

Primary Bonds Pre-Auction Note

AUGUST 2025

Reopenings

IFB1/2018/15

IFB1/2022/19

Total Value:
KES 90 billion

August 2025 Primary Auction - IFB1/2018/15 & IFB1/2022/19

The Central Bank of Kenya re-opened two infrastructure bond papers, IFB1/2018/15 (7.5-years) and IFB1/2022/19 (15.6-years) seeking KES 90 billion from the public for infrastructure development. The two papers do not attract withholding tax.

IFB1/2018/015 (7.5-years) has a coupon of 12.500% per annum paid semi-annually paid around mid-January and mid-July every year. The last coupon payment happened on 21st July 2025 with the next coming due on 19th January 2026. The paper has an outstanding amount of KES 41.17Bn and was last re-opened in

IFB1/2022/019 (15.6-years) has a 12.965% coupon paid semi-annually in August and February. The paper has a holding of KES 98.38Bn whose next coupon will happen on 18th August 2025, the value date of this auction.

The auction comes amid high liquidity demand from the government amounting to KES 181.66Bn bond payouts for August 2025. Out of this KES 87.02Bn will go towards coupon payouts and KES 94.64Bn is maturities for FXD1/2023/02 which is due on 18th August. Following this heavy demand, we expect an aggressive bidding to compensate against this demand.

We forecast total oversubscriptions with an aggressive bidding informed by the infrastructure bond auction being the second issue for the year 2025.

We therefore recommend the following bidding rates for your consideration based on our economic analysis presented herein:

Bond	IFB1/2018/015	IFB1/2022/019
Amount	KES 90 Billion	
Tenure	7.5-Yrs	15.6-Yrs
Coupon	12.500%	12.965%
With-holding Tax	Not Applicable	
Period of Sale	21 st July to 13 th August July 2025	
Auction Date	13 th August 2025	
Value Date	18 th August 2025	
Conservative	13.60% - 13.80%	13.95% - 14.20%
Aggressive	13.81% - 14.00%	14.21% - 14.45%

The two papers are amortized with each having two redemptions which makes them quite attractive especially for pension funds and fund managers who would prefer some funds redeemed after

The IFB1/2018/015 expected to redeem 40% of the outstanding amount after 2.4-years on 17th January 2027 for amounts above KES 1 million, while the remaining 60% will mature on 10th January 2033, after 7.5-years. Any amount below KES 1.00Mn will be redeemed on after 2.4-years on 17th January 2027.

We expect heavy subscription on IFB1/2018/015 on its near short-term nature and the reduced duration risks.

On the IFB1/2022/019, half of its holdings will be redeemed after 6.5-years, on 9th February 2032 for amounts above KES 1 million. The remaining 50% will be redeemed on 28th January 2041, after 15.6-years.

Macro-Economic Update

The economy is expected to rebound in 2025 after reporting a 4.7% growth in 2024, down from revised growth of 5.7% in 2023 and 4.9% in 2022. Q1-2025 reported a 4.9% rise in gross domestic product (GDP) which we expect to maintain in Q2-2025 and a slightly higher uptick in the second half of 2025. This is largely depended on:

- Favorable weather conditions which is expected to sustain an above 6.0% growth in agricultural. This is partly supported by fertilizer subsidies. The agriculture sector will further be held up by a rising credit to the sector, which recorded the highest expansion in April 2025 at 11.3%.
- Reduced lending rates continue to favor businesses in terms of the cost of financing businesses and also the ability to qualify for credit. This has seen the private sector credit improve to 2.0% in May from 0.4% in April from a contraction of 2.9% in January 2025.

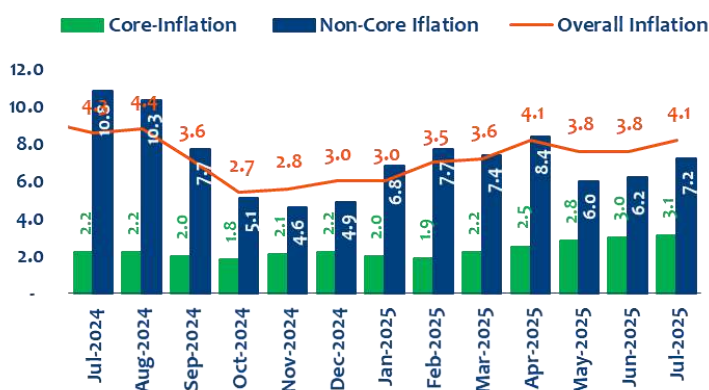
Inflation rate remain within the lower band of the government target range of $5 \pm 2.5\%$ to average at 3.7% in the first seven months of 2025.

July inflation however edged up at to 4.1% after stabilizing at 3.8% in May and June 2025. This was impacted by upward review of retail fuel prices in the local market despite a continued decline seen in the global market. Pressure also came from maize and tomato prices which recorded 18.1% and 20.3% jump per kilogram.

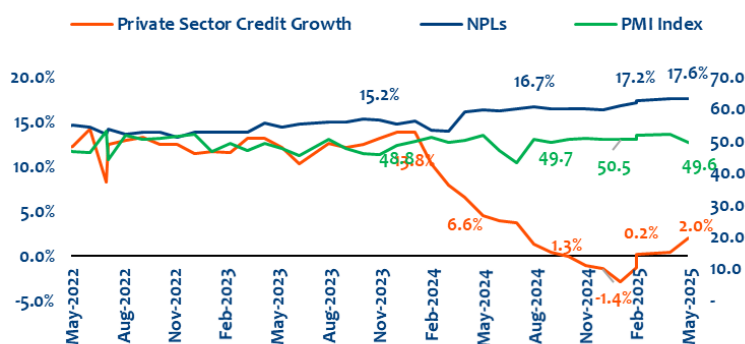
In the coming monetary policy review on 12th August, we forecast a further rate cut of between 25.00-50bbps to further support lending and private sector business activities.

In spite of the past six consecutive rate cuts, lending rates remain still higher, averaging at 15.29% in June from that of 15.77% in March 2025 and 16.64% in January 2025. This is as banks remain cautious to reduce rates when the cost of risk is still higher. As of April 2025, banking non-performing loans ratio (NPLs) hit new high of 17.6% from 17.4% in March and 16.4% in December 2024.

Inflation (%)



Private Sector Credit Growth, NPLS & PMI



Secondary Bonds Market Performance

July 2025 secondary bonds trading remained active in the month to transact KES 222.54Bn, 11.2% higher compared to KES 200.13Bn transacted in the month of June 2025. The number of deals however were relatively stable at 3,272 from those of 3,217 deals of June 2025.

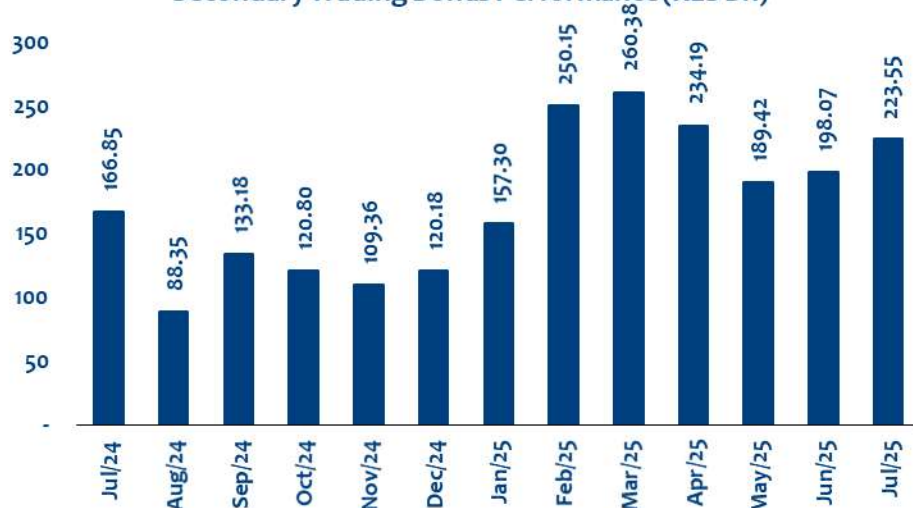
Normal papers remained the most traded papers, exchanging KES 148.18Bn or 66.6% of the total market value traded.

The July re-opened papers were the center of focus in July led by FXD1/2018.25 which traded KES 27.90Bn despite its traded yield to maturity (YTM) attracting 54.2bps from 13.3147% by end of June to 13.8563% on 31st July 2025. The traded yield was however lower compared to the primary market's accepted YTM of 14.3485% imply of a premium of 49.1bps to investors who purchased and sold the paper in the secondary market.

We expect August secondary market to be even more active considering the heavy payouts of KES 181.66Bn expected.

Daily Top Bond Movers								
Bond	Years to Maturity	Coupon (%)	Value Traded (KES Mn)			Yield Movement (%)		
			Jun-25	Jul-25	%Δ	Jun-25	Jul-25	Δ bps w-w
FXD1/2018/25Yr	17.9	13.4000	6,539.70	27,899.20	326.6%	14.3475	13.8563	-49.1
FXD1/2020/15Yr	9.5	12.7560	16,382.95	12,849.60	-21.6%	13.2925	12.7077	-58.5
IFB1/2022/14Yr	11.3	13.9380	9,180.30	11,841.20	29.0%	12.4491	13.5750	112.6
FXD1/2018/20Yr	12.6	13.2000	2,580.40	11,533.90	347.0%	13.0941	13.6533	55.9
IFB1/2024/8.5Yr	7.0	18.4607	7,163.20	10,507.75	46.7%	12.8521	13.2725	42.0
FXD1/2018/10Yr	3.0	12.6860	181.55	9,614.00	5195.5%	10.9558	11.1000	14.4
IFB1/2023/17Yr	14.6	14.3990	15,675.00	9,471.85	-39.6%	12.6285	13.1765	54.8
IFB1/2021/21Yr	17.1	12.7370	415.15	8,139.75	1860.7%	12.7101	13.0000	29.0
SDB 1/2011/30Yr	15.5	12.0000	4,425.00	7,297.00	64.9%	13.6700	12.5000	-117.0
FXD1/2016/10Yr	1.0	15.0390	15,975.30	7,250.50	-54.6%	10.3673	9.9000	-46.7
Day's Total Value			198,073.86	223,553.75	12.9%			
Total Deals traded			3,217	3,272	1.7%			

Secondary Trading Bonds Performance (KES Bn)



Primary Market Performance

The primary auctions have largely been oversubscribed supported both new investments and re-investments from the maturities. The July 2025 primary auction received KES 76.91Bn or 153.8% oversubscription against a KES 50 billion target while the government accepting KES 66.65Bn to represent a 133.3% performance against target, supported by improved liquidity.

We expect a significant portion of the maturities of KES 181.66Bn to be re-invested back in this primary.

July 2025 - Primary Auction Results						
Paper	offer (KES Mn)	Amount Received	Accepted	Market Weighted Average Rate	Accepted Rates	Coupon Rate
FXD1/2018/020	50,000	33,075	30,572	13.9451%	13.8989%	13.3000%
FXD1/2018/025		43,832	36,079	14.4348%	14.3475%	13.4000%
Total amount subscribed (KES Mn)		76,908				
Accepted amount		66,651				
Amount accepted Vs Received		86.7%				
Performance rate against target		133.3%				

Bonds Performance -Primary Market (KES Bn)



Yield Curve

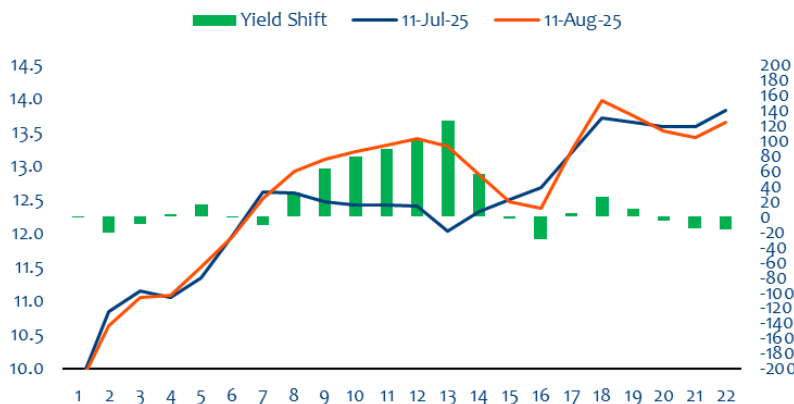
The yield curve has in the last three weeks witnessed concentration around the 7-year and 15-year paper influences by these re-openings.

Month on month, yield curve witnessed an upwards shift between the 12-year and the 14-year papers.

In the last one week, the section between 9-years and 19-years experienced an upwards shift with some papers recording a 50.0bps rise in yields, notably the 10-, 11 and 12-year papers. This was mainly influenced by the primary re-openings of IFB1/2018/015 (7.5-yrs) and IFB1/2022/019 (15.6-yrs) of August auction.

Yield Key Rates %	03-Jan-25	11-Jul-25	11-Aug-25	y-t-d bps	w-w bps
2-Yr	12.3048	10.8444	10.6321	167.27	21.23
5-Yr	14.1161	11.3361	11.4948	262.13	-15.87
10-Yr	13.6006	12.4156	13.2063	39.43	-79.07
15-Yr	13.7186	12.4963	12.4723	124.63	2.40
20-Yr	14.7843	13.5807	13.5219	126.24	5.88

Yield Curve



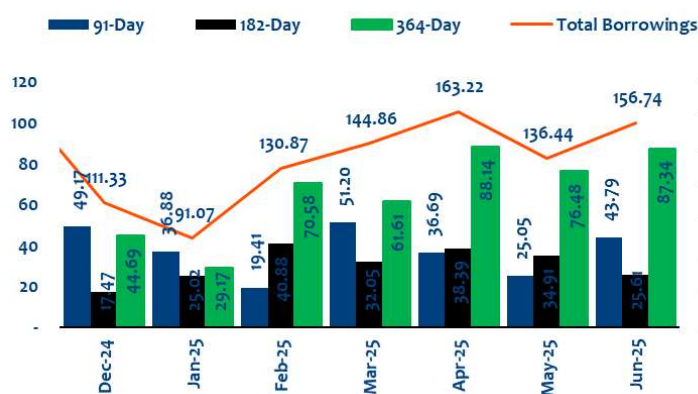
Treasury Bills

Improved liquidity saw oversubscriptions persist in, with July auctions receiving a total of KES 112.44Bn against a target of KES 96.00Bn. A total of KES 94.15Bn was accepted to account for 83.7% of the amount received and a 98.1% performance against target.

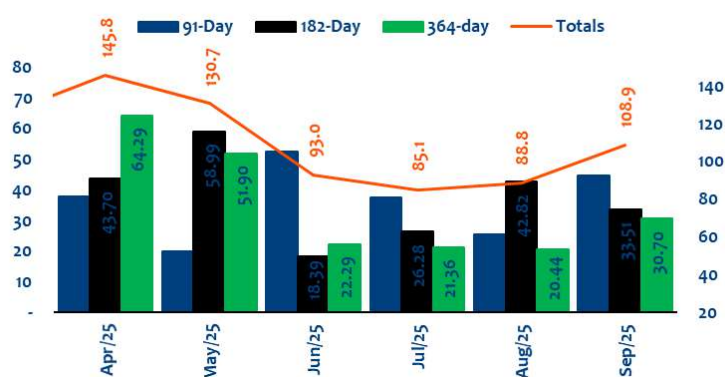
The performance was largely supported by improved market liquidity which we expect to trickle in to this auction, in as much as it's hard for short-term funds to be shifted to long-term investments.

Return on investments remain on a downhill, however at marginal declines compared to the last few months.

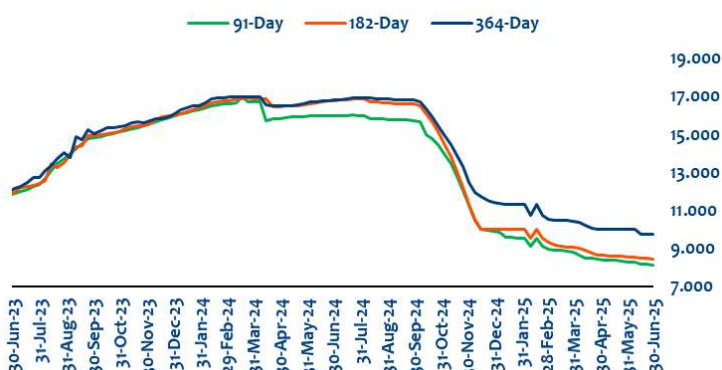
T-Bills - Monthly borrowings (KES. Bn)



T-Bill Maturities/Payouts (KES Bn)



T-Bills Rates Performance



Coming T-Bill Maturities

Month	Payout (KES Bn)
Jul/25	85.11
Aug/25	88.83
Sep/25	108.91

Currency

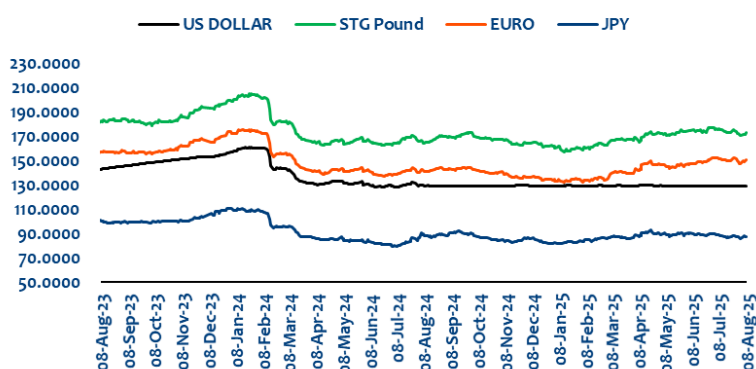
The shilling continues to remain strong against stabilizing at KES 129.24 per US dollar in the last one month. Year to date and year on year, the shilling has lost marginally at 0.1%.

This remained supported by sufficient forex reserves which stood at USD 10,893Mn enough for 4.8-months of import cover. The reserves were 1.9% higher compared to that of USD 10,692MN recorded on 31st July 2025.

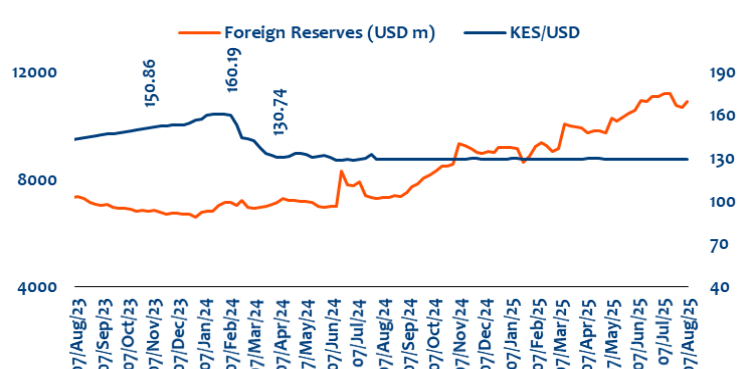
June 2025 diaspora remittances declined 3.9% month on month from USD 440.08Mn in May to USD 423.25Mn in June 2025. This were up 13.8% year on year compared to USD 371.59Mn received in June 2025. Cumulatively, total remittances for the first half of 2025 were up 5.8% to USD 2,518.32Mn in relation to compared to USD 2,379.45Mn of the first six months of 2024.

Currency	08-Aug-24	25-Mar-25	25-Apr-25	%Δ y-y	%Δ m-m
Dollar	129.41	129.37	129.35	0.0%	0.0%
STG Pound	164.2795	167.19	171.91	-4.6%	-2.8%
Euro	141.4645	139.76	146.67	-3.7%	-4.9%
JPY	88.5036	85.95	90.03	-1.7%	-4.7%
US Dollar Index	103.29	104.18	99.66	-3.5%	-4.3%

Currency Performance



Forex Reserves Vs KES



End

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Contacts:

Research

Shadrack Manyinsa

s.manyinsa@pergamoninvestmentbank.co.ke

Dealing

Gerry Ndungu

g.ndung'u@pergamoninvestmentbank.co.ke

John Mutie

j.mutie@pergamoninvestmentbank.co.ke

trading@pergamoninvestmentbank.co.ke



Leveraging Africa, Investing Globally



 4th Floor, Delta Chambers, Waiyaki Way, Nairobi, Kenya.

 Postal Address: P.O Box 25749, Lavington, Kenya.

 info@pergamoninvestmentbank.co.ke

 +254 709 227 100

 www.pergamoninvestmentbank.co.ke