SIB Standard Investment Bank

Regulated by the Capital Markets Authority

7TH JULY 2025

"Private Sector Struggles Deepen Amid Economic Strain and Protest Disruptions"

WEEKLY FIXED INCOME REPORT

May Inflation Holds Steady at 3.8%, in Line with our Projection

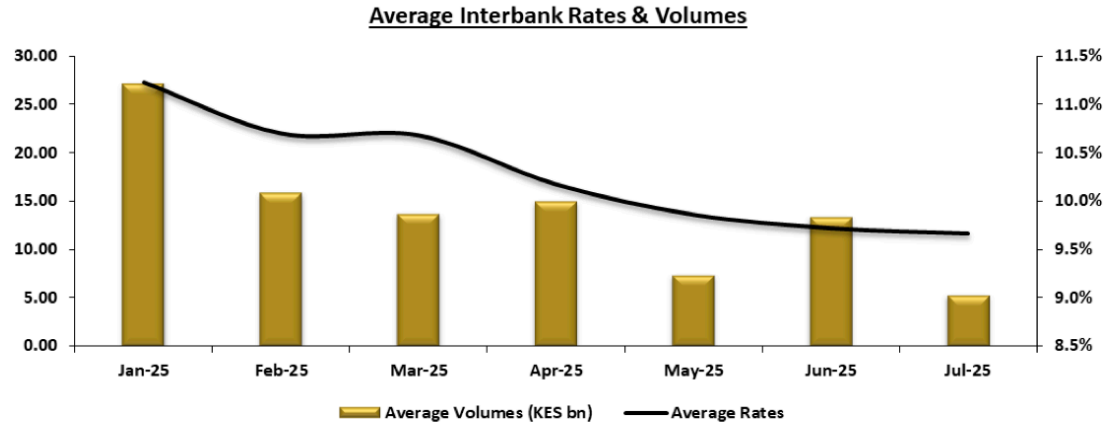
MONEY MARKET STATISTICS

Interbank lending volumes plunged to KES 5.30bn from KES 23.04bn, mirroring a sharp drop in transaction activity over the week. This reflects a recurring pattern in recent history—where a surge is typically followed by a sharp pullback. Meanwhile, the average interbank rate held largely steady, edging down slightly to 9.68%, amid continued liquidity absorption in the market. The table below summarizes the market liquidity indicators:

Average	Previous Week	Current Week	Change
Interbank Deals	34.00	14.00	(58.82%)
Inter- Bank volumes (KES bn)	23.04	5.30	(77.01%)
Inter – Bank Rates (bps)	9.72%	9.68%	(4.17)

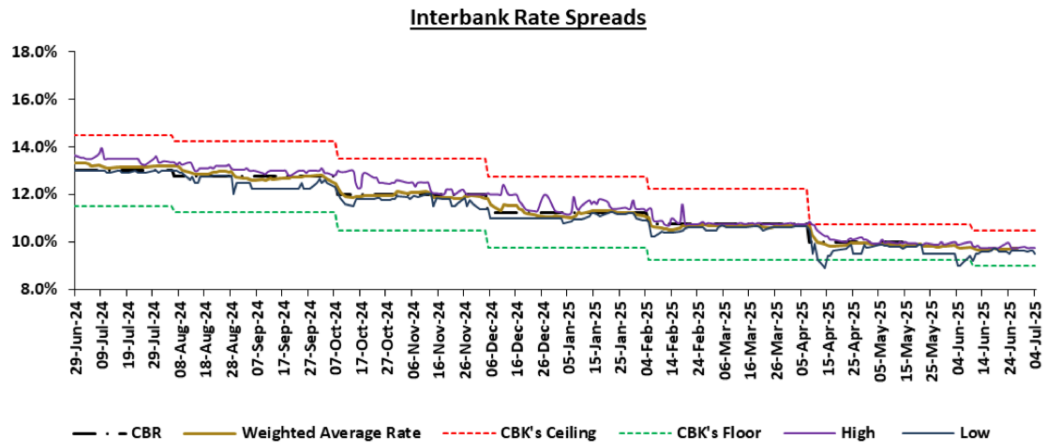
Source: Central Bank of Kenya (CBK), Table: SIB

On a month-on-month basis, average traded volumes have started July on a slow note, following a brief revival in June. See the chart 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: Non-Competitive Bids Dominate First Treasury Auction of FY25/26

Demand for Treasury bills remained low, albeit higher than last week, with the overall subscription rate rising to 90.9% from 60.4%. Investors bid KES 21.83bn—slightly below the expected maturities—resulting in a net repayment of KES 2.45bn. The fiscal agent accepted nearly all bids received, with non-competitive bids notably dominating the auction.

That said, the average accepted rates currently stand at 8.15% (+0.67bps), 8.45% (1.13bps), and 9.71% (-0.87bps), for the 91-, 182-, and 364-day papers, respectively. See the summary below;

KES bn

7-July-25	91-day	182-day	364-day	Totals
	6-Oct-25	5-Jan-26	6-Jul-26	
Due Date	4.00	10.00	10.00	24.00
Amount offered	2.69	11.17	7.96	21.83
Bids received	67.4%	111.7%	79.6%	90.9%
Subscription rate (%)	**2.69**	**11.13**	**7.95**	**21.77**
Amount accepted	99.8%	99.6%	100.0%	99.7%
Acceptance rate (%)	1.57	5.33	7.23	14.12
Of which: Competitive Bids	1.12	5.80	0.73	7.65
Non-competitive bids	11.35	6.32	6.54	24.22
Rollover/Redemptions	**(8.66)**	**4.80**	**1.41**	**(2.45)**
New Borrowing/ (Net Repayment)	8.15%	8.45%	9.71%	
Weighted Average Rate of Accepted Bids	3.8%	3.8%	3.8%	
Inflation	**4.3%**	**4.6%**	**5.9%**	

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

T-Bonds:

In the primary bond market, the fiscal agent remains active, seeking to raise KES 50bn through FXD1/2018/20 and FXD1/2018/25. Both are long-term instruments with coupon rates relatively aligned, despite a five-year tenor difference—making FXD1/2018/20 likely to attract more investor interest. Overall, we anticipate an oversubscription of the offer, supported by ample market liquidity and limited alternative investment opportunities. The two bonds have a combined outstanding amount of KES 209.58bn.

See a summary of the offer below;

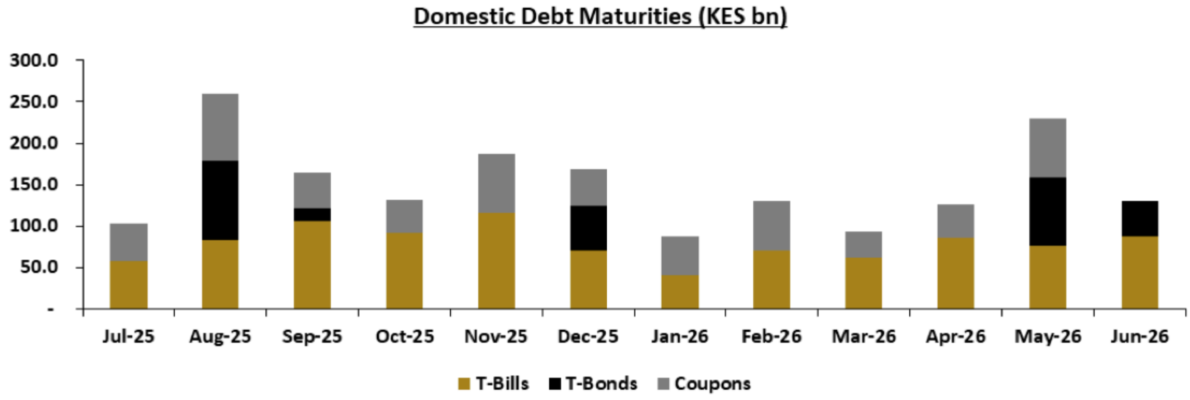
Bond Auction	Maturity Date	Effective Tenor	Amount Offered	Coupon	Sale Period
FXD1/2018/020	01-Mar-38	12.7	50.00	13.20%	Up to 9th July 2025
FXD1/2018/025	25-May-43	17.9		13.40%	

In the secondary bond market, turnover dropped by a further 28.8% to KES 47.28bn, down from KES 66.38bn 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 946.69bn 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;



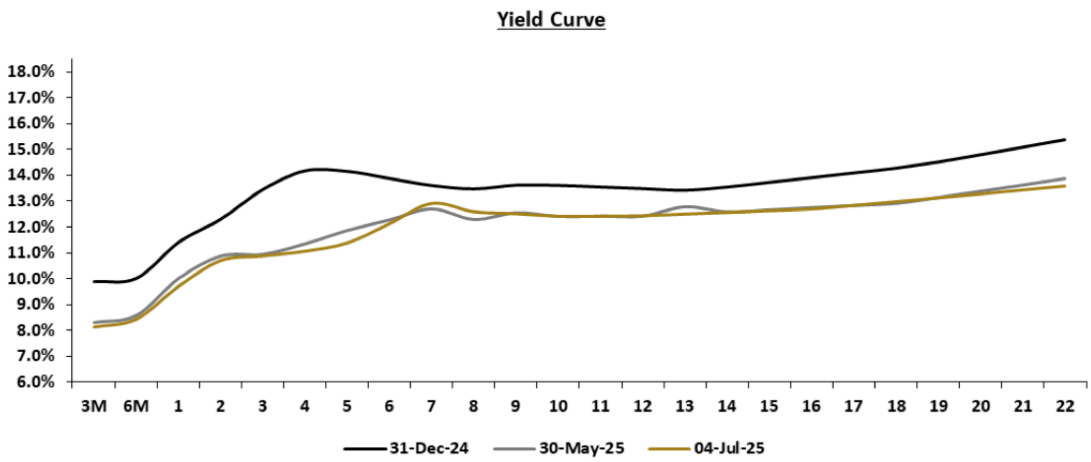
Source: Central Bank of Kenya (CBK), Chart: SIB

FY25/26 kicks off with a net repayment of KES 2.45bn — which bringing the net domestic borrowing requirement to KES 627.17bn.

Yield Curve:

During the week, local interest rates trended upwards overall, despite a few dips along the yield curve. On average, yields on government securities rose by 2.22bps w/w, reversing the 4.31bps decline recorded the previous week.

Below is a visual representation;



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

THE INTERNATIONAL SCENE

Kenyan Eurobonds:

Kenyan Eurobonds extended their downward trend during the week, with yields showing reduced volatility—signaling limited market-moving developments. Overall, yields on the international papers eased by an average of 28.20bps.

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	6.9	8.9	22.7
31-Dec-24	9.1%	10.1%	10.1%	10.1%	10.3%
26-Jun-25	8.3%	9.5%	9.7%	9.9%	10.6%
30-Jun-25	8.3%	9.4%	9.6%	9.8%	10.5%
1-Jul-25	8.0%	9.3%	9.4%	9.7%	10.3%
2-Jul-25	8.2%	9.3%	9.5%	9.7%	10.4%
3-Jul-25	8.0%	9.2%	9.4%	9.6%	10.3%
Weekly Change	(0.3%)	(0.3%)	(0.3%)	(0.3%)	(0.3%)
YTD Change	(1.0%)	(0.9%)	(0.7%)	(0.5%)	0.0%

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

Currency Performance

The Kenyan shilling posted a mixed performance against the 21 currencies tracked by the Central Bank during the week. Notably, it appreciated against the JPY, TZS, and GBP, while weakening against the Euro and UGX. As usual, the USD/KES pair remained stable, hovering around the KES 129 resistance level.

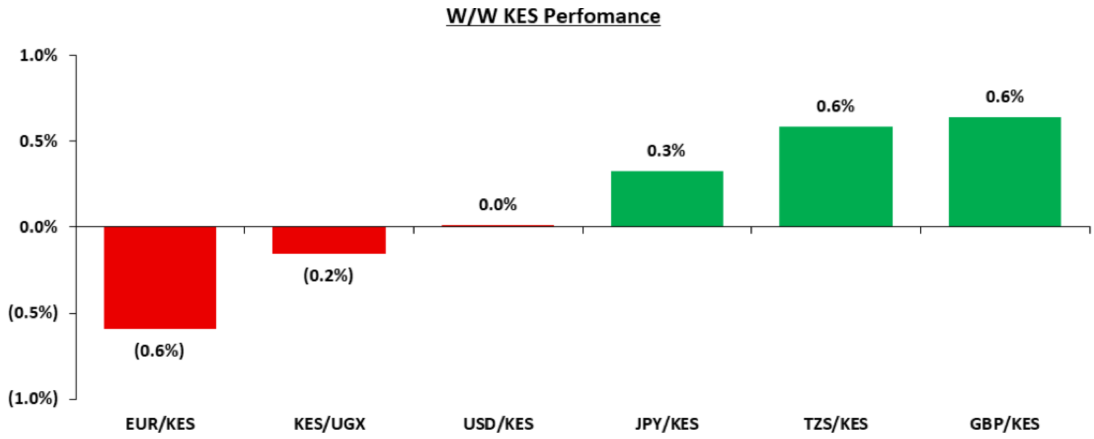
See the table below;

Currencies	30 April 2025 (vs KES)	Previous Week	Current	w/w Change	M/m change
EUR/KES	134.3	151.1	152.0	(0.6%)	(13.2%)
KES/UGX	28.4	27.8	27.8	(0.2%)	(2.3%)
USD/KES	129.3	129.3	129.2	0.0%	0.0%
JPY/KES	82.1	89.4	89.1	0.3%	(8.5%)
TZS/KES	19.0	20.3	20.4	0.6%	7.6%
GBP/KES	162.3	177.4	176.3	0.6%	(8.6%)

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

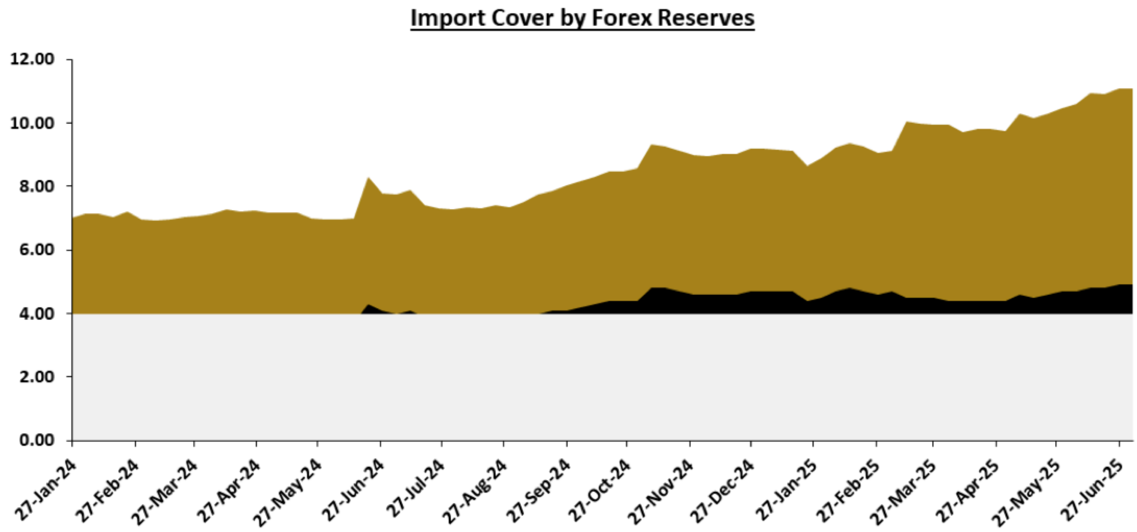
Abb: GBP – British Pound, EUR – Euro, USD – US Dollar, UGX – Ugandan Shilling, TZS – Tanzanian Shilling, JPY – Japanese Yen I FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

See also a visual representation;



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

Concurrently, Kenya's foreign exchange reserves remained steady at USD 11.09bn, providing 4.9 months of import cover. This marks yet another all-time high, following last week's 1.6% rise See the chart below;

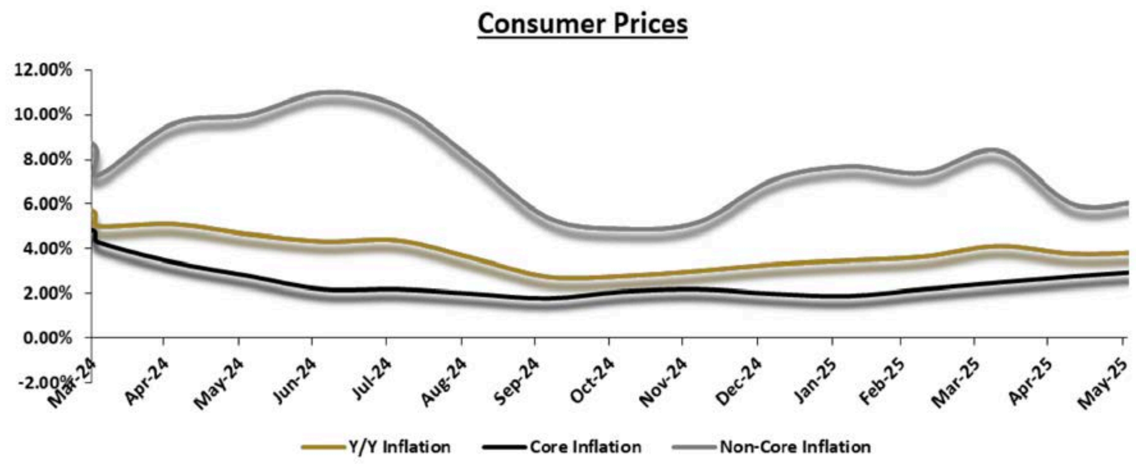


Source: Central Bank of Kenya (CBK), Chart: SIB

THE MACRO WRAP

i. May Inflation Holds Steady at 3.8%, in Line with our Projection

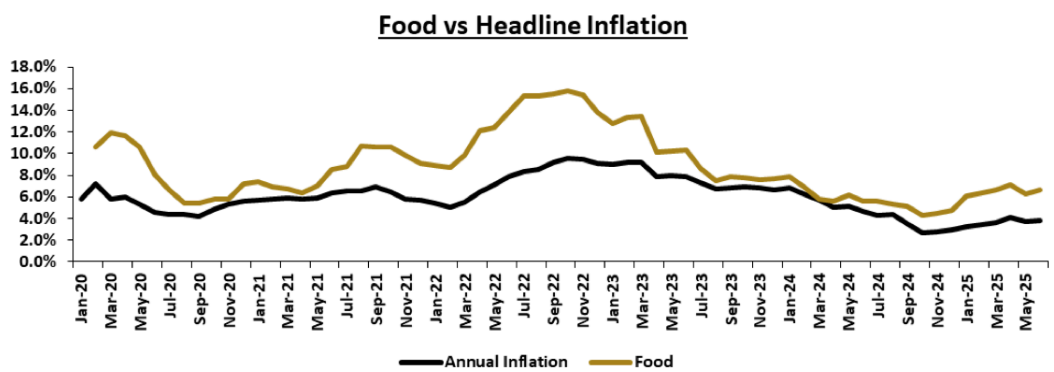
In June 2025, consumer prices rose by 3.8% year-on-year (y/y), a similar growth that was recorded in May 2025 — and well in line with our projection. Core inflation edged higher to 3.0%, from 2.8%, primarily driven by rising prices of maize flour, as well as vegetables. Similarly, non-core inflation edged upwards by 17.75bps to 6.2%, up from 6.0% largely due to a hike in prices in select food items – stability is observed in the headline and core inflation while volatility is seen in the non-core inflation. See the chart below;



Source: KNBS, CBK, Chart: SIB

The year-on-year increase in headline inflation was primarily driven by rising food prices, with the food and non-alcoholic beverages index recording faster growth compared to the previous month—up 6.6% in June from 6.3% in May. Similarly, the transport index rose by 3.2%, accelerating from 2.3% in May 2025. This uptick reflected higher petrol and bus fare prices, as well as increased costs of personal vehicles following the upward adjustment of the Current Retail Selling Price (CRSP) by the Kenya Revenue Authority (KRA).

Conversely, the household utilities index posted a slower growth of 0.2%, supported by lower energy prices. Notably, small-scale electricity costs declined by 3.0%, effectively reversing gains recorded over the past two months. 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;



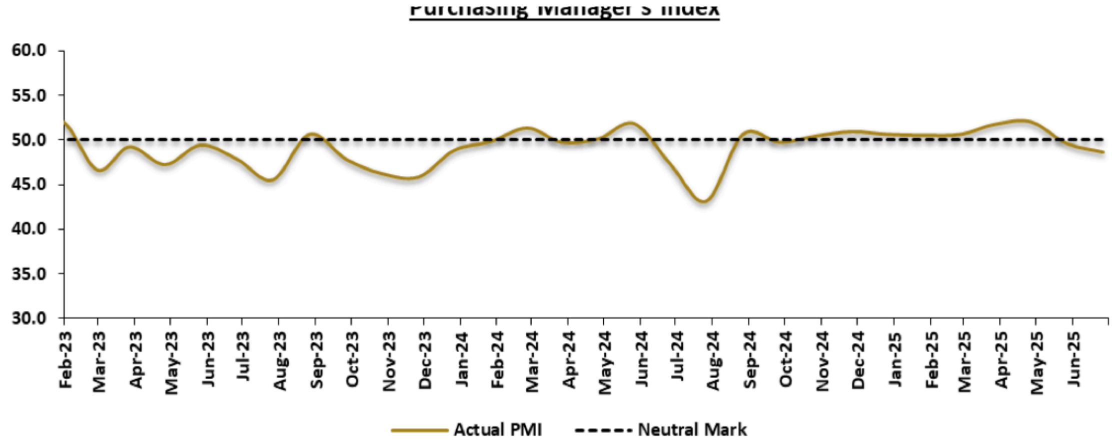
Source: KNBS, CBK, Chart: SIB

Overall, consumer prices have remained broadly stable, though downside risks persist—driven primarily by elevated vegetable prices and, more recently, rising maize costs. However, as we enter the second half of the year, which aligns with the harvest season, maize prices may ease. Beyond these temporary pressures, underlying indicators continue to point to sustained price stability. The Kenyan shilling has held firm against the U.S. dollar, while fuel prices remain largely steady in the near term.

ii. Private Sector Struggles Deepen Amid Economic Strain and Protest Disruptions

According to Stanbic Bank Kenya's PMI survey, private sector business conditions deteriorated further in June, extending the subdued momentum observed in May 2025. The headline index fell to 48.6—an eleven-month low—reflecting the impact of challenging economic conditions that continue to dampen consumer spending. The deterioration was further compounded by nationwide demonstrations in June, driven by widespread discontent over governance issues.

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** declined at a faster pace than in May, with over one-third of surveyed firms reporting reduced sales volumes. Nonetheless, **employment** remained a relative bright spot with staffing levels rising for the fifth consecutive month—albeit marginally—as some firms onboarded additional workers to clear outstanding orders. Business **output**, however, contracted for the second straight month, marking the steepest decline in nearly a year, reflecting the lower new orders.

Despite the subdued demand and declining output, **input** cost pressures intensified. It is worth noting that although price trends appear stable on the surface, the cost of goods and services continues to rise. In June, input prices climbed to their highest level since January, primarily driven by escalating staff costs. Salaries rose at the fastest pace since July 2023, reflecting ongoing recruitment and increased overtime payments. On a more positive note, **purchase prices** rose at the slowest rate in four months, helping to offset some of the upward wage pressure. Meanwhile, **output** prices registered only modest increases, as firms sought to balance cost recovery with the need to retain price-sensitive customers.

Amid these challenges, **business confidence** rebounded strongly as firms expressed renewed optimism about the year ahead. Approximately 18% of respondents anticipated increased output over the next 12 months, supported by expectations of stronger sales and broader market opportunities.

While **macroeconomic indicators** continue to reflect a measure of **stability**, the private sector's path to growth and expansion remains persistently disrupted. Businesses reliant on consumer spending remain wary—cognizant that a single adverse event could quickly push them back into **survival mode**. Against this backdrop, we maintain our view that the private sector operating environment remains fragile, weighed down by deeper structural challenges tied to fiscal constraints and prevailing policy frameworks.

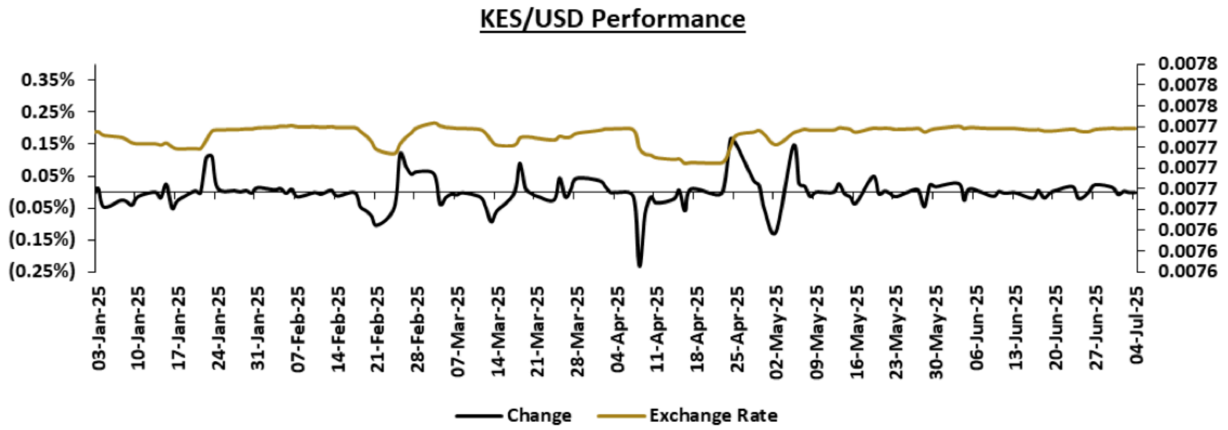
The Stanbic Bank Kenya PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Hot on the Horizon:

i. Results for the July bond auction.
ii. Stay tuned for our 2Q25 Fixed Income & Economic Report.

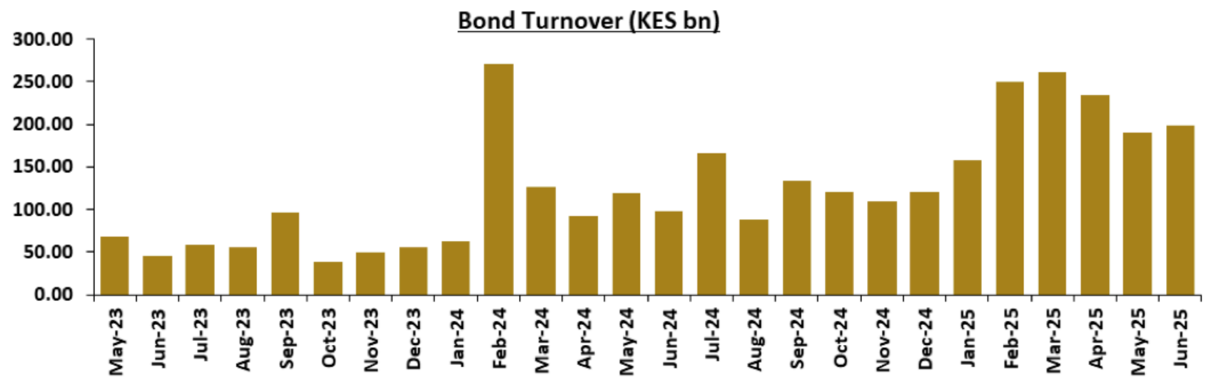
BACKGROUND CHARTS

KES/USD Performance



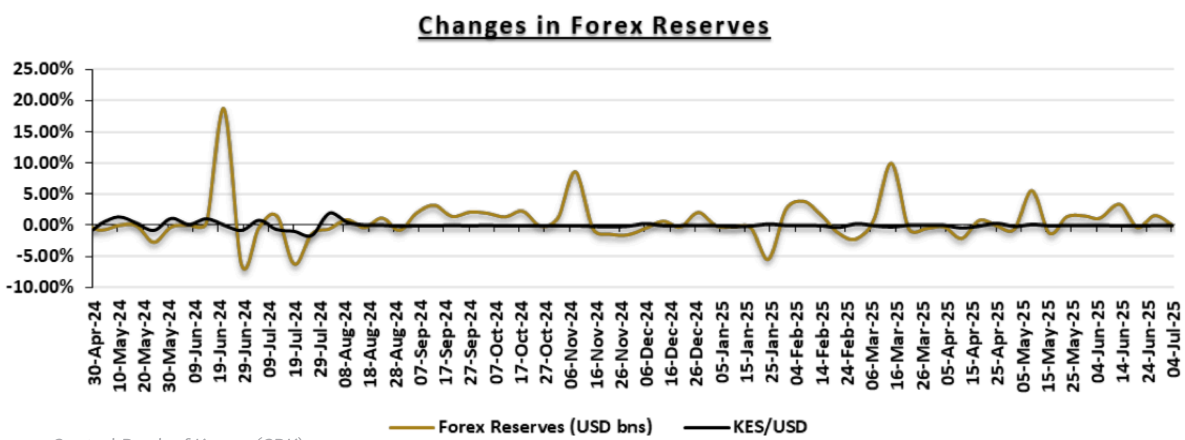
Source: Nairobi Securities Exchange (NSE)

Bond Turnover



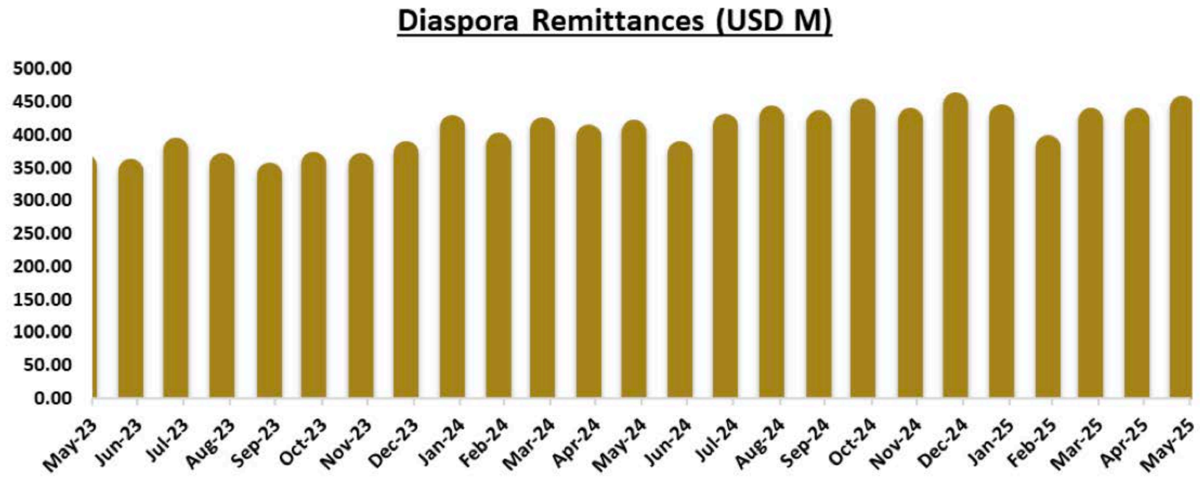
Source: Central Bank of Kenya (CBK)

Forex Reserves



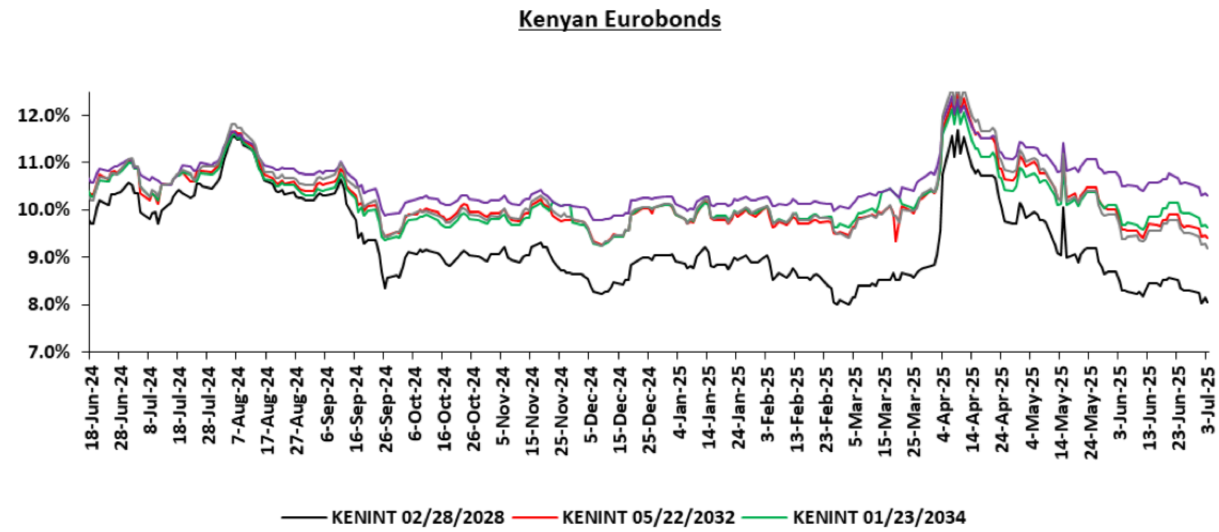
Source: Central Bank of Kenya (CBK)

Diaspora Remittances



Source: Nairobi Securities Exchange (NSE)

Kenyan Eurobonds



Source: Central Bank of Kenya (CBK)

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