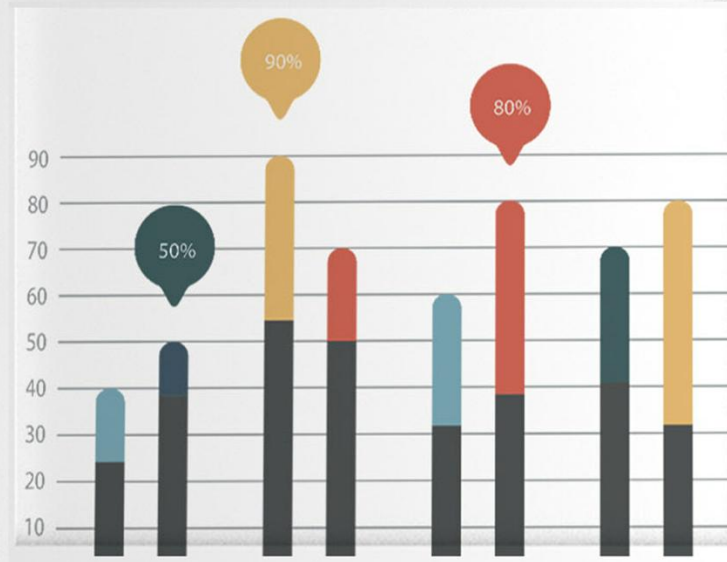




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AIB-AXYS Africa Primary Bond Auction Note



AIB-AXYS February 2025 Primary Bond Auction Note

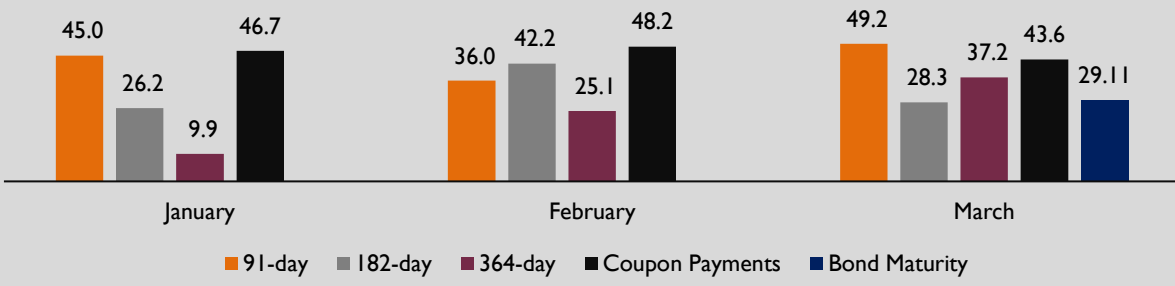
Summary – “Shifting Gears, Strengthening Buffers”

- The Exchequer is seeking to raise KES 70.0Bn through the re-opening of the IFBI/2022/014 and IFBI/2023/017 treasury bonds earmarked for funding of infrastructure projects in FY24/25.
- The exchequer appears to have shifted its approach from its initial liability management strategy, which focused on refinancing upcoming bond maturities through switch issuances-offering bondholder’s alternative bonds as a rollover option. We believe that the reopening of this new infrastructure bond issuances is a move aimed at taking advantage of declining interest yields to strengthen capital buffers in preparation for the repayment of upcoming bond maturities scheduled for April and May. The recent buyback announcement reinforces this view, as we anticipate that the exchequer will rely on proceeds from this reopening to finance the buyback.
- The weighted average tenor to maturity of the Infrastructure Bond (IFB) series stands at c. 9.4 years. Further, the government has approximately KES 151.50Bn worth of treasury bill redemptions, coupon repayments, and bond maturities due in February 2025.
- We expect the bulk of investor demand to lean moderately towards the longer-dated discount bond as investors capitalize on its higher coupon payments.

Table 1: Key Auction Highlights

IFBI/2022/014 and IFBI/2023/017	
Issuer:	Republic of Kenya
Total Amount:	KES 70 billion
Purpose:	Funding of Infrastructure projects in FY24/25
Tenor:	IFBI/2022/014- (11.8 Years) – Re-opened IFBI/2023/017- (15.1 Years) – Re-opened
Coupon Rate:	IFBI/2022/014 – 13.9380% IFBI/2023/017 – 14.3990%
Price Quote:	Discounted/Premium/Par
Period of sale:	23-January-2025 to 12-February-2025
Minimum Amount:	KES 50,000.00
Taxation:	Tax-exempt
Maturity Dates:	IFBI/2022/014 – 27-October-2036 IFBI/2023/017 – 20-September-2040
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:	IFBI/2022/014 – 13.85-14.09% IFBI/2023/017 – 14.20 -14.49%

Chart 1: Government Obligations Q1 2025 (KES Bn)



Term Structure of Interest Rates

Downward momentum on the yield curve slowed in January as uncertainty began to cloud expectations of easing monetary policy, with shifting global trade dynamics having the potential to reignite inflationary pressures in the near term that could lead to a halt in rate-cutting cycles. Medium-term tenors experienced the largest declines with 5-year yields declining by 87.6bps YTD by the end of the month. We anticipate this downward momentum to persist in the near term, albeit at a moderate pace, as the Central Bank continues to enact its rate-cutting cycle with the recent 50bps cut that saw the Central Bank Rate (CBR) declining to 10.75%. We also anticipate that interest rate expectations for 2025 will be revised upward, as the Central Bank is likely to take a more cautious stance moving forward, closely monitoring global policy trends.

Market Liquidity

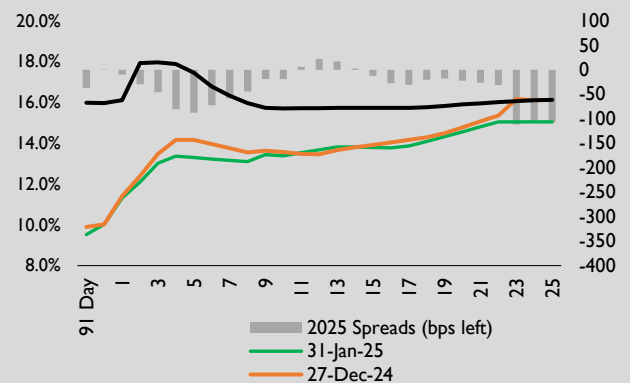
Interbank lending activity over the month of January contracted by 20.1% m/m. This decrease coincided with a marginal 5bps m/m increase in the average lending rate to 11.15%. The decline in activity can be attributed to the uncertainty surrounding policy rate outlooks, given the possibility of escalating trade tensions that could rekindle inflationary pressures, leading the Central Bank to pause its rate-cutting cycle. Looking ahead, we expect interbank rates to marginal decline as the recent interest rate cut takes effect. This, coupled with the reduction in the cash reserve ratio is expected to further lower lending rates, as liquidity in the banking sector improves. Furthermore, the Central Bank Governor outlined the use of monetary instruments, such as reverse repos in the near term to further nudge the interbank rate lower towards the 10.75% level.

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 30bps to 3.3% in January 2025 compared to 3.0% in the preceding month. The latest figure, however, marks an improvement from a similar period last year when the headline inflation rate averaged at 6.9%. This maintains our view of moderating price pressures in the consumer economy.

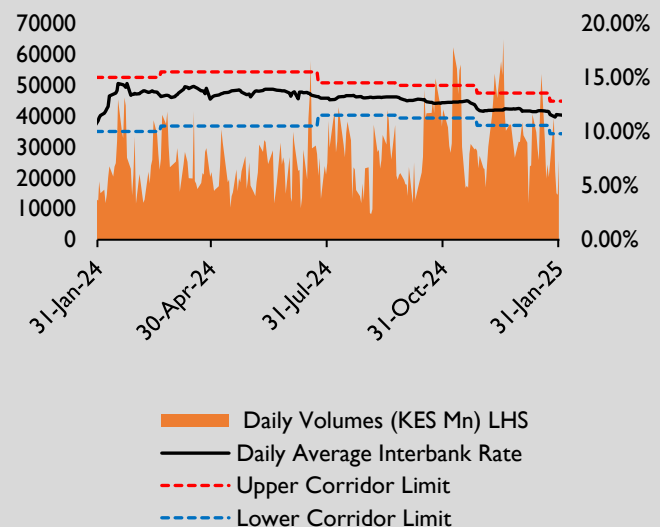
The uptick in the headline inflation rate came on the back of a 130bps increase in food inflation to 6.1% from 4.8% in December 2024. Fuel inflation, on the other hand, decreased by 30 bps to 0.7% in January 2025 compared to 1.0% in the preceding month. Core inflation (Non-Food Non-Fuel) ticked down by 20bps to 2.0% in January 2025.

Chart 2: Domestic Yield Curve Evolution



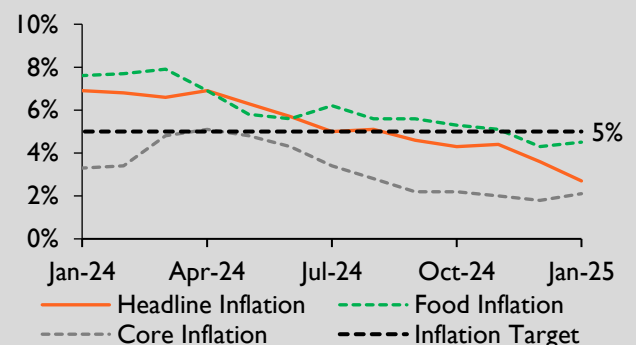
Source: CBK, AIB-AXYS Africa Research

Chart 3: Interbank Rate and Volumes



Source: CBK, AIB-AXYS Africa Research

Chart 4: Price Levels

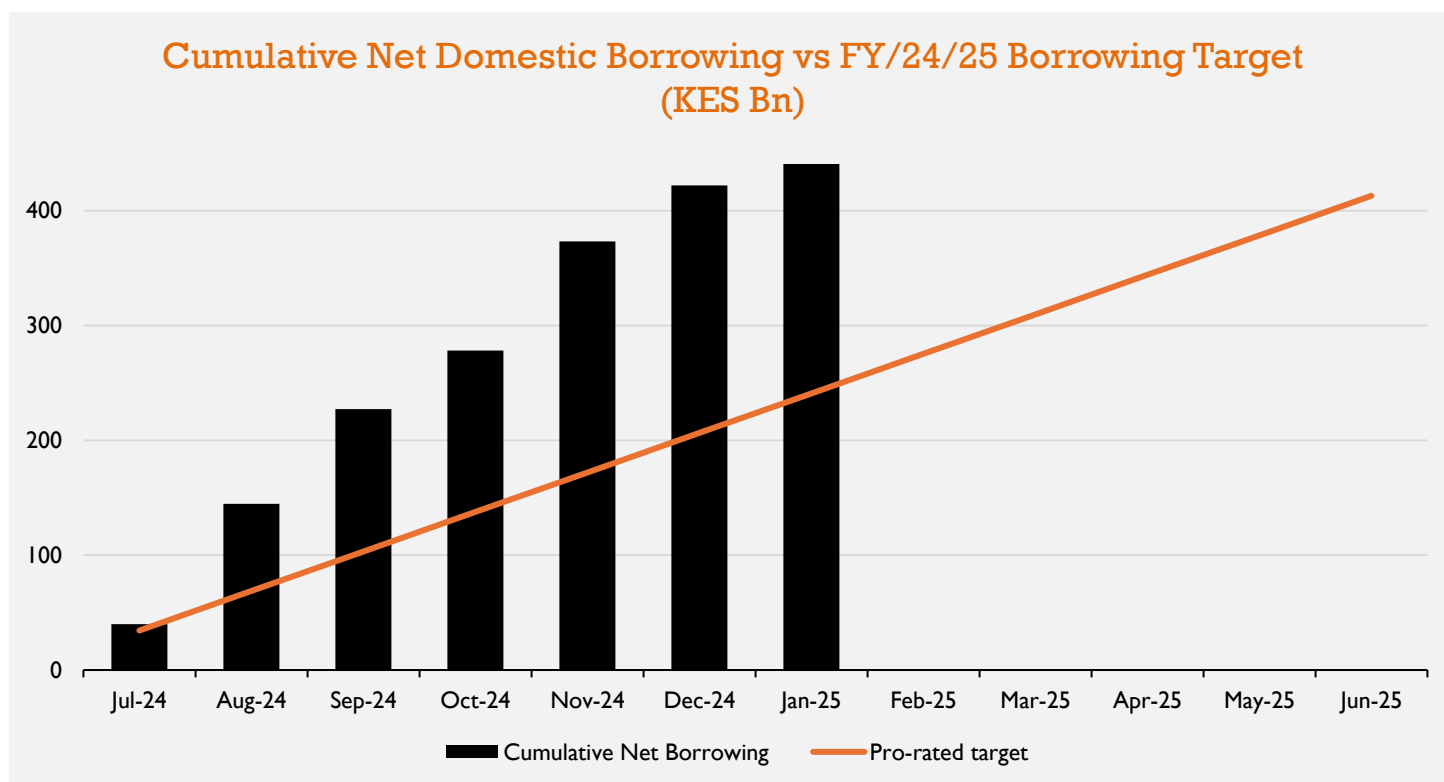


Source: Kenya National Bureau of Statistics, AIB-AXYS Africa Research

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
Comparable Yields for the IFB1/2022/014- (11.8 Years)					
IFBI/2022/018	21-May-40	15.3	79,827.50	13.7420%	13.0650%
IFBI/2022/014	27-October-36	11.8	94,258.60	13.9380%	13.7078%
IFBI/2022/006	27-Nov-28	3.8	59,424.35	13.2150%	15.6296%
Comparable Yields for the IFB1/2023/017- (15.1 Years)					
IFBI/2022/006	27-Nov-28	3.8	59,424.35	13.2150%	15.6296%
IFBI/2023/017	20-Feb-40	15.1	120,465.80	14.3990%	12.8629%
IFBI/2022/025	10-June-30	5.4	213,251.60	15.8370%	13.3000%

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		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 FXD1/2024/005 - Tap Sale	3 4.5	106.1%	18.385% 16.844%		
				78.4%				
Feb-24	70,000	IFB1/2024/8.5 - New Issue	6.8		18.461%	18.622%	18.461%	▲ 125 bps
				412.4%				
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		16.000%	17.759%	16.519%	▲ 53 bps
				149.3%				
Apr-24	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)
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		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 FXD1/2023/010 - Re-opened	4.1 8.7	138.5%	16.844% 14.151%	18.277% 16.571%	18.165% 16.392%
	20,000	FXD1/2023/002 - Tap Sale FXD1/2024/003 - Tap Sale FXD1/2023/005 - Tap Sale FXD1/2023/010 - Tap Sale	1.2 2.6 4.1 8.7	125.7%	16.972% 18.385% 16.844% 14.151%			
Jul-24	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
Aug-24	50,000	IFB1/2023/6.5 - Re-opened IFB1/2023/17 - Re-opened	5.8 15.7	252.6%	17.933% 14.399%	18.469% 18.158%	18.299% 17.728%	▲ 77 bps ▲ 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		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
Oct-24	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%			
Nov-24	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
Dec-24	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
Jan-25	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
Average*	33,000		8.1	172.0%	15.535%	16.964%	16.762%	▲ 47 bps

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



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