

**January 21, 2011**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The Government conducted 91-day and 364-day Treasury bills auctions this week in a bid to raise Ksh 10.5 billion from the Market. The market made available Ksh 15.7 billion, however, the Government accepted bids amounting to Ksh 9.8 billion. Consequently, the 91- and 364- day Treasury bill rates edged up 4.6 basis points and 33.3 basis points, respectively.

The average interbank rate remained stable at 1.22 percent in the week ending January 19, 2011, from 1.23 percent in the previous week. The money market was liquid in the week ending January 19, 2011 and the Central Bank stayed out of the market during the week. There were no reverse repo maturities during the week.

The Kenya Shilling depicted mixed performance against the major international currencies in the week ending January 20, 2011. Against the US dollar, the shilling appreciated to exchange at an average of Ksh 81.01 in the week compared with Ksh 81.10 per US dollar in the previous week. In the East Africa Community (EAC) region, the Kenya shilling on average appreciated against the regional currencies.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,445 million (equivalent to 3.46 months of imports) as at January 13, 2011 to US dollar 3,488 million (equivalent to 3.49 months of imports) as at January 20, 2011.

Government gross domestic debt increased by Ksh 51.8 billion from Ksh 660.3 billion in June 2010 to Ksh 712.1 billion as at January 14, 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 34.3 billion.

Performance at the equities market generally declined during the week ending January 20, 2011. Turnover declined by 36.4 percent as stocks worth Ksh 2,051 million were traded down from Ksh 3,225 million transacted in the week earlier.

**Government Securities Auction**

The Government securities market saw to 2 auctions being conducted this week. The 364-day Treasury bills auction was conducted on January 19, 2010 where the government had offered for sale bills amounting to Ksh 7.5 billion and bids worth Ksh 8.1 billion were received, a 107 percent performance. The 91-day Treasury bills auction was conducted on January 20, 2011 where Ksh 3.0 billion was on offer but the market availed Ksh 7.6 billion, a 254.0 percent performance.

From these auctions the Government accepted a total of Ksh 9.8 billion which was utilised to meet part cost of redemptions of Treasury bills maturities amounting to Ksh. 12.2 billion, leaving a shortfall of Ksh 2.4 billion to be financed by the Government.

**Treasury Bills Interest Rates**

The 91-day and 364-day Treasury bill rates edged up 4.6 basis points and 33.3 basis points, respectively, to settle at 2.455 percent and 3.693 percent, respectively.

**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
91 day T. Bills*	2.239		2.313		2.357		2.409	2.455
182 day T. Bills*		2.548		2.631		2.675		
364 day T. Bills*								3.693
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**

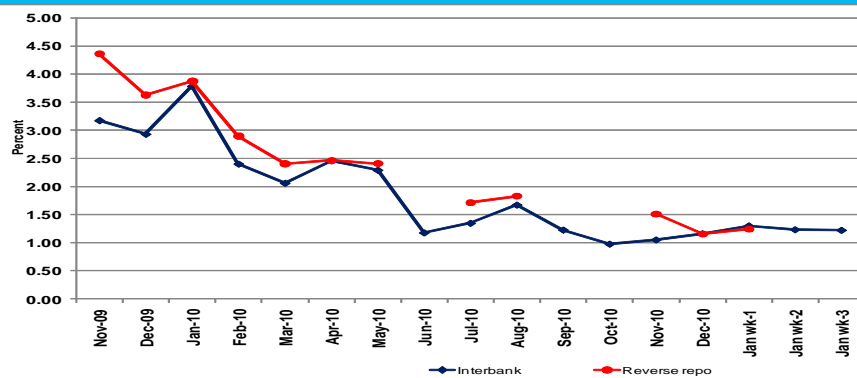
The average interbank rate remained stable at 1.22 percent in the week ending January 19, 2011, from 1.23 percent in the previous week. The average volumes traded rose to Ksh 14.68 billion in the week ending January 19, 2011 from Ksh 9.75 billion in the previous week. The Government deposits at the Central Bank rose from Ksh 46.7 billion in the week ending January 12, to Ksh 48.5 billion in the week ending January 19, 2011.

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

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
<b>Jan 06 - Jan 12, 2011</b>	<b>51</b>	<b>9,759</b>	<b>1.23</b>
13-Jan-11	65	14,770	1.23
14-Jan-11	60	13,031	1.24
17-Jan-11	66	15,836	1.21
18-Jan-11	66	15,849	1.20
19-Jan-11	63	15,063	1.21
<b>Jan 13 - Jan 19, 2011</b>	<b>64</b>	<b>14,678</b>	<b>1.22</b>

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

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

### Monetary Policy Operations

The money market was liquid in the week ending January 19, 2011 and the Central Bank stayed out of the market during the week (Table 3). There were no reverse repo maturities during the week. Despite the liquidity, commercial banks borrowed 0.2 billion from the Central Bank's overnight window. Reserve money averaged Ksh 211.8 billion during the week and was above target by Ksh 11.8 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)
13-Jan	212.4	200.6	11.8	0.0	0.0	0.0	214.0	13.4	6.2	7.3
14-Jan	214.0	200.6	13.4	0.0	0.0	0.0	214.6	14.0	7.5	6.4
17-Jan	211.0	199.6	11.4	0.0	0.0	0.0	211.7	12.1	5.9	6.3
18-Jan	209.7	199.6	10.1	0.0	0.0	0.0	209.4	9.8	3.9	6.0
19-Jan	208.8	199.6	9.3	0.0	0.0	0.0	209.2	9.7	4.2	5.4
Average	211.2	200.0	11.2	0.0	0.0	0.0	211.8	11.8	5.5	6.3

\*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 13.1 billion in their clearing accounts at the Central Bank in the week to January 19, 2011, compared with Ksh 19.3 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 year ending January 20, 2011 (Table 4). Against the US dollar, the shilling appreciated to exchange at Ksh 81.01 in the week compared with Ksh 81.10 per US dollar in the previous week. During the week, the shilling depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 129.12 per Sterling Pound, Ksh 108.48 per Euro and Ksh 98.25 per 100 Japanese Yen compared with Ksh 126.67 per Sterling Pound, Ksh 105.29 per Euro and Ksh 97.59 per 100 Japanese Yen in the previous week.

In the EAC region, the Kenya Shilling strengthened against all the regional currencies to exchange at Ush 29.33 per Kenya Shilling, Tsh 18.41 per Kenya Shilling, Rwanda Franc (RWF) 7.34 per Kenya Shilling and Burundi Franc (BIF) 15.16 per Kenya Shilling in the week ending January 20, 2011, compared with Ush 28.85 per Kenya Shilling, Tsh 18.28 per Kenya Shilling, RWF 7.31 per Kenya Shilling and BIF 15.11 per Kenya Shilling in the previous week.

Table 4: Kenya Shilling Exchange Rates

	US dollar	terling Pounr	Euro	apanese Ye	USHS	TSHS	RWF	BIF
10-Jan-11	81.17	126.12	104.72	97.63	28.79	18.16	7.29300192	15.2019873
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
<b>January 10 - 13, 2011</b>	<b>81.10</b>	<b>126.67</b>	<b>105.29</b>	<b>97.59</b>	<b>28.85</b>	<b>18.28</b>	<b>7.31</b>	<b>15.11</b>
17-Jan-11	80.97	128.39	107.79	97.71	29.37	18.28	7.38	15.18
18-Jan-11	81.07	129.25	107.99	98.23	29.54	18.43	7.31	15.17
19-Jan-11	80.93	129.64	108.98	98.32	29.51	18.48	7.33	15.13
20-Jan-11	81.07	129.22	109.18	98.73	28.91	18.45	7.32	15.17
<b>January 17 - 20, 2011</b>	<b>81.01</b>	<b>129.12</b>	<b>108.48</b>	<b>98.25</b>	<b>29.33</b>	<b>18.41</b>	<b>7.34</b>	<b>15.16</b>

Source: Central Bank of Kenya

### Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,445 million (equivalent to 3.46 months of imports) as at January 13, 2011 to US dollar 3,488 million (equivalent to 3.49 months of imports) as at January 20, 2011 (Table 5).

**Government  
Domestic  
Debt**

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

	12-Nov-10	26-Nov-10	31-Dec-10	6-Jan-11	13-Jan-11	20-Jan-11
Usable Reserves*	3,489	3,471	3,466	3,466	3,445	3,488
Months of Imports Cover**	3.54	3.52	3.48	3.48	3.46	3.49

\*Excludes encumbered reserves

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

Source: Central Bank of Kenya

Gross Government debt increased by Ksh 51.8 billion from Ksh 660.3 billion in June 2010 to Ksh 712.1 billion as at January 14, 2011 (Table 6 and Chart C). This increase was on account of increases in Treasury bonds, overdraft at the Central Bank and other domestic debt amounting to Ksh 83.9 billion. This was, however, partially offset by decreases of Ksh 31.8 billion in Treasury bills and long term stocks.

Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 529.3 billion as at January 14, 2011 while Treasury bills declined from Ksh 159.0 billion in June 2010 to Ksh 128.0 billion during the same period.

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

	Jun-10	Nov-2010	31st Dec-2010	7th Jan-2011	14th Jan-2011	Changes	
						7th Jan-11- 14th Jan-11	30th Jun-10 - 14th Jan-11
1. Treasury Bills (Excluding Repos)	159.0	129.7	132.9	134.3	128.0	-6.3	-31.0
(As % of total securities)	26.1	20.4	20.1	20.2	19.5		
2. Treasury Bonds	448.6	506.0	529.9	529.9	529.3	-0.6	80.7
(As % of total securities)	73.7	79.6	79.9	79.8	80.5		
3. Long Term Stocks	0.8	0.0	0.0	0.0	0.0	0.0	-0.8
(As % of total securities)	0.1	0.0	0.0	0.0	0.0		
4. Total Securities (1+2+3)	608.4	635.8	662.8	664.2	657.3	-6.9	48.9
5. Overdraft at Central Bank	17.6	22.9	22.7	13.7	19.9	6.1	2.2
6. Other Domestic debt*	34.2	32.8	34.8	34.8	34.9	0.1	0.7
7. Gross Domestic Debt (4+5+6)	660.3	691.6	720.2	712.7	712.1	-0.7	51.8
8. Interest payments on domestic debt	57.8	26.78	34.2	34.2	34.3	0.1	

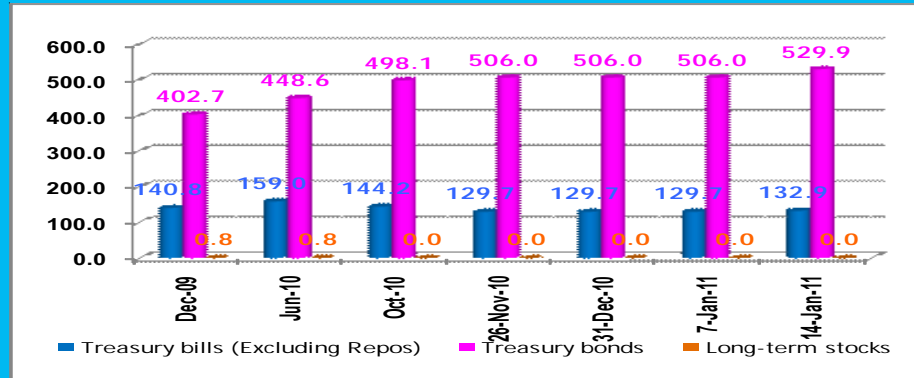
\* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and IFCs.

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 80.5 percent as at January 14, 2011 while that of Treasury bills declined from 26.1 percent to 19.9 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 14, 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

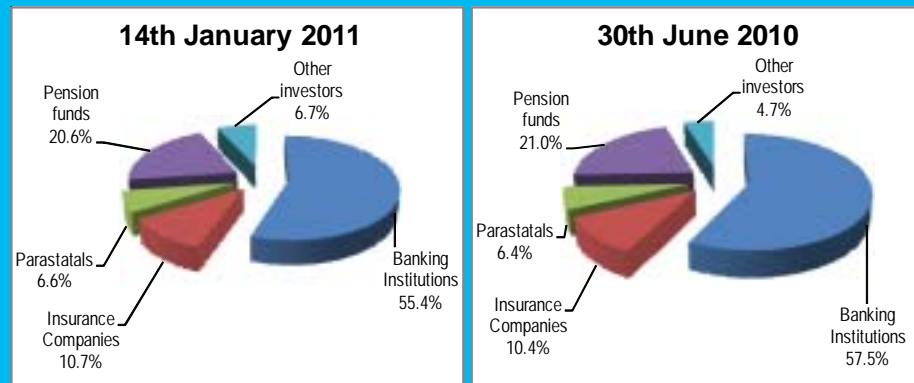


Source: Central Bank of Kenya

### Holding of Govt Securities

The holdings of Government securities by parastatals, 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, 10.7 percent and 6.7 percent, respectively as at January 14, 2011. However, holdings of commercial banks and pension funds declined from 57.5 percent and 21.0 percent, respectively to stand at 55.4 percent and 20.6 percent, respectively during the same period (Chart D).

Chart D: Composition of Government Securities by Investors

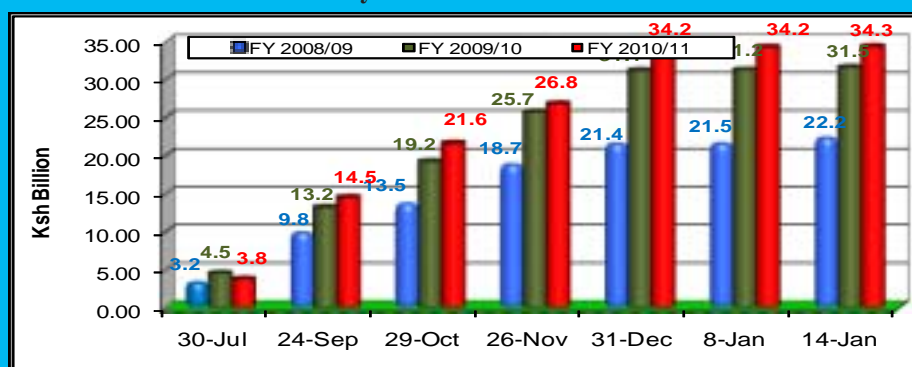


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at January 14, 2011 of the fiscal year 2010/11 amounted to Ksh 34.3 billion compared with Ksh 31.5 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 6.9 billion and 26.9 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 generally declined during the week ending January 20, 2011. Turnover declined by 36.4 percent as stocks worth Ksh 2,051 million were traded down from Ksh 3,225 million transacted in the week earlier. The number of shares traded in the week under review decreased to 160.2 million from the previous week's 288.7 million shares. Market capitalization as a measure of total shareholders wealth maintained a downward trend, shedding 1.4 percent or Ksh 16.5 billion to Ksh 1,199 billion from Ksh 1,215.7 billion in the previous week owing to price declines across all counters. The NSE 20 Share Index lost 26.4 points to settle at 4,537.3 points on January 20, 2011 from 4,563.6 points on January 13, 2011. The Nairobi All Share Index lost 1.22 points to settle at 100.69 from 101.91 points over the period under review (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	25-Nov-10	3-Dec-10	9-Dec-10	16-Dec-10	23-Dec-10	30-Dec-10	6-Jan-11	13-Jan-11	20-Jan-11
NASI 100= Jan 2008	99.6287	97.41	97.75	96.48	96.49	97.27	102.69	101.91	100.69
NSE 20 Share Index 100=1966	4,528.26	4,388.43	4,371.89	4,368.31	4,337.06	4,396.49	4,594.45	4,563.65	4,537.30
Number of Deals	9,818	8,829	10,642	8,240	9,487.00	5,124.00	8,679.00	11,670.00	10,528.00
Total Shares Traded (millions)	109.58	93.48	129.19	239.15	75.86	32.45	118.95	288.79	160.24
Equity Turnover (Ksh. millions)	2,109.04	1,662.33	1,977.02	1,273.10	1,424.85	547.03	1,673.55	3,225.56	2,051.46
Market Capitalization (Ksh. Bn.)	1,188.50	1,162.00	1,166.12	1,151.01	1,151.17	1,160.41	1,225.08	1,215.72	1,199.00
Bonds Turnover (Ksh. millions)	9,622.65	7,173.50	4,696.60	5,900.90	5,511.95	3,591.90	3,617.55	6,157.55	5.46

\* 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 123.3 million shares and accounted for 77 per cent of the traded volume. Safaricom dominated trading in this sector with 116.47 million shares changing hands. Finance and Investment sector traded 25.2 million shares and accounted for 15.7 percent of total traded volume. Kenya Commercial Bank, Equity Bank and Co-operative Bank were the most active stocks in the sector, trading 7.3 million, 6.9 million and 6.02 million shares, respectively. Industrial

and Allied sector traded 11.1 million shares and accounted for 7 percent of traded volume, with Mumias Sugar Co. being the most active counter at 3.2 million shares. The Alternative market segment traded 33,800 shares.

**Bond Market**

Bond turnover at the Fixed Income Securities Market declined from Ksh 6.16 billion traded in the previous week to Ksh 5.46 billion in the week under review.