

March 5, 2024

### Ghana Market Review

#### The Macro summary

**The IMF's vote of confidence following the completion of the first review of the 3-Yr programme puts wind in the sail:** Macroeconomic performance through 2023 under the IMF programme has set the economy in a recovery mode, paving the way for the completion of the first review of the programme. While still fragile, economic stability is re-emerging, with most of the performance indicators for end-year 2023 under the programme on schedule amidst the ongoing frontloaded fiscal and structural reforms. The IMF's seal of approval following the first review has, thus, put wind in Ghana's sail, setting the tone for further negotiations with bondholders and official creditors towards expediting the external debt restructuring process under the common framework.

**Ghana's longest-serving finance minister bows out in a ministerial reshuffle:** After seven years at the helms, finance minister Ken Ofori-Atta exited the Finance Ministry in the latest ministerial reshuffle. Dr Mohammed Amid Adam, formally the Minister of State at the Ministry of Finance, took over as the new Finance Minister. The reshuffle saw two other movements at the Ministry of Finance, with deputy minister Abena Osei-Asare replacing Dr Adam as Minister of state at the Ministry of Finance and Dr Alexander Ampaabeng, a tax and fiscal policy expert, getting the nod as deputy minister, pending parliamentary approval. Ghana's Eurobonds shaved off some cents initially following the news due to uncertainty around policy consistency and the ongoing negotiations on debt restructuring. However, we believe the changes at the Treasury are largely policy-neutral, and we do not envisage a notable departure from the current macroeconomic policy path. We expect the negotiations on debt restructuring to continue, with the IMF programme also providing the backstop against potential election-induced fiscal excesses, particularly given the higher stakes and the urgent need to restore fiscal and debt sustainability and macroeconomic stability.

#### Money Market Summary

**Treasury achieves 35.4% oversubscription from the T-bill Auctions YTD amidst the unrelenting investor demand:** Amidst the limited fixed-income investment options, investor demand for T-bills remained firm through the first two months of 2024. Total investor bids across the 91-day to 364-day tenors was GHS46.31 bn for the review period, against the advertised Public Sector Borrowing Requirement (PSBR) target of GHS33.72 bn for the two months. The Treasury accepted 99.49% (GHS 46.07 bn) of the bids tendered, exceeding the PSBR target and refinancing obligation by 36.66% and 65.10%, respectively.

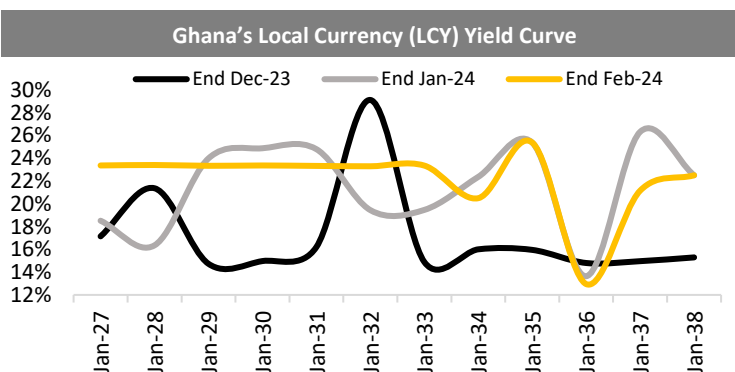
**The introduction of price guidance for T-bill auctions aiding yield compression across the curve, but at a slower pace than expected:** The 35.4% oversubscription reflects the strong GHS liquidity conditions, given the limited placement options for fixed-income investors. Regardless, the anticipated decline in T-bill yields has been slower than expected despite the sharp decline in inflation, the ongoing macroeconomic recovery and the strong demand levels. Year-to-date, the Treasury achieved, on average, 2.08%, 2.2% and 2.19% yield compression across the T-bill curve, with yields declining from the 29.36% – 32.5% levels at the end of 2023 to the 27.3% – 30.3% levels at the end of Feb-24. With the sharp cooling of headline inflation through Q4-23 to 23.2% at the end of 2023 (-30.9% y/y), which returned nominal T-bill yields into the positive real return territory, the improving inflation expectations and macroeconomic outlook and the strong level of investor demand, we expected a sharper yield compression for the period. These factors and the Treasury's price guidance to the market have supported some of the yield compression strategies thus far. However, it appears the Treasury's strong appetite for short-term funds as the dominant funding source for the 2024 budget and the lingering near-term uncertainties underscore the sticky pricing of T-bills. Thus, a stronger signal to the market through lower price guidance, a controlled appetite for short-term funds (especially after the Feb-24 coupon payments), and stricter expenditure as well as commitment controls, could quicken the pace of yield decline towards realigning fixed-income yields across the maturity spectrum and reviving activity on the secondary bonds market.

Ghana – Money Market Summary			
Summary of T-Bill Auction Performance			
	Feb-24	Jan-24	M/M
T-bill Bids (GHS'bn)	24.134	22.18	+8.81%
T-bill Uptake (GHS'bn)	24.015	22.06	+8.86%
PSBR Target (GHS'bn)	18.581	15.13	+22.81%
Refy Obligation (GHS'bn)	15.509	12.40	+25.07%
Money market Yield Summary			
	Feb-24	Jan-24	M/M
91-day Yield	27.28%	28.59%	-1.31%
182-day Yield	29.75%	31.10%	-1.35%
364-day Yield	30.30%	31.80%	-1.50%
Upcoming T-Bill Maturities			
	Mar-24	Feb-24	Change
91-day (GHS'bn)	9.18	11.31	-18.83%
182-day (GHS'bn)	1.99	1.86	+6.992%
364-day (GHS'bn)	3.31	2.34	+41.45%
Refy Obligation (GHS'bn)	14.47	15.51	-6.71%

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

Monetary indicators			
	Current	Previous	M/M Change
Interbank Rate (%)	28.50%	29.64%	-0.114%
Headline Inflation (%)	23.50%	23.20%	+0.30%
1-Yr average inflation (%)	37.80%	40.28%	-2.48%
Monetary Policy Rate (%)	29.00%	29.00%	-
Ghana Reference rate (%)	31.31%	32.17%	-0.86%

Source: GCB Capital Research | Bank of Ghana, Ghana Statistical Service



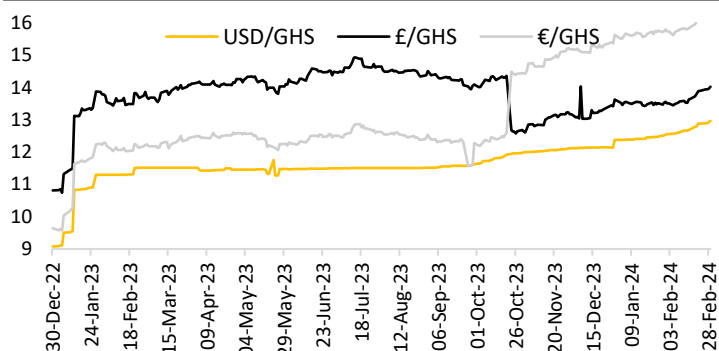
Source: Central Securities Depository, GCL Research

## Bond Market Summary

**Secondary market activity is slowly picking up but with a caveat:** Trading activity in the LCY bonds is steadily improving, with investors turning over, on average, GHS1.22 bn weekly, up from the largely dormant post-DDEP market. The market turned over an aggregate volume of GHS 22.82 bn over the review period, dominated by T-bills, which accounted for almost 70% of the total volume traded. Until recent weeks, activity on the secondary bond market has been dominated by sell-buybacks and repo transactions (accounting for about 80% of market activity), with limited pure trades among investors, undermining effective price discovery. However, we have noted in recent weeks improving offshore appetite for positions in LCY bonds on the secondary market. This emerging offshore investor appetite may be a speculative strategy of buying the dip, given the depressed prices, in anticipation of price recovery as the macroeconomic outlook steadily improves.

**Two coupon payments without distress could trigger some write-backs of the sizeable impairments booked in 2022 and slowly improve valuations:** The Treasury completed the second cash and in-kind coupon payments on the DDEP bonds on February 20, 2024, paying the GHS 5.847 bn cash coupon due investors without distress. The payment completes the first year of debt service since the DDEP closed in February 2023, setting the tone for investors to re-assess their accounting treatment of the bonds. While default risks remain pronounced amidst the substantial refinancing risk in 2027 and 2028 and the sizeable single-day coupon obligations to come, we envisage a write-back of significant portions of these bonds in 2024, which should steadily improve valuations and stimulate activity on the secondary fixed-income market.

Time Trend of the Cedi against the major trading currencies in 2024



Cedi Performance against the major trading currencies in Feb-24

GHS¢	US\$	EUR (€)	GBP (£)	JP¥	CN¥
<b>Interbank</b>	12.46	13.52	15.80	0.08	1.73
<b>m/m change</b>	-3.44%	-3.47%	-3.16%	-1.44%	-3.17%
<b>YTD Change</b>	-4.69%	-2.94%	-16.93%	0.96%	-3.50%
<b>Indicative retail rate</b>	12.65	13.70	16.06	1.74	0.08
<b>m/m change</b>	-1.6%	5.3%	-1.9%	-1.6%	0.2%
<b>YTD change</b>	-4.3%	-3.8%	-2.2%	-3.5%	1.6%

Source: Bank of Ghana | GCL Research

## FX Market Review

**The Cedi Opened 2024 on a relatively stable footing, better than the weak fundamentals suggest:** Despite the simmering seasonal pressures from the corporate and BDCs sector, the Cedi maintained its relatively stable run from 2023, closing February 4.35% weaker versus the USD on the retail market, with our indicative two-way quoted at GHS12.35/12.60 versus the USD on the final trading day of the month. On the interbank reference market, the local unit closed Feb-24 quoted at GHS12.464 versus the USD (-4.69% YTD) and was also 2.9% and 16.9% weaker versus the Euro and the GBP, respectively.

**Cumulative Hard Currency (HC) inflows, improving macros and improving risk appetite underscore the Cedi's relative stability:** The Cedis extended run of relative stability, particularly in the first two months of 2024, despite the still pronounced external sector vulnerabilities, reflect the surplus current account balance due to external debt service suspension, fiscal and monetary policy interventions, improving sentiments around the macros, disbursement of the second tranche under the IMF programme and the anticipated catalytic funding from other bilateral and multilateral sources. The FX inflows from the IMF, World Bank, AfDB and the cocoa loan syndication lifted the gross FX reserve cover to 2.7 months of import (net reserve cover: 1.1 months), providing a timely liquidity cushion against the anticipated seasonality pressures through Q1 2024, which fairly anchored near-term market expectations. With the anticipation of a near-term interest rate cut across major central banks building up, offshore investor risk appetite is gradually recovering, broadly keeping the USD at bay.

## Market outlook for March 2024

**FX Outlook:** We note a considerable build-up in FX demand, largely from the corporate sector, with the recent coupon payment further fuelling speculative demand, underscoring the Cedi's sharper decline in the final week of February. We expect the simmering demand pressures to linger, which could undermine the Cedi without increased liquidity support to the market and increased OMO operations to mop up the excess GHS liquidity.

**Inflation outlook:** We reiterate our expectation of further increases in inflation through March 2024 following the surprise 30bps increase in January. Inflation could touch the 25% to 26% levels by March due to base effects and the simmering currency pressures before returning to the disinflation path from April 2024.

**Fixed income outlook:** The appetite for T-bills should remain strong through March 2024, given the heightened GHS liquidity levels on the interbank market. However, following the coupon payments on the bonds and the Treasury's relatively lower refinancing obligation for Mar-24 (GHS14.47 bn | -21% m/m), we expect the Treasury to taper its appetite for short-term funds and use the combination of lower price guidance and controlled appetite for funds to drive the yield compression strategy despite the anticipated increase in inflation (albeit, transitory).

**Strategy:** While uncertainties remain, the scope of the fiscal, debt, and macroeconomic deterioration requires stricter fiscal discipline, and we expect the IMF backstop to provide ample restraint to build on the macro gains chalked thus far. Thus, following the latest coupon payment and anticipated improvement in bond valuations, buying the dip could ultimately benefit fixed-income investors with a medium-to-long-term horizon. The T-bill strategy should cautiously target the longer ends to lock in attractive yields, as we expect a slightly sharper decline in nominal T-bill yields in March.

## Snapshots from across the Key African Markets

### Nigeria

**Naira woes, rising energy costs and food supply shocks sustain the red-hot inflation run with inflation threatening a spiral:** Nigeria's bold fiscal and monetary policy reforms under the Bola Tinubu-led administration, while laudable and expected to yield long-term results, have thus far proved costly for the economy. Annual inflation for Jan-2024 came in near a 30-year high at 29.9% (+98 bps from Dec-23). The upward inflationary pressure largely emanates from the exchange rate passthrough as the Naira continues to plummet to an all-time low due to rising energy costs, high fiscal deficits, and lingering security challenges in major food-producing areas. With the Naira's continuous decline and the lingering food supply shocks, the balance of risk weighs on inflation, which could spiral in the near term and require decisive policy interventions to re-anchor inflation expectations.

**MPC Responds with a jumbo hike along with other policy interventions to tame inflation:** At its first meeting under the inflation targeting framework, the MPC delivered a 400bps interest rate hike to 22.75%, a decisive step towards restoring price stability. Additionally, the MPC rolled out other policy interventions, adjusting the asymmetric corridor around the MPR to +100/-700bps from +100/-300bps and increasing the Cash Reserve Ratio (CRR) by a staggering 12.5% to 45% in a display of concern about the inflation persistence and a commitment to reverse the trend. We expect inflation to run hotter, consistent with the staff forecast. However, while growth will be subdued in the short term, the extremely hawkish monetary policy tone is imperative to reverse the red-hot run of inflation over the longer term.

### Kenya

**Kenya completes 6th review of the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF):** Kenya continues to make progress with their IMF programme backed by the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF), despite the challenging external environment, allowing the country to complete the 6th review of the programme successfully. The review targeted reforms and policies aimed at anchoring macroeconomic stability, reducing external pressures and rebuilding the fiscal buffers, among others, towards improving the overall fiscal and debt position. The reforms also aim to restore confidence to ensure effective market access and create an enabling environment for robust and inclusive growth. GDP growth remained resilient despite the macroeconomic challenges, with the economy growing at 5.6% over 9 months of 2023, along with improvements in the current account balance and the broad easing in inflation to an 18-month low of 6.6% at the end of 2023.

**Progress with the reforms allowed Kenya to tap the Eurobond market to refinance its US\$2Bn Jun-2024 Eurobond maturity, but at a high cost:**

With Kenya's Jun-24 (coupon: 6.875%) US\$2 bn Eurobond maturity coming up and the authorities facing an urgent balance of payment need and a high risk of default amidst the generally unfavourable market conditions, the government took a punt on the Eurobond market when a lean window opened. The authorities took advantage of the sudden reopening of the capital market to tap the Eurobond market for US\$1.5 bn 5-Yr paper maturing in 2029, using the proceeds to buy back the Jun-2024 maturity. However, the refinancing operation came at a substantial cost as Kenya paid 10.375% on the new 5-year paper, 3.5% higher than the coupon on the Jun-24 paper. With this transaction closed, Kenya has successfully avoided a potential default, prioritizing navigating the liquidity crunch over cost, and thus joins Cote d'Ivoire and Benin as the three SSA sovereigns to tap the Eurobond market in 2024.

**Ksh corrects sharply after the bearish start to 2024 due to default risks:**

Despite the relatively robust stock of FX reserve (US\$7.101Bn| 3.8 months of import), the Ksh opened 2024 on a relatively bearish note largely due to uncertainties around the Jun-2024 Eurobond maturity. Following the Eurobond issuance, however, the Ksh corrected sharply to close Feb-24 with a cumulative appreciation of 8.95% YTD vs the USD on the interbank market, after ceding 2.7% for the USD in Jan-24.

#### Nigeria – Money Market Summary

##### Money market Yield Summary

	Feb-24	Jan-23	M/M
End of Month 91-day yield	17.0%	5.00%	+12.0%
End of Moth 182-day yield	17.50%	7.15%	+10.35%
End of Month 364-day Yield	19.0%	11.54%	+7.46%

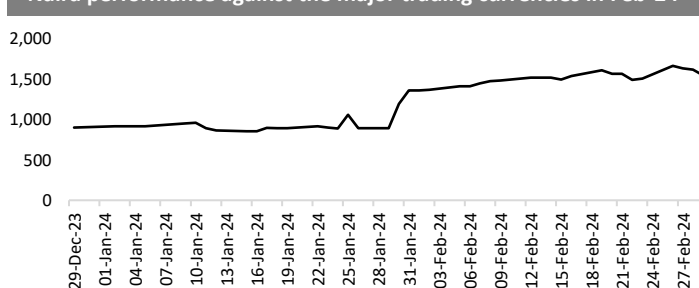
Source: GCB Capital Research | The Central Bank of Nigeria

##### Monetary indicators

	Current	Previous	M/M Change
Overnight borrowing rate (%)	20.93%	22.21%	-1.28%
Headline Inflation (%)	29.90%	28.92%	+0.98%
1-Yr average inflation (%)	25.19%	21.34%	+3.85%
Monetary Policy Rate (%)	22.75%	18.75%	+4.0%
Prime rate (%)	14.17%	14.17%	0.00%

Source: GCB Capital Research | The Central Bank of Nigeria

#### Naira performance against the major trading currencies in Feb-24



#### Kenya – Money Market Summary

##### Money market Yield Summary

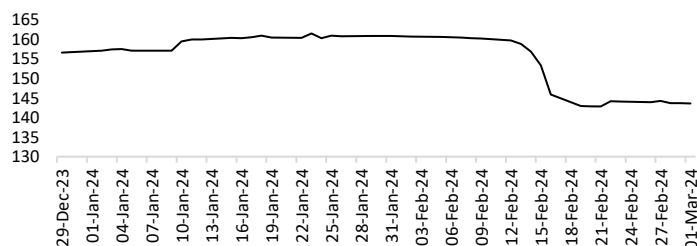
	Feb-24	Jan-24	M/M
End of Month 91-day yield	16.59%	16.29%	+0.30%
End of Moth 182-day yield	16.73%	16.38%	+0.35%
End of Month 364-day Yield	16.92%	16.52%	+0.40%

Source: GCB Capital Research | Central Bank of Kenya

##### Monetary indicators

	Current	Previous	M/M Change
Interbank rate (%)	13.74%	13.379%	+0.361%
Headline Inflation (%)	6.30%	6.90%	-0.60%
1-Yr average inflation (%)	7.275%	7.52%	-0.245%
Monetary Policy Rate (%)	13.0%	13.0%	+0.0%

Source: GCB Capital Research | Central Bank of Kenya



## Egypt

**Egypt is inching closer to completing the first and second reviews of its programme with the IMF, along with negotiations for a more comprehensive support package:** After over 10 months of repeated delay in reviewing progress on Egypt's 46-month programme supported by the Extended Fund Facility (EFF) due to unsatisfactory progress on meeting the review parameters, the Egyptian authorities and the IMF team made progress towards reaching a Staff-Level Agreement for the combined first and second reviews of the programme after the latest IMF mission to Egypt that ended on February 1, 2024. As part of the discussions, Egypt requested a more comprehensive package to support the economic reform programme in light of the prevailing economic challenges, including the revenue impact of the attacks on cargoes on the Suez Canal and the Red Sea and spillovers from the Geopolitical conflict in the Middle East. Following the IMF mission, the Egyptian authorities agreed to the main elements of change under the programme, and the completion of the first review is now imminent. While the amendments under discussion are not yet public, the loan size is expected to increase significantly to support the ambitious reforms envisaged under the programme due to the prevailing macroeconomic challenges and emerging threats to the economy.

### Urban inflation records a sharp decline in January 2024, continuing the disinflation trend for the fourth consecutive month:

From a peak of 38% in Sept-23, Egypt's urban inflation declined for four successive months to a 1-year low of 29.8% in Jan-24 (from 33.7% in December) driven largely by a sharp decline in food inflation. Core inflation also eased to 29% in January (down from 32.4% in Dec-23) as the underlying causes of inflation recede broadly. Despite the decline, inflation is still significantly outside the 5% - 9% target range amidst some re-emerging upside risks to the outlook. In the latest price adjustments, the government increased the ticket price of its underground train service (Cairo metro) by about 20%, raised the cost of internet services by about 33%, and increased electricity tariff by between 16% and 26% in the latest step towards gradually eliminating subsidies on power. The government also increased the daily maximum wage by 50% as a pro-poor intervention to protect vulnerable groups. These upward price adjustments are inflation sensitive and thus represent upside risks of continuous disinflation in the near term and would require an appropriately tight monetary policy stance for a longer time to effectively re-anchor inflation expectations lower. Accordingly, the Central Bank of Egypt (CBE) raised its key overnight deposit and lending rates by 200 bps to a 32-year high of 21.25% and 22.25%, respectively. We expect nominal interest rates to remain elevated based on this uncertain inflation outlook and the need for a continuously tight monetary policy stance.

## South Africa

After two consecutive months of decline, headline inflation increased marginally to 5.3% in Jan-24 (up from 5.1%) but 10bps below the consensus market estimate of 5.4%. Hospitality services, food and non-alcoholic beverages, health and transport expenditures were among the key drivers of inflation for the month. While the South African Reserve Bank's (SARB)'s baseline inflation forecast shows continued gradual moderation in headline inflation, the upside risks to the outlook are still pronounced. Inflation on imported goods increased strongly last year and remains susceptible to pronounced exchange rate shocks with the ongoing Geopolitical tensions that tighten the global oil market. Domestic food inflation also remains high and volatile, with logistics and electricity supply constraints also posing some pronounced upside risks to inflation in the near term. While the SARB forecasts headline inflation at 5% in 2024, with core inflation expected at 4.9%, average inflation expectations remain elevated at 5.7%, requiring a cautious monetary policy stance to anchor expectations around the midpoint effectively. Against this backdrop, the Monetary Policy Committee (MPC) unanimously kept the policy stance restrictive at 8.25% in Jan-23, consistent with the inflation outlook. Nominal T-bill rates have been stable since the decision, with a marginal tilt towards decline.

### Egypt – Money Market Summary

#### Money market Yield Summary

	Feb-24	Jan-24	M/M
End of Month 91-day yield	27.681%	26.144%	+1.54%
End of Moth 182-day yield	28.484%	26.960%	+1.52%
End of Month 364-day Yield	29.913%	27.301%	+2.61%

Source: GCB Capital Research | Central Bank of Egypt

#### Monetary indicators

	Current	Previous	M/M Change
Interbank rate (%)	21.27%	21.27%	-1.06%
Headline Inflation (%)	29.80%	33.70%	+0.22%
1-Yr average inflation (%)	34.13%	34.13%	-0.17%
Monetary Policy Rate (%)	21.75%	21.75%	+0.50%

Source: GCB Capital Research | Central Bank of Egypt

	Ksh	US\$	EUR (€)	GBP (£)
Interbank Rate		30.89	33.457	39.06
M/M change		0.0%	+0.027%	0.29%
YTD Change		0.0%	1.90%	0.68%

Source: GCB Capital Research | Central Bank of Egypt

### South Africa – Money Market Summary

#### Money market Yield Summary

	Feb-24	Jan-24	M/M
End of Month 91-day yield	8.47%	8.49%	-0.02%
End of Moth 182-day yield	8.50%	8.69%	-0.19%
End of Month 364-day Yield	8.19%	8.26%	-0.07%

Source: GCB Capital Research | South Africa Reserve Bank

#### Monetary Indicators

	Current	Previous	M/M Change
Overnight rate (%)	8.39%	8.39%	-0.02%
Headline Inflation (%)	5.30%	5.30%	+0.22%
1-Yr average inflation (%)	5.78%	5.78%	-0.17%
Monetary Policy Rate (%)	8.25%	8.25%	+0.50%

Source: GCB Capital Research | South Africa Reserve Bank

	Ksh	US\$	EUR (€)	GBP (£)
Interbank Rate		19.22	20.84	24.34
M/M change		-2.65%	-2.86%	-1.63%
YTD Change		-3.31%	-1.23%	-2.64%

Source: GCB Capital Research | South Africa Reserve Bank

### Research Contacts

Courage Kwesi Boti  
Economist/ Research Lead  
+233302945848 | +233302945838  
[ckboti@gcb.com.gh](mailto:ckboti@gcb.com.gh)

### Fund Management Contacts

Afua Akyaa Osei  
Vice President, Fund Management  
+233302945848 | +233302945838  
[aaosei@gcb.com.gh](mailto:aaosei@gcb.com.gh)

### Advisory & Capital Markets Contacts

Michelle Nana Ohenewaa Kitson-Amoah  
Associate, Advisory & Capital Markets  
+233302945848 | +233302945838  
[mnodadey@gcb.com.gh](mailto:mnodadey@gcb.com.gh)

Wilson Kyeremeh  
Portfolio Manager, HSG  
+233302945848 | +233302945838  
[wkyeremeh@gcb.com.gh](mailto:wkyeremeh@gcb.com.gh)

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49 Ndabaningi Sithole Rd

Labone, Accra