

November 04, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

The 12-month overall inflation rose by 159 basis points from 17.3 percent in September 2011 to 18.9 percent in October 2011, while annual average inflation rose from 10.2 percent in September 2011 to 11.5 percent in October 2011.

The Monetary Policy Committee tightened the Monetary Policy stance; raising the Central Bank Rate by 550 basis points to 16.50 percent, and the Cash reserve ratio by 50 basis points to 5.25 percent. This further tightening was meant to tame inflationary pressures and stabilize the exchange rate.

The Government offered for sale Ksh 4 billion in 91 -day Treasury bills, Ksh 3 billion in 182-day Treasury bills and Ksh 8.4 billion in the tap sale on the infrastructure bond during the week ending November 4, 2011. The 91 day and 182 day Treasury bills recorded performance rates of 66.33 and 18.09 percent, respectively, while the tap sales infrastructure bonds performed at 3.97 percent. Average interest rates on all the securities issued during the week edged up to 15.743 percent, 15.742 percent and 16.640 percent, for the 91 day and 182 day Treasury bills, and the tap sales infrastructure bond, respectively.

Gross Government debt increased by Ksh 29.4 billion from Ksh 764.2 billion in June 2011 to Ksh 793.6 billion as at October 28, 2011. The cumulative interest and other charges on domestic debt from July 1, 2011 to October 28, 2011 amounted to Ksh 21.8 billion compared with Ksh 21.6 billion in the same period of the fiscal year 2010/11.

The money market was relatively tight during the week ending November 02, 2011. The Central Bank mopped Ksh 0.1 billion from the money through repo operations. Commercial banks borrowed Ksh 90.3 billion from the Central Bank overnight window during the week ending November 02, 2011 compared with Ksh 72.3 billion in the previous week.

The average interbank rate rose to 22.64 percent during the week ending November 03, 2011 from 18.73 percent in the previous week.

The Kenya Shilling strengthened against the major world currencies in the week ending November 4, 2011 consistent with the tightening of Monetary Policy. Against the US dollar the Kenya Shilling appreciated to exchange at Ksh 97.88 per US dollar compared with Ksh 100.36 per US dollar in the previous week.

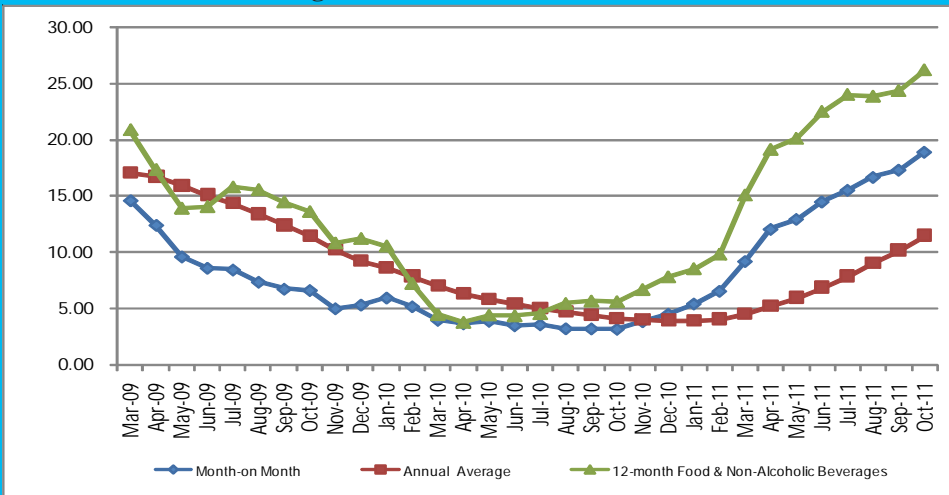
The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,723 million (equivalent to 3.42 months of imports) as at October 28, 2011 to US dollar 3,691 million (equivalent to 3.39 months of imports) in the week ending November 4, 2011.

Activity at the equities market was mixed during the week ending November 3, 2011. The NSE 20 Share Index rose 115.2 points and the Nairobi All Share Index (NASI) recorded 2.1 points increase. Equity turnover closed the week 41.3 percent weaker, with the volume of shares traded dropping by 48 percent. Trading activity in the bonds segment declined by 55.2 percent during the week.

Inflation

The 12-month overall inflation increased by 18.9 percent in October 2011, maintaining an upward trend since November 2010. The annual average inflation also rose by 11.5 percent in October 2011 from 10.2 percent in September 2011 (Chart A). The rise in the overall consumer price index in October 2011 as compared with October 2010 was largely reflected in the Transport and Food and Non-Alcoholic Beverages indices which increased by 26.2 percent each compared with 5.0 percent and 5.6 percent in October 2010, respectively. The increase in the food price index in October 2011 was explained by rising prices of sugar, beef, wheat flour, milk, rice and cooking fats. The Restaurant and Hotels index rose by 19.7 percent in October 2011, while the Housing, Water, Electricity, Gas and Other Fuels' index rose by 15.8 percent due to increases in the cost of electricity, house rents and cooking fuels. The Furnishings, Household Equipment and Routine Household Maintenance index and the Alcoholic Beverages, Tobacco and Narcotics index rose by 11.9 percent and 11.8 percent, respectively, in October 2011 as compared with 3.8 percent and 5.8 percent in October 2010. The Clothing and Footwear, Recreation and Culture, Health, Communication and Education indices rose by 9.3 percent, 8.6 percent, 8.1 percent, 5.0 percent and 4.7 percent, respectively in October 2011.

Chart A: Month-on-Month, Annual Average and 12-Month Food and Non-Alcoholic Beverages Inflation Rates



Source: Central Bank of Kenya

Government Securities Auction

The Government offered for sale Ksh 4 billion in 91 day Treasury bills, Ksh 3 billion in 182 day Treasury bills and Ksh 8.4 billion in the tap sale on the infrastructure bond during the week ending November 4, 2011. Reflecting low demand, the securities primary market received bids worth Ksh 3.5 billion during the week. The accepted bids comprised Ksh 2.6 billion, Ksh 0.5 billion and Ksh 0.3 billion in the 91 day and 182 day Treasury bills, and the infrastructure bond, respectively. The Government accepted total bids worth Ksh 3.3 billion during the week.

The weighted average interest rates on the 91- day and 182- day Treasury bills, increased by 44.0 basis points and 37.8 basis points to 15.743 percent and 15.742 percent, during this week's auction. Average interest rate on the tap sales infrastructure bond was at 16.640 percent.

Table 1: Interest Rates

Auction date	19-Aug-11	26-Aug-11	02-Sep-11	09-Sep-11	16-Sep-11	23-Sep-11	30-Sep-11	07-Oct-11	14-Oct-11
91 day T. Bills*	9.258	9.708	10.281	11.685	12.570	13.193	13.741	14.836	14.997
182 day T. Bills*		10.356		9.285	11.935	12.622	13.493	14.283	14.973
364 day T. Bills*				12.536				14.499	
Month	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jul-11	Aug-11		
Average savings rate	1.25	1.41	1.37	1.38	1.38	1.37	1.37		
Average overdraft rate	13.93	13.65	13.60	13.68	13.72	13.89	14.28		

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Interest Rates on Treasury Bills and Bonds

The average interbank rate rose to 22.64 percent during the week ending November 03, 2011 from 18.73 percent in the previous week. Reflecting relative tightness in the interbank liquidity, the average interbank volumes traded rose to Ksh 10.84 billion in the week ending November 03, 2011 from Ksh 9.37 billion in the previous week (Table 2).

Table 2: Interbank Transactions

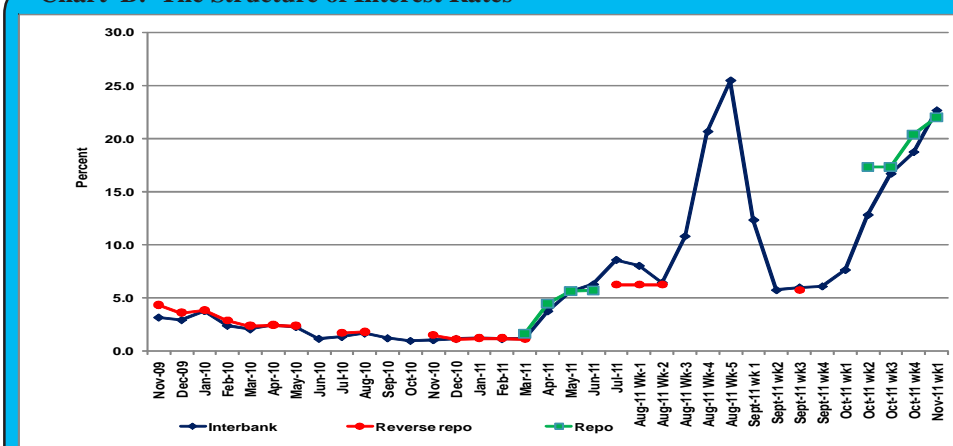
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
21-Oct-11	62	14,812	17.38
22-Oct-11	52	8,394	17.95
25-Oct-11	53	9,019	18.83
26-Oct-11	50	7,381	19.49
27-Oct-11	53	7,278	19.98
Oct 21- Oct 27, 2011	54	9,377	18.73
28-Oct-11	54	6,939	20.85
29-Oct-11	54	7,457	21.77
01-Nov-11	48	7,622	22.69
02-Nov-11	64	12,492	23.65
03-Nov-11	75	19,711	24.25
Oct 28- Nov 3, 2011	59	10,844	22.64

Source: Central Bank of Kenya

Interbank and REPO Rates

The average repo rate was 22.0 percent for the repo transactions during the week ending November 03, 2011 (Chart B).

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

**Monetary
Policy
Operations**

The money market was relatively tight during the week ending November 02, 2011. The Central Bank mopped Ksh 0.1 billion from the money through repo operations. Commercial banks borrowed Ksh 90.3 billion from the Central Bank overnight window during the week ending November 02, 2011 compared with Ksh 72.3 billion in the previous week. Reserve money averaged Ksh 235.2 billion during the week and was above target by Ksh 2.3 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	Mop up	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)
27-Oct-11	214.7	233.0	-18.3	0.5	0.0	-0.5	231.2	-1.8	-7.9	6.1
28-Oct-11	216.7	233.0	-16.3	0.5	0.1	-0.4	234.9	1.9	-4.7	6.6
31-Oct-11	215.6	233.0	-17.4	0.5	0.0	-0.5	235.9	2.9	-3.8	6.7
01-Nov-11	216.5	232.6	-16.1	0.0	0.0	0.0	235.9	3.4	-4.6	7.9
02-Nov-11	216.5	232.6	-16.1	0.0	0.0	0.0	237.7	5.2	-3.1	8.2
Average	216.0	232.8	-16.8	0.3	0.0	-0.3	235.2	2.3	-4.8	7.1

*Reserve money comprises bank reserves and currency outside banks

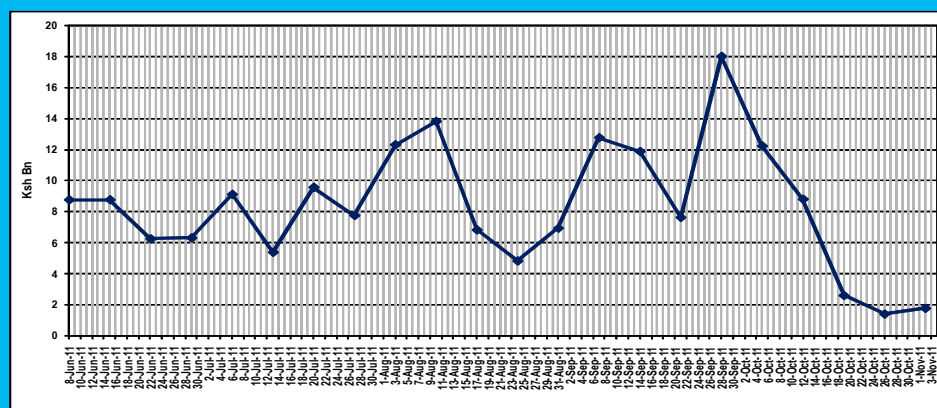
Source: Central Bank of Kenya

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**Commercial
Banks
Account
Balances**

Commercial banks maintained an average of Ksh 1.8 billion above the 4.75 percent monthly average cash reserve requirement in their settlement account at the Central Bank in the week to November 02, 2011, up from Ksh 1.4 billion in 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 appreciated against the US dollar, the Sterling Pound, the Euro and the Japanese Yen to exchange at Ksh 97.88 per US dollar, Ksh 156.57 per Sterling Pound, Ksh 135.24 per Euro and Ksh 125.05 per 100 Japanese Yen in the week ending November 4, 2011 compared to Ksh 100.36 per US dollar, Ksh 160.70 per Sterling Pound, Ksh 140.26 per Euro and Ksh 131.96 per 100 Japanese Yen in the previous week. The appreciation followed the decision by the Monetary Policy Committee (MPC) to raise the Central Bank Rate by 550 basis points from 11 percent to 16.5 percent in order to tighten Kenya shilling liquidity in the domestic money market.

In the EAC region, the Kenya Shilling weakened slightly against the Uganda Shilling and strengthened against the Tanzania Shilling, Rwanda Franc and

the Burundi Franc. On average, the Kenya Shilling exchanged at Ushs 26.66 per Kenya Shilling, Tshs 17.93 per Kenya Shilling, RWF 6.14 per Kenya Shilling and BIF 12.62 per Kenya Shilling during the week, compared to Ushs 26.85 per Kenya Shilling, Tshs 17.68 per Kenya Shilling, RWF 5.97 per Kenya Shilling and BIF 12.29 per Kenya Shilling, in the week ending October 28, 2011 (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
24-Oct-11	100.12	159.95	139.19	131.13	28.19	17.23	5.98	12.32
25-Oct-11	100.60	160.66	139.78	132.02	27.22	17.32	5.95	12.26
26-Oct-11	101.44	162.43	141.03	133.60	26.26	17.45	5.90	12.16
27-Oct-11	100.63	161.11	140.83	132.59	26.25	17.96	5.98	12.25
28-Oct-11	99.03	159.35	140.48	130.47	26.32	18.43	6.07	12.47
Oct 24-28, 2011	100.36	160.70	140.26	131.96	26.85	17.68	5.97	12.29
31-Oct-11	99.78	159.56	139.62	125.78	26.02	16.69	6.03	12.38
01-Nov-11	99.33	159.41	137.20	127.24	25.87	17.77	6.03	12.42
02-Nov-11	96.52	154.43	132.53	124.06	27.51	18.67	6.23	12.81
03-Nov-11	96.81	154.14	132.88	124.06	26.96	18.26	6.21	12.77
04-Nov-11	96.98	155.32	133.94	124.10	26.95	18.25	6.20	12.74
Oct 31-Nov 04, 2011	97.88	156.57	135.24	125.05	26.66	17.93	6.14	12.62

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,723 million (equivalent to 3.42 months of imports) as at October 28, 2011 to US dollar 3,691 million (equivalent to 3.39 months of imports) in the week ending November 4, 2011 (Table 5).

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

	07-Oct-11	14-Oct-11	21-Oct-11	28-Oct-11	04-Nov-11
Usable Reserves*	3,731	3,766	3,743	3,723	3,691
Months of Imports Cover**	3.42	3.46	3.44	3.42	3.39

*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 29.4 billion from Ksh 764.2 billion in June 2011 to Ksh 793.6 billion as at October 28, 2011 reflecting rising stocks of Government securities and Government overdraft at the Central Bank during the period under review (Table 6 and Chart D). The stocks of Treasury bonds and Treasury bills increased respectively by Ksh 10.0 billion and Ksh 2.3 billion, while Government overdraft at the Central Bank increased by Ksh 17.8 billion, during the period. Other domestic debt, however, declined during the period to Ksh 33.6 billion from Ksh 34.3 billion in June 2011. During the week under review, Treasury bills increased by Ksh 0.5 billion while the Government overdraft held at the Central Bank increased by Ksh 9.8 billion as shown in (Table 6).

Table 6: Government Domestic Debt (Ksh Billion)

	Jun-11	Sep-11	21st Oct 2011	28st Oct 2011	Changes	
					14th Oct 2011-21st Oct 2011	30th Jun 2011-21st Oct 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	113.7 16.1	128.5 17.5	129.0 17.6	0.5	2.3
2. Treasury Bonds (As % of total securities)	595.7 82.5	591.5 83.9	605.6 82.5	605.6 82.4	0.0	10.0
3. Total Securities (1+2+3)	722.4	705.3	734.1	734.6	0.5	12.2
4. Overdraft at Central Bank	7.6	25.4	15.5	25.4	9.8	17.8
5. Other Domestic debt*	34.3	33.6	33.8	33.6	-0.2	-0.6
6. Gross Domestic Debt (4+5+6)	764.22	764.27	783.46	793.61	10.2	29.4
7. Interest payments on domestic debt	69.2	17.37	18.41	21.78	3.37	

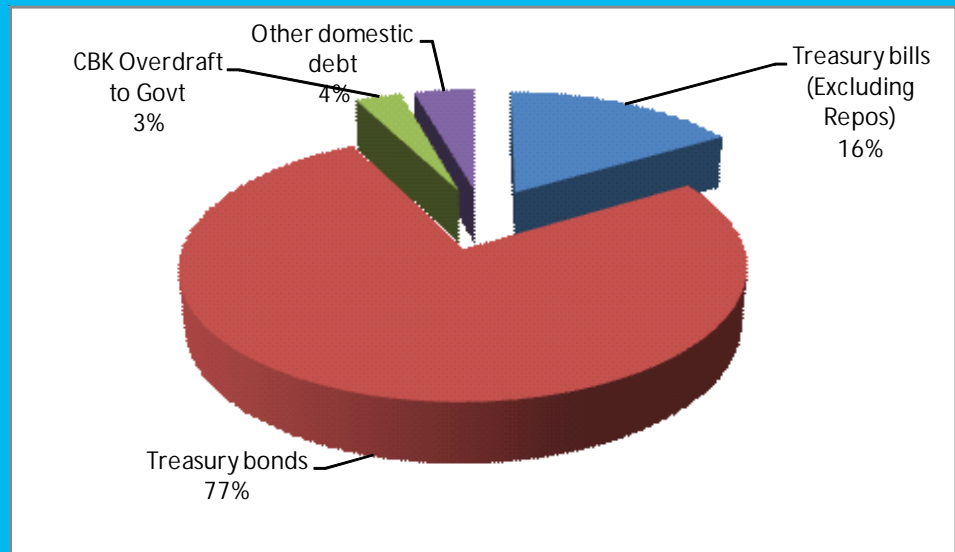
* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCs.

Source: Central Bank of Kenya

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Treasury bill holdings increased from Ksh 126.7 billion in June 2011 to Ksh 129 billion as at October 28, 2011, constituting 17.6 percent of total securities. The stock of Treasury bonds increased from Ksh 595.7 billion in June 2011 to Ksh 605.6 billion as at 28 October 2011, equivalent to 82.4 percent of total securities (Table 6). The average time to maturity of Government securities increased from 5 years 10 months in June 2011 to 5 years 11 months as at October 28, 2011.

Chart D: Composition of Government Securities

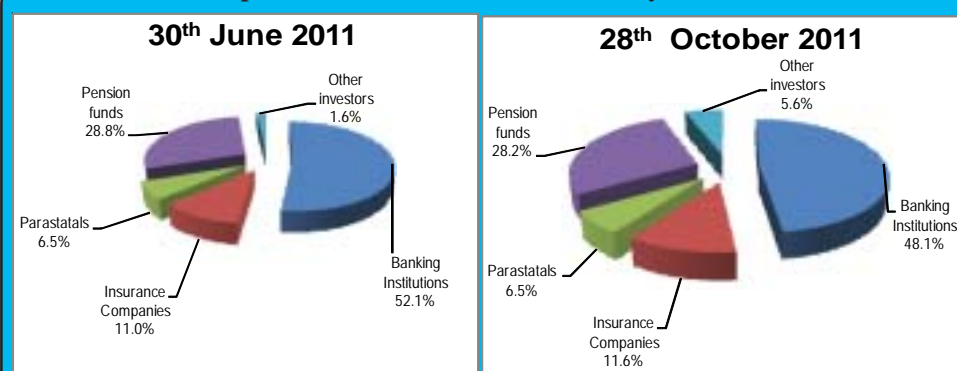


Source: Central Bank of Kenya

Holding of Government Securities

The share of Government securities held by banking institutions and pension funds decreased from 52.1 percent and 28.8 percent respectively in June 2011 to 48.1 and 28.2 percent as at October 28, 2011. The reduction was absorbed in the holdings of insurance companies and other investors which increased from 11.0 percent and 1.6 percent to 11.6 percent and 5.6 percent, respectively, during the period (Chart E).

Chart E: Composition of Government Securities by Investor

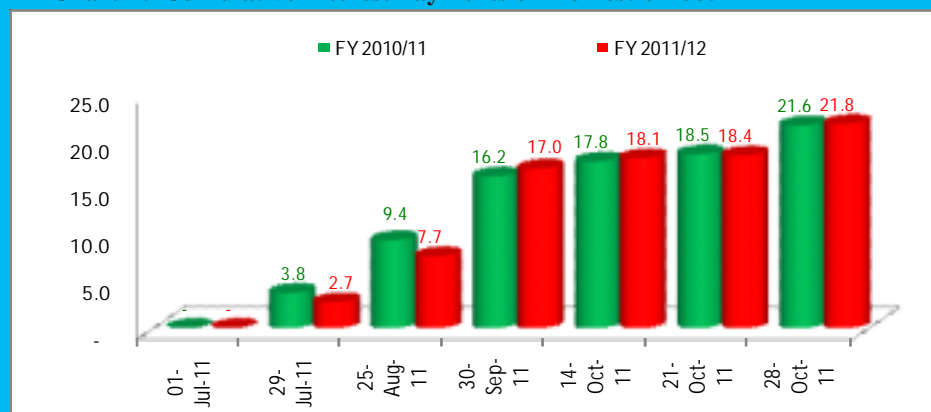


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt from July 1, 2011 to October 28, 2011 amounted to Ksh 21.8 billion compared with Ksh 21.6 billion in the same period of the fiscal year 2010/11 (Chart F). The cost during the period was on account of interest and other charges on Treasury bills and treasury bonds amounting to Ksh 3.45 billion and Ksh 18.02 billion, respectively. Government overdraft at Central Bank accounted for Ksh 0.33 billion.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The NSE 20 Share Index rose to 3,497.10 points on November 3, 2011 from 3,381.9 points on October 27 2011. Similarly, NASI rose to 72.53 points from 70.45 points during the period. Equity turnover declined by Ksh 713.6 million to Ksh 1,013.3 million for the week ended November 3, 2011, from Ksh 1,727.0 million by close of October 27, 2011. The fall in equity turnover reflects largely the decline in volume of shares traded, from 253.5 million shares to 121.7 million share over the same period. Market capitalization, a measure of total shareholders' wealth, gained Ksh 26.52 billion to Ksh 924.7 billion from last week's value of Ksh 898.2 billion.

Table 7: Key Weekly Market Statistics

Week Ending	01-Sep-11	08-Sep-11	15-Sep-11	22-Sep-11	29-Sep-11	06-Oct-11	13-Oct-11	19-Oct-11	27-Oct-11	03-Nov-11
NASI 100= Jan 2008	75.24	74.62	75.06	74.55	70.07	69.65	68.52	68.97	70.45	72.53
NSE 20 Share Index 100=1966	3,402.00	3,400.68	3,464.65	3,430.27	3,291.79	3,281.96	3,290.90	3,300.48	3,381.90	3,497.10
Number of Deals	5,022	5,922	5,257	6,141	4,645	4,003	5,368	4,993.00	5,788.00	5,795.00
Total Shares Traded (millions)	94.33	230.70	142.36	78.96	54.43	102.50	51.00	98.06	253.53	131.80
Equity Turnover (Ksh. millions)	820.65	1,609.50	1,335.67	850.48	1,001.73	1,088.30	726.80	595.88	1,727.03	1,013.36
Market Capitalization (Ksh. Bn.)	939.05	961.11	944.79	939.93	909.83	889.68	873.70	879.36	898.17	924.70
Bonds Turnover (Ksh. millions)	6,518.50	10,138.05	8,578.90	8,904.65	4,511.90	9,905.45	8,425.40	7,922.50	7,900.30	3,541.10

* The Nairobi All Share Index (NASI) effected on February 25, 2008 (January 1, 2008 = 100)

Source: Nairobi Securities Exchange

Source: Nairobi Stock Exchange

The Telecommunication & technology sector dominated activity, with 141.29 million shares traded, accounting for 77.0 percent of all shares transacted at the bourse. Of this, Safaricom was the most active counter, with 137.7 million shares traded. The banking sector traded 25.4 million shares while, the energy & petroleum traded 6.55 million shares. Safaricom, Equity Bank and Housing Finance Co. Ltd were the top three most active counters with 137.7 million, 9.9 million and 5.8 million shares traded respectively. The least active sector was the automobile & accessories with 92,200 shares traded during the week.

Bond Market Bonds trading at the Fixed Income Securities Market dropped from Ksh 7.9 billion in the week ending October 27 to Ksh 3.5 billion in the week ending November 3, 2011. Total deals transacted over the period also decreased to 62 from 127 the previous week.