

Equity Kenya Macro Note



Kenya Financial Markets Weekly

19th Oct to 23rd Oct 2026

IMF Upgrade Kenya's 2027 outlook on lower Inflation and Stronger External Balance

The IMF's October 2026 WEO paints a more positive picture for Kenya's 2027 outlook. Growth is expected to rise from 4.5% in 2026 to 4.7% in 2027 while inflation is projected to ease to 5.0% from 5.9% suggesting current price pressures are likely to fade. The Fund also expects the current account deficit to narrow from 4.5% to 4.1% of GDP supported by lower import costs and stronger export earnings. Overall the update signals a more stable macroeconomic environment in 2027.

EPRA Pump Price Hike Raises Inflation and Rate Hike Risks

The October EPRA review raised pump prices by 4.5%-14.9% with petrol up 6.0% and diesel up 4.5% increasing upside risks to November and December inflation. The fuel price increase is expected to push the inflation peak closer to 7.4% with a growing risk of testing the CBK's 7.5% upper target band. While the December MPC's base case remains a hold at 8.75% the probability of a 25bp rate hike has increased materially.

Kenya's Q2 2026 Growth Engines Fire Despite Agricultural Headwinds

Kenya's economy grew 5.1% YoY in Q2 2026 supported mainly by tourism, manufacturing and construction. Tourism remained the strongest growth driver while construction benefited from housing and infrastructure projects. Agriculture was the key drag due to drought and lower maize production posing the main risk to growth in the second half of 2026.

Brent and Murban Remain Elevated as Geopolitical Risks Persist

Brent crude remains above \$107/bbl and Murban crude above \$113.4/bbl reflecting ongoing supply disruptions in the Middle East and tight global fuel markets. With geopolitical tensions expected to persist through Q1 2027 most analysts see oil prices remaining elevated limiting prospects for near-term energy price relief.

US Headline Inflation Rises to 3.7% and Core CPI at 2.6

US headline inflation rose to 3.7% in September 2026 from 3.4% in August, driven primarily by higher energy prices. Core inflation also edged up to 2.6%, remaining above the Federal Reserve's 2.0% target. The stronger inflation data reinforces expectations that the Fed will keep interest rates higher for longer, supporting the US dollar and maintaining upward pressure on global bond yields.

Kenya Eurobond Yields Ease as Investor Sentiment Improves March 2027

Kenya Eurobond yields eased at the start of the week as improving global risk sentiment boosted demand for emerging market debt. The strongest gains were seen in the 2028, 2031 and 2036 bonds with yields falling by 8 bps, 3 bps and 3 bps respectively, while the benchmark 2031 Eurobond tightened to 7.9%. Despite the rally long-dated bonds continue to trade near 10% yields reflecting persistent investor concerns around Kenya's fiscal position, debt-servicing burden and uncertainty ahead of the country's planned Eurobond issuance and IMF discussions.

Kenya Targets \$1bn DFC-Backed Debt Swap by March 2027

Kenya is pursuing a \$1 billion DFC-backed debt swap targeted for completion by March 2027 to support food security initiatives in partnership with the World Food Programme (WFP). The transaction is expected to provide concessional financing while helping address rising food security pressures arising from drought-related crop losses and wheat supply disruptions.

IMF Successor Program Talks Continue Ahead of December Mission

Kenya and the IMF are still negotiating a successor program with an IMF mission expected in Nairobi in early December. While Kenya is seeking a funded program to lower borrowing costs and unlock additional multilateral financing, discussions remain ongoing and the timing of an agreement is yet to be determined.

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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

China Q3 Growth Beats Expectations as Exports Drive Recovery

China's economy grew 4.5% YoY in Q3 2026 up from 4.3% in Q2 and above the 4.4% consensus forecast keeping the country on track to meet its 4.5%-5.0% annual growth target. The recovery was driven primarily by a 36.3% surge in exports, stronger industrial production (5.5% YoY) and increased fiscal support. However, domestic demand remains weak with retail sales rising just 1.1% YoY, property investment down 20.6% YTD and fixed asset investment falling 7.2% YTD highlighting continued weakness in the property sector and household consumption.

AI Boom Faces ROI Test Amid Massive Capex

AI stocks sold off sharply as investors questioned whether massive AI spending can generate sufficient returns in a higher interest rate environment. Despite this underlying demand remains strong with TSMC reporting 41% revenue growth and hyperscalers expected to spend up to \$750 billion on AI infrastructure in 2026.

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

The Kenya shilling remains broadly stable at around KES 129.9/USD supported by CBK intervention and strong reserve buffers of \$14.64 billion (about 5.9 months of import cover). However, underlying pressure is building as remittance growth slowed to 4.5% YoY in September from 8.2% in June while elevated oil prices continue to widen the trade deficit.

Parliament Extends Fuel VAT Relief by 90 Days

Escalating conflicts in Ukraine and the Middle East alongside political unrest in France continue to support elevated energy prices, strengthen the US dollar and tighten global financial conditions. While Brent crude has gone up to around \$108/bbl, the geopolitical risk premium remains above \$20/bbl, with no near-term resolution to the major conflict zones.

Fiscal Pressures Mount as Deficit Doubles Target

Kenya's Q1 fiscal deficit hit KES 329 bn nearly double target following a KES 58 bn revenue shortfall. At the same time the government is absorbing additional fiscal costs from the KES 9bn monthly fuel VAT relief, the Kenya Airways bailout and pending bills leaving very limited fiscal space. The key risk is higher domestic borrowing and continued pressure on interest rates.

Geopolitical Risks Keep Energy Markets on Edge

Kenya has extended the reduced 8% fuel VAT rate for 90 days delaying any increase to the standard 16% rate until at least April 2027. While the measure helps cushion households from high fuel prices it comes at a fiscal cost of about KES 9 billion per month amid an already widening budget deficit.

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KEY MACRO EVENTS TO WATCH

Key Financial and Economic Calendar Month	Events & Dates
Mon Oct 20	China 1-Year & 5-Year Loan Prime Rates; UK Labour Market Data; US Housing Starts
Tue Oct 21	Japan Trade Balance; UK CPI; UK Core CPI; UK Services CPI; UK Public Sector Net Borrowing
Wed Oct 22	Eurozone Consumer Confidence; ECB Quiet Period Begins; US Initial Jobless Claims
Thu Oct 23	Japan National CPI; Japan Flash Manufacturing PMI; Eurozone Flash PMIs; UK Flash PMI; US Flash PMI; US Michigan Sentiment (Final)
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

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

Report prepared by:
Dr. Emilio Munene (Treasury Economist)

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