

**January 28, 2011**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The Government conducted Treasury bills and Treasury bonds auctions this week to raise Ksh 22.5 billion from the market. The market made available Ksh 34.9 billion, a 155.1 percent performance. The Government accepted bids amounting to Ksh 15.4 billion. The average rates for the securities auctioned this week edged up during the week.

The average interbank rate rose by 2 basis points to 1.24 percent in the week ending January 26, 2011, from 1.22 percent in the previous week.

The money market was liquid in the week ending January 26, 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 on average depicted mixed performance against major international currencies during the week ending January 27, 2011. Against the US dollar, the shilling stabilized at Ksh 81.01 in the week ending January 27, 2011. In the East Africa Community (EAC) region, the Kenya shilling performance was mixed against the regional currencies.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,488 million (equivalent to 3.49 months of imports) as at January 20, 2011 to US dollar 3,503 million (equivalent to 3.51 months of imports) as at January 27, 2011.

Government gross domestic debt increased by Ksh 49.0 billion from Ksh 660.3 billion in June 2010 to Ksh 709.3 billion as at January 21, 2011. Cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 34.7 billion.

Performance at the equities market was mixed during the week ending January 27, 2011. Turnover shed 7.46 percent as stocks worth Ksh 1,898 million were traded down from Ksh 2,051 million transacted the week earlier.

**Government Securities Auction**

The Government securities market saw Treasury bills and Treasury bonds auctions being conducted this week. In the Treasury bills counter, the Government offered for sale Ksh 3.0 billion and Ksh 3.5 billion in 91-day and 182-day Treasury bills, respectively. However, bids amounting to Ksh 2.5 billion (82.6 percent performance) and Ksh 1.9 billion (54.8 percent performance) in 91-day and 182-day Treasury bills, respectively were received. In the Treasury bonds counter, the Government offered for sale 5- and 10-years bonds amounting to Ksh 16.0 billion and received bids amounting to Ksh 30.5 billion (190.6 percent performance).

From these auctions the Government accepted a total of Ksh 15.4 billion which was Ksh 7.1 billion below target for the week. The proceeds of the auction were targeted at meeting cost of redemptions of Government securities maturities amounting to Ksh. 3.2 billion and provide additional borrowing of Ksh 12.2 billion.

**Treasury Bills Interest Rates**

The 91-day and 182-day Treasury bill rates increased by 6.4 basis points and 5.3 basis points, respectively to 2.519 percent and 2.728 percent, respectively.

**Treasury Bond Interest Rates**

The 5-year and 10-year Treasury bonds rates edged up 96.5 basis points and 103.7 basis points, respectively to 7.636 percent and 9.683 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 | 27-Jan-11 |
|------------------------|----------|----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|
| 91 day T. Bills*       | 2.239    |          | 2.313     |           | 2.357     |          | 2.409     | 2.455     | 2.519     |
| 182 day T. Bills*      |          | 2.548    |           | 2.631     |           | 2.675    |           |           | 2.728     |
| 364 day T. Bills*      |          |          |           |           |           |          |           | 3.693     |           |
|                        |          |          |           |           |           |          |           |           |           |
| Month                  | May-10   | Jun-10   | Jul-10    | Aug-10    | Sep-10    | Oct-10   | Nov-10    | Dec-10    |           |
| Average savings rate   | 1.76     | 1.75     | 1.55      | 1.50      | 1.47      | 1.46     | 1.40      | 1.45      |           |
| Average overdraft rate | 14.38    | 14.23    | 14.03     | 13.97     | 13.81     | 13.64    | 13.77     | 13.69     |           |

\*Weighted rates

Source: Central Bank of Kenya

**Interbank and REPO Rates**

The average interbank rate rose by 2 basis points to 1.24 percent in the week ending January 26, 2011, from 1.22 percent in the previous week. The average volumes traded rose to Ksh 16.03 billion in the week ending January 26, 2011 from Ksh 14.68 billion in the previous week. The Government deposits at the Central bank rose marginally from Ksh 48.5 billion in the week ending January 19, to Ksh 49.6 billion in the week ending January 26, 2011.

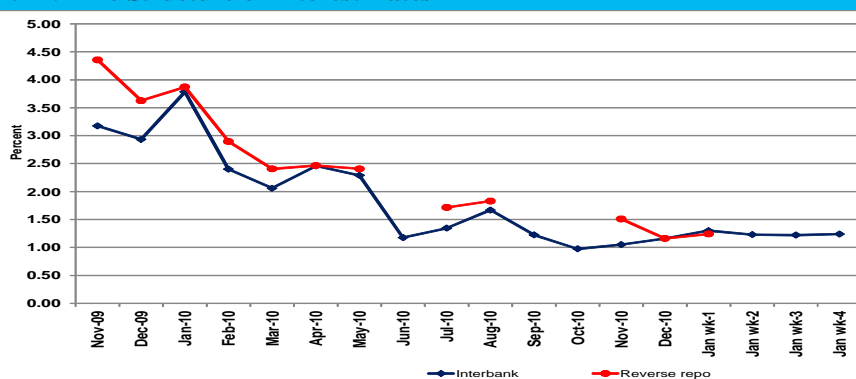
Table 2: Interbank Deals, Volumes and Interest Rates

| Date                         | Number of deals | Value (Ksh M) | Average Interest Rate (%) |
|------------------------------|-----------------|---------------|---------------------------|
| 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>               |
| 20-Jan-11                    | 69              | 16,382        | 1.20                      |
| 21-Jan-11                    | 69              | 18,499        | 1.24                      |
| 24-Jan-11                    | 64              | 16,021        | 1.23                      |
| 25-Jan-11                    | 71              | 15,777        | 1.25                      |
| 26-Jan-11                    | 55              | 13,473        | 1.26                      |
| <b>Jan 20 - Jan 26, 2011</b> | <b>66</b>       | <b>16,033</b> | <b>1.24</b>               |

Source: Central Bank of Kenya

The reverse repo rate was 1.101 percent as 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

The money market was liquid in the week ending January 26, 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 0.5 billion from the Central Bank overnight window. Reserve money averaged Ksh 205.7 billion during the week and was above target by Ksh 6.7 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)                   |
| 20-Jan         | 206.2                      | 199.6        | 6.6             | 0.0                | 0.0        | 0.0             | 204.8                     | 5.2             | 0.5             | 4.7                    |
| 21-Jan         | 203.5                      | 199.6        | 3.9             | 0.0                | 0.0        | 0.0             | 203.6                     | 4.1             | 0.3             | 3.8                    |
| 24-Jan         | 208.1                      | 198.6        | 9.5             | 0.0                | 0.0        | 0.0             | 206.8                     | 8.2             | 4.5             | 3.7                    |
| 25-Jan         | 205.0                      | 198.6        | 6.5             | 0.0                | 0.0        | 0.0             | 204.8                     | 6.2             | 3.2             | 3.0                    |
| 26-Jan         | 205.5                      | 198.6        | 6.9             | 0.0                | 0.0        | 0.0             | 208.5                     | 9.9             | 6.5             | 3.4                    |
| <b>Average</b> | <b>205.7</b>               | <b>199.0</b> | <b>6.7</b>      | <b>0.0</b>         | <b>0.0</b> | <b>0.0</b>      | <b>205.7</b>              | <b>6.7</b>      | <b>3.0</b>      | <b>3.7</b>             |

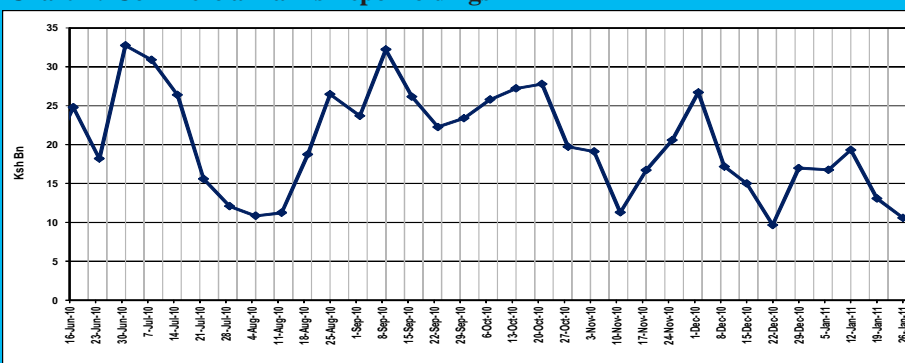
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial  
Banks  
Clearing  
Accounts  
Balances**

Commercial banks maintained an average of Ksh 10.6 billion in their clearing accounts at the Central Bank in the week to January 26, 2011, compared with Ksh 13.1 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 major international currencies during the week ending January 27, 2011 (Table 4). Against the US dollar, the shilling stabilized at Ksh 81.01 in the week ending January 27, 2011. The shilling appreciated against the Sterling Pound to Ksh 128.99 from Ksh 129.12 the previous week. This partly reflected the weakening of the Sterling Pound against the US dollar in the international currencies market following a shock contraction in the UK economy. Expectations of strong demand in the euro zone strengthened the euro in international currency markets contributing in part to its appreciation against the Kenya Shilling to Ksh 110.68 per euro compared with Ksh 108.48 the previous week.

In the EAC region, the Kenya Shilling strengthened against the Tanzania Shilling to Tsh 18.63 per Kenya Shilling compared with Tsh 18.41 the previous week. It however, weakened against the Uganda Shilling to Ush 28.47 compared with Ush 29.33 per Kenya Shilling. The shilling remained stable against the Rwanda Franc (RWF) at 7.35 per Kenya Shilling and Burundi Franc (BIF) 15.17 per Kenya Shilling in the week ending January 27, 2011.

**Table 4: Kenya Shilling Exchange Rates**

|                              | US dollar    | Sterling Pound | Euro          | Japanese Yen | USHS         | TSHS         | RWF         | BIF          |
|------------------------------|--------------|----------------|---------------|--------------|--------------|--------------|-------------|--------------|
| 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> |
| 24-Jan-11                    | 81.01        | 129.38         | 110.19        | 97.89        | 28.58        | 18.67        | 7.32        | 15.11        |
| 25-Jan-11                    | 81.02        | 129.61         | 110.63        | 98.27        | 28.57        | 18.70        | 7.32        | 15.15        |
| 26-Jan-11                    | 81.00        | 128.14         | 110.90        | 98.72        | 28.39        | 18.67        | 7.38        | 15.22        |
| 27-Jan-11                    | 81.00        | 128.83         | 110.98        | 98.54        | 28.33        | 18.49        | 7.39        | 15.21        |
| <b>January 24 - 27, 2011</b> | <b>81.01</b> | <b>128.99</b>  | <b>110.68</b> | <b>98.36</b> | <b>28.47</b> | <b>18.63</b> | <b>7.35</b> | <b>15.17</b> |

Source: Central Bank of Kenya

**Foreign  
Exchange  
Reserves**

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,488 million (equivalent to 3.49 months of imports) as at January 20, 2011 to US dollar 3,503 million (equivalent to 3.51 months of imports) as at January 27, 2011 (Table 5).

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

|                           | 26-Nov-10 | 31-Dec-10 | 6-Jan-11 | 13-Jan-11 | 20-Jan-11 | 27-Jan-11 |
|---------------------------|-----------|-----------|----------|-----------|-----------|-----------|
| Usable Reserves*          | 3,471     | 3,466     | 3,466    | 3,445     | 3,488     | 3,503     |
| Months of Imports Cover** | 3.52      | 3.48      | 3.48     | 3.46      | 3.49      | 3.51      |

\*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 49.0 billion from Ksh 660.3 billion in June 2010 to Ksh 709.3 billion as at January 21, 2011 (Table 6 and Chart C). This increase was in Treasury bonds and other domestic debt amounting to Ksh 78.5 billion. Treasury bills and long term stocks declined by Ksh 29.6 billion.

Consequently, the stock of Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 526.6 billion as at January 21, 2011 while Treasury bills declined from Ksh 159.0 billion in June 2010 to Ksh 134.3 billion during the same period.

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

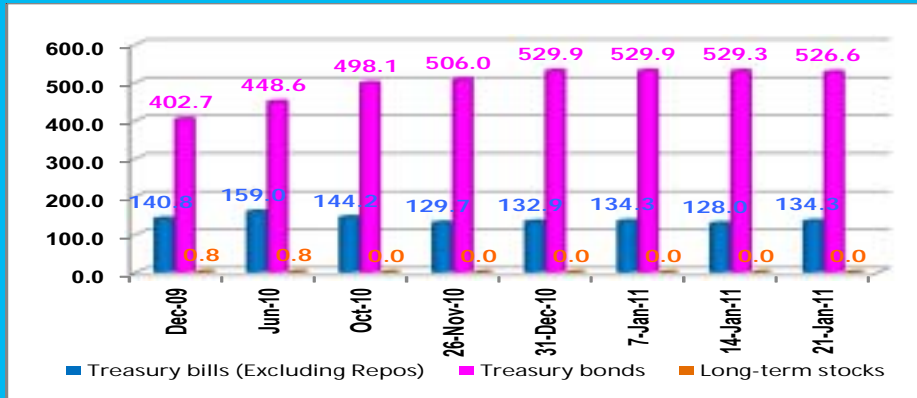
|   | Jun-10        | 31st Dec-2010 | 14th Jan-2011 | 21st Jan-2011 | Changes                      |                              |
|---|---------------|---------------|---------------|---------------|------------------------------|------------------------------|
|   |               |               |               |               | 14th Jan-11 -<br>21st Jan-11 | 30th Jun-10 -<br>21st Jan-11 |
| 1. Treasury Bills (Excluding Repos)<br>(As % of total securities) | 159.0<br>26.1 | 132.9<br>20.1 | 128.0<br>19.5 | 134.3<br>20.3 | 6.3                          | -24.7                        |
| 2. Treasury Bonds<br>(As % of total securities)                   | 448.6<br>73.7 | 529.9<br>79.9 | 529.3<br>80.5 | 526.6<br>79.7 | -2.7                         | 78.0                         |
| 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         | 657.3         | 661.0         | 3.6                          | 52.5                         |
| 5. Overdraft at Central Bank                                      | 17.6          | 22.7          | 19.9          | 13.6          | -6.3                         | -4.1                         |
| 6. Other Domestic debt*   | 34.2          | 34.8          | 34.9          | 34.7          | -0.2                         | 0.5                          |
| 7. Gross Domestic Debt (4+5+6)                                    | 660.3         | 720.2         | 712.1         | 709.3         | -2.8                         | 49.0                         |
| 8. Interest payments on domestic debt                             | 57.8          | 34.2          | 34.3          | 34.7          | 0.4                          |                              |

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

Source: Central Bank of Kenya

Reflecting these developments, the share of Treasury bonds in total domestic debt increased from 73.7 percent in June 2010 to 79.7 percent as at January 21, 2011 while that of Treasury bills declined from 26.1 percent to 20.3 percent over the period. 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 21, 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

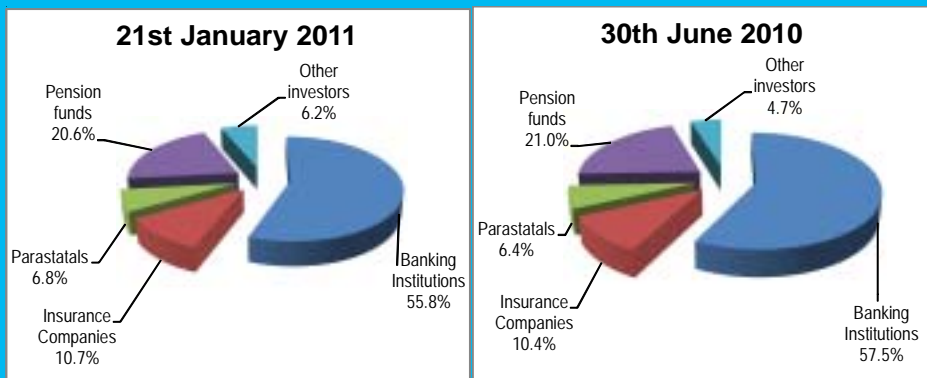


Source: Central Bank of Kenya

### 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 6.8 percent, 10.7 percent and 6.2 percent, respectively as at January 21, 2011. However, holdings of commercial banks and pension funds declined from 57.5 percent and 21.0 percent, respectively to stand at 55.8 percent and 20.6 percent, respectively during the same period (Chart D).

Chart D: Composition of Government Securities by Investors

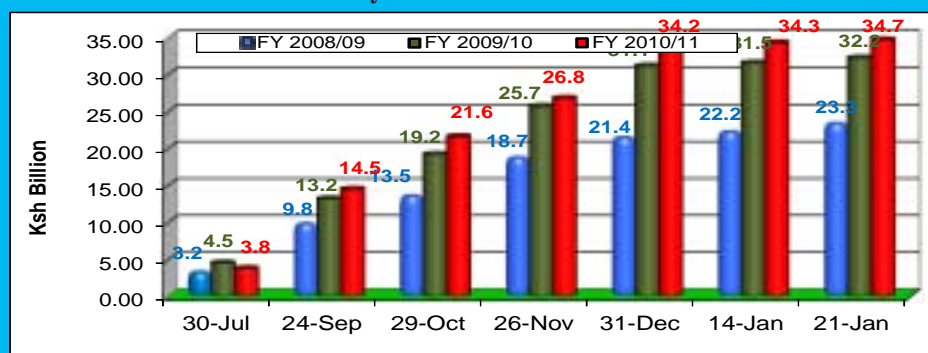


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

Cumulative Government expenditure on interest and other charges on domestic debt as at January 21, 2011 of the fiscal year 2010/11 amounted to Ksh 34.7 billion compared with Ksh 32.2 billion in a similar period of the fiscal year 2009/10 (Chart E). The interest cost on domestic debt during the period reflected interest costs and other charges on Treasury bills and Treasury bonds amounting to Ksh 6.9 billion and 27.3 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 mix during the week ending January 27, 2011. Turnover shed 7.46 percent as stocks worth Ksh 1,898 million were traded down from Ksh 2,051 million transacted the week earlier. Number of shares traded in the week under review decreased to 127.47 million from the previous week's 160.24 million shares. Market capitalization as a measure of total shareholders wealth, however, reversed its downward trend by posting a 1.52 percent upward margin or Ksh 18.27 billion more to Ksh 1,217.53 billion from Ksh 1,199.27 billion in the previous week owing to price increase in Industrial and Allied counters. The NSE 20 Share Index lost 10.52 points to settle at 4,526.78 points on January 27, 2011 from 4,537.30 points on January 20, 2011. However, the Nairobi All Share Index (NASI) gained 0.42 points to settle at 101.11 from 100.69 points over the period under review (Table 7).

Table 7: Key Weekly Market Statistics

| Week Ending                      | 3-Dec-10 | 9-Dec-10 | 16-Dec-10 | 23-Dec-10 | 30-Dec-10 | 6-Jan-11 | 13-Jan-11 | 20-Jan-11 | 27-Jan-11 |
|----------------------------------|----------|----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|
| NASI 100= Jan 2008               | 97.41    | 97.75    | 96.48     | 96.49     | 97.27     | 102.69   | 101.91    | 100.69    | 101.11    |
| NSE 20 Share Index 100=1966      | 4,388.43 | 4,371.89 | 4,368.31  | 4,337.06  | 4,396.49  | 4,594.45 | 4,563.65  | 4,537.30  | 4,526.78  |
| Number of Deals                  | 8,829    | 10,642   | 8,240     | 9,487.00  | 5,124.00  | 8,679.00 | 11,670.00 | 10,528.00 | 11,445.00 |
| Total Shares Traded (millions)   | 93.48    | 129.19   | 239.15    | 75.86     | 32.45     | 118.95   | 288.79    | 160.24    | 127.47    |
| Equity Turnover (Ksh. millions)  | 1,662.33 | 1,977.02 | 1,273.10  | 1,424.85  | 547.03    | 1,673.55 | 3,225.56  | 2,051.46  | 1,898.46  |
| Market Capitalization (Ksh. Bn.) | 1,162.00 | 1,166.12 | 1,151.01  | 1,151.17  | 1,160.41  | 1,225.08 | 1,215.72  | 1,199.27  | 1,217.53  |
| Bonds Turnover (Ksh. millions)   | 7,173.50 | 4,696.60 | 5,900.90  | 5,511.95  | 3,591.90  | 3,617.55 | 6,157.55  | 5,463.65  | 2,788.50  |

\* 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 62.42 million shares, which accounted for 48.97 percent of the traded volume. This was a 41 percent fall from last week's transaction volume. However, it was most active sector followed by Industrial and Allied at 33 percent. Safaricom dominated trading in the sector with 60.29 million shares changing hands. Industrial and Allied sector recorded the most significant increase from last week's level as all others declined, by adding 30.93 million shares to transact a total of 42.07



million shares up from 11.15 million shares traded the previous week. This 277.5 percent performance was occasioned by a 31.23 million KPLC shares traded following increased volume due to successful conclusion of the Rights Issue. Finance and Investment sector traded 22.45 million shares or 17.63 percent of total shares traded. Co-operative Bank and Equity Bank were the most active, trading 9.61 million and 4.89 million shares, respectively. Alternative market segment traded 43,400 shares.

**Bond Market** Bond turnover at the Fixed Income Securities Market declined from Ksh 5.46 billion in the previous week to Ksh 2.79 billion in the week under review.