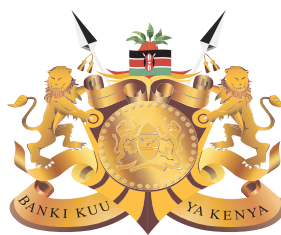


**February 10, 2012**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

The money market liquidity improved during the week ending February 8, 2012 supported by inflows from Government payments and foreign exchange purchases by Central Bank. The Central Bank sterilized the excess liquidity in the market by mopping Ksh 10.0 billion through the repo market in the week. Reserve money averaged Ksh 245.9 billion during the week and was Ksh 7.0 billion above the target.

The average interbank rate decreased to 17.24 percent during the week ending February 8, 2012 from 23.02 percent in the previous week. This was attributed to increased liquidity in the money market.

The Kenya Shilling strengthened against major international currencies in the week ending February 10, 2012. Against the US dollar the Kenya Shilling appreciated by 0.89 percent to exchange at an average of Ksh 83.42 per US dollar compared with Ksh 84.17 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,875 million (equivalent to 3.45 months of imports) as at February 3, 2012 to US dollar 4,025 million (equivalent to 3.59 months of imports) in the week ending February 10, 2012.

The Government offered for sale Ksh 4.0 billion and Ksh 3.0 billion in the 91-day and 182-day Treasury bills, respectively during the week ending February 10, 2012. Total bids received amounted to Ksh 8.2 billion and Ksh 10.1 billion for the 91-day and 182-day Treasury bills respectively. The Government accepted Ksh 4.8 billion in 182-day Treasury bills and all the 91-day Treasury bill bids during the week. Consistent with oversubscription on the two auctions, the respective average weighted interest rates declined.

Gross Government domestic debt increased by Ksh 45.2 billion from Ksh 764.2 billion in June 2011 to Ksh 809.5 billion as at February 3, 2012. The cumulative interest and other charges on domestic debt for the period July 1, 2011 to February 3, 2012 amounted to Ksh 43.3 billion compared with Ksh 37.1 billion over comparable period in fiscal year 2010/11.

The equities market performance declined in the week ending February 9, 2012. The NSE 20 Share Index lost 58.83 points while the Nairobi All Share Index (NASI) lost 0.09 points. Market Capitalization was down 0.1 percent as equity turnover shed 25.7 percent. The number of shares traded, however rose by 44.6 percent. FTSE NSE 15 Index and FTSE NSE 25 Index rose by 0.51 points and 0.50 points respectively. The bonds segment recorded a 76.1 percent gain in turnover.

**Monetary  
Policy  
Operations**

The money market was liquid during the week ending February 8, 2012 supported by increased payments by the Government and Ksh 5.7 billion liquidity injection through foreign exchange purchases by Central Bank. The Central Bank mopped Ksh 10.0 billion through the repo market in the week. Reserve money averaged Ksh 245.9 billion during the week and was Ksh 7.0 billion above the target. The excess was mainly in bank reserves which amounted to Ksh 5.9 billion compared with Ksh 1.1 billion in currency outside banks (Table 1).

**Table 1: 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)
02-Feb-12	248.9	238.1	10.9	0.0	0.0	0.0	249.9	11.8	11.3	0.5
03-Feb-12	255.3	238.1	17.3	0.0	0.0	0.0	256.0	18.0	17.4	0.6
06-Feb-12	243.2	239.3	3.8	0.0	0.0	0.0	242.2	2.9	2.3	0.6
07-Feb-12	244.8	239.3	5.4	0.0	0.0	0.0	245.3	6.0	3.6	2.3
08-Feb-12	245.8	239.3	6.5	2.0	10.0	8.0	235.9	-3.5	-5.1	1.6
Average	247.6	238.8	8.8	0.4	2.0	1.6	245.9	7.0	5.9	1.1

\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Interbank  
and REPO  
Rates**

The average interbank rate decreased to 17.24 percent during the week ending February 8, 2012 from 23.02 percent in the previous week. This was attributed to increased liquidity in the money market . The average interbank volumes remained fairly stable with Ksh 13.57 billion transacted in the week ending February 8, 2012 compared to Ksh 13.14 billion in the previous week (Table 2 and Chart A ) .

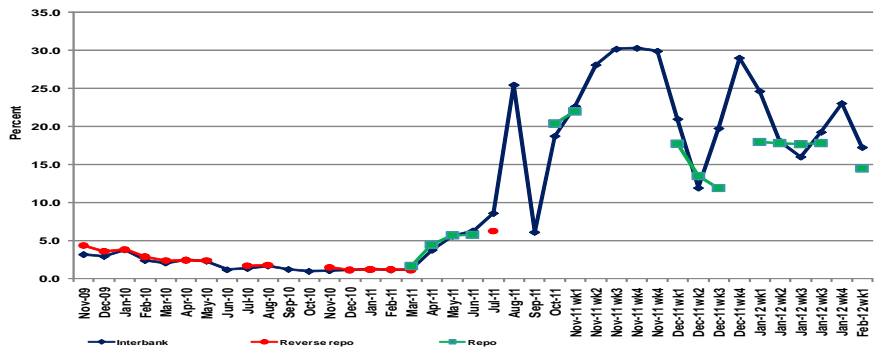
**Table 2: Interbank Deals, Volumes and Interest Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
26-Jan-12	81	17,945	22.41
27-Jan-12	62	9,028	22.67
30-Jan-12	79	12,798	23.07
31-Jan-12	67	11,515	23.38
01-Feb-12	74	14,428	23.55
<b>Jan 26 - Feb 01, 2012</b>	<b>73</b>	<b>13,143</b>	<b>23.02</b>
02-Feb-12	63	11,120	23.40
03-Feb-12	66	12,025	20.09
06-Feb-12	76	16,727	17.71
07-Feb-12	64	14,064	13.10
08-Feb-12	59	13,906	11.91
<b>Feb 02 - Feb 08, 2012</b>	<b>66</b>	<b>13,569</b>	<b>17.24</b>

Source: Central Bank of Kenya

The average repo rate was 14.46 percent in the repo sale on February 8, 2012.

**Chart A: The Structure of Interest Rates**

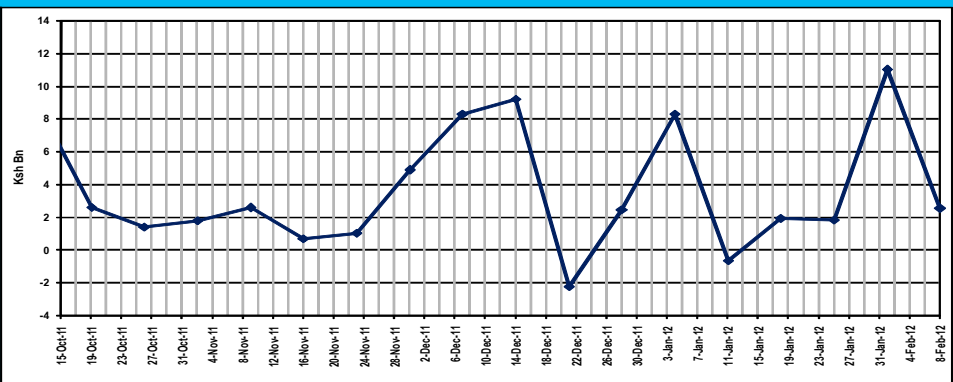


Source: Central Bank of Kenya

**Commercial Banks Clearing Accounts Balances**

Commercial banks maintained an average of Ksh 2.54 billion in their settlement accounts above the 5.25 percent monthly average cash reserve requirements at the Central Bank in the week to February 8, 2012, down from Ksh 11.00 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 appreciated against major international currencies in the week ending February 10, 2012. Against the US dollar, the shilling appreciated by 0.89 percent to trade at an average of Ksh 83.42 per US dollar in week ending February 10, 2012 compared with Ksh 84.17 per US dollar in the previous week.

The appreciation of the Kenya Shilling against the dollar is attributed to the tight stance of monetary policy and increased inflows of foreign exchange from the tea and horticulture sub-sectors.

Against the Sterling Pound, the Euro and the Japanese Yen, the shilling appreciated by 0.55 percent, 0.45 percent and 1.88 percent respectively to trade at an average of Ksh 132.05 per Sterling Pound, Ksh. 110.21 per Euro and Ksh 108.29 per 100 Japanese Yen in the week ending February 10, 2012 compared with Ksh 132.78 per Sterling Pound, Ksh. 110.71 per Euro and Ksh 110.37 per 100 Japanese Yen in the previous week.

**Table 3: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
30-Jan-12	84.92	133.41	111.83	110.69	27.59	18.81	7.10	15.32
31-Jan-12	84.59	133.17	111.61	111.25	27.49	18.92	7.12	15.37
1-Feb-12	83.88	132.03	109.63	110.06	27.54	19.01	7.19	15.50
2-Feb-12	83.59	132.53	110.20	109.80	27.95	19.08	7.21	15.55
3-Feb-12	83.87	132.72	110.27	110.03	27.60	18.98	7.19	15.50
<b>Jan 27-Feb 3, 2012</b>	<b>84.17</b>	<b>132.78</b>	<b>110.71</b>	<b>110.37</b>	<b>27.63</b>	<b>18.96</b>	<b>7.16</b>	<b>15.45</b>
6-Feb-12	83.81	132.50	110.04	109.55	27.61	19.02	7.19	15.52
7-Feb-12	83.49	131.90	109.41	108.87	27.67	19.07	7.22	15.70
8-Feb-12	83.14	132.21	110.33	107.75	27.78	19.12	7.25	15.76
9-Feb-12	82.72	130.97	109.87	107.13	28.05	19.23	7.29	15.84
10-Feb-12	83.93	132.65	111.39	108.18	27.63	18.97	7.18	15.63
<b>Feb 6-10, 2012</b>	<b>83.42</b>	<b>132.05</b>	<b>110.21</b>	<b>108.29</b>	<b>27.75</b>	<b>19.08</b>	<b>7.23</b>	<b>15.69</b>

**Source: Central Bank of Kenya**

In the EAC region, the Kenya Shilling appreciated against all the East African Currencies in the week ending February 10, 2012. On average, the Kenya shilling exchanged at Ushs 27.75, Tshs 19.08, RWF 7.23 and BIF 15.69 during the week, compared with Ushs 27.63, Tshs 18.96, RWF 7.16 and BIF 15.45 in the previous week (Table 3).

### Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,875 million (equivalent to 3.45 months of imports) as at February 3, 2012 to US dollar 4025 million (equivalent to 3.59 months of imports) in the week ending February 10, 2012 (Table 4). The accumulation of foreign exchange is attributed to purchases from the interbank market. The usable official foreign exchange reserves level is consistent with the net international reserve (NIR) position of US\$ 3,278 million which is US\$ 152.9 million above the March 2012 NIR target of US\$ 3,125 million.

**Table 4: Official Foreign Exchange Reserves (US\$ Million)**

	02-Dec-11	09-Dec-11	16-Dec-11	21-Dec-11	30-Dec-11	06-Jan-12	13-Jan-12	20-Jan-12	27-Jan-12	03-Feb-12	10-Feb-12
Usable Reserves*	3,745	3,773	3,768	3,800	4,002	3,918	3,813	3,804	3,868	3,875	4,025
Months of Imports Cover**	3.44	3.46	3.46	3.42	3.61	3.53	3.43	3.39	3.45	3.45	3.59

\*Excludes encumbered reserves

\*\*Based on 36 month average of imports of goods and non-factor services

**Source: Central Bank of Kenya**

### Government Securities Auction

The Government offered for sale Ksh 4.0 billion and Ksh 3.0 billion in 91-day and 182-day Treasury bills, respectively, during the week ending February 10, 2012. Demand for Government Securities was high during the week with the 91-day Treasury bill attracting bids worth Ksh 8.2 billion against the Ksh 4.0 billion target, equivalent to a performance rate of 206.1 percent. Similarly, the 182-day Treasury bill received bids amounting to Ksh 10.1 billion against the Ksh 3.0 billion target during the week, a performance rate of 337.7 percent. The Government accepted all the 91-day Treasury bill bids and Ksh 4.8 billion (47.2 percent) of the 182-day Treasury bill bids during the week.

**Interest Rate  
on Treasury  
Bills &  
Bonds**

The relatively high demand for securities during the week resulted in declining interest rates, with the weighted average interest rates for the 91-day and 182-day Treasury bills declining by 69.6 and 69.9 basis points to stand at 19.807 and 20.024 percent, respectively (Table 5).

**Table 5 : Interest Rates**

Auction date	23-Dec-11	30-Dec-11	06-Jan-12	13-Jan-12	20-Jan-12	27-Jan-12	03-Feb-12	10-Feb-12
91 day T. Bills*	18.948	19.905	20.696	20.799	20.769	20.614	20.503	19.807
182 day T. Bills*	18.576	20.244	20.714	20.780	20.914	20.801	20.723	20.024
364 day T. Bills*			21.961				20.956	
12-year Infrastructure Bond		16.640					16.640	
<b>Month</b>	<b>Dec</b>							
Average savings rate	1.59							
Average overdraft rate	20.20							

\*Weighted rates for accepted bids

**Source: Central Bank of Kenya**

**Government  
Domestic  
Debt**

Gross Government domestic debt increased by Ksh 45.2 billion from Ksh 764.2 billion in June 2011 to Ksh 809.5 billion in February 3, 2012 (Table 6 and Chart C). During the week under review, gross government domestic debt increased by Ksh 15.7 billion largely in outstanding stocks of Treasury bills and Treasury bonds.

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

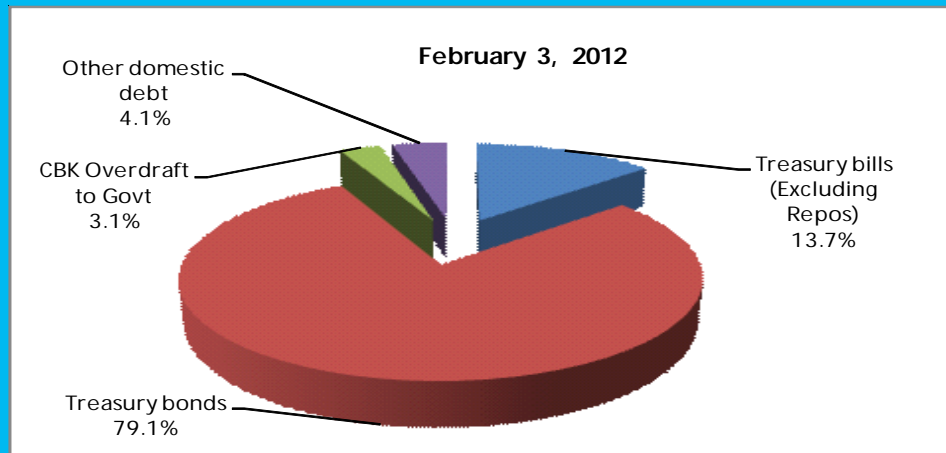
	Jun-11	Sep-11	Dec-11	27th Jan 2012	3rd Feb 2012	Changes	
						27th Jan 2012- 3rd Feb 2012	30th Jun 2011- 3rd Feb 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	113.7 16.1	107.1 14.5	104.3 14.2	110.6 14.7	6.3	-16.1
2. Treasury Bonds (As % of total securities)	595.7 82.5	591.5 83.9	633.5 85.5	632.4 85.8	640.1 85.3	7.8	44.5
3. Total Securities (1+2)	722.4	705.3	740.6	736.7	750.7	14.1	28.3
4. Overdraft at Central Bank	7.6	25.4	25.4	25.4	25.4	0.0	17.8
5. Other Domestic debt*	34.3	33.6	34.7	31.70	33.35	1.6	-0.9
6. Gross Domestic Debt (3+4+5)	764.2	764.3	800.7	793.8	809.5	15.7	45.2
7. Interest payments on domestic debt	69.2	17.37	37.7	41.6	43.3	1.7	

\* 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 increased by Ksh 6.3 billion to stand at Ksh 110.6 billion during the week ending February 3, 2012, but remained relatively lower than the Ksh 126.7 billion held at the end of June 2011. Similarly, Treasury bonds and other domestic debt increased by Ksh 7.8 billion and Ksh 1.6 billion, respectively, while Government overdraft at the Central Bank remained constant during the week under review as shown in table 6. The average time to maturity of Government securities declined to 5 years and 8 months as at February 3, 2012, from 5 years and 10 months at the end of June 2011.

**Chart C: Composition of Government Securities**

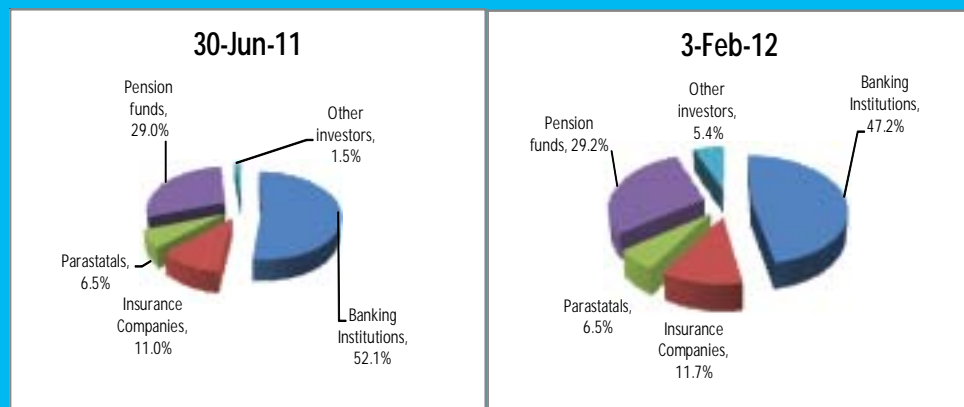


Source: Central Bank of Kenya

**Holding of Govt Securities**

The share of Government securities by banking institutions declined from 52.1 percent in June 2011 to 47.2 percent in February 3, 2012. Holdings of insurance companies, pension funds and other investors increased from 11.0, 29.0 and 1.5 percent to 11.7, 29.2 and 5.4 percent, respectively, during the period (Chart D).

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

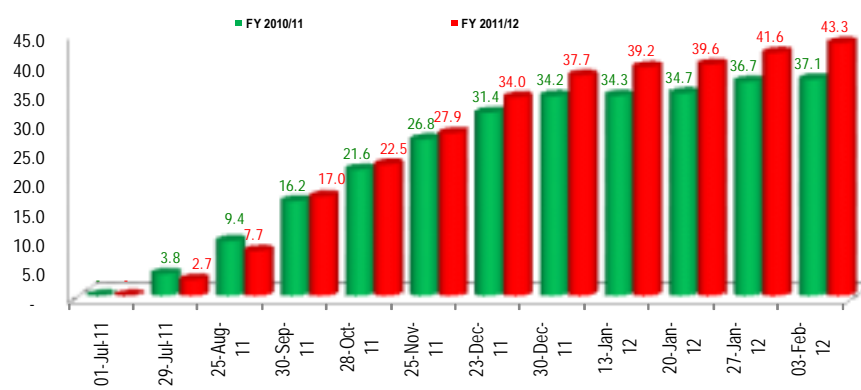


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

The cumulative interest and other charges on domestic debt from July 1, 2011 to February 3, 2012 amounted to Ksh 43.3 billion compared with Ksh 37.1 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 7.28 billion and Ksh 34.28 billion, respectively. Government overdraft at Central Bank accounted for Ksh 1.75 billion. During the week under review, interest on domestic debt amounted to Ksh 1.7 billion, of which Ksh 1.1 billion was interest cost on Treasury bonds.

**Chart E: Cumulative Interest Payments on Domestic Debt (Ksh billion)**



Source: Central Bank of Kenya

## The Stock Market

Performance at the capital markets was mixed in the week ending February 9, 2012. While key indicators for equities market trended downwards, the bonds market was however vibrant, implying investors' portfolio shift for safety and search for good return that the later provided.

The NSE 20 Share Index dropped to 3,156.87 points on February 9, 2012 from 3,215.70 points on February 02, 2012 while NASI was 68.96 points down from 69.05 points. Market Capitalization, which measures total shareholders' wealth, closed lower by Ksh 1.09 billion to settle at Ksh 880.093 billion. Similarly, equity turnover declined by Ksh 279.9 million, trading stocks worth Ksh 810.02 million compared with Ksh 1,089.9 million in the previous week. However, the number of shares traded rose to 126.3 million from 87.3million, signaling investors' interest to cut losses as the bear market persists.

Telecommunication and Technology sector was the most active sector by trading 101.3 million shares or 80.2 percent. Banking was the second most active sector with 11.01 million shares or 8.7 percent followed by manufacturing sector which traded 4.7 million shares. Safaricom, Housing Finance and Mumias Sugar were the top three most active counters with 101.1 million, 4.6 million and 3.1 million shares respectively. Automobile and Accessories was least active, with 156,000 shares.

**Table 7: Key Weekly Market Statistics**

Week Ending	01-Dec-11	08-Dec-11	15-Dec-11	22-Dec-11	29-Dec-11	05-Jan-12	12-Jan-12	19-Jan-12	26-Jan-12	02-Feb-12	09-Feb-12
NASI 100= Jan 2008	66.04	65.41	65.98	67.8	67.85	68.31	68.84	<b>68.76</b>	<b>67.97</b>	<b>69.05</b>	<b>68.96</b>
NSE 20 Share Index 100=1966	3,122.50	3,109.25	3,106.90	3,139.67	3,160.03	3,220.74	3,196.86	3,204.76	3,188.23	3,215.70	3,156.87
Number of Deals	4,113	3,958	2,810	3,815	1,886	3,516	5,237	4,667	4,754	5,124	5,394
Total Shares Traded (millions)	69.30	124.00	64.36	74.56	8.05	37.98	55.26	58.47	131.34	87.34	126.31
Equity Turnover (Ksh. millions)	1,047.30	954.30	827.68	1,142.34	167.38	430.05	614.11	495.57	1,228.83	1,089.93	810.03
Market Capitalization (Ksh. Bn.)	842.84	834.69	841.99	865.09	865.97	871.68	878.60	877.60	867.44	881.19	880.09
Bonds Turnover (Ksh. millions)	7,875.75	7,113.55	7,158.15	4,723.35	4,168.60	6,442.95	9,150.70	4,034.50	3,106.90	2,673.60	4,707.50
FTSE NSE Kenya 15 Index	84.43	83.62	85.42	87.14	89.35	89.36	89.43	89.72	89.93	90.87	91.38
FTSE NSE Kenya 25 Index	86.65	85.81	87.74	89.98	91.64	91.78	91.83	91.99	91.17	92.89	93.39

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

Source: Nairobi Stock Exchange

The biggest closing and average price gains in the week ending February 09, 2012 was East African Breweries at Ksh 7 and Ksh 5.80 per share respectively. The biggest closing and average price margin losses was Athi River and Sasini Ltd. at Ksh 6 and Ksh 1.28 per share, respectively.

**FTSE NSE  
Kenya Index  
Series**

The FTSE NSE Kenya 15 Index, which measures performance of stocks of 15 largest companies by market capitalization, rose to 91.38 points on February 09, 2012 from 90.87 points on February 02, 2012. FTSE NSE Kenya 25 Index, a performance measure of 25 most liquid stocks at the Exchange rose to 93.39 points from 92.89 points during the previous week.

**Bond Market**

Bonds trading at the Fixed Income Securities Segment rose to Ksh 4,707 million for the week ending February 09, 2012 from Ksh 2,673 million for the week of February 02, 2012. Total deals transacted over the period rose to 81 from 55 of previous week.