

## DEBT MANAGEMENT OFFICE NIGERIA

### REVIEW OF THE DOMESTIC BOND MARKET

## January-December 2010

### I. Introduction

The Nigerian Bond Market grew significantly in 2010, with a 53% increase in the Face Value of outstanding bonds over the level in 2009. The Face Value of Bonds grew from N2, 132.51 bn as at end of 2009 to N3, 263.68 bn at the end of December 2010. Although the growth was principally driven by FGN Bonds, new issues from other issuers recorded a significant improvement when compared to 2009. During the year, four sub-national bonds (Lagos State, Bayelsa State, Kaduna State and Ebonyi State) and four corporate bonds (NGC Sterile Ltd., United Bank for Africa PLC, UPDC Ltd., and Flour Mills of Nigeria PLC) were issued. This was a major improvement compared to 2009 with two sub-national bonds (Imo State, Kwara State and Niger State) and two corporate bonds (GTBank PLC and C&I Leasing PLC) issuances.

### II. Developments in Year 2010

#### II.1. PRIMARY MARKET

##### *Federal Government of Nigeria Bonds*

##### *Issue Amount, Subscription & Allotment*

In Year 2010, the DMO offered FGN Bonds worth N1, 073.12 bn in 3-year, 5-year, 7-year, 10-year and 20-year tenors. Three New Issues of 3-year, 5-year and 20-year tenors were offered during the FGN Bond Auctions of February, April and July 2010 respectively. These bonds were the 5.50% FGN FEB 2013, 4.00% FGN APR 2015 and 10.00% FGN JUL 2030, while the rest of the bonds were re-openings (Table 1). The bonds offered recorded a Total Subscription of N2,141.82 bn, out of which N1,244.44 bn was allotted, including Special Allotments in January, April and September.

Table 1 shows that there was over-subscription for each FGN Bond offered within the period, except the 7-year tenor which recorded under-subscription.

**Table 1: Summary of FGN Bond Auctions (N'bn), Year 2010**

Auction Result (N'bn)	3Y	5Y	7Y	10Y	20Y	Total
Amnt. Offered	340	205	88.12	70	370	1,073.12
Subscription	772.32	408.35	85	157.5	790.95	2,214.12
% Subscription	227.15	199.20	96.5	225.0	213.77	206.33
Allotment	*462	**237.33	62.81	70	412.3	1,244.44

Source: DMO

\*Includes Special Allotments of N125.8 bn

\*\* Includes Special Allotments of N25 bn

During the year there was a total redemption of N313.81 bn FGN Bonds: N40 bn in January; N65 bn in April; N36 bn in July; N22.81 bn in October; N30 bn in November and N120 bn in December, leaving a total outstanding FGN Bonds of N2.90 tn as at December 31, 2010. This figure represents an increase of 47% over the N1.97tn outstanding FGN Bonds as at end of December 2009.

### Marginal Rates

The DMO uses the Dutch Auction process in the FGN Bond Auctions. In this regard, all successful bids are allotted at a single rate, which is the Marginal Rate for each of the FGN Bond tenor on offer. Table 2 shows the trend of the Marginal Rates for all the FGN Bonds issued in Year 2010. The Marginal Rates were at the lowest points between January and April. During this period, the interest rates were generally very low, caused largely by excess liquidity in the system. The demand for FGN Bonds was also very high during this period.

**Table 2: Marginal Rates (%)**

Month	3Y	5Y*	7Y*	10Y*	20Y
Jan.	6.82			8.14	8.5
Feb.	5.5			7.15	8.02
Mar.	3.48			6.00	7.00
April	4.86	4.00			7.24
May	8.25	9.00			10.00
June	6.24	7.6			8.69
July	7.48	8.85			10.0
Aug.	7.54	9.25			11.0
Sept.	8.43	9.9			12.53
Oct.	10.5		11.0		14
Nov.	11.5		13.21		14.5
Dec.	12.0	12.0			14.5

Source: Debt Management Office

\*Blank space indicates tenor not offered in that month

By May 2010, as interest rates began to rise significantly, the Marginal Rates at the FGN Bond Auctions also rose, a trend which continued till the end of the 2010.

### Sub-national Bonds

Total sub-national bonds valued at N132.5 bn were issued during the year by Lagos, Kaduna, Bayelsa and Ebonyi States (Table 3). All the bonds were issued through a public offer process.

**Table 3: Sub-national Bonds issued in 2010**

State	Month	Amnt (N'bn)	Coupon (%)	Tenor (Yrs)	Maturity
Lagos	April 19	57.5	10	7	2017
Bayelsa	June 30	50.0	13.75	7	2017
Kaduna	Aug. 31	8.5	12.5	5	2015
Ebonyi	Sept. 30	16.5	13	5	2015
<b>Total</b>		<b>N132.5</b>			

As at end of December, 2010, the total value of sub-national bonds outstanding stood at N251.0 bn, representing about 112% increase over the size of N118.5 bn as at end of December 2009.

## Corporate Bonds

In 2010, the corporate bond market grew by 184%, due to four corporate bonds worth N72 bn issued during the year (Table 4). All the bonds were issued through book-building processes.

Table 4: Corporate Bonds issued in 2010

State	Month	Amnt (N'Bn)	Coupon (%)	Tenor (Yrs)	Maturity
NGC Sterile Ltd.	April 1	2	17	5	2014
UPDC	Aug. 17	15	10	5	2014
UBA PLC	Sept. 30	20	13	7	2017
Flour Mills of Nig. PLC	Dec. 9	35	12	5	2015
<b>Total</b>		<b>N72.00</b>			

As at end of December 2010, the total corporate bonds outstanding stood at N111.075 bn, a significant improvement compared to N39.075 bn as at end of December 2009.

## II. 2. SECONDARY MARKET

### Federal Government of Nigeria Bonds

The secondary market activity in FGN Bonds in 2010 remained strong and stable, but less buoyant than the level in 2009, in terms of the volume of transactions recorded (Table 5). The volume of transactions declined by about 19% in 2010 compared to the level in 2009.

Table 5: FGN Bonds Secondary Market, 2010 & 2009

Year	Volume traded (mn units)	Face Value (N'bn)	No. of Deals
<b>2010</b>	13,677.152	13,677.152	135,874
<b>2009</b>	16,789.263	16,789.263	132,374

Source: Central Securities Clearing System (CSCS)

: OTC Trades only

The Number of Deals, however, improved slightly in 2010 by 3%, rising from 132,374 deals in 2009 to 135,874 deals in 2010.

### Sub-national Bonds

Table 6 shows the level of trading activities in sub-national bonds as at end of 2010.

The sub-national bonds in this category consisted of both the State Government bonds and Series 1 of the 1<sup>st</sup> Federal Mortgage Bank bond issued in 2007 (1STFMB07S1). All the bonds in issue by the State Governments were traded within the period, except Kaduna State Government's Bond. The Lagos State Government bonds dominated trading activities in the sub-national bond market. Other bonds that recorded significant trading activities include those of the Federal Mortgage Bank, Bayelsa State, Imo State, Kwara State and Niger State.

Table 6: Sub-national Bonds, 2010

Security	Vol. (mn units)	Face Value (N'bn)	No. of Deals
Lagos State Bond (Series 1)	35.31	35.31	48
Lagos State Bond (Series 2)	25.41	25.41	62
Imo State Bond (Series 1)	21.60	21.60	56
Kwara State Bond (Series 1)	6.64	6.64	33
Niger State Bond	4.84	4.84	22
Bayelsa State Bond	28.67	28.67	74
Ebonyi State Bond	0.18	0.18	2
Fed. Mortg. Bank Bond	33.04	33.04	17
<b>Total</b>	<b>155.68</b>	<b>155.68</b>	<b>314</b>

Source: The Nigerian Stock Exchange

### Corporate Bonds

In 2010, there were secondary market transactions in three corporate bonds (Table 7), with a combined total volume of 4.49 mn units in 20 Deals. The bonds traded included those of Guaranty Trust Bank, Crusader Nigeria PLC and UPDC PLC.

**Table7: Corporate Bond, 2010**

Security	Vol. (mn units)	Face value (N'Bn)	No. of Deals
GTBank Bond	2.895	2.895	14
Crusader PLC	0.34	0.34	4
UPDC PLC	1.25	1.25	2
<b>Total</b>	<b>4.485</b>	<b>4.485</b>	<b>20</b>

Source: The Nigerian Stock Exchange

### Total Secondary Market Activity, 2010

**Table 8. Total Volume, Value of Bonds Traded, 2010**

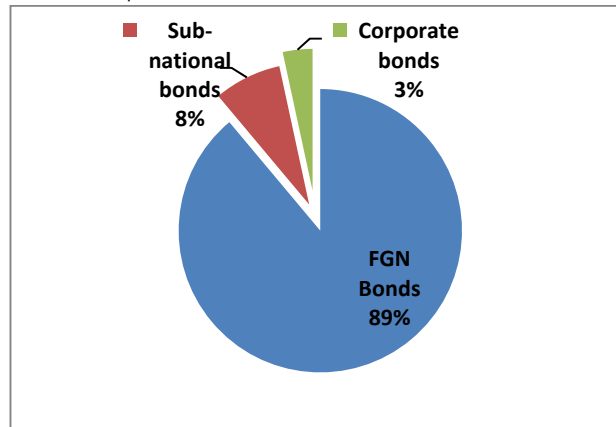
Volume (mn units)	Face Value (N'bn)	No. of Deals
<b>13,837.32</b>	<b>13,837.32</b>	<b>136,208</b>

The bond market recorded a total volume of 13,837.32 mn units in 136, 208 Deals during the period (Table 8). Analysis of the figures shows that the FGN Bonds dominated the market activities, accounting for over 98% of the volume of transactions recorded in the year, followed by a marginal contribution of 1% from the sub-national bonds. The contribution made by the corporate bonds was highly insignificant.

### III. Composition of the Domestic Bond Market

The Chart below shows the percentage composition of the domestic bond market as at December 31, 2010, by issuer type. The total bonds outstanding by Face Value as at December 31, 2010, was N3,263.68 bn, made up of FGN Bonds (N2,901.60 bn, or 89%); Sub-national bonds (N251 bn, or 8%), and Corporate bonds (N111.075 bn, or 3%).

**Chart 1: Composition of the domestic bond market, Dec. 31, 2010**



Source: DMO, SEC

Compared to the composition of the market as at end of December 2009, the share of Corporate Bonds in the bond market increased from 2% as end of 2009, to 3% as at end of December 31, 2010; while the share of FGN Bonds declined from 93% as at December 31, 2009 to 89% as at December 31, 2010. The share of the Sub-national bonds in the market increased to 8% in 2010, from 5% as at December 31, 2009.

The total bonds outstanding (N3, 263.68 bn) as at December 31, 2010, represented an increase of 53% over the outstanding amount of bonds (N2,132.51bn) as at December 31, 2009. The growth in the bond market was mainly driven by FGN Bonds.

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