

**June 17, 2011**



### **THE CBK WEEKLY BULLETIN**

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

The Government conducted two separate Treasury bills auctions this week to raise Ksh 4.5 billion from the Market. The market made available Ksh 23.6 billion, a 525.1 percent performance. The Government accepted bids amounting to Ksh 8.9 billion. Consequently, the average rates for the securities auctioned this week declined.

The average interbank rate rose by 24 basis points to 6.22 percent during the week ending June 15, 2011 from 5.98 percent in the previous week reflecting tight interbank liquidity.

The Central Bank conducted open market operations by mopping Ksh 1.3 billion from the market in the week ending June 15, 2011. Reflecting tight liquidity conditions in the money market, commercial banks borrowed Ksh 56.42 billion from the Central Bank overnight window up from Ksh 30.04 billion in the previous week.

The Kenya Shilling depreciated against major international currencies in the week ending June 17, 2011. Against the US dollar, the Kenya shilling depreciated to exchange at an average of Ksh 89.14 in the week compared with Ksh 87.36 per US dollar in the previous week, reflecting increased demand for the US dollar by the private sector to cater for imports.

The usable official foreign exchange reserves held by the Central Bank decreased from US dollar 3,998 million (equivalent to 3.83 months of imports) as at June 10, 2011, to US dollar 3,976 million (equivalent to 3.79 months of imports) as at June 17, 2011.

Government gross domestic debt increased by Ksh 83.3 billion from Ksh 660.3 billion in June 2010 to Ksh 743.6 billion as at June 10 2011. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 62.1 billion.

Performance at the equities and bonds markets generally declined during the week ending June 16, 2011. The NSE 20 Share Index lost 94.3 points to settle at 3,992.3 from 4,086.6 points on June 9, 2011, equity turnover shed 7.8 percent while number of shares transacted increased by 34.5 million during the period under review. Similarly, the fixed income segment of the market recorded a 14.6 percent decrease in activity.

## Government Securities Auction

The Government conducted two separate Treasury bills auctions this week. In the 91-day Treasury bills auction of June 16, 2011 the Government offered Ksh 2.0 billion. The auction attracted bids amounting to Ksh 13.7 billion, a 683.0 percent performance. In the 182-day Treasury bills auction of June 15, the Government offered Ksh 2.5 billion and the market availed Ksh 10.0 billion, a 399.0 percent performance.

The Government accepted bids amounting to Ksh 6.7 billion and Ksh 2.2 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 8.5 billion and support the budget with Ksh 0.4 billion.

## Interest Rate on Treasury Bills

The 91-day Treasury bill rate declined by 1.0 basis points to settle at 9.006 percent while the 182- day Treasury bill rate declined by 4.3 basis points to settle at 9.906 percent (Table 1).

**Table 1 : Interest Rates**

Auction date	29-Apr-11	6-May-11	13-May-11	20-May-11	27-May-11	3-Jun-11	10-Jun-11	17-Jun-11
91 day T. Bills*	3.577	4.018	4.796	6.409	7.942	8.798	9.016	9.006
182 day T. Bills*		3.691		5.444			9.949	9.906
364 day T. Bills*			6.772					
Month	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	
Average savings rate	1.46	1.40	1.45	1.25	1.41	1.37	1.38	
Average overdraft rate	13.64	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 24 basis points to 6.22 percent during the week ending June 15, 2011 from 5.98 percent in the previous week reflecting tight interbank liquidity. The average volumes traded decreased to Ksh 15.25 billion in the week ending June 15, 2011 from Ksh 16.67 billion in the previous week (Table 2 & Chart A).

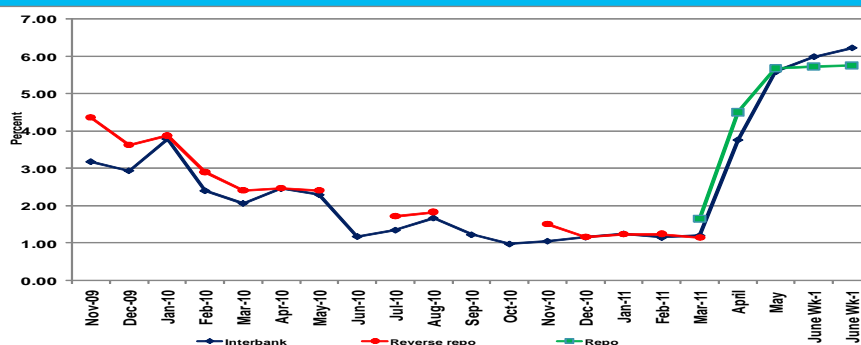
**Table 2: Interbank Deals, Volumes and Interest Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
2-Jun-11	69	13,801	5.71
3-Jun-11	75	17,855	5.89
6-Jun-11	73	15,185	6.01
7-Jun-11	75	17,742	6.12
8-Jun-11	88	18,784	6.16
<b>June 02- June 08, 2011</b>	<b>76</b>	<b>16,673</b>	<b>5.98</b>
9-Jun-11	71	17,022	6.19
10-Jun-11	67	13,705	6.20
13-Jun-11	59	16,979	6.21
14-Jun-11	66	17,517	6.24
15-Jun-11	56	11,048	6.25
<b>June 09- June 15, 2011</b>	<b>64</b>	<b>15,254</b>	<b>6.22</b>

Source: Central Bank of Kenya

The repo rate increased by 3 basis points from 5.72 percent on the repo transaction in the week ending June 8, 2011 to 5.75 percent on the repo transaction in the week ending June 15, 2011.

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

**Monetary Policy Operations**

The Central Bank conducted open market operations by mopping Ksh 1.3 billion from the market in the week ending June 15, 2011. Reflecting tight liquidity conditions in the money market, commercial banks borrowed Ksh 56.42 billion from the Central Bank overnight window up from Ksh 30.04 billion in the previous week. Reserve money averaged Ksh 222.5 billion during the week and was above target by Ksh 8.8 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)
9-Jun-11	225.5	213.6	11.9	0.5	0.5	0.0	224.1	10.5	3.5	7.0
10-Jun-11	221.5	213.6	7.9	0.5	0.3	-0.2	226.6	13.0	6.4	6.6
13-Jun-11	211.0	213.8	-2.8	0.0	0.0	0.0	220.6	6.8	0.4	6.4
14-Jun-11	211.3	213.8	-2.5	0.5	0.5	0.0	221.0	7.2	0.6	6.6
15-Jun-11	204.2	213.8	-9.5	1.0	0.0	-1.0	220.2	6.5	0.0	6.5
Average	214.7	213.7	1.0	0.5	0.3	-0.2	222.5	8.8	2.2	6.6

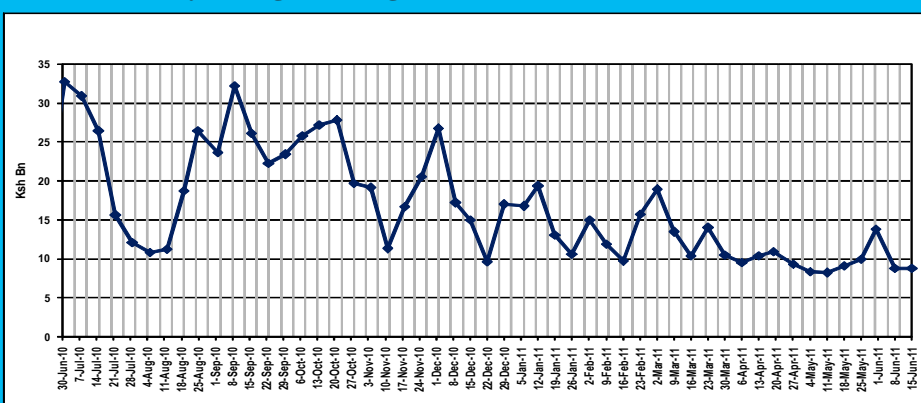
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial Banks Clearing Accounts Balances**

Commercial banks maintained an average of Ksh 8.8 billion in their clearing accounts at the Central Bank in the week to June 15, 2011, the same position held 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 on average depreciated against the major international currencies during the week ending June 17, 2011 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 89.14 in the week compared with Ksh 87.36 per US dollar in the previous week. The weakening of the shilling reflected increased demand for the US dollar by the private sector to cater for imports.

The Shilling also depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 144.90 per Sterling Pound and Ksh 110.61 per 100 Japanese Yen compared with Ksh 143.22 per Sterling Pound and Ksh 108.94 per 100 Japanese Yen in the previous week. Against the Euro, the shilling gained to exchange at Ksh 127.37 per Euro in the week ending June 17, 2011 compared with Ksh 127.67 per Euro. The Euro weakened in international markets due to uncertainties over the resolution of the Greek debt situation.

In the EAC region, the Kenya Shilling weakened against other East African currencies during the week ending June 17, 2011. The Kenya shilling weakened against Uganda shilling, Tanzania Shilling, Rwanda Franc and Burundi Franc to exchange at Ushs 27.11 per Kenya Shilling, Tshs 17.62 per Kenya shilling, RWF 6.73 per Kenya shilling and BIF 13.83 per Kenya Shilling respectively in the week ending June 17, 2011.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
6-Jun-11	86.83	142.66	127.15	108.10	27.53	17.94	6.89	14.17
7-Jun-11	87.04	142.48	127.40	108.35	27.49	18.01	6.89	14.14
8-Jun-11	87.72	144.18	128.80	109.56	27.36	17.90	6.83	14.02
9-Jun-11	87.56	143.81	128.03	109.29	27.41	17.99	6.85	14.05
10-Jun-11	87.66	142.97	126.97	109.40	27.41	18.25	6.83	14.03
<b>June 6 - 10, 2011</b>	<b>87.36</b>	<b>143.22</b>	<b>127.67</b>	<b>108.94</b>	<b>27.44</b>	<b>18.02</b>	<b>6.86</b>	<b>14.08</b>
13-Jun-11	88.09	142.98	126.39	109.44	27.29	17.73	6.81	13.96
14-Jun-11	89.37	146.70	128.87	111.25	26.93	17.51	6.71	13.76
15-Jun-11	89.24	146.13	128.86	110.91	27.03	17.54	6.71	13.82
16-Jun-11	88.98	143.43	125.21	109.64	27.25	17.64	6.75	13.88
17-Jun-11	90.04	145.27	127.54	111.82	27.06	17.66	6.66	13.72
<b>June 13 - 17, 2011</b>	<b>89.14</b>	<b>144.90</b>	<b>127.37</b>	<b>110.61</b>	<b>27.11</b>	<b>17.62</b>	<b>6.73</b>	<b>13.83</b>

Source: Central Bank of Kenya

## Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank decreased from US dollar 3,998 million (equivalent to 3.83 months of imports) as at June 10, 2011, to US dollar 3,976 million (equivalent to 3.79 months of imports) as at June 17, 2011 (Table 5).

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

	24-Mar-11	31-Mar-11	29-Apr-11	27-May-11	3-Jun-11	10-Jun-11	17-Jun-11
Usable Reserves*	3,935	3,887	3,956	3,907	3,965	3,998	3,976
Months of Imports Cover**	3.90	3.77	3.82	3.79	3.80	3.83	3.79

\*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 83.3 billion from Ksh 660.3 billion in June 2010 to Ksh 743.6 billion as at June 20, 2011 (Table 6 and Chart D). This increase was in Treasury bonds and other domestic debt amounting to Ksh 140.2 billion. This was, however, partially offset by decreases of Ksh 56.9 billion in both Treasury bills, overdraft at the Central Bank 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	Changes	
							3rd June 2011-10th June-11	30th Jun 2011-10th 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 16.2	5.8	-48.9
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	570.7 83.8	-14.7	122.1
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	662.1	689.7	680.9	-8.9	72.4
5. Overdraft at Central Bank	17.6	22.7	19.7	22.9	17.8	10.4	-7.4	-7.2
6. Other Domestic debt*	34.2	34.8	35.2	34.1	34.1	52.3	18.2	18.1
7. Gross Domestic Debt (4+5+6)	660.3	720.2	754.1	719.1	741.7	743.6	1.9	83.3
8. Interest payments on domestic debt	57.8	34.2	47.2	58.2	61.6	62.1	0.5	

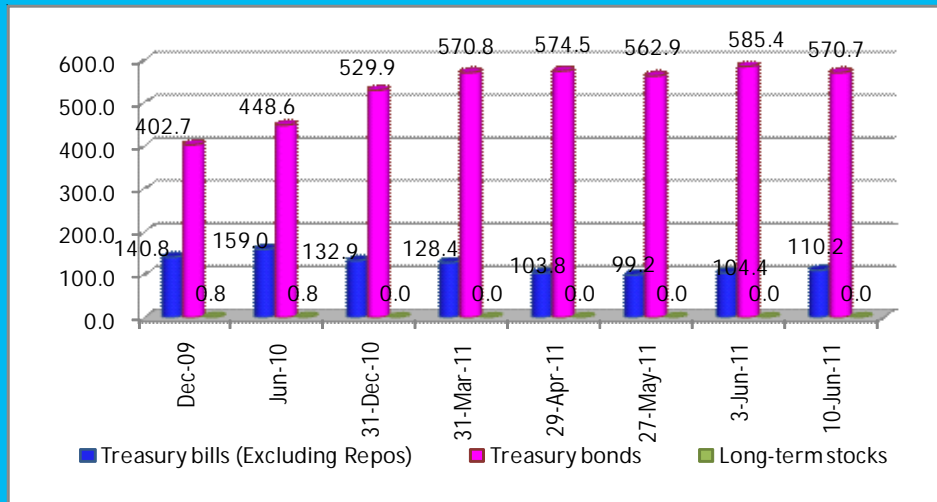
\* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCS.

Source: Central Bank of Kenya

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Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 570.7 billion as at June 10, 2011, while Treasury bills declined from Ksh 159.0 billion to Ksh 110.2 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 83.8 percent as at June 10, 2011, while that of Treasury bills declined from 26.1 percent to 16.2 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 C: Composition of Government Securities

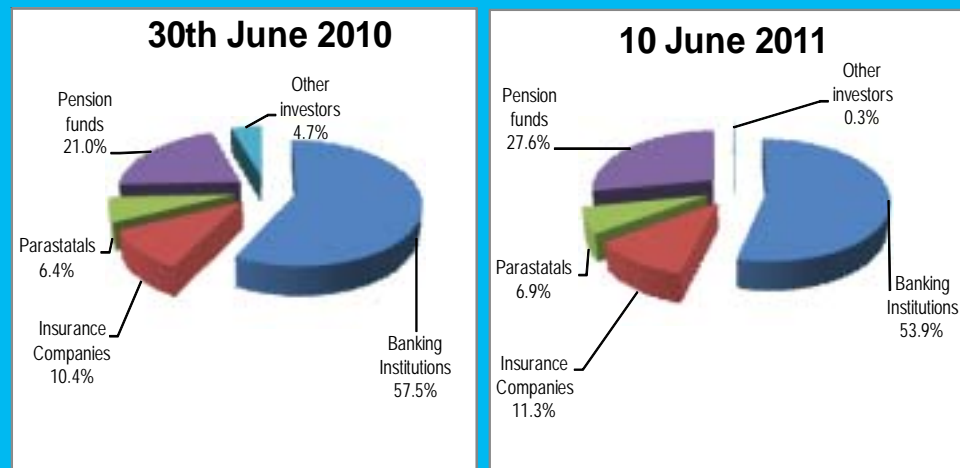


Source: Central Bank of Kenya

**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, respectively in June 2010 to 6.9 percent, 27.6 percent and 11.3 percent, respectively as at June 10, 2011. Holdings of commercial banks and other investors declined from 57.5 percent and 4.7 percent, to 53.9 percent, and 0.3 percent, respectively during the same period (Chart D).

Chart D: Composition of Government Securities by Investors

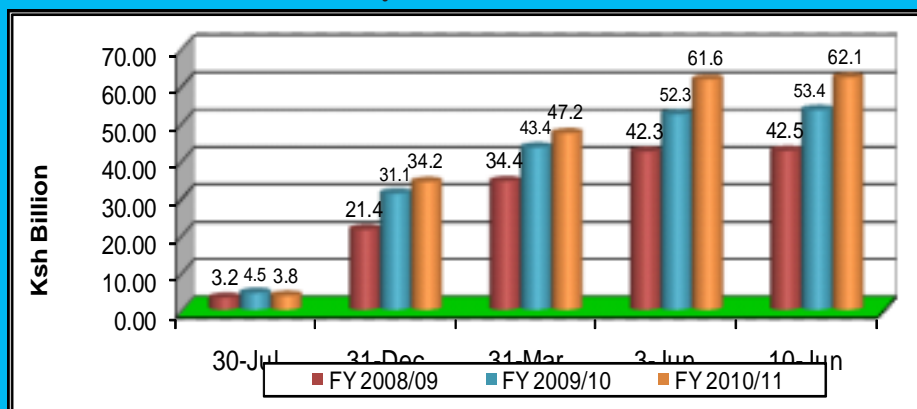


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

The cumulative interest and other charges on domestic debt as at June 10, 2011 amounted to Ksh 62.1 billion compared with Ksh 53.4 billion in a similar period of 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 52.3 billion, respectively, while interest on Government overdraft at the Central Bank amounted to Ksh 1.0 billion.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

## The Stock Market

The equities turnover saw stocks worth Ksh 1,835.9 million being traded down from Ksh 1,991.0 million equities traded in the week ended June 9, 2011. The number of shares traded however rose from 94.8 million to 129.3 million shares. Market capitalization as a measure of total shareholders' wealth decreased to Ksh 1,122.6 billion from last week's value of Ksh 1,144.7 billion. Similarly, the NSE 20 Share Index lost 94.3 points to a level of 3,992.3 points on June 16, 2011 from 4,086.6 points on June 9, 2011. Likewise, the Nairobi All Share Index dropped to 91.45 from 93.25 points (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	14-Apr-11	20-Apr-11	28-Apr-11	5-May-11	12-May-11	19-May-11	26-May-11	2-Jun-11	9-Jun-11	16-Jun-11
NASI 100= Jan 2008	93.70	93.72	93.81	95.31	93.34	93.54	93.37	93.70	93.25	91.45
NSE 20 Share Index 100=1966	3,998.60	4,007.73	4,005.78	4,031.78	3,992.55	3,986.78	4,070.05	4,091.55	4,086.62	3992.3
Number of Deals	9,005.00	6,642.00	6,212.00	7,464.00	8,984.00	8,196.00	8,020.00	6,853.00	9,126.00	9356
Total Shares Traded (millions)	163.20	81.27	65.20	113.09	87.50	94.38	89.50	71.04	94.86	129.3506
Equity Turnover (Ksh. millions)	2,399.80	1,281.67	1,700.74	2,489.05	1,914.78	2,107.91	1,377.74	1,418.37	1,991.03	1835.93837
Market Capitalization (Ksh. Bn.)	1,141.40	1,141.64	1,150.38	1,168.67	1,144.55	1,147.05	1,144.96	1,150.19	1,144.69	1122.577
Bonds Turnover (Ksh. millions)	11,081.75	6,593.25	3,953.00	5,279.35	3,397.25	8,713.95	8,201.70	10,497.30	16,727.00	14291.15

\* 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 76.7 million shares or 59.4 percent of the traded volume. Of this, Safaricom counter accounted for 66.5 million shares during the week. Finance and Investment sector traded 40.2 million shares, while Industrial and Allied sector had 11.6 million shares change hands. These sectors accounted for 31.1 percent and 9.0 percent of total volume transacted, respectively. Equity Bank and Kenya Commercial Bank Ltd were the most active stocks in Finance and Investment sector, trading 10.0 million and 13.9 million shares, respectively. KenGen Ltd and Mumias Sugar Co. Ltd were the most active counters in

the Industrial and Allied sector, with 2.4 million and 3.2 million shares traded, respectively. The Alternative market segment traded 27,500 from 41,400 in the previous period.

The biggest closing and average price margin gains between June 10 and June 16, 2011, was for Williamson Tea counter at Ksh 14 and Ksh. 21.2 per share, respectively. The biggest closing and average price margin losses was on East African Breweries Counter at Ksh 16 and Ksh. 12.6 per share, respectively.

**Bond Market**

Bond turnover at the Fixed Income Securities Market decreased by 14.6 percent, from Ksh 16.7 billion traded in the previous week to Ksh 14.2 billion in the week under review. The number of deals transacted, however, increased from 126 to 146 during the period under review.