

**February 25, 2011**



**THE CBK WEEKLY BULLETIN**

**Highlights for  
the Week**

A 30-year Savings and Development bond was on offer for the first time during this week's auction along with a two year bond and Treasury bills, all totalling Ksh 22.5 billion. Bids totalling Ksh 39.9 billion were received, a 177.1 percent overall performance. The Government accepted bids amounting to Ksh 27.2 billion. Consequently, the average rates for the securities auctioned this week edged up across all maturities except for the 30-year Savings and Development bond which was issued for the first time.

The average interbank rate declined marginally by 1 basis point to 1.11 percent in the week ending February 23, 2011, from 1.12 percent in the previous week.

The money market was liquid in the week ending February 23, 2011 and the Central Bank stayed out the market. There were no reverse repo maturities during the week.

The Kenya Shilling depreciated against major international currencies in the week ending February 24, 2011. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 81.86 in the week compared with Ksh 81.40 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 increased from US dollar 3,495 million (equivalent to 3.46 months of imports) as at February 17, 2011 to US dollar 3,610million (equivalent to 3.57 months of imports) as at February 24, 2011.

Government gross domestic debt increased by Ksh 62.3 billion from Ksh 660.3 billion in June 2010 to Ksh 722.6 billion as at February 18, 2011. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 38.4 billion.

Overall, performance indicators at the equities market was mixed during the week ending February 24, 2011. The NSE 20 Share index lost 20 points to settle at 4264.7 from 4284.9 points on February 17, 2011. The equity turnover increased by 45.2 percent, while the bond market activity decreased by 26.8 percent.

**Government Securities Auction**

The Government securities market in the week ending February 24, 2010 saw a 30-year Savings and Development bond offered for the first time, along with a 2-year bond and Treasury bills. On the Treasury bills counter, the Government offered for sale Ksh 2.0 billion and Ksh 2.5 billion in 91-day and 182-day Treasury bills, respectively. Bids amounting to Ksh 3.5 billion (173.0 percent performance) and Ksh 2.8 billion (111.0 percent performance) for the two tenures respectively, were received. On the Treasury bonds counter, the Government offered for sale a 2-year Treasury bond and 30-year Savings and Development bond amounting to a total of Ksh 18.0 billion. The market provided a total of Ksh 33.7 billion (a 187.0 percent performance) of which Ksh 18.3 billion (or 54.5 percent) came from the 30-year Savings and Development bond.

From all these auctions, the Government accepted a total of Ksh 27.2 billion, which was Ksh 4.7 billion above target for the week. The proceeds of the auction were to be used to redeem maturing Government securities amounting to Ksh. 3.4 billion and provide additional borrowing of Ksh 23.8 billion to the Government.

**Treasury Bills Interest Rates**

The 91-day and 182-day Treasury bill interest rates edged up 1.1 basis points and 1.5 basis points, respectively, to settle at 2.603 percent and 2.764 percent, respectively.

**Treasury Bonds Interest Rates**

The 2-Treasury bond's average yield rate rose 69.8 basis points to reach 5.284 percent. The debut 30-year savings and development bond posted 12.959 percent average yield to maturity.

**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 | 17-Feb-11 | 24-Feb-11 |
|------------------------|----------|----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|
| 91 day T. Bills*       | 2.239    |          | 2.313     |           | 2.357     |          | 2.409     | 2.455     | 2.519     | 2.555    | 2.595     | 2.592     | 2.603     |
| 182 day T. Bills*      |          | 2.548    |           | 2.631     |           | 2.675    |           |           | 2.728     |          | 2.749     |           | 2.764     |
| 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   | Jan-11    |           |           |
| Average savings rate   | 1.81     | 1.81     | 1.76      | 1.75      | 1.55      | 1.50     | 1.47      | 1.46      | 1.40      | 1.45     | 1.25      |           |           |
| Average overdraft rate | 14.06    | 14.50    | 14.38     | 14.23     | 14.03     | 13.97    | 13.81     | 13.64     | 13.77     | 13.69    | 13.93     |           |           |

\*Weighted rates for accepted bids

Source: Central Bank of Kenya

**Interbank and REPO Rates**

The average interbank rate declined marginally by 1 basis point to 1.11 percent in the week ending February 23, 2011, from 1.12 percent in the previous week. The average volumes traded declined to Ksh 9.483 billion during the period under review from Ksh 12.641 billion the previous week. The Government deposits at the Central Bank declined marginally from Ksh 51.6 billion in the week ending February 16, to Ksh 50.3 billion in the week ending February 23, 2011.

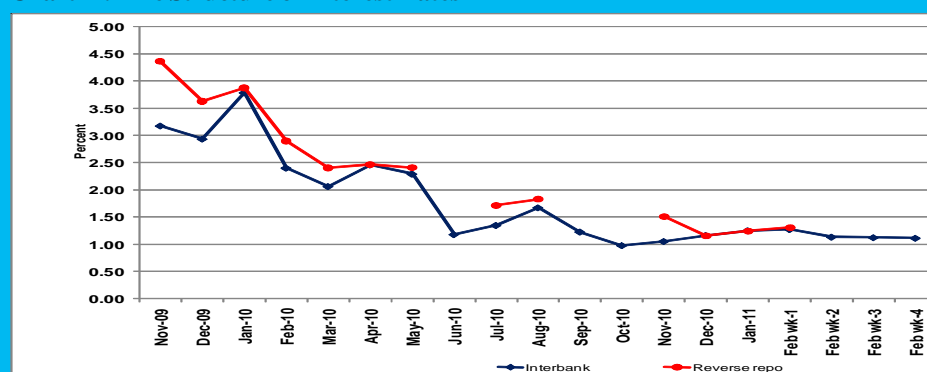
Table 2: Interbank Deals, Volumes and Interest Rates

| Date                        | Number of deals | Value (Ksh M) | Average Interest Rate (%) |
|-----------------------------|-----------------|---------------|---------------------------|
| 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>               |
| 17-Feb-11                   | 74              | 10,901        | 1.12                      |
| 18-Feb-11                   | 77              | 12,638        | 1.10                      |
| 21-Feb-11                   | 38              | 6,523         | 1.12                      |
| 22-Feb-11                   | 59              | 9,095         | 1.10                      |
| 23-Feb-11                   | 48              | 5,298         | 1.13                      |
| <b>Feb 17- Feb 23, 2011</b> | <b>65</b>       | <b>9,483</b>  | <b>1.11</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 23, 2011 and the Central Bank stayed out of the market (Table 3). There were no reverse repo maturities during the week. Commercial banks borrowed Ksh 10 million from the Central Bank overnight window. Reserve money averaged Ksh 215.2 billion during the week, a Ksh 16.1 billion above the target.

Table 3: Open Market Operations

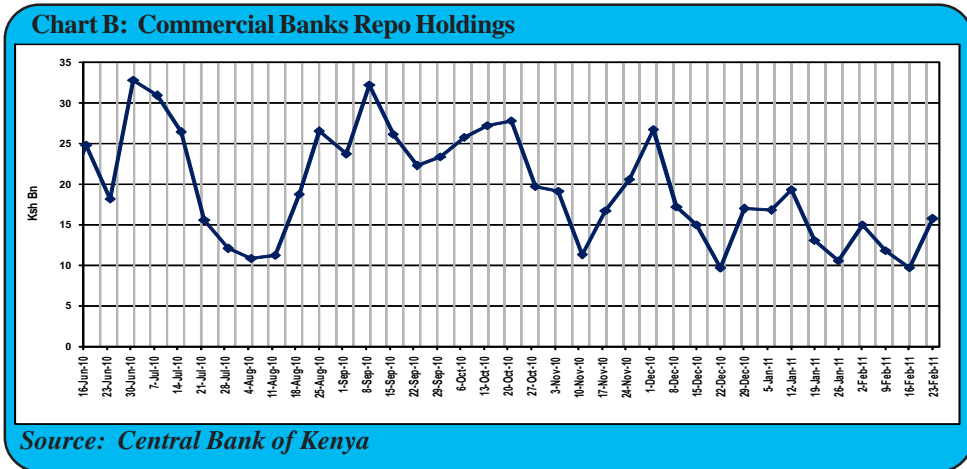
| Date    | Reserve Money* (Projected) |        |                  | OMO (Reverse REPO) |          |                  | Reserve money performance |                  | Bank Reserves    | Currency Outside Banks |
|---------|----------------------------|--------|------------------|--------------------|----------|------------------|---------------------------|------------------|------------------|------------------------|
|         | 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)                   |
| 17-Feb  | 208.9                      | 199.0  | 9.8              | 0.0                | 0.0      | 0.0              | 211.4                     | 12.3             | 6.2              | 6.1                    |
| 18-Feb  | 208.3                      | 199.0  | 9.2              | 0.0                | 0.0      | 0.0              | 207.0                     | 8.0              | 2.1              | 5.8                    |
| 21-Feb  | 218.4                      | 199.2  | 19.2             | 0.0                | 0.0      | 0.0              | 217.9                     | 18.7             | 12.7             | 6.0                    |
| 22-Feb  | 219.3                      | 199.2  | 20.1             | 0.0                | 0.0      | 0.0              | 219.7                     | 20.6             | 15.0             | 5.6                    |
| 23-Feb  | 219.2                      | 199.2  | 20.0             | 0.0                | 0.0      | 0.0              | 220.2                     | 21.0             | 15.5             | 5.6                    |
| Average | 214.8                      | 199.1  | 15.7             | 0.0                | 0.0      | 0.0              | 215.2                     | 16.1             | 10.3             | 5.8                    |

\*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 15.7 billion in their clearing accounts at the Central Bank in the week to February 23, 2011, compared with Ksh 9.7 billion held the previous week (Chart B).



**The Shilling Exchange Rate**

The Kenya Shilling depreciated against the major international currencies during the week ending February 24, 2011 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 81.86 in the week compared with Ksh 81.40 per US dollar in the previous week. Similarly, the shilling depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 132.66 per Sterling Pound, Ksh 111.97 per Euro and Ksh 98.87 per 100 Japanese Yen compared with Ksh 131.00 per Sterling Pound, Ksh 110.19 per Euro and Ksh 97.47 per 100 Japanese Yen in the previous week.

**EAC Exchange Rates**

In the EAC region, the Kenya Shilling strengthened against the Tanzania shilling to exchange at Tsh 18.50 per Kenya Shilling in the week ending February 24, 2011, compared with Tsh 18.47 per Kenya Shilling in the previous week. The Kenya Shilling weakened against Uganda shilling, Rwandan Franc and Burundi Franc to exchange at Ush 28.81 per Kenya Shilling, RWF 7.32 per Kenya Shilling and BIF 15.03 per Kenya Shilling in the week ending February 24, 2011, compared with Ush 29.13 per Kenya Shilling, RWF 7.38 per Kenya Shilling and BIF 15.13 per Kenya Shilling in the previous week.

**Table 4: Kenya Shilling Exchange Rates**

|                             | US dollar    | Sterling Pound | Euro          | Japanese Yen | USHS         | TSHS         | RWF         | BIF          |
|-----------------------------|--------------|----------------|---------------|--------------|--------------|--------------|-------------|--------------|
| 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>February 14-17, 2011</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> |
| 21-Feb-11                   | 81.79        | 132.89         | 111.92        | 98.41        | 29.04        | 18.52        | 7.33        | 15.04        |
| 22-Feb-11                   | 81.86        | 132.31         | 111.08        | 98.29        | 29.01        | 18.50        | 7.32        | 15.03        |
| 23-Feb-11                   | 81.88        | 132.57         | 112.18        | 99.06        | 28.58        | 18.51        | 7.32        | 15.03        |
| 24-Feb-11                   | 81.89        | 132.88         | 112.70        | 99.73        | 28.60        | 18.47        | 7.32        | 15.03        |
| <b>February 21-24, 2011</b> | <b>81.86</b> | <b>132.66</b>  | <b>111.97</b> | <b>98.87</b> | <b>28.81</b> | <b>18.50</b> | <b>7.32</b> | <b>15.03</b> |

Source: Central Bank of Kenya

## Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,495 million (equivalent to 3.46 months of imports) as at February 17, 2011 to US dollar 3,610 million (equivalent to 3.57 months of imports) as at February 24, 2011 after the country received US dollar 101.2 million from the IMF under the Extended Credit Facility (ECF) arrangement (Table 5).

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

|                           | 26-Nov-10 | 31-Dec-10 | 6-Jan-11 | 3-Feb-11 | 10-Feb-11 | 17-Feb-11 | 24-Feb-11 |
|---------------------------|-----------|-----------|----------|----------|-----------|-----------|-----------|
| Usable Reserves*          | 3,471     | 3,466     | 3,466    | 3,508    | 3,521     | 3,495     | 3,610     |
| Months of Imports Cover** | 3.52      | 3.48      | 3.48     | 3.47     | 3.49      | 3.46      | 3.57      |

\*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 62.3 billion from Ksh 660.3 billion in June 2010 to Ksh 722.6 billion as at February 18, 2011 (Table 6 and Chart C). This increase was on account of increases in Treasury bonds and overdraft at the Central Bank amounting to Ksh 93.8 billion. This was, however, partially offset by decreases of Ksh 31.6 billion in Treasury bills, other domestic debt and long term stocks.

Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 538.6 billion as at February 18, 2011, while Treasury bills declined from Ksh 159.0 billion in June 2010 to Ksh 128.9 billion during the same period.

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

|   | Jun-10        | 31st Dec-2010 | 11th Feb-2011 | 18th Feb-2011 | Changes                 |                         |
|---|---------------|---------------|---------------|---------------|-------------------------|-------------------------|
|   |               |               |               |               | 11th Feb-11-18th Feb-11 | 30th Jun-10-18th Feb-11 |
| 1. Treasury Bills (Excluding Repos)<br>(As % of total securities) | 159.0<br>26.1 | 132.9<br>20.1 | 129.1<br>19.3 | 128.9<br>19.3 | -0.1                    | -30.1                   |
| 2. Treasury Bonds<br>(As % of total securities)                   | 448.6<br>73.7 | 529.9<br>79.9 | 538.6<br>80.7 | 538.6<br>80.7 | 0.0                     | 90.0                    |
| 3. Long Term Stocks<br>(As % of total securities)                 | 0.8<br>0.1    | 0.0<br>0.0    | 0.0<br>0.0    | 0.0<br>0.0    | 0.0                     | -0.8                    |
| 4. Total Securities (1+2+3)                                       | 608.4         | 662.8         | 667.6         | 667.5         | -0.1                    | 59.1                    |
| 5. Overdraft at Central Bank                                      | 17.6          | 22.7          | 21.2          | 21.5          | 0.3                     | 3.8                     |
| 6. Other Domestic debt*   | 34.2          | 34.8          | 34.6          | 33.6          | -0.9                    | -0.6                    |
| 7. Gross Domestic Debt (4+5+6)                                    | 660.3         | 720.2         | 723.3         | 722.6         | -0.7                    | 62.3                    |
| 8. Interest payments on domestic debt                             | 57.8          | 34.2          | 37.7          | 38.4          | 0.7                     |                         |

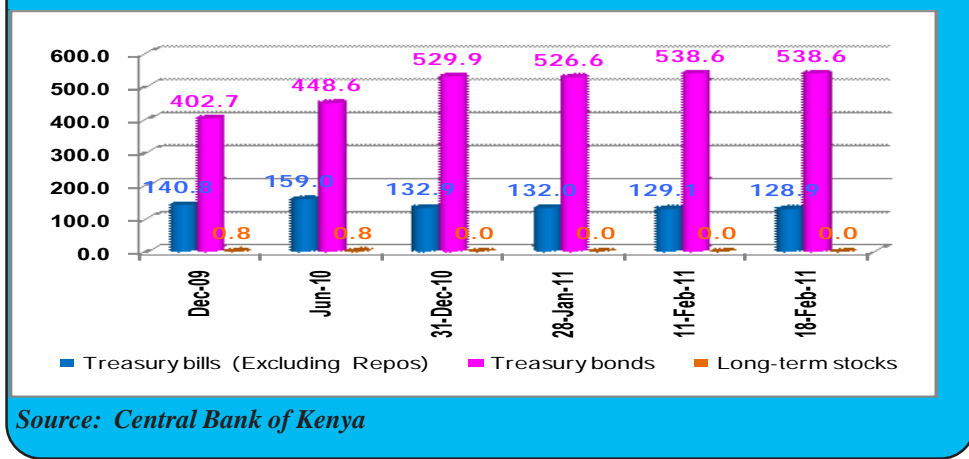
\* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCS.

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 to 80.7 percent as at February 18, 2011, while that of Treasury bills declined from 26.1 percent to 19.3 percent. The average time to maturity of Government securities, therefore, increased from 4 years 3 months in June 2010 to 5 years 1 month during the current period.

Chart C: Composition of Government Securities

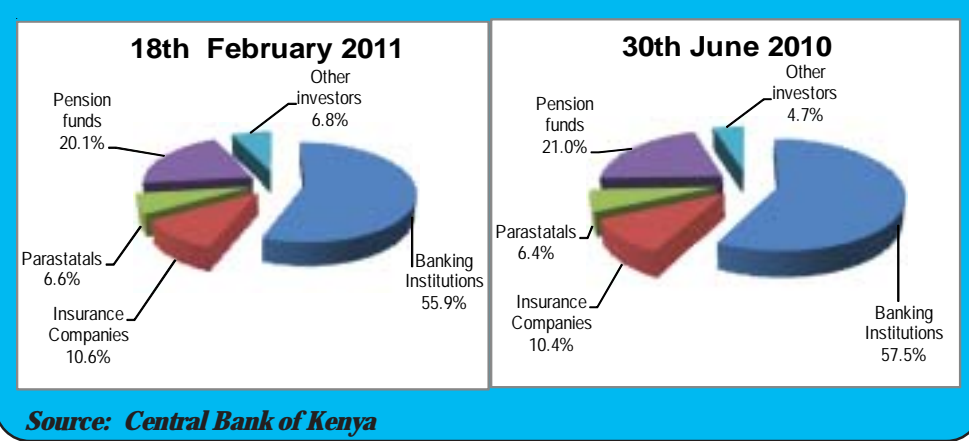


Source: Central Bank of Kenya

**Holding of Govt Securities**

The holdings of Government securities by parastatals, insurance companies and other investors increased from 6.4 percent, 10.4 percent and 4.7 percent, respectively in June 2010 to 6.6 percent, 10.6 percent and 6.8 percent, respectively as at February 18, 2011. However, holdings by commercial banks and pension funds declined from 57.5 percent and 21.0 percent, respectively to stand at 55.9 percent and 20.1 percent, respectively during the same period (Chart D).

Chart D: Composition of Government Securities by Investors

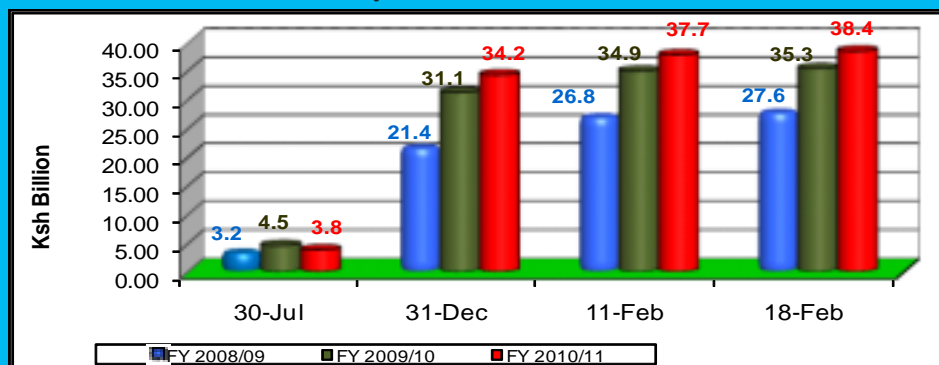


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

The cumulative interest and other charges on domestic debt as at February 18, 2011 amounted to Ksh 38.4 billion compared with Ksh 35.3 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 7.7 billion and 30.2 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

Performance at the equities market was mixed during the week ending February 24, 2011. Turnover rose by 45.2 percent as stocks worth Ksh 1,796.0 million were traded compared to Ksh 1,236.4 million traded in the previous week. The number of shares traded increased from 72.3 million to 95.5 million shares during the period under review. Market capitalization as a measure of total shareholders' wealth decreased to 1,188 from last week's level of 1,190. The NSE 20 Share index lost 20 points to settle at 4,264.6 points on February 24, 2011 from 4,284.9 points on February 17, 2011. The Nairobi All Share Index fell to 97.5 from 97.8 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

| Week Ending                      | 6-Jan-11 | 13-Jan-11 | 20-Jan-11 | 27-Jan-11 | 3-Feb-11 | 10-Feb-11 | 17-Feb-11 | 24-Feb-11 |
|----------------------------------|----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|
| NASI 100= Jan 2008               | 102.69   | 101.91    | 100.69    | 101.11    | 97.75    | 97.63     | 97.77     | 97.52     |
| NSE 20 Share Index 100=1966      | 4,594.45 | 4,563.65  | 4,537.30  | 4,526.78  | 4,386.69 | 4,326.57  | 4,284.90  | 4,264.66  |
| Number of Deals                  | 8,679.00 | 11,670.00 | 10,528.00 | 11,445.00 | 9,775.00 | 9,408.00  | 9,730.00  | 10,357.00 |
| Total Shares Traded (millions)   | 118.95   | 288.79    | 160.24    | 127.47    | 84.61    | 72.64     | 72.25     | 95.57     |
| Equity Turnover (Ksh. millions)  | 1,673.55 | 3,225.56  | 2,051.46  | 1,898.46  | 1,397.63 | 1,706.72  | 1,236.49  | 1,795.99  |
| Market Capitalization (Ksh. Bn.) | 1,225.08 | 1,215.72  | 1,199.27  | 1,217.53  | 1,177.00 | 1,189.87  | 1,190.38  | 1,187.55  |
| Bonds Turnover (Ksh. millions)   | 3,617.55 | 6,157.55  | 5,463.65  | 2,788.50  | 7,645.80 | 10,690.85 | 17,247.40 | 12,617.15 |

\* 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 48.8 million shares or 51.1 percent of the traded volume. Of this, the Safaricom counter saw 43.4 million shares change hands during the week. The Finance and Investment sector was the second most active sector, with 26.3 million shares trading, as the Industrial and Allied sector followed closely with 19.7 million shares. These accounted for 27.6 percent and 20.7 percent of total volume transacted respectively.

Kenya Commercial Bank and Equity Bank were the most active stocks in the Finance and Investment sector, trading 6.7 million and 5.8 million shares respectively. Kenol Kobil Ltd and Mumias Sugar Company were most active counters in the Industrial and Allied sector, with 3.9 million and 8.2 million shares traded, respectively. The biggest closing price gain between February 17th and 24th, 2011, was on British American Tobacco shares at Ksh 10 per share, while the biggest closing price loss was on East African Portland Cement and East African Breweries Ltd both at Ksh 9.0 per share. The Alternative market segment traded 39,000 shares down from 40,800 in the previous period.

**Bond Market**

In the Fixed Income Securities Market, bond turnover decreased by 26.8 percent from Ksh 17.2 billion traded in the previous week to Ksh 12.6 billion in the week under review. Similarly, the number of deals transacted fell from 317 to 206 during the period under review.