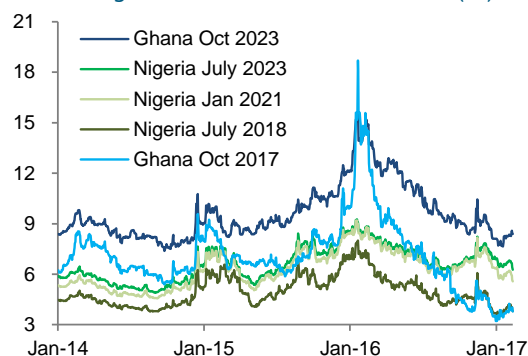


## Nigeria: Successfully Issued Third Eurobond But FX Policy Concerns Remain

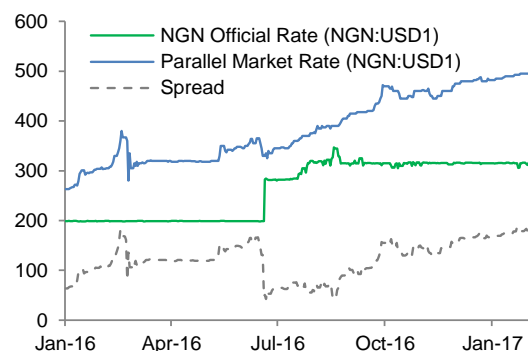
- Nigeria concluded the sale of its third Eurobond yesterday – at a significant premium to previous issuances.
  - The 15-year, USD1bn Eurobond (rated 'B' by S&P, and 'B+' by Fitch) is Nigeria's longest-dated foreign-denominated issuance, and was priced at 7.875%, above the government's target of 7.5%.
  - This Eurobond was also priced higher than the country's last Eurobond issued in July 2013 – a dual-tranche bond of 5-years and 10-years of USD500mn each, with coupon rates of 5.125% and 6.375% respectively.
  - However, yields on Nigeria's previous Eurobonds (2018, 2021, and 2023) have generally trended downwards since early 2016 (Chart 1).
- The new issuance was almost seven times oversubscribed, receiving bids of USD7.8bn for the USD1bn bond offering.
  - This was despite higher sovereign risk, ongoing lack of clarity over the country's exchange rate policy and concern over the country's weak oil production.
    - Investors sought clarity from Nigerian officials during the Eurobond roadshow earlier this week; however, the authorities failed to provide them with a clear direction on the FX policy.
      - Concern remains over the NGN, especially given a growing spread between the official interbank and the parallel rates (currently at 184 points from 178 in late January 2017; Chart 2) warranting the need for further exchange rate flexibility.
    - Investors were also concerned that oil output has dwindled, with production remaining below the 2.2m/b target earmarked in the budget.
- The oversubscription of the Eurobond issuance took place despite Nigeria's macroeconomic challenges (a contracting economy, double-digit inflation, twin deficits and an overvalued exchange rate) and high security risk.
  - Demand for Nigeria's Eurobond issuance was driven by some hedge funds and other non-core institutional asset managers, which continue to believe in the economy's underlying long-term strength.
  - We believe that investors side-lined their concerns over the country's challenges, given a recent rebound in oil prices and Nigeria's low debt-risk profile; total public sector debt stands at 15% of GDP (with external debt being 3% of GDP and domestic debt, the remainder), compared with Ghana, which remains in high debt-risk category where total public debt stands at 72% of GDP (with external debt being 40% of GDP and domestic debt, the remainder).
  - Concerns over Nigeria's economic challenges would have also been side-lined by investors' search for higher yields, given ongoing ultra-low US Federal Funds rate (0.75%) and the European Central Bank's Main Refinancing rate (0.00%).
- We believe that the successful Eurobond issuance is a positive development for Nigeria, as the country seeks to source FX to relieve pressure on the NGN.
  - This FX injection should help to boost Nigeria's FX reserves, and potentially allow the CBN to loosen its hold on the NGN.
  - However, the amount raised will not meet Nigeria's estimated USD5bn FX gap; this suggests that the operating environment will remain painful in the short term.
  - As such, the NGN will remain under pressure, exerting pressure on the CBN to devalue the currency further. We expect an official interbank market rate of close to NGN360-380:USD1 in the coming months.

Chart 1: Nigeria & Ghana Eurobond Yields (%)



Source: Bloomberg

Chart 2: Naira Official & Parallel Rates



Source: Bloomberg; AbokiFX

## Middle Africa Speed Note | Fixed Income

10 February 2017

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