

DEBT MANAGEMENT OFFICE NIGERIA

REPORT ON FGN BONDS SECONDARY MARKET ACTIVITY

January-December, 2010

Volume & Value

The FGN Bond secondary market activities continued on a vibrant note in 2010, but on a lower scale compared to 2009.

The FGN Bond market witnessed intense market activities in the early part of 2010, especially in the first quarter of the year. During this period, there was a general drop in the market interest rates caused by excess liquidity in the system. This period also coincided with the period of lower commercial bank lending activities. The development resulted in high demand for the FGN Bonds, causing significant decline in yields and rise in bond prices.

The yields started to reverse towards the end of the second quarter of 2010, as a result of reduced liquidity in the system and rise in market interest rates. Table 1 shows secondary market activities for the FGN Bonds in 2010 by Volume, Value and the Number of Deals.

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

Month	Volume Units(bn)	Mkt Value N'bn	% Change Volume	% Change Value
2009	16.789	18,178.583	66	78
2010	13.677	15,180.059	-19	-16.5

Source: Central Securities Clearing System (CSCS)
: OTC Trades only

The lowest points in the volume of market activities occurred in May and December 2010 (Table 2).

Table 2. FGN Bonds: Monthly Volumes & Value of Trades, 2010

Month	Volume Units (bn)	Mkt Value (N'bn)
Jan	1.15	1,306.76
Feb	1.37	1,636.76
Mar	2.19	2,755.99
April	1.31	1,621.53
May	0.73	871.43
June	1.22	1,344.22
July	1.32	1,454.99
Aug.	1.00	1,023.19
Sept.	0.99	946.50
Oct.	1.09	1,035.6
Nov.	0.83	750.91
Dec.	0.47	432.17

Source: CSCS

In May 2010, the liquidity in the system was affected by the CBN's monetary policy action which resulted in the mop-up of about N160 bn through Open Market Operations (OMO) between April and May 2010. This development in

conjunction with other factors such as the improved lending activities by commercial banks, gradual recovery of the equities market and the raising of the Monetary Policy Rate from 6% to 6.25% impacted on the market. These actions collectively, caused market interest rates to rise, thereby, pushing up the yields, and resulting in the decline in the prices of FGN Bonds. As a result, investors in general traded cautiously in order to minimize losses incurred as a result of the decline in prices.

Highest & Lowest Traded Bonds

Table 3. Highest and Lowest Traded Bonds, Year 2010

Month	Highest Traded FGN Bonds	Vol. Unit (mn)	Lowest Traded FGN Bonds	Vol. Unit (mn)
Jan	10.75% FGN MAR 2014	114.05	8.99% FGN DEC 2010	0.15
Feb	12.49% FGN MAY 2029	178.1	5.50% FGN FEB 2013	0.30
Mar	8.50% FGN NOV 2029	276.3	9.20% FGN NOV 2010	0.6
April	12.49% FGN MAY 2029	231	4.00% FGN APR 2015	0.05
May	8.50% FGN NOV 2029	103.1	9.8% FGN JUL 2017	0.0008
June	5.50% FGN FEB 2013	250.7	14.50% FGN MAR 2011	1.8
July	4.00% FGN APR 2015	174.5	10.98% FGN NOV 2013	0.8
Aug.	10.00% FGN JUL 2030	290.5	12.00% FGN MAY 2011	0.05
Sept.	10.00% FGN JUL 2030	354.3	10.5% FGN JUL 2011	0.0001
Oct.	10.00% FGN JUL 2030	289.6	14.50% FGN MAR 2011	0.0017
Nov.	10.00% FGN JUL 2030	205.6	11.99% FGN DEC 2013	0.020
Dec.	4.00% FGN APR 2015	100.2	10.75% FGN MAR 2014	0.0030

Source: CSCS

Table 3 shows the highest and lowest traded FGN Bonds in Year 2010. Among the most traded bonds, the 10.00% FGN JUL 2030

emerged as the most attractive to investors, featuring four times, consistently from August to November, 2010. Other bonds that emerged twice as the most traded bonds during the year were the 12.49% FGN MAY 2029 (February and April), 8.50% FGN NOV 2029 (March and May), and 4.00% FGN APR 2015 (July and December).

Number of Deals

Table 4. FGN Bonds: Number of Deals, Year 2010

Month	Number of Deals	% Change
2009	132,374	65
2010	135,874	2.6

The total Number of Deals in FGN Bonds in 2010 grew by almost 3% over the figure recorded in 2009. However, this growth rate was very low when compared to the growth rate of 65% recorded in 2009.

FGN Bond Prices and Analysis of Yields

Table 5. Highest Priced FGN Bonds, Year 2010

Month	Highest Priced FGN Bond	Avg. Price/Unit (N')
Jan	15.00% FGN NOV 2028	1,671.04
Feb	15.00% FGN NOV 2028	1,732.16
Mar	15.00% FGN NOV 2028	1,807.02
April	15.00% FGN NOV 2028	1,806.31
May	15.00% FGN NOV 2028	1,787.57
June	15.00% FGN NOV 2028	1,699.39
July	15.00% FGN NOV 2028	1,688.81
Aug.	16.00% FGN JUN 2013	1,184.83
Sept.	15.00% FGN NOV 2028	1,609.82
Oct.	10.70% FGN MAY 2018	1,344.20
Nov.	15.00% FGN NOV 2028	1,510.79
Dec.	12.49% FGN MAY 2029	1,403.88

Source: CSCS

The 15.00% FGN NOV 2028, attracted the highest monthly average price for a total of nine months - seven months consecutively (January to July), and September and November, in Year 2010. Other FGN Bonds that attracted highest monthly prices were the 16.00% FGN JUN 2013 (August), 10.70% FGN MAY 2018 (October) and 12.49% FGN MAY 2029 (December).

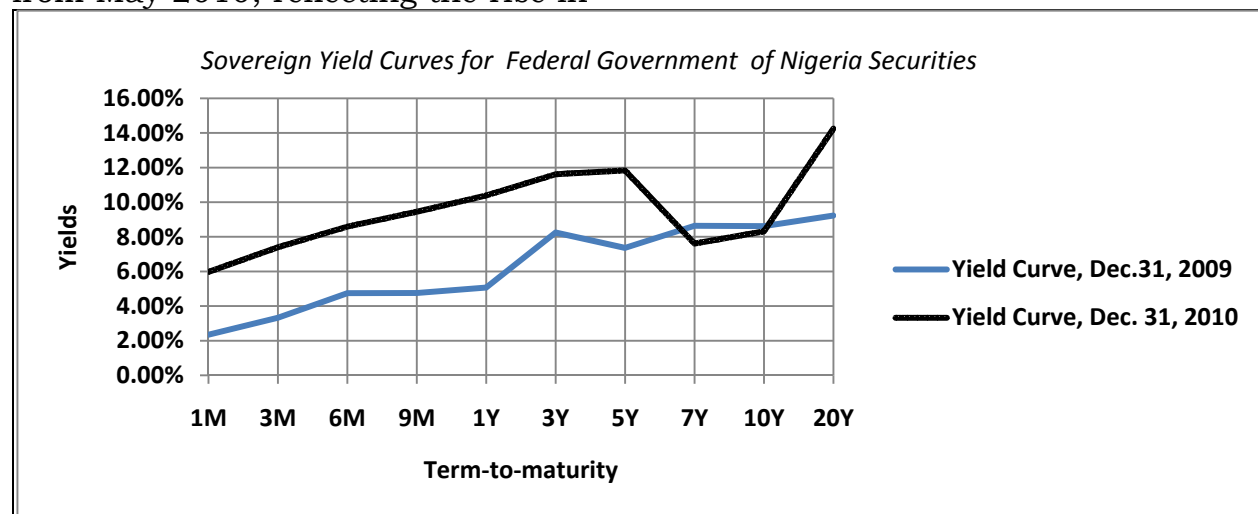
In the early part of the year, especially, in the first quarter, the yields on the FGN Bonds declined tremendously compared to their levels as at end of 2009. The low yields on the FGN Bonds occurred as result of the low level of market interest rates induced by excess liquidity in the system. This development persisted up to the end of April 2010, but was more pronounced in March 2010.

However, the yields began to reverse from May 2010, reflecting the rise in

market interest rates occasioned by reduced liquidity in the system and compounded by the CBN's monetary policy actions, such as Open Market Operations, and change in the Monetary Policy Rate, from 6 to 6.25%. The yields on the FGN Bonds continued to rise significantly and consistently, but stabilized in December 2010. As a result of the rise in the yields, many FGN Bonds traded at a discount.

Sovereign Yield Curve

The Chart below shows the Sovereign Yield Curves for the Federal Government of Nigeria Securities (Nigerian Treasury Bills & FGN Bonds), as at December 31, 2010 compared to December 31, 2009.



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

The Yield Curve as at end of December 2010, shifted upward significantly, compared to its position as at end of December 2009. The position of the Yield Curve at the end of 2010 was a reflection of the high yields on FGN Bonds that characterized the FGN

Bond market for most part of the year starting from May 2010.

The upward shift in the Yield Curve was more significant around the 3-year, 5-year and 20-year FGN Bonds, as well as, the NTBs.

Outlook for 2011

The principal factors that would influence the level of activities and yields in the primary and secondary markets for FGN Bonds are the CBN's Monetary Policies and actions as well as, the outcome of the on-going banking sector reforms, in particular the Mergers and Acquisitions expected to be completed in 2011.

The CBN's Monetary Policy Communiqués of November 2010 and January 2011 indicate that policy direction is that of tightening liquidity in order to moderate inflation. This together with new bonds that are expected to be issued by the Federal and State Governments and corporates suggest that interest rates and yields on bonds may be higher in 2011 than 2010.

We expect that the market from the experience of 2010 has adjusted to higher yields on FGN Bonds. When this and the level of secondary market activities in January 2011 are taken into account, we expect the activities in the FGN Bond secondary market to be higher than that of 2010.

DEBT MANAGEMENT OFFICE

The Presidency

NDIC Building (First Floor)
Plot 447/448 constitution Avenue
Central Business District
P.M.B.532, Garki, Abuja
Tel: 09-6725629,
Website: <http://www.dmo.gov.ng>
Email: enquiries@ dmo.gov.ng