SECOND QUARTER 2020 MARKET REPORT

Cedi Performance and Macro-Economic Indicators

At the close of the second quarter of 2020, the cedi depreciated against the US dollar, the British pound and Euro by 4.0%, 3.5% and 6.1%, respectively as compared to the second quarter of 2019 when the cedi depreciated against the US dollar, the British pound and the Euro by 3.3%, 0.9% and 4.6%, respectively. The performance of the cedi can be attributed to lower petroleum revenues and capital flight as uncertainties of the impact of the COVID-19 pandemic on the economy continue to linger.

At the end of the second quarter of 2020, the inflation rate stood at 11.2% compared to 9.3% during the second quarter of 2019. This was due to an increase in prices of food and non-alcoholic beverages, as well housing, water, electricity and gas. The second quarter 2020 monetary policy rate was 14.50% compared to 16.0% during the same quarter in 2019. The reduction in the monetary policy rate was part of Bank of Ghana's effort to stimulate the economy and protect the country from the impact of COVID-19 by increasing spending through the reduction of the cost of credit.

The table below provides details of the rates and movement in the currency market.

Economic Review			
	Q2 2019	Q2 2020	Change (YoY)
Monetary Policy Rate	16.00%	14.50%	1.50% ↓
Inflation Rate	9.30%	11.20%	1.90% ↑
2nd Quarter Interbank Forex Rates (GH₵)			
	Open (31st March, 2020)	Close (30th June, 2020)	Depreciation
US Dollar to Ghana Cedi	5.44	5.67	4.0% ↓
British Pound to Ghana Cedi	6.76	7.00	3.5% ↓
Euro to Ghana Cedi	5.98	6.36	6.1% ↓

Government Borrowing

The public debt issuance calendar for 2Q2020 revealed government's plans to issue cedi-denominated domestic debt securities amounting to GHS17.96 billion from the domestic market. Of the targeted amount, GHS13.68billion will be used to rollover maturing domestic debts while the remaining GHS 4.28billion would be fresh issuance geared towards government's budgetary financing requirements. Short term securities (91-Day to 364-Day Treasury Bills) account for GHS 12.57billion of the debt issuance, while longer term government debt securities (2-Year Treasury Notes to 20-Year Treasury Bonds) account for GHS5.39bn of the issuance. Government is expected to update the issuance calendar on a monthly rolling basis to reflect a full quarter's financing programme.

The 91-, 182- and 364-Day Treasury Bills began the second quarter at 14.64%, 15.15% and 17.65%, respectively and dropped to 13.95%, 14.02% and 16.89%, respectively at the end of the quarter. On average, interest rates for the 91-Day, 182-Day and 364-Day T-bills were 14.07%, 14.11% and 16.86%, respectively. The government also issued a 2-Year Treasury note at an interest rate of 18.75%, two 3-Year

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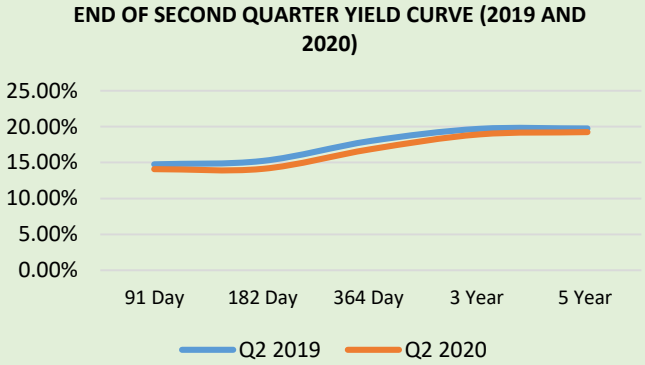
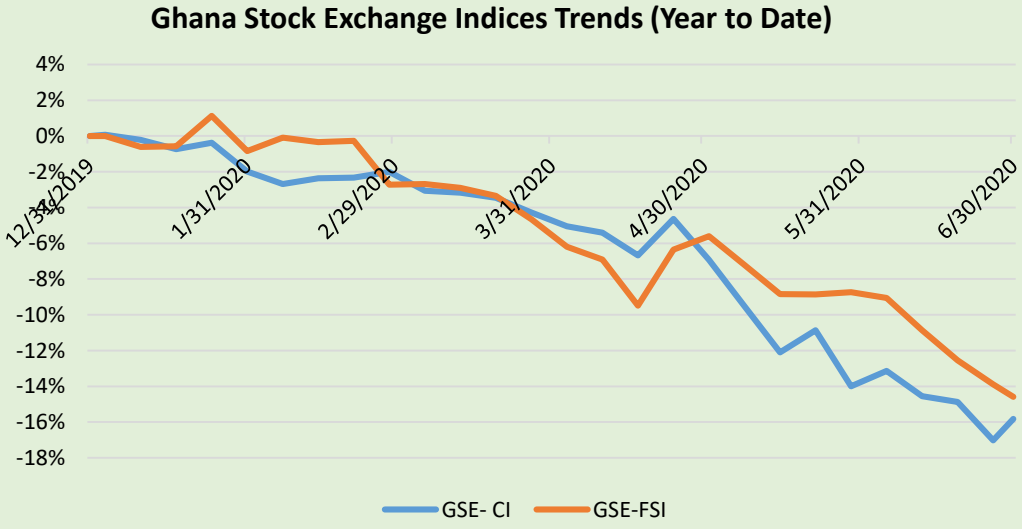
Treasury bonds, with an average interest rate of 18.93% and a 5-year Treasury bond, with at an interest rate of 19.25%. Compared to 2Q2019, all interest rates of GoG securities at various maturities in 2Q2020 trended downwards. The pricing of interest rate is based on global and country outlook, the IMF projects the 2020 world growth rate at -3.0% from 3.3%, while Ghana estimated growth rate was revised from 5.8% to 1.5%. Contradiction of GDP growth rates creates economic uncertainty, which results in a decline in fixed income securities such as Government securities. This is confirmed by a decline in investor participation in the second quarter GoG treasury auctions. (Target – GHS17.96 Billion, Amount tendered – GHS15.69 Billion). Ghana's yield curve is a normal yield curve, this means that short-term securities have lower interest rates, while longer-dated securities have higher interest rates, this is to ensure that investors which in longer-dated securities are properly compensated.

Second Quarter Average Interest Rate (2019 and 2020)			
	Q2 2019	Q2 2020	Difference
91 Day T-bill	14.77%	14.07%	0.70% ⬇
182 Day T-Bill	15.24%	14.11%	1.13% ⬇
364 Day T-Bill	18.02%	16.86%	1.16% ⬇
3 Year T-Bond	19.70%	18.93%	0.77% ⬇
5 Year T-Bond	19.75%	19.25%	0.50% ⬇



Stock Market Performance



The stock market could not recover from its negative return from 2019 as the GSE Composite Index (GSE-CI) and GSE Financial Stock Index (GSE-FSI) closed 2Q2020 with a year to date (YTD) return of -15.83% and

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-14.59%, respectively. The negative returns of the indices were worsen by the COVID-19 pandemic that hit Ghana in March, 2020, this has resulted in some level of uncertainty in the market. Manufacturing firms have had to battle with not being able to operate at full capacity in order to comply with social distancing protocols, as well as the cost of providing PPEs for staff, which is likely to result in an increase in unbudgeted expenses. Banks have also had to give borrowers moratorium on their loans and also reduced interest rates on loans. In addition, further action have been taken by banks to halt charging fees on mobile money and interbank transfers. Based on these circumstances, it is obvious that investors have reflected these information in the pricing of the stocks on the market, resulting in price declines.

During the quarter, there were 2 gainers. ALW was the top gainer with a quarterly return of 10.00%, closing the quarter at GH₵0.11. EGH was the second largest gainer ending the quarter at GH₵7.50, which represented an 8.70% quarterly gain. On the other hand, FML led the pack of 16 losers, ending the quarter at GH₵1.80, this represents a quarterly loss of 55.77%. In addition, TLW lost the least during the quarter, its price dropped by 0.08%, closing the quarter at GH₵11.92. Prices of 14 stocks remained flat.

The performance of the gainers and losers during the second quarter on the GSE has been highlighted in the tables below.

Gainers					
Share	**Year High (GH₵)**	**Year Low (GH₵)**	**1st April 2020 (GH₵)**	**30th June 2020 (GH₵)**	**Gain (%) ⬆**
ALW	0.11	0.10	0.10	0.11	10.00%
EGH	8.09	5.80	6.90	7.50	8.70%

Losers					
Share	**Year High (GH₵)**	**Year Low (GH₵)**	**1st April 2020 (GH₵)**	**30th June 2020 (GH₵)**	**Loss (%) ⬇**
FML	4.12	1.80	4.07	1.80	55.77%
RBGH	0.60	0.40	0.58	0.40	31.03%
ETI	0.09	0.06	0.08	0.06	25.00%
GGBL	1.69	1.20	1.60	1.20	25.00%
GCB	5.10	3.40	4.50	3.40	24.44%
SOGEGH	0.76	0.60	0.75	0.60	20.00%
TOTAL	3.00	2.35	2.88	2.35	18.40%
SCB	20.00	15.50	18.94	15.50	18.16%
EGL	1.88	1.40	1.70	1.43	15.88%
CAL	0.99	0.69	0.86	0.73	15.12%
TBL	0.40	0.34	0.40	0.34	15.00%
MTNGH	0.70	0.55	0.68	0.59	13.24%
BOPP	2.86	2.50	2.85	2.50	12.28%
GOIL	1.78	1.50	1.64	1.59	3.05%
ACCESS	5.00	4.39	4.40	4.39	0.23%
TLW	11.94	11.92	11.93	11.92	0.08%

Some developments that occurred during the quarter included the expulsion of Liberty Securities Limited and First Atlantic Brokerage Limited from membership of the Exchange. The expulsion was because of their violation of some market rules such as operating without an Authorized Dealing Officer for more than three months, low liquidity position, eroding shareholders' funds and inactivity on the market due

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to the lack of an ADO to execute trades. During the quarter, the GSE with the approval of the Securities and Exchange Commission (SEC) amended its rules on price movement. The objective of the amendment to enhance stock price discovery and a fair market pricing. The new rule gives the price range and volumes that will result in a change of share price. MTN Ghana also announced it is seeking redress in the law courts following the National Communications Authority's (NCA) decision to impose restrictions on its business. The NCA declared MTN a Significant Market Power (SMP), and therefore imposed special regulatory restrictions on the company. MTNGH indicated that the restrictions have the potential to inhibit the company's growth and innovativeness and is seeking a judicial review that will ensure procedural fairness in the restrictions imposed on the firm.

Key Impacts of COVID-19 on Ghana's Economy

COVID-19 remains the biggest threat to the economic stability of the country and continues to affect areas such as production, trade and investment and the fiscal management. President Akufo Addo stated that government's plans and policies for 2020 will have to be amended. At a press briefing on Wednesday, 6th May, 2020, he indicated that the economy had lost significant amount of revenue as a result of this pandemic, citing the reduction in crude oil prices from USD 65.0 per barrel to USD 21.0 per barrel as one of the many ramifications of the outbreak. The President added that the 2020 budget was predicated on the price of crude oil being USD 65.0 per barrel and hence the drastic fall in price to USD 21.00 has significantly impacted the country's revenue which necessitates the restructuring of fiscal policies for the year to bridge the fiscal gap created.

The IMF revised Ghana's growth rate from 5.8% to 1.5% amid the COVID-19 pandemic. The budget deficit is expected to exceed 5.0% of GDP in 2020 due to a significant fall in revenue and reduction in trade. Some financing measures identified by government to close the fiscal gap created by the pandemic include seeking the IMF Rapid Credit Facility of US$1 billion, World Bank Development Policy Operation (DPO) of GHS1.7 billion and the Stabilization Fund of USD219 million but that still results in a residual financing gap of about GHS17.96 billion which will have to be sourced from both domestic and external markets. Below are some of the measures taken to mitigate the impact of the COVID-19 pandemic on the economy:

1. A loan package of GHS 600.0millionn (USD 103.4million) to Micro, Small and Medium Scale Enterprises ("MSMEs") to support their operations.
2. World Bank Group is supporting Ghana's COVID-19 response with USD 100.00 million to assist in tackling the COVID-19 pandemic. In addition, a USD 65.0 million contingency emergency component was triggered from the Greater Accra Resilient and Integrated Project which will be used to finance the acquisition of laboratory equipment and chemicals, essential medical equipment and supplies including test kits and personal protection equipment to support government's response systems in managing and containing a COVID-19 outbreak.
3. Government agreed with investors to postpone interest payment on non-marketable domestic bonds held by public institutions to fund the financial sector clean-up for about GHS 1.2 billion 0.3% of GDP.
4. Parliament approved GHS1.2 billion for Coronavirus Alleviation Programme (''CAP'') to grant government access to funds from the Contingency Fund to finance the CAP. The approved amount will be used to finance a number of initiatives to cushion the economy against the impact of the

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COVID-19 outbreak through various interventions such as providing soft loans to businesses and granting allowances and tax waivers for health personnel and agricultural production in the country.

5. World Bank put a freeze on Ghana's debt and interest payment of USD 500.0million for the rest of 2020 as part of the Pan-African effort for debt relief due to the COVID-19 outbreak.
6. The Government through the Ministry of Agriculture is seeking additional funding to the tune of USD 100.0mn from (''IFAD'') to restructure ongoing programmes in the agricultural sector in mitigating the impact of the COVID-19 outbreak on the sector.

Global market and Outlook of the impact of COVID -19

On the global market, most economies have been hit hard, stock markets are down, and production has slowed down. Most economies are set to stagnate causing Eurobond yields to increase and Eurobond prices to fall as a result. Major commodity prices have also been affected, fueled by a slump in demand due to the pandemic and the Saudi Arabia and Russia oil price war. The world's biggest oil and gas companies are cutting spending due to the fall in oil prices. Oil prices increased to USD40.0 per barrel on 3rd June, 2020 for the first time since March 2020, when oil prices fell to USD20.48. This was attributed to lower U.S. inventories, the expectations that the Organization of the Petroleum Exporting Countries (OPEC) and other producers will keep the oil output cuts in place and also signs of demand recovery from the COVID-19 outbreak.

The COVID-19 pandemic led to a decline in cocoa prices on the international market. Ghana, one of the major cocoa producing countries, is expected to experience a shortfall in revenue of USD1.0 billion. According to the International Cocoa Organization, the price of a tonne of cocoa at the beginning of the year was USD 2,457.47. Since then, the price of cocoa has fallen to USD 2,081.06 as of 30th June, 2020, which represents a YTD loss of 15.3%. Gold, a commodity which is usually considered a safe haven during economic uncertainties, has risen in price. According to Bloomberg, gold prices moved from USD 1,517.27 at the beginning of the year to USD 1,780.96 as of 30th June, 2020 representing a YTD gain of 17.4%. The US Federal reserve slashed interest rate from 0.25% to 0.00% to stabilize the market, as well as economic activities. Central banks around the world have taken drastic measures to provide the needed support for their economies. Additionally, global financing conditions have also worsened and investors have negative sentiments towards emerging markets, which is making the international capital market remaining largely closed to emerging markets issuances.

2020 Outlook and Investment Implications

The year 2020 had a promising outlook due to government's ambitious plans outlined in the 2020 budget. The budget was originally targeted at expanding infrastructure with emphasis on developing the country's road and the agricultural sectors. The Finance Minister, Ken Ofori-Atta, in the second quarter hinted that government is likely to present a new budget to Parliament by July 2020 in light of the projected impact of the COVID-19 pandemic on government's revenue target. The total estimated fiscal impact from the shortfall in petroleum receipts, shortfall in import duties, shortfall in other tax revenues, the cost of the preparedness plan, and the cost of the Coronavirus Alleviation Programme is GHS 9.5bn (USD 1.6bn), 2.5% of revised GDP. The Minister also indicated that the overall fiscal deficit is expected to increase to 7.8% of revised GDP in 2020.

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The Cedi experienced some pressures at the tail end of the first quarter of 2020 as some foreign investors began to disinvest from local bonds amid growing uncertainty about the COVID-19 pandemic. The Cedi is likely to further depreciate.

On the capital market, the GSE Composite and GSE Financial Stock Indices continue to record negative returns. We do not anticipate any significant changes in the market's performance in the short term as investors adopt a wait-and-see attitude amidst increasing uncertainties of the impact of the COVID-19 on the economy. We expect stocks in the oil sector and the manufacturing sector to witness further declines due to decline in world crude oil prices and the uncertainties of the Saudi Arabia-Russia oil war. The depreciation of the cedi will negatively impact the cost of sales of manufacturing companies as they import raw materials. The possible decline in share prices presents buying opportunities for investors who would like to take advantage of the low share prices on the stock market. Investors can increase shareholdings in anticipation of future price appreciation.

On the Ghana Fixed Income Market, yields are expected to rise over the short term due to government's borrowing appetite which presents buying opportunities for investors interested in both short and longer dated securities, especially at the upper end of the yield curve, as investors can purchase longer term securities to maximise returns. Eurobond prices in the frontier and emerging markets have significantly dropped and consequently yields have increased. This may present an opportunity for investors to increase their returns on their Eurobonds investments.

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