

MARKETS

Offshore investors rattle bond market

Global shocks expose Uganda's reliance on foreign capital, as offshore investors retreat, weakening shilling and pushing yields higher.

Money markets. |

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We are now in the second week of a crippling war, and as always, markets have recoiled before they fully understand the battlefield.

Energy prices are rising, inflation fears are resurfacing, and investors are reassessing how far central banks might tighten policy.

The result is familiar: stocks wobble, bonds sell off, and caution takes over.

In Uganda, the first crack appears in the currency. The shilling has come under pressure, weakening against the dollar as investors retreat from risk.

The shift follows the recent US-Israel strikes on Iran, which have triggered a broader flight to safety.

Offshore investors, who had been active buyers of Ugandan government debt, are now trimming positions, converting shillings into dollars and adding strain on the local unit.

By yesterday, the shilling was trading around Shs3,766 per dollar, further weakening from its earlier position.

Even brief moments of dollar weakness have not reversed the trend.

Bank of Uganda has not stood still. Through liquidity tightening operations, including a seven-day mop-up repo and Treasury bill auctions, it has sought to stabilise the market, pulling roughly Shs1.07 trillion out of circulation in a single operation last week.

It is a familiar playbook, but one that must now contend with forces far beyond domestic control.

This matters because Uganda has become increasingly reliant on foreign investors. At one point last year, they held nearly \$3b in government securities, about half of the country's foreign exchange reserves.

Their presence brought liquidity. Now, that same money is turning cautious.

The bond market is already reflecting that shift. Earlier in the year, the 25-year bond had been on a steady rally. It was a quiet vote of confidence in the market, but then the war intervened.

Whereas yields had been declining, they have since climbed, with long-term



bonds returning to earlier levels.

Just as Bank of Uganda was beginning to succeed in lowering borrowing costs, events thousands of miles away reset the narrative.

Global market tensions are pushing yields upward, even as Uganda's macroeconomic fundamentals remain broadly supportive. Inflation stood at just 2.9 percent in February, low and well contained, which would ordinarily create room for lower interest rates and support economic activity.

At the start of 2026, that was the direction of travel. Yields declined across the curve as foreign investors returned after the elections, increasing demand for government securities and lowering borrowing costs.

That momentum, however, has re-

Key figures

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\$3b

At one point last year, offshore investors held nearly \$3b in government securities, about half of the country's foreign exchange reserves.

The shilling has come under renewed pressure as offshore investors exit local markets, driving demand for dollars higher and exposing the currency's vulnerability to global risk sentiment shifts. PHOTO/FILE

versed. As geopolitical tensions escalated, offshore investors reduced exposure to Ugandan securities by selling bonds, which forced prices to fall and, in turn, pushed up interest rates.

The result is upward pressure on yields across the curve, even in an otherwise stable macro environment.

"Obviously, at this point we do not know how long the impact of the war is going to last, but clearly this is an evolving space," says Grace Semakula, the SBG Securities chief executive.

He notes that the biggest risk now is what happens to inflation, which is projected to "rise by between one to three or even four percent".

This has disrupted earlier expectations that interest rates would ease following the elections. While the political cycle had pointed to improved stability and fiscal discipline, global risk has taken precedence.

Even so, the medium- to long-term outlook remains constructive. As oil exports come on stream, the fiscal deficit is expected to narrow, reducing borrowing pressures and creating room for yields to ease more sustainably.

Christopher Legilisho, a Standard Bank Group economist, says that with elections now behind us, this has set the stage for the next five years, but the environment now appears uncertain.

2025 marked a structural change in Uganda's debt market: the extension of the yield curve, with government, in August, issuing its first-ever 25-year bond that sought to lengthen the maturity profile of public debt and ease refinancing pressures.

By pushing obligations farther into the future, authorities created more flexibility in cash flows.

At issuance, pricing was tightly managed, but secondary-market yields later rose as sentiment shifted. Across the curve, 2025 revealed divergence, with short-term rates rising sharply while long-term movements remained more contained.

At the same time, market participation broadened. Retail activity increased notably, signalling a deepening domestic investor base and growing confidence in government securities.