26th January 2025

Geopolitical Headlines Spark Short-term Market Volatility, Solid Fundamentals Support Rebound

Last week, geopolitical headlines took centre stage with U.S. President Donald Trump kickstarting the week with threats to impose 10% tariffs on eight European nations that opposed the U.S. taking control of Greenland. On Wednesday, President Trump announced that an agreement over Greenland had been reached following discussions with NATO Secretary General, marking a sharp departure from his prior stance.

In response, the global risk sentiment got a strong lift- with the S&P 500 index closing the week just 0.4% lower following the largest single-day drop (-2%) since the tariff announcements in April last year. Interestingly, despite the volatility on equities, US Treasury yields were little changed with the 2-year and 10-year yield holding steady at 3.6% and 4.2%, respectively.

For the US, economic fundamentals remain solid despite a decelerating labour market. Notably, Q3 GDP growth was revised higher to 4.4% while PCE inflation was unchanged at 2.8% in November. Therefore, the FOMC meeting is not expected to change the current policy stance this week. However, with Fed independence concerns lingering, confidence on forward guidance remains limited.

All said, though European and Emerging Market assets may perform well this year, we anticipate that investors will remain cautious overall owing to geopolitical and trade fragmentation that is increasing risk premia. Global power struggle among the U.S., China, and Europe, along with weakening traditional alliances remains significant. Notably, the US threatened 100% tariff on Canada imports over a potential deal with China.

Domestically, the week's equities and bonds market turnover declined by 14% and 4%, respectively. While in the primaries, demand for T-bills waned with bids amounting to KES 18.35Bn counter to CBK's target of KES 24Bn. Of this, KES 18.21Bn was accepted. Overall, the fundamentals – ample market liquidity, high sovereign appetite for local debt - could cushion the landscape. For interest rates, yields remain tacky. Last week, the yields for 91-day, 182-day and 364-day papers came in at 7.7274% (2.63bps), 7.7934% (-0.66bps) and 9.2002% (-0.31bps). Yield triggers may include this week's Fed meeting, the February MPC meeting, external financing pipeline conversion, and a supplementary fiscal budget.

Regional Markets

Uganda

Uganda's primary market activity remains upbeat with most liquidity primarily directed toward government security paper. In the auction for the 2, 5 and 15-year bond, investors tendered UGX 4.13 trillion against an offer of UGX 1.05 trillion. In total, BOU accepted only approximately UGX 1.57 trillion. As a result, yields on all the papers significantly declined. The 2-year paper printed at 15.100% (-65bps), the 5-year at 15.500% (-75bps) and 15-year at 16.475% (-127.5 bps). Expectedly, liquidity appeared skewed in the interbank market with rates averaging 9.93% on overnight funds and 10.48% for 1-week tenor.

Tanzania

The Monetary Policy Committee held the CBR at 5.75% for the first quarter of 2026. The decision was underpinned by expectations for low and stable inflation. Notably, in Q1, good harvests and low imported inflation are anticipated to keep food prices at bay. This is further underscored by adequate food stocks held by the National Food Reserve Agency (NFRA) of more than 590,000 tonnes. Moreover, energy prices remain moderate. On growth, the outlook appears promising with Q3 and Q4 GDP growth forecasts at 6.0% and 5.8%, respectively.

Rwanda

Interbank market liquidity remained sufficient but unevenly distributed. As a result, the central bank injected RWF 220Bn through a reverse repo at 6.75%. In the T-bill auction, bids amounted to RWF 25Bn against the RWF 17Bn on offer, of which RWF 28Bn was accepted, at 7.020 (up 2bps) for 28 days, 8.087% (up 13.7bps) for 91 days, 8.160% (down 4bps) for 182 days paper, and 8.518% (unchanged) for 364 days paper.

Indicative Rates	Previous	Current	Change (bps)
KESONIA	9.0017%	8.9837%	(1.80)
91-Day T-bill	7.7011%	7.7274%	+2.63
182-Day T-bill	7.8000%	7.7934%	(0.66)
364-Day T-bill	9.2033%	9.2002%	(0.31)
Headline Inflation	4.5%	4.5%	0.00
Weekly T-bill Results	**91D**	**182D**	**364D**
Offered (Bn)	4.0	10.0	10.0
Bids Received (Bn)	1.37	8.83	8.15
Accepted (Bn)	1.37	8.80	8.04
Redemption (Bn)	13.19	3.27	13.51
New borrowing (Bn)	-11.82	+5.54	-5.47

	UGANDA		TANZANIA		RWANDA	
Week Ending	23-Jan	16-Jan	23-Jan	16-Jan	23-Jan	16-Jan
91D T-Bill	11.03%	11.03%	5.76%	5.93%	8.09%	8.20%
182D T-Bill	13.07%	13.07%	5.89%	5.91%	8.16%	8.52%
364D T-Bill	14.90%	14.90%	6.23%	6.24%	8.52%	8.52%
O/N rate	10.35%	10.22%	6.68%	6.15%	6.87%	6.80%
CBR	**9.75%**	**9.75%**	**5.75%**	**5.75%**	**6.75%**	**6.75%**