market segments and counters' categorization effective Monday August 1, 2011. Instead of previous Main Investment Market Segment (MIMS) and Alternative Investments Market Segments (AIMS), there are now ten (10) categories namely; Agriculture, Commercial and Services, Telecommunication and Technology, Automobile and Accessories, Banking, Insurance, Investment, Manufacturing and Allied, Construction and Allied and Energy and Petroleum.

Telecommunication and Technology sector dominated trading, with 119.5 million shares or 77.1 percent of all shares transacted at the bourse. Of this, Safaricom was the most active counter in the sector, with 118.6 million shares transacted. Banking was second most active, with 20.1 million shares traded, and Manufacturing and Allied sector came third with 6.6 million shares. The least active sector in position ten was Agriculture with 201,000 shares. Equity and Kenol Kobil Bank dominated the Banking and Energy and Petroleum sector, respectively.

The biggest closing and average price margin gains between July 29 and August 4, 2011, was for Housing Finance and Jubilee Insurance counters at Ksh 2.6 and Ksh 7.2 per share, respectively. The biggest closing and average price margin losses was for Trans Century at Ksh 3.25 a share

Bond Market

Bonds trading at the Fixed Income Securities Market rose significantly by 43.7 percent, from Ksh 10.7 billion for the week ended July 28, 2011 to Ksh 15.4 billion for the week ending August 4, 2011. The number of deals transacted, were up to 106 from 163.