

Ghana: BoG Increases Target Size for the Bi-Weekly FX Auction to US\$60 Million in Anticipation of Seasonal Demand Pressures

The Cedi extended the bearish run against the greenback last week as firm demand returned to the market amidst a limited FX supply. The USDGH pair closed trading last week at an indicative rate of GH¢10.35 (-42.75% YTD | -1.45% w/w), with liquidity support coming mainly from the Central Bank. The BoG's interbank reference rate also chipped away 0.40%, deepening the year-to-date depreciation to 27.55% at the week's close and extending the Cedi's bearish run across the official and retail market segments.

The Bank of Ghana will hold the next bi-weekly FX auction to the commercial banks tomorrow, September 20, 2022. We note that the BoG has increased its target issuance size for the auctions by US\$35 million to US\$60 million for the remainder of 2022, ostensibly to address the anticipated growth in FX demand in the lead-up to the festive season.

While the increased auction size is welcome, we believe it increases Ghana's balance of payments vulnerabilities, as the intervention will result in a faster pace of reserve depletion. Besides, the inflationary trends in the developed markets support a continuously aggressive monetary policy stance, and the USD stands to strengthen against most emerging and frontier market currencies. Thus, given the elevated near-term uncertainties, portfolio reversals could continue and, together with the seasonal pressures, could undermine the local unit.

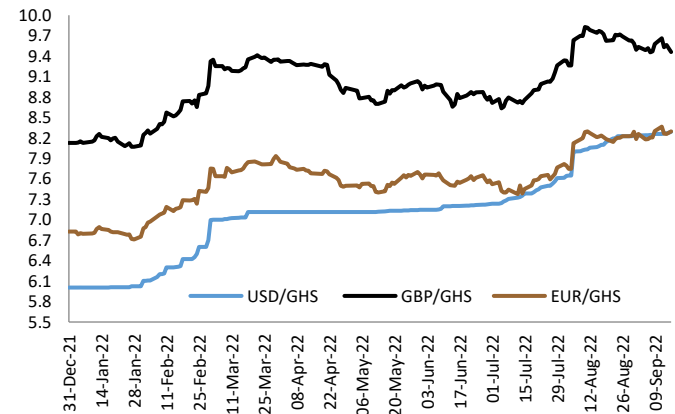
Nigeria: Gross Reserves Falls to Lowest Level since Jul-22 as the CBN Clears Part of Foreign Airlines Trapped Funds

The updated external account numbers show that Nigeria's gross reserves have fallen to US\$38.69bn as of September 15, 2022, the lowest level in three months. The decline in the gross reserve position follows the release of US\$265 million in August as part of the US\$650 trapped fund belonging to foreign airlines.

Due to the convoluted FX regime in Nigeria, the quantitative controls in place, and the limited supply of FX, market participants have had to resort to the parallel FX market for their FX liquidity needs. With the pent-up FX demand levels relative to supply, the USDNGN exchange has fallen sharply to NGN710/\$ on the parallel market at the close of trading last week (vs the official market rate of NGN 428.88/\$). Thus, the USDNGN pair is artificially stronger on the official market, supported by the robust FX reserves built mainly from favourable crude oil prices.

The limited FX liquidity supply on the other market segments continues to deter investors, with major international airlines threatening to exit the Nigerian market. Thus, the significant backlog of FX demand across the retail segments of the market will keep the Naira depressed against the USD and leaves an open door for a thriving speculative activity. While still robust, gross reserves could come under intense pressure should the CB bow to the threats of multinationals and clear the backlog of FX demand. Thus, we believe the Naira is overvalued and will remain under pressure on the unofficial market segments due to limited supply relative to demand.

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	5.8574	7.5839	6.6248
2022 High	8.2897	9.8277	8.9069
Average (YTD)	6.7646	8.6746	7.3521
Current Rate	8.2897	9.4586	8.2966

Source: Bank of Ghana | GCB Capital Research

Figure 2: Weekly SSA Exchange rate Summary

Country	\$	w/w (%)	€	w/w (%)	£	w/w (%)
Egypt	19.42	-0.57%	19.45	-0.5%	22.16	0.65%
Ghana	8.29	-0.40%	8.30	0.07%	9.46	1.24%
Kenya	120.43	-0.10%	120.22	-0.1%	137.99	0.55%
Nigeria	428.88	-0.30%	428.32	0.27%	492.83	0.33%
S. Africa	17.66	-2.10%	17.59	-0.7%	20.08	0.16%
Tanzania	2306.68	-0.03%	2298.38	0.53%	2626.4	1.18%
Uganda	3814.04	0.08%	3812.15	-0.4%	4416.4	-0.90%
Zambia	15.42	-0.78%	15.58	0.27%	17.80	1.09%

Source: Bank of Ghana | GCB Capital Research

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