

Bond Auction Teaser.

March 2017

The Debt Management Office (DMO) plans to raise N130 billion – N45 billion of the JUL 2021 (re-opening), N50 billion of the MAR 2027 (new issue) and N35 billion of the MAR 2036 (re-opening) – via its third primary market auction of the year on Wednesday, 15th March 2017. The upcoming auction is the final FGN debt issuance of Q1-2017. The offered amount (N130 billion) – N20 billion higher than February’s figure -- is the same as the amount offered in January auction.

Table 1: Auction Indicative Rates

Bonds	14.5% FGN JUL 2021	FGN MAR 2027	12.40% FGN MAR 2036
Indicative Rates (%)	16.40-16.50	16.44-16.54	16.62-16.72

Source: Cordros Forecast

Since the last auction (held on 15th February 2017), average yield in the bond market has fallen by 37bps to 16.45%, from 16.83%, while yields on the three bonds -- JUL 2021, JAN 2026 (the current 10-year benchmark bond) and MAR 2036 -- offered and allotted have shed 34bps, 40bps and 57bps respectively. The bullish proceedings in the bond space doused tight liquidity conditions, in what speaks to the fact that the local institutional investors (PFAs, in particular) continue to favour government debt as a safe haven in the face of uninspiring macroeconomic environment which has prolonged the aversion towards risky assets. Meanwhile, there were sessions of selloffs, triggered by the CBN’s aggressive forex intervention, which induced cautiousness among market participants vis-à-vis avoiding funding at very high interbank money market rates.

Fig 1: Average Bond Yield (%)

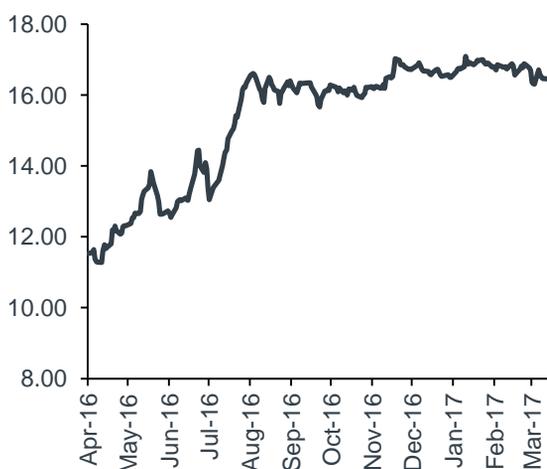
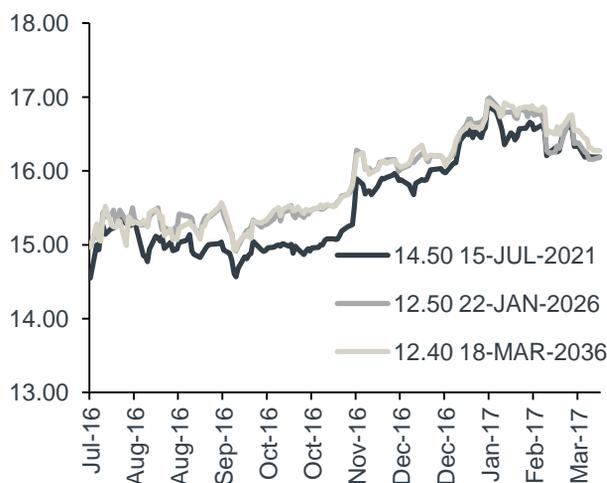


Fig 2: Average Bond Yield (Selected Bonds)



Source: FMDQ, Cordros Research

14 March 2017

Should the DMO fully allot the N130 billion worth of instruments on issue at tomorrow's auction, it will bring the total allotment for Q1-2017 to N504.95 billion, (1) 138% higher than the N212.2 billion allotted in the three months to December 2016, (2) 68% more than the N300.84 billion allotted in the corresponding quarter of 2016, and (3) N192.45 billion above the quarterly budgeted run rate of N312.50 billion, based on the planned domestic borrowing of N1.25 trillion in 2017.

That said, average yield in the secondary market fell marginally by 1bps in yesterday's session following mixed trading. Specifically, however, **there has been modest demand for the JUL 2021, JAN 2026 and MAR 2036 bonds since the release of the bond offer circular on (1) the expectation of lower yield at the auction, (2) expected moderation of the headline inflation, and (3) demand from offshore investors.**

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