Bond Watch

Analysis

In our review of market for the previous week, we observed that secondary market activities for FGN bonds were driven by the monthly auction which took place midweek during which two (2) bonds were offered i.e. the 7.00 October 23, 2019 (₦20.00bn) and 16.39 January 27, 2022 (₦30.00bn); both bonds were re-opened at marginal rates of 15.30% and 15.41% whilst subscription levels for both instruments were 216.50% and 127.00% respectively. In addition, we note that an additional ₦50.00 billion of 16.39 January 27, 2022 was allotted on a non-competitive basis. We equally observe that the marginal rates during the auction came out lower than expected as yields in the market retreated across several short-to-medium term maturities, the highest being the 12-month treasuries that shed 67 basis points by our estimates.

In our opinion, movements in the market is a result of the high subscription levels recorded at the primary auction which is not unconnected with the retention of the benchmark rate (MPR) at 12.00% at the last MPC meeting and the moderate deceleration in the year-on-year inflation levels as at February.

Meanwhile, over the counter trade (OTC) trading remained relatively stable and active during the week as traders were speculative of the outcome of the primary auction.

Also, we note that liquidity tightening continued during the week in view of the ₦50.00 billion worth of 255day and 332day OMO bills that were offered whilst circa ₦74.92 billion was sold at marginal rates of 15.25% and 15.37% respectively.

In our assessment of the market, we note the significant oversubscription of government securities (fig. 3), which indicates substantial liquidity levels within the system. Therefore, we are inclined to equally highlight the high interest rate levels at the short end, an indication of the 'crowding out effect' being witnessed in the domestic financial markets whilst the yield curve remains flat.(fig. 2).

In the week ahead, we anticipate the release of the DMO's schedule of primary market activities for the second quarter. As a result, we anticipate a moderate increase in activities on the back of the announcement as investors reposition their portfolios accordingly.

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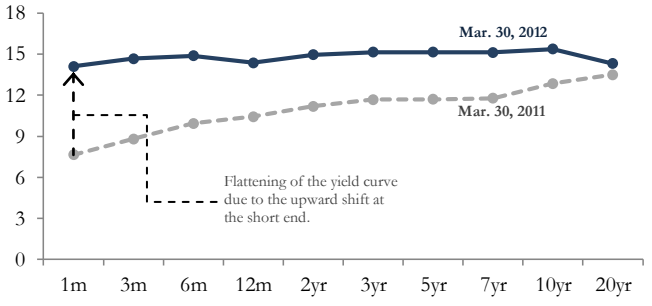
Fig. 1: Market Indicators

FGN Bonds Market Cap., ₦'bn	3,579.17
FGN Bonds Market Cap., $'bn	22.93
Domestic Debt Stock, ₦'bn	5,622.84
Domestic Debt Stock, $'bn	35.95
External Debt, ₦'bn	886.25
External Debt, $'bn	5.67
MPR (%)	12.00
Inflation (%)	11.90

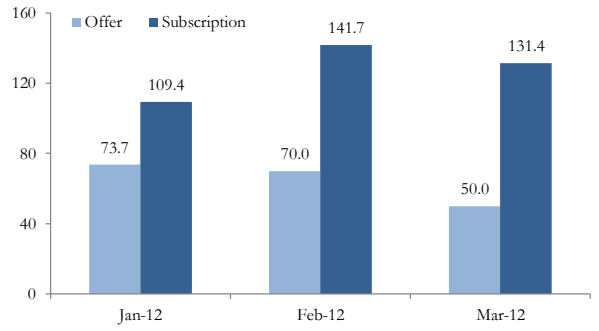
Source: DLM Research, National Bureau of Statistics (NBS), Debt Management Office (DMO)

Fig. 2: FGN Yield Curve



Source: DLM Research

Fig. 3: Nigeria: FGN bonds primary auction (₦bn)



Source: DLM Research

Fig. 4: FGN Benchmark Bonds

Description	Price (%)	Yield (%)
10.50 Mar 18, 2014	92.62	14.96
4.00 Apr 15, 2015	73.43	15.15
9.35 Aug 31, 2017	79.06	15.15
16.39 Jan 27, 2022	104.95	15.38
10.00 Jul 23, 2030	72.18	14.32

Source: DLM Research

Fig. 5: Eurobonds

Issuer	Description	Price (%)	Yield (%)
FGN	6.75 Jan 28, 2021	110.71	5.22
GT Bank	7.50 May 19, 2016	104.50	6.25
First Bank	9.75 Mar 30, 2017	101.48	0.79

Source: DLM Research, Bloomberg

Figure 6: 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	1.86	13.00	95.08	16.13
Niger#	6.00	A-	Oct-15	5	2.17	14.00	101.66	17.38
Kwara	17.00	A	Aug-14	5	2.35	14.00	94.42	16.94
Ebonyi#	16.50	A	Sep-15	5	3.17	13.00	94.45	17.04
Imo#	18.50	A+	Jun-16	7	3.17	15.50	102.17	16.46
Benue#	13.00	A-	Jun-16	5	3.17	14.00	88.06	17.29
Kaduna	8.50	A+	Aug-15	5	3.42	12.50	88.27	17.16
Bayelsa#	50.00	A-	Jun-17	7	3.83	13.75	97.38	16.75
Ekiti#	20.00	A	Dec-18	7	4.78	14.50	94.17	17.05
Delta#	50.00	A+	Sep-18	7	4.83	14.00	94.31	16.56
Niger (S1)	9.00	A-	Oct-18	7	4.83	14.00	86.59	17.53
Ondo#	27.00	A/A-	Feb-19	7	4.86	15.50	95.64	16.98
Lagos (S2)	57.00	A+	Apr-17	7	5.06	10.00	78.18	16.53
Edo	25.00	A-	Dec-17	7	5.76	14.00	87.17	17.62

Source: DLM Research

Figure 7: 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	87.94	17.93
Lafarge	11.80	A+/AA-	Oct-14	3	2.52	11.50	87.80	17.70
GT Bank	13.17	AA+	Dec-14	5	2.72	13.50	92.56	17.00
Chellarams#	1.50	BBB-	Jan-16	5	2.83	14.00	85.05	18.90
Flourmills#	37.50	A	Dec-15	5	3.50	12.00	93.56	17.36
*Dana#	8.01	BBB/BBB+	Apr-18	7	4.50	16.00	101.03	18.61
NAHCO	2.15	AA/A-	Sep-16	5	4.50	13.00	84.05	18.36
*Tower (S1 Tr. A)#	3.63	A-/A-	Sep-18	7	4.83	15.75	92.67	18.43
*Tower (S1 Tr. B)#	1.00	AAA/AA-	Sep-18	7	4.83	14.00	90.42	17.43
*Chellarams(S2)	0.45	BBB-	Feb-19	7	4.83	17.00	89.19	19.26
UBA (S1)	20.00	A+	Sep-17	7	5.50	13.00	84.06	17.65
UBA (S2)	35.00	A/A	Sep-18	7	6.50	14.00	87.21	17.36

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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