

## Fixed income Monthly Update | November 2018

### *Scope for higher yields exist*

#### Highlights from last month

**CBN sustains aggressive stance.** In what seem like a dramatic move, after relaying concerns over the fragile state of the economy and the need to enhance credit creation to the private sector at the November MPC meeting, the CBN's action appears antithetical over the same period. In November, the CBN net issued ₦526.7 billion and raised OMO rates two times in the last week in November. Prior to raising rates in the month, the apex bank had issued (₦2 trillion) more than the ₦1.85 trillion worth of OMO bills staged to mature in the month. However, we believe in a bid to mop up the excess monies in the system at the tail end of the month stemming from higher FAAC distribution (+13% MoM to ₦788.1 billion), the CBN needed to move the needle on OMO rates. To our mind, whilst the success of the \$2.8 billion Eurobond issuance bodes well for reserves accretion and inflationary pressures dissipating in the month, the apex bank's aggressive stance on naira liquidity in part reflects its decision to wade off speculation on the naira following the high concentration of OMO maturities in November (\$1.8 billion). Furthermore, with elections drawing near and the possibility of one more rate hike by the US Fed before year end, we think CBN's main focus is geared towards driving naira stability.

#### **NTB yields soar on exhaustion of \$2.5 billion earmarked to refinance maturing NTB.**

Contrary to trend over the past seven months wherein FG failed to net issue Treasury bills, FG borrowed ₦47.7 billion in T'bills over November at higher stop rates (+65bps MoM to 12.88%). This marked FG's first NTB net issuance since raising \$2.5 billion in February 2018 to refinance maturing treasury bills. The higher stop rates at the NTB auction reflects increased paper supply which influenced higher bids by investors at the auction – with bids on the one year going as high as 16.42%. More so, given the recent downside in crude oil prices (-18.2% MoM in November) investors priced in the passthrough of lower oil prices on FG's oil receipt over the near term. Consequently, in lockstep with primary market stop rates, secondary market NTB yields rose 15bps MoM to 14.38%.

**Bond yields nod higher.** Average bond yields in the secondary market rose 13bps MoM to 15.47%. This mirrored higher marginal clearing rates (+35bps MoM to 15.51%) over the period. Although, subscription levels at the auction fell short of ₦115 billion Bond offer for the month, FG only borrowed ₦39.5 billion. In our view, FG's tamer paper issuance at the bond auction reflects its quest to spread borrowings at both end of the curve, as against its usual trend over prior months of net issuing only at the long end. In addition, following the successful issuance of the \$2.8 billion Eurobond in November, FG's appetite for naira debt waned in the month.

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

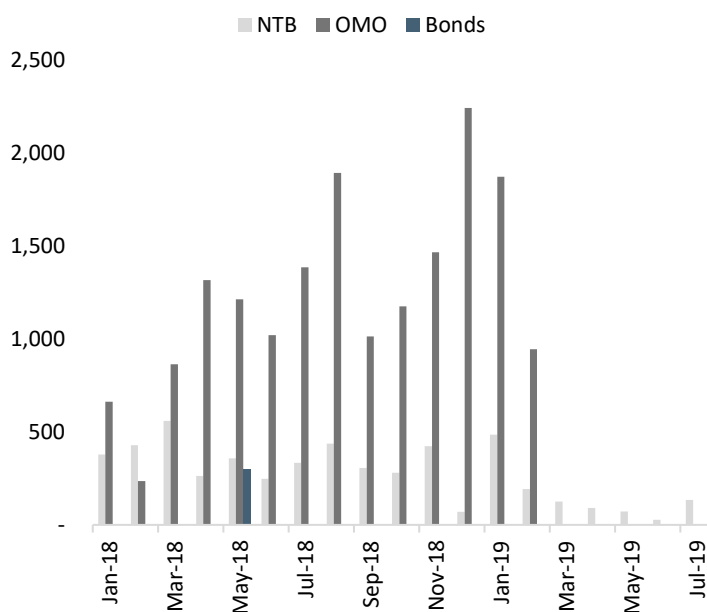
	OMO Issuances	NTB 91-day	NTB 182-day	NTB 364-day	Total	Bond 5-year	Bond 7-year	Bond 10-year	Bond 20-year	Total	Grand Total
<b>Nov-18</b>	13.9	-29.2	-38.5	234.4	<b>166.7</b>	14.6	-	73.2	-	<b>87.8</b>	<b>254.5</b>
<b>Dec-18</b>	918.8	-	-	-	<b>-</b>	24.8	-	61.5	-	<b>86.2</b>	<b>86.2</b>
<b>Jan-18</b>	1,003.30	-	12.7	-	<b>12.7</b>	45.1	-	64.9	-	<b>110</b>	<b>122.7</b>
<b>Feb-18</b>	129.2	-	30	-	<b>30</b>	27.2	-	52.4	-	<b>79.6</b>	<b>109.6</b>
<b>Mar-18</b>	-182.4	16.7	-2.5	94.5	<b>108.7</b>	10.05	8.9	45.1	-	<b>64.1</b>	<b>172.8</b>
<b>Apr-18</b>	-70.8	-6.7	23.6	-126.8	<b>-109.8</b>	38.3	12.8	38.9	-	<b>90</b>	<b>-19.8</b>
<b>May-18</b>	742.7	83.4	41.7	33.4	<b>158.5</b>	3.5	8.5	38.5	-	<b>50.5</b>	<b>209</b>
<b>Jun-18</b>	-529.8	11.6	70	139.3	<b>220.9</b>	8.8	7.9	21	-	<b>37.7</b>	<b>258.6</b>
<b>Jul-18</b>	-458.1	-	-	-139.6	<b>-139.6</b>	8.9	11.6	46.4	-	<b>66.9</b>	<b>-72.7</b>
<b>Aug-18</b>	-904.1	27.3	-46.2	28.5	<b>9.6</b>	40.2	48.5	21.4	-	<b>110.1</b>	<b>119.7</b>
<b>Sep-18</b>	-74.6	-	-	-	<b>0</b>	17.5	7.4	71.9	-	<b>96.8</b>	<b>96.8</b>
<b>Oct-18</b>	86.96	-	-	-	<b>0</b>	12.7	20.1	55.3	-	<b>88.1</b>	<b>88.1</b>
<b>Nov-18</b>	526.7	-0.45	41.9	5.9	<b>47.35</b>	1.1	4.27	34.15	-	<b>39.52</b>	<b>86.87</b>

Source: FMDQ ARM Research

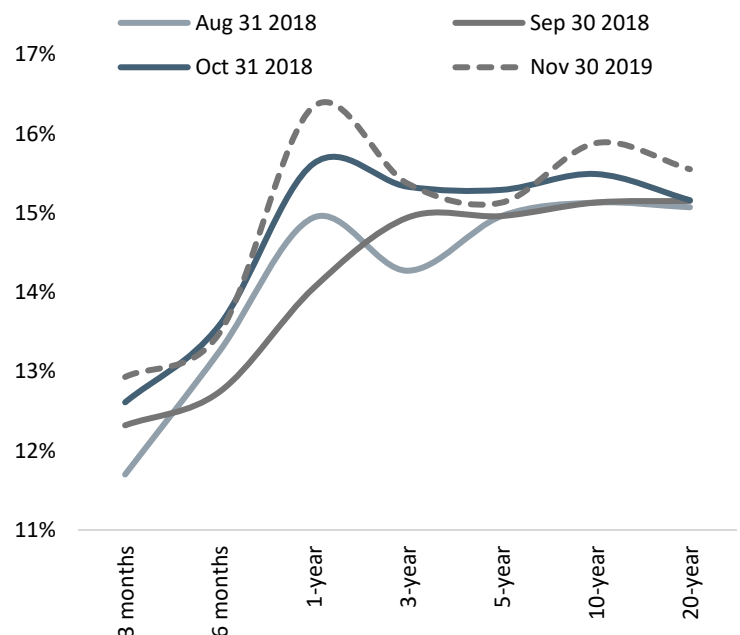
**Table 2: Average OMO, NTB and Bond stop rates**

	Nov-18	Dec-18	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18*	Oct-18*	Nov-18*
<b>OMO</b>	17.00%	13.90%	13.70%	13.80%	13.73%	12.02%	12.15%	12.15%	12.15%	12.15%	13.40%	13.90%	14.50%
<b>NTB</b>	14.60%	0.00%	13.40%	13.10%	12.77%	12.08%	10.40%	10.67%	10.67%	11.07%	12.27%	12.23%	12.88%
<b>BOND</b>	14.80%	13.20%	13.40%	13.84%	13.51%	12.83%	13.51%	13.70%	14.00%	14.56%	15.13%	15.16%	15.51%

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

**Figure 1: Maturity profile over 2018**

Source: FMDQ ARM Research

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

Source: FMDQ ARM Research

## Outlook

Faced with the possibility of dissipating inflationary pressures emanating from downtrend in energy prices in November, we think CBN's attention will tilt towards the currency front. Particularly given our view that the high concentration of OMO maturities in December (highest monthly OMO maturity in 2018: ₦2.3 billion) would incite further FPI exit from the fixed income space. In fact, we estimate FPI outflows to the tune of \$5.1 million (80% of total maturities in December) in December. Against this backdrop, we see scope for further squeeze on naira liquidity via elevated OMO rates. This alongside prospect for one more rate hike in the US buttresses our view of a tighter monetary policy over the near term. However, on the fiscal side, after factoring the \$2.8 billion Eurobond raised in November and possibility of a ₦100 billion Sukuk issue before year end, our prognosis which points to domestic borrowings of ₦388 billion over 2018 implies that FG will need to borrow ₦28.2 billion in December (after deducting YTD FG borrowings of ₦259.7 billion) compared to total issuance of ₦87.2 billion and ₦88 billion in November and October respectively. Overall, despite dissipating inflationary concern and prospect for lower paper supply in December, we see scope for higher fixed income yields in the secondary market over the near term as CBN becomes more aggressive with OMO issuances in a bid to limit the outflow of offshore funds.

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### **ARM Securities**

Research	234 (1) 2701653	research@armsecurities.com.ng
Institutional Sales & Trading	234 (1) 448 8833	trading@armsecurities.com.ng
Customer Service	234 (1) 4488282	customerservice@armsecurities.com.ng