



**DEBT MANAGEMENT OFFICE
NIGERIA**

**REVIEW OF THE FGN BOND SECONDARY MARKET
JANUARY – JUNE 2012 (H1 2012)**

VALUE AND NUMBER OF TRADES

Total FGN Bond secondary market activity for H1 2012 was ₦3.10tr and 20,397 in terms of Face Value and Number of Trades respectively. Compared to H2 2011, the Face Value and Number of Trades declined by 26.66% and 31.88% respectively.

Table 1: FGN Bonds: Value & Number of Trades, H1 2012

Period	Face Value ₦bn	No of Deals	% Change Face Value	% Change in No of Deals
H2 2011	4,231	29,945	-10.28	-15.34
H1 2012	3,103	20,397	-26.66	-31.88

Source: Central Securities Clearing System

The level of trading in H1 2012 was lower than that of H2 2011. Two major factors were responsible for this trend. Firstly, were the aggressive monetary tightening measures of the Central Bank of Nigeria including regular mop-up operations which started in October 2011. These policies and actions which resulted in sharp increases in yields and drop in Bond prices, made the FGN Bond Market to be volatile, thus prompting some caution on the part of traders. The implementation of the provisions of the International Financing Reporting Standards (IFRS) on securities was another factor that contributed to the reduction in trading activities,

since banks classified some FGN Bonds in their Held –To – Maturity portfolios.

Table 2: FGN Bonds Monthly Volume, Value and Number of Trades for H1 2012

Month	Volume (units)	Face Value (₦bn)	Number of Trades
Jan-12	395,002	395.02	1,961
Feb-12	660,460	660.46	5,313
Mar-12	472,266	472.26	3,881
Apr-12	509,919	509.91	3,384
May-12	514,201	514.20	3,091
Jun-12	551,643	551.64	2,767

Source: Central Securities Clearing System

In terms of monthly trends, total Face Value (₦395.02) and Number of Trades (1,961), were lowest in January 2012 due to a slowdown in activities caused by the nationwide strike induced by the partial removal of fuel subsidy. Trade Volumes however, picked up between February to June 2012. In H1 2012, Trading was highest in February as economic activities resumed in earnest. As previously noted, trading activities for the remaining months were lower relative to H2 2011.

**HIGHEST AND LOWEST TRADED BONDS-
JANUARY –JUNE 2012**

Four bonds featured on the highest traded bond list in H1 2012 (see Table 3). Out of these, the 16.39% FGN JAN 2022 appeared consistently

from April to June 2012. The Bond which was issued in January 2012 is the 10-year FGN Bond Benchmark and is on-the-run. The Bond also offers an attractive coupon to medium to long term investors. The less actively traded bonds are all off-the-run bonds, have relatively small volumes outstanding, and, none is a Benchmark Bond. In addition, the 9.45% FGN JAN 2013 and 12.74% FGN OCT 2013 now had short term to maturity, (less than 2 years) when bonds become typically less liquid.

Table 3: Highest and Lowest Traded Bonds

Month	Highest Traded FGN Bonds	Volume Units (mn)	Lowest Traded FGN Bonds	Volume Units (mn)
Jan	10.50% FGN MAR 2014	116.89	8.50% FGN NOV 2029	0.187
Feb	5.50% FGN FEB 2013	147.01	8.50% FGN NOV 2029	0.014
Mar	7.00% FGN OCT 2019	97.583	9.45% FGN JAN 2013	0.022
Apr	16.39% FGN JAN 2022	108.80	9.25% FGN SEP 2014	0.170
May	16.39% FGN JAN 2022	167.84	10.50% FGN NOV 2013	1.10
Jun	16.39% FGN JAN 2022	105.56	12.74% FGN OCT 2013	0.13

Source: Central Securities Clearing System

FGN BOND PRICES AND YIELDS – H1 2012

The 15.00% FGN NOV 2028 and the 12.49% FGN MAY 2029 have frequently appeared in the highest priced bond list since H1 2011. These two bonds and the 12.74% FGN OCT 2013 (Highest Priced in February 2012) are highly priced due to their high coupons and relatively low outstanding volumes. A new addition to the list in H1 2012 was the 16.39% FGN JAN 2022 which was issued in January 2012, the Bond was the highest priced bond in March and April

2012. Its price appreciation is due to demand and the fact that its Coupon was the most reflective of subsisting market interest rates. See Table 4 below for the list of the Highest Priced Bonds in the review period.

Table 4: Highest Priced Bonds

Month	Highest Priced Bond	Avg. Price/Unit (₦)
Jan	15% FGN NOV 2028	1,113.12
Feb	12.74% FGN OCT 2013	1,089.54
Mar	16.39% FGN JAN 2022	1,054.36
Apr	16.39% FGN JAN 2022	1,085.95
May	10.50% FGN NOV 2013	1,122.43
Jun	12.49% FGN MAY 2029	1,326.94

Source: Central Securities Clearing System

FGN BOND YIELD CURVE AS AT JUNE 30, 2011 AND JUNE 30, 2012

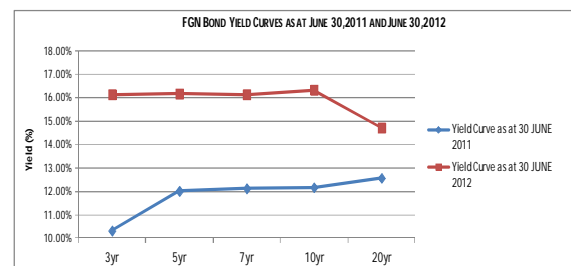


Table 5: FGN Bond Yields as at H1 2011 and H2 2012

FGN Bond Benchmarks	Yields as at June 30, 2011	Yields as at June 30, 2012
3- Year FGN Benchmark	10.32%	16.15%
5- Year FGN Benchmark	12.02%	16.19%
7- Year FGN Benchmark	12.13%	16.15%
10-Year FGN Benchmark	12.18%	16.34%
20-Year FGN Benchmark	12.57%	14.73%

Source: Financial Markets Dealers Association

The FGN Bond Yield Curve shifted across all tenors due to the general increase in Yields induced by monetary policy. In addition, the Yield Curve became inverted as the expectation is that in the medium to long term, interest rates would be lower than their current levels. Thus, Yields for the 3, 5 and 7 year FGN Bond Benchmarks rose over 400bps, while the 20-Year FGN Bond Benchmark only gained about

200bps on its Yield when compared to June 30, 2011.

OUTLOOK FOR H2 2012

As usual, we expect CBN's monetary and exchange rate policies to influence activities in the FGN Bond Market and no significant changes in the level of secondary market activity in H2, 2012, particularly, with the adoption of IFRS is expected. Given the relative stability of Exchange Rate and trends in External Reserves, we do not anticipate any more major tightening of liquidity. The current fiscal stance may also not support a loosening of monetary policy.

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