GCB CAPITAL RESEARCH
Economic and Market Insight

Weekly Insights: The Fixed Income Wrap

October 10, 2022

SSA Market Review

Nigeria: Ambitious Expenditure Could Increase Fiscal Vulnerabilities in FY23

President Muhammadu Buhari, on October 7, 2022, presented an ambitious budget for 2023 titled – budget for fiscal sustainability and transition to the house of Senate for consideration.

The budget proposed a total expenditure outlay of ₦20.59tn (US$67.93bn) for FY2023 which exceeded the ₦19.76tn approved in the 2023 to 2025 medium-term expenditure framework. The expenditure breakdown shows a total debt service provision estimated at ₦6.56tn, accounting for 67.3% of total revenue and reflecting budget rigidities.

The budget rigidity is exacerbated by the persistent revenue shortfalls mainly due to volatility in crude oil supplies due to relentless attacks on the major pipelines. The revenue and expenditure numbers leave a record fiscal deficit of ₦10.98tn, which is 15% higher than the projected deficit in the 2023 to 2025 expenditure framework. The deficit is also ₦3.7tn higher than the project borrowing requirement for FY2022 and will be financed mainly from external borrowing (₦8.8tn) and bilateral and multilateral sources (₦1.8tn).

As of Jun-22, Nigeria's total debt stock stood at ₦42.89tn, which the Debt Management Office (DMO) described as approaching unsustainable levels. Given the punitive external financing conditions, the significant borrowing need for 2023 will further worsen the debt and increase the overall debt service burden. Nigeria is thus facing the risk of high budget rigidities, and domestic yields could remain elevated through 2023.

Ghana: Increased Risk of Uncovered Auctions in Q4 2022 Increases the Scope for More Central Bank Deficit Financing

Nominal interest rates on LCY debts continue to drift higher across the yield curve amidst the increased uncertainty as investors await the IMF/World Bank's debt sustainability report for the next steps on a potential debt treatment.

The IMF delegation completed a second mission to Ghana last week with discussions centered around the home-grown program for economic recovery. The end of the mission statement described the deliberations with the Ghanaian authorities as constructive and reaffirmed the Fund's commitment to supporting Ghana through the current financial difficulties.

The Treasury indicated in a recent presser the need to capture components of the program in the 2023 budget in an urgent step to ease investor concerns. An agreement on some program targets and policies is thus imperative. Given the shared commitment to accelerate the negotiations thus far, a deal on the key program parameters could be imminent. Therefore, we expect the Ghanaian delegation to the IMF/World Bank annual meeting to continue the negotiations at the IMF/World Bank Meeting this week to ensure an expedited negotiation.

In the interim, domestic market conditions could remain bearish and concentrated around T-bills through Q4 2022, pending clarity on a potential debt treatment. There is, therefore, a higher risk of the uncovered auction and an increased risk of central bank deficit financing in the near term. We also expect bonds with residual maturity of under five (5) years to touch the 38% to 40% levels in the coming weeks as investors dump Cedi assets in the search for safety.

SSA: Snapshot of Benchmark 91-Day Yields

	Current Week (%)	Previous Week (%)	w/w Change (%)
Nigeria	6.49%	5.50%	0.99%
South Africa	6.20%	5.65%	0.55%
Uganda	11.46%	9.31%	2.15%
Egypt	15.87%	15.60%	0.28%
Kenya	9.04%	8.95%	0.09%
Tanzania	3.00%	3.00%	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 (%)	22.63%	22.10%	0.53%
Inflation (12-month average)	20.17%	20.17%	0.00%
Monetary Policy Rate (%)	24.50%	22.00%	2.50%
The Ghana Reference rate (%)	27.44%	26.50%	0.94%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH₵)	1,156.28	717.22	61.22%
182 - Day Bill issued (GH₵)	200.93	145.6	38.00%
364 -Day Bill issued (GH₵)	0	137.04	-100.00%
91 - Day Bill Yield (%)	30.96%	30.45%	0.51%
182 – Day Bill Yield (%)	31.94%	31.57%	0.37%
364 – Day Bill Yield (%)	31.55%	31.55%	0.00%
Bid/Cover ratio	1.000	1.000	0.00
Target coverage	1.50	1.10	0.39
Maturity Coverage	1.72	1.27	0.45
Target for Upcoming Auction	1,088.00	1176	-7.48%
Upcoming Maturing T-bills	1,008.95	1,092.53	-7.65%

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The Ghana Fixed Income Market in Focus

- The investor demanded GH¢1.36bn at the auction of a 91-day to 182-day bill last week.
- The Treasury accepted all bids, exceeding the auction target by 15% and the refinancing obligation for the week by 24%.
- The 91-day (30.96% | +51bps w/w), the 182-day (31.94% | +36bps w/w) cleared higher following the 250bps increase in the policy rate.
- With the tightening liquidity levels, T-bill yields could sustain the upward trek in the weeks ahead.

Auction performance: Last week's offer of 91-day and 182-day bills attracted investor demand worth GH¢1.36bn. The Treasury accepted all bids, with the uptake translating into a target coverage of 1.15x and maturity coverage of 1.24x. The 91-day offer cleared at 30.96% (+51bps w/w), while the 182-day cleared at 31.94% (+36bps w/w).

MPR Hike Amidst Inflation Uncertainty to Drive Nominal Yields Higher: The mix of heightened inflation risks, debt and fiscal sustainability concerns and the loss of access to the capital market could complicate the Treasury's financing options in Q4 2022.

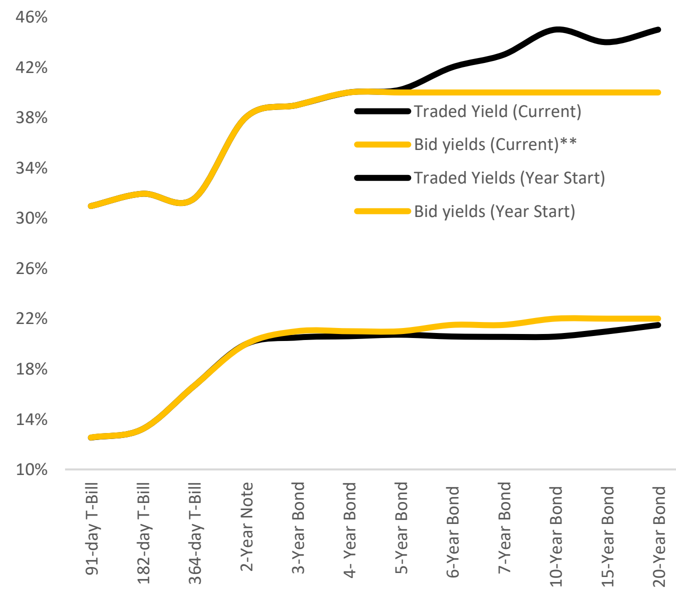
The bearish market sentiments and the growing concerns about a potential debt treatment resulted in uncovered auctions as appetite for the Treasury's note on bond offers waned. The resultant deficit monetization may sustain the inflationary pressure going forward and extend the heightened inflation profile. Thus, the MPC's aggressive policy stance could be an attempt to moderate the inflationary effects of deficit monetization. The tight policy will elevate nominal yields and complicate the Treasury's short-term financing options.

The Money Market in the Week Ahead: The next T-bill auction slated for Friday, October 14, 2022, will target a gross issuance of GH¢1.01bn across the 91-day to 364-day bills. The proceeds from the offer will be used to refinance upcoming T-bill maturities worth GH¢1.0bn. While the auction could be oversubscribed, we expect yields to climb higher following the monetary policy rate hike as the commercial banks seek to meet their regulatory liquidity needs.

Review of the Secondary Fixed Income Market

Trading Dynamics: Investors traded an aggregate volume of 2.43bn on the secondary bond market last week (-22% w/w). Again, the front end of the curve dominated market activity and accounted for 68% of the aggregate volume traded. The GFIM closed the week in a broadly net-offered position, with activity concentrated at the front end of the curve. The 2022 and early 2023 tenors traded around 37% to 38%, while the 2024 and 2025 maturities traded just under 40%. Yields at the back end of the curve remain elevated above 40%, with offers for this tenor range quoted at around 45%.

Market outlook: We expect GHS liquidity levels to tighten in the coming weeks following the 250bps hike in the policy rate to 24.5% last week. Additionally, the Sept-22 inflation due on Wednesday, October 12, 2022, could come in higher, which, together with the tighter GHS liquidity conditions, will sustain the surge in nominal yields across the curve.



Source: GCB Capital Research | Bank of Ghana | Central Securities Depository

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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)	40.5	45	37.88%	40.9%	7.37%
16-Feb-26 (8.13%)	48.5	51.5	46.16%	48.2%	11.00%
11-Feb-27 (6.38%)	40.8	42.75	39.16%	40.2%	3.89%
26-Mar-27 (7.88%)	41.5	43.5	38.84%	39.8%	3.98%
07-Apr-29 (7.75%)	37.5	39.5	32.02%	32.8%	3.03%
16-May-29 (7.63%)	37.6	39.625	31.29%	32.1%	2.61%
14-Oct-30 (10.75%)	72.3	74.25	17.25%	17.6%	1.03%
26-Mar-32 (8.13%)	39.4	39.373	26.36%	27.0%	1.41%
07-Apr-34 (8.63%)	37.1	39.125	25.58%	26.2%	1.21%
11-Feb-35 (7.88%)	37.0	39	23.45%	24.0%	1.22%
07-May-42 (8.88%)	37.0	39	23.36%	24.0%	1.08%
16-Jun-49 (8.63%)	36.9	38.875	22.32%	22.9%	1.13%
26-Mar-51 (8.95%)	37.6	39.125	22.96%	23.6%	1.01%
11-Mar-61 (8.75%)	37.1	39.125	22.36%	23.0%	1.00%

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