SSA Market Review

Egypt: Negotiations with the IMF Advance and a Financing Program Imminent

The government of Egypt is prioritizing negotiations with the IMF for a support package, with the prime Minister announcing last week that an agreement is imminent. His statement follows a cabinet meeting, with the Prime Minister stating that the government is in final negotiations with the IMF and a deal on a program supported by the Extended Fund Facility (EFF) beckons.

Following recent defaults from Russia and Sri Lanka, global investors are generally concerned about debt affordability in the broader emerging and frontier markets, with Egypt coming into sharp focus amidst gaping signs of debt distress. Egypt has about $5bn external debt service obligation in Q4 2022 and about US$9bn due in 2023. It currently ranks bottom on Bloomberg's probability ranking of a near-term sovereign default in the African region.

The progress in negotiation is timely as an agreement on a program provides the much-needed financial package required to close Egypt's growing financing gap amidst the turbulent global financing conditions. We believe the progress follows the resignation of the Central Bank governor, Tarek Amer, who favors a stable EGP and has held on to the currency peg despite the IMF's precondition of transitioning into a flexible exchange rate regime. Besides this official creditor financing, we believe that with gross reserves at US$33bn as of Jul-22, Egypt has a robust reserve cushion to honor its sizeable external debt obligations and navigate its current account needs. We expect the imminent fund support to improve investor confidence in EGP-denominated financial assets and bolster the medium-term financing options.

South Africa: Mounting Underlying Inflationary Pressures Could Sustain the Hawkish Monetary Policy Stance in the Near-Term.

The Monetary Policy Stance of the South Africa Reserve Bank could remain hawkish for an extended period as inflationary pressures intensify. The latest inflation release showed South Africa's annual consumer inflation quickened for the third consecutive month to 7.8% in Jul-22 (+40bps from Jun-22). At 7.8%, inflation is at a 13-year high and has drifted 180bps outside the upper inflation target band. Core inflation has also climbed above the midpoint of the 3% to 6% inflation target band at 4.6% in Jul-22.

The Monetary Policy Committee in Jul-22 raised the policy rate by 50bps to 5.5% (+200bps YTD) and signaled a faster pace of interest rate hikes for the remainder of 2022 to avert an inflation spiral. We note that the inflationary pressures are mainly from the pass-through effects of currency depreciation and the elevated food and energy costs. With the international prices of crude oil and food beginning to ease, headline inflation is nearing a peak. However, the higher wage demands, and the persistent depreciation pressures cloud the near-term inflation outlook, and the mounting underlying inflation pressures could sustain the MPC's hawkish stance.

With this clouded outlook for inflation in the near term and the possibility of an extended hawkish monetary policy stance, the benchmark bond yields advanced across the curve, and we expect nominal LCY yields to remain elevated in the near term.

SSA: Snapshot of Benchmark 91-Day Yields

	Current Week (%)	Previous Week (%)	w/w Change (%)
Nigeria	4.00%	3.50%	0.50%
South Africa	5.72%	5.72%	0.00%
Uganda	8.25%	8.19%	0.05%
Egypt	16.07%	16.11%	-0.05%
Kenya	8.77%	8.67%	0.10%
Tanzania	2.77%	2.77%	0.00%
Zambia	10.00%	9.75%	0.25%

Source: GCB Capital Research, Central Bank Websites

The Ghana Market Summary

	Current	Previous	Change
Monetary indicators			
Interbank Interest Rate (%)	21.98%	21.97%	0.01%
Inflation (12-month average)	18.15%	18.15%	0.00%
Monetary Policy Rate (%)	22.00%	22.00%	0.00%
The Ghana Reference rate (%)	20.80%	20.80%	0.00%
GoG T-Bill Auction Summary			
91- Day Bill issued (GH₵)	1,391.21	911.38	52.65%
182 - Day Bill issued (GH₵)	378.96	185.82	103.94%
364 -Day Bill issued (GH₵)	56.04	0	-
91 - Day Bill Yield (%)	28.61%	27.72%	0.89%
182 – Day Bill Yield (%)	29.94%	29.29%	0.65%
364 – Day Bill Yield (%)	29.52%	28.83%	0.70%
Bid/Cover ratio	1.003x	1.0x	0.00
Target coverage	1.56x	1.33x	0.23
Maturity Coverage	1.79x	1.42x	0.37
Target for Upcoming Auction	1,723	1167	47.64%
Upcoming Maturing T-bills	1,607.15	1,023.08	+57%

GCB Capital Research | Bank of Ghana

The Ghana Fixed Income market in Focus

- Last week's T-bill auction attracted total demand worth GH¢1.83bn (+67% w/w), with the uptake worth GH¢1.826bn exceeding the T-Bill maturities due by 79%.
- The 91-day (28.61% |+89bps), the 182-day (29.94% |+65bps) and the 364-day (29.53% | +70bps w/w) bill yields expectedly cleared higher at the auction reflecting the tighter liquidity conditions and the prevailing macroeconomic uncertainties.
- We expect nominal yields to continue the northwards trek on the back of the heightened domestic uncertainties.

Auction performance: The Treasury received bids worth GH¢1.83bn from the offer of 91-day to 364-day bills last week against a refinancing obligation of GH¢1.03bn due today, Monday, August 29, 2022. The uptake of GH¢1.826bn exceeded the refinancing commitment for the week by 79% and continues to Treasury's strategy of building buffers from oversubscriptions at the recent auctions. The 91-day bill cleared 89bps higher at 28.61% at the auction, with the 182-day (29.94% |+65bps w/w) and the 364-day (29.52% |+70bps w/w) bill yields also trekking higher, reflecting the 300bps hike in the policy rate hike, the lingering inflation, and market uncertainties.

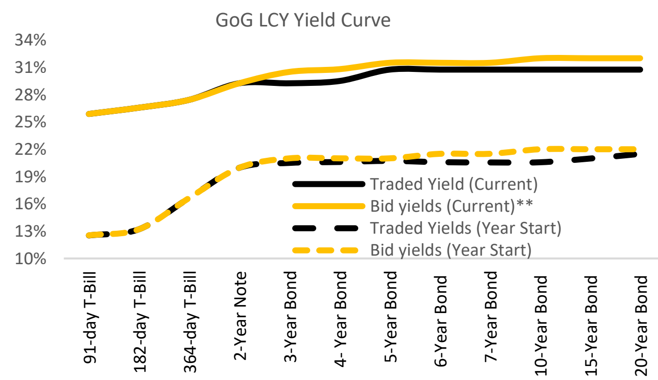
GoG Cancelled Rollover Auction Amidst the Unfavorable Market Conditions: Against the backdrop of uncertain market conditions, Investors' demand for the Treasury's refinancing offer re-opened the May-24 2-Year (Tender 1797|Coupon 21.50%) and the Mar-27 5-Year (Tender 1789 |Coupon 20.75%) papers underwhelmed. With the current market levels north of 35%, the Initial Price Guidance (IPG) of 32.50% area and 34.50% fell significantly short of investor demand. Additionally, the tighter monetary policy stance following the emergency meeting drained liquidity levels in the market. We believe the combination of unattractive pricing and tight liquidity conditions underpin the weak demand for the offer. We expect the Treasury to tap into Central Bank Financing to meet this refinancing obligation in the interim, pending a market window to refinance the debt.

The Money market in the week ahead: The Treasury will offer GH¢1.72bn across the 91-day to 364-day bills at the next T-bill auction to roll over upcoming maturities estimated at GH¢1.61 bn. We expect the 182-day and 364-day bills the cross 30% level at the next auction.

Review of the Secondary Fixed Income Market

Trading Dynamics: Investors moved GH¢2.26bn across the 2-Year to 10-Year tenors on the secondary bonds market last week (+39.51 w/w). Investor appetite concentrated around the 2023 to 2025 tenors sustains the short-term investor view of the market. The trades settled at an average yield of 35%.

Market color: The market appetite is rooted in the short term as investors remain on edge amidst the elevated uncertainty. LCY bond could continue the uptick amidst the tighter liquidity concerns. Given the muted investor appetite for the dated tenors and no bond maturity in September, we expect the Treasury to stay short on the curve. Thus, the Treasury could sustain the strategy of picking up excess demand on T-bills to build buffers and avoid locking in high-interest costs over the medium term.



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%
Target instruments 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)	48.3	32.31%	27.86%	30.1%	-1.82%
16-Feb-26 (8.13%)	63.5	31.72%	29.96%	30.8%	-1.87%
11-Feb-27 (6.38%)	48.3	33.07%	31.42%	32.2%	-1.93%
26-Mar-27 (7.88%)	49.5	32.74%	31.19%	32.0%	-1.62%
07-Apr-29 (7.75%)	43.9	28.52%	27.25%	27.9%	-1.51%
16-May-29 (7.63%)	44.0	27.90%	26.66%	27.3%	-1.33%
14-Oct-30 (10.75%)	77.3	16.27%	15.70%	16.0%	-0.50%
26-Mar-32 (8.13%)	43.5	23.90%	22.91%	23.4%	-1.28%
07-Apr-34 (8.63%)	41.5	24.15%	23.13%	23.6%	-1.23%
11-Feb-35 (7.88%)	41.6	22.06%	21.13%	21.6%	-1.06%
07-May-42 (8.88%)	41.9	21.82%	20.88%	21.4%	-0.80%
16-Jun-49 (8.63%)	41.3	21.06%	20.12%	20.6%	-0.91%
26-Mar-51 (8.95%)	41.4	21.72%	20.74%	21.2%	-0.83%
11-Mar-61 (8.75%)	41.4	21.16%	20.19%	20.7%	-0.82%

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