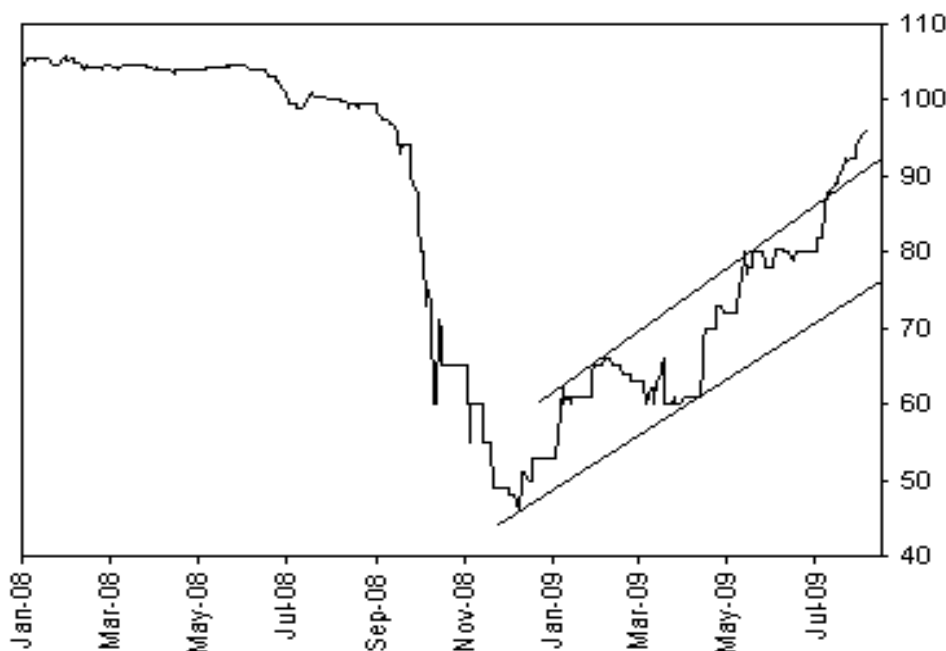


Ghana, Congo And Ukraine: Enter, If You Dare

Thu Aug 6, 2009 3:59pm BST

With risk appetite still on and markets racing ahead, I have been seeking out some of the more unconventional, 'frontier' plays. These are not for the faint-hearted but I like the look of several sovereign bonds – Ghana's US\$ 2017 global bond, Republic of Congo's US\$ 2029 global bond and Ukraine's US\$ 2013 global bond. In each case, there are compelling reasons to like the instruments.

Ghana looks great right now. Sure, I was worried back in February when twin deficits on the current account and fiscal account threatened to cripple the economy. But following a helping hand from the multilaterals and a recent visit by Barack Obama during which he heaped praise on the nation, sentiment has recovered and is riding high. As my colleagues at Business Monitor International (BMI) tell me, we are going to see a major transformation in Ghana over the coming years, after domestic oil production begins in late 2010. BMI are forecasting real GDP growth of 12.4% by 2011 and the twin deficits being wiped out by 2012 – impressive stuff. It is hardly surprising, then, that the US\$ 2017 global bond has rallied by over 30% since April. My colleagues at BMI caught this move perfectly, having initiated a bullish position on April 17 in their mock portfolio. The gains are not over yet, though: currently at US\$96.38, I can easily see a move back up to the pre-credit crunch level of US\$105.00.

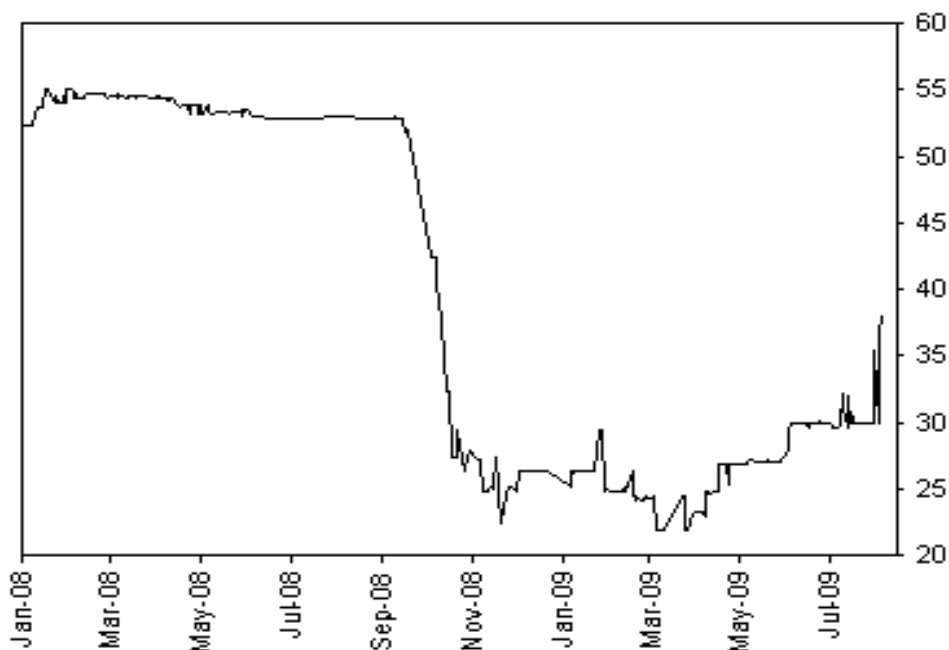


Ghana US\$ 2017 Global Bond

Second up is the Republic of Congo's US\$ 2029 external bond. Considering the country has no formal credit rating and has been ruled by the same president for decades, it is a classic junk bond. This probably explains why the paper was issued at a heavy discount of just US\$55.00 back in 2007, compared to its US\$100.00 par value. Despite these 'minor' shortcomings, my

colleagues at BMI believe there are several things which make the paper a potentially attractive choice for investors with a (very) high risk threshold.

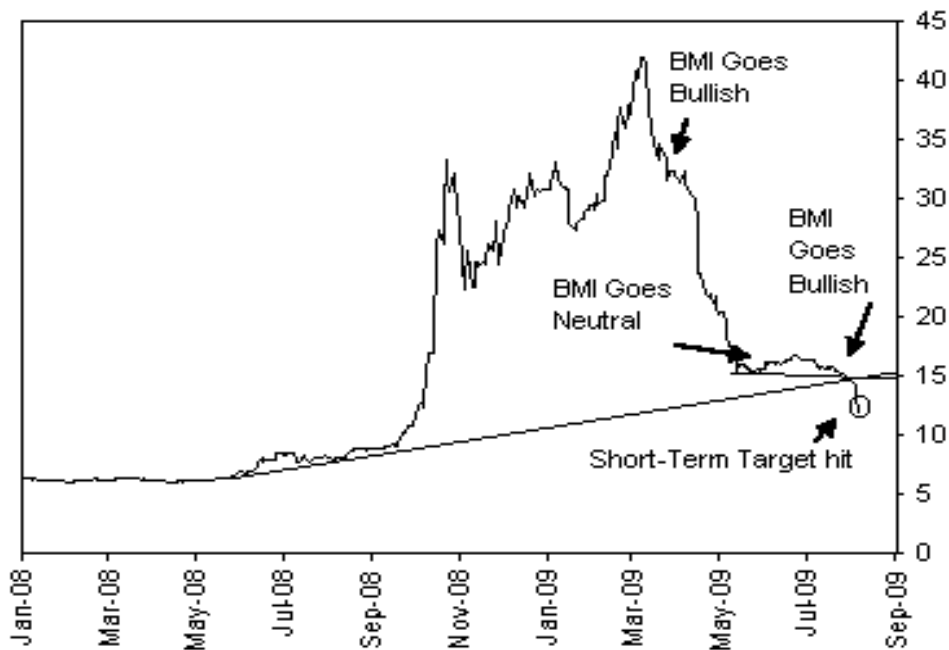
- First, aside from the relatively calm re-election of President Denis Sassou Nguesso in July, the country's oil industry is experiencing some sort of a renaissance. Oil output is expected to increase by 16.0% and 20.0% in 2009 and 2010, respectively, which bodes well for the country's export balance and external creditworthiness.
- Second, a low coupon of just 2.50% will ensure that the government's ability to pay interest payments will not be significantly stretched, which will make a default very unlikely over the medium term.
- Third, given the bond's sell-off in Q408 was mainly due to international risk aversion and not country-specific factors, a renewed increase towards that level will be a distinct possibility, especially with oil prices looking stronger and risk sentiment improving.
- Fourth, the bond continues to look attractive on a technical basis. At one point trading at US\$38.37 on August 4, the bond has rallied by around 26.0% since my colleagues at BMI flagged up its upside potential in mid-July. Despite the recent gains, I believe there could be further choppy upside ahead. There is little technical resistance until US\$52.50 (just below its issuance value at which it traded as recently as September 2008), and an increase towards that level would present a 36% price appreciation.



Republic of Congo US\$ 2029 Global Bond

Last (and probably least), is Ukraine. Whereas my bullish stance on Ghana's bond is predicated to a degree on relatively sound macroeconomic fundamentals, the same can certainly not be said here. To be sure, I've harped on ad nauseam about the macroeconomic hurricane engulfing the country, in addition to BMI's forecasts for trend growth beyond 2010 to set in at a considerably lower rate compared to pre-crisis levels. Rather, in addition to looking good on a technical basis, my bullish view on the US\$ Global 13 bond has been based more on a belief that investor risk

sentiment towards the country has been a bit out of whack, with the yield on the instrument trading as high as 42% at one point in the first quarter of the year. At this point, the market was basically pricing in a full-on implosion of the domestic economy. However, as my BMI colleagues informed me, with the IMF looking increasingly flexible regarding the conditions of its emergency lending to Kiev, they remained confident that the government would be able to avoid a sovereign default and meet what minimal external liabilities they had this year. With Ukraine's finance ministry announcing on August 5 that it had redeemed its 5-year US\$500mn Eurobond, it appears as though this view has played out nicely.



Ukraine US\$ 2013 Global Bond (Yield, %)

While I hate to be a party pooper (or 'agua fiesta' as my colleagues on the Latin America desk refer to me as), I don't know if this is necessarily cause for celebration. Ukraine's economy is still projected to contract by 14.7% this year, with marginal growth of only 1.3% pencilled in for 2010, according to BMI forecasts. Moreover, domestic politics remain a mess, and will only likely deteriorate further in the run-up to presidential elections in January 2010. So, while Ukraine has avoided a worst-case scenario for the time being, significant challenges nevertheless lie ahead.