

September 3, 2010



## THE CBK WEEKLY BULLETIN

### Highlights for the Week

The overall 12-month inflation decreased by 40 basis points from 3.6 percent in July 2010 to 3.2 percent in August 2010. The annual average inflation also declined, by 30 basis points to 4.7 percent in August 2010.

The Government securities market registered good performance of 111.9 percent during the auction held this week. The Government had offered for sale 182-day Treasury bills amounting to Ksh 4.5 billion, received bids amounting to Ksh 5.0 billion and accepted all bids. The cut off rate edged up 4.9 basis points during this week's auction.

The average interbank rate declined by 2 basis points to 1.52 percent in the week ending September 3, down from 1.55 percent in the previous week.

The Kenya Shilling depicted mixed performance against the major international currencies during the week ending September 03, 2010. Against the US dollar, the shilling appreciated to exchange at an average of Ksh 80.88 in the week compared with Ksh 81.12 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.414 billion (equivalent to 3.52 months of imports) as at September 03, 2010, compared to US dollar 3.396 billion (equivalent to 3.51 months of imports) held on August 26, 2010, reflecting a revaluation gain during the week.

The money market was liquid in the week ending September 3, 2010 as the Central Bank injected a total of Ksh 8.2 billion into the market. There were no reverse repo maturities during the week.

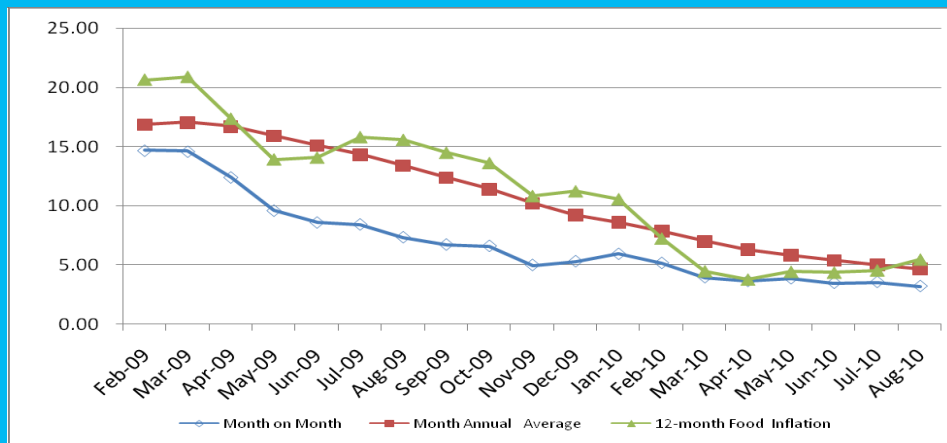
Government gross domestic debt increased by 2 percent, or Ksh 1.3 billion from Ksh 659.6 billion in June 2010 to Ksh 660.9 billion as at August 26, 2010 of the FY 2010/11. The cumulative Government expenditure on interest and other charges on domestic debt during the same period amounted to Ksh 9.4 billion.

Performance at the equities market declined during the week ending September 2, 2010, with the NSE 20 Share Index losing 74.74 points to settle at 4,466.96 from 4,541.70 points on August 25, 2010. Equity turnover declined by 20.7 percent.

**Inflation**

Overall 12- month inflation declined in August 2010 to 3.2 percent from 3.6 percent in July 2010 (Chart A). The lower inflation in August 2010 reflected wholly in the Communications price index which declined by 23.5 percent in August 2010. The fall in the communications index is attributed to significant falls in the cost of airtime where the average cost of airtime per minute dropped by more than 50% for customers of major cell phone operators. Prices of other categories of goods and services either stabilised or increased marginally in August 2010.

**Chart A: 12-Month Overall Inflation- March 2010 (Percent)**



Source: Central Bank of Kenya

**Government Securities Auction**

The Government securities market registered good performance of 111.9 percent during the auction held this week. The Government had offered for sale 182-day Treasury bills amounting to Ksh 4.5 billion and received bids amounting to Ksh 5.0 billion.

The Government accepted all the bids of which Ksh 4.7 billion were competitive. The proceeds of the auction were directed at meeting part of the cost of financing redemptions of Government securities amounting to Ksh 11.1 billion.

**Interest Rates on Treasury Bills**

The cut-off rate for the 182-day Treasury bill edged up 4.9 basis points from 2.150 percent recorded on August 23, 2010 to 2.199 percent during this week's auction (Table 1).

**Table 1: Interest Rates**

01-Jul-10	08-Jul-10	15-Jul-10	22-Jul-10	29-Jul-10	05-Aug-10	12-Aug-10	19-Aug-10	26-Aug-10	02-Sep-10
1.801		1.728		1.699		1.999		2.202	
	1.800		1.999		1.999		2.150		2.199
						3.000			
<b>Mar-10</b>	<b>Apr-10</b>	<b>May-10</b>	<b>Jun-10</b>						
1.81	1.81	1.76	1.75						
14.06	14.50	14.38	14.23						

Source: Central Bank of Kenya

## Interbank Market

The average interbank rate declined by 2 basis points to 1.53 percent in the week ending September 3, down from 1.55 percent in the previous week. The volumes traded rose from Ksh 32.2 billion in the previous week to Ksh 41.8 billion in the week ending September 3, 2010.

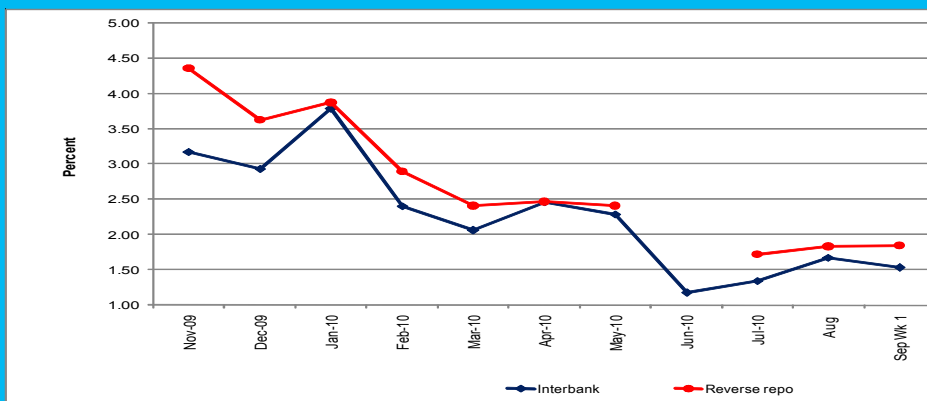
**Table 2: Interbank Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
13-Aug-10	73	14,993	1.80
16-Aug-10	67	14,663	1.83
17-Aug-10	58	8,145	1.77
18-Aug-10	48	6,886	1.69
19-Aug-10	60	8,185	1.62
<b>August 13 - 19, 2010</b>	<b>306</b>	<b>52,872</b>	<b>1.74</b>
20-Aug-10	54	7,705	1.59
23-Aug-10	69	12,577	1.55
24-Aug-10	46	6,465	1.53
25-Aug-10	48	5,501	1.51
<b>August 13 - 19, 2010</b>	<b>217</b>	<b>32,248</b>	<b>1.55</b>
26-Aug-10	37	4,890	1.48
30-Aug-10	72	10,737	1.55
31-Aug-10	62	10,427	1.57
01-Sep-10	61	9,618	1.59
02-Sep-10	57	6,148	1.44
<b>August 26 - Sept 02, 2010</b>	<b>289</b>	<b>41,820</b>	<b>1.53</b>

Source: Central Bank of Kenya

The reverse repo rate increased by one basis point to 1.84 percent as at the last reverse repo transaction on August 30, 2010 from 1.83 percent during the previous auction on August 16, 2010.

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

### Monetary Policy Operations

The money market was liquid in the week ending September 3, 2010. The Central Bank injected a total of Ksh 8.2 billion into the market (Table 3) to address liquidity shortfall following the Ksh 31 billion sale of the infrastructure bond by Government. There were no reverse repo maturities during the week under review. Commercial banks borrowed Ksh 150 million from Central Bank overnight window during the week under review. Reserve money averaged Ksh 209.2 billion during the week and was above target by Ksh 26.0 billion.

Table 3: Open Market Operations (Ksh Billion)

Date	Reserve Money* (Projected)			OMO (Reverse 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)
26-Aug	221.6	182.9	38.8	0.0	0.0	0.0	223.3	40.4	37.1	3.4
30-Aug	189.6	182.9	6.8	5.0	8.2	-3.2	205.5	22.6	18.8	3.8
31-Aug	204.9	182.9	22.0	0.0	0.0	0.0	202.3	19.5	15.3	4.2
01-Sep	201.1	183.7	17.4	0.0	0.0	0.0	202.5	18.7	14.5	4.3
02-Sep	213.0	183.7	29.3	0.0	0.0	0.0	212.6	28.8	24.4	4.4
Average	206.1	183.2	22.8	1.0	1.6	-0.6	209.2	26.0	22.0	4.0

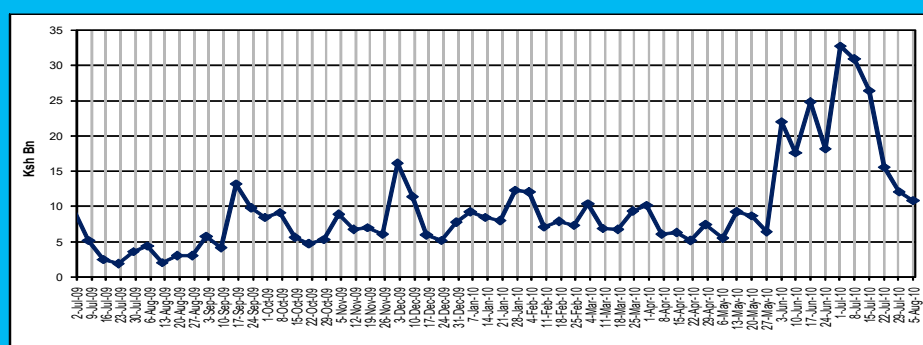
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

### Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 23.7 billion in their clearing accounts at the Central Bank in the week to September 3, 2010, compared with Ksh 26.5 billion held the previous week (Chart B).

**Chart C: Weekly Average Commercial Banks Clearing Account Balances**



Source: Central Bank of Kenya

### The Shilling Exchange Rate

The Kenya Shilling on average depicted mixed performance against the major international currencies during the week ending September 3, 2010 (Table 4). Against the US dollar, the shilling appreciated to exchange at Ksh 80.88 in the week compared with Ksh 81.12 per US dollar in the previous week. The shilling also appreciated against the Sterling Pound to exchange on average at Ksh 124.87 per Sterling Pound compared with Ksh 125.69 per Sterling Pound in the previous week. But the shilling depreciated against the Euro and the Japanese Yen to exchange on average at Ksh 103.06 per Euro and Ksh 95.81 per 100 Japanese Yen in the week compared with Ksh 102.87 per Euro and Ksh 95.54 per 100 Japanese Yen in the previous week (Table 4). Kenya shilling appreciated against the dollar due to inflows from the tea sector and non-governmental organizations and a general rise in risk appetite, which led to increased demand for the local currency. The Kenya shilling's performance against the other currencies reflected in the cross rates against the US dollar.

**Table 4: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
23-Aug-10	81.09	126.32	103.15	94.96	27.81	18.75
24-Aug-10	81.36	125.47	102.83	95.73	27.72	18.68
25-Aug-10	81.24	125.26	102.86	96.09	27.81	18.68
26-Aug-10	80.78	125.73	102.66	95.38	27.94	18.75
<b>August 23- August 26, 2010</b>	<b>81.12</b>	<b>125.69</b>	<b>102.87</b>	<b>95.54</b>	<b>27.82</b>	<b>18.72</b>
30-Aug-10	80.87	125.62	103.02	95.10	28.01	18.79
31-Aug-10	81.07	125.07	102.50	96.30	28.00	18.77
01-Sep-10	80.97	124.68	102.92	95.95	27.97	18.80
02-Sep-10	80.77	124.49	103.38	95.87	27.98	18.88
03-Sep-10	80.73	124.48	103.50	95.84	27.90	18.82
<b>August 30- September 03, 2010</b>	<b>80.88</b>	<b>124.87</b>	<b>103.06</b>	<b>95.81</b>	<b>27.97</b>	<b>18.81</b>

Source: Central Bank of Kenya

On the regional scene, the Kenya Shilling strengthened against the Uganda Shilling and the Tanzania Shilling to exchange at Ush 27.97 per Kenya Shilling and Tsh 18.81 per Kenya Shilling in the week ending September 03, 2010, compared with Ush 27.82 per Kenya Shilling and Tsh 18.72 per Kenya Shilling in the previous week respectively.

## Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased to US dollar 3.414 billion (equivalent to 3.52 months of imports) as at September 03, 2010, from to US dollar 3.396 billion (equivalent to 3.51 months of imports) held on August 26, 2010, reflecting a revaluation gain during the week (Table 5).

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

	25-Jun-10	09-Jul-10	16-Jul-10	23-Jul-10	30-Jul-10	06-Aug-10	13-Aug-10	20-Aug-10	26-Aug-10	03-Sep-10
Usable Reserves	3,310	3,334	3,340	3,353	3,378	3,423	3,417	3,416	3,396	3,414
Months of Imports Cover*	3.47	3.47	3.47	3.49	3.51	3.56	3.53	3.53	3.51	3.52

\*Based on 36 month average of imports of goods and

Source: Central Bank of Kenya

## Government Domestic Debt

Gross Government debt increased by 2 percent or Ksh 1.3 billion from Ksh 659.6 billion in June 2010 to Ksh 660.9 billion at August 26, 2010 (Table 6 and Chart D). The increase was on account of increases in Treasury bonds and overdraft at the CBK of Ksh 7.0 billion and Ksh 4.9 billion, respectively, and partly offsetting decreases of Ksh 10.5 billion and Ksh 0.1 billion in Treasury bills and other domestic debt, respectively. Reflecting these changes, the Treasury bonds and Government overdraft at the CBK increased from Ksh 448.6 billion and Ksh 17.6 billion, respectively in June 2010 to Ksh 455.6 billion and Ksh 22.5 billion as at August 26, 2010. But the Treasury bills and other domestic debt declined from Ksh 158.5 billion and Ksh 34.1 billion, respectively in June 2010 to Ksh 148.0 billion and Ksh 34.0 billion, respectively during the same period.

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

	Jun-10	30th July 2010	20th August 2010	26th August 2010	Changes	
					20th August 2010- 26th August 2010	30th Jun-2010 - 26th August - 2010
1. Treasury Bills (Excluding Repos) (As % of total securities)	158.5 26.1	158.2 25.6	151.9 24.8	148.0 24.5	-3.9 -0.3	-10.5
2. Treasury Bonds (As % of total securities)	448.6 73.8	459.3 74.3	459.3 75.1	455.6 75.4	-3.7 0.3	7.0
3. Long Term Stocks (As % of total securities)	0.8 0.1	0.8 0.1	0.8 0.1	0.8 0.1	0.0 0.0	0.0
4. Total Securities (1+2+3)	607.9	618.2	611.9	604.4	-7.5	-3.5
5. Overdraft at Central Bank	17.6	15.5	18.7	22.5	3.8	4.9
6. Other Domestic debt*	34.1	34.0	34.0	34.0	0.0	-0.1
7. Gross Domestic Debt (4+5+6)	659.6	667.7	664.6	660.9	-3.7	1.3
8. Interest payments on domestic debt	57.8	2.62	5.70	9.38	3.7	

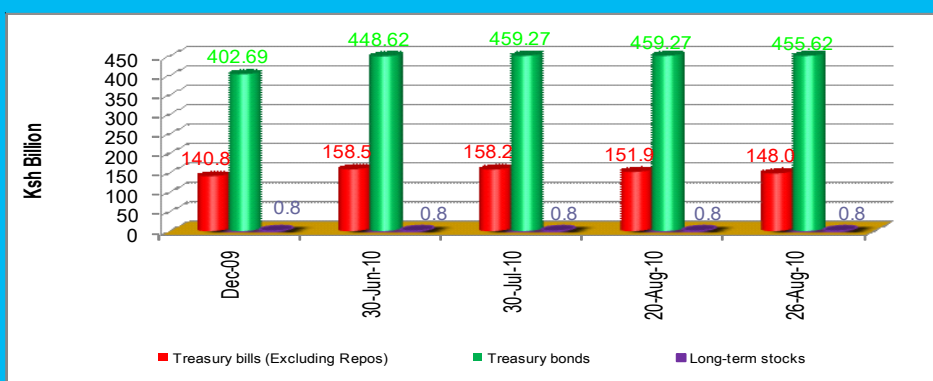
\* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCs.

Source: Central Bank of Kenya

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In view of the above, the share of Treasury bonds increased from 73.8 percent in June to 75.4 percent as at August 26, 2010 while that of Treasury bills declined from 26.1 percent to 24.5 percent. The average time to maturity of Government securities increased from 4 years 3 months in June 2010 to 5 years as at August 26, 2010. This development is largely in line with the Government borrowing strategy of lengthening the maturity profile of domestic debt and maintaining a mix of 75 percent for Treasury bonds and 25 percent for Treasury bills.

**Chart D: Composition of Government Securities**

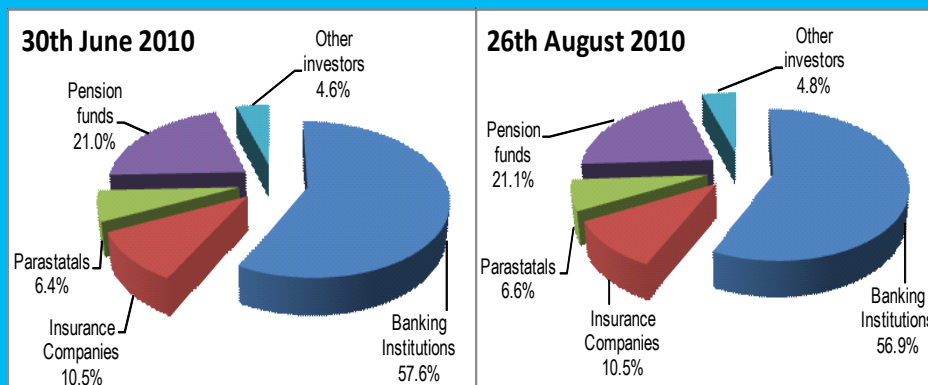


Source: Central Bank of Kenya

### Holding of Government Securities

The holdings of Government securities by parastatals, pension funds and other investors increased from 6.4 percent, 21.0 percent and 4.6 percent in June 2010 to 6.6 percent, 21.1 percent and 4.8 percent, respectively as at August 26, 2010. However, holdings of commercial banks declined from 57.6 percent to 56.9 percent while that of insurance companies remained unchanged at 10.5 percent during the same period (Chart E).

**Chart E: Composition of Government Securities by Investor**

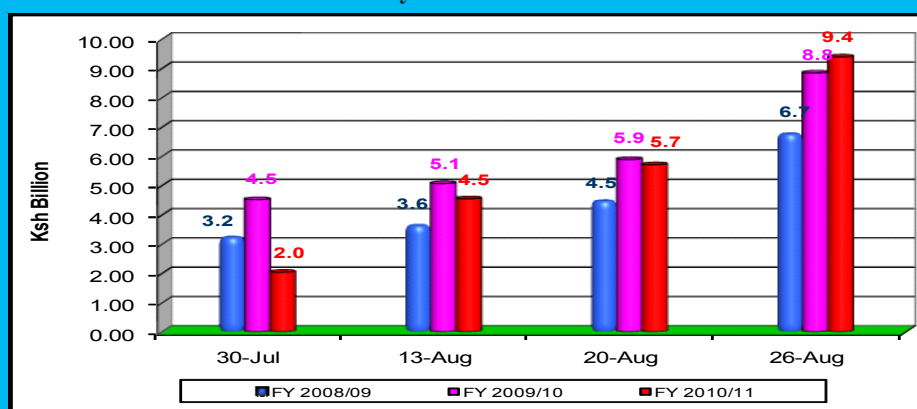


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

The cumulative Government expenditure on interest and other charges on domestic debt as at August 26, 2010 in FY 2010/11 amounted to Ksh 9.4 billion compared with Ksh 8.8 billion in a similar period of the FY 2009/10 (Chart F). The interest cost on domestic debt during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 2.6 billion and 6.7 billion, respectively while interest on Government overdraft at the CBK amounted to Ksh 0.1 billion.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

### The Stock Market

Performance at the equities market declined during the week ending September 2, 2010 (Table 7). Turnover decreased by 20.7 percent as stocks worth Ksh 1,185.8 million were traded compared with Ksh 1,496.0 million traded in the previous week. The number of shares traded decreased from 137.4 million in the previous week to 73.3 million shares in the week under review. The NSE 20 Share Index shed 74.74 points to 4,467 on September 2, 2010 from 4,541.7 on August 25, 2010. The Nairobi All Share Index declined by 1.69 points to 96.1 from 97.8 the previous week. Reflecting the fall in share prices the market capitalization as a measure of total shareholders wealth decreased by 1.7 percent or Ksh. 20.2 billion to Ksh 1,138 billion in the week under review from Ksh 1,158.34 billion in the previous week. The decline in equities market may be attributed to the competition in the mobile telephone industry, which led to a drop in the share prices at the Safaricom counter.

Table 7: Key Weekly Market Statistics

Week Ending	17-Jun-10	24-Jun-10	01-Jul-10	08-Jul-10	15-Jul-10	22-Jul-10	29-Jul-10	05-Aug-10	12-Aug-10	19-Aug-10	25-Aug-10	02-Sep-10
NASI 100= Jan 2008	94.39	94.59	95.03	95.24	96.5	95.88	96.94	102.16	98.86	100.49	97.8	96.11
NSE 20 Share Index 100=1966	4,327.40	4,309.51	4,313.01	4,321.39	4,344.84	4,345.86	4,398.32	4,667.47	4,544.52	4,603.26	4,541.70	4,466.96
Number of Deals	10,890	11,435	10,247	11,157	11,601	10,387	11,033	10,179	12,230	12,358	10,351	11,230
Total Shares Traded (millions)	89.31	94.46	83.85	91.58	81.64	66.34	72.96	131.02	108.68	111.0753	137.42	73.31
Equity Turnover (Ksh. millions)	1,794.53	1,699.56	1,492.23	1,373.04	1,210.84	1,086.56	1,468.81	2,293.54	2,065.74	1,837.56	1,496.01	1,185.77
Market Capitalization (Ksh. Bn.)	1,100.32	1,107.12	1,107.90	1,111.27	1,125.97	1,118.68	1,133.20	1,194.16	1,155.51	1,189.07	1,158.34	1,138.18
Bonds Turnover (Ksh. millions)	23,520.65	25,115.20	20,934.20	23,902.60	17,001.95	10,187.80	7,334.45	2,293.15	3,888.30	3,225.05	5,220.35	13,584.95

\* The Nairobi All Share Index (NASI) effected on February 25, 2008 (January 01, 2008 = 100)

Source: Nairobi Stock Exchange

The Commercial and Services sector traded 33.6 million shares and accounted for 45.8 per cent of the traded volume with Safaricom trading 31.8 million shares. The Finance and Investment sector traded 26.4 million



shares and accounted for 36.0 percent of total traded volume. Kenya Commercial Bank and Co-operative Bank were the most active stocks in the sector, trading 8.2 million and 6.7 million shares, respectively. Industrial and Allied sector traded 13.0 million shares and accounted for 17.7 percent of traded volume. Mumias Sugar Company was the most active counter, trading 7.6 million shares. The Alternative market segment traded 22,900 shares.

**Bond Market**

Bond turnover at the Fixed Income Securities Market increased from Ksh 5.2 billion traded in the previous week to Ksh 13.6 billion in the week under review. The increase in bond turnover may be attributed to a shift in investor interest from the equity market towards the bond market.