SSA Market Review

South Africa: Deteriorating Power Plants Could Deepen Power Rationing in South Africa and Potentially Plunge the Economy into a Technical Recession

Increasingly, South Africa is facing the risk of a technical recession following the 0.7% contraction in Q2 2022 as the deteriorating power plants deepen concerns about pronounced power outages going forward.

The severe flood in the KwaZulu-Natal province (the second largest contributor to GDP) that destroyed properties and halted commercial activities partly explains the contraction in Q2 2022. However, we believe the rolling power rationing in South Africa also contributed significantly to the negative growth for the quarter. Given the increasing deterioration in the aged power plants of the state power producer, Eskom PLC, a more pronounced power rationing program may be on the horizon, which could drag the economy into a technical recession in the third quarter.

Following the 0.7% contraction in Q2 2022, South Africa's GDP for 2022, on an annualized basis, falls below the pre-pandemic level. The growing inflation risks arising from higher fuel and food prices could further undermine the depressed household spending. At the same time, the hawkish monetary policy stance could limit access to credit and investment in the real sector. Thus, investors are pricing these risks of weak growth or a potential technical recession into Treasury yields, sustaining the increase in T-bill yields in recent weeks.

Ghana: MPC to Hold Policy Rate at 22% at the 108th Policy Meeting

The Monetary Policy Committee (MPC) will, from tomorrow, September 20, 2022, commence its 108th regular policy meeting to review developments in the Ghanaian economy. The MPC will announce its decision on the policy rate at the close of the meeting at a press conference on Monday, September 23, 2022.

Ahead of the meeting, inflation climbed to a 21-Year high and is 23.9% above the 10% upper limit against the background of persistent currency pressures, elevated food and energy prices and lingering supply chain bottlenecks. Amidst the high inflation risks and the resultant surge in the cost of credit and the withdrawal policy support for growth, GDP growth is depressed, and we expect the Q2 2022 GDP print (due tomorrow, September 20, 2022) to underwhelm, which should further undermine employment creation.

Already, the MPC has aggressively raised the policy rate cumulatively by 750bps to 22% YTD in addition to a 7% hike in the Cash Reserve Ratio, which effectively rolled back the COVID-era monetary policy interventions. While these interventions targeting the second-round effects of inflation have been slow in taming inflation and inflation expectations thus far, the inflation curve appears to be slowing, and a peak could emerge late in Q4 2022. We also note that the MPC's decision at the last emergency meeting was decisive and frontloaded. The staggered 3% increase in the Cash Reserve Ratio will progressively tighten GHS liquidity levels and re-anchor inflation expectations. As such, we expect the MPC to hold the policy rate at 22% for the remainder of 22, barring renewed shocks from Cedi Depreciation around the Yuletide season. Consequently, we expect investor appetite to be rooted at the front of the curve and yields to remain elevated until a breakthrough in negotiations with the IMF exists.

SSA: Snapshot of Benchmark 91-Day Yields

	Current Week (%)	Previous Week (%)	w/w Change (%)
Nigeria	5.50%	5.50%	0.00%
South Africa	5.65%	5.58%	0.07%
Uganda	9.31%	9.31%	0.00%
Egypt	15.60%	15.45%	0.14%
Kenya	8.95%	8.91%	0.04%
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 (%)	22.06%	22.00%	0.06%
Inflation (12-month average)	20.17%	18.15%	2.02%
Monetary Policy Rate (%)	22.00%	22.00%	0.00%
The Ghana Reference rate (%)	26.50%	24.23%	2.27%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH₵)	1,520.71	1,410.75	7.79%
182 - Day Bill issued (GH₵)	248.92	815.7	-69.48%
364 -Day Bill issued (GH₵)	147.15	0	-
91 - Day Bill Yield (%)	29.91%	29.48%	0.42%
182 – Day Bill Yield (%)	31.14%	31.05%	0.09%
364 – Day Bill Yield (%)	30.47%	30.02%	0.46%
Bid/Cover ratio	1.01x	1.03x	-0.02
Target coverage	1.12x	1.32x	-0.21
Maturity Coverage	1.20x	1.42x	-0.22
Target for Upcoming Auction	1,331.00	1,717.00	-22.48%
Upcoming Maturing T-bills	1,237.66	1,598.71	-22.58%

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The Ghana Fixed Income Market in Focus

- The aggregate demand of GH¢1.94bn exceeded the target by 12%, with the uptake of GH¢1.94bn also exceeding the rollover obligation due by 20%.
- The 91-day (29.91% | +42bps), 182-day (31.14% |+9bps w/w), and 364-day bill (30.47% |+47bps w/w) yields climbed higher amidst the growing inflation and general macroeconomic uncertainties
- Bearish investor sentiments to linger on until the government makes progress with the IMF.

Auction performance: Fixed income investors affirmed their short-term view of the market with another impressive showing at the last T-Bill auction despite competition from the high yielding 182-day Cocoa. The offer of 91-day to 364-day bills attracted total demand worth GH¢1.94bn against GH¢1.72bn (target coverage: 1.12x). The uptake of GH¢1.94bn exceeded the T-bills refinancing obligation due today, September 19, 2022, by 20%. Expectedly, the clearing yields continued to drift higher due to the heightened risk perception, with the 91-day (29.91% | +42bps), 182-day (31.14% |+9bps w/w), and 364-day bill (30.47% |+47bps w/w) climbing marginally higher. With the bearish market sentiments expected to linger on, we expect T-bill yields to climb higher through Q4 2022.

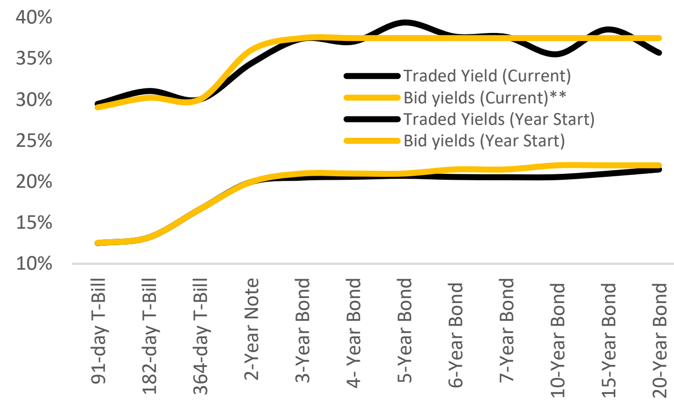
The Possibility of Domestic Debt Restructuring Weighs on Investor sentiments: Domestic investors are concerned about the possibility of a potential debt restructuring as part of the discussions with the IMF towards a fund-assisted program. While external debt dominates the total debt stock, the more expensive domestic debt weighs heavily on the overall debt service burden. If required, the market believes that any meaningful debt restructuring could include domestic debt. With the heavy exposure of the financial services sector (Banks, Pensions, and Insurance sectors), domestic debt restructuring poses a significant systemic risk to the entire financial industry. Thus, investors are concerned about this possibility, underpinning the extremely short-term view of the market and the net offered position of the market.

The Money Market in the Week Ahead: The Treasury will target a gross issuance of GH¢1.33bn (-22% w/w) across the 91-day and 182-day bills at the next auction to roll over upcoming T-Bill maturities estimated at GH¢1.24bn. With no competing offers this week, we expect the T-bills offer to attract a substantial demand at slightly higher yields. Also, we expect the benchmark 91-day yield to breach the 30% level at the next auction.

Review of the Secondary Fixed Income Market

Trading Dynamics: Investor activity in GoG bonds on the secondary market dipped last week, with an aggregate volume of GH¢1.75bn (-29.15% w/w) changing hands. The market is firmly in the net-offered position as the bids dry up and the appetite is rooted at the front ends of the curve. Again, the 2023 to 2025 tenors dominated activity for the week, accounting for 80.1% of the aggregate volume traded last week at yields around the mid-35 % levels.

Pick-Up Strategy: Amidst the persistent inflation run and growing concerns about a possible debt treatment, we expect investors to stay short on the curve, favouring secondary market tenors with residual maturity of up to three years.



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)	47.3	34.22%	29.51%	31.9%	1.30%
16-Feb-26 (8.13%)	61.8	33.92%	31.14%	32.5%	1.55%
11-Feb-27 (6.38%)	45.0	36.40%	34.57%	35.5%	2.57%
26-Mar-27 (7.88%)	47.5	34.74%	33.09%	33.9%	1.14%
07-Apr-29 (7.75%)	43.4	29.03%	27.73%	28.4%	1.40%
16-May-29 (7.63%)	41.8	29.55%	28.22%	28.9%	1.82%
14-Oct-30 (10.75%)	76.5	16.53%	15.95%	16.2%	0.72%
26-Mar-32 (8.13%)	40.1	25.82%	24.70%	25.3%	1.56%
07-Apr-34 (8.63%)	39.0	25.60%	24.47%	25.0%	1.99%
11-Feb-35 (7.88%)	38.5	23.69%	22.64%	23.2%	2.12%
07-May-42 (8.88%)	38.3	23.78%	22.66%	23.2%	2.27%
16-Jun-49 (8.63%)	38.1	22.74%	21.64%	22.2%	2.29%
26-Mar-51 (8.95%)	38.1	23.56%	22.40%	23.0%	2.40%
11-Mar-61 (8.75%)	38.1	22.96%	21.82%	22.4%	2.36%

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