

Ghana: FX Demand Pressures Re-Emerging After Two Weeks of Relative Stability

After a fortnight of a stable run supported by a much-needed FX liquidity injection, demand pressures appear to re-emerge in the FX market. Local individuals, corporates, and offshore investors ramped up FX demand last week and put the local unit under pressure.

While we expect the disbursement of the cocoa loan syndication will ease the liquidity pressure early in Q4 2022, effective FX demand is peaking relative to supply as corporates and importers are building up inventory stock ahead of the Yuletide season. We also believe the offshore investor selling pressures are lingering, pending a clear roadmap from the ongoing negotiation with the IMF, especially given the heightened concerns about debt distress and the possibility of debt restructuring as a pre-condition for a fund-assisted program.

However, the sources of FX supply have dried up, and the regulator remains the primary supply source on the market. While we expect the BoG to sustain its spot and forward market interventions, the external sector balances are vulnerable, and the emerging seasonal pressures could keep the local unit on the back foot in Q4 2022.

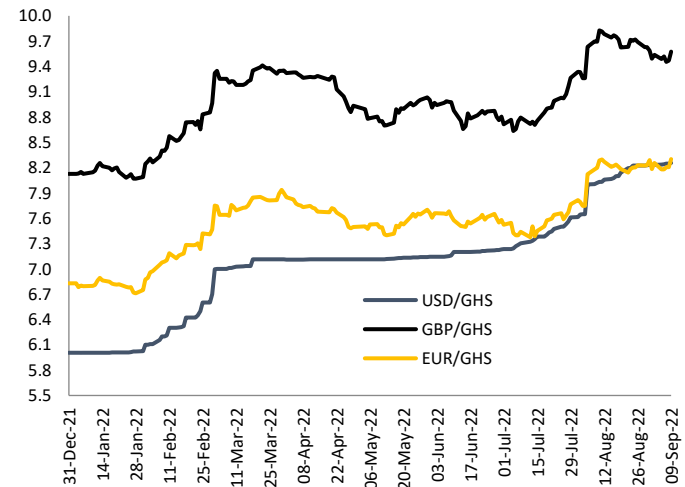
South Africa: Current Account Collapse and GDP Contraction in Q2 2022 to Undermine the Rand

South Africa's gross domestic product contracted by 0.7% in the second quarter of 2022 (vs 1.7% in Q1 2022). We believe the rolling power rationing in South Africa and the severe flood in the KwaZulu-Natal province (the second largest contributor to GDP) that destroyed properties on a large scale and halted commercial activities underpin the contraction for the period.

When annualized, South Africa's GDP for 2022 falls below the pre-pandemic level. The rising fuel and food prices and the hawkish monetary policy stance could further undermine the already depressed household spending. Thus, South Africa's bearish growth outlook since 2012 is lingering, undermining consumer and business confidence.

For the same Q2 2022 period, the Reserve Bank of South Africa (SARB) also reported that the current account swung into an annualized deficit of about US\$5bn (1.3% of GDP) from a surplus position equivalent to 2.4% of GDP in Q1 2022. For the period, dividend repatriations and investment income outflows underpin the widened current account deficit. The wider current account deficit, together with the contraction in GDP, pegged back the Rand against the major trading currencies. While we expect the current account and the GDP to recover in the third and fourth quarters, the growth rates could be subdued. However, we expect the monetary policy stance to remain hawkish amidst the heightened inflation expectations.

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 | 5.8561 | 7.5839 | 6.6248 |
| 2022 High | 8.2565 | 9.8277 | 8.9069 |
| Average (YTD) | 6.7206 | 8.6485 | 7.3268 |
| Current Rate | 8.2565 | 9.5759 | 8.3020 |

Source: Bank of Ghana | GCB Capital Research

Figure 2: Weekly SSA Exchange rate Summary

| Country | \$ | w/w (%) | € | w/w (%) | £ | w/w (%) |
|-----------|---------|---------|---------|---------|--------|---------|
| Egypt | 19.30 | -0.42% | 19.34 | -0.6% | 22.30 | -0.30% |
| Ghana | 8.26 | -0.28 | 8.30 | -0.6% | 9.58 | -0.41% |
| Kenya | 120.31 | -0.16% | 120.10 | -0.1% | 138.75 | 0.22% |
| Nigeria | 427.60 | -0.71% | 429.48 | -1.2% | 494.43 | -0.74% |
| S. Africa | 17.28 | 0.17% | 17.46 | -1.0% | 20.12 | -0.57% |
| Tanzania | 2305.97 | -0.03% | 2310.58 | -0.1% | 2657.5 | 0.37% |
| Uganda | 3817.00 | -0.26% | 3797.63 | 2.9% | 4376.8 | 5.79% |
| Zambia | 15.42 | 1.73% | 15.62 | 9.2% | 18.00 | 6.40% |

Source: Bank of Ghana | GCB Capital Research

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

Debt Capital Market (DCM) Contacts

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

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

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

Disclaimer

This investor note has been prepared by the GCB Capital Research Team solely for information purposes and does not constitute any legally binding obligations on GCB. Any views expressed are those of the Research Department. Any views and commentary in this investor note are short term views of the GCB Capital Research team from which it originates and are not a personal recommendation and do not consider whether any product or transaction is suitable for any investor.

Whilst the information provided in this document has been prepared by GCB Capital Research Team based on or by reference to sources, materials that GCB Capital Limited believe are reliably accurate, GCB Capital does not guarantee its completeness or accuracy. The message is for information purposes only as of the date hereof and are subject to change. It is not a recommendation, advice, offer or solicit the reader to buy or sell a product or service. We do not accept any liability for losses (direct or consequential) which may arise from making use of this note or its contents or reliance on the information contained herein.

All opinions and estimates are given as of the date hereof and are subject to change. GCB Capital Limited is not obliged to inform readers of any such change to such opinions or estimates. This document does not purport to contain all the information that you may desire. In all cases, interested parties should conduct their own investigations and analysis of the transaction described in the document and of the data set forth in the document. It is recommended for interested parties to check that the information provided is in line with their own circumstances about any legal, regulatory, tax or other specialist or technical advice or services, if necessary, with the help of a professional advisor. This document is confidential and may not be reproduced or distributed in whole or in part without the prior written permission of GCB Capital Limited.



49 Ndabaningi Sithole Rd

Labone, Accra