

May 20, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government conducted two Treasury bills auctions this week to raise Ksh 4.5 billion from the market. The market offered bids worth Ksh 5.5 billion, out of which the Government accepted bids amounting to Ksh 4.1 billion.

The average interbank rate declined by 30 basis points to 5.51 percent in the week ending May 18, 2011 from 5.81 percent in the previous week, due to improved interbank liquidity.

The Central Bank conducted open market operations by mopping Ksh 4.6 billion from the market in the week ending May 18, 2011. The purpose of the monetary policy operations is to align the net domestic assets (NDA) of the Central Bank to the Extended Credit Facility (ECF) targets. Commercial banks borrowing through the Central Bank overnight window declined from Ksh 10.7 billion in the previous week to Ksh 4.4 billion, due to improved liquidity in the money market.

The Kenya Shilling depreciated against the major currencies in the week ending May 20, 2011. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 86.36 in the week compared with Ksh 85.24 per US dollar in the previous week. In the EAC region, the Kenya shilling on average depreciated against the regional currencies.

The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,925 million (equivalent to 3.81 months of imports) as at May 13, 2011, to US dollar 3,923 million (equivalent to 3.81 months of imports) as at May 20, 2011.

Government gross domestic debt increased by Ksh 69.3 billion from Ksh 660.3 billion in June 2010 to Ksh 729.6 billion as at May 13, 2011. 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 was mixed during the week ending May 19, 2011 with the NSE 20 Share Index losing 5.8 points to settle at 3,986.8 from 3,992.6 points on May 12, 2011 while equity turnover increased by 10.1 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 3.6 billion, a 179.0 percent performance. In the 182-day Treasury bills auction, the Government offered Ksh 2.5 billion and received bids amounting to Ksh 1.9 billion, a 77.9 percent performance.

The Government accepted bids amounting to Ksh 4.1 billion and redeemed maturing government securities amounting to Ksh 7.6 billion.

The 91-day Treasury bill rate increased by 161.3 basis points to settle at 6.4 while the 182- day Treasury bill rate increased by 175.3 basis points to 5.4 percent.

Table 1 : Interest Rates

Auction date	3-Feb-11	10-Feb-11	17-Feb-11	3-Mar-11	10-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	20-May-11
91 day T. Bills*	2.555	2.595	2.592	2.627	2.760	2.905	2.989	3.157	3.461	3.524	3.577	4.018	4.796	6.409
182 day T. Bills*		2.749			2.848	3.271		3.442		3.580		3.691		5.444
364 day T. Bills*	3.722			3.996					4.998				6.772	
Month	Feb-10	Mar-10	Apr-10	Jun-10	Jul-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	1.47	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	13.81	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 average interbank rate declined by 30 basis points to 5.51 percent in the week ending May 11, 2011 from 5.81 percent in the previous week, due to improved interbank liquidity. The average volumes traded decreased to Ksh 14.31 billion in the week May 18, 2011 from Ksh 14.87 billion in the previous week. The improvement in interbank market liquidity was boosted by Government payments following a draw down of government deposits at the Central Bank from Ksh 43.2 billion in the week ending May 11, 2011 to Ksh 42.2 billion in the week ending May 18, 2011. The interbank liquidity was also supported by Ksh 2.2 billion injection by the Central Bank through purchases of foreign exchange from the domestic interbank to accumulate foreign exchange reserves.

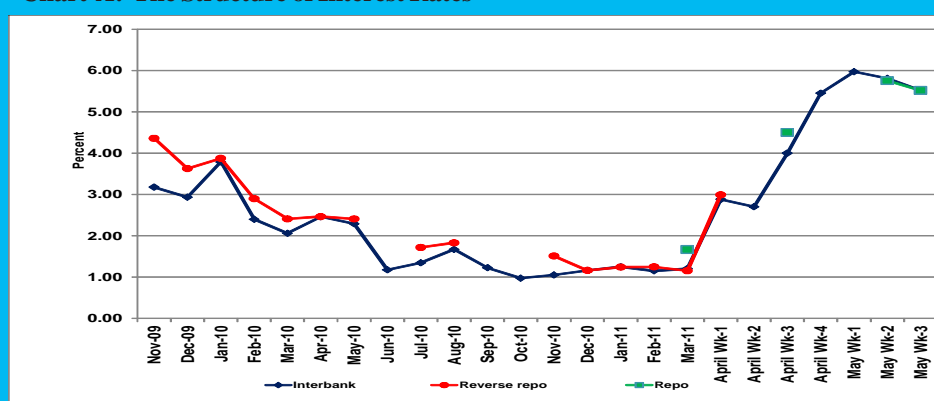
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
12-May-11	70	13,650	5.73
13-May-11	67	13,544	5.62
16-May-11	79	14,642	5.50
17-May-11	76	13,473	5.42
18-May-11	81	16,235	5.31
May 12- May 18, 2011	75	14,309	5.51

Source: Central Bank of Kenya

The repo rate declined by 24 basis points from 5.75 percent on the repo transaction on May 11, 2011 to 5.51 percent in the week ending May 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 4.6 billion from the market in the week ending May 18, 2011. The purpose of the monetary policy operations is to align the net domestic assets (NDA) of the Central Bank to the Extended Credit Facility (ECF) targets. Commercial banks borrowing through the Central Bank overnight window declined from Ksh 10.7 billion in the previous week to Ksh 4.4 billion due to improved liquidity in the money market. Reserve money averaged Ksh217.4 billion during the week and was above target by Ksh 5.2 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)
12-May-11	217.5	211.8	5.7	0.0	0.0	0.0	218.6	6.8	3.0	3.8
13-May-11	218.2	211.8	6.5	0.0	0.0	0.0	219.6	7.8	4.9	2.9
16-May-11	218.4	212.5	5.8	0.0	0.0	0.0	217.7	5.2	3.1	2.1
17-May-11	216.7	212.5	4.2	0.0	0.0	0.0	215.2	2.7	0.8	2.0
18-May-11	213.6	212.5	1.0	0.0	0.0	0.0	216.0	3.5	1.9	1.6
Average	216.9	212.2	4.6	0.0	0.0	0.0	217.4	5.2	2.7	2.5

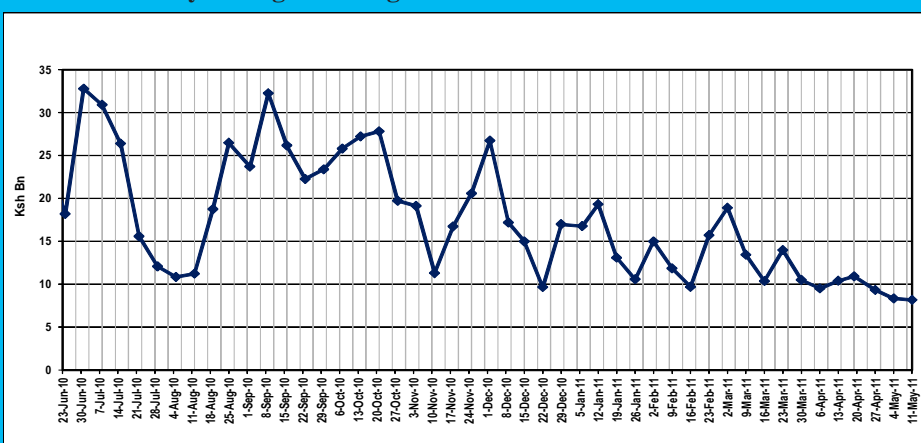
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

Commercial banks maintained an average of Ksh 9.1 billion in their clearing accounts at the Central Bank in the week to May 18, 2011, compared with Ksh 8.2 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 on average depreciated against the major international currencies during the week ending May 20, 2011 (Table 4). Against the US dollar, the shilling depreciated to exchange at Ksh 86.36 in the week compared with Ksh 85.24 per US dollar in the previous week. The shilling depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 140.06 per Sterling Pound, Ksh 122.92 per Euro and Ksh 106.21 per 100 Japanese Yen compared with Ksh 139.36 per Sterling Pound, Ksh 121.97 per Euro and Ksh 105.56 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 17.64 per Kenya Shilling, Ush 27.67 per Kenya Shilling, RWF 6.95 per Kenya Shilling and BIF 14.23 per Kenya Shilling in the week ending May 20, 2011, compared with Tsh 17.78 per Kenya Shilling, Ush 28.02 per Kenya Shilling, RWF 7.04 per Kenya Shilling and BIF 14.37 per Kenya Shilling in the previous week.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
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
16-May-11	85.93	139.02	121.19	106.12	27.87	17.66	6.98	14.26
17-May-11	86.25	139.95	122.33	106.04	27.70	17.68	6.96	14.26
18-May-11	86.56	140.91	123.50	106.74	27.60	17.59	6.92	14.21
19-May-11	87.05	140.78	124.28	106.66	27.47	17.52	6.89	14.13
20-May-11	86.03	139.62	123.32	105.50	27.70	17.77	6.98	14.30
May 16 - 20, 2011	86.36	140.06	122.92	106.21	27.67	17.64	6.95	14.23

Source: Central Bank of Kenya

**Foreign
Exchange
Reserves**

The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,925 million (equivalent to 3.81 months of imports) as at May 13, 2011, to US dollar 3,923 million (equivalent to 3.81 months of imports) as at May 20, 2011 (Table 5).

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

	24-Mar-11	31-Mar-11	21-Apr-11	29-Apr-11	6-May-11	13-May-11	20-May-11
Usable Reserves*	3,935	3,887	3,928	3,956	3,960	3,925	3,923
Months of Imports Cover**	3.90	3.77	3.79	3.82	3.84	3.81	3.81

*Excludes encumbered reserves

**Based on 36 month average of imports of goods and non-

Source: Central Bank of Kenya

**Government
Domestic
Debt**

Gross Government debt increased by Ksh 69.3 billion from Ksh 660.3 billion in June 2010 to Ksh 729.6 billion as at May 13, 2011 (Table 6 and Chart C). This increase was in Treasury bonds and overdraft at the Central Bank amounting to Ksh 131.2 billion. This was, however, partially offset by decreases of Ksh 61.9 billion in both Treasury bills, other domestic debt and long term stocks.

Table 6: Government Domestic Debt (Ksh Billion)

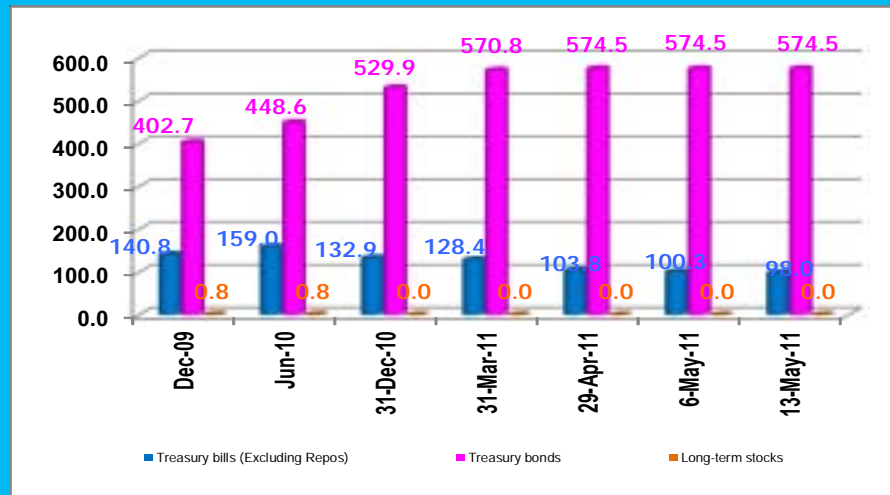
	Jun-10	Apr-11	6th May-2011	13th May-2011	Changes	
					6th Apr-11- 13th May-11	30th Jun-10 - 13th May-11
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	103.8 15.3	100.3 14.9	98.0 14.6	-2.2	-61.0
2. Treasury Bonds (As % of total securities)	448.6 73.7	574.5 84.7	574.5 85.1	574.5 85.4	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	-0.8
4. Total Securities (1+2+3)	608.4	678.2	674.8	672.5	-1.7	64.1
5. Overdraft at Central Bank	17.6	22.9	22.9	22.9	0.0	5.3
6. Other Domestic debt*	34.2	34.2	34.0	34.1	0.2	-0.1
7. Gross Domestic Debt (4+5+6)	660.3	735.3	731.7	729.6	-1.5	69.3
8. Interest payments on domestic debt	57.8	51.3	53.7	53.7	0.0	

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

Source: Central Bank of Kenya

Treasury bonds increased from Ksh 448.6 billion in June 2010 to Ksh 574.5 billion as at May 13, 2011, while Treasury bills declined from Ksh 159.0 billion to Ksh 98.0 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 85.4 percent as at May 13, 2011, while that of Treasury bills declined from 26.1 percent to 14.6 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

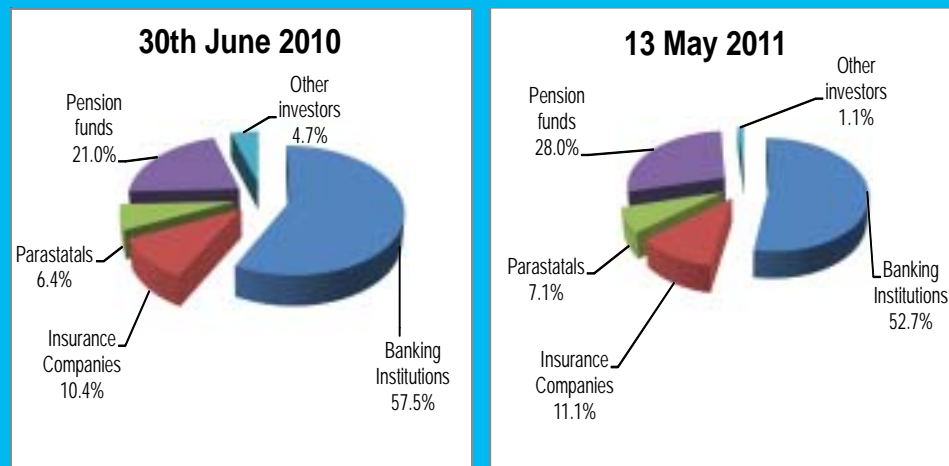


Source: Central Bank of Kenya

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 7.1 percent, 28.0 percent and 11.1 percent, respectively as at May 13, 2011. Holdings of commercial banks and other investors declined from 57.5 percent and 4.7 percent, to 52.7 percent, and 1.1 percent, respectively during the same period (Chart D).

Chart D: Composition of Government Securities by Investors

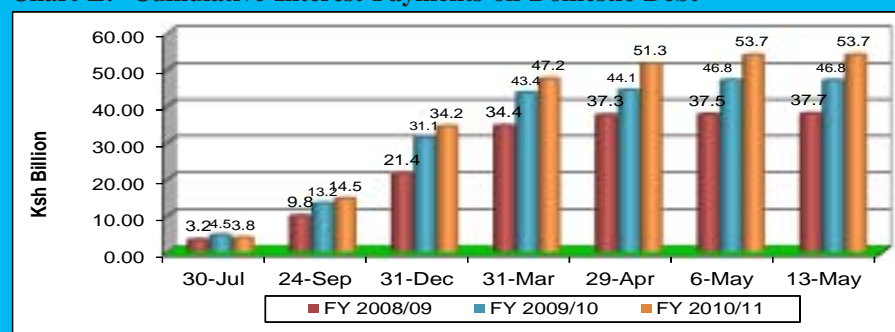


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt as at May 13, 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 was mixed during the week ending May 19, 2011. Turnover increased by 10.1 percent as stocks worth Ksh 2,107.9 million were traded compared to Ksh 1,914.7 million traded in the previous week. The number of shares traded increased from 87.4 million to 94.3 shares during the period under review. Market capitalization as a measure of total shareholders wealth increased to 1,147.1 from last week's level of 1,144.6. The NSE 20 Share Index lost 5.8 points to settle at 3,986.8 points on May 19, 2011 from 3,992.6 points on May 12, 2011. The Nairobi All Share Index rose to 93.5 from 93.3 points in the previous week (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	7-Apr-11	14-Apr-11	20-Apr-11	28-Apr-11	5-May-11	12-May-11	19-May-11
NASI 100= Jan 2008	93.29	93.70	93.72	93.81	95.31	93.34	93.54
NSE 20 Share Index 100=1966	3,993.07	3,998.60	4,007.73	4005.78	4031.78	3992.55	3986.78
Number of Deals	7,765.00	9,005.00	6,642.00	6,212.00	7464.00	8984.00	8196.00
Total Shares Traded (millions)	156.82	163.20	81.27	65.20	113.09	87.50	94.38
Equity Turnover (Ksh. millions)	1,869.35	2,399.80	1,281.67	1700.74	2489.05	1914.78	2107.91
Market Capitalization (Ksh. Bn.)	1,136.41	1,141.40	1,141.64	1150.38	1168.67	1144.55	1147.05
Bonds Turnover (Ksh. millions)	10,406.20	11,081.75	6,593.25	3,953.00	5279.35	3397.25	8713.95

* 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 39.8 million shares or 42.2 percent of the traded volume. Of this, the Safaricom counter saw 35.7 million shares change hands during the week. The Finance and Investment sector traded 36.5 million shares, while Industrial and Allied sector traded 17.7 million shares. These sectors accounted for 38.7 percent and 18.8 percent of total volume transacted, respectively.

Equity Bank and CFC Bank Ltd were the most active stocks in the Finance and Investment sector, trading 16.0 million and 6.0 million shares, respectively. Kenya Power and Lighting and Mumias Sugar Co. Ltd. were

the most active counters in the Industrial and Allied sector, with 10.7 million and 2.8 million shares traded, respectively. The biggest closing price gain between May 12 and May 19, 2011, was on City Trust Ltd at Ksh 17 per share followed by Williamson Tea Kenya Ltd at Ksh 15 per share. The biggest closing price loss was on Pan African Insurance at Ksh 46 per share. The Alternative market segment traded 130,500 from 214,000 in the previous period.

Bond Market

Bond turnover at the Fixed Income Securities Market increased by 156.5 percent, from Ksh 3.3 billion traded in the previous week to Ksh 8.7 billion in the week under review. The number of deals transacted increased from 78 to 87 during the period under review.