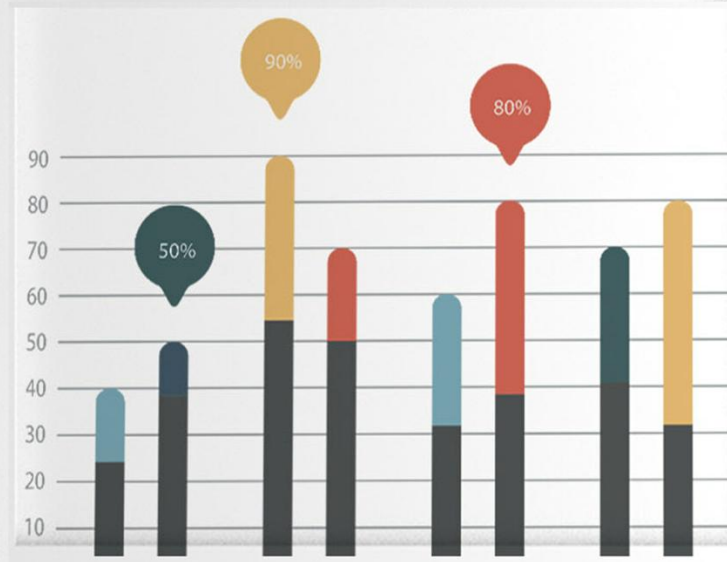




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# **AIB-AXYS Africa Primary Bond Auction Note**



# AIB-AXYS March 2025 Primary Bond Auction Note

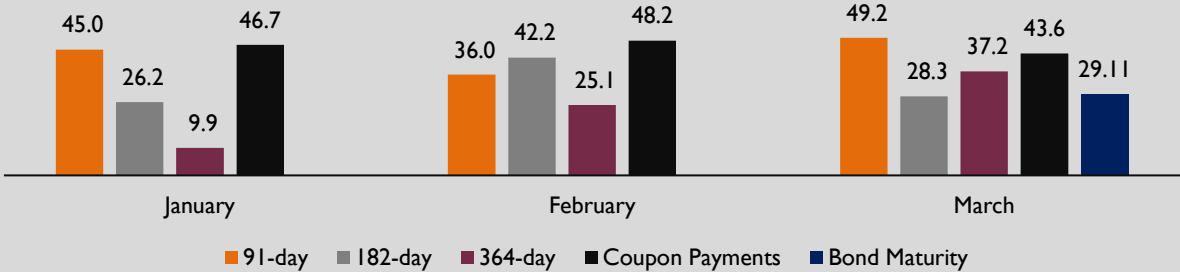
## Summary – “Restructuring Debt, Reinforcing Stability”

- **The Exchequer is seeking to raise KES 25.0Bn through the re-opening of the FXDI/2018/025 treasury bonds earmarked for budgetary support in FY24/25.**
- **The exchequer continues to implement its liability management strategy by issuing bond buybacks as it strives to limit rollover risks in the future.** This is evident in its recent repurchase of KES 50.1Bn in maturing domestic bonds and the newly issued 2036 Eurobond. Proceeds from the Eurobond are earmarked for repaying the upcoming 2027 (\$900Mn) Eurobond, with the remainder allocated to other outstanding obligations. While these efforts help reduce short-term repayment risks, the exchequer is expected to continue relying on the debt markets to bridge the rising budget deficit amid underperforming tax revenues and rising expenditure needs with the domestic borrowing target having been adjusted up to KES 593.7Bn from KES 413Bn in the second supplementary budget for FY24/25.
- **The weighted average tenor to maturity of the Fixed Income Bond (FXD) series stands at c. 7.2 years.** Further, the government has approximately **KES 187.41Bn** worth of treasury bill redemptions, coupon repayments, and bond maturities due in March 2025.
- **Our recommended competitive bidding yield on the paper is indicated in Table I on the right.**

## Table 1: Key Auction Highlights

FXDI/2018/025	
<b>Issuer:</b>	Republic of Kenya
<b>Total Amount:</b>	KES 25 billion
<b>Purpose:</b>	Budgetary Support FY24/25
<b>Tenor:</b>	<b>FXDI/2018/025-</b> (18.3 Years) – Re-opened
<b>Coupon Rate:</b>	<b>FXDI/2018/025</b> – 13.4000%
<b>Price Quote:</b>	Discounted/Premium/Par
<b>Period of sale:</b>	21-February-2025 to 5-March-2025
<b>Minimum Amount:</b>	KES 50,000.00
<b>Taxation:</b>	10.00% Withholding Tax
<b>Maturity Dates:</b>	<b>FXDI/2018/025</b> – 25-May-2043
<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>FXDI/2018/025– 14.05%-14.25%</b>

Chart I: Government Obligations Q1 2025 (KES Bn)



## Term Structure of Interest Rates

Downward momentum on the yield curve witnessed an uptick in February following the enactment of a further 50bps interest rate cut by the CBK that saw the Central bank rate decline to 10.75%. Medium-term tenors continued to experience the largest declines with 5-year yields declining by 191.6bps YTD by the end of the month. Downward momentum may persist in the near term as the exchequer prepares to receive additional external funding through its recent 2036 Eurobond issuance and the anticipated \$1.5 billion credit facility from the UAE, potentially reducing reliance on the domestic debt market. However, the downside remains limited, as underperforming tax revenues continue to constrain the government’s fiscal space, driving further dependence on domestic borrowing to bridge the deficit.

## Market Liquidity

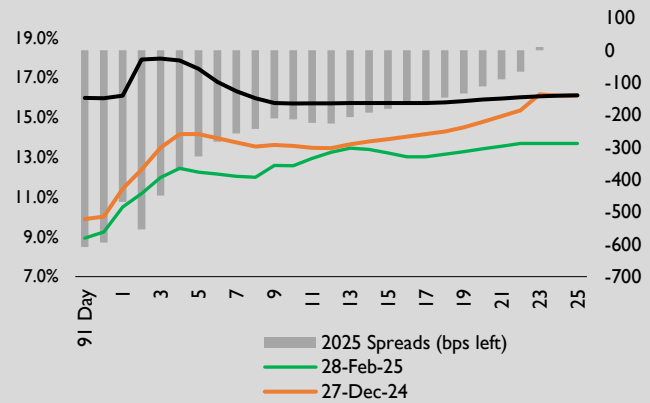
Interbank lending activity over the month of February contracted by 41.3% m/m. This decrease was in contrast to a marginal 55bps m/m decrease in the average lending rate to 10.69%. The decline in activity can be attributed to the injection of additional liquidity into the banking sector following the 100bps reduction in the Cash Reserve Ratio, reducing the demand for borrowing in the interbank market. We anticipate that the interbank rate will remain range-bound around 10.75%, as the effects of the recent rate cut and the reduction in the cash reserve ratio continue to ripple through the market, exerting downward pressure. However, ongoing uncertainties in global trade policies are likely to influence market sentiment, potentially limiting further declines, with the central bank expected to adopt a more cautious approach in its rate-cutting cycle as it closely monitors developments in global financial markets.

## 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.

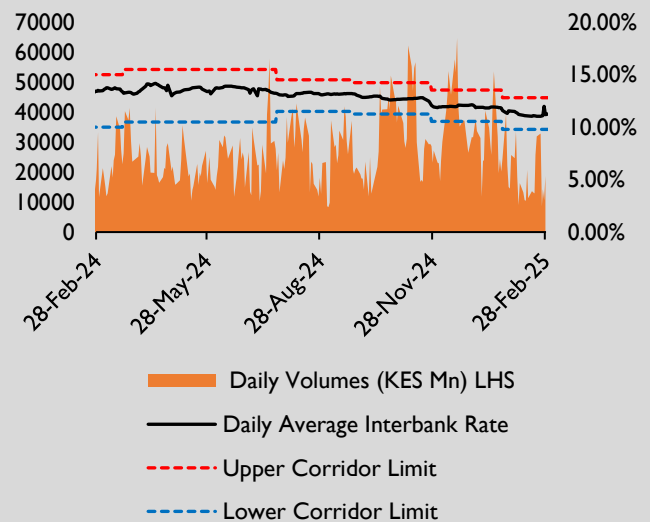
The uptick in the headline inflation rate came on the back of a 30bps increase in food inflation to 6.4% from 6.1% in January. Fuel inflation, the other hand, remained constant at 0.7% in February 2025. Similarly, Core inflation (Non-Food Non-Fuel) remained constant at 2.0% in February 2025.

Chart 2: Domestic Yield Curve Evolution



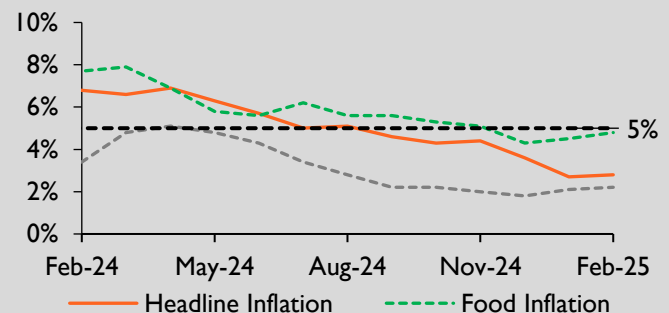
Source: CBK, AIB-AXYS Africa Research

Chart 3: Interbank Rate and Volumes



Source: CBK, AIB-AXYS Africa Research

Chart 4: Price Levels

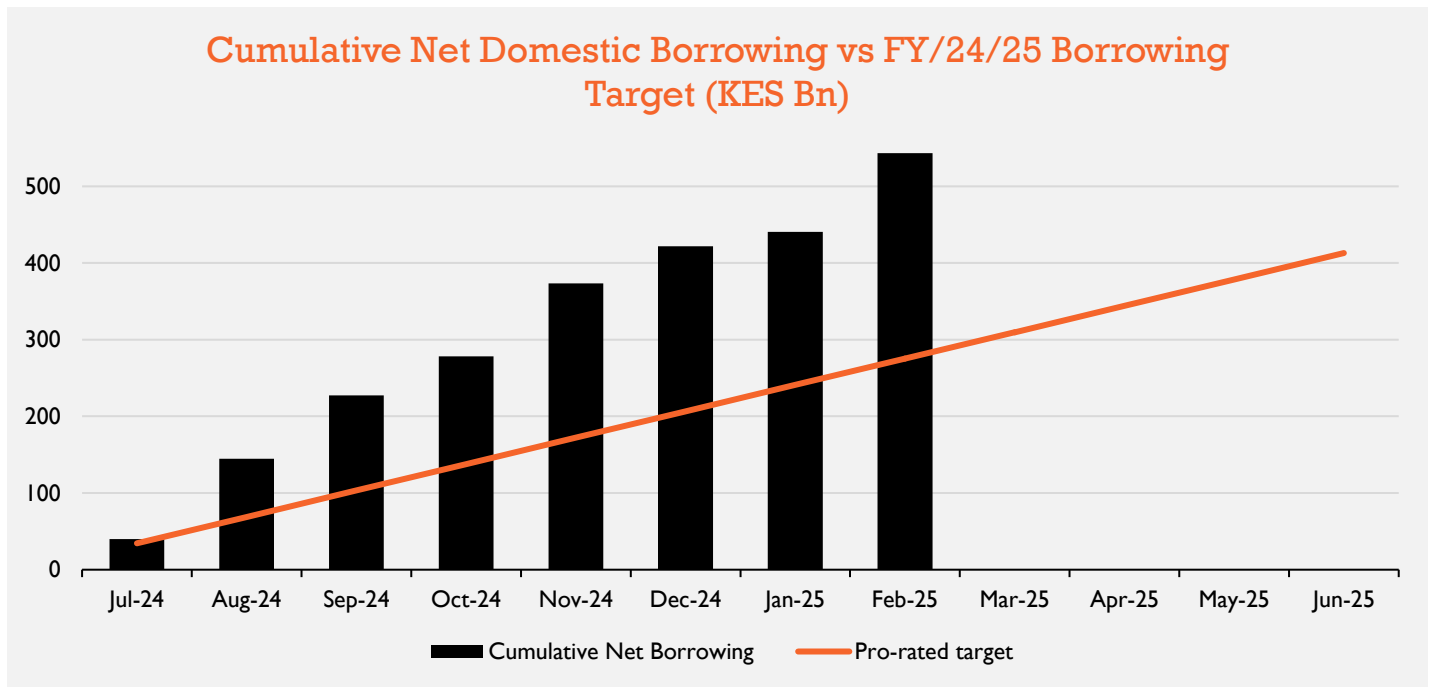


Source: Kenya National Bureau of Statistics, AIB-AXYS Africa Research

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 FXD/2018/025- (18.3 Years)</b>					
<b>FXD1/2021/020</b>	22-July-41	16.4	75,984.00	13.4440%	13.0000%
<b>FXD1/2018/025</b>	25-May-43	18.3	94,326.70	13.4000%	13.3411%
<b>FXD1/2021/025</b>	9-April-46	21.1	90,490.00	13.9240%	13.8922%

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
<b>Mar-24</b>	40,000	FXD I/2024/003 - Re-open	2.9	<b>107.7%</b>	18.385%	18.516%	18.422%	▲ 11 bps
		FXD I/2023/005 - Re-open	4.4		16.844%	18.595%	18.410%	▼ (34 bps)
		FXD I/2024/010 - New	10		16.000%	17.759%	16.519%	▲ 53 bps
				<b>149.3%</b>				
<b>Apr-24</b>	25,000	FXD I/2023/005 - Tap Sale	4.4		16.844%		18.410%	
		FXD I/2024/010 - Tap Sale	9.9	<b>183.4%</b>	16.000%		16.519%	
	40,000	FXD I/2023/002 - Re-open	1.4	<b>118.0%</b>	16.972%	17.147%	16.992%	▼ (54 bps)
<b>May-24</b>	25,000	FXD I/2024/010 - Re-opened	9.9	<b>16.668%</b>	16.000%	16.668%	16.227%	▲ 7 bps
	15,000	FXD I/2024/010 - Tap Sale	9.9	<b>46.8%</b>	16.000%			
<b>Jun-24</b>	30,000	FXD I/2023/002 - Re-opened	1.2		16.972%	17.187%	17.123%	▲ 37 bps
		FXD I/2024/003 - Re-opened	2.6	<b>102.9%</b>	18.385%	17.627%	17.586%	▲ 40 bps
	30,000	FXD I/2023/005 - Re-opened	4.1		16.844%	18.277%	18.165%	▲ 86 bps
		FXD I/2023/010 - Re-opened	8.7	<b>138.5%</b>	14.151%	16.571%	16.392%	▲ 163 bps
	20,000	FXD I/2023/002 - Tap Sale	1.2		16.972%			
		FXD I/2024/003 - Tap Sale	2.6		18.385%			
		FXD I/2023/005 - Tap Sale	4.1		16.844%			
		FXD I/2023/010 - Tap Sale	8.7	<b>125.7%</b>	14.151%			
<b>Jul-24</b>	20,000	FXD I/2023/002 - Tap Sale	1.2	<b>2.4%</b>	16.972%			
	30,000	FXD I/2024/010 - Re-opened	9.7		16.000%	16.636%	16.592%	▲ 166 bps
FXD I/2008/020- Re-opened		3.9	<b>48.9%</b>	13.750%	18.475%	18.290%	▲ 53 bps	
<b>Aug-24</b>	50,000	IFB I/2023/6.5 - Re-opened	5.8		17.933%	18.469%	18.299%	▲ 77 bps
		IFB I/2023/17 - Re-opened	15.7	<b>252.6%</b>	14.399%	18.158%	17.728%	▲ 32 bps
<b>Sep-24</b>	15,000	IFB I/2023/17 -Tap Sale	15.7	<b>234.6%</b>	14.399%			
	30,000	FXD I/2024/010 - Re-opened	9.5		16.000%	16.972%	16.870%	▲ 18 bps
FXD I/2016/020 - Re-opened		12.0	<b>75.5%</b>	14.000%	17.349%	17.285%	▲ 176 bps	
<b>Oct-24</b>	30,000	FXD I/2016/010 re-opened	1.8		15.039%	17.064%	16.984%	▲ 14 bps
		FXD I/2022/010 re-opened	7.6	<b>169.9%</b>	13.490%	17.340%	16.952%	▲ 1 bps
	15,000	FXD I/2022/010 (Tap sale)	7.6	<b>110.0%</b>	13.490%			
<b>Nov-24</b>	25,000	FXD I/2023/010 re-opened	8.3		14.151%	16.150%	15.972%	▼ (17 bps)
		FXD I/2022/015 re-opened	12.5	<b>132.2%</b>	13.942%	16.385%	16.299%	▼ (21 bps)
	20,000	FXD I/2024/010 re-opened	9.4	<b>277.9%</b>	16.000%	16.113%	15.855%	▲ 25 bps
<b>Dec-24</b>	25,000	FXD I/2023/010 re-opened	8.2		14.151%	14.864%	14.691%	▲ 84 bps
		FXD I/2018/020 re-opened	13.3	<b>285.3%</b>	13.200%	15.271%	15.112%	▲ 85 bps
	20,000	FXD I/2024/010 re-opened	9.3	<b>268.1%</b>	16.000%	14.782%	14.685%	▲ 4 bps
<b>Jan-25</b>	30,000	FXD I/2018/015 re-opened	8.3		12.650%	14.329%	14.210%	▲ 75 bps
		FXD I/2022/025 re-opened	22.8	<b>196.7%</b>	14.188%	15.743%	15.683%	▲ 8 bps
<b>Feb-25</b>	70,000	IFB I/2022/014 re-opened	11.8		13.938%	14.086%	13.978%	▲ 27 bps
		IFB I/2023/017 re-opened	15.1	<b>277.0%</b>	14.399%	14.416%	14.281%	▲ 119 bps
<b>Average*</b>	<b>33,000</b>		<b>8.5</b>	<b>163.6%</b>	<b>15.325%</b>	<b>16.702%</b>	<b>16.504%</b>	<b>▲ 46 bps</b>

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



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