Bond Watch

Analysis

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In our assessment of the market last week, we observed the influence of the treasury bills auction, which took place mid-week, on activities across the market. This resulted in relative sustained intra-day volatility and subsequent stability as traders adopted a cautious approach whilst OTC trading remained more stable in the latter part of the week. In our opinion, the relative stability experienced could be attributed to traders' cautious stance in anticipation of the outcome of the Tbills auction. Meanwhile, we also note that traders' speculative position is not unconnected with the unexpected outcome of the OMO bills auction, which occurred towards the end of the week.

During the treasury bills auction, ₦32.06 billion worth of 91day was offered and sold at the rate of 13.19% as against ₦34.89 billion which was sold at the rate of 13.85% at the previous auction, whilst ₦55.00 billion and ₦60.00 billion worth of 182day and 364 day were offered respectively; both securities were sold at the rates of 13.87% and 13.95% respectively compared to 14.59% and 14.64% at the previous auction. Despite the decline in bid rates, we are however inclined to highlight the high subscription levels recorded across all maturities issued at the auction i.e. 91days, 206.02%; 182days, 164.25% and; 364days, 349.98%. (fig. 3)

In line with expectations, we equally observe that investors are locking up their respective positions on the government high-yield assets in anticipation of probable rate reversal in the months ahead as indicated by the significantly higher subscription level recorded in the 364-day Tbills. At this point, we are persuaded to mention that regardless of the substantial increase in investors' (domestic and foreign) interest in the domestic risk free assets, growth of capital formation in the economy has remained low given the high interest rate environment. In our opinion, most investors in the Nigerian financial markets space are portfolio investors. Our position is underscored by the substantial decline in Nigeria's FDI growth over the last five years to December 2010, during which FDI growth dropped from 18.6% to 11.2%. (fig. 4) Therefore, in our evaluation of the Nigerian economy, we believe the FDI growth recorded in the 2011 fiscal year, and so far in 2012, may be weaker than that of 2010.

Meanwhile, further liquidity tightening occurred towards of the end of week as ₦50.00 billion worth of 105day OMO bills was offered whilst c. ₦51.64 billion was sold at the marginal rate of 13.30%. In line with recent trends, the securities were significantly oversubscribed in view of the 131.26% subscription level recorded with a bid-range of 12.74% - 15.99%. We reiterate our position that the oversubscription levels being recorded in the money market underscores investors' appetite for securities at the shorter end of the yield curve, hence the flattening/inversion of the domestic term structure of maturities. (fig. 2)

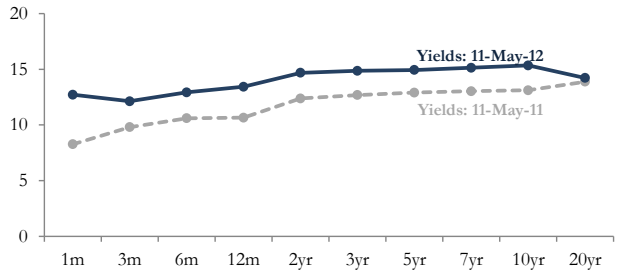
In the week ahead, there will be a bond auction during which ₦35.00 billion each of 5year and 10year bonds will be offered. We equally expect the meeting of the budgetary allocation committee (FAAC) and a subsequent inflow of liquidity into the system.

Fig. 1: Market Indicators

FGN Bonds Market Cap., ₦'bn	3,827.68
FGN Bonds Market Cap., $'bn	24.58
Domestic Debt Stock, ₦'bn	5,966.77
Domestic Debt Stock, $'bn	38.32
External Debt, ₦'bn	920.56
External Debt, $'bn	5.91
MPR (%)	12.00
Inflation (%)	12.10

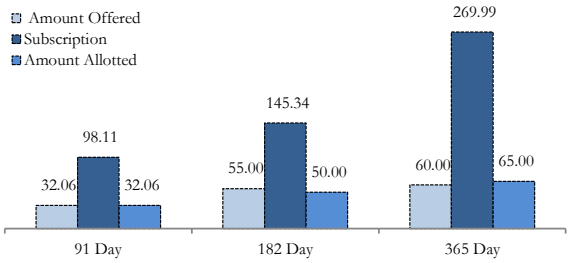
Source: DMO, NBS, DLM Research

Fig. 2: FGN Yield Curve



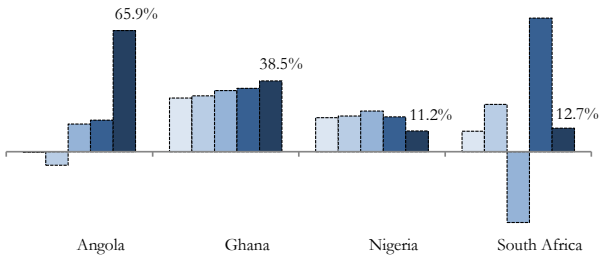
Source: DLM Research

Fig. 3: Treasury bills subscription levels, ₦'bn (7-11 May, 2012)



Source: DLM Research

Fig. 4: FDI growth (selected SSA countries), 2006-10



Source: UNCTAD, DLM Research

Fig. 5: FGN Benchmark Bonds

Description	Price (%)	Yield (%)
10.50 Mar 18, 2014	93.38	14.68
4.00 Apr 15, 2015	74.79	14.86
9.35 Aug 31, 2017	100.23	14.94
16.39 Jan 27, 2022	105.10	15.35
10.00 Jul 23, 2030	72.72	14.22

Source: DLM Research

Fig. 6: Eurobonds

Issuer	Description	Price (%)	Yield (%)
FGN	6.75 Jan 28, 2021	110.13	5.28
GT Bank	7.50 May 19, 2016	104.38	6.27

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	1.75	13.00	95.87	15.76
Niger#	6.00	A-	Oct-15	5	2.17	14.00	95.49	17.01
Kwara	17.00	A	Aug-14	5	2.23	14.00	95.13	16.66
Ebonyi#	16.50	A	Sep-15	5	2.83	13.00	94.48	16.75
Imo#	18.50	A+	Jun-16	7	3.17	15.50	99.00	16.17
Benue#	13.00	A-	Jun-16	5	3.17	14.00	85.68	17.00
Kaduna	8.50	A+	Aug-15	5	3.30	12.50	89.15	16.89
Bayelsa#	50.00	A-	Jun-17	7	3.83	13.75	94.77	16.50
Ekiti#	20.00	A	Dec-18	7	4.78	14.50	94.77	16.84
Delta#	50.00	A+	Sep-18	7	4.50	14.00	94.64	16.33
Niger (S1)	9.00	A-	Oct-18	7	4.83	14.00	87.41	17.32
Ondo#	27.00	A/A-	Feb-19	7	4.86	15.50	96.35	16.77
Lagos (S2)	57.00	A+	Apr-17	7	4.94	10.00	79.10	16.32
Edo	25.00	A-	Dec-17	7	5.64	14.00	87.67	17.51

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	87.89	17.64
Lafarge	11.80	A+/AA-	Oct-14	3	2.41	11.50	88.89	17.32
GT Bank	13.17	AA+	Dec-14	5	2.60	13.50	93.39	16.71
Chellarams#	1.50	BBB-	Jan-16	5	2.83	14.00	82.98	18.61
Flourmills#	37.50	A	Dec-15	5	3.50	12.00	90.84	17.09
*Dana#	8.01	BBB/BBB+	Apr-18	7	4.50	16.00	94.23	18.38
NAHCO	2.15	AA/A-	Sep-16	5	4.39	13.00	84.82	18.15
*Tower (S1 Tr. A)#	3.63	A-/A-	Sep-18	7	4.17	15.75	93.62	18.18
*Tower (S1 Tr. B)#	1.00	AAA/AA-	Sep-18	7	4.17	14.00	91.40	17.18
*Chellarams(S2)	0.45	BBB-	Feb-19	7	4.83	17.00	89.77	19.05
UBA (S1)	20.00	A+	Sep-17	7	5.39	13.00	84.70	17.49
UBA (S2)	35.00	A/A	Sep-18	7	6.39	14.00	87.45	17.31

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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