SSA Market Review

Nigeria: The Sizeable Fuel Subsidy Cost Amidst Slowing Oil Production Increases Fiscal Rigidities and Requires Bold Reforms to Avoid Debt Overhang

The staff of the International Monetary Fund (IMF) concluded the 2022 Article IV consultations with the authorities of the Federal government of Nigeria. In the report, the IMF staff flagged some near-term and medium-term risks to growth, fiscal sustainability and external sector stability amidst global uncertainties.

Despite the higher crude oil prices in 2022 (relative to 2021) and the continuous post-COVID recovery over 1H22 (Q2 2022 growth rate: 4.5% y/y), the IMF project GDP growth to ease to 3% by FY22. The anticipated slowdown in growth reflects the adverse effects of the recent floods that could undermine agriculture productivity and interruptions to oil production stemming from oil theft and pipeline vandalisation.

Again, the IMF expects the sizeable fuel subsidy costs will widen the fiscal deficit to about 6.2% of GDP in 2022, requiring bold fiscal reforms to create much-needed fiscal space. Without a more courageous fiscal reform, the IMF expects the deficit to remain above 6% over the medium term, which could raise the debt stock to about 43% of GDP by 2027. A debt-to-GDP ratio of about 43% will significantly tighten the fiscal space as debt service could take up nearly 50% of revenue, leaving a limited scope of critical social spending. Given the persistently high inflation rate amidst the increasing monetisation of the fiscal deficit, the IMF also expects a more aggressive monetary tightening ahead of the Nov-22 policy meeting slated for tomorrow, November 22, 2022. Thus we expect at least a 100bps hike in the policy rate, which will trigger a further surge in nominal yields across the curve.

South Africa: S&P affirms South Africa's Foreign and Local Currency Issuer Default Rating at BB-/B and BB/B with a Positive Outlook

South Africa's steady recovery efforts are gathering momentum following the COVID-induced sharp contraction in economic activity, leading to a technical recession. Despite the continuous power supply and logistical bottlenecks, the economy post-COVID recovery in South Africa is balanced and well supported, with windfalls from commodities (due to price and output effects) boosting government revenue.

The S&P noted that while fiscal pressures remain amidst emerging global threats, the higher-than-expected revenue performance thus far in 2022 has supported the fiscal position. Consequently, S&P Global, following its favourable rating decision on May 22, affirmed South Africa's foreign currency Issuer Default Rating (IDR) at BB-/B and the local currency IDR at BB/B. The agency also affirmed the Sovereign's outlook as positive.

Despite the improving macroeconomic landscape, we note emerging risks from domestic and external sources, which could shock the growth momentum over the medium term. The anticipated slowdown in China, a key trading partner, could also undermine demand for gold exports. At the same time, the persistent fluctuations in energy supplies remain a risk to industrial activity and service delivery. As such, the S&P flagged these risks and the risk of deterioration in the fiscal position resulting from the ongoing public sector wage negotiations as potential triggers of a negative review.

SSA: Snapshot of Benchmark 91-Day Yields

	Current Week (%)	Previous Week (%)	w/w Change (%)
Nigeria	6.50%	6.50%	0.00%
South Africa	6.09%	6.04%	0.05%
Uganda	11.50%	11.50%	0.00%
Egypt	18.00%	17.91%	0.09%
Kenya	9.19%	9.17%	0.02%
Tanzania	3.00%	3.00%	0.00%
Zambia	10.00%	10.00%	0.00%

Source: GCB Capital Research, Central Bank Websites

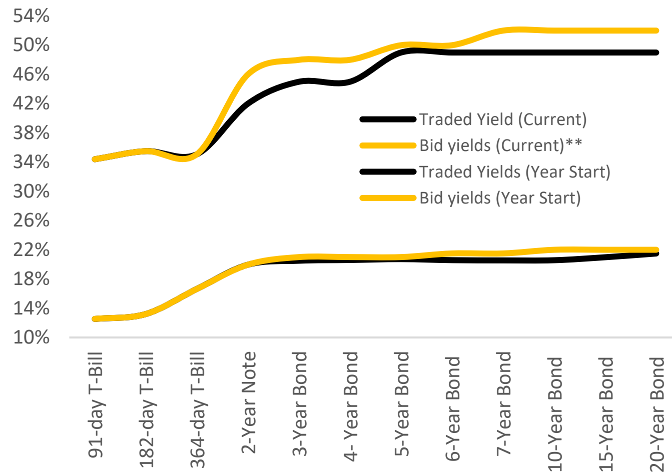
The Ghana Market Summary

	Current	Previous	Change
Monetary indicators			
Interbank Interest Rate (%)	25.70%	25.90%	-0.20%
Inflation (12-month average)	24.90%	24.90%	0.00%
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₵)	1,381.49	1,827.52	-24.41%
182 - Day Bill issued (GH₵)	274.99	142.03	93.61%
364 -Day Bill issued (GH₵)	0	7.86	n/a
91 - Day Bill Yield (%)	35.20%	34.39%	0.80%
182 – Day Bill Yield (%)	35.99%	35.50%	0.49%
364 – Day Bill Yield (%)	35.08%	35.08%	0.00%
Bid/Cover ratio	1.000	1.003	0.00
Target coverage	1.42	0.96	0.46
Maturity Coverage	1.54	1.27	0.27
Target for Upcoming Auction	2,176.00	1,168	86.30%
Upcoming Maturing T-bills	1,726.82	1,075.20	60.60%

GCB Capital Research | Bank of Ghana

The Ghana Fixed Income Market in Focus

- Demand recovered at last week's T-bill auction amidst improving interbank GHS liquidity conditions.
- The total bids and uptake worth GH¢1.66 bn exceeded the auction target by 42% and the refinancing obligation for the week by 54%, despite the competition for funds from Cocobod earlier in the week.
- Regardless, nominal yields surged with the 91-day (35.20% | +80bps w/w), the 182-day (35.99% | +45bps w/w), and the 364-day (35.08%) yields all firmly above the 35% level.
- All eyes are on the 2023 budget as Ghana's investors look out for the government's program to restore fiscal and debt sustainability.



Source: GCB Capital Research | Bank of Ghana | Central Securities Depository

Auction performance: The government's offer of 91-day and 182-day bills at the last auction recorded impressive demand despite the increased competition for funds from Cocobod earlier in the week. The T-bill offer attracted total bids worth GH¢1.66 bn, translating into a target coverage of 1.42x. The Treasury accepted all the bids tendered, which exceeded the money market refinancing obligation for the week by 53%. Expectedly, the auction cleared at higher yields, with the 91-day, 182-day and 364-day yields firmly above the 35% level amidst the heightened inflation uncertainty.

All eyes are on the 2023 Budget as Ghana Faces a make-or-break year ahead: We expect muted activity on the fixed-income market in the week ahead as investors shift attention to the 2023 budget speech slated for November 24, 2022. Barring any last-minute development, the embattled finance minister, Ken Ofori-Atta, is expected to present the budget to parliament. While there has been no official communication on the next leg of the ongoing IMF negotiations following the last round of talks at the IMF/World Bank annual meetings, we expect the government to embark on an ambitious fiscal consolidation.

We envisage revenue-enhancing and expenditure containment measures as a first step towards improving market sentiments and clarity on the government's approach to restoring debt sustainability. The Treasury is facing a sizeable refinancing risk in 1Q23, and an upbeat budget, incorporating broad policy propositions agreed upon with the IMF and clarity on a potential debt treatment, could re-open access to medium-term financing options.

The Money Market in the Week Ahead: The Treasury will target a gross issuance of GH¢2.18bn from the offer of 91-day to 364-day bills at the next T-bill auction slated for Friday, November 25, 2022. The proceeds will be used to retire upcoming maturities estimated at GH¢1.73 bn. We note that interbank GHS liquidity conditions have improved slightly over the last fortnight, reflected in the declining interbank interest rates. While this improving liquidity could sustain favourable demand conditions, we expect the fiscal propositions in the 2023 budget to influence appetite at the auction significantly.

Review of the Secondary Fixed Income Market

Trading Dynamics: Investors traded an aggregate volume of notes and bonds valued at GH¢4.21 bn last week. The trades are split across the front end and the mid-portions of the LCY curve. The 2023 to 2029 tenors accounted for almost 50% of the volume traded, with nominal yields widening slightly to the 41% and 52% range.

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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