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EPRA second price hike
set to trigger cost-push
inflationary pressure

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WEEKLY FIXED INCOME REPORT

Institutional Wave Drives 232% Over-Subscription for I&M Bank's Bond Issuance

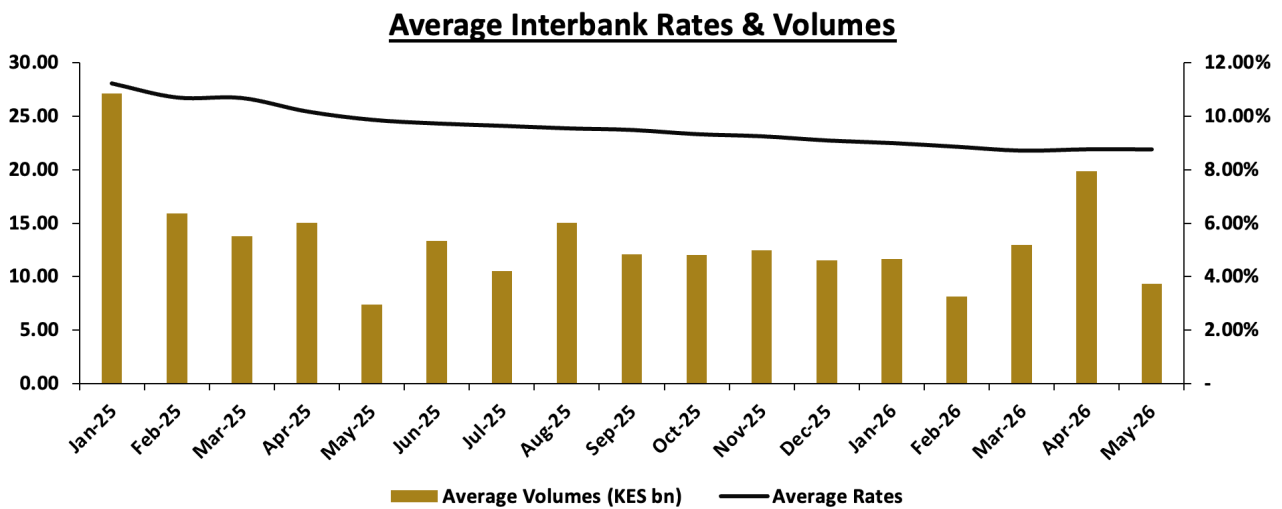
MONEY MARKET STATISTICS

Liquidity conditions remained stable in the week, with the Kenya Shilling Overnight Interbank Average (KESONIA) closing at an average of 8.75%. Interbank lending increased in the week, with average traded volumes coming in higher at KES 10.7bn. Notably, the average number of interbank deals came in at 27, up 11% w/w.

Find the summary below:

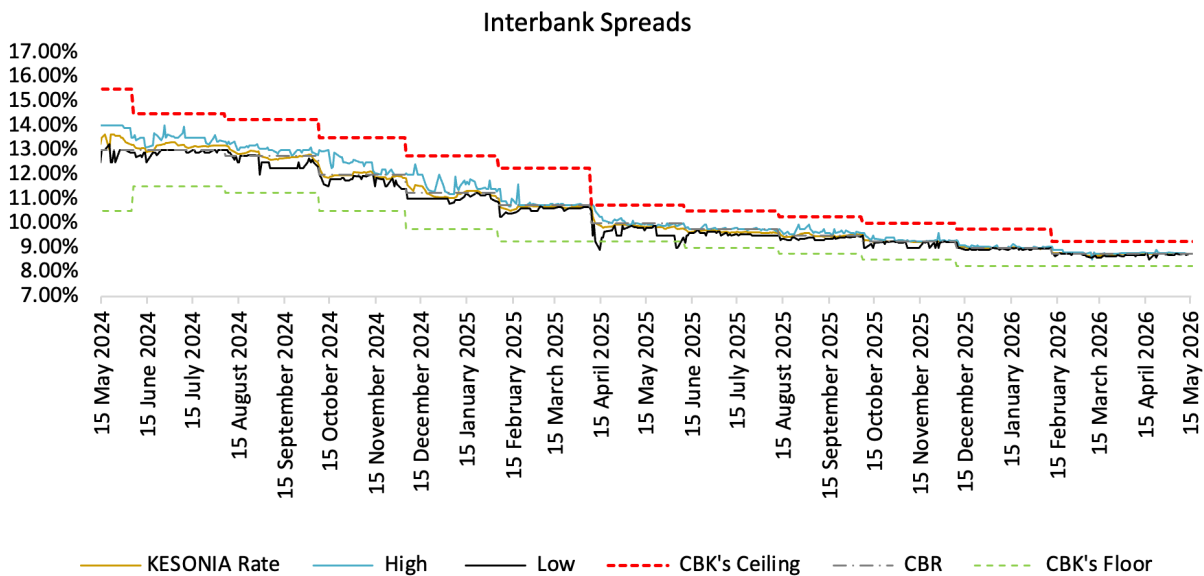
Average	Previous Week – ended 30th April 2026	Current Week – ended 7th May 2026	w/w change
Interbank Deals (Total)	24.00	27.00	12.50%
Inter- Bank volumes (KES bn)	10.10	10.70	5.94%
KESONIA(bps)	8.75%	8.75%	0.00
Window Borrowing Volumes (KES bn)	-	-	n/a

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:

Treasury Bill demand remained steady this week, with the overall subscription rate holding at 100%. Investors submitted bids totalling KES 26.41bn, of which the fiscal agent accepted KES 26.38Bn resulting into the performance rate of 99%.

Demand for the 91-day paper remained strong, with subscriptions holding up at 100%. The auction was significantly oversubscribed, receiving KES 7.3Bn in bids compared to the KES 4.0Bn on offer.

Below is a visual summary;

KES Bn

18-May-26	91-day 17-Aug-26	182-day 16-Nov-26	364-day 17-May-27	Totals
Amount offered	4.00	10.00	10.00	24.00
Bids received	7,322.59	7,847.57	11,236.47	26,406.63
Bids Accepted	7,313.20	7,838.95	11,229.17	26,381.32
Subscription rate (%)	99.87%	99.89%	99.94%	99.90%
Rollover/Redemptions	7,242.70	458.80	26,291.00	33,992.50
New Borrowing/(Net Repayment)	70.50	7,380.15	-15,061.83	-7,611.18
Weighted Average Rate of Accepted Bids	8.32%	8.21%	8.56%	
Inflation	5.6%	5.6%	5.6%	
Real Return	2.7%	2.6%	3.0%	

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

T-Bonds:

In the primary bond market, the CBK has announced KES 50Bn domestic borrowing program for May 2026 to participate in the re-opened papers listed below: FXD3/2019/015 and FXD1/2021/020.

Find a summary of the offer below:

Issue	FXD3/2019/015- Re-opened	FXD1/2021/020 - Re-opened
Tenor to Maturity	8.3Yrs	15.3 Yrs
Coupon Rate	12.34%	13.44%
Offered Amount	KES 20Bn	
Period of Sale	13th May 2026 to 20th May 2026	18th May 2026 to 20th May 2026
Value Date	25th May 2026	
Minimum Bidding Amount	KES 50,000	
Taxation	10.00%	
Our Expected Outcome Ranges		

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

At the same time, the National Treasury Kenya is encouraging investors to switch out of the near-maturity FXD1/2017/010 bond (July 2026) into the longer-dated FXD1/2021/020 (2041), effectively spreading out its repayment obligations.

This is the sixth bond switch auction the apex bank will offer despite the last switch which had weak demand, attracting just KES 2.56bn in bids against a KES 20.0bn target, a performance rate of 12.80%—the lowest to date.

Find a summary of the offer below:

Issue	FXD1/2017/010- Source Bond	FXD1/2021/020- Destination Bond
Tenor to Maturity	1.2 Yrs	15.22 Yrs
Coupon Rate	12.97%	13.44%
Offered Amount	KES 10Bn	
Period of Sale	23rd April 2026 to 18th May 2026	
Value Date	18th May 2026	
Minimum Bidding Amount	KES 50,000.00	
Taxation	10.00%	

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

Looking at secondary bond market turnover, the quantum decreased to KES 41bn (-84%w/w) from KES 22bn in the prior week.

I&M Bank's Bond Debut Over-Subscribed by 232% in its first tranche under a KES 20.0bn programme:

The first tranche of I&M Bank's KES 20 billion Medium-Term Note (MTN) programme has closed with an overwhelming 232.26% subscription rate, drawing KES 23.2 billion in total bids against a target of KES 10 billion target. Driven heavily by institutional players and high-net-worth investors due to a minimum investment threshold of KES 500,000, the regional lender exercised its green-shoe option to take up and fully allot KES 13 billion. The remaining KES 7 billion will be issued in future – at a price likely to be determined by the trading of the first issuance.

The 5.5-year note, which closed on May 15, 2026, locked in capital at a fixed gross annual coupon of 12.20%—a rate we view as highly competitive within the upper band of recent corporate issuances amid a moderating interest rate environment; and also a diversification from sovereign issuances.

Scheduled to list on the Nairobi Securities Exchange (NSE) on May 21, 2026, ahead of its maturity on November 18, 2031, the bond's success highlights robust market liquidity aggressively seeking secure, yield-generating corporate assets. I&M Bank will deploy the fresh capital towards credit expansion, long-term balance sheet support, and Tier II capital strengthening, which enhances its regulatory capital buffers for future growth.

KMRC green bond nets KES 9.4Bn in bids, tripling its KES 3.0Bn goal.

The Kenya Mortgage Refinance Company (KMRC) successfully returned to the capital markets, raising KES 3.0Bn through its second sustainability bond. The eight-year note was oversubscribed by 312.8%, drawing KES 9.38Bn in bids—a strong performance facilitated by the Central Bank of Kenya's recent rate cuts. Priced at a 12.2% coupon, the bond is structured with a weighted average life of 5.10 years and will begin annual amortizations in November 2026.

Proceeds will be blended with concessional funding from the World Bank and AfDB to refinance green and social mortgages. While the oversubscription rate was lower than the 480% seen in 2022, the result signals robust investor appetite for KMRC's mandate

Although the coupon has not been disclosed in the public notice and will be determined in a pricing supplement, KMRC is reportedly targeting a tax-exempt structure that could enable single-digit pricing and lower its overall cost of funds.

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

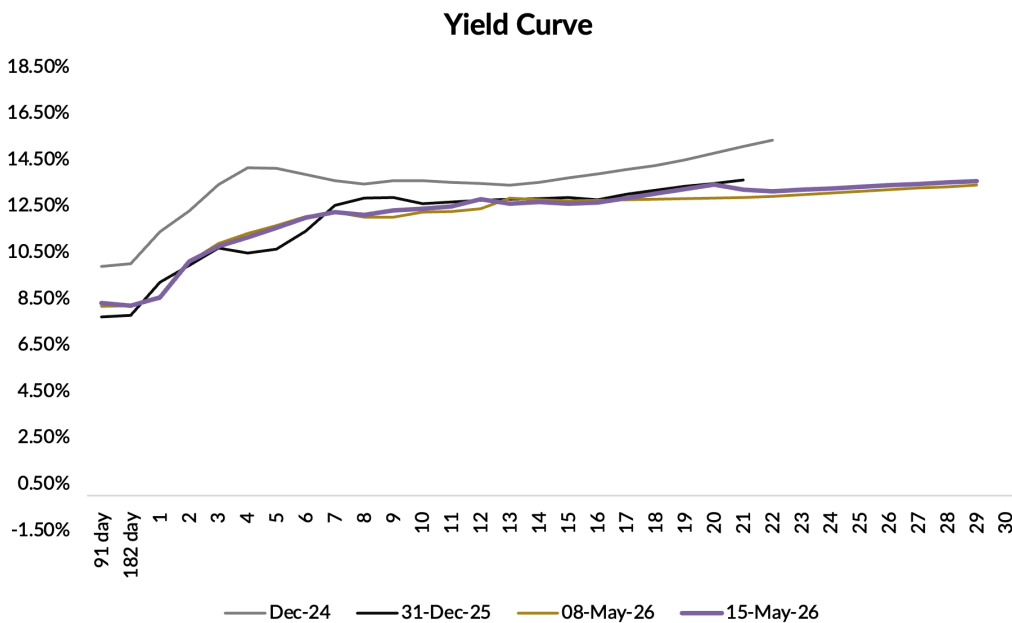
Total domestic debt maturities in May 2026 are at KES 278Bn compared to KES 179Bn in April 2026. See the chart below;



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

Yield Curve

Local interest rates were largely stable during the week, with average government securities yields inching higher by 0.11% w/w, largely due to repricing in the 30-year bond, while declines across select tenors partly offset the increase. Below is a visual representation;



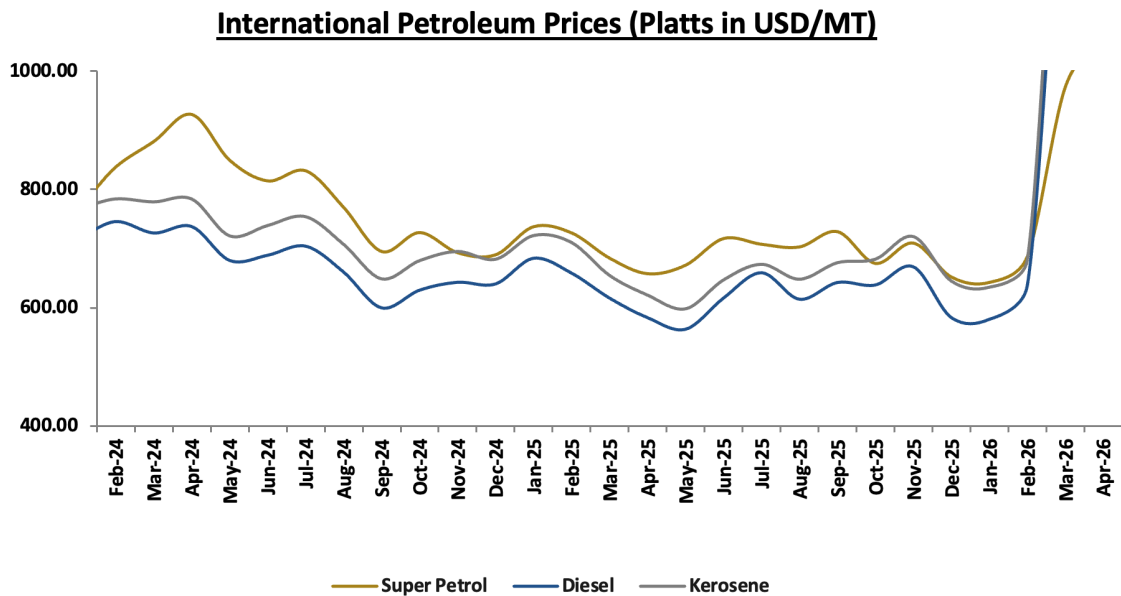
Source: Central Bank of Kenya (CBK), Chart: SIB

EPRA Increases Petrol & Diesel Prices for May-June Cycle

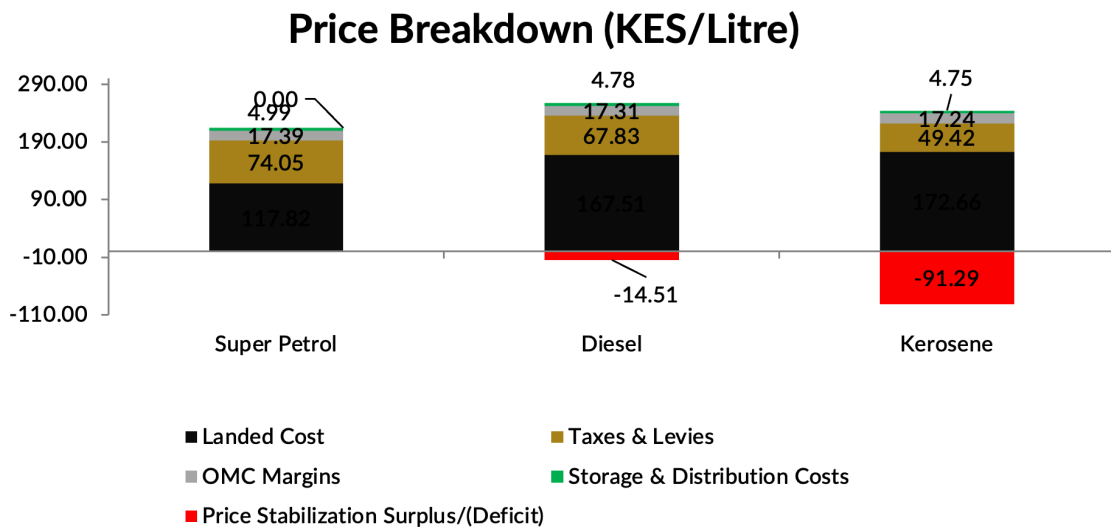
The Energy and Petroleum Regulatory Authority (EPRA) has raised fuel prices for the May–June 2026 cycle due to soaring international landing costs. Super Petrol has increased by KES 16.65 to retail at KES 214.25, while Diesel jumped by KES 46.29 to KES 242.92. Kerosene remains unchanged at KES 152.78.

These hikes follow a 10% rise in petrol landing costs and a 20.32% surge for diesel. To mitigate the impact, the government applied a KES 5 billion subsidy from the Petroleum Development Levy and a VAT cut. The new rates, effective for 30 days, are expected to significantly raise transport costs for commuters.

While the VAT cut has provided some near-term relief, pump prices remain significantly higher compared to previous months, keeping transport and logistics costs elevated. This is expected to continue filtering through to food prices and general business operating costs, particularly given diesel’s central role in freight, agriculture, and manufacturing activity. Should the tax cut be extended considerably, the subsequent loss of revenue may strain the national budget. This fiscal pressure could necessitate difficult trade-offs, such as the introduction of alternative tax measures or spending cuts.



Source: EPRA, Chart: SIB Research



Source: KNBS, Chart: SIB

THE INTERNATIONAL SCENE

Kenyan Eurobonds:

Yields on Kenyan Eurobonds exhibited signs of volatility, with rates increasing by an average of c.4.8bps for the week dated 8th May 2026 to 15th May 2026, partly linked to the ongoing volatility in international markets. 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%	9.3%
08-May-26	7.2%	7.6%	7.9%	8.3%	9.0%
11-May-26	7.0%	7.3%	7.8%	8.1%	8.9%
12-May-26	7.3%	7.6%	7.9%	8.4%	9.0%
13-May-26	7.1%	7.6%	7.94%	8.3%	9.0%
14-May-26	7.2%	7.5%	7.9%	8.3%	9.0%
Weekly Change	(0.070%)	0.050%	(0.060%)	(0.080%)	(0.080%)
YTD Change	1.2%	0.4%	0.7%	0.5%	(0.2%)

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

Currency Performance

The Kenyan Shilling experienced a mixed performance against major currencies this week, showing strength against key international units while softening against the US Dollar and regional peers. The Shilling's most notable gains were against the Japanese Yen (JPY/KES), which saw a weekly appreciation of 0.9%, followed by the British Pound (GBP/KES) and the Euro (EUR/KES), which strengthened by 0.7% and 0.5% respectively. Conversely, the Shilling weakened by 0.2% against the US Dollar (USD/KES). Regionally, the Shilling also saw marginal declines, slipping 0.2% against the Tanzanian Shilling (KES/TZS) and 0.1% against the Ugandan Shilling (KES/UGX), though it maintains a robust year-to-date lead of 5.4% and 3.0% against these regional partners respectively.

Data from the Central Bank of Kenya indicates that the U.S. Dollar Index strengthened by 0.5% over the week, as financial markets repriced for Federal Reserve rate hikes in 2026 due to the oil price shock.

International oil prices increased during the week reflecting heightened uncertainties arising from the conflict in the Middle East. Murban crude oil prices increased to USD 94.84 per barrel on 14/05/2026 from USD 89.13 per barrel on 07/05/2026.

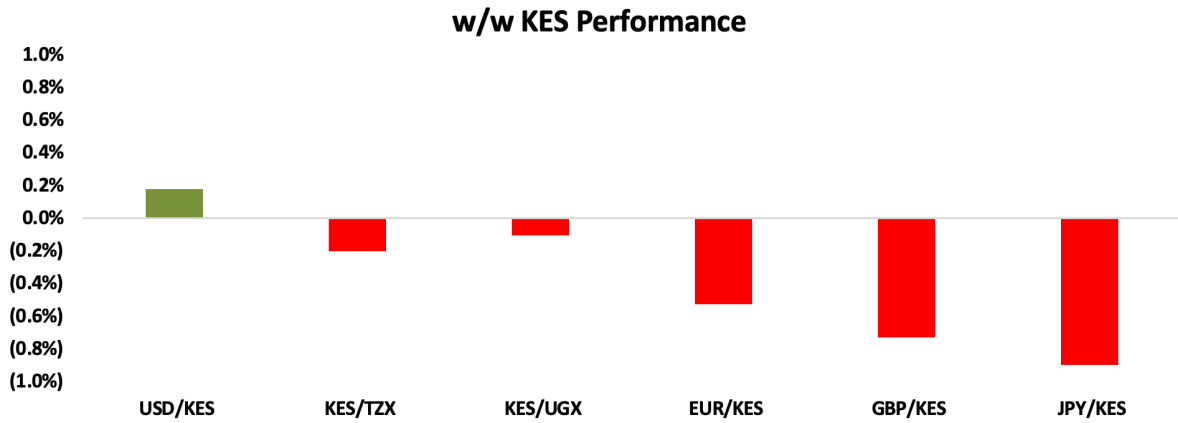
See the table below;

Currencies	31 Dec 2025 (vs KES)	Previous	Current	w/w Change	YTD change
GBP/KES	173.65	174.13	175.97	1.1%	1.3%
EUR/KES	151.43	150.99	152.04	0.7%	0.4%
KES/TZX	19.03	20.08	20.10	0.1%	5.6%
KES/UGX	28.06	28.81	28.94	0.5%	3.1%
JPY/KES	82.39	80.65	82.63	2.5%	0.3%
USD/KES	129.01	129.19	129.10	(0.1%)	0.1%

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

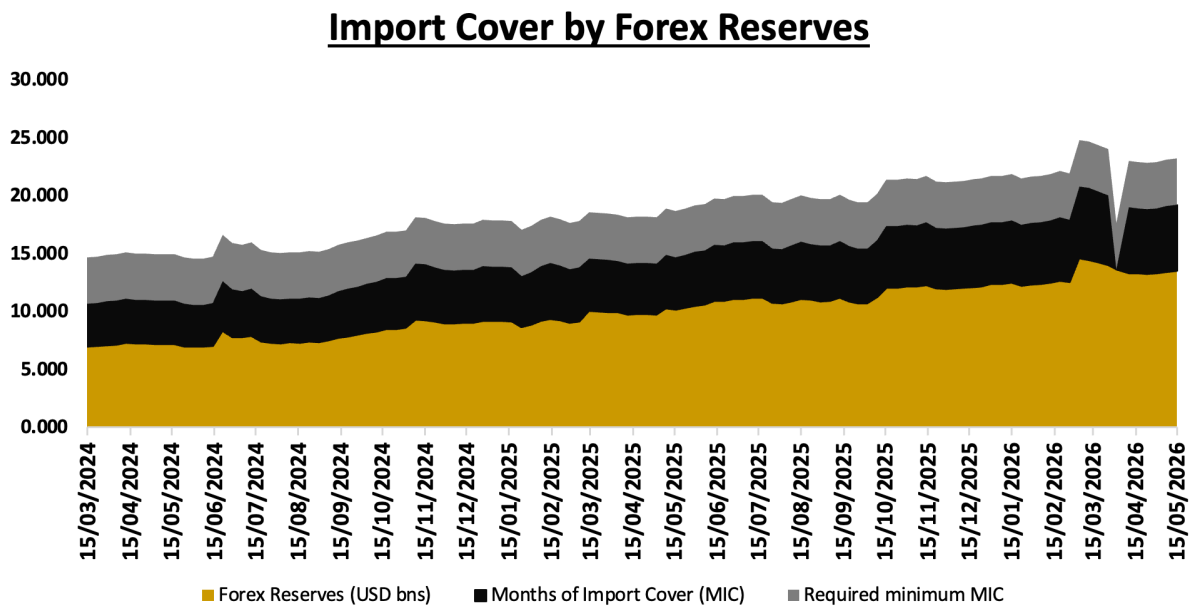
Abb: GBP – British Pound, EUR – Euro, USD – US Dollar, UGX – Ugandan Shilling, TZS – Tanzanian Shilling, JPY – Japanese Yen | FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

See also a visual representation;



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

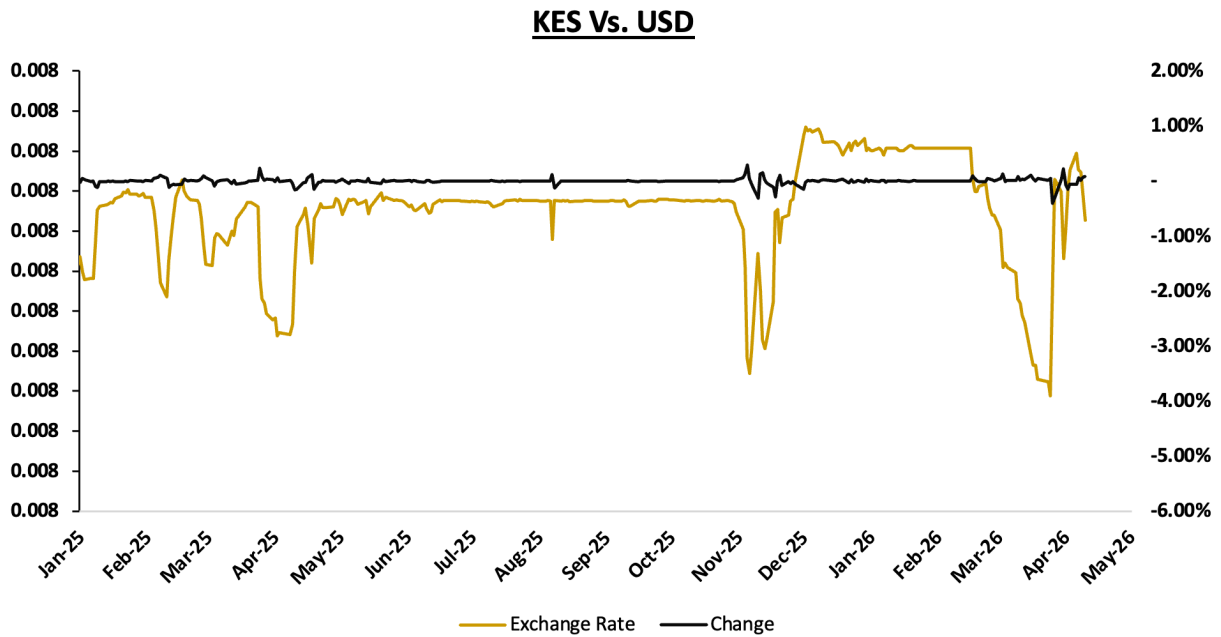
Kenya's foreign exchange reserves increased slightly to USD 13.51bn, with import cover remaining at 5.7 months. See the chart below for a visual summary.



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

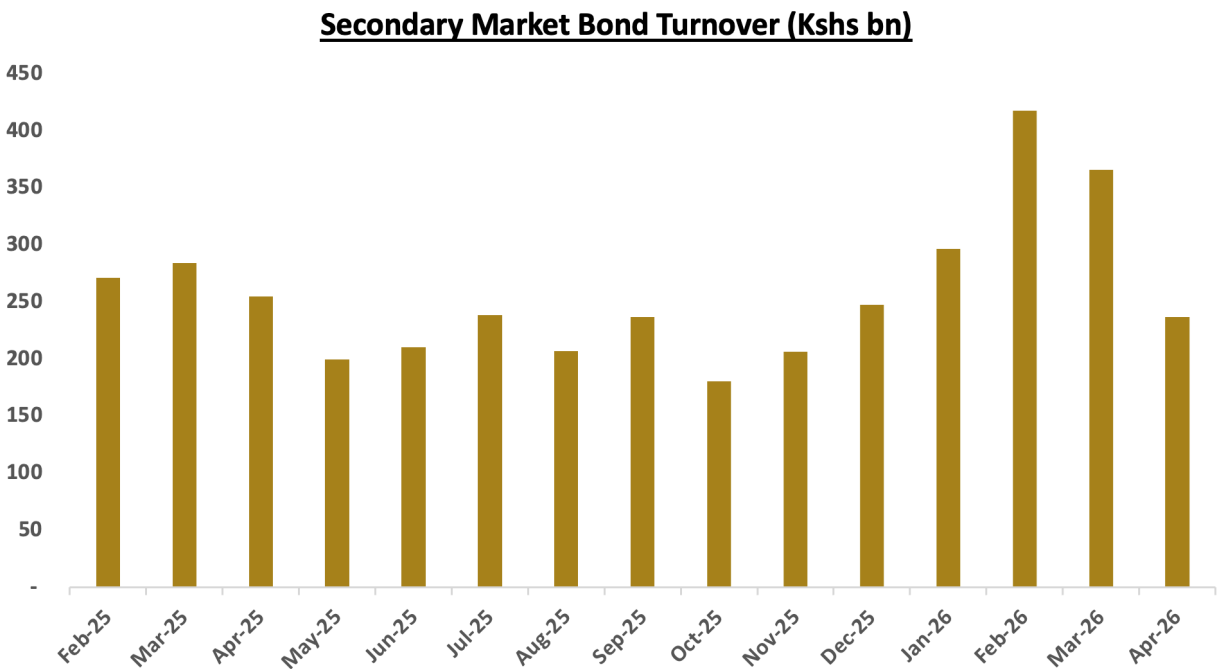
BACKGROUND CHARTS

KES/USD Performance



Source: Central Bank of Kenya (CBK)

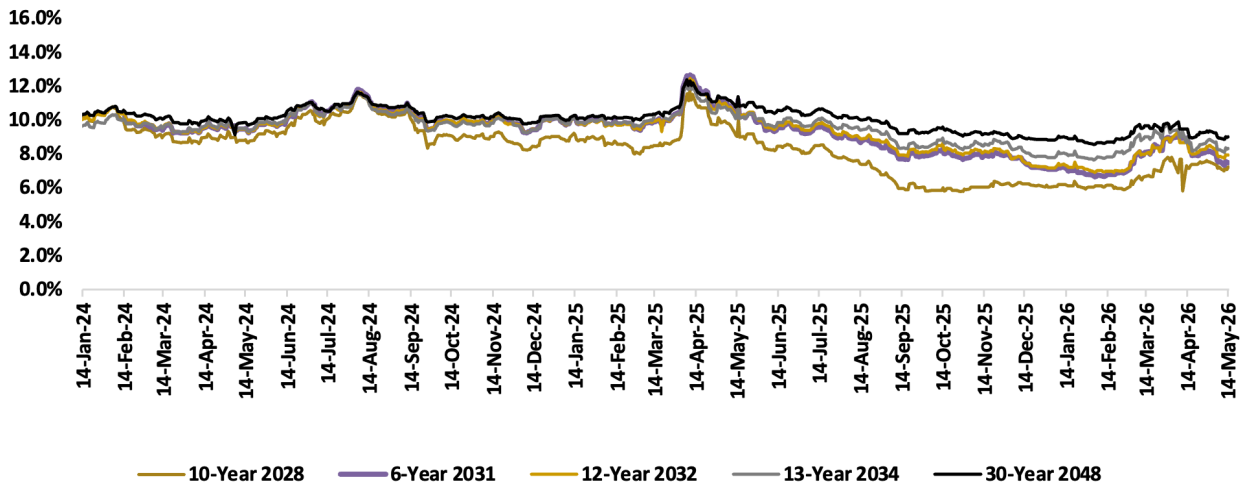
Bond Turnover



Source: Central Bank of Kenya (CBK)

Kenyan Eurobonds

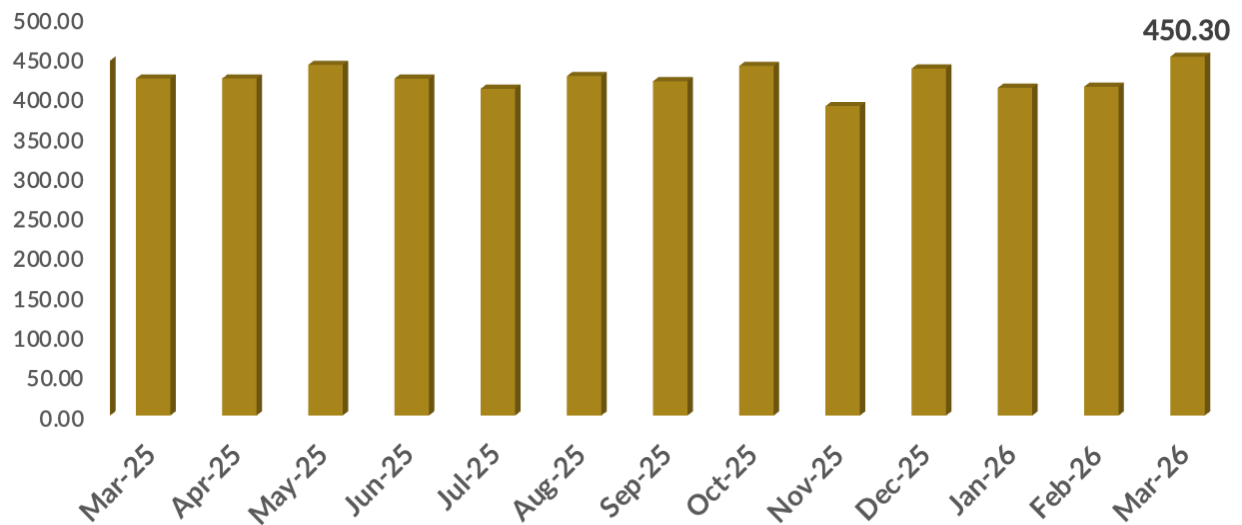
Kenya Eurobond Yields



Source: Central Bank of Kenya (CBK)

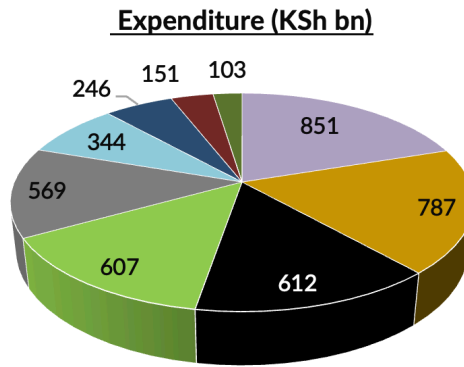
Diaspora Remittances

Diaspora Remittances (USD mn)



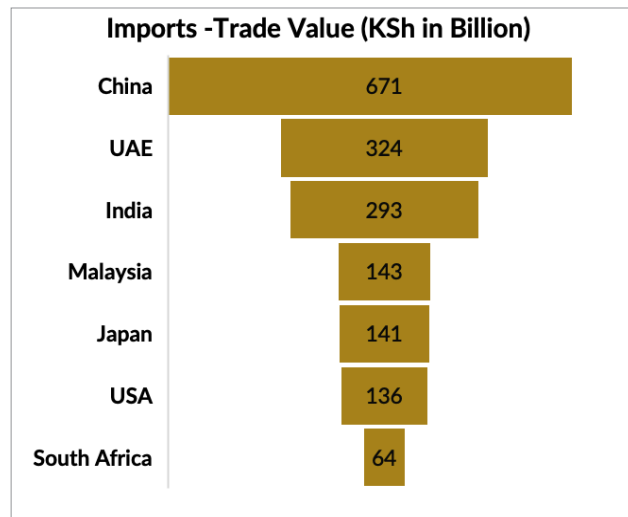
Source: Central Bank of Kenya (CBK)

National Expenditure

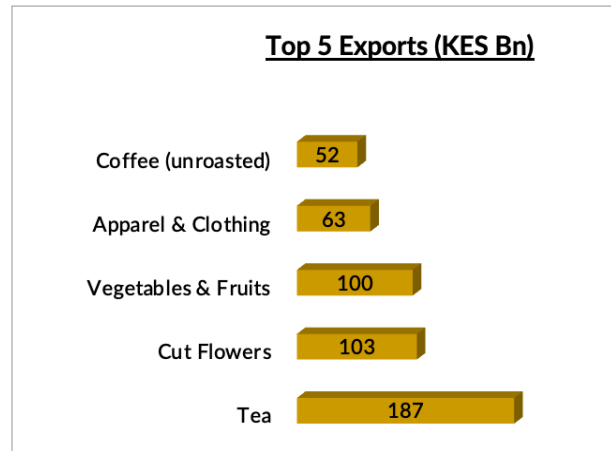
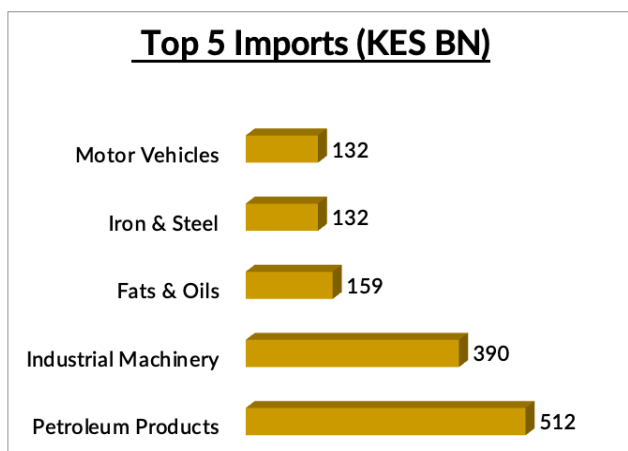


- Interest repayment (public debt)
- Education
- General Public Services
- Economic affairs
- Defense & Public order and safety
- Other public services
- Transfers to county governments
- Health
- Housing & community amenities

Source: KNBS, Chart: SIB

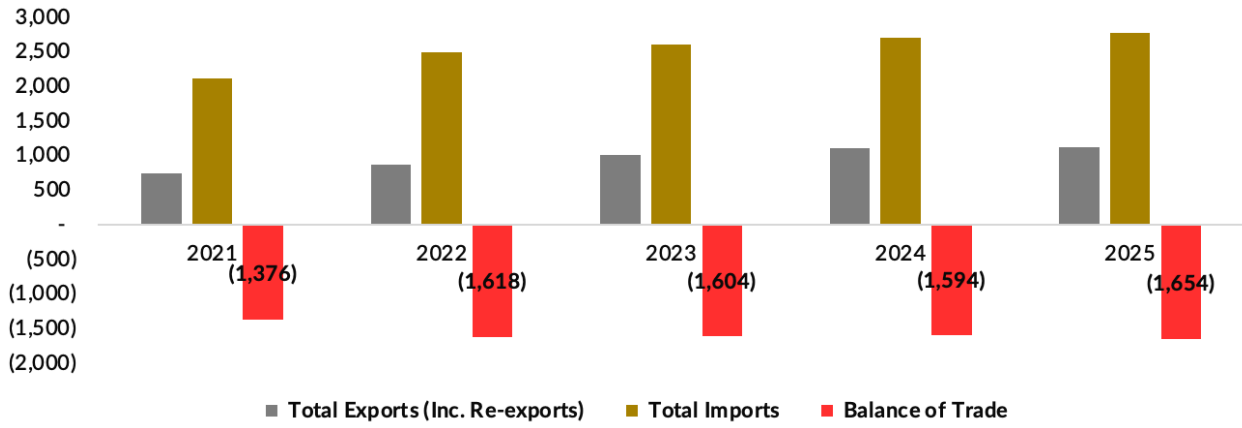


Source: KNBS, Chart: SIB



Source: KNBS, Chart: SIB

BALANCE OF PAYMENTS (KES Bn)



Source: KNBS, Chart: SIB

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CONTACTS

Research

Eric Musau
emusau@sib.co.ke

Wesley Manambo
wmanambo@sib.co.ke

Melodie Gatuguta
mgatuguta@sib.co.ke

Anjali Patel
apatel@sib.co.ke

Equity Trading

Tony Waweru
awaweru@sib.co.ke

Foreign Equity Sales

John Mucheru
jmucheru@sib.co.ke

Fixed Income Trading

Brian Mutunga
bmutunga@sib.co.ke

Barry Omotto
bomotto@sib.co.ke

Global Markets

Nahashon Mungai
nmungai@sib.co.ke

Nickay Wangunyu
nwangunyu@sib.co.ke

Corporate Finance

Job Kihumba
jkihumba@sib.co.ke

Lorna Wambui
wndungi@sib.co.ke

Marketing & Communications

Victor Ooko
communications@sib.co.ke

Client Services
clientservices@sib.co.ke

Investment Solutions

Robin Mathenge
rmathenge@sib.co.ke

Private Client Services

Boniface Kiundi
bkiundi@sib.co.ke

Frankline Kirigia
fkirigia@sib.co.ke

Laban Githuki
lgithuki@sib.co.ke

Headquarters

JKUAT Towers (Formerly ICEA Building),
16th Floor, Kenyatta Avenue, Nairobi,
Kenya.

Telephone: +254 777 333 000,
+254 20 227 7000, +254 20 227 7100

Email: clientservices@sib.co.ke

