

Government Revenue

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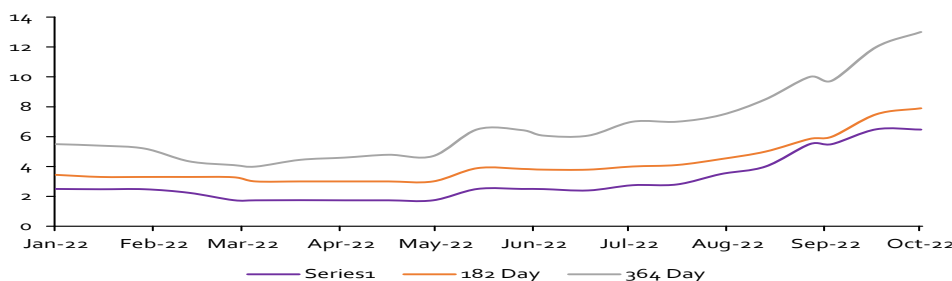
FGN's Borrowing Cost Jumps, 2032 Bond Hits 15% at Primary Market Auction

The prevailing fiscal constraint has continued to mount pressure on the Federal Government to borrow at higher costs. Against the backdrop of persistent rise in inflation (20.77% as at September), hawkish monetary policy stance of the Central Bank (MPR at 15.5%), and worsened debt service to revenue ratio (118%), investors are aggressively seeking adequate compensation that will largely shrink the existing negative real return in the fixed income market. Investors' bargaining power seems to have been enhanced considering the current contraction in funds supply driven largely by the decrease in foreign capital inflows. As at August 2022, the total portfolio inflows year-to-date stood at N301.37bn which constituted only 15.97% of total transaction value (N1,887.20bn ytd).

Meanwhile, the Federal Government Revenue as at April 2022 stood at N1.63trn, amounting to an annualised (full year estimate) of N4.89trn against the revised expenditure budget of N17.31trn. Apparently, the budgeted deficit of N7.35trn was underestimated and may potentially hit N12.42trn particularly with the heavily challenged crude oil production (0.972mbpd in August). Hence, the Federal Government has been in a dilemma with regards to financing the prevailing budget deficit.

Based on data published by the Debt Management Office on the FGN bonds auctioned on October 17, 2022, the 12.50% FGN APR 2032 bid ranged between 14.20% - 18.50% which confirms investors' expectations of higher yield. Also, out of N75bn offered, total subscription stood at N15.6bn while N11.9bn was allotted at 15% marginal (stop) rate (higher than September auction rate of 13.8490% and August 13.5%). Similarly, the marginal rate for 16.2499% FGN APR 2037 increased from 14.5% in September to 16% in October. Same trend was witnessed in the recent Treasury Bills auctions. Data from the Central Bank of Nigeria showed that the CBN offered N151.06bn in 364Day T.Bills but was only able to sell N30.76bn out of a total subscription of N107.67bn. We note that the bid ranged between 6.9950% - 17.00% while the marginal rate closed at 13% from 12% at the previous auction. We expect fixed income yields to continue to trend northward against the backdrop of the aforementioned factors which we think will continue to impact negatively on the fundamentals of the Nigerian fixed income instruments, particularly the government securities.

Treasury Bills Stop Rates (%)



Source: NBS, CSL Research

MARKET UPDATE

	1 year	31-Dec-21	1 day
NSE - Index*	41,144.67	42,716.44	45,366.32
Naira / US\$	414.73	435.00	436.98
Brent, US\$/bbl	85.08	77.78	90.03
MPR %	11.50	11.50	15.50

Source: Nigerian Stock Exchange, Central Bank of Nigeria, Bloomberg. *Nigerian Stock Exchange All-Share Index.

CONTACT INFORMATION

Head of Research: Gloria Fadipe

+234 (0)1 448 5436 ext.4516

gloria.fadipe@fcmb.com

Banks: Gloria Fadipe

+234 (0)1 448 5436 ext.4516

gloria.fadipe@fcmb.com

FMCGs & Brewers: Edgar Ebinum

+234 (0)1 448 5436 ext.4457

edgar.ebinum@fcmb.com

Research Team: cslresearch@fcmb.com

Retail Team: cslcsu@fcmb.com

Sales Team: cslrmt@fcmb.com



Today's news headlines:

Rising debt service overshadows Buhari's infrastructure dream: For every naira spent on capital expenditure (capex), Nigeria has spent nearly two times more servicing a ballooning debt stock since 2015, a trend that is partly to blame for the deepening poverty in the country of 200 million people. Under President Muhammadu Buhari, who took charge of Africa's largest economy in 2015, the federal government has spent N10.99 trillion on capital expenditure, according to data collated by BusinessDay from budget implementation reports up until the first half of 2022. In the same period, N19.03 trillion was spent repaying creditors, 73 percent more than capital expenditure. Source:businessday.ng

<https://businessday.ng/business-economy/article/rising-debt-service-overshadows-buharis-infrastructure-dream/>

Second Niger Bridge completed, says Fashola: The Minister of Works and Housing, Babatunde Fashola, on Wednesday, confirmed that the construction of the 2nd Niger bridge is now completed and will soon be released to the public for use. He stated this at an ongoing press briefing to present the President, Major General Muhammadu Buhari's (retd.) scorecard in Abuja. According to him, the only factor delaying the commissioning of the road is the construction of the link road which the recent surge of flooding has impeded. He said, "I can confirm that the second Niger bridge itself is finished. People can walk through the bridge now unimpeded. What remains is the four-kilometer link road on the Asaba side. "Right now, our dredger is in place, we have to rebuild the road by reclaiming sand, the recent surge of flood has slowed us down. On the Onitsha side, there is a 7kilometer road that links the bridge and the Onitsha-Owerri interchange." Source:punchng.com

<https://punchng.com/breaking-second-niger-bridge-completed-says-fashola/>

Naira may devalue by 20% in 2023- BoA: Nigeria's local currency unit is set to weaken further next year as its current exchange rate to the dollar is well above fair value, according to Bank of America. According to a report by Bloomberg, economist Tatonga Rusike said in a note to clients on Tuesday that, "three indicators, the widely-used black-market rate, the central bank's real effective exchange rate, and our own currency fair value analysis shows the naira is 20 per cent overvalued." "We see scope for it to weaken by an equivalent amount over the next six-nine months, taking it to as high as 520 per USD." While the naira will come under increasing pressure "due to limited government external borrowing," devaluation is unlikely to happen until after the February 2023 presidential elections, the bank said... Source: punchng.com

<https://punchng.com/naira-may-devalue-by-20-in-2023-boa/>

NNPC to Resume Pumping of Crude Oil from Vandalised Pipeline in a Week, Says Kyari: The Group Chief Executive Officer of the Nigerian National Petroleum Company Limited (NNPC), Mallam Mele Kyari, yesterday said that the damaged major pipeline that has hobbled Nigeria's oil production for months will come on stream in a week. Speaking during a summit organised by the Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN), in Abuja, he stated that the country was recording successes in its fight against crude oil thieves and pipeline vandals. For months, the Trans-Forcados Oil Pipeline System, the second longest pipeline network in the Niger Delta has been down, affecting the export terminal and leading to closure of about 20 oilfields. Source:thisdaylive.com

<https://www.thisdaylive.com/index.php/2022/10/19/nnpc-to-resume-pumping-of-crude-oil-from-vandalised-pipeline-in-a-week-says-kyari/>

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% distribution	49%	29%	14%	9%	
Investment banking clients	0	1	1	0	2
% distribution	0%	50%	50%	0%	

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CSL STOCKBROKERS LIMITED

Member of the Nigerian Stock Exchange

PO Box 9117

Lagos State, NIGERIA

CSL Stockbrokers

A trading name of CSL Capital (UK) Ltd

43-44 New Bond Street

London

W1s 2SA

United Kingdom