

**March 4, 2011**



### **THE CBK WEEKLY BULLETIN**

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

The overall 12-month inflation rate rose for the fourth consecutive month to reach at 6.5 percent in February 2011, a level last experienced sixteen months ago. Average annual inflation, on the other hand, increased marginally by 0.1 percent in February 2011, reversing the downward trend that had persisted for close to a two years.

The Government held two separate Treasury bill auctions this week to raise Ksh 7.0 billion from the market. Bids totalling Ksh 9.8 billion were received - a 140.1 percent performance. The Government accepted bids amounting to Ksh 6.4 billion. The average Treasury bill interest rates edged up during the week.

The money market was tight in the week ending March 02, 2011 and the Central Bank of Kenya (CBK) injected a total of Ksh 11.4 billion into the market. There were no reverse repo maturities during the week.

The average interbank rate remained unchanged at 1.11 percent in the week ending March 02, 2011.

The Kenya Shilling depreciated against the major international currencies in the week ending March 03, 2011. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 82.67 in the week compared with Ksh 81.86 per US dollar in the previous week. In the EAC region, the Kenya shilling also depreciated on average against the regional currencies.

The usable official foreign exchange reserves held by the CBK increased from US dollar 3,610 million (equivalent to 3.57 months of imports) as at February 24, 2011 to US dollar 3,645 million (equivalent to 3.61 months of imports) as at March 03, 2011.

Government gross domestic debt increased by Ksh 54.2 billion from Ksh 660.3 billion in June 2010 to Ksh 714.4 billion as at February 25, 2011. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 41.8 billion.

Performance indicators at the equities market were mixed during the week ending March 03, 2011. The NSE 20 Share Index lost 82 points to settle at 4,182.6 from 4,264.7 points on February 24, 2011. The equity turnover increased by 11.2 percent, while the bond market activity decreased by 27.1 percent.

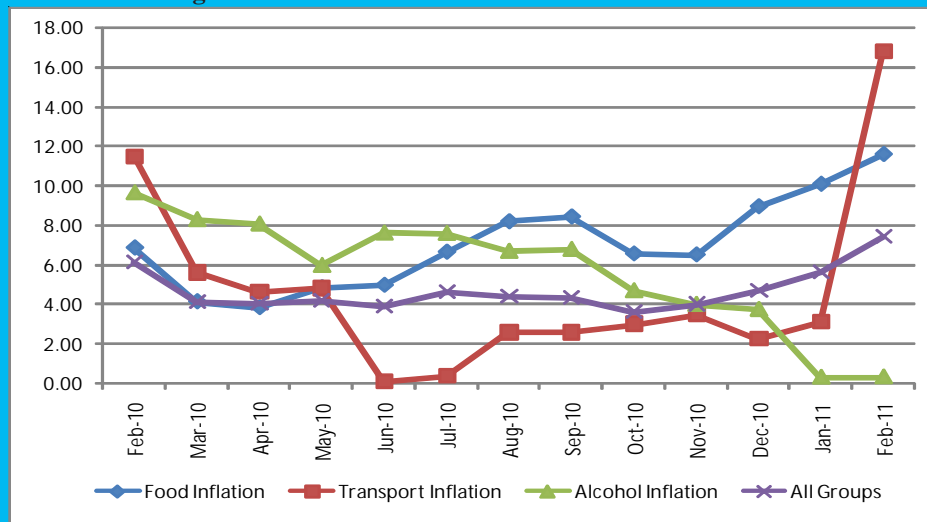
**Inflation**

The overall 12-month inflation rate increased by 1.1 percent from 5.4 percent in January 2011 to 6.5 percent in February 2011. The most significant increase was in the transport basket, which rose from 8.4 percent in January 2011 to 13.1 percent in February 2011, responding to increased transportation cost due to rising international crude oil prices during the month, which are expected to continue the upward trend. The Nairobi lower income group was hardest hit by the increase in transportation costs, experiencing an increase of 13.7 percent from 3.1 percent in January 2011 to 16.8 percent inflation rate in February 2011. The Nairobi's middle and upper and the rest of urban income groups experienced increases in transport inflation equivalent to 1.4 percent, 0.7 percent and 0.4 percent, respectively, in February 2011.

Food inflation also increased from 8.6 percent in January 2011 to 9.8 percent in February 2011. The rise in food inflation, which rose from 10.1 percent in January 2011 to 11.6 percent in February, was attributed to increases in prices of essential food items for the lower income group.

For all the other consumer baskets, inflation rate went up during the month with the exception of the communications and education baskets, where it declined by 1.7 percent and 0.1 percent, respectively (Chart A).

**Chart A: Annual Inflation, 12-month Overall Inflation and Food and Alcoholic Beverages Inflation**



Source: Central Bank of Kenya

**Government Securities Auction**

In the Government securities market in the week ending March 3rd, 2011, two separate Treasury bill auctions were held. The 364-day Treasury bill auction on March 02, 2011, attracted bids amounting to Ksh 6.7 billion, a 135.0 percent performance, compared with a target of Ksh 5.0 billion. In the auction of on March 03, 2011, the Government offered for sale 91-day Treasury bills amounting to Ksh 2.0 billion and bids amounting Ksh 3.0 billion were received, a 154 percent performance. From both auctions, the Government accepted bids amounting to Ksh 6.4 billion which was Ksh 0.6

billion below target for the week. The proceeds were partly to be used to meet the cost of redemptions of Government securities maturing during the week amounting to Ksh. 10.8 billion.

### Interest Rates on Treasury Bills

The 91- and 364- day Treasury bill rates edged up 2.4 basis points and 27.4 basis points respectively to settle at 2.627 percent and 3.996 percent, respectively (Table 1).

**Table 1: Interest Rates**

Auction date	2-Dec-10	9-Dec-10	16-Dec-10	23-Dec-10	31-Dec-10	6-Jan-11	13-Jan-11	20-Jan-11	27-Jan-11	3-Feb-11	10-Feb-11	17-Feb-11	24-Feb-11	3-Mar-11
91 day T. Bills*	2.239		2.313		2.357		2.409	2.455	2.519	2.555	2.595	2.592	2.603	2.627
182 day T. Bills*		2.548		2.631		2.675			2.728		2.749		2.764	
364 day T. Bills*								3.693		3.722				3.996
Month	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11			
Average savings rate	1.81	1.81	1.76	1.75	1.55	1.50	1.47	1.46	1.40	1.45	1.25			
Average overdraft rate	14.06	14.50	14.38	14.23	14.03	13.97	13.81	13.64	13.77	13.69	13.93			

\*Weighted rates for accepted bids

Source: Central Bank of Kenya

### Interbank and REPO Rates

The average interbank interest rate remained at 1.11 percent in the week ending March 02, 2011, the same as the previous week. However, the average volumes declined to Ksh 7.12 billion in the week ending March 02, 2011 from Ksh 9.48 billion the previous week (Table 2). The Government deposits at the CBK rose from Ksh 50.3 billion in the week ending February 23, 2011 to Ksh 53.8 billion in the week ending March 02, 2011.

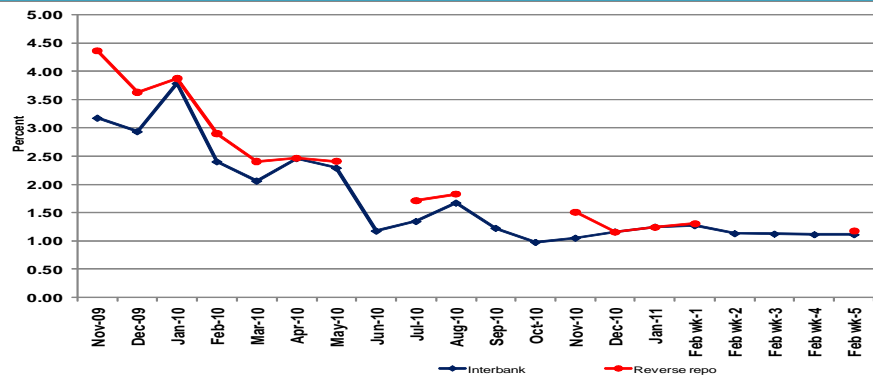
**Table 2: Interbank Transactions**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
<b>Feb 10- Feb 16, 2011</b>	<b>74</b>	<b>12,641</b>	<b>1.12</b>
17-Feb-11	74	10,901	1.12
18-Feb-11	77	12,638	1.10
21-Feb-11	38	6,523	1.12
22-Feb-11	59	9,095	1.10
23-Feb-11	48	5,298	1.13
<b>Feb 17- Feb 23, 2011</b>	<b>65</b>	<b>9,483</b>	<b>1.11</b>
24-Feb-11	46	4,705	1.13
25-Feb-11	58	6,749	1.09
28-Feb-11	70	11,646	1.11
1-Mar-11	57	10,175	1.11
2-Mar-11	48	6,865	1.11
<b>Feb 24- March 02, 2011</b>	<b>52</b>	<b>7,123</b>	<b>1.11</b>

Source: Central Bank of Kenya

A reverse Repo transaction took place on February 28, 2011 at an interest rate of 1.181 percent (Chart B).

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The money market was tight in the week ending March 02, 2011 and the CBK injected a total of Ksh 11.4 billion into the market (Table 3). There were no reverse repo maturities during the week. Commercial banks did not borrow from the CBK overnight window. Reserve money averaged Ksh 214.2 billion and was above target by Ksh 13.8 billion.

Table 3: Open Market Operations (Ksh Billion)

Date	Reserve Money* (Projected)			OMO (Reverse 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)
24-Feb	223.4	199.2	24.2	0.0	0.0	0.0	223.4	24.2	21.2	3.0
25-Feb	221.8	199.2	22.7	0.0	0.0	0.0	221.8	22.7	19.6	3.1
28-Feb	198.6	199.2	-0.6	10.0	11.4	-1.4	198.6	-0.6	-4.0	3.5
1-Mar	213.5	202.3	11.2	0.0	0.0	0.0	213.5	11.2	6.8	4.4
2-Mar	213.8	202.3	11.5	0.0	0.0	0.0	213.8	11.5	14.9	-3.5
Average	214.2	200.4	13.8	2.0	2.3	-0.3	214.2	13.8	11.7	2.1

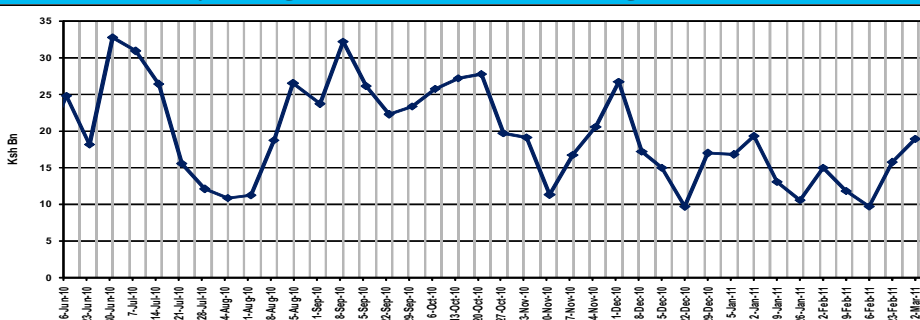
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 18.9 billion in their clearing accounts at the CBK in the week to March 02, 2011, compared with Ksh 15.7 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 March 03, 2011 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 82.67 in the week compared with Ksh 81.86 per US dollar the previous week. During the week, the shilling depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 134.17 per Sterling Pound, Ksh 114.07 per Euro and Ksh 100.89 per 100 Japanese Yen compared with Ksh 132.66 per Sterling Pound, Ksh 111.97 per Euro and Ksh 98.87 per 100 Japanese Yen in the previous week.

In the EAC region, the Kenya Shilling weakened against the Tanzania shilling, Uganda shilling, Rwandan Franc and Burundi Franc to exchange at Tsh 18.36 per Kenya Shilling, Ush 28.60 per Kenya Shilling, RWF 7.25 per Kenya Shilling and BIF 14.91 per Kenya Shilling in the week ending March 03, 2011, compared with Tsh 18.50 per Kenya Shilling, Ush 28.81 per Kenya Shilling, RWF 7.32 per Kenya Shilling and BIF 15.03 per Kenya Shilling in the previous week.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
21-Feb-11	81.79	132.89	111.92	98.41	29.04	18.52	7.33	15.04
22-Feb-11	81.86	132.31	111.08	98.29	29.01	18.50	7.32	15.03
23-Feb-11	81.88	132.57	112.18	99.06	28.58	18.51	7.32	15.03
24-Feb-11	81.89	132.88	112.70	99.73	28.60	18.47	7.32	15.03
<b>February 21-24, 2011</b>	<b>81.86</b>	<b>132.66</b>	<b>111.97</b>	<b>98.87</b>	<b>28.81</b>	<b>18.50</b>	<b>7.32</b>	<b>15.03</b>
28-Feb-11	82.36	132.69	113.37	100.79	28.62	18.42	7.28	14.93
1-Mar-11	82.60	134.33	114.03	100.52	28.63	18.37	7.26	14.90
2-Mar-11	82.80	134.40	113.93	101.06	28.62	18.36	7.24	14.90
3-Mar-11	82.93	135.26	114.94	101.19	28.52	18.29	7.23	14.89
<b>February 28-March 03, 2011</b>	<b>82.67</b>	<b>134.17</b>	<b>114.07</b>	<b>100.89</b>	<b>28.60</b>	<b>18.36</b>	<b>7.25</b>	<b>14.91</b>

Source: Central Bank of Kenya

## Foreign Exchange Reserves

The usable official foreign exchange reserves held by the CBK increased from US dollar 3,610 million (equivalent to 3.57 months of imports) as at February 24, 2011 to US dollar 3,645 million (equivalent to 3.61 months of imports) as at March 03, 2011 (Table 5).

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

	26-Nov-10	31-Dec-10	6-Jan-11	10-Feb-11	17-Feb-11	24-Feb-11	3-Mar-11
<b>Usable Reserves*</b>	3,471	3,466	3,466	3,521	3,495	3,610	3,645
<b>Months of Imports Cover**</b>	3.52	3.48	3.48	3.49	3.46	3.57	3.61

\*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 54.2 billion from Ksh 660.3 billion in June 2010 to Ksh 714.4 billion as at February 25, 2011 (Table 6 and Chart D). This increase was on account of increases in Treasury bonds and overdraft at the CBK amounting to Ksh 91.9 billion. This was, however, partially offset by decreases of Ksh 37.7 billion in Treasury bills, other domestic debt and long term stocks.

Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 535.2 billion as at February 25, 2011, while Treasury bills declined from Ksh 159.0 billion in June 2010 to Ksh 122.7 billion during the same period.

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

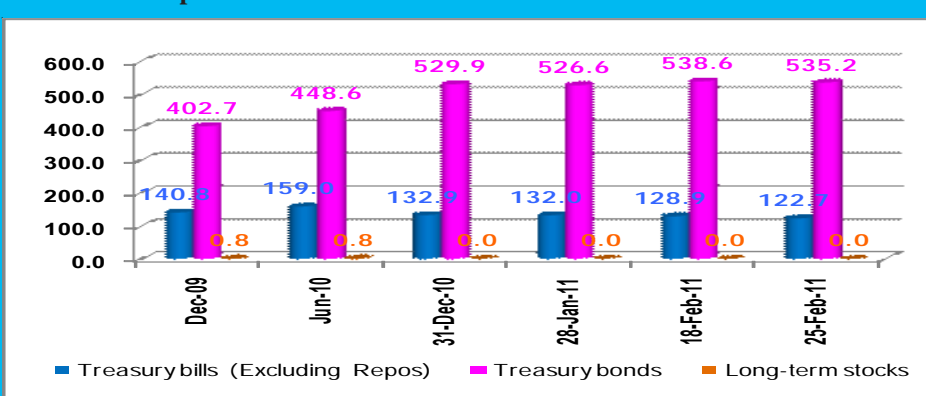
	Jun-10	31st Dec-2010	18th Feb-2011	25th Feb-2011	Changes	
					18th Feb-11-25th Feb-11	30th Jun-10-25th Feb-11
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	132.9 20.1	128.9 19.3	122.7 18.7	-6.2	-36.3
2. Treasury Bonds (As % of total securities)	448.6 73.7	529.9 79.9	538.6 80.7	535.2 81.3	-3.4	86.6
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	-0.8
4. Total Securities (1+2+3)	608.4	662.8	667.5	657.9	-9.6	49.5
5. Overdraft at Central Bank	17.6	22.7	21.5	22.9	1.5	5.3
6. Other Domestic debt*	34.2	34.8	33.6	33.6	0.0	-0.6
7. Gross Domestic Debt (4+5+6)	660.3	720.2	722.6	714.4	-8.2	54.2
8. Interest payments on domestic debt	57.8	34.2	38.4	41.8	3.4	

\* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCs.  
Source: Central Bank of Kenya

**Source: Central Bank of Kenya**

As a result, the share of Treasury bonds in total domestic debt increased from 73.7 percent in June to 81.3 percent as at February 25, 2011, while that of Treasury bills declined from 26.1 percent to 18.7 percent. Therefore, the average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years 2 months during the period under review.

**Chart D: Composition of Government Securities**

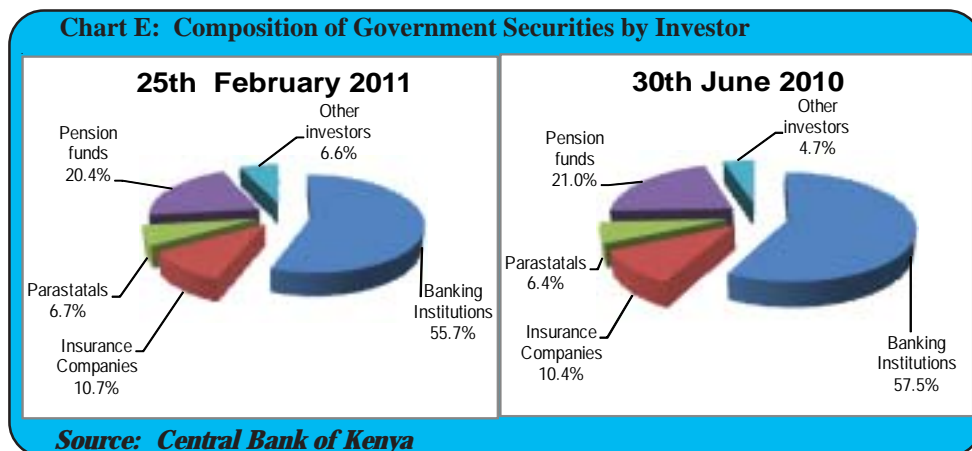


**Source: Central Bank of Kenya**

**Holding of Government Securities**

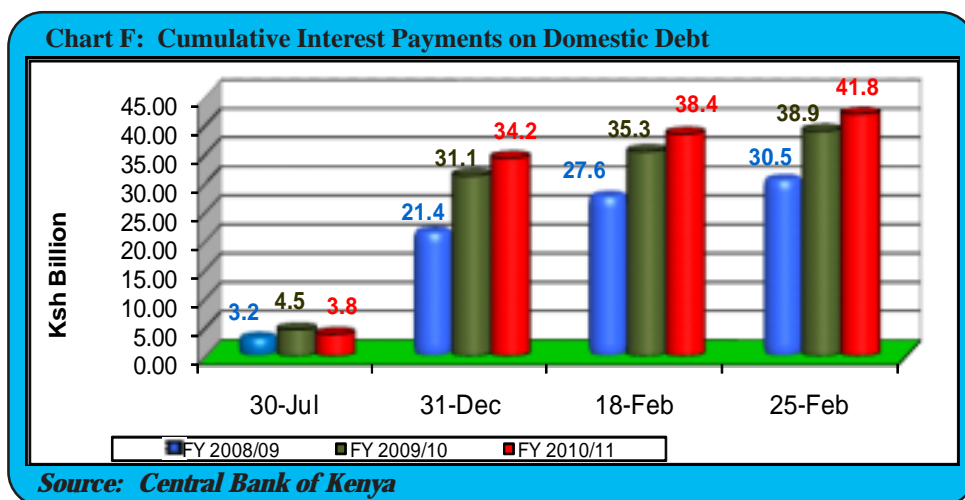
The holdings of Government securities by parastatals, insurance companies and other investors increased from 6.4 percent, 10.4 percent + and 4.7 percent, respectively in June 2010 to 6.7 percent, 10.7 percent and 6.6 percent, respectively as at February 25, 2011. However, holdings by

commercial banks and pension funds declined from 57.5 percent and 21.0 percent, respectively to stand at 55.7 percent and 20.4 percent, respectively during the same period (Chart E).



### Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt as at February 25, 2011 amounted to Ksh 41.8 billion compared with Ksh 38.9 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 7.8 billion and 33.4 billion respectively, while interest on Government overdraft at the CBK and Government stocks amounted to Ksh 0.6 billion.



### The Stock Market

Performance at the equities market was mixed during the week ending March 03, 2011. Turnover rose by 11.2 percent as stocks worth Ksh 1,996.4 million were traded compared to Ksh 1,795.9 million traded in the previous week. The number of shares traded increased from 95.5 million to 108 million during the period under review. Market capitalization, which is a measure of total shareholders wealth, decreased to 1,158 from last week's level of 1,188. The NSE 20 Share Index lost 82 points to settle at 4,182.6 points on March 03, 2011 from 4,264.7 points on February 24, 2011. The Nairobi All Share Index fell to 95.1 from 97.5 points in the previous week (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	13-Jan-11	20-Jan-11	27-Jan-11	3-Feb-11	10-Feb-11	17-Feb-11	24-Feb-11	3-Mar-11
NASI 100= Jan 2008	101.91	100.69	101.11	97.75	97.63	97.77	97.52	95.08
NSE 20 Share Index 100=1966	4,563.65	4,537.30	4,526.78	4,386.69	4,326.57	4,284.90	4,264.66	4,182.58
Number of Deals	11,670.00	10,528.00	11,445.00	9,775.00	9,408.00	9,730.00	10,357.00	9,585.00
Total Shares Traded (millions)	288.79	160.24	127.47	84.61	72.64	72.25	95.57	108.07
Equity Turnover (Ksh. millions)	3,225.56	2,051.46	1,898.46	1,397.63	1,706.72	1,236.49	1,795.99	1,996.43
Market Capitalization (Ksh. Bn.)	1,215.72	1,199.27	1,217.53	1,177.00	1,189.87	1,190.38	1,187.55	1,157.81
Bonds Turnover (Ksh. millions)	6,157.55	5,463.65	2,788.50	7,645.80	10,690.85	17,247.40	12,617.15	9,202.50

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

**Source: Nairobi Stock Exchange**

The Commercial and Services sector traded 59.4 million shares or 55.0 percent of the traded volume. Of this, the Safaricom counter saw 55.7 million shares change hands during the week. The Finance and Investment sector was the second most active with 34.3 million shares trading, as Industrial and Allied sector followed closely with 13.8 million shares. These accounted for 31.8 percent and 12.8 percent of total volume transacted respectively.

Co-operative Bank and Kenya Commercial Bank were the most active stocks in the Finance and Investment sector, trading 10.8 million and 7.8 million shares respectively. Mumias Sugar Company and Kenol Kobil Ltd were the most active counters in the Industrial and Allied sector, with 3.3 million and 3.1 million shares traded, respectively. The biggest closing price gain between February 24 and March 3, 2011, was on British American Tobacco, Athi River Mining and East African Portland shares at Ksh 2 per share each, while the biggest closing price loss was on Scangroup and Diamond Trust both at Ksh 6.0 per share. The Alternative market segment traded 9,500 shares down from 39,000 in the previous period.

### **Bond Market**

In the Fixed Income Securities Market, bond turnover decreased by 27.1 percent, from Ksh 12.6 billion traded in the previous week to Ksh 9.2 billion in the week under review (Table 7). Similarly, the number of deals transacted fell from 206 to 173 during the period under review.