



DEBT MANAGEMENT OFFICE  
NIGERIA  
**REVIEW OF THE FGN BOND SECONDARY MARKET  
JANUARY-JUNE 2011**

### VALUE AND NUMBER OF TRADES

The FGN Bond secondary market started at a slower pace in 2011 compared to 2010. For January –June, 2011, total activity in terms of Face Value and Number of Trades stood at ₦4.716tr and 35,374 respectively compared to ₦8.042tr and 88,107 in January to June 2010.

**Table 1: FGN Bonds: Value & Number of Trades, H1 2010 , H2 2010 and H1 2011**

Period	Face Value ₦'bn	Deals	% Change Face Value	% Change Deals
H1 2010	8,042	88,107	-2.92	70.00
H2 2010	5,713	48,686	-28.96	-44.74
H1 2011	4,716	35,374	-41.35	-59.85

Source: CSCS

In general, activities in the FGN Bond Primary and Secondary Markets have been strongly influenced by the CBN's banking reform measures and its monetary policy posture. In H2 2009 and H1 2010 when CBN adopted an expansionary monetary stance and banks were reluctant to lend, demand for FGN Bonds were very high (in both markets) as they were not only readily available but also excellent credit grade. These two factors pushed up FGN Bond Prices and promoted high trading activity.

From April 2010, when the CBN resumed mop-ups to Q4 2010 when increases in the Monetary Policy Rate (MPR) started, activities in the FGN Bond Secondary Market started to

slow down. With the general expectation by investors and traders that the CBN will continue to tighten liquidity, yields started to rise while prices fell accordingly. It would be recalled that the MPR which was 6.25% in December 2010, was increased three times in H1 2011 to reach 8% in May 2011. While the Cash Reserve Ratio (CRR) which had been at 1% since April 2009, was increased to 2% in January 2011 and doubled to 4% in May 2011.

The marginal increase in activities in other segments of the financial market such as credit and forex also contributed to the decline in trading activities in FGN Bonds.

**Table 2: FGN Bonds Monthly Volume, Value and Number of Trades for H1 2011**

Month of	Volume (units)	Face Value ₦'bn	Number Trades
Jan-11	865,783	865.78	5,356
Feb-11	919,601	919.60	6,679
Mar-11	835,432	835.43	5,952
Apr-11	686,753	686.75	5,737
May-11	783,861	783.86	7,153
Jun- 11	625,166	625.16	4,497

Source: CSCS

Volume and Value of activity were highest in January and February 2011. Activities turned bearish from March 2011 when the CBN increased the MPR by 100bps to 7.50%. Although, trading levels were high

in May when the MPR was raised again to 8% and the CRR from 2% to 4%, activities slowed down in June as the market anticipated further tightening by the CBN. Trading was at its lowest in June 2011.

### HIGHEST AND LOWEST TRADED BONDS- JANUARY-JUNE 2011

Table 3 below shows the highest and the lowest traded bonds in H1, 2011. A favorite of the Market and highest traded bond consistently in January – May 2011 was the 10% FGN JUL 2030, the 20 year FGN Bond Benchmark. It was actively traded because of the large volume in issue and a high demand by the end investors such as pension funds. Among the least traded bonds was the 9.50% FGN AUG 2012, 10.50% FGN MAY 2012 and the 10.50% FGN JUL 2011. Limited trading in the 9.50% FGN AUG 2012 and the 10.50% FGN MAY 2012 was due to their small trading volumes, while the 10.50% FGN JUL 2011 was no longer actively traded in the Two-Way Quote FGN Bond Market due to its short time to maturity.

**Table 3: Highest and Lowest Traded Bonds**

Month	Highest Traded FGN Bonds	Volume Units (mn)	Lowest Traded FGN Bonds	Volume Units (mn)
Jan	10% FGN JUL 2030	209.70	9.50% FGN AUG 2012	0.68
Feb	10% FGN JUL 2030	285.37	9.50% FGN AUG 2012	0.50
Mar	10% FGN JUL 2030	212.87	12.99% FGN SEP 2011/11.99% FGN DEC 2013	0.20
Apr	10% FGN JUL 2030	194.20	10.50% FGN MAY 2012	0.30
May	10% FGN JUL 2030	245.80	16% FGN JUL 2013/ 10.50% FGN JUL 2011	0.01
Jun	10.50% MAR 2014	143.12	10.70% MAY 2018	0.19

Source: CSCS

### FGN BOND PRICES AND YIELDS – H1 2011

The 12.49% FGN MAY 2029 was the highest priced Bond in January and February 2011 while the 15% FGN NOV 2028 was the

highest priced FGN Bond in March, April and May respectively. However, it should be noted that these bonds are not Benchmark Bonds.

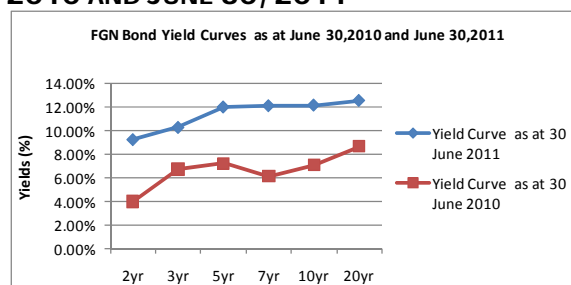
**Table 4: Highest Priced Bonds**

Month	Highest Priced Bond	Avg. Price/Unit (₦)
Jan	12.49% FGN MAY 2029	1,384.96
Feb	12.49% FGN MAY 2029	1,283.80
Mar	15% FGN NOV 2028	1,265.77
Apr	15% FGN NOV 2028	1,147.73
May	15% FGN NOV 2028	1,147.90
June	10.70% FGN MAY 2018	1,294.37

Source :CSCS

The 10.70% FGN MAY 2018 which represents the FGN 7-year Benchmark Bond attracted the highest price in June 2011.

### FGN BOND YIELD CURVE AS AT JUNE 30, 2010 AND JUNE 30, 2011



The FGN Bond Yield Curve as at June 30, 2011 reflects the rising trend in the Yields that started after the FGN Bond Auction in May 2010. See Table 5 below.

**Table 5: FGN Bond Yields as at H1 2010 and H1 2011**

FGN Bonds	Yields as at June 30 2010	Yields as at June 30 2011
10.50% FGN NOV 2013	6.77%	10.32%
4.00% FGN APR 2015	7.24%	12.02%
10.70% FGN MAY 2018	6.17%	12.13%
7.00% FGN OCT 2019	7.12%	12.18%
10.00% FGN JUL 2030	8.69%	12.57%

Source: FMDA

The average change across the FGN Bond Yield Curve was about 460 bps points between end of H1 2010 and end of H1 2011.

### OUTLOOK FOR H2 2011

In the FGN Bond Secondary Market, the level of activity and yields would depend on the CBN's policy direction and actions. The general expectation is that given the CBN's concerns about inflation and pressure on the

Naira, which is believed to be fueled by excess liquidity, the CBN's policy of liquidity tightening would continue. If this expectation materialises, yields would rise and there could be volatility which may lead to a slowdown in Secondary Market activity.

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