KINGDOM SECURITIES LIMITED

A Subsidiary of the Co-operative Bank of Kenya Ltd

FIXED INCOME AND MACRO REPORT

Week Ending 31st July 2026

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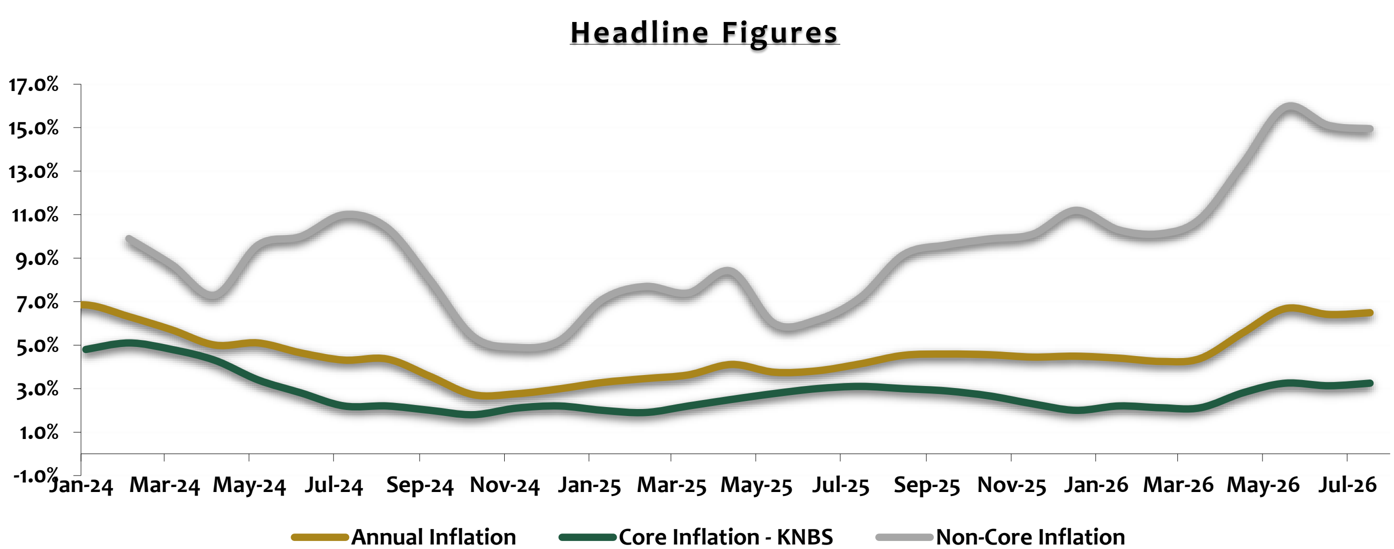
MACRO LENS

Consumer Prices – July 2026:

In July 2026, the cost of goods and services increased by 6.5% y/y, slightly faster than the 6.4% recorded in June 2026. The outturn was also above our expectation of between 6.1% and 6.3%. The uptick was largely driven by faster growth in food and non-alcoholic beverage prices, which rose by 9.0% y/y compared to 8.6% in June.

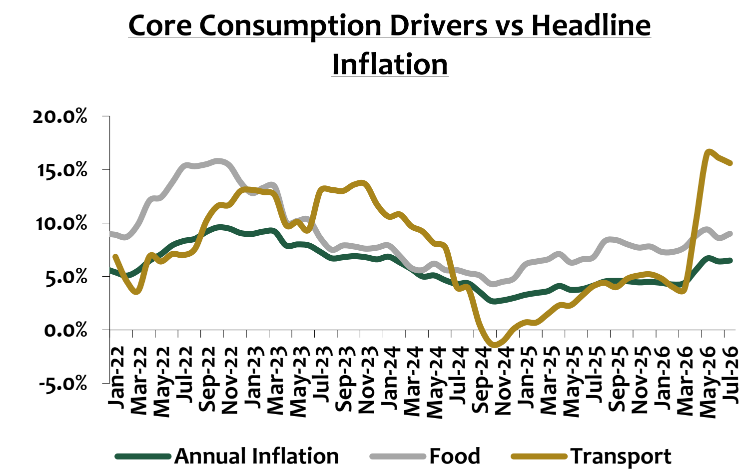
Notably, inflationary pressures remained broad-based, with both core and non-core inflation staying elevated. Core inflation, which excludes selected food and energy prices, edged up to 3.2% y/y from 3.1%, signaling persistent underlying price pressures across the economy. Meanwhile, non-core inflation eased marginally by 15.89 basis points to 15.0% y/y from 15.1%, suggesting a modest moderation in the more volatile components of the consumer basket.

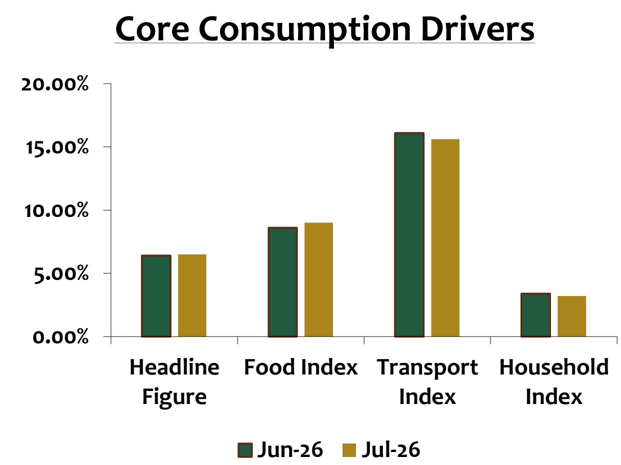
The chart below provides a visual illustration of the recent inflation trends.



Source: KNBS | Chart: KSL

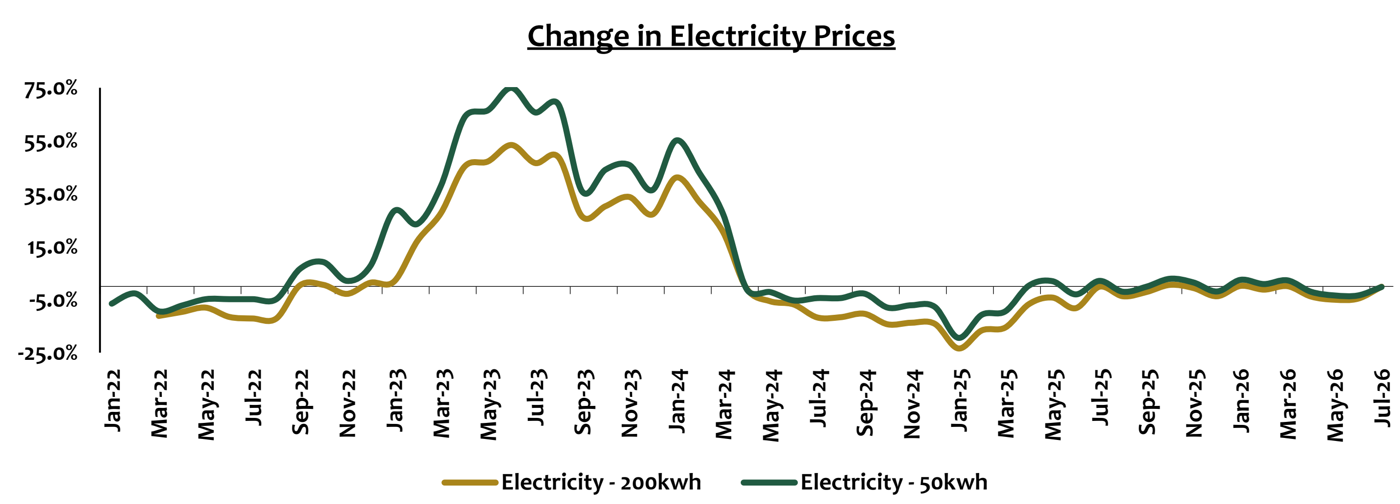
The rise in the food index was primarily driven by continued increases in vegetable and fruit prices, with tomato prices surging by 33.7% y/y, despite slight declines in the prices of maize and beans. Meanwhile, transport inflation eased marginally, with transport costs rising by 15.6% y/y compared to 16.1% in June 2026. Similarly, the pace of growth in household utility costs moderated to 3.2% from 3.4% over the same period. Fuel prices remained elevated, with diesel and petrol prices increasing by 29.7% and 14.7% y/y, respectively, compared to growth rates of 29.9% and 14.9% in June 2026. The charts below illustrate the evolution of these three key drivers of inflation:





Source: KNBS | Chart: KSL

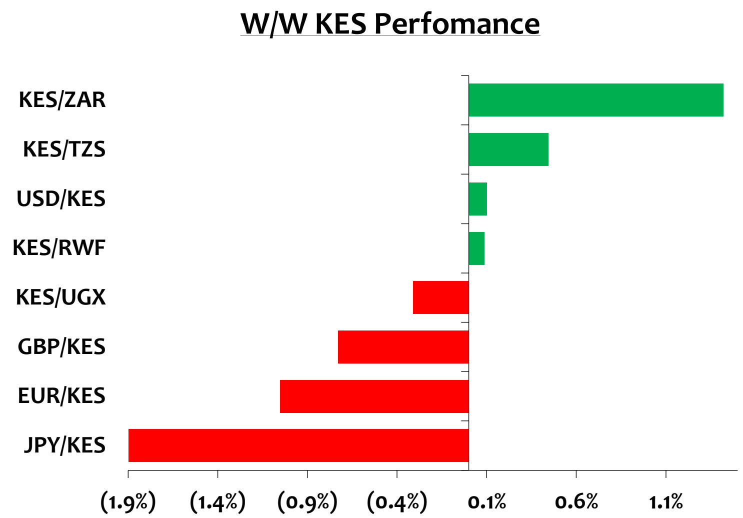
On a month-on-month basis, consumer prices rose by 0.2%, unchanged from June 2026, driven mainly by increases of 0.1%, 0.3% and 0.5% in the food, transport and household utilities indices, respectively. The rise in household utility costs was largely attributable to higher electricity prices. Households with lower electricity consumption recorded a 3.5% increase in electricity bills, reversing the 2.9% decline registered in June. Similarly, electricity bills for high-consumption households increased by 3.1%, compared to a 4.6% decline in the previous month, reflecting the upward adjustment in electricity tariffs. The chart below illustrates the movement in electricity prices across the two household consumption categories.

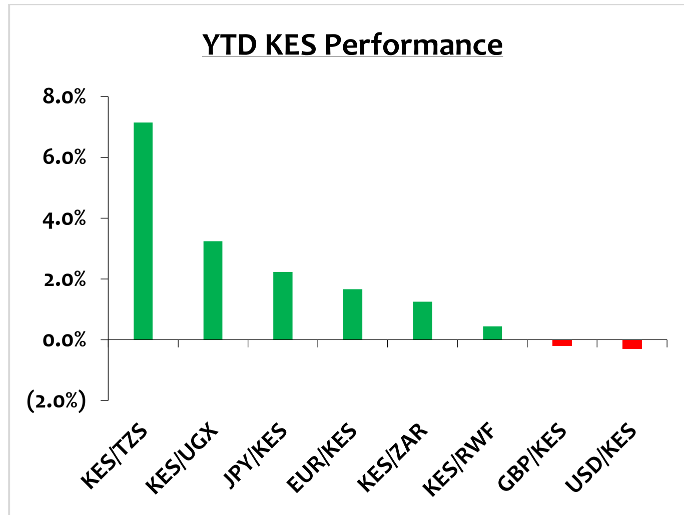


Source: KNBS | Chart: KSL

Foreign Exchange:

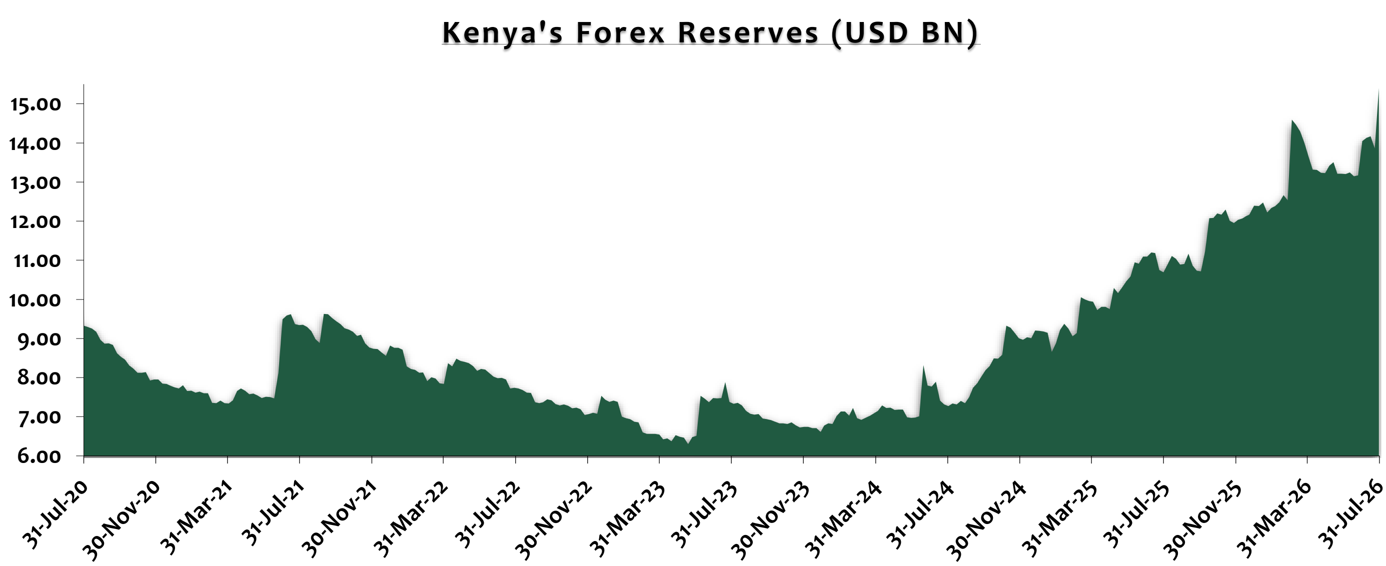
The Kenyan Shilling exhibited mixed performance during the week, appreciating against the South African Rand, Tanzanian Shilling, US Dollar and Rwandese Franc. See the charts below:





Source: CBK | Chart: KSL

Meanwhile, the Central Bank of Kenya's foreign exchange reserves increased by 11.2% to USD 15.40Bn, lifting import cover to 6.4 months from 5.6 months previously. The sharp increase was most likely driven by the settlement of proceeds from the government's sale of a 15% stake in Safaricom to Vodacom Group, providing a significant boost to the country's external buffers. See the charts below:



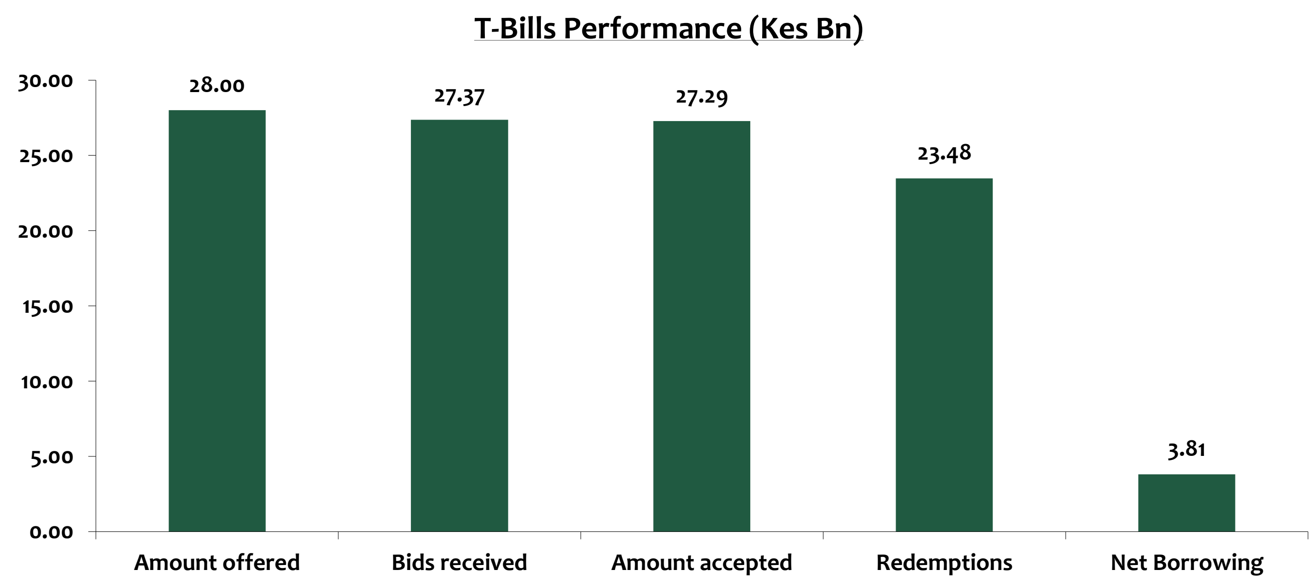
Source: CBK | Chart: KSL

FIXED INCOME PULSE

Primary Market Activity:

Demand for Treasury bills waned, with the overall subscription rate coming in at 97.7%, down from 137.5% in the previous auction. Demand remained concentrated on the 91-Day paper, which recorded a subscription rate of 180.0%, down from 275.7%, in the previous week. The 182- and 364-day papers were undersubscribed at 81.7% and 47.9%, respectively.

In total, the government received bids worth KES 27.37Bn and accepted KES 27.29Bn, translating to a 99.7% acceptance rate. After accounting for KES 23.48Bn in maturities, the auction resulted in a net borrowing of KES 3.81Bn, indicating that the government raised marginally above its rollover requirements. See the chart below;



Source: CBK | Chart: KSL

The Yields on the short-term papers recorded mixed performance, with the 91-day, 182-day, and 364-day papers printing at 8.79% (+0.61bps), 8.95% (0.0bps), and 9.02%(-1.92bps).

During the week, interbank market activity improved, with average traded volumes surging to KES 12.70Bn from KES 3.40Bn in the first four trading days, although the average interbank rate remained stable at 8.75%.

Treasury Bonds

In the bond market, the CBK is seeking to raise Kes 150Bn through three reopened infrastructure bonds. The details of the issuance are shown below:

	Capital Raising		
	Re-openings		
Paper	IFB1/2019/16	IFB1/2021/18	IFB1/2021/21
Maturity Date	08-Oct-35	21-Mar-39	18-Aug-42
Effective Tenor (Years)	9.2	12.6	16.1
Amount Floated (Kes. Bn)	150.00		
Amount Outstanding (Kes. Bn)	71.03	81.79	106.74
Coupon/WAR	11.75%	12.67%	12.74%
Sale Period	Up to 12th August 2026		

Source: CBK | Chart: KSL

Notably, we had anticipated an infrastructure bond (IFB) issuance in August given the sizeable maturities falling due. However, we commend the government's choice of bonds, which reflects a prudent approach to managing borrowing costs. We expect the longer-tenor paper to attract stronger investor demand, supported by its attractive coupon rate, and therefore anticipate the offer will be oversubscribed.

At the same time, the government has also issued a switch offer, which is increasingly becoming a regular feature of its debt management strategy, with capital raising and liability management now occurring concurrently in most months. In August, the switch offer also targets Treasury bills maturing on 7th September 2026. However, the amount targeted remains relatively small compared to the outstanding maturities, raising questions about the extent to which the switch will meaningfully ease the government's near-term refinancing obligations. See a summary below:

	Switch Offer				
	Source Bond				Destination Bond
Paper	2685/091	2646/182	2574/364	FXD1/2012/15	FXD4/2019/10
Maturity Date	07-Sep-26			06-Sep-27	12-Nov-29
Effective Tenor (Years)	0.1	0.1	0.1	1.1	3.3
Amount Floated (Kes. Bn)	15.0				
Amount Outstanding (Kes. Bn)	67.07			90.94	89.97

Coupon/WAR	8.56%	7.82%	9.58%	11.00%	12.28%
Sale Period	Up to 24th August 2026				

Secondary Market

Secondary bond market activity improved during the week, with turnover rising by 10.7% to KES 51.90Bn, from Kes 46.90Bn in the previous week.

This was in tandem with a 13.7% increase in the number of deals. See the table below:

	Previous Week	Current Week	Change
Turnover in Bonds (Kes Bn)	46.90	51.90	10.7%
Number of Deals	899	1022	13.7%

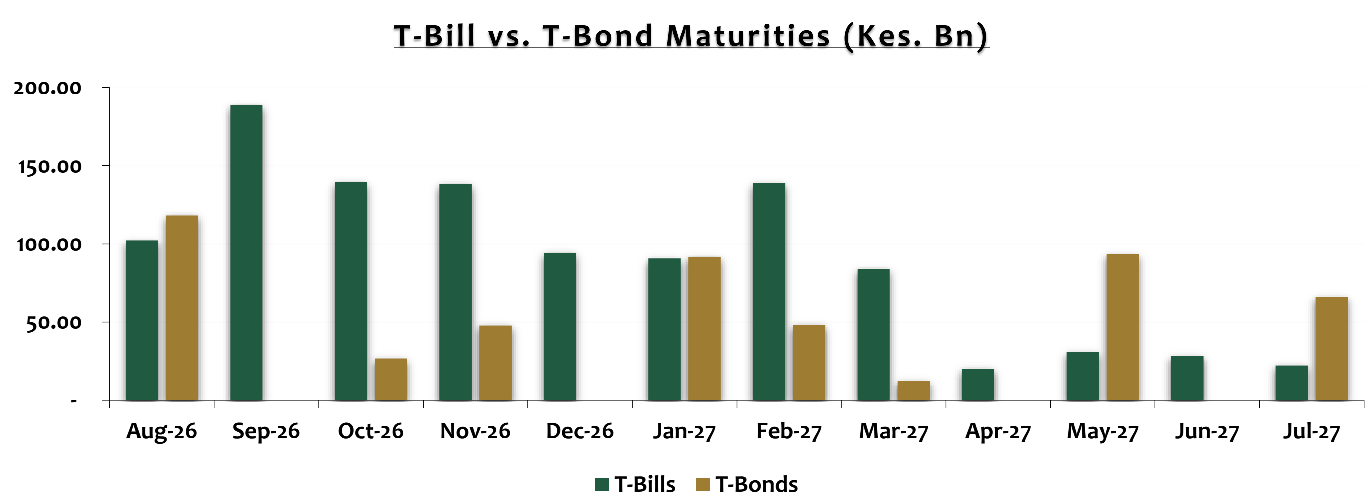
Source: NSE | Table: KSL

Domestic Debt Service Schedule:

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

i. KES 1,076.68Bn in Treasury Bills;
ii. KES 503.69Bn in Treasury Bonds;
iii. KES 811.99Bn in coupon payments;

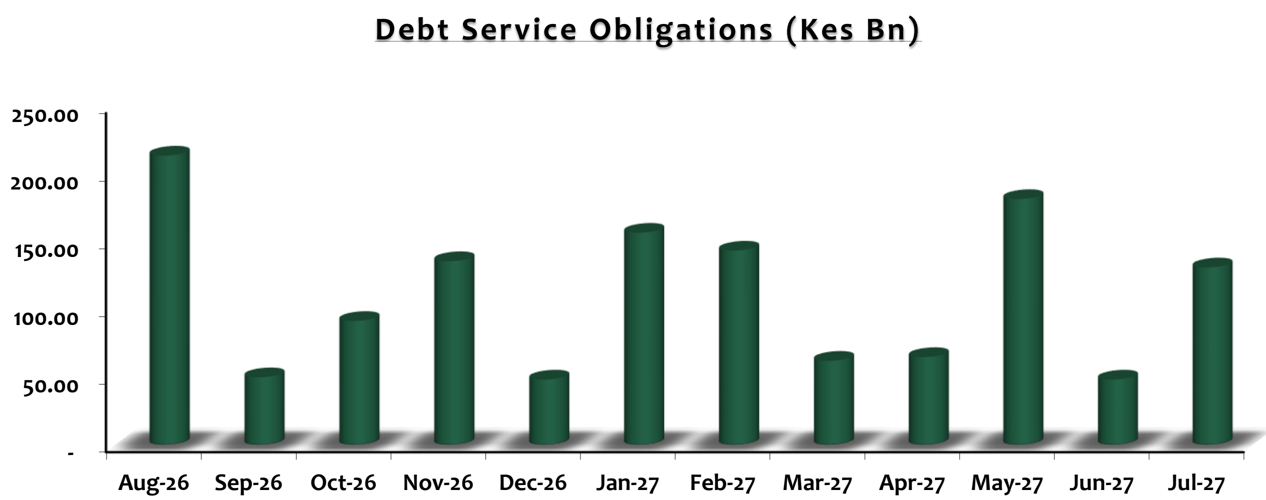
See the chart below for a visual presentation:



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, setting the stage for aggressive borrowing. The government has kicked off with a Kes 150.0Bn offer with the August, maturities worth Kes 118.14Bn and interest payments of Kes 94.97Bn, bringing the total debt servicing obligation to Kes 213.10Bn. See a summary below:



Source: CBK, NSE | Chart: KSL

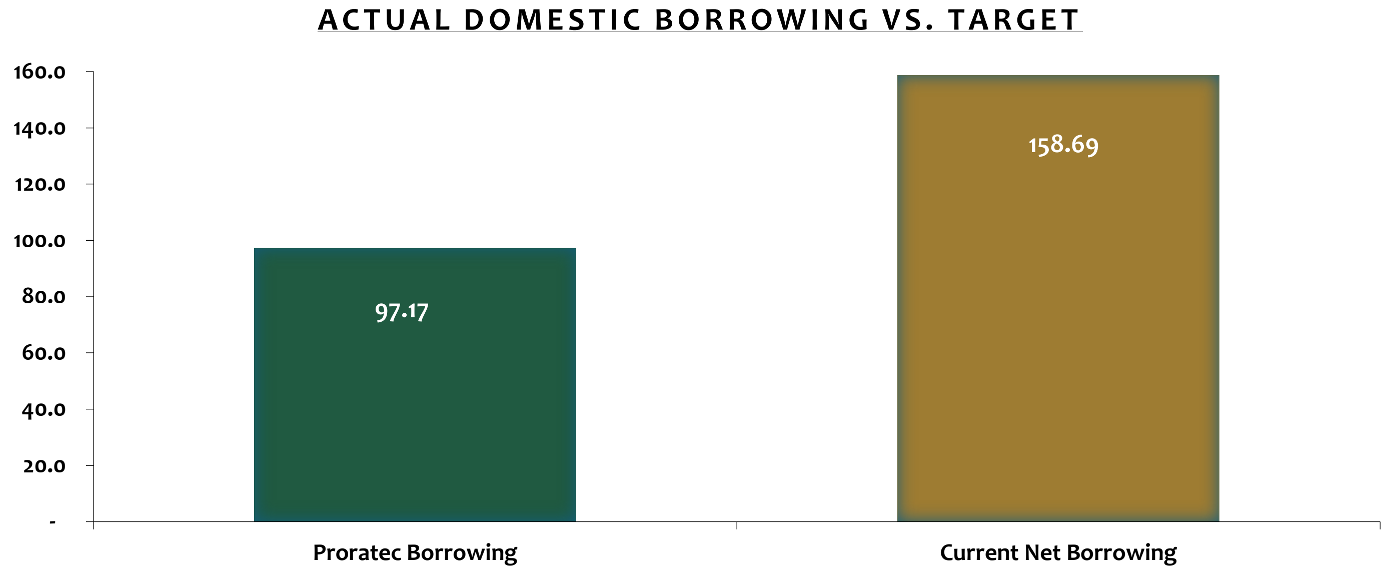
FY26/27 Government Borrowing Position:

For the domestic borrowing target progress bar, the government has achieved 15.4% of the total borrowing target, having raised KES 158.69Bn. The amount is above the pro-rated borrowing target of KES 97.17Bn; 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:

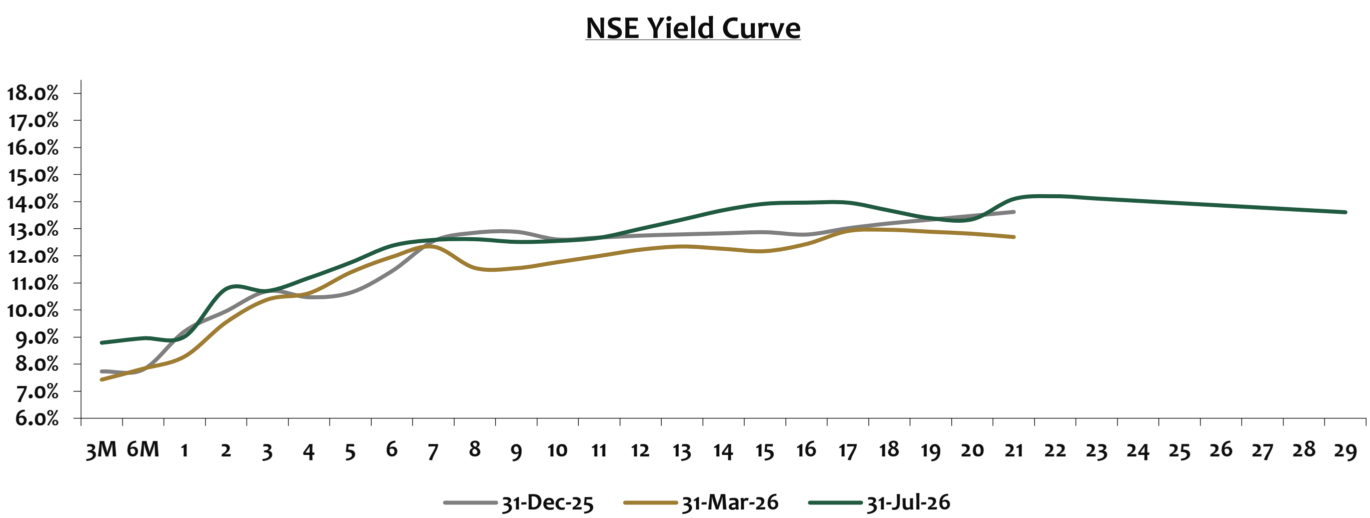
Source: CBK, Treasury | Chart: KSL

See below a summary of the domestic borrowing:



Local & International Yields

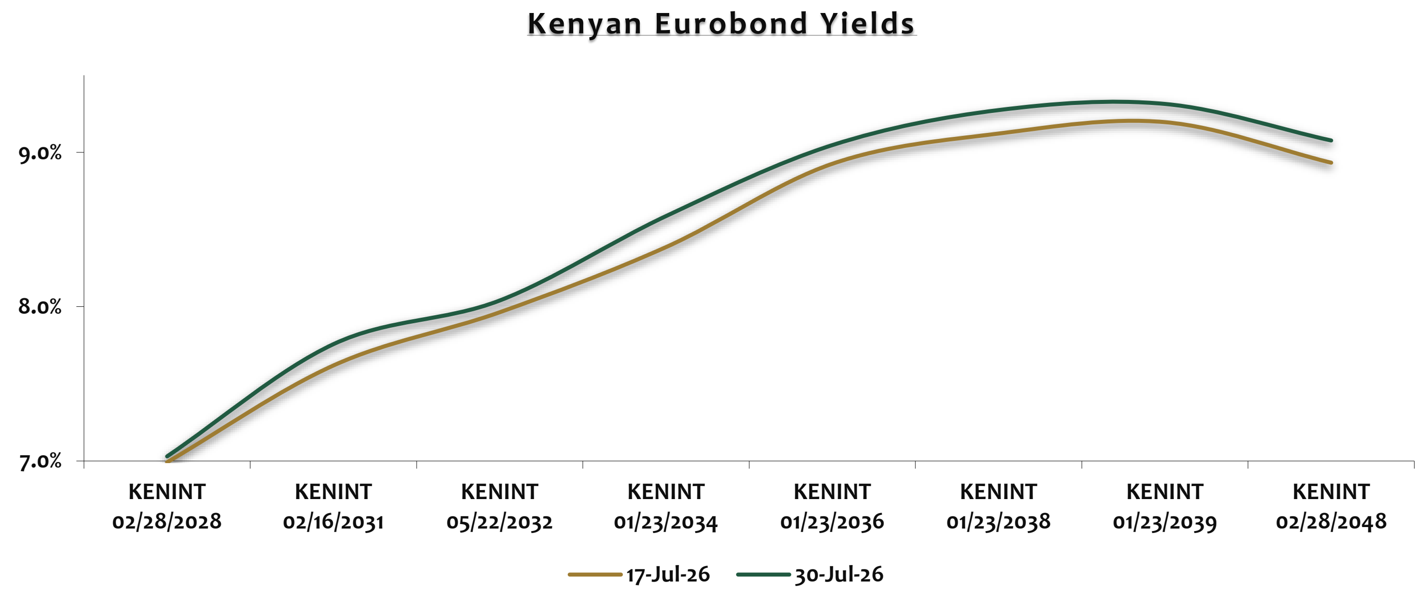
The local yield curve edged higher on average, with only a few tenors recording declines. Although the long end of the curve remains above end-2025 and 1Q26 levels, it continues to trend downwards gradually. See the chart below:



Source: NSE | Chart: KSL

Yields on Kenyan Eurobonds rose recorded mixed performance, mirroring persistent global uncertainties.

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



Source: CBK | Chart: KSL

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