

**June 3, 2011**



### **THE CBK WEEKLY BULLETIN**

#### **Highlights for the Week**

The overall 12-month inflation rate increased for the seventh consecutive month to reach 12.95 percent in May 2011, from 12.05 percent in April 2011. Similarly, average annual inflation increased from 5.20 percent in April 2011 to 5.96 percent in May 2011.

The Government conducted auctions for 91-day and 182-day Treasury bills this week to raise Ksh 5.5 billion. A total of 264 bids were received amounting to Ksh 18.3 billion, representing a 333 percent performance. The Government accepted bids amounting to Ksh 9.9 billion. Consequently, the average rates for the securities auctioned this week edged up.

Government gross domestic debt increased by Ksh 55.0 billion from Ksh 660.3 billion in June 2010 to Ksh 715.3 billion as at May 27, 2011. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 58.2 billion.

Reflecting stable interbank liquidity during the week ending June 1, 2011, the average interbank rate remained stable at 5.31 percent from 5.32 percent in the previous week.

The Central Bank conducted open market operations by mopping Ksh 3.3 billion from the market in the week ending June 1, 2011.

The Kenya Shilling depreciated against major international currencies in the week ending June 3, 2011. Against the US dollar, the Kenya shilling depreciated to exchange at Ksh 86.09 in the week compared with Ksh 86.03 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,907 million (equivalent to 3.79 months of imports) as at May 27, 2011, to US dollar 3,965 million (equivalent to 3.85 months of imports) as at June 3, 2011.

Performance at the equities market was mixed during the week ending June 2, 2011. The NSE 20 Share Index gaining 21.5 points to settle at 4,091.6 from 4,070.1 points on May 26, 2011 while equity turnover increased by 2.9 percent. The number of shares transacted however declined by 18 million during the period of review. The fixed income segment of the market recorded a 28 percent increase in activity.

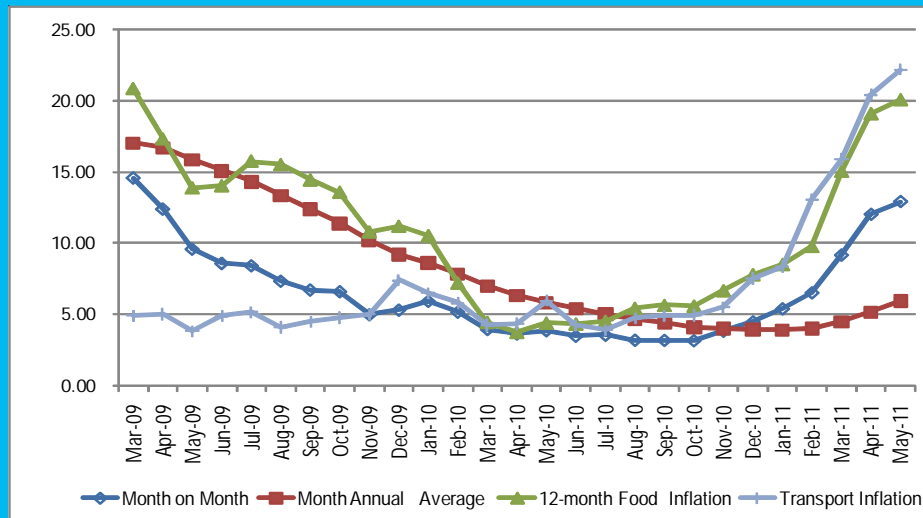
**Inflation**

Overall 12-month inflation rate increased by 90 basis points from 12.05 percent in April 2011 to 12.95 percent in May 2011. This was relatively lower than the monthly increases recorded during the three months prior to May 2011, owing to the rainfall experienced in some parts of the country, which resulted in lower prices of seasonal food items such as spinach and sukuma wiki. As a result, the 12-month inflation for the ‘Nairobi lower’ income group eased marginally during the month to stand at 13.97 percent, from 14.04 percent in April 2011.

The overall increase in inflation for the month of May 2011 was mainly attributed to increases in the transport index, the housing, water, electricity, gas and other fuels index, and the food and non-alcoholic drinks’ index, which went up respectively by 1.75 percent, 1.61 percent and 0.98 percent. The rise in the transport index followed increases in the cost of petrol, which led to increased taxi, bus and matatu fares during the month, while the housing index was affected by the rise in the cost of electricity and other cooking fuels. Prices of some food items such as maize flour, maize grain and beef also went up during the month.

Inflation for all the other consumer baskets increased, with the exception of the health, recreation and culture and education baskets, which experienced marginal declines 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 auctions for 91-day and 182-day Treasury bills this week with the aim of raising Ksh 5.5 billion. The market made available Ksh 18.3 billion which represented a 333 percent subscription rate.

The Government accepted bids amounting to Ksh 9.903 billion or about 54 percent of the bids received. The proceeds of the auction were targeted

to meet the cost of redemptions of maturing Government securities and to provide additional borrowing for other budgetary obligations.

### Interest Rates on Treasury Bills

The 91-day Treasury bill rate increased by 86 basis points to settle at 8.798 percent while the 182-day Treasury bill rate increased by 451 basis points to settle at 9.949 percent (Table 1).

**Table 1: Interest Rates**

Auction date	8-Apr-11	15-Apr-11	21-Apr-11	29-Apr-11	6-May-11	13-May-11	20-May-11	27-May-11	2-Jun-11
91 day T. Bills*	3.157	3.461	3.524	3.577	4.018	4.796	6.409	7.942	8.798
182 day T. Bills*	3.442		3.580		3.691		5.444		9.949
364 day T. Bills*		4.998				6.772			
Month	Nov-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11
Average savings rate	1.40	1.46	1.40	1.45	1.25	1.41	1.37	1.38	N/A
Average overdraft rate	13.77	13.64	13.77	13.69	13.93	13.65	13.60	13.68	N/A

\*Weighted rates for accepted bids

Source: Central Bank of Kenya

### Interbank and REPO Rates

Reflecting stable interbank liquidity during the week ending June 1, 2011, the average interbank rate remained stable at 5.31 percent from 5.32 percent in the previous week. The average volumes traded declined to Ksh 12.66 billion in the week ending June 1, 2011 from Ksh 15.38 billion in the previous week. The interbank liquidity was also supported by Ksh 1.3 billion injection by the Central Bank through purchases of foreign exchange from domestic interbank for foreign exchange reserves build up and to meet government external obligation.

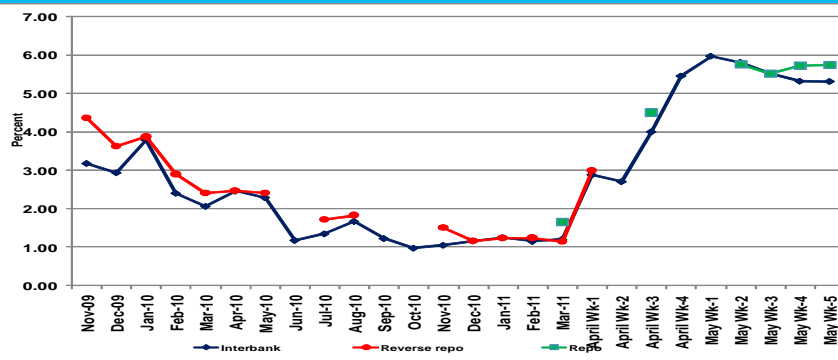
**Table 2: Interbank Transactions**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
<b>May 12- May 18, 2011</b>	<b>75</b>	<b>14,309</b>	<b>5.51</b>
19-May-11	80	18,279	5.31
20-May-11	81	14,688	5.35
23-May-11	73	14,607	5.33
24-May-11	77	16,540	5.31
25-May-11	60	12,831	5.28
<b>May 19- May 25, 2011</b>	<b>74</b>	<b>15,389</b>	<b>5.32</b>
26-May-11	62	13,240	5.25
27-May-11	44	8,097	5.10
30-May-11	68	14,129	5.37
31-May-11	68	15,165	5.51
1-Jun-11	<b>HOLIDAY</b>		
<b>May 26- June 01, 2011</b>	<b>61</b>	<b>12,658</b>	<b>5.31</b>

Source: Central Bank of Kenya

The repo rate rose by 2 basis points from 5.72 percent on the repo transaction in the week ending May 25, 2011 to 5.74 percent on the repo transaction in the week ending June 1, 2011.

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The Central Bank conducted open market operations by mopping Ksh 3.3 billion from the market in the week ending June 1, 2011. Commercial banks borrowed Ksh 3.8 billion from the Central Bank overnight window up from Ksh 3.1 billion in the previous week. Reserve money averaged Ksh 219.4 billion during the week and was above target by Ksh 6.1 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)
26-May-11	221.0	213.3	7.7	1.5	0.1	-1.4	220.3	7.0	8.2	-1.2
27-May-11	227.0	213.3	13.8	1.0	1.0	0.0	225.7	12.4	13.2	-0.8
30-May-11	210.0	213.3	-3.2	0.5	1.3	0.8	212.9	-0.3	-0.1	-0.2
31-May-11	218.5	213.3	5.3	1.0	1.0	0.0	218.7	5.4	4.3	1.1
1-Jun-11	HOLIDAY									
Average	219.1	213.3	5.9	1.0	0.8	-0.2	219.4	6.1	6.4	-0.3

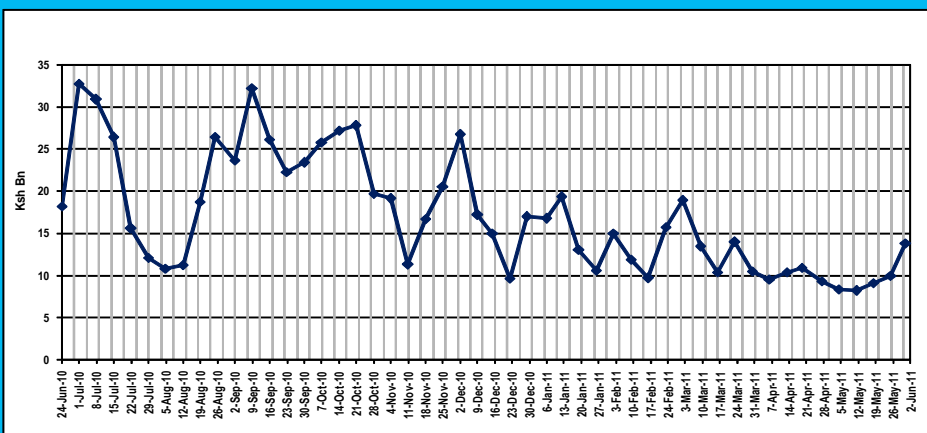
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 13.8 billion in their clearing accounts at the Central Bank in the week to June 1, 2011, compared with Ksh 9.9 billion held 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 on average depreciated against the major international currencies during the week ending June 3, 2011 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 86.09 in the week compared with Ksh 86.03 per US dollar in the previous week. The shilling also depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 141.36 per Sterling Pound, Ksh 123.78 per Euro and Ksh 106.39 per 100 Japanese Yen compared with Ksh 139.75 per Sterling Pound, Ksh 121.33 per Euro and Ksh 105.29 per 100 Japanese Yen in the previous week.

In the EAC region, the Kenya Shilling depicted mixed performance against other East African currencies during the week ending June 3, 2011. The Kenya shilling weakened marginally against Uganda shilling and Burundi Franc and remained stable against the Rwandan Franc to exchange at Ushs 27.77 per Kenya Shilling, BIF 14.29 per Kenya Shilling and RWF 6.97 per Kenya Shilling respectively in the week ending June 3, 2011, compared with Ushs 27.78 and BIF 14.30 per Kenya Shilling and RWF 6.97 per Kenya Shilling in the week ending May 27, 2011. It exchanged at an average of Tshs 17.95 per Kenya Shilling compared to an average of Tshs 17.87 per Kenya Shilling in the previous week.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
23-May-11	86.15	139.43	121.04	105.14	27.71	17.82	6.97	14.28
24-May-11	86.15	139.42	121.03	105.12	27.74	17.81	6.96	14.28
25-May-11	86.42	139.62	121.23	105.57	27.70	17.76	6.95	14.23
26-May-11	86.01	139.86	121.60	105.07	27.79	17.86	6.98	14.30
27-May-11	85.44	140.43	121.73	105.56	27.95	18.11	6.99	14.39
<b>May 23 - 27, 2011</b>	<b>86.03</b>	<b>139.75</b>	<b>121.33</b>	<b>105.29</b>	<b>27.78</b>	<b>17.87</b>	<b>6.97</b>	<b>14.30</b>
30-May-11	85.52	140.80	122.00	105.85	28.01	18.13	7.02	14.38
31-May-11	85.70	141.63	123.47	105.52	27.89	17.92	7.00	14.35
2-Jun-11	86.38	141.32	124.20	106.71	27.65	17.89	6.95	14.24
3-Jun-11	86.75	141.70	125.46	107.49	27.55	17.86	6.92	14.18
<b>May 30 - June 3, 2011</b>	<b>86.09</b>	<b>141.36</b>	<b>123.78</b>	<b>106.39</b>	<b>27.77</b>	<b>17.95</b>	<b>6.97</b>	<b>14.29</b>

Source: Central Bank of Kenya

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,907 million (equivalent to 3.79 months of imports) as at May 27, 2011, to US dollar 3,965 million (equivalent to 3.85 months of imports) as at June 3, 2011 (Table 5).

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

	24-Mar-11	31-Mar-11	29-Apr-11	6-May-11	13-May-11	20-May-11	27-May-11	3-Jun-11
Usable Reserves*	3,935	3,887	3,956	3,960	3,925	3,923	3,907	3,965
Months of Imports Cover**	3.90	3.79	3.82	3.84	3.81	3.81	3.79	3.85

\*Excludes encumbered

Source: Central Bank of Kenya

**Foreign  
Exchange  
Reserves**

**Government  
Domestic  
Debt**

Gross Government debt increased by Ksh 55.0 billion from Ksh 660.3 billion in June 2010 to Ksh 715.3 billion as at May 27, 2011 (Table 6 and Chart D). This increase was in Treasury bonds and overdraft at the Central Bank

amounting to Ksh 115.8 billion which was partially offset by decreases of Ksh 60.7 billion in Treasury bills, 'other domestic debt' and long term stocks.

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

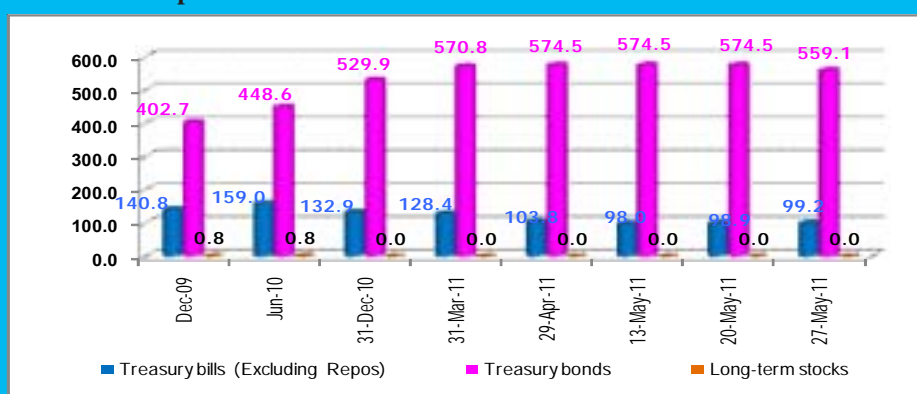
	Jun-10	Dec-10	Mar-11	Apr-11	20th May-2011	27th May-2011	Changes	
							20th May 2011- 27th May 2011	30th Jun-10 - 27th May-11
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	132.9 20.1	128.4 18.4	103.8 15.3	98.9 14.7	99.2 15.1	0.3	-59.9
2. Treasury Bonds (As % of total securities)	448.6 73.7	529.9 79.9	570.8 81.6	574.5 84.7	574.5 85.3	559.1 84.9	-15.4	110.5
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	678.2	673.3	658.3	-15.1	49.9
5. Overdraft at Central Bank	17.6	22.7	19.7	22.9	22.0	22.9	0.9	5.3
6. Other Domestic debt*	34.2	34.8	35.2	34.2	34.1	34.1	0.0	-0.1
7. Gross Domestic Debt (4+5+6)	660.3	720.2	754.1	735.3	729.4	715.3	-14.1	55.1
8. Interest payments on domestic debt	57.8	34.2	47.2	51.3	54.0	58.2	4.2	

\* 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 559.1 billion as at May 27, 2011, while Treasury bills declined from Ksh 159.0 billion to Ksh 99.2 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 84.9 percent as at May 27, 2011, while that of Treasury bills declined from 26.1 percent to 15.1 percent. The average time to maturity of Government securities increased from about 4 years 3 months in June 2010 to about 5 years 11 months during this period.

**Chart D: Composition of Government Securities**

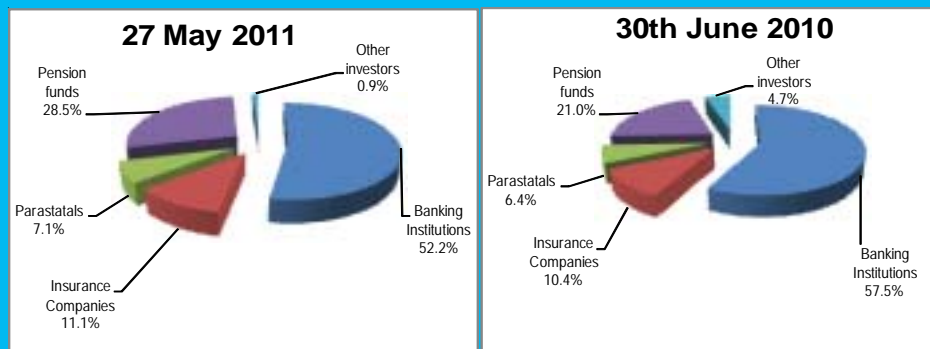


Source: Central Bank of Kenya

### 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 in June 2010 to 7.1 percent, 28.5 percent and 11.1 percent, respectively as at May 27, 2011. Holdings of commercial banks and 'other investors' declined from 57.5 percent and 4.7 percent, to 52.2 percent, and 0.9 percent, respectively, during the same period (Chart E).

**Chart E: Composition of Government Securities by Investor**

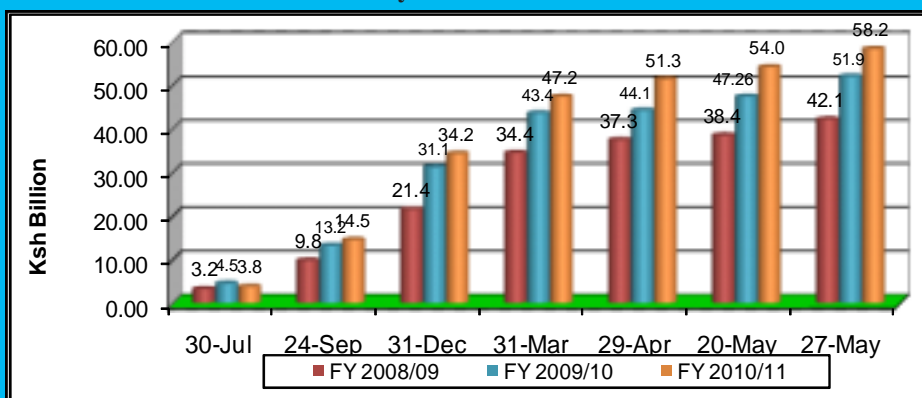


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt as at May 27, 2011 amounted to Ksh 58.2 billion compared with Ksh 47.26 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 8.38 billion and Ksh 48.76 billion, respectively.

**Chart F: Cumulative Interest Payments on Domestic Debt**



Source: Central Bank of Kenya

### The Stock Market

The equities turnover increased by 2.9 percent, with stocks worth Ksh 1,418.3 million being traded compared to Ksh 1,377.7 million traded in the week ended May 26<sup>th</sup> 2011. The number of shares traded decreased from 89.4 million to 71.0 shares during the period under review. Market capitalization as a measure of total shareholders' wealth increased to Ksh 1,150.2 from last week's Ksh 1,145.0. Similarly, the NSE 20 Share Index gained 21.5 points to level 4,091.6 points on June 2, 2011 from 4,070.1 points on May 26, 2011. Likewise, the Nairobi All Share Index rose to 93.70 from 93.37 points (Table 7).



**Table 7: Key Weekly Market Statistics**

Week Ending	7-Apr-11	14-Apr-11	20-Apr-11	28-Apr-11	5-May-11	12-May-11	19-May-11	26-May-11	2-Jun-11
NASI 100= Jan 2008	93.29	93.70	93.72	93.81	95.31	93.34	93.54	93.37	93.7
NSE 20 Share Index 100=1966	3,993.07	3,998.60	4,007.73	4,005.78	4,031.78	3,992.55	3,986.78	4,070.05	4091.55
Number of Deals	7,765.00	9,005.00	6,642.00	6,212.00	7,464.00	8,984.00	8,196.00	8,020.00	6853
Total Shares Traded (millions)	156.82	163.20	81.27	65.20	113.09	87.50	94.38	89.50	71.0364
Equity Turnover (Ksh. millions)	1,869.35	2,399.80	1,281.67	1,700.74	2,489.05	1,914.78	2,107.91	1,377.74	1418.369658
Market Capitalization (Ksh. Bn.)	1,136.41	1,141.40	1,141.64	1,150.38	1,168.67	1,144.55	1,147.05	1,144.96	1150.19
Bonds Turnover (Ksh. millions)	10,406.20	11,081.75	6,593.25	3,953.00	5,279.35	3,397.25	8,713.95	8,201.70	10497.3

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

**Source: Nairobi Stock Exchange**

Commercial and Services sector was most active, transacting 32.1 million shares or 41.8 percent of the traded volume. Of this, Safaricom counter accounted for 89 percent or 28.6 million shares changing hands during the week. Finance and Investment sector traded 22.1 million shares, while Industrial and Allied sector had 22.0 million shares change hands. These sectors accounted for 28.8 percent and 28.7 percent of total volume transacted, respectively.

Equity Bank and Kenya Commercial Bank Ltd were the most active stocks in Finance and Investment sector, trading 9.2 million and 6.2 million shares, respectively. Kenya Power and Lighting Co. Ltd and Mumias Sugar Co. Ltd were the most active counters in the Industrial and Allied sector, with 13.4 million and 2.8 million shares traded, respectively. The Alternative market segment traded 32,000 from 72,900 in the previous period.

The biggest closing and average price margin gains between May 26 and June 2, 2011, was for East African Breweries counter at Ksh 5 and Ksh 5 .45 per share respectively. The biggest closing and average price margin losses was on Jubilee Counter at Ksh 24 and Ksh 22.05 per share, respectively. Barclays Bank share set a new price at Ksh 17.75 from Ksh 69.5 a share in the previous week due to share split of 1:4 ratio.

### **Bond Market**

Bond turnover at the Fixed Income Securities segment had a 28 percent rise, from Ksh 8.2 billion traded to Ksh 10.4 billion during the period under review.