

SSA Market Review

Ghana: Race Against Time to Secure an IMF Backstop as the Bearish Market Sentiments Linger on

Ghana's weak macro-fiscal story, exacerbated by revenue underperformance and external sector vulnerabilities, has elevated the risks of debt sustainability, triggering a widespread downgrade of the Ghana Credit. Following on the heels of S&P, Fitch Ratings downgraded Ghana's Long Term Foreign Currency Issuer Default Risk to CCC (from B-). The Agency cited the uncertain path of fiscal consolidation, tight external debt servicing schedule, and high domestic interest cost among the main drivers of the rating.

With this downgrade, the three major rating agencies are aligned in their assessment of Ghana, rating the credit seven notches below investment grade in the substantial risk category. The rating weighted on market sentiments resulting in widespread portfolio reversals, which further undermined the Cedi against the major trading currencies. Given Ghana's high external debt exposure, the renewed currency pressures could worsen the debt position. At the same time, the increasing domestic financing cost could also tighten the fiscal space in the near term. Fitch noted that Ghana is at risk of a partial default if the budgetary position further deteriorates due to slippages or worsened domestic market conditions. While we believe the chances of a near-term default are slim, the Treasury is racing against time to conclude negotiations with the IMF for a backstop to regain credibility on the market.

In the meantime, the prevailing macroeconomic fundamentals will continue to shape investor sentiments, and short-term yields could continue the northward trek amidst the tightening financing conditions.

Nigeria: Budget office projects fiscal stress should the fuel subsidy program continue

The Budget Office of the Federal Government of Nigeria indicated that the sovereign might run a more significant budget deficit than expected if the Treasury sustains the fuel subsidy program. This call follows recommendations from the IMF and the World Bank to discontinue the subsidy program, estimated to cost \$9.6bn in 2022.

We gleaned from the fiscal numbers that the government spent ₦982bn on the fuel subsidy program in Q1 2022. The budget office estimates that the deficit could rise to \$29bn (5.5% of GDP) in 2023 if the subsidy program is maintained. While the government plans to tame capital expenditure if the subsidy program remains, the deficit could rise above the fiscal responsibility threshold of 3% of GDP, further tightening external financing conditions. The Debt Management Office is already relying on the domestic market for more than 60% of its financing needs, and the increasing budget rigidities may further balloon the domestic cost of borrowing.

The Ghana Fixed Income market in Focus

- Last week's offer of 91-day to 364-day T-bills attracted total demand worth GH¢1.86bn against an issuance target of GH¢1.41bn and upcoming maturities estimated at GH¢1.32bn.
- Money market yields continued the northward trek, with the 91-day (27.34% |+30bps), the 182-day (28.73% |+22bps) and the 364-day (28.83% |+42bps) bills clearing higher at the last auction

SSA: Snapshot of Benchmark 91-Day Yields

	Current	Previous	w/w Change
	Week (%)	Week (%)	(%)
Nigeria	3.50%	2.80%	0.70%
South Africa	6.68%	5.81%	0.87%
Uganda	8.77%	8.25%	0.53%
Egypt	16.11%	15.86%	0.25%
Kenya	8.57%	8.40%	0.17%
Tanzania	2.77%	2.77%	0.00%
Zambia	9.75%	9.16%	0.59%

Source: GCB Capital Research, Central Bank Websites

The Ghana Market Summary

	Current	Previous	Change
Monetary indicators			
Interbank Interest Rate (%)	21.89%	21.89%	0.00%
Inflation (12-month average)	18.15%	14.43%	3.72%
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¢)	1,428.86	954.66	49.67%
182 - Day Bill issued (GH¢)	282.13	232.4	21.40%
364 -Day Bill issued (GH¢)	128.77	114.65	12.32%
91 - Day Bill Yield (%)	27.34%	27.04%	0.30%
182 – Day Bill Yield (%)	28.73%	28.51%	0.22%
364 – Day Bill Yield (%)	28.83%	28.40%	0.42%
Bid/Cover ratio	1.01x	1.03x	-0.02
Target coverage	1.30x	1.13x	0.17
Maturity Coverage	1.39x	1.20x	0.19
Target for Upcoming Auction	823.00	1410	-41.63%
Upcoming Maturing T-bills	770.06	1,320.02	-41.66%

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- Given the renewed risks to the inflation from currency pressures and the bearish market sentiments due to macroeconomic vulnerabilities, yields could remain elevated through Q3 2022, amidst the increasing selloffs.

Auction performance: Last week's Treasury bill attracted total demand worth GH¢1.86bn (vs. target: GH¢1.41bn) across the 91-day to 363-day bills to roll over T-bill maturities estimated at GH¢1.32bn due today, August 15, 2022. The uptake translates into a maturity coverage of 1.39x as the money market offers continue to attract sizeable demand from investors over recent weeks.

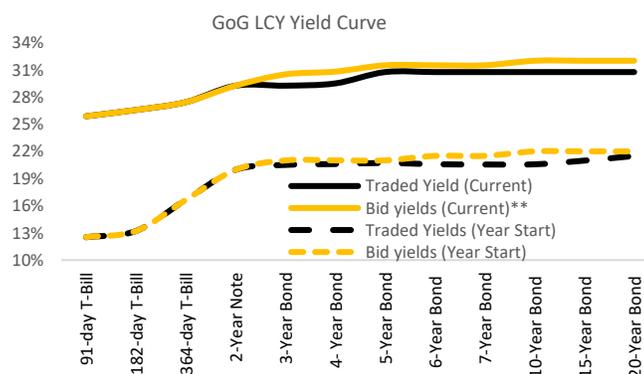
Yield Analysis: Despite the significant excess demand at the auction, the auction cleared higher across the 91-day to 364-day tenors. The 91-day tenor cleared 30bps higher at 27.34%, with the 182-day and the 364-day bill increasing to 28.73% (+22bps w/w) and 28.83% (+42bps w/w), respectively. We note that the current money market yields closer to the 30% level, and investor tenor preference is rooted at the short end of the curve as local fund managers position their bond portfolios for higher returns. With the elevated near-term macro-fiscal risks amidst the bearish market sentiments, we expect nominal yields to remain elevated through Q3 2022, pending progress in negotiations with the IMF towards a support program.

The Money Market in the Week Ahead: The Treasury will target GH¢823mn across the 91-day and 182-day bills at the next auction slated for Friday, August 19, 2022. The proceeds will refinance maturing face value estimated at GH¢770.06mn. Given that there are no competing offers this week and the relatively lower offer size, we expect the auction to close with a significant oversubscription. Still, we expect yields to creep marginally higher due to the slightly higher inflation print for Jul-22.

Review of the Secondary Fixed Income Market

Trading Dynamics: Activity in the secondary bonds market picked up last week but remains significantly short of the normal levels. Bond investors traded an aggregate volume estimated at GH¢1.77bn (+40.7% w/w), dominated by the front end and the mid-portions of the LCY curve. Specifically, the 2022 to 2025 tenors accounted for 65.9% of the aggregate volumes traded. The Nov-22 (coupon: 17.6% |YTM:), the Feb-23 (coupon: 16.50% |YTM:), the Apr-25 (coupon: 25% |YTM:) and the Jul-25 (coupon: 29.85% |YTM:) were among the most active tenors for the week.

Pick-up strategy: The bearish investor sentiments could linger through Q3 2022 amidst the prevailing macroeconomic uncertainties. The recent credit risk downgrades, the renewed cedi depreciation pressure, and the growing inflationary risks could keep short-term yields elevated. With domestic investors now mostly overweight at the front end of the curve to match their internal benchmarks, there could be a refinancing risk ahead when the inflationary pressures subside, and the government progresses in talks with the IMF. We believe the mid-duration tenors still hold value as the deep discounts on price and the attractive coupons will offer attractive returns in the near-term while stabilizing portfolio returns over the medium term. Eurobonds across the continent, some of which are trading at deep discounts, also remain an attractive asset class for portfolio diversification.



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)	55	25.40%	21.72%	23.6%	1.38%
16-Feb-26 (8.13%)	67.5	27.97%	25.62%	26.8%	0.48%
11-Feb-27 (6.38%)	52.5	29.43%	27.97%	28.7%	-0.67%
26-Mar-27 (7.88%)	54.9	28.56%	27.22%	27.9%	-0.40%
07-Apr-29 (7.75%)	49.1	25.24%	24.16%	24.7%	-1.23%
16-May-29 (7.63%)	49.1	24.77%	23.71%	24.2%	-1.22%
14-Oct-30 (10.75%)	82	14.93%	14.41%	14.7%	-0.25%
26-Mar-32 (8.13%)	49	21.27%	20.44%	20.9%	-1.74%
07-Apr-34 (8.63%)	46.5	21.71%	20.86%	21.3%	-0.91%
11-Feb-35 (7.88%)	46.5	19.89%	19.11%	19.5%	-0.94%
07-May-42 (8.88%)	46.5	19.76%	19.99%	19.9%	-0.46%
16-Jun-49 (8.63%)	46.4	18.80%	18.04%	18.4%	-0.94%
26-Mar-51 (8.95%)	46.3	19.47%	18.68%	19.1%	-0.99%
11-Mar-61 (8.75%)	46	19.04%	18.25%	18.6%	-1.04%

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