

ECONOMICS AND RESEARCH WEEKLY FIXED INCOME REPORT

26th October 2026

Bond Market Gains on AI-Sell off but Fundamentals Underpin Continued Pressure on Yields

GEOPOLITICS

Middle East tensions worsen.
Brent trading at \$117 per barrel

GLOBAL FIXED INCOME MARKET

Global bond yields ease marginally, but remain at historic highs

ECONOMIC ACTIVITY

Global economy resilient.
Inflation risks elevated.

KENYA PRIMARY AUCTIONS

Reduced demand across all tenors

GLOBAL MARKETS

AI selloff eases Global Bond Yields

Developments in the Middle East last week compounded uncertainties on the future of global energy markets, inflation and interest rates. The Houthis escalated attacks on Saudi Arabia's infrastructure while Iran explicitly ruled out Hormuz-for-blockade swap, leaving the Strait shut. The IEA and OPEC all trimmed 2026 demand forecasts, yet the market remains in a deficit through Q4 as supply disruptions remain large. As a result, the risk premium on oil remains embedded - Brent price surged to \$117 per barrel, an increase of 91% year-to-date. Uncertainty is expected to increase due to a higher probability of post-midterm military escalation.

Elevated oil continues to feed through to broader price levels in the economy. In the UK, headline inflation rose to 3.5% in September—its highest level since last October largely driven by high transport prices. In Japan, headline and core CPI rose to a nine-month high of 2.1% annually, from 1.9% and 1.7% in August, respectively. Moreover, high diesel price in key agricultural regions is increasing food production costs globally and feeding through to some supply chains.

Despite high energy prices, global bond yields pulled back slightly in the week amid a rush to safety following the AI sell off as markets confronted concerns around the durability of AI capex spending. As a result, the 10-year US Treasury bond is just shy of 5.0% levels in today's trading at 4.997%. In our view, with no material change in the fundamentals, particularly geopolitical uncertainty, higher inflation expectations and structural fiscal concerns—bond yields should remain elevated, though unlikely to rally significantly from current levels.

Into this week, the spotlight shifts to the US Federal Reserve, European Central Bank and Bank of Japan meetings. While we expect no change in policy stance across the three policymakers, communication around inflation and any clues on future policy actions will be closely monitored. Current market pricing places a 25-basis point rate increase as most likely in the December meetings, across all the central banks.

DOMESTIC MARKET

Kenya

Public Debt Service Pressures Warrant Continued Liability Management

Sizeable domestic debt maturities to the tune of KES 403Bn in November, portend pressure on sovereign liquidity in the near term. In response, the government has floated a switch bond auction for KES 10Bn from bond issue FXD1/2023/005 and Treasury bills maturing on 23-November-2026 into the FXD4/2019/010 (3.0 years to maturity). A lower tax obligation (10%) and its short tenor is expected to drive interest from the bond holders. Even so, government's reliance on successive liability management operations may signal to investors pressure on domestic debt service. As of September, debt service payments accounted for nearly 84% of tax revenues collected, implying

less fiscal space for budgetary spend. Positively, the current local borrowing has come at a relatively contained cost with yields moving very marginally since July. Alongside steady investor appetite and liquidity, this has underpinned cumulative borrowing of KES 624Bn locally, 62% of the fiscal budget. Last week short-end yields were sticky- with 91-day at 8.7478% (-0.22bps), 182-day at 8.8591% (-0.09bps), and 364-day at 9.0267% (-1.16bps). In the near term, we project interest rates to respond mainly to increase in the global interest rate path and local policy stance. Additionally, a Eurobond issuance could inform changes to the fiscal funding mix through June 2027.

REGIONAL MARKETS

Uganda

Uganda's Shilling Funding Costs and Treasury Yields Rise Sharply, But UGX Sell-Off Persists.

The Bank of Uganda's recent hike of the CBR to 12% resulted in a sharp upward repricing of shilling funding cost and the government securities yield curve. The overnight rate increased by 234bps last week to 12.62%. Meanwhile, yields across the three, six and twelve-month papers rose to 11.25% (+155bps), 13.4% (+265bps), and 14.5% (+300bps). The transmission is direct and quick. However, the local unit did not respond as intended. The policy rate hike initially triggered a 4.0% rally in the USD/UGX but has since reversed amid the dollar demand and supply imbalance. As a result, the USD/UGX ceded 7% of its value in the week, bringing YTD losses to 22%. The pressure reflects multiple imbalances in the market – a widening current account deficit, ineffective policy tightening, excess market liquidity, portfolio and capital flight and declining external financing. Absent a meaningful reversal in US yields and FX reserves at below 4.0 months of imports at \$ 6.5Bn, we see room for further depreciation.

KENYA SHORT-TERM INTEREST RATES DASHBOARD

Week ending 23 October 2026

Indicative rates (%)	Previous	Current	Δ w/w (bps)
Interbank rate	8.7504%	8.7503%	▼ -0.01
91-Day T-bill	8.7500%	8.7478%	▼ -0.22
182-Day T-bill	8.8600%	8.8591%	▼ -0.09
364-Day T-bill	9.0383%	9.0267%	▼ -1.16
Headline inflation (y/y)	6.8%	6.8%	— 0.00
Weekly auction (KES Bn)	91D	182D	364D
Offered	8.00	10.00	10.0
Bids received	14.34	7.69	6.80
Accepted	14.33	7.69	6.77
Performance rate	179.21%	76.93%	68.01%
Redemptions	13.52	0.84	5.80
Net new borrowing	+0.81	+6.84	+0.98

Source: Central Bank of Kenya, NCBA Research

	UGANDA			TANZANIA			RWANDA		
Week ending	15-Oct	22-Oct	Δ bps	15-Oct	22-Oct	Δ bps	15-Oct	22-Oct	Δ bps
91D T-bill	9.70%	11.25%	▲ +155	3.49%	3.64%	▲ +15.00	8.73%	8.70%	▼ -3.00
182D T-bill	10.75%	13.40%	▲ +265	5.62%	5.57%	▼ -5.00	8.79%	8.78%	▼ -1.00
364D T-bill	11.50%	14.50%	▲ +300	6.28%	6.13%	▼ -15.00	8.80%	8.81%	▲ +1.00
O/N rate	10.28%	12.62%	▲ +234	6.68%	6.59%	▼ -9.00	8.78%	8.77%	▼ -1.00
Central bank rate	12.00%	12.00%	— 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

Central Bank meetings

US Fed, ECB and BoJ expected to maintain current stance.

THIS WEEK

US PCE Data

Increase in general price level.

THIS WEEK

Kenya Inflation Data

Inflation expected between 6.9-7.0%

WEEKLY

T-bill Auction

KES 28Bn on offer; demand robust.

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