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Risk Digest

Fixed Income Securities

*Upturning the performance in the penultimate week, the Nigerian Bond market reveled in a sudden demand burst, with weekly mean yield down by 55basis points. The auction which featured the sale of N75bn worth of bonds (including the new 10-year note) also turned out oversubscribed. Mean yield for the week stood at **11.15%** as investors, empowered by fair liquidity levels, sought cheap deals. We envisage that the MPC at its imminent meeting (on the 25th-26th January, 2016) will subtly adjust the Naira peg and/or hike the Monetary Policy Rate.*

Among other downbeat economic factors, the persistent slide in oil prices triggered a grand selloff in stock markets, prompting investors to opt for the relatively safe fixed income assets in the review week. The need to stash their idle funds in investments earning default-free returns, led investors to the moderately-yielding long end of the debt market.

More so, the massive inflow of funds admitted into the system from the redemption of Government bills, in the last two weeks (totalling 446.13bn), massaged investor appetite yet again and strengthened their purchase strengths. This spurred sessions of bargain hunting, lifting the level of bond prices, as investors were not deterred by the withdrawals for various auctions and CRR debit, which occurred in the week. In essence, the yield curve dipped across the spectrum of maturities in the review period; in fact the 2-year maturity slid back into the sub-10% regions.

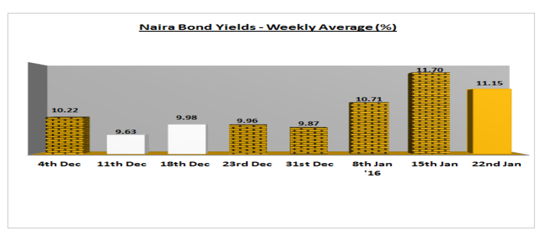
The oil commodities, (the benchmark Brent and Nigeria's BonnyLight) are currently trading at approximately $10 below Nigeria's proposed 2016 budget price of $38. This infuses renewed doubts about the capacity of the Government in funding its proposed N6.08trn budget. Though the Government has stated expressly that the economy will be broadly diversified in the coming year and non-oil revenue will be fostered, the continued depletion in oil receipts continues to send shivers through the market players. In fact, it is somewhat logical to infer that the Government might resort to increasing the amount of its planned borrowings. The cost of such, we envisage, might be higher than prevailing rates, especially as investors price upwardly their returns on the FGN debt assets, while foreign investors might also remain at bay in the near term.

The Nigerian Debt Management Office at mid-week, offered N40bn each of the 2020 and the new 2026 (10-yr benchmark) at the primary market bond auction. Though investors had taken positions prior to the auctions in a bid to secure cheap prices, the session yet ended up oversubscribed. N40bn of the 2020 notes alongside N35bn of the 2026 bonds were sold at 12.243% and 12.5% respectively; moderately higher than prevailing market rates. Investor bid rates ranged from 10%-15.54% for the older 5-yr benchmark and 5.7% -15% for the newer 10-yr issue. The top bound to the bid rates indicates that investors are seeking higher returns on the supposedly riskless sovereign bonds, as the safe haven attribute becomes slightly shadowed by the current macro-economic hullabaloos.

The costs of the three existing FGN Eurobonds spiralled further in the review week, as the decline in oil prices worsened. This alongside the weakening local currency have thinned the nations reserves significantly, bearing in mind that the weak reserves typically repel investor patronage. Weekly average yield on the notes stood at 8.536% compared to 8.28% previously.

FGN BOND ALLOTMENT

Dec-15			Jan-16		
Tenor	Allotment	Rate (%)	Tenor	Allotment (Nbn)	Rate (%)
5-year	30	10.95	5-year	40	12.24
20-year	20	11.00	10-year	35	12.50
Total	50			75	



In this Issue...

Rates/Price Movement

- Naira Bond Yields ↓
- EuroBond Yields ↑
- JP Morgan EM Bond Prices ↓
- Bloomberg EM Bond Prices ↓

End-of-week FGN Bond Yield fell to **11.15%** from **11.696%** previously .

Weekly Average NIBOR stood at **8.08%** compared to the previous week's mean of **7.4%**

Average Open Buy Back closed the week higher at **2.578%** compared to **1.302%** at previously

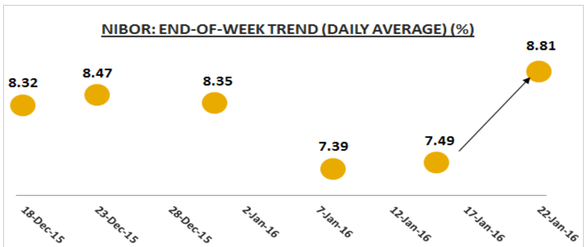
Weekly Average NITTY eased to **5.36%** from **6.05%** in the previous week

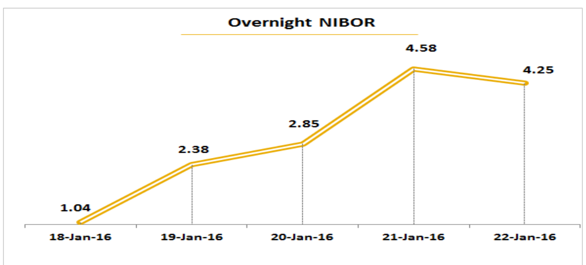
FGN EUROBONDS					
Issuer	Description	Tenor (Yrs)	Issue size ($mm)	Yields	
				22nd Jan	15th Jan
FGN	5.13 Jul 12, 2018	5	500	7.218	7.431
FGN	6.75 Jan 28, 2021	10	500	8.390	8.761
FGN	6.38 Jul 12, 2023	10	500	8.554	8.807
			Average	8.054	8.333

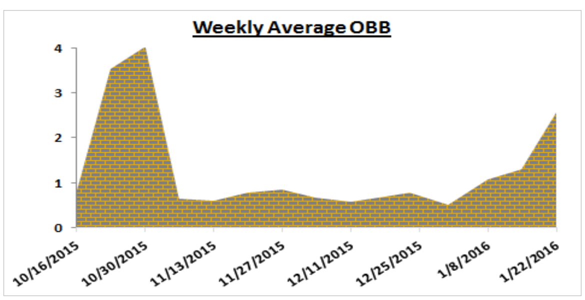
Emerging Market Bond Indices		
	Bloomberg	JP morgan
Previous Week's Average	143.77	111.08
1/22/2016	143.61	110.97
1/21/2016	142.64	109.36
1/20/2016	142.23	109.13
1/19/2016	142.85	110.47
1/18/2016	142.63	110.17
Review Week's Average	142.79	110.02

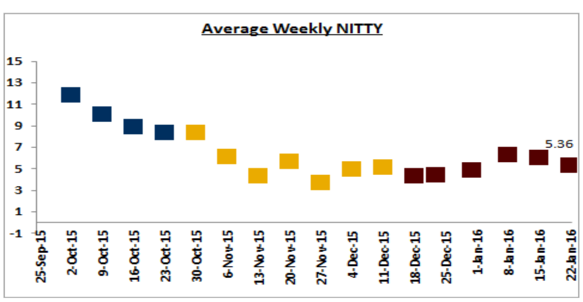
The Nigerian Money Market

Weekly Liquidity Summary			
Inflow	N'Bn	Outflow	N'Bn
Bill Maturity	195.96	OMO Auctions	161.89
		T-Bill Auction	195.97
		Bond Auction	75.00
		CRR	
Total	195.96	Total	432.86









Nigerian Inter-Bank Offered Rate (NIBOR)

The sum of funds infused into the Nigerian Money Market (though bountiful at N195.96bn) was outstripped by the outflow of same in the week. The CBN continued its recently awakened liquidity sweep by issuing about N357bn of the short-dated Government bills at the primary and secondary markets. The primary bill auction occurred alongside the auctions for Government bonds. The Banks' CRR debits which were paused until last week, also hit the system in the review week. In essence, average weekly NIBOR stood at *8.08%* higher that *7.64%* recorded previously. The overnight NIBOR which stagnated at the1%-2% levels for about 10 weeks sprouted consistently through out the review period hitting a peak of 4.58% last witnessed in October 2015. Average Open Buy Back rate expanded to *2.58%* compared to *1.30%* earlier, in response to the liquidity withdrawals.

Nigerian Interbank Treasury Bills' True Yield - NITTY

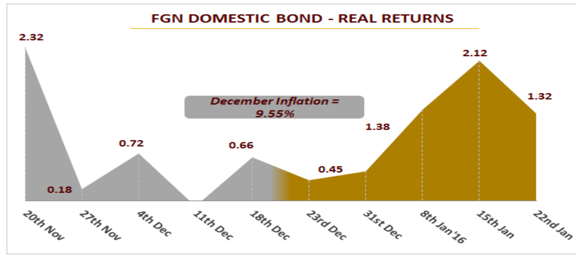
Though investors are still cashing out of the short end of the fixed income market, to lock in moderate yields on the FGN bonds, demand improved across some maturities. Mean yield across our benchmark maturities wrapped up the week at 5.36% compared to 6.05% (mean recorded previously). N161.89bn worth of the 149-day bill and N195.97bn of the 91, 182 and 364-day bills were sold at the secondary market. All bills were allotted at higher than market marginal rates to endear investors to the riskless debt assets. Some of the short horizon investors cashing out of the stock threw some of their funds into short term bills. Meanwhile, the markets remain oblivious of the Central Bank's next posture as regards resolving the mayhems at the nation's FX market. We envisage that sell-offs are still imminent even at the low -risk debt market if foreign investors are not comfortable with the stance the CBN eventually takes at the upcoming Monetary Policy Committee meeting. The instability at the FX market has over recent months steered investors away from Nigerian markets.

PRIMARY MARKET TBILL AUCTION							
	20th Jan, 2016				7th Jan, 2016		
Tenor	Allotment (Nbn)	Subscription (Nbn)	Marginal Rate	Tenor	Allotment (Nbn)	Subscription (Nbn)	Marginal Rate
91	36.79	64.31	4.29%	91	55.4	99.61	4.00%
182	39.18	75.49	7.59%	182	25	76.9	6.99%
364	120.00	149.26	9.33%	364	55.85	135	8.05%

Rate Risk Watch & Outlook

Modified Duration and Convexities of FGN Trading Bonds (22-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	106.76	9.27%	1.1120	0.0134	-1.0987	-1.1302	3.153
9.35% FGN Apr 2017	99.67	9.57%	1.4068	0.0163	-1.3905	-1.4140	2.353
10.70% FGN May 2018	101.40	10.01%	2.0143	0.0386	-1.9757	-1.9937	1.805
16.00% FGN Jun 2019	115.54	10.49%	2.6601	0.0487	-2.6114	-2.6202	0.880
7.00% FGN Oct 2019	86.43	11.56%	3.0878	0.1152	-2.9726	-3.0201	4.748
16.39% FGN Jan 2022	119.48	11.78%	3.7361	0.1732	-3.5629	-3.6241	6.114
14.20% FGN MAR 2024	111.52	11.94%	4.7380	0.3831	-4.3549	-4.4324	7.755
10.00% FGN Jul 2030	86.74	11.95%	6.6728	0.4577	-6.2151	-6.3951	18.004
12.1493 18-JUL-2034	101.42	11.96%	7.3593	0.0000	-7.3593	-7.1086	-25.069
				Average	-3.5046	-3.5265	2.1937



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 **3.5046%,** compared to 3.5265%**,** recorded in the preceding week. This indicates that prices were **less sensitive** to the movement in interest rates.

The MPC is expected to meet on the 25th-26th of January, 2016 (for the first time in the year). There have been diverse views about the stance of the regulatory body as regards its position on preserving the current peg on the Naira and the subsistent FX policies. The markets widely envisage that the committee will subtly adjust the Naira peg to settle the local currency on a more realistic base at this meeting. Foreign investors have waited earnestly for the devaluation of the Naira, which is believed will place the currency at a more accurate and credible level against global currencies. The FX market currently breeds uncertainties; the actual value of the Naira remains vague, so are those of foreign investment portfolios, in the wake of the erratic trend of the Nigerian legal tender. Investors typically steer away from foreign exchange risks, while the risk-friendly ones demand high spreads for risks they take on in Emerging economies like Nigeria.

We also do not rule out a slight hike in the Monetary Policy Rate. Though a subtle devaluation is largely likely to spur renewed foreign interests, external investors will also crave ample returns to complement risks they take on. The calamitous effect of the low oil prices, which continue to ebb the nation's revenue and reserves can, in some way, be eased by the inflow of foreign investors. Thus, the nation's assets and investments need to offer valid returns enough to endear foreign patronage. If this plays out well, the return of foreign capital will help the value of the local currency (the effect of adequate dollar supply) and the accretion of the external reserves. However, most essentially, the CBN has to ease some FX restrictions to enable seamless transactions by the foreign investors. We recall that the International Bank, JP Morgan, kicked Nigerian bonds off its index in October 2015; due to challenges faced by investors in accessing foreign currencies to repatriate their investment funds.

Secondly our postulation of a rate hike at the upcoming meeting stems from the body language of the CBN. In the last quarter of 2015, the Apex body preserved systemic liquidity in the money market to foster increased credit to the real sector and in turn spur economic advancement. However, banks have remained dovish on increasing their exposures to the risky private sector while inflationary pressures edged higher and the local currency weakened. Consequently, the CBN resumed its intense Open Market Operations from the inception of 2016 to ease the pressure on the Naira and inflation rates. Thus, for more obvious impacts, the MPC might incline interest rates higher to accommodate the current and future advancement in the inflation rates, while also attempting to tame the increase in general prices and creating ample real returns for local investors. FGN debt asset returns have consistently been eroded by the increase in general prices. The inflation rate recorded for December, puts investors real (inflation-adjusted) yields at about 1%-3% (and in fact negative positions for the T-bills) across the spectrum of maturities. Nevertheless, the real (inflation adjusted) rate across our benchmark maturities wrapped up the week higher at **2.07%** compared to **1.33%** returned in the previous week, in line with the ascent of nominal yields.

DATE	LOCAL MARKET	PREVIOUS	NEXT
25-Jan-16	MONETARY POLICY COMMITTEE MEETING	-	-
26-Jan-16	MONETARY POLICY COMMITTEE MEETING	-	-
28-Jan-16	MATURING NIGERIAN TREASURY BILLS	N195.96BN	N331.35BN
	INTERNATIONAL MARKET		
25-Jan-16	ECB PRESIDENT DRAGHI SPEAKS	-	-
26-Jan-16	BOE GOV CARNEY SPEAKS	-	-
27-Jan-16	US CRUDE OIL INVENTORIES	3.979M	-
27-Jan-16	US FOMC STATEMENT/ FED INTEREST RATE DECISION	-	-
28-Jan-16	GB GDP Y-O-Y	2.10%	1.90%
28-Jan-16	US CONTINUING JOBLESS CLAIM	2208K	-

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