

SSA Market Review

Zambia: Zambia seeks US\$8.4 bn worth of Debt Treatment by 2026 Amidst Other Supporting Interventions to Restore Debt Sustainability

Following the breakthrough with the IMF Executive Board for a 38-month program supported by an Extended Credit Facility, Zambia has re-opened negotiations with creditors to agree on the modalities for debt restructuring with the various creditor groups. Arguably, this stage is the most challenging phase in the authorities' efforts to restore macroeconomic and debt sustainability and regain access to the international capital market.

Zambia is in debt distress, and according to the IMF, the authorities require a deep restructuring of the public debt and a significant and sustained fiscal adjustment to restore debt sustainability. Consequently, the IMF is holding out for a large-scale debt treatment for Zambia's external debts worth US\$8.4bn over the next four years. Further, the IMF noted the need for additional debt treatment for Zambia beyond the duration of the ECF program (2026 to 2031) but stopped short of quantifying the size of the relief. The Zambian authorities have also agreed to a zero ceiling on new non-concessional external loans and a ceiling on the present value of new concessional external loans, among other legislative reforms, to support the debt sustainability efforts under the program.

Thus, we believe the context created by the IMF's report on Zambia last week sets the tone for a complex negotiation with official and private creditors, including Eurobond holders, in the months ahead. In our view, the scale of debt reliefs being sought might result in significant debt cancellation, interest rate reduction, and tenor extension. Thus, we believe Eurobond investors are on edge, which accounts for the slashed valuations for Zambia's 2024 and 2027 Eurobond maturities after the IMF's publication.

Egypt: Urban Inflation Runs Hotter and Could Trigger an Interest Rate Hike at the Sept-22 MPC Meeting.

Egypt's urban inflation quickened to 14.60% y/y in Aug-22 (from 13.60%). This jump is the fastest y/y increase in Inflation since Nov-2018 and resulted from a significant surge in food and beverages costs.

The headline and core inflation numbers are elevated and continue to run hotter on rising input costs. At 16.70%, core inflation is running ahead of the headline, with headline inflation now 560bps above the upper inflation target band of 9%. With the rising inflation risks, real returns on EGP-denominated assets are in the negative territory, dampening the appeal of new bills and bond offers and sustaining the widespread exit from Egypt's financial assets.

While we note a slowdown in the month-on-month inflation to 0.9% (from 1.3% in Jul-22), we believe the headline number is yet to peak as the higher fuel and raw material costs remain an upside risk to inflation. Thus far, the monetary policy stance remains neutral as the Central Bank of Egypt considers the inflationary run transitory. However, the Monetary Policy Committee is under a new chairmanship, and the upcoming meeting, slated for September 22, 2022, could result in a marginal interest rate hike to quell the inflationary pressures, and increase the appeal of EGP-denominated assets.

SSA: Snapshot of Benchmark 91-Day Yields

	Current	Previous	w/w Change
	Week (%)	Week (%)	(%)
Nigeria	5.50%	4.00%	1.50%
South Africa	5.58%	5.68%	-0.10%
Uganda	9.31%	9.31%	0.00%
Egypt	15.45%	15.86%	-0.40%
Kenya	8.91%	8.86%	0.05%
Tanzania	3.00%	2.77%	0.23%
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 (%)	22.00%	21.98%	0.02%
Inflation (12-month average)	18.15%	18.15%	0.00%
Monetary Policy Rate (%)	22.00%	22.00%	0.00%
The Ghana Reference rate (%)	24.23%	20.80%	3.43%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH¢)	1,410.75	1,448.48	-2.60%
182 - Day Bill issued (GH¢)	815.7	218.66	273.04%
364 -Day Bill issued (GH¢)	0	109.41	-100.00%
91 - Day Bill Yield (%)	29.48%	29.05%	0.44%
182 - Day Bill Yield (%)	31.05%	30.23%	0.83%
364 - Day Bill Yield (%)	30.02%	30.02%	0.00%
Bid/Cover ratio	1.03x	1	0.03
Target coverage	1.32x	1.03	0.29
Maturity Coverage	1.42x	1.13	0.29
Target for Upcoming Auction	1,717	1682	2.08%
Upcoming Maturing T-bills	1,598.71	1,567.55	1.99%

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The Ghana Fixed Income market in Focus

- Demand for T-bills at the last auction impressed again, with the Treasury raking in GH¢2.23bn (+25.1%), which exceeded the auction target by 32% and the refinancing obligation by 42%.
- T-Bill Yields continued higher, with the 91-day bill clearing at 29.48% (+44bps w/w), and the 182-day bill climbed to 31.05% (+83bps w/w).
- The sizeable refinancing obligation for the week could result in a more pronounced increase in T-bill yields.

Auction performance: The Treasury received strong demand for its offer of 91-day to 182-day bills at last week's auction. The Treasury took up GH¢2.23bn, which exceeded the target for the week by 32% and the refinancing obligation due today, September 12, 2022, by 42%. Yields continued the upward trek, with the 91-day climbing to 29.48% (+44bps w/w), while the 182-day bill jumped to 31.05% (+83bps w/w) at the auction. We note a slight tightening in GHS liquidity levels at the week's close as the interbank interest rate closed higher at 22% (+2bps). We believe tightening liquidity conditions and the prevailing inflation risks underscore the continuous uptick in yields.

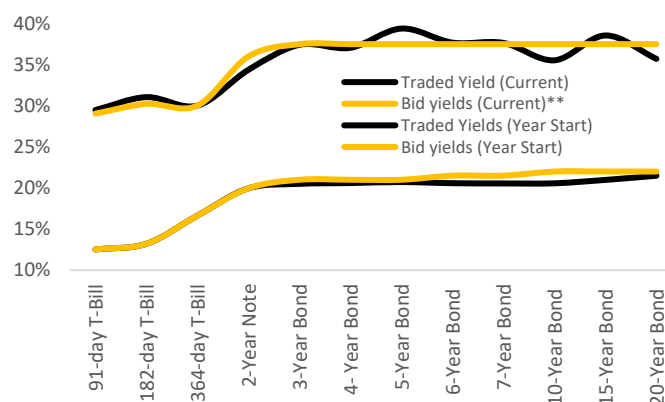
Aug-22 Inflation Due on Wednesday: The Ghana Statistical Service (GSS) will release the inflation data for Aug-22 at midweek. Given the elevated exchange rate pressures through Aug-22 (the GHS lost 7.8% vs the USD in Aug-22) and the simmering ex-pump petroleum and food prices, we expect headline inflation to climb higher in Aug-22. We expect the Aug-22 print to come in around 34%. The pass-through effects of the currency pressures and their lagged impact, together with the utility tariff hike and the other lingering cost pressures, could push inflation higher over the next two months.

The Money market in the week ahead: This week's T-Bill offer will target a gross issuance of GH¢1.72bn (+2.38% w/w) across the 91-day to 364-day bills to roll over upcoming T-Bill maturities estimated at GH¢1.60bn. COCOBOD will also return to market tomorrow, September 13, 2022, to attempt rolling over the maturing 182-day bill of outstanding FV worth GH¢2.1bn. Given the sizeable money market refinancing obligation in the week ahead, the tightening liquidity conditions and the rising inflation expectations, T-bill yields could climb significantly higher at the next auction.

Review of the Secondary Fixed Income Market

Trading Dynamics: Last week, investors traded GH¢2.47bn on the secondary bonds market. Investor appetite remained rooted in the short term as tenors of residual maturity of less than five (5) years dominated activity on the market. Bid yields are now firmly above the 30% level, and the back end of the LCY curve closed the week around 40%.

Market Colour: We expect investors to sustain an appetite for T-bills and tenors with very short residual maturities amidst increased inflation expectations. The mid-portions and the back end of the curve could remain muted for the remainder of 2022 as we believe domestic investors are increasingly shortening their risk exposure due to uncertainty.



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)	48.3	32.84%	28.30%	30.6%	-0.83%
16-Feb-26 (8.13%)	63.3	32.31%	29.65%	31.0%	-0.92%
11-Feb-27 (6.38%)	47.8	33.76%	32.07%	32.9%	-2.49%
26-Mar-27 (7.88%)	48.8	33.57%	31.98%	32.8%	-1.33%
07-Apr-29 (7.75%)	45.5	27.59%	26.38%	27.0%	-2.92%
16-May-29 (7.63%)	44.5	27.68%	26.46%	27.1%	-2.23%
14-Oct-30 (10.75%)	79.0	15.79%	15.24%	15.5%	-0.99%
26-Mar-32 (8.13%)	43.0	24.21%	23.19%	23.7%	-0.90%
07-Apr-34 (8.63%)	42.8	23.54%	22.56%	23.1%	-1.45%
11-Feb-35 (7.88%)	42.9	21.49%	20.60%	21.0%	-1.36%
07-May-42 (8.88%)	42.8	21.41%	20.50%	21.0%	-1.35%
16-Jun-49 (8.63%)	42.8	20.34%	19.46%	19.9%	-1.30%
26-Mar-51 (8.95%)	42.8	21.04%	20.12%	20.6%	-1.32%
11-Mar-61 (8.75%)	42.8	20.49%	19.57%	20.0%	-1.37%

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