

May 27, 2011



THE CBK WEEKLY BULLETIN

**Highlights for
the Week**

The Government conducted Treasury bills and Treasury bonds auctions this week to raise Ksh 21.0 billion from the Market. The Government market offered bids worth Ksh 27.9 billion out of which the Government accepted bids amounting to Ksh 26.8 billion.

The average interbank rate declined by 19 basis points to 5.32 percent from 5.51 percent in the previous week due to improved liquidity in the interbank market.

The Central Bank mopped Ksh 13.2 billion from the market in the week ending May 25, 2011. Commercial banks borrowing through the Central Bank overnight window declined from Ksh 4.4 billion in the previous week to Ksh 3.1 billion due to improved liquidity in the money market.

The Kenya Shilling appreciated against major international currencies in the week ending May 27, 2011. Against the US dollar, the Kenya shilling appreciated to exchange at Ksh 86.03 in the week compared with Ksh 86.36 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,923 million (equivalent to 3.81 months of imports) as at May 20, 2011, to US dollar 3,907 million (equivalent to 3.79 months of imports) as at May 27, 2011.

Government gross domestic debt increased by Ksh 69.2 billion from Ksh 660.3 billion in June 2010 to Ksh 729.4 billion as at May 20, 2011. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 54.0 billion.

Performance at the equities market was mixed during the week ending May 26, 2011 with the NSE 20 Share Index gaining 83.3 points to settle at 4,070.1 from 3,986.8 points on May 19, 2011 while equity turnover decreased by 34.6 percent.

Government Securities Auction

Two auctions of government securities was conducted this week. In the Treasury bills auction on May 25, 2011 the Government offered for sale 91-day Treasury bills amounting to Ksh 3.0 billion which attracted bids amounting to Ksh 8.8 billion, a 295.0 percent performance. In the Treasury bonds auction of May 26, 2011 the government offered 2-year, 10-year and 20-year Treasury bonds to raise Ksh 18.0 billion and received bids worth Ksh 19.1 billion, a 105.9 percent performance.

The Government accepted bids amounting to Ksh 26.8 billion and redeemed Ksh 15.3 billion in maturing government securities

Interest Rate on Treasury Bills

The 91-day Treasury bill rate edged up 153.3 basis points to settle at 7.942 percent (Table 1).

Table 1: Interest Rates

Auction date	31-Mar-11	8-Apr-11	15-Apr-11	21-Apr-11	29-Apr-11	6-May-11	13-May-11	20-May-11	27-May-11
91 day T. Bills*	2.989	3.157	3.461	3.524	3.577	4.018	4.796	6.409	7.942
182 day T. Bills*		3.442		3.580		3.691		5.444	
364 day T. Bills*			4.998				6.772		
Month	Sep-10	Nov-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11
Average savings rate	1.47	1.40	1.46	1.40	1.45	1.25	1.41	1.37	1.38
Average overdraft rate	13.81	13.77	13.64	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 declined by 19 basis points to 5.32 percent from 5.51 percent in the previous week due to improved liquidity in the market (Table 1). The average volumes traded increased to Ksh 15.39 billion in the week ending May 25, 2011 from Ksh 14.31 billion in the previous week. The improvement in interbank market liquidity was boosted by redemptions of Government Treasury bills and bonds amounting to Ksh 15.3 billion in the week ending May 25, 2011. The interbank liquidity was also supported by Ksh 1.2 billion injection by the Central Bank through purchases of foreign exchange from the market for purposes of foreign exchange reserves build up.

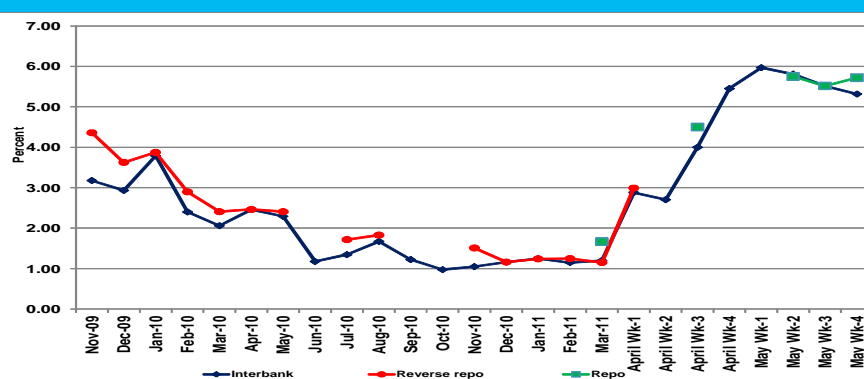
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
19-May-11	80	18,279	5.31
20-May-11	81	14,688	5.35
23-May-11	73	14,607	5.33
24-May-11	77	16,540	5.31
25-May-11	60	12,831	5.28
May 19- May 25, 2011	74	15,389	5.32

Source: Central Bank of Kenya

The repo rate rose by 21 basis points from 5.51 percent on the repo transaction in the week ending May 18, 2011 to 5.72 percent on the repo transaction in the week ending May 25, 2011.

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The Central Bank mopped Ksh 13.2 billion from the market in the week ending May 25, 2011. The purpose of the monetary policy operations was 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 4.4 billion in the previous week to Ksh 3.1 billion due to improved liquidity in the money market. Reserve money averaged Ksh 215.8 billion during the week and was above target by Ksh 2.9 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)
19-May-11	212.6	212.5	0.0	1.0	1.0	0.0	212.7	0.2	-1.5	1.7
20-May-11	207.2	212.5	-5.3	1.5	0.6	-0.9	210.5	-2.0	-2.9	1.0
23-May-11	224.1	213.3	10.9	5.0	4.7	-0.3	219.8	6.6	5.3	1.2
24-May-11	222.3	213.3	9.0	5.0	4.9	-0.1	216.9	3.7	3.0	0.6
25-May-11	220.9	213.3	7.7	3.0	2.0	-1.0	219.1	5.8	5.5	0.3
Average	217.4	213.0	4.5	3.1	2.6	-0.5	215.8	2.9	1.9	1.0

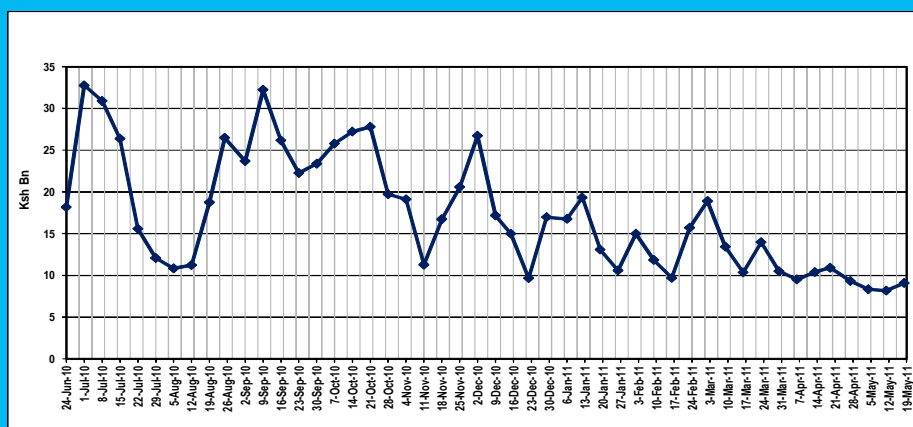
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

Commercial banks maintained an average of Ksh 9.9 billion in their clearing accounts at the Central Bank in the week to May 25, 2011, compared with Ksh 9.1 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 appreciated against the major international currencies during the week ending May 27, 2011 (Table 4). Against the US dollar, the shilling appreciated to exchange at Ksh 86.03 in the week compared with Ksh 86.36 per US dollar in the previous week. The shilling also appreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 139.75 per Sterling Pound, Ksh 121.33 per Euro and Ksh 105.29 per 100 Japanese Yen compared with Ksh 140.06 per Sterling Pound, Ksh 122.92 per Euro and Ksh 106.21 per 100 Japanese Yen in the previous week.

In the EAC region, the Kenya Shilling strengthened against the Tanzania shilling, Uganda shilling, Rwandan Franc and Burundi Franc to exchange at Tsh 17.87 per Kenya Shilling, Ush 27.78 per Kenya Shilling, RWF 6.97 per Kenya Shilling and BIF 14.30 per Kenya Shilling in the week ending May 27, 2011, compared with 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 previous week.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
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
23-May-11	86.15	139.43	121.04	105.14	27.71	17.82	6.97	14.28
24-May-11	86.15	139.42	121.03	105.12	27.74	17.81	6.96	14.28
25-May-11	86.42	139.62	121.23	105.57	27.70	17.76	6.95	14.23
26-May-11	86.01	139.86	121.60	105.07	27.79	17.86	6.98	14.30
27-May-11	85.44	140.43	121.73	105.56	27.95	18.11	6.99	14.39
May 23 - 27, 2011	86.03	139.75	121.33	105.29	27.78	17.87	6.97	14.30

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,923 million (equivalent to 3.81 months of imports) as at May 20, 2011, to US dollar 3,907 million (equivalent to 3.79 months of imports) as at May 27, 2011 (Table 5).

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

	24-Mar-11	31-Mar-11	29-Apr-11	6-May-11	13-May-11	20-May-11	27-May-11
Usable Reserves*	3,935	3,887	3,956	3,960	3,925	3,923	3,907
Months of Imports Cover**	3.90	3.77	3.82	3.84	3.81	3.81	3.79

*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 69.2 billion from Ksh 660.3 billion in June 2010 to Ksh 729.4 billion as at May 20, 2011 (Table 6 and Chart C). This increase was in Treasury bonds and overdraft at the Central Bank amounting to Ksh 130.2 billion which was partially offset by decreases of Ksh 61.1 billion in Treasury bills, other domestic debt and long term stocks.

Table 6: Government Domestic Debt (Ksh Billion)

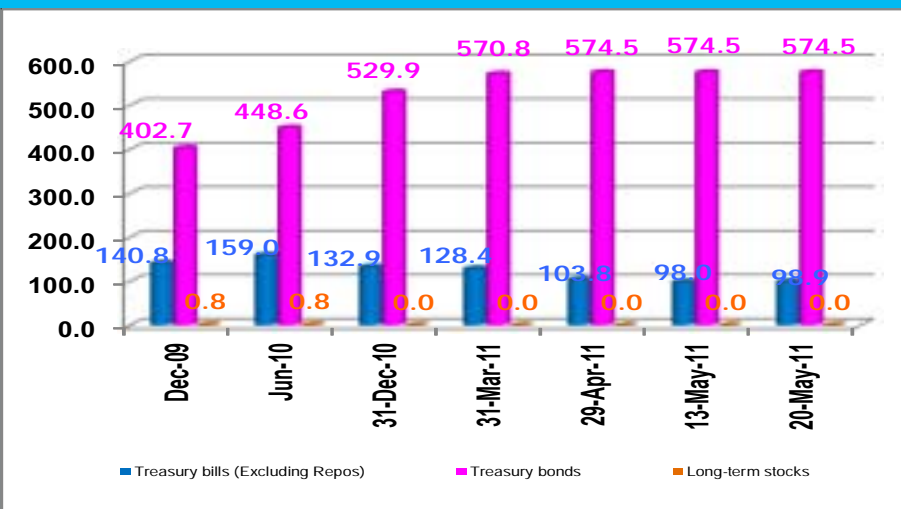
	Jun-10	Dec-10	Mar-11	Apr-11	13th May-2011	20th May-2011	Changes	
							6th Apr-11- 13th May-11	30th Jun-10 - 13th May-11
1. Treasury Bills (Excluding Repos) (As % of total securities)	159.0 26.1	132.9 20.1	128.4 18.4	103.8 15.3	98.0 14.6	98.9 14.7	0.8	-60.2
2. Treasury Bonds (As % of total securities)	448.6 73.7	529.9 79.9	570.8 81.6	574.5 84.7	574.5 85.4	574.5 85.3	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	-0.8
4. Total Securities (1+2+3)	608.4	662.8	699.2	678.2	672.5	673.3	0.8	64.9
5. Overdraft at Central Bank	17.6	22.7	19.7	22.9	22.9	22.0	-0.9	4.3
6. Other Domestic debt*	34.2	34.8	35.2	34.2	34.1	34.1	-0.1	-0.1
7. Gross Domestic Debt (4+5+6)	660.3	720.2	754.1	735.3	729.6	729.4	-0.2	69.2
8. Interest payments on domestic debt	57.8	34.2	47.2	51.3	53.7	54.0	0.3	

*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 20, 2011, while Treasury bills declined from Ksh 159.0 billion to Ksh 98.9 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 85.3 percent as at May 20, 2011, while that of Treasury bills declined from 26.1 percent to 14.7 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

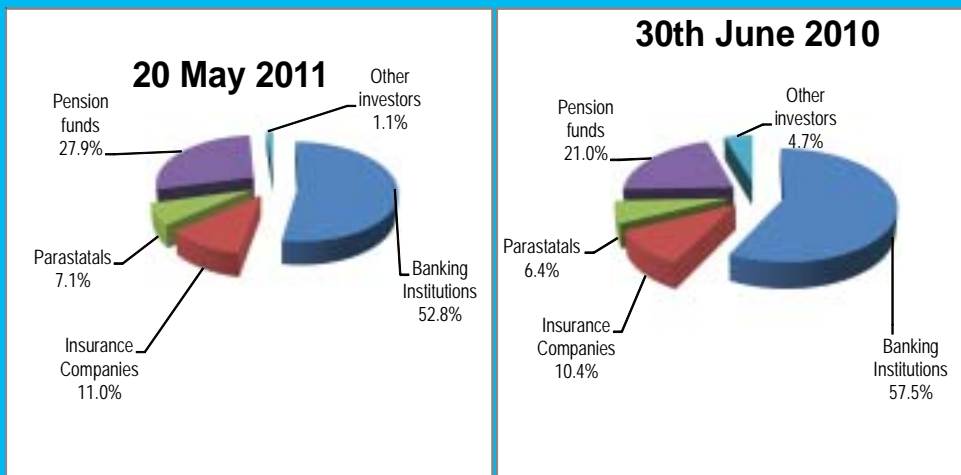


Source: Central Bank of Kenya

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, 27.9 percent and 11.0 percent, respectively as at May 13, 2011. Holdings of commercial banks and other investors declined from 57.5 percent and 4.7 percent, to 52.8 percent, and 1.1 percent, respectively during the same period (Chart D).

Chart D: Composition of Government Securities by Investors

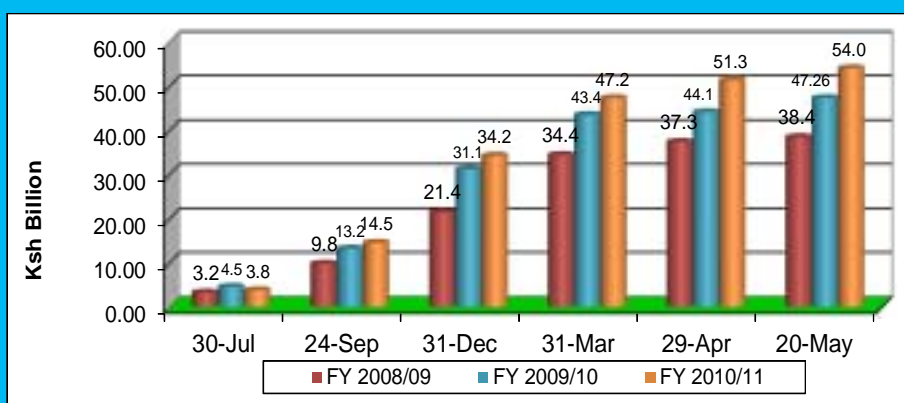


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt as at May 20, 2011 amounted to Ksh 54.03 billion compared with Ksh 47.26 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 8.36 billion and Ksh 44.64 billion, respectively, while interest on Government overdraft at the Central Bank amounted to Ksh 1.03 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 26, 2011. Turnover decreased by 34.6 percent as stocks worth Ksh 1,377.7 million were traded compared to Ksh 2,107.9 million traded in the previous week. The number of shares traded decreased from 94.4 million to 89.5 million shares during the period under review. Market capitalization as a measure of total shareholders wealth decreased to 1,145.0 from last week's level of 1,147.1. The NSE 20 Share Index gained 83.3 points to settle at 4,070.1 points on May 26, 2011 from 3,986.8 points on May 19, 2011. The Nairobi All Share Index dropped to 93.37 from 93.54 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	26-May-11
NASI 100= Jan 2008	93.29	93.70	93.72	93.81	95.31	93.34	93.54	93.37
NSE 20 Share Index 100=1966	3,993.07	3,998.60	4,007.73	4,005.78	4,031.78	3,992.55	3,986.78	4,070.05
Number of Deals	7,765.00	9,005.00	6,642.00	6,212.00	7,464.00	8,984.00	8,196.00	8,020.00
Total Shares Traded (millions)	156.82	163.20	81.27	65.20	113.09	87.50	94.38	89.50
Equity Turnover (Ksh. millions)	1,869.35	2,399.80	1,281.67	1,700.74	2,489.05	1,914.78	2,107.91	1,377.74
Market Capitalization (Ksh. Bn.)	1,136.41	1,141.40	1,141.64	1,150.38	1,168.67	1,144.55	1,147.05	1,144.96
Bonds Turnover (Ksh. millions)	10,406.20	11,081.75	6,593.25	3,953.00	5,279.35	3,397.25	8,713.95	8,201.70

* 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 47.2 million shares or 52.8 percent of the traded volume. Of this, the Safaricom counter saw 42.9 million shares change hands during the week. The Finance and Investment sector traded 24.5 million shares, while Industrial and Allied sector traded 16.8 million shares. These sectors accounted for 27.3 percent and 18.8 percent of total volume transacted, respectively.

Equity Bank and Barclays Bank Ltd. were the most active stocks in the Finance and Investment sector, trading 14.1 million and 3.0 million shares,

respectively. Kenol/Kobil Ltd. and Kenya Power and Lighting Co. Ltd. were the most active counters in the Industrial and Allied sector, with 7.6 million and 3.7 million shares traded, respectively. The biggest closing price gain between May 19 and May 26, 2011, was on the Nation Media Group at Ksh 5 per share followed by Barclays Bank Ltd. at Ksh 3.5 per share. The biggest closing price loss was on Diamond Trust Bank at Ksh 29 per share. The Alternative market segment traded 72,900 from 130,500 in the previous period.

Bond Market

Bond turnover at the Fixed Income Securities Market decreased by 5.9 percent, from Ksh 8.7 billion traded in the previous week to Ksh 8.2 billion in the week under review. The decrease in turnover is attributed to a shift in investor's appetite from the secondary market towards the primary market where the interest rates are trending upwards.