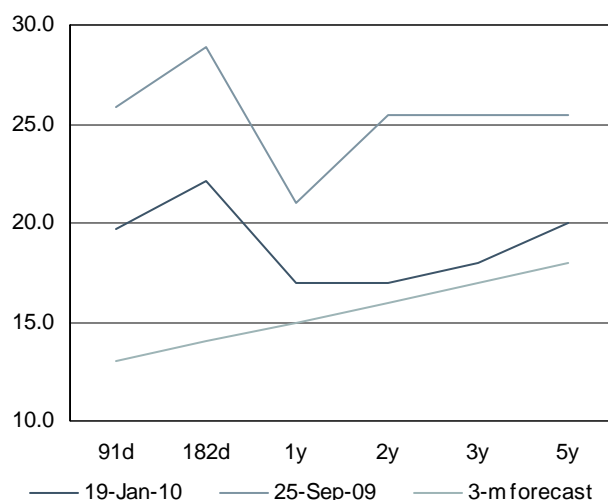


Ghana: Let the good news roll

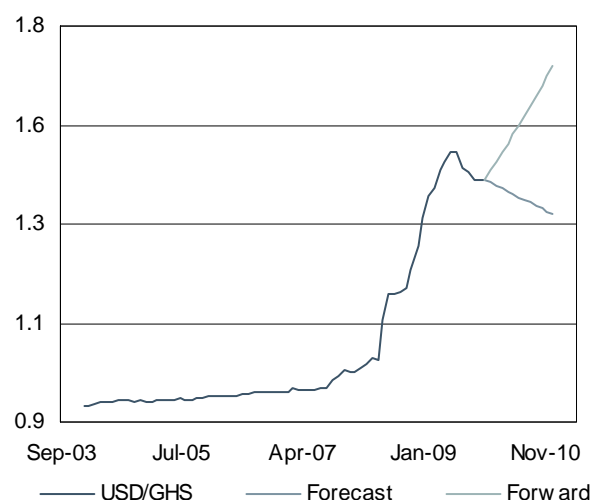
- Political risk: managing structural change** The transition to a new government diluted the policy environment but fiscal consolidation seems sound. The key issue will be the management of oil revenues.
- GDP growth: looking for an upward revision** GDP and thus GDP growth may have been underestimated for many years. We expect a sharp upward revision of around 50% to the GDP level towards early Q2:10. We foresee GDP growth of 22% y/y in 2011.
- Balance of payments: bridging finance** We estimate the C/A deficit at USD 1.7bn in 2009 (11.5% of GDP). We see FX reserves building to USD3.6bn by end-10 as GHS confidence returns, opening up portfolio financing via T-bond, equities and the switching back into GHS deposits.
- Fiscal policy: smoothing into oil revenue** Although Ghana's headline fiscal deficit still looks excessively expansionary, a balanced budget is envisaged in 2012. The outturn for 2009 looks around 10.2% of GDP. The 2010 budget envisages this reducing to 7.5% of GDP.
- Monetary policy: solid easing bias** We expect a 200 bps cut mid-Feb and another 400 bps during the year, taking the reference rate to 12.0%. The headline inflation rate could fall to 7-8% y/y by mid-2010.
- Bond curve outlook: bull flattening** We expect yield compression along the length of the curve, but some bull flattening, with the front-end rallying harder than the back-end, fostering a more upward-sloping curve.
- FX outlook: USD/GHS meandering lower** We see USD/GHS trading down to 1.35 by end 2010. We are constructive on portfolio inflows into the duration bond trade and cheap equity market. We see the large interest rate differential as attracting some carry trade interest and an unwinding of the USD1.7bn of local FX deposits.
- Equity market: constructive** The average PE is currently around 20. Despite clear valuation difficulties, Ghana's solid structural transformation story as oil comes on line means that we are broadly constructive on future earnings.

Changes in yield curve



Source: Reuters, Global Markets Research

USD/GHS: forwards versus forecasts



Source: Bank of Ghana, Global Markets Research

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Ghana: let the good news roll

Quarterly indicators												
	Q1:08	Q2:08	Q3:08	Q4:08	Q1:09	Q2:09	Q3:09f	Q4:09f	Q1:10f	Q2:10f	Q3:10f	Q4:10f
GDP (% y/y) pa	7.2	7.2	7.2	7.2	5.1	5.1	5.1	5.1	5.3	5.7	6.4	6.4
CPI (% y/y) pa	13.3	16.9	18.1	17.6	20.2	20.5	19.5	16.0	12.0	6.0	7.0	8.0
M2 (% y/y) pe	30.0	34.5	33.2	31.2	26.9	29.2	22.1	20.0	18.0	16.0	20.0	22.0
CA/GDP (%) pe	-23.7	-19.2	-37.9	-24.1	-9.7	1.9	-19.7	-18.7	-6.3	3.2	-17.3	-18.1
FX reserves (USD bn) pe	2.2	2.2	2.3	2.1	1.7	1.7	2.2	2.8	3.0	3.2	3.4	3.6
Import cover (months) pe	2.7	2.6	2.5	2.6	2.5	2.5	3.2	6.3	4.6	5.1	5.7	7.6
3-m rate (%) pe	11.0	16.0	20.0	24.7	25.4	25.8	25.0	24.0	20.0	16.0	13.0	12.0
5-y rate (%) pe	14.0	16.0	28.0	28.0	28.0	28.0	28.0	28.0	20.0	18.0	16.0	14.0
USD/GHS pe	0.98	1.15	1.15	1.28	1.41	1.50	1.45	1.43	1.39	1.37	1.36	1.32
NEER pe	92.0	97.0	98.0	101.0	104.0	106.0	109.0	112.0	115.0	117.0	114.0	115.0
REER pe	157.0	175.0	178.0	195.0	205.0	220.0	225.0	231.0	232.0	234.0	229.0	235.0
USD/GHS vol (20 day)												

Notes: pe — period end; pa — period average; na — not available.

Source: Bank of Ghana, Ghana Central Statistical Service, Global Markets Research, Bloomberg

Political risk: managing structural change

The transition to a new government under the NDC significantly diluted the policy environment during much of H1:09. Despite the slow start, the NDC government has been prepared to grapple with the thorny issue of fiscal overspending and has introduced meaningful austerity measures, including removing a number of subsidies despite their popular appeal. Certainly, the IMF remains reasonably happy with the fiscal consolidation under the terms of the Jul 2009 USD600m new PRGF lending, and along with the WB, their policy conditionality provides reasonable assurances regarding prudent MT fiscal policy. Yet the key issue remains the management of oil revenues which will start in early 2011. A failure to create a strong savings mechanism and sovereign wealth fund will bring risks of a repeat of the natural resource curse seen elsewhere.

2008 election results

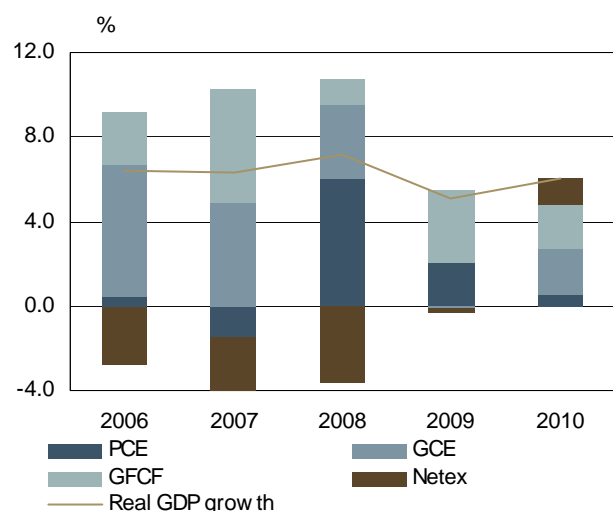
Presidential election	Party	% of votes
2nd round run-off		
Prof. John Atta-Mills	NDC	50.23
Nana Akuffo Addo	NPP	49.77
Legislative election	Seats	
New Patriotic Party (NPP)	108	
National Democratic Congress (NDC)	115	
People's National Convention (PNC)	2	
Convention People's Party (CPP)	1	
Independent	4	
Total	230	

Source: Ghana Electoral Commission

GDP growth: looking for an upward revision

It is our understanding that the Ghanaian authorities (confirmed by the IMF) believe that they have been underestimating GDP and thus GDP growth for many years. We expect a sharp upward revision of around 50% to the GDP level towards early Q2:10 and an upward revision in the annual growth rate to reflect the greater weighting of the more dynamic sectors of the economy that have been underestimated. At present, all our figures are based on the old numbers. The implications are clearly huge. Not least, many of the risk measures that we calculate will have a significantly lower denominator, markedly reducing fiscal and C/A deficits, debt ratios and even the relative large size of government spending compared to GDP. That said, it may reduce the size of the impact of oil production on GDP, which we had felt would push up GDP growth to 22% y/y in 2011.

Composition of GDP



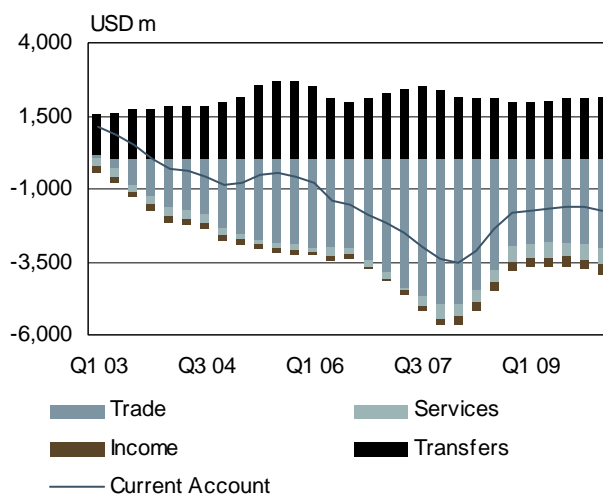
Source: Bank of Ghana, Global Markets Research

Ghana

Balance of payments: bridging finance

We estimate the C/A deficit to be around USD 1.7bn in 2009 (11.5% of GDP). While still significant it is considerably down from the huge USD3.5bn (26.2% of GDP) registered in 2008, via a combination of lower oil prices and less fiscal-led domestic demand. Moreover, much of the import demand is linked to large foreign direct investment projects suggesting the basic balance is more or less flat. Indeed, FX reserves have been rebuilt to USD2.8bn at end 2009, from USD2.0bn at end 2008 and USD1.7bn at end Jun-09, albeit with the help of IMF and WB funds. We believe financing a similar USD1.7bn C/A deficit in 2010 will prove fairly straight forward, especially given the extra oil earning from early 2011. We see FX reserves building to USD3.6bn by end 2010 as GHS confidence returns opening up portfolio financing via T-bond, equities and the switching back into GHS deposits.

Current account developments



Source: Bank of Ghana, Global Markets Research

Fiscal policy: smoothing into oil revenue

Although Ghana's headline fiscal deficit still looks excessively expansionary, the MT planning objective of blending the consolidation into the start of oil revenue in 2011 looks reasonable. A balanced budget is envisaged in 2012, even including a provisional 1.7% of GDP line item for an oil fund. In the meantime, the outturn for 2009 looks around 10.2% of GDP (including 5.6% of GDP in grants). The 2010 budget envisages this reducing to 7.5% of GDP (with grants of 5.3% of GDP). Crucial to keeping the budget on track will be the ongoing use of market pricing for petrol in light of higher expected international oil prices. Other key issues will be the successful introduction of the new comprehensive public pay system, dealing with arrears and holding down debt service payments via lower interest rates and extending the average maturity structure of government debt.

Central government budget

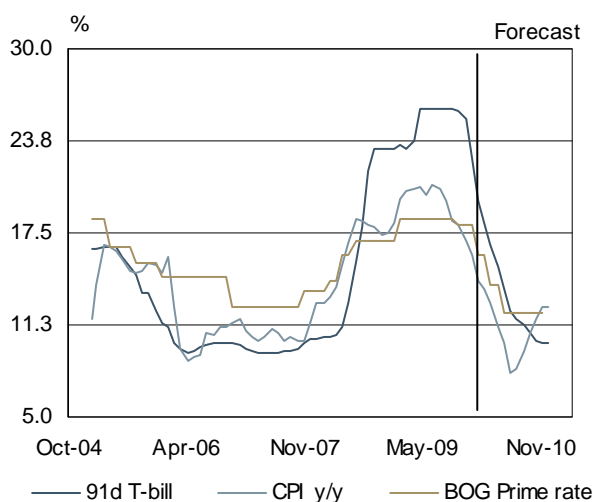
% of GDP	2008	2009	2010
Total revenue	32.5	33.3	37.1
Total expenditure	47.4	40.4	41.6
- recurrent	22.4	28.1	29.4
- debt service	3.2	4.9	5.2
- development/transfers	21.6	11.2	10.9
Overall balance (- grants)	-20.2	-15.8	-12.8
Overall balance (+ grants)	-14.9	-10.2	-7.5
Net external borrowing	5.8	3.6	2.1
Sale of Assets	4.1	0.0	0.0
Net domestic borrowing	6.7	6.0	4.9
Donor support (grants and HIPC)	5.3	5.6	5.3

Source: Ghana Ministry of Finance, Global Markets Research

Monetary policy: solid easing bias

We are looking for a period of strong monetary easing during 2010. While the cycle got off to a tentative start in Nov 2009, with a 50 bps cut in the reference prime rate, we see this accelerating starting with the next MPC meeting scheduled for mid-Feb, where we see a reasonable chance of a 200 bps cut. We see another 400 bps of easing during the year, taking the reference rate down to 12.0%. These interest rate reductions are in line with expectation a marked period of disinflation, with the headline inflation rate falling to 7-8% y/y by mid-10. Key to the expected continuation of the disinflation is the strength/stability of GHS, the moderation in fiscal expansion and thus domestic demand, which is limiting monetary growth: M2 was 25.8% y/y in Sep 2009, compared to 43.6% in Sep 2008. The key inflation risks come from higher international oil prices.

Inflation and interest rates



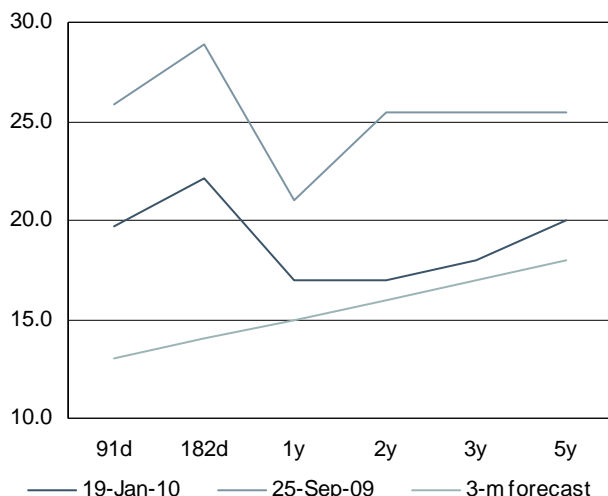
Source: Bank of Ghana, Global Markets Research

Ghana

GHS Bond outlook: bull flattening

We are looking for a continuation of the recent marked yield compression along the length of the curve in coming months. That said, we suspect there will be a degree of bull flattening, with the front-end rallying harder than the back-end, fostering a more upward-sloping curve. The front-end (T-bills) will clearly rally in line with our expectation for disinflation and monetary easing. The front-end will also be assisted by a reduction in issuance as the authorities extend the issuance of longer-term paper. Yet the segmentation of the market created by the foreigners only being allowed to hold 3y or longer-dated bonds at initial issue, suggests the risks are to us being too conservative on duration. Importantly, while the longer-term outlook for inflation remains unclear, the likely improvement in the fiscal position in 2011 suggests government financing needs are set to decline.

Changes in yield curve

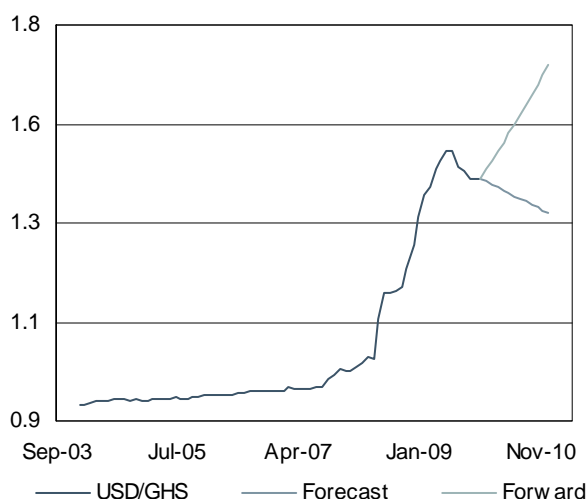


Source: Reuters, Global Markets Research

FX outlook: USD/GHS meandering lower

We are fairly constructive on the GHS on a multi-month basis, seeing USD/GHS trading gently down to 1.35 by end 2010. Importantly, the USD/GHS level remains broadly managed by the BOG who remains the largest provider of USD to the market. We suspect the BOG is sympathetic towards GHS stability or even moderate strength in order to bring inflation down and allow lower local interest rates. Yet perhaps more pertinently, we also believe the BOG will have sufficient FX ammunition to enable such a policy. Although the C/A deficit remains high, much of it is financed by FDI and official aid financing. We are also constructive on portfolio inflows into the interesting duration bond trade and cheap equity market. In addition, we see the large interest rate differential as attracting some carry trade interest and an unwinding of the USD1.7bn of local FX deposits.

USD/GHS: forwards versus forecasts

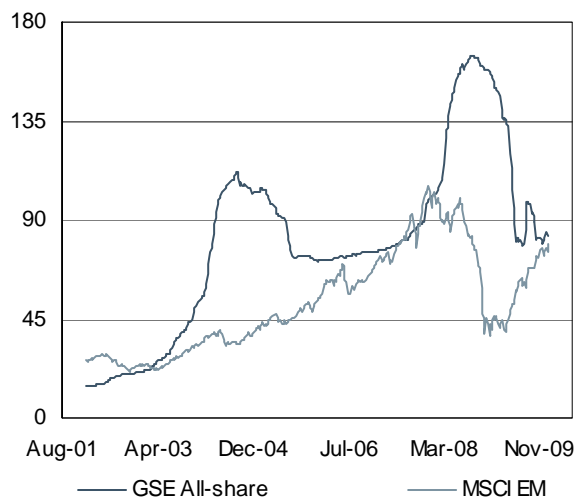


Source: Bank of Ghana, Global Markets Research

Equity market: constructive

Although notionally Ghana's equity market is a reasonable size at USD14.3bn, some USD10.6n of this is Anglo Gold Ashanti, which does not really trade on the market. The residual small USD3.7bn is dominated by four names which account for USD2.4bn of the market cap. Trade is understandably thin. The large concentration also throws out the average PE, which is currently around 20. Ecobank Transnational Inc, for example, (market cap of USD1.0bn) has a historic PE of 235. Despite clear valuation difficulties, Ghana's solid structural transformation story as oil comes on line means that we are broadly constructive on future earnings. Moreover, the sharp (potentially 50%) upward revision in GDP (expected in early Q2:10) is clearly valuation-positive, especially for consumption focused stocks.

Ghana Stock Exchange



Source: Bloomberg

Ghana

Ghana: annual indicators

	2005	2006	2007	2008	2009	2010f	2011f
Output							
Population (million)	22.1	22.5	23.0	23.4	23.8	24.3	24.8
Nominal GDP (GHSbn)	9.7	11.5	14.0	17.3	21.5	24.5	33.2
Nominal GDP (USDbn)	10.7	12.5	14.5	13.5	15.0	18.2	25.6
GDP / capita (USD)	483	553	630	578	631	748	1,033
Real GDP growth (%)	5.9	6.2	6.3	7.2	5.1	6.0	22.0
Gold production ('000 FO)	2,124	2,120	2,215	2,400	2,550	2,700	2,900
Cocoa bean production ('000 MT)	537	741	620	676	720	740	750
Timber production ('000 CM)	466	455	460	455	465	465	450
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-6.9	-13.9	-14.1	-20.2	-15.8	-12.8	-7.8
Budget balance (incl. Grants) / GDP (%)	-3.0	-9.3	-9.8	-14.9	-10.2	-7.5	-3.8
Domestic debt / GDP (%)	17.9	26.1	26.5	27.7	29.0	33.0	31.7
External debt / GDP (%)	59.2	17.5	24.8	24.6	29.2	29.5	26.1
Balance Of Payments							
Exports of goods (USDbn)	2.8	3.7	4.2	5.3	5.5	6.1	7.8
Imports of goods (USDbn)	5.3	6.8	8.1	10.3	8.4	9.1	10.5
Trade balance (USDbn)	-2.5	-3.0	-3.9	-5.0	-2.9	-3.0	-2.7
Current account (USDbn)	-0.8	-0.8	-1.9	-3.5	-1.7	-1.7	-1.2
- % of GDP	-7.2	-6.5	-13.0	-26.2	-11.5	-9.6	-4.7
Capital & Financial account (USDbn)	0.8	0.9	2.3	2.6	2.4	2.5	2.0
- FDI (USDbn)	0.1	0.3	0.9	1.1	0.7	1.1	1.0
Basic balance / GDP (%)	-0.8	-2.4	-2.7	-15.3	-0.4	-1.9	-0.8
FX reserves (USDbn) pe	2.0	2.3	2.8	2.1	2.8	3.6	4.2
- Import cover (months) pe	4.4	3.8	3.6	2.4	4.0	4.7	4.8
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B+	BB-	BB
Moody's	NR	NR	NR	NR	NR	NR	NR
Fitch	B+	B+	B+	B+	B+	BB-	BB
Monetary & Financial Indicators							
Consumer inflation (%) pa	15.1	11.0	10.7	16.5	19.1	8.3	13.4
Consumer inflation (%) pe	14.8	10.5	12.7	17.6	16.0	8.0	8.0
M2 money supply (% y/y) pa	19.8	38.8	36.3	32.2	28.1	22.5	22.5
M2 money supply (% y/y) pe	14.1	38.8	40.0	31.2	25.0	20.0	25.0
BOG discount rate (%) pa	16.8	14.3	12.7	15.4	18.1	15.3	10.0
BOG discount rate (%) pe	15.5	12.5	13.5	17.0	18.5	12.0	8.0
3-m rate (%) pe	11.4	10.7	10.6	24.7	24.0	11.0	8.0
1-y rate (%) pe	16.5	13.5	12.0	21.0	21.0	11.0	9.0
2-y rate (%) pe	17.0	15.2	12.5	20.0	30.0	12.0	10.0
5-y rate (%) pe	n/a	14.5	15.0	28.0	32.0	13.0	11.0
USD/GHS pa	0.91	0.92	0.94	1.12	1.36	1.39	1.33
USD/GHS pe	0.91	0.92	0.97	1.28	1.43	1.35	1.30
NEER pa	88.2	85.5	86.5	97.0	107.8	115.3	118.0
REER pa	134.1	138.2	145.8	176.3	220.3	232.5	250.0

Notes:

pe — period end; pa — period average; nr — not rated; na — not available. The cedi was rebased in mid 2007 by 10,000. For easier reference historical data has also been rebased.

Source: Bank of Ghana, Ghana Central Statistical Service, Global Markets Research, Bloomberg

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