ECONOMICS AND RESEARCH WEEKLY FIXED INCOME REPORT

20th July 2026

Global Markets Move Sideways Following Renewed US/Iran Conflict

Over the weekend, the Middle East conflict intensified markedly, with a fresh wave of military attacks as both sides appeared to abandon the interim ceasefire deal. In response, Brent oil price rose by 2.5% to $90.0 per barrel. In the fixed income space, investors in US Treasuries faced contrasting sentiments, with a rally earlier in the week following a softer than expected US CPI print. Later in the week, this changed to risk-off because of an escalation of the US/Iran conflict. Consequently, the 2yr US Treasury yield rose by 3.6% to touch 4.18% on Friday, while that of the 10yr fell by 0.6% to 4.55%. In the near-term, the fixed income market will look at oil prices for direction given that major central banks are likely to hold the policy rate in their July and August meetings.

Fiscal Cycle 2025/26 Report Indicates Better than Expected Outcomes, Though Heavily Supported by Deficit Financing

A report published last week marking the closure of the FY2025/26 accentuated the public debt burden challenge for the government. Tax revenues closed with a larger shortfall relative to FY 2024/25 at KES 150 billion reaching total collection of KES 2,450 billion – 94% of the target. Positively, strong borrowing boosted the total revenue outturn. To finance the fiscal deficit, the sovereign attained KES 1,297 billion in net domestic borrowing, while external borrowing touched KES 697Bn.

Consequently, most spending items ended up close to their targets, except for the consolidated fund services (CFS), which saw a sizeable shortfall on account of lower than budgeted cost of public debt service. Of note, 99.8% of recurrent expenditures were paid out, totalling KES 1,673 billion. Counties received their full allocation of KES 415 billion, while KES 457 billion was released for development purposes, representing 95% of the planned budget. Overall, there is likely to be increased strain on fiscal discipline, especially since general elections periods typically require greater expenditure. On the positive side, investors continue to have a favourable view of Kenya, thanks to the government's successful debt management efforts, success in securing concessional financing from the World Bank, and its effective handling of external shocks due to comfortable reserve levels.

The performance at the July primary auctions affirms this. Illustratively, in the last three T-bill auctions and the recent bond sale, investor bids have amounted to KES 273.4Bn, against total offer of KES 150Bn. Of this, the fiscal agent has accepted KES 156Bn, marking an acceptance rate of only 57%. This level of demand, combined with prudent conduct by the fiscal agent should be able to stave off a sharp rise in local interest rates, external developments notwithstanding. Last week, the yields for 91-day, 182-day and 364-day papers settled at 8.7986% (-2.64bps), 8.9695% (-0.16bps) and 9.0415%(+4.92bps), respectively.

Nonetheless, it is difficult to ignore the risks emanating from the Middle East which implies lingering domestic inflation risks, with prices expected to range 6.0-7.0% in the near term. Therefore, we maintain the view that the MPC will stand pat in the August meeting, taking cue from the cautious posture of the US Federal Reserve.

Regional Markets

Investor demand for government paper across the regional markets remains strong. Uganda raised UGX 1.03 trillion in a 3-year and 20-year bond sale, Tanzania accepted TZS 239 billion from short term borrowing, while Rwanda picked RWF 17.5Bn from the T-bill sale. Yields generally moved lower across the markets, supported by ample market liquidity and foreign participation, particularly in Uganda.

Indicative Rates %	Previous	Current	Change (bps)
KESONIA	8.7496	8.7564	0.68
91-Day T-bill	8.8250	8.7886	-2.64
182-Day T-bill	8.9711	8.9695	-0.16
364-Day T-bill	8.9923	9.0415	4.92
Headline Inflation	6.7	6.4	30.0
Weekly T-bill Results	**91D**	**182D**	**364D**
Offered (Bn)	4.0	10.0	10.0
Bids Received (Bn)	24.36	15.15	4.51
Accepted (Bn)	12.89	13.23	4.51
Redemption (Bn)	2.56	0.56	15.99
New borrowing (Bn)	+10.33	+12.67	(11.48)

	UGANDA		TANZANIA		RWANDA	
Week Ending	10-Jul	17-Jul	10-Jul	17-Jul	10-Jul	17-Jul
91D T-Bill	10.00%	10.00%	3.45%	3.35%	8.24%	8.26%
182D T-Bill	10.40%	10.40%	4.70%	4.78%	8.30%	8.29%
364D T-Bill	11.50%	11.50%	7.12%	7.03%	8.42%	8.45%
O/N rate	8.61%	9.88%	6.19%	5.53%	8.30%	8.30%
CBR	**9.75%**	**9.75%**	**6.25%**	**6.25%**	**8.25%**	**8.25%**