

ECONOMICS AND RESEARCH WEEKLY FIXED INCOME REPORT

18th May 2026

Worries About Inflation Deepen in the Global Bond Markets

The US and Iran remain at an impasse regarding a potential deal to end the war and open the Strait of Hormuz. Resultantly, this conflict has necessitated the deployment of strategic oil reserves by various countries. According to the International Energy Agency (IEA), global oil supply has declined by 12.8 million barrels per day since February and projects a deficit in the fourth quarter of 2026. This fueled concerns about the balance between supply and demand in the global energy market last week, resulting in Brent oil prices rising to US \$111 per barrel.

Largely driven by a renewed surge in energy prices, 10-year US Treasury yields rose by 17-basis points in the week to 4.6%. This is the highest level attained in over 12-months. The longer-dated 30-year Treasury bond yield reached a two-decade high of 5.1418%. Underpinning the jitters, the US April CPI print came in at 3.8%, while the core index rose by 2.8%, well above the Fed's 2% target. Meanwhile, producer prices jumped to 6%, the worst since December 2022, signaling stagflation risks ahead. Elsewhere in Japan, the producer price index was hotter than expected, at 4.9% in April. Overall, this forced markets to adjust expectations on inflation, economic outlook and policy rates, sending equities tumbling across key markets. In the Eurobond space, yields on Kenya's Eurobonds increased by 5.20 basis points on average.

Upside risk to Inflation Mount on Higher Fuel Prices

The recent downward revision of VAT on petroleum products and the implementation of a diesel subsidy did not significantly mitigate the impact on consumers

from the fuel price increase in the May pricing cycle. Diesel prices are now at historical highs of over KES 242 per litre, while Super Petrol is at its highest level since October 2023 at KES 214 per litre. The rise is principally attributable to elevated global energy prices, higher freight and shipping costs, and the cost of procuring goods from alternative and more expensive markets owing to supply chain disruptions. As a result, following the increase in headline inflation to 5.6% in April, we see risk of inflation surpassing the upper bound target of 7.5% in the forthcoming months. Core prices at 2.8% are also expected to surge higher as inflationary pressures impact demand for goods and services. Against this backdrop, the yields for 91-day, 182-day and 364-day papers came in at 8.3176% (+12.81bps), 8.2123% (+0.23bps) and 8.5631%(+4.86bps).

Regional Market

The Bank of Uganda's monetary policy committee (MPC) met last week and decided to hold the CBR at 9.75%. The decision was underpinned by the fact that while upside risk to the inflation outlook is materializing, the current stance remains appropriate to anchor prices. Notably, in April headline inflation stood at 3.0%, holding firm below the central bank's target. The committee however acknowledged elevated uncertainty, adverse weather and exchange rate depreciation remain key risks to local prices. With that, core inflation is projected to range 5.0% to 5.3% from the current 3.0% levels. Additionally, the MPC raised the Cash Reserve Requirement (CRR) to 11% from 9.5% to manage excess liquidity in the market. Overall, the central bank is expected to remain data dependent with regards to future policy decisions.

Indicative Rates	Previous	Current	Change (bps)
KESONIA	8.7514%	8.7474%	(0.4)
91-Day T-bill	8.1895%	8.3176%	12.81
182-Day T-bill	8.2100%	8.2123%	0.23
364-Day T-bill	8.5145%	8.5631%	4.86
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)	7.32	7.85	11.24
Accepted (Bn)	7.31	7.84	11.23
Redemption (Bn)	7.24	0.46	26.29
New borrowing (Bn)	+0.07	+7.38	(15.06)

Week Ending	UGANDA		TANZANIA		RWANDA	
	8-May	15-May	8-May	15-May	8-May	15-May
91D T-Bill	10.50%	10.50%	3.83%	3.83%	8.29%	8.29%
182D T-Bill	11.00%	11.00%	5.27%	5.27%	8.45%	8.45%
364D T-Bill	12.24%	12.24%	5.68%	5.68%	8.83%	8.83%
O/N rate	9.84%	10.18%	6.21%	6.21%	7.30%	7.30%
CBR	9.75%	9.75%	5.75%	5.75%	7.25%	7.25%