

**October 14, 2011**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The government offered for sale Treasury bills worth Ksh 7 billion in 91-day and 182-day tenures during the week ending October 14, 2011. The 91-day and 182-day Treasury bills recorded performance rates of 103.8 and 19.7 percent, respectively. The average interest rates on all the securities issued during the week edged up to stand at 14.997 percent and 14.973 percent for the 91-day and 182-day, respectively.

The average interbank rate rose to 12.81 percent during the week ending October 13, 2011 from 7.65 percent in the previous week. The Central Bank was in the money market and mopped Ksh 1.5 billion during the week.

The Kenya Shilling depreciated against the major world currencies in the week ending October 14, 2011. Against the US dollar the Kenya Shilling depreciated to exchange at Ksh 103.62 per US dollar compared with Ksh 101.35 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3,766 million (equivalent to 3.46 months of imports) as at October 14, 2011 from US dollar 3,731 million (equivalent to 3.42 months of imports) the previous week.

Gross Government debt increased by Ksh 9.8 billion from Ksh 764.2 billion in June 2011 to Ksh 774.1 billion as at October 7, 2011. The cumulative interest and other charges on domestic debt from July 1, 2011 to October 7, 2011 amounted to Ksh 17.6 billion compared with Ksh 16.6 billion in the same period of the fiscal year 2010/11.

Activities at the equities market reflected mixed performance during the week ending October 13, 2011. The NSE 20 Share Index increased by 8.9 points and the Nairobi All Share Index (NASI) declined by 1.1 basis points. Equity turnover closed the week 43.1 percent lower and the volume of shares traded fell by 58.0 percent. The bonds segment also recorded a 14.9 percent drop in trading activity during the week.

**Government Securities Auction**

The government offered for sale Ksh 4 billion in 91-day Treasury bills and Ksh 3 billion in 182-day Treasury bills during the week ending October 14, 2011. Collectively, the Treasury bill bids received amounted to Ksh 4.7 billion of which Ksh 4.1 billion or 87.5 percent were 91-day bids. The Government accepted bids worth Ksh 1.99 billion and Ksh 0.5 billion in 91-day and 182-day Treasury bills during the week.

**Interest Rate on Treasury Bills & Bonds**

The weighted average interest rate on the 91-day and 182-day Treasury bills increased by 161 and 690 basis points to stand at 14.997 percent, 14.973 percent, respectively in the week's auction (Table 1).

**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 | 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

**Interbank and REPO Rates**

The average interbank rate rose to 12.81 percent during the week ending October 13, 2011 from 7.65 percent in the previous week. Reflecting relative tightness in the interbank liquidity, the average interbank volumes traded decreased to Ksh 10.04 billion in the week ending October 13, 2011 from Ksh 12.69 billion in the previous week (Table 2 and Chart A).

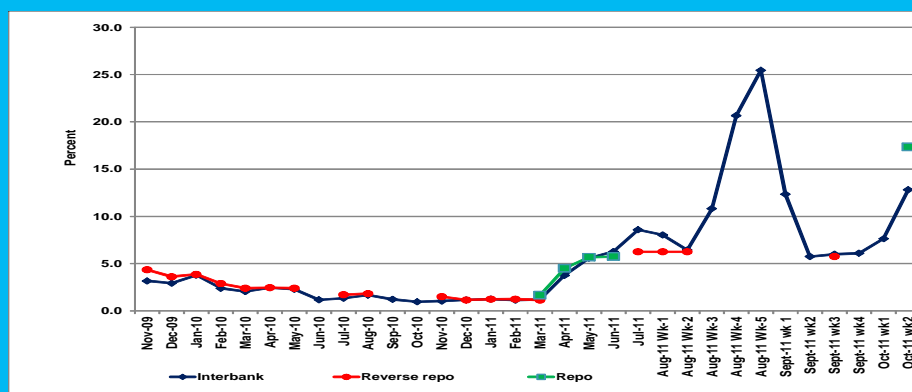
**Table 2: Interbank Deals, Volumes and Interest Rates**

| Date                        | Number of deals | Value (Ksh M) | Average Interest Rate (%) |
|-----------------------------|-----------------|---------------|---------------------------|
| 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                     |
| <b>Sept 30- Oct 6, 2011</b> | <b>74</b>       | <b>12,689</b> | <b>7.65</b>               |
| 7-Oct-11                    | 73              | 10,314        | 11.14                     |
| 8-Oct-11                    | 82              | 9,252         | 12.06                     |
| 11-Oct-11                   | 92              | 9,479         | 12.59                     |
| 12-Oct-11                   | 83              | 10,650        | 13.72                     |
| 13-Oct-11                   | 85              | 10,512        | 14.52                     |
| <b>Oct 7- Oct 13, 2011</b>  | <b>83</b>       | <b>10,041</b> | <b>12.81</b>              |

Source: Central Bank of Kenya

The average repo rate was 17.33 percent for the repo transactions during the week ending October 13, 2011.

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 October 12, 2011. The Central Bank mopped Ksh 1.5 billion from the money market through repo operations. Commercial banks borrowed Ksh 4.5 billion from the Central Bank overnight window during the week ending October 12, 2011 compared with Ksh 3.1 billion in the previous week. Reserve money averaged Ksh 226.4 billion during the week and was below target by Ksh 1.7 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)                   |
| 6-Oct-11  | 230.0                      | 226.9  | 3.1              | 0.0         | 0.0    | 0.0              | 230.7                     | 3.8              | 0.9              | 2.9                    |
| 7-Oct-11  | 229.2                      | 226.9  | 2.3              | 0.0         | 0.0    | 0.0              | 229.1                     | 2.2              | -1.6             | 3.8                    |
| 10-Oct-11 | 221.2                      | 229.0  | -7.8             | 0.0         | 0.0    | 0.0              | 223.1                     | -5.8             | -10.1            | 4.3                    |
| 11-Oct-11 | 219.9                      | 229.0  | -9.1             | 0.0         | 0.0    | 0.0              | 224.9                     | -4.0             | -9.0             | 5.0                    |
| 12-Oct-11 | 222.9                      | 229.0  | -6.0             | 10.0        | 1.5    | -8.5             | 224.2                     | -4.7             | -9.3             | 4.6                    |
| Average   | 224.6                      | 228.2  | -3.5             | 2.0         | 0.3    | -1.7             | 226.4                     | -1.7             | -5.8             | 4.1                    |

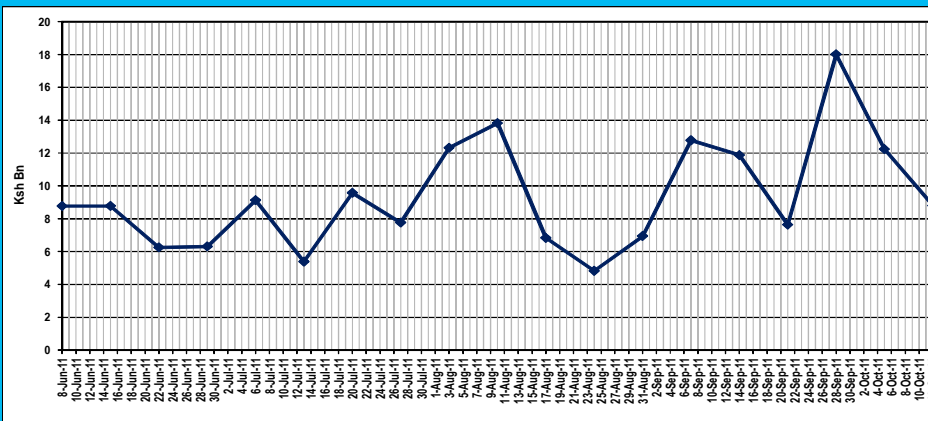
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial Banks Clearing Accounts Balances**

Commercial banks maintained an average of Ksh 8.8 billion in their settlement accounts above the 4.75 percent monthly average cash reserve requirements at the Central Bank in the week to October 12, 2011, down from Ksh 12.2 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 depreciated against the US dollar, the Sterling Pound, the Euro and the Japanese Yen to exchange at Ksh 103.62 per US dollar, Ksh 162.47 per Sterling Pound, Ksh141.71 per Euro and Ksh 134.97 per 100 Japanese Yen in the week ending October 14, 2011 compared to Ksh 101.35 per US dollar, Ksh 156.64 per Sterling Pound, Ksh135.04 per Euro and Ksh 132.04 per 100 Japanese Yen in the previous week.

In the EAC region, the Kenya Shilling depreciated against the other East African currencies during the week ending October 14, 2011. On average, the Kenya Shilling exchanged at Ushs 27.67 per Kenya Shilling, Tshs 16.44 per Kenya Shilling, RWF 5.80 per Kenya Shilling and BIF 11.87 per Kenya Shilling during the week, compared to 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, in the week ending October 7, 2011 (Table 4).

Table 4: Kenya Shilling Exchange Rates

|                          | US dollar     | Sterling Pound | Euro          | Japanese Yen  | USHS         | TSHS         | RWF         | BIF          |
|--------------------------|---------------|----------------|---------------|---------------|--------------|--------------|-------------|--------------|
| 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        |
| <b>Oct 03 - 07, 2011</b> | <b>101.35</b> | <b>156.64</b>  | <b>135.04</b> | <b>132.04</b> | <b>28.23</b> | <b>16.48</b> | <b>5.92</b> | <b>12.16</b> |
| 10-Oct-11                | 102.81        | 160.58         | 138.52        | 134.02        | 27.82        | 16.56        | 5.84        | 11.96        |
| 11-Oct-11                | 103.91        | 162.33         | 141.68        | 135.53        | 27.67        | 16.41        | 5.77        | 11.83        |
| 12-Oct-11                | 105.96        | 165.32         | 144.60        | 138.08        | 27.18        | 16.10        | 5.67        | 11.61        |
| 13-Oct-11                | 104.01        | 163.84         | 143.43        | 134.91        | 27.69        | 16.38        | 5.78        | 11.83        |
| 14-Oct-11                | 101.43        | 160.30         | 140.30        | 132.30        | 28.01        | 16.76        | 5.93        | 12.13        |
| <b>Oct 10 - 14, 2011</b> | <b>103.62</b> | <b>162.47</b>  | <b>141.71</b> | <b>134.97</b> | <b>27.67</b> | <b>16.44</b> | <b>5.80</b> | <b>11.87</b> |

Source: Central Bank of Kenya

### Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3,766 million (equivalent to 3.46 months of imports) as at October 14, 2011 from US dollar 3,731 million (equivalent to 3.42 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 | 14-Oct-11 |
|---------------------------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|
| Usable Reserves*          | 3,976     | 3,948     | 3,967     | 3,836     | 3,823     | 3,778     | 3,731    | 3,766     |
| Months of Imports Cover** | 3.73      | 3.69      | 3.68      | 3.53      | 3.52      | 3.47      | 3.42     | 3.46      |

\*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 9.8 billion from Ksh 764.2 billion in June 2011 to Ksh 774.1 billion as at October 7, 2011 (Table 6 and Chart C). The increase resulted from increase in the Government overdraft at the Central Bank which was offset by Ksh 3.6 billion, Ksh 4.1 billion and Ksh 0.3 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)**

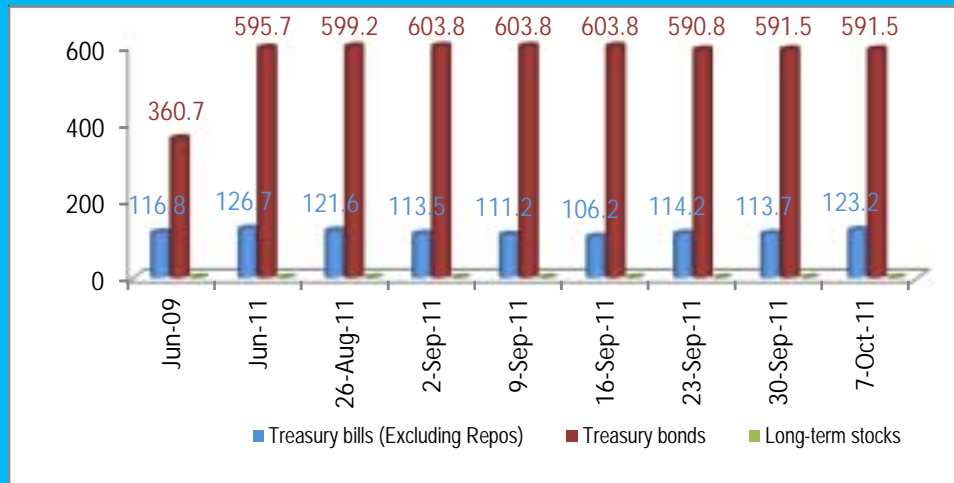
|   | Jun-11        | Jul-11        | Aug-11        | 30th Sep-2011 | 7th Oct 2011  | Changes                    |                            |
|---|---------------|---------------|---------------|---------------|---------------|----------------------------|----------------------------|
|   |               |               |               |               |               | 30th Sep 2011-7th Oct 2011 | 30th Jun 2011-7th Oct 2011 |
| 1. Treasury Bills (Excluding Repos)<br>(As % of total securities) | 126.7<br>17.5 | 119.3<br>16.6 | 113.5<br>15.8 | 113.7<br>16.1 | 123.2<br>17.2 | 9.4                        | -3.6                       |
| 2. Treasury Bonds<br>(As % of total securities)                   | 595.7<br>82.5 | 601.0<br>83.4 | 603.8<br>84.2 | 591.5<br>83.9 | 591.5<br>82.8 | 0.0                        | -4.1                       |
| 3. Total Securities (1+2+3)                                       | 722.4         | 720.3         | 717.3         | 705.3         | 714.7         | 9.4                        | -7.7                       |
| 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          | 34.1          | 34.0          | -0.1                       | -0.3                       |
| 6. Gross Domestic Debt (4+5+6)                                    | 764.22        | 781.71        | 775.80        | 764.69        | 774.06        | 9.4                        | 9.8                        |
| 7. Interest payments on domestic debt                             | 69.2          | 2.75          | 11.50         | 17.01         | 17.55         | 0.5                        |                            |

\* 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 123.2 billion as at October 7, 2011. As a result, the share of Treasury bills in total government securities declined from 17.5 percent to 17.2 percent. Treasury bond holdings, and consequently share in total securities increased during the period (Table 6). The average time to maturity of Government securities stood at 5 years 10 months.

Chart C: Composition of Government Securities

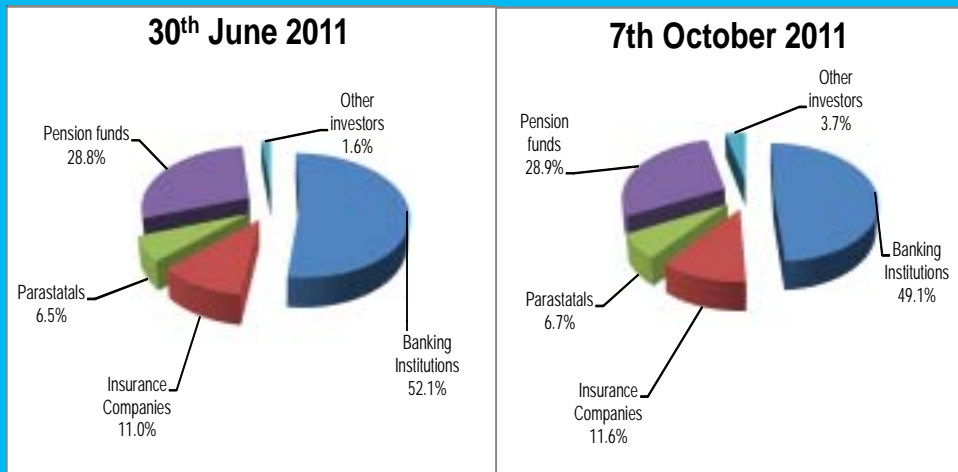


Source: Central Bank of Kenya

**Holding of Govt Securities**

The share of Government securities by banking institutions decreased from 52.1 percent in June 2011 to 49.1 percent as at October 7, 2011. Holdings of insurance, pension fund and other investors increased from 11.0 percent, 28.8 percent and 1.6 percent to 11.6 percent, 28.9 percent and 3.7 percent, respectively, during the period (Chart D).

Chart D: Composition of Government Securities by Investors

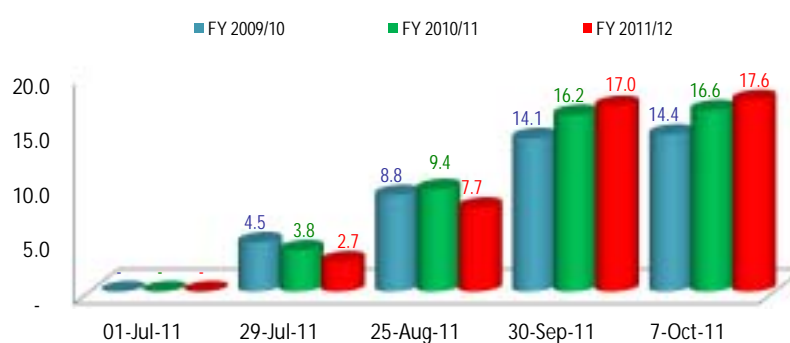


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

Cumulative interest and other charges on domestic debt from July 1, 2011 to October 7, 2011 amounted to Ksh 17.6 billion compared with Ksh 16.6 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 2.7 billion and Ksh 14.6 billion, respectively. Government overdraft at Central Bank accounted for 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 8.9 points higher, to 3,290.2 points from 3,282.0 points on October 6, 2011. NASI, however, fell to 68.52 points from 69.65 points during the week. Equity turnover lost Ksh 469.5 million to trade stocks worth Ksh 618.8 million for the week ended October 13, 2011, from Ksh 1,088.3 million of the previous week. Market Capitalization as a measure of total shareholders' wealth, lost Ksh 4.5 billion to level Ksh 884.4 billion from last week's value of Ksh 889.7 billion. The number of shares transacted decreased to 43.1 million from 102.5 million the previous week (Table 7).

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 | 13-Oct-11 |
|----------------------------------|----------|-----------|-----------|-----------|-----------|----------|-----------|
| NASI 100= Jan 2008               | 75.24    | 74.62     | 75.06     | 74.55     | 70.07     | 69.65    | 68.52     |
| 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  |
| Number of Deals                  | 5,022    | 5,922     | 5,257     | 6,141     | 4,645     | 4,003    | 4,291     |
| Total Shares Traded (millions)   | 94.33    | 230.70    | 142.36    | 78.96     | 54.43     | 102.50   | 43.06     |
| Equity Turnover (Ksh. millions)  | 820.65   | 1,609.50  | 1,335.67  | 850.48    | 1,001.73  | 1,088.30 | 618.80    |
| Market Capitalization (Ksh. Bn.) | 939.05   | 961.11    | 944.79    | 939.93    | 909.83    | 889.68   | 884.44    |
| 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  |

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

Source: Nairobi Stock Exchange

Banking sector dominated trading, with 26.3 million shares, accounting for 47.5 percent of all shares transacted at the bourse. Of this, Equity Bank was the most active counter, with 15.0 million shares traded. Telecommunication and Technology sector followed, with 13.9 million shares, and Commercial and Services sector had 6.9 million shares traded. Safaricom and Uchumi Supermarkets dominated Telecommunication and Technology and Commercial and Services sectors, respectively. The least active sector was Construction and Allied, with 220,500 shares traded during the week.

**Bond Market**

Bonds trading at the Fixed Income Securities Market dropped from Ksh 9.9 billion the previous week to Ksh 8.4 billion for the week ending October 13, 2011. Total deals transacted over the period also decreased to 96 from 126 the previous week.