

July 24, 2023

Ghana Market Review

T-bill yields to continue higher following the tighter monetary policy stance: The Monetary Policy Committee (MPC), at its Jul-23 policy meeting, raised the policy rate by 50bps to 30% in response to the emerging upside risks to inflation, which the committee indicated, requires considerable tightening in both the fiscal and monetary policy framework to regain a handle on.

Headline inflation increased cumulatively by 130bps over the last two months, and the monetary data shows that all the core measures of inflation increased alongside the headline, reflecting simmering underlying inflationary pressures that could distort the disinflation process. The committee thus assessed the risks to inflation point to the upside, particularly driven by the relentless food basket.

The 50bps hike, while marginal and precautionary, could stair higher interest rate demand and potentially moderate credit growth in the interim. Inflation and general macroeconomic uncertainties are spurring higher interest rates, with the benchmark 91-day bill yields reverting from the 18% levels in the immediate weeks after DDEP and could breach 25% at the next auction. T-bill yields at current levels are higher than the coupon rates on the restructured bonds, and the tighter monetary stance could fuel even higher yields in the interim until the Treasury unlocks concessional funding alternatives.

Improving external sector outlook to support Cedi resilience through 2H23: Ghana's external sector balances show an improved sector outlook for 2H23, which could anchor Cedi's stability for the remainder of 2023. While total exports dipped marginally during 1H23 relative to the same period last year, imports also reduced, resulting in a healthier balance of trade surplus for the period. The Current Account (C/A) balance also closed in a surplus of US\$849.2 mn (1.1% of GDP), thanks to the healthy trade surplus and limited investment income outflows due to the external debt service suspension. Portfolio reversals have also slowed considerably relative to 2022, helping the capital and financial accounts to a lower deficit.

These dynamics in the external accounts underscore the slower-than-expected pace of reserve depletion, with the import cover only dipping marginally from 2.7 months in Dec-22 to 2.5 months in Jun-23. Thus, the Cedi (bar the sharp decline in Jan-23) has been relatively stable against the major trading currencies and could be further supported in 2H23 by the anticipated inflows from the annual cocoa loan syndication and concessional financing from the world bank and AFDB and other development partners. The local unit closed trading last week nearly flat in the interbank market but recorded a 0.7% appreciation vs the USD on the retail market.

Treasury attracted enough demand to meet its rollover obligations at the last T-bill auction: Last week's T-bill auction raked in total demand worth GH¢2.70 bn (vs. target: GH¢2.55 bn). The Treasury accepted almost all the bids, marginally exceeding the target and refinancing obligation due today, July 24, 2023. The auction settled higher again this week, with the 364-day bill clearing 40bps higher to 30.05%. The 182-day bill also surged to 26.91% (+50bps w/w), with the 91-day yield increasing at a relatively slower pace to 24.92%.

Secondary Market Activity: Activity on the secondary bonds market remains uninspiring, with the aggregate value of trades recorded last week increasing marginally to GHS1.01 bn (+1.4% w/w). Bonds accounted for 28.8% of the total volume traded, with the Feb-27 paper (coupon: 8.35%) dominating activity, accounting for GH¢222 mn (77%) of the total bonds sold last week. All the new bonds (except the Aug-28 paper) are trading at a discount to the face value, with the closing yields ranging between 12.25% and 19.83% at the close of trading.

T-Bill Auction in The Week Ahead: A total T-bill face value of GH¢2.02 bn across the 91-day and 182-day bills will mature on July 31, 2023, and the Treasury is targeting a gross issuance of GH¢2.28bn at the next T-bill auction later this week to roll over the maturity. While the interbank market remains broadly liquid, the 50bps increase in the policy rate to 30% could result in a sharper increase in T-bill yields at the next auction, and we expect the benchmark 91-day yield to cross 25% at the next auction.

Cedi Performance Against Major Currencies						
	GH¢	US\$	GB£	€	JP¥	CN¥
Interbank Ref. rate	11.00	14.14	12.23	0.08	1.53	
W/W change	-0.02%	-0.11%	-1.48%	-0.39%	-0.46%	
YTD Change	-22.1%	-27.05%	-25.2%	-16.47%	-19.0%	
Indicative retail rate	11.77	15.15	13.10	1.57	0.08	
W/W change	0.7%	2.0%	0.8%	-0.1%	0.7%	
YTD change	1.5%	-5.3%	-3.8%	-10.6%	-9.1%	

Source: GCB Capital Research, Bank of Ghana, Oanda

Snapshot of Monetary Indicators and Inflation			
	Current	Previous	Change
Interbank Rate (%)	26.27%	26.25%	+2bps
April-23 Inflation	42.50%	42.50%	0.00%
1-Yr Average Inflation	43.75%	43.75%	0.00%
MPR (%)	30%	29.50%	+50bps
Real MPR	-9.56%	-9.91%	+35bps
GRR (%)	26.89%	26.89%	0.00%

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T-Bill Clearing Yields				
	Current	Previous	Change	Real yield
91-day	24.92%	24.69%	0.23%	-13.10%
182-day	26.91%	26.41%	0.50%	-11.72%
364-day	30.05%	29.65%	0.40%	-9.53%

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The Ghana Market Summary			
	Current	Previous	Change
Bid (GH¢'M)	2,699.38	2,126.22	26.96%
Issuance (GH¢'M)	2,699.05	2,126.22	26.94%
Target (GH¢'M)	2,654	1,778.00	49.27%
Maturity (GH¢'M)	2,500	1,670.12	49.66%
Bid/Cover ratio	1.0001	1.00	n/a
Target coverage	1.02	1.20	n/a
Maturity Coverage	1.08	1.27	n/a

The Week Ahead			
T-bill Issuance Target - (GH¢'mn)	2,282.00	2664.0	-14.34%
Upcoming T-bill Maturities (GH¢'mn)	2,021.63	2,499.56	-19.12%
Secondary Market Activity			
Turnover – Bonds GH¢'Bn	0.288	0.176	63.96%
Turnover – Notes & Bills GH¢'Bn	0.72	0.818	-11.88%

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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	52.23	52.87	598.58%	583.5%
	GHA 8% 05/07/42	37.8	39.21	22.228%	21.53%
	GHA8% 03/11/61	37.60	39.38	22.107%	21.16%
Egypt B+/B3/B	EGPT 4.55 11/20/23	98.13	99.24	8.95%	6.303%
	EGPT 6% 04/30/40	56.34	57.99	13.493%	13.11%
	EGPT 7% 02/16/61	52.49	53.60	14.351%	14.06%
Kenya B/B2/B	KENINT 6% 6/24/24	92.638	93.943	14.810%	13.34%
	KENINT 6.3 1/23/34	73.041	74.341	10.587%	10.34%
	KENINT 8% 2/28/48	75.032	76.432	11.259%	11.05%
Nigeria B-/Caa1/B-	NGERIA 6% 7/12/23	99.24	100.26	15.228	13.18%
	NGERIA 7% 9/28/33	74.13	75.25	11.771%	11.54%
	NGERIA 8% 9/28/51	69.72	70.84	12.026%	11.84%
South Africa BB-/Ba2/BB-	SOAF 4.665 1/17/24	98.03	99.38	6.329%	5.734%
	SOAF 5 10/12/46	66.49	67.50	8.261%	8.128%
	SOAF 7.3 04/20/52	84.08	84.71	8.831%	8.761%
Cote Ivoire BB-/Ba3/BB-	IVYCYST 5% 07/23/24	96.86	98.419	8.376%	6.866%
	IVYCYST 6% 06/15/33	86.84	88.237	8.067%	7.843%
	IVYCYST 6% 03/22/48	68.96	70.078	10.062%	9.897%

Other African Markets Review

Nigeria: MPC to sustain MPR hike amidst pronounced upside risks to inflation.

We expect the Monetary Policy Committee (MPC) to raise the Monetary Policy Rate (MPR) by at least 100bps ahead of its press conference tomorrow, July 25, 2023, to announce the new policy rate.

The MPC increased the policy rate cumulatively by 700bps since Jun-22 in response to the resurgent inflation since Dec-21, lifting urban inflation cumulatively by 7.39% to 22.79% in Jun-23. At 22.79%, inflation is at an 18-year high, with pronounced upside risks from the sharp NGN devaluation and the withdrawal of fuel subsidies since Jun-23. We expect the Jul-23 policy meeting to account for the immediate risks to inflation. An appropriately tight policy rate is required to lower inflation expectations and sustain FDI and portfolio investment flows, which are needed to improve FX liquidity conditions on the market.

South Africa: MPC holds repo rate at 8.25% at the Jul-23 policy meeting; assesses the risks to the outlook as pointing to the upside.

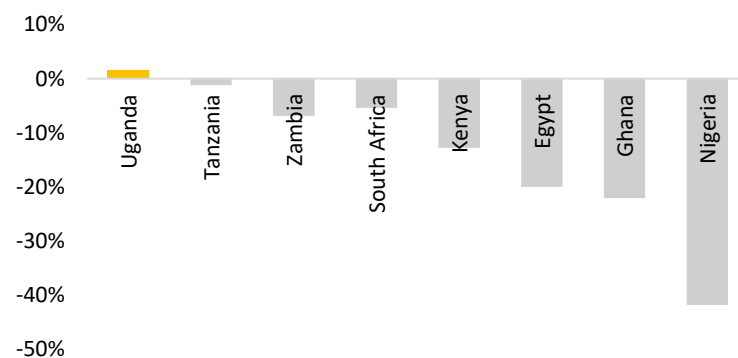
The Monetary Policy Committee held the Rep rate at 8.25% last week despite headline inflation returning to the upper target band in Jun-23. The committee assessed that the risks to inflation outlook are elevated amidst simmering food price pressures, energy price uncertainty and the impact of load-shedding and logistic constraints on the cost of doing business. The MPC believes the current policy stance is restrictive, consistent with the high inflation expectations. The Quarterly projection model envisages inflation easing to 5.3% by Q4 2023 (2023 average: 6%) and further decline to 5% and 4.5% in 2024 and 2025, respectively.

Ghana Economic Events Calendar for July - 2023		
Event	Due date	Expectations
BDCs FX Auction	July 11, 2023	BoG expected to forward sell US\$20 mn
June-2023 CPI	July 12, 2023	Another marginal climb in inflation
May 2023 PPI	July 19, 2023	Rising input costs to drift PPI higher
MPC meetings	July 19-21, 2023	MPC expected to hold the policy rate
MPC press conf.	July 24, 2023	MPC increased policy rate by 50bps
BDCs FX Auction	25 th July 2023	BoG expected to forward sell US\$20 mn
Mid-year Budget rev	25 th July 2023	Review of the 2023 budget

Performance of Selected African Currencies						
Country	US\$	Chg. (%)	€	Chg. (%)	£	Chg. (%)
Egypt	30.89	0.00%	33.72	0.00%	39.26	0.00%
Kenya	140.92	-0.28%	153.31	-0.22%	177.28	1.40%
Nigeria	760.28	-0.13%	826.27	0.61%	965.71	0.21%
S. Africa	19.08	-0.80%	20.75	-1.12%	24.31	-1.71%
Tanzania	2331.51	-0.17%	2539.02	0.20%	2976.99	-1.26%
Uganda	3694.21	-0.69%	4022.99	-0.88%	4707.90	-1.58%
Zambia	15.42	-5.45%	19.66	-5.57%	23.01	-5.80%

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	2.86%	2.86%	0.00%
South Africa	8.60%	8.62%	-0.02%
Uganda	10.20%	10.20%	0.00%
Egypt	23.29%	23.29%	0.00%
Kenya	12.23%	12.11%	0.12%
Tanzania	4.60%	4.60%	0.00%
Zambia	9.80%	9.80%	0.00%

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