FMDQ SPOTLIGHT

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New Stories

FMDQ Launches Financial Market Education Initiative – The FMDQ Academy

In line with its audacious vision of becoming No. 1 in Africa in the fixed income and currency markets by 2019, FMDQ OTC Securities Exchange ("FMDQ" or "the Exchange") continues to strategically lead innovations towards the growth and development of the Nigerian financial markets. To this end, the Exchange launched its market education initiative, the **FMDQ Academy (**the **Academy)** on November 7, 2016. The Academy has been established to deliver financial markets education to FMDQ stakeholders in line with FMDQ's market and product development agenda in the fixed income, foreign exchange (FX) and derivatives markets, with the ultimate aim of deepening and building the Nigerian financial markets towards global competitiveness.

The Academy is targeted at addressing the observed knowledge and skills gaps in the Nigerian financial markets and ensuring that capacities are aligned with the structural transformations and product innovations that are rapidly revolutionising the markets. In this light, FMDQ Academy has been positioned to offer e-learning, face-to-face and tailored learning to meet the knowledge needs of FMDQ stakeholders across the FMDQ markets. The Academy offers learners an opportunity to choose what to learn, when to learn, as well as the preferred mode of learning to achieve the desired learning outcomes. FMDQ Academy is also positioned to provide individuals and institutions with impactful learning and skills acquisition opportunities through a unique blend of best-in-class curricula, methodologies, experienced faculty and other tailor-made learning, to create a rewarding knowledge experience.

The Academy, which commenced its e-learning offerings with a robust Learning Management System, offers course modules in fixed income, foreign exchange and derivatives. Prospective learners should visit the website at www.fmdqacademy.com, create a user profile, register for a course and launch an amazing financial markets learning experience. The e-learning courses will continue to be optimised over time in line with FMDQ's product and market development agenda.

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Fifth OTC FX Futures Contract Matures and Settles on FMDQ

The fifth OTC FX Futures contract, NGUS NOV 23 2016, with notional amount $421.72 million, matured and settled on Wednesday, November 23, 2016; bringing the total value of contracts so far matured on the Exchange to circa $1.05 billion, and about $4.70 billion worth of OTC FX Futures contracts traded so far on FMDQ.

The contract, which stopped trading on November 15, 2016, was valued against the Nigerian Inter-Bank Foreign Exchange Fixing (NIFEX) Spot rate as published daily on FMDQ's website, and the associated clearing/settlement effected by the Nigeria Inter-Bank Settlement System PLC (NIBSS), in line with the FMDQ OTC FX Futures Market Operational Standards. Consistent with its treatment for the previous four (4) maturities (July - October 2016), the Central Bank of Nigeria (CBN) introduced a new contract, NGUS NOV 29 2017, for $1.00bn at $/₦262 to replace the matured contract and refreshed its quotes on the existing 1- to 11- month contracts.

Businesses have remained committed to purchasing Naira-settled OTC FX Futures to provide and significantly improve on planning for their FX exposures, and FMDQ, through the concerted efforts of its stakeholders, remains committed to improving the effectiveness of and ensuring that the potential of the Naira-settled OTC FX Futures product is maximised.

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FMDQ Launches the Debt Capital Market Development Project

As an innovation-driven Exchange focused on revolutionising the Nigerian financial markets, FMDQ, following extensive consultations with stakeholders in the Nigerian financial market space, including the apex capital market regulator, the Securities and Exchange Commission ("SEC" or the "Commission"), set up the Debt Capital Market Development (DCMD) Project to ensure the effective implementation of the recommendations drawn from the widely attended Debt Capital Market (DCM) Workshop held on October 27-28, 2015. The DCM Workshop, which was organised by FMDQ, in collaboration with the International Finance Corporation (IFC) and with the support of SEC, was themed "The Nigerian Debt Capital Markets – Towards a Brighter Future". The sole aim of the Workshop was to harness the capacity and potential of the domestic DCM, and facilitate the exchange of ideas for enhancing and deepening the Nigerian financial market. The Workshop, which was attended by domestic and international financial market experts and regulators, considered various challenges limiting the growth of the Nigerian DCM and arrived at key decisions that would galvanise the Nigerian DCM to enable it to reach desirable heights within the African and global financial markets. The resolutions from the Workshop have been translated into the Nigerian DCM Transformation Roadmap to be executed through the DCMD Project.

The DCMD Project, having received the unrivalled support of the apex regulator, SEC, was officially launched during the Commission's 3rd Quarter Capital Market Committee Meeting, on November 24, 2016. Its focus on identifying and implementing quick-win strategies that would transform the Nigerian DCM into a world-class, properly functioning DCM by 2020 draws strongly from SEC's 10-Year Nigerian Capital Market Master Plan (NCMMP), with the DCMD Project seeking to fast-track the realisation of the DCM initiatives in the NCMMP. The vision of the DCMD Project is also aligned with the Financial System Strategy (FSS) 2020 initiative which is aimed at making Nigeria one of the top 20 economies in the world by 2020.

The Project's Governance Structure includes a project implementation team, consisting of three (3) levels of implementation committees – Steering, Transformation and Sub-Committees – charged with the responsibility of brainstorming on the initiatives required for stimulating the market's development and executing the DCM Transformation Roadmap, drawing from the experience of benchmark jurisdictions (including Malaysia, Mexico, India, Singapore, South Africa, etc.) where their debt capital markets have successfully played the key role of supporting the growth and development of their countries' economies. At the end of the DCMD Project, it is expected that the Nigerian DCM will surpass its peers in Africa in terms of diversity of products (including plain vanilla products and derivatives), liquidity, credibility and transparency and indeed position Nigeria as the ultimate investment destination in Africa.

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FMDQ Listings & Quotations

FMDQ Admits ₦7.96bn Sterling Investment Management SPV PLC Bond

FMDQ welcomed another listing – Sterling Investment Management SPV PLC ₦7.965bn Series 1, 7-Year 16.50% Fixed Rate Unsecured Bond, under a ₦65.00bn Debt Issuance Programme ("the Sterling SPV Bond") - on its platform. To formally welcome this listing, a Ceremony was held on Monday, November 21, 2016 at the FMDQ offices. The Exchange played host to the issuer, represented by Mr. Abubakar Suleiman, Executive Director, Sterling Bank PLC, as well as the sponsor of the bond on FMDQ's platform, the Registration Member (Listings), represented by Mr. Ike Echeruo and Mr. Niyi Omojola, Managing Partner and Partner, Constant Capital Partners Limited, amongst others.

The issuer, sponsor of the bond on the Exchange and FMDQ, signed the FMDQ Bond Listings Register, following which an FMDQ Bond Listing Certificate was presented to the issuer. Other key highlights included the demonstration of FMDQ's appreciation to the issuer and sponsor for their contributions to the development of the Nigerian DCM in the form of the unveiling of the FMDQ Listing Scrolls, presentation of the FMDQ Listing Plaques, and the autographing of the FMDQ Bond Listing Wall of Fame.

Ms. Tumi Sekoni, Vice President & Divisional Head, Marketing & Business Development at FMDQ, whilst delivering the welcome address, congratulated the issuer for successfully raising ₦7.96bn from the Nigerian DCM, notwithstanding the current economic climate. She further highlighted that the listing would contribute to the growth of the Nigerian corporate bond market, invariably injecting renewed confidence into the DCM. Ms. Sekoni went on to assure all parties that the FMDQ Listings & Quotations Service was continually refined and 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 investor confidence is promoted through the availed transparency, information disclosure, price formation and visibility.

Ahead of signing the FMDQ Bond Listings Register, Mr. Abubakar Suleiman noted that the last time the Sterling Bank PLC accessed the bond market was in 2011, and expressed his elation at the confidence placed in the institution by investors who participated in the offer despite the current volatility in the Nigerian financial market. He acknowledged FMDQ's contribution to the growth of the Nigerian DCM by facilitating active secondary market trading, and opined that the bank through its SPV, was offering greater value to its esteemed investors by listing on FMDQ to enhance the liquidity and visibility of the bonds.

Following the presentation to the sponsor of the bond on FMDQ, Mr. Niyi Omojola, stated that Constant Capital, the lead issuing house in the transaction, crafted a unique, innovative investment structure which enabled the Sterling SPV Bond share in the same investment grade rating as Sterling Bank PLC, enlarging the range of potential investors in the bond. The innovative structure, he commented, "protects investors by providing Federal Government of Nigeria bonds-backed credit enhancement while investing in the Tier II Note of Sterling Bank PLC. This innovation has allowed investors benefit from an enhanced rating, while providing Tier II capital to Sterling Bank PLC". Mr. Omojola added that Stanbic IBTC Capital Limited, Vetiva Capital Management Limited and SCM Capital Limited acted as joint issuing houses to the issue.

FMDQ remains committed to developing the Nigerian bond market through a highly efficient registration process, instituting requisite world-class standards to drive transparency, governance, credibility and market liquidity, to boost growth in the Nigerian financial market.

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Pioneer Money Market Fund Memorandum Lists on FMDQ – The "Greenwich *Plus* Money Market Fund"

As a debt-capital focused securities exchange, bringing the Nigerian fixed income market operations under a single governance structure, FMDQ welcomed the pioneer money market fund memorandum listing to its platform – The Greenwich *Plus* Money Market Fund ("the Greenwich Fund").

To commemorate this occasion, FMDQ hosted the Fund Manager, Greenwich Asset Management Limited, represented by its Managing Director, Mr. Dayo Obisan; and FMDQ's Registration Member (Listings) and sponsor of the Fund on FMDQ's platform, Greenwich Trust Limited, Group Managing Director, Mr. Kayode Falowo ably represented by Mrs. Yetunde Demuren, Managing Director, Investment Banking, Greenwich Trust Limited to a Ceremony. In FMDQ's typically unique and impressive fashion, the Ceremony was marked by highlights which included the special autograph impression by the guest of honour, the Fund Manager, the unveiling of a plaque in favour of the Fund Manager, the signing of the FMDQ Funds Listing Register and the presentation of the FMDQ Certificate of Memorandum Listing to the Fund Manager, among others.

Commenting on this memorandum listing, Mr. Bola Onadele. Koko, Managing Director/CEO of FMDQ, commended the Fund Manager on its choice of securities exchange for the memorandum listing and reiterated the Exchange's commitment to facilitate growth and development in the Nigerian DCM. According to Mr. Onadele, in presenting an attractive and efficient platform for issuers/fund managers to list their money market and fixed income mutual funds, FMDQ, as a front-line regulator and an information repository, provides governance and ensures continuous disclosure/dissemination of key information on all funds listed on its platform, thus, improving information transparency whilst promoting credibility of the funds towards a more globally competitive DCM.

Ahead of signing the FMDQ Funds Listing Register, Mr. Dayo Obisan, during his special address noted that the choice to list the Greenwich Fund on FMDQ as the first collective investment scheme on its platform was a deliberate strategy to promote the transparency and visibility of the Fund, and be the pioneer money market mutual fund that would encourage others to be listed. He went on to note that the Greenwich Fund recorded the highest level of subscription at its initial public offering (IPO) after subscribers demonstrated confidence in the Greenwich brand by over-subscribing to the IPO by 44.85%. He also noted that the Fund remained open and reiterated that its core objectives were to achieve a competitive rate of return and generate a steady stream of income for the unitholders.

Following the presentation to FMDQ's Registration Member (Listings), Mrs. Yetunde Demuren, in her remarks noted that "the successful subscription of the Fund was a great feat, in view of the recent economic and financial markets conditions". According to her, "being the first money market mutual fund to be listed on this great platform, FMDQ, is remarkable for us all in the Greenwich Trust Group. We believe that the 44.85% oversubscription attests to the confidence investors have in the capability of the Fund Manager, Greenwich Asset Management. As such, we encourage all investors; retail, institutional and Pension Fund Administrators to invest in the Greenwich *Plus* Money Market Fund, as a means of portfolio diversification, and enjoy competitive returns on your investment".

The Vice President & Divisional Head, Marketing & Business Development at FMDQ, Ms. Tumi Sekoni, stated that "meeting the crucial requirements of FMDQ's stakeholders is of key importance to the Exchange and as such, FMDQ strives to continually look for ways in which it can provide added value to these stakeholders". FMDQ provides benefits to funds listed on its platform, including but not limited to, global visibility through the dedicated Funds Listing page on the Exchange's corporate website, and transparency to the funds through their inclusion in the FMDQ Daily Quotations List. FMDQ will also spearhead initiatives targeted at improving liquidity of the funds. All these and more will result in a well-regulated market, which will boost the confidence of investors (domestic and foreign) and serve to further develop the Nigerian financial market.

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FMDQ Turnover & Dealing Member (Banks)' League Table

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

The data, collated from the weekly trade data submissions by FMDQ Dealing Member (Banks), represents trades executed amongst the Dealing Member (Banks), Dealing Member (Banks) & Clients, and Dealing Member (Banks) & the CBN.

FMDQ OTC Market Turnover (January – October 2016)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	11,975,017	48,468
Foreign Exchange Derivatives	8,213,917	33,245
Treasury Bills	34,331,651	138,955
FGN Bonds	7,096,615	28,723
Other Bonds*	32,505	132
Eurobonds	53,663	217
Repurchase Agreements/Buy-Backs	26,250,116	106,246
Unsecured Placements/Takings	2,495,441	10,100
Money Market Derivatives	-	-
Total	**90,448,925**	**366,086**
No. of Business Days	209	209
Average Daily Turnover	**432,770**	**1,752**

mm- Million
USD/₦ @ 247.07 (This represents the weighted average rate from the start of the year)
*Other Bonds include Agency, Sub-national, Corporate & Supranational Bonds
Note: Figures may be subject to change due to potential adjustments from Dealing Member (Banks)
Source: FMDQ Data Portal as @ November 4, 2016; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the period January to October 2016 amounted to ₦90.45 trillion. Trading activities in T.bills contributed the largest to overall turnover, accounting for 38.00% of the market. Secured market transactions (Repos/Buy-backs) accounted for 29.00%, whilst FX market transactions accounted for 22.00%, FGN Bonds, 8.00% and Unsecured Placement & Takings, 3.00%, of overall market turnover.

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Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - October 2016)

The FMDQ League Table shows the rankings of its top ten (10) Dealing Member (Banks).

RANK	DEALING MEMBER (BANKS)
1	UNITED BANK FOR AFRICA PLC
2	ACCESS BANK PLC
3	STANBIC IBTC BANK PLC
4	ECOBANK NIGERIA LIMITED
5	FIRST BANK OF NIGERIA LIMITED
6	DIAMOND BANK PLC
7	CITIBANK NIGERIA LIMITED
8	FIRST CITY MONUMENT BANK LIMITED
9	UNION BANK OF NIGERIA PLC
10	STANDARD CHARTERED BANK NIGERIA LIMITED

The top ten (10) Dealing Member (Banks) accounted for 71.00% (₦109.84 trillion) of the overall turnover in the market, with the top three (3) accounting for 28.00% (₦43.10 trillion) of this sub-section of the market. United Bank for Africa PLC, Access Bank PLC and Stanbic IBTC Bank PLC maintained their positions at the top of the League Table, ranking 1st, 2nd and 3rd respectively, in the value traded for the overall OTC market. Ecobank Nigeria Limited moved up the League Table to occupy 4th place, displacing First Bank of Nigeria Limited, which settled at the 5th position. Union Bank of Nigeria PLC swapped places with Standard Chartered Bank of Nigeria Limited, to occupy 9th and 10th positions respectively.

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Upcoming Event

Second FMDQ ''Members Only'' Meeting for 2016

As part of its commitment to develop the Nigerian financial markets and in recognition of the crucial roles its various stakeholders play in this development, FMDQ is thrilled to host its Members to the second FMDQ "Members Only" Bi-Annual Meeting for 2016.

The Meeting, scheduled to hold on Friday, December 16, 2016, will highlight new initiatives as they impact the market and provide for an interactive session where different players in the FMDQ market, represented by the Dealing, Associate and Registration Members of FMDQ, will deliberate on and make contributions towards the development of the FMDQ markets and the Nigerian financial market at large. All Members are encouraged to attend.

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FMDQ Learning

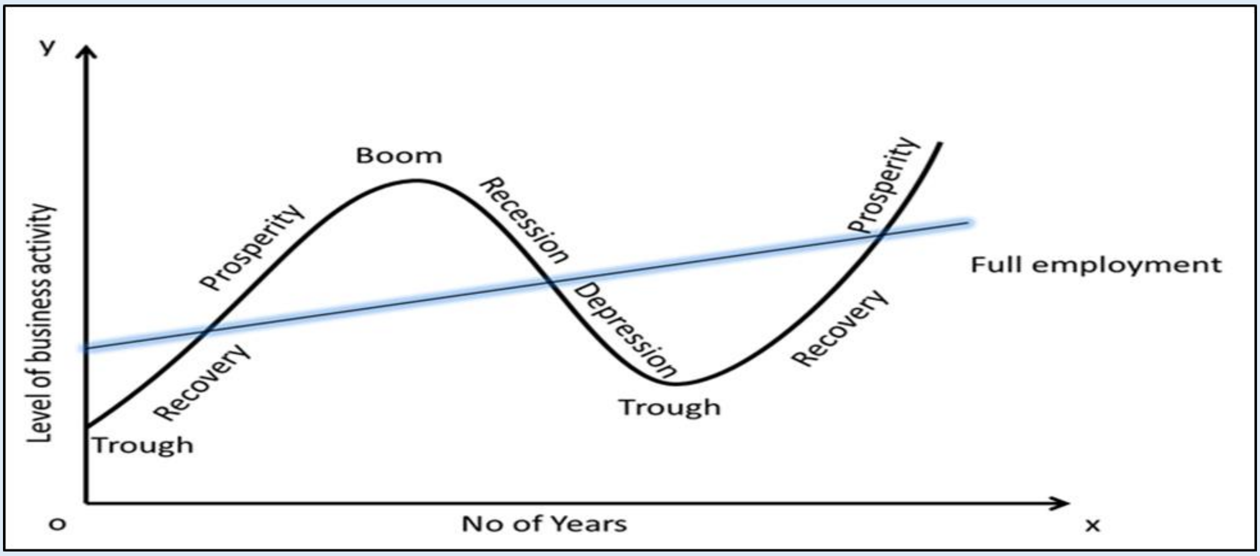
Economic Recession: Causes and Impact

What is an Economic Recession?

The United States National Bureau of Economic Research defines an economic recession as "*a significant decline in the economic activity spread across the country, lasting more than a few months, normally visible in real gross domestic product (GDP) growth, real personal income, employment (non-farm payrolls), industrial production, and wholesale-retail sales*". A technical (rule of thumb) perspective to an economic recession sees it as a period when a country's GDP declines consecutively for at least two (2) quarters on a quarter-on-quarter comparison. Economic recessions are generally characterised by a persistent decline in economic activities and output, which results in the worsening of key macroeconomic indicators such as employment, consumption, industrial production, stock market capitalisation, wholesale and retail sales, amongst others. Consequently, as income and employment weakens, the economy begins to experience increased poverty, hunger, crime and inequality. An example of an economic recession in recent history is the global economic recession of 2007/2008.

A "recession" represents one (1) of the four (4) phases of a business cycle (**see Figure 1 below)**, with the other phases being "boom", "trough", and "recovery". Recessions have been observed to succeed a period of sustained economic progress known as a **'boom'**; and when not promptly addressed, could result in a 'depression', which is characterised by a significant decline in income and employment. This in turn pushes the economy to its **'trough'**, a state which marks the end of output, representing a period of decline in employment, and the likely beginning of economic recovery. A **'recovery'** can be said to be underway when the GDP, employment and welfare parameters begin to improve.

Figure 1: Phases of a Business Cycle



Source: Oscar Education (2013)

Possible Causes of an Economic Recession

Several factors can trigger an economic recession. Key amongst these are:

- A sharp and unexpected increase in the price of the factors of production, which often leads to a decline in output, employment and consumer spending
- Persistent monetary policy tightening, seeking to reduce inflation through increase(s) in interest rate, which incidentally cascades to a shrink in credit, investment, and output
- Financial market crisis where credit expansion triggers a debt crisis as was experienced in the 2007/2008 global economic recession
- Persistent decline in the prices and/or demand for commodities, for countries with a dominant export sector

Irrespective of the cause(s) of an economic recession, it often depresses economic activities and creates an atmosphere of business uncertainty, with implications for investments across virtually all sectors of the economy, including the financial markets.

Impact of Economic Recession on Key Economic Indicators

- **Interest Rate:** Interest rates are generally expected to decline during an economic recession. Monetary authorities often pursue low interest rates during a recession to stimulate the economy and encourage spending. This has implications for yields across various asset classes, particularly fixed income securities. This decline in interest rates may drive out investors (who are typically after higher interest rates) to other markets where they can obtain a higher return on their investments

- **Exchange Rate:** An economic recession often triggers the exit of foreign portfolio investments to "safer" markets, thereby mounting a downward pressure on the local currency. Broadly speaking, the impact of a recession on exchange rate depends on the current account position of the economy. When an economy with a large current account deficit (the value of imports of goods/services/investment income is greater than the value of exports) experiences a recession, a trade deficit will mount a downward pressure on the currency. The reverse is true for an economy with a current account surplus (the value of imports of goods/services/investment income is less than the value of exports). This partly explains the scenario in the 2007/2008 global recession, where the United Kingdom experienced a significant depreciation of the British Pound, compared to the United States where the US Dollar remained largely stable

- **Inflation Rate:** Intuitively, an economic recession should trigger a decline in the inflation rate, however, experience across various countries shows that the root cause of the recession will determine how the inflation rate is impacted. Where a decline in aggregate supply occasions a recession, an inflationary trend is triggered as a knock-on effect of the high prices of factors of production. On the other hand, a recession induced by a slump in aggregate demand often triggers a deflation as disposable income and consumer spending shrink

Impact of Economic Recession on Securities Portfolios

- **Fixed Income Portfolios:** During an economic recession, fixed income portfolios often exert more resilience, given that the instruments characteristically have guaranteed returns, and could be 'risk-free' (for instance government securities). Consequently, sovereign bonds often witness increased demand pressure during an economic recession, which pushes up the bond prices and portfolio valuations. Nevertheless, should the monetary authorities increase the purchase of fixed income instruments in the secondary market, yields are bound to crash as systemic liquidity expands. It is worth noting that if the government expands domestic borrowing (through the bond market), as a way out of the recession, an upward pressure on interest rates will mount and reduce the value of bond portfolios

- **Equity Portfolios:** An economic recession is bound to have the most immediate impact on equity portfolios, given the correlation between economic indicators, earnings performance of companies and stock market indices. The expectations of a recession or an actual recession often trigger a crash in the stock prices, as investors exit equity holdings for safer asset classes such as cash and government securities. In addition, investors often adjust dividend expectations and risk premiums in stock valuations, hence making the intrinsic prices less attractive. Consequently, equity portfolios are severely impacted as stock market prices and indices shrink

How can Portfolios be made Recession-Proof?

An important strategy for investing before, during and after an economic recession is to keep an eye on the big picture, with limited attention to the historical evidence of the cyclicality of certain investments. Ordinarily, when confronted with a recession, risk-averse portfolio managers may adopt a strategy that is favourably disposed to safer securities such as treasury bills and government bonds, as opposed to corporate bonds (especially high-yield bonds) and mortgage-backed securities, since these instruments are riskier than government securities. Similarly, in the equities market, blue chip stocks across consumer goods, industrial goods and pharmaceuticals are often perceived to be recession-proof. Some strategies that can be adopted to combat the negative effects of a recession on portfolios include:

- **Diversify investments:** This is referred to as the golden rule. However, it is important to note that different asset classes perform well or poorly at different times. The key strategy is to always ensure that a portfolio is diversified across asset classes and geography, such that, if one is doing badly, another may be doing better, helping to hedge against concentration risk

- **Look beyond economic data:** Usually, economic data releases are backward-looking. At the onset of an economic slowdown, economic data might suggest otherwise, contradicting everyday experiences. Similarly, economic recovery takes time to fully reflect in published data

- **Reconsider 'cash' as a safe haven:** Inflation impacts the purchasing power of cash over time. Although the nominal value of money when invested as cash is secure, it should not be considered a "risk-free" option. Furthermore, rushing out of a perceived volatile market might deprive one of the opportunity to make quick returns when the market rebounds

- **Check for over-exposure:** Different sectors and asset classes are known to respond differently at different stages of the business cycle. Pharmaceuticals, consumer goods and industrial goods are relatively more resilient in a recession, compared to banking, insurance and construction sectors. The norm is to always hold sizable resilient asset classes during recessionary periods

- **Think long-term:** Since a recession is technically defined as two (2) consecutive quarters of negative growth in GDP, it might be valid to consider six (6) months in the average lifetime of a portfolio as not long. The most important consideration, however, is to ensure that the portfolio meets the stipulated investment policy, and is well diversified at any time

In summary, it is important to note that all investments are subject to risk. Even the 'safer' bond portfolios have interest rate, issuer default and inflation risks. Diversification does not guarantee an impressive return or protection against a loss in a declining market. Market concerns in a recession naturally raise anxiety about the prospect of portfolio declines and prompt risk-averse investors to run to 'safety'. Nevertheless, irrespective of the phase of the business cycle an economy is in, the most important consideration is for portfolio managers to have an asset allocation strategy that matches their risk tolerance and long-run portfolio objective.

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