

SSA Market Review

Egypt: Staff-Level Agreement Imminent as Egypt Resolves the Big Policy Issues with the IMF in the Latest Round of Negotiations

The Egyptian authorities are closing in on a staff-level agreement with the IMF following productive in-person negotiations on the sidelines of the IMF/World Bank annual Meetings last week.

According to the latest statement, the Fund made substantial progress on all policies with the Egyptian Authorities. The policy deliberations centred around continued fiscal consolidation, monetary and exchange rate policies and comprehensive structural reform to enhance domestic competitiveness.

The Egyptian Authorities have started negotiations with the IMF since Mar-22 after the Russia-Ukraine war has complicated the already strained financial position. Debt sustainability, fiscal transparency and budget rigidities remain the key fiscal concerns for holders of EGP debts. Egypt's foreign exchange regime is also non-competitive, with pegged currency regime keeping the EGP overvalued. The IMF staff have been keen on switching to a flexible exchange rate as a pre-condition for Fund support. These weaknesses, particularly the opaque exchange rate regime, triggered widespread portfolio reversals and weakened Egypt's external resilience, putting the EGP and nominal yields under pressure.

The focus areas of the negotiation represent the "big policy issues" that have delayed a staff-level agreement for the IMF's support. With the IMF Managing Director indicating that the staff have resolved these big policy issues, we believe a staff-level agreement is imminent. We expect the far-reaching reforms envisaged under the program to strengthen fiscal resilience and support a rebound in confidence over the medium term.

Nigeria: Nigeria Rules Out Debt Restructuring as the DMO Considers Other Debt Management Options

Nigeria's Debt Management Office (DMO) has denied a media report attributed to the Finance Minister, Zainab Ahmed, that it was exploring a potential debt restructuring amidst the mounting liquidity challenges.

The DMO assured that it could meet its debt obligation and clarified that it is exploring a bond buy-back and bond exchange programs to manage its liabilities. Among the options, the Treasury is considering reprofiling its short-term maturities and refinancing short-term maturities into longer-dated bonds.

Nigeria's total public debt stock rose to ₦42.84 trillion (USD103.31 billion) at 1H22 (+3% q/q). The underwhelming oil revenues due to disruptions to major pipelines and theft and the expensive fuel subsidy regime remain a source of pressure for the fiscal account and could widen the deficit. Total revenue fell 49% short of the target, with the ₦1.63 trillion raised over 4-Months 2022 falling short of the debt service obligation. Thus, the debt service-to-revenue ratio remains elevated, although the debt-to-GDP ratio of 23.1% is significantly below the internal threshold of 40% at 1H22.

Yields on Nigeria's sovereign bonds surged across the curve following the initial story. While the clarification investor doubts, the revenue lapses and the resultant liquidity constraints, together with the prevailing currency pressures could sustain the bearish run, and nominal yields could continue higher.

SSA: Snapshot of Benchmark 91-Day Yields

	Current	Previous	w/w Change
	Week (%)	Week (%)	(%)
Nigeria	6.47%	6.49%	-0.02%
South Africa	6.12%	6.20%	-0.08%
Uganda	11.46%	11.46%	0.00%
Egypt	16.03%	15.87%	0.15%
Kenya	9.06%	9.04%	0.02%
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 (%)	24.15%	22.63%	1.52%
Inflation (12-month average)	22.38%	20.17%	2.21%
Monetary Policy Rate (%)	24.50%	24.50%	0.00%
The Ghana Reference rate (%)	27.44%	27.44%	0.00%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH¢)	830.33	1,156.28	-28.19%
182 - Day Bill issued (GH¢)	94.34	200.93	-53.05%
364 -Day Bill issued (GH¢)	49.84	0	n/a
91 - Day Bill Yield (%)	31.39%	30.96%	0.43%
182 – Day Bill Yield (%)	32.24%	31.94%	0.30%
364 – Day Bill Yield (%)	32.07%	31.55%	0.52%
Bid/Cover ratio	1.000	1.000	0.00
Target coverage	1.08	1.50	-0.42
Maturity Coverage	0.90	1.72	-0.83
Target for Upcoming Auction	1,561.00	1088	43.47%
Upcoming Maturing T-bills	1,447.05	1,008.95	43.42%

GCB Capital Research | Bank of Ghana

The Ghana Fixed Income Market in Focus

- Investor's demand for T-bills underwhelmed for the second time in 18 weeks amidst tightened GHS liquidity conditions.
- Total bids worth GH¢974.51bn from the 91-day to 364-day bills offered fell 10.43% short of target and 3.4% short of the maturity due.
- The 91-day (31.39% | +43bps w/w), 182-day (32.24% | +30bps w/w) and the 364-day (32.07% | +52bps w/w) climbed higher at the auction.
- The heightened inflationary pressure and the tighter liquidity conditions to sustain the climb in nominal yields.

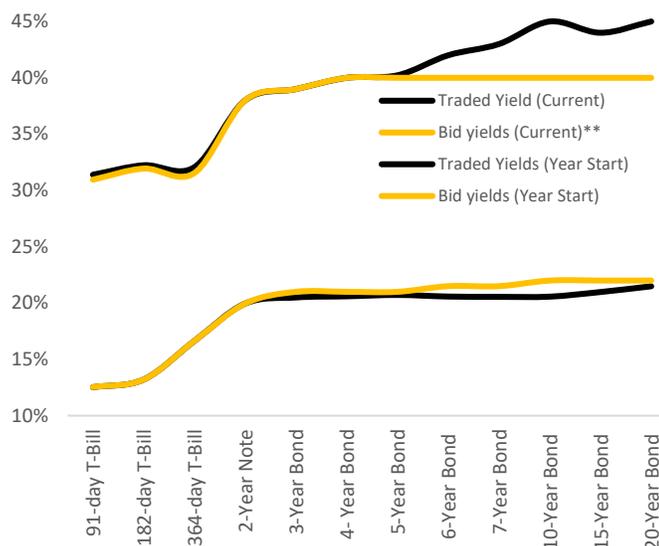
Auction performance: Investor demand at last week's T-bill Auction underwhelmed relative to target. The Treasury raised GH¢974.51 million across the 91-day to 364-day bills offered vs the target of GH¢1.09bn. The Treasury accepted all bids, and the uptake covered 89.6% of the auction target and 96.70% of the maturities due today, October 17, 2022. We note a 172bps increase in the interbank interest rate following the 250bps hike in the policy rate (+150bps w/w) on October 6, 2022. The increasing interbank interest rate reflects a further tightening in GHS liquidity condition on the interbank market which partly sustained the uptick in yields. Consequently, the 91-day offer cleared 31.39% (+43bps w/w), with the 182-day (32.24% | +30bps w/w) and the 364-day (32.07% | +52bps w/w) bills also breaching the 32% level.

The Money Market in the Week Ahead: The Treasury is facing a sizeable refinancing obligation in the week ahead with an aggregate face value worth GH¢1.45bn maturing on October 24, 2022. Thus, the Treasury is targeting a gross issuance of GH¢1.56bn across the 91-day and 182-day bills to refinance this upcoming maturity. With the tightening GHS liquidity levels amidst the prevailing market uncertainty and the relentless inflationary run, demand for T-bills could be depressed, which could sustain the upward pressure on yields.

Review of the Secondary Fixed Income Market

Trading Dynamics: The aggregate volume of GoG bonds traded on the GFIM increased to GH¢2.76bn. Investors traded an aggregate volume of 2.43bn on the secondary bonds market last week (13.43% w/w). Generally, the market is net-offered across the curve, with the selling interest emanating from domestic and offshore investors. The medium-term maturities are now offered firmly above the 40% levels, with the 2022 and early 2023 tenors trading a touch below 40% at the close of the week. The 2022 - 2027 tenors accounted for about 55% of aggregate turnover, with the remaining 45% spread across the mid portions and the back end of the LCY curve.

Trading idea: The market remains uncertain, with investors on edge, awaiting the outcome of the Debt Sustainability Report and a decision on a potential debt treatment. However, we believe notes and bonds with residual maturities of less than a year potentially holds value as the deep discounts on offer could compensate for any potential haircut.



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

Ghana's Outstanding Eurobonds					
Maturity (Coupon)	Bid Price	Bid Yield	Ask Yield	Mid-Yield	w/w Δ
07-Apr-25 (0)	38.8	42.25	41.75%	44.3%	3.41%
16-Feb-26 (8.13%)	44.5	47.5	51.97%	54.3%	6.09%
11-Feb-27 (6.38%)	37.3	39.25	43.15%	44.4%	4.13%
26-Mar-27 (7.88%)	38.8	40.75	41.79%	42.9%	3.05%
07-Apr-29 (7.75%)	35.0	37	34.08%	35.0%	2.14%
16-May-29 (7.63%)	35.0	37	33.41%	34.3%	2.20%
14-Oct-30 (10.75%)	69.6	71.625	18.09%	18.4%	0.86%
26-Mar-32 (8.13%)	34.9	36.875	27.97%	28.7%	1.69%
07-Apr-34 (8.63%)	34.3	36.25	27.38%	28.1%	1.89%
11-Feb-35 (7.88%)	34.1	36.125	25.11%	25.8%	1.74%
07-May-42 (8.88%)	34.0	36	25.20%	25.9%	1.95%
16-Jun-49 (8.63%)	33.8	37.75	24.22%	24.9%	2.01%
26-Mar-51 (8.95%)	34.0	36	24.91%	25.6%	2.07%
11-Mar-61 (8.75%)	33.8	35.75	24.46%	25.2%	2.22%

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

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49 Ndabaningi Sithole Rd

Labone, Accra