

December 12, 2022

DISCLAIMER AND CONTACT INFORMATION ON PAGE 4

SSA Market Review

Ghana: Staff-level Agreement Imminent as Government Pushes through Debt Exchange Program Despite Resistance.

A week after announcing the domestic debt exchange programme, the government faces resistance from labour unions and identifiable groups due to insufficient consultation.

It appears the initial engagements in the lead-up to the launch of the debt exchange were not widespread enough and focused mainly on sector regulators. Corporate trustees and labour unions are leading the resistance against the exchange programme, with further negotiations ongoing to find a middle ground. While we expect the Treasury to push through the domestic debt exchange programme eventually, optimal participation will require potentially varied terms for the exchange bonds.

Despite the lingering resistance, launching the debt exchange programme represents a major breakthrough as it satisfies a critical pre-condition to advance the negotiations with the IMF staff. A Staff-Level Agreement seems imminent in the coming days, which will be a welcome development as it will pave the way for the official commencement of a Fund-supported programme by 1Q23. While the lack of activity in the secondary bonds market could keep LCY yields elevated around the current levels, the overwhelming demand for T-bills could force money market yields lower for the remainder of 2022 as investors' interest is firmly at the short end of the curve.

Egypt: Resurgent Inflation to Sustain the Aggressive Monetary Stance

Egypt's urban inflation has increased for the fifth consecutive month in Nov-22 to a 5-year high at 18.7% (+2.9% from October).

The rising inflation depicts higher production costs, the passthrough effects of depreciation, supply-side shocks and the price effects of lingering import restrictions. Following the devaluation in Oct-22 as a precursor to the IMF, the Pound eased to a depreciation of 36.1% YTD. The passthrough effects of the sharp depreciation underscore the 290bps increase in headline inflation in November, with core inflation (due later this week) set to print higher.

The resurgent inflationary run triggered multiple interest rate hikes in 2022, including an emergency meeting in Oct-22 that raised the policy rate rates by 200bps. The underlying inflation push could persist for a while. We expect the Central Bank of Egypt to sustain the aggressive monetary policy stance through 1Q23 to regain a handle on inflation.

The IMF Board is set to approve the 48-month Extended Fund Facility (EFF) later this week. We believe the far-reaching economic and structural reforms associated with the programme and the higher interest rates environment could improve offshore investor appetite for domestic bonds in the near term.

SSA: Snapshot of Benchmark 91-Day Yields

	Current	Previous	w/w Change
	Week (%)	Week (%)	(%)
Nigeria	6.49%	6.50%	-0.01%
South Africa	6.65%	6.65%	0.00%
Uganda	11.30%	11.50%	-0.20%
Egypt	18.15%	18.03%	0.12%
Kenya	9.33%	9.28%	0.05%
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%	25.54%	0.00%
Inflation (12-month average)	24.90%	24.90%	0.00%
Monetary Policy Rate (%)	24.50%	24.50%	0.00%
The Ghana Reference rate (%)	32.83%	30.56%	2.27%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH¢)	1,422.18	2,246.56	-36.70%
182 - Day Bill issued (GH¢)	921.21	502.01	83.50%
364 - Day Bill issued (GH¢)	62.29	0	n/a
91 - Day Bill Yield (%)	35.57%	36.18%	-0.61%
182 – Day Bill Yield (%)	36.53%	36.73%	-0.20%
364 – Day Bill Yield (%)	36.19%	35.90%	0.29%
Bid/Cover ratio	1.313	1.006	0.31
Target coverage	1.32	1.48	-0.16
Maturity Coverage	1.45	1.70	-0.24
Target for Upcoming Auction	1,984.00	1,816	9.25%
Upcoming Maturing T-bills	1,821.54	1,665.14	9.39%

GCB Capital Research | Bank of Ghana

The Ghana Fixed Income Market in Focus

- Investors flooded the last T-Bill auction with demand estimated at GH¢3.2bn, resulting in 74% oversubscription.
- The Treasury accepted 76% of the bids tendered, translating into a bid/cover ratio of 1.31x, target coverage of 1.32x and maturity coverage of 1.45x
- The substantial growth in demand forced the clearing yields down across the 91-day and 182-day bills at the auction.
- Consequently, the 91-day (35.57% | -61bps) and the 182-day (36.53% | -0.20%) declined while the 364-day yield climbed 39bps to 36.19%.

Auction performance: Investor's demand for T-bills surged across the 91-day to 364-day tenors offered last week. The auction raked in total bids worth GH¢3.2bn against the gross financing target of GH¢1.82bn and the refinancing obligation for the week worth GH¢1.67bn. The Treasury accepted 76% of the bids tendered, which exceeded the auction target by 32% and the maturities due today, December 12, 2022, by 45%.

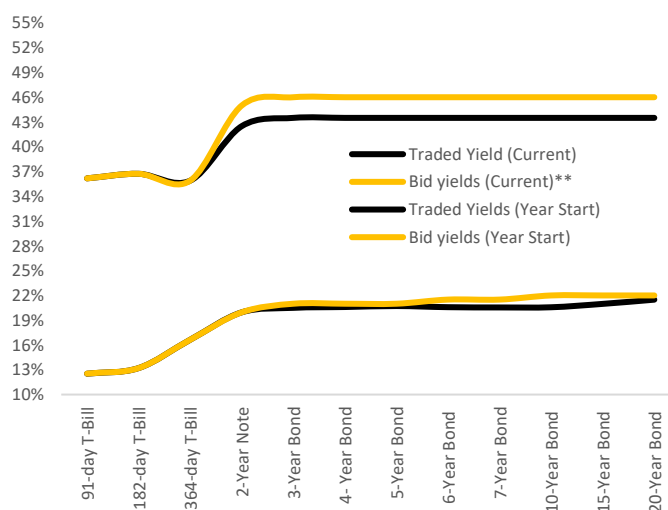
The surge in demand across the 91-day to 364-day bills afforded the Treasury to build much-needed short-term liquidity buffers while still trimming yields. Given the proposed domestic debt treatment, we expect secondary market activity to remain limited for a while as resident individuals and corporate investors accumulate the higher-yielding T-bills amidst the limited options in the market. The anticipated surge in demand could force T-bill yields even lower in the coming week despite the persistent inflation run, which will deepen the negative real returns on T-bills.

The Money Market in the Week Ahead: The next T-bill offer is slated for Friday, December 16, 2022, and will target a gross issuance worth GH¢1.98bn across the 91-day to 364-day bills. The proceeds will refinance money market maturities of about GH¢1.82bn falling due on December 19, 2022. We expect another oversubscription at the next T-bill auction, which should further force T-bill yields lower despite the anticipated increase in CPI inflation for Nov-22, which is due at midweek.

Review of the Secondary Fixed Income Market

Last week, the volume of notes and bonds traded on the secondary market increased to GH¢3.19bn (+48.4bn w/w). Only 3.8% of the trades were in 2-Year notes as the bonds again dominated activity on the market. About 35% of the traded volumes were 2023 to 2027 tenors, while the longer ends of the curve accounted for 60% of the aggregate volume traded.

It appears investors are accumulating the lowly priced, longer-dated tenors at deep discounts to cushion their portfolios when valuations eventually correct on the market. Nominal yields are, however, unchanged, with the LCY curve around the 39% to 41% levels. The scant bids are also seen around the 44% to 46% levels.



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%

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

Wilson Kyeremeh
Portfolio Manager, HSG
+233302945848 | +233302945838
wkyeremeh@gcb.com.gh

Advisory & Capital Markets Contacts

Baffour Agyarko Kwakye
Vice President, DCM
+233302945848 | +233302945838
bakwakye@gcb.com.gh

Michelle Nana Ohenewaa Kitson-Amoah
Associate, DCM
+233302945848 | +233302945838
mnodadev@gcb.com.gh

Disclaimer

This Economic and Market Insight has been prepared by the Research & Analytics Desk of GCB Capital Ltd solely for information purposes and does not constitute any legally binding obligations on GCB Capital. Any views expressed are those of the Research & Analytics Desk. Any views and commentary in this investor note are short-term views of GCB Capital Ltd's Research & Analytics Desk 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's Research & Analytics Desk based on or by reference to sources, materials that GCB Capital Ltd believes are reliably accurate, GCB Capital Ltd does not guarantee its completeness or accuracy. The message is for information purposes only as of the date hereof and is subject to change. It is not a recommendation, advice, offer or solicitation to 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 Ltd 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 Ltd.



49 Ndabaningi Sithole Rd

Labone, Accra