



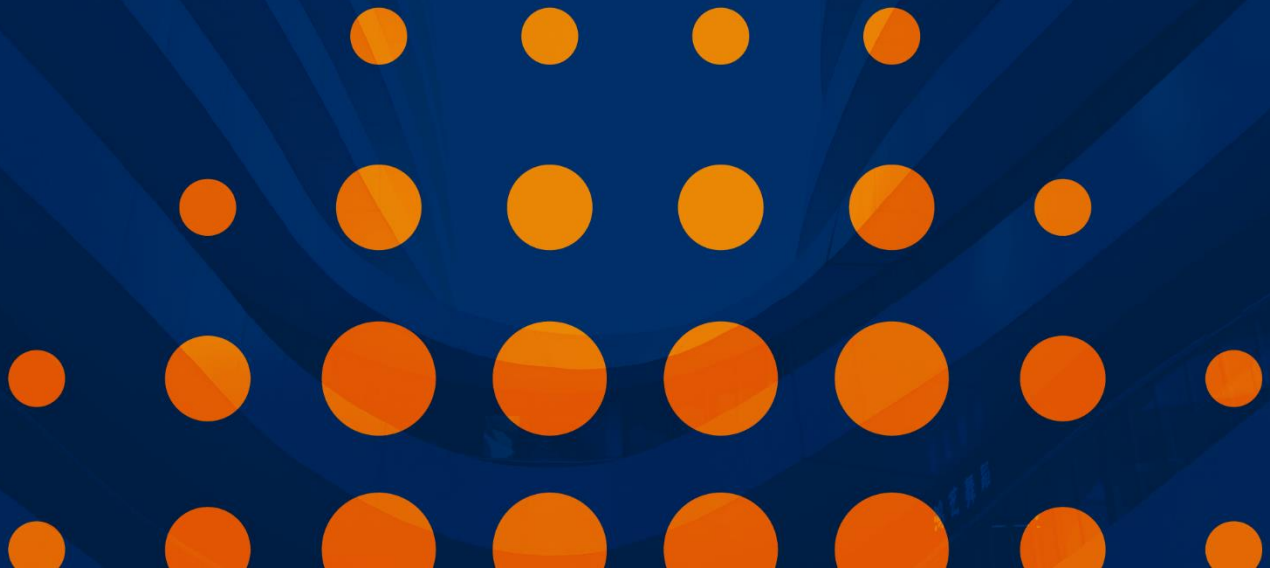
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# IC FIXED INCOME & CURRENCY GUIDE

02 OCTOBER 2023

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## REPORT SUMMARY

COUNTRY	FIXED INCOME	CURRENCY
Ghana	<ul style="list-style-type: none"> <li>Interbank Cedi liquidity remained strong in September 2023 with GHS 29.8bn held by commercial banks in 56-day BOG Bills as of month-end (vs GHS 28.3bn as of end-August 2023). The buoyant liquidity supported investor demand for T-bills with total bids (GHS 13.1bn) and uptake (GHS 12.9bn) exceeding the gross target for the month by 8.9% and 7.2%, respectively.</li> <li>Yields edged up across the T-bills and the BOG bills. The weighted yield for 56-day BOG bill gained 80bps m/m to 30.0% while the 91-day T-bill climbed 148bps m/m to 28.5%.</li> <li>Given the drop in inflation to 40.1% y/y in August 2023 and our expectation of further declines in the months ahead, we expect yields to peak along the 30.0% – 33.0% area in 4Q2023 with positive real yield restored by 1Q2024.</li> </ul>	<ul style="list-style-type: none"> <li>The Ghanaian Cedi weakened steadily in September 2023, pressured by a rise in FX demand from manufacturing and energy sector firms as we await inflows from COCOBOD loan syndication (USD 800mn).</li> <li>Consequently, the Cedi lost 1.5% m/m (-12.5% YTD) against the USD on the retail FX market.</li> </ul>
Kenya	<ul style="list-style-type: none"> <li>The auction of Kenyan Treasury bills attracted lower bids in September 2023 compared to the preceding month (-17.8% m/m), mainly due to muted appetite for the 91-day and the 182-day bills, despite sustained rise in yields.</li> <li>The 91-day and the 182-day yields rose to 14.79% (+105bps m/m) and 14.94% (+145bps m/m), respectively. Despite the sustained decline in inflation to within the Central Bank target of 2.5% – 7.5% (September 2023: 6.8%), we believe investors are pricing in fiscal risk and potential pass-through of recent FX pressures to future inflation.</li> </ul>	<ul style="list-style-type: none"> <li>The Kenyan Shilling weakened further in September 2023, posting a 1.8% m/m depreciation against the US Dollar (-16.7% YTD) as FX supply remains tight amidst subdued FX inflows and attractively high global interest rates.</li> <li>We foresee continued pressure on the Shilling in the month ahead as the authorities' plan to repay the Jun-24 (USD 2.0bn) Eurobond with forex reserves appeared to spook investors.</li> </ul>
Nigeria	<ul style="list-style-type: none"> <li>Money market liquidity eased in September 2023 but remained robust enough to outweigh the Treasury bill offers for the month. Investors submitted NGN 1.5trn in total bids (-37.2% m/m) against the gross target and uptake of NGN 355.4bn (-18.7% m/m).</li> <li>Yields remained unattractively low against the backdrop of high and rising inflation (August 2023: 25.8% y/y) and FX uncertainty. The 91-day stop rate gained 131bps m/m to 6.5% as the Treasury allotted at the maximum bid yield. However, the 182-day and the 364-day stop rates respectively declined by 100bps m/m and 260bps m/m to 7.0% and 11.4%.</li> <li>At these yields for T-bills, and average LCY bond yields of 14.6%, Nigerian local fixed income securities do not fully compensate for inflation and FX risks.</li> </ul>	<ul style="list-style-type: none"> <li>The Naira's woes deepened in September 2023 amidst the persistent forex shortage, backlog of FX demand, rising inflation, and uncompensated interest rate regime.</li> <li>As the Naira remains exposed to the backlog of FX demand without a credible clearance plan by the authorities, Nigeria's finance minister, Olawale Edun, estimated the size of the unmet demand at USD 6.8bn. The Central Bank expects to clear the backlog through different structures within the FX market, with banks which control 75% of the market anticipated to play a crucial role.</li> <li>In our view, the near-term outlook on the Naira remains negative amidst the raft of measures required to boost FX supply. However, the appointment of new CBN Governor, Dr Olayemi Cardoso, should revive the authorities' commitment to FX market reforms.</li> </ul>

# Ghana Market Commentary

## Fixed Income

Interbank Cedi liquidity remained strong in September 2023 with GHS 29.8bn held by commercial banks in 56-day BOG Bills as of month-end (vs GHS 28.3bn as of end-August 2023). The buoyant liquidity supported investor demand for T-bills with total bids (GHS 13.1bn) and uptake (GHS 12.9bn) exceeding the gross target for the month by 8.9% and 7.2%, respectively.

Yields edged up across the T-bills and the BOG bills. The weighted yield for 56-day BOG bill gained 80bps m/m to 30.0% while the 91-day T-bill climbed 148bps m/m to 28.5%. The 182-day (30.7%) and the 364-day (32.5%) T-bill rates also closed the month higher by 206bps and 127bps, respectively.

In the months ahead, we foresee a peak in yields for T-bills after the Bank of Ghana maintained the policy rate at 30.0% in September 2023 with expectation of sustained decline in inflation. Given the drop in inflation to 40.1% y/y in August 2023 and our expectation of further declines in the months ahead, we expect yields to peak along the 30.0% – 33.0% area in 4Q2023 with positive real yield restored by 1Q2024.

We observed emerging pulse in secondary market activity for the restructured bonds in September 2023, sparked by recent completion of the outstanding domestic debt operations and coupon payments. Total face valued traded in the “General Category” bonds surged 179% m/m to GHS 1.4bn (USD 125.7mn) with decent volumes exchanged across the 2027 – 2038 maturities. Although price discovery remains challenging, we note an upsurge in the average closing yields to 22.7% at the end of September 2023 (vs 18.7% at end-August 2023) with the bond curve marginally inverting.

## Currency Market

The Ghanaian Cedi weakened steadily in September 2023, pressured by a rise in FX demand from manufacturing and energy sector firms as we await inflows from COCOBOD loan syndication (USD 800mn). We believe the Cedi’s woes were deepened by the global strengthening of the US Dollar in the month under review as the steep climb in energy price stoked inflation concerns with higher-for-longer interest rates. Consequently, the Cedi lost 1.5% m/m (-12.5% YTD) against the USD on the retail FX market.

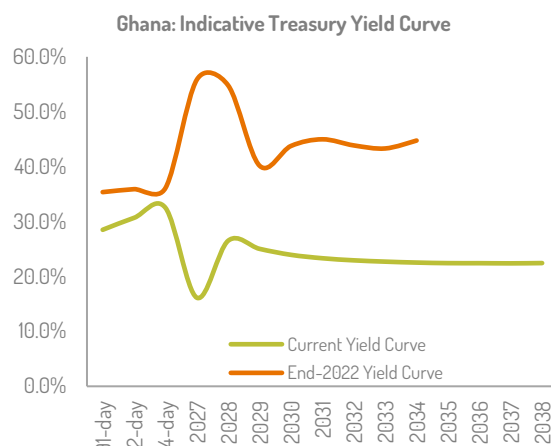
	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	28.50%	148%	-6.86%
182-day	30.68%	2.06%	-5.22%
364-day	32.51%	1.27%	-3.60%

	Upcoming Maturities* (Oct-2023)	Upcoming Target* (This week)	M/M Change in Maturities
91-day	8,541.76		16.1%
182-day	1,880.98	2,109.0	-48.0%
364-day	239.28		-6.7%

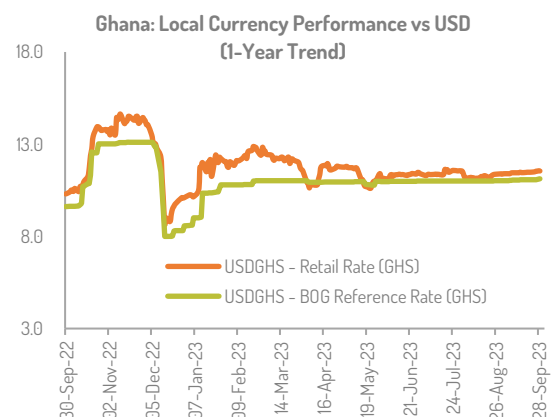
\*GHS Million

Spot Exchange Rate (GHS)			
	Current Mid-Rate	Last Month	M/M Change*
USDGHS	11.55	11.37	-1.52%
GBPGHS	14.12	14.44	2.32%
EURGHS	12.23	12.37	1.10%

\*Negative change means Depreciation while Positive change means Appreciation



Local Currency “General Category” Bonds (GHS)				Ghana Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Feb-27	8.35%	79.5	16.1%	Jan-26	8.13%	46.57%
Feb-28	8.50%	53.1	26.5%	Feb-27	6.38%	34.31%
Feb-29	8.65%	50.9	25.0%	Mar-27	7.88%	36.25%
Feb-30	8.80%	49.5	23.9%	Apr-29	7.75%	28.00%
Feb-31	8.95%	48.1	23.3%	May-29	7.63%	27.08%
Feb-32	9.10%	46.9	22.9%	Oct-30	10.75%	19.42%
Feb-33	9.25%	45.9	22.7%	Mar-32	8.13%	23.30%
Feb-34	9.40%	45.2	22.5%	Apr-34	8.63%	22.51%
Feb-35	9.55%	44.7	22.4%	Feb-35	7.88%	19.47%
Feb-36	9.70%	44.2	22.4%	May-42	8.88%	21.03%
Feb-37	9.85%	44.0	22.4%	Jun-49	8.63%	19.68%
Feb-38	10.00%	43.8	22.4%	Mar-51	8.95%	19.25%
				Mar-61	8.75%	18.90%



# Kenya Market Commentary

## Fixed Income

The auction of Kenyan Treasury bills attracted lower bids in September 2023 compared to the preceding month (-17.8% m/m), mainly due to muted appetite for the 91-day and the 182-day bills, despite sustained rise in yields. Investors submitted KES 104.3bn (USD 710.6mn) while the Treasury accepted KES 100.2bn (USD 682.6mn) against estimated refinancing obligation of KES 108.1bn.

The 91-day and the 182-day yields rose to 14.79% (+105bps m/m) and 14.94% (+145bps m/m), respectively. The 364-day yield gained 121bps m/m to close September 2023 at 15.22%.

Despite the sustained decline in inflation to within the Central Bank target of 2.5% - 7.5% (September 2023: 6.8%), we believe investors are pricing in fiscal risk and potential pass-through of recent FX pressures to future inflation. However, the authorities are finalizing a medium-term revenue strategy with the aim to boost revenue-to-GDP ratio to 30.0% by FY30 via amendment to existing tax handles and revenue administration measures. We expect this initial revenue strategy, which will commence in FY2024/25 through FY2026/27, to expand on the existing framework and ease the fiscal risk in the near-to-medium term.

**In the bond market,** the Treasury re-opened the Aug-25 (coupon: 16.97%) and the Aug-26 (coupon: 15.04%) bonds, raising KES 21.63bn out of total bids worth KES 34.01bn at weighted yields of 17.45% and 17.93%, respectively. We believe the tightening financial condition is restraining the Treasury from new longer bond issuances to avoid paying punitive new issue premiums. However, we foresee a build-up in near-term refinancing risk as the concentration of shorter term-to-maturity bonds rises within the domestic public debt stock.

## Currency Market

The Kenyan Shilling weakened further in September 2023, posting a 1.8% m/m depreciation against the US Dollar (-16.7% YTD) as FX supply remains tight amidst subdued FX inflows and attractively high global interest rates. In the first eight months of 2023, growth in remittances slowed to 3.4% y/y to USD 2.77bn (vs +11.4% y/y in the same period of 2022). This partly underpins the tight FX supply amidst foreign portfolio outflows. We foresee continued pressure on the Shilling in the month ahead as the authorities' plan to repay the Jun-24 (USD 2.0bn) Eurobond with forex reserves appeared to spook investors.

	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	14.79%	1.05%	5.42%
182-day	14.94%	1.45%	5.11%
364-day	15.22%	1.21%	4.91%

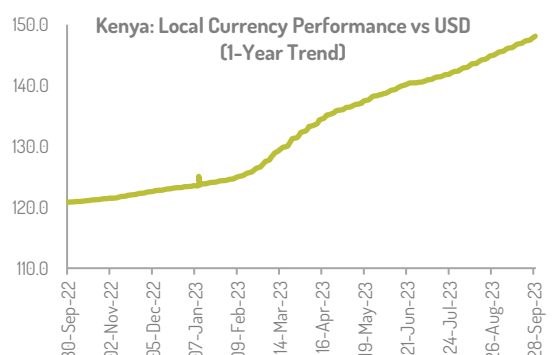
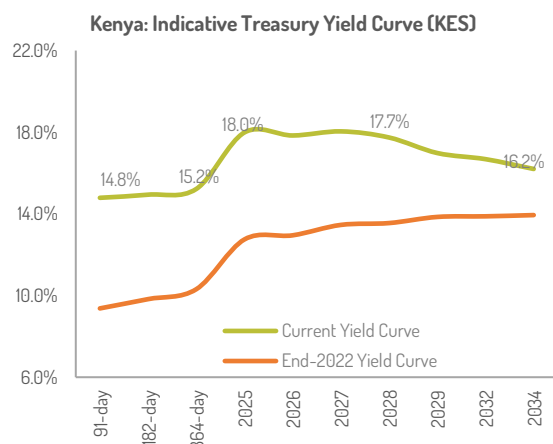
	Upcoming Maturities* (Oct-2023)	Upcoming Target* (This Week)	M/M Change in Maturities
91-day	95,116.39		49.4%
182-day	9,198.51	24,000.00	-73.4%
364-day	14,020.62		42.1%

\*KES Million

	Spot Exchange Rate (KES)		
	Current Mid-Rate	Last Month	M/M Change*
USDKES	147.95	145.45	-1.69%
GBPKES	180.91	184.39	1.92%
EURKES	156.72	157.92	0.77%

\*Negative change means Depreciation while Positive change means Appreciation

Local Currency Bonds (KES)				Kenya Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Feb-24	11.30%	92.19	16.55%	Jun-24	6.88%	17.86%
Mar-25	10.25%	92.68	17.08%	May-27	7.00%	12.18%
May-25	11.67%	84.46	17.99%	Feb-28	7.25%	13.11%
Nov-26	11.28%	81.18	17.84%	May-32	8.00%	12.20%
Sep-27	11.00%	80.03	18.04%	Jan-34	6.30%	12.01%
Feb-28	11.25%	84.39	17.56%	Feb-48	8.25%	12.39%
Aug-28	12.69%	82.37	17.83%			
Dec-28	12.50%	82.05	17.74%			
Nov-29	12.28%	70.75	16.98%			
Nov-32	12.00%	78.43	16.68%			
Jan-34	12.86%	83.44	16.20%			
Jul-34	12.34%	83.44	15.54%			



# Nigeria Market Commentary

## Fixed Income

Money market liquidity eased in September 2023 but remained robust enough to outweigh the Treasury bill offers for the month. Investors submitted NGN 1.5trn in total bids (-37.2% m/m) against the gross target and uptake of NGN 355.4bn (-18.7% m/m). The auction results translated into a bid-to-cover ratio of 4.2x in September 2023 (vs 5.4x in the previous month).

Yields remained unattractively low against the backdrop of high and rising inflation (August 2023: 25.8% y/y) amidst FX uncertainty. The 91-day stop rate gained 131bps m/m to 6.5% as the Treasury allotted at the maximum bid yield. However, the 182-day and the 364-day stop rates respectively declined by 100bps m/m and 260bps m/m to 7.0% and 11.4%.

At these stop rates for T-bills and average LCY bond yields of 14.6%, Nigerian local fixed income securities do not fully compensate for inflation and FX risks.

## Currency Market

The Naira's woes deepened in September 2023 amidst the persistent forex shortage, backlog of FX demand, rising inflation, and uncompensated interest rate regime. The Nigerian Naira plunged by 9.0% m/m to trade at 1,004/USD on the parallel market as businesses scrambled for limited FX supply with Central Bank ban on FX sale to 44 selected import items still in force since 2015.

As the Naira remains exposed to the backlog of FX demand without a credible clearance plan by the authorities, Nigeria's finance minister, Olawale Edun, estimated the size of the unmet demand at USD 6.8bn. The Central Bank expects to clear the backlog through different structures within the FX market, with banks which control 75% of the market anticipated to play a crucial role.

The authorities also hope to migrate all licensed Bureaux de Change (BDC) operators to electronic trading platform as part of ongoing reforms with non-complying BDCs to be closed. In our view, the near-term outlook on the Naira remains negative amidst the raft of measures required to boost FX supply. However, the appointment of new CBN Governor, Dr Olayemi Cardoso, should revive the authorities' commitment to FX market reforms.

	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	6.50%	1.3%	1.0%
182-day	7.00%	-1.0%	-0.5%
364-day	11.37%	-2.6%	0.5%

Selected Macroeconomic Indicators			
	Latest Available	Same Period Last Year	YoY Change (bps)
Inflation	25.80%	20.52%	5.28%
GDP growth	2.51%	3.54%	-1.03%
MPR	18.75%	15.50%	3.25%

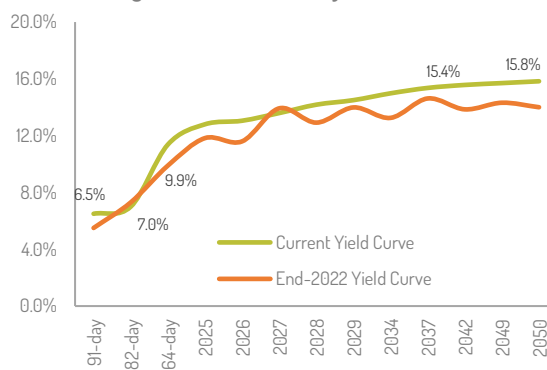
\*June 2023 | \*\*10/2023

Official Spot Exchange Rate (NGN)			
	Current Mid-Rate	Last Month	M/M Change
USDNGN	775.55	760.76	-1.91%
GBPNGN	946.41	963.85	1.84%
EURNGN	819.60	825.35	0.70%

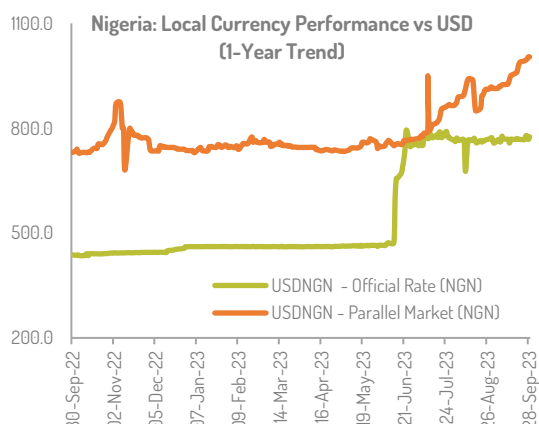
\*Negative change means Depreciation while Positive change means Appreciation

Local Currency Bonds (NGN)				Nigeria Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Mar-25	13.53%	100.95	12.80%	Nov-25	7.63%	9.79%
Jan-26	12.50%	98.88	13.05%	Nov-27	6.50%	11.58%
Mar-27	16.29%	107.24	13.59%	Sep-28	6.13%	11.54%
Feb-28	13.98%	99.33	14.18%	Mar-29	8.38%	11.93%
Apr-29	14.55%	100.15	14.50%	Feb-30	7.14%	11.89%
Jul-34	12.15%	88.21	14.98%	Jan-31	8.75%	11.96%
Mar-35	12.50%	85.86	14.80%	Feb-32	7.88%	11.92%
Mar-36	12.40%	84.53	15.20%	Sep-33	7.38%	11.86%
Apr-37	16.25%	104.99	15.36%	Feb-38	7.70%	12.14%
Jan-42	13.00%	84.49	15.57%	Nov-47	7.63%	11.86%
Apr-49	14.80%	94.36	15.70%	Jan-49	9.25%	12.15%
Mar-50	12.98%	82.32	15.83%	Mar-51	8.25%	12.09%
Jun-53	15.70%	90.07	16.00%			

Nigeria: Indicative Treasury Yield Curve (NGN)



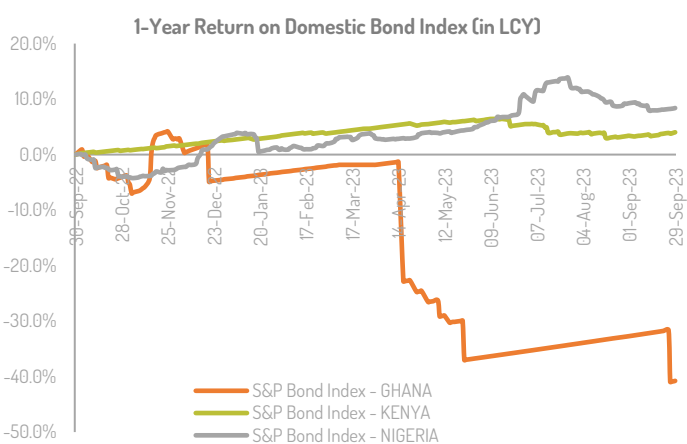
Nigeria: Local Currency Performance vs USD (1-Year Trend)



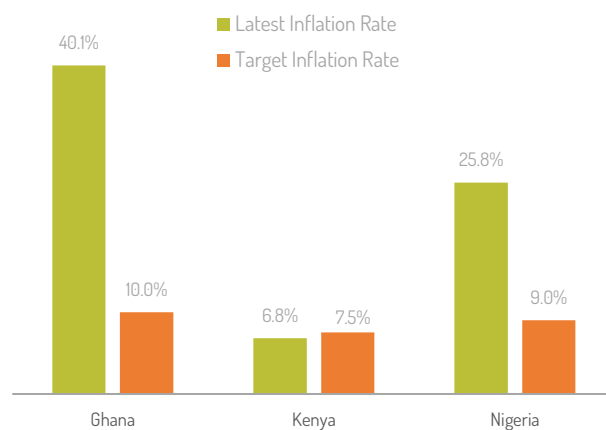
Source: FMDQ, Bloomberg, Central Bank of Nigeria, National Bureau of Statistics, IC Insights

Comparative Yields for Domestic Treasury Bonds in LCY and USD-adjusted Rates						
	Ghana		Kenya		Nigeria	
	GHS Yield	USD-adjusted Yield	KES Yield	USD-adjusted Yield	NGN Yield	USD-adjusted Yield
2027	16.13%	3.30%	17.84%	2.94%	13.59%	-5.62%
2028	26.52%	12.54%	17.83%	2.93%	14.18%	-5.13%
2029	25.03%	11.22%	17.74%	2.85%	14.50%	-4.86%
2030	23.94%	10.25%	17.36%	2.52%	14.02%	-5.27%
2031	23.32%	9.69%	17.74%	2.85%	14.58%	-4.80%
2032	22.94%	9.36%	16.98%	2.18%	14.65%	-4.74%
2033	22.70%	9.14%	16.11%	1.42%	14.93%	-4.51%

Source: Bloomberg, IC Insights

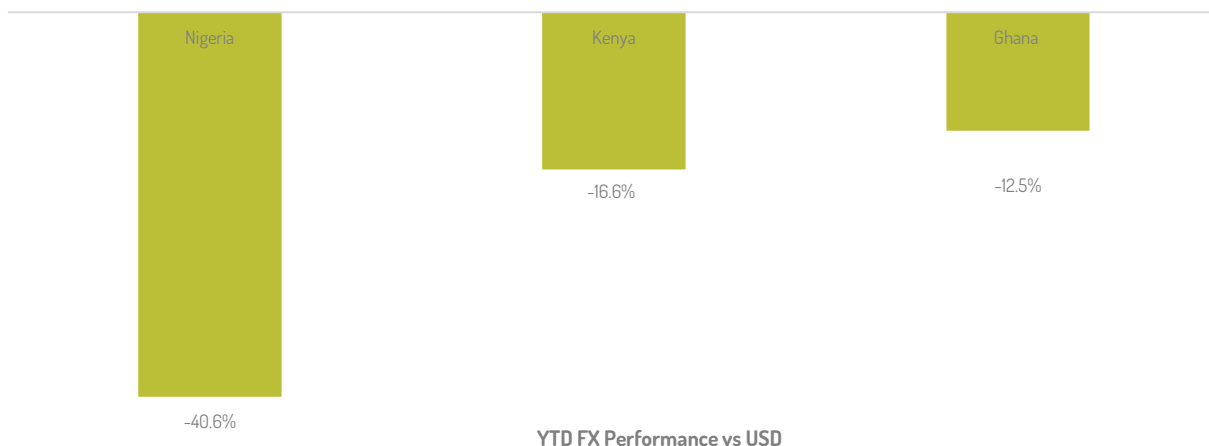


Source: S&P Global



Source: Country Statistical Office, Country Central Banks

Comparative Currency Performance Dashboard									
	USD	m/m Change	YTD Change	GBP	m/m Change	YTD Change	EUR	m/m Change	YTD Change
Ghana	11.55	-1.5%	-12.5%	14.12	2.3%	-12.9%	12.23	1.1%	-11.1%
Kenya	147.95	-1.7%	-16.6%	180.91	1.9%	-17.8%	156.72	0.8%	-15.9%
Nigeria	775.55	-1.9%	-40.6%	946.41	1.8%	-41.1%	819.60	0.7%	-39.8%



Source: Bloomberg, IC Insights



## DEFINITION OF KEY CONCEPTS

Amortized cost (book value)	Valuation of bonds using the face value (par value) plus the interest spread over the bond's life
Appreciation	A gain in the value of a currency against another currency
Basis Points (bps)	Used to describe percentage change in the value of financial instruments. 0.01% equals 1bps
Bid	The demand or buy-side in a transaction
Bid-to-Cover Ratio	The amount of demand for a security against the amount accepted. It indicates demand condition
BOG	Bank of Ghana
CBK	Central Bank of Kenya
CBN	Central Bank of Nigeria
Coupon Rate	Interest rate paid on the face value of the bond purchased
Depreciation	A loss in the value of a currency against another currency
Exit bonds	New Treasury bonds created or restructured from the old bonds under the DDEP
Face Value (Par Value)	The amount repaid by the issuer of a bond when the bond matures
Fixed income security	A debt instrument that pays a fixed amount (interest) on a fixed (pre-determined) schedule until maturity
Liquidity	Volume of money supply or volume of trade executed in a particular bond. Use within a context
Mark-to-Market	Valuation of bonds using the current or prevailing market prices for the bonds
Maturity	When a security (bills/bonds) is due for repayment by the issuer to investors
Month-on-Month (m/m)	A change measured over a one-month period
Net-bid position	When the volume of securities demanded (bid) is greater than the volume offered for sale. Excess demand
Net-offered position	When the volume of securities offered for sale is greater than the volume demanded. Excess supply
Offer	The sell-side in a transaction
Old bonds	All pre-existing Treasury bonds not restructured under the domestic debt exchange programme (DDEP)
Subscription/Subscribe	The size of investor bids or demand at an auction
Tenor	The period from issuing a security (bills/bonds) to the repayment date (maturity)
Term-to-Maturity	The remaining life of a bond security until it matures. Can be measured in Days, Months, or Years
Treasury bills (T-bills)	Debt securities issued by the Government ("the Treasury") with maturity of 1-year or less
Treasury bonds & Notes	Debt securities issued by the Government with maturity of 2-year or longer
Uptake/Allotment	The amount of bid accepted in a bond or T-bills auction
Week-on-Week (w/w)	A change measured over a one-week period
Year-on-Year (y/y)	A change measured over a one-year (or 12-months) period
Year-to-Date (YTD)	The period from the last trading day of the previous year to the date of the report
Yield Curve	A graph which shows the interest rates for T-bills and bonds plotted against their respective maturities
Yield-to-Maturity (YTM)	The total return earned on a fixed income security (bills/bonds) if the security is held to maturity



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