

September 2, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

Overall 12-month inflation rose by 114 basis points from 15.5 percent in July 2011 to 16.7 percent in August 2011, while annual average inflation rose from 7.9 percent in July 2011 to 9.0 percent in August 2011.

The government offered for sale a 91-day Treasury bill totalling Ksh 2.0 billion during the week ending September 2, 2011 and received bids amounting to Ksh 3.5 billion or 176.3 percent subscription. The interest on the 91-day paper edged up by 57.3 basis points to 10.281 percent compared to the last auction of similar paper.

The average interbank rate increased to 25.45 percent during the week ending August 31, 2011 from 20.65 percent in the previous week, reflecting tight interbank liquidity. The Central Bank was not in the money market during the week.

The Kenya Shilling depreciated slightly against major international currencies in the week ending September 2, 2011. Against the US dollar, the Kenya shilling depreciated to exchange at an average of Ksh 93.57 in the week compared with Ksh 92.77 per US dollar in the week ending August 26, 2011.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,967 million (equivalent to 3.68 months of imports) as at August 26, 2011, to US dollar 3,987 million (equivalent to 3.70 months of imports) as at September 2, 2011.

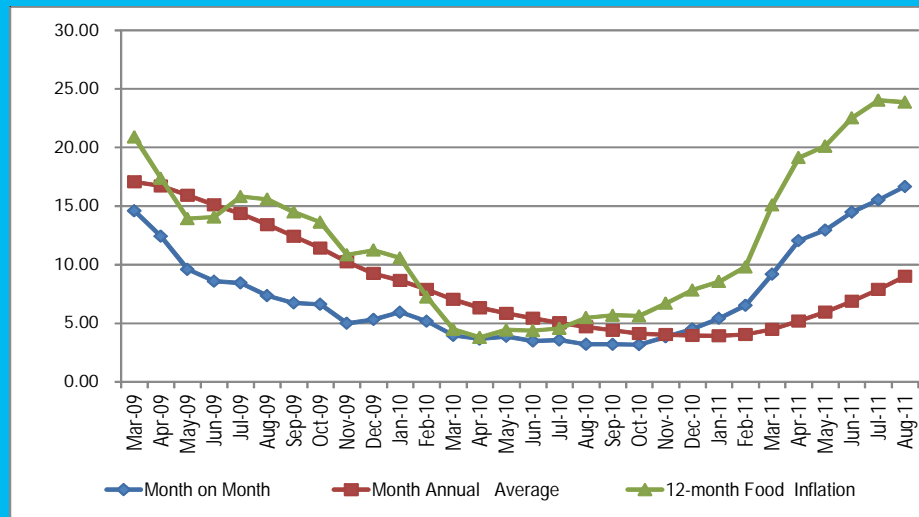
Gross Government debt increased by Ksh 15.9 billion from Ksh 764.1 billion in June 2011 to Ksh 780.1 billion as at August 26, 2011.

Activities at the equities and bonds markets reflected declining performance during the week ending September 1, 2011. Both the NSE 20 Share Index and the Nairobi All Share Index (NASI) closed the week 1.2 percent down. The volume of shares traded dropped by 6.0 percent and so did equity turnover, which fell by 38.9 percent. The bonds segment of the market similarly showed a 5.5 percent decline in trading activity during the week.

Inflation

The increase in overall 12-month inflation in August 2011 largely reflects the rise in the Transport index by 24.3 percent due to higher fuel prices and the rise in the Food and Non-Alcoholic Beverages index by 23.9 percent. Food inflation however eased from 24.0 percent in July 2011 following a reduction in average retail prices of kales, maize flour, maize grains and potatoes. The Housing, Water, Electricity, Gas and Other Fuels' index rose by 13.1 percent in August 2011 due to increases in the cost of electricity, house rents and cooking fuels. Inflation in the other categories of goods and services; namely, Furnishings, Household Equipment and Routine Household Maintenance; Health; Clothing and Footwear; Recreation and Culture; and Miscellaneous Goods and Services rose on average by about 8 percent, each in August 2011, while the Communication index declined further by 2.2 percent.

Chart A: Overall Annual Average & Month-on-Month, Food and Alcoholic Beverages and Transport Inflation



Source: Central Bank of Kenya

Government Securities Auction

The government had offered for sale a 91-day Treasury bill amounting Ksh 2.0 billion during the week ending September 2, 2011. During the auction, a total of Ksh 3.5 billion bids were received resulting to subscription rate of 176.3 percent. Out of the total bids received, bids worth Ksh 3.1 billion were competitive.

The proceeds of the auction were to be used to meet part of redemptions of Treasury bills maturities amounting to Ksh 5.8 billion during the week.

Interest Rates on Treasury Bills and Bonds

The weighted average rate of the accepted bids increased by 57.3 basis points from 9.708 percent in the previous auction to 10.281 percent (Table 1).

Table 1: Interest Rates

Auction date	29-Jul-11	5-Aug-11	12-Aug-11	19-Aug-11	26-Aug-11	2-Sep-11
91 day T. Bills*	9.010	9.015	9.145	9.258	9.708	10.281
182 day T. Bills*	9.799		10.308		10.356	
364 day T. Bills*			11.066			
Month	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jul-11
Average savings rate	1.25	1.41	1.37	1.38	1.38	
Average overdraft rate	13.93	13.65	13.60	13.68	13.72	

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate increased to 25.45 percent during the week ending August 31, 2011 from 20.65 percent in the previous week, reflecting tight interbank liquidity. The average interbank volumes traded increased to Ksh 7.90 billion in the week ending August 31, 2011 from Ksh 7.26 billion in the previous week (Table 2).

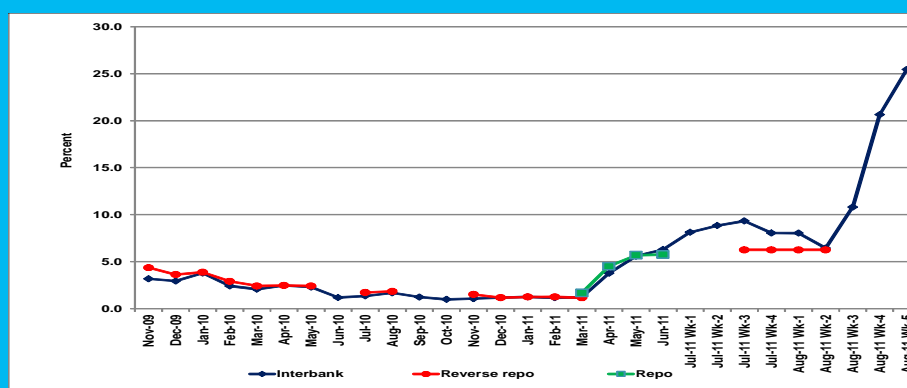
Table 2: Interbank Transactions

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
18-Aug-11	29	7,336	16.93
19-Aug-11	59	6,932	19.03
22-Aug-11	58	8,945	20.74
23-Aug-11	46	4,371	22.29
24-Aug-11	54	8,734	24.25
Aug 18- Aug 24, 2011	49	7,263	20.65
25-Aug-11	62	8,929	26.37
26-Aug-11	59	8,034	28.44
29-Aug-11	53	6,060	27.73
30-Aug-11	67	8,590	19.25
31-Aug-11		HOLIDAY	
Aug 25- Aug 31, 2011	60	7,903	25.45

Source: Central Bank of Kenya

The reverse repo rate was 6.25 percent for the last reverse repo transactions on August 9, 2011 (Chart B).

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

**Monetary
Policy
Operations**

The money market was tight during the week ending August 31, 2011. Commercial bank borrowing from the Central Bank overnight window declined to Ksh 10.86 billion in the week ending August 31, 2011 compared with Ksh 47.98 billion in the previous week. Reserve money averaged Ksh 229.1 billion during the week and was above target by Ksh 7.1 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)
25-Aug-11	218.9	222.0	-3.1	0.0	0.0	0.0	225.5	3.5	-2.3	5.7
26-Aug-11	219.4	222.0	-2.6	0.0	0.0	0.0	223.5	1.5	-4.7	6.1
29-Aug-11	235.1	222.0	13.1	0.0	0.0	0.0	232.7	10.6	3.8	6.8
30-Aug-11	231.6	222.0	9.5	0.0	0.0	0.0	234.8	12.8	4.6	8.2
31-Aug-11	HOLIDAY									
Average	226.2	222.0	4.2	0.0	0.0	0.0	229.1	7.1	0.4	6.7

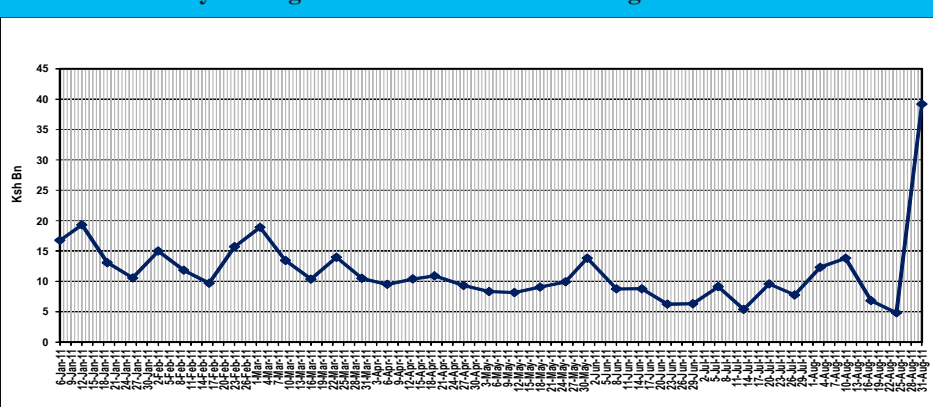
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Account
Balances**

The Central Bank introduced reserve averaging of the cash ratio account over a period of one month and therefore commercial banks had access to their cash ratio funds for liquidity management. As a result, commercial banks maintained an average of Ksh 39.1 billion in their settlement accounts at the Central Bank in the week to August 31, 2011, down from Ksh 4.83 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 depreciated slightly against major international currencies in the week ending September 2, 2011. Against the US dollar, the Kenya shilling depreciated to exchange at an average of Ksh 93.57 in the week compared with Ksh 92.77 per US dollar in the week ending August 26, 2011. The Kenya shilling also depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 152.64 per Sterling Pound and Ksh 134.99 per Euro, and 121.93 per 100 Japanese

Yen compared with Ksh 152.44 per Sterling Pound and Ksh 133.60 per Euro, and 120.73 per 100 Japanese Yen in the previous week.

In the EAC region, the Kenya Shilling appreciated against the other East African currencies during the week ending September 2, 2011. The Kenya shilling strengthened slightly against the Uganda shilling, the Tanzania Shilling, the Rwanda Franc and Burundi Franc. On average, the Kenya shilling exchange at Ushs 30.16 per Kenya Shilling, Tshs 17.34 per Kenya shilling, RWF 6.40 per Kenya shilling and BIF 13.15 per Kenya Shilling during the week, compared to Ushs 30.25 per Kenya Shilling, Tshs 17.50 per Kenya shilling, RWF 6.46 per Kenya shilling and BIF 13.27 per Kenya Shilling, in the week ending August 26, 2011 respectively.

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
22-Aug-11	93.01	153.30	133.59	121.20	29.89	17.48	6.45	13.26
23-Aug-11	92.81	152.99	133.58	121.06	29.96	17.52	6.47	13.29
24-Aug-11	92.73	153.02	133.64	121.01	30.46	17.50	6.47	13.26
25-Aug-11	92.40	151.27	133.24	120.01	30.57	17.56	6.49	13.31
26-Aug-11	92.89	151.62	133.96	120.36	30.36	17.47	6.45	13.24
August 22 - 26, 2011	92.77	152.44	133.60	120.73	30.25	17.50	6.46	13.27
29-Aug-11	92.85	152.15	134.96	121.03	30.43	17.47	6.46	13.24
30-Aug-11	93.62	153.73	135.94	122.10	30.12	17.31	6.39	13.18
31-Aug-11	HOLIDAY							
1-Sep-11	93.68	152.34	134.87	122.06	30.12	17.32	6.40	13.13
2-Sep-11	94.11	152.36	134.20	122.53	29.95	17.24	6.37	13.07
August 29 -Sept 02, 2011	93.57	152.64	134.99	121.93	30.16	17.34	6.40	13.15

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,967 million (equivalent to 3.68 months of imports) as at August 26, 2011, to US dollar 3,987 million (equivalent to 3.70 months of imports) as at September 2, 2011, reflecting revaluation gain during the week (Table 5).

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

	29-Jul-11	12-Aug-11	19-Aug-11	26-Aug-11	2-Sep-11
Usable Reserves*	3,976	3,948	3,967	3,967	3,987
Months of Imports Cover**	3.73	3.69	3.68	3.68	3.70

*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 15.9 billion from Ksh 764.1 billion in June 2011 to Ksh 780.1 billion as at August 26, 2011 (Table 6 and Chart D). This reflects the increases in Treasury bonds and Government overdraft at Central Bank and other domestic debt of Ksh 3.5 billion and Ksh 17.8 billion respectively. Treasury bills and other domestic debt declined by Ksh 5.1 billion and Ksh 0.3 billion, respectively (Chart D).

Table 6: Government Domestic Debt (Ksh Billion)

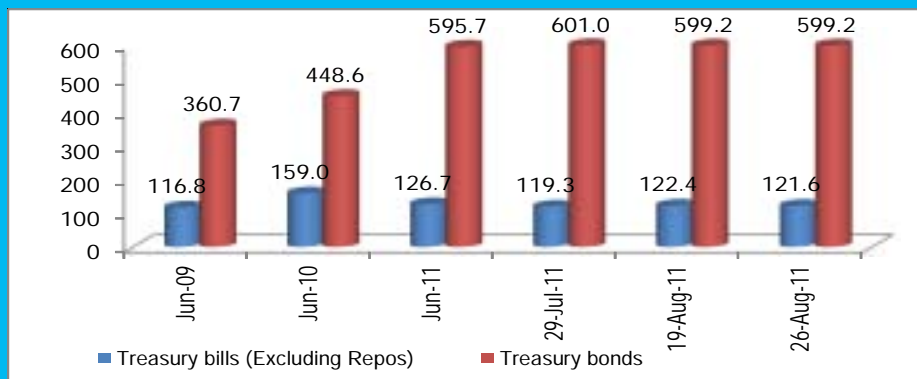
	Jun-11	Jul-11	12th Aug-2011	19th Aug-2011	26th Aug-2011	Changes	
						19th Aug 2011- 26th August 2011	30th Jun 2011- 26th August 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	119.3 16.6	124.9 17.2	122.4 17.0	121.6 16.9	-0.7	-5.1
2. Treasury Bonds (As % of total securities)	595.7 82.5	601.0 83.4	601.0 82.8	599.2 83.0	599.2 83.1	0.0	3.5
3. Total Securities (1+2+3)	722.4	720.3	725.9	721.5	720.8	-0.7	-1.6
4. Overdraft at Central Bank	7.6	19.9	19.5	24.3	25.4	1.0	17.8
5. Other Domestic debt*	34.2	34.1	34.1	30.5	33.9	3.4	-0.3
6. Gross Domestic Debt (4+5+6)	764.14	774.27	779.40	776.38	780.09	3.70	15.9
7. Interest payments on domestic debt	69.2	2.75	4.14	4.30	7.68	3.38	

* 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 decreased from Ksh 126.7 billion to Ksh 121.6 billion during the same period. As a result, the share of Treasury bills in total government securities declined from 17.5 percent to 16.9 percent. The average time to maturity of Government securities increased from 5 years 10 months in June 2011 to 5 years 9 month during the period.

Chart D: Composition of Government Securities

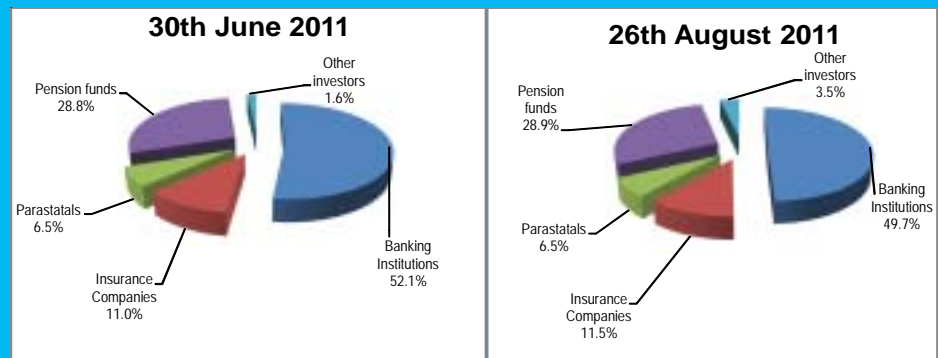


Source: Central Bank of Kenya

Holding of Government Securities

The share of Government securities by banking institutions decreased from 52.1 percent in June 2011 to 49.7 percent as at August 26, 2011. Holdings of insurance, pension fund and other investors increased from 11.0 percent, 28.8 percent and 1.6 percent to 11.5 percent, 28.9 percent and 3.5 percent, respectively (Chart E).

Chart E: Composition of Government Securities by Investor

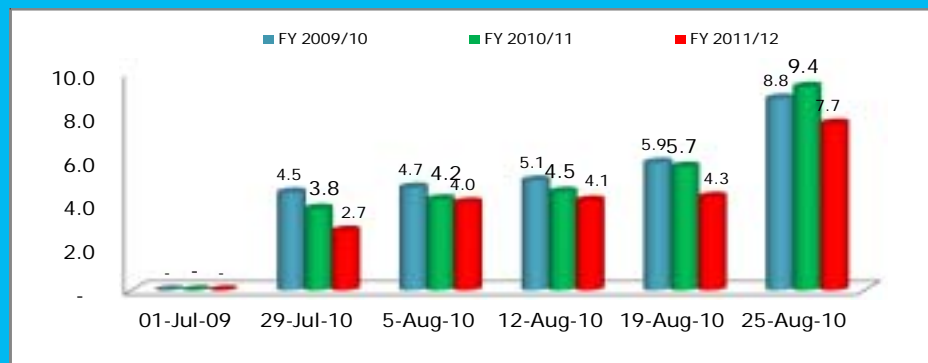


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt from July 1, 2011 to August 26, 2011 amounted to Ksh 7.7 billion compared with Ksh 9.4 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 6.79 billion and Ksh 0.85 billion, respectively.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The NSE 20 Share Index closed the week at 3,402.1 points on September 1, 2011, down from 3,444.3 points on August 25, 2011. The NASI also dropped to 75.24 points from 76.14 points during the week. The number of shares transacted decreased to 94.3 million, from 100.3 million shares in previous week. Market Capitalization as a measure of total shareholders' wealth lost 1.2 percent or Ksh 11 billion to level Ksh 939.1 billion from last week's value of Ksh 950.2 billion. Equity turnover, on the other hand, decreased by Ksh 523.2 million to trade stocks worth Ksh 820.6 million by close of September 1, 2011, from Ksh 1,343.8 million the previous week.

Table 7: Key Weekly Market Statistics

Week Ending	21-Jul-11	28-Jul-11	4-Aug-11	11-Aug-11	19-Aug-11	25-Aug-11	1-Sep-11
NASI 100= Jan 2008	85.40	84.65	84.75	78.95	78.82	76.14	75.24
NSE 20 Share Index 100=1966	3,756.89	3,733.30	3,744.59	3,519.28	3,540.42	3,444.28	3,402.00
Number of Deals	8,579.00	6,726.00	7,215	7,413	6,609	6,722	5,022
Total Shares Traded (millions)	161.97	100.80	154.43	84.59	155.35	100.31	94.33
Equity Turnover (Ksh. millions)	2,461.18	2,037.10	1,339.11	1,394.12	1,384.67	1,343.85	820.65
Market Capitalization (Ksh. Bn.)	1,063.39	1,054.10	1,057.69	985.19	983.60	950.20	939.05
Bonds Turnover (Ksh. millions)	4,495.90	10,699.25	15,374.30	10,297.75	10,414.50	6,883.80	6,518.50

* 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 64.9 million shares, accounting for 68.9 percent of all shares transacted at the bourse. Of this, Safaricom was the most active counter, with 64.7 million shares transacted. Banking was second most active, with 14.7 million shares traded, while Manufacturing and Allied sector closed third best with 7.8 million shares. Barclays Bank and Mumias Sugar dominated Banking and Manufacturing and Allied sectors, respectively. The least active sector was Insurance, with 99,100 shares traded.

Bond Market

Bonds trading at the Fixed Income Securities Market dropped by 5.3 percent, from Ksh 6,883.8 billion for the week ended August 25, 2011 to Ksh 6,518.5 billion for the week ending September 1, 2011. The number of deals transacted was down to 103 by close of the week on September 1, 2011 from 109 deals the previous week.