

## SSA Market Review

### Zambia: Government promoting legislation to safeguard debt sustainability

The Zambian government has tabled a new piece of legislation as part of ongoing fiscal reforms to safeguard debt sustainability, improve transparency and avert future default on external debt obligations.

The new Public Debt Management Bill 2022 seeks, among other goals, to set up a Debt Management Office (DMO) and set a ceiling for public borrowing and external debt service costs. The new bill proposed an annual debt ceiling of 65% of the previous year's nominal GDP. Similarly, the bill pegged the external debt service cost at 20% of the average recurrent revenue over the last three fiscal years.

Zambia reached a staff-level agreement with the IMF in Dec-21 on a 3-Year program supported by an arrangement under the Extended Credit Facility (ECF) worth US\$1.4bn. This agreement paved the way for negotiation with bilateral creditors to commence towards external debt restructuring under the common framework. While this new legislation will reassure investors about the government's commitment to avert defaults in the future, the ceiling on debt and external debt service costs will only kick in five (5) years from the law's effective date. Thus, Zambia's elevated current debt position will sustain the upside risks to yields in the near term until debt restructuring under the common framework is achieved.

### Nigeria: MPC could hike the policy rate by 100bps at the next policy meeting amidst the heightened near-term inflation risks

The Monetary Policy Committee of the Central Bank of Nigeria could deliver another 100bps interest rate hike at the next policy meeting slated for July 9, 2022, amidst the elevated inflation profile.

Headline inflation increased by 90bps to a five-year high of 18.6% y/y in Jun-22, driven by heightened energy and food inflation. The current inflation rate is 960bps above the 9% ceiling of the medium-term inflation target band. Food inflation came in at 20.6% y/y in Jun-22 (vs. 19.5% in May-22), with core inflation also racing to 15.5% y/y (+ 90bps), reflecting elevated underlying inflationary pressures.

Given the persistent fuel shortages at the pumps, erratic power supply, heightened Naira depreciation, and election-induced spending, we believe the risks to near-term inflation are elevated. We expect the MPC to decisively re-anchor inflation expectations amidst the current and emerging threats to stop inflation from becoming endemic.

### Ghana market in Focus

- Last week's T-bill auction attracted total demand worth GH¢1.15bn across the 91-day and 182-day bills against the refinancing obligation of GH¢875.12mn due today June 18, 2022.
- The Treasury accepted ¢1.088bn at the auction, which translate into a target 1.17x, and a maturity coverage of 1.24x.
- The 91-day yield edged 6bps higher to 205.95% while the 182-day bill increased to 27.46% (+91bps w/w).
- Given the sizeable refinancing obligation in the week ahead and the increased competition for funds, nominal yields could nudge higher at the front end and the mid-portions of the curve.

### SSA: Snapshot of Benchmark 91-Day Yields

	Current	Previous	w/w Change
	Week (%)	Week (%)	(%)
Nigeria	2.75%	2.40%	0.35%
South Africa	5.12%	5.13%	-0.01%
Uganda	8.25%	8.25%	0.00%
Egypt	15.56%	15.56%	0.00%
Kenya	8.25%	8.17%	0.08%
Tanzania	2.77%	2.77%	0.00%
Zambia	9.16%	9.30%	-0.14%

Source: GCB Capital Research, Central Bank Websites

### The Ghana Market Summary

	Current	Previous	Change
<b>Monetary indicators</b>			
Interbank Interest Rate (%)	20.92%	20.66%	+0.26%
Inflation (12-month average)	14.43%	14.43%	0.00%
Monetary Policy Rate (%)	19.00%	19.00%	0.00%
The Ghana Reference rate (%)	14.50%	14.50%	0.00%
<b>GoG T-Bill Auction Summary</b>			
91- Day Bill issued (GH¢)	886.24	1,001.33	-11.49%
182 - Day Bill issued (GH¢)	202.25	214.05	-5.51%
364 -Day Bill issued (GH¢)	0	106.46	-100.00%
91 - Day Bill Yield (%)	25.96%	25.89%	0.06%
182 – Day Bill Yield (%)	27.46%	26.55%	0.91%
364 – Day Bill Yield (%)	27.49%	27.49%	0.00%
Bid/Cover ratio	0.95x	0.99x	-0.06
Target coverage	1.17x	1.42x	-0.26
Maturity Coverage	1.24x	1.61x	-0.37
Target for Upcoming Auction	1,947.00	932	108.91%
Upcoming Maturing T-bills	1,721.46	875.12	96.71%

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**Auction performance:** The Treasury raised GH¢1.088bn across the 91-day to 182-day tenors at the T-bill auction from total bids estimated at GH¢1.15bn. The uptake translates into a target coverage of 1.18x and a maturity coverage of 1.24x for the week. The 91-day yield cleared 6bps higher at 25.95%, while the 182-day bill gained 91bps to 27.46%.

**The IMF mission to Ghana issues a statement on preliminary finding ahead of the commencement of negotiations of a fund-assisted program:** The IMF team concluded an initial visit to Ghana on the government's invitation towards a fund-assisted program. The end of the mission statement highlighted Ghana's challenging macroeconomic and social context in an increasingly complex global economic environment. The team noted that Ghana's fiscal and debt situation has "severely worsened." The discussions focused on improving fiscal balances, ensuring monetary policy and exchange rate credibility, financial stability, and reforms to stimulate growth under the enhanced domestic program. We expect negotiations on a program's composition, nature, and scope to commence immediately following the kick-off visit. However, a program is still some way to go, and we expect economic performance in the 2H-22 to drive market sentiments.

**The Money Market in the Week Ahead:** The Treasury will offer GH¢1.95bn across the 91-day to 364-day bills to roll over upcoming maturities worth **GH¢1.72bn** at the next auction slated for Friday, July 22, 2022. Similarly, Ghana Cocoa Board will seek to roll over the maturing 182-day bill of the outstanding face value of GH¢1.75bn on July 21, 2022. The sizeable refinancing obligation from competing offers could drive money yields significantly higher at the next auction.

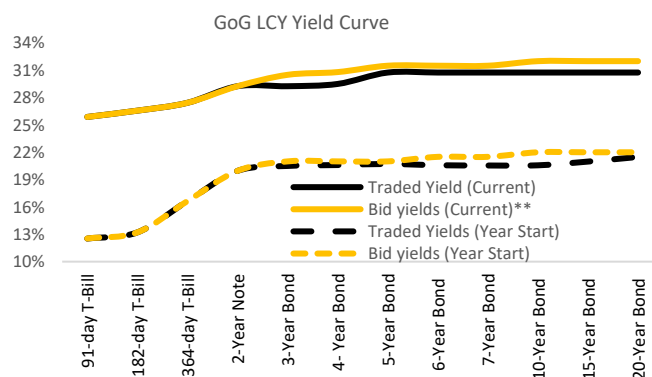
**GoG Bond Alert: Treasury announce a dual offer to rollover Jul-25 5-Year LCY bond**

The Treasury has announced a dual offer of a new 3-Year Cedi-denominated bond and the reopening of the Nov-26 5-Year domestic USD-denominated bond for which the order book opens at midweek. Proceeds from the offer will roll over an outstanding FV worth GH4.65bn on the Jul-22 5-Year bond maturing next week. The 3-Year offer is open to both resident and non-resident investors. However, the reopened 5-Year paper (FV: US\$264.8mn) is limited to only resident and non-resident Ghanaian investors with Funded FCA and FEA accounts. While we note a slight compression in bond yields over the last three weeks, the prevailing macro-fiscal uncertainties and the sizeable refinancing obligation in the week ahead could trigger a repricing at the belly of the curve. Given the significant offshore holding of the maturing 5-Year paper (51.21%) amidst muted demand and the attractive yields on the money market, the bond offering could clear at a significant premium on the Jul-25 tenors (current levels: 29.5%).

**Review of the Secondary Fixed Income Market**

**Trading Dynamics:** The secondary bonds market remained broadly offered last week, with the bid-offer spreads widening to about 300bps. The aggregate turnover for the week increased to GH¢4.43bn (+35.89% w/w), dominated by the short to medium-term tenors. The front end of the curve (2022 to 2025 tenors) accounted for 58.5% of the volume traded at around the 30% level. We expect muted activity in the week ahead as local fund managers target attractive coupons on the Treasury's rollover transaction.

**Trading Idea:** We maintain that inflation is at a point of inflection and could peak on Aug-22. Thus, T-bill yields may also be near their peak, and a yield correction cycle is imminent barring any fiscal surprises in the mid-year budget review. Consequently, we expect local fund managers to take advantage of the 3-Year and re-opened 5-Year papers to lock in attractive yields to cushion portfolio returns.



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

3Q-22 Issuance Calendar		
	3Q-22	q/q change
Gross Issuance	GH¢23.07 bn	-6.6%
o/w Rollover of maturing debts	GH¢21.12 bn	+5.1%
o/w new financing	GH¢1.95 bn	-57.5%
<b>Target instruments</b>		
1. T-bills - Weekly		
2. 2-Year -7-Year bonds – subject to market conditions		

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Ghana's Outstanding Eurobonds					
Maturity (Coupon)	Bid Price	Bid Yield	Ask Yield	Mid-Yield	w/w Δ
07-Apr-25 (0)	61.5	63.5	62.5	19.44%	0.0%
16-Feb-26 (8.13%)	79.25	80.75	80	19.09%	0.0%
11-Feb-27 (6.38%)	64.75	66.25	65.5	21.06%	0.0%
26-Mar-27 (7.88%)	66.5	68	67.25	21.24%	0.0%
07-Apr-29 (7.75%)	56.25	57.75	57	21.43%	0.0%
16-May-29 (7.63%)	55.5	57	56.25	21.39%	0.0%
14-Oct-30 (10.75%)	91.5	92.5	92	12.57%	0.0%
26-Mar-32 (8.13%)	53.5	55	54.25	19.38%	0.0%
07-Apr-34 (8.63%)	53.375	54.875	54.125	18.94%	0.0%
11-Feb-35 (7.88%)	52.25	53.75	53	17.73%	0.0%
07-May-42 (8.88%)	53.125	54.625	53.875	17.39%	0.0%
16-Jun-49 (8.63%)	52.375	53.875	53.125	16.71%	0.0%
26-Mar-51 (8.95%)	52.625	54.125	53.375	17.16%	0.0%
11-Mar-61 (8.75%)	52.25	53.75	53	16.77%	0.0%

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