

Ghana: Imminent AFROEXIM Loan to Provide Temporal Respite for GHS Despite Lingering Demand Pressures.

The plethora of negative news whipped up bearish investments on the market and extended the Cedi's decline against the major trading currencies last week. The GHS ceded 0.70% w/w against the USD on the interbank market and was even weaker against the Euro and the GBP after shaving off 1.77% and 1.54%, respectively, against the European currency pair.

We note that FX supplies have dried up, and the Bank of Ghana has scaled down its regular liquidity support to the market. Following the credit risk downgrade from Fitch and S&P, portfolio reversals have intensified along with heightened FX demand from corporates and retail clients to finance their FX liabilities and imports. We believe the Cedi's bearish run has also created arbitrage opportunities, which could be fueling speculative activities.

Amidst the heightened demand pressures, the regulator intervened in the market with two forward auctions for the regular market and the BDCs. While the regular auction attracted total demand worth US\$103.25mn, the Bank of Ghana allotted US\$25m, leaving a residual demand worth US\$78.25bn to be sourced from the spot market. The BoG also sold US\$50mn to the BDCs at an indicative forward rate of GHS8.82/\$. With the US\$750 AFRIEXIM Bank set to hit the accounts this week, the Cedi could take a breather in the coming days.

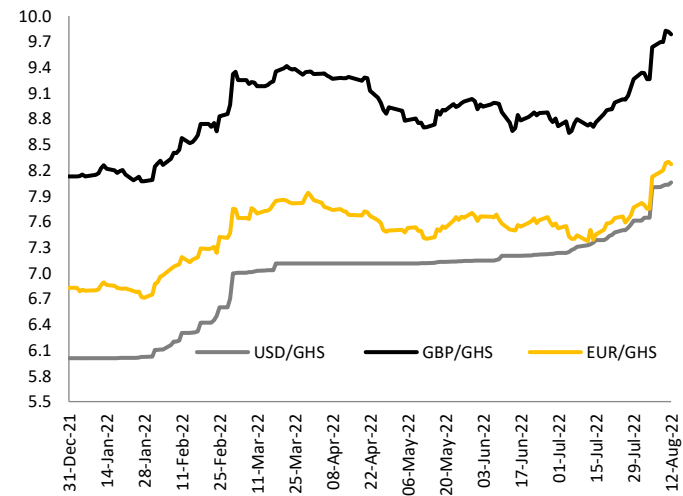
Egypt: Pound Remains Overvalued and May Require Another Devaluation to Unlock Financing From the IMF

Despite the 15% devaluation of the Egyptian Pound (EGP) in Mar-22, the Pound appear overvalued. The authorities may have to devalue the EGP as a precondition for securing a financing arrangement with the IMF.

Egypt's tourism receipts have fallen sharply in 2022, and the heightened inflation and the overvalued currency have seen offshore investors pull out heavily from EGP-denominated assets over 1H22. Thus far, the elevated portfolio reversals have pegged the EGP on the back foot, with the local unit ceding 18.15% vs. the USD YTD. The authorities have sought to secure other financing arrangements with bilateral and multilateral partners to shore up its stock of FX reserves.

Given the heightened inflationary pressures, the Monetary Policy Committee could raise the policy rate at its Aug-22 meeting, enhancing the appeal of domestic yields. However, given the overvalued EGP, the authorities may have to act decisively to devalue the local unit and shift towards a floating exchange rate regime to unlock foreign inflows into EGP-denominated assets. In the meantime, negotiations with regional and international banks for US\$2.5bn financing to improve the external position are ongoing. While these interventions provide a timely cushion for the Pound, a shift to greater flexibility in the exchange rate administration will guide the Pound to stability over the medium term and safeguard offshore investment flows.

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	\$	£	€
2022 low	5.8231	7.5839	6.6248
2022 High	8.0571	9.8277	8.9069
Average (YTD)	6.5379	8.4888	7.1929
Current Rate	8.0571	9.7841	8.2710

Source: Bank of Ghana | GCB Capital Research

Figure 2: Weekly SSA Exchange rate Summary

Country	\$	w/w (%)	€	w/w (%)	£	w/w (%)
Egypt	19.14	-0.1%	19.77	-1.6%	23.38	-1.18%
Ghana	8.06	-0.7%	8.27	-1.8%	9.78	-1.53%
Kenya	119.31	-0.2%	122.89	-1.3%	145.42	-0.63%
Nigeria	419.39	-0.3%	431.38	-0.9%	509.35	-0.38%
S. Africa	16.17	2.1%	16.64	1.21%	19.69	2.02%
Tanzania	2310.32	-0.3%	2384.65	-1.2%	2816.2	-0.65%
Uganda	3770.39	2.94%	3888.44	1.11%	4595.9	2.29%
Zambia	16.04	0.29%	16.35	-0.1%	19.42	-0.41%

Source: Bank of Ghana | GCB Capital Research

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