

SSA Market Review

Egypt: The CBE Holds the Policy Rate at Its Sept-22 Meeting but Hiked the Cash Reserve Ratio in the Race to Tame Inflation

The Monetary Policy Committee (MPC) of the Central Bank of Egypt paused the rate hiking cycle at the Sept-22 meeting despite the continued surge in inflation. The Committee held the overnight deposit and lending rates, the discount rate and the rate of its main operation at 11.25%, 12.25%, 11.75% and 11.75%, respectively, at its Sept-22 policy meeting. Additionally, it increased the Cash Reserve Ratio (CRR) to 18% (+400bps) to calibrate liquidity conditions and gradually re-anchor inflation expectations.

Urban Inflation in Egypt has been on the upside since Jan-22, rising to 14.6% in Aug-22 (+8.7% YTD) and remaining 5.6% outside the upper inflation target band of 7%±2%. Similarly, core inflation remains elevated, coming in higher than the headline at 16.70% in Aug-22 (vs 15.60% In Jul-22). Despite the increasing upside risks to inflation, the MPC believes the 300bps cumulative hike in interest rates in 2022 is still transmitting through the economy and is prepared to temporarily tolerate inflation above the target band in the near term.

While we expect the 400bps hike in the CRR and the lagged impact of the earlier interest rate hike to continue to shape inflation expectations, we note risks to inflation from currency pressures. While positive, the EGP is overvalued, and the CBE's move to ease FX restrictions related to funding imports could rattle inflation and sustain the surge in nominal yields in the near term.

Ghana: Surprise GDP Print Shine a Ray of Hope in an Otherwise Gloomy Economic Situation as Domestic Debt Restructuring Appear Inevitable

Fitch Ratings downgraded Ghana's Long-Term Local and Foreign Currency Issuer Default Rating (IDR) for the third time in 2022 to CC from CCC. At CC, Fitch rates the Ghana credit eight (8) notches below investment grade in the extremely speculative category, citing the increased possibility of debt restructuring, high debt service burden amidst financing constraints, limited access to external financing and continuous pressure of reserves, among the rating drivers

Today, the government of Ghana will resume the second round of negotiations with the IMF staff towards a Fund-assisted program. While we await the debt sustainability report to inform the approach to debt treatment, whispers of a potential domestic debt restructuring dominated market sentiments last week and received further tailwind from the Fitch downgrade. Therefore, the Monetary Policy Committee (MPC) have deferred the announcement of its Sept-22 monetary policy decision to October 7, 2022, awaiting complete information from the latest IMF mission and the Debt Sustainability Report.

Thus, market sentiments remain bearish, with bond yields surging near the 40% levels amidst renewed Cedi depreciation pressures. Given the sizeable external debt exposure, the depreciation pressures will further worsen the total debt portfolio. The surprise 4.8% GDP growth outturn for Q2 2022 was a welcome ray of light in an otherwise bleak macroeconomic landscape. However, we believe the full passthrough of the Russia-Ukraine war and the effects of the withdrawn policy support for growth are yet to reflect in the GDP numbers fully. We expect their lagged impact to reflect fully in 2H22.

SSA: Snapshot of Benchmark 91-Day Yields

	Current	Previous	w/w Change
	Week (%)	Week (%)	(%)
Nigeria	5.50%	5.50%	0.00%
South Africa	5.63%	5.65%	-0.02%
Uganda	9.31%	9.31%	0.00%
Egypt	15.60%	15.60%	0.00%
Kenya	8.95%	8.95%	0.00%
Tanzania	3.00%	3.00%	0.00%
Zambia	9.94%	10.00%	-0.06%

Source: GCB Capital Research, Central Bank Websites

The Ghana Market Summary

	Current	Previous	Change
Monetary indicators			
Interbank Interest Rate (%)	22.10%	22.06%	0.04%
Inflation (12-month average)	20.17%	20.17%	0.00%
Monetary Policy Rate (%)	22.00%	22.00%	0.00%
The Ghana Reference rate (%)	26.50%	26.50%	0.00%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH¢)	948.02	1,520.71	-37.66%
182 - Day Bill issued (GH¢)	244.28	248.92	-1.86%
364 -Day Bill issued (GH¢)	0	147.15	-100.00%
91 - Day Bill Yield (%)	30.18%	29.91%	0.27%
182 – Day Bill Yield (%)	31.34%	31.14%	0.20%
364 – Day Bill Yield (%)	30.47%	30.47%	0.00%
Bid/Cover ratio	1.000	1.011	-0.01
Target coverage	0.90	1.12	-0.22
Maturity Coverage	0.96	1.20	-0.24
Target for Upcoming Auction	905.00	1331	-32.01%
Upcoming Maturing T-bills	786.68	1,237.66	-36.44%

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The Ghana Fixed Income Market in Focus

- Demand for T-Bills dipped at the latest auction as the domestic debt restructuring conversation weighed on market sentiments.
- The GH¢1.19bn tendered at the auction fell 10% short of the auction target and 4% short of the refinancing obligation for the week.
- Money market yields have soared above the 30% levels, with the 91-day yield clearing 27bps higher at 30.18%.
- The Treasury might struggle to attract significant demand for new offers going forward amidst the debt restructuring conversation.

Auction performance: Investor demand for the latest T-bill offer underwhelmed relative to the auction target. The Treasury received total bids worth GH¢1.19bn across the 91-day and 182-day tenors and accepted almost all the bids received. The uptake for the week fell 10% short of the auction target and 4% short of the T-bill refinancing obligation due today, Monday, September 26, 2022. We believe the ongoing conversation about a potential domestic debt restructuring weighed on domestic investors' appetite, which underpins the shortfall in demand for the first time in several weeks. Interest rates continued the northward trek, with the benchmark 91-day closing 27bps higher at 30.18%, with the 182-day bill also clearing at 31.34% (+20bps w/w).

The Treasury Facing a High Refinancing Risk as the Oct-22 2-Year Paper Matures Next Week Amidst Potential Domestic Debt Restructuring Concerns: The Treasury is yet to announce a rollover transaction for the Oct-22 2-Year note (outstanding FV: GH¢2.4bn | Coupon: 18.50%) maturing on October 3. However, we believe the prevailing market sentiments are stark against a new offer. While a 2-year rollover offer falls into the sweet spot of the current market (offers relatively short tenor and high yield), Cedi bond investors are concerned about the form a potential debt restructuring could take.

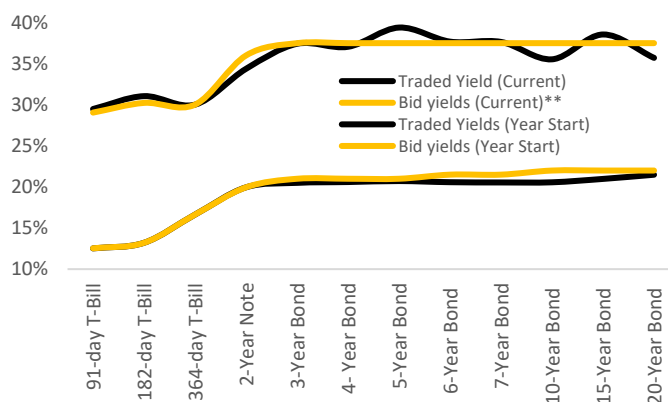
Given the heavy exposure of the domestic financial sector to the Treasury, a deep haircut under a potential debt restructuring program could pose a significant systemic risk and dwindle banks' asset quality. Thus, the commercial banks, pension funds and insurance companies (who are the dominant holders of the LCY debts) may avoid new offers in the interim, pending clarity on the form of any potential debt restructuring.

The Money Market in the Week Ahead: The Treasury targets a gross issuance of GH¢904 million at the next T-bill auction to roll over upcoming maturities worth GH¢786.6 million. While there are no competing offers this week, demand could be depressed again as investors thread cautiously, holding out for clarity on the modalities of the anticipated debt restructuring.

Review of the Secondary Fixed Income Market

Trading Dynamics: Aggregate turnover on the secondary bonds market dipped again to GH¢1.45bn (-17.14% w/w) as general investor sentiments weakened, and the market closed in a net offered position. The 2023 to 2025 tenors dominated activity and accounted for 69% of the aggregate turnover.

Market outlook: We expect domestic fixed income investors to remain extremely short on the curve amidst the prevailing uncertainties pending the release of the debt sustainability from the IMF, which should clarify the nature of potential debt treatment.



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)	46.0	35.96%	31.03%	33.5%	1.63%
16-Feb-26 (8.13%)	57.3	38.74%	35.62%	37.2%	4.65%
11-Feb-27 (6.38%)	44.3	37.28%	35.40%	36.3%	0.86%
26-Mar-27 (7.88%)	45.4	36.75%	34.98%	35.9%	1.95%
07-Apr-29 (7.75%)	41.4	30.48%	29.09%	29.8%	1.41%
16-May-29 (7.63%)	41.0	30.14%	28.77%	29.5%	0.57%
14-Oct-30 (10.75%)	75.5	16.84%	16.24%	16.5%	0.30%
26-Mar-32 (8.13%)	39.6	26.15%	25.00%	25.6%	0.32%
07-Apr-34 (8.63%)	39.1	25.54%	24.42%	25.0%	-0.05%
11-Feb-35 (7.88%)	39.3	23.30%	22.28%	22.8%	-0.38%
07-May-42 (8.88%)	38.9	23.42%	22.34%	22.9%	-0.34%
16-Jun-49 (8.63%)	38.9	22.31%	21.25%	21.8%	-0.41%
26-Mar-51 (8.95%)	38.9	23.11%	22.00%	22.6%	-0.43%
11-Mar-61 (8.75%)	38.9	22.51%	21.41%	22.0%	-0.43%

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