

**November 11, 2011**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The government offered for sale securities worth Ksh10.0 billion in 91-day and 182-day and 364-day Treasury bills during the week ending November 11, 2011. The 91-day and 182-day and 364-day Treasury bills recorded performance rates of 59.66 and 28.17 and 4.09 percent, respectively. Average interest rates on 91-day Treasury bill issued during the week edged up to stand at 15.998 percent, while average interest rate on 182-day Treasury bill declined to 15.661 percent. Average interest on 364-Treasury bills was 16.617 percent.

The average interbank rate rose to 28.09 percent during the week ending November 10, 2011 from 22.64 percent in the previous week. Commercial banks borrowing from the Central Bank overnight window declined to Ksh 45.5 billion during the week compared with Ksh 80.3 billion in the previous week.

The Kenya Shilling strengthened against the major world currencies in the week ending November 11, 2011. Against the US dollar the Kenya Shilling appreciated to exchange at Ksh 96.22 per US dollar compared with Ksh 97.88 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased from US \$ 3,691 million (equivalent to 3.39 months of imports) as at November 4, 2011 to US \$ 3,716 million (equivalent to 3.41 months of imports) in the week ending November 11, 2011.

Gross Government debt increased by Ksh 29.2 billion from Ksh 764.2 billion in June 2011 to Ksh 793.4 billion as at November 4, 2011. The cumulative interest and other charges on domestic debt from July 1, 2011 to November 4, 2011 amounted to Ksh 23.47 billion compared with Ksh 22.1 billion in the same period of the fiscal year 2010/11.

The NSE 20 Share Index dropped 49.4 points as the Nairobi All Share Index (NASI) shed 0.1 points. Equity turnover was 54.2 percent weaker, with the volume of shares traded dropping by 71.1 percent. The bonds' trading was however up by 16.3 percent during the week. The week saw the introduction of tradable FTSE NSE Kenya Index Series to measure the performance of the major capital and industry segments of the Kenyan Stock Market.

**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 3 billion in 364-day Treasury Bills during the week ending November 11, 2011. The securities market performed poorly due to low demand, resulting in Ksh 3.4 billion in total bids received during the week. Of these, Ksh 2.4 billion, Ksh 0.1 billion and Ksh 0.9 billion worth of bids were received for the 91-day and 182-day and 364-day Treasury bills, respectively. Collectively, the Government accepted total bids worth Ksh 3.3 billion during the week.

**Interest Rate on Treasury Bills & Bonds**

The weighted average interest rates on the 91-day Treasury bills, increased by 26.0 basis points, while average interest on the 182-day Treasury bills went down by 0.1 basis points to 15.998 percent and 15.661 percent, respectively, during this week's auction. Average interest rate on the 364-day Treasury bill was 16.617 percent.

**Table 1 : Interest Rates**

Auction date	2-Sep-11	9-Sep-11	16-Sep-11	23-Sep-11	30-Sep-11	7-Oct-11	14-Oct-11	21-Oct-11	28-Oct-11	4-Nov-11
91 day T. Bills*	10.281	11.685	12.570	13.193	13.741	14.836	14.997	15.091	15.313	15.998
182 day T. Bills*		9.285	11.935	12.622	13.493	14.283	14.973	15.287	15.364	15.661
364 day T. Bills*		12.536				14.499				16.617
Month	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jul-11	Aug-11	Sept		
Average savings rate	1.25	1.41	1.37	1.38	1.38	1.37	1.37	1.35		
Average overdraft rate	13.93	13.65	13.60	13.68	13.72	13.89	14.28	14.64		

\*Weighted rates for accepted bids

Source: Central Bank of Kenya

**Interbank and REPO Rates**

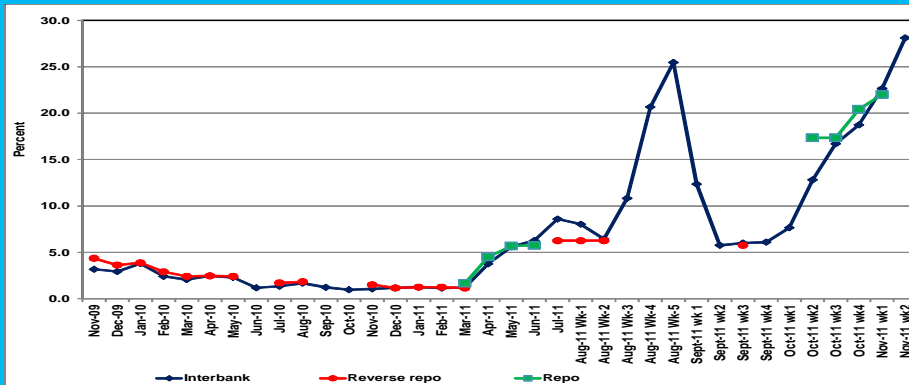
The average interbank rate rose to 28.09 percent during the week ending November 10, 2011 from 22.64 percent in the previous week. Reflecting relative tightness in the interbank market, the average interbank volumes traded rose to Ksh 13.08 billion in the week ending November 10, 2011 from Ksh 10.84 billion in the previous week.

**Table 2: Interbank Deals, Volumes and Interest Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
28-Oct-11	54	6,939	20.85
29-Oct-11	54	7,457	21.77
1-Nov-11	48	7,622	22.69
2-Nov-11	64	12,492	23.65
3-Nov-11	75	19,711	24.25
<b>Oct 28 - Nov 3, 2011</b>	<b>59</b>	<b>10,844</b>	<b>22.64</b>
4-Nov-11	76	14,321	25.94
5-Nov-11	76	13,567	27.02
8-Nov-11	69	12,392	28.00
9-Nov-11	66	13,119	29.43
10-Nov-11	70	12,004	30.06
<b>Nov 4 - Nov 10, 2011</b>	<b>71</b>	<b>13,080</b>	<b>28.09</b>

Source: Central Bank of Kenya

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The money market was relatively tight during the week ending November 9, 2011. Commercial banks borrowed Ksh 45.5 billion from the Central Bank overnight window during the week ending November 9, 2011 compared with Ksh 80.3 billion in the previous week. Reserve money averaged Ksh 238.9 billion during the week and was above target by Ksh 6.6 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)
3-Nov-11	230.0	232.6	-2.6	0.0	0.0	0.0	236.9	4.3	-3.6	7.9
4-Nov-11	230.0	232.6	-2.6	0.0	0.0	0.0	236.5	3.9	-5.0	8.9
7-Nov-11	229.6	232.1	-2.5	0.0	0.0	0.0	241.1	9.0	-0.6	9.6
8-Nov-11	228.8	232.1	-3.3	0.0	0.0	0.0	241.9	9.8	-0.8	10.6
9-Nov-11	229.6	232.1	-2.5	0.0	0.0	0.0	238.2	6.1	-4.5	10.5
Average	229.6	232.3	-2.7	0.0	0.0	0.0	238.9	6.6	-2.9	9.5

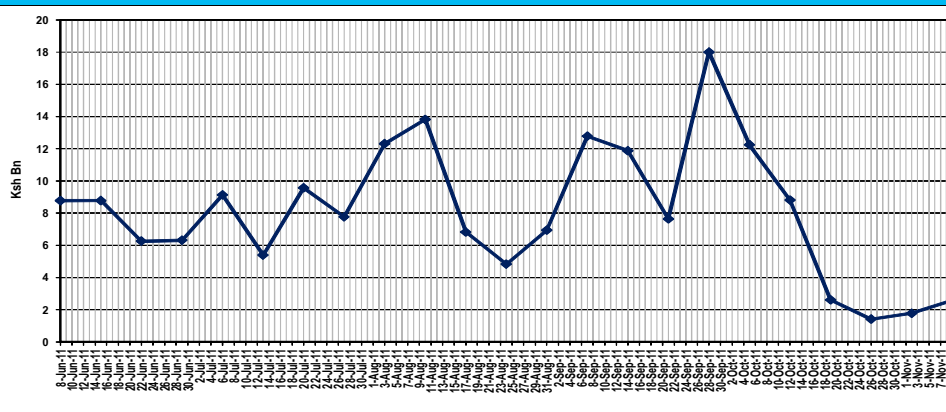
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

Commercial banks maintained an average of Ksh 2.6 billion in their settlement accounts at the Central Bank above the 4.75 percent monthly average cash reserve requirements in the week to November 9, 2011, up from Ksh 1.8 billion in 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 appreciated against the US dollar, the Sterling Pound, the Euro and the Japanese Yen to exchange at Ksh 96.22 per US dollar, Ksh 153.94 per Sterling Pound, Ksh 131.79 per Euro and Ksh 123.68 per 100 Japanese Yen in the week ending November 11, 2011 compared to 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 previous week. The strengthening of the Shilling was as a result of tightening of Kenya Shilling liquidity in the domestic money markets and increased foreign exchange inflows from agriculture and tourism sector.

In the EAC region, the Kenya Shilling appreciated against the other East African currencies during the week ending November 11, 2011. The Kenya Shilling strengthened against the Uganda Shilling, Tanzania Shilling, the Rwanda Franc and Burundi Franc. On average, the Kenya Shilling exchange at Ushs 27.04 per Kenya Shilling, Tshs 18.38 per Kenya Shilling, RWF 6.26 per Kenya Shilling and BIF 13.00 per Kenya Shilling during the week, compared to 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, in the week ending November 4, 2011, respectively (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
<b>Oct 24-28, 2011</b>	<b>100.36</b>	<b>160.70</b>	<b>140.26</b>	<b>131.96</b>	<b>26.85</b>	<b>17.68</b>	<b>5.97</b>	<b>12.29</b>
31-Oct-11	99.78	159.56	139.62	125.78	26.02	16.69	6.03	12.38
1-Nov-11	99.33	159.41	137.20	127.24	25.87	17.77	6.03	12.42
2-Nov-11	96.52	154.43	132.53	124.06	27.51	18.67	6.23	12.81
3-Nov-11	96.81	154.14	132.88	124.06	26.96	18.26	6.21	12.77
4-Nov-11	96.98	155.32	133.94	124.10	26.95	18.25	6.20	12.74
<b>Oct 31-Nov 04, 2011</b>	<b>97.88</b>	<b>156.57</b>	<b>135.24</b>	<b>125.05</b>	<b>26.66</b>	<b>17.93</b>	<b>6.14</b>	<b>12.62</b>
7-Nov-11	97.38	155.84	134.00	124.52	26.85	18.29	6.18	13.20
8-Nov-11	96.97	155.54	133.29	124.24	26.76	18.31	6.22	12.84
9-Nov-11	96.27	154.96	133.16	124.17	26.83	18.36	6.25	12.90
10-Nov-11	95.69	152.37	129.41	123.22	27.22	18.34	6.29	12.98
11-Nov-11	94.80	150.99	129.09	122.24	27.55	18.59	6.35	13.10
<b>Nov 04-11, 2011</b>	<b>96.22</b>	<b>153.94</b>	<b>131.79</b>	<b>123.68</b>	<b>27.04</b>	<b>18.38</b>	<b>6.26</b>	<b>13.00</b>

Source: Central Bank of Kenya

**Foreign Exchange Reserves**

The usable official foreign exchange reserves held by the Central Bank increased from US \$ 3,691 million (equivalent to 3.39 months of imports) as at November 4, 2011 to US \$ 3,716 million (equivalent to 3.41 months of imports) in the week ending November 11, 2011 (Table 5).

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

	7-Oct-11	14-Oct-11	21-Oct-11	28-Oct-11	4-Nov-11	11-Nov-11
Usable Reserves*	3,731	3,766	3,743	3,723	3,691	3,716
Months of Imports Cover**	3.42	3.46	3.44	3.42	3.39	3.41

\*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 29.2 billion from Ksh 764.2 billion in June 2011 to Ksh 793.4 billion as at November 4, 2011 following rising stocks of Government securities and Government overdraft at the Central Bank during the period under review (Table 6 and Chart C). Between June 30 and November 4, 2011 the stock of Treasury bonds and Treasury bills increased respectively by Ksh 11.2 billion and Ksh 1.9 billion, while Government overdraft at the Central Bank increased by Ksh 17.8 billion. Other domestic debt, however, declined during the period to Ksh 32.5 billion from Ksh 34.3 billion in June 2011.

During the week under review, Treasury bills decreased by Ksh 0.4 billion, while the Government overdraft held at the Central Bank remained at 25.4 billion (Table 6).

**Table 6: Government Domestic Debt (Ksh Billion)**

	Jun-11	Sep-11	21st Oct 2011	28THOct 2011	4th Nov 2011	Changes	
						28th Oct 2011-4th Nov 2011	30th Jun 2011-4th Nov 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	128.6 17.5	-0.4	1.9
2. Treasury Bonds (As % of total securities)	595.7 82.5	591.5 83.9	605.6 82.5	605.6 82.4	606.9 82.5	1.3	11.2
3. Total Securities (1+2+3)	722.4	705.3	734.1	734.6	735.5	0.9	13.1
4. Overdraft at Central Bank	7.6	25.4	15.5	25.4	25.4	0.0	17.8
5. Other Domestic debt*	34.3	33.6	33.8	33.6	32.5	-1.1	-1.7
6. Gross Domestic Debt (4+5+6)	764.22	764.27	783.46	793.61	793.40	-0.2	29.2
7. Interest payments on domestic debt	69.2	17.37	18.41	21.78	23.47	1.69	

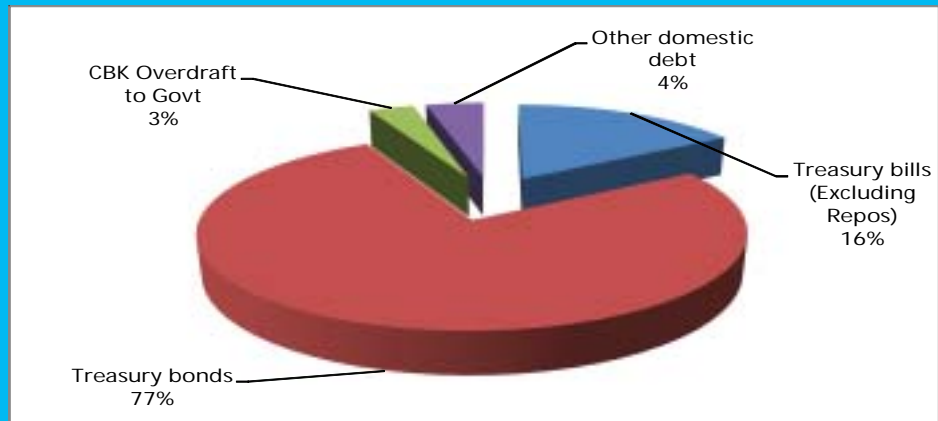
\* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCs.

Source: Central Bank of Kenya

Treasury bill holdings increased from Ksh 126.7 billion in June 2011 to Ksh 128.6 billion as at November 4, 2011 and constitute 17.5 percent of the stock of total securities. Similarly, the stock of Treasury bonds increased from Ksh 595.7 billion in June 2011 to Ksh 606.9 billion as at November 4, 2011, equivalent to 82.5 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 November 4, 2011.

Chart C: Composition of Government Securities (November 4, 2011)

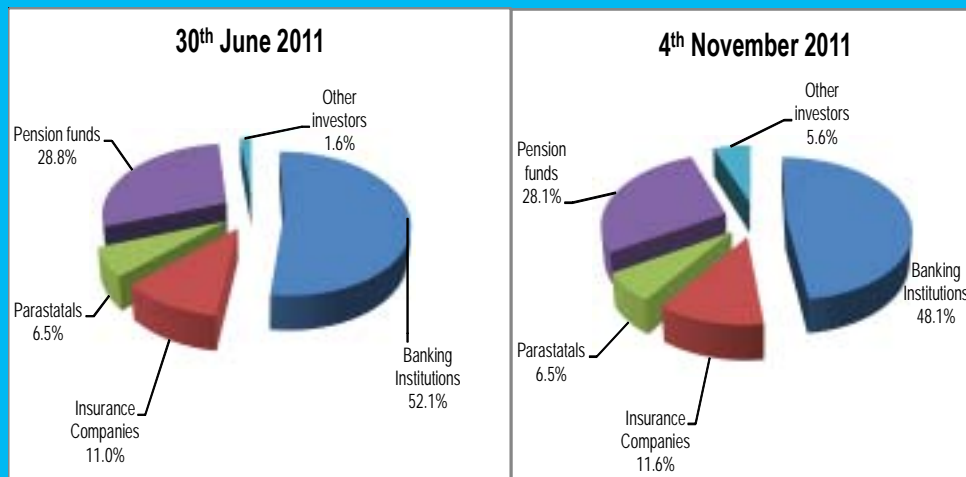


Source: Central Bank of Kenya

### Holding of Govt Securities

The share of Government securities by banking institutions and pension funds decreased from 52.1 percent and 28.8 percent respectively in June 2011 to 48.1 and 28.1 percent as at November 4, 2011. Holdings of insurance companies and other investors increased from 11.0 percent and 1.6 percent to 11.6 percent and 12.2 percent, respectively, during the period (Chart D).

Chart D: Composition of Government Securities by Investors

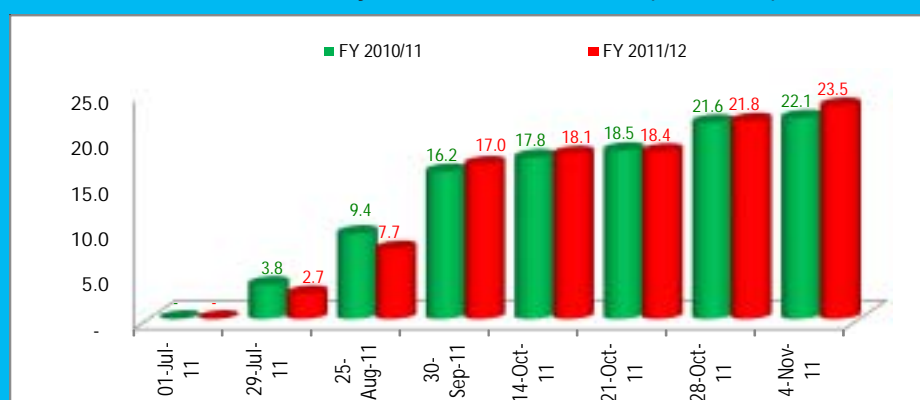


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt from July 1, 2011 to November 4, 2011 amounted to Ksh 23.5 billion compared with Ksh 22.1 billion in the same period of the fiscal year 2010/11 (Chart E). The cost during the period was on account of interest and other charges on Treasury bills and treasury bonds amounting to Ksh 3.53 billion and Ksh 19.61 billion, respectively. Government overdraft at Central Bank accounted for Ksh 0.33 billion.

Chart E: Cumulative Interest Payments on Domestic Debt (Ksh billion)



Source: Central Bank of Kenya

## The Stock Market

The NSE 20 Share Index declined to 3447.66 points on November 10, 2011 from 3497.1 points on November 3, 2011. Similarly, the Nairobi All Share Index (NASI) reduced to 72.47 points from 72.53 points during the period. Equity turnover declined by Ksh 766.5 million to Ksh 573.5 million for the week ended November 10, 2011, from Ksh 1,340.1 million by close of November 3, 2011. Market Capitalization as a measure of total shareholders' wealth, declined by Ksh 0.66 billion to Ksh 924.0 billion from last week's value of Ksh 924.7 billion. The number of shares transacted decreased to 53 million from 183.5 million the previous week.

Table 7: Key Weekly Market Statistics

Week Ending	22-Sep-11	29-Sep-11	6-Oct-11	13-Oct-11	19-Oct-11	27-Oct-11	3-Nov-11	10-Nov-11
NASI 100= Jan 2008	74.55	70.07	69.65	68.52	68.97	70.45	72.53	72.47
NSE 20 Share Index 100=1966	3,430.27	3,291.79	3,281.96	3,290.90	3,300.48	3,381.90	3,497.10	3,447.66
Number of Deals	6,141	4,645	4,003	5,368	4,993	5,788	5,795	4,041
Total Shares Traded (millions)	78.96	54.43	102.50	51.00	98.06	253.53	131.80	53.08
Equity Turnover (Ksh. millions)	850.48	1,001.73	1,088.30	726.80	595.88	1,727.03	1,013.36	573.59
Market Capitalization (Ksh. Bn.)	939.93	909.83	889.68	873.70	879.36	898.17	924.70	924.04
Bonds Turnover (Ksh. millions)	8,904.65	4,511.90	9,905.45	8,425.40	7,922.50	7,900.30	3,541.10	4,119.10

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

Source: Nairobi Stock Exchange

The Telecommunication and Technology sector dominated trading, with 43.5 million shares traded, accounting for 56.4 percent of all shares transacted at the bourse. Of this, Safaricom was the most active counter, with 41.1 million shares traded. The banking sector traded 20.4 million shares, while Energy and Petroleum sector traded 4.0 million shares. Safaricom, Co-operative Bank and Equity Bank were the top three most active counters with 41.8 million, 6.0 million and 5.8 million transacted, respectively. The least active sector was Automobile and Accessories with 75,800 shares traded during the week.

**FTSE NSE  
Kenya Index  
Series**

The Nairobi Securities Exchange introduced the FTSE NSE Kenya 15 Index and FTSE NSE Kenya 25 Index on November 8, 2011, with the first calculation on November 10, 2011 yielding 93.40 points and 96.03 points, respectively. Since the base period of January 2008, these indices were down 0.42 points and 0.43 points, respectively. The FTSE NSE Kenya 15 Index measures performance of 15 largest stocks ranked by market capitalization at NSE, while FTSE NSE Kenya 25 Index measures performance of 25 most liquid stocks trading at the Exchange. They are useful in creating structured products like options and Equity Traded Funds (ETFs); portfolio valuation; and index tracking funds.

**Bond Market**

Bonds trading at the Fixed Income Securities Market rose from Ksh 3.54 billion for the week ending November 3, 2011 to Ksh 4.1 billion for the week ending November 10, 2011. Total deals transacted over the period decreased to 47 from 62 the previous week.