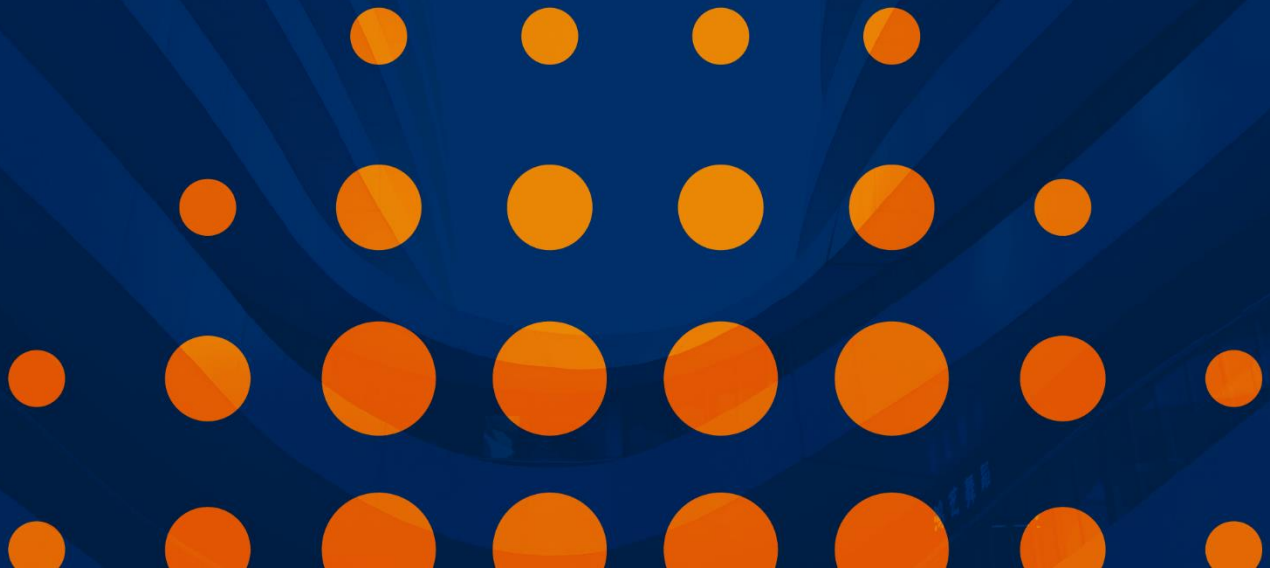




Market Insights | Pan-Africa | News & Analysis

IC FIXED INCOME & CURRENCY GUIDE

01 MARCH 2024



REPORT SUMMARY

COUNTRY	FIXED INCOME	CURRENCY
Ghana	<ul style="list-style-type: none"> The Ghanaian Treasury comfortably exceeded both its target (+29.3%) and refinancing obligation (+45.2%) in February 2024 as money market conditions remained supportive with strong investor appetite and softening yield quotes. Yields fell sharply in February 2024 as the strong money market liquidity outweighed any upside risk from the unexpected uptick in the January 2024 inflation. We observed the tenor premium between the 91-day and the 182-day at 247bps, with that between the 182-day and 364-day bills at 55bps. This suggests the 182-day as more attractive albeit with reinvestment risk than the 364-day bill. 	<ul style="list-style-type: none"> The Ghanaian Cedi continued its streak of losses in February 2024, depreciating by 2.5% m/m (-5.4% YTD) amidst the heavy GHS liquidity, tight FX supply, elevated corporate demand, and restrained FX sale by the BOG. At this pace, the spot USDGHS has overshoot our end-1Q2024 forecast by 2.0pp with the risk of overshooting our FY2024 forecast depreciation of 8.4% if there is no retracement in the months ahead.
Kenya	<ul style="list-style-type: none"> It was a busy month for the Kenyan Treasury in February 2024 across the domestic and international debt market as the authorities combined liability management with new borrowings to effectively ease investor concerns about near-term default risk. Domestic yields continued their northward trek at a slower pace, signalling limited room for further increases as the peak appears in sight. While public finances remain stretched, we view the significant easing of external debt default risk and moderated FX pressures as a cap on the upside risk to domestic yields. 	<ul style="list-style-type: none"> The Kenyan Shilling rebounded strongly in February 2024 as the authorities made a surprise return to the Eurobond market to successfully raise USD 1.5bn which was used to fund a USD 1.4bn buyback of the KENINT-24 bond. This liability management strategy significantly reduced the risk of depletion in FX reserve while offshore participation in the IFB offer strengthened the Central Bank's FX support. Consequently, we revise our outlook on the KES to a more positive tone, albeit cautious about new KES exposure at the current levels with the forward curve suggesting $\approx 158.0/\text{USD}$ by FY2024 (spot: $146.1/\text{USD}$).
Nigeria	<ul style="list-style-type: none"> The Treasury's borrowing requirement heightened in February 2024 as gross issuance target increased by 338.8% m/m while accepted bids exceeded the target by 104.6%. We believe the outsized target and uptake reflects the authorities' strategy to drain interbank Naira liquidity in a quest to restore price and exchange rate stability. In line with our longstanding expectation for yields amidst the elevated inflation risk, stop rates surged across the T-bill curve, signalling the policy tilt in favour of higher interest rates. 	<ul style="list-style-type: none"> The Naira remains trapped in a twilight zone despite recent spate of devaluation and mostly FX supply-side reforms aimed at reviving FX inflows. The local currency lost 8.7% m/m (-43.1% YTD) against the USD in February 2024 and closed the month at $1,595/\text{USD}$ in the official market. We view the latest hike in the policy rate and other liquidity tightening measures as positive for restraining the FX demand on the market while the CBN sustains effort to boost FX supply and foreign capital inflows.

Ghana Market Commentary

Fixed Income

The Ghanaian Treasury comfortably exceeded both its target (+29.3%) and refinancing obligation (+45.2%) in February 2024 as money market conditions remained supportive with strong investor appetite and softening yield quotes.

Investors submitted total bids worth GHS 24.1bn (+8.8% m/m) while accepted bids were valued at GHS 24.0bn (+8.9% m/m), sustaining the Treasury's quest to build buffer for future auction shortfall as indicated in the 2024 budget. We note that the Treasury has exceeded its 2-month target cumulatively by GHS 12.4bn. This puts it on course to meet its FY2024 target buffer of GHS 31.8bn. Our estimates show that the cumulative excess uptake in the first 2-months of 2024 is 2.3x the excess uptake recorded in the same period last year. We attribute this to the relatively stronger GHS liquidity on the money market, the increased frequency of issuing the 364-day bill since July 2023, and investors' quest to lock-in higher rates amidst the downturn in inflation.

Yields fell sharply in February 2024 as the strong money market liquidity outweighed any upside risk from the unexpected uptick in the January 2024 inflation. The 91-day yield trimmed 131bps m/m to 27.3%, the 182-day stepped down by 135bps to 29.8% while the 364-day yield fell by 150bps to 30.3%. We observed the tenor premium between the 91-day and the 182-day at 247bps, with that between the 182-day and 364-day bills at 55bps. This suggests the 182-day as more attractive albeit with reinvestment risk than the 364-day bill.

We estimate a decline in the upcoming T-bill maturities to GHS 14.5bn (-12.5% m/m) in March 2024. In our view, the strong GHS liquidity will support uptakes at auctions. While we maintain a generally downside view on yields, we think the unexpected uptick in January 2024 inflation has raised the inflation profile for 1Q2024 and this will restrain the pace of yield decline, especially the 91-day.

Currency Market

The Ghanaian Cedi continued its streak of losses in February 2024, depreciating by 2.5% m/m (-5.4% YTD) amidst the heavy GHS liquidity, tight FX supply, elevated corporate demand, and restrained FX sale by the Central Bank. At this pace, the spot USDGHS has overshot our end-1Q2024 forecast by 2.0pp with the risk of overshooting our FY2024 forecast depreciation of 8.4% if there is no retracement in the months ahead.

	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	27.28%	-131	-208
182-day	29.75%	-135	-220
364-day	30.30%	-150	-219

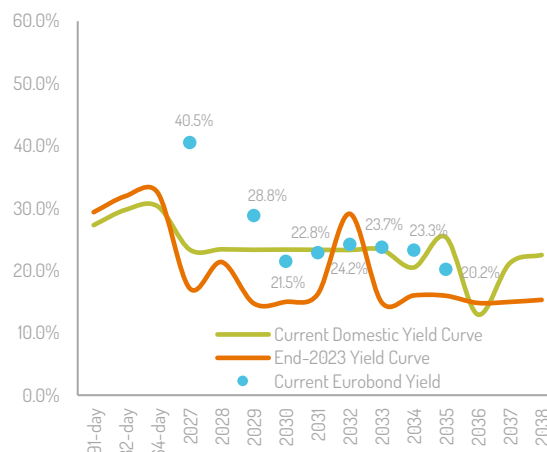
	Upcoming Maturities* (Mar-2024)	Upcoming Target* (This week)	M/M Change in Maturities
91-day	9,178.42	4,137.0	-15.8%
182-day	1,985.49		-40.0%
364-day	3,315.20		41.7%

*GHS Million

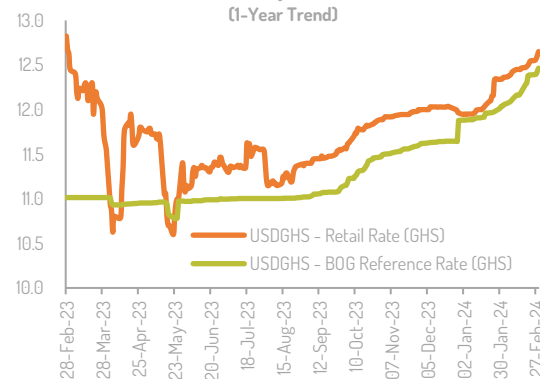
Spot Exchange Rate (GHS)			
	Current Mid-Rate	Last Month	M/M Change*
USDGHS	12.65	12.35	-2.37%
GBP/GHS	15.93	15.63	-1.86%
EUR/GHS	13.64	13.33	-2.28%

*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%	68.30	23.36%	Jan-26	8.13%	56.78%
Feb-28	8.50%	61.77	23.40%	Feb-27	6.38%	38.54%
Feb-29	8.65%	56.86	23.33%	Mar-27	7.88%	40.53%
Feb-30	8.80%	52.88	23.36%	Apr-29	7.75%	29.85%
Feb-31	8.95%	50.02	23.32%	May-29	7.63%	28.84%
Feb-32	9.10%	47.88	23.29%	Oct-30	10.75%	21.50%
Feb-33	9.25%	46.06	23.35%	Mar-32	8.13%	24.19%
Feb-34	9.40%	50.72	20.49%	Apr-34	8.63%	23.26%
Feb-35	9.55%	38.54	25.37%	Feb-35	7.88%	20.20%
Feb-36	9.70%	79.66	12.95%	May-42	8.88%	20.79%
Feb-37	9.85%	47.13	21.15%	Jun-49	8.63%	19.56%
Feb-38	10.00%	42.58	22.50%	Mar-51	8.95%	20.74%
				Mar-61	8.75%	20.38%

Kenya Market Commentary

Fixed Income

It was a busy month for the Kenyan Treasury in February 2024 across the domestic and international debt markets as the authorities combined liability management with new borrowings to effectively ease investor concerns about near-term default risk. In the domestic money market, the Treasury issued KES 136.2bn across the 91-day to the 364-day bills, lower than the corresponding T-Bill maturities for the month by 12.1%. We noticed a 2.5% m/m decline in total investor bids during the February 2024 T-bill auctions. We believe this reflects tighter KES liquidity and increased bids for the concurrent offer of the tax-free 8.5-year infrastructure bond (IFB).

Yields continued their northward trek at a slower pace, signalling limited room for further increases as the peak appears in sight. The 91-day yield gained 30bps m/m to 16.6%, the 182-day advanced by 36bps to 16.7% and the 364-day yield closed at 16.9% (+40bps m/m). While public finances remain stretched, we view the significant easing of external debt default risk and moderated FX pressures as a cap on the upside risk to domestic yields.

The domestic bond market witnessed robust demand for the 8.5-year IFB with total bids of KES 288.7bn, overwhelming the target of KES 70.0bn as domestic investors exploited yield pick-up prospects amidst attractive carry for foreign investors. The Treasury accepted KES 241.0bn at a tax-free coupon of 18.46%.

In the Eurobond market, the Treasury successfully executed a 2031 offer to raise USD 1.5bn at a steep coupon rate of 9.75% (Yield: 10.375%), of which USD 1.4bn was used to re-profile the USD 2.0bn June 2024 Eurobond maturity. This trimmed the default premium and triggered a sharp decline in KENINT yields with single digit yields across the 2024 to 2034 segment of the curve.

Currency Market

The Kenyan Shilling rebounded strongly in February 2024 as the authorities made a surprise return to the Eurobond market to successfully raise USD 1.5bn which was used to fund a USD 1.4bn buyback of the KENINT-24 bond. This liability management strategy significantly reduced the risk of reserve depletion while offshore participation in the IFB offer strengthened the Central Bank's FX support. Consequently, we revise our outlook on the KES to a more positive tone, albeit cautious about new KES exposure at the current levels with the forward curve suggesting ≈158.0/USD by FY2024 (spot: 146.1/USD).

	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	16.59%	30	71
182-day	16.73%	36	76
364-day	16.92%	40	102

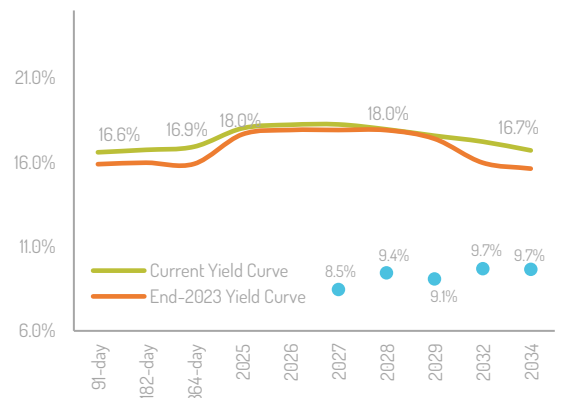
	Upcoming Maturities* (Mar-2024)	Upcoming Target* (This Week)	M/M Change in Maturities
91-day	77,635.43		-32.0%
182-day	4,458.82	24,000.00	-72.2%
364-day	17,486.64		-29.7%

*KES Million

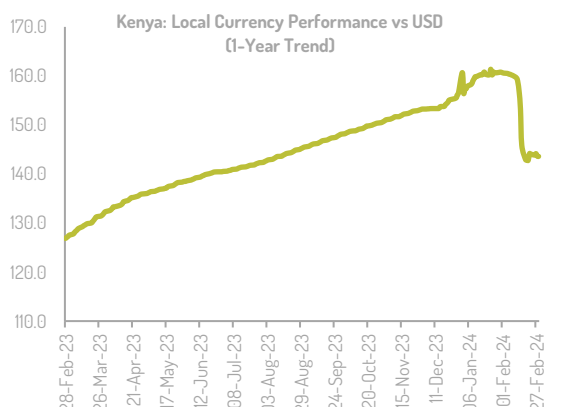
Spot Exchange Rate (KES)			
	Current Mid-Rate	Last Month	M/M Change*
USDKES	146.08	163.58	11.98%
GBPKES	185.36	203.17	9.61%
EURKES	158.48	173.49	9.47%

*Negative change means Depreciation while Positive change means Appreciation

Kenya: Indicative Treasury Yield Curve (KES)



Local Currency Bonds (KES)				Kenya Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Mar-25	10.25%	94.10	16.78%	Jun-24	6.88%	8.68%
May-25	11.67%	94.31	17.18%	May-27	7.00%	8.45%
Nov-26	11.28%	86.05	18.01%	Feb-28	7.25%	9.44%
Jul-27	12.97%	87.09	18.22%	May-32	8.00%	9.70%
Feb-28	11.25%	80.91	18.24%	Jan-34	6.30%	9.66%
Aug-28	12.69%	84.15	18.00%	Feb-48	8.25%	10.32%
Dec-28	12.50%	83.13	17.88%			
Feb-29	12.44%	82.35	17.95%			
May-31	10.00%	69.69	17.57%			
Nov-32	12.00%	76.82	17.22%			
Jan-34	12.86%	81.65	16.70%			
Jul-34	12.34%	79.13	16.62%			



Source: Central Bank of Kenya, Bloomberg, IC Insights

Nigeria Market Commentary

Fixed Income

The Treasury’s borrowing requirement heightened in February 2024 as gross issuance target increased by 338.8% m/m while accepted bids exceeded the target by 104.6%. We believe the outsized target and uptake reflects the authorities’ strategy to drain interbank Naira liquidity in a quest to restore price and exchange rate stability.

The Treasury accepted NGN 2.6trn (USD 1.7bn) out of the NGN 4.2trn (USD 2.8bn) submitted across the 91-day to the 364-day tenors during the February 2024 T-bill auction. Despite the strong uptake by the Treasury, we observed a 62.2% m/m decline in total bids submitted at the February auction, suggesting moderating Naira liquidity conditions as the monetary reforms continue.

In line with our longstanding expectation for yields amidst the elevated inflation risk, stop rates surged across the T-bill curve, signalling the policy tilt in favour of higher interest rates. The 91-day stop rate quickened by 12.0pp m/m to 17.0%, the 182-day rate advanced by 10.4pp to 17.5% while the 364-day stop rate nudged higher by 7.5pp to 19.0%. We expect stronger appetite for the 364-day tenor on the secondary market, on account of the attractive tenor premium.

The Monetary Policy Committee (MPC) expectedly hiked the policy rate by 400bps to 22.75% with an adjustment to the asymmetric corridor around the policy rate to +100/-700 basis points from +100/-300 basis points. While we view the policy rate hike as supportive of upside drift in the 364-day and bond yields, we believe the reduced lower bound for the asymmetric corridor could cap upside for shorter-term yields.

Currency Market

The Naira remains trapped in a twilight zone despite recent spate of devaluation and mostly FX supply-side reforms aimed at reviving FX inflows. The local currency lost 8.7% m/m (-43.1% YTD) against the USD in February 2024 and closed the month at 1,595/USD in the official market. The losses were sharper in the parallel market at 16.4% m/m, albeit posting a late-month recovery.

We view the latest hike in the policy rate and other liquidity tightening measures as positive for restraining the FX demand on the market while the CBN sustains effort to boost FX supply and foreign capital inflows.

Local Currency Bonds (NGN)				Nigeria Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Mar-25	13.53%	97.15	16.53%	Nov-25	7.63%	8.43%
Jan-26	12.50%	93.26	16.77%	Nov-27	6.50%	9.36%
Mar-27	16.29%	97.89	17.19%	Sep-28	6.13%	9.46%
Feb-28	13.98%	91.91	16.85%	Mar-29	8.38%	9.67%
Apr-29	14.55%	90.22	17.49%	Feb-30	7.14%	9.73%
Jul-34	12.15%	76.41	17.06%	Jan-31	8.75%	9.89%
Mar-35	12.50%	77.41	17.11%	Feb-32	7.88%	10.08%
Mar-36	12.40%	78.58	16.55%	Sep-33	7.38%	10.00%
Apr-37	16.25%	94.89	17.23%	Feb-38	7.70%	10.36%
Jan-42	13.00%	75.44	17.52%	Nov-47	7.63%	10.17%
Apr-49	14.80%	82.57	17.96%	Jan-49	9.25%	10.30%
Mar-50	12.98%	72.33	18.01%	Mar-51	8.25%	10.31%
Jun-53	15.70%	86.22	18.21%			

	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	17.00%	1200	1000
182-day	17.50%	1035	750
364-day	19.00%	746	676

Selected Macroeconomic Indicators

	Latest Available	Same Period Last Year	YoY Change (bps)
Inflation*	29.90%	21.82%	808
GDP growth**	3.46%	3.52%	-6
MPR	22.75%	17.50%	525

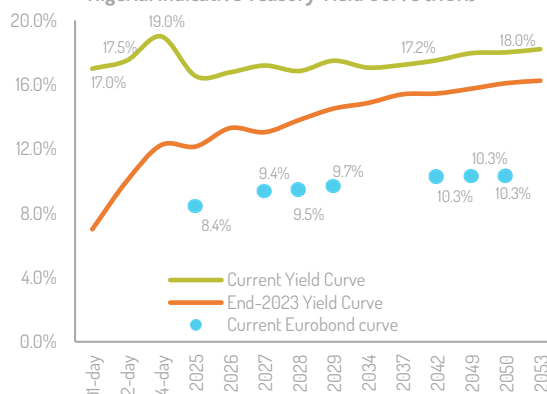
*January 2024 | **FY2023

Official Spot Exchange Rate (NGN)

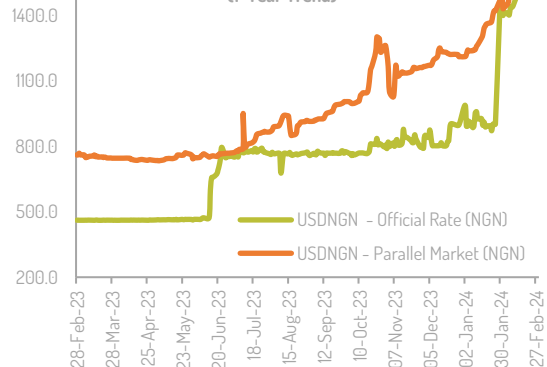
	Current Mid-Rate	Last Month	M/M Change
USDNGN	1617.50	1455.59	-10.01%
GBPNGN	2041.93	1803.65	-11.67%
EURNGN	1747.63	1578.46	-9.68%

*Negative change means Depreciation while Positive change means Appreciation

Nigeria: Indicative Treasury Yield Curve (NGN)



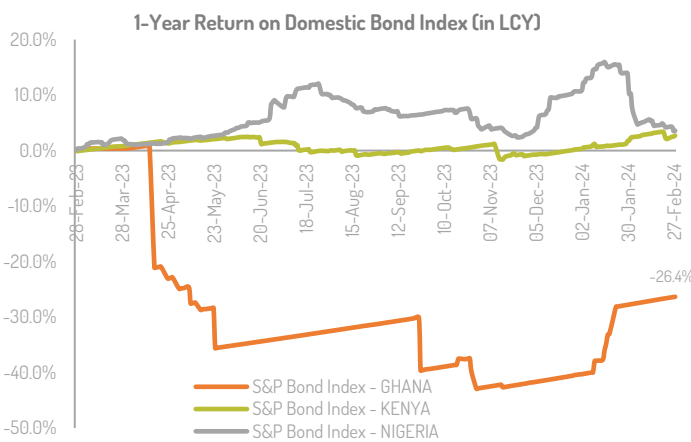
Nigeria: Local Currency Performance vs USD (1-Year Trend)



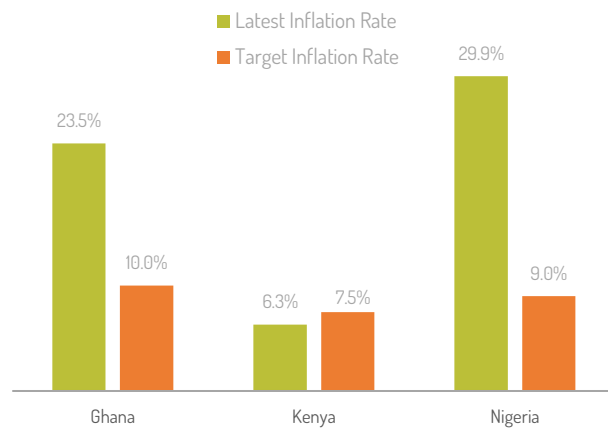
Source: FMDQ, Bloomberg, Central Bank of Nigeria, National Bureau of Statistics, IC Insights

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	23.36%	10.38%	18.22%	7.64%	17.19%	13.09%
2028	23.40%	10.42%	17.88%	7.33%	16.85%	12.76%
2029	23.33%	10.36%	17.95%	7.39%	17.49%	13.38%
2030	23.36%	10.38%	17.76%	7.22%	16.92%	12.82%
2031	23.32%	10.35%	17.95%	7.39%	16.96%	12.86%
2032	23.29%	10.32%	17.57%	7.05%	17.30%	13.19%
2033	23.35%	10.38%	16.92%	6.46%	17.36%	13.25%

Source: Bloomberg, IC Insights

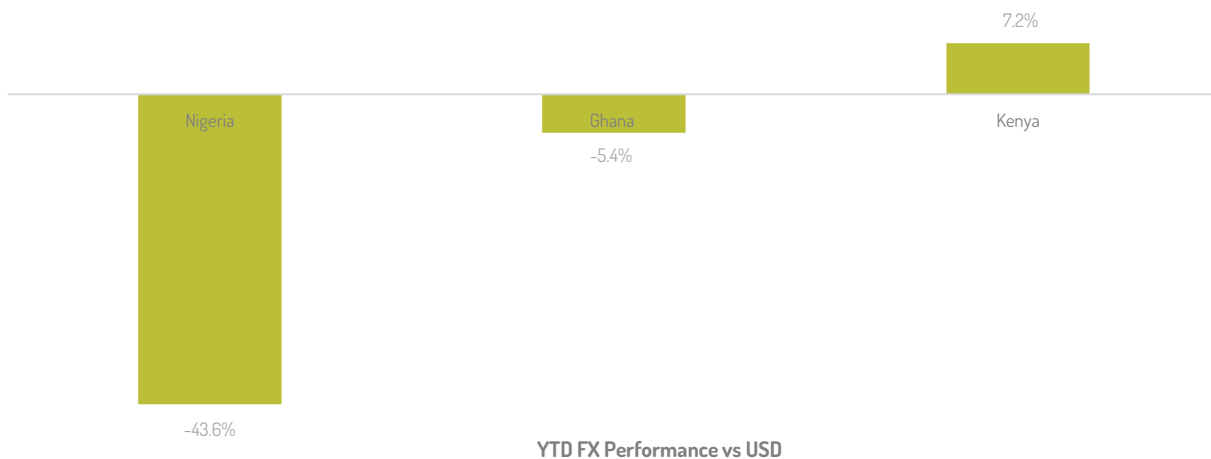


Source: S&P Global



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	12.65	-2.4%	-5.4%	15.93	-1.9%	-4.4%	13.64	-2.3%	-3.3%
Kenya	146.08	12.0%	7.2%	185.36	9.6%	7.7%	158.48	9.5%	9.6%
Nigeria	1617.50	-10.0%	-43.6%	2041.93	-11.7%	-43.2%	1747.63	-9.7%	-43.2%



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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