

A Quarter to Remember

Months into the global outbreak of the COVID-19 pandemic and we are all forced to practice social distancing or self-isolation, which for some of us, means working from home. General economic activity has slowed, firms have suspended operations, employees have been laid off, and firms are seeking bailouts from the government. Talks of a global recession have been echoing and investors are weary, with lessons from the 2008 recession. In this section, we take a look at activities in Nigeria's fixed income market.

The effects of this pandemic have been felt far and wide and global markets have not been spared. This quagmire has been further worsened by the oil price war between Russia and Saudi Arabia which began rocking global markets on an uneventful Sunday in March. The combined effects of the oil price war and the spread of the pandemic have pushed most exchanges into a bear market, shedding well over 20% since the start of the year. Investors' fears have revolved around the possibilities of companies hitting their revenue and earnings targets, depletion of reserves, weaker currencies and higher default risks across corporates and sovereigns.

In the domestic fixed income market, yields have been tempered since December 2019, following a regulation which locked domestic investors out of the OMO market, leaving just the Treasury market open to domestic investors. A decision which in retrospect has shielded the market from volatilities stemming from activities of market forces. Thus, the outbreak of the virus has not had a significant impact on yields, but on trading activity in the market. Average yields in the Treasury bills market has contracted by just 1.40% and average bonds yield has dropped to 10.99% with all instruments trading at a discount.

Chart 1: Historical Average Treasury Bills Yield



Source: FMDQ, Meristem Research

On the supply side, issuer activity appears to have reached its peak and is now moderating. Corporate issuers took advantage of the lower yield environment to raise required capital and in the first quarter of 2020, about twelve (12) issuers tapped the market, raising over NGN240. However, as the pandemic spread further, economic activity on all fronts slowed down and so did issuances in the market. The situation was further worsened by the expectation of and ultimately a much-needed government enforced 14-day lockdown in the country. The fear of an undersubscription and a choice of good health over returns has forced all parties to put issuances on hold until the pandemic passes. Consequently, the Debt Management Office (DMO) was forced to suspend its monthly Savings Bonds Offerings for the month of April.

Expectedly, there have been concerns on the country's reserve position, resultant pressures on foreign exchange and ultimately, concerns on the country's risk of default. However, the CBN has reiterated its stance on currency defense and has put both monetary and fiscal measures in place to ensure stability of the financial system. Nonetheless, some investors have acted on their fears and exited the market.

Despite the issues surrounding global and domestic markets, pockets of hope remain for investors. Domestic and Eurobond prices have dipped significantly and are trading at deep discounts nearing 29% to par, with yields as high as 14.00%. On the other hand, yields in the treasury bills market have remained low, with a bleak outlook on an uptick post COVID-19. However, this provides some respite for issuers as the cost of capital remains low.

We maintain our strategy for investing the fixed income market which involves taking advantage of investment grade commercial papers in the market while purchasing mid-long tenor Treasury instruments. However, we recognize that cash is king and advise investing in short term money market instruments, to meet liquidity needs.

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
abisoyeoludipe@meristemng.com (+234 708 000 7861)
contact@meristemng.com

Investment Banking/Corporate Finance

seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

damilolahassan@meristemng.com (+234 803 613 9123)
www.meristemwealth.com
Tel : +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)
martinaosague@meristemregistrars.com (+234 802 303 1783)
www.meristemregistrars.com
Tel: +23401-280 9250

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 3942967)

Client Services

omosolapeakinpelu@meristemng.com (+234 803 694 3034)
blessingogwuche@meristemng.com (+234 706 896 5173)

Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)
research@meristemng.com

Corporate websites: www.meristemng.comwww.meristemwealth.comwww.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: meristem.com.ng/rhub

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com

Disclaimer Notice:

Meristem and any of its associated or subsidiary companies or the employees thereof cannot be held responsible for any loss suffered by relying on the said information as this information as earlier stated, is based on publicly available information, analysts' estimates and opinions and is meant for general information purposes and should not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell securities or any financial instruments. The value of any investment is subject to fluctuations, i.e. may fall and rise. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of the investment to increase or diminish. Hence investors may not get back the full value of their original investment. Meristem Wealth Management Limited is licensed and registered with the Securities and Exchange Commission (SEC). Meristem Wealth Management Ltd's registered office is at 3, Norman Williams Street, South West, Ikoyi, Lagos, Nigeria. Website: www.meristemng.com; Email: crmwealth@meristemng.com, © **Meristem Wealth Management Limited 2020**.