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Weekly Economic & Fixed Income Performance Report - Week ending 5th June 2026

Last week, Stanbic Bank Kenya published private sector performance data, highlighting continued deterioration in business conditions, largely driven by elevated fuel prices. We have done a detailed review of the report and provide our expectations going forward in this report.

In the spirit of a forward-looking macroeconomic perspective, the coming week presents a critical convergence of both monetary and fiscal policy events. The Central Bank of Kenya's Monetary Policy Committee will convene on 9th June 2026 to assess the impact of previous monetary policy actions and determine the appropriate stance going forward while the Cabinet Secretary for the National Treasury and Economic Planning is scheduled to present the FY2026/2027 Budget Statement on 11th June 2026.

In our view, the Committee should maintain the Central Bank Rate (CBR) at 8.75%, a position we have justified in detail in this report. We maintain that a rate hike at this juncture would be more detrimental than beneficial, given that prevailing inflationary pressures are predominantly supply-side in nature.

Historically, however, the Central Bank of Kenya has responded to similar shocks with policy tightening, for instance, during the onset of the Russia-Ukraine conflict, which was followed by domestic currency depreciation and heightened imported inflation. That said, there have also been episodes where inflationary pressures were deemed transitory, prompting the MPC to maintain the policy rate at prevailing levels.

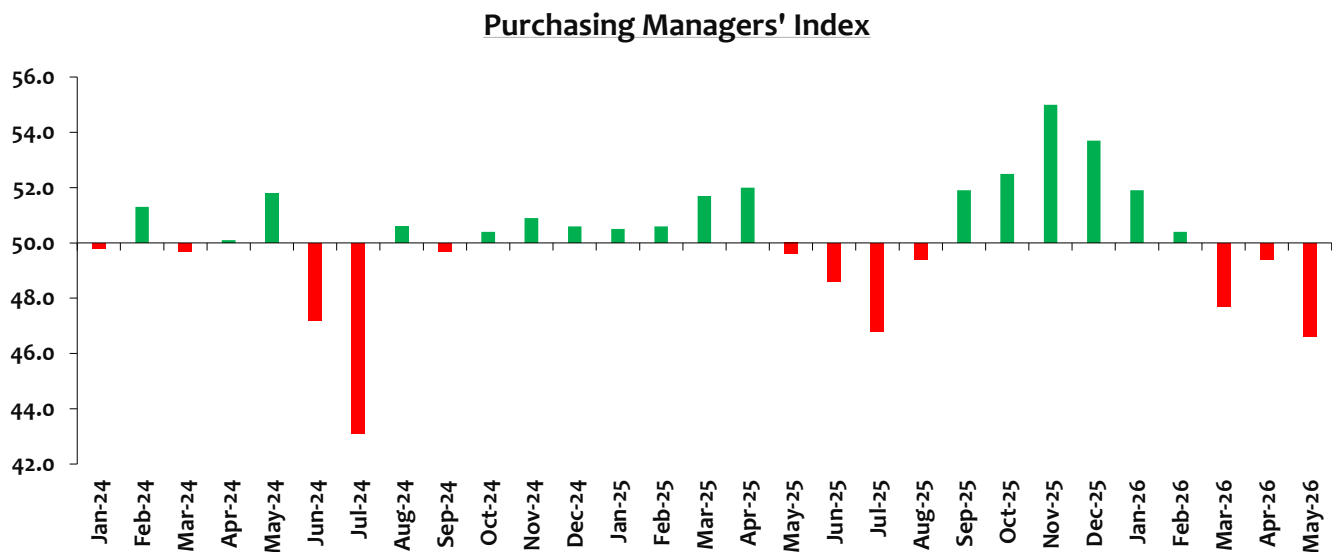
Against this backdrop, if the current Middle East geopolitical tensions are indeed temporary; as previously suggested by the Central Bank, with inflation expected to peak in July, then a policy rate hike would not be necessary. Conversely, if the conflict proves more persistent and continues to exert sustained upward pressure on global oil prices, an immediate rate hike should still not be the first line of response. Instead, priority should be given to targeted measures aimed at alleviating cost pressures, including short-term fuel relief interventions where feasible.

That aside, we look forward to sharing our fiscal analysis in the coming days. Stay tuned.

MACRO LENS

a. Private Sector Business Conditions – May 2026:

Kenya’s private sector experienced a marked deterioration in May 2026. The Stanbic Bank Kenya PMI fell to 46.6 from 49.4 in April, signaling the sharpest decline in business conditions in almost two years. It is important to note that the full effect of the record fuel price hikes materialized in May. As such both business activity and new orders contracted more quickly, reflecting a broad weakening in demand across the economy. In addition, this marks the third consecutive month of contraction of the business environment, highlighting persistent downside pressures. See the chart below for the trends in business environment overtime:



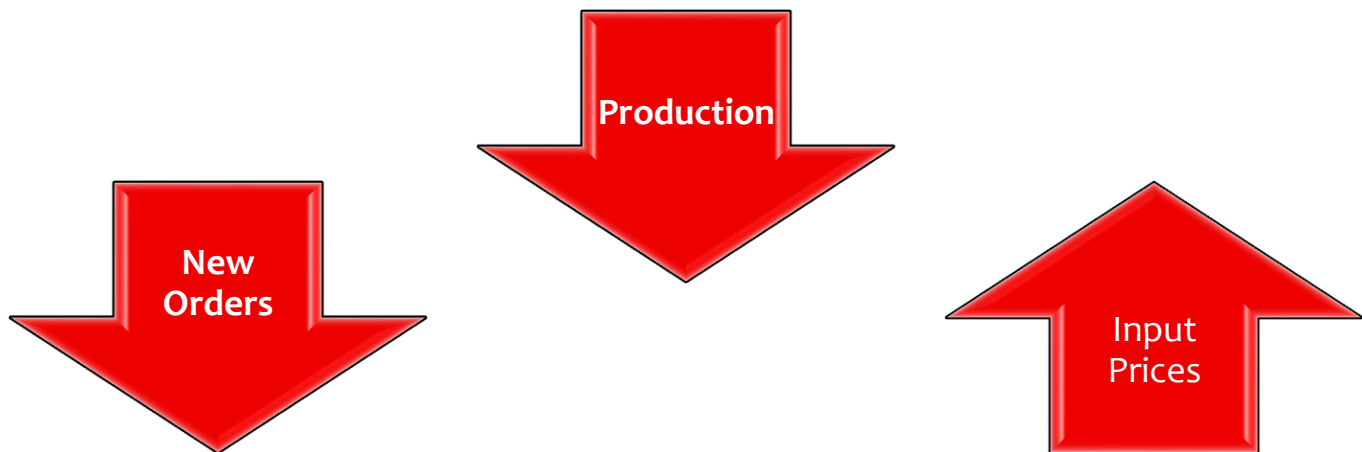
Source: S&P Global | Chart: KSL

The downturn was driven primarily by weaker customer demand and rising costs. Firms reported that inflationary pressures squeezed household and business budgets, leading clients to delay or reduce spending. Higher fuel and transportation costs were cited as major contributors to the increase in input costs, while disruptions associated with nationwide transportation-sector protests were also mentioned as a factor constraining business activity and movement; an indication that even a day of stalled business has a notable effect.

New sales declined at the fastest pace since mid-2025 as customers became increasingly hesitant to spend.

Construction and services firms recorded notable declines in both output and new orders, while manufacturing was the only sector to register growth in production.

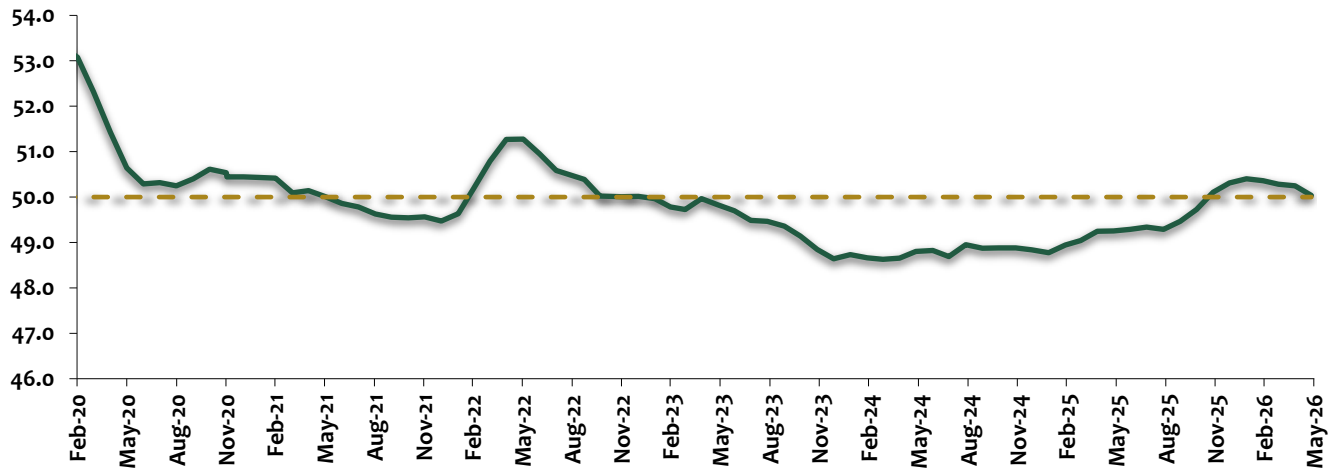
Cost pressures intensified significantly with input prices increasing at the fastest rate since November 2023. Wage costs eased the pressure with only a modest rise. Despite weaker demand, firms passed through some of these higher costs to customers as selling prices rose at the quickest pace in two-and-a-half years, with all five monitored sectors reporting higher output prices.



Meanwhile, efforts to accumulate inventories eased, leaving stocks of purchases broadly unchanged during the month even though supplier delivery performance improved. Employment declined for the first time in 16 months on non-renewal or early termination of temporary contracts rather than large-scale permanent layoffs. The fall in new orders also reduced pressure on operating capacity, and backlogs of work continued to decline.

Our assessment shows that on average, the private sector business environment is going back to the contraction zone as seen before November 2025. Energy prices which form a good chunk of input costs for most business, elevated cost of credit and business disruption comes off as the greatest cause of business deterioration. This compounded with lower income as prices of goods and services continue to increase are bound to continue weighing on business growth. See the chart below for a visual illustration:

24-Month Average



The above notwithstanding, firms became more optimistic about the year ahead, with confidence improving to its strongest level since February 2023. The optimism was broad-based across sectors and supported by increased advertising, product diversification, and efforts to expand online presence.

While the private sector's confidence is encouraging, our outlook remains more cautious. The recent surge in fuel prices presents a significant risk to the economic environment, not only from a demand perspective but also through its impact on business costs, profitability, and investment decisions. Should fuel prices continue on their current trajectory, inflation could breach the upper bound of the Central Bank of Kenya's target range. Such an outcome would likely compel the Monetary Policy Committee to shift its stance and begin tightening monetary policy through increases in the Central Bank Rate. While necessary to anchor inflation expectations, a rate-hiking cycle would raise borrowing costs, dampen private sector credit growth, and weigh on investment and consumer spending.

Consequently, the economy could enter another period of subdued growth across most sectors, particularly those reliant on discretionary spending and credit-financed expansion. The financial sector may prove a notable exception, as higher interest rates typically support interest margins and earnings. However, for the broader economy, the combination of elevated inflation and tighter monetary conditions would likely temper the recovery momentum currently anticipated by businesses.

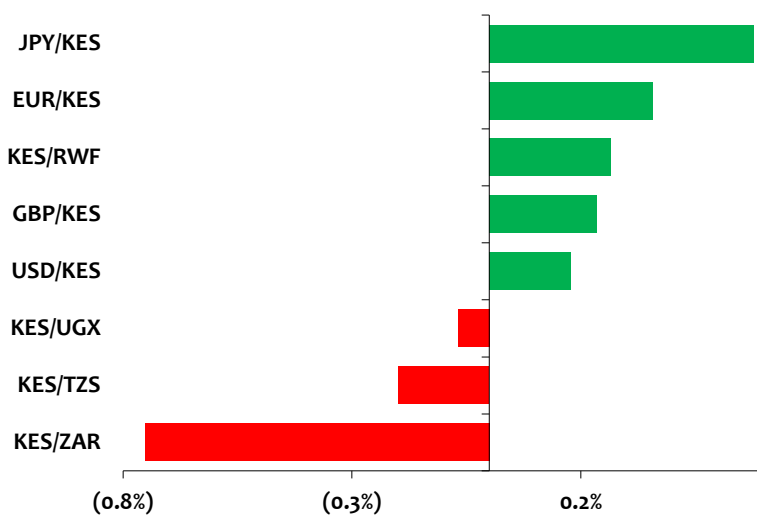
Foreign Exchange:

The Kenyan Shilling recorded a mixed performance, appreciating against most of the currencies we monitor, but posting a marginal depreciation against the Euro.

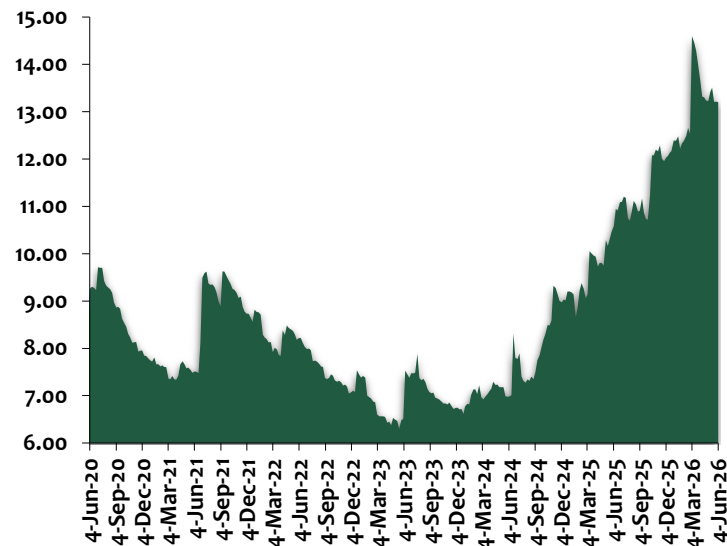
Against the US Dollar, the currency remained broadly stable, trading within the 129–130 range, reflecting a contained volatility environment. This stability continues to be supported by adequate FX liquidity and limited near-term external debt servicing pressures, suggesting no expectation of sharp movements in the USD/KES pair in the short term.

Meanwhile, foreign exchange reserves remained unchanged at USD 13.21Bn, providing 5.4 months of import cover and maintaining a comfortable buffer above statutory thresholds. See the charts below:

W/W KES Performance



Kenya's Forex Reserves (USD BN)



Source: CBK | Chart: KSL

Week Ahead: Monetary Policy Committee Third Meeting – June 2026

The Central Bank of Kenya's Monetary Policy Committee (MPC) is scheduled to meet on Tuesday, 9th June 2026, to assess the impact of previous monetary policy actions and determine the appropriate policy stance going forward.

In our view, the Committee should maintain the Central Bank Rate (CBR) at 8.75%, supported by the following considerations:

- i. The Kenyan Shilling remains broadly stable, trading within the 129–130 range, indicating sustained exchange rate resilience.
- ii. Private sector credit growth remains subdued and has not fully recovered, with recent improvements largely reflecting a low base effect rather than robust new lending activity.
- iii. The need to contain the cost of debt cognizant of the growing funding needs which may accelerate the rise in interest rates.
- iv. The need to support economic growth, as private sector business conditions continue to weaken, pointing to a softening operating environment.
- v. Consumer demand requires support, as elevated fuel prices combined with subdued income growth have significantly eroded household purchasing power.

Overall, the inflationary pressures currently observed, particularly those stemming from rising fuel prices, are largely cost-push in nature. As such, a policy rate increase would not address the underlying supply-side drivers of inflation or reduce fuel costs. Instead, it risks further constraining credit extension and dampening already fragile economic growth momentum.

Accordingly, maintaining the current policy rate would strike a more balanced stance between price stability and growth support.

FIXED INCOME PULSE

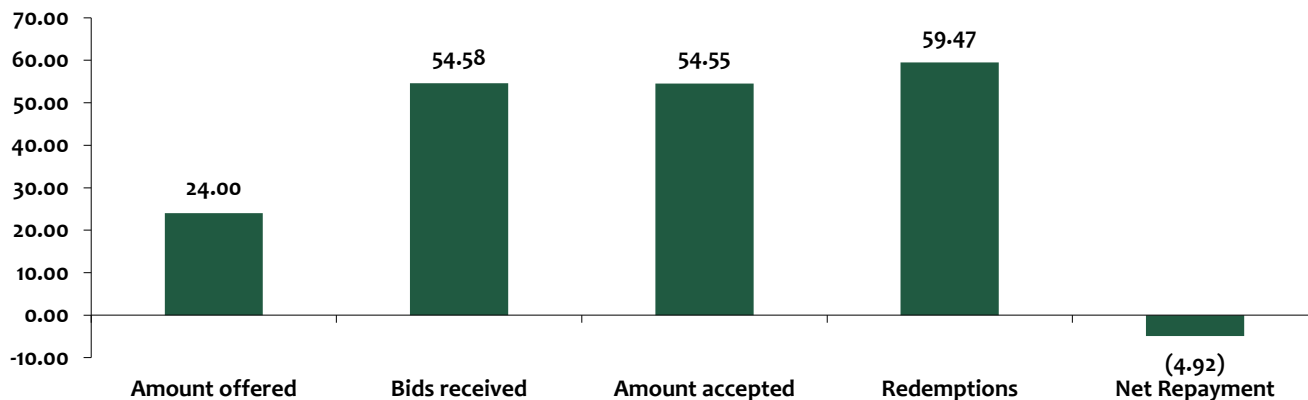
Primary Market Activity:

Demand for Treasury bills rebounded strongly during the week, with overall subscription rising to 227.4% from 69.3% in the previous auction.

Investor preference remained heavily skewed toward the 91-Day Treasury bill, which recorded an impressive subscription rate of 820.7%, the highest level in nearly two years. The strong demand was likely supported by substantial concurrent maturities, as well as continued investor preference for shorter-duration instruments amid heightened uncertainty and growing expectations of higher interest rates in the coming months.

The fiscal agent received bids worth Kes. 54.58Bn against an advertised offer of Kes. 24.00Bn and accepted Kes. 54.55Bn. The government recorded a net repayment position of Kes. 4.92Bn. The overall performance of the T-Bills is summarized below:

T-Bills Performance (Kes Bn)



Source: CBK | Chart: KSL

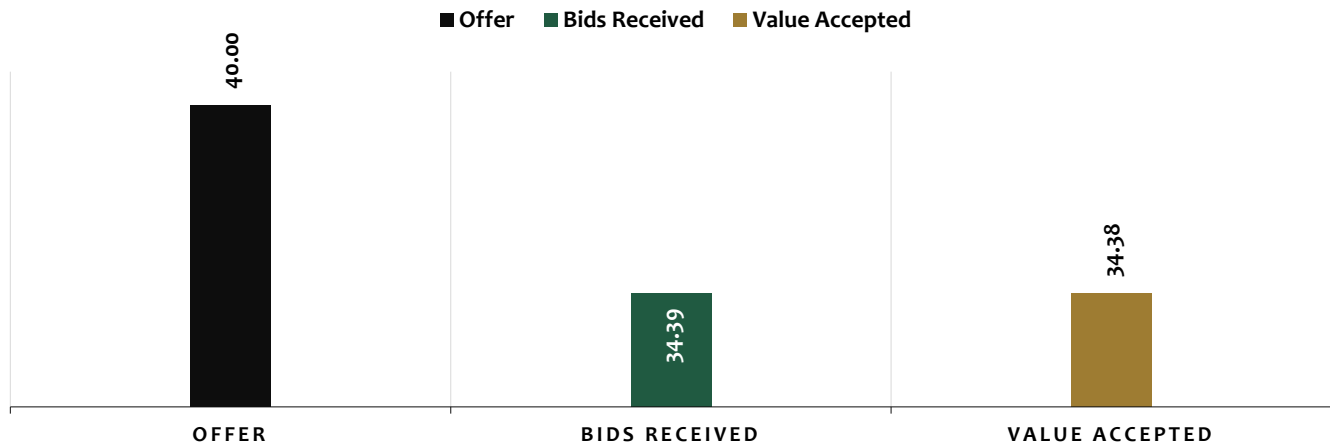
Yields on the short-term papers continued to increase, with the 91-day, 182-day, and 364-day papers printing at 8.56% (+17.04bps), 8.53% (+27.52bps), and 8.76% (+13.63bps).

In the same period, liquidity conditions appeared somewhat constrained, as average interbank volumes declined by more than half. However, interbank rates remained broadly aligned to the policy stance, continuing to track the Central Bank Rate, averaging 8.75% over the week.

Treasury Bonds

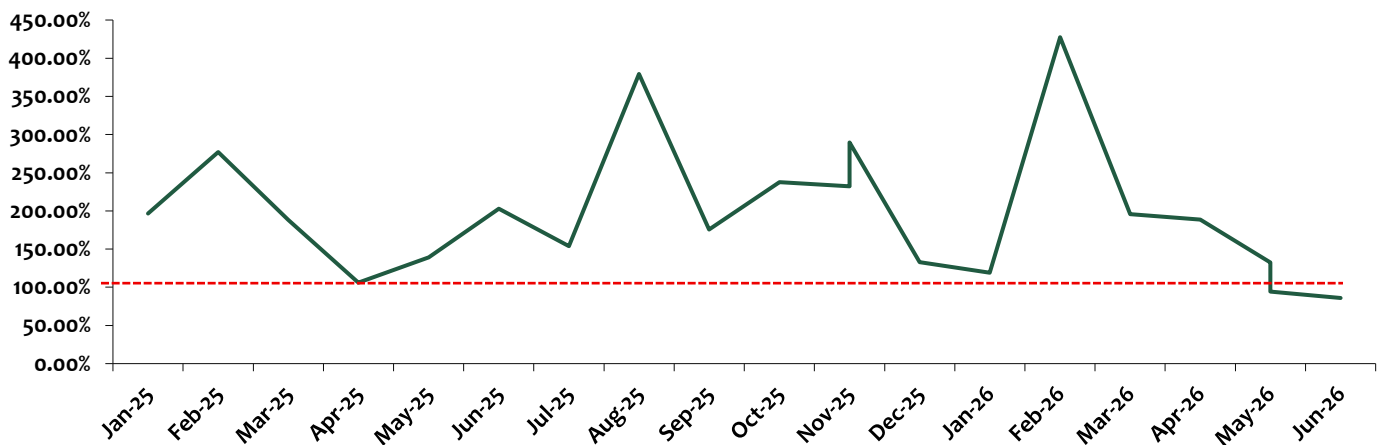
In the primary bond market, the Central Bank of Kenya (CBK) successfully raised Kes 34.38Bn, undershooting the target amount of Kes 40.0Bn in the June auction, as shown below:

JUNE 2026 BOND AUCTION (KES BN)



The offer recorded an 86.0% subscription rate, marking the second consecutive undersubscription, a phenomenon not witnessed since September 2024. We attribute the subdued investor participation to the relatively short bidding window, coupled with a cautious wait-and-see approach as investors position for the possibility of higher interest rates in the coming months amid mounting inflationary pressures. See the chart below for a visual presentation of the bonds performance:

T-Bonds Subscription Rates

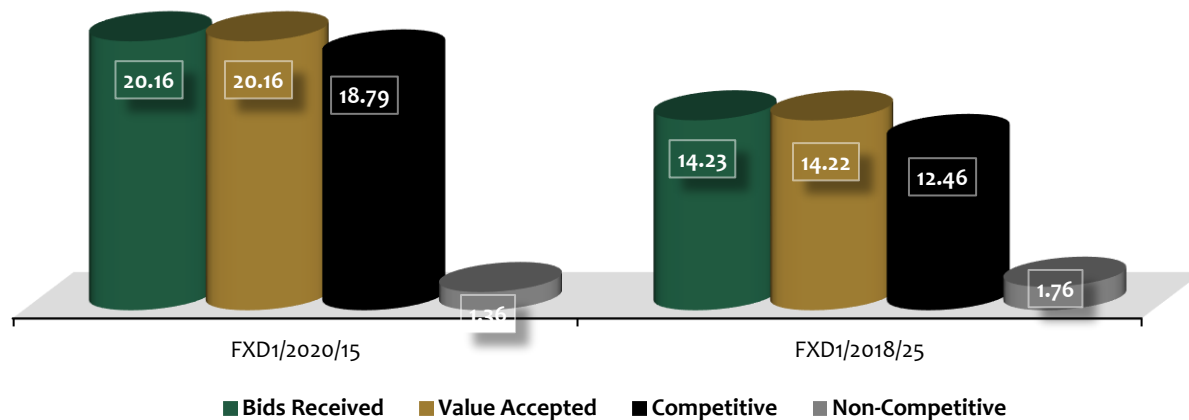


Source: CBK | Chart: KSL

Of the two reopened bonds, investor interest was skewed toward the shorter-tenor FXD1/2020/15, which recorded a subscription rate of 50.4%, compared to FXD1/2018/25 (with an effective tenor of 17 years), which recorded a lower subscription rate of 35.6%.

The average accepted yields for the two papers stood at 13.3% for FXD1/2020/15 and 14.2% for FXD1/2018/25 an indication that valuations are moving closer toward par as investor appetite improves for less duration risk in the current environment. See below the performance of the two papers:

JUNE 2026 BOND ISSUANCE PERFORMANCE (KES. BN)



Secondary Market

Secondary bond market activity eased during the week, with turnover decreasing by 36.7% to KES 23.51Bn, from Kes 37.14Bn in the previous week.

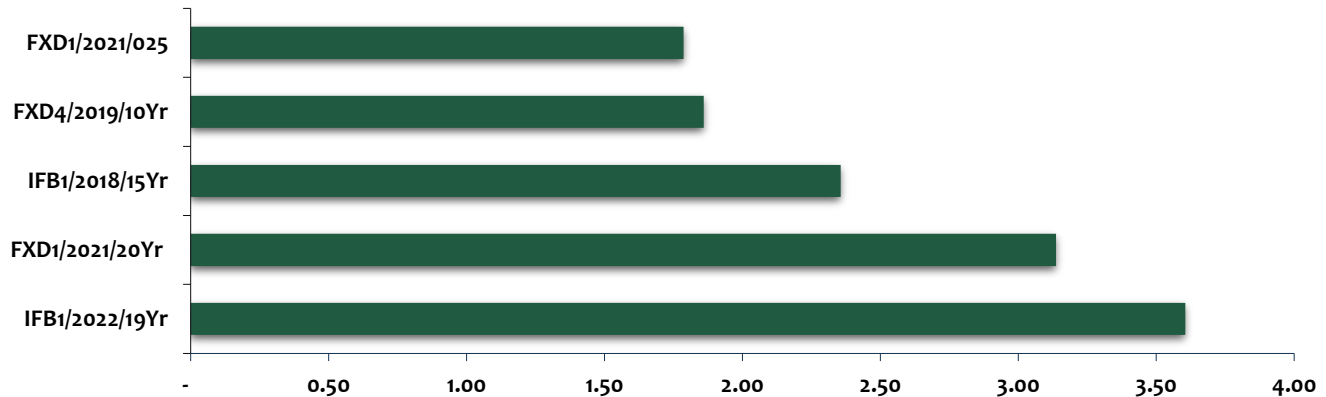
This was in tandem with a 10.8% decrease in the number of deals. See the table below:

	Previous Week	Current Week	Change
Turnover in Bonds (Kes Bn)	37.14	23.51	-36.7%
Number of Deals	794	708	-10.8%

Source: NSE | Table: KSL

The bonds below were the most traded:

Most Traded Bonds (Kes Bn)



Source: NSE | Chart: KSL

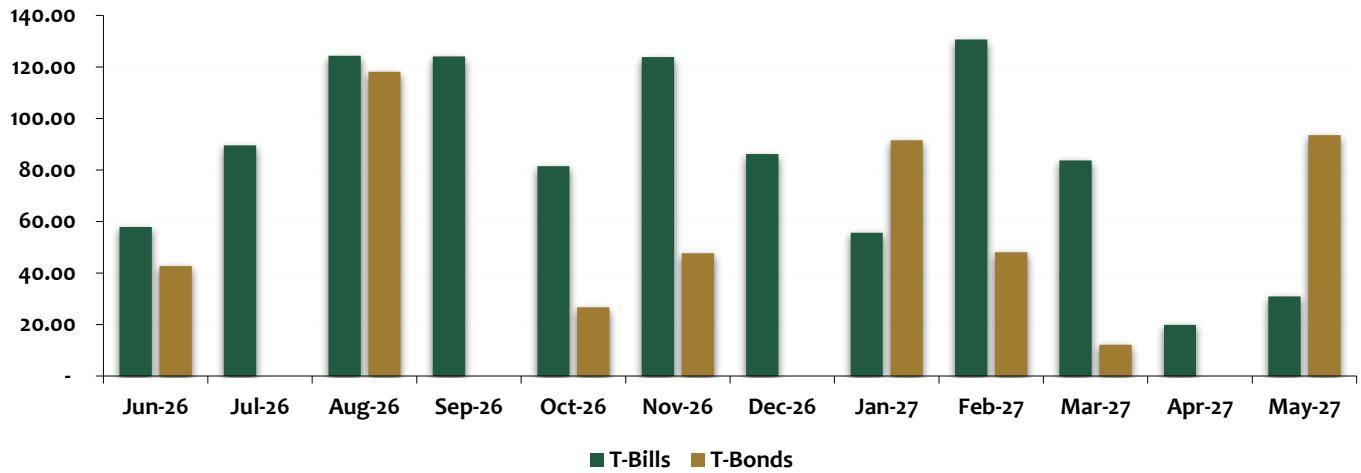
Domestic Debt Service Schedule:

The maturity profile for the next one year is as follows:

- i. KES 1,007.70Bn in Treasury Bills
- ii. KES 480.37Bn in Treasury Bonds – the maturities are well spread with the next redemption set for May 2026
- iii. KES 802.28Bn in coupon payments.

See the chart below for a visual presentation:

T-Bill vs. T-Bond Maturities (Kes. Bn)

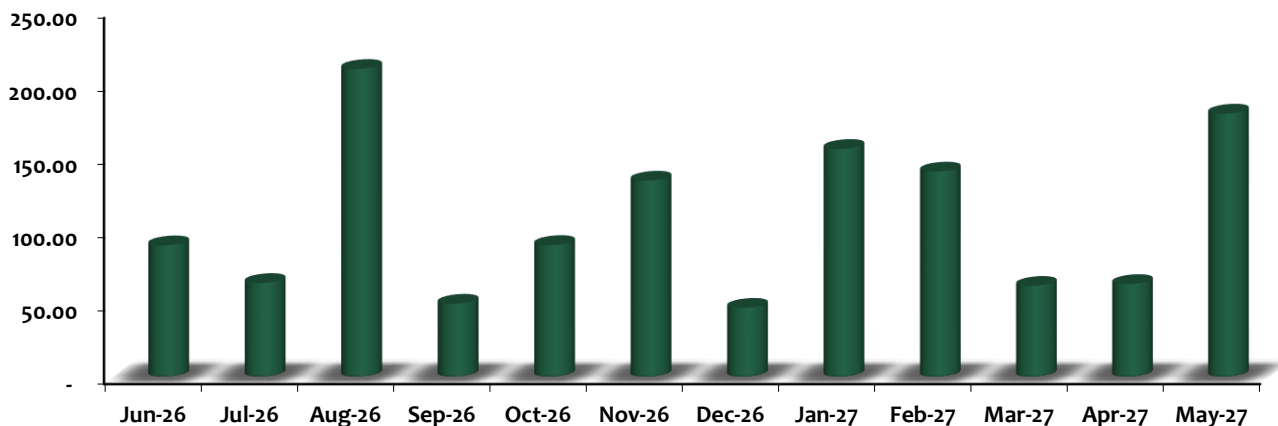


Source: CBK, NSE | Chart: KSL

Further, the chart below illustrates upcoming bond debt-servicing obligations, including both principal repayments and coupon payments. August stands out as the month with the highest redemption burden, following relatively lower obligations in June and an even lighter repayment profile in July, immediately after the commencement of the new fiscal year.

This temporary reprieve in debt-servicing pressures could provide the government with some flexibility in managing cash flows before obligations rise sharply in August.

Debt Service Obligations (Kes Bn)

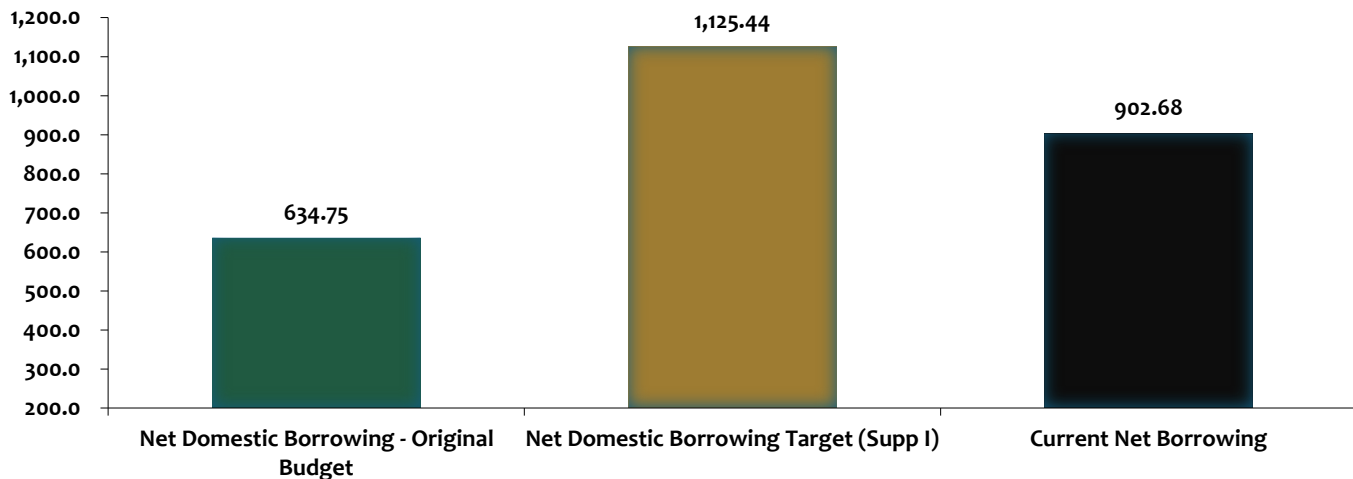


Government Borrowing Position:

As of this week, the government’s net domestic borrowing stands at Kes 902.68Bn, equivalent to 80.2% of the FY2025/26 revised target. With only three weeks remaining to the close of the fiscal year, it is increasingly unlikely that the full-year target will be met.

Nevertheless, we anticipate that the government may still conduct another Treasury auction in June, alongside a possible tap sale, aimed at further bridging the financing gap and strengthening the domestic borrowing position ahead of fiscal year-end. See the visual below:

ACTUAL DOMESTIC BORROWING VS. TARGET



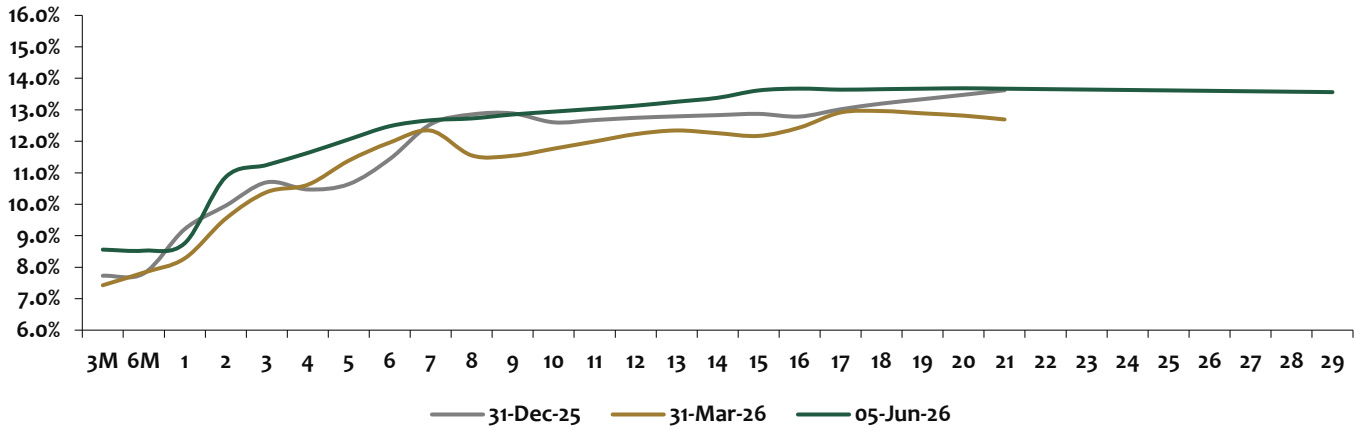
Source: CBK, NSE | Chart: KSL

Local & International Yields

The local yield curve shifted upward during the week, with yields rising across all tenures. We believe investors are increasingly demanding higher compensation amid rising inflationary pressures and heightened uncertainty surrounding the macroeconomic outlook.

The upward repricing reflects growing concerns over inflation persistence, fiscal developments, and the potential policy response in the coming months. See the chart below:

NSE Yield Curve

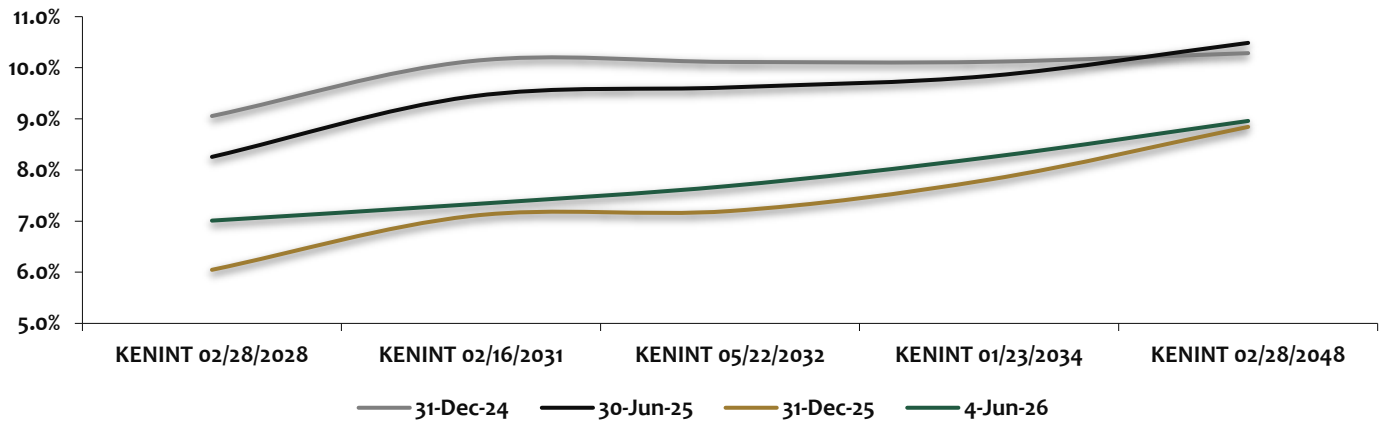


Source: NSE | Chart: KSL

Kenyan Eurobond yields recorded mixed performance but the rates remain elevated compared to last year end's level.

The chart below illustrates the movement of the yields over the year:

Kenyan Eurobond Yields



Source: CBK | Chart: KSL

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