

## Ghana: BoG Slash the Target for Bi-Weekly Forward FX Auctions amidst re-emerging FX demand pressures in 3Q-22

The Cedi is under pressure from elevated corporate FX demand in Jul-22 after posting a relatively stable run through 2Q22. The GHS has shaved off 2.08% thus far in Jul-22 (vs. -1.19% in 2Q22) under strong demand amidst reduced Central Bank liquidity support. The Bank of Ghana's reference rate closed last week 1.08% weaker vs. the USD at GH¢7.38 (-18.67% YTD) on the interbank market. Similarly, the Cedi ceded 7.2% and 8.35% year to date vs. the Euro and the GBP, respectively.

Separately, we note that the Bank of Ghana slashed the target for its bi-weekly forward FX auction by 50% to US\$25 million in the revised forward auction calendar for 3Q22 (vs. US\$50 million in 2Q22). Last week's forward FX auction attracted total bids worth US\$102.5 million against an allotment worth US\$25 million. Thus, we expect the sizeable, uncovered demand at the auction to increase demand on the spot market in the week ahead, which could keep the GHS on the backfoot against the major trading currencies.

Given that there is simmering demand pressures, the reduced auction size may signal underlying reserve vulnerability owing to increased reserve depletion in 1H22. Thus, the proposed US\$1bn loan syndication could be a timely boost to the gross reserve, and the delayed parliamentary approval of the loan could fuel FX market uncertainty.

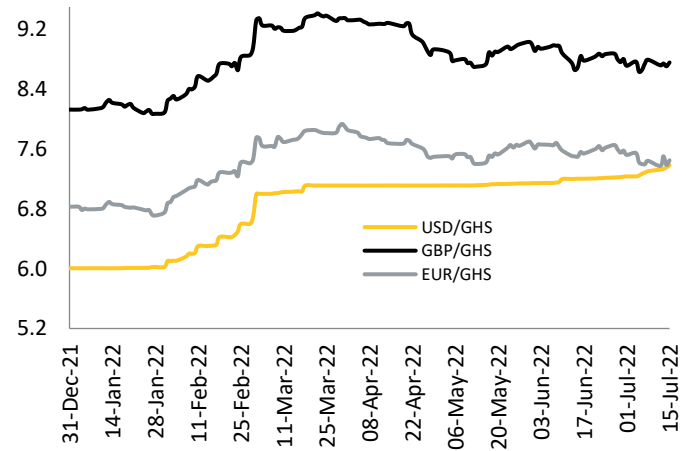
## Nigeria: Widening spreads between the official USD/NGN rate reflects vulnerabilities in Nigeria's intricate FX regime.

The Naira closed trading last week on a weaker footing against the greenback on the NAFEX window as FX turnover declined. The Naira trimmed 1.3% vs. the USD to close the week at ₦430.30, reflecting pent-up demand across the other segments of the market.

With increased FX liquidity support to the official market, the Central Bank of Nigeria has kept the official USD/NGN exchange rate artificially low on the interbank market. The sustained support was possible thanks to the increased crude oil prices, which cushioned the gross reserve position through 1H-22. However, pricing on the NAFEX window and the parallel markets reflect underlying FX liquidity vulnerabilities. At ₦414.90, the official I&E USD/NGN exchange rate is trading at a spread of ₦15.43 to the NAFEX rate and ₦203.6 on the Parallel market rates.

Despite the scale of FX market interventions to date, the stock of gross and liquid FX reserves has improved, reversing the downward trend from 2Q-22. The gross reserve stood at US\$39.42bn on July 13, and the net reserve follows closely at US\$39.18, which should continue to cushion the Naira against intermittent volatility in the official market. However, the Naira is overvalued on the official market, which may undermine portfolio investor appetite.

Figure 1: Evolution of Interbank Exchange Rate (2022)



Source: GCB Capital Research | Ghana Statistical Service | Bank of Ghana

Table 1: Year to Date GHS Rates Summary

GHC	\$	£	€
<b>2022 low</b>	5.7820	7.8157	6.6248
<b>2022 High</b>	7.3845	9.4144	7.9359
<b>Average (YTD)</b>	6.8448	8.8150	7.4340
<b>Current Rate</b>	7.3845	7.4499	8.7577

Source: Bank of Ghana | GCB Capital Research

Figure 2: Weekly SSA Exchange rate Summary

Country	\$	w/w (%)	€	w/w (%)	£	w/w (%)
Egypt	18.87	0.00%	19.04	1.04%	22.37	1.07%
Ghana	7.38	-1.08%	7.45	-0.10%	8.76	0.42%
Kenya	118.27	-0.17%	118.63	1.73%	140.31	0.73%
Nigeria	414.90	-0.02%	415.15	2.83%	490.91	1.37%
S. Africa	17.24	-2.29%	17.28	-1.43%	20.39	-1.36%
Tanzania	2304.44	0.00%	2320.11	1.02%	2728.22	0.38%
Uganda	3766.09	-0.30%	3807.98	0.51%	4501.66	-0.65%
Zambia	16.39	0.00%	16.64	0.00%	19.66	0.00%

Source: Bank of Ghana | GCB Capital Research

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