

Monday, July 19, 2021

The day in review

- Equity market remained flat
- Interbank rates closed higher
- Bullish activity in treasury market
- Naira depreciated at NAFEX window

Looking forward

H1-2021 Corporate Earnings - NGX

Daily Insight

Rates trend lower at July bond auction

Earlier on Monday, the Debt Management Office (DMO) conducted a FGN bond Primary Market Auction (PMA) with the following instruments on offer; 13.98% FGN FEB 2028 N50.0bn, 12.40% FGN MAR 2036 N50.0bn and 12.98% FGN MAR 2050 N50.0bn. At the auction, investor demand was healthy as the 2028, 2036 and 2050 instruments were oversubscribed by 1.1x, 1.5x and 3.1x, respectively. However, the auction bids were surprisingly lower compared with the previous auction which had bid-to-cover ratios of 1.3x, 2.6x and 4.5x. The surprisingly low bid levels came despite recent bond maturity and coupon inflows worth of N800.0bn. The low bid level at the auction appears a deliberate tactic by investors to create an illusion of weak demand to keep rates elevated.

That said, at the auction, marginal rates for the 2028, 2036 and 2050 instruments were lower by 39bps, 35bps and 45bps, respectively to close at 12.35%, 13.15% and 13.25%, compared to marginal rates of 12.74%, 13.50% and 13.70% on the 2027, 2035 and 2050 at the May auction. Interestingly, the DMO sold N138.1bn, against N150.0bn which it initially offered. We think this is a deliberate move by the DMO to signal to investors its intention to continue to drive interest rates lower.

Looking forward, we think the excess maturities yet to be absorbed at the NT-bills and bond auction will trickle into the secondary market as investors look to reinvest the funds. We expect this to force interest rates lower in the secondary bonds market, keeping in line with the overall downward outlook for the yield environment in Jul-2021.

| Headline | Level | 1 day | YTD |
|------------------|----------|----------|---------|
| NSE ASI | 37,952.7 | ▲ 0.0% | ▼ -5.8% |
| Mkt. Cap (N'bn) | 19,773.9 | ▲ 0.0% | |
| Mkt. Cap (\$'mn) | 48,033.3 | ▲ 0.0% | |
| Value (N'mn) | 1,199.6 | ▼ -60.6% | |
| Value (\$'mn) | 2.9 | ▼ -60.7% | |
| Volume | 462.8 | ▲ 73.5% | |
| Deals | 3,610.0 | | |
| Market Breadth | 1.5x | | |

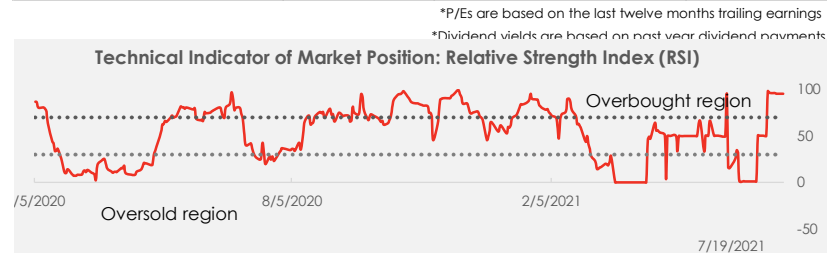
| T-Bills Yields | Current | Previous | %Δ |
|----------------|---------|----------|-------|
| 3 months | 5.56 | 5.56 | 0.00 |
| 6 months | 5.23 | 5.41 | -0.18 |
| 12 months | 9.43 | 9.44 | -0.01 |

| Bonds Yields | Current | Previous | % Δ |
|--------------|---------|----------|-------|
| 3 years | 11.09 | 11.10 | -0.01 |
| 5 years | 12.02 | 12.02 | 0.00 |
| 7 years | 12.35 | 12.35 | 0.00 |
| 10 years | 12.61 | 12.65 | -0.04 |

| Currencies | Current | Previous | % Δ |
|------------|---------|----------|-------|
| Parallel | 503.00 | 506.00 | 0.6% |
| NAFEX | 411.67 | 410.38 | -0.3% |

| Other Key indices | Current | Previous | % Δ |
|-------------------|---------|----------|-------|
| OBB | 11.0 | 4.5 | 6.50 |
| OVN | 11.5 | 4.8 | 6.75 |
| Brent | 68.6 | 73.6 | -6.75 |

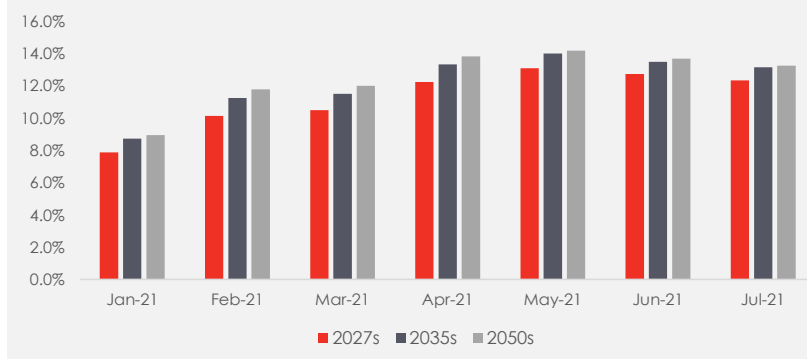
| | 1 day | MTD | YTD | P/E (x) | Div. Yid. |
|---------------|---------|-----------|--------------------|---------|-----------|
| Agriculture | na | na | na | na | na |
| Banks | ▼ -0.4% | ▲ 4.2% | ▼ -2.8% | na | na |
| Consumer | ▲ 0.1% | ▼ -1.1% | ▲ 3.7% | na | na |
| Industrial | ▲ 0.0% | ▲ 2.0% | ▼ -6.3% | na | na |
| Insurance | ▲ 1.2% | ▲ 0.0% | ▲ 7.6% | na | na |
| Oil & Gas | ▲ 0.3% | ▲ 8.2% | ▲ 49.7% | na | na |
| Mkt. Avg. P/E | N/A | Connectio | Mkt. Avg. Div. Yid | #VALUE! | |



Pan African Market Monitor as at today

| Equities | Level | 1 day | YTD | P/E (x) | Div. Yid. |
|--------------|-----------|---------|----------|---------|-----------|
| BRVM | 166.0 | ▲ 0.5% | ▲ 14.2% | 8.9 | 6.0% |
| Egypt | 10,646.9 | ▲ 0.8% | ▼ -1.8% | 10.4 | 1.6% |
| Ghana | 2,625.1 | ▼ -0.8% | ▲ 35.4% | n/a | n/a |
| Kenya | 178.9 | ▲ 0.2% | ▲ 17.6% | 14.1 | 2.0% |
| Mauritius | 1,919.1 | ▲ 0.8% | ▲ 16.4% | n/a | 2.0% |
| Morocco | 317.4 | ▼ -0.1% | ▲ 4.1% | 28.6 | 4.2% |
| MSCI FM | 551.1 | ▲ 0.2% | ▲ 9.9% | 12.8 | 2.7% |
| South Africa | 66,558.5 | ▲ 1.3% | ▲ 12.0% | 19.6 | 2.6% |
| Tunisia | 7,289.2 | ▲ 0.3% | ▲ 5.9% | 24.0 | 2.1% |
| Zimbabwe | 144,706.1 | ▲ 2.3% | ▲ 212.4% | 7.4 | 2.0% |

FGN Bond Auction marginal rates in 2021



Source: Debt Management Office, United Capital Research

Contact us

Research | +234-1-631-7898
research@unitedcapitalplcgroup.com

Trustees | +234-1-631-7877
trustees@unitedcapitalplcgroup.com

Securities Trading | +234-1-631-7891
securities@unitedcapitalplcgroup.com

Investment Banking | +234-1-631-7883
investmentbanking@unitedcapitalplcgroup.com

Asset Management | +234-1-631-7876
assetmanagement@unitedcapitalplcgroup.com