



Nigeria Weekly Update

The US 10-year bond and Nigeria

Nigerian markets are famous for not correlating with global markets, but recently it has been wise to pay attention to global bond markets. The rise of the US government 10-year bond yield has attracted a lot of attention over the past few weeks and led to nervousness in certain equity markets. The wisdom of taking on emerging market risk in order to escape low US bond yields is being questioned. This affects Nigerian Eurobond yields. See pages 3 and 4 for details.

FX

Last week the exchange rate in the Investors and Exporters Window (I&E Window) weakened by 0.18% to N411.00/US\$1. In the parallel, or street, market the Naira appreciated by 0.41% to close last week at N480.00/US\$1. In a bid to incentivise the inflow of diaspora remittances the Central Bank of Nigeria (CBN) in its "Thinking-outside-the-Box" strategy announced, in a recent circular to all Deposit Money Banks (DMOs) and International Money Transfer Operators (IMTOs), that recipients of diaspora remittances shall receive N5 for every US\$1 received. We recall that, in November 2020, the CBN asked IMTOs to release US dollars to recipients of remittances and this resulted in the parallel exchange rate strengthening. There are worries that this is a temporary devaluation in disguise, however, due to the N5 incentive. In our view, such tactics may deliver short-term gains but do not overcome the fundamental difference between the I&E and NAFEX rates on the one hand and the parallel rate on the other. We expect pressure on the currency to continue over the coming weeks and months.

Bonds & T-bills

Last week, the secondary market yield for an FGN Naira bond with 10 years to maturity declined by 37bps to 10.40% and at 7-years declined by 23bps to 10.10% while at 3-years the yield increased by 108bps to 7.92%. The was the opposite to the trend seen during the last two weeks of February when investors were rotating their long-dated bonds for short-dated ones (maturities under 5-years): clearly, some investors now believe that long-dated bonds have value. The annualized yield on a 328-day T-bill remained unchanged at 2.07% in the secondary market while the yield on a 326-day OMO bill rose by 76bps to 9.72%. On Monday last week the CBN announced a roll-over of its N4.1 trillion (US\$9.9bn) of Special OMO bills paying 0.5% interest to banks in respect of their excess Cash Reserve Ratio (CRR) held by the central bank, the excess being the sums over the official 27.5% ratio. One effect of this is to keep the overall CRR position high, in our view, with a question mark over overall liquidity in the private-sector system. Overall, we think that bond and T-bill rates are likely to continue trending upwards over the coming weeks and months.

Oil

The price of Brent crude rose by 4.88% last week, closing at US\$69.36/bbl, a 33.90% increase year to-date. The average price to year-to-date is US\$59.52/bbl, 37.73% higher than the average of US\$43.22/bbl in 2020. The Organization of the Petroleum Exporting Countries and Russia, known as OPEC+, met last week to discuss progress of its production limitation agreement. OPEC+ agreed to stick, broadly speaking, with its scheduled output cuts despite rising crude prices which themselves are encouraging marginal players to step up production. Over the weekend Houthi forces in Yemen fired drones and missiles at Saudi Arabian installations, including a Saudi Aramco facility at Ras Tanura that is vital to petroleum exports. The terminal is capable of exporting about 6.5 million barrels a day, almost 7% of global demand. It is the most serious attack on Saudi oil installations since a key processing facility and two oil fields came under fire in September 2019. Our view is that the OPEC+ agreement will keep oil prices above US\$65.00/bbl over the coming weeks.

Equities

The Nigerian Stock Exchange All-Share Index (NSE-ASI) fell by 1.18% last week with a loss of 2.33% year-to-date. BUA Cement (+3.82%) and Seplat (+1.87%) closed positive last week, while Ardova Oil (-25.21%), Oando (-23.19%) and Sterling Bank (-14.04%) closed negative. Our view is that investor sentiment continues to be weak and we note that in certain major stocks there is quite low turnover, although turnover remains strong in the banks. Certain mid-cap stocks, that performed well in the first part of this year, are losing their lustre now. See Model Equity Portfolio on page 4.

◆ [The US 10-year bond and Nigeria](#)

◆ [Model Equity Portfolio](#)

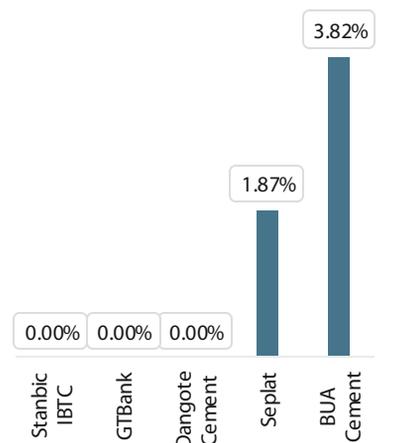
Naira Sovereign Yields

Spot

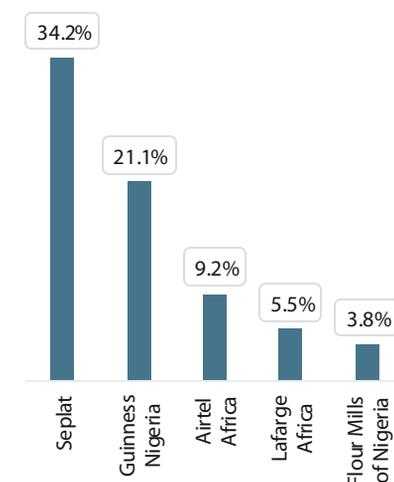
326-day (OMO)	9.72%
328-day (T-bill)	2.07%
3 Year	7.92%
7 Year	10.10%
10 Year	10.40%
Inflation	16.47%

Quotes at 5 Mar 2021

WoW Performance of C-30



Best Performing in 2021, YTD



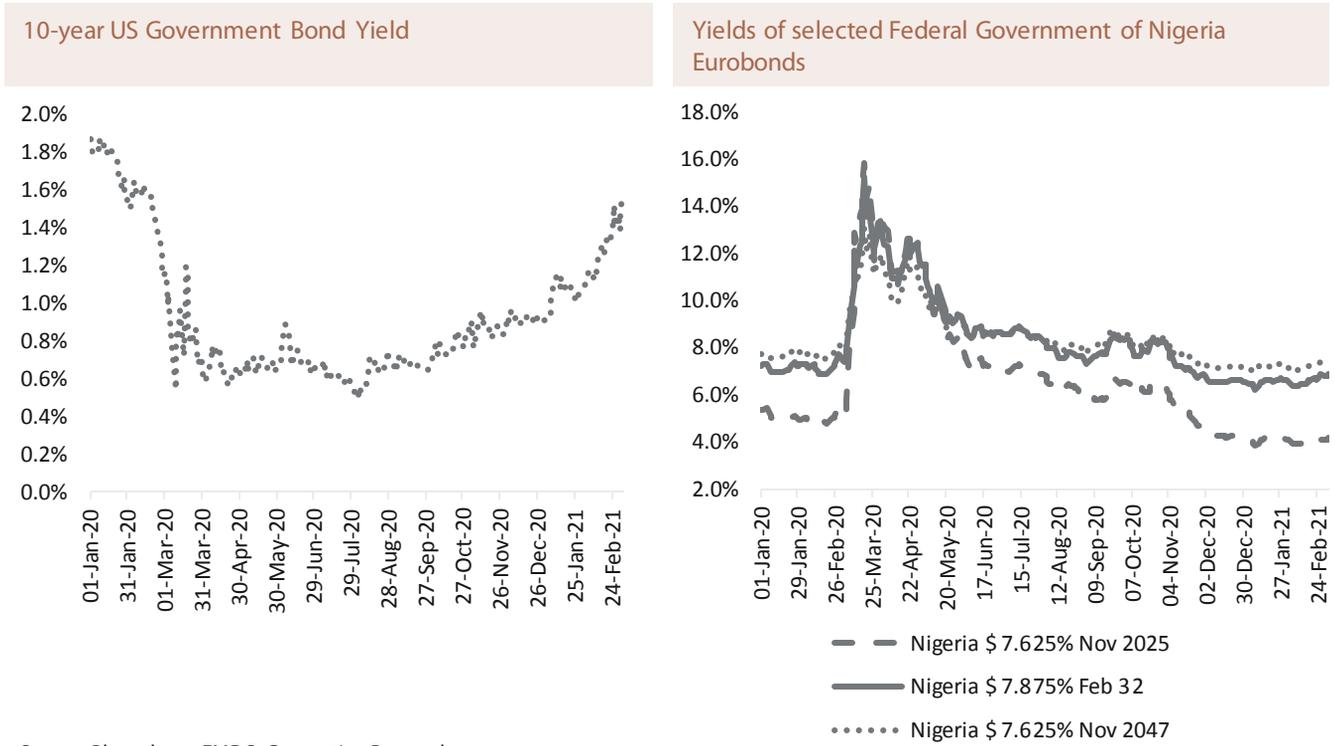
Source: NSE, FMDQ



The US 10-year bond and Nigeria

The US 10-year government bond yield is unsettling global markets. The yield on this normally obscure instrument rose from 0.72% per annum six months ago to 1.57% at the end of last week. This may not appear to be a profound change, but it is having effects - sometimes dramatic - on markets around the world. The market in Eurobonds issued by the Federal Government of Nigeria (FGN) is no exception.

For over a decade, investors in risky assets have enjoyed the benefits of low US, Yen and Euro interest rates, not only in terms of lowering their cost of funds (if they borrow) but in terms of the implied valuations of equities. In developed countries policy makers have treated inflation as being too low, rather than too high. And yet US President Joe Biden's introduction of a US\$ 1.9 trillion (N779.0tn) stimulus package has, finally, awakened fears that renewed economic growth will increase inflation. Hence the rise in US bond yields.



Global equity markets are jittery. For example, the Nasdaq index of technology stocks fell by 6.9% in the second half of February and has fallen a further 1.5% so far in March. These are not large falls in the context of the huge rally in this market over the past five years (the Nasdaq rose 178.7% over this period), but they are corrections, nevertheless. There have also been price falls in FGN-issued Eurobonds. The yield of the FGN 2032 Eurobond has risen from 6.44% to 6.86% over the past three weeks.

The narrative behind emerging market Eurobonds, until recently, has been one of rising prices and yield compression. The argument was that, with low interest rates in the US, there were so many US dollars looking for yield that investors would have to buy assets like Nigerian Eurobonds. Indeed, it was frustrating for Eurobond analysts that, whatever the fundamental features of Nigeria and of similar countries, yields just kept on coming down. The exception to this, of course, was the panic-induced sell-off of almost exactly a year ago (see chart, above) when yields shot up during the first wave of the Covid-19 pandemic. But wise investors knew not to sell at this time.

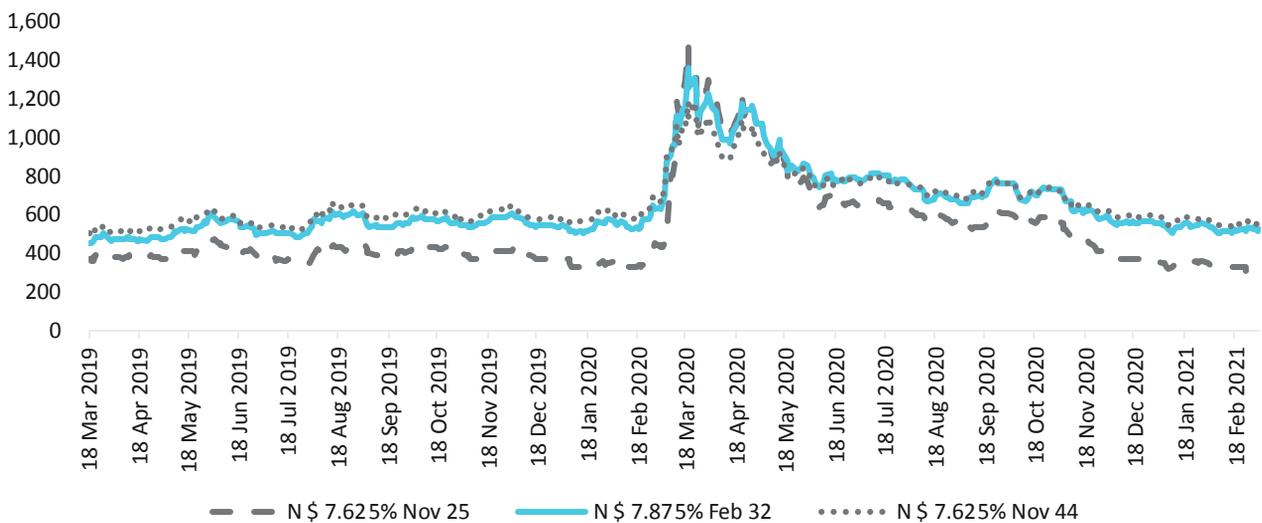
The situation is different now. If US bond yields are rising then difference between US dollar yields and FGN Eurobond yields is getting less, which weakens the justification for buying and holding them. Another effect has been the reduction in the spread, which has narrowed over the past few years, between FGN Eurobond yields and the corresponding (in terms of duration) US government dollar bond yield, the so-called Z-spread.



The US 10-year bond and Nigeria

In fact, it is possible to look at these two factors separately. In the chart below we present the Z-spreads over the past two years for selected FGN Eurobonds. In the table we present the average Z-spread during the year leading up to the crisis (we identify the start of the crisis on 4 March 2020) and present this as a target Z-spread for each bond. Then we present the Z-spread at the end of last week. The difference between the two shows the potential for the current Z-spread to revert to its average, in terms of additional yield expressed in basis points.

Z-spreads for selected Nigerian Government Eurobonds



Source: Bloomberg, Coronation Research

What this shows is that for one of our three selected bonds, the FGN November 2025, the Z-spread has tightened a lot (63 basis points) over its average, suggesting some potential yield rises if the Z-spread reverts to its average. But, for the other two bonds, the FGN February 2032 and the FGN November 2047, the Z-spread compression is less of a problem. In other words, investors should worry less about the tightening of the spread of FGN Eurobonds over US government bonds and worry more about the direction of US bond rates themselves.

Nigeria Sovereign Eurobond Z-spread analysis

	Average 1-year prior to crisis (up to 4 Mar 2020)	5 Mar 2021	Difference	MTM* change for 1pp change in yield**
Nigeria \$ 7.625% Nov 25, bps	394	331	63	3.9%
Nigeria \$ 7.875% Feb 32, bps	544	525	19	7.4%
Nigeria \$ 7.625% Nov 47, bps	584	558	25	11.3%

Source: Bloomberg, Coronation Research, *Mark-to-Market**i.e. change in yield to maturity

The final column in the table presents Bloomberg's assessment of the potential mark-to-market change in the value of each bond for a one percentage point change (1 pp, or 100bps) change in its yield to maturity. As one would expect, the longer the duration, the more potential for change. For some investors, who hold the bond for yield, the mark-to-market price is of little consequence (unless they intend to trade). For other investors, the mark-to-market price must be reported regularly, and the implications of rising US rates could be quite severe on portfolio valuations.

As a final point, we look at this situation not from the point of the investor, but from the point of view of the issuer, the FGN. The FGN was absent from new-issue market in 2019 and in 2020. If US government bond rates continue to rise it may not want to issue in 2021, either. This could result in the FGN not issuing Eurobonds for three straight years 2019-21. This would be exceptional and, ultimately, could make Nigerian Eurobonds scarce in the market



Model Equity Portfolio – 5 March 2021

Last week the Model Equity Portfolio fell by 0.39% compared with a fall in the Nigerian Stock Exchange All-Share Index (NSE-ASI) of 1.18%, therefore outperforming it by 79 basis points. Year to date, it has lost 1.12% against a loss in the NSE-ASI of 2.33%, outperforming it by 121 bps.

Last week our notional positions in five bank stocks took back a combined 10bps from the 49bps which they had earned the previous week. Bank stocks are not entirely the safe haven they have been for much of the year, take note.

Model Equity Portfolio for the week ending 5 March 2021

Security	February 26, 2020 position, N	March 5, 2020 position, N	Security weighting	Weekly change	Change since purchase	Performance attribution (bps) Past Week	Performance attribution (bps) ytd
FBNH	176,400,000	175,200,000	1.1%	-0.7%	2.1%	-1	2
Zenith	1,234,325,000	1,227,050,000	7.9%	-0.6%	2.0%	-5	15
UBA	285,250,000	278,250,000	1.8%	-2.5%	-8.1%	-4	-16
GT Bank	1,224,500,000	1,224,500,000	7.9%	0.0%	-4.2%	0	-34
Stanbic IBTC	620,000,000	620,000,000	4.0%	0.0%	-9.2%	0	-40
MTN Nigeria	2,592,600,000	2,533,000,000	16.3%	-2.3%	0.1%	-38	16
Airtel Africa	2,602,140,000	2,601,768,000	16.8%	0.0%	9.2%	-0	146
Dangote Cement	1,804,000,000	1,584,000,000	10.2%	0.0%	-10.2%	-1	-173
BUA Cement	1,123,200,000	1,064,635,000	6.9%	3.4%	-3.7%	24	-29
Nestle Nigeria	14,500,000	13,500,000	0.1%	-6.9%	-10.3%	-1	-1
Okomu Oil	575,670,000	501,270,000	3.2%	0.0%	2.2%	-0	8
Presco	689,521,000	523,710,000	3.4%	-4.0%	-2.7%	-13	-7
Cash	2,648,831,201	3,183,070,418	20.5%	0.0%	0.0%	0	0
Total	15,590,937,201	15,529,953,418	100%	-0.39%	-1.12%	-39	-112

Source: Coronation Research

As we forewarned our readers last week, we made notional sales of industrial stocks last week in order to take our notional cash position up to just over 20.0%. While doing this we noticed that, even for a small model portfolio such as ours, it was very difficult to find liquidity in Airtel Africa, despite this stock being 16.9% of the NSE-ASI. So, if we encounter liquidity this week we intend to make use of it.

For most of the time we try not to predict the overall direction of the market, unless we have a very strong idea of its next move. However, the equity market does seem weak at the moment, partly as a result of market interest rates rising, and we think it is reasonable to take more of our notional equity positions off the table. Our notional sales of equities this year have saved us 60bps so far. This week we intend to add a further 5 percentage points to our notional cash position and will make notional sales among banks stocks as well as industrial stocks to achieve this.

Nota bene: The Coronation Research Model Equity Portfolio is an expression of opinion about Nigerian equities and does not represent an actual portfolio of stocks (though market liquidity is respected, and notional commissions are paid). It does not constitute advice to buy or sell securities. Its contents are confidential to Coronation Research up until publication. This note should be read as an integral part of the disclaimer that appears at the end of this publication.



Disclosures & Disclaimers

The analyst(s) and/or Head of Research has (have) produced this report independently of the company or companies, and independently of the issuer of security or securities, covered in this report, and (has) have done so using publicly-available information. Information used in the preparation of this report is believed to be accurate at the time of going to press, though not verified independently. No liability is accepted for errors nor omissions of fact, nor is any warranty given for the reasonableness, accuracy or completeness of the information presented. Market information may have been gathered from different sources, including official and government sources, and processed in arriving at the opinion(s) expressed in this report.

This report is intended as background information for clients of Coronation Asset Management Ltd, and clients of its subsidiaries and affiliates, and is not to be read as a solicitation, approval or advice to buy or sell securities.

Neither Coronation Asset Management Ltd, its directors, employees and contractors, nor its subsidiaries and affiliates, nor the directors, employees and contractors of its subsidiaries and affiliates, accept(s) responsibility for losses or opportunity costs, whether direct or consequential, that may be incurred as a result of trading, or not trading, in securities covered in this report, or other securities, as a result of any decision taken after reading this report. Clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates, who read this report, should not rely on it for the purposes of making investment decisions and should make their own evaluation of: the potential performance of securities; the risks involved in buying or selling securities; the volatility and liquidity of securities; and of other factors such as interest rates, exchange rates, exchange rate liquidity, trading costs, settlement and custody. Clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates, who read this report, should assess their own investment objectives and financial capacities when taking investment decisions and should consult a relevant financial adviser in these respects.

This report is intended for the clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates. Copying and reproduction of this report, and onward forwarding, is only allowed with the specific permission of Coronation Asset Management Ltd, its subsidiaries and affiliates. Receipt of this report does not qualify you as a client of Coronation Asset Management Ltd, its subsidiaries and affiliates. If you are in unauthorized receipt of this report you are requested to notify Coronation Asset Management Ltd, or one of its subsidiaries or affiliates, and to return or delete the report.

This report is intended for corporate and institutional clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates, where those clients are regulated and professional investment customers and market counterparties. This report is not intended for individual investors.

This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulations.

Coronation Research is a department within Coronation Asset Management Ltd which supplies research services to Coronation Asset Management Ltd, and is ring-fenced with regard to the activities of Coronation Asset Management Ltd. The Head of Research, contractors and employees of Coronation Research do not receive any non-public information regarding the investments or investment objectives of Coronation Asset Management Ltd and do not take part in its internal meetings.

Coronation Asset Management Ltd and its subsidiaries are incorporated under the laws of the Federal Government of Nigeria and are licensed by the Central Bank of Nigeria and by the Securities and Exchange Commission of Nigeria.

Your attention is brought to the fact the analyst(s), and/or Head of Research, mentioned at the beginning of this report is (are) employed by Coronation Asset Management Ltd in the Federal Republic of Nigeria, and while subject to the laws of the Federal Republic of Nigeria is (are) not subject, as author(s) of this report, to the laws of other countries, notably the United States of America ('US'), the member states of the European Union ('EU'), or the United Kingdom ('UK', during and after its membership of the EU) as these laws may affect the production, publication and distribution of this report.



Disclosures & Disclaimers

Your attention is brought to the fact that the analyst(s), and/or Head of Research, mentioned at the beginning of this report, is (are) not registered or qualified as research analysts with the Financial Industry Regulatory Authority in the US, nor registered with the Financial Conduct Authority of the United Kingdom. No liability for compliance with those laws, with respect to this report, is accepted by Coronation Asset Management Ltd, its directors, staff and contractors, or those of its subsidiaries and affiliates.

Where this report is distributed to clients and potential clients of Coronation Asset Management Ltd, and of its clients and affiliates, in the European Union ('EU'), including the United Kingdom ('UK'), during and after its membership of the EU, this report is either: a) distributed by virtue of a contract between Coronation Asset Management Ltd, its subsidiaries and affiliates, and the client for research services, or: b) distributed as a free sample, for a given period of time, pursuant to a future contract for the sale of research services.

The opinions expressed in this report concerning the company(ies) and securities covered, accurately represent the personal views of the analyst(s) and Head of Research whose names are given at the beginning of the report. No part of the compensation of the analyst(s) and Head of Research mentioned at the beginning of this report is, or will be, related to the views or recommendations(s) given in this report.

Conflicts of Interest

The compensation of the analyst(s), and/or Head of Research, mentioned at the beginning of this report is not linked to the recommendations, forecasts, estimates or opinions expressed in this report, nor to commissions or spreads or other gains generated in trading securities, whether covered in this report or not.

This report is produced by the Research Department of Coronation Asset Management Ltd and may be used, after its publication, by other departments of Coronation Asset Management Ltd for advisory or trading purposes, or otherwise for the assessment of companies and securities. However, it is the policy of Coronation Asset Management Ltd that no department influences the opinions, estimates, forecasts or recommendations of the Research Department, nor is privy to the contents or recommendations of the Research Department's reports and recommendations ahead of their publication. It is also the policy of Coronation Asset Management Ltd that members of the Research Department are not privy to knowledge of advisory mandates, or other fiduciary relationships, engaged in by other departments. Coronation Asset Management Ltd, its directors, contractors and staff, and its subsidiaries and affiliates and their directors, contractors and staff, and connected parties, may have positions in the securities covered by this report, and may have advisory and/or other fiduciary relationships with companies covered in this report. As such, this report should not be considered free from bias.

Disclosures for companies cited in report

The table below outlines currently known conflicts of interest that may unknowingly bias or affect the objectivity of the analyst(s) with respect to an issuer that is the subject matter of this report. Disclosure(s) apply to Coronation Asset Management or any of its direct or indirect subsidiaries or affiliates with respect to any issuer or the issuer's securities.

- a. The analyst(s) responsible for the preparation and content of this report (as shown on the front page of this report) holds personal positions, directly or indirectly, in securities of the company(s) to which this report relates.
- b. The analyst(s) responsible for this report as indicated on the front page is a board member, officer or director of the Company(s)
- c. Coronation Asset Management or its affiliates have recently been the beneficial owners of 1% or more of the securities mentioned in this report.
- d. Coronation Asset Management or its affiliates have managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
- e. Coronation Asset Management or its affiliates have received compensation for investment banking services from the issuer of these securities in the past 12 months.