

SSA Market Review

African Treasuries: Aggressive Global Monetary Policy Path Douse Risk Appetite in EMDEs Assets

The fierce global monetary policy path spearheaded by the Federal Reserve in an attempt to cool the red-hot inflation and the resultant surge in interest rates in the developed markets have undermined risk appetite in emerging and frontier markets. The US Fed raised the federal fund's rate by 75bps again last week to between 3.5% to 4%, which sustained UST yields higher. The benchmark 10-year UST yield closed last week at 4.12% (+262bps YTD), while the UK and Italy 10-Year benchmarks rose to 3.6% and 4.43%, respectively.

With these attractive yields, offshore investor risk appetite remains subdued, as Egypt's latest 46-month deal with the IMF failed to provide a spark. Egypt notably ticked almost every box, adopting a more flexible exchange rate regime, among other reforms, as preconditions for the Extended Fund Facility. Besides the \$ 3 billion program, the agreement also unlocked concessional financing from regional and international partners, and Egypt will receive about US\$ 5 billion in additional funding from partners by the end of the 2022/23 fiscal year.

Regardless, the development failed to produce the anticipated lift. Instead, EGP-denominated debts retreated last week amidst rising default risks. The investor reactions were similar in Zambia following the ECF deal, suggesting investors are holding out for results rather than promises. Following this trend, Ghana's potential deal with the IMF may not provide an immediate spark, and the higher yield environment may run for longer.

Ghana: Nominal Yields to Climb Higher Amidst Increased Upside Risks to Inflation

We envisage another significant jump in Ghana's headline inflation for October 2022, due on Wednesday, November 9, 2022, following the continuing surge the primary inflation triggers over the Oct-22 date window.

For the period, Oct-22 data window, we note that the local unit came under intense pressure, losing 27.9% against the USD with the pass-through effects, the lagged and second round effects expected to lift inflation higher for the remainder of 2022. Similarly, the 2022 major utility tariff review, which took effect on September 1, 2022, is expected to reflect fully in headline inflation from Oct-22, while the increasing ex-pump petroleum prices, rising transport fares and elevated food prices will also keep inflation elevated.

So while the Ghana Statistical Service varied the base year for CPI inflation to 2021 (from 2018), and we are yet to see the backdated CPI numbers under the revamped series, we expect these price pressures to sustain inflation higher. Thus, inflation could close 2022 above 40% as we anticipate the Yuletide-induced price pressures, and the over 60% hike in fuel prices at the pumps in October will sustain inflation higher.

With these anticipated inflationary pressures, nominal yields could continue higher across the curve, and the longer-dated yields could reach the 50% level by Dec-22. At 33.3%, the benchmark 91-day might cross 35% by Dec-22 amidst the tightening GHS liquidity conditions and the increased cash preference due to the increased cost of living.

SSA: Snapshot of Benchmark 91-Day Yields

	Current	Previous	w/w Change
	Week (%)	Week (%)	(%)
Nigeria	6.50%	6.50%	0.00%
South Africa	6.04%	6.12%	-0.08%
Uganda	11.50%	11.50%	0.00%
Egypt	17.41%	17.77%	-0.36%
Kenya	9.14%	9.13%	0.01%
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 (%)	25.94%	25.89%	0.05%
Inflation (12-month average)	22.38%	22.38%	0.00%
Monetary Policy Rate (%)	24.50%	24.50%	0.00%
The Ghana Reference rate (%)	30.56%	27.44%	3.12%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH¢)	1,073.48	496.65	116.14%
182 - Day Bill issued (GH¢)	141.41	152.37	-7.19%
364 -Day Bill issued (GH¢)	21.73	52.4	n/a
91 - Day Bill Yield (%)	33.34%	32.70%	0.64%
182 – Day Bill Yield (%)	34.85%	34.26%	0.59%
364 – Day Bill Yield (%)	34.80%	33.36%	1.44%
Bid/Cover ratio	1.000	1.003	0.00
Target coverage	0.94	0.62	0.32
Maturity Coverage	1.02	0.66	0.35
Target for Upcoming Auction	1,316.00	1316	0.00%
Upcoming Maturing T-bills	1,215.89	1,215.89	0.00%

GCB Capital Research | Bank of Ghana

The Ghana Fixed Income Market in Focus

- Investor demand for the 91-day to 364-day bills offer fell short of the target for the 4th consecutive week amidst tightening GHS liquidity conditions and increasing cash preference.
- Total bids increased by 75.7% to GH¢1.24billion (-6% relative to the target) and marginally exceeded the weekly refinancing obligation by 1.8%.
- Yields continued higher with the 91-day (33.34% | +64bps w/w), the 182-day (34.85% | +59bps w/w) and the 364-day (34.80% | +144bps w/w) bills increasing at the auction.

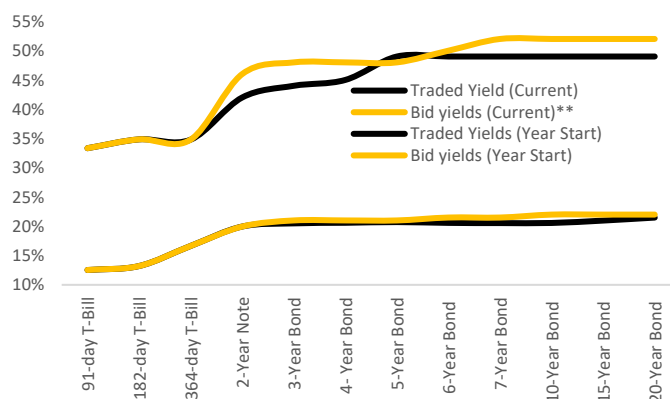
Auction performance: While the Investor's demand for T-bills at the last auction recovered by 75.7% w/w, the GH¢1.24billion tendered fell 6% short of the target for the week. However, the uptake was enough to roll over the T-bill maturities due for the week. The auction cleared higher, with the 91-day yield rising to 33.34% (+64bps w/w). The 182-day and the 364-day yields also climbed higher to 34.85% (+59bps w/w) and 34.80% (+144bps w/w), respectively. We note that GHS liquidity conditions continue to tighten but at a slower rate, and we believe that at 25.9%, the interbank interest is near stability.

The Money Market in the Week Ahead: The Treasury will offer 91-day to 364-day bills at the next auction slated for Friday, November 11, 2022, targeting a gross issuance of GH¢2.06 billion. The proceeds will be targeted at rolling over 91-day and 182-day maturities worth GH¢1.56 billion that is falling due on Monday, November 14, 2022. We note that the target exceeds the upcoming maturity obligation by 24.5%, which, when successful, could be used to offset shortfalls at the previous auctions. Additionally, COCOBOD will seek to roll over Cocoa bills worth almost a billion on November 11.

While the competition for funds could drive T-bill yields significantly higher at the next auction, we note that the Nov-22 2-Year paper of FV GH¢2.3 billion matured today without a rollover transaction. We believe this maturity was settled through an overdraft from the Bank of Ghana. Thus, the Treasury expects the next T-bill offer to attract liquidity from the matured 2-Year paper. However, given the market uncertainties and the competition for funds, the offer could settle significantly higher.

Review of the Secondary Fixed Income Market

Trading Dynamics: Investors turned over an aggregate volume of bonds worth GH¢3.1billion on the GFIM last week, with more than 50% of the trades occurring around the 2023 to 2027 tenors. We note that yields continue to climb higher across the curve, with the front ends of the curve offered around the 40% levels. The back end of the LCY curve is provided around the 50% levels reflecting heightened liquidity pressures and elevated uncertainty.



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)	26.8	30.25	71.93%	63.5%	22.60%
16-Feb-26 (8.13%)	35.3	38.25	75.52%	69.0%	20.78%
11-Feb-27 (6.38%)	39.3	31.25	57.81%	54.5%	14.25%
26-Mar-27 (7.88%)	30.8	33.75	55.18%	50.7%	10.88%
07-Apr-29 (7.75%)	28.6	30.625	42.68%	40.4%	7.55%
16-May-29 (7.63%)	27.5	29.5	43.24%	40.8%	8.78%
14-Oct-30 (10.75%)	64.4	66.375	20.67%	19.9%	2.36%
26-Mar-32 (8.13%)	28.1	30.125	35.27%	33.3%	6.34%
07-Apr-34 (8.63%)	28.0	30	34.25%	32.3%	6.10%
11-Feb-35 (7.88%)	27.3	29.25	32.02%	30.2%	6.14%
07-May-42 (8.88%)	26.1	28.125	34.24%	31.9%	7.94%
16-Jun-49 (8.63%)	26.6	28.625	32.37%	30.1%	7.23%
26-Mar-51 (8.95%)	27.9	27.875	32.07%	29.9%	6.38%
11-Mar-61 (8.75%)	27.5	27.5	31.75%	29.6%	6.64%

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

Advisory & Capital Markets 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
mnodadey@gcb.com.gh

Disclaimer

This investor note has been prepared by the GCB Capital Research Team solely for information purposes and does not constitute any legally binding obligations on GCB. Any views expressed are those of the Research Department. Any views and commentary in this investor note are short term views of the GCB Capital Research team from which it originates and are not a personal recommendation and do not consider whether any product or transaction is suitable for any investor.

Whilst the information provided in this document has been prepared by GCB Capital Research Team based on or by reference to sources, materials that GCB Capital Limited believe are reliably accurate, GCB Capital does not guarantee its completeness or accuracy. The message is for information purposes only as of the date hereof and are subject to change. It is not a recommendation, advice, offer or solicit the reader to buy or sell a product or service. We do not accept any liability for losses (direct or consequential) which may arise from making use of this note or its contents or reliance on the information contained herein.

All opinions and estimates are given as of the date hereof and are subject to change. GCB Capital Limited is not obliged to inform readers of any such change to such opinions or estimates. This document does not purport to contain all the information that you may desire. In all cases, interested parties should conduct their own investigations and analysis of the transaction described in the document and of the data set forth in the document. It is recommended for interested parties to check that the information provided is in line with their own circumstances about any legal, regulatory, tax or other specialist or technical advice or services, if necessary, with the help of a professional advisor. This document is confidential and may not be reproduced or distributed in whole or in part without the prior written permission of GCB Capital Limited.



49 Ndabaningi Sithole Rd

Labone, Accra