

March 25, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government conducted Treasury bills and Treasury bonds auctions this week to raise Ksh 22.5 billion from the Market. The market offered Ksh 31.3 billion of which Ksh 22.6 billion was accepted at higher average interest rates.

The money market was relatively tight in the week ending March 23, 2011 prompting the Central Bank to inject a total of Ksh 2.0 billion, during the week. Reverse repo maturities amounted to Ksh 3.2 billion.

The Kenya Shilling on average depicted mixed performance against major international currencies during the week ending March 24, 2011. The Shilling appreciated against the US dollar and the Japanese Yen and depreciated against the Sterling Pound and the Euro, compared to the week ending March 17, 2011. In the region, the Kenya Shilling strengthened against all the EAC currencies during the week.

The usable official foreign exchange reserves held by the Central Bank increased slightly from US dollar 3,931 million (equivalent to 3.89 months of imports) as at March 17, 2011 to US dollar 3,935 million (equivalent to 3.90 months of imports) as at March 24, 2011.

Government gross domestic debt increased by Ksh 79.5 billion from Ksh 660.3 billion in June 2010 to Ksh 739.7 billion as at March 18, 2011. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 43.7 billion.

Performance at the equities market declined during the week ending March 24, 2011 with the NSE 20 Share Index losing 120.1 points to settle at 3873.4 from 3993.5 points on March 17, 2011. The equity turnover decreased by 47.2 percent.

Government Securities Auction

In the securities market, the Government offered for sale Ksh 2.0 billion and Ksh 2.5 billion in 91-day and 182-day Treasury bills, respectively. The market offered bids amounting to Ksh 4.3 billion (213.0 percent performance) and Ksh 1.1 billion (44.3 percent performance) in 91-day and 182-day Treasury bills, respectively. In the Treasury bonds counter, the Government offered for sale 5- year Treasury bonds and 30 -year Savings and Development bonds to raise Ksh 18.0 billion. The market offered Ksh 25.9 billion, a performance of 144.1 percent.

The Government accepted a total of Ksh 22.6 billion which was Ksh 0.1 billion above target for the week. The proceeds will fund the Government budget.

The 91- and 182- day Treasury bill rates edged up 12.1 basis points and 42.3 basis points, respectively to settle at 2.905 percent and 3.271 percent, respectively (Table 1).

The 5-year and 30-year Treasury bond rates edged up respectively by 86.5 basis points and 56.1 basis points to settle at 8.501 percent and 13.520 percent, respectively.

Table 1 : Interest Rates

Auction date	3-Feb-11	10-Feb-11	17-Feb-11	24-Feb-11	3-Mar-11	10-Mar-11	17-Mar-11	25-Mar-11
91 day T. Bills*	2.555	2.595	2.592	2.603	2.627	2.760	2.784	2.905
182 day T. Bills*		2.749		2.764		2.848		3.271
364 day T. Bills*	3.722				3.996			
Month	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	
Average savings rate	1.55	1.50	1.47	1.46	1.40	1.45	1.25	
Average overdraft rate	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 rate declined by 2 basis points to 1.17percent in the week ending March 23, 2011. The implicit stability in the interbank rate is underscored by the decline in volume traded to Ksh 7.65 billion in the week ending March 23, 2011 from Ksh 11.93 billion in the previous week. The Government deposits at the Central Bank rose from Ksh 48.8 billion in the week ending March 16, to Ksh 51.9 billion in the week ending March 23, 2011, without exerting undue pressure on interbank liquidity.

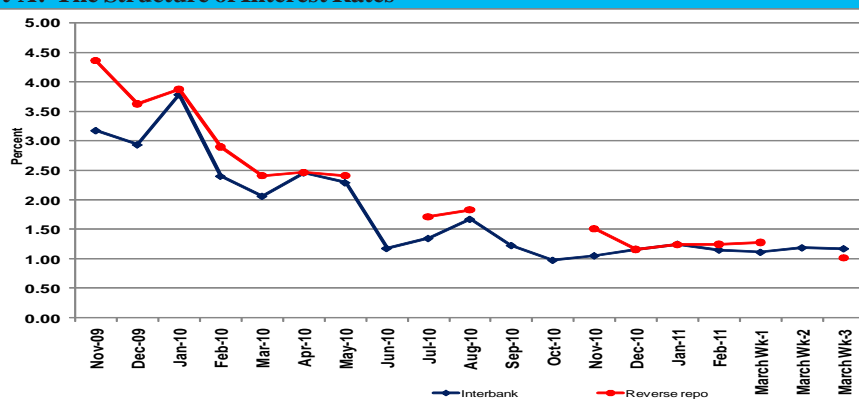
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
10-Mar-11	65	11,697	1.17
11-Mar-11	64	12,273	1.18
14-Mar-11	67	12,100	1.19
15-Mar-11	60	9,093	1.18
16-Mar-11	78	14,656	1.20
March 10- March 16, 2011	67	11,930	1.19
17-Mar-11	69	11,019	1.21
18-Mar-11	62	10,584	1.21
21-Mar-11	39	5,229	1.21
22-Mar-11	41	3,550	1.13
23-Mar-11	45	5,455	1.09
March 17- March 23, 2011	54	7,652	1.17

Source: Central Bank of Kenya

The reverse repo rate was 1.019 percent as at the last reverse repo transaction on March 18, 2011 (Table 2 and chart 1).

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The Central Bank injected a total of Ksh 7.4 billion into the market during the week thereby offsetting reverse repo maturities of Ksh 1.9 billion (Table 3). This action stabilized interbank liquidity. Reserve money averaged Ksh 218.1 billion during the week and was above target by Ksh 7.5 billion.

Table 3: Open Market Operations

Table 5: 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)
17-Mar	209.0	208.6	0.3	4.0	6.6	-2.6	213.4	4.8	4.1	0.7
18-Mar	211.7	208.6	3.0	2.0	0.8	1.2	210.1	1.5	0.8	0.7
21-Mar	221.8	211.8	10.0	0.0	0.0	0.0	221.7	9.9	9.5	0.4
22-Mar	222.1	211.8	10.3	0.0	0.0	0.0	221.6	9.8	9.8	0.0
23-Mar	223.1	211.8	11.3	0.0	0.0	0.0	223.5	11.7	12.0	-0.3
Average	217.5	210.5	7.0	1.2	1.5	-0.3	218.1	7.5	7.3	0.3

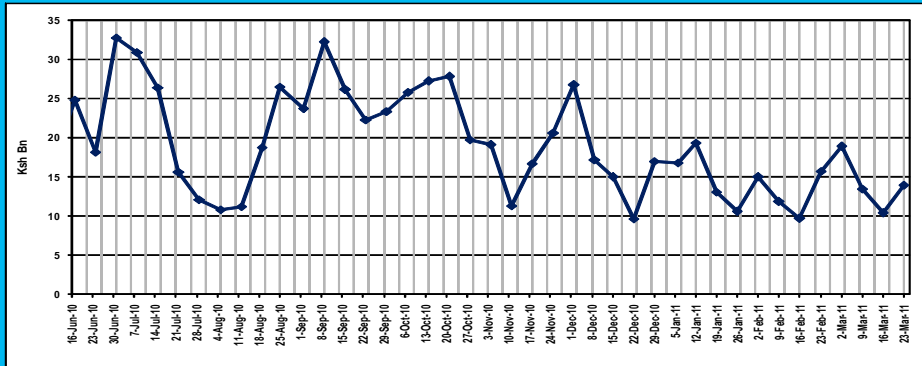
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

Commercial banks maintained an average of Ksh 13.9 billion in their clearing accounts at the Central Bank in the week to March 23, 2011, compared with Ksh 10.4 billion held the previous week (Chart B).

Chart B: Commercial Banks Repo Holdings



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling on average depicted mixed performance against major international currencies during the week ending March 24, 2011 (Table 4). The Kenya Shilling appreciated against the US dollar and the Japanese Yen and depreciated against the Sterling Pound and the Euro, compared to the week ending March 17, 2011. The Kenya shilling exchanged at an average of Ksh 84.88 per US dollar and Ksh 104.87 per 100 Japanese Yen compared to Ksh 85.73 per US dollar and Ksh 105.91 per 100 Japanese Yen the previous week. However, the Kenya shilling weakened against the Sterling Pound and the Euro to exchange at Ksh 138.18 per Sterling Pound and Ksh 120.17 per Euro during the week, compared to Ksh 137.79 per Sterling Pound and Ksh 119.52 per Euro in the week ending March 17, 2011.

The strengthening of the Kenya shilling against the dollar partly reflected resumption of risk appetite in the international foreign exchange market which spurred increased demand for other currencies resulting in a weaker US dollar. The appreciation of the Kenya shilling against the dollar also reflected the local foreign exchange market reaction to MPC’s decision to raise the Central Bank benchmark lending rate by 25 basis points to 6.0 percent.

EAC Exchange Rates

The Kenya Shilling strengthened against all the EAC currencies during the week. The Kenya shilling exchanged at Uganda shilling (Ush) 28.29 per Kenya shilling, Tanzania shilling (Tsh) 17.73 per Kenya shilling, Rwanda Franc (RWF) 7.06 per Kenya shilling and Burundi Franc (BIF) 14.54 per Kenya shilling during the week compared to Ush 28.17 per Kenya shilling, Tsh 17.66 per Kenya shilling, RWF 6.99 per Kenya shilling and BIF 14.41 per Kenya shilling the previous week.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
14-Mar-11	84.93	136.48	118.52	103.56	28.38	17.86	7.06	14.54
15-Mar-11	86.32	139.09	120.23	105.55	27.92	17.61	6.94	14.31
16-Mar-11	85.86	137.98	120.01	106.05	28.40	17.62	6.98	14.38
17-Mar-11	85.81	137.60	119.31	108.50	27.99	17.53	6.99	14.39
March 14- 17, 2011	85.73	137.79	119.52	105.91	28.17	17.66	6.99	14.41
21-Mar-11	84.59	137.09	119.73	104.55	28.34	17.80	7.09	14.59
22-Mar-11	85.15	138.87	121.11	105.15	28.16	17.70	7.04	14.49
23-Mar-11	84.78	138.79	120.13	104.86	28.37	17.76	7.07	14.57
24-Mar-11	84.99	137.96	119.73	104.92	28.30	17.68	7.05	14.53
March 21-24, 2011	84.88	138.18	120.17	104.87	28.29	17.73	7.06	14.54

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased slightly from US dollar 3,931 million (equivalent to 3.89 months of imports) as at March 17, 2011 to US dollar 3,935 million (equivalent to 3.90 months of imports) as at March 24, 2011, reflecting revaluation gain during the week (Table 5).

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

	26-Nov-10	31-Dec-10	6-Jan-11	17-Feb-11	24-Feb-11	3-Mar-11	10-Mar-11	17-Mar-11	24-Mar-11
Usable Reserves*	3,471	3,466	3,466	3,495	3,610	3,645	3,663	3,931	3,935
Months of Imports Cover**	3.52	3.48	3.48	3.46	3.57	3.61	3.63	3.89	3.90

*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 79.5 billion from Ksh 660.3 billion in June 2010 to Ksh 739.7 billion as at March 18, 2011 (Table 6 and Chart C). This increase was in Treasury bonds, other domestic debt and overdraft at the Central Bank amounting to Ksh 111.1 billion. This was, however, partially offset by decreases of Ksh 31.7 billion in both Treasury bills and long term stocks.

Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 558.1 billion as at March 18, 2011, while Treasury bills declined from Ksh 159.0 billion to Ksh 128.1 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 81.3 percent as at March 18, 2011, while that of Treasury bills declined from 26.1 percent to 18.2 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years 2 month during this period.

Table 6: Government Domestic Debt (Ksh Billion)

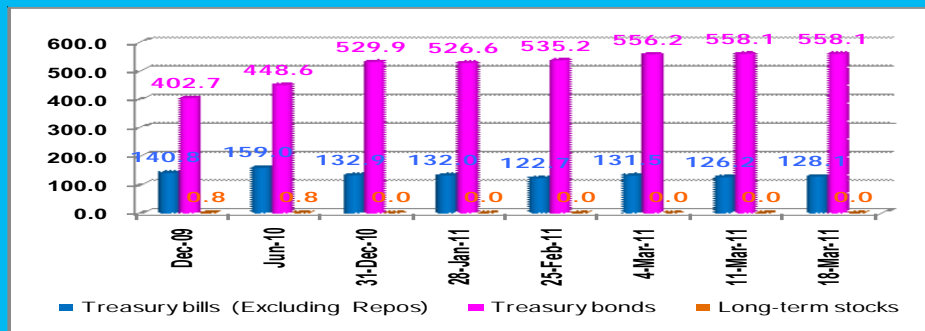
	25th Feb-2011	4th Mar-2011	11th Mar-2011	18th Mar-2011	Changes	
					11th Mar-11-18th Mar-11	30th Jun-10-18th Mar-11
1. Treasury Bills (Excluding Repos) (As % of total securities)	122.7 18.7	131.5 19.1	126.2 18.4	128.1 18.7	1.9	-30.9
2. Treasury Bonds (As % of total securities)	535.2 81.3	556.2 80.9	558.1 81.6	558.1 81.3	0.0	109.5
3. Long Term Stocks (As % of total securities)	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)	657.9	687.7	684.4	686.3	1.9	77.8
5. Overdraft at Central Bank	22.9	20.3	20.3	18.2	-2.0	0.6
6. Other Domestic debt*	33.6	33.6	35.1	35.2	0.1	1.0
7. Gross Domestic Debt (4+5+6)	714.4	741.5	739.8	739.7	-0.1	79.5
8. Interest payments on domestic debt	41.6	41.6	41.8	43.7	1.9	

* 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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Chart C: Composition of Government Securities

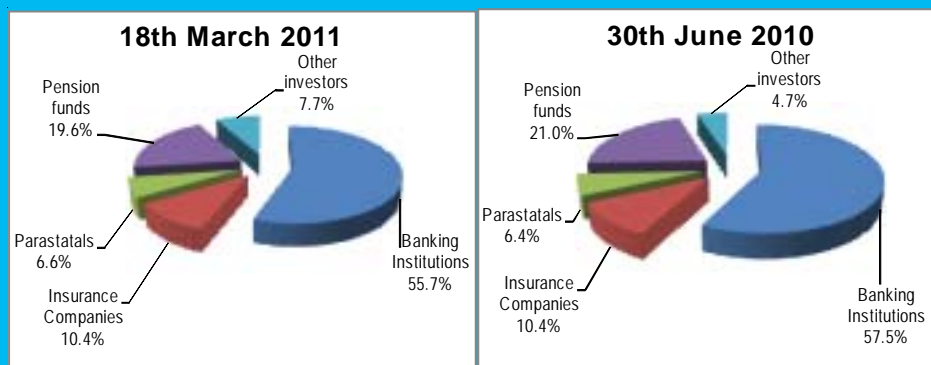


Source: Central Bank of Kenya

Holding of Govt Securities

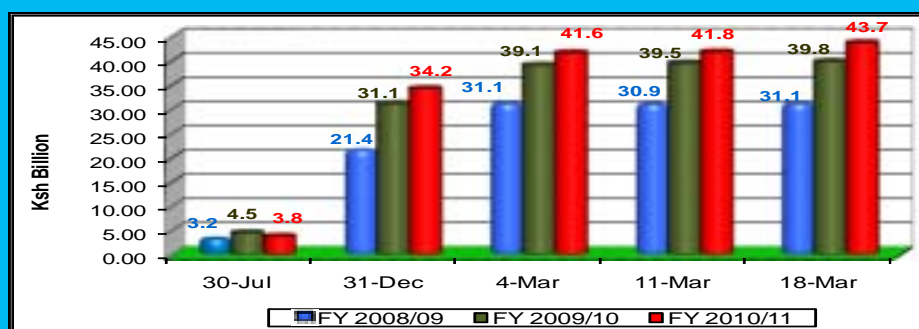
The holdings of Government securities by parastatals and other investors increased from 6.4 percent and 4.7 percent, respectively in June 2010 to 6.6 percent and 7.7 percent, respectively as at March 18, 2011. Holdings of commercial banks and pension funds declined from 57.5 percent and 21.0 percent, to 55.7 percent, and 19.6 percent, respectively during the same period (Chart D).

Chart D: Composition of Government Securities by Investors



Source: Central Bank of Kenya

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt as at March 18, 2011 amounted to Ksh 43.7 billion compared with Ksh 39.8 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 7.4 billion and Ksh 35.7 billion, respectively, while interest on Government overdraft at the Central Bank amounted to Ksh 0.6 billion.

The Stock Market

Performance at the equities market declined during the week ending March 24, 2011. Turnover decreased by 47.2 percent as stocks worth Ksh 1089.7 million were traded compared to Ksh 2063.6 million traded in the previous week. The number of shares traded decreased from 111.0 million to 55.1 shares during the period under review. Market capitalization as a measure of total shareholders wealth decreased to 1086 from last week's level of 1123.7. The NSE 20 Share Index lost 120.1 points to settle at 3873.4 points on March 24, 2011 from 3993.5 points on March 17, 2011. The Nairobi All Share Index fell to 89.2 from 92.3 points in the previous week (Table 7). The slow down in performance in the stock market is attributed to huge price losses across various counters in the market during the week.

Table 7: Key Weekly Market Statistics

Week Ending	10-Feb-11	17-Feb-11	24-Feb-11	3-Mar-11	10-Mar-11	17-Mar-11	24-Mar-11
NASI 100= Jan 2008	97.63	97.77	97.52	95.08	89.24	92.27	89.22
NSE 20 Share Index 100=1966	4,326.57	4,284.90	4,264.66	4,182.58	3,915.01	3,993.53	3,873.45
Number of Deals	9,408.00	9,730.00	10,357.00	9,585.00	9,269.00	9,380.00	7,574.00
Total Shares Traded (millions)	72.64	72.25	95.57	108.07	79.44	111.04	55.11
Equity Turnover (Ksh. millions)	1,706.72	1,236.49	1,795.99	1,996.43	1,244.90	2,063.68	1,089.73
Market Capitalization (Ksh. Bn.)	1,189.87	1,190.38	1,187.55	1,157.81	1,086.38	1,123.77	1,086.36
Bonds Turnover (Ksh. millions)	10,690.85	17,247.40	12,617.15	9,202.50	10,430.75	8,159.15	5,819.15

* 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 24.3 million shares or 44.2 percent of the traded volume. Of this, Safaricom counter saw 19.8 million shares change hands during the week. The Finance and Investment sector traded 20.1 million shares, while Industrial and Allied sector traded 9.7 million shares. These sectors accounted for 36.6 percent and 17.7 percent of total volume transacted, respectively.

Co-operative Bank Ltd. and Equity Bank were the most active stocks in the Finance and Investment sector, trading 4.4 million and 7.7 million shares, respectively. Kenya Power and Lighting Co. Ltd. and Kenol Kobil Ltd were most active counters in the Industrial and Allied sector, with 3.2 million and 2.1 million shares traded, respectively. The biggest closing price gain between March 17 and March 24, 2011, was on British American Tobacco Ltd at Kshs 2 per share followed by East Africa Portland Cement at Ksh 1 per share. The biggest closing price loss was on Athi River Mining at Ksh 16 per share followed by Jubilee Holdings Ltd and East African Breweries, both at Ksh 10 per share, respectively. The Alternative market segment traded 45,400 shares up from 15,000 in the previous period.

Bond Market

Bond turnover at the Fixed Income Securities Market decreased by 28.7 percent, from Ksh 8.1 billion traded in the previous week to Ksh 5.8 billion in the week under review. The number of deals transacted also fell from 111 to 73 during the period under review. The decrease in bond turnover may be attributed to shift in appetite towards the primary market, where yields are trending upwards.