

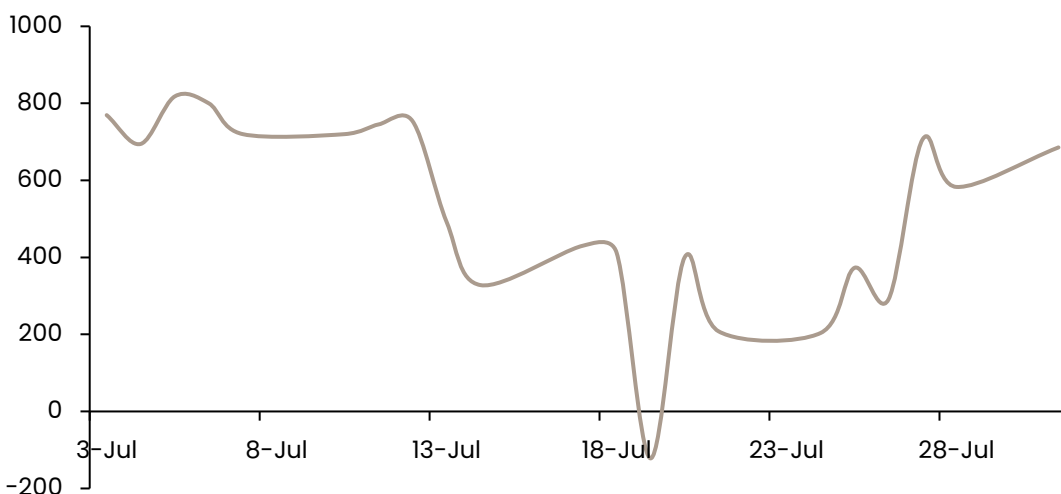


Monthly Fixed Income Market Report – July 2023

Hawkish Train Kindles Selloffs in the Fixed Income Market

The FGN bond market closed the month on a negative note as average yield edged up 12bps MoM¹ to 13.10%. Similarly, the Nigerian Treasury Bills Market closed the month bearish, as average yield surged 78bps MoM to close at 7.12%. Overall, the secondary Fixed Income (FI) market closed the month on a negative note as average FI yield went up by 45bps MoM to settle at 10.11%. This is amid moderate system liquidity in July. The advancement in average yield was supported by the hawkish tone of the CBN during its July Monetary Policy Committee (MPC) meeting, as it raised its Monetary Policy Rate (MPR) further by 25bps while also tightening the asymmetric corridor for the first time since September 2020.

Figure 1: System Liquidity in July 2023



Source: CBN, ARM Research

¹ Month-on-Month

FGN Bond Market – Mixed Sentiment

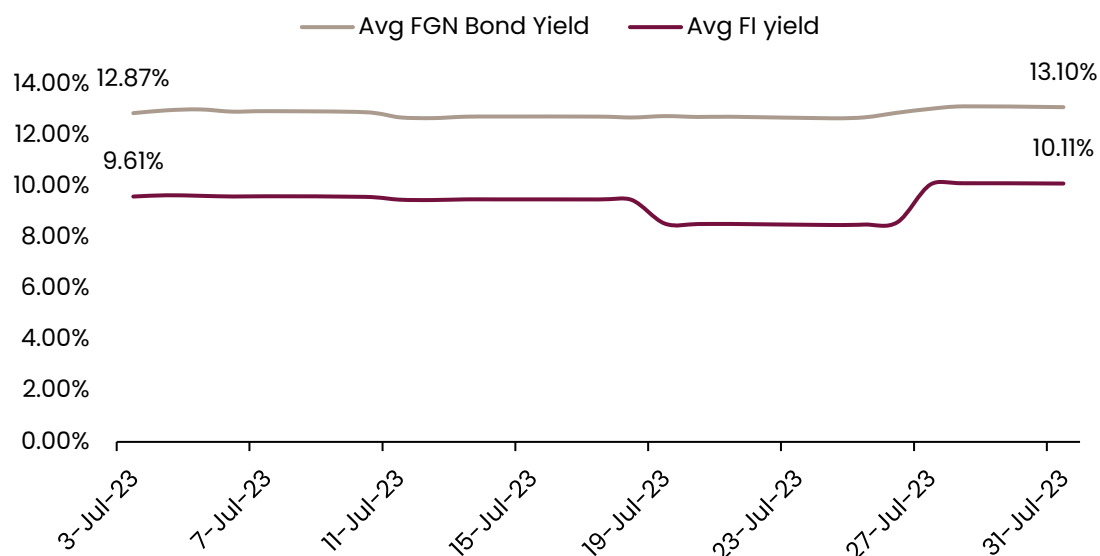
At the primary bond auction last month, the DMO² sold NGN656.74bn worth of bonds across four re-opening instruments (APR-2029: NGN52.62bn; JUN-2033: NGN39.86bn; JUN-2038: NGN146.49bn; JUN-2053: NGN417.77bn). There was improved demand for the instruments, as average bid-to-cover ratio increased by 86bps to 2.63x (vs. 1.76x at the previous auction). Consequently, average stop rate declined by 131bps to 13.63% (vs. 14.94% at the previous auction). Demand was tilted towards the JUN-2053 instrument as its average bid-to-cover ratio surged 341bps to 6.67x (vs 3.26x at the last auction). Specifically, stop rates for the APR-2029, JUN-2023, JUN-2038 and JUN-2053 instruments declined by 140bps, 110bps, 135bps and 140bps each to 12.50%, 13.60%, 14.10% and 14.30% respectively.

However, the secondary bond market ended the month on a negative note as average yield went up by 12bps MoM to close at 13.10%. This is following selloffs in MARCH 2027 (+164bps) and JANUARY 2026 (+134bps) instrument. In weekly terms, yields went up in the fourth week (-41bps), offsetting the buying interest in the first (-4bps), second (-21bps), and third (-1bp) week. Notably, the change in direction of yields came after the increase of the MPR at the July MPC meeting.

Elsewhere, positive sentiment was maintained in the FGN Eurobond market, as average yield further went down by 77bps MoM to 10.00%.

² Debt Management Office

Figure 2: Average FGN Bond Yield vs Average Fixed Income Yield in July 2023



Source: FMDQ, ARM Research

Nigerian Treasury Bills Market – Primary Market Marked by Insurgence in Stop Rates

Average stop rates at the NTB auctions in July 2023 rose by 63bps to 6.41% from 5.78% in June 2023. This is following reduction in demand in July relative to June, as evidenced by the 243bps decline in average bid-to-cover ratio to 3.19x (vs 5.62x in June 2023). The DMO conducted two auctions where it offered and sold treasury bills worth a total of NGN406.10bn (equal to the amount that matured in July).

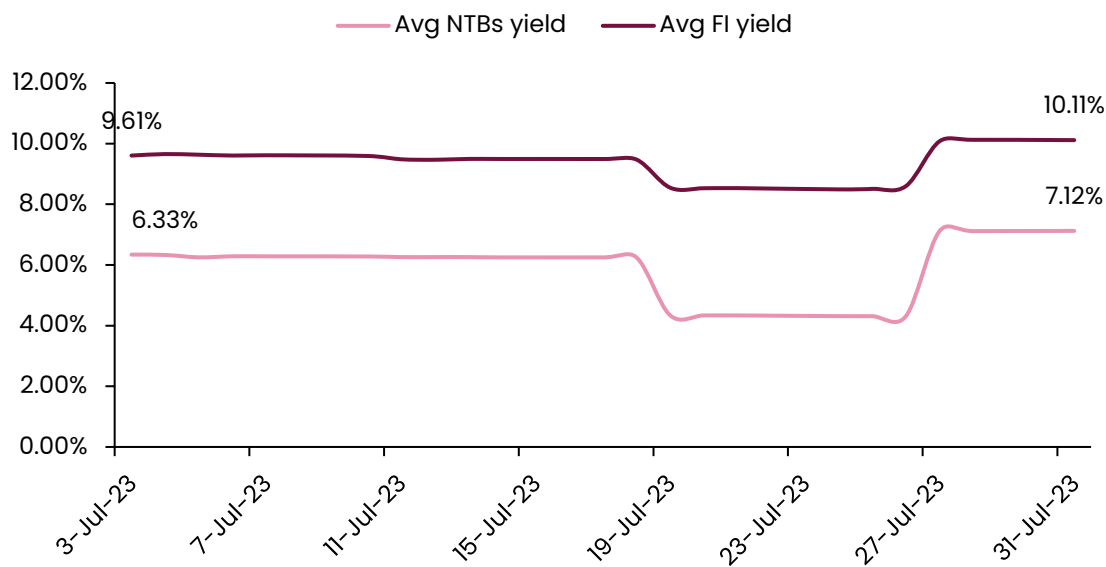
At the first auction held on 12th July 2023, the average bid-to-cover ratio climbed 85bps to 4.88x (vs. 4.03x at the previous auction). Following improved demand, average stop rate declined by 39bps to 4.10% (vs 4.49% at the last auction). Demand was tilted towards the 182-day bill instrument as its average bid-to-cover ratio surged by 18.89% to 21.07x compared to 2.18x at the previous auction. Consequently, its stop rate fell by 87bps to 3.50% (vs. 4.37% at the previous auction).

However, the second auction held in the month took a different turn following the MPC's unanimous vote to raise the Monetary Policy Rate (MPR) by 25bps to 18.75% and

tightened the asymmetric corridor to +100/-300 basis points around the MPR. The average stop rate surged 462bps to 8.72% (vs 4.10% at the previous auction) while the bid-to-cover ratio dipped by 337bps to settle at 1.51x (vs 4.88% at the previous auction) indicating a decline in demand for the instruments. However, there was an increase in demand for the 91-day bill, as its bid-to-cover ratio rose to 4.52x from 2.11x at the last auction.

The bearish sentiment at the last auction in the month of July trickled down to the secondary market as average yield surged 78bps MoM to settle at 7.12%. In weekly terms, the buying interest in the first week (-6bps), second week (-4bps) and third week (-191bps) were offset by the selloffs in the fourth (+434bps) week.

Figure 3: Average NTBs yields vs Average Fixed Income Yield in July 2023

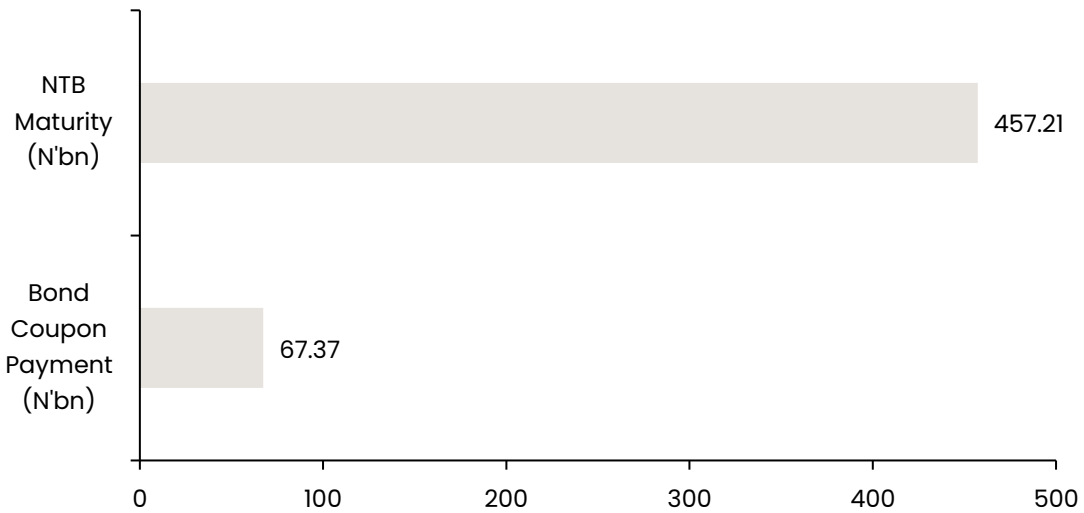


Source: FMDQ, ARM Research

Outlook

With respect to maturities, we expect a total of NGN457.21bn NTBs to mature in August and bond coupon payment of NGN67.37bn. In August, we expect investors to continue repricing fixed income instruments amid the current monetary policy dynamics. Hence, we expect yields to rise further.

Figure 4: August 2023 Maturity Profile



Source: ARM Research

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