Market Insights | Pan-Africa | News & Analysis

IC FIXED INCOME & CURRENCY GUIDE

01 JULY 2024

REPORT SUMMARY

COUNTRY	FIXED INCOME	CURRENCY
Ghana	• Demand conditions improved further on the Ghanaian money market in June 2024 as the pace of decline in yields moderated for the fourth consecutive month, given the FX pressure and the Treasury's high borrowing needs. When measured against the estimated T-bill maturities for the period (GHS 86.6bn), the total amount raised in 1H2024 (GHS 114.5bn) translated into new money worth GHS 27.9bn, suggesting that the Treasury may be lagging on its FY2024 net domestic financing of GHS 62.7bn. • We estimate the total upcoming T-bill maturities in July 2024 at GHS 17.4bn (+18.8% m/m), requiring an average weekly bid of GHS 3.5bn to refinance. In the past 2-months (post CRR-hike), we observed average weekly bid size of GHS 4.1bn. This suggests scope for the Treasury to raise new money worth GHS 3.2bn in July 2024 (+23.1% m/m).	• The Cedi's losses continued in June 2024, albeit at a slower pace compared to the previous month as FX supply remains thin despite intermittent spot FX sales by the BOG. The local unit shed 3.7% m/m in June 2024 (-21.9% YTD) against the US Dollar, weighed down by persistent importers' FX demand. • In 3Q2024, the authorities expect a 2nd tranche DPO (USD 300mn) from the World Bank to augment the USD 360.0mn programme-related disbursement from the IMF and stem the depreciation tide. We think this would also require a tighter fiscal stance to restore GHS-USD supply imbalance.
Kenya	• The money market tightened modestly across pricing and demand conditions in June 2024 as a weaker appetite for T-bills sustained the steady uptick in Treasury yields. Our analysis revealed a shortening of tenor preference as demand for the 91-day ticked up (+24.5% m/m) while the bids for 182-day (-49.9% m/m) and 364-day tenors (-58.4% m/m) plummeted. • Yields remained on the upturn for the second consecutive month as investors continue pricing in perceived fiscal risk to the outlook amidst the stiff public opposition to the tax measures in the Finance Bill 2024.	• The Kenyan Shilling defied the heightened fiscal risk, holding firm against the US Dollar in June 2024 (+0.5% m/m | +20.8% YTD) as forex reserve buffer was strengthened by USD 1.2bn inflows from the World Bank amidst attractive real returns on T-bills. Gross reserves stood at USD 7.8bn (4.1 months of import) as of 28th June 2024, exceeding the CBK's statutory requirement of 4.0 months. • Despite the elevated fiscal and security risk, we view the high interest rates and the strong forex reserves as sufficient anchors for continued KES stability in the near-term.
Nigeria	• Demand for Nigerian Treasury Bills (NTBs) softened in line with the lower target for June 2024 but remained more than enough to support the Treasury's domestic funding requirement by 4.2x. • The T-bill curve shifted downwards slightly amidst the robust Naira liquidity relative to the Treasury's borrowing needs. In our view, this is an inherent risk to the effectiveness of monetary policy as yields on T-bills remain significantly lower than the policy rate of 26.25%. Our perception of the yield dynamics suggests that short-term yields have peaked despite recent hikes in the policy rate and will oscillate around current levels until positive real rates are restored.	• The Naira weakened marginally against the US Dollar across both the official and parallel markets in June 2024 while maintaining close alignment with the parallel market rate. The local unit traded within a tight range of 1,481 – 1,515 against the USD for most of June as FX demand waned, partly helped by relatively lower Naira injection from maturing futures contract. • As expected, the World Bank approved the USD 2.25bn DPO in June 2024, comprising USD 1.5bn to support ongoing reforms and USD 750mn to support revenue efforts. The staggered inflows should boost FX reserves with a calming effect on the forex market ahead of the July 2024 MPC meeting.

Ghana Market Commentary

Fixed Income

Demand conditions improved further on the Ghanaian money market in June 2024 as the pace of decline in yields moderated for the fourth consecutive month, given the FX pressure and the Treasury's elevated financing needs.

Investors tendered total bids of GHS 17.2bn across the 91-day to the 364-day tenors during the June 2024 T-bill auctions, exceeding the prior month's bids by 9.6% and the gross target by 10.6%. The Treasury snapped up virtually all bids tendered to exceed the maturing T-bills by 17.5%, translating into a net issuance of GHS 2.6bn in June 2024.

Our estimates indicate that the Treasury raised GHS 114.5bn against a total target of GHS 97.0bn in 1H2024. When measured against the estimated T-bills maturities for the period (GHS 86.6bn), the total amount raised translated into new money worth GHS 27.9bn, suggesting that the Treasury may be lagging on its FY2024 net domestic financing of GHS 62.7bn. We expect the Treasury to roll the financing shortfall into the gross target for 2H2024, raising the borrowing requirement for the remainder of FY2024.

We estimate the total upcoming T-bill maturities in July 2024 at GHS 17.4bn (+18.8% m/m), requiring an average weekly bid of GHS 3.5bn to refinance. In the past 2-months (post CRR-hike), we observed average weekly bid of GHS 4.1bn. This suggests scope for the Treasury to raise new money worth GHS 3.2bn in July 2024 (+23.1% m/m).

Ghana's Eurobonds witnessed an average price gain of 2.2% with cash prices averaging 54.0c on the Dollar as of 21st June before retreating to 52.4c by month-end as investors priced-in the deeper haircut from the Eurobond deal.

Currency Market

The Cedi's losses continued in June 2024, albeit at a slower pace compared to the previous month as FX supply remains thin despite intermittent spot FX sales by the BOG. The local unit shed 3.7% m/m in June 2024 (-21.9% YTD) against the US Dollar, weighed down by persistent FX demand from importers. In 3Q2024, the authorities expect a 2nd tranche DPO (USD 300mn) from the World Bank to augment the USD 360.0mn programme-related disbursement from the IMF and stem the depreciation tide. We think this would also require a tighter fiscal stance to GHS-USD supply imbalance.

Local Currency "General Category" Bonds (GHS)				Ghana Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Feb-27	8.35%	74.36	20.44%	Jan-26	8.13%	55.48%
Feb-28	8.50%	72.65	18.55%	Feb-27	6.38%	36.56%
Feb-29	8.65%	66.13	19.47%	Mar-27	7.88%	38.57%
Feb-30	8.80%	48.46	25.82%	Apr-29	7.75%	25.49%
Feb-31	8.95%	61.82	18.75%	May-29	7.63%	26.54%
Feb-32	9.10%	50.48	22.27%	Oct-30	10.75%	20.62%
Feb-33	9.25%	63.87	17.00%	Mar-32	8.13%	20.59%
Feb-34	9.40%	48.17	21.97%	Apr-34	8.63%	19.78%
Feb-35	9.55%	57.04	18.49%	Feb-35	7.88%	18.61%
Feb-36	9.70%	69.44	15.09%	May-42	8.88%	19.06%
Feb-37	9.85%	78.01	13.31%	Jun-49	8.63%	18.05%
Feb-38	10.00%	42.49	23.61%	Mar-51	8.95%	17.41%
				Mar-61	8.75%	17.02%

	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	24.87%	-23	-449
182-day	26.80%	-15	-515
364-day	27.79%	-16	-470

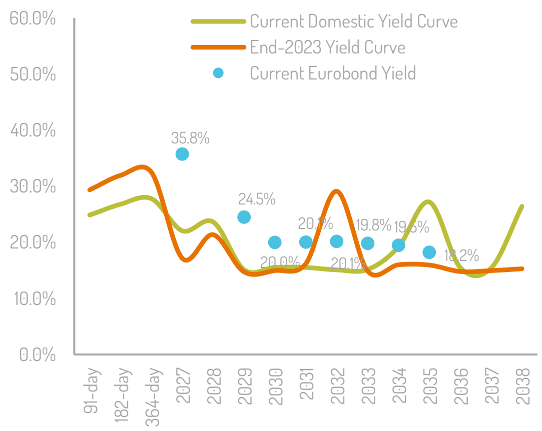
	Upcoming Maturities* (July-2024)	Upcoming Target* (This week)	M/M Change in Maturities
91-day	11,675.30	3,247.00	8.4%
182-day	4,707.92		40.0%
364-day	1,032.81		98.3%

*GHS Million

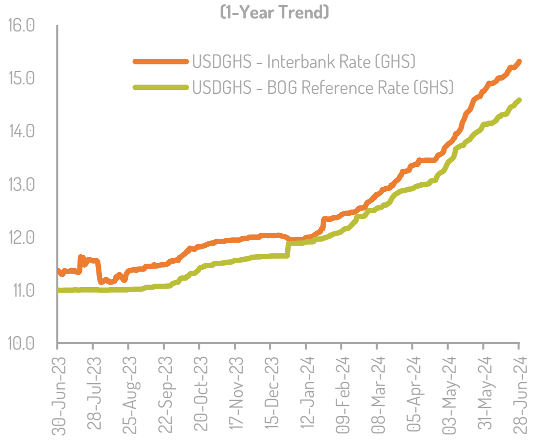
	Spot Exchange Rate (GHS)		
	Current Mid-Rate	Last Month	M/M Change*
USDGHS	15.32	14.75	-3.72%
GBPGHS	19.32	18.86	-2.38%
EURGHS	16.37	16.06	-1.90%

*Negative change means Depreciation while Positive change means Appreciation

Ghana: Indicative Treasury Yield Curve



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



Kenya Market Commentary

Fixed Income

The money market tightened modestly across pricing and demand conditions in June 2024 as a weaker appetite for T-bills sustained the steady uptick in Treasury yields.

Investors submitted total bids worth KES 106.9bn, representing a 28.9% m/m decline in demand for Kenyan T-bills as the market digested the FY24/25 budget and implications for the financing outlook. Despite the m/m weakening in demand, total bids and uptake sufficiently exceeded the maturities for the month. The Treasury accepted KES 101.6bn, exceeding the maturing T-bills by 30.6% and translating into a net issuance of KES 23.8bn. Our analysis revealed a shortening of tenor preference as demand for the 91-day ticked up (+24.5% m/m) while the bids for 182-day (-49.9% m/m) and 364-day tenors (-58.4% m/m) plummeted.

Yields remained on the upturn for the second consecutive month as investors priced-in perceived fiscal risk in the outlook amidst the challenges with sufficient revenue mobilisation by the Treasury. The 91-day (15.97%) rose by 3bps while the 182-day (16.74%) and the 364-day (16.75%) yields climbed by 17bps and 13bps m/m, respectively.

The Treasury presented its FY24/25 budget last month, signalling strong fiscal consolidation with the target overall budget deficit at 3.3% (vs 5.7% in FY23/24 and a primary surplus of 2.3% of GDP (vs 0.4% deficit in FY23/24). However, we expect a supplementary budget in 1Q24/25 to reduce the risk of fiscal slippages following the widespread protests against the Finance Bill which led to the President decline to assent the Finance Bill.

Currency Market

The Kenyan Shilling defied the heightened fiscal risk, holding firm against the US Dollar in June 2024 (0.5% m/m (+20.8% YTD) as forex reserve buffer was strengthened by USD 1.2bn inflows from the World Bank amidst attractive real returns on T-bills. Gross reserves stood at USD 7.8bn (4.1 months of import) as of 28th June 2024, exceeding the CBK's statutory requirement of 4.0 months. Despite the elevated fiscal risk, we view the high interest rates and the strong FX reserves as sufficient anchors for continued KES stability in the near-term.

Local Currency Bonds (KES)				Kenya Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Mar-25	10.25%	95.42	16.15%	Jun-24	6.88%	7.11%
May-25	11.67%	95.52	16.67%	May-27	7.00%	8.24%
Nov-26	11.28%	88.44	17.10%	Feb-28	7.25%	8.99%
Jul-27	12.97%	90.00	17.11%	May-32	8.00%	9.65%
Feb-28	11.25%	84.08	17.13%	Jan-34	6.30%	9.52%
Aug-28	12.69%	86.44	17.26%	Feb-48	8.25%	9.60%
Dec-28	12.50%	85.22	17.27%			
Feb-29	12.44%	84.99	17.30%			
May-31	10.00%	72.66	16.76%			
Nov-32	12.00%	78.63	16.80%			
Jan-34	12.86%	80.83	16.23%			
Jul-34	12.34%	83.30	16.84%			

Source: Central Bank of Kenya, Bloomberg, IC Insights

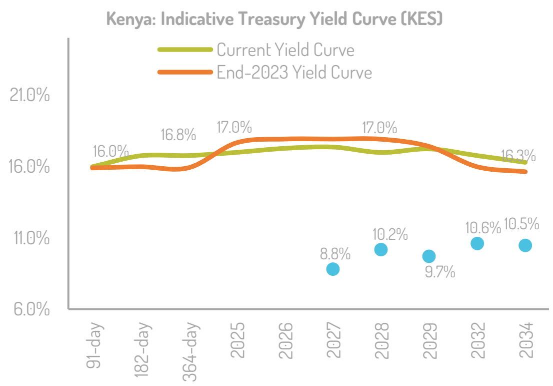
	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	15.97%	3	9
182-day	16.74%	17	77
364-day	16.75%	13	85

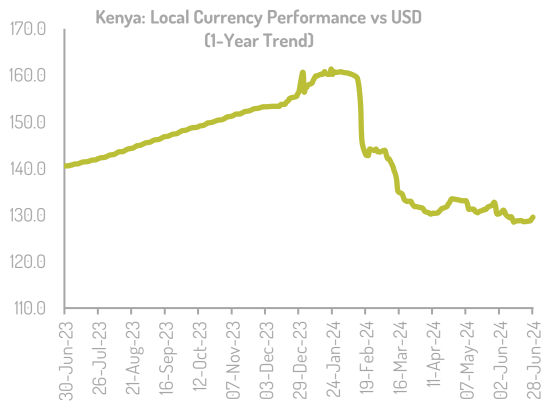
	Upcoming Maturities* (July-2024)	Upcoming Target* (This Week)	M/M Change in Maturities
91-day	39,779.76		-28.5%
182-day	24,746.68	24,000.00	86.0%
364-day	8,632.79		-2.3%

*KES Million

Spot Exchange Rate (KES)			
	Current Mid-Rate	Last Month	M/M Change*
USDKES	129.25	130.13	0.68%
GBPKES	163.44	166.22	1.70%
EURKES	138.52	141.65	2.26%

*Negative change means Depreciation while Positive change means Appreciation





Nigeria Market Commentary

Fixed Income

Demand for Nigerian Treasury Bills (NTBs) softened in line with the lower target for June 2024 but remained more than enough to support the Treasury's domestic funding requirement. Total bids submitted were valued at NGN 1.1tn, reflecting a 54.6% m/m decline and covering the gross target by 4.2x. The Treasury accepted NGN 333.7bn, exceeding the target by 25.7%.

The robust Naira liquidity weighed on yields at the auction and remains an inherent risk to the effectiveness of monetary policy as yields on T-bills remain significantly lower than the policy rate of 26.25%. We think the auction strategy seeks to prevent a spike in the Treasury's debt service cost amidst the hawkish monetary policy stance. In our view, this would require further increases in the frequency of OMO bill issuance at higher yields to drain sufficient liquidity.

The T-bill curve shifted downwards slightly with the 91-day stop rate trimming 20bps m/m to 16.3%. The 182-day inched down by a basis point to 17.4% while the 364-day stop rate shaved off 19bps to settle at 20.5%.

Our perception of the yield dynamics suggests that short-term yields have peaked despite recent hikes in the monetary policy rate. Following the initial policy-induced rise in the stop rate for the 91-day to 17.2% in February 2024, we observed a 94bps decline despite total rate hikes of 350bps between March and May 2024. We also observed a similar pattern for the 364-day stop rate, deepening our view that short-term rates will oscillate around current levels.

	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	16.30%	-20	930
182-day	17.44%	-1	744
364-day	20.50%	-19	826

Selected Macroeconomic Indicators			
	Latest Available	Same Period Last Year	YoY Change (bps)
Inflation*	33.95%	22.41%	11.54%
GDP growth**	2.98%	2.31%	0.67%
MPR	26.25%	18.50%	7.75%

*May 2024 | **1Q2024

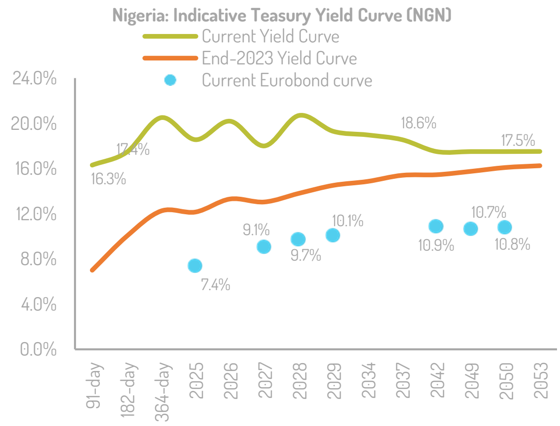
Official Spot Exchange Rate (NGN)			
	Current Mid-Rate	Last Month	M/M Change
USDNGN	1514.28	1487.00	-1.80%
GBPNGN	1914.88	1877.41	-1.96%
EURNGN	1622.32	1575.91	-2.86%

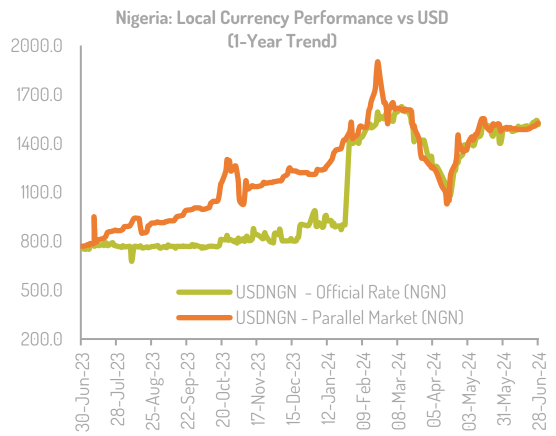
*Negative change means Depreciation while Positive change means Appreciation

Currency Market

The Naira weakened marginally against the US Dollar across both the official and parallel markets in June 2024 while maintaining close alignment with the parallel market rate. The local unit traded within a tight range of 1,481 – 1,515 against the USD throughout June as FX demand waned, partly helped by a relatively lower Naira injection from maturing futures contract.

As expected, the World Bank approved the USD 2.25bn DPO in June 2024, comprising USD 1.5bn to support ongoing reforms and USD 750.0mn to support revenue efforts. The staggered inflows should boost FX reserves with a calming effect on the forex market ahead of the July 2024 MPC meeting.





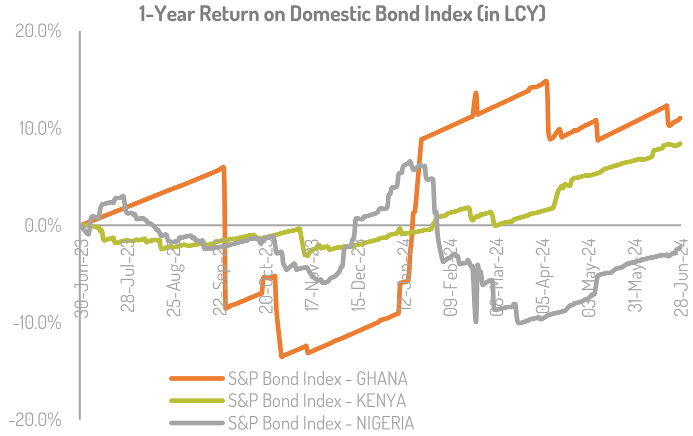
Local Currency Bonds (NGN)				Nigeria Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Apr-29	14.55%	85.63	19.14%	Nov-25	7.63%	8.00%
Feb-31	18.50%	95.86	19.60%	Nov-27	6.50%	8.96%
Apr-32	12.50%	71.72	19.66%	Sep-28	6.13%	9.45%
Feb-34	19.00%	97.43	19.57%	Mar-29	8.38%	9.73%
Jul-34	12.15%	69.28	19.07%	Feb-30	7.14%	9.92%
Mar-35	12.50%	70.38	19.03%	Jan-31	8.75%	9.97%
Mar-36	12.40%	69.33	18.97%	Feb-32	7.88%	10.20%
Apr-37	16.25%	87.21	18.92%	Sep-33	7.38%	10.20%
Jun-38	15.45%	86.55	18.10%	Feb-38	7.70%	10.62%
Jan-42	13.00%	70.77	18.69%	Nov-47	7.63%	10.59%
Apr-49	14.80%	79.77	18.61%	Jan-49	9.25%	10.48%
Mar-50	12.98%	71.09	18.33%	Mar-51	8.25%	10.69%
Jun-53	15.70%	85.10	18.45%			

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

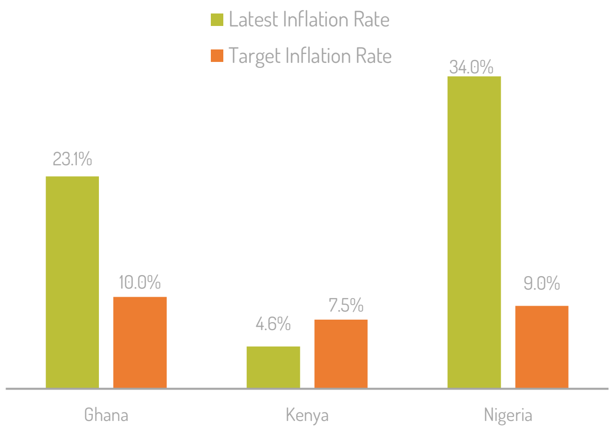
	Comparative Yields for Domestic Treasury Bonds in LCY and USD-adjusted Rates					
	Ghana		Kenya		Nigeria	
	GHS Yield	USD-adjusted Yield	KES Yield	USD-adjusted Yield	NGN Yield	USD-adjusted Yield
2027	22.06%	9.25%	17.26%	5.65%	18.00%	7.25%
2028	23.63%	10.65%	17.27%	5.66%	20.69%	9.69%
2029	15.12%	3.03%	16.97%	5.39%	19.29%	8.42%
2030	15.54%	3.41%	17.10%	5.50%	19.58%	8.68%
2031	15.52%	3.39%	16.97%	5.39%	19.83%	8.91%
2032	15.09%	3.01%	17.22%	5.62%	18.93%	8.09%
2033	15.15%	3.06%	16.33%	4.81%	18.92%	8.08%

Source: Bloomberg, IC Insights

1-Year Return on Domestic Bond Index (in LCY)

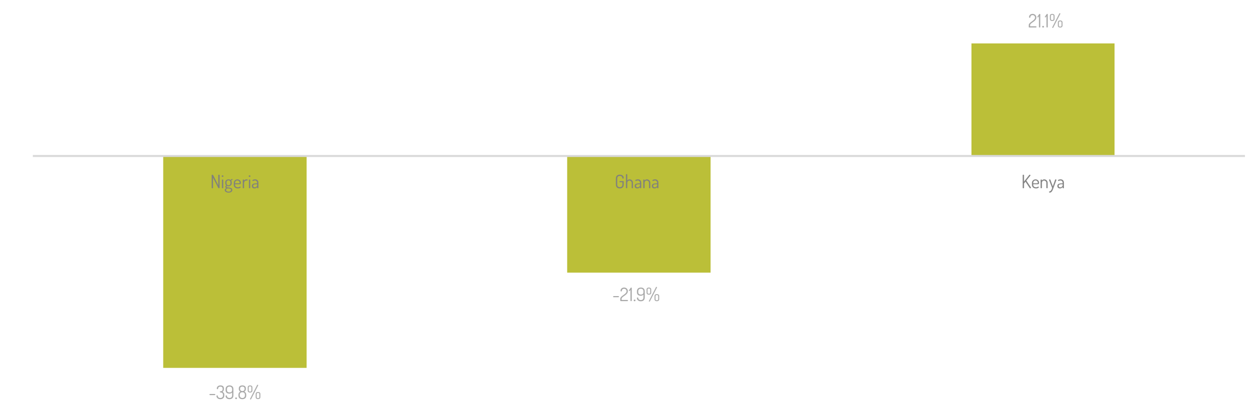


Source: S&P Global



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	15.32	-3.7%	-21.9%	19.32	-2.4%	-21.1%	16.37	-1.9%	-19.4%
Kenya	129.25	0.7%	21.1%	163.44	1.7%	22.1%	138.52	2.3%	25.4%
Nigeria	1,514.28	-1.8%	-39.8%	1,914.88	-2.0%	-39.4%	1622.32	-2.9%	-38.8%



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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