Economic and Market Insight

SSA Weekly Insights: Currency and Fixed Income Wrap

GCB CAPITAL LTD

Research & Analytics

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Ghana Market Review

Fitch Upgrades Ghana's LCY Credit Risk to CCC from RD: Fitch Ratings upgraded Ghana's Long-Term Local-Currency Issuer Default Risk (IDR) a notch higher from Restricted Default (RD) to CCC last week following the successful completion of the Domestic Debt Exchange. The agency also assigned a CCC rating to the interest-only bonds issued to Pension Fund Managers and the dollar-denominated domestic bonds. However, the agency affirmed Ghana's Long Term Foreign-Currency Issuer Default Risk (IDR) at Restricted Default (RD) pending the conclusion of the external commercial debt treatment and set the Sovereign's debt ceiling at B-.

Fitch believes the completion of the DDEP has normalized the relationship between local bond investors and the Sovereign. The agency estimated the debt service reduction from the various iterations of the Domestic Debt Exchange Programme (DDEP) at GHS57 bn (+6.6% of GDP|43% of total revenue and grants), with a further reduction coming from the 50% haircut on the Bank of Ghana's holdings of non-marketable GoG bonds. Fitch expects the Cedi depreciation in 2023 and the size of the fiscal deficit to moderate the anticipated slowdown in the public debt from the 50% haircut on the Bank of Ghana's holding of non-marketable securities (representing debt reduction of 4.2% of GDP). Regardless, the agency expects a slowdown in the debt-to-GDP ratio to 87% of GDP in 2023 and 78% of GDP by 2025 despite the uncertainty around the parameters of external debt restructuring.

We maintain that the macroeconomic gains are fragile and highly susceptible to renewed domestic and external shocks. Thus, we expect the 2024 budget to reinforce strategies to sustain these gains towards entrenching fiscal discipline, restoring debt sustainability, and ultimately regaining market access.

Cedi Bearish but Broadly stable vs the USD: While still under pressure from firm corporate demand, the Cedi remains broadly stable against the USD, moving within a predictable range on both the interbank and retail market segments. The local unit closed trading last week 0.3% weaker vs the greenback amidst the high level of demand from the Corporate sector and the limited FX supplies as the BDCs are on the market to source funds to settle maturing LCs. The local unit, however, closed much weaker vs the Euro and the GBP, shaving off 1.68% and 2.18%, respectively, on the interbank market last week.

COCOBOD is yet to close the 2023/24 annual cocoa loan syndication targeting US$800 million, and we believe the delayed closure, possibly due to unfavourable pricing, partly underscores the thinning FX liquidity conditions on the market. The Cedi's outlook through the remainder of Q4 2024 hinges on the timing of the anticipated FX inflows from the cocoa loan and disbursements expected from the IMF and the World Bank under the current programme.

Demand for T-bills remains with yields near their peak: Last week's T-bill auction attracted total demand worth GH¢2.86 bn (+10.7% w/w) across the 91-day to 364-day bills against the auction target of GH¢2.15 bn. The Treasury accepted 94% of the bids received, exceeding the auction target by 25% and the maturities due by 35%. The 91-day bill cleared 15bps higher at 29.97% and should reach 30% at the next auction. The 182-day and 364-day bills also cleared 47bps and 28bps higher at 32.15% and 33.70%, respectively.

Secondary Market Activity: Overall activity on the secondary fixed income market slowed w/w, recording an aggregate turnover of GH¢1.92 bn (-43% w/w) last week. Bonds dominated market activity, accounting for 55% of the value traded (-24.6% w/w), with activity in T-bill recording a marked slowdown to GH¢0.872 bn (-57%). The Nov-31 (coupon: 8.95%) was the most active instrument last week, moving an aggregate volume of GH¢687.9 mn at an average price of nearly 50% discount.

T-Bill Auction in The Week Ahead: The upcoming T-bill auction slated for Friday, November 10, 2023, will target a gross issuance of GH¢3.11bn (+44.3% w/w) across the 91-day to 364-day bills to refinance upcoming maturities estimated at GH¢2.89 bn. The significantly higher refinancing obligation could result in a more pronounced increase in the clearing yields at the auction relative to the outturn in recent weeks.

Cedi Performance Against Major Currencies

	US$	GB£	€	JP¥	CN¥
Interbank Ref. rate	11.50	12.35	14.24	0.08	1.57
W/W change	-0.33%	-1.68%	-2.18%	-0.65%	-0.53%
YTD Change	-25.4%	-27.57%	-35.8%	-15.82%	-21.3%
Indicative retail rate	11.99	12.95	14.85	1.62	0.08
W/W change	-0.3%	-0.8%	-0.3%	-0.3%	-0.3%
YTD change	-0.3%	10.8%	-15.2%	-13.2%	-6.8%

Source: GCB Capital Research, Bank of Ghana, Oanda

Snapshot of Monetary Indicators and Inflation

	Current	Previous	Change
Interbank Rate (%)	29.10%	29.00%	0.10%
July-23 Inflation	38.10%	38.10%	0.00%
1-Yr Average Inflation	45.29%	45.29%	0.00%
MPR (%)	30.00%	30.00%	0.00%
Real MPR	-10.52%	-10.52%	0.00%
GRR (%)	32.00%	30.29%	1.71%

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T-Bill Clearing Yields

	Current	Previous	Change	Real yield
91-day	29.97%	29.82%	0.15%	-10.50%
182-day	32.15%	31.68%	0.47%	-8.07%
364-day	33.70%	33.42%	0.28%	-7.93%

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The Ghana Market Summary

	Current	Previous	Change
Bid (GH¢'M)	2,862.54	2,585.57	10.71%
Issuance (GH¢'M)	2,693.23	2,509.93	7.30%
Target (GH¢'M)	2,152	2,238.00	-3.84%
Maturity (GH¢'M)	2,001.91	2,082.81	-3.88%
Bid/Cover ratio	1.0629	1.03	n/a
Target coverage	1.25	1.12	n/a
Maturity Coverage	1.35	1.21	n/a
The Week Ahead			
T-bill Issuance Target - (GH¢'mn)	3,105.00	2,152.00	44.28%
Upcoming T-bill Maturities (GH¢'mn)	2,888.28	2,001.91	44.28%
Secondary Market Activity			
Turnover – Bonds GH¢'Bn	1.043	1.384	-24.63%
Turnover – Notes & Bills GH¢'Bn	0.872	2.025	-69.23%

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Week 3: Performance of Selected African Sovereign Bonds

Country/ Ratings Fitch/Moody's/S&P	Maturity	Current Price Bid	Current Price Ask	Yield-to-Maturity Bid	Yield-to-Maturity Ask
Ghana RD/CA/SD	GHA 8 ⅛ 01/18/26	45.48	46.96	46.73%	44.95%
	GHA 8⅞ 05/07/42	41.23	42.64	21.472%	20.82%
	GHA8¾ 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 6⅞ 04/30/40	51.29	57.99	14.83%	14.43%
	EGPT 7⅞ 02/16/61	50.34	51.43	14.96%	14.65%
Kenya B/B2/B	KENINT 6⅞ 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 8¼ 2/28/48	74.12	75.50	11.41%	11.20%
Nigeria B-/Caa1/B-	NGERIA 7⅝11/21/25	95.19	96.19	10.09	9.57%
	NGERIA 7⅜ 9/28/33	76.90	78.01	11.27%	11.05%
	NGERIA 8¼ 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 5⅜ 07/23/24	97.10	98.65	8.85%	6.97%
	IVYCST 6⅛ 06/15/33	85.26	86.65	8.36%	8.13%
	IVYCST 6⅝ 03/22/48	69.99	70.93	9.92%	9.78%

Ghana Economic Events Calendar for October- 2023

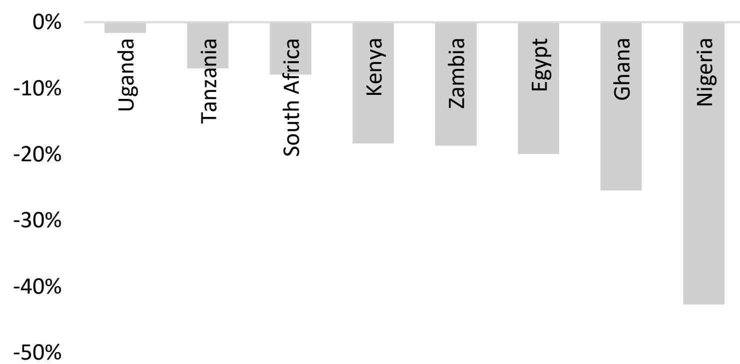
Event	Due date	Expectations
Completion of IMF staff review	Oct 6, 2023	Staff-level agreement on the first review of the ECF
BDCs forward auction	Oct 11, 2023	BoG expected to forward sell US$20m
September -23 CPI	Oct 11, 2023	Inflation to continue the deline
Sept.-23 PPI	Oct. 18, 2023	PPI to decline further
BDCs forward auction	Sept. 20, 2023	BoG expected to forward sell US$20m

Performance of Selected African Currencies

Country	US$	Chg. (%)	€	Chg. (%)	£	Chg. (%)
Egypt	30.89	-0.01%	33.15	-1.55%	38.23	-1.98%
Kenya	151.06	-0.40%	160.90	-1.13%	184.30	-0.88%
Nigeria	783.17	2.05%	838.86	0.52%	965.81	0.33%
S. Africa	18.44	2.41%	19.60	1.75%	22.48	1.78%
Tanzania	2481.9	0.20%	2652.7	-1.00%	3046.88	-1.04%
Uganda	3781.8	-0.24%	4020.0	-0.84%	4616.38	-0.82%
Zambia	15.42	-0.21%	23.86	-0.49%	27.44	-0.23%

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	6.99%	6.50%	0.49%
South Africa	8.72%	8.67%	0.05%
Uganda	9.30%	9.30%	0.00%
Egypt	25.50%	25.47%	0.03%
Kenya	15.19%	15.11%	0.08%
Tanzania	7.77%	7.77%	0.00%
Zambia	9.45%	9.45%	0.00%

Other African Markets Review

Zambia: Authorities seal an agreement on commercial debt restructuring.

Following the memorandum of understanding on official debt restructuring, Zambia reached another milestone after sealing a deal with Eurobond investors. This agreement on restructuring the 2022, 2024, and 2027 maturities brings the completion of the drawn-out debt treatment a step closer.

Under the agreement, Zambia tabled an 18% haircut on the notional claims of Eurobond holders worth US$D3.8bn, which includes US$821 mn in Past Due Interest (PDI), which has accrued over the period Zambia defaulted. Thus, Zambia's outstanding Eurobonds will be exchanged for new 2035 and 2053 tenors, with a combined face value of US$3.135bn. Consistent with the comparable treatment clause under the Common Framework, the agreement includes a contingency element offering a step up in coupon payments to investors under two economic scenarios. The US$2 bn 2035 tenor will start amortizing from 2023 at a coupon rate of 5.75% until 2031 and 8% thereafter until maturity. The 2053 US$1.135 bn tenor will be amortized in three equal instalments from 2051, attracting a coupon of 0.5% under the base case. Under the upside scenario, the 2053 maturity will be brought forward to 2035, with the coupon rate stepped up three times.

As confirmed by the IMF, completing the official and commercial debt treatment under these comparable terms will restore debt sustainability, placing the Sovereign at a moderate risk of debt distress over the medium term. This will take Zambia out of default and restore market access once completed.

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