

Primary Bonds Pre-Auction Note

May 2025 | 2nd Auction

Reopenings

FXD1/2012/020

Total Value:
KES 30 billion

Fixed Income Pre-Auction Note - FXD1/2012/20 (7.6-years)

On its second bond auction for May 2025 budget support, the National Treasury seeks to raise KES 30 billion from a re-opened paper FXD1/2012/20 of 12.000% annual coupon. The auction is set to happen on Wednesday, 7th May for a value payment on 12th May 2025.

We expect fair subscription on the paper with an aggressive bidding to counter the low coupon returns compared to other similar papers in the secondary market. The expected oversubscription will also emanate reinvestments from the high coupon and maturity payouts which will happen on 5th May and 12th May 2025.

A total KES 84.99Bn is due on Monday, 5th May while KES 66.87Bn will be due on 12th May 2025, the value date of this auction. An overflow from the KES 84.99Bn will go towards supporting this auction besides supporting the bonds secondary market operation.

We expect the paper's low coupon to push for higher yields and consequently better discounts to woo the attention of investors even as the paper is issued at par with no accrued interest. As such we expect an aggressive bidding from investors compounding to a tight liquid environment prompted by continued mop of liquidity by the government.

In view macro-economic condition and that discussed hereafter, we issue the following bidding guidance rates for your consideration:

Bond	FXD1/2012/020
Amount	KES 30 billion
Tenure	7.6-Years
Coupon	12.0000%
Period of Sale	16 th April - 7 th May 2025
Auction Date	7 th May 2025
Value Date	12 May 2025
Conservative	13.20% - 13.40%
Aggressive	13.41% - 13.60%

FXD1/2012/20 has a total outstanding value of KES 87.29Bn with the next coupon payment happening on 12th May 2025, on its value date. The paper was last issued in June 2021 and tapped in July 2021 with undersubscription in both experiences.

FXD1/2012/20 (12.000% coupon) - Historical Performance						
FXD1/2012/20 Issue	Date	Offer (KES Mn)	Subscription	Acceptance	WAR	Accepted WAR
Tap-sale	05/07/2021	50,000	8,638.85	8,378.30	-	12.4980%
Re-opening	Jun-21	30,000	23,879.71	6,294.65	12.6780%	12.4980%
Tap-sale	22/02/2021	18000	4,071	3,925	-	12.5870%
Re-opening	08/02/2021	50,000	28,308.65	22,713.42	12.6870	12.5870%

May's first auction that happened on 30th April 2025 for a 5th May 2025 payment date was aggressively bided as follows:

April 2025 Primary Auction						
Paper	offer (KES Mn)	Amount Received	Accepted	Market Weighted Average Rate	Accepted Rates	Coupon
FXD1/2022/015	50,000	26,413	25,281	13.9417%	13.9128%	12.7560%
FXD1/2022/025		30,682	25,103	14.6362%	14.5384%	13.9420%

Our respective bidding rates advise aligned with the market's average and accepted levels as follows:

Oure Recommended rates were		
Bond	FXD1/2022/015	FXD1/2022/025
Conservative Rates	13.90% - 14.10%	14.45% - 14.65%
Aggressive Rates	14.11% - 14.30%	14.66% - 14.95%
Accepted Rates	13.9128%	14.5384%

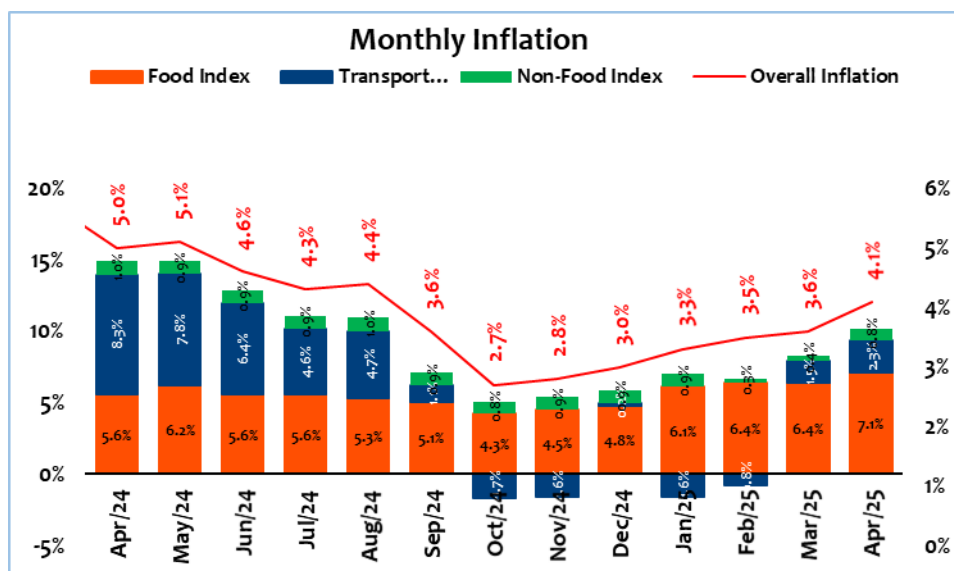
Macro-economic Environment

April Inflation rate rose for the seventh consecutive month to surpass the 4.0% mark at to 4.1% from that of 3.6% and 3.5% witnessed in March and February 2025 respectively. The rate however remains within the government appetite and below the midpoint range 5% $\pm$ 2.5%.

The surge was mainly occasioned in items under food and fuel prices which pushed overall non-core inflation from 7.4% in March 8.4% in April 2025. Food and non-alcoholic index rose by 7.1% in April compared to a 6.6% rise recorded in March.

Central Bank continues to push for lower interest rates through its monetary operations in an aim to boost private sector credit and promote local economic growths. This is after the, economy recorded a slower growth of 4.0% in Q3-2024 as opposed to 6.0% of Q3-2023.

- In the last sitting, the Monetary Policy Committee (MPC) effected a fifth rate cut of 75.0bps on the Central Bank Rate (CBR) from 10.75% to 10.00%. The committee also narrowed the interbank market corridor from 150.0bps around the CBR to 75.0bps around the CBR in what the banking regulator termed as reducing interest rate volatility.
- This is in addition to lowering the commercial banks Cash reserve requirement (CRR) from 4.25% to 3.35% in an aim to create more liquidity to banks for lending out to the private sector which contributes about 70.0% of the gross domestic product (this include industries and the services sectors – excluding agriculture and taxes).
- In a move to implement its monetary operations, the Central Bank proposes banks to peg their interest rates on loans at the Central Bank Rate (CBR) plus margins of the banks shareholder returns and a risk premium. The move however was opposed by the Banking body citing the move can be likened to an interest rate capping.



Yield Curve

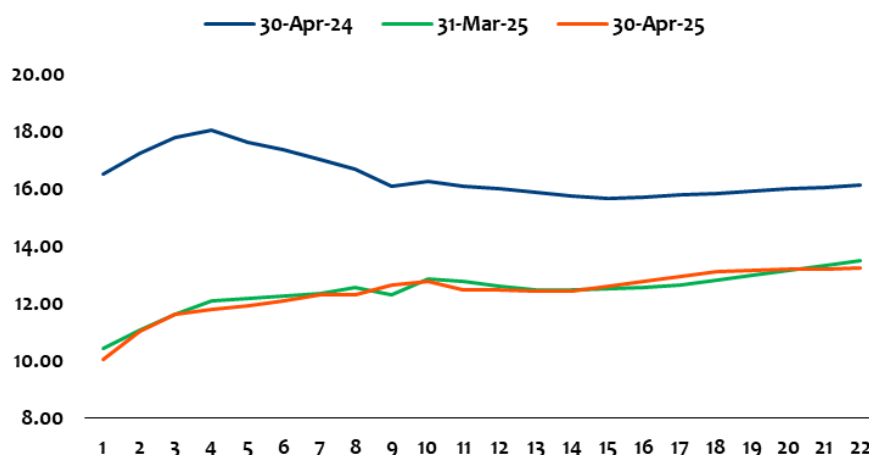
High liquidity demand has left the yield curve to display mixed movements in the last one month with the short end shifting down marginally while the middle curve to the long-end shifted marginally upwards influenced by a tight liquid environment.

This was further occasioned by the last auction of the two to long-term papers whose auction happened on 30th April.

We anticipate minimal shift on the entire yield curve with a downward bias buoyed by the ongoing transmission of the rate as supported by re-opening existing papers as opposed to new ones.

Yield Key Rates %	30-Apr-24	31-Mar-25	30-Apr-25	Δbps y-y	Δbps Q-Q
2-Yr	17.2278	11.0646	11.0290	619.88	3.56
5-Yr	17.6093	12.1762	11.8864	572.29	28.98
10-Yr	16.2398	12.8556	12.7677	347.21	8.79
15-Yr	15.6413	12.4995	12.5806	306.07	-8.11
20-Yr	15.9774	13.1384	13.1739	280.35	-3.55

Yield Curve Movements



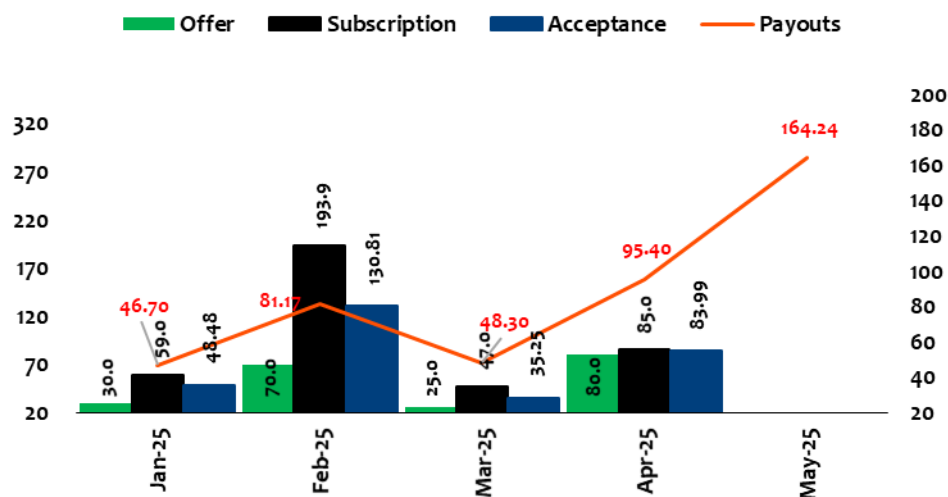
Primary Market Bonds Performance

The first four auctions of 2025 witnessed oversubscriptions supported by re-investments from the bond maturities and coupons being re-invested back.

April auction was oversubscribed at 106.2% of KES 084.97Bn against a total coupon and bond maturities payout of KES 95.40Bn.

In this auction we anticipate a higher subscription and uptake rallied by higher payouts and considering low appetite for borrowings in the month of June and July, at the end of a financial year and start of a new government financial year.

Bonds Performance-Primary Market (KES Bn)



Month	Principal Maturities	Coupons	Totals Bonds Payouts
an/2025	-	46.70	46.70
Feb/2024	-	81.17	81.17
Mar/2025	27.69	48.30	48.30
Apr/2025	51.33	44.07	95.40
May/2025	83.63	80.61	164.24
Jun/2025	-	45.28	45.28

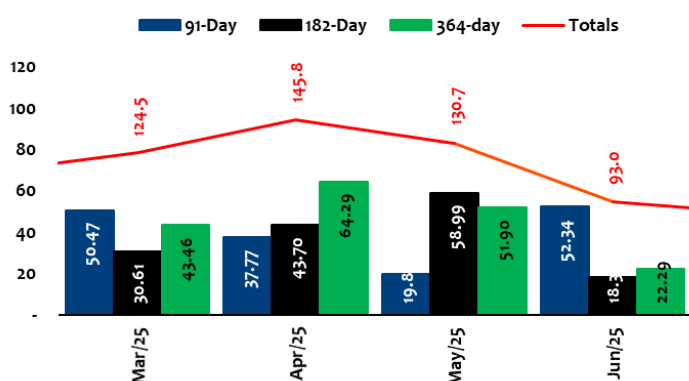
T-Bills

Treasury bills auctions also continue being strongly supported by maturities' re-investments despite the rates coming down significantly as informed by the CBR rates.

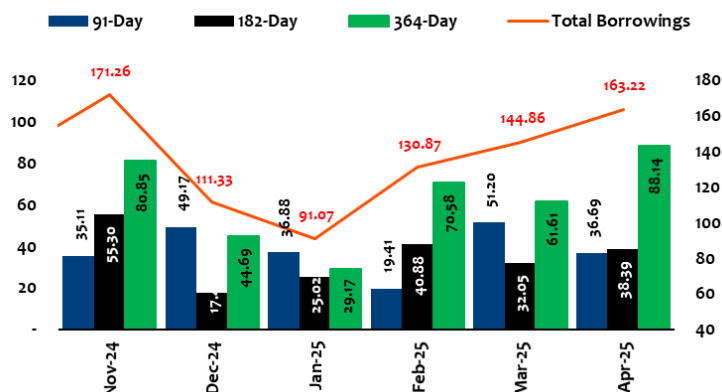
May's first T-bill borrowings saw the return on investment drop further to 8.4058%, 8.619% and 10.0058% from that of 8.4434%, 8.619% and 10.0208% for the 91, 182 and 364-day papers respectively.

Find below maturities and borrowings performances.

T-Bill Maturities/Payouts (KES Bn)



T-Bills - Monthly borrowings (KES. Bn)

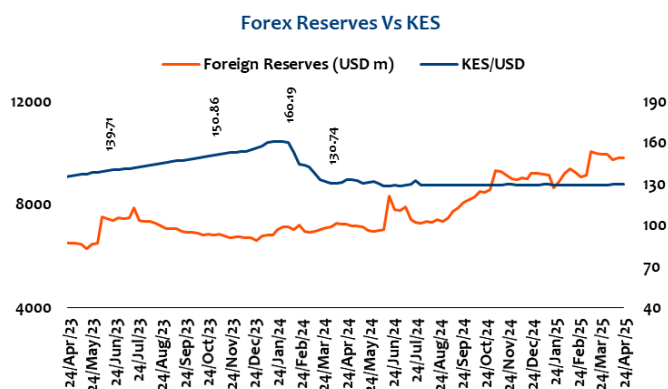
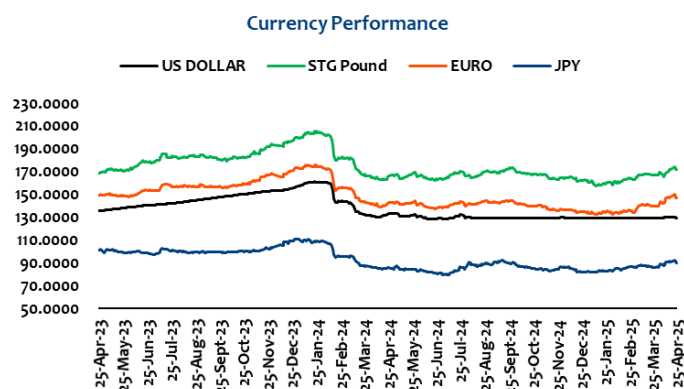


Currency

The local currency continued remaining strong supported by forex remittances and inflows from development partners.

We project some major gains to emanate from the ongoing bilateral agreements between Kenya and the People's Republic of China which will see developments in various sectors ranging from infrastructure (both road and rail referred to as belt and road memorandum of understanding (MoU)), trade and manufacturing and educations MoUs. As such, receipts of about KES 126Bn is expected to check in from these bilateral agreements.

Further, the shilling remains supported by sufficient forex reserves that stands at USD 9,805Mn, enough for 4.4-months of import cover.



End

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