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BONDS BILLS RATES

Risk Digest:

Fixed Income Securities

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Rates/Price Movement

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End-of-week FGN Bond Yield rose to **10.71%** from **9.87%** previously .

Weekly average NIBOR for the day stood at **7.64%** compared to the previous week's mean of **8.39%**

Average Open Buy Back closed the week higher at **1.17%** compared to **0.5%** at the close of the previous week

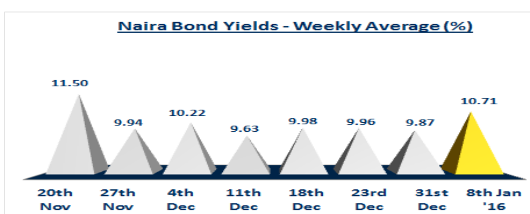
Weekly Average NITTY rose to **6.6882%** from **4.91%** in the previous week

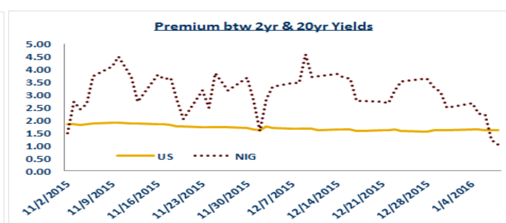
*Resuming the year on a bearish note, the Nigerian Sovereign Bonds let off their recent gains across the curve (all maturities) in the review week. Bond yields rose definably in the period, leading the mean yield for the week to **10.71%** from **9.87%** at the previous session. The 2016 average year-open of 10.017% however stood way lower than the figure recorded at the inception of 2015 (14.83%).*

The Nigerian bond market maintained the sell-bias which occasioned the market at the last trading week of the year 2015. Investors sold off more determinedly during the week in view, as the Central Bank auctioned the Government's Treasury Bills (Open Market Operations) twice in the period.

The bills were auctioned at such attractive rates that the risk averse (typical short horizon players) who had earlier dumped the low-returning T-bills scampered back to the short end of the market. The yield on the shortest tenured 2-yr, which stood at the 7% levels a few sessions before the close of 2015, ascended to the 10% levels as investors priced higher their perceived risks on the nation's sovereign assets. For one, the state of the Nigerian foreign exchange market remains a downer for investor appetite in the Nigerian assets. Investors remain unsure of the real value of the Nigeria and how to value their prospective investments. Besides, the instability in the currency market induces paranoia; as investors are unable to comfortably project a reliable trend for the Naira and thus the future value of their investments.

On the local front, investors in recent sessions have to some degree traded with caution, especially as the CBN has awakened its OMO auctions. It might appear that the CBN has resumed its monetary tightening in the wake of the steaming inflationary pressure and of course the weakening Naira. It was about time the Apex bank kicked off its administrative measures in controlling the excessive Naira liquidity especially as the local currency depreciated to record lows, against the dollar.

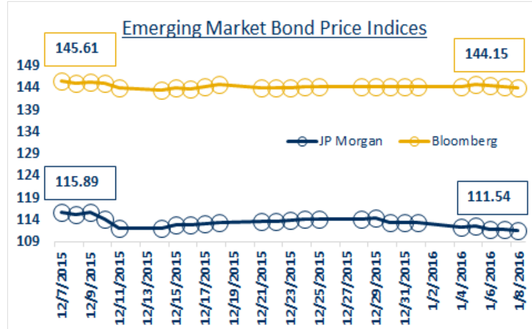




At the sessions just before each monetary policy meeting (of the Nigerian MPC in November, 2015 and the US FOMC in December, 2015), it was observed that the Nigerian debt market reacted conspicuously in anticipation of the decisions to be made. The rather volatile premium between the FGN 2-yr and the 20-yr bonds peaked at sessions preceding the meetings as investors in the Nigerian market sought safe haven in the shorter tenured supposedly less risky bonds. The risk premium apportioned to the longer tenured notes also increased markedly. The tenor risk premium and in fact rates in the less volatile US bond market remained commendably stable even sequel to the Fed rate hike. While the market expected rates to grow after the benchmark hike, the capital inflows into the market (translating to increased demand for the assets) have presumable capped the yield growths so far.

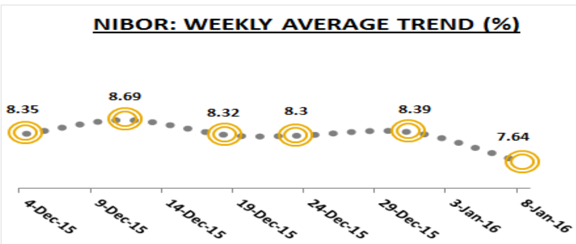
We conjectured earlier that the biased sentiments towards the US interest rate hike, which occurred in December, 2015 are not overthrown just yet. Investors in recent sessions have been seen to trade with caution in Nigeria and other emerging markets. The timing of the rate hike, though seemingly favorable for the US economy does not augur suitably for Emerging markets. Developing economies have been forecast to grow by 4.8 per cent in 2016, below earlier expectations. Of course, growth is estimated to slow further in China, while Russia and Brazil are likely to remain in recession in 2016. Capital pull outs in the wake of the US rate is likely to hamper further the debt markets among others in most emerging markets.

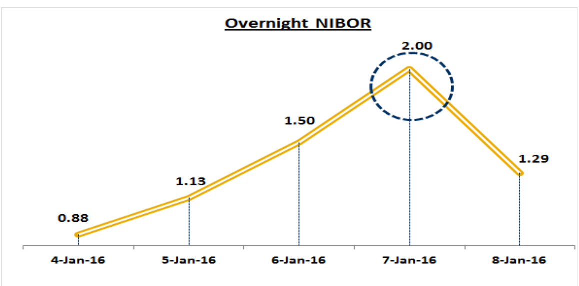
The two Emerging Market indices (ref. to chart) fell at the instance of the US rate hike but picked up fairly well subsequently. The JP Morgan index, of which the FGN bonds were dropped in October 2015, however, was not resilient enough to hold up the recovery and has nosedived in recent times, though subtly.

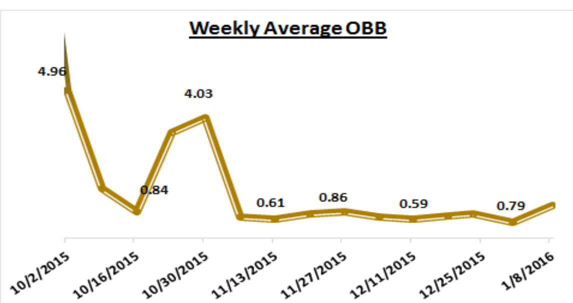


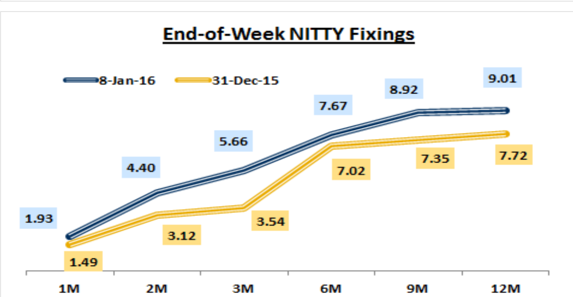
The Nigerian Money Market

Weekly Liquidity Summary			
Inflow	N'Bn	Outflow	N'Bn
Bill Maturity	136.25	T-bill Auction	136.25
FAAC	125.31	OMO Auctions	190.067
Total	261.56	Total	326.32









Nigerian Inter-Bank Offered Rate (NIBOR)

It appears that the CBN has been somewhat inclined towards edging out some of the excess system liquidity in the recent weeks. We recall that in December, the Apex body held the oversubscribed secondary bill auctions thrice; selling fairly large aggregates of the short-dated notes. The Apex bank conducted its OMO sales twice in the review week, despite the scheduled primary market auctions which held. Ousting a total of N326bn from the interbank market in the week, the CBN enabled an upward shift in the money market rates. The overnight rate crossed its weeks-long 1% levels into the 2% regions in the period. However, the inflow from the maturity of bills which met the residue from the FAAC eased the upward pressure on the fund returns. In essence, average weekly NIBOR stood at 7.64% compared to 8.39% previously. Meanwhile, It is worthy of note that the overnight maturity rate now lies below the 12-month London Interbank Offered Rate which trades circa 1%.

Average Open Buy Back rate however closed the week higher at 1.17% compared to 0.5% earlier, unmoved by the influx at the end of the week.

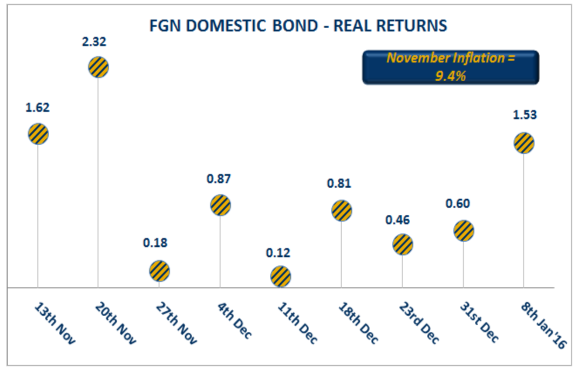
Nigerian Interbank Treasury Bills' True Yield - NITTY

Though rates have been rather unappealing at the short end of the fixed income market, the Central bank has raised the bar on the level of rates recently featured at its latest auctions. The CBN allotted N136.25bn of the 91, 182 and 364 day short dated Government bills at higher than market rates of 4%, 6.99% and 8.05% respectively, in the week. The existing comparable maturities traded at 3.88%, 6.22% and 7.67% respectively, at the preceding session. In a similar vein, the CBN allotted N33bn of the 224day Open Market Bill at 7.9%, slightly higher than the prevailing market rate. Average NITTY for the week grew to 6.6882% compared to 4.91% in the previous week.

PRIMARY MARKET TBILL AUCTION							
7th Jan, 2015				23rd Dec, 2015			
Tenor	Allotment (Nbn)	Subscription (Nbn)	Marginal Rate	Tenor	Allotment (Nbn)	Subscription (Nbn)	Marginal Rate
91	55.40	99.61	4.00%	91	28.122	143.64	3.63%
182	25.00	76.90	6.99%	182	39.339	83.34	6.20%
364	55.85	135.00	8.05%	364	-	-	-

Rate Risk Watch & Outlook

Modified Duration and Convexities of FGN Trading Bonds (8-JAN-2016)							
NOMENCLATURE	MID PRICE	YIELD	MODIFIED DURATION	CONVEXITY	Price Change Due to 100bps rise in Yield (Current)	Price Change Due to 100bps rise in Yield (Previous)	Weekly Change (bps)
15.10% FGN Apr 2017	105.75	10.23%	1.1427	0.0125	-1.1302	-1.1579	2.769
9.35% FGN Apr 2017	98.21	10.55%	1.4355	0.0215	-1.4140	-1.4424	2.835
10.70% FGN May 2018	99.55	10.91%	2.0396	0.0459	-1.9937	-2.0315	3.778
16.00% FGN Jun 2019	113.31	11.26%	2.6797	0.0595	-2.6202	-2.6577	3.745
7.00% FGN Oct 2019	86.60	11.45%	3.1265	0.1064	-3.0201	-3.0484	2.832
16.39% FGN Jan 2022	121.94	11.29%	3.8019	0.1778	-3.6241	-3.6762	5.208
14.20% FGN MAR 2024	114.48	11.42%	4.8263	0.3939	-4.4324	-4.5024	6.999
10.00% FGN Jul 2030	89.38	11.52%	6.8247	0.4296	-6.3951	-6.4803	8.518
12.1493 18-JUL-2034	104.21	11.60%	7.1086	0.0000	-7.1086	-7.3333	22.472
				Average	-3.5265	-3.5922	6.5729



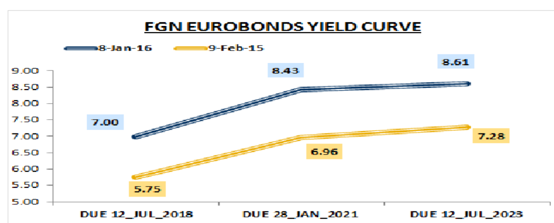
The real (inflation adjusted) rate across our benchmark maturities wrapped up the week at a higher **1.53%** compared to **0.60%,** at the close of the previous week, in line with the ascent of nominal yields. Real yields have been undoubtedly unattractive to the investors but the price taking investors are limited on safe investment opportunities.

The modified duration metric, which measures the interest rate (risk) sensitivity, showed that for a hundred basis points (100bps) increase in rates, bond prices would trend relatively lower by an average of **3.5265%,** compared to **3.5922%,** recorded in the preceding week. This indicates that prices were **less sensitive** to the movement in interest rates.

A massive total of **N250.17bn** worth of bills is set to mature in the coming week. It is likely that the CBN will keep up the renewed consistency of its OMO auctions in the review week. The trend in systemic liquidity will typically sway interbank lending rates.

The Debt Management Office is set to introduce the two new bonds (10 –yr 2026 and 20-yr 2036) in the first quarter of 2016. The two newer bonds will be auctioned alongside the recently introduced 5-yr 2020. The Debt Office also slated that the its auction sum will range between N(40-60)bn each month for all the issues but N(20-30)bn for the 5-yr March. This puts the total debt capital issued by the Government in the quarter between N260bn and N390bn (precisely N80bn in January). The level of subscription and allotments will be solely dependent on investor patronage, the level of rates and liquidity levels among others. The Government in the previous quarter sold a total of N180bn. The hike in the proposed Government borrowing is in line with strategy to make up for the Government's budget deficit partly though debt capital. Though this had earlier raised concerns, we recall that the DMO assuaged fears that the nation's debt market is capable of providing the Government with required funding.

Bond yields in the wake of the refreshed OMO auctions are likely to trend higher in the coming week. As rates tend to increase as a result, it would follow that the Government might be throwing away the chances of borrowing at attractively low costs. We should also recall that the sovereign Eurobonds are already getting costlier in the wake of the Fed's US rate hike and the gloomy outlook for the Nigerian reserves.



DATE	LOCAL MARKET	PREVIOUS	NEXT
14-Jan-16	MATURING TREASURY BILLS	N136.25BN	N250.17BN
	INTERNATIONAL MARKET		
13-Jan-16	US CRUDE OIL INVENTORIES	(5.085)M	-
14-Jan-16	GB INTEREST RATE DECISION	0.50%	0.50%
14-Jan-16	BOE MPC MEETING MINUTES	-	-
14-Jan-16	US CONTINUING JOBLESS CLAIMS	2230K	2215K

Source: Reuters, Bloomberg, FMDQ, and FirstAnalytics

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