Kingdom Securities Limited

Fixed Income Pre-Auction Note

February 2025 Auction

Re-openings

IFB1/2022/14

IFB1/2023/17

KES 70 Billion

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Primary Auction - IFB1/2022/14 & IFB1/2023/17

The National Treasury re-opened two infrastructure papers, IFB1/2022/14 (11.8-years – 13.938% coupon) and IFB1/2023/17 (15.1-years – 14.399% coupon), seeking KES 70.00Bn from the public for infrastructure projects.

The issue comes at the back of heavy coupon payouts expected for February 2025, amounting to KES 81.17Bn, out of which KES 60.57Bn is due on 17th February 2025, the papers' value date. We anticipate the auction to be heavily impacted by developments in the monetary policies discussed hereafter.

We recommend the below bidding rates for your consideration based on the current macro-economic condition:

Bond	IFB1/2022/14	IFB1/2023/17
Amount	KES 70 billion	
Tenure	11.8-Yrs	15.1-Yrs
Coupon	**13.938%**	**14.399%**
Period of Sale	23rd January to 12th February 2025	
Value Date	17th February 2025	
Conservative	**13.60% - 13.80**	**13.99% - 14.19%**
Aggressive	13.81% - 14.05%	14.20% - 14.49%

IFB1/2022/14 (11.8- Year) Paper Overview

IFB1/2022/14 (11.8-year) paper was last issued and tapped in November 2022 and has a holding of KES 94.26Bn. The paper has had little activity in the market, exchanging KES 1.10Bn in the month of January and KES 4.69Bn in 2024. Its last trades for the first week of February traded at an average of 13.400% from that of 13.458% the last week of January being impacted by the rate cut transmissions. We expect the paper to attract less bids compared to IFB1/2023/17.

IFB1/2022/14's next coupon is scheduled for 12th May 2025.

IFB1/2023/17 (15.1- Year) Paper Overview

We expect a heavy subscription on the IFB1/2023/17 on its relatively better coupon. The paper has a holding of KES 120.47Bn with its next coupon due on 10th March 2025 amounting to KES 17.35Bn. This is the second re-opening on the papers with the first re-open having happened in August 2024 where 46.56Bn was borrowed.

As interest rate declines are expected to decline rapidly, we foresee investors preference on the two papers rising witness a total oversubscription. We expect this to be rallied by heavy investments especially from pensions and insurance firms assisted by new funds from savings and a generally improving market liquidity.

This will be strongly supported by the looming crackdown of the banking regulator in ensuring interest rates reduction as per the reductions on the official Central Bank Rate (CBR)

Central Bank and Monetary Policy

The Central Bank further reduced its base lending rate, Central Bank Rate (CBR), for the fourth consecutive time, cutting 50.0bps from 11.25% to 10.75% to foster economic growths after the slowdowns witnessed in 2024 through private sector credit.

The monetary policy committee further reduced the banking cash reserve requirement (CRR) from 4.25% to 3.25% to support the liquidity for lending based on the following:

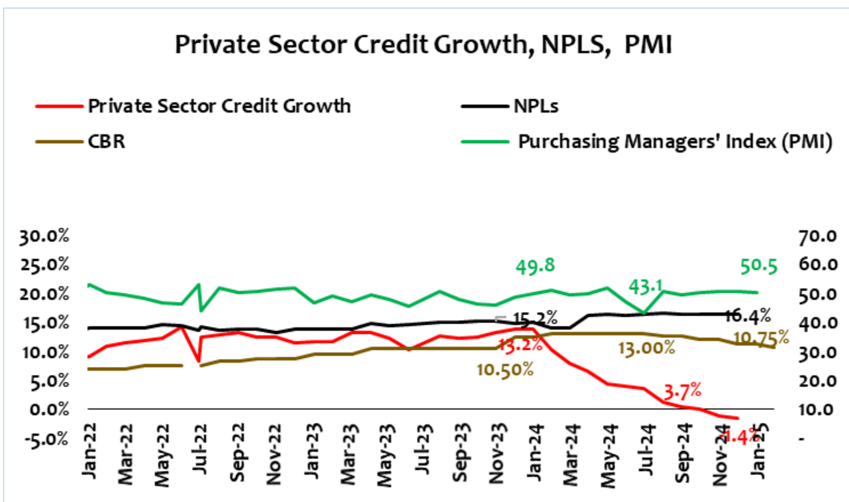
- January inflation rose to 3.3% compared to 3.0% of December 2024 but remained lower compared to 6.9% of January 2024. Inflation remained below the mid-target range of 5% ± 2.5% for eight straight months to January.

- Credit to private sector declined for a whole year to December 2024, with November and December 2024 recording negative declined of 1.1% and 1.4% respectively on impact from high interest rates witnessed in the period. As a result, credit to manufacturing, trade, transport & communication and to the building and construction has been on a down trend.

- The banking sector remains resilient with strong capital and liquidity ratios which stood at 19.4% and 55.8% against the requirements of 14.5% and 20% as of December 2024 respectively. However, Gross non-performing loans (NPLs) were elevated at 16.4% as of December 2024 compared to 14.8% of similar period 2023. High NPLs being witnesses mainly in manufacturing, trade, and the construction sectors.

- The exchange rate remains stable against the major currencies to mute import inflation and improved predictability.

According to the purchasing managers index, growth remains present in both production and consumption of manufactured products on lower inflationary pressure albeit at a slower pace.

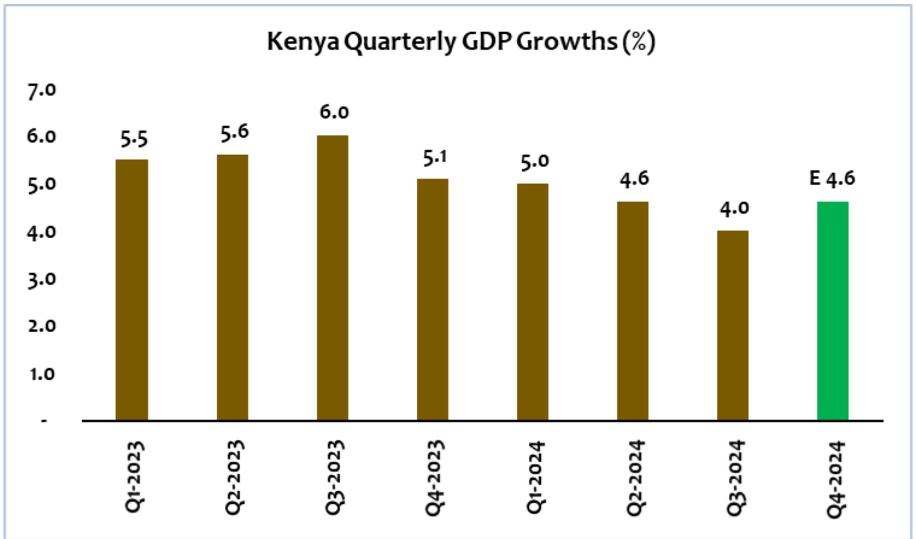


Economic Update

Global gross domestic product is projected at 3.3% growth for 2025 from an estimated growth of 3.2% supported by easing inflations, interest rates cuts and anticipated easing of geopolitical tensions especially in the Middle East.

The revised local economic outlook forecast the economy to have grown by 4.6% in 2024, held down by economic slowdowns occasioned by the protests in mid-year 2024 and economic contractions in some key sectors including construction and mining sectors.

Official statistics pointed a slowest GDP growth of 4.0% in Q3-2024 compared to a 6.0% growth in Q3-2023 and slowest growth since 2020. The growth was slowed down by contractions in construction industry and the mining and quarrying sectors which contracted by 2.0% and 11.1% respectively in the quarter.



Annual GDP Growths

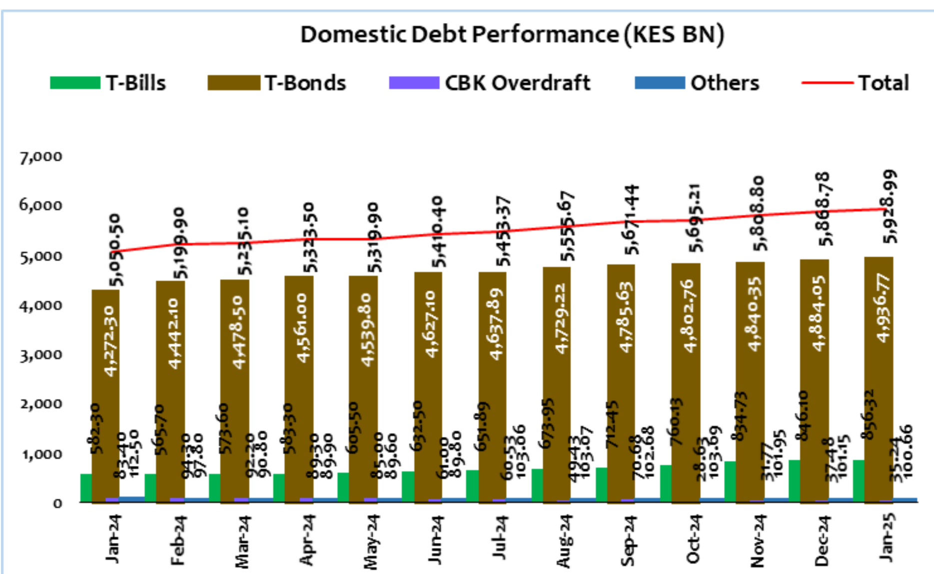
2020	-	-0.3%
2021	-	7.6%
2022	-	4.9%
2023	-	5.6%
2024	-	E 4.6%
2025	-	E 5.4%

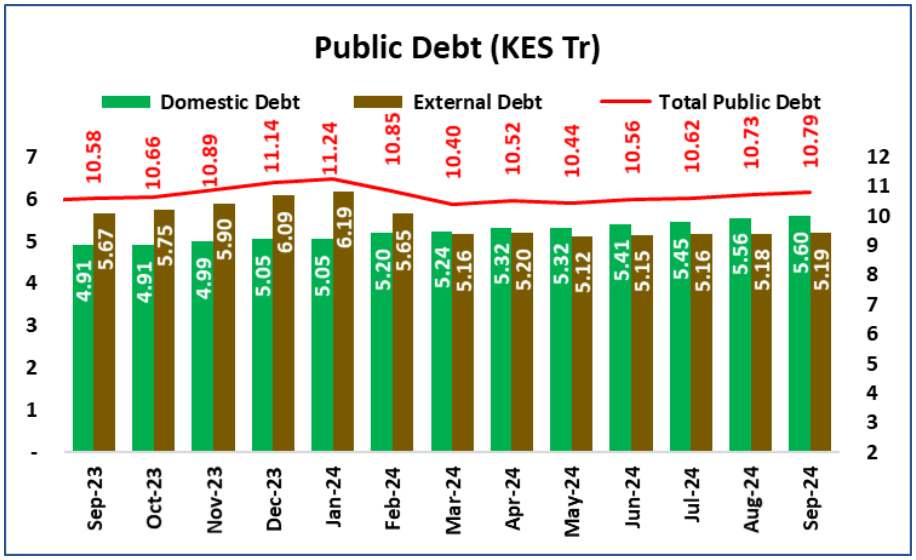
Public Debt

Public domestic debt rose to KES 5,928.99Bn by end of January 2025, a 17.4% year on year rise compared to KES 5,050.50Bn recorded similar period in 2024.

December exchequer report indicated a borrowing of KES 477.17Bn domestic debt, a 97.8% performance against a six-month government borrowing target of KES 489.15Bn. Revise budget estimates for FY-2024/25 saw domestic borrowing 18.1% up from an original estimate of KES 828.38Bn to KES 978.30Bn.

As the external financing and grants point a low performance of 32.3% or KES 92.78Bn against a six -month target of KES 296.75Bn, we anticipate more demand for domestic financing to remain and consequent elevate the cost of financing.





Bonds – Primary Market Performance

Since the start of the rate cuts, the market has witnessed oversubscriptions seemingly reactionary from investors as they take advantage of the high rates before they fully stabilize down.

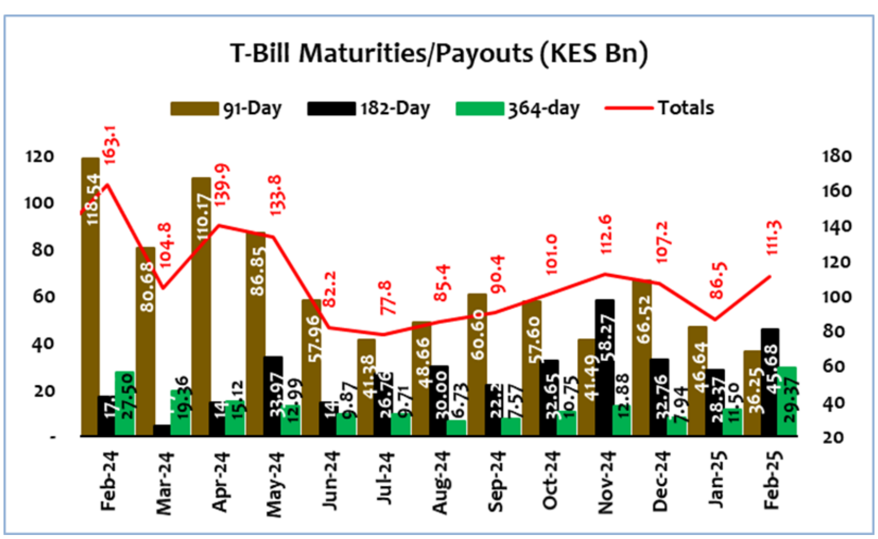
As such we expect the same impact to prevail in the is auction even as the government remains skeptical on issuing new papers.

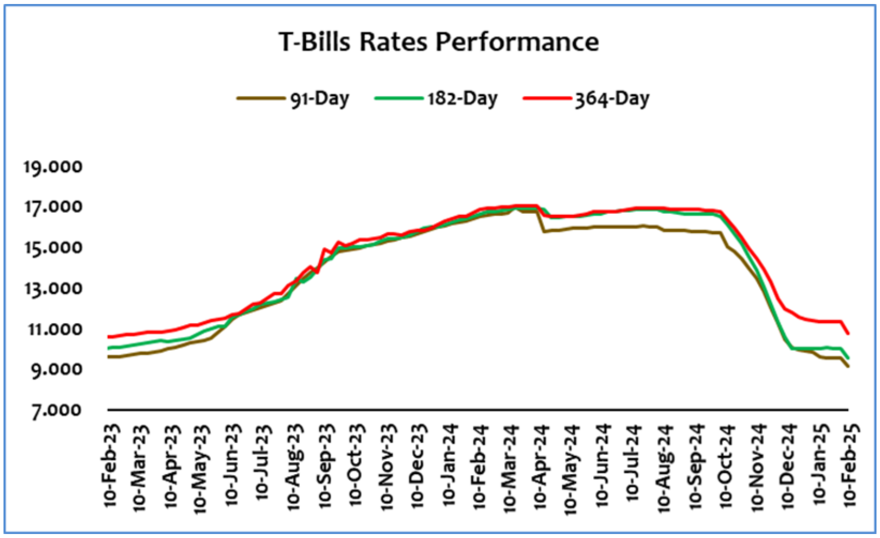
Treasury Bills

Returns from treasury bills continue landing down being the first to take the hit of interest rate.

The three papers are currently Trading rates of 9.1156%, 9.5190% and 10.7881% for the 91-, 182 and 5364-day papers respectively, levels last seen in early February 20223. This is after recording highs of 16.9676%, 16.9137% and 16.9899% for the 91, 182-, and 364-day papers respectively.

In February 2025 we expect treasury bills of KES 111.30Bn which we anticipate to be re-invested back resulting to oversubscriptions against a projected demand of KES 96.00Bn for the month.



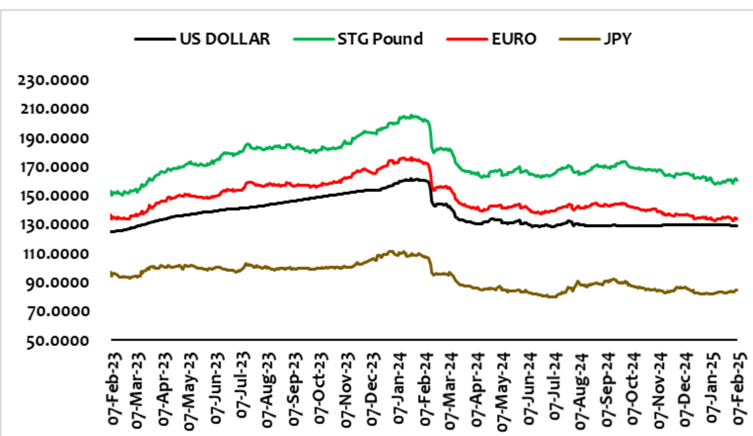


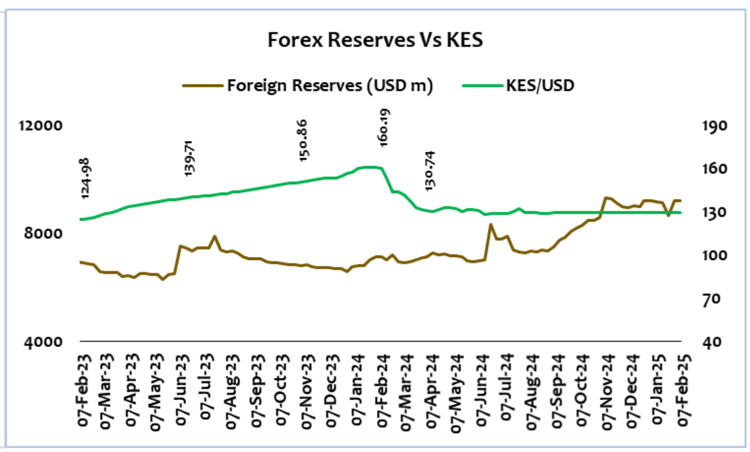
Currency

The Kenya shilling remains strong against a basket of major currencies. In the last one month, the shilling has gained 0.1%, 1.3% and 0.5% against the US dollar, the British pound and the euro respectively.

Usable forex reserves stand at

Currency	02-Jan-25	07-Jan-25	07-Feb-25	%Δ y-t-d	%D w-w
Dollar	129.31	129.38	129.21	0.1%	0.1%
STG Pound	162.20	162.20	160.09	1.3%	1.3%
Euro	134.72	134.55	133.90	0.6%	0.5%
JPY	82.48	81.95	84.87	-2.9%	-3.6%
US Dollar Index	109.22	108.54	108.04	-1.1%	-0.5%



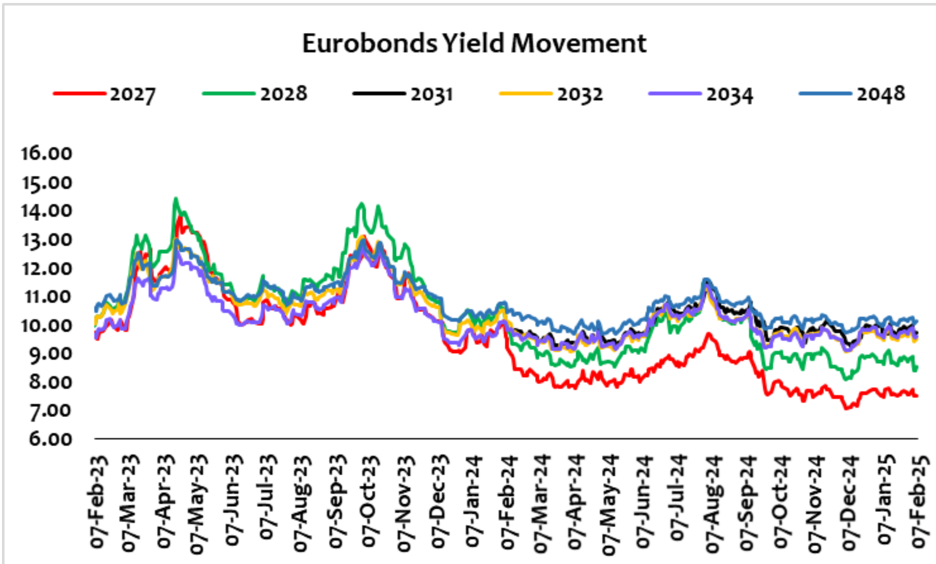


Eurobond

Yields on Kenya's international papers relaxed down in the last one month on what remains to be a better economic outlook which projects the country's growth top among the Sub-Sahara Africa countries. This is further supported by political stability and strengthening of the local currency.

Four out of the six listed papers saw their values improve as their yield rates edged down between January and the first week of February. The February 2028 paper saw its yield drop faster at 19.4bps from 8.718% to 8.524% on what appears to be a rising demand on the paper.

Euro-bond Paper	07-Feb-24	07-Jan-25	07-Feb-25	Δ bps yt-d	Δ bps w-w
May-2027	9.567	7.537	7.504	206.30	3.30
Feb-2028	10.066	8.718	8.524	154.20	19.40
Feb-2031		9.803	9.729		7.40
May-2032	10.165	9.515	9.481	68.40	3.40
Jan-2034	10.084	9.566	9.596	48.80	(3.00)
Feb-2048	10.739	9.945	10.108	63.10	(16.30)



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