

KINGDOM SECURITIES LIMITED

A Subsidiary of the Co-operative Bank of Kenya Ltd

FIXED INCOME AND MACRO REPORT

Week Ending 3rd July 2026



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We are currently observing the outcomes of a rightfully deployed subsidy, where the government moved swiftly to cushion the economy from an unprecedented shock. The alternative would likely have been a tighter monetary policy stance through a higher Central Bank Rate, which would have had far more far-reaching implications than a temporary fuel subsidy.

Throughout May and June, the fuel subsidy prevented diesel and kerosene prices from rising sharply. As a result, the pace of increase in the prices of goods and services moderated, with inflation easing to 6.4% in June from 6.7% in May.

Consequently, the private sector business environment, as measured by the Purchasing Managers' Index (PMI), improved during the month. That said, production remained subdued as businesses continued to grapple with elevated input costs. It is therefore worth reiterating that disinflation does not imply a decline in the prices of goods and services. Rather, it simply means that prices are increasing at a slower pace. If the current trend persists and global oil prices continue to ease, the economy is likely to experience a softer landing during the remainder of 2026.

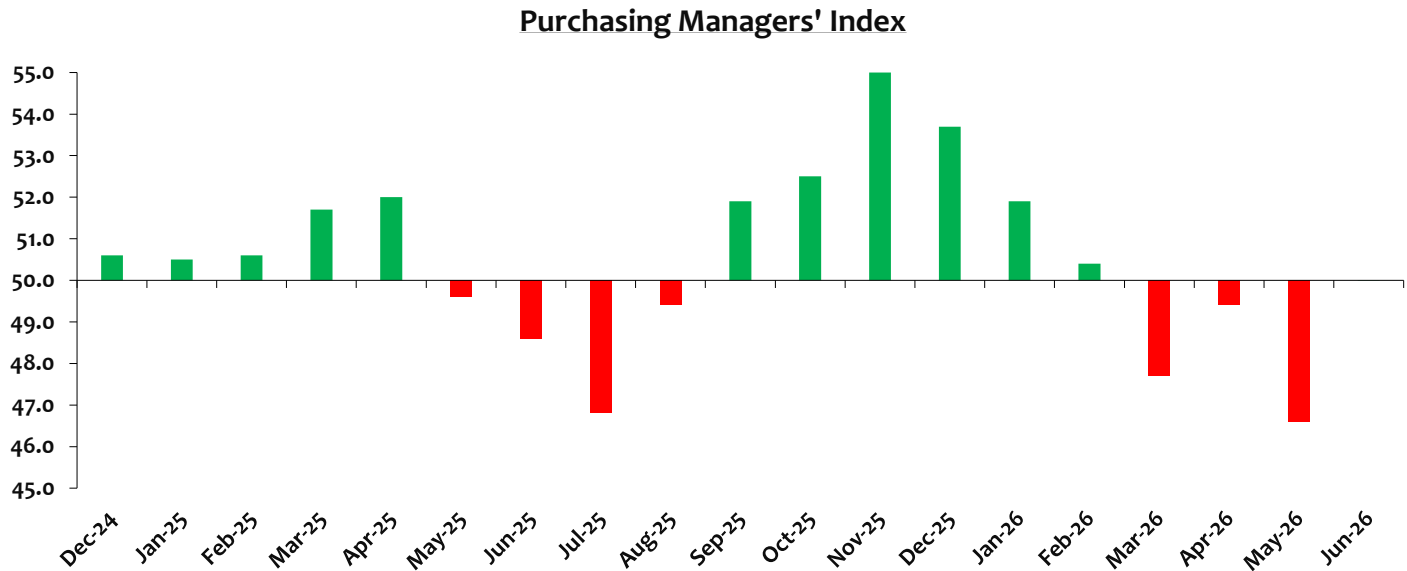
On the external front, the Government of Kenya unlocked a USD 750Mn Development Policy Operation (DPO) comprising a USD 340Mn IBRD loan and USD 410Mn in highly concessional IDA financing. This largely explains the 6.6% increase in foreign exchange reserves and comes at an opportune time ahead of the external debt obligations falling due in July.

The government also concluded the partial sale of its stake in Safaricom, a transaction expected to raise approximately KES 244.Bn, inclusive of an upfront dividend payment. While the settlement is yet to be reflected in the foreign exchange reserves, we expect its impact to become evident over the coming weeks. The increase in reserves comes at an important time in supporting investor confidence, particularly among foreign investors keen on the timely repatriation of capital. Against this backdrop, we maintain our view that the Kenyan Shilling will remain broadly stable in the second half of the year, oscillating within the KES 129–131 per US dollar range.

MACRO LENS

a. Private Sector Business Conditions – June 2026:

Kenya's private sector showed signs of stabilization in June 2026, with the Stanbic Bank Kenya Purchasing Managers' Index (PMI) rising from 46.6 in May to the neutral level of 50.0, ending three consecutive months of deteriorating business conditions. See the chart below for the trends in business environment overtime:



Source: S&P Global | Chart: KSL

New Orders

The performance was largely driven by new business improved during the month, with new orders returning to growth for the first time since February 2026. The increase, though modest, was supported by successful marketing campaigns, customer referrals, and ongoing business expansion initiatives. Despite stronger demand, firms were unable to fully translate higher order volumes into increased output due to supply-side bottlenecks and higher production costs. Consequently, unfinished business increased as supplier delays and operational constraints limited firms' ability to meet growing demand.

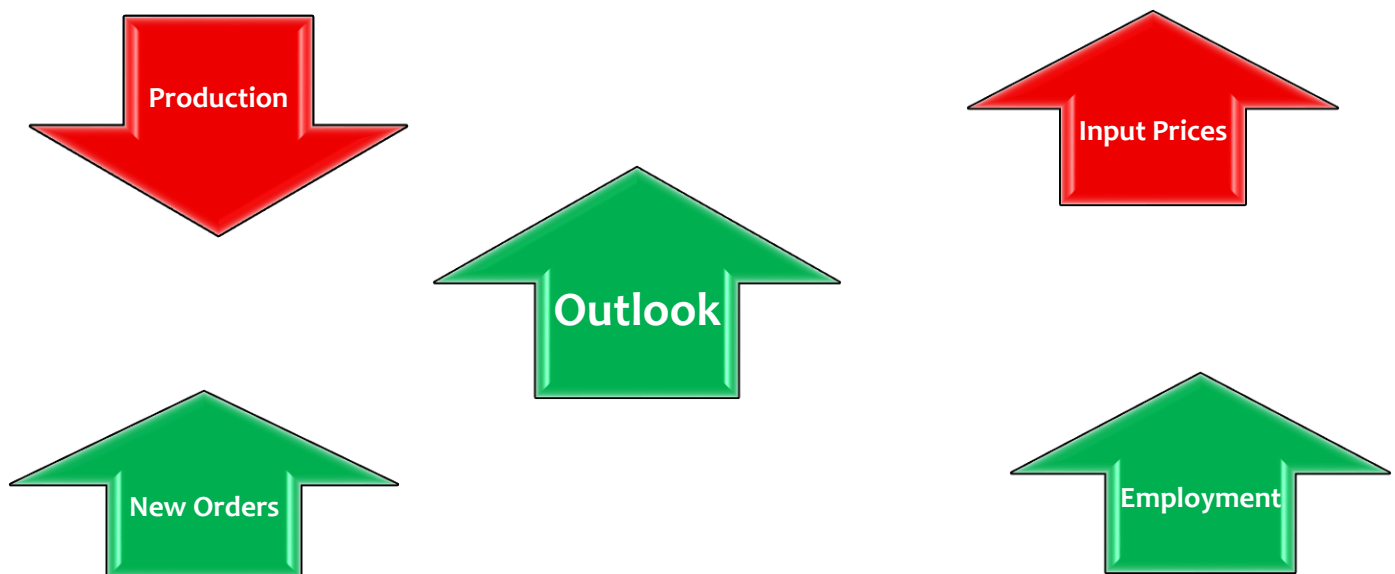
Input & Output Prices

Input cost inflation accelerated significantly in June, reaching its highest level since November 2023. Approximately 41% of surveyed firms reported higher input costs, primarily driven by increased fuel levies and higher prices for foodstuffs, paper, IT equipment, and construction materials. In response to these

mounting cost pressures, businesses raised their selling prices at the fastest pace recorded since the survey began, passing much of the increased production costs on to consumers. This marked acceleration in both input and output prices reflected persistent inflationary pressures across the private sector.

Inventory & Employment Levels

Employment conditions improved in June as firms resumed hiring following a slight decline in staffing levels during May. Businesses also increased their inventory holdings despite reducing overall input purchases, reflecting growing optimism about future demand as well as precautionary stock-building amid concerns over supply shortages and delivery delays.



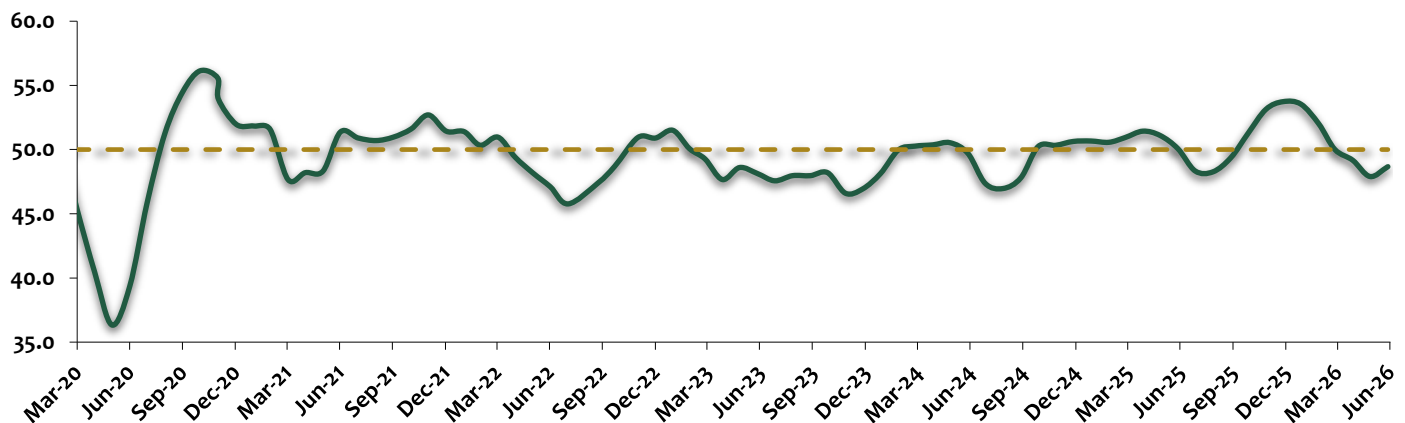
Business Outlook

Business confidence strengthened for the second consecutive month, reaching its highest level since February 2023. Firms expressed optimism that future activity would improve, supported by planned business expansion, entry into new markets, enhanced marketing efforts, innovation, and greater adoption of technology. Additionally, many businesses anticipated that declining international oil prices would eventually ease fuel-related cost pressures. Despite this optimism, firms acknowledged that elevated input costs and ongoing supply-side constraints remained key risks that could continue to weigh on output and profitability in the near term.

Our Take:

In our [May](#) PMI highlight, we noted that the private sector business environment had started going back to the contraction zone as seen before November 2025, based on a 24 month moving average. This month, we refine our approach by adopting a three-month moving average, which is better suited to capturing the short-term fluctuations that currently pose the greatest risk to business activity. The shorter averaging period also aligns more closely with the time it typically takes for businesses to respond to changes in key macroeconomic variables, particularly inflation and fuel prices. From our assessment, the private sector business environment is not yet out of the woods and strongly reflects the high fuel price shocks that began in April. However, the moving average is starting to improve, largely because of the marginal ease in inflation in June as shown in the chart below:

3-Month Moving Average



The improvement in the headline PMI in June reflected a recovery in demand rather than production, with stronger new orders offsetting continued weakness in output. As such, the reading pointed to a stabilization in business conditions rather than a broad-based expansion in economic activity. The June Monetary Policy Committee (MPC) decision to maintain the Central Bank Rate (CBR) at 8.75% also provided some relief by preserving accommodative financing conditions and avoiding further constraints on access to credit. Looking ahead, the continued easing in global oil prices should gradually alleviate input cost pressures and support business activity. However, given the lagged transmission of lower energy costs through the economy, a more meaningful improvement in operating conditions is likely to emerge in September, all factors constant.

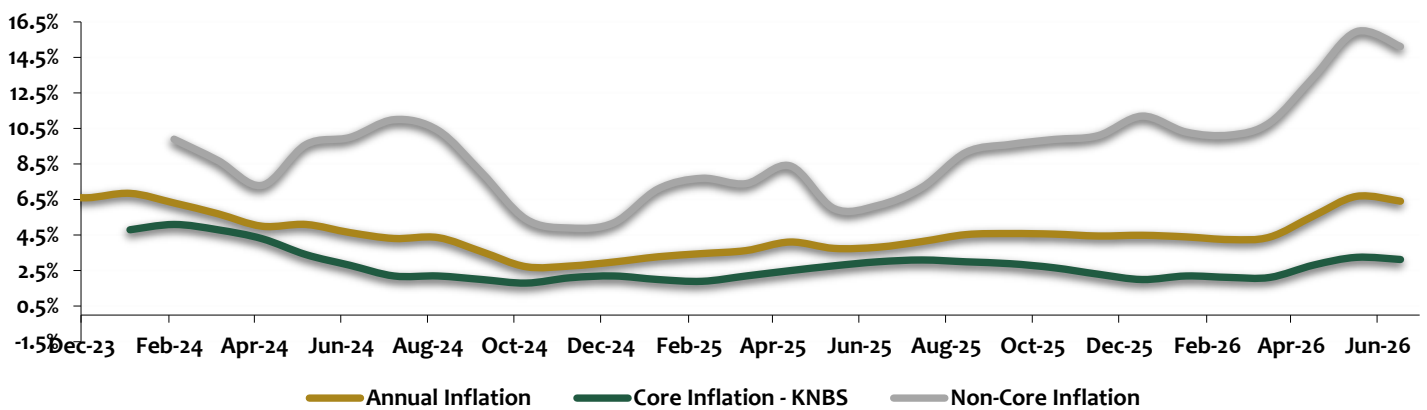
Consumer Prices – June 2026:

In June 2026, the cost of goods and services grew at a slower pace compared to May, largely driven by a relief from fuel-related inflation. Headline inflation came in at to 6.4%, down from 6.7% in May 2026. The figure remains within the Central Bank of Kenya's target range of 2.5%–7.5% as envisioned by the MPC.

However, inflationary pressures were broad-based, with both core and non-core inflation remaining elevated. Core inflation, which excludes select food and energy prices, dropped marginally to 3.1% y/y, from 3.3%, indicating underlying price pressures across the economy. Meanwhile, non-core inflation dropped by 84bps to 15.1% from 16.0% y/y.

The chart below provides a visual illustration of the recent inflation trends.

Headline Figures

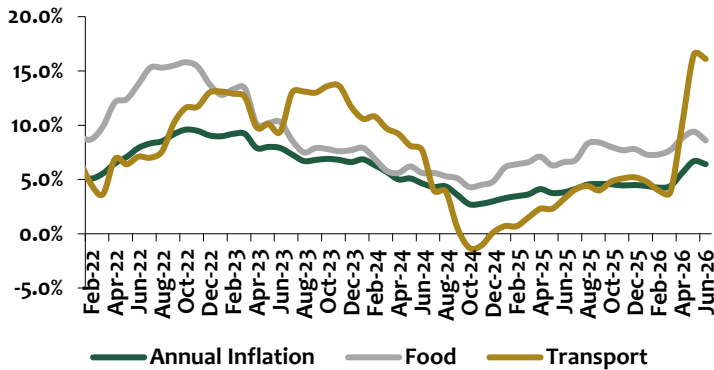


Source: KNBS | Chart: KSL

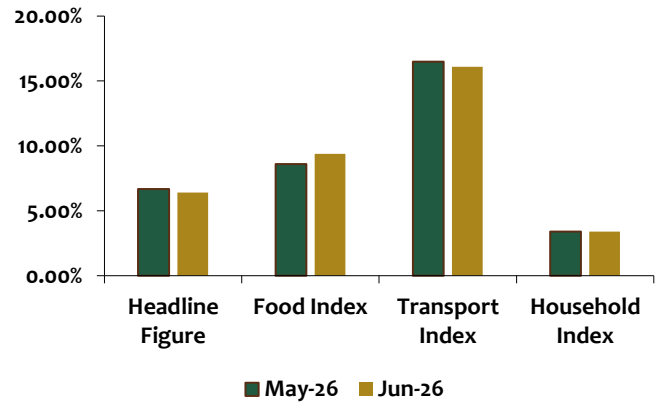
The June 2026 inflation outturn was largely driven by y/y increases in food prices (+8.6% vs. +9.4% in May), and transport costs (+16.1% vs. +16.5%). On the other hand, household utilities grew at the same pace as in May at 3.4%. The deceleration across most expenditure categories reflects the slower growth in diesel prices (+14.9% vs +41.2%/y/y in May) although petrol prices recorded a faster growth (+29.9% vis a vis +22.7% in May)

Within the food category, the increase was primarily driven by higher prices of vegetables, potatoes and milk, largely attributable to the heavy rains and flooding experienced in recent months, which disrupted production and distribution channels. The elevated transport costs further amplified inflationary pressures through higher logistics and distribution expenses across the economy. The charts below illustrate the evolution of these three key drivers of inflation:

Core Consumption Drivers vs Headline Inflation



Core Consumption Drivers

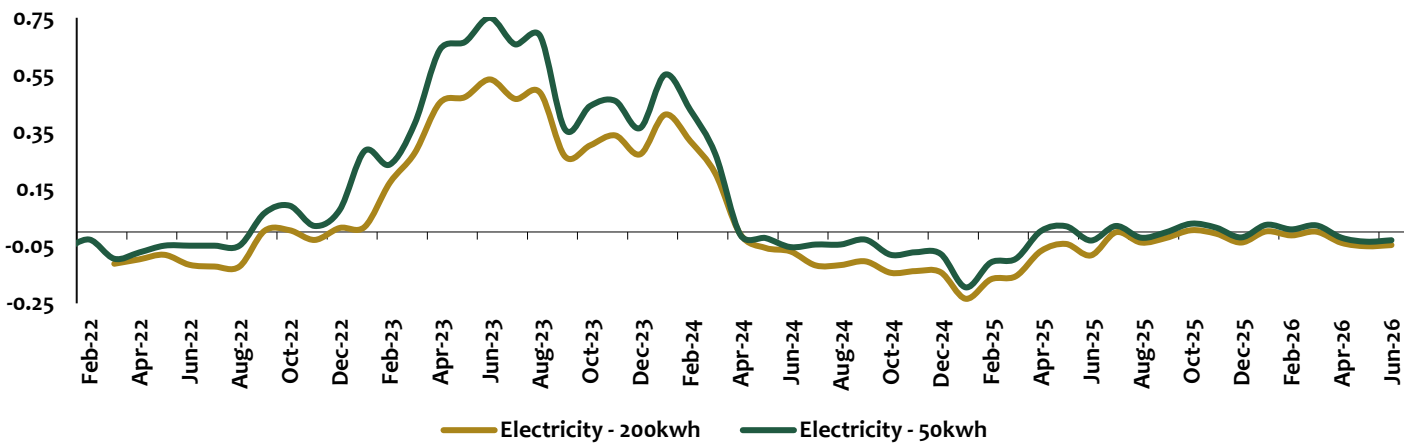


Source: KNBS | Chart: KSL

On a month-on-month basis, consumer prices rose by 0.2%, much faster than the 1.6% growth recorded in May 2026, largely driven by a slower increase in the transport prices and a decline in the household utilities bills. The performance in the household utilities index was supported by continued decline in electricity prices where households with lower electricity consumption recorded a 2.9% decline in electricity bills. This was lower than the 3.4% decline recorded in May. For the high-consumption households we observe a 4.6% reduction in electricity bills which partially offset broader inflationary pressures.

The chart below illustrates the movement in electricity prices across the two household consumption categories.

Change in Electricity Prices

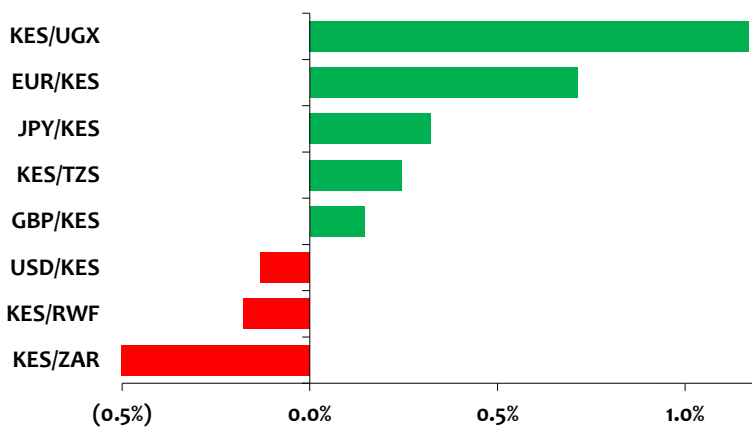


Source: KNBS | Chart: KSL

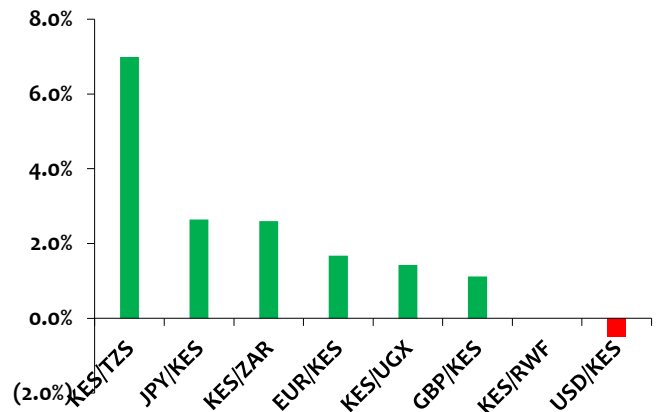
Foreign Exchange:

The Kenyan Shilling exhibited mixed performance, appreciating against the Ugandan Shilling, Euro, Japanese Yen and the Tanzanian Shilling. YTD, the currency has remained largely stable against key trading partners' currencies, with the most pronounced gain recorded against the Tanzanian Shilling. The only depreciation is against the dollar at 0.5%. See the charts below:

W/W KES Performance



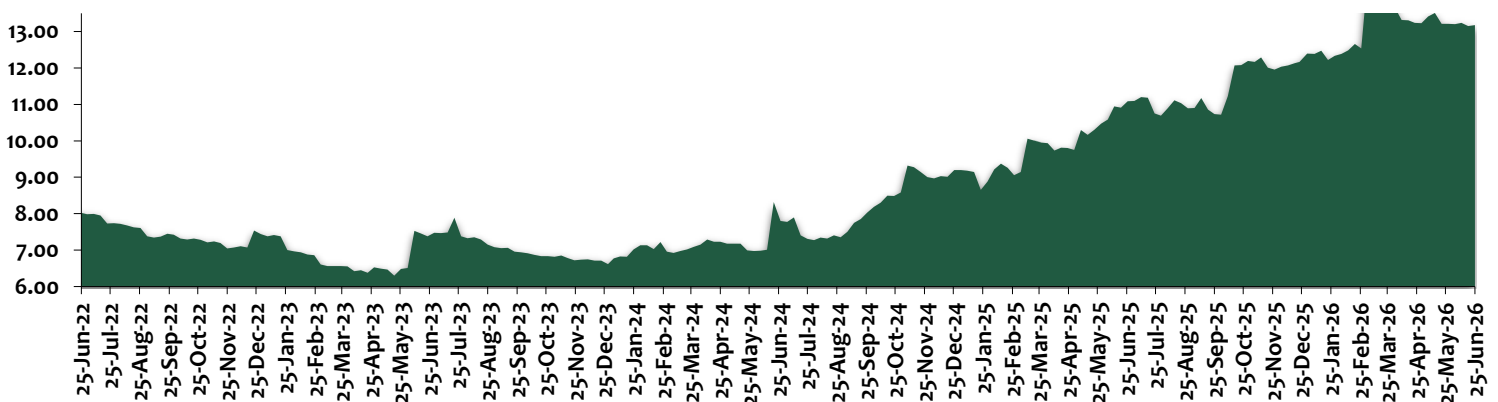
YTD KES Performance



Source: CBK | Chart: KSL

Foreign exchange reserves recorded a 6.6% jump to USD 14.05Bn, equivalent to 6.0 months of import cover, reflecting the World Bank DPO facility boost. See the chart below;

Kenya's Forex Reserves (USD BN)



Source: CBK | Chart: KSL

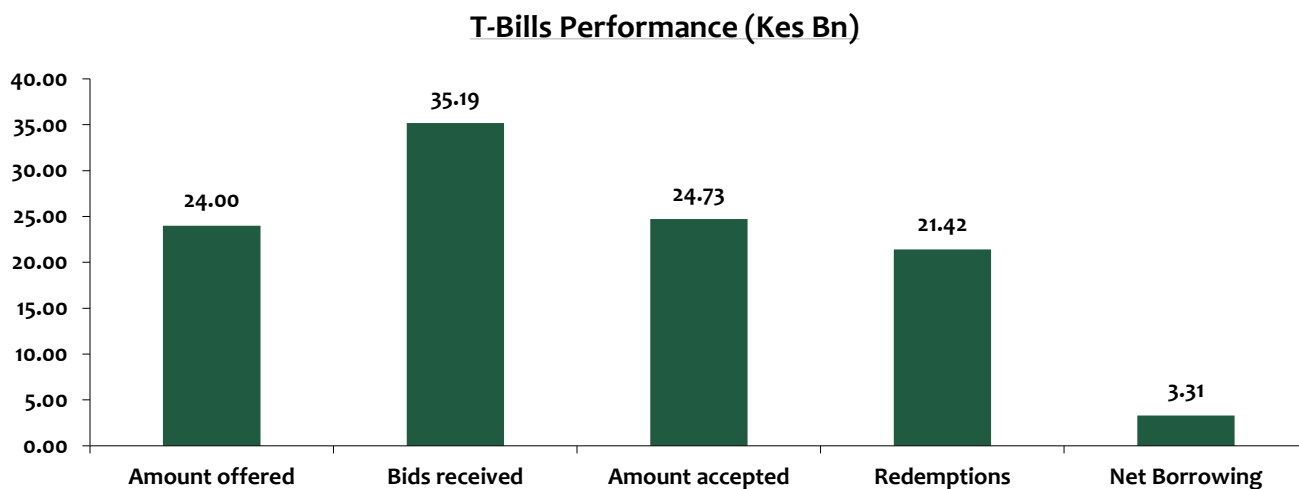
FIXED INCOME PULSE

Primary Market Activity:

Demand for Treasury bills improved with the overall subscription rate increasing to 146.6%, from 116.9%, in the previous auction.

Investor appetite remained concentrated in the 91-Day paper, which recorded a subscription rate of 640.4%, up from 575.3%. In contrast, the 182-Day and 364-Day tenors remained undersubscribed at 24.9% and 70.9%, for the 8th and 4th consecutive weeks, respectively.

The government received bids worth Kes 35.19Bn and accepted Kes 24.73Bn resulting to a net borrowing of Kes 3.31Bn, considering the Kes 21.42Bn maturities. The acceptance rate came in at 70.27%. See the chart below;



Source: CBK | Chart: KSL

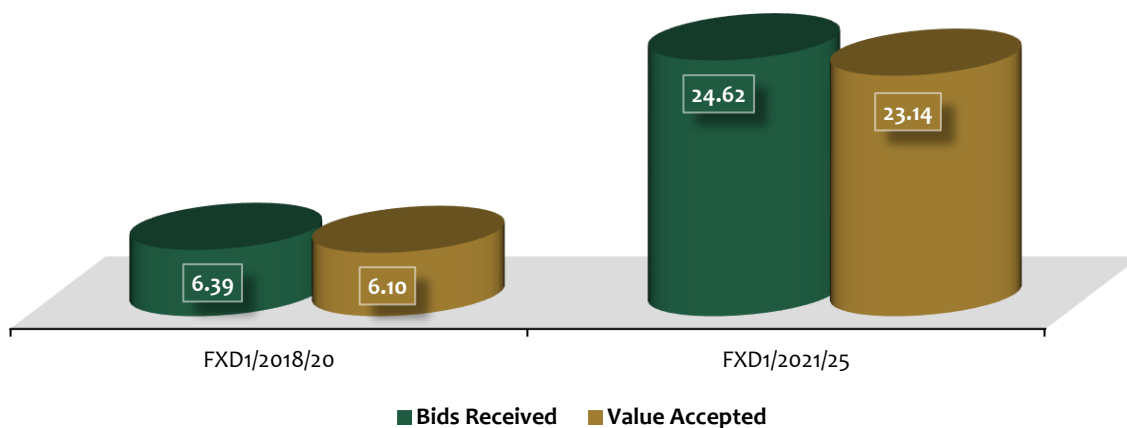
It is Yields on the short-term papers continued to increase, with the 91-day, 182-day, and 364-day papers printing at 8.83% (+0.07bps), 8.96% (+11.78bps), and 9.00% (+0.21bps).

During the week, activity in the interbank market showed signs of tightening, with average traded volumes more than halving to KES 7.02Bn from KES 18.36Bn in the first four trading days. Meanwhile, the average interbank rate remained unchanged at 8.75%.

Treasury Bonds

In the bond market, the CBK successfully raised Kes 29.24Bn from the tap sale on the second tranche of June bonds. The government was targeting Kes 20.0Bn. As seen in the reopening, FXD1/2021/25 garnered the most interest accounting for 79.1% of the accepted bids. See the summary below;

JUNE 2026 BOND ISSUANCE PERFORMANCE (KES. BN) - TRANCHE II TAP SALE



Source: CBK | Chart: KSL

For the month of July, the government is targeting a twin offer mixing capital raising and a switch offer. The reopening targets Kes 70.0Bn and the period of sale is up to 8th July 2026. The switch offer targets FXD1/2021/05 with an outstanding amount of Kes 47.68Bn. The destination bond is FXD1/2012/20 with an outstanding maturity of Kes 201.74Bn. The period of sale ends on 13th July 2026. See the summary below:

Paper	Capital Raising			Switch Offer	
	FXD1/2022/10	FXD1/2021/20	FXD1/2026/30	FXD1/2021/005 - Source Bond	FXD1/2012/20 - Destination Bond
Maturity Date	03-May-32	22-Jul-41	13-Mar-56	09-Nov-26	01-Nov-32
Effective Tenor (Years)	5.8	15.1	29.7	0.4	6.3
Amount Floated (Kes. Bn)	70.00			10.0	
Amount Outstanding (Kes. Bn)	80.90	152.10	23.49	47.68	201.74
Coupon	13.49%	13.44%	12.50%	11.28%	12.00%
Sale Period	Up to 8th July 2026			Up to 13th July 2026	

Source: CBK | Chart: KSL

Secondary Market

Secondary bond market activity eased during the week, with turnover dropping 30.9% to KES 54.99Bn, from Kes 79.58Bn in the previous week.

This was in tandem with a 22.0% decrease in the number of deals. See the table below:

	Previous Week	Current Week	Change
Turnover in Bonds (Kes Bn)	79.58	54.99	-30.9%
Number of Deals	1446	1128	-22.0%

Source: NSE | Table: KSL

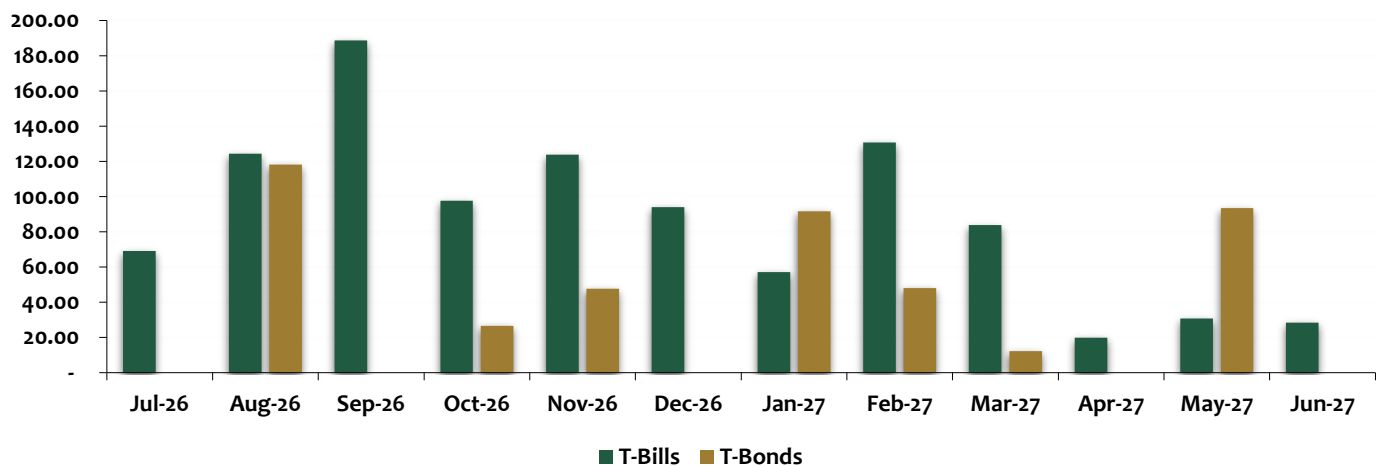
Domestic Debt Service Schedule:

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

- i. KES 1,019.67Bn in Treasury Bills;
- ii. KES 437.71Bn in Treasury Bonds;
- iii. KES 761.27Bn in coupon payments;

See the chart below for a visual presentation:

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

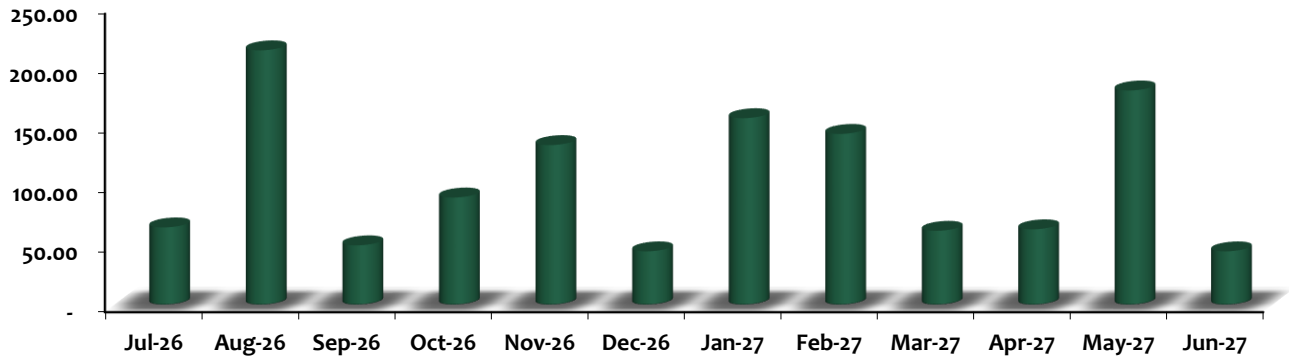


Source: CBK, NSE | Chart: KSL

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.

Debt Service Obligations (Kes Bn)

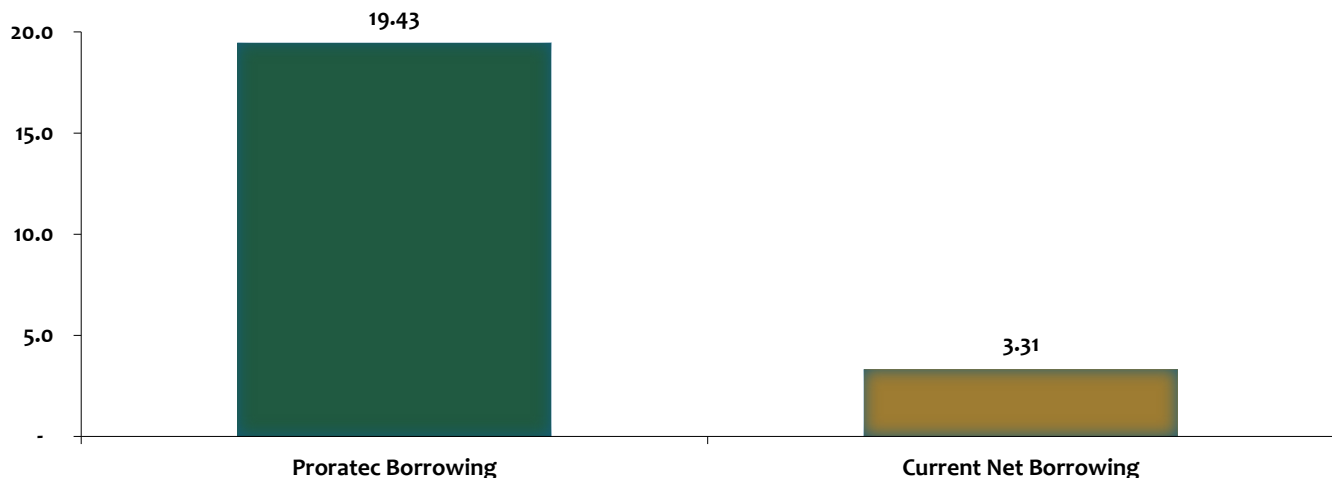


Source: CBK, NSE | Chart: KSL

Government Borrowing Position:

The FY2026/27 has official begun and we are looking at a Kes 1030.0Bn net domestic borrowing as per the original budget estimates. This first week, the government has borrowed Kes 3.31Bn against a prorated target of Kes 19.43Bn. With a pending bond reopening, we are not worried of any short falls but remain observant on how the year unfolds. See the visual below:

ACTUAL DOMESTIC BORROWING VS. TARGET

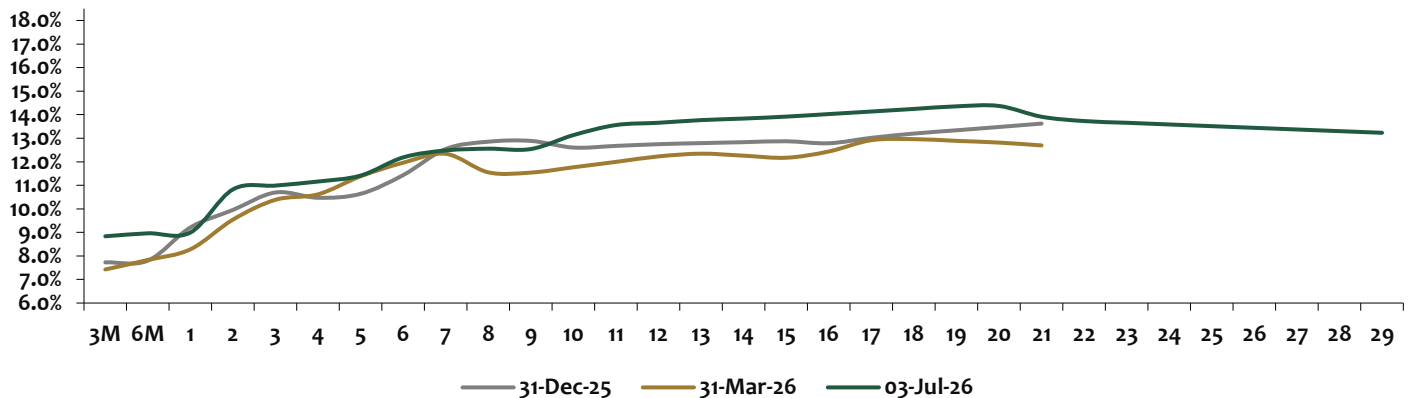


Source: CBK, NSE | Chart: KSL

Local & International Yields

The local yield curve remained stable, with declines offsetting the select gains across the curve. See the chart below:

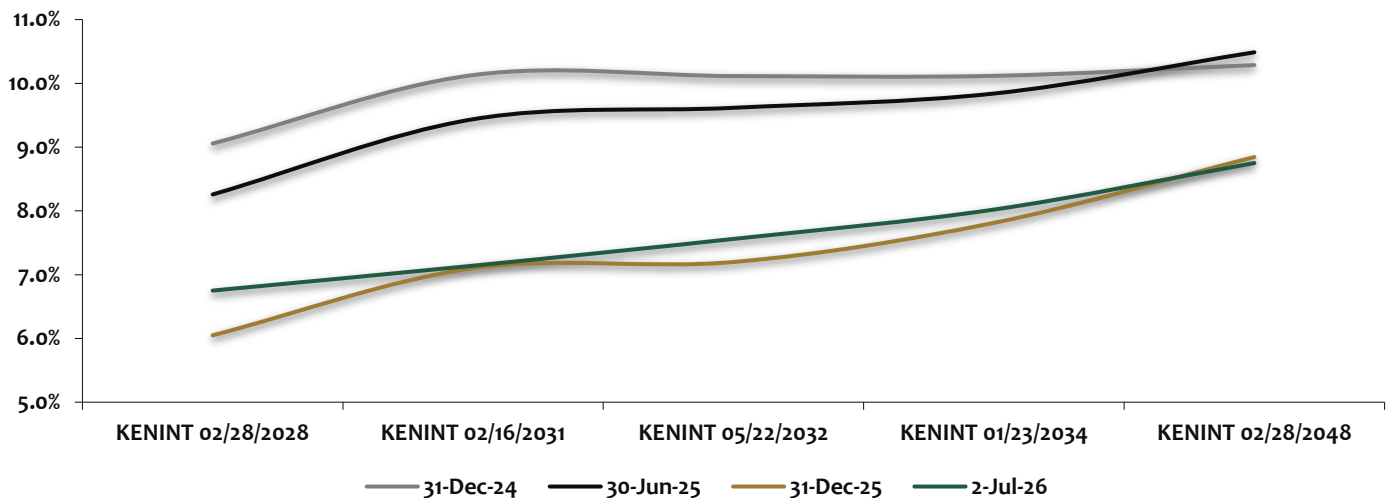
NSE Yield Curve



Source: NSE | Chart: KSL

Similarly, yields on Kenyan Eurobonds rose modestly, mirroring broader global fixed income movements. The upward trajectory was despite favorable local developments, but we expect the same to manifest in the coming week. The chart below illustrates the movement of the yields over the year:

Kenyan Eurobond Yields



Source: CBK | Chart: KSL

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