

SSA Market Review

Ghana: Treasury suspends interest payment on selected external debts; extends deadline for the Domestic Debt Exchange Program (DDEP)

The government of Ghana, through the Treasury, has 2022 announced ([the announcement](#)) the indefinite suspension of debt service payment on selected external debts, effective today, December 19, 2022, pending an orderly restructuring of the affected debts.

The affected debts include Ghana's Eurobonds, commercial term loans and most bilateral debts. However, the debt service suspension excludes multilateral debts and new debts contracted after December 19, 2022, and debt obligations related to short-term trade facilities.

The announcement follows on the heels of the Domestic Debt Exchange Programme (DDEP) as part of the government's comprehensive strategy to restore macroeconomic and debt sustainability. Under the DDEP, the government sought to persuade investors to swap domestically issued notes and bonds worth GH¢137bn to four (4) tenors with maturities between 5 years and 15 years at a significantly discounted coupon rate.

While this emergency measure aims at halting the deterioration in the macroeconomic and financial position, the unilateral action drifts the sovereign bonds into default territory. This action leaves about 70% of Ghana's outstanding external debt stock at risk. Consequently, Eurobond valuations further plummeted in the immediate aftermath of the announcement to suspend debt service. We expect valuations to remain depressed ahead of the official information on the terms of the debt treatment envisaged for external creditors. Meanwhile, the government has extended the offer period for the DDEP for a further two weeks to December 30, 2022. The extension allows further engagement with investors and affords institutional investors some space to exhaust internal due processes to enhance the chances of a successful debt exchange.

Nigeria: Rising Inflation to sustain the aggressive monetary stance

Nigeria's annual headline inflation rate increased for the 10th consecutive month to 21.47% in Nov-22 (+138bps) amidst resurgent food prices.

The Bureau of National Statistics attributed the higher inflation print to the rising cost of imports due to persistent Naira depreciation, Yuletide-induced demand pressures and the rising cost of production. In particular, the prices of some staples and other food items such as bread and cereals, oil and fats, potatoes and fish rose sharply for the period, mainly resulting from structural bottlenecks and imported inflation. The continuous increase in inflation could sustain the aggressive monetary policy stance and moderate the growth pulse.

Already, growth is subdued, mainly due to slower growth in the oil sector. Consequently, the IMF slashed Nigeria's annual GDP growth forecast for FY22 to 3.1% (from the earlier forecast of 3.8%) and expects growth to slow down further to 2.9% in 2023. We expect the slowing growth of the overheating economy to sustain treasury yields higher in the weeks ahead.

SSA: Snapshot of Benchmark 91-Day Yields

| | Current | Previous | w/w Change |
|--------------|----------|----------|------------|
| | Week (%) | Week (%) | (%) |
| Nigeria | 5.50% | 6.49% | -0.99% |
| South Africa | 6.63% | 6.65% | -0.02% |
| Uganda | 11.46% | 11.30% | 0.16% |
| Egypt | 18.07% | 18.15% | -0.08% |
| Kenya | 9.36% | 9.33% | 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 (%) | 25.52% | 25.54% | -0.02% |
| Inflation (12-month average) | 28.00% | 24.90% | 3.10% |
| Monetary Policy Rate (%) | 27.00% | 24.50% | 2.50% |
| The Ghana Reference rate (%) | 32.83% | 32.83% | 0.00% |
| GoG T-Bill Auction Summary | | | |
| 91- Day Bill issued (GH¢) | 2,393.02 | 1,422.18 | 68.26% |
| 182 - Day Bill issued (GH¢) | 691.43 | 921.21 | -24.94% |
| 364 - Day Bill issued (GH¢) | 586.83 | 62.29 | n/a |
| 91 - Day Bill Yield (%) | 34.93% | 35.57% | -0.64% |
| 182 - Day Bill Yield (%) | 36.03% | 36.53% | -0.50% |
| 364 - Day Bill Yield (%) | 36.10% | 36.19% | -0.08% |
| Bid/Cover ratio | 1.071 | 1.313 | -0.24 |
| Target coverage | 1.85 | 1.32 | 0.53 |
| Maturity Coverage | 2.02 | 1.45 | 0.56 |
| Target for Upcoming Auction | 1,984.00 | 1,984 | 0.00% |
| Upcoming Maturing T-bills | 1,821.54 | 1,821.54 | 0.00% |

GCB Capital Research | Bank of Ghana

The Ghana Fixed Income Market in Focus

- The last T-bill auction attracted total demand worth GH¢3.93 billion, exceeding the offer target by 98% as investors run out of options on the domestic market.
- The Treasury accepted 93% of the bids tendered, translating into a bid/cover ratio of 1.07x, target coverage of 1.85x and maturity coverage of 2.02x
- The significant oversubscription due to limited options on the market continues to force T-bill yields down despite the spike in inflation.
- As a result, the 91-day (34.93% | -64bps), the 182-day (36.03% | -0.50bps) and the 364-day (36.10% | -10bps) declined.

Auction performance: For the second consecutive week, excess demand at the T-bill auction forced T-bill yields down despite the surge in headline inflation to 50.3% in Nov-22.

The Treasury received total bids valued at GH¢3.93 billion for the offer of 91-day to 364-day bills last week, covering the target size of the offer by almost two times (1.98% of target). The Treasury accepted 93.4% of the bids tendered (GH¢3.67 billion), which translates into a target coverage of 1.85x and maturity coverage of 2.02x. We note that despite the elevated inflation and the 250bps increase/increased/rose/rising in the monetary policy rate in Nov-22, interbank liquidity levels remain firm, with the interbank interest rate largely stable.

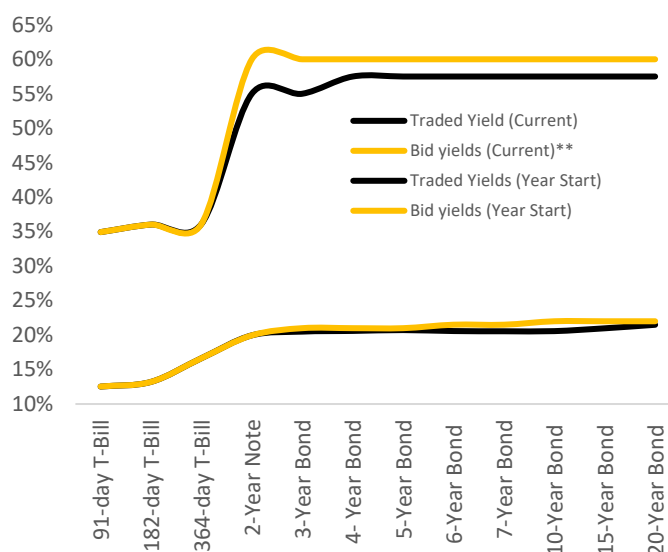
All three tenors on offer settled lower last week, with the benchmark 91-day bill yield shaving off 64bps to 34.93%, with the 182-day (36.03% | -50bps) and the 364-day (36.10% | -8bps) also settling lower. With no bond issuances envisaged in the near term, the Treasury continue to build buffers from recent T-bill auctions, raising more than twice the refinancing obligation due today, December 19, 2022.

The Money Market in the Week Ahead: The next T-bill offer slated for Friday, December 23, 2022, will target a gross issuance worth GH¢1.44 billion across 91-day and 182-day bills. The proceed from this offer will be used to refinance upcoming T-bill maturities estimated at GH¢1.16 billion. We expect another overwhelming demand from investors at the next auction. Given the relatively lower target and refinancing obligation in the week ahead, T-bill yields could fall sharply at the auction.

Review of the Secondary Fixed Income Market

Activity on the secondary bonds market expectedly dipped last week, with the investors moving an aggregate volume worth GH¢2.37 billion (-26% w/w) across the 2-year to 20-year tenors. Again, bonds dominated market activity accounting for 89.7% of the aggregate volume traded for the week. The front end and the mid-portions of the curve moved 63% of the volumes traded amidst limited activity at the longer ends of the LCY curve.

Nominal yields remain broadly elevated across the LCY curve, with offers ranging between 60% and 65 across the curve (compared with 39% to 43% before the announcement of the SLA).



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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