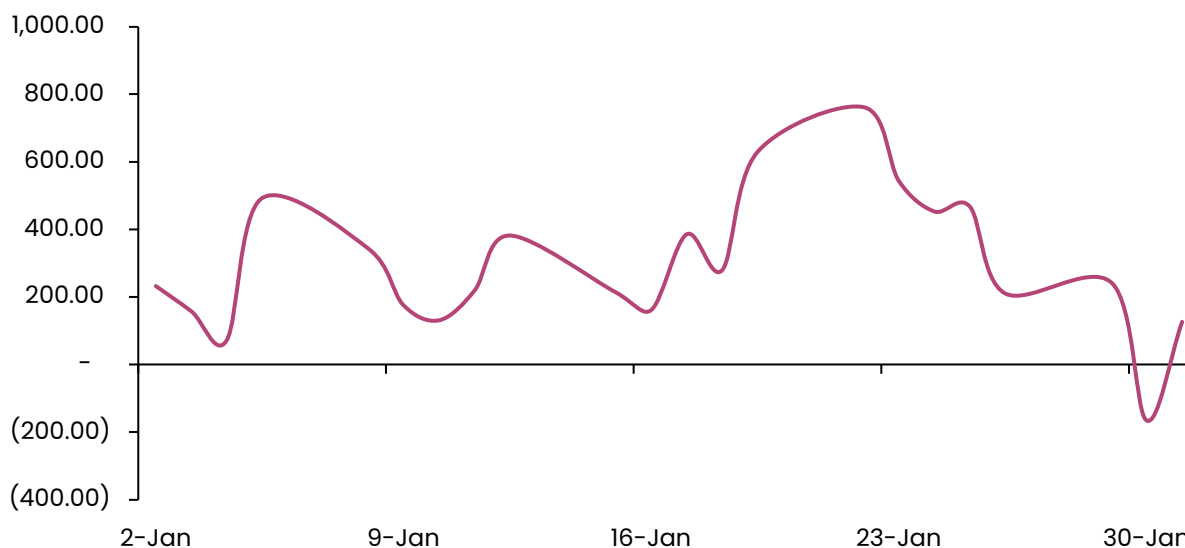




Monthly Fixed Income Market Report – January 2024

The Nigerian Fixed Income Market started 2024 on a bearish note in January, with average yields rising across board. The FGN bond market saw the average yield increase by 36bps Month-on-Month (MoM) to settle at 14.49%. Similarly, the Nigeria Treasury Bills market experienced a significant 286bps MoM surge in average yield to 9.15%. Overall, the Naira Fixed Income market witnessed an uptick of 161bps MoM to close at 11.82%. This overall rise in yields reflects the Central Bank of Nigeria's (CBN) efforts to curb excess liquidity in the system evident in the N30bn decrease in system liquidity from NGN156.37bn in December 2023 to NGN126.36bn in January 2024. This decrease in liquidity, coupled with rising inflation expectations, contributed to the upward pressure on yields across the fixed income market.

Figure 1: January 2024 System Liquidity



Source: CBN, ARM Research

FGN Bond Market

At the January 2024 primary bond auction, the Debt Management Office (DMO) offered NGN360bn worth of instruments across the reopening of four (4) instruments (MAR-2027, APR-2029, JUN-2033, and JUN-2038) worth NGN90bn each. A total of NGN418.20bn worth of

instruments were sold at the auction across the four (4) reopened instruments (MAR-2027: NGN86.19bn, APR-2029: NGN21.94bn, JUN-2033: NGN43.35bn, and JUN-2038: NGN266.73bn). At the auction, the average bid-to-cover ratio declined to 1.68x (from 2.46x in December 2023), indicating a decrease in demand, particularly for the JUN-2038 instrument (-259bps to 3.47x from 6.06x in December 2023). The average stop rate also declined by 32bps to 15.75% (vs 16.29% at the previous auction).

Similarly, the secondary bond market witnessed bearish sentiment in January, with the average yield increasing by 36bps MoM to settle at 14.49%. This uptick was driven by selloffs across the curve, notably in the MAR-2024 (+311bps), MAR-2027 (+182bps), and APR-2029 (+97bps) instruments. On a weekly basis, the FGN bond market witnessed selloffs in the third (+27bps) and fourth (+24bps) weeks offsetting the buy interest in the first (-33bps) and second (-52bps) week. The bullish sentiments in the first two weeks were likely due to increased liquidity in the market (NGN381.90bn at the end of the second week vs NGN210.45bn in the final week). However, in the third and final week of the month, the OMO auctions held by the CBN to mop up liquidity started to exert their effect, leading to a reversal in sentiment.

Nigerian Treasury Bills Market

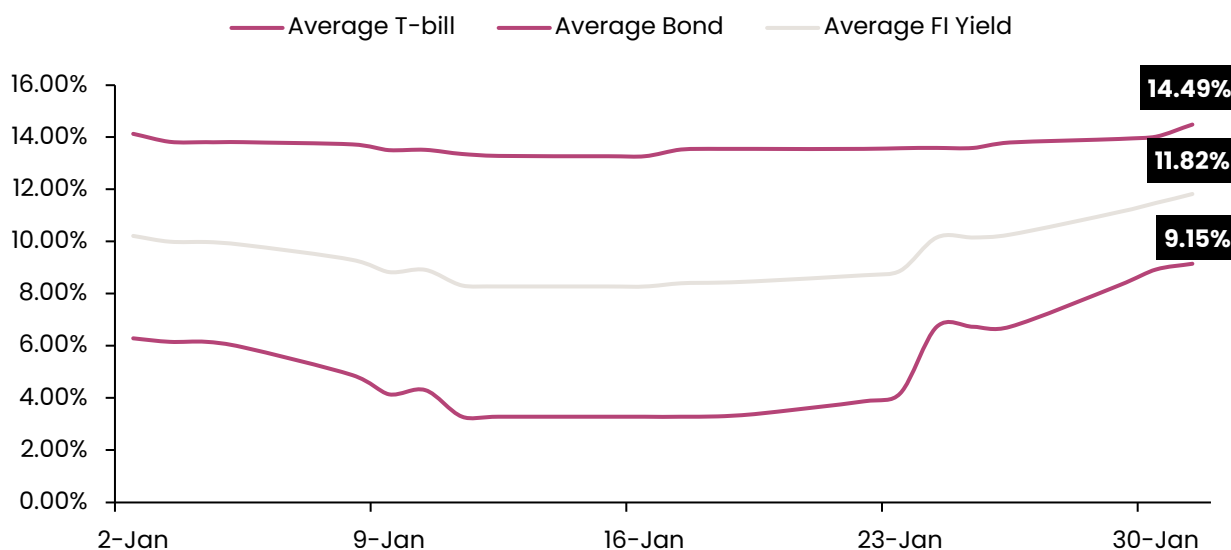
The average stop rates for the NTB auctions in January 2024 experienced a 440bps MoM decline to reach 6.46% (vs. 10.86% in December 2023). Similarly, the average bid-to-cover ratio dropped by 43.83% MoM to 18.07x, (vs. 32.16x in December 2023). In January, the CBN conducted two (2) NTB auctions. At the first auction, treasury bills valued at NGN56.56bn were offered, and the entire amount was successfully sold. Similarly, in the second auction, NGN231.82bn worth of treasury bills were offered, and the entire sum was successfully sold.

At the first auction conducted on 10th of January 2024, there was a significant reduction in the average stop rate, declining by 473bps to 5.02% compared to the previous auction's 9.75%. Likewise, the average bid-to-cover ratio saw an increase of 268bps, reaching 20.16% (vs. 15.48% recorded in the previous auction).

At the final auction of the month held on 24th of January 2024, there was a 288bps increase in the average stop rate, reaching 7.90% (vs. 5.02% at the previous auction). Conversely, the average bid-to-cover ratio saw a decrease of 15.47%, dropping to 4.69% (vs. 20.16% recorded in the previous auction).

Additionally, the secondary market ended the month on a negative trajectory, with the average yield rising by 286bps MoM to reach 9.15%, as opposed to the 6.29% seen in December. Assessing the weekly performance, the selloffs in the third week (+11bps) and fourth week (+334bps) countered the buying interest noted in the first week (-34 bps) and second week (-257 bps).

Figure 2: January 2024 System Liquidity



Source: FMDQ, ARM Research

OMO Auction

In anticipation of the 293rd Monetary Policy Committee (MPC) meeting, the CBN conducted three (3) Open Market Operations (OMO) auctions in January. At the first OMO auction of the year on January 10, 2024, the average stop rate printed at 14.08%, contrasting with the NIL stop rates in the preceding auction. Additionally, there was a decrease in the bid-to-cover ratio by 52bps, falling to 1.38x compared to the previous auction's 1.90x.

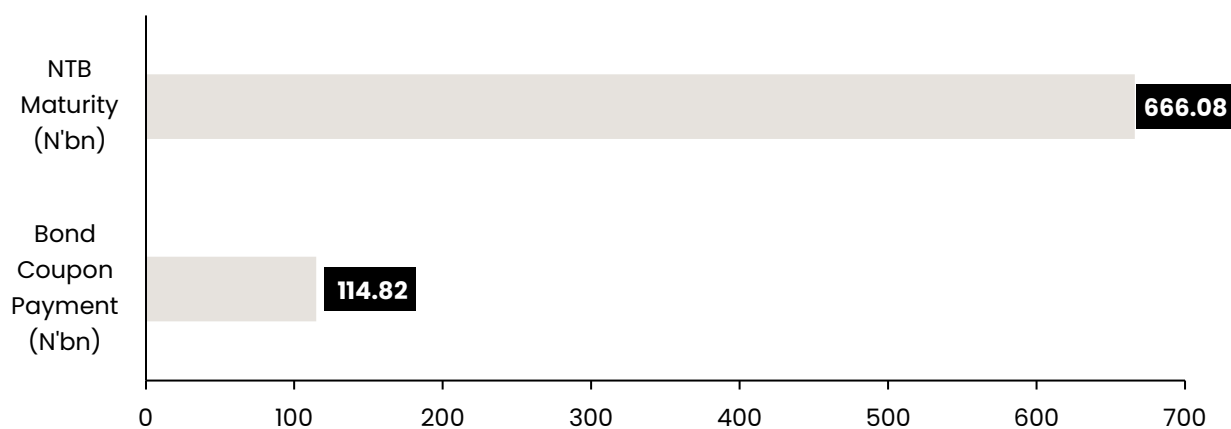
During the second OMO auction of the year on January 15, 2024, there was a notable decrease in the average stop rate of 42bps, reaching 13.67% compared to the previous auction's 14.08%. The bid-to-cover ratio witnessed an increase of 35bps, rising to 1.73x from the previous 1.38x. In this auction, the CBN offered and successfully sold NGN300bn worth of instruments, a decrease from the NGN357.20bn sold in the first auction. Noteworthy was the offering of a 365-day instrument valued at NGN150bn, with NGN270bn worth of the instrument being sold due to high demand.

In contrast, at the final OMO auction held in January 2024, there was a decrease in both the average stop rate and bid-to-cover ratio by 17bps and 0.21x, each settling at 13.50% and 1.53x, respectively. During this auction, CBN offered instruments valued at NGN350bn, and all were successfully sold.

February 2024 Outlook

Regarding maturities, we anticipate a total of NGN666.08bn in NTBs maturing in February, along with a bond coupon payment of NGN114.82bn. In February, we opine that yields will stay elevated, influenced by constrained system liquidity and the approaching MPC meeting.

Figure 3: Maturity Profile for February 2024



Source: FMDQ, ARM Research

Disclaimer - [Click here](#)