KINGDOM SECURITIES LIMITED

A Subsidiary of the Co-operative Bank of Kenya Ltd

FIXED INCOME AND MACRO REPORT

Week Ending 17th July 2026

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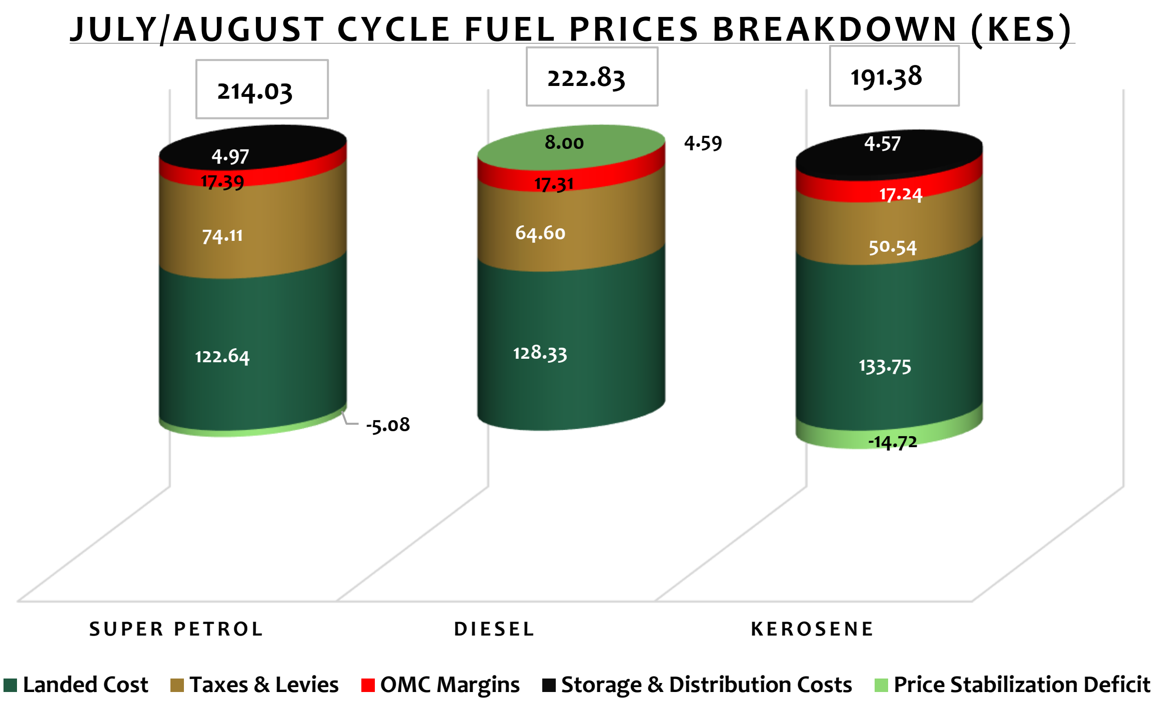
MACRO LENS

Retail Fuel Prices:

On 14th July 2026, the Energy and Petroleum Regulatory Authority (EPRA) announced the maximum retail petroleum prices applicable for the period 15th July to 14th August 2026, against a backdrop of persistent global supply chain uncertainties. Although geopolitical tensions in the Middle East continue to pose risks to global energy markets, benchmark crude oil prices have maintained a generally downward trend in recent weeks. Consequently, EPRA retained domestic pump prices unchanged during the review period. In Nairobi, Super Petrol, Diesel and Kerosene will continue retailing at Kes 214.03, Kes 222.86, and Kes 191.38 per litre, respectively. The price breakdown is as follows:

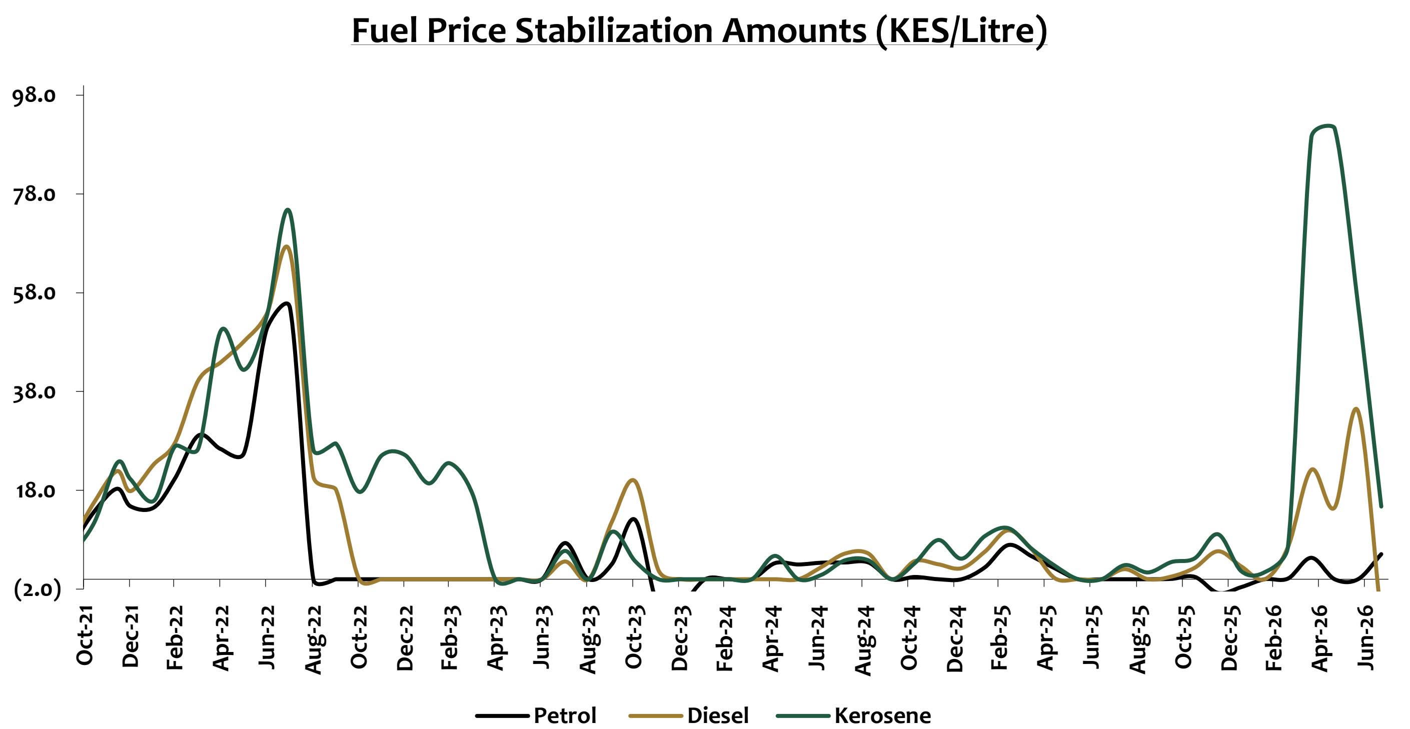


Source: EPRA | Chart: KSL

Subsidies continue to play a significant role in cushioning consumers from high fuel costs, with the July/August 2026 pricing cycle expected to require approximately Kes 945Mn to subsidize Super Petrol and Kerosene. Notably, Diesel was not subsidized for the first time in recent history. Instead, Kes 8.00 per litre from diesel pricing will be credited to the Petroleum Development Levy (PDL) stabilization fund. In contrast, subsidies of Kes 5.08 per litre and Kes 14.72 per litre were applied to Super Petrol and Kerosene, respectively.

To further cushion consumers from elevated fuel prices, the Government extended the temporary VAT relief, which maintains the VAT rate on petroleum products at 8%, for an additional three months.

We also note that the subsidy on Super Petrol has risen to its highest level in over a year, reflecting continued efforts by the government to shield consumers from elevated pump prices. Conversely, the subsidy on Kerosene declined to a three-month low, suggesting a moderation in the level of support required for the product. The trend in fuel subsidies over the past year is illustrated in the figure below;

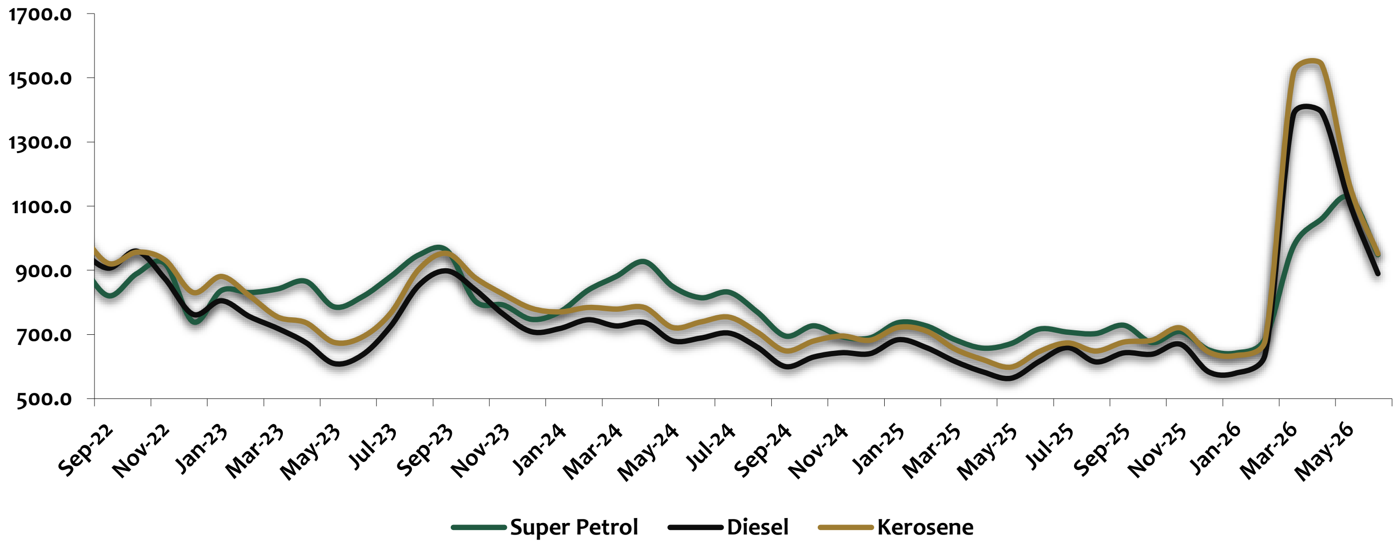


Source: EPRA | Chart: KSL

This trend is consistent with the month-on-month performance of international refined petroleum benchmark prices, which declined by 15.8%, 19.8%, and 18.3% for Super Petrol, Diesel, and Kerosene, respectively. On a year-on-year basis, however, Kerosene recorded the largest increase, rising by 47.0%, followed by Diesel (44.3%) and Super Petrol (32.3%). Despite the recent monthly correction, benchmark prices remain significantly higher than their levels a year ago, reflecting the sustained impact of geopolitical tensions and supply-side disruptions on global petroleum markets.

The trend in international refined petroleum benchmark prices is illustrated in the chart below.:

International Petroleum Prices (Platts in USD/MT)



Source: EPRA | Chart: KSL

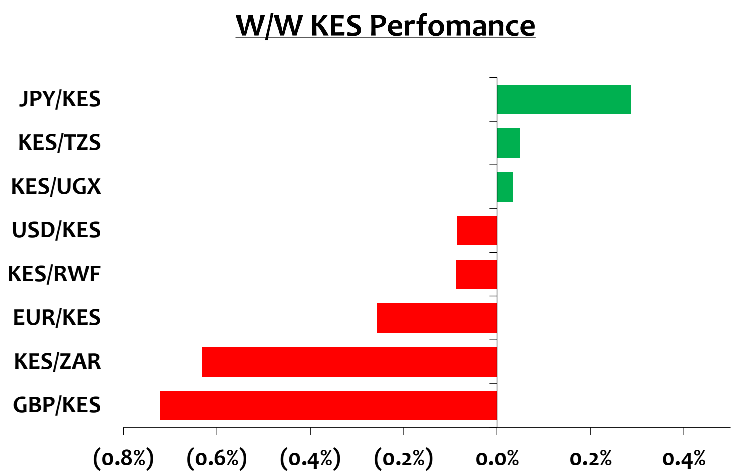
Over the same period, movements in landed costs were mixed. Diesel and Kerosene landed costs per litre declined by 23.8% and 22.6%, respectively, reflecting the easing in international refined petroleum prices. In contrast, the landed cost of Super Petrol increased by 4.3%, largely explaining the higher subsidy requirement for the product during the July/August pricing cycle.

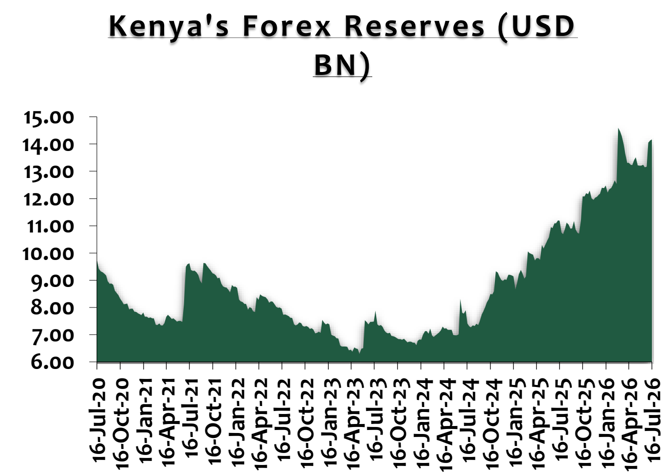
Looking ahead, the seven OPEC+ member countries agreed during their early July meeting to implement a combined production increase of 188,000 barrels per day from August 2026. We expect the additional output to improve global oil supply and help contain price pressures from the supply side. Nevertheless, our primary concern remains the continued vulnerability of global supply chains. Should logistical disruptions or geopolitical tensions persist, higher production alone may not be sufficient to prevent renewed upward pressure on oil prices.

Overall, we maintain the view that, in the near term, the Government should continue to anchor inflation through targeted fuel price stabilization measures rather than shifting focus to a tighter monetary policy stance. Given that the recent inflationary pressures have largely been supply-driven, fiscal interventions aimed at cushioning fuel prices have proven more effective in mitigating the pass-through effects on transport, food, and other consumer prices.

Foreign Exchange:

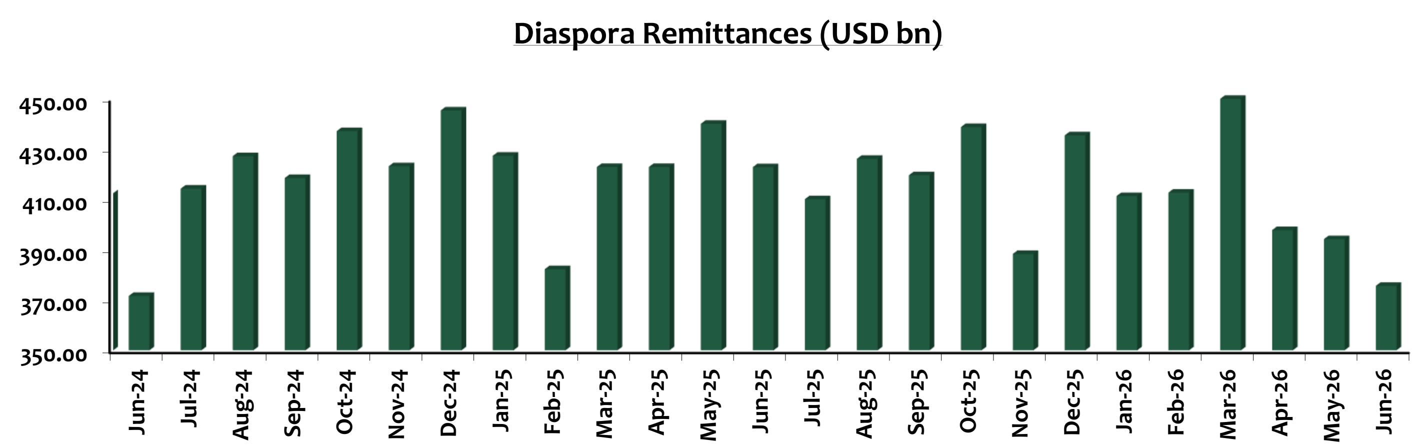
The Kenyan Shilling exhibited mixed performance, appreciating against the Japanese Yen, Ugandan and Tanzanian Shilling as it depreciated against the 5 other currencies that we track. Meanwhile, foreign exchange reserves recorded a marginal 0.3% jump to USD 14.17Bn, maintaining the months of import cover at 6.0 months. See the charts below:





Source: CBK | Chart: KSL

The CBK published the June 2026 diaspora remittance figures, reporting inflows USD 375.60Mn, a 4.7%m/m and an 11.2%y/y decline from USD 394.20Mn and USD 422.83Mn in May 2026 and June 2025, respectively. The June outturn marked the lowest monthly remittance inflow in two years, largely reflecting persistent cost-of-living pressures and weaker economic conditions across Kenya's major remittance source markets. See the chart below;



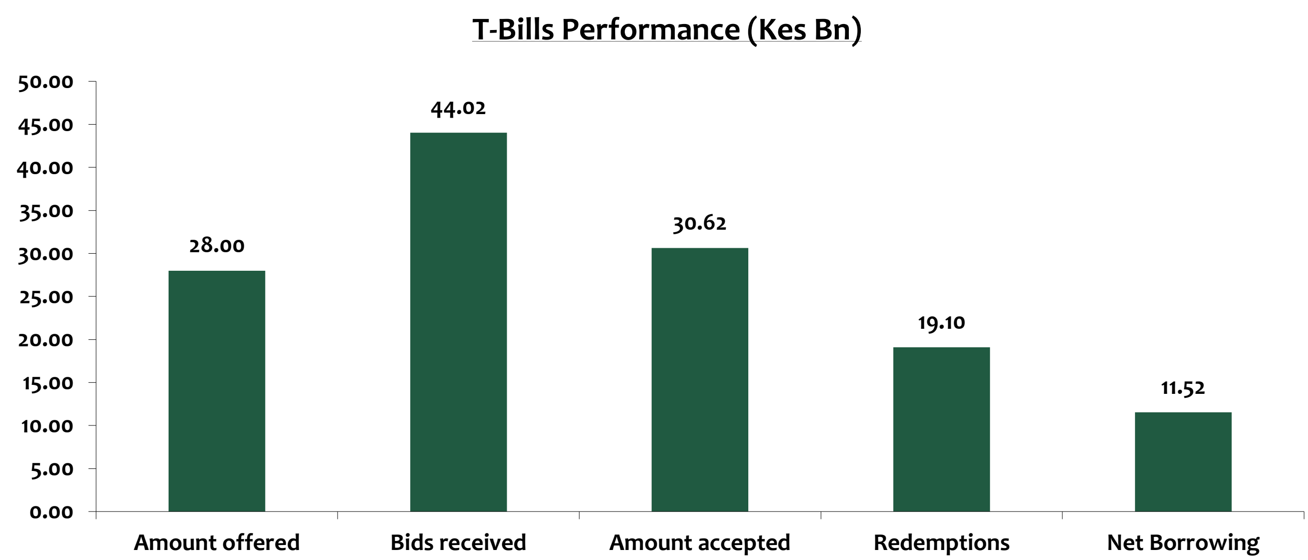
Source: CBK | Chart: KSL

FIXED INCOME PULSE

Primary Market Activity:

Demand for Treasury bills remained strong, although the overall subscription rate eased to 157.2% from 177.6% in the previous auction. Investor appetite remained concentrated in the 91-Day paper, which recorded a subscription rate of 304.4%, down from 435.0%, despite the Central Bank maintaining the offered amount at KES 8.0Bn. Notably, the 182-Day paper was oversubscribed for the first time in nearly three months, with a subscription rate of 151.5%, the highest in 10 weeks. Meanwhile, the 364-Day paper remained undersubscribed at 45.1%.

In total, the government received bids worth KES 44.02Bn and accepted KES 30.62Bn, translating to a 69.6% acceptance rate. After accounting for KES 19.10Bn in maturities, the auction resulted in a net borrowing of KES 11.52Bn, indicating that the government raised above its rollover requirements. See the chart below;



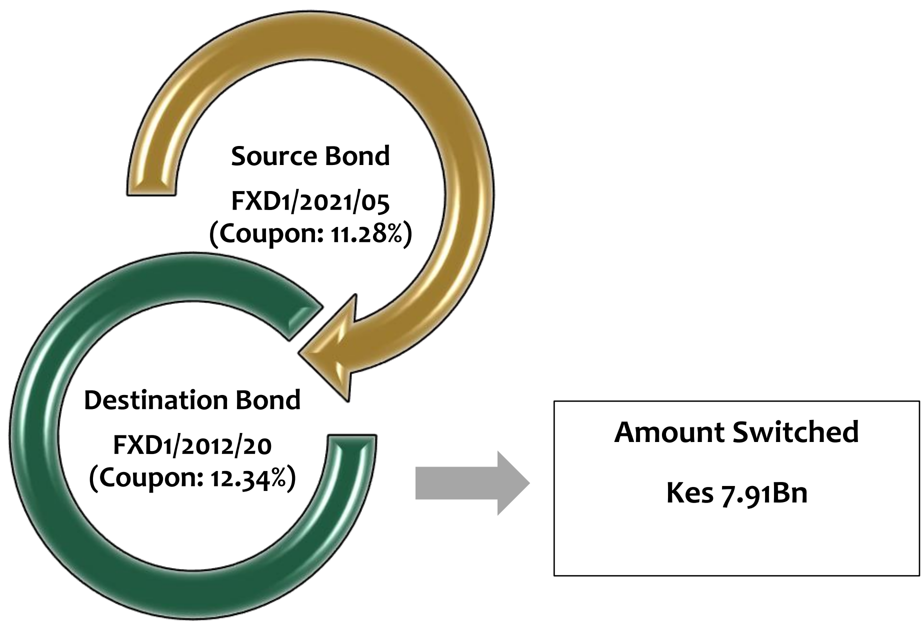
Source: CBK | Chart: KSL

Yields on the short-term papers recorded mixed performance, with the 91-day, 182-day, and 364-day papers printing at 8.80% (-2.64bps), 8.97% (-0.16bps), and 9.04% (+4.92bps).

On liquidity, interbank market activity eased, with average traded volumes increasing to KES 7.54Bn from KES 4.82Bn in the first four trading days. Interbank volumes remained unchanged at 8.75%.

Treasury Bonds

In the primary bond market, the Central Bank successfully switched KES 7.91Bn from FXD1/2021/05 into FXD1/2012/20, falling short of the KES 10Bn target. The modest uptake was not unexpected, as switch offers involving limited coupon differentials have in recent history attracted weak investor participation. Following the switch, FXD1/2021/05 has an outstanding maturity of KES 39.77Bn remaining. See the summary below:



Source: CBK | Chart: KSL

Meanwhile, the second tranche of the July bonds offer is almost elapsing. The government is targeting Kes 40.0Bn through FXD1/2019/20 and FXD1/2022/25.

The two bonds carry coupon rates of 12.87% and 14.19% for FXD1/2019/20 and FXD1/2022/25, respectively, with effective tenors to maturity of 12.7 years and 21.2 years. Both papers were last reopened together in January 2026, when the issue was oversubscribed, and the higher-coupon FXD1/2022/25 attracted stronger demand. While the most recent auction favored the shorter-dated paper, this coincided with a higher coupon, suggesting that investors remain primarily yield-driven rather than tenor-sensitive. Consequently, we expect FXD1/2022/25 to attract the strongest demand, with the overall auction supported by the lower borrowing target. See below the details of the bonds:

	Reopening	
Paper	FXD1/2019/20	FXD1/2022/25
Maturity Date	21-Mar-39	23-Sep-47
Effective Tenor (Years)	12.7	21.2
Amount Floated (Kes. Bn)	40.00	
Amount Outstanding (Kes. Bn)	163.42	216.16
Coupon	12.87%	14.19%
Sale Period	Up to 22nd July 2026, 10.00am	
Bidding Range	**14.00% - 14.20%**	**14.48% - 14.58%**

Secondary Market

Secondary bond market activity improved during the week, with turnover increasing by 9.2% to KES 32.49Bn, from Kes 29.74Bn in the previous week.

This was in tandem with a 22.2% increase in the number of deals. See the table below:

	Previous Week	Current Week	Change
Turnover in Bonds (Kes Bn)	29.74	32.49	9.2%
Number of Deals	623	761	22.2%

Source: NSE | Table: KSL

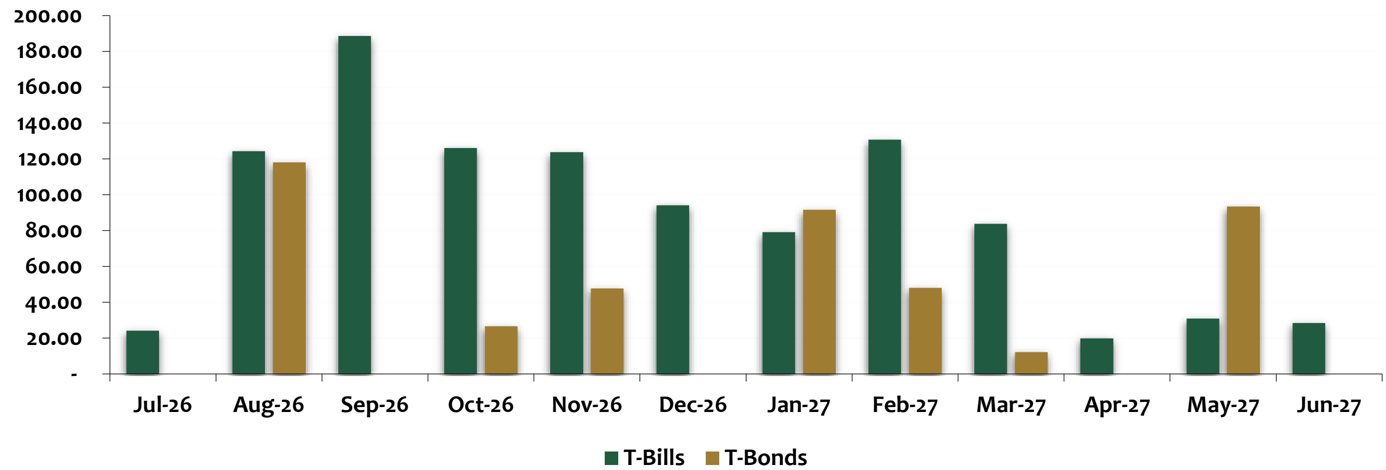
Domestic Debt Service Schedule:

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

i. KES 1,053.69Bn in Treasury Bills;
ii. KES 437.71Bn in Treasury Bonds;
iii. KES 795.22Bn in coupon payments;

See the chart below for a visual presentation:

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

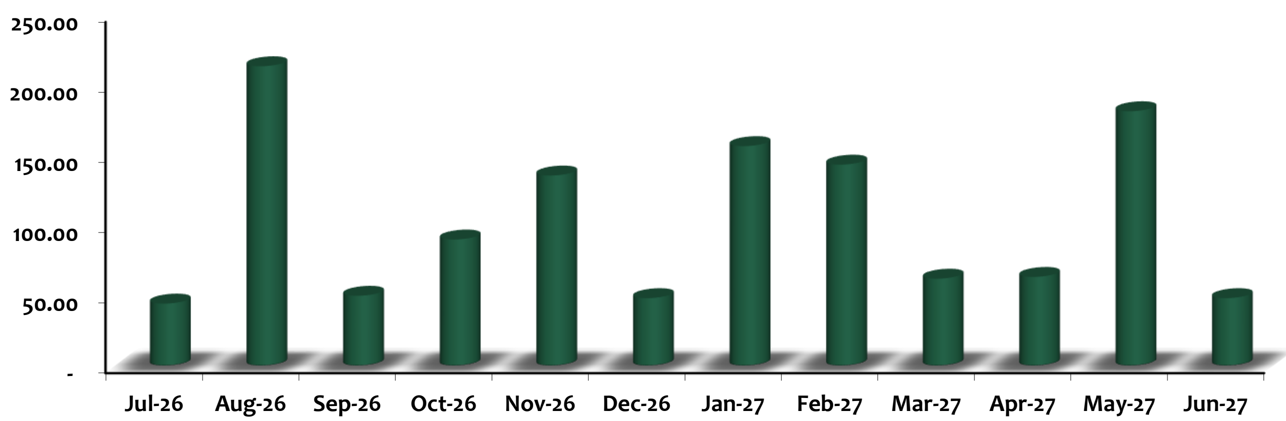


Source: CBK, NSE | Chart: KSL

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:

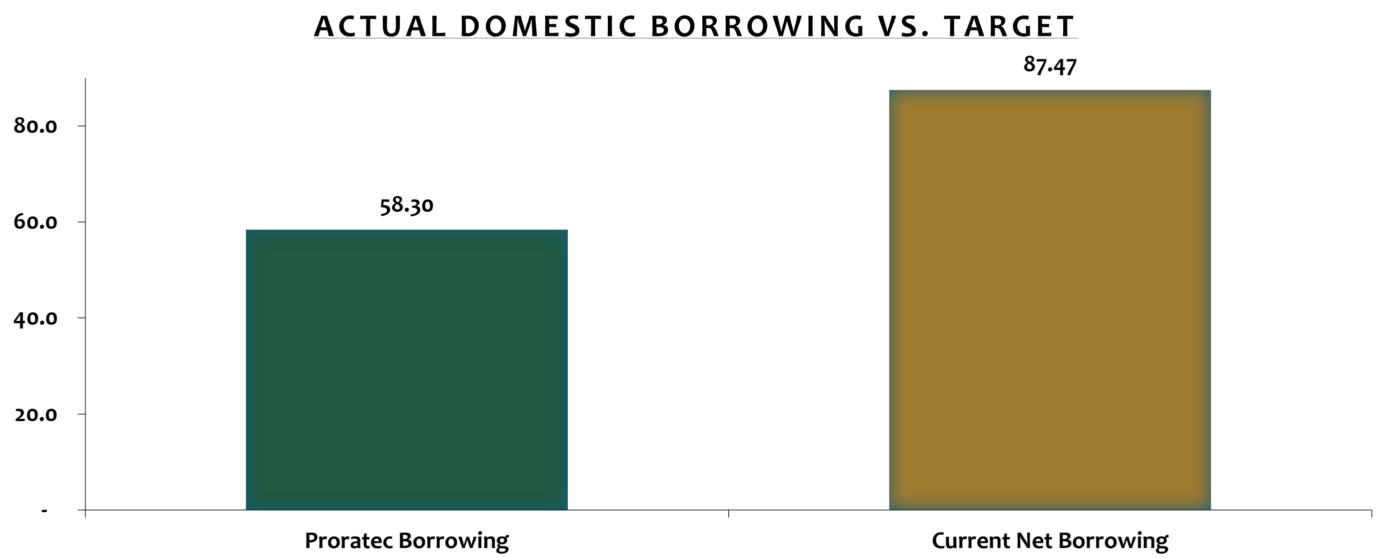
For the domestic borrowing target progress bar, the government has achieved 8.5% of the total borrowing target, having raised KES 87.47Bn. The amount is above the pro-rated borrowing target of KES 58.30Bn;

however, this does not raise immediate concerns given the significant debt maturities expected in August, which will require higher borrowing activity to support refinancing needs.

See the progress bar below:

Source: CBK, Treasury | Chart: KSL

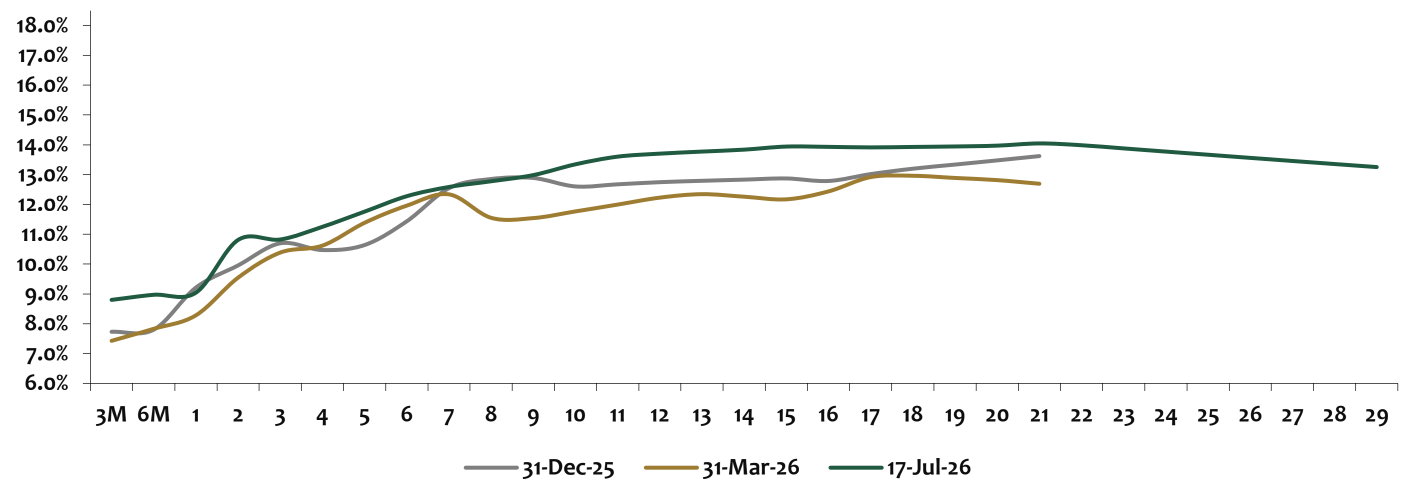
See below a summary of the domestic borrowing:



Local & International Yields

The local yield curve edged downwards during the week, with only a few maturities in the belly of the curve recording gains. The long end of the curve is now above both end-2025 and 1Q26 levels, reflecting increased pressure on longer-term yields amid evolving market expectations. See the chart below:

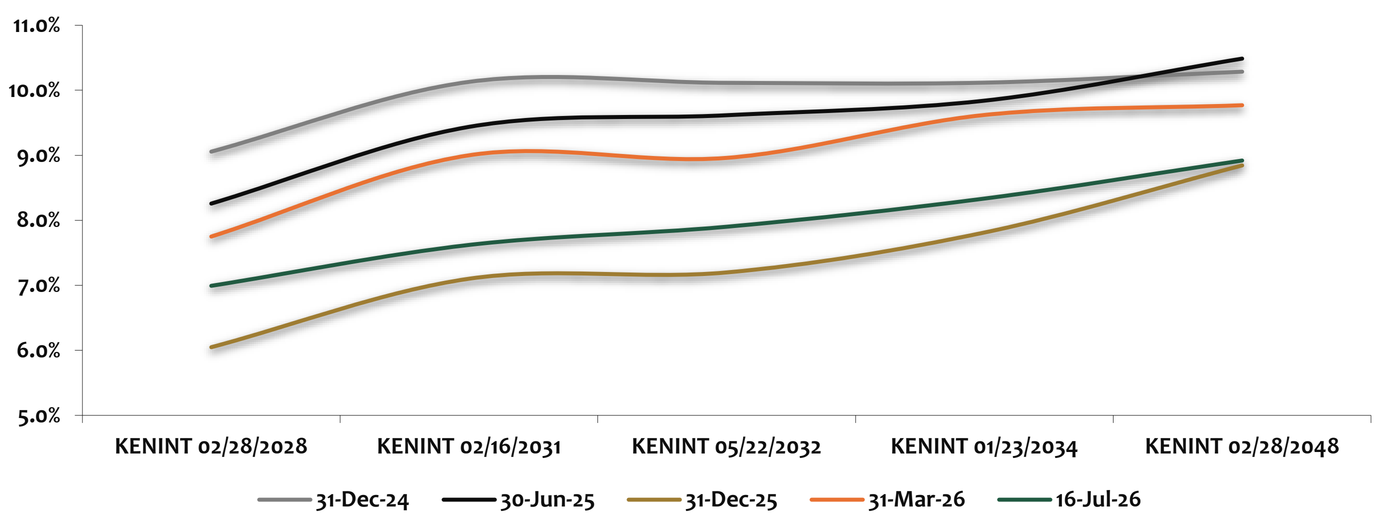
NSE Yield Curve



Source: NSE | Chart: KSL

On the contrary, yields on Kenyan Eurobonds rose, mirroring persistent global uncertainties. The chart below illustrates the movement of the yields over the year:

Kenyan Eurobond Yields



Source: CBK | Chart: KSL

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