

## SSA Market Review

### Ghana: The MPC Gets Aggressive Again With the 300bps Hike Amidst Renewed Upside Risks to Inflation

The Monetary Policy Committee of the Bank of Ghana concluded an emergency meeting held on Wednesday, August 17, 2022, with a 300bps hike in the policy rate to 22%. Additionally, the Committee announced a phased increase in the primary reserve requirement to 15% (from 12%) over the next three (3) months.

The Committee reviewed the emerging threats to inflation following a fortnight of sharp cedi depreciation and a significant increase in utility tariffs amidst lingering fiscal vulnerabilities. The Committee's assessment revealed that the risks to inflation from the Cedi's bearish run point to the upside and translate into relatively more substantial underlying inflationary pressures. The Bank of Ghana's USDGHS reference rate recorded a sharp depreciation of 6.51% thus far in Aug-22 and fell by more than 15% against the USD in the retail market over the same period. The currency pressures have kept ex-pump petroleum prices elevated despite the significant easing of crude oil prices on the world market, thereby sustaining the upside risks to inflation.

We believe the anticipated pass-through effect of the prevailing currency pressures and the price effects of the utility tariff review have altered the inflation profile. Thus, the economy could be in a more dire situation going into the fourth quarter. Additionally, we note that the prevailing macro-fiscal uncertainties have significantly challenged budget financing, and the recourse to Central Bank deficit financing could prolong the inflation peak point. Under the circumstances, inflation could run hotter for a while before tapering off slightly to 32% by FY22, which should keep nominal interest rates elevated.

### Egypt: CBE Surprises the Market with a Rate Neutral Decision Despite the Elevated Inflation Profile and Emerging Near-Terms Risks to Inflation.

The Monetary Policy Committee of the Central Bank of Egypt surprised the market at last week's policy meeting by holding the overnight deposit rate, the overnight lending rate, and the rate of its main operation at 11.25%, 12.25% and 11.75%, respectively.

Egypt's annual headline urban inflation for Jul-22 quickened to 13.6% (+40bps) after decelerating slightly in Jun-22 and remains outside the Central Bank's 7%±2% target band. The increase in July continues the upward trend from Dec-21, arising mainly from the elevated food prices and the direct and indirect effects of higher petroleum prices, sustained by spillovers from the Russia-Ukraine conflict. While the 40bps increase in inflation in Jul-22 may be due to the seasonal impact of the Eid Al-Adha celebrations, the underlying inflationary pressures are more pronounced, with core inflation running ahead of the headline at 15.6% in Jul-22 (+100bps from Jun-22).

While the MPC appears prepared to accommodate the first-round effects of the exogenous shocks to general prices and temporarily tolerate higher inflation, the CBE is under pressure to shift to a more flexible exchange rate regime as a precondition for an IMF loan. A possible devaluation will further strengthen the pulse of inflation, erode real returns on EGP-denominated assets, worsen fiscal balances, and sustain the risk-off sentiments. Thus, nominal interest rates could trek higher due to the elevated near-term risks to inflation.

### SSA: Snapshot of Benchmark 91-Day Yields

	Current	Previous	w/w Change
	Week (%)	Week (%)	(%)
Nigeria	3.50%	3.50%	0.00%
South Africa	5.72%	6.68%	-0.96%
Uganda	8.19%	8.77%	-0.58%
Egypt	16.11%	16.11%	0.00%
Kenya	8.67%	8.57%	0.10%
Tanzania	2.77%	2.77%	0.00%
Zambia	9.75%	9.75%	0.00%

Source: GCB Capital Research, Central Bank Websites

### The Ghana Market Summary

	Current	Previous	Change
<b>Monetary indicators</b>			
Interbank Interest Rate (%)	21.97%	21.89%	0.08%
Inflation (12-month average)	18.15%	18.15%	0.00%
Monetary Policy Rate (%)	22.00%	19.00%	3.00%
The Ghana Reference rate (%)	20.80%	20.80%	0.00%
<b>GoG T-Bill Auction Summary</b>			
91- Day Bill issued (GH¢)	911.38	1,428.86	-36.22%
182 - Day Bill issued (GH¢)	185.82	282.13	-34.14%
364 -Day Bill issued (GH¢)	0	128.77	-100.00%
91 - Day Bill Yield (%)	27.72%	27.34%	0.38%
182 - Day Bill Yield (%)	29.29%	28.73%	0.56%
364 - Day Bill Yield (%)	28.83%	28.83%	0.00%
Bid/Cover ratio	1.00x	1.00x	0.00
Target coverage	1.33x	1.30x	0.03
Maturity Coverage	1.42x	1.39x	0.03
Target for Upcoming Auction	1,167.00	823	41.80%
Upcoming Maturing T-bills	1,023.08	770.06	32.86%

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## The Ghana Fixed Income market in Focus

- Bids and uptake at last week's T-bill auction raked in GH¢1.097bn against the target of GH¢823mn.
- Money market yields continued the northward trek, with the 91-day (27.72% |+38bps), the 182-day (29.29% |+56bps) creeping higher.
- The depressed GHS liquidity conditions to sustain the surge in nominal yields amidst the Treasury's financing difficulties.

**Auction performance:** Again, the Treasury exceeded its financing target last week as investors stay glued to the front end of the LCY curve amidst the growing inflation risks and macro-fiscal uncertainties. Total bids and uptake at the auction amounted to GH¢1.097bn (vs. target: GH¢823mn) across the 91-day and 182-day bills. The uptake exceeded the maturities due for the week by 42% as the Treasury sustained its short-term financing strategy amidst the punitive interest rate environment. The 91-day bill cleared at 27.72% at the last auction (+38bps w/w) while the 182-day printed 29.29% (+56bps w/w), reflecting the high inflation profile and the lingering near-term economic uncertainties.

Given the 300% hike in policy rate and the additional policy measure rolled out, we envisage tighter GHS liquidity conditions going forward. Thus, the interbank interest could reach 23% over the next four weeks, and the Benchmark 91-day bill yield could climb near the 30% level by the close of Q3 2022.

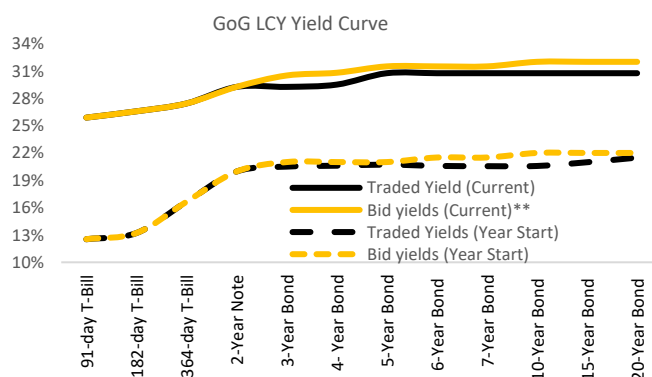
**Bond Auction Alert:** The Treasury announced a dual offer last week, re-opening the May-24 2-Year (Tender 1797|Coupon 21.50%) and the Mar-27 5-Year (Tender 1789 |Coupon 20.75%) papers to rollover the Aug-22 2-Year paper (Coupon: 18.25% | outstanding FV GH¢2.63bn) maturing on Monday, August 29, 2022. We expect the initial price guidance tomorrow, August 23, 2022, ahead of the opening of the order book at midweek. Our audit of the tenor reveals that resident investors' holding of the maturing paper stands at almost 90%. Given that the tenors on offer match market appetite, we believe the rollover offer can attract decent demand around the 32% yield level.

The Treasury will target raising GH¢1.17bn on the money market across the 91-day to 364-day tenors to refinance upcoming maturities worth GH¢1.02bn. Given the anticipated tightening of GHS liquidity and the competing offers, this auction could clear at significantly higher yields.

### Review of the Secondary Fixed Income Market

**Trading Dynamics:** The aggregate volume of bonds traded on the GFIM continues to dip as investors favor money market maturities amidst the increasingly uncertain market conditions. The volume traded last week amounted to GH GH1.62bn (-8.4% w/w), dominated by short and medium-term tenors with a residual tenor not more than five years, which accounted for 75.9% of the aggregate turnover for the week.

**Pick-up strategy:** Inflation expectations could remain elevated for the remainder of 2022 as the pass-through effects of cedi depreciation and the impact of the significant utility tariff review linger. The inflation risks and the Treasury's immediate financing problem will sustain the bearish investor sentiments and keep LCY yields on the front foot. Thus, we expect domestic investors to stay short on the LCY curve, favoring the mid-duration maturities to optimize 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%
<b>Target instruments</b>		
1. <b>T-bills</b> - Weekly		
2. <b>2-Year</b> -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)	49.9	30.38%	26.16%	28.3%	-4.71%
16-Feb-26 (8.13%)	65.0	30.22%	27.72%	29.0%	-2.18%
11-Feb-27 (6.38%)	50.5	31.09%	29.55%	30.3%	-1.62%
26-Mar-27 (7.88%)	51.5	31.08%	29.62%	30.4%	-2.46%
07-Apr-29 (7.75%)	46.3	26.97%	25.79%	26.4%	-1.68%
16-May-29 (7.63%)	46.1	26.53%	25.38%	26.0%	-1.72%
14-Oct-30 (10.75%)	79.0	15.76%	15.21%	15.5%	-0.81%
26-Mar-32 (8.13%)	46.1	22.59%	21.67%	22.1%	-1.28%
07-Apr-34 (8.63%)	44.0	22.88%	21.95%	22.4%	-1.13%
11-Feb-35 (7.88%)	44.0	20.96%	20.11%	20.5%	-1.04%
07-May-42 (8.88%)	43.6	20.99%	20.12%	20.6%	-0.68%
16-Jun-49 (8.63%)	43.3	20.12%	19.25%	19.7%	-1.27%
26-Mar-51 (8.95%)	43.1	20.85%	19.95%	20.4%	-1.33%
11-Mar-61 (8.75%)	43.1	20.30%	19.41%	19.9%	-1.21%

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