

Sept 16, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

The government offered for sale Treasury bills worth Ksh 11.5 billion in 91-day, 182-day and 364-day tenures and received total bids amounting to Ksh 18.5 billion, during the week ending September 16, 2011. The 91-day Treasury bill recorded a 307.5 percent performance. The weighted average interest rates on the 91-day and 182 day bills edged up to 12.570 and 11.935 percent respectively, compared with 11.685 and 9.285 percent in the previous auction.

The average interbank rate declined to 5.75 percent during the week ending September 14, 2011 from 12.34 percent in the previous week, reflecting a liquid interbank market. The Central Bank was not in the money market during the week.

The Special Monetary Policy Committee (MPC) Meeting held on September 14, 2011 reviewed the Central Bank Rate upward from 6.25 percent to 7.00 percent to cushion the economy from inflationary pressures.

The Kenya Shilling weakened against all major international currencies in the week ending September 16, 2011.

Usable official foreign exchange reserves held by the Central Bank declined to US dollar 3,836 million from US dollar 3,907 million in the previous week.

Gross Government debt increased by Ksh 10.2 billion from Ksh 764.1 billion in June 2011 to Ksh 774.3 billion as at September 9, 2011. The cumulative interest and other charges on domestic debt from July 1, 2011 to September 9, 2011 amounted to Ksh 11.5 billion compared with Ksh 11.3 billion in the same period of the fiscal year 2010/11.

Activities at the equities and bonds markets reflected mixed performance during the week ending September 15, 2011. The NSE 20 Share Index and the Nairobi All Share Index (NASI) gained by 1.9 percent and 0.6 percent, respectively after declining since August 19, 2011. The volume of shares traded, however, fell by 38.3 percent and the equity turnover closed the week at 17 percent lower than the previous week. The bonds segment recorded a 15.4 percent drop in trading activity during the week.

Government Securities Auction

The government offered for sale Treasury bills worth Ksh 11.5 billion in 91-day, 182-day and 364-day tenures and received total bids amounting to Ksh 18.5 billion, during the week ending September 16, 2011. The 91-day Treasury bill recorded a 307.5 percent performance. The weighted average interest rates on the 91-day and 182 day bills edged up to 12.570 and 11.935 percent respectively, compared with 11.685 and 9.285 percent in the previous auction (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	9-Sep-11	16-Sep-11
91 day T. Bills*	9.010	9.015	9.145	9.258	9.708	10.281	11.685	12.570
182 day T. Bills*	9.799		10.308		10.356		9.285	11.935
364 day T. Bills*			11.066				12.536	
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		
Average overdraft rate	13.93	13.65	13.60	13.68	13.72	13.89		

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate declined to 5.75 percent during the week ending September 14, 2011 from 12.34 percent in the previous week, reflecting a liquid interbank market. The average interbank volumes traded decreased to Ksh 8.55 billion in the week ending September 14, 2011 from Ksh 9.55 billion in the previous week.

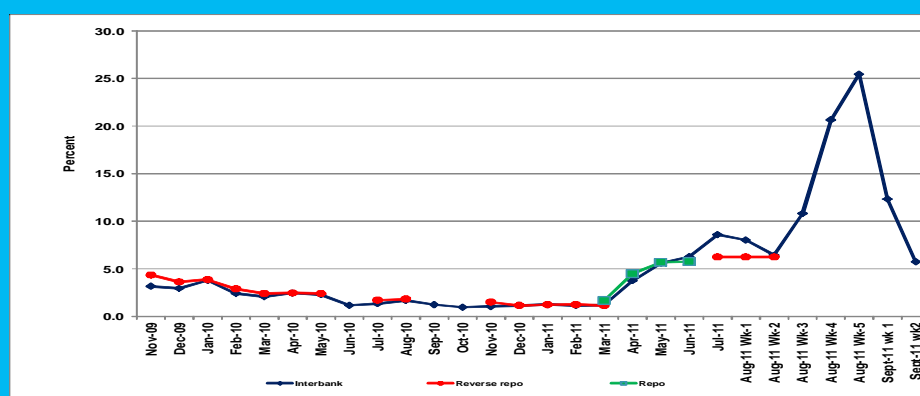
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
1-Sep-11	74	8,958	16.25
2-Sep-11	79	10,968	14.09
5-Sep-11	79	11,551	12.14
6-Sep-11	72	8,460	10.40
7-Sep-11	65	7811.5	8.82
Sept 01- Sept 07, 2011	74	9,549	12.34
8-Sep-11	70	9,097	7.18
9-Sep-11	63	9,454	5.66
12-Sep-11	63	7,849	5.29
13-Sep-11	59	7,517	5.46
14-Sep-11	61	8,827	5.15
Sept 08- Sept 14, 2011	63	8,549	5.75

Source: Central Bank of Kenya

The Special Monetary Policy Committee (MPC) Meeting held on September 14, 2011 reviewed the Central Bank Rate upward from 6.25 percent to 7.00 percent to rein in inflationary expectations.

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

Monetary Policy Operations

The money market was liquid during the week ending September 14, 2011 and the Central Bank was not in the money market. Commercial bank borrowing from the Central Bank overnight window increased to Ksh 2.0 billion in the week ending September 14, 2011 compared with Ksh 0.67 billion in the previous week. Reserve money averaged Ksh 238.6 billion during the week and was above target by Ksh 16.3 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	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)
8-Sep-11	240.0	222.2	17.8	0.0	0.0	0.0	240.0	17.8	7.1	10.7
9-Sep-11	237.0	222.2	14.8	0.0	0.0	0.0	237.6	15.4	5.0	10.4
12-Sep-11	242.0	222.3	19.7	0.0	0.0	0.0	239.9	17.6	7.7	9.9
13-Sep-11	238.8	222.3	16.5	0.0	0.0	0.0	238.7	16.4	6.7	9.7
14-Sep-11	237.2	222.3	14.9	0.0	0.0	0.0	236.7	14.4	5.2	9.3
Average	239.0	222.2	16.8	0.0	0.0	0.0	238.6	16.3	6.3	10.0

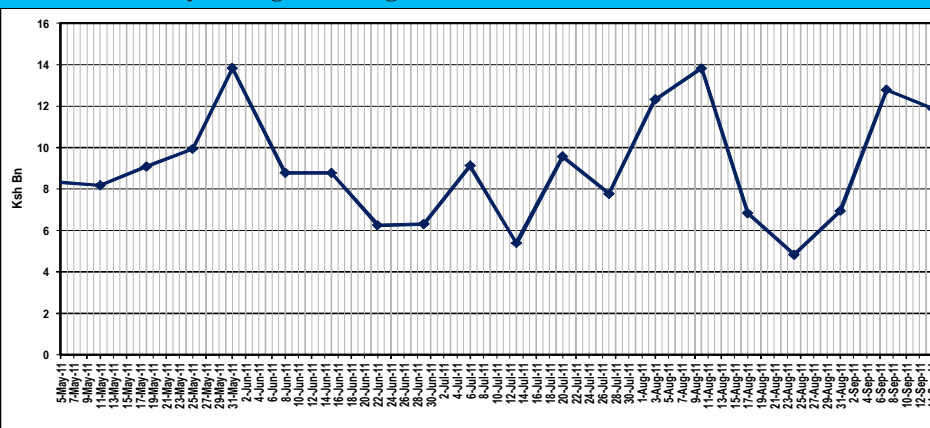
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

During the week to September 14, 2011, commercial banks maintained an average of Ksh 11.8 billion excess reserves at the Central Bank compared with Ksh 12.8 billion 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 to exchange at 94.81 per US dollar in the week ending September 16, 2011 compared with US 93.71 per US dollar in the previous week. This was partly due to movements in the international currency markets that led to appreciation of the US dollar against the Sterling Pound and the Euro.

Similarly, the Kenya shilling lost to the Sterling Pound to trade at Ksh 149.87 per Sterling Pound compared with Ksh 149.52 per Sterling Pound in the previous week. Against the Japanese Yen and the Euro, the shilling weakened to exchange at 123.48 per 100 Japanese Yen and Ksh 131.40 per Euro compared with Ksh 120.98 per 100 Japanese Yen and Ksh 130.21 per Euro in the previous week.

In the EAC region, the Kenya Shilling depreciated against the other East African currencies during the week ending September 16, 2011. On average, the Kenya shilling exchanged at Ushs 29.32 per Kenya Shilling, Tshs 17.25 per Kenya shilling, RWF 6.33 per Kenya shilling and BIF 13.00 per Kenya Shilling during the week, compared to Ushs 29.60 per Kenya Shilling, Tshs 17.36 per Kenya shilling, RWF 6.40 per Kenya Shilling and BIF 13.12 per Kenya Shilling, in the week ending September 9, 2011 (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
5-Sep-11	94.43	152.86	133.75	122.97	29.73	17.20	6.35	13.03
6-Sep-11	94.77	152.44	133.31	123.34	29.63	17.14	6.32	13.02
7-Sep-11	93.46	149.13	131.44	120.91	30.12	17.39	6.43	13.19
8-Sep-11	93.99	149.91	132.17	121.49	29.90	17.28	6.39	13.10
9-Sep-11	93.71	149.52	130.21	120.98	29.60	17.36	6.40	13.12
Sept 05 -Sept 09, 2011	94.07	150.77	132.18	121.94	29.80	17.27	6.38	13.09
12-Sep-11	94.11	148.94	127.62	122.21	29.49	17.35	6.36	13.10
13-Sep-11	95.43	151.33	130.60	123.96	29.36	17.16	6.29	12.93
14-Sep-11	94.78	149.24	129.03	123.22	29.55	17.28	6.33	13.02
15-Sep-11	94.97	149.55	130.30	123.69	29.32	17.28	6.32	12.99
16-Sep-11	94.81	149.87	131.40	123.48	29.32	17.25	6.33	13.00
Sept 12 -Sept 16, 2011	94.82	149.78	129.79	123.31	29.41	17.26	6.33	13.01

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank declined to US dollar 3,836 million (equivalent to 3.53 months of imports) as at September 16, 2011 from US dollar 3,907 million (equivalent to 3.62 months of imports) the previous week (Table 5)

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

	19-Aug-11	26-Aug-11	2-Sep-11	9-Sep-11	16-Sep-11
Usable Reserves*	3,967	3,967	3,987	3,907	3,836
Months of Imports Cover**	3.68	3.68	3.70	3.62	3.53

*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 10.2 billion from Ksh 764.1 billion in June 2011 to Ksh 774.3 billion as at September 9, 2011 (Table 6 and Chart C). The additional debt comprised increases of Ksh 8.2 billion and Ksh 17.8 billion, respectively in the stock of Treasury bonds and Government overdraft at Central Bank. However, the stocks of Treasury bills and other government debt declined by Ksh 15.5 billion and Ksh 0.3 billion, respectively (Chart C).

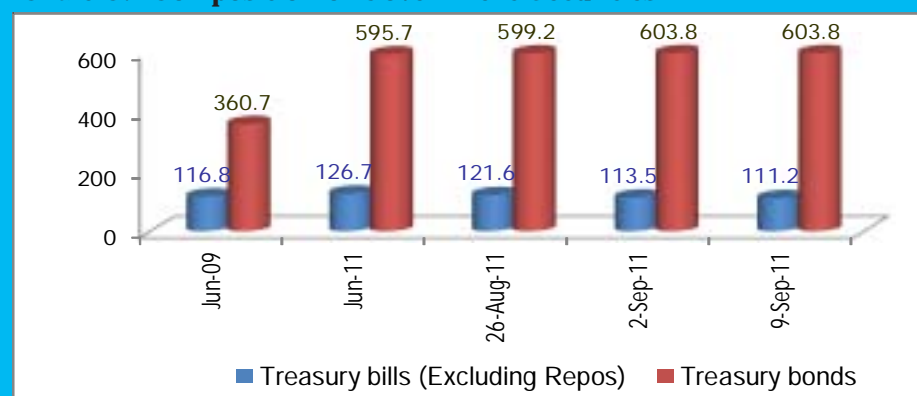
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-11	Jul-11	26th Aug-2011	2th Sep-2011	9th Sep-2011	Changes	
						9nd Sep 2011-16th Sep 2011	30th Jun 2011-16th Sep 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	119.3 16.6	121.6 16.9	113.5 15.8	111.2 15.6	-2.3	-15.5
2. Treasury Bonds (As % of total securities)	595.7 82.5	601.0 83.4	599.2 83.1	603.8 84.2	603.8 84.4	0.0	8.2
3. Total Securities (1+2+3)	722.4	720.3	720.8	717.3	715.0	-2.3	-7.4
4. Overdraft at Central Bank	7.6	19.9	25.4	25.4	25.4	0.0	17.8
5. Other Domestic debt*	34.2	34.1	33.9	33.9	33.9	0.0	-0.3
6. Gross Domestic Debt (4+5+6)	764.14	774.27	780.09	776.59	774.32	-2.3	10.2
7. Interest payments on domestic debt	69.2	2.75	7.68	11.50	11.50	0.00	

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

Source: Central Bank of Kenya

Chart C: Composition of Government Securities



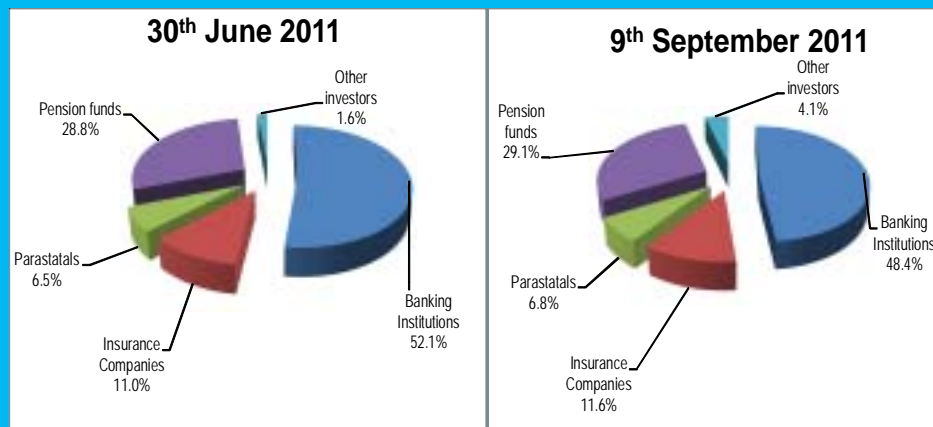
Source: Central Bank of Kenya

Treasury bills declined from Ksh 126.7 billion in June 2011 to Ksh 111.2 billion as at September 9, 2011. As a result, the share of Treasury bills in total government securities declined from 17.5 percent to 15.6 percent. Meanwhile, the Treasury bond holdings, and consequently 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 9, 2011.

Holding of Govt Securities

The share of Government securities by banking institutions decreased from 52.1 percent in June 2011 to 48.4 percent as at September 9, 2011, thereby eroding the dominance of banking institutions. Holdings of insurance, pension fund and other investors increased from 11.0 percent, 28.8 percent and 1.6 percent to 11.6 percent, 29.1 percent and 4.1 percent, respectively (Chart D).

Chart D: Composition of Government Securities by Investors

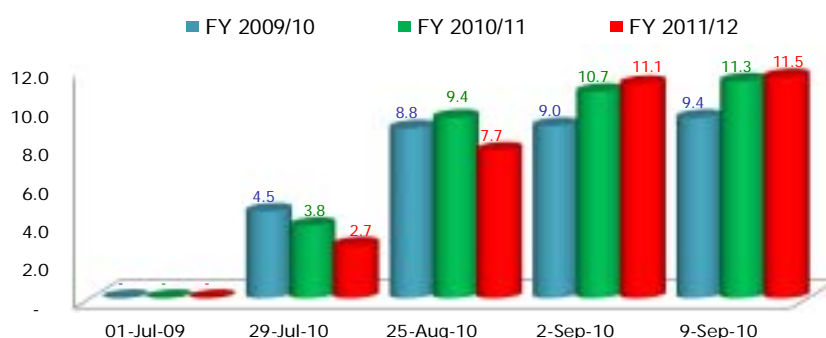


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt from July 1, 2011 to September 9, 2011 amounted to Ksh 11.5 billion compared with Ksh 11.30 billion in the same period of the fiscal year 2010/11(Chart E). The Treasury bonds accounted for most of these expenditure at Ksh 10.0 billion. Treasury bills and government overdraft service contributed Ksh 1.3 billion and Ksh 0.2 billion, respectively.

Chart E: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

Performance at the Nairobi Stock Exchange was mixed in both equities and bonds segments during the week ending September 15, 2011.

The NSE 20 Share Index closed the week at 3,464.7 points on September 15, 2011, up from 3,400.7 points on September 8, 2011. The NASI also marginally rose to 75.06 points from 74.62 points during the week. The number of shares transacted, however, decreased to 142.3 million, from 230.7 million shares the previous week. Equity turnover declined by Ksh 273.9 million to Ksh 1,335.6 million as at September 15, 2011, from Ksh 1,609.5 million the previous week. Market capitalization as a measure of total shareholders' wealth, shed 1.7 percent or Ksh 16 billion to level at Ksh 944.8 billion from last week's value of Ksh 961.1 billion.

Table 7: Key Weekly Market Statistics

Week Ending	4-Aug-11	11-Aug-11	19-Aug-11	25-Aug-11	1-Sep-11	8-Sep-11	15-Sep-11
NASI 100= Jan 2008	84.75	78.95	78.82	76.14	75.24	74.62	75.06
NSE 20 Share Index 100=1966	3,744.59	3,519.28	3,540.42	3,444.28	3,402.00	3,400.68	3,464.65
Number of Deals	7,215	7,413	6,609	6,722	5,022	5,922	5,257
Total Shares Traded (millions)	154.43	84.59	155.35	100.31	94.33	230.70	142.36
Equity Turnover (Ksh. millions)	1,339.11	1,394.12	1,384.67	1,343.85	820.65	1,609.50	1,335.67
Market Capitalization (Ksh. Bn.)	1,057.69	985.19	983.60	950.20	939.05	961.11	944.79
Bonds Turnover (Ksh. millions)	15,374.30	10,297.75	10,414.50	6,883.80	6,518.50	10,138.05	8,578.90

* 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 101.5 million shares, accounting for 65.5 percent of all shares transacted at the bourse. Of this, Safaricom was the most active counter, with 100.9 million shares. Banking sector followed, with 37.9 million shares traded, and Insurance sector closed third best with 2.9 million shares. Equity Bank and Kenya Re-insurance Corp dominated Banking and Insurance sectors, respectively. The least active sector was Agriculture, with 357,800 shares traded. The biggest closing and average price margin gains between September 8 and 15, 2011, was for East African Breweries Ltd. counter at Ksh 7 and Ksh. 9.2 per share, respectively. The biggest closing and average price margin loss was on Limuru Tea counter at Ksh 8 and Ksh. 5.5 a share, respectively.

Bond Market

Bonds trading at the Fixed Income Securities Market dropped by 15.4 percent; from Ksh 10.1 billion at end September 8, to Ksh 8.5 billion for the week ending September 15, 2011. However, total deals transacted increased to 211 from 132 over the period.