

MONTHLY COMMENTARY



Innovative Thinking
September 2025

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MONTH'S HIGHLIGHTS

- Inflation increased to 4.59% in September 2025 from 4.53% in August. This was primarily attributed to higher food, electricity and transport-related products costs. The food and non-alcoholic beverages index increased by 8.4%, driven by higher food prices. The housing, water, electricity, gas and other fuels index increased by 1.4%, mainly driven by heightened electricity prices. The transport index rose by 4.0%, mainly due to higher prices of transport-related products, particularly car batteries, despite a decline in diesel and petrol prices.
- Kenya's GDP expanded by 5.0% in Q2 2025 from 4.6% in Q2 2024, driven by steady growth in agriculture, services and a rebound in construction & mining. The agriculture, forestry and fishing sector grew by 4.4%, reflecting increased output of coffee, fruits, vegetables, flowers and milk, supported by favourable weather conditions. However, sugar production fell by 43.8%, cane deliveries declined by 44.5% and tea output dropped by 5.3%. The financial and insurance sector recorded a 6.6% growth, supported by lower lending rates and improved liquidity that enhanced credit expansion.
- The Central Bank of Kenya (CBK) officially rebranded the overnight interbank rate as the Kenya Shilling Overnight Interbank Average (KESONIA) and introduced the KESONIA Compounded Index, effective 1st September 2025. KESONIA, calculated from actual overnight unsecured interbank transactions, represents the average rate at which banks lend and borrow overnight funds in Kenyan Shillings and now serves as Kenya's official Risk-Free Rate (RFR). This development marks a significant milestone in modernising the country's benchmark interest rate framework, aimed at enhancing transparency, reliability and monetary policy transmission in line with global standards.
- The Capital Markets Authority (CMA) licensed two new fund managers, Kenya Climate Ventures Limited and EDC Asset Management (Kenya) Limited, raising the number of licensed fund managers to 47. Assets under management in Collective Investment Schemes (CIS) stood at Kshs 596 billion as of 30th June 2025, reflecting steady industry growth. Kenya Climate Ventures becomes the first locally licensed climate-focused fund manager, while EDC Asset Management enters the market to offer fund management, investment advisory and segregated portfolio services.
- The Nairobi Securities Exchange (NSE) revised initial margin requirements for single-stock and index futures, effective 19th September 2025, as part of its efforts to strengthen risk management within the derivatives market (NEXT). The new rates, applicable to contracts from December 2025 to September 2026, will require traders to either top up or receive refunds on open positions, reinforcing NEXT's role in deepening Kenya's capital markets through hedging, speculation and portfolio diversification.
- The RatingDog China General Manufacturing PMI increased to 51.2 in September 2025, from 50.5 in August and exceeding market expectations of 50.3. This marked the strongest expansion in factory activity since March. Output grew at the fastest pace in three months, driven by a rebound in new export orders and robust growth in overall new business. Purchasing activity also strengthened, posting the highest increase since last November, while employment declined amid rising cost concerns. Supply conditions improved, with average lead times shortening for the first time in seven months.
- The UK economy grew by 0.3% in Q2 2025, matching the preliminary estimate but slower than the 0.7% growth recorded in Q1. This was supported by the services sector, which expanded 0.4%, mainly driven by computer programming, consultancy and related activities. However, the production sector contracted by 0.8%, led by a steep 7.2% drop in electricity, gas, steam and air conditioning supply. On the expenditure side, household spending edged up 0.1%, government consumption rose 1.3% and gross fixed capital formation increased 0.5%. Exports fell 0.2% while imports were flat.
- The Federal Reserve lowered the fed funds rate by 25bps in September 2025 to a range of 4.00%–4.25%, marking its first cut since December 2024. The Fed's updated projections indicate further rate cuts of 50bps by the end of 2025. GDP growth forecasts were revised higher to 1.6%, 1.8% and 1.9% for 2025, 2026 and 2027 respectively. Personal Consumption Expenditures (PCE) inflation remains at 3% for 2025, with 2026 projections slightly up at 2.6%, while core PCE inflation stays at 3.1% in 2025.

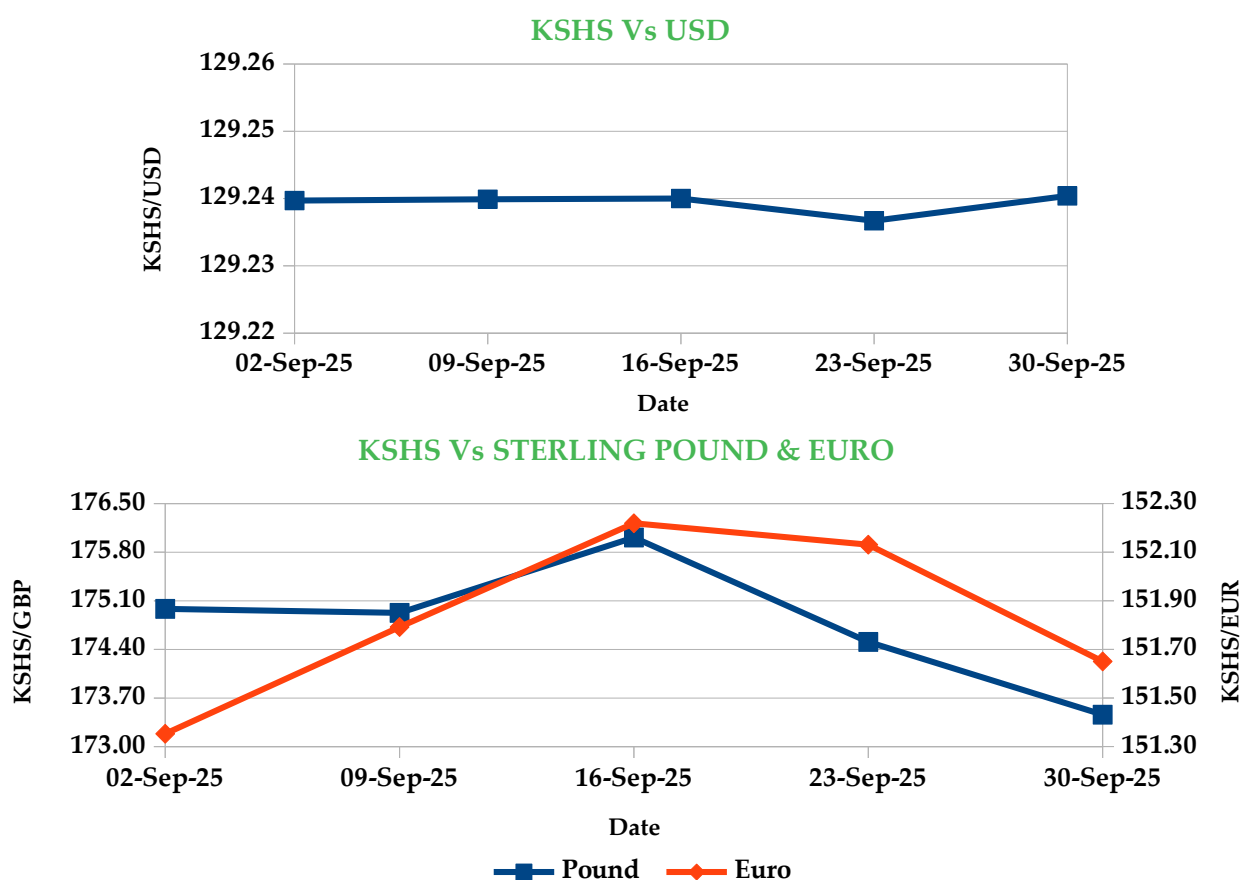
ECONOMIC INDICATORS

Foreign Exchange Reserves

During the month, the usable foreign exchange reserves decreased by 1.41% to settle at \$10.74 billion (4.7 months of import cover). This was above the CBK's statutory requirement to endeavor to maintain at least 4 months of import cover and above the EAC region's convergence criteria of 4.5-months of import cover.

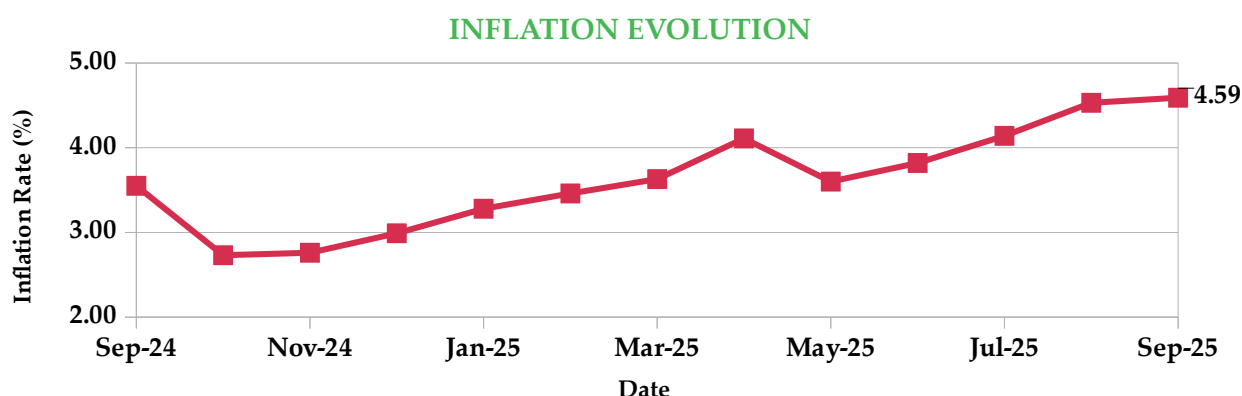
Currency

The Kenyan Shilling remained stable against the USD, appreciated against the Sterling Pound, but depreciated against the Euro by 0.54% and 0.61%, exchanging at Kshs 129.24, Kshs 173.46 and Kshs 151.65 respectively at the end of the month, from Kshs 129.24, Kshs 174.41 and Kshs 150.73 in the previous month. The observed stability against the Dollar is attributed to increased diaspora remittances.



Inflation

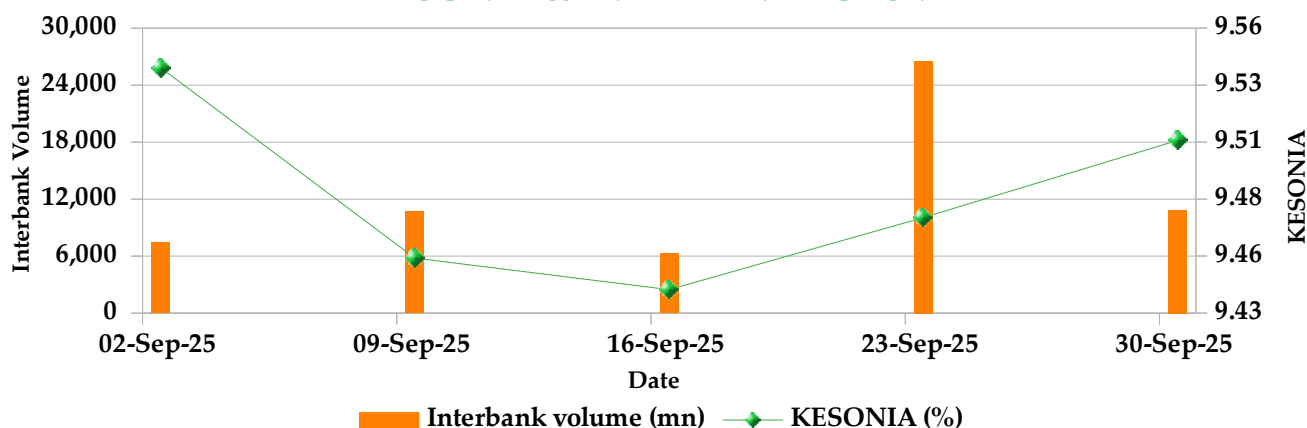
The overall year-on-year inflation increased to 4.59% in September 2025 from 4.53% in August. This was primarily attributed to higher food, electricity and transport-related products costs.



Liquidity

During the month, liquidity increased as a result of government payments which more than offset tax remittances. The Kenya Shilling Overnight Interbank Average (KESONIA) decreased from 9.54% to 9.48%. The volume of inter-bank transactions decreased from Kshs 15.00 billion to Kshs 12.07 billion. Commercial banks excess reserves decreased from Kshs 17.10 billion to Kshs 2.40 billion.

KESONIA & INTERBANK VOLUME

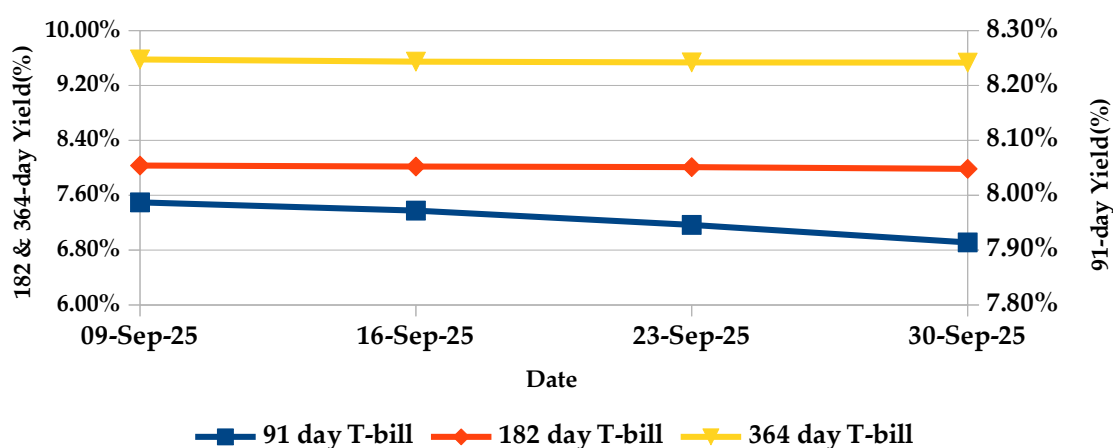


FIXED INCOME

T-Bills

T-bills recorded an overall subscription rate of 115.31% during the month of September, compared to 110.28% recorded in the previous month. The performance of the 91-day, 182-day and 364-day papers stood at 169.65%, 38.89% and 170.00% respectively. On a monthly basis, yields on the 91-day, 182-day and 364-day papers decreased by 1.08%, 0.81% and 0.38% respectively.

T-BILLS



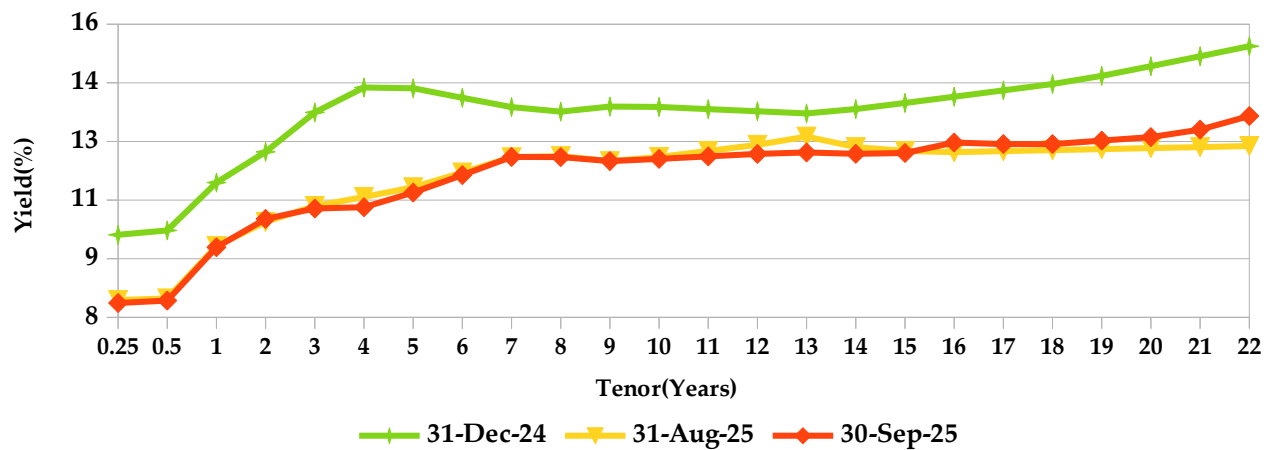
T-Bonds

During the month, T-Bonds registered a total turnover of Kshs 226.40 billion from 4,390 bond deals. This represents a 11.96% increase in turnover and the number of deals increased by 21.54%. The yields on government securities in the secondary market increased during the month of September.

In the primary bond market, CBK re-opened FXD1/2018/015 and FXD1/2021/020 treasury bonds in an effort to raise Kshs 50.0 billion. The coupon rates are 12.65% and 13.44% respectively.

In the international market, yields on Kenya's Eurobonds decreased by an average of 59 basis points.

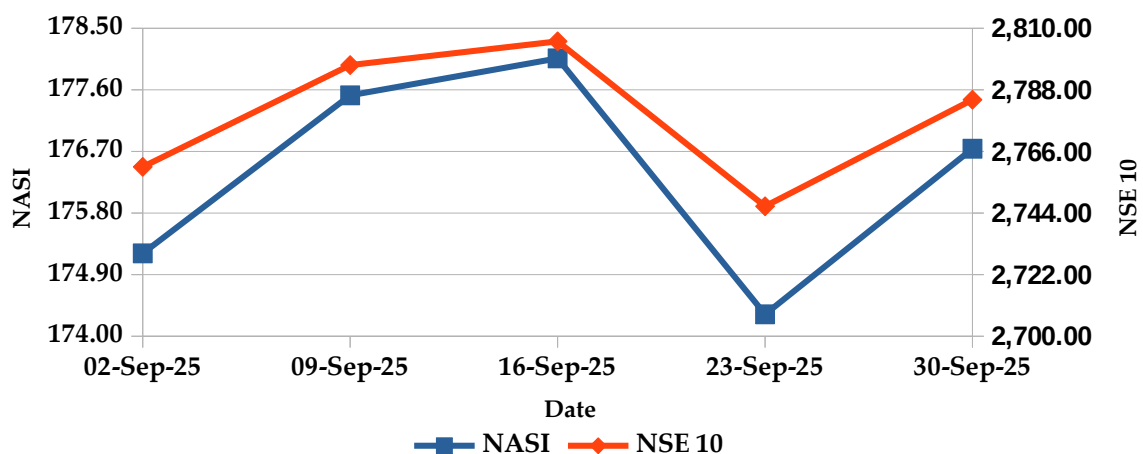
YIELD CURVE



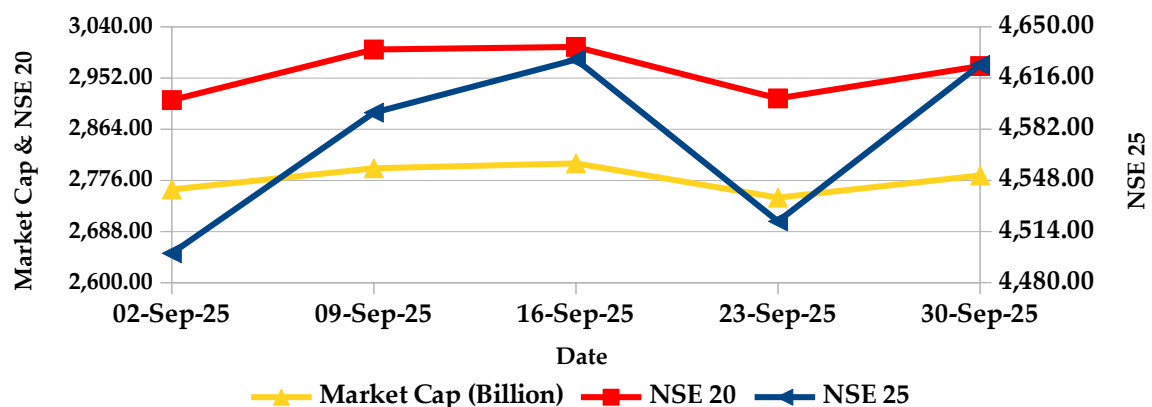
EQUITIES

During the month, market capitalization recorded a gain of 2.40% to settle at Kshs 2.78 trillion. Total shares traded increased by 75.15% to 847.55 million shares and equity turnover increased by 110.76% to close at Kshs 22.70 billion. On a monthly basis, NASI, NSE 20, NSE 25 and NSE 10 settled 2.40%, 4.46%, 4.08% and 4.32% higher respectively. The performance was as a result of gains recorded by large cap stocks such as Co-operative Bank, NCBA and ABSA of 20.22%, 7.39% and 6.97% respectively. This was however weighed down by the loss recorded by Standard Chartered of 11.25%.

NASI and NSE 10



Market Capitalization, NSE 20 and NSE 25



ALTERNATIVE INVESTMENTS

- The derivatives market, over the month, recorded a turnover of Kshs 44.48 million with a trading volume of 2,275 contracts, which was an increase from Kshs 11.79 million with a trading volume of 976 contracts recorded in the previous month.
- The I-REIT market had no transaction over the month, from a turnover of Kshs 0.002 million with a trading volume of 1 contract in the previous month.
- The ETF market, over the month, recorded a turnover of Kshs 216.93 million with a trading volume of 390 contracts, which was an increase from Kshs 23.81 million with a trading volume of 256 contracts recorded in the previous month.

GLOBAL AND REGIONAL MARKETS

Global Markets	Monthly Change	YTD Change	Regional Markets	Monthly Change	YTD Change
S&P 500	3.53%	13.97%	FTSE ASEA Pan African Index	1.66%	37.07%
STOXX Europe 600	1.46%	9.30%	EAE 20 Index	0.29%	0.02%
Shanghai Composite (SSEC)	0.64%	19.01%	JSE All Share	7.18%	33.18%
MSCI Emerging Market Index	6.96%	25.04%	NSE All Share (NGSE)	1.72%	38.31%
MSCI World	3.09%	16.15%			

- Global markets posted gains during the month. In the US, the S&P 500 rose by 3.53% and the Dow Jones edged up 1.87%, as investors weighed the potential impact of a US government shutdown, which could delay key economic data releases and add uncertainty to the Federal Reserve's policy outlook. In Europe, the STOXX Europe 600 and UK's FTSE 100 indices edged 1.46% and 1.78% higher, primarily driven by gains in healthcare and banking sectors. In Asia Pacific, the Shanghai Composite (SSEC) index gained 0.64%, boosted by a rebound in technology stocks.
- On the regional front, markets recorded a higher performance during the month. The FTSE ASEA Pan African Index, representing the overall African markets gained 1.66% from August. EAE 20 Index, South Africa's JSE All Share Index and Nigeria's All Share Index gained 0.29%, 7.18% and 1.72% respectively.
- In the global commodities markets, oil futures indices posted losses, pressured by growing concerns of oversupply in the market. Crude Oil WTI futures and ICE Brent Crude settled 2.49% and 1.69% lower at \$62.37 and \$67.02 respectively. Gold futures prices settled 10.28% higher at \$3,873.20.

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