SIB Standard Investment Bank

Regulated by the Capital Markets Authority

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“Kenya Short-End Eurobond Yields Touch Lowest in Over Three Years after S&P Upgrade”

WEEKLY FIXED INCOME REPORT

August 2025 Inflation Accelerates to 4.5% y/y, Fastest Pace Since June 2024

MONEY MARKET STATISTICS

This week marks the start of a new phase in Kenya's interbank market, driven by efforts to enhance transparency, reliability, and market confidence, while strengthening monetary policy transmission—a long-standing concern, particularly around private sector lending rates.

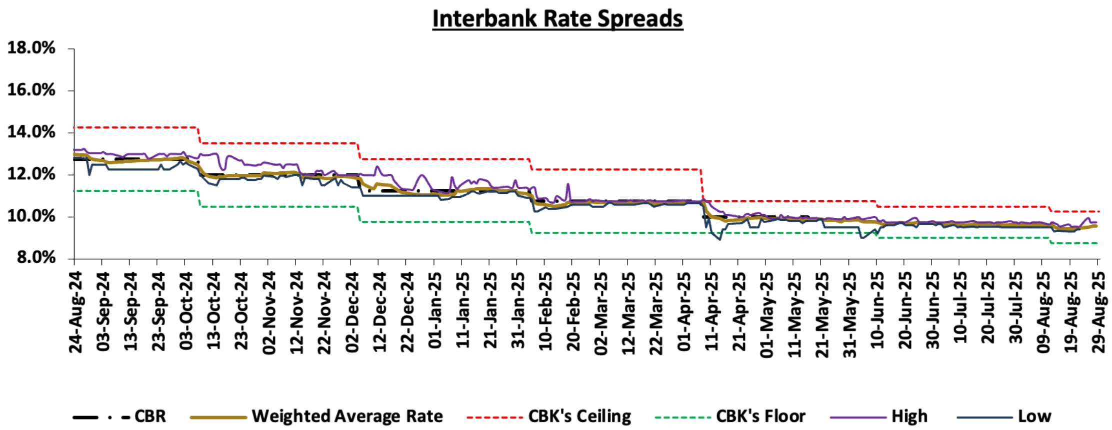
That said, activity in the interbank market signaled liquidity strains for some players, with traded volumes, agreed rates, and activity in the discount window pointing to tightness, likely linked to settlements of the recently oversubscribed tap sale. The transaction count quadrupled while the volumes traded jumped significantly as shown below;

Average	Previous Week	Current Week	Change
Interbank Deals	13.00	52.00	300.00%
Inter- Bank volumes (KES bn)	6.20	31.12	401.96%
Inter – Bank Rates (bps)	9.45%	9.55%	10.12
Window Borrowing Volumes (KES bn)	-	13.30	-

The average unsecured interbank lending rate rose to 9.55%, up from 9.45% the previous week, even as the Central Bank maintained open market operations.

Notably, the rate has now been officially renamed the Kenya Shilling Overnight Interbank Average (KESONIA), establishing it as Kenya's risk-free reference rate. The rebranding is aimed at providing a clearer identity and aligning with global standards, as the CBK works toward a common benchmark for commercial bank lending rates.

There are no methodological changes in the computation of KESONIA, and as such, rates are expected to remain within the existing interbank corridor. As of 28th August 2025, interbank rates continued to trade closely in line with the Central Bank Rate (CBR), as illustrated below:



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

We view this as a welcome and timely move, complementing other initiatives by the CBK to deepen and modernize Kenya's financial markets. The official risk-free rate is expected to strengthen market integrity, enhance policy transmission, and build investor confidence, while providing both borrowers and lenders with a fair and predictable benchmark.

GOVERNMENT SECURITIES MARKET

T-Bills:

This week, Treasury bills demand remained strong, with overall subscription climbing to 133.5%, up from 113.5% the previous week. Investors submitted bids worth KES 32.03bn, of which the fiscal agent accepted 99.6%, comfortably covering redemption requirements.

The 91-day paper dominated demand, posting a subscription rate of 499.2%, the highest in over two months; reflecting investors' preference for managing short-term liquidity. Performance across short-term tenors has been volatile in recent weeks, shaped by shifting market sentiment, liquidity dynamics, and concurrent bond issuances.

Weighted average rates on accepted bids held broadly stable at 8.0% (-0.01bps), 8.05% (-2.06bps), and 9.57% (-0.43bps) for the 91-, 182-, and 364-day papers, respectively, as the fiscal agent continues to signal a softer near-term interest rate outlook.

KES Bn

1-Sep-25	91-day	182-day	364-day	Totals
	1-Dec-25	2-Mar-26	31-Aug-26	
Amount offered	4.00	10.00	10.00	24.00
Bids received	19.97	1.80	10.25	32.03
Subscription rate (%)	499.2%	18.0%	102.5%	133.5%
Amount accepted	**19.88**	**1.78**	**10.25**	**31.91**
Acceptance rate (%)	99.5%	98.8%	100.0%	99.6%
Of which: Competitive Bids	4.04	0.10	5.67	9.81
Non-competitive bids	15.83	1.69	4.58	22.10
Rollover/Redemptions	18.90	7.19	2.61	28.69
New Borrowing/(Net Repayment)	**0.98**	**(5.40)**	**7.65**	**3.22**
Weighted Average Rate of Accepted Bids	8.00%	8.05%	9.57%	
Inflation	4.5%	4.5%	4.5%	
Real Return	**3.5%**	**3.5%**	**5.0%**	

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

T-Bonds: CBK Sustains Issuance of Long-term Bonds in the Primaries

For September, the fiscal agent is seeking KES 60bn through the reopening of three bonds: FXD1/2018/20, FXD1/2022/25, and SDB1/2011/30. All three are long-term papers, underscoring the government's strategy to smoothen the maturity profile.

This offer follows the recent infrastructure bond reopening that sparked heightened investor appetite. Among the issuances, we expect stronger demand for FXD1/2018/20 given its shorter tenor to maturity and relatively attractive coupon.

The Savings Development Bond (SDB1/2011/30), whose sale window has been shortened to just a week, may struggle to draw substantial interest—similar to its last reopening—owing to its lower coupon and competition from its counterparts. Nonetheless, given the targeted amount, a fair subscription is still likely.

The sale period for FXD1/2018/20 and FXD1/2022/25 remains ample, running through to 17th September 2025. See the summary of issuance below:

Bond Auction	Maturity Date	Effective Tenor	Amount Offered	Coupon	Sale Period
FXD1/2018/20	01-Mar-38	12.5	40.00	13.20%	Up to 17th September 2025
FXD1/2022/25	23-Sep-47	22.1		14.19%	
SDB1/2011/30	21-Jan-41	15.4	20.0	12.00%	Up to 3rd September 2025

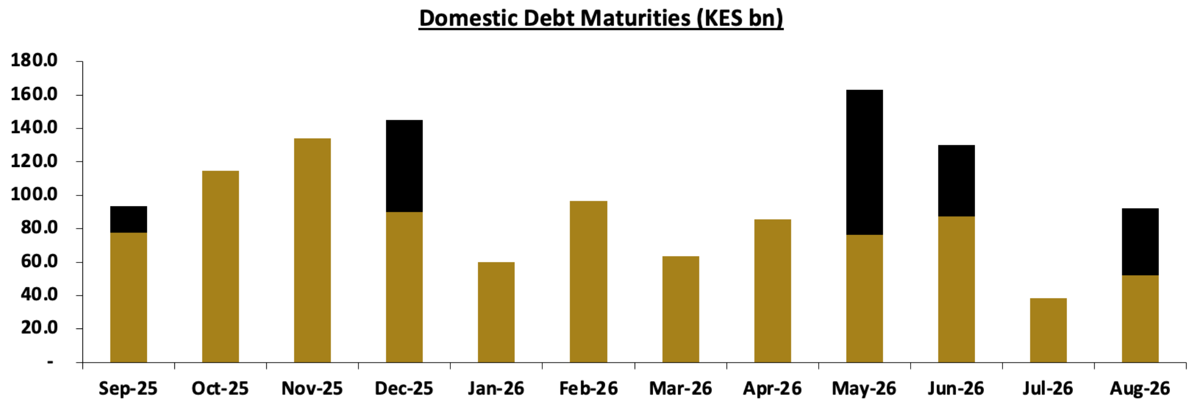
Source: Central Bank of Kenya (CBK), Table: SIB

In the secondary bond market, turnover declined by 9.6% to KES 202.21bn in August 2025, from KES 223.55bn in July. Weekly activity, however, showed improvement, with KES 71.17bn traded — a 24.3% increase from KES 57.28bn in the previous week.

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

As of this week, the Government's outstanding maturities for the next 12 months stand at KES 976.73bn in T-Bills and KES 240.54bn in T-Bonds. When coupons are factored in, the total maturity profile rises to KES 1.83tn. For September, bond maturities remain limited, a trend that extends through December, affording the government much-needed breathing space on its repayment schedule.

See the chart below;



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

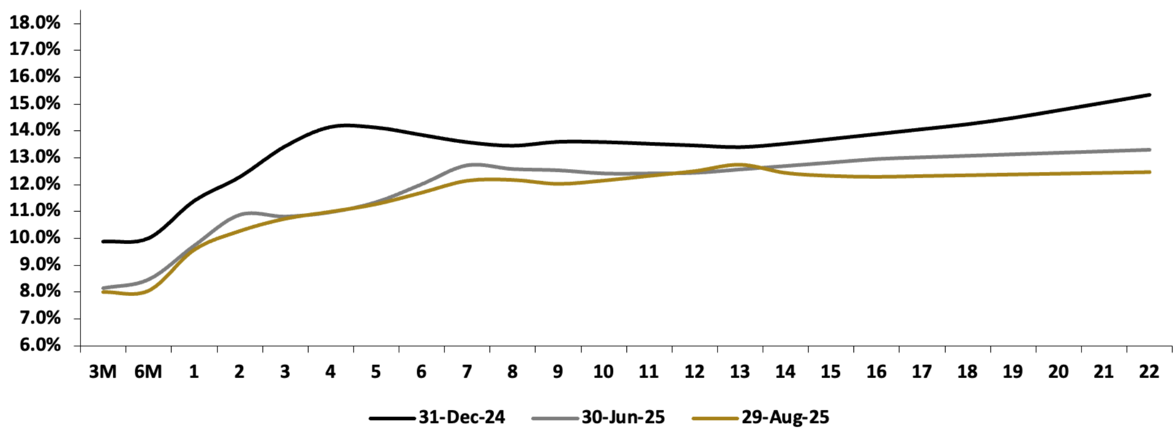
This week's auction lifted the Government's net domestic borrowing position to KES 258.35bn, remaining well above the prorated target.

Yield Curve:

Local interest rates showed a mixed performance across tenors, though overall movements were relatively muted. Yields on most papers held broadly stable, aligning with prevailing market levels.

Below is a visual representation;

Yield Curve



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

THE INTERNATIONAL SCENE

Kenyan Eurobonds:

During the week, yields on short-term Kenyan Eurobonds fell to their lowest level in over three years, following S&P Global's upgrade of Kenya's long-term sovereign credit rating to B from B-. Overall, Eurobond yields eased across the curve, posting an average decline of 28.16bps over the week. The table below summarizes the performance across maturities:

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	2.5	5.5	6.7	8.8	22.5
31-Dec-24	9.1%	10.1%	10.1%	10.1%	10.3%
21-Aug-25	7.4%	8.8%	9.0%	9.5%	10.1%
25-Aug-25	7.1%	8.6%	8.8%	9.4%	10.0%
26-Aug-25	7.1%	8.6%	8.8%	9.4%	10.0%
27-Aug-25	7.0%	8.5%	8.8%	9.3%	9.9%
28-Aug-25	7.0%	8.5%	8.8%	9.3%	9.9%
Weekly Change	(0.4%)	(0.2%)	(0.3%)	(0.3%)	(0.2%)
YTD Change	(2.1%)	(1.6%)	(1.3%)	(0.8%)	(0.4%)

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

Currency Performance

The Kenyan shilling posted a mixed performance across tracked currencies, gaining only against the TZS. Notably, KES/TZS volatility has heightened in recent weeks, largely on the back of Tanzania's economic headwinds and policy uncertainties.

The unit held steady against the USD, extending the resilience it has maintained for a year now

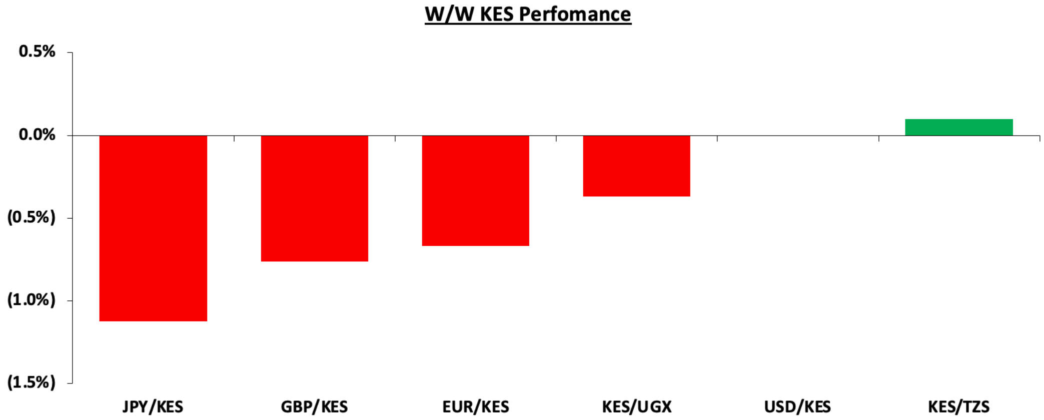
See the table below;

Currencies	31 Dec 2024	Previous Week	Current	w/w Change	Y/y change
JPY/KES	82.1	86.9	87.9	(1.1%)	(7.0%)
GBP/KES	162.3	173.1	174.4	(0.8%)	(7.5%)
EUR/KES	134.3	149.7	150.7	(0.7%)	(12.2%)
KES/UGX	28.4	27.6	27.5	(0.4%)	(3.3%)
USD/KES	129.3	129.2	129.2	0.0%	0.0%
TZS/KES	19.0	19.4	19.4	0.1%	2.2%

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

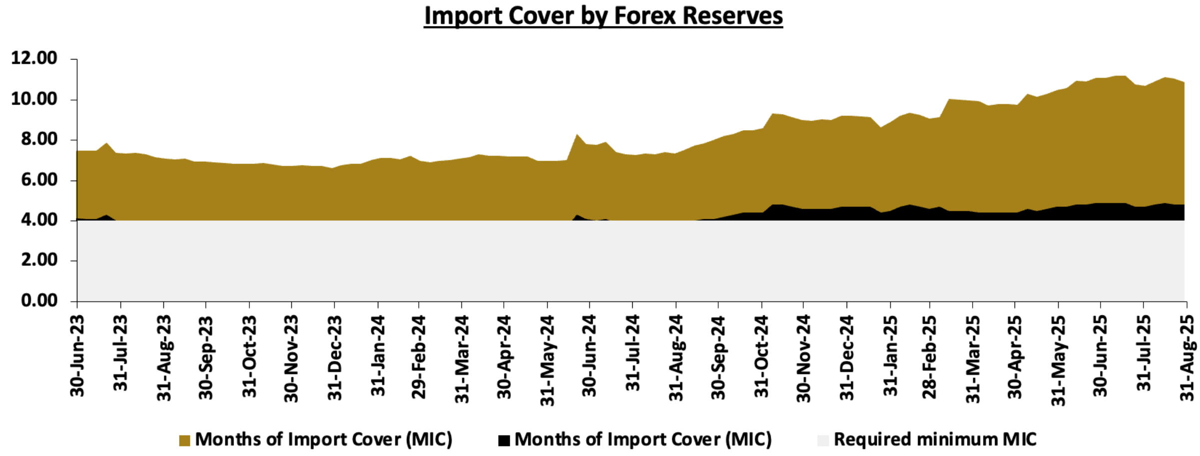
Abb: GBP – British Pound, EUR – Euro, USD – US Dollar, UGX – Ugandan Shilling, TZS – Tanzanian Shilling, JPY – Japanese Yen I FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

See also a visual representation;



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

Kenya's foreign exchange reserves slipped to USD 10.89bn from USD 11.04bn, maintaining import cover at 4.8 months. See the chart below for a visual summary;

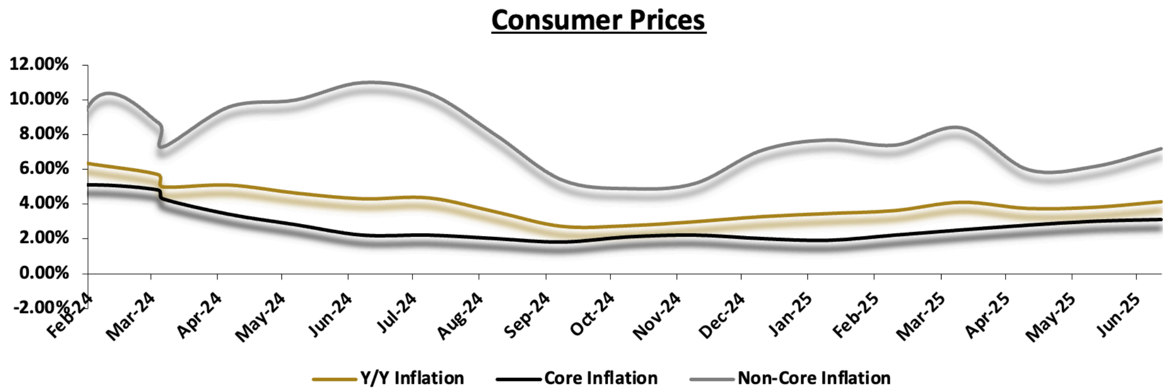


Source: Central Bank of Kenya (CBK), Chart: SIB

THE MACRO WRAP

August Inflation Accelerates to 4.5% y/y, Fastest Pace Since June 2024

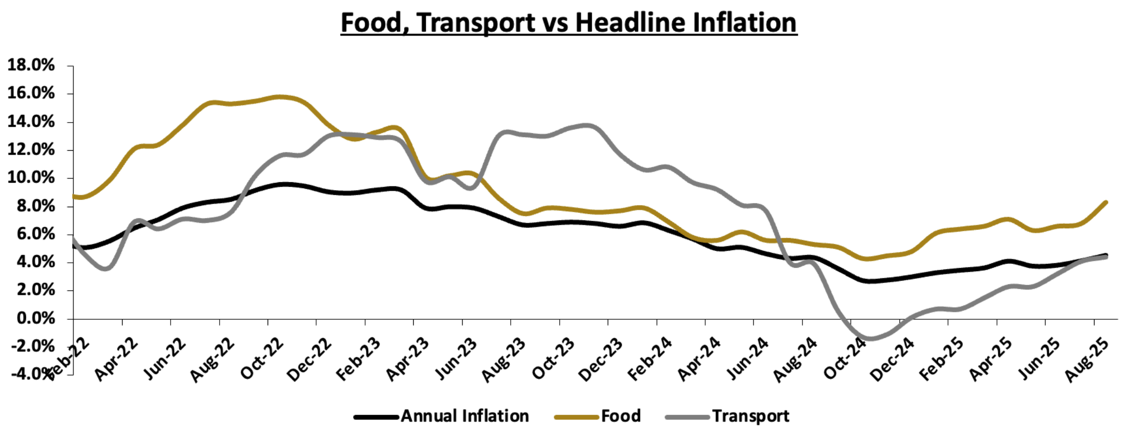
In August 2025, consumer prices rose by 4.5% y/y, the fastest pace since June 2024 and slightly above the upper bound of our projection. Core inflation eased marginally to 3.0% from 3.1%, while non-core inflation jumped by 196.72bps to 9.2%, from 7.2%, largely on account of higher food prices. Overall, headline and core inflation remain stable, while non-core inflation continues to exhibit volatility. See the chart below;



Source: KNBS, CBK, Chart: SIB

The y/y increase in headline inflation was largely driven by a 150bps rise in the food index, reflecting double-digit growth in flour, fruit, and vegetable prices. The transport index also climbed 4.4%, mainly on account of higher bus fares along the Mombasa–Nairobi route, despite relative stability in fuel prices.

In contrast, the household utilities index recorded slower growth of 0.8%, supported by lower electricity and kerosene costs, even as gas and rent prices edged higher. Notably, small-scale electricity tariffs declined by 2.0%, effectively reversing the 2.1% increase recorded in June. The chart below illustrates the growth trajectory of the food and non-alcoholic beverages as well as transport indices against headline inflation – the indices account for more than 40% of the consumer price basket;



Source: KNBS, CBK, Chart: SIB

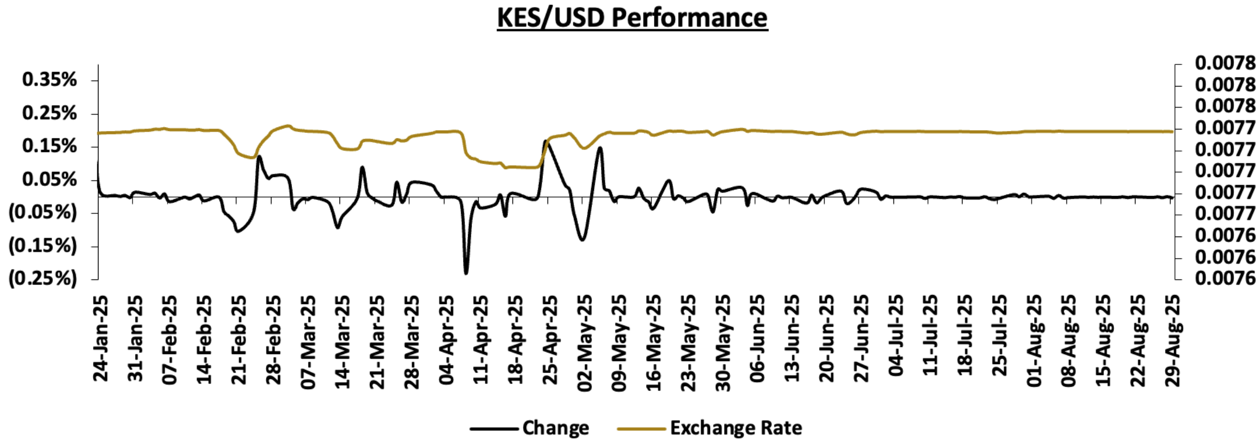
Month-on-month, consumer prices rose by 0.3%, reflecting relative stability across key indices. However, upward pressures persist, driven by elevated vegetable prices, rising maize costs, and higher global fuel prices. Overall, core indicators signal continued price stability, supported by a steady Kenyan shilling against the U.S. dollar.

Hot on the Horizon:

i. August 2025 Purchasing Managers' Index (PMI)

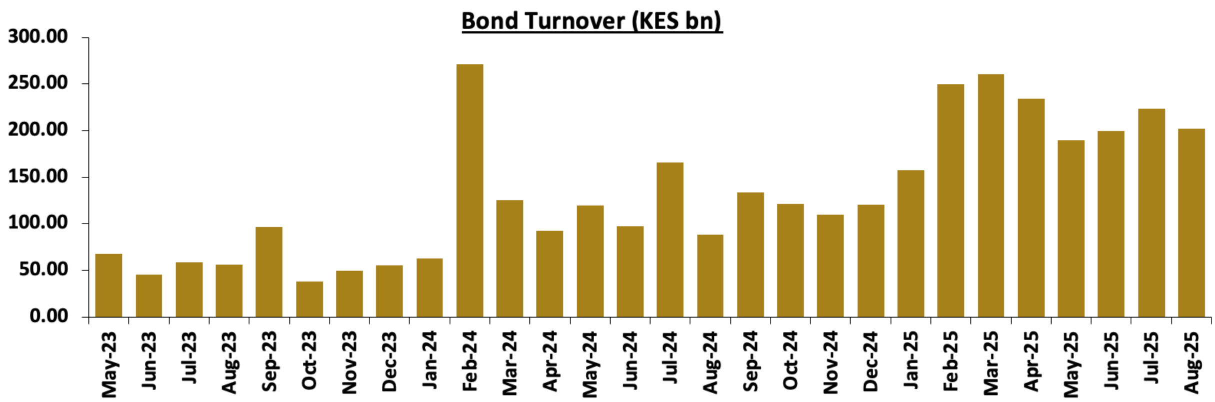
BACKGROUND CHARTS

KES/USD Performance



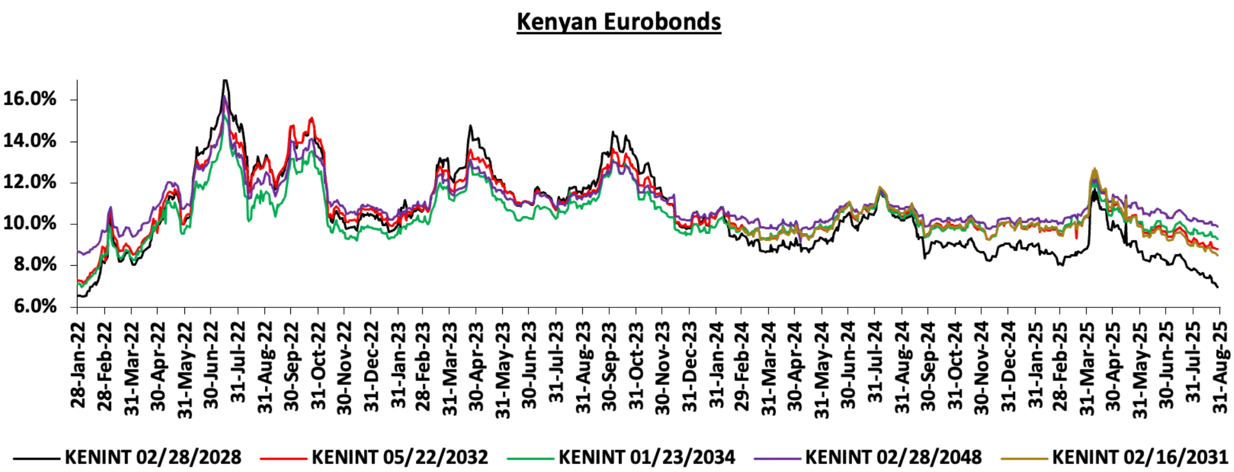
Source: Nairobi Securities Exchange (NSE)

Bond Turnover



Source: Central Bank of Kenya (CBK)

Forex Reserves



Source: Central Bank of Kenya (CBK)

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