

ECONOMICS AND RESEARCH WEEKLY FIXED INCOME REPORT

11th May 2026

US-Iran Truce Faces Setbacks Again, Prompting Risk-off Market Sentiment

The key global driver remains the US-Iran negotiations, but the situation is still very fluid. Last week, market risk sentiment improved following reports that suggested that the US and Iran are attempting to preserve a fragile ceasefire framework despite renewed military clashes in the Middle East. However, over the weekend, after both parties exchanged proposals, Trump dismissed Iran's offer as unacceptable. It thus remains unclear when an agreement will be reached between the two parties and whether Israel would be convinced that Iran is no longer a threat to peace in the Middle East.

As a result, following a 6% decline in Brent prices in the week, the commodity opened Monday trading 3.5% higher at USD 104 per barrel. With geopolitical risk not expected to dissipate significantly in the near-term, Brent prices could continue to trade above USD 100/bbl, underpinning risk-off sentiment. Relatedly, Asian and European equities saw gains over the week, as the Nikkei 225 Index rose by 5.38% and the Eurostoxx 50 increased by 0.5%. However, shifting sentiment has led to a modest decline today.

In the US, the 10-year US Treasury yield rose to trade at 4.39%, up 3.40 basis points on early Monday trading session, reflecting a decline in expectations for US Federal Reserve interest rate cuts. Notably, the futures market sees no change in rates this year, down from 22 bps in early March.

Overall, with global central banks on hold, financial conditions will remain tight. This may keep debt servicing costs for the local government elevated, thus anchoring appetite for local deficit financing. Even then, the ability for local borrowing to plug revenue deficits

amid rising stagflation (slowing growth, high inflation) risks suggests that bond investors would price for a premium.

Pressure on the Yield Curve Continues Despite Ample Market Liquidity

Last week's T-bill auction was well bid at KES 29.42Bn against KES 24.0Bn offered, with virtually all bids accepted. Similarly, the bond auction for FXD1/2012/20, FXD1/2019/20 and FXD1/2021/25 with effective tenors to maturity of 6.6, 13 and 20 years, respectively performed well. The government sought to raise KES 80Bn, and received bids worth KES 106Bn, out of which KES 94Bn was accepted. Consequently, net domestic borrowing has reached 85% of the annual budget. The government is likely to meet its target, but rising interest rates will increase public debt service costs. Last week, the 91-day, 182-day and 364-day papers came in at 8.1895% (+14.97bps), 8.2100% (-0.15bps) and 8.5145%(+0.12bps). Broadly, we expect a further gradual shift outward into June.

Regional Market

In Tanzania, annual headline inflation in April expectedly rose to 4.0%, up from 3.2% in March. The April fuel adjustment accounted for most of the increase. Notably, the energy, fuels and utilities index rose to 5.3% relative to 2.1% previously, while transport inflation rose to 9.2% in comparison to 4.2%. The core index surged to 3.1% from 2.1%, previously. Following the current oil shock, inflation is expected to rise toward 5% levels in the near term, underpinned by an additional fuel cost adjustment for the May cycle. Expectedly, the Monetary Policy Committee will exercise prudence and maintain a proactive stance to address any emerging inflationary pressures.

Indicative Rates	Previous	Current	Change (bps)
KESONIA	8.7478%	8.0%	(0.8)
91-Day T-bill	8.0398%	8.1895%	14.97
182-Day T-bill	8.2115%	8.2100%	-0.15
364-Day T-bill	8.5133%	8.5145%	0.12
Headline Inflation	4.4%	5.6%	120.0
Weekly T-bill Results	91D	182D	364D
Offered (Bn)	4.0	10.0	10.0
Bids Received (Bn)	9.74	14.52	5.16
Accepted (Bn)	9.73	14.52	5.16
Redemption (Bn)	13.10	2.63	21.57
New borrowing (Bn)	(3.37)	+11.89	(16.41)

Week Ending	UGANDA		TANZANIA		RWANDA	
	1-May	8-May	1-May	8-May	1-May	8-May
91D T-Bill	10.00%	10.50%	3.97%	3.83%	8.31%	8.29%
182D T-Bill	10.75%	11.00%	5.36%	5.27%	8.50%	8.45%
364D T-Bill	12.00%	12.24%	5.66%	5.68%	8.95%	8.83%
O/N rate	10.29%	9.84%	6.29%	6.21%	7.30%	7.30%
CBR	9.75%	9.75%	5.75%	5.75%	7.25%	7.25%