



DEBT MANAGEMENT OFFICE
NIGERIA

REVIEW OF THE FGN BOND SECONDARY MARKET JULY -DECEMBER 2011

VALUE AND NUMBER OF TRADES

Total FGN Bond secondary market activity for H2 2011 was ₦4.231tr and 29,945 in terms of Face Value and Number of Trades respectively. Compared to H1 2011, the Face Value of Trades fell by 10.28% while the Number of Trades recorded a decrease of 15.34%.

Table 1: FGN Bonds: Value & Number of Trades,H1 2011 and H2 2011

Period	Face Value ₦/bn	No of Deals	% Change Face Value	% Change in No of Deals
H1 2011	4,716	35,374	-17.45	-27.34
H2 2011	4,231	29,945	-10.28	-15.34

Source: Central Securities Clearing System

Activity in the FGN Bond market was impacted negatively by the CBN's liquidity tightening measures which started in Q4 2010. During the review period, Monetary Policy Rate (MPR) was increased three times (from 8.75% to 12.00%) and the Cash Reserve Ratio (CRR) from 4% to 8%. In addition, Open Market Operations (OMO) were used frequently in Q4 2011 to mop up excess liquidity in the system.

These liquidity management actions which were aimed to curtailing inflation and stabilising the Naira, resulted in sharp decreases in bond prices. The resulting capital losses to

bondholders and uncertainty about the CBN's next move, led to a further slowdown in secondary market activities in Q4 2011.

Table 2: FGN Bonds Monthly Volume, Value and Number of Trades for H2 2011

Month	Volume (units)	Face Value (₦/bn)	Number of Trades
Jul-11	1,002,013	1002.01	7,609
Aug-11	777,518	777.51	5,410
Sep-11	681,995	681.99	4,177
Oct-11	683,582	683.58	4,998
Nov-11	598,320	598.32	4,822
Dec- 11	487,604	487.60	2,929

Source: Central Securities Clearing System

The highest level of trading activity in H2 2011, in terms of Value (₦1.02 tr) and Number of Trades (7,609) was recorded in July 2011. The high level of activity in July 2011 was in part, prompted by the CBN's removal of the one year minimum investment restriction for foreign investors in June 2011 which led to expectations that demand for FGN Bonds by foreign investors would increase. Trading activity declined almost consistently from August due to reduced liquidity in the financial system and volatility in bond prices resulting from the CBN's bullish and regular liquidity tightening measures which were anchored on increases in MPR, CRR and OMO. The lowest level of trading activity for the year

was in December 2011, which was not unusual at year ends.

HIGHEST AND LOWEST TRADED BONDS- JULY-DECEMBER 2011

The 10% FGN JUL 2030, which is the FGN's 20-year Bond Benchmark remained the highest traded bond in H2 2011 (see Table 3). It continued to be actively traded because of the demand for the bonds from Pension Funds which have need for long term assets. The other actively traded Bonds (4% FGN APR 2015 and the 10.50% FGN MAR 2014) are also Benchmarks. These results support the benefit of having benchmark bonds to stimulate trading. All the less traded bonds except the 10.70% FGN MAY 2018 which is the 7-year FGN Bond Benchmark were not FGN Bond Benchmarks. The 10.70% FGN MAY 2018 was re-opened in August 2011 and only started trading actively after its volume was increased starting from the August FGN Bond Auction.

Table 3: Highest and Lowest Traded Bonds

Month	Highest Traded FGN Bonds	Volume Units (mn)	Lowest Traded FGN Bonds	Volume Units (mn)
July	10% FGN JUL 2030	289.70	10.70% FGN MAY 2018	0.50
Aug	4% FGN APR 2015	222.84	8.50% FGN NOV 2029	0.64
Sep	10.50% FGN MAR 2014	172.47	15% FGN MAY 2013	0.15
Oct	10% FGN JUL 2030	214.12	15% FGN NOV 2028	0.016
Nov	10% FGN JUL 2030	167.84	9.35% FGN AUG 2017	0.60
Dec	10.50% FGN MAR 2014	122.93	12.74% FGN OCT 2013	0.20

Source: Central Securities Clearing System

FGN BOND PRICES AND YIELDS – H2 2011

The 15% FGN NOV 2028 was the highest priced bond in H2 2011 except in November. The Bond had the highest coupon prior to October 2011 when the MPR and CRR were raised to 12% and 8% respectively. The relatively small volume in issue is largely responsible for its high price. The 9.23% FGN MAY 2012 (October's highest priced bond) also featured on the list for the same reason. See Table 4.

Table 4: Highest Priced Bonds

Month	Highest Priced Bond	Avg. Price/Unit (₦)
Jul	15% FGN NOV 2028	1,207.77
Aug	15% FGN NOV 2028	1,210.37
Sep	15% FGN NOV 2028	1,229.52
Oct	9.23% FGN MAY 2012	1,000.74
Nov	12.49% FGN MAY 2029	1,356.01
Dec	15% FGN NOV 2028	1,113.76

Source: Central Securities Clearing System

FGN BOND YIELD CURVES AS AT DECEMBER 2010 AND DECEMBER 31, 2011

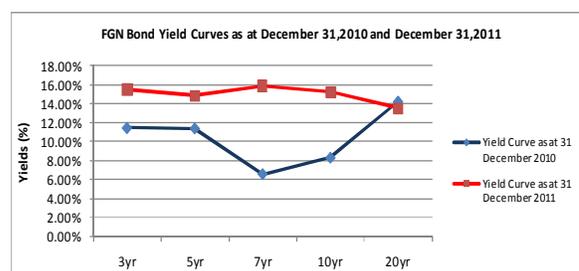


TABLE 5: FGN BOND YIELDS AS AT DECEMBER 2010 AND DECEMBER 2011

FGN Bonds	Yields as at Dec 30 2010	Yields as at Dec 30 2011
10.50% FGN NOV 2013	11.45%	15.50%
4.00% FGN APR 2015	11.40%	14.87%
10.70% FGN MAY 2018	6.59%	15.88%
7.00% FGN OCT 2019	8.30%	15.22%
10.00% FGN JUL 2030	14.24%	13.52%

Source: Financial Markets Dealers Association

Overall, the FGN Bond Yield Curve as at end 2011 was smoother than that of end 2010, due to the selection of FGN Bond Benchmarks in February 2011, which were all actively traded

across the year, resulting in a more efficient Yield Curve. The increase in yields between 2010 and 2011 on all the Benchmark Bonds except the (10% FGN JUL 2030), is the direct consequence of the tighter liquidity management policies adopted by the CBN, starting from January 2011.

Yields on FGN Bond Benchmarks increased by an average of 595bps which compares with the increase of about 575bps in the Monetary Policy Rate between December 2010 and December 2011.

The FGN Bond Yield Curve as at December 2011 was inverted which implies that investors expectations is that, in the long term interest rates are likely to be lower than the current levels of interest rates.

OUTLOOK FOR 2012

In 2012, the level of activity and direction of yields and prices to a large extent, would continue to be influenced by CBN's policy directions and actions. If a tighter monetary stance is adopted in order to control inflation and reduce the pressure on the Naira, bond yields would rise upwards, while prices would fall further. This may create further volatility in FGN Bond prices and lower trading activities. So far, the CBN has indicated that it would maintain its policy at their current levels, unless fiscal actions dictate otherwise. The Federal Government's policy of Fiscal Consolidation is expected to moderate fiscal expansion, thereby avoiding the need for monetary tightening

actions which would support market stability in 2012.

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