

### Weekly Insights: The Fixed Income Wrap

25<sup>th</sup> July 2022

#### SSA Market Review

##### **South Africa: The SARB Gets Aggressive with the Highest Interest Rate Hike in Two Decades to Cool the Red-Hot Inflation**

The Monetary Policy Committee (MPC) of the South Africa Reserve Bank (SARB) raised the Repo rate by 75bps to 5.5% last week as the Committee switched into an aggressive mode to tame runaway inflation. This action is the highest rate hike from the SARB in two decades, with the implied path of the policy rate from the Quarterly Projection Model (QPM) signaling further interest rate hikes in 2022 and 2023.

South Africa's headline inflation breached the 6% upper target band in Q2 2022, closing Jun-22 at 7.4%. The model shows a high inflation profile over the medium term, with both core and headline inflation expected to be elevated until Q2 2023. With this outlook, inflation is no longer transitory but showing signs of persistence, and the headline number could only revert to the midpoint of the target band by 4Q24. With the rising yields due to the tighter monetary stance, real GDP growth is expected to decline from the 4.9% recorded in 2021. While the growth rate of 1.9% (vs. projection: 0.90%) surprised upwards, the Committee expects a contraction in 2Q22 on the back of the persistent load-shedding and the ravages from flooding in Kwa Zulu Natal province (the second largest contributor to GDP). Still, the Committee expects real growth of 2% in 2022 (up from 1.7%).

In hindsight, MPC's pre-emptive interest rate hiking cycle that began in Nov-21 has proved helpful in preventing inflation from becoming endemic. The 75bps hike in the Repo rate has narrowed the negative real returns, and the outlook of interest could improve the appeal of Rand-denominated assets.

##### **Kenya: IMF Executive Board disburses US\$235mn under the ECF/EFF arrangement**

Last week, the IMF Executive Board completed the third review under the Extended Credit Facility and the Extended Fund Facility (ECF/EFF) arrangements. The successful review paves the way for the disbursement of SDR 179.13mn (about US\$235.6 Mn) to the government of Kenya.

Given the punitive international financing conditions prevailing, Kenya suspended its planned borrowing on the Eurobond market and included this disbursement under the third review in its financing options for FY-2020/21 which ended in Jun-21. We note that Kenya's Eurobonds are trading at distress levels, and the government has resorted to domestic financing thus far in 2022. Given the robust external balances, with the gross reserves expected to cover 3.9 months of imports in FY22, we expect the disbursement under the ECF/EFF to go into budgetary support, which could ease the domestic financing pressure in the third quarter.

#### Ghana market in Focus

- The Treasury exceeded its sizeable refinancing obligation this week amidst competing offers, raising GH₵2.41bn across the 91-day to 364-day bills.
- The uptake translates into a target coverage of 1.24x, and a maturity coverage of 1.40x.
- Amidst the increased competition for funds, the 91-day (26.34% | +45bps w/w), the 182-day (28.06% | 151bps w/w) and the 364-day (27.85% | 36bps w/w) yields nudged higher.
- Given the rate neutral MPR decision and the relatively low refinancing obligation in the week ahead, we expect broadly stable yields at the next T-bill auction.

SSA: Snapshot of Benchmark 91-Day Yields			
	Current	Previous	w/w Change
	Week (%)	Week (%)	(%)
Nigeria	2.75%	2.40%	0.35%
South Africa	5.12%	5.13%	-0.01%
Uganda	8.25%	8.25%	0.00%
Egypt	15.78%	15.56%	0.22%
Kenya	8.25%	8.17%	0.08%
Tanzania	2.77%	2.77%	0.00%
Zambia	9.16%	9.30%	-0.14%

Source: GCB Capital Research, Central Bank Websites

The Ghana Market Summary			
	Current	Previous	Change
<b>Monetary indicators</b>			
Interbank Interest Rate (%)	21.70%	20.92%	0.78%
Inflation (12-month average)	14.43%	14.43%	0.00%
Monetary Policy Rate (%)	19.00%	19.00%	0.00%
The Ghana Reference rate (%)	20.80%	18.04%	2.76%
<b>GoG T-Bill Auction Summary</b>			
91- Day Bill issued (GH₵)	1,273.92	1,001.33	27.22%
182 - Day Bill issued (GH₵)	974.97	214.05	355.49%
364 -Day Bill issued (GH₵)	158.996	106.46	49.35%
91 - Day Bill Yield (%)	26.34%	25.89%	0.45%
182 – Day Bill Yield (%)	28.06%	26.55%	1.51%
364 – Day Bill Yield (%)	27.85%	27.49%	0.36%
Bid/Cover ratio	1.0x	0.99x	0.01
Target coverage	1.24x	1.42x	-0.19
Maturity Coverage	1.40x	1.61x	-0.21
Target for Upcoming Auction	564	1947	-71.03%
Upcoming Maturing T-bills	528.72	1,721.46	-69.29%

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**Auction performance:** Investor demand at the last T-bill auction was surprisingly firm, with total bids worth GH₵2.41bn across the 91-day to 364-day bills. The demand exceeded the auction target by 24%, with the uptake worth GH₵2.40bn covering 1.4x the refinancing obligation due today, Monday, July 25, 2022. The 91-day yield cleared 6bps higher at 25.95%, while the 182-day bill gained 91bps to 27.46%.

**Bond Rollover Trade Review:** The Treasury closed the dual offer to roll over the Jul-25 5-Year LCY denominated paper on Friday, July 22, 2022, raking in a combined GH₵1.72bn. The 3-Year paper raised GH₵1.12bn while the re-opened Nov-26 USD-denominated paper brought in US\$ 81.24mn. The proceed from the offer falls 63% short of the outstanding FV on the maturing 5-Year paper and 24.18% short of the domestic holding of the paper amidst muted offshore demand and shortened domestic investor tenor preference. The 3-Year tenor cleared at 29.85% (vs. IPG: 29% area) while the 5-Year USD denominated paper cleared at a yield equivalent of 9% (vs. IPG: 7.25%) area.

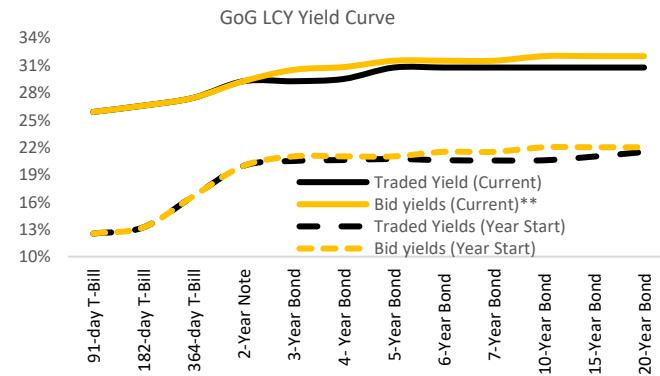
**Analysis of Demand and Yields at the Primary Auction:** With the depressed GHS liquidity conditions and muted offshore demand amidst competing offers at more attractive yields, domestic investor demand was split between the shorter tenors and the rollover offer. Notably, the 29.85% final clearing yield on the 3-Year paper was below the current market levels for the 2025 tenors and 165bps below the highest clearing yield on the latest 182-day cocoa bill. Thus, we believe the unattractive pricing amidst the competing offers and low tight GHS liquidity account for the weak demand with domestic investors also benchmarking USD-denominated paper against the 2025 and 2026 Eurobonds, which are trading near 19%.

**The Money Market in the Week Ahead:** The Treasury will offer GH₵564mn across the 91-day and 182-day bills at the next auction slated for Friday, July 29, 2022. The proceed will be used to roll over upcoming T-Bill maturities worth GH₵528.72. While there are no competing offers on the GFIM in the week ahead, the Bank of Ghana is auctioning a 273-day BoG bill tomorrow, Monday, July 25, 2022. The offer is for long-term sterilization, exclusive to the Banks, with the BoG expecting competitive market rates. Thus, we expect further tightening of GHS liquidity levels in the week following the OMO bill trade, with T-Bill yields potentially tilting marginally northwards at the next auction.

#### Review of the Secondary Fixed Income Market

**Trading Dynamics:** Activity in the secondary bonds market expectedly declined last week as the primary auction went by. The value of bonds traded in the week amounted to GH₵2.82bn (-35.90% w/w), with the 2026 to 2029 tenors dominating investor appetite. The front end of the curve (2022 to 2025 tenors) moved 26.90% of the volumes traded last week, while the mid-portions of the curve accounted for 62.4% of market activity.

**Trading Idea:** While inflation remains a risk to the outlook for yields, we gleaned from last week's bond auction that the Treasury may be inclined to compress nominal slightly below the current market levels in the forthcoming auctions. Thus, we reiterate that nominal yields are near their peak. While the short-term tenors retain value in the near term, the July 25 3-Year paper will prove a valuable addition for stabilizing portfolio returns over the medium term and could drive market activity.



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%
<b>Target instruments</b>		
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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