

July 29, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government securities market posted mixed performance in this week's auction, with the 91-day and 182-day Treasury bills recording performance rates equivalent to 171.9 percent and 59.7 percent, respectively. Collectively, the Government advertised for Treasury bills worth Ksh 5.0 billion and accepted a total of Ksh 3.0 billion. The average 91 day and 182-day Treasury bills rates settled at 9.010 percent and 9.799 percent, respectively.

The average interbank rate declined by 127 basis points to 8.05 percent during the week ending July 27, 2011 from 9.32 percent in the previous week, reflecting an improvement in interbank liquidity.

The money market was tight during the week ending July 27, 2011 and the Central Bank injected Ksh 23.8 billion to the market through reverse repo operations.

The Kenya Shilling depreciated against major international currencies in the week ending July 29, 2011. Against the US dollar, the Kenya shilling depreciated to exchange at an average of Ksh 90.62 in the week compared with Ksh 90.01 per US dollar in the week ending July 22, 2011.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,931 million (equivalent to 3.69 months of imports) as at July 22, 2011, to US dollar 3,976 million (equivalent to 3.73 months of imports) as at July 29, 2011.

Government gross domestic debt increased by Ksh 1.0 billion from Ksh 764.1 billion in June 2011 to Ksh 765.1 billion as at July 22, 2011. During the week ending 22 July 2011, however, gross domestic debt declined by Ksh 1.5 billion following a decline in the stock of Treasury bills.

Trading in equities market was down, but activity in the bonds market more than doubled during the week ending July 28, 2011. The NSE 20 Share Index lost 23.559 points as the Nairobi All Share Index (NASI) shed 0.75 points. Similarly, the volume of shares traded went down by 37.8 percent and equity turnover fell by 17.2 percent. However, the bonds segment of the market recorded 138 percent increase in trading during the week.

Government Securities Auction

The Government securities market posted performance rates of 171.9 percent and 59.7 percent during the auctions of the 91-day and 182-day Treasury bills. Out of the Ksh 2.0 billion offered for the 91-day Treasury bills, a total Ksh 3.4 billion subscriptions were received, while only Ksh 1.8 billion worth of subscriptions were received for the Ksh 3.0 billion offered for the 182-day Treasury bills. The Government accepted bids totalling Ksh 2.3 billion and Ksh 0.7 billion for the 91-day and 182-day Treasury bill auctions, respectively.

Interest Rate on Treasury Bills

The average interest rates for the 91-day Treasury bills edged up by 0.6 basis points from 9.004 percent in the previous auction of the same tenure to 9.010 percent during this week's auction (Table 1). The 182-day Treasury bill rate declined by 4.6 basis points to stand at 9.799 percent during this week's auction, compared with the previous auction of the same tenure.

Table 1 : Interest Rates

Auction date	10-Jun-11	17-Jun-11	24-Jun-11	1-Jul-11	8-Jul-11	15-Jul-11	22-Jul-11	29-Jul-11
91 day T. Bills*	9.016	9.006	8.995	8.988	8.954	8.999	9.004	9.010
182 day T. Bills*	9.949	9.906		9.854		9.845		9.799
364 day T. Bills*	10.249				10.220			
Month	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
Average savings rate	1.40	1.45	1.25	1.41	1.37	1.38	1.38	
Average overdraft rate	13.77	13.69	13.93	13.65	13.60	13.68	13.72	

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate declined by 127 basis points to 8.05 percent during the week ending July 27, 2011 from 9.32 percent in the previous week, reflecting an improvement in interbank liquidity.

The interbank liquidity was eased by the Central Bank injection of Ksh 23.8 billion to the market through reverse repo operations. The average volumes traded increased to Ksh 9.97 billion in the week ending July 27, 2011 from Ksh 9.06 billion in the previous week.

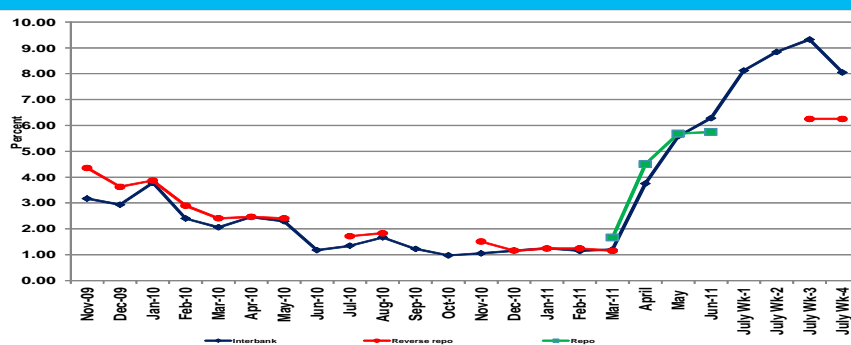
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
14-Jul-11	51	7,440	10.52
15-Jul-11	57	10,292	10.67
18-Jul-11	40	6,919	9.14
19-Jul-11	53	11,340	8.23
20-Jul-11	54	9,329	8.05
July 14- July 20, 2011	51	9,064	9.32
21-Jul-11	50	9,835	7.96
22-Jul-11	54	9,119	8.00
25-Jul-11	68	11,895	7.96
26-Jul-11	54	12,601	8.14
27-Jul-11	45	6,416	8.20
July 21- July 27, 2011	54	9,973	8.05

Source: Central Bank of Kenya

The reverse repo rate was 6.25 percent for the reverse repo transactions during the week ending July 27, 2011.

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 27, 2011 and the Central Bank injected Ksh 23.8 billion to the market through reverse repo operations. Consequently, commercial bank borrowing from the Central Bank overnight window decreased to Ksh 11.97 billion in the week ending July 27, 2011 compared with Ksh 26.7 billion borrowed from the Central Bank overnight window in the previous week. Reserve money averaged Ksh 223.8 billion during the week and was above target by Ksh 5.4 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	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)
21-Jul-11	223.3	217.9	5.4	0.0	0.0	0.0	223.2	5.3	-2.6	8.0
22-Jul-11	221.5	217.9	3.7	0.0	0.0	0.0	224.5	6.6	-0.8	7.5
25-Jul-11	200.9	218.7	-17.8	19.0	19.9	0.9	226.3	7.6	1.1	6.5
26-Jul-11	225.2	218.7	6.5	0.0	0.0	0.0	221.3	2.6	-5.2	7.8
27-Jul-11	215.1	218.7	-3.6	3.8	3.9	0.2	223.6	4.9	-3.2	8.1
Average	217.2	218.4	-1.1	4.6	4.8	0.2	223.8	5.4	-2.1	7.6

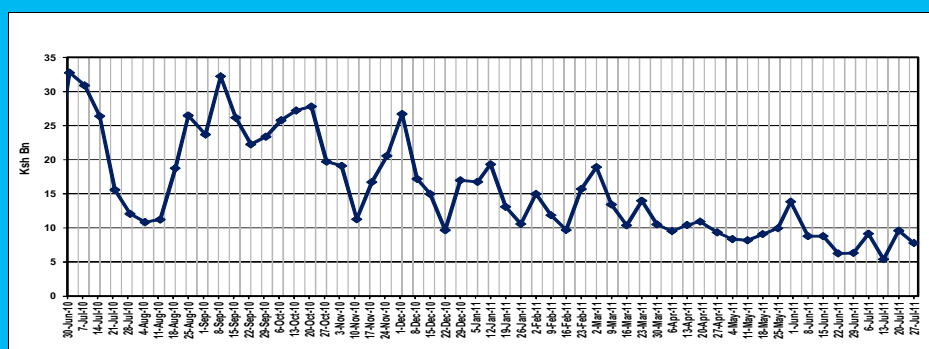
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Accounts
Balances**

Commercial banks maintained an average of Ksh 7.77 billion in their clearing accounts at the Central Bank in the week to July 27, 2011, down from Ksh 9.58 billion in the previous week (Chart B).

Chart B: Weekly Average Clearing A/c Balances



Source: Central Bank of Kenya

**The Shilling
Exchange
Rate**

The Kenya Shilling depreciated against major international currencies in the week ending July 29, 2011. Against the US dollar, the Kenya shilling depreciated to exchange at an average of Ksh 90.62 in the week compared with Ksh 90.01 per US dollar in the week ending July 22, 2011. The Kenya shilling also depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 148.15 per Sterling Pound and Ksh 130.54 per Euro, and 116.31 per 100 Japanese Yen compared with Ksh 145.42 per Sterling Pound and Ksh 127.76 per Euro, and 114.08 per 100 Japanese Yen in the previous week.

In the EAC region, the Kenya Shilling appreciated against the Uganda shilling, the Rwanda Franc and Burundi Franc during the week ending July 29, 2011. The Kenya shilling, however, depreciated against the Tanzania Shilling. On average, the Kenya shilling exchange at Ush 28.71 per Kenya Shilling, Tsh 17.39 per Kenya shilling, RWF 6.63 per Kenya shilling and BIF 13.56 per Kenya Shilling during the week, compared to Ush 28.80 per Kenya Shilling, Tsh 17.29 per Kenya shilling, RWF 6.63 per Kenya shilling and BIF 13.56 per Kenya Shilling, in the week ending July 22, 2011 (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
18-Jul-11	89.68	144.40	126.02	113.55	28.71	17.32	6.70	13.71
19-Jul-11	90.19	144.95	127.00	114.11	28.89	17.20	6.66	13.63
20-Jul-11	90.17	145.35	127.72	114.12	28.72	17.26	6.64	13.64
21-Jul-11	90.06	145.75	128.56	114.21	28.76	17.38	6.67	13.66
22-Jul-11	89.96	146.67	129.49	114.38	28.90	17.29	6.68	13.73
July 18 - 22, 2011	90.01	145.42	127.76	114.08	28.80	17.29	6.67	13.68
25-Jul-11	90.29	147.27	129.75	115.14	28.80	17.32	6.65	13.67
26-Jul-11	90.38	147.74	131.02	115.75	28.75	17.33	6.64	13.56
27-Jul-11	90.51	148.60	131.32	116.47	28.71	17.31	6.63	13.54
28-Jul-11	90.84	148.39	130.44	116.76	28.68	17.50	6.61	13.51
29-Jul-11	91.10	148.74	130.16	117.42	28.62	17.47	6.59	13.50
July 25 - 29, 2011	90.62	148.15	130.54	116.31	28.71	17.39	6.63	13.56

Source: Central Bank of Kenya

**Foreign
Exchange
Reserves**

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,931 million (equivalent to 3.69 months of imports) as at July 22, 2011, to US dollar 3,976 million (equivalent to 3.73 months of imports) as at July 29, 2011, reflecting revaluation gain during the week (Table 5).

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

	31-Mar-11	29-Apr-11	27-May-11	24-Jun-11	1-Jul-11	15-Jul-11	22-Jul-11	29-Jul-11
Usable Reserves*	3,887	3,956	3,907	3,957	3,918	3,918	3,931	3,976
Months of Imports Cover**	3.77	3.82	3.79	3.72	3.73	3.68	3.69	3.73

*Excludes encumbered reserves

**Based on 36 month average of imports of

Source: Central Bank of Kenya

**Government
Domestic
Debt**

Gross Government debt increased by Ksh 1.0 billion from Ksh 764.1 billion in fiscal year 2010/11 to Ksh 765.1 billion in the fiscal year 2010/11 (Table 6). This reflected Ksh 1.8 billion increase in the Government overdraft and a Ksh 0.7 billion increase in the other domestic debt, which were partially offset by Ksh 1.4 billion decline in Treasury bills during the period.

Table 6: Government Domestic Debt (Ksh Billion)

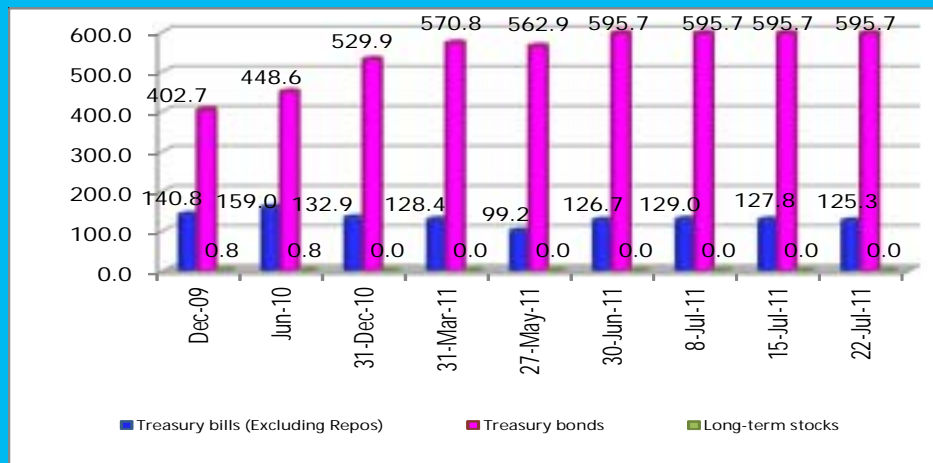
	Sep-10	Dec-10	Mar-11	Jun-11	15th July-2011	22nd July-2011	Changes	
							15th Jul 2011- 22nd July 2011	30th Jun 2011- 22nd July 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	147.4 23.2	132.9 20.1	128.4 18.4	126.7 17.5	127.8 17.7	125.3 17.4	-2.5	-1.4
2. Treasury Bonds (As % of total securities)	488.5 76.7	529.9 79.9	570.8 81.6	595.7 82.5	595.7 82.3	595.7 82.6	0.0	0.0
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	0.0
4. Total Securities (1+2+3)	636.6	662.8	699.2	722.4	723.5	721.0	-2.5	-1.4
5. Overdraft at Central Bank	20.6	22.7	19.7	7.6	9.1	9.3	0.3	1.8
6. Other Domestic debt*	34.1	34.8	35.2	34.2	34.1	34.8	0.8	0.7
7. Gross Domestic Debt (4+5+6)	691.3	720.2	754.1	764.14	766.61	765.14	-1.47	1.00
8. Interest payments on domestic debt	14.49	34.2	47.2	69.2	0.25	0.62	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

Treasury bills declined from Ksh 126.7 billion to Ksh 125.3 billion, while Treasury bonds remained unchanged between end June 2011 and July 22, 2011. As a result, the share of Treasury bonds in total securities increased from 82.5 percent in June 2011 to 82.6 percent as at July 22, 2011, while that of Treasury bills declined from 17.5 percent to 17.4 percent, during the same period. The average time to maturity of Government securities declined from 5 years 10 months in June 2011 to 5 years 9 months in the financial year to July 22, 2011.

Chart C: Composition of Government Securities

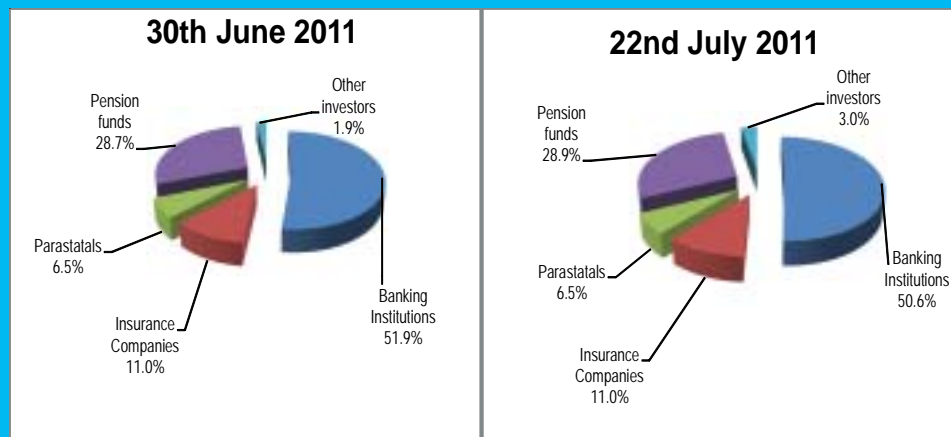


Source: Central Bank of Kenya

Holding of Govt Securities

The holdings of Government securities by banking institutions declined from 51.9 percent in June 2011 to 50.6 percent as at July 22, 2011. All the other Government securities holders increased their shares with the exception of parastatals, which maintained the same share, equivalent to 6.5 percent, as at July 22, 2011. Holdings of ‘other holders’ increased from 1.9 percent in June 2011 to 3.0 percent as at July 22, 2011 (Chart D).

Chart D: Composition of Government Securities by Investors

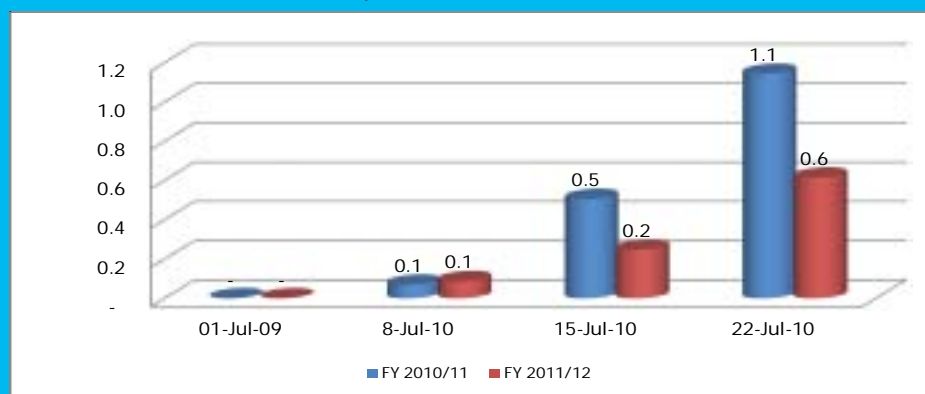


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt from July 1, 2011 to July 22, 2011 amounted to Ksh 0.62 billion compared with Ksh 1.1 billion in the same period of the fiscal year 2010/11. The cost during the period was on account of interest and other charges on Treasury bills (Chart E).

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The NSE 20 Share Index closed at 3,733.3 points on July 28 2011, down from 3,756.9 points on July 21, 2011. The Nairobi All Share Index (NASI) was down to 84.65 points from 85.4 points during the same period. The equity turnover declined by Ksh 424.06 million to transact stocks worth Ksh 2,037.1 million by close of July 28th 2011, from Ksh 2,461.2 million for the previous week. The number of shares transacted fell by 61.2 million during the week, to 100.8 million shares from 162 million. Market Capitalization as a measure of total shareholders' wealth dropped by 0.9 percent or Ksh 9.3 billion to Ksh 1054.1 billion from last week's value of Ksh 1,063.4 billion. The activities reflect investors' divestiture from equities into the bond market during the week, perhaps to safeguard their investments or attracted by the promised higher yields (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	23-Jun-11	30-Jun-11	7-Jul-11	14-Jul-11	21-Jul-11	28-Jul-11
NASI 100= Jan 2008	90.85	91.36	90.18	86.01	85.40	84.65
NSE 20 Share Index 100=1966	3,970.59	3,968.12	3,906.71	3,746.00	3,756.89	3,733.30
Number of Deals	9,104.00	8,590.00	8,154.00	7,611.00	8,579.00	6,726.00
Total Shares Traded (millions)	69.85	102.65	93.68	67.20	161.97	100.80
Equity Turnover (Ksh. millions)	1,208.24	1,741.55	1,385.82	1,389.97	2,461.18	2,037.10
Market Capitalization (Ksh. Bn.)	1,115.24	1,121.44	1,107.06	1,070.98	1,063.39	1,054.10
Bonds Turnover (Ksh. millions)	12,216.75	14,548.75	8,632.05	9,467.25	4,495.90	10,699.25

* 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, with 55.4 million shares or 58.8 percent of all shares transacted at the bourse. Of this, Safaricom was the most active counter in the sector, with 49.5 million shares transacted. Finance and Investment sector was second most active, with 29 million shares traded, and followed by Industrial and Allied sector at 9.6 million shares. Kenya Commercial Bank dominated the Finance and Investment

sector, with 11 million shares, while Kenolkobil dominated Industrial and Allied sector at 3.6 million shares transacted. The Alternative Investment Market Segment traded 61,000 shares down from 216,000 shares traded from the previous week.

The biggest closing and average price margin gains between July 21 and 28, 2011, was for Jubilee Insurance and Athi River Mining Co. Ltd. counters at Ksh 12 and Ksh 2.9 per share, respectively. The biggest closing and average price margin losses was for Williamson Tea and Nation Media Group at Ksh 7 and 8.4 a share, respectively.

Bond Market Bonds trading at the Fixed Income Securities Market rose significantly by 138 percent, from Ksh 4.5 billion for the week ended July 21, 2011 to Ksh 10.7 billion for the week ending July 28, 2011. The number of deals transacted, were up to 103 from 55.