

**February 11, 2011**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The Government conducted 2 separate Treasury bills auctions this week in a bid to raise Ksh 5.5 billion from the Market. The market made available Ksh 3.2 billion, a 58.2 percent performance. The Government accepted bids amounting to Ksh 2.9 billion. Consequently, the average interest rates for the securities auctioned edged up during the week.

The average interbank rate declined by 14 basis points to 1.13 percent in the week ending February 09, 2011 from 1.27 percent in the previous week.

The money market was liquid in the week ending February 09, 2011 and the Central Bank stayed out of the market during the week. There were reverse repo maturities of Ksh 7.6 billion during the week.

The Kenya Shilling depicted mixed performance against the major international currencies in the week ending February 10, 2011. Against the US dollar, the shilling depreciated to an exchange rate average of Ksh 81.20 in the week compared with Ksh 81.16 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,508 million (equivalent to 3.47 months of imports) as at February 03, 2011 to US dollar 3,521 million (equivalent to 3.49 months of imports) as at February 10, 2011.

Government gross domestic debt increased by Ksh 62.7 billion from Ksh 660.3 billion in June 2010 to Ksh 723.0 billion as at February 04, 2011 of the fiscal year 2010/11. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 37.1 billion.

Equities market performance was in both directions during the week ending February 10, 2011. Turnover increased by 22.1 percentage points as stocks worth Ksh 1,707 million were traded up from Ksh 1,397 million transacted the previous week.

## Government Securities Auction

The Government securities market saw 2 separate Treasury bills auctions being conducted this week. The 182-day Treasury bills auction was conducted on February 9, 2011, where the Government had offered for sale Treasury bills amounting to Ksh 3.0 billion. The market made available bids amounting to Ksh 422.7 million, 14.0 percent subscription rate. The 91-day Treasury bills auction was conducted on February 10, 2011, where Ksh 2.5 billion was on offer and bids amounting to Ksh 2.8 billion were received, a 112.2 percent performance.

From these auctions, the Government accepted bids amounting to Ksh 2.9 billion which was Ksh 1.6 billion below target for the week. The proceeds of the auction were targeted at supporting the budget.

## Treasury Bills Interest Rates

The 91-day and 182-day Treasury bill rates edged up 4.0 basis points and 2.1 basis points, respectively, to settle at 2.595 percent and 2.749 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	10-Feb-11
91 day T. Bills*	2.239		2.313		2.357		2.409	2.455	2.519	2.555	2.595
182 day T. Bills*		2.548		2.631		2.675			2.728		2.749
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 for accepted bids

Source: Central Bank of Kenya

## Interbank and REPO Rates

The average interbank rate declined by 14 basis points to 1.13 percent in the week ending February 09, 2011, from 1.27 percent in the previous week. The average volumes traded declined to Ksh 9.92 billion in the week ending February 9, 2011 from Ksh 10.74 billion in the previous week. The Government deposits at the Central bank declined from Ksh 50.2 billion in the week ending February 2, 2011 to Ksh 46.4 billion in the week ending February 09, 2011 (Table 2 and Chart A).

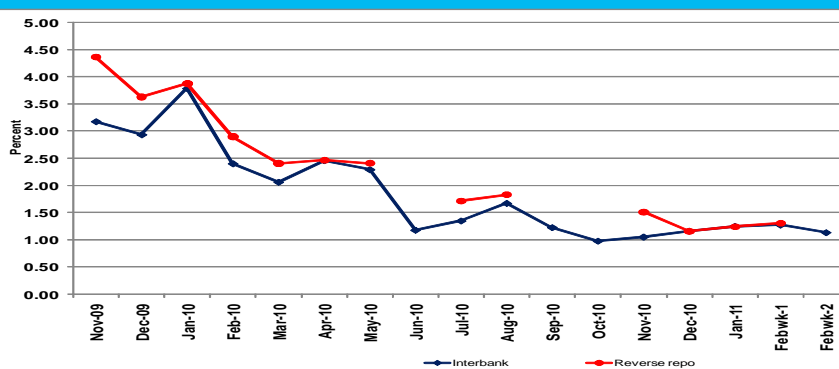
**Table 2: Interbank Deals, Volumes and Interest Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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>
3-Feb-11	52	7,543	1.19
4-Feb-11	45	8,160	1.11
7-Feb-11	76	10,030	1.11
8-Feb-11	71	13,248	1.11
9-Feb-11	72	10,721	1.11
<b>Feb 03- Feb 09, 2011</b>	<b>60</b>	<b>9,918</b>	<b>1.13</b>

Source: Central Bank of Kenya

The reverse repo rate was 1.311 percent as at the last reverse repo transaction on January 31, 2011.

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

### Monetary Policy Operations

The money market was liquid in the week ending February 9, 2011 and the Central Bank stayed out of the market during the week (Table 3). There were reverse repo maturities of Ksh 7.6 billion. Commercial banks did not borrow from the Central Bank overnight window. Reserve money averaged Ksh 212.2 billion during the week and was above target by Ksh 13.4 billion.

Table 3: Open Market Operations

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)
3-Feb	212.0	198.7	13.3	0.0	0.0	0.0	212.0	13.3	6.8	6.5
4-Feb	214.3	198.7	15.5	0.0	0.0	0.0	213.6	14.8	8.4	6.5
7-Feb	212.2	198.9	13.3	0.0	0.0	0.0	212.1	13.2	5.6	7.6
8-Feb	212.0	198.9	13.1	0.0	0.0	0.0	211.5	12.6	3.8	8.8
9-Feb	212.8	198.9	13.9	0.0	0.0	0.0	211.7	12.8	4.4	8.4
Average	212.6	198.8	13.8	0.0	0.0	0.0	212.2	13.4	5.8	7.6

\*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 11.9 billion in their clearing accounts at the Central Bank in the week to February 09, 2011, down from Ksh 14.9 billion held the previous week (Chart B).

Chart B: Commercial Banks Repo Holdings



Source: Central Bank of Kenya

### The Shilling Exchange Rate

The Kenya Shilling on average depicted mixed performance against the major international currencies during the first week of the month ending February 3, 2011 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 81.20 in the week compared with Ksh 81.16 per US dollar in the previous week. Similarly, the shilling depreciated against the Sterling Pound and the Japanese Yen to exchange on average at Ksh 130.83 per Sterling Pound and Ksh 98.57 per 100 Japanese Yen compared with Ksh 130.43 per Sterling Pound and Ksh 86.12 per 100 Japanese Yen in the previous week, respectively. However, the shilling appreciated against the Euro to exchange on average at Ksh 110.78 per Euro compared with Ksh 111.53 per Euro in the previous week.

In the EAC region, the Kenya Shilling strengthened against the Uganda and the Tanzania shilling to exchange at Ush 28.73 per Kenya Shilling and Tsh 18.55 per Kenya Shilling in the week ending February 10, 2011, compared with Ush 28.43 per Kenya Shilling and Tsh 18.54 per Kenya Shilling in the previous week, respectively. The Kenya Shilling weakened marginally against the Rwandan and Burundi Francs to exchange at RWF 7.38 per Kenya Shilling and BIF 15.18 per Kenya Shilling in the week ending February 10, 2011, compared with RWF 7.39 per Kenya Shilling and BIF 15.16 per Kenya Shilling in the previous week, respectively.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
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
January 31- February 03, 2011	81.16	130.43	111.53	86.12	28.43	18.54	7.39	15.18
7-Feb-11	81.15	130.92	110.43	98.69	28.59	18.58	7.39	15.19
8-Feb-11	81.20	131.13	110.65	98.74	28.73	18.56	7.38	15.17
9-Feb-11	81.22	130.54	110.85	98.53	28.79	18.54	7.38	15.14
10-Feb-11	81.24	130.73	111.19	98.31	28.80	18.51	7.38	15.14
February 07-10, 2011	81.20	130.83	110.78	98.57	28.73	18.55	7.38	15.16

Source: Central Bank of Kenya

**Foreign  
Exchange  
Reserves**

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,508 million (equivalent to 3.47 months of imports) as at February 3, 2011 to US dollar 3,521 million (equivalent to 3.49 months of imports) as at February 10, 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	10-Feb-11
Usable Reserves*	3,471	3,466	3,466	3,488	3,503	3,508	3,521
Months of Imports Cover**	3.52	3.48	3.48	3.49	3.51	3.47	3.49

\*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 domestic debt increased by Ksh 62.7 billion from Ksh 660.3 billion in June 2010 to Ksh 723.0 billion as at February 4, 2011 (Table 6 and Chart C). This increase was on account of increases in Treasury bonds and other domestic debt amounting to Ksh 91.9 billion. This was, however, partially offset by a decrease of Ksh 29.2 billion in Treasury bills and long term stocks.

Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 531.0 billion as at February 04, 2011, while Treasury bills declined from Ksh 159.0 billion in June 2010 to Ksh 133.8 billion during the period under review.

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

	Jun-10	31st Dec-2010	28th Jan-2011	4th Feb-2011	Changes	
					28th Jan-11- 4th Feb-11	30th Jun-10-4th Feb-11
1. Treasury Bills (Excluding Repos)	159.0	132.9	132.0	133.8	1.8	-25.2
(As % of total securities)	26.1	20.1	20.0	20.1		
2. Treasury Bonds	448.6	529.9	526.6	531.0	4.4	82.4
(As % of total securities)	73.7	79.9	80.0	79.9		
3. Long Term Stocks	0.8	0.0	0.0	0.0	0.0	-0.8
(As % of total securities)	0.1	0.0	0.0	0.0		
4. Total Securities (1+2+3)	608.4	662.8	658.7	664.9	6.2	56.4
5. Overdraft at Central Bank	17.6	22.7	17.6	14.4	-3.2	-3.2
6. Other Domestic debt*	34.2	34.8	34.6	43.7	9.1	9.5
7. Gross Domestic Debt (4+5+6)	660.3	720.2	710.9	723.0	12.1	62.7
8. Interest payments on domestic debt	57.8	34.2	36.7	37.1	0.3	

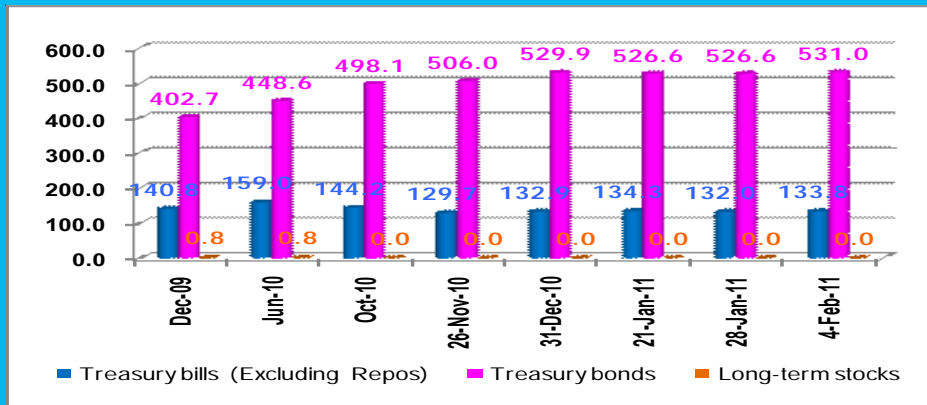
\* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCs.

Source: Central Bank of Kenya

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Consequently, the share of Treasury bonds in total domestic debt increased from 73.7 percent in June 2010 to 79.9 percent as at February 4, 2011, while that of Treasury bills declined from 26.1 percent to 20.1 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 February 04, 2011. This development is consistent with the Government debt management strategy of lengthening the maturity profile of domestic debt.

Chart C: Composition of Government Securities

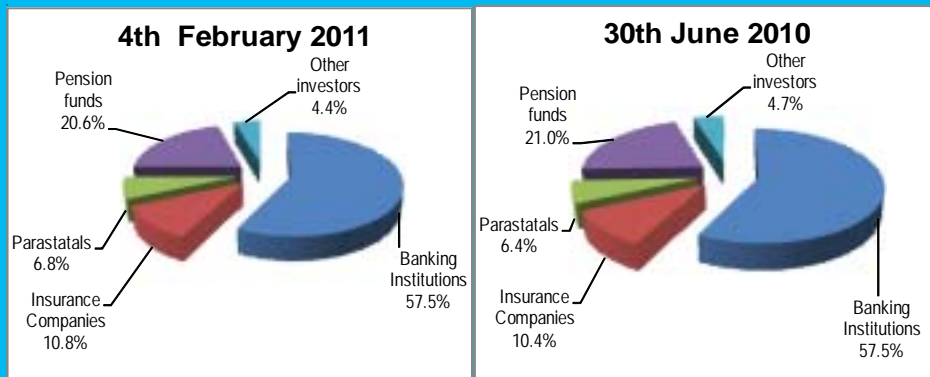


Source: Central Bank of Kenya

**Holding of Govt Securities**

The holdings of Government securities by parastatals and insurance companies increased from 6.4 percent and 10.5 percent in June 2010 to 6.8 percent and 10.8 percent respectively, as at February 4, 2011. However, holdings of commercial banks, pension funds and other investors declined from 57.6 percent, 21.0 percent and 4.6 percent to stand at 57.5 percent, 20.6 percent and 4.4 percent, respectively, during the same period (Chart D).

Chart D: Composition of Government Securities by Investors

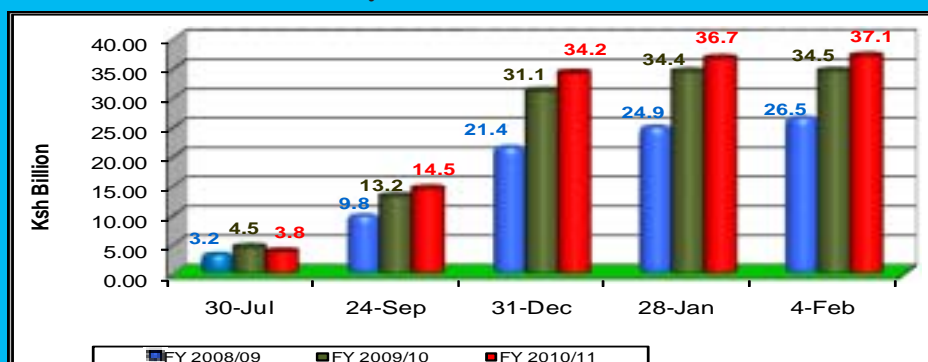


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

The cumulative interest and other charges on domestic debt as at February 04, 2011 amounted to Ksh 37.1 billion compared with Ksh 34.5 billion in a similar period of the fiscal year 2009/10 (Chart E). The cost during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 7.0 billion and 29.6 billion, respectively, while interest on Government overdraft at the Central Bank and Government stocks amounted to Ksh 0.5 billion.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

## The Stock Market

Equities market performance was in both directions during the week ending February 10, 2011. Turnover increased by 22.1 percentage points as stocks worth Ksh 1,707 million were traded up from Ksh 1,397 million transacted the previous week. The number of shares traded in the week under review decreased to 72.64 million from the previous week's 84.61 million shares. Market capitalization as a measure of total shareholders wealth, however, rose by 1.1 percent or gained Ksh 12.87 billion to level Ksh 1,189.87 billion from Ksh 1,177 billion in the previous week. This was mainly attributed to higher trading volumes in Agricultural and Finance and Investment sectors. The NSE 20 Share index lost 60.12 points to settle at 4,326.57 points on February 10, 2011 down from 4,386.69 points on February 3, 2011. Similarly, the Nairobi All Share Index (NASI) lost 0.12 points to settle at 97.75 from 97.63 points over the period under review (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	23-Dec-10	30-Dec-10	6-Jan-11	13-Jan-11	20-Jan-11	27-Jan-11	3-Feb-11	10-Feb-11
NASI 100= Jan 2008	96.49	97.27	102.69	101.91	100.69	101.11	97.75	97.63
NSE 20 Share Index 100=1966	4,337.06	4,396.49	4,594.45	4,563.65	4,537.30	4,526.78	4,386.69	4,326.57
Number of Deals	9,487.00	5,124.00	8,679.00	11,670.00	10,528.00	11,445.00	9,775.00	9,408.00
Total Shares Traded (millions)	75.86	32.45	118.95	288.79	160.24	127.47	84.61	72.64
Equity Turnover (Ksh. millions)	1,424.85	547.03	1,673.55	3,225.56	2,051.46	1,898.46	1,397.63	1,706.72
Market Capitalization (Ksh. Bn.)	1,151.17	1,160.41	1,225.08	1,215.72	1,199.27	1,217.53	1,177.00	1,189.87
Bonds Turnover (Ksh. millions)	5,511.95	3,591.90	3,617.55	6,157.55	5,463.65	2,788.50	7,645.80	10,690.85

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

Source: Nairobi Stock Exchange

The agricultural sector was the most active in terms of increased transactions, with 420,700 shares trading up from 288,300 shares traded the previous week. Commercial and Services sector recorded a 32 percent decline in shares traded, falling to 31.68 million shares during the week from 46.81 million shares the previous week. This was, however, the highest sector in performance for all shares traded, accounting for 43.6 percent. With 22.92



million shares traded, up from 19.74 million shares in previous week, Finance and Investment sector was the second, with 31.6 percent. The Co-operative Bank at 10.6 million shares, Equity Bank at 5.2 million shares and Kenol Kobil Limited at 4.5 million shares traded and were the most active counters for the entire market. Alternative Market Segment traded 14,300 shares down from 62,200 shares in earlier period.

**Bond Market** Bond turnover at the Fixed Income Securities Market rose significantly, with a total of 220 deals valued Ksh 10,690.85 million being transacted up from 121 deals valued Ksh 7, 645.8 million in the previous week.