

May 13, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government conducted two Treasury bills auctions this week to raise Ksh 7.0 billion from the market. The market offered bids worth Ksh 9.5 billion out of which the Government accepted bids amounting to Ksh 7.3 billion.

The average interbank rate declined by 16 basis points to 5.81 percent in the week ending May 11, 2011 from 5.97 percent in the previous week.

The Central Bank conducted open market operations to mop Ksh 1.0 billion from the market in the week ending May 11, 2011. The Central Bank is conducting repo sales in order to align net domestic assets to the Extended Credit Facility (ECF) targets.

The Kenya Shilling depicted mixed performance against major international currencies during the week ending May 13, 2011. In the week, the Kenya shilling appreciated against the Euro but depreciated against the US dollar, the Sterling Pound and Japanese Yen. In the EAC region, the Kenya Shilling weakened against all the East African currencies over the same period.

The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,960 million (equivalent to 3.84 months of imports) as at May 6, 2011, to US dollar 3,916 million (equivalent to 3.80 months of imports) as at May 13, 2011.

Government gross domestic debt increased by Ksh 71.4 billion to Ksh 731.7 billion as at May 6, 2011 from Ksh 660.3 billion in June 2010. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 53.7 billion.

Performance at the equities market declined during the week ending May 12, 2011 with the NSE 20 Share Index losing 39.2 points to settle at 3,992.6 from 4031.8 points on May 5, 2011 while equity turnover decreased by 23.1 percent.

Government Securities Auction

The Government conducted two Treasury bills auctions this week. In the 91-day Treasury bills auction, the Government offered for sale Ksh 2.0 billion. The auction attracted bids amounting to Ksh 5.3 billion representing a 263.0 percent performance. In the 364-day Treasury bills auction, the Government offered Ksh 5.0 billion and received bids worth Ksh 4.3 billion, a 85.0 percent performance.

The Government accepted bids amounting to Ksh 7.3 billion from the auctions and redeemed maturing Government securities amounting to Ksh 6.7 billion.

The 91-day Treasury bill rate increased by 77.8 basis points to settle at 4.796 percent while the 364-day Treasury bill rate increased by 177.4 basis points to settle at 6.772 percent in May 13, 2011 (Table 1).

Table 1 : Interest Rates

Auction date	27-Jan-11	3-Feb-11	10-Feb-11	24-Feb-11	3-Mar-11	10-Mar-11	17-Mar-11	25-Mar-11	31-Mar-11	8-Apr-11	15-Apr-11	21-Apr-11	29-Apr-11	6-May-11	13-May-11
91 day T. Bills*	2.519	2.555	2.595	2.603	2.627	2.760	2.784	2.905	2.989	3.157	3.461	3.524	3.577	4.018	4.796
182 day T. Bills*	2.728		2.749	2.764		2.848		3.271		3.442		3.580		3.691	
364 day T. Bills*		3.722			3.996						4.998				6.772
Month	Feb-10	Mar-10	Apr-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Dec-10	Jan-11	Feb-11	Mar-11
Average savings rate	1.81	1.81	1.81	1.75	1.55	1.50	1.47	1.46	1.40	1.45	1.25	1.45	1.25	1.41	1.37
Average overdraft rate	14.25	14.06	14.50	14.23	14.03	13.97	13.81	13.64	13.77	13.69	13.93	13.69	13.93	13.65	13.60

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Interbank and REPO Rates

The interbank liquidity improved during the week ending May 11, 2011. Consequently, the average interbank rate declined by 16 basis points to 5.81 percent from 5.97 percent in the previous week (Table 2 & Chart A) and average volumes traded decreased to Ksh 14.87 billion from Ksh 16.91 billion over the same period. The improvement in interbank market liquidity was boosted by Government payments following a draw down of government deposits at the Central Bank by Ksh 6 billion. Government deposits therefore, closed lower at Ksh 41 billion.

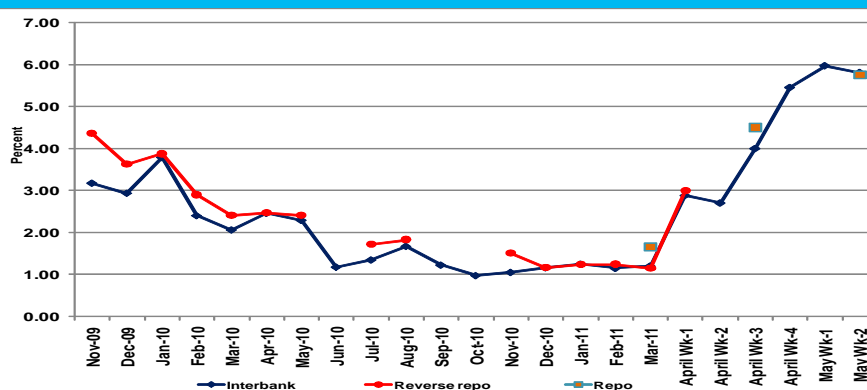
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
28-Apr-11	85	16,470	5.99
29-Apr-11	90	17,055	5.94
3-May-11	83	16,752	5.97
4-May-11	95	17,368	5.98
April 28- May 04, 2011	88	16,911	5.97
5-May-11	79	15,153	5.97
6-May-11	84	15,329	5.89
9-May-11	77	15,174	5.79
10-May-11	88	14,900	5.69
11-May-11	79	13,791	5.70
May 05- May 11, 2011	81	14,869	5.81

Source: Central Bank of Kenya

The repo rate was 5.75 percent on the repo transaction of May 11, 2011 compared with 4.50 percent in the repo transaction of April 18, 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 1.0 billion from the market in the week ending May 11, 2011. The Central Bank is under taking repo sales to align net domestic assets to the Extended Credit Facility (ECF) targets. Commercial banks borrowed a total of Ksh 10.7 billion from the Central Bank overnight window compared with Ksh 17.4 billion borrowed the previous week. Reserve money averaged Ksh 217.8 billion during the week and was above target by Ksh 7.3 billion (Table 3).

Table 3: Open Market Operations Ksh Billion

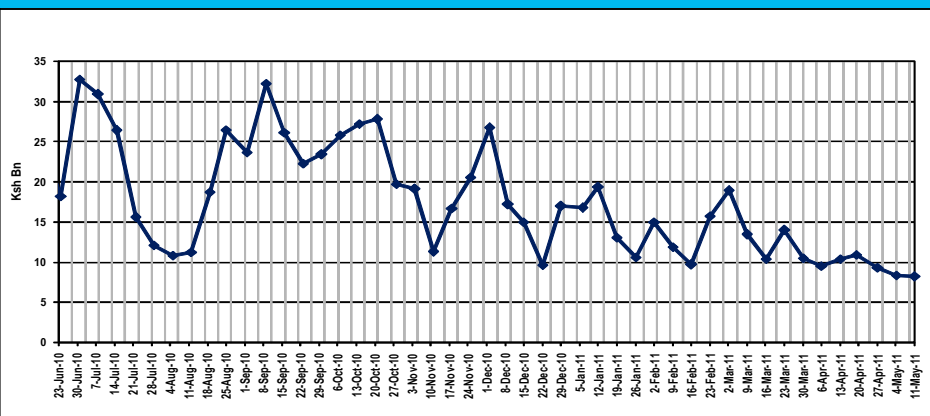
Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/Short(-)	Posted	Mopped	Exc(+)/Short(-)	Actual	Exc(+)/Short(-)	Exc(+)/Short(-)	Exc(+)/Short(-)
	(1)	(2)	3=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
5-May	217.7	211.0	6.7	0.0	0.0	0.0	218.6	7.6	3.2	4.4
6-May	218.3	211.0	7.3	0.0	0.0	0.0	218.4	7.4	2.7	4.6
9-May	219.2	211.8	7.5	0.0	0.0	0.0	219.9	8.1	3.6	4.5
10-May	217.9	211.8	6.1	0.0	0.0	0.0	218.4	6.6	2.1	4.6
11-May	215.8	211.8	4.1	0.0	0.0	0.0	218.5	6.7	2.7	4.0
Average	217.8	211.5	6.3	0.0	0.0	0.0	218.8	7.3	2.9	4.4

*Reserve money comprises bank reserves and currency outside banks

Commercial Banks Clearing Accounts Balances

Commercial banks maintained an average of Ksh 8.2 billion in their clearing accounts at the Central Bank in the week to May 11, 2011, compared with Ksh 8.3 billion held 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 depicted mixed performance against major international currencies during the week ending May 13, 2011 (Table 4). In the week, the Kenya shilling appreciated against the Euro to exchange at an average of Ksh 121.97 per Euro compare to Ksh 123.55 per Euro during the week ending May 6, 2011. However, the Kenya shilling depreciated against the US dollar, the Sterling Pound and Japanese Yen to exchange at Ksh 85.24 per US dollar, Ksh 139.36 per Sterling Pound and Ksh 105.56 per 100 Japanese yen compared to Ksh 83.67 per US dollar, Ksh 138.04 per Sterling Pound and Ksh 103.56 per 100 Japanese yen in the week ending May 6, 2011. The weakening of the Kenya shilling against the US dollar is due to increased demand for the dollars in particular from the energy sector, during the week.

The Kenya Shilling weakened marginally against the other East African currencies in the week ending May 13, 2011. It exchanged at an average of Ushs 28.02, Tshs 17.78, RWF 7.04 and BIF 14.37 compared to an average of Ushs 28.45, Tshs 18.10, RWF 7.17 and BIF 14.69 respectively, during the week ending 6th May, 2011.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
3-May-11	83.46	138.70	123.74	103.04	28.52	18.12	7.19	14.73
4-May-11	83.53	137.52	123.67	103.18	28.49	18.12	7.19	14.72
5-May-11	83.66	138.31	124.45	103.79	28.45	18.09	7.18	14.70
6-May-11	84.05	137.63	122.36	104.25	28.35	18.06	7.13	14.59
May 03 - 06, 2011	83.67	138.04	123.55	103.56	28.45	18.10	7.17	14.69
9-May-11	84.22	138.06	121.36	104.47	28.38	18.02	7.12	14.57
10-May-11	84.71	138.72	121.07	105.23	28.25	17.88	7.09	14.46
11-May-11	85.22	139.37	122.70	105.37	27.96	17.75	7.05	14.37
12-May-11	85.92	140.50	122.07	106.02	27.78	17.65	6.99	14.26
13-May-11	86.11	140.13	122.63	106.68	27.75	17.62	6.97	14.22
May 09 - 13, 2011	85.24	139.36	121.97	105.56	28.02	17.78	7.04	14.37

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,960 million (equivalent to 3.84 months of imports) as at May 6, 2011, to US dollar 3,916 million (equivalent to 3.80 months of imports) as at May 13, 2011 (Table 5).

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

	24-Mar-11	31-Mar-11	15-Apr-11	21-Apr-11	29-Apr-11	6-May-11	13-May-11
Usable Reserves*	3,935	3,887	3,930	3,928	3,956	3,960	3,916
Months of Imports Cover**	3.90	3.77	3.81	3.79	3.82	3.84	3.80

*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 71.4 billion from Ksh 660.3 billion in June 2010 to Ksh 731.7 billion as at May 06, 2011 (Table 6 and Chart D). This increase was largely in Treasury bonds and overdraft at the Central Bank.

Table 6: Government Domestic Debt (Ksh Billion)

	Jun-10	Dec-10	Mar-11	15th Apr-2011	21st Apr-2011	29th Apr-2011	6th May-2011	Changes	
								29st Apr-11- 6th May-11	30th Jun-10-6th May-11
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	132.9 20.1	128.4 18.4	125.6 18.0	107.3 15.9	103.8 15.3	100.3 14.9	-3.5	-58.8
2. Treasury Bonds (As % of total securities)	448.6 73.7	529.9 79.9	570.8 81.6	570.8 82.0	566.9 84.1	574.5 84.7	574.5 85.1	0.0	125.9
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	696.3	674.2	678.2	674.8	0.6	66.4
5. Overdraft at Central Bank	17.6	22.7	19.7	19.5	22.9	22.9	22.9	0.0	5.3
6. Other Domestic debt*	34.2	34.8	35.2	34.1	33.9	34.2	34.0	-0.2	-0.2
7. Gross Domestic Debt (4+5+6)	660.3	720.2	754.1	750.0	731.1	735.3	731.7	0.6	71.4
8. Interest payments on domestic debt	57.8	34.2	47.2	47.3	48.4	51.3	53.7	2.4	

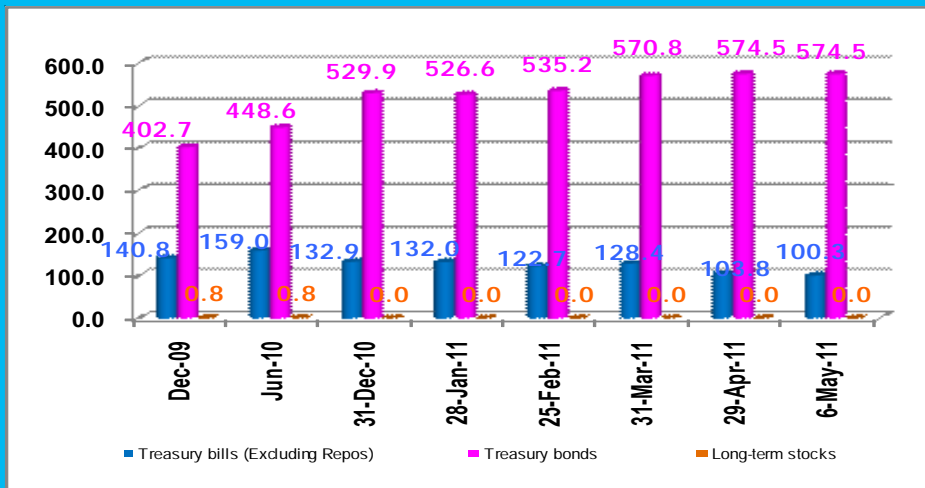
*Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and IRC's

Source: Central Bank of Kenya

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Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 574.5 billion as at May 06, 2011, while Treasury bills declined from Ksh 159.0 billion to Ksh 100.3 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 85.1 percent as at May 06, 2011, while that of Treasury bills declined from 26.1 percent to 14.9 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

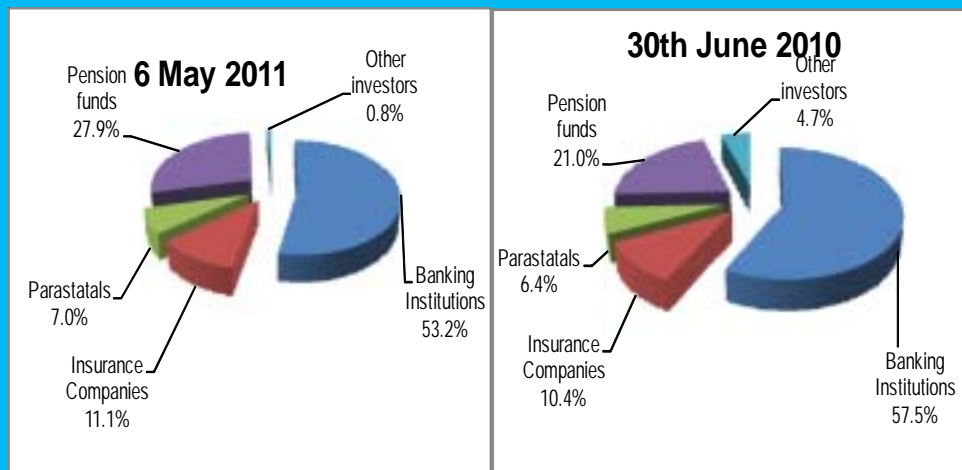


Source: Central Bank of Kenya

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 7.0 percent, 27.9 percent and 11.1 percent, respectively as at May 06, 2011. Holdings of commercial banks and other investors declined from 57.5 percent and 4.7 percent, to 53.2 percent, and 0.8 percent, respectively during the same period (Chart D).

Chart D: Composition of Government Securities by Investors

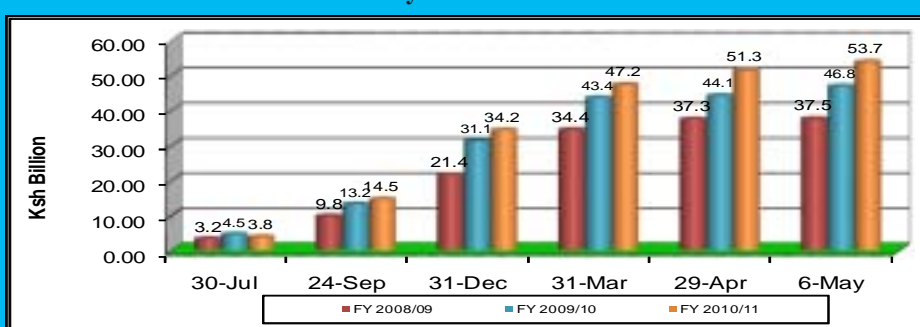


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt as at May 6, 2011 amounted to Ksh 53.7 billion compared with Ksh 46.8 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 8.3 billion and Ksh 44.4 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

Performance at the equities market decreased during the week ending May 12, 2011. Turnover decreased by 23.1 percent as stocks worth Ksh 1,914.7 million were traded compared to Ksh 2,489.1 million traded in the previous week. The number of shares traded decreased from 113.1 million to 87.4 million shares in the period under review. Market capitalization as a measure of total shareholders wealth decreased to 1,144.6 from the previous week's level of 1,168.7. The NSE 20 Share Index declined by 39.2 points to settle at 3,992.6 points on May 12, 2011 from 4,031.8 points on May 5, 2011. The Nairobi All Share Index dropped to 93.34 from 95.31 points in the previous week (Table 7). The decreased performance in the equities market is attributed to price losses across various counters during the week.

Table 7: Key Weekly Market Statistics

Week Ending	24-Feb-11	3-Mar-11	10-Mar-11	17-Mar-11	24-Mar-11	31-Mar-11	7-Apr-11	14-Apr-11	20-Apr-11	28-Apr-11	5-May-11	12-May-11
NASI 100- Jan 2008	97.52	95.08	89.24	92.27	89.22	89.50	93.29	93.70	93.72	93.81	95.31	93.34
NSE 20 Share Index 100=1966	4,264.66	4,182.58	3,915.01	3,993.53	3,873.45	3,887.07	3,993.07	3,998.60	4,007.73	4,005.78	4,031.78	3,992.55
Number of Deals	10,357.00	9,585.00	9,269.00	9,380.00	7,574.00	7,626.00	7,765.00	9,005.00	6,642.00	6,212.00	7,464	8,984
Total Shares Traded (millions)	95.57	108.07	79.44	111.04	55.11	161.59	156.82	163.20	81.27	65.20	113.09	87.498
Equity Turnover (Ksh. millions)	1,795.99	1,996.43	1,244.90	2,063.68	1,089.73	2,396.78	1,869.35	2,399.80	1,281.67	1,700.74	2,489.05	1,914.7797
Market Capitalization (Ksh. Bn.)	1,187.55	1,157.81	1,086.38	1,123.77	1,086.36	1,090.21	1,136.41	1,141.40	1,141.64	1,150.38	1,168.67	1,144.553
Bonds Turnover (Ksh. millions)	12,617.15	9,202.50	10,430.75	8,159.15	5,819.15	10,275.55	10,406.20	11,081.75	6,593.25	3,953.00	5,279.35	3,397.25

* 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 35.9 million shares or 41.1 percent of the traded volume. Of this, 32.1 million shares changed hands in the Safaricom counter. The Finance and Investment sector traded 38.7 million shares, while Industrial and Allied sector traded 11.8 million shares. These sectors accounted for 44.3 percent and 13.5 percent of total volume transacted, respectively.

Kenya Commercial Bank and Equity Bank were the most active stocks in the Finance and Investment sector, trading 9.8 million and 15.7 million shares, respectively. Kenya Mumias Sugar Company and KenGen were the most active counters in the Industrial and Allied sector, with 3.8 million and 2.6 million shares traded, respectively. The biggest closing price gain between May 5 and May 28, 2011, was on Carbacid Investment Ltd at Ksh 10.0 per share, followed by Bamburi Cement Ltd at Ksh 7.0 per share. The biggest closing price loss was on East African Breweries Ltd at Ksh 14 per share. The Alternative market segment traded 214,000 from 13,800 in the previous period.

Bond Market

Bond turnover at the Fixed Income Securities Market decreased by 35.7 percent, from Ksh 5.2 billion traded in the previous week to Ksh 3.3 billion in the week under review. The number of deals transacted decreased from 96 to 78 during the period under review. The decrease in bond turnover is attributed to a shift in investor's appetite towards the primary market, where yields are trending upwards.