

**February 18, 2011**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The Government issued 91-days Treasury bills to raise Ksh 2.0 billion during the week's auction. The market made available Ksh 4.1 billion and the Government accepted bids amounting to Ksh 3.8 billion. The 91-day treasury bill rate declined by 0.3 basis points to 2.592 percent.

The average interbank rate declined by 1 basis point to 1.12 percent in the week ending February 16, 2011, from 1.13 percent in the previous week. The marginal change in the interbank rate reflect a liquid money market.

The Kenya Shilling depicted mixed performance against the major international currencies in the week ending February 17, 2011. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 81.40 in the week compared with Ksh 81.20 per US dollar in the previous week. In the EAC region, the Kenya shilling on average depicted mixed performance against the regional currencies.

The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,521 million (equivalent to 3.49 months of imports) as at February 10, 2011 to US dollar 3,495 million (equivalent to 3.46 months of imports) as at February 17, 2011.

Government gross domestic debt increased by Ksh 63.1 billion from Ksh 660.3 billion in June 2010 to Ksh 723.3 billion as at February 11, 2011. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 37.7 billion.

Overall, performance indicators at the equities market declined in the week ending February 17, 2011. The NSE 20 Share Index lost 42 points to settle at 4,284.9 points from 4,326.6 points on February 10, 2011. The equity turnover decreased by 27.6 percent. The fixed income segment of the Exchange however recorded increased activity in the Bond Market.

**Government Securities Auction**

The Government floated 91-day Treasury bills worth Ksh 2.0 billion in the week ending February 10, 2011. The market made available Ksh 4.1 billion, a 205.2 percent subscription. The Government accepted bids amounting to Ksh 3.8 billion of which Ksh 3.5 billion were competitive. The proceeds of the auction were directed at redeeming part of Ksh10.0 billion of Government securities that matured during the week under review.

**Treasury Bills Interest Rates**

The 91-day Treasury bill rate declined by 0.3 basis point from 2.595 percent to 2.592 percent.

**Table 1 : Interest Rates**

Auction date	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*	2.357		2.409	2.455	2.519	2.555	2.595
182 day T. Bills*		2.675			2.728		2.749
364 day T. Bills*				3.693		3.722	
Month	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	
Average savings rate	1.55	1.50	1.47	1.46	1.40	1.45	
Average overdraft rate	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**

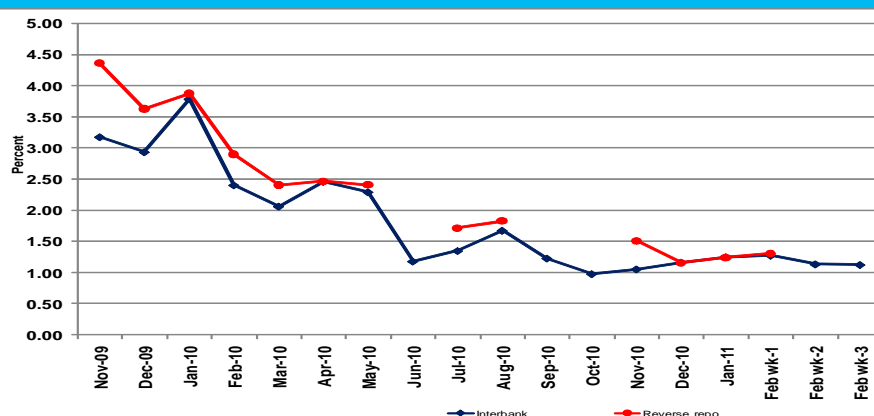
The average interbank rate declined by 1 basis point to settle at 1.12 percent in the week ending February 16, 2011, from 1.13 percent in the previous week. The average volume traded rose to Ksh 12.62 billion in the week ending February 16, 2011 from Ksh 9.92 billion in the previous week. The build up in Government deposits at the Central bank from Ksh 38.1 billion in the week ending February 09, to Ksh 51.6 billion in the week ending February 16, 2011 had no adverse effects on inter bank liquidity.

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

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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>
10-Feb-11	75	12,088	1.11
11-Feb-11	68	11,705	1.10
14-Feb-11	84	13,234	1.12
15-Feb-11	81	13,546	1.12
16-Feb-11	73	13,227	1.13
<b>Feb 10- Feb 16, 2011</b>	<b>74</b>	<b>12,641</b>	<b>1.12</b>

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

### Monetary Policy Operations

On account of the adequate liquidity in the money market during week ending February 16, 2011, Central Bank activity was minimal (Table 3). There were no reverse repo activity while commercial banks borrowed Ksh 85 million from the Central Bank overnight window. Reserve money averaged Ksh 210.6 billion during the week, and was above target by Ksh 11.6 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)
10-Feb	210.7	198.9	11.9	0.0	0.0	0.0	211.9	13.0	4.6	8.4
11-Feb	211.0	198.9	12.2	0.0	0.0	0.0	211.9	13.0	5.3	7.7
14-Feb	211.7	199.0	12.6	0.0	0.0	0.0	210.7	11.7	3.7	8.0
15-Feb	210.5	199.0	11.4	0.0	0.0	0.0	208.6	9.5	2.3	7.2
16-Feb	208.9	199.0	9.8	0.0	0.0	0.0	209.9	10.9	4.3	6.5
Average	210.6	199.0	11.6	0.0	0.0	0.0	210.6	11.6	4.1	7.6

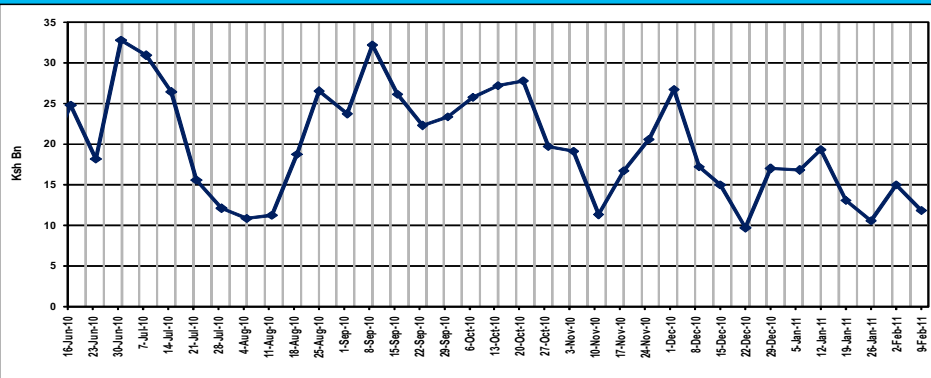
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

### Commercial Banks Clearing Accounts Balances

Commercial banks maintained an average of Ksh 9.7 billion in their clearing accounts at the Central Bank in the week to February 16, 2011, compared with Ksh 11.9 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 week ending February 17, 2011 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 81.40 in the week compared with Ksh 81.20 per US dollar in the previous week. During the week, the shilling depreciated against the Sterling Pound to exchange on average at Ksh 131.00 per Sterling Pound compared with Ksh 130.83 per Sterling Pound in the previous week. The shilling appreciated against the Euro and the Japanese Yen to exchange on average at Ksh 110.19 per Euro and Ksh 97.47 per 100 Japanese Yen compared with Ksh 110.78 per Euro and Ksh 98.57 per 100 Japanese Yen in the previous week.

### EAC Exchange Rates

In the EAC region, the Kenya Shilling strengthened against the Uganda Shilling, to exchange rate at Ush 29.13 per Kenya Shilling in the week ending February 17, 2011, compared with Ush 28.73 per Kenya Shilling in the previous week. The Kenya Shilling weakened against Tanzania Shilling and Burundi Franc to exchange at Tsh 18.47 per Kenya Shilling and BIF 15.13 per Kenya Shilling in the week ending February 17, 2011, compared with Tsh 18.55 per Kenya Shilling and BIF 15.16 per Kenya Shilling in the previous week. The Rwandan Franc was stable at RWF 7.38 per Kenya Shilling.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
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
<b>February 07-10, 2011</b>	<b>81.20</b>	<b>130.83</b>	<b>110.78</b>	<b>98.57</b>	<b>28.73</b>	<b>18.55</b>	<b>7.38</b>	<b>15.16</b>
14-Feb-11	81.44	130.78	110.34	97.89	29.09	18.45	7.36	15.15
15-Feb-11	81.39	130.64	109.88	97.45	29.05	18.47	7.37	15.11
16-Feb-11	81.36	131.45	110.05	97.17	29.18	18.47	7.41	15.13
17-Feb-11	81.39	131.12	110.49	97.38	29.20	18.49	7.37	15.12
<b>40589.50</b>	<b>81.40</b>	<b>131.00</b>	<b>110.19</b>	<b>97.47</b>	<b>29.13</b>	<b>18.47</b>	<b>7.38</b>	<b>15.13</b>

Source: Central Bank of Kenya

**Foreign  
Exchange  
Reserves**

The usable official foreign exchange reserves held by the Central Bank decreased from US dollar 3,521 million (equivalent to 3.49 months of imports) as at February 10, 2011 to US dollar 3,495 million (equivalent to 3.46 months of imports) as at February 17, 2011 (Table 5).

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

	26-Nov-10	31-Dec-10	6-Jan-11	27-Jan-11	3-Feb-11	10-Feb-11	17-Feb-11
Usable Reserves*	3,471	3,466	3,466	3,503	3,508	3,521	3,495
Months of Imports Cover**	3.52	3.48	3.48	3.51	3.47	3.49	3.46

\*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 63.1 billion, from Ksh 660.3 billion in June 2010 to Ksh 723.3 billion as at February 11, 2011 (Table 6 and Chart C). This increase was attributed to increases in Treasury bonds, overdraft at the CBK and other domestic debt amounting to Ksh 93.9 billion, which offset a net redemption of Ksh 30.8 billion in Treasury bills and long term stocks.

Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 538.6 billion as at February 11, 2011 while Treasury bills declined from Ksh 159.0 billion in June 2010 to Ksh 129.1 billion during the same period.

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

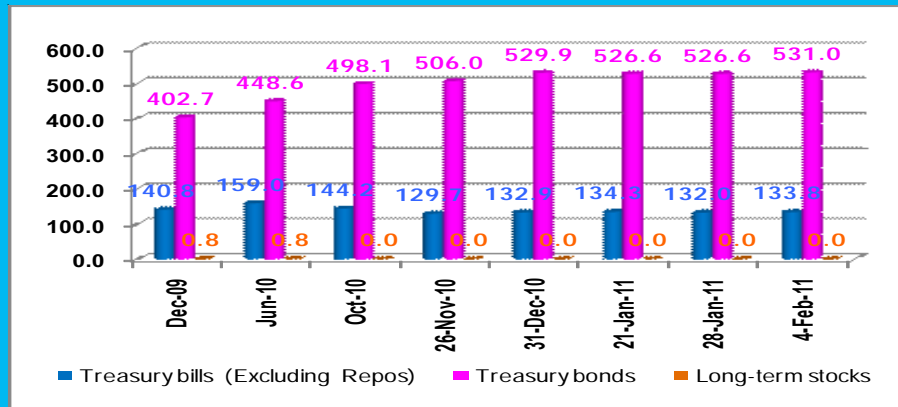
	Jun-10	31st Dec-2010	4th Feb-2011	11th Feb-2011	Changes	
					4th Feb-11- 11th Feb-11	30th Jun-10 - 11th Feb-11
1. Treasury Bills (Excluding Repos)	159.0	132.9	133.8	129.1	-4.8	-30.0
(As % of total securities)	26.1	20.1	20.1	19.3		
2. Treasury Bonds	448.6	529.9	531.0	538.6	7.5	90.0
(As % of total securities)	73.7	79.9	79.9	80.7		
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	664.9	667.6	2.8	59.2
5. Overdraft at Central Bank	17.6	22.7	14.4	21.2	6.7	3.5
6. Other Domestic debt*	34.2	34.8	43.7	34.6	-9.2	0.4
7. Gross Domestic Debt (4+5+6)	660.3	720.2	723.0	723.3	0.3	63.1
8. Interest payments on domestic debt	57.8	34.2	37.1	37.7	0.6	

\* 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 80.7 percent as at February 11, 2011 while that of Treasury bills declined from 26.1 percent to 19.3 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 11, 2011.

Chart C: Composition of Government Securities

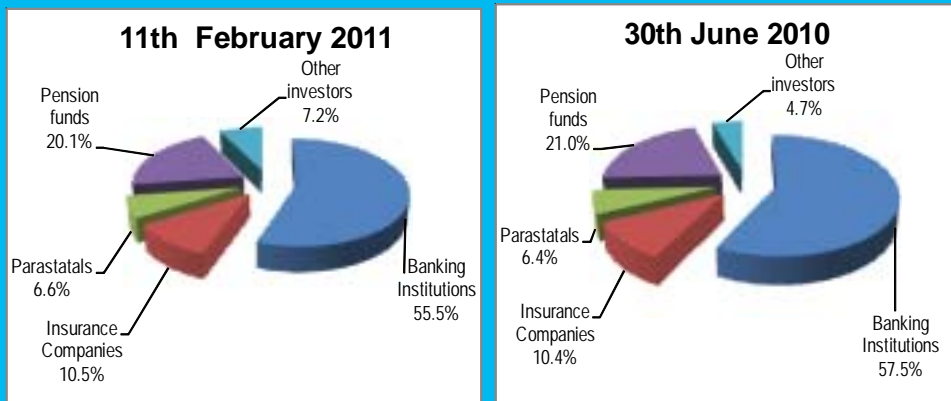


Source: Central Bank of Kenya

**Holding of Govt Securities**

The share of Government securities held by parastatals and other investors rose from 6.4 percent and 4.6 percent, respectively in June 2010 to 6.6 percent and 7.2 percent, respectively as at February 11, 2011. While commercial banks and pension funds dominated the Government securities market, their respective shares declined from 57.6 percent and 21.0 percent, to 55.5 percent and 20.1 percent, respectively during the same period (Chart D).

Chart D: Composition of Government Securities by Investors

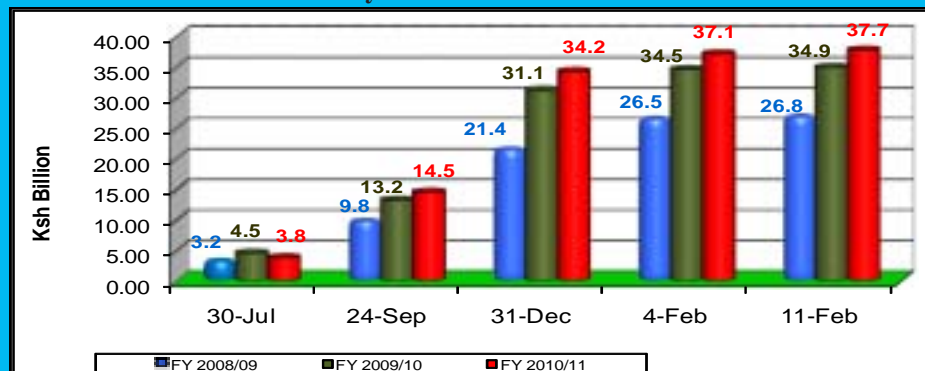


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

The cumulative interest and other charges on domestic debt as at February 11, 2011 amounted to Ksh 37.7 billion compared with Ksh 34.9 billion in a similar period of the fiscal year 2009/10 (Chart E). In terms of type of security, the cumulative interest and other charges comprised: Ksh 29.4 billion on Treasury bonds, Ksh 7.8 billion on Treasury bills and 0.5 billion on Government overdraft.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

### The Stock Market

Performance at the equities market decreased during the week ending February 17, 2011. Turnover fell by 27.6 percent as stocks worth Ksh 1,236.4 million were traded compared with Ksh 1,706.7 million traded in the previous week. Marginal changes were recorded for the number of shares traded and market capitalization. The NSE 20 Share Index declined by 42 points to settle at 4,284.9 points on February 17, 2011 from 4,326.6 points on February 10, 2011. The Nairobi All Share Index rose from 97.6 points from previous week to 97.8 points (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	17-Feb-11
NASI 100= Jan 2008	96.49	97.27	102.69	101.91	100.69	101.11	97.75	97.63	97.77
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	4,284.90
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	9,730.00
Total Shares Traded (millions)	75.86	32.45	118.95	288.79	160.24	127.47	84.61	72.64	72.25
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	1,236.49
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	1,190.38
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	17,247.40

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

Source: Nairobi Stock Exchange

Commercial and Services sector traded 34.3 million shares or 47.5 percent of the traded volume. Of this, Safaricom accounted for 23.9 million shares. The Industrial and Allied sector was the second most active with 20.3 million shares trading as Finance and Investment sector was third, trading 17.2 million shares. The latter two counters accounted for 28.1 percent and 23.8 percent of total volume transacted respectively.

The Co-operative Bank and Equity Bank were the most active stocks in the Finance and Investment sector, trading 6.7million and 3.4 million shares respectively. Kenol Kobil Ltd and Mumias Sugar Company were most active counters in the Industrial and Allied sector, with 7.9 million and 5.9 million shares traded respectively. The biggest closing price gain between February 10<sup>th</sup> and 17<sup>th</sup>, 2011, was on Pan African Insurance Holdings shares at Ksh 5.5 per share while the biggest closing price loss was on Kenya Airways shares at Ksh 2.25 per share. The Alternative market segment traded 40,800 shares up from 14,300 in the previous period.

**Bond Market** Bond turnover at the Fixed Income Securities Market increased by 61.3 percent, from Ksh 10.6 billion traded in the previous week to Ksh 17.2 billion in the week under review. Similarly, the number of deals transacted rose from 220 to 317 during the period under review.