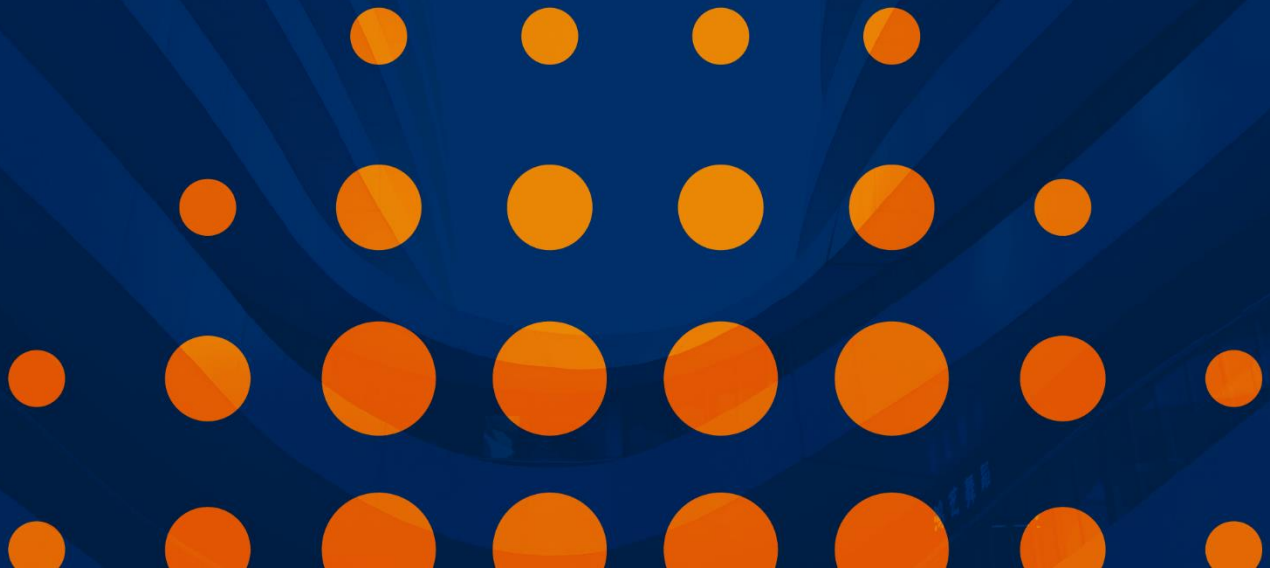




Market Insights | Pan-Africa | News & Analysis

IC FIXED INCOME & CURRENCY GUIDE

02 JANUARY 2024



REPORT SUMMARY

COUNTRY	FIXED INCOME	CURRENCY
Ghana	<ul style="list-style-type: none"> Banks' holding of BOG bills reduced by GHS 10.7bn (-32.6%) post-hike in CRR to GHS 22.0bn as of end-December 2023. However, demand for T-bills remained generally strong at an average weekly bid of GHS 4.0bn. The Treasury accepted all bids tendered (GHS 16.3bn) due to the high funding requirement for maturity refinancing, FY2023 deficit financing and building of cash buffer as telegraphed in the 2024 budget. Yield movement was mixed in December 2023 as downward pressure from the sharp disinflation offset the upward pressure from the CRR hike As expected, real yields turned positive on account of the sharp drop in annual inflation with the ongoing disinflation intensifying the downside risk to nominal yields. We, thus, reiterate our view that the 364-day tenor offers more attractive real yield over the holding period, especially for investors agnostic to election and FX risks. 	<ul style="list-style-type: none"> The Cedi enjoyed stability in December 2023, helped by the BOG's monetary squeeze, the US Dollar weakness occasioned by the FED's dovish outlook, and the USD 600.0mn from COCOBOD syndicated loan. In line with our FY2023 forecast, the mid-USDGHS closed 2023 at approximately 12.0/USD on the retail market, representing a 0.3% m/m appreciation (-15.6% annual loss). In FY2024, we foresee the mid-USDGHS rate at 13.1/USD (-8.4% annual loss) with improving fundamentals, expected external inflows and appropriate monetary policy stance partly offsetting election-related and external debt restructuring uncertainties.
Kenya	<ul style="list-style-type: none"> Investor demand for Kenyan Treasury bills softened in December 2023 (-39.9% m/m), ostensibly reflecting a squeeze in KES liquidity following the 200bps hike in the Central Bank Rate (CBR) to 12.5% and banks' seasonal need for higher cash balances. Yields continued their upturn across the front to belly of the curve, worsening the humped curvature as Treasury debt issuance slowed at the back-end while upscaling across the front to belly amidst the CBR hike. Following the indication by the Treasury Cabinet Secretary that Kenya's cash flow challenges are due to prioritizing near-term debt maturities, we think the market is pricing short-term liquidity risk and discounting insolvency in the yield curve. 	<ul style="list-style-type: none"> The Shilling's losses deepened in December 2023, despite the unexpected hike in the CBR which aimed to restore KES stability against the MPC's view that the USDKES had overshot its "equilibrium" value. The Shilling lost 2.1% m/m in December 2023 compared to -1.6% m/m in November 2023 (-21.1% annual loss). In the months ahead, we foresee continued bearishness amidst the renewed uncertainty around the planned repayment of the June 2024 Eurobond.
Nigeria	<ul style="list-style-type: none"> Investors submitted total bids worth NGN 4.4 trillion (USD 5.0bn) at the three auctions of Nigerian Treasury Bills in December, representing 108% m/m surge in demand for NTBs. The Treasury accepted NGN 1.2 trillion (USD 1.3bn), translating into a bid-to-cover ratio of 3.7x and exceeding the offer target by 540%. Primary market yields plummeted in December 2023, partly offsetting the steep climb recorded in November. We observed a similar movement in the secondary market with the broad-based decline in the Nigerian Interbank Treasury-bill True Yield (NITTY), dragging the 3M NITTY to 5.9% (-109bps m/m) and the 12M NITTY to 14.3% (-282bps). 	<ul style="list-style-type: none"> The Naira gave up some of its gains chalked in November 2023 as it lost 3.7% m/m on the parallel market in December 2023. This translates into a 39.2% depreciation against the US Dollar in FY2023 on the parallel market (-48.8% on official market). Despite a rebound in the second half of December 2023, we opine that the Naira's appreciation in late December was not anchored on fundamentals as inflation continues to soar amidst the fiscal risks. We thus maintain our bearish outlook on the Naira in 1H2024.

Ghana Market Commentary

Fixed Income

The unexpected hike in the minimum cash reserve requirement of banks by the Bank of Ghana (CRR at 15.0%) in November 2023 drained demand for BOG bills into cash reserves. Banks' holding of BOG bills reduced by GHS 10.7bn (-32.6%) post-hike in CRR to GHS 22.0bn as of end-December 2023. However, demand for T-bills remained generally strong, bar the one-off shortfall due to higher-than-usual offer target for tender 1879. Investors submitted total bids of GSH 16.3bn across the T-bills, representing an average weekly bid size of GHS 4.0bn and exceeded the total maturities of GHS 12.8bn. The Treasury accepted all bids tendered due to the high funding need for maturity refinancing, FY2023 deficit financing and building of cash buffer as telegraphed in the 2024 budget.

Yields outturn was mixed in December 2023 as downward pressure from the sharp disinflation offset the upward pressure from the CRR hike. The 91-day and the 364-day yields respectively trimmed 14bps and 74bps m/m to 29.4% and 32.5% while the 182-day yield gained 19bps to 31.9%. As expected, ex-post real yields turned positive on account of the sharp drop in annual inflation with the ongoing disinflation intensifying the downside risk to nominal yields. We, thus, reiterate our view that the 364-day tenor offers more attractive real yield over the holding period, especially for investors agnostic to election and FX risks.

We estimate the upcoming T-bill maturities in January 2024 at GHS 12.7bn (-1.2% m/m), requiring an average weekly bid of GHS 3.2bn to fully refinance. Based on the prevailing strong demand at an average of GHS 4.0bn per week, we expect the authorities to comfortably refinance the upcoming maturities. However, we foresee higher targets to fund the 2024 budget deficit and buffer for February 2024 coupon payments on the restructured bonds.

Currency Market

The Cedi enjoyed stability in December 2023, helped by the BOG's monetary squeeze, the US Dollar weakness occasioned by the FED's dovish outlook, and USD 600.0mn from COCOBOD syndicated loan. In line with [our FY2023 forecast](#), the mid-USDGHS closed at c.12.0/USD on the retail market, representing a 0.3% m/m appreciation (-15.6% annual loss). In FY2024, we foresee the mid-USDGHS rate at 13.1/USD (-8.4% annual loss) with improving fundamentals, expected multilateral inflows and appropriate monetary stance partly offsetting election-related and external debt restructuring uncertainties.

	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	29.36%	-14	-600
182-day	31.95%	19	-396
364-day	32.49%	-74	-361

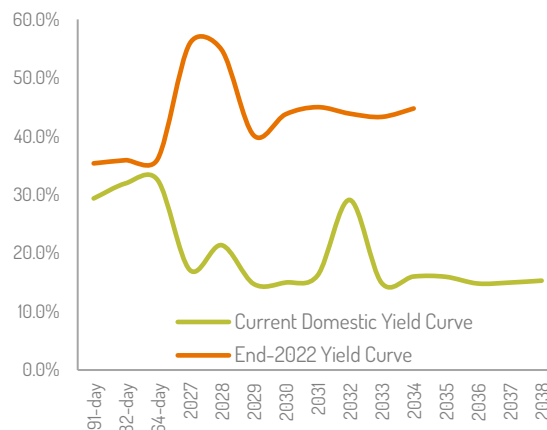
	Upcoming Maturities* (Jan-2024)	Upcoming Target* (This week)	M/M Change in Maturities
91-day	10,302.46		7.8%
182-day	1,958.65	2,837.0	-25.3%
364-day	410.20		-36.8%

*GHS Million

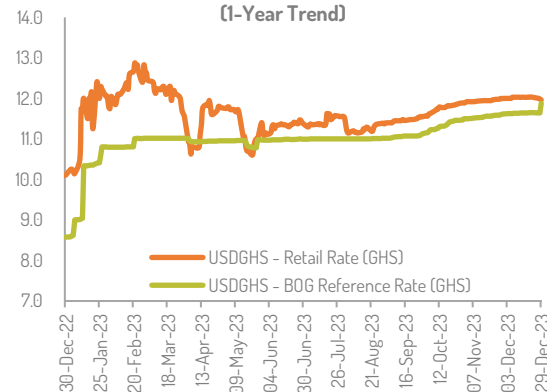
	Spot Exchange Rate (GHS)		
	Current Mid-Rate	Last Month	M/M Change*
USDGHS	11.96	12.00	0.31%
GBP/USD	15.23	15.15	-0.58%
EUR/USD	13.19	13.07	-0.96%

*Negative change means Depreciation while Positive change means Appreciation

Ghana: Indicative Treasury Yield Curve



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



Local Currency "General Category" Bonds (GHS)				Ghana Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Feb-27	8.35%	78.45	17.14%	Jan-26	8.13%	54.71%
Feb-28	8.50%	64.30	21.36%	Feb-27	6.38%	37.52%
Feb-29	8.65%	77.57	14.73%	Mar-27	7.88%	36.95%
Feb-30	8.80%	74.50	14.97%	Apr-29	7.75%	28.10%
Feb-31	8.95%	68.35	16.20%	May-29	7.63%	27.24%
Feb-32	9.10%	35.53	29.11%	Oct-30	10.75%	21.13%
Feb-33	9.25%	70.68	14.89%	Mar-32	8.13%	22.94%
Feb-34	9.40%	65.41	16.00%	Apr-34	8.63%	22.17%
Feb-35	9.55%	65.06	15.95%	Feb-35	7.88%	20.77%
Feb-36	9.70%	69.82	14.80%	May-42	8.88%	19.98%
Feb-37	9.85%	68.97	14.96%	Jun-49	8.63%	18.72%
Feb-38	10.00%	68.02	15.29%	Mar-51	8.95%	19.80%
				Mar-61	8.75%	19.44%

Kenya Market Commentary

Fixed Income

Investor demand for Kenyan Treasury bills softened in December 2023 (-39.0% m/m), ostensibly reflecting a squeeze in KES liquidity following the 200bps hike in the Central Bank Rate (CBR) to 12.5% and banks' seasonal need for higher cash balances. Total bids submitted was worth KES 99.9bn with the Treasury accepting KES 95.1bn to fall below the estimated maturities by 8.7%.

Yields continued their upturn across the front to belly of the curve, worsening the humped curvature as Treasury debt issuance slowed at the back-end while upscaling across the front to belly amidst the CBR hike. The 91-day climbed 44bps to 15.9%, and the 364-day yield gained 32bps m/m to 15.9%. Notably, the 182-day yield saw the steepest climb to rise above the other T-bills at 16.0%.

In the November 2023 inflation expectation survey, published in December 2023, the Central Bank observed an uptick in inflation expectations compared to the October 2023 survey. The November survey revealed that 60.0% of respondents expect a rise in inflation in the ensuing 3-months, representing a 2.8pp increase from the October survey. This finding suggests persistent inflationary expectations, seemingly due to the anticipated exchange rate pass-through, and supports the MPC's hawkish stance with sustained upside risk to short-term yields.

The domestic bond market was generally mute in December 2023 after the early-month tap sale of KES 47.2bn on the freshly minted infrastructure bond (coupon: 17.9%) at an average allotted dirty price of 101.3% of par value. Following the indication by the Treasury Cabinet Secretary that Kenya's cash flow challenges are due to prioritizing near-term debt maturities (including the Jun-24 Eurobond), we think the market is pricing short-term liquidity risk and discounting insolvency in the yield curve.

Currency Market

The Shilling's losses deepened in December 2023, despite the unexpected hike in the CBR which aimed to restore KES stability against the MPC's view that the USDKES had overshot its "equilibrium" value. The Shilling lost 2.1% m/m in December 2023 compared to -1.6% m/m in November 2023 (-21.1% annual loss). In the months ahead, we foresee continued bearishness amidst the renewed uncertainty around the planned repayment of the June-24 Eurobond.

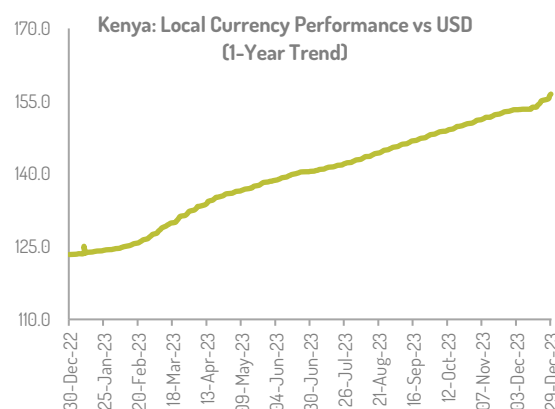
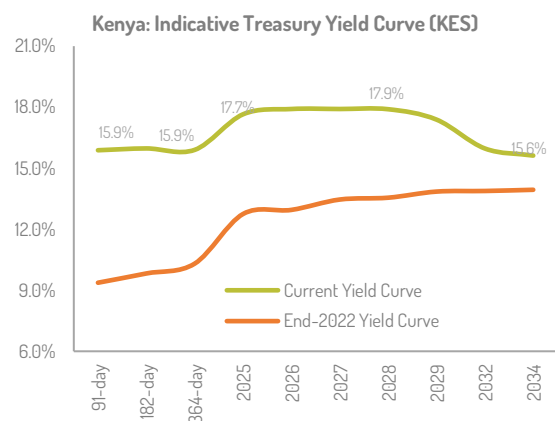
	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	15.88%	44	651
182-day	15.97%	53	615
364-day	15.90%	32	559

	Upcoming Maturities* (Jan-2024)	Upcoming Target* (This Week)	M/M Change in Maturities
91-day	92,528.13		3.0%
182-day	13,788.62	24,000.00	124.1%
364-day	18,590.33		99.9%

*KES Million

Spot Exchange Rate (KES)			
	Current Mid-Rate	Last Month	M/M Change*
USDKES	156.56	153.25	-2.11%
GBPKES	199.55	193.46	-3.05%
EURKES	173.72	166.84	-3.96%

*Negative change means Depreciation while Positive change means Appreciation



Local Currency Bonds (KES)				Kenya Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Mar-25	10.25%	93.21	16.75%	Jun-24	6.88%	12.37%
May-25	11.67%	93.69	17.09%	May-27	7.00%	9.02%
Nov-26	11.28%	86.10	17.65%	Feb-28	7.25%	9.70%
Jul-27	12.97%	87.37	17.91%	May-32	8.00%	9.63%
Feb-28	11.25%	81.14	17.91%	Jan-34	6.30%	9.32%
Aug-28	12.69%	85.59	17.32%	Feb-48	8.25%	10.13%
Dec-28	12.50%	84.45	17.31%			
Feb-29	12.44%	82.09	17.90%			
May-31	10.00%	69.90	17.39%			
Nov-32	12.00%	81.45	15.97%			
Jan-34	12.86%	86.18	15.62%			
Jul-34	12.34%	82.38	15.82%			

Source: Central Bank of Kenya, Bloomberg, IC Insights

Nigeria Market Commentary

Fixed Income

Investors submitted total bids worth NGN 4.4 trillion (USD 5.0bn) at the three auctions of Nigerian Treasury Bills in December, representing 108% m/m surge in demand for NTBs. The Treasury accepted NGN 1.2 trillion (USD 1.3bn), translating into a bid-to-cover ratio of 3.7x and exceeding the offer target by 540%.

Yields plummeted across the T-bill curve in December 2023, partly offsetting the steep climb recorded in November. The 91-day stop rate shed 100bps m/m to 7.0%, the 182-day trimmed 200bps to 10.0% while the 364-day stop rate plunged by 451bps m/m to 12.2%. We observed a similar movement in the secondary market with the broad-based decline in the Nigerian Interbank Treasury-bill True Yield (NITTY) dragging the 3M NITTY to 5.9% (-109bps m/m) and the 12M NITTY to 14.3% (-282bps).

The updated public debt information by the Debt Management Office showed encouraging performance in the Federal Government debt stock as of end-3Q2023. Total public debt increased marginally by 0.6% q/q to NGN 87.9 trillion (USD 114.4bn), despite the elevated FX volatility post-June 2023 FX reforms. The containment of the public debt was helped by the redemption of USD 500.0mn Eurobond (coupon: 6.375%), which matured on 12 July 2023, and payment of USD 413.9mn out of the USD 3.4bn COVID loan from the IMF. This resulted in a fall in external debt stock to USD 41.6bn (-3.6% q/q), easing the debt service outlook and potentially strengthening the Sovereign's debt sustainability.

Currency Market

The Naira gave up some of its gains chalked in November 2023 as it lost 3.7% m/m on the parallel market in December 2023, translating into a 39.7% depreciation in FY2023 (official market: -48.8%). However, the local unit regained 3.3% in second half of December as Naira scarcity amidst the yuletide festivities ostensibly prompted FX sales in preference for Naira positions. Consequently, we opine that the Naira's appreciation in late December does not reflect fundamental improvement as inflation continues to soar amidst the fiscal risks. We thus maintain our bearish outlook on the Naira in 1H2024.

Local Currency Bonds (NGN)				Nigeria Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Mar-25	13.53%	101.49	12.15%	Nov-25	7.63%	8.13%
Jan-26	12.50%	98.58	13.30%	Nov-27	6.50%	9.06%
Mar-27	16.29%	108.25	13.04%	Sep-28	6.13%	9.03%
Feb-28	13.98%	100.50	13.80%	Mar-29	8.38%	9.26%
Apr-29	14.55%	100.10	14.51%	Feb-30	7.14%	9.24%
Jul-34	12.15%	85.75	14.86%	Jan-31	8.75%	9.59%
Mar-35	12.50%	86.97	14.91%	Feb-32	7.88%	9.65%
Mar-36	12.40%	85.62	14.99%	Sep-33	7.38%	9.70%
Apr-37	16.25%	104.68	15.40%	Feb-38	7.70%	10.05%
Jan-42	13.00%	85.20	15.45%	Nov-47	7.63%	9.88%
Apr-49	14.80%	94.04	15.75%	Jan-49	9.25%	10.33%
Mar-50	12.98%	80.94	16.09%	Mar-51	8.25%	10.15%
Jun-53	15.70%	96.64	16.25%			

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

	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	7.00%	-100	154
182-day	10.00%	-200	255
364-day	12.24%	-451	141

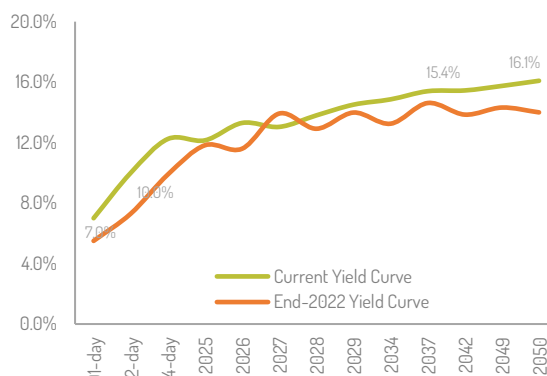
Selected Macroeconomic Indicators			
	Latest Available	Same Period Last Year	YoY Change (bps)
Inflation	28.20%*	21.50%	6.70%
GDP growth	2.54%**	2.25%	0.29%
MPR	18.75%	15.50%	3.25%

*November 2023 | **3Q2023

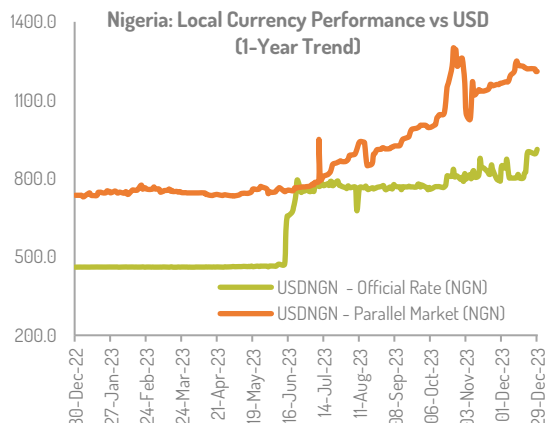
Official Spot Exchange Rate (NGN)			
	Current Mid-Rate	Last Month	M/M Change*
USDNGN	911.68	790.52	-13.29%
GBPNGN	1160.66	997.95	-14.02%
EURNGN	992.50	860.84	-13.27%

*Negative change means Depreciation while Positive change means Appreciation

Nigeria: Indicative Treasury Yield Curve (NGN)

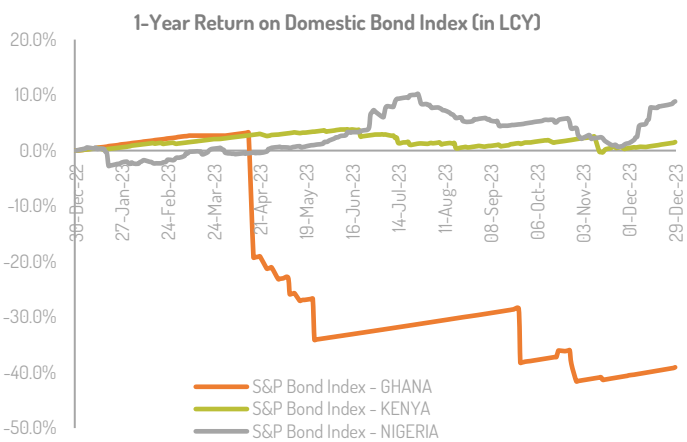


Nigeria: Local Currency Performance vs USD (1-Year Trend)

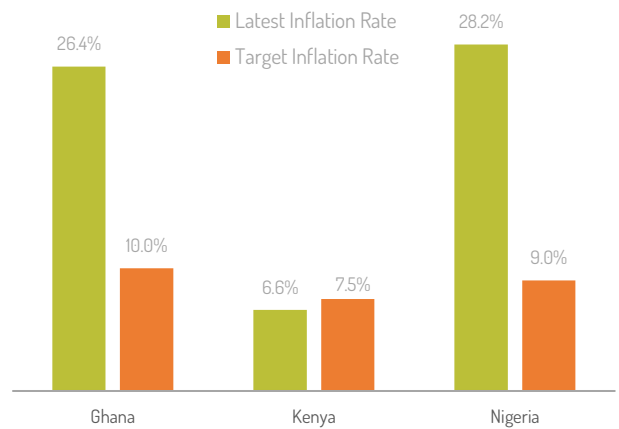


Comparative Yields for Domestic Treasury Bonds in LCY and USD-adjusted Rates						
	Ghana		Kenya		Nigeria	
	GHS Yield	USD-adjusted Yield	KES Yield	USD-adjusted Yield	NGN Yield	USD-adjusted Yield
2027	17.14%	3.16%	17.91%	6.79%	13.04%	-13.67%
2028	21.36%	6.88%	17.31%	6.25%	13.80%	-13.09%
2029	14.73%	1.04%	17.90%	6.78%	14.51%	-12.54%
2030	14.97%	1.25%	17.65%	6.55%	14.08%	-12.87%
2031	16.20%	2.33%	17.90%	6.78%	14.33%	-12.68%
2032	29.11%	13.70%	17.39%	6.32%	14.71%	-12.39%
2033	14.89%	1.18%	15.90%	4.97%	14.96%	-12.20%

Source: Bloomberg, IC Insights

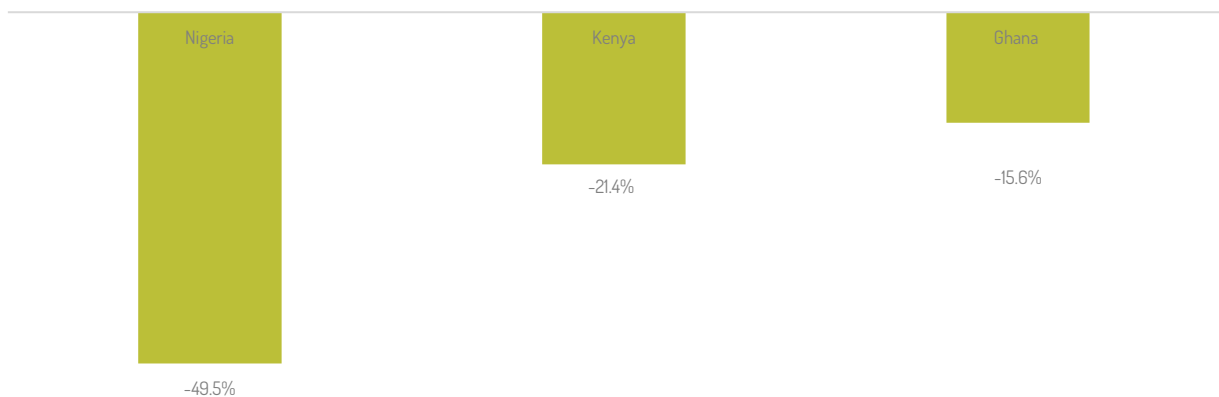


Source: S&P Global



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	11.96	0.3%	-15.6%	15.23	-0.6%	-19.3%	13.19	-1.0%	-17.6%
Kenya	156.56	-2.1%	-21.2%	199.55	-3.1%	-25.5%	173.72	-4.0%	-24.1%
Nigeria	911.68	-13.3%	-49.5%	1160.66	-14.0%	-52.0%	992.50	-13.3%	-50.3%



YTD FX Performance vs USD

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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