FMDQ SPOTLIGHT

FMDQ
...empowering the OTC markets

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New Stories

FMDQ 2015 Market Turnover Achieves ₦137.40trn

FMDQ OTC Securities Exchange (FMDQ), with a vision of becoming No. 1 in Africa in the fixed income and currency markets by 2019 and a mandate to develop the Nigerian debt capital market (DCM), through empowering the financial markets to be innovative and focused on enhancing the liquidity of fixed income instruments, continues to strive to ensure the realisation of these goals towards making the Nigerian financial markets globally competitive.

In spite of the challenges the market faced in 2015, FMDQ saw its turnover grow from ₦103.60trn in 2014 to ₦137.40trn in 2015, a growth rate of 33% year-on-year. In the first half of 2015, the Dealing Members achieved an overall OTC market turnover of ₦58.60trn and by December 2015, this rose significantly by 134% to close at ₦137.40trn. This figure saw the forecast of ₦125.00trn turnover for 2015 surpassed by 10%.

The most actively traded products were Treasury Bills (T.bills), accounting for the largest share of the market turnover at 35%, followed by Foreign Exchange (FX) (including FX derivatives) with a share of 25% and Repurchase Agreements (Repos)/Buy-Backs at 23%. Unsecured Placements/Takings and Federal Government of Nigeria (FGN) bonds, on the other hand, had a smaller share of the market, accounting for 9% and 8% respectively. The turnover represents trades executed between Dealing Members, Dealing Members & Clients, and Dealing Members & the Central Bank of Nigeria (CBN).

FMDQ, like in 2015, is optimistic about the year ahead, albeit with caution, considering the expected challenges the financial markets will likely face, and remains committed to initiating and engaging in initiatives that will develop and make the FMDQ markets globally competitive by improving liquidity, transparency, governance and efficiency in the Nigerian capital market. To achieve success in its objectives, FMDQ will continue to work collaboratively with and garner the support of its stakeholders.

2016 is expected to be exciting for the Nigerian financial markets as a result of FMDQ's planned initiatives for the year. These initiatives include but will not be limited to:

- Offering a more diversified products portfolio including short-term and Islamic (Sukuk) bonds
- The quotation of Private companies' bonds
- Integration of FMDQ markets to include securities dealing and investment banking firms in the fixed income secondary markets
- Introduction of a new membership category – Specialist Dealing Members
- Capacity building and financial markets education for FMDQ stakeholders
- Financial markets support for economic development
- Nigerian debt capital market (DCM) transformation
- Introduction of OTC Derivatives

We look forward to working with our stakeholders to deliver an improved market in 2016.

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FMDQ Listings & Quotations

FMDQ admits ₦10.00bn Transcorp Hotels Bond

FMDQ OTC Securities Exchange (FMDQ), commenced the year with the commemoration of the successful listing of the **Transcorp Hotels PLC ₦10.00bn Series 1, 7-Year 16.0% Fixed Rate Unsecured Bonds under a ₦30.00bn Medium-Term Bond Programme (the Transcorp Hotels Bond)** on its platform. To this end, FMDQ played host to the issuer, represented by the President/CEO Transcorp Group, Mr. Emmanuel Nnorom and the MD/CEO, Transcorp Hotels PLC, Mr. Valentine Ozigbo; as well as the sponsor of the Bond on FMDQ, the Registration Member (Listings), United Capital PLC, represented by the Group CEO, Mrs. Oluwatoyin Sanni and the Deputy Group CEO, Mr. Wale Shonibare, to a prestigious Listing Ceremony which the Exchange is becoming known for.

As is customary of FMDQ Listing Ceremonies, this Ceremony was afforded full accolades, which included the signing of the FMDQ Bond Listings Register, presentation of the FMDQ Listing Certificate, unveiling of the FMDQ Listing Scroll for the issuer, presentation of the FMDQ Issuer Listing Plaque, and the autographing of the FMDQ Bond Listing Wall of Fame.

Delivering the welcome address, Ms. Tumi Sekoni, Head, Marketing & Business Development Division of FMDQ highlighted that the listing would contribute, in no small measure, to the growth of the Nigerian corporate bond market; with the planned initiatives of the Exchange to promote secondary market liquidity in the non-sovereign bond market in Nigeria serving to further enhance that growth. Being acutely aware of the growth potential of issuers in the Nigerian debt capital market, Ms. Sekoni further stipulated that an FMDQ Listing service has been tailored to provide, among others, a unique opportunity for issuers to raise the profiles of their issues and access a deep pool of capital, thereby meeting their long term funding needs even as the Nigerian debt capital market becomes aligned with international best practices and standards.

Mr. Valentine Ozigbo, during his special address said, “We are very delighted to have successfully closed our Series 1 & 2 Bonds, where we raised ₦19.76bn in the last quarter of 2015; Series 1 (₦10.00bn) of which is being listed on FMDQ today. This will no doubt ensure a more efficient capital mix and access to a more diversified funding source, given that we had operated with zero interest bearing debt before now. By this listing, we have kept our promise to deliver value to all stakeholders and we will continue to do so. Beyond providing the funding we need for the upgrade of the Transcorp Hilton Hotel Abuja and other projects, the Transcorp Bonds equally provide an opportunity for the investing public to be part of our success story, as well as an avenue for wealth creation”.

Following the presentations to the Registration Member (Listings), Mrs. Oluwatoyin Sanni, while speaking about the transaction stated, "We are delighted to have played a leading role in the successful execution of the Transcorp Hotels Series 1 Bond Issue. Coming from a successful 2015, United Capital remains committed to making significant contributions to the success of our esteemed clients. This transaction represents one of the ways we support leading businesses through our expertise in capital raising. United Capital PLC has been Lead Issuing House and Lead Underwriter and Trustee to the largest Local Currency Bonds issued in both 2014 and 2015 and has between September 2014 and December 2015 invested ₦45.00bn in bonds issued by Nigerian States and Corporate entities. We will continue to support Nigerian governments and businesses with superior Advisory, Capital Raising and Trust services. This is a true testament to our industry leadership and expertise." She also commended FMDQ for its contribution to the growth and development of the Nigerian financial market and said United Capital is looking forward to bringing more listings to the Exchange.

Mr. Bola Onadele. Koko, MD/CEO of FMDQ, whilst applauding Transcorp Hotels PLC for successfully raising ₦10.00bn from the Nigerian debt capital market, commended the issuer for its astute decision to list the Transcorp Bond on FMDQ. He highlighted, "FMDQ remains steadfast in its commitment to facilitate growth and development in the Nigerian financial market, with specific focus on the debt capital market, and the Nigerian economy at large, and has actively commenced the year with initiatives being developed to address this growth and development. The decision by the Management of Transcorp Hotels PLC to list its ₦10.00bn Bond (Series 1 under a ₦30.00bn Medium-Term Bond Programme) on FMDQ is one that will under no circumstance, be regretted. The Nigerian debt capital market continues to make essential strides towards its development and today's listing on FMDQ marks another milestone in this certain development."

FMDQ will provide continuous information disclosure on the Transcorp Bond and include price/value data and detailed issuers'/issue information to stakeholders via the 'Listings & Quotations' page on the FMDQ website. As part of its mandate to promote an efficient and well-regulated market, which will attract and retain both domestic and foreign investors, improve price discovery and transparency for issuers, dealers, regulators and the general public, the Bond shall also be included on the FMDQ-Bloomberg E-Bond Trading System (E-Bond).

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FMDQ Turnover & Dealing Members' League Table

The FMDQ OTC Market Turnover Report shows the turnover on all products traded on the FMDQ secondary market – FX, T.bills, Bonds (FGN bonds, Other Bonds (Agency, Sub-national, Corporate & Supranational) & Eurobonds), Money Market (Repos/Buy-Backs and Unsecured Placements/Takings). FX and Money Market Derivatives are embedded in the FX and Unsecured products categories respectively. These figures exclude primary market auctions in T.bills, Bonds and FX.

The data, collated from the weekly trade data submissions by FMDQ Dealing Members, represents trades executed between Dealing Members, Dealing Members & Clients, and Dealing Members & CBN.

FMDQ OTC Market Turnover (Full Year 2015)

	Turnover (₦'bn)
Foreign Exchange	27,636
Foreign Exchange Derivatives	7,013
Treasury Bills	48,236
FGN Bonds	10,734
Other Bonds	131
Eurobonds	39
Repurchase Agreements/Buy-Backs	31,564
Unsecured Placements/Takings	11,973
Money Market Derivatives	101
	137,426
USD equivalent ('bn)	*698*
Average Daily Turnover	561
USD equivalent ('bn)	*3*

Note: USD/₦ @ 196.90

No. of Business days for 2015 - 245

Top Ten (10) Dealing Members in FMDQ Market for 2015

The FMDQ League Table shows the rankings of its Dealing Members across all products traded on FMDQ OTC securities exchange. The rankings represent the cumulative value across all products traded by the Dealing Members.

Rank	Dealing Member
1	STANBIC IBTC BANK PLC
2	ACCESS BANK PLC
3	UNITED BANK FOR AFRICA PLC
4	DIAMOND BANK PLC
5	FIRST BANK OF NIGERIA LIMITED
6	SKYE BANK PLC
7	ECOBANK NIGERIA LIMITED
8	UNION BANK OF NIGERIA PLC
9	CITIBANK NIGERIA LIMITED
10	STANDARD CHARTERED BANK NIGERIA LIMITED

The top ten (10) Dealing Members for 2015 account for 72% (₦99.0trn) of the overall turnover in the market, with the top three (3) accounting for 26% (₦37.1trn) of this sub-section of the market.

Stanbic IBTC Bank PLC, Access Bank PLC and United Bank for Africa PLC emerged as the leaders in value traded for the overall over-the-counter (OTC) market, closing the year at 1st, 2nd and 3rd places respectively.

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FMDQ Learning

Hedging: A Basic Guide

What is Hedging?

Hedging is a risk management strategy designed to protect an investment or portfolio against loss. When investors decide to hedge, they are protecting themselves against a negative event. This does not prevent a negative event from happening, however, if it does happen and they are properly hedged, the impact of the event is reduced.

How Does Hedging Work?

Hedging involves buying securities that move in opposite directions, in two different markets, with the expectation that a future change in price in one market will be offset by an opposite change in the other market[1]. The result of that action is that it establishes a firm price in one of the markets, since any losses incurred there will mean that profits are earned in the correlated market, or any gains incurred in the primary market will be offset by losses in the correlated market.

So, hedging, for the most part, is a technique, not by which money is made, but by which potential loss is reduced. If the investment hedged against makes money, the potential profit that could have been made would be reduced, and if the investment loses money, the hedge, if successful, would reduce that loss.

Key Difference between Hedging and Insurance

Hedging can be likened to insurance but they are not exactly the same. While both essentially reduce exposure to financial risk, they do so in different ways.

- Insurance typically transfers the risk of loss by making periodic payments to an insurance company, for instance, in exchange for compensation for a specific potential future loss, while not limiting the receipt of potential rewards

[1] Chand Sooran (2015) What is Hedging: Managing financial price risk

- Hedging, on the other hand, is about specifically offsetting a possible loss in an investment by making another related investment. It involves giving up the potential for financial gain to avoid the risk[2]

Purpose of Hedging

- Portfolio managers, individual investors and corporations use hedging techniques to reduce their exposure to various risks
- Hedging can also provide a consistent stream of stable cash flows
- It is used to improve or maintain competitiveness as companies compete with one another domestically as well as globally
- It helps firms reduce their transaction costs or cost of funding and also lower market prices that are deemed to be strategic and essential to the future progress of the companies

Typical Risks Hedged

Hedging can provide protection against various types of risks. Some of them include:

- **Price Risk** – The biggest risk faced by all investors. This is the risk of a decline in the value of a security or portfolio from adverse movements in the market price of the asset
- **Currency Risk** – This is also known as FX risk hedging. It is used by investors to deflect the risks they encounter as a result of exposure to foreign currency or foreign-currency traded investments
- **Interest Rate Risk** – This is the probability that a security's value will change due to a change in interest rates. This risk can be hedged using interest rate swaps
- **Credit Risk** – The risk that an issuer of a debt security or a borrower may default on its contractual obligations. This risk can be hedged using credit default swaps
- **Commodity Risk** - This is the risk that arises from potential movements in the value of commodity contracts, caused by fluctuations in the prices of commodities
- **Equity Risk** – The risk of loss involved in holding equity in a particular investment due to volatility in the market
- **Concentration Risk** – This is the probability of loss arising from a heavily concentrated exposure to a particular group of assets or counterparties

[2] Tushar Chauhan (2011) Insurance for Hedging

Hedging Methods

- **Derivatives** – This is a contract between two or more parties with a value determined by fluctuations in an agreed upon underlying asset. They have no direct value in and of themselves as their value is based on the expected future price movements of their underlying asset. They include options, swaps, futures and forward contracts and the underlying assets can be stocks, bonds, commodities, currencies, interest rates or indices
- **Diversification** - Diversification is also a hedging technique that helps to reduce individual risk in one particular investment by investing in a variety of assets. The rationale behind this technique is that a portfolio of different investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio. In other words, Investors can spread out their money into multiple investments to reduce risk

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