Monday, March 21, 2022

United Capital
The Intelligent Choice

The day in review

- Equity market moderated by 7bps
- Interbank rates closed mixed
- Bullish activity in bonds market
- Naira appreciated at the NAFEX window

Looking forward

FY-2021 Earnings Season - NGX

Daily Insight

Bond yields close lower at auction but outlook biased upwards

The Debt Management Office (DMO) conducted a FGN bond auction to sell N150.0bn worth of bonds with the 2026s and 2042s on offer. At the auction, investor demand was healthy as the 2026, and 2042 instruments were oversubscribed with bid-to-cover ratio printing at 3.1x, and 4.9x, respectively. The strong the demand at the bond auction was unsurprising, given heavy inflows at the long end of the curve with sovereign bonds coupon inflows worth N335.1bn coming in March. Thus, we reckon that investors were focused on reinvesting their coupon inflows.

As result of the strong demand, marginal rates for the 2026 and 2042 instruments were lower by 82bps, and 30bps, respectively to close at 10.15%, and 12.70%, compared to marginal rates of 10.95%, and 13.00% on the 2026, and 2042 at the February auction. Interestingly, the DMO took advantage of the heavy demand to oversell the auction as it sold N296.8bn, against N150.0bn which it initially offered. We think this signifies the government's finances is under pressure forcing it to rely heavily on domestic borrowings to plug revenue gaps.

Looking forward, we expect this trend of declining bond rates would be halted as we approach Q2-2022. First, we note that the FG is yet to begin implementation of the capex component of the 2022 budget. This is expected to commence in April and would make the FG more aggressive in its long term debt capital raise to fund capital projects across the country. In addition, prolonged elevation of oil prices will continue to weigh on FG's finances as the NNPC battles with the neck-breaking burden of subsidising petrol in Nigeria. Putting these factors together, we expect bonds supply to increase in Q2. Meanwhile, we expect bond maturities to decline significantly in Q2-2022. For context, sovereign bond maturities in Q2-2022 will be lower than Q1's figure by 69.8%. As a result, given we expect bond demand to weaken in Q2 while supply is likely to rise, we see a scenario where bond yields will begin to trend higher as investors begin to demand higher compensation for scarce liquidity.

Headline	Level	1 day	YTD
NGX ASI	47,251.9	-0.1%	10.6%
Mkt. Cap (₦'bn)	25,466.2	-0.1%	
Mkt. Cap ($'mn)	61,184.0	-0.1%	
Value (N'mn)	2,675.6	-30.2%	
Value ($'mn)	6.4	-30.1%	
Volume	213.6	-64.4%	
Deals	4,485.0	4.6%	
Market Breadth	0.8x		

T-Bills Yields	Current	Previous	%Δ
3 months	1.88	1.88	0.00
6 months	3.04	3.07	-0.03
12 months	4.02	4.02	0.00

Bonds Yields	Current	Previous	% Δ
3 years	7.21	7.23	-0.02
5 years	10.12	10.16	-0.04
7 years	10.37	10.37	0.00
10 years	10.76	10.76	0.00

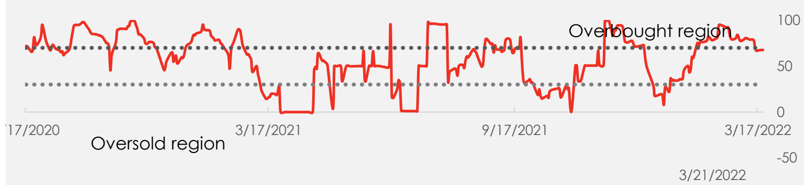
Currencies	Current	Previous	% Δ
NAFEX	416.25	416.50	0.1%

Other Key indices	Current	Previous	% Δ
OBB	9.0	9.0	0.00
OVN	9.7	9.7	-0.03
Brent	114.9	107.9	6.44

	1 day	MTD	YTD	P/E (x)	Div. Yld.
Agriculture	0.0%	0.0%	0.0%	na	na
Banks	-0.9%	-3.1%	8.3%	2.4	7.8%
Consumer	0.5%	-2.5%	-2.7%	22.5	3.9%
Industrial	0.0%	-0.9%	5.4%	16.9	3.6%
Insurance	-0.7%	-2.2%	-5.7%	2.4	3.1%
Oil & Gas	0.0%	4.2%	28.2%	8.2	3.6%
Mkt. Avg. P/E	10.0		Mkt. Avg. Div. Yld	4.3%	

*P/Es are based on the last twelve months trailing earnings
*Dividend yields are based on past year dividend payments

Technical Indicator of Market Position: Relative Strength Index (RSI)

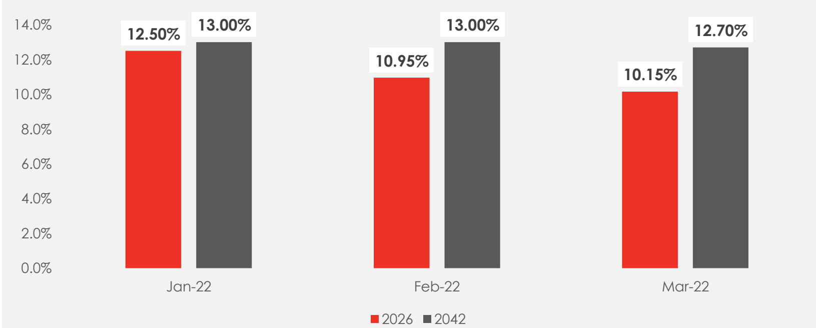


Pan African Market Monitor as at today

Equities	Level	1 day	YTD	P/E (x)	Div. Yld.
BRVM	215.1	0.5%	6.3%	8.7	5.0%
Egypt	11,511.2	4.9%	-3.7%	8.5	1.5%
Kenya	159.1	1.4%	-4.4%	9.9	4.1%
Mauritius	2,136.6	0.5%	1.8%	na	3.1%
Morocco	329.3	-0.4%	-5.3%	21.5	2.9%
MSCI FM	600.4	0.2%	-9.8%	12.1	3.3%
South Africa	74,847.6	0.0%	1.5%	11.3	3.8%
Tunisia	7,099.3	-0.5%	0.8%	23.3	2.3%
Zimbabwe	440,087.3	2.3%	49.1%	24.6	0.7%

Marginal stop-rates at auctions across all tenor offerings exhibits progressive decline in Q1-22

2026 vs 2042



Source: DMO, United Capital Research

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