Risk Digest

Fixed Income Securities

*Though investors remained circumspect at the Nigerian Fixed Income market as the Monetary Policy Committee met in the week, demand was relatively upheld. Over all, the market witnessed a strengthening of the bond prices week-on-week, as investors, empowered by fair liquidity levels, sought cheap deals. Mean yield for the week stood at **11.03%** form **11.15%** previously. The MPC meanwhile, shocked the markets by preserving the Naira peg as is, as well as other subsisting monetary policies, while the US Fed also held off its anticipated rate hike (at its January meeting).*

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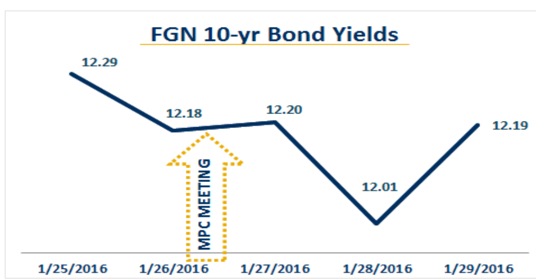
Weekly Average Bond Yield fell to **11.03%** from **11.15%** previously .

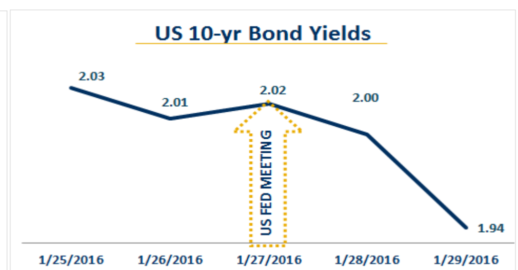
Average End-of-week NIBOR stood lower at **7.09%** compared to the previous week's closing

Average Open Buy Back closed the week higher at **3.594%** compared to **2.578%** previ-

Weekly Average NITTY stood higher at **5.81%** from **5.36%** in the previous week

The volatility of FGN bond yields advanced in recent sessions as diluted perceptions turned the activity wheels repeatedly between bargain-hunting and gains-taking. More so, asset trading sessions, which precede monetary policy announcements, are usually characterized by higher levels of uncertainty. Thus, investors traded circumspectly as the CBN's Monetary Policy Committee and US Fed meetings held in the week. Eventually, the MPC, rising from its first meeting of the year 2016, declared that it would preserve current policies and tightening at the FX segment, as well as other subsisting monetary policies. The instability of the Naira and the increasing inflationary pressures of course, continue to send jitters through investors. Though the committee promised to fine-tune the Naira soon, the stance seems ambiguous. Foreign investor sentiments have been coated with apathy towards Nigerian debt portfolios in the last few quarters, as volatility at the FX market spiked amid the oil price saga; and this led to capital withdrawals over the months.





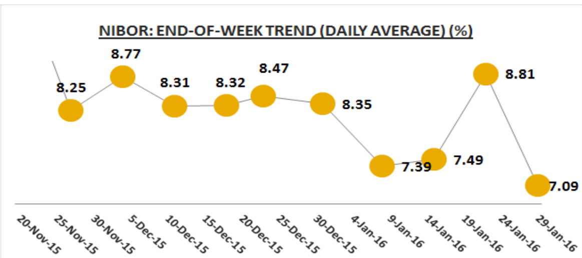
Despite the dovish stance of the CBN, bullish sentiments were promoted at the Nigerian debt market, apparently as the US Fed held off the anticipated first rate-hike of the year, in view of the seemingly uncertain US economic outlook. The FOMC decided to preserve the target range for the Federal funds rate at 0.25 to 0.50 per cent (the consensus at the December meeting). This was in a bid to maintain accommodative monetary policy, thereby fostering further improvement in labor market conditions, while inducing a return to 2 per cent inflation. Higher interest rates in the US typically hurt emerging markets as investors rout towards safer American sovereign returns. However, there remains the bile bittering the prospective sentiments for the eyed (high) Nigerian returns - the subsisting macro-economic challenges.

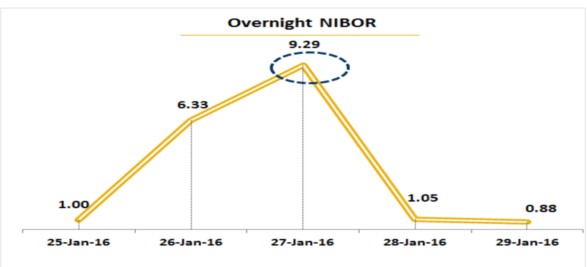
At the dusk of the week, the torrent of liquidity from bills maturing, to the tune of N331.35bn, reinforced demand for the Government bills. More so, the returns on the sovereign debt assets have grown in recent times from the lows featured at the end of the year 2015, rejuvenating investor appetite for the safe haven assets. In addition, the upbeat sentiments in the oil market which led to the uptick in oil prices, (following the news that Russia will cooperate with OPEC and Saudi Arabia to strike a deal to war oversupply through production cuts), also buoyed slightly confidence in the Nigerian debt market.

In other news, investors far and wide continued to watch keenly, the fiscal proceedings in Nigeria. The Senate fixed February 25th for the passage of the 2016 budget as the fiscal document made it through the second reading on Wednesday. The size of the budget deficit continues to brew concerns among investors; though Capital Market leaders have attempted to assuage investor apprehensions; confirming that the capital markets will suffice to provide an ample part of the budget deficit.

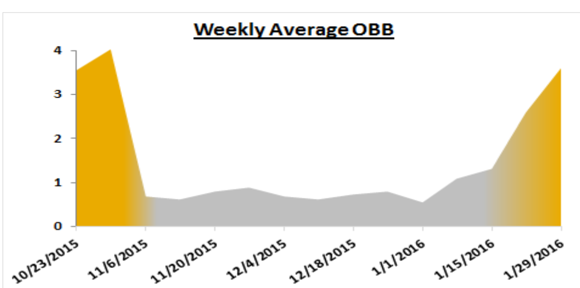
Meanwhile, Nigeria was ranked 136th among 168 least corrupt countries in the world, with a score of 26% by Transparency International. Corruption typically erodes investor confidence and thus patronage in a nation's financial markets; thus the President's mantra of taming corrupt practices in Nigeria in his reign, to improve economic growth.

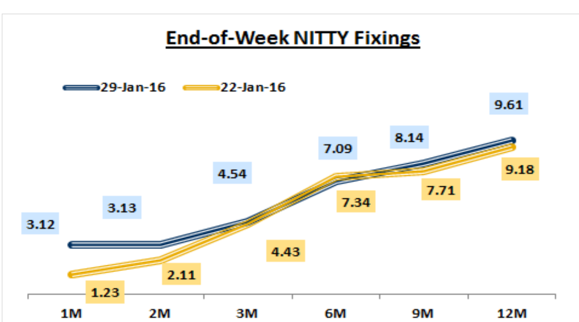
The Nigerian Money Market





Weekly Liquidity Summary			
Inflow	N'Bn	Outflow	N'Bn
Bill Maturity	331.35	OMO Auctions	131.52
		CRR	27.50
Total	331.35	Total	159.02





Nigerian Inter-Bank Offered Rate (NIBOR)

The body language of the CBN, in recent times hints at the regulatory body's inclination towards monetary tightening, most likely in the bid to curtail inflationary pressures and somewhat guard the falling Naira. After holding off its Open Market Operations for at least two months, the Apex Bank started out the year 2016 with huge volumes of OMO sales, somewhat capping the growth in liquidity levels. Meanwhile, Interbank traders were definitely unsure of what inferences to draw from the MPC's latest meeting, as some expected a rate hike. The overnight rate hit 6.3%, a 5 percentage point jump from 1% at the previous session. Subsequently, rates spiked with the overnight rate continuing its drastic ascent (to settle at a 4-month high of 9.29%) as withdrawals for the Naira FX cover occurred. In immediate succession however, it suddenly crashed from the 9% levels to the sub-1% regions as the massive inflow of N331bn from bill maturities eased liquidity tensions and lowered the pressure on lending rates. Weekly average NIBOR of course, rose to 8.47% from 8.08%, however the end-of-week mean stood lower at 7.09% compared 8.81% previously recorded.

Weekly average Open Buy Back rate stood at 3.594% compared to 2.578% previously, as a result of the momentary decline in systemic liquidity levels at the heart of the week.

Nigerian Interbank Treasury Bills' True Yield - NITTY

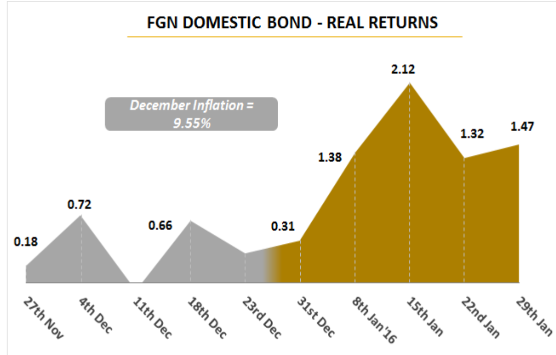
At the T-bill segment of the debt market, trading revealed diverse and dominantly bearish sentiments as investors sold off their overbought positions in the FGN short term debt assets. The short-horizon, risk averse investors traded circumspectly earlier in the week, unsure of what the CBN's resolves would be at the meeting being held. Subsequently uncertainties continued to rein in the short term debt space as the direction of the MPC remained ambiguous. Foreign investors are mostly routed towards the short term bills and they, of course, are most jittery about the state of the FX market. Thus the thin count remaining are apparently trading on the side-lines.

The Central Bank issued a sum of N50bn of the 174-day bill at the secondary bill market once in the review week, selling N131bn of the oversubscribed note. The stop rate of 7.6% featured at the auction was slightly higher than 7.18% presented on the existing comparable maturity.

Average NITTY for the week edged higher to 5.81% from 5.36% as returns shifted northwards across the spectrum of maturities.

Rate Risk Watch & Outlook

Modified Duration and Convexities of FGN Trading Bonds (29-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	106.30	9.57%	1.0920	0.0105	-1.0815	-1.0987	1.718
9.35% FGN Apr 2017	99.27	9.85%	1.3862	0.0226	-1.3636	-1.3905	2.695
10.70% FGN May 2018	100.96	10.22%	1.9934	0.0463	-1.9471	-1.9757	2.858
16.00% FGN Jun 2019	115.16	10.59%	2.6399	0.0528	-2.5871	-2.6114	2.427
7.00% FGN Oct 2019	86.74	11.46%	3.0720	0.0964	-2.9755	-2.9726	-0.292
16.39% FGN Jan 2022	119.32	11.81%	3.9719	0.1631	-3.8088	-3.5629	-24.588
14.20% FGN MAR 2024	111.38	11.97%	4.7173	0.3797	-4.3376	-4.3549	1.726
10.00% FGN Jul 2030	86.47	11.99%	7.0275	0.4521	-6.5754	-6.2151	-36.029
12.1493 18-JUL-2034	100.97	12.02%	7.3203	0.0000	-7.3203	-7.3593	3.899
				Average	-3.5552	-3.5046	-5.0651



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 **3.555%,** compared to 3.5046%**,** recorded in the preceding week. This indicates that prices were **more sensitive** to the movement in interest rates.

As we recall, the MPC left untouched the current peg on the Naira at its last meeting but declared that steps will be taken to make the FX policies more flexible. The President Muhammadu Buhari has reiterated that he will not support the devaluation of the naira, saying he was not convinced that the country will realize any tangible benefit from such a move. Foreign debt investors expect the regulatory body to guard the Naira to encourage the inflow of foreign investments, however the issue of the Naira devaluation is beginning to seem unpopular, locally. Some analysts have now taken stands against the devaluation of the local currency; reasons in line with the President's sentiments. The bases for these standpoints include; costlier external debts especially if the US Fed goes ahead with its proposed rate hikes, more intense inflationary pressures from costlier imports, and an uncontrollable fall of the local currency at the informal segment. Meanwhile the devaluation does not represent a silver bullet for the re-ignition of foreign interests, as other gnawing macro-economic challenges remain in the way, neither does it fully guarantee the stability of the Naira. The Government and the CBN as it were, are thus saddled with the herculean task of stabilizing the Nigerian currency by any means possible, in the face of reduced adhoc interventions. External reserves have travelled from the fairer levels of $39bn in 2014 to sojourn at $28.19bn on the 28th January, 2016.

In another vein, the condition of the oil market continues to send shivers through market players in global markets. The Nigerian Government in its bid to alleviate the economic damage brought on oil-rich nations by crippled crude prices, has reached out to the World Bank and the African Development Bank for financial support. The Government seeks the sum of $3.5bn (N697bn) in emergency loans from the supranational bodies, at below-market rates, to fill the growing gap in its budget. While this move is intended to fund a N2.9tn ($15bn) state deficit, which has been aggravated by a massive increase in public spending for stimulating the slowing economy, it might be perceived sourly by some risk- averse investors, while others appreciate the prospects. In essence, if the Government raises this debt at lower than market rates successfully, it's participation at the debt capital market might be reduced.

The money market anticipates the inflow of FAAC funds and bills maturing totalling N366.95bn in the coming week, but the likely reinforcement of OMO auctions by the CBN alongside the scheduled Primary Market T-bill auctions are likely to keep interbank lending rates off ground levels.

DATE	LOCAL MARKET	PREVIOUS	NEXT
4-Feb-16	MATURING NIGERIAN TREASURY BILLS	N331.35BN	N192.40
3-Feb-16	NIGERIAN TREASURY BILL AUCTIONS	N195.96	N192.40
	INTERNATIONAL MARKET		
1-Feb-16	ECB PRESIDENT DRAGHI SPEAKS	-	-
3-Feb-16	US CRUDE OIL INVENTORIES	8.383M	-
4-Feb-16	BOE INFLATION REPORT	-	-
4-Feb-16	BOE INTEREST RATE DECISION/MPC MEETING MINUTES	-	-
4-Feb-16	BOE GOV CARNEY SPEAKS	-	-
4-Feb-16	US CONTINUING JOBLESS CLAIM	2268K	
5-Feb-16	US NON-FARM PAYROLL	292K	190K

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