Economic and Market Insight

Weekly Insights: The Fixed Income Wrap

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SSA Market Review

Ghana: Government Rolls Out a Domestic Debt Exchange Program Extending Bond Tenors and Offering a Deep Haircut on Coupons.

The Finance Minister, Honourable Ken Ofori-Atta, announced the details of the much envisaged domestic debt exchange program earlier today following an earlier indication of the program in the 2023 budget. The debt treatment is a prior action for a Fund assisted program following the conclusion of the Debt Sustainability Analysis (DSA), which places Ghana at a high risk of debt distress and a limited debt-carrying capacity.

Under the "voluntary" debt exchange program, all outstanding domestic bonds are constituted into one exit bond and exchanged for a new amortized bond structure. The tenors are zero-rated for interest payments in 2023 and will attract 5% interest in 2024 and 10% thereafter until 2037 when the bonds mature. Except for money market instruments (91-day to 364-day bills), all domestic debts, including the domestic USD-denominated debts, Daakye and ESLA bonds, are included in this arrangement. Under this new structure, 17%, 17%, 25% and 41% of the total outstanding domestic debt stock is pencilled for amortization in 2027, 2029, 2032 and 2037, respectively. The bonds have a Weighted Average Life (WAL) of ten (10) years.

While the debt exchange programme is voluntary, we believe investors have a limited option as failure to participate could lead to near-term default. The risk of a near-term default is elevated as the government faces a domestic interest cost of about GH¢31 bn in 2023, with an outstanding FV of almost GH¢19 bn falling due in Q1 2023. We believe the debt treatment has rolled back the gains made on the debt capital market over the last decade, and investor confidence could be depressed over the medium term, undermining deficit financing beyond 2023.

South Africa: Prolonged Power Rationing Could Undermine Growth in 2H22

The state power producer, Eskom Holding, could be headed for its longest power rationing after announcing an indefinite power rationing starting from Friday, December 2, 2022.

Eskom announced the breakdown of six (6) power-generating units at five (5) power stations. The breakdown of the units ushered in a stage 2 load shedding, which resulted in about 2000 MW off the national grid. The press release announcing the power cuts further added that power outages from routine maintenance and ongoing works on some existing plans will significantly reduce available capacity and extend the power cuts through 2022.

South Africa's economy contracted by 0.7% y/y in Q2 2023, following a 1.8% y/y growth in Q1 2022. While Absa Purchasing Manager's Index (PMI), a gauge of industrial activity, has expanded thus far in Q4 2022, the index was depressed through Q3 2022, averaging 49.6% at the end of the third quarter. Thus, the prolonged power supply challenges could undermine business activity and new sales, increasing the risk of a technical recession.

SSA: Snapshot of Benchmark 91-Day Yields

	Current Week (%)	Previous Week (%)	w/w Change (%)
Nigeria	6.50%	6.50%	0.00%
South Africa	6.65%	6.09%	0.56%
Uganda	11.50%	11.50%	0.00%
Egypt	18.03%	18.00%	0.03%
Kenya	9.28%	9.19%	0.08%
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 (%)	25.54%	25.56%	-0.02%
Inflation (12-month average)	24.90%	24.90%	0.00%
Monetary Policy Rate (%)	27%	24.50%	2.50%
The Ghana Reference rate (%)	30.56%	30.56%	0.00%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH¢)	2,246.56	2,066.12	8.73%
182 - Day Bill issued (GH¢)	502.01	223.55	124.56%
364 -Day Bill issued (GH¢)	0	101.71	n/a
91 - Day Bill Yield (%)	36.18%	35.54%	0.64%
182 – Day Bill Yield (%)	36.73%	36.38%	0.35%
364 – Day Bill Yield (%)	35.90%	35.90%	0.00%
Bid/Cover ratio	1.006	1.000	0.01
Target coverage	1.48	1.10	0.39
Maturity Coverage	1.70	1.38	0.31
Target for Upcoming Auction	1,816.00	1,852	-1.94%
Upcoming Maturing T-bills	1,665.14	1,619.50	2.82%

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The Ghana Fixed Income Market in Focus

- Last week's T-bill auction raked in GH¢2.77bn, against an auction target of GH¢1.85bn despite the jumbo hike in the policy rate to 27%.
- The uptake of GH¢2.75bn exceeded the auction target by 48% and the refinancing obligation due today, December 5, 2022, by 70%.
- Expectedly, T-bill yields surged again, with the 91-day (36.18% | +64bps) and the 182-day (36.73% | 0.35%) yields climbing above 36% at the last auction.
- We expect secondary market trading activity to ebb in the coming weeks as investors try to limit their risk exposure to the GoG as details of the debt treatment emerge.

Auction performance: Investor demand for T-bills came in again at the last auction, with GH¢2.77bn bids received exceeding the auction target by 48%. The Treasury accepted 99.3% of the bids tendered, which exceeded the refinancing obligation due today, December 5, 2022, by 70%.

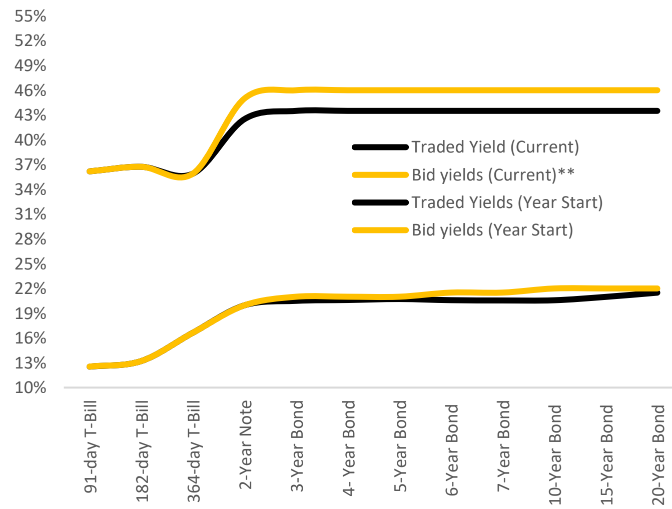
Regardless of the firm demand, the 91-day and the 182-day yields surged, crossing the 36% level at the auction. We believe the continuous surge in interest rates reflects the 250bps hike in the policy rate last week, with the entrenched inflation expectations sustaining the demand for higher yields. With the confirmation of the domestic debt restructuring program and the exemption of T-bills, we expect investor appetite for T-bills to remain strong. However, yields could remain elevated on the back of the high inflation profile.

The Money Market in the Week Ahead: The next T-bill offer will target a gross issuance of GH¢1.82 billion across the 91-day to 364-day bills to upcoming rollover maturities worth GH¢1.67 billion. The auction is slated for Friday, December 9, 2022. We expect T-bill yields to inch higher through Dec-22 on the back of the 250bps hike in the policy rate and the heightened inflation expectations. However, we expect a substantial growth in demand for T-bills following the debt rollout of the debt restructuring program, which could force nominal yields on T-bills down sharply in Q1 2023.

Review of the Secondary Fixed Income Market

Aggregate turnover across the notes and bonds dipped last week, with investors trading an aggregate volume worth GH¢2.15bn (-56.7% w/w). About 95% of the traded volumes for the week were in bonds (3-year to 20-Year tenors), and appetite was equally strong around the front end and the mid-portions of the LCY curve.

Following the launch of the debt restructuring program, we expect investors' reactions in the coming week, with activity on the secondary bonds market expected to slow down significantly as investors limit their risk exposure. However, these instruments are already trading at distressed levels, and we do not envisage sharp yield movements in the weeks ahead.



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)	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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