SIB Standard Investment Bank

Regulated by the Capital Markets Authority

3RD JUNE 2025

“June 2025
Policy Action Outlook:
50bps Rate Cut”

WEEKLY FIXED INCOME REPORT

May Inflation Slows to 3.8%, in Line with Our Estimates

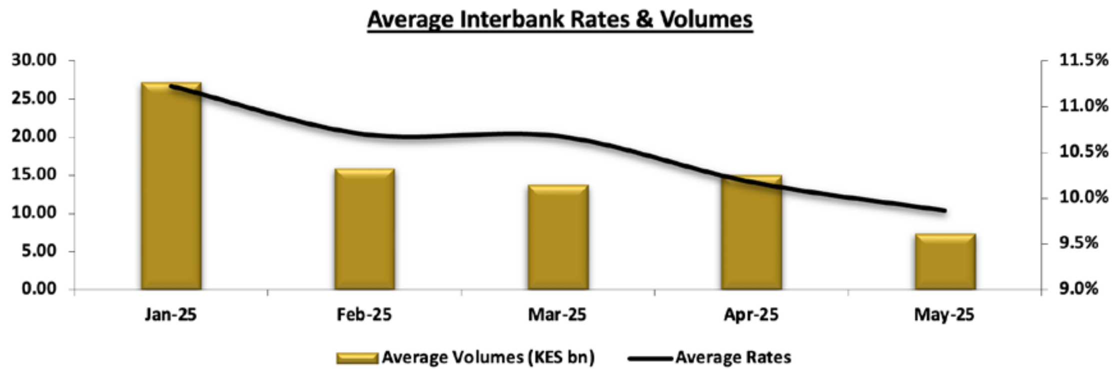
MONEY MARKET ANALYSIS

Interbank lending reversed a one-month losing streak, recording a 28.1% increase in average traded volumes to KES 6.47bn, up from KES 5.05bn. This uptick was accompanied by a 40.0% rise in transaction count, indicating a more active interbank market compared to the previous week. Meanwhile, the average interbank rate remained relatively stable, edging down slightly to 9.81% from 9.87%. Notably, the discount window was active for the first time in a month, with KES 7.50bn accessed. The table below summarizes the market liquidity indicators:

Average	Previous Week	Current Week	Change
Interbank Deals	10.00	14.00	40.00%
Inter- Bank volumes (KES bn)	5.05	6.47	28.07%
Inter – Bank Rates (bps)	9.87%	9.81%	(6.28)
Window Borrowing Volumes (KES bn)	-	7.50	-

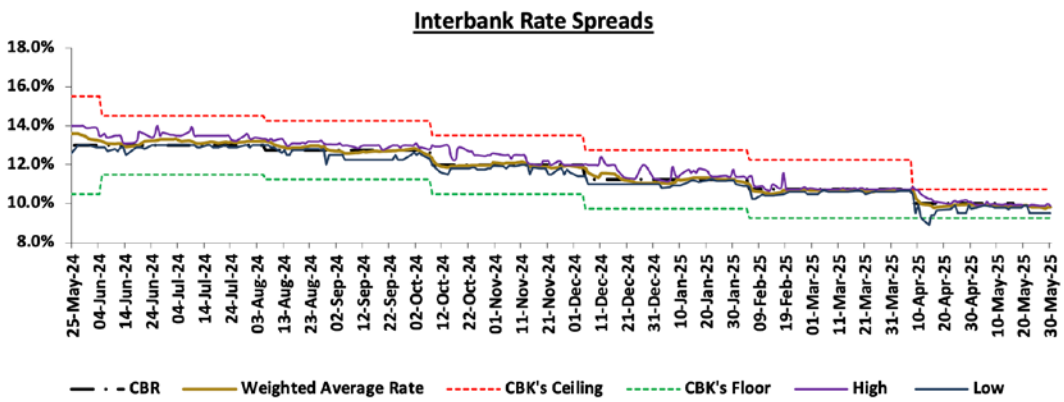
Source: Central Bank of Kenya (CBK), Table: SIB

As expected, the month of May closed on a muted note, with average interbank lending coming in at KES 7.41bn, a 50.7% decline from KES 15.02bn in the month of April 2025. This trend is likely to persist in the coming weeks, as market players potentially hold back in anticipation of more attractive opportunities, particularly with one more bond issuance expected before the close of the fiscal year. See the chart below:



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

Interbank rates remain firmly anchored to the Central Bank Rate, with the highs slightly above the policy rate and the lows closer to the rate but squarely within the corridor. See the chart below;



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

GOVERNMENT SECURITIES MARKET

T-bills

Treasury bills performance staged a notable comeback following two consecutive weeks of declining demand, with overall subscription rising sharply to 229.6%, up from 142.4% the previous week. The 364-day paper maintained its dominance, albeit with a slightly lower share of total bids—47.4% compared to 53.4% the week prior. Investors bid KES 55.11bn but the fiscal agent accepted KES 43.69bn, translating to an acceptance rate of 79.3%, the lowest in over two months. Nonetheless, the uptake was sufficient to meet maturities and leave a modest surplus.

Notably, competitive bids for the 91-day paper remained subdued despite the strong overall subscription, suggesting a market preference for liquidity and capital preservation over yield maximization. As yields continue to trend downward, investors appear increasingly inclined to submit non-competitive bids, opting for allocation certainty rather than risk rejection due to aggressive pricing.

That said, the Average accepted rates remained stable at 8.29% (- 3.04bps), 8.56% (1.08bps), and 10.00% (-0.03bps), for the 91-, 182-, and 364-day papers, respectively. See the summary below;

KES bn

2-June-25	91-day	182-day	364-day	Totals
	1-Sep-25	1-Dec-25	1-Jun-26	
Amount offered	4.00	10.00	10.00	24.00
Bids received	19.20	9.77	26.13	55.11
Subscription rate (%)	480.0%	97.7%	261.3%	229.6%
Amount accepted	**19.20**	**8.81**	**15.69**	**43.69**
Acceptance rate (%)	100.0%	90.1%	60.0%	79.3%
Of which: Competitive Bids	0.31	6.81	13.32	20.43
Non-competitive bids	18.89	2.00	2.37	23.26
Rollover/Redemptions	18.29	4.36	7.33	29.98
New Borrowing/(Net Repayment)	**0.91**	**4.45**	**8.35**	**13.71**
Weighted Average Rate of Accepted Bids	8.29%	8.56%	10.00%	
Inflation	3.8%	3.8%	3.8%	
Real Return	**4.5%**	**4.8%**	**6.3%**	

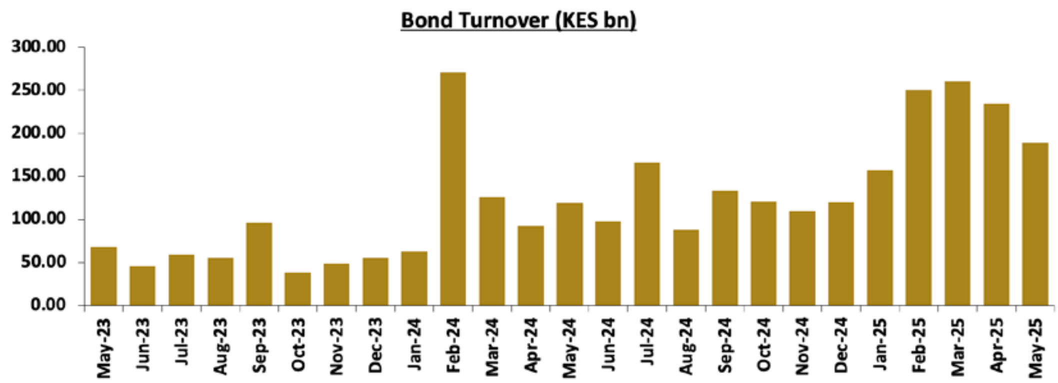
Source: Central Bank of Kenya (CBK), Table: SIB

T-Bonds

In the secondary bond market, turnover dropped by 24.5% during the week to KES 45.0bn, from KES 59.61bn, in the previous week.

Meanwhile, the volumes traded over the month of May surged by 58.5%y/y to KES 189.40bn, from KES 119.53bn in May 2024. This aligns with the broader trend observed throughout the year, partly reflecting increased activity driven by profit-taking amid lower yields.

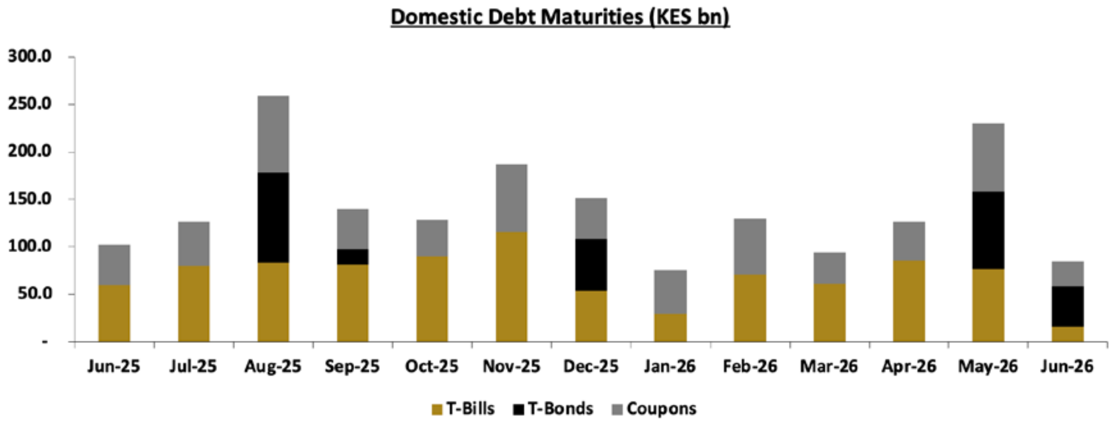
See the chart below for a visual presentation;



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

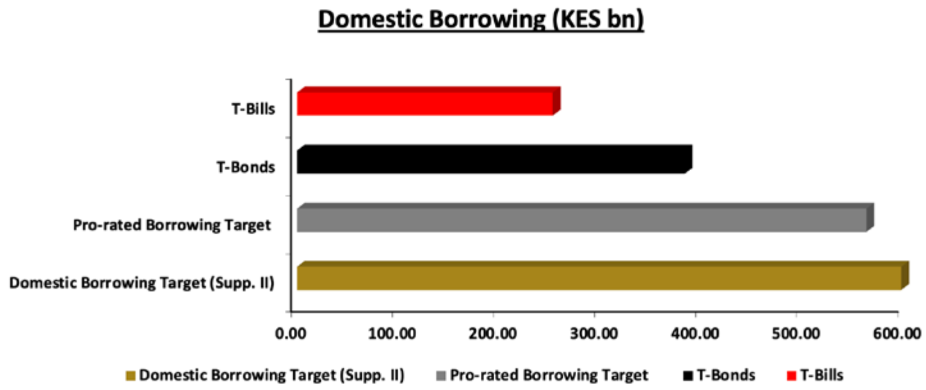
Outstanding Debt Maturities (T-Bills and T-Bonds):

As of this week, the Government's outstanding T-Bill and T-Bond maturities for the next 12 months are at KES 901.98bn and KES 289.92bn, respectively. August 2025 appears to be the next particularly stressful month, with a total maturity profile of approximately KES 259.23bn, inclusive of coupon payments, as outlined below;



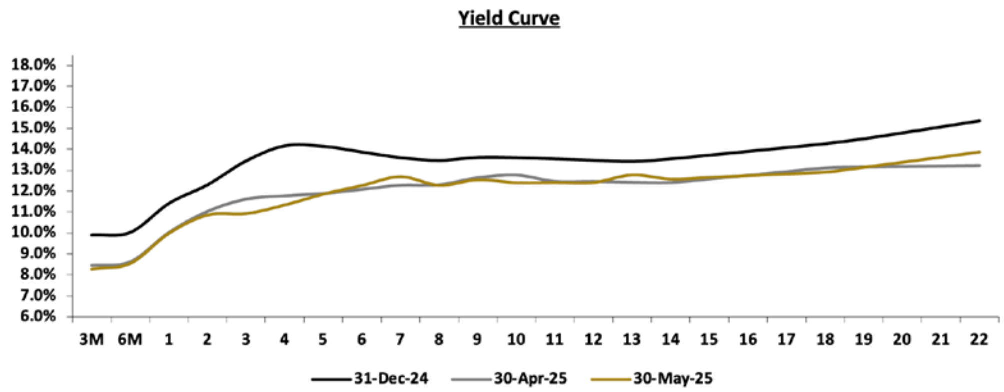
Source: Central Bank of Kenya (CBK), Chart: SIB

This week's auction pushed total domestic government borrowing for FY24/25 to KES 649.40bn — that is 8.8% above the domestic borrowing target of KES 597.15bn for FY24/25. See the chart below;



Yield Curve

The yield curve maintained a downward trajectory, driven primarily by declines in short- and medium-term papers, while the long end lagged slightly. Overall, the curve shed an average of 4.13bps week-on-week, slower than last week's decline. Below is a visual representation;



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

The International Front

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	7.0	9.0	22.8
31-Dec-24	9.1%	10.1%	10.1%	10.1%	10.3%
22-May-25	9.2%	10.4%	10.4%	10.3%	11.0%
26-May-25	9.2%	10.4%	10.5%	10.4%	11.1%
27-May-25	8.9%	10.1%	10.2%	10.2%	10.9%
28-May-25	8.8%	9.9%	10.1%	10.1%	10.8%
29-May-25	8.7%	9.9%	10.0%	10.0%	10.8%
Weekly Change	(0.5%)	(0.5%)	(0.4%)	(0.3%)	(0.3%)
YTD Change	(0.4%)	(0.3%)	(0.1%)	(0.1%)	0.5%

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 0.6% dip in the dollar index. The only notable gain was against the JPY, while it remained broadly weaker against other tracked currencies.

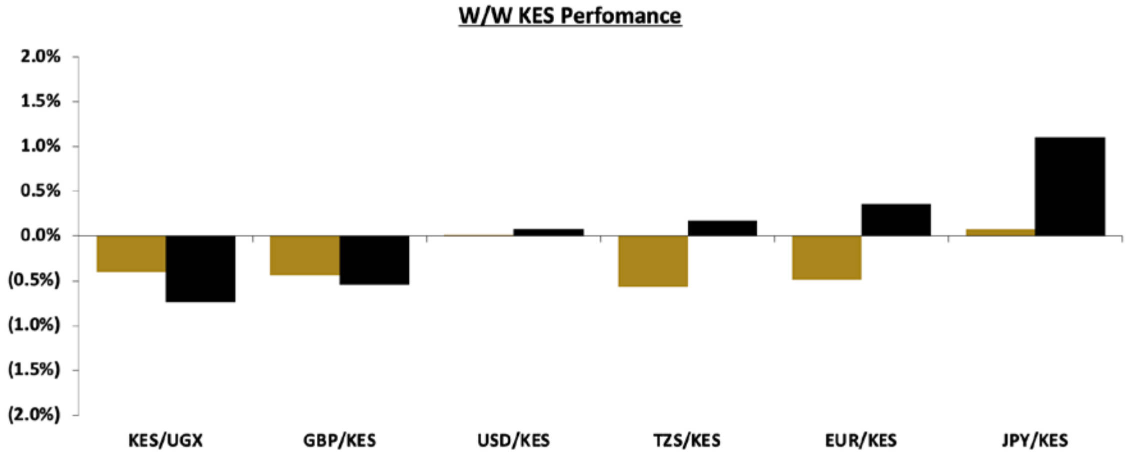
See the table below;

Currencies	30 April 2025 (vs KES)	Previous Week	Current	w/w Change	M/m change
KES/UGX	28.3	28.2	28.1	(0.4%)	(0.7%)
GBP/KES	173.2	173.4	174.2	(0.4%)	(0.5%)
USD/KES	129.3	129.3	129.2	0.0%	0.1%
TZS/KES	20.7	20.9	20.8	(0.6%)	0.2%
EUR/KES	147.2	145.9	146.6	(0.5%)	0.4%
JPY/KES	90.8	89.9	89.8	0.1%	1.1%

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

On a month-on-month basis, the unit generally recorded gains but lost against the GBP and UGX. See also a visual representation;



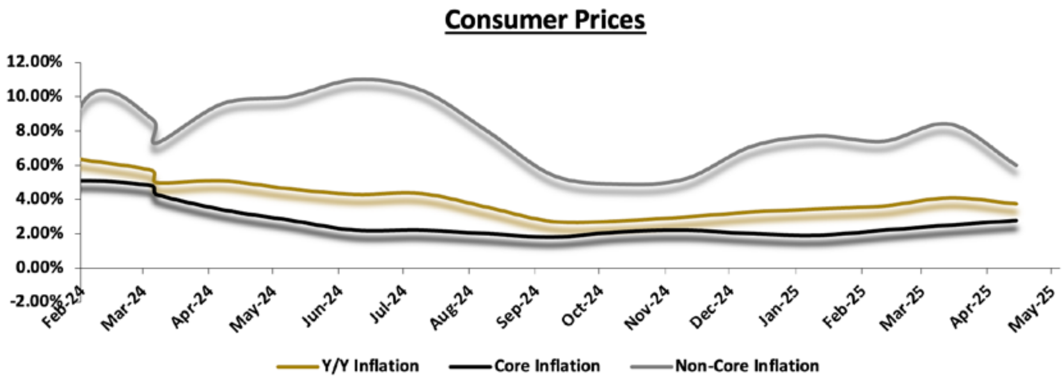
Source: Central Bank of Kenya (CBK), Chart: SIB

Meanwhile, Kenya's forex reserves crept up 1.5% to USD 10.47bn from USD 10.31bn, giving the import cover a modest boost to 4.7 months—up from 4.6 last week.

MARKET NEWS

May Inflation Slows to 3.8%, on Lower Food Prices in line with our estimates

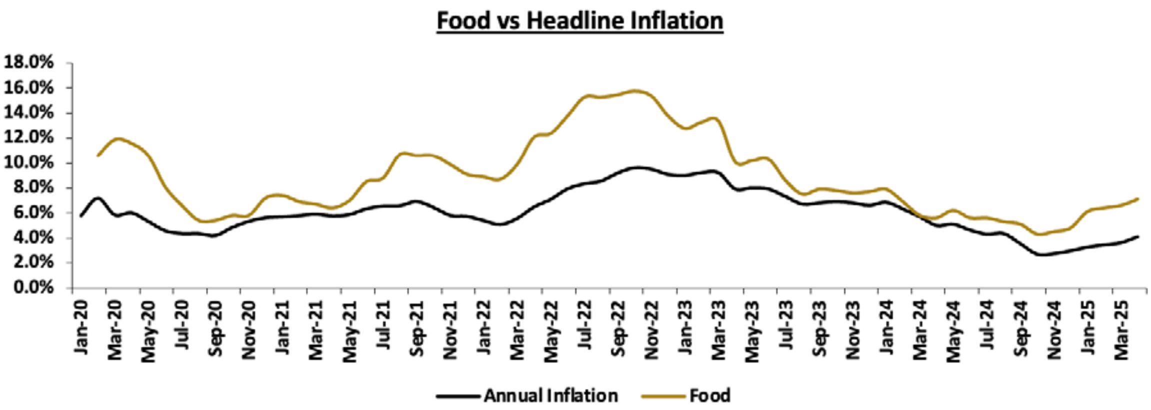
In May 2025, consumer prices rose by 3.8% year-on-year (y/y), down from 4.1% in April—in line with our projection. Core inflation edged higher to 2.8%, from 2.5%, primarily driven by rising prices of maize flour, as well as vegetables. In contrast, non-core inflation eased by 240.54bps to 6.0%, up from 8.4% largely due to a higher base effect. See the chart below;



Source: KNBS, CBK, Chart: SIB

The year-on-year increase in headline inflation was primarily driven by food prices, although the pace of growth slowed, with the index easing to 6.3% in May from 7.1% in April. This growth was largely attributed to relatively higher prices of tomatoes, maize flour, potatoes, kales, and common fruits.

On the other hand, the transport index rose by 2.3%—the same rate recorded in April 2025—reflecting the continued stability in fuel prices. Similarly, the household utilities index maintained a steady growth of 0.8%, consistent with April figures. The chart below illustrates the growth trajectory of the food and non-alcoholic beverages index against headline inflation – the index accounts for the largest weight in the consumer price basket, making it a key driver of inflation dynamics;



Source: KNBS, CBK, Chart: SIB

Overall, we observe continued stability in consumer prices, with downside risks primarily stemming from persistently high vegetable and fruit prices. Beyond this, most underlying indicators suggest sustained price stability. The Kenyan Shilling has remained steady against the U.S. dollar, while fuel prices appear largely stable in the near term.

UPCOMING EVENTS

June 2025 MPC Meeting

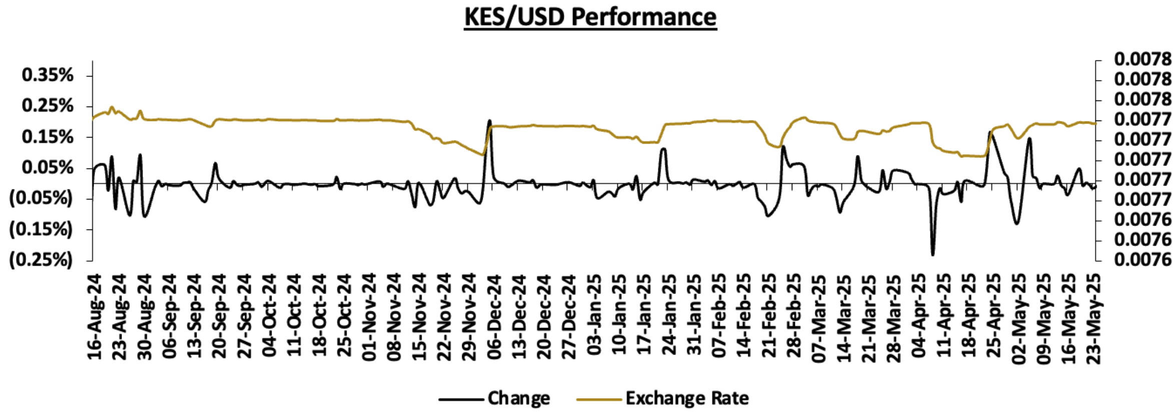
The Central Bank of Kenya's Monetary Policy Committee (MPC) is scheduled to hold its third meeting of the year on Tuesday, June 10, 2025. We anticipate a 50bps cut in the benchmark rate, currently at 10.0%. In our view, the case for easing is supported by a combination of low inflation, a stable currency, and persistently subdued private sector credit growth—factors that call for renewed efforts to stimulate economic activity and reduce the cost of credit.

That said, we remain cognizant of the Central Bank's parallel initiatives aimed at addressing the high cost of credit, which may serve as a complementary—if not alternative—approach to aggressive rate cuts by enhancing the transmission of monetary policy. We further note that crowding out of the private sector continues to pose a structural challenge. Coordinated fiscal adjustments by the Treasury will therefore be critical to unlocking capital for private sector lending and supporting inclusive economic growth.

The President has also proposed reforms that will allow any contributor to the housing fund to access up to KES 5 million at single-digit interest rate, applicable towards any housing unit in the market in order to ease home financing costs. This will ensure that the housing levy fund works for the contributor, whether through affordable housing, home loans or mortgage relief.

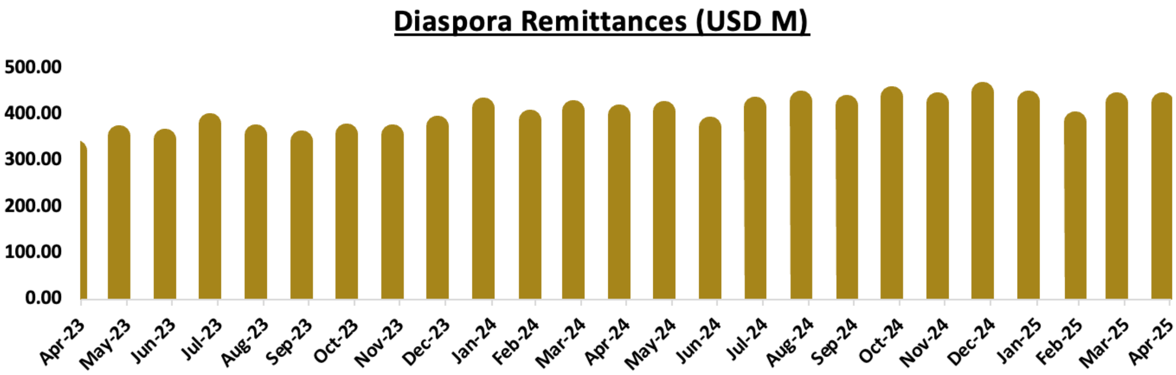
BACKGROUND CHARTS

KES/USD Performance



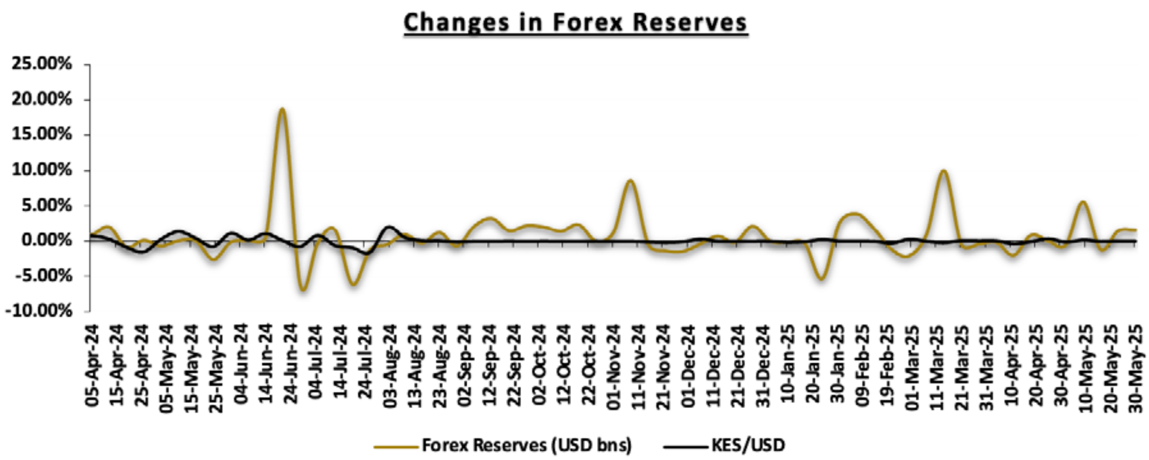
Source: Nairobi Securities Exchange (NSE)

Diaspora Remittances



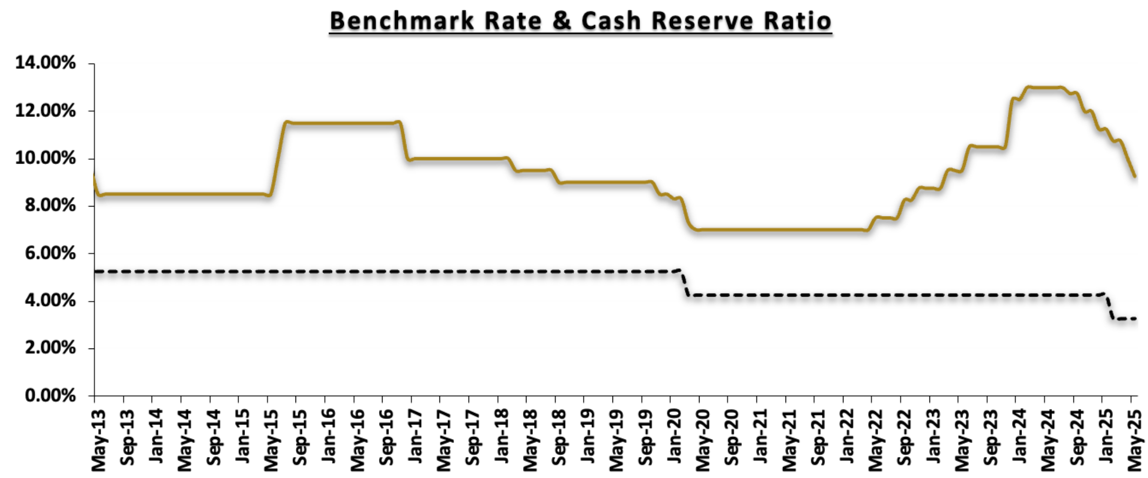
Source: Central Bank of Kenya (CBK)

Forex Reserves



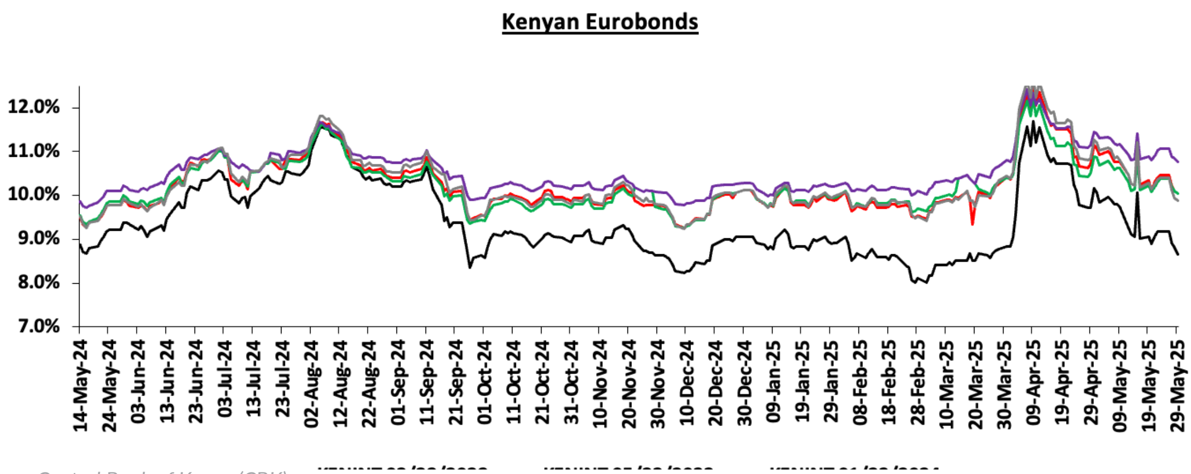
Source: Central Bank of Kenya (CBK)

Benchmark Rate



Source: Nairobi Securities Exchange (NSE)

Kenyan Eurobonds



Source: Central Bank of Kenya (CBK)

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