SIB Standard Investment Bank

Regulated by the Capital Markets Authority

21ST JULY 2025

> July/August Fuel Prices Surge as Government Withholds Subsidy and Raises OMC Margins

WEEKLY FIXED INCOME REPORT

Exchequer Revenues Jump 6.1%y/y to KES 2.43tn, Closing at 97.3% of Target

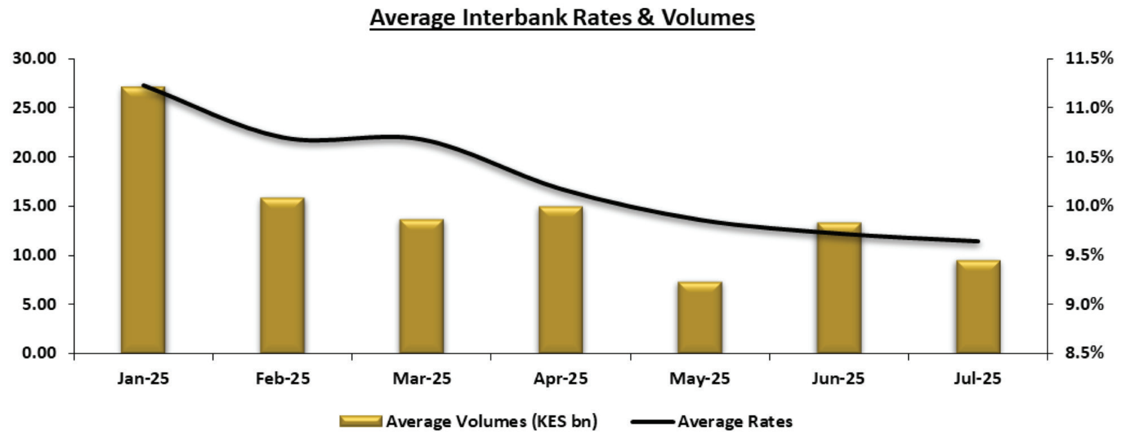
MONEY MARKET STATISTICS

Interbank lending volumes eased to KES 10.75bn from KES 11.93bn, despite an increase in transaction activity over the week. Meanwhile, the average interbank rate held steady, edging up slightly to 9.64%, amid continued liquidity absorption in the market by the Central Bank. The table below summarizes the market liquidity indicators:

Average	Previous Week	Current Week	Change
Interbank Deals	13.00	18.00	38.46%
Inter- Bank volumes (KES bn)	11.93	10.75	(9.83%)
Inter – Bank Rates (bps)	9.63%	9.64%	0.79

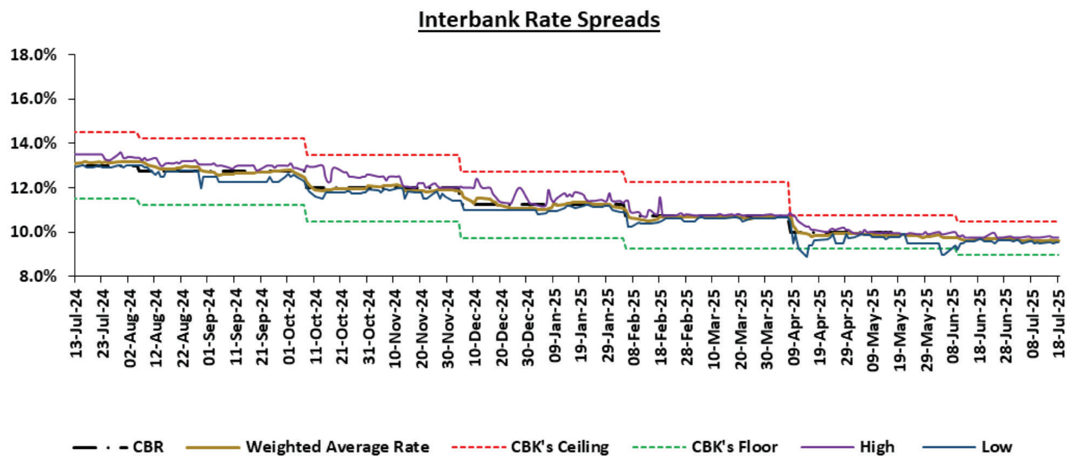
Source: Central Bank of Kenya (CBK), Table: SIB

On a month-on-month basis, average traded volumes remain below what was recorded in the previous month as shown below:



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

Interbank rates remain well anchored within the corridor. See the chart below;



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

GOVERNMENT SECURITIES MARKET

T-Bills:

Demand for Treasury bills rebounded, following three consecutive weeks of waned demand, with the overall subscription rate rising to 115.9% from 94.9%. Investors bid KES 27.82bn, but the fiscal agent accepted KES 24.11bn, resulting in a net borrowing of KES 13.25bn.

That said, the average accepted rates came in at 8.13% (-1.38bps), 8.43% (0.94bps), and 9.73% (+0.58bps), for the 91-, 182-, and 364-day papers, respectively. for the 3-month paper, a portion of the investors visibly pushed for higher rates given the increase in the market weighted rate. See the summary below;

KES bn

21-Jul-25	91-day	182-day	364-day	Totals
	20-Oct-25	19-Jan-26	20-Jul-26	
Amount offered	4.00	10.00	10.00	24.00
Bids received	1.96	7.62	18.23	27.82
Subscription rate (%)	49.1%	76.2%	182.3%	115.9%
Amount accepted	**1.95**	**7.57**	**14.59**	**24.11**
Acceptance rate (%)	99.2%	99.4%	80.0%	86.7%
Of which: Competitive Bids	0.16	5.35	13.06	18.57
Non-competitive bids	1.78	2.23	1.52	5.53
Rollover/Redemptions	1.91	5.67	3.28	10.86
New Borrowing/(Net Repayment)	**0.04**	**1.90**	**11.31**	**13.25**
Weighted Average Rate of Accepted Bids	8.13%	8.43%	9.73%	
Inflation	3.8%	3.8%	3.8%	
Real Return	**4.3%**	**4.6%**	**5.9%**	

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

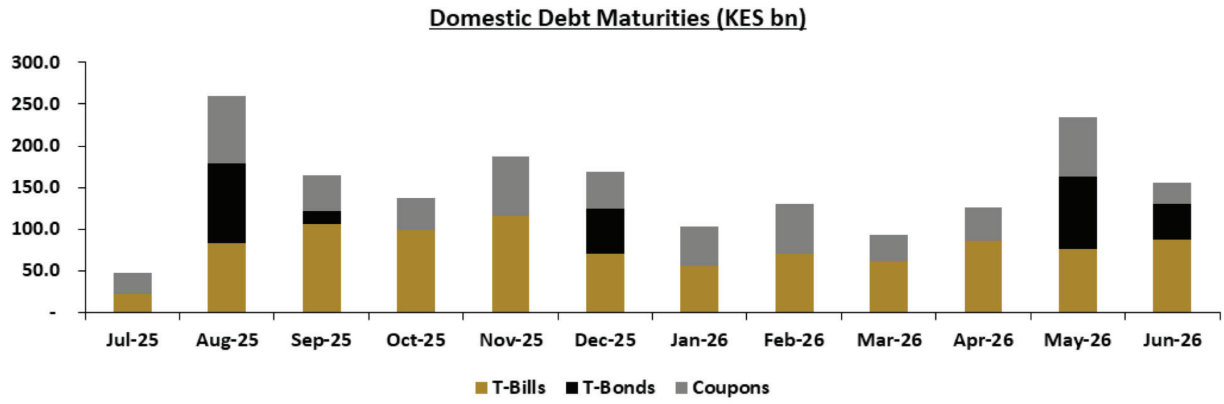
T-Bonds:

In the secondary bond market, turnover nearly doubled to KES 62.70bn, down from KES 31.99bn 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 934.57bn and KES 289.92bn, respectively. August 2025 emerges as the next significant maturity month, with a total maturity profile of approximately KES 259.23bn, inclusive of coupon payments.

See the chart below;



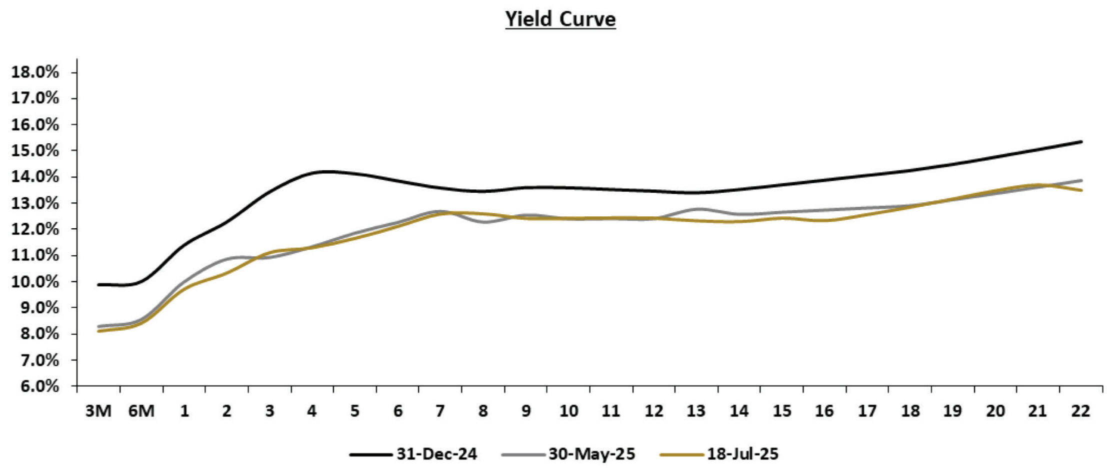
Source: Central Bank of Kenya (CBK), Chart: SIB

The week's auction pushed the net domestic borrowing to KES 73.13bn, barely one month into the fiscal year. However, we anticipate that the upcoming August maturities will help unwind this early acceleration in borrowing.

Yield Curve:

Local interest rates closed the week on a mixed note. On average, yields on government securities declined slightly by 8.44bps w/w, reversing the 5.17bps rise recorded the previous week.

Below is a visual representation;



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

THE INTERNATIONAL SCENE

Kenyan Eurobonds:

Yields on Kenyan Eurobonds maintained the upward trend—albeit at a decelerated pace. Overall, yields on the international papers increased by an average of 18.40bps. 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	2.6	5.6	6.8	8.9	22.6
31-Dec-24	9.1%	10.1%	10.1%	10.1%	10.3%
10-Jul-25	8.4%	9.5%	9.7%	9.9%	10.5%
14-Jul-25	8.5%	9.6%	9.8%	10.1%	10.7%
15-Jul-25	8.5%	9.6%	9.8%	10.0%	10.6%
16-Jul-25	8.6%	9.6%	9.9%	10.1%	10.7%
17-Jul-25	8.6%	9.6%	9.8%	10.1%	10.7%
Weekly Change	0.2%	0.1%	0.2%	0.2%	0.2%
YTD Change	(0.5%)	(0.5%)	(0.3%)	(0.0%)	0.4%

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

Currency Performance

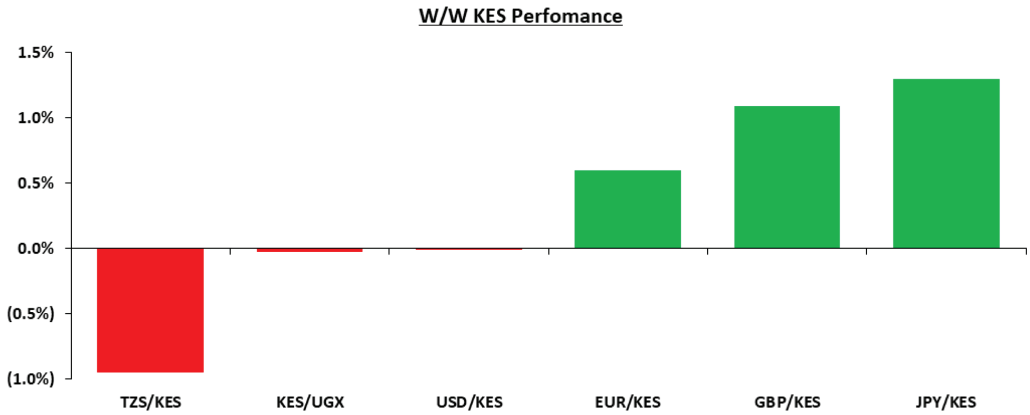
The Kenyan shilling posted mixed performance against the 21 currencies tracked by the Central Bank during the week. For the second week running, the general trend was upward, with the shilling appreciating against majority of the pairs except the TZS. The unit also remained relatively stable against the USD, consistent with recent trends, as well as the UGX — both of which are among the key currencies we monitor. See the table below;

Currencies	30 April 2025 (vs KES)	Previous Week	Current	w/w Change	M/m change
TZS/KES	19.0	20.3	20.2	(1.0%)	6.2%
KES/UGX	28.4	27.7	27.7	0.0%	(2.4%)
USD/KES	129.3	129.2	129.2	0.0%	0.0%
EUR/KES	134.3	151.0	150.1	0.6%	(11.8%)
GBP/KES	162.3	175.3	173.4	1.1%	(6.8%)
JPY/KES	82.1	88.0	86.9	1.3%	(5.8%)

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

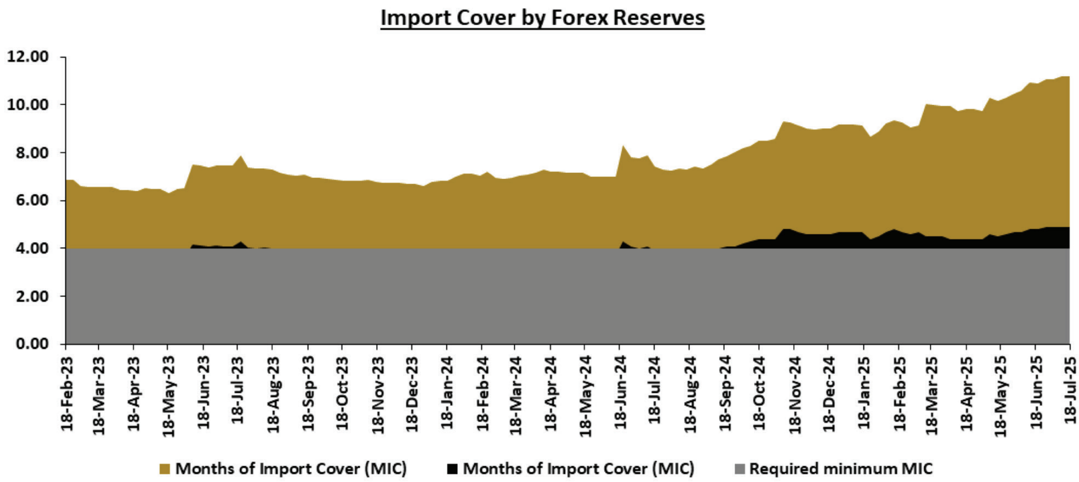
Abb: GBP – British Pound, EUR – Euro, USD – US Dollar, UGX – Ugandan Shilling, TZS – Tanzanian Shilling, JPY – Japanese Yen I FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

See also a visual representation;



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

On the other hand, Kenya's foreign exchange reserves remained broadly flat at USD 11.19bn from USD 11.20bn, maintaining an import cover of 4.9 months. Nonetheless, the reserves remain robust, holding at all-time highs. See the chart below;



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

THE MACRO WRAP

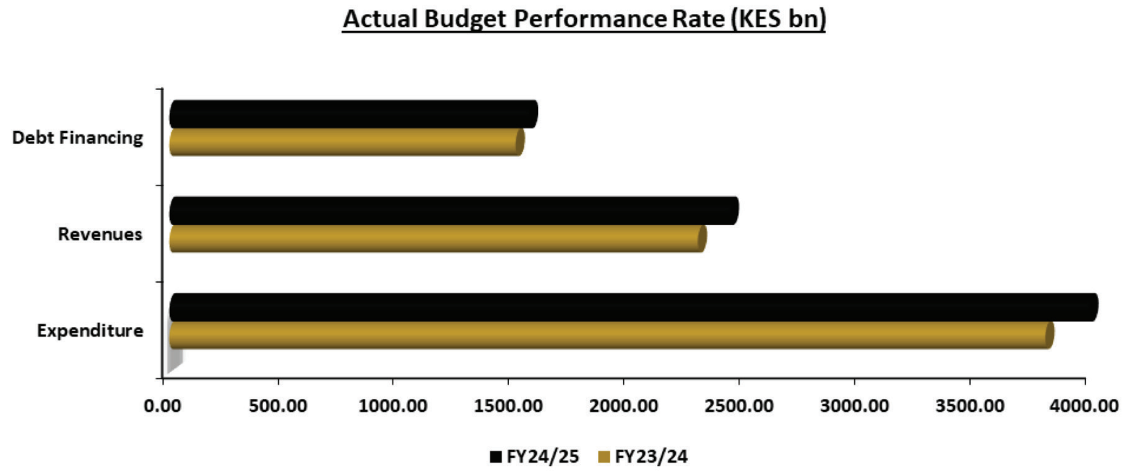
1. Exchequer Revenues Jump 6.1%y/y to KES 2.43tn, Closing at 97.3% of Target

The National Treasury has published the actual receipts and releases for the FY 2024/25 and below is our assessment;

1.1. Year-on-year Performance

- The government collected KES 2,428.95bn in ordinary revenues for FY2024/25, reflecting a 6.1% increase from KES 2,290.35bn collected in the prior year. The collections missed the Supplementary III revised target by 2.1%.
- Total expenditure came in at KES 3,986.70bn, marking an 5.0% increase from KES 3,796.08bn in prior financial year. This performance is attributable to 6.1% and 18.0% rise in recurrent expenditure and county disbursements. The total expenditure recorded a performance rate of 94.8% with development spending lagging the most.
- The budget deficit (inclusive of principal redemptions) amounted to KES 1,558.57bn in FY2024/25, representing a 3.9% increase from KES 1,504.27bn. This shortfall was financed through a mix of external and domestic borrowing, with the latter accounting for 68.9% of the amount. Borrowing recorded a performance rate of 91.8%, with domestic financing lagging the most at 89.5%.

See the chart below for a quick summary;



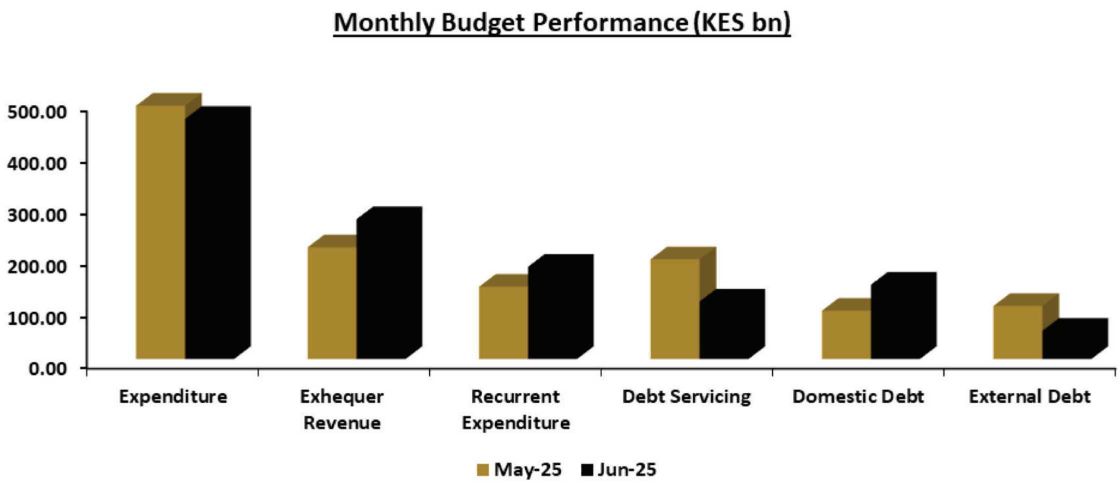
Source: Treasury, Chart: SIB

Overall, actual development spending rose by 6.4% to KES 335.08bn, from KES 315.06bn in FY23/24. Below, we provide a breakdown of the m/m performance;

1.2. Month-on-month Performance

- Typically, the last month of the fiscal year is expected to have recorded a surge in government expenditure as ministries and agencies rush to close their books. However, this is largely contingent on the availability of financing, since spending can only proceed as funds permit.
- In contrast to this expectation, total expenditure in June declined by 5.2% to KES 467.46bn, down from KES 492.98bn in May 2025.
- Domestic borrowing for the same period rose to KES 144.67bn, compared to the KES 93.98bn borrowed in May 2025 while external financing dropped to KES 54.91bn, from KES 103.19bn.
- Meanwhile, the total revenue performance for the month of April recorded an 25.3% increase to KES 272.28bn, from KES 217.39bn, in May 2025 – in line with end of quarter trends.

See the chart below for a summary;

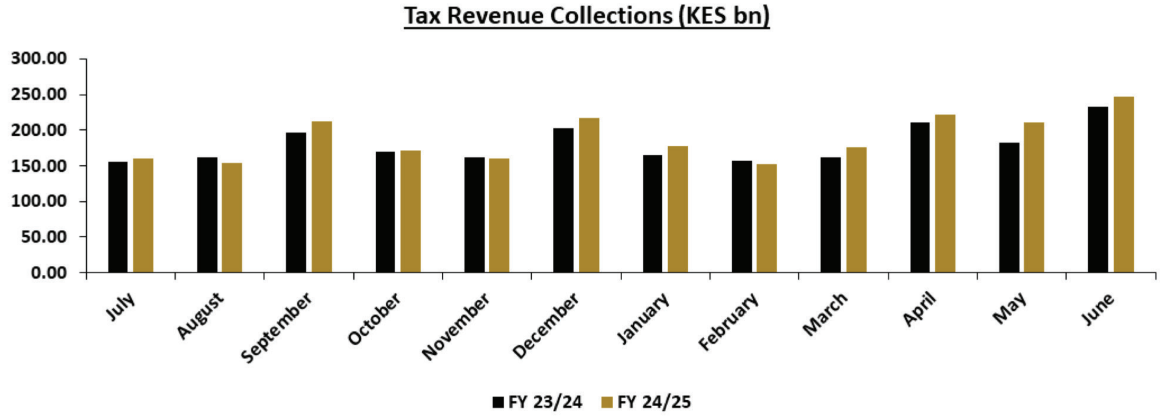


Source: Treasury, Chart: SIB

1.3. Tax Revenue Performance

Over the review period, cumulative tax revenue grew by 4.5%y/y. In June alone, collections reached KES 246.36bn, marking a 6.1% increase from KES 232.26bn in June 2024 —this is also the single largest monthly collection for the fiscal year as anticipated.

See the chart below for a summary;

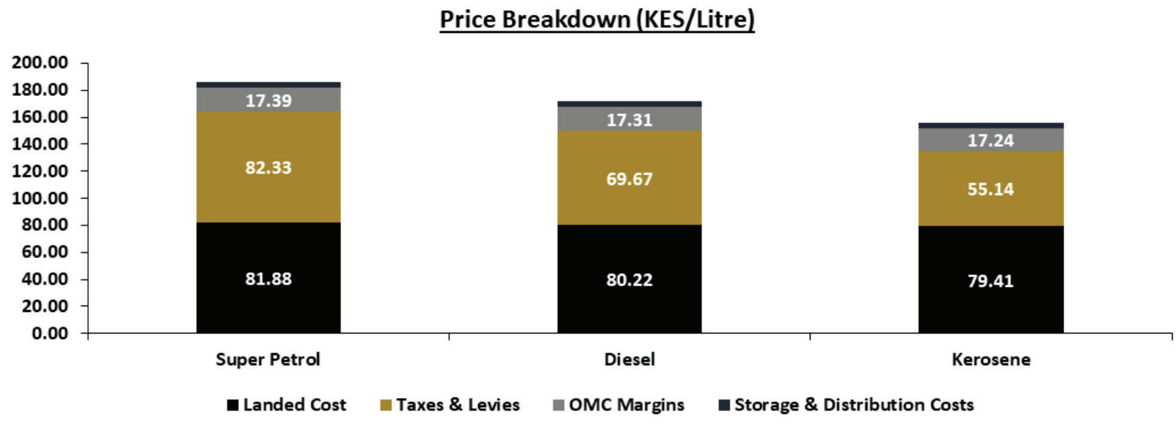


Source: Treasury, Chart: SIB

2. Fuel Prices Surge as Government Withholds Subsidy and Raises OMC Margins

The Energy and Petroleum Regulatory Authority (EPRA) announced fuel prices for the period from 15th July 2025 to 14th August 2025. The price of petrol, diesel and kerosene increased by 5.1%, 5.3% and 6.6% to KES 186.31, KES 171.57 and KES 156.57 per liter, respectively in Nairobi. On a y/y basis, the prices of petrol and kerosene have dropped by 1.3% and 3.2% respectively but that of diesel remains relatively unchanged.

Of the total retail fuel prices, taxes and levies account for between 35% and 45%, with the highest tax burden observed on petrol, where taxes and levies exceed the landed cost of the product. See below the price breakdown;

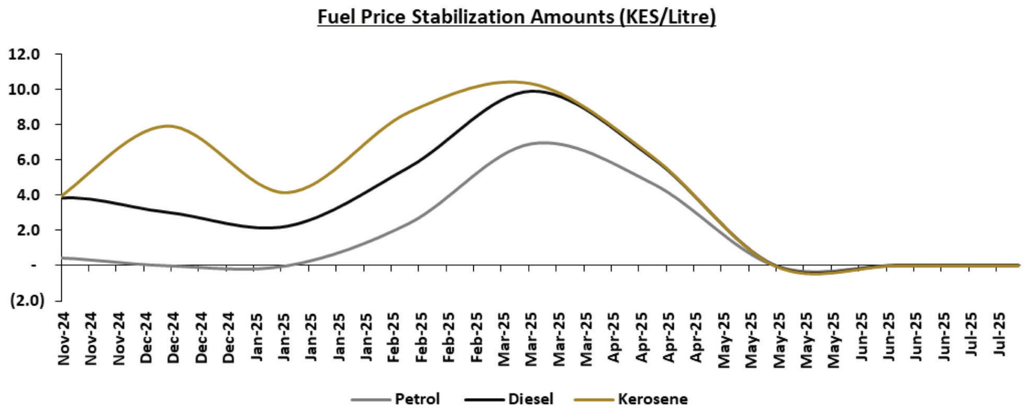


Source: EPRA, Chart: SIB

We observe that the increase in fuel prices across the three commodities marks an almost two-year high. This escalation can be attributed to:

i. The absence of the price stabilization mechanism, which had previously helped anchor fuel prices.

ii. A 14.2% increase in the margins for Oil Marketing Companies (OMCs), raising them to KES 17.39, KES 17.31, and KES 17.24 per litre for petrol, diesel, and kerosene, respectively, as illustrated below;

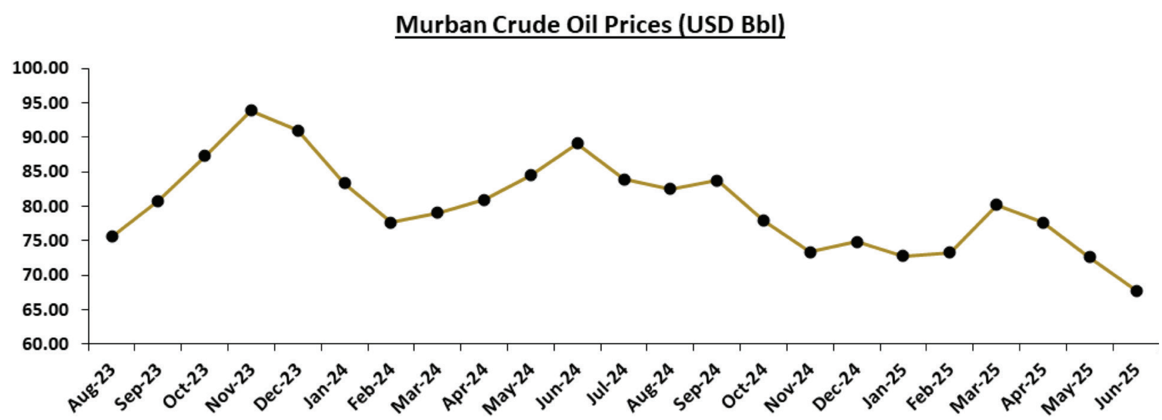


Source: EPRA, Chart: SIB

The last time OMC margins were increased, the government concurrently introduced a substantial subsidy of KES 6.92, KES 9.90, and KES 10.35 per litre for petrol, diesel, and kerosene, respectively—the highest subsidy levels recorded in over two years in an effort to cushion citizens.

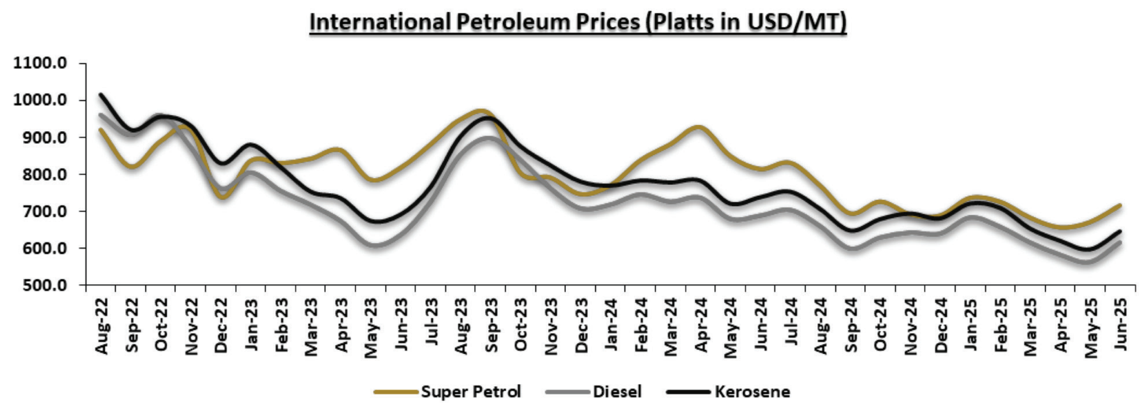
iii. In June, there was a 6.4%, 6.3%, and 6.9% increase in the landed costs of petrol, diesel, and kerosene, bringing the costs to USD 628.30, USD 616.59, and USD 608.54 per cubic meter, respectively.

Interestingly, international crude oil prices declined by 6.7% in June, settling at USD 67.73 per barrel (Bbl)—a level that represents a more than two-year low, as shown below;



Source: EPRA, Chart: SIB

However, Kenya imports its petroleum products in refined form, and in June, the cost of imports rose by 6.7% for petrol, 9.3% for diesel, and 8.1% for kerosene, contributing to the higher landed costs. See the chart below for the trend;

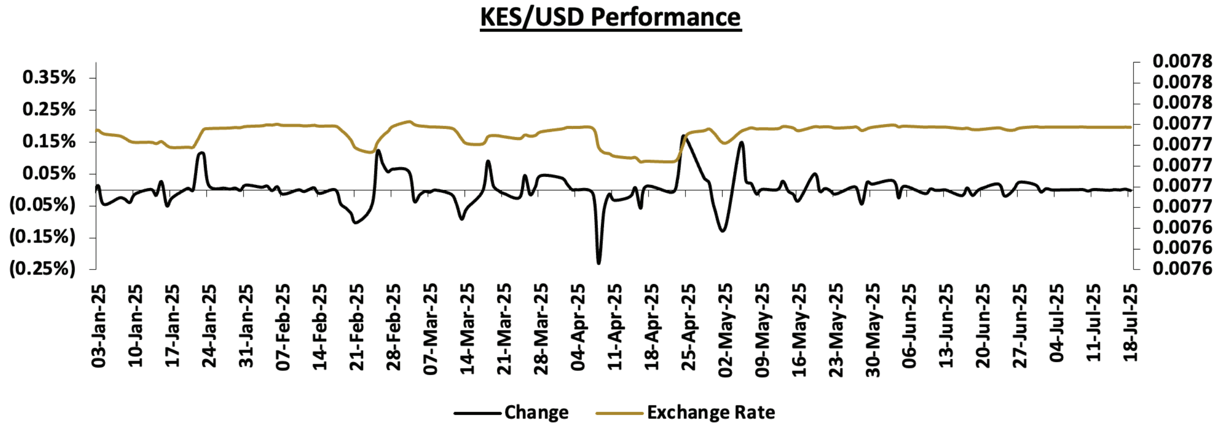


Source: EPRA, Chart: SIB,

We believe there is a pressing need to re-evaluate the pricing framework and the cumulative burden placed on fuel, to safeguard against policies that could inadvertently undermine the broader economy. On a positive note, the gradual yet deliberate shift towards an electric transport system presents a glimmer of hope in reducing the economy's overreliance on fossil fuels, particularly in the transport sector.

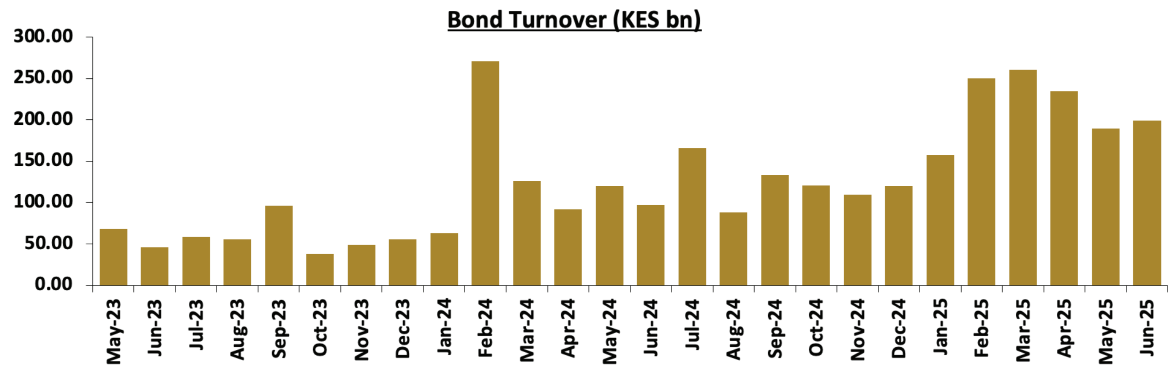
BACKGROUND CHARTS

KES/USD Performance



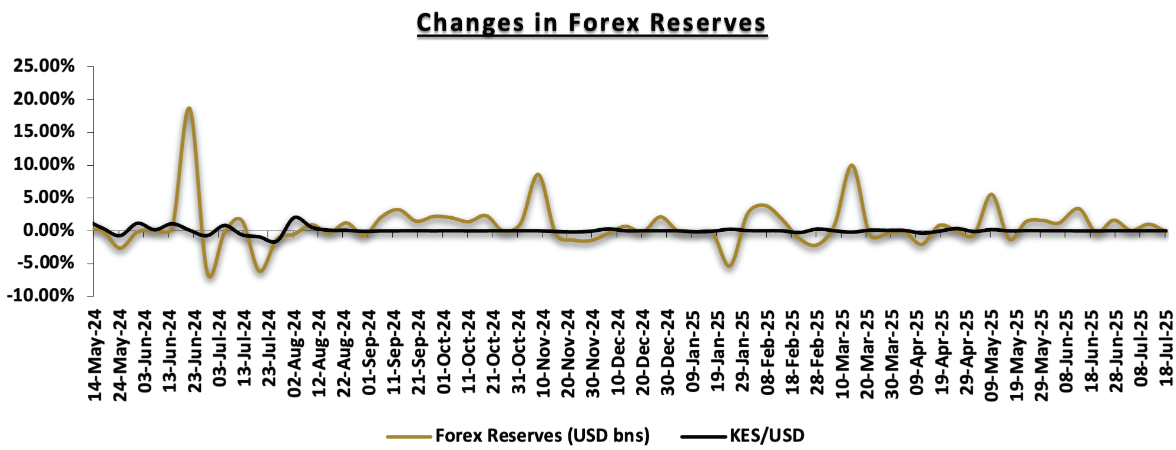
Source: Nairobi Securities Exchange (NSE)

Bond Turnover



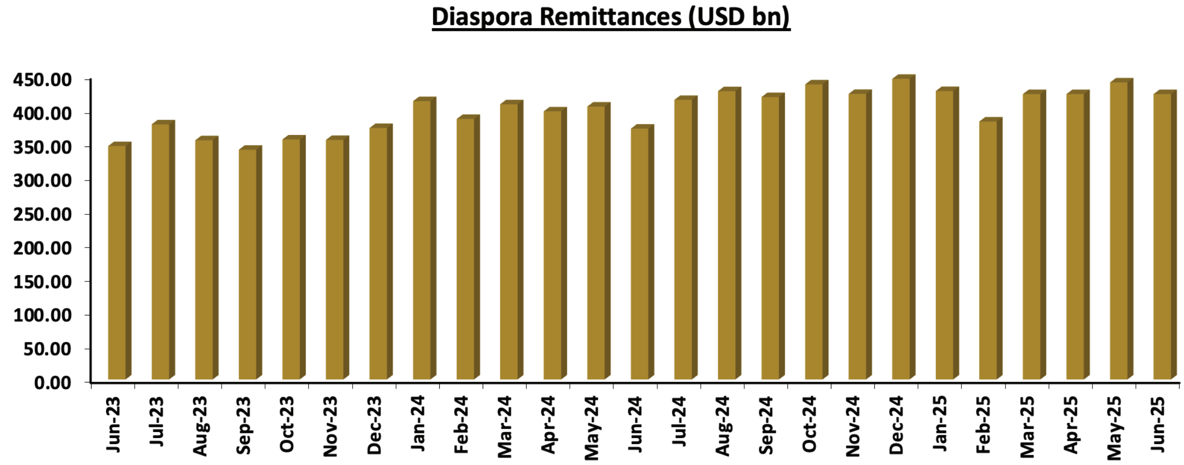
Source: Central Bank of Kenya (CBK)

Forex Reserves



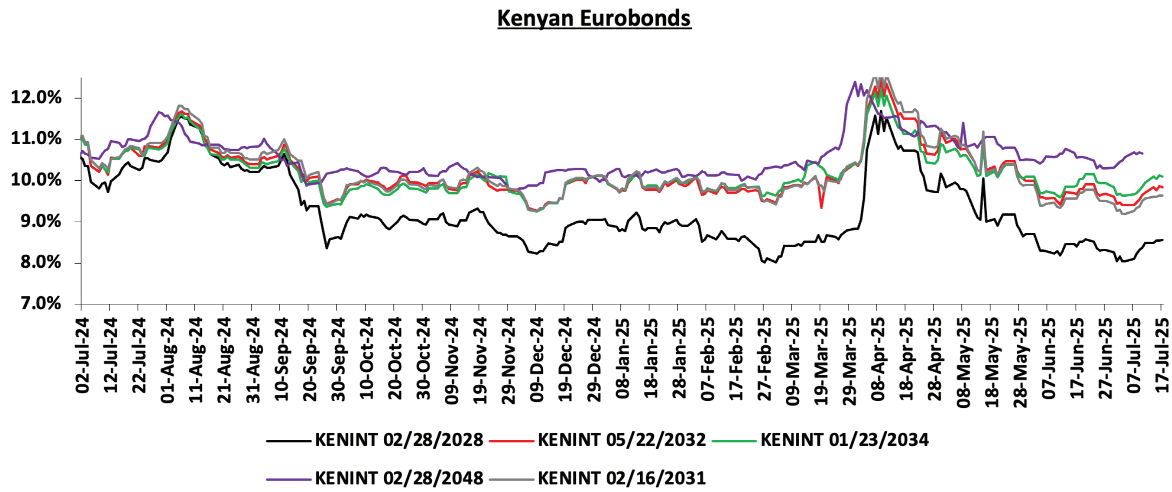
Source: Central Bank of Kenya (CBK)

Diaspora Remittances



Source: Nairobi Securities Exchange (NSE)

Kenyan Eurobonds



Source: Central Bank of Kenya (CBK)

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