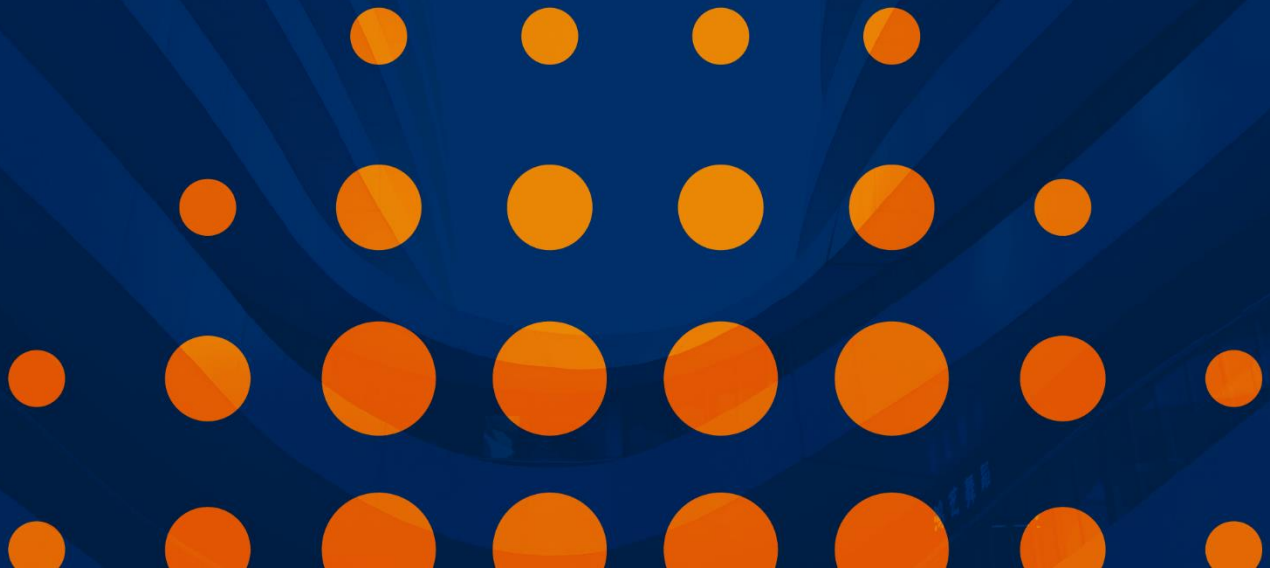




Market Insights | Pan-Africa | News & Analysis

IC FIXED INCOME & CURRENCY GUIDE

02 SEPTEMBER 2024



REPORT SUMMARY

COUNTRY	FIXED INCOME	CURRENCY
Ghana	<ul style="list-style-type: none"> Investor demand in the primary market for Ghanaian Treasury bills edged up by 1.1% m/m in August 2024. However, the Treasury increased its T-bills target by 2.4% m/m, thereby widening the uncovered auction to 10.6% or GHS 2.25bn (vs 9.5% or GHS 1.96bn shortfall in July 2024). We observed that while the net issuance target for August fell by GHS 539.3mn m/m to GHS 2.8bn, the refinancing obligation for the month surged by GHS 1.0bn to GHS 18.5bn, preventing a sharper drop in yields. We estimate the total T-bill maturities in September 2024 at GHS 22.1bn, representing a 20.0% (or GHS 3.7bn) m/m upsurge in refinancing obligation. This will require an average weekly bid of over GHS 4.4bn to fully cover only the maturities without accounting for the net issuance target. Given the prevailing demand conditions, we foresee lingering risk of uncovered auctions with stickiness in yields, although the maturity coverage may be achieved. On the bond market, we saw emerging offshore interest in the General category DDEP bonds as FED's dovish tilt revives risk-on appetite while PIK structure nears end, making easier pricing. 	<ul style="list-style-type: none"> The Cedi's fortune improved further in August 2024 as the pace of depreciation slowed for the third straight month on the back of a globally weaker US Dollar and enhanced Central Bank FX sales. The Bank of Ghana conducted surprise 7-day FX forward sales in four separate transactions, selling a combined USD 119.1mn against a target size of USD 215.0mn. We believe the BOG's upscaled support was against the FX risk associated with the GHS 6.1bn coupon payment on the DDEP bonds. In the month ahead, we anticipate continued stability with rangebound drift as a dovish FED continues to restrain the US Dollar with support for the Cedi. However, the drought-induced need for higher food import could pose FX risk.
Kenya	<ul style="list-style-type: none"> Kenyan Treasury yields declined in August 2024 on the back of ongoing disinflation, Central Bank's policy rate cut, and continued stability of the Shilling, although investor appetite for the T-bills softened. We believe the demand dynamics reflect emerging portfolio rebalancing in favour of slightly longer tenors to lock-in higher yields as yield downturn begins despite lingering fiscal risk. In the month ahead, we expect continued decline in yields as a well-anchored inflation expectation combines with the dovish monetary policy outlook to lower investors' interest rate expectations. 	<ul style="list-style-type: none"> The KES was relatively stable against the US Dollar in August 2024 despite the raft of credit downgrades by Fitch and S&P after Moody's' downgrade in July amidst the lingering fiscal risks. Foreign exchange reserves also stabilized with an upward bias (+1.0% m/m) to USD 7.3bn (3.8months of import cover) amidst ongoing disinflation, widening real yields and carry trade opportunity for offshore investors. The KES closed the month with a 0.6% m/m gain vs the USD with prospect for continued stability, albeit with lingering fiscal risks. Given the FED's dovish tilt, we expect a pickup in risk-on positioning by offshore investors with KES as a likely beneficiary.
Nigeria	<ul style="list-style-type: none"> The Treasury's cumulative target of NGN 626.1bn attracted total bids worth NGN 1.5tn, exceeding the target by 142% as investor appetite for the short-term securities remained strong. However, the Treasury accepted only NGN 507.1bn (one-third of the bids), representing 81.0% of the target amount and the T-bill maturities for the month. Yields fell across the curve with the stop rate for the 91-day and 182-day tenors dropping by 30bps each to touch 18.2% and 19.2%, respectively. The 364-day stop rate declined the sharpest, plummeting by 120bps m/m to 20.9%. In our view, the downtick in yields reflects improved sentiment occasioned by the drop in annual inflation for July 2024 with further disinflation expected in the months ahead. 	<ul style="list-style-type: none"> The Nigerian Naira was largely stable in August 2024 as the Central Bank injected USD 815.4mn via retail Dutch Auction System against total bids worth USD 1.2bn. The successful bids allotted were quoted at a USD/NGN range of 1,495 – 1,650/USD, providing a forward guidance for the USD/NGN FX rate. Consequently, the Naira appreciated by 0.6% m/m against the US Dollar in August 2024 We foresee continued stability in the month ahead as issuance of USD 500mn domestic USD bond attracts offshore flows. Inflation commenced a downturn in August and we expect further declines in the months ahead to ease the selling pressure on the Naira.

Ghana Market Commentary

Fixed Income

Investor demand in the primary market for Ghanaian Treasury bills edged up by 1.1% m/m in August 2024. However, the Treasury increased its T-bills target by 2.4% m/m, thereby widening the uncovered auction to 10.6% or GHS 2.25bn (vs 9.5% or GHS 1.96bn shortfall in July 2024). We observed that while the net issuance target for August fell by GHS 539.3mn m/m to GHS 2.8bn, the refinancing obligation for the month surged by GHS 1.0bn to GHS 18.5bn.

The total bids submitted and accepted at the auctions were worth GHS 18.96bn against a total target of GHS 21.21bn, representing 10.6% underperformance at the T-bill auctions in August 2024. While the uptake was more than enough to refinance the GHS 18.5bn T-bill maturities for the month, the prevailing market conditions were unable to support the net issuance target of GHS 2.8bn.

Yields were downwardly sticky with the 91-day closing flat at 24.79%, despite intra-month uptick. However, the 182-day and the 364-day yields inched down by 6bps and 4bps m/m, respectively to 26.69% and 27.81%.

We estimate the total T-bill maturities in September 2024 at GHS 22.1bn, representing a 20.0% (or GHS 3.7bn) m/m upsurge in refinancing obligation. This will require an average weekly bid of over GHS 4.4bn to fully cover only the maturities without accounting for the net issuance target. Given the prevailing demand conditions, we foresee lingering risk of uncovered auction with stickiness in yields, although the maturity coverage may be achieved. On the bond market, we saw emerging offshore interest in the General category DDEP bonds as FED's dovish tilt revives risk-on appetite while PIK structure nears end.

Currency Market

The Cedi's fortune improved further in August 2024 as the pace of depreciation slowed for the third straight month on the back of a globally weaker US Dollar and enhanced Central Bank FX sales. The Bank of Ghana conducted surprise 7-day FX forward sales in four separate transactions, selling a combined USD 91.1mn against a target size of USD 165.0mn. We believe the BOG's upscaled support was against the FX risk associated with the GHS 6.1bn coupon payment on the DDEP bonds.

In the month ahead, we anticipate continued stability with rangebound drift as a dovish FED continues to restrain the US Dollar with support for the Cedi. However, the drought-induced need for higher food import could pose FX risk.

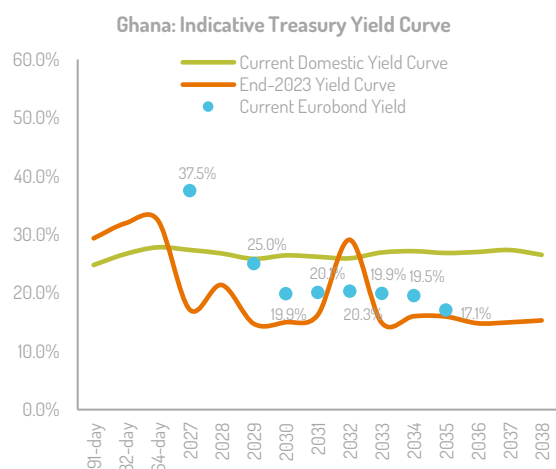
	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	24.79%	UNCH	-457
182-day	26.69%	-6	-526
364-day	27.81%	-4	-468

	Upcoming Maturities* (Sep-2024)	Upcoming Target* (This week)	M/M Change in Maturities
91-day	14,996.92		31.8%
182-day	5,684.06	5,604	-4.2%
364-day	1,465.66		29.1%

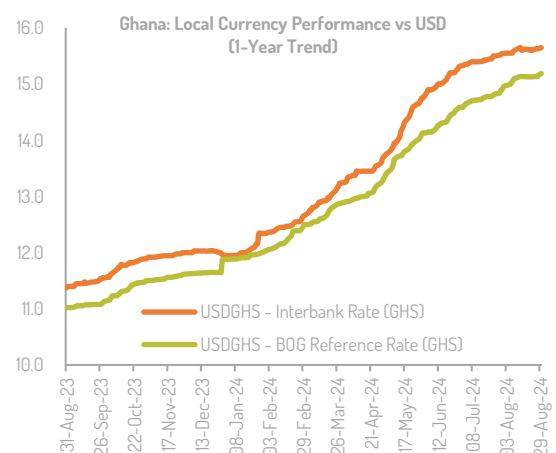
*GHS Million

Spot Exchange Rate (GHS)			
	Current Mid-Rate	Last Month	M/M Change*
USDGHS	15.65	15.54	-0.66%
GBP GHS	20.51	19.91	-2.91%
EUR GHS	17.26	16.95	-1.80%

*Negative change means Depreciation while Positive change means Appreciation



Local Currency "General Category" Bonds (GHS)				Ghana Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Feb-27	8.35%	66.76	27.36%	Jan-26	8.13%	60.76%
Feb-28	8.50%	59.67	26.77%	Feb-27	6.38%	36.12%
Feb-29	8.65%	55.21	25.84%	Mar-27	7.88%	37.53%
Feb-30	8.80%	49.61	26.43%	Apr-29	7.75%	25.83%
Feb-31	8.95%	46.64	26.19%	May-29	7.63%	25.01%
Feb-32	9.10%	44.59	25.93%	Oct-30	10.75%	19.86%
Feb-33	9.25%	40.97	26.93%	Mar-32	8.13%	20.31%
Feb-34	9.40%	39.33	27.15%	Apr-34	8.63%	19.55%
Feb-35	9.55%	38.98	26.84%	Feb-35	7.88%	17.06%
Feb-36	9.70%	38.13	27.02%	May-42	8.88%	17.23%
Feb-37	9.85%	37.30	27.35%	Jun-49	8.63%	16.15%
Feb-38	10.00%	38.51	26.53%	Mar-51	8.95%	16.92%
				Mar-61	8.75%	16.50%



Kenya Market Commentary

Fixed Income

Kenyan Treasury yields headed south in August 2024 on the back of ongoing disinflation, Central Bank's policy rate cut, and continued stability of the Shilling although investor appetite for the T-bills softened during the month.

Total bids submitted across the T-bills in August 2024 were worth KES 108.6bn, less than the bids tendered in the prior month by 11.8%. Our review of the bid dynamics showed a m/m decline in demand for the 91-day and 364-day tenors with a slight uptick in demand for the 182-day. We think this demand dynamics reflect emerging portfolio rebalancing in favour of slightly longer tenors to lock-in higher yields as yield downturn begins. The Treasury accepted KES 100.1bn out of the total bids submitted to fall short of the prior month's uptake by 5.5%.

Yields went down across the T-bills as disinflation provided a tailwind while the Central Bank's dovish tilt added further downside impetus. The 91-day yield shed 21bps m/m to 15.79%, the 182-day yield trimmed 18bps to 16.67% while the 364-day yield closed lower by 6bps to 16.86%.

In the month ahead, we expect continued decline in yields as a well-anchored inflation expectation combines with the dovish monetary policy outlook to lower investors' interest rate expectations. In view of this, the Treasury received strong demand of KES 126.3bn (2.5x target) at the dual re-opening of the May-2030 and the Feb-2039 infrastructure bonds as investors sought to lock-in higher yields.

Currency Market

The KES was relatively stable against the US Dollar in August 2024 despite the raft of credit downgrades by Fitch and S&P after Moody's' downgrade in July amidst the lingering fiscal risks. Foreign exchange reserves also stabilized with an upward bias (+1.0% m/m) to USD 7.3bn (3.8months of import cover) amidst ongoing disinflation, widening real yields and raising the carry trade opportunity for offshore investors.

The KES closed the month with a 0.6% m/m gain vs the USD with prospect for continued stability, albeit with lingering fiscal risks. With the FED's dovish tilt, we expect a pickup in risk-on positioning by offshore investors with KES as a likely beneficiary.

	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	15.79%	-21	-9
182-day	16.67%	-18	70
364-day	16.86%	-6	96

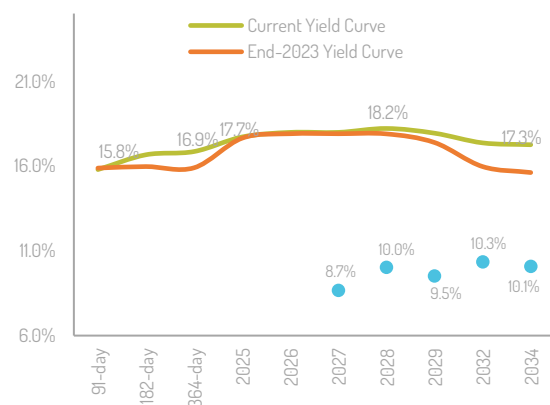
	Upcoming Maturities* (Sep-2024)	Upcoming Target* (This Week)	M/M Change in Maturities
91-day	58,277.24		24.5%
182-day	21,433.02	24,000.00	-22.6%
364-day	6,590.40		11.3%

*KES Million

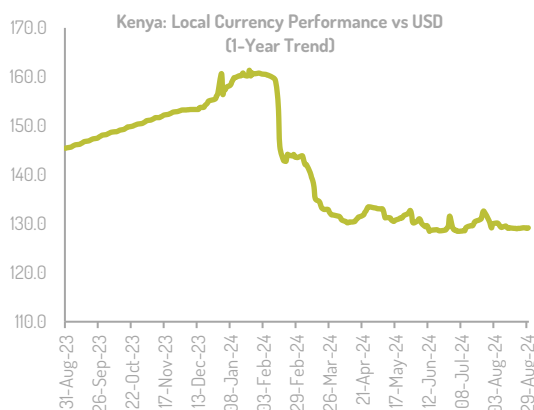
Spot Exchange Rate (KES)			
	Current Mid-Rate	Last Month	M/M Change*
USDKES	128.78	129.66	0.69%
GBPKES	168.95	166.07	-1.71%
EURKES	142.29	139.85	-1.71%

*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%	96.62	17.36%	Jun-24	6.88%	8.69%
May-25	11.67%	96.87	16.71%	May-27	7.00%	10.03%
Nov-26	11.28%	88.65	17.72%	Feb-28	7.25%	10.35%
Jul-27	12.97%	89.02	17.99%	May-32	8.00%	10.09%
Feb-28	11.25%	83.22	17.99%	Jan-34	6.30%	10.09%
Aug-28	12.69%	85.00	18.15%	Feb-48	8.25%	10.68%
Dec-28	12.50%	83.46	18.22%			
Feb-29	12.44%	82.82	18.22%			
May-31	10.00%	69.72	17.94%			
Nov-32	12.00%	76.92	17.37%			
Jan-34	12.86%	79.84	17.26%			
Jul-34	12.34%	79.64	16.59%			



Source: Central Bank of Kenya, Bloomberg, IC Insights

Nigeria Market Commentary

Fixed Income

The Nigerian Treasury returned to the primary market for T-bills in August after a quiet July 2024. The Treasury’s cumulative target of NGN 626.1bn attracted total bids worth NGN 1.5tn, exceeding the target by 142% as investor appetite for the short-term securities remained strong. However, the Treasury accepted only NGN 507.1bn (one-third of the bids), representing 81.0% of the target amount and the T-bill maturities for the month.

Yields fell across the curve with the stop rate for the 91-day and 182-day tenors dropping by 30bps each to close August 2024 at 18.2% and 19.2%, respectively. The 364-day stop rate declined the sharpest, plummeting by 120bps m/m to 20.9%.

In our view, the downtick in yields reflects improved sentiment occasioned by the drop in annual inflation print for July 2024. We believe this is the start of disinflation on the back of favourable base effect and suspension of import duties and taxes on imported food commodities. We thus believe Nigeria’s monetary policy committee has reached the peak of its rate hiking cycle. We however do not expect sustained decline in yields as the authorities would seek to sustain investor confidence with positive real yields.

The Treasury also launched a maiden domestic USD bond worth USD 500mn with a pricing supplement of 9.75% and a 5-year tenor with additional series expected to be issued in the near-term. We view the pricing for this offer as competitive against the Mar-29 (coupon: 8.375%) Eurobond yield of 9.7% at the time of pricing the offer.

Currency Market

The Naira was largely stable in August 2024 as the Central Bank injected USD 815.4mn via retail Dutch Auction System against total bids worth USD 1.2bn. The successful bids allotted were quoted at a USDNGN range of 1,495 – 1,650/USD, providing a forward guidance for the USDNGN FX rate. Consequently, the Naira appreciated slightly by 0.6% m/m against the US Dollar in August 2024.

We foresee continued stability in the month ahead as issuance USD 500mn domestic USD bond attracts offshore flows. Inflation commenced a downturn in August and we expect further declines in the months ahead to ease the selling pressure on the Naira.

	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	18.20%	-30	1,120
182-day	19.20%	-30	920
364-day	20.90%	-120	866

Selected Macroeconomic Indicators

	Latest Available	Same Period Last Year	YoY Change (bps)
Inflation*	33.40%	24.08%	9.32%
GDP growth**	3.19%	2.51%	0.68%
MPR	26.25%	18.50%	7.75%

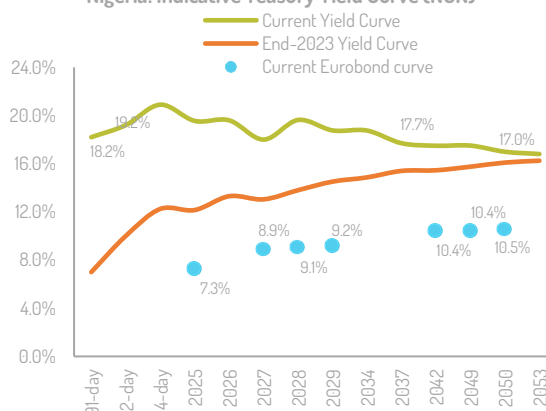
*July 2024 | **2020Q4

Official Spot Exchange Rate (NGN)

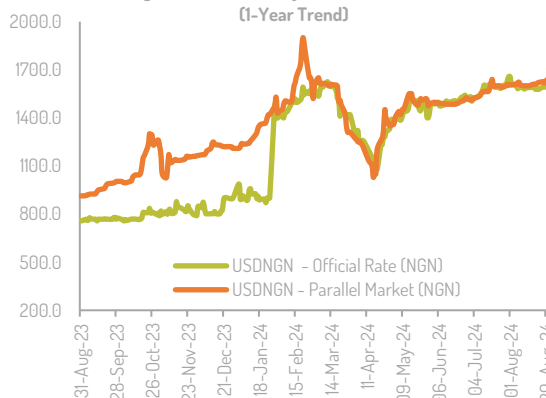
	Current Mid-Rate	Last Month	M/M Change
USDNGN	1591.82	1661.00	4.35%
GBPNGN	2089.51	2135.46	2.20%
EURNGN	1770.74	1798.12	1.55%

*Negative change means Depreciation while Positive change means Appreciation

Nigeria: Indicative Treasury Yield Curve (NGN)



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

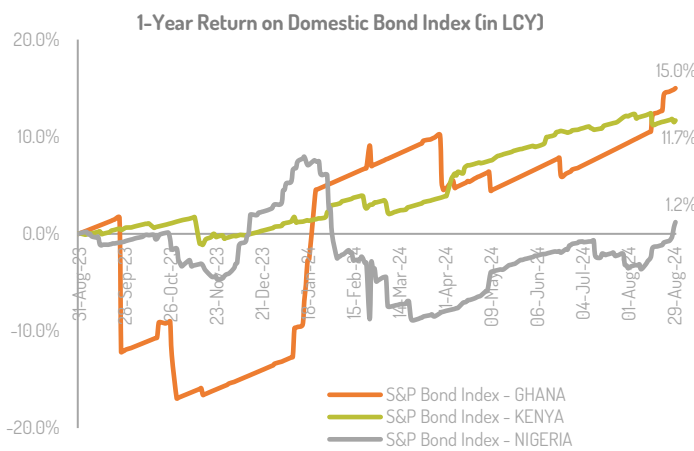


Local Currency Bonds (NGN)				Nigeria Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Apr-29	14.55%	85.08	19.55%	Nov-25	7.63%	7.30%
Feb-31	18.50%	96.04	19.60%	Nov-27	6.50%	8.91%
Apr-32	12.50%	77.54	18.00%	Sep-28	6.13%	9.07%
Feb-34	19.00%	97.31	19.63%	Mar-29	8.38%	9.17%
Jul-34	12.15%	70.70	18.76%	Feb-30	7.14%	9.35%
Mar-35	12.50%	71.65	18.75%	Jan-31	8.75%	9.66%
Mar-36	12.40%	70.87	18.61%	Feb-32	7.88%	9.97%
Apr-37	16.25%	88.38	18.66%	Sep-33	7.38%	10.09%
Jun-38	15.45%	88.43	17.70%	Feb-38	7.70%	10.43%
Jan-42	13.00%	75.69	17.49%	Nov-47	7.63%	10.43%
Apr-49	14.80%	84.75	17.50%	Jan-49	9.25%	10.43%
Mar-50	12.98%	76.71	16.99%	Mar-51	8.25%	10.66%
Jun-53	15.70%	93.44	16.80%			

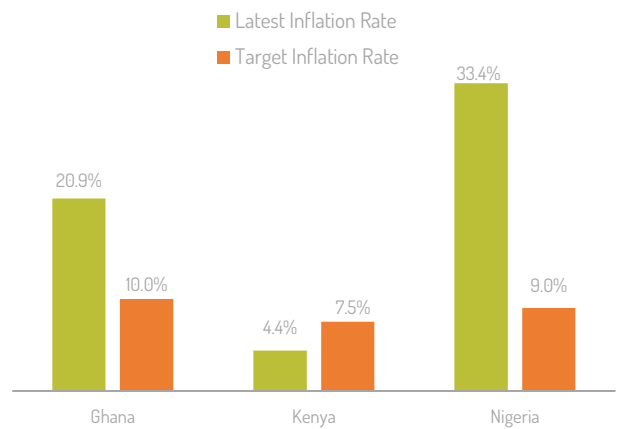
Source: FMDQ, Bloomberg, Central Bank of Nigeria, National Bureau of Statistics, IC Insights

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	27.36%	16.26%	17.99%	6.78%	18.00%	3.70%
2028	26.77%	15.72%	18.22%	6.99%	19.63%	5.13%
2029	25.84%	14.87%	18.22%	6.99%	18.76%	4.36%
2030	26.43%	15.41%	18.08%	6.86%	19.18%	4.73%
2031	26.19%	15.19%	18.22%	6.99%	19.19%	4.74%
2032	25.93%	14.95%	17.94%	6.74%	18.69%	4.30%
2033	26.93%	15.86%	16.98%	5.87%	18.23%	3.90%

Source: Bloomberg, IC Insights

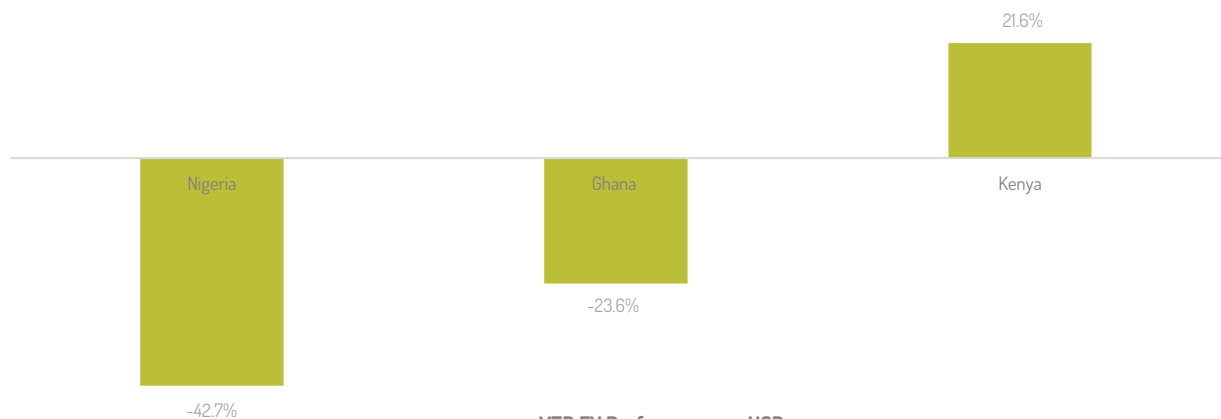


Source: S&P Global



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	15.65	-0.7%	-23.6%	20.51	-2.9%	-25.7%	17.26	-1.8%	-23.6%
Kenya	128.78	0.7%	21.6%	168.95	-1.7%	18.1%	142.29	-1.7%	22.1%
Nigeria	1591.82	4.3%	-42.7%	2089.51	2.2%	-44.5%	1770.74	1.5%	-44.0%



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



For more information contact your IC representative

Business Development & Client

Derrick Mensah

Head, Business Development
+233 24 415 5765
derrick.mensah@ic.africa

Kelvin Quartey

Analyst, Business Development
+233 57 6042802
Kelvin.quartey@ic.africa

Dora Youri

Head, Wealth Management
+233 23 355 5366
dora.youri@ic.africa

Corporate Access

Joanita Hotor

Corporate Access
+233 50 137 6100
joanita.hotor@ic.africa

Insights

Courage Kingsley Martey

Head, Insights
+233 240 970 832
courage.martey@ic.africa

Churchill Ogutu

Economist
+254 711 796 739
churchill.ogutu@ic.africa

Emmanuel Dadzoe

Analyst, FMCG, OMC, Telecoms
++233 30 825 0051
Emmanuel.dadzoe@ic.africa

Investing

Isaac Adomako Boamah

Chief Investment Officer
030 225 2623
isaac.boamah@ic.africa

Obed Odenteh

Portfolio Manager, Fixed Income
+233 54 707 3464
obed.odenteh@ic.africa

Timothy Schandorf

Portfolio Manager, Risk Assets
+233 24 292 2154
timothy.schandorf@ic.africa

Herbert Dankyi

Portfolio Manager
+233 55 710 6971
herbert.dankyi@ic.africa

Clevert Boateng

Analyst, Risk Assets.
+233 24 789 0452
Clevert.boateng@ic.africa

Operations

Nana Amoah Ofori

Chief Operating Officer
+233 24 220 6265
nanaamoah.ofori@ic.africa

Emmanuel Amoah

Fund Administrator
+233 20 847 2245
emmanuel.amoah@ic.africa

Kelly Addai

Fund Accountant
+233 20 812 0994
kelly.addai@ic.africa

Trading

Randy Ackah-Mensah

Head, Global Markets
+233 24 220 6265
randy.mensah@ic.africa

Allen Anang

Trader, Equities
+233 54 084 8441
allen.anang@ic.africa

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