

ECONOMICS AND RESEARCH WEEKLY FIXED INCOME REPORT

12th January 2025

Global Fixed Income Markets Look Through The Noise and Focus on Fundamental Drivers

The global backdrop appears more favourable for fixed income markets this year underpinned by steady economic growth, easing inflation and anticipated decline in interest rates. In the US, the Federal Reserve is widely expected to lower interest rates at least once more, following the 25-basis point reduction in December.

However, geopolitical risks as well as large fiscal deficits across several government could curb aggressive rate cuts unless the economic outlook weakens sharply. For the US, volatility could stem from market interpretation of the Supreme Court ruling on tariffs, US midterm elections in November and a new Federal Reserve chair in May. In the immediate term, resilient growth and a slight drop in the unemployment rate to 4.4% could see the Fed pause rate cuts in January.

In the Eurozone, with inflation at the 2.0% target, and growth on an upward trajectory boosted by increased military and defence spending, the ECB may continue to hold rates steady. Therefore, government bond yields may move within relatively narrow ranges throughout the year.

Emerging market bonds could be a bright spot in 2026. Many emerging market central banks raised interest rates early in the cycle, and inflation in several countries is now falling. This has created an environment where local currency emerging market bonds can offer high real yields. However, currency volatility, shifting global sentiment, and political uncertainty remains an ever-present risk.

Domestically, while real yields remain attractive with steady inflation and stability on the exchange rate, a widening fiscal deficit poses risk. The 2026 Budget Policy Statement outlined tax revenue and expenditure growth of 5% and 8%, respectively in the FY 2026/27 on the back of already sizeable deviations from budget in previous years. As a result, the deficit is projected to hit KES 1,106Bn, up from KES 901Bn in the current year. With that, domestic borrowing is projected at KES 1,006Bn, up 64% from KES 635Bn. Overall, we see yields remaining tacky throughout the year, but investor sentiment and liquidity will be crucial to upholding demand for government

Indicative Rates	Previous	Current	Change (bps)
KESONIA	9.0%	8.9818%	(1.82)
91-Day T-bill	7.7286%	7.7277%	(0.09)
182-Day T-bill	7.80%	7.80%	0.00
364-Day T-bill	9.2095%	9.2045%	(0.50)
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)	4.34	9.61	17.32
Accepted (Bn)	4.32	9.61	12.24
Redemption (Bn)	3.61	9.27	5.90
New borrowing (Bn)	+0.70	+0.33	+6.34

paper, particularly as we head into an election cycle.

Regional Markets

Uganda

Uganda's general elections taking place on the 15th of January may not deliver any major surprises. Despite several candidates running for the presidency, there is a high likelihood that the majority vote will go to the incumbent. On the macroeconomic front, the outlook remains favourable. Notably, inflation remains low at 3.1%, the currency remains well-cushioned and overall growth prospects remain upbeat on anticipated commencement of oil production and export.

In the primary market, ample liquidity and high real yields continue to support strong demand for government papers. Last week's auction across the 3, 10 and 20-year papers garnered bids amounting to UGX 3,051Bn against a target of UGX 990Bn, out of which UGX 1,548Bn was accepted at 15.9%, 16.75% and 17.63%, respectively.

Tanzania

December annual headline inflation ticked slightly higher to 3.6% from 3.4% in November, as expected given erratic rainfall patterns. Looking ahead, inflation may remain below the 5% upper band target, assuming favourable domestic weather conditions. With that, the central bank is unlikely to fundamentally change its current monetary policy stance. To this end, we see them cutting policy rate by 25bps to 50bps this year.

Rwanda

Rwanda's annual inflation increased by 8% year-on-year in December 2025 up from 7.2% in November 2025. Food and beverages increased by 3.6% while transport increased by 9.4%. Meanwhile, the core index rose to 7.2% from 7.0%. Overall, inflation is expected to remain within the upper-band of the target in the near-term. Resultantly, we expect cautious policy easing by the central bank.

Week Ending	UGANDA		TANZANIA		RWANDA	
	9-Jan	2-Jan	9-Jan	2-Jan	9-Jan	2-Jan
91D T-Bill	11.03%	11.03%	5.93%	5.69%	7.98%	7.86%
182D T-Bill	13.07%	13.07%	5.91%	5.87%	8.00%	7.67%
364D T-Bill	14.90%	14.90%	6.24%	6.35%	8.51%	8.50%
O/N rate	10.22%	10.07%	5.92%	6.25%	6.87%	6.80%
CBR	9.75%	9.75%	5.75%	5.75%	6.75%	6.75%