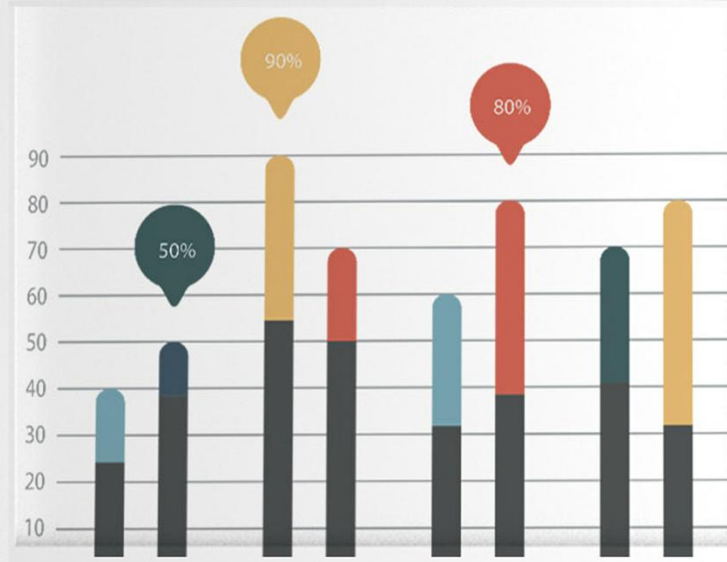




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# AIB-AXYS Africa Primary Bond Auction Note

## AIB-AXYS April 2025 Primary Bond Auction Note

### Summary – “Extending Maturities, Managing Risks”

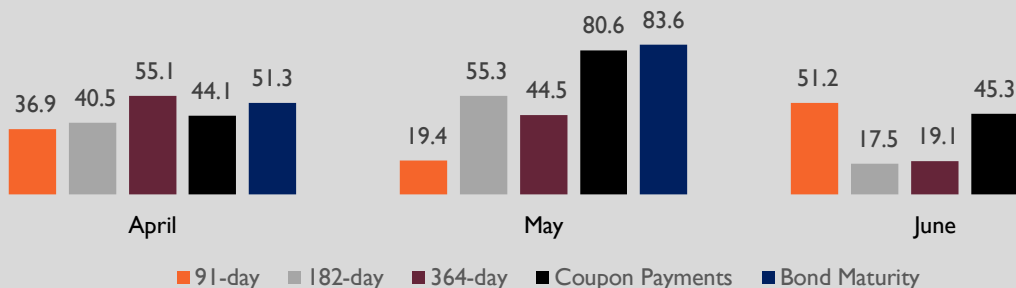
- The Exchequer is seeking to raise KES 70.0Bn through the re-opening of the FXD1/2020/015, FXD1/2022/015 & FXD1/2022/025 treasury bonds earmarked for budgetary support in FY24/25.
- The exchequer continues to enhance its strategy by reopening older, longer-term bonds to extend its maturity profile and reduce rollover risks. Proceeds from the current issues are expected to be utilized to refinance upcoming maturities over the next two months with these reopening’s expected to lower interest costs, due to their generally lower coupon payments, as compared to new issuances. However, the termination of the IMF funding program, resulting in a KES 110Bn shortfall, is likely to drive push-pull dynamics with domestic investors expected to demand higher returns, as the exchequer increasingly relies on domestic debt markets. This challenge is further compounded by the recent Eurobond issuance, which has brought the country close to its external borrowing limit for the financial year, limiting the exchequers financing options.
- The weighted average tenor to maturity of the Fixed Income Bond (FXD) series stands at c. 7.34 years. Further, the government has approximately KES 227.90Bn worth of treasury bill redemptions, coupon repayments, and bond maturities due in April 2025.

### Table 1: Key Auction Highlights

#### FXD1/2020/015, FXD1/2022/015 & FXD1/2022/025

<b>Issuer:</b>	Republic of Kenya
<b>Total Amount:</b>	KES 70 billion
<b>Purpose:</b>	Budgetary Support FY24/25
<b>Tenor:</b>	<b>FXD1/2020/015</b> - (9.9 Years) – Re-opened <b>FXD1/2022/015</b> - (12.1 Years) – Re-opened <b>FXD1/2022/025</b> - (22.6 Years) – Re-opened
<b>Coupon Rate:</b>	<b>FXD1/2020/015</b> – 12.7560% <b>FXD1/2022/015</b> – 13.9420% <b>FXD1/2022/025</b> – 14.1880%
<b>Price Quote:</b>	Discounted/Premium/Par
<b>Period of sale:</b>	20-March-2025 to 2-April-2025
<b>Minimum Amount:</b>	KES 50,000.00
<b>Taxation:</b>	10.00% Withholding Tax
<b>Maturity Dates:</b>	<b>FXD1/2020/015</b> – 5-February-2035 <b>FXD1/2022/015</b> - 6-April-2037 <b>FXD1/2022/025</b> – 23-September-2047
<b>Non-competitive bids per CSD A/C:</b>	Maximum KES 50 million per CDS A/c
<b>Competitive bid per CSD A/C:</b>	Minimum KES 2 million per CDS A/c
<b>AIB-AXYS Competitive Bidding Range Recommendation:</b>	<b>FXD1/2020/015</b> – 13.05%-13.25% <b>FXD1/2022/015</b> – 13.45%-13.65% <b>FXD1/2022/025</b> – 13.90%-14.10%

Chart 1: Government Obligations Q2 2025 (KES Bn)



### Term Structure of Interest Rates

Downward momentum on the yield curve persisted in March as lingering effects of the rate cutting cycle continued to reverberate throughout the market. Medium-term tenors continued to experience the largest declines with 4-year yields declining by 207.42bps YTD by the end of the month. We foresee a slowdown in the rate cutting cycle going forward, with the central bank expected to adopt a more cautious monetary easing stance as global trade policy uncertainties continue to escalate. This being evident following the recent US Federal Reserve meeting that saw it leave interest rates unchanged for the second consecutive time. This slowdown in easing is expected to limit the CBK own rate cutting cycle as it strives to limit interest differentials and maintain exchange rate stability. Furthermore, continued tax revenue underperformance is likely to limit downside pressure on yields, with the exchequer expected to rely on debt markets to bridge its rising fiscal deficit.

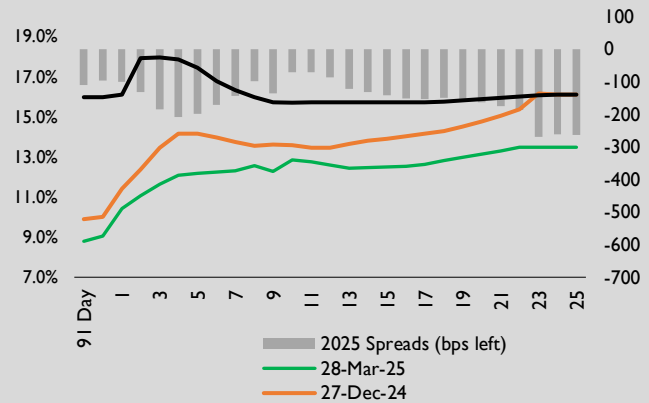
### Market Liquidity

Interbank lending activity over the month of March contracted by 13.6% m/m, continuing the trend witnessed in the previous month. This decrease was in contrast to a benign 1bps m/m decline in the average lending rate to 10.68%. We continue to attribute the decline to the injection of additional liquidity into the banking sector, following the 100bps reduction in the Cash Reserve Ratio, reducing the demand for borrowing in the interbank market. We anticipate a slowdown in further downside pressures on the interbank rate, as the CBK is likely to ease its rate-cutting cycle amid rising global trade uncertainties. With this in mind, we forecast a modest 25bps rate cut in the upcoming MPC meeting that is likely to see the interbank rate decline to 10.50%, with it expected to remain range bound at that level in the near term.

### Price Levels

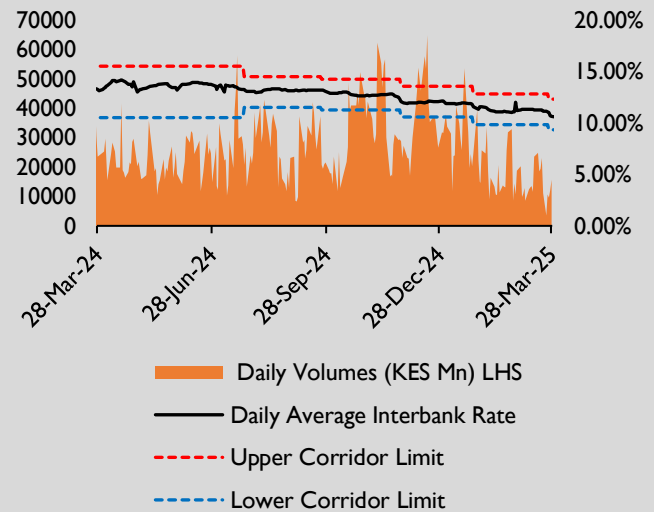
Latest statistics from the Kenya National Bureau of Statistics indicate that the yearly headline inflation rate as measured by the Consumer Price Index (CPI) ticked up by 20bps to 3.5% in February 2025 compared to 3.3% in the preceding month. The latest figure, however, marks an improvement from a similar period last year when the headline inflation rate averaged at 6.3%. 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 6.4% from 6.1% in January. Fuel inflation, the other hand, remained constant at 0.7% in February 2025. Similarly, Core inflation (Non-Food Non-Fuel) remained constant at 2.0% in February 2025.

Chart 2: Domestic Yield Curve Evolution



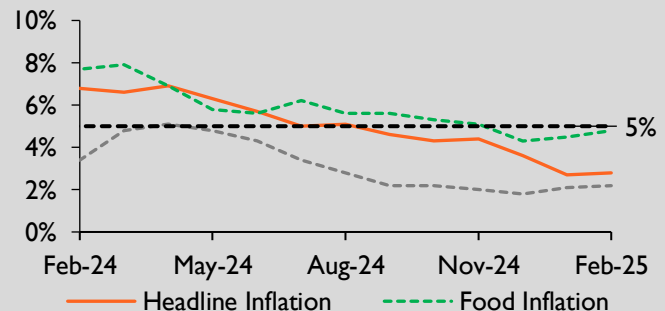
Source: CBK, AIB-AXYS Africa Research

Chart 3: Interbank Rate and Volumes



Source: CBK, AIB-AXYS Africa Research

Chart 4: Price Levels

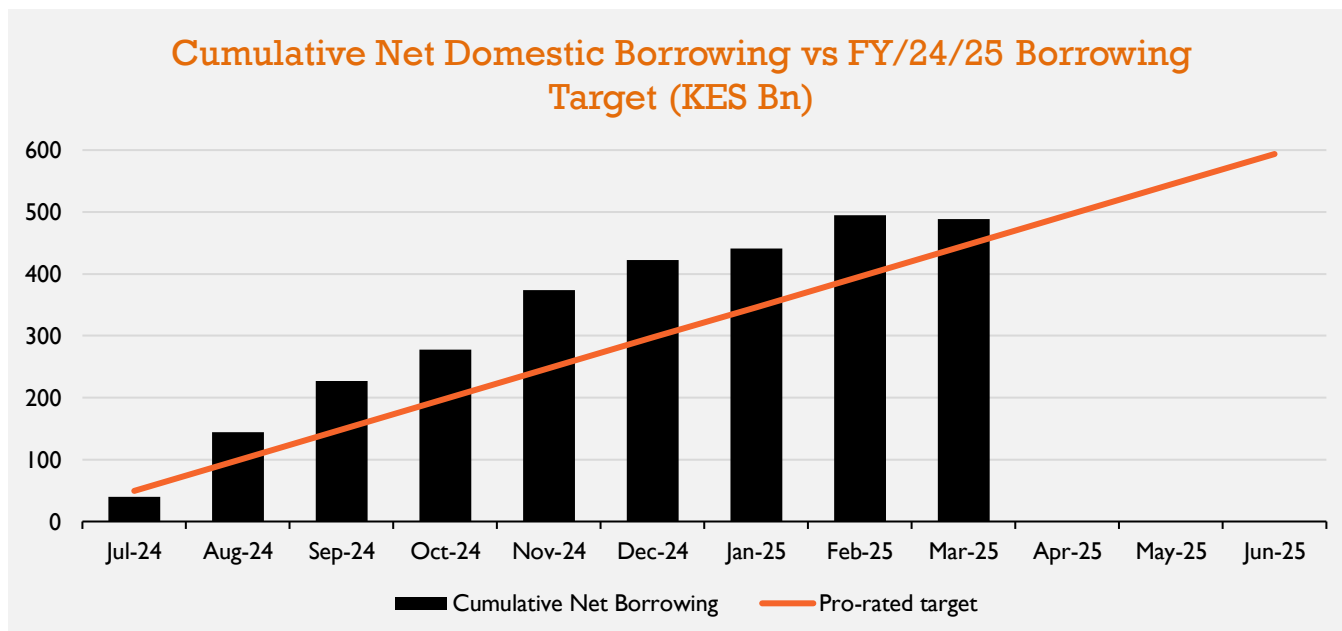


Source: Kenya National Bureau of Statistics, AIB-AXYS Africa Research

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
<b>Comparable Yields for the FXD1/2020/015- (9.9 Years)</b>					
<b>FXD3/2019/015</b>	10-July-34	9.3	53,919.80	12.3400%	12.7552%
<b>FXD1/2020/015</b>	<b>5-Feb-35</b>	<b>9.9</b>	<b>73,156.30</b>	<b>12.7560%</b>	<b>12.8491%</b>
<b>FXD1/2010/025</b>	28-May-35	10.2	20,192.50	11.2500%	12.8995%
<b>Comparable Yields for the FXD/2022/015- (12.1 Years)</b>					
<b>FXD1/2016/020</b>	1-Sep-36	11.5	21,972.90	14.0000%	12.6885%
<b>FXD1/2022/015</b>	<b>6-Apr-37</b>	<b>12.1</b>	<b>85,929.15</b>	<b>13.9420%</b>	<b>12.5905%</b>
<b>FXD1/2018/020</b>	1-Mar-38	13.0	115,257.30	13.2000%	12.4435%
<b>Comparable Yields for the FXD/2022/025- (22.6 Years)</b>					
<b>FXD1/2021/025</b>	9-Apr-46	21.1	90,490.00	13.9240%	13.3427%
<b>FXD1/2022/025</b>	<b>23-Sep-47</b>	<b>22.6</b>	<b>45,502.11</b>	<b>14.1880%</b>	<b>13.6018%</b>

Source: CBK, AIB-AXYS Africa Research



Source: CBK, AIB-AXYS Africa Research

# CBK Previous Primary Bond Auctions

	Offered Amount (KES, Mn)	Paper(s)	Duration at Issuance (yrs)	Performance Rate	Coupon Rate (%)	Market Average Yield (%)	Accepted Average Yield (%)	Deviation from Yield Curve
<b>Apr-24</b>	25,000	FXD1/2023/005 - Tap Sale	4.4		16.844%		18.410%	
		FXD1/2024/010 - Tap Sale	9.9	183.4%	16.000%		16.519%	
	40,000	FXD1/2023/002 - Re-open	1.4	118.0%	16.972%	17.147%	16.992%	▼ (54 bps)
<b>May-24</b>	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%			
<b>Jun-24</b>	30,000	FXD1/2023/002 - Re-opened	1.2		16.972%	17.187%	17.123%	▲ 37 bps
		FXD1/2024/003 - Re-opened	2.6	102.9%	18.385%	17.627%	17.586%	▲ 40 bps
	30,000	FXD1/2023/005 - Re-opened	4.1		16.844%	18.277%	18.165%	▲ 86 bps
		FXD1/2023/010 - Re-opened	8.7	138.5%	14.151%	16.571%	16.392%	▲ 163 bps
	20,000	FXD1/2023/002 - Tap Sale	1.2		16.972%			
		FXD1/2024/003 - Tap Sale	2.6		18.385%			
		FXD1/2023/005 - Tap Sale	4.1		16.844%			
	FXD1/2023/010 - Tap Sale	8.7	125.7%	14.151%				
<b>Jul-24</b>	20,000	FXD1/2023/002 - Tap Sale	1.2	2.4%	16.972%			
	30,000	FXD1/2024/010 - Re-opened	9.7		16.000%	16.636%	16.592%	▲ 166 bps
		FXD1/2008/020- Re-opened	3.9	48.9%	13.750%	18.475%	18.290%	▲ 53 bps
<b>Aug-24</b>	50,000	IFB1/2023/6.5 - Re-opened	5.8		17.933%	18.469%	18.299%	▲ 77 bps
		IFB1/2023/17 - Re-opened	15.7	252.6%	14.399%	18.158%	17.728%	▲ 32 bps
<b>Sep-24</b>	15,000	IFB1/2023/17 -Tap Sale	15.7	234.6%	14.399%			
	30,000	FXD1/2024/010 - Re-opened	9.5		16.000%	16.972%	16.870%	▲ 18 bps
		FXD1/2016/020 - Re-opened	12.0	75.5%	14.000%	17.349%	17.285%	▲ 176 bps
<b>Oct-24</b>	30,000	FXD1/2016/010 re-opened	1.8		15.039%	17.064%	16.984%	▲ 14 bps
		FXD1/2022/010 re-opened	7.6	169.9%	13.490%	17.340%	16.952%	▲ 1 bps
	15,000	FXD1/2022/010 (Tap sale)	7.6	110.0%	13.490%			
<b>Nov-24</b>	25,000	FXD1/2023/010 re-opened	8.3		14.151%	16.150%	15.972%	▼ (17 bps)
		FXD1/2022/015 re-opened	12.5	132.2%	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
<b>Dec-24</b>	25,000	FXD1/2023/010 re-opened	8.2		14.151%	14.864%	14.691%	▲ 84 bps
		FXD1/2018/020 re-opened	13.3	285.3%	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
<b>Jan-25</b>	30,000	FXD1/2018/015 re-opened	8.3		12.650%	14.329%	14.210%	▲ 75 bps
		FXD1/2022/025 re-opened	22.8	196.7%	14.188%	15.743%	15.683%	▲ 8 bps
<b>Feb-25</b>	70,000	IFB1/2022/014 re-opened	11.8		13.938%	14.086%	13.978%	▲ 27 bps
		IFB1/2023/017 re-opened	15.1	277.0%	14.399%	14.416%	14.281%	▲ 119 bps
<b>Mar-25</b>	25,000	FXD1/2018/025 re-opened	18.3	188.1%	13.400%	13.938%	13.803%	▲ 51 bps
<b>Average*</b>	<b>32,000</b>		<b>9.2</b>	<b>169.9%</b>	<b>15.038%</b>	<b>16.401%</b>	<b>16.242%</b>	<b>▲ 50 bps</b>

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

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