



AAA FINANCE GROUP

TREASURY NEWSLETTER

Week 16.

19th - 23rd April, 2021

Summary

Inflation Rate	⇒	18.17%
CBN Exch. Rate (USD)	⇒	₦379/\$1
Monetary Policy Rate	⇒	11.5%
Crude Oil Price in USD	⇒	\$65.54
Parallel rate (USD)	⇒	₦485/\$1

External Reserves Trot Higher on Stronger Crude Prices

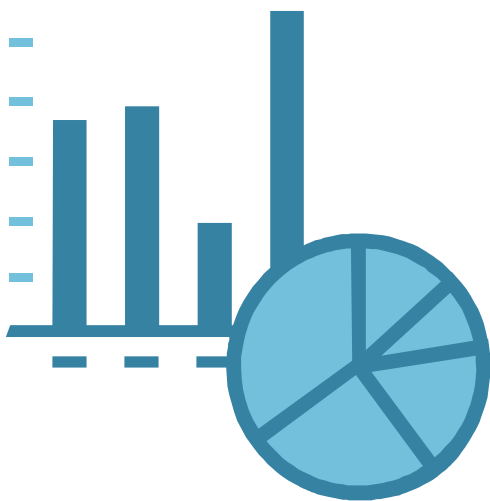
Following two consecutive months of decline in gross external reserves (down 3.3% or \$1.2bn m/m in Feb-2021 and down 0.8% or \$279.4m in Mar-2021), gross reserves appear to be trotting higher in April, climbing 1.1% MTD or \$398.4m. Year-to-Date, gross external reserves remain down by 0.4% or \$155.1m. The rebound in external reserves reflects the impact of the rally in crude oil prices in recent months, with Brent crude gaining 28.5% YTD.

Treasury Bills

It was another consecutive session with muted trading activity in treasury bills space, as pressures on system liquidity continue to pressure the positions of banks. Offers remained steady across the treasury bills curve, but with no demand as local banks continued to focus on their liquidity issues. **We expect the CBN to float an OMO auction tomorrow, keeping in line with the recent trend, despite tight system liquidity levels. (The fact is inconclusive review**

CBN to Sanction Banks, BDCs for Rejecting Old, Smaller Denomination of US Dollars

Following numerous complaints from members of the public on the rejection of old/lower denominations of the dollar by banks and other authorised forex dealers, the Central Bank of Nigeria (CBN) has ordered Deposit Money Banks (DMBs) and Bureau De Change (BDC) operators to, henceforth, accept from their customers' old and lower denomination of US dollars as legal tender or face sanctions. This new directive from Director for Currency Operations Department-Mr Ahmed Umar. Umar states that the apex bank had been faced with complaints of the rejection of old/lower denomination US dollar deposits in the banks and to curb such actions, the CBN would sanction any of the banks or forex dealers, who failed to accept such denominations from their customers.



sources



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FX Market

The Naira had a relatively quiet trading session at both the official and parallel markets. At the IEFX space, Traded volumes took a dip, dropping by 60.00% D/D (c.\$40.13mio traded). The Naira closed at N410.00/\$, as bids ranged between N394.00 and N422.00 to the dollar. The cash and transfer rates remained unchanged D/D.



sources

Bloomberg

proshare

FGN BONDS

The FGN Bond market opened the week on a quiet note, as investors showed little or no interest in the secondary market given that the monthly FGN bond auction approaches. However, trading in the FGN market on Wednesday was more active than expected, despite the monthly primary auction looming in the background. We saw improved demand at the belly and tail-ends of the bond curves, as speculators looked to pre-empt the auction rates. The 2028s and 2029s papers traded around the 12.00% mark, while the 2045s and 2049s changed hands around 13.80% levels. Yields expanded by an average of c.1bps across the sovereign bond curve, dragged slightly higher by supply seen on the 2023s and 2034s papers. At the bond auction, the DMO issued a total of N274.45Bn (182.97% of the total offered amount), with a huge chunk from non-competitive bids (N116.50Bn) as investor demand was relatively poor with a bid-to-cover ratio of 1.77X. The stop rates increased by an avg. of 181bps across all tenors, as the DMO played catch up to secondary market yields which had already moved from the previous month's levels. Investors' expectations for even higher yields on FGN instruments can be seen in the poor demand at Wednesday's auction, with DMO resorting to non-competitive bids to raise as much as 42% of the target amount. With the MTN Nigeria Comms. PLC 7-year bond closing at 13.00% and the continuous rise in short-term rates, we expect the current apathy towards current yield levels to persist as investors have more alternatives enabling them to remain on the side-lines.

Money Market

Interest rates trended northwards by about c.113bps on the average on Wednesday as naira dealers scrambled to cover their positions as the market opened in deeper negative territory (c. N123.59Bn opening). Local banks camped at the CBN Lending and Repo windows for liquidity injection, increasing borrowing amounts by 69.89% D/D to c. N257Bn. Consequently, OBB and Overnight rates rose to close at 13.00% and 14.00%, respectively. We expect funding rates to remain elevated as bond auction debits are expected to further pressure funding pressures on local banks.

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