SIB Standard Investment Bank

Regulated by the Capital Markets Authority

14TH APRIL 2025

“ Current Account Deficit Projection for 2025 Narrows by 100bps following KNBS update on Balance of Payment Data ”

WEEKLY FIXED INCOME REPORT

MPC Cuts Base Rate to 10.0% and Narrows Interest Rate Corridor in Latest Meeting

MONEY MARKET ANALYSIS

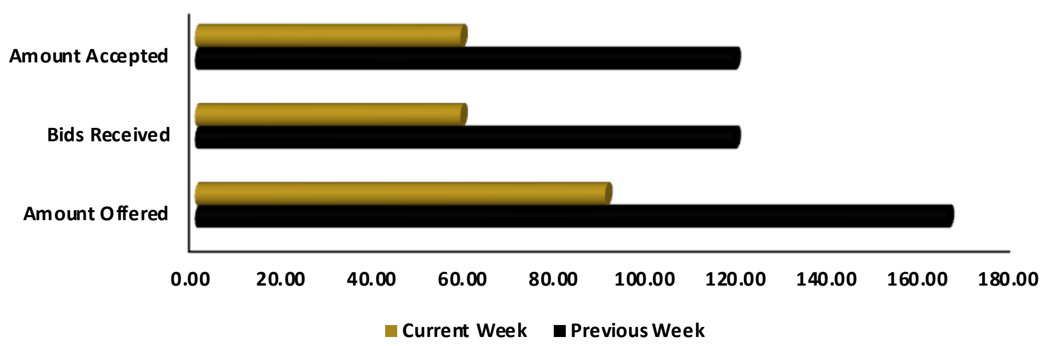
Interbank lending picked up pace during the week, with average traded volumes surging 176.1% to KES17.28bn from KES6.26bn the previous week, mirroring a 135.7% jump in the number of transactions. Meanwhile, the average interbank rate edged down slightly to 10.28% from 10.68%, as the effects of the Central Bank Rate (CBR) cut earlier in the week begin to kick in. The table below summarizes the market liquidity indicators:

Average	Previous Week	Current Week	Change
Interbank Deals	14.00	33.00	135.71%
Inter- Bank volumes (KES bn)	6.26	17.28	176.12%
Inter – Bank Rates (bps)	10.68%	10.28%	(39.80)

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

Meanwhile, the CBK mopped up KES58.23bn in liquidity—marking a further 50.7% drop from the previous week's KES118.19bn. However, toward the tail end of the week, the authorities pivoted to a liquidity injection exercise, aiming to steer the interbank rate to within the bounds of the newly adjusted corridor. See below a visual chart;

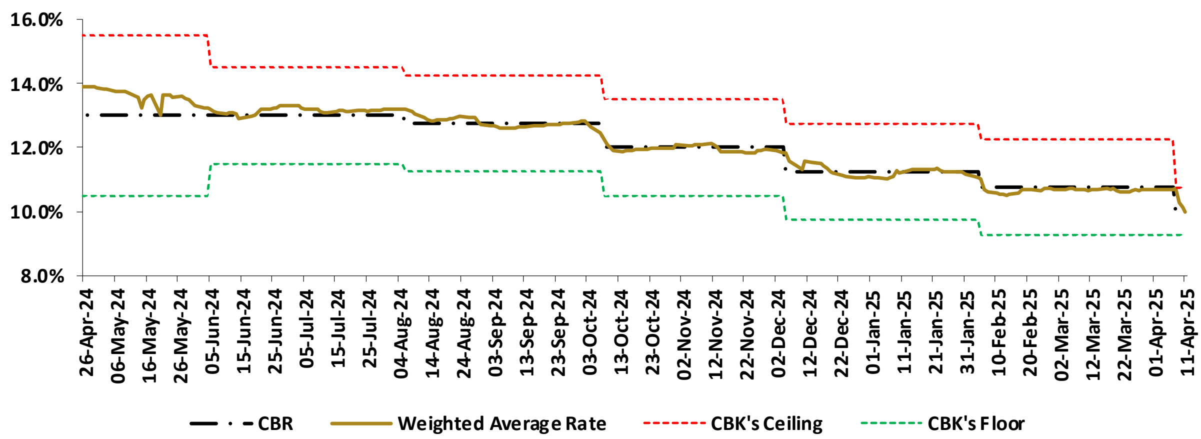
Term Auction Deposits (KES bn)



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

Following the MPC meeting, the interbank rate corridor now stands at 9.25%–10.75%, after the width was narrowed from ±150bps to ±75bps around the CBR. While the floor holds steady, the ceiling has been trimmed down from 12.25%, signaling a more focused approach to rate guidance. 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 upbeat, with the subscription rate climbing to 224.0% from last week's 169.5%. The 364-day paper stole the spotlight, attracting nearly half of the total bids—it remains the only short-term note offering a double-digit return, which likely explains the investor frenzy. Investors injected KES43.54bn, with the fiscal agent accepting 81.0% of the bids.

Average accepted rates continued on a downward trend, with the 91-, 182-, and 364-day papers settling at 8.50% (- 12.88bps), 8.89% (-14.09bps), and 10.23% (-15.46bps), respectively. We expect rates to keep softening in line with the lower benchmark rate. See the summary below;

KES bn

14-Apr-25	91-day 14-Jul-25	182-day 13-Oct-25	364-day 13-Apr-26	Totals
Amount offered	4.00	10.00	10.00	24.00
Bids received	17.42	11.07	25.27	53.75
Subscription rate (%)	435.4%	110.7%	252.7%	224.0%
Amount accepted	**7.41**	**11.05**	**25.09**	**43.54**
Acceptance rate (%)	42.5%	99.8%	99.3%	81.0%
Of which: Competitive Bids	6.00	8.78	17.91	32.70
Non-competitive bids	1.41	2.27	7.18	10.85
Rollover/Redemptions	9.54	11.36	21.84	42.74
New Borrowing/(Net Repayment)	**(2.13)**	**(0.32)**	**3.25**	**0.80**
Weighted Average Rate of Accepted Bids	8.50%	8.89%	10.23%	
Inflation	3.6%	3.6%	3.6%	
Real Return	**4.9%**	**5.3%**	**6.6%**	

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

T-Bonds

In the primary bond market, the CBK raised an extra KES12.59bn through a tap sale of FXD1/2020/015—one of April's reopened bonds. Targeting KES10bn, the offer was oversubscribed by 32.4%, attracting bids worth KES13.24bn.

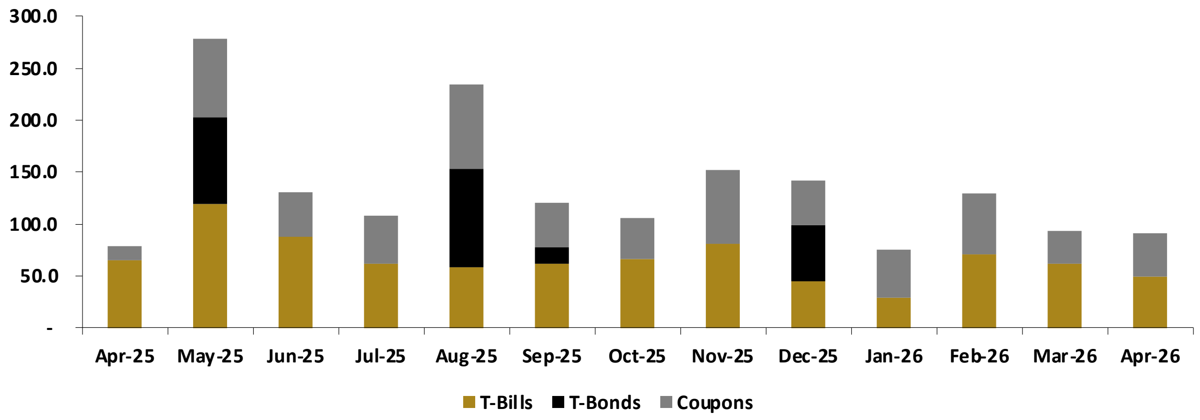
Cumulatively, the bond has mobilized KES33.47bn across the April auctions, making it the top performer among the three reopenings for the month. See below a summary of the results;

FXD1/2020/015	Due Date	Amount offered	Bids received	Subscription rate (%)	Amount accepted	Adjusted Average Price (per KES 100)	Coupon Rate
	5-Feb-35	10.00	**13.24**	132.40%	12.59	**97.07**	**12.8%**

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 858.13bn and KES 249.24bn, respectively. Including coupon payments, the total maturity profile is approximately KES 1.74tn, as outlined below;

Domestic Debt Maturities (KES bn)



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

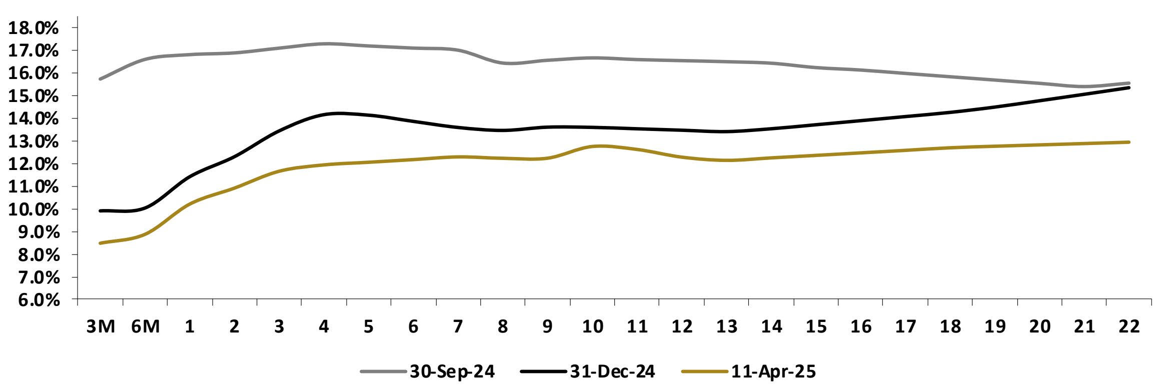
Total domestic government borrowing for FY24/25 now stands at KES616.77bn, drawn from both Treasury bills and bonds. Of this, Treasury bonds have contributed a hefty KES413.49bn, underscoring their dominance in domestic debt mobilization.

Yield Curve

The yield curve posted mixed but notable movements across all tenors, with the entire curve now officially trading below the 13% mark. On average, yields edged up by 10.72bps week-on-week, signaling a slight upward shift despite the softer benchmark rate environment.

Below is a visual representation;

Yield Curve



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

The International Front

Kenyan Eurobonds

This week, yields on Kenyan Eurobonds continued their upward climb, driven by lingering global uncertainties. Despite the recent pause on tariffs—which had rattled markets—the yields are yet to stabilize, reflecting persistent investor caution. 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	22-May-27	28-Feb-28	16-Feb-31	22-May-32	1-Jun-34	28-Feb-48
Tenor to Maturity	2.1	2.9	5.9	7.1	9.2	22.8
31-Dec-24	8.5%	9.1%	10.1%	10.1%	10.1%	10.3%
3-Apr-25	8.0%	9.6%	11.0%	10.9%	10.9%	11.2%
7-Apr-25	9.1%	11.6%	12.6%	12.3%	12.1%	12.4%
8-Apr-25	9.1%	11.1%	12.2%	12.0%	11.8%	12.0%
9-Apr-25	9.5%	11.7%	12.7%	12.5%	12.2%	12.3%
10-Apr-25	9.2%	11.2%	12.2%	12.1%	11.8%	12.1%
Weekly Change	1.3%	1.6%	1.2%	1.2%	1.0%	0.9%
YTD Change	0.8%	2.1%	2.1%	1.9%	1.7%	1.8%

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

Currency Performance

The Kenyan shilling posted a mixed performance against our tracked currencies, with the sharpest depreciation recorded against the Euro and the strongest gain against the UGX. The shilling slipped 0.4% against the USD—marking its steepest drop since August 2024—early in the week, as the US Dollar Index edged up by 1.2% over the same period.

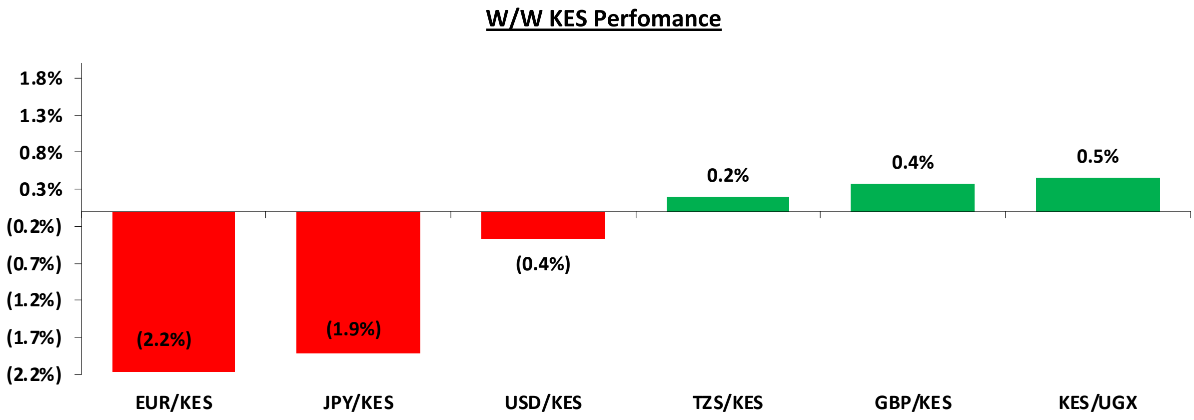
See the table below;

Currencies	29 Dec 2024	Previous Week	Current Week	w/w Change	YTD change
EUR/KES	134.3	143.5	146.6	(2.2%)	(9.2%)
JPY/KES	82.1	88.9	90.6	(1.9%)	(10.3%)
USD/KES	129.3	129.2	129.7	(0.4%)	(0.3%)
TZS/KES	19.0	20.6	20.6	0.2%	8.6%
GBP/KES	162.3	169.5	168.8	0.4%	(4.0%)
KES/UGX	28.4	28.3	28.4	0.5%	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 edged down slightly to USD 9.73bn, from the previous week's USD 9.94bn with import cover remaining at 4.4 months (based on revised import data).

MARKET NEWS

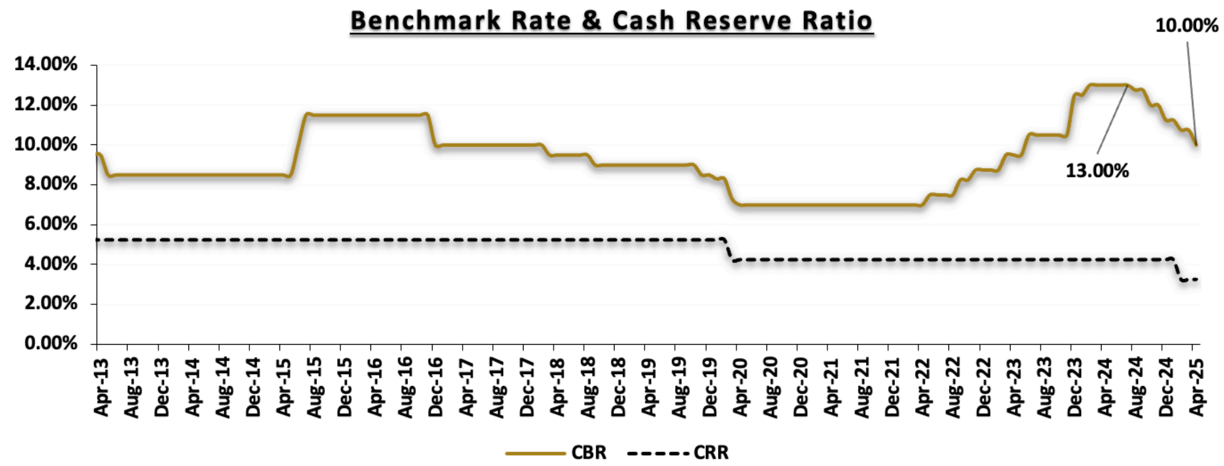
MPC Cuts Base Rate to 10.0% and Narrows Interest Rate Corridor in Latest Meeting

The Central Bank of Kenya's (CBK) Monetary Policy Committee (MPC) convened on Tuesday, 8th April 2025, and made three key adjustments:

i. **Cut the Central Bank Rate (CBR) by 75bps to 10.0%, marking a near 2-year low in the benchmark rate,**
ii. **Tightened the interest rate corridor around the CBR from ±150bps to ±75bps, signaling a firmer grip on short-term rates, and,**
iii. **Slashed the Discount Window rate from 300bps above the CBR to just 75bps, reinforcing its role as a liquidity safety net**—still pricier than interbank borrowing, thus deterring misuse - Historically, the interbank rate has closely mirrored the CBR, so the ceiling should remain a costlier option for banks in normal conditions.

These decisions were mainly aimed at stimulating economic growth and boosting liquidity, with the goal of driving private sector credit growth while ensuring exchange rate stability. Inflation is projected to stay below the midpoint of the target range, supported by low core inflation, easing food inflation, stable energy prices, and continued exchange rate stability.

Importantly, the MPC has been on a rate-cutting path since August 2024, reducing the benchmark rate by a cumulative 300bps from 13.0% to its current level of 10.0%, as shown below;

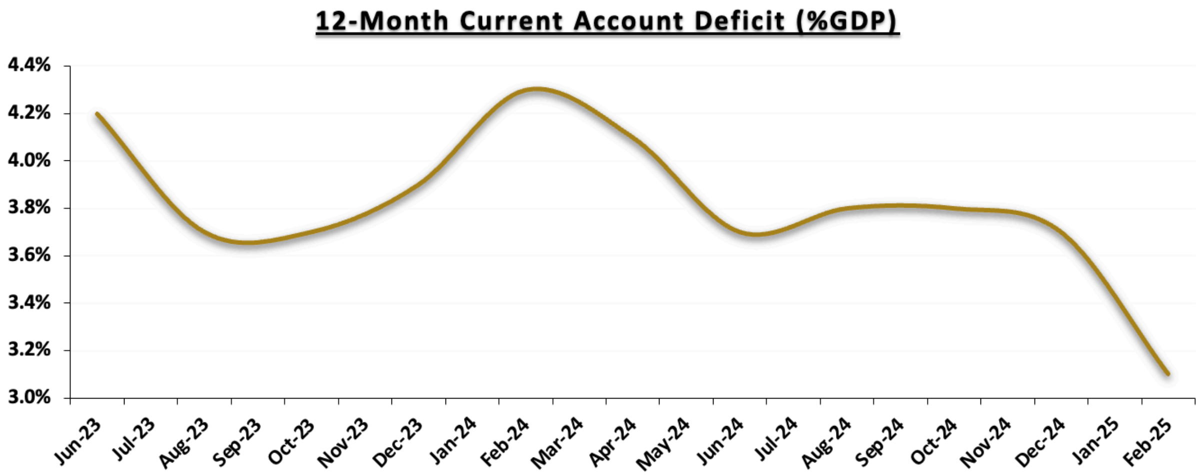


Source: CBK, Chart: SIB

The committee noted a 13.1% increase in exports over the twelve months to February 2025, compared to the same period in 2024, while imports grew at a slower pace of 10.6%. This shift highlights weakened demand, constrained capital, and elevated input costs—further compounded by a challenging private sector business environment.

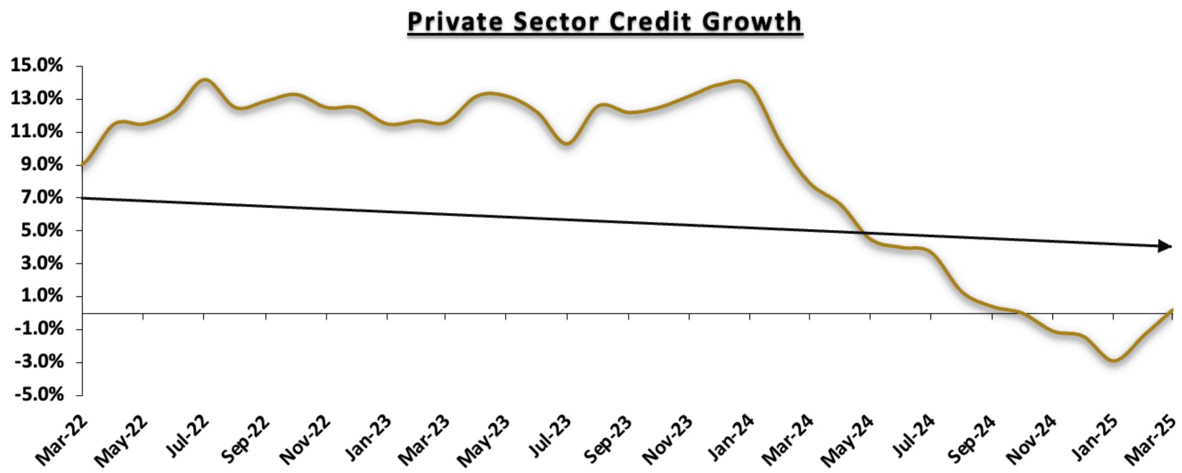
In a key revision, the Kenya National Bureau of Statistics (KNBS) updated the balance of payments data to better capture cross-border transactions related to petroleum imports and re-exports under government-to-government contracts. As a result, the current account deficit improved to 3.1% of GDP in the twelve months to February 2025, a 30bps decline from 3.3% in 2024. This improvement reflects stronger exports of goods and services, robust diaspora remittance inflows, and a reduction in oil imports.

See the chart below;



Looking ahead, the current account deficit is projected to narrow to 2.8% of GDP in 2025, a full percentage point lower than the February forecast. This improvement is expected to generate a balance of payments surplus, contributing an additional USD591m to gross reserves.

The committee also highlighted the modest recovery in private sector credit growth, which, on a positive note, reversed the declining trend seen since November 2024. Credit to the private sector grew by a modest 0.2% in March and is anticipated to gradually improve as the stability of the exchange rate price in. See the chart below;



Source: CBK, Chart: SIB

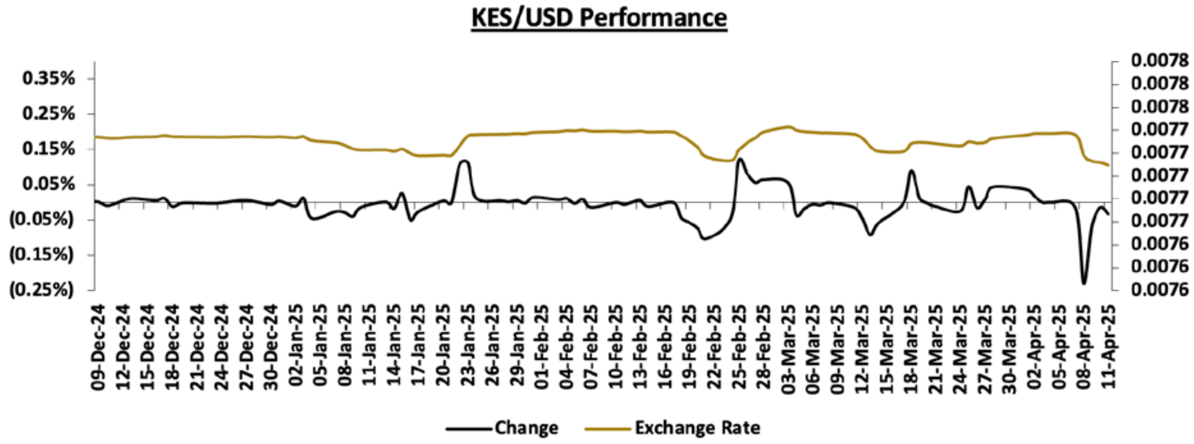
The subdued growth in private sector credit is further attributed to government crowding-out and heightened business risks, exacerbated by shrinking profit margins. Non-performing loans remain persistently high, reflecting the elevated cost of credit and narrowing margins. This has put borrowers in a difficult position—struggling to meet debt obligations while trying to stay afloat.

On a more optimistic note, as yields on government securities continue to decline sharply, banks are expected to gradually lower their lending rates in response to falling funding costs. Additionally, if the Kenya Bankers Association's (KBA) proposal for a uniform base rate tied to the interbank rate is approved, borrowers could benefit from faster transmission—provided the interbank rate remains linked to the CBR.

The committee will meet again in June 2025.

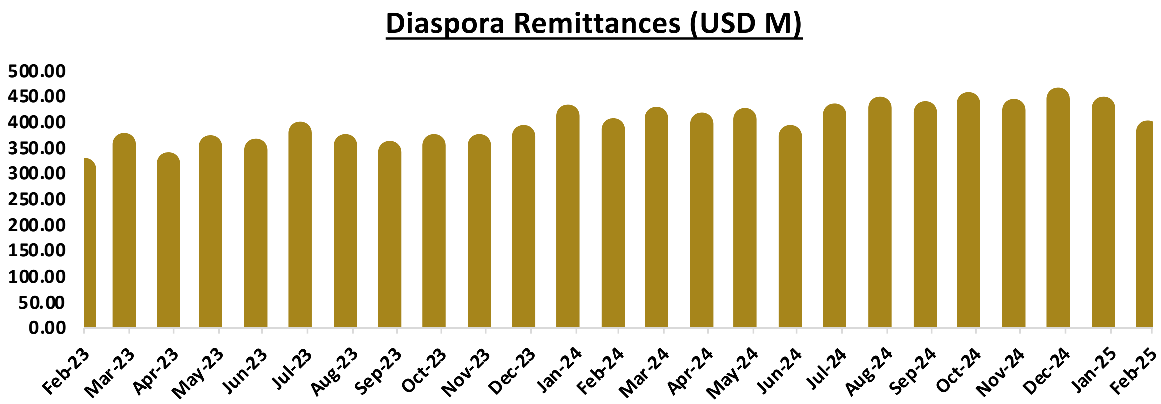
BACKGROUND CHARTS

KES/USD Performance



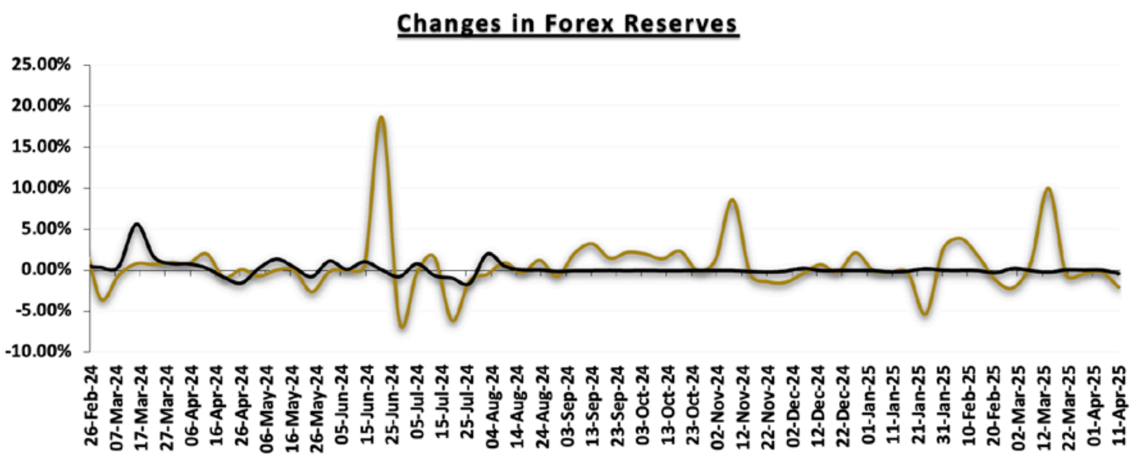
Source: Nairobi Securities Exchange (NSE)

Diaspora Remittances



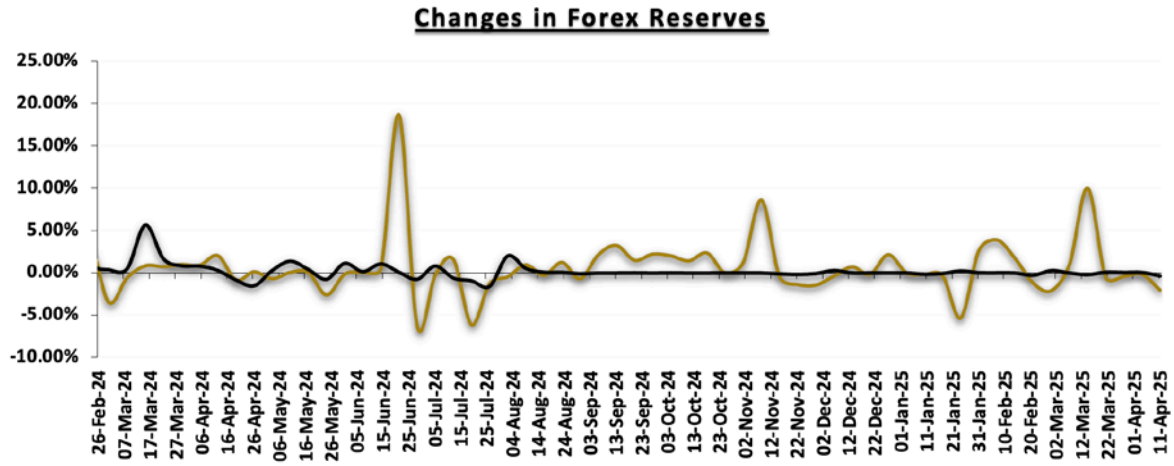
Source: Central Bank of Kenya (CBK)

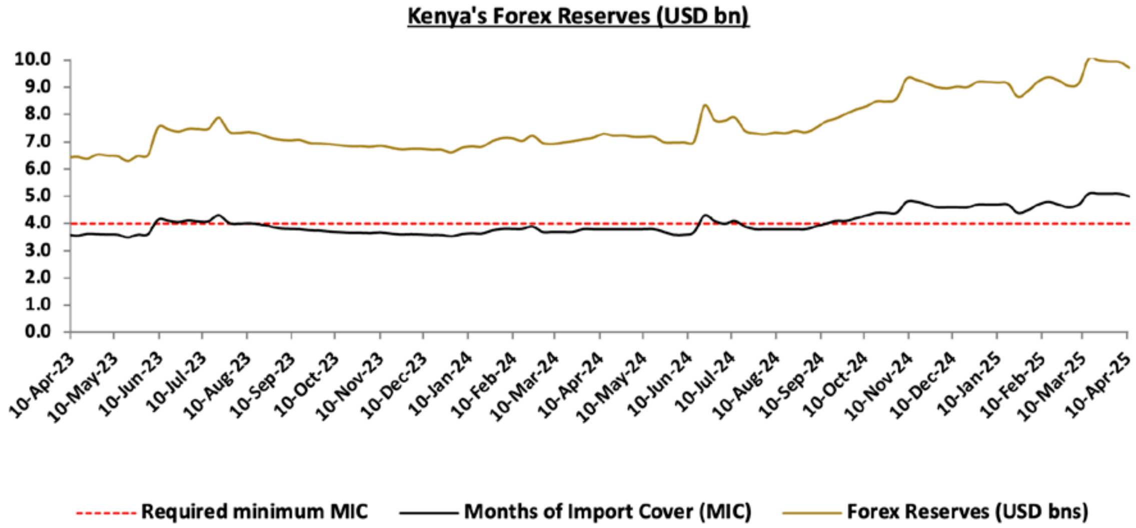
Forex Reserves



Source: Central Bank of Kenya (CBK)

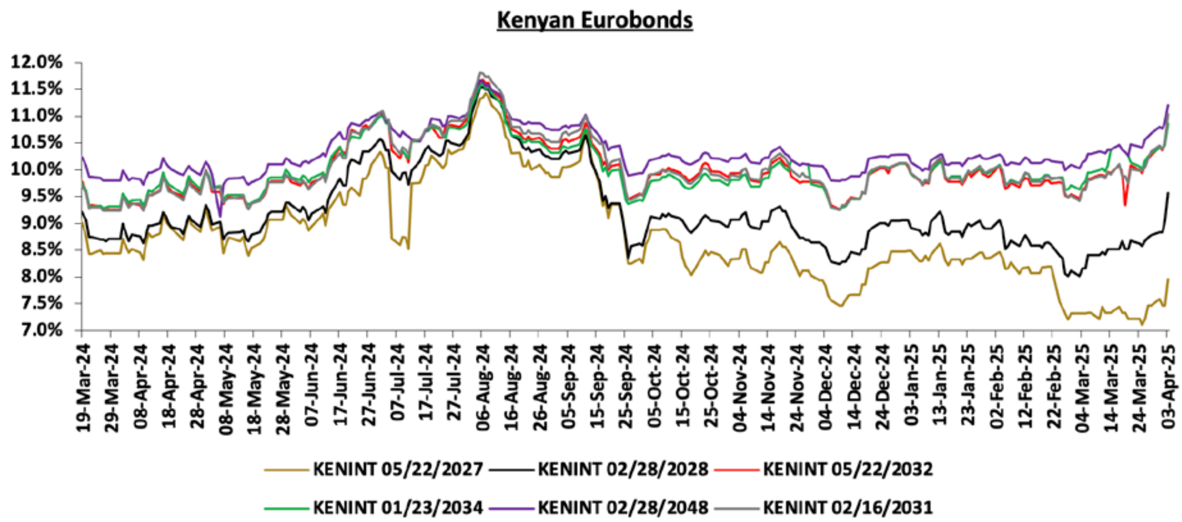
Forex Reserves





Source: Central Bank of Kenya (CBK)

Kenyan Eurobonds



Source: Central Bank of Kenya (CBK)

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