SIB Standard Investment Bank

Regulated by the Capital Markets Authority

10TH FEBRUARY 2025

"CBK seeks to buy back KES 50bn in three bonds set to mature in April & May 2025"

WEEKLY FIXED INCOME REPORT

MPC Lowers Base Lending Rate by 50bps to 10.75% and CRR by 100bps to 3.25% to Support Liquidity in the Economy

MONEY MARKET ANALYSIS

In the money market, banks lent to each other at an average rate of 10.9%, representing a 32.61bps decline from the previous week's average of 11.22%. This decline was primarily driven by the recent downward adjustment of the Central Bank Rate (CBR).

However, trading activity slowed significantly, dropping by 35.8% to KES 14.29 billion from KES 22.25 billion, signaling constrained liquidity. The decline was accompanied by a 20.6% drop in transaction count.

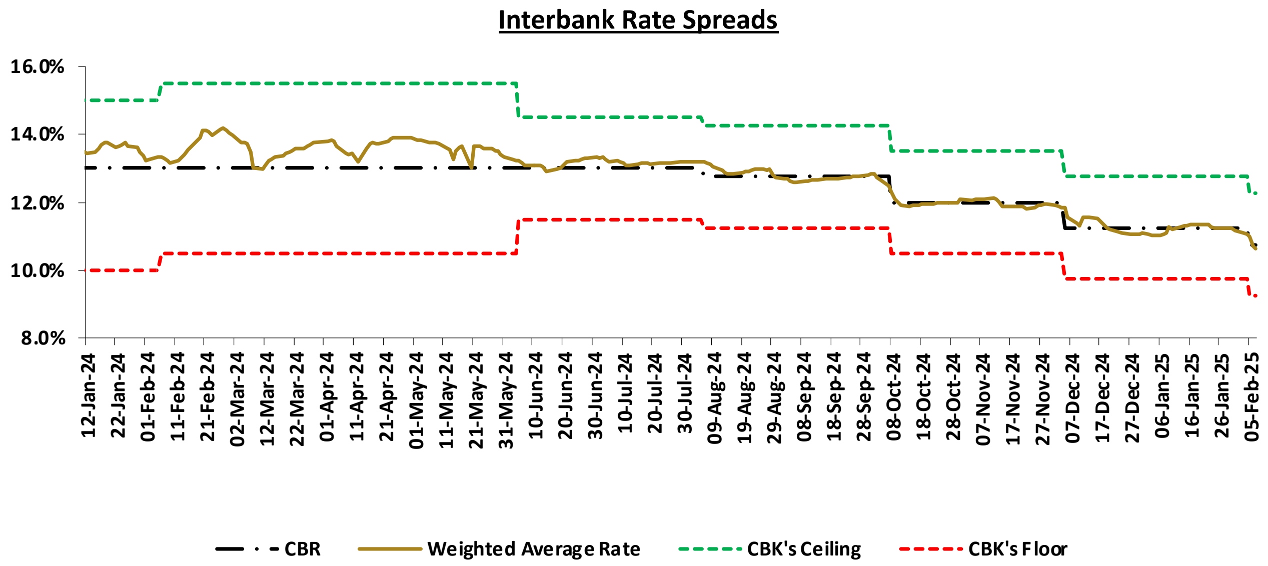
The table below summarizes the market liquidity indicators:

Average	Previous Week	Current Week	Change
Interbank Deals	34.00	27.00	(20.59%)
Inter- Bank volumes (KES bn)	22.25	14.29	(35.79%)
Inter – Bank Rates (bps)	11.22%	10.90%	(32.61)

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

Even after the CBR adjustment , the weighted average interbank rate has remained closely aligned with fluctuations staying well within the interest rate corridor. Now the nterban rate corrdor ranges between 9.25% and 12.25%.   This alignment highlights the stability and effectiveness of the monetary policy framework.

See the chart below;



Data: Bloomberg, Chart: SIB

GOVERNMENT SECURITIES MARKET

T-bills

This week saw a renewed demand for Treasury bills, with the subscription rate surging to 296.6% from 56.1% the previous week. The 364-day paper attracted the highest interest, marking an 11-week high and an indication of a renewed interest in the paper as interest rates edge downwards. Total bids amounted to KES 59.74bn, with the fiscal agent accepting 83.9% of the submissions.

Yields on accepted bids declined further across all tenors, following the 50bps rate cut during the week. The effects appear to be transmitting rapidly in this segment of the market. The 91- 182- and 364 – day papers settled at 9.12% (-40.63bps) 9.52% (-50.85bps), and 10.76% (-55.51bps), respectively.

See the summary below;

KES bn

12-Feb-25	91-day 12-May-25	182-day 11-Aug-25	364-day 9-Feb-26	Totals
Amount offered	4.00	10.00	10.00	24.00
Bids received	10.00	24.00	37.18	71.18
Subscription rate (%)	250.0%	240.0%	371.8%	296.6%
Amount accepted	9.93	15.08	34.73	59.74
Acceptance rate (%)	99.3%	62.8%	93.4%	83.9%
Of which: Competitive Bids	7.90	9.55	33.61	51.06
Non-competitive bids	2.03	5.53	1.12	8.68
Rollover/Redemptions	10.83	20.30	7.07	38.20
New Borrowing/(Net Repayment)	(0.90)	(5.23)	27.66	21.54
Weighted Average Rate of Accepted Bids	**9.12%**	**9.52%**	**10.76%**	
Inflation	**3.3%**	**3.3%**	**3.3%**	
Real Return	5.8%	6.2%	7.5%	

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

T-Bonds

In the primary bond market, the fiscal agent is seeking to raise KES 70 billion through two reopened infrastructure bonds: IFB1/2022/14 and IFB1/2023/17, with effective tenors of 11.8 and 15.1 years, respectively. We anticipate an oversubscription, although not as high as the February 2024 issuance. Our projection suggests a performance rate of around 1.5x, with stronger investor interest likely leaning toward the shorter-tenor paper if recent trends are anything to go by.

See a summary of the offer below;

Bond Auctioned	Maturity Date	Effective Tenor	Amount Offered	Coupon	Sale Period
IFB1/2022/14	27-Oct-36	11.8	70.0	13.94%	Up to 12th February 2025
IFB1/2023/17	20-Feb-40	15.1		14.40%	

Meanwhile, the Central Bank of Kenya is in the market for a bond buyback, aiming to partially settle in advance three bonds maturing in April and May. The offer targets a redemption of KES 50bn for FXD1/2022/03, FXD1/2020/05, and IFB1/2016/09, whose total outstanding amounts to KES 185.05bn—translating to a 27.0% potential settlement.

The buyback settlement coincides with that of the reopened bonds, which suggests a liquidity management strategy likely aimed at offsetting the February offer. Additionally, this move appears to signal an effort to boost investor confidence and manage credit rating agency perceptions. Overall, it is a welcome step, particularly given the voluntary nature of the buyback. See a summary of the offer;

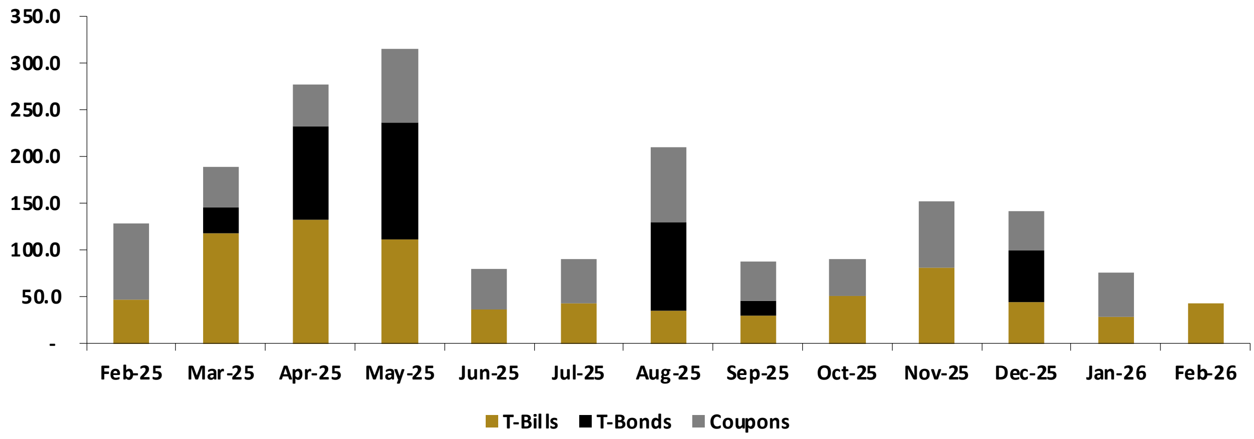
Bond Buy Back						
	Maturity Date	Tenor to maturity (Days)	Coupon Rate	Target Amount	Amount Outstanding	Pending interest Outstanding Coupon
FXD1/2022/03	07-Apr-25	57	11.8%	50.00	60.61	3.57
FXD1/2020/05	05-May-25	85	11.7%		104.52	6.10
IFB1/2016/09	12-May-25	92	12.5%		19.93	1.25
TOTAL					**185.05**	**10.91**

Source: 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 at KES 761.73bn and KES 417.84bn, respectively. Including coupon payments, the total maturity profile is approximately KES 1.86tn, as outlined below;

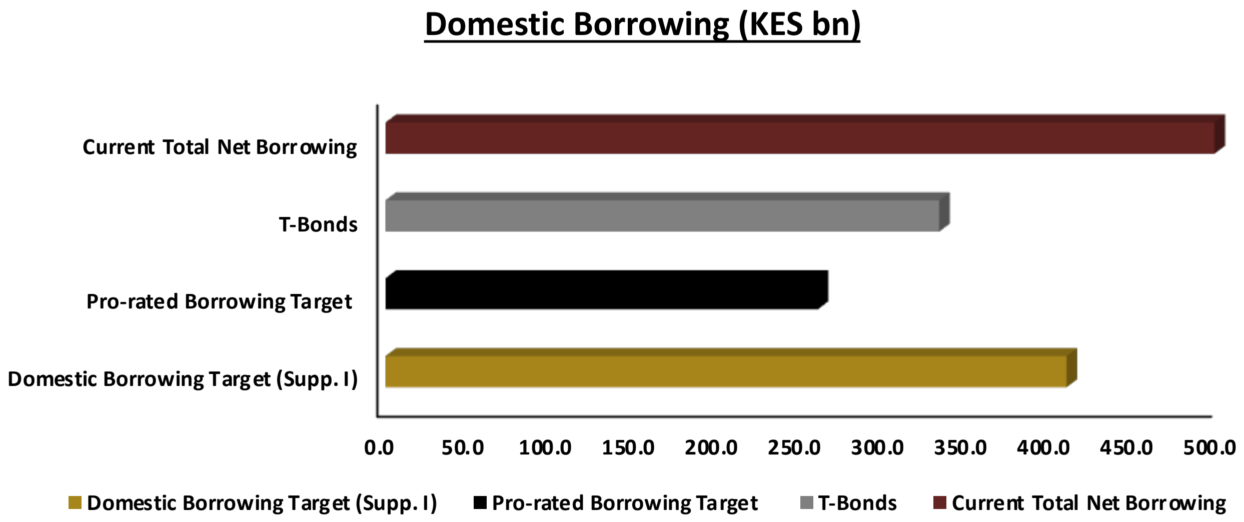
Domestic Debt Maturities (KES bn)



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

The government is ahead of its domestic borrowing curve for FY24/25 by 21.7%, having mobilized KES 497.15bn against a target of KES 408.41bn. Excluding Treasury bills, domestic borrowing surpasses the prorated target by 28.1%, currently standing at 81.3% of the overall target.

However, we anticipate a post-buyback readjustment, which is expected to perform well as investors look to liquidate their positions and enter new ones. Ultimately, the Treasury may revise the domestic borrowing target downwards, though this will largely depend on revenue performance. Any further shortfalls may require additional borrowing, even after the settlement of bonds maturing in the first half of the year.



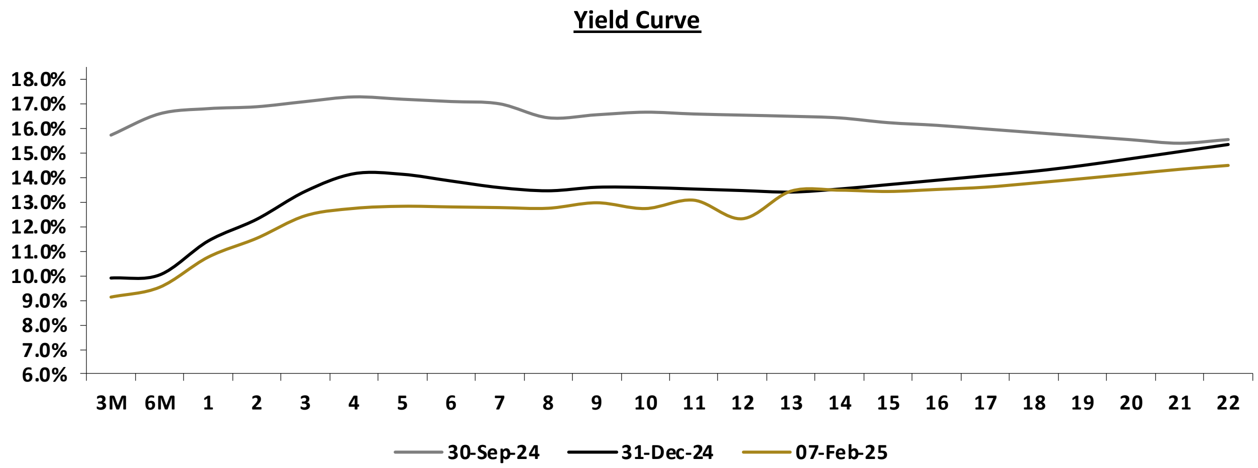
Source: Central Bank of Kenya (CBK), Treasury, Chart: SIB

Yield Curve

The yield curve evidently exhibits a downward movement compared to recent levels save for a few yields on relatively long-term papers The downward trend is expected to persist, driven by signals from the Central Bank, including the recent bond buyback and accommodative monetary stances, such as the CBR cut during the week.

Week-on-week, yields across all tenors declined, with the average performance registering a 45.71bps drop.

Below is a visual representation;



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

The International Front

Kenyan Eurobonds

This week, Kenyan Eurobond yields were on a downward trajectory, signaling favorable market news and stability of key indicators. 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	2.3	3.1	6.0	7.3	9.3	23.1
31-Dec-24	8.5%	9.1%	10.1%	10.1%	10.1%	10.3%
31-Jan-25	8.4%	8.9%	10.0%	9.9%	10.0%	10.2%
3-Feb-25	8.5%	9.1%	10.1%	10.1%	10.1%	10.3%
4-Feb-25	8.4%	8.9%	10.0%	10.1%	10.0%	10.2%
5-Feb-25	8.2%	8.5%	9.7%	10.0%	9.7%	10.1%
6-Feb-25	8.2%	8.6%	9.7%	9.7%	9.7%	10.1%
Weekly Change	(0.2%)	(0.3%)	(0.3%)	(0.2%)	(0.2%)	(0.1%)
YTD Change	(0.3%)	(0.5%)	(0.4%)	(0.4%)	(0.4%)	(0.2%)

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

Currency Performance

For some time now, the Kenyan shilling has been exhibiting mixed performance across the currency pairs that we track. The steepest depreciation was against the JPY, for the second consecutive week, while the highest appreciation was recorded against the Euro. The shilling remained stable against the dollar even as the USD Index weakened further by 0.1%.

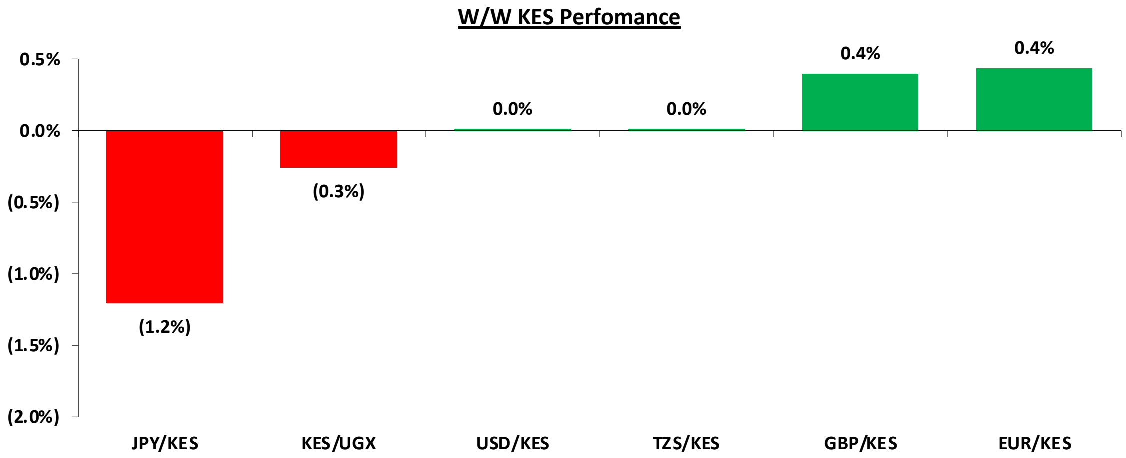
See the table below;

Currencies	29 Dec 2024	Previous Week	Current Week	w/w Change	YTD change
JPY/KES	82.1	83.9	84.9	(1.2%)	(3.4%)
KES/UGX	28.4	28.5	28.4	(0.3%)	0.1%
USD/KES	129.3	129.2	129.2	0.0%	0.1%
TZS/KES	19.0	19.8	19.8	0.0%	4.3%
GBP/KES	162.3	160.7	160.1	0.4%	1.3%
EUR/KES	134.3	134.5	133.9	0.4%	0.3%

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

See also a visual representation;



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

Meanwhile, Kenya's foreign exchange reserves increased by a further 3.9% to USD 9.22bn, providing 4.7 months of import cover, up from USD 8.88bn (4.5 months of import cover) the previous week. We suspect strategic purchase of dollars by the Central Bank in a move to boost the reserves when dollar demand is minimal.

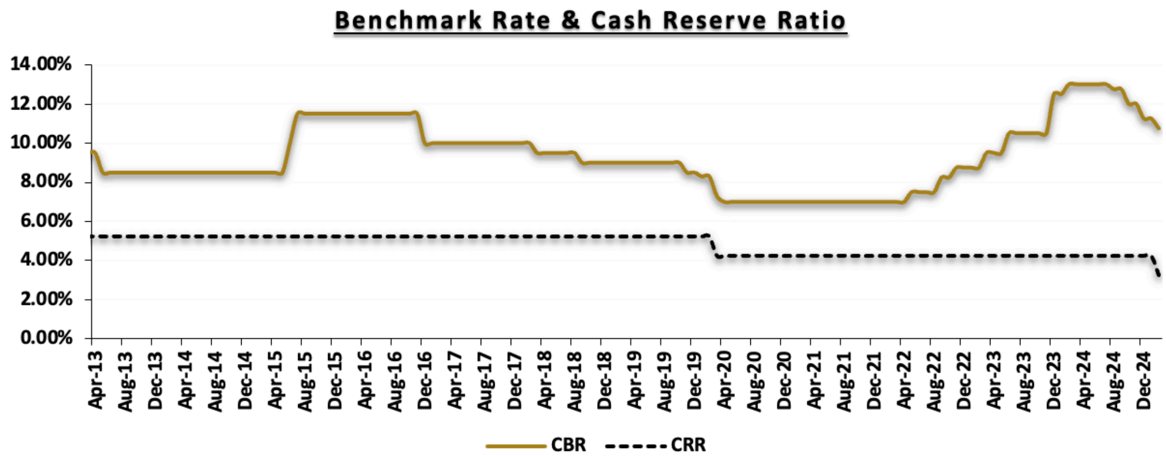
MARKET NEWS

MPC lowers base to 10.75% and CRR to 3.25% to support liquidity in the economy

The Central Bank of Kenya's (CBK) Monetary Policy Committee (MPC) convened on Wednesday, 5th February 2025, and made two key adjustments: reducing the Central Bank Rate (CBR) by 50bps to 10.75% and the Cash Reserve Ratio (CRR) by 100bps to 3.25%. These decisions were primarily driven by the need to stimulate economic growth and increase liquidity, thereby bolstering private sector credit growth. The committee also noted a global trend of economies cutting their benchmark rates. Additionally, inflation is projected to remain below the midpoint of the target range, supported by declining food and fuel inflation.

Notably the CRR was last changed in March 2020 when it was reduced by a similar 100bps to 4.25% from 5.25% to support borrowers that are distressed as a result of COVID-19.

See the chart below;

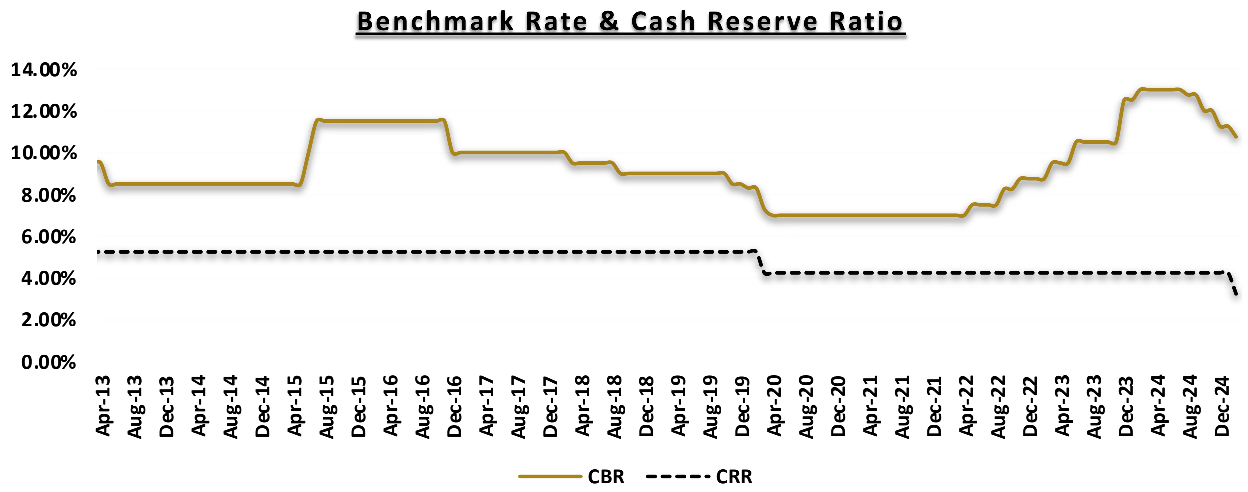


Source: CBK, Chart: SIB

The committee observed that exports rose by 15.4% in 2024 compared to 2023, while imports grew at a slower rate of 9.9%. This trend underscores weakening demand, constrained capital, and rising input costs—further reinforced by a subdued private sector business environment.

The current account deficit was estimated at 3.7% of GDP in 2024, a 30bps improvement from 4.0% in 2023. Notably, this deficit was more than fully financed by capital and financial inflows, leading to an overall balance of payments surplus of USD 1,466mn. The surplus, combined with IMF disbursements, contributed to a buildup of gross reserves by USD 2,749mn in 2024.

Looking ahead, the current account deficit is projected to be 3.8% of GDP in 2025, fully financed by capital and financial inflows. This is expected to yield an overall balance of payments surplus of USD 591mn and an additional increase in gross reserves by USD 1,451mn. see the chart below;



Source: CBK, Chart: SIB

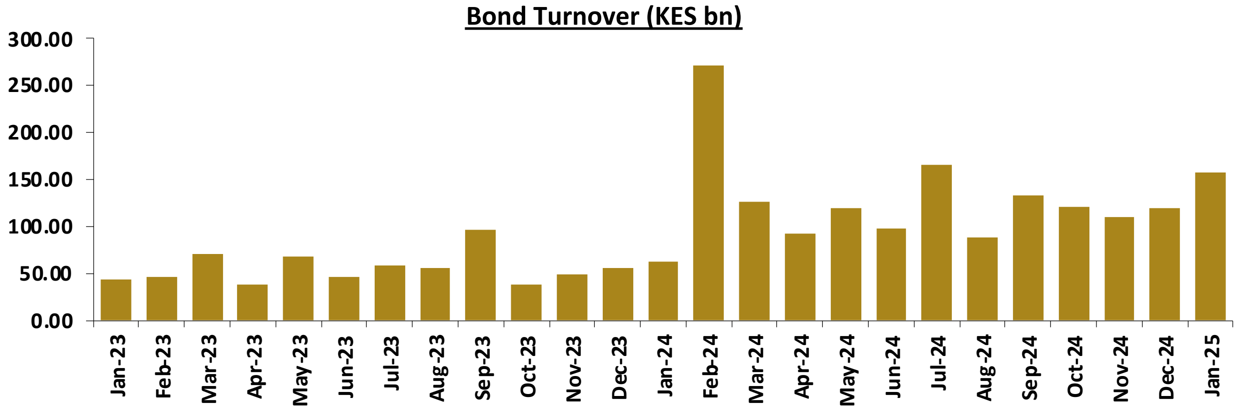
Based on our further assessment, private sector credit growth remains constrained also due to government crowding-out and heightened business environment risks driven by lower margins. This has placed borrowers at a crossroads—balancing the challenge of meeting debt obligations while staying afloat. Consequently, the Non-Performing Loans (NPL) ratio surged to 16.4% in December 2024 from 14.8% in December 2023, underscoring the rising cost of credit and shrinking profit margins. Additional credit to the economy will likely dilute the current NPL ratio, especially if priced at lower levels.

However, with government securities' yields declining sharply, banks are likely to gradually increase lending to the private sector to maintain profitability. Additionally, the reduced Cash Reserve Ratio (CRR) is expected to inject liquidity into the banking system, enabling lenders to support borrowers. Should the government fulfill its commitment to settle pending SME bills, we may witness a decline in non-performing loans alongside a softening of credit terms

The committee will meet again in April 2025.

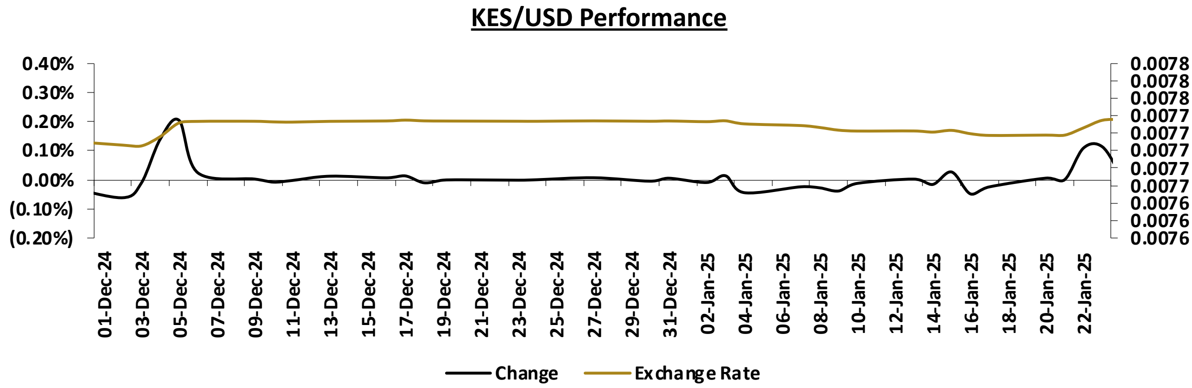
BACKGROUND CHARTS

Secondary Bond Turnover



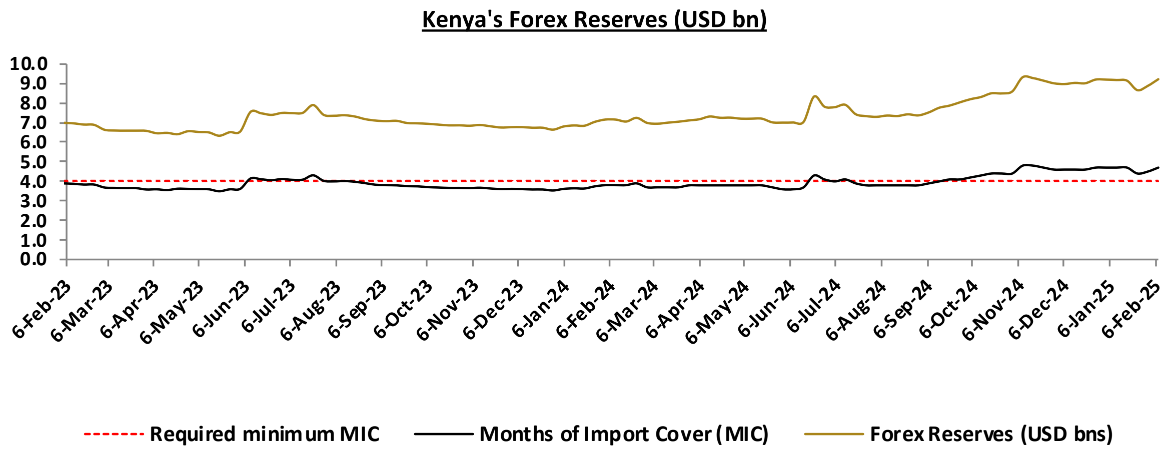
Source: Nairobi Securities Exchange (NSE)

KES/USD Performance



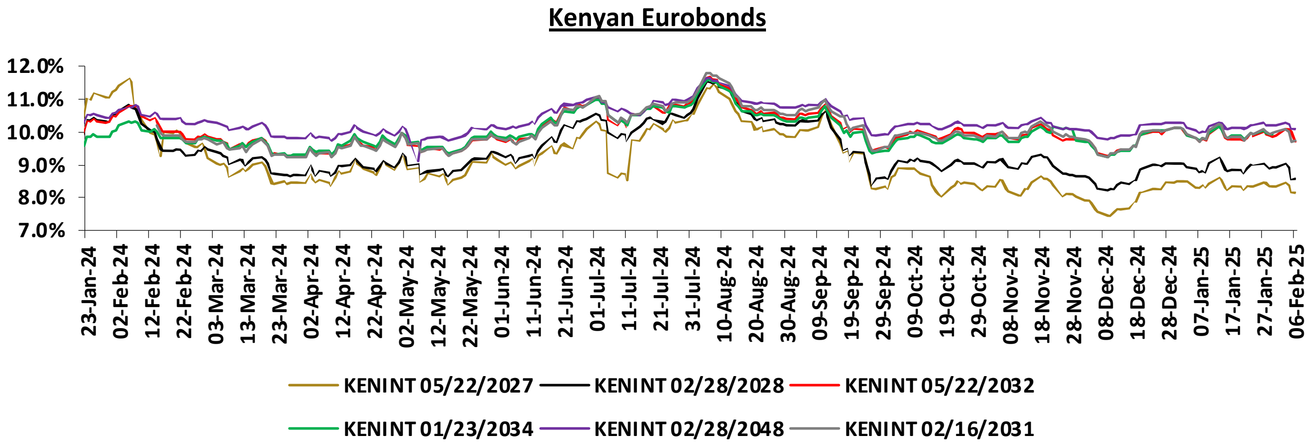
Source: Central Bank of Kenya (CBK)

Forex Reserves



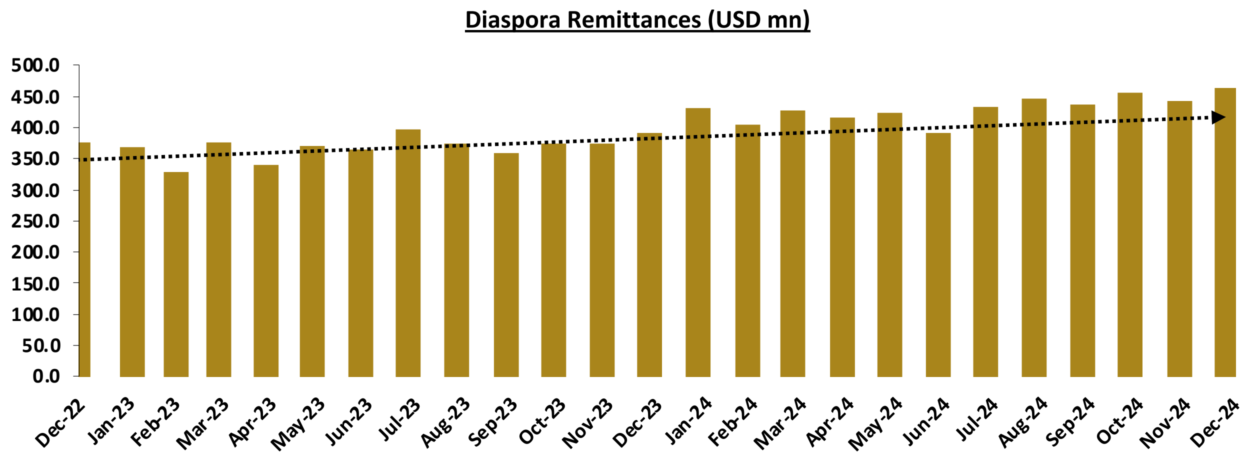
Source: Central Bank of Kenya (CBK)

Kenyan Eurobonds



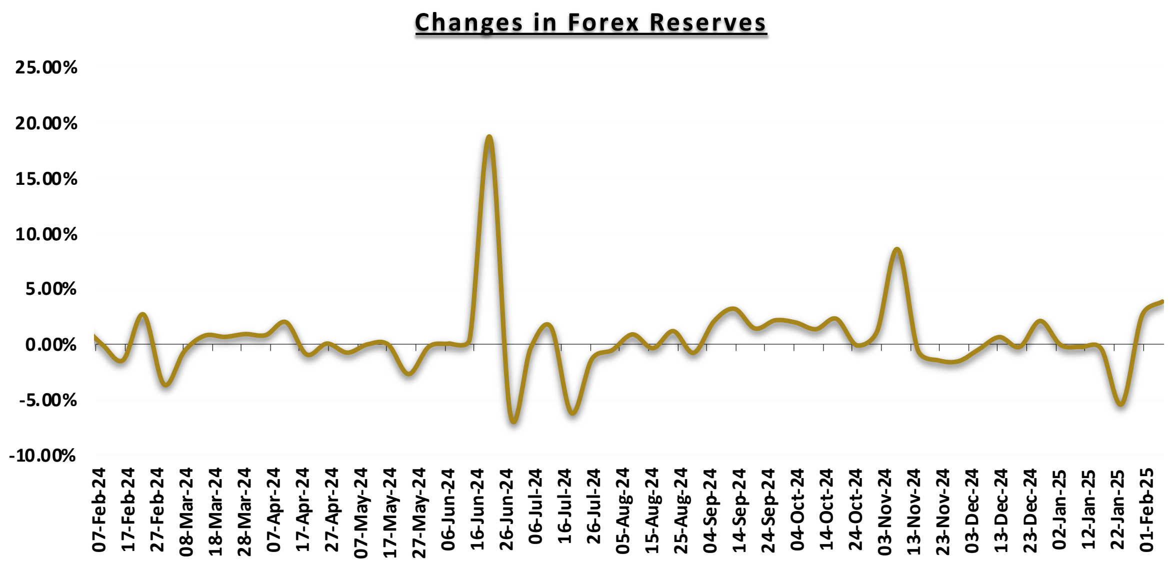
Source: Central Bank of Kenya (CBK)

Diaspora Remittances



Source: Central Bank of Kenya (CBK)

Forex Reserves



Source: Central Bank of Kenya (CBK)

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