GHANA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

GHANA MPC UPDATE:

GOING JUMBO ON DOVISHNESS

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IN BRIEF

- The Monetary Policy Committee (MPC) of Ghana's Central Bank was expectedly in a dovish mood at the September 2024 MPC meeting. However, the Committee was more bullish than our bull case as the stars aligned for continued stability of the Ghanaian Cedi amidst improving balance of payments position and a sustained disinflation. Against this backdrop, the MPC delivered a 200bps cut in the policy rate to 27.0%, sharper than our expected maximum cut of 150bps and the market's anticipation of a 100bps reduction.

- Our analysis of the headline and core CPI revealed a faster moderation in underlying inflationary pressures than suggested by the headline inflation. This ostensibly boosted the MPC's dovishness beyond our bull case for a rate cut. Our inflation forecast suggests a sharper decline for September (compared to the drop in August) and most likely widens the ex-ante real policy rate to 10.0% (vs the ex-post real policy rate of 8.6% in August). Judging from its forecast, we believe the MPC considered the double-digit ex-ante real policy rate as a strong case for a 200bps cut to restore the status quo of real policy rate around the 8.0% area.

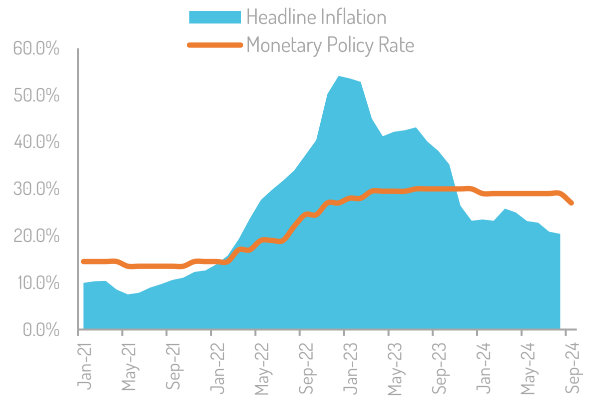
- However, we are less convinced that the dovish policy tilt will immediately revive downward pressure on T-bill rates due to the Treasury's elevated borrowing appetite which is underpinned by higher T-bill maturities and deficit financing needs.

- The updated monetary data from the MPC showed persistent rise in currency outside banks, which remains a key concern for us. The BOG Governor downplayed this risk, citing the strong growth in real output. However, we remain cautious ahead of election-related spendings in 4Q2024 funded with idle Cedi liquidity outside banks. In our opinion, the BOG's launch of the Ghana Gold Coin also underscores the authorities' realisation of the need to mop up extra Cedi liquidity using Gold's store of value appeal to counter potential demand for FX and price pressures.

More bullish than the bulls

The Monetary Policy Committee (MPC) of Ghana's Central Bank was expectedly in a dovish mood at the September 2024 MPC meeting. However, the Committee was more bullish than our bull case as the stars aligned for continued stability of the Ghanaian Cedi amidst improving balance of payments position and a sustained disinflation. Against this backdrop, the MPC delivered a 200bps cut in the policy rate to 27.0%, sharper than our expected maximum cut of 150bps and the market's anticipation of a 100bps reduction.

INFLATION AND POLICY RATE PATH SINCE 2021



SOURCE: BANK OF GHANA, GHANA STATISTICAL SERVICE, IC INSIGHTS

The sharper deceleration in core inflation seemingly boosted the MPC's dovishness. Following the unsurprising spike to 25.8% y/y in March 2024, headline inflation returned to a downward path in the ensuing months with a cumulative drop of 540bps in the 5-months to August 2024 at 20.4% y/y. More impressively, core inflation declined sharply by 690bps to 19.4% over the same period. This suggests a faster moderation in underlying inflationary pressures than indicated by the headline inflation and ostensibly boosted the MPC's dovishness beyond our bull case for a rate cut. Our analysis of the headline and core CPI revealed a sustained cool-off in underlying price pressure as the pace of decline in core inflation quickened in the past 6-months. In April 2024, core inflation fell below the headline rate by 20bps, the first time in 13-months, with the faster decline widening the gap to 100bps below the headline rate in August 2024. This fast-paced easing of underlying inflation emboldened the doves at the MPC meeting.

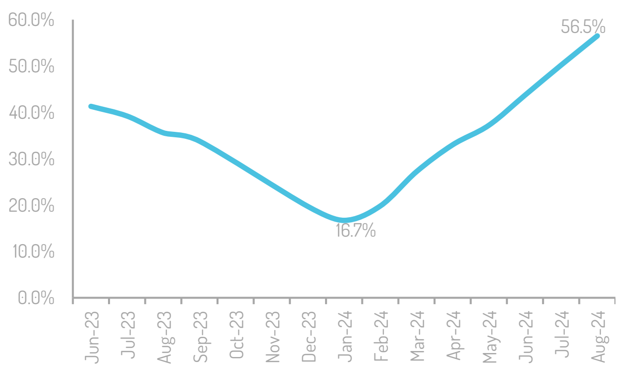
Consistent with our inflation outlook, the Committee's latest forecast confirmed that the disinflation process remains on track, maintaining confidence in achieving its end-2024 target range of 13.0% – 17.0% with a single digit outturn by end-2025. While the surprise disinflation in August 2024 boosts our end-2024 optimism, we remain cautious on the election-related risk factors in 4Q2024. However, our inflation forecast suggests a sharper decline for September (compared to the drop in August) and most likely widens the ex-ante real policy rate to 10.0% (vs the ex-post real policy rate of 8.6% in August). Judging from its forecast, we believe the MPC considered the double-digit ex-ante real policy rate as a strong case for a 200bps cut to restore the status quo of real policy rate around the 8.0% area.

We are less convinced that the dovish policy tilt will immediately revive downward pressure on T-bill rates. Prior to 24th September 2024, the 56-day Bank of Ghana (BOG) bills which were issued at the policy rate of 29.0% provided stiff competition for the 91-day to 364-day T-bills which offered between 25.0% and 28.0%. Consequently, banks maximized the yield on their investment portfolios with the BOG bills amidst muted placement in the T-bills. Within this context, we view the policy rate cut as eliminating the spread between BOG bill and T-bill rates with expectation of redirecting demand to T-bill offers.

However, we observed intensified borrowing appetite from the Treasury in 3Q2024 with overwhelming offers underpinned by higher T-bill maturities and deficit financing pressures. Although investors continue to largely rollover maturing T-bills, the muted demand for additional placements has triggered renewed upturn in yields for T-bills. In view of this, we expect the upward pressure from the Treasury's strong borrowing appetite to offset the downward pressure from the latest policy rate cut, keeping T-bill rates between the mid-20% to the high-20% range in the one to two months ahead.

We opt to stay cautious although the BOG downplayed the risk from the relentless growth in currency outside banks. In our July 2024 MPC update, we flagged the renewed growth in currency outside banks as a risk to price and FX stability. The updated monetary data from the latest MPC showed persistent rise in currency outside banks, which remains a key concern for us. The BOG Governor downplayed this risk, citing the strong growth in real output. However, we remain cautious ahead of election-related spendings in 4Q2024 funded with idle Cedi liquidity outside banks. In our opinion, the BOG's launch of the Ghana Gold Coin also underscores the authorities' realisation of the need to mop up extra Cedi liquidity using Gold's store of value appeal to counter potential demand for FX and price pressures.

GROWTH IN CURRENCY OUTSIDE BANKS (YoY)



SOURCE: BANK OF GHANA, IC INSIGHTS

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