

January 7, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

Overall 12-month inflation rose for the second consecutive month in December 2010 by 667 basis points to 4.5 percent from 3.8 percent in November 2010. The average annual inflation, on the other hand, declined from 4.02 percent in November 2010 to 3.96 percent in December 2010.

The Government securities market posted good performance during the first auction of the 182-day Treasury bill in the year 2011, registering 118.6 percent at a weighted interest rate of 2.675 percent.

The money market was tight in the week ending January 5, 2011 and the Central Bank injected Ksh 12.9 billion into the market. Reverse repo securities of Ksh 13.9 billion matured during the week.

The Kenya Shilling depreciated against the major international currencies during the week ending January 06, 2011. Against the US dollar, the shilling depreciated marginally to exchange at an average of Ksh 80.97 in the week compared with Ksh 80.64 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank remained stable at US dollar 3.466billion (equivalent to 3.48 months of imports) as at January 06, 2011.

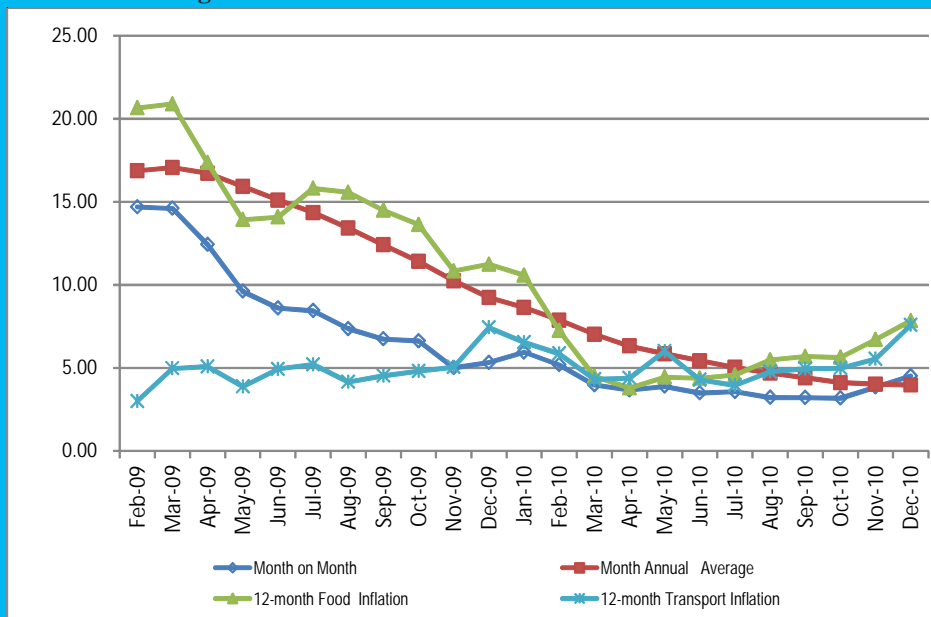
Gross Government debt increased by Ksh 60.0 billion or 9.1 percent from Ksh 660.3 billion in June 2010 to Ksh 720.2 billion as at December 31, 2010. The cumulative Government expenditure on interest and other charges on domestic debt as at December 31, 2010 amounted to Ksh 34.2 billion.

Performance at the equities market increased during the week ending January 06, 2011, with the NSE 20 Share index gaining 197.9 points to 4,594.4 from 4,396.5 on December 30, 2010 while equity turnover increased by 205.9 percent.

Inflation

Overall 12-month inflation increased from 3.8 percent in November 2010 to 4.5 percent in December 2010, but remained below the 5.3 percent inflation recorded in December 2009. The pick up in overall inflation is attributed to pressure from food and fuel prices. Food inflation increased from 6.7 percent to 7.8 percent, while transport inflation rose from 5.5 percent to 7.6 percent. The rise in food prices partly reflect the onset of the dry weather and the demand created by the holiday season which caused prices of items such as beef, milk and cooking fat to rise. The rise in the cost of transportation reflected in higher fuel and gas prices.

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



Source: Central Bank of Kenya

Government Securities Auction

The Government securities market posted good performance during the first auctions of the 182-day Treasury bill in the year 2011, registering 118.6 percent subscription. The Government had offered for sale Treasury bills worth Ksh 4.5 billion during the week and received bids totalling Ksh 11.6 billion. A total of Ksh 5.3 billion bids were accepted. Of the total bids accepted, 95 percent were competitive bids.

Table 1: Interest Rates

| Auction date | 4-Nov-10 | 11-Nov-10 | 18-Nov-10 | 25-Nov-10 | 2-Dec-10 | 9-Dec-10 | 16-Dec-10 | 23-Dec-10 | 31-Dec-10 | 6-Jan-11 |
|------------------------|----------|-----------|-----------|-----------|----------|----------|-----------|-----------|-----------|----------|
| 91 day T. Bills* | 2.180 | | 2.242 | | 2.239 | | 2.313 | | 2.357 | |
| 182 day T. Bills* | | 2.256 | | 2.464 | | 2.548 | | 2.631 | | 2.675 |
| 364 day T. Bills* | | | | | | | | | | |
| Month | Jul-10 | Aug-10 | Sep-10 | Oct-10 | Nov-10 | | | | | |
| Average savings rate | 1.55 | 1.50 | 1.47 | 1.46 | 1.40 | | | | | |
| Average overdraft rate | 14.03 | 13.97 | 13.81 | 13.64 | 13.77 | | | | | |

*Weighted rates

Source: Central Bank of Kenya

Interest Rates on Treasury Bills

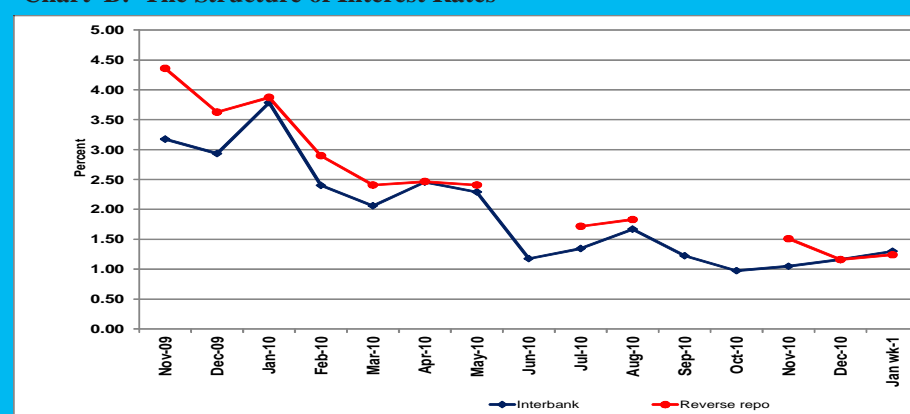
The 182-day Treasury bill weighted average interest rate edged up by 4.4 basis points from 2.631 percent in the previous auction to 2.675 percent during this week's auction (Table 1).

Table 2: Interbank Rates

| Date | Number of deals | Value (Ksh M) | Average Interest Rate (%) |
|------------------------------|-----------------|---------------|---------------------------|
| 23-Dec-10 | 61 | 10,833 | 1.26 |
| 24-Dec-10 | 51 | 10,780 | 1.24 |
| 27-Dec-10 | N/A | N/A | N/A |
| 28-Dec-10 | 63 | 11,668 | 1.30 |
| 29-Dec-10 | 53 | 7,414 | 1.33 |
| Dec 23 - Dec 29, 2010 | 57 | 10,174 | 1.28 |
| 30-Dec-10 | 41 | 3,633 | 1.32 |
| 31-Dec-10 | 36 | 5,432 | 1.29 |
| 3-Jan-11 | 50 | 6,908 | 1.30 |
| 4-Jan-11 | 71 | 11,313 | 1.31 |
| 5-Jan-11 | 57 | 8,725 | 1.28 |
| Dec 30 - Jan 06, 2011 | 51 | 7,276 | 1.30 |

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 January 5, 2011 and the Central Bank injected a total of Ksh 12.9 billion into the market during the week (Table 3). Reverse repo maturities amounted to Ksh 13.9 billion during the week.

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(-) |
| | (1) | (2) | 3=(1-2) | (4) | (5) | 6=(5-4) | (7) | 8=(7-2) | (9) |
| 30-Dec | 219.8 | 202.6 | 17.2 | 0.0 | 0.0 | 0.0 | 219.2 | 16.7 | 5.9 |
| 31-Dec | 219.7 | 202.6 | 17.1 | 0.0 | 0.0 | 0.0 | 221.1 | 18.5 | 9.1 |
| 3-Jan | 219.9 | 201.6 | 18.4 | 0.0 | 0.0 | 0.0 | 219.7 | 18.1 | 8.2 |
| 4-Jan | 204.9 | 201.6 | 3.3 | 8.0 | 9.9 | -1.9 | 213.3 | 11.7 | 1.0 |
| 5-Jan | 212.8 | 201.6 | 11.2 | 4.0 | 3.1 | 0.9 | 226.3 | 24.7 | 14.1 |
| Average | 215.4 | 202.0 | 13.5 | 2.4 | 2.6 | -0.2 | 219.9 | 18.0 | 7.7 |

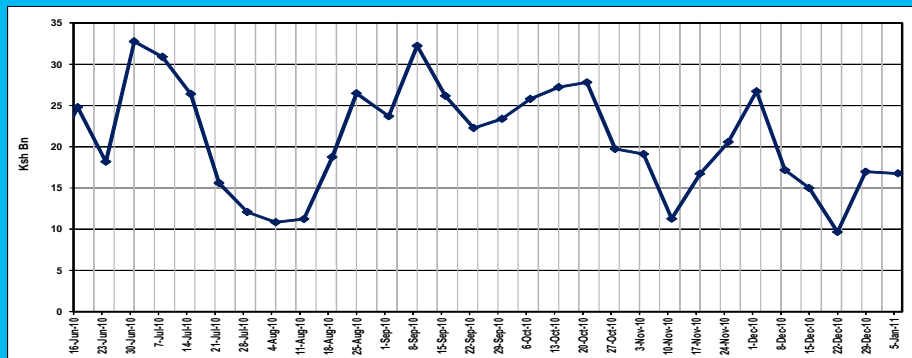
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 16.8 billion in their clearing accounts at the Central Bank in the week to January 5, 2011, compared with Ksh 16.9 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 depreciated against the major international currencies during the week ending January 06, 2011 (Table 4). Against the US dollar, the shilling depreciated marginally to exchange at Ksh 80.97 in the week compared with Ksh 80.64 per US dollar in the previous week. The shilling also depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 125.64 per Sterling Pound, Ksh 107.36 per Euro and Ksh 98.53 per 100 Japanese Yen compared with Ksh 124.60 per Sterling Pound, Ksh 106.31 per Euro and Ksh 98.07 per 100 Japanese Yen over the same period.

On the regional scene, the Kenya Shilling remained stable against the Uganda Shilling and strengthened marginally against the Tanzania Shilling to exchange at Ush 28.69 per Kenya Shilling and Tsh 18.28 per Kenya Shilling in the week ending January 06, 2011, compared with Tsh 18.11 per Kenya Shilling in the previous week.

Table 4: Kenya Shilling Exchange Rates

| | US dollar | Sterling Pound | Euro | Japanese Yen | USHS | TSHS |
|-------------------------------|--------------|----------------|---------------|--------------|--------------|--------------|
| 27-Dec-10 | 80.66 | 124.47 | 105.94 | 97.40 | 28.58 | 18.09 |
| 28-Dec-10 | 80.61 | 124.73 | 106.67 | 97.80 | 28.69 | 18.06 |
| 29-Dec-10 | 80.63 | 124.09 | 105.83 | 98.03 | 28.76 | 18.21 |
| 30-Dec-10 | 80.67 | 125.10 | 106.81 | 99.04 | 28.73 | 18.09 |
| December 27 - 30, 2010 | 80.64 | 124.60 | 106.31 | 98.07 | 28.69 | 18.11 |
| 3-Jan-11 | 80.80 | 125.64 | 107.44 | 99.43 | 28.62 | 18.58 |
| 4-Jan-11 | 81.00 | 125.28 | 107.99 | 98.55 | 28.58 | 18.40 |
| 5-Jan-11 | 80.94 | 125.93 | 107.41 | 98.61 | 28.91 | 18.03 |
| 6-Jan-11 | 81.13 | 125.71 | 106.61 | 97.54 | 28.64 | 18.12 |
| December 27 - 30, 2010 | 80.97 | 125.64 | 107.36 | 98.53 | 28.69 | 18.28 |

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank remained stable at US dollar 3.466 billion (equivalent to 3.48 months of imports) as at January 06, 2011 (Table 5).

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

| | 12-Nov-10 | 26-Nov-10 | 17-Dec-10 | 24-Dec-10 | 31-Dec-10 | 6-Jan-11 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|----------|
| Usable Reserves* | 3,489 | 3,471 | 3,495 | 3,468 | 3,466 | 3,466 |
| Months of Imports Cover** | 3.54 | 3.52 | 3.51 | 3.48 | 3.48 | 3.48 |

*Excludes encumbered reserves

**Based on 36 month average of imports of goods and non-factor

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government debt increased by Ksh 60.0 billion or 9.1 percent from Ksh 660.3 billion in June 2010 to Ksh 720.2 billion as at December 31, 2010 (Table 6 and Chart D). This build up in government debt reflected largely Treasury bonds (Ksh 81.3 billion), overdraft at the Central Bank (Ksh 5.0 billion) and other domestic debt (Ksh 0.6 billion). Meanwhile, Treasury bills and long term securities declined by Kshs 26.2 billion and 0.8 billion, respectively.

The overdraft remained within the current limit of Kshs 22.9 billion. This facility is a cash management tool for smoothening volatility in government revenue flow in relation to government expenditure.

Table 6: Government Domestic Debt (Ksh Billion)

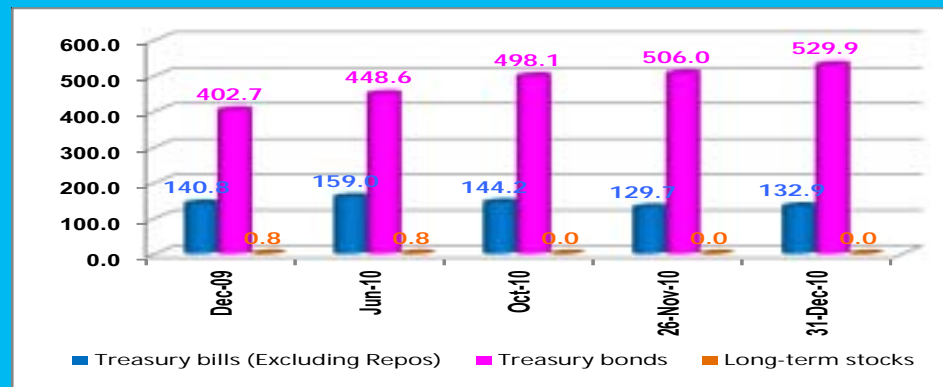
| | Jun-10 | Nov-2010 | 17th Dec-2010 | 24th Dec-2010 | 31st Dec-2010 | Changes | |
|---|---------------|---------------|---------------|---------------|---------------|-----------------------------|------------------------------|
| | | | | | | 17th Dec-10- 24th Dec-10 | 30th Jun-10 - 24th Dec-10 |
| 1. Treasury Bills (Excluding Repos) (As % of total securities) | 159.0 26.1 | 129.7 20.4 | 131.4 20.3 | 135.9 20.8 | 132.9 20.1 | -3.0 | -26.2 |
| 2. Treasury Bonds (As % of total securities) | 448.6 73.7 | 506.0 79.6 | 516.8 79.7 | 516.8 79.2 | 529.9 79.9 | 13.1 | 81.3 |
| 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 0.0 | 0.0 | -0.8 |
| 4. Total Securities (1+2+3) | 608.4 | 635.8 | 648.2 | 652.7 | 662.8 | 10.1 | 54.3 |
| 5. Overdraft at Central Bank | 17.6 | 22.9 | 17.9 | 18.3 | 22.7 | 4.4 | 5.0 |
| 6. Other Domestic debt* | 34.2 | 32.8 | 38.8 | 34.9 | 34.8 | 0.0 | 0.6 |
| 7. Gross Domestic Debt (4+5+6) | 660.3 | 691.6 | 704.9 | 705.9 | 720.2 | 14.4 | 60.0 |
| 8. Interest payments on domestic debt | 57.8 | 26.78 | 29.6 | 31.4 | 34.2 | 2.8 | |

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

Source: Central Bank of Kenya

Reflecting the trends in government borrowing by security, the share of Treasury bonds increased from 73.7 percent in June to 79.9 percent as at December 31, 2010, 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 December, 2010. This development is largely in line with the Government debt management strategy of lengthening the maturity profile of domestic debt.

Chart D: Composition of Government Securities

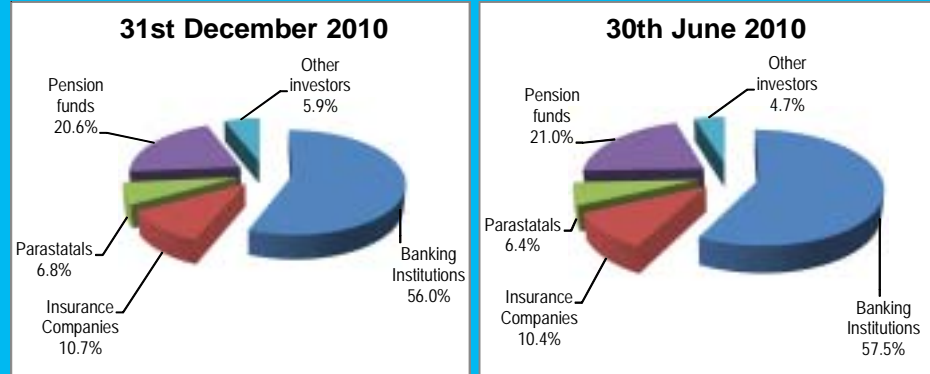


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by parastatals, insurance and other investors increased from 6.4 percent, 10.4 percent and 4.7 percent, respectively in June 2010 to 6.8 percent, 10.7 percent and 5.9 percent, respectively as at December 31, 2010. However, holdings of commercial banks and pension funds declined from 57.5 percent and 21.0 percent to 56.0 percent and 20.6 percent, respectively during this period (Chart E).

Chart E: Composition of Government Securities by Investor

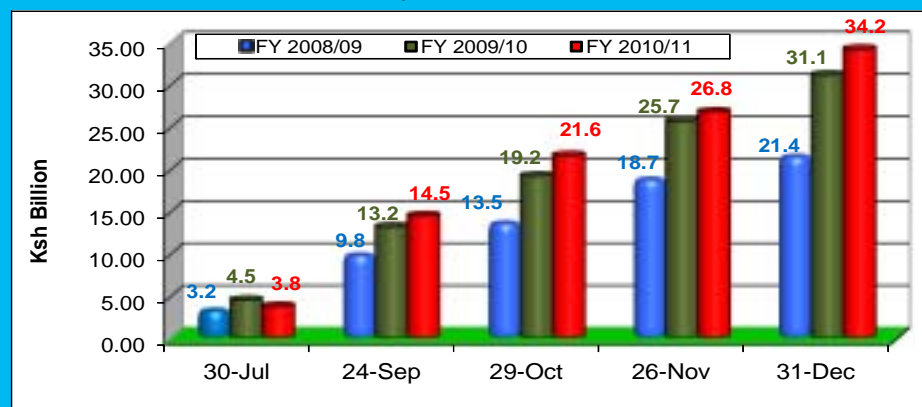


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt in the first half of the fiscal year 2010/11 amounted to Ksh 34.2 billion compared with Ksh 31.1 billion in a similar period of the fiscal year 2009/10 (Chart F). The interest cost on domestic debt during the period comprised of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 26.9 billion and 6.8 billion, respectively while interest on Government overdraft at the Central Bank 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 increased during the week ending January 06, 2011. Turnover increased by 205.9 percent as stocks worth Ksh 1,673 million were traded compared with Ksh 547.0 million traded in the previous week. The number of shares traded increased more than threefold from 32.4 million in the previous week to 118.9 million shares in the week under review. Market capitalization as a measure of total shareholders wealth increased by 5.6 percent or 65.1 billion to Ksh 1,225.1 billion from Ksh 1,160 billion in the previous week. The NSE 20 Share index gained 197.9 points to settle at 4,594.4 points on January 06, 2011 from 4,396.5 points on December 30, 2010. The Nairobi All Share Index gained 5.42 points to settle at 103 from 97.3 points the previous

week (Table 7). The improvement in the equities market is attributed to improved prices across various counters in the market.

Table 7: Key Weekly Market Statistics

| Week Ending | 11-Nov-10 | 18-Nov-10 | 25-Nov-10 | 3-Dec-10 | 9-Dec-10 | 16-Dec-10 | 23-Dec-10 | 30-Dec-10 | 6-Jan-11 |
|----------------------------------|-----------|-----------|-----------|----------|----------|-----------|-----------|-----------|----------|
| NASI 100= Jan 2008 | 101.36 | 100.52 | 99.6287 | 97.41 | 97.75 | 96.48 | 96.49 | 97.27 | 102.69 |
| NSE 20 Share Index 100=1966 | 4,587.49 | 4,555.28 | 4,528.26 | 4,388.43 | 4,371.89 | 4,368.31 | 4,337.06 | 4,396.49 | 4,594.45 |
| Number of Deals | 10,426 | 8,869 | 9,818 | 8,829 | 10,642 | 8,240 | 9,487.00 | 5,124.00 | 8,679.00 |
| Total Shares Traded (millions) | 146.38 | 97.66 | 109.58 | 93.48 | 129.19 | 239.15 | 75.86 | 32.45 | 118.95 |
| Equity Turnover (Ksh. millions) | 2,126.41 | 2,052.47 | 2,109.04 | 1,662.33 | 1,977.02 | 1,273.10 | 1,424.85 | 547.03 | 1,673.55 |
| Market Capitalization (Ksh. Bn.) | 1,209.09 | 1,199.17 | 1,188.50 | 1,162.00 | 1,166.12 | 1,151.01 | 1,151.17 | 1,160.41 | 1,225.08 |
| Bonds Turnover (Ksh. millions) | 7,929.35 | 8,010.60 | 9,622.65 | 7,173.50 | 4,696.60 | 5,900.90 | 5,511.95 | 3,591.90 | 3,617.55 |

* 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 76.8 million shares and accounted for 64.6 per cent of the traded volume with Safaricom trading 71.2 million shares in the sector. The Finance and Investment sector traded 29.6 million shares and accounted for 25 percent of total traded volume. Kenya Commercial Bank and Co-operative Bank were the most active stocks in the sector, trading 9.7 million and 7.6 million shares respectively. Industrial and Allied sector traded 11.7 million shares and accounted for 9.9 percent of traded volume. Mumias Sugar Co. was the most active counter, trading 3.6 million shares. The Alternative market segment traded 70,600 shares.

Bond Market

Bond turnover at the Fixed Income Securities Market stabilised at Ksh 3.6 billion in the week under review compared with Ksh 3.5 billion traded in the previous week.