

**February 4, 2011**



**THE CBK WEEKLY BULLETIN**

**Highlights for  
the Week**

Overall 12-month inflation rose for the third consecutive month to stand at 5.4 percent in January 2011. This was lower than the 6.0 percent inflation rate in January 2010. The average annual inflation, on the other hand, maintained a declining trend for over a year, moving from 8.6 percent in January 2010 to 4.0 percent in December 2010, and further down to 3.9 percent in January 2011.

The Government conducted 2 separate Treasury bills auctions this week in a bid to raise Ksh 7.5 billion from the market. The market made available Ksh 13.1 billion, a 174.6 percent performance. The Government accepted bids amounting to Ksh 11.0 billion. Consequently, the average rates for the securities auctioned this week edged up during the week.

The money market was tight in the week ending February 02, 2011, which saw the Central Bank inject a total of Ksh 7.6 billion into the market during the week. There were no reverse repo maturities during the week. The average interbank rate rose by 3 basis points to 1.27 percent in the week ending February 02, 2011 from 1.24 percent in the previous week.

The Kenya Shilling depicted mixed performance against the major international currencies in the week ending February 03, 2011. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 81.16 in the week compared with Ksh 81.01 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,503 million (equivalent to 3.51 months of imports) as at January 27, 2011 to US dollar 3,508 million (equivalent to 3.47 months of imports) as at February 03, 2011.

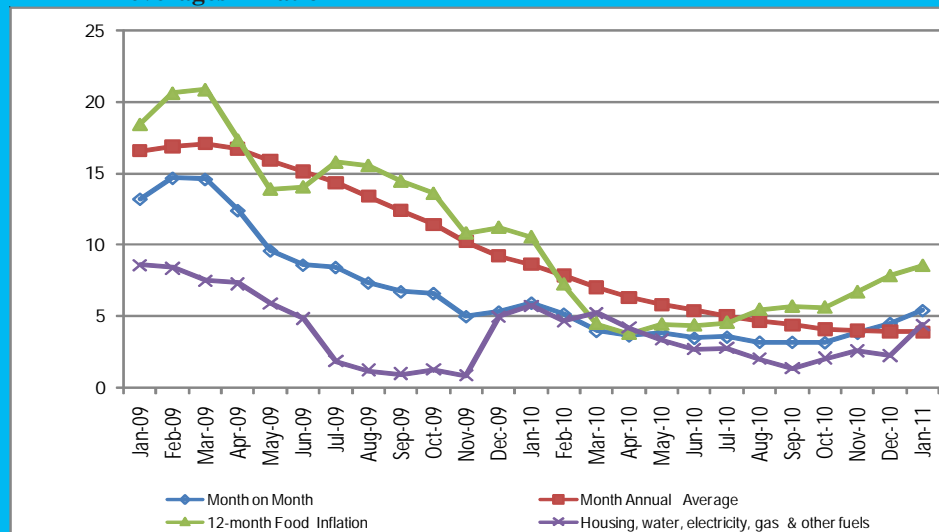
Government gross domestic debt increased by Ksh 50.6 billion from Ksh 660.3 billion in June 2010 to Ksh 710.9 billion as at January 28, 2011. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 36.7 billion.

Performance at the equities market declined during the week ending February 3, 2011, with the NSE 20 Share Index losing 140 points to settle at 4,387 from 4,527 points on January 27, 2011, while equity turnover decreased by 26.4 percent.

**Inflation**

Overall 12-month inflation increased from 4.5 percent in December 2010 to 5.4 percent in January 2011, but remained relatively lower than 6.0 percent inflation experienced in January 2010 (Chart A). In January 2011, the largest increases in inflation were in the education basket; the housing, water, electricity, gas and other fuels basket; and the recreation and culture basket, which increased respectively by 2.4 percent, 2.2 percent and 1.5 percent from December 2010 position. These increases were attributed to increased cost of tuition fees for private primary and secondary schools as well as tertiary institutions at the beginning of the school year; the rising prices of cooking gas, kerosene and rent for most residential houses; and the spill over of the holiday season, respectively. Food inflation remained fairly stable throughout the previous year, declining from 10.6 percent in January 2010 to 7.8 percent in December 2010, but rose slightly to 8.6 percent in January 2011. This rise was attributed to increases in the prices of some food items including sukuma wiki, fresh tetra packed milk, maize grain and potatoes during the month. All baskets of goods and services experienced increasing inflation during the month, with the exception of communications and the alcoholic beverages baskets. The communications sector experienced low inflation following increased competition by the service providers.

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



Source: Central Bank of Kenya

**Government Securities Auction**

The Government securities market saw 2 Treasury bills auctions being conducted this week. The 364-day Treasury bills auction was conducted on February 2, 2011 where the Government offered for sale Treasury bills amounting to Ksh 5.0 billion. The market made available bids amounting to Ksh 7.4 billion, a 147.4 percent performance. The 91- day Treasury bills auction was conducted on February 3, 2011, where Ksh 2.5 billion was on offer. Bids amounting to Ksh 5.8 billion were received, a 231.0 percent performance.

From these auctions the Government accepted bids amounting to Ksh 11.0 billion which was Ksh 3.5 billion above target for the week. The proceeds of the auction were targeted at meeting part cost of redemptions of Government securities maturities amounting to Ksh. 17.0 billion.

**Interest Rates on Treasury Bills**

The 91- and 364- day Treasury bill rates edged up 3.6 basis points and 2.9 basis points, respectively to settle at 2.555 percent and 3.722 percent, respectively (Table 1).

**Table 1: Interest Rates**

Auction date	2-Dec-10	9-Dec-10	16-Dec-10	23-Dec-10	31-Dec-10	6-Jan-11	13-Jan-11	20-Jan-11	27-Jan-11	3-Feb-11
91 day T. Bills*	2.239		2.313		2.357		2.409	2.455	2.519	2.555
182 day T. Bills*		2.548		2.631		2.675			2.728	
364 day T. Bills*								3.693		3.722
Month	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Average savings rate	1.81	1.81	1.76	1.75	1.55	1.50	1.47	1.46	1.40	1.45
Average overdraft rate	14.06	14.50	14.38	14.23	14.03	13.97	13.81	13.64	13.77	13.69

\*Weighted rates

Source: Central Bank of Kenya

**Interbank and REPO rates**

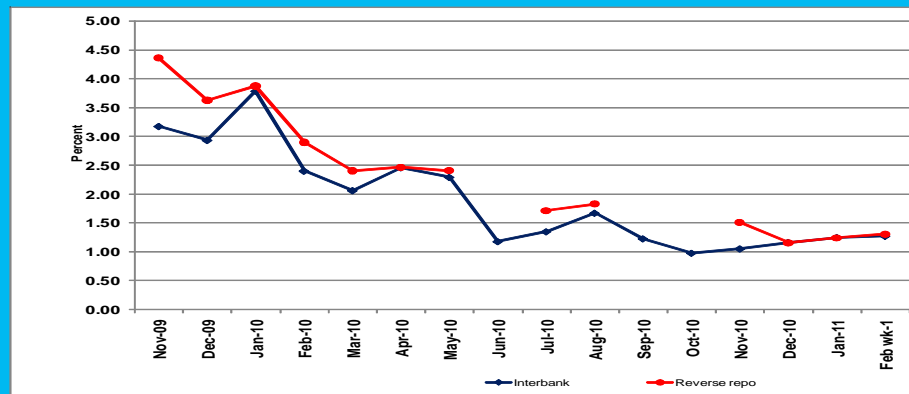
The average interbank rate rose by 3 basis points to 1.27 percent in the week ending February 2, 2011 from 1.24 percent in the previous week. The average volumes traded declined to Ksh 10.74 billion in the week ending February 2, 2011 from Ksh 16.03 billion in the previous week. The Government deposits at the Central Bank rose marginally from Ksh 49.6 billion in the week ending January 26, to Ksh 50.2 billion in the week ending February 02, 2011. The reverse repo rate was 1.311 percent as at the last reverse repo transaction on January 31, 2011 (Table 2 and Chart B).

**Table 2: Interbank Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
20-Jan-11	69	16,382	1.20
21-Jan-11	69	18,499	1.24
24-Jan-11	64	16,021	1.23
25-Jan-11	71	15,777	1.25
26-Jan-11	55	13,473	1.26
<b>Jan 20 - Jan 26, 2011</b>	<b>66</b>	<b>16,033</b>	<b>1.24</b>
27-Jan-11	73	14,601	1.27
28-Jan-11	59	11,140	1.30
31-Jan-11	54	11,816	1.26
1-Feb-11	61	8,884	1.26
2-Feb-11	51	8,319	1.26
<b>Jan 27- Feb 02, 2011</b>	<b>61</b>	<b>10,736</b>	<b>1.27</b>

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 in the week ending February 2, 2011 and the Central Bank injected a total of Ksh 7.6 billion into the market during the week while commercial banks borrowed Ksh 5 billion from the Central Bank overnight window (Table 3). There were no reverse repo maturities during the week. Reserve money averaged Ksh 211.2 billion during the week and was above target by Ksh 12.6 billion.

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)
27-Jan	209.3	198.6	10.8	0.0	0.0	0.0	209.4	10.8	7.9	2.9
28-Jan	215.8	198.6	17.2	0.0	0.0	0.0	215.2	16.6	13.7	2.9
31-Jan	201.4	198.6	2.8	5.0	7.6	-2.6	209.0	10.4	6.5	3.9
1-Feb	211.2	198.7	12.5	0.0	0.0	0.0	210.7	12.0	6.4	5.6
2-Feb	212.1	198.7	13.4	0.0	0.0	0.0	211.8	13.0	7.4	5.6
Average	210.0	198.7	11.3	1.0	1.5	-0.5	211.2	12.6	8.4	4.2

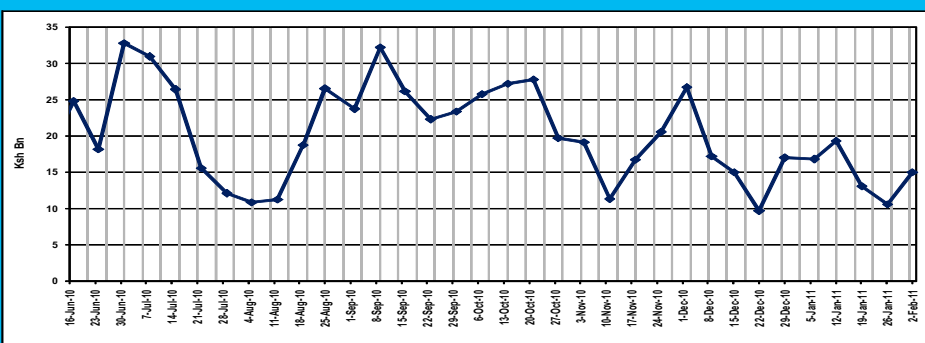
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial Banks Clearing Account Balances**

Commercial banks maintained an average of Ksh 14.9 billion in their clearing accounts at the Central Bank in the week to February 02, 2011 compared with Ksh 10.6 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 February 03, 2011 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 81.16 in the week compared with Ksh 81.01 per US dollar in the previous week. It depreciated against the Sterling Pound and the Euro to exchange on average at Ksh 130.43 per Sterling Pound and Ksh 111.53 per Euro compared with Ksh 128.99 per Sterling Pound and Ksh 110.68 per Euro in the previous week. The shilling appreciated against the Japanese Yen to exchange on average at Ksh 86.12 per 100 Japanese Yen compared with Ksh 98.36 per 100 Japanese Yen in the previous week.

In the EAC region, the Kenya Shilling weakened against the Uganda and the Tanzania shilling to exchange at Ush 28.43 per Kenya Shilling and Tsh 18.54 per Kenya Shilling in the week ending February 03, 2011, compared with Ush 28.47 per Kenya Shilling and Tsh 18.63 per Kenya Shilling in the previous week, respectively. The Kenya Shilling strengthened marginally against the Rwandan and Burundi Franc to exchange at RWF 7.39 per Kenya Shilling and BIF 15.18 per Kenya Shilling in the week ending February 03, 2011, compared with RWF 7.35 per Kenya Shilling and BIF 15.17 per Kenya Shilling in the previous week.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
24-Jan-11	81.01	129.38	110.19	97.89	28.58	18.67	7.32	15.11
25-Jan-11	81.02	129.61	110.63	98.27	28.57	18.70	7.32	15.15
26-Jan-11	81.00	128.14	110.90	98.72	28.39	18.67	7.38	15.22
27-Jan-11	81.00	128.83	110.98	98.54	28.33	18.49	7.39	15.21
<b>January 24 - 27, 2011</b>	<b>81.01</b>	<b>128.99</b>	<b>110.68</b>	<b>98.36</b>	<b>28.47</b>	<b>18.63</b>	<b>7.35</b>	<b>15.17</b>
31-Jan-11	81.27	128.98	110.61	99.05	28.36	18.49	7.38	15.15
1-Feb-11	81.19	130.42	111.41	81.37	28.39	18.52	7.38	15.17
2-Feb-11	81.10	131.05	112.25	82.01	28.48	18.59	7.39	15.19
3-Feb-11	81.07	131.27	111.86	82.04	28.47	18.57	7.40	15.20
<b>January 31- February 03, 2011</b>	<b>81.16</b>	<b>130.43</b>	<b>111.53</b>	<b>86.12</b>	<b>28.43</b>	<b>18.54</b>	<b>7.39</b>	<b>15.18</b>

Source: Central Bank of Kenya

## Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased marginally from US dollar 3,503 million (equivalent to 3.51 months of imports) as at January 27, 2011 to US dollar 3,508 million (equivalent to 3.47 months of imports) as at February 03, 2011 (Table 5).

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

	26-Nov-10	31-Dec-10	6-Jan-11	20-Jan-11	27-Jan-11	3-Feb-11
<b>Usable Reserves*</b>	3,471	3,466	3,466	3,488	3,503	3,508
<b>Months of Imports Cover**</b>	3.52	3.48	3.48	3.49	3.51	3.47

\*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 50.6 billion from Ksh 660.3 billion in June 2010 to Ksh 710.9 billion as at January 28, 2011 (Table 6 and Chart D). This increase was on account of increases in Treasury bonds and other domestic debt amounting to Ksh 78.4 billion. This was, however, partially offset by a decrease of Ksh 27.8 billion in Treasury bills and long term stocks.

Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 526.6 billion as at January 28, 2011, while Treasury bills declined from Ksh 159.0 billion in June 2010 to Ksh 132.0 billion during the same period.

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

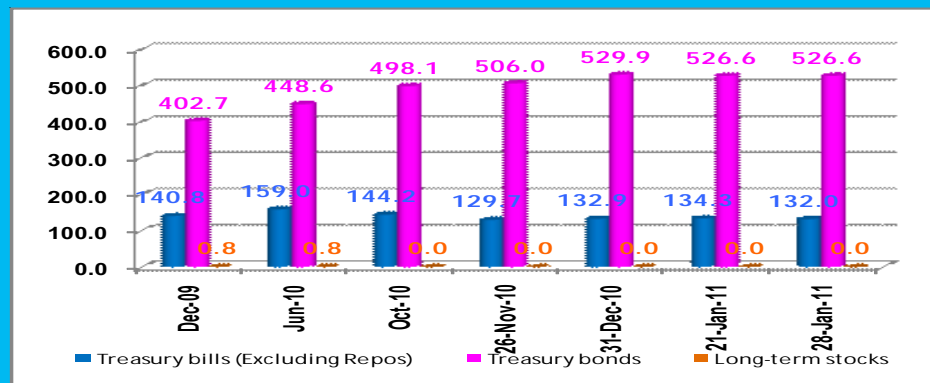
	Jun-10	31st Dec-2010	21st Jan-2011	28th Jan-2011	Changes	
					21st Jan-11- 28th Jan-11	30th Jun-10 - 28th Jan-11
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	132.9 20.1	134.3 20.3	132.0 20.0	-2.3	-27.0
2. Treasury Bonds (As % of total securities)	448.6 73.7	529.9 79.9	526.6 79.7	526.6 80.0	0.0	78.0
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	-0.8
4. Total Securities (1+2+3)	608.4	662.8	661.0	658.7	-2.3	50.3
5. Overdraft at Central Bank	17.6	22.7	13.6	17.6	4.0	0.0
6. Other Domestic debt*	34.2	34.8	34.7	34.6	-0.2	0.4
7. Gross Domestic Debt (4+5+6)	660.3	720.2	709.3	710.9	1.6	50.6
8. Interest payments on domestic debt	57.8	34.2	34.7	36.7	2.0	

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

Source: Central Bank of Kenya

Consequently, the share of Treasury bonds in total domestic debt increased from 73.7 percent in June to 80.0 percent as at January 28, 2011, while that of Treasury bills declined from 26.1 percent to 20.0 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years 1 month as at January 28, 2011. This development is consistent with the Government debt management strategy of lengthening the maturity profile of domestic debt.

**Chart D: Composition of Government Securities**



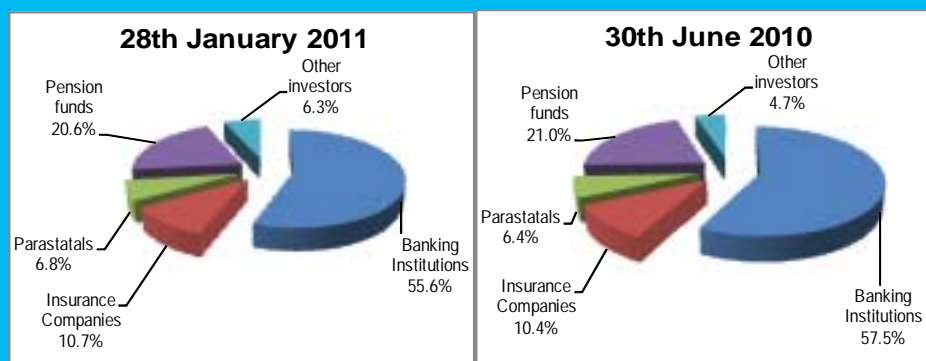
Source: Central Bank of Kenya

**Holding of Government Securities**

The holdings of Government securities by parastatals, insurance companies and other investors increased from 6.4 percent, 10.5 percent and 4.6 percent, respectively in June 2010 to 6.8 percent, 10.7 percent and 6.3

percent, respectively as at January 28, 2011. However, holdings of commercial banks and pension funds declined from 57.6 percent and 21.0 percent, respectively to stand at 55.6 percent and 20.6 percent, respectively during the same period (Chart E).

Chart E: Composition of Government Securities by Investor

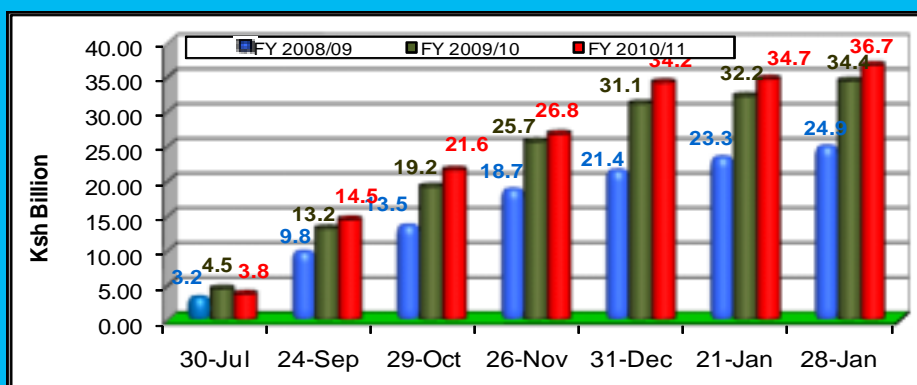


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at January 28, 2011 amounted to Ksh 36.7 billion compared with Ksh 34.4 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 7.0 billion and 29.2 billion, respectively while interest on Government overdraft at the CBK and Government stocks amounted to Ksh 0.5 billion.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

### The Stock Market

Performance at the equities market declined during the week ending February 3, 2011. Turnover decreased by 26.4 percent as stocks worth Ksh 1,397 million were traded compared with Ksh 1,898 million traded in the previous week. The number of shares traded decreased from 127 million in the previous week to 84 million shares in the week under review. Market capitalization as a measure of total shareholders wealth decreased

by 3.3 percent or 41 billion to close at Ksh 1,177 billion from Ksh 1,218 billion in the previous week. The NSE 20 Share Index lost 140 points to settle at 4387 points on February 3, 2011 from 4527 points on January 27, 2011. The Nairobi All Share Index lost 3 points to settle at 98 from 101 points the previous week (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	16-Dec-10	23-Dec-10	30-Dec-10	6-Jan-11	13-Jan-11	20-Jan-11	27-Jan-11	3-Feb-11
NASI 100= Jan 2008	96.48	96.49	97.27	102.69	101.91	100.69	101.11	97.75
NSE 20 Share Index 100=1966	4,368.31	4,337.06	4,396.49	4,594.45	4,563.65	4,537.30	4,526.78	4,386.69
Number of Deals	8,240	9,487.00	5,124.00	8,679.00	11,670.00	10,528.00	11,445.00	9,775.00
Total Shares Traded (millions)	239.15	75.86	32.45	118.95	288.79	160.24	127.47	84.61
Equity Turnover (Ksh. millions)	1,273.10	1,424.85	547.03	1,673.55	3,225.56	2,051.46	1,898.46	1,397.63
Market Capitalization (Ksh. Bn.)	1,151.01	1,151.17	1,160.41	1,225.08	1,215.72	1,199.27	1,217.53	1,177.00
Bonds Turnover (Ksh. millions)	5,900.90	5,511.95	3,591.90	3,617.55	6,157.55	5,463.65	2,788.50	7,645.80

\* 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 46 million shares and accounted for 55.3 per cent of the traded volume with Safaricom trading 42.8 million shares in the sector. The Finance and Investment sector traded 19.7 million shares and accounted for 23.3 percent of total traded volume. Kenya Commercial Bank and Cooperative Bank were the most active stocks in the sector, trading 5.52million and 5.55 million shares, respectively. Industrial and Allied sector traded 17.7 million shares and accounted for 20.9 percent of traded volume. KPLC was the most active counter, trading 9.7 million shares. The Alternative market segment traded 62,200 shares.

## Bond Market

Bond turnover at the Fixed Income Securities Market increased from Ksh 2.8 billion traded in the previous week to Ksh 7.6 billion in the week under review.