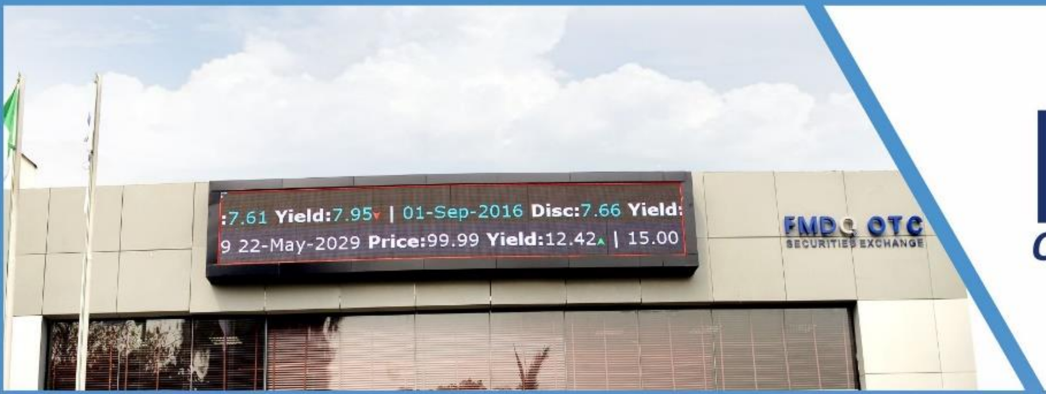
FMDQ SPOTLIGHT

NEWSLETTER EDITION 36 – OCTOBER 2017

FMDQ

OTC Securities Exchange



FMDQ
OTC Securities Exchange

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FMDQ Organises Cocktail Reception & Dinner Party in Honour of Immediate Past Chairman, Dr. (Mrs.) Sarah O. Alade, OON, and Retired Directors

On Friday, October 27, 2017, FMDQ OTC Securities Exchange (FMDQ or the OTC Exchange) held a befitting Cocktail Reception & Dinner Party in honour of the immediate past Chairman of the FMDQ Board of Directors, Dr. (Mrs.) Sarah O. Alade, OON, and six (6) other retired Non-Executive Directors, who served the OTC Exchange until April 28, 2017. The retired Non-Executive Directors who were also honoured at the event were Mr. Olabisi Onasanya, Chairman/Chief Executive Officer, The Address Homes Ltd.; Mr. Phillips Oduoza, Chairman, Nova Merchant Bank Ltd.; Mr. Yinka Sanni, Chief Executive, Stanbic IBTC Holdings PLC; Alhaji Muhammad Nda, Honourable Commissioner/Deputy Chairman, Niger State Planning Commission; Mr. Oscar N. Onyema, OON, Chief Executive Officer, The Nigerian Stock Exchange; and Mr. Sadiq Mohammed; Deputy Group Chief Executive Officer, ARM.

The event, which was held at the Intercontinental Hotel, Lagos, was well attended by FMDQ current and inaugural Board of Directors, including the inaugural Chairman, Mr. Aigboje Aig-Imoukhuede, CON, shareholders, FMDQ's Members, including Managing Director/CEOs of banks and other financial institutions, regulators, captains of industry, and the financial markets community in general, as invitees turned out in large numbers to honour the special guest of honour, Dr. Sarah Alade, also former Deputy Governor, Economic Policy Directorate, Central Bank of Nigeria, for her immense contributions to not just FMDQ, but to the Nigerian financial markets as a whole.

Welcoming the honourees and guests to the event, the Managing Director/CEO of FMDQ, Mr. Bola Onadele. Koko, in his address, thanked the honourees for their various contributions to the development of FMDQ and by extension, the Nigerian financial markets. Speaking about Dr. Sarah Alade, Mr. Onadele noted that she shepherded the establishment of FMDQ, in collaboration with other financial markets stakeholders, and led the OTC Exchange in accomplishing many firsts such as the listings and quotations of Federal Government of Nigeria Bonds and Treasury Bills on the OTC Exchange, the launch of the Naira-settled OTC FX Futures Market, amongst many others. Messrs. Olabisi Onasanya, Phillips Oduoza, Muhammad Nda and Yinka Sanni, were commended for their service on the FMDQ Board Governance and Human Resources Committee, in shaping the corporate governance standards of FMDQ and creating the foundation for FMDQ to aspire to be an employer of choice; Mr. Sadiq Mohammed was commended for his service on the FMDQ Board Listings, Markets and Technology Committee, in positioning FMDQ as a reputable market organiser; and Mr. Oscar N. Onyema, OON, for his immense guidance in establishing FMDQ as a platform for listing debt securities and an effective self-regulatory organisation.

The Chief Host and Chairman of the Board of FMDQ, Dr. Okwu Joseph Nnanna, represented by the Vice Chairman of FMDQ, Mr. Jibril Aku, during his special remarks expressed gratitude to the honourees, on behalf of the OTC Exchange, for their dedication in discharging their duties to FMDQ and affirmed his commitment to fostering a conducive environment for all stakeholders to build on the foundation which was laid by his predecessors. The Keynote Speaker, Mr. Bismarck Rewane, during his address, celebrated the special guest, Dr. Sarah Alade, as a focused individual and policy maker with very good intellectual depth, who rose through the ranks in the Nigerian public sector without any blemish to her reputation; he also acknowledged the transparency FMDQ has brought to the Nigerian financial markets.

Dr. Sarah Alade, during her remarks, which followed the unveiling of the publication in her honour, 'A Securities Exchange as an Agent of Change' (Vol. 2), a special FMDQ literature chronicling the progress of the OTC Exchange during her tenure as Chairman, expressed her appreciation for the opportunity to serve, while commending the other honourees and current Board Members for creating the enabling environment and offering the needed support for ensuring that FMDQ lived true to its founding mandate to empower the financial markets to be innovative and credible, in support of the Nigerian economy.

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Over $9.00 Billion Worth of OTC FX Futures Contracts Traded on FMDQ

As the "curtains come down" and the year draws to an end, FMDQ has so far recorded over $9.00 billion worth of the Naira-settled OTC FX Futures contracts, traded across different tenors (one (1) through to twelve (12) months) on the platform of the OTC Exchange. With about $6.31 billion of the contracts matured on FMDQ, the OTC FX Futures Exchange, market participants in the Nigerian financial market may appear to be gearing up for the planned introduction of other plain vanilla derivatives products in 2018 by FMDQ, ahead of more exotic types when the market is mature and ready.

Noteworthy is that, hedging products are key pillars in the global financial system which enable businesses around the world to invest freely and effectively hedge their risks/exposures. The development of a vibrant derivatives market in Nigeria therefore remains pivotal to the mandate of FMDQ.

The Central Bank of Nigeria (CBN), through its associated market activities, continues to support the growth and potential of the OTC FX Futures market, ensuring that at any point in time, there are available for trade, monthly OTC FX Futures contracts across twelve (12) months. On October 25, 2017, the NGUS OCT 25 2017 contract with notional amount of $480.87mm matured and settled on FMDQ and the CBN, consistent with its treatment for other maturities, introduced a new 12-month contract, NGUS OCT 31 2018, for $1.00 billion at $/₦361.89 to replace the matured contract. The matured NGUS OCT 25 2017 contract was valued against the NAFEX - Nigerian Autonomous Foreign Exchange Fixing - Spot rate as published by FMDQ on October 25, 2017 and the associated clearing/settlement effected by the Nigeria Inter-Bank Settlement System PLC (NIBSS), in line with the FMDQ OTC FX Futures Operational Standards.

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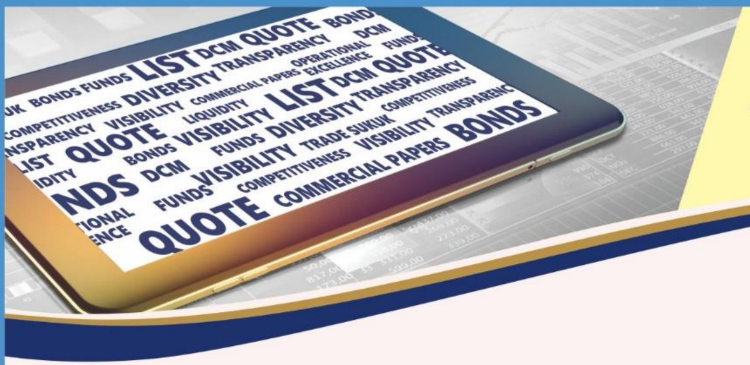

Corporates Tap the Debt Capital Markets as Lafarge and FCMB Register CP Programmes on FMDQ

In maintaining its support for the development of the Nigerian debt capital markets (DCM), FMDQ uses its platform, amongst others, to efficiently enhance the registration, listing, quotation and trading of debt securities in the Nigerian financial market space.

It is on this note that, following all due diligence, the OTC Exchange approved the registration of the Lafarge Africa PLC ₦60.00 billion and First City Monument Bank Limited (FCMB) ₦100.00 billion Commercial Paper (CP) Programmes, on its platform on October 17 & 25, 2017, respectively.

With the registration of these CP programmes, Lafarge Africa PLC and FCMB will be able to easily raise short-term finance from the DCM, within their respective programme limits, to support their business operations as at when required in the future. This is well in line with FMDQ's aspiration to support institutional growth and stimulate continuous development of the Nigerian economy at large.

FMDQ continues to exert commendable efforts in aligning the Nigerian financial markets to international standards, and has, through the promotion of product innovation and the championing of key market development initiatives, ensured that opportunities abound for the markets under its purview.

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FMDQ Quotes Over ₦17.00 Billion Wema Bank PLC's Commercial Paper Notes

Still within the month, FMDQ welcomed the quotation of the Wema Bank PLC ₦3.41 billion Series 1 and ₦13.62 billion Series 2 CP Notes under its ₦50.00 CP Issuance Programme to its platform.

The timely admission of these CP issues, and in general, all securities on FMDQ, is a testament of the efficiency of the FMDQ securities quotation process. The quoted CPs are availed global visibility and governance by FMDQ. In addition, FMDQ offers credibility and improved transparency of information, as part of the OTC Exchange's Listings and Quotations Service value-add.

FMDQ is positive about the possibilities of the Nigerian DCM, and will continue to articulate, with the support of its key stakeholders, ways to improve and make the Nigerian markets globally competitive, operationally excellent, liquid and diverse, in line with its mission to empower the financial markets to be innovative and credible, in support of the Nigerian economy.

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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 (Federal Government of Nigeria (FGN) Bonds, other Bonds (Agency, Sub-national, Corporate, Supranational & Sukuk) & 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 - September 2017)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	13,052,849	41,831
Foreign Exchange Derivatives	11,870,012	38,040
Treasury Bills	45,993,360	147,396
FGN Bonds	7,451,711	23,881
Other Bonds*	25,525	82
Eurobonds	68,890	221
Repurchase Agreements/Buy-Backs	23,594,908	75,615
Unsecured Placements/Takings	1,062,064	3,404
Money Market Derivatives	22,884	73
Commercial Papers	-	-
Total	**103,142,202**	**330,542**

No. of Business Days	187	187
Average Daily Turnover	**551,563**	**1,768**

Average Rate $/₦ @ 312.04

mm - million

**Other Bonds include Agency, Sub-national, Corporate & Supranational Bonds and Sukuk*

Note: Figures may be subject to change due to potential adjustments from Dealing Member (Banks)

Source: FMDQ Data Portal as @ October 4, 2017; Figures reported by Dealing Member (Banks) on a week-ending basis

FMDQ OTC Securities Exchange

The month of September 2017 recorded ₦11.34trn in turnover, a decrease of 12.05% when compared to ₦12.90trn recorded in August 2017, bringing the total year-to-date turnover to ₦103.14trn.

The month-on-month (MoM) reduction was largely attributed to decreased trading activities experienced in the Treasury Bills, Repurchase Agreements/Buy-Backs, Foreign Exchange Derivatives and Unsecured Placements/Takings product categories, which collectively make up 66.04% of overall turnover.

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Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - September 2017)

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

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

The top ten (10) Dealing Member (Banks) accounted for 68.72% (₦70.88trn) of the overall turnover in the market, with the top three (3) accounting for 43.99% (₦31.18trn) of this sub-section of the market. Stanbic IBTC Bank PLC, Access Bank PLC and Ecobank Nigeria Ltd. topped the League Table, ranking 1st, 2nd and 3rd respectively, in the value traded for the overall over-the-counter (OTC) market, maintaining their position in the League Table as the top three (3) banks for six (6) consecutive months.

The other Dealing Member (Banks) maintained their positions on the League Table with the exception of Standard Chartered Bank Nigeria Limited and Diamond Bank PLC, which swapped positions to occupy 6th and 7th places respectively.

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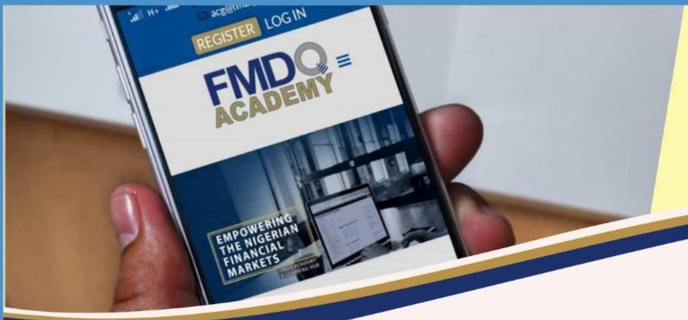

Understanding Bond Yields

The concept of Yield Curves was explored in the January – March 2017 editions of the FMDQ Spotlight, wherein a yield was defined as an annual return on an investment. This edition will examine the fundamentals of bond yields, including how they are determined and their relationship with bond prices. The yield on a bond investment is the return an investor gets by making such investment, and is computed based on the purchase price of the bond and the coupon (interest) payments received. Whilst the coupon rate is fixed, the price of a bond in the secondary market (mark-to-market price) responds to changes in the general interest rate movements, supply and demand dynamics, credit quality of the bond, as well as its time-to-maturity. The 'current yield' is the return on a bond investment as a percentage of the current price of the bond, while the 'yield-to-maturity' is an estimate of what an investor will receive if the bond is held to its maturity date. Between the above two (2) yield estimations, yield-to-maturity is the most common yield estimation in the bond market as it helps investors compare bonds with different maturities and coupons. It is calculated using a bond's current market price, par value, coupon rate (i.e. the agreed rate which a bond issuer pays the bond investor/subscriber, which is a percent of the bond's par value) and time to maturity. The yield-to-maturity calculation assumes that all coupon payments are reinvested at the same rate as the bond's current yield.

The primary bond market involves the issuance of new bonds by an issuer (e.g. corporate and sovereign) to subscribers/investors, at an offer price/market yield that is determined by the issuer, in line with the credit quality and liquidity of the bond, as well as the prevailing average market interest rate. It is important to note that a bond does not have to be held to maturity. Investors can sell such bonds in the secondary market where the prices fluctuate depending on demand and supply dynamics, as well as the level of market interest rates. If an investor buys a bond (in the secondary market) between coupon payments, the investor must compensate the seller of the bond for the coupon earned from the time of the last coupon payment to the settlement date of the bond. This amount is called accrued interest, and will be further explored in the November edition of the FMDQ Spotlight.

Determining Bond Yields

Bond yields are basically determined by the price of the bond in the secondary market. The price of a bond (corporate, sovereign, municipal, etc.) usually changes on a daily basis, just like any traded security in the debt or equity markets, as investors buy and sell such securities. The price of a bond is determined by discounting the future cash flows (coupon and principal payments) on the bond. In so doing, two (2) major parameters are critical to estimating the cash flows on a bond. These are the maturity date of the bond (at which time the principal, or face value of the bond is paid and the bond retired) and the coupon rate (which determines the periodic (e.g. twice-yearly) payments made to the bondholder by the issuer).

To illustrate, consider a hypothetical Federal Government of Nigeria (FGN) bond issued at 18.00% coupon rate on December 1, 2016 and maturing on December 1, 2020. The bondholder will be paid a coupon of 9.00% on the principal amount twice-yearly (say every June 1 and December 1) up until the maturity date (December 1, 2020) when the principal (and last coupon payment) will be paid. As a result, the price (or yield-to-maturity) of the bond can be determined using the below formula:

$$P = \left(\frac{CF_1}{(1+\frac{y}{200})^1}\right) + \left(\frac{CF_2}{(1+\frac{y}{200})^2}\right) + \cdots + \left(\frac{CF_N}{(1+\frac{y}{200})^N}\right)$$

Where P = price of the bond in the secondary market; N = number of semi-annual periods for coupon payments; y = yield-to-maturity (expressed in percentage points). Note that the yield is divided by 200 to convert the yield to a percentage on a semi-annual basis; and CF = cash flows in a given semi-annual period, and at maturity.

Relationship Between Bond Prices and Yields

Bond prices and yields have an inverse relationship i.e. move in opposite directions. Essentially, when yields go up, prices go down; and when yields go down, prices go up. This movement in opposite directions is primarily because when a bond is issued and traded in the secondary market, the demand and supply dynamics readjust the yields and prices in line with prevailing market interest rates. A decline in bond yields leads to capital appreciation for bond portfolios (as prices increase) whilst an increase in the yields causes the mark-to-market value of bond portfolios to decline.

To illustrate, consider a simplified scenario in which an investor purchases a bond with a par (face) value of ₦100.00 and a 10.00% annual coupon rate. The yield on the bond will be its annual coupon payment (which is ₦10.00 – i.e. 10.00% of ₦100.00,) divided by the par value (10/100 = 0.10), or 10.00%. If due to the market forces of demand and supply in the secondary market, the bond price fell to ₦90.00, the yield would have been (10/90 = 0.11) or 11.00%. On the contrary, if the bond price increased to ₦110.00, the yield would have been (10/110 = 0.09) or 9.00%. Thus, an increase (decrease) in the bond price leads to a corresponding decrease (increase) in the bond yield. It is important to note that the investor/bondholder would still receive the same amount of interest (coupon) payment, because the coupon rate is based on the bond's par value (i.e. ₦100.00).

FMDQ OTC Securities Exchange provides an efficient platform for an active secondary market for already issued bonds as well as the platform for the listing/quotation of bonds when issued in the primary market. Based on prevailing market conditions, already issued bonds can be purchased at a discount, par, or at a premium, in the secondary market. Worthy of note is that bonds are issued with a set face value and trade at par when the current price is equal to the face value, and traded at a premium when the current price is greater than the face value. Bonds offered on a discount, on the other hand, sell at a price below the face value of the bonds.

In summary, bond yields are determined by the prices of the bonds, which in turn, depend on the market conditions, particularly interest rate dynamics. Interest rates therefore, play an important role in determining the bond yields in both the primary and secondary bond markets.

Bond yields respond to the movement in monetary policy rate or yields on alternative asset classes as investors are always on the lookout for higher yields across various asset classes, and hence will demand high yields (lower bond prices) when the return on alternative asset classes increases, or when monetary policy authorities (such as the Central Bank) increase the monetary policy rate. Whilst bond yields-to-maturity and prices can both be used to describe the performance of a bond security or portfolio, it is customary for investors to refer to bond yields (rather than bond prices) as it allows for comparison with other interest-yielding financial securities and asset classes.

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