

**WEEKLY FIXED INCOME REPORT**

*Kenya Private Sector Shrinks as Inflation and Costs Hit Highest Level Since January*

2024

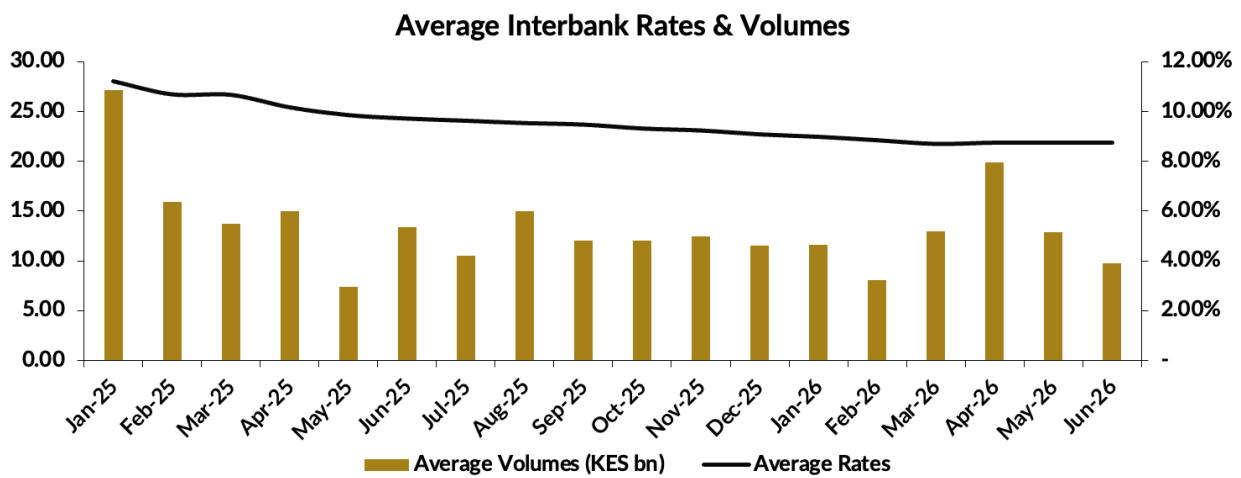
# MONEY MARKET STATISTICS

Liquidity conditions remained stable in the week, with the Kenya Shilling Overnight Interbank Average (KESONIA) closing at an average of 8.75%. Interbank lending decreased by 42% in the week, with average traded volumes coming in lower at KES 10.7bn from last week's KES 18.7Bn. Notably, the interbank deals decreased by 29% to close the week at 17, compared to the 24 recorded in the previous week.

Find the summary below:

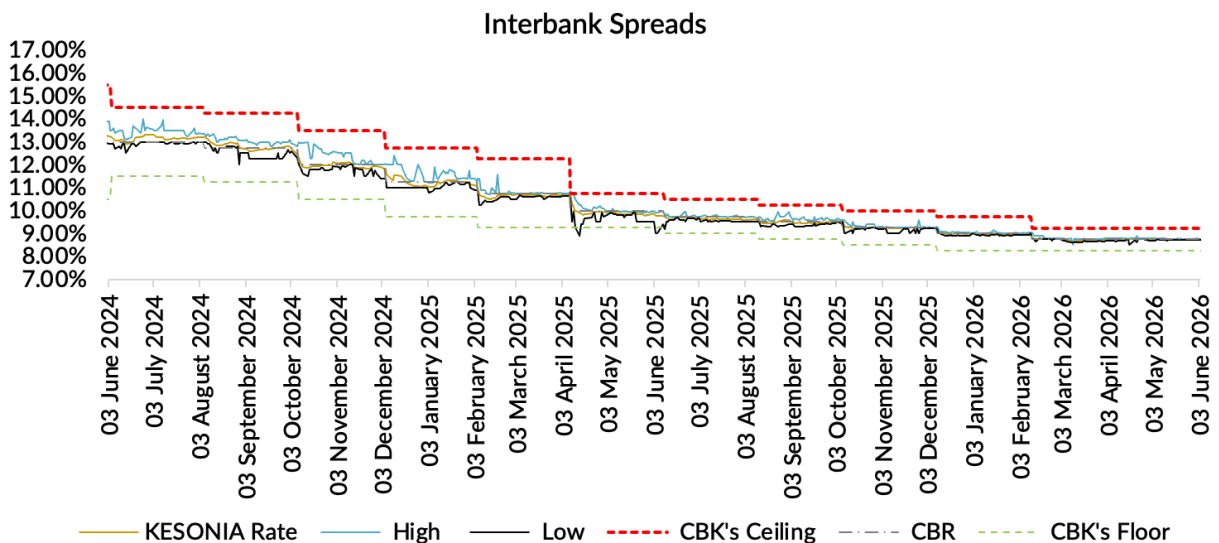
Average	Current Week - ended 29th May 2026	Current Week - ended 5th June 2026	Change
Interbank Deals (Total)	24.00	17.00	(29.17%)
Inter- Bank volumes (KES bn)	18.60	10.72	(42.35%)
KESONIA (bps)	8.75%	8.75%	0.00
Window Borrowing Volumes (KES bn)	-	-	n/a

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 ticking to 100%. Investors submitted bids totalling KES 54.58bn, of which the fiscal agent accepted KES 54.55Bn resulting into the subscription rate of 100% and a performance rate of 227%.

The 91-day Treasury Bill remained most attractive debt instrument, registering a performance rate of 821%. The auction was significantly oversubscribed, receiving KES32Bn in bids compared to the KES 4.0Bn on offer.

Below is a visual summary;

KES Bn

08-Jun-26	91-day 07-Sept-26	182-day 07-Dec-26	364-day 07-Jun-27	Totals
Amount offered	4.00	10.00	10.00	24.00
Bids received	32,827.37	6,526.18	15,226.31	54,579.86
Bids Accepted	32,824.44	6,526.18	15,197.79	54,548.41
Subscription rate (%)	99.99%	100.00%	99.81%	99.94%
Performance rate (%)	820.68%	65.26%	152.26%	227.42%
Rollover/Redemptions	1,953.50	14,508.15	43,006.40	59,468.05
New Borrowing/ (Net Repayment)	30,870.94	-7,981.97	-27,808.61	-4,919.64
Weighted Average Rate of Accepted Bids	8.56%	8.53%	8.76%	
Inflation	6.7%	6.7%	6.7%	
Real Return	1.9%	1.8%	2.1%	

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

### T-Bonds:

Ahead of the 2026/27 budget reading, the Central Bank of Kenya's (CBK) June Treasury Bond auction-FXD1/2020/015 and FXD1/2018/025 fell short of its KES 40Bn target for fiscal spending, accepting KES 34.4Bn from total bids received of KES 34.4Bn, representing 86% subscription rate and a 99% acceptance rate. This high acceptance rate indicates that the Treasury is showing greater flexibility in meeting investor yield demands to hit its domestic borrowing targets before the fiscal year-end. The entire KES 34Bn constitutes net new borrowing, with no redemptions against the issue.

Demand at the latest bond auction remained weak, continuing the downward trend in participation seen in the previous issuance. This softer interest stems from a combination of tightening market liquidity and investor hesitation over current pricing under a high-inflation environment.

Looking ahead, we expect investor aggressiveness to persist. With headline inflation at 6.7% and Middle East geopolitical tensions threatening global energy prices, domestic inflationary pressures will likely stay elevated. Furthermore, costly state interventions like fuel tax reliefs and subsidies will strain fiscal balances, forcing the government to rely heavily on domestic debt and driving yields even higher over the medium term.

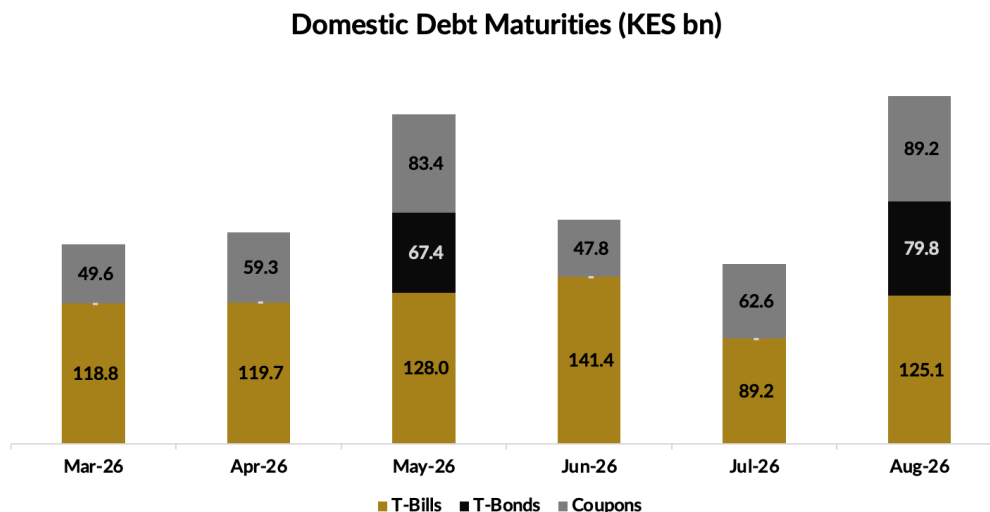
Issue	FXD1/2020/015- Re-opened	FXD1/2018/025 - Re-opened
Tenor to Maturity	8.7 Yrs	17.1 Yrs
Coupon Rate	12.76%	13.40%
<b>Offered Amount</b>	<b>KES 40Bn</b>	
Bids Received (KES Mn)	20,156.86	14,232.33
<b>Amount Accepted (KES Mn)</b>	<b>20,155.45</b>	<b>14,222.62</b>
<b>Market Weighted Average Rate (%)</b>	<b>13.313%</b>	<b>14.233%</b>
Weighted Average Rate of Accepted Bids (%)	13.312%	14.230%
Adjusted Average Price (Per KES 100)	101.062	101.161
<b>New Borrowing/Net Repayment</b>	<b>KES 34Bn</b>	
<b>Our Expected Outcome Ranges</b>	<b>12.70% - 12.90%</b>	<b>13.90% - 14.10%</b>

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

Looking at secondary bond market turnover, the quantum decreased to KES 24bn (-37%w/w) from KES 37bn in the prior week. Bond Turnover decreased by 41.29% month on month to KES 139Bn from 237Bn in April 2026.

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

Total domestic debt maturities in June 2026 are at KES 189Bn compared to KES 279Bn in May 2026. See the chart below;

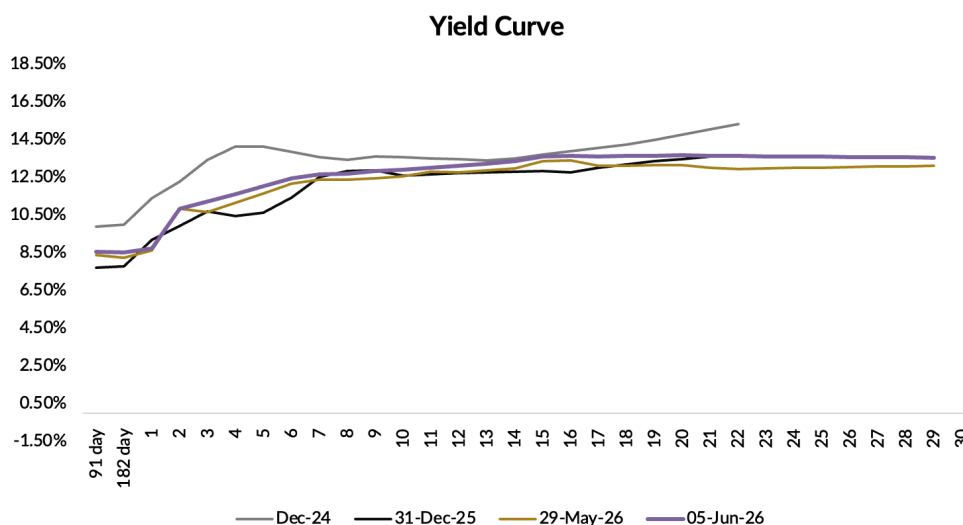


Source: Nairobi Securities Exchange (NSE), Chart: SIB

### Yield Curve

Local interest rates were largely stable during the week, with average government securities yields inching higher by 0.14% w/w, largely due to repricing in the 30-year bond, while declines across select tenors partly offset the increase. With the government expected to lean heavily on the domestic market to plug its budget deficits, borrowing demands will stay high, keeping consistent upward pressure on local yields over the medium term.

Below is a visual representation;



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

## Kenya's Inflation Hits 6.7% in May 2026 Amid Rising Food and Fuel Costs

Kenya's annual inflation rate climbed to 6.7% in May 2026, up from 5.6% the previous month, worsening the cost-of-living crisis citizens and approaching the upper MPC limit of 7.5%. Public transport fares are up 25% while diesel and petrol are up 41.2% and 22.7% respectively. Food items that are key driver of inflation include tomatoes at 45.7% and cabbages at 37.8%. Beef is up 11%.

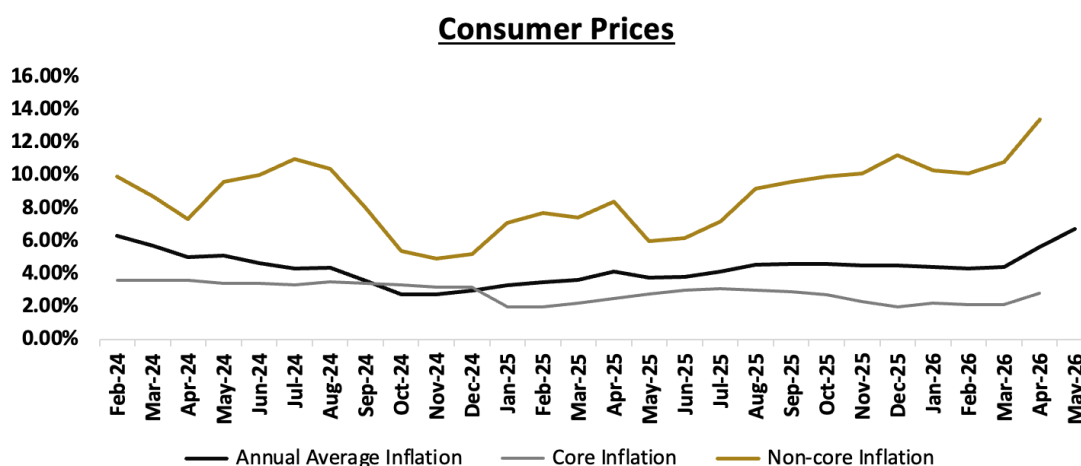
According to the newest Consumer Price Index (CPI) data from the Kenya National Bureau of Statistics (KNBS), year-on-year consumer prices jumped by 6.7%, with a month-on-month increase of 1.6% between April and May.

### Key Drivers of the Increase

The overall CPI escalated from 152.15 in April to 154.56 in May. KNBS pointed to three primary sectors driving this upward trend:

- Food & Non-Alcoholic Beverages
- Transport \* Housing and Utilities

Together, these three categories are the heavy hitters of household spending, making up over 57% of the weighted basket used to measure national inflation.



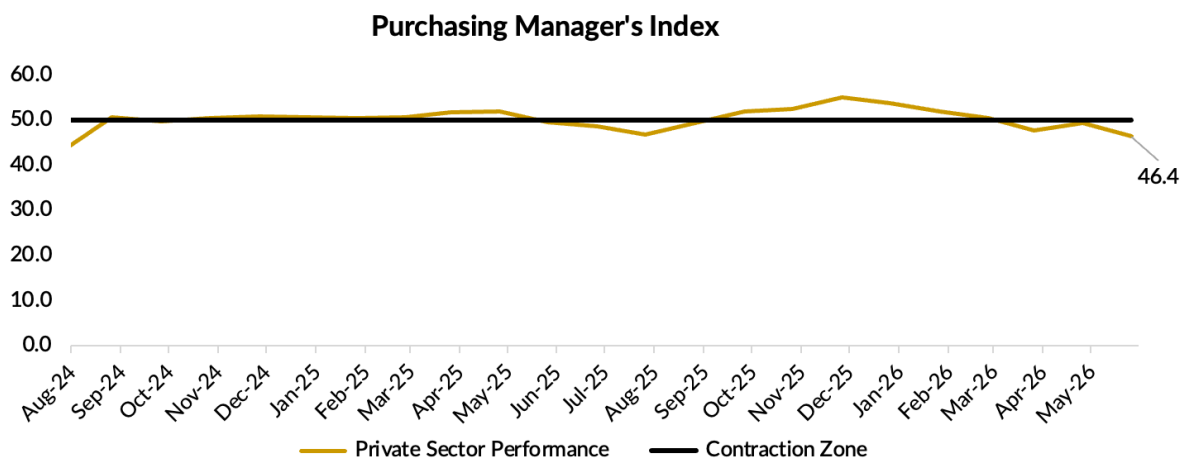
Source: KNBS, Table: SIB

## Kenya Private Sector Shrinks as Inflation and Costs Hit 2023 Highs

Kenya's private sector contracted sharply in May 2026, with the Stanbic Bank PMI dropping to 46.6 from 49.4 in April. Driven by soaring costs and weak demand, this marks the fastest downturn since July 2024, hitting services and construction the hardest while manufacturing managed minor growth. Tight customer budgets drove new orders down at the quickest pace since mid-2025, forcing a rare hiring freeze and staff cuts as sales volumes dropped.

Operating expenses surged at their fastest pace since November 2023, propelled by a 6.7% headline inflation rate and public protests following April's fuel tax adjustments. To protect shrinking profit margins, businesses aggressively raised their own prices at the quickest pace seen in two-and-a-half years. However, this pass-through was insufficient to prevent a severe margin squeeze, forcing cash-constrained companies to slash input buying and halt stockpiling as households cut discretionary spending.

Consequently, private sector activity will likely remain below the neutral 50.0 threshold in the short term. All eyes are now on the Central Bank's upcoming Monetary Policy Committee (MPC) meeting, where a hawkish pivot could raise borrowing costs and add further strain. Additionally, Middle East geopolitical tensions present a persistent risk to global energy prices, threatening to delay a medium-term PMI recovery. Despite these immediate headwinds, business owners remain cautiously optimistic about a late-year recovery driven by planned digital expansion and product diversification.



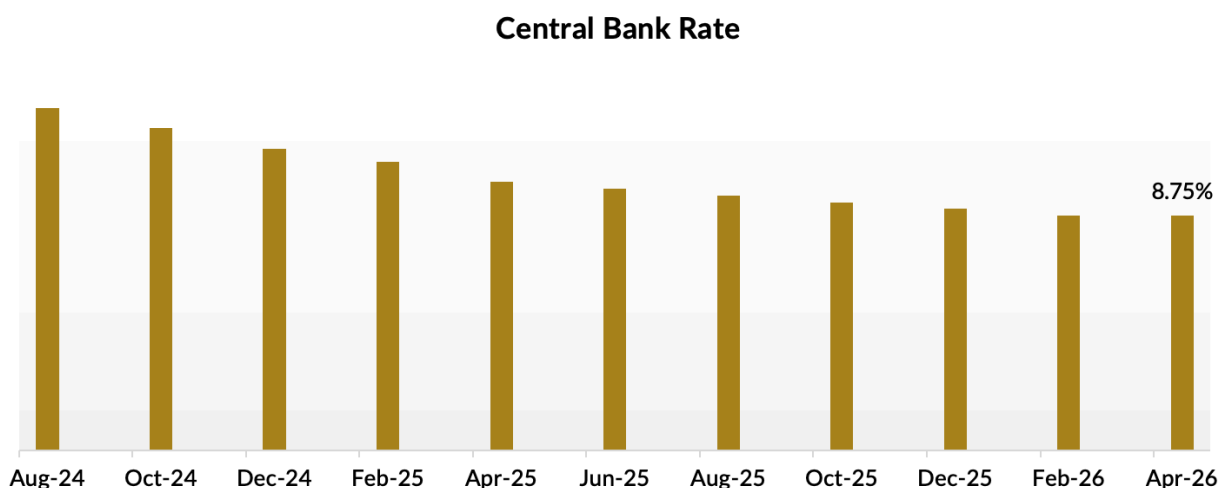
Source: Stanbic Bank, Chart: SIB

### CBK's Monetary Policy Committee Set for June 9 Meeting: Balancing Growth and Inflation.

All eyes are on the Central Bank's upcoming Monetary Policy Committee (MPC) meeting on June 9, where policymakers face a delicate balancing act. Heading into the session, the Central Bank Rate (CBR) stands at 8.75%, a level maintained since February to anchor inflation expectations amidst global uncertainties. However, domestic inflation experienced an uptick to 6.68% in May—up from 5.59% in April—closing in on the government's upper target ceiling and sparking discussions of a potential hawkish pivot that could raise borrowing costs.

Despite these mounting inflationary pressures, the MPC is widely expected to hold the policy rate steady at 8.75%.

This expectation is underpinned by resilient domestic economic momentum, with GDP growth for 2026 projected at 5.3% and foreign exchange reserves providing a solid buffer of over five months of import cover. While external risks like volatile global oil prices and Middle East tensions persist, a hold would allow the committee to monitor the lagging effects of its previous tightening cycle. Ultimately, the upcoming decision will hinge on whether the MPC believes the current rate remains restrictive enough to cool inflation without unnecessarily dampening Kenya's steady economic growth.



Source: Central Bank of Kenya, Chart: SIB

## THE INTERNATIONAL SCENE

### Weekly Insight: A High-Stakes June for Inflation and Tariff Volatility

The global economy faces escalating pressure as the blockade of the Strait of Hormuz persists into its fourth consecutive month. This geopolitical disruption has triggered a marginal deterioration in the macroeconomic backdrop, forcing forecasters to lower global growth projections even as inflationary pressures climb. In response to these compounding economic vulnerabilities, the White House has temporarily sidelined its most aggressive trade war tactics to avoid overstraining domestic and international markets.

While the closure of the Strait of Hormuz may ultimately be viewed as an isolated historical anomaly over the long term, it currently stands as the single most disruptive factor shaping the 2026 economic landscape. Active hostilities have largely subsided, yet global markets suffer from a profound lack of visibility regarding the timing and mechanism of a reopening for this critical maritime chokepoint. This prolonged uncertainty has locked energy markets at highly inflated levels, driving crude oil prices up by 52% since the beginning of the year

Supply chain stress has hit its highest levels since the pandemic, unleashing a wave of global stagflation. U.S. consumer inflation has accelerated to 3.8% and European inflation has jumped to 3.0%, prompting major forecasters to slash 2026 GDP growth projections to 2.1% for the U.S. and a stagnant 0.8% for Europe.

Sticky inflation has flipped the central bank narrative from monetary easing to the looming threat of higher-for-longer interest rates. The synchronized global easing cycle has ground to an abrupt halt, replaced by a defensive posture among major central banks determined to suppress a conflict-driven, energy-induced second wave of inflation.

### Kenyan Eurobonds

Yields on Kenyan Eurobonds exhibited signs of volatility, with rates decreasing by an average of c.6.11bps for the week dated 29th May 26 to 05 June 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%
29-May-26	7.0%	7.3%	7.6%	8.2%	8.9%
01-Jun-26	7.1%	7.3%	7.7%	8.2%	8.9%
02-Jun-26	7.0%	7.2%	7.6%	8.2%	8.9%
03-Jun-26	6.9%	7.3%	7.7%	8.2%	8.9%
04-Jun-26	7.0%	7.3%	7.7%	8.3%	9.0%
Weekly Change	-	(0.060%)	(0.060%)	(0.070%)	(0.080%)
YTD Change	1.0%	0.2%	0.5%	0.4%	(0.3%)

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

### Currency Performance

The Kenyan Shilling experienced a broad strengthening performance against major international currencies this week. The Shilling showed strength against key international units, as the British Pound (GBP/KES) and US Dollar (USD/KES) both depreciated against it by 0.2%, while the Euro (EUR/KES) and Japanese Yen (JPY/KES) weakened even further, dropping by 0.4% and 0.6% respectively.

Conversely, regionally, the Shilling weakened against its neighbours, depreciating by 0.2% against the Tanzanian Shilling (KES/TZX) and by 0.1% against the Ugandan Shilling (KES/UGX).

The U.S. Dollar Index strengthened by 0.4% during the week driven by renewed geopolitical tensions and rising safe-haven demand as investors grew cautious over the timeline of a Middle East peace agreement.

International oil prices fell as investors responded to renewed optimism surrounding the ongoing U.S.-Iran peace negotiations. Murban crude oil price decreased to USD 87.38 per barrel on June 4, from USD 88.48 per barrel on May 28.

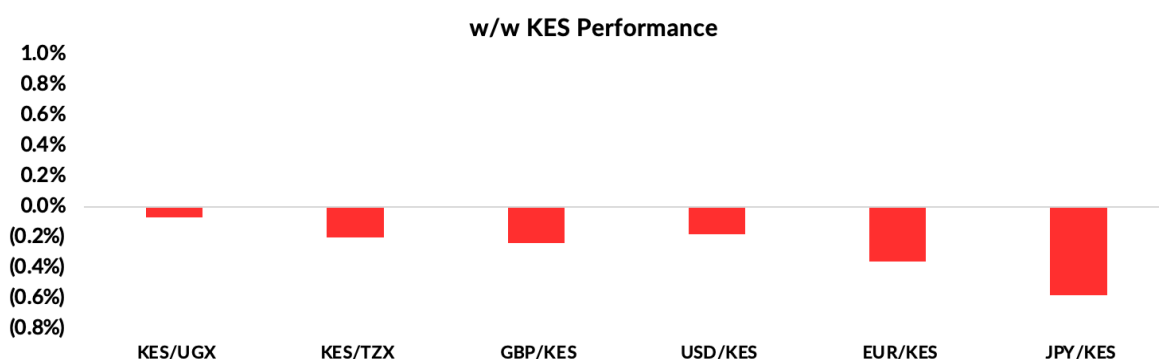
See the table below;

Currencies	31 Dec 2025 (vs KES)	Previous	Current	w/w Change	YTD change
GBP/KES	173.65	174.07	173.66	(0.2%)	0.0%
EUR/KES	151.43	150.76	150.22	(0.4%)	(0.8%)
KES/TZX	19.03	20.18	20.14	(0.2%)	5.8%
KES/UGX	28.06	29.17	29.15	(0.1%)	3.9%
JPY/KES	82.39	81.31	80.84	(0.6%)	(1.9%)
USD/KES	129.01	129.55	129.32	(0.2%)	0.2%

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

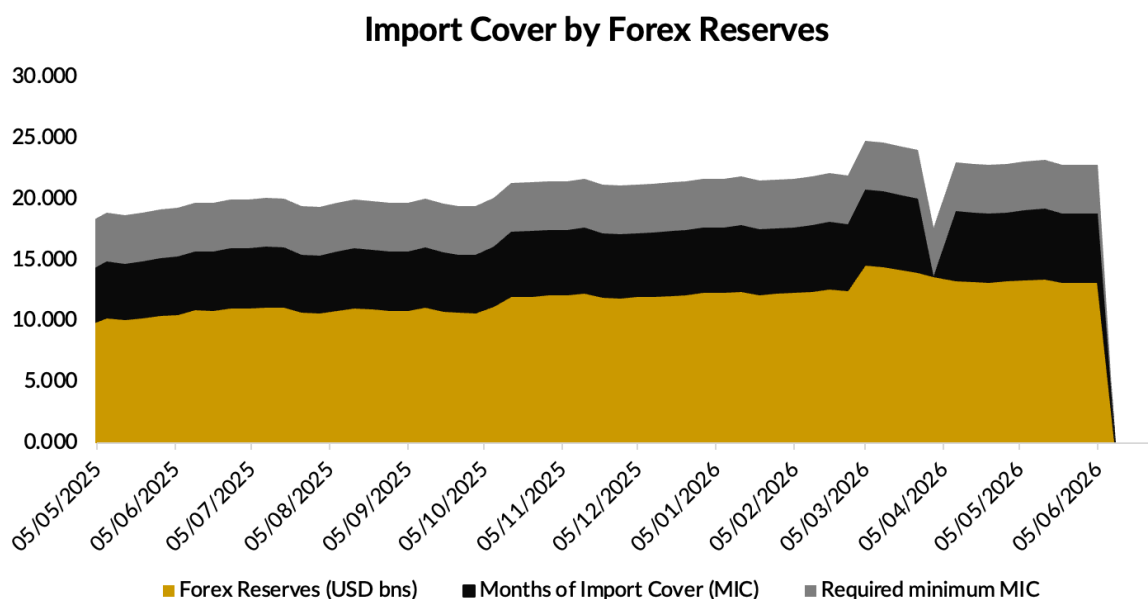
Abb: GBP – British Pound, EUR – Euro, USD – US Dollar, UGX – Ugandan Shilling, TZS – Tanzanian Shilling, JPY – Japanese Yen | FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

See also a visual representation;



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

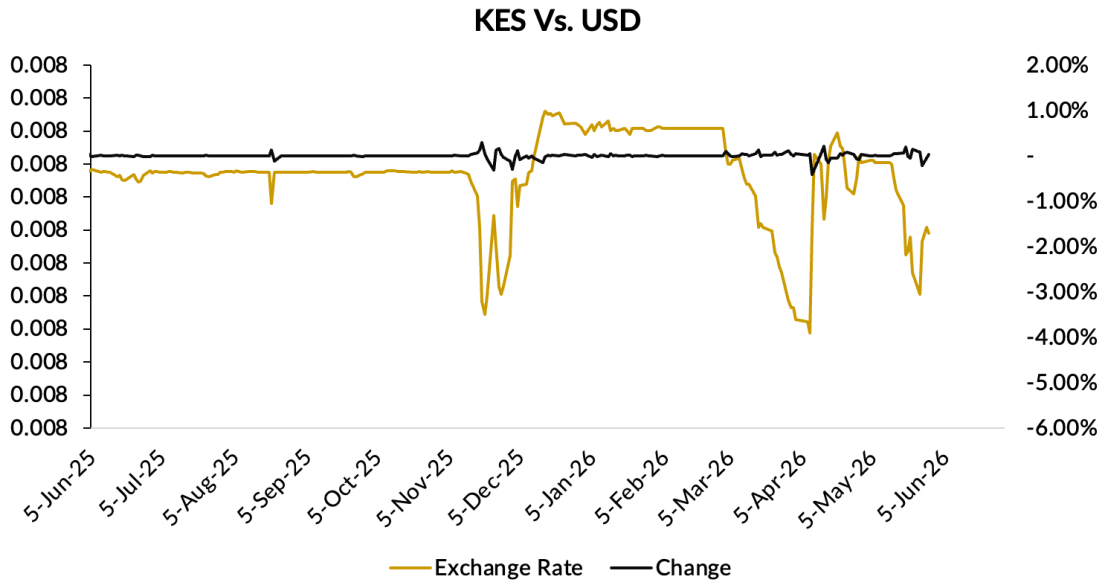
Kenya's foreign exchange reserves were stable at USD 13.22bn, with import cover closing at 5.6 months. See the chart below for a visual summary.



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

## BACKGROUND CHARTS

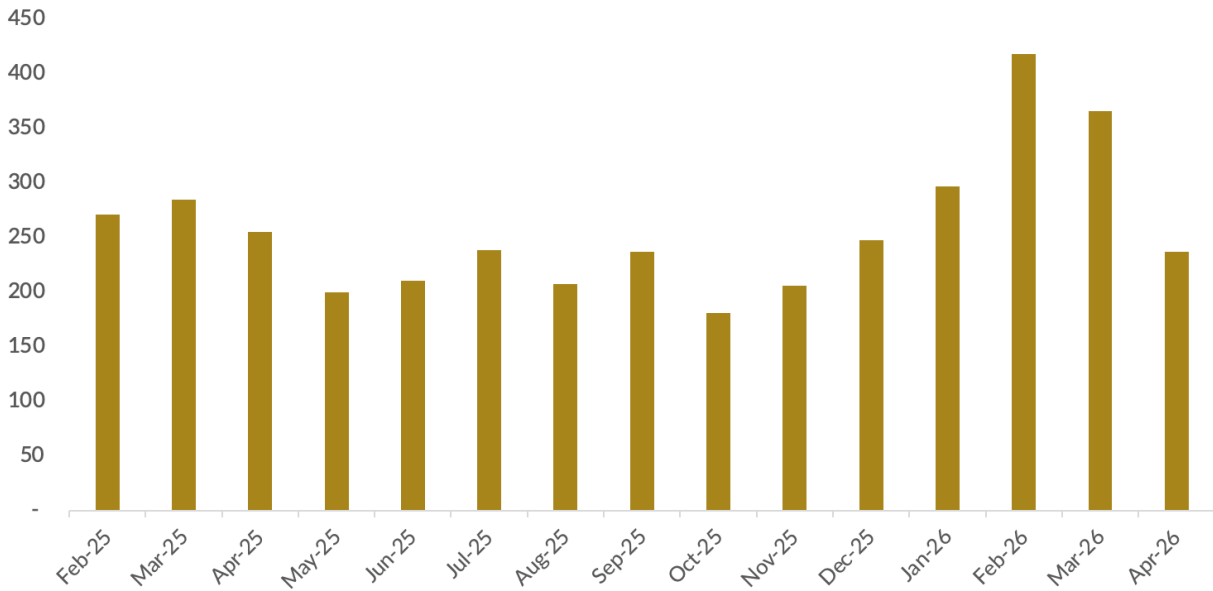
### KES/USD Performance



Source: Central Bank of Kenya (CBK)

### Bond Turnover

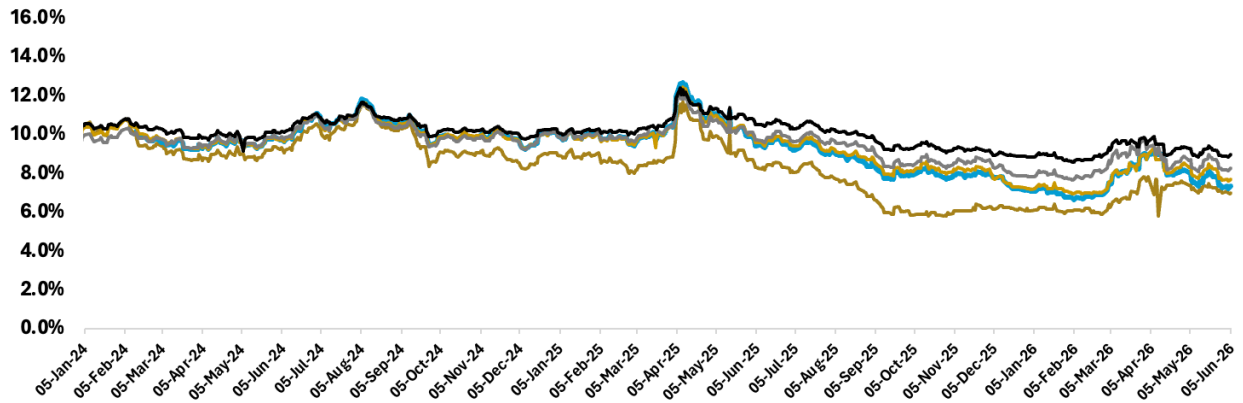
#### Secondary Market Bond Turnover (Kshs bn)



Source: Central Bank of Kenya (CBK)

## Kenyan Eurobonds

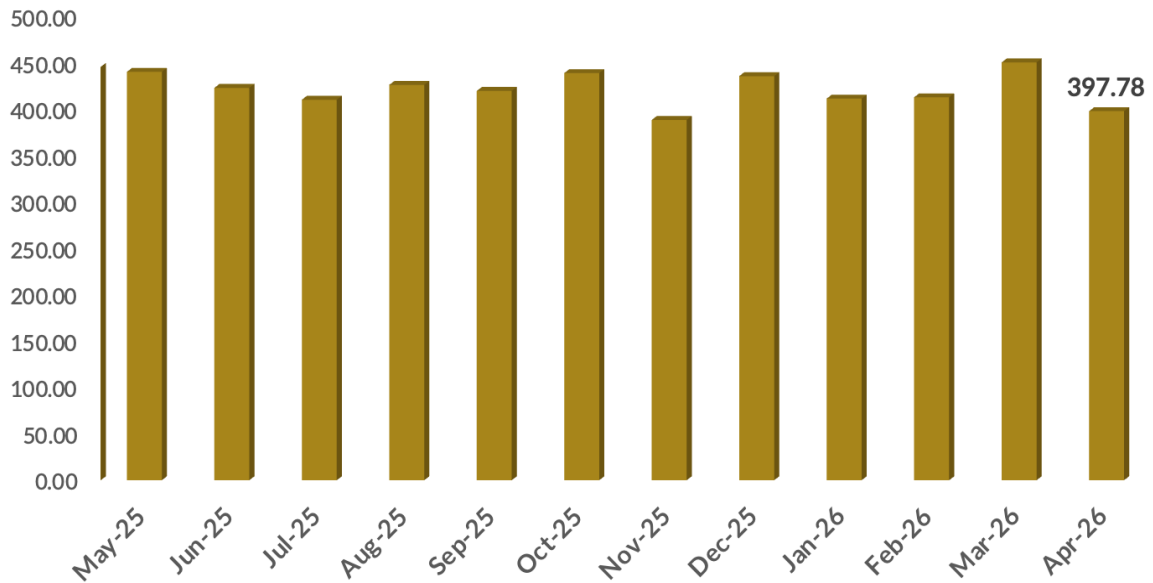
### Kenya Eurobond Yields



Source: Central Bank of Kenya (CBK)

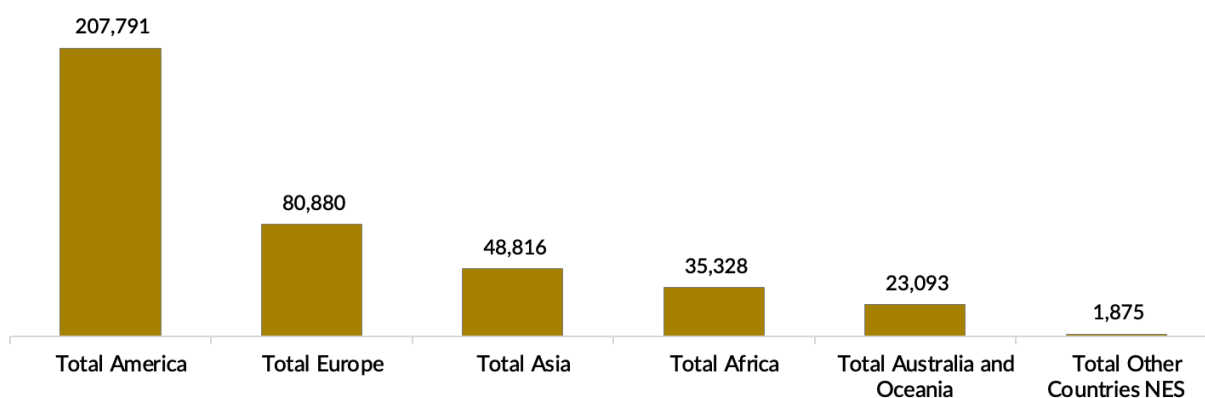
## Diaspora Remittances

### Diaspora Remittances (USD mn)



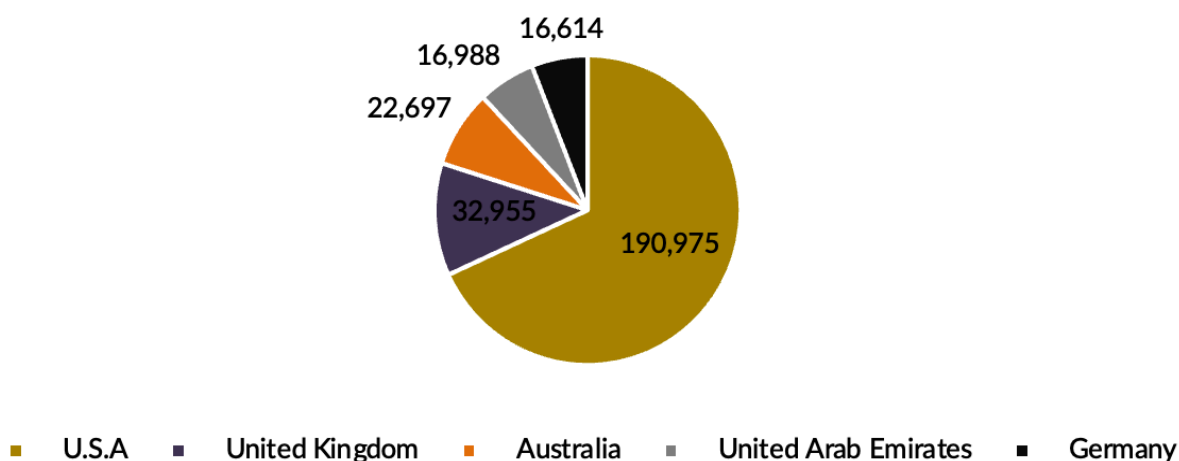
Source: Central Bank of Kenya (CBK)

### Top 5 Remittances By Source (USD '000) April 2026



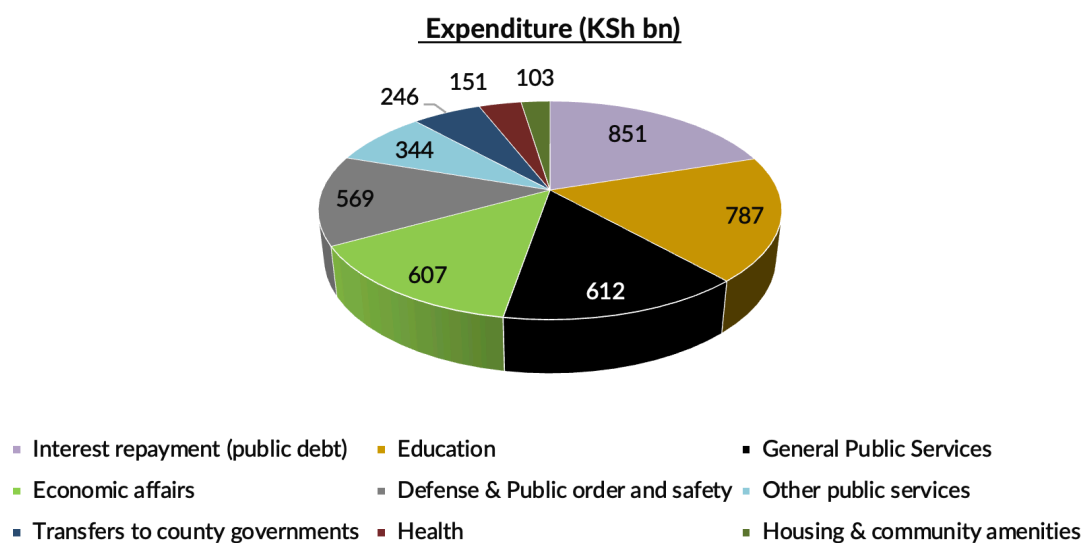
Source: Central Bank of Kenya (CBK)

### Top 5 Remittances By Country (USD '000) April 2026

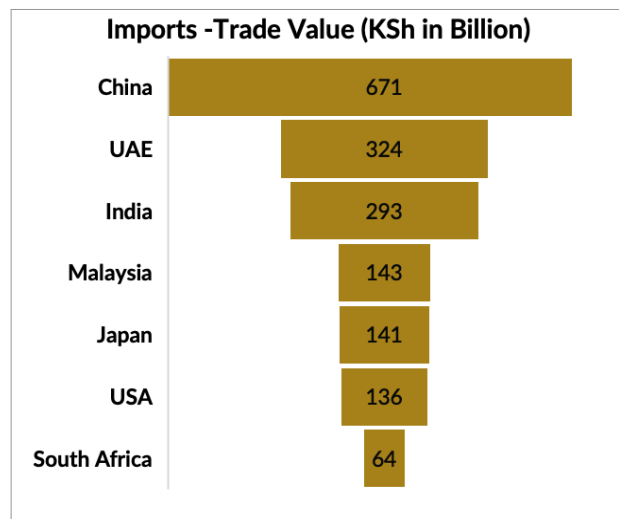


Source: Central Bank of Kenya (CBK)

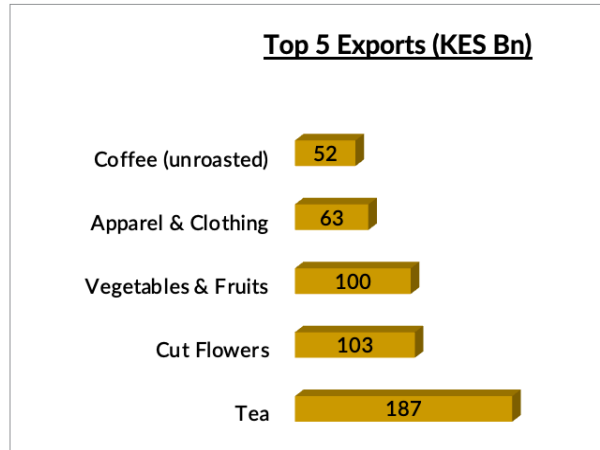
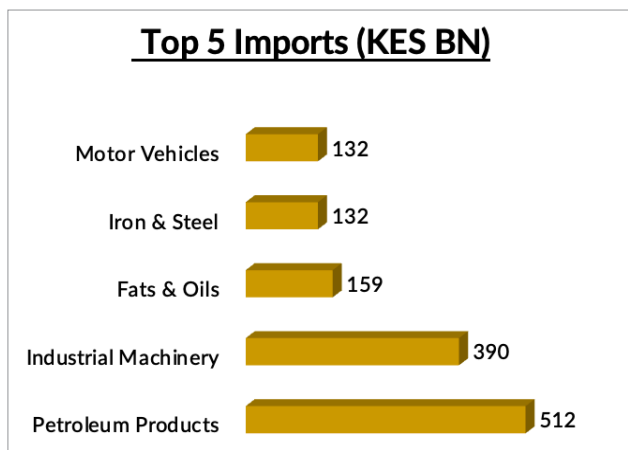
### National Expenditure



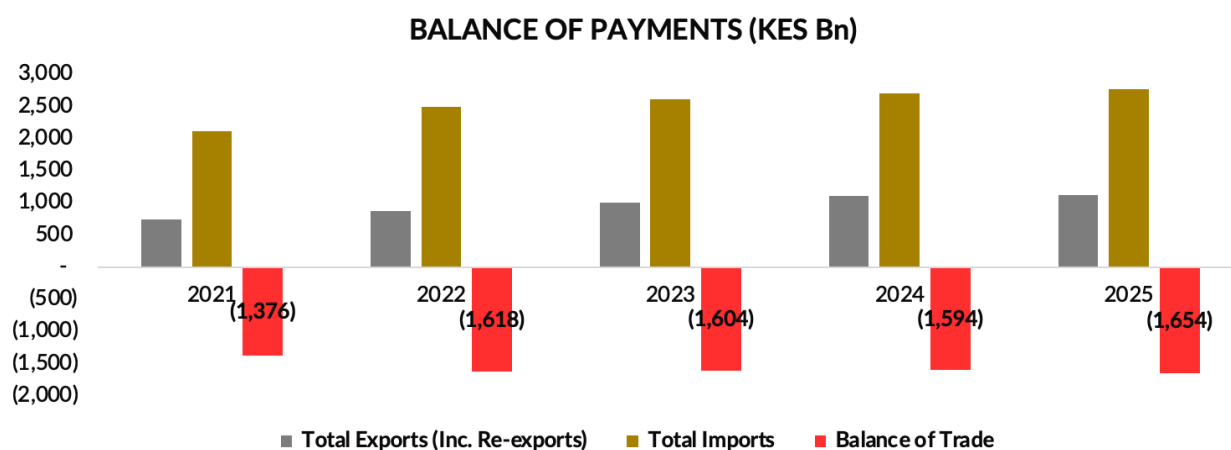
Source: KNBS, Chart: SIB



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Source: KNBS, Chart: SIB

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