



**DEBT MANAGEMENT OFFICE
NIGERIA**

**REVIEW OF THE FGN BOND SECONDARY MARKET
JULY – DECEMBER, 2012.**

VALUE AND NUMBER OF TRADES

The Face Value of FGN Bonds traded in H2 2012 rose by 36.68% to N4.241.85bn from N3,103.49bn in H1 2012. Number of trades also rose by 19.75% to 24,425 from 20,397 within the same period (see **Table 1**).

Table 1: FGN Bonds: Volume, Value and Number of Trades in H1 2012 and H2 2012.

PERIOD	TRADING VOLUMES (Units)	FACE VALUE (N'bn)	NUMBER OF DEALS
H1, 2012	3,103,493,508	3,103.49	20,397
H2, 2012	4,241,853,754	4,241.85	24,425
Change (H2 2012 vs. H1 2012)	36.68%	36.68%	19.75%

Source: Central Securities Clearing System

Trading activities were positively impacted by the inclusion of three FGN Bonds (10.50% FGN MAR 2014, 7.00% FGN OCT 2019 and the 16.39% FGN JAN 2022) in the J.P Morgan's Government Bond Index – Emerging Markets (GBI-EM) effective October 1, 2012, and the inclusion of FGN Bonds in the Barclays Capital's Emerging Markets Local Currency Government Index (EM - LCBI) scheduled for March 2013. These two developments resulted in a huge

increase in the demand for FGN Bonds from foreign investors and increase in trading as there were now new big players in the FGN Bond Market. In addition, the appreciation in Bond prices following the high demand, created profit opportunities which encouraged trading.

Table 2: FGN Bond Monthly Volume, Value and Number of Trades for H2, 2012

MONTHS	VOLUME (Units)	FACE VALUE (N'bn)	NUMBER OF TRADES
JULY, 2012	596,013.955	596.014	4,292
AUGUST, 2012	638,226.824	638.227	3,686
SEPTEMBER, 2012	890,677.765	890.678	4,132
OCTOBER, 2012	723,451.019	723.451	4,332
NOVEMBER, 2012	873,461.344	873.461	4,954
DECEMBER, 2012	520,022.847	520.023	3,029
TOTAL	4,241,853.754	4,241.854	24,425

Source: Central Securities Clearing System

Trading volumes peaked in September 2012 following the announcement of the inclusion in the J.P Morgan's GBI-EM Index in August 2012 and remained high until it declined in December, 2012 in line with year-end seasonal trend. See **Table 2** for details.

**HIGHEST AND LOWEST TRADED BONDS:
JULY - DECEMBER, 2012.**

The 10-year Benchmark Bond (16.39% FGN JAN 2022) was the highest traded Bond in terms of units in five of the six months in H2 2012 (see **Table 3**). The Bond recorded a total volume of 1,312mm units or 26.68% of total units traded in H2 2012. Investors were attracted to the 10-year Benchmark Bond due to: its relatively high coupon; inclusion in the J.P. Morgan's GBI-EM Index; and the fact that it was on-the-run. The lowest traded bond in H2, 2012 was the 12.74% FGN OCT 2013 (with only 130,000 units traded) which had a short Term-To-Maturity (TTM) and is not a Benchmark Bond.

Table 3: Highest and Lowest Traded Bonds

MONTHS	Highest Traded FGN Bonds	Volume Units (mm)	Lowest Traded FGN Bonds	Volume Units(mm)
JULY, 2012	16.39% FGN JAN 2022	170.550	12.49% FGN MAY 2029	0.533
AUGUST, 2012	16.39% FGN JAN 2022	207.490	15.00% FGN NOV 2028	0.238
SEPTEMBER, 2012	15.10% FGN APR 2017	239.545	8.50% FGN NOV 2029	0.140
OCTOBER, 2012	16.39% FGN JAN 2022	248.301	12.74% FGN OCT 2013	0.130
NOVEMBER, 2012	16.39% FGN JAN 2022	173.279	8.50% FGN NOV 2029	0.400
DECEMBER, 2012	16.39% FGN JAN 2022	104.062	8.50% FGN NOV 2029	0.703

Source: Central Securities Clearing System

FGN BOND PRICES – H2, 2012

The 16.39% FGN JAN 2022 was the highest priced Bond in H2 2012, except in August 2012 when another on-the-run Bond (15.10% FGN

APR 2017) was the highest priced (See **Table 4**). The relatively high coupon on the Bond and high demand due to its inclusion in the GBI-EM Index, caused the price of the 16.39% FGN JAN 2022 to rise higher than other Bonds.

Table 4: Highest Priced Bonds

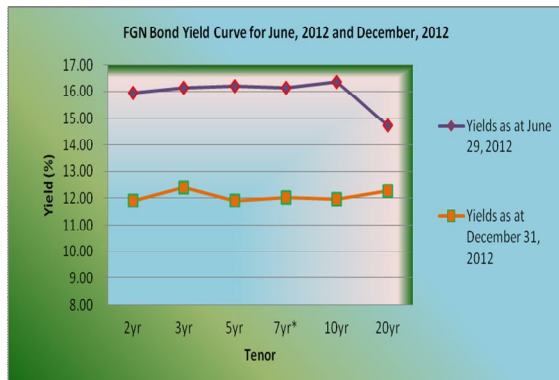
MONTH	HIGHEST PRICED BOND	AVERAGE PRICE/UNIT (N)
JULY, 2012	16.39% FGN JAN 2022	1,074.12
AUGUST, 2012	15.10% FGN APR 2017	1,038.72
SEPTEMBER, 2012	16.39% FGN JAN 2022	1,186.18
OCTOBER, 2012	16.39% FGN JAN 2022	1,194.79
NOVEMBER, 2012	16.39% FGN JAN 2022	1,243.02
DECEMBER, 2012	16.39% FGN JAN 2022	1,284.76

Source: Central Securities Clearing System

FGN BOND YIELDS – H2 2012

The FGN Bond yield curve shifted inwards; indicating across the board decline in yields in H2, 2012 from H1, 2012 (see **Figure 1**). The trend can be attributed to higher demand by investors for FGN Bonds following their inclusion in a global bond Index (J.P. Morgan's GBI-EM), the inclusion in another global Bond Index (Barclays Capital's EM - LCBI) scheduled for March, 2013, and investors' expectations of future decline in inflation and interest rates. The yields on Benchmark Bonds declined by an average of 381bps in H2, 2012. See **Table 5** for details. Also, compared to end H2, 2012 and H1, 2012, the yield curve was relatively flat but upward sloping.

Figure 1: FGN Bond Yield Curves



Source: Financial Markets Dealers Association

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TABLE 5: FGN BOND YIELDS AS AT JUNE 2012 AND DECEMBER, 2012

Benchmark	Bonds*	Yields as at June 29, 2012 (%)	Yields as at Dec. 31, 2012 (%)	Change (basis points)
2yr	10.50% FGN MAR 2014	15.96	11.90	(406)
3yr	4.00% FGN APR 2015	16.15	12.41	(374)
5yr	15.10% FGN APR 2017	16.19	11.91	(428)
7yr*	16.00% FGN JUN 2019	16.00	12.02	(398)
10yr	16.39% FGN JAN 2022	16.34	11.98	(436)
20yr	10.00% FGN JUL 2030	14.73	12.29	(244)
Average				(381)

Source: Financial Markets Dealers Association

*Benchmark Bonds Only

OUTLOOK FOR 2013

The volume of FGN Bonds outstanding will decline in Q1, 2013 as ₦639.995bn in FGN Bonds will be redeemed, while ₦370.00bn will be issued. However, we expect Secondary Market activities in 2013 to remain robust due to relative stability in policy and the larger number of operators in the FGN Bond Market.