SIB Standard Investment Bank

Regulated by the Capital Markets Authority

7TH APRIL 2025

“Private Sector Business Conditions Improve Despite Persistent Uncertainty”

WEEKLY FIXED INCOME REPORT

March Inflation Ticks up, Thanks to Higher Food & Transport Prices

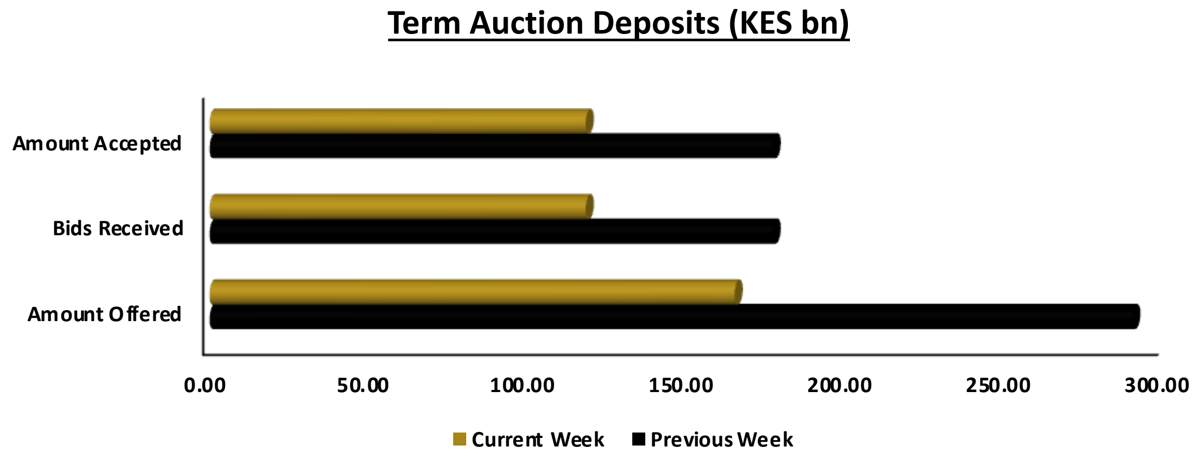
MONEY MARKET ANALYSIS

Interbank lending slowed down during the week with the traded volumes sliding 48.4% to KES 6.26bn from KES 12.12bn, in the previous week, in tandem with a 33.3% fall in the number of transactions. Reflecting the same, the average interbank rate rose slightly to 10.68% from 10.65% the prior week. The table below summarizes the market liquidity indicators:

Average	Previous Week	Current Week	Change
Interbank Deals	21.00	14.00	(33.33%)
Inter- Bank volumes (KES bn)	12.12	6.26	(48.35%)
Inter – Bank Rates (bps)	10.65%	10.68%	2.89

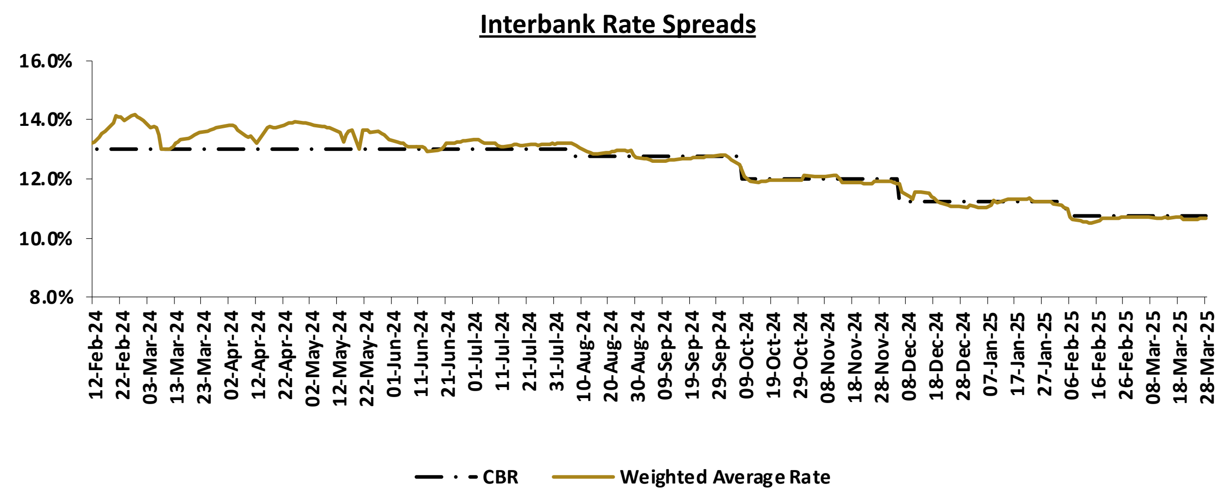
Source: Central Bank of Kenya (CBK), Table: SIB

During the week, the Central Bank mopped approximately KES 118.19bn worth of liquidity from the market, a 33.2% decrease from last week's KES 176.95bn. The amount fell below the target of KES 165.0bn with the average rate coming in at 10.75%. See below a visual chart;



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;



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

GOVERNMENT SECURITIES MARKET

T-bills

Demand for Treasury bills rejuvenated with the subscription rate coming in at of 169.5%, from 61.4%, last week. In both subscription and absolute terms, the 364-day paper received the highest interest with the paper garnering 61.5% of the total bids – it remains the only paper among the short-term notes with a double-digit return and investors seem to have shifted to the longer dated paper from the 91-day paper. Investors poured in KES 40.69bn, and the fiscal agent took in 99.7% of the amount.

Overall average rates of accepted bids continue to dip across all tenors, with the 91- 182- and 364 – day papers settling at 8.63% (-16.13bps), 9.04% (-2.33bps), and 10.39% (-2.52bps), respectively. the steeper decline for the 91-day paper reflects the huge number of non-competitive bids. See the summary below;

KES bn

24-Mar-25	91-day 7-Jul-25	182-day 6-Oct-25	364-day 6-Apr-26	Totals
Amount offered	4.00	10.00	10.00	24.00
Bids received	11.18	4.49	25.01	40.69
Subscription rate (%)	279.5%	44.9%	250.1%	169.5%
Amount accepted	**11.15**	**4.48**	**24.92**	**40.55**
Acceptance rate (%)	99.7%	99.6%	99.6%	99.7%
Of which: Competitive Bids	0.21	3.83	23.57	27.61
Non-competitive bids	10.94	0.65	1.35	12.94
Rollover/Redemptions	8.13	7.71	15.65	31.49
New Borrowing/(Net Repayment)	**3.02**	**(3.24)**	**9.27**	**9.05**
Weighted Average Rate of Accepted Bids	8.63%	9.04%	10.39%	
Inflation	3.6%	3.6%	3.6%	
Real Return	**5.0%**	**5.4%**	**6.8%**	

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

T-Bonds

In the primary bond market, the CBK successfully mobilized KES 71.40bn, slightly exceeding its KES 70.0bn target, through the reopening of three long-term bonds: FXD1/2020/015, FXD1/2022/015, and FXD1/2022/025. These bonds carried effective tenors of 9.9, 12.0, and 22.5 years, respectively. The bond with the longest tenor and highest coupon attracted the highest subscription, signaling a shift in investor preference toward higher yields, with reduced sensitivity to duration.

Two of the reopened bonds traded at a premium, while the shortest-tenor bond was issued at a discount. The weighted average rates of accepted bids were 13.67% for FXD1/2020/015, 13.83% for FXD1/2022/015, and 14.23% for FXD1/2022/025 — all broadly within our bidding expectations, with the exception of FXD1/2020/015, which cleared slightly above our estimate. See below a summary of the offer;

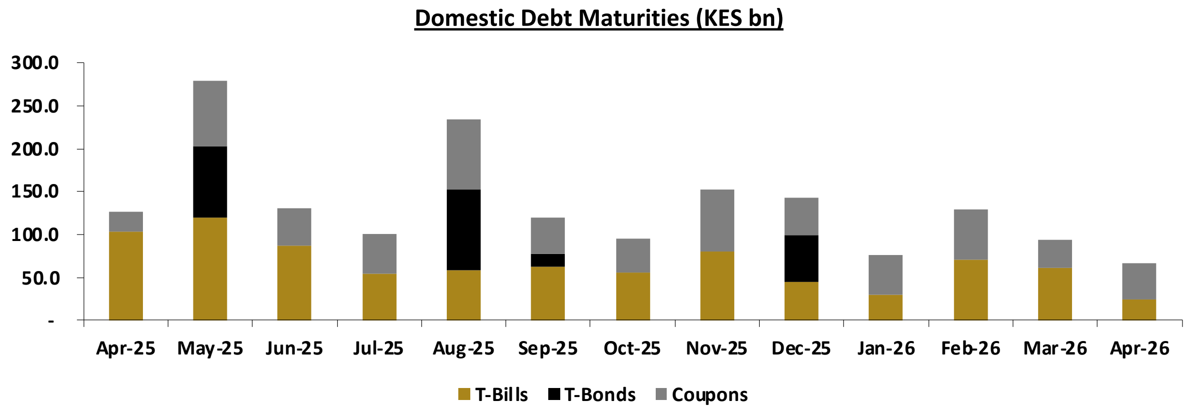
10-Mar-25	FXD1/2020/015	FXD1/2022/015	FXD1/2022/025	Totals
Due Date	**24-Feb-20**	**25-Apr-22**	**24-Oct-22**	
Amount offered				70.00
Bids received	20.90	18.15	32.68	71.73
Subscription rate (%)	29.9%	25.9%	46.7%	102.5%
Amount accepted	**20.88**	**17.98**	**32.54**	**71.40**
Acceptance rate (%)	99.9%	99.1%	99.5%	99.5%
Of which: Competitive Bids	12.07	12.51	27.04	51.62
Non-competitive bids	8.81	5.47	5.50	19.78
Rollover/Redemptions				90.8
New Borrowing/(Net Repayment)				**-19.5**
Allocated average rate for accepted bids	13.67%	13.83%	14.23%	
Coupon Rate	12.76%	13.94%	14.19%	
Price	96.83	107.08	106.22	

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

For this auction, the net borrowing position reflects a deficit of KES 19.45bn, taking into account the KES 90.40bn in redemptions due on the settlement date. Additionally, with the ongoing decline in interest rates, investors not intending to hold the bonds to maturity are likely to find favorable exit opportunities in the secondary market.

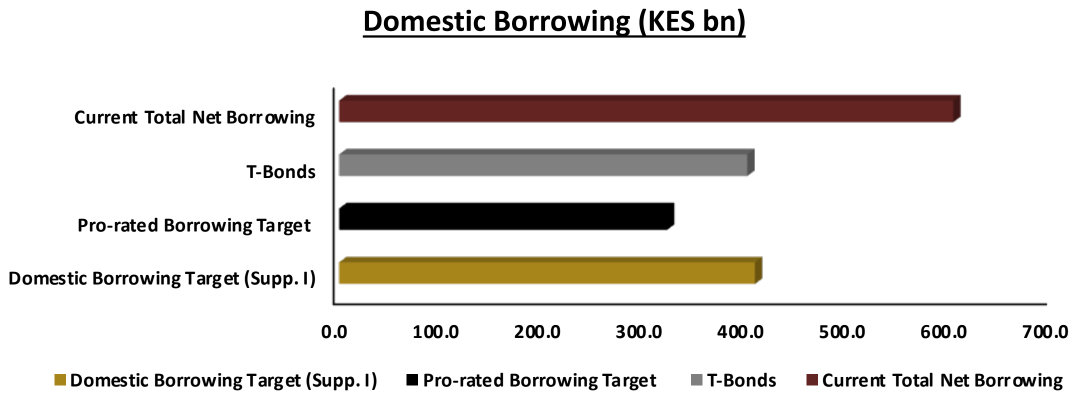
Outstanding Debt Maturities (T-Bills and T-Bonds):

As of this week, the Government's outstanding T-Bill and T-Bond maturities for the next 12 months are at KES 828.47bn and KES 249.24bn, respectively. Including coupon payments, the total maturity profile is approximately KES 1.75tn, as outlined below;



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

Domestic government borrowing declined to KES 603.37 billion, reflecting the impact of concurrent redemptions. Excluding Treasury bills, the cumulative borrowing stands at KES 400.90 billion—1.8% below the Supplementary Budget I target, but 24.5% above the prorated target for the period.

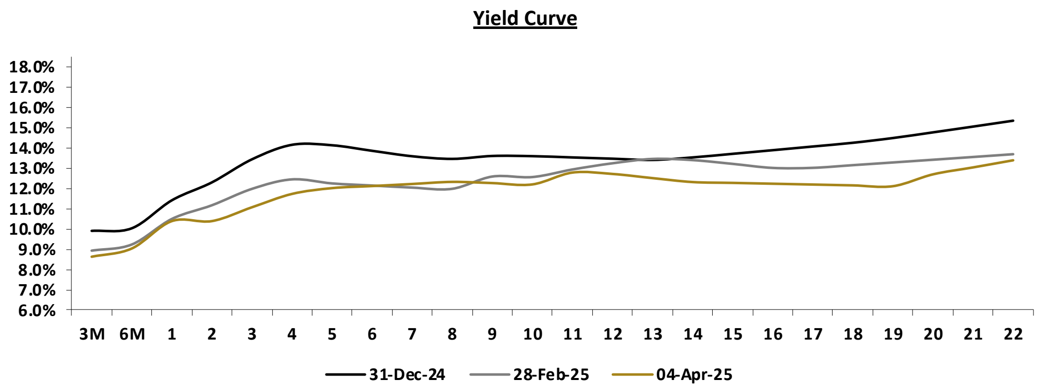


Source: Central Bank of Kenya (CBK), Treasury, Chart: SIB

Yield Curve

The yield curve maintained its downward drift save for a few tenors but the general performance was a decrease of 26.65bps on average week-on-week.

Below is a visual representation;



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

The International Front

Kenyan Eurobonds

This week, yields on Kenyan Eurobonds trended upwards, reflecting market reactions to recent global developments. 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%
27-Mar-25	7.5%	8.7%	10.2%	10.2%	10.3%	10.6%
31-Mar-25	7.6%	8.8%	10.4%	10.4%	10.4%	10.8%
1-Apr-25	7.5%	8.8%	10.4%	10.4%	10.4%	10.8%
2-Apr-25	7.5%	9.0%	10.5%	10.5%	10.5%	10.9%
3-Apr-25	8.0%	9.6%	11.0%	10.9%	10.9%	11.2%
Weekly Change	0.5%	0.8%	0.8%	0.6%	0.6%	0.6%
YTD Change	(0.5%)	0.5%	0.9%	0.7%	0.7%	0.9%

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

Currency Performance

The Kenyan shilling lost charge against all the currencies that we track, save for the USD. The unit gained another 0.1% against the currency —even as the US Dollar Index, strengthened marginally by 0.3%.

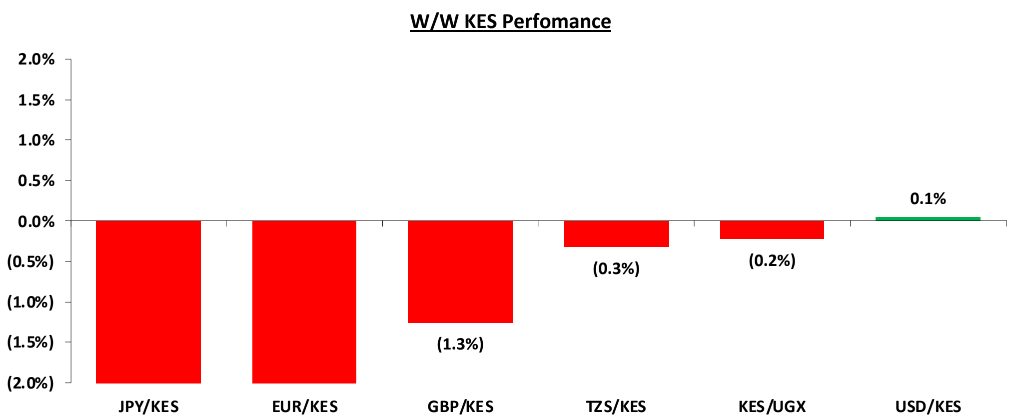
See the table below;

Currencies	29 Dec 2024	Previous Week	Current Week	w/w Change	YTD change
JPY/KES	82.1	85.7	88.9	(3.7%)	(8.2%)
EUR/KES	134.3	139.5	143.5	(2.9%)	(6.9%)
GBP/KES	162.3	167.4	169.5	(1.3%)	(4.4%)
TZS/KES	19.0	20.6	20.6	(0.3%)	8.4%
KES/UGX	28.4	28.3	28.3	(0.2%)	(0.5%)
USD/KES	129.3	129.3	129.2	0.1%	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;



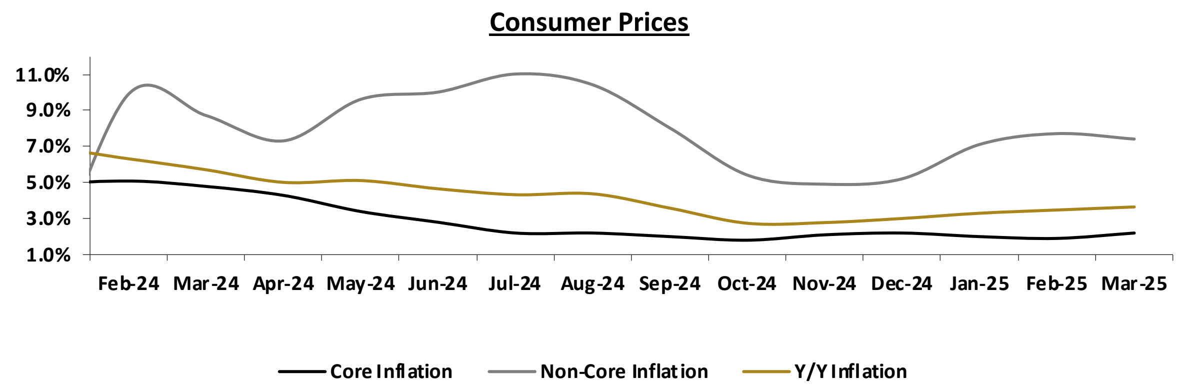
Source: Central Bank of Kenya (CBK), Chart: SIB

Kenya's foreign exchange reserves edged down slightly to USD 9.94bn, from the previous week’s USD 9.96bn with import cover remaining at 5.1 months from the previous week.

MARKET NEWS

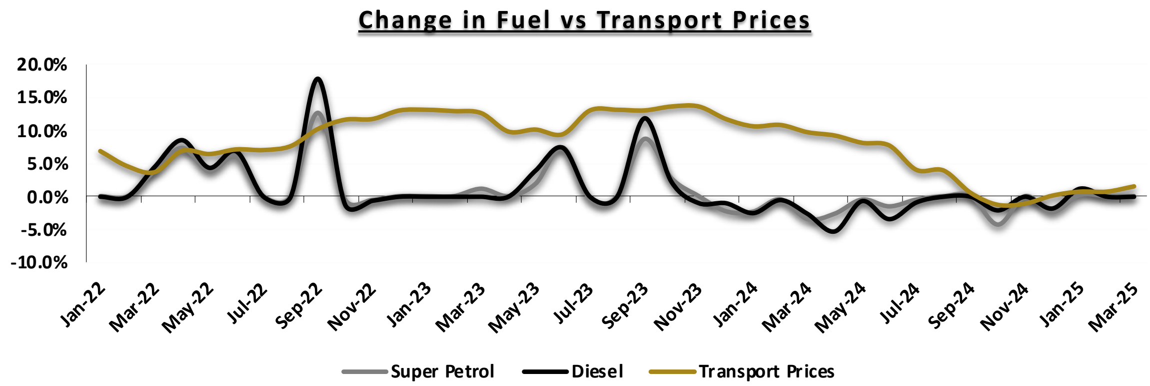
i. March Inflation Ticks up, Thanks to Higher Food & Transport Prices

In March 2025, consumer prices rose by 3.6% year-on-year (y/y), marginally higher than the 3.5% recorded in February. Core inflation also edged up to 2.2%, from a revised 1.9%, while non-core inflation declined by 30 basis points to 7.4%, down from a revised 7.7%—lower than the initially reported 8.2% for February. See the chart below;



Source: KNBS, CBK, Chart: SIB

The y/y uptick in headline inflation was primarily driven by rising food prices, with the food index accelerating to 6.6% in March, up from 6.4% in February. Similarly, the transport index rose to 1.5%, marking a faster pace of growth compared to February, despite relatively stable fuel prices.



Source: KNBS, CBK, Chart: SIB

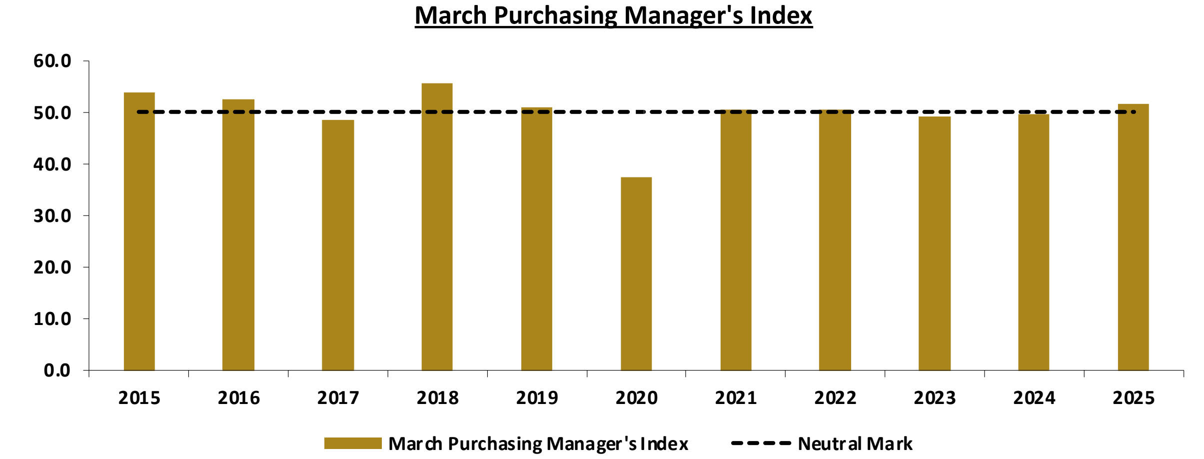
Meanwhile, the household utilities index offered some relief, contracting by a further 0.8%, largely due to continued declines in electricity prices. Notably, small-scale electricity costs dropped by 9.4% per kilowatt hour, helping to cushion the broader inflationary pressures. A favorable base effect also contributed to moderating electricity price increases.

Looking ahead, we expect annual inflation to remain below the CBK's midpoint target with limited volatility through most of 2Q25. The high base effect from elevated fuel and energy costs in early 2024—followed by their subsequent decline—should provide a stabilizing influence. Nonetheless, food inflation remains a key concern, driven by volatile fruit and vegetable prices. Fuel prices also present an upside risk, as domestic adjustments—particularly those tied to subsidy policies—could offset the benefits of declining global prices.

ii. Private Sector Business Conditions Edge up amid Persistent Uncertainty

According to Stanbic Bank Kenya's PMI survey, private sector business activity improved in March, with the index rising to 51.7—the first expansionary reading since May 2024. Historically, March has underperformed, making this the strongest performance for the month in the past seven years. Encouragingly, the sector appears to be emerging from a state of precarious equilibrium, though it may be premature to draw definitive conclusions.

See the chart below;



Source: KNBS, CBK, Chart: SIB

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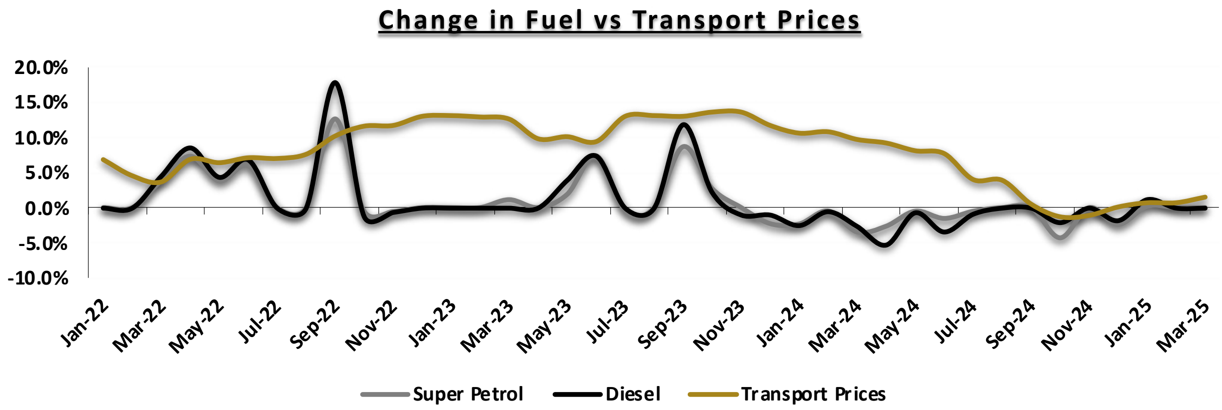


Source: KNBS, CBK, Chart: SIB

**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 expansion in private sector activity was primarily driven by a sharp increase in new business inflows—the fastest pace observed in over two years—underpinned by enhanced marketing efforts, favorable weather conditions, and new customer acquisitions. Most sectors, including services and retail, recorded growth in output and sales. Manufacturing, however, was the sole outlier, registering contractions. Employment growth remained modest, constrained by reduced backlogs and limited need for capacity expansion.

On the downside, private sector confidence remains subdued, with future optimism still at the lowest point in the series. This cautious sentiment reflects persistent economic headwinds and heightened uncertainty, particularly concerning production costs.

In our view, the latest growth figures offer a glimmer of hope. While the improvement could be seasonal, the historical context suggests a possible turning point. Favorable weather conditions, steady fuel prices, and declining electricity costs may offer temporary relief for businesses by easing input costs and supporting sustained demand. Nonetheless, this does not diminish the urgent need for proactive measures to strengthen key sectors—particularly manufacturing and agriculture—which account for a significant share of the economy. Without such interventions, the private sector risks reverting to a fragile "survival mode," compounded by persistent core inflation, which would continue to signal underlying inefficiencies in the broader economic framework.

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.

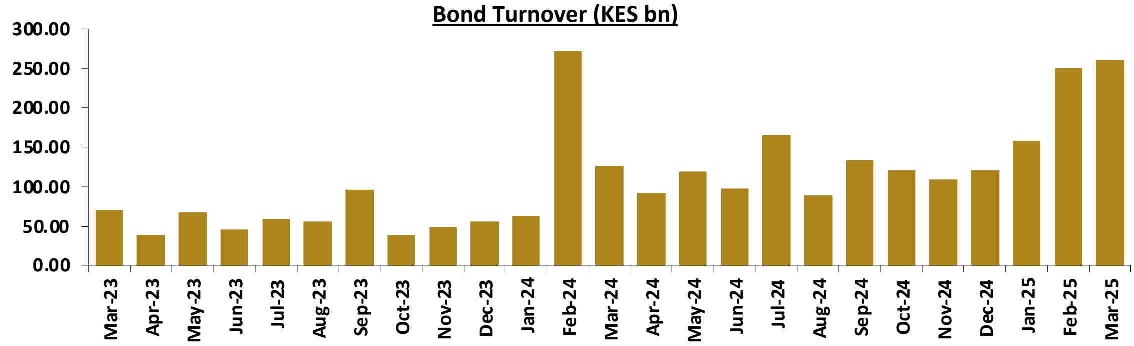
UPCOMING EVENTS

April 2025 MPC Meeting

The Central Bank of Kenya's Monetary Policy Committee (MPC) is scheduled to hold its second meeting of the year on Tuesday, April 8, 2025. We anticipate a cut of at least 50bps in the benchmark rate, currently at 10.75%. In the context of low inflation, we expect the need to stimulate economic growth, ease the cost of credit, and address the limited lending towards the private sector to be key drivers for the decision.

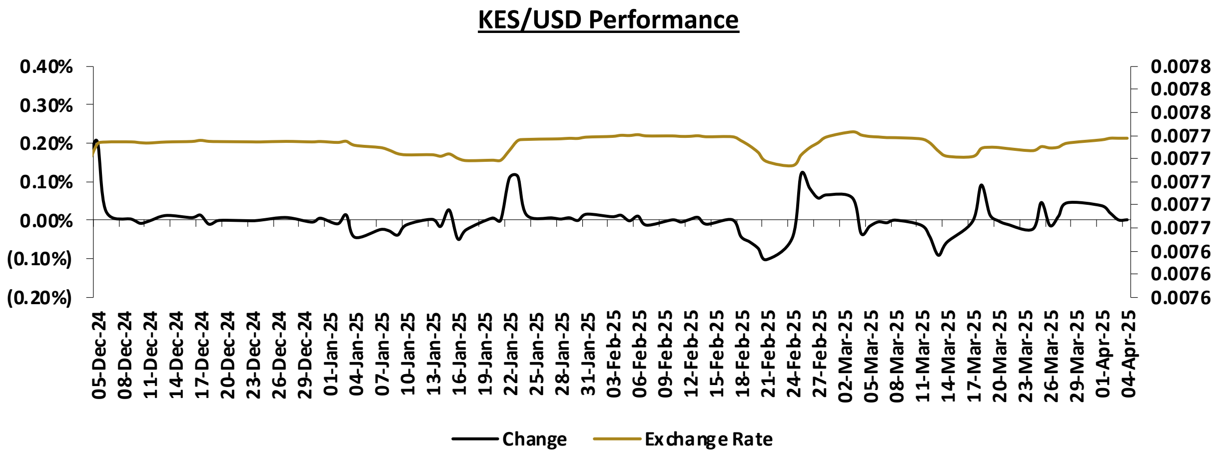
BACKGROUND CHARTS

Secondary Bond Turnover



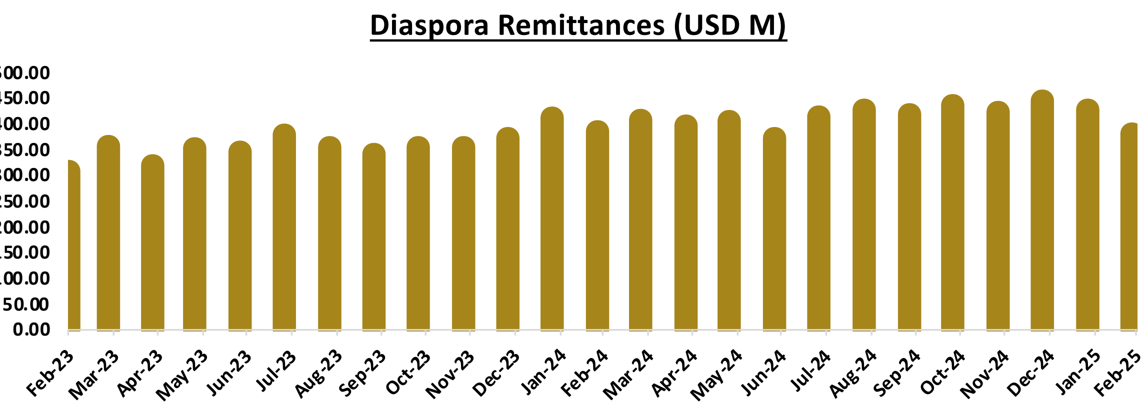
Source: Nairobi Securities Exchange (NSE)

KES/USD Performance



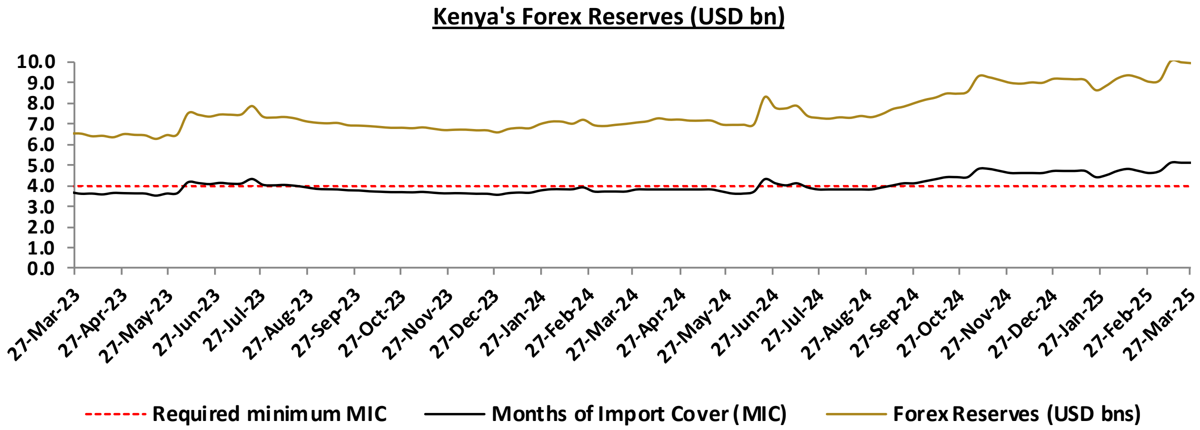
Source: Central Bank of Kenya (CBK)

Diaspora Remittances



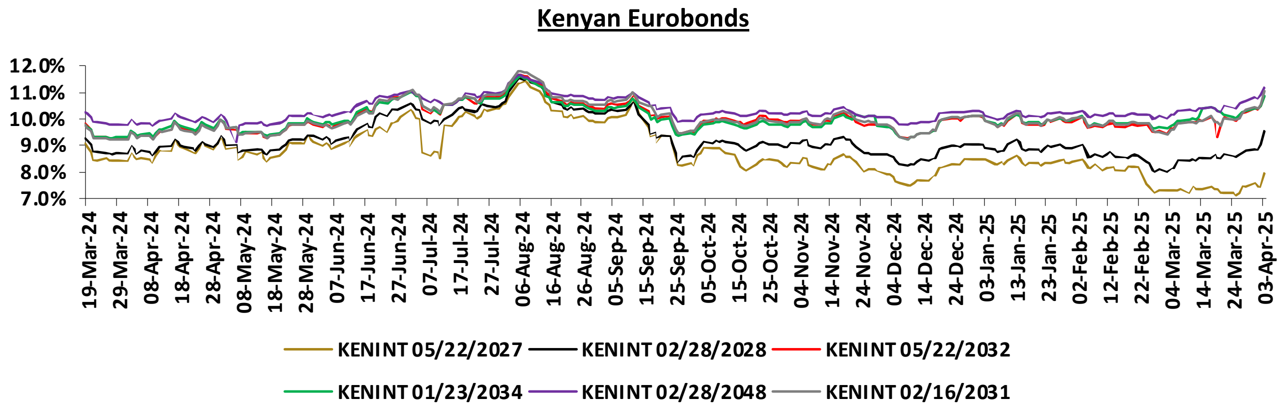
Source: Central Bank of Kenya (CBK)

Forex Reserves



Source: Central Bank of Kenya (CBK)

Kenyan Eurobonds



Source: Central Bank of Kenya (CBK)

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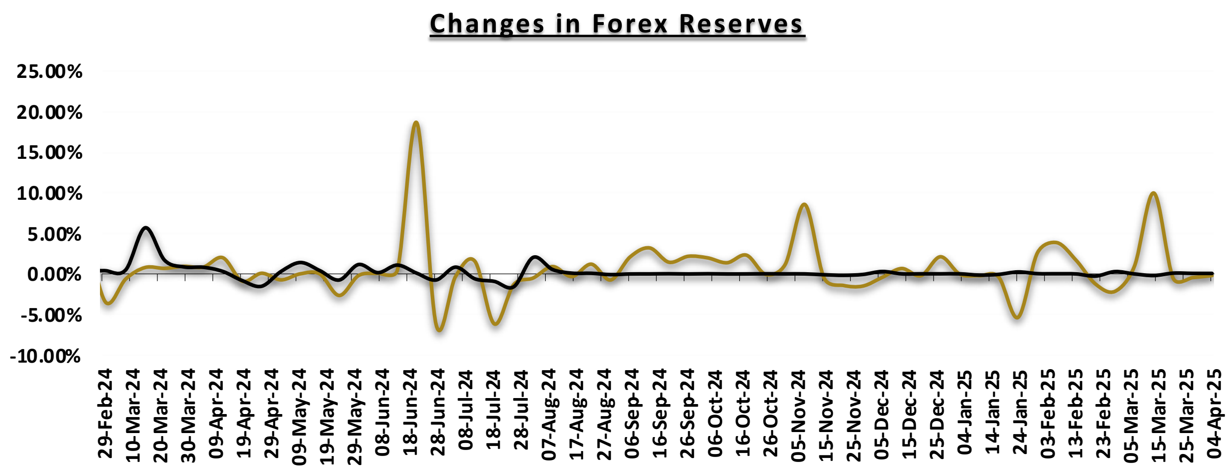

Source: Central Bank of Kenya (CBK)

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