

# ECONOMICS AND RESEARCH WEEKLY FIXED INCOME REPORT

4th May 2026

## Fears of Stagflation Emerge Following the Seemingly Unending Middle East Conflict

April was the second eventful month as the Iran conflict showed no sign of easing. Oil price which is the key transmission channel for this war saw large swings, with Brent oil briefly touching USD123 per barrel last week. Consequently, markets saw a stagflation shock being plausible from this, hence sovereign bond yields rose across different markets. This includes Japan's 10yr yields that hit their highest since 1997, the UK's 10yr yield saw its highest since 2008 and Germany's 10yr yield that touched its highest since 2011.

Despite the developments at the tail end of last week where Iran presented a 14-point peace plan to the US, proposing that both countries reach an agreement within 30 days, we think that the end is not yet in sight. Iran stated that there will be no negotiations on the nuclear program, which we see as a deal breaker for the US. Consequently, oil is expected to continue trading above USD100 per barrel.

As anticipated, the major central banks made no unexpected moves during their meetings this week, reflecting a synchronized global pause as they balance ongoing inflation concerns with weakening economic activity. In the US, the Federal Reserve held its policy rate at 3.50%–3.75% amid an uncertain short-term outlook, characterized by conflicting labor market indicators, rising inflation and moderating, yet still resilient economic activity. Interestingly, the committee's guidance on the future path of interest rates was split, with three members dissenting and one member voting for a 25-bps rate cut. Resultantly, the policy rate is likely to stay unchanged this year. However, a rate hike is not a far-fetched probability.

Similarly, the European Central Bank maintained its key policy rates unchanged, keeping the deposit facility rate at 2.0%, while the Bank of Japan held its policy rate steady at 0.75%. Rhetoric by the ECB President stated willingness to hike rates in the near term, however caution will be necessitated given the muted growth backdrop.

In the United Kingdom, headline inflation rose to 3.3%, with risks tilted to the upside. Against this backdrop, the Bank of England's Monetary Policy Committee voted 8–1 to hold the policy rate at 3.75%, signaling a preference to assess further inflation pass-through effects before adjusting policy.

## Domestic Inflation Prints Above Forecasts

Domestically, inflationary pressures intensified in April as indicated by the surge in headline inflation to 5.6% from 4.4% in March, driven primarily by higher food and transport costs. The sharp increase in food prices was contrary to our expectations for a moderation in vegetable prices and may be attributed to crop losses caused by extensive flooding and logistical challenges affecting timely transportation of goods to market. This limited the scope for households to absorb anticipated increases in energy and transport costs, posing downside risks to real incomes and consumption.

Resultantly, this partly saw investors bid aggressively in the week leading to an increase in yields to 8.0398% (+26.04bps), 8.2115% (+32.48bps), and 8.5133% (+24.23bps) across the 91, 182 and 364-day T-bills to safeguard real returns. For the MPC, a hawkish bend by the Fed, surging local inflation and rising yields will similarly see a hawkish tilt in the June meeting.

## Regional

In Uganda, inflation remains relatively contained though demonstrated a slight uptick in April to 3.0% from 2.8% in March, largely driven by rising energy costs. Notably, Energy, fuel, and utilities inflation increased to 6.1% (from 4.1%), reflecting significant annual increases in pump prices—with petrol rising by 8.7% and diesel by 10.8%.

In the MPC meeting next week, we expect the policy rate to remain unchanged at 9.75%. Even though Uganda has new drivers to its economic activity, we do see the committee going into this meeting with caution following the uncertain nature of the external side.

Indicative Rates	Previous	Current	Change (bps)
KESONIA	8.7558%	8.7478%	(0.8)
91-Day T-bill	7.7794%	8.0398%	26.04
182-Day T-bill	7.8867%	8.2115%	32.48
364-Day T-bill	8.2710%	8.5133%	24.23
Headline Inflation	4.4%	5.6%	120.00
Weekly T-bill Results	91D	182D	364D
Offered (Bn)	4.0	10.0	10.0
Bids Received (Bn)	8.02	3.26	7.18
Accepted (Bn)	8.01	3.26	7.18
Redemption (Bn)	6.39	1.60	16.39
New borrowing (Bn)	+1.62	+1.66	(9.21)

Week Ending	UGANDA		TANZANIA		RWANDA	
	24-Apr	1-May	24-Apr	1-May	24-Apr	1-May
<b>91D T-Bill</b>	10.00%	10.00%	3.97%	3.97%	8.31%	8.31%
<b>182D T-Bill</b>	10.75%	10.75%	5.36%	5.36%	8.50%	8.50%
<b>364D T-Bill</b>	12.00%	12.00%	5.66%	5.66%	8.95%	8.95%
<b>O/N rate</b>	10.54%	10.29%	6.50%	6.29%	7.30%	7.30%
<b>CBR</b>	<b>9.75%</b>	<b>9.75%</b>	<b>5.75%</b>	<b>5.75%</b>	<b>7.25%</b>	<b>7.25%</b>