Bond Watch

Analysis

The secondary market for FGN bonds continued its downward trend from the preceding week as traders realized profits on bonds from the previous auctions. The announcement of the OMO auction by CBN further strengthened the trend. However, no OMO bills were allotted at the auction due to the high bid rates. We note the dramatic increase in stop rates over the last 12 auctions from sub-10% levels to circa 17% during the last auction **(see fig. 3)** indicating an increase in investors' preference for the short end of the yield curve. We are therefore inclined to highlight that the last time OMO rates climbed to double-digit levels was in 2004 when average yield at the OMO sessions was 13.50% for the year.

In addition, our assessment equally draws attention to the widened spread between rates on government treasuries and bank deposit rates. We believe this window presents an opportunity to non-financial institutions or high networth individuals (HNIs) to take advantage of the prevailing high-rate regime to include some relatively risk-free and high yield securities in their respective portfolios compared to current bank deposit rates. For example, we estimate that the spread between 91-day treasuries and 3-month deposit rates have widened from 2.58% in January 2011 to c. 8.20% at present. **(see fig. 3)**

Also during the week, the third treasury bills primary auction this year was held during which the central bank sold ₦67.22 billion in 264-day paper at 16.89%, ₦50 billion in 182-day at 16.09% and ₦32.06 billion of 91-day bills at 14.70%. We note that the marginal rates at the week's auction were slightly lower when compared to that of January 25th where rates were 16.10% and 14.79% for 180-day and 91-day respectively. The total subscription stood at ₦316.85 billion as against ₦258.13 billion recorded at the previous auction.

In the week ahead, the DMO will reopen about ₦70 billion of medium tenured bonds; ₦35 billion each of 7% October 2019 and 16.39% January 2022. We expect slightly higher marginal rates for these issues compared to the 16.00% and 16.39% for the 2019 and 2022 bond respectively at the January auction. Currently, the secondary market yields for these instruments are 16.21% and 16.51% for the 2019 and 2022 Bonds respectively.

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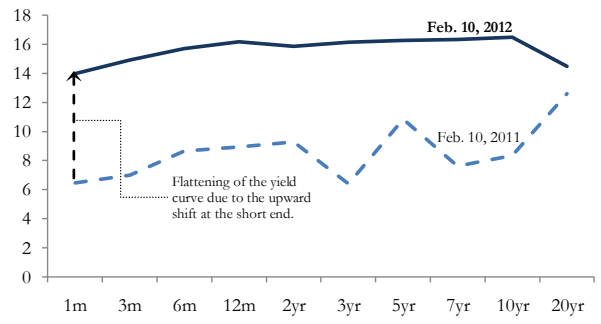
Figure 1: Market Indicators

FGN Bonds Market Cap., ₦'bn	3,413.01
FGN Bonds Market Cap., $'bn	21.78
Domestic Debt Stock, ₦'bn	5,318.00
Domestic Debt Stock, $'bn	33.91
External Debt, ₦'bn	883.65
External Debt, $'bn	5.63
MPR (%)	12.00
Inflation (%)	10.30

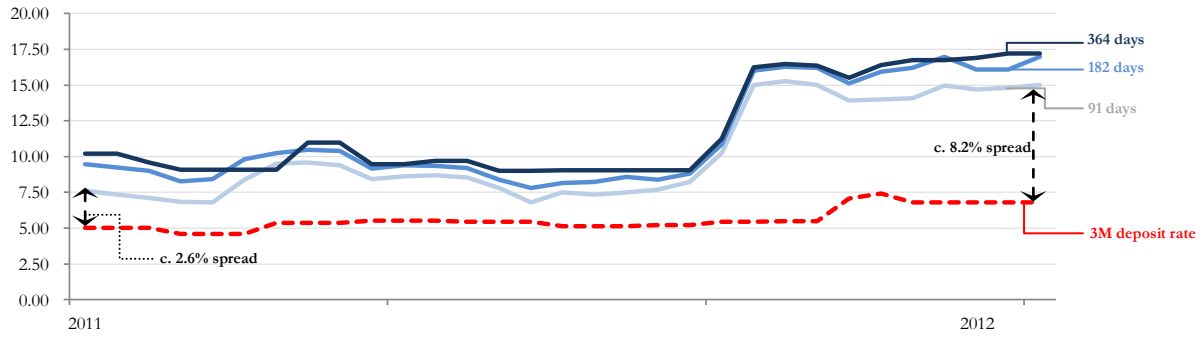
Source: DLM Research, National Bureau of Statistics (NBS), Debt Management Office (DMO)

Figure 2: FGN Yield Curve



Source: DLM Research

Figure 3: Treasury bills stop rates vs. Deposit rate (3M) 2011 – date



Source: DLM Research

Figure 5: FGN Benchmark Bonds

Description	Price (%)	Yield (%)
5.50 Feb19, 2013	90.67	15.87
10.50 Mar 18, 2014	70.53	16.15
4.00 Apr 21, 2015	75.30	16.27
7.00 Oct 23, 2019	99.45	16.50
10.00 Jul 23, 2030	71.43	14.47

Source: DLM Research

Figure 6: Eurobonds

Issuer	Description	Price (%)	Yield (%)
FGN	6.75 Jan 28, 2021	106.94	5.75
GT Bank	7.50 May 19, 2016	100.50	7.36
First Bank	9.75 Mar 30, 2017	101.39	6.88

Source: DLM Research, Bloomberg

Figure 7: Sub-National Bonds

Issuer	Issue Size (₦'bn)	Rating	Maturity	Original Tenor	TTM/ Average Life	Coupon (%)	Mid-Price	Yield (%)
Lagos (S1)	50.00	A+, AA,	Feb-14	5	2.00	13.00	93.32	17.09
Niger#	6.00	A-	Oct-15	5	2.17	14.00	98.06	18.34
Kwara	17.00	A	Aug-14	5	2.48	14.00	92.44	17.90
Ebonyi#	16.50	A	Sep-15	5	3.17	13.00	92.73	18.04
Imo#	18.50	A+	Jun-16	7	3.17	15.50	98.20	17.49
Benue#	13.00	A-	Jun-16	5	3.17	14.00	84.56	18.32
Kaduna	8.50	A+	Aug-15	5	3.55	12.50	85.47	18.22
Bayelsa#	50.00	A-	Jun-17	7	3.83	13.75	93.24	17.81
Ekiti#	20.00	A	Dec-18	7	4.78	14.50	91.47	18.17
Delta#	50.00	A+	Sep-18	7	4.83	14.00	91.74	17.68
Niger (S1)	9.00	A-	Oct-18	7	4.83	14.00	82.62	18.65
Lagos (S2)	57.00	A+	Apr-17	7	5.19	10.00	74.64	17.65
Edo	25.00	A-	Dec-17	7	5.89	14.00	83.36	18.77

Source: DLM Research

Figure 8: Corporates

Issuer	Issue Size (₦'bn)	Rating	Maturity	Original Tenor	TTM/ Average Life	Coupon (%)	Mid-Price	Yield, (%)
UPDC#	15.00	A-	Aug-15	5	2.83	10.00	84.49	18.99
Lafarge	11.80	A+/AA-	Oct-14	3	2.66	11.50	85.39	18.70
Flourmills#	37.50	A	Dec-15	5	3.50	12.00	89.70	18.36
Chellarams#	1.50	BBB-	Jan-16	5	2.83	14.00	81.68	19.90
GT Bank	13.17	AA+	Dec-14	5	2.85	13.50	90.17	18.03
*Tower (S1 Tr. A)#	3.63	A-/A-	Sep-18	7	4.83	15.75	89.69	19.55
*Tower (S1 Tr. B)#	1.00	AAA/AA-	Sep-18	7	4.83	14.00	87.35	18.55
NAHCO	2.15	AA/A-	Sep-16	5	4.64	13.00	80.73	19.48
UBA (S1)	20.00	A+	Sep-17	7	5.64	13.00	80.49	18.74
UBA (S2)	35.00	A/A	Sep-18	7	6.64	14.00	82.97	18.55

Source: DLM Research

Legend:
: Amortizing bonds; * : Floating rate bonds; Sr : Series; Tr : Tranche

NB: (i) Prices and yields on Sub-National and Corporate Bonds are indicative.
(ii) For amortising bonds, average life is used in place of Term-To-Maturity (TTM)

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