

October 28, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

The government offered for sale securities worth Ksh 17 billion in 2 year fixed rate Treasury bonds, 91-day and 182-day Treasury bills during the week ending October 28, 2011. The 91-day and 182-day Treasury bills recorded performance rates of 54.2 and 11.8 percent, respectively, while the 2 year bond performed at 22.4 percent. Average interest rates on the securities issued during the week maintained an upward trend.

The average interbank rate rose to 18.73 percent during the week ending October 27, 2011 from 16.70 percent in the previous week. The Central Bank was in the money market and mopped Ksh 0.25 billion during the week at 20.4 percent.

The Kenya Shilling depreciated against the major world currencies in the week ending October 28, 2011. Against the US dollar the Kenya Shilling weakened to exchange at Ksh 100.36 per US dollar compared with Ksh 99.73 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,743 million (equivalent to 3.44 months of imports) as at October 21, 2011 to US dollar 3,723 million (equivalent to 3.42 months of imports) in the week ending October 28, 2011.

Gross Government debt increased by Ksh 19.2 billion from Ksh 764.2 billion in June 2011 to Ksh 783.5 billion as at October 21, 2011. The cumulative interest and other charges on domestic debt from July 1, 2011 to October 21, 2011 amounted to Ksh 18.4 billion compared with Ksh 18.5 billion in the same period of the fiscal year 2010/11.

Activities at the equities market were robust during the week ending October 27, 2011. The NSE 20 Share Index rose 81.4 points as the Nairobi All Share Index (NASI) recorded 1.5 points increase. Equity turnover closed the week 190 percent strong, with the volume of shares traded rising by 157 percent. The bonds segment was however, down 0.3 percent 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 10 billion in 2 year fixed rate Treasury bonds during the week ending October 28, 2011. Total bids received amounted to Ksh 4.9 billion, a performance rate of 28.8 percent. Bids worth Ksh 2.2 billion, Ksh 0.3 billion and Ksh 2.4 billion were received for the 91-day and 182-day Treasury bills, and 2 Treasury bond, respectively. Collectively, the Government accepted bids worth Ksh 2.7 billion during the week.

Interest Rate on Treasury Bills & Bonds

The weighted average interest rates on the 91-day and 182-day Treasury bills, increased by 22.2 and 7.7 basis points respectively, to 15.313 percent and 15.364 percent, during this week's auction. Average interest rate on the 2 year Treasury bond stood at 16.526 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
91 day T. Bills*	10.281	11.685	12.570	13.193	13.741	14.836	14.997	15.091	15.313
182 day T. Bills*		9.285	11.935	12.622	13.493	14.283	14.973	15.287	15.364
364 day T. Bills*		12.536				14.499			
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

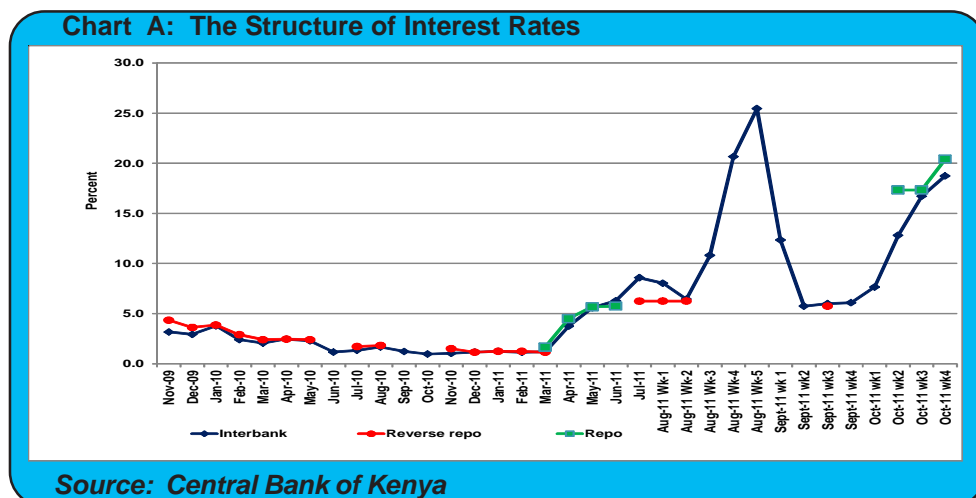
The average interbank rate rose to 18.73 percent during the week ending October 27, 2011 from 16.70 percent in the previous week. Reflecting relative tightness in the interbank liquidity, the average interbank volumes traded declined to Ksh 9.37 billion in the week ending October 21, 2011 from Ksh 18.14 billion in the previous week.

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
14-Oct-11	83	11,810	15.41
15-Oct-11	60	10,691	16.68
18-Oct-11	82	29,439	17.40
19-Oct-11	60	20,616	17.30
20-Oct-11	HOLIDAY		
Oct 14- Oct 20, 2011	71	18,139	16.70
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

Source: Central Bank of Kenya

The average repo rate rose to 20.40 percent for the repo transactions during the week ending October 27, 2011 from 17.33 percent in the previous week.



Monetary Policy Operations

The money market was relatively tight during the week ending October 27, 2011. The Central Bank mopped Ksh 0.25 billion from the money through repo operations. Commercial banks borrowed Ksh 72.3 billion from the Central Bank overnight window during the week ending October 27, 2011 compared with Ksh 49.7 billion in the previous week. Reserve money averaged Ksh 231.8 billion during the week and was above target by Ksh 1.3 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)
20-Oct-11	HOLIDAY									
21-Oct-11	236.3	229.0	7.4	0.0	0.0	0.0	232.6	3.7	-1.1	4.7
24-Oct-11	231.6	231.0	0.6	0.0	0.0	0.0	230.2	-0.8	-6.0	5.2
25-Oct-11	212.8	231.0	-18.2	0.0	0.0	0.0	228.8	-2.2	-7.1	4.9
26-Oct-11	216.0	231.0	-15.0	3.0	0.3	-2.8	235.4	4.4	-0.4	4.8
Average	224.2	230.5	-6.3	0.8	0.1	-0.7	231.8	1.3	-3.6	4.9

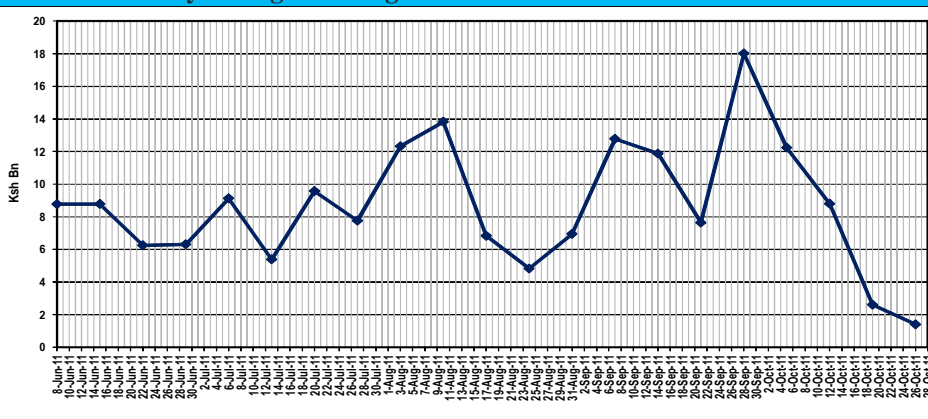
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

Commercial banks reduced excess cash reserves to Ksh 1.4billion above the 4.75 percent monthly average cash reserve requirements at the Central Bank in the week to October 27, 2011, from Ksh 2.6 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 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 week ending October 28, 2011 compared to Ksh 99.73 per US dollar, Ksh 157.37 per Sterling Pound, Ksh 137.52 per Euro and Ksh 129.69 per 100 Japanese Yen in the previous week. The foreign exchange market increased demand from the energy sector in the first three days of the week which put pressure on the shilling. However the Kenya shilling appreciated by a smaller margin in the last two days of the week from tight liquidity in the domestic money market and inflows of foreign exchange from the agriculture sector.

In the EAC region, the Kenya Shilling strengthened slightly against the Tanzania Shilling and weakened against the Uganda Shilling, Rwanda Franc and the Burundi Franc. On average, the Kenya Shilling exchanged at Ush 26.85 per Kenya Shilling, Tsh 17.68 per Kenya Shilling, RWF 5.97 per Kenya Shilling and BIF 12.29 per Kenya Shilling during the week, compared to Ush 28.49 per Kenya Shilling, Tsh 17.07 per Kenya Shilling, RWF 6.02 per Kenya Shilling and BIF 12.34 per Kenya Shilling, in the week ending October 21, 2011 (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
17-Oct-11	100.51	158.80	139.23	130.27	28.40	16.81	5.97	12.24
18-Oct-11	99.19	156.55	136.29	129.03	28.65	17.19	6.05	12.40
19-Oct-11	99.52	156.80	137.31	129.73	28.44	17.13	6.03	12.36
21-Oct-11	99.70	157.33	137.28	129.74	28.46	17.15	6.03	12.37
Oct 17- 21, 2011	99.73	157.37	137.52	129.69	28.49	17.07	6.02	12.34
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

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank declined from US dollar 3,743 million (equivalent to 3.44 months of imports) as at October 21, 2011 to US dollar 3,723 million (equivalent to 3.42 months of imports) in the week ending October 28, 2011 (Table 5).

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

	16-Sep-11	23-Sep-11	30-Sep-11	7-Oct-11	14-Oct-11	21-Oct-11	28-Oct-11
Usable Reserves*	3,836	3,823	3,778	3,731	3,766	3,743	3,723
Months of Imports Cover**	3.53	3.52	3.47	3.42	3.46	3.44	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 19.2 billion from Ksh 764.2 billion in June 2011 to Ksh 783.5 billion as at October 21, 2011 following rising stocks of Government securities and Government overdraft at the Central Bank during the period under review (Table 6 and Chart C). The stocks of Treasury bonds and Treasury bills increased respectively by Ksh 10.0 billion and Ksh 1.8 billion, while Government overdraft at the Central Bank increased by Ksh 8.0 billion, during the period. Other domestic debt, however, declined during the period to stand at Ksh 33.8 billion from Ksh 34.3 billion in June 2011. During the week under review, Treasury bills increased by Ksh 1.4 billion, while the Government overdraft held at the Central Bank declined by Ksh 9.8 billion.

Table 6: Government Domestic Debt (Ksh Billion)

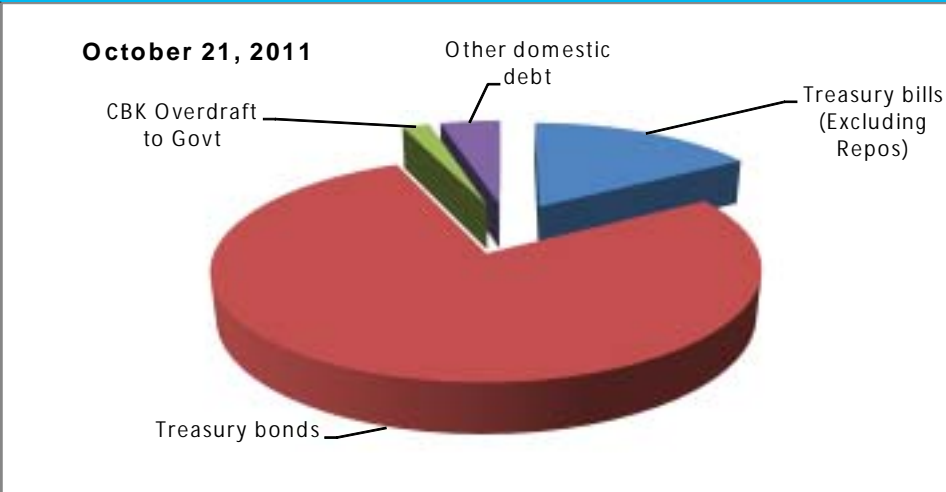
	Jun-11	Sep-11	14th Oct 2011	21st Oct 2011	Changes	
					14th Oct 2011-21st Oct 2011	30th Jun 2011-21st Oct 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	113.7 16.1	127.1 17.3	128.5 17.5	1.4	1.8
2. Treasury Bonds (As % of total securities)	595.7 82.5	591.5 83.9	605.6 82.7	605.6 82.5	0.0	10.0
3. Total Securities (1+2+3)	722.4	705.3	732.7	734.1	1.4	11.7
4. Overdraft at Central Bank	7.6	25.4	25.4	15.5	-9.8	8.0
5. Other Domestic debt*	34.3	33.6	33.6	33.8	0.2	-0.4
6. Gross Domestic Debt (4+5+6)	764.22	764.27	791.71	783.46	-8.3	19.2
7. Interest payments on domestic debt	69.2	17.37	18.14	18.41	0.27	

* 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 128.5 billion as at October 21, 2011, constituting 17.5 percent of total securities. Similarly, the stocks of Treasury bonds increased from Ksh 595.7 billion in June 2011 to Ksh 605.6 billion as at 21 October 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 October 21, 2011.

Chart C: Composition of Government Securities

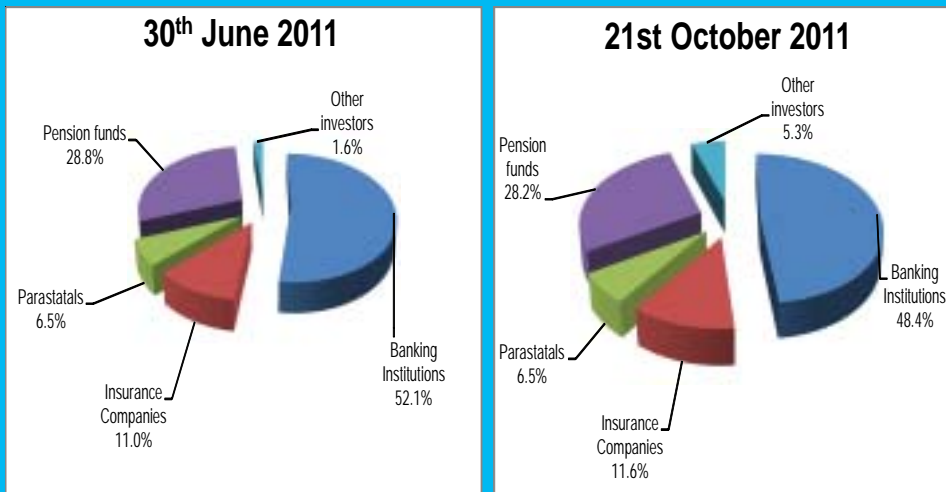


Source: Central Bank of Kenya

Holding of Govt Securities

Banking institutions and pension funds reduced holding of government securities from 52.1 and 28.8 percent, respectively in June 2011 to stand at 48.4 and 28.2 percent as at October 21, 2011. Holdings of insurance companies and other investors increased from 11.0 percent and 1.6 percent to 11.6 percent and 5.3 percent, respectively, during the period (Chart D).

Chart D: Composition of Government Securities by Investors

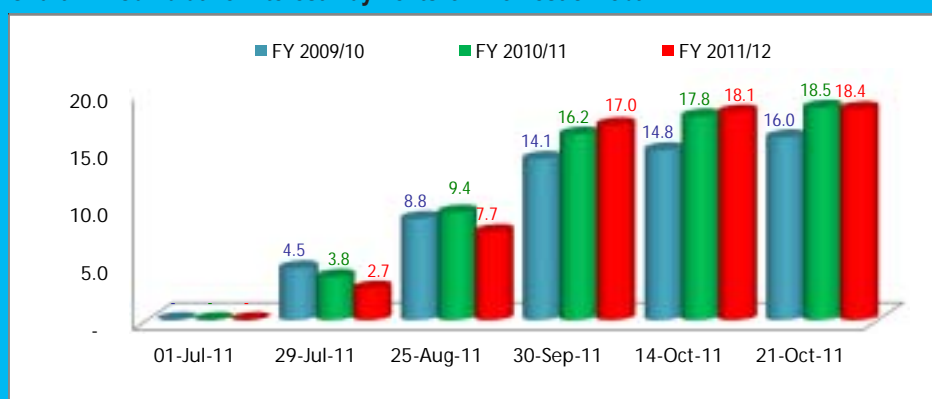


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt from July 1, 2011 to October 21, 2011 amounted to Ksh 18.4 billion compared with Ksh 18.5 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 3.3 billion and Ksh 14.8 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 rose to 3,381.9 points on October 27, 2011 from 3,300.5 points on October 19, 2011. Similarly, NASI rose to 70.45 points from 68.97 points during the period. Equity turnover gained Ksh 1,131.2 million to trade stocks worth Ksh 1,727.03 million for week ended October 27, 2011, from Ksh 595.9 million of the previous week. Market capitalization as a measure of total shareholders' wealth, gained Ksh 18.82 billion to level Ksh 898.2 billion from last week's value of Ksh 879.4 billion. The number of shares transacted increased to 253.5 million from 98.1 million 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	13-Oct-11	19-Oct-11	27-Oct-11
NASI 100= Jan 2008	75.24	74.62	75.06	74.55	70.07	69.65	68.52	68.97	70.45
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
Number of Deals	5,022	5,922	5,257	6,141	4,645	4,003	5,368	4,993	5,788
Total Shares Traded (millions)	94.33	230.70	142.36	78.96	54.43	102.50	51.00	98.06	253.53
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
Market Capitalization (Ksh. Bn.)	939.05	961.11	944.79	939.93	909.83	889.68	873.70	879.36	898.17
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

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

Source: Nairobi Stock Exchange

Telecommunication and Technology sector dominated trading, with 205.55 million shares, accounting for 81.1 percent of all shares transacted at the bourse. Safaricom was the most active counter, with 201.79 million shares traded. Banking sector followed, with 30.82 million shares, and Energy and Petroleum sector traded 6.78 million shares. Safaricom, Equity Bank and Housing Finance Co. Ltd. were the top three most active counters with 201.8 million, 14.2 million and 12.3 million shares traded, respectively.

Bond Market

Bonds trading at the Fixed Income Securities Market dropped from Ksh 7.92 billion for the week ending October 19, 2011 to Ksh 7.9 billion for the week ending October 27, 2011. Total deals transacted over the period also increased to 127 from 123 the previous week.