DEBT MANAGEMENT OFFICE
NIGERIA

REVIEW OF THE DOMESTIC BOND MARKET JULY – DECEMBER, 2012 (H2, 2012)

1.0 INTRODUCTION

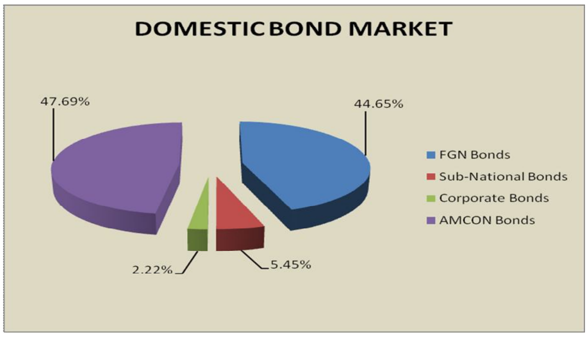
The size of the domestic Bond Market in terms of Face Value, rose by ₦496.43bn or 5.74% in H2, 2012 to ₦9,138.90bn. FGN Bonds recorded a net increase of ₦365.49bn while Sub-national Bonds rose by ₦130bn from new issues by 3 States. The corporate segment grew marginally by N0.94bn from a Bond Issuance by C&I Leasing Plc. AMCON did not issue any Bond during the period. Please see **Table 1** and **Figure 1** for the size and composition of the domestic Bond Market as at December 31, 2012.

Table 1: Size of the Domestic Bond Market as at December 31, 2012

Segment	Amount (₦'bn)	Share of Total
AMCON Bonds	4,357.85	47.68%
FGN Bonds	4,080.05	44.64%
Sub-National Bonds	498.00	5.45%
Corporate Bonds	203.00	2.22%
Total	**9,138.90**	**100.00%**

Sources: DMO (FGN Bonds) and SEC (Others)

Figure 1: Composition of the Domestic Bond Market as at December 31, 2012



Sources: DMO (FGN Bonds) and SEC (Others)

2.0 DEVELOPMENTS IN H2, 2012

2.1 PRIMARY MARKET

2.1.1 FGN Bonds

In H2, 2012, the Debt Management Office (DMO) offered and allotted ₦411.49bn in FGN Bonds all of which were re-openings of existing Benchmark Bonds. There were no special allotments during the period under review. Total subscription was ₦861.86bn or 209.45% of the amount offered. **Table 2** shows a summary of the Bonds Offered, Subscription and Allotments in H2, 2012.

Table 2: FGN Bond Auctions Summary for H2 2012

FGN BONDS	Amount Offered (N'bn)	Total Subscription (N'bn)	Total Allotment (N'bn)
15.10% FGN APR 2017	111.49	203.77	111.49
16.00% FGN JUN 2019	165.00	289.64	165.00
16.39% FGN JAN 2022	135.00	368.45	135.00
TOTAL	**411.49**	**861.86**	**411.49**

Source: DMO

One Bond (9.50% FGN Aug 2012) with a Face Value of ₦46.00bn was redeemed during the period. The new issues and redemption translated to a net increase of ₦365.49bn in FGN Bonds. Thus, FGN Bonds outstanding increased to ₦4,080.05bn as at December 31, 2012 from N3,714.56bn on June 30, 2012.

2.1.2 Marginal Rates

Table 3: Marginal Rates for FGN Bond Auctions in H2, 2012

	15.10% FGN APR 2017	16.00% FGN JUN 2019	16.39% FGN JAN 2022
JULY, 2012	16.1990%	16.5900%	16.3031%
AUGUST, 2012	16.3254%	16.1400%	15.9000%
SEPTEMBER, 2012	12.9330%	12.9000%	Not Offered
OCTOBER, 2012	13.6840%	13.7465%	13.5000%
NOVEMBER, 2012	Not offered	12.4900%	12.4900%
DECEMBER, 2012	11.8000%	12.1000%	11.9001%

Source: DMO

The Marginal Rates for the 3 tenors offered in H2 2012 (15.10% FGN APR 2017, 16.00% FGN JUN 2019 and 16.39% FGN JAN 2022) declined on the average, by over 400bps during the period. See **Table 3** for details. The decline in the Marginal Rates on FGN Bonds (which also impacted the Secondary Market) was due to the inclusion of 3 FGN Bonds in the J.P. Morgan's Global Bond Index – Emerging Market (GBI-EM) in October 2012, and the announcement of the inclusion of FGN Bonds in the Barclays Capital's Emerging Markets Local Currency Government Index (EM - LCBI) in March 2013. These 2 developments resulted in a huge increase in the demand for FGN Bonds from foreign investors. It is noteworthy that yields dropped despite an increase in the Cash Reserve Ratio (CRR) by the CBN from 8% to 12.00% in July 2012.

2.1.3 Sub-national Bonds

Three State Governments issued Bonds totaling ₦130bn in H2, 2012; all for tenors of 7 years. They were Gombe (₦20bn), Lagos (₦80bn) and Osun (₦30bn). The coupons on the Bonds were – Gombe (15.50%), Lagos (14.50%) and Osun (14.75%). The yield spread on the Sub-national Bond issues over FGN Benchmark Bond with similar maturity at the time of issue were - Gombe (2.46%), Lagos (1.89%) and Osun (2.88%). The differentials in pricing were largely due to the ratings of the Bonds: Gombe (A), Lagos (Aa-) and Osun (A). All three Bonds were rated by Agusto & Co. Since there were no redemptions in H2, 2012, the new issues increased the amount of Sub-national Bonds outstanding to ₦498.00bn as at December 31, 2012.

2.1.4 Corporate Bonds

There was only one new issue in the Corporate Bond market in H2 2012 - a private placement of a 5-year Bond for ₦940 million at 18.00% by C&I Leasing Plc. The Bond was rated "BBB"" by Agusto & Co. and priced at 536bps above the closing yield (12.64%) on the 5-year FGN Benchmark Bond (15.10% FGN APR 2017) at the time. Total Corporate Bonds outstanding as at December 31, 2012 was ₦203bn.

2.1.5 AMCON Bonds

The size of AMCON Bonds was unchanged from H1, 2012 as they did not issue or redeem Bonds in the period under review.

2.2 SECONDARY MARKET

Table 4: Secondary Market Statistics, H2, 2012

BOND	VOLUME ('000 Units)	Face Value (₦ 'billions)	No. of Deals
FGN	4,241,854	4,241.854	24,425
CORPORATE	624,715	624.715	64
AMCON	30,370	30.370	21
SUB-NATIONAL	26,260	26.260	88
FMBN	3,275	3.275	6
TOTAL	**4,926,474**	**4,926.474**	**24,604**

Source: Central Securities Clearing System

The Face Value of Bonds traded in the Secondary Market increased by 51% in H2, 2012 to ₦4,926.474bn from ₦3,262.444bn in H1, 2012. The number of deals also increased by 20.08% to 24,604 deals from 20,489 deals within the same period. The increase was largely from FGN Bonds where activity was boosted by the inclusion of FGN Bonds in the J.P. Morgan's GBI-EM Index in October 2012, and the announcement in November 2012 that FGN Bonds would be included in the Barclays Capital's EM - LCBI from March 2013. FGN Bonds continued to dominate trading activities in the market, accounting for 71.78% of the total volume traded and 99.27% of total deals in H2 2012. See **Table 4** for details.

3.0 OUTLOOK

The size of the Domestic Bond Market will decline in Q1, 2013 as ₦639.995bn in FGN Bonds matures and are redeemed during the period; unless of course some other segments issue large amounts of Bonds. Given the much lower yields on Bonds since September 2012 and the tax exempt status now enjoyed by all categories of Bonds, we expect State Governments, Corporates and Supra-nationals to be active in the new issues market in order to benefit from lower borrowing costs. The International Finance Corporation (IFC), through the issuance of the "Naija Bond" in January 2013 has taken advantage of these developments already.

While no major changes are expected in regulations or monetary policy that could impact negatively on the Bond Market, the 2013 Federal Budget and fiscal spending in 2013 are factors to watch as they would inform monetary policy stance.

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March 15, 2013