ECONOMICS AND RESEARCH WEEKLY FIXED INCOME REPORT

15th June 2026

Renewed Optimism Over US - Iran Agreement Triggers Sharp Oil Price Pullback

Over the weekend, the US and Iran agreed to end all military operations, reopen the Strait of Hormuz and that the US lifts the blockade. In response, oil prices tumbled to US $ 83 per barrel from highs of US $ 125 per barrel in late April. The agreement is expected to be signed this Friday in Switzerland and thereafter trigger technical negotiations over the course of 60-days. Though positive, uncertainty regarding agreement over key sticking points remains.

Given that global inflation pressures are predominantly energy-driven, this development is particularly significant in light of major central bank meetings scheduled this week, including those of the Federal Reserve, Bank of England, (BoE) and Bank of Japan. A 25-basis points rate hike by the Bank of Japan appears firmly priced in already. In contrast, we see the Fed and BoE having more patience to remain on hold particularly if oil prices stabilize or decline, as they have begun to do in June. This could mean that the oil shock is transitory, with inflation likely to peak in the second quarter before easing in the third and fourth quarters. Elsewhere, the European Central Bank raised interest rates by 25-basis points, marking the first-interest rate hike since September 2023.

Upcoming Headwinds for the Sovereign in the Fiscal Year 2026/2027

The government's budget cycle for the FY 2025/2026 ends on 30th June. The sovereign has thus far managed to meet 91% of its budgeted local (net) borrowing. With two weeks left in the fiscal year, the government has floated what could be the last bond auction of the fiscal year seeking to raise KES 60Bn. A full subscription would take the performance to just shy of 100%.

Indicative Rates %	Previous	Current	Change (bps)
KESONIA	8.7458	8.7499	0.41
91-Day T-bill	8.5588	8.7067	14.79
182-Day T-bill	8.5252	8.6006	7.54
364-Day T-bill	8.7629	8.8715	10.86
Headline Inflation	5.6	6.7	110.0
Weekly T-bill Results	**91D**	**182D**	**364D**
Offered (Bn)	4.0	10.0	10.0
Bids Received (Bn)	32.83	4.38	2.14
Accepted (Bn)	26.86	3.90	1.85
Redemption (Bn)	4.98	2.31	3.25
New borrowing (Bn)	+21.88	+1.59	(1.39)

Nonetheless, the sovereign's fiscal position remains constrained, underpinned by undershooting tax revenue collections against the target of KES 2.78 trillion. This suggests that the fiscal deficit could be much wider than anticipated.

The CS, National Treasury's FY 2026/27 budget statement delivered last week thus faces challenges from the onset. This, linked with stagflation risks could prove a key headwind to the next cycle's fiscal performance. The total budget stands at KES 4.8 trillion, out of which KES 2.99 trillion will be raised through tax revenues. The fiscal deficit is set at KES 1.15 trillion, down 4% from the current year. Given the external environment, the government remains firm on bridging any budget deficits locally. To this end, the net domestic borrowing target has touched KES 1,030 billion, while net foreign financing is KES 116.2 billion. Bridging revenue gaps with debt could undermine the quality of public spending. Already, the government's debt service obligations take up more than 30% of planned expenditure for the FY 2026/27.

Elevated appetite for local borrowing should therefore remain supportive of the current upward adjustment of the yield curve. Last week, yields for 91-day, 182-day and 364-day papers came in at 8.7067% (+14.79bps), 8.6006% +7.54bps) and 8.8715%(+10.86bps).

Regional Markets

Tanzania's annual headline inflation in May ticked up to 4.2%, up from 4.0% in April. The increase was mainly linked to higher transport inflation following higher fuel prices in the month linked to the Middle East war. The core index rose to 3.4% from 3.1% in April. Into the remainder of Q3, inflation is expected to move toward 5%. The second-round impact of the oil shock on food prices may partially be contained by favourable weather and well-managed exchange rate volatility. The central bank believes that inflation is still sufficiently contained to avoid policy tightening.

	UGANDA		TANZANIA		RWANDA	
Week Ending	5-Jun	12-Jun	5-Jun	12-Jun	5-Jun	12-Jun
91D T-Bill	10.50%	10.50%	3.57%	3.57%	8.23%	8.00%
182D T-Bill	11.00%	11.12%	5.04%	5.04%	8.37%	8.07%
364D T-Bill	12.00%	12.00%	6.38%	6.38%	8.90%	8.59%
O/N rate	9.92%	9.95%	6.25%	6.50%	7.30%	7.30%
CBR	**9.75%**	**9.75%**	**5.75%**	**5.75%**	**8.25%**	**8.25%**