JPMORGAN TO EXCLUDE NIGERIA BONDS FROM GBI EM INDEX

What is the JPMorgan GBI EM Bond Index

The JPMorgan Government Bond Index-Emerging Markets (GBI-EM) indices are comprehensive emerging market debt benchmarks that track local currency bonds issued by Emerging Market governments. The countries whose bonds are included in the index as at 31 August 2015 are:

- Brazil
- Mexico
- Poland
- South Africa
- Turkey
- Malaysia
- Thailand
- Colombia
- Hungary
- Russia
- Romania
- Peru
- Nigeria
- Philippines
- Chile
- China
- India

When it all Started

Nigeria became the second African country after South Africa to be listed in JP Morgan's emerging government bond index, in October 2012, after the Central Bank of Nigeria ("CBN") removed a restriction for foreign investors to hold government bonds for a minimum of one year before they could exit.

It means foreign investors who hold Funds/Portfolios that replicate the index will need to include applicable Nigerian bonds in their portfolios in order to adequately mirror the index. These bonds include:

- 15.10% FGN 27 April 2017
- 10.70% FGN 30 May 2018
- 16.00% FGN 29 June 2019
- 7.00% FGN 23 October 2019
- 16.39% FGN 27 January 2022
- 14.20% FGN 14 MAR 2024

The reason JPM Stated for Excluding Nigeria Bonds from the GBI EM index

- The series of administrative measures by the CBN that impeded the ability of foreign investors to replicate Nigeria's weight in the GBI-EM suite of indices. This includes the cancellation of the weekly CBN Dollar auction, amongst others.
- Lack of a fully functional two-way FX market

The CBN's Response

The apex bank disagrees with the premise and conclusions upon which the decision of JPMorgan rests and would rather take economic decisions that will impact positively on the lives of all Nigerians. The CBN stated that it will continue to adopt policies that will minimize spurious demand for Foreign Exchange and focus on filling genuine customer demands only.

The Impacts on the Market

- Starting 30 September 2015 to 30 October 2015, the Fund/Portfolios that replicate the JPMorgan index will exit the Nigerian bonds thereby selling down on their position in order to replicate the new weighting in the index.
- Once the removal process is completed, Nigeria will not be eligible for re-inclusion into the GBI-EM indices for a minimum of 12 months.
- Foreign investors are likely to exit the market leading to a potential fall in prices of securities – Treasury bills, bonds and equity. Although we believe that some will still hold Nigerian securities.
- With a fall in price, this implies that rates offered on Treasury Bills and Bonds will be higher
- Heightened pressure on the Naira as foreign investors exit their positions. The CBN has however stated in its response on this exclusion that it will not be quick to devalue the Naira.
- We believe there is likely to be an initial overreaction but the market will eventually stabilize.