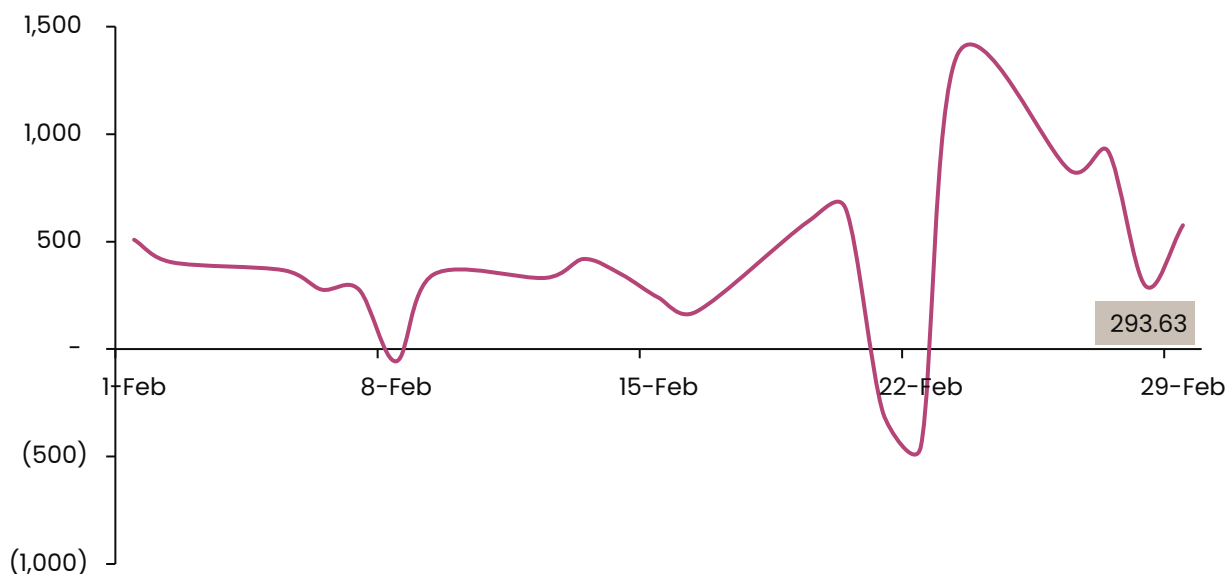




Monthly Fixed Income Market Report – February 2024

In February, the Nigerian fixed income market experienced a significant increase in yields. The FGN bond market average yield surged by 273bps Month-on-Month (MoM) to close at 17.22%, while the average yields in the Nigerian Treasury Bills market jumped by a significant 775bps MoM to settle at 16.90%. Overall, the Naira Fixed Income market climbed 524bps MoM to close at 17.06%. This upsurge was driven by investors' anticipation of a Central Bank of Nigeria (CBN) rate hike to curb inflation and manage liquidity.

Figure 1: February 2024 System Liquidity (NGN'bn)



Source: CBN, ARM Research

FGN Bond Market

The Debt Management Office (DMO) issued two new bonds at its February 2024 primary auction, the FEB-2031 (7-year bond) and the FEB-2034 (10-year bond) instruments. Each bond was offered at a value of NGN1.25bn, with respective stop rates of 18.50% and 19.00%. However, demand for the instruments was relatively lower, resulting in an average bid-to-cover ratio of

0.76x (0.87x for FEB-2031 and 0.66x for FEB-2034). Consequently, the average stop rate settled at 18.75%.

Similarly, the secondary bond market experienced negative sentiment in February, with average yields rising by 273bps MoM to close at 17.22%. This upward trend was driven by sell-offs across various maturities, particularly the MAR-2024 (+456bps), MAR-2025 (+403bps), and JAN-2026 (+433bps) bonds. Notably, selloffs occurred in all four weeks of the month, with yields increasing steadily each week (+72bps, +63bps, +68bps, and +42bps for the first, second, third, and fourth weeks, respectively).

Nigerian Treasury Bills Market

At the NTB auctions in February 2024, the average stop rate increased by 11.50% MoM to 17.96%, compared to 6.46% in January 2024. Concurrently, the average bid-to-cover ratio declined to 8.57x, compared to 18.07x in January 2024. However, the lower bid-to cover ratio was primarily driven by higher offer size compared to January's auctions.

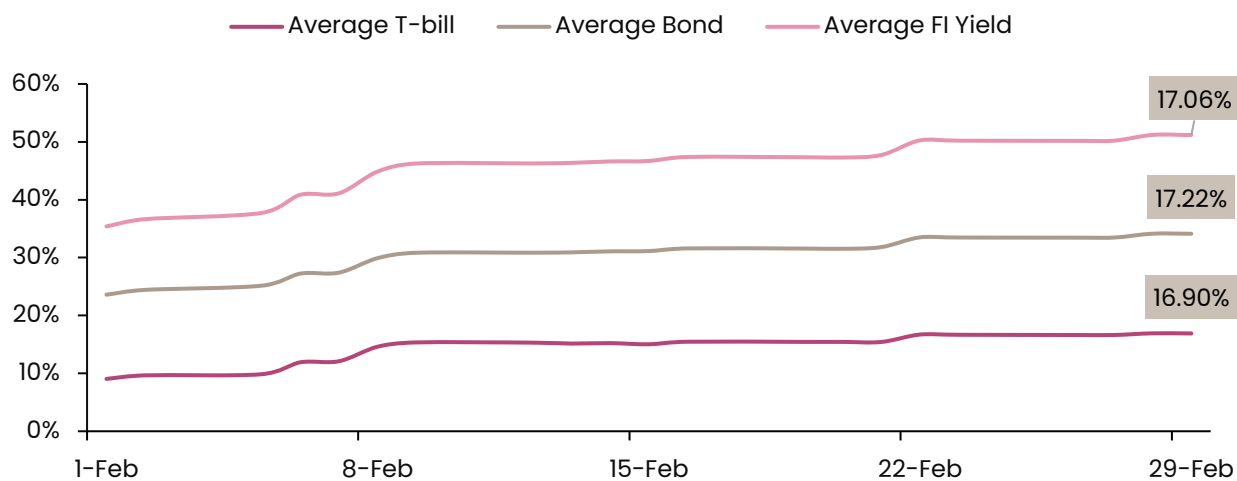
The CBN conducted two (2) NTB auctions during the month, offering a total of NGN1.27trn worth of instruments (vs. NGN288.37bn offered in January). Despite this offer, NGN2.59trn was sold, exceeding the initial amount, indicating strong investor interest and participation in the NTB market, likely due to the desire for higher returns.

At The first auction conducted on February 7, 2024, treasury bills valued at NGN1trn were offered and sold. There was a notable rise in the average stop rate, marking an increase of 10.18% to 18.08% (vs. 7.90% in the previous auction). Conversely, the average bid-to-cover ratio declined to 1.98x (vs. 4.69x recorded in the previous auction).

The second (2nd) and final auction for the month was conducted on February 21, 2024. A total of NGN265.51bn worth of treasury bills were offered while total sales stood at NGN1.60trn. The average stop rate declined by 25bps to 17.83% compared to 18.08% in the preceding auction. In contrast, the average bid-to-cover ratio rose to 8.43x (vs.1.98x in the prior auction).

Additionally, the NTB secondary market concluded the month on a negative note, as the average yield increased by 775bps MoM to 16.90%, a stark contrast to January's 9.15%. Delving into the weekly dynamics, each trading week of the month experienced significant selloffs, as yields went up in the First week (+293bps), Second week (+569bps), Third week (+12bps) and Fourth week (+23bps) consecutively.

Figure 2: Yields Trend in February 2024

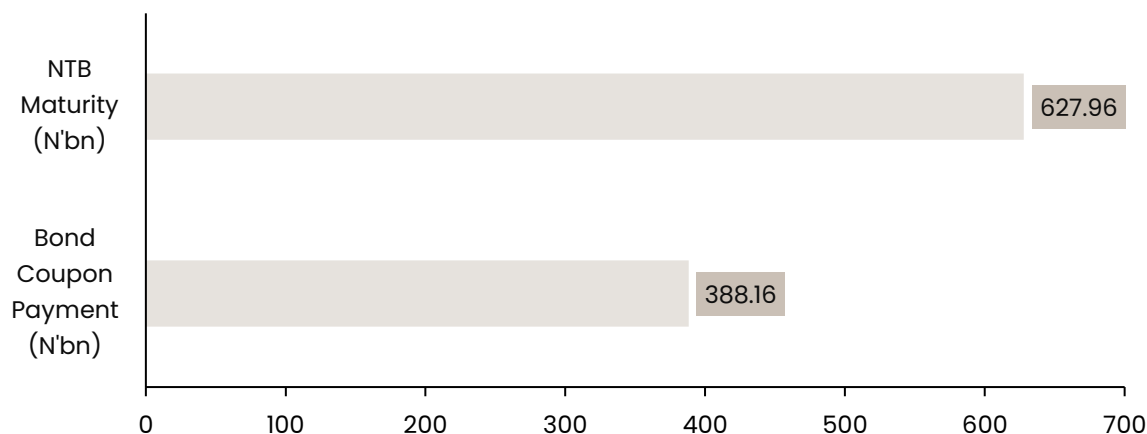


Source: FMDQ, ARM Research

March 2024 Outlook

We anticipate maturities of Nigerian Treasury Bills totaling NGN627.96bn in March 2024, along with bond coupon payments of NGN388.16bn. We expect bearish sentiments in the Nigerian fixed income market to persist in the short- to mid-term, due to the CBN's aim to tame inflationary pressures and tighten liquidity in the system. Recently the CBN raised the Monetary Policy Rate (MPR) by 400bps to 22.75%, and the CBN governor has stated that interest rates for NTBs and bonds are expected to remain elevated. Given this stance, we expect higher short-term yields to persist.

Figure 3: Maturity Profile for March 2024



Source: FMDQ, ARM Research

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