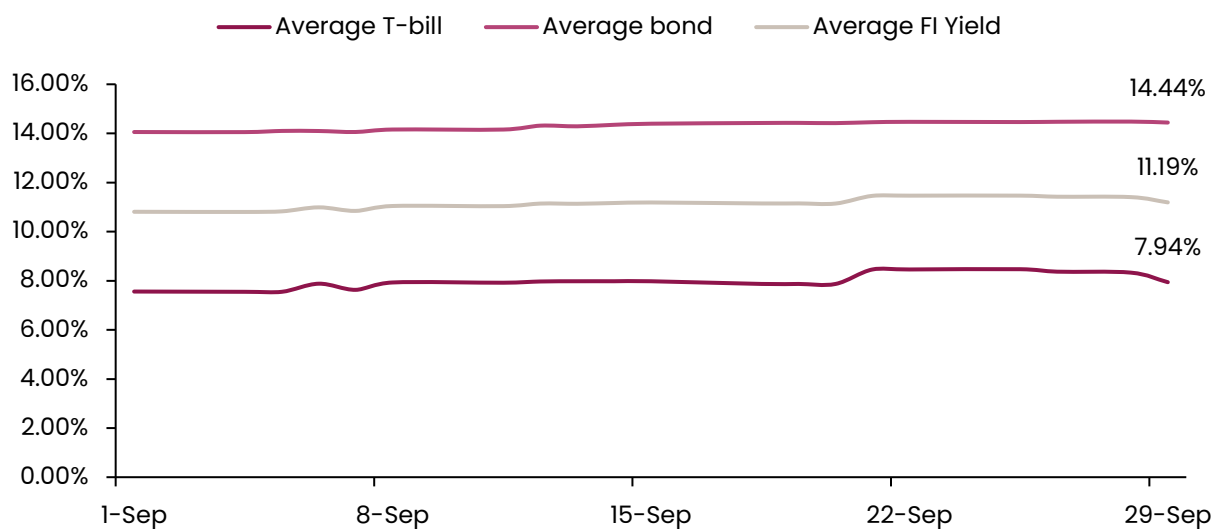




Monthly Fixed Income Market Report – September 2023

The FGN bond market closed the month bearish as average yield surged 38bps Month-on-Month (MoM) to settle at 14.44%. Similarly, the Nigerian Treasury Bills Market closed the month bearish, as average yield went up by 67bps MoM to close at 7.94%. Overall, the secondary Fixed Income market closed on a negative note as average yield increased by 53bps MoM to 11.19%. The upward trajectory of yields is despite higher system liquidity during the month (c. NGN1.23trn in September 2023 vs. c. NGN874.58bn in August 2023). Hence, we believe the bearish sentiment in the market stemmed from investors repricing the fixed income instruments and demanding higher rates during the auctions considering inflationary pressures within the economy.

Figure 1: September 2023 Trend in Average T-bills Yield, Average FGN Bond Yield and FI Yield



Source: FMDQ, ARM Research

FGN Bond Market

At the September 2023 primary bond auction, the DMO sold NGN251.50bn worth of bonds across the re-opening of four (4) instruments (APR-2029: NGN43.65bn, JUN-2033: NGN10.45bn,

JUN-2038: NGN25.69bn, and JUN-2053: NGN171.71bn). The demand for the instruments declined as average bid-to-cover ratio fell by 6bps to 0.81x (vs. 0.87x at the last auction). Thus, the average stop rate surged by 46bps to 15.44% from 14.98% at the last auction. Stop rates for the APR-2029 (+65bps), JUN-2033 (+45bps), JUN-2038 (+35bps), and JUN-2053 (+40bps) instruments edged up to 14.50%, 15.45%, 15.55%, and 16.25% respectively.

Similarly, the secondary bond market ended the month on a negative note as average yield increased by 38bps MoM to close at 14.44%. This is following selloffs in the MARCH 2025 (+143bps) and JULY 2045 (+59bps) instruments. The bearish sentiment at the auction trickled down to the secondary market as average yield went up by 38bps MoM to settle at 14.44%. On a weekly basis, yields went up in the first (+10bps), second (+24 bps), and third (+8bp) weeks, offsetting the buying interest in the fourth week (-3bps).

Nigerian Treasury Bills Market

Average stop rates at the NTB auctions in September 2023 increased by 21bps MoM to 8.18% from 7.98% in August 2023. Demand for the instruments declined as average bid-to-cover ratio dropped by 96bps MoM to 4.24x (vs. 5.20x in August 2023) The DMO conducted three auctions where it offered and sold treasury bills worth a total of NGN544.05bn.

During the first auction held on 6th September 2023, the average bid-to-cover ratio dipped by 101bps to 4.08x (vs. 5.09x at the last auction). Similarly, the average stop rate declined by 104bps to 8.02% (vs 9.05% at the previous auction). Demand was tilted towards the 91-day bill instrument as its average bid-to-cover ratio surged by 2.77% to 4.50x (vs. 1.73x at the previous auction). Consequently, its stop rate declined by 69bps to 4.50% (vs. 5.19% at the previous auction).

At the second auction held on 13th of September, the average stop rate rose by 88bps to reach 8.89%. Similarly, average bid-to-cover ratio went up by 15bps to settle at 4.23x (vs. 4.08x at the first auction). Specifically, the average stop rate for the 91-day bill and 364-day bill surged by 220bps and 43bps apiece, reaching 6.70% and 12.89% respectively.

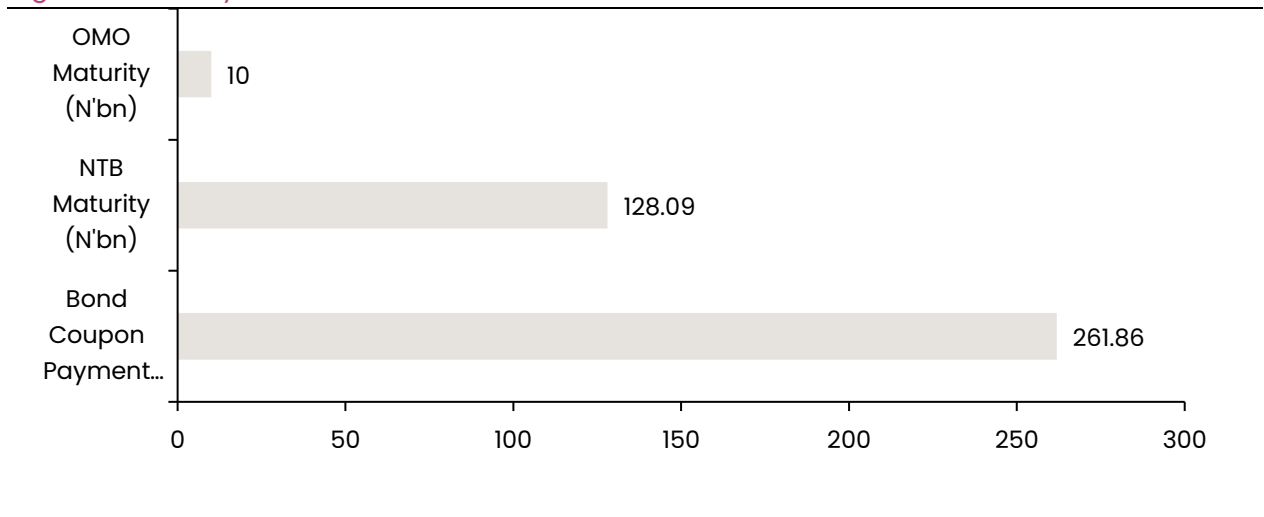
However, at the third auction in the month, the average stop rate declined by 126bps to settle at 7.64% while the average bid-to-cover ratio rose slightly by 21bps to 4.44x (vs 4.23x at the previous auction). The increased demand favored the short-tenor as its average bid-to-cover ratio surged by 2.89% to 4.05x (vs. 1.16x at the previous auction). Consequently, its stop rate declined by 171bps to 4.99% (vs. 6.70bps at the previous auction).

Meanwhile, the secondary market closed bearish as the average yield surged 67bps MoM to settle at 7.94%. In weekly terms, the sell-off in the first (+10bps), second (+24bps), and third (+8bps) week, offsetting the buying interest in the first week (-4bps) and fourth week (-3bps).

Outlook

With respect to maturities, we expect a total of NGN128.09bn NTBs, bond coupon payment of NGN261.86bn and NGN10bn OMO bills to mature in October. Overall, we expect yields to remain high in October 2023.

Figure 2: Maturity Profile for October 2023



Source: FMDQ, ARM Research

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