29th June 2026

Less Central Bank Action Expected as Inflation Risk Eases on Lower Oil Prices

One round of mediated talks was held in Switzerland a week ago. In it, the US authorized the sale of Iranian oil and fuels and pledged to unlock billions in frozen funds. Despite signs of progress, fighting resumed and intensified late last week and into the weekend. In the latest developments, the two nations agreed to halt attacks paving way for further negotiations this week in Doha.

On global oil flow, estimates suggest oil exports from the Persian Gulf have reached at least 75% of the pre-war levels, partly driven by the clear-out of roughly 35 million barrels that were stranded on tankers within the Gulf during the conflict. Brent oil prices fell to $73.36 per barrel, about 40% lower than the late March high of $118.

Although there is still a possibility of further supply disruptions, overall sentiment is upbeat as global markets expect household budgets to benefit significantly from lower oil prices. Against this backdrop, the increase in the US Personal Consumption Expenditures (PCE) index to 4.1% and 3.4% at the headline and core level, respectively did not move the needle much. Overall, the likelihood of the Federal Reserve increasing rates is slightly lower, yet we still anticipate that the FOMC will continue to act with caution.

Material Upside on Local Interest Rates Wanes Amid Improving External Environment

The new fiscal year commences this week on Wednesday. Looking back, the success of the FY 2025/26 was impeded by a low aggregate demand, high public debt cost and lagged external financing disbursement. Still, the government successfully tapped into the Eurobond market, hit the local borrowing target and manage recurrent spending broadly well. Nonetheless, lower-than-budgeted development and country disbursements, alongside high overdraft levels, signal fiscal strain. Externally, the anticipated $750 million World Bank DPO is below the budgeted $1.5 billion and remains pending. With a larger budgeted envelope of KES 191.8 billion from the World Bank for FY 2026/27, further challenges are expected.

In Q1 of the FY 2026/27, we anticipate little pressure on government spending and standard front-loading of domestic borrowing. Expectedly, this could sustain yields around current levels, but we do not see much further upside ahead, at least in the near term. This is attributed to favorable domestic liquidity conditions, ample investor appetite for government paper and the drop in headline inflation risk in coming months. However, any revisions to the budget may exert some pressure on interest rates. In last week's auction, the sale was oversubscribed with investors submitting KES 28.06Bn in bids against CBK's target of KES 24Bn. Of this, KES 17.43Bn was accepted. The yields for 91-day, 182-day and 364-day papers came in at 8.8275% (+0.69bps), 8.8438% +6.56bps) and 8.9932% (+1.86bps).

Indicative Rates %	Previous	Current	Change (bps)
KESONIA	8.7470	8.7510	0.40
91-Day T-bill	8.8206	8.8275	0.69
182-Day T-bill	8.7782	8.8438	6.56
364-Day T-bill	8.9746	8.9932	1.86
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)	23.01	2.27	2.78
Accepted (Bn)	14.19	0.83	2.41
Redemption (Bn)	2.52	0.72	12.92
New borrowing (Bn)	+11.66	+0.11	(10.51)

Regional

In Tanzania, the Bank of Tanzania's MPC meets this week to decide on the policy stance for the third quarter of 2026. The likelihood of a hold in CBR at 5.75% is high. The increase in inflationary pressures, similar to the region is largely energy driven. As a result, inflation, now at 4.2% is likely to reflect the recent decline in global energy prices, supported by broad stability on the exchange rate. Hence, in the near term, we see inflation holding below 5.0%.

	UGANDA		TANZANIA		RWANDA	
Week Ending	19-Jun	26-Jun	19-Jun	26-Jun	19-Jun	26-Jun
91D T-Bill	10.50%	10.50%	3.55%	3.55%	8.01%	7.99%
182D T-Bill	10.71%	10.71%	4.91%	4.91%	8.07%	8.06%
364D T-Bill	12.00%	12.00%	6.92%	6.92%	8.59%	8.61%
O/N rate	9.86%	10.00%	6.07%	6.38%	7.30%	8.30%
CBR	**9.75%**	**9.75%**	**5.75%**	**5.75%**	**8.25%**	**8.25%**