

Primary Bonds Pre-Auction Note

May 2025 | 1st Auction

Reopenings

FXD1/2022/015

FXD1/2022/025

Total Value:
KES 50 billion



Fixed Income Pre-Auction Note - FXD1/2022/015, FXD1/2022/025, FXD1/2012/020

The National Treasury re-opened three papers, FXD1/2022/15, FXD1/2022/25 and FXD1/2012/20, seeking KES 70 billion by way of two auctions for May 2025 budgetary support.

In the first auction scheduled for Wednesday, 30th April, the government seeks KES 50Bn from FXD1/2022/15 (12.5-Yrs) of Coupon 13.942% and FXD1/2022/25 (22.5-yrs) of coupon 14.188% per annum.

We expect a total oversubscription in the first auction supported by a fairly higher returns from the two papers. This is as interest rates are expected to dwindle further as signaled by the persistent interest rate cuts by the Central Bank of Kenya, in a move to support economic growths by indirectly injecting liquidity to the private sector via commercial lending.

The projected oversubscriptions will further be supported by re-investments from the KES 106.71Bn bond maturities and coupon payouts due on 5th May 2025, the value date of these two papers.

In view of these and the prevailing tight liquidity environment discussed hereafter, we advise the following bidding rates for your consideration:

May 2025 – Primary Auction		
Papers	FXD1/2022/015	FXD1/2022/025
Tenure	12.0-Years	22.5-Years
Amount	KES 50 billion	
Coupon	13.9420%	14.1880%
Period of Sale	16th April to 30th April 2025	
Auction Date	Wednesday, 30 th April 2025	
Value Date	5th May 2025	
Conservative Rates	13.90% - 14.10%	14.45% - 14.65%
Aggressive Rates	14.11% - 14.30%	14.66% - 14.95%

The two papers, FXD1/2022/15 (12-Years) and FXD1/2022/025 (22.5-years), were last issues in April 2024 where the market weighted average rates stood at 13.8371% for FXD1/2022/15 and 14.2372% with acceptances of 13.8275% and 14.2342%, respectively, as follows:

Last (April 2025) Auction for:	FXD1/2022/015	FXD1/2022/025
Amount offered (KES Bn)	70.00	
Amount Received (KES Bn)	18.15	32.68
Acceptance Rate	99.1%	99.6%
Market Weighted average rate	13.8371%	14.2372%
Accepted Rates	13.8275%	14.2342%

As such we expect an aggressive bidding considering this is the second consecutive re-openings of these papers. Further, this follows the heavy government demand for cash amounting to a total of KES 164.24Bn in May 2025 towards bond coupon and maturities. Out of these, KES 86.63Bn is bond maturities for FXD1/2020/05 and FXD1/2016/09 maturing on 5th and 12th May for KES 69.44Bn and KES 14.19Bn, respectively. A total of KES 80.61Bn will go towards coupon payouts for the month.

We also project the forecast a higher uptake by the government considering to avoid last minute rush as to finance its budgetary obligations.

Fiscal budget performance points to a 117.8% domestic borrowing performance against the initial estimates of KES 828.38Bn, and an 83.6% performance against a revised target of KES 1,167.04Bn for the revised estimates for the fiscal year 2024/25 (FY2024/25). Government expenditure remains within the estimated budget with a 95.9% expenditure against the raised revenues in the first nine months of the financial year.

Tax revenue stands at 87.7% of the revised budget at KPES 1,579.44Bn against a 9-month target of KES 1,800.54Bn.

Revenues (KES Bn)					
Source	Original Estimate	Revised Estimate	Actual receipt	% Receipt to Initial Estimate Proposition	% Receipt to Proportional
Tax Revenues	2,745.22	2,400.72	1,579.44	76.7%	87.7%
Domestic Borrowing	828.38	1,167.04	731.60	117.8%	83.6%
External Borrowing	571.22	718.40	314.08	73.3%	58.3%
Total Revenues	4,321.49	4,474.89	2,753.03	84.9%	82.0%
Expenditure (KES Bn)					
Expenditure	Original Estimate	Revised Estimate	Actual receipt	% Receipt to Initial Estimate Proposition	% Receipt to Proportional
Recurrent Exchequer Issues	1,348.45	1,412.67	991.75	98.06%	93.61%
Public Debt	1,910.48	2,042.06	1,085.81	75.78%	70.90%
CFS Exchequer	2,114.06	2,289.03	1,223.30	77.15%	71.26%
Development Exchequer Issue	458.87	354.93	170.83	49.64%	64.18%
Total Issues to National Government	3,921.37	4,056.64	2,385.89	81.12%	78.42%
Total Issues to County Governments	400.12	418.26	255.54	85.16%	81.46%
Total Expenditure	4,321.49	4,474.89	2,641.43	81.5%	78.7%

CBK & Monetary Policy Operations

The 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 75.0% 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).

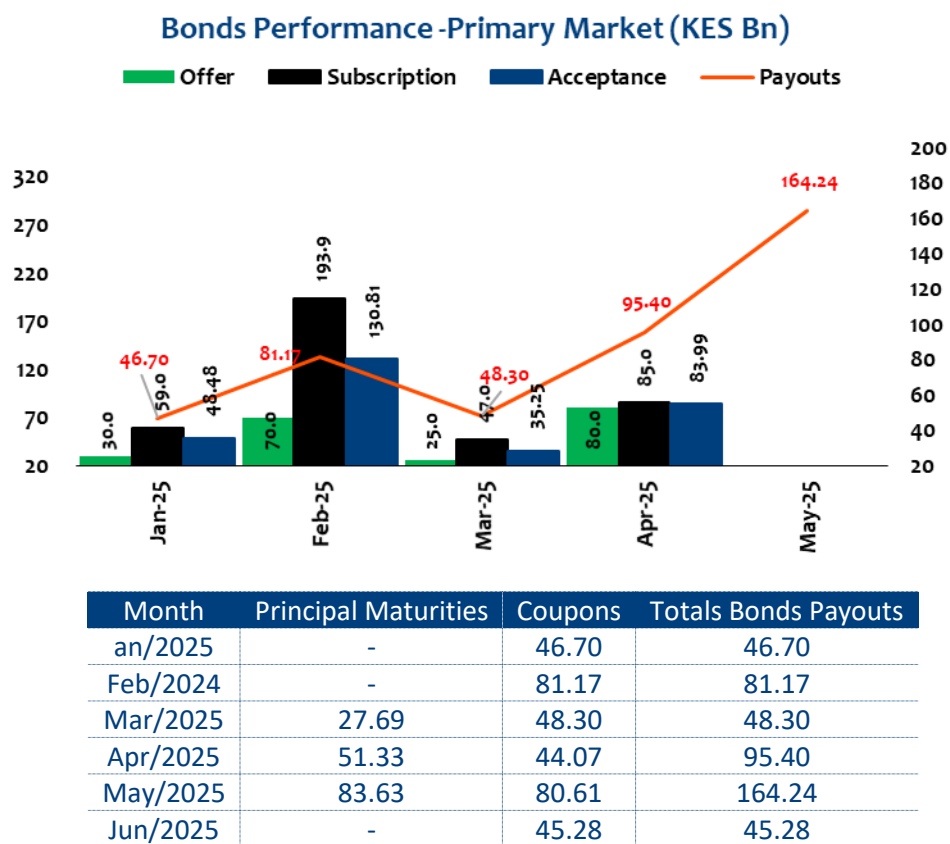
Following the downward rate review, the interbank rate followed suit, shedding 70.4bps in the last one month to 25th April 2025.

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.



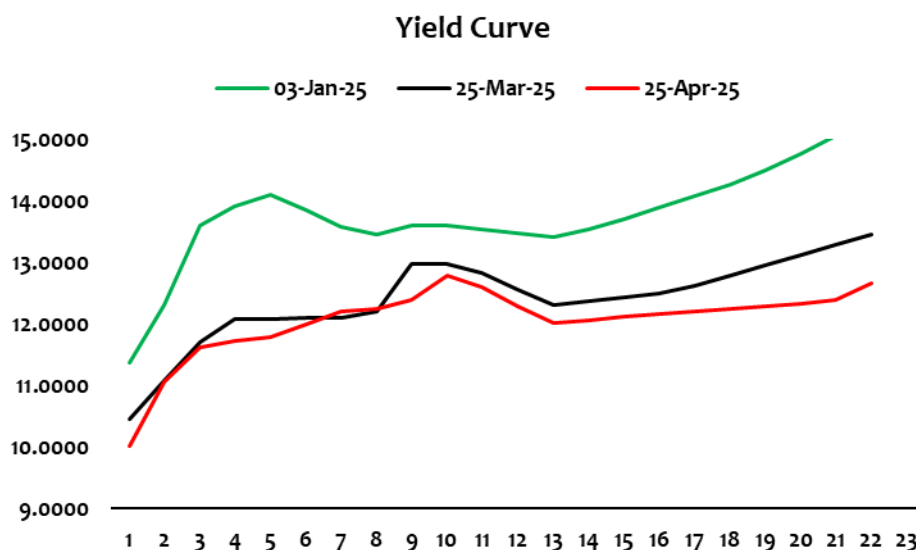
Yield Curve

Ongoing interest rate cuts continue to push yields down in what is seen as a deliberate mover by the Central Bank of Kenya and its peers across the globe to bring rates down. This is after rates touching ceiling levels of as high as above 18%.

In the last one month, the yield curve further shifted down with the long-end widening faster than the short-end supported by concentration of the government re-openings in a move seen to restructure the overall public debt.

Increased liquidity demand by the government will however work against this widening gap as investors will also bid aggressively in the primary market. We therefore expect minimal downward shift in the next one two weeks until the same papers enter the secondary market trading.

Yield Key Rates %	03-Jan-25	25-Mar-25	25-Apr-25	y-t-d bps	w-w bps
2-Yr	12.3048	11.0808	11.0526	125.22	2.82
5-Yr	14.1161	12.0953	11.7986	231.75	29.67
10-Yr	13.6006	12.9768	12.8032	79.74	17.36
15-Yr	13.7186	12.4419	12.1193	159.93	32.26
20-Yr	14.7843	13.1238	12.3459	243.84	77.79



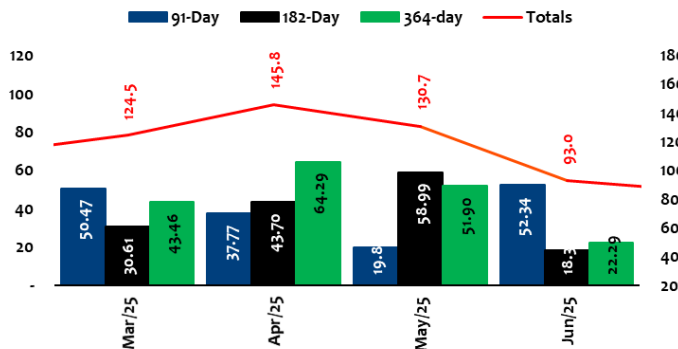
T-Bills

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

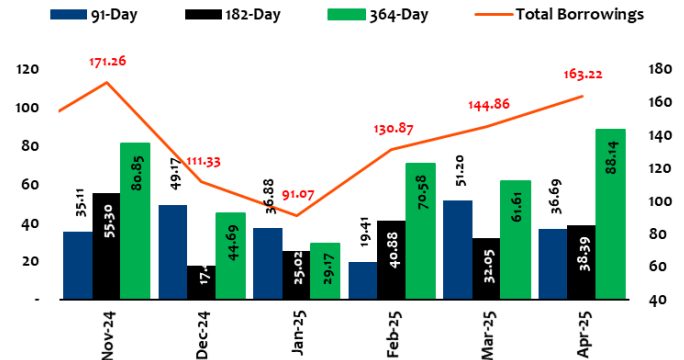
Trading at 8.4434%, 8.6190% and 10.0208% for the 91-, 182 and 364-day papers, the papers have lost 39.7bps, 47.7bps and 44.1bps in the last one month. We expect the returns on these three papers to stabilize below 8.5% for the 91- and 182-day papers in the long run as that of the 364-days stabilize below 9.5%.

Find below maturities and borrowings performances.

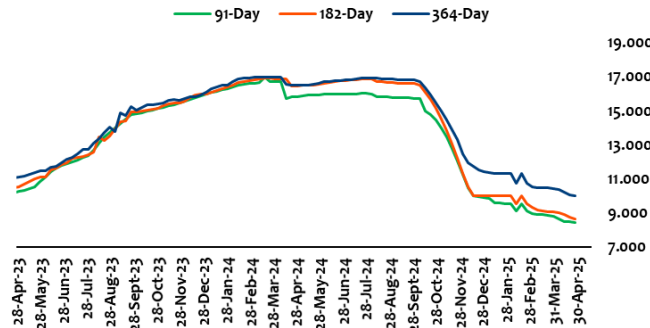
T-Bill Maturities/Payouts (KES Bn)



T-Bills - Monthly borrowings (KES. Bn)



T-Bills Rates Performance



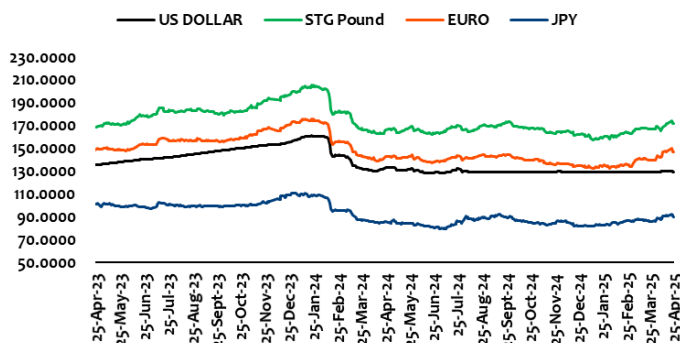
Currency

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

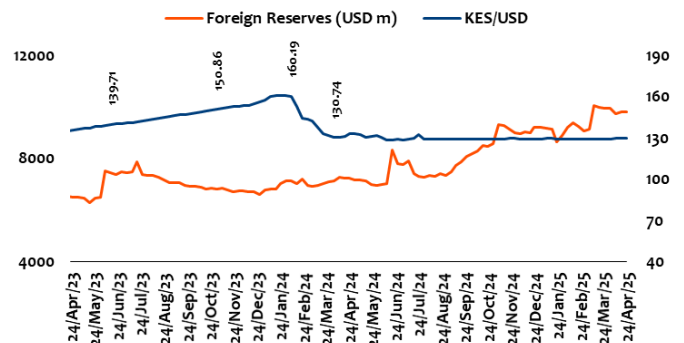
We project some major gains to emanate from the ongoing bilateral agreements between Kenya and the People's Republic of China which will see developments in various sectors ranging from infrastructure (both road and rail referred to as belt and road memorandum of understanding (MoU)), trade and manufacturing 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.

Currency Performance



Forex Reserves Vs KES



End

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