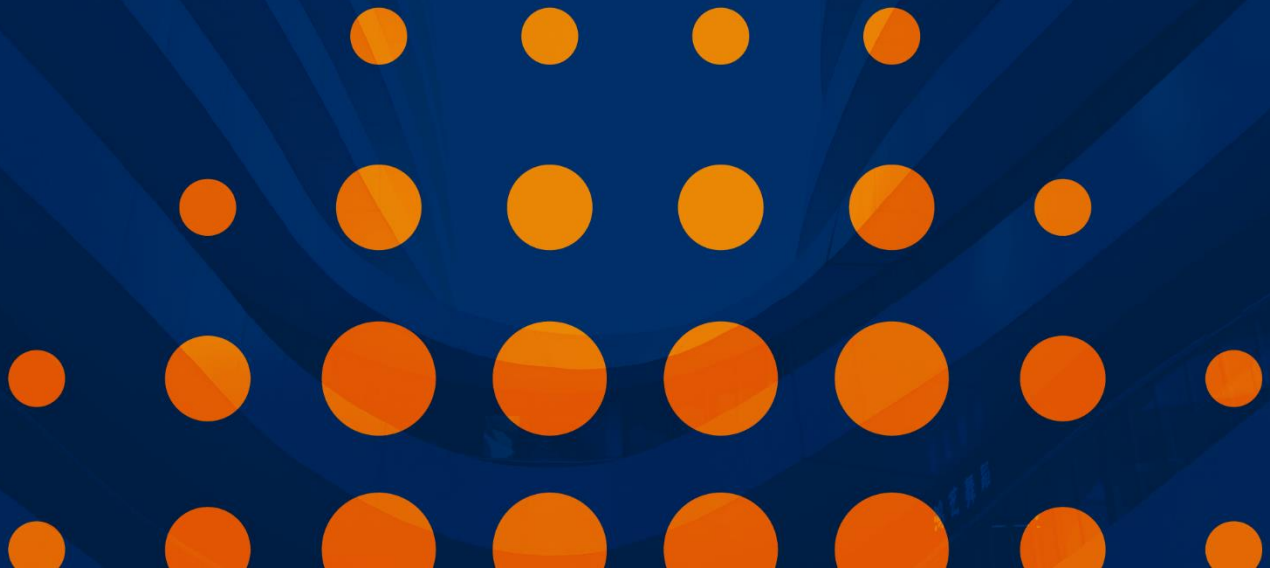




Market Insights | Pan-Africa | News & Analysis

IC FIXED INCOME & CURRENCY GUIDE

01 AUGUST 2024



REPORT SUMMARY

COUNTRY	FIXED INCOME	CURRENCY
Ghana	<ul style="list-style-type: none"> Investor demand strengthened slightly by 8.9% m/m in July 2024 whereas the Treasury expectedly upscaled its weekly T-bill offers by 33.0% m/m, resulting in a 9.5% shortfall to gross target for the month. We attribute the increased target to the Treasury's attempt to close the financing shortfall from 1H2024. With inflation declining at a sluggish pace, and the Treasury's increased target, yield movement was mixed in the month under review. We estimate the total upcoming T-bill maturities in August 2024 at GHS 18.5bn, requiring an average weekly bid of GHS 4.6bn to refinance. While we foresee risk of uncovered auction in August, we expect coupon payments to prop-up demand in late August. 	<ul style="list-style-type: none"> The Cedi bears appeared fatigued in July 2024, allowing more restrained movement in the local currency (-1.5% m/m vs USD) amidst largely subdued FX trading sessions. Despite intermittent uptick in FX demand by the real sector, we believe the progress on Ghana's external debt rework significantly helped to ease market uncertainty about the external debt service needs against available FX supply. We expect the emerging stability to continue in August 2024 as interest rates remain sticky with the BOG's policy rate maintained at 29.0%. However, expected coupon payments (GHS 6.1bn) could stir some FX pressures.
Kenya	<ul style="list-style-type: none"> Investors continue to favour the shorter-dated Treasury securities amidst the elevated interest rate environment and fiscal risk. This enabled adequate bids to cover the maturing T-bills for the just-ended month, albeit falling short of the gross target. On pricing, the domestic financing conditions tightened further for the Treasury with yields climbing faster across the 182-day and 364-day tenor. Yields went up across the curve in a month when fiscal risk intensified amidst the anti-government protests and Moody's downgrade of Kenya's sovereign ratings. 	<ul style="list-style-type: none"> The Kenyan Shilling was volatile in July 2024 with a 0.8% gain in the first week followed by 3.1% loss by 26th July before trimming the losses to post a m/m loss of 0.3%. Moody's downgrade of Kenya's sovereign credit appeared to rattle the KES with investor expectation of further downgrades by Fitch and S&P in August 2024. We also observed a 6.3% m/m drop in forex reserves to USD 7.3bn (or 3.8 months of imports), slightly below the statutory minimum requirement of 4.0-months. While we think the reserve drawdown largely reflect payment of USD 434.6mn of China EXIM bank loan in July 2024, we see emerging risk to the FX outlook as access to external market appears restricted by the sovereign downgrade to Caa1
Nigeria	<ul style="list-style-type: none"> It was a quiet month on the primary market for Nigerian Treasury Bills (NTBs) in July 2024 as the Treasury conducted only one auction of NTBs late-month. We observed a substantial decline in investor demand for NTBs in July 2024, reflecting the squeeze in Naira liquidity occasioned by the monetary tightening on 23rd July 2024. In view of the hawkish MPC decision prior to the NTB auction, yields surged across the T-bill curve. While we view the recent policy-induced spike in yields as necessary, we foresee heightened debt service pressure on the Treasury as Finance Minister, Wale Edun, pegged current debt service-to-revenue ratio at 68.0%. 	<ul style="list-style-type: none"> The Naira endured renewed depreciation pressure in July 2024 despite a 7.3% growth in gross FX reserves (USD 36.7bn), triggering CBN interventions across the spot market and Bureau De Change operators with total FX sale of USD 343.0mn. The USDNGN weakened by 6.4% m/m to 1,609/USD on the NAFEM while the parallel market lost 5.0% to 1,605/USD. We expect a slower depreciation in the month ahead as the latest policy rate hike tightens local currency liquidity amidst the lingering seasonal demand. The 1-month forward rate suggests a USDNGN FX rate of 1,639/USD.

Ghana Market Commentary

Fixed Income

Investor demand strengthened slightly by 8.9% m/m in July 2024 whereas the Treasury expectedly upscaled its weekly T-bill offers by 33.0% m/m, resulting in a 9.5% shortfall to gross target for the month. We attribute the increased target to the Treasury’s attempt to close the financing shortfall from 1H2024.

Total bids across the 91-day to the 364-day tenors came in at GHS 18.8bn, representing a m/m increase of 8.9% and broadly reflecting the higher T-bill maturities in the just-ended month. The Treasury accepted all bids submitted to exceed the maturing T-bills by 7.7%, although falling short of the higher target by 9.5%

With inflation declining at a slower-than-expected pace in June 2024 and the Treasury’s increased borrowing need, yield movement was mixed in July 2024. The 91-day (24.8%) and the 182-day (26.7%) yields inched down by 8bps and 6bps m/m, respectively. However, the 364-day yield (27.9%) inched up by 7bps m/m.

The total upcoming maturities across the T-bills in August 2024 is worth GHS 18.5bn, requiring an average weekly bid of GHS 4.6bn for full maturity coverage. We foresee elevated risk of uncovered auction in August as market conditions appear less supportive of the Treasury’s rolling upscale in Treasury offers. We however expect coupon payment on the restructured bonds (GHS 6.1bn) to prop-up demand in late August 2024.

Currency Market

The Cedi bears appeared fatigued in July 2024, allowing more restrained movement in the local currency (-1.5% m/m vs USD) amidst largely subdued FX trading sessions. Despite intermittent uptick in FX demand by the real sector, we believe the progress on Ghana’s external debt rework significantly helped to ease market uncertainty about the external debt service needs against available FX supply.

We expect the emerging stability to continue in August 2024 as interest rates remain sticky with the BOG’s policy rate maintained at 29.0%. However, expected coupon payments (GHS 6.1bn) could stir some FX pressures.

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%

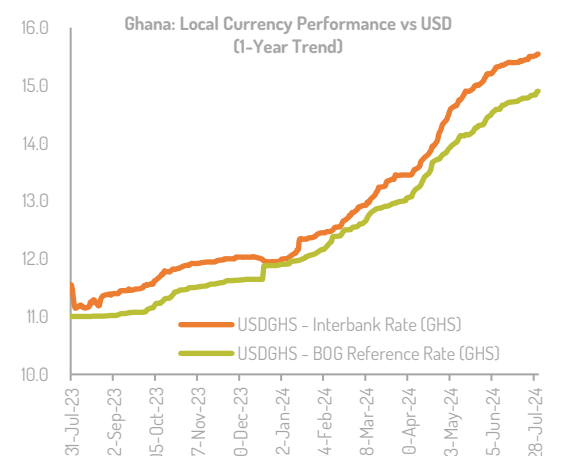
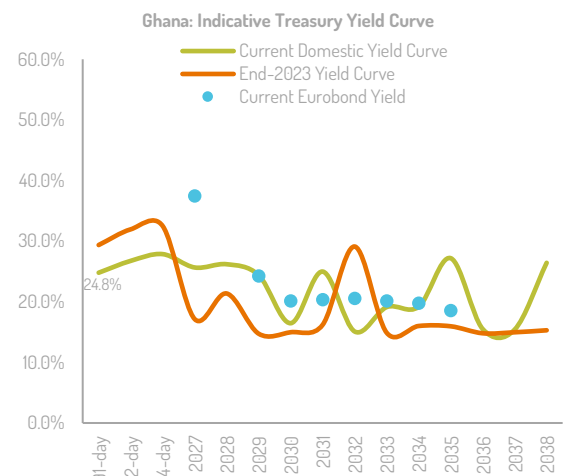
	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	24.79%	-8	-457
182-day	26.74%	-6	-521
364-day	27.86%	7	-464

	Upcoming Maturities* (Aug-2024)	Upcoming Target* (This week)	M/M Change in Maturities
91-day	11,380.43		-2.5%
182-day	5,934.33	4,363.0	26.0%
364-day	1,135.52		9.9%

*GHS Million

Spot Exchange Rate (GHS)			
	Current Mid-Rate	Last Month	M/M Change*
USDGHS	15.54	15.32	-1.47%
GBP GHS	19.91	19.32	-2.98%
EUR GHS	16.95	16.37	-3.43%

*Negative change means Depreciation while Positive change means Appreciation



Kenya Market Commentary

Fixed Income

Investors continue to favour the shorter-dated Treasury securities amidst the elevated interest rates environment and fiscal risk. This enabled adequate bids to cover the maturing T-bills for the just-ended month, albeit falling short of the gross target. On pricing, the domestic financing conditions tightened further for the Treasury with yields climbing faster across the 182-day and 364-day tenor.

Investors submitted total bids worth KES 123.1bn in July 2024, exceeding the previous month's bids by 15.2% while the Treasury accepted KES 105.9bn (+4.2% m/m). We observed a recovery in demand across the three tenors, following the softening of appetite in the prior month, while the 91-day tenor continues to dominate investors' preference. We think the rebound in demand for the 182-day and 364-day tenors was underpinned by yield pick-up strategy.

Yields went up across the curve in a month when fiscal risk intensified amidst the anti-government protests and Moody's downgrade of Kenya's sovereign ratings. The 91-day yield inched up 3bps m/m to 16.0%, the 182-day yield advanced by 11bps to 16.85%, while the 364-day yield settled higher at 16.92% (+17bps m/m). The higher nominal yields translated into an average inflation-adjusted yield of 12.3% in July 2024 (vs 11.9% in June 2024), with the double digit largely reflecting perceived fiscal risk.

Currency Market

The Kenyan Shilling was volatile in July 2024 with a 0.8% gain in the first week followed by 3.1% loss by 26th July before trimming the losses to post a m/m loss of 0.3%. Moody's downgrade of Kenya's sovereign credit appeared to rattle the KES with investor expectation of further downgrades by Fitch and S&P in August 2024. We also observed a 6.3% m/m drop in forex reserves to USD 7.3bn (or 3.8 months of imports), slightly below the statutory minimum requirement of 4.0-months.

While we think the reserve drawdown largely reflect payment of USD 434.6mn of China EXIM bank loan in July 2024, we see emerging risk to the FX outlook as access to external market appears restricted by the sovereign downgrade to Caa1.

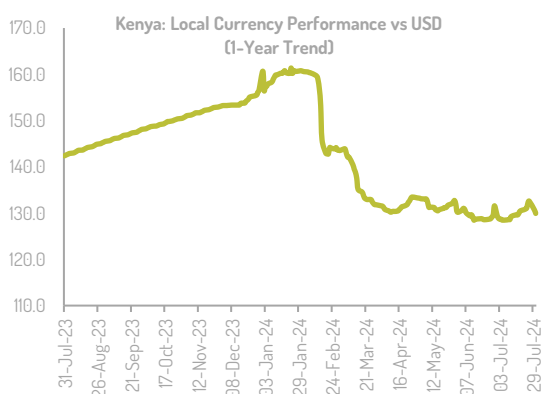
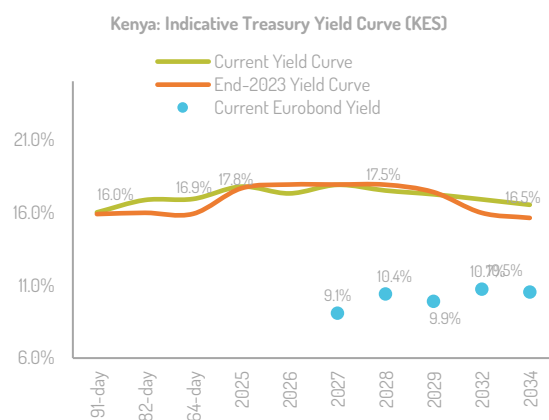
	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	16.00%	3	12
182-day	16.85%	11	88
364-day	16.92%	17	102

	Upcoming Maturities* (Aug-2024)	Upcoming Target* (This Week)	M/M Change in Maturities
91-day	46,800.94		17.7%
182-day	27,689.88	24,000.00	11.9%
364-day	5,919.09		-31.4%

*KES Million

Spot Exchange Rate (KES)			
	Current Mid-Rate	Last Month	M/M Change*
USDKES	129.66	129.25	-0.32%
GBPKES	166.07	163.44	-1.59%
EURKES	139.85	138.52	-0.95%

*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%	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

Nigeria Market Commentary

Fixed Income

It was a quiet month on the primary market for Nigerian Treasury Bills (NTBs) in July 2024 as the Treasury conducted only one auction of NTBs late-month. We observed a substantial decline in investor demand for NTBs in July 2024, reflecting the squeeze in Naira liquidity occasioned by the monetary tightening on 23rd July 2024.

Investors submitted total bids worth NGN 373.9bn across the 91-day to the 364-day tenors at the sole auction in the month. The bid size represented 1.3x the offer amount in July 2024, a marked reduction in the coverage ratio from the 3.8x recorded in June 2024. The Treasury accepted NGN 277.9bn with 93.0% allotted to the 364-day tenor.

In view of the hawkish MPC decision prior to the NTB auction, yields surged across the T-bill curve with the 91-day stop rate climbing 220bps m/m to 18.5% while the 182-day rate gained 206bps to 19.5%. The 364-day stop rate increased by 160bps m/m to 22.1%, pushing closer to the secondary market True Yield of 26.2% at the time of the auction.

While we view the recent policy-induced spike in yields as necessary, we foresee heightened debt service pressure on the Treasury as Finance Minister, Wale Edun, pegged current debt service-to-revenue ratio at 68.0%. Despite the uptick in nominal yields, inflation-adjusted yields remain in negative territory. This suggests elevated nominal yields in the near-term with the FGN targeting year-end inflation of between 20.0% – 25.0%.

Currency Market

The Naira endured renewed depreciation pressure in July 2024 despite a 7.3% growth in gross FX reserves (USD 36.7bn), triggering CBN interventions across the spot market and Bureau De Change operators with total FX sale of USD 343.0mn. The USDNGN weakened by 6.4% m/m to 1,609/USD on the NAFEM while the parallel market lost 5.0% to 1,605/USD.

We expect a slower depreciation in the month ahead as the latest policy rate hike tightens local currency liquidity amidst the lingering seasonal demand. The 1-month forward rate suggests a USDNGN FX rate of 1,639/USD.

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

	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	18.50%	220	1,150
182-day	19.50%	206	950
364-day	22.10%	160	986

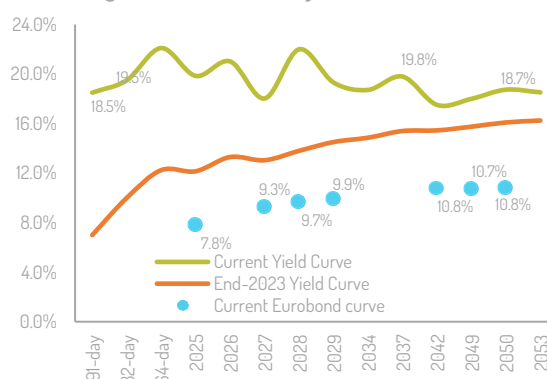
Selected Macroeconomic Indicators			
	Latest Available	Same Period Last Year	YoY Change (bps)
Inflation*	33.95%	22.41%	11.54%
GDP growth**	2.98%	2.31%	0.67%
MPR	26.25%	18.50%	7.75%

*May 2024 | **1Q2024

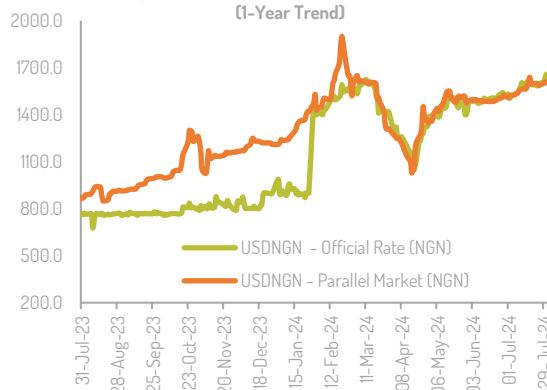
Official Spot Exchange Rate (NGN)			
	Current Mid-Rate	Last Month	M/M Change
USDNGN	1514.28	1487.00	-1.80%
GBPNGN	1914.88	1877.41	-1.96%
EURNGN	1622.32	1575.91	-2.86%

*Negative change means Depreciation while Positive change means Appreciation

Nigeria: Indicative Treasury Yield Curve (NGN)

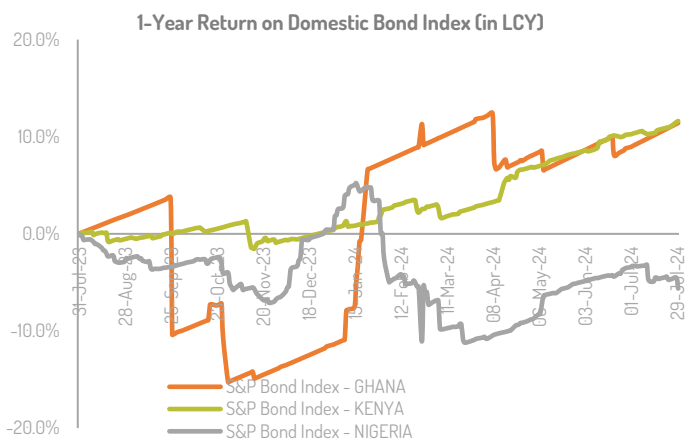


Nigeria: Local Currency Performance vs USD (1-Year Trend)

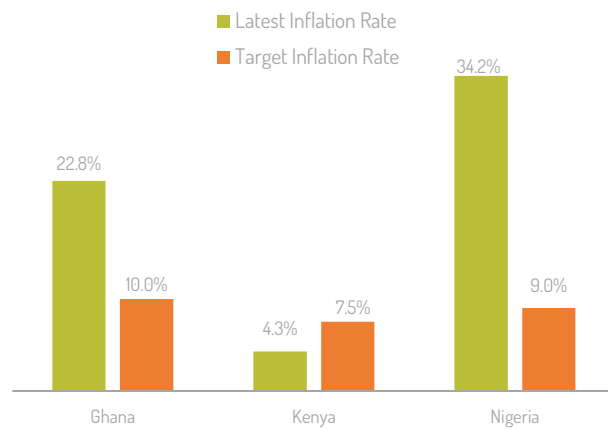


Comparative Yields for Domestic Treasury Bonds in LCY and USD-adjusted Rates						
	Ghana		Kenya		Nigeria	
	GHS Yield	USD-adjusted Yield	KES Yield	USD-adjusted Yield	NGN Yield	USD-adjusted Yield
2027	25.65%	13.28%	17.30%	6.44%	18.03%	3.33%
2028	26.19%	13.76%	17.88%	6.96%	22.00%	6.80%
2029	24.39%	12.14%	17.50%	6.62%	19.32%	4.46%
2030	16.46%	4.99%	17.37%	6.50%	19.87%	4.94%
2031	24.98%	12.67%	17.50%	6.62%	20.36%	5.37%
2032	15.09%	3.76%	17.24%	6.38%	18.96%	4.14%
2033	19.12%	7.39%	16.62%	5.81%	19.56%	4.67%

Source: Bloomberg, IC Insights

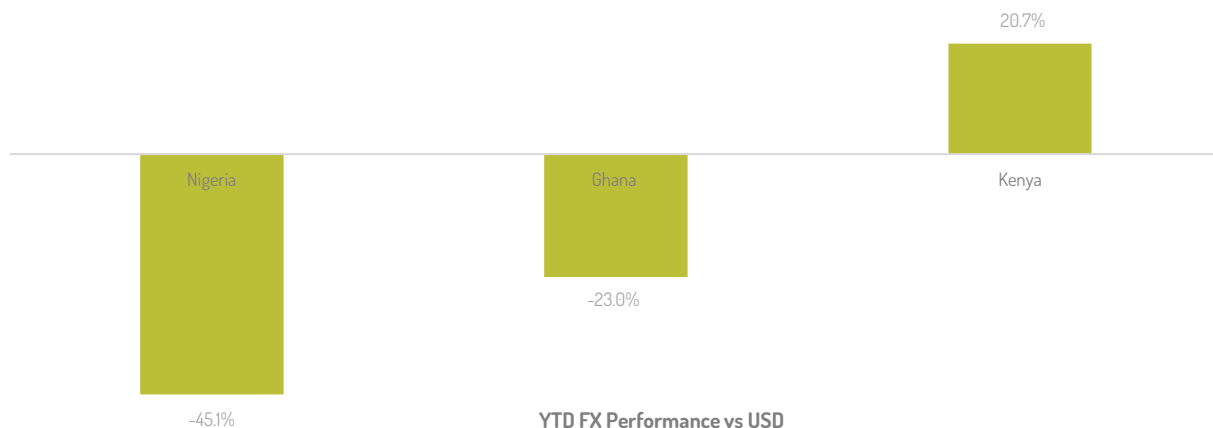


Source: S&P Global



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	15.54	-1.5%	-23.0%	19.91	-3.0%	-23.5%	16.95	-3.4%	-22.2%
Kenya	129.66	-0.3%	20.7%	166.07	-1.6%	20.2%	139.85	-1.0%	24.2%
Nigeria	1661.00	-8.8%	-45.1%	2135.46	-10.3%	-45.6%	1798.12	-9.8%	-44.8%



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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