

SSA Market Review

Nigeria: DMO targets ₦720bn debt issuance in 3Q-22 through the re-opening of existing bond, ostensibly to avoid punitive interest costs

Last week, the Debt Management Office (DMO) released the Federal Government of Nigeria's provisional bond issuance calendar for 3Q-22. Per the calendar, the DMO plans to raise between ₦630bn to ₦720bn for the quarter. Amidst the generally unfavorable domestic and external financing conditions, the DMO avoided new tenor offers in the quarter. Instead, the office is targeting the re-opening of the FGN Mar-25 (coupon: 15.53% | term-to-maturity: 2.67 yrs.), FGN Apr-32 (coupon: 12.50% | term-to-maturity: 9.75 yrs.) and the FGN Jan-42 (coupon: 13% | term-to-maturity: 19.5 yrs.) bonds.

Given the increased risk aversion and the prevailing high domestic interest rate environment, we believe the DMO is seeking to limit the Treasury's cost of funding with this issuance strategy. Separately, the DMO completed the listing of the 8.735% US\$1.35bn Eurobond (7-Year tenor) maturing in Mar-29 on the Nigeria Stock Exchange and the FMDQ last week. The local listing deepens the domestic market and increases the opportunities on the market for local fund managers.

South Africa: Fitch ratings affirm IDR at BB-(Stable) but the prevailing domestic and global risk factors could undermine a favourable rating going forward

Fitch Ratings latest action affirmed South Africa's Long-Term Foreign-Currency Issuer Default Rating (IDR) at BB- (stable). The decision follows S&P Global's surprise revision of South Africa's outlook to positive (from stable) in May-22. The agency cited a favorable debt structure, credible monetary policy path, and recent improvements in the current account balance as the credit positives that necessitated the review of the outlook.

In our view, while the post-pandemic economic normalization is on course and the high commodity prices support robust near-term growth, their impact will wane over time, and growth could decelerate to ≈2% in 2023 and 2024. Public finances in the 2021/22 fiscal year came in better than expected and could stabilize the deficit at around 5.3% of GDP in the 2022/23 fiscal year. However, the easing growth trend, heightened inflation risks, high interest rates, the build-up of contingent liabilities from non-commercial SoEs, and rising public debt levels could undermine fiscal consolidation. The ongoing load shedding also remains a concern. Thus, we flag the heightened global interest rate and inflation outlook, the Russia-Ukraine conflict, commodity dependence, and the pre-existing structural bottlenecks as headwinds to a favorable credit rating in the near term.

Ghana in Focus

T-Bill auction oversubscribed by 1.56x as short-term yields approach their peak but inflation risks remain.

- The latest auction of 91-day to 364-day T-bills raked in total demand worth GHC1.33bn against the target of GHC928mn.
- The GHC1.32 bn issued translates into a target coverage of 1.42x, maturity coverage of 1.61x and a bid-to-cover ratio of 1.01x.
- The 91 and 364-day bills edged up a tad higher at 25.89% (+1bp w/w), and 27.49% (+6 bps w/w), respectively while the 182-day bill trimmed 2bps w/w to 26.55%
- Nominal yields tail off slightly on the positive news effect, but inflation remains a risk.

Auction performance: Some buoyancy returned on the money market over the last fortnight resulting in an oversubscription for the Treasury's latest T-Bill auctions.

SSA: Snapshot of Benchmark 91-Day Yields

	Current Week (%)	Previous Week (%)	w/w Change (%)
Nigeria	2.40%	2.49%	-0.09%
South Africa	5.13%	5.11%	0.02%
Uganda	8.25%	8.25%	0.00%
Egypt	15.56%	15.27%	0.29%
Kenya	8.17%	8.10%	0.07%
Tanzania	2.77%	2.77%	0.00%
Zambia	9.30%	9.30%	0.00%

Source: GCB Capital Research, Central Bank Websites

The Ghana Market Summary

	Current	Previous	Change
Monetary indicators			
Interbank Interest Rate (%)	20.92%	20.66%	+0.26%
Inflation (12-month average)	14.43%	14.43%	0.00%
Monetary Policy Rate (%)	19.00%	19.00%	0.00%
The Ghana Reference rate (%)	14.50%	14.50%	0.00%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH¢)	1001.33	597.76	67.51%
182 - Day Bill issued (GH¢)	214.05	229.77	-6.84%
364 -Day Bill issued (GH¢)	106.46	66.9	59.13%
91 - Day Bill Yield (%)	25.89%	25.88%	1bp
182 – Day Bill Yield (%)	26.55%	26.57%	-2bps
364 – Day Bill Yield (%)	27.49%	27.43%	+6bps
Bid/Cover ratio	1.01x	1.12x	-0.11x
Target coverage	1.4x	1.56x	-0.14x
Maturity Coverage	1.61x	1.66x	-0.05x
Target for Upcoming Auction	932	928	0.43%
Upcoming Maturing T-bills	875.12	781.89	11.92%

GCB Capital Research | Bank of Ghana

Last week's auction of 91-day to 364-day bills attracted total demand worth GH¢1.33bn against the auction target of GH¢928mn and total maturities worth GH¢781 mn due on Monday July 11, 2022. The Treasury snapped 99.48% of the bids tendered, which exceeded the refinancing obligation for the week by 61%.

Yield analysis: GHS liquidity levels remain thin, pushing the interbank interest rate 26bps higher last week. However, recent T-bill auctions have attracted significant demand despite the intense competition from Cocoa bills at competitive yields. It appears nominal yields are approaching their peak and yields on the 91-day and the 364-day bills declined marginally at the last auction. While inflation risks remain, we believe the positive news effect of the government's ongoing engagement with the IMF for a fund-supported program could lend support to yields ahead of the mid-year budget review later in Jul-22. Significant progress in negotiations with the IMF and a renewed commitment to fiscal prudence could trigger a sharp correction in yields in 3Q-22.

The Week Ahead: The Treasury will target GH¢932mn from the 91-day and 182-day bills at the next auction slated for Friday, July 15, 2022. Ghana Cocoa Board will also attempt to refinance an upcoming maturity worth GH¢79.75mn in the week ahead. While we expect a marginal increase in Jun-22 CPI inflation due tomorrow, July 13, the onset of a favourable base drift from Jul-22 could moderate the impact of the elevated cost pressures on inflation going forward. Thus, nominal yields could remain broadly contained with limited upside as they approach their peak.

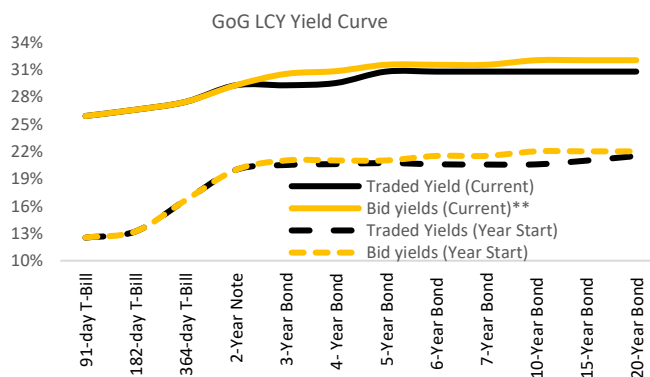
Review of the Secondary Fixed Income Market

Trading Dynamics: From a buoyant start to the week, trading activity on the GFIM tailed off from midweek as the investors pause to digest the government's on-going negotiations with the IMF. Consequently, aggregate turnover on GoG bonds eased to GH¢3.26bn (-31.2% w/w). The 2023 to 2027 tenors dominated activity on the market and accounted for 70% of the aggregate volume traded for the week. We observed bidding interest from both domestic and offshore participants at yields ranging between 28% and 29%.

3Q-22 Auction Calendar: Treasury targets a gross issuance of GH¢23bn with GH¢1.95bn being fresh issuance

Last week, the Treasury released the auction calendar for 3Q-22, targeting a gross issuance of GH¢23.07bn. Of this amount, GH¢21.12bn will go into rolling over maturities due in the quarter, with GH¢1.95bn being new financing. Given the uncertain market dynamics, the calendar is open, targeting 2-year to 7-year bonds from fresh issuances and the re-opening existing bonds. The Treasury could also debut an inflation-linked bond in the quarter, subject to market conditions. Given the unfavorable market sentiments and the attractive yields in the developed markets, offshore appetite could be muted, with the domestic market driving the trades.

Trading Idea: The macroeconomic outlook remains uncertain, and the elevated inflation risks have depressed real returns on fixed-income securities. Thus, bond portfolios continue to record losses in the near term. We recommend a balanced strategy that picks short and medium-term maturities of YTM above 20% to stabilize portfolio returns over the medium term.



Source: GCB Capital Research | Bank of Ghana | Central Securities Depository

3Q-22 Issuance Calendar		
	3Q-22	q/q change
Gross Issuance	GH¢23.07 bn	-6.6%
o/w Rollover of maturing debts	GH¢21.12 bn	+5.1%
o/w new financing	GH¢1.95 bn	-57.5%
Target instruments		
1. T-bills - Weekly		
2. 2-Year -7-Year bonds – subject to market conditions		

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Ghana's Outstanding Eurobonds					
Maturity (Coupon)	Bid Price	Bid Yield	Ask Yield	Mid-Yield	w/w Δ
07-Apr-25 (0)	61.5	63.5	62.5	19.44%	0.0%
16-Feb-26 (8.13%)	79.25	80.75	80	19.09%	0.0%
11-Feb-27 (6.38%)	64.75	66.25	65.5	21.06%	0.0%
26-Mar-27 (7.88%)	66.5	68	67.25	21.24%	0.0%
07-Apr-29 (7.75%)	56.25	57.75	57	21.43%	0.0%
16-May-29 (7.63%)	55.5	57	56.25	21.39%	0.0%
14-Oct-30 (10.75%)	91.5	92.5	92	12.57%	0.0%
26-Mar-32 (8.13%)	53.5	55	54.25	19.38%	0.0%
07-Apr-34 (8.63%)	53.375	54.875	54.125	18.94%	0.0%
11-Feb-35 (7.88%)	52.25	53.75	53	17.73%	0.0%
07-May-42 (8.88%)	53.125	54.625	53.875	17.39%	0.0%
16-Jun-49 (8.63%)	52.375	53.875	53.125	16.71%	0.0%
26-Mar-51 (8.95%)	52.625	54.125	53.375	17.16%	0.0%
11-Mar-61 (8.75%)	52.25	53.75	53	16.77%	0.0%

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