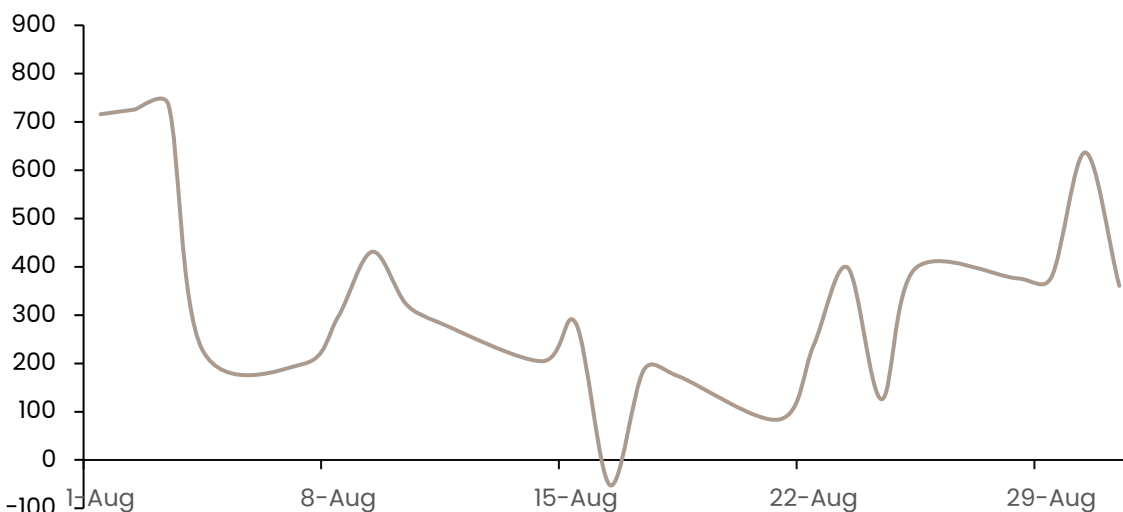




Monthly Fixed Income Market Report – August 2023

The FGN bond market closed the month negative as average yield surged 96bps MoM to settle at 14.06%. Similarly, the Nigerian Treasury Bills Market closed the month bearish, as average yield went up by 15bps MoM to close at 7.27%. Overall, the secondary Fixed Income market closed on a negative note as average yield increased by 55bps to 10.67%. This was amid predominantly tighter liquidity system in the month of August. Furthermore, we witnessed repricing of fixed income instruments as the CBN offered attractive OMO rates at the first primary OMO auction of the year.

Figure 1: System Liquidity in August 2023



Source: FMDQ, ARM Research

FGN Bond Market – Bearish Outing

At the primary bond auction for August 2023, the DMO sold NGN227.76bn worth of bonds across the re-opening of four (4) instruments (APR-2029: NGN10.43bn, JUN-2033: NGN4.07bn, JUN-2038: NGN25.53bn, and JUN-2053: NGN187.73bn). The demand for the instruments declined as

average bid-to-cover ratio dipped by 176bps to 0.87x (vs. 2.63x at the previous auction). Consequently, average stop rate surged 135bps to 14.98% from 13.63% at the last auction. Stop rates for the APR-2029, JUN-2033, JUN-2038, and JUN-2053 instruments surged by 135bps, 140bps, 110bps, and 155bps each to 13.85%, 15.00%, 15.20% and 15.85% respectively.

Similarly, the secondary bond market ended the month on a negative note as average yield sustained its upward trajectory by 96bps MoM to close at 14.06%. This is following selloffs in the MARCH 2025 (+240bps) and APRIL 2029 (+154bps) instruments. On a weekly basis, yields went up in the second (+21bps), third (+31bps), and fourth (+27bp) week offsetting the buying interest in the first week (-16bps).

We observed investors' negative sentiment in the Eurobond market following the release of JP Morgan's report on CBN's external reserve. Consequently, average yield rose significantly by 134bps MoM to 11.34%.

Nigerian Treasury Bills Market – Negative Sentiment Persists

Average stop rates at the NTB auctions in August 2023 increased by 157bps to 7.98% from 6.41% in July 2023. We observed an increased in demand for the instrument as average bid-to-cover ratio surged by 207bps to 5.26x (vs. 3.19 in July 2023) The DMO conducted two auctions where it offered and sold treasury bills worth a total of NGN457.20bn (equal to the amount that matured in August).

During the first auction which was held on the 9th of August 2023, the average bid-to-cover ratio increased by 392bps to 5.43x (vs. 1.51x at the last auction). Consequently, average stop rate declined by 182bps to 6.90% (vs 8.72% at the previous auction).

During the second auction, average stop rate rose by 215bps to reach 9.05%. This increase followed a decrease in demand at the auction, as average bid-to-cover ratio dropped by 34bps to settle at 5.09x (vs. 5.43x at the first auction).

Meanwhile, the secondary market closed on a negative note as average yield surged 31bps MoM to settle at 7.27%. In weekly terms, the buying interest in the first week (-16bps) and the fourth (-20bps) were offset by the selloffs in the second week(+37bps) and third week (+31bps).

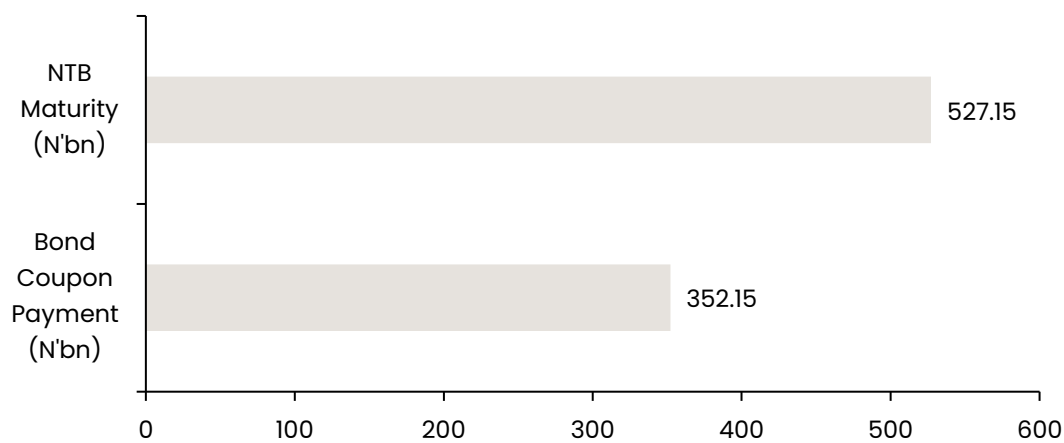
OMO Auctions – Awakened from Slumber?

The CBN, after its hawkish meeting in July, in a deliberate effort to reduce system liquidity held its first OMO auction of the year on August 10th, 2023. Average stop rate spiked 396bps to 12.49% when compared to the previous auction in December 2022. Total subscription was 2.05x the offer amount. Notably, stop rate for the 182-day and 364-day bill settled at 12.98% and 14.49% respectively.

Outlook

With respect to maturities, we expect a total of NGN527.15bn NTBs to mature in September and bond coupon payment of NGN352.15bn. In September, we expect yields to remain elevated amid possible tighter system liquidity.

Figure 2: Maturity Profile for September 2023



Source: ARM Research

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