# KINGDOM SECURITIES LIMITED

A Subsidiary of the Co-operative Bank of Kenya Ltd

# FIXED INCOME AND MACRO REPORT

**Week ending 7th August 2026**

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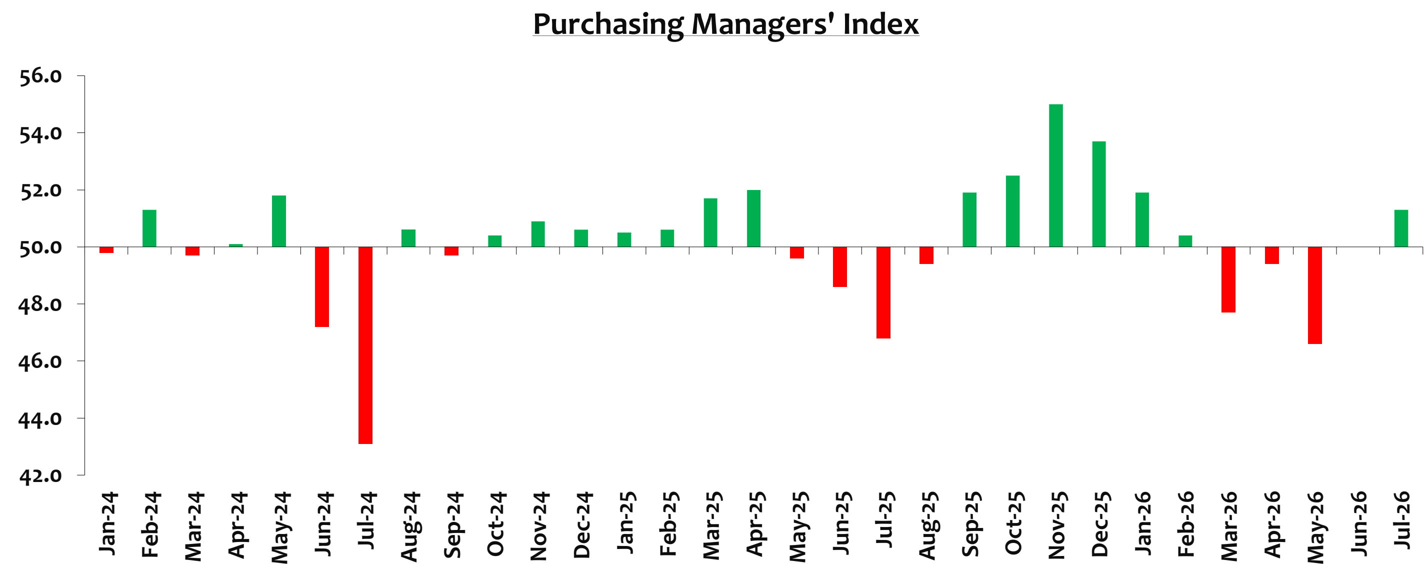
## MACRO LENS

### *a. Private Sector Business Conditions – July 2026:*

Kenya's private sector showed signs of recovery in July 2026, with the Stanbic Bank Kenya Purchasing Managers' Index (PMI) rising from 50.0 in June to 51.3, signaling a return to expansion after four months of stagnation or deterioration. The improvement was mainly supported by stronger new orders and increased employment, although persistent cost pressures, supply chain disruptions and subdued output continued to constrain overall business activity. See the chart below for the trends in business environment over time:




*Source: S&P Global | Chart: KSL*

### *New Orders*

New orders expanded for the second consecutive month, recording their strongest growth since January 2026, supported by customer referrals, marketing efforts and the introduction of new products and services. However, the stronger demand did not translate into higher output, which contracted for the fifth consecutive month, albeit at the slowest pace in the sequence. Elevated costs, tight cash flows and supply-side disruptions continued to constrain firms' ability to fully meet rising demand, resulting in a further accumulation of backlogs.

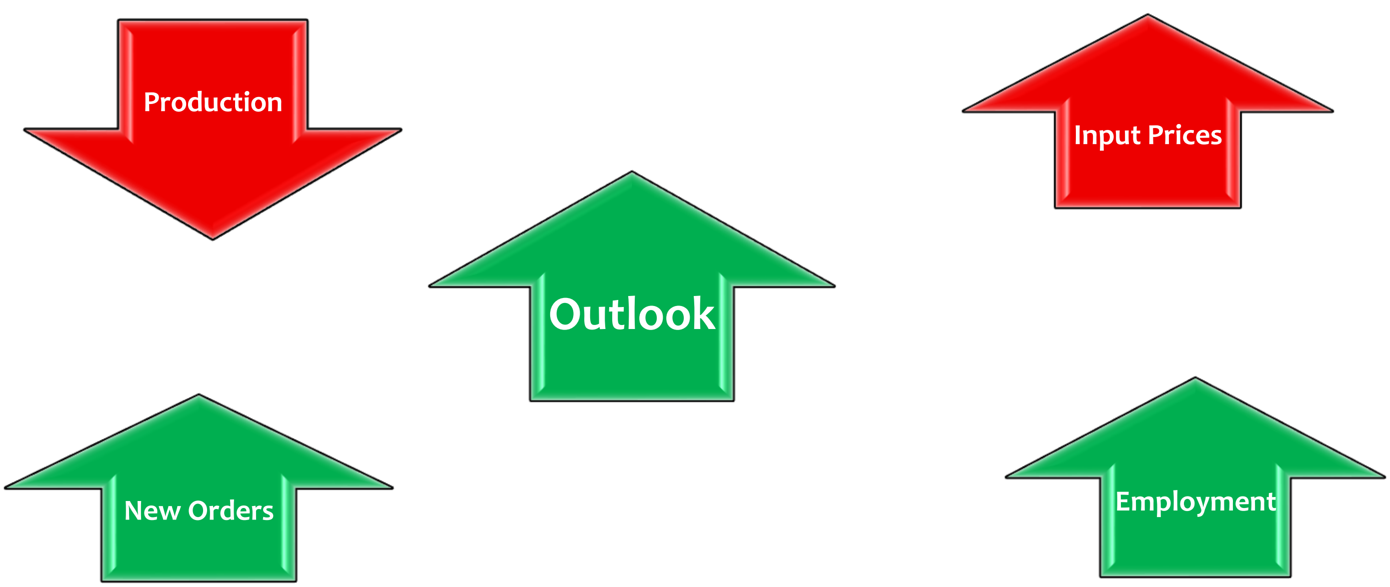
### *Input & Output Prices*

Input cost pressures remained elevated in July, easing only marginally from June's 31-month high.

Approximately 37% of surveyed firms reported higher operating expenses, driven mainly by rising transportation and fuel costs as well as material shortages linked to the Middle East conflict. In contrast, selling price inflation moderated from June's record high to its slowest pace since April, suggesting that some firms absorbed part of the higher costs to protect demand and maintain competitiveness in a price-sensitive market.

### *Inventory & Employment Levels*

Employment increased solidly in July, recording its fastest pace so far in 2026, with firms primarily relying on short-term hiring to manage rising workloads. Inventory and purchasing trends were mixed, with some businesses increasing stocks to guard against shortages and accommodate stronger demand, while others reduced holdings to preserve capital and manage costs. Supplier performance also deteriorated for the second consecutive month as input shortages and rising costs contributed to longer delivery times.

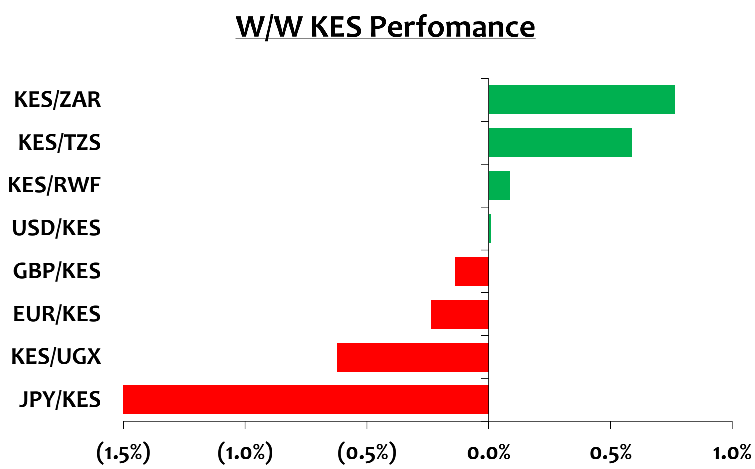


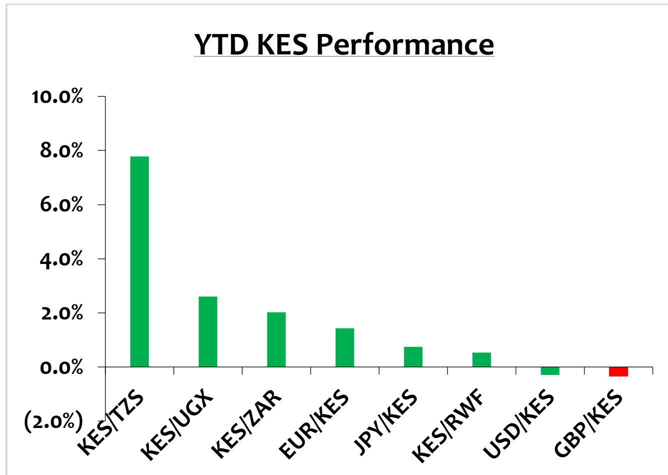

### *Business Outlook*

Business confidence strengthened significantly in July, with overall sentiment reaching its highest level in nearly three and a half years. Firms' optimism was supported by expectations of stronger demand, business diversification, innovation and supply chain optimization. However, elevated input costs, logistics bottlenecks and tight cash flows remain key risks to the recovery, particularly as businesses continue to face challenges in converting stronger order inflows into actual output.

***Foreign Exchange:***

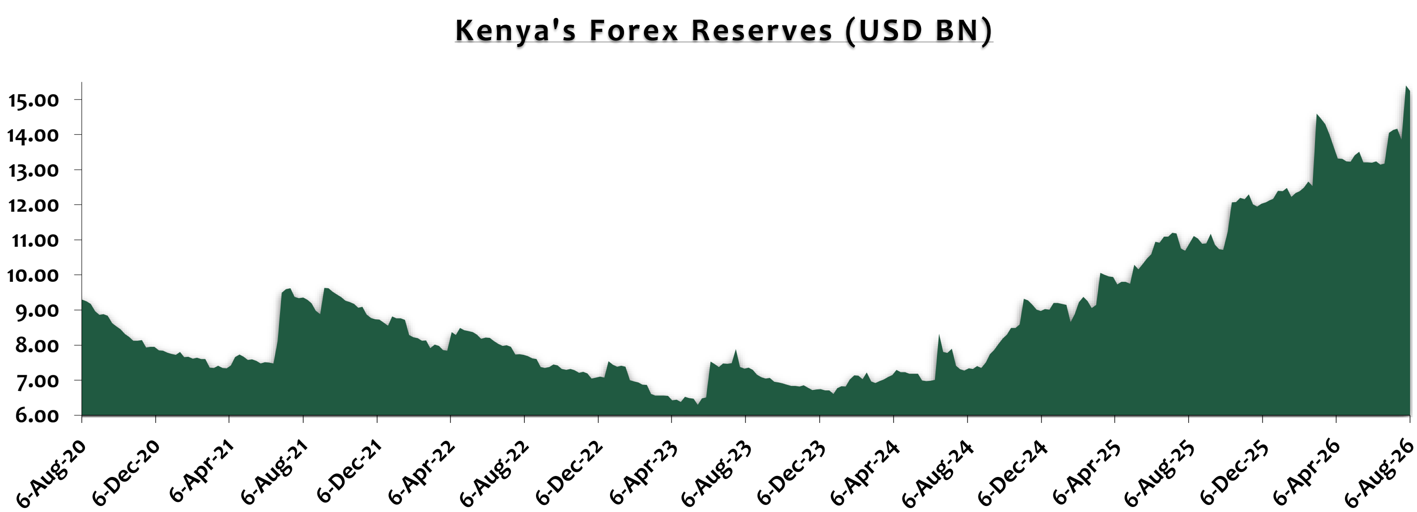
The Kenyan Shilling exhibited mixed performance against regional and major currencies during the week, appreciating against the South African Rand, Tanzanian Shilling, US Dollar and Rwandese Franc. The movements are consistent with a floating exchange rate regime, although the Shilling has remained relatively stable against the US Dollar, trading within the Kes. 129–130 range for over two years. See the charts below:




*Source: CBK | Chart: KSL*

Meanwhile, the Central Bank of Kenya's foreign exchange reserves declined by 1.0% to USD 15.25Bn, marginally dropping the months of import cover to 6.3 from 6.4 months previously. The reserves continue to provide a buffer to foreign exchange. See the charts below:



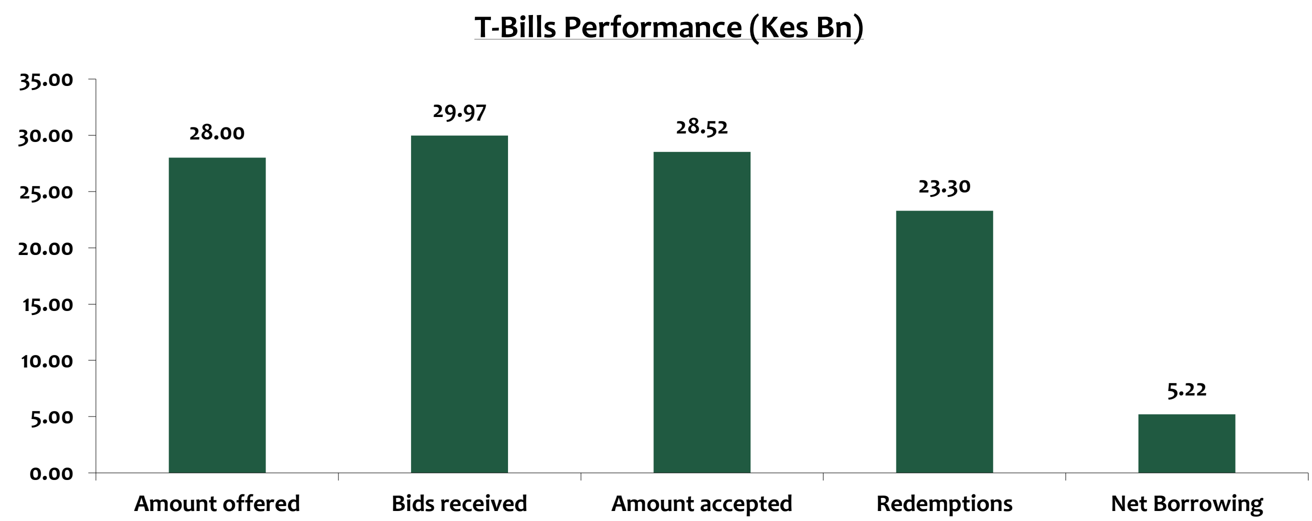

*Source: CBK | Chart: KSL*

## FIXED INCOME PULSE

### Primary Market Activity:

Demand for Treasury bills improved, with the overall subscription rate coming in at 107.0%, up from 97.7% in the previous auction. Demand remained concentrated on the 91-Day paper, which recorded a subscription rate of 169.9%, down from 180.0%, in the previous week. The 182- and 364-day papers recorded subscription rates of 101.7% and 62.1%, respectively.

In total, the government received bids worth KES 29.97Bn and accepted KES 28.52Bn, translating to a 95.2% acceptance rate. After accounting for KES 23.30Bn in maturities, the auction resulted in a net borrowing of KES 5.22Bn, 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 were on a downward trajectory, with the 91-day, 182-day, and 364-day papers printing at 8.78% (-0.62bps), 8.95% (-0.45bps), and 9.00%(-1.27bps).

During the week, interbank market activity improved, with average traded volumes surging to KES 17.19Bn from KES 12.70Bn, although some players tapped into the CBK's discount window for a Kes 13.5Bn boost during the week. Average interbank rate remained 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.

Given the amortizing redemption structure of the IFB, investors may realize lower cumulative interest income over the life of the instrument compared with a fixed deposit offering the same tenor and headline rate. Consequently, the IFB may require a yield premium over comparable fixed deposit rates to provide a sufficiently competitive risk-adjusted return. Our bidding estimates are as follows:

| Bond | Bidding Estimates |
|---|---|
| IFB1/2019/16 | **12.58% - 12.68%** |
| IFB1/2021/18 | **12.91% - 13.01%** |
| IFB1/2021/21 | **13.27% - 13.37%** |

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 eased during the week, with turnover dropping by 24.3% to KES 39.27Bn, from Kes 51.90Bn in the previous week.

This was in tandem with a 27.6% increase in the number of deals. See the table below:

| | Previous Week | Current Week | Change |
|---|---|---|---|
| Turnover in Bonds (Kes Bn) | 51.90 | 39.27 | -24.3% |
| Number of Deals | 1022 | 740 | -27.6% |

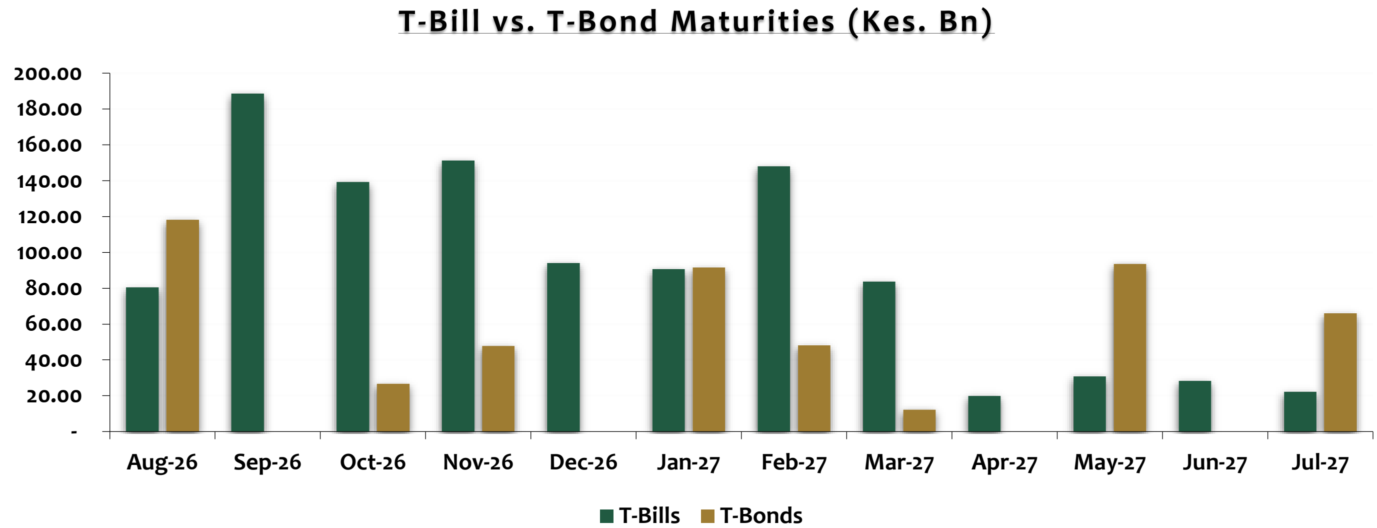
*Source: NSE | Table: KSL*

## Domestic Debt Service Schedule:

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

i. KES 1,077.40Bn in Treasury Bills;
ii. KES 503.69Bn in Treasury Bonds;
iii. KES 784.26Bn in coupon payments;

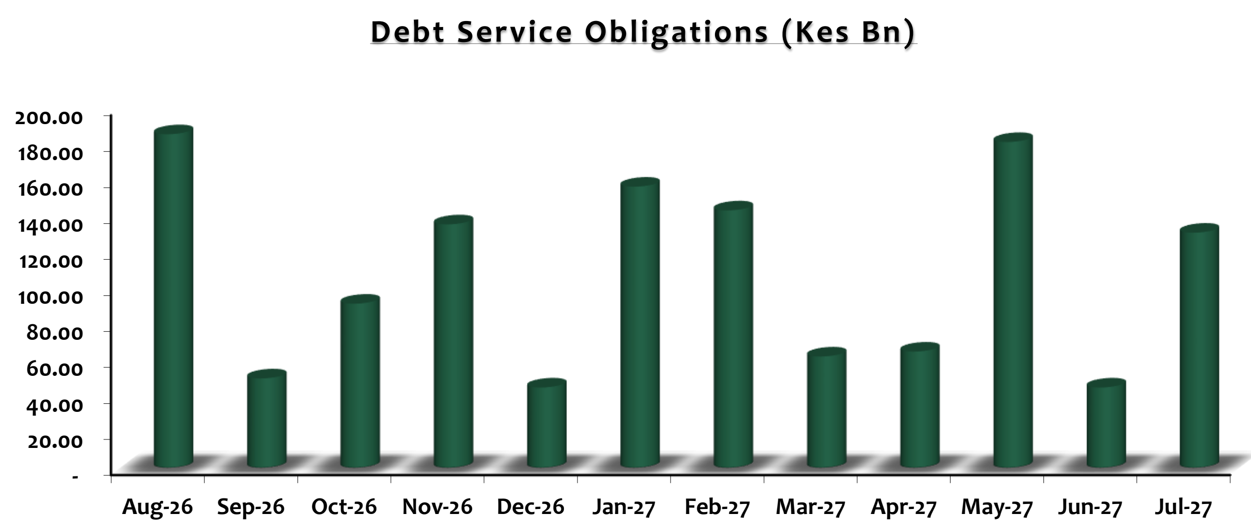
See the chart below for a visual presentation:




*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. All the papers will mature next week Monday, 17th August 2026. See a summary below:




*Source: CBK, NSE | Chart: KSL*

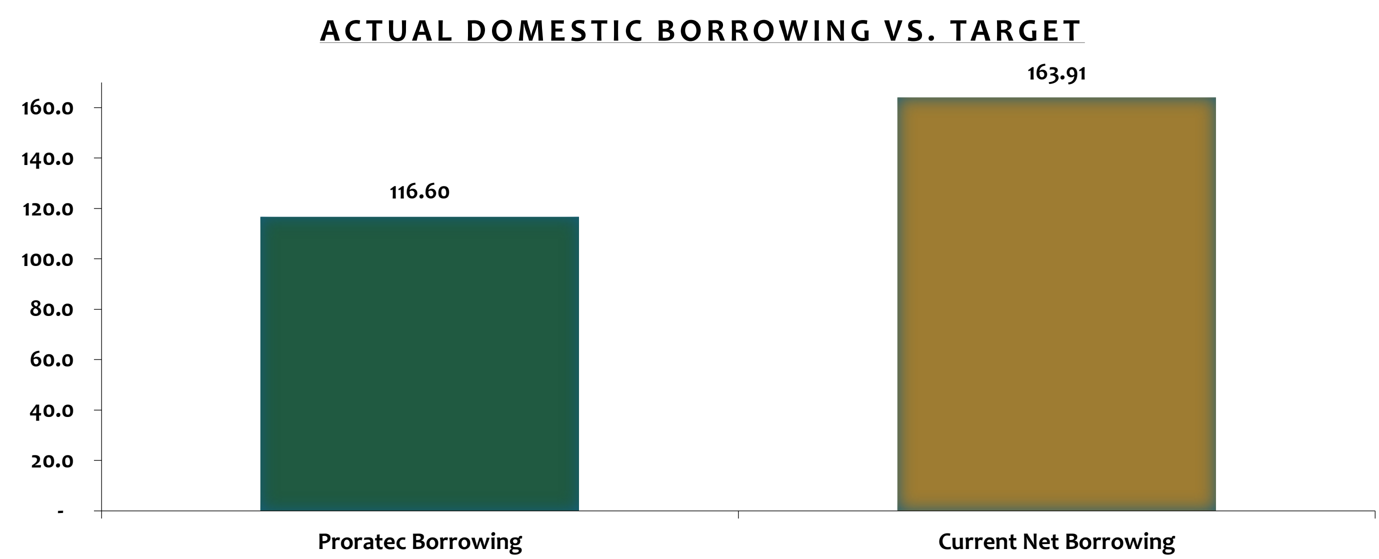
## FY26/27 Government Borrowing Position:

For the domestic borrowing target progress bar, the government has achieved 15.9% of the total borrowing target, having raised KES 163.91Bn. The amount is above the pro-rated borrowing target of KES 116.60Bn; 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*

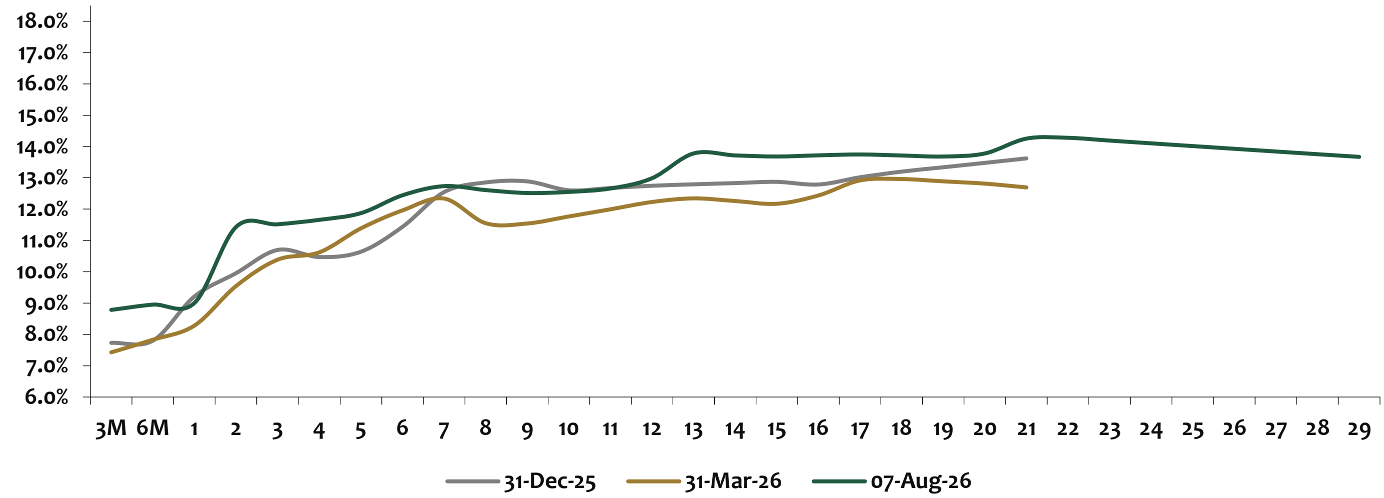
See below a summary of the domestic borrowing:




## 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:

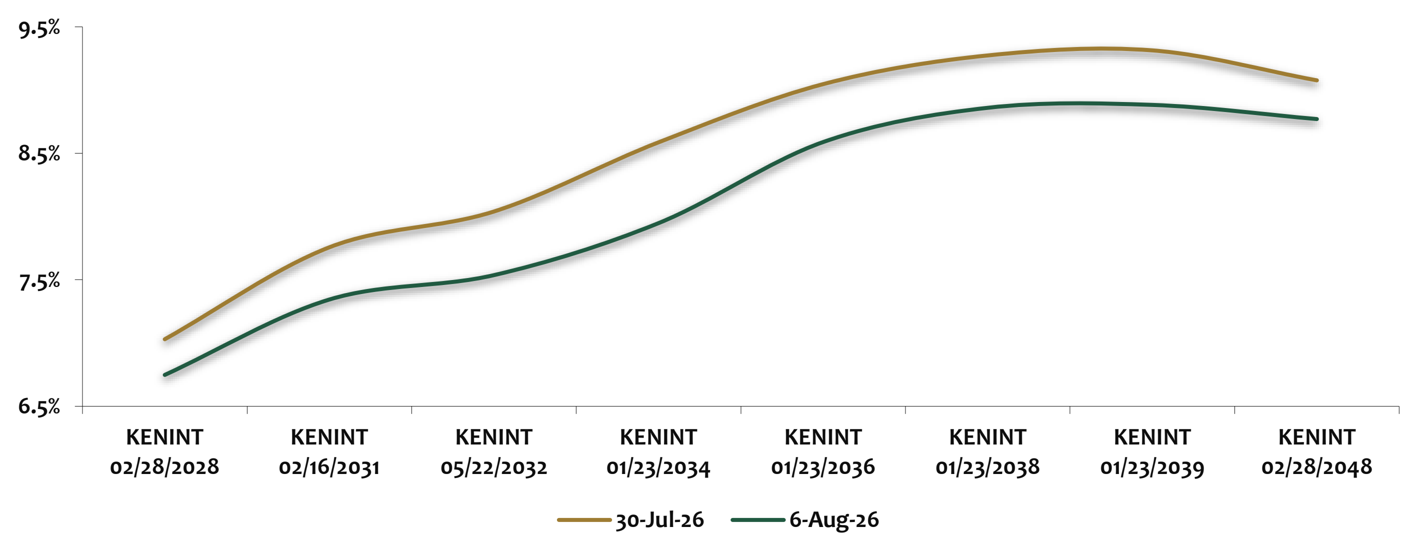
**NSE Yield Curve**




*Source: NSE | Chart: KSL*

Yields on Kenyan Eurobonds remained on a downward trajectory, reflecting positive developments in the domestic economy, particularly the strengthening of the country's external buffers, despite 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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