

Coronation Economic Note

17, April '24

Another decent FGN bond auction

The DMO held its monthly auction of FGN Bonds on Monday (15 April '24). It offered N450.0bn but raised N626.8bn through new issuance of the 19.300% FGN APR 2029 and re-openings 18.50% FGN FEB 2031, and 19.00% FGN FEB 2034. The bids were allotted at the marginal rates of 19.30%, 19.75%, and 20.00% respectively. The demand at this auction was higher at N920.1bn, compared with N615.0bn at the March auction. The bid-to-cover ratio stood at 1.47x as compared to the 1.01x recorded in the previous auction.

The demand at this auction primarily reflects improved system liquidity as call, overnight, and repo rates closed within a range of 6% - 30%. We note there was substantial demand for longer-tenured bonds, such as the FEB 2034 bond (N150bn was offered, while N461.8bn was allotted).

Domestic institutions remain the core participants at the FGN bond auction. According to the latest monthly report by the National Pension Commission (PENCOM), FGN bonds held by pension fund administrators as at end- February '24 increased by 22.8% y/y to N11.7trn vs N9.6trn recorded in the corresponding period of 2023. The PENCOM report shows that FGN bonds accounted for 59.5% of total assets under management (AUM).

March's headline inflation increased by +150bps to 33.2% y/y. We expect to see another uptick in April's headline inflation. Our view is partly hinged on the recent implementation of new electricity tariff, which further exerts pressure on purchasing power and impacts the cost of doing business amid structural issues such as insecurity, supply chain issues and epileptic power supply, among others.

In March the CBN/MPC hiked the MPR by +200bps to 24.75% following the previous hike in February by +400bps to 22.75%. The MPC's deliberations centered on prevailing inflationary pressures and the need to firmly anchor inflation expectations, while simultaneously ensuring the preservation of foreign exchange stability.

At the MPC meeting scheduled for the 20th and 21st of May 2024, we suspect another monetary policy rate hike given elevated inflation levels and the CBN's desire to reduce the negative real interest rates (currently: -8.45%). In a recent circular from the CBN, we note that the loan to deposit ratio (LDR) was reduced to 50% from 65%.

We note that YTD, the FGN, has raised N3.1trn from the sale of FGN bonds. However, given the size of the FGN's borrowing plans for 2024, (N6.1trn from domestic sources, and N1.8trn from external sources), we expect yields in the secondary market for FGN bonds to trend upwards.

We currently see yields at the mid-curve around 18.3%-22.0% and between 18.6% - 22.0% at the longer end of the curve over the next month.

Indicators	NG
Inflation rate (March '24 %)	33.20
GDP (Q4 '23, %)	3.46
Gross Official Reserves (15 April '24, USD 'bn)	32.29
UK Brent (16 April '24, USD)	90.01

Source: Bloomberg, CBN, NBS, FMDQ, Coronation MB Research

FGN bond yields (16 April '24, %)			
13.53%	13.98%	12.15%	12.40%
Mar-25	Feb-28	Jul-34	Mar-36
19.99	19.52	19.06	18.97

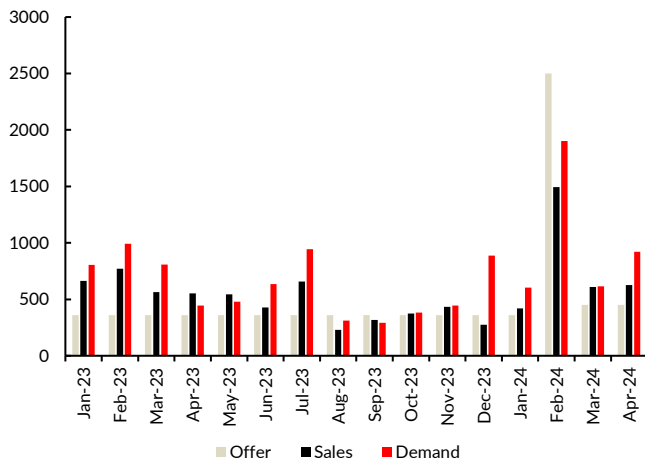
T-bill yields (16 April '24, %)			
25-	27-	22-	20-
Apr-24	Jun-24	Aug-24	Feb-25
12.52	16.96	17.75	22.05

Source: FMDQ, Coronation MB Research

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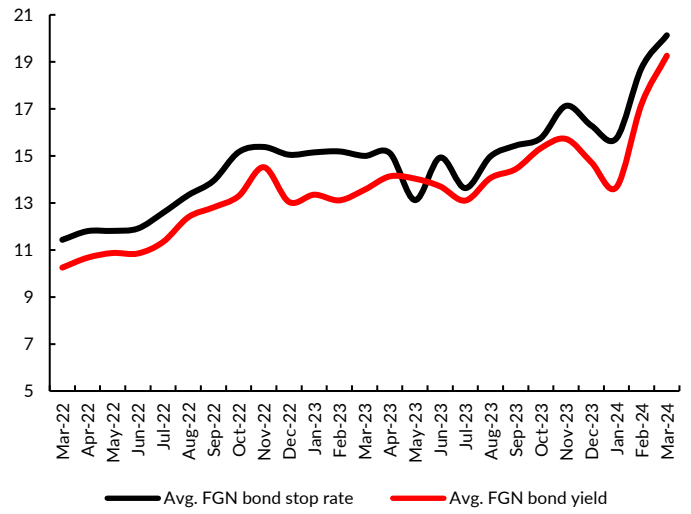
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Offer, Demand and Sales at FGN bond auction (N'bn)



Source: DMO, Coronation MB Research

Movement in Avg. FGN bond stop rate and Avg. FGN bond yield



Source: FMDQ, Coronation MB Research

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