



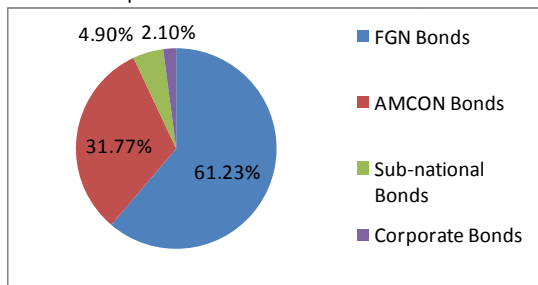
DEBT MANAGEMENT OFFICE
NIGERIA

**REVIEW OF THE DOMESTIC BOND MARKET
JANUARY-JUNE 2011 (H1 2011)**

1.0 INTRODUCTION

The Nigerian Domestic Bond Market in terms of Face Value stood at ₦5,350.59bn as at June 2011. This comprised of ₦3,276.11bn or 61.23% FGN Bonds, ₦262.00bn or 4.90% Sub-national bonds, ₦112.48bn or 2.10% Corporate bonds and ₦1,700.00bn or 31.77% Asset Management Corporation of Nigeria (AMCON) Bonds .

Chart 1: Composition of the Domestic Bond Market



Source: DMO, SEC

2.0 DEVELOPMENTS IN H1 2011

2.1 PRIMARY MARKET

FGN Bonds

The DMO offered ₦445.50bn FGN Bonds to the public in 3 and 5 year tenors in January-June 2011. Out of this amount ₦49.0bn was a special allotment based on a non-competitive bid and the balance of ₦396.50bn was offered to the public. Table 1 below shows details of the Allotment and

Subscriptions at the FGN Bond Auctions in the review period.

Table 1: FGN Bond Auctions for H1 2011

Auction Result	3Y	5Y	Total
Amt. Offered (₦bn)	201.50	195.00	396.50
Subscription(₦bn)	474.52	409.94	884.46
%Subscription	235.49	210.22	223.06
Allotment (₦bn)	250.50*	195.00	445.50

Notes: * Includes Special Allotment of ₦49.0bn

Source: DMO

The DMO issued a monthly average amount of N66.0bn for the 3 and 5 year FGN Bonds between January and June 2011 resulting in a total of ₦396.50bn. Demand for the Bonds was relatively high with total subscription level of ₦884.46bn or 223%. The two tenors that were offered were oversubscribed on a monthly basis. Only one new FGN Bond (10.50% FGN March 2014) was offered in March 2011, all others were re-openings.

No FGN Bonds matured within the review period.

Marginal Rates

Table 2: FGN Bond Marginal Rates (%) for H1 2011

Month	3Y	5Y
January	10.40	11.13
February	9.25	11.00
March	10.50	12.00
April	12.14	13.19
May	11.03	12.23
June	11.69	12.75

Source: DMO

Table 2 shows Marginal Rates for FGN Bonds in H1 2011. The Marginal Rates for the 3 and 5 year FGN Bonds increased from 10.40% and 11.13% in January 2011 to 11.69% to 11.13% by June 2011 respectively. The increases were a reflection of the increase in the Monetary Policy Rate from 6.25% to 8.00% in the review period.

Sub-national Bonds

The only state bond issued in the review period was by Benue State in May 2011. Benue State floated a ₦13.0 bn, 5- year Bond with a Coupon of 14% and maturing in 2016. Sub-national bond issues in the pipeline include Delta State and Ekiti State who are currently processing Shelf Registrations of ₦100.0bn and ₦35.0bn respectively with the Securities and Exchange Commission (SEC). Total outstanding bonds from sub-nationals stood at ₦262.0bn as at June 2011.

Corporate Bonds

There were two new issues by corporates in the review period. These were ₦9.0bn by Dana Group Plc and ₦7.50bn by Sterling Bank Plc, issued in April and May 2011 respectively. Dana Group issued a 7- year bond at a floating rate of MPR+7% while Sterling made a special placement for 7 years at a coupon of 13%. Both issues were fully subscribed and the total outstanding corporate bonds stood at ₦112.48bn as at June 2011.

AMCON Bonds

AMCON issued the 2nd and 3rd Tranches of its AMCON Series 1 Bonds within the review period. Volumes were ₦20.00bn and ₦535.00bn respectively bringing the total volume of AMCON Bonds outstanding as at June 2011 to ₦1.70trillion. The Tranche 1 AMCON Bonds were initial consideration bonds issued solely for the purpose of purchasing the non-performing loans from the banks in December 2010. These were converted to tradable bonds in April 2011. Series 1 AMCON Bonds are 3 year zero-coupon bonds and were listed on The Nigerian Stock Exchange on April 21, 2011.

SECONDARY MARKET

Table 3: Domestic Bonds Secondary Market Activity, January- June 2011

Bond	Volume (Units)	Face Value (N'bn)	No. of Deals
FGN	4,716,598,782	4,716.598	35,374
Sub-national	22,069,693	22.069	81
Corporate	1,575,000	1.575	5
AMCON	236,334,627	236.334	81
Total	4,976,578,102	4,976.576	35,541

Source: DMO, CSCS, NSE

Volume and Number of Transactions for FGN Bonds stood at 4.716bn Units and 35,347 respectively for the review period. These figures show declines from the corresponding figures of 8,042bn and 88,107 respectively in H1 2010. The reduction in trading activities were a reaction to rising interest rates (and a corresponding fall in bond prices) due to the monetary tightening actions by the CBN. Despite the drop in market activity, FGN Bonds remained dominant in terms of trading, accounting for an average of 97.15% of total market activity.

AMCON Series 1(Tranches 1 and 3) Bonds accounted for 4.74% and 0.22% of Volume and Number of trades respectively. All State Government Bonds were traded within the period except those issued by Kwara State and Benue State. With a total Volume and Number of Transactions at 22,069,693 and 81 respectively, they accounted for about 0.44% and 0.22% of Total Volume and Number of Deals. Corporate Bonds which is also the smallest in size in terms of Volume outstanding, recorded the least trading activity with only 5 transactions and total Volume of 1,575,000 Units traded. Those traded were the GTBank Bond, UBA Bond and the Nigerian Flour Mills Bond.

OUTLOOK

The outlook for the Domestic Bond Market is dependent on several factors, especially, the monetary policy actions of the CBN.

The size of the FGN Bonds outstanding is likely to increase moderately in H2 2011, with the DMO's current strategy to maintain FGN Bond issuances at between ₦60bn to ₦70bn

monthly. Activities in the FGN Bond Secondary Market are likely to remain somewhat unpredictable given the stance of monetary policy and its implications on liquidity and interest rates, as well as, inflation trends. The removal of the 12-month restriction on foreign investments in FGN Securities may increase the participation of foreign investors in FGN Bonds

In terms of new issues, growth in the sub-national and corporate bond segments have remained slow but should pick up by Q4 2011 with expected issuances by Delta, Ekiti and Niger States. Bond Applications from UBA Plc, Lafarge - WAPCO Plc and Nigerian Aviation Handling Company Plc were being processed with the SEC. It is also expected that the size of the AMCON bonds would increase as the CBN continues to implement its banking reform agenda.

Secondary market activities in the corporate and sub-national segments are expected to remain low due to their relatively small volumes, the generally low level of trading in Bonds on the Exchange and monetary policy tightening actions of the CBN.

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