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Central Bank seeks to raise KES 60.0bn via two reopened bonds, offers concurrent KES 15.0bn switch auction for FXD1/2021/005

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WEEKLY FIXED INCOME REPORT

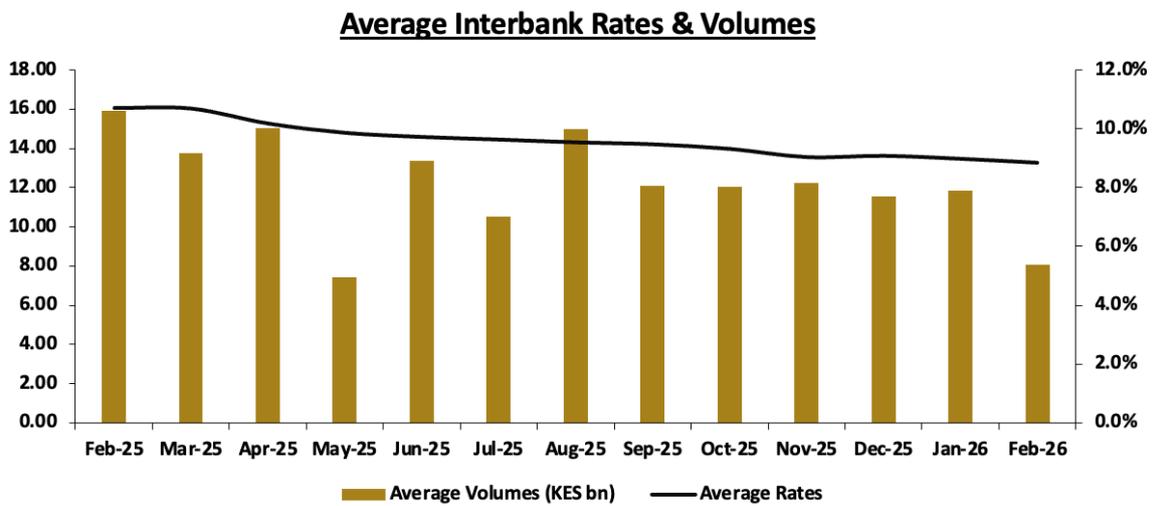
February inflation edges lower to 4.3% - Will global shocks break Kenya's inflation target?

MONEY MARKET STATISTICS

Liquidity conditions remained largely stable in the week, with the Kenya Shilling Overnight Interbank Average (KESONIA) easing by 0.4 bps w/w to an average of 8.77%. Interbank lending softened in the week, with average traded volumes declining by 1.38% w/w to KES 8.98bn, from KES 9.11bn in the prior week. Notably, the average number of interbank deals plummeted to 18 (-30.8% w/w). Find the summary below:

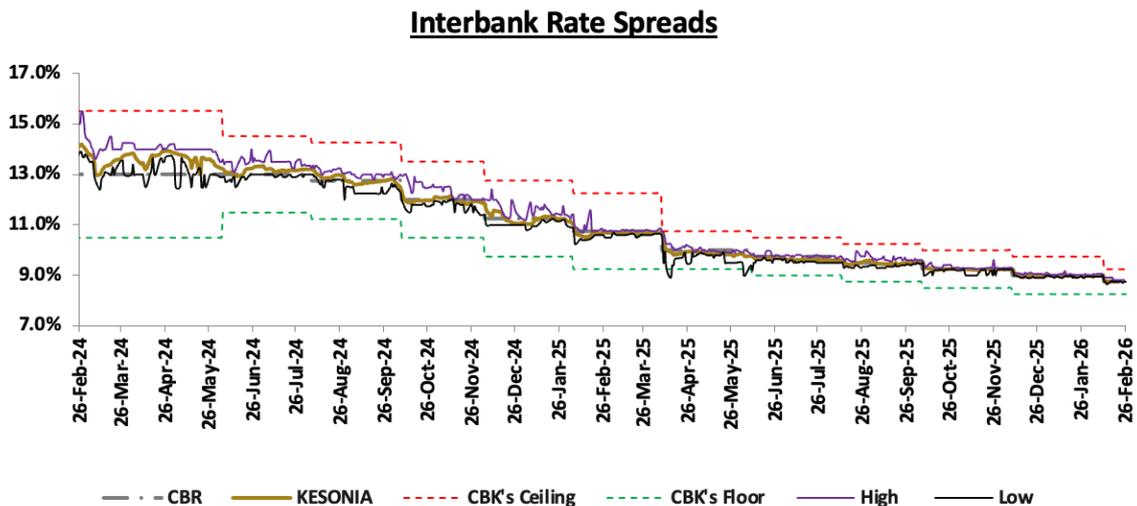
Average	Previous Week – ended 19th February 2026	Current Week – ended 26th February 2026	w/w change
Interbank Deals	26.00	18.00	(-30.77%)
Inter-Bank volumes (KES bn)	9.11	8.98	(1.38%)
KESONIA (bps)	8.77%	8.77%	(0.40)
Window Borrowing Volumes (KES bn)	0.30	-	n/a

Source: Central Bank of Kenya (CBK), Table: SIB



Source: Central Bank of Kenya (CBK), Chart: SIB

The weighted average interbank rate (KESONIA) continues to track the Central Bank Rate (CBR) closely, underscoring the stability and effectiveness of the monetary policy framework:



Source: Central Bank of Kenya (CBK), Chart: SIB

GOVERNMENT SECURITIES MARKET

T-Bills:

This week, demand for Treasury Bills eased marginally, with the overall subscription rate coming in at 243.9% from 295.6% in the previous week. Investors submitted bids totalling KES 58.5bn, of which the fiscal agent accepted 71.4%. This amount was higher than the maturity amounts, resulting in a net borrowing of KES 8.9bn. In absolute terms, the 364-day paper received the highest demand, garnering c.77.6% of the total submitted bids and a notable subscription rate of 454.0% as investors sought to lock in yields following the latest 25-bps CBR rate cut. The 91-day paper recorded a performance rate of 308.5%, while the 184-day paper reported a dismal subscription rate of 7.9%. Overall, KES 41.8bn was accepted, with the weighted average rate of accepted bids at 7.58% (-0.99bps w/w), 7.80% (+5.00bps w/w), and 8.79% (-11.17bps w/w) for the 91-day, 182-day, and 364-day papers, respectively. Below is a visual summary;

KES Bn

02-Mar-26	91-day	182-day	364-day	Totals
	01-Jun-26	31-Aug-26	01-Mar-27	
Amount offered	4.00	10.00	10.00	24.00
Bids received	12.34	0.79	45.40	58.53
Subscription rate (%)	308.5%	7.9%	454.0%	243.9%
Amount accepted	12.27	0.79	28.76	41.81
Acceptance rate (%)	99.4%	99.6%	63.3%	71.4%
Of which: Competitive Bids	10.80	0.12	23.31	34.22
Non-competitive bids	1.47	0.67	5.45	7.60
Rollover/Redemptions	18.22	1.82	12.88	32.92
New Borrowing/(Net Repayment)	-5.95	-1.03	15.88	8.89
Weighted Average Rate of Accepted Bids	7.58%	7.80%	8.79%	

Source: Central Bank of Kenya (CBK), Table: S1B

T-Bonds:

In the primary market, the fiscal agent seeks to raise KES 60.0bn through two reopened bonds: FXD1/2019/020 and FXD1/2021/025, with effective tenors of 13.10 and 20.10 years, respectively. The bonds have coupon rates of 12.87% and 13.92% for FXD1/2019/020 and FXD1/2021/025, respectively, with the sale period for both papers from 26th February 2026 until 11th March 2026. The total outstanding amount for the bonds stands at KES 173.8bn, with the longer tenured paper (FXD1/2021/025) holding a larger allocation (KES 90.5bn). We anticipate increased investor demand for FXD1/2021/025 due to its comparably higher coupon rate despite a longer tenor on the back of falling rates. See below a summary of the offer:

Bond Issue Number	Maturity Date	Effective Tenor	Amount Offered (in KES Bn)	Coupon	Sale Period
FXD1/2019/020	21-Mar-39	13.10	60.00	12.87%	26th February 2026 to 11th March 2026
FXD1/2021/025	09-Apr-46	20.10		13.92%	

Source: Central Bank of Kenya (CBK), Table: S1B

Meanwhile, the Central Bank announced a concurrent switch auction, from FXD1/2021/005 to FXD3/2019/015, targeting up to KES 15.0bn (c.23.0% of the outstanding amount) via multi-price auction from 26th February 2026 to 16th March 2026. This marks the second switch auction in FY25/26, which is part of the Government's liability management operations that seek to use buybacks and switches to actively manage maturity risk, reduce borrowing costs, and smooth the redemption profile of domestic debt. The offer is on a voluntary basis for investors with unencumbered holdings in FXD1/2021/005 as at 16th March 2026. We portend that the switch auction will provide investors the opportunity to extend the duration of their portfolios (especially fund managers who are keen on managing their cashflows), locking in the comparatively attractive 12.34% coupon rate on FXD3/2019/015 amid recent rate declines, coupled with relatively lower

withholding tax requirements, thereby improving net yield. Furthermore, the switch may also help investors address potential reinvestment risk if yields in the market fall even further, should the paper be held to maturity until November 2026.

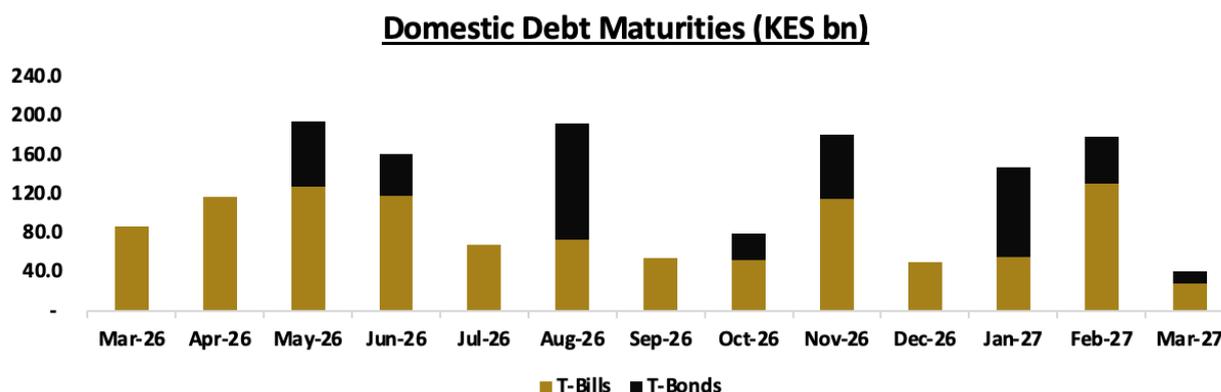
	Source Bond	Destination Bond
Issue Number	FXD1/2021/005	FXD3/2019/015
Effective tenor	0.6 years	11.3 years
Coupon Rates	11.28%	12.34%
Maturity Dates	09/11/2026	10/07/2034
Amount (KES)	15.0bn	
Period of Sale	26th February 2026 to 16th March 2026	
Withholding Tax (%)	15.0%	10.0%
Outstanding amounts - (KES)	66.08bn	53.92bn

Source: Central Bank of Kenya (CBK), Table: SIB

Secondary bond market turnover jumped to KES 136.2bn (+20.1%w/w) from KES 113.4bn in the prior week. In addition, bond market turnover surged to KES 381.2bn in February 2026 (+37.2% m/m, +52.7% y/y).

Outstanding Debt Maturities (T-Bills and T-Bonds):

As of this week, the Government's outstanding maturities to March 2027 are at c.KES 1,082.19bn in T-Bills and c.KES 472.39bn in T-Bonds. When we factor in coupons, the total maturity profile comes in at c.KES 2.2tn. Notably, the next bond maturity is expected in May 2026 (c.KES 76.5bn). See the chart below;



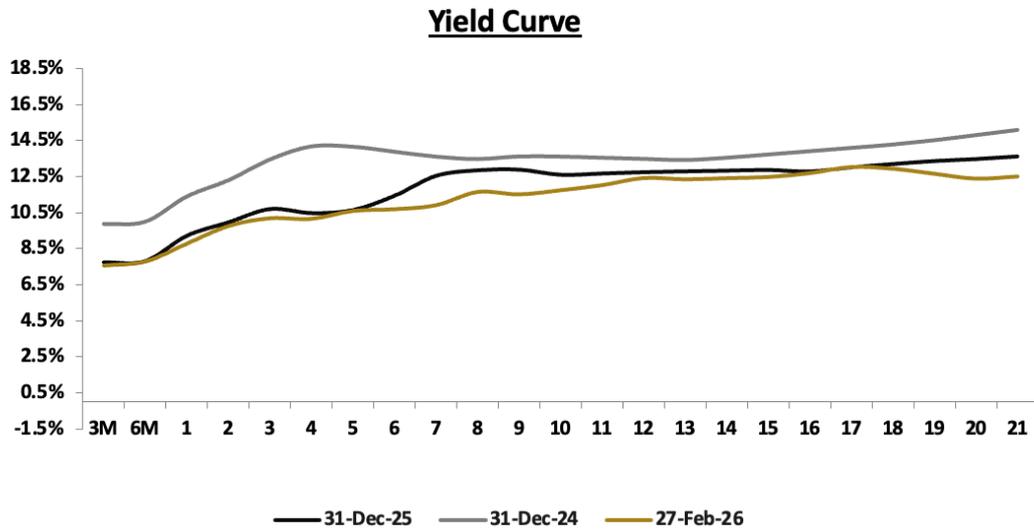
Source: Nairobi Securities Exchange (NSE), Chart: SIB

This week's auction pushed the Government's net domestic borrowing position to KES c.697.36bn, above the prorated target (performance rate of c.161.2%).

As announced by the National Treasury Principal Secretary during the week, the National Treasury aims to revise its estimates for the FY25/26 financial year through its Supplementary Budget 1 FY25/26 to accommodate revenue shortfalls against target and expenditure pressures, which include accelerated development spending plans ahead of the 2027 elections. Total expenditure is now set at KES 4,528bn, an increase of KES 262.9bn compared to the original approved budget. Resultantly, the fiscal deficit is now estimated at KES 1,140.7bn (c.6.0% of GDP), up from KES 901bn in the approved budget. The total revenue target for the FY25/26 financial year is projected at KES 3,352.1bn, an increase of KES 30.5bn compared to the approved budget. In particular, the ordinary revenue target is now set at KES 2,744bn, KES 10.3bn lower than the earlier approved FY25/26 budget, with ministerial appropriations-in-aid now set at KES 607.7bn, higher by KES 40.8bn, compared to the prior approved budget. Key to note is that the deficit is expected to be financed through net external financing of KES 254.8bn (1.3% of GDP), while net domestic financing is projected to reach KES 885.9bn (4.7% of GDP). These estimates are expected to be tabled before Parliament through the Supplementary Budget later during the FY25/26 financial year.

Yield Curve:

Local interest rates continued on a downward trend, with average yields on government securities falling by 10.34bps w/w as investors continue to price in the latest CBR rate adjustment. Below is a visual representation;



Source: Nairobi Securities Exchange (NSE), Chart: SIB

THE INTERNATIONAL SCENE

Kenyan Eurobonds:

Yields on Kenyan Eurobonds remained largely stable, with rates increasing by an average of c.1.8bps for the week dated 19th February 2026 to 26th February 2026. The table below summarizes the performance across maturities:

Kenyan Eurobonds					
Issuance	10-Year 2028	6-Year 2031	12-Year 2032	13-Year 2034	30-Year 2048
31-Dec-25	6.0%	7.1%	7.2%	7.8%	8.8%
19-Feb-26	6.1%	6.8%	7.0%	8.1%	8.8%
20-Feb-26	6.0%	6.9%	7.0%	8.2%	8.9%
23-Feb-26	6.0%	6.9%	7.0%	8.1%	8.9%
24-Feb-26	6.0%	6.9%	7.0%	8.2%	9.0%
25-Feb-26	5.9%	6.9%	7.0%	8.0%	8.9%
26-Feb-26	-	6.9%	7.0%	8.1%	8.9%
Weekly Change	(0.140%)	0.090%	-	0.030%	0.110%
YTD Change	(0.1%)	(0.2%)	(0.2%)	0.2%	0.0%

Source: Central Bank of Kenya (CBK), Table: SIB

During the week, the Government provided more information on the latest Eurobond buyback transaction, which sought to repurchase up to USD 350.0m of the 8.0% 2032 note and up to USD 150.0m of the 7.25% 2025 note. In particular, the Sovereign has repurchased USD 324.84m of the 8.0% 2032 note and USD 90.51m of the 7.25% 2028 note, bringing the total amount to USD 415.35m (slightly below its target of up to USD 500m). As the Government raised USD 2.25bn in its recent Eurobond issuance, approximately USD 1.83bn remains after the buyback transaction, for budgetary support.

Currency Performance

The Kenyan shilling exhibited mixed performance during the week compared to the currencies we track. In particular, the local unit advanced by 0.4% w/w against both the Ugandan Shilling and the Japanese Yen. On the other hand, the local unit depreciated against the British Pound, Euro, and Tanzanian Shilling by 0.4% w/w, 0.5% w/w, and 1.3% w/w, respectively. Notably, the Kenyan Shilling remained flat against the US dollar, keeping with recent trends, which the Central Bank Governor attributed to monetary policy interventions, higher remittances inflows, improved export and tourism receipts, as well as favourable global conditions. According to data from the Central Bank, the U.S. Dollar Index weakened by 0.14% during the week, largely driven by policy uncertainty and market volatility after the U.S. Supreme Court ruling on tariffs imposed by the U.S. government.

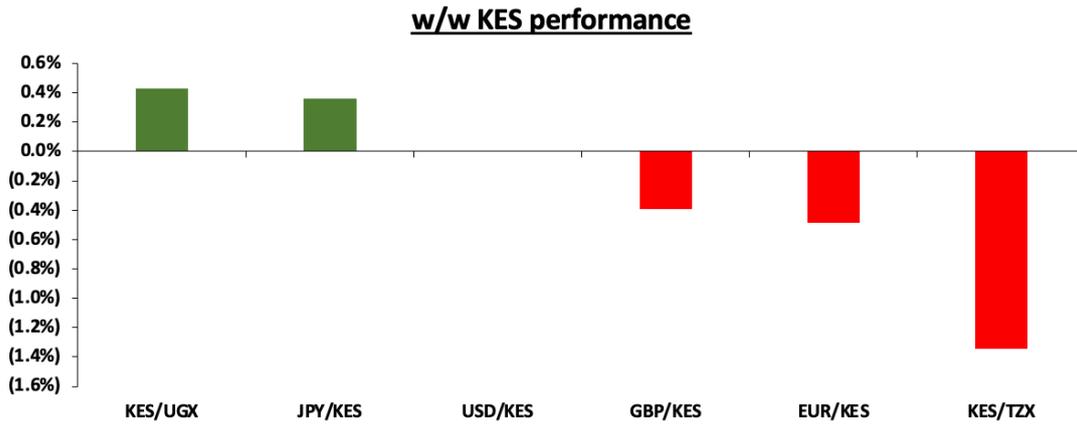
See the table below;

Currencies	31 Dec 2025	Previous Week	Current	w/w Change	YTD change – 31 st Dec 2025
KES/UGX	28.06	27.78	27.90	0.4%	(0.6%)
JPY/KES	82.39	83.12	82.82	0.4%	(0.5%)
USD/KES	129.01	129.02	129.02	0.00%	(0.0%)
GBP/KES	173.65	173.42	174.10	(0.4%)	(0.3%)
EUR/KES	151.43	151.65	152.39	(0.5%)	(0.6%)
KES/TZX	19.03	20.07	19.80	(1.3%)	4.0%

Source: Central Bank of Kenya (CBK), Chart: SIB

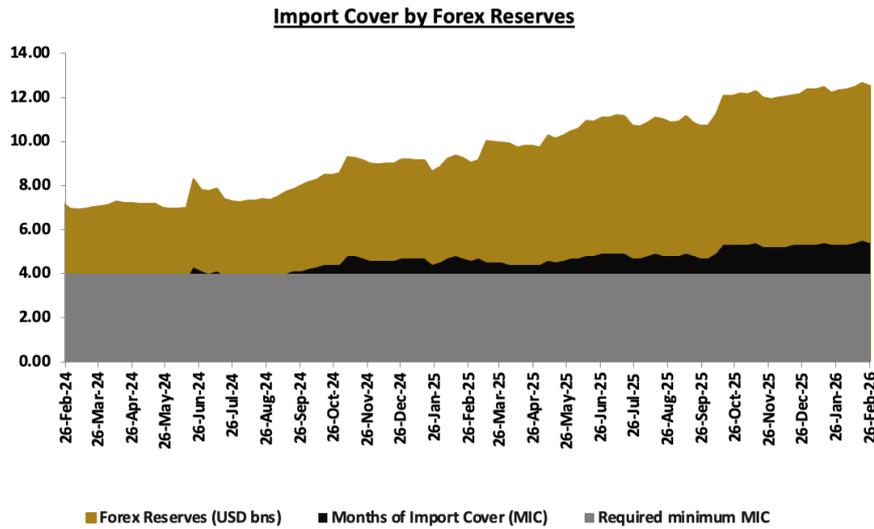
Abb: GBP – British Pound, EUR – Euro, USD – US Dollar, UGX – Ugandan Shilling, TZS – Tanzanian Shilling, JPY – Japanese Yen | FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

See also a visual representation;



Source: Central Bank of Kenya (CBK), Chart: SIB

Kenya's foreign exchange reserves fell slightly to USD 12.54bn (-1.0% w/w), maintaining the import cover at 5.4 months. We anticipate an uptick in foreign exchange reserves to beyond six months import cover in the coming weeks due to dollar inflows from the recent Eurobond issuance, net of the buyback proceeds and proceeds from privatizations. See the chart below for a visual summary.



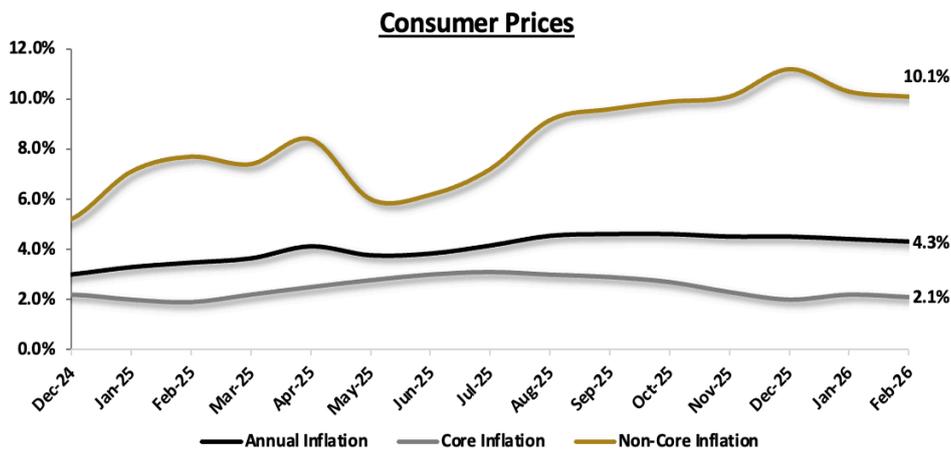
Source: Central Bank of Kenya (CBK), Chart: SIB

THE MACRO WRAP

1. February inflation edges lower to 4.3%, partly buoyed by lower energy and processed food prices

In February 2026, headline inflation eased slightly, coming in at 4.3% y/y. In particular, non-core inflation softened to 10.1% from 10.3% in January 2026, as inflation on processed food prices eased. Notably, consumer price inflation was primarily driven by a rise in prices of items in the Food and Non- Alcoholic Beverages (7.3%; same as January 2026); Transport (4.0% vs 4.8% in January 2026), and Housing, Water, Electricity, Gas, and other fuels (1.8% vs 2.2% in January 2026) segments over the year. Furthermore, core inflation softened to 2.1% from 2.2% in January 2025 to 2.2% in January 2026, partly due to lower energy inflation. Overall, headline inflation remained anchored within the central bank's target.

See the chart below;

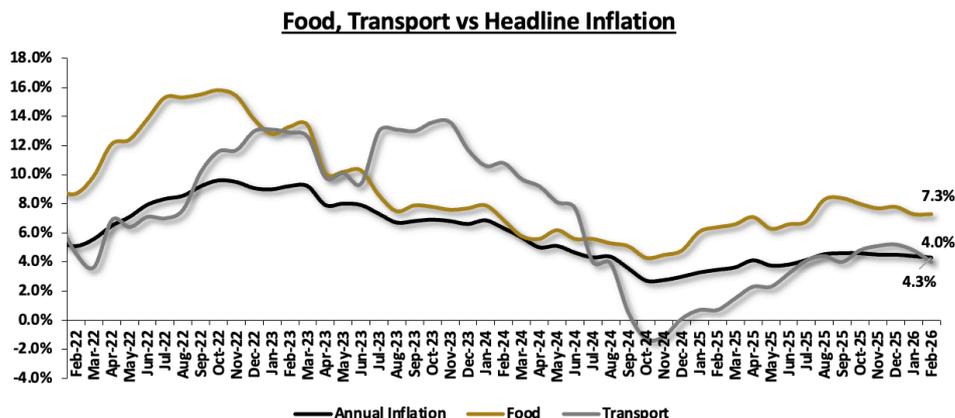


Source: KNBS, Chart: SIB

The y/y performance of non-core inflation was partly attributable to lower energy prices, with food inflation reported at 7.3% (same as the previous month). On a month-on-month basis, the Bureau estimated that prices of sugar, mangoes, and wheat flour (white) softened by 4.4%, 3.2%, and 0.8%, respectively. On the other hand, the prices of kales rose by 2.4% while prices of cabbage and potatoes notched higher by 4.0% each.

The Transport index grew at a slower rate of 4.0% annually in February 2026 vs 4.8% in the prior month. Between January 2026 and February 2026, prices for transport-related items displayed mixed trends according to the inflation report. Country bus and matatu fares for travel between towns decreased by 1.4%, with the prices for petrol and diesel falling by 2.3% each.

The Household Utilities Index's annual growth rate eased to 1.8% (down from 2.2% in January 2026), largely driven by lower energy prices. Overall, electricity prices dipped by 2.9% and 2.7% for 50 kWh and 200 kWh, respectively, with the prices of Kerosene and gas/LPG declining by 0.6% and 0.4%, respectively, in the month. The chart below illustrates the growth trajectory of the food and non-alcoholic beverages, as well as transport indices (both of which constitute more than 40% of the consumer basket), against the headline inflation.



Source: KNBS, Chart: SIB

On a month-on-month basis, consumer prices rose by 0.2% (slower compared to 0.6% last month), reflecting relative stability across key indices. The central bank anticipates that inflation will remain below the mid-point of the target range of $5\pm 2.5\%$, supported by stable fuel and processed food item prices, steady local currency against the USD, and robust foreign currency reserves. However, upward pressures remain, driven by higher food prices on select items, coupled with heightened concerns about trade policy uncertainty. Though fuel prices have eased slightly, geopolitical tensions (e.g., mounting US-Iran-Gulf State tensions, suspension of oil transit through the Strait of Hormuz, and ongoing Russia-Ukraine conflict) threaten to disrupt oil supply, leading to higher energy prices.

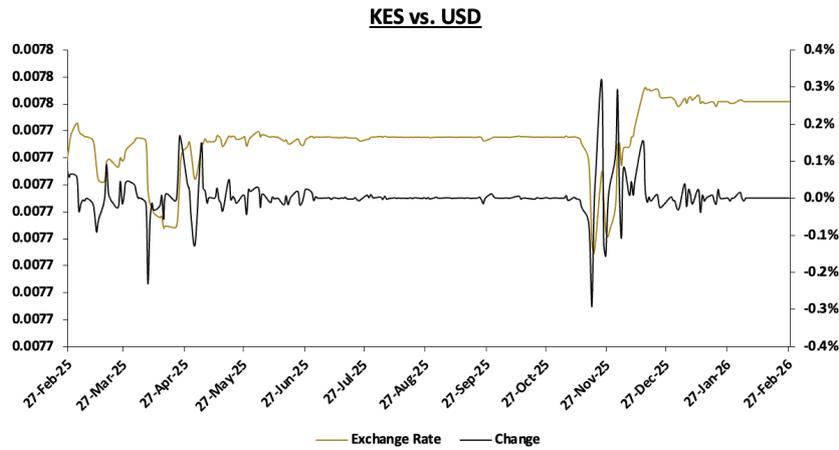
Expected in the week:

- i. February 2026 Stanbic Purchasing Managers' (PMI) Index release.



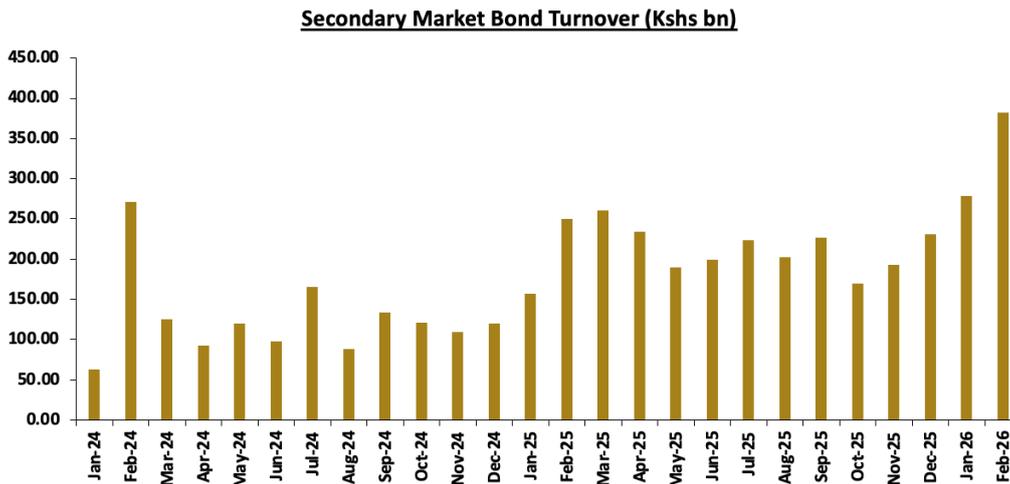
BACKGROUND CHARTS

KES/USD Performance



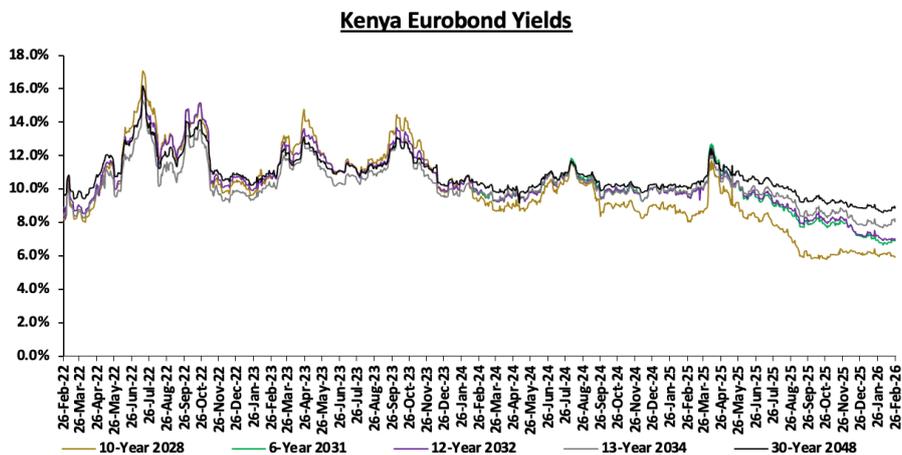
Source: Central Bank of Kenya (CBK)

Bond Turnover



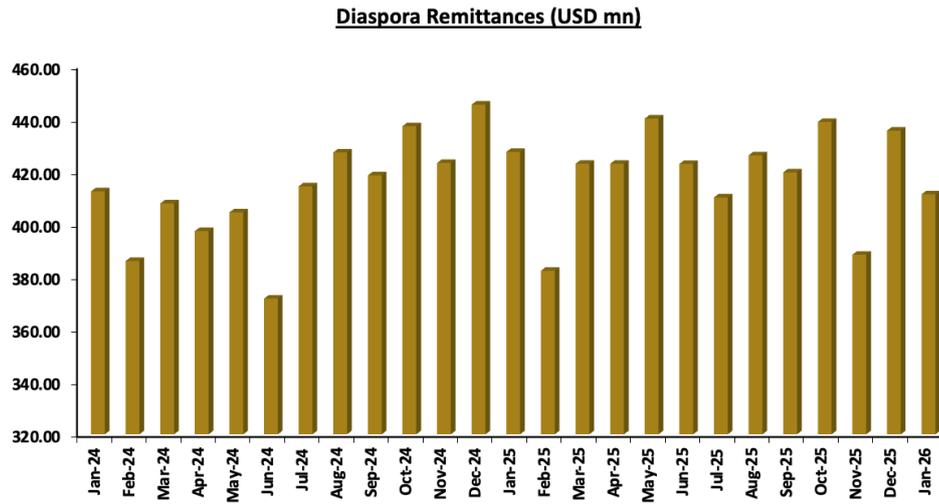
Source: Central Bank of Kenya (CBK)

Kenyan Eurobonds



Source: Central Bank of Kenya (CBK)

Diaspora Remittances



Source: Central Bank of Kenya (CBK)

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