



PRIMARY BOND AUCTION NOTE

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AIB-AXYS October 2025 Primary Bond Auction Note

Summary

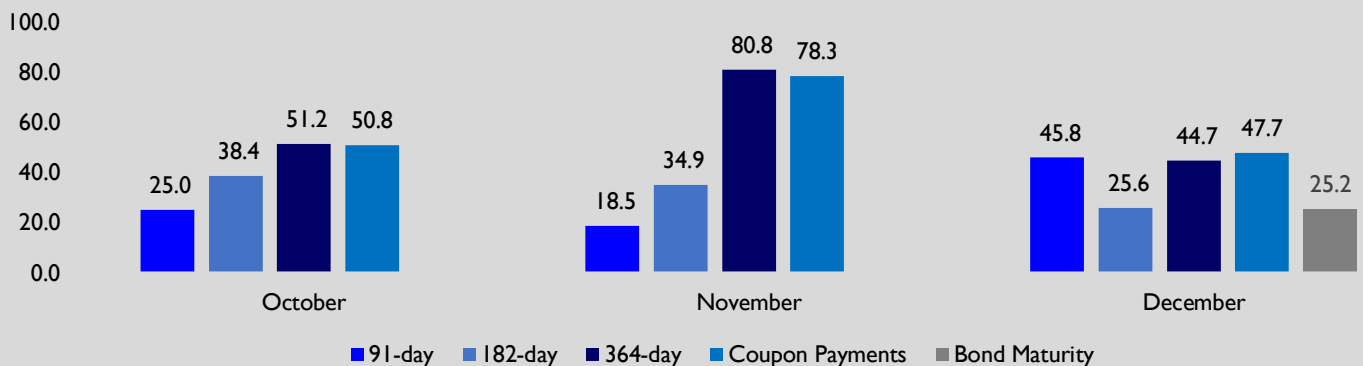
- The Exchequer is seeking to raise KES 50.00Bn through the re-opening of the FXDI/2018/015 & FXDI/2021/020 treasury bonds earmarked for budgetary support in FY25/26.
- October presents approximately KES 165.4 Bn in debt obligations, down from KES 260.5 Bn in September, giving some breather, while November will present a steeper KES 212.5 Bn. It is evident that the government is proactively trying to manage the cost of debt and debt refinancing. We have observed rejections of aggressive bidding in recent auctions as yield curve management continues. Frontloading from the Infrastructure Bond re-opening and successful tap sales, which were heavily oversubscribed due to their attractive returns and tax-free nature, gave the government some leeway afterward. Although revenue collections had a good start in FY'25/26, they remain behind prorated targets, reflecting persistent revenue shortfalls. This means the exchequer will have to rely on the domestic market for funding, especially for recurring expenditure, and investors may therefore place aggressive bids in upcoming auctions.
- Our recommended competitive bidding yield on the paper is indicated in Table I on the right.

Table 1: Key Auction Highlights

FXDI/2018/015 & FXDI/2021/020

Issuer:	Republic of Kenya
Total Amount:	KES 50.0 billion
Purpose:	Budgetary Support
Tenor:	FXDI/2018/015 -(7.7 Years)- Re-opened FXDI/2021/020 -(15.9 Years)- Re-opened
Coupon Rate:	FXDI/2018/015 – 12.6500% FXDI/2021/020 – 13.4440%
Price Quote:	Discounted/Premium/Par
Period of sale:	26-September-2025 to 15-October-2025
Minimum Amount:	KES 50,000.00
Taxation:	10.00%
Maturity Dates:	FXDI/2018/015 – 9-May-2033 FXDI/2021/020 - 22-July-2041
Non-competitive bids per CSD A/C:	Maximum KES 50 million per CDS A/c
Competitive bid per CSD A/C:	Minimum KES 2 million per CDS A/c
AIB-AXYS Competitive Bidding Range Recommendation:	FXDI/2018/015 – 12.74%-12.94% FXDI/2021/020 – 13.54%-13.74%

Government Obligations Q4 2025 in KES Bn



Term Structure of Interest Rates

Yield curve softening continued in September, with yields declining across the curve, though at a slower pace. The shorter end posted the largest decline of 196.44 bps, while medium-term and long-term papers eased by 179.65 bps and 137.18 bps respectively as of September 26th. This trend is expected to continue in the near term on the back of easing monetary policy. The recent eighth consecutive rate cut, which brought the Central Bank Rate to 9.25%, supports the case that yields will continue to soften. The country's fiscal agent has remained focused on containing borrowing costs and refinancing existing debt in both the domestic market (the government plans to borrow approximately KES 635 Bn internally in FY'25/26) and global markets. This explains why the government has been rejecting aggressive bids in recent bond auctions. Nevertheless, continued tax revenue underperformance is likely to limit downside pressure on yields, with the exchequer expected to rely on debt markets to bridge fiscal deficit.

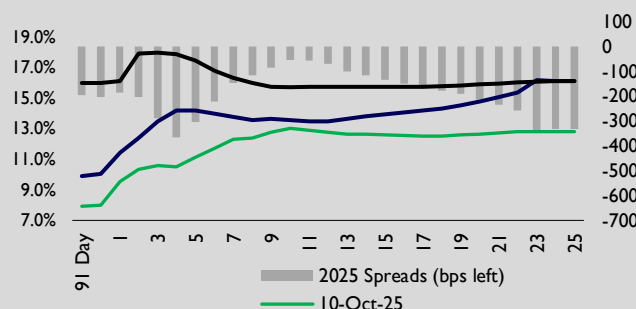
Market Liquidity

In September, lending activities eased by 15.7% on a monthly basis (to KES 265.58 Bn from KES 315.79 Bn) as the Kenya Shilling Overnight Interbank Average (KESONIA) came into effect on September 1st. KESONIA aims to improve market transparency and strengthen monetary policy transmission. At the same time, the average interbank lending rate eased to 9.48% from 9.54% as the government continued its monetary policy easing cycle. We have continued to see interbank lending rates ease in October as policy decisions reverberate through the market. Looking ahead, we expect this trend to continue, supported by last week's decision by the Monetary Policy Committee (MPC) to lower the Central Bank Rate (CBR) by 25 bps to 9.25%

Price Levels

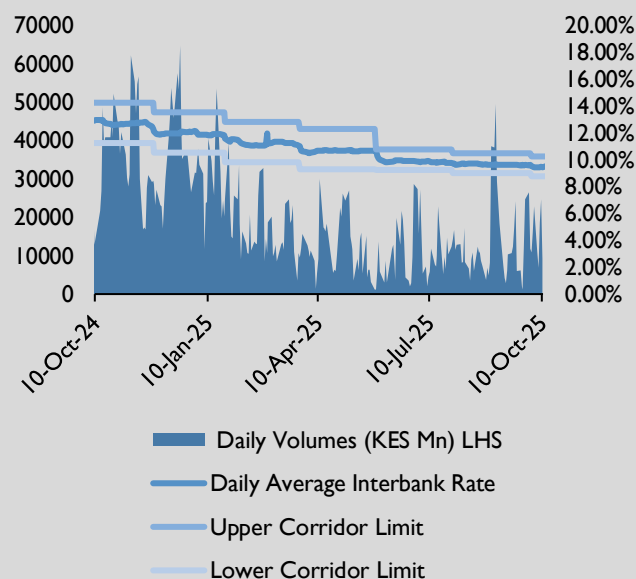
Headline inflation came in at 4.6% in September according to the Kenya National Bureau of Statistics, which was 10 bps higher than the 4.5% recorded in August, marking the third consecutive month of an increase. Inflation was primarily driven by increases in Food and Non-Alcoholic Beverages (8.4%), Transport (4.5%), and Housing, Water, Electricity, Gas & Other Fuels (0.9%). Despite headline inflation climbing in September, core inflation declined to 2.8% from 3.0% in August, driven by lower prices in processed food items, specifically maize flour. Inflation is expected to remain anchored within the CBK's target in the near term, supported by a stable Kenyan unit as well as stable energy prices. However, the continuous uptrend in CPI may continue to suppress investor returns when real rates are taken into consideration.

Chart 2: Domestic Yield Curve Evolution



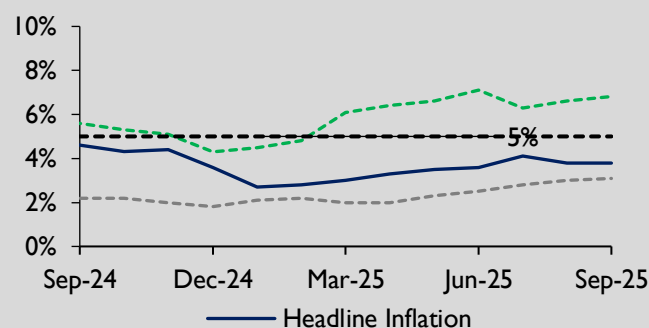
Source: CBK, AIB-AXYS Africa Research

Chart 3: Interbank Rate and Volumes



Source: CBK, AIB-AXYS Africa Research

Chart 4: Price Levels



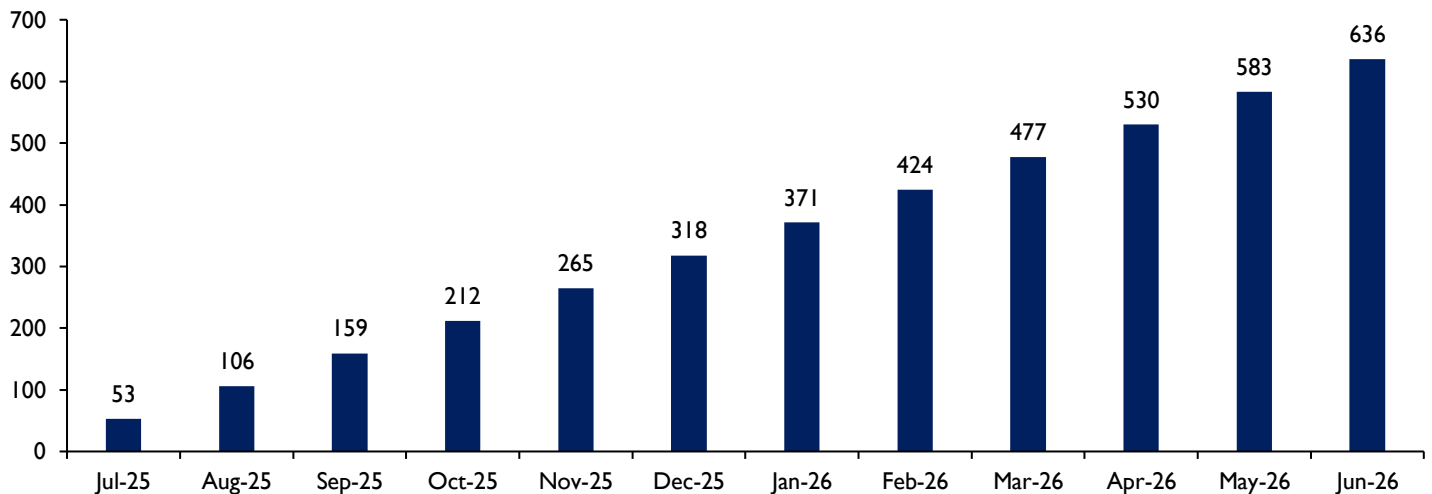
Source: Kenya National Bureau of Statistics, AIB-AXYS Africa Research

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 FXDI/2018/015 - (12.5 Years)					
FXDI/2023/010	31-January-2033	7.3	73,595.17	14.1510%	12.4709%
FXDI/2018/015	9-May-2033	7.6	100,104.72	12.6500%	12.4294%
FXD2/2018/015	3-October-2033	7.9	33,411.70	12.7500%	12.3675%
Comparable Yields for the FXDI/2021/020- (15.8 Years)					
SDBI/2011/030	21- January 2041	15.28	44,309.78	12.000%	12.5721%
FXDI/2021/020	22-July-2041	15.78	75,984.00	13.440%	12.5548%
FXDI/2018/025	21- January 2041	17.62	165,653.46	13.4000%	12.4911%

Source: CBK, AIB-AXYS Africa Research

FY25/26 Borrowing Target (KES Bn)



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
Oct-24	30,000	FXD1/2016/010 Re-opened	1.8		15.039%	17.064%	16.984%	14
		FXD1/2022/010 Re-opened	7.6	169.9%	13.490%	17.340%	16.952%	1
	15,000	FXD1/2022/010 Tap sale	7.6	110.0%	13.490%			
Nov-24	25,000	FXD1/2023/010 Re-opened	8.3		14.151%	16.150%	15.972%	-17
		FXD1/2022/015 Re-opened	12.5	132.2%	13.942%	16.385%	16.299%	-21
	20,000	FXD1/2024/010 Re-opened	9.4	277.9%	16.000%	16.113%	15.855%	25
Dec-24	25,000	FXD1/2023/010 Re-opened	8.2		14.151%	14.864%	14.691%	84
		FXD1/2018/020 Re-opened	13.3	285.3%	13.200%	15.271%	15.112%	85
	20,000	FXD1/2024/010 Re-opened	9.3	268.1%	16.000%	14.782%	14.685%	4
Jan-25	30,000	FXD1/2018/015 Re-opened	8.3		12.650%	14.329%	14.210%	75
		FXD1/2022/025 Re-opened	22.8	196.7%	14.188%	15.743%	15.683%	8
Feb-25	70,000	IFBI/2022/014 Re-opened	11.8		13.938%	14.086%	13.978%	27
		IFBI/2023/017 Re-opened	15.1	277.0%	14.399%	14.416%	14.281%	118.5
Mar-25	25,000	FXD1/2018/025 Re-opened	18.3	188.1%	13.400%	13.938%	13.803%	51
Apr-25	70,000	FXD1/2020/015 Re-opened	9.9		12.756%	13.671%	13.665%	82.39
		FXD1/2022/015 Re-opened	12.1		13.942%	13.837%	13.828%	124.3
		FXD1/2022/025 Re-opened	22.6	102.5%	14.188%	14.237%	14.234%	65.33
	10,000	FXD1/2020/015 Tap-sale	9.9	132.4%	12.756%			
May-25	50,000	FXD1/2022/015 Re-opened	12.0		13.942%	13.942%	13.913%	145.42
		FXD1/2022/025 Re-opened	22.5	114.2%	14.188%	14.636%	14.538%	130.24
	30,000	FXD1/2012/020 Re-opened	7.6	181.3%	12.000%	13.733%	13.649%	137.9
Jun-25	50,000	FXD1/2020/015 Re-opened	9.7		12.756%	13.606%	13.487%	70.9
		SDBI/2011/030 Re-opened	15.7	202.7%	12.000%	14.181%	13.998%	152.55
Jul-25	50,000	FXD1/2018/020 Re-opened	12.8		13.200%	13.945%	13.899%	140.19
		FXD1/2018/025 Re-opened	18.0	153.8%	13.400%	14.435%	14.348%	137.85
Aug-25	90,000	IFBI/2028/015 Re-opened	7.5		12.500%	13.530%	12.993%	44.52
		IFBI/2022/019 Re-opened	15.6	359.4%	12.965%	14.237%	13.999%	41.5
		IFBI/2028/015 Tapsale	7.5		12.000%	13.530%		
		IFBI/2022/019 Re-Tapsale	15.6	414.9%	12.965%	14.237%		
Sep-25	40,000	FXD1/2018/020 Re-opened	12.5		13.200%	13.724%	13.080%	64.4
		FXD1/2022/025 Re-opened	22.2	243.2%	14.188%	14.246%	12.782%	146.4
Average*	38,333		12.6	204.7%	13.695%	14.683%	14.478%	74.095

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



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