FMDQ SPOTLIGHT

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New Stories

FMDQ Set to Admit Inaugural Listing of Federal Government of Nigeria Eurobonds

In consolidation of the strategic and value-adding initiatives spearheaded by FMDQ OTC Securities Exchange ("FMDQ" or "OTC Securities Exchange") in developing the Nigerian financial markets, the OTC Exchange, in an unprecedented event in the history of the Nigerian debt capital market (DCM), is set to admit the pioneer listing of the $1.00bn Federal Government of Nigeria (FGN) Eurobond to its platform. The FGN, on February 9, 2017, announced the pricing of its offering of $1.00bn Notes (Eurobond) under its $1.00bn Global Medium-Term Note Programme. Following a series of engagements by FMDQ on the importance of promoting and supporting economic development in the country through the opening of Eurobonds to the domestic DCM via the OTC Exchange's platform, this welcome and laudable development, which market participants believe will set the pace for global competitiveness and invariably deepen the Nigerian financial markets in no small measure, lays credence to the underlying objectives for the birth and operational mandate of FMDQ.

The issuance of the $1.00bn FGN Eurobond is aimed at fostering economic development and will serve to rejuvenate the vibrancy of the nation's foreign exchange (FX) market. Remarkably so, this is the first time the sovereign's Eurobond will be considered for listing on a domestic Exchange, following the nation's first and second outings to the international capital markets in 2011 and 2013 respectively. This most commendable consideration follows the decision of the Debt Management Office (DMO), Nigeria, (the authority under which the FGN issues Bonds and Treasury Bills) and the Ministry of Finance to list the Eurobond on an efficient domestic securities exchange such as FMDQ, to deepen and support the development of the local DCM.

In streamlining its processes and ensuring an efficient time-to-market for debt securities, FMDQ, being Nigeria's foremost debt capital-focused OTC securities exchange, has continued to provide a highly resourceful platform for the registration, listing of Bonds (Sovereign, Agency, Sub-national, Corporate, Supranational, as well as Eurobonds and Sukuk), Funds and the quotation of Commercial Papers, Treasury Bills and other short-term securities as may arise from time to time, to meet the needs of the market participants. Whilst currently providing improved transparency, effective price formation and enhanced secondary market liquidity through its Dealing Members, who are responsible for circa 99.00% of the secondary market trading activity in FGN Bonds and Nigerian Treasury Bills on FMDQ, the OTC Exchange, in admitting the $1.00bn Eurobond for listing and trading, will continue to lend itself as a worthy and operationally excellent platform, serving as the point of integration between the domestic and international markets. The OTC Exchange, since its debut into the Nigerian financial market landscape, already granted permitted trading status for $1.50bn of the previously issued FGN Eurobonds and $3.15bn of Eurobonds issued by Nigerian companies.

With its audacious vision to be No. 1 in Africa in the fixed income and currency markets by 2019, the listing and eventual trading of the FGN Eurobonds on FMDQ, the first of its kind in the nation, will see the securities gain access to the full complement of the FMDQ Listings and Quotations service, which includes efficient clearing and settlement structures, unprecedented transparency, and improved network effects, among others.

FMDQ, in its capacity as a market organiser and information repository, provides credible market infrastructures to aggregate and transmit all trade reports from its Dealing Members acting as liquidity providers to the Eurobonds, ensuring continuous information symmetry. In appreciation of the important role which a transparent and regulated market plays in boosting investor confidence, the OTC Exchange will also publish relevant market data and information as necessary.

FMDQ, through effective collaboration, continues to garner the support of its varied stakeholders and has remained committed to transforming and positioning the Nigerian financial markets towards becoming a regional financial centre. From the introduction of short-term and private companies' bonds, the standardisation of the repurchase agreements with collateral management trading, to financial markets education, and most recently, the strategic partnership with S&P Dow Jones Indices for the co-branding of Nigerian fixed income indices, FMDQ, in 2017, will, despite the economic headwinds, relentlessly champion initiatives, aimed at empowering the global competitiveness of the Nigerian debt capital, currencies and OTC derivatives markets, towards promoting sustainable development for corporate and commercial entities, and ultimately, the nation's economy.

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FMDQ Partners S&P Dow Jones Indices to Develop and Co-brand Fixed Income Indices in Nigeria

As part of its mandate to improve price discovery and transparency in the Nigerian financial markets, FMDQ formalised its partnership with S&P Dow Jones Indices (SPDJI) through the signing of a memorandum of understanding (MoU) for the development and publication of co-branded fixed income indices in the Nigerian financial market at a brief ceremony on Tuesday, February 7, 2017, at FMDQ's offices.

In attendance to witness this landmark event were representatives of SPDJI, led by Mr. Kurt Zyla, Managing Director & Global Head of Exchange Relationships, SPDJI; the Director-General, Securities and Exchange Commission (SEC), represented by Mr. Stephen A. Falomo, Head, Lagos Zonal Office, SEC; Director-General of the National Pension Commission, represented by Mr. Babatunde Oladipo Phillips, Head, Benefits Administration Unit; representatives of the Executive Board of the Pension Fund Operators of Nigeria, the Fund Managers Association of Nigeria, the Financial Markets Dealers Association, and the Association Of Corporate Treasurers of Nigeria; and other key players in the Nigerian financial markets landscape.

The partnership between FMDQ and SPDJI signals the adoption of the S&P Nigeria Sovereign Bond Index, by FMDQ, ahead of the co-branding of the Index in the near-term. The S&P Nigeria Sovereign Bond Index tracks the performance of the Federal Government of Nigeria (FGN) local currency denominated bonds.

SPDJI is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500® and the Dow Jones Industrial Average®. More assets are invested in products based on SPDJI than on any other provider in the world.

Speaking at the ceremony, Mr. Bola Onadele. Koko, Managing Director/CEO, FMDQ, said, "This is indeed a landmark achievement as the development of these co-branded fixed income indices aims to revolutionise the face of the Nigerian financial markets by providing investors with a consistent, credible and objective measure for the performance of their investments in the Nigerian financial markets. This will likewise serve as an acceptable benchmark for the fixed income market and provide transparent and credible information to the investing public and other persons with interest in the Nigerian financial market".

According to Mr. Alex Matturri, Chief Executive Officer, S&P Dow Jones Indices, "S&P Dow Jones Indices has been calculating Nigerian indices for a number of years and we have more recently expanded our offering to include dividend and fixed income indices. We're delighted to officially sign the memorandum of understanding between S&P Dow Jones Indices and FMDQ and the adoption of the S&P Nigeria Sovereign Bond Index. As the Nigerian financial market develops and FMDQ establishes its position as the foremost debt capital securities exchange, we're pleased to be able to bring greater index-based solutions, research and analysis to the Nigerian market.

Following the adoption of the S&P Nigeria Sovereign Bond Index and our partnership with FMDQ, we're looking forward to meeting the evolving needs of investors for benchmarks that will continue to define the way investors measure and trade the market".

FMDQ remains resolute and unwavering in its commitment to develop the Nigerian debt capital market and promote an efficient, transparent, and well-regulated financial market, which will attract and retain investors, both domestic and foreign.

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Ghanaian Financial Services Representatives Visit FMDQ on Study Tour

For the second time since its inception, FMDQ played host to key representatives from the Ghanaian financial markets, including the Ghana Stock Exchange, Central Securities Depository (Gh) Ltd., Ministry of Finance, Central Bank of Ghana and securities dealing firms, who visited the OTC Exchange in Lagos, on a study tour to gain an in-depth appreciation of FMDQ's businesses and operations, with a view to upgrading their market operations.

They noted that in its capacity as a market organiser and self-regulatory organisation, FMDQ has significantly impacted on the development of its markets (products and infrastructure); and this repeat visit provided the representatives with a unique opportunity to closely interact and understand the operational modalities of the OTC Exchange, as a model for the Ghanaian fixed income market.

Following a review of FMDQ's business services and operations, and ahead of discussions towards effective collaboration, the representatives noted key challenges imminent in driving positive change and upholding governance in a previously opaque market; and acknowledged the level of growth and development being engineered by FMDQ in the Nigerian and African capital markets space.

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International Finance Corporation's Leadership Delegation Visits FMDQ

At a very insightful meeting which held at the FMDQ offices in Lagos, a leadership delegation of the International Finance Corporation (IFC), led by the Vice President & Treasurer, Mr. Jingdong Hua, showed their deep-rooted interest towards developing the Nigerian capital market in collaboration with FMDQ.

This high-level meeting provided a platform for FMDQ and IFC to brainstorm on strategic initiatives to be delivered through the collective efforts of both organisations, crucial to deepen and endear improved global participation in the Nigerian markets. These initiatives are expected to positively impact the Nigerian capital market, aligning it with international standards and making it "GOLD" – **G**lobally competitive, **O**perationally excellent, **L**iquid and **D**iverse – in line with FMDQ's operational mandate for the transformation of the markets within its purview.

By consolidating on its strategic alliances, FMDQ remains committed to the growth of the Nigerian capital markets, with a particular focus on the debt capital market, and shall continue to strive to ensure that the market's potential is realised, for the ultimate benefit of the Nigerian economy and its citizenry.

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FMDQ
OTC Securities Exchange
...empowering the Nigerian debt capital & FX markets

FX Market Receives Fresh Boost, as CBN Releases New Policy Actions

On February 20, 2017, the Central Bank of Nigeria (CBN) released new policy actions for the Nigerian FX market. Amongst others, the CBN will, effective immediately, provide additional funding to banks, commensurate with their demand per week, to enable them meet the needs of the citizenry for personal & business travel allowances, medical needs and school fees. In addition to this, the CBN reduced the tenor of its Forward sales from the current maximum cycle of 180 days to no more than 60 days from the date of transaction, and plans to implement a program that will clear all unfilled orders in the inter-bank FX market without imposing allocation/utilisation rules on the commercial banks.

Furthermore, as part of efforts towards restoring the vibrancy of the FX market, the apex bank also announced its plan to implement an intervention program which will ensure adequate liquidity in the inter-bank market. FMDQ, on the other hand, has been mandated to activate its FX Order-Book systems and accelerate the onboarding of FX clients. These actions, where successfully implemented, should improve FX market transparency and likely increase foreign/Nigerian portfolio investments and foreign direct investments in the medium- to long-term. Market participants have commended the CBN on these welcome developments and look forward to the successful implementation of same.

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OTC FX Futures Market Records $6.00bn Transactions on FMDQ

With activities for the trading year in full gear, the 8th Naira-settled OTC FX Futures contract, NGUS FEB 22 2017, with notional amount $266.17mm, matured and settled on FMDQ, on Wednesday, February 22, 2017. The contract, which stopped trading on Tuesday, February 14, 2017, was valued against the Nigerian Inter-Bank Foreign Exchange Fixing (NIFEX) Spot rate as published by FMDQ on February 22, 2017. This brings the total value of contracts so far matured on the OTC Exchange to $2.07bn, and circa $6.00bn worth of OTC FX Futures contracts traded so far. With the recently published FX Policy actions by the CBN, it is expected that more vibrancy will be ignited in the FX market.

The CBN, having shown its support for the OTC FX Futures product as evidenced during its launch on FMDQ's platform, remains the pioneer and sole seller of the OTC FX Futures contracts. It has introduced a new contract, NGUS FEB 28 2018, for $1.00bn at $/₦291.25 to replace the just matured NGUS FEB 22 2017 contract, as well as repriced its quotes on the existing 1- to 11-month contracts. These quotes are available on FMDQ's website.

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FMDQ Listings & Quotations

Dufil Prima Quotes ₦4.50bn Commercial Paper Notes on FMDQ

In acknowledging the value-add derived by government and corporate entities in 2016 from its credible and efficient platform, FMDQ has diligently continued to support the deepening of the Nigerian DCM through the offerings of its unique Listings and Quotations service.

Commendably, in consideration of the prevailing economic reality in Nigeria, the OTC Exchange continuously aligns its processes and infrastructure to further enhance the ease of raising domestic capital via accessibility to the Nigerian DCM. Consequently, following the approval of the FMDQ Board Listings, Markets and Technology Committee, the OTC Exchange has admitted the quotation of the Dufil Prima Foods PLC ₦20,000,000.00 Series 2, ₦1,103,830,000.00 Series 3 and ₦3,304,900,000.00 Series 4 Commercial Paper (CP) Notes under its ₦30,000,000,000.00 CP Programme.

These CP notes, which will enhance the liquidity buffers of Dufil Prima, a key player in the Nigerian fast moving consumer goods industry, will be availed adequate governance, through their quotation on FMDQ, to ensure the notes remain credible. These issues will also enjoy transparency through continuous disclosure of information as hosted on the quotation's page of FMDQ's website, for the ultimate benefit of the investors and alignment of the OTC Exchange's markets to international best practices.

With activities for the year fully taking off, FMDQ's goal of making the OTC markets globally competitive remains valid, as the OTC Exchange maintains its focus on sustaining its standard of providing a quality and reliable platform, with unrivalled market data and information, whilst promoting price discovery, transparency and efficiency. Through consistent collaboration with its stakeholders, FMDQ shall continue to leverage on opportunities to deliver value to the OTC markets within its purview and by extension, the nation's economy.

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Forte Oil PLC Lists ₦9.00bn Bond on FMDQ; 1st Corporate Bond Listing in 2017

Closely following the quotation of the Dufil Prima Foods commercial paper notes, was the admittance for listing of the **₦9.00bn Forte Oil PLC Bond (Series 1 under a ₦50.00bn Medium-Term Bond Programme)** on FMDQ. This listing is the first corporate debt listing in 2017 and attests to the largely untapped potential of the Nigerian DCM, which from inception, FMDQ has, through its systems and other relevant market infrastructures, committed to making "GOLD" – **G**lobally competitive, **L**iquid, **O**perationally excellent and **D**iverse.

As part of its commitment to continually deliver exceptional value to the Nigerian financial markets and its stakeholders, the OTC Exchange demonstrated its steadfastness as it again achieved swift time to market in the listing process. To commemorate the listing of the Forte Oil bond, a ceremony was held in honour of the issuer. Amongst those present to celebrate the successful admittance of the Forte Oil Bond on FMDQ were, the guest of honour, Mr. Akin Akinfemiwa, Group Chief Executive Officer, Forte Oil PLC, representing the issuer; and Mrs. Toyin Sanni, Group Chief Executive Officer, United Capital PLC, representing the sponsor of the bond, as well as the Registration Member (Listings) (RML), on FMDQ's platform.

In her welcome address, Ms. Tumi Sekoni, Vice President & Divisional Head, Marketing & Business Development at FMDQ, applauded the issuer for successfully raising ₦9.00bn from the domestic market, and for joining the league of other top companies whose debt profiles have been raised via the value-packed Listings and Quotations service offered by FMDQ. According to her, being listed on FMDQ will avail the Forte Oil PLC Bond unprecedented market transparency, unrivalled information disclosure, efficient price formation and improved global visibility, among other benefits, through FMDQ's systems and website.

Speaking during his special address, Mr. Akin Akinfemiwa highlighted that, "The Listing of our ₦9.00bn Series 1, 5-year 17.50% Fixed Rate Bond maturing in 2021 on FMDQ OTC Securities Exchange is another remarkable milestone for Forte Oil PLC and it demonstrates the immense potential of the Nigerian Bond Market as a source of alternative funding for Nigerian Corporates. It also reaffirms our commitment to transparent and timely corporate disclosures and liquidity of our issued corporate instruments be it equity or debt. In addition, we strongly believe this listing will provide opportunity for price discovery for our investors."

Accordingly, as is the tradition of the OTC Exchange, the issuer, sponsor of the bond & FMDQ RML, and FMDQ signed the FMDQ Bond Listings Register, after which an FMDQ Bond Listing Certificate was presented to the issuer. The FMDQ Listing Scrolls and Plaques were unveiled and presented to both the issuer and sponsor of the bond, and the FMDQ Bond Listing Wall of Fame was autographed by the issuer.

Following the presentation to the sponsor of the bond on FMDQ, Mrs. Toyin Sanni said, "We are delighted to have played a leading role in the successful execution of the Forte Oil ₦9.00bn Series 1 Bond issue. Coming from a successful 2016, United Capital remains committed to making significant contributions to the success of our esteemed clients. This successful issuance represents one of the ways in which we support leading businesses through our expertise in capital raising. United Capital has played a pioneering role in developing Nigeria's debt capital market having participated in 70.00% of Debt Capital transactions executed between 2015 and 2016. It is noteworthy that United Capital has invested up to ₦60.00bn in bonds issued by Nigerian State Governments and Corporate Issuers during this period. We will continue to support Nigerian governments and businesses with superior Advisory, Capital Raising, Trade Execution, Asset Management and Trust services. This is a true testament to our industry leadership and expertise."

FMDQ's platform, through its unique Listings and Quotations service, has continued to provide an efficient and timely channel for issuers in the Nigerian debt capital market to access the market for their funding needs. Despite the economic headwinds, the OTC Exchange remains unrelenting in its efforts to promote and build on initiatives and strategic alliances, to further deepen the markets within its purview.

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Sterling Bank PLC and FCMB SPV PLC Raise Debt Capital on FMDQ Markets

Still in February, FMDQ admitted the quotation of the Sterling Bank PLC ₦2.40bn Series 1-3 Commercial Paper (CP) Notes (the Sterling Bank CP), under its ₦100.00bn CP Programme and the listing of the FCMB Financing SPV PLC ₦5.10bn 7-year 17.25% Series 3 Fixed Rate Unsecured Bond (the FCMB SPV Bond) under its ₦100.00bn Debt Issuance Programme, to its platform.

The successive admittance of these securities, following due approval from the FMDQ Board Listings, Markets and Technology Committee, attests to the highly efficient time to market and uniquely tailored Listings and Quotations service offered by FMDQ. In the coming weeks, respective ceremonies will be held in honour of the issuers, Sterling Bank PLC and FCMB SPV PLC to commemorate these achievements.

From the continuous provision of invaluable information, to global visibility, improved secondary market liquidity, efficient price formation and unique transparency, the activities and value-adding services of the OTC Exchange continue to be experienced by businesses, corporate and government entities with debt securities listed/quoted on FMDQ.

As part of FMDQ's commitment to organise, govern and enforce credibility and transparency in the debt capital market space, the OTC Exchange has, through its innovative practices and the concerted efforts of its stakeholders, positively influenced the competitiveness of the Nigerian financial markets. FMDQ shall continue to validate its operational mandate of aligning the markets within its purview to international standards, striving to ensure they emerge as globally competitive, operationally excellent, liquid and diverse. Through the continued support for institutional growth, the OTC Exchange shall invariably contribute its quota to rejuvenating the vibrancy 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 [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 2017)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	421,646	1,365
Foreign Exchange Derivatives	1,194,430	3,867
Treasury Bills	5,260,173	17,030
FGN Bonds	1,258,260	4,074
Other Bonds*	29	0
Eurobonds	8,812	29
Repurchase Agreements/Buy-Backs	2,659,845	8,612
Unsecured Placements/Takings	39,603	128
Money Market Derivatives	630	2
Commercial Papers	-	-
Total	**10,843,427**	**35,107**

No. of Business Days	20	20
Average Daily Turnover	**542,171**	**1,755**

mm - million
Average $/₦ @ 308.87
*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 @ February 6, 2016; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for January 2017 amounted to ₦10.84trn. Trading activities in T.bills contributed the largest to overall turnover, accounting for 48.51% of the market. Secured market transactions (Repos/Buy-backs) accounted for 24.53%, whilst FX market transactions accounted for 14.90%, Bonds, 11.60%, with Unsecured Placement & Takings, Money Market Derivatives and Commercial Papers representing less than 1.00%, of overall market turnover.

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

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

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

The top ten (10) Dealing Member (Banks) accounted for 70.45% (₦7.64trn) of the overall turnover in the market, with the top three (3) accounting for 29.70% (₦3.22trn) of this sub-section of the market. Ecobank Nigeria Ltd., Access Bank PLC and United Bank for Africa PLC commenced the year as the leaders in the value traded for the overall OTC market, ranking 1st, 2nd and 3rd respectively.

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FMDQ Learning

Introduction to Yield Curves – Part 2

This is the second part of a three (3)-part series on an "Introduction to Yield Curves". Part one (1) (published in the FMDQ Spotlight - January 2017 edition) provided an overview of the concept of the yield curve as a graphical representation of the position of yields [across different maturity spectrums, ranging typically from one (1) month to thirty (30) years] in the fixed income market. Essentially, the curve shows the yields that investors are willing to lock-in now on fixed income securities (particularly bonds and treasury bills) across various maturities into the future. It also depicts yield differences, or yield spreads, that result from differences in the maturities of various fixed income securities. The yield curve is therefore seen to convey the overall relationship that prevails between interest rates and maturities of fixed income securities, holding factors such as credit quality, issuer rating, etc. constant. The three (3) distinct shapes of the yield curve - normal, inverted and humped - were also explored.

In this part of the series, we will focus on the various uses of the yield curve in investment analysis in the fixed income market.

Uses of the Yield Curve in Investment Analysis

Every yield curve tells a unique story, especially with regards to investors' future interest rates expectations and the various risk premiums demanded on short-, medium- and long-term fixed income instruments. Major uses and inferences derivable from various shapes of the yield curve include, but are not limited to:

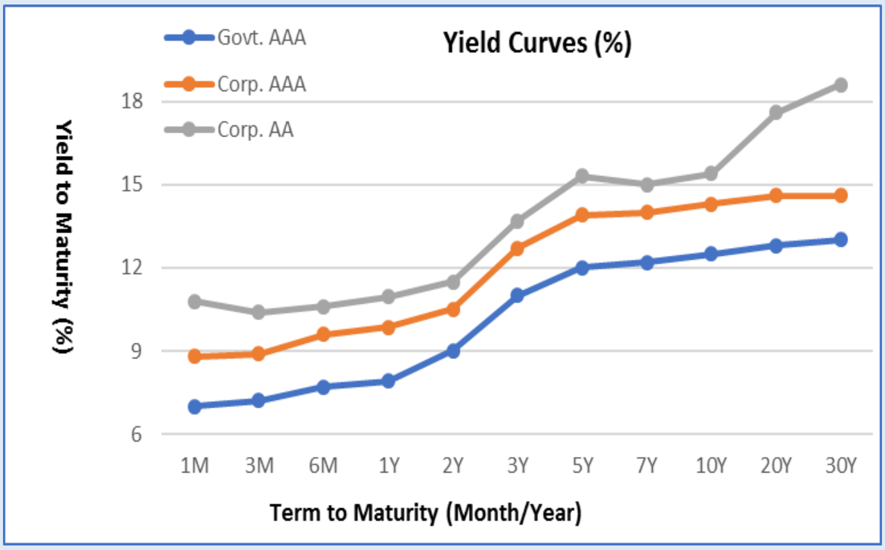
- **Indicator of Future Macroeconomic Direction:** The shape of the yield curve is a leading indicator of economic conditions, giving a signal of investors' sentiments and expectations of future macroeconomic trends. For example, a normal, upward-sloping yield curve generally indicates that investors expect impressive future economic performance, with a stronger growth in the gross domestic product, which should give rise to higher inflation and interest rates. Similarly, an economic recovery can be predicted by a steep upward-sloping yield curve where investors demand higher yields for longer maturities, following expectations that an economic recovery will induce an inflationary trend which might cause the monetary authority to raise interest rates. In contrast, an inverted yield curve could be signaling a near-term recession as higher yields on short-term treasury bills and bonds (and lower yields on long-term bonds) communicate investors' expectations of a decline in future interest rates, lower inflation, and a possible recession

- **Benchmark for Pricing Fixed Income Securities:** By default, government-issued fixed income securities are generally perceived to be risk-free. Investors, therefore, use the expected yield from the "risk-free" securities to price other fixed income securities to generate a yield that adequately compensates the perceived level of risk from investing in these other securities

  For example, as at January 31, 2017, the 15.54% 13-FEB-2020 FGN Bond with a term-to-maturity of 3.04 years had an average yield of 16.36%. In comparison, State Government and Corporate Bonds with similar maturity profiles had average yields of 17.42% - 19.44%, and 18.75% - 20.44% respectively. The yield spread (difference in the yield on two (2) securities of similar characteristics) reflects the credit risk premiums investors attach to the two (2) categories of securities on issue.

  For illustration purposes, we examine three (3) categories of bonds listed on *Exchange XYZ* as follows: "AAA" rated Federal Government Bonds ("Govt. AAA") and Corporate Bonds of "AAA" ("Corp. AAA") and "AA" ("Corp. AA") ratings, all with similar maturities of between one (1) month to thirty (30) years. The respective yield curves and spreads are presented in the chart and table below.

  The chart shows that the curve for "Govt. AAA", which will typically be of a low-risk profile, lies below the "Corp. AAA" and "Corp. AA", serving as a reference yield.



  Similarly, the yield spread across the three (3) bond categories, as can be seen from the Yield Curve Comparison Table below, shows the risk premium investors demand as compensation for investing in the "riskier" Corporate Bonds i.e. "Corp. AAA" and "Corp. AA". This implies that, for instance, investors demand a 4.00% (or 400 basis point) premium over an AAA-rated 30-year Federal Government Bond to invest in an AA-rated 30-year Corporate Bond.

Yield Curve Comparison (%)					
Maturity	Govt. Bonds	Corporate Bonds		Spread over Govt. Bonds	
	Govt. AAA	Corp. AAA	Corp. AA	Corp. AAA	Corp. AA
1M	7.00	8.80	10.80	1.80	2.00
3M	7.20	8.90	10.40	1.70	1.50
6M	7.70	9.60	10.60	1.90	1.00
1Y	7.90	9.80	10.90	1.90	1.10
2Y	9.00	10.50	11.50	1.50	1.00
3Y	11.00	12.70	13.70	1.70	1.00
5Y	12.00	13.90	15.30	1.90	1.40
7Y	12.20	14.00	15.00	1.80	1.00
10Y	12.50	14.30	15.40	1.80	1.10
20Y	12.80	14.60	17.60	1.80	3.00
30Y	13.00	14.60	18.60	1.60	4.00

Note: The above is for illustration purposes only

The yield curve can, therefore, be seen to offer a unique tool for extracting the "relative value" of a fixed income security through comparison with another "benchmark" security of similar maturity. Investors can compare the yield curve of an AAA-rated Federal Government Bond, for example, with that of an AA-rated Corporate or Municipal Bond to determine their probable yield (known as yield spread) should they assume some credit risk.

Similarly, the yield spread can also be evaluated from a "current yield vs historical yield" perspective for the same fixed income instrument, as a way of estimating the relative attractiveness of the security. The yield curve could also be used to compare the yield across different maturities within the same fixed income classification, such as the yield spread between a 2- and 10-year Corporate Bond.

- **Portfolio Management Strategy:** Fixed income portfolio managers often benchmark the performance of the assets in their portfolios against expected movements in the yield curve, in order to boost returns across diverse interest rate scenarios. In this regard, three (3) yield curve strategies (***bullet***, ***barrel*** and ***ladder***) are often referred. In a ***bullet*** strategy, the maturities of all the securities in the portfolio are concentrated at a point on the yield curve [say ten (10) years], while the ***barrel*** strategy concentrates the maturities of the securities in a portfolio at two (2) extreme points on the yield curve [say five (5) and twenty (20) years]. The ***ladder*** strategy, on the other hand, involves the allocation of the same amount of securities across various maturities such that a given amount matures periodically

  Other yield curve strategies which are employed by fixed income portfolio managers include: "***riding the yield curve***", or "***playing the yield curve***" in which bond investments, for instance, are made at calculated terms to maturity such that as each bond approaches maturity, it is valued at a successively lower yield, and hence higher prices.

In summary, the yield curve lends itself as a useful tool in investment analysis; providing a clue on the future macroeconomic direction (forecasting a recession or an economic boom), as well as being an important valuation tool for portfolio managers. Yield curves tell a unique story which investment professionals explore to optimise returns in the fixed income market, and a skillful analysis of the slope of the yield curve facilitates investment decision across short-, medium- and long-tenored fixed income securities.

The third (and final) part of this “Introduction to Yield Curves” series will explore the Nigerian Sovereign Yield Curve, exploring its shape and uses in the Nigerian fixed income market.

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