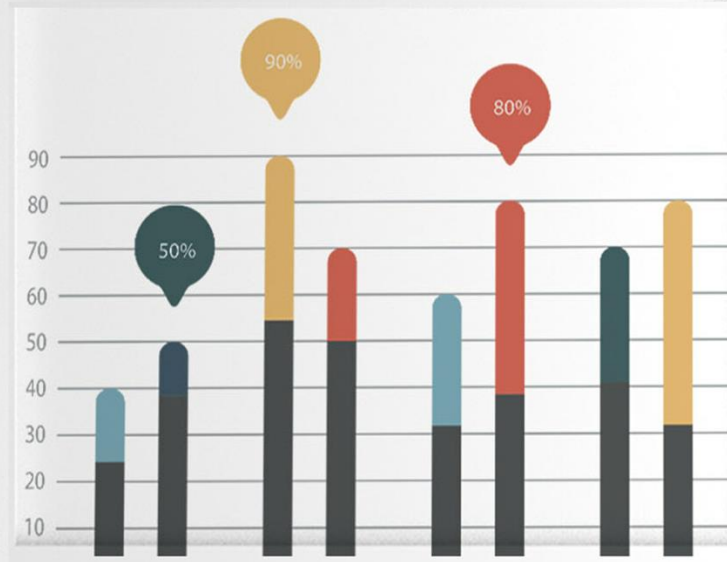




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AIB-AXYS Africa Primary Bond Auction Note



AIB-AXYS January 2025 Primary Bond Auction Note

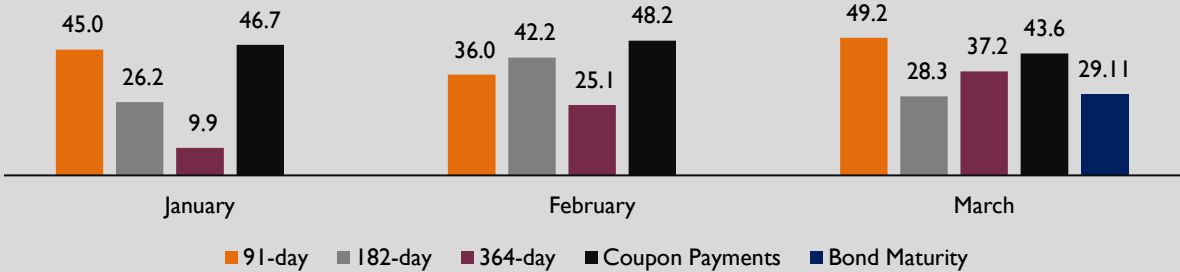
Summary – “Stretching debt, Saving costs”

- The Exchequer is seeking to raise **KES 30.0Bn** through the re-opening of the **FXDI/2018/015** and **FXDI/2022/025** treasury bonds earmarked for budgetary support.
- The **Central Bank of Kenya** continues to optimize its strategy by reopening older, longer-duration issues to extend its debt maturity profile and reduce interest obligations, with these reopenings generally carrying lower coupon payments than new issues. However, persistent push-pull dynamics do remain between the CBK's efforts to moderate yields and investors who continue to pursue higher returns, as they aim to maximize real yields in the current market environment.
- The **weighted average tenor to maturity of the Ordinary Treasury Bonds (FXD) series stands at c. 7.2 years**. Further, the government has approximately **KES 127.70Bn** worth of treasury bill redemptions, coupon repayments, and bond maturities due in January 2025.
- We expect the bulk of investor demand to lean moderately towards the longer-dated discount bond as investors seek to lock in higher yields for longer.
- Our recommended competitive bidding yields on each paper are indicated on Table I on the right.

Table 1: Key Auction Highlights

FXDI/2018/015 and FXDI/2022/025	
Issuer:	Republic of Kenya
Total Amount:	KES 30 billion
Purpose:	Budgetary Support
Tenor:	FXDI/2018/015- (8.3 Years) – Re-opened FXDI/2022/025- (22.8 Years) – Re-opened
Coupon Rate:	FXDI/2018/015 – 12.650% FXDI/2022/025 – 14.188%
Price Quote:	Discounted/Premium/Par
Period of sale:	13-December-2024 to 15-January-2025
Minimum Amount:	KES 50,000.00
Taxation:	FXDI/2018/015– 10.0% Withholding Tax FXDI/2022/025 -10.0% Withholding Tax
Maturity Dates:	FXDI/2018/015 – 09-May-2033 FXDI/2022/025 – 23-September-2047
Non-competitive bids per CSD A/C:	Maximum KES 50 million per CSD A/c
Competitive bid per CSD A/C:	Minimum KES 2 million per CSD A/c
AIB-AXYS Competitive Bidding Range Recommendation:	FXDI/2018/015– 14.10-14.35% FXDI/2022/025– 15.90 -16.10%

Chart I: Government Obligations Q1 2025 (KES Bn)



Term Structure of Interest Rates

The yield curve maintained a downward trajectory throughout December 2024, as market sentiment continued to soften while the effects of the rate-cutting cycle continued to reverberate throughout the market. Short-term tenors experienced the largest declines with the 91-day yields declining by 609bps YTD by the end of 2024. We anticipate this downward momentum to persist in the near term, albeit at a moderate pace, as fiscal consolidation efforts, shifts in monetary policy, and evolving global risk appetites come into play. However, potential volatility may arise in the midterm, with potential policy changes in the US following Donald Trump’s reelection possibly rekindling inflationary pressures that could lead the Central Bank of Kenya to change its monetary stance. Despite this, we project real yields to remain positive over the medium term, sustaining their appeal to investors.

Market Liquidity

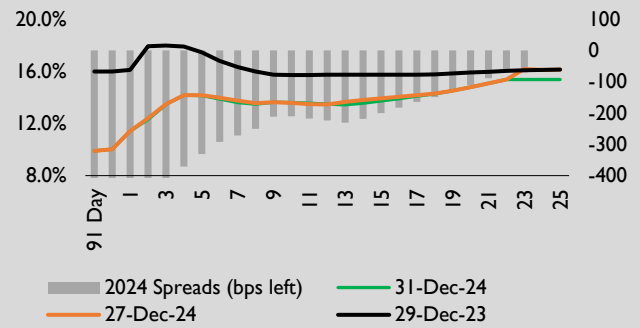
Interbank lending activity over the month of December expanded by 16.7% m/m. This increase coincided with a marginal 84bps m/m decline in the average lending rate to 11.10%. The surge in activity can be largely attributed to recent monetary policy adjustments by the Central Bank of Kenya, including the 75bps cut in the benchmark rate and the prior narrowing of the interbank interest rate corridor from ± 250 bps to ± 150 bps around the policy rate. Looking ahead, we expect interbank rates to continue with their downward momentum, coinciding with upcoming interest rate cuts whilst also trending closer to the midpoint of the adjusted corridor.

Price Levels

Latest statistics from the Kenya National Bureau of Statistics indicate that the yearly headline inflation rate as measured by the Consumer Price Index (CPI) ticked up by 20bps to 3.0% in December 2024 compared to 2.8% in the preceding month. The latest figure, however, marks an improvement from a similar period last year when the headline inflation rate averaged at 6.6%. This maintains our view of moderating price pressures in the consumer economy.

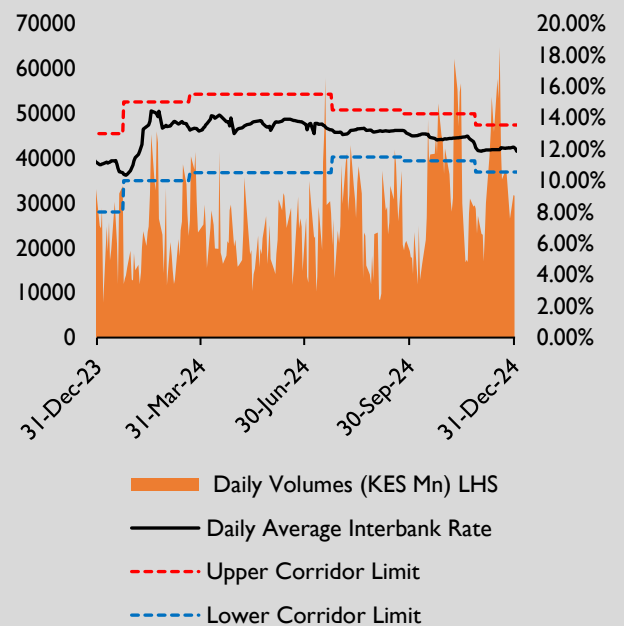
The uptick in the headline inflation rate came on the back of a 30bps increase in food inflation to 4.8% from 4.5% in November 2024. Fuel inflation on the other hand, decreased by 60 bps to 1.0% in December 2024 compared to 1.6% in the preceding month. Core inflation (Non-Food Non-Fuel) remained unchanged at 3.2%.

Chart 2: Domestic Yield Curve Evolution



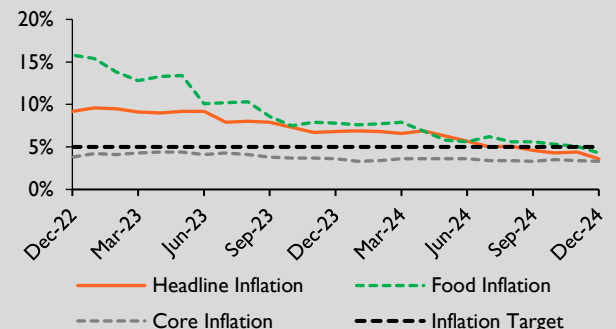
Source: CBK, AIB-AXYS Africa Research

Chart 3: Interbank Rate and Volumes



Source: CBK, AIB-AXYS Africa Research

Chart 4: Price Levels

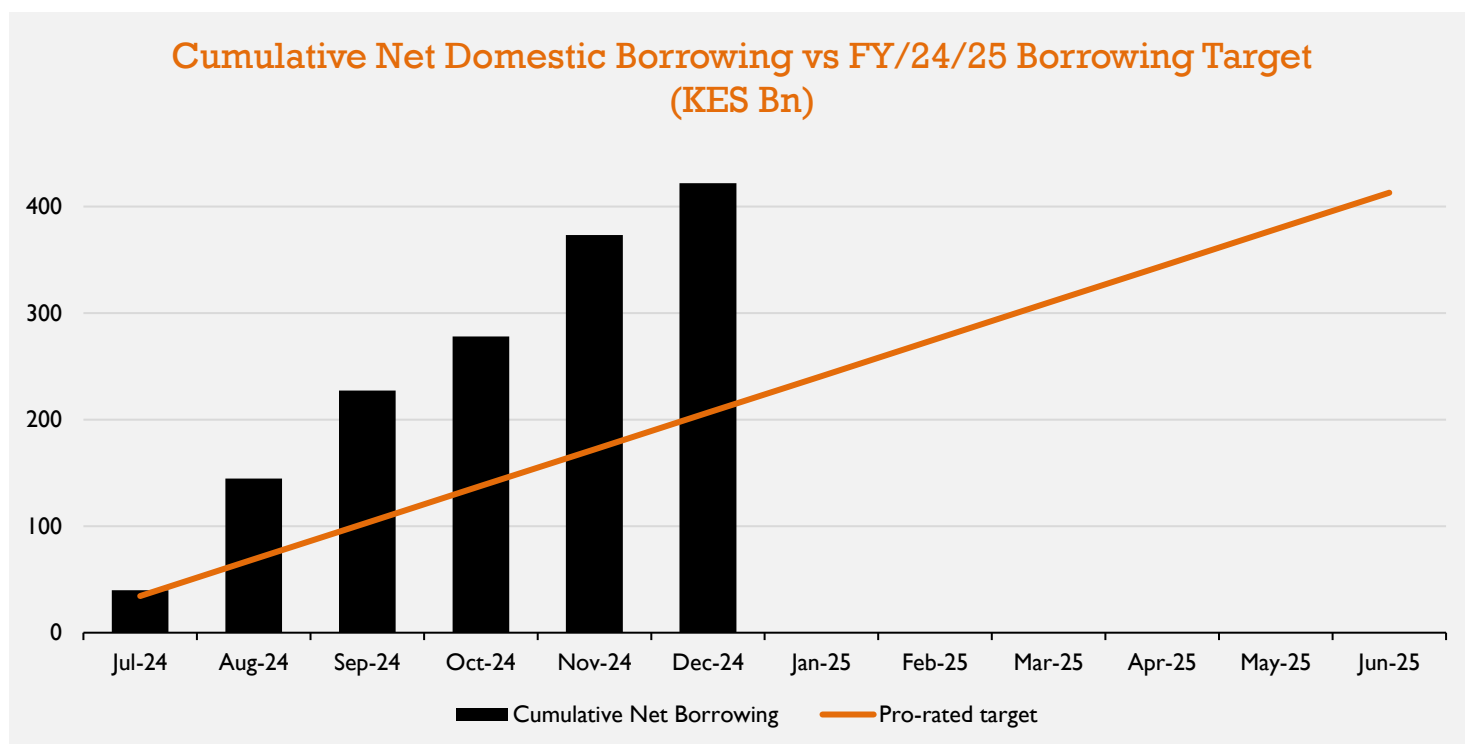


Source: Kenya National Bureau of Statistics, AIB-AXYS Africa Research

Table 2: Comparable Bond Duration Yields

Issue No.	Maturity Date	Remaining Tenor in Years	Outstanding Amount KES Mn.	Fixed Coupon Rate	Implied Yield to Maturity
Comparable Yields for the FXD1/2018/015- (8.4 Years)					
FXD1/2023/010	31-January-33	8.1	73,595.17	14.1510%	13.4600%
FXD1/2018/015	9-May-33	8.4	76,351.65	12.6500%	13.5056%
FXD2/2018/015	3-October-33	8.8	33,411.70	12.7500%	13.5743%
Comparable Yields for the FXD1/2022/010- (7.6 Years)					
FXD1/2018/025	25-May-43	18.4	94,326.70	13.4000%	14.3509%
FXD1/2021/025	9-April-46	21.3	90,490.00	13.9240%	15.1683%
FXD1/2022/025	23-Sept-47	22.7	20,773.50	14.1880%	15.6000%

Source: CBK, AIB-AXYS Africa Research



Source: CBK, AIB-AXYS Africa Research

	Offered Amount (KES, Mn)	Paper(s)	Duration at Issuance (yrs)	Performance Rate	Coupon Rate (%)	Market Average Yield (%)	Accepted Average Yield (%)	Deviation from Yield Curve	
Jan-24	35,000	FXD1/2024/003 - New Issue	3	106.1%	18.385%	18.770%	18.385%	▲ 43 bps	
		FXD1/2024/005 - Re-open	4.5		16.844%	19.068%	18.770%	▲ 111 bps	
	15,000	FXD1/2024/003 - Tap Sale	3	78.4%	18.385%				
		FXD1/2024/005 - Tap Sale	4.5		16.844%				
Feb-24	70,000	IFB1/2024/8.5 - New Issue	6.8	412.4%	18.461%	18.622%	18.461%	▲ 125 bps	
Mar-24	40,000	FXD1/2024/003 - Re-open	2.9	107.7%	18.385%	18.516%	18.422%	▲ 11 bps	
		FXD1/2023/005 - Re-open	4.4		16.844%	18.595%	18.410%	▼ (34 bps)	
		FXD1/2024/010 - New	10	149.3%	16.000%	17.759%	16.519%	▲ 53 bps	
Apr-24	25,000	FXD1/2023/005 - Tap Sale	4.4	118.0%	16.844%		18.410%		
		FXD1/2024/010 - Tap Sale	9.9		16.000%		16.519%		
	40,000	FXD1/2023/002 - Re-open	1.4		16.972%	17.147%	16.992%	▼ (54 bps)	
May-24	25,000	FXD1/2024/010 - Re-opened	9.9	16.668%	16.000%	16.668%	16.227%	▲ 7 bps	
	15,000	FXD1/2024/010 - Tap Sale	9.9	46.8%	16.000%				
Jun-24	30,000	FXD1/2023/002 - Re-opened	1.2	102.9%	16.972%	17.187%	17.123%	▲ 37 bps	
		FXD1/2024/003 - Re-opened	2.6		18.385%	17.627%	17.586%	▲ 40 bps	
	30,000	FXD1/2023/005 - Re-opened	4.1		138.5%	16.844%	18.277%	18.165%	▲ 86 bps
		FXD1/2023/010 - Re-opened	8.7			14.151%	16.571%	16.392%	▲ 163 bps
	20,000	FXD1/2023/002 - Tap Sale	1.2		125.7%	16.972%			
	FXD1/2024/003 - Tap Sale	2.6	18.385%						
	FXD1/2023/005 - Tap Sale	4.1	16.844%						
Jul-24	20,000	FXD1/2023/002 - Tap Sale	1.2	2.4%	16.972%				
	30,000	FXD1/2024/010 - Re-opened	9.7	48.9%	16.000%	16.636%	16.592%	▲ 166 bps	
FXD1/2008/020- Re-opened		3.9	13.750%		18.475%	18.290%	▲ 53 bps		
Aug-24	50,000	IFB1/2023/6.5 - Re-opened	5.8	252.6%	17.933%	18.469%	18.299%	▲ 77 bps	
		IFB1/2023/17 - Re-opened	15.7		14.399%	18.158%	17.728%	▲ 32 bps	
Sep-24	15,000	IFB1/2023/17 -Tap Sale	15.7	234.6%	14.399%				
	30,000	FXD1/2024/010 - Re-opened	9.5	75.5%	16.000%	16.972%	16.870%	▲ 18 bps	
FXD1/2016/020 - Re-opened		12.0	14.000%		17.349%	17.285%	▲ 176 bps		
Oct-24	30,000	FXD1/2016/010 re-opened	1.8	169.9%	15.039%	17.064%	16.984%	▲ 14 bps	
		FXD1/2022/010 re-opened	7.6		13.490%	17.340%	16.952%	▲ 1 bps	
	15,000	FXD1/2022/010 (Tap sale)	7.6		110.0%	13.490%			
Nov-24	25,000	FXD1/2023/010 re-opened	8.3	132.2%	14.151%	16.150%	15.972%	▼ (17 bps)	
		FXD1/2022/015 re-opened	12.5		13.942%	16.385%	16.299%	▼ (21 bps)	
	20,000	FXD1/2024/010 re-opened	9.4		277.9%	16.000%	16.113%	15.855%	▲ 25 bps
Dec-24	25,000	FXD1/2023/010 re-opened	8.2	285.3%	14.151%	14.864%	14.691%	▲ 84 bps	
		FXD1/2018/020 re-opened	13.3		13.200%	15.271%	15.112%	▲ 85 bps	
	20,000	FXD1/2024/010 re-opened	9.3		268.1%	16.000%	14.782%	14.685%	▲ 4 bps
Average*	33,333		7.2	166.4%	15.858%	17.263%	17.041%	▲ 49 bps	

Source: CBK, AIB-AXYS Research, * - Yearly average results excludes tap sales



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