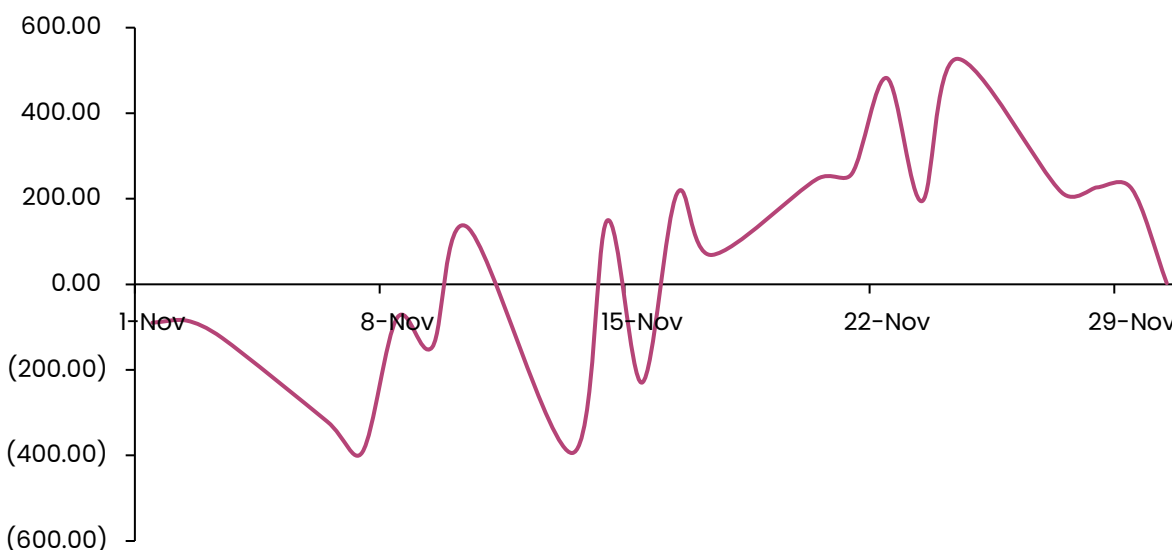




Monthly Fixed Income Market Report – November 2023

The FGN bond market ended the month on a bearish note with the average yield increasing by 40bps Month-on-Month (MoM) to close at 15.72%. Conversely, the Nigerian Treasury Bills Market concluded the month on a bullish note as the average yield declined by 72bps MoM to settle at 10.21%. Overall, the Secondary Fixed Income Market closed off the month positive with the average yield falling by 16bps MoM to settle at 12.97%.

Figure 1: November 2023 System Liquidity



Source: CBN, ARM Research

FGN Bond Market

At the November 2023 primary bond auction, the Debt Management Office (DMO) offered NGN360bn worth of instruments across the reopening of four (4) instruments (APR-2029, JUN-2033, JUN-2038 and JUN-2053) worth NGN90bn each. Instruments worth NGN434.5bn were sold at the auction across the four (4) instruments (APR-2029: NGN31.47bn, JUN-2033: NGN33.19bn, JUN-2038: NGN47.07bn and JUN-2053: NGN322.77bn). The average-bid-to cover

ratio rose by 17bps to 1.24x compared to 1.06x at the October auction and this is majorly on the back of increased demand for the JUN-2053 instrument increasing by 88bps to 3.67x (vs 2.79x at the previous auction). Similarly, we observed an increase in the average stop rates by 136bps to 17.13% (vs 15.76% at the previous auction). The stop rates for all the instruments, APR-2029 (+110bps to 16.00%), JUN-2033 (+125bps to 17.00%), JUN-2038 (+170bps to 17.50%) and JUN-2053(+140bps to 18.00%) increased.

The secondary FGN bond market ended the month bearish as the average witnessed an uptick of 40bps MoM to close at 15.72%. This uptick is on the back of selloffs across the yield curve, particularly in the mid and long tenors of the curve. On a weekly basis, the uptick in the first (+1bp), second (+10bps) and third (+18bps) week offset the decrease in the fourth week (-19bps). The rise in yields over the month can be attributed to the CBN effort towards mopping up excess liquidity using OMO auctions, as well as the tightening of liquidity in the system. However, the average fixed income market fell by 16bps MoM to close at 12.97%.

Nigerian Treasury Bills Market

The average stop rates for the November 2023 NTB auctions soared by 4.25% MoM to 11.92% (vs 7.67% in October 2023). Notably, the average bid-to-cover ratio declined by 302bps MoM to 4.32x (vs.7.34x in October 2023). The CBN conducted two (2) NTB auctions in November, where treasury bills worth NGN310.12bn were offered and NGN497.20bn were sold at the first auction. While at the second auction, treasury bills worth NGN211.71bn were offered and NGN561.71bn were sold.

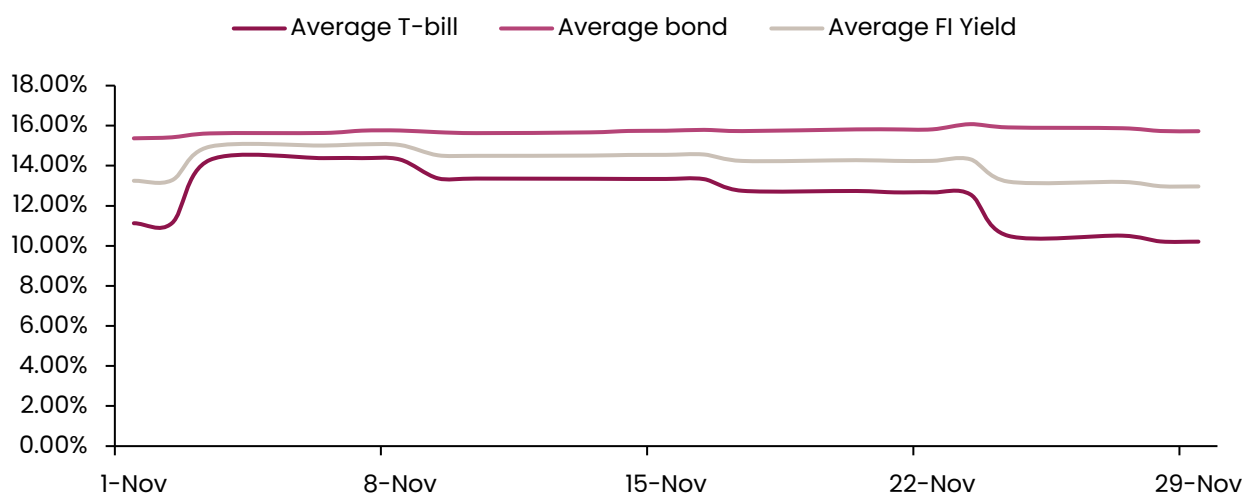
During the first auction conducted on November 8, 2023, there was a notable increase in the average stop rate, rising by 225bps to 11.58% (vs. 9.33% in the previous auction). In contrast, the average bid-to-cover ratio declined by 308bps to 2.82% (vs. 5.90% recorded at the prior auction).

At the final auction of the month held on November 22, 2023, there was a 67bps increase in the average stop rate, reaching 12.25% (vs. 11.58% at the previous auction). Similarly, the average

bid-to-cover ratio rose by 299bps to 5.82x, (vs 2.82x at the preceding auction). This change signifies a notable upswing in demand, and this is on the back of increased demand for the 364 day-bill (6.04x vs 2.75x at the previous auction).

Additionally, the secondary market closed the month on a positive note as the average yield dipped by 72bps MoM to settle at 10.21% (vs. 10.93% in October). Looking at the weekly performance, November witnessed buying interest all through the first (-93bps), second (-61bps), third (-225bps) and fourth (-29bps) weeks.

Figure 2: Yields Trend in November 2023



Source: FMDQ, ARM Research

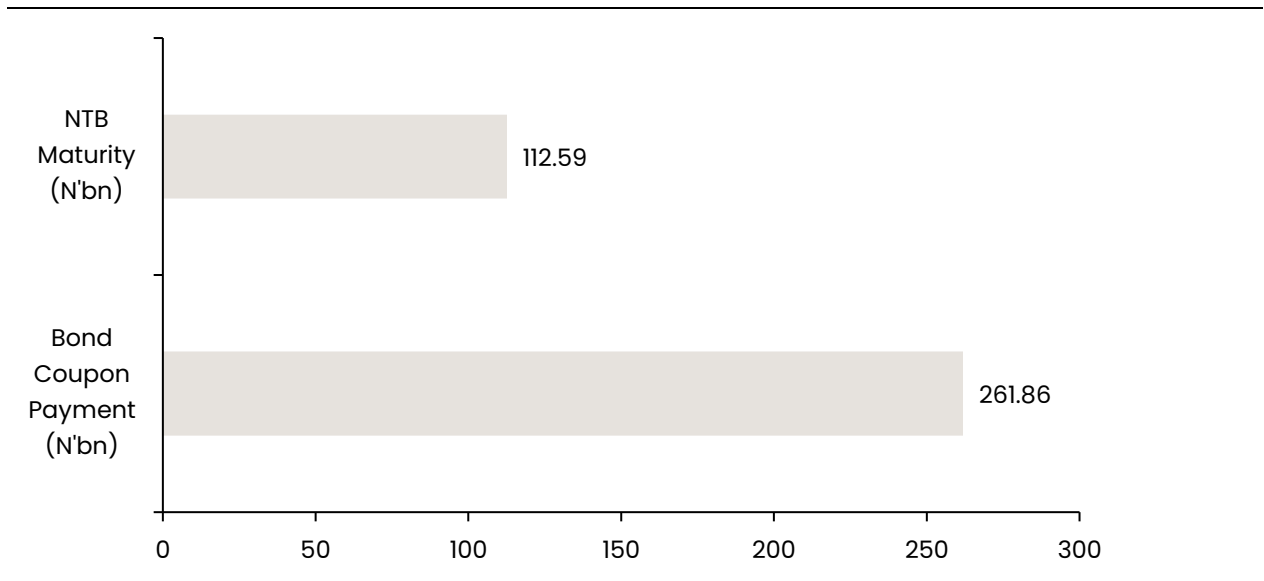
OMO Auction

Months after the postponement of the highly anticipated 293rd Monetary Policy Committee (MPC) meeting, the CBN held one (1) OMO auction on the first day of the month. During the third OMO auction of the year held on November 1, 2023, average stop rate rose by 11bps to 15.36% compared to October auction. There was a decline in the total subscription of 107bps to 0.51x (vs 1.58x in October auction).

Outlook

With respect to maturities, we expect a total of NGN112.59bn NTBs to mature in December as well as bond coupon payment of NGN261.86bn. With CBN looking to tighten liquidity for the next two quarters, we expect the bearish sentiments to persist in December.

Figure 3: Maturity Profile for December 2023



Source: FMDQ, ARM Research