

## Fixed income Monthly Update | February 2019

### *Lower yields to take center stage*

#### Highlights from last month

**OMO Issuances touch new highs.** Coming into the year we projected the likelihood of a tight monetary policy in the early part of 2018 hinged on CBN's quest to defend the naira amid high concentration of fixed income maturities and lower crude oil prices. As expected, the CBN continued its liquidity curbing tactics in February by net issuing ₦1.09 trillion, its highest monthly OMO sale so far. In addition, the CBN kept OMO rates elevated for most part of the month before turning dovish (1-year OMO: -70bps to 14.3%) at its last auction in February. For clarity, following the bullish run at secondary market driven by foreign investors interest and pent up market liquidity from OMO maturities (₦1.87 trillion) and FAAC inflows (₦660 billion) which cascaded into higher subscription levels (Subscription levels: ₦975 billion), investors repriced OMO bids lower with bids on the one-year OMO as low as 13.9%. This alongside lesser hurt to currency emanating from lower fixed income maturity profile in subsequent months informed CBN's decision to cut its OMO rates (1-year OMO bill: -70bps MoM to 14.3%).

**NTB yields tremble further.** In line with its NTB issuance calendar for Q1 19, FG rolled over the ₦268.5 billion staged to mature in February, bucking two consecutive months of net repayment. Average stop rates at the February bond auction dipped 35bps MoM to 12.66%. The lower stop rates at the February NTB auction reflects apathy for short dated debts despite significantly higher subscription levels. To buttress, despite offering ₦268.5 billion at the February auction, subscription levels touched a thirteen-month high of ₦1.2 trillion.

Despite the higher demand, FG rolled over its maturity for the month as planned and reduce its stop rate. Similarly, at the secondary market, average NTB yields plunge 155bps MoM to 13.06%. In terms of drivers, while this was driven in part by the lower stop rates at the auction, the plunge in yields was mainly driven by the investors' appetite for Nigeria's short dated debt following the successful conduct of the elections in February. For clarity, although NTB yields dipped 155bps MoM, it plunged 115bps between 26th and 28th of February (post announcement of election result).

**Bond yields dip:** At the long end, FG ramped up borrowings as it issued ₦150 billion worth of FGN bonds in February (vs ₦117 billion in January). Despite higher paper supply, average marginal clearing rates dipped 52bps to 14.75%. The lower stop rate at the auction reflects the confluence of higher demand as well as investors repricing following lower yields at the secondary market. On demand, the auction was largely oversubscribed with bid to cover of 1.6x, leaving FG with favorable bargaining terms. In addition, following the bullish run in bond yields which in our view largely reflects foreign investors interest in Nigeria's bond market, investors repriced their bids lower with bids on the 10-year going as low as 13%. Furthermore, akin to the NTB market, post announcement of Nigeria's presidential election, average bond yields dipped 69bps taking overall secondary market bond yields lower by 108bps MoM to 13.98%.

**Table 1: Net PMA Issuances/ (Maturity) in billion naira**

	OMO Issuances	NTB 91-day	NTB 182-day	NTB 364-day	Total	Bond 5-year	Bond 7-year	Bond 10-year	Bond 20-year	Total	Grand Total
Jan-18	1,003.30	-	12.7	-	12.7	45.1	-	64.9	-	110	122.7
Feb-18	129.2	-	30	-	30	27.2		52.4	-	79.6	109.6
Mar-18	-182.4	16.7	-2.5	94.5	108.7	10.05	8.9	45.1	-	64.1	172.8
Apr-18	-70.8	-6.7	23.6	-126.8	-109.8	38.3	12.8	38.9	-	90	-19.8
May-18	742.7	83.4	41.7	33.4	158.5	3.5	8.5	38.5	-	50.5	209
Jun-18	-529.8	11.6	70	139.3	220.9	8.8	7.9	21	-	37.7	258.6
Jul-18	-458.1	-	-	-139.6	-139.6	8.9	11.6	46.4	-	66.9	-72.7
Aug-18	-904.1	27.3	-46.2	28.5	9.6	40.2	48.5	21.4	-	110.1	119.7
Sep-18	-74.6	-	-	-	0	17.5	7.4	71.9	-	96.8	96.8
Oct-18	86.96	-	-	-	0	12.7	20.1	55.3	-	88.1	88.1
Nov-18	526.7	-0.45	41.9	5.9	47.35	1.1	4.27	34.15	-	39.5	86.87
Dec-18	765.1	-2.65	-70	-	-70	1.05	3.41	1.29	-	5.8	-64.3
Jan-19	276.6	20.6	-24.8	-153.7	-157.9	5.85	20.1	91.04	-	117	-40.9
Feb-19	526.7	-	-	-	0	1.5	12.25	136.25	-	150	150.0

Source: FMDQ, ARM Research

**Table 2: Average OMO, NTB and Bond stop rates**

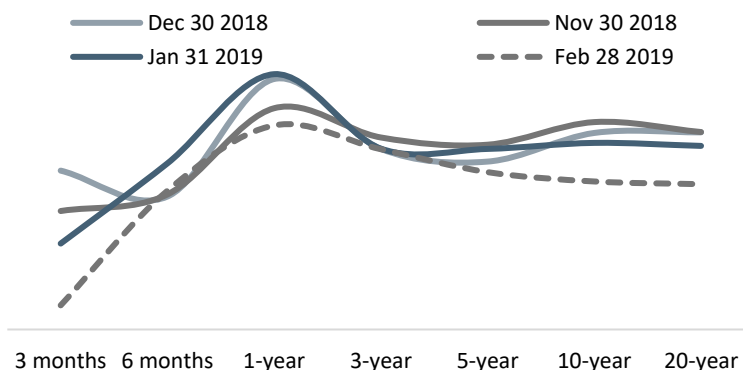
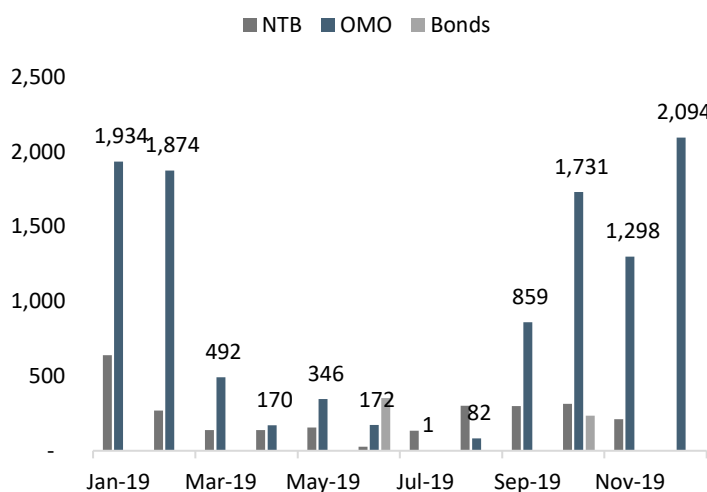
	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18*	Oct-18*	Nov-18*	Dec-18*	Jan-19*	Feb-19*
OMO	13.80%	13.73%	12.02%	12.15%	12.15%	12.15%	12.15%	13.40%	13.90%	14.50%	15.00%	15.00%	14.30%
NTB	13.10%	12.77%	12.08%	10.40%	10.67%	10.67%	11.07%	12.27%	12.23%	12.88%	N/A	13.01%	12.93%
BOND	13.84%	13.51%	12.83%	13.51%	13.70%	14.00%	14.56%	15.13%	15.16%	15.51%	15.42%	15.27%	14.75%

Source: FMDQ, ARM Research \*\* reflective of 1-year OMO bills

**Figure 1: Maturity profile over 2018**

Source:

**Figure 2: Trend in Naira yield curve**



Source: FMDQ, ARM Research

## Outlook

Going forward, we hold the view that the concentration of fixed income maturities which relapses after Q1 19 before picking up in Q4 19 and our case for downside in headline inflation mid-2019 provides room for softer OMO rates between March and September. This is evident in CBN's decision to cut its OMO rates on its one-year bill by 70bps and take further step to withdraw the one-year OMO bill at its recent auction in March in order to enforce a loose monetary policy. Farther out, our view about NGN depreciation towards the end of the year and higher fixed income maturities suggests that the apex bank could return to liquidity curbing tactics over Q4 19 to ward off speculative attacks on the NGN. On the fiscal side, the lack of guidance on possible refinancing of maturing Fixed income securities this year alongside our expectation for lower crude oil prices points to higher fiscal borrowings over 2019. While this suggests higher yields over 2019, we do not see sizeable upside for bond yields over the next few months. Our expectation is hinged on buy sentiment in the fixed income market following higher foreign inflows into Nigeria's debt market which tails the successful conduct of the presidential election as well as expectation of lower yields over the near term. Meanwhile, at the short end, the recent Q2 NTB calendar suggest continuous apathy towards short term borrowings as FG plans to roll over its maturity over the quarter. As a result, we see room for lower NTB yields over the short term.

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