

Dovish influences kick in

Highlights from last month

CBN loses grip on naira liquidity. In line with trend in February when CBN tapered its pace of liquidity mop up, March was no exception as CBN net repaid ₦182.4 billion – its highest net repayment in nine months. Moreover, CBN’s increasing tolerance for naira liquidity was evident in its frequency of liquidity mop as it only sold OMO bills on five working days in March – a move last seen in November 2016. Surprisingly, CBN left OMO rates unchanged (90day paper: 12.6%, 250day paper: 14.4%) despite a 80bps plunge in headline inflation in February (14.33%) which prompted most banks to bid lower at March OMO auction (14.3%). In our view, the apex bank’s increasing comfort for naira liquidity reflects waning inflationary pressures and stability in USDNGN which provides legroom for the apex bank to loosen its grip on naira liquidity. More so, in the absence of MPC meeting in the first quarter, the CBN was inclined towards backdoor easing via relaxing its liquidity straining in line with dissipating inflationary concern.

Liquidity conditions improve. Following a slight tilt in CBN’s liquidity posture to a more relaxed one, average O/N (Overnight) and OBB (Open Buy Back) rates for the month of March shed 445bps and 462bps MoM to 15.16% and 14.03% respectively.

Bond yields bow to enhanced FG’s bargaining power. Bucking prior months in 2018 where marginal clearing rates at Bond auctions sustained its upward spiral, average marginal clearing rate at March Bond auction dipped 33bps to 13.51%. This tracked the successful issuance of \$2.5 billion Eurobond which served as a boost to FG’s bargaining power and dampened its appetite for domestic borrowings. For context, FG failed to fill up its coffers at the March bond auction despite receiving bids (₦142.8 billion) more than planned borrowings of ₦140 billion. The foregoing, in addition to a downtrend in February headline inflation drove investor’s rush to lock down current yields in anticipation of a depressed yield outlook for the later part of the year. Consequently, bond yields at the secondary market dipped 6bps MoM to 13.64%.

Treasury bill yields dip. Contrary to prior month where treasury bill yields buckled under liquidity strain from CBN’s sterilization, average treasury bill yields at the secondary market fell 36bps to 14.80% in the month of March. Added to this, following FG’s apathy for naira paper at PMA auction, NTB issuance of ₦280 billion was 32% shy of planned issuances for the period. As a result, average PMA stop rates dipped 34bps MoM to 12.77% in March.

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-17	700.5	22.7	-20	133	135.7	35	-	74.9	105.1	215	1,051.20
Feb-17	91.8	45.2	-	120	165.2	60	-	30	70	160	417
Mar-17	141.1	-24.1	-110.5	305.1	170.6	30	-	50	80	160	471.7
Apr-17	212.7	-24.2	-2.7	-43.9	-70.8	-445.3	-	34	56.3	-355	-213.1
May-17	-89.2	-16	23.4	96	103.4	10	-	35	65	110	124.3
Jun-17	-203.4	65.2	28.3	33.6	127.1	4.2	-	30.3	64.8	99.3	23
Jul-17	369.8	13.8	-13.3	24	24.5	3.9	-	47	55.1	106	500.2
Aug-17	117.6	-38.5	-10.4	48.5	-0.4	9.2	-	17.5	29.4	56.1	173.2
Sep-17	-25.6	-21.4	26.2	118.7	123.5	35.3	-	76.9	131.6	243.8	341.7
Oct-17	180.3	-39.1	-35.8	118.4	43.5	3	-	118.1	-	121.1	344.9
Nov-17	13.9	-29.2	-38.5	234.4	166.7	14.6	-	73.2	-	87.8	268.4
Dec-17	918.8	-	-	-	-	24.8	-	61.5	-	86.2	1,005.00
Jan-18	1,003.3	-	12.7	-	12.7	45.1	-	64.9	-	110	2,336.20
Feb-18	129.2	-	30	-	30	27.2	-	52.4	-	79.6	404
Mar-18	-182.4	16.7	-2.5	94.5	108.7	10.05	8.9	45.1	-	64.1	512.7

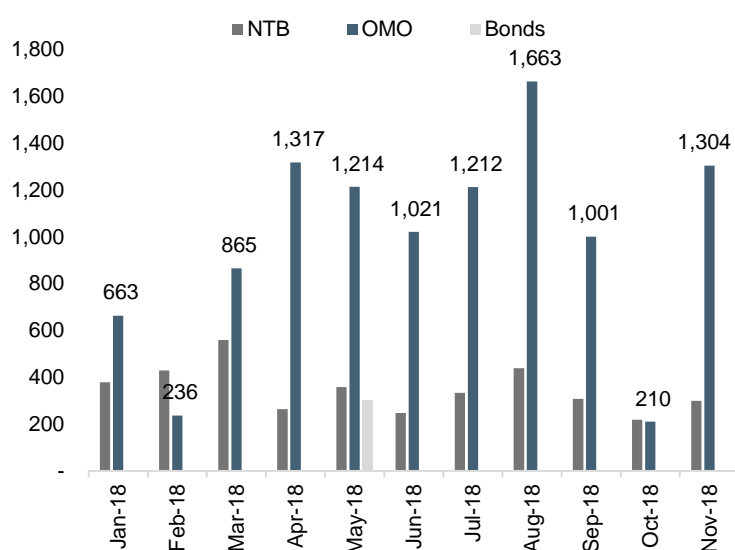
Source: FMDQ, ARM Research

Table 2: Average OMO, NTB and Bond stop rates

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
OMO	18.3%	18.3%	18.5%	18.8%	18.3%	18.3%	18.3%	18.2%	17.3%	17.2%	17.0%	13.9%	13.7%	13.8%	13.73%
NTB	16.7%	16.5%	16.5%	16.6%	16.5%	16.5%	16.5%	16.4%	15.9%	14.7%	14.6%	0.0%	13.4%	13.1%	12.77%
BOND	17.0%	16.6%	16.3%	16.2%	16.3%	16.2%	16.2%	16.8%	15.9%	15.0%	14.8%	13.2%	13.4%	13.84%	13.51%

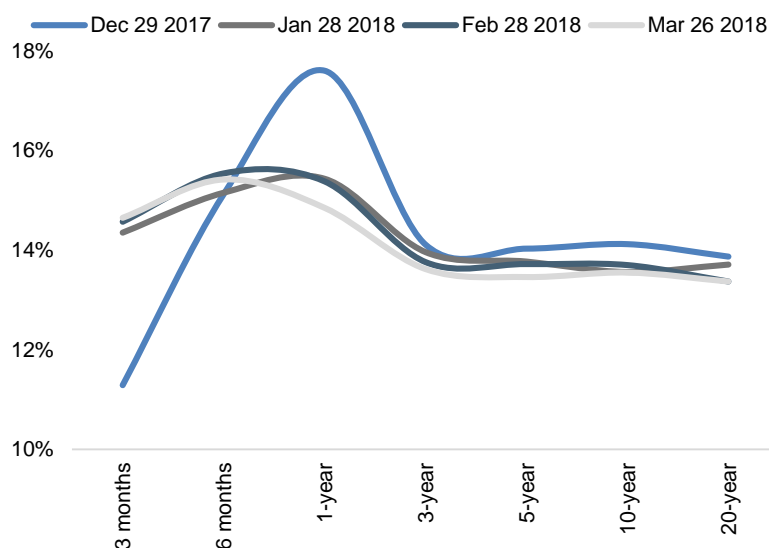
Source: FMDQ, ARM Research

Figure 1: Maturity profile over 2018



Source: FMDQ, ARM Research

Figure 2: Trend in Naira yield curve

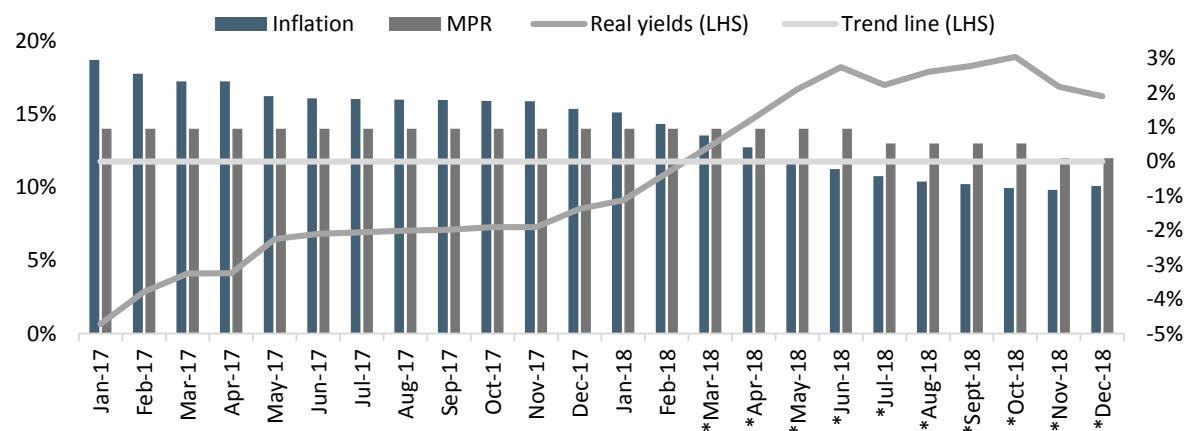


Source: FMDQ, ARM Research

Outlook

Going forward, a pertinent question that emerges is how the CBN is likely to respond to the confluence of liquidity build up and a benign inflation outlook while keeping tab on yields to cultivate offshore interest. Given stability in USDNGN which allays currency fears, we believe the apex bank will continue to mop up excess monies in the system, albeit at lesser intervals and rates. Irrespective, we see CBN maintaining a floor for OMO rates at 13% in 2018. Given the possibility of a downward spiral in headline inflation in months to come, the long-held view on keeping real yield attractive which provided an ample justification for pegging MPR at 14% has become a mirage. Thus, we hold the view that the MPC could cut the traditional policy instrument by 200bps in H2 2018 in line with waning inflationary pressures. On the fiscal side, paper supply is similarly expected to remain around current levels, as the FG continues to skew borrowing in favor of cheaper external debt. In all, we are of the view that the tamer outlook for paper issuance over the rest of the year, benign inflation outlook and expected elevated liquidity levels provides legroom for further downtrend in the yield curve over the near term.

Figure 3: ARM Inflation forecast vs ARM MPR Forecast



Source: NBS, CBN, ARM Research

*ARM Inflation forecast

ARM Securities can purchase Treasury Bills on your behalf. Rates quoted are indicative and will be firmed up upon client's confirmation. For enquiries contact:

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