

**Sept. 23, 2011**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The government offered for sale Treasury bills worth Ksh 9 billion in 91-day and 182-day tenures, and Ksh 10 billion in 2-year fixed rate Treasury bonds during the week ending September 23, 2011. Auction performances were varied with the 91-day Treasury bills performance rate reaching 157.9 percent, while the 182-day Treasury bill and the 2-year fixed rate bond recorded respective performance rates of 35.8 percent and 43.4 percent. Interest rates, increased by up by 62.3 and 68.7 basis points for the 91-day and 182-day Treasury bills to stand at 13.2 percent and 12.6 percent, respectively. In addition, the 2-year Treasury bond average interest rate stood at 13.897 percent during the week.

The average interbank rate rose to 6.00 percent during the week ending September 21, 2011 from 5.75 percent in the previous week, reflecting tightening interbank liquidity. The Central Bank injected Ksh 15.2 billion into the money market during the week.

The Kenya Shilling depreciated against major international currencies in the week ending September 23, 2011. The weakening of the shilling reflected increased risk aversion in the international currency market. Against the US dollar, the Kenya shilling depreciated to exchange at an average of Ksh 96.71 in the week compared with Ksh 94.82 per US dollar in the week ending September 16, 2011.

The usable official foreign exchange reserves held by the Central Bank declined to US dollar 3,823 million.

Gross Government debt increased by Ksh 5.4 billion from Ksh 764.1 billion in June 2011 to Ksh 769.6 billion as at September 16, 2011. The cumulative interest and other charges on domestic debt from July 1, 2011 to September 16, 2011 amounted to Ksh 12.2 billion compared with Ksh 11.5 billion in the same period of the fiscal year 2010/11.

Activities at the equities market reflected a decline in performance during the week ending September 22, 2011. Both the NSE 20 Share Index and the Nairobi All Share Index (NASI) declined marginally by 1.0 percent and 0.7 percent, respectively. The volume of shares traded, declined by 66.5 percent as the equity turnover closed the week 66.2 percent lower. However, the bonds segment recorded a 3.8 percent rise in trading activity during the week.

## Government Securities Auction

The government offered for sale Treasury bills and Treasury bonds worth Ksh 19 billion, disaggregated into Ksh 5 billion, Ksh 4 billion, and Ksh 10 billion for 91-day and 182-day Treasury bills, and 2-year fixed rate bonds, respectively, during the week ending September 23, 2011. Total bids received amounted to Ksh 13.67 billion, of which Ksh 7.90 billion was in 91-day bills, Ksh 1.43 billion in 182-day bills and Ksh 4.34 billion in 2-year Treasury bonds. Collectively, competitive bids amounted to Ksh 12.23 billion, equivalent to 89.5 percent of total bids received. The Government accepted bids worth Ksh 5.61 billion for both Treasury bills and bonds, during the week.

The weighted average interest rates on the 91-day and 182 day Treasury bills increased by 62.3 and 68.7 basis points respectively to 13.2 percent and 12.6 percent, compared with the last auction of similar tenure (Table 1). The 2-year Treasury bond interest rate stood at 13.897 percent during the week.

**Table 1 : Interest Rates**

Auction date	29-Jul-11	05-Aug-11	12-Aug-11	19-Aug-11	26-Aug-11	02-Sep-11	09-Sep-11	16-Sep-11	23-Sep-11
91 day T. Bills*	9.010	9.015	9.145	9.258	9.708	10.281	11.685	12.570	13.193
182 day T. Bills*	9.799		10.308		10.356		9.285	11.935	12.622
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	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 6.00 percent during the week ending September 21, 2011 from 5.75 percent in the previous week, reflecting tightening interbank liquidity. The average interbank volumes traded rose to Ksh 12.55 billion in the week ending September 21, 2011 from Ksh 8.54 billion in the previous week (Table 2 & Chart A).

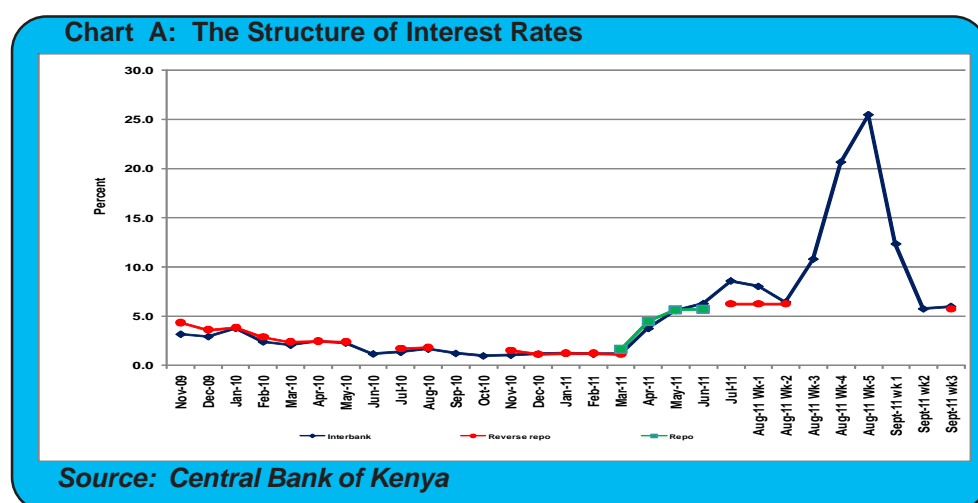
**Table 2: Interbank Deals, Volumes and Interest Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
08-Sep-11	70	9,097	7.18
09-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
<b>Sept 08- Sept 14, 2011</b>	<b>63</b>	<b>8,549</b>	<b>5.75</b>
15-Sep-11	75	12,893	5.13
16-Sep-11	77	13,718	5.19
19-Sep-11	86	15,722	5.63
20-Sep-11	83	13,563	6.78
21-Sep-11	52	6,854	7.30
<b>Sept 15- Sept 23, 2011</b>	<b>75</b>	<b>12,550</b>	<b>6.00</b>

Source: Central Bank of Kenya

Source: Central Bank of Kenya

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



**Monetary Policy Operations**

The money market was tight during the week ending September 21, 2011 and the Central Bank injected a total of Ksh 15.2 billion into the money market. Commercial bank borrowing from the Central Bank overnight window amounted to Ksh 5.9 billion in the week ending September 21, 2011 compared with Ksh 2.0 billion in the previous week. Reserve money averaged Ksh 233.2 billion during the week and was above target by Ksh 9.3 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)
15-Sep-11	235.3	223.5	11.9	0.0	0.0	0.0	233.8	10.3	2.7	7.6
16-Sep-11	234.6	223.5	11.1	0.0	0.0	0.0	233.2	9.7	2.9	6.8
19-Sep-11	236.7	224.2	12.5	0.0	0.0	0.0	234.5	10.3	3.6	6.7
20-Sep-11	228.8	224.2	4.6	0.0	0.0	0.0	226.4	2.2	-4.4	6.6
21-Sep-11	221.1	224.2	-3.1	10.0	15.2	5.2	238.3	14.1	7.9	6.2
Average	231.3	223.9	7.4	2.0	3.0	1.0	233.2	9.3	2.5	6.8

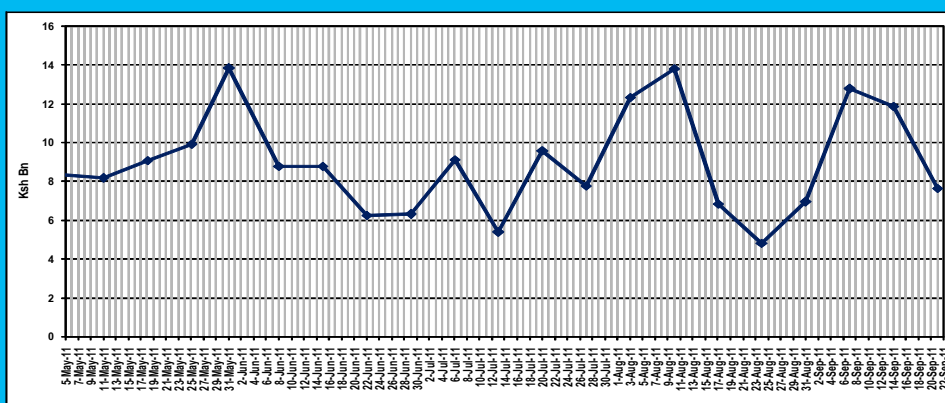
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial Banks Clearing Accounts 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 7.6 billion in their settlement accounts above the 4.75 percent monthly average cash reserve requirements at the Central Bank in the week to September 21, 2011, down from Ksh 11.8 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 major international currencies in the week ending September 23, 2011. The weakening of the shilling reflected increased risk aversion in the international currency market. Against the US dollar, the Kenya shilling depreciated to exchange at an average of Ksh 96.71 in the week compared with Ksh 94.82 per US dollar in the week ending September 16, 2011. The Kenya shilling also depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 150.80 per Sterling Pound and Ksh 131.54 per Euro, and 126.29 per 100 Japanese Yen compared with Ksh 149.78 per Sterling Pound and Ksh 129.79 per Euro, and 123.31 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 September 23, 2011. On average, the Kenya shilling exchanged at Ushs 29 per Kenya Shilling, Tshs 16.93 per Kenya shilling, RWF 6.19 per Kenya shilling and BIF 12.77 per Kenya Shilling during the week, compared to Ushs 29.41 per Kenya Shilling, Tshs 17.26 per Kenya shilling, RWF 6.33 per Kenya Shilling and BIF 13.01 per Kenya Shilling, in the week ending September 16, 2011 (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
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
<b>Sept 12 -Sept 16, 2011</b>	<b>94.82</b>	<b>149.78</b>	<b>129.79</b>	<b>123.31</b>	<b>29.41</b>	<b>17.26</b>	<b>6.33</b>	<b>13.01</b>
19-Sep-11	95.19	149.63	130.25	123.82	29.21	17.20	6.30	12.95
20-Sep-11	95.84	150.20	130.40	125.19	29.06	17.08	6.25	12.87
21-Sep-11	96.03	151.00	131.58	125.81	29.09	17.03	6.23	12.88
22-Sep-11	97.58	150.89	132.12	127.05	28.64	16.81	6.13	12.65
23-Sep-11	98.89	152.26	133.35	129.56	29.22	16.55	6.05	12.48
<b>Sept 19 -Sept 23, 2011</b>	<b>96.71</b>	<b>150.80</b>	<b>131.54</b>	<b>126.29</b>	<b>29.05</b>	<b>16.93</b>	<b>6.19</b>	<b>12.77</b>

Source: Central Bank of Kenya

## Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank declined to US dollar 3,823 million (equivalent to 3.52 months of imports) as at September 23, 2011 from US dollar 3,836 million (equivalent to 3.53 months of imports) the previous week (Table 5).

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

	26-Aug-11	02-Sep-11	09-Sep-11	16-Sep-11	23-Sep-11
Usable Reserves*	3,967	3,987	3,907	3,836	3,823
Months of Imports Cover**	3.68	3.70	3.62	3.53	3.52

\*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 5.4 billion from Ksh 764.1 billion in June 2011 to Ksh 769.6 billion as at September 16, 2011 (Table 6 and Chart C). This reflected increases in the stock of Treasury bonds and Government overdraft at central bank by Ksh 8.2 billion and Ksh 17.8 billion, respectively. This increase was partially offset by declining stocks of Treasury bills from Ksh 126.7 billion in June 2011 to Ksh 106.2 billion as at September 16, 2011. Other government debt, however, remained constant at Ksh 34.2 billion, during the period.

**Table 6: Government Domestic Debt (Ksh Billion)**

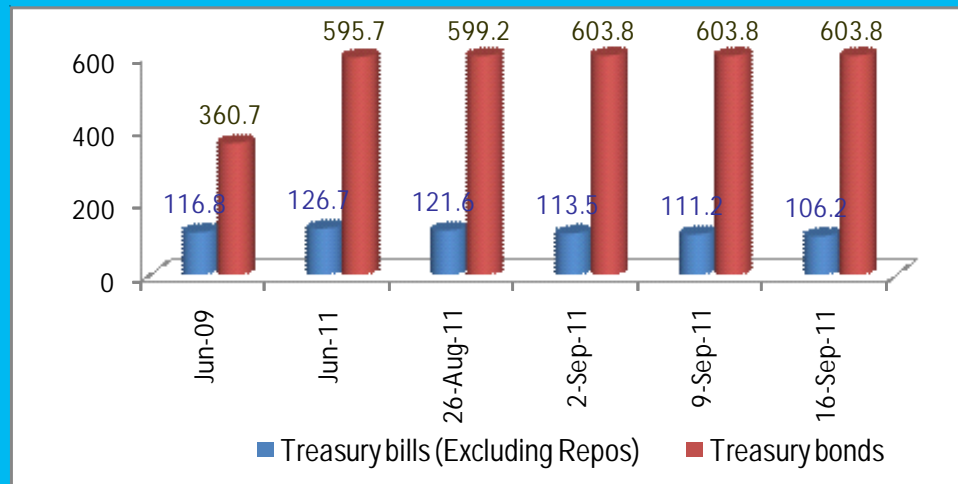
	Jun-11	Jul-11	Aug-11	9th Sep-2011	16th Sep-2011	Changes	
						9th Sep 2011-16th Sep 2011	30th Jun 2011-16th Sep 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	119.3 16.6	113.5 15.8	111.2 15.6	106.2 15.0	-5.0	-20.6
2. Treasury Bonds (As % of total securities)	595.7 82.5	601.0 83.4	603.8 84.2	603.8 84.4	603.8 85.0	0.0	8.2
3. Total Securities (1+2+3)	722.4	720.3	717.3	715.0	710.0	-5.0	-12.4
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	41.5	33.1	34.0	34.2	0.2	0.0
6. Gross Domestic Debt (4+5+6)	764.14	781.71	775.80	774.42	769.58	-4.8	5.4
7. Interest payments on domestic debt	69.2	2.75	11.50	11.50	12.19	0.68	

\* 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 106.2 billion as at September 16, 2011 (Table 6). As a result, the share of Treasury bills in total government securities declined from 17.5 percent to 15.0 percent. At the same time, Treasury bond holdings, and consequently share in total securities increased during the period. 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 16, 2011.

**Chart C: Composition of Government Securities**

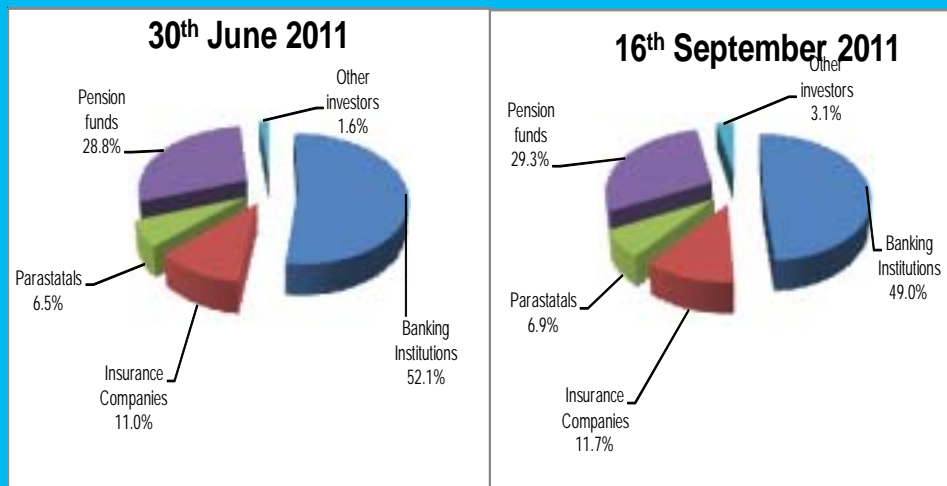


Source: Central Bank of Kenya

**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 16, 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, 6.9 percent and 3.1 percent, respectively (Chart D).

**Chart D: Composition of Government Securities by Investors**



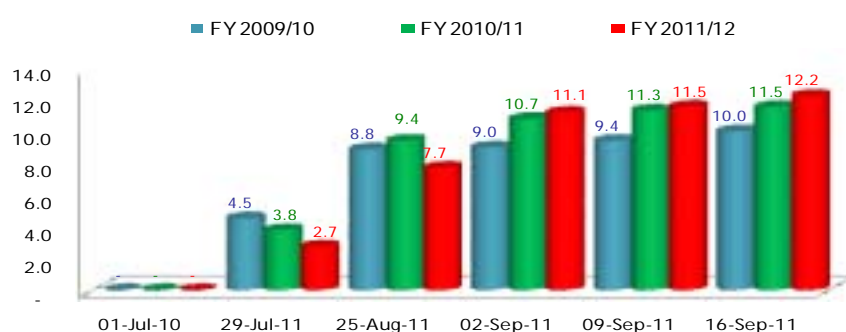
Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

The cumulative interest and other charges on domestic debt from July 1, 2011 to September 16, 2011 amounted to Ksh 12.2 billion compared with Ksh 11.5 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 1.9 billion and Ksh 10.2 billion, respectively. Government overdraft at Central Bank accounted for Ksh 0.2 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 3,430.3 points on September 22, 2011, down from 3,464.7 points on September 15, 2011. The NASI also marginally dropped to 74.55 points from 75.06 points during the week. The number of shares transacted, declined to 51.69 million from 142.36 million shares the previous week. Equity turnover declined by Ksh 833.8 million to trade stocks worth Ksh 501.9 million by close of September 22, 2011, from Ksh 1,335.7 million the previous week. Market Capitalization as a measure of total shareholders' wealth declined by Ksh 5 billion to Ksh 941.8 billion from last week's value of Ksh 944.8 billion (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	04-Aug-11	11-Aug-11	19-Aug-11	25-Aug-11	01-Sep-11	08-Sep-11	15-Sep-11	22-Sep-11
NASI 100= Jan 2008	84.75	78.95	78.82	76.14	75.24	74.62	75.06	74.55
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	3,430.27
Number of Deals	7,215	7,413	6,609	6,722	5,022	5,922	5,257	4,866.00
Total Shares Traded (millions)	154.43	84.59	155.35	100.31	94.33	230.70	142.36	51.69
Equity Turnover (Ksh. millions)	1,339.11	1,394.12	1,384.67	1,343.85	820.65	1,609.50	1,335.67	501.89
Market Capitalization (Ksh. Bn.)	1,057.69	985.19	983.60	950.20	939.05	961.11	944.79	941.79
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	8,904.65

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

Source: Nairobi Stock Exchange

Telecommunication & Technology sector dominated trading, with 32.9 million shares, accounting for 41.8 percent of all shares transacted at the bourse. Of this, Safaricom was the most active counter, with 31.2 million shares. Banking followed, with 20.4 million shares traded, and Energy and Petroleum sector closed third best with 10.8 million shares. Equity Bank and Kenol/Kobil dominated Banking and Energy and Petroleum sectors, respectively. The least active sector was Automobile and Accessories, with 62,600 shares traded.

**Bond Market** Bonds trading at the Fixed Income Securities Market rose by 3.8 percent from Ksh 8.5 billion for the week ending September 15 to Ksh 8.9 billion for the week ending September 22, 2011. However, total deals transacted over the period decreased to 85 from 211 in previous period.