

July 1, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

The overall 12-month inflation rate's upward trend persisted for the eighth consecutive month to reach 14.5 percent in June 2011. Similarly, the average annual inflation increased in the month of June 2011 to stand at 6.9 percent, from 6.0 percent in May 2011.

The Government conducted 2 separate Treasury bills auctions this week to raise Ksh 4.5 billion from the Market. The market made available Ksh 5.0 billion, a 111.5 percent performance. The Government accepted bids amounting to Ksh 4.6 billion. Consequently, the average rates for 91-day and 182-day Treasury bills declined by 0.7 basis points and 5.2 basis points, respectively.

The average interbank rate rose by 43 basis points to 6.68 percent during the week ending June 29, 2011 from 6.25 percent in the previous week reflecting tight interbank liquidity.

The money market was tight during the week ending June 29, 2011 and the Central Bank stayed out of the market. Owing to the tight liquidity conditions in the money market, commercial banks borrowed Ksh 102.22 billion from the Central Bank overnight compared to Ksh 127.92 billion in the previous week.

The Kenya Shilling appreciated against major international currencies in the week ending July 1, 2011. Against the US dollar, the Kenya shilling appreciated to exchange at an average of Ksh 90.11 in the week compared with Ksh 90.64 per US dollar in the week ending June 24, 2011.

The usable official foreign exchange reserves held by the Central Bank declined marginally from US dollar 3,957 million (equivalent to 3.72 months of imports) as at June 24, 2011, to US dollar 3,918 million (equivalent to 3.73 months of imports) as at July 1, 2011.

Government gross domestic debt increased by Ksh 87.7 billion from Ksh 660.3 billion in June 2010 to Ksh 753.9 billion as at June 24, 2011. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 63.7 billion.

Performance at the equities and bonds markets generally improved during the week ending June 30, 2011. The NSE 20 Share Index lost 2.47 points on June 30, 2011, to settle at 3,968.12 from 3,970.59 points on June 23, 2011. However, the Nairobi All Share Index (NASI) added 0.51 points to level 91.36 points from 90.85 points during the period under review. The equity turnover rose by 44.1 percent or Ksh 533.3mn, while number of shares transacted increased by 47 percent or 32.8 million during the period under review. Similarly, the fixed income segment of the market recorded a 19.2 percent increase in activity.

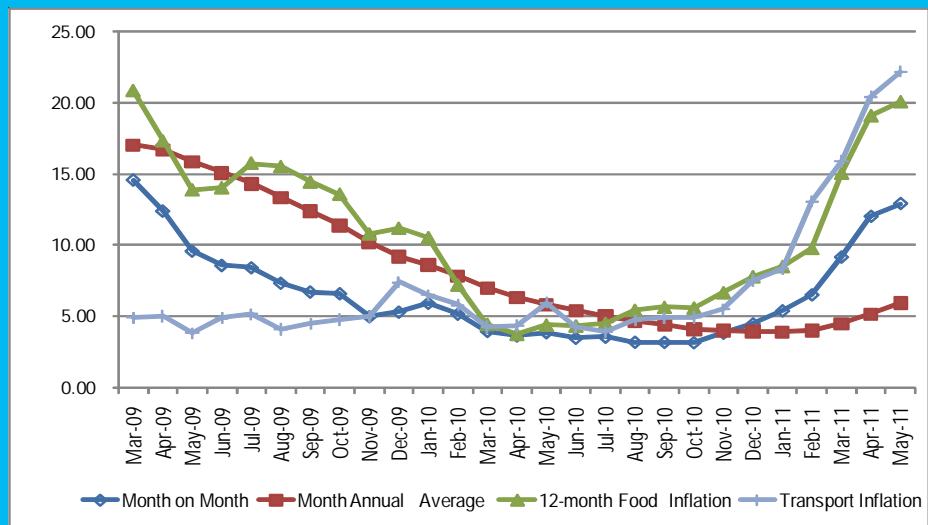
Inflation

Overall 12-month inflation rate increased by 154 basis points from 12.9 percent in May 2011 to 14.5 percent in June 2011, reaching a level last experienced over two years ago, and over four times the level in June 2010 (Chart A). In June 2011, unlike in the previous months when the upward trend in inflation was on account of high food and fuel prices, the rise in inflation was attributed to the rising cost of alcoholic drinks and food, even as international crude oil prices declined.

The alcoholic beverages, tobacco and narcotics basket's inflation responded swiftly to the price increases in the recently presented budget for the financial year 2011/2012, by increasing from 8.7 percent in May 2011 to 11.5 percent in June 2011. Food inflation, on the other hand, increased from 20.1 percent in May 2011 to 22.5 percent in June 2011, with notable price increases in food items such as maize flour, maize grain, carrots, sugar and rice. The rise in food inflation was stemmed by the availability and consequently declining prices of some food items such as potatoes, sukuma wiki and green maize, during the month due to the rains being experienced in the country.

Inflation for all the other consumer baskets increased, with the exception of the communication basket, which experienced a marginal decline during the month.

Chart A: Overall Annual Average & Month-on-Month, Food and Alcoholic Beverages and Transport Inflation



Source: Central Bank of Kenya

Government Securities Auction

The Government conducted 2 separate Treasury bills auctions this week. In the 91-day Treasury bills auction of June 30, 2011 the Government offered Ksh 2.0 billion. The auction attracted bids amounting to Ksh 1.5 billion, a 74 percent performance. In the 182-day Treasury bills auction of June 29, 2011, the Government offered Ksh 2.5 billion and the market availed Ksh 3.5 billion, a 141.2 percent performance.

The Government accepted bids amounting to Ksh 1.4 billion and Ksh 3.2 billion in 91-day and 182- day Treasury bills, respectively. The proceeds of these auctions were directed at meeting the cost of redemptions of Government securities maturities amounting to Ksh 2.4 billion and support the budget with Ksh 2.2 billion.

Interest Rates on Treasury Bills

The 91-day Treasury bill rate declined by 0.7 basis points to settle at 8.988 percent while the 182- day Treasury bill rate declined by 5.2 basis points to settle at 9.854 percent (Table 1).

Table 1: Interest Rates

Auction date	6-May-11	13-May-11	20-May-11	27-May-11	3-Jun-11	10-Jun-11	17-Jun-11	24-Jun-11	1-Jul-11
91 day T. Bills*	4.018	4.796	6.409	7.942	8.798	9.016	9.006	8.995	8.988
182 day T. Bills*	3.691		5.444			9.949	9.906		9.854
364 day T. Bills*		6.772							
Month	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11			
Average savings rate	1.40	1.45	1.25	1.41	1.37	1.38			
Average overdraft rate	13.77	13.69	13.93	13.65	13.60	13.68			

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate rose by 43 basis points to 6.68 percent during the week ending June 29, 2011 from 6.25 percent in the previous week, reflecting tight interbank liquidity. The average volumes traded decreased to Ksh 14.08 billion in the week ending June 29, 2011 from Ksh 14.79 billion in the previous week (Table 2 and Chart B).

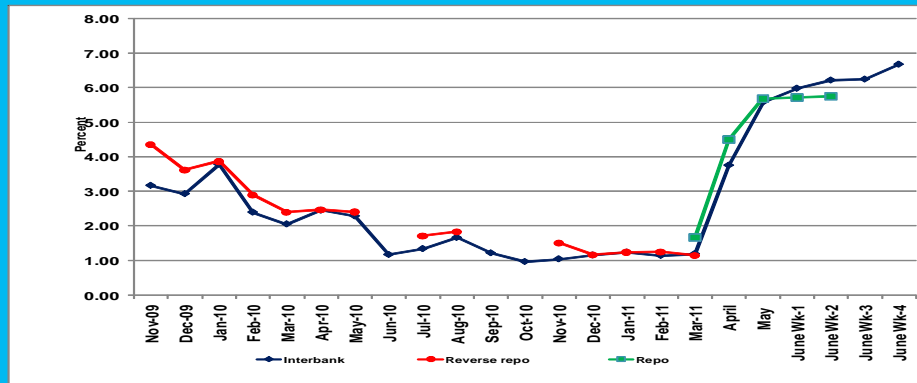
Table 2: Interbank Transactions

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
16-Jun-11	63	15,235	6.25
17-Jun-11	65	15,064	6.25
20-Jun-11	59	16,374	6.25
21-Jun-11	53	14,177	6.25
22-Jun-11	55	13,130	6.25
June 16- June 22, 2011	59	14,796	6.25
23-Jun-11	50	12,608	6.25
24-Jun-11	76	20,641	6.25
27-Jun-11	57	16,456	6.25
28-Jun-11	59	11,663	7.08
29-Jun-11	53	9,041	7.57
June 23- June 29, 2011	59	14,081	6.68

Source: Central Bank of Kenya

The repo rate was 5.75 percent in the last repo transaction on June 14, 2011.

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The money market was tight during the week ending June 29, 2011 and the Central Bank stayed out of the market. Reflecting the tight liquidity conditions in the money market, commercial banks borrowed Ksh 102.22 billion from the Central Bank overnight window compared to Ksh 127.92 billion in the previous week. Reserve money averaged Ksh 218.7 billion during the week and was above target by Ksh 3.3 billion (Table 3).

Table 3: Open Market Operations (Ksh Billion)

Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Mopped	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)
23-Jun-11	218.6	215.4	3.2	0.5	0.0	-0.5	217.7	2.3	-2.3	4.7
24-Jun-11	217.9	215.4	2.5	0.5	0.0	-0.5	217.0	1.7	-3.1	4.7
27-Jun-11	215.3	215.4	0.0	0.5	0.0	-0.5	218.9	3.5	-1.5	4.9
28-Jun-11	221.1	215.4	5.7	0.5	0.0	-0.5	220.0	4.6	-1.3	5.9
29-Jun-11	220.7	215.4	5.3	0.5	0.0	-0.5	220.2	4.8	-1.7	6.6
Average	218.7	215.4	3.3	0.5	0.0	-0.5	218.8	3.4	-2.0	5.4

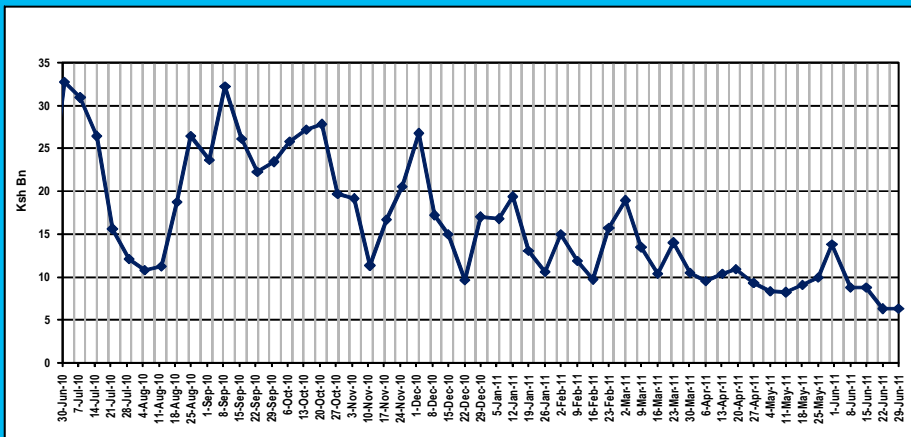
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 6.31 billion in their clearing accounts at the Central Bank in the week to June 29, 2011, up from Ksh 6.25 billion in 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 appreciated against major international currencies in the week ending July 1, 2011. Against the US dollar, the Kenya shilling appreciated to exchange at an average of Ksh 90.11 in the week compared with Ksh 90.64 per US dollar in the week ending June 24, 2011. The Kenya shilling also appreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 144.23 per Sterling Pound, Ksh 129.35 per Euro, and 111.64 per 100 Japanese Yen compared with Ksh 146.21 per Sterling Pound, Ksh 129.69 per Euro, and 112.82 per 100 Japanese Yen in the previous week respectively (Table 4).

In the EAC region, the Kenya Shilling appreciated against the other East African currencies during the week ending July 1, 2011. The Kenya shilling strengthened against the Uganda shilling, Tanzania Shilling, the Rwanda Franc and Burundi Franc. On average, the Kenya shilling exchange at Ushs 28.90 per Kenya Shilling, Tshs 17.91 per Kenya shilling, RWF 6.66 per Kenya shilling and BIF 13.68 per Kenya Shilling during the week, compared to Ushs 27.29 per Kenya Shilling, Tshs 17.63 per Kenya shilling, RWF 6.63 per Kenya shilling and BIF 13.62 per Kenya Shilling, in the week ending June 24, 2011 respectively.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
20-Jun-11	89.80	144.86	127.80	112.01	27.25	17.48	6.69	13.75
21-Jun-11	90.73	147.28	130.24	113.01	27.22	17.66	6.62	13.62
22-Jun-11	91.66	148.90	132.01	114.11	27.04	17.54	6.55	13.47
23-Jun-11	90.56	145.35	129.54	112.70	27.41	17.75	6.63	13.64
24-Jun-11	90.45	144.66	128.89	112.25	27.52	17.75	6.64	13.59
June 20 - 24, 2011	90.64	146.21	129.69	112.82	27.29	17.63	6.63	13.62
27-Jun-11	90.46	144.12	127.81	112.05	27.67	17.75	6.63	13.61
28-Jun-11	90.83	144.89	129.63	112.32	28.08	17.72	6.61	13.57
29-Jun-11	90.02	144.08	129.40	111.11	29.33	17.95	6.67	13.70
30-Jun-11	89.86	144.62	130.21	111.55	30.32	18.01	6.68	13.72
1-Jul-11	89.36	143.46	129.71	111.19	29.13	18.12	6.72	13.79
June 27 - July 01, 2011	90.11	144.23	129.35	111.64	28.90	17.91	6.66	13.68

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank declined marginally from US dollar 3,957 million (equivalent to 3.72 months of imports) as at June 24, 2011 to US dollar 3,918 million (equivalent to 3.73 months of imports) as at July 1, 2011, reflecting revaluation loss during the week (Table 5).

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

	24-Mar-11	31-Mar-11	29-Apr-11	27-May-11	10-Jun-11	17-Jun-11	24-Jun-11	1-Jul-11
Usable Reserves*	3,935	3,887	3,956	3,907	3,998	3,976	3,957	3,918
Months of Imports Cover**	3.90	3.77	3.82	3.79	3.83	3.79	3.72	3.73

*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 87.7 billion from Ksh 660.3 billion in June 2010 to Ksh 753.9 billion as at June 24, 2011 (Table 6). This reflects the increases in Treasury bonds of Ksh 136.8 billion. This was,

however, partially offset by decreases of Ksh 49.1 billion in Treasury bills, other domestic debt and long term stocks.

Table 6: Government Domestic Debt (Ksh Billion)

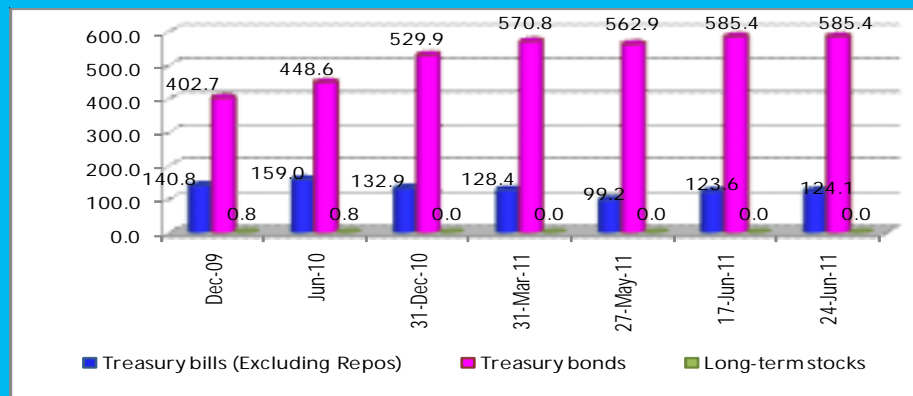
	Jun-10	Dec-10	Mar-11	27th May-2011	3rd June-2011	10th June-2011		24th June-2011		Changes	
						17th June-2011	10th June-2011	24th June-2011	10th June 2011-24th June-11	30th Jun 2011-24th June 2011	
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	132.9 20.1	128.4 18.4	99.2 15.0	104.4 15.1	110.2 15.8	123.6 17.4	124.1 17.5	0.5	-34.9	
2. Treasury Bonds (As % of total securities)	448.6 73.7	529.9 79.9	570.8 81.6	562.9 85.0	585.4 84.9	585.4 84.2	585.4 82.6	585.4 82.5	0.0	136.8	
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 0.0	0.0 0.0	0.0 0.0	0.0	-0.8	
4. Total Securities (1+2+3)	608.4	662.8	699.2	662.1	689.7	695.6	709.0	709.5	0.5	101.1	
5. Overdraft at Central Bank	17.6	22.7	19.7	22.9	17.8	10.4	10.6	4.2	-6.4	-13.4	
6. Other Domestic debt*	34.2	34.8	35.2	34.1	34.1	37.6	34.4	34.2	-0.2	0.0	
7. Gross Domestic Debt (4+5+6)	660.3	720.2	754.1	719.1	741.7	743.6	753.9	747.9	-6.0	87.7	
8. Interest payments on domestic debt	57.8	34.2	47.2	58.2	61.6	62.8	63.2	63.5	0.2		

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

Source: Central Bank of Kenya

Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 585.4 billion as at June 24, 2011, while Treasury bills declined from Ksh 159.0 billion to Ksh 124.1 billion during the same period. As a result, the share of Treasury bonds in total domestic debt increased from 73.7 percent in June 2010 to 82.5 percent as at June 24, 2011, while that of Treasury bills declined from 26.1 percent to 17.5 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years 11 month during this period (Chart D).

Chart D: Composition of Government Securities

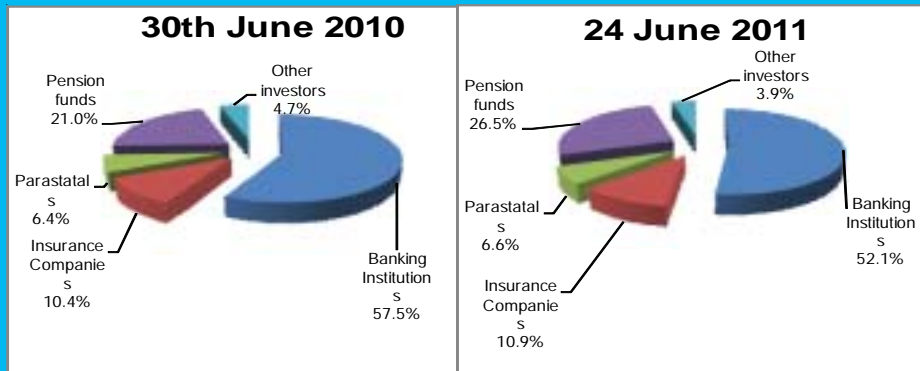


Source: Central Bank of Kenya

Holding of Government Securities

The holdings of Government securities by parastatals, pension funds and insurance companies increased from 6.4 percent, 21.0 percent and 10.4 percent, respectively as at June 30, 2010 to 6.6 percent, 26.5 percent and 10.9 percent, respectively as at June 24, 2011. Holdings of commercial banks declined from 57.5 percent to 52.1 percent (Chart E).

Chart E: Composition of Government Securities by Investor

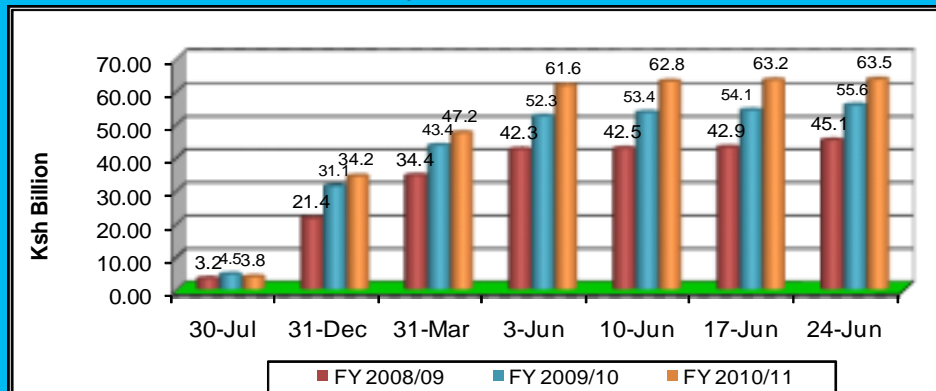


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt as at June 24, 2011 amounted to Ksh 63.5 billion compared with Ksh 55.6 billion in a similar period of the fiscal year 2009/10 (Chart F). The cost during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 8.7 billion and Ksh 53.7 billion, respectively, while interest on Government overdraft at the Central Bank amounted to Ksh 1.1 billion.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The equities market saw turnover of stocks worth Ksh 1,741.55 million being traded up from Ksh 1,208.24 million traded in the week ended June 23, 2011. The number of shares traded rose from 69.85 million to 102.65 million shares. Market capitalization as a measure of total shareholders' wealth rose 0.6 percent or Ksh 6.2 billion to Ksh 1,121.44 billion from last week's value of Ksh 1,115.24 billion. The Nairobi All Share Index (NASI) rose to 91.36 points from 90.85 points. However, the NSE 20 Share Index lost 2.47 points or 0.1 percent to level 3,968.12 points from 3,970.59 points (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	5-May-11	12-May-11	19-May-11	26-May-11	2-Jun-11	9-Jun-11	16-Jun-11	23-Jun-11	30-Jun-11
NASI 100= Jan 2008	95.31	93.34	93.54	93.37	93.70	93.25	91.45	90.85	91.36
NSE 20 Share Index 100=1966	4,031.78	3,992.55	3,986.78	4,070.05	4,091.55	4,086.62	3992.3	3970.59	3968.12
Number of Deals	7,464.00	8,984.00	8,196.00	8,020.00	6,853.00	9,126.00	9356	9104	8590
Total Shares Traded (millions)	113.09	87.50	94.38	89.50	71.04	94.86	129.3506	69.851	102.6471
Equity Turnover (Ksh. millions)	2,489.05	1,914.78	2,107.91	1,377.74	1,418.37	1,991.03	1835.93837	1208.23745	1741.547
Market Capitalization (Ksh. Bn.)	1,168.67	1,144.55	1,147.05	1,144.96	1,150.19	1,144.69	1122.577	1115.241	1121.44
Bonds Turnover (Ksh. millions)	5,279.35	3,397.25	8,713.95	8,201.70	10,497.30	16,727.00	14291.15	12216.75	14548.75

* The Nairobi All Share Index (NASI) effected on February 25, 2008 (January 01, 2008 = 100)

Source: Nairobi Stock Exchange

Finance and Investment sector dominated trading, at 40.7 million shares or 39.6 percent of all shares transacted at the bourse. Of this, KCB and Barclays banks' counters dominated the sector with 14.4 million and 10.7 million shares transacted, respectively. Commercial and Services sector was second most active, with 39.6 million shares traded, followed by Industrial and Allied sector at 22 million shares. Safaricom counter dominated the Commercial and Services sector, with 34.3 million shares, while Kenol Kobil dominated Industrial and Allied sector at 11 million shares transacted. The Alternative market segment traded 83,800 from 74,800 in the previous period.

The biggest closing and average price margin gains between June 23 and June 30, 2011, was for Kapchorua Tea counter at Ksh 22 and Ksh. 21.8 per share, respectively. The biggest closing and average price margin losses was on Athi River Mining Counter at Ksh 7.0 and Williamson Tea at Ksh. 4.95 per share, respectively.

Bond Market

Bonds trading at the Fixed Income Securities Market rose 19.2 percent, from Ksh 12.2 billion for the week ended June 23, 2011 to Ksh 14.6 billion for the week ending June 30, 2011. The number of deals transacted, were up to 144 from 109.