SIB Standard Investment Bank

Regulated by the Capital Markets Authority

9TH JUNE 2025

“Secondary Bond Market Turnover drops 63.4% w/w”

WEEKLY FIXED INCOME REPORT

Private Sector Business Conditions Halt a Seven-Month Improvement Streak, on Price Pressures

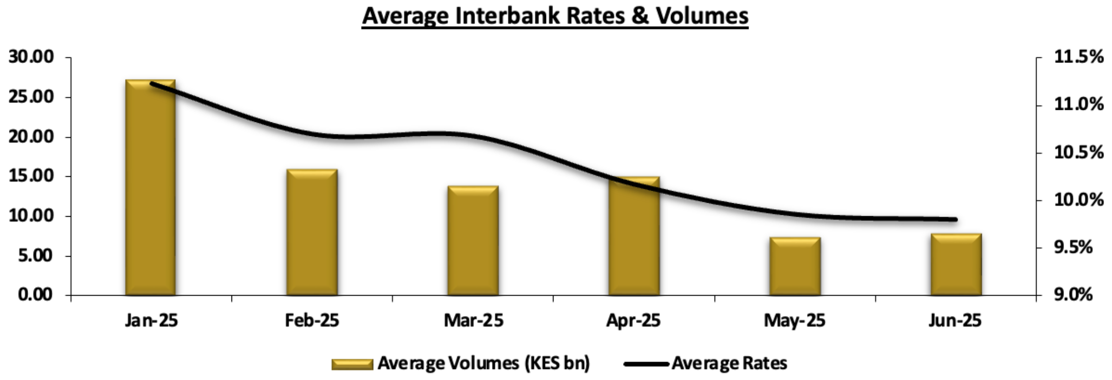
MONEY MARKET ANALYSIS

Interbank lending improved with the average traded volumes rising 22.2% to KES 7.90bn, up from KES 6.47bn, despite a 7.1% drop in transaction count over the week. Meanwhile, the average interbank rate remained stable, at 9.81%, reflecting the continued calibration of liquidity through sustained open market operations by the Central Bank. The table below summarizes the market liquidity indicators:

Average	Previous Week	Current Week	Change
Interbank Deals	14.00	13.00	(7.14%)
Inter- Bank volumes (KES bn)	6.47	7.90	22.17%
Inter – Bank Rates (bps)	9.81%	9.81%	0.10

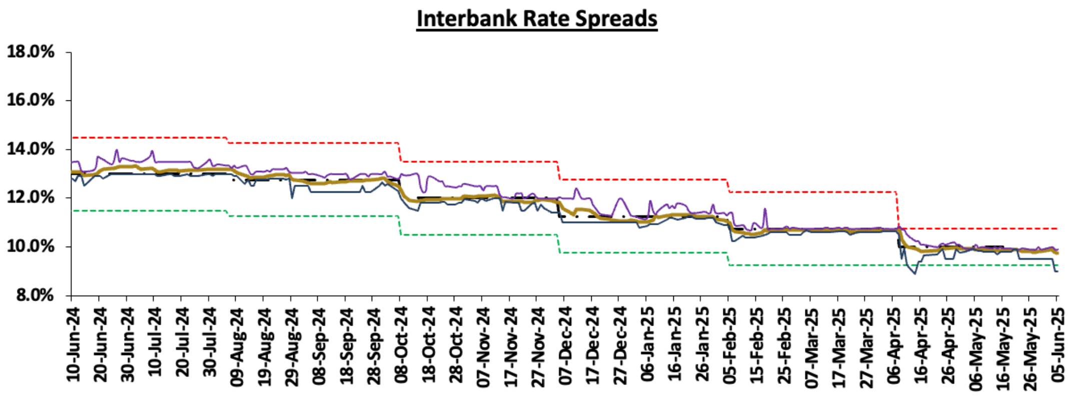
Source: Central Bank of Kenya (CBK), Table: SIB

The interbank market appears relatively stable and slow compared to recent historical levels. As interest rates gradually fall, market players are increasingly holding back in anticipation of more attractive opportunities. See the chart below:



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

There was a notable downward push in interbank rates, with the lows slipping below the soft end of the prevailing range towards the end of the week. This could be in anticipation of a rate cut in June's MPC meeting. See the chart below;



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

GOVERNMENT SECURITIES MARKET

T-Bills: 364-Day Paper Sneaks to Below 10%

Treasury bills performance remained robust, with overall subscription increasing to 255.9%, up from 229.6% the previous week. The 364-day paper continued to dominate, accounting for 70% of total bids, reaffirming its position as the most attractive short-term instrument—as expected, given its yield advantage. Investors bid KES 61.41bn but the fiscal agent accepted KES 57.39bn, translating to an acceptance rate of 93.5%.

Notably, all short-term papers are now yielding single-digit returns, including the 364-day paper which had resisted this shift for nearly two months. The average accepted rates currently stand at 8.2816% (- 1.11bps), 8.5433% (2.09bps), and 9.9985% (-0.15bps), 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

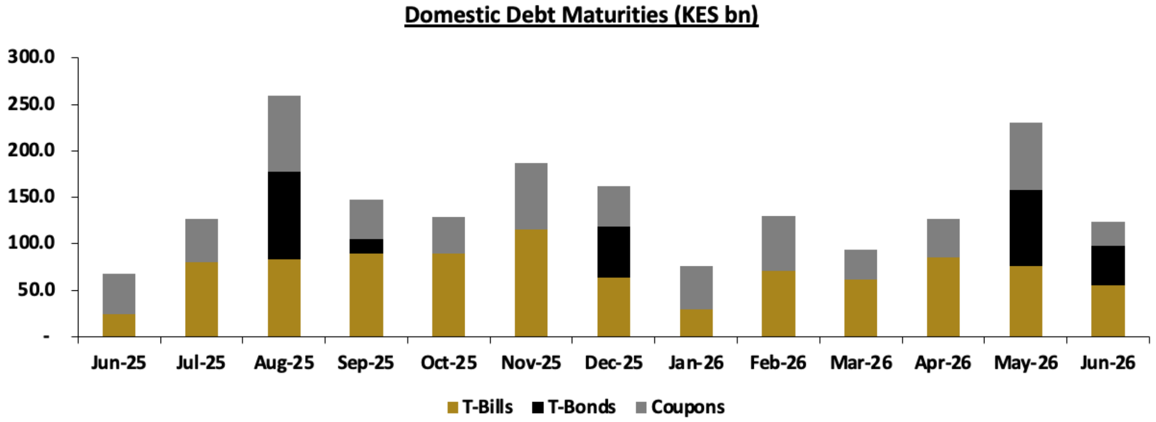
T-Bonds

In the secondary bond market, turnover dropped by 63.4% during the week to KES 16.6bn, from KES 45.4bn, in the previous week.

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

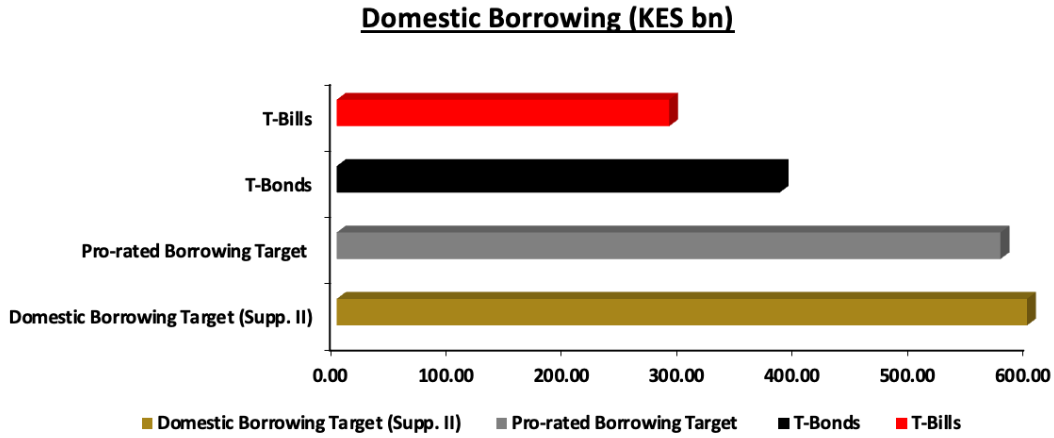
As of this week, the Government's outstanding T-Bill and T-Bond maturities for the next 12 months are at KES 924.55bn and KES 289.92bn, respectively. August 2025 emerges as the next significant maturity month, with a total maturity profile of approximately KES 259.23 billion, inclusive of coupon payments.

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 670.61bn — that is 12.3% above the domestic borrowing target of KES 597.15bn for FY24/25. See the chart below;

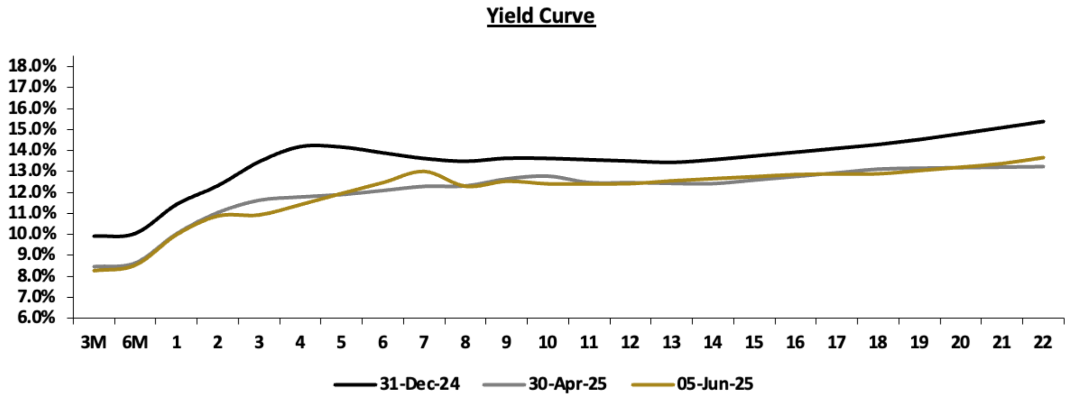


Source: Central Bank of Kenya (CBK), National Treasury, SIB Estimates, Chart: SIB

Yield Curve

On average, the yield curve remained steady despite the downward pressure along the tail.

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	22.7
31-Dec-24	9.1%	10.1%	10.1%	10.1%	10.3%
29-May-25	8.7%	9.9%	10.0%	10.0%	10.8%
2-Jun-25	8.7%	9.9%	10.0%	10.1%	10.8%
3-Jun-25	8.5%	9.7%	9.8%	9.9%	10.7%
4-Jun-25	8.3%	9.4%	9.6%	9.7%	10.5%
5-Jun-25	8.3%	9.4%	9.6%	9.7%	10.5%
Weekly Change	(0.4%)	(0.5%)	(0.4%)	(0.3%)	(0.3%)
YTD Change	(0.8%)	(0.7%)	(0.5%)	(0.4%)	0.2%

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 0.5% dip in the dollar index. The only gain was against the UGX, while it remained broadly weaker against other tracked currencies.

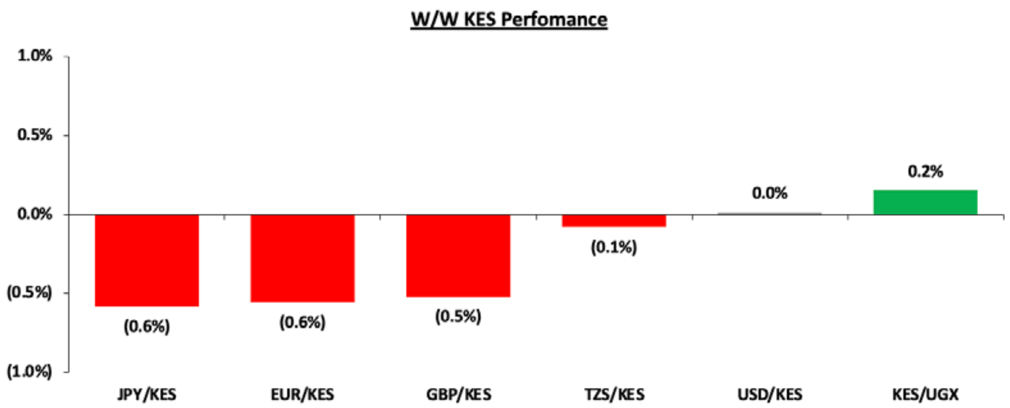
See the table below;

Currencies	30 April 2025 (vs KES)	Previous Week	Current	w/w Change	M/m change
JPY/KES	82.1	89.8	90.3	(0.6%)	(10.0%)
EUR/KES	134.3	146.6	147.5	(0.6%)	(9.8%)
GBP/KES	162.3	174.2	175.1	(0.5%)	(7.9%)
TZS/KES	19.0	20.8	20.7	(0.1%)	9.2%
USD/KES	129.3	129.2	129.2	0.0%	0.1%
KES/UGX	28.4	28.1	28.2	0.2%	(0.8%)

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

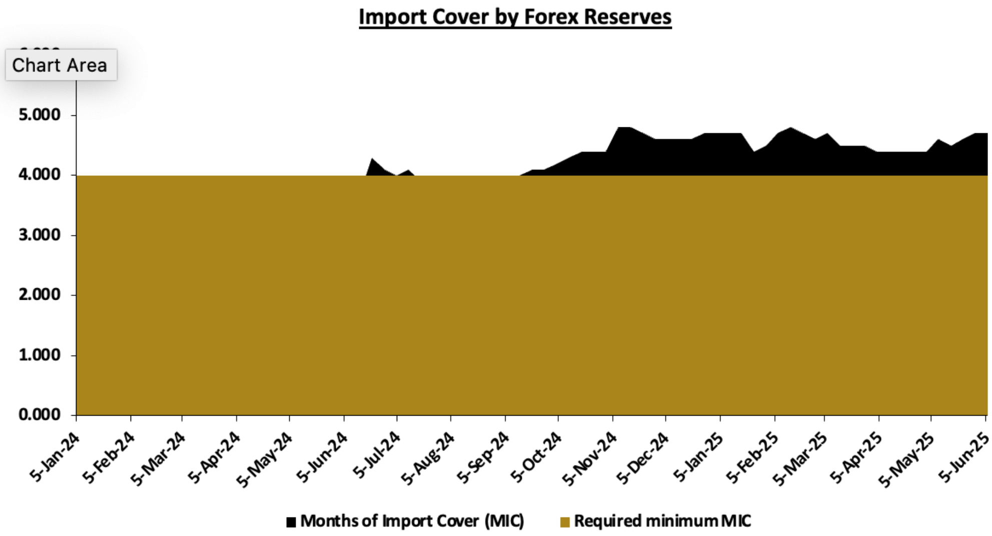
Abb: GBP – British Pound, EUR – Euro, USD – US Dollar, UGX – Ugandan Shilling, TZS – Tanzanian Shilling, JPY – Japanese Yen I FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

See also a visual representation;



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

Meanwhile, Kenya's forex reserves crept up 1.2% to USD 10.59bn from USD 10.47bn, giving the import cover a modest boost to 4.7 months—up from 4.6 last week. See the chart below for a visual trend of the months of import cover;

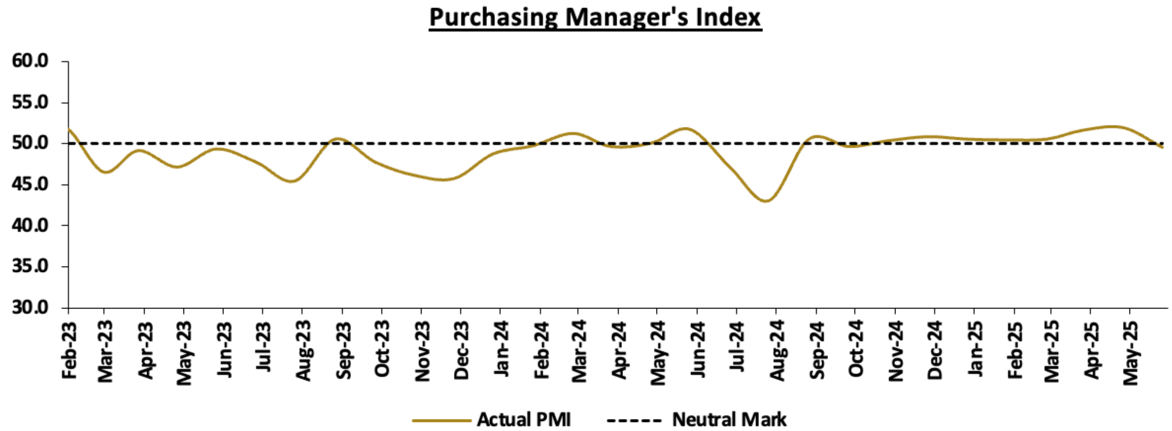


Source: Central Bank of Kenya (CBK), Chart: SIB

THE MACRO WRAP

Private Sector Business Conditions Halt a Seven-Month Improvement Streak, on Price Pressures

According to Stanbic Bank Kenya's PMI survey, private sector business conditions slightly deteriorated in May, halting a seven-month improvement streak. The index dropped to 49.6 — the lowest in nine months. The performance was attributed to rising prices, following the sharpest monthly inflation increase in four months, which in turn suppressed consumer demand and led to weaker output. See the chart below;



Source: Stanbic, S&P Global, 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.*

That said, **new orders fell** for the first time in eight months, driven by reduced customer spending. This translated to a slight improvement in employment, largely due to short-term hiring. The modest uptick suggests that firms are cautiously managing workforce levels amid persistent demand uncertainty. **Business output**, though marginally, contracted at the fastest pace since August 2024, with 33% of surveyed businesses reporting reduced activity. We note the persistent mixed sectoral performance which highlights the fragile recovery underway in the private sector.

Further, **input costs** rose at the fastest pace in four months, largely attributable to increased purchase prices and tax-related burdens. **Business confidence** remained exceptionally weak, with only 4% of firms expressing expectations of output growth over the next 12 months.

It now appears that the gains recorded in April may have been **celebrated prematurely**. While May's deterioration is slight, it validates our earlier concerns regarding the fragility of Kenya's private sector. For several months, we cautioned that even minor shocks could derail the recovery, and while April's performance offered a glimmer of hope, our **optimism remained guarded**, acknowledging the continued need for urgent structural reforms.

In effect, the 0.5% m/m increase in prices had a trickle-down impact on the private sector, stemming from weakened consumer demand. In our view, this reflects **subdued disposable income levels**, which compel households to choose between competing needs rather than satisfy both. In the near term, this trend is expected to persist as **uncertainty** continues to cloud the outlook.

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.

Hot on the Horizon: June 2025 MPC Meeting

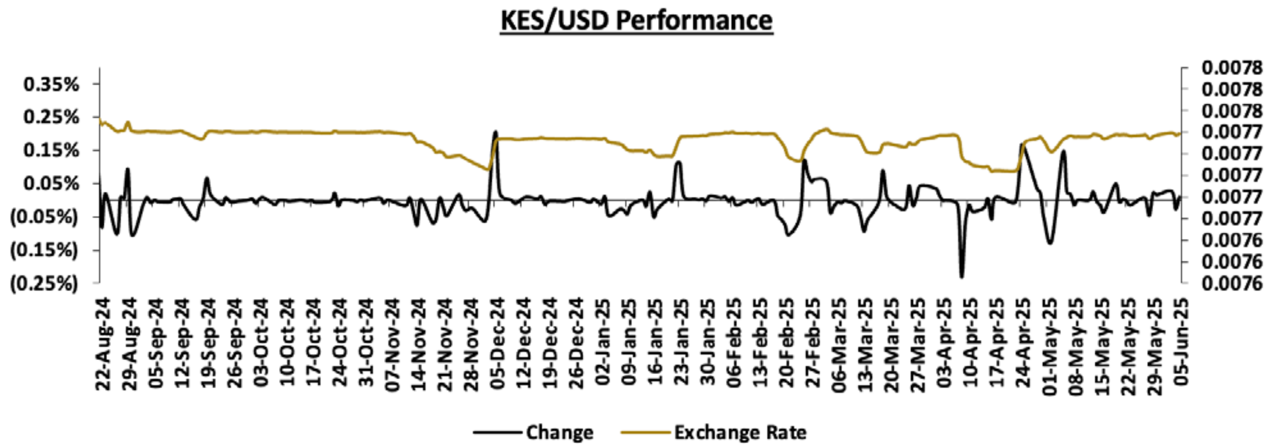
The Central Bank of Kenya's Monetary Policy Committee (MPC) is scheduled to hold its third meeting of the year on Tuesday, June 10, 2025. We anticipate a 50bps cut in the benchmark rate, currently at 10.0%. In our view, the case for easing is supported by a combination of low inflation, a stable currency, 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.

In related news, the Central Bank of Kenya continued to license additional Digital Credit Providers (DCPs). In the latest round, 41 were licensed bringing the total to 126 following the licensing of 27 DCPs announced in October 2024. CBK has received more than 700 applications since March 2022. The focus of engagements with applicants includes on issues such as business models, consumer protection and fitness and propriety of proposed shareholders, directors and management. Licensing and oversight of DCPs was precipitated by concerns raised by the public about predatory practices or the unregulated DCPs, and in particular their high cost, unethical debt collection practices and abuse of personal information.

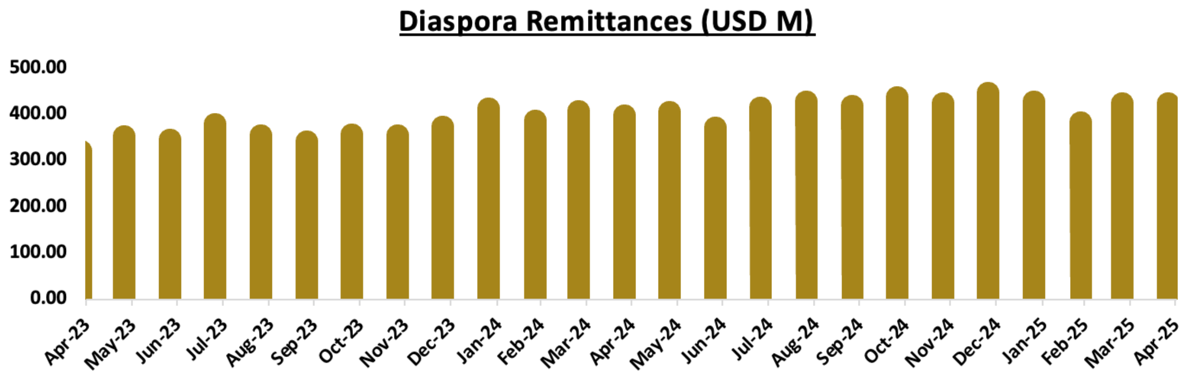
BACKGROUND CHARTS

KES/USD Performance



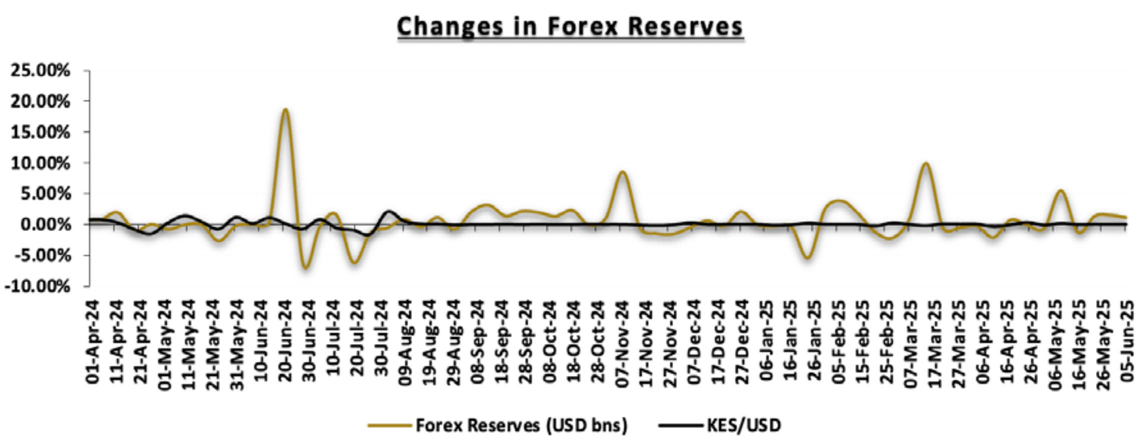
Source: Nairobi Securities Exchange (NSE)

Diaspora Remittances



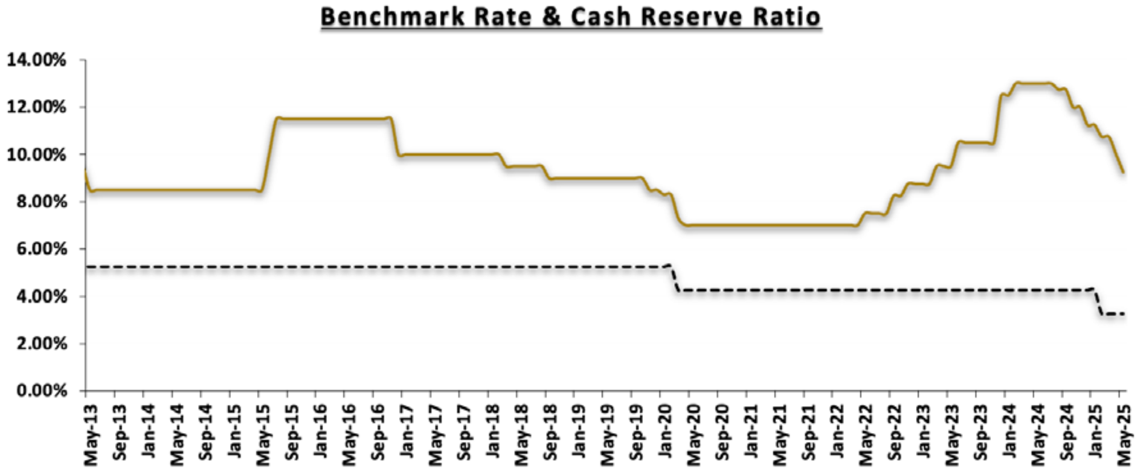
Source: Central Bank of Kenya (CBK)

Forex Reserves



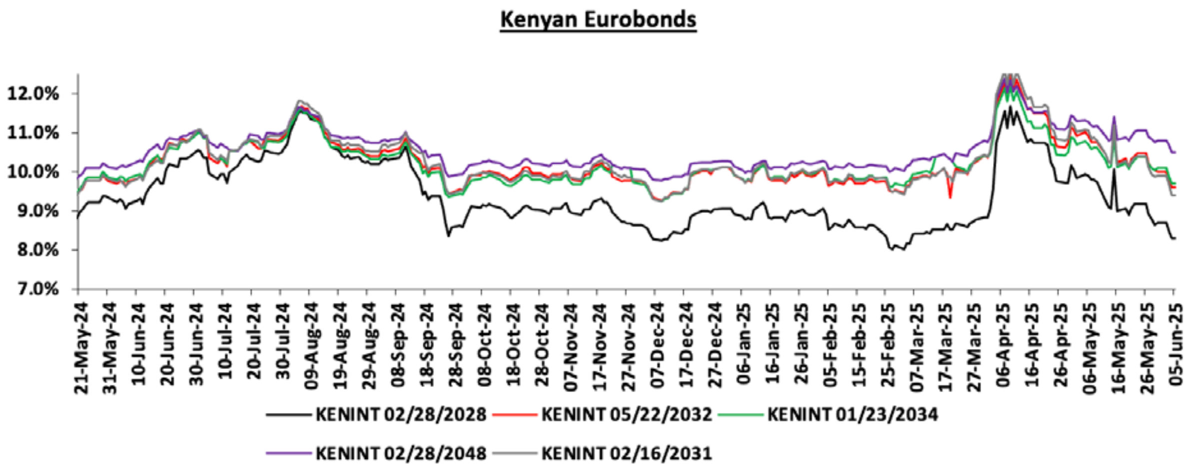
Source: Central Bank of Kenya (CBK)

Benchmark Rate



Source: Nairobi Securities Exchange (NSE)

Kenyan Eurobonds



Source: Central Bank of Kenya (CBK)

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