

SSA Market Review

Nigeria: Slowing Average Daily Oil Output and Weaker Demand Growth Could Stress the 2023 Fiscal Accounts

Nigeria is potentially facing a shock to its 2023 fiscal budget from dwindling average oil output and easing international crude oil prices due to geopolitics and the increasing risk of the global recession.

The updated oil production data shows Nigeria's average crude oil output (including condensates) declined to 1.37 million bbl/d over 10-Months 2022 (-7.4% YTD). The increasing siphoning of oil and prolonged pipeline vandalism in the major oil regions account for the slowing average output. Given the uncertainty about the lingering geopolitical tensions and the continuing efforts of OPEC+ to ramp up prices, the Monthly Oil Market Report (MOMR) for Oct-22 revised oil demand growth downwards to 2.3mb/d as the Shale producers could ramp up crude oil production in retaliation.

This price uncertainty and the risk of continuously subdued domestic oil production bring Nigeria's price and output assumptions in the 2023 budget into sharp focus. The 2023 budget assumed an average daily crude oil output of 1.69 mbb/d at an average price of US70/bbl. Continuously subdued oil output and potentially lower prices in the near term could undermine revenue performance and exchange rate stability, as the oil sector is a significant source of revenue to the budget and accounts for more than 70% of Nigeria's export receipts.

Ghana: Attention Shifts to the 2023 Fiscal Budget for Cues

The government of Ghana is racing against time to conclude negotiations with the IMF on the Enhanced Domestic Program for inclusion in the 2023 budget.

The next leg of the negotiations is pending following the broad agreement on key policy areas at the IMF/WB annual meetings. While we expect the next IMF mission to finalize discussions on the programs and pave the way for the 2023 fiscal plan to incorporate aspects of the program, the uncertainty around the Finance Minister's position may be stalling the progress.

The Cedi remains on the back foot while inflation is at a multi-year high and, together with the uncertainty around a potential debt treatment, these factors have sustained the bearish market sentiments. Consequently, fixed-income securities are trading at distressed levels as investors awaited cues on the direction of fiscal policy and the government's effort to restore debt sustainability. The budget speech slated for tomorrow, November 15, 2022, has been rescheduled to November 24 or 25, potentially to accommodate delays in reaching concrete agreements with the IMF on key programs and policies.

In our view, the 2023 budget without technical inputs and reforms from the ongoing IMF negotiations could prolong the bearish market sentiments. The external balances are already vulnerable, and Ghana is at a high risk of default. The international capital market remains shut while the domestic market appears closed to dated issuances, and an uninspiring budget will worsen the pre-existing domestic vulnerabilities.

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% | 6.04% | 0.00% |
| Uganda | 11.50% | 11.50% | 0.00% |
| Egypt | 17.91% | 17.41% | 0.50% |
| Kenya | 9.17% | 9.14% | 0.03% |
| 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 (%) | 25.90% | 25.94% | -0.04% |
| Inflation (12-month average) | 24.90% | 22.38% | 2.52% |
| Monetary Policy Rate (%) | 24.50% | 24.50% | 0.00% |
| The Ghana Reference rate (%) | 30.56% | 30.56% | 0.00% |
| GoG T-Bill Auction Summary | | | |
| 91- Day Bill issued (GH¢) | 1,827.52 | 1,073.48 | 70.24% |
| 182 - Day Bill issued (GH¢) | 142.03 | 141.41 | 0.44% |
| 364 -Day Bill issued (GH¢) | 7.86 | 21.73 | n/a |
| 91 - Day Bill Yield (%) | 34.39% | 33.34% | 1.05% |
| 182 – Day Bill Yield (%) | 35.50% | 34.85% | 0.65% |
| 364 – Day Bill Yield (%) | 35.08% | 34.80% | 0.28% |
| Bid/Cover ratio | 1.003 | 1.000 | 0.00 |
| Target coverage | 0.96 | 0.94 | 0.02 |
| Maturity Coverage | 1.27 | 1.02 | 0.25 |
| Target for Upcoming Auction | 1,168.00 | 1,316 | -11.25% |
| Upcoming Maturing T-bills | 1,075.20 | 1,557.33 | -30.96% |

GCB Capital Research | Bank of Ghana

The Ghana Fixed Income Market in Focus

- Investor demand at the last T-bills auction came in 60% higher w/w despite the competition for funds, and the Treasury successfully redirected liquidity from the last 2-Year maturity into 91-day Bills.
- Regardless, the total bids worth GH¢1.98 billion fell 4% short of the target while the uptake exceeded the refinancing obligation due today, November 14, 2022, by 27%.
- Nominal yields continued higher, with the 91-day (34.39% | +105bps w/w), the 182-day (35.50% | +65bps w/w), and the 364-day (35.08% | +28bps w/w) reaching new highs at the auction largely due to inflation.

Auction performance: The Treasury successfully redirected liquidity from the now matured Nov-22 2-year paper at the last T-bill auction despite strong competition from cocoa bills, covering 96% of its GH¢2 billion target at the auction. The Treasury accepted 99.7% of the total bids tendered across the 91-day to 364-day tenors, which exceeded the refinancing obligation on T-bills due today, November 14, 2022, by 27%.

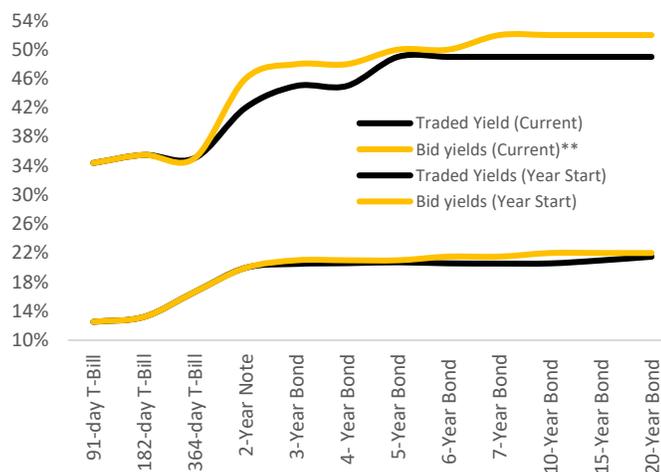
Investors are heavily tilted towards the 91-day bill, which accounted for 92% of the total bids received. We believe the tilt to the benchmark 91-day reflects the prevailing market uncertainties, as investors limit their risk exposure pending clarity on domestic debt treatment. We believe the increased competition for funds and the higher inflation print for Oct-22 sustained nominal yields higher, with the 91-day yield rising to 34.39% (+102bps w/w). The 182-day (35.50% | +65bps w/w) and the 364-day (35.08% | +28bps w/w) bill yields also increased to new highs, but real returns remain in the negative territory.

The Money Market in the Week Ahead: The Treasury will target a gross issuance of GH¢1.17 billion at the next T-bill auction across the 91-day and 182-day bills to roll over upcoming maturities estimated at GH¢1.08 billion. Ahead of this auction slated for November 18, 2022, COCOBOD will return to market tomorrow, November 15, 2022, to roll over the 182-day bill maturity with an outstanding FV worth GH¢1.45 billion. Given the tighter interbank GHS liquidity conditions and the heightened inflation expectations, the competition for funds increases the risk of the uncovered auction, and the tenors could settle at significantly higher yields.

Review of the Secondary Fixed Income Market

Trading Dynamics: The aggregate volume of Treasury bills, notes and bonds investors turned over on the secondary market increased by 14.84% w/w to GH¢3.56 billion last week. Treasury bonds (3-year to 20-Year tenors) accounted for 83% of aggregate turnover for the week, with the 2023 to 2027 tenors dominating the volumes traded for the week.

Broadly, nominal yields are on the surge, with the back end of the curve bid above 50% at the close of trading last week. The 2023s and 2024s are quoted at around 45%, while the mid portions of the LCY curve are quoted at around 49%.



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% |

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