Weekly Insights: The Fixed Income Wrap

1st Aug 2022

SSA Market Review

Zambia: Authorities on the Brink of Securing the IMF Executive Board's Approval for the 3-Year Fund-Supported Program

The Zambian Authorities cleared a final hurdle in negotiations with bilateral creditors that paves the way for the sign-off of the 3-year program supported by an Extended Credit Facility (ECF).

The breakthrough follows the statement of the Official Credit Committee which delivered financing assurances based on Zambia's request for debt treatment under the G-20 Common Framework. The creditor committee expressed firm commitment to negotiate debt restructuring terms and called on private creditors and other official bilateral creditors to commit to a comparable debt treatment.

We believe this is a welcome development that will usher in the fund-supported program the Zambian authorities have requested since 2019 to correct the macroeconomic imbalances and re-anchor debt sustainability. We expect the Executive Board of the IMF to approve the 3-year program for Zambia eminently as Zambia continues negotiations to seek relief with commercial creditors as required under the framework. The Kwacha and sovereign bond prices could rally in the week ahead on the back of this development. However, the rally could be short-lived as inflation reversed course, rising for the first time in a year to 9.9% y/y (+20bps) in Jul-22, reflecting underlying inflationary risks.

Egypt: IMF Recommends Deeper Reforms to Safeguard Private Sector Development

The IMF Executive Board concluded an Ex-post Evaluation (EPE) of Egypt's Exceptional Access under the 2020 Standby Arrangement (SBA). The program, which expired on June 25, 2021, sought to safeguard macroeconomic stability amidst the COVID-19 crisis, which allowed the easing of fiscal, monetary, and financial conditions to support the government's COVID-19 response.

The IMF Board agreed with the EPE that the SBA achieved its objective of maintaining macroeconomic stability with the policy implementation broadly in line with set objectives. The Board noted that Egypt met the quantitative targets and program conditionalities comfortably. However, the Board flagged some outstanding governance commitments related to COVID-19 expenditures. Thus, the IMF Board recommended decisive progress on deeper reforms to safeguard private sector development and improve governance.

In hindsight, the combined US$8bn package secured under the Rapid Financing Instrument (RFI) and the Standby Arrangement was a master stroke as it helped Egypt unlock critical investments to avoid a balance of payments crisis. Egypt recovered its lost reserves, and the program successfully helped the country to issue Eurobonds worth US$10bn. However, Egypt needs to entrench a flexible exchange rate regime to safeguard investor confidence in its local and international bonds and forestall portfolio reversals in the form that preceded the SBA.

Ghana market in Focus

- Last week's auction of the 91-day and 182-day bills attracted bids worth GH¢1.08bn with the Treasury accepting all bids.
- The issuance size translates into a target coverage of 1.92x, and a maturity coverage of 2.05x.
- Both the 91-day (26.71% | +37bps w/w) and the 182-day (28.26% |19bps w/w) yields crept higher despite the 92% oversubscription, reflecting the prevailing market concerns and risks to investing.
- We believe the weak expenditure controls over 1H22, despite the significant revenue shortfalls, sustain concerns about fiscal vulnerability.

SSA: Snapshot of Benchmark 91-Day Yields

	Current Week (%)	Previous Week (%)	w/w Change (%)
Nigeria	2.80%	2.75%	0.05%
South Africa	5.81%	5.12%	0.69%
Uganda	8.25%	8.25%	0.00%
Egypt	15.86%	15.78%	0.08%
Kenya	8.40%	8.25%	0.15%
Tanzania	2.77%	2.77%	0.00%
Zambia	9.16%	9.16%	0.00%

Source: GCB Capital Research, Central Bank Websites

The Ghana Market Summary

	Current	Previous	Change
Monetary indicators			
Interbank Interest Rate (%)	21.87%	21.70%	0.17%
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%	20.80%	0.00%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH₵)	824.17	1,273.92	-35.30%
182 - Day Bill issued (GH₵)	259.38	974.97	-73.40%
364 -Day Bill issued (GH₵)	0	158.996	-100.00%
91 - Day Bill Yield (%)	26.71%	26.34%	0.37%
182 – Day Bill Yield (%)	28.26%	28.06%	0.19%
364 – Day Bill Yield (%)	27.85%	27.85%	0.00%
Bid/Cover ratio	1x	1x	0.00
Target coverage	1.92x	1.24x	0.68
Maturity Coverage	2.05x	1.40x	0.65
Target for Upcoming Auction	1,153.00	564	104.43%
Upcoming Maturing T-bills	1,080.71	528.72	104.40%

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Auction performance: Last week's primary action of 91-day and 182-day bills attracted total demand worth GH¢1.08bn. The Treasury accepted all the bids, which exceeded the target for the week by 92% and the maturities due today, Monday August 1, 2022, by 105%. Despite the significant oversubscription, the 91-day and 182-day bills cleared marginally higher, reflecting prevailing market concerns and macro fiscal uncertainties.

Mid-year Review: Elevated Fiscal Vulnerabilities Amidst Weak Expenditure Controls and Persistent Revenue Gaps

Surprisingly, fiscal consolidation stalled through 1H22, characterized by pronounced revenue shortfall and weak expenditure controls. Total revenue fell GH¢5.61bn below target to GH¢37.81bn (6.4% of revised GDP). While the delayed rollout of almost all the new revenue measures for 2022 significantly contributed to the shortfall in revenue, other revenue lines also underwhelmed. Regardless, total expenditure (including arrears clearance) exceeded the period's target by GH¢2.81bn to GH¢65.96bn (11.1% of revised GDP). The combined effect of the revenue and expenditure numbers yielded a wider budget deficit of 4.8% of revised GDP (vs. target: 3.3%).

We flag the increased interest obligation and payroll commitments amidst the revenue challenges as risks to expenditure controls and the fiscal outlook in 2H22. The Treasury raised interest obligation at FY22 to GH¢41.36bn (+10.4% |42.7% of revenue), and together with the 15% adjustment in the Cost-of-Living Allowance will push the wage bill higher to GH¢37.95bn (39.2% of GDP). While the inflation-induced surge in nominal GDP will improve the fiscal ratios at FY22, the fiscal adjustments resulted in a higher nominal deficit of GH¢38.9bn (vs. 37.0bn in the initial budget). Thus, regardless of the inflationary effects, expenditure controls remain weak, exacerbating prevailing fiscal vulnerabilities.

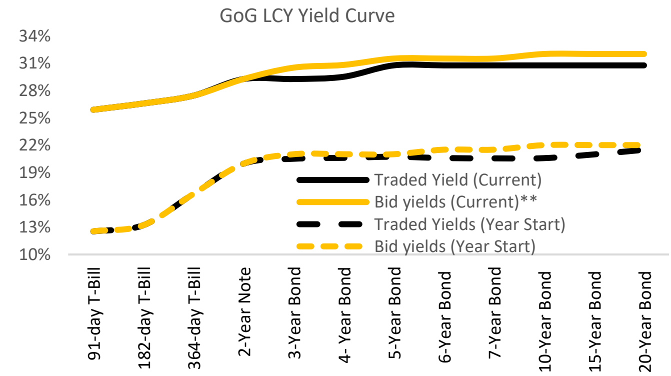
Investor's yield reaction: While domestic yields were broadly stable last week, Eurobond investors reacted negatively to the news, resulting in a surge in sovereign yields across the curve. The Ghana 27 maturities crossed the 30% mark along the week but eased off slightly to close the week just around the 30% level.

The Money Market in the Week Ahead: The next auction will target GH¢564mn across the 91-day to 364-day bills on Friday, July 29, 2022, to rollover upcoming maturities worth GH¢1.08bn. While we expect COCOBOD to rollover the GH¢603.90mn cocoa bills maturing later this week, we believe domestic appetite favor maturities at the front of the LCY curve, and the transaction could attract decent demand at slightly higher yields.

Review of the Secondary Fixed Income Market

Trading Dynamics: Investor activity on the secondary bonds market softened again for the third consecutive with aggregate turnover declining by 30.71% w/w to GH¢1.94bn. The mid-duration tenors (with one year to 5 years of residual maturity) continued to drive activity on the market and accounted for 68% of the volume traded for the week. We believe investors favor short-term tenors as they offer comparable yields to the coupon rates on medium-term maturities.

Market color and pick up strategy: We noted mixed reactions to the mid-year budget review as the expenditure controls remain weak amidst the general revenue weaknesses. While we expect inflation to peak soon, the lingering fiscal uncertainties could tilt nominal LCY yields northwards in the weeks ahead. Thus, we believe the shorter-term tenors retain value, and portfolio managers will remain short for a considerable time in addition to accumulating medium-term bonds with coupon rates above 20% to boost portfolio returns.



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)	56.3	23.9%	20.4%	22.2%	+2.3%
16-Feb-26 (8.13%)	67.8	27.5%	25.2%	26.3%	-0.5%
11-Feb-27 (6.38%)	51.3	30.1%	28.6%	29.4%	-2.9%
26-Mar-27 (7.88%)	54	29.0%	27.6%	28.3%	-2.3%
07-Apr-29 (7.75%)	46.8	26.5%	25.4%	25.9%	-3%
16-May-29 (7.63%)	46.8	26.0%	24.9%	25.5%	-3%
14-Oct-30 (10.75%)	81	15.2%	14.7%	14.9%	+0.25%
26-Mar-32 (8.13%)	45	23.1%	22.1%	22.6%	-3.1 %
07-Apr-34 (8.63%)	44.4	22.7%	21.7%	22.2%	-1.3%
11-Feb-35 (7.88%)	44.1	20.87%	20.02%	20.45%	-3%
07-May-42 (8.88%)	44.1	20.76%	19.91%	20.34%	-2%
16-Jun-49 (8.63%)	44	19.78%	18.95%	19.37%	-2.1%
26-Mar-51 (8.95%)	43.9	20.5%	19.6%	20.1%	2.8%
11-Mar-61 (8.75%)	43.5	20.12%	19.24%	19.68%	-3.4%

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