Economic and Market Insight

Weekly Insights: The Fixed Income Wrap

GCB CAPITAL LTD
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SSA Market Review

Ghana: Government amends the memorandum for the domestic debt exchange to offer capitalized accrued interest on validly submitted offers

The government of Ghana published the amended memorandum for the Domestic Debt Exchange (DDE) programme last week.

The amendment aims to switch 76 eligible bonds comprising GoG, ESLA and Daakye Bonds of cumulative face value worth GH¢132.4bn (from GH¢137.3bn targeted earlier) into 12 new bonds with maturities each year between 2027 and 2038. Under the modified terms of the exchange offer, the government is offering capitalized accrued, and unpaid interest on the validly submitted Offers. Additionally, the Treasury is offering a cash tender fee of 2% of the principal to holders of Eligible Bonds maturing in 2023 whose validly submitted offers the Republic accepts Offers.

Per the exchange considerations schedule, the 2023 maturities will have a maximum tenor of 11 years, with amortization starting from 2027. The bonds will attract no coupons in 2023, 5% coupons in 2024 and 9% in 2025, with an incremental rate of 15bps for each maturity from 2026 to 2038. The target investors have also been expanded to include individual investors with a non-binding target minimum participation pegged at 80%.

While the modifications are welcome, we believe the general and financial terms of the DDE programme still fall short of market expectations, which may affect participation. The modified memorandum was also silent on the exemption of the pensions sector as announced by the Finance Ministry. With the pension sector accounting for more than 30% of the eligible bonds, the 80% target appears ambitious and further delays in closing the DDE programme could delay the IMF Board's approval for the 3-Year Extended Credit Facility.

Kenya: GDP growth softens again for the 5th consecutive quarter in Q3 2022 due to base effects

Kenya's real GDP growth rate slowed down for the fifth consecutive quarter since Q2 2022 to 4.7% in Q3-2022. The growth rate, while still strong, compares unfavourably to 5.2% in Q2 2022 and 9.3% in Q3 2021, with most sectors posting slower growth year-on-year.

The relatively slower growth outturn across sectors reflects the base effects arising from the strong recovery from COVID-19 in Q3 2021. Activity in the accommodation and food service (22.9%), wholesale and retail trade (9.1%), professional, administrative and support services (8.7%), education (7.1%), other services (6.9%) and financial and insurance (5.3%) were most robust and supportive of growth. However, the agriculture, forestry, and fishing sectors (-0.6%) and the mining and quarrying sectors (-2.2%) contracted and weighted on the overall growth print for the quarter.

Thus far, real quarterly GDP growth averaged 5.56% over 9 Months in 2022, slightly above the Treasury's end-year forecast of 5.3%. Thus, growth for FY22 could exceed the Treasury's target with an even upbeat outlook for 2023.

SSA: Snapshot of Benchmark 91-Day Yields

	Current Week (%)	Previous Week (%)	w/w Change (%)
Nigeria	5.50%	5.50%	0.00%
South Africa	6.56%	6.63%	-0.07%
Uganda	11.10%	11.46%	-0.36%
Egypt	18.33%	18.09%	0.24%
Kenya	9.37%	9.37%	0.00%
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 (%)	25.43%	25.43%	0.00%
Inflation (12-month average)	28.00%	28.00%	0.00%
Monetary Policy Rate (%)	27.00%	27.00%	0.00%
The Ghana Reference rate (%)	32.83%	32.83%	0.00%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH₵)	1,131.44	1,413.86	-19.98%
182 - Day Bill issued (GH₵)	494.85	601.99	-17.80%
364 -Day Bill issued (GH₵)	183.13	0	n/a
91 - Day Bill Yield (%)	35.36%	35.36%	0.00%
182 – Day Bill Yield (%)	35.98%	35.90%	0.08%
364 – Day Bill Yield (%)	35.89%	36.10%	-0.21%
Bid/Cover ratio	1.009	1.082	-0.07
Target coverage	0.97	1.40	-0.43
Maturity Coverage	1.78	1.74	0.04
Target for Upcoming Auction	1,492.00	1,869.00	-20.17%
Upcoming Maturing T-bills	1,156.28	1,016.32	13.77%

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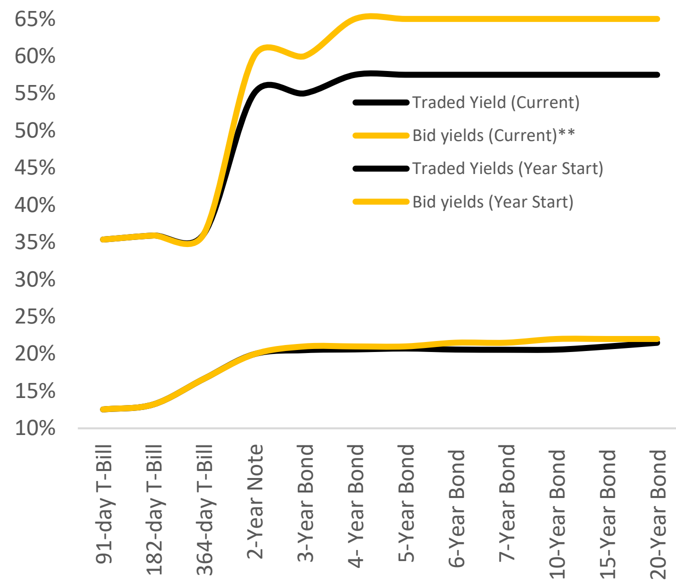
The Ghana Fixed Income Market in Focus

- Investor demand fell 2% short of the target at the last T-bill auction, but the GH¢1.83 billion raised exceeded the weekly refinancing obligation by 78%.
- The Treasury accepted 99% of the bids received across the 91-day to 364-day bills, but the yield outturn was mixed.
- While the 91-day yield was broadly unchanged at 35.36%, the 182-day crept 8bps higher at 35.98%, with the 364-day yield trimming 21bps to 35.89%.
- We envisage limited yield movements going forward as we expect oversubscription at the T-bill auctions and the excess uptake to balance out.



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

Auction performance: While the Investor's demand at the last T-bill auction was relatively firm, the total bids worth GH¢1.83 billion fell 2% short of the target. The Treasury accepted 99% of the bids tendered, which exceeded the refinancing obligation due by 78%. We believe the competing offer from COCOBOD earlier in the week and the increased cash preference around the festive season underpin the slight shortfall in demand relative to the target.

The yield outturn was mixed with the 91-day yields largely unchanged at 35.36% (+22.82% y/y), while the 182-day yield crept 8bps higher to 35.98% (+22.69% y/y). The 364-day yield also declined by 28bps to 35.89% (+19.97% y/y). With headline inflation still expected to print higher through 1Q23 and the remote chance that T-bills could be included in the debt restructuring conversation.

The Money Market in the Week Ahead: The Treasury will attempt to raise GH¢1.49 billion from the 91-day, and 182-day T-bills offer at the next T-bill auction slated for Friday, January 6, 2023. The proceeds will be used to roll over upcoming maturities estimated at GH¢1.37 billion. We expect investor demand to remain firm at the auction as investors run out of viable alternatives on the domestic market, which could exert downward pressure on the clearing yields. However, the Treasury has consistently exceeded its refinancing obligation at recent auctions as it attempts to build ample buffer for liquidity management. Thus, the opposing forces of high demand, excess uptake, and red-hot inflation could limit yield movements going forward.

Review of the Secondary Fixed Income Market

Aggregate turnover on the secondary bonds market dipped drastically again last the domestic debt restructuring conversation continued. Investors traded an aggregate volume of GH¢468.4 million (-48.4% w/w). The market remains net offered with few matching bids as investors stay on the sidelines pending the conclusion of the domestic debt exchange programme.

The market levels are unchanged, with offer yields between 60% and 65% across the curve. However, demand is almost non-existent, and we expect this narrative to continue in the weeks ahead.

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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