Economic and Market Insight

Weekly Insights: The Fixed Income Wrap

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SSA Market Review

Nigeria: MPC to Sustain Hawkish Monetary Stance in Response to Resurgent Inflation

Last week, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria, at its Nov-22 policy meeting, raised the policy rate for the fourth consecutive time by 100bps to 16.5%. The committee also maintained the asymmetric policy corridor at +100/-700bps around the policy rate and kept the Cash Reserve Ratio and the Liquidity Ratio at 32.5% and 30%, respectively, at the meeting.

The rate hike follows the sustained increase in headline inflation for nine consecutive months to a 17-year high of 21.1% in Oct-22, driven by supply chain disruptions, high food and energy costs, geopolitics and imported inflation among other factors. At 21.1%, headline inflation is more than two times the upper inflation target band. While the Oct-22 inflation showed signs of a softening inflation curve, with m/m inflation receding marginally, the real policy rate is still negative. The 100bps hike in the policy rate could reinforce the monetary policy stance to consolidate the slowdown in inflation and narrow the negative real interest rate margin.

Nigeria's fixed income yields remain depressed below 15%, with the resurgent inflationary run further deepening the negative real returns, which dampens the appeal of NGN-denominated assets. We anticipate demand pressures around the Yuletide season, and together with the election-induced expenditure pressures, could tilt the risks to inflation to the upside. Thus, we expect the MPC to sustain the hawkish monetary stance in response to the rising inflation to sustain appetite for Naira-denominated assets.

Ghana: Imminent Debt Treatment to Complicate Near-term Financing Options

The budget statement and economic policy for 2023 highlighted the challenging macro-fiscal context within which Ghana is attempting to engineer economic recovery with the support of the IMF.

For the fiscal year 2023, the government expects to raise about GH¢143.96 billion (18% of GDP |+46.7% relative to the projected end of 2022 revenue) to fund its programs and policies. The new revenue measures proposed, including a 2.5% hike in the standard VAT rate and suspension of tax exemptions for foreign companies, are expected to rake in about 1.35% of GDP. On the expenditure side, resource allocations for the programs and policies will cost an estimated GH¢205.4bn, which leaves an overall cash deficit of over GH¢61 billion (7.7% of GDP).

While the sizeable outlay depicts an expansionary fiscal path, we believe the heavy and recurrent non-discretionary expenditure burden account for the significant deficit, which could reduce if the government succeeds with the proposed debt exchange program. While the negotiation with the IMF is nearing completion, with some broad agreements on program parameters already in place, clarity on debt treatment is still pending. The Debt Sustainability Analysis rated the Sovereign as having a "high risk of debt distress" with only a 'moderate" debt-carrying capacity. We expect this risk rating to keep Ghana out of the Eurobond Market over the medium term. Medium to long-term domestic financing options could also remain shut in the near term. We believe this complicates the Treasury's near-term financing options and could keep nominal yields elevated until an IMF program fully kicks in.

SSA: Snapshot of Benchmark 91-Day Yields

	Current Week (%)	Previous Week (%)	w/w Change (%)
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 (%)	25.56%	25.70%	-0.14%
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¢)	2,066.12	1,381.49	49.56%
182 - Day Bill issued (GH¢)	223.55	274.99	-18.71%
364 -Day Bill issued (GH¢)	101.71	0	n/a
91 - Day Bill Yield (%)	35.54%	35.20%	0.35%
182 – Day Bill Yield (%)	36.38%	35.99%	0.39%
364 – Day Bill Yield (%)	35.90%	35.08%	0.82%
Bid/Cover ratio	1.000	1.000	0.00
Target coverage	1.10	1.42	-0.32
Maturity Coverage	1.38	1.54	-0.16
Target for Upcoming Auction	1,852.00	2,176	-14.89%
Upcoming Maturing T-bills	1,619.50	1,726.82	-6.22%

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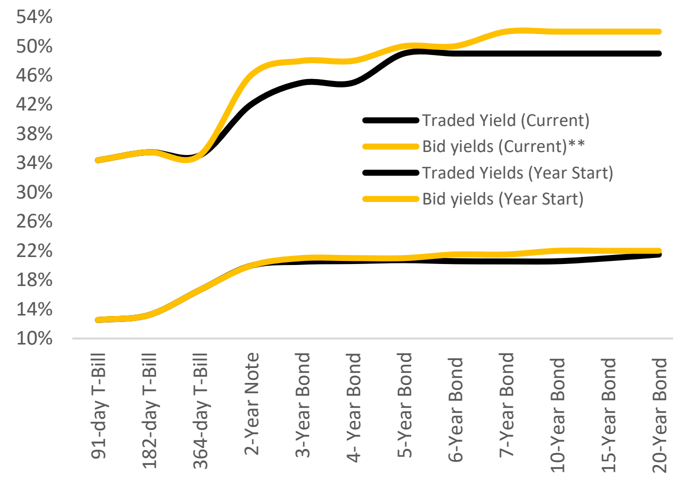
The Ghana Fixed Income Market in Focus

- Investor appetite for T-bills has recovered, with the Treasury exceeding its target in recent auctions amidst improving interbank GHS liquidity and some clarity on the treatment of T-bills.
- Bids and uptake of GH¢2.39 bn exceeded the auction target by 10% and the refinancing obligation due today, November 28, 2022, by 38%.
- T-bill yields continue the ascent and could climb even higher through Dec-22 as we expect the mounting inflation pressures to sustain the aggressive monetary tightening stance.
- The clarity that T-Bills is exempt from any domestic debt treatment could sustain appetite for the tenor in the near term.



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

Auction performance: Investor appetite for T-bills continued on a solid note, with the Treasury, again, achieving a significant size at the last auction. The auction attracted total demand worth GH¢2.39 billion, exceeding its sizeable auction target by 10%. The Treasury accepted almost all the bids, with the uptake exceeding the refinancing obligation falling due today, November 28, 2022, by 38%.

In our view, the strong demand for T-bills reflects heightened risk aversion following the clarity that any domestic debt treatment will exclude T-bills. With the scope and form of any debt treatment not yet fledged out, liquidity from the redemption of the recent bond maturities flowed into T-bill offers. Investors preferred the 91-day tenor the most as a strategic position to manage liquidity, given the panic withdrawals and risk given the prevailing market uncertainty. Despite this strong appetite and the slight improvement in interbank GHS liquidity, T-bill rates continue to trek north. The 91-day yield closed 35bps higher at 35.54%, with the 182-day and the 364-day bills also climbing 39bps and 82bps higher to 36.38% and 35.90%, respectively. We expect the high inflation profile, and the tight monetary policy stance could keep yields higher.

The Money Market in the Week Ahead: The next T-bill offer across the 91-day and 182-day bills will attempt a gross issuance of GH¢1.66 billion to roll over upcoming T-bill maturities worth GH¢1.62 billion. The auction is slated for Friday, December 2, 2022. Given the Treasury's strong appetite, prevailing market uncertainty, high inflation expectations, and the bumper 250bps increase in the policy rate to 27%, nominal yields could remain elevated.

Review of the Secondary Fixed Income Market

Investors traded an aggregate volume worth GH¢4.97 billion across notes and bonds on the secondary market last week. Treasury bonds (3-year to 20-Year tenors) accounted for 95.6% of aggregate turnover recorded last week, with the front end of the curve (2023 to 2027 tenors) dominating activity with about 59.6% share.

We note that bid yields on the secondary market have broadly stabilized within the range of 35% to 49% across the curve, representing a slight decline from the 52% levels recorded a fortnight ago. It appears the market has already priced in the imminent domestic debt restructuring program, and we do not expect a significant yield reaction ahead of the announcement of the debt exchange program. However, given the 250% hike in the policy rate to 27%, nominal yields could increase in the coming weeks as fund managers continue to sell off assets to meet clients' withdrawal requests.

Ghana's Outstanding Eurobonds

Maturity (Coupon)	Bid Price	Bid Yield	Ask Yield	Mid-Yield	w/w Δ
07-Apr-25 (0)	20.3	66.13%	58.58%	63.5%	22.60%
16-Feb-26 (8.13%)	39.5	69.02%	63.15%	69.0%	20.78%
11-Feb-27 (6.38%)	34.5	50.70%	47.94%	54.5%	14.25%
26-Mar-27 (7.88%)	34.6	50.48%	46.56%	50.7%	10.88%
07-Apr-29 (7.75%)	32.5	38.69%	36.73%	40.4%	7.55%
16-May-29 (7.63%)	32.5	37.98%	36.05%	40.8%	8.78%
14-Oct-30 (10.75%)	69.3	18.96%	18.28%	19.9%	2.36%
26-Mar-32 (8.13%)	31.5	32.18%	30.55%	33.3%	6.34%
07-Apr-34 (8.63%)	30.3	32.10%	30.39%	32.3%	6.10%
11-Feb-35 (7.88%)	31.1	28.65%	27.16%	30.2%	6.14%
07-May-42 (8.88%)	30.5	29.50%	27.77%	31.9%	7.94%
16-Jun-49 (8.63%)	29.5	29.29%	27.45%	30.1%	7.23%
26-Mar-51 (8.95%)	30.5	29.32%	27.53%	29.9%	6.38%
11-Mar-61 (8.75%)	30.0	29.10%	27.29%	29.6%	6.64%

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