SIB Standard Investment Bank
Regulated by the Capital Markets Authority

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"Fuel Stabilization Fund Eases Price Pressure on Diesel & Kerosene as Landed Costs Edge Up"

WEEKLY FIXED INCOME REPORT

World Bank Downgrades Kenya Growth Forecast to 4.7%, Cites Fiscal Spillages as Key Downside Risk

MONEY MARKET ANALYSIS

This week, the average lending rate slipped to 11.5% from 11.8%, offering some breathing room for borrowers in the interbank market. Meanwhile, interbank volumes soared, more than doubling to KES 54.36bn from KES 27.16bn, as transaction count spiked 34.6%. Interestingly, after a month of dormancy, the discount window reopened, recording KES 0.79bn in trades, signaling desperate liquidity maneuvers by some players.

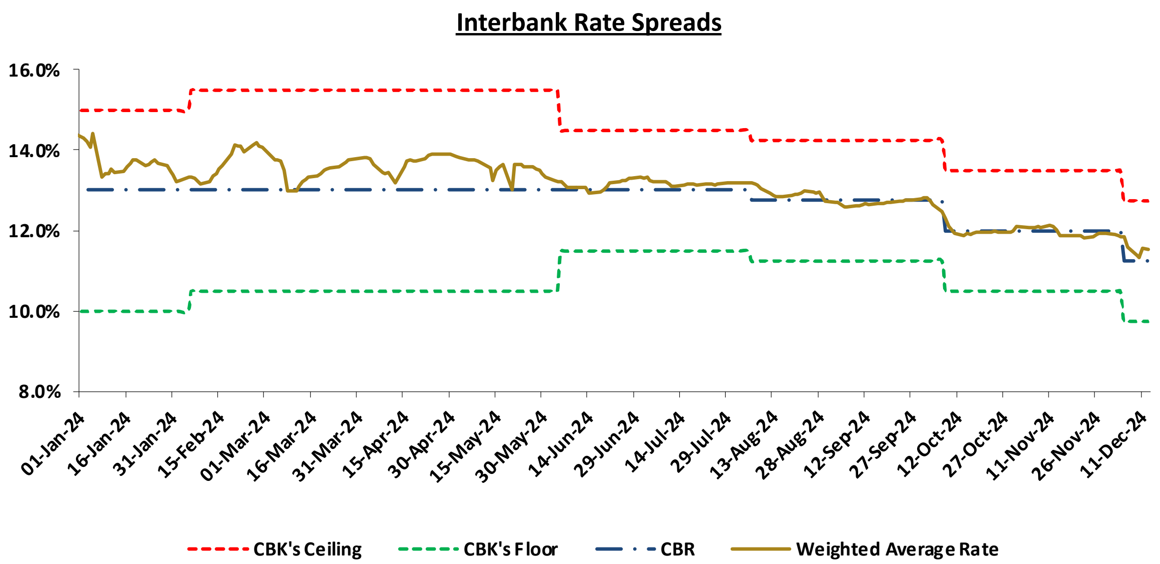
The table below summarizes the market liquidity indicators:

Average	Previous Week	Current Week	Change
Interbank Deals	52.00	70.00	34.62%
Inter- Bank volumes (KES bn)	27.16	54.36	100.15%
Inter – Bank Rates (bps)	11.84%	11.45%	(39.38)
Window Borrowing Volumes	-	0.79	-

Source: Central Bank of Kenya (CBK), Table: SIB

Open market operations picked up steam this week, with bank bids skyrocketing to over KES 130.0bn from KES 46.90bn the previous week. The Central Bank played its part, accepting roughly KES 80.0bn, which more than balanced out maturities of KES 31.0bn. This resulted to a net liquidity boost of approximately KES 49.0bn, keeping the financial gears well-oiled.

Notably, the weighted average interbank rate has closely aligned with the Central Bank Rate in recent weeks, with actual highs and lows remaining well within the interest rate corridor, exhibiting no deviations. See the chart below;



Data: Bloomberg, Chart: SIB

GOVERNMENT SECURITIES MARKET

T-bills

Treasury bill demand hit a snag this week, dropping to a 69.2% subscription rate—the lowest since July 2024, when the rally first gained traction. The dip likely reflects investors shifting focus to the concurrent bond issuance, aiming to lock in higher returns.

Interest was strongest on the 364-day paper, which continues to offer the most attractive yield despite the longer tenure. Total bids tallied KES 16.60bn, with the fiscal agent accepting nearly all of it. Notably, for the first time in three months, short-term maturities outpaced bids received, leading to a net repayment of KES 8.28bn.

The weighted average rates for accepted bids trended lower this week, settling at 10.03% (-42.53bps) for the 91-day paper, 10.00% (-54.70bps) for the 182-day paper, and 11.76% (-21.01bps) for the 364-day paper. While this marks the slowest decline in rates in over two months, it aligns with the highest percentage of accepted competitive bids during the same period. See the summary below;

KES bn

16-Dec-24	91-day 17-Mar-24	182-day 16-Jun-25	364-day 15-Dec-25	Totals
Amount offered	4.00	10.00	10.00	24.00
Bids received	5.85	3.08	7.67	16.60
Subscription rate (%)	146.2%	30.8%	76.7%	69.2%
Amount accepted	5.83	3.08	7.67	16.59
Acceptance rate (%)	99.8%	100.0%	100.0%	99.9%
Of which: Competitive Bids	3.03	2.07	5.81	10.91
Non-competitive bids	2.80	1.02	1.86	5.68
Rollover/Redemptions	13.49	10.72	0.66	24.86
New Borrowing/(Net Repayment)	(7.65)	(7.63)	7.01	(8.28)
Weighted Average Rate of Accepted Bids	**10.03%**	**10.00%**	**11.76%**	
Inflation	**2.8%**	**2.8%**	**2.8%**	
Real Return	7.2%	7.2%	9.0%	

Source: Central Bank of Kenya (CBK), Table: SIB

T-Bonds

In the primary bond market, December's final issuance wrapped up on a high note, raising KES 43.45bn against bids totaling KES 53.63bn—an impressive 268.1% subscription rate. Investors clearly remain eager to lock in higher yields while they last.

The weighted average rate of accepted bids came in at 14.69%, topping the prevailing rate and reinforcing the strong appetite for attractive returns.

See a summary of the offer below;

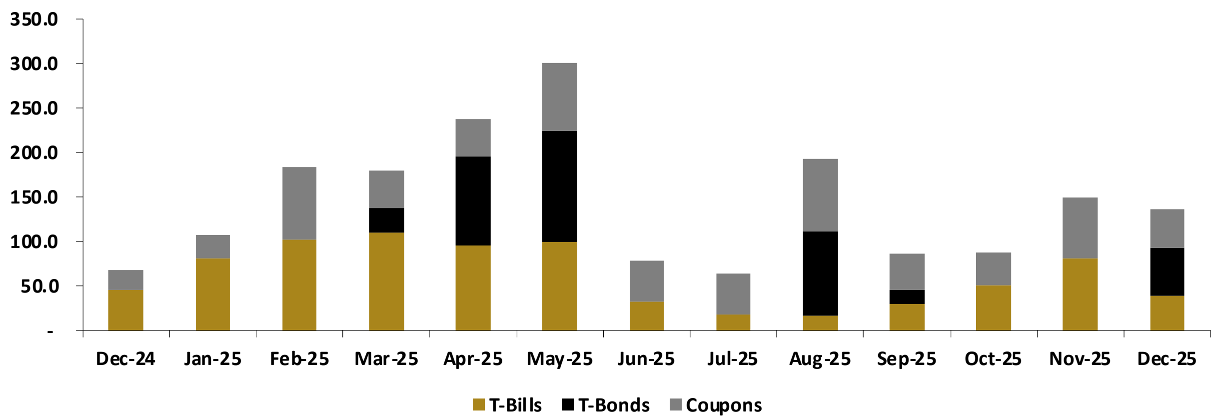
09-Dec-24 Due Date	FXD1/2023/10 31-Jan-33
Amount offered (KES bn)	20.00
Bids received (KES bn)	53.63
Subscription rate (%)	268.1%
Amount accepted	**43.45**
Acceptance rate (%)	81.0%
Of which: Competitive Bids	35.97
Non-competitive bids	7.48
New Borrowing/(Net Repayment)	**43.45**
Price per KESs 100 at average yield	110.17
Weighted average rate of accepted bids	**14.69%**
Coupon Rate	16.00%

Source: Central Bank of Kenya, SIB Research

Outstanding Debt Maturities (T-Bills and T-Bonds):

As of this week, the Government's outstanding T-Bill and T-Bond maturities for the next 12 months are valued at KES 803.93bn and KES 432.51bn, respectively. Including coupon payments, the total maturity profile is KES 1.89tn, as outlined below;

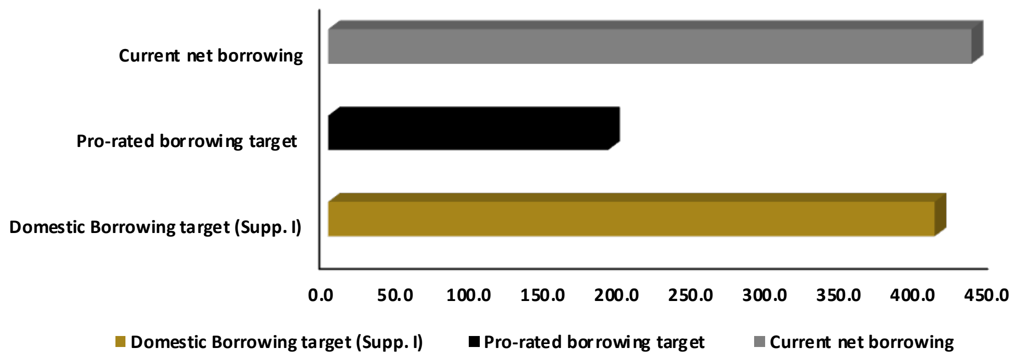
Domestic Debt Maturities (KES bn)



Source: Central Bank of Kenya (CBK), Chart: SIB

The government has already surpassed 106.1% of its domestic borrowing target for FY24/25, with current borrowing totaling KES 433.24bn, against the target of KES 408.41bn. Excluding T-bills, domestic borrowing is 50.4% above the prorated target and accounts for 69.4% of the overall target. See the chart below;

Domestic Borrowing (KES bn)



Source: Central Bank of Kenya (CBK), Treasury, Chart: SIB

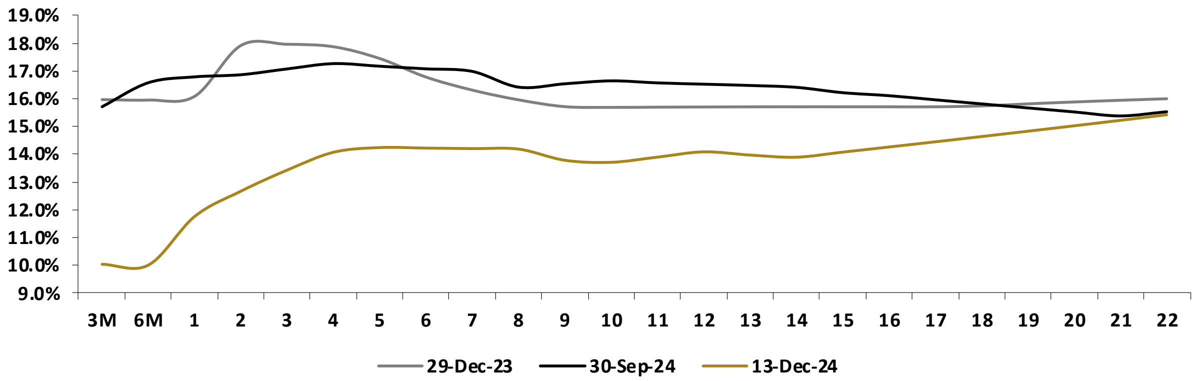
Yield Curve

The yield curve indicates appropriately priced risks, with long-term yields surpassing those of short- and medium-term papers. However, some medium-term papers have yet to adjust, though rates are expected to gradually align with a fully normalized curve.

Short-end rates, particularly the 91- and 182-day papers, are on track to dip into single digits in the coming week. Meanwhile, the longer end of the curve saw the steepest average increases, hinting at growing demand for long-term securities.

Week-on-week, yields on government securities posted an average decline of 496.62bps, with the 2-year paper leading the charge, shedding a notable 119.37bps. Below is a visual representation;

Yield Curve



Source: Nairobi Securities Exchange (NSE), Chart: SIB: Central Bank of Kenya (CBK), Chart: SIB

The International Front

Kenyan Eurobonds

This week, Kenyan Eurobond yields saw a uniform decline across the medium to longer-term end of the curve. However, the movement remained modest, reflecting cautious optimism in the market. Below is a summary of the performance;

Kenyan Eurobonds						
Issuance	KENINT 05/22/2027	KENINT 02/28/2028	KENINT 02/16/2031	KENINT 05/22/2032	KENINT 01/23/2034	KENINT 02/28/2048
Issue Date	May-27	Feb-28	Feb-31	May-32	Jun-34	Feb-48
Tenor to Maturity	2.4	3.2	6.2	7.4	9.5	23.2
29-Dec-23	10.1%	9.8%	-	9.9%	9.5%	10.2%
5-Dec-24	7.7%	8.4%	9.5%	9.5%	9.5%	9.9%
9-Dec-24	7.5%	8.2%	9.2%	9.3%	9.2%	9.8%
10-Dec-24	7.5%	8.3%	9.3%	9.3%	9.3%	9.8%
11-Dec-24	7.6%	8.3%	9.3%	9.3%	9.3%	9.8%
12-Dec-24	7.7%	8.4%	9.4%	9.4%	9.4%	9.8%
Weekly Change	0.0%	0.0%	(0.1%)	(0.1%)	(0.1%)	(0.1%)
YTD Change	(2.4%)	(1.4%)	-	(0.5%)	(0.1%)	(0.3%)

Source: Central Bank of Kenya (CBK), Table: SIB

Currency Performance

In the foreign exchange market, the Kenyan shilling held firm against the dollar but faced headwinds against regional currencies, with the most pronounced loss being a 7.3% depreciation against the Tanzanian shilling. This came in the wake of Tanzania's successful completion of the Fourth Review under the Extended Credit Facility and the First Review under the Resilience and Sustainability Facility, which unlocked an immediate disbursement of USD 204.5m. The TZS is strengthening after a few months of weakening and FX volatility. See the table below;

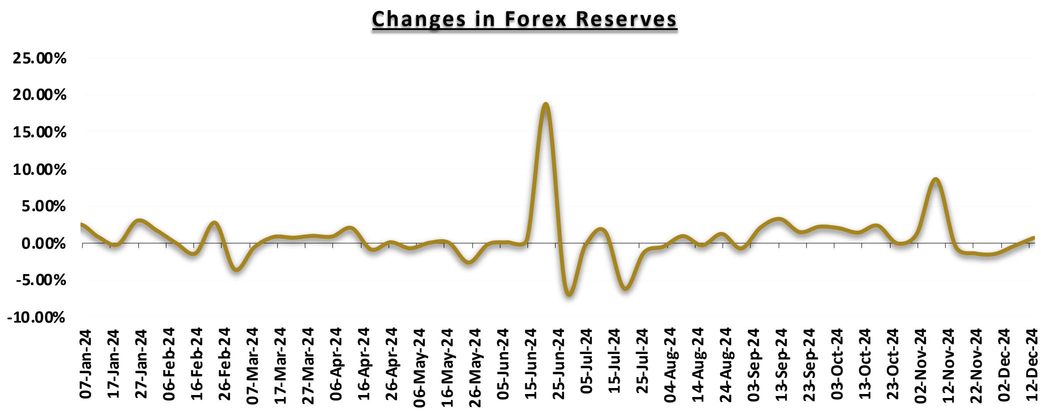
Currencies	29 Dec 2023	Previous Week	Current Week	w/w Change	YTD change
TZS/KES	16.1	20.3	18.8	(7.3%)	16.9%
KES/UGX	24.2	28.4	28.3	(0.3%)	17.0%
GBP/KES	199.8	164.7	165.1	(0.2%)	17.4%
USD/KES	156.5	129.3	129.3	0.0%	17.4%
EUR/KES	173.8	136.5	136.1	0.3%	21.7%
JPY/KES	111.0	85.9	84.9	1.1%	23.5%

Source: Central Bank of Kenya (CBK), Chart: SIB

Abb: GBP – British Pound, EUR – Euro, USD – US Dollar, UGX – Ugandan Shilling, TZS – Tanzanian Shilling, JPY – Japanese Yen I FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

Foreign exchange reserves nudged up slightly up by 0.7% to USD 9.03bn, covering 4.6 months of imports, from USD 8.97bn, last week.

See below the evolution of forex reserves in 2024 so far;



Source: Central Bank of Kenya (CBK), Chart: SIB

MARKET NEWS

a. World Bank Downgrades Growth Forecast, Cites Fiscal Spillages as Key Downside Risk

During the week, the World Bank released the December 2024 Kenya Economic Update Report, highlighting key developments across the economic landscape:

i. Current Account:

a. **Improved Balance:** Kenya's current account deficit narrowed to an average of USD 4.2 billion in 2024, down from USD 5.1 billion in 2023. This improvement is attributed to recovering goods exports and sustained growth in remittances, alongside slower import growth amid a subdued business environment.
b. **Manufacturing Setbacks:** Exports from the manufacturing sector declined cumulatively by 4%, tempering the overall gains. Imports of oil products fell 10.2%, reflecting reduced demand due to higher taxation, despite falling global oil prices.
c. **Weak Private Capital Inflows:** Capital inflows remained subdued due to rising debt repayment pressures. FDI dropped below the regional average as the heavy debt burden weighed on investor confidence. However, portfolio and other financial inflows showed signs of recovery in 2Q24, supported by improved access to international financial markets.

ii. Public Debt:

a. **Shift to Domestic Borrowing:** Domestic debt now accounts for 51.1% of Kenya's public liabilities, up from 47.0% in FY2022/23, driven by increased domestic borrowing and the Kenyan shilling's appreciation. External debt fell to 48.9%.
b. **Rising Costs and Rollover Risks:** Elevated interest rates have increased borrowing costs, with the average maturity of domestic debt shortening to 7.3 years (from 8.5 years in FY2022/23), heightening rollover risks. Treasury bonds remain dominant, constituting 86.9% of domestic debt.
c. **Strategic Shift:** Multilateral lenders provided 53.9% of external debt in FY2023/24, signaling a move away from commercial creditors to mitigate high interest costs and refinancing risks.

iii. Outlook:

Kenya's real GDP is projected to grow by 4.7% in 2024, slightly below the 5.0% forecast from June, but still in line with the country's potential growth and above the regional average for East African Community (EAC) peers, as well as the Sub-Saharan African average of 3%. Looking ahead, Kenya is expected to grow by an average of 5.1% in 2025-2026, driven by a gradual pickup in private investment, export growth, and resilient private consumption.

However, the world bank notes that the country faces persistent downside risks that may require structural adjustments. Key challenges include fiscal sustainability, governance issues, weakening exports to GDP, slow productivity growth, and susceptibility to climate-related shocks. Private consumption is likely to remain a key driver of economic growth, supported by lower inflation, favorable weather conditions, and easing monetary policies.

In our view, higher taxes and statutory deductions are likely to continue straining disposable income, potentially dampening consumption growth. This pressure is compounded by the high cost of borrowing, which has burdened businesses, consumers, and the government, particularly as reliance on domestic debt has increased in recent months, crowding out the private sector.

On a positive note, if interest rates maintain their current downward trend, rollover risks may decrease as new debt is acquired at lower rates. Additionally, a reduced benchmark rate could ease borrowing costs, freeing up capital for the private sector. However, we remain cautious about rising risks in the private sector, where lower margins and the risk-based lending model may keep borrowing rates elevated.

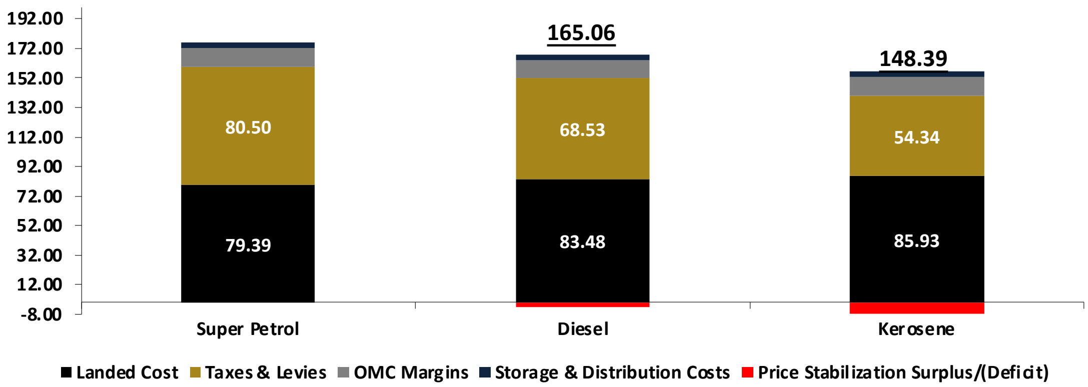
Externally, while exports are growing, the pace needs to accelerate significantly to alleviate pressure on the current account. That said, the increase in reserves and sustained remittances continue to support Kenya's foreign exchange position in the near term.

b. Fuel Stabilization Fund Eases Price Pressure on Diesel & Kerosene as Landed Costs Edge Up

The Energy and Petroleum Regulatory Authority (EPRA) announced the fuel prices for the period from 15th December 2024 to 14th January 2025. The prices of petrol, diesel, and kerosene have decreased by 2.4%, 1.8%, and 2.0%, respectively. In Nairobi, the new retail prices are KES 176.29 per liter for petrol, KES 165.06 per liter for diesel, and KES 148.39 per liter for kerosene.

Despite increases in the landed costs of diesel and kerosene—5.8% and 1.9%, respectively—the government used the price stabilization fund to mitigate these rises, subsidizing KES 3.03 per liter for diesel and KES 7.94 per liter for kerosene. Additionally, the landed cost of petrol dropped by 4.5% between October and November 2024. See below the price breakdown;

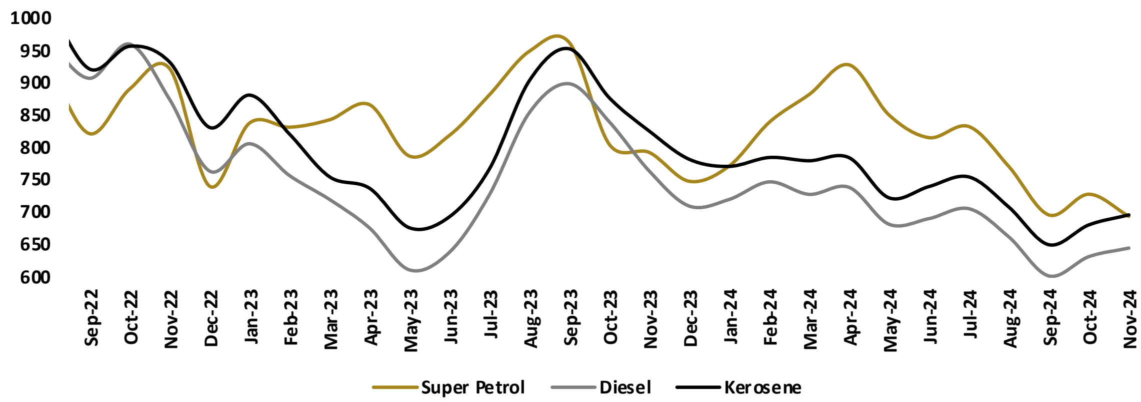
Price Breakdown (KES/Litre)



Source: EPRA, Chart: SIB

Despite the drop in the landed costs of petrol, the government did not allocate any funds to the price stabilization fund. On the global front, fuel prices, as reflected by the Platts index in USD/MT, saw a 4.7% decline for petrol, while diesel and kerosene prices increased by 2.1% and 2.3%, respectively. The exchange rate for fuel imports remained stable during this period, which helped cushion against further cost volatility. See the chart below;

International Petroleum Prices (Platts in USD/MT)

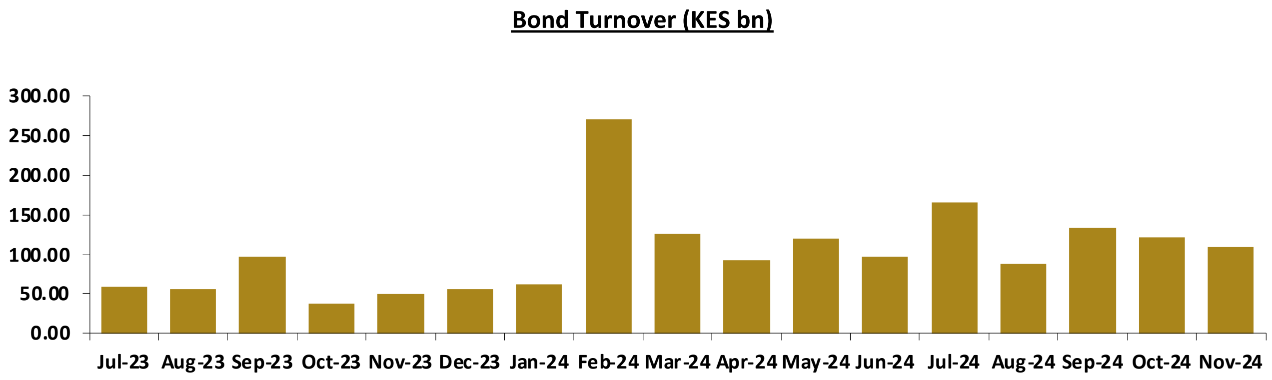


Source: EPRA, Chart: SIB, USD – Dollar, MT – Metric Tonnes

As anticipated, global fuel prices have remained relatively stable, which has helped prevent significant fluctuations in local fuel prices. However, the government has not been contributing to the stabilization fund; instead, it has been drawing from it creating a significant risk in future. On a positive note, we expect the combination of a stable exchange rate, improved supply chains, and steady international prices to help stabilize fuel prices in the short term.

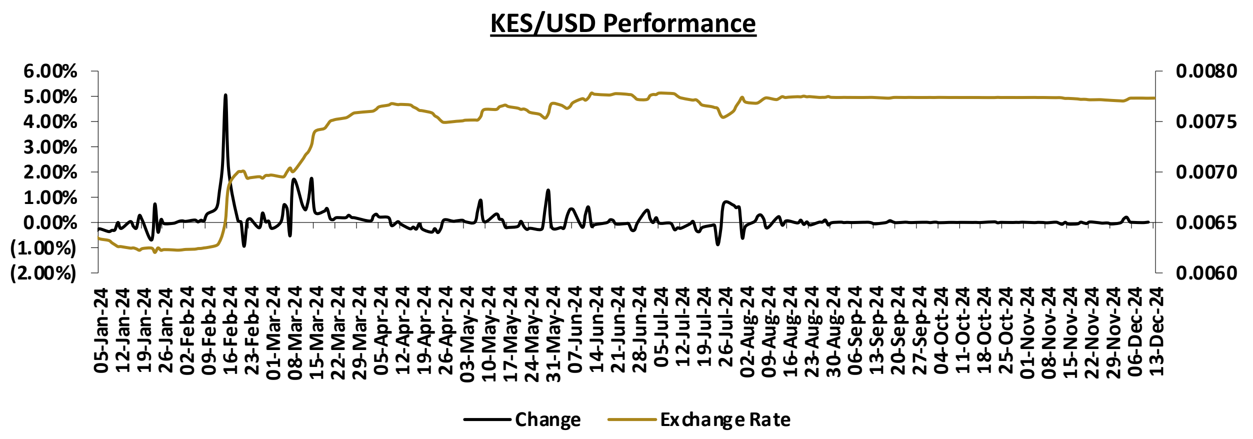
BACKGROUND CHARTS

Secondary Bond Turnover



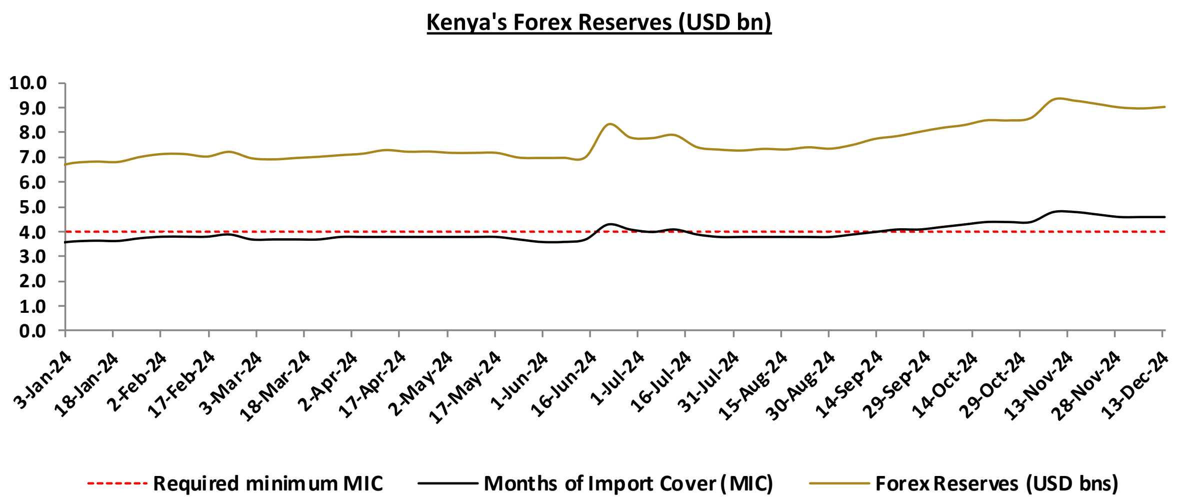
Source: Nairobi Securities Exchange (NSE)

KES/USD Performance



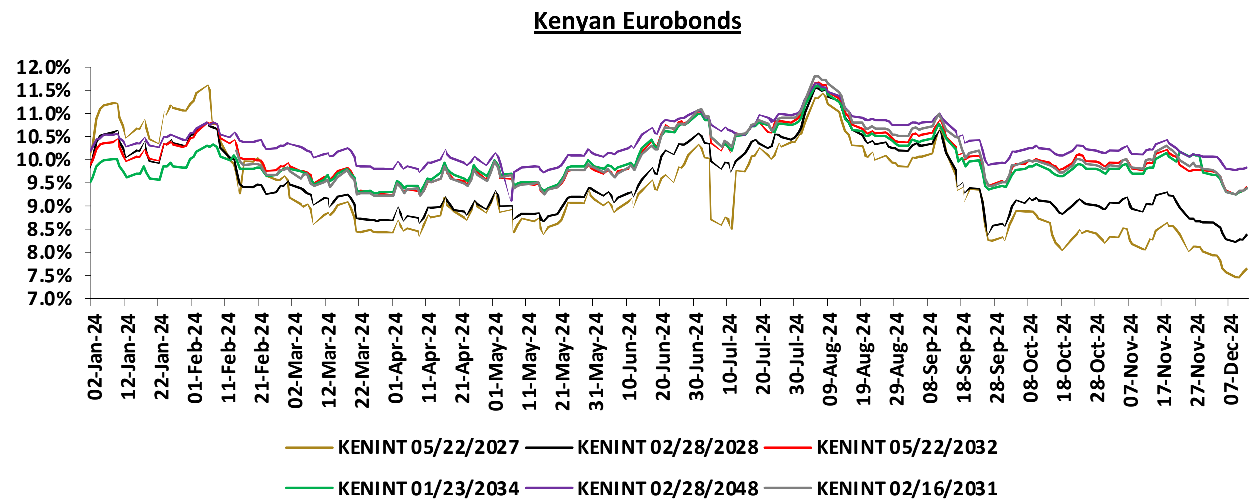
Source: Central Bank of Kenya (CBK)

Forex Reserves



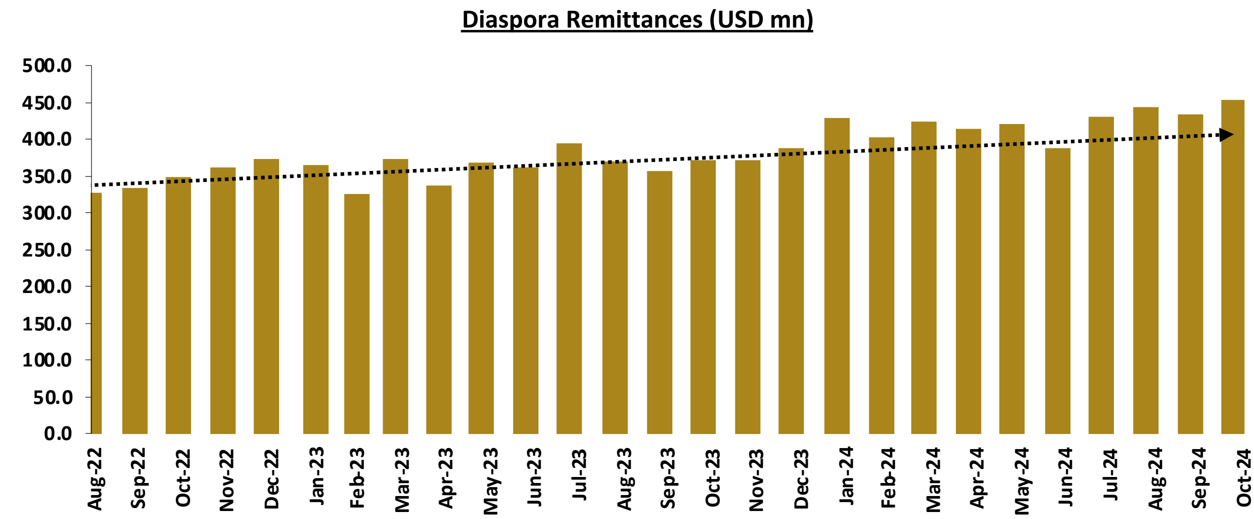
Source: Central Bank of Kenya (CBK)

Kenyan Eurobonds



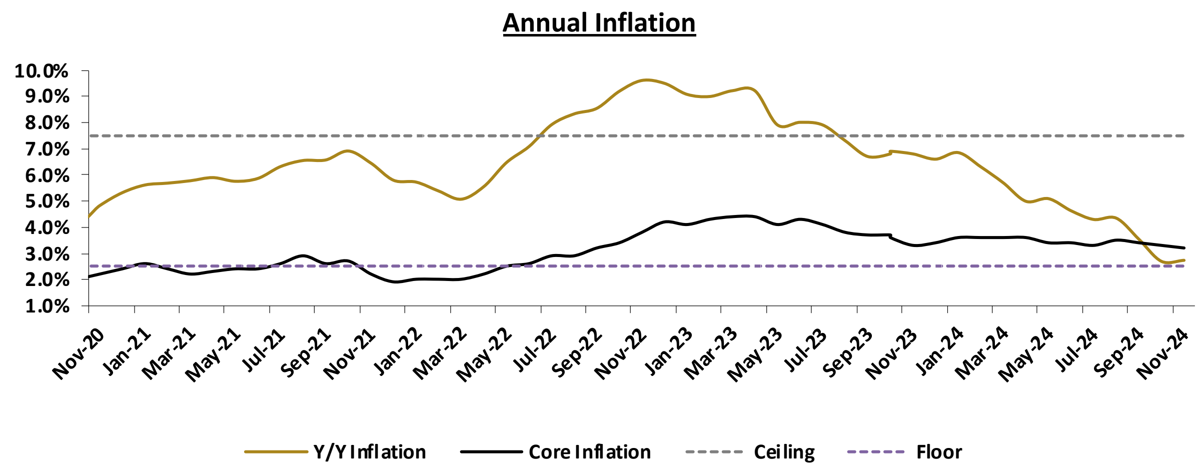
Source: Central Bank of Kenya (CBK)

Diaspora Remittances



Source: Central Bank of Kenya (CBK)

Consumer Prices



Source: Central Bank of Kenya (CBK)

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