

“
February 2025
inflation estimate:
3.3% - 3.6%

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WEEKLY FIXED INCOME REPORT

*Cumulative Tax Revenues Rise only 2.9%/y for the
First Seven Months of FY24/25*

MONEY MARKET ANALYSIS

In the money market, interbank lending activity improved with the volumes traded rising by 27.9% to KES 19.65bn from KES 15.36bn, alongside a 57.7% surge in transaction count. However, banks lent to each other at a higher average rate of 10.7%, up 12.10bps from the previous week's 10.5%.

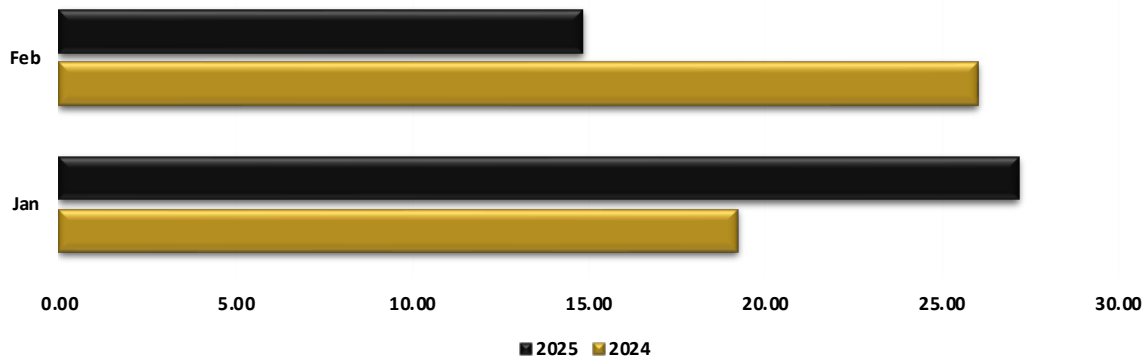
The table below summarizes the market liquidity indicators:

| Average | Previous Week | Current Week | Change |
|------------------------------|---------------|--------------|--------|
| Interbank Deals | 26.00 | 41.00 | 57.69% |
| Inter- Bank volumes (KES bn) | 15.36 | 19.65 | 27.88% |
| Inter - Bank Rates (bps) | 10.54% | 10.66% | 12.10 |

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

So far, we observe a notable decline in volumes traded for the month of February compared to January. See below a visual chart of the interbank market trends;

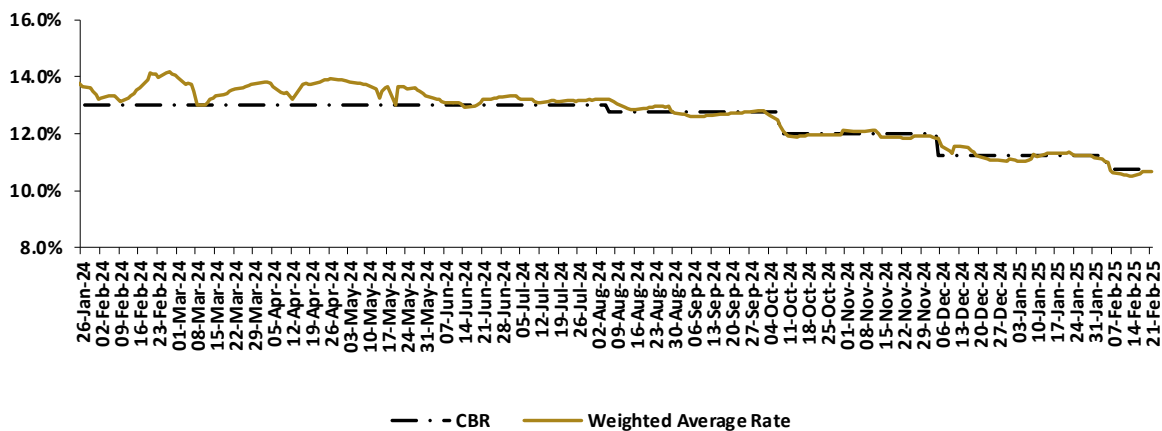
Average Interbank Volumes



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

The weighted average interbank rate has closely tracked the Central Bank Rate, underscoring the stability and effectiveness of the monetary policy framework. See the chart below;

Interbank Rate Spreads



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

GOVERNMENT SECURITIES MARKET

T-bills

Demand for Treasury bills remained strong, though the subscription rate declined for the second consecutive week to 137.3% from 184.4% the previous week. Investor appetite was largely skewed toward the 364-day paper, which accounted for nearly half of the total bids. In total, investors submitted KES 32.94bn, with the fiscal agent accepting almost the entire amount.

We note a shift in investor preference away from the 91-day paper, which had been highly favored since mid-2022. This trend suggests a diminishing perception of long-term risks and attempts to lock in higher yields on the longer paper lowering reinvestment risk. The 91-day paper continues to attract more non-competitive bids than competitive ones, indicating reduced institutional investor focus and contributing to the gradual decline in the weighted average rate of accepted bids.

Overall yields continue to dipped across all tenors, with the 91- 182- and 364 – day papers settling at 8.95% (-2.20bps), 9.31% (-9.84bps), and 10.53% (-16.40bps), respectively.

See the summary below;

KES bn

| 24-Feb-25 | 91-day 19-May-25 | 182-day 18-Aug-25 | 364-day 16-Feb-26 | Totals |
|---|---------------------|----------------------|----------------------|--------------|
| Amount offered | 4.00 | 10.00 | 10.00 | 24.00 |
| Bids received | 4.52 | 12.36 | 16.06 | 32.94 |
| Subscription rate (%) | 113.1% | 123.6% | 160.6% | 137.3% |
| Amount accepted | 4.52 | 12.34 | 16.05 | 32.90 |
| Acceptance rate (%) | 99.9% | 99.9% | 99.9% | 99.9% |
| Of which: Competitive Bids | 0.12 | 10.62 | 12.52 | 23.25 |
| Non-competitive bids | 4.40 | 1.72 | 3.53 | 9.65 |
| Rollover/Redemptions | 13.32 | 4.12 | 12.39 | 29.83 |
| New Borrowing/(Net Repayment) | (8.80) | 8.22 | 3.65 | 3.07 |
| Weighted Average Rate of Accepted Bids | 8.95% | 9.31% | 10.53% | |
| Inflation | 3.3% | 3.3% | 3.3% | |
| Real Return | 5.7% | 6.0% | 7.2% | |

Source: Central Bank of Kenya (CBK), Table: S1B

T-Bonds

In the primary bond market, the fiscal agent successfully bought back KES 50.09bn, redeeming 27.0% of the combined principal for FXD1/2022/03, FXD1/2020/05, and IFB1/2016/09. The auction was slightly oversubscribed, with the shortest-maturity infrastructure bond recording the lowest subscription rate. This trend is attributed to its higher coupon rate coupled with the tax-free nature of the bond, which incentivizes investors to hold it longer to maximize tax benefits.

All the bonds traded at a premium, with the weighted average rates settling at 9.07%, 8.95%, and 9.09% for FXD1/2022/03, FXD1/2020/05, and IFB1/2016/09, respectively.

Overall, the February bond auctions resulted in a net borrowing of KES 80.72bn, exceeding the initial target of KES 70bn.

See a summary of the results below;

| 24-Feb-25 | FXD1/2022/03 7-Apr-25 | FXD1/2020/05 5-May-25 | IFB1/2016/09 12-May-25 | TOTALS |
|--|--------------------------|--------------------------|---------------------------|----------------|
| Amount offered | | | | 50.00 |
| Bids received | 10.28 | 40.07 | 5.74 | 56.09 |
| Subscription rate (%) | 20.6% | 80.1% | 11.5% | 112.2% |
| Amount accepted | 9.27 | 35.08 | 5.74 | 50.09 |
| Acceptance rate (%) | 90.2% | 87.5% | 100.0% | 89.3% |
| (Net Repayment) | | | | (50.09) |
| Allocated average rate for accepted bids | 9.07% | 8.95% | 9.09% | |
| Coupon Rate | 11.77% | 11.67% | 12.50% | |
| Outstanding Amount | 51.33 | 69.44 | 14.19 | 134.96 |

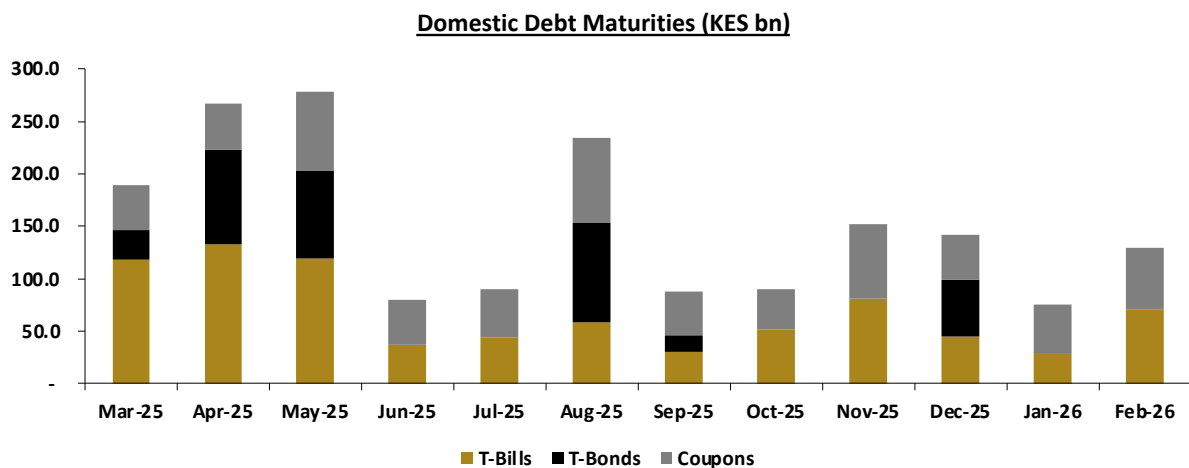
Source: CBK, Table: SIB

Meanwhile, the Central Bank of Kenya is back in the market seeking to raise KES 25bn through FXD1/2018/25 which has an effective tenor of 18.3 years. The paper carries a coupon of 13.4% and the period of sale runs up to 5th March 2025.

We shall provide our bidding estimates in our next report.

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 815.05bn and KES 367.76bn, respectively. Including coupon payments, the total maturity profile is approximately KES 1.82tn, as outlined below;

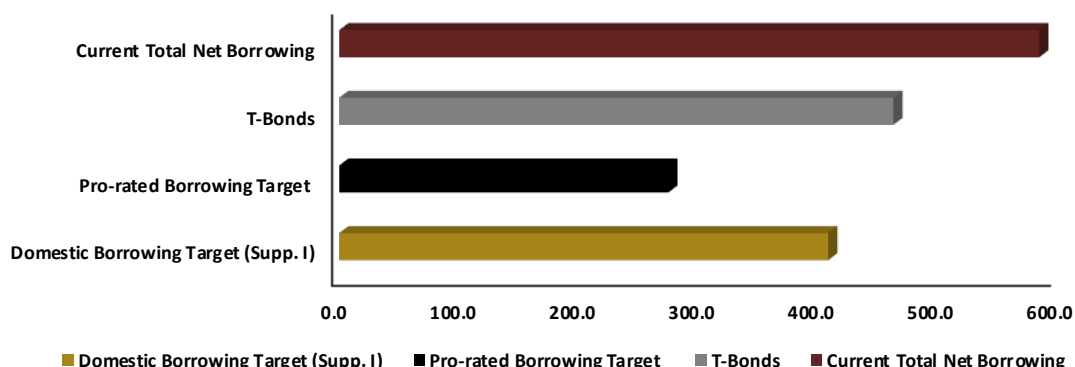


Source: Central Bank of Kenya (CBK), Chart: SIB

Following the buyback, the government is ahead of its domestic borrowing curve for FY24/25 by 43.2%, having mobilized KES 584.85bn against a target of KES 408.41bn. Excluding Treasury bills, domestic borrowing surpasses the prorated target by 50.2%, currently standing at 101.1% of the overall target.

Our expectation of a higher borrowing target remains intact as we await the approval of Supplementary Budget II, given persistent revenue shortfalls, rising expenditure, and the need to maintain the appearance of a stable fiscal position. This may not hold if actual borrowing exceeds the new projected targets.

Domestic Borrowing (KES bn)



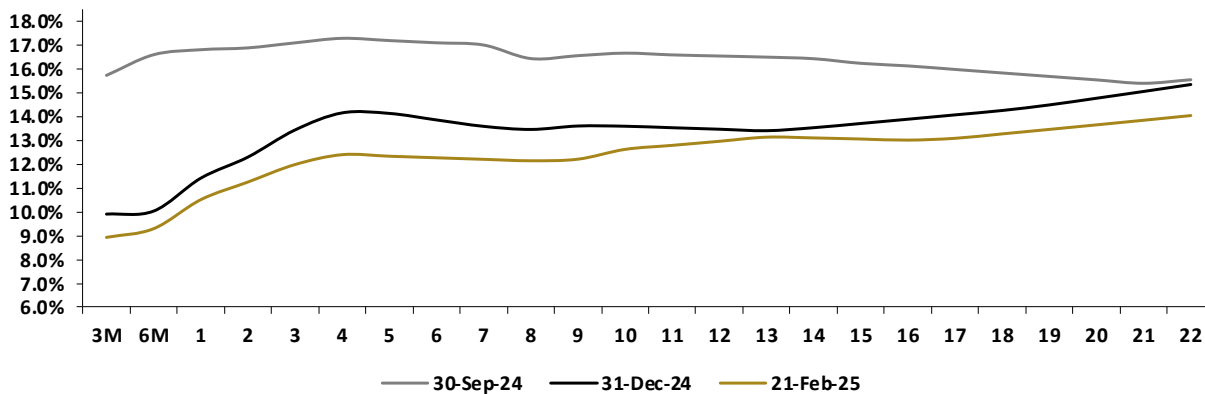
Source: Central Bank of Kenya (CBK), Treasury, Chart: SIB

Yield Curve

The yield curve continues to shift downward, particularly across short- to medium-term tenors. W/w, yields declined across the first half of the curve, while the second half recorded an average decrease of 4.77bps.

Below is a visual representation;

Yield Curve



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

The International Front

Kenyan Eurobonds

This week, Kenyan Eurobond yields remained relatively stable with only mild fluctuations within the week. 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 | 3.0 | 6.0 | 7.3 | 9.3 | 23.0 |
| 31-Dec-24 | 8.5% | 9.1% | 10.1% | 10.1% | 10.1% | 10.3% |
| 13-Feb-25 | 8.2% | 8.7% | 9.9% | 9.8% | 9.9% | 10.2% |
| 17-Feb-25 | 8.1% | 8.6% | 9.8% | 9.7% | 9.8% | 10.1% |
| 18-Feb-25 | 8.2% | 8.5% | 9.8% | 9.7% | 9.9% | 10.1% |
| 19-Feb-25 | 8.2% | 8.6% | 9.9% | 9.8% | 9.9% | 10.2% |
| 20-Feb-25 | 8.2% | 8.6% | 9.9% | 9.8% | 9.9% | 10.2% |
| Weekly Change | 0.0% | (0.1%) | 0.0% | 0.0% | 0.0% | 0.0% |
| YTD Change | (0.3%) | (0.4%) | (0.3%) | (0.3%) | (0.2%) | (0.1%) |

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

Currency Performance

The Kenyan shilling weakened across all the currency pairs we track during the week, recording its sharpest depreciation against the JPY and the slightest decline against the USD, despite a 0.9% weakening of the US Dollar Index.

See the table below;

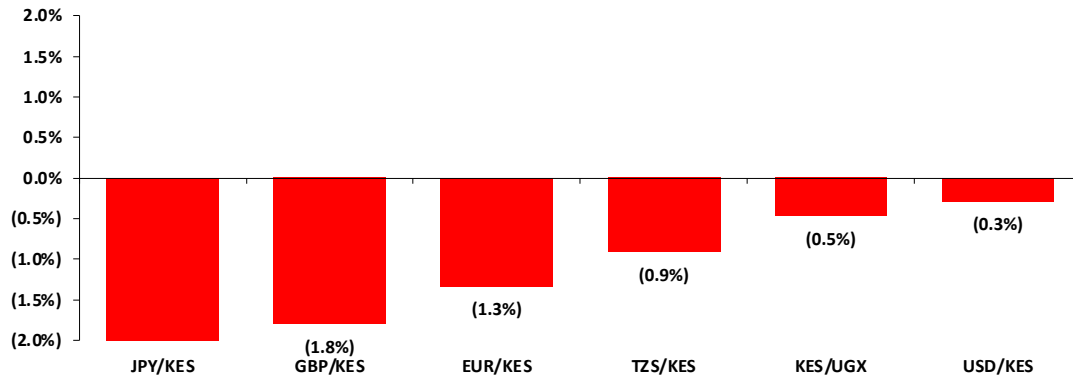
| Currencies | 29 Dec 2024 | Previous Week | Current Week | w/w Change | YTD change |
|------------|-------------|---------------|--------------|------------|------------|
| JPY/KES | 82.1 | 84.2 | 86.2 | (2.3%) | (4.9%) |
| GBP/KES | 162.3 | 161.1 | 164.0 | (1.8%) | (1.1%) |
| EUR/KES | 134.3 | 134.2 | 136.0 | (1.3%) | (1.3%) |
| TZS/KES | 19.0 | 20.2 | 20.0 | (0.9%) | 5.4% |
| KES/UGX | 28.4 | 28.5 | 28.3 | (0.5%) | (0.2%) |
| USD/KES | 129.3 | 129.2 | 129.6 | (0.3%) | (0.2%) |

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 | FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

See also a visual representation;

W/W KES Performance



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

Kenya's foreign exchange reserves declined marginally by 1.3% to USD 9.26bn, extending import cover to 4.7 months from 4.8 months (USD 9.37bn) the previous week. This comes ahead of a private bond placement issuance in the United Arab Emirates which could be as much as USD 1.5Bn as part of plans to diversify from bullet sovereign bond issuances. Also in pipeline is a Panda (RMB) and Samurai (Yen) issues.

MARKET NEWS

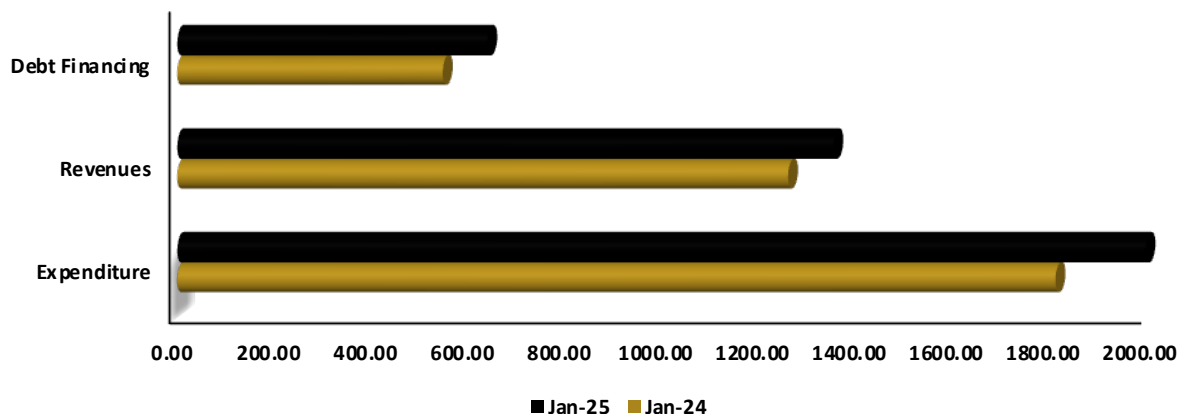
Exchequer Issues: Cumulative Tax Revenues Rise only 2.9%/y for the First Seven Months of FY24/25

The National Treasury published the actual receipts and releases for the first seven months of FY 24/25. The key highlights include;

- The government collected KES 1,351.68bn in ordinary revenues, equivalent to a 7.4% increase from the KES 1,258.36bn collected over the same period in FY23/24. Cumulative non-tax revenues surged 138.0%/y to KES 99.80bn, from KES 41.93bn in FY23/24,
- Total expenditure came in at KES 1,994.81bn, a 10.3% increase from the KES 1,809.31bn spend over the same period in FY23/24, and,
- The budget deficit came in at KES 643.13bn which was financed by both external and domestic borrowing. The figure is a 16.7% increase from the actual borrowing of KES 550.96bn over the same period in FY23/24.

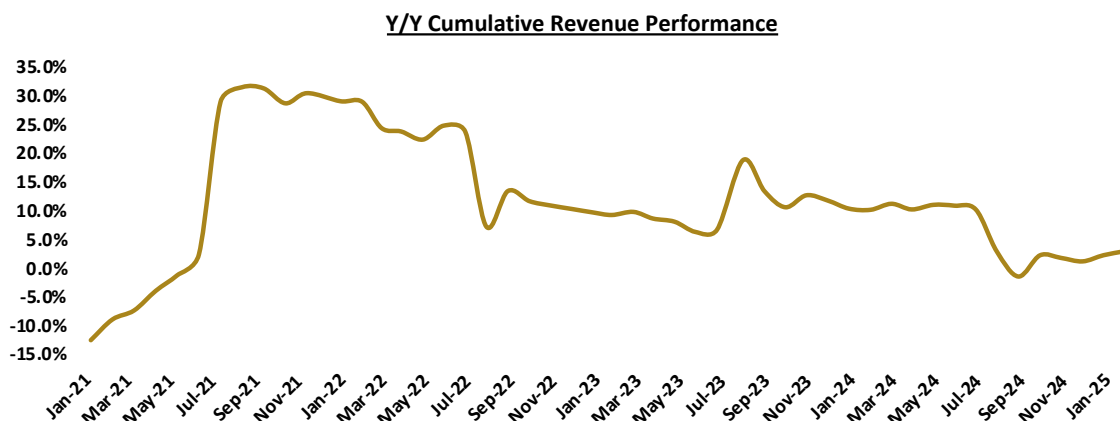
See the chart below for a quick summary;

Actual Budget Performance Rate (KES bn)



Source: Treasury, Chart: SIB

Cumulative tax revenues showed steady growth, rising by a meagre 2.9% to reach KES 1,251.88bn in the first seven months of FY24/25, up from KES 1,216.42bn during the same period in FY23/24. This growth, while positive, reflects a slower pace compared to the previous year. See the chart below;

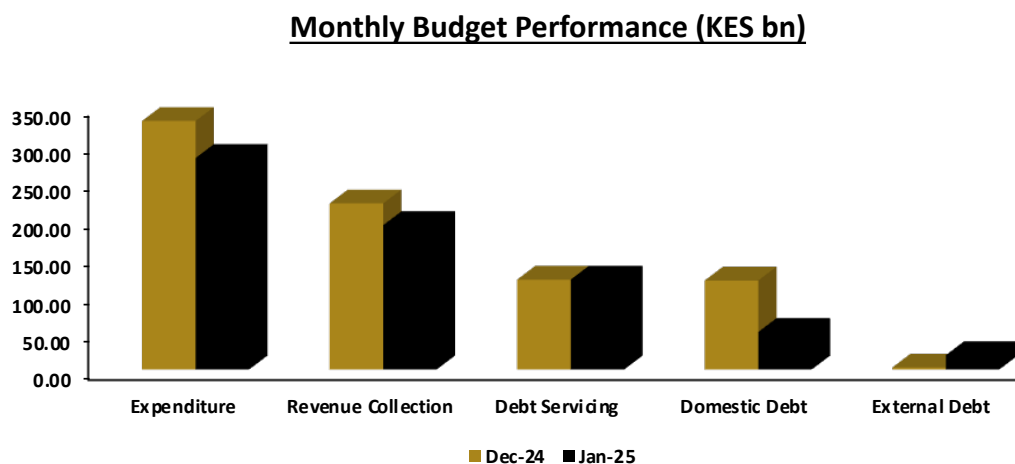


Source: Treasury, Chart: SIB

Even then;

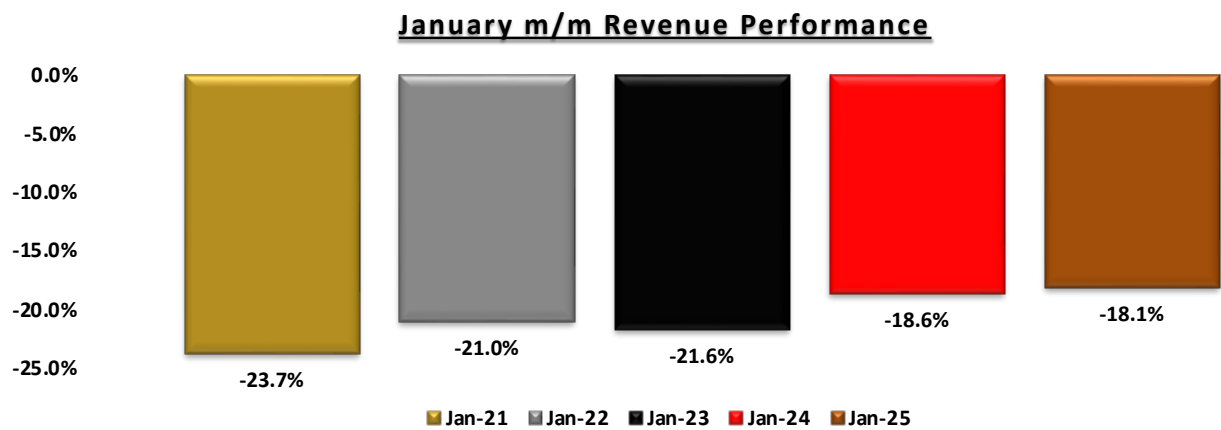
- Total expenditure for the month of January, dropped by 14.9% to KES 280.74bn, from KES 329.87bn, in December 2024. Debt servicing obligations remained relatively unchanged while recurrent expenditure declined by 23.3% - the two segments accounted for 79.7% of the overall expenditure for the month,
- Domestic borrowing for the same period more than halved to KES 49.75bn, compared to the KES 118.07bn borrowed in December 2024. Borrowing from external financiers also declined reflecting minimal access to the global debt market,
- Meanwhile, the total revenue performance for the month of January recorded a 13.1% m/m drop to KES 191.50bn, from KES 220.39bn, in December 2024.

See the chart below for a summary;



Source: Treasury, Chart: SIB

Similarly, tax revenue collections experienced a sharper decrease of 18.1%, declining to KES 177.82bn, down from KES 217.06bn collected in December 2024, as shown below;



Source: Treasury, Chart: SIB

Excluding debt servicing costs, more than half of the country's expenditure remains dependent on debt financing. A substantial portion of ordinary revenue is allocated to debt repayment, particularly interest payments. Consequently, we express deep concern over the excessive reliance on debt, as it signals a more constrained fiscal future.

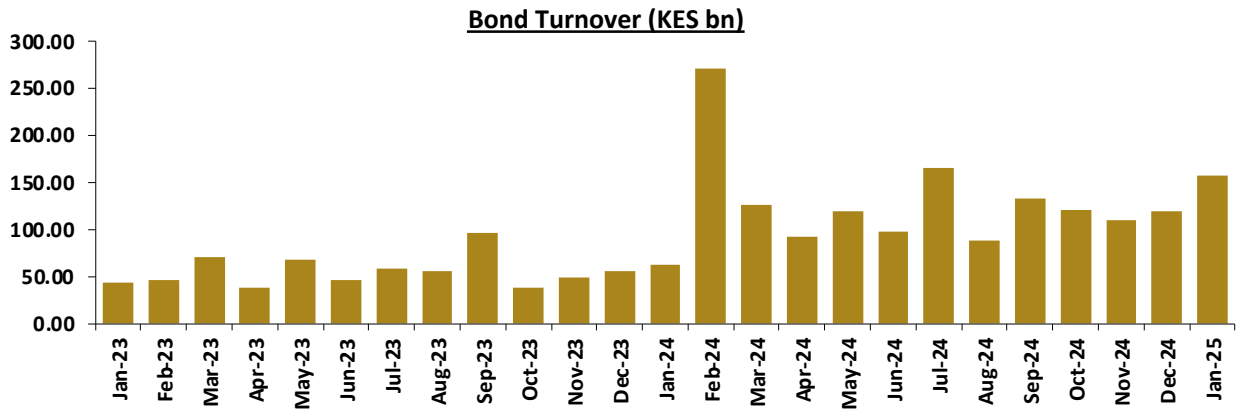
UPCOMING EVENTS

February 2025 Inflation Rate Estimate

The Kenya National Bureau of Statistics (KNBS) is set to release the inflation figures for the month of February in the coming week. We estimate the year-on-year (y/y) inflation rate to fall within the range of 3.3% to 3.6%.

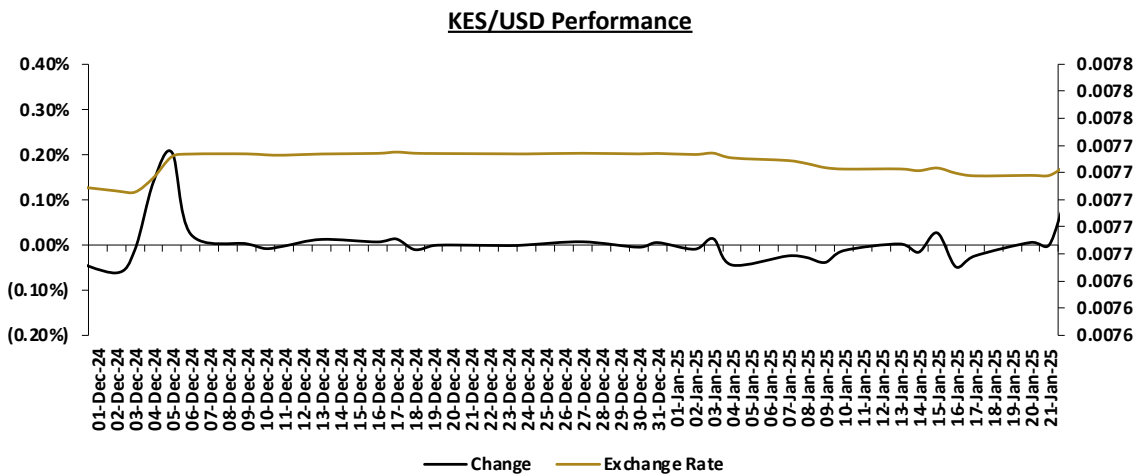
BACKGROUND CHARTS

Secondary Bond Turnover



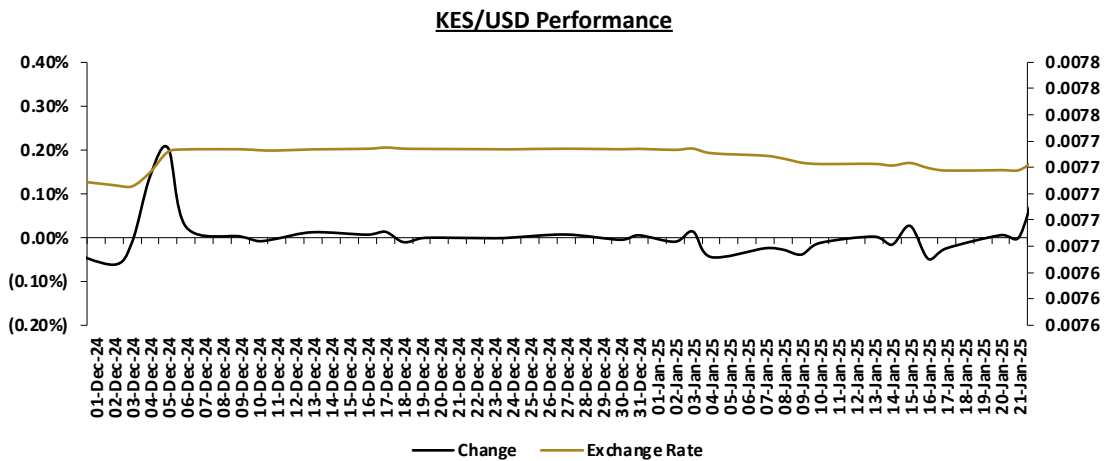
Source: Nairobi Securities Exchange (NSE)

KES/USD Performance



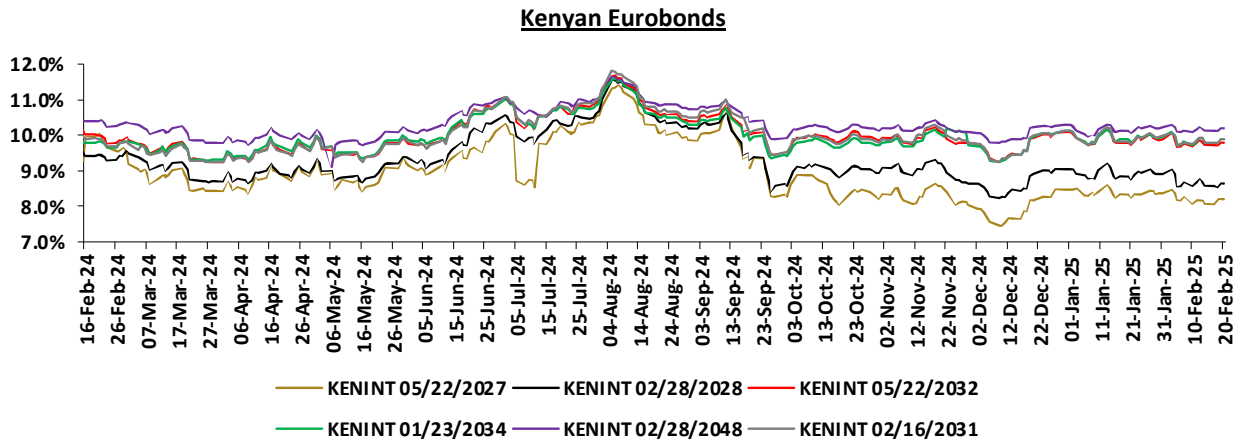
Source: Central Bank of Kenya (CBK)

Forex Reserves



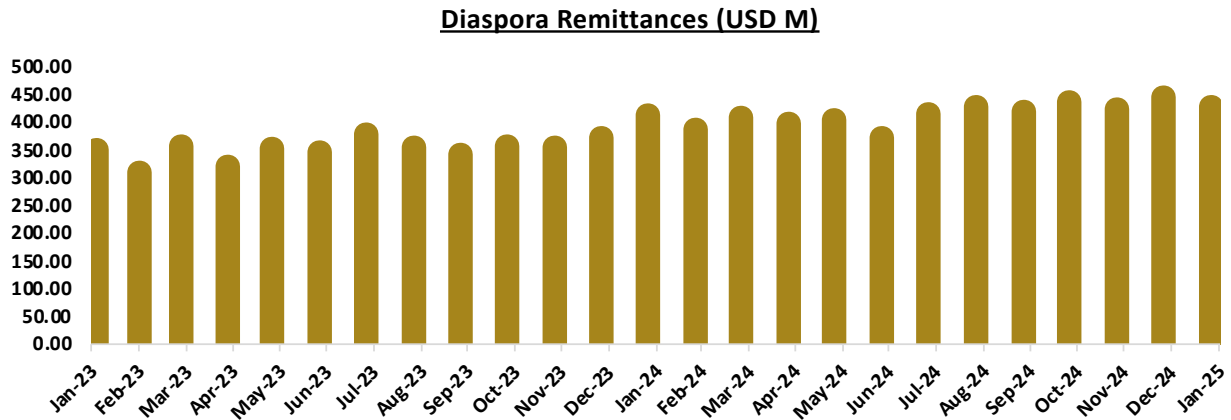
Source: Central Bank of Kenya (CBK)

Kenyan Eurobonds



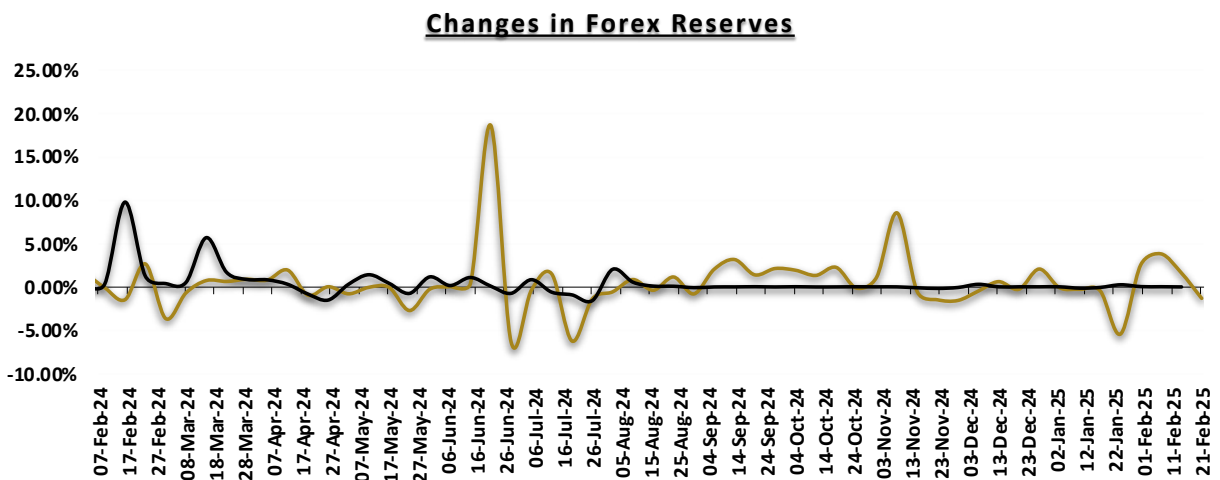
Source: Central Bank of Kenya (CBK)

Diaspora Remittances



Source: Central Bank of Kenya (CBK)

Forex Reserves



Source: Central Bank of Kenya (CBK)

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