

WEEKLY FIXED INCOME REPORT

Inflation rises 20bps to 6.8% as Underlying Price Pressures Intensify

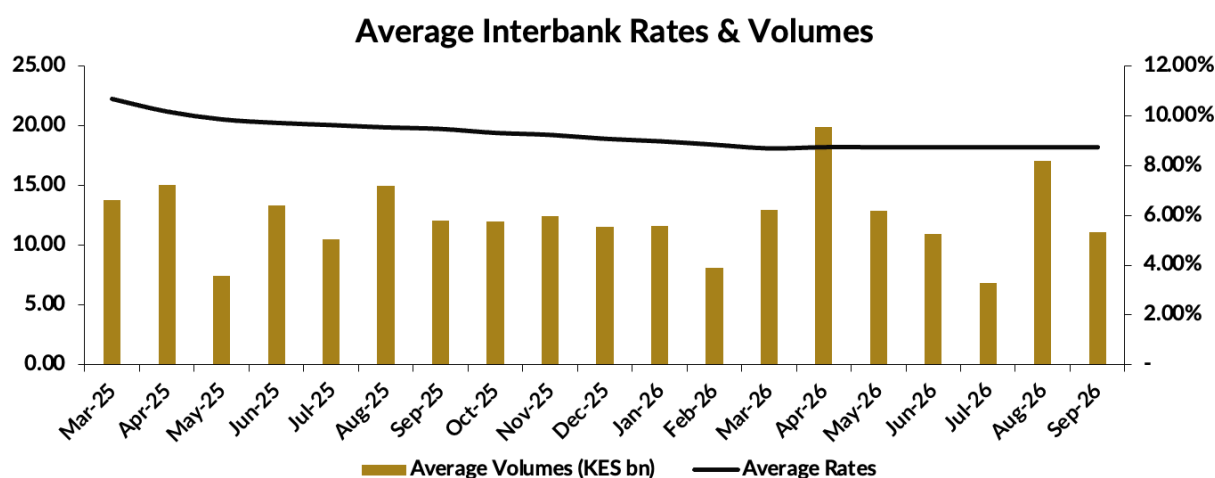
MONEY MARKET STATISTICS

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 34% in the week, with average traded volumes coming in at KES 9.50Bn from last week's KES 14.50Bn. Notably, the interbank deals decreased by 48% to close the week at 14 compared to the 27 recorded in the previous week.

Find the summary below:

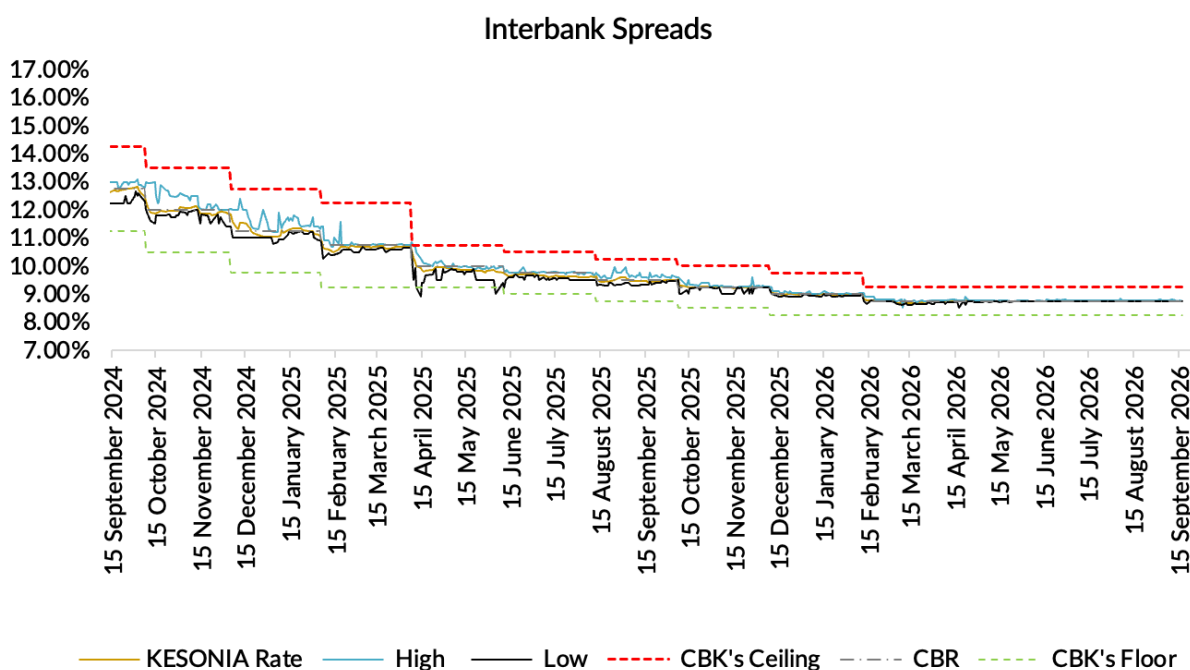
Average	Previous Week - ended 25/09/2026	Current Week - ended 02/10/2026	Change
Interbank Deals (Total)	27.00	14.00	(48.15%)
Inter- Bank volumes (KES bn)	14.50	9.50	(34.48%)
KESONIA (bps)	8.75%	8.75%	0.00

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:

Investor appetite for Treasury Bills increased this week as total submitted bids rising to KES 47.72 billion compared to KES 41 billion recorded last week, of which the fiscal agent accepted KES 41.19Bn resulting in the subscription rate of 86% and a performance rate of 170%; outperforming the subscription rate of 80%, recorded the previous week.

The 91-day Treasury Bill remained the most attractive debt instrument, registering a performance rate of 225%. The auction was significantly oversubscribed, receiving KES 18Bn in bids compared to the KES 8.0Bn on offer.

Below is a visual summary;

KES Bn

06-Oct-26	91-day	182-day	364-day	Totals
	05-Jan-27	06-Apr-27	05-Oct-27	
Amount offered	8.00	10.00	10.00	28.00
Bids received	17,983.23	19,147.41	10,586.04	47,716.68
Bids Accepted	12,875.06	17,900.87	10,420.91	41,196.84
Subscription rate (%)	71.59%	93.49%	98.44%	86.34%
Performance rate (%)	224.79%	191.47%	105.86%	170.42%
Rollover/Redemptions	16,454.10	9,412.10	8,024.25	33,890.45
New Borrowing/(Net Repayment)	-3,579.04	8,488.77	2,396.66	7,306.39
Weighted Average Rate of Accepted Bids	8.77%	8.89%	9.04%	
Inflation	6.8%	6.8%	6.8%	
Real Return	2.0%	2.1%	2.2%	

T-Bonds

In the primary space, The Central Bank of Kenya recently released auction results for two reopened, bonds (FXD1/2019/020 and FXD1/2026/030) carrying coupon rates of 12.9% and 12.5%, respectively.

Investor demand was strong, pushing total bids to KES 81Bn against an initial offer of KES 60Bn. This resulted in an overall oversubscription rate of 161%. Out of the bids received, the government accepted KES 58Bn, achieving a 71% acceptance rate.

Find below a summary of the results:

Issue	FXD1/2019/020 - Re-opened	FXD1/2026/030 - Re-opened
Tenor to Maturity	12.6 Years	29.5 Years
Coupon Rate	12.87%	12.50%
Offered Amount	KES 60Bn	
Bids Received (KES Mn)	43,803.82	37,601.48
Amount Accepted (KES Mn)	33,456.74	16,718.32
Market Weighted Average Rate (%)	13.680%	14.468%
Weighted Average Rate of Accepted Bids (%)	13.611%	14.236%
Adjusted Average Price (Per KES 100)	101.547	93.278
New Borrowing/Net Repayment	KES 50Bn	

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

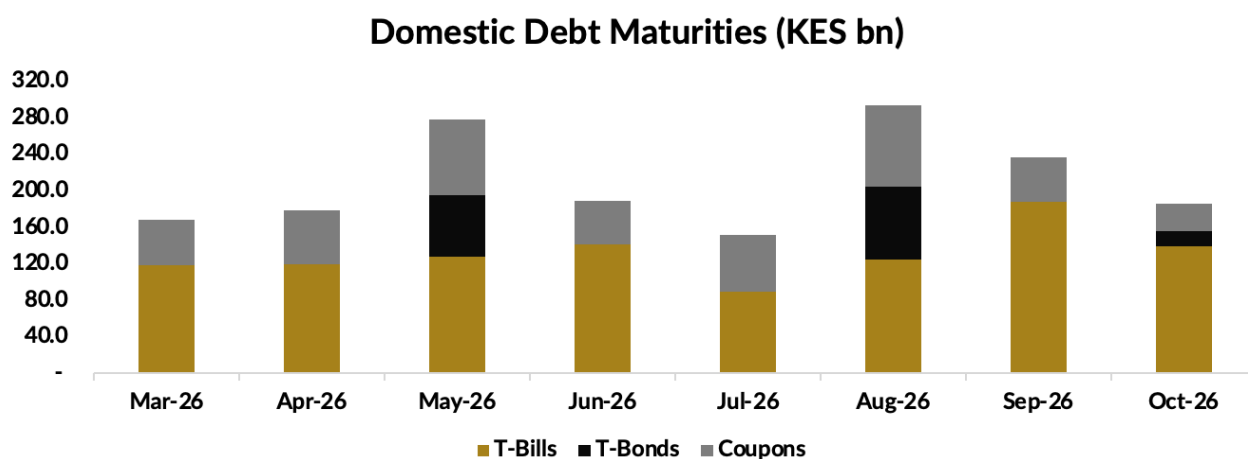
Simultaneously, the CBK is floating a voluntary KES 10Bn Switch Bond auction as a liability management tool. Running through October 5 2026, this move helps the CBK avoid major lump-sum payouts and prevents debt rollovers from crowding out new budgetary borrowing.

	SWITCH OFFER		
Issue	FXD1/2024/003- Source Bond	FXD2/2013/015- Source Bond	FXD1/2018/015- Destination Bond
Tenor to Maturity	0.3 Yrs	1.5 Yrs	6.6 Yrs
Coupon Rate	18.39%	12.00%	12.65%
Offered Amount	KES 10Bn		
Period of Sale	24th September 2026 to 5th October 2026		
Value Date	5th October 2026		
Minimum Bidding Amount	KES 50,000.00		
Taxation	10.00%		

Looking at secondary bond market turnover, the quantum increased to KES 84Bn (+9%w/w) from KES 77Bn in the prior week. Month on Month, bond turnover increased by 69% to KES 342Bn in August from KES 202Bn in July 2026.

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

Total domestic debt maturities in October 2026 are at KES 244Bn compared to KES 238Bn in September 2026. See the chart below;



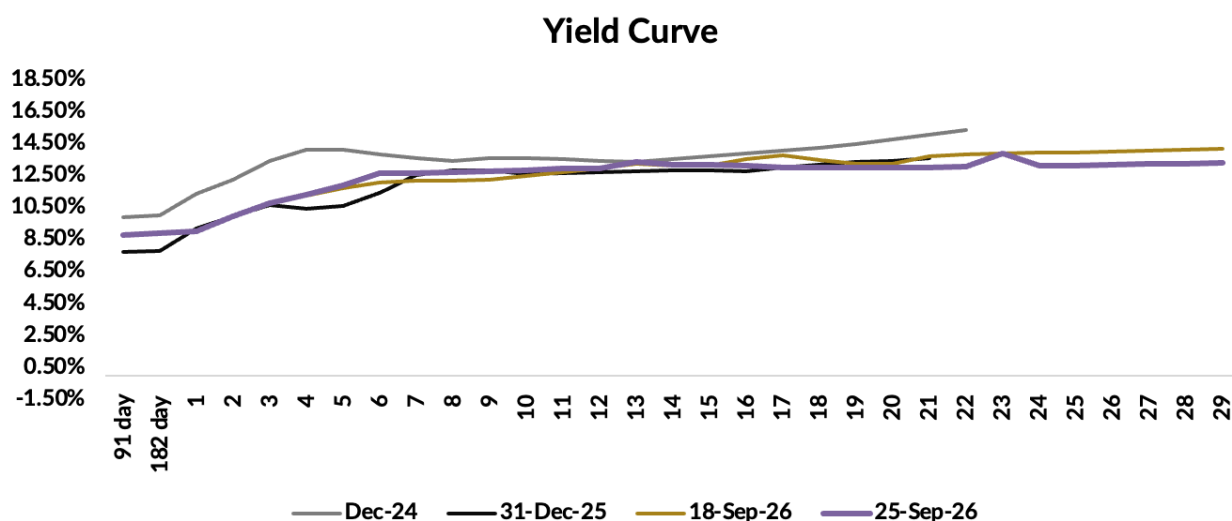
Source: Nairobi Securities Exchange (NSE), Chart: SIB

Yield Curve

Local interest rates were largely stable during the week, with average government securities yields inching slightly higher by c.0.198% w/w.

With the government expected to lean heavily on the domestic market to plug its budget deficits, borrowing demands will likely stay high, keeping consistent upward pressure on local yields over the medium term despite robust liquidity conditions.

Below is a visual representation;



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

THE INTERNATIONAL SCENE

Weekly Insight: Energy Friction and Global Yield Expansion Drives Investor Decisions

The final week of September 2026 closed out a volatile month characterized by persistent geopolitical supply shocks, divergent global growth metrics, and mounting pressure on sovereign debt markets. Structural bottlenecks across the Strait of Hormuz and extended force majeure notices on Qatari LNG continued to elevate European energy import overheads, driving sticky core inflation metrics across the Eurozone even as softening U.S. labor indicators offered temporary relief to Treasury markets. This persistent global inflation impulse has amplified macro-financial pressures on net-importing frontier economies.

Domestically, as Kenya absorbs rising landed import costs for middle-distillates, local price stabilization mechanisms alongside a steady U.S. Dollar conversion rate (USD/KES near KES 129.70–129.80) have temporarily anchored retail pump prices. However, with sovereign term premiums expanding globally and energy-driven cost pressures persisting, market participants are closely focused on the upcoming Central Bank of Kenya Monetary Policy Committee (MPC) meeting on October 7, 2026, where the benchmark Central Bank Rate (CBR) currently sits at 8.75%.

Divergent Growth Signals & U.S. Labor Cooling

Global macroeconomic releases highlighted shifting growth trajectories and inflation dynamics across advanced economies entering the final quarter of the year. In the U.S., headline non-farm payrolls decelerated sharply alongside a slight tick upward in the domestic unemployment rate, cooling short-term expectations for further aggressive policy tightening by the Federal Reserve. Conversely, the Eurozone faced renewed stagflationary headwinds as preliminary September HICP inflation accelerated unexpectedly to 3.8% year-on-year—beating market forecasts—driven by sustained energy pass-through and services sticky price pressures.

Strait Bottlenecks & Energy Benchmark Recalibration

Crude oil prices fluctuated as markets weighed ongoing logistical workarounds against persistent structural supply deficits in the Middle East. Brent crude benchmark prices settled near **\$102.50 per barrel** after Saudi Aramco successfully resumed partial export throughput via its East-West pipeline to Red Sea terminals at Yanbu, mitigating immediate bottleneck anxiety following earlier drone disruptions. However, daily commercial vessel transits through the Strait of Hormuz remained depressed compared to historical averages, while Qatar Energy's decision to extend LNG force majeure notices into December continued to pressure global winter gas contracts and keep freight risk premiums elevated.

Sovereign Stress & Global Yield Curve Volatility

Fixed income desks experienced heightened yield volatility as fiscal sustainability concerns in Europe compounded restrictive central bank stances. Long-end sovereign debt yields surged to multi-year highs earlier in the week, driven by heavy government issuance schedules and persistent term premium expansion across key industrial issuers. German Bunds and French OATs yields faced pronounced selling pressure as markets priced in persistent Eurozone inflation overshoots, while U.S. Treasury yields temporarily retreated from recent local highs following the softer non-farm payrolls release on October 2.

Safe-Haven Dollar Demand & Sovereign FX Pressure

Foreign exchange markets were anchored by broad-based U.S. Dollar resilience before experiencing late-week profit-taking. The U.S. Dollar Index (DXY) touched an 18-month high midweek as elevated yields and global rate persistence supported the Greenback over European currencies. The Euro (EUR/USD) faced downward momentum, dropping toward the **1.1100–1.1200** technical floor due to fiscal risk premiums and soaring European natural gas import overhead. Meanwhile, **USD/JPY** pulled back toward **157.80** as Japan's labor data and post-BoJ hike repricing narrowed short-term yield differentials against the U.S. Dollar.

Kenyan Eurobonds

Yields on Kenyan Eurobonds declined marginally by average of c.0.479% during the week dated 25th September 2026 to 01st October 2026, partly linked to the ongoing volatility in international markets. The table below summarizes the performance across maturities:

	KENINT 02/28/2028	KENINT 02/16/2031	KENINT 05/22/2032	KENINT 01/23/2034	KENINT 02/28/2048
Issuance	10-Year 2028	6-Year 2031	12-Year 2032	13-Year 2034	30-Year 2048
Maturity Date	28-Feb-28	16-Feb-31	22-May-32	1-Jun-34	28-Feb-48
Tenor to Maturity	1.6	4.6	5.8	7.9	21.6
31-Dec-25	6.0%	7.1%	7.2%	7.8%	9.3%
25-Sept-26	7.1%	7.9%	8.2%	8.7%	9.5%
28-Sept-26	7.4%	8.1%	8.5%	9.0%	9.6%
29-Sept-26	7.3%	8.0%	8.4%	8.8%	9.6%
30-Sept-26	7.3%	8.0%	8.4%	8.9%	9.5%
01-Oct-26	7.6%	8.3%	8.8%	9.2%	9.8%
Weekly Change	(0.514%)	(0.425%)	(0.589%)	(0.531%)	(0.337%)
YTD Change	1.6%	1.2%	1.6%	1.4%	0.5%

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

Currency Performance

The Kenyan Shilling displayed mixed week-over-week (w/w) performance against major global and regional currencies. Against major global currencies, the Shilling strengthened slightly against the U.S. Dollar (USD/KES), gaining **0.2%**, and advanced by **0.6%** against the Japanese Yen (JPY/KES). Conversely, it weakened across European counters, depreciating by **(0.1%)** against the British Pound (GBP/KES) and **(0.8%)** against the Euro (EUR/KES). Regionally, performance was also split: the Shilling recorded strong gains of **1.4%** against the Ugandan Shilling (KES/UGX), but slipped by **(0.8%)** against the Tanzanian Shilling (KES/TZX).

The U.S. Dollar Index **strengthened by 0.80%** during the week.

Murban crude oil prices declined to USD 95.76 per barrel on October 1, from USD 97.36 per barrel on September 24, reflecting easing supply concerns despite persistent Middle East tensions. Spot gold prices declined to USD 4,177.76 per ounce from USD 4,277.98 per ounce in the previous week, as reduced safe-haven demand weighed on prices.

See the table below;

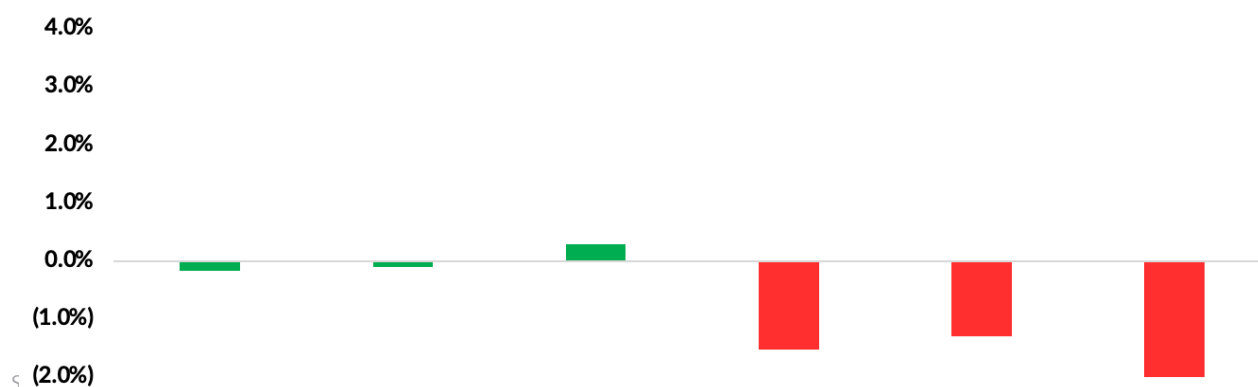
Currencies	31 Dec 2025 (vs KES)	Previous	Current	w/w Change	YTD change
KES/UGX	28.06	30.14	30.55	1.4%	8.9%
USD/KES	129.01	129.48	129.76	0.2%	0.6%
KES/TZX	19.03	20.46	20.30	(0.8%)	6.7%
GBP/KES	173.65	171.73	171.62	(0.1%)	(1.2%)
EUR/KES	151.43	147.62	146.40	(0.8%)	(3.3%)
JPY/KES	82.39	81.87	82.38	0.6%	(0.0%)

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

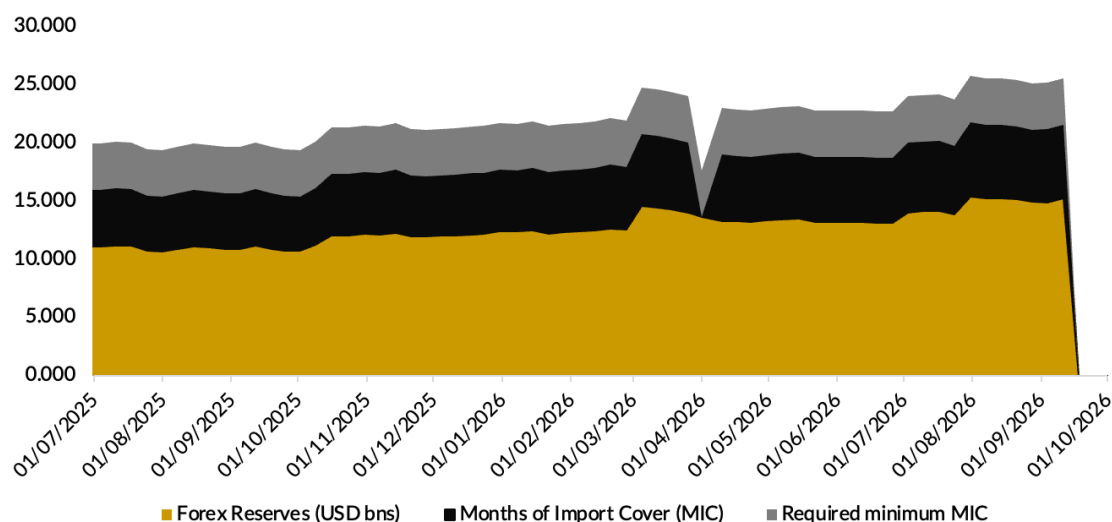
See also a visual representation;

w/w KES Performance



Kenya's foreign exchange reserves decreased marginally by 0.7% to close at USD 14.93bn, with import cover closing at 6.1 months. See the chart below for a visual summary.

Import Cover by Forex Reserves



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

Kenya's Inflation Accelerates to 6.8% in September as Core Pressures Build.

Kenya's headline inflation accelerated to **6.8% y/y in September 2026**, from 6.6% in August, remaining within the CBK's 2.5–7.5% target range. The increase was primarily driven by a sharp rise in **core inflation**, which increased to 4.0% from 3.4%, alongside higher food inflation at 9.5% from 9.0%. Meanwhile, non-core inflation eased to 14.0% from 14.7%, indicating a gradual shift in inflationary pressures from volatile components towards more persistent underlying pressures.

On a monthly basis, the CPI increased by **0.4%**, with food and non-alcoholic beverages recording the largest increase at 0.9%. Given its **32.9% weighting** in the CPI basket, food prices remain a key determinant of the overall inflation trajectory.

Food and Energy Pressures Remain Key Inflation Drivers

Food prices continued to exert upward pressure, with the dry spell tightening supplies of milk, beef and fresh produce. UHT milk prices rose **8.0% m/m**, while fresh packeted and unpacked milk increased by 6.0% and 5.8%, respectively. White wheat flour also increased by **4.5% m/m**, reflecting continued pressure in global agricultural commodity markets.

Annual food price pressures remained particularly pronounced for vegetables, with Irish potatoes rising 33.6% y/y, kale by 32.5%, cabbages by 25.8% and tomatoes by 21.1%.

Outlook: Inflation Risks Remain Tilted to the Upside

The near-term inflation outlook remains sensitive to food supply conditions, **global energy prices and domestic policy measures**. The expected onset of El Niño rains presents a two-sided risk: improved agricultural supply could ease food prices, while flooding and transport disruptions could increase distribution costs.

A key risk is the scheduled expiry of the **fuel subsidy and VAT reduction on fuel in mid-October**. Their removal could raise pump prices and amplify second-round effects through transportation and production costs.

We expect **headline inflation to average around 7.0%** in the near term, assuming the existing fuel-related measures remain in place.

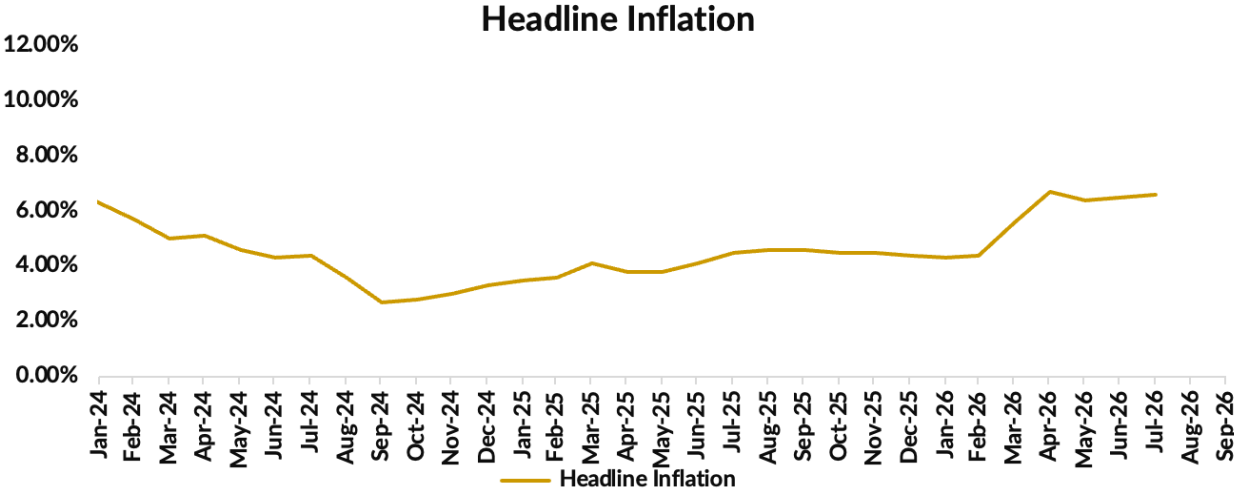
Implications for Monetary Policy and Fixed Income

The September inflation print presents a more challenging backdrop for further monetary easing. While the moderation in non-core inflation provides some relief, the acceleration in core inflation and persistent food and energy pressures are likely to keep the CBK cautious.

For the fixed-income market, the key risk is a **higher-for-longer inflation environment**, particularly if the expiry of fuel-related measures triggers renewed upward pressure on headline inflation. This could limit the scope for further yield compression in the near term, keeping investor focus on the balance between easing domestic liquidity conditions and renewed inflation risks.

Overall, the inflation mix is becoming increasingly concerning as **underlying price pressures gain momentum**. The rise in core inflation, elevated food prices and potential fuel price adjustments will remain key indicators to monitor ahead of the next MPC meeting.

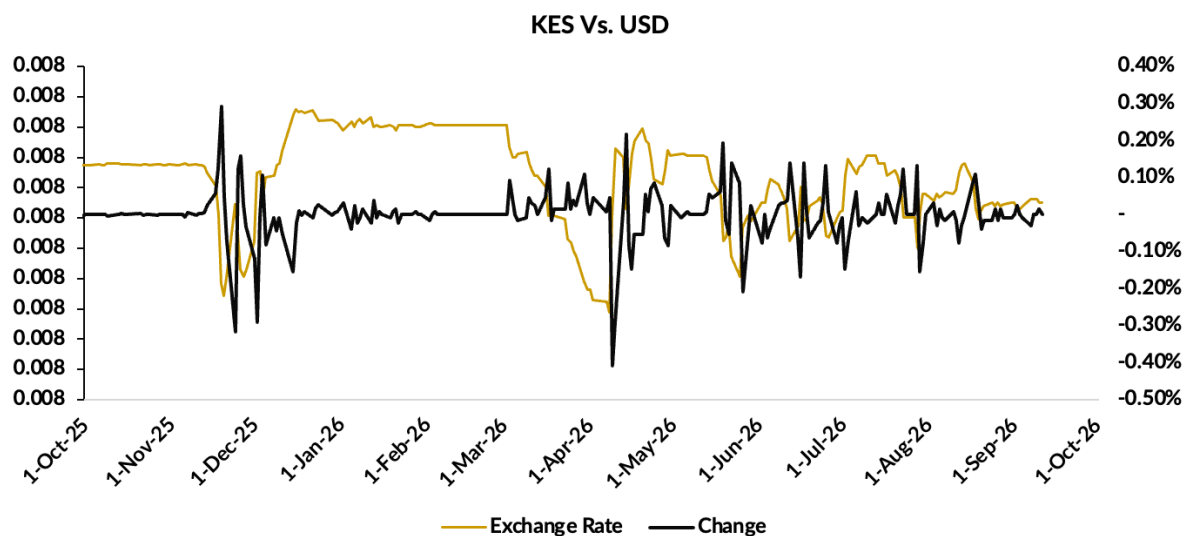
In conclusion, Kenya's inflation trajectory is becoming increasingly driven by **persistent domestic price pressures rather than purely volatile components**. The rise in core inflation, elevated food prices and the potential exhaustion of fuel-related tax measures warrant close monitoring ahead of the next MPC decision.



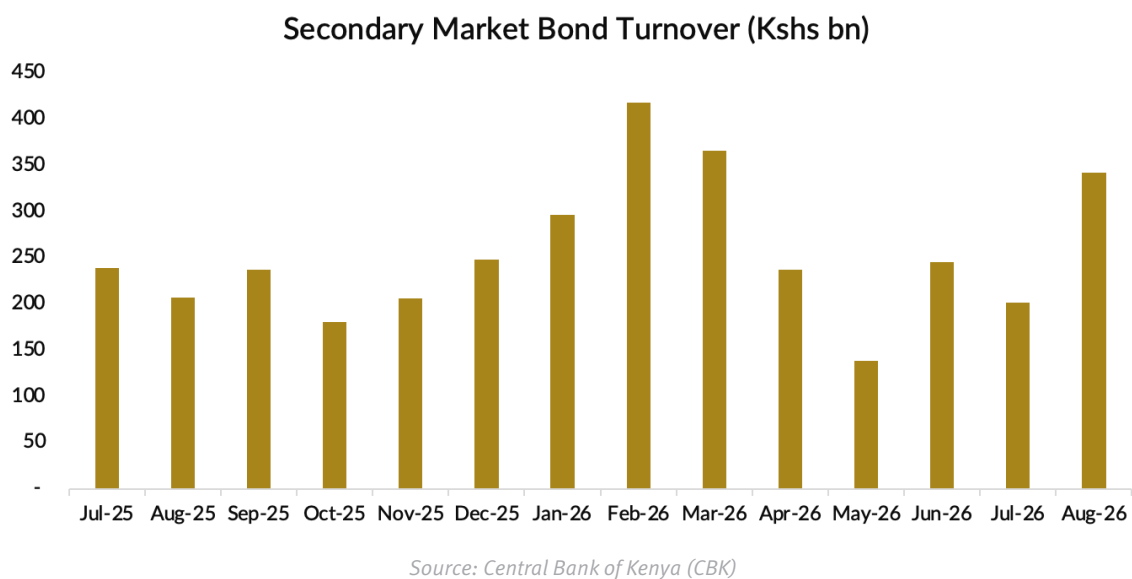
Source: Kenya National Bureau of Statistics (KNBS), Chart: SIB

BACKGROUND CHARTS

KES/USD Performance

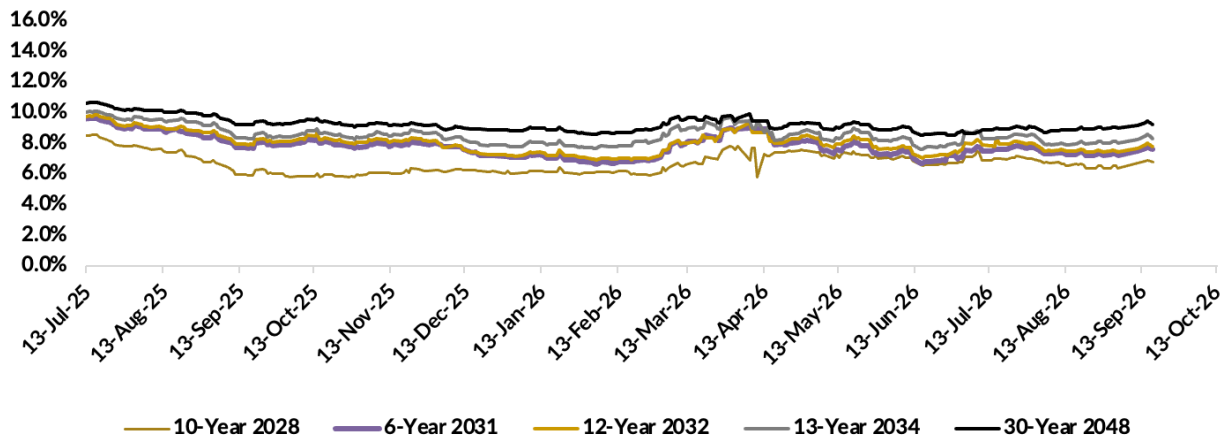


Bond Turnover



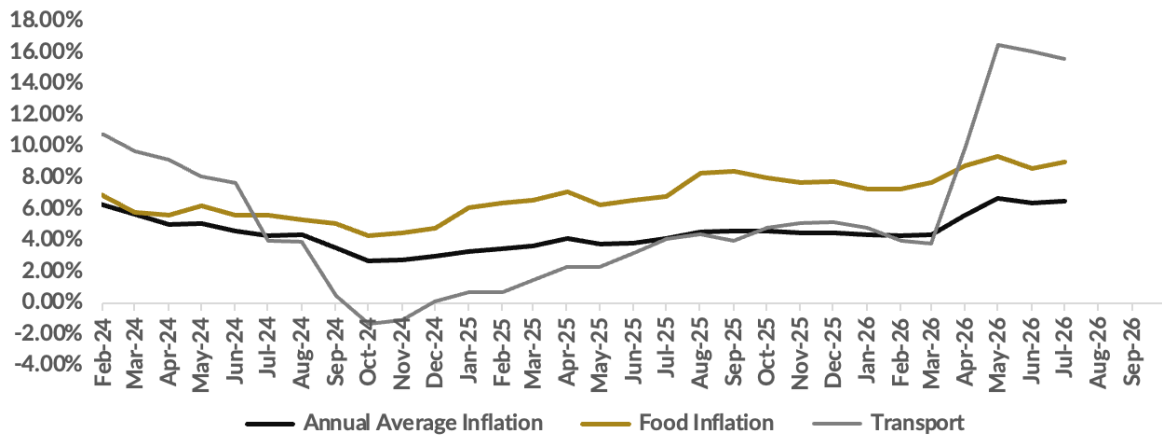
Kenyan Eurobonds

Kenya Eurobond Yields



Source: Central Bank of Kenya (CBK)

Food, Transport vs Headline Inflation



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

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