ECONOMICS AND RESEARCH WEEKLY FIXED INCOME REPORT

25th May 2026

Expected Progress on Peace Talks Sees Oil Pull Back but Premium Remains Meaningful

The US and Iran are reportedly moving closer to a memorandum of understanding and a deal to extend the ceasefire for 60-days. Oil pulled back from the peak on hopes of a US–Iran framework, but negotiations remain fragile because the major sticking points — enriched uranium, sanctions relief, and control of Hormuz transit — are unresolved. Brent closed at $ 103/bbl last week and opened today's trading even lower at $99.2 per barrel. Nevertheless, the geopolitical premium remains meaningful. The real issue for markets is not just whether a deal is announced, but whether shipping flows normalize in a durable way. Trump dimmed hopes stating that the US blockade on Iranian ships in the Strait of Hormuz would "remain in full force until an agreement is reached, certified, and signed. Further signaling this tension, part of the local media in Iran dismissed Trump's announcement.

Even the Fed minutes noted that the Middle East conflict is a key driver of asset prices and near-term inflation expectations. Notably, Fed officials appeared to lean toward keeping rates elevated, or even raising them, if inflation continues to run persistently above the 2% target. This marks the second consecutive meeting where more policymakers leaned hawkish. As a result, markets are pricing an over 60% chance that the US central bank will raise borrowing costs by 25 basis points (bps) by year end, unless inflation outlook reverses. Hence, bond yields are likely to stay elevated. The yield on the benchmark 10-year U.S. Treasury note hit a midweek high of 4.69% before retreating to around 4.56% as of Friday. Overall, if talks stall again, the first reaction is likely to be higher oil, a repricing of inflation risk and weaker EM currencies.

April Exchequer Report Points to Wider Fiscal Deficit into June

The April exchequer report indicated that tax revenue collection faces a substantial challenge ahead, with KES 633 billion still needed by June. Recent government interventions are widening the gap following the reduction in VAT on petroleum along with a fuel subsidy applied on diesel.

Indicative Rates	Previous	Current	Change (bps)
KESONIA	8.7474%	8.7482%	0.08
91-Day T-bill	8.3176%	8.3865%	6.89
182-Day T-bill	8.2123%	8.2113%	(0.10)
364-Day T-bill	8.5631%	8.5881%	2.50
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)	15.87	8.39	5.79
Accepted (Bn)	11.95	8.39	5.78
Redemption (Bn)	13.17	4.37	19.66
New borrowing (Bn)	(1.22)	+4.02	(13.88)

Government outlay on recurrent expenditures appears broadly on track at 80% of the budget while development and County disbursements lag with balances of KES 164Bn and KES 105Bn, respectively into June. Public debt payments continue to absorb fiscal room, consistently accounting for 70% of tax revenues. Hence, this is keeping domestic issuances elevated. Positively, the performance in the primaries remains upbeat. Last week, the fiscal agent raised KES 26Bn and KES 36Bn in the T-bill and bond auctions. With that, net domestic borrowing reached KES 860Bn, translating to a KES 136Bn balance into June. However, the prospect of tightening external credit markets could mean greater reliance on the domestic market. This at a time when fiscal risk and inflation is rising typically translates to the market demanding more premium especially on the short end. Demonstrating this, yields for 91-day, 182-day and 364-day papers came in at 8.3865% (+6.89bps), 8.2113% (-0.10bps) and 8.5881%(+2.50bps).

Regional Markets

Further acceleration in consumer prices in Rwanda prompted tightening by the Monetary Policy Committee. In April, Rwanda's Urban CPI index rose to 13%, up from 9.2% in March. Meanwhile, core inflation rose to 8.7% relative to 8.0% the month prior. The increase primarily reflects a surge in the energy index, up 47.9% annually and 18% month-on-month. Against this backdrop, the MPC raised the policy rate by 100bps from 7.25% to 8.25%. Inflation is expectedly forecast to average higher this year at 13.9% in 2026 from 9.4% previously forecast before declining to 7.4% in 2027. This reflects the global energy price shock and its second-round impact as well as lower food supply from the two harvesting seasons of 2026.

Tanzania and the IMF reached a staff-level agreement on the final reviews of the Extended Credit Facility (ECF) and the Resilience and Sustainability Facility (RSF), reflecting broadly successful program implementation with strong growth, contained inflation, adequate reserves, and increased social spending. Subject to IMF Executive Board approval, Tanzania will gain access to US$375.5 million in financing.

	UGANDA		TANZANIA		RWANDA	
Week Ending	15-May	22-May	15-May	22-May	15-May	22-May
91D T-Bill	10.50%	10.50%	3.83%	3.72%	8.29%	8.20%
182D T-Bill	11.00%	11.00%	5.27%	5.18%	8.45%	8.40%
364D T-Bill	12.24%	12.00%	5.68%	5.68%	8.83%	8.84%
O/N rate	10.18%	9.86%	6.21%	5.25%	7.30%	7.30%
CBR	**9.75%**	**9.75%**	**5.75%**	**5.75%**	**7.25%**	**8.25%**