

January 14, 2011



THE CBK WEEKLY BULLETIN

**Highlights for
the Week**

The Government securities market registered 206.4 percent performance during auction held this week. The Government had offered for sale 91-day Treasury bills amounting to Ksh 4.0 billion, received bids amounting to Ksh 8.3 billion and accepted bids amounting to Ksh. 6.3 billion. The 91-day Treasury bill rate edged up 5.2 basis points.

The money market was liquid in the week ending January 12, 2011. In this regard, the average interbank rate declined by 7 basis points to 1.23 percent in the week from 1.30 percent in the previous week.

The Kenya Shilling depicted mixed performance against the major international currencies in the week ending January 13, 2011. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 81.10 in the week compared with Ksh 80.97 per US dollar in the previous week. In the EAC region, the Kenya shilling also depicted mixed performance against the regional currencies.

The usable official foreign exchange reserves held by the Central declined from US dollar 3,466 million (equivalent to 3.48 months of imports) as at January 06, 2011 to US dollar 3,445million (equivalent to 3.46 months of imports) as at January 13, 2011.

Government gross domestic debt increased by Ksh 52.5 billion from Ksh 660.3 billion in June 2010 to Ksh 712.7 billion as at January 07, 2011. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 34.2 billion.

Performance at the equities market was mixed during the week ending January 13, 2011, with the NSE 20 Share index losing 30.8 points to 4,563.6 from 4,594.4 points on January 06, 2011 while equity turnover increased by 92.7 percent.

Government Securities Auction

The Government securities market registered 206.4 percent performance during auction held this week. The Government had offered for sale 91-day Treasury bills amounting to Ksh 4.0 billion and received bids amounting to Ksh 8.3 billion. The Government accepted bids worth a total of Ksh 6.3 billion of which Ksh 6.1 billion were competitive. The proceeds of the auction was new borrowing that was directed at supporting the budget.

Treasury Bills Interest Rates

The 91-day Treasury bill rate edged up 5.2 basis points from 2.357 percent to 2.409 percent during this week's auction.

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
91 day T. Bills*	2.239		2.313		2.357		2.409
182 day T. Bills*		2.548		2.631		2.675	
364 day T. Bills*							
Month	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10
Average savings rate	1.76	1.75	1.55	1.50	1.47	1.46	1.40
Average overdraft rate	14.38	14.23	14.03	13.97	13.81	13.64	13.77

*Weighted rates

Source: Central Bank of Kenya

Interbank and REPO Rates

Reflecting ample liquidity in the money market the average interbank rate declined by 7 basis points to 1.23 percent in the week ending January 12, 2011 from 1.30 percent in the previous week. The average volume traded increased to Ksh 9.75 billion in the week ending January 12, 2011 from Ksh 7.27 billion in the previous week. The Government deposits at the Central Bank increased modestly from Ksh 41.2 billion in the week ending January 5, to Ksh 46.7 billion in the week ending January 12, 2011, and posed no threat to interbank liquidity.

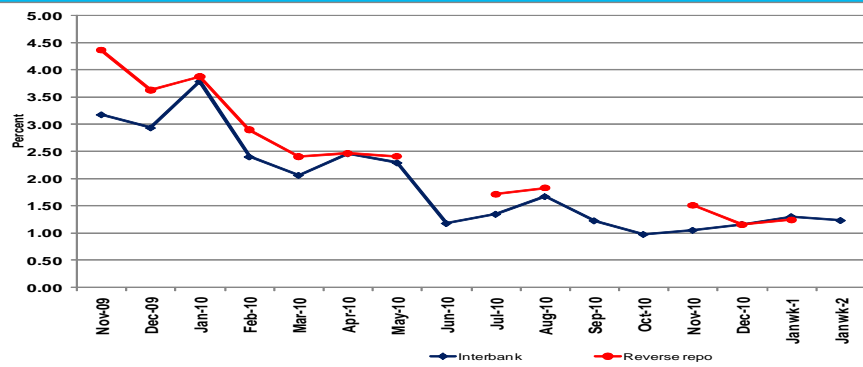
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
6-Jan-11	35	5,555	1.25
7-Jan-11	35	6,715	1.22
10-Jan-11	55	10,977	1.21
11-Jan-11	61	12,510	1.22
12-Jan-11	74	14,258	1.23
Jan 06 - Jan 12, 2011	51	9,759	1.23

Source: Central Bank of Kenya

The reverse repo rate was 1.101 percent as recorded at the last reverse repo transaction on January 5, 2011.

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

Given the ample liquidity in the money market during the week ending January 12, 2011 the Central Bank stayed out of the reverse repo market (Table 3) and commercial banks made no recourse to the Central Bank overnight window. Reserve money averaged Ksh 221.7 billion during the week and was above target by Ksh 20.7 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)
6-Jan	224.7	201.6	23.1	0.0	0.0	0.0	224.9	23.3	13.0	10.3
7-Jan	222.7	201.6	21.1	0.0	0.0	0.0	224.2	22.6	12.2	10.4
10-Jan	227.1	200.6	26.5	0.0	0.0	0.0	228.5	28.0	17.9	10.1
11-Jan	216.7	200.6	16.1	0.0	0.0	0.0	217.8	17.2	7.9	9.2
12-Jan	213.4	200.6	12.9	0.0	0.0	0.0	213.3	12.7	4.4	8.2
Average	220.9	201.0	19.9	0.0	0.0	0.0	221.7	20.7	11.1	9.7

*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 19.3 billion in their clearing accounts at the Central Bank in the week to January 12, 2011, compared with Ksh 16.8 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 January 13, 2011 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 81.10 in the week compared with Ksh 80.97 per US dollar in the previous week. During the week, the shilling also depreciated against the Sterling Pound to exchange on average at Ksh 126.67 per Sterling Pound compared with Ksh 125.64 per Sterling Pound in the previous week. Against the Euro and the Japanese Yen the Kenya Shilling appreciated to exchange on average at Ksh 105.29 per Euro and Ksh 97.59 per 100 Japanese Yen respectively, compared with Ksh 107.36 per Euro and Ksh 98.53 per 100 Japanese Yen in the previous week.

In the EAC region, the Kenya Shilling strengthened marginally against the Uganda Shilling and remained stable against the Tanzania Shilling to exchange at Ush 28.85 per Kenya Shilling and Tsh 18.28 per Kenya Shilling in the week ending January 13, 2011, compared with Ush 28.85 per Kenya Shilling in the previous week. As directed by the East Africa Community Monetary Affairs Committee, the Central Bank published for the first time the exchange rates for Kenya Shilling against the Rwanda Franc (RWF) and the Burundi Franc (BIF). The Shilling on average traded at RWF 7.31 per Kenya Shilling and BIF 15.11 per Kenya Shilling during the week.

Table 4: Kenya Shilling Exchange Rates

	US dollar	terling Poun	Euro	apanese Ye	USHS	TSHS	RWF	BIF
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		
January 03 - 06, 2011	80.97	125.64	107.36	98.53	28.69	18.28		
10-Jan-11	81.17	126.12	104.72	97.63	28.79	18.16	7.29	15.20
11-Jan-11	81.22	126.36	105.16	97.77	28.80	18.31	7.28	15.02
12-Jan-11	81.07	126.75	105.28	97.54	28.86	18.25	7.36	15.08
13-Jan-11	80.94	127.44	106.02	97.44	28.97	18.39	7.31	15.13
January 10 - 13, 2011	81.10	126.67	105.29	97.59	28.85	18.28	7.31	15.11

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,466 million (equivalent to 3.48 months of imports) as at January 06, 2011 to US dollar 3,445 million (equivalent to 3.46 months of imports) as at January 13, 2011 (Table 5).

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

	12-Nov-10	26-Nov-10	24-Dec-10	31-Dec-10	6-Jan-11	13-Jan-11
Usable Reserves*	3,489	3,471	3,468	3,466	3,466	3,445
Months of Imports Cover**	3.54	3.52	3.48	3.48	3.48	3.46

*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 52.5 billion from Ksh 660.3 billion in June 2010 to Ksh 712.7 billion as at January 07, 2011 (Table 6 and Chart D). This increase was dominated in Treasury bonds at Ksh 81.3 billion. This was, however, partially offset by Ksh 29.4 billion decline in Treasury bills.

Table 6: Government Domestic Debt (Ksh Billion)

	Jun-10	Nov-2010	31st Dec-2010	7th Jan-2011	Changes	
					31st Dec-10-7th Jan-11	30th Jun-10 -7th Jan-11
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	129.7 20.4	132.9 20.1	134.3 20.2	1.4	-24.7
2. Treasury Bonds (As % of total securities)	448.6 73.7	506.0 79.6	529.9 79.9	529.9 79.8	0.0	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	-0.8
4. Total Securities (1+2+3)	608.4	635.8	662.8	664.2	1.4	55.8
5. Overdraft at Central Bank	17.6	22.9	22.7	13.7	-8.9	-3.9
6. Other Domestic debt*	34.2	32.8	34.8	34.8	0.0	0.6
7. Gross Domestic Debt (4+5+6)	660.3	691.6	720.2	712.7	-7.5	52.5
8. Interest payments on domestic debt	57.8	26.78	34.2	34.2	0.0	

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

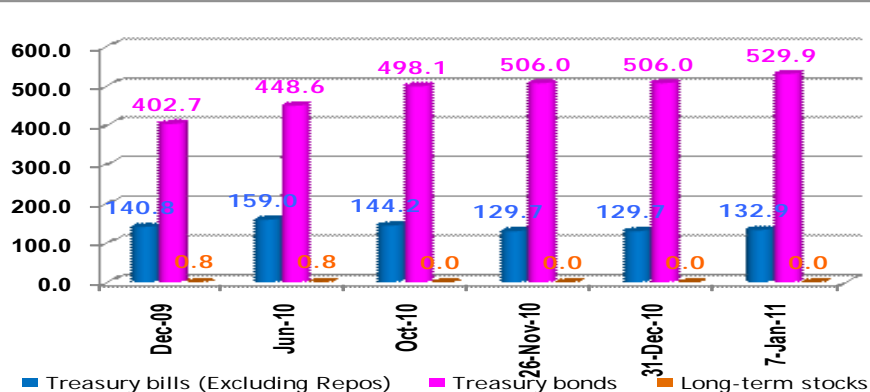
Source: Central Bank of Kenya

Holding of Govt Securities

Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 529.9 billion as at January 07, 2011 while Treasury bills declined from Ksh 159.0 billion in June 2010 to Ksh 134.3 billion during the same period.

In view of the above, the share of Treasury bonds increased from 73.7 percent in June to 79.8 percent as at January 07, 2011 while that of Treasury bills declined from 26.1 percent to 20.2 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 07, 2011. This development is largely in line with the Government debt management strategy of lengthening the maturity profile of domestic debt.

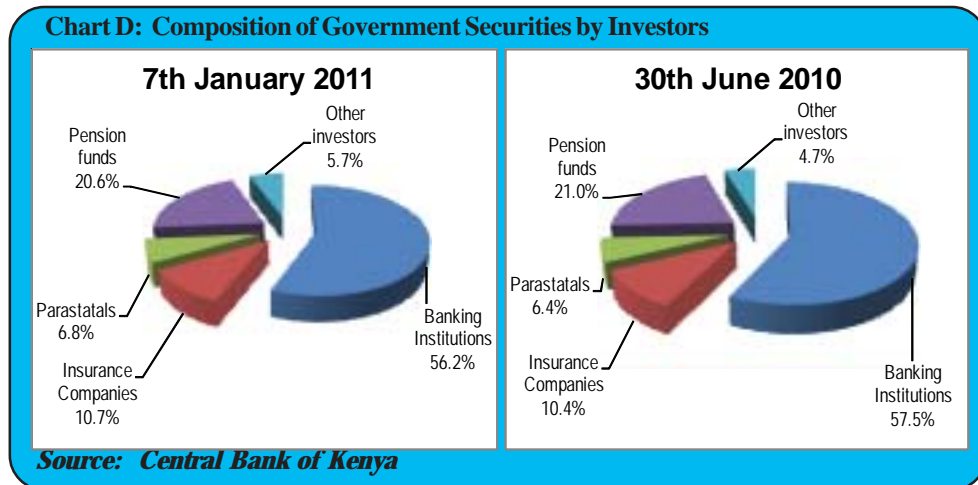
Chart C: Composition of Government Securities



Source: Central Bank of Kenya

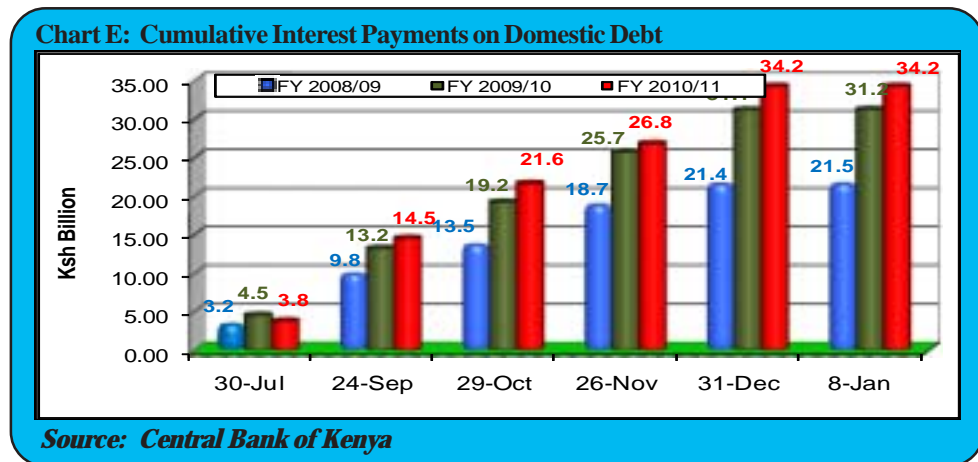
The holdings of Government securities by parastatals, insurance companies and other investors increased from 6.4 percent, 10.4 percent and 4.7 percent, respectively in June 2010 to 6.8 percent, 10.7 percent and 5.7 percent,

respectively as at January 07, 2011. But holdings of commercial banks and pension funds declined from 57.5 percent and 21.0 percent, respectively to stand at 56.2 percent and 20.6 percent, respectively during the same period (Chart D).



Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at January 07, 2011 of the fiscal year 2010/11 amounted to Ksh 34.2 billion compared with Ksh 31.2 billion in a similar period of the fiscal year 2009/10 (Chart E). 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 6.8 billion and 26.9 billion, respectively while interest on Government overdraft at the Central Bank amounted to Ksh 0.5 billion.



The Stock Market

Performance at the equities market was mixed during the week ending January 13, 2011. Turnover increased by 92.7 percent as stocks worth Ksh 3,225 million were traded compared with Ksh 1,673 million traded in the previous week. The number of shares traded increased from 118.9 million in the previous week to 288.7 million shares in the week under review. Market capitalization as a measure of total shareholders wealth decreased by 0.8 percent or Ksh 9.4 billion to Ksh 1,215.7 billion from Ksh 1,225.1 billion in

the previous week owing to price declines in some counters. The NSE 20 Share index lost 30.8 points to settle at 4,563.6 points on January 13, 2011 from 4,594.4 points on January 06, 2011. The Nairobi All Share Index lost 0.78 points to settle at 101.9 from 102.7 points the previous week (Table 7).

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	13-Jan-11
NASI 100= Jan 2008	101.36	100.52	99.6287	97.41	97.75	96.48	96.49	97.27	102.69	101.91
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	4,563.65
Number of Deals	10,426	8,869	9,818	8,829	10,642	8,240	9,487.00	5,124.00	8,679.00	11,670.00
Total Shares Traded (millions)	146.38	97.66	109.58	93.48	129.19	239.15	75.86	32.45	118.95	288.79
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	3,225.56
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	1,215.72
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	6,157.55

* 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 218.0 million shares and accounted for 75.5 per cent of the traded volume with Safaricom trading 212.6 million shares in the sector. The Finance and Investment sector traded 49.3 million shares and accounted for 17.1 percent of total traded volume. Kenya Commercial Bank and Equity Bank were the most active stocks in the sector, trading 17.2 million and 17.6 million shares, respectively. Industrial and Allied sector traded 20.4 million shares and accounted for 7.1 percent of traded volume. KenolKobil Ltd was the most active counter, trading 6.0 million shares. The Alternative market segment traded 123,900 shares.

Bond Market

Bond turnover at the Fixed Income Securities Market increased from Ksh 3.6 billion traded in the previous week to Ksh 6.1 billion in the week under review.