

May 29, 2023

Ghana Market Review

MPC holds policy rate at 29.5% amidst a continuing disinflationary run: The Bank of Ghana held the Monetary Policy Rate (MPR) at 29.50% at the May 2023 policy meeting after a cumulative 1600bps hike in the policy rate from 14.5% to 29.5% over the last eight (8) meetings. In the Bank of Ghana's view, while there are emerging risks to the inflation outlook from tariff hikes and the implementation of new tax handles, the disinflation process is on course and broad-based, with core inflation declining alongside the headline. The Cedi depreciation pressures have also subsided relative to Q4 2022, while petroleum prices have stabilised at the pumps. The official start of the IMF programme has also kicked in the Memorandum of zero deficit financing throughout the programme. The MPC expects these factors and favourable base drifts to sustain the disinflation process.

We believe the decision is appropriate to anchor near-term inflation expectations despite the emerging risks to general prices, especially as the balance of risk weighs heavily on growth in the near term. The frontloaded fiscal consolidation and the scale of monetary tightening under the programme will stifle growth in 2023, with only a moderate recovery envisaged in 2024. With the impact of the Domestic Debt Exchange Programme also weighing heavily on commercial banks, private sector credit growth could be subdued as banks adopt a conservative credit stance in these uncertain times to preserve capital. Thus, with both headline and core inflation already on the downward path, the policy rate at 29.5% is appropriately tight and can anchor inflation expectations, all things being equal.

Cedi reverses gains amidst the surge in speculative FX demand: The Cedi lost momentum last week, retreating sharply after an IMF-induced rally that switched the indicative retail rate to a net appreciation in the preceding week.

Our indicative retail rate shows the Cedi lost 9.1% w/w versus the greenback last week to close at GH¢12.1/US\$ (-1.2% YTD). The local unit also ceded 4.8% w/w to the Euro (-1% YTD) and 3.1% w/w to the GBP (-3.1% YTD) at the close of the trading week. We believe the sharp reversal in Cedi's gains stemmed from widespread speculative FX purchases as the Cedi strengthened following the IMF deal, thereby increasing FX demand relative to supply amidst the pronounced reserve vulnerabilities, which reversed the IMF programme-induced gains.

While there is room for further cedi appreciation, particularly as the IMF programme will unlock other concessional financing opportunities, the movements could be steady and relatively more predictable. We expect the FX market rates to stabilise around the current levels until the mid-year review, with policy propositions and the scale of monetary policy adjustments envisaged under the programme potentially shaping market sentiments after that.

T-bill yields continued higher amidst the high rollover obligation: Last week's T-bill auction was undersubscribed, with the total bids worth GH¢3.18 Bn falling 7% short of the gross issuance target. The Treasury accepted almost all bids, covering 98% of the refinancing obligation for the week. The clearing yields continued higher, with the 91-day and the 182-day bills climbing 24bps, 27bps and 43bps higher to 20.8%, 23.62% and 28.02%, respectively, across the 91-day to 364-day bills.

Secondary market Activity: The secondary fixed income market narrative is indifferent, with activity limited across tenors. An aggregate volume of GH¢282 mn worth of bonds exchanged hands last week, dominated by the new bonds, which accounted for over 80% of the volume traded.

T-bill auction in the week ahead: The Treasury targets a gross issuance of GH¢2.08 Bn from the next T-bill offer slated for Friday, 2nd June 2023. With the interbank market still liquid, we expect the Treasury to raise enough from this auction to cover the refinancing obligation worth GH¢1.98 Bn due on June 5, 2023. However, yields could continue the ascent amidst the increased reliance on money market financing.

Cedi Performance Against Major Currencies						
	GH¢	US\$	GB£	€	JP¥	CN¥
Interbank Ref. rate		10.98	13.54	11.75	0.08	1.55
W/W change		-1.48%	-0.29%	-0.41%	0.64%	-0.76%
YTD Change		-21.9%	-23.82%	-22.2%	-16.90%	-20.2%
Indicative retail rate		12.10	14.49	13.00	1.55	0.08
W/W change		-9.1%	-4.8%	-7.7%	-1.3%	-0.2%
YTD change		-1.2%	-1.0%	-3.1%	-9.4%	-6.0%

Source: GCB Capital Research, Bank of Ghana, Oanda

Snapshot of Monetary Indicators and Inflation			
	Current	Previous	Change
Interbank Rate (%)	25.94%	25.87%	0.07%
April-23 Inflation	41.2%	45%	-3.80%
1-Yr Average Inflation	41.48%	40%	+1.48%
MPR (%)	29.50%	29.50%	+150bps
Real MPR	-11.7%	-15.5%	+3.8%
GRR (%)	26.45%	25.76%	+0.69%

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T-Bill Clearing Yields				
	Current	Previous	Change	Real yield
91-day	20.80%	20.56%	0.24%	-14.45%
182-day	23.62%	23.36%	0.27%	-12.45%
364-day	28.02%	27.59%	0.43%	-9.34%

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The Ghana Market Summary			
	Current	Previous	Change
Bid (GH¢'M)	3,183.54	2,782.44	14%
Issuance (GH¢'M)	3,183.51	2,781.38	14%
Target (GH¢'M)	3,431	3,333	3%
Maturity (GH¢'M)	3,263.02	3,171.82	3%
Target coverage ratio	0.93x	0.83x	n/a
Maturity coverage ratio	0.98x	0.88x	n/a
Bid/Cover ratio	1.00x	1.00x	n/a

The Week Ahead			
Issuance Target - T-bills (GH¢'mn)	2,082	2,732	-23.79%
Maturity -T-bills (GH¢'Bn)	1,979	2,598.46	-23.85%

Secondary Market Activity			
Turnover – Bonds GH¢'Bn	0.282	0.410	-31.31%
Turnover – Notes & Bills GH¢'Bn	0.893	0.513	74.20%

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Week 3: Performance of Selected African Sovereign Bonds					
Country/Ratings	Maturity	Current Price		Yield-to-Maturity	
Fitch/Moody's/S&P		Bid	Ask	Bid	Ask
Ghana RD/CA/SD	GHA 7% 08/07/23	44.7	55.15	420.16%	276.2%
	GHA 8% 05/07/42	34.38	35.98	26.194%	26.09%
	GHA8% 03/11/61	33.2	35.45	24.30%	22.87%
Egypt B+/B3/B	EGPT 4.55 11/20/23	81.1	82.03	22.052%	21.19%
	EGPT 6% 04/30/40	50.48	52.09	14.997%	14.55%
	EGPT 7% 02/16/61	49.51	50.65	15.199%	14.86%
Kenya B/B2/B	KENINT 6% 6/24/24	85.923	87.434	21.38%	19.66%
	KENINT 6.3 1/23/34	64.635	66.04	12.33%	12.01%
	KENINT 8% 2/28/48	65.94	67.67	12.823%	12.50%
Nigeria B-/Caa1/B-	NGERIA 6% 7/12/23	98.68	99782	13.204%	7.37%
	NGERIA 7% 9/28/33	68.58	69.73	12.954%	12.69%
	NGERIA 8% 9/28/51	64.74	65.96	12.946%	12.71%
South Africa BB-/Ba2/BB-	SOAF 4.665 1/17/24	98.89	99.27	6.27%	5.73%
	SOAF 5 10/12/46	67.28	68.43	7.926%	7.775%
	SOAF 7.3 04/20/52	85.31	86.04	8.70%	8.63%
Cote Ivoire BB-/Ba3/BB-	IVYCST 5% 07/23/24	96.41	97.96	8.52%	7.13%
	IVYCST 6% 06/15/33	83.58	85.01	8.58%	8.35%
	IVYCST 6% 03/22/48	67.01	68.15	10.36%	10.81%

Other African Markets Review

Kenya: Kenya seals Staff-level agreement for a fifth review of the EFF/ECF programmes; awaiting board approval.

The IMF Staff and the government of Kenya reached a staff-level agreement on the programme supported by the Extended Credit and Extended Fund Facilities EFF/ECF last week. The IMF team and the authorities also agreed to a 10-Month extension of the programmes and augmented access under the EFF/ECF by 75% of the quota (SDR407.1 Mn, about US\$544.3bn) amidst the challenging external financing conditions. The Staff and the Kenyan authorities also agreed to a new 20-Month Resilience and Sustainability Fund (RSF), giving access to an additional 75% of the quota, which will run concurrently with the EFF/ECF arrangements through April 2025.

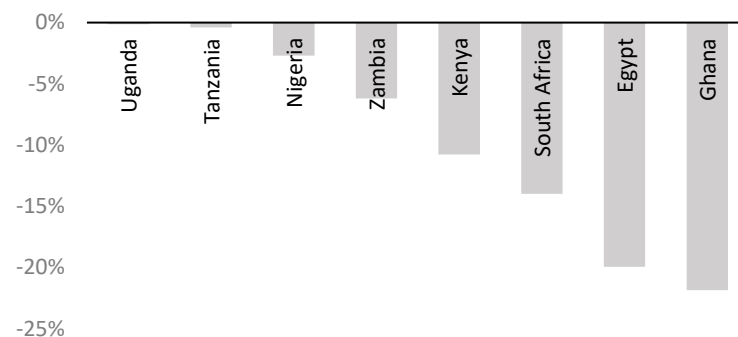
The IMF Board's approval of the 5th review, the 10-Month extension, the augmentation of the EFF/ECF, and the new RFF package will increase the IMF's total commitment to SDR2.633 billion (about US\$3.52 bn) under the programme. The Board's approval will also trigger an immediate disbursement of SDR306.7 Mn (about US\$410 mn) and signals the IMF's vote of confidence in the Kenyan authorities' economic recovery efforts. While growth has been robust and the government has shown commitment to fiscal prudence, we expect the tighter fiscal and monetary policy climate and the unfavourable external market conditions to stifle growth in the near term. The dwindling reserves and the tightening interbank FX liquidity conditions also remain a concern in the near term, requiring immediate interventions to boost FX liquidity levels. The successful 5th review keeps the programme on track with the 10-month extension allowing the government to pursue holistic reforms to anchor economic stability.

Ghana Economic Events Calendar for May-2023		
Event	Due date	Expectations
May-2023 CPI	10 th May 2023	Headline inflation to drop again
BDCs FX Auction	May 12, 2023	BoG expected to forward sell US\$20 million
May 2023 PPI	May 17, 2023	PPI to continue the decline
MPC Meeting	May 17 – 19, 2023	MPR could be held at 29.5%
MPC Press Conf.	May 22, 2023	MPR could be held at 29.5%
BDCs FX auction	30 th May 2023	BoG expected to forward sell US\$20 million

Performance of Selected African Currencies						
Country	US\$	Chg. (%)	€	Chg. (%)	£	Chg. (%)
Egypt	30.89	0.00%	33.13	0.73%	38.13	0.82%
Kenya	138.25	-0.55%	148.13	0.26%	170.55	0.18%
Nigeria	460.95	-0.02%	494.88	0.71%	570.33	0.55%
S. Africa	19.74	-2.01%	21.19	-1.49%	24.39	-1.59%
Tanzania	2318.22	-0.07%	2484.67	0.68%	2860.91	0.67%
Uganda	3729.79	-0.17%	4004.67	0.25%	4602.56	0.45%
Zambia	15.42	-2.74%	20.70	-2.14%	23.84	-2.16%

Source: GCB Capital Research | The Relevant Central Banks

SSA Currencies Performance Tracker (YTD Appreciation/Depreciation)



SSA: Snapshot of Benchmark 91-day Yields			
Country	Current week (%)	Previous Week (%)	w/w Change (%)
Nigeria	2.29%	5.50%	-2.21%
South Africa	6.48%	6.56%	0.28%
Uganda	10.33%	11.10%	0.00%
Egypt	23.01%	18.33%	0.00%
Kenya	10.83%	9.37%	0.42%
Tanzania	3.96%	3.00%	-0.04%
Zambia	10.00%	10.00%	0.24%

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