



GLOBAL TREASURY INTELLIGENCE

Navigating Foreign Exchange Markets in sub-Saharan AFRICA

Damian Glendinning
talks to
Michele Maffei



**VIDEO
INTERVIEW
SERIES
Oct 2022**

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Navigating Foreign Exchange Markets in sub-Saharan AFRICA



In this series of five videos, Damian Glendinning talks to Michele Maffei ([LinkedIn bio here](#)), Head of International Sales, Global Markets at Standard Advisory London about the different approaches that treasurers can take to minimise levels of trapped liquidity when operating in sub-Saharan Africa. Although the discussions are focused on FX, they contain important messages and take-aways for managing businesses in the region.

In this slide deck

- **Links to individual video recordings**
- **Slides relating to the ideas and macro data discussed**

Navigating Foreign Exchange Markets in sub-Saharan AFRICA



Michele Maffei graduated from the LSE in 1983 with a BSc in Economics specializing in International Trade and Development. An Italian National, he has been working 39 years in banking in diverse businesses ranging from international commercial lending to trading in Global Markets since 1989, managing interest rate, fixed income, currency and credit trading & structuring businesses across Developed and Emerging Markets with JPMorgan Chase and before that Midland Bank International. Michele has been at Standard Bank since 2004 having been responsible for fixed income, currency trading and structuring businesses in East Europe and Asia, Head of Product Management for Investor Products and Head of eCommerce and Digitization for Global Markets until 2017. Michele is since 2018 the Global Markets Head of International Sales in London focussing on the delivery of African Global Market products, business development and relationship management of Multinational Corporations in Europe Middle East, North and South America.

Navigating Foreign Exchange Markets in sub-Saharan AFRICA



[Part I - Africa works, but it is different. How do you need to change to work there effectively?](#)

[Part II - To allow cash repatriation or to pay for imports, countries need exchange reserves and liquidity. Where do they get them from?](#)

[Part III - Do the benefits of an onshore treasury presence justify the risk and management time and effort?](#)

[Part IV - FX liquidity varies over time. How do you adapt and plan for this?](#)

[Part V - How risky are the different cash repatriation schemes people keep offering? How do you understand the risk involved?](#)

All above are links to YouTube videos

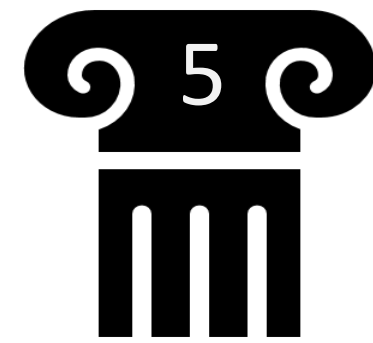
SUB-SAHARAN AFRICA FOREIGN EXCHANGE



Currency Regime



Convertibility



Liquidity



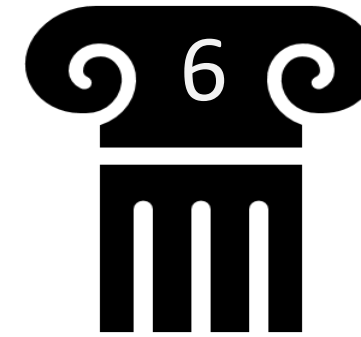
Interbank Market



Exchange Controls



Transferability

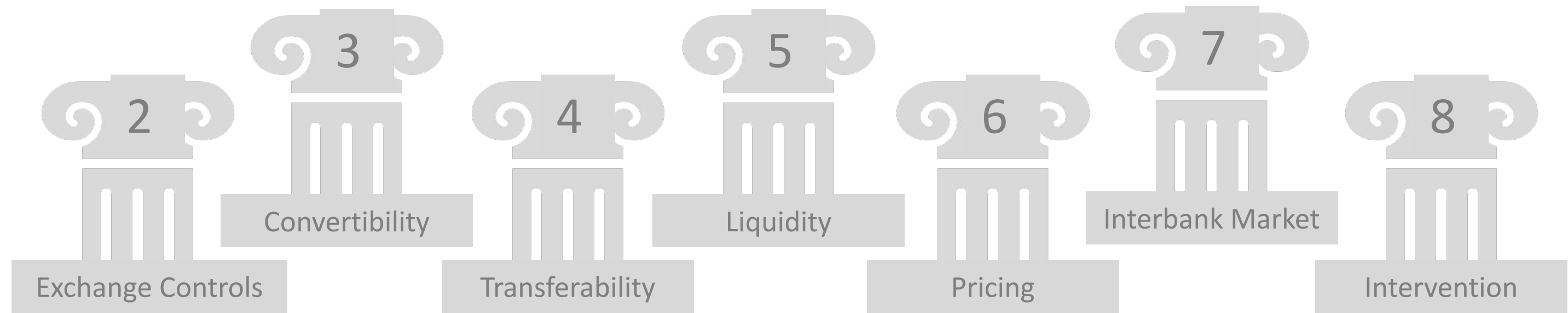


Pricing



Intervention

SUB-SAHARAN AFRICA FOREIGN EXCHANGE



Currency Regime

GROUP 1 - Freely Floating

GROUP 2 - Functioning Managed Float

GROUP 3 - Functioning Fixed or Dirty Float

GROUP 4 - Non-functioning Fixed

Drivers of Liquidity

- **Current Account** – The most significant account for an economy, excludes investment flows
 - Visibles – Traded goods - income & expenses – **TRADE BALANCE**
 - Invisibles – Services, Dividends & Royalties – **INVISIBLES BALANCE**
- **Capital Account** – Investment flows
 - Foreign Direct Investment, Foreign Portfolio Investment,
 - Deposits & Borrowings
 - Other flows (official flows IMF World Bank, AfDB, etc.)
- **Central Bank Reserves**
 - No. of months of import cover – minimum 3 months
 - Reserves to smooth currencies rather than fix or reverse
- **Currency ‘Overvaluation’**
 - The role of market expectations and CB policy
 - Inflation and productivity differentials
- **Seasonality**



TREASURY OPERATING MODEL

3 Operating models

- **Local presence / local Settlement**
- Central Treasury / Local Settlement
- Central Treasury / Offshore Settlement

Local presence / Local Settlement

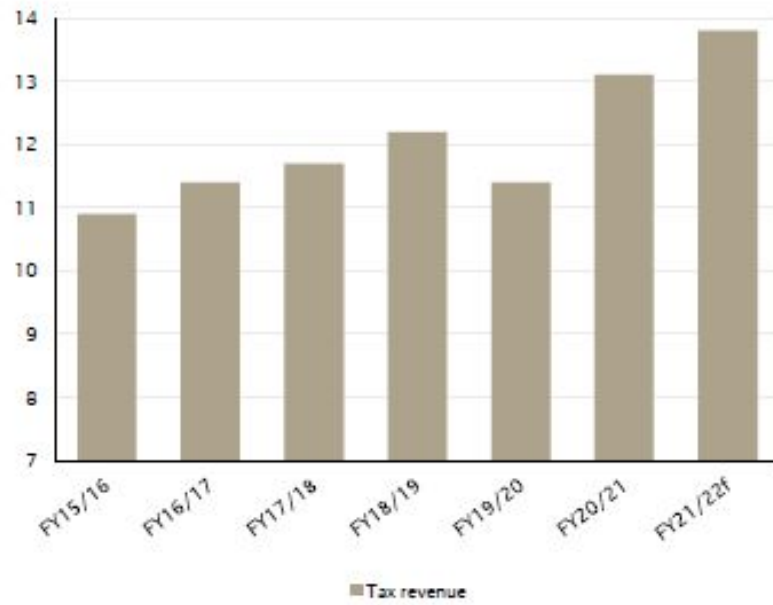
- Easier to deal with exchange control processes
- Helps with access to regulators for interpretation and response to requests
- Provides market Intelligence and 'local feel'
 - Connectivity with other local players provides valuable intelligence
 - Pricing and execution optimization, minimise market disruption
 - Early warning of stresses and variations in liquidity conditions
- Use multi-dealer platforms where possible to provide automation, control, accuracy and dealing governance

Managing Liquidity Risks

- Selection of banking partners
- Project cash needs – invoices, debt service, dividends
- Develop hedging strategies
 - Maturities
 - Costs
- Use FX derivatives to lock in liquidity
 - FX Forwards
 - Spot FX + FX Swaps – secure fx liquidity when its available and push it out to when needed
 - Deliverable FX Options
 - FX Convertibility options
- Retain spare bank lines capacity
 - Local currency to fund Currency B/S FX Swaps
 - US\$ working capital to settle maturing L/Cs
- Reading the ‘liquidity’ tea leaves
 - Procyclical government policies
 - Rising inflation, budget deficits
 - Global risk-off
 - Overvalued currencies
 - Reserves depletion & accumulation
 - Sovereign Eurobond pricing
 - Seasonality of exports and of invisible payments (dividends and royalties)
 - External sovereign debt service requirements
 - Agency programmes
 - Elections

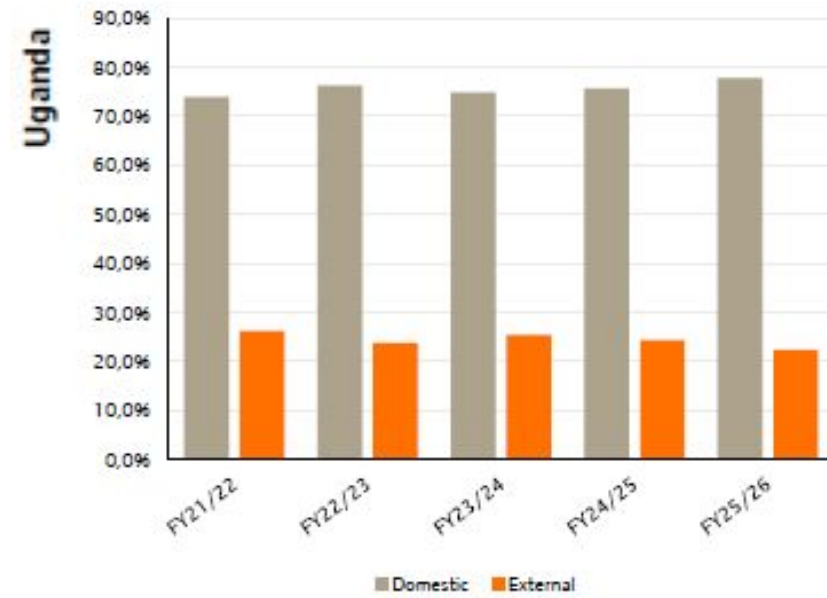
Drivers of Liquidity

Tax revenue (% of GDP)



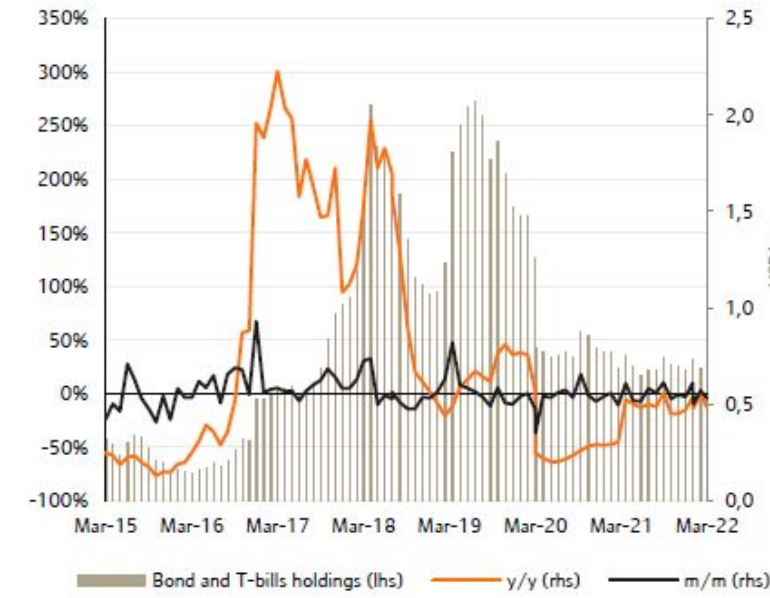
Source: Ministry of Finance

Total debt service breakdown



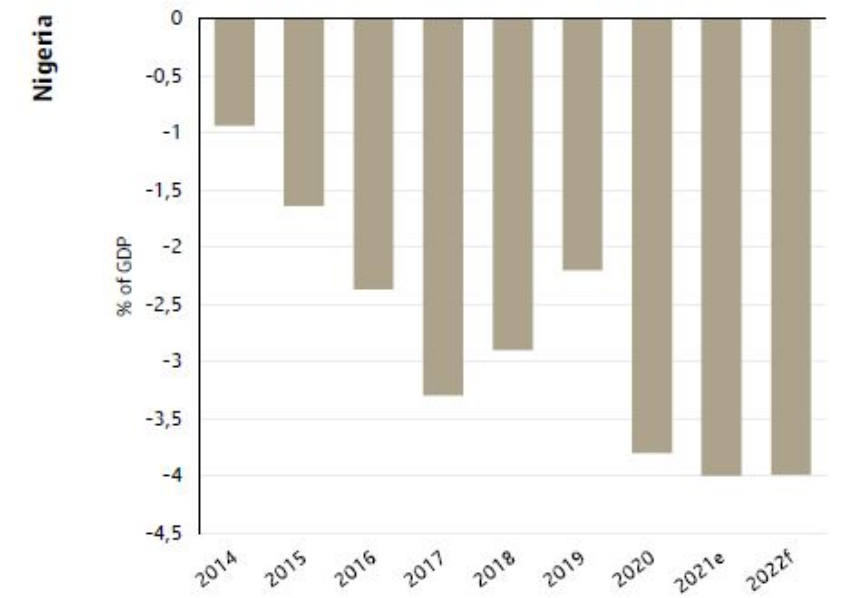
Source: Ministry of Finance

Domestic debt held by foreigners



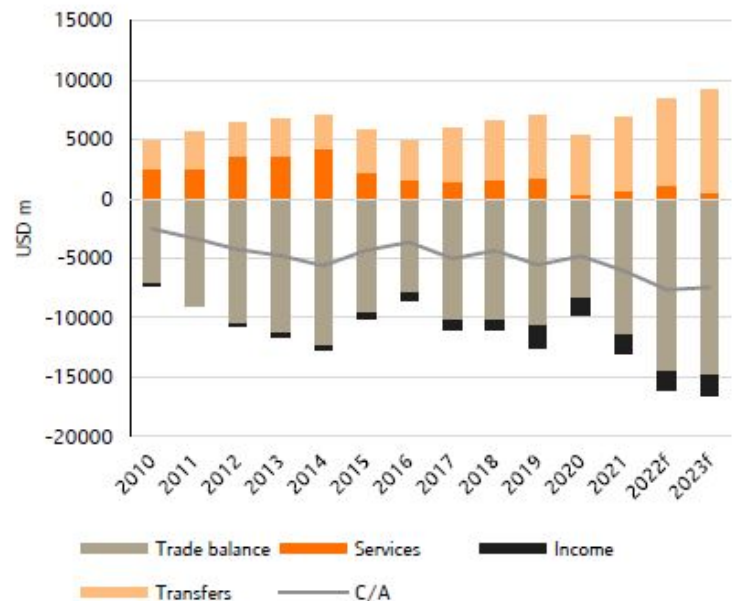
Source: Standard Bank Research

Fiscal deficit



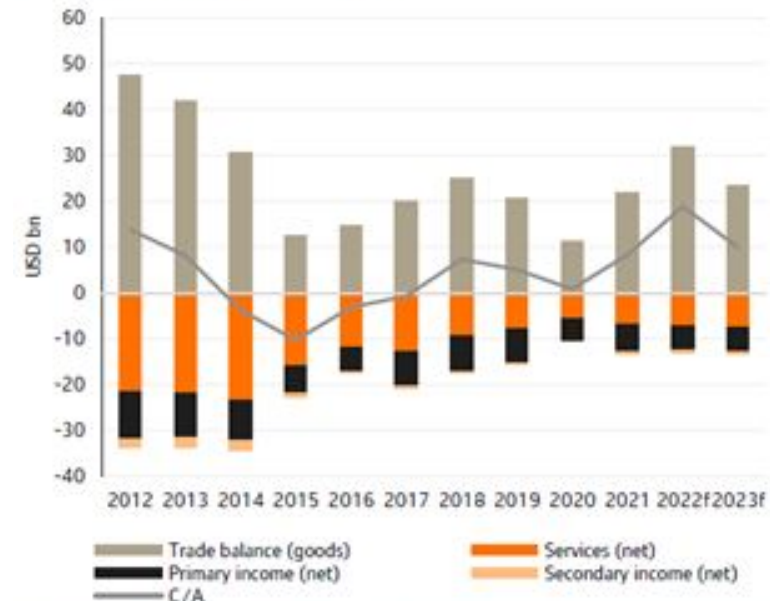
Source: Federal Ministry of Budget and National Planning

Current account developments



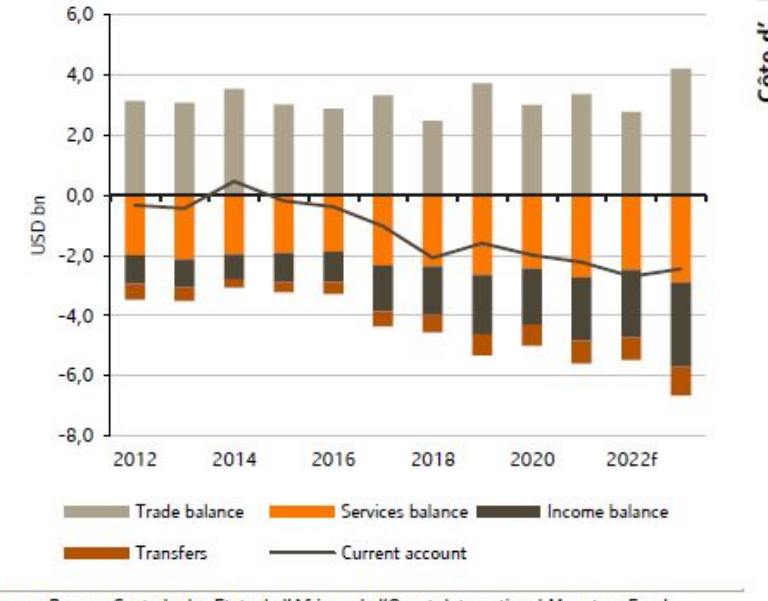
Source: Central Bank of Kenya; Standard Bank Research

Current account developments



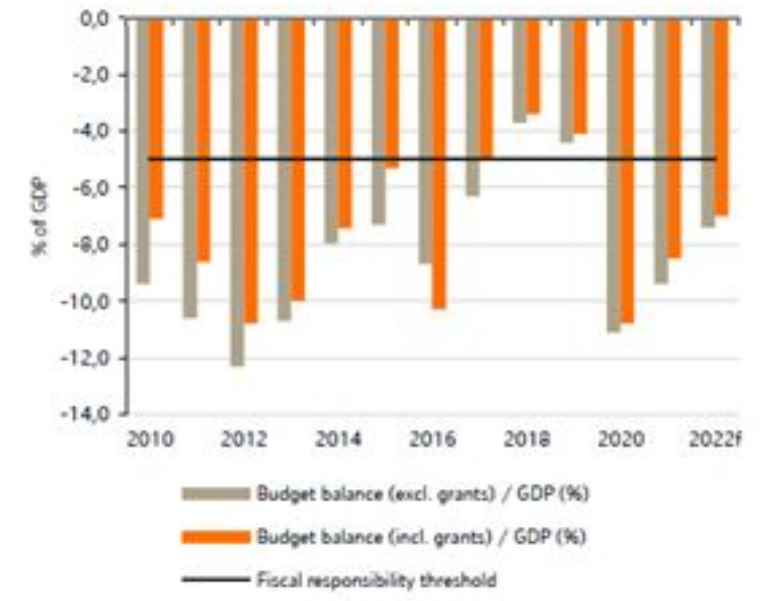
Source: Banco Nacional de Angola; Standard Bank Research

Current account developments



Source: Banque Centrale des Etats de l'Afrique de l'Ouest; International Monetary Fund; Standard Bank Research

Fiscal balance



Source: Ministry of Finance

Managing Liquidity Shortage

- Central Bank auctions / bilateral requests
- Parent company support
 - In-and out trades
 - Cross-currency swaps with backstop
- Access to off-shore liquidity if available
- Parallel Markets
 - ‘Transfer’ market
 - ‘Fee’ market
 - Cash/Bureau de Change
 - Local securities
 - Dual listed arbitrage
 - Reputational & regulatory risks
- Pricing considerations



APPENDIX

	Currency Regime	Convertibility	Transferability	Exchange controls	Liquidity	Interbank Market	Pricing	Central Bank Intervention
Group 1	Freely Floating (South Africa, Botswana, Namibia, arguably Lesotho, eSwatini because of their Rand peg)	Convertible onshore & offshore	<ul style="list-style-type: none"> Locals face exchange control restrictions on transfer of USD offshore, offshore no restrictions 	well defined, applied and enforced	well diversified providers and users of liquidity across industrial sectors, FI and Foreign Portfolio Investors (FPI)	meaningful source of liquidity	little or no dislocation between internal bank corporate, interbank and offshore pricing	Negligible at market extremes only
Group 2	Functioning Managed Floating (Kenya, Uganda, Zambia, Ghana, (2.5 - Rwanda, Burundi)	Convertible onshore & variable offshore	Locals and offshore face exchange control restrictions on transfer of USD offshore	regulations generally well defined but can be open to differing interpretations and enforceability	Liquidity at times compromised by exogenous events because of trade balance dislocations or imbalances between large number of users and small number of suppliers of currency (Oil & energy, Mining, Agri-traders, FI and Foreign Portfolio Investors)	interbank market generally functioning but can be sporadic	Occasionally local currency is offered at meaningful discount to 'bank corporate', offshore market and Central Bank intervention	Central Bank has sufficient reserves and usually but not always willing or able to intervene to manage liquidity imbalances
Group 3	Functioning Managed Floating or Pegged (Tanzania, Mozambique, Angola, Cote' D'Ivoire & XOF countries, XAF (3.5 Malawi)	Non-convertible or partially convertible not available offshore except for local bonds	Only against approved documentation for import of goods, services or for capital repatriation	regulations well defined, applied and enforced	Can be sporadic because supply often concentrated in the hands of a small number commodity exporters or central bank	Sporadic and or functioning by appointment	Fixed and or heavily controlled by the Central Bank	central bank has sufficient reserves and is willing to act as provider of liquidity of last resort by intervening in interbank market
Group 4	Non-functioning Pegged (Nigeria, Zimbabwe, Ethiopia, lots of other small ones)	Non-convertible currencies countries with meaningful current account deficits financed by foreign portfolio investors	Only against approved import or capital repatriation documentation		exposed to deep imbalances in the numbers of providers and users of liquidity and which as a result can suffer very meaningful and prolonged supply shortfalls	Non existent, at times non-functioning	Currencies typically heavily overvalued fostering development of Parallel / Offshore markets at deep discount to official rate	<ul style="list-style-type: none"> Formal allocation through CB windows to local banks only Unwilling to provide intervention because of policy and/or because of limited reserves

USDMZN – 2y Chart – example of market disruption

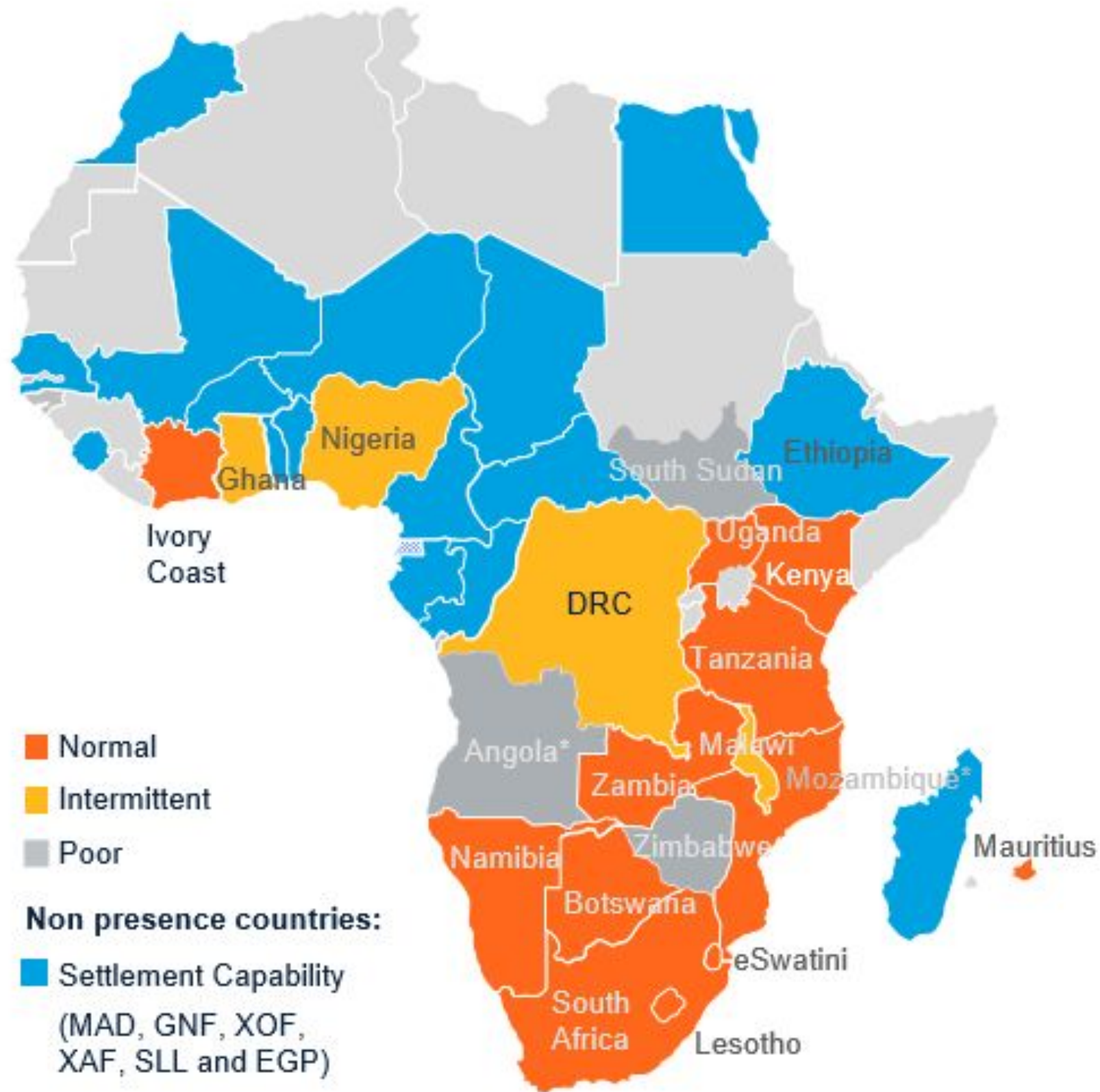
USD to MZN Chart

• 1 USD = 63.875 MZN Aug 1, 2022, 10:10 UTC

US Dollar to Mozambican Metical



Africa - Current liquidity Heat Map



Liquid Markets

- Forward Exchange Contracts (FECs)
- Non Deliverable Forwards (NDFs)
- Options
- Cross Currency Swaps (CCS)
- Structured Solutions

Limited Liquidity Markets

- Forward Exchange Contracts (FECs)
- Non Deliverable Forwards (NDFs)
- Borrow in Local Currency

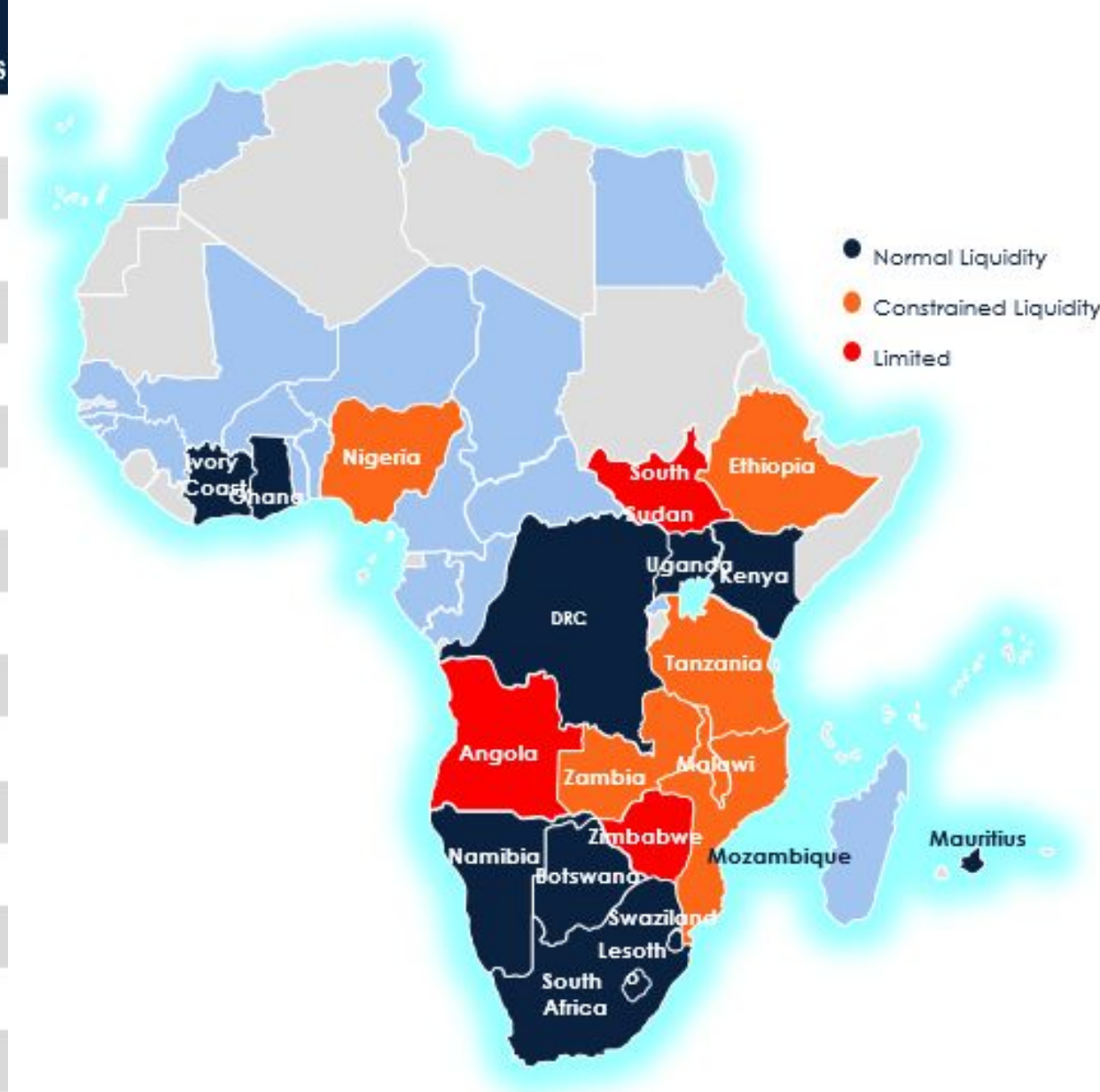
Illiquid Markets

- Proxy Hedge
- Bespoke Solutions

Africa Country/Product Matrix



Country		Deliverable			Non - Deliverable	
		FX Spot	FECs & Swaps	FX Options	NDFs	FX Options
ANGOLA	AOA	✓	✗	✗	✓	✗
BOTSWANA	BWP	✓	✓	✓	✗	✓
COTE D'IVOIRE	XOF	✓	☑	✗	✓	✗
DRC	CDF	✓	✓	✗	✗	✗
GHANA	GHS	✓	✓	✓	✓	✓
KENYA	KES	✓	✓	☑	✓	✓
LESOTHO	LSL	✓	✓	☑	✓	✓
MALAWI	MWK	✓	✓	✗	✓	✗
MAURITIUS	MUR	✓	✓	✓	✗	✓
MOZAMBIQUE	MZN	✓	✗	✗	✓	✗
NAMIBIA	NAD	✓	✓	✓	✓	✓
NIGERIA	NGN	✓	✓	✓	✓	✓
SOUTH SUDAN	SSP	✓	✗	✗	✗	✗
ESWATINI	SZL	✓	✓	☑	✓	✓
TANZANIA	TZS	✓	✓	☑	✓	✓
UGANDA	UGX	✓	✓	✓	✓	✓
ZAMBIA	ZMW	✓	✓	✓	✓	✓
ZIMBABWE	-	✓	✗	✗	✗	✗
SOUTH AFRICA	ZAR	✓	✓	✓	☑	☑



ü Yes û No ☐ Subject to restrictions

- Non-deliverable instruments are offered outside of local market, mostly from SBSA or SBL. In SA, the NDF is offered via Yield X in country and is a listed future, cash settled in ZAR.
- Availability of deliverable Spot, Forwards and Options will depend on liquidity in markets and are subject to availability. Please note that regulation changes may impact our ability to offer product. Tenor constraints may apply.

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