



ROCK
ADVISORS

PRIMARY BOND AUCTION NOTE

October 2025

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Overview

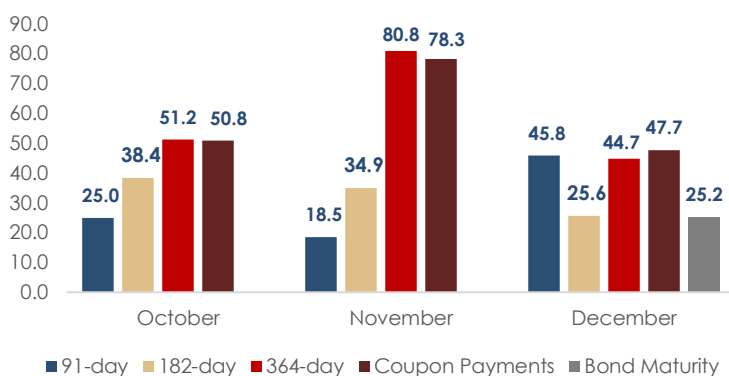
The Government of Kenya, through the Central Bank, is re-opening two fixed income bonds; **FXD1/2018/015** and **FXD1/2021/020**, targeting KES **50.00Bn** for budgetary support in the FY25/26.

Maturity schedule

In October, the government faces approximately KES 165.40Bn in Treasury bill and bond coupon redemptions, a slight decline from KES 166.20Bn in September. This marginal reduction offers the exchequer greater fiscal flexibility, potentially enabling it to reject overly aggressive investor bids. Consequently, a push-and-pull dynamic may emerge—investors seeking to capitalize on the government’s refinancing needs, while the exchequer adopts a more conservative stance given its reduced repayment obligation. However, the overall impact is expected to remain modest due to the minimal difference in maturities.

Moreover, the exchequer is expected to benefit from external inflows, including the anticipated KES 97Bn World Bank disbursement (initially expected by end-September) and proceeds from the recently issued Eurobond. With \$628.4Mn already used for buybacks, the remaining \$872Mn will bolster Treasury liquidity, potentially reducing reliance on domestic borrowing. We believe this improved liquidity position could limit investors’ bargaining power and narrow the upside potential for yield deviations in upcoming auctions.

Government Obligations Q4 2025 in KES Bn



Source: CBK, Rock Advisors Research

Auction Highlights

Issuer	Republic of Kenya
Amount	KES 50.00 Bn
Objective	Budgetary Support FY 25/26
Tenor	FXD1/2018/015 – 7.7 years FXD1/2021/020 – 15.9 years
Tax Structure	FXD1/2018/020 – 10% withholding tax FXD1/2022/025 – 10% withholding tax
Coupon Rates	FXD1/2018/015 – 12.6500% FXD1/2021/020 – 13.4440%
Redemption Structure	FXD1/2018/015 – full redemption (100%) by 9 th May 2033. FXD1/2021/020 – full redemption (100%) by 22 nd July 2041.
Maturity Dates	FXD1/2018/015 – 9 th May 2033 FXD1/2021/020 – 22 nd July 2041.
Period of Sale	26 th September 2025 – 15 th October 2025
Settlement Date	Tuesday, 21 st October 2025
Non-competitive Bids	KES 50,000 (Min) – KES 50 Mn (Max) per CSD Account
Competitive Bids	KES 2 Mn. Minimum per CSD Account per Tenor
Rock Advisors Bidding Recommendation	FXD1/2018/015 – 12.65% - 12.85% FXD1/2021/020 – 13.37% - 13.57%

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Fiscal Perspective

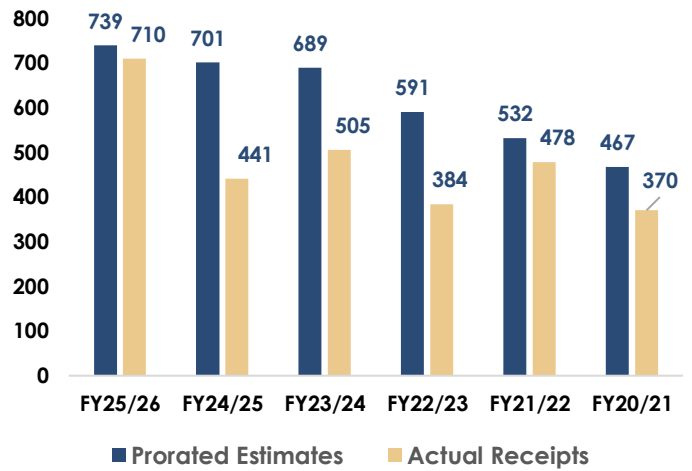
Kenya's fiscal revenues recorded robust year-on-year growth in August, with total receipts rising 60.9% y/y to KES 709.67Bn, supported by strong domestic borrowing and steady tax performance. Tax revenues increased 5.1% y/y to KES 328.75Bn, reflecting resilient collections amid stable economic activity and moderate inflationary pressures. The main driver, however, was domestic borrowing, which surged 252.2% y/y to KES 359.82Bn, highlighting the government's front-loaded debt strategy to address short-term financing needs.

On the other hand, non-tax revenues declined 53.4% y/y to KES 8.22Bn, mainly due to reduced dividend inflows and administrative fees against a high base in 2024. External financing remained muted, with disbursements of KES 4.70Bn compared to KES 3.07Bn last year, reflecting ongoing delays in loan and grant inflows. Overall, total revenues achieved 96.0% of prorated targets, well above the five-year average of 74.1%, largely driven by domestic borrowing rather than organic revenue growth. We believe the exceptional performance during the month is expected to ease near-term borrowing pressures for the exchequer, reducing the likelihood of accepting aggressive investor bids in the upcoming auction.

T-bill Market Analysis

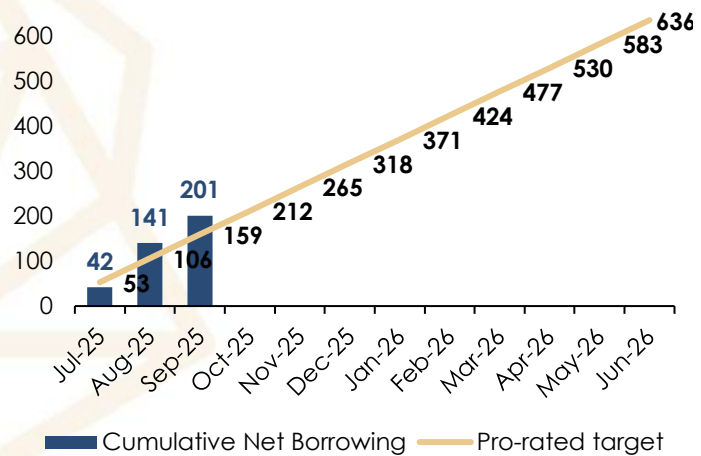
T-bill market activity strengthened in September, with the average performance rate rising to 118.94% from 93.68% in August, signaling a possible shift by investors back to the short end of the yield curve. This reallocation likely reflects the exchequer's continued rejection of aggressive bids in the medium- to long-term tenors, supported by front-loaded borrowing in August that provided sufficient fiscal headroom and eased short-term liquidity pressures. We expect this trend to persist in the near term, reinforced by anticipated external inflows, particularly from multilateral funding and recent Eurobond proceeds, which are likely to further cushion liquidity needs and allow the exchequer to maintain a measured approach to domestic borrowing.

Revenue vs Estimates (August 'Bn)



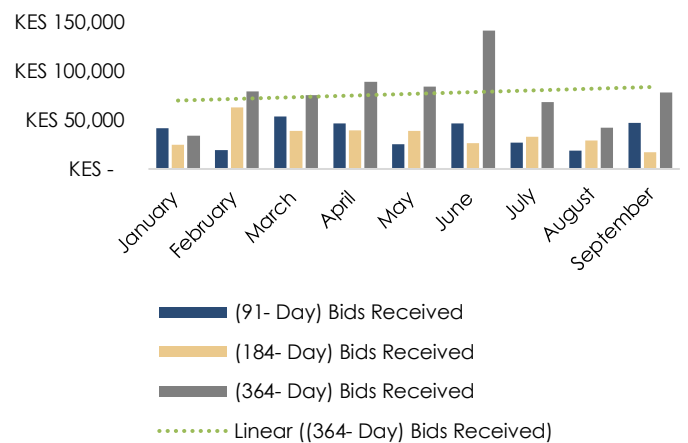
Source: Treasury, Rock Advisors Research

Cumulative Net Domestic Borrowing vs FY/25/26 Borrowing Target (KES Bn)



Source: Treasury, Rock Advisors Research

T-Bill Auction Analysis (Bn)



Source: CBK, Rock Advisors Research

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Interbank Market

Interbank lending activity declined by 15.71% m/m in September, reversing the expansion observed in August, as average interbank rates eased marginally by 6bps to 9.48%. We interpret this slowdown in trading volumes and rates as an indication of improving system liquidity, with banks relying less on short-term borrowing to meet funding requirements. We believe the increased liquidity is likely to moderate yield pressures in upcoming auctions, as the improved funding environment is expected to drive primary auction participation, further easing strain on the exchequer and limiting the aggressiveness of investor bids.

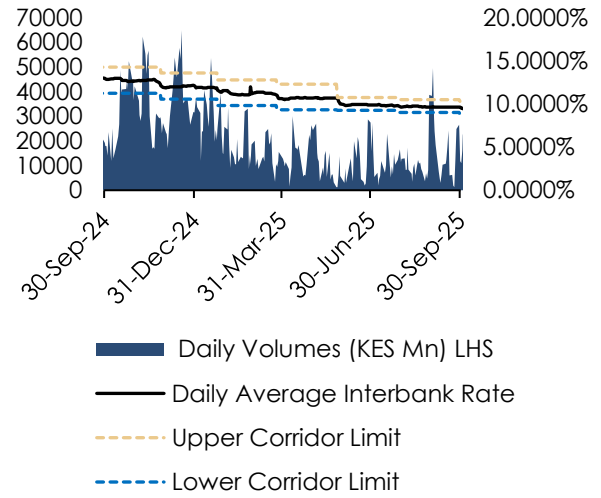
Yield Curve Dynamics

Yield declines persisted across the curve in September, reflecting the continued transmission of the accommodative monetary policy stance. By month-end, year-to-date changes stood at -196.44bps on the short end, -191.79bps on the medium term, and -213.14bps on the long end. We expect this downward trend to persist, further reinforced by the recent 25bps rate cut by the MPC, which lowered the CBR to 9.25%. As a result, yield curve deviations in upcoming auctions are likely to narrow, offering limited upside potential for investors, with this compression expected to be compounded by the government's increased access to external financing.

Real Rates Analysis

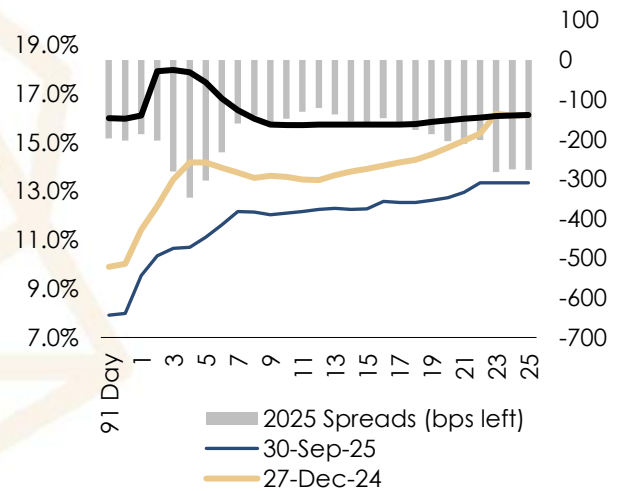
Real rates remained under pressure in September as inflation edged up to 4.6%, pushing inflation-adjusted returns below the 5% threshold for the first time since November 2023. We expect this downward pressure to persist into October following the recent 25bps rate cut that lowered the CBR to 9.25%. The erosion in real returns is likely to dampen investor appetite for government securities in upcoming primary auctions—a trend reflected in the underperformance of the recent SDB1/2011/30 issue, which, despite its 15.5-year tenor, offered a relatively low coupon and achieved a modest 40.35% subscription rate. While this could prompt the exchequer to accept slightly more aggressive bids to sustain participation, we believe the impact will remain contained in the near term, given the government's improved liquidity position following recent external funding inflows.

Interbank Rate and Volumes



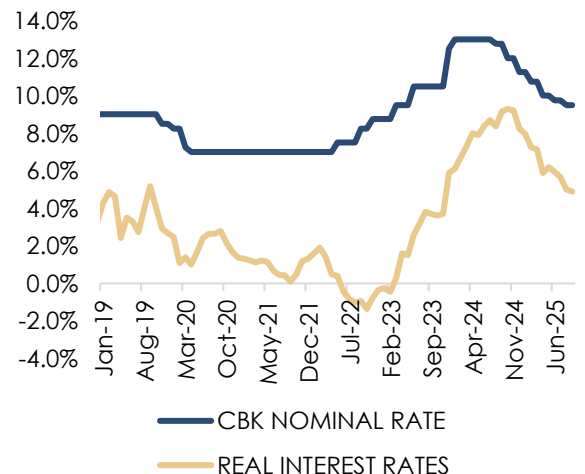
Source: CBK, Rock Advisors Research

Yield Curve Evolution



Source: CBK, Rock Advisors Research

Real Rates vs CBK Nominal Rates



Source: CBK, Rock Advisors Research

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Recommendation

Based on our analysis of the prevailing market liquidity levels, upcoming coupon payments, and investor bids at past auctions we recommend investor bid at the following ranges:

- **FXD1/2018/015:** 12.65% -12.85%
- **FXD1/2021/020:** 13.37% - 13.57%

	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-25	30,000	FXD1/2018/015 Re-opened	8.3		12.650%	14.329%	14.210%	75
		FXD1/2022/025 Re-opened	22.8	196.7%	14.188%	15.743%	15.683%	8
Feb-25	70,000	IFBI/2022/014 Re-opened	11.8		13.938%	14.086%	13.978%	27
		IFBI/2023/017 Re-opened	15.1	277.0%	14.399%	14.416%	14.281%	118.5
Mar-25	25,000	FXD1/2018/025 Re-opened	18.3	188.1%	13.400%	13.938%	13.803%	51
Apr-25	70,000	FXD1/2020/015 Re-opened	9.9		12.756%	13.671%	13.665%	82.39
		FXD1/2022/015 Re-opened	12.1		13.942%	13.837%	13.828%	124.3
		FXD1/2022/025 Re-opened	22.6	102.5%	14.188%	14.237%	14.234%	65.33
	10,000	FXD1/2020/015 Tap-sale	9.9	132.4%	12.756%			
May-25	50,000	FXD1/2022/015 Re-opened	12.0		13.942%	13.942%	13.913%	145.42
		FXD1/2022/025 Re-opened	22.5	114.2%	14.188%	14.636%	14.538%	130.24
	30,000	FXD1/2012/020 Re-opened	7.6	181.3%	12.000%	13.733%	13.649%	137.9
Jun-25	50,000	FXD1/2020/015 Re-opened	9.7		12.756%	13.606%	13.487%	70.9
		SDBI/2011/030 Re-opened	15.7	202.7%	12.000%	14.181%	13.998%	152.55
Jul-25	50,000	FXD1/2018/020 Re-opened	12.8		13.200%	13.945%	13.899%	140.19
		FXD1/2018/025 Re-opened	18.0	153.8%	13.400%	14.435%	14.348%	137.85
Aug-25	90,000	IFBI/2018/015 Re-opened	7.5		12.500%	13.530%	12.993%	39.34
		IFBI/2022/019 Re-opened	15.6	359.4%	12.965%	14.237%	13.999%	109.52
	50,000	IFBI/2018/015 Tap-sale	7.5		12.500%			
		IFBI/2022/019 Tap-sale	15.6	414.9%	12.965%			
Sep-25	20,000	SDBI/2011/030 Re-opened	15.5	40.4%	12.000%	14.371%	13.964%	168.86
	40,000	FXD1/2018/020 Re-opened	12.5		13.200%	13.724%	13.583%	139.73
		FXD1/2022/025 Re-opened	22.2	243.2%	14.188%	14.246%	14.142%	169.23
Average*	39,706		12.8	192.2%	13.283%	14.838%	14.697%	82.062

Source: CBK, Rock Advisors Research, * - Yearly average results excludes tap sales

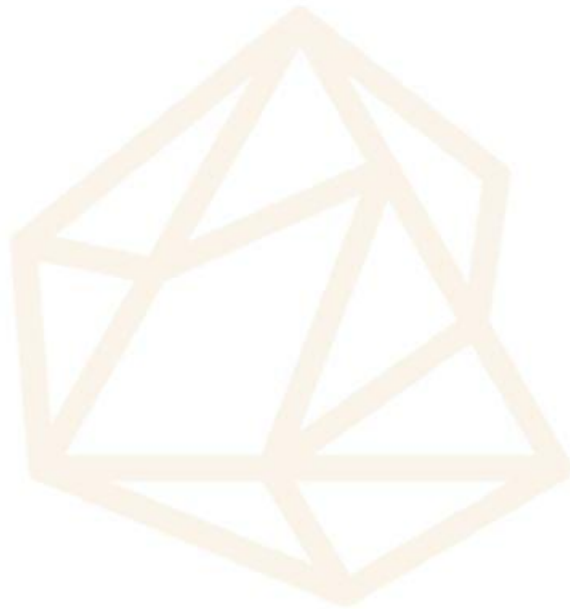
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