

October 7, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

The government offered for sale Treasury bills worth a total of Ksh 12 billion in 91-day, 182-day and 364-day tenures during the week ending October 7, 2011. The 91-day and 182-day Treasury bills recorded performance rates of 323.1 and 135.6 percent, respectively, while the 364-day Treasury bill had a performance rate of 4.4 percent. Average interest rates on all the securities issued during the week edged up to stand at 14.836 percent, 14.283 percent and 14.499 percent, for the 91 day, 182 day and 364 day, respectively.

The average interbank interest rate rose to 7.65 percent during the week ending October 5, 2011 from 6.09 percent in the previous week. The Central Bank stayed out of the money market during the week.

The MPC meeting held on October 5, 2011 reviewed the Central Bank Rate (CBR) upward by 400 basis points from 7.00 percent to 11.0 percent to stem inflationary pressures, stabilize the exchange rate and re-establish a healthy growth base.

The Kenya shilling appreciated against the Sterling Pound and the Euro and depreciated against the US dollar and Japanese Yen in the week ending October 7, 2011. Against the US dollar the Kenya Shilling depreciated to exchange at Ksh 101.35 per US dollar compared with Ksh 100.82 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank declined further to US dollar 3,731 million (equivalent to 3.42 months of imports) as at October 7, 2011 from US dollar 3,778 million (equivalent to 3.47 months of imports) the previous week.

Gross Government debt increased by Ksh 0.5 billion from Ksh 764.2 billion in June 2011 to Ksh 764.7 billion as at September 30, 2011. The cumulative interest and other charges on domestic debt from July 1, 2011 to September 30, 2011 amounted to Ksh 17.0 billion compared with Ksh 16.2 billion in the same period of the fiscal year 2010/11

Activities at the equities market reflected a mixed performance during the week ending October 6, 2011. The NSE 20 Share Index and the Nairobi All Share Index (NASI) declined by 30 basis points and 60 basis points, respectively. Equity turnover closed the week 12.2 percent lower, but the volume of shares traded rose by 27.3 percent. The bonds segment recorded a 119.5 percent rise in trading activity during the week.

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 5 billion in 364-day Treasury bills during the week ending October 7, 2011. Collectively, the bids received amounted to Ksh 17.2 billion of which Ksh 12.9 billion or 75.1 percent were 91-day Treasury bills bids. The Government accepted bids worth Ksh 12.6 billion in 91-day, Ksh 3.5 billion in 182-day and Ksh 0.2 billion in 364-day Treasury bills during the week.

Interest Rate on Treasury Bills & Bonds

The weighted average interest rate on the 91-day, 182-day and 364-day Treasury bills increased by 109.5, 79.0 and 196.3 basis points to reach 14.836 percent, 14.283 percent and 14.499 percent, respectively during this week's auction.

Table 1 : Interest Rates

Auction date	19-Aug-11	26-Aug-11	2-Sep-11	9-Sep-11	16-Sep-11	23-Sep-11	30-Sep-11	7-Oct-11
91 day T. Bills*	9.258	9.708	10.281	11.685	12.570	13.193	13.741	14.836
182 day T. Bills*		10.356		9.285	11.935	12.622	13.493	14.283
364 day T. Bills*				12.536				14.499
Month	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jul-11	Aug-11	Sep-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

Interbank and REPO Rates

The average interbank rate rose to 7.65 percent during the week ending October 6, 2011 from 6.09 percent in the previous week. Reflecting tightness in the interbank liquidity, the average interbank volumes traded increased to Ksh 12.69 billion in the week ending October 6, 2011 from Ksh 9.01 billion in the previous week.

Table 2: Interbank Deals, Volumes and Interest Rates

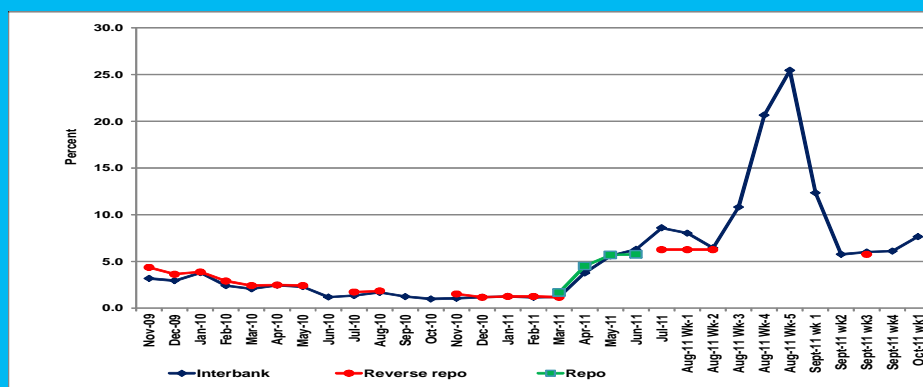
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
23-Sep-11	48	5,969	6.38
24-Sep-11	40	3,760	6.34
27-Sep-11	47	8,460	5.65
28-Sep-11	76	14,927	5.92
29-Sep-11	65	12,390	6.18
Sept 23- Sept 29, 2011	55	9,101	6.09
30-Sep-11	66	11,423	6.33
1-Oct-11	83	13,366	6.67
4-Oct-11	71	11,887	7.25
5-Oct-11	76	13,207	7.70
6-Oct-11	74	13,563	10.28
Sept 23- Sept 29, 2011	74	12,689	7.65

Source: Central Bank of Kenya

The reverse repo rate was 5.75 percent for the last reverse repo transactions on September 20, 2011.

The MPC meeting held on October 5, 2011 reviewed the Central Bank Rate (CBR) upward by 400 basis points from 7.00 percent to 11.0 percent to stem inflationary pressures, stabilize the exchange rate and re-establish a healthy growth base.

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The money market was tight during the week ending October 5, 2011. Commercial banks borrowed Ksh 3.1 billion from the Central Bank overnight window during the week ending October 5, 2011 compared with Ksh 0.5 billion in the previous week. Reserve money averaged Ksh 232.9 billion during the week and was above target by Ksh 6.8 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	Injected	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)
29-Sep-11	238.6	224.9	13.6	0.0	0.0	0.0	240.3	15.4	15.8	-0.4
30-Sep-11	242.3	224.9	17.4	0.0	0.0	0.0	240.5	15.6	16.5	-0.9
3-Oct-11	221.6	226.9	-5.4	0.0	0.0	0.0	226.3	-0.6	-0.9	0.3
4-Oct-11	225.6	226.9	-1.3	0.0	0.0	0.0	226.1	-0.8	-3.1	2.3
5-Oct-11	229.8	226.9	2.8	0.0	0.0	0.0	231.3	4.4	1.7	2.7
Average	231.6	226.1	5.4	0.0	0.0	0.0	232.9	6.8	6.0	0.8

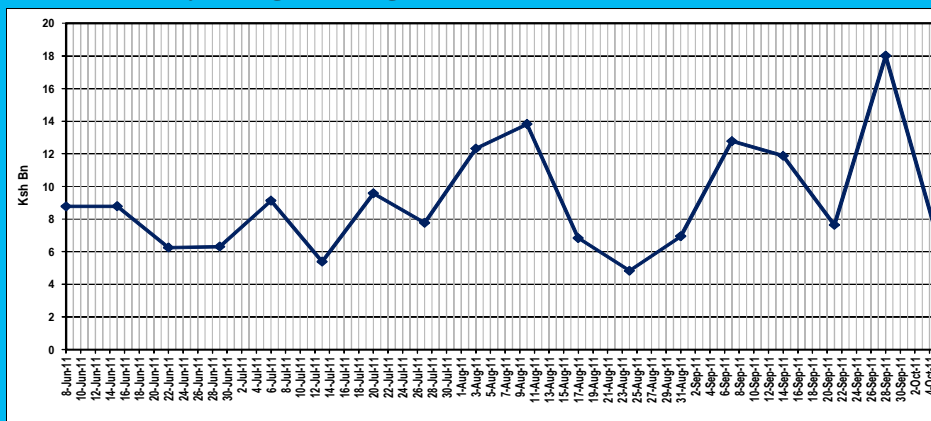
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

Commercial banks maintained an average of Ksh 7.0 billion in their settlement accounts above the 4.75 percent monthly average cash reserve requirements at the Central Bank in the week to October 5, 2011, down from Ksh 18.0 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 Sterling Pound and the Euro and depreciated against the US dollar and Japanese Yen in the week ending October 7, 2011. The Kenya shilling depreciated against the US dollar and the Japanese Yen to exchange at Ksh 101.35 per US dollar and Ksh 132.04 per 100 Japanese Yen in the week ending October 7, 2011 compared to Ksh 100.82 per US dollar and Ksh 131.98 per 100 Japanese Yen, in the previous week. Against the Sterling Pound and the Euro, the Shilling appreciated to trade at Ksh 156.64 per Sterling Pound and Ksh 135.04 per Euro compared to Ksh 157.05 per Sterling Pound and Ksh 136.47 per Euro in the previous week.

In the EAC region, the Kenya Shilling depreciated against the other East African currencies during the week ending October 7, 2011. On average, the Kenya shilling exchanged at Ushs 28.23 per Kenya Shilling, Tshs 16.48 per Kenya shilling, RWF 5.92 per Kenya shilling and BIF 12.16 per Kenya Shilling during the week, compared to Ushs 28.32 per Kenya Shilling, Tshs 16.53 per Kenya shilling, RWF 5.95 per Kenya Shilling and BIF 12.26 per Kenya Shilling, in the week ending September 30, 2011 (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
26-Sep-11	99.06	152.97	132.72	130.11	29.04	16.71	6.04	12.48
27-Sep-11	101.95	158.91	138.09	133.65	27.81	16.43	5.87	12.12
28-Sep-11	102.01	159.22	138.29	133.04	27.94	16.50	5.87	12.10
29-Sep-11	101.23	158.40	137.86	132.58	28.25	16.35	5.94	12.20
30-Sep-11	99.83	155.78	135.38	130.54	28.55	16.65	6.01	12.37
Sept 26 - Sept 30, 2011	100.82	157.05	136.47	131.98	28.32	16.53	5.95	12.26
3-Oct-11	100.48	155.95	133.88	130.47	28.44	16.38	5.98	12.29
4-Oct-11	101.67	157.11	134.32	132.58	28.28	16.42	5.90	12.15
5-Oct-11	101.72	156.99	135.23	132.50	28.02	16.47	5.89	12.09
6-Oct-11	100.95	155.75	134.76	131.60	28.32	16.64	5.94	12.18
7-Oct-11	101.95	157.40	137.00	133.04	28.10	16.48	5.89	12.07
Oct 03 - 07, 2011	101.35	156.64	135.04	132.04	28.23	16.48	5.92	12.16

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank declined further to US dollar 3,731 million (equivalent to 3.42 months of imports) as at October 7, 2011 from US dollar 3,778 million (equivalent to 3.47 months of imports) in the previous week (Table 5).

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

	29-Jul-11	12-Aug-11	19-Aug-11	16-Sep-11	23-Sep-11	30-Sep-11	7-Oct-11
Usable Reserves*	3,976	3,948	3,967	3,836	3,823	3,778	3,731
Months of Imports Cover**	3.73	3.69	3.68	3.53	3.52	3.47	3.42

*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 0.5 billion from Ksh 764.2 billion in June 2011 to Ksh 764.7 billion as at September 30, 2011 (Table 6 and Chart C). The increase resulted from Ksh 17.8 billion increase in the Government overdraft at the Central Bank which was offset by Ksh 13.0 billion, Ksh 4.1 billion and Ksh 0.2 billion declines in the stocks of Treasury bills, Treasury bonds and other domestic debt respectively during the period.

Table 6: Government Domestic Debt (Ksh Billion)

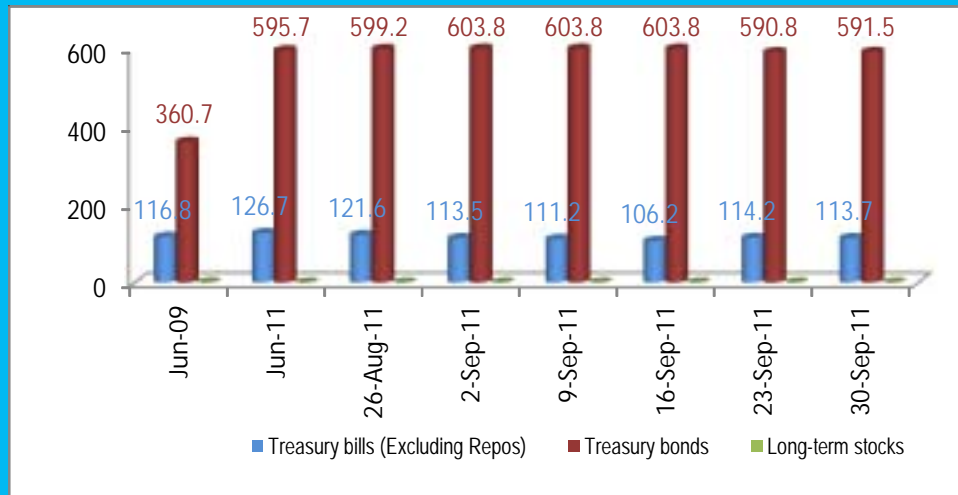
	Jun-11	Jul-11	Aug-11	23rd Sep-2011	30th Sep-2011	Changes	
						23rd Sep 2011-30th Sep 2011	30th Jun 2011-30th Sep 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	119.3 16.6	113.5 15.8	114.2 16.2	113.7 16.1	-0.5	-13.0
2. Treasury Bonds (As % of total securities)	595.7 82.5	601.0 83.4	603.8 84.2	590.8 83.8	591.5 83.9	0.7	-4.1
3. Total Securities (1+2+3)	722.4	720.3	717.3	705.1	705.3	0.2	-17.1
4. Overdraft at Central Bank	7.6	19.9	25.4	25.4	25.4	0.0	17.8
5. Other Domestic debt*	34.3	41.5	33.1	34.0	34.1	0.1	-0.2
6. Gross Domestic Debt (4+5+6)	764.22	781.71	775.80	764.46	764.69	0.2	0.5
7. Interest payments on domestic debt	69.2	2.75	11.50	14.93	17.01	2.1	

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

Source: Central Bank of Kenya

Treasury bills declined from Ksh 126.7 billion in June 2011 to Ksh 113.7 billion as at September 30, 2011. As a result, the share of Treasury bills in total government securities declined from 17.5 percent to 16.1 percent. For Treasury bonds, outstanding stock and share in total securities increased during the period (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 September 30, 2011.

Chart C: Composition of Government Securities

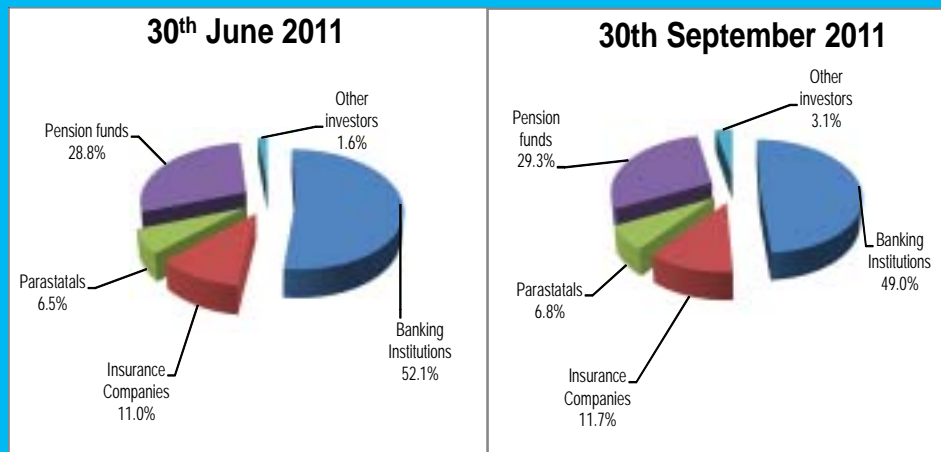


Source: Central Bank of Kenya

Holding of Govt Securities

The share of Government securities by banking institutions decreased from 52.1 percent in June 2011 to 49.0 percent as at September 30, 2011. Holdings of insurance, pension fund, parastatals and other investors increased from 11.0 percent, 28.8 percent, 6.5 percent and 1.6 percent to 11.7 percent, 29.3 percent, 6.8 percent and 3.1 percent, respectively, during the period (Chart D).

Chart D: Composition of Government Securities by Investors

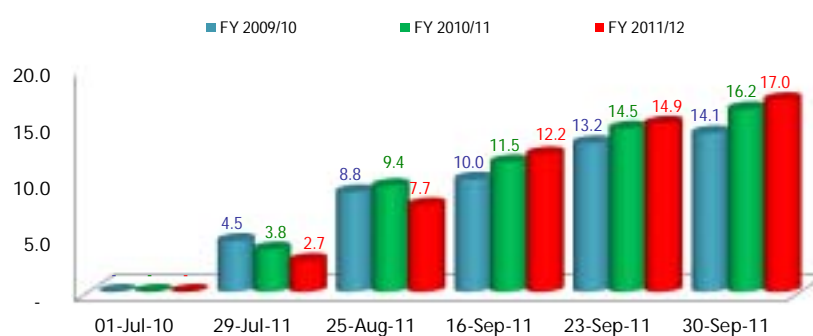


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt from July 1, 2011 to September 30, 2011 amounted to Ksh 17.0 billion compared with Ksh 16.2 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 2.5 billion and Ksh 14.2 billion, respectively. Interest on government overdraft at Central Bank amounted to Ksh 0.3 billion.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The NSE 20 Share Index closed the week at 3,281.96 points from 3,291.79 points on September 29, 2011. Similarly, NASI declined to 69.65 points from 70.07 points in the previous week. Equity turnover lost Ksh 138.6 million to trade stocks worth Ksh 995.9 million by close of October 6, 2011, from Ksh 1,134.5 million in the previous week. Market Capitalization as a measure of total shareholders' wealth, lost Ksh 20.1 billion to Ksh 889.7 billion from last week's value of Ksh 909.8 billion. The number of shares transacted increased to 94.4 million from 74.2 million in the previous week.

Table 7: Key Weekly Market Statistics

Week Ending	1-Sep-11	8-Sep-11	15-Sep-11	22-Sep-11	29-Sep-11	6-Oct-11
NASI 100= Jan 2008	75.24	74.62	75.06	74.55	70.07	69.65
NSE 20 Share Index 100=1966	3,402.00	3,400.68	3,464.65	3,430.27	3,291.79	3,281.96
Number of Deals	5,022	5,922	5,257	6,141	4,645	4,003
Total Shares Traded (millions)	94.33	230.70	142.36	78.96	54.43	94.47
Equity Turnover (Ksh. millions)	820.65	1,609.50	1,335.67	850.48	1,001.73	995.95
Market Capitalization (Ksh. Bn.)	939.05	961.11	944.79	939.93	909.83	889.68
Bonds Turnover (Ksh. millions)	6,518.50	10,138.05	8,578.90	8,904.65	4,511.90	9,905.45

* 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 49.7 million shares, accounting for 48.5 percent of all shares transacted at the bourse. Safaricom was the most active counter, with 49.6 million shares traded. Banking sector followed with 39.6 million shares, and Energy and Petroleum sector had 6.9 million shares traded. Equity Bank dominated the banking sector and Kenol/Kobil dominated the Energy and Petroleum sectors. The least traded sector was Construction and Allied, with 114,600 shares.

Bond Market

Bonds trading at the Fixed Income Securities Market more than doubled, from Ksh 4.5 billion for the week ending September 29, 2011 to Ksh 9.9 billion for the week ending October 5, 2011. Total deals transacted in the week also increased to 126 from 52 in the previous week.