

ECONOMICS AND RESEARCH WEEKLY FIXED INCOME REPORT

5th October 2026

Global Bond Yields Elevated Due to Concerns Over Persistent Inflation and Sustainability of Government Debt

GEOPOLITICS	GLOBAL FIXED INCOME MARKET	ECONOMIC ACTIVITY	KENYA PRIMARY AUCTIONS
G7 oil reserves deployment. Brent price at \$ 102/bbl	Global bond yields rally. 10Y UST yield above 5.2%	Broad economic resilience	Decent demand across all tenors

GLOBAL MARKETS

Global Bond Yields Hike | Oil Price Uncertainty

Whilst consensus solidified around an improvement in oil flows out of the Gulf region, Brent prices continued to rise towards USD 102.3 a barrel today morning. Moreover, this was despite the announced relief for refined products, especially diesel as the G7 on Friday announced a plan to release about 100 million barrels of oil and diesel from their reserves. We do think that this is partly because markets do not foresee a quick reversal of the supply-demand deficits, refined oil products are still in the red following reduced processing in Russia and Asia and low probability of a ceasefire agreement. Resultantly, underlying inflation will prove persistent. To this end, according to preliminary data, headline inflation in the Euro area jumped to 3.8% in September, up from 3.2% in the prior month. The core inflation rose to 2.5% from 2.4%. Energy prices were responsible for most of this general price pressure, rising to 18.8% from 14.3%.

In the US market, the August PCE inflation readings that printed core PCE at 3.0% year-on-year against 3.3% previously do not signal a reversal in the inflation trend. Instead, we see it as partly driven by a methodological change regarding legal services, computer software and portfolio management. Thus, inflation expectations remain unanchored following the lack of progress on the Middle East crisis, which is the geopolitical risk's central case.

Consequently, the 10-year US Treasury yield pushed to a post-2007 high of 5.30%. Investors are not only worried about persistent inflation, but also sustainability of government debt. For example, the US federal government has its debt at more than 100% of GDP, while several EU economies have it above the maximum allowed under the Maastricht Treaty. This includes Italy and France. Last week the 10-year bond spread for France and Germany widened to 141bps, the highest weekly gap since 1990.

DOMESTIC MARKET

Kenya

Sovereign Domestic Borrowing Continues to be Well Supported by Ample Market Liquidity

Even though Kenya's inflation print for September was within our expectations, core inflation appears to have jumped quite high. Concerningly, it is likely to average above 4.0% for the remainder of the year, denoting increased underlying price pressure, which should be a concern for the monetary policy committee meetings this quarter.

Against the global and economy-specific inflation backdrop, continued global bond sell-off saw Kenya's Eurobond yields rise significantly. The 2028 note increased to 7.626% (+75.5 basis points), the 2031 note to 8.309% (+52.1 basis points), the 2032 note to 8.752% (+73.8 basis points) and the 2034 note to 9.202% (+70.3 basis points). Investors are unsure whether Frontier market central banks will manage the resolute inflation pressures decisively.

Ample Domestic Liquidity Outweighs Inflation Risk in the Primary Auction

Ample market liquidity continues to support sovereign net domestic borrowing. Illustratively, last week's re-opened bonds auction was well subscribed with KES 80.56Bn in bids against KES 50Bn on offer. The sovereign accepted KES 57.51Bn. Similarly, Treasury bills auction attracted KES 47.72Bn in bids against KES 28Bn on offer with bids worth KES 41.20Bn accepted. The yields across Treasury bills were on downward trajectory, with 91-day, 182-day and 364-day papers at 8.7694% (-0.87bps), 8.8856% (-0.93bps) and 9.0397% (-0.34bps).

So far, the government has managed to borrow 58% of its net domestic borrowing target. With the short – end interest rates remaining sticky, the sovereign could fast-track its net borrowing in quarter four of 2026, given the tick up in the external yields. That said, Overall market liquidity remains crucial in supporting government achieve its borrowing target in the near-term. Consequently, this week's switch bond will be interesting.

REGIONAL MARKETS

Uganda

Uganda Headline and Core Inflation Tick Up Signalling Underlying Price Pressure

Uganda's headline inflation for September ticked up to 4.5% from 4.1% in August largely driven by energy, transport and food prices. Similarly, core inflation surged up to 3.7% from 3.5% previously. Surprisingly, the Bank of Uganda (BoU) upward revision of the Cash Reserve Requirement (CRR) to 13.5% in September is unlikely to bring down the headline inflation print as anticipated amidst sharp depreciation of the shilling that continued last week. With the current inflation print nearing the medium-term target of 5%, the BoU is likely to consider other monetary tools to cushion the shilling and anchor the inflation on the backdrop of delayed oil production into 2027.

That said, despite the CRR tightening, last week's Treasury bill auction was well subscribed with UGX 573.66Bn in bids against reduced offer of UGX 350 billion with the sovereign accepting UGX 356.78Bn signaling a cautious borrowing stance to avert private sector crowding out effect. Yields rose across all the tenors except the 91-day paper that declined to 9.699% (-5 bps). The 182-day paper printed higher at 10.751%(+75.2bps) and the 364-day paper at 11.501% (+50.2bps).

KENYA SHORT-TERM INTEREST RATES DASHBOARD

Week ending 2 October 2026

Indicative rates (%)	Previous	Current	Δ w/w (bps)
Interbank rate	8.7500%	8.7505%	▲ +0.05
91-Day T-bill	8.7781%	8.7694%	▼ -0.87
182-Day T-bill	8.8949%	8.8856%	▼ -0.93
364-Day T-bill	9.0431%	9.0397%	▼ -0.34
Headline inflation (y/y)	6.6%	6.8%	▲ +0.2 pp
Weekly auction (KES Bn)	91D	182D	364D
Offered	8.00	10.00	10.0
Bids received	17.98	19.15	10.59
Accepted	12.88	17.90	10.42
Performance rate	224.75%	191.5%	105.9%
Redemptions	16.45	9.41	8.02
Net new borrowing	-3.57	+8.49	+2.40

Source: Central Bank of Kenya, NCBA Research

	UGANDA			TANZANIA			RWANDA		
Week ending	25-Sep	02-Oct	Δ bps	25-Sep	02-Oct	Δ bps	25-Sep	02-Oct	Δ bps
91D T-bill	9.75%	9.70%	▼ -5.00	3.39%	3.39%	— 0.00	8.78%	8.65%	▼ -13.00
182D T-bill	10.00%	10.75%	▲ +75.00	5.29%	5.29%	— 0.00	8.80%	8.81%	▼ -1.00
364D T-bill	10.99%	11.50%	▲ +51.00	6.29%	6.29%	— 0.00	8.83%	8.85%	▲ +2.00
O/N rate	10.85%	10.28%	▼ -57.00	6.25%	6.25%	— 0.00	8.78%	8.78%	— 0.00
Central bank rate	9.75%	9.75%	— 0.00	6.25%	6.25%	— 0.00	8.75%	8.75%	— 0.00

Source: Regional central banks, NCBA Research

THE WEEK AHEAD			
THIS WEEK US FOMC Minutes Hawkish policy stance.	THIS WEEK Several Service PMI Prints Generally resilient global services sector	THIS WEEK CBK MPC Meeting Hawkish policy stance.	WEEKLY T-bond Switch Auction KES 10Bn on offer; demand robust.

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