

Equity Kenya Macro Note



Kenya Financial Markets Weekly

26th Oct to 30th Oct 2026

Major Central Banks on Hold but December Tightening Risks Remain

Markets expect the Federal Reserve, European Central Bank and Bank of Japan to leave interest rates unchanged at meetings this week. For investors the key focus will be policy guidance rather than the rate decisions themselves. Any indication from the Fed that a December rate hike remains on the table could strengthen the U.S. dollar and tighten global financial conditions creating headwinds for emerging-market assets and currencies. Similarly, while both the ECB and BOJ are expected to pause markets will be watching for signs of further tightening later this year which could add to volatility across global bond, equity and currency markets.

AI Trade Under Severe Pressure

The AI trade remained the dominant market theme last week with concerns over the sustainability of massive AI-related capital spending and higher financing costs triggering a broad risk-off move. The SOX semiconductor index fell 19% over three weeks its longest losing streak in more than two decades while the Nasdaq declined 2.6% on the week amid disappointing tech earnings and rising scrutiny of AI investment returns.

Draft 2027 Budget Policy Statement: Fiscal Consolidation Delayed

Kenya's Draft 2027 Budget Policy Statement signals a shift toward a more expansionary fiscal stance with the FY2027/28 fiscal deficit projected at 5.9% of GDP up from about 5.3% in FY2026/27 and financed largely through domestic borrowing (4.4% of GDP). Growth is projected at 5.0% in 2026 and 5.1% in 2027 while the current account deficit is expected to widen to 3.5% of GDP.

Upcoming Bond Auction: KES 50bn Target

CBK will auction KES 50 billion on 4 November through reopened FXD 2034 and FXD 2056 bonds. Current secondary yields of 12.59% and 13.91%, respectively and remain above coupon rates indicating investors continue to demand a premium for longer-dated debt. The slight decline in the 2056 bond yield from 14.18% at the October auction suggests improving market sentiment.

Fiscal & Tax: Government Prioritizes Household Relief

The government is proposing to raise the PAYE exemption threshold from KES 24,000 to KES 32,333 potentially removing 362,846 workers from the income tax net. At the same time the 8% fuel VAT rate has been extended for another 90 days providing continued relief from higher fuel costs but at an estimated fiscal cost of KES 9 billion per month.

Kenya Eurobonds and IMF Talks Key for Next Move

Kenya's Eurobonds remain supported by strong external liquidity, with 2027-28 bonds yielding about 7.4% and longer-dated bonds around 9-10%. The market is focused on the planned US\$1 billion Eurobond issuance in January 2027 and upcoming IMF programme discussions.

October Kenya CPI Likely to Rise Above 7%

Kenya's October inflation is expected to rise from 6.8% in September to around 7.0%-7.2% driven by the mid-October fuel price increases and persistent food price pressures. The projected increase would place inflation near the upper end of the CBK's 2.5%-7.5% target range consistent with the CBK's expectation that inflation could peak at around 7.2% by December.

Brent and Murban Remain Elevated as Geopolitical Risks Persist

Brent crude rose above \$114/bbl after briefly reaching \$115/bbl its highest level in six months while European natural gas prices climbed to their highest level since 2022. Energy markets remain under pressure from continued Middle East tensions and disruptions to Gulf shipping routes.

Ebola Outbreak Raises Tourism Risks

Kenya's Ebola situation has worsened from a single imported case in early October to at least nine confirmed cases and two deaths increasing the risk of broader economic disruption. The outbreak has prompted the U.S. to advise citizens to reconsider travel to Kenya raising concerns for the tourism sector which was the country's fastest-growing sector in Q1 2026 (+14.7% YoY). A worsening Ebola outbreak could reduce tourist arrivals, lower tourism earnings and weaken services sector growth particularly following the U.S. travel advisory. It could also weigh on airline traffic, hospitality activity, and foreign exchange inflows if additional countries issue travel warnings.

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GLOBAL RATES CALENDAR & FORWARD GUIDANCE

Date	Central Bank	Policy Rate	% of odds as 12pm Kenya, 19th October	Market View
28 Oct	Fed	4.00%	15%	Hold expected; statement key for Dec outlook
29 Oct	ECB	2.50% Deposit Rate	8%	Hold/hawkish bias
30 Oct	BOJ	1.25%	5%	Hold expected; focus on policy guidance
5 Nov	BOE	3.75%	93%	Hike expected
Dec	CBK	8.75%	60%	Hold expected, 40% chance of hike
9 Dec	Fed	4.00%	87%	Markets pricing increased probability of hike
17 Dec	ECB	2.50%	86%	Focus on 2027 inflation outlook
17 Dec	BOE	3.75%	40%	Data dependent
18 Dec	BOJ	1.25%	76%	Potential hike risk
27 Jan	Fed	TBD	40%	Key start-of-year policy signal

France Fiscal Pressures Persist Despite Moody’s Reprieve

France avoided a Moody’s downgrade, retaining its Aa3 rating with a negative outlook, but concerns over the country’s fiscal trajectory remain. Slower growth and a wider-than-expected budget deficit of around 5.5% of GDP are expected to push public debt to 121.7% of GDP by 2027. Investor sentiment remains cautious, with hedge funds increasing bearish euro positions to the highest level since March 2020, totaling about €11.8 billion. Nevertheless, some long-term investors see value in French debt, with Australia’s second-largest pension fund reportedly increasing purchases of French government bonds after yields rose above 4.5%.

Israel Votes as Iran Conflict Takes Center Stage

Israel’s election is increasingly centered on the Iran conflict with Prime Minister Benjamin Netanyahu campaigning on a more aggressive approach toward Tehran while challenger Gadi Eisenkot is offering a comparatively more diplomatic alternative.

Kenya FX: Reserves Strong, Risks Manageable: Shilling Holds Its Ground

The shilling remains stable near KES 130/USD supported by strong FX reserves and CBK intervention. However, slowing remittance growth and elevated oil prices are increasing external pressures and could widen the trade deficit.

Dollar Firm, Euro Weakens, Yen Near Intervention Territory

The US dollar remained broadly stable, with the DXY holding near 101.8, supported by resilient US economic data. The euro and pound softened, while USD/JPY rose above 157, keeping the yen close to levels that previously triggered concerns about official intervention. Across Asia, currencies remained under pressure from a stronger dollar and elevated oil prices, with the Philippine peso hitting a record low despite a 50bp rate hike and the Indonesian rupiah facing renewed depreciation pressures. Meanwhile, speculative investors increased bearish positions on the Australian dollar to record levels, reflecting expectations of a weaker AUD and potential shifts in RBA policy

U.S. Midterm Elections (3 November 2026)

The U.S. midterm elections on 3 November represent a key macro event for global markets. A continuation of Republican control of Congress would increase the likelihood of advancing the administration’s tax, trade, and spending agenda potentially sustaining concerns around higher fiscal deficits, elevated Treasury term premiums and inflation risks. The election outcome will also shape U.S. policy on war funding, sanctions, and energy-market interventions with potential implications for the Iran conflict, global oil supply and crude prices.

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KEY MACRO EVENTS TO WATCH

Key Financial and Economic Calendar Month	Events & Dates
Mon Oct 27	China Industrial Profits; ECB Bank Lending Survey; US Durable Goods Orders; US Consumer Confidence
Tue Oct 28	UK Budget Statement; US FOMC Rate Decision
Sun Nov 2	China Manufacturing PMI; US ISM Manufacturing PMI
Mon Nov 3	US JOLTS Job Openings
Tue Nov 4	Eurozone CPI Flash; US ADP Employment Change; US ISM Services PMI
Wed Nov 5	Bank of England Rate Decision
Thu Nov 6	US Nonfarm Payrolls; US Unemployment Rate; US Average Hourly Earnings; University of Michigan Sentiment
Sun Nov 9	China CPI & PPI
Mon Nov 10	US CPI; US Core CPI

Indicator	Period	IMF (Oct WEO)	IMF (Apr WEO)	CBK	National Treasury	Bloomberg Consensus
GDP Growth (% YoY)	2026	4.5%	4.5%	5.0%	5.5%	4.9%
GDP Growth (% YoY)	2027	4.7%	4.5%	5.3%	5.8%	5.1%
CPI Inflation (% YoY avg)	2026	6.0%	5.9%	Peak 7.2% Dec	5.0%	6.1%
CPI Inflation (% YoY avg)	2027	5.0%	5.9%	5.0%	4.5%	6.4%
Budget Balance (% GDP)	2026	-5.7%	-5.5%	—	-5.5%	-6.1%
Budget Balance (% GDP)	2027	-5.2%	-5.0%	—	-4.7%	-6.0%
Current Account (% GDP)	2026	-4.5%	n/a	-3.2%	-4.1%	n/a
Current Account (% GDP)	2027	-4.1%	n/a	—	-3.5%	n/a

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