

DEBT MANAGEMENT OFFICE  
NIGERIA

## FGN BONDS SECONDARY MARKET ACTIVITY

*January-June, 2010*

### Volume & Value

**A**ctivities in the FGN Bond secondary market was buoyant in the first half of 2010 (H1 2010). Table 1 below shows the Volume and Value of FGN Bonds traded for January-June, 2010.

Table 1. FGN Bonds: Volume & Value of Trades, H1 2010

Month	Volume Units(bn)	Mkt Value N'bn	% Change Volume	% Change Value
Jan.	1.15	1,306.76	57	57
Feb.	1.37	1,636.76	19	25
Mar.	2.19	2,756.0	60	68
April	1.38	1,719.62	-37	-38
May	0.73	871.43	-47	-49
June	1.22	1,344.22	67	54
<b>Total</b>	<b>8.04</b>	<b>9,634.78</b>	<b>-0.5*</b>	<b>-0.8*</b>

Source: Central Securities Clearing System (CSCS)

: OTC Trades only

\*% change over H2 2009

The trend in market activities for the period indicates that FGN Bonds trading was at its peak in March 2010, with Volume and Value at 2.19bn and N2,756 bn, respectively. The intense market activity recorded in the month of March 2010 corresponded with the period of high demand for FGN Bonds, as a result of excess liquidity in the system.

During this period, yields dropped while most bonds traded at a premium. From the month of April 2010, the market started to experience a slowdown in activities as reflected in the Volume and Value of bonds traded.

The lowest point in market activities occurred in May 2010 when the liquidity in the system was affected as a result of a monetary policy action which resulted in the mop-up of about N160 bn through Open Market Operations between April and May 2010. The reduced liquidity was also compounded by the delayed release of the Federal Funds in May 2010. The effect of these two developments, were reflected in reduced demand and high Marginal Rates at the May 2010 FGN Bond Auction.

## Highest & Lowest Traded Bonds

Table 2. Highest and Lowest Traded Bonds, H1 2010

Month	Highest Traded FGN Bonds	Vol. Unit (mn)	Lowest Traded FGN Bonds	Vol. Unit (mn)
Jan	4 <sup>th</sup> FGN Bond 2014 Series 3	114.05	4 <sup>th</sup> FGN Bond 2010 Series 14	0.15
Feb	6 <sup>th</sup> FGN Bond 2029 Series 3	178.1	7 <sup>th</sup> FGN Bond 2013 Series 1	0.30
Mar	6 <sup>th</sup> FGN Bond 2029 Series 5	276.3	4 <sup>th</sup> FGN Bond 2010 Series 13	0.6
April	6 <sup>th</sup> FGN Bond 2029 Series 3	231	7 <sup>th</sup> FGN Bond 2015 Series 2	0.05
May	6 <sup>th</sup> FGN Bond 2029 Series 5	103.1	4 <sup>th</sup> FGN Bond 2017 Series 8	0.0008
June	7 <sup>th</sup> FGN Bond 2013 Series 1	250.7	3 <sup>rd</sup> FGN Bond 2011 Series 5	1.8

Source: CSCS

Table 2 above shows that the highest trading activity was recorded in the 20-year bonds. Specifically, the 6<sup>th</sup> FGN Bond 2029 Series 5 was the highest traded bond in both March and May 2010, while the 6<sup>th</sup> FGN Bond 2029 Series 3 was the highest traded bond in February and April.

## Number of Deals

Table 3. FGN Bonds: Number of Deals, H1 2010

Month	Number of Deals	% Change
Jan	<b>13,818</b>	<b>67</b>
Feb	<b>18,206</b>	<b>32</b>
Mar	<b>23,078</b>	<b>27</b>
April	<b>14,391</b>	<b>-38</b>
May	<b>6,523</b>	<b>-55</b>
June	<b>12,091</b>	<b>85</b>
<b>Total</b>	<b>88,107</b>	<b>9.4*</b>

\*% change over H2 2009

The highest number of deals in H1 2010 was 23,078, which occurred in March 2010. This figure was 27% over the figure of 18,206

in February and 67% over the 13,818 recorded in January. As a result of the developments in the market between April and May, 2010, the number of deals dipped in April to 14,391 and reached the lowest point in May 2010 at 6,523. Trading picked up in June 2010, as the number of deals rose to 12,091, an increase of 85% over the figure in May 2010 (Table. 3).

## Price & Yield Movements

Table 4. Highest Priced FGN Bonds, H1 2010

Month	Highest Priced FGN Bond	Avg. Price/Unit (N')
Jan	5 <sup>th</sup> FGN Bond 2028 Series 5	<b>1,671.04</b>
Feb	5 <sup>th</sup> FGN Bond 2028 Series 5	<b>1,732.16</b>
Mar	5 <sup>th</sup> FGN Bond 2028 Series 5	<b>1,807.02</b>
April	5 <sup>th</sup> FGN Bond 2028 Series 5	<b>1,806.31</b>
May	5 <sup>th</sup> FGN Bond 2028 Series 5	<b>1,787.57</b>
June	5 <sup>th</sup> FGN Bond 2028 Series 5	<b>1,699.39</b>

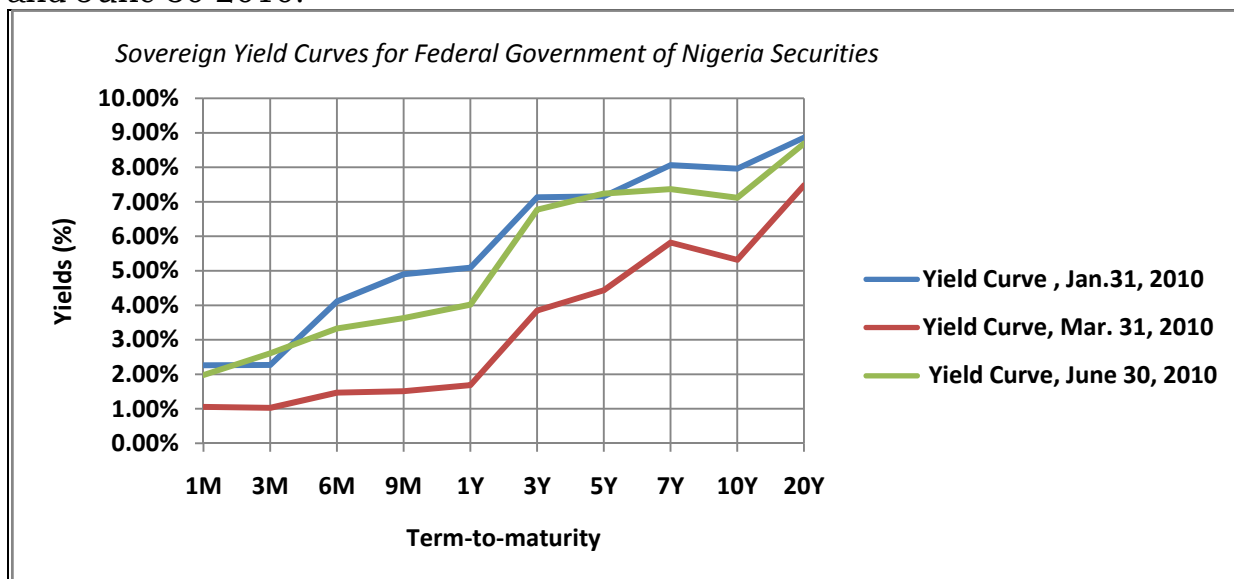
Source: CSCS

The 5<sup>th</sup> FGN Bond 2028 Series 5 attracted the highest monthly average price throughout the period under review, with the highest price at N1,807.02 in March 2010. It should be noted that this was the first 20-year bond issued by the DMO, and it was issued in November 2008. Its emergence as the highest traded bond during the period is not unrelated to the fact that, the total amount in issue of N50 bn is (now) relatively small for trading purposes.

## Sovereign Yield Curve

Chart 1 shows the Sovereign Yield Curves for the Federal Government of Nigeria Securities (Nigerian Treasury Bills & FGN Bonds), as at

January 31, 2010, March 31, 2010  
and June 30 2010.



*The short-end (not more than 1 year) of the Yield Curves contains the yields of the Nigerian Treasury Bills (NTBs), while the long-end (more than 1 year) constitutes the FGN Bonds yields.*

The Yield Curve as at March 31, 2010, is well below the Yield Curve as at January 31 and June 30, 2010, and coincides with the period of steep decline in yields across maturities, due to the excess liquidity in the system in that month. By April 2010, the Yields on FGN Securities started to trend upward gradually, and then rose steeply in May 2010. By June 2010, the Yields had shifted upward, almost mirroring its January, 2010 level.

The movements in the Yield Curves are attributable to changes in the level of liquidity which affected Interest Rates and by extension Yields on FGN Securities.

## Outlook for H2 2010

The trend in the market in June 2010 which showed stability across the market, as well as, the decisions of the Monetary Policy Committee at its July 5, 2010 Meeting, suggest that there would be no major movements in yields on FGN Bonds

and that trading activity could increase.

Several other factors that could impact on the level of liquidity in the system and by extension interest rates and activities in the FGN Bond markets include: crude oil prices, the amounts shared by the three tiers of government by the Federal Accounts Allocation Committee (FAAC), government spending and developments in the banking sector.

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