SIB Standard Investment Bank

Regulated by the Capital Markets Authority

3RD MARCH 2025

"February 2025 Secondary Bond Turnover surge by 59.0% m/m"

WEEKLY FIXED INCOME REPORT

February Inflation Ticks up to 3.5%, Driven by a Faster Growth in Vegetable Prices

MONEY MARKET ANALYSIS

Interbank lending took a step back this week, undoing last week's gains as traded volumes shrank by 26.4% to KES 14.46bn from KES 19.65bn. Transaction counts followed suit, sliding 29.3%, alongside a 29.3% dip in transaction count. As liquidity tightened, banks charged each other a bit more, nudging the average lending rate up by 3.27bps to 10.69% from 10.66% the previous week.

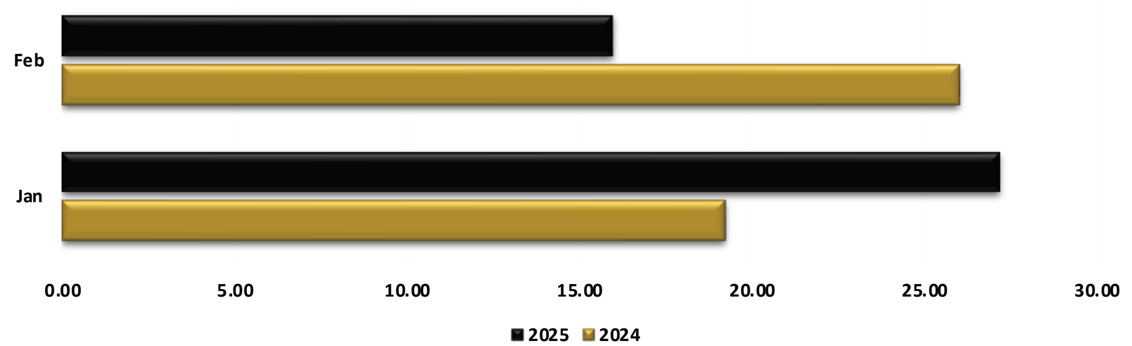
The table below summarizes the market liquidity indicators:

Average	Previous Week	Current Week	Change
Interbank Deals	41.00	29.00	(29.27%)
Inter- Bank volumes (KES bn)	19.65	14.46	(26.40%)
Inter – Bank Rates (bps)	10.66%	10.69%	3.27

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

In the month of February, interbank volumes traded declined by 38.7% and 41.3% to KES 15.94bn, from KES 26.0bn and KES 27.14bn in February 2024 and January 2025, respectively. See below a visual chart of the interbank market trends;

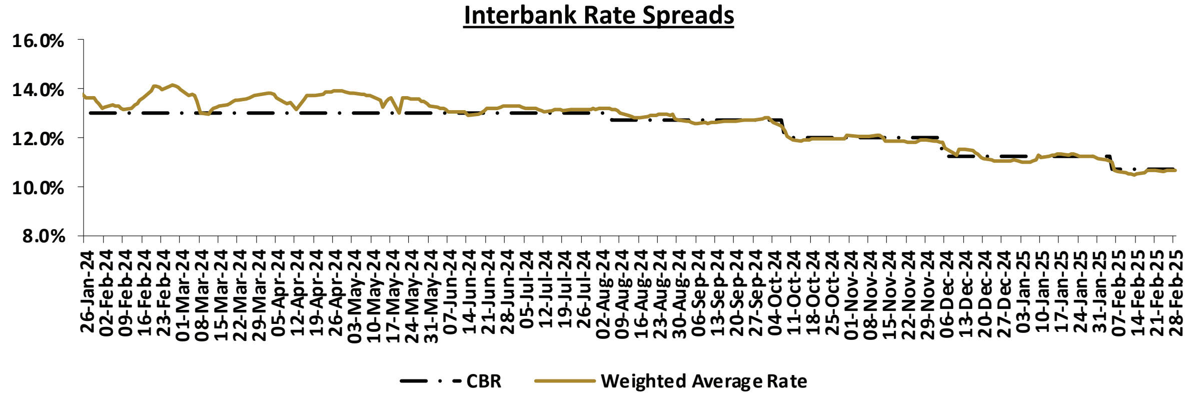
Average Interbank Volumes



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

Investor appetite for Treasury bills stayed strong, with the subscription rate climbing to 152.3% from 137.3% last week. The spotlight was back on the 91-day paper, which had fallen out of favor in recent weeks. Investors poured in KES 36.55bn, and the fiscal agent took in almost the entire amount.

The renewed interest in the 91-day paper points to short-term liquidity plays—ideal for investors with near-term but not immediate cash needs. Notably, non-competitive bids outweighed competitive ones, signaling waning institutional interest and nudging the weighted average rate of accepted bids lower.

Overall yields continue to dip across all tenors, with the 91- 182- and 364 – day papers settling at 8.94% (-1.08bps), 9.24% (-7.20bps), and 10.50% (-2.60bps), respectively.

See the summary below;

KES bn

3-Mar-25	91-day 2-Jun-25	182-day 1-Sep-25	364-day 2-Mar-26	Totals
Amount offered	4.00	10.00	10.00	24.00
Bids received	17.96	6.90	11.70	36.55
Subscription rate (%)	448.9%	69.0%	117.0%	152.3%
Amount accepted	17.93	6.90	11.68	36.51
Acceptance rate (%)	99.9%	100.0%	99.9%	99.9%
Of which: Competitive Bids	2.03	5.93	9.47	17.43
Non-competitive bids	15.90	0.97	2.21	19.08
Rollover/Redemptions	16.26	4.78	10.15	31.19
New Borrowing/(Net Repayment)	1.68	2.11	1.53	5.32
Weighted Average Rate of Accepted Bids	**8.94%**	**9.24%**	**10.50%**	
Inflation	**3.5%**	**3.5%**	**3.5%**	
Real Return	5.5%	5.8%	7.0%	

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

T-Bonds

In the primary bond market, the Central Bank of Kenya is seeking to raise KES 25bn through FXD1/2018/25 which has an effective tenor of 18.2 years. The paper carries a coupon of 13.4% and the period of sale runs up to 5th March 2025.

See our bidding estimates in the table below;

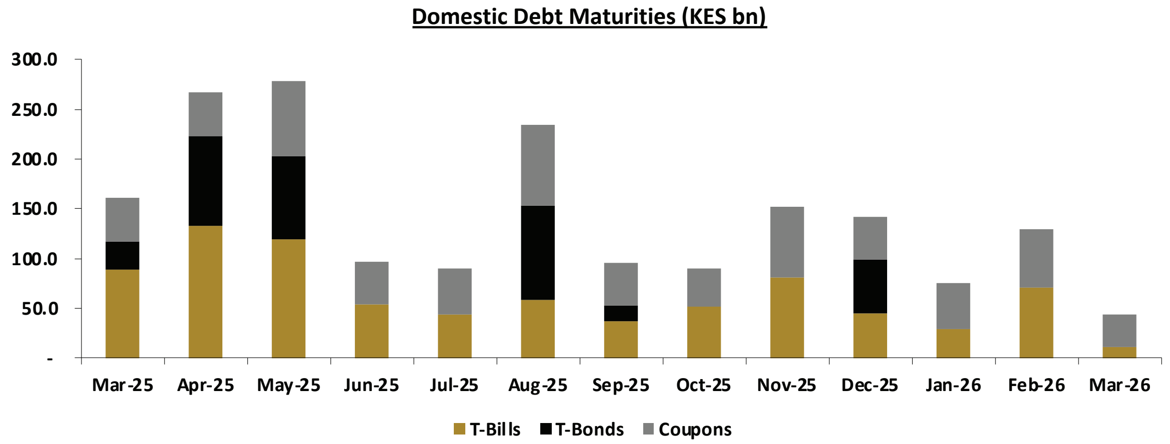
Bond Auction	Maturity Date	Effective Tenor	Amount Offered	Coupon	Bidding Estimate	Sale Period
FXD1/2018/25	25-May-43	18.2	25.0	13.40%	13.60% - 13.65%	Up to 5th March 2025

The bond's coupon aligns with the average return for long-term bonds, many of which the government plans to reopen in the second half of FY24/25. A lower tax rate compared to short- and medium-tenor bonds makes for a strong selling point, and with interest rates on a downward trend, bondholders could find lucrative selling opportunities in the secondary market.

In the secondary bond market, February saw a turnover surge of 59.0% to KES 250.11bn from KES 157.30bn. However, this was still 7.7% lower than February 2024, when the government issued an infrastructure bond that bagged the highest coupon rate among existing bonds. The strong performance can largely be credited to the February IFB issuances, as these remain a favorite among investors.

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

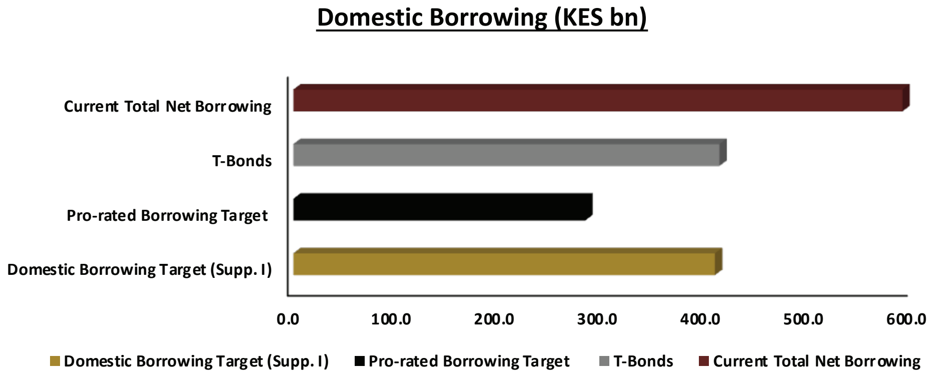
As of this week, the Government's outstanding T-Bill and T-Bond maturities for the next 12 months are at KES 822.46bn and KES 367.76bn, respectively. Including coupon payments, the total maturity profile is approximately KES 1.86tn, as outlined below;



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

Nonetheless the government is ahead of its domestic borrowing curve for FY24/25 by 44.5%, having mobilized KES 590.16bn against a target of KES 408.41bn. Excluding Treasury bills, domestic borrowing surpasses the prorated target by 46.0%, 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.

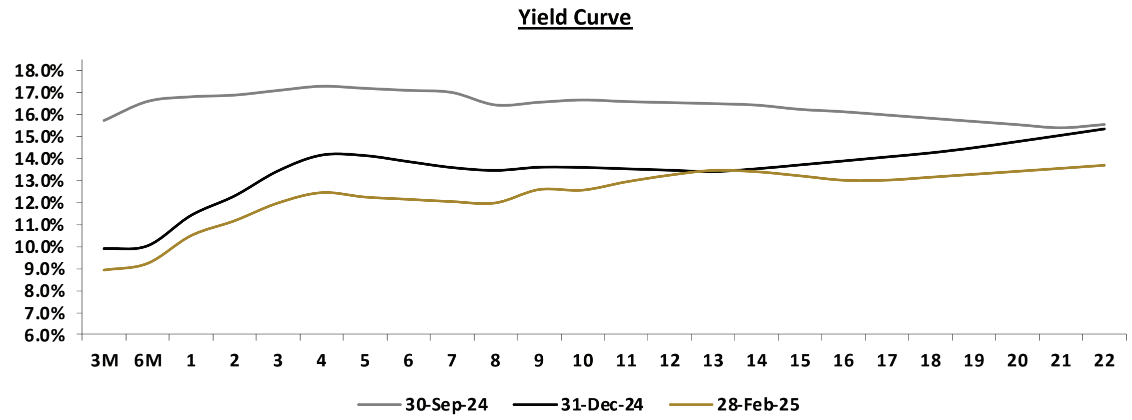


Source: Central Bank of Kenya (CBK), Treasury, Chart: SIB

Yield Curve

The yield curve maintained its downward drift, though the short end of long-term papers saw an uptick during the week. Overall, the curve posted a modest 2.25bps decline week-on-week.

Below is a visual representation;



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

The International Front

Kenyan Eurobonds

Kenyan Eurobond yields trended downward this week, with the shortest-maturity bond—slated for a full buyback, subject to investor sentiment—seeing the steepest drop, hitting a three-year low. 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	2.2	3.0	6.0	7.2	9.3	23.0
31-Dec-24	8.5%	9.1%	10.1%	10.1%	10.1%	10.3%
20-Feb-25	8.2%	8.6%	9.9%	9.8%	9.9%	10.2%
24-Feb-25	7.5%	8.4%	9.8%	9.8%	9.9%	10.1%
25-Feb-25	7.4%	8.4%	9.8%	9.7%	9.9%	10.1%
26-Feb-25	7.3%	8.1%	9.6%	9.5%	9.6%	10.0%
27-Feb-25	7.2%	8.0%	9.5%	9.5%	9.6%	10.0%
Weekly Change	(1.0%)	(0.6%)	(0.4%)	(0.3%)	(0.3%)	(0.1%)
YTD Change	(1.3%)	(1.0%)	(0.6%)	(0.6%)	(0.5%)	(0.2%)

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

To refinance the 2027 maturity amortized notes, an 11-year fixed coupon Eurobond was successfully issued at a 9.5% rate, set to fully mature in 2036 as an amortized paper. The settlement date is locked in for 5th March 2025. Stay tuned for a detailed news report on the issuance and the planned buyback post settlement.

Currency Performance

The Kenyan shilling bounced back this week, strengthening against all tracked currency pairs except the JPY, which edged down 0.2%. The biggest gain came against the Euro, while the KES/USD pair rose 0.3%—this, despite a 0.8% uptick in the US Dollar Index. The rally was fueled by positive sentiment around the buyback announcement and the strong performance of the newly issued Eurobond.

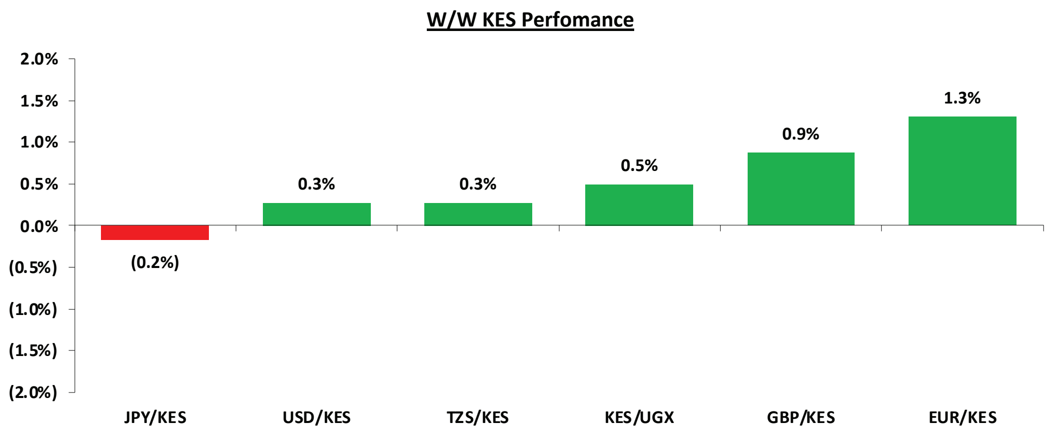
See the table below;

Currencies	29 Dec 2024	Previous Week	Current Week	w/w Change	YTD change
JPY/KES	82.1	86.2	86.3	(0.2%)	(5.1%)
USD/KES	129.3	129.6	129.2	0.3%	0.1%
TZS/KES	19.0	20.0	20.1	0.3%	5.7%
KES/UGX	28.4	28.3	28.5	0.5%	0.3%
GBP/KES	162.3	164.0	162.6	0.9%	(0.2%)
EUR/KES	134.3	136.0	134.2	1.3%	0.0%

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;



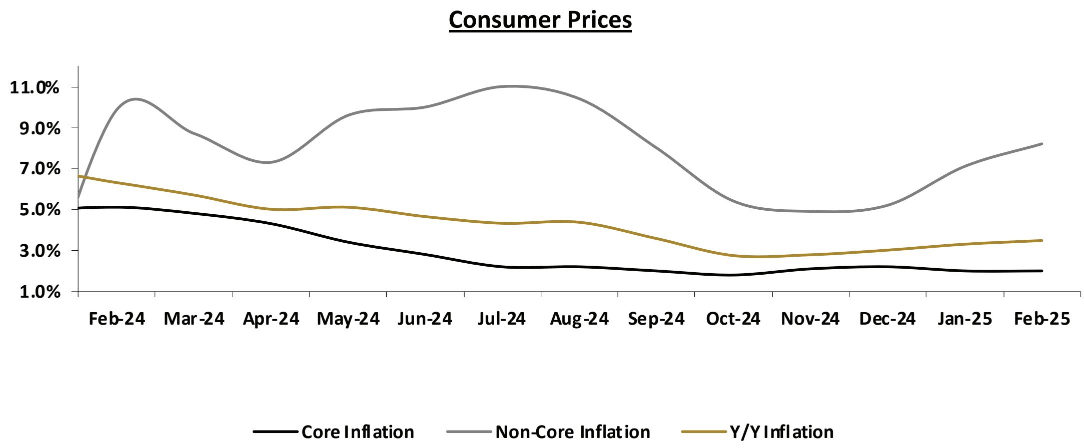
Source: Central Bank of Kenya (CBK), Chart: SIB

Kenya's foreign exchange reserves dipped 2.1% to USD 9.06bn, trimming import cover to 4.6 months from 4.7 months (USD 9.26bn) the previous week. However, a rebound is on the horizon post-settlement of the latest Eurobond issuance, thanks to the surplus over the buyback amount—both yet to be finalized.

MARKET NEWS

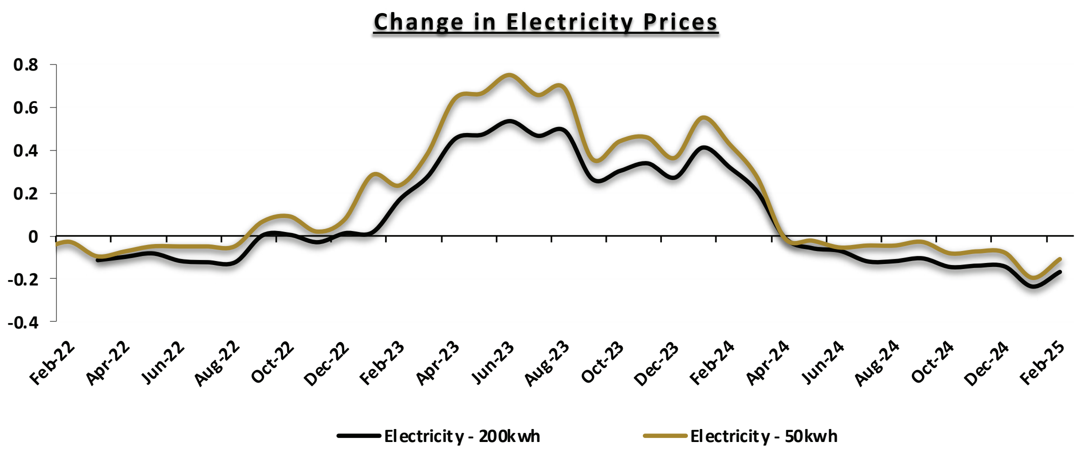
February Inflation Ticks up, Driven by a Faster Growth in Vegetable Prices

In February 2025, consumer prices climbed 3.5% y/y, edging up from 3.3% in January. Core inflation held steady at 2.0%, while non-core inflation jumped 110bps to 8.2% from 7.1%, largely driven by a surge in vegetable prices. See the chart below;



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

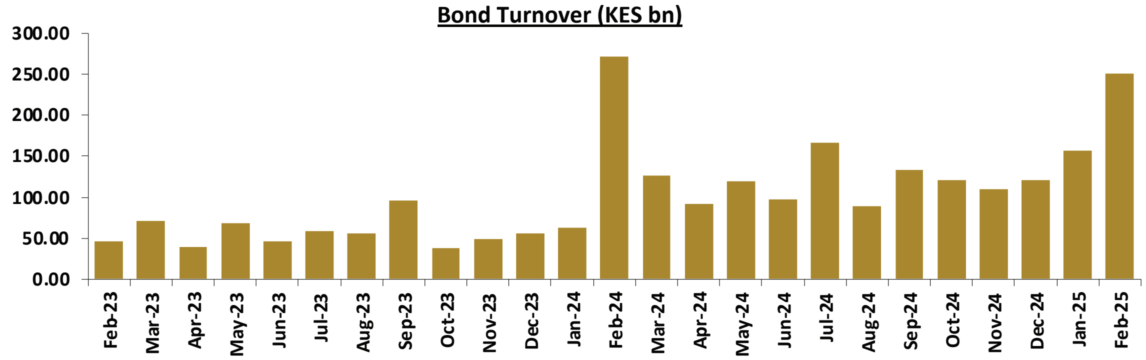
The y/y uptick in headline inflation was largely fueled by rising food prices, while the transport index remained steady at 0.7% growth. Meanwhile, the household utilities index shrank by 0.8%, a milder contraction than in January, thanks to a slower decline in electricity prices—small-scale electricity costs dropped 10.7% per kilowatt, cushioning the overall price surge. A higher base effect also helped temper electricity price increases.



Looking ahead to H1 2025, we expect annual inflation to stay below the CBK's midpoint target with minimal volatility. The base effect from high fuel and energy costs in early 2024, followed by their subsequent decline, should provide stability. However, food inflation remains a concern as fruit and vegetable prices continue to feel the impact of last year's weather patterns. Additionally, fuel prices pose a risk, as local adjustments—tied to subsidies—could offset the relief from lower global prices.

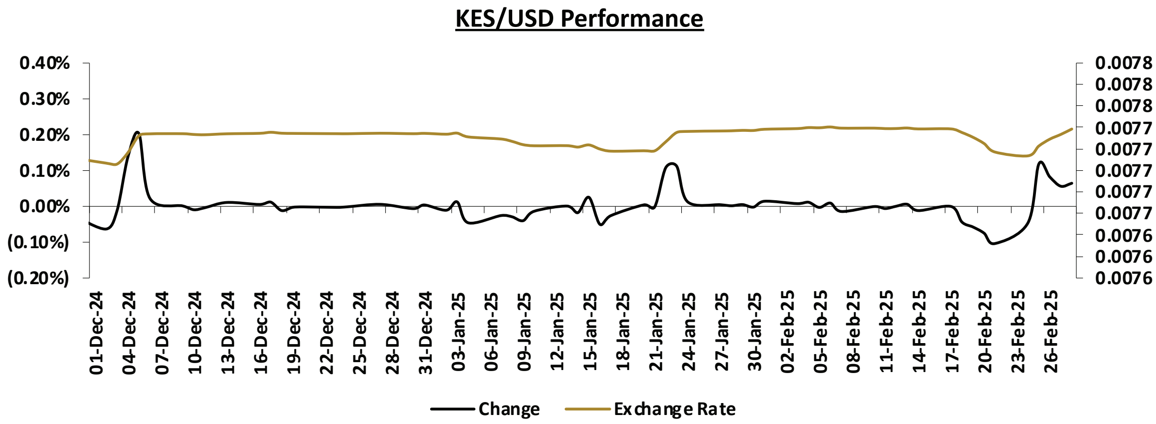
BACKGROUND CHARTS

Secondary Bond Turnover



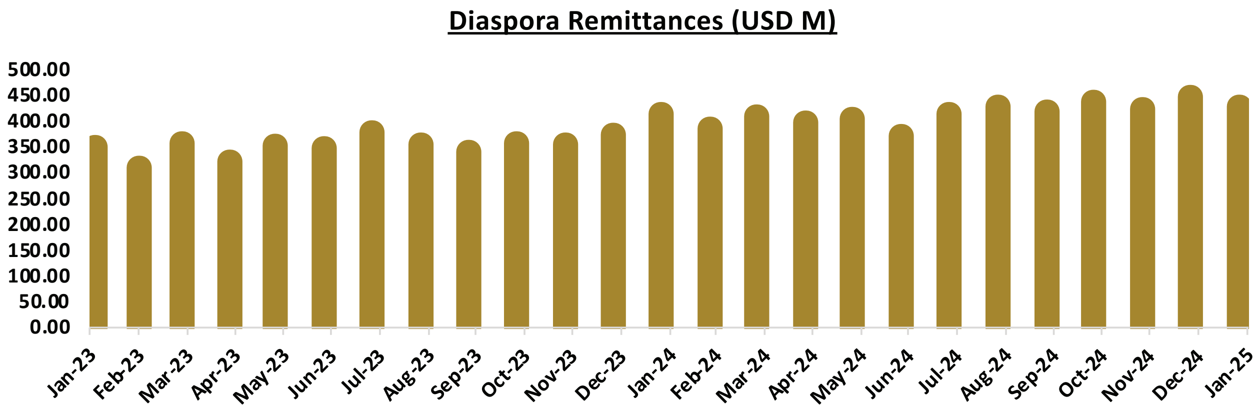
Source: Nairobi Securities Exchange (NSE)

KES/USD Performance



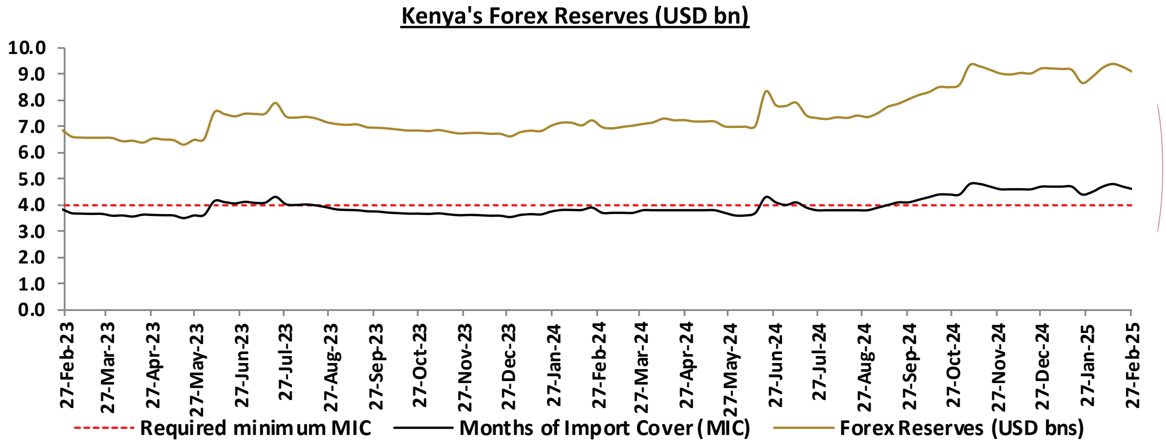
Source: Central Bank of Kenya (CBK)

Diaspora Remittances



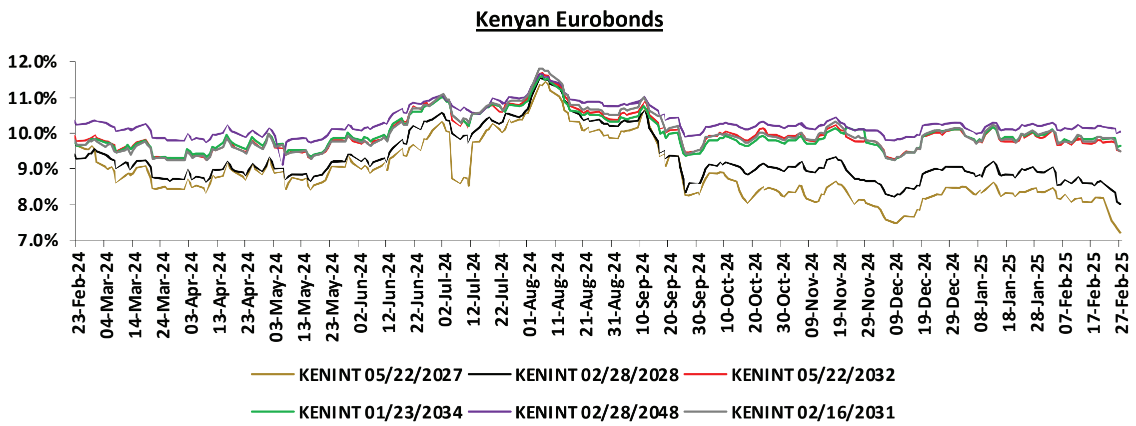
Source: Central Bank of Kenya (CBK)

Forex Reserves



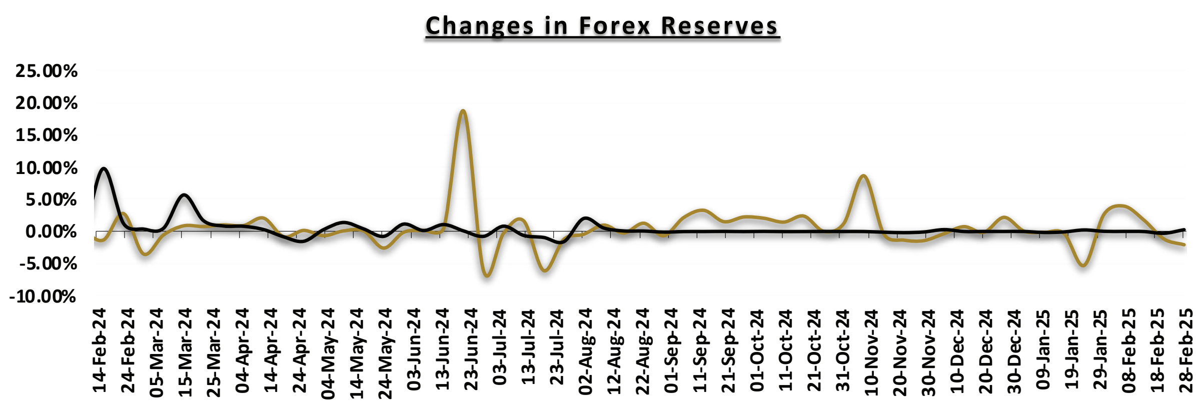
Source: Central Bank of Kenya (CBK)

Kenyan Eurobonds



Source: Central Bank of Kenya (CBK)

Forex Reserves



Source: Central Bank of Kenya (CBK)

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