Equity Kenya Macro Note

Kenya Financial Markets Weekly

21st Sep to 25th Sep 2026

Fed raises rate, Japan follows but England holds at 3.75%

FOMC on Wednesday last week raised rates by 25bps to 3.75%-4% through a unanimous decision that showed the Fed's independence. The move that is meant to combat the nation's inflation that has remained above the targeted 2% region for more than 5 years is expected to strengthen the dollar with Economists "pencil" in another hike. Elsewhere the Bank of Japan also raised its policy rate by 25bps while the Bank of England kept rates unchanged at 3.75% despite rising inflationary risks.

Oil falls slightly but remain above $100/barrel

Brent futures retreated 2% to $102 a barrel on Friday from $105.7 in the Friday, the third consecutive decline on easing concerns over Saudi supply disruptions outweighed anxiety about a widening of conflict across the Middle East. Prices climbed to close to four-month highs earlier in the week after sources said crude loadings at Saudi Arabia's Red Sea export hub of Yanbu had been suspended and Riyadh cancelled some deliveries to Europe after its East-West pipeline was damaged in an attack last week. JP Morgan says it no longer has a baseline oil price forecast, due to great uncertainties.

Bond yields ease tracking reversals in crude prices

Yields eased last week following reversal in crude prices. Crude eased 2% last week easing uncertainty concerns on Saudi supply. Kenya 2032 was down 10bps to 7.8% same as Rwanda 2031 down 10bps to 6.5%. US 10 year bond closed the week at 5%, the highest in point in since October 2023 on investors concerns on inflation and rate hikes. US30YR traded at 5.3% levels also last seen 2 decades ago.

Ethiopia drought a concern to Kenya electricity supply

Ethiopia could reduce or stop electricity import to neighboring countries following a drought brough resulting from the el-nino phenomenon. In H2 OF 2026, Kenya imported 814GWh of electricity from Ethiopia representing 12% of total electricity consumption over the period. The drought has exacerbated Ethiopia's dry season which has reduced water inflows into hydroelectric reservoirs by 20% triggering a downward revision of EPP's export revenue by 40%.

CBK Monetary Policy Committee — October 7

The CBK is widely expected to maintain the policy rate at 8.75% marking a fourth consecutive hold as inflation remains elevated at 6.6% above the Bank's 5% midpoint target. While the recent fuel price freeze may help contain inflationary pressures and softer PMI readings point to slowing economic activity the combination of persistent inflation and tighter global financial conditions following the Fed's September rate hike makes a near-term rate cut unlikely. As such price stability remains the CBK's primary concern with a hold remaining the base-case outcome. Although the 8% VAT rate on petrol and diesel was extended until 14 October 2026 the rate is subsequently expected to revert to a higher VAT rate thereafter presents a potential upside risk to the inflation outlook.

KES/USD: Resilient Despite Stronger US Dollar

The Kenyan shilling remained stable at around KES 129.9/USD despite a stronger US dollar following the Federal Reserve's recent rate hike. The resilience was supported by strong diaspora remittances, the government-to-government fuel import programme which continues to ease FX demand pressures and increased foreign currency liquidity from the US$100 million EBRD-Co-op Bank facility. Together, these factors have helped maintain FX market stability and shield the shilling from the broader emerging market currency weakness seen during the week.

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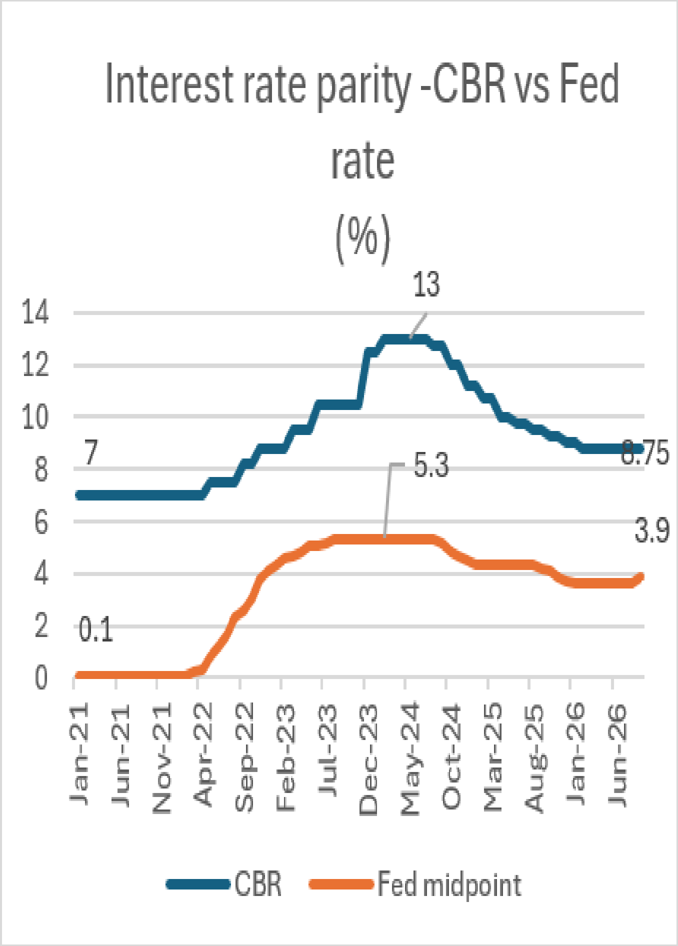
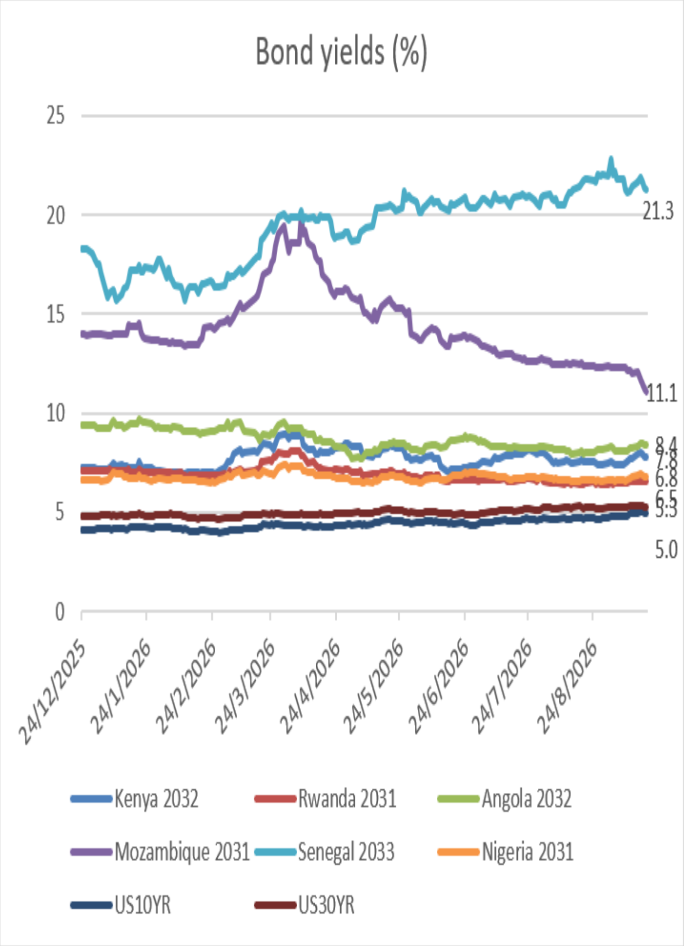
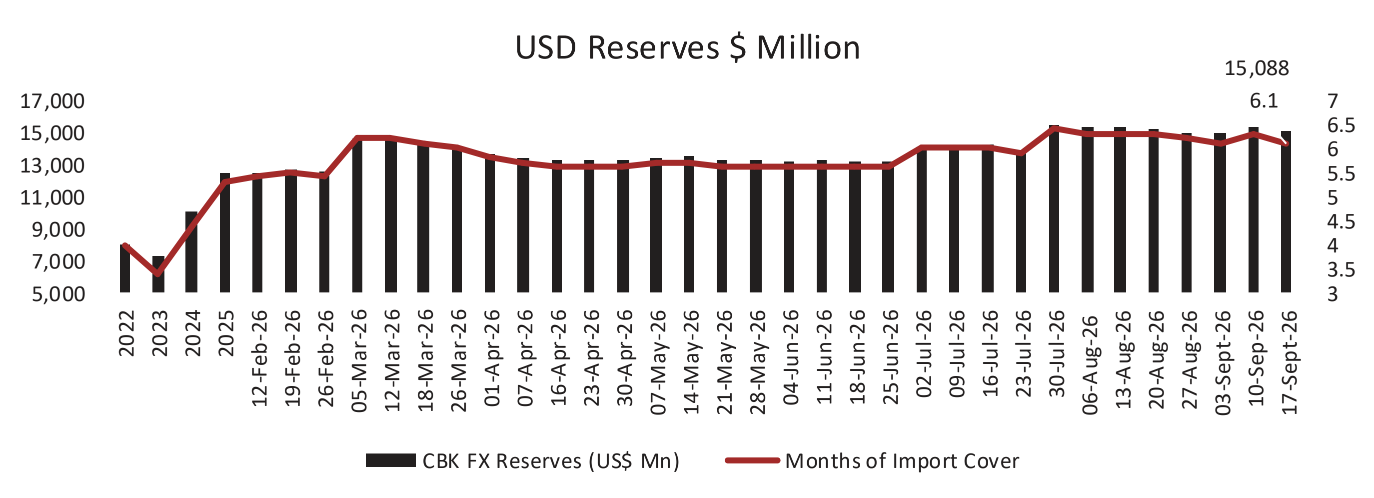
Kenya's Fiscal Strain: Debt, Deficits and Revenue Challenges

Kenya's fiscal position remains constrained with a budget deficit of 6.1% of GDP in FY2026 and a 12-month nominal deficit of 9.34% of GDP as of July 2026. Public debt stands at 82.5% of GDP while the FY2026/27 budget totals KES 4.8 trillion. Debt servicing continues to absorb a significant share of revenues at approximately 40% of tax collections alongside 27% allocated to government salaries, highlighting ongoing fiscal pressures despite an ambitious KES 3.63 trillion tax revenue target.







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G-to-G Fuel Deal Defended

Energy Cabinet Secretary Opiyo Wandayi reaffirmed that the government-to-government fuel import programme has played a key role in easing dollar shortages and ensuring stable fuel supplies since its introduction in 2023. Separately, Uganda's President Yoweri Museveni clarified recent remarks on fuel imports reaffirming support for Kenya-Uganda cooperation in petroleum procurement.

Debt Management & External Financing Activity

Kenya is actively pursuing liability management and funding diversification strategies to strengthen its external financing position. The government is reportedly considering a US$500 million Eurobond buyback funded through a simultaneous new dollar-denominated issuance aimed at smoothing future debt maturities and managing refinancing risks. Additionally, Kenya is exploring its first-ever yuan-denominated Panda Bond in China's domestic bond market to diversify funding sources and potentially lower borrowing costs. Complementing these efforts the government launched a Sustainability-Linked Financing Framework in June 2026 creating a pathway for up to US$500 million in financing tied to environmental and social targets, including rural electrification and forest conservation. Together these initiatives reflect a broader strategy to enhance debt sustainability broaden investor access and reduce external financing vulnerabilities.

Key Financial and Economic Calendar Month	Events & Dates
Mon Sep 23	US Flash PMI (Manufacturing & Services); Eurozone Flash PMI (Manufacturing & Services); UK Flash PMI (Manufacturing & Services); Fed's Kashkari Speaks
Thu Sep 25	Trump-Xi Summit (Washington)
Fri Sep 30	US PCE Deflator (Aug)
Mon Sep 30	Kenya CPI YoY
Tue Sep 30	US GDP Annualized QoQ; US Personal Income / Spending (PCE); Kenya GDP YoY
Thu Oct 2	US ISM Manufacturing PMI; US Initial Jobless Claims; US Nonfarm Payrolls; US Average Hourly Earnings MoM
Mon Oct 5	US ISM Services PMI; JPMorgan Global Services & Composite PMI
Tue Oct 7	Kenya CBK MPC Rate Decision
Wed Oct 8	FOMC Minutes (Sep Meeting)

NEWS:

- CBK moves to tighten oversight of financial institutions
- Escalation of Middle War revives threat on Kenya oil supply
- CBK pushes banks to hold extra capital
- CBK to get priority in purchase of locally mined and processed gold
- Venture capital, mergers and acquisitions rise 10% in H1
- Interiors ministry raises banks' penalty for breaches of reporting terror-financing rules
- Middle East a hurdle for monitoring KESONIA effectiveness

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