

Coronation Economic Note

20 May '22

Progress towards the DMO's 2022 funding target

The DMO held its monthly auction of FGN bonds on Monday this week. It offered N225bn but raised N378.4bn (USD900m) through re-openings of the 2025, 2032 and 2042 FGN bonds. The DMO secured a total bid of N575.6bn. The successful bids for the 3, 10 and 20-year benchmarks were allotted at the marginal rates of 10.0% (unchanged), 12.45% (previously; 12.5%) and 13.0% (previously; 12.9%) respectively from the previous month. The DMO has a domestic funding target of NGN3.53trn towards the projected deficit of NGN7.35trn in the FGN's 2022 budget (its external funding target is N2.56trn). We recall that the DMO raised N1.66trn (gross) and N2.32trn (gross) from FGN bond sales in 2020 and 2021 respectively.

Year-to-date, the DMO has raised N1.57trn at its bond auctions including non-competitive sales to public agencies. This cumulative figure is gross (i.e., before the repayment of bonds on maturity). Allowing for the smaller amounts the FGN raises from the sale of other debt instruments such as NTBs and savings bonds, it is on track pro rata to meet the borrowing target for the year.

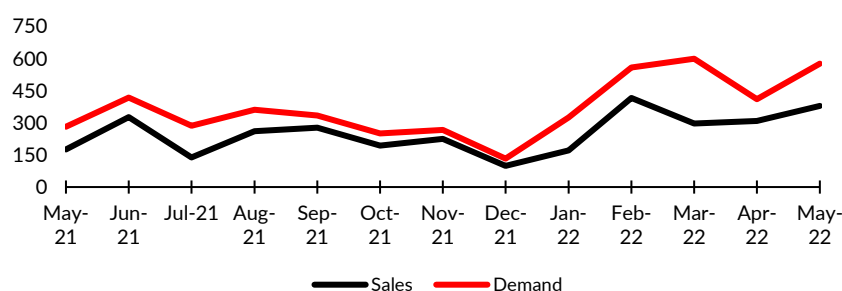
FGN bonds represented 72% of total FGN domestic debt as at end-2021. It is worth highlighting that investors have access to alternative fixed-income instruments such as corporate bonds and commercial papers. According to FMDQ, as at 19 May '22, these instruments collectively have a market capitalisation of N1.5trn.

Unsurprisingly, collectively, FGN bonds accounted for 58.7% of total assets under management of the pension fund administrators at end-March '22. The longer-tenured nature of FGN bonds which have maturities of up to 30 years contributes to the attractiveness of this asset class.

We note that over the past months, particularly since the peak of the pandemic in 2020, Nigeria's domestic fixed income market has been dominated by local investors. From our channel checks, we note that the participation of foreign portfolio investors in recent auctions has been minimal.

Looking ahead, we await the final decision on the securitisation of the FGN's ways and means advances from the CBN, which is estimated at N16trn as at end-March '22. If the ways and means advances are securitised, they could become tradable in the secondary market.

Sales and demand at FGN bond auction (N'bn)



Sources: DMO, Coronation Merchant Bank Research

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| Indicators | NG |
|--|-------|
| Inflation rate (April '22, %) | 16.82 |
| GDP (Q4 '21, %) | 3.98 |
| Gross Official Reserves (18 May '22, USD bn) | 38.8 |
| UK Brent (19 May '22, USD) | 111.4 |

Source: Bloomberg, CBN, NBS, Coronation MB Research

| FGN bond yields (19 May '22, %) | | | |
|---------------------------------|--------|--------|--------|
| 14.20% | 13.98% | 12.15% | 12.40% |
| Mar-24 | Feb-28 | Jul-34 | Mar-36 |
| 7.70 | 11.18 | 12.20 | 12.40 |

| T-bill yields (19 May '22, %) | | | |
|-------------------------------|--------|--------|--------|
| 14- | 13- | 09- | 30- |
| Jul-22 | Oct-22 | Mar-23 | Mar-23 |
| 3.02 | 3.50 | 4.68 | 4.86 |

Source: FMDQ, Coronation MB Research

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