

Primary Bonds Pre-Auction Note

April 2025

Reopenings

FXD1/2020/15

FXD1/2022/15

FXD1/2022/25

Total Value:
KES 70 billion

April 2025 Primary Auction - FXD1/2020/15, FXD1/2022/15 & FXD1/2022/25

The National Treasury re-opened three papers, FXD1/2020/15(9.9-years), FXD1/2022/15(12.1-years) and FXD1/2022/25(22.6-years) seeking a total of KES 70 billion from the public towards April 2025 budgetary support.

The auction comes at the back of heavy government bond payouts due in April and May 2025 amounting to KES 95.40Bn and KES 164.24Bn respectively. This is mainly occasioned by a short-term paper FXD1/2022/03 maturing on 7th April (this auction's value date) and bond maturities for FXD1/2020/05 & FXD1/2016/09 all maturing in May 2025. This is despite the KES 50.09Bn buy-back of these three papers that happened on 19th February 2025.

Further, we view the auction's re-openings to signal the government's acceptable or appropriate long-term cost of financing its operations. This is even as the overall interest rate cuts transmit to the larger economy.

In view of these and the prevailing economic environment discussed hereafter, we recommend the following bidding rates for your considerations:

April 2025 Primary Auction			
Bond	FXD1/2020/015	FXD1/2022/015	FXD1/2022/025
Amount	KES 70 billion		
Tenure	9.9-Yrs	12.1-Yrs	22.6-Yrs
Coupon	12.756%	13.942%	14.188%
Period of Sale	20 th March to 2 nd April 2025		
Value Date	7 th April 2025		
Conservative	13.10% - 13.30%	13.00% - 13.20%	13.90% - 14.10%
Aggressive	13.31% - 13.50%	13.21% - 13.40%	14.11% - 14.39%

All the three papers attract a withholding tax rate of 10% on their returns.

FXD1/2020/15 (9.9-Years) paper has a current holding of KES 73/16Bn and was last issued in October 2022 immediately before the interest rates entered their uptrend. Owing to its low coupon, we anticipate low traction on the paper.

We expect an average subscription of FXD1/2022/15 (12.1-year) paper even to be supported by an anticipated good discount and relatively high coupon of 13.942%. The paper's current holdings stand at KES 85.93Bn, whose next coupon is set for 21st March 2024.

We forecast increased investor focus on the long-term paper, FXD1/2022/25, on its lucrative returns of 14.188% per annum. Heavy demand on the paper will mainly come from insurances, pension funds fund managers as they seek to lock some long- term investments. The paper's coupon is also set for 21st April 2025 from its current holding of KES 45.50Bn.

CBK & Monetary Policy Operations

In an aim to boost market liquidity and support overall economic growths, the Central Bank continues to push for lower interest rates. This is at the back of low economic performances in the first three quarters of 2024 which recorded an average growths of 4.7% in relation to an average of 5.7% recorded similar period in 2023. As such:

The Central Bank of Kenya implemented an additional 50.0bps rate cut on its first meeting of 2025 from 11.25% to 10.75% in efforts of lowering the cost credit or cost of borrowings.

To further support lending to the private sector, the monetary policy committee reduced the commercial banks' cash reserves ratios (CRR) from 4.25% to 3.25% to further pump more liquidity to the market.

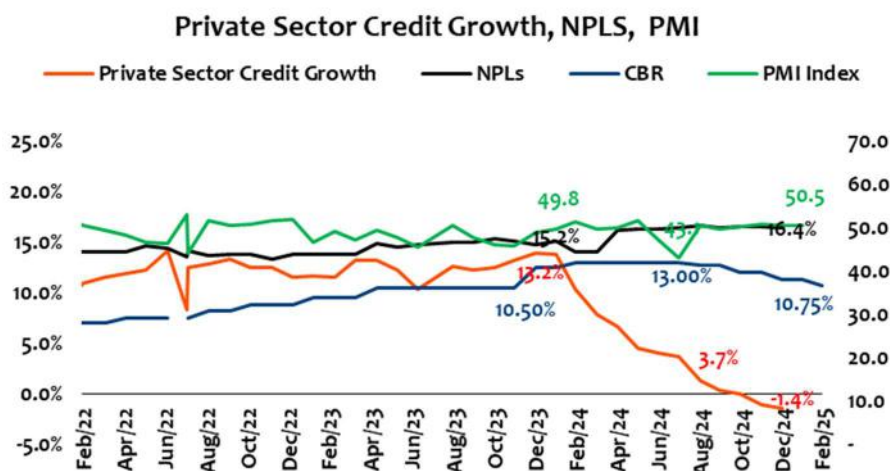
This is at the back of liquidity contractions witnessed in the past in the private sector credit on low bank disbursements and low loan applications necessitated by high cost of credit. Since January 2024, when interest rates touched their decade high of 13.0%, the private sector credit growth entered a down trend trajectory to record negative growths of 1.1% and 1.4% in November and December 2024.

As a result, banking lending shrunk 3.4% between January 2024 and November 2024, from KES 4,222.4Bn to KES 4,080.5Bn. Consequently, non-performing loans (NPLs) ratio escalated to 16.4% by December 2024 from that of 14.8% in December 2023.

The banking sector, however, remains strong and resilient with adequate capital and liquidity ratios of 19.1% and 54.3% against a minimum requirement of 14.5% and 20.0% respectively.

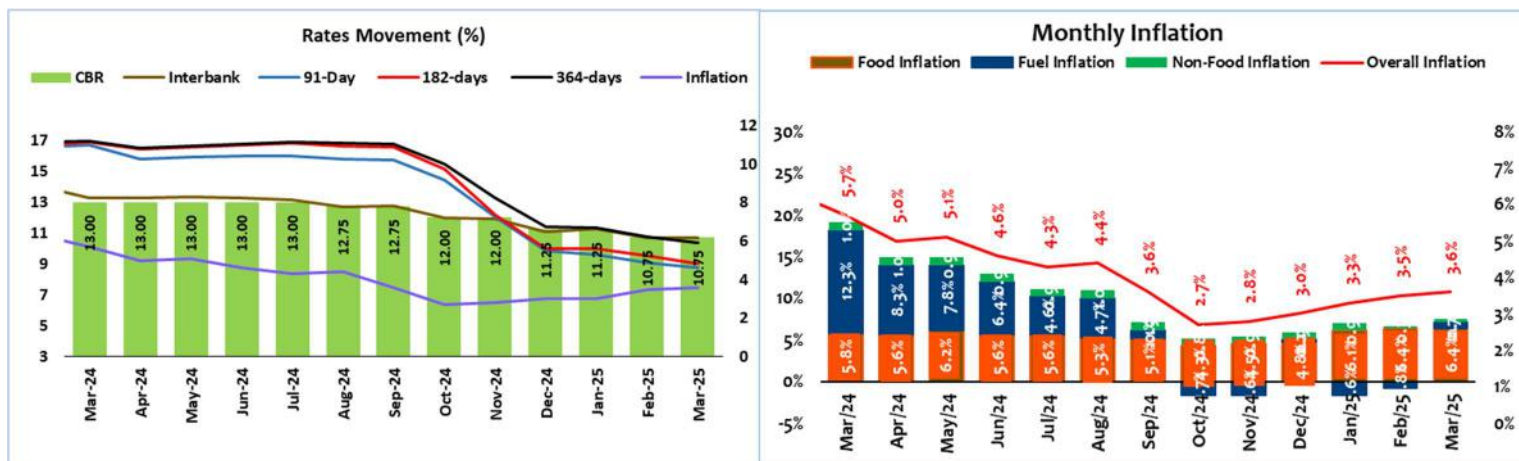
As the Central Bank remains keen on rate cut implementation and transmission to the general economy, we forecast the economy to reverse upward especially from the second half of 2025.

So far, we have seen rate rally down to below 10.5% for a 364-day treasury bill and below 9.1% for both the 91-day and 182-day papers, we expect the commercial lending rates to follow the same trajectory.



Local inflation surged to 3.6% in March 2025 from that of 13.5% in February 2025, pushed up by higher prices of food and non-alcoholic beverages.

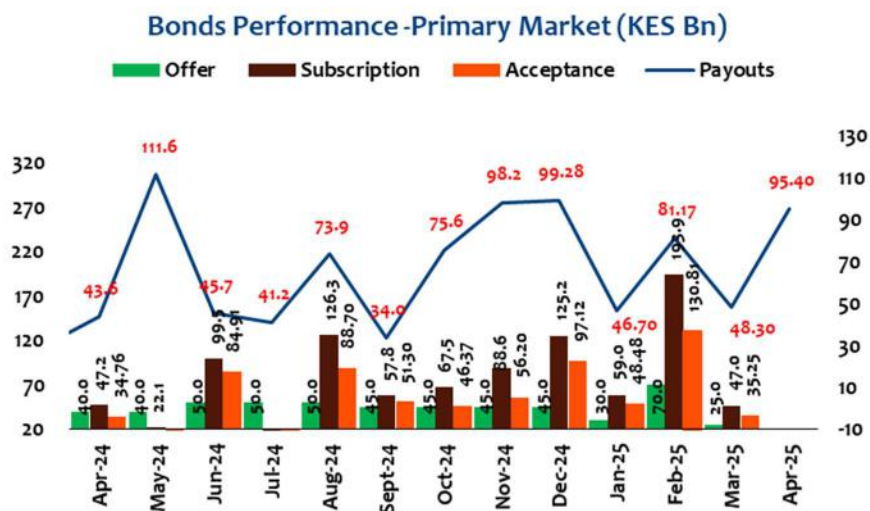
- Food inflation remained steady with a 6.4% year on year rise, similar to that of February. Month on month, consumer prices were up 0.4% compared to 0.3% rise in February 2024.
- Fuel inflation remained relatively stable in March with kerosene, diesel and petrol retailing at KES 151.39, KES 167.06 and KES 176.58 per litre respectively.



Primary Market Bonds Performance

The first three auctions for 2025 have been largely oversubscribed supported by investors move to lock investments at relatively higher rates before they come down further.

We expect the same trend to be replicated in this auction with more preference on the FXD1/2022/25 and FXD1/2022/15 on their higher returns compared to that on FXD1/2020/15 paper.



Maturities & Coupon Payouts (KES Bn)			
Month	Coupon	Maturities	Total Payouts
Apr-2025	51.33	44.07	95.40
May-2025	69.44	80.61	150.05

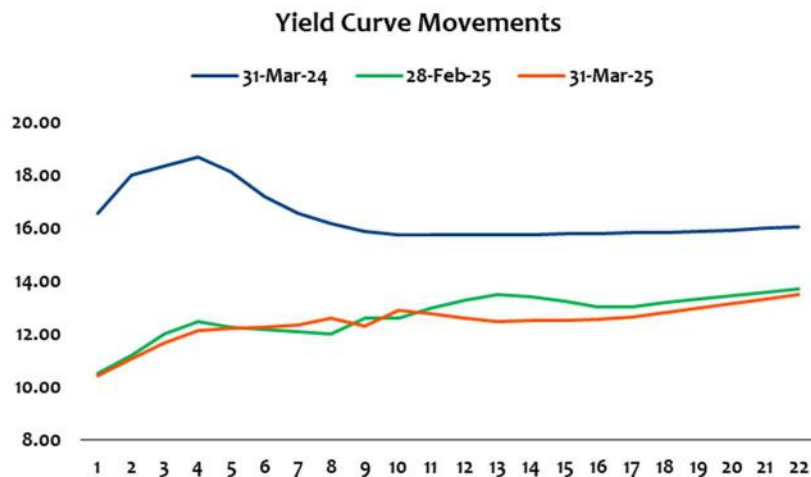
Yield Curve

The yield curve continues shifting downwards on impacts from the ongoing interest rate cuts transmission to the market. In the last one month, the long end of the yield curve shifted down faster mainly influenced by government re-openings of low interest rated papers in what appears to be an acceptable financing levels.

The short end experienced mixed reactions with the short end of below five years shifting down on elevated demand in the section while the section between 5-years and 9-year papers shifted upwards on low demand.

Overall, we expect the yield curve to maintain a downward shift supported by the keen attention of the regulator to see interest rates narrow down.

Yield Key Rates %	31-Mar-24	28-Feb-25	31-Mar-25	Δbps y-y	Δbps Q-Q
2-Yr	17.9854	11.1755	11.0646	692.08	11.09
5-Yr	18.1153	12.2533	12.1762	593.91	7.71
10-Yr	15.7149	12.5675	12.8556	285.93	-28.81
15-Yr	15.7533	13.2169	12.4995	325.38	71.74
20-Yr	15.9050	13.4213	13.1384	276.66	28.29



End.

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