ECONOMICS AND RESEARCH WEEKLY FIXED INCOME REPORT

6th July 2026

Global Developments Seem to Put an End to Discussions About Policy Rate Hikes in the Near-term

The Memorandum of Understanding between the US and Iran is likely to hold, providing space for their negotiations to continue. This is not because trust between them has emerged or improved, but because the incentive to break out of the talks is low for both of the parties. Consequently, oil prices eased to USD 72 per barrel, with an expectation that trades are likely to record around that level this week.

Similar conviction stems from the developments in the US market last week. Weaker than expected labour market data that saw only 57,000 new non-farm-payroll numbers relative to 129,000 in the previous month would have policy makers rethink policy rate hikes. Additionally, June unemployment rate marginally fell to 4.2% from 4.3% in May. It thus appears that the World Cup games did not lead to meaningful jobs growth. Instead, growth was printed in the healthcare space.

Elsewhere in Europe, although it is still early days to make a conclusion, an ECB member appeared to signal that the European Central Bank (ECB) may not be actively providing market guidance on future policy actions. That said, the region's June headline inflation came softer than expected at 2.8% essentially benefiting from easing energy and services prices in the month. However, though the reading does not eliminate the second-round effects through high food and core goods prices, it increases the likelihood of a wait-and-see decision at the next ECB July meeting. Markets will thus get back to combing every data release keenly.

Thus, overall, with the geopolitical side getting closer to predictable, market focus therefore returns to macro and asset class fundamentals.

Domestically, June headline inflation softened to 6.4% on tamer rise in food price. The print though within the central bank target range remains somehow elevated above the midpoint. Overall, we project a lower inflation path in the near-term.

Our base case (60% probability) is that the current negotiations between Iran and the US evolve into a broader deal, while the ceasefire between Israel and Lebanon somewhat holds. Moreover, Gulf oil producers are likely to successfully switch to export a significant portion by pipelines, which would result in a Brent oil price of $70 per barrel on average. On the domestic front, we expect vegetable and fruit prices to decline in the near-term, upon which headline inflation would average 6.0%-6.5% in the third quarter of 2026.

Expectedly, earlier projected pressure on short-end interest rates is likely to be moderated by reduced inflationary pressures amid ample market liquidity. Consequently, amid softer inflation print and ample liquidity, last week's auction was oversubscribed with KES 35.19 billion bids against KES 24 billion on offer and KES 24.73 billion accepted. Resultantly, yields sustained marginal upward adjustment closing at 8.8347% (+0.72bps), 8.9616% (+11.78bps) and 8.9953%(+0.21bps) for 91-day, 182-day and 364-day papers, respectively.

Regional Markets

Uganda's June headline inflation print edged up to 3.7% from 3.2% in May largely on account of core inflation and energy fuel price rise, where core inflation rose to 3.4% from 3.0% previously. The latest print signals underlying price pressures, though overall, inflation is projected to stabilise around the target of 5.0%.

In Tanzania, the Bank of Tanzania hiked the policy rate by 50 basis points to 6.25% for the quarter ending September 2026. With the annual headline inflation rising to 4.2% in May 2026, the recent rate hike was anticipated to keep inflation within 3-5% target. Meanwhile, in last week's auction yields closed at 12.80% (-18bps) for 2-year, 14.70% (+20bps) for 5-year and 15.75% for 15-year bond in Uganda while in Tanzania, yields came in at 3.45% (91-day), 4.91% (182-day), and 7.11% (364-day).

Indicative Rates	Previous	Current	Change (bps)
Interbank rate	8.7510%	8.7489%	(0.21)
91-Day T-bill	8.8275%	8.8347%	+0.72
182-Day T-bill	8.8438%	8.9616%	+11.78
364-Day T-bill	8.9932%	8.9953%	+0.21
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)	25.61	2.49	7.09
Accepted (Bn)	16.13	1.52	7.08
Redemption (Bn)	1.18	11.72	8.52
New borrowing (Bn)	+14.95	(10.2)	(1.44)

	UGANDA		TANZANIA		RWANDA	
Week Ending	26-Jun	03-Jul	26-Jun	03-Jul	26-Jun	03-Jul
91D T-Bill	10.50%	10.50%	3.55%	3.45%	7.99%	8.30%
182D T-Bill	10.71%	10.71%	4.91%	4.70%	8.06%	8.30%
364D T-Bill	12.00%	12.00%	6.92%	7.12%	8.61%	8.60%
O/N rate	9.86%	9.73%	6.38%	6.20%	8.3%	8.3%
CBR	**9.75%**	**9.75%**	**5.75%**	**6.25%**	**8.25%**	**8.25%**