SSA Market Review

Zambia: IMF Board Approval paves the way for Re-engagement with Official Bilateral Creditors for Debt Treatment Under the Common Framework

The IMF Executive Board approved a 38-month program supported by the Extended Credit Facility (ECF) for the government of Zambia last week. The approval follows protracted negotiations with the staff of the IMF spanning 21 months and culminating in a staff-level agreement in Dec-21. The IMF will disburse SDR978.2 (about US$1.3bn) under the program to help the Country restore macroeconomic stability and foster high, resilient, and more inclusive growth. The ECF arrangement will also support the government's homegrown recovery plan to restore debt sustainability and create much-needed fiscal space to support some priority and social spending.

The IMF Board's approval enables the immediate disbursement of US$185 under the ECF arrangement, which is a welcome financial boost for Zambia's distressed fiscal and debt position. The support also paves the way for the re-engagement of bilateral creditors towards securing the timely debt restructuring agreements required to implement the ECF arrangement successfully. Thus, the ECF program ushers in a period of sustained fiscal adjustments focusing on eliminating fuel subsidies, enhancing efficiency in the agriculture subsidy regime, reducing inefficient public investments, and enhancing domestic revenue collection.

Zambia will immediately resume negotiations with the official Bi-lateral Creditor Committee towards a Memorandum of Understanding (MoU) defining changes in debt service, reduction in the net present value of debt (where applicable) and the extension of the duration of the debts under treatment. An agreement on the MoU should be concluded by Dec-22, kickstarting individual negotiations with each bilateral creditor and parallel talks with private creditors for a comparable debt treatment. Zambia is, therefore, on course to achieving debt and fiscal sustainability, which will re-open access to the international capital market.

Nigeria: Monetary Policy Response to Rising Inflation Could Tame the Growth Momentum in 2H22.

Nigeria's quarterly growth pulse strengthened in Q2 2022 as the economy expanded by 3.5% y/y (vs 3.1% in 1Q 2022). However, the growth outturn pales in comparison to the 5.01% recorded in Q2 2021 due to the impact of high inflation.

The robust non-oil sector underscored the improved quarterly outturn for growth, extending the growth momentum over seven (7) consecutive quarters after recovering from the COVID-induced contraction in the second and third quarters of 2020. By contrast, the oil sector contracted by 12% y/y in Q3 2022 despite the favourable crude oil prices, as the daily production of 1.43 million bbl./day falls short of Nigeria's production ceiling under the OPEC+ production pact.

With the latest inflation rate of 19.64% standing near a 17-year high, we expect the monetary policy stance to remain hawkish. The Central Bank has already raised the policy rate by 250bps from May 22 to 14%. Inflation could reach 20% in Aug-22, which might trigger another interest rate hike at the policy meeting slated for September 27, 2022. Thus, the growth pulse could slow down in 2H22 as domestic financing conditions tighten.

SSA: Snapshot of Benchmark 91-Day Yields

	Current Week (%)	Previous Week (%)	w/w Change (%)
Nigeria	4.00%	4.00%	0.00%
South Africa	5.68%	5.72%	-0.04%
Uganda	9.31%	8.25%	1.06%
Egypt	15.86%	16.07%	-0.21%
Kenya	8.86%	8.77%	0.09%
Tanzania	2.77%	2.77%	0.00%
Zambia	10.00%	10.00%	0.00%

Source: GCB Capital Research, Central Bank Websites

The Ghana Market Summary

	Current	Previous	Change
Monetary indicators			
Interbank Interest Rate (%)	21.98%	21.98%	0.00%
Inflation (12-month average)	18.15%	18.15%	0.00%
Monetary Policy Rate (%)	22.00%	22.00%	0.00%
The Ghana Reference rate (%)	20.80%	20.80%	0.00%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH₵)	1,448.48	1,391.21	4.12%
182 - Day Bill issued (GH₵)	218.66	378.96	-42.30%
364 -Day Bill issued (GH₵)	109.41	56.04	95.24%
91 - Day Bill Yield (%)	29.05%	28.61%	0.43%
182 – Day Bill Yield (%)	30.23%	29.94%	0.29%
364 – Day Bill Yield (%)	30.02%	29.52%	0.49%
Bid/Cover ratio	1.00x	1.00x	0.00
Target coverage	1.03x	1.56x	-0.53
Maturity Coverage	1.13x	1.79x	-0.65
Target for Upcoming Auction	1,682.00	1,723	-2.38%
Upcoming Maturing T-bills	1,567.55	1,607.15	-2.46%

GCB Capital Research | Bank of Ghana

The Ghana Fixed Income market in Focus

- Investor appetite for T-Bill remained intense, albeit at a higher cost, with the demand and uptake worth GH¢1.78bn at the latest auction exceeding the maturities due today, September 5, 2022, by 13%.
- The 182-day (30.23% |+29bps) and the 364-day (30.02% |+0.49bps) yields crossed the 30% level last week, with the 91-day (29.05%| +43bps w/w) also crossing the 29% level.
- We expect T-Bill yields to sustain the uptick, and the benchmark 91-day yield could also reach 30% over the next fortnight.

Auction performance: Investor demand for T-bills remained strong amidst the elevated near-term risks, and the Treasury continue to record excess demand around this portion of the LCY yield curve. Demand and uptake at the latest auction of 91-day to 364-day bills raked in GH¢1.78bn against an issuance target of GH¢1.72bn, translating into a target coverage of 1.03x and maturity coverage of 1.13x. Expectedly, T-bill yields continue to trek higher amidst prevailing market uncertainties and tightening GHS liquidity on the interbank market. With the Bank of Ghana's latest directive kicking in, the Cash Reserve Ratio has increased by 1% to 13% from September 1. This adjustment potentially underscored the lower excess demand at the last T-bill auction last week, and we expect T-bill yields to continue higher through Sept-22.

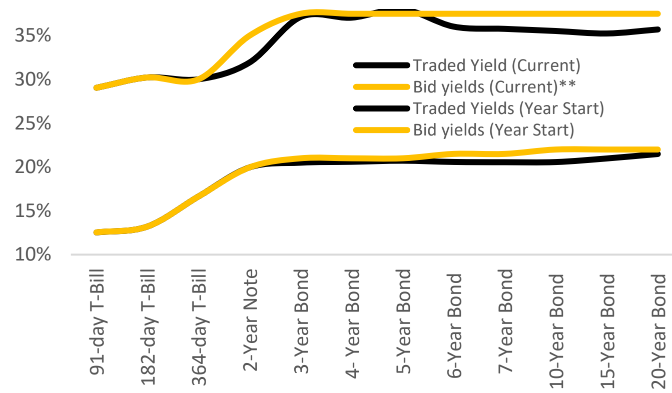
Eurobond Valuations Continue to Plummet: Ghana's Eurobond curve remains elevated, with the front end of the curve clearing above the 30% levels as near-term risks and the weak external balances drive bearish sentiments. The market for Ghana credit was volatile last week, with low liquidity in the benchmarks. The 27s, 29s and the back end of the curve were the most liquid last week.

The Money market in the week ahead: The Treasury will target a gross issuance of GH¢1.68bn at the next auction of 91-day and 182-day bills to roll over upcoming T-Bill maturities estimated at GH¢1.57bn. While we expect oversubscription at the auction as there are competing offers in the week ahead, yields could continue to climb higher as GHS liquidity levels continue to tighten.

Review of the Secondary Fixed Income Market

Trading Dynamics: Aggregate turnover on the secondary bonds market picked marginally last week with an aggregate volume of bonds worth GH¢2.41bn (+6.64% w/w) changing hand. While the trades cut across the curve, the 2023 to 2025 tenors dominated activity, moving 58% of the volumes traded for the week. The trades settled around 35%, with the back end approaching 40% at the week's close as GHS liquidity levels tightened.

Market Colour: Given the weak market sentiments and the elevated near-term risks, we expect investor appetite to favour T-bills and bonds with residual maturity of fewer than five years. At the moment, nominal yields range between 35% and 40% across the curve, and we expect the Treasury to hold off longer-dated issuances in the near term. In the interim, the Treasury could continue to pick up excess offers at the T-bill auction in the absence of any refinancing obligation to avoid locking in a higher cost of funding. However, this strategy increases the risk of Central Bank Deficit Financing, which could sustain the inflationary pressure and weigh on the risk premium investors will demand.



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		

GCB Capital Research | Ministry of Finance

Ghana's Outstanding Eurobonds					
Maturity (Coupon)	Bid Price	Bid Yield	Ask Yield	Mid-Yield	w/w Δ
07-Apr-25 (0)	47.3	33.67%	29.05%	31.4%	1.28%
16-Feb-26 (8.13%)	62.0	33.29%	30.58%	31.9%	1.10%
11-Feb-27 (6.38%)	44.8	36.34%	34.51%	35.4%	3.18%
26-Mar-27 (7.88%)	47.0	34.92%	33.26%	34.1%	2.13%
07-Apr-29 (7.75%)	41.0	30.55%	29.16%	29.9%	1.97%
16-May-29 (7.63%)	41.0	29.96%	28.60%	29.3%	2.00%
14-Oct-30 (10.75%)	75.5	16.80%	16.21%	16.5%	0.52%
26-Mar-32 (8.13%)	41.3	25.13%	24.06%	24.6%	1.19%
07-Apr-34 (8.63%)	40.0	24.99%	23.91%	24.5%	0.81%
11-Feb-35 (7.88%)	40.0	22.88%	21.89%	22.4%	0.79%
07-May-42 (8.88%)	39.9	22.85%	21.82%	22.3%	0.98%
16-Jun-49 (8.63%)	40.0	21.70%	20.70%	21.2%	0.61%
26-Mar-51 (8.95%)	40.0	22.46%	21.41%	21.9%	0.71%
11-Mar-61 (8.75%)	40.0	21.89%	20.85%	21.4%	0.70%

Research Contacts

Courage Kwesi Boti
Economist/ Research Lead
+233302945848 |+233302945838
ckboti@gcb.com.gh

Fund Management Contacts

Afua Akyaa Osei
Vice President, Fund Management
+233302945848 |+233302945838
aaosei@gcb.com.gh

Wilson Kyeremeh
Portfolio Manager, HSG
+233302945848 |+233302945838
wkyeremeh@gcb.com.gh

Debt Capital Market (DCM) Contacts

Baffour Agyarko Kwakye
Vice President, DCM
+233302945848 |+233302945838
bakwakye@gcb.com.gh

Michelle Nana Ohenewaa Kitson-Amoah
Associate, DCM
+233302945848 |+233302945838
mnodadey@gcb.com.gh

GCB CAPITAL LTD.

49 Ndabaningi Sithole Rd

Labone, Accra

3