

KINGDOM SECURITIES LIMITED

A Subsidiary of the Co-operative Bank of Kenya Ltd

WEEKLY FIXED INCOME AND MACRO REPORT

Week Ending 12th June 2026



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Gentle readers, last week was quite eventful.

Apart from the budget being read, we also had the MPC meeting, which resolved to maintain the benchmark rate at 8.75%, in line with our expectations. We had been heavy on the transitory nature of the Iran conflict, which has introduced significant bottlenecks in the global fuel supply chain. We are now beginning to see some easing of these pressures, alongside a decline in international benchmark prices for refined fuel.

Coupled with the agreement by seven major OPEC+ countries to implement a production adjustment of 188,000 barrels per day (bpd) in June 2026 as part of the gradual unwinding of earlier voluntary production cuts announced in 2023, these developments are likely to support a moderation in fuel prices across the board. We are beginning to see light at the end of the tunnel.

Beyond that, the Government of Kenya has maintained fuel subsidies, particularly for kerosene and diesel, and this will continue to cushion both consumers and businesses. While fuel prices remain elevated on a y/y basis, the latest review offers some relief and reinforces the view that inflation may remain below the CBK's upper bound of 7.5%, consistent with the Committee's projections during the June MPC meeting.

This, in turn, suggests that the CBK may not be forced into a rate hike. However, a resumption of the easing cycle could remain on hold for some time, at least until headline inflation gravitates closer to the midpoint of the target range at 5%.

That said, where do we look now? Is it bonds or is it equities? We say, there are opportunities in both.

MACRO LENS

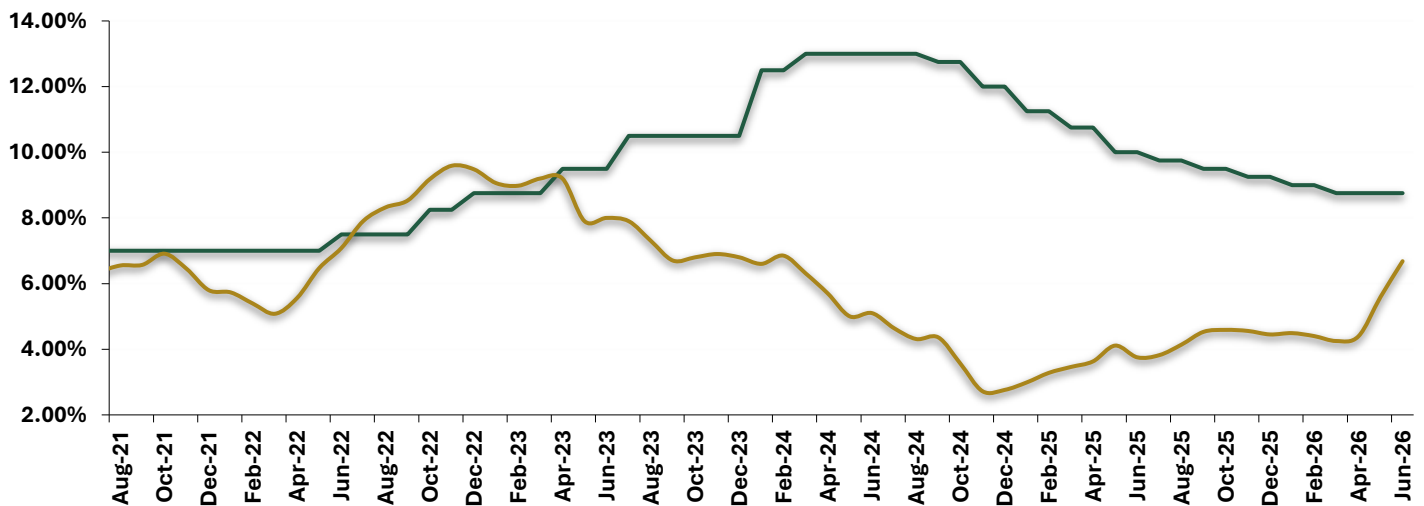
a. Monetary Policy Update – Central Bank Rate (CBR):

The Central Bank of Kenya Monetary Policy Committee (MPC) convened on 9th June 2026 against a backdrop of heightened geopolitical tensions that have left most economies on edge. In our May inflation highlight, we noted that we remained wary of further upward price pressures, particularly because the full effects of higher kerosene prices had not yet filtered through to inflation, given that the price adjustments were effected towards the end of the month. Our caveat, however, was that the government could intervene further to cushion consumers through additional subsidies.

Nonetheless, the CBK remains optimistic about the inflation outlook, maintaining that headline inflation will remain within its target range and not breach the upper bound.

That said, the Committee held the benchmark rate at 8.75%, citing that the current stance remains appropriate for anchoring inflation expectations. This was well in line with our expectations and assessment that a rate hike would not have been the appropriate first line of response. The chart below gives a glimpse of how the numbers look:

Benchmark Rate vs. Headline Inflation



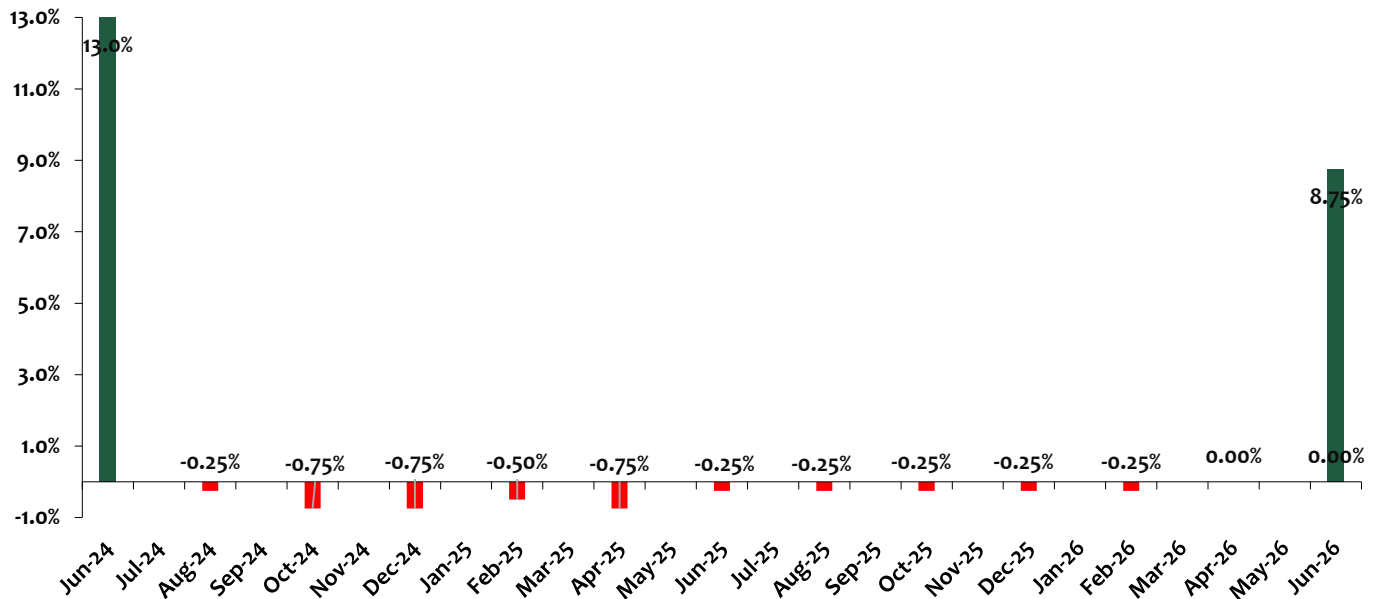
Source: CBK, KNBS | Chart: KSL | The June inflation figure is CBK's estimate

Trends

It is important to note that this is the second time the MPC has held the benchmark rate unchanged following a ten-meeting rate-cut streak.

For a quick jumpstart, see below the Committee’s actions since the easing cycle began:

Central Bank Rate Adjustments



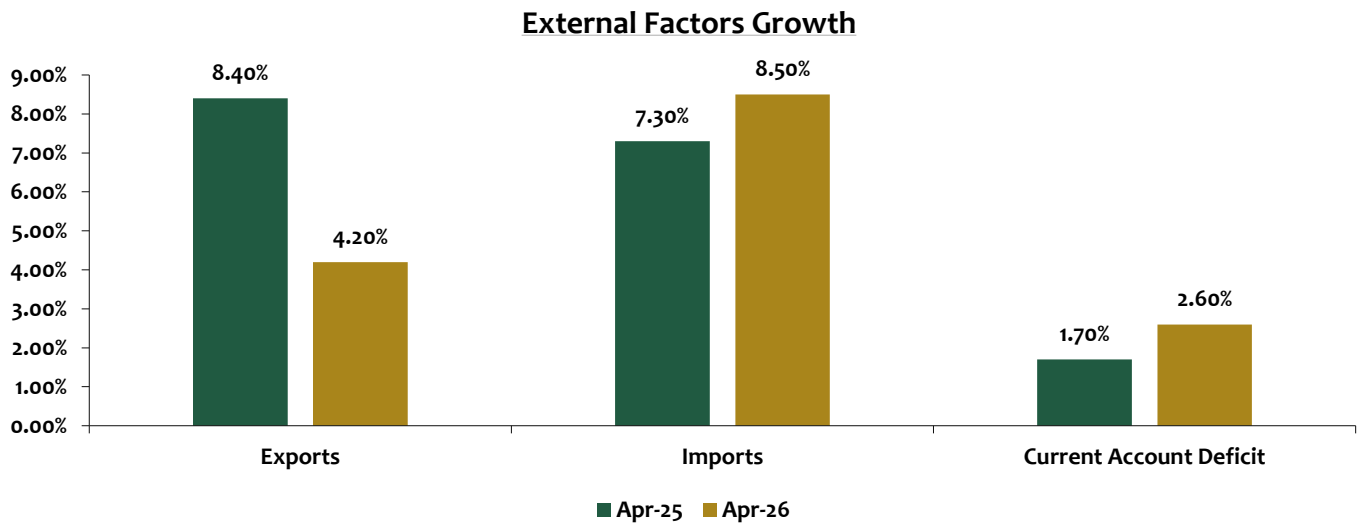
External Position

The Kenyan shilling has remained quite stable since the last review. Similarly, forex reserves have been stable within USD 13.2Bn and USD 13.50Bn, affording the apex bank the luxury to intervene in the currency market when need be.

For Kenya’s trade balance, goods imports rose by 8.5% y/y in the twelve months to April 2026, driven primarily by increased inflows of imports of food, intermediate & capital goods and mineral fuels. In contrast, goods exports grew at a much slower pace of 4.2%, supported by horticulture, coffee, tea, food, as well as machinery and transport equipment. Meanwhile, services receipts rose by 4.8%, offsetting the 0.5% decline in the twelve months to February, supported by transport and travel services receipts. YTD to April, exports recorded a 3.2% decline while the import bill recorded a 9.2% jump, likely due fuel imports.

As a result, the current account deficit widened to 2.6% of GDP, from 1.7% in 2025, mainly reflecting a larger trade deficit and reduced secondary income inflows relative to GDP.

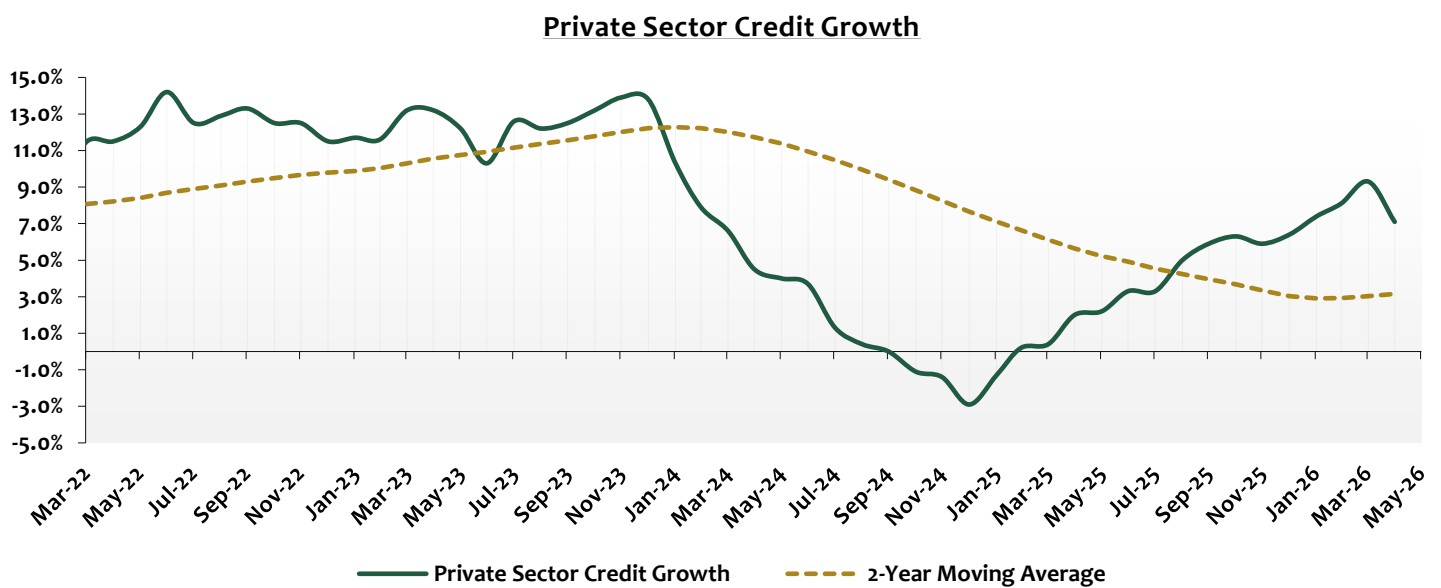
See the chart below for a visual presentation.



Private Sector Lending Continues to Recover

Private sector credit growth accelerated to 9.3% in May 2026, up from 7.1% in April 2026 and 2.0% in May 2025, signaling a broad-based recovery in lending activity. Credit expansion was particularly strong in the building and construction, trade, building and construction, agriculture, and consumer durables, pointing to improving economic activity and demand conditions.

Overall, a 2-year moving average shows that private sector credit has stabilized at around 3.0% but should start picking up as the elevated interest rates period continue to fade. See the chart below:



Meanwhile, asset quality showed signs of improvement, with the gross non-performing loan (NPL) ratio rising to 15.3% in May 2026, up from 15.6% in April and 15.4% in December 2025.

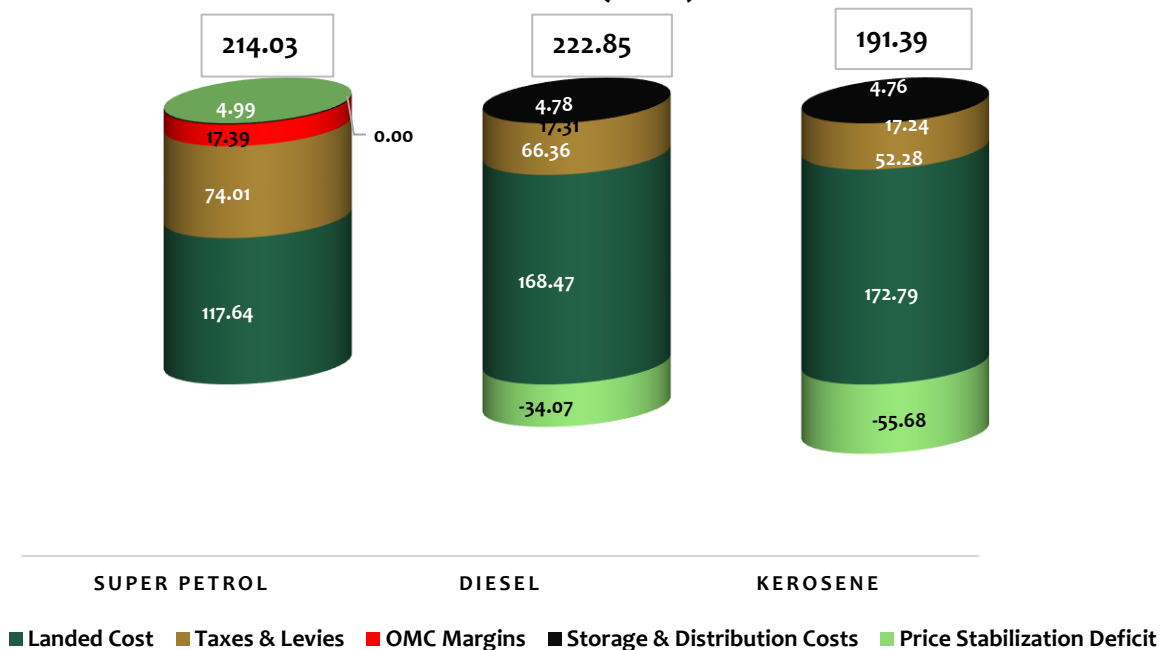
In our view, downside risks persist given the ongoing geopolitical tensions. Fuel remains a key input across most sectors of the economy, meaning the economy will inevitably feel the impact one way or another. If the government opts for a full subsidy approach, the burden will ultimately fall on the exchequer and, by extension, the taxpayer. However, if the CBK were to raise rates, which we do not support, the implications would be far-reaching, affecting both private sector credit conditions and the government’s cost of debt.

On balance, we lean towards the subsidy approach.

b. Retail Fuel Prices:

On 14th June 2026, the Energy and Petroleum Regulatory Authority (EPRA) published the revised fuel retail prices for the period 15th June to 14th July 2026 against a backdrop of persistent supply chain uncertainties against a backdrop of persistent supply chain uncertainties, which now appear to be easing. Accordingly, the products are now retailing at Kes 214.03, Kes 222.85, and Kes 191.39 per litre for petrol, diesel and kerosene, respectively in Nairobi. The price breakdown is as follows:

FUEL PRICES BREAKDOWN (KES) - JUNE/JULY CYCLE



Source: EPRA | Chart: KSL

Recall that in May, the Public Service Vehicle fraternity conducted a strike that culminated in diesel prices being reduced by Kes 10.0 from the previous review levels. Around the same period, the President announced that diesel prices would be lowered by a further Kes 10.0 in the June review.

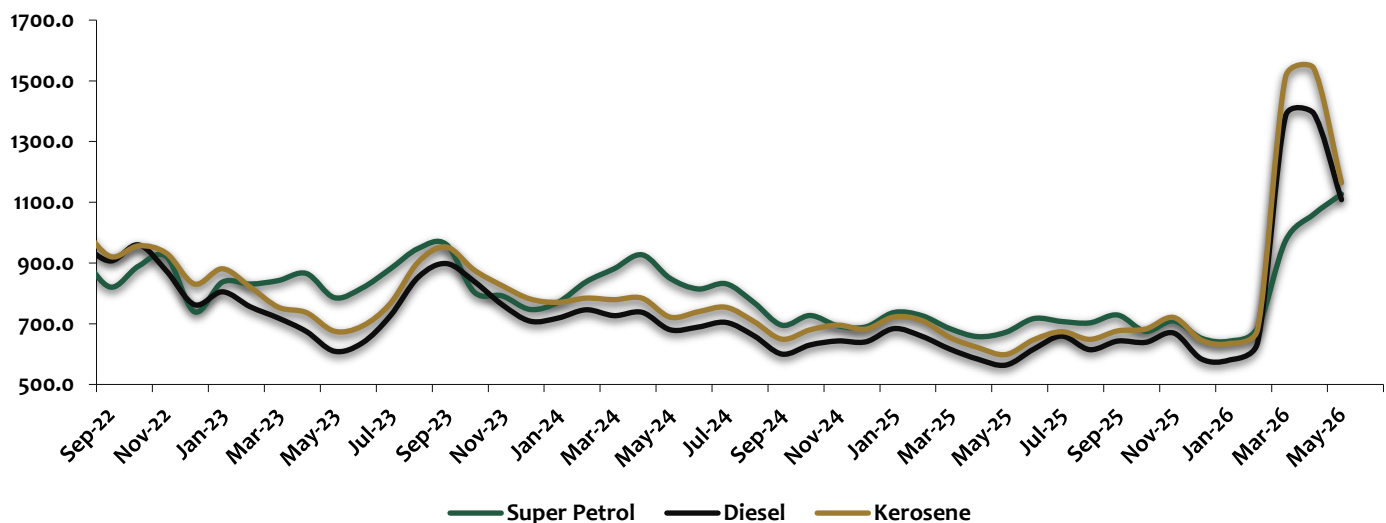
Fast forward to the latest review, diesel and super petrol prices declined by 0.1% and 4.3% m/m, respectively, while kerosene prices remained unchanged. On a y/y basis, however, prices were up by 20.7% for petrol, 36.8% for diesel, and 30.3% for kerosene.

We note that the government continues to subsidize kerosene and diesel, with this cycle's subsidy amounting to Kes 10.0Bn. Kerosene received a subsidy of Kes 55.68 per litre, while diesel received Kes 34.07 per litre.

Over the same period, movements in landed costs were relatively modest, with petrol and kerosene declining by 0.6% and 0.3%, respectively. Diesel landed costs, on the other hand, increased marginally by 0.2%.

This contrasted with the benchmark prices of refined petroleum products, which increased by 6.3% for petrol but declined by an impressive 20.4% and 24.5% for diesel and kerosene, respectively, in May. These movements may not have fully translated into domestic fuel prices, with landed costs remaining relatively stable across all three products. See the chart below:

International Petroleum Prices (Platts in USD/MT)



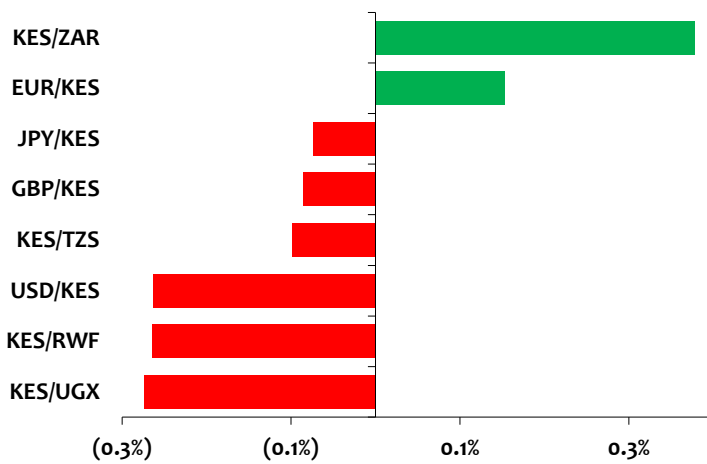
Source: EPRA | Chart: KSL

Foreign Exchange:

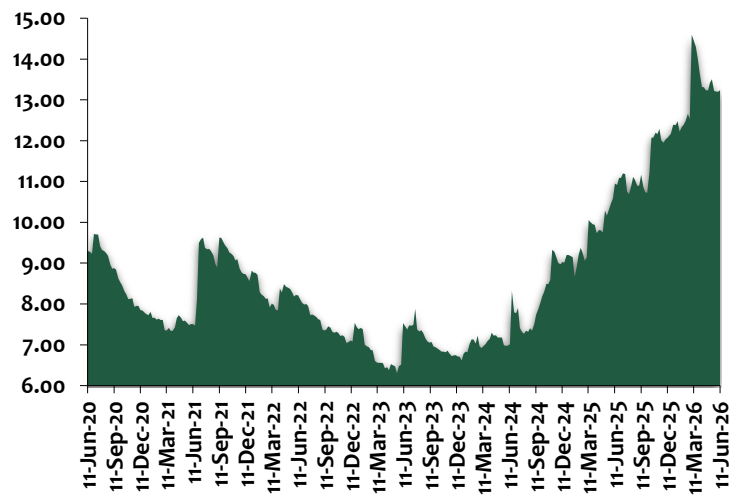
The Kenyan Shilling recorded a mixed performance, depreciating against most of the currencies we monitor, except the Euro and South African Rand. The movements were marginal and typical of a stable currency environment.

Meanwhile, foreign exchange reserves notched higher closing the week at USD 13.24Bn, providing 5.6 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

FIXED INCOME PULSE

Primary Market Activity:

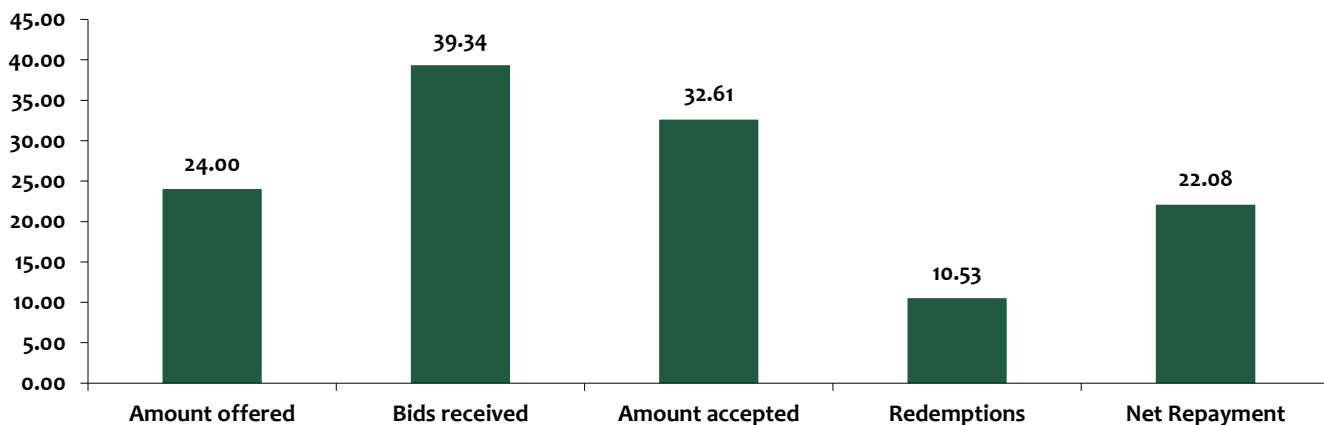
Demand for Treasury bills remained strong during the week, although overall subscription dropped to 163.9% from 227.4% in the previous auction.

Investor preference remained heavily skewed toward the 91-Day Treasury bill, which recorded an impressive subscription rate of 820.7%, quite identical to last week’s performance. This was despite significantly lower concurrent maturities, signaling more and more preference for shorter-duration instruments amid heightened uncertainty and growing expectations of higher interest rates in the coming months.

The 182- and 364-Day papers were undersubscribed by 56.2% and 78.6%, respectively.

Overall, the fiscal agent received bids worth Kes. 39.34Bn against an advertised offer of Kes. 24.00Bn and accepted Kes. 32.61Bn. The government recorded a net borrowing position of Kes. 22.08Bn. The overall performance of the T-Bills is summarized below:

T-Bills Performance (Kes Bn)



Source: CBK | Chart: KSL

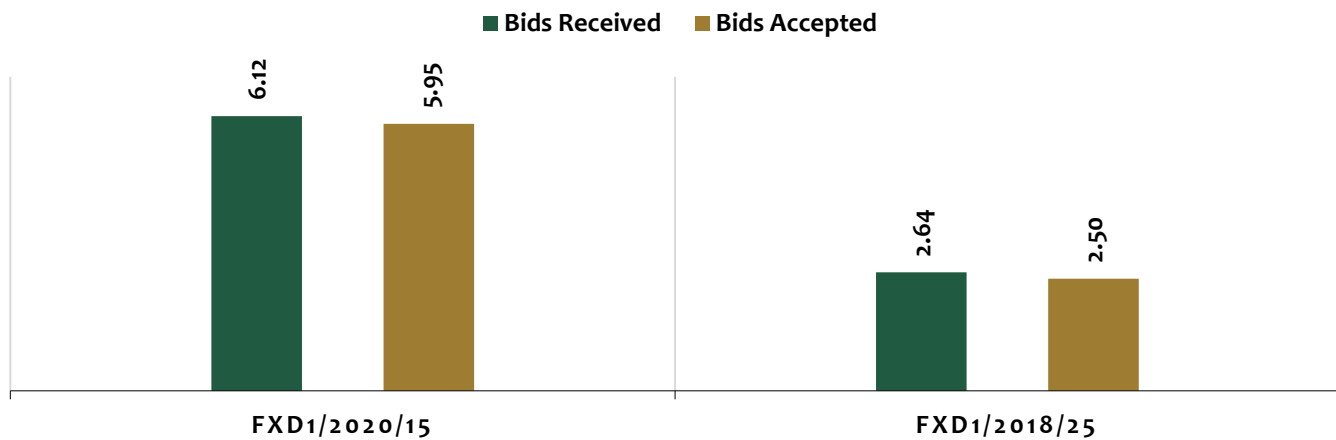
Yields on the short-term papers continued to increase, with the 91-day, 182-day, and 364-day papers printing at 8.71% (+14.79bps), 8.60% (+7.54bps), and 8.87% (+10.86bps).

Treasury Bonds

As anticipated and projected in our previous report, the CBK was in the market for a tap sale on the first tranche June bonds and reopened another offer seeking to raise Kes 60.0Bn.

For the tap sale, the CBK raised Kes 8.45Bn, shooting below the Kes 15.0Bn target. Just like in the reopening, the shorter tenor paper received the most interest as shown below;

JUNE 2026 TAPSALE (KES BN)



For the second tranche, the CBK reopened FXD1/2018/20 and FXD1/2021/25 with effective tenors of 11.7 and 19.8 years, respectively. The offer closes on 17th June. See more details below;

	Reopening	
Paper	FXD1/2018/20	FXD1/2021/25
Maturity Date	01-Mar-38	09-Apr-46
Effective Tenor (Years)	11.7	19.8
Amount Floated (Kes. Bn)	60.00	
Amount Outstanding (Kes. Bn)	171.20	180.91
Coupon	13.20%	13.92%
Sale Period	Up to 17th June 2026	

We shall provide our bidding estimates a day to the auction date.

Secondary Market

Secondary bond market activity picked during the week, with turnover surging 149.9% to KES 58.74Bn, from Kes 23.51Bn 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)	23.51	58.74	149.9%
Number of Deals	708	1029	45.3%

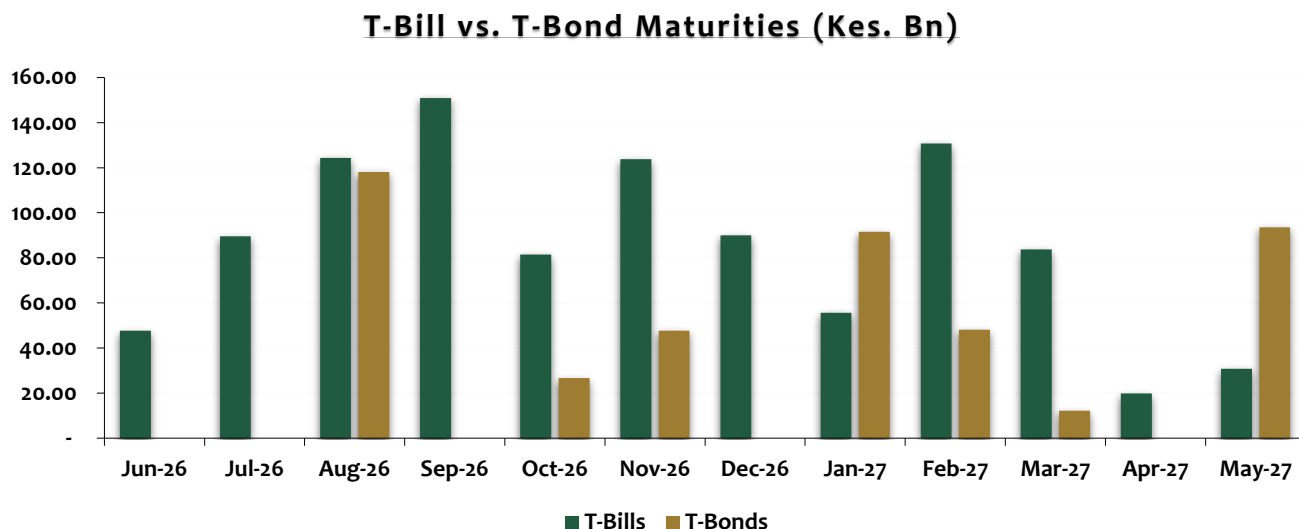
Source: NSE | Table: KSL

Domestic Debt Service Schedule:

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

- i. KES 1,028.27Bn in Treasury Bills;
- ii. KES 437.71Bn in Treasury Bonds;
- iii. KES 791.20Bn in coupon payments;

See the chart below for a visual presentation:

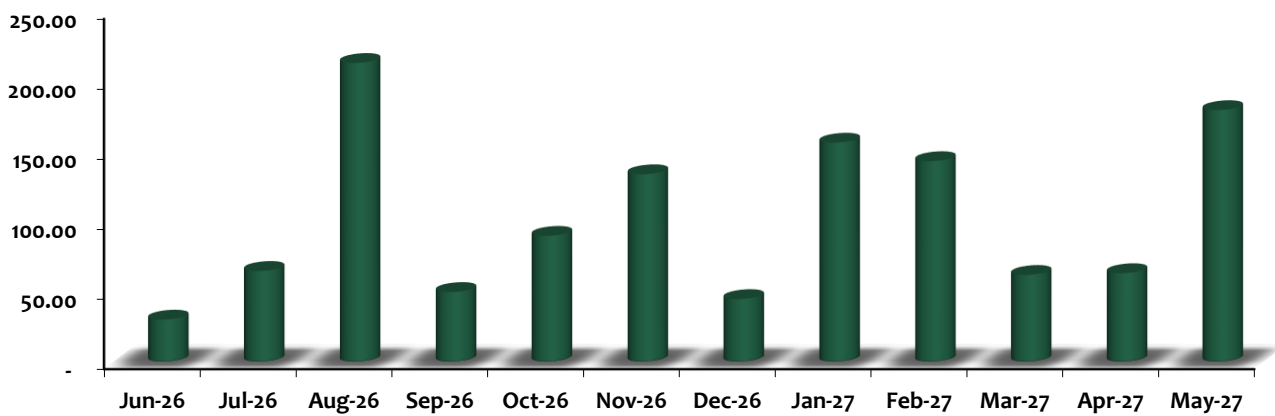


Source: CBK, NSE | Chart: KSL

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)

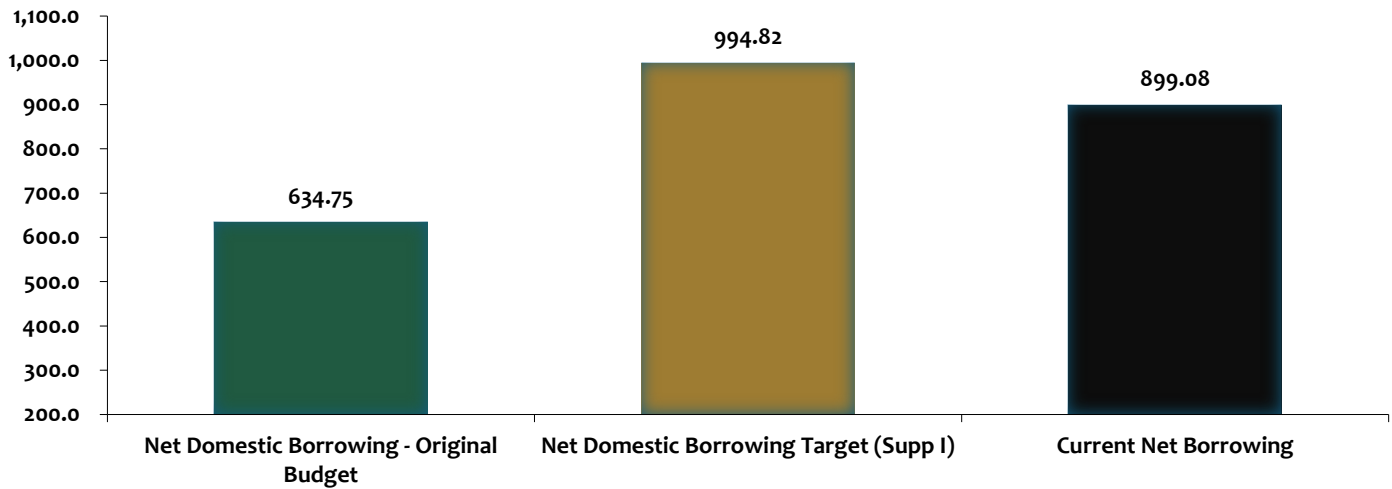


Government Borrowing Position:

As of this week, the government's net domestic borrowing stands at Kes 899.08Bn, equivalent to 90.4% of the FY2025/26 revised target. With the new target and a Kes 60Bn pending auction, the government is likely to miss the target by a smaller margin than we had previously anticipated, given that the revised target is significantly lower. Our bet is that net domestic borrowing for the fiscal year will close at around Kes 950.0Bn.

See the visual below:

ACTUAL DOMESTIC BORROWING VS. TARGET

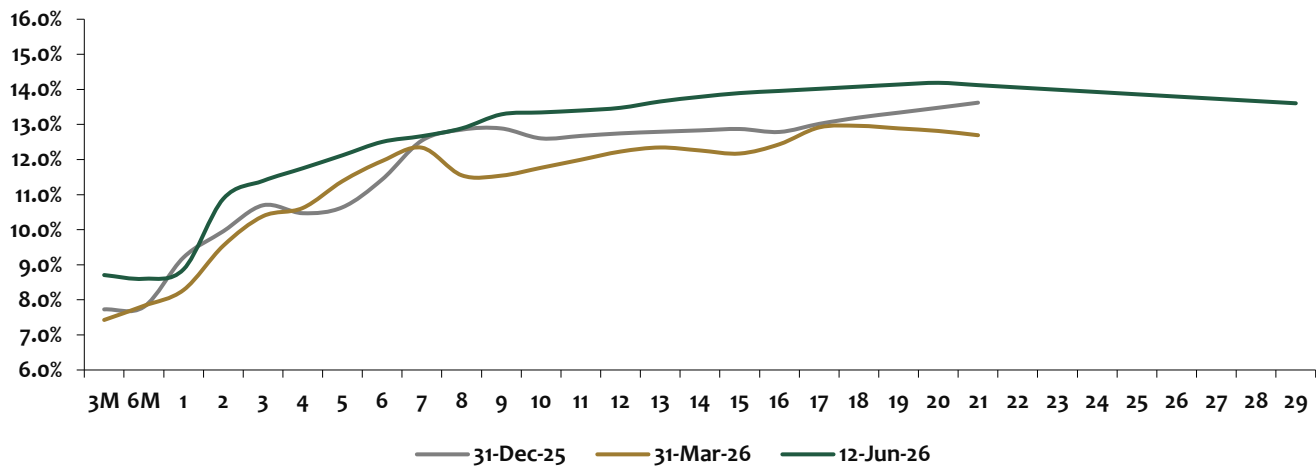


Source: CBK, NSE | Chart: KSL

Local & International Yields

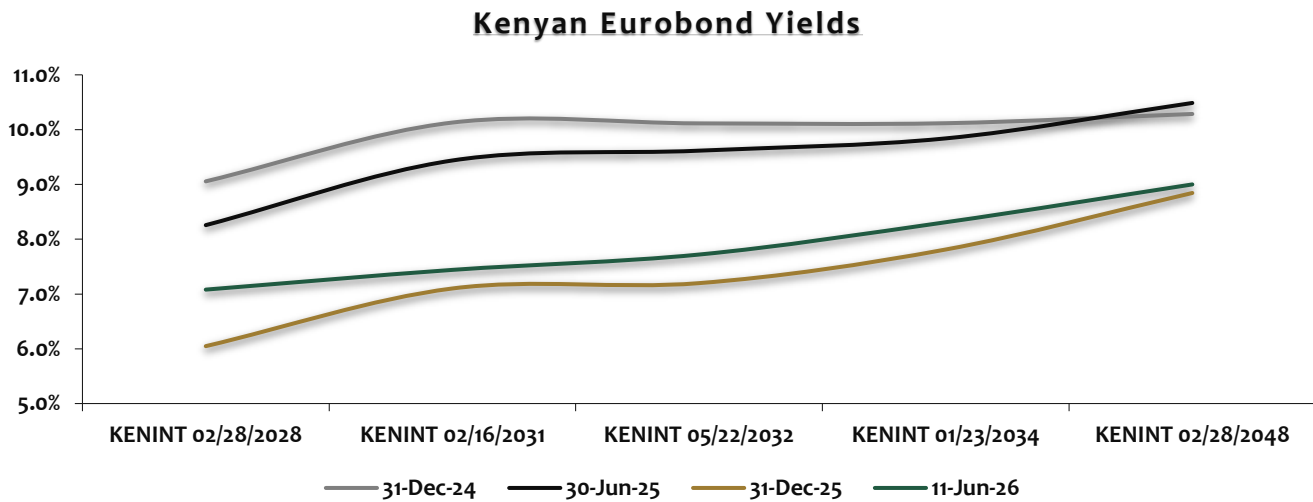
The local yield curve shifted further upwards during the week, with yields rising across all tenors as investors increasingly demand higher compensation amid rising inflationary pressures and heightened uncertainty surrounding the macroeconomic outlook. See the chart below:

NSE Yield Curve



Source: NSE | Chart: KSL

Kenyan Eurobond yields were on an upward trajectory in reflecting the global developments. We expect the trend to continue manifesting for the better part of 2H2026. The chart below illustrates the movement of the yields over the year:



Source: CBK | Chart: KSL

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