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MPC lowers base rate by  
a further 75bps to spark  
economic growth

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## WEEKLY FIXED INCOME REPORT

*Banks highlight risk-based pricing models and cost of deposits for sticky high rates*

# MONEY MARKET ANALYSIS

This week, the average lending rate eased to 11.80% from 11.91%, with the final day of the week driving the momentum, spurred by the downward adjustment of the benchmark rate. Meanwhile, interbank activity painted a picture of enhanced liquidity, as average volumes soared by 89.1% to KES 43.16bn from KES 22.83bn, mirroring a 40.5% surge in transaction count. The financial pulse quickened, signaling a responsive market environment.

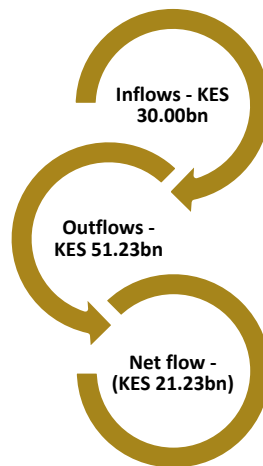
The table below summarizes the market liquidity indicators:

Average	Previous Week	Current Week	Change
Interbank Deals	37.00	52.00	40.54%
Inter- Bank volumes (KES bn)	22.83	43.16	89.10%
Inter – Bank Rates (change in bps)	11.91%	11.80%	(10.51)

Source: Central Bank of Kenya (CBK), Table: SIB

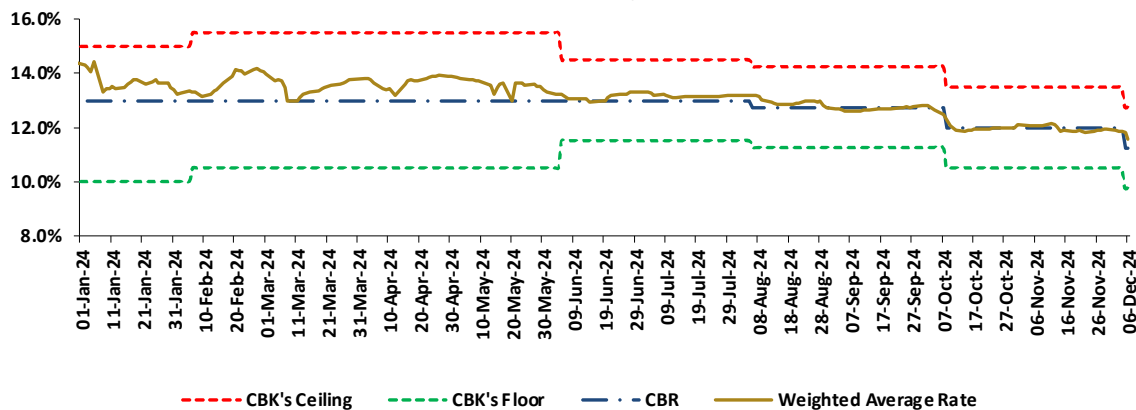
Open market operations slowed this week, with bank bids falling to KES 46.90bn from KES 68.40bn the previous week. The Central Bank accepted bids totaling KES 30.0bn, which helped offset maturities amounting to KES 51.23bn, resulting in an overall liquidity mop of KES 21.23bn.

## Reverse Repos Flows



Notably, the weighted average interbank rate has closely aligned with the Central Bank Rate in recent weeks, with actual highs and lows remaining well within the interest rate corridor, exhibiting no deviations. See the chart below;

## Interbank Rate Spreads



Data: Bloomberg, Chart: SIB

## GOVERNMENT SECURITIES MARKET

### T-bills

During the week, demand for Treasury bills further declined to a 176.3% subscription rate, down from 211.1% the previous week, likely influenced by the concurrent bond issuance. This trend also coincides with lower maturities, which may have restricted liquidity capacity.

Investor interest was primarily directed towards the 91-day and 364-day papers, with total bids amounting to KES 42.22bn. The fiscal agent accepted KES 34.65bn, resulting in a 99.8% acceptance rate—the highest in recent memory. However, in absolute terms, the accepted amount remains consistent with recent trends.

The weighted average rates for accepted bids were hurtled towards single digit as follows: 10.46% (-79.36 bps) for the 91-day paper, 10.55% (-78.92 bps) for the 182-day paper, and 11.97% (-52.30 bps) for the 364-day paper. See the summary below;

KES bn

9-Dec-24	91-day 10-Mar-24	182-day 9-Jun-25	364-day 8-Dec-25	Totals
Amount offered	4.00	10.00	10.00	24.00
Bids received	18.93	6.76	16.62	42.31
Subscription rate (%)	473.2%	67.6%	166.2%	176.3%
<b>Amount accepted</b>	<b>18.91</b>	<b>6.71</b>	<b>16.60</b>	<b>42.22</b>
Acceptance rate (%)	99.9%	99.2%	99.9%	99.8%
Of which: Competitive Bids	7.09	5.38	10.03	22.50
Non-competitive bids	11.81	1.33	6.57	19.71
Rollover/Redemptions	21.96	6.41	0.77	29.14
<b>New Borrowing/(Net Repayment)</b>	<b>(3.05)</b>	<b>0.30</b>	<b>15.83</b>	<b>13.08</b>
<b>Weighted Average Rate of Accepted Bids</b>	<b>10.46%</b>	<b>10.55%</b>	<b>11.97%</b>	
<b>Inflation</b>	<b>2.8%</b>	<b>2.8%</b>	<b>2.8%</b>	
<b>Real Return</b>	<b>7.7%</b>	<b>7.7%</b>	<b>9.2%</b>	

Source: Central Bank of Kenya (CBK), Table: SIB

### T-Bonds

In the primary bond market, two of the December issuances attracted significant interest, despite their longer tenors. This surge in demand can be attributed to investors seeking to lock in higher rates.

The 10-year and 20-year papers saw a subscription rate of 285.3%, with bids totaling KES 71.32bn, surpassing the target of KES 25bn. However, the fiscal agent accepted KES 53.41bn, reflecting a 74.9% acceptance rate.

Investor preference was tilted towards the shorter 10-year paper, which also offered the higher rate, capturing 66.5% of the total bids. The weighted average rates settled at 14.69% (below the prevailing rate) for FXD1/2023/10 and 15.11% (above the prevailing market rate) for FXD1/2018/20.

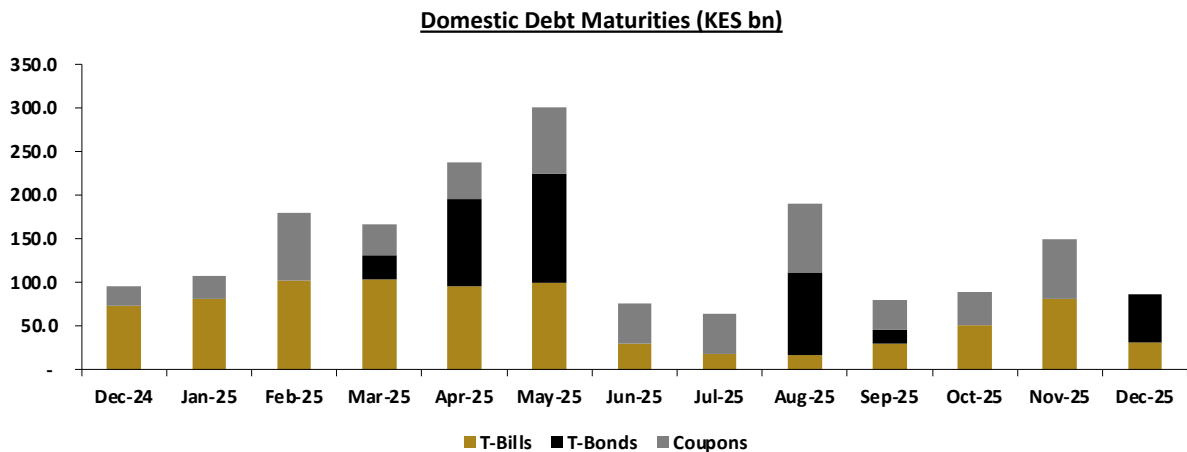
See a summary of the offer below;

09-Dec-24 Due Date	FXD1/2023/10 31-Jan-33	FXD1/2018/20 01-Mar-38	Totals
Amount offered (KES bn)			25.00
Bids received (KES bn)	47.40	23.92	71.32
Subscription rate (%)	189.58%	95.69%	285.27%
<b>Amount accepted</b>	<b>34.92</b>	<b>18.49</b>	<b>53.41</b>
Acceptance rate (%)	86.33%	83.40%	74.89%
Of which: Competitive Bids	29.43	12.66	42.09
Non-competitive bids	5.49	5.83	11.32
Bid to Cover ratio			1.34
Redemptions			
<b>New Borrowing/(Net Repayment)</b>			<b>8.58</b>
Market weighted average rate of accepted bids	14.69%	15.11%	
Coupon Rate	14.15%	13.20%	
Price per KE 100 at average yield	102.05	92.16	
Inflation	2.80%	2.80%	
<b>Real Return</b>	<b>11.35%</b>	<b>10.40%</b>	

Source: Central Bank of Kenya, SIB Research

## Outstanding Debt Maturities (T-Bills and T-Bonds):

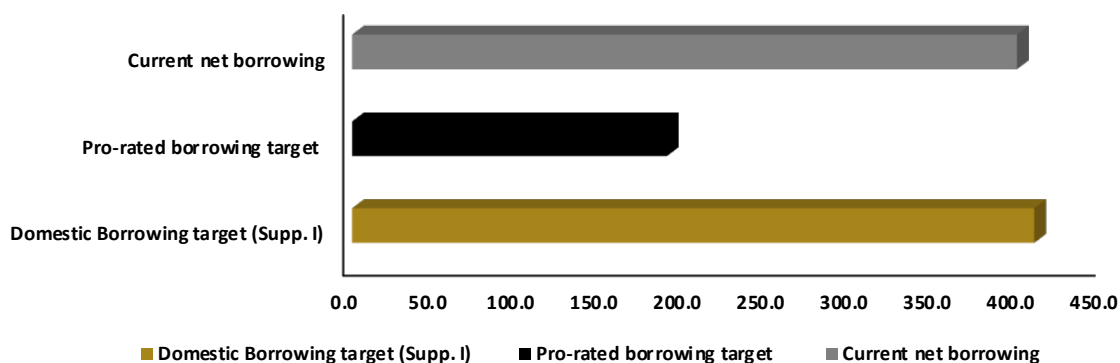
As of this week, the Government's outstanding T-Bill and T-Bond maturities for the next 12 months are valued at KES 703.38bn and KES 363.02bn, respectively. Including coupon payments, the total maturity profile exceeds KES 1.8tn, as outlined below;



Source: Central Bank of Kenya (CBK), Chart: SIB

The government has already borrowed 97.5% of its domestic borrowing target for FY24/25, with current borrowing totaling KES 398.07bn, significantly surpassing the prorated target of KES 188.50bn. Excluding T-bills, domestic borrowing is 27.4% above the prorated target and accounts for 58.8% of the overall target. See the chart below;

## Domestic Borrowing (KES bn)

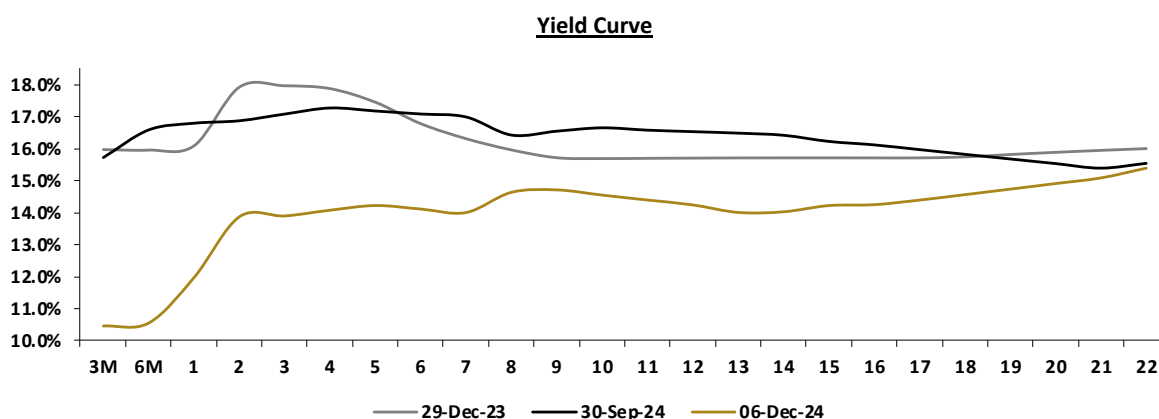


Source: Central Bank of Kenya (CBK), Treasury, Chart: SIB

## Yield Curve

The yield curve continues to reflect mixed market sentiments, gradually trending toward a more normalized shape. Rates at the long end are now clearly declining at a slower pace compared to short- and medium-tenor rates.

On a week-on-week basis, yields on government securities registered an average decline of 278.0 basis points. Below a visual representation;



Source: Nairobi Securities Exchange (NSE), Chart: SIB; Central Bank of Kenya (CBK), Chart: SIB

## The International Front

### Kenyan Eurobonds

This week, Kenyan Eurobond yields declined across the curve, with the yield on the longest paper remaining unchanged. Shorter-tenor bonds experienced the most significant adjustments, reflecting heightened sensitivity to market dynamics. Below is a summary of the performance;

Kenyan Eurobonds						
Issuance	KENINT 05/22/2027	KENINT 02/28/2028	KENINT 02/16/2031	KENINT 05/22/2032	KENINT 01/23/2034	KENINT 02/28/2048
Issue Date	May-27	Feb-28	Feb-31	May-32	Jun-34	Feb-48
Tenor to Maturity	2.5	3.2	6.2	7.5	9.5	23.2
29-Dec-23	10.1%	9.8%	-	9.9%	9.5%	10.2%
28-Nov-24	8.1%	8.7%	9.9%	9.8%	10.1%	8.6%
2-Dec-24	7.9%	8.6%	9.8%	9.7%	10.1%	8.6%
3-Dec-24	7.9%	8.6%	9.7%	9.7%	10.1%	8.8%
4-Dec-24	7.8%	8.6%	9.6%	9.6%	10.0%	8.8%
5-Dec-24	7.7%	8.4%	9.5%	9.5%	9.9%	8.6%
Weekly Change	(0.5%)	(0.3%)	(0.4%)	(0.3%)	(0.2%)	0.0%
YTD Change	(2.5%)	(1.4%)	-	(0.4%)	0.4%	(1.6%)

Source: Central Bank of Kenya (CBK), Table: SIB

## Currency Performance

In the foreign exchange market, the Kenyan shilling reversed its losses against all the international currencies we track, but depreciated against regional currencies. This performance in the international space coincided with a 0.4% weakening of the dollar index. See the table below;

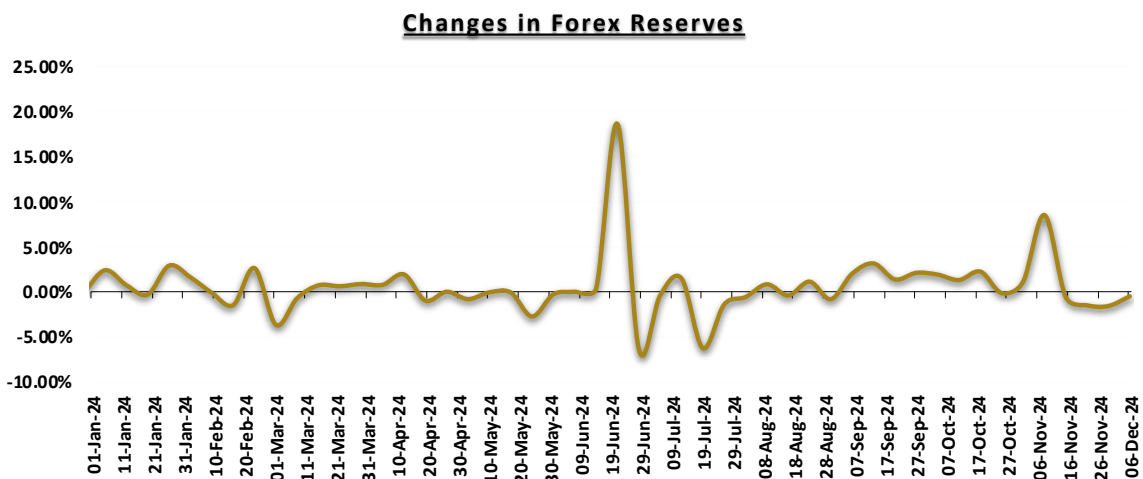
Currencies	29 Dec 2023	Previous Week	Current Week	w/w Change	YTD change
TZS/KES	16.1	20.4	20.3	(0.7%)	26.1%
KES/UGX	24.2	28.5	28.4	(0.3%)	17.3%
GBP/KES	199.8	164.8	164.7	0.1%	17.6%
USD/KES	156.5	129.7	129.3	0.3%	17.4%
EUR/KES	173.8	137.1	136.5	0.4%	21.4%
JPY/KES	111.0	86.4	85.9	0.6%	22.6%

Source: Central Bank of Kenya (CBK), Chart: SIB

Abb: GBP – British Pound, EUR – Euro, USD – US Dollar, UGX – Ugandan Shilling, TZS – Tanzanian Shilling, JPY – Japanese Yen | FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

Foreign exchange reserves dropped to USD 9.0bn, covering 4.6 months of imports, from USD 9.14bn, last week.

See below the evolution of forex reserves in 2024 so far;



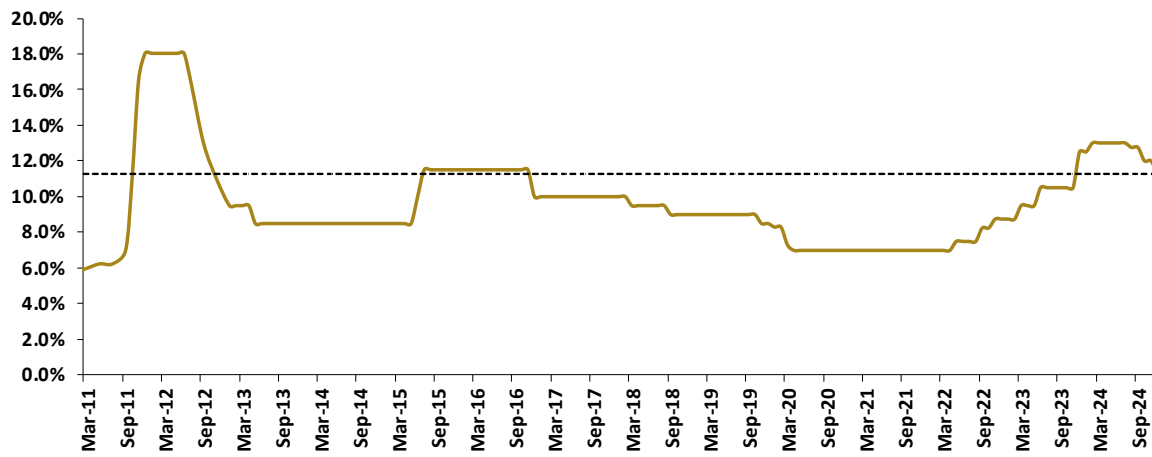
Source: Central Bank of Kenya (CBK), Chart: SIB

# MARKET NEWS

## a) MPC lowers base rate by a further 75bps to spark economic growth

CBK's Monetary Policy Committee (MPC) met on Thursday, 5th December 2024, and, as anticipated, reduced the Central Bank Rate (CBR) by 75bps to 11.25%. The decision, among many reasons, was compelled by the need to stimulate economic growth following the slower growth in 1H24 (and contraction in some sectors). The committee also highlighted that inflation rate is expected to remain below the midpoint of the target range on the back of lower food and fuel inflation, while core inflation remains stable and has moderated. We however note that while inflation has significantly eased, core inflation remains sticky and higher than the recent historical average.

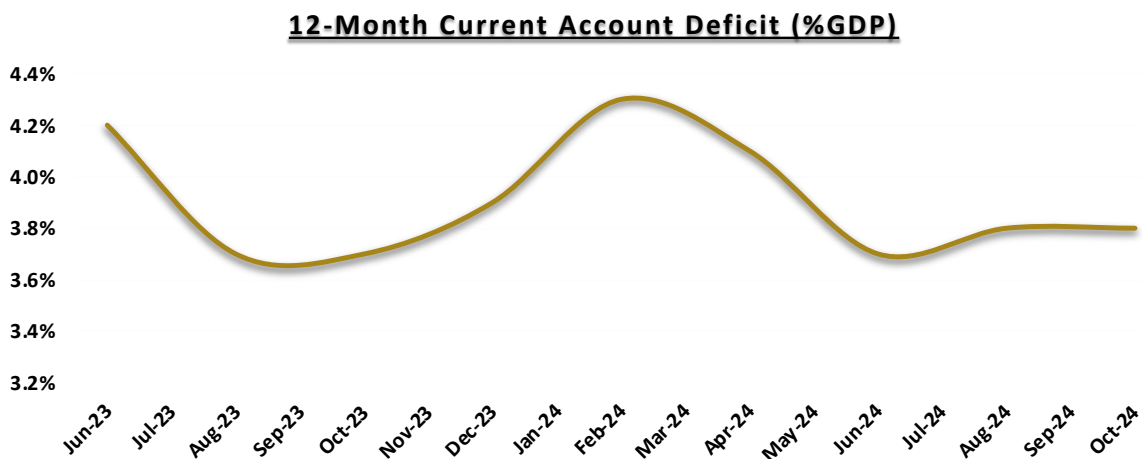
See the chart below;



Source: CBK, Chart: SIB

The committee noted that:

- i. The **current account deficit** remained unchanged at 3.8% of GDP in the 12 months to October 2024, as was recorded in the 12 months to August 24, as shown below;



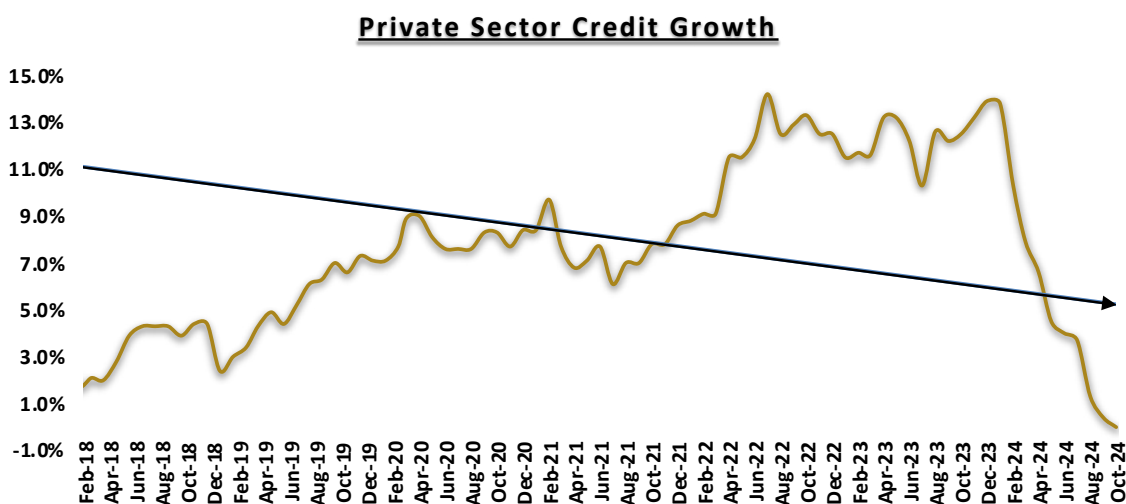
Source: CBK, Chart: SIB

ii. **Exports** were 15.0% higher in the first ten months 2024 compared to a similar period in 2023. In the 12 months to August 2024, the segment rose by 11.9%, driven by exports of tea (+2.1%), vegetables, and fruits (+16.8%) respectively, while re-exports surged by 73.5% during the period. The sharp increase in re-exports could signal reduced domestic production or value addition, potentially prompting reliance on re-exported goods to meet demand.

iii. In contrast, **imports** recorded a slower 9.6% increase in the first ten months of 2024 compared to a similar period in 2023. In the 12 months to August 2024, imports, goods imports increased by 7.9% on increased capital and intermediate goods.

We observe that the current account deficit remains stable due to a slower growth in imports, a trend which may suggest weakening demand, constrained capital, and rising input costs, all of which are reinforced by the muted private sector business environment.

iv. Private sector credit remained unchanged in October 2024, from a muted 0.4% growth in September 2024 and 12.5% in October 2023, a first, in over 10 years. This decline was partly driven by exchange rate valuation effects on foreign currency-denominated and reduced demand due to elevated credit costs. see the chart below;



Source: CBK, KNBS, Chart: SIB

The slower growth can also be attributed to the crowding-out effect, where banks have preferred lending to the government over the private sector, whose risks have increased due to narrower margins. With rates on government securities declining rapidly, we expect banks to gradually resume lending to the private sector. However, the benchmark rate remains elevated compared to historical levels and the private sector continues to face challenges, including lower demand driven by reduced disposable income, which may limit the uptake of credit.

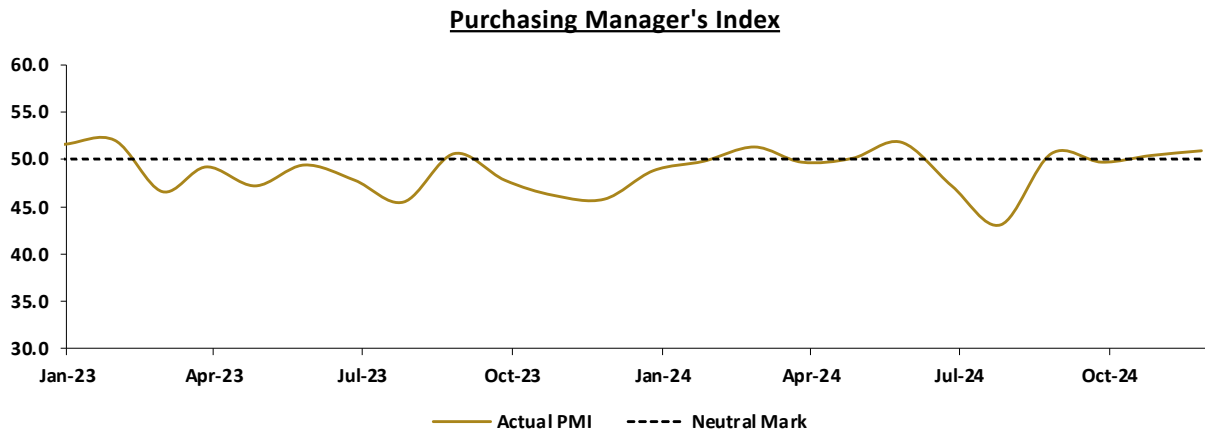
Meanwhile, the Kenya Bankers Association (KBA) issued a statement following calls to the sector to lower the high cost of loans and signaled their commitment to lower rates beginning December 2024. Carefully baked into the statement was the cost of deposits which were locked in during a period of higher interest rates before MPC initiated cuts. The other issue raised by the banks was that risk based pricing models which incorporates risk premiums based on past repayment history including non-performing loans. Acknowledging financial strains by consumers, banks appeared to raise the issue of delayed payments by government to suppliers and overall reduced consumer incomes which has continued to elevate consumer risk and constrain lending at lower rates.

The committee will meet again in February 2024.

## b) Private Sector Teeters on the Edge despite Falling Prices

According to Stanbic Bank Kenya's PMI survey, business activity in the private sector showed a slight improvement in November, with the index rising to 50.9 from 50.4 in October 2024. This performance indicates a stable private sector environment, with price pressures largely under control. Both inflation and the exchange rate remained mostly unchanged, suggesting that input costs did not experience significant fluctuations.

See the chart below;



Source: Stanbic, S&P Global, Chart: SIB

*\*The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.*

The key take-outs from the release include:

- New order volumes registered their highest growth in six months, driving a rise in sales due to increased customer spending, new client referrals, and heightened travel activity. However, overall new order growth remained moderate, primarily supported by expansions in the wholesale, retail, and services sectors. In contrast, sales declined in the agriculture, manufacturing, and construction sectors.
- Job numbers recorded only a marginal increase, with employment rising modestly in agriculture, wholesale & retail, and services sectors, while declining in manufacturing and construction. The limited hiring was primarily driven by increased workloads and expanded marketing budgets.

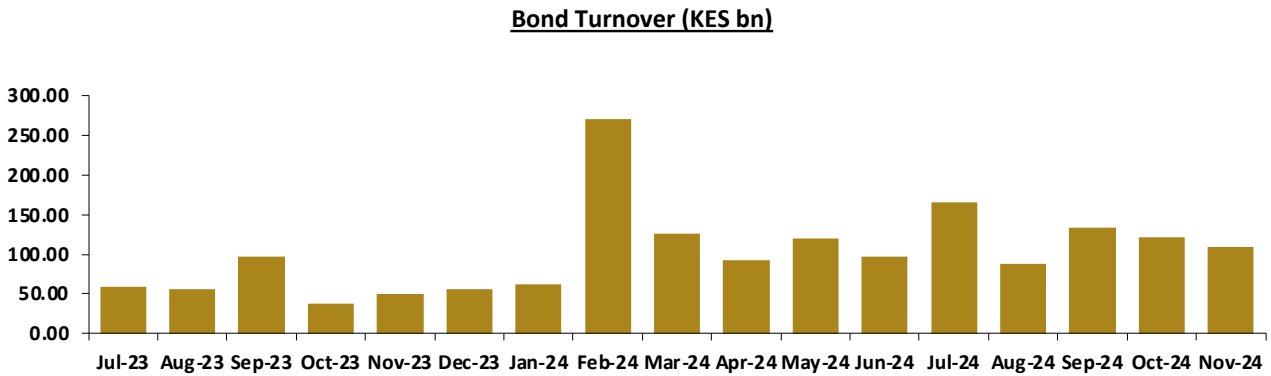
Companies showed limited optimism regarding the activity outlook, with the future outlook index weakening slightly, ranking among the softest on record. Only 8% of respondents projected an uplift in activity, with optimism linked to expected growth in the Output Index driven by new marketing strategies, adoption of digital technologies, branch openings, and the introduction of new services.

However, the minimal growth does not inspire strong confidence, as any small negative event or trend could push the index into the negative zone. Furthermore, the factors supporting the slightly positive outcome appear fragile and could easily shift downward. This calls for proactive measures to strengthen sector performance, especially in the manufacturing sector. Lower prices alone do not seem to be sufficient in addressing the broader economic constraints.

*The Stanbic Bank Kenya PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.*

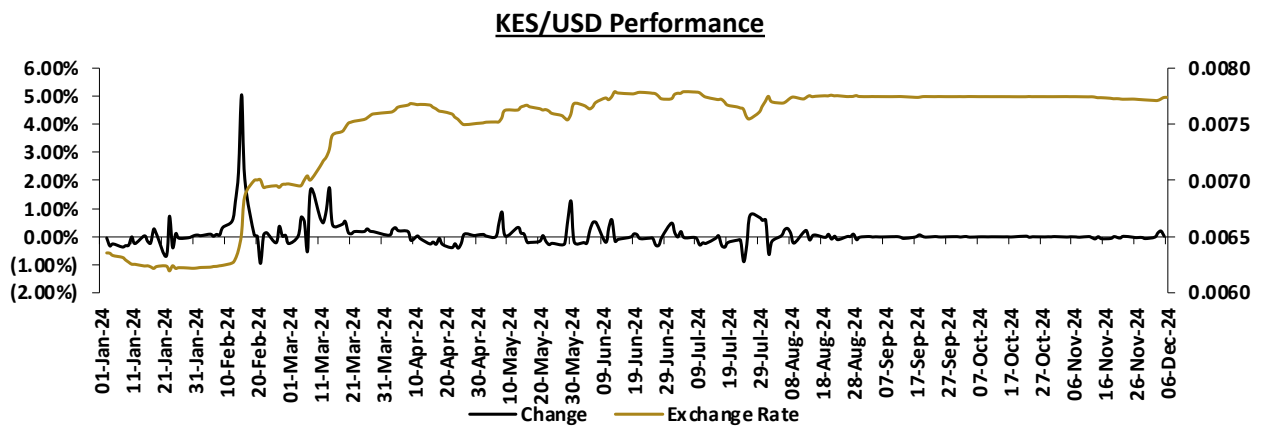
# BACKGROUND CHARTS

## Secondary Bond Turnover



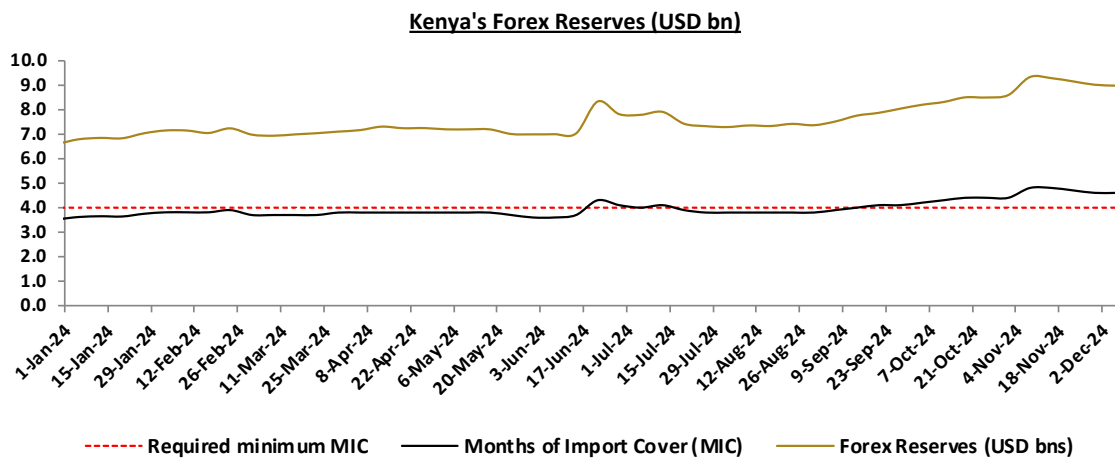
Source: Nairobi Securities Exchange (NSE)

## KES/USD Performance



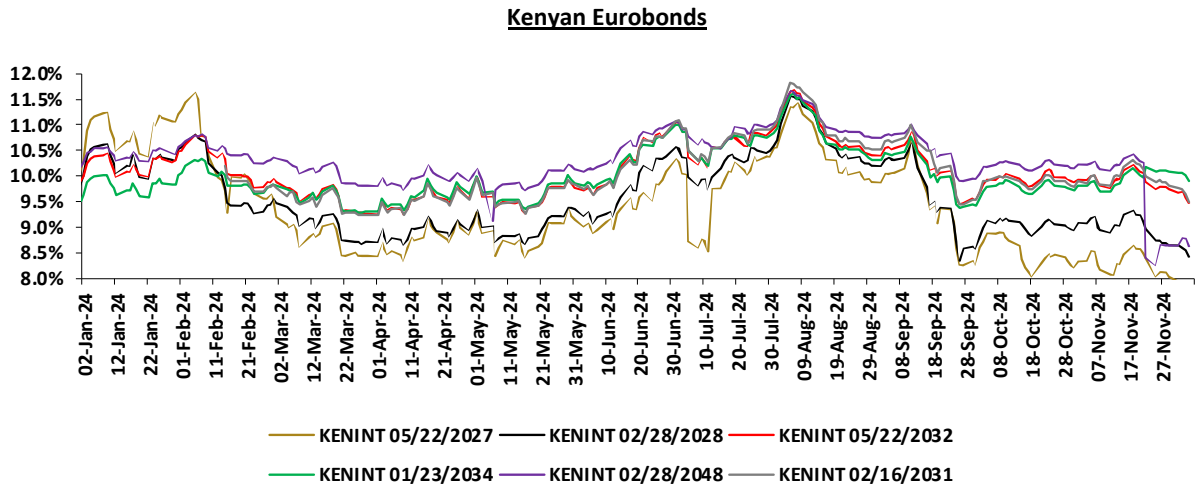
Source: Central Bank of Kenya (CBK)

## Forex Reserves



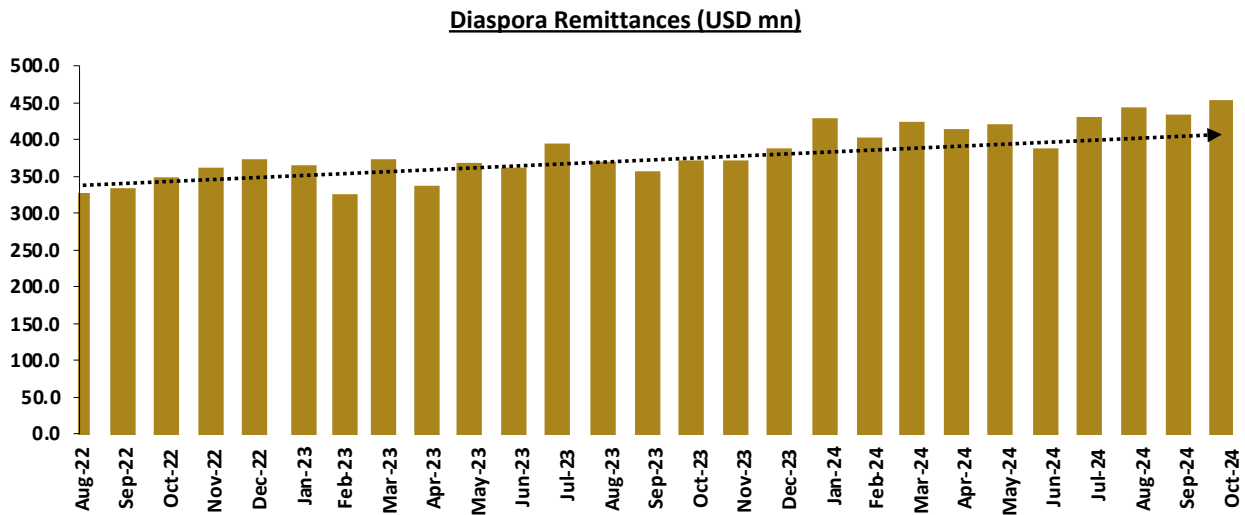
Source: Central Bank of Kenya (CBK)

## Kenyan Eurobonds



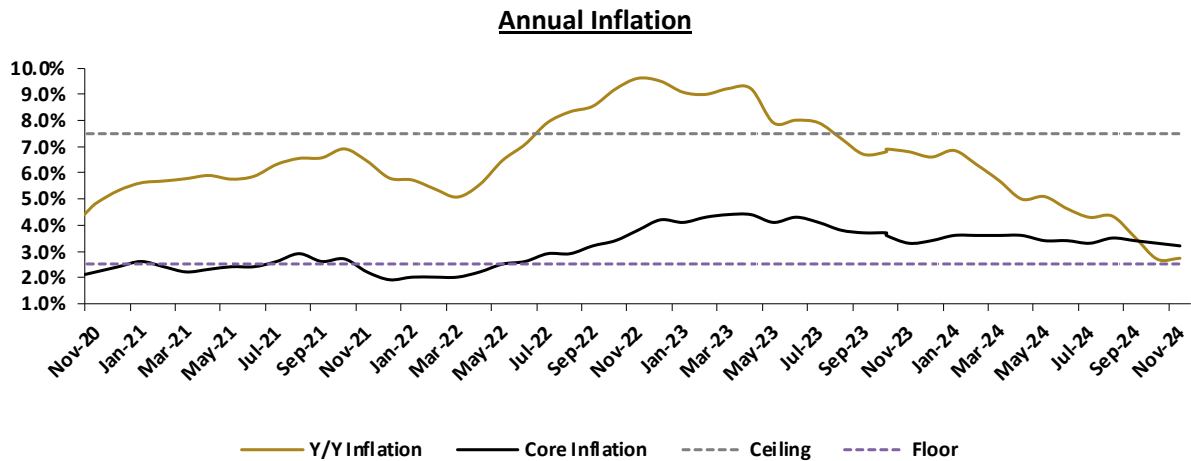
Source: Central Bank of Kenya (CBK)

## Diaspora Remittances



Source: Central Bank of Kenya (CBK)

## Consumer Prices



Source: Central Bank of Kenya (CBK)

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# Disclosure and Disclaimer

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