

Primary Bonds Pre-Auction Note

June 2025

Reopenings

FXD1/2020/015
SDB01/2011/030

Total Value:
KES 50 billion

Fixed Income Pre-Auction Note - FXD1/2020/015 & SDB1/2011/030

The Central Bank of Kenya re-opened two papers, FXD1/2020/015 (9.7-years) of 12.756% coupon and SDB1/2011/030 (15.7-years) of 12.0% coupon, seeking KES 50 billion from the public, for budgetary support.

The auction comes amid sustained efforts to see lending rates narrow down to sustainable levels to spur economic developments. The long-term re-opens signals a deliberate move to restructure public debt to tolerable levels to support national developments.

The re-openings further signals to the government stance on appropriate cost of financing its operations which appears to settle around 12.0% inclusive of tax. This is in response to the ongoing rate cuts on low inflation that has seen return on investments from government treasury paper decline drastically compared to commercials lending rates. The slow response in rate cut transmission to commercial banks has left the Central Bank figuring out how to make this monetary more responsive and effective.

The auction further emerges in the midst of a high market liquidity and a downing government demand following an end of a financial year and start of a new financial year. Outstanding coupon payouts for June 2025 stands at KES 25.57Bn due on this auction's value date, on Monday 16th June 2025.

Further, the government demand to bridge for FY2024/25 domestic borrowing target stands at about KES 39.49Bn to hit the KES 1,167.04Bn budget mark. According to the exchequer, the government achieved 86.3% or KES 838.88Bn domestic borrowing for the 10 fiscal months ending April 2025.

In view of this and other macro-economic factors discussed herein, we recommend the following bidding rates for your consideration:

Bond	FXD1/2020/015	SDB1/2011/030
Amount	KES 50 billion	
Tenure	9.7-Yrs	15.7-Years
Coupon	12.756%	12.000%
Tax	10.00%	10.00%
Period of Sale	10 th - 18 th June 2025	16 th April - 7 th May 2025
Auction Date	18 th Jun 2025	
Value Date	23 rd Jun 2025	
Conservative	13.30% - 13.50%	13.65% - 13.85%
Aggressive	13.511% - 13.70%	13.86% - 14.00%

FXD1/2020/15 (9.7-years) has a holding amount of KES 94.04Bn whose coupons happen in February and August annually. Its next coupon is due on 18th August 2025. The paper last traded on 9th June 2025 with a yield to maturity of 13.033%.

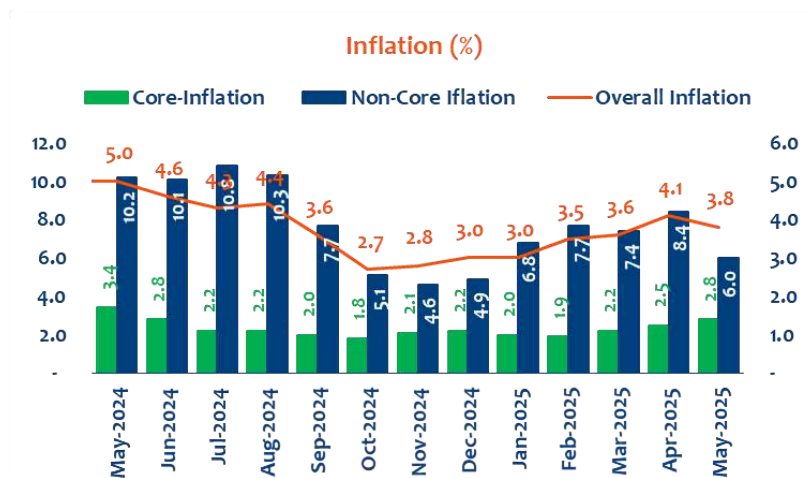
The savings development bond, SDB1/2011/30 (15.7-years) has among the lowest holdings of KES 28.14Bn whose coupons still paid n different dates in February and August with the next coupon scheduled for 11th August 2025. We foresee high acceptance on the paper, following its low holdings and long-term maturity.

Overall, we expect a fairly aggressive bidding to compensate for long-term returns and re-investment risks on the two papers with low acceptance from government owing to the low liquidity demand. However, to provide room for development, the government has an option to mop the current liquidity and conserve it for the coming months.

Macro-Economic Update

In its last monetary policy (MPC) meeting held on 12th June 2025, the monetary policy committee implemented its sixth consecutive rate cuts with a 25.0bps cut from 10.00% to 9.75%. This makes a third consecutive rate cut in 2025 of 150.0bps from 11.25% in Dec. 2024 to the current base lending rate of 9.75%. This is mainly geared to stimulate private sector growth, which contributes approximately 55% of the local economy.

- Private sector credit improved at 2.0% in May 2025 in relation to a 0.2% growth in March 2025 and a contraction of 2.9% in January 2025. This signals improved lending to the sector as credit becomes sustainable and affordable.
- Banking non-performing loans (NPLs) ratio, however, remains high hovering above 17.0% since February 2025 to close at 17.6% by the end of February 2025, with high NPLs coming from building and construction, the real estate, and in agriculture but with sufficient provisions. The government pledged to clear some of its pending bills even as the budget projections point a cut towards the same.
- Inflation remains within the lower band of the government range of $5 \pm 2.5\%$ at an average of 3.6% in the first five months of 2025. May 2025 inflation fell from 4.1% in April



In the fiscal year 2025/26 budget estimates of KES 4,291.9Bn, borrowings estimates are projected at KES 932.2Bn, representing budget deficit of 4.8% of GDP in relation to KES 997.5Bn or 5.7% of GDP in FY2024/25.

Domestic borrowings are estimated at KES 635.5Bn which we expect to bring pressure on overall lending rates if not well planned. This is even as external financing is pegged at KES 287.7Bn or 1.5% of GDP, bringing reprieve to the exchange rate.

Bonds Market Performance

Secondary bonds trading activity continue being active supported by an improving liquidity in the market, re-investments from coupon and maturities payouts. This is also supported by new savings as investors seek to lock in funds at good returns.

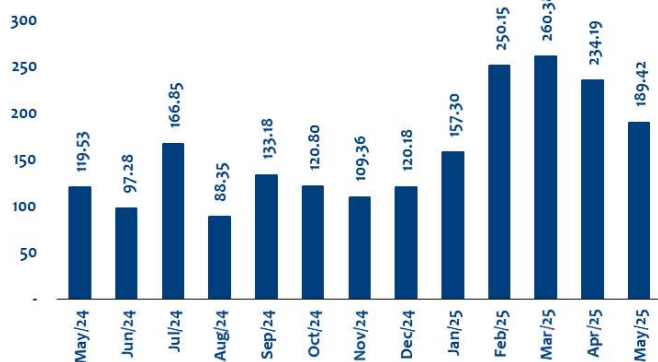
In the auction for May 2025, a total subscription of KES 111.48Bn was received with KES 93.80Bn being accepted. This is

against a total payout of KES 164.24Bn that happened, leaving more liquidity in the market. Below are last month's most traded papers:

Daily Top Bond Movers – May 2025

Bond	Years to Maturity	Coupon	Value Traded (KES Mn)			Yield Movement (%)		
			Apr 2025	May 2025	%Δ	Apr 2025	May 2025	Δ bps w-w
FXD1/2022/25Yr	22.39	14.1880	12,673.25	34,982.30	176.0%	13.9750	13.9500	(2.5)
FXD1/2017/10Yr	2.14	12.9660	262.70	14,408.00	5384.6%	11.1000	12.0889	98.9
IFB1/2023/17Yr	14.78	14.3990	15,444.60	13,797.05	-10.7%	13.5811	13.0398	(54.1)
FXD1/2012/20Yr	8.68	12.0000	6.20	12,015.80	193703.2%	13.4200	13.1325	(28.8)
FXD1/2012/15Yr	2.28	11.0000	1,742.40	11,901.35	583.0%	11.1000	10.6000	(50.0)
IFB1/2022/14Yr	11.45	13.9380	17,853.25	9,193.25	-48.5%	13.3196	12.8431	(47.6)
IFB1/2024/8.5Yr	7.22	18.4607	37,494.50	8,823.80	-76.5%	13.6282	12.4836	(114.5)
IFB1/2022/18Yr	15.03	13.7420	10,186.45	7,780.30	-23.6%	13.1333	13.1787	4.5
FXD1/2018/25Yr	18.05	13.4000	10,619.80	7,575.55	-28.7%	13.6500	13.6500	12.6
FXD4/2019/10Yr	4.47	12.2800	9,278.20	7,454.10	-19.7%	11.8799	11.5531	(32.7)
Day's Total Value			234,190.68	189,415.61	-19.1%			
Total Deals traded			3,877	3,899	0.6%			

Secondary Trading Bonds Performance (KES Bn)



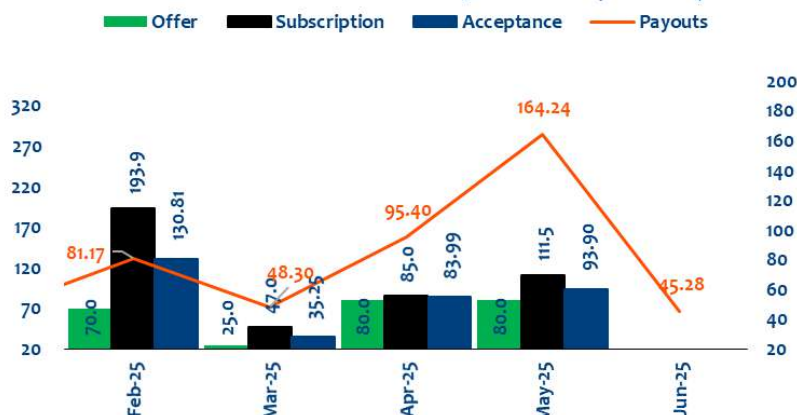
Bond Maturities (KES Billions)

Month	Principal	Coupons	Totals
Jun-2025	-	45,284	45,284
Jul-2025	-	46,700	46,700
Aug-2025	94,638	82,503	177,141

Primary Bond Auctions

Primary auctions performance is largely supported by coupon and maturity re-investments. In May 2025, the auction was oversubscribed at KES 111.48Bn or 139.4% with the government accepting KES 93.1Bn. This represents a 117.4% performance against a government target of KES 80.00Bn.

Bonds Performance -Primary Market (KES Bn)



May 2025 Payouts Vs Subscription and Uptake

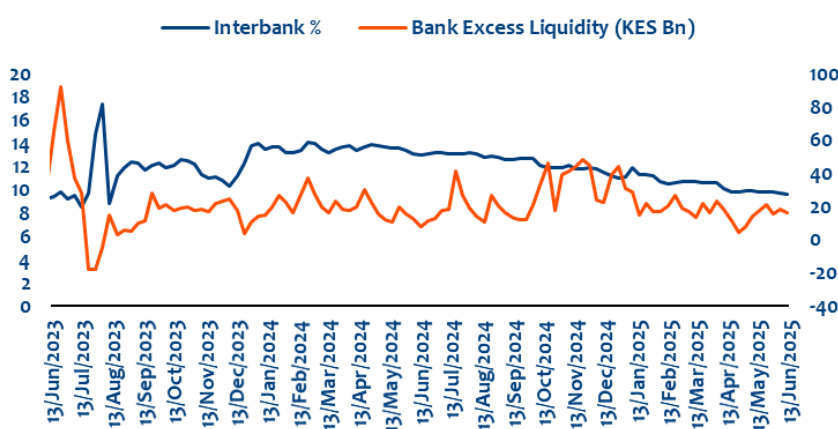
Payouts KES Bn	Subscription KES Bn	Coupons KES Bn
164.24	111.48	93.90

Interbank

Hovering below 9.65%, the interbank has edged down since the latest rate cut shedding about 114.1bps from 9.78% on 10th June to 9.63% as of 16th June (in a week's time). This will continue driven down by the 25.0bps cut on the official base lending rates from 10.00% to 9.75% that happened early in the week.

Bank excess liquidity dropped 10.3% in the week from KES 18.50Bn to KES 16.60Bn on what appears to be the impact of the pay-as-you-earn tax payment that happened on Monday, 9th June 2025. This however has improved compared to the last two weeks supported by maturities from both bonds and T-bills.

Bank Excess Liquidity Vs Interbank Rate



Treasury Bills

Improved liquidity saw oversubscriptions persist, with the last auction receiving a KES 56.97Bn while the government accepted only KES 17.20Bn, leaving a total over KES 39.00Bn in the market.

The decision was informed by low maturities that of KES 11.99Bn that were due on 16th June 2025 that necessitated the government to accept only KES 17.20Bn. This was further triggered by end of a financial year where there's normally low liquidity demand by the government.

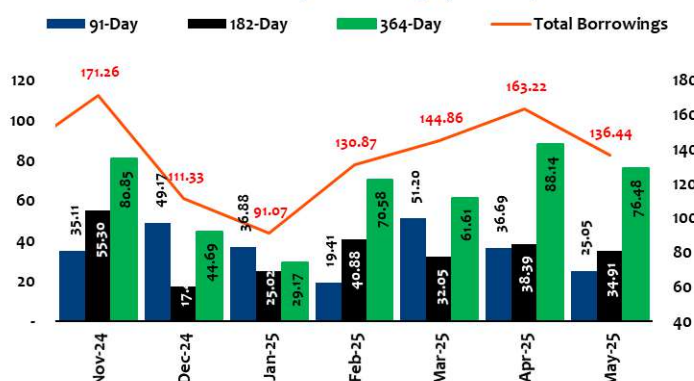
Investors' preference was noted on the 364-day paper, which received a subscription of KES 39.79Bn or 3979% subscription. This was followed by the 91-day paper with KES 14.60Bn.

Return on investments across the three papers shrunk further with the 364-day paper shedding the most at 24.9bps from 9.9985% to 9.7500% largely driven down by the improving liquidity, low demand from the government and the ongoing rate cuts.

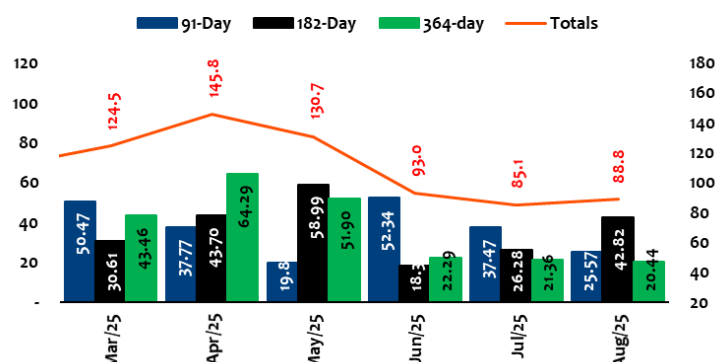
Last T-Bills Auction							
Tenure	Offer KES Mn	Subscription	Acceptance	Performance	Current WAR (%)	Previous WAR %	Δbps w-w
364-Day	10,000	39,794.40	2,994.44	29.94%	9.7500%	9.9985%	(24.9)
182-Day	10,000	2,574.22	2,574.22	25.74%	8.4948%	8.5433%	(4.8)
91-Day	4,000	14,597.61	11,630.15	290.75%	8.1789%	8.2816%	(10.3)
Total	24,000	56,966	17,199	71.66%			

June 2025 - Treasury Bill Maturities (KES Millions)						
Maturity Date	02-Jun-25	09-Jun-25	16-Jun-25	23-Jun-25	30-Jun-25	June Totals
91-Day	18,336	24,466	5,074	1,705	2,764	52,344
182-Day	4,447	7,062	3,239	3,188	457	18,392
364-Day	7,399	4,888	2,678	5,194	2,136	22,294
Totals	30,182	36,416	10,991	10,086	5,356	93,031

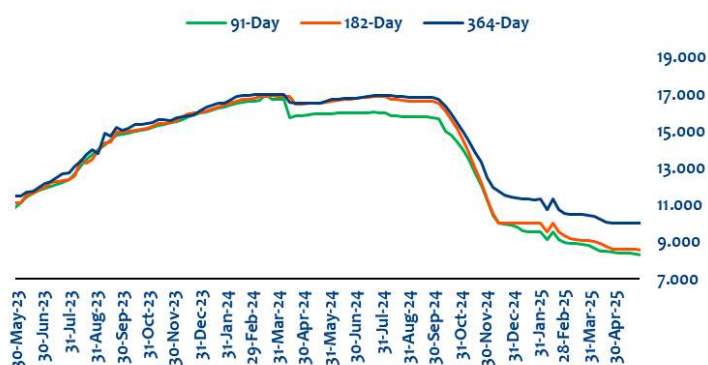
T-Bills - Monthly borrowings (KES. Bn)



T-Bill Maturities/Payouts (KES Bn)



T-Bills Rates Performance



T-Bills Maturities Schedule

	91-Day	180-Day	364-Day	Totals
Jun/2025	52.34	18.39	22.29	93.03
Jul/2025	37.47	26.28	21.36	85.11
Aug/2025	25.57	42.82	20.44	88.83

Currency

The Kenyan shilling continue remaining strong, stabilizing at KES 129.24 per US dollar in the last one month. This is strongly supported by sufficient forex reserves which hit a high of USD of USD 10,946Mn in the second week of June 2025.

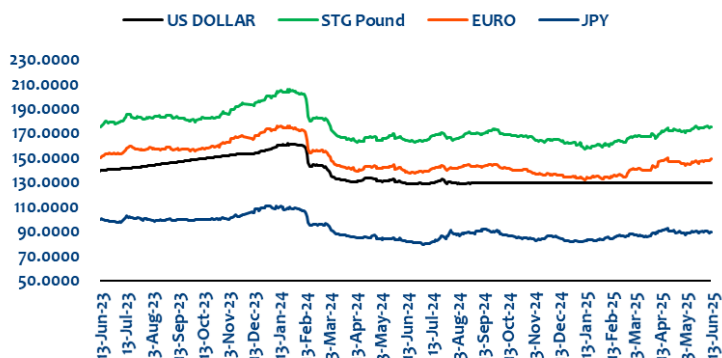
The performance was supported by enough forex reserves the above USD 10.95Bn forex reserves, sufficient for 4.8-months of import cover, against a 4.0-month import cover requirement.

IN April 2025, foreign remittances stabilized at USD 422.89Mn in April 2024 and KES 422.90Mn in March 2024.

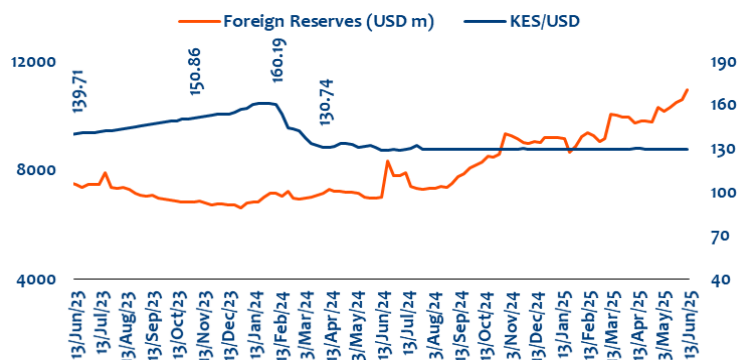
Further, the reserves benefitted from inflows from development partners especially from the World Bank and the Peoples republic of China.

DATE	13-Jun-24	02-Jan-25	13-May-25	13-Jun-25	% Δ y-y	%Δ y-t-d	%Δ m-m
US DOLLAR	128.463	129.31	129.23	129.24	-0.6%	0.1%	0.0%
STG Pound	164.1243	162.20	170.58	174.87	-6.6%	-7.8%	-2.5%
EURO	138.785	134.72	143.66	148.83	-7.2%	-10.5%	-3.6%
JPY	81.7377	82.48	87.49	89.88	-10.0%	-9.0%	-2.7%
US Dollar Index	105.2	109.22	101.00	98.18	6.7%	10.1%	2.8%

Currency Performance



Forex Reserves Vs KES

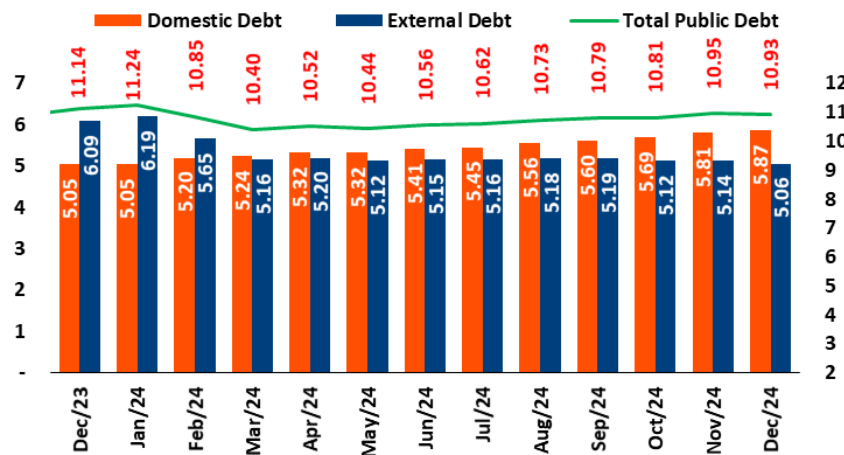


Public Debt

Provisional statistics from the National treasury and the Central Bank point public debt to have risen by 4.4% in the first three months of 2025, from KES 10,925.40Bn in Dec. 2024 to KES 11,365.00Bn by the end of March 2025. Year on year, total public debt rose 9.3% up or by KES 966.40Bn from KES 10,398.60Bn to KES 11,365.00Bn in March 2025.

Domestic rose faster at 4.4% in the first three months of 2025 from KES 5,868.30Bn to KES 6,126.70Bn as the government grew its domestic borrowing. Year on year domestic debt jumped 17.0% up from KES 5.24 trillion (Tr) in March 2023 to KES 6.13Tr.

Public Debt (KES Tr)



Public Debt

Month	Domestic	External	Total Debt
Mar-2024	5.24	5.16	10.40
Jun-2024	5.41	5.15	10.56
Sep-2024	5.60	5.19	10.79
Dec-2024	5.87	5.06	10.93
Mar-2025	6.13	5.24	11.37

End

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