Namibia Capital Markets
Fixed Income Analysis
June 2021

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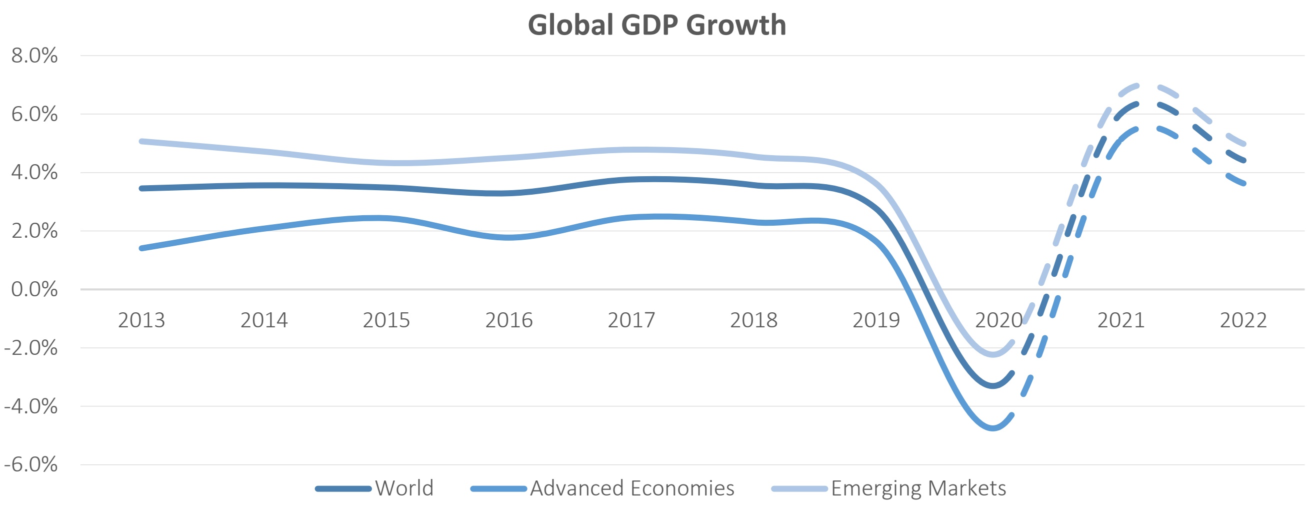
Global Macro

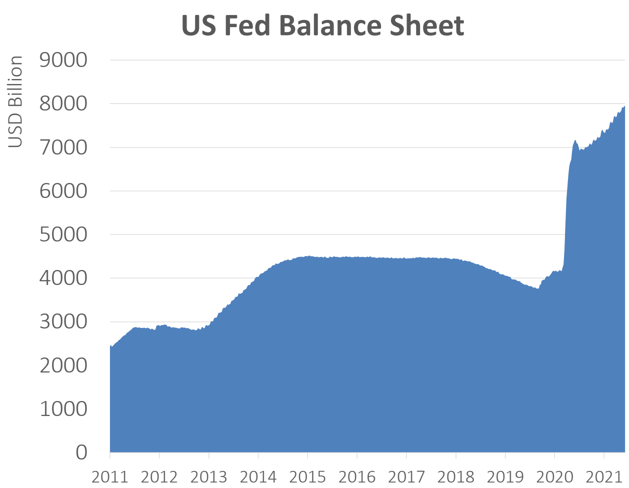
Little over one year into the pandemic, global growth prospects remain somewhat uncertain, with new variants of the virus and renewed outbreaks in certain parts of the world. The overall sentiment is however being lifted by growing vaccine availability and uptake. The IMF expects a strong global economic recovery in 2021 of 6.0%, but that it will be divergent growth paths between advanced economies and emerging markets. Many advanced economies are expected to surpass their pre-Covid GDP levels this year already, whereas slower vaccine roll-outs and limited fiscal policy and monetary support means that many emerging market economies only returning to their pre-pandemic levels in 2022 or thereafter.

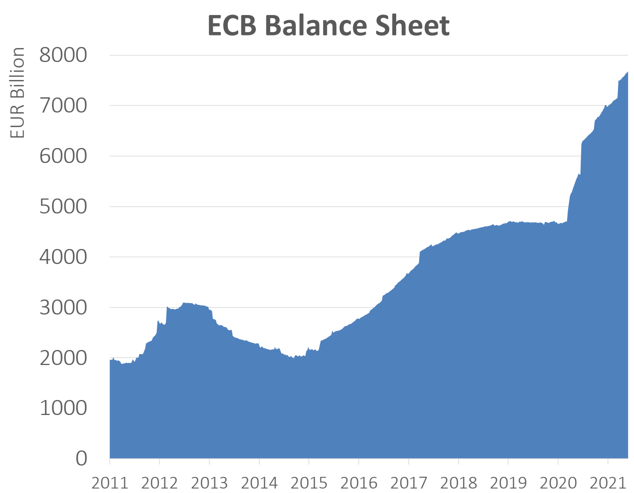


Source: IMF

Much of the global recovery is a result of expansive fiscal and monetary policy in developed markets. Many emerging market nations however did not have the same fiscal buffers as their developed counterparts and had to rely on looser monetary policy and debt-service postponement agreements, to weather the storm.

In the US, policy-making has started adjusting to a post-pandemic economic recovery. The Fed's tone turned slightly more hawkish at its June meeting, noting that they expect to start hiking interest rates in 2023, a year earlier than previously thought. Chair Powell also acknowledged that the Fed was now "talking-about-talking-about" tapering the US$120bn a month asset buying programme, as a result of an improved economic outlook for the US.





Source: Bloomberg

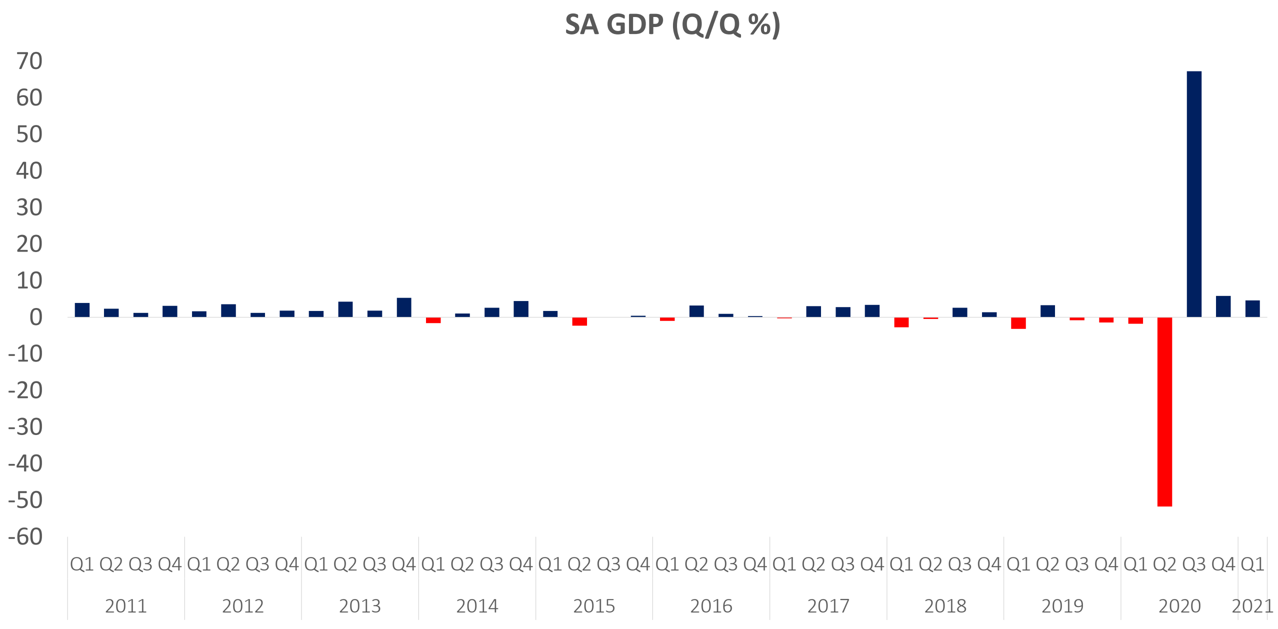
The ECB, however, seems to be on a different track. At its June meeting, the ECB's President, Christine Lagarde, said bond purchases under the €1.85tn pandemic emergency purchase programme (PEPP) would continue in the three months to September at "a significantly higher pace than during the first months of the year", indicating that it is not about to "taper" in the short-term. The ECB has just over €700bn of the overall €1.85tn left to spend in the PEPP. She added that although the economy was gradually reopening, and inflation was expected to continue rising this year, the central bank expects price growth to fade again next year.

South Africa

South Africa remains precariously placed in the global recovery due to the government's laid-back rollout of its vaccination program, sluggish pace of economic reform implementation, high debt burden and rolling electricity blackouts. The government is furthermore currently in a deadlock with public-sector unions regarding wage negotiations, which threatens the success of the National Treasury's fiscal consolidation plan.

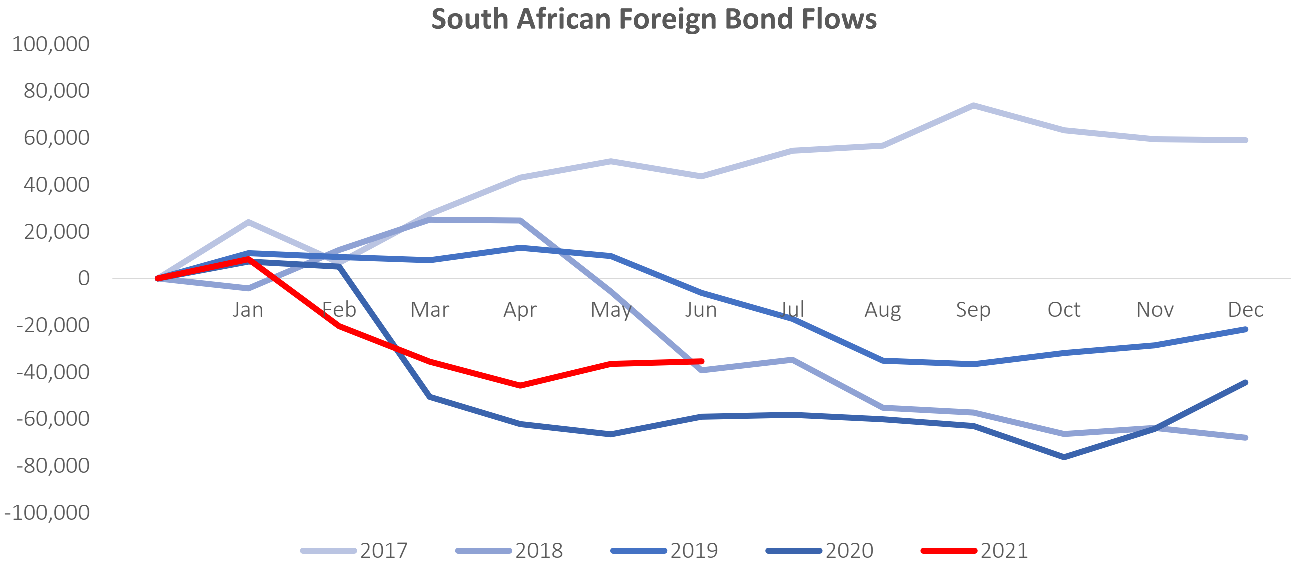
On the upside, South Africa has experienced 12 consecutive months of trade surpluses, which has translated into a current account surplus. This has mostly been driven by the sharp rise in commodity prices, which has seen the rand strengthening by 4.3% against the US dollar since the beginning of the year.

South Africa recorded quarterly GDP growth of 4.6% seasonally adjusted and annualised in Q1, which was well above the consensus forecast of 3.2%. The data release showed that the economic recovery is broadening with the exception of the construction, transport and accommodation sectors, while the mining sector was outperforming. Despite the positive growth trajectory for the country this year, the economy will remain significantly smaller than its pre-pandemic level, with the abovementioned factors weighing on growth.



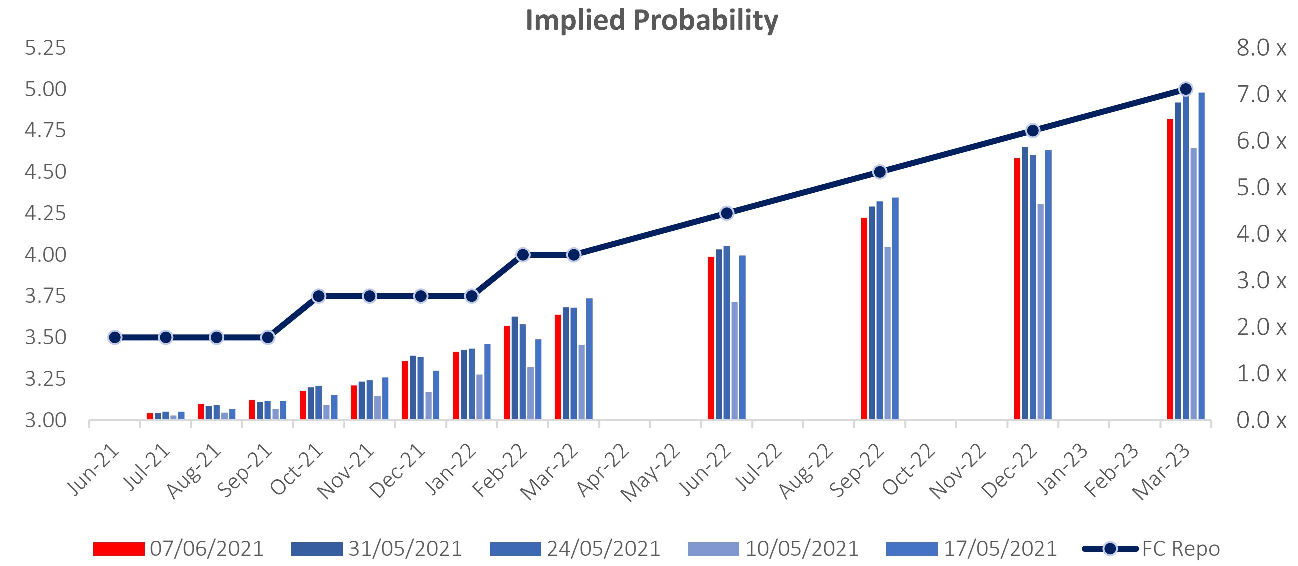
Source: StatsSA

Both S&P and Fitch affirmed South Africa's sovereign rating and outlook last month, while Moody's chose not to issue a ratings action. Fitch noted that the negative outlook reflects "continued substantial risks to debt stabilisation despite the better than expected fiscal outturns in the fiscal year ending March 2021". Unless the country's fiscal metrics deteriorate substantially in the short-term, expectations are that all the ratings agencies will keep South Africa's ratings unchanged for the rest of the year.



Source: Bloomberg, IJG Securities

According to Bloomberg, foreigners have been net sellers of South African bonds year-to-date. A total of ZAR2.24bn worth of sovereign bonds have been sold off by foreigner investors thus far in June, bringing the cumulative outflow year-to-date to ZAR38.7bn.

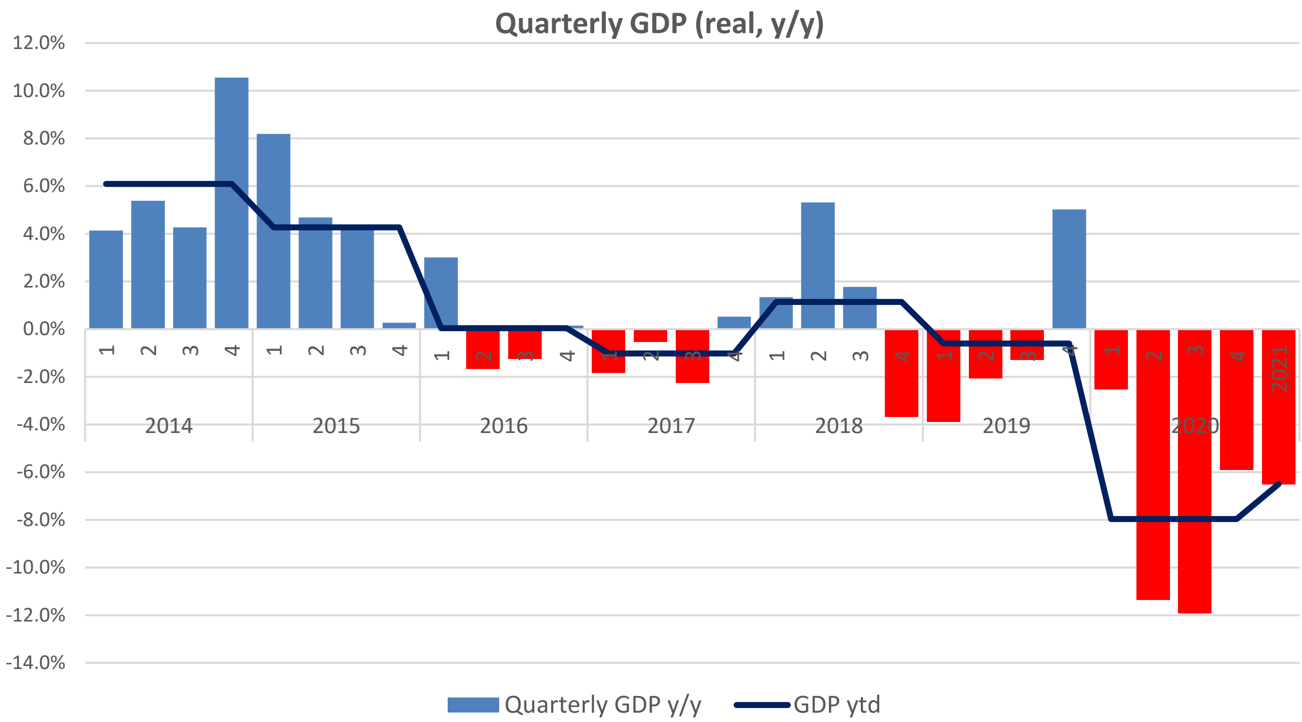


Source: Bloomberg, IJG Securities

The forward rate agreement (FRA) curve is currently pricing in one 25 bps interest rate hike before the end of the year. However, with record high unemployment, coupled with inflation that is expected to remain within the SARB's target band, it remains to be seen whether the reserve bank will start hiking rates this year. At its May MPC meeting, the SARB highlighted that they project that going forward, the stronger rand, ongoing moderation in unit labour costs and sustained economic slack are expected to offset higher electricity and food prices, keeping the headline inflation forecast relatively stable. The upside surprise to Q1 GDP and May inflation rate of 5.2% y/y provide some context for a possible rate hike as indicated by the FRA curve, although the SARB's projections for a strong rand and stable inflation going forward are still likely, in our view, to result in unchanged interest rates in 2021.

Namibia

Similar to South Africa, despite the expected growth in 2021 and 2022, the Namibian economy will remain significantly smaller than its pre-pandemic level. The Namibian economy is expected to grow by 2.7% in 2021 and 3.3% in 2022, according to the Bank of Namibia's February 2021 Economic Outlook. This follows the 8.0% contraction in 2020, the deepest in Namibian history. Namibia's only firepower against the economic impact of the pandemic was accommodative monetary policy and mildly expansive fiscal policy, which was limited due the preceding years of recession, high debt balance and weak government revenue outlook.



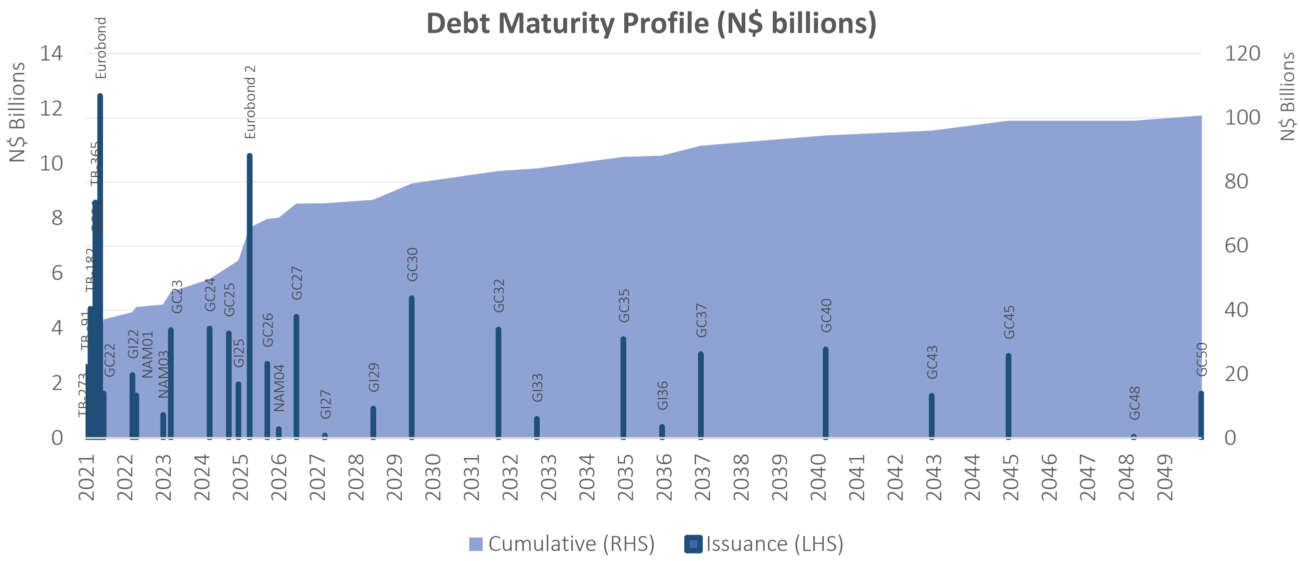
Source: NSA, IJG Securities

Namibia's vaccination campaign started in March this year and has thus far fully inoculated about 0.9% of the total population, while a further 4.7% of the population has received at least one jab. The government is currently aiming to vaccinate 80% of the population. The slow uptake of vaccines has mostly been due to a fear of vaccine safety. A recent survey by Afrobarometer showed that half of the 1,200 participants said that they are unlikely to get vaccinated even if the government says that the available vaccines are safe. As at the end of June Namibia has effectively run out of vaccines, thus the general attitude to vaccines has played little role in the onset of the third wave that Namibia finds itself in, with even those wishing to get vaccinated or go for a second shot now limited by availability. Namibia's deadly third wave will play out without much impact from vaccinations, but with major question marks around government's preparedness and response to the pandemic.

While the onset of the third wave does elevate the risk of additional measures by the government to curb the spread of the virus, which could further hamper economic growth, the president and the minister of health have on several occasions recently indicated that they are aware that "poverty also kills". Unfortunately, the severity of the current Covid situation in Namibia probably does warrant a strong response from government this time around. At the same time this is difficult to justify as the first few hard lockdowns, implemented in order to build capacity and prepare the healthcare sector, were not adequately used to build such capacity as is now becoming very evident.

Thus with limited fiscal support, historically low interest rates, slow vaccine rollout and few catalysts for growth, it is unlikely that the Namibian economy will return to its pre-pandemic GDP level soon. The 2020 real GDP level is comparable with levels seen in 2013 and catalysts for growth, while present in the form of low interest rates and a bull market in commodities, may not be able to deliver growth significantly above the negative 0.1% CAGR seen from 2015 to 2019. If the BoN forecast of 2.7% and 3.3% growth prove accurate for 2021 and 2022 respectively, growth of 3.0% will be needed in 2023 to arrive at 2015 real GDP levels.

Debt Issuance and Maturity Profile

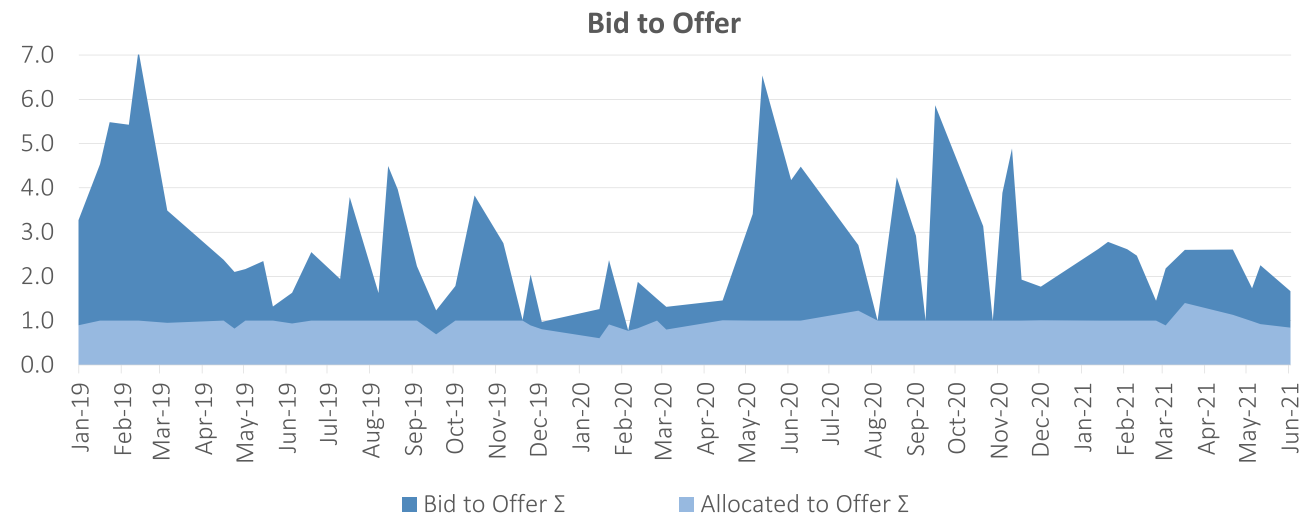


Source: BoN, IJG Securities

The borrowing plan released in May showed a markedly increased targeted domestic issuance of N$17.5bn for the 2021/22 financial year, compared to N$10.6bn in FY2020/21. This would be made up of N$4.59bn treasury bills, N$10.82bn fixed-rate bonds and N$2.1bn inflation-linked bonds. Namibia's debt maturity profile continues to be front-loaded. Currently, about 35% of Namibia's debt will mature before the end of 2021, while about 68% will mature within the next five years, largely as a result of the two Eurobond maturities in 2021 and 2025.

The government noted in May that it is on track to fully repaying the US$500m in Eurobond in November by means of a local debt swap. According to the Ministry of Finance, the government has, in collaboration with the GIPF, replenished its US$ and ZAR sinking funds to US$480m and US$92m, respectively, as of 17 May, after drawing down US$220m during 2020 to cover pandemic related expenses. In return for the GIPF repaying the loan, the government will offer domestic currency denominated debt to the GIPF.

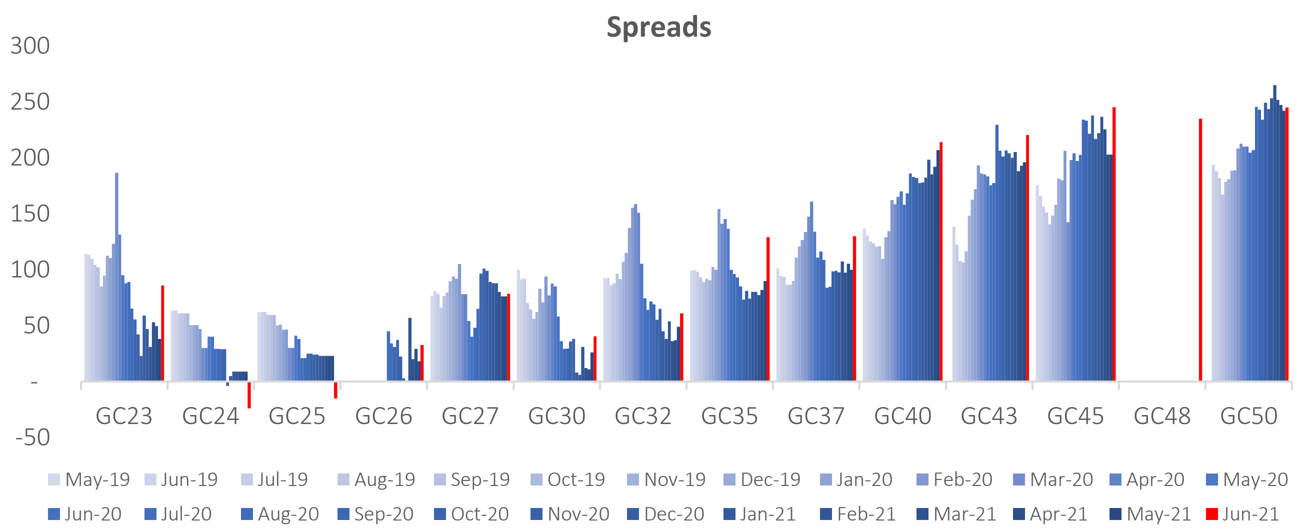
Vanilla Bonds



Source: NSA, IJG Securities

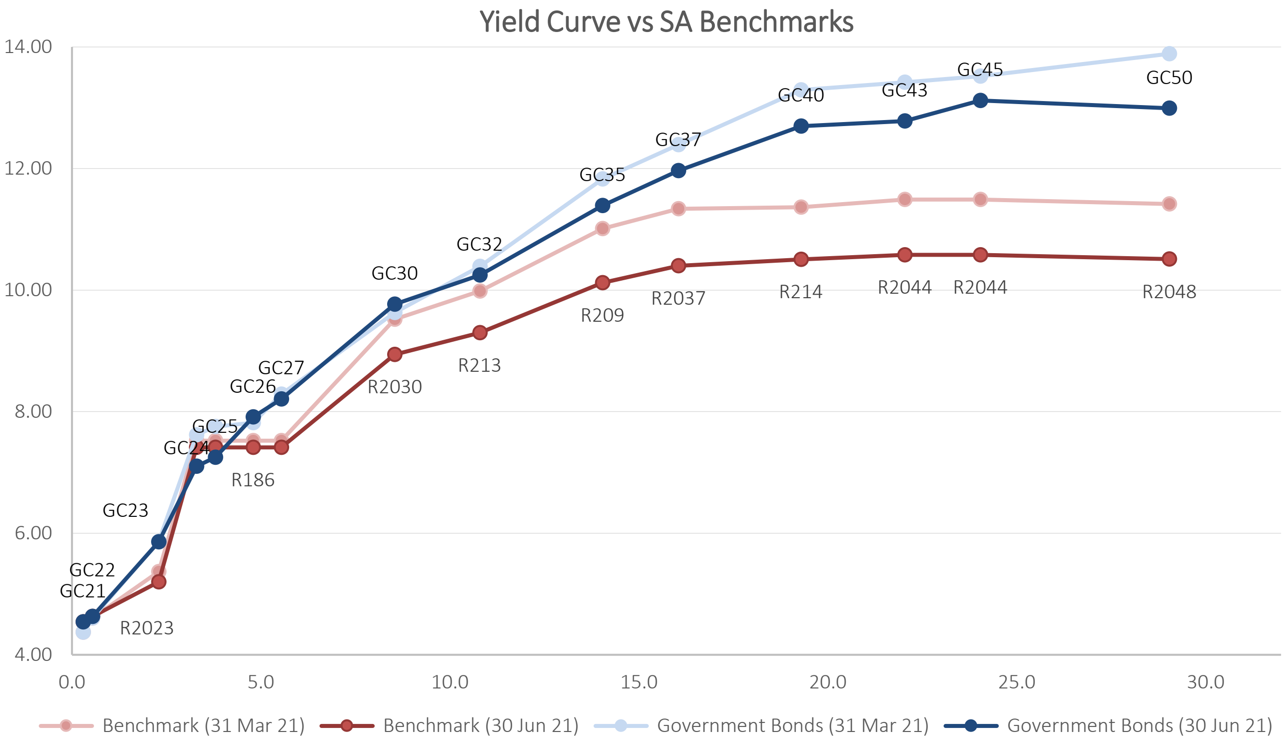
The short end of the domestic yield curve has seen strong demand since the start of the year, with the GC23, GC26 bonds recording bid-to-offer ratios of 3.1x, and 2.9x, respectively. The off-the-run GC24, GC25 and GC27 bonds were on offer at the large N$2.03bn auction in the beginning of June for the first time since the GC22 switch auction in July 2020. The bonds received the majority of the bids, reporting bid-to-offer ratios of 8.1x, 5.0x and 3.6x, respectively, and resulted in the spreads of the GC24 and GC25 turning negative. A new long-dated GC48 bond was introduced and was on offer for the first time at the same auction and received the same level of demand seen on the GC50.

The bonds lying between the GC32 and GC45 have fallen out of favour since the start of the year, with the bid-to-offer ratios of this set of bonds falling from an average 2.5x in January to 0.5x in June. Some market participants have tried taking advantage of the lower demand for these issuances by bidding at lower prices, but the BoN has on several occasions shown reluctance to accepting bids too far from market, either over-issuing on the popular shorter dated bonds to make up the shortfall or outright rejecting the bids, despite it resulting in a shortfall.



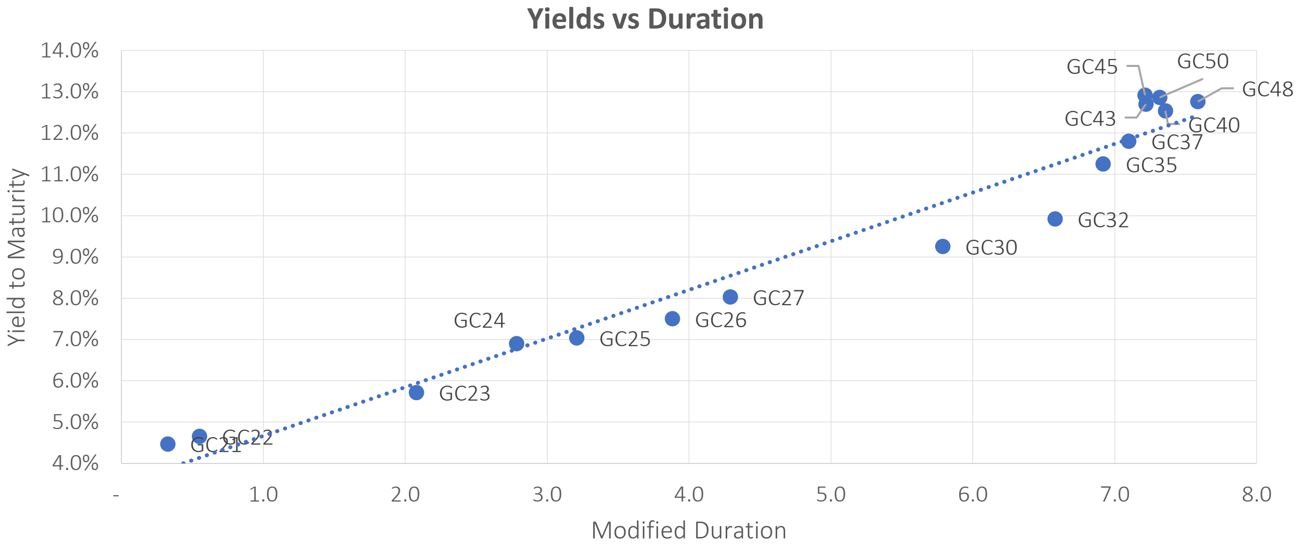
Source: BoN, IJG Securities

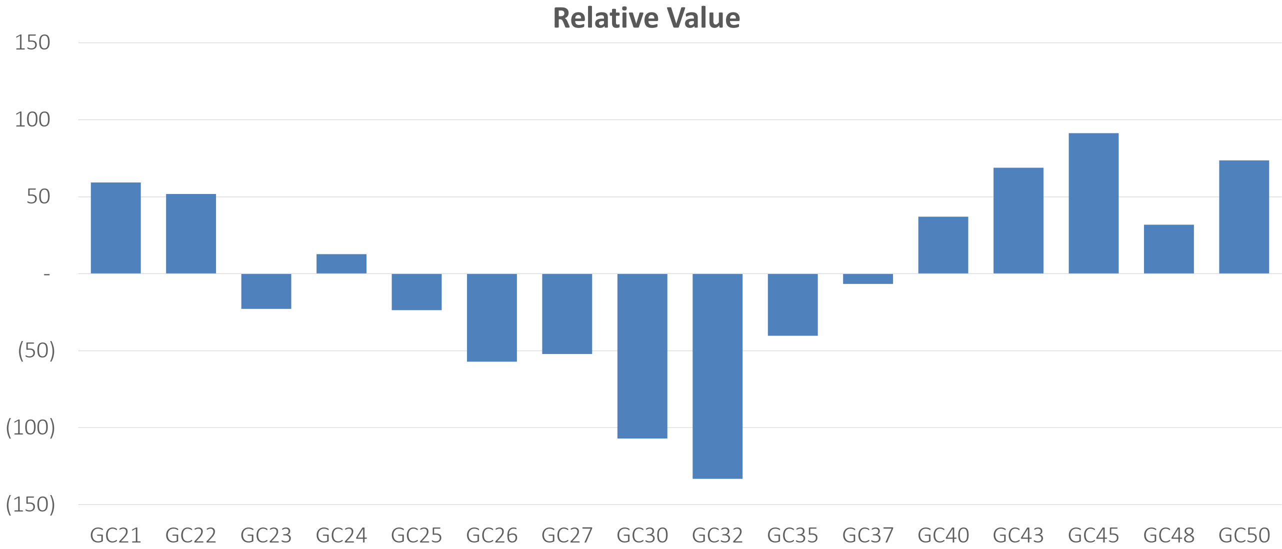
The spreads of the Namibian government bonds over their South African benchmarks have on averaged increased since the start of the year, with the unpopular longer end of the curve seeing the largest increases. This end of the curve has however benefitted from lower yields on the benchmark curve.



Source: Bloomberg, IJG Securities

The South African benchmark yield curve flattened conspicuously in the beginning of May after the National Treasury announced for a second time this year that it is reducing the size of its weekly fixed-rate bond auctions. The latest reduction saw the amount on offer dropping by ZAR900m to ZAR3.9bn. This came after the Treasury noted that the preliminary numbers showed “a gross borrowing requirement that is lower than the revised budget” with tax collections being higher than expected.

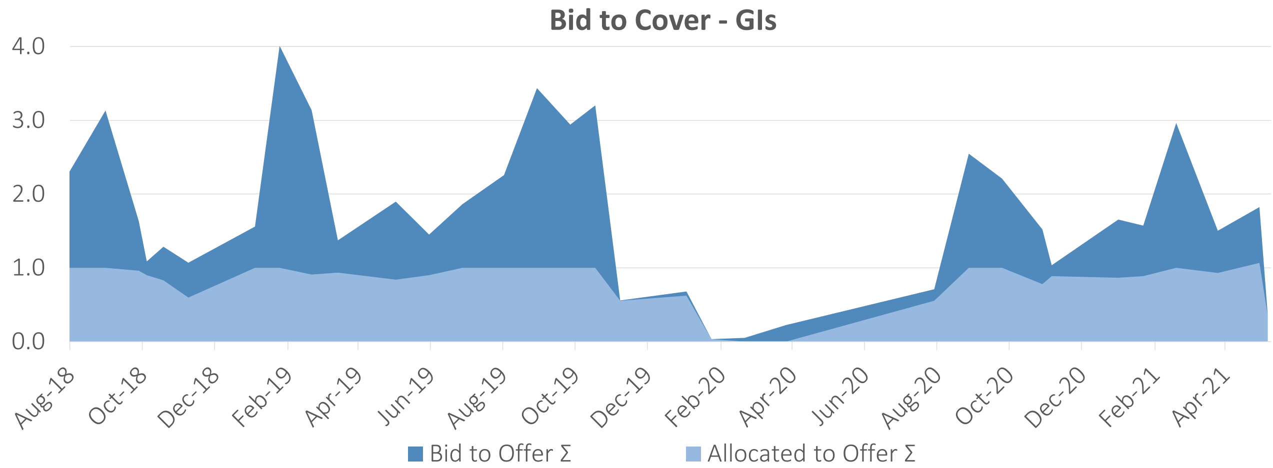




Source: IJG Securities

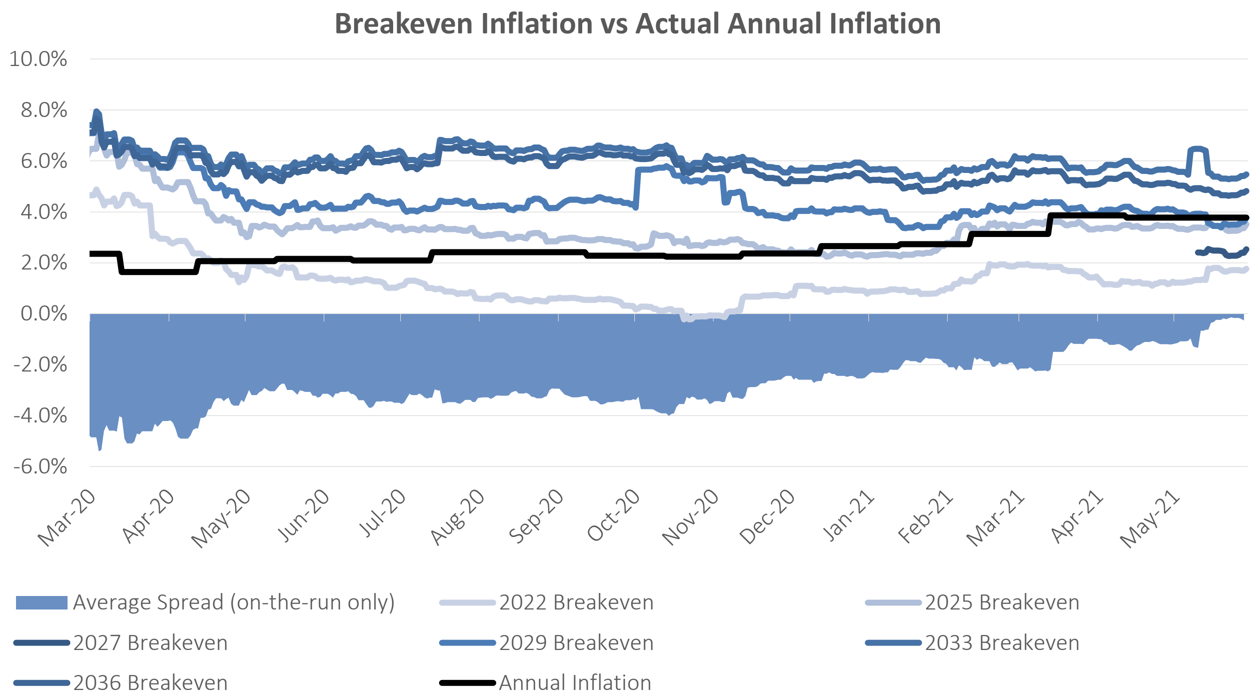
On a duration-adjusted basis, we see relative value in the longer-term issues from the GC40 to the GC50, whereas the bonds along the belly of the curve are currently trading at unattractive levels. Although they are off-the-run, relative to the treasury bills they are benchmarked against, the GC21 and GC22 seem attractive at their current yields.

Inflation-Linked Bonds



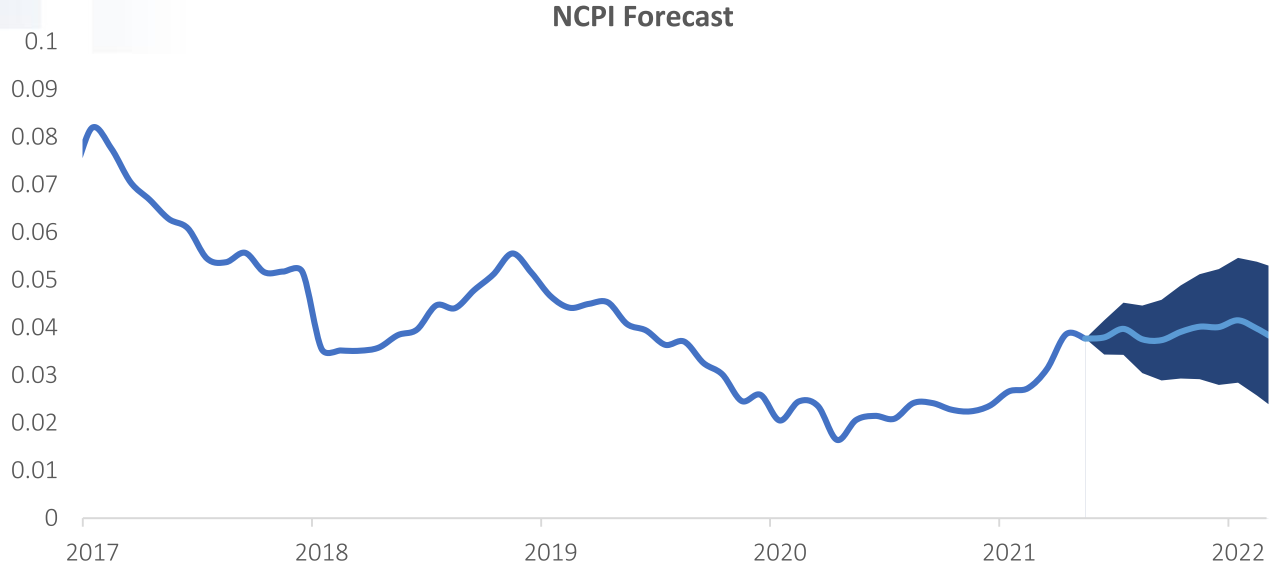
Source: BoN, IJG Securities

The inflation-linked bonds (ILBs) have seen considerably less demand at auctions this year than their vanilla counterparts. After dropping them from the issuance calendar for a few months last year due to low demand resulting from low inflation, the BoN reintroduced the ILB auctions in August, albeit at significantly lower amounts on offer. The amounts on offer were increased to N$25m per bond in April, with bid-to-offer ratios hovering around 1.4x and allocated-to-offer ratios around 0.8x as the BoN has been reluctant to issue these bonds at much higher yields than the last traded yields.



Source: BoN, IJG Securities

With Namibian annual inflation climbing to 3.8% in May, from the historic lows recorded in 2020, the mismatch with vanilla yields has been reduced. We currently view the GI29 as the only fairly priced ILB, while both the two longer bonds (GI33 and GI36) suffer from less favourable yields. The June auction saw the newly issued GI27 make its auction debut. The bond is trading at a reasonably attractive break-even inflation rate of 1.2% and we expect it to remain popular at auctions.



Source: NSA, IJG Securities

IJG's inflation model currently forecasts an average inflation rate of 3.6% y/y in both 2021 and 2022, indicating moderate inflation over the next two years. This is slightly below the SARB's expectations for SA inflation. The two biggest upside risks to Namibian inflation are higher global oil prices due to the recovery in economic output and food price inflation which has been the largest contributor to Namibian inflation over the last year-and-a-half.

Issuance Calendar

	Instrument	Closing Date (t)	Issue Date (t + 1)	Due Date
June 2021	IRS & ILBs	Wednesday, 02 June, 2021	Thursday, 03 June, 2021	
	91-day TB	Thursday, 03 June, 2021	Friday, 04 June, 2021	Friday, 03 September, 2021
	273-day TB	Thursday, 03 June, 2021	Friday, 04 June, 2021	Friday, 04 March, 2022
	181-day TB	Thursday, 10 June, 2021	Friday, 11 June, 2021	Thursday, 09 December, 2021
	Book Closure (GC22, GI25, GC27, GI29, GC30, GC35, GI36, GC37, GC43, GC45 & GC50)	Tuesday, 15 June, 2021		
	91-day TB	Thursday, 17 June, 2021	Friday, 18 June, 2021	Friday, 17 September, 2021
	273-day TB	Thursday, 17 June, 2021	Friday, 18 June, 2021	Friday, 18 March, 2022
	364-day TB	Thursday, 17 June, 2021	Friday, 18 June, 2021	Friday, 17 June, 2022
	GC22 Switch Auction	Wednesday, 23 June, 2021	Thursday, 24 June, 2021	
	364-day TB	Thursday, 24 June, 2021	Friday, 25 June, 2021	Friday, 24 June, 2022
July 2021	273-day TB	Thursday, 01 July, 2021	Friday, 02 July, 2021	Friday, 01 April, 2022
	364-day TB	Thursday, 01 July, 2021	Friday, 02 July, 2021	Friday, 01 July, 2022
	91-day TB	Thursday, 08 July, 2021	Friday, 09 July, 2021	Friday, 08 October, 2021
	Coupon Payments (GC22, GI25, GC27, GI29, GC30, GC35, GI36, GC37, GC43, GC45 & GC50)	Thursday, 15 July, 2021		
	182-day TB	Thursday, 15 July, 2021	Friday, 16 July, 2021	Friday, 14 January, 2022
	272-day TB	Thursday, 15 July, 2021	Friday, 16 July, 2021	Thursday, 14 April, 2022
	364-day TB	Thursday, 15 July, 2021	Friday, 16 July, 2021	Friday, 15 July, 2022
	IRS	Wednesday, 21 July, 2021	Thursday, 22 July, 2021	
	91-day TB	Thursday, 22 July, 2021	Friday, 23 July, 2021	Friday, 22 October, 2021
	182-day TB	Thursday, 22 July, 2021	Friday, 23 July, 2021	Friday, 21 January, 2022
	182-day TB	Thursday, 29 July, 2021	Friday, 30 July, 2021	Friday, 28 January, 2022
	273-day TB	Thursday, 29 July, 2021	Friday, 30 July, 2021	Friday, 29 April, 2022
	364-day TB	Thursday, 29 July, 2021	Friday, 30 July, 2021	Friday, 29 July, 2022
August 2021	IRS	Wednesday, 11 August, 2021	Thursday, 12 August, 2021	
	182-day TB	Thursday, 12 August, 2021	Friday, 13 August, 2021	Friday, 11 February, 2022
	273-day TB	Thursday, 12 August, 2021	Friday, 13 August, 2021	Friday, 13 May, 2022
	IRS	Wednesday, 18 August, 2021	Thursday, 19 August, 2021	
	91-day TB	Thursday, 19 August, 2021	Friday, 20 August, 2021	Friday, 19 November, 2021
	364-day TB	Thursday, 19 August, 2021	Friday, 20 August, 2021	Friday, 19 August, 2022
	ILBs	Tuesday, 24 August, 2021	Wednesday, 25 August, 2021	
	273-day TB	Wednesday, 25 August, 2021	Friday, 27 August, 2021	Friday, 27 May, 2022
	363-day TB	Wednesday, 25 August, 2021	Friday, 27 August, 2021	Thursday, 25 August, 2022
September 2021	91-day TB	Thursday, 02 September, 2021	Friday, 03 September, 2021	Friday, 03 December, 2021
	182-day TB	Thursday, 09 September, 2021	Friday, 10 September, 2021	Friday, 11 March, 2022
	364-day TB	Thursday, 09 September, 2021	Friday, 10 September, 2021	Friday, 09 September, 2022
	Book Closure (GC21, GI22, GC23, GC24, GC25, GC26, GC32, GI33 & GC40)	Tuesday, 14 September, 2021		
	ILBs	Wednesday, 15 September, 2021	Thursday, 16 September, 2021	
	91-day TB	Thursday, 16 September, 2021	Friday, 17 September, 2021	Friday, 17 December, 2021
	273-day TB	Thursday, 16 September, 2021	Friday, 17 September, 2021	Friday, 17 June, 2022
	GC22 Switch Auction	Wednesday, 22 September 2021	Thursday, 23 September, 2021	
	182-day TB	Thursday, 23 September, 2021	Friday, 24 September, 2021	Friday, 25 March, 2022
	364-day TB	Thursday, 23 September, 2021	Friday, 24 September, 2021	Friday, 23 September, 2022
	364-day TB	*Thursday, 30 September, 2021*	*Friday, 01 October, 2021*	*Friday, 30 September, 2022*

Source: BoN

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