



Fixed income monthly update | March 2021

NTB yields take center stage

Resurgence in bond yields lingers: Bond yields in the secondary market rose once again, this time by 78bps MoM in March to settle at 9.27% (February: +104bpsMoM). In weekly terms, yields trended mostly higher with the only exception being a 12bps decline posted in the second week of the month. Placing the focus on individual bonds, sell-offs were observed at the short-to-mid-end of the curve with downticks in the Jan-2022 (+346bps), Mar-2025 (+218bps) and Jan-2026 (+190bps) papers.

Demand and allotment hit year highs at bond auction: At the primary auction, the DMO stuck to their issuance calendar and offered a total of ₦150 billion across the 10-year, 15-year and 25-year reopening instruments. The offer was met with strong demand as total subscription came in at ₦333.48 billion which translated to a subscription rate of 2.22x, both figures being year highs. In a bid to take advantage of the robust subscription level, the DMO sold a total of ₦262.1 billion, eclipsing the allocations for January and February which stood at ₦170.36 billion and ₦202.55 billion, respectively. Furthermore, in line with the theme of rising rates seen so far this year, the average stop rate edged up 23bps to 11.33%, with the 25-year bond rate closing at a 9-month high of 12% (up 20bps from February's auction).

Average NTB yield crosses 4% mark: Over in the NTB space, the average yield crossed the 4% mark (up 264bps to 4.13%) for the first time in 12months as investors contended with tight funding levels for most parts of the month. Akin to what transpired in February, a surge in the 364-day (+457bps),

270-day (+386bps) and 182-day (+232bps) bills anchored the overall rise in yields. The upsurge could partly be as a result of investors selling off in the secondary market in search of more favorable rates in the primary market. Speaking of the primary market, 3 auctions took place during the month and we saw net-issuance on all three occasions with the DMO offering a total ₦231.65 billion worth of treasury bills (matching the amount that matured in March) while ₦315.49 billion was sold. A total subscription of ₦526.29 billion received by the DMO translated into year-high subscription rates being recorded in each of the first two auctions. To shed more light, despite a moderation in total subscription to ₦116.85 billion at the second auction, a total offering of ₦47.06 billion meant subscription rate printed at a new year-high of 2.48x (First auction: 2.21x). Meanwhile, the average stop rate climbed by a cumulative 83bps in March, driven solely by a 250bps hike in the 1-year stop rate to 8.00%.

No change in course from the CBN: It was more of the same from the CBN in the OMO market over the past month. They offered 74% (₦390 billion) of the total maturity (₦525.3 billion) at the auctions, slightly higher than the 71% they offered in February. Demand was strong across March with total subscription printing at ₦1.73 trillion (4.45x the offered amount). The total amount allocated at these auctions matched the total offered at ₦390 billion. The average stop rate remained unchanged at 8.53%, with the 1year rate at 10.10%; the same levels the rates have been since the first auction in February.

Table 1: Net PMA Issuances (in billion naira)

	OMO Net Issuances	NTB Net Issuance	Bond Apr-26	Bond Mar-27	Bond Apr-29	Bond Mar-35	Bond Jul-45	Bond Mar-50	Bond Total
Aug-20	-641	0	33.42			22.95	16.09	53.69	126.15
Sep-20	-944	-40	69.31			25.43	6.81	4.6	106.15
Oct-20	-1,329	0				22.50	27.50		50
Nov-20	-602	0				40.00	40.00		80
Dec-20	-1,452	0				20.00	10.00		30
Jan-21	-583	-129		70.90		83.43	16.03		170.36
Feb-21	-351	-20		85.62		98.90	18.03		202.55
Mar-21	-135	84		44.01		86.29	131.80		262.1

Source: FMDQ, ARM Research

Table 2: Average OMO, NTB and Bond stop rates

Rate as end of	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
1yr OMO	13.00%	12.99%	12.71%	9.90%	8.99%	8.99%	8.94%	8.70%	7.50%	7.50%	5.80%	5.74%	10.10%	10.10%
Avg NTB	4.23%	3.43%	2.73%	3.06%	2.53%	2.03%	2.10%	1.79%	0.61%	0.09%	0.58%	1.28%	3.67%	4.17%
Avg BOND	10.53%	11.83%	11.17%	11.17%	10.38%	8.81%	8.93%	8.09%	5.49%	5.39%	6.97%	8.56%	11.10%	11.33%

Source: FMDQ, ARM Research

Figure 1: 2021 Maturity profile (billion naira)

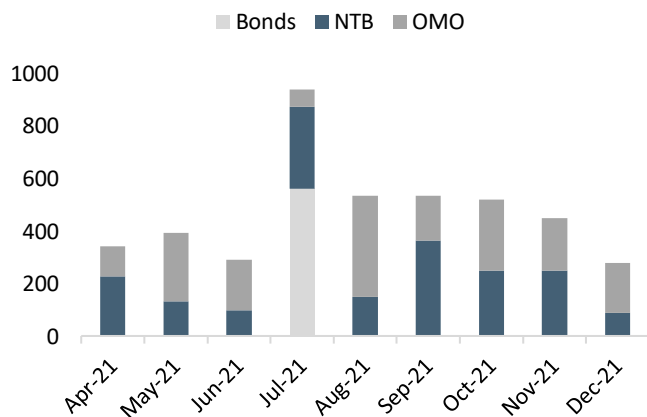
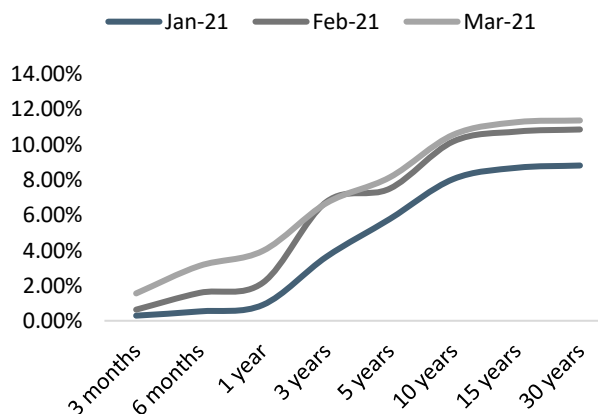


Figure 2: Trend in Naira yield curve



Outlook

Over in the US, following the passage of the \$1.9 trillion stimulus package and the improved rollout of the vaccination programme, economic forecasts have improved considerably. GDP and employment growth are predicted to come in stronger than previously expected (FY21 projections of 6.5% and 4.5% respectively) and the US Fed forecast that core inflation, measured using the PCE¹, will rise to 2.2% this year (up from their previous forecast of 1.8%). The Fed, however, remained adamant that despite inflation expected to rise above their 2% target, they will not be increasing rates this year. The Fed introduced a policy last year where inflation would have to consistently print above the 2% target, to see if it would achieve full and inclusive employment, before pulling the trigger and raising rates. Based on this policy, the Fed expects benchmark rates to remain unchanged through to 2023. However, market participants are worried that the Fed is underestimating inflationary pressures that will arise from the stimulus package and large consumer savings. These fears have led to investors selling off their existing bonds since inflation erodes the value of the fixed interest payments from bonds, as well as the capital you receive when it matures. Consequently, bond yields have risen sharply these past few weeks with some tenors hitting 1year highs. Barring an unexpected surge in coronavirus cases, the continuous successful rollout of the vaccine programme coupled with the implementation of the stimulus package should allow for the reopening of the economy to gather pace, thus boosting growth prospects and further worries of higher-than-expected inflation. Based on that, we expect US bond yields to remain at their current relatively high level. A sustained fall in price (rise in yields) like we saw in Q121 is unlikely, as we expect inflation fears to be fully priced in, so now might be a good time for investors to jump in.

On the domestic front, we can expect higher supply of fixed income instruments which support our expectation of higher rates. The FG have still not provided full clarity on how they expect to repay and replace their Ways and Means borrowing but it is expected that it would partly come in the form of higher domestic borrowing. The recently released Q221 bond issuance calendar increased the maximum issuance at each auction from ₦150 billion to ₦180 billion and we expect stop rates to rise at April's bond auction. The improved demand at the NTB auctions allowed the DMO to net issue treasury bills in March. In April, we expect at least, a rollover of maturing bills with a chance of net issuances if demand remains strong. Stop rates at the NTB auction are also expected to continue rising. As rates in the primary market rise, investors would most likely sell some of their holdings in the secondary market to pick up higher yielding ones at the primary market, thus pushing up yields in the secondary market. For OMO bills, we expect the CBN to offer and sell ~75% of this month's maturity at the subsequent

¹ Personal Consumption Expenditure

auctions with stop rates remaining at their current levels. With the fixed income market influx, investors should stay short and seek out tactical trading opportunities.

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