

## DEBT MANAGEMENT OFFICE NIGERIA

### REVIEW OF THE DOMESTIC BOND MARKET

*January –June 2010*

#### I. Introduction

The Nigerian Bond Market as in 2009, continued to grow in the first half of 2010 (H1,2010), moving from an opening size of N2,132.51 bn on January 1, 2010, to N2675.5 bn as at June 30, 2010. The growth was largely driven by the FGN Bonds. Lagos State and Bayelsa State were the only states who issued bonds during this period, while one corporate (NGC Sterile Ltd.), also issued a bond.

#### II. Developments in January –June 2010

##### II.1. PRIMARY MARKET

###### *Federal Government of Nigeria Bonds*

###### *Issue Amount, Subscription & Allotment*

The DMO cumulatively offered N460 bn FGN Bonds in 3-year, 5- year, 10-year and 20-year tenors. Some were new issues while others were re-openings (Table 1). The bonds offered recorded a subscription of N1,050.72 bn, while N538.50 bn was allotted, including Special Allotment.

*Table 1: Summary of FGN Bond Auctions (N'bn) , H1, 2010*

<i>Auction Result (N'bn)</i>	<i>3Y</i>	<i>5Y</i>	<i>10Y</i>	<i>20Y</i>	<i>Total</i>
<i>Amnt. Offered</i>	145	75	70	170	460
<i>Subscription</i>	361.05	159.13	157.5	373.04	1050.72
<i>% Subscription</i>	249	212	225	219	228
<i>Allotment</i>	198.5*	100	70	170	538.50

*Source: DMO*

*\*Includes a Special Allotment of N53.5 bn*

Between January and June, 2010, there was a redemption of N105 bn FGN Bonds (N40 bn in January and N65 bn in April), leaving a total outstanding FGN Bonds issues of N2.41 tn, as at June 30, 2010. This figure represents an increase of 22 % over the N1.97 tn as at end of December 2009. Table 1 shows that there was over-subscription for each FGN Bond offered within the period.

###### *Marginal Rates*

Table 2 shows the Marginal Rates, for each bond offered in H1, 2010. The bonds were allotted at the lowest Marginal Rates across all tenors. The Marginal Rate at the March 2010, FGN Bond Auction, was unusually low due to the excess liquidity in the system. However, the Marginal Rates for FGN Bonds took an upward turn,

starting moderately in April 2010, but took a steep rise in May 2010, and then declined again during the June FGN Bond Auction.

Table 2: Marginal Rates (%)

Month	3Y	5Y*	10Y*	20Y
Jan.	6.8299		8.14	8.5
Feb.	5.5		7.15	8.02
Mar.	3.48		6.00	7.00
April	4.86	4.00		7.24
May	8.25	9.00		10.00
June	6.24	7.6089		8.69

Source: Debt Management Office

\*Blank space indicates tenor not offered in that month

### Sub-national Bonds

The bond issuances by the Lagos State and Bayelsa State Governments were the only activity in the primary market segment of the sub-national bond market. On April 19, 2010, the Lagos State Government issued N57.5 bn 7-year Lagos Bond Series II, at a Coupon of 10%. The N57.5 bn which was part of the N275 bn shelf registration in 2008, was issued through a Book Building process. The 10% Coupon when compared to the 13% Coupon for the Lagos State Bond Series I, with a tenor of 5 years, issued in December 2008, was relatively low. The lower Coupon was as a result of the excess liquidity in the system and the general downward slide in interest rates since August 2009. Also, on June 30, 2010, Bayelsa State Government issued a N50 bn bond with a tenor of 7years at a Coupon of 13.75%.

### Corporate Bonds

In April 2010, NGC Sterile Limited, in a single offer, issued a 5-year tenor N2 billion redeemable, exchangeable bond at a Coupon of 17%, through a Private Placement. NGC Sterile Limited, is a subsidiary of the Nigerian-German Chemical Plc. The Bond is exchangeable for the shares of the parent company- the Nigerian-German Chemical Plc.

## II. 2. SECONDARY MARKET

### Federal Government of Nigeria Bonds

Table 3: FGN Bonds Secondary Market, H1, 2010

Volume traded (mn units)	Face Value (N' bn)	No. of Deals
<b>8,042.412</b>	<b>8,042.412</b>	<b>88,107</b>

Source: Central Securities Clearing System (CSCS)

: OTC Trades only

The secondary market activities in the FGN Bond market remained impressive in H1, 2010, considering the volume of bonds traded and the number of deals (Table 3). The Number of Deals at 88,107 was higher than the 51,820 and 80,554 recorded in H1,2009 and H2,2009 respectively. However, in terms of Face Value, the figure for H1, 2010 was slightly lower than the N8,285 bn and N8,504 bn recorded in H1, 2009 and H2, 2009 respectively.

### Sub-national Bonds

Table 4 shows the level of trading activities in sub-national bonds between January-June 30, 2010. All the sub-national bonds in issue, with the exception of Bayelsa State Bond (issued on June 30, 2010), were traded within this period. Currently, the sub-national bond market is dominated by the Lagos State Bonds, which may be due to the fact that the volumes in issue are much larger than the bonds of other States and that Lagos State Government appointed Primary Dealers Market Makers for its bonds.

Table 4: State Government Bonds, H1, 2010

Security	Vol. (mn units)	Face Value (N'bn)	No. of Deals
Lagos State Bond (Series 1)	22.435	22.435	26
Lagos State Bond (Series 2)	15.088	15.088	16
Imo State Bond (Series 1)	12.83	12.83	31
Kwara State Bond (Series 1)	2.05	2.05	13
Niger State Bond	1.1	1.1	4
<b>Total (State Govt)</b>	<b>53.503</b>	<b>53.503</b>	<b>90</b>

Source: The Nigerian Stock Exchange

### Corporate Bonds

The corporate bond market presently has a low level of secondary market activities, apparently because of the dearth of corporate bonds in this segment. It was only the bond issued by the Guaranty Trust Bank that was traded within the period, with a volume of about 1.8 mn units, in five deals (Table 5).

Table 5: Corporate Bond, H1, 2010

Security	Vol. (mn units)	Face value (N'Bn)	No. of Deals
GTBank Bond	1.755	1.755	5

Source: The Nigerian Stock Exchange

### Total Secondary Market Activity H1, 2010

Table 6. Total Volume, Value and Number of Bonds Traded, H1, 2010

Volume (mn units)	Face Value (N'bn)	No. of Deals
<b>8,097.670</b>	<b>8,097.670</b>	<b>88,202.00</b>

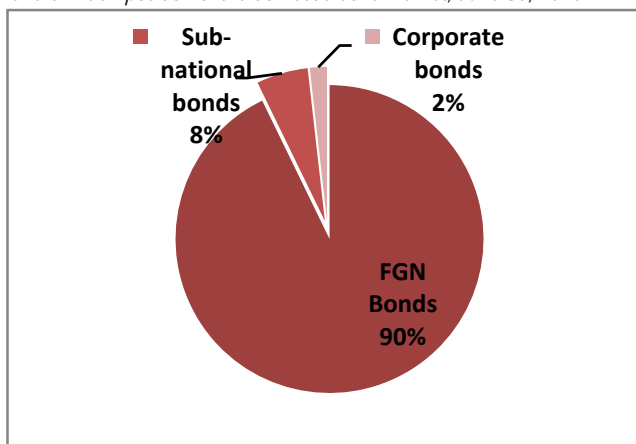
From Table 6, the combined volume of bonds traded in the domestic bond market in H1, 2010, was 8.1 bn units, with a total Face Value of N8,097.7 bn, in 88,202 deals. Major trading activities in the secondary market took place in the FGN Bond segment, while the sub-national and corporate bond segments contributed

marginally. Specifically, by Face Value of Transactions, FGN Bonds accounted for 99.32% of Total Trades, while sub-nationals and corporates accounted for 0.66% and 0.02%, respectively. The distribution of trades among the three segments on the basis of Volume and Number of Deals is similar to the distribution in terms of the Value of Trades. The dominance of the FGN Bonds in the secondary market can be explained by the large volume in issue, as well as, the well established Primary Dealer Market Maker system.

### III. Composition of the Domestic Bond Market

Chart 1 shows the percentage composition of the domestic bond market as at June 30, 2010 by issuer type. The total bonds outstanding as at June 30, 2010 was N2675.5 bn made up of FGN Bonds (N2408.43 bn, or 90%); Sub-national bonds (N226 bn, or 8%), and Corporate bonds (N41.075 bn, or 2%).

Chart 1: Composition of the domestic bond market, June 30, 2010



Source: DMO, SEC

The figures above are similar to those as at December 31, 2009, which were FGN

Bonds (92%), Sub-national bonds (5%) and Corporate bonds (2%), indicating that the bond market is still dominated by the FGN Bonds.

The total bonds outstanding as at June 30, 2010 represented an increase of 26% over the outstanding amount bonds (N2, 132.51 bn) as at end of December 2009. The growth in the bond market is still mainly driven by the regular monthly issuance of FGN Bonds.

#### **IV. Outlook**

In H2, 2010, the monthly regular FGN Bond Auctions will continue, based on the Federal Government's Bond Issuance Programme. The FGN Bond Market is therefore, expected to show a steady growth.

Also, growth in the other sectors of the bond market (sub-national and corporate) is envisaged due to recent favourable government policies, such as tax waivers for all categories of bonds, reduction in Stamp Duties, and classification of eligible Sub-national bonds as Liquid Assets. It is expected that more Corporate bonds, especially from the banking sub-sector, would be issued during the year. As at June 30, 2010, the total amount of bond issuance in the pipeline for sub-national and Corporates was N2.7tn (Sub-national: N0.4tn and Corporate: N2.3tn).

We expect continued vibrant secondary market activities for the FGN Bonds, while secondary market activities in the Sub-national and Corporate bond market will improve fairly if all the policy measures and actions being put in place by the

Government and other stakeholders, to improve trading activities of these bonds, begin to impact positively on the market.

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