SIB Standard Investment Bank

Regulated by the Capital Markets Authority

13TH JANUARY 2025

"3Q24 GDP growth slows to 4.0% from 6.0% in 3Q23"

WEEKLY FIXED INCOME REPORT

Private sector conditions dangle precariously, despite Falling Consumer Prices

MONEY MARKET ANALYSIS

Liquidity conditions in the money market kicked off the year on a stable note with the average lending rate remaining relatively unchanged at 11.1%. Similarly, interbank volumes surged by more than half, recording a 52.3% jump to KES 34.58bn from KES 22.72bn, alongside a 15.0% increase in transaction count.

The table below summarizes the market liquidity indicators:

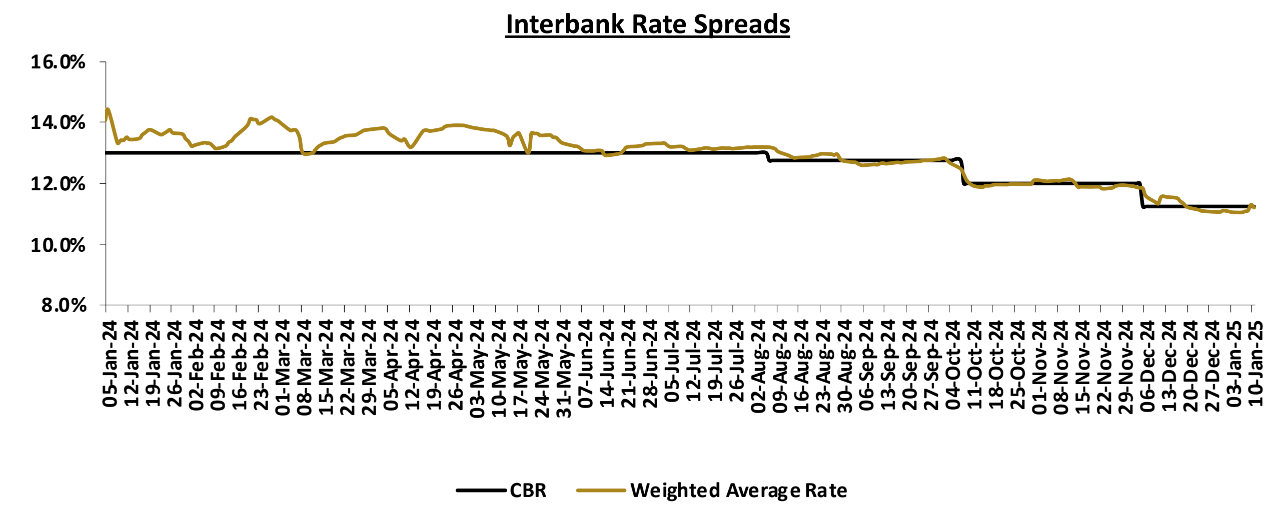
Average	Previous Week	Current Week	Change
Interbank Deals	40.00	46.00	15.00%
Inter- Bank volumes (KES bn)	22.71	34.58	52.28%
Inter – Bank Rates (bps)	11.1%	11.1%	7.26

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

In its open market operations, the Central Bank of Kenya mopped up over KES 60bn from the interbank market, with offers being oversubscribed cumulatively. The trades were executed at an average rate of 11.2%, closely aligned with the benchmark rate.

That said, the weighted average interbank rate has remained closely aligned with the Central Bank Rate (CBR). Actual highs and lows have stayed firmly within the interest rate corridor, underscoring a stable and responsive monetary policy environment.

See the chart below;



Data: Bloomberg, Chart: SIB

GOVERNMENT SECURITIES MARKET

T-bills

This week, demand for Treasury bills bounced back after a month of subdued interest, likely influenced by the festive season. The overall subscription rate surged to 138.1%, from 65.4% the previous week, with the 91-day paper driving the momentum, contributing 40.2% of the total bids. Total bids amounted to KES 33.14bn, with the fiscal agent accepting 73.8% of the submissions.

Yields on accepted bids trended lower overall but at a more gradual pace compared to the pre-December 2024 period when Treasury bills had enjoyed heightened demand for nearly three months. The 91-day paper, whose yield dipped to single digits mid-December, closed the week at 9.59% (-23.28bps). Meanwhile, the 182-day paper edged down slightly to 10.03% (-0.06bps), and the 364-day paper eased to 11.33% (-3.69bps).

See the summary below;

KES bn

13-Jan-25	91-day 14-Apr-25	182-day 14-Jul-25	364-day 12-Jan-26	Totals
Amount offered	4.00	10.00	10.00	24.00
Bids received	13.32	9.71	10.11	33.14
Subscription rate (%)	333.1%	97.1%	101.1%	138.1%
Amount accepted	9.43	9.68	5.35	24.46
Acceptance rate (%)	70.7%	99.7%	52.9%	73.8%
Of which: Competitive Bids	0.11	6.79	4.31	11.22
Non-competitive bids	9.31	2.89	1.04	13.24
Rollover/Redemptions	6.25	9.76	2.78	18.78
New Borrowing/(Net Repayment)	3.18	(0.08)	2.57	5.68
Weighted Average Rate of Accepted Bids	**9.59%**	**10.03%**	**11.33%**	
Inflation	**3.0%**	**3.0%**	**3.0%**	
Real Return	6.6%	7.0%	8.3%	

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

T-Bonds

In the primary bond market, the fiscal agent is still seeking KES 30.0bn through two reopened bonds; FXD1/2018/15, and FXD1/2022/25. The bonds have coupon rates of 12.65% and 14.19% for FXD1/2018/15 and FXD1/2022/25, respectively. Both papers align with a normal yield curve structure, with the longer-tenor FXD1/2022/25 offering a higher yield, consistent with its extended maturity profile.

See a summary of the offer below;

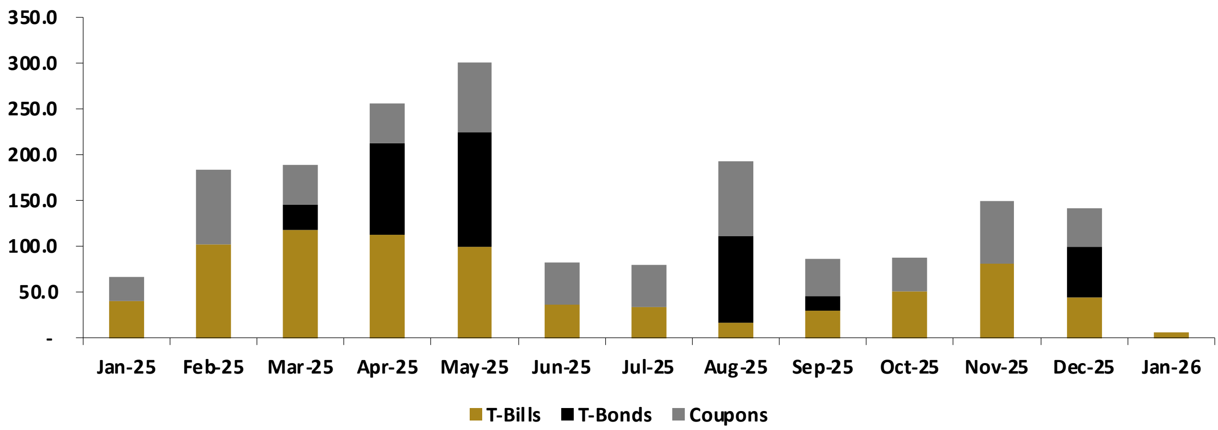
Bond Auctioned	Maturity Date	Effective Tenor	Amount Offered	Coupon	Sale Period
FXD1/2018/15	09-May-33	8.4	30.0	12.65%	Up to 15th January 2025
FXD1/2022/25	23-Sep-47	22.8		14.19%	

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

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 775.92bn and KES 432.51bn, respectively. Including coupon payments, the total maturity profile is approximately KES 1.83tn, as outlined below;

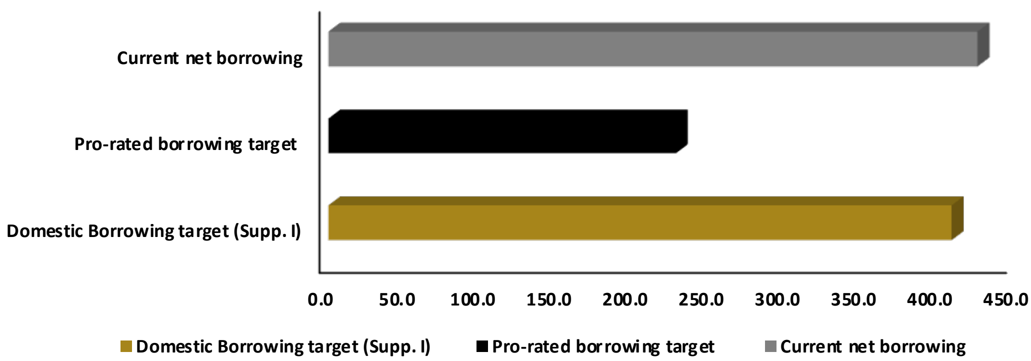
Domestic Debt Maturities (KES bn)



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

The government is ahead of the borrowing curve by 4.2% of its domestic borrowing target for FY24/25, with current borrowing totaling KES 425.37bn, against the target of KES 408.41bn. Excluding T-bills, domestic borrowing is 24.5% above the prorated target and accounts for 69.4% of the overall target. See the chart below;

Domestic Borrowing (KES bn)



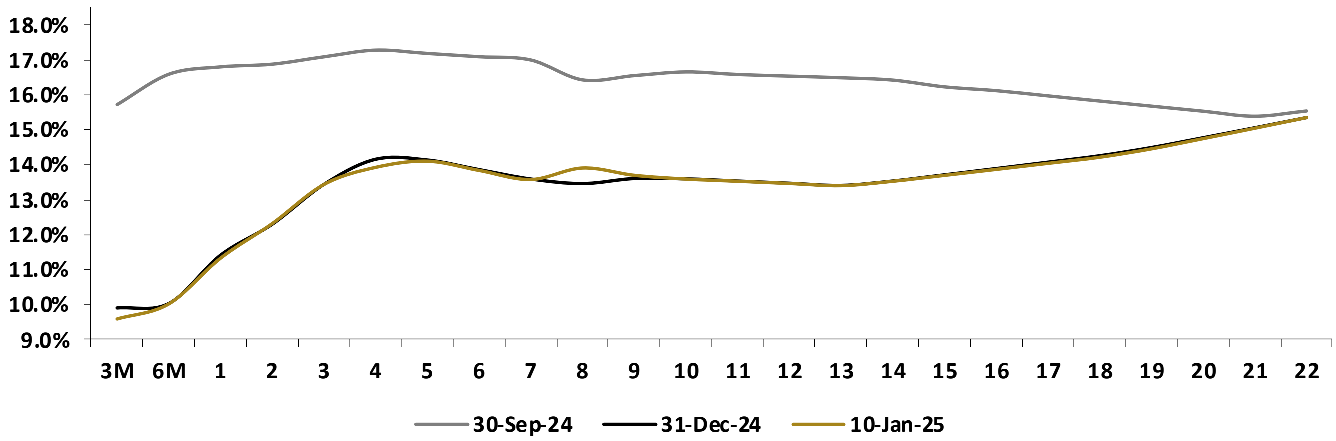
Source: Central Bank of Kenya (CBK), Treasury, Chart: SIB

Yield Curve

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

Week-on-week, yields on government securities recorded an average decline of 0.38bps, with the decline weighed down by a 45bps increase in yields for securities with an effective tenor of 8 years.
Below is a visual representation;

Yield Curve



Source: Nairobi Securities Exchange (NSE), Chart: SIB

The International Front

Kenyan Eurobonds

This week, Kenyan Eurobond yields registered a uniform decline across the medium to long-term spectrum of the curve. 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	3.1	6.1	7.4	9.4	23.1
31-Dec-24	8.5%	9.1%	10.1%	10.1%	10.1%	10.3%
2-Jan-25	8.5%	9.1%	10.1%	10.1%	10.1%	10.3%
6-Jan-25	8.3%	8.9%	9.8%	9.8%	9.8%	10.0%
7-Jan-25	8.3%	8.8%	9.7%	9.7%	9.7%	10.0%
8-Jan-25	8.4%	8.8%	9.8%	9.8%	9.8%	10.0%
9-Jan-25	8.3%	8.8%	9.8%	9.7%	9.8%	10.0%
Weekly Change	(0.2%)	(0.3%)	(0.3%)	(0.3%)	(0.3%)	(0.3%)
YTD Change	(0.2%)	(0.3%)	-	(0.4%)	(0.3%)	(0.3%)

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

Currency Performance

In the foreign exchange market, the Kenyan shilling registered a slight depreciation of 0.2% against the US dollar, mirroring a 0.3% strengthening of the USD Index. However, the shilling appreciated against other major currencies, with the most notable gain observed against the Tanzanian shilling (TZS), likely driven by volatile investor sentiment in the absence of significant market developments.

See the table below;

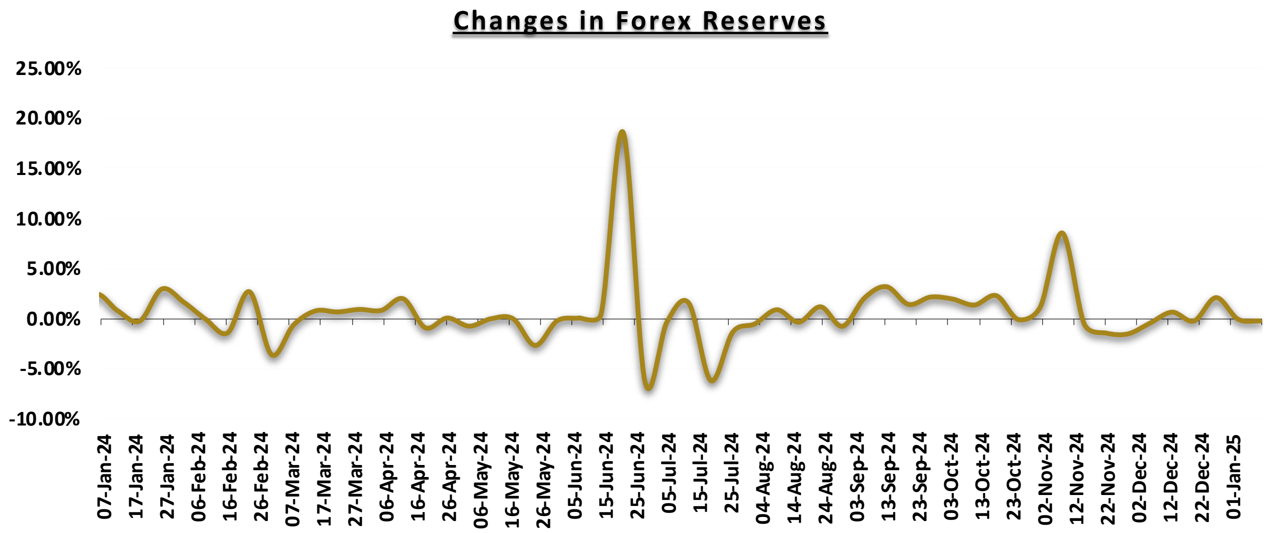
Currencies	29 Dec 2023	Previous Week	Current Week	w/w Change	YTD change
USD/KES	129.3	129.3	129.5	(0.2%)	(0.1%)
EUR/KES	134.3	133.4	133.3	0.1%	0.8%
KES/UGX	28.4	28.4	28.6	0.5%	0.6%
GBP/KES	162.3	160.4	159.1	0.8%	1.9%
JPY/KES	82.1	82.5	81.7	0.9%	0.5%
TZS/KES	19.0	18.8	19.4	2.9%	2.1%

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

Kenya's foreign exchange reserves nudged down slightly by 0.2% to USD 9.18bn, covering a healthy 4.7 months of imports, from USD 9.20bn, last week.

See below the evolution of forex reserves;



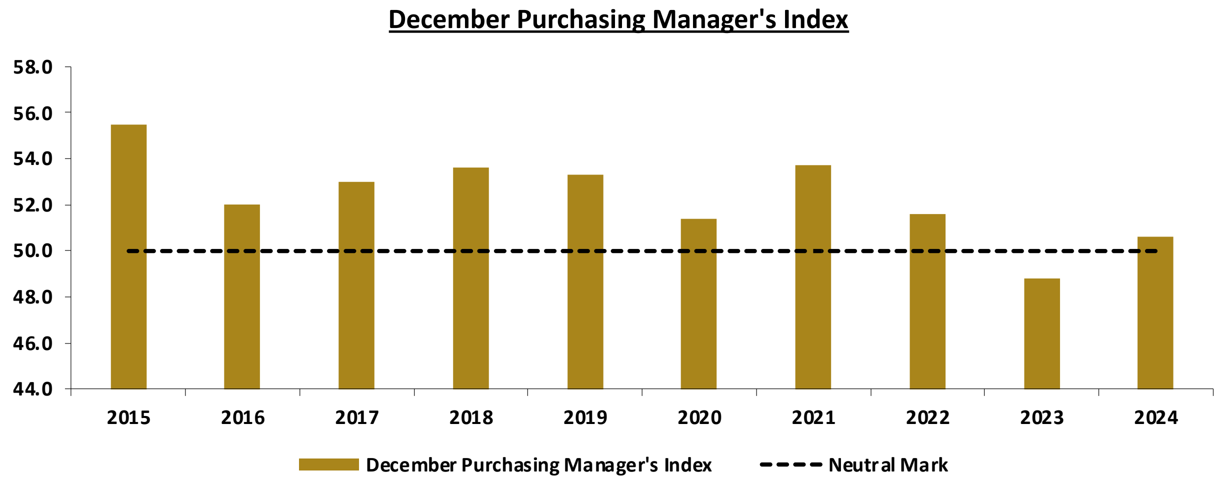
Source: Central Bank of Kenya (CBK), Chart: SIB

MARKET NEWS

a) Private sector conditions dangle precariously, despite Falling Consumer Prices

According to Stanbic Bank Kenya's PMI survey, business activity in the private sector remained relatively stable in December, with the index at 50.6, slightly down from 50.9 in November 2024. Although higher than December 2023's figure, the performance still falls below the historical December averages. This suggests a precarious equilibrium, with any sudden pressures posing a significant downside risk. On a positive note, the sector maintained this level of stability throughout the third quarter of 2024, supported by subdued inflation and exchange rate stability.

See the chart below;



**The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.*

The marginal growth was driven by increased output, signaling higher demand and marking the first full quarter of output expansion since late 2021. There was also a slight rise in new orders, following a modest improvement in consumer purchasing power. Employment remained stable, with hiring in the agriculture sector offsetting declines in other sectors covered by the survey.

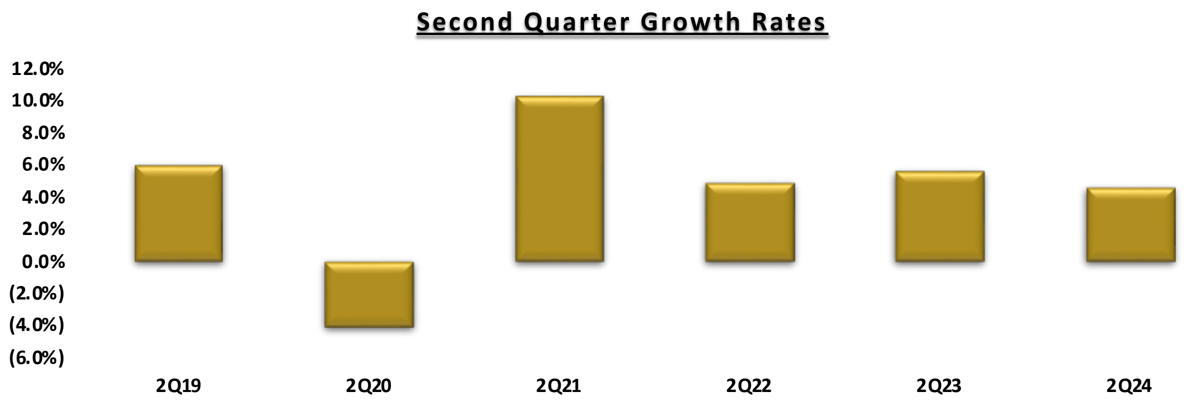
On the downside, rising input costs prompted firms to raise selling prices at the fastest pace since December 2023, as businesses worked to protect their margins. Looking ahead, private sector confidence remains low, with only 5% of surveyed firms expressing optimism about future output growth. This cautious outlook reflects ongoing economic challenges and shrinking inventories, as businesses focus on managing costs effectively.

However, the modest growth offers little reassurance, as even a minor adverse event or trend could push the index into negative territory. Moreover, the drivers behind the slight positive outcome appear fragile at best and susceptible to reversal. This underscores the need for proactive measures to bolster sector performance, particularly in manufacturing and agriculture, which individually constitute a substantial share of the economy. Persistent weaknesses in the private sector, combined with stubborn core inflation, continue to expose underlying inefficiencies that demand urgent resolution.

The Stanbic Bank Kenya PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

b. **Economic Growth: 3Q24 GDP growth slows to 4.0% from 6.0% in 3Q23**

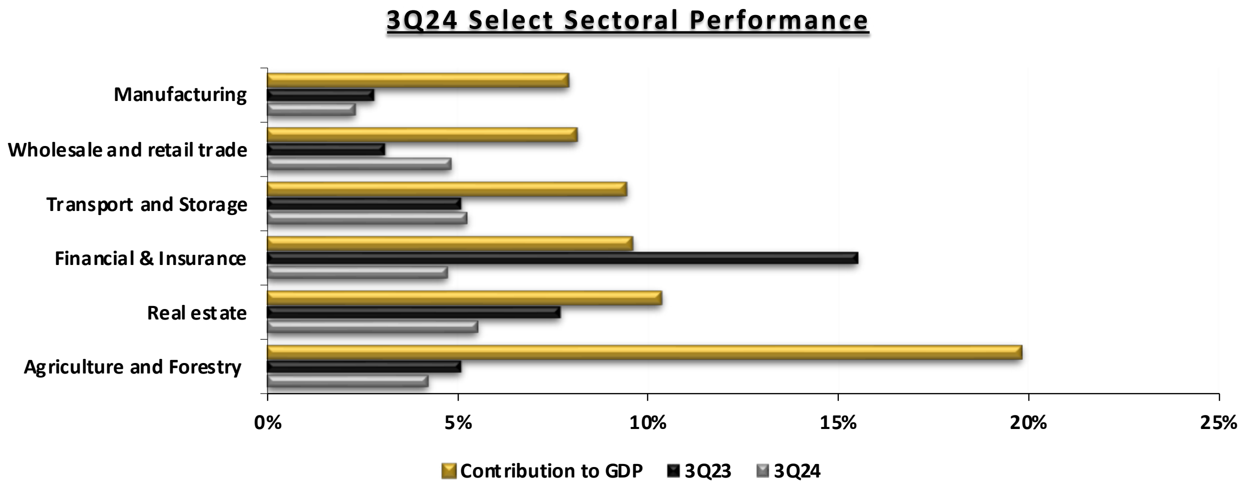
The Kenya National Bureau of Statistics (KNBS) published the 3Q24 GDP Report, highlighting that the Kenyan economy grew by 4.0% during the period. This represents a 60bps and 200bps decline compared to the 4.6% growth in 2Q24 and 6.0% in 3Q23, respectively. It also marks the slowest quarterly growth since 4Q22. See below a chart showing the evolution of Kenya's GDP;



Source: KNBS, Chart: SIB

Growth was driven by agriculture (4.2%), real estate (5.5%), and transport & storage (5.2%), though slower than 2Q24 and 3Q23 performances, except for transport, boosted by increased light diesel consumption due to lower prices. Construction and mining were the only sectors that reported a contraction.

See the chart below for sectoral GDP growth trends;

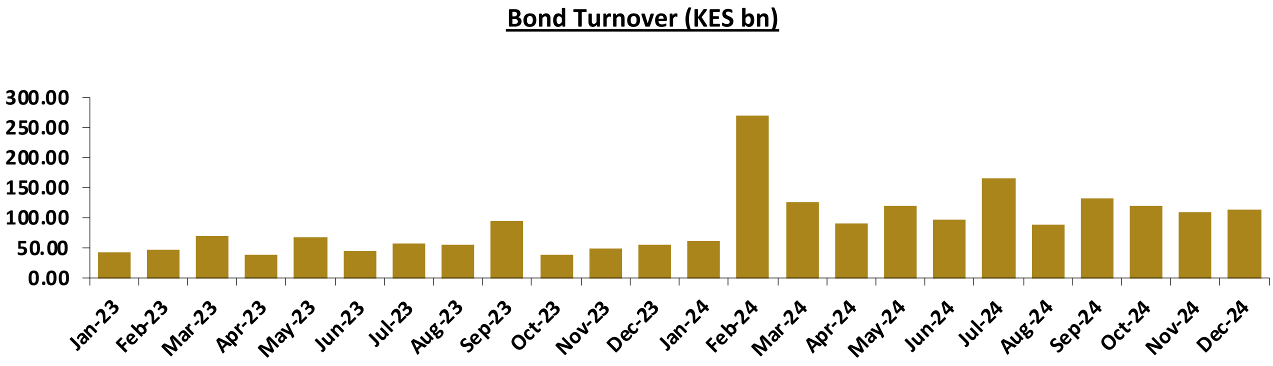


Source: KNBS, Chart: SIB

The services sector remains the dominant force in the economy c.60% followed by the primary sector, with the industrial sector lagging behind. This composition underscores significant growth and investment potential in non-service sectors, which face persistent challenges such as elevated input costs. Unlocking these opportunities will require targeted strategies to address these underlying inefficiencies and enhance competitiveness.

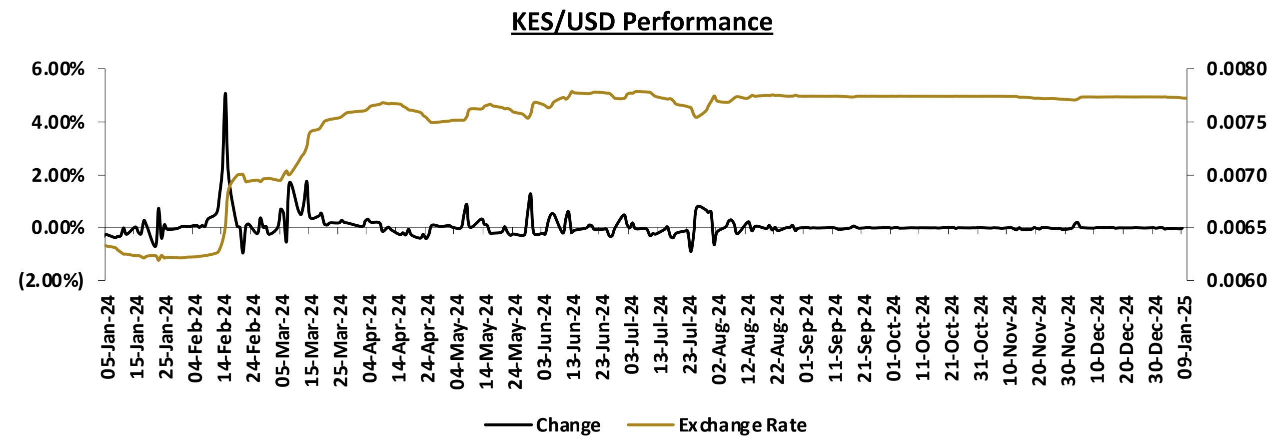
BACKGROUND CHARTS

Secondary Bond Turnover



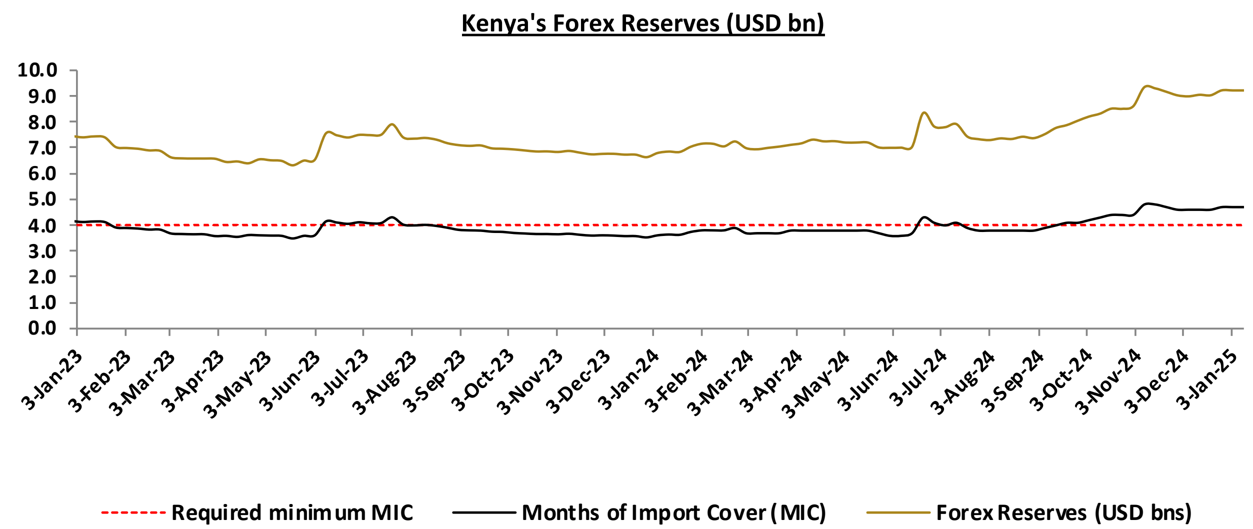
Source: Nairobi Securities Exchange (NSE)

KES/USD Performance



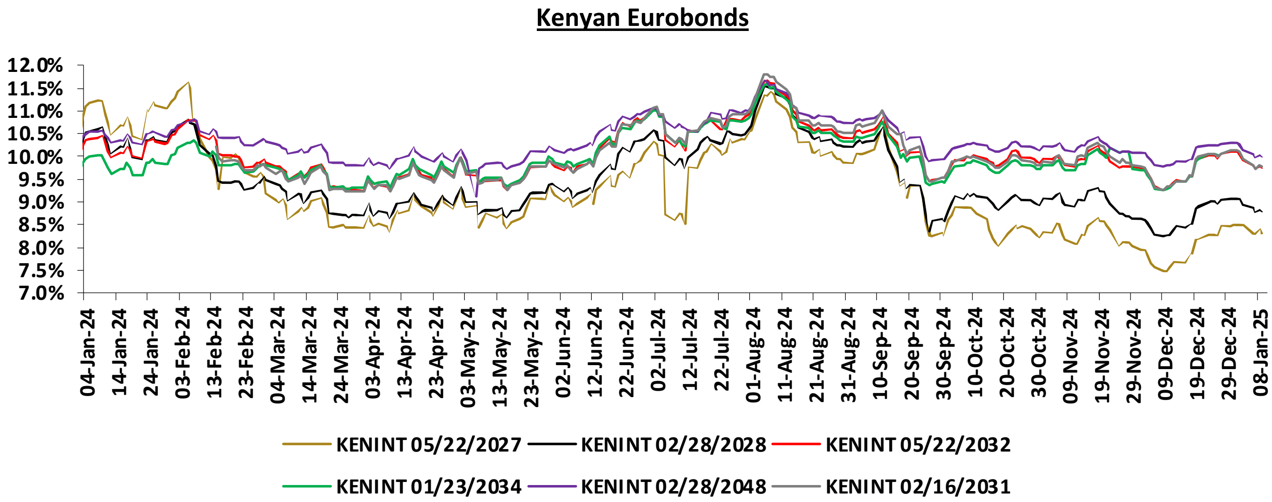
Source: Central Bank of Kenya (CBK)

Forex Reserves



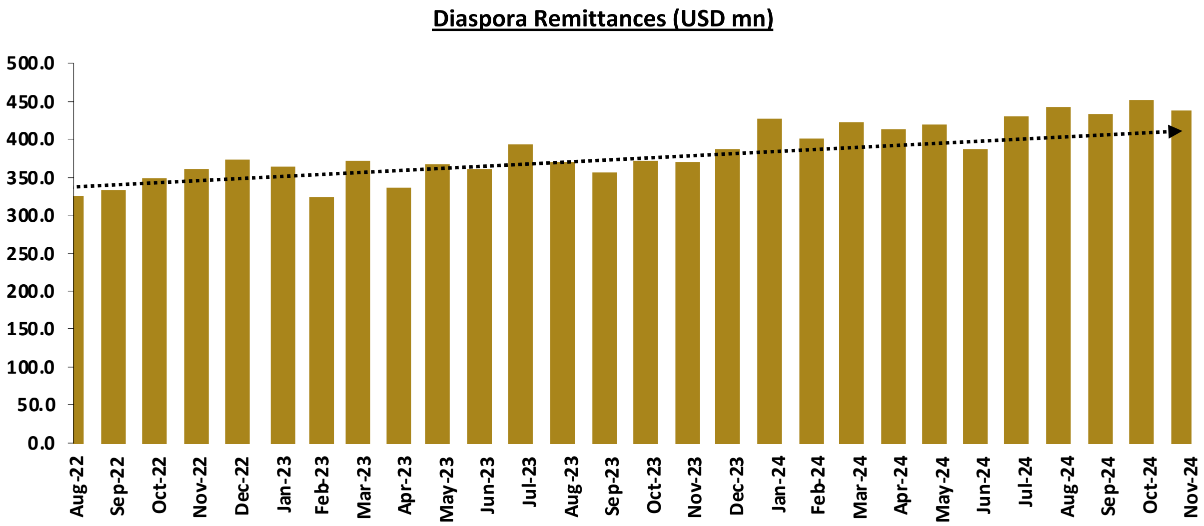
Source: Central Bank of Kenya (CBK)

Kenyan Eurobonds



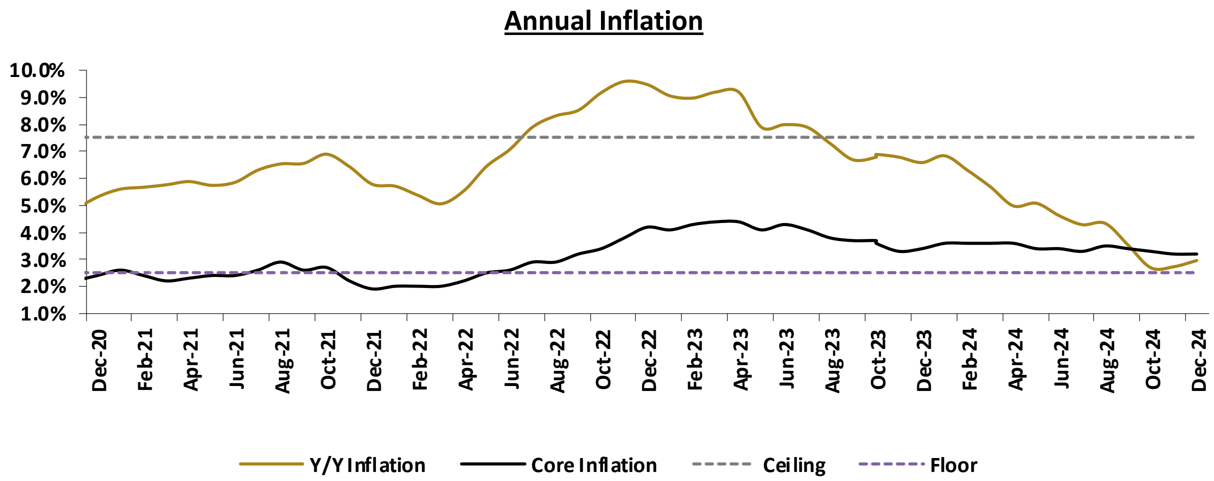
Source: Central Bank of Kenya (CBK)

Diaspora Remittances



Source: Central Bank of Kenya (CBK)

Consumer Prices



Source: Central Bank of Kenya (CBK)

Disclosure and Disclaimer

Analyst Certification Disclosure: The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Global Disclaimer: Standard Investment Bank (SIB) and/or its affiliates makes no representation or warranty of any kind, express, implied or statutory regarding this document or any information contained or referred to in the document. The information in this document is provided for information purposes only. It does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices, or represent that any such future movements will not exceed those shown in any illustration. The stated price of the securities mentioned herein, if any, is as of the date indicated and is not any representation that any transaction can be effected at this price. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors of fact or for any opinion expressed herein. The contents of this document may not be suitable for all investors as it has not been prepared with regard to the specific investment objectives or financial situation of any particular person. Any investments discussed may not be suitable for all investors. Users of this document should seek professional advice regarding the appropriateness of investing in any securities, financial instruments or investment strategies referred to in this document and should understand that statements regarding future prospects may not be realised. Opinions, forecasts, assumptions, estimates, derived valuations, projections and price target(s), if any, contained in this document are as of the date indicated and are subject to change at any time without prior notice. Our recommendations are under constant review. The value and income of any of the securities or financial instruments mentioned in this document can fall as well as rise and an investor may get back less than invested. Future returns are not guaranteed, and a loss of original capital may be incurred. Foreign-currency denominated securities and financial instruments are subject to fluctuation in exchange rates that could have a positive or adverse effect on the value, price or income of such securities and financial instruments. Past performance is not indicative of comparable future results and no representation or warranty is made regarding future performance. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. Accordingly, information may be available to us which is not reflected in this material, and we may have acted upon or used the information prior to or immediately following its publication. SIB is not a legal or tax adviser, and is not purporting to provide legal or tax advice. Independent legal and/or tax advice should be sought for any queries relating to the legal or tax implications of any investment. SIB and/or its affiliates may have a position in any of the securities, instruments or currencies mentioned in this document. SIB has in place policies and procedures and physical information walls between its Research Department and differing business functions to help ensure confidential information, including 'inside' information is not disclosed unless in line with its policies and procedures and the rules of its regulators. Data, opinions and other information appearing herein may have been obtained from public sources. SIB makes no representation or warranty as to the accuracy or completeness of such information obtained from public sources. You are advised to make your own independent judgment (with the advice of your professional advisers as necessary) with respect to any matter contained herein and not rely on this document as the basis for making any trading, hedging or investment decision. SIB accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental, consequential, punitive or exemplary damages) from the use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents or associated services. This material is for the use of intended recipients only and, in any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors.

CONTACTS

Research

Eric Musau
emusau@sib.co.ke

Stellah Swakei
sswakei@sib.co.ke

Wesley Manambo
wmanambo@sib.co.ke

Melodie Gatuguta
mgatuguta@sib.co.ke

Equity Trading

Tony Waweru
awaweru@sib.co.ke

Foreign Equity Sales

John Mucheru
jmucheru@sib.co.ke

Fixed Income Trading

Brian Mutunga
bmutunga@sib.co.ke

Barry Omotto
bomotto@sib.co.ke

Global Markets

Nahashon Mungai
nmungai@sib.co.ke

Nickay Wangunyu
nwangunyu@sib.co.ke

Global Foreign Debt Analyst

Martin Kirimi
mkirimi@sib.co.ke

Investment Solutions

Robin Mathenge
rmathenge@sib.co.ke

Corporate Finance

Job Kihumba
jkihumba@sib.co.ke

Lorna Wambui
wndungi@sib.co.ke

Private Client Services

Boniface Kiundi
bkiundi@sib.co.ke

Frankline Kirigia
fkirigia@sib.co.ke

Laban Githuki
lgithuki@sib.co.ke

Distribution

Victor Marangu
vmarangu@sib.co.ke

Marketing & Communications

Victor Ooko
communications@sib.co.ke

Client Services
clientservice@sib.co.ke

Headquarters

JKUAT Towers (Formerly ICEA Building),
16th Floor , Kenyatta Avenue, Nairobi,
Kenya.

Telephone: +254 777 333 000,
+254 20 227 7000, +254 20 227 7100

Email: clientservices@sib.co.ke