

June 24, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government conducted Treasury bills and Treasury bonds auctions this week to raise a total of Ksh 20. billion. Bids totalling Ksh 30.5 billion were received, and a total of Ksh 14.8 billion was accepted. The 91-day Treasury bill interest rate declined, while interest rates on the 2-year; 5-year and 20-year Treasury bonds went up.

The average interbank interest rate rose by 3 basis points to 6.25 percent during the week ending June 22, 2011 from 6.22 percent in the previous week, reflecting tight liquidity in the interbank market.

The Kenya Shilling depreciated against major international currencies in the week ending June 24, 2011. Against the US dollar, the Kenya shilling depreciated to exchange at an average of Ksh 90.64 in the week compared with Ksh 89.14 per US dollar in the week ending June 17, 2011.

The usable official foreign exchange reserves held by the Central Bank declined marginally from US dollar 3,976 million (equivalent to 3.79 months of imports) as at June 17, 2011, to US dollar 3,957 million (equivalent to 3.72 months of imports) as at June 24, 2011.

The money market was tight during the week ending June 22, 2011 and the Central Bank stayed out of the market. Owing to the tight liquidity condition commercial banks borrowed Ksh 127.92 billion from the Central Bank overnight window, up from Ksh 56.42 billion in the previous week.

Government gross domestic debt increased by Ksh 93.7 billion from Ksh 660.3 billion in June 2010 to Ksh 753.9 billion as at June 17, 2011. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 62.2 billion.

Performance at the equities market declined during the week ending June 23, 2011. The NSE 20 Share Index lost 21.7 points to settle at 3,970.6 from 3,992.3 points on June 16, 2011. Equity turnover shed 34.2 percent while number of shares transacted decreased by 59.4 million during the period under review. Similarly, the fixed income segment of the market recorded a 14.5 percent decrease in activity.

Government Securities Auction

The Government offered for sale Treasury bills and Treasury bonds in this week’s auctions to raise a total of Ksh 20.0 billion. During the 91-day treasury bills auction of June 23, 2011 the Government offered Ksh 2.0 billion which attracted bids amounting to Ksh 11.5 billion, a 574.0 percent performance. Bids amounting to Ksh 5.8 billion were accepted.

In another auction held on June 22, 2011 the Government offered for sale 2-year, 5-year and 20-year Treasury bonds to raise a total Ksh 18.0 billion. The auction attracted bids amounting to Ksh 19.0 billion, a 105.0 percent performance. The Government accepted bids amounting to Ksh 9.0 billion of which Ksh 6.7 billion were in 2-year treasury bonds.

The proceeds of these auctions were directed at meeting the cost of redemptions of Government securities maturities amounting to Ksh 3.3 billion and to support the budget with Ksh 11.5 billion.

Interest Rate on Treasury Bills

The 91-day Treasury bill rate declined by 1.1 basis points to settle at 8.995 percent, thanks to the over subscription.

The 2-year, 5-year and 20-year Treasury bond rates increased by 205.5 basis points, 585.8 basis points and 84.8 basis points, respectively to settle at 12.442 percent, 12.529 percent and 14.822 percent respectively.

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
91 day T. Bills*	4.018	4.796	6.409	7.942	8.798	9.016	9.006	8.995
182 day T. Bills*	3.691		5.444			9.949	9.906	
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 3 basis points to 6.25 percent during the week ending June 22, 2011 from 6.22 percent in the previous week, reflecting the tight interbank liquidity. The average volumes traded decreased to Ksh 14.79 billion in the week ending June 22, 2011 from Ksh 15.25 billion in the previous week (Table 2 & Chart A).

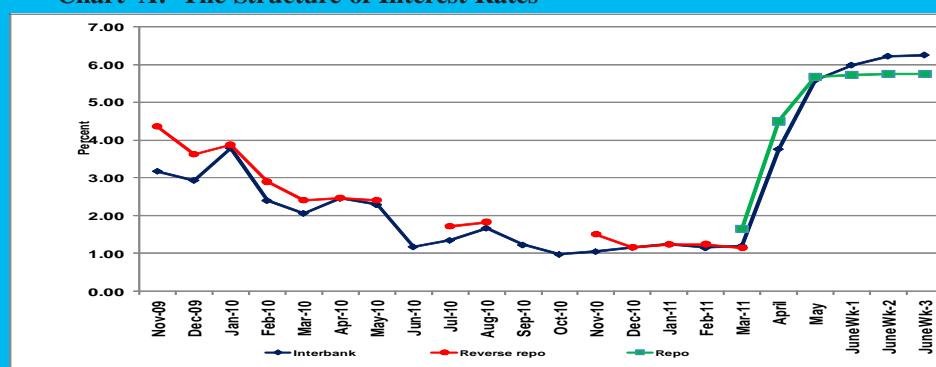
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
June 09- June 15, 2011	64	15,254	6.22
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

Source: Central Bank of Kenya

The repo rate remained stable 5.75 percent as at the last repo transaction on June 14, 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 June 22nd and the Central Bank stayed out of the market. Reflecting the shortage of liquidity in the money market, commercial banks borrowed Ksh 127.92 billion from the Central Bank overnight window, up from Ksh 56.42 billion in the previous week. Reserve money averaged Ksh 219.1 billion during the week and was above target by Ksh 5.3 billion (Table 3).

Table 3: Open Market Operations Ksh Billion

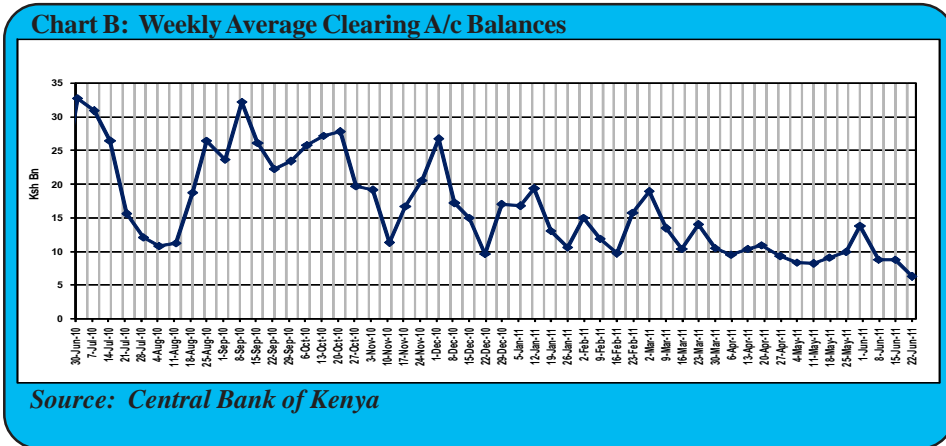
Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Mopped	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
16-Jun-11	205.3	213.8	-8.5	1.0	0.0	-1.0	218.8	5.1	-0.5	5.6
17-Jun-11	202.5	213.8	-11.3	1.0	0.0	-1.0	222.4	8.6	3.1	5.5
20-Jun-11	195.8	214.0	-18.1	0.5	0.0	-0.5	218.4	4.4	-1.3	5.7
21-Jun-11	189.9	214.0	-24.1	0.5	0.0	-0.5	218.1	4.1	-1.9	6.0
22-Jun-11	217.1	214.0	3.2	0.5	0.0	-0.5	218.1	4.1	-1.3	5.4
Average	202.1	213.9	-11.8	0.7	0.0	-0.7	219.1	5.3	-0.4	5.6

*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 6.3 billion in their clearing accounts at the Central Bank in the week to June 22, 2011, down from Ksh 8.8 billion in the previous week (Chart B).



**The Shilling
Exchange
Rate**

The Kenya Shilling depreciated against major international currencies in the week ending June 24, 2011. Against the US dollar, the Kenya shilling depreciated to exchange at an average of Ksh 90.64 per US dollar in the week compared with Ksh 89.14 per US dollar in the week ending June 17, 2011. The depreciation of the Kenya shilling against the US dollar was partly in line with the general trend internationally, where the US dollar strengthened against a number of other currencies, especially the Euro and the Sterling Pound. The depreciation of the Kenya shilling during the week was also fueled by arbitrage and speculation in the local foreign exchange market.

The Kenya shilling also depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 146.21 per Sterling Pound and Ksh 129.69 per Euro, and 112.82 per 100 Japanese Yen compared with Ksh 144.90 per Sterling Pound, Ksh 127.37 per Euro and Ksh 110.61 per 100 Japanese Yen in the previous week.

In the EAC region, the Kenya Shilling depicted mixed performance against the other East African currencies during the week ending June 24, 2011. The Kenya shilling strengthened against the Uganda shilling and Tanzania Shilling, but weakened marginally against the Rwanda Franc and Burundi Franc. On average, the Kenya shilling exchanged at 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 during the week, compared to 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, in the week ending June 17, 2011.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
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
June 13 - 17, 2011	89.14	144.90	127.37	110.61	27.11	17.62	6.73	13.83
20-Jan-00	89.80	144.86	127.80	112.01	27.25	17.48	6.69	13.75
21-Jan-00	90.73	147.28	130.24	113.01	27.22	17.66	6.62	13.62
22-Jan-00	91.66	148.90	132.01	114.11	27.04	17.54	6.55	13.47
23-Jan-00	90.56	145.35	129.54	112.70	27.41	17.75	6.63	13.64
24-Jan-00	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

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank declined marginally from US dollar 3,976 million (equivalent to 3.79 months of imports) as at June 17, 2011 to US dollar 3,957 million (equivalent to 3.72 months of imports) as at June 24, 2011, mainly reflecting a revaluation loss during the week (Table 5).

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

	24-Mar-11	29-Apr-11	27-May-11	3-Jun-11	10-Jun-11	17-Jun-11	24-Jun-11
Usable Reserves*	3,935	3,956	3,907	3,965	3,998	3,976	3,957
Months of Imports Cover**	3.90	3.82	3.79	3.80	3.83	3.79	3.72

*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 93.7 billion from Ksh 660.3 billion in June 2010 to Ksh 753.9 billion as at June 17, 2011 (Table 6 and Chart D). This increase was in Treasury bonds and other domestic debt amounting to Ksh 137.0 billion. This was, however, partially offset by decreases of Ksh 43.3 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	17th June-2011	Changes	
								10th June 2011-17th June-11	30th Jun 2011-17th 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	13.4	-35.5
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	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	-0.8
4. Total Securities (1+2+3)	608.4	662.8	699.2	662.1	689.7	695.6	709.0	13.4	100.5
5. Overdraft at Central Bank	17.6	22.7	19.7	22.9	17.8	10.4	10.6	0.2	-7.0
6. Other Domestic debt*	34.2	34.8	35.2	34.1	34.1	37.6	34.4	-3.2	0.2
7. Gross Domestic Debt (4+5+6)	660.3	720.2	754.1	719.1	741.7	743.6	753.9	10.3	93.7
8. Interest payments on domestic debt	57.8	34.2	47.2	58.2	61.6	62.1	62.2	0.1	

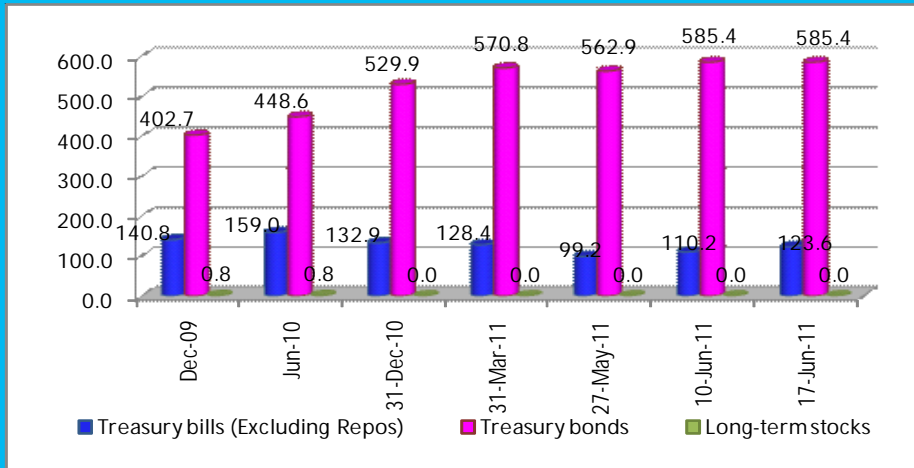
* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCS.

Source: Central Bank of Kenya

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Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 585.4 billion as at June 17, 2011, while Treasury bills declined from Ksh 159.0 billion to Ksh 123.6 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 82.6 percent as at June 17, 2011, while that of Treasury bills declined from 26.1 percent to 17.4 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

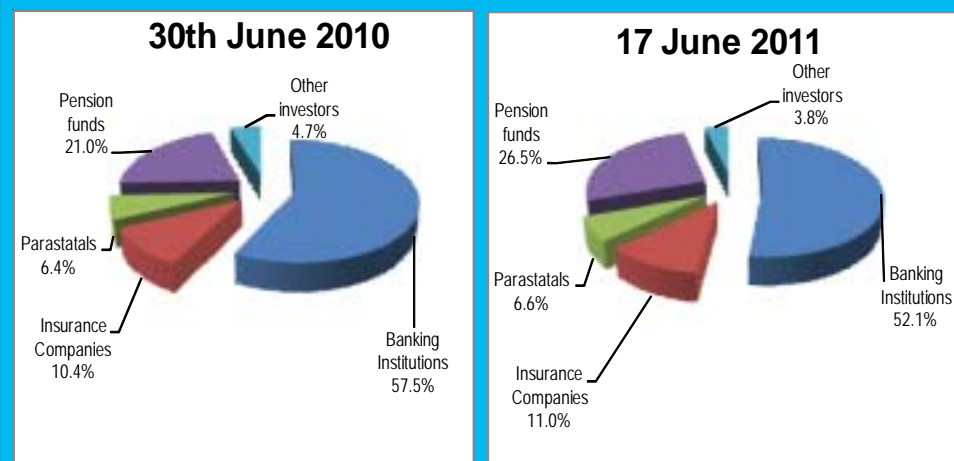


Source: Central Bank of Kenya

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 6.6 percent, 26.5 percent and 11.0 percent, respectively as at June 17, 2011. Holdings by commercial banks and other investors declined from 57.5 percent and 4.7 percent, to 52.1 percent, and 3.8 percent, respectively during the same period (Chart D).

Chart D: Composition of Government Securities by Investors

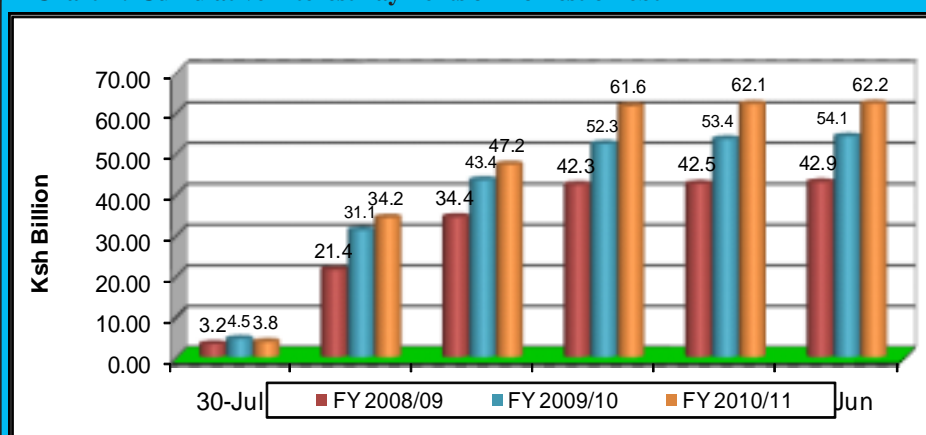


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt as at June 17, 2011 amounted to Ksh 62.2 billion compared with Ksh 54.1 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 8.8 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 1,208.2 million traded, down from Ksh 1,835.9 million equities traded in the week ended June 16, 2011. The number of shares traded dropped from 129.3 million to 69.8 million shares. Market capitalization as a measure of total shareholders' wealth decreased to Ksh 1,115.2 billion from last week's value of Ksh 1,122.6 billion. Similarly, the NSE 20 Share Index lost 21.7 points to a level of 3,970.6 points on June 23, 2011 from 3,992.3 points on June 16, 2011. Likewise, the Nairobi All Share Index dropped to 90.85 from 91.45 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	17-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	90.85
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	3,992.3	3,970.59
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	9104
Total Shares Traded (millions)	163.20	81.27	65.20	113.09	87.50	94.38	89.50	71.04	94.86	129.3506	69.851
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	1208.23745
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	1,122.577	1,115.241
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	12216.75

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

Source: Nairobi Stock Exchange

The Finance and Investment sector was most active, transacting 30.4 million shares or 43.5 percent of the traded volume. Of this, Equity Bank accounted for 9.0 million shares during the week. Commercial and Services sector traded 25.8 million shares or 37 percent of the traded volume, of which the Safaricom counter accounted for 20.0 million shares. Industrial and Allied sector had 13.3 million shares change hands. This sector accounted for 19.1 percent of the total volume transacted. Kenol/Kobil Ltd and Kenya Power and Lighting were the most active counters in the Industrial and Allied sector with 6.0 million and 2.5 million shares traded respectively. The Alternative market segment traded 74,800 from 27,500 in the previous period.

The biggest closing and average price margin gains between June 17 and June 23, 2011, were on the Kapchorua Tea Ltd and the Williamson Tea counters at Ksh 10 and Ksh. 8 per share, respectively. The biggest closing and average price margin losses were on the East African Breweries and Limuru Tea Co. Ltd counters at Ksh 6 and Ksh. 15 per share, respectively.

Bond Market Bond turnover at the Fixed Income Securities Market decreased by 14.5 percent, from Ksh 14.2 billion traded in the previous week to Ksh 12.2 billion in the week under review. The number of deals transacted, decreased from 146 to 109 during the period under review.