

July 8, 2011



THE CBK WEEKLY BULLETIN

**Highlights for
the Week**

The Government securities market posted a performance rate of 206 percent and 53 percent during the auctions of the 91 day and 364 day Treasury bills, respectively. The average 91 day Treasury bills rate was at 8.954 percent while that of 364 day Treasury bills average interest rate settled at 10.220 percent.

The average interbank rate rose by 144 basis points to 8.12 percent during the week ending July 6, 2011 from 6.68 percent in the previous week reflecting tight interbank liquidity.

The money market was tight during the week ending July 6, 2011 and the Central Bank stayed out of the market. Owing to the tight liquidity conditions in the money market, commercial banks borrowed Ksh 97.73 billion from the Central Bank overnight compared to Ksh 102.22 billion in the previous week.

The Kenya Shilling appreciated against major international currencies in the week ending July 8, 2011. Against the US dollar, the Kenya shilling appreciated to exchange at an average of Ksh 89.18 in the week compared with Ksh 90.11 per US dollar in the week ending July 1, 2011.

The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,918 million (equivalent to 3.69 months of imports) as at July 1, 2011, to US dollar 3,894 million (equivalent to 3.65 months of imports) as at July 8, 2011.

Government gross domestic debt increased by Ksh 103.9 billion from Ksh 660.3 billion in June 2010 to Ksh 764.1 billion as at June 2011. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 69.2 billion in the fiscal year 2011.

Performance at the equities and bonds markets generally declined during the week ending July 7, 2011. The NSE 20 Share Index lost 61.4 points on July 7, 2011, to settle at 3,906.7 from 3,968.1 points on June 30, 2011. The Nairobi All Share Index (NASI) also lost 1.18 points to level 90.18 points from 91.36 points during the period under review. The equity turnover dropped by 20.4 percent or Ksh 355.7mn while number of shares transacted decreased by 8.7 percent or 8.96 million during the period under review. Similarly, the fixed income segment of the market recorded a 40.7 percent decrease in activity.

Government Securities Auction

The Government securities market posted a performance rate of 206 percent and 53 percent during the auctions of the 91 day and 364 day Treasury bills, respectively. During the week, the government offered for sale treasury bills worth Ksh 2.0 billion and Ksh 5.0 billion for the 91 day and 364 day Treasury bills, respectively and received bids totalling Ksh 4.13 billion and Ksh 2.7 billion.

The Government accepted bids totalling Ksh 4.07 billion for the 91day Treasury bills and Ksh 1.2 billion for the 364 day Treasury bills. Proceeds of the auction were to be used to meet part of the cost of Treasury bills maturities amounting to Ksh 6.6 billion in the week.

Interest Rate on Treasury Bills

The average interest rates for the 91 day Treasury bills decreased by 3.4 basis points from 8.988 percent in the previous week's auction of the same tenure to 8.954 percent during this week's auction (Table 1). Similarly, the average interest rates for the 364 day treasury bills declined by 2.9 basis points from 10.249 percent previously to 10.220 percent.

Table 1 : Interest Rates

Auction date	27-May-11	3-Jun-11	10-Jun-11	17-Jun-11	24-Jun-11	1-Jul-11	8-Jul-11
91 day T. Bills*	7.942	8.798	9.016	9.006	8.995	8.988	8.954
182 day T. Bills*			9.949	9.906		9.854	
364 day T. Bills*			10.249				10.220
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

The average interbank rate rose by 144 basis points to 8.12 percent during the week ending July 6, 2011 from 6.68 percent in the previous week, reflecting tight interbank liquidity. The average volumes traded decreased to Ksh 12.97 billion in the week ending July 6, 2011 from Ksh 14.08 billion in the previous week (Table 2).

Table 2: Interbank Deals, Volumes and Interest Rates

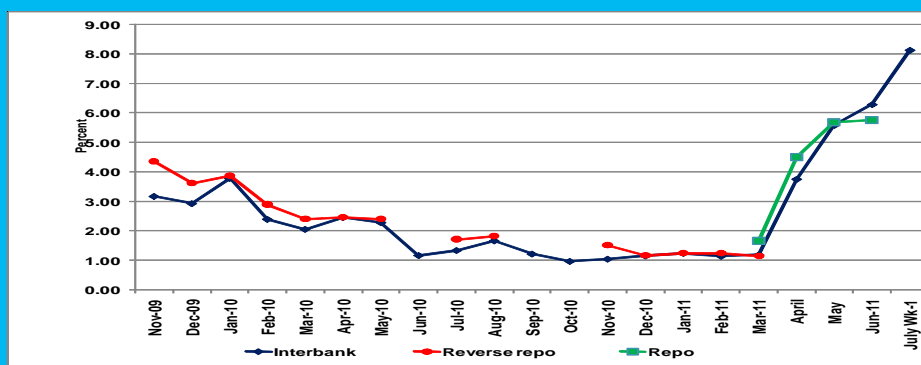
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
23-Jun-11	50	12,608	6.25
24-Jun-11	76	20,641	6.25
27-Jun-11	57	16,456	6.25
28-Jun-11	59	11,663	7.08
29-Jun-11	53	9,041	7.57
June 23- June 29, 2011	59	14,081	6.68
30-Jun-11	57	9,845	8.00
1-Jul-11	76	15,490	8.05
4-Jul-11	84	11,961	8.15
5-Jul-11	78	15,399	8.18
6-Jul-11	70	12,133	8.23
June 30- July 06, 2011	73	12,966	8.12

Source: Central Bank of Kenya

Interbank and REPO Rates

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

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The money market was tight during the week ending July 6, 2011 and the Central Bank stayed out of the market. Reflecting the tight liquidity conditions in the money market, commercial banks borrowed Ksh 97.73 billion from the Central Bank overnight window compared to Ksh 102.22 billion in the previous week. Reserve money averaged Ksh 224.7 billion during the week and was above target by Ksh 8.7 billion (Table 3).

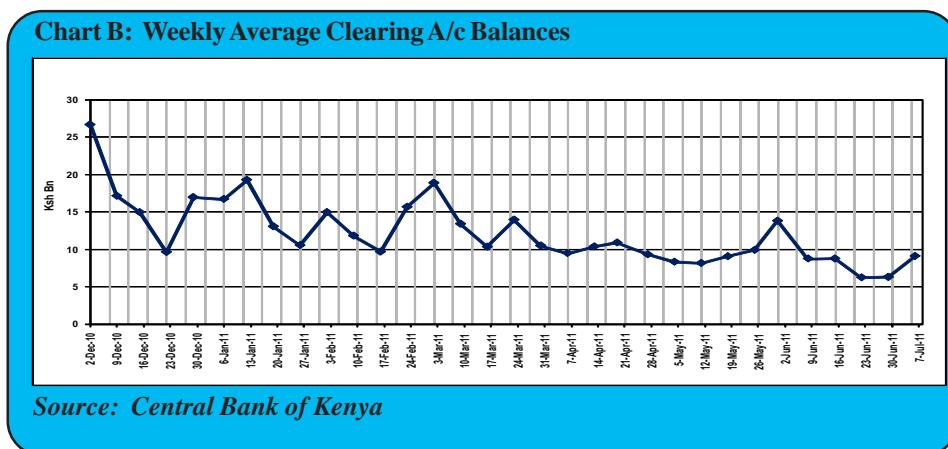
Table 3: Open Market Operations Ksh Billion

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)
6/30/2011	223.6	215.4	8.2	0.5	0.0	-0.5	223.6	8.3	2.5	5.7
1-Jul-11	223.4	216.2	7.2	0.5	0.0	-0.5	223.7	7.5	-0.1	7.5
4-Jul-11	222.6	216.2	6.4	0.0	0.0	0.0	224.1	7.9	0.1	7.9
5-Jul-11	226.9	216.2	10.7	0.0	0.0	0.0	225.0	8.8	-0.3	9.1
6-Jul-11	227.0	216.2	10.8	0.0	0.0	0.0	227.4	11.2	1.6	9.6
Average	224.7	216.0	8.7	0.2	0.0	-0.2	224.8	8.7	0.8	8.0

Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Accounts
Balances**

Commercial banks maintained an average of Ksh 9.13 billion in their clearing accounts at the Central Bank in the week to July 6, 2011, up from Ksh 6.31 billion in the previous week (Chart B).



**The Shilling
Exchange
Rate**

The Kenya Shilling appreciated against major international currencies in the week ending July 8, 2011. Against the US dollar, the Kenya shilling appreciated to exchange at an average of Ksh 89.18 in the week compared with Ksh 90.11 per US dollar in the week ending July 1, 2011. The Kenya shilling also appreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 142.85 per Sterling Pound and Ksh 128.67 per Euro, and 110.12 per 100 Japanese Yen compared with Ksh 144.23 per Sterling Pound and Ksh 129.35 per Euro, and 111.64 per 100 Japanese Yen in the previous week.

In the EAC region, the Kenya Shilling appreciated against the other East African currencies during the week ending July 8, 2011. The Kenya shilling strengthened against the Uganda shilling, Tanzania Shilling, the Rwanda Franc and Burundi Franc. On average, the Kenya shilling exchanged at Ushs 29.03 per Kenya Shilling, Tshs 18.08 per Kenya shilling, RWF 6.73 per Kenya shilling and BIF 13.82 per Kenya Shilling during the week, compared to 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, in the week ending July 1, 2011 (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
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
4-Jul-11	88.69	142.61	128.84	109.81	29.35	18.26	6.77	13.90
5-Jul-11	88.45	141.71	128.03	109.13	28.77	18.31	6.77	13.95
6-Jul-11	88.97	142.88	128.69	109.85	29.11	18.12	6.75	13.85
7-Jul-11	89.86	143.53	128.74	111.06	28.93	17.94	6.68	13.72
8-Jul-11	89.94	143.52	129.06	110.75	28.96	17.75	6.68	13.70
JulY 04 - 07, 2011	89.18	142.85	128.67	110.12	29.03	18.08	6.73	13.82

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,918 million (equivalent to 3.69 months of imports) as at July 1, 2011 to US dollar 3,894 million (equivalent to 3.65 months of imports) as at July 08, 2011, reflecting revaluation loss during the week (Table 5).

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

	31-Mar-11	29-Apr-11	27-May-11	17-Jun-11	24-Jun-11	1-Jul-11	8-Jul-11
Usable Reserves*	3,887	3,956	3,907	3,976	3,957	3,918	3,894
Months of Imports Cover**	3.77	3.82	3.79	3.79	3.72	3.73	3.65

*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 103.9 billion from Ksh 660.3 billion in fiscal year 2009/10 to Ksh 764.1 billion in the fiscal year 2010/11. This reflects the increases in Treasury bonds of Ksh 147.0 billion. This was, however, partially offset by decreases of Ksh 32.3 billion in Treasury bills, Ksh 10.1 billion in Overdraft at the Central Bank of Kenya and Ksh 0.8 billion in long term stocks (Table 6).

Table 6: Government Domestic Debt (Ksh Billion)

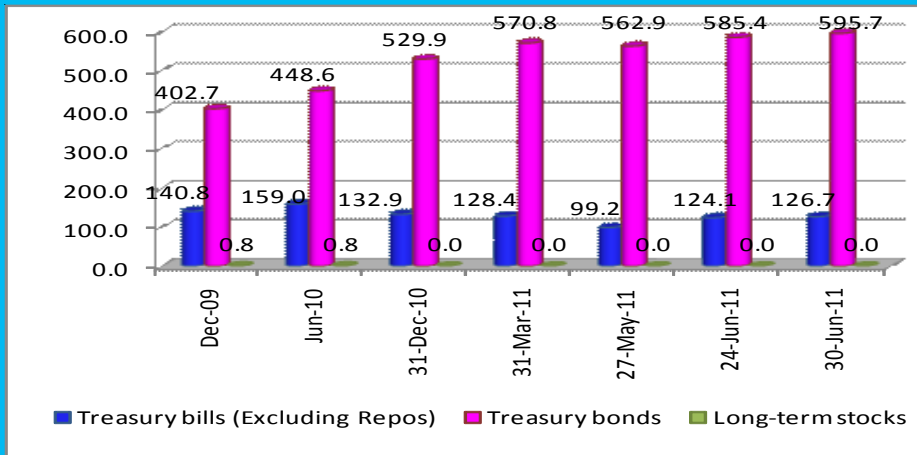
	Jun-10	Dec-10	Mar-11	17th June-2011	24th June-2011	30th June-2011	Changes	
							10th June 2011-30th June-11	30th Jun 2011-30th June 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	132.9 20.1	128.4 18.4	123.6 17.4	124.1 17.5	126.7 17.5	2.6	-32.3
2. Treasury Bonds (As % of total securities)	448.6 73.7	529.9 79.9	570.8 81.6	585.4 82.6	585.4 82.5	595.7 82.5	10.3	147.0
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	-0.8
4. Total Securities (1+2+3)	608.4	662.8	699.2	709.0	709.5	722.4	12.9	114.0
5. Overdraft at Central Bank	17.6	22.7	19.7	10.6	4.2	7.6	3.3	-10.1
6. Other Domestic debt*	34.2	34.8	35.2	34.4	34.2	34.2	0.0	0.0
7. Gross Domestic Debt (4+5+6)	660.3	720.2	754.1	753.9	747.9	764.1	16.2	103.9
8. Interest payments on domestic debt	57.8	34.2	47.2	63.2	63.5	69.2	5.7	

* 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 595.7 billion as at June 30, 2011, while Treasury bills declined from Ksh 159.0 billion to Ksh 126.7 billion during the same period (Chart C). 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 30, 2011, while that of Treasury bills declined from 26.1 percent to 17.5 percent over the same period. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years 10 month during this period.

Chart C: Composition of Government Securities

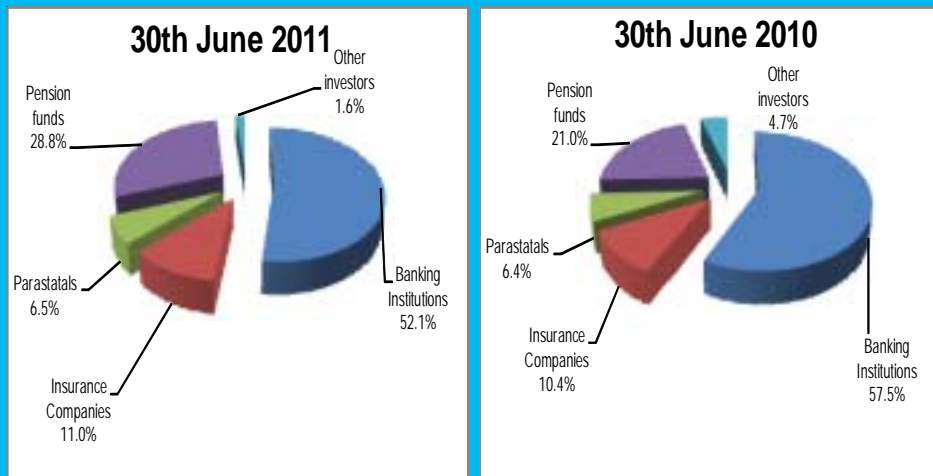


Source: Central Bank of Kenya

Holding of Govt 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, from June, 2010 to 6.5 percent, 28.8 percent and 11.0 percent, as at June 30, 2011, respectively. Holdings of commercial banks declined from 57.5 percent to 52.1 percent over the same period (Chart D).

Chart D: Composition of Government Securities by Investors

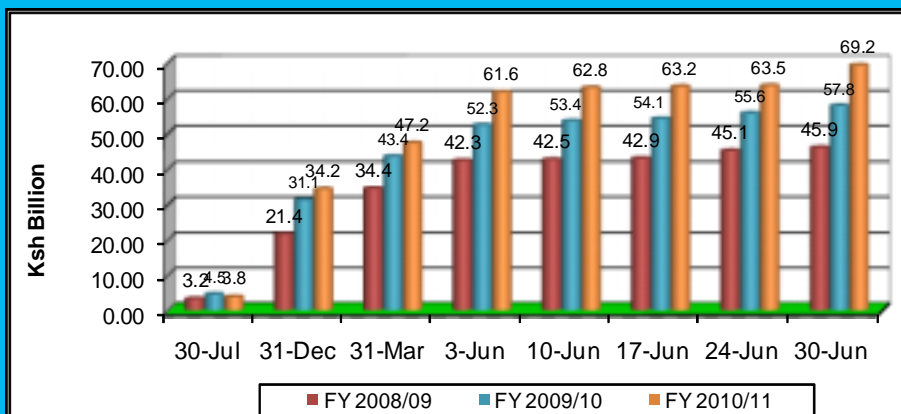


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt as at the end of the fiscal year 2010/11 amounted to Ksh 69.2 billion compared with Ksh 57.8 billion in the fiscal year 2009/10 (Chart E). 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 59.3 billion, respectively, while interest on Government overdraft at the Central Bank amounted to Ksh 1.2 billion.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The equities market saw turnover of stocks worth Ksh 1,385.8 million being traded from Ksh 1,741.5 million traded in the week ended June 30th, 2011. The number of shares traded dropped from 102.65 million to 93.67 million shares. Market capitalization as a measure of total shareholders' wealth dropped by 1.3 percent or Ksh 14.4 billion to Ksh 1,107.1 billion from last week's value of Ksh 1,121.4 billion. The Nairobi All Share Index (NASI) dropped to 90.18 points from 91.36 points. The NSE 20 Share Index also lost 61.4 points or 1.5 percent to level 3,906.7 points from 3,968.1 points (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	2-Jun-11	9-Jun-11	16-Jun-11	23-Jun-11	30-Jun-11	7-Jul-11
NASI 100= Jan 2008	93.70	93.25	91.45	90.85	91.36	90.18
NSE 20 Share Index 100=1966	4,091.55	4,086.62	3992.3	3970.59	3968.12	3906.71
Number of Deals	6,853.00	9,126.00	9356	9104	8590	8154
Total Shares Traded (millions)	71.04	94.86	129.35	69.85	102.65	93.68
Equity Turnover (Ksh. millions)	1,418.37	1,991.03	1835.94	1208.24	1741.55	1385.82
Market Capitalization (Ksh. Bn.)	1,150.19	1,144.69	1122.58	1115.24	1121.44	1107.06
Bonds Turnover (Ksh. millions)	10,497.30	16,727.00	14291.15	12216.75	14548.75	8632.05

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

Source: Nairobi Stock Exchange

Commercial and Services sector dominated trading, at 51.8 million shares or 55.4 percent of all shares transacted at the bourse. Of this, Safaricom counters dominated the sector with 47.9 million shares transacted. Finance and Investment sector was second most active, with 26.5 million shares traded, followed by Industrial and Allied sector at 15.0 million shares. Equity Bank dominated the Finance and Investment sector, with 10.3 million, shares while Kenol Kobil dominated Industrial and Allied sector at 7.8 million shares transacted. The Alternative market segment traded 41,000 shares from 83,800 in the previous period. The biggest closing and average price margin gains between June 30 and July 7, 2011, was for Nation Media Group and East African Portland Cement at Ksh 3 and Ksh. 7 per share, respectively. The biggest closing and average price margin losses was on Williamson Tea and City Trust Ltd Counters at Ksh 9 and Ksh 5 per share, respectively.

Bond Market Bonds trading at the Fixed Income Securities Market dropped by 40.7 percent, from Ksh 14.5 billion for the week ended June 30th 2011 to Ksh 8.6 billion for the week ending July 7th 2011. The number of deals transacted, were down to 73 from 144.