



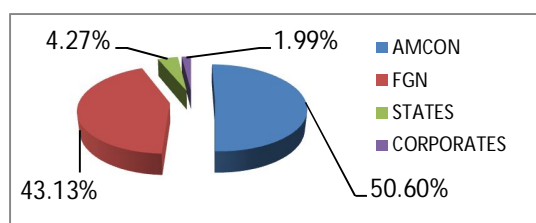
**DEBT MANAGEMENT OFFICE
NIGERIA**

**REVIEW OF THE DOMESTIC BOND MARKET
JANUARY – JUNE 2012 (H1 2012)**

1.0 INTRODUCTION

The domestic bond market in terms of the Face Value of Bonds outstanding, grew by ₦200.00bn or 2.38% in H1 2012 compared to the ₦3,210.54bn or 57.19% growth recorded in H2 2011. The phenomenal growth in H2 2011 was due to large Bond issuances by the Asset Management Corporation of Nigeria (AMCON) in 2011. New issues totaled ₦610.09bn broken down as follows; ₦583.36 (95.49%) Federal Government of Nigeria (FGN) Bonds, ₦27.00bn (4.42%) Sub-national Bonds and ₦0.54bn (0.09%) Corporate Bonds. AMCON did not issue any bonds in H1 2012. These new issues and redemptions of ₦410.00bn (all FGN Bonds) brought the total Face Value of Bonds in the domestic market to ₦8611.00bn as at June 30, 2012 from ₦8411.00 as at end December 2011.

Chart 1: Composition of the Domestic Bond Market as at end June 2012



2.0 DEVELOPMENTS IN H1 2012

2.1 PRIMARY MARKET

2.1.1 FGN Bonds

The total FGN Bonds outstanding at the beginning of 2012 was ₦3,541.19bn. In H1 2012, the Debt Management Office (DMO) offered and allotted ₦459.76bn in FGN Bonds. In addition, ₦139.70bn was on the basis of Special Allotments, which when added to the ₦459.76bn translates to a total of ₦583.36bn new FGN Bonds issued in H1 2012. FGN Bonds received a total subscription of ₦850.62bn (including the Special Allotment) represented 185.01% of the amount allotted in H1 2012. Table 1 shows details of the Subscriptions and Allotments recorded in H1 2012.

Table 1: FGN Bond Auctions for H1 2012

FGN BONDS	Amt. Offered (₦bn)	Subs-cription (₦bn)	%Subs-cription	Allot-ment (₦bn)	TOTAL
10.50% FGN MAR 2014	20.00	62.38	311.90	20.00	20.00
15.10% FGN APR 2017	100.00	197.76	197.76	100.00	100.00
10.70% FGN MAY 2018	19.76	22.40	113.36	19.76	19.76
16.00% FGN JUN 2019	30.00	40.17	133.9	*50.00	50.00
7.00% FGN OCT 2019	90.00	149.69	202.55	73.90	73.90
16.39% FGN JAN 2022	200.00	378.22	189.11	**319.70	319.70
TOTAL	459.76	850.62	185.01	583.36	583.36

Source: DMO

* Includes a Special Allotment of N20.00bn

** Includes a Special Allotment of N119.70bn

Three new bonds were offered in H1 2012. These were the 16.39% FGN JAN 2022,

15.10% FGN APR 2017 and 16.00% FGN JUN 2019 and they currently represent the 10-year, 5-year and 7-year FGN Bond Benchmarks.

Four FGN Bonds, the 9.92% FGN JAN 2012, 9.50% FGN FEB 2012, 9.23% FGN MAY 2012 and 10.50% FGN MAY 2012 amounting to ₦410.00bn were redeemed in the review period. Given an opening figure for 2012 of ₦3,541.19bn and new issues and redemptions of ₦583.36bn and ₦410.00bn respectively in H1 2012, the total FGN Bonds outstanding as at June 30, 2012 stood at ₦3,714.55bn.

2.1.2 Marginal Rates

Table 2: Marginal Rates for FGN Bond Auctions in H1 2012

MONTH	10.70% FGN MAY 2018 (7yr)	7.00% FGN OCT 2019 (10 yr)	16.39% FGN JAN 2022 (10yr)	10.50% FGN MAR 2014 (3yr)	15.10% FGN APR 2017 (5yr)	16.00% FGN JUN 2019 (10yr)
	%	%	%	%	%	%
JAN 2012	16.98	16.00	16.39	*	*	*
FEB 2012	*	16.16	15.89	*	*	*
MAR 2012	*	15.30	15.41	*	*	*
APR 2012	*	*	15.47	14.94	15.10	*
MAY 2012	*	*	15.45	*	15.24	*
JUN 2012	*	*	16.21	*	15.85	16.00

Source: DMO

*Bonds not offered in that month

There was a general downward trend in Marginal Rates for FGN Bonds at the Auction between January and May 2012. This may be attributed to the fact that there were no new monetary policy actions by the CBN, as well as, a slight moderation in inflation from 12.60% in January to 12.10% in March. The Auction results also revealed that investor subscriptions were highest in February and March perhaps due to the high Marginal Rates at the January 2012 Auction which investors wanted to take advantage of. This trend reversed in June 2012, primarily due to the increase by the CBN of the Cash Reserve Ratio from 8% to 12% at its Monetary Policy

Committee (MPC) Meeting at the end of May 2012.

2.1.3 Sub-national Bonds

The only State Government Bond issued in H1 2012 was by Ondo State in January 2012. The State issued ₦27.00 bn out of its ₦50.00bn Medium Term Note Issuance Programme via a Book Building process. The Bond attracted a Coupon Rate of 15.50% and has a 7 year maturity. It was rated A and A- by Augusto and Co and Global Credit Rating Agency respectively. The Offer was oversubscribed by ₦2.1bn. The total Bonds issued by State Governments between January 2009 and June 2012 stood at ₦368.00bn.

2.1.4 Corporate Bonds

Chellarams Plc issued ₦0.540bn out of its ₦5.00bn Series 2 Senior Unsecured Floating Rate Note for a tenor of 7 years maturing in 2019. The Bond's Coupon is MPR+5% and was rated BBB by both Global Credit Ratings and Datapro.

2.1.5 AMCON Bonds

AMCON in its Report dated April 2012 (see www.amcon.com.ng) stated that the Face Value of AMCON Bonds issued as at December 2011 was ₦4.50 trillion. The Bonds represent AMCON Series 1-V Bonds with maturities starting from December 2013.

2.2 SECONDARY MARKET

Table 3: Secondary Market Statistics, H1 2012

Bond	Volume (Units)	Face Value (N'bn)	No. of Deals
FGN	3,103,493,508	3,103.49	20,397
AMCON	116,058,902	116.058	29
Corporate	16,810,000	16.810	27
Sub-national	13,129,732	13.129	33
Federal Mortgage Bank of Nigeria Bond	12,952,000	12.952	3
Total	3,262,444,142	3,262.44	20,489

Source: Central Securities Clearing System

H1 2012 saw a substantial growth in secondary market trading of corporate bonds where the Face Value of transactions grew by 276% to ₦16.180bn from ₦4.475bn in H2 2011. The ₦24.564bn 3-year Series 3 Federal Mortgage Bank (FMB) Zero Coupon Bond, which was

issued in May 2012, started trading in June 2012. 3 transactions and volume of 12.952mn units were recorded in the Bond in H1 2012.

Aside from these developments, secondary market trading was dominated by FGN Bonds, specifically, Total Face Value and Number of Transactions were 95% and 99.6% respectively of the total Bond Trades for the period. AMCON Series 1 Bonds followed with 116.05mn units and 29 trades respectively, representing 3.55% and 0.14% of Volume and Number of trades.

Although, higher trading was recorded in corporate bonds, their share of trading in terms of Face Value and Number of Deals were less than 1%.

33 transactions were recorded for State Government bonds with a Volume of 13.129mn Units.

Apart from the corporate and FMB Bonds, trading volumes declined for other segments (FGN, AMCON and State Governments) of the domestic bond market compared to H2 2011.

3.0 OUTLOOK

As expected, the expansion in the domestic bond market H1 2012 was moderate with the major growth coming from FGN Bonds. The decision of the MPC to retain the MPR at 12% at the four Meetings held in H1 2012, kept the market stable after the major volatility recorded in Q4 2011. It is uncertain that the CBN would maintain the status quo with the gradual increase in inflation since March 2012 to about 12.8% in July 2012 and the potential for increased fiscal spending resulting from the passage of the 2012 Appropriation Act in April 2012.

As an indication, the MPC at its meeting in July, increased the Cash Reserve Ratio to 12% from 8%. The immediate impact of this was an increase in Interbank and Lending Rates.

Overall, the relatively high Coupons on Bonds may continue to limit new issues by corporates, especially those who have access to relatively cheaper bank credits. Therefore, growth in the domestic bond market would be from FGN Bonds and State Government Bonds. The Sub-national Bond market is expected to grow from pipeline issues from Gombe, Rivers, Osun and Lagos States.

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](tel:09-6725629)

Website:<http://www.dmo.gov.ng>

Email:enquiries@dmo.gov.ng

August 31, 2012