Stanbic
Investment
Management
Services

# SIMS ECONOMIC & MARKET REPORT

FY-2023

A Bumpy Recovery as Shocks Linger

# GLOBAL ECONOMY

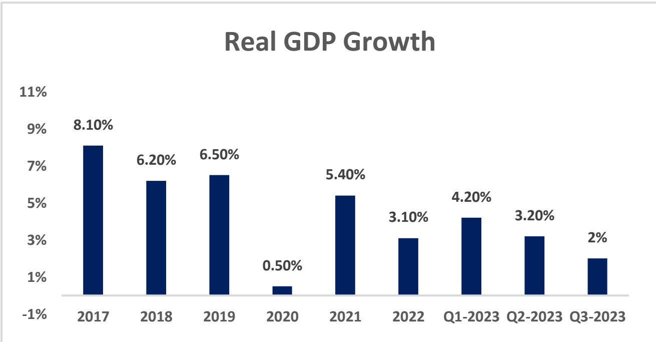
Global growth was subdued, plagued by the heightened geopolitical conflict in the Middle East and a restrictive credit environment. Although above the target band, global Inflation retreated from the 2022 peak, helped by tighter global monetary conditions amidst a favorable drift effect in 2023. The financial markets also deteriorated, undermined by eroded fiscal buffers, rising sovereign bond yields, a volatile equity market, and higher borrowing costs.

Commodities prices were comparatively steady for a greater part of 2023. However, the escalation of the Middle East conflict resulted in a sharp surge in gold prices in the last quarter of 2023. Gold prices were up 13.28% to end 2023 at $2,018/oz on the back of geopolitical tensions coupled with market expectations of a peak in yields as policymakers signaled a pivot to an easy monetary stance. Cocoa prices likewise surged by 63.01% to $4,240/bag, underpinned by a supply deficit following severe rains in Côte d'Ivoire. Brent Crude, however, slumped to $79.69/barrel, down by -7.72% on feeble demand despite extended supply cuts by the Saudi-led OPEC+.

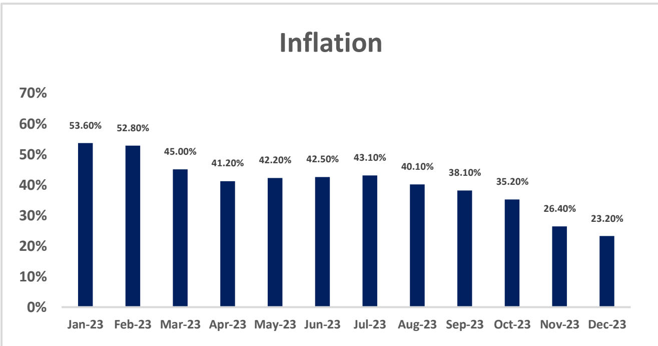
Looking ahead, Global growth will be weaker at 2.4%, reflecting a tepid recovery in China, Eurozone, and UK economies amid a mild recession in the USA. A reversal in monetary policy is expected during mid-year as inflation pressures recede. Tighter financial conditions would weigh on economic growth and corporate profits as real borrowing costs remain elevated. Energy prices could resume ascent on conflict escalations in the Middle East, potentially adversely affecting Inflation. Gold prices should sustain an upward trend on ongoing geopolitical risk amid uncertainties with global elections.

# DOMESTIC ECONOMY

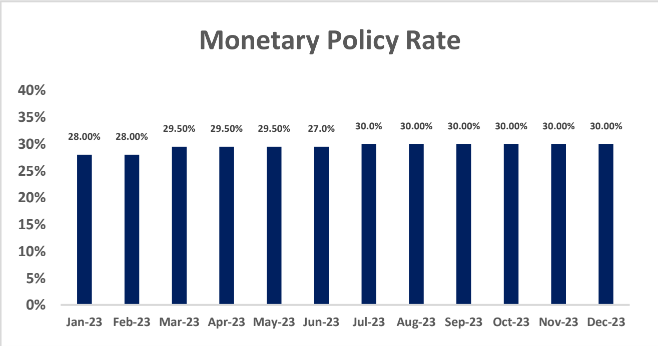
The Ghanaian economy recorded a recovery, evidenced by improved economic indicators. GDP, however, sustained a downward streak, averaging 3.2% over the three quarters on a contractionary policy stance. The Agriculture and Services sectors' growth was modest, averaging 6.1% and 6% respectively. The Industrial sector, however, contracted for a third consecutive quarter to 4.3% in Q3-2023 on higher operating costs.



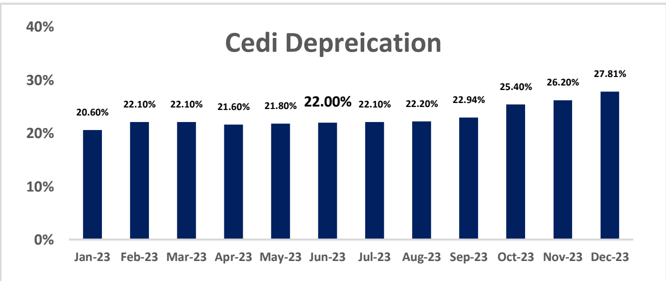

Headline inflation fell sharply from 52.80% in February 2023 to 23.2% as of December 2023. The cool-off was induced by the drop in food and non-food Inflation, a stable cedi, a favorable base effect pull, and the Central Bank's restrictive policy stance.




The Central Bank firmed its monetary policy rate, at 30.0% since the 2HY-2023, to curtail Inflation while increasing the cash reserve ratio to 15% on domestic and foreign currency deposits to reduce the money supply.




The cedi was relatively stable for 2023, with a cumulative depreciation of 27.81% for December 2023 from -20.6% in January, compared to a year-end loss of 30% for 2022. The stable performance stemmed from improved gross international cover to 2.7 months (December-2023) thanks to a receipt of $600 million from IMF and a $541 million Cocoa Syidacted Loan, a positive trade balance (+3.4%: December-2023) coupled with a freeze in foreign debt payments as debt restructuring negotiations progressed. The Bank of Ghana likewise increased its market intervention through the Domestic Gold Purchase Programme, Bi-weekly BDCs forex auction, and hard currency purchases from mining companies' export proceeds.



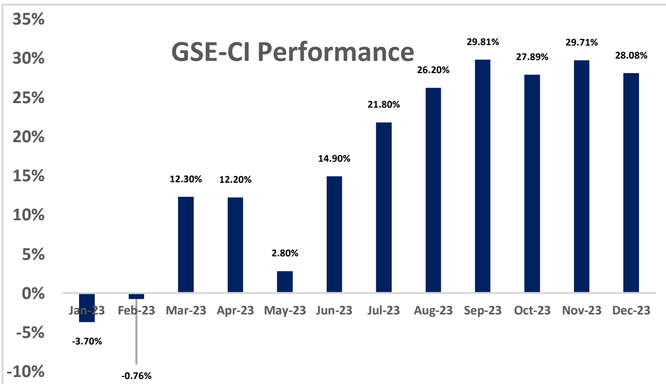

The government completed its first economic review under the IMF $3 billion Enhanced credit facility to unlock a second tranche worth $600 million subject to a formal debt negotiation agreement from Bi-lateral creditors. Additionally, discussions with Eurobond investors remained inconclusive as of December 2023.

Looking into 2024, Ghana's economic fortunes should improve on the back of sustained fiscal discipline due to the ongoing IMF program. A successful 2-year debt moratorium with bilateral debt creditors worth $5.4 million should free up forex reserves and unlock additional funding worth $1.15 billion from the IMF and World Bank in Q1-2024. Increased forex liquidity should strengthen the Bank of Ghana's supply-side interventions and stabilize the Ghanaian cedi. Ghana's consumer price inflation should sustain its downward trek, aided by a tighter fiscal and monetary environment supported by a stable cedi.

Spillovers from global headwinds, higher oil prices due to an escalation of the Middle East conflict, and spending from presidential and parliamentary elections could disrupt Ghana's recovery path.

# STOCK MARKET

The stock market maintained a positive run, up 28.08% to end 2023 at an index level of 3,130.23, underpinned by capital gains in dividend-paying non-financial stocks. However, the financial stock index was in the red at an index level of 1,901.57 points, translating to a year-end loss of -7.36%.




Market capitalization rose by 14.55% y/y, driven by rallies in MTN Ghana, Total Energies, Société Générale, and Benso Oil Palm Plantation. Trade activity was, however, subdued as volume traded decreased by

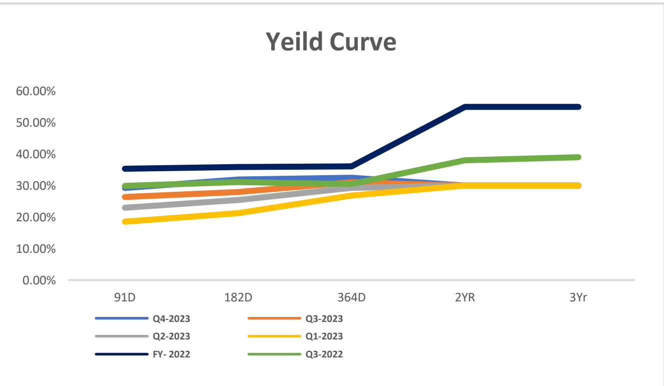
56.59% y/y to ~579.68 million shares, while value slumped by 50.10% y/y to ~GHS818.20 million.

The stock market should sustain a positive rally as investors take positions in quality stocks trading below intrinsic value. Improved financials from listed companies should increase investor interest before the FY-2023 dividend announcement. We expect some profit-taking in selected non-financial stocks that recorded substantial gains in 2023. The imminent 2024 presidential and parliamentary elections could be an overhang on stock market performance.

# DEBT MARKET

Trade activity in the Ghana Fixed-Income Market was lackluster despite the completion of the domestic debt exchange to widen the investor base. Investor interest remained skewed toward short-term securities as ongoing external debt restructurings remained a market overhang. Yields on the Government Treasury bills for 91-day and 182-day ended December 2023 at 29.24% and 31.88%, respectively, on increased uptake. Additionally, the yield of the 364-day instrument advanced to 32.49%, making the newly minted bonds less attractive to investors.

In 2024, we expect yields to remain elevated on short-term securities. We expect market activity to pick up as Ghana concludes negotiations on external debt restructuring.




# CONCLUSION

Ghana's improving economic environment presents pockets of opportunity for investors across diverse financial assets. The current higher-yield environment makes fixed-income securities more attractive to investors. We also see some decent gains in quality stock trading at steep discounts to their intrinsic value.

## For more information contact:

SIMSPortfolioManagement@standardbank.onmicrosoft.com



*Source: SIMS, Bank of Ghana; Ministry of Finance, Ghana Stocks Exchange, IMF, World Economic Outlook, World Bank 2023*