Market Insights | Pan-Africa | News & Analysis

IC FIXED INCOME & CURRENCY GUIDE

01 OCTOBER 2024

REPORT SUMMARY

COUNTRY	FIXED INCOME	CURRENCY
Ghana	• Investor demand for Ghanaian Treasury bills strengthened in September but the Treasury's increased target outweighed the demand conditions, resulting in a wider shortfall in uptake vs target. Consequently, Treasury yields ticked higher across the curve with a potential to remain unresponsive to the latest policy rate cut in the immediate term due to the Treasury's higher borrowing need. • We note that the 200bps cut in the policy rate to 27.0% has boosted the pricing appeal of T-bills relative to BOG bills and could potentially improve demand for the former. However, we are less optimistic about an immediate decline in yields for T-bills as the upside risk from the Treasury's strong borrowing pressure remains high.	• The Cedi's improved fortunes extended into September 2024 amidst continued Central Bank support via the 7-day FX forwards (USD 101.1mn ǀ +11.1% m/m), the bi-weekly 30-day forwards to oil importers (USD 20.0mn) and the FED's dovish tilt which revived risk-on positioning among offshore investors. However, we saw an uptick in FX demand in the final week of the month as importers start to stock up ahead of the year-end festivities. • We view the rising FX demand by importers ahead of the year-end festivities as a risk to the Cedi's stability in 4Q2024. This could be compounded by safe-haven demand for FX ahead of the elections in December. However, we expect sustained BOG intervention to mitigate the depreciation risk ahead.
Kenya	• Investor appetite strengthened for the 91-day and 364-day tenors, supporting a m/m upsurge in total bids for Kenyan Treasury bills in September 2024 with a slight downshift in the yield curve. • Yields continued the downtick for the second straight month, albeit slower than the prior month and more sluggish than expected despite risk-on appetite from offshore investors and dovish signal by the Central Bank. We expect the CBK to sustain its dovishness at the October MPC meeting with a resultant downward pressure on yields.	• The Kenyan Shilling was virtually static in September 2024 holding firm around 129.2/USD as easing global interest rates provided external support amidst high and sticky domestic interest rates. Foreign exchange reserves also improved by 9.2% m/m to USD 8.0bn (4.1 months of import cover), reassuring the market of sufficient FX liquidity. • Real interest rates remain attractively high both for domestic investors (average: 12.0%) and non-resident investors (given the YTD USDKES appreciation of 21.1%). We believe the strong macro fundamentals will continue to anchor USDKES stability in 4Q2024 as investors anticipate the next MPC decision on 8th October 2024.
Nigeria	• Investor demand was generally strong relative to target despite a noticeable softening post-MPC rate hike later in the month. The auction outcome translated into a bid-to-cover ratio of 3.2x (vs 3.0x in August), indicating a strong demand although with MPC-induced downside risk. • Yields partly reversed the early-month decline after the Central Bank surprised the market with a 50bps hike in the policy rate but closed with a m/m decline. We expect the MPC-induced upside risk to Treasury yields to be capped by the favourable demand conditions for the T-bill offers.	• The Nigerian Naira was volatile against the US Dollar in September, culminating in a widening of the spread between the parallel market rate and the official FX rate. • We view the Central Bank's unrelenting hawkish posture as FX-supportive. We expect the latest Naira liquidity tightening measures to anchor the USDNGN FX rate around the 1,600/USD mark on the official market. However, we view the negative real interest rates as undermining the attractiveness of Naira-denominated assets.

Ghana Market Commentary

Fixed Income

Investor demand for Ghanaian Treasury bills strengthened in September but the Treasury's increased target outweighed the demand conditions, resulting in a wider shortfall in uptake vs target. Consequently, Treasury yields ticked higher across the curve with a potential to remain unresponsive to the latest policy rate cut in the immediate term due to the Treasury's higher borrowing need.

Investors submitted total bids worth GHS 23.6bn across the 91-day to the 364-day tenors during the September 2024 T-bill auctions, representing a 24.7% m/m increase in bids. Although the Treasury accepted all bids tendered, the total uptake fell short of target by 19.6% (or GHS 5.8bn). This was due to the rise in Treasury offers by GHS 8.2bn (+38.7% m/m) which outpaced the GHS 4.7bn increase in total bids.

Yields moved higher as the market priced in mounting refinancing risk while the Treasury seemingly suspended its early-year yield compression strategy. The 91-day yield surged by 85bps m/m to 25.64%, the 182-day yield ticked up by 24bps m/m to 26.92% while the 364-day yield climbed 86bps to 28.68%. We note that the 200bps cut in the policy rate to 27.0% has boosted the pricing appeal of T-bills relative to BOG bills and could potentially improve demand for the former. However, we are less optimistic about an immediate decline in yield for T-bills as the upside risk from Treasury's borrowing pressure remains high.

On the bonds market, we observed improved offshore appetite for the General Category bonds with bids quoted around the 28.0% levels. However, the dearth of offers to match bids continue to undermine trade execution on the market.

Currency Market

The Cedi's improved fortunes extended into September 2024 amidst continued Central Bank support via the 7-day FX forwards (USD 101.1mn | +11.1% m/m), the bi-weekly 30-day forwards to oil importers (USD 20.0mn) and the FED's dovish tilt which revived risk-on positioning among offshore investors. However, we saw an uptick in FX demand in the final week of the month as importers start to stock up ahead of the year-end festivities.

We view the rising FX demand by importers ahead of the year-end festivities as a risk to the Cedi's stability in 4Q2024. This could be compounded by safe-haven demand for FX ahead of the elections in December. However, we expect sustained BOG intervention to mitigate the depreciation risk ahead.

Local Currency "General Category" Bonds (GHS)				Ghana Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Feb-27	8.35%	24.37	35.61%	Jan-26	8.13%	64.81%
Feb-28	8.50%	20.65	26.35%	Feb-27	6.38%	37.22%
Feb-29	8.65%	25.36	25.36%	Mar-27	7.88%	38.27%
Feb-30	8.80%	25.93	24.67%	Apr-29	7.75%	26.14%
Feb-31	8.95%	25.02	24.04%	May-29	7.63%	25.48%
Feb-32	9.10%	26.02	25.72%	Oct-30	10.75%	19.92%
Feb-33	9.25%	24.22	19.69%	Mar-32	8.13%	20.55%
Feb-34	9.40%	25.34	20.57%	Apr-34	8.63%	19.69%
Feb-35	9.55%	26.56	17.48%	Feb-35	7.88%	17.19%
Feb-36	9.70%	25.81	26.94%	May-42	8.88%	17.33%
Feb-37	9.85%	27.05	28.08%	Jun-49	8.63%	16.27%
Feb-38	10.00%	26.19	29.39%	Mar-51	8.95%	15.75%
				Mar-61	8.75%	15.36%

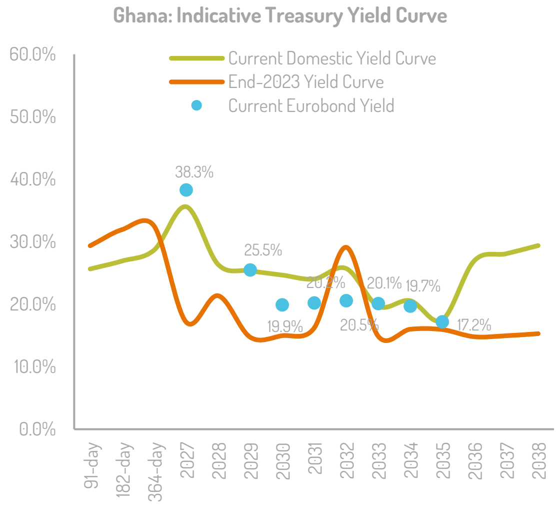
	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	25.64%	85	-371
182-day	26.92%	24	-502
364-day	28.68%	86	-381

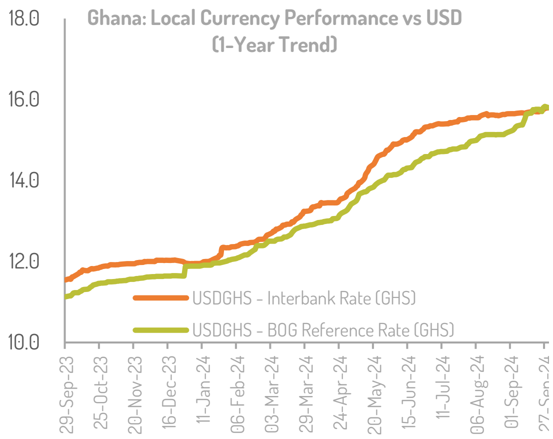
	Upcoming Maturities* (Oct-2024)	Upcoming Target* (This week)	M/M Change in Maturities
91-day	11,360.62	5,980.0	-24.2%
182-day	2,619.58		-53.9%
364-day	508.92		-65.3%

*GHS Million

Spot Exchange Rate (GHS)			
	Current Mid-Rate	Last Month	M/M Change*
USDGHS	15.80	15.65	-0.93%
GBPGHS	21.16	20.51	-3.06%
EURGHS	17.60	17.26	-1.94%

*Negative change means Depreciation while Positive change means Appreciation





Kenya Market Commentary

Fixed Income

Investor appetite strengthened for the 91-day and 364-day tenors, supporting a m/m upsurge in total bids for Kenyan Treasury bills in September 2024 with a slight downshift in the yield curve.

Cumulative bids submitted at the weekly T-bill auctions were worth KES 135.8bn, exceeding the prior month bids by 25.0% and the gross target by 13.2%. The Treasury accepted KES 118.5bn (USD 917.5mn) to exceed the T-bill maturities for the month by 37.4% but fell short of the gross target by 1.2%.

Yields continued the downtick for the second straight month, albeit slower than the prior month and more sluggish than expected despite risk-on appetite from offshore investors and dovish signal by the Central Bank. Yields for the 91-day and 182-day tenors dipped by 8bps m/m each to 15.7% and 16.6%, respectively. while the 364-day yield closed at 16.8% (-6bps). The Central Bank's next MPC meeting is slated for 8th October 2024 with our expectation for continued dovishness following the start of policy easing in August 2024. A further cut in the CBK rate will intensify the downward pressure on short-term yields.

On the bond market, the Treasury re-opened the Mar-34 (coupon: 16.0%) and Sep-36 (coupon: 14.0%) bonds, raising a gross amount of KES 19.3bn (64.3% of target) at yields of 16.87% and 17.29%, respectively. We note that the yields appear attractive with the Mar-34 paying 60bps and the Sep-36 paying 94bps premiums on the prevailing secondary market level at the time of pricing.

Currency Market

The Kenyan Shilling was virtually static in September 2024 holding firm around 129.2/USD as easing global interest rates provided external support amidst high and sticky domestic interest rates. Foreign exchange reserves also improved by 9.2% m/m to USD 8.0bn (4.1 months of import cover), reassuring market of sufficient FX liquidity.

The recovery in forex reserves above the statutory minimum of 4.0 months of import cover with real interest rates attractively high, both for domestic investors (average: 12.0%) and non-resident investors (given the USDKES YTD appreciation of 21.1%), are positive for investor confidence. We believe these strong fundamentals will continue to anchor USDKES stability in 4Q2024 as investors anticipated the next MPC decision on 8th October 2024.

Local Currency Bonds (KES)				Kenya Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Mar-25	10.25%	97.35	16.74%	Jun-24	6.88%	7.68%
May-25	11.67%	97.24	16.70%	May-27	7.00%	8.46%
Nov-26	11.28%	89.89	17.17%	Feb-28	7.25%	9.45%
Jul-27	12.97%	90.88	17.17%	May-32	8.00%	9.30%
Feb-28	11.25%	84.76	17.41%	Jan-34	6.30%	9.22%
Aug-28	12.69%	87.02	17.41%	Feb-48	8.25%	9.89%
Dec-28	12.50%	85.39	17.55%			
Feb-29	12.44%	84.66	17.59%			
May-31	10.00%	71.92	17.28%			
Nov-32	12.00%	78.74	16.90%			
Jan-34	12.86%	81.81	16.77%			
Jul-34	12.34%	79.24	16.70%			

Source: Central Bank of Kenya, Bloomberg, IC Insights

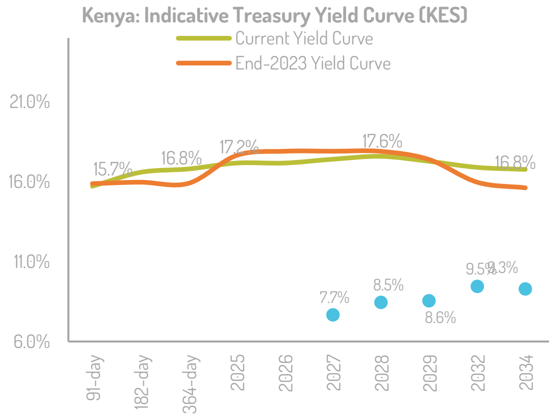
	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	15.72%	-8	-16
182-day	16.59%	-8	62
364-day	16.80%	-6	90

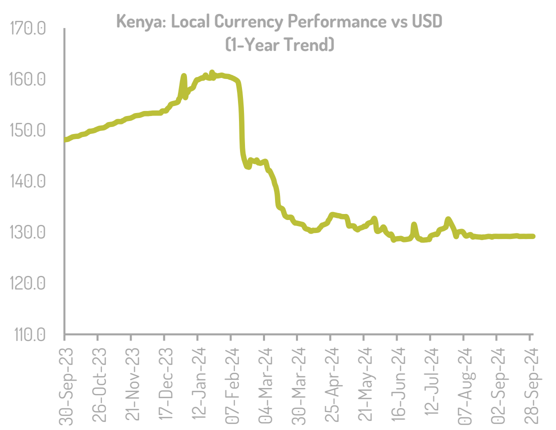
	Upcoming Maturities* (Oct-2024)	Upcoming Target* (This Week)	M/M Change in Maturities
91-day	55,380.01	24,000.00	-5.0%
182-day	30,141.77		40.6%
364-day	8,993.45		36.5%

*KES Million

Spot Exchange Rate (KES)			
	Current Mid-Rate	Last Month	M/M Change*
USDKES	128.95	128.78	-0.14%
GBPKES	172.83	168.95	-2.24%
EURKES	143.69	142.29	-0.98%

*Negative change means Depreciation while Positive change means Appreciation





Nigeria Market Commentary

Fixed Income

The Treasury was active in the T-bill primary market in September 2024, executing three separate offers across the 91-day to 364-day tenors compared to the two auctions in August. Investor demand was generally strong relative to target despite a noticeable softening post-MPC rate hike later in the month. Total bids submitted were worth NGN 2.0trn (USD 1.3bn) while the Treasury accepted NGN 622.7bn (USD 390.3mn) to match the maturities for the month. The auction outcome translated into a bid-to-cover ratio of 3.2x (vs 3.0x in August), indicating a strong demand although with MPC-induced downside risk.

Yields partly reversed the early-month decline after the Central Bank surprised the market with a 50bps hike in the policy rate. Despite the post-MPC uptick in yields by 37bps to 141bps, our analysis showed m/m declines of 120bps for the 91-day (17.0%), 170bps for the 182-day (17.5%), and 90bps for the 364-day (20.0%).

At the September 2024 meeting, the MPC expressed concerns about the excess Naira liquidity in the banking system with a decision to hike the Cash Reserve Ratio of commercial banks by 500bps to 50.0% and merchant banks to 16.0% (+200bps). Although we expect this hawkish policy stance to modestly tighten Naira liquidity, we do not envisage any risk to the Treasury's auction coverage. Consequently, we expect the MPC-induced upside risk to Treasury yields to be capped by the favourable demand conditions for T-bill offers.

Currency Market

The Nigerian Naira was volatile against the US Dollar in September, culminating in a widening of the spread between the parallel market rate and the official FX rate. Despite emerging disinflation and favourable external policy conditions, we observed tighter FX supply on the parallel market. The CBN's sale of USD 20,000 to each BDC in two separate transactions operator (≃USD 63.3mn in our estimation) helped to ease the pressure on official rate, widening the spread between the parallel and official rates to 10.7% (vs 2.6% in Aug-2024).

We view the Central Bank's unrelenting hawkish posture as FX-supportive. We expect the latest Naira liquidity tightening measures to anchor the USDNGN rate around the 1,600/USD mark on the official market. However, we view the negative real interest rates as undermining the attractiveness of Naira-denominated assets while insufficient FX supply weigh on parallel rates.

Local Currency Bonds (NGN)				Nigeria Eurobonds (USD)		
Maturity	Coupon	Price	Yield	Maturity	Coupon	Yield
Apr-29	14.55%	89.03	18.17%	Nov-25	7.63%	7.43%
Feb-31	18.50%	93.14	20.45%	Nov-27	6.50%	8.72%
Apr-32	12.50%	77.54	18.05%	Sep-28	6.13%	8.88%
Feb-34	19.00%	94.96	20.20%	Mar-29	8.38%	9.17%
Jul-34	12.15%	70.70	18.78%	Feb-30	7.14%	9.32%
Mar-35	12.50%	71.82	18.73%	Jan-31	8.75%	9.55%
Mar-36	12.40%	72.27	18.25%	Feb-32	7.88%	9.78%
Apr-37	16.25%	92.69	17.71%	Sep-33	7.38%	9.90%
Jun-38	15.45%	91.04	17.15%	Feb-38	7.70%	10.24%
Jan-42	13.00%	76.70	17.25%	Nov-47	7.63%	10.26%
Apr-49	14.80%	84.75	17.51%	Jan-49	9.25%	10.27%
Mar-50	12.98%	77.61	16.80%	Mar-51	8.25%	10.50%
Jun-53	15.70%	94.55	16.60%			

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

	Nominal Yield	M/M Change (bps)	YTD Change (bps)
91-day	17.00%	-120	1,000
182-day	17.50%	-170	750
364-day	20.00%	-90	776

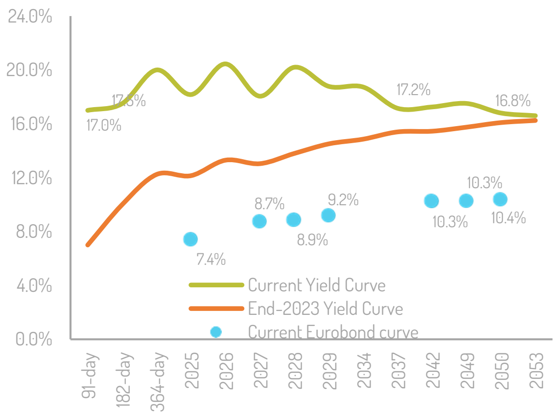
Selected Macroeconomic Indicators			
	Latest Available	Same Period Last Year	YoY Change (bps)
Inflation*	32.15%	25.80%	6.35%
GDP growth**	3.19%	2.51%	0.68%
MPR	27.25%	18.75%	8.50%

*August 2024 | **2Q2024

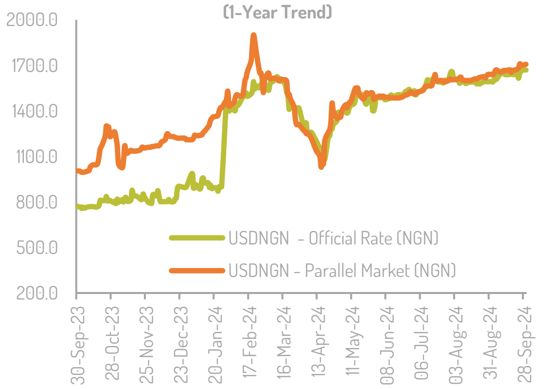
Official Spot Exchange Rate (NGN)			
	Current Mid-Rate	Last Month	M/M Change
USDNGN	1591.82	1661.00	4.35%
GBPNGN	2089.51	2135.46	2.20%
EURNGN	1770.74	1798.12	1.55%

*Negative change means Depreciation while Positive change means Appreciation

Nigeria: Indicative Teasury Yield Curve (NGN)

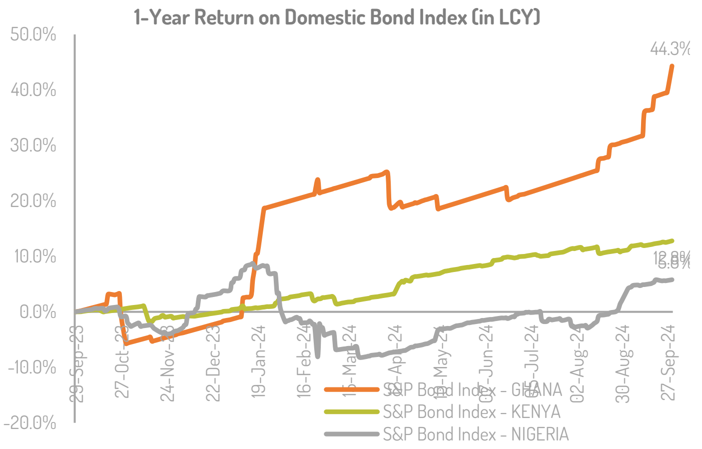


Nigeria: Local Currency Performance vs USD (1-Year Trend)

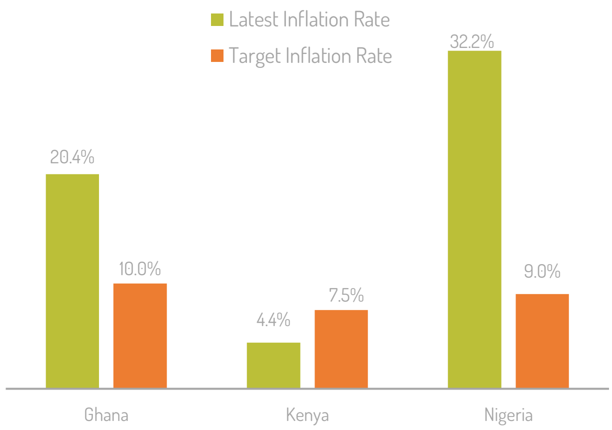


	Comparative Yields for Domestic Treasury Bonds in LCY and USD-adjusted Rates					
	Ghana		Kenya		Nigeria	
	GHS Yield	USD-adjusted Yield	KES Yield	USD-adjusted Yield	NGN Yield	USD-adjusted Yield
2027	35.61%	22.99%	17.17%	7.47%	18.05%	4.41%
2028	26.35%	14.60%	17.55%	7.81%	20.20%	6.31%
2029	25.36%	13.70%	17.59%	7.85%	18.78%	5.06%
2030	24.67%	13.07%	17.44%	7.71%	19.59%	5.77%
2031	24.04%	12.50%	17.59%	7.85%	19.47%	5.66%
2032	25.72%	14.03%	17.28%	7.57%	18.52%	4.82%
2033	19.69%	8.56%	16.80%	7.13%	17.97%	4.34%

Source: Bloomberg, IC Insights

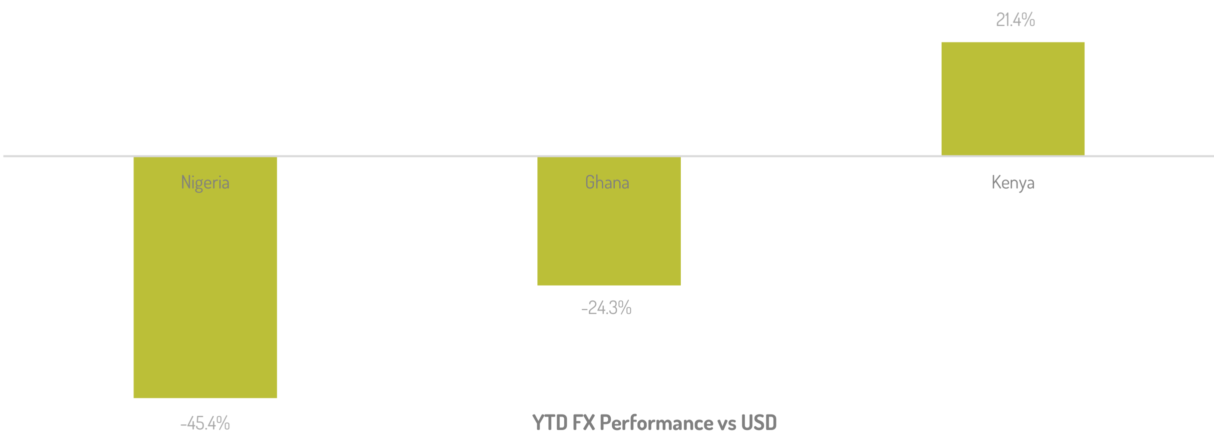


Source: S&P Global



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	15.80	-0.9%	-24.3%	21.16	-3.1%	-28.0%	17.60	-1.9%	-25.0%
Kenya	128.95	-0.1%	21.4%	172.83	-2.2%	15.5%	143.69	-1.0%	20.9%
Nigeria	1669.22	-4.6%	-45.4%	2232.82	-6.4%	-48.0%	1858.66	-4.7%	-46.6%



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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