

Primary Bonds Pre-Auction Note

September 2025

Auction II

Reopenings

FXD1/2018/020
FXD1/2022/025

Total Value:
KES 40 billion

September 2025 – Auction II - FXD1/2018/020 & FXD1/2022/025

The Central Bank, acting as fiscal agent for the government of Kenya, re-opened two papers for the September's second auction seeking KES 40 billion from the public for budgetary support.

The two re-openings reflect where the government's favorable cost of financing stands even as the market remains starved of short-term papers.

FXD1/2018/20 has 12.5-years to maturity with a 13.20% coupon rate payable in September and March annually with the last coupon being paid on 15th September 2025. The paper has a holding of KES 145.33Bn elevated by the last auction of July 2025. Its July 2025 auction saw the market average rate at 13.9451% while the government accepting bids of 13.8989%.

FXD1/2022/025 has a coupon of 14.188% and tenure of 22.2-years with coupons paid in October and April annually. Its outstanding amount stands at KES 112.96Bn. The paper's last auction happened in May 2025 auction where its market weighted average rate was 14.6362% with the government accepting bids of 14.5384%.

In view of these and the effect of the two rates cuts of June and August 2025, we recommend the following bidding rates for your consideration:

Bond	FXD1/2018/020	FXD1/2022/025
Amount	KES 40 Billion	
Tenure	12.5-Yrs	22.2-Yrs
Coupon	13.200%	14.188%
With-holding Tax	10%	
Period of Sale	26th August - 17th September 2025	
Auction Date	17 Sept 2025	
Value Date	22 Sept 2025	
Conservative	13.60% - 13.80%	13.90% - 14.10%
Aggressive	13.81% - 13.99%	14.11% - 14.30%

We expect a total oversubscription supported by the improved market liquidity and an anticipated high participation by insurance firms and pension schemes. This will be supported by coupon redemptions of KES 48.86Bn and a maturity payment of KES 16.06Bn resulting to a total payouts of KES 64.93Bn due in September 2025. Out of this, KES 25.19Bn was paid out in the second of September, while KES 29.77BN and KES 9.96Bn are for payments of 15th and 22nd, September respectively.

Below are the historical primary market performances of the two papers:

Bond	Month Issued	Type of issue	Offer Amount	Subscription	Acceptance	Market Average Rate	Accepted YTM
FXD1/2018/020	Jul-2025	Primary Sale	50.00	33.08	30.57	13.9451%	13.8989%
	Dec-2024	Primary Sale	25.00	23.92	18.49	15.2712%	15.1121%
	Dec-2021	Primary Sale	40.00	20.91	17.56	13.4150%	13.3660%
	Aug-2021	Primary Sale	60.00	22.82	17.78	13.2500%	13.1870%
	Mar-2021	Primary Sale	50.00	32.81	32.80	13.4410%	13.4410%
	Nov-2020	Primary Sale	40.00	28.88	27.49	13.2830%	12.2470%
	Apr-2018	Tap-sale		7.77	7.77		13.3360%
	Mar-18	Primary Sale	40.00	13.74	8.49	13.4230%	13.3360%

Bond/Paper No.	Month Issues	Type of issue	Offer Amount	Subscription	Acceptance	Market Average Rate	Accepted YTM
FXD1/2022/025	May-2025	Primary Sale	50.00	30.68	25.10	14.6362%	14.5384%
	Apr-2025	Primary Sale	70.00	32.68	32.54	14.2372%	14.2342%
	Jan-2025	Primary Sale	30.00	28.42	24.73	15.7433%	15.6833%
	Dec-2022	Primary Sale	40.00	13.24	7.07	14.5260%	14.4390%
	Oct-2022	Primary Sale	20.00	14.89	13.67	14.2290%	14.1880%

Yield Curve

The yield curve has generally shifted downward informed the constant rate cuts by the government that aims at growing private sector credit for economic growths.

The middle curve and the long-end curve have largely shifted down faster informed by the re-opening of medium to long-term papers which has seen rates drop upon entry to the secondary market. This is as investors seek to reap big from the secondary market, taking advantage of primary market where rates are normally up.

Despite the yield curve showing no impact from the primary auction papers on sale, we expect a general upward shift around 12.5-years and around 22.2-years. This is as investors bid aggressively to compensate for the risk of investing in any of the two long-term papers as opposed to other better papers in the secondary market.

Yield Key Rates %	03-Jan-25	12-Aug-25	12-Sep-25	y-t-d bps	w-w bps
2-Yr	12.3048	10.6234	10.4016	190.32	22.18
5-Yr	14.1161	11.4959	11.2890	282.71	20.69
10-Yr	13.6006	13.1850	12.0831	151.75	110.19
15-Yr	13.7186	12.5017	12.2162	150.24	28.55
20-Yr	14.7843	13.0321	12.3070	247.73	72.51



Primary Bonds Market Performance

The first two primary auctions for the fiscal year 2025/26 have largely been oversubscribed with August 2025 being the most subscribed, supported by issuance of the second infrastructure bond papers for the year.

In August 2025, a total of KES 530.89Bn was subscribed with the government accepting KES 274.79Bn, representing a 196.3% performance against a target of KES 140Bn. The performance was largely supported by issuance of infrastructure bonds papers which we view attracted heavy foreign investments, on its tax free nature.

Further, issuance of a tap-sale provided more room for investors to source funds while also enabling the heavy rejections to be re-invested back. In the main auction, the government had accepted only KES 95.01Bn or 29.4% from a total of KES 323.43Bn subscribed.

The performance was also supported by the heavy payouts of KES 181.66Bn due in August 2025.

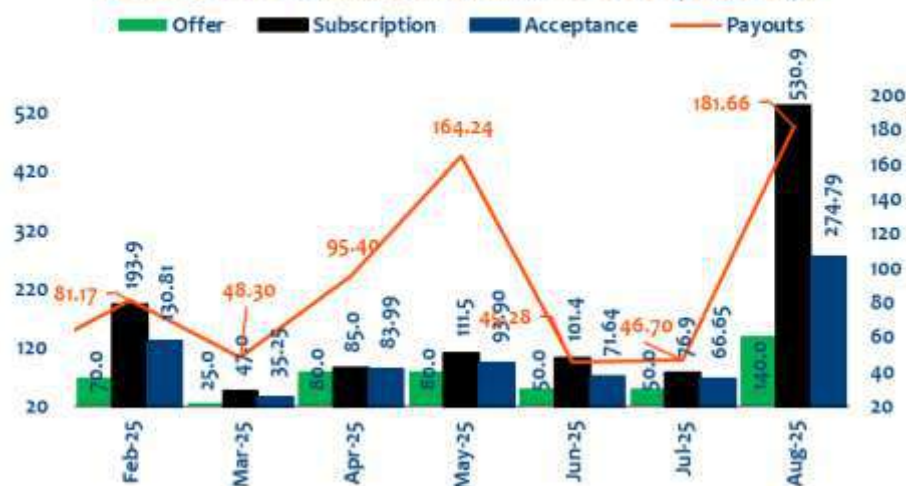
August 2025 - Primary Auction Performance

Paper	Offer (KES Mn)	Amount Received	Amount Accepted	Market Weighted Average Rate	Accepted Rates	Coupon	Performance
IFB1/2018/015	90,000	215,942	50,658	13.5296%	12.9934%	12.5000%	56.2871%
IFB1/2022/019		107,490	44,355	14.2370%	13.9991%	12.9650%	49.2836%
Tap-sale							
IFB1/2018/015	50,000	130,340	127,983	-	12.9934%	12.5000%	255.9660%
IFB1/2022/019		77,115	51,792	-	13.9991%	12.9650%	103.5838%
Total	140,000	530,886	274,789	-			196.3%

Bonds Payouts Schedule

Month	Principal	Coupons	Totals
Aug-25	94.64	87.02	181.66
Sep-25	16.06	48.86	64.93
Oct-25	-	48.16	48.16
Nov-25	-	78.28	78.28

Bonds Performance -Primary Market (KES Bn)



Secondary Bonds Market Performance

Secondary bonds trading value declined 7.3% in August 2025 to KES 207.18Bn from that of KES 223.45Bn traded in the month of July 2025. This is despite a 10.4% rise in the market activity from 3,272 deals to 3,612 deals in August 2025.

Market focus shifted to the on the run paper, IFB1/2022/19, which emerged top mover despite entering fully the secondary market in the last week of August 2025.

More activity however, remain in the recently re-opened papers as investors rush to cash in while the yield to maturity rates stabilize down and before gaining stability.

Daily Top Bond Movers								
Bond	Years to Maturity	Coupon (%)	Value Traded (KES Mn)			Yield Movement (%)		
			31-Aug-25	01-Sep-25	%Δ	31-Aug-25	01-Sep-25	Δ bps w-w
IFB1/2022/19Yr	15.46	12.9650	3,715.90	55,181.00	1385.0%	12.5967	13.4230	82.6
FXD1/2018/25Yr	17.79	13.4000	27,899.20	21,066.40	-24.5%	13.8563	13.2317	- 62.5
FXD1/2020/15Yr	9.46	12.7560	12,849.60	18,985.40	47.8%	12.7077	12.0600	- 64.8
IFB1/2018/15Yr	7.38	12.5000	3,272.10	18,780.65	474.0%	-	12.3022	1,230.2
FXD1/2012/15Yr	2.02	11.0000	4,599.30	7,130.75	55.0%	-	10.3000	1,030.0
FXD1/2022/25Yr	22.13	14.1880	6,857.05	6,363.80	-7.2%	13.7000	-	- 1,370.0
FXD4/2019/10Yr	4.21	12.2800	342.90	6,230.40	1717.0%	11.8900	-	- 1,189.0
IFB1/2023/7Yr	4.79	15.8370	6,176.55	6,063.10	-1.8%	11.1150	11.1041	- 1.1
FXD1/2018/20Yr	12.54	13.2000	11,533.90	5,725.00	-50.4%	13.6533	-	- 1,365.3
FXD2/2019/10Yr	3.60	12.3000	4,536.75	5,529.00	21.9%	-	10.8500	1,085.0
Day's Total Value			223,448.62	207,178.85	-7.3%			
Total Deals traded			3272	3612	10.4%			

Economic Update

The Central Bank Monetary Policy Committee (MPC) lowered the official base lending rate for the seventh consecutive time, cutting an additional 25.obps from 9.75% to 9.50% supported by low inflations, stable exchange rate and efforts to support economic growth affordable credit.

Inflation hit a 12-month high of 4.5% in August 2025 from that of 4.1% of July 2025 and 4.4% of August 2024. The rise was mainly driven by food and non-alcoholic beverages which went up by 8.3% plus price rises in transport which expanded by 4.4%.

- Maize and sugar prices surged 18.7% and 17.9% to KES 176.32 and to KES 350.00 per 2-kg packet, respectively. We however project the prices of maize to start declining as from October on effect of from the harvesting season of Kenya's food basket region, western Kenya.
- The surge in transport follows the upward review of fuel prices which saw that happened in July 2025 by the Energy and Petroleum Regulatory Authority (EPRA)

Private sector credit continue improving occasioned by the interest rate cuts. As of July 2025, lending to the private sector expanded to 3.3% from 2.2% in June 2025 and from a contraction of 2.9% in January 2025. This remain supported by the seven consecutive interest rate cuts in the local market. This is even as banks non-performing loans ratio remain high triggering heavy provisions and sometimes write offs.

End

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