

November 13, 2023

Ghana Market Review

Nominal Yield Correction Cycle underway as we expect End-Year Inflation around 25%: Ghana's post-crisis recovery is underway, with the continuous decline in inflation and the steadily easing uncertainties set the tone for correction in nominal yields in the coming weeks, barring renewed shocks to the macro-fiscal outlook.

The frontloaded fiscal adjustments thus far under the IMF programme complemented the tight monetary policy stance and the favourable base effect in correcting inflation expectations. These factors largely underpin the 18.9% drop in headline inflation YTD to a 15-month low of 35.2% in Oct 2023. Despite the simmering FX pressures, we expect an even sharper decline in headline inflation in the remaining two months of 2023, largely due to favourable base drift, and inflation could close 2023 around 25%, all things equal.

We believe nominal yields have peaked within the range of 29.97% to 33.70% along the T-bill curve, and a yield correction is underway, coinciding with the slight tweak in the T-bill auction process where the Treasury, through the Primary Dealers (PDs), now provide price guidance ahead of the T-bill auctions opening. We expect a sharper correction in yields once inflation drops below 30% and restores positive real returns on money market instruments.

However, the fiscal path in 2024 will yield a larger overall budget deficit on a commitment basis relative to the projected outturn for 2023 and a sizeable financing obligation worth GH¢61.88 bn to be funded mostly from the domestic market. Thus, it appears the Treasury will sustain its strong appetite for funding at the front of the LCY curve in 2024, which could moderate the scope for yield correction.

Imminent Cocoa Loan to Provide Temporary FX Liquidity Respite: The Parliament of Ghana approved US\$800 million in annual Cocoa loan syndication for COCOBOD last week, which paves the way for the closure of the yearly Cocoa loan syndication to fund crop purchases for the 2023/24 cocoa season. The inflow will inject much-needed FX liquidity into the domestic FX market around the Yuletide season and temporarily ease the tightening FX liquidity conditions. While we expect the disbursement of the second tranche of US\$600 million from the IMF to enhance domestic FX liquidity further, the timing of that disbursement hinges on reaching an agreement with official creditors on the parameters of official debt treatment. However, following the developments in Zambia (see other African markets review on page 2), securing an MOU by the end of 2023 is uncertain.

T-bill yields beginning to pivot Amidst Continuous Firm Demand: Last week's offer of 91-day to 364-day bills attracted total demand worth GH¢3.75 bn (-6.45% w/w), which was 14.8% above the auction target. The Treasury accepted almost all the bids tendered, with the uptake covering the auction target and the maturity obligation due today, November 20, 2023, by 1.15x and 1.60x, respectively. The benchmark 91-day yield cleared 10bps lower w/w to 29.74%, continuing the trend of decline that started in the preceding week. However, the 182 and 364-day yields cleared broadly unchanged at 31.88% and 33.45%, respectively.

Secondary Market Activity: Aggregate turnover on the secondary Fixed Income market quickened to GH¢2.56 bn (+9.6% w/w) last week, continuing the gradual recovery in market activity in recent weeks. Bonds accounted for 42% of the volume traded last week, with T-bills still the most dominant driver of activity on the secondary market. While activity in the bonds has improved in recent weeks, they are generally priced at distressed levels, closing last week priced between 24.04% to 89% of face value.

T-Bill Auction in The Week Ahead: The next T-bill auction slated for Friday, November 24, 2023, will target a gross issuance of GH¢3.59 bn (+9.83% w/w) across the 91-day to 364-day bills to refinance upcoming maturities estimated at GH¢3.34 bn. Despite the sizeable target size on offer, we expect the auction to be over-subscribed and investor appetite to increasingly shift to the longer ends of the T-bill curve as we expect a steeper decline in yields as inflation expectations improve.

Cedi Performance Against Major Currencies					
	US\$	GB£	€	JP¥	CNY¥
Interbank Ref. rate	11.56	12.57	14.36	0.08	1.60
W/W change	-0.32%	-1.80%	-1.40%	-1.04%	-1.30%
YTD Change	-25.8%	-28.17%	-36.3%	-15.93%	-22.6%
Indicative retail rate	12.00	13.05	15.00	1.65	0.08
W/W change	0.0%	-0.8%	-0.7%	-0.8%	-0.2%
YTD change	-0.4%	10.0%	-16.0%	-14.5%	-7.0%

Source: GCB Capital Research, Bank of Ghana, Oanda

Snapshot of Monetary Indicators and Inflation			
	Current	Previous	Change
Interbank Rate (%)	29.12%	29.12%	0.00%
July-23 Inflation	35.20%	38.10%	-2.90%
1-Yr Average Inflation	44.86%	45.29%	-0.43%
MPR (%)	30.00%	30.00%	0.00%
Real MPR	-10.26%	-10.52%	0.27%
GRR (%)	32.00%	32.00%	0.0%

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T-Bill Clearing Yields				
	Current	Previous	Change	Real yield
91-day	29.74%	29.84%	-0.10%	-10.44%
182-day	31.88%	31.88%	0.001%	-8.96%
364-day	33.45%	33.45%	-0.001%	-7.88%

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The Ghana Market Summary			
	Current	Previous	Change
Bid (GH¢'M)	3,748.02	4,006.52	-6.45%
Issuance (GH¢'M)	3,747.94	3,903.91	-4.00%
Target (GH¢'M)	3,266	3,105.00	5.19%
Maturity (GH¢'M)	2,345.24	2,888.28	-18.80%
Bid/Cover ratio	1.00x	1.03	n/a
Target coverage	1.15	1.26	n/a
Maturity Coverage	1.60	1.35	n/a

The Week Ahead			
T-bill Issuance Target - (GH¢'mn)	3,587.00	3,266.00	9.83%
Upcoming T-bill Maturities (GH¢'mn)	3,337.96	2,345.24	42.33%

Secondary Market Activity			
Turnover – GoG Bonds GH¢'Bn	1.085	1.167	-7.01%
Turnover – GoG Notes & Bills GH¢'Bn	1.48	1.172	26.19%

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Week 3: Performance of Selected African Sovereign Bonds					
Country/ Ratings	Maturity	Current Price		Yield-to-Maturity	
		Bid	Ask	Bid	Ask
Ghana RD/CA/SD	GHA 8% 01/18/26	45.48	46.96	46.73%	44.95%
	GHA 8% 05/07/42	41.23	42.64	21.472%	20.82%
	GHA8% 03/11/61	40.81	42.96	21.40%	20.33%
Egypt B+/B3/B	EGPT 4.55 11/20/23	97.69	98.81	15.93%	10.35%
	EGPT 6% 04/30/40	51.29	57.99	14.83%	14.43%
	EGPT 7% 02/16/61	50.34	51.43	14.96%	14.65%
Kenya B/B2/B	KENINT 6% 6/24/24	94.45	95.76	14.43%	12.58%
	KENINT 6.3 1/23/34	71.98	73.28	10.87%	10.61%
	KENINT 8% 2/28/48	74.12	75.50	11.41%	11.20%
Nigeria B-/Caa1/B-	NGERIA 7%11/21/25	95.19	96.19	10.09	9.57%
	NGERIA 7% 9/28/33	76.90	78.01	11.27%	11.05%
	NGERIA 8% 9/28/51	71.71	72.85	11.70%	11.52%
South Africa BB-/Ba2/BB-	SOAF 4.665 1/17/24	98.99	99.25	7.48%	6.73%
	SOAF 5 10/12/46	65.57	66.72	8.40%	8.25%
	SOAF 7.3 04/20/52	83.83	84.62	8.86%	8.77%
Cote Ivoire BB-/Ba3/BB-	IVYCST 5% 07/23/24	97.10	98.65	8.85%	6.97%
	IVYCST 6% 06/15/33	85.26	86.65	8.36%	8.13%
	IVYCST 6% 03/22/48	69.99	70.93	9.92%	9.78%

Other African Markets Review

Zambia: Eurobond Restructuring Plans Stall as the OCC Rejects Agreement in Principle with Commercial Creditors

The Zambian authorities have reached a stalemate in their efforts to complete the drawn-out debt treatment under the Common Framework (CF). This follows the Official Creditor Committee (OCC)'s rejection of the reworked Agreement in Principle (AIP), with Eurobond holders citing non-compliance with the Comparable Treatment Principle under the Common Framework.

The IMF staff also raised reservations about the initial AIP reached with the Eurobond holders, with the IMF showing that the agreement would breach the debt service-to-revenue ratio and the present value of the Debt stock-to-exports ratio under the Debt Sustainability Analysis (DSA) framework. Following these concerns, the Zambian authorities renegotiated the terms of the agreement, which the IMF Staff now deem satisfactory and compatible to restore debt sustainability. However, the OCC rejected the reworked agreement, maintaining that it did not satisfy the comparable treatment clause under the common framework, with the Co-Chairs advising that there was no consensus among OCC members on the additional PV concessions required to comply with the Comparability Treatment Principle under the base case scenario.

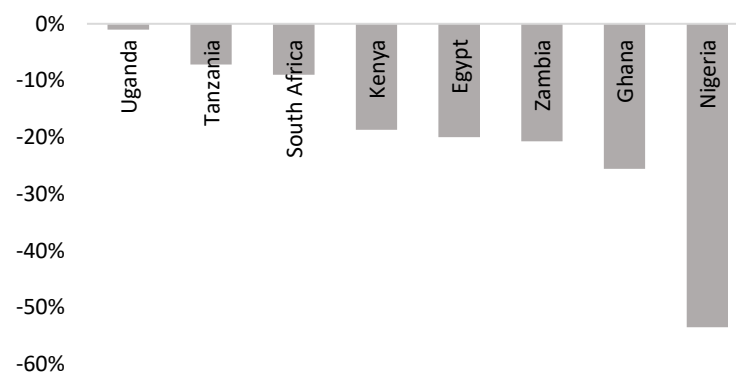
With the Adhoc committee of commercial creditors unwilling to make further concessions, the government of Zambia does not have the support of the OCC to complete the debt treatment. Zambia's Eurobonds and other developing economies' sovereign bonds, including Ghana's Eurobonds, plummeted following this development, which could undermine the recovery effort should the stalemate linger and thus threaten the Common Framework's viability.

Ghana Economic Events Calendar for November - 2023		
Event	Due date	Expectations
October -23 CPI	Nov 13, 2023	CPI inflation to record marginal decline
BDCs forward FX auction	Nov 14, 2023	BoG expected to forward sell US\$20m
2024 Budget Presentation	Nov 15, 2023	Fin. Minister to present budget to parliament
October -23 PPI	Nov 16, 2023	PPI to decline further
MPC Meeting	Nov 22 – 24, 2023	Review economy and decide MPR
MPR Decision	Nov. 27, 2023	MPC to maintain MPR at 30%
BDCs forward FX auction	Nov 14, 2023	BoG expected to forward sell US\$20m

Performance of Selected African Currencies						
Country	US\$	Chg. (%)	€	Chg. (%)	£	Chg. (%)
Egypt	30.89	0.00%	33.70	-2.07%	38.50	-2.14%
Kenya	152.23	-0.36%	165.30	-1.81%	189.11	-1.59%
Nigeria	820.18	17.63%	891.70	15.92%	1018.59	16.32%
S. Africa	18.38	1.47%	19.92	0.00%	22.78	0.15%
Tanzania	2493.6	-0.25%	2684.9	-1.01%	3069.59	-0.96%
Uganda	3766.5	0.00%	4018.5	0.00%	4604.22	0.00%
Zambia	15.42	-3.91%	25.18	-5.25%	28.82	-4.80%

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	7.00%	6.99%	0.01%
South Africa	8.53%	8.72%	-0.19%
Uganda	9.30%	9.30%	0.00%
Egypt	25.56%	25.50%	0.06%
Kenya	15.29%	15.19%	0.10%
Tanzania	7.77%	7.77%	0.00%
Zambia	9.45%	9.45%	0.00%

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