



Market Insights | Pan-Africa | News & Analysis

IC FIXED INCOME & CURRENCY GUIDE

04 DECEMBER 2023



REPORT SUMMARY

COUNTRY	FIXED INCOME	CURRENCY
Ghana	<ul style="list-style-type: none"> Money market liquidity strengthened in November 2023, raising investors and banks' demand for weekly BOG bills and Treasury bills amidst emerging downward pressure on yields. Investors submitted total bids worth GHS 15.6bn (+14.9% m/m), exceeding the T-bill offer target by 29.0%. The Treasury accepted GHS 15.3bn, surpassing the rollover obligation by 45.4% and the offer target by 26.5%. After peaking along our forecast 30.0% – 33.0% area, yields expectedly showed signs of decline amidst the lower inflation expectations by investors. However, we believe the recent hike in the Cash Reserve Ratio to 15.0% will tighten interbank liquidity and partly mitigate the downward pressure In December 2023, the Treasury will face upcoming refinancing obligation of GHS 12.8bn (+21.7% m/m). Having signaled continued and exclusive reliance on T-bills for FY2024 gross domestic financing of GHS 94.4bn (including GHS 31.8bn buffer for auction shortfalls), we believe the authorities will continue the excess uptakes to build the target buffer. Given the lower inflation and interest rates outlook, we believe locking-in the 364-day yield offers better inflation-adjusted return over the holding period. 	<ul style="list-style-type: none"> The pace of Cedi depreciation slowed down in November 2023 with the local unit losing 1.0% m/m against the US Dollar on the retail FX market (vs -2.9% in October 2023) as lower energy prices capped FX demand by fuel importers. In the month ahead, we expect the USD 800mn COCOBOD facility to boost FX supply while investors await positive news on the USD 600mn from the IMF.
Kenya	<ul style="list-style-type: none"> Demand for Kenyan Treasury bills firmed up in November 2023 as total bids submitted at the weekly auctions increased by 18.7% m/m to KES 163.7bn (USD 1.1bn) while the Treasury allotted KES 156.8bn amidst rising funding cost. We note that the tenor premium between the 91-day and the 182-day bills has tightened significantly in November 2023. As a result, we expect this low tenor premium amidst the rising yields to sustain investor demand for the 91-day bill at the expense of the other T-bills. 	<ul style="list-style-type: none"> The Kenyan Shilling weakened against the US Dollar by 1.6% m/m (-19.4% YTD) to trade at a CBK mid-rate of 153.2/USD as investors await a USD 300.0mn drawdown in forex reserve for Eurobond buyback. However, we expect the programme-related IMF disbursement of USD 682.3mn in January 2024 to replenish and rebuild the FX reserves.
Nigeria	<ul style="list-style-type: none"> The Treasury accepted NGN 1.1trn (USD 1.3bn) out of the NGN 2.1trn (USD 2.5bn), exceeding the target size by 102.9% with a bid-to-cover ratio of 2.0x. This represents the second consecutive month of excess uptakes substantially above the offer size amidst the rising yields, raising our concern about the Treasury's finances. Yields expectedly accelerated across tenors amidst the mounting inflationary pressure. In view of the upside risk to inflation amidst the FX uncertainty, Central Bank Governor, Yemi Cardoso, indicated the authorities plan to adopt an Inflation Targeting framework to strengthen policy credibility. 	<ul style="list-style-type: none"> The Naira trimmed some of its losses on the parallel market with an 8.2% m/m appreciation against the US Dollar in November 2023, quoted at 1,165/USD. We view the appreciation on the parallel market as a price correction after the USDNGN seemingly overshot its fair market value during the October 2023 slump. We continue to perceive elevated uncertainty around the USDNGN FX rates after the House of Representatives approved the medium-term expenditure framework with assumed USDNGN rate of NGN750 for 2024, suggesting prolonged widening spreads and arbitrage.

Ghana Market Commentary

Fixed Income

Money market liquidity strengthened in November 2023, raising investors and banks' demand for weekly BOG bills and Treasury bills amidst emerging downward pressure on yields. At the close of November 2023, banks held GHS 31.7bn in BOG bills (+1.7% m/m) at a closing yield of 30.0% (-99bps). Similarly, investors submitted total bids worth GHS 15.6bn (+14.9% m/m), exceeding the T-bill issuance target by 29.0%. The Treasury accepted GHS 15.3bn, surpassing the rollover obligation by 45.4% and the offer target by 26.5%. Having signaled continued and exclusive reliance on T-bills for FY2024 gross domestic financing of GHS 94.4bn (including GHS 31.8bn buffer for auction shortfalls), we believe the authorities will continue the excess uptakes to build the target buffer.

After peaking along our forecast 30.0% – 33.0% area, yields expectedly showed signs of decline amidst the lower inflation expectations by investors. We noticed a mixed outturn with the 91-day (29.5%) and the 364-day yields (33.2%) trimming 32bps m/m and 19bps m/m, respectively. Although the 182-day yield at 31.8% suggests an 8bps m/m uptick, it reflects a more sluggish decline from the peak of 32.2% attained on 06 November 2023. In the months ahead, we foresee sustained downward pressure on yields as we expect a sharp decline in inflation for November and December 2023 on the back of a strong favourable base effect. However, we believe the recent hike in the Cash Reserve Ratio to 15.0% will tighten interbank liquidity and partly mitigate the downward pressure

In December 2023, the Treasury will face upcoming refinancing obligation of GHS 12.8bn (+21.7% m/m). We expect higher targets with opportunistic excess uptakes to continue in line with the plan to build buffer for future auction shortfalls. However, we believe the robust liquidity conditions amidst downside view on inflation will provide favourable issuance conditions in December 2023. Given the lower inflation and interest rate outlook, we believe locking-in the 364-day yield offers better inflation-adjusted return over the holding period.

Currency Market

The pace of Cedi depreciation slowed down in November 2023 with the local unit losing 1.0% m/m against the US Dollar on the retail FX market (vs -2.9% in October 2023) as lower energy prices capped FX demand by fuel importers. In the month ahead, we expect the USD 800mn COCOBOD facility to boost FX supply while investors await positive news on the USD 600mn from the IMF.

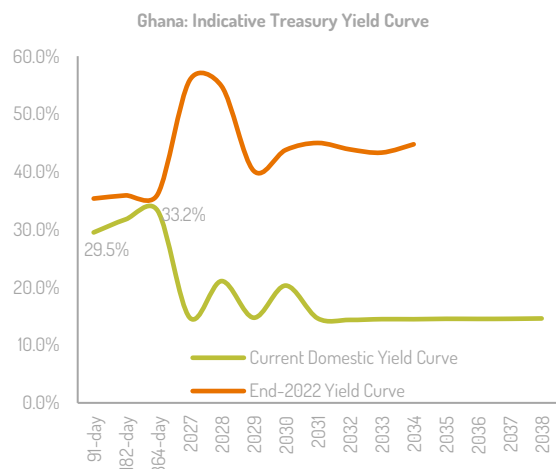
	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	29.50%	-32	-586
182-day	31.76%	8	-415
364-day	33.23%	-19	-287

	Upcoming Maturities* (Dec-2023)	Upcoming Target* (This week)	M/M Change in Maturities
91-day	9,556.83		20.9%
182-day	2,620.61	3,919	4.8%
364-day	648.95		394.2%

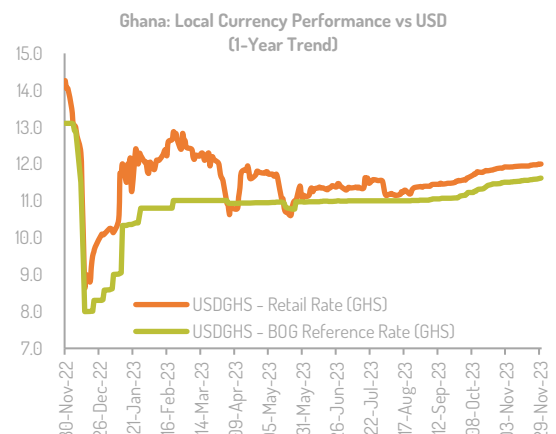
*GHS Million

	Spot Exchange Rate (GHS)		
	Current Mid-Rate	Last Month	M/M Change*
USDGHS	12.00	11.89	-0.96%
GBPGHS	15.15	14.45	-4.61%
EURGHS	13.07	12.58	-3.72%

*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%	83.4	14.8%	Jan-26	8.13%	53.80%
Feb-28	8.50%	69.3	21.1%	Feb-27	6.38%	37.11%
Feb-29	8.65%	77.3	14.7%	Mar-27	7.88%	36.61%
Feb-30	8.80%	58.4	20.3%	Apr-29	7.75%	27.76%
Feb-31	8.95%	73.9	14.6%	May-29	7.63%	26.90%
Feb-32	9.10%	73.6	14.4%	Oct-30	10.75%	21.45%
Feb-33	9.25%	72.3	14.5%	Mar-32	8.13%	22.96%
Feb-34	9.40%	71.7	14.5%	Apr-34	8.63%	22.02%
Feb-35	9.55%	71.0	14.6%	Feb-35	7.88%	20.70%
Feb-36	9.70%	71.0	14.5%	May-42	8.88%	19.96%
Feb-37	9.85%	70.9	14.6%	Jun-49	8.63%	20.36%
Feb-38	10.00%	70.8	14.6%	Mar-51	8.95%	19.77%
				Mar-61	8.75%	19.43%



Kenya Market Commentary

Fixed Income

Demand for Kenyan Treasury bills firmed up in November 2023 as total bids submitted at the weekly auctions increased by 18.7% m/m to KES 163.7bn (USD 1.1bn), exceeding the rollover size by 3.4%. The Treasury accepted KES 156.8bn (USD 1.0bn), falling below the corresponding maturities for the month and highlighting the mounting rollover risk at the front-end of the yield curve.

Yields went up across the T-bill curve with the 91-day yield gaining 33bps m/m to 15.4% and the 182-day yield climbing by 32bps to 15.4% (vs +19bps in October 2023). The 364-day yield advanced by 20bps m/m to close November 2023 at 15.6%, despite a 12bps w/w decline in the final auction of the month.

We note that the tenor premium between the 91-day and the 182-day bills has completed closed at end-November 2023 (vs 15bps at end-September and 2bps in October 2023). We think this low tenor premium amidst the rising yields will sustain investor demand for the 91-day bill at the expense of the other T-bills.

In the domestic bond market, the Kenyan Treasury issued a new 6.5-year infrastructure bond (IFB), which attracted yield-hunters amidst the added appeal of exempting interest income on IFBs from withholding tax. The Treasury accepted KES 67.1bn (USD 442.0mn) out of total bids of KES 88.9bn, exceeding the target by 34.1% with a bid-to-cover ratio of 1.3x at a clearing coupon rate of 17.9%. The authorities have [launched a tap-sale](#) on the IFB with a target size of KES 25.0bn and indicative closing date of 06 December 2023 at 10:00 am local time (07:00hrs GMT).

Currency Market

The Kenyan Shilling weakened against the US Dollar by 1.6% m/m (-19.4% YTD) to trade at a mid-rate of 153.2/USD on the CBK FX rate at the close of November 2023. While gross forex reserves (USD 6.8bn) stood at a broadly sufficient cover of 3.6 months of imports as of month-end, we observed a slight decline by 0.7% m/m as the market await a drawdown of USD 300.0mn for Eurobond buyback.

However, we expect the upcoming programme-related IMF disbursement of USD 682.3mn in January 2024 to replenish the FX reserves.

Local Currency Bonds (KES)				Kenya Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Mar-25	10.25%	92.60	16.92%	Jun-24	6.88%	13.46%
May-25	11.67%	93.86	16.66%	May-27	7.00%	10.35%
Nov-26	11.28%	85.70	17.71%	Feb-28	7.25%	11.24%
Jul-27	12.97%	87.74	17.66%	May-32	8.00%	10.89%
Feb-28	11.25%	81.18	17.79%	Jan-34	6.30%	10.38%
Aug-28	12.69%	84.97	17.48%	Feb-48	8.25%	11.16%
Dec-28	12.50%	84.33	17.30%			
Feb-29	12.44%	83.80	17.25%			
May-31	10.00%	69.54	17.46%			
Nov-32	12.00%	77.80	16.90%			
Jan-34	12.86%	84.12	16.07%			
Jul-34	12.34%	81.07	16.11%			

Source: Central Bank of Kenya, Bloomberg, IC Insights

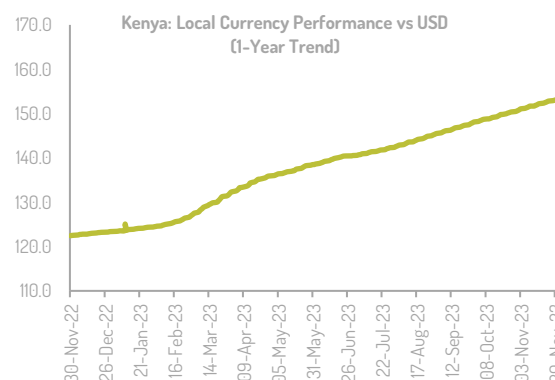
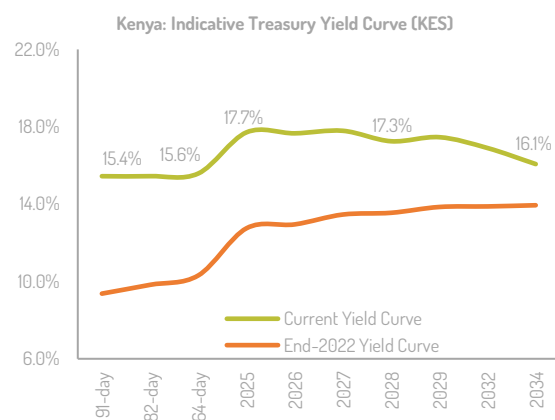
	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	15.44%	33	607
182-day	15.44%	32	562
364-day	15.58%	20	527

	Upcoming Maturities* (Dec-2023)	Upcoming Target* (This Week)	M/M Change in Maturities
91-day	89,804.98		-10.3%
182-day	6,152.76	24,000	-72.6%
364-day	9,300.89		-73.9%

*KES Million

Spot Exchange Rate (KES)			
	Current Mid-Rate	Last Month	M/M Change*
USDKES	153.25	150.73	-1.64%
GBPKES	193.46	183.11	-5.35%
EURKES	166.84	159.49	-4.41%

*Negative change means Depreciation while Positive change means Appreciation



Nigeria Market Commentary

Fixed Income

The auction of Nigerian Treasury bills (NTBs) in November 2023 attracted total bids of NGN 2.1trn (USD 2.5bn) against the gross offer amount of NGN 521.8bn (USD 620.8mn). The Treasury accepted NGN 1.1trn (USD 1.3bn), exceeding the target size by 102.9% with a bid-to-cover ratio of 2.0x. This represents the second consecutive month of excess uptakes substantially above the offer size amidst the rising yields, raising our concern about the Treasury’s finances.

Yields expectedly accelerated across tenors amidst the mounting inflationary pressure. The 91-day stop rate surged 200bps m/m to 8.0% while the 182-day stop rate climbed 300bps m/m 12.0%. The 364-day stop rate close the month at 16.75% (+375bps m/m). In view of the upside risk to inflation amidst the FX uncertainty, Central Bank Governor, Yemi Cardoso, indicated the authorities plan to adopt an Inflation Targeting framework to strengthen policy credibility.

Currency Market

The Naira trimmed some of its losses on the parallel market with an 8.2% m/m appreciation against the US Dollar in November 2023, quoted at 1,165/USD. We view the appreciation on the parallel market as a price correction after the USDNGN seemingly overshot its fair market value during the October 2023 slump. We believe the recovery was underpinned by reports that the Central Bank had initiated payment of the USD 6.8bn backlog of matured FX forwards, albeit mainly to international banks with uncertainty around obligations of the airline companies. Additionally, market sentiments were also helped by bilateral deal between Nigeria and Saudi Arabia for investment in Nigerian oil refineries and provide financial support to sustain the authorities’ ongoing FX reforms.

However, the official market rates continued to seesaw in November 2023 closing the month at a USDNGN rate of 832.3/USD with an uptick in the average daily turnover to USD 127.5mn (+17.9% m/m). We continue to perceive elevated uncertainty around the official market rates after the House of Representatives approved the medium-term expenditure framework with assumed USDNGN FX rate of 750/USD for 2024, suggesting prolonged widening spreads and arbitrage.

	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	8.00%	200	254
182-day	12.00%	300	455
364-day	16.75%	375	592

Selected Macroeconomic Indicators			
	Latest Available	Same Period Last Year	YoY Change (bps)
Inflation	27.33%	21.09%	6.24%
GDP growth	2.54%	2.25%	0.29%
MPR	18.75%	15.50%	3.25%

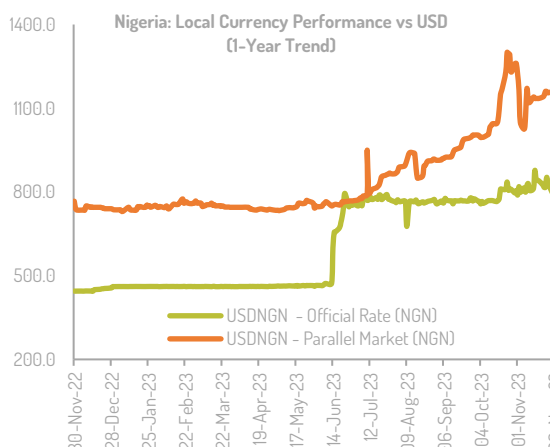
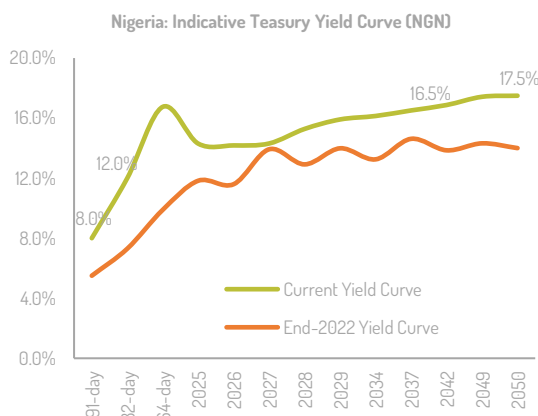
*June 2023 | **10/2023

Official Spot Exchange Rate (NGN)			
	Current Mid-Rate	Last Month	M/M Change
USDNGN	790.52	805.40	1.88%
GBPNGN	997.95	978.52	-1.95%
EURNGN	860.84	852.31	-0.99%

*Negative change means Depreciation while Positive change means Appreciation

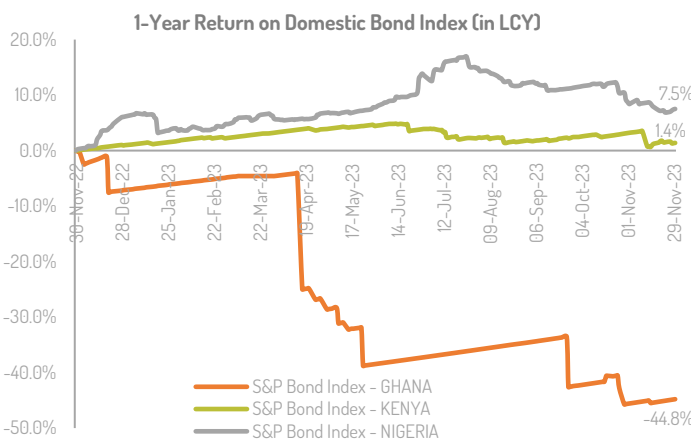
Local Currency Bonds (NGN)				Nigeria Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Mar-25	13.53%	99.05	14.30%	Nov-25	7.63%	8.79%
Jan-26	12.50%	96.94	14.18%	Nov-27	6.50%	10.01%
Mar-27	16.29%	105.00	14.31%	Sep-28	6.13%	10.04%
Feb-28	13.98%	96.00	15.28%	Mar-29	8.38%	10.29%
Apr-29	14.55%	95.16	15.91%	Feb-30	7.14%	10.31%
Jul-34	12.15%	83.55	16.14%	Jan-31	8.75%	10.69%
Mar-35	12.50%	79.28	16.30%	Feb-32	7.88%	10.70%
Mar-36	12.40%	79.49	16.30%	Sep-33	7.38%	10.77%
Apr-37	16.25%	98.57	16.51%	Feb-38	7.70%	11.05%
Jan-42	13.00%	78.22	16.87%	Nov-47	7.63%	10.83%
Apr-49	14.80%	85.15	17.42%	Jan-49	9.25%	11.27%
Mar-50	12.98%	74.48	17.49%	Mar-51	8.25%	11.04%
Jun-53	15.70%	88.49	17.75%			

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

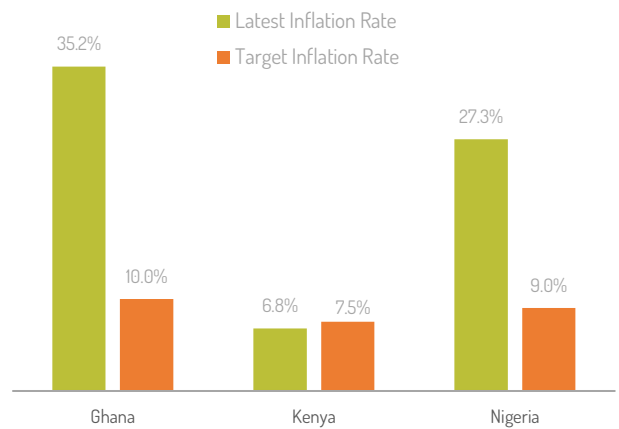


Comparative Yields for Domestic Treasury Bonds in LCY and USD-adjusted Rates						
	Ghana		Kenya		Nigeria	
	GHS Yield	USD-adjusted Yield	KES Yield	USD-adjusted Yield	NGN Yield	USD-adjusted Yield
2027	14.75%	3.58%	17.66%	5.73%	14.31%	-12.34%
2028	21.08%	9.30%	17.30%	5.40%	15.28%	-11.60%
2029	14.74%	3.57%	17.25%	5.36%	15.91%	-11.11%
2030	20.30%	8.59%	17.36%	5.45%	15.16%	-11.69%
2031	14.63%	3.47%	17.25%	5.36%	15.71%	-11.27%
2032	14.36%	3.23%	17.46%	5.55%	16.11%	-10.96%
2033	14.49%	3.35%	16.51%	4.69%	16.21%	-10.88%

Source: Bloomberg, IC Insights

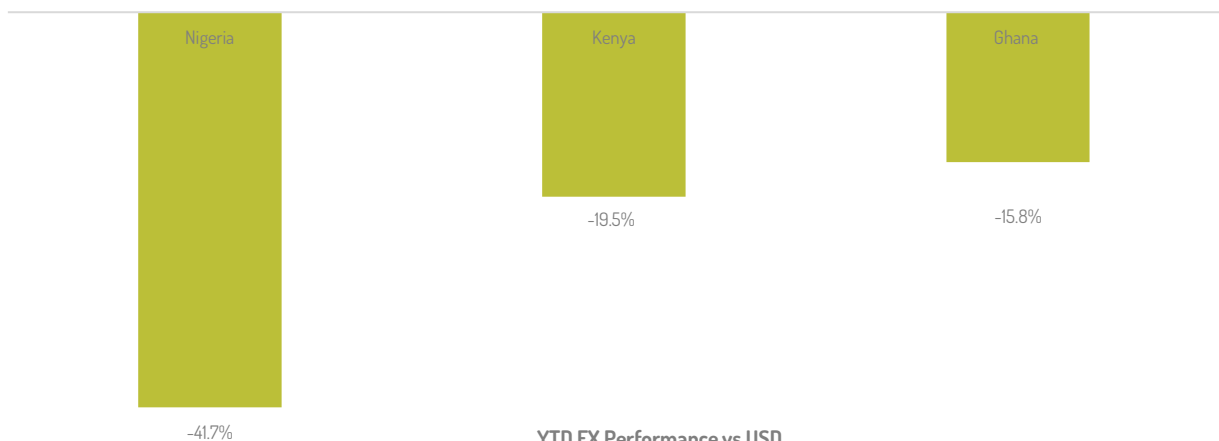


Source: S&P Global



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	12.00	-1.0%	-15.8%	15.15	-4.6%	-18.9%	13.07	-3.7%	-16.8%
Kenya	153.25	-1.6%	-19.5%	193.46	-5.3%	-23.2%	166.84	-4.4%	-21.0%
Nigeria	790.52	1.9%	-41.7%	997.95	-1.9%	-44.1%	860.84	-1.0%	-42.7%



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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