SIB Standard Investment Bank

Regulated by the Capital Markets Authority

16TH JUNE 2025

> "Kenya's FX Reserves Peak Ahead of July Debt Servicing Obligations"

WEEKLY FIXED INCOME REPORT

MPC Cuts Base Rate to 9.75%; Signals a Gradualist Approach

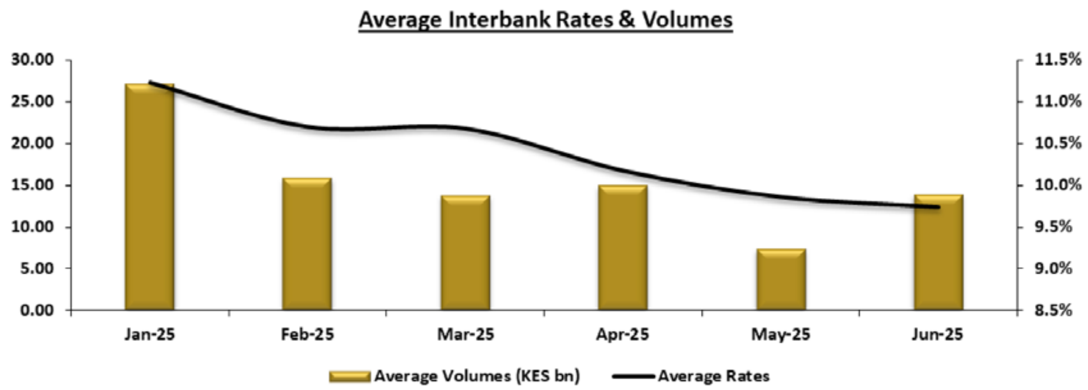
MONEY MARKET ANALYSIS

Interbank lending recorded a strong improvement with the average traded volumes more than doubling to KES 17.48bn, up from KES 7.90bn, in tandem with a 121.2% jump in transaction count over the week. Meanwhile, the average interbank rate declined by 10.58bps to 9.70%, from 9.81%, reflecting market adjustments following the recent policy rate cut by the Central Bank. The table below summarizes the market liquidity indicators:

Average	Previous Week	Current Week	Change
Interbank Deals	13.00	28.00	115.38%
Inter- Bank volumes (KES bn)	7.90	17.48	121.24%
Inter – Bank Rates (bps)	9.81%	9.70%	(10.58)

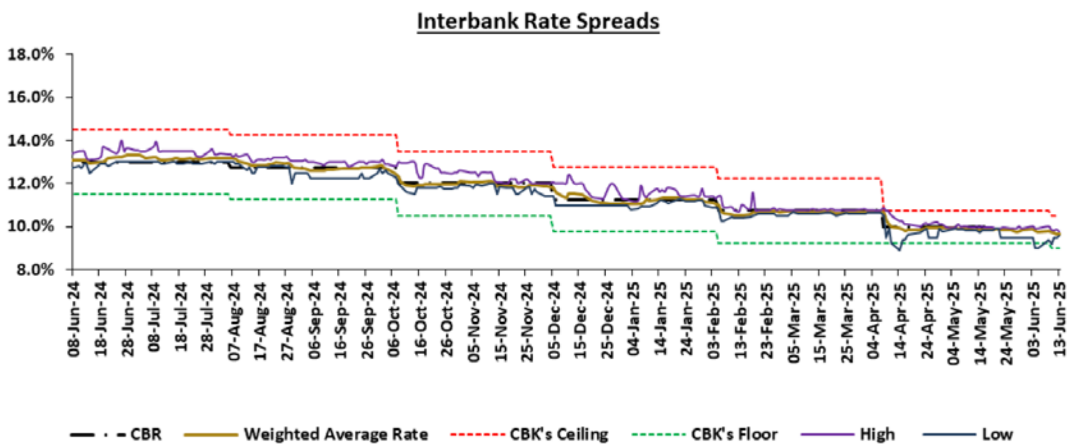
Source: Central Bank of Kenya (CBK), Table: SIB

On a month-on-month basis, average monthly traded volumes appear to have picked up momentum in June, indicating a potential rejuvenation in market activity. See the chart below:



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

As the interest rates corridor drops further downwards, interbank rates continue to decline – as it should - given the ties with the benchmark rate. See the chart below;



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

GOVERNMENT SECURITIES MARKET

T-Bills:

Treasury bill performance remained robust, though demand eased slightly compared to the previous week. The overall subscription rate stood at 237.4%, down from 255.9% recorded earlier. The 364-day paper maintained its dominance, attracting 70% of total bids from investors out of the KES 61.41b offered.

However, the fiscal agent accepted only 30.2% of the total bids, marking a 44-week low in acceptance rates. The lowest acceptance was recorded on the 364-day tenor, which also experienced the steepest yield decline among the short-term papers. This suggests that a significant portion of competitive bids was rejected, likely reflecting a misalignment between investor expectations and the fiscal agent's pricing threshold, especially after the rate cut.

That said, the average accepted rates currently stand at 8.18% (- 10.27bps), 8.49% (4.85bps), and 9.75% (-24.85bps), for the 91-, 182-, and 364-day papers, respectively. See the summary below;

KES bn

16-June-25	91-day	182-day	364-day	Totals
	15-Sep-25	15-Dec-25	15-Jun-26	
Due Date	4.00	10.00	10.00	24.00
Amount offered	14.60	2.57	39.79	56.97
Bids received	364.9%	25.7%	397.9%	237.4%
Subscription rate (%)	**11.63**	**2.57**	**2.99**	**17.20**
Amount accepted	79.7%	100.0%	7.5%	30.2%
Acceptance rate (%)	0.15	1.92	0.91	2.98
Of which: Competitive Bids	11.48	0.65	2.08	14.22
Non-competitive bids	5.02	3.20	2.65	10.86
Rollover/Redemptions	**6.61**	**(0.62)**	**0.35**	**6.34**
New Borrowing/(Net Repayment)	8.18%	8.49%	9.75%	
Weighted Average Rate of Accepted Bids	3.8%	3.8%	3.8%	
Inflation	**4.4%**	**4.7%**	**6.0%**	

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

T-Bonds:

In the primary bond market, the fiscal agent is seeking to raise KES 50.0 billion, albeit fashionably late in the fiscal calendar. The issuance will be conducted through two reopened bonds: FXD1/2020/015 and SDB1/2011/030. Despite the net domestic borrowing target for the fiscal year having already been met, this issuance is expected to mobilize the final tranche of funds before the year closes.

We anticipate that investor interest will be skewed toward the shorter-tenor, higher-yielding FXD1/2020/015, given current market preferences for attractive returns and reduced duration risk although recent signaling from the monetary authority suggests an effort to lower short term rates further to raise credit demand. See a summary of the offer below;

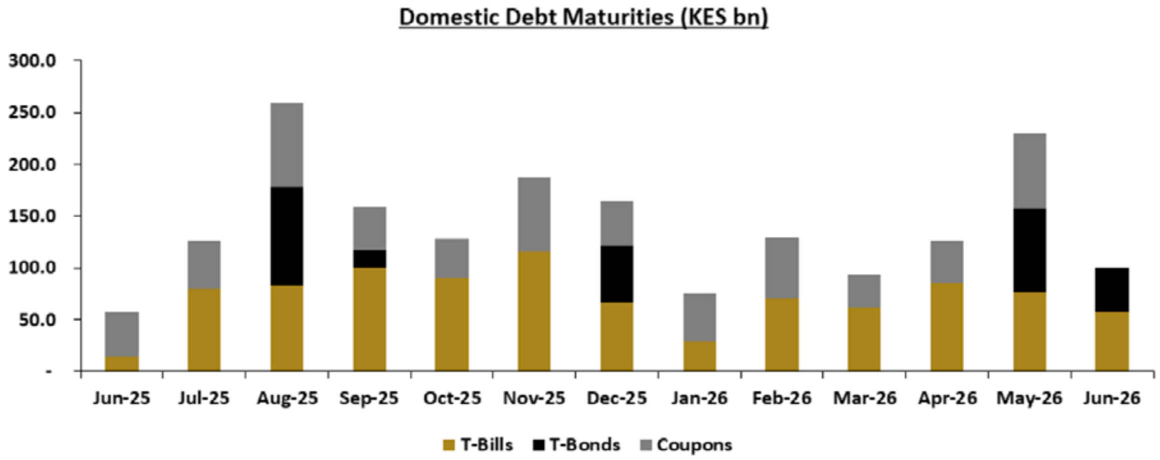
Bond Auction	Maturity Date	Effective Tenor	Amount Offered	Coupon	Sale Period
FXD1/2020/015	05-Feb-35	9.6	50.00	12.76%	Up to 18th June 2025
SDB1/2011/030	21-Jan-41	15.6		12.00%	

In the secondary bond market, turnover surged by 80.7% during the week to KES 30.0bn, from KES 16.6bn, in the previous week.

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

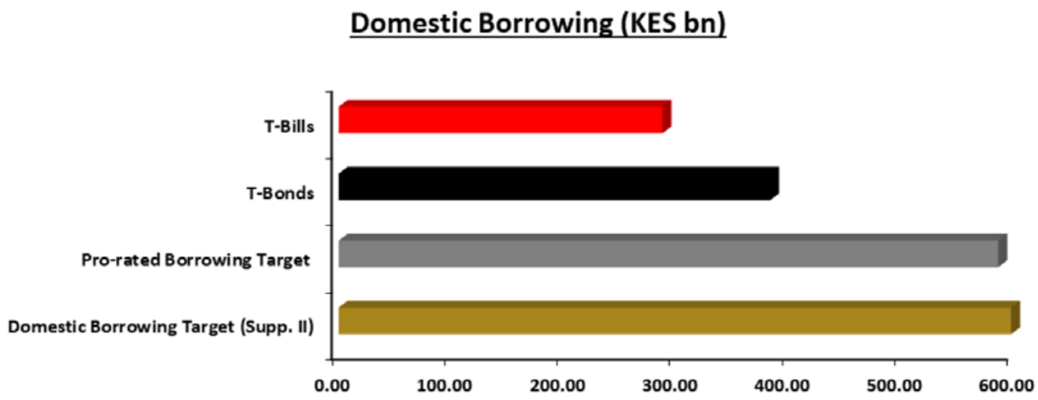
As of this week, the Government's outstanding T-Bill and T-Bond maturities for the next 12 months are at KES 931.40bn and KES 289.92bn, respectively. August 2025 emerges as the next significant maturity month, with a total maturity profile of approximately KES 259.23 billion, inclusive of coupon payments.

See the chart below;



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

This week's auction pushed total domestic government borrowing for FY24/25 to KES 676.94bn — that is 13.4% above the domestic borrowing target of KES 597.15bn for FY24/25. See the chart below;

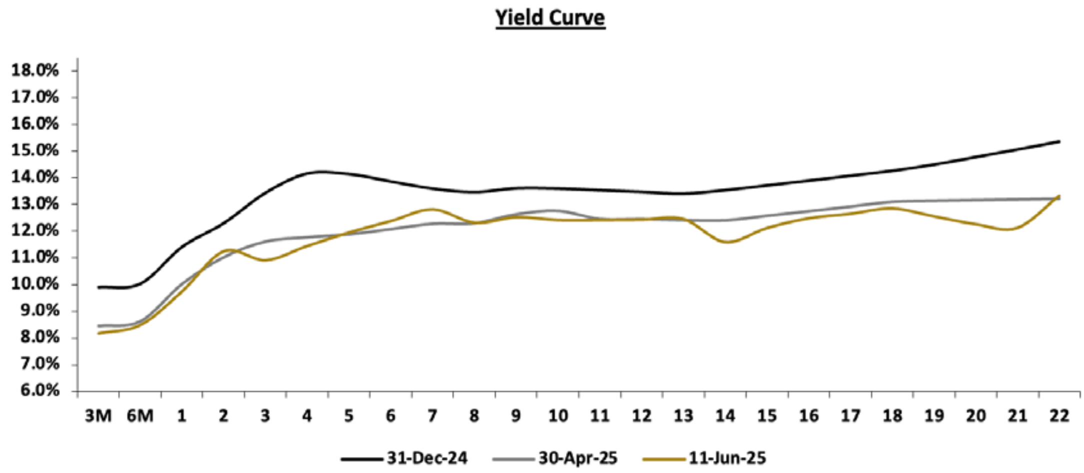


Source: Central Bank of Kenya (CBK), National Treasury, SIB Estimates, Chart: SIB

Yield Curve

On average, the yield curve recorded a 24.57bps w/w decline with most tenors adjusting downwards save for a few which remained largely unchanged.

Below is a visual representation;



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

The International Scene

Kenyan Eurobonds

Kenyan Eurobonds trended further lower during the week, signaling calm across both global and domestic fronts.

Below is a summary of the performance;

Issuance	KENINT 02/28/2028	KENINT 02/16/2031	KENINT 05/22/2032	KENINT 01/23/2034	KENINT 02/28/2048
Maturity Date	28-Feb-28	16-Feb-31	22-May-32	1-Jun-34	28-Feb-48
Tenor to Maturity	2.7	5.7	6.9	9.0	22.7
31-Dec-24	9.1%	10.1%	10.1%	10.1%	10.3%
5-Jun-25	8.3%	9.4%	9.6%	9.7%	10.5%
9-Jun-25	8.3%	9.5%	9.6%	9.7%	10.6%
10-Jun-25	8.2%	9.5%	9.6%	9.7%	10.5%
11-Jun-25	8.3%	9.4%	9.5%	9.6%	10.5%
12-Jun-25	8.2%	9.3%	9.4%	9.6%	10.4%
Weekly Change	(0.1%)	(0.1%)	(0.2%)	(0.1%)	(0.1%)
YTD Change	(0.9%)	(0.8%)	(0.7%)	(0.5%)	0.1%

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

Currency Performance

The Kenyan shilling posted a mixed bag this week—holding steady against the USD in line with recent trends, despite a 0.8% dip in the dollar index. The only gain was against the UGX—as was the previous week—while it remained broadly weaker against other tracked currencies.

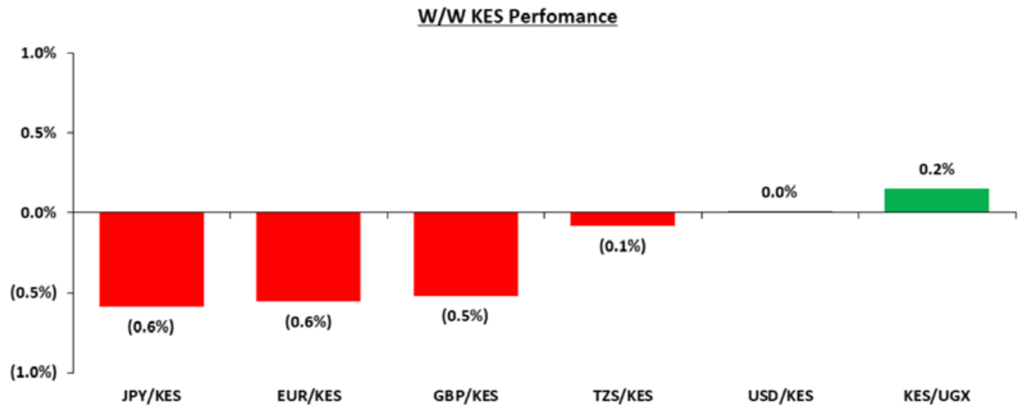
See the table below;

Currencies	30 April 2025 (vs KES)	Previous Week	Current	w/w Change	M/m change
JPY/KES	82.1	90.3	89.9	(0.6%)	(10.0%)
EUR/KES	134.3	147.5	148.8	(0.6%)	(9.8%)
GBP/KES	162.3	175.1	174.9	(0.5%)	(7.9%)
TZS/KES	19.0	20.7	20.2	(0.1%)	9.2%
USD/KES	129.3	129.2	129.2	0.0%	0.1%
KES/UGX	28.4	28.2	27.8	0.2%	(0.8%)

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

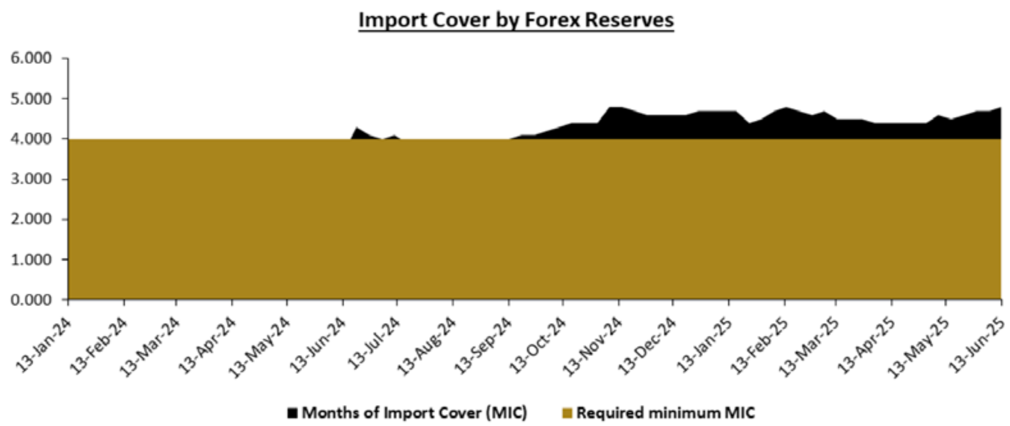
Abb: GBP – British Pound, EUR – Euro, USD – US Dollar, UGX – Ugandan Shilling, TZS – Tanzanian Shilling, JPY – Japanese Yen I FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

See also a visual representation;



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

Meanwhile, Kenya's foreign exchange reserves rose to an all-time high of USD 10.95 billion during the week, which we view as part of a strategic build-up ahead of the substantial debt service obligations due every July. The reserve level translates to 4.8 months of import cover, up slightly from 4.7 months recorded the previous week, offering a modest buffer to external vulnerabilities. See the chart below for a visual trend of the months of import cover;

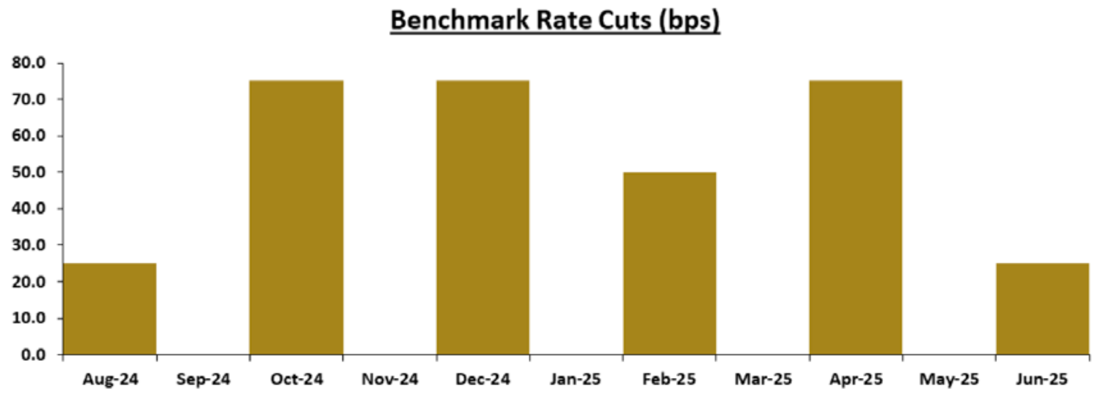


Source: Central Bank of Kenya (CBK), Chart: SIB

THE MACRO WRAP

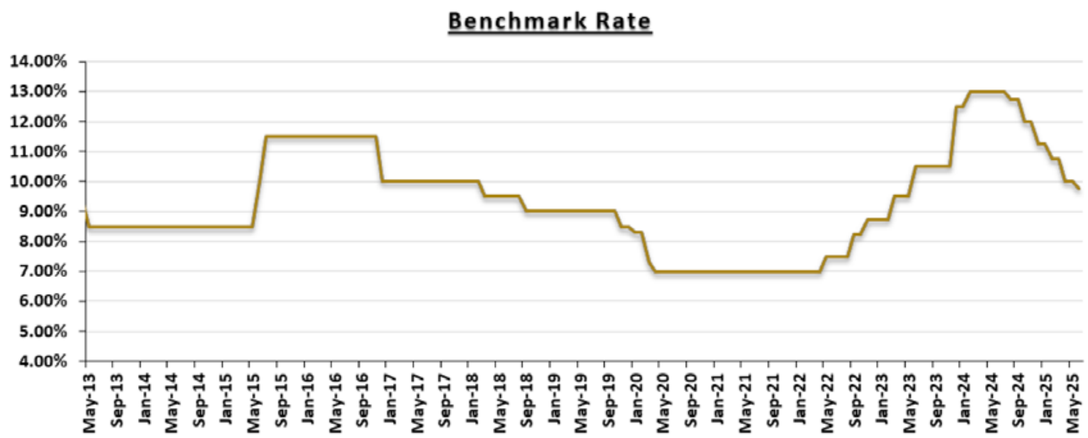
a) MPC Cuts Base Rate to 9.75%; Signals a Gradualist Approach

The Central Bank of Kenya's (CBK) Monetary Policy Committee (MPC) convened on Tuesday, 10th June 2025, and resolved to cut the Central Bank Rate (CBR) by 25bps to 9.75%, falling short of our expectation of a 50bps cut – although there was a significant portion of the market which expected the benchmark rate to remain unchanged. The decision signals that the CBK is now taking a more gradualist approach, following a period of more aggressive easing at the onset of the current cycle as shown below to allow the market catch up and reduce instability;



Source: CBK, Chart: SIB

The June cut takes the cumulative easing of the benchmark rate to 325bps from 13.0% to its current level of 9.75%, since the easing cycle kicked off. See the chart below;



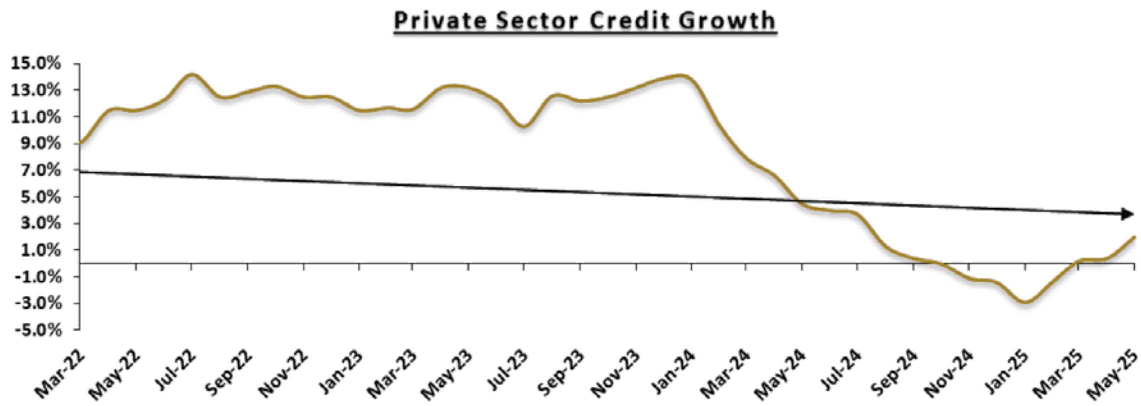
Source: CBK, Chart: SIB

The continued rate cuts by the CBK are primarily aimed at stimulating economic activity and enhancing liquidity, with the broader objective of supporting private sector credit growth. This comes as the exchange rate against the US dollar remains stable, and inflation stays well within the CBK's target range, with expectations that it will remain contained in the short term. That said, we wish to caution readers that economic stability should not be conflated with economic prosperity. Prices of goods and services continue to rise, albeit at a slower pace—underscoring the lingering pressure on household and business spending.

On the external front, the MPC noted a 3.8% year-on-year increase in exports in the twelve months to April 2025, while imports grew at a faster pace of 7.6%. This coincides with the 27-month high in private sector performance recorded in April 2025. Notably, exports had been growing at a faster rate than imports for some time, but this trend appears to be reversing—likely influenced by the Shilling's appreciation against the dollar when comparing the two periods.

Overall, the current account deficit narrowed to 1.8% of GDP in the twelve months to April 2025, down from 2.2% in 2024, marking a 40bps improvement. Looking ahead, the current account deficit is projected to further narrow to 1.5% of GDP in 2025—more than a full percentage point lower than the forecast published in April. The fluctuations in these projections remain notable, likely due to the recent revisions in balance of payments data.

On credit conditions, the committee observed an improvement in private sector credit growth, with credit extended to the sector rising by a modest 2.0% in May, up from 0.4% in April. However, Non-Performing Loans (NPLs) remain elevated, with the NPL ratio rising to 17.6% in April, up from 17.2% in February. Increases in NPLs were reported across several sectors, including trade, personal and household, tourism and hotels, and building and construction. This trend is largely attributed to persistent pending bills and continued pressure on operating margins, which continue to strain borrowers' repayment capacities. See the chart below;



Source: CBK, Chart: SIB

In our view, private sector growth continues to be hampered not only by elevated interest rates—driven by a high benchmark rate and costly deposits—but also by structural constraints within the credit market. While rates on short-term government securities have declined significantly from early 2024 levels, lending rates remain persistently high. Based on the risk-based pricing model, this suggests that perceived credit risk among borrowers remains elevated, limiting access to affordable credit.

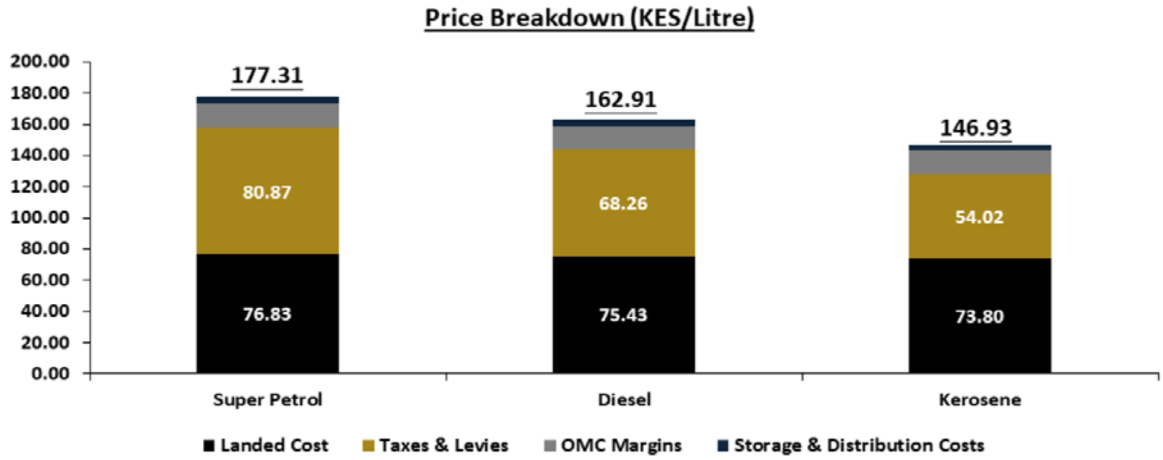
Furthermore, the issue of crowding out should not be underestimated. The government has continued to maintain a buoyant domestic debt market, providing commercial banks with an attractive, low-risk alternative to private sector lending. Looking ahead to the next fiscal year, the domestic borrowing target is projected to increase, to KES 635.50bn, from KES 597.15bn in the current year, and—if past trends are any indication—subsequent supplementary budgets will likely push this target even higher.

As such, we argue that as long as the fiscal agent maintains an overly optimistic stance on the country's financial position, the monetary authority's actions will likely be insufficient in addressing the deeper challenges constraining private sector credit and economic recovery.

The committee will meet again in August 2025.

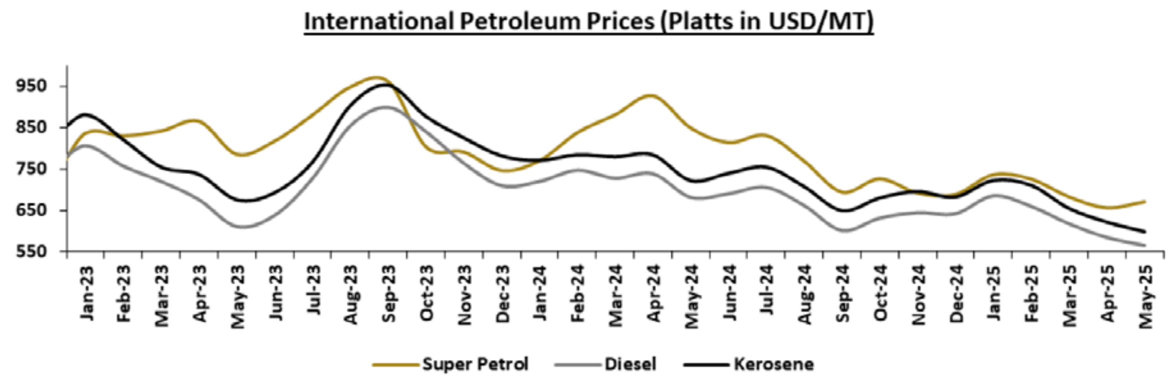
b) Diesel and Kerosene Prices drop as Government Refrains from Subsidy

The Energy and Petroleum Regulatory Authority (EPRA) announced fuel prices for the period from 15th June 2025 to 14th July 2025. The price of petrol increased by 1.5% to KES 177.31 per liter while that of diesel and kerosene declined by 1.2% and 1.4% to KES 162.91 and KES 146.93 per liter, respectively in Nairobi. See below the price breakdown;



Source: EPRA, Chart: SIB

Notably, landed costs for diesel and kerosene declined by 2.4% and 5.5% per cubic meter, respectively, while the cost of petrol edged up marginally by 0.1%. This occurred against the backdrop of a 3.4% and 3.7% decline in international benchmark prices (Platts) for diesel and kerosene, respectively, whereas petrol prices rose by 2.2% over the same period. See the chart below for the trend;



Source: EPRA, Chart: SIB,

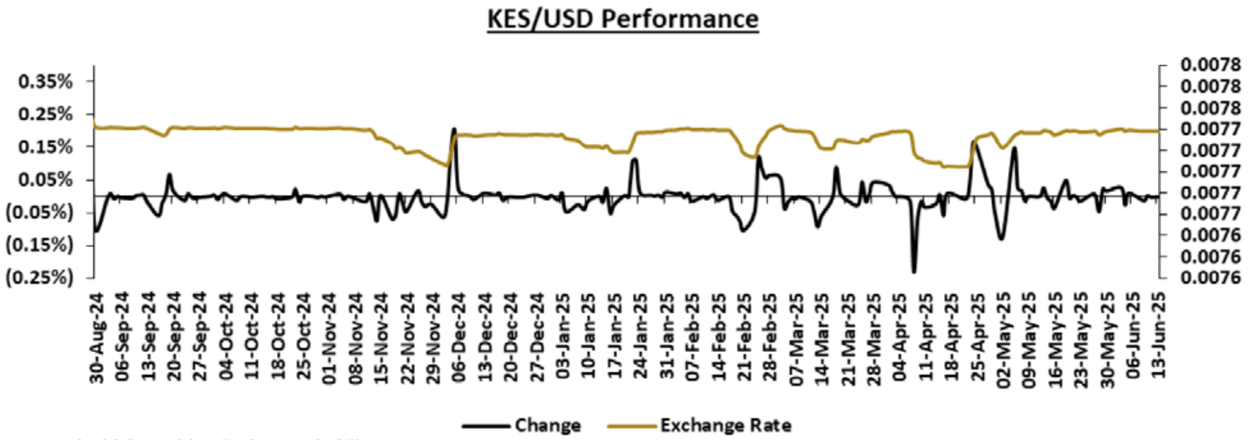
On a positive note, the government refrained from subsidizing fuel prices in the current pricing cycle. The decline in landed costs for diesel and kerosene was sufficient to fully offset previous subsidy requirements, allowing for a reduction in pump prices for these products. In contrast, petrol prices increased slightly, in line with the marginal rise in its landed cost. Nonetheless, we remain cautious, as this trend could potentially reverse and extend to diesel and kerosene, particularly in light of ongoing global uncertainties and disputes that may trigger supply chain disruptions and price volatility.

Hot on the Horizon: FY25/26 Budget Report

Stay tuned for our comprehensive FY2025/26 Budget Report, set to be released in the coming weeks.

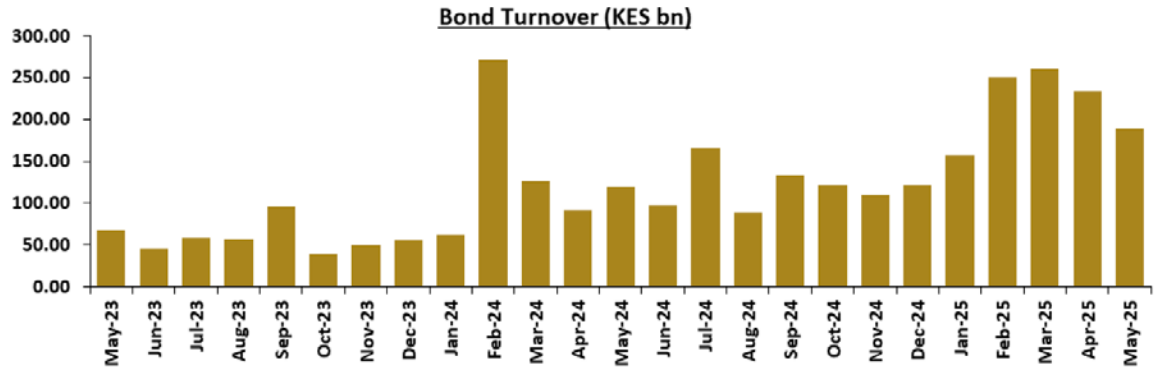
BACKGROUND CHARTS

KES/USD Performance



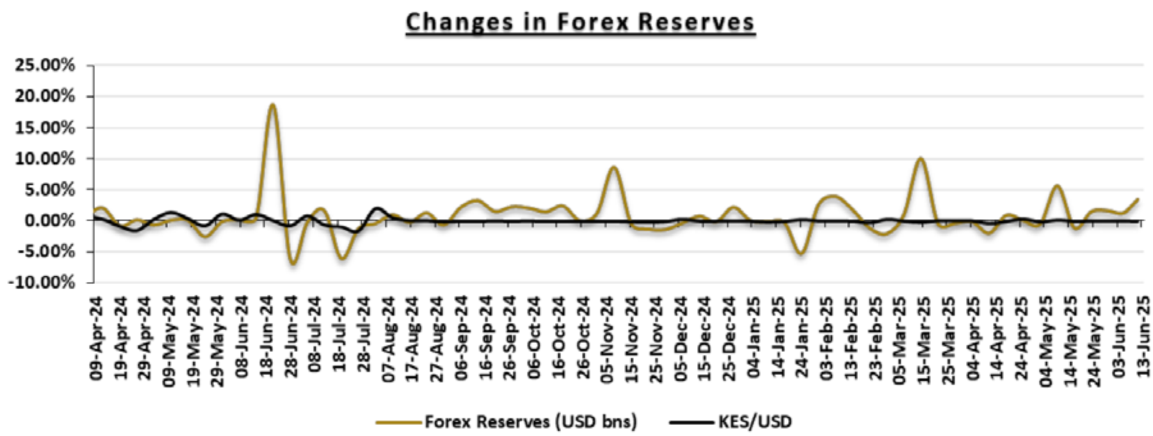
Source: Nairobi Securities Exchange (NSE)

Bond Turnover



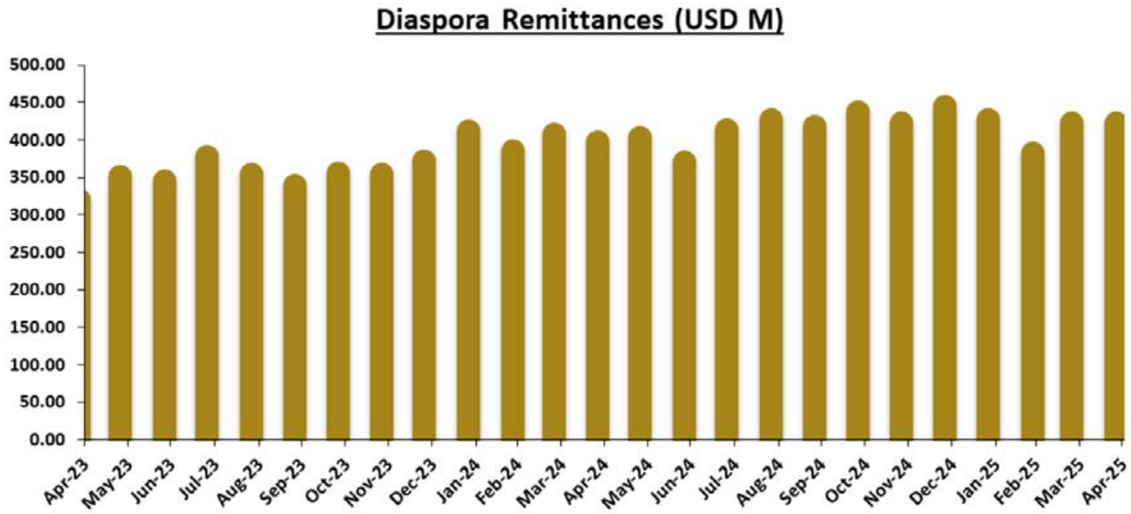
Source: Central Bank of Kenya (CBK)

Forex Reserves



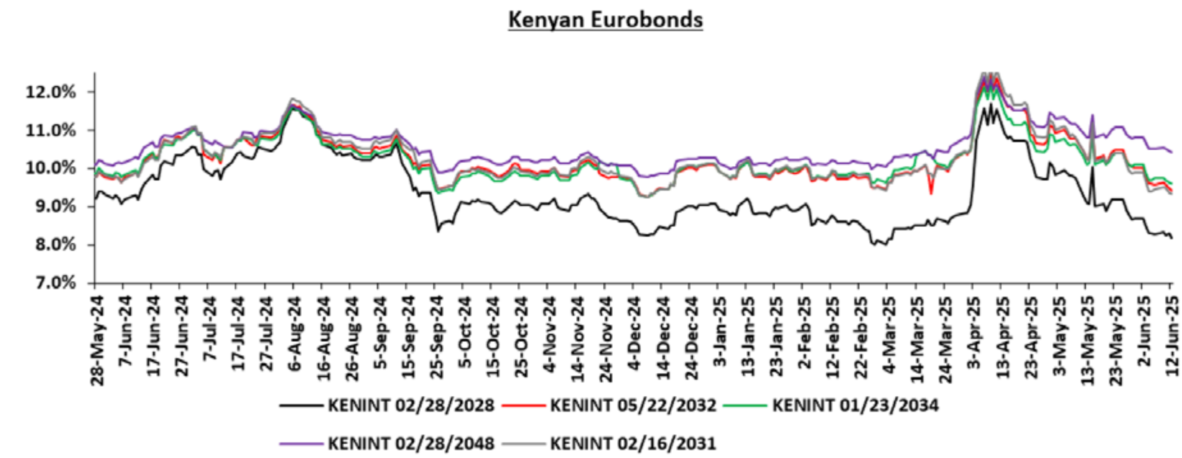
Source: Central Bank of Kenya (CBK)

Diaspora Remittances



Source: Nairobi Securities Exchange (NSE)

Kenyan Eurobonds



Source: Central Bank of Kenya (CBK)

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