

Equity Kenya Macro Note



Kenya Financial Markets Weekly

15th -19th June 2026

Oil down 4% as US, Iran announce deal

Brent futures were down 4% on Monday morning following the announcement of the US-Iran deal to end the Middle East war and reopen the Strait of Hormuz. Brent traded at \$83.5/bbl, the lowest since early March. The 2 countries are expected to sign an MOU on Friday.

World Bank now puts Kenya 2026 growth forecast at 4.4%

The World Bank revised Kenya's growth forecasts for 2026 downwards to 4.4% in its latest Global Economic prospects report against treasury's 4.95 forecast, growth is expected to be slightly higher than SSA average (4%) and EME average (3.6). Slow growth blamed on Middle East conflict that could take global GDP growth to the lowest since the Covid-Pandemic

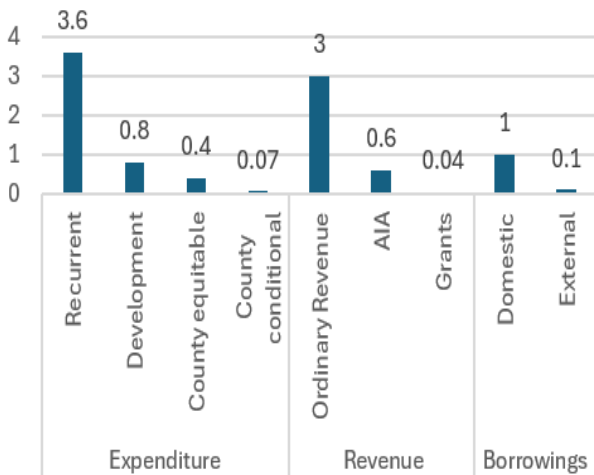
Why holding CBR at 8.75% makes sense

CBK decisions to hold the CBR unchanged at 8.75% was primarily because of inflation remaining between 2.5% to 7.5% and the need to spur GDP growth that has now been revised downwards to 4.9% from 4.3%. CBK expected a de-escalation of the Middle East conflict along with falling food prices that will mitigate rising transport prices and mentioned a rate hike would have been premature.

No Reprieve for salaried workers in financing Sh4.8trn budget

Treasury CS on Thursday last week read the Sh4.8trn budget statement in parliament, leaving out earlier promised PAYE cuts for salaried workers. Treasury projects fiscal deficit to narrow to 5.5% and is targeting a deficit of Sh3.3% of GDP by FY2028/29. The Sh4.82trn expenditure plan will be financed by Sh3.6bn revenue and Sh1.14trn from domestic and external borrowing.

FY 2026/27 fiscal framework
(Sh trn)



EPRA cuts diesel by Sh10

Energy and Petroleum Regulatory Authority on Sunday cut the price of diesel for the next cycle by Sh10/l to Sh223/l from Sh233/l in the previous cycle despite a 0.21% rise in bulk landed prices. State intervention through a subsidy and halving of VAT have cushioned consumers against higher prices. Inflationary pressures linger following the 10% weight of transport on CPI as the price of diesel now up 37% YoY. Petrol prices were reviewed downwards by 22 cents despite 0.56% drop in bulk cargo prices.

Bond yields cool off; Kenya 2032 falls to lowest since start of war.

Bonds recorded further gains on Monday morning following the announcement of a US-Iran deal that was followed by falling oil prices and better equities performance in global stock markets. Rising global inflation resulting from the high energy prices had pushed rates up as investors expressed concern on fiscal management of selected markets. Kenya 2032 yield eased to 7.3%, the lowest since early March. US bonds have also recorded significant gains as the yield on the 10YR dropped to 4.4% and 30yr dropped to 4.9%. Kenya 2032 now 70bps higher than Rwanda 2031 and 310bps higher than US10YR.

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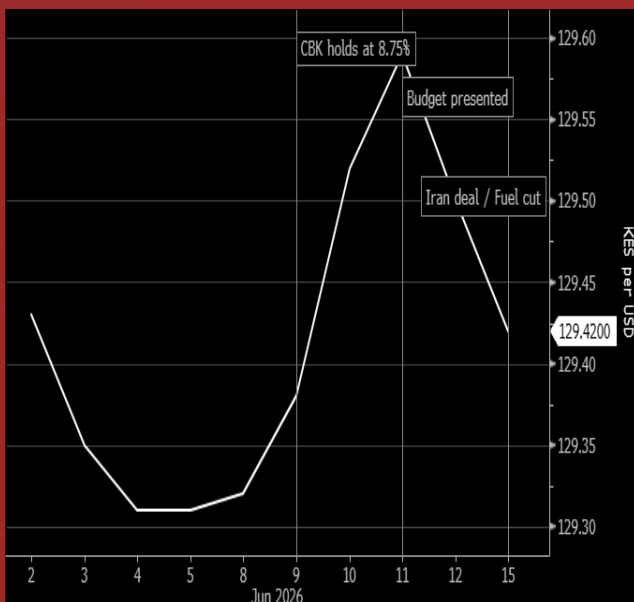
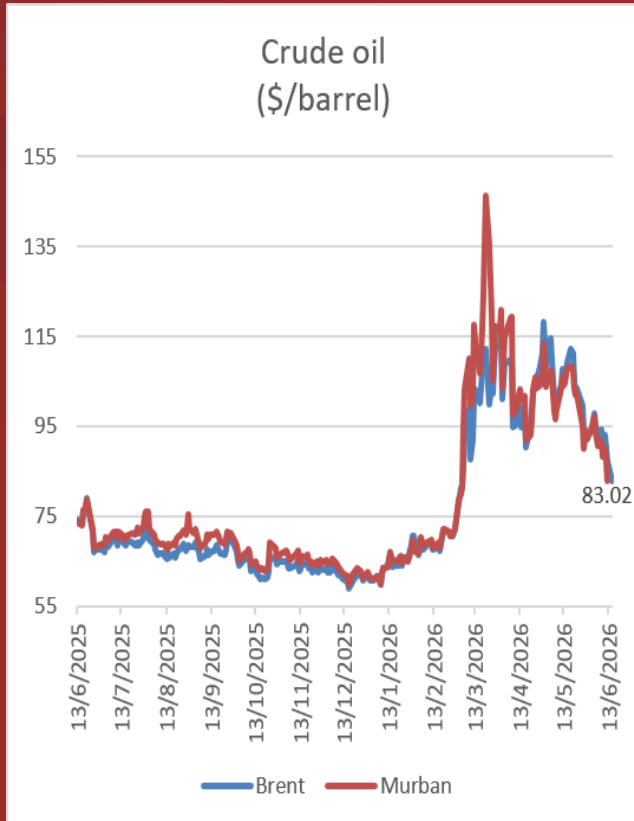


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USD/KES Stuck in a 129 Handle Tug-of-War as KES 1.03T Borrowing Meets Oil-Driven Relief

USD/KES remains range-bound around 129.31–129.59 reflecting a market balanced between two opposing forces. On one hand fiscal pressures from a widening deficit heavy domestic borrowing of KES 1.03 trillion and softer remittance inflows are keeping upward pressure on the pair. On the other hand, easing geopolitical tensions and lower oil prices are supporting the shilling by improving external conditions and reducing import costs. For now, price action is expected to stay within 129.20–129.70, with direction hinging on the Finance Bill vote. Approval could see USD/KES drift toward 129.00 while rejection risks a move back toward 130+ and the year-to-date high of 130.06. The CBK continues to lean against volatility though its reserve buffer is being gradually drawn down including KES 28.2 billion used for fuel subsidy support.



NEWS:

- CBK holds rate at **8.75%**
- Quantity of unsold tea at Mombasa Auction hits **year high**
- Foreigners sell off Sh10.2bn stock in top **5 firms**
- State targets Sh1.4bn from new **tea levy**
- Investors eye **T-bills**, avoid bonds
- Treasury's deficit dilemma in the **FY2026/27**
- Bond investors push government for **higher returns**
- Treasury ignores plan to cut **PAYE** threshold
- Counties to shift to **Treasury Single Account** in July
- Government appeals high court decision to freeze 15% **Safaricom stake**

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Key Financial and Economic Calendar Month	Events & Dates
16 th June	Bank of Japan Interest decision
17 th June	Federal Open Market Committee (FOMC) meeting
15 th to 17 th June	G7 Leader Summit
18 th June	Bank of England interest decision
19 th June	US-Iran interim deal
23 rd June	Family Bank Listing on the NSE
24 th June	BMF Meeting and Announcement

Parliament Approves Kes 4.8 Trillion FY 2026/27 Budget , Health and Education lead in Spending.

Parliament approved the FY2026/27 budget on June 5, 2026 setting total expenditure at KES 4.8 trillion with health and education prioritized as key sectors. The budget targets KES 3.63 trillion in revenue and a fiscal deficit of about 5.3% of GDP. Debt servicing is estimated at roughly KES 1.5 trillion or about 40% of projected revenue while government salaries account for around KES 1.0 trillion. Development expenditure is set at KES 749.5 billion.

Kenya Targets KES 100bn Through Housing Levy Securitization

The National Assembly Budget Committee has confirmed plans to raise KES 100bn in FY2026/27 by securitizing future Affordable Housing Levy revenues to help fund the government's KES 228.3bn annual housing programme. The IMF has previously warned that such securitized tax flows should be classified as public debt a move that could materially increase Kenya's reported debt-to-GDP ratio.

KRA Loses KES 9.1bn After VAT Cut to 8%

The Kenya Revenue Authority (KRA) has confirmed it has foregone KES 9.1 billion in tax revenue over two months following the reduction of VAT on petroleum products from 16% to 8%, implemented as part of cost-of-living relief after the fuel price shock triggered by the Iran-linked oil supply disruption. The VAT cut was introduced alongside fuel subsidies and price interventions after sharp increases in pump prices and subsequent protests, making it one component of a broader fuel relief package estimated at over KES 28 billion in cumulative fiscal costs.

Massive government borrowing set to drive yields

The government plans to borrow KES 1.03 trillion in FY2026/27. To put the scale into perspective the borrowing target is equivalent to about 29% of the government's projected KES 3.53 trillion in revenue collections. When the KES 155.3 billion pending bills securitization is included total domestic market supply rises to more than KES 1.18 trillion for the year. The first test of investor appetite comes on 17 June when the CBK seeks KES 60 billion through reopened 20-year (13.20%) and 25-year (13.92%) Treasury bonds. Demand has recently shown signs of fatigue with the 3 June bond auction recording a bid-cover ratio of 1.0x meaning bids only matched the amount offered. We think the Kenyan yield curve offers good value, particularly for longer-dated bonds, on the assumption the shilling remains stable until end-2026.

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