

August 26, 2011



THE CBK WEEKLY BULLETIN

**Highlights for
the Week**

The government offered for sale a 91-day Treasury bill amounting to Ksh 2.0 billion during the week ending August 26, 2011 and received bids amounting to Ksh 3.1 billion, a performance rate of 155.3 percent. The interest on the 91-day paper edged up by 45 basis points to 9.708 percent compared to the last auction of similar paper.

The average interbank rate increased to 20.65 percent during the week ending August 24, 2011 from 10.81 percent in the previous week, reflecting tight interbank liquidity. The Central Bank was not in the money market during the week.

The Kenya shilling appreciated against the US dollar and the Sterling Pound in the week ending August 26, 2011.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,967 million (equivalent to 3.68 months of imports) as at August 19, 2011 to US dollar 3,973 million (equivalent to 3.69 months of imports) as at August 25, 2011.

Gross Government debt increased by Ksh 12.2 billion from Ksh 764.1 billion in June 2011 to Ksh 776.4 billion as at August 19, 2011.

Activities at the equities and bonds markets reflected declining performance during the week ending August 25, 2011. The NSE 20 Share Index closed the week 2.7 percent down and the Nairobi All Share Index (NASI) was down by 3.4 percent. The volume of shares traded dropped by 35.4 percent, and equity turnover also fell by 2.9 percent. The bonds segment of the market saw 33.9 percent decline in trading activity during the week.

Government Securities Auction

The government had offered for sale a 91-day Treasury bill amounting to Ksh 2.0 billion during the week ending August 26, 2011. During the auction, a total of Ksh 3.1 billion bids were received resulting to performance rate of 155.3 percent. The government accepted competitive bids amounting to Ksh 2.5 billion.

The proceeds of the auction were to be used to meet part of redemptions of Treasury bills maturities amounting to Ksh 8.8 billion during the week.

Interest Rate on Treasury Bills

The weighted average rate of the accepted bids increased by 45 basis points from 9.258 percent in the previous auction to 9.708 percent (Table 1).

Table 1 : Interest Rates

Auction date	22-Jul-11	29-Jul-11	5-Aug-11	12-Aug-11	19-Aug-11	26-Aug-11
91 day T. Bills*	9.004	9.010	9.015	9.145	9.258	9.708
182 day T. Bills*		9.799		10.308		10.356
364 day T. Bills*				11.066		
Month	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11
Average savings rate	1.41	1.37	1.38	1.38	1.37	1.37
Average overdraft rate	13.65	13.60	13.68	13.72	13.59	13.89

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Interbank and REPO Rates

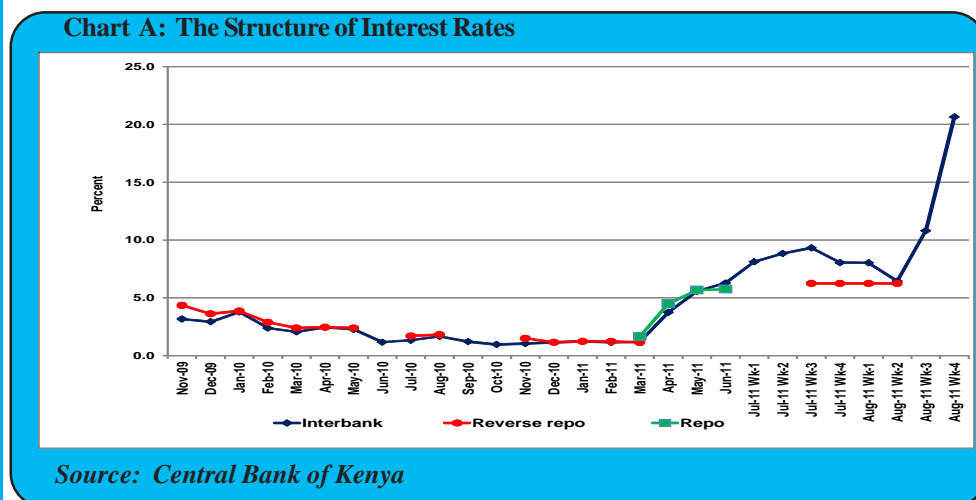
The average interbank rate increased to 20.65 percent during the week ending August 24, 2011 from 10.81 percent in the previous week reflecting tight interbank liquidity. The average interbank volumes traded decreased to Ksh 7.26 billion in the week ending August 24, 2011 from Ksh 8.87 billion in the previous week.

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
11-Aug-11	52	4,210	7.26
12-Aug-11	63	9,150	8.34
15-Aug-11	60	9,995	10.87
16-Aug-11	52	10,725	12.68
17-Aug-11	56	10,283	14.89
Aug 11- Aug 17, 2011	57	8,873	10.81
18-Aug-11	29	7,336	16.93
19-Aug-11	59	6,932	19.03
22-Aug-11	58	8,945	20.74
23-Aug-11	46	4,371	22.29
24-Aug-11	54	8,734	24.25
Aug 18- Aug 24, 2011	49	7,263	20.65

Source: Central Bank of Kenya

The reverse repo rate was 6.25 percent for the last reverse repo transactions on August 9, 2011.



Monetary Policy Operations

The money market was tight during the week ending August 24, 2011 but the Central Bank kept off the money market. Commercial banks borrowing from the Central Bank overnight window increased to Ksh 47.98 billion in the week ending August 24, 2011 compared with Ksh 38.3 billion in the previous week. Reserve money averaged Ksh 227.1 billion during the week and was above target by Ksh 5.4 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)
18-Aug-11	217.2	221.2	-4.0	0.0	0.0	0.0	227.3	6.2	-1.1	7.3
19-Aug-11	218.5	221.2	-2.6	0.0	0.0	0.0	227.4	6.2	-0.3	6.5
22-Aug-11	218.2	222.0	-3.8	0.0	0.0	0.0	226.1	4.1	-2.8	6.9
23-Aug-11	217.7	222.0	-4.3	0.0	0.0	0.0	229.2	7.2	0.6	6.6
24-Aug-11	219.4	222.0	-2.7	0.0	0.0	0.0	225.2	3.2	-3.2	6.4
Average	218.2	221.7	-3.5	0.0	0.0	0.0	227.1	5.4	-1.4	6.7

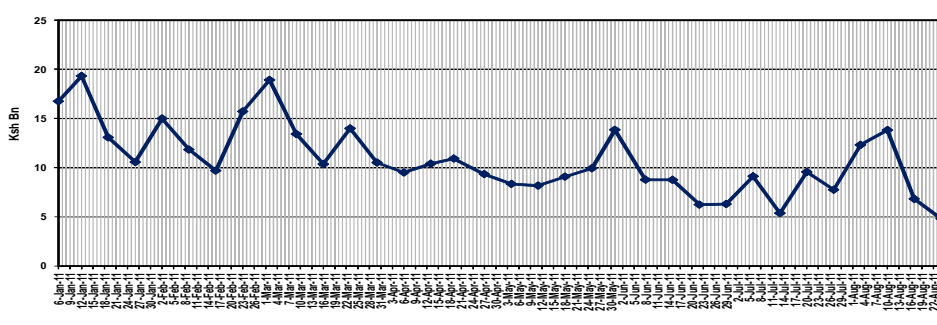
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

Commercial banks maintained an average of Ksh 4.83 billion in their clearing accounts at the Central Bank in the week to August 17, 2011, down from Ksh 6.83 billion in the previous week (Chart B).

Chart B: Weekly Average Clearing A/c Balances



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling appreciated to exchange at 92.74 per US dollar in the week ending August 26, 2011 compared with US 92.95 per US dollar in the previous week. This was due to inflows from the tea sector as well as movements in the international currency markets that led to weakening of the US dollar against the Sterling Pound and the Euro. The Sterling Pound and Euro gained in the international markets after better than expected data on manufacturing.

The Kenya shilling gained against the Sterling Pound to exchange at Ksh 152.44 per Sterling Pound compared with Ksh 152.54 per Sterling Pound in the previous week. Against the Japanese Yen, the shilling strengthened to exchange at 120.73 per 100 Japanese Yen compared with Ksh 121.20 per 100 Japanese Yen in the previous week. Against the Euro, the shilling however depreciated to exchange at Ksh 133.51 per Euro in the week ending August 26, 2011 compared with Ksh 133.38 in the previous week partly reflecting appreciation of the Euro in international currency markets.

In the EAC region, the Kenya Shilling depreciated against the other East African currencies during the week ending August 26, 2011. On average, the Kenya shilling exchanged at Ushs 30.25 per Kenya Shilling, Tshs 17.50 per Kenya shilling, RWF 6.46 per Kenya shilling and BIF 13.27 per Kenya Shilling during the week, compared to Ushs 30.02 per Kenya Shilling, Tshs 17.46 per Kenya shilling, RWF 6.44 per Kenya shilling and BIF 13.18 per Kenya Shilling, in the week ending August 19, 2011 (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
15/8/2011	92.72	151.06	132.37	120.72	30.15	17.46	6.46	13.31
16/8/2012	92.85	151.74	133.66	120.90	30.10	17.50	6.45	13.29
17/8/2013	93.14	153.00	133.95	121.53	30.01	17.44	6.43	13.25
18/8/2014	93.14	153.87	134.09	121.51	29.88	17.45	6.43	13.25
19/8/2015	92.90	153.00	132.80	121.35	29.95	17.46	6.44	13.23
August 15 - 19, 2011	92.95	152.54	133.38	121.20	30.02	17.46	6.44	13.27
22-Aug-11	93.01	153.30	133.59	121.20	29.89	17.48	6.45	13.26
23-Aug-11	92.81	152.99	133.58	121.06	29.96	17.52	6.47	13.29
24-Aug-11	92.73	153.02	133.64	121.01	30.46	17.50	6.47	13.26
25-Aug-11	92.40	151.27	133.24	120.01	30.57	17.56	6.49	13.31
26-Aug-11	92.89	151.62	133.96	120.36	30.36	17.47	6.45	13.24
August 22 - 26, 2011	92.77	152.44	133.60	120.73	30.25	17.50	6.46	13.27

Source: Central Bank of Kenya

**Foreign
Exchange
Reserves**

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,967 million (equivalent to 3.68 months of imports) as at August 19, 2011 to US dollar 3,973 million (equivalent to 3.69 months of imports) as at August 26, 2011 (Table 5).

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

	31-Mar-11	27-May-11	24-Jun-11	29-Jul-11	5-Aug-11	12-Aug-11	19-Aug-11	26-Aug-11
Usable Reserves*	3,887	3,907	3,957	3,976	3,941	3,948	3,967	3,973
Months of Imports Cover**	3.77	3.79	3.72	3.73	3.70	3.69	3.68	3.69

*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 12.2 billion from Ksh 764.1 billion in June 2011 to Ksh 776.4 billion as at August 19, 2011 (Table 6 and Chart C). This reflects the increases in Treasury bonds and Government overdraft at Central Bank of Ksh 3.5 billion and Ksh 16.8 billion, respectively. Treasury bills and other domestic debt declined by Ksh 4.4 billion and Ksh 3.7 billion respectively (Chart C).

Table 6: Government Domestic Debt (Ksh Billion)

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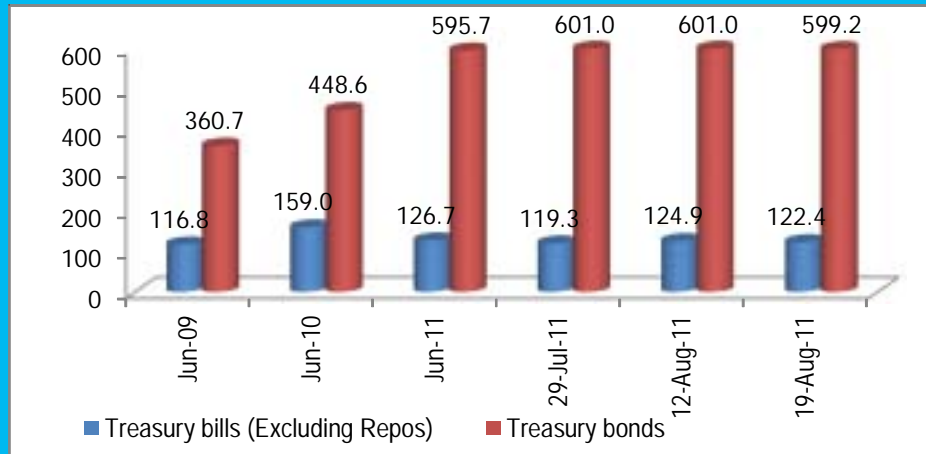
	Jun-11	Jul-11	12th Aug-2011	19th Aug-2011	Changes	
					12th Jul 2011- 19th August 2011	30th Jun 2011- 19th August 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	119.3 16.6	124.9 17.2	122.4 17.0	-2.5	-4.4
2. Treasury Bonds (As % of total securities)	595.7 82.5	601.0 83.4	601.0 82.8	599.2 83.0	-1.8	3.5
3. Total Securities (1+2+3)	722.4	720.3	725.9	721.5	-4.3	-0.9
4. Overdraft at Central Bank	7.6	19.9	19.5	24.3	4.9	16.8
5. Other Domestic debt*	34.2	34.1	34.1	30.5	-3.6	-3.7
6. Gross Domestic Debt (4+5+6)	764.14	774.27	779.40	776.38	-3.02	12.2
7. Interest payments on domestic debt	69.2	2.75	4.14	4.30	0.17	

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

Source: Central Bank of Kenya

Treasury bills decreased from Ksh 126.7 billion to Ksh 122.4 billion during the same period. As a result, the share of Treasury bills in total government securities declined from 17.5 percent to 17.0 percent. The average time to maturity of Government securities reduced from 5 years 10 months in June 2011 to 5 years 9 month during the period.

Chart C: Composition of Government Securities

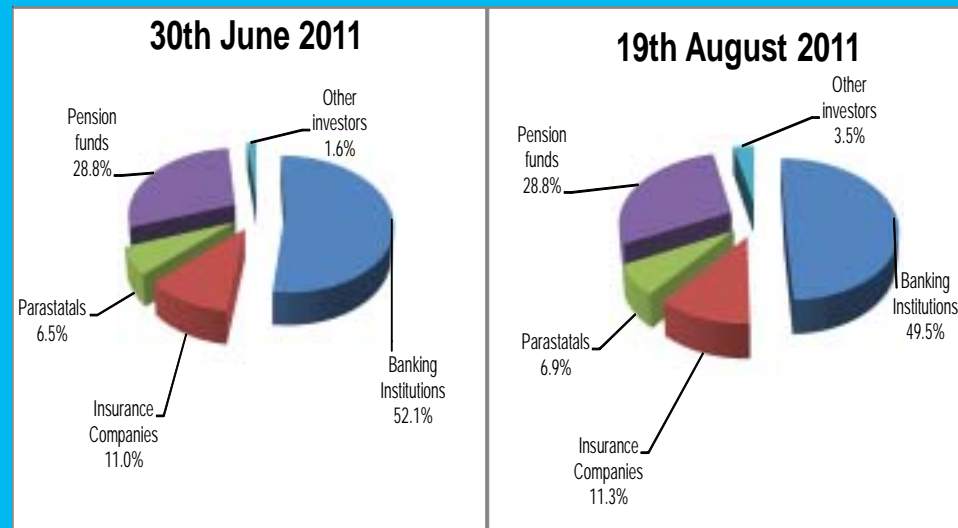


Source: Central Bank of Kenya

Holding of Govt Securities

The share of Government securities by banking institutions decreased from 52.1 percent in June 2011 to 49.5 percent as at August 19, 2011. Holdings of insurance, parastatals, pension fund and other investors increased from 11.0 percent, 6.5 percent, 28.7 percent and 1.6 percent to 11.3 percent, 6.9 percent, 28.8 percent and 3.5 percent, respectively (Chart D).

Chart D: Composition of Government Securities by Investors

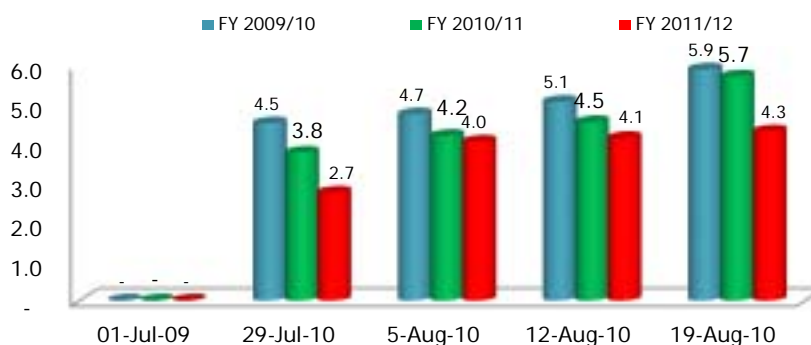


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt from July 1, 2011 to August 19, 2011 amounted to Ksh 4.3 billion compared with Ksh 5.7 billion in the same period of the fiscal year 2010/11. The cost during the period was on account of interest and other charges on Treasury bills and treasury bonds amounting to Ksh 3.5 billion and Ksh 0.7 billion, respectively (Chart E).

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The NSE 20 Share Index closed the week at 3,444.3 points on August 25, 2011, down from 3,540.4 points on August 19, 2011. The NASI also fell to 76.14 points from 78.82 points during the week. The number of shares transacted decreased to 100.3 million, from 155.3 million shares in previous week. Market Capitalization as a measure of total shareholders' wealth lost 3.4 percent or Ksh 33 billion to level Ksh 950.2 billion from last week's value of Ksh 983.6 billion. Equity turnover, on the other hand, decreased by Ksh 40.8 million to trade stocks worth Ksh 1,343.8 million by close of August 25, 2011, from Ksh 1,384.6 million for the previous week.

Table 7: Key Weekly Market Statistics

Week Ending	21-Jul-11	28-Jul-11	4-Aug-11	11-Aug-11	19-Aug-11	25-Aug-11
NASI 100= Jan 2008	85.40	84.65	84.75	78.95	78.82	76.14
NSE 20 Share Index 100=1966	3,756.89	3,733.30	3,744.59	3,519.28	3,540.42	3,444.28
Number of Deals	8,579.00	6,726.00	7,215	7,413	6,609	6,722
Total Shares Traded (millions)	161.97	100.80	154.43	84.59	155.35	100.31
Equity Turnover (Ksh. millions)	2,461.18	2,037.10	1,339.11	1,394.12	1,384.67	1,343.85
Market Capitalization (Ksh. Bn.)	1,063.39	1,054.10	1,057.69	985.19	983.60	950.20
Bonds Turnover (Ksh. millions)	4,495.90	10,699.25	15,374.30	10,297.75	10,414.50	6,883.80

Source: Nairobi Stock Exchange

Telecommunication & Technology sector dominated trading, with 54.4 million shares, accounting for 54.3 percent of all shares transacted at the bourse. Of this, Safaricom was the most active counter, with 54.0 million shares transacted. Banking was second most active, with 22.1 million shares traded, and Commercial and Services sector closed third best with 8.4 million shares. Housing Finance and TPS Eastern Africa dominated Banking and Commercial and Services sectors, respectively. The least active sector was Agriculture, with 200,900 shares traded.

Bond Market

Bonds trading at the Fixed Income Securities Market dropped by 33.9 percent, from Ksh 10,414.5 billion for the week ended August 18, 2011 to Ksh 6,883.8 billion for the week ending August 25, 2011. The number of deals transacted was down to 109 deals from 112 deals.