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Dynamics of Investing in Eurobonds

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What are Eurobonds?

Eurobonds are fixed-income debt instruments denominated in a different currency from that of the country or market in which it is issued

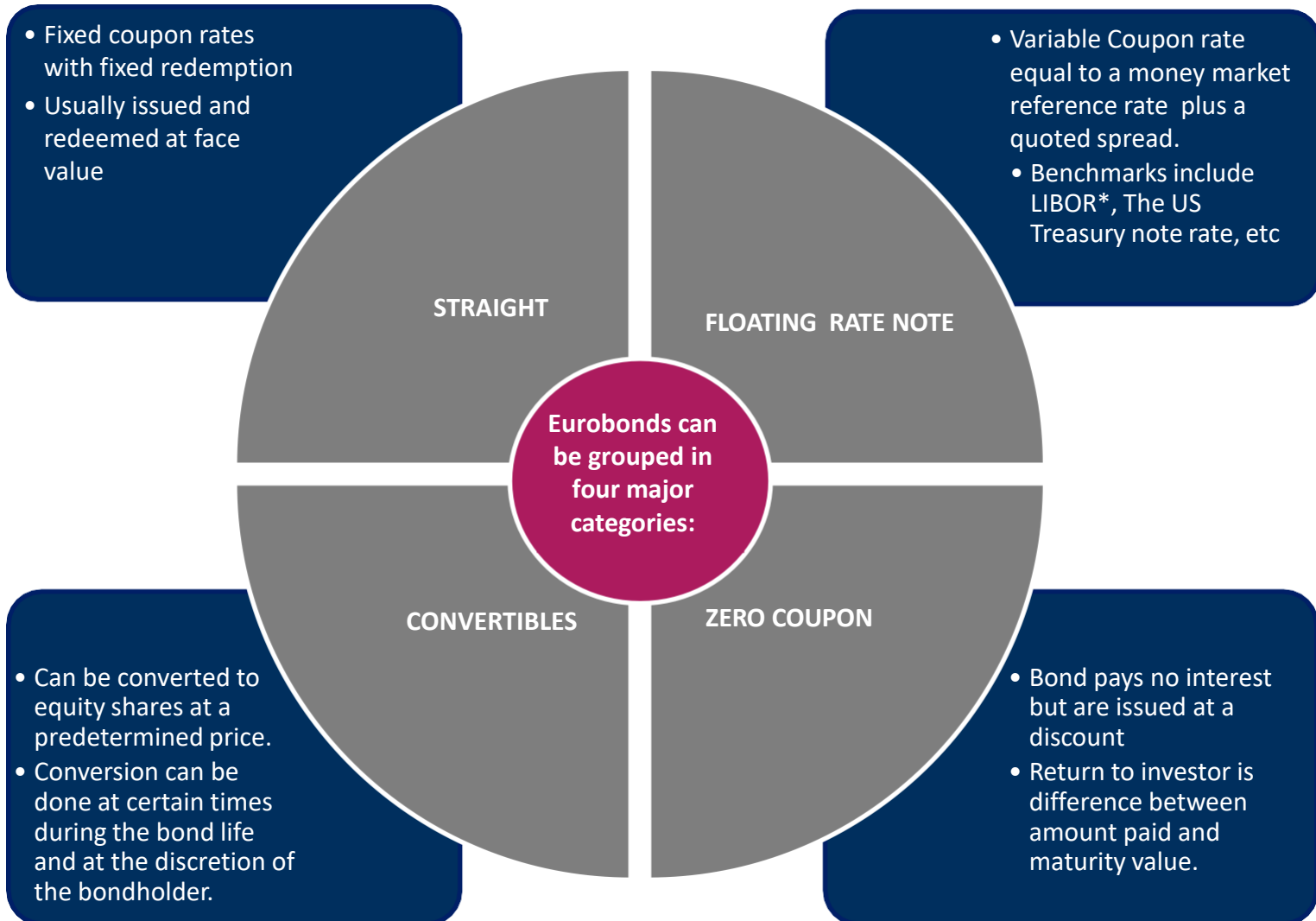
In the case of FGN 6.75% January 2021 Eurobond, for example, it is a bond issued by the Federal Government of Nigeria in Nigeria but denominated in US Dollars. Those who buy it, buy in Dollars and the interest and principal repayment are also paid in US Dollars.

Simply put, Eurobonds are bonds that are issued in a currency other than that of the issuer.

Features of Eurobonds



Types of Eurobonds



*LIBOR: London Interbank Offered Rate

Key Drivers of Performance in Sub-Saharan Africa (SSA) Eurobonds

YIELD DIFFERENTIALS

Usually, the higher the yield differential between SSA Eurobonds and developed market bonds, the more demand SSA Eurobonds will see as investors make up a significant portion of holdings.

MARKET CONDITIONS

Broader market conditions can have an impact on bonds. For example, optimism about the health of the global economy and emerging markets, oil prices, general economic condition of the issuer and perceived ability to pay back affect investor decisions to buy or sell Eurobonds

UNDERLYING CURRENCY

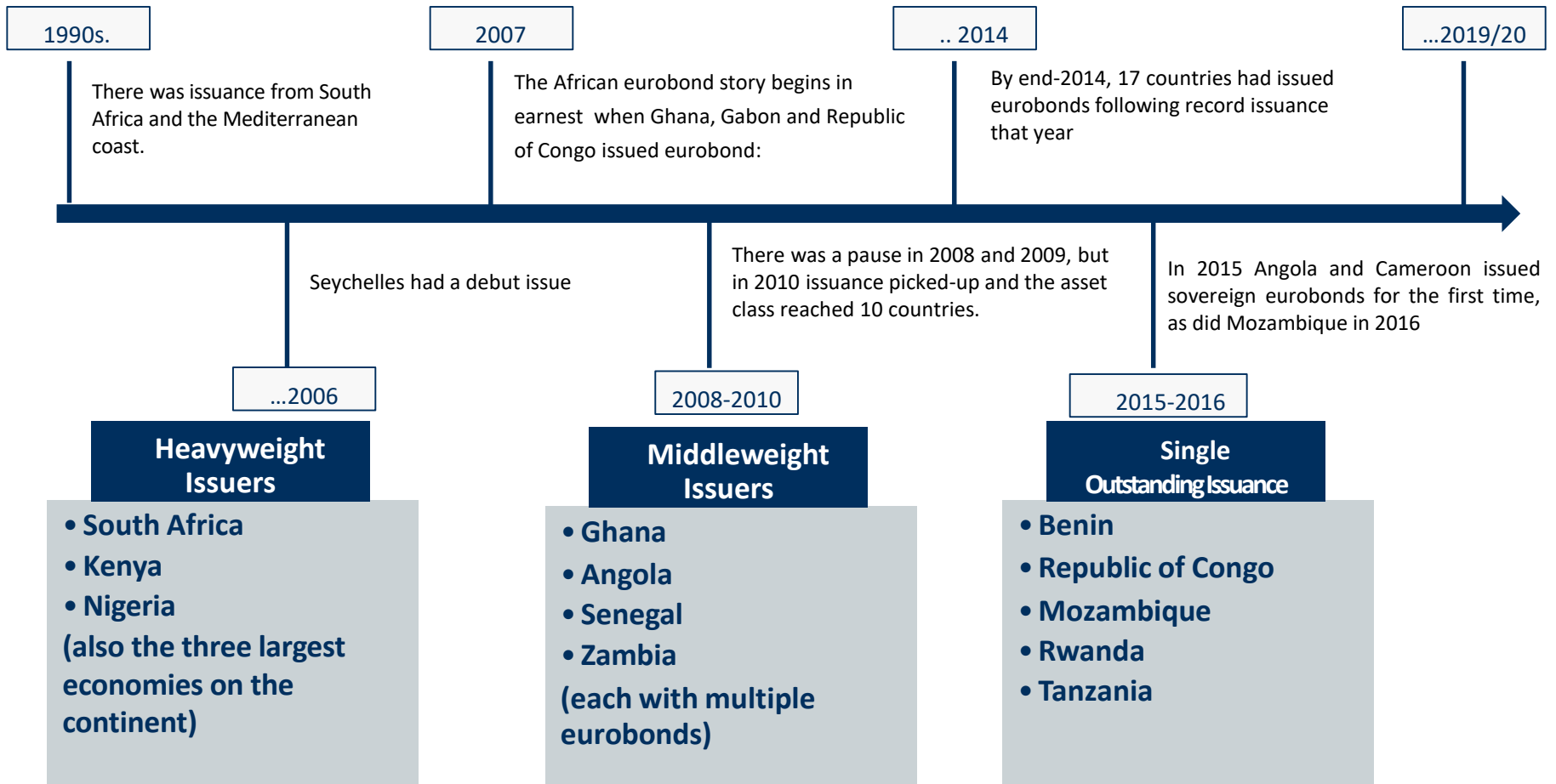
If the underlying currency of the Eurobond depreciates relative to other currencies, the Eurobond becomes less attractive to investors and its price will likely fall.

TERM-TO-MATURITY

The age of a bond relative to its maturity date can affect pricing. This is because the bondholder is paid the full face value of the bond when the bond reaches maturity. As the maturity date gets closer, the bond's price will move towards the par value.

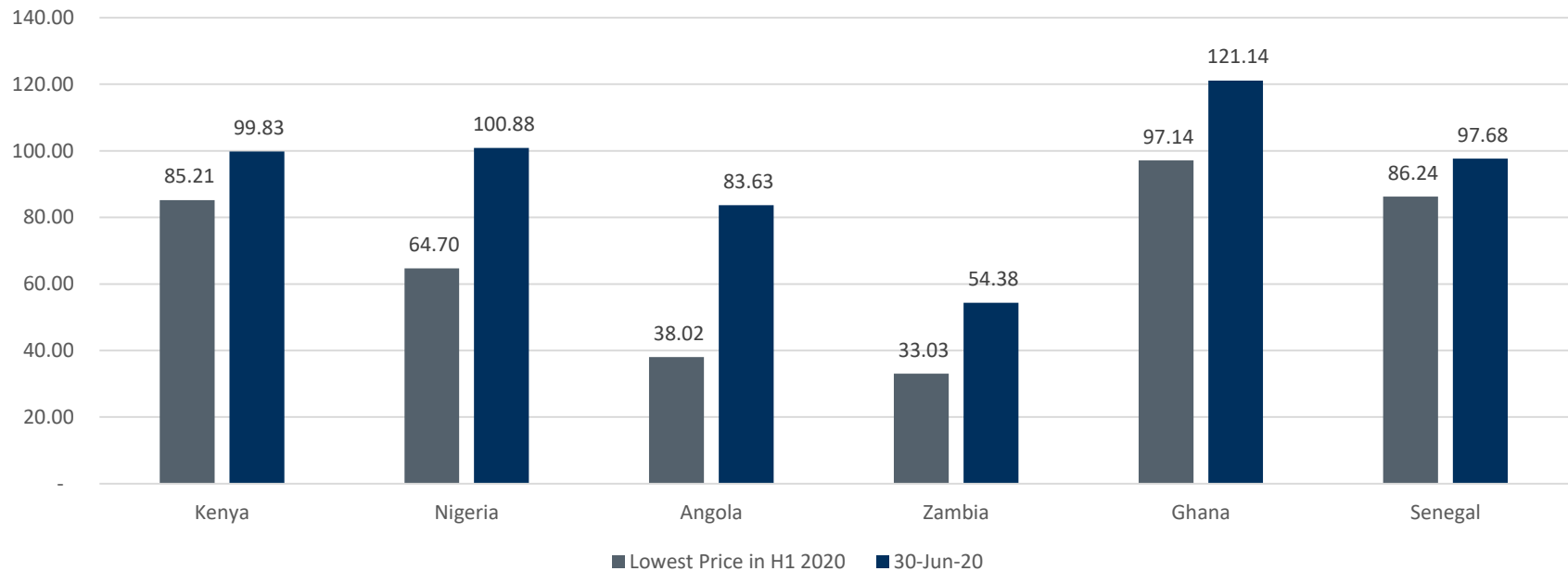
Eurobonds in Sub-Saharan Africa

Currently, 21 countries in the region **have** outstanding **sovereign** eurobonds.



Eurobonds in Sub-Saharan Africa

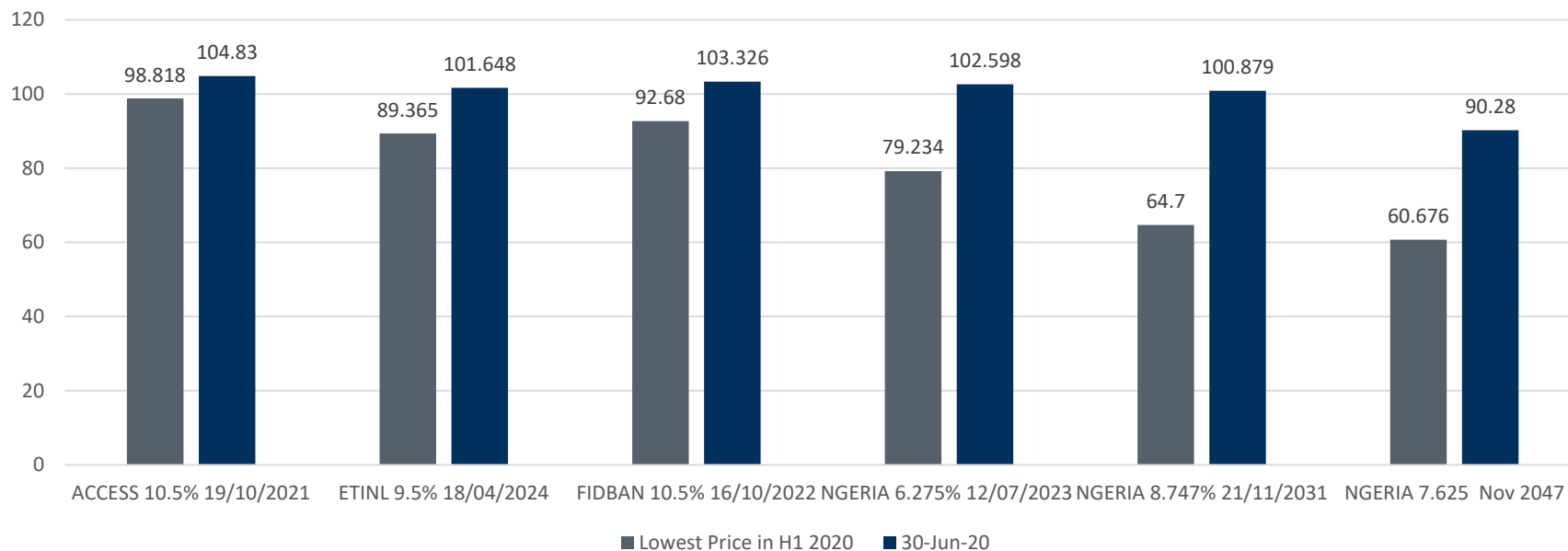
Price Changes in Select 10-year SSA Eurobonds



- Prices of most of the Sub-Saharan Eurobonds fell dramatically attributable to the ongoing Coronavirus Pandemic
- Zambia recorded the lowest price with very little increase within the quarter making it the worst performing in Sub Saharan Africa.
- On the other hand, Angola recorded the highest q/q increase in price making it the best performing Eurobond in SSA.

Eurobonds in Nigeria

Price Changes in Select Nigeria Eurobonds



Source: Bloomberg, Debt Management Office

- Currently, there are 11 outstanding Eurobonds issued by the FGN and 6 Eurobonds issued by Corporates (mainly banks).
- Sovereign Eurobonds typically experience more significant price moves
- While the risks of corona virus still remains, foreign investors looking for yields are expected to come into the Nigerian market in search of higher yield

Benefits and Constraints of Eurobonds

Benefits



Diversification



Fixed Coupon Payments



Trading Opportunities

Constraints



Minimum Trade size



Market Risk



Concentration risk

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Thank you

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