ECONOMICS AND RESEARCH WEEKLY FIXED INCOME REPORT

2nd February 2025

Geopolitical tensions remain, but domestic conditions appear to guide central bank policy decisions

Last week was quite eventful for the global markets. Firstly, on geoeconomics, President Trump's consideration for a major strike on Iran remained active. Although we see the action likely to be one which avoids escalatory response from Iran and with no oil tanker seizure. This follows political sensitivity of higher oil prices, with the worst scenario outcome being closure of the Strait of Hormuz by Iran, which would cut off 20% of sea oil routes.

Secondly, in a bid to reset trade ties by various economies in reaction to the 2025 trade tariffs by the US administration, the European Commission agreed on a free trade agreement with India, which is expected to help Europe diversify its exports. This follows an agreement to reduce trade tariffs that currently average 15%. Similarly, the UK held high level talks with China to strengthen its trade relationships.

Thirdly, these international trade realignments did not however seem to calm markets. Notably, precious metals traded at huge swings that saw large reversals at close of last week. Gold and silver declined by 9% and 26%, respectively last Friday. This coincided with the closure of the debate on who would be the next Federal Reserve Chair. The nomination of Kevin Warsh appeared to offer some stability to the markets, with currencies and equities firmer in today's trading. So far market uncertainty has seen the 2-year and 10-year US Treasuries move by 4.9% and 7% in one month to touch 3.52% and 4.24%, respectively.

There was no remarkable fixed income market reaction to the Fed's decision which kept interest rates unchanged at 3.50% to 3.75%. The committee stated that it is at a favorable position regarding monetary policy, with the upside risks to inflation and the downside risks to employment within control. This means that a cut in March will depend on whether the data weakens significantly in the coming weeks.

For Europe, against a strong domestic economic growth backdrop, the European Central Bank is unlikely to change its policy rate at 2% this week, and probably for the remainder of the first half of this year. Similarly, as the Bank of England's MPC meets on Thursday, we expect them to hold the policy rate at 3.75% after cutting by 25bps in December.

In South Africa, with headline inflation at 3.6% against a target of 3.0%, the South African Reserve Bank held policy rate at 6.75% last week. Supporting the committee's decision, the economy has expanded for four consecutive quarters and would approach 2% over the medium term. However, in arriving at their decision, two members favored a cut of 25 basis points. With no imminent domestic risks except for South Africa's trade portfolio with the US, we expect 2-3 policy cuts this year.

In Uganda, the MPC held its policy rate at 9.75% for the second half of 2025 citing external sector volatility. But we do think that the committee has room to get more accommodative as it meets next week. Into this year, the MPC projects core inflation to remain within the target range of 5%, while the currency is stable, gaining 1.3% year-to-date. However, the main trigger for this decision is the committee's interpretation of the current expansionary fiscal policy which could partly relate to the general elections in January. If found too expansionary, the committee may hold the policy rate at 9.75%.

On the local market, headline inflation touched 4.4% in January from 4.5% previously following price pressure from vegetables, fruits and maize. Into the near-term, we do see a decline in maize prices partly trading off the price pressure from vegetables and fruits resulting in overall inflation at the 4.3% to 4.7% range in February and March. There is thus limited second-round inflation effect in the first quarter of the year. Thus, no urgency by the MPC to cut the policy rate next week. However, the level of core inflation- at 2.2% is quite low and unfortunately points toward weak aggregate demand in the economy.

Indicative Rates	Previous	Current	Change (bps)
KESONIA	8.9845%	8.9957%	+1.12
91-Day T-bill	7.7274%	7.6326%	(9.48)
182-Day T-bill	7.7934%	7.8000%	+0.66
364-Day T-bill	9.2002%	9.2066%	(0.64)
Headline Inflation	4.5%	4.4%	(10.00
Weekly T-bill Results	**91D**	**182D**	**364D**
Offered (Bn)	4.0	10.0	10.0
Bids Received (Bn)	6.35	2.28	38.58
Accepted (Bn)	6.35	2.25	38.57
Redemption (Bn)	1.87	2.18	8.89
New borrowing (Bn)	+4.48	+0.07	+29.59

	UGANDA		TANZANIA		RWANDA	
Week Ending	30-Jan	23-Jan	30-Jan	23-Jan	30-Jan	23-Jan
91D T-Bill	10.75%	11.03%	5.76%	5.76%	8.00%	8.09%
182D T-Bill	12.32%	13.07%	5.89%	5.89%	8.35%	8.16%
364D T-Bill	13.99%	14.90%	6.23%	6.23%	8.50%	8.52%
O/N rate	10.65%	10.35%	6.68%	6.68%	6.87%	6.87%
CBR	**9.75%**	**9.75%**	**5.75%**	**5.75%**	**6.75%**	**6.75%**