FMDQ SPOTLIGHT

Newsletter Edition 27 – January 2017

Contents

New Stories

FMDQ Achieves ₦113.66 trillion 2016 Market Turnover

FMDQ OTC Securities Exchange ('FMDQ' or the 'OTC Exchange'), has since its launch onto the Nigerian financial markets landscape in 2013, championed initiatives geared towards providing an enabling environment for the growth and development of the Nigerian fixed income, currencies and derivatives markets and the economy at large. As a market organiser, the OTC Exchange has through its product and market development initiatives empowered the markets within its purview to enhance their global competitiveness, transparency and liquidity. As a self-regulatory organisation and front-line regulator of its Members' activities, FMDQ has led strategic initiatives, ensuring that requisite and quality oversight is availed to make the Nigerian markets credible, in line with international standards.

The year 2016, challenged and beleaguered with plummeting oil prices, limited access to foreign exchange (FX), high inflation, low investor confidence (both local and foreign), etc., had a significant impact on trading activities. As a result, FMDQ saw its turnover decrease from ₦137.43trn in 2015 to ₦113.66trn in 2016, a year-on-year (YoY) decline of 17%. However, despite the overall YoY decline, the OTC Exchange experienced positive growth in the Foreign Exchange Derivatives product line, propelled by the introduction of the OTC FX Futures product into the market.

Trading activities in T.bills contributed the largest to overall turnover, accounting for 40.00% of the market. Secured market transactions (Repos/Buy-backs) accounted for 27.00%, whilst foreign exchange (FX) market transactions accounted for 22.00%, Bonds, 8.00% and Money Markets transactions (which include Unsecured Placement & Takings, Commercial Papers and Money Market Derivatives), 3.00%, of overall market turnover. The turnover represents trades executed among Dealing Members, Dealing Members & Clients, and Dealing Members & the Central Bank of Nigeria (CBN).

Though mindful of the economic headwinds, FMDQ looks ahead into 2017 with much enthusiasm. The OTC Exchange expects to continue to focus on its core mandate, leveraging on and garnering the collaborative support of its stakeholders, in order to foster economic development relevant to the growth of the Nigerian financial markets. Chief among the initiatives which FMDQ will focus on for 2017 include the following:

- Standardisation of repurchase agreements trading (with collateral management)
- New products development geared towards short-term and private companies' bonds
- Financial markets education for FMDQ markets' stakeholders
- Development of the non-interest finance (Sukuk) market
- Expansion of the fixed income and currency derivatives market
- Nigerian debt capital market development in line with the Capital Market Master Plan of the Securities and Exchange Commission (SEC)

Back to Top

FMDQ Sponsors Market Development Seminar of the Financial Markets Dealers Association

The Financial Markets Dealers Association ('FMDA' or 'the Association'), in line with its commitment to develop human capital within the Nigerian financial markets, and in acknowledgment of financial market risk management as a pre-requisite for a sound and globally competitive market, hosted key financial markets stakeholders to a one-day Conference themed "**The Justification for Interest Rate Derivatives in The Nigerian Financial Market**" on January 18, 2017 at the Eko Hotels & Suites, Victoria Island, Lagos. The Conference sought to achieve the following objectives:

- Provide an overview on the fundamentals of derivatives & their applications
- Enhance appreciation of interest rate derivatives: Forwards, Swaps and Futures
- Improve understanding of the risks inherent in interest rate derivative products

FMDQ, in support of the Association's market development agenda, and in appreciation of the great prospects that exist for Nigeria, given the fundamental role which a robust derivatives market must play in realising these prospects, sponsored the Conference.

With the development of a vibrant derivatives market being crucial to the nation's economic growth and development, the Conference provided a unique opportunity for participants to share views on recent advances, challenges and opportunities relating to the development of a vibrant interest rate derivatives market in Nigeria, and how best to chart the way forward.

Back to Top

Seventh OTC FX Futures Contract Matures and Settles on FMDQ

The 7th Naira-settled OTC FX Futures contract, NGUS JAN 25 2017, with notional amount of $274.39 million, matured and settled on Wednesday, January 25, 2017 on FMDQ; bringing the total value of matured contracts on the OTC Exchange to circa $1.80 billion, while about $5.46 billion worth of OTC FX Futures contracts has been traded so far. The contract, which stopped trading on Tuesday, January 17, 2017, was valued against the Nigerian Inter-Bank Foreign Exchange Fixing (NIFEX) Spot rate as published by FMDQ on January 25, 2017, with the associated clearing/settlement effected by the FMDQ-designated clearing agent, the Nigeria Inter-Bank Settlement System PLC (NIBSS), in line with the FMDQ OTC FX Futures Market Operational Standards.

Whilst businesses, corporates, and other market participants desirous of hedging their FX exposures continue to key into this product, it is expected that the potential of the OTC FX Futures market will be further maximised during the course of the year. The CBN on the other hand, introduced a new contract, NGUS JAN 31 2018, for $1.00 billion at $/₦281.50 to replace the matured contract and also repriced its quotes on the existing 1- to 11-month contracts.

Back to Top

FMDQ Listings & Quotations

FMDQ Hosts Quotations Ceremony for ₦35.00 billion Access Bank Commercial Paper Notes

On January 5, 2017, FMDQ officially commemorated the admittance and quotation of the Access Bank PLC ₦8.45 billion Series 1, ₦4.22 billion Series 2 and ₦22.33 billion Series 3 Commercial Paper (CP) Notes under its ₦100.00 billion CP Programme on the OTC Exchange. The commemoration, which took place in the form of a prestigious Quotation Ceremony held in honour of the issuer, Access Bank PLC had in attendance, Mr. Herbert Wigwe, Group Managing Director/Chief Executive Officer, Access Bank PLC; Mr. Abubakar Jimoh, Managing Director, Coronation Merchant Bank Limited, and Mr. Ayo Fashina, Director, Investment Banking, Chapel Hill Advisory Partners Limited, both representing the co-sponsors of the issues on the platform, and FMDQ Registration Members (under the Quotations category), among others.

Key highlights of the special occasion included a Special Address by Mr. Herbet Wigwe on the issued CP notes and CP Programme; the signing of the FMDQ CP Quotations Register by the issuer, the Registration Members (co-sponsors of the issue) and FMDQ; the presentation of the CP Quotations Certificate to the issuer and the “guest of honour autograph impression” by the issuer. In recognition of the roles played by the co-sponsors of the CPs in the quotations process, presentations were also made to the respective Registration Members.

During his address, Mr. Wigwe, noted that, “Access Bank PLC was able to raise ₦35.00 billion from the money market, the largest listed commercial paper issuance ever in Nigeria despite the current economic headwinds and prevailing tight liquidity situation in the country. This indicates the high level of investor confidence in the bank. These issues will allow us create a liquidity buffer as we align our liquidity management to international best practice based on our internal Liquidity Adequacy Assessment Process (ILAAP). This is particularly important, given the prevailing macro environment and its impact on industry liquidity.”

Following the signing of the FMDQ CP Quotations Register and the presentation of the FMDQ CP Quotations Certificate to the issuer, Mr. Abubakar Jimoh, remarked that "there is strong investors' perception towards corporates with strong fundamentals and a good track record like Access Bank PLC. This issue further demonstrates the bank's commitment to continuously explore innovative financing options and consistently drive value and growth for its stakeholders."

Also speaking at the Ceremony, Mr. Ayo Fashina noted that, "this largest ever commercial paper issuance in Nigeria's fixed income markets, provides further credence to Access Bank PLC's long-standing reputation as a top-grade issuer. We remain grateful to the domestic institutional investors – especially the Nigerian pension fund administrators – for their overwhelming support, and to the FMDQ Management and team, who have efficiently worked with us to ensure a timely completion and quotation of this CP issuance."

In closing, Mr. Bola Onadele. Koko, Managing Director/CEO of FMDQ commented; "In building a sustainable economy, FMDQ recognises the potential of a fully-functional debt capital market (DCM), and will therefore continue to innovate and provide efficient services and infrastructure, as may be necessary, to support issuers and investors, towards achieving an operationally excellent and competitive DCM. From streamlining of its processes to the delivery of unrivalled services to the Nigerian debt capital, FX and derivatives markets, FMDQ is set to continue championing and effectively support initiatives in line with its product and market development agenda to further deepen and align the markets with international standards, and invariably contribute to the growth of the economy at large."

Back to Top

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 among the Dealing Member (Banks), Dealing Member (Banks) & Clients, and Dealing Member (Banks) & the CBN.

FMDQ OTC Market Turnover (January – December 2016)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	13,874,729	54,304
Foreign Exchange Derivatives	11,053,082	43,261
Treasury Bills	45,454,164	177,903
FGN Bonds	9,036,989	35,370
Other Bonds*	40,305	158
Eurobonds	53,991	211
Repurchase Agreements/Buy-Backs	31,181,222	122,040
Unsecured Placements/Takings	2,943,230	11,519
Money Market Derivatives	15,870	62
Commercial Papers	4,817	19
Total	**113,658,399**	**444,847**
No. of Business Days	252	252
Average Daily Turnover	**451,025**	**1,765**

mm - million
USD/₦ @ 255.50 (This represents the weighted average rate from the beginning 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 @ January 13, 2017; Figures reported by Dealing Member (Banks) on a week-ending basis

Back to Top

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

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

Rank	Dealing Member (Banks)
1	Access Bank PLC
2	United Bank for Africa 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	Standard Chartered Bank Nigeria Limited
10	Union Bank of Nigeria PLC

The top ten (10) Dealing Member (Banks) accounted for 70.00% of the overall turnover in the market, with the top three (3) accounting for 27.00% of this sub-section of the market. Access Bank PLC, United Bank for Africa 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 over-the-counter market.

Back to Top

FMDQ Learning

Introduction to Yield Curves – Part 1

This piece is the first part of a three (3)-part series on 'Yield Curves'. Part one (1) will provide an overview of the concept and various shapes of the yield curve. Part two (2) will focus on the uses of the yield curve in investment analysis and delve into the various inferences that can be deduced from the curve. The last part will introduce and focus on understanding the Nigerian Sovereign Yield Curve.

Daily analysis of the fixed income market (the market for securities/investments that make fixed periodic interest payments, and the principal at maturity; such as government & corporate bonds, treasury bills, etc.) usually has a mention of either the “short” or the “long” end of the yield curve. The yield curve plays a major analytical role in the fixed income market, offering investors and advisers a unique opportunity to determine the position of yields (returns) of financial market instruments at a glance. Before taking a dip into yield curves, it is imperative to understand the concept of a ‘yield’.

What is a Yield?

In the financial markets, a ‘yield’ is used to describe the annual return on an investment. The yield on a bond investment (for example) 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. While the coupon rate is fixed, the price of a bond in the secondary market 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.

Understanding the Yield Curve

A yield curve is a line that gives a graphical representation of the position of yields (across different maturity spectrum, ranging typically from one (1) month to thirty (30) years) in the fixed income market. The yield curve shows the yields that investors are willing to lock in on any given fixed income security across various maturities into the future. The curve depicts yield differences, or yield spreads, that are due solely to differences in maturity. The curve is therefore seen to convey the overall relationship that prevails between bond interest rates and maturities, holding factors (such as credit quality, issuer rating, etc.) constant.

Two major factors determine the shape of the yield curve: investors’ future interest rates expectations and the risk premiums that investors demand on long-term bonds.

Shapes of the Yield Curve

Every yield curve tells a unique story. The shape of the curve provides valuable information to investors on the current yield, as well as what other investors (or the general market) believe the future yields in any given fixed income market should be.

Yield curves are ideally seen to be upward sloping because the longer the tenure of securities, the higher the investment risk (due to increased uncertainty) and hence the higher the yield investors will demand to invest in such securities (of course, this is not always the case). Ideally, there are three distinct shapes of the yield curve, namely: normal, inverted and the humped[1].

The Normal Yield Curve

A normal or upward-sloping yield curve implies that yields are expected to increase in the future, hence, longer-maturity bond yields are expected to become even higher in the future. Typically, a normal yield curve gives a signal that investors expect the economy to expand in the future.

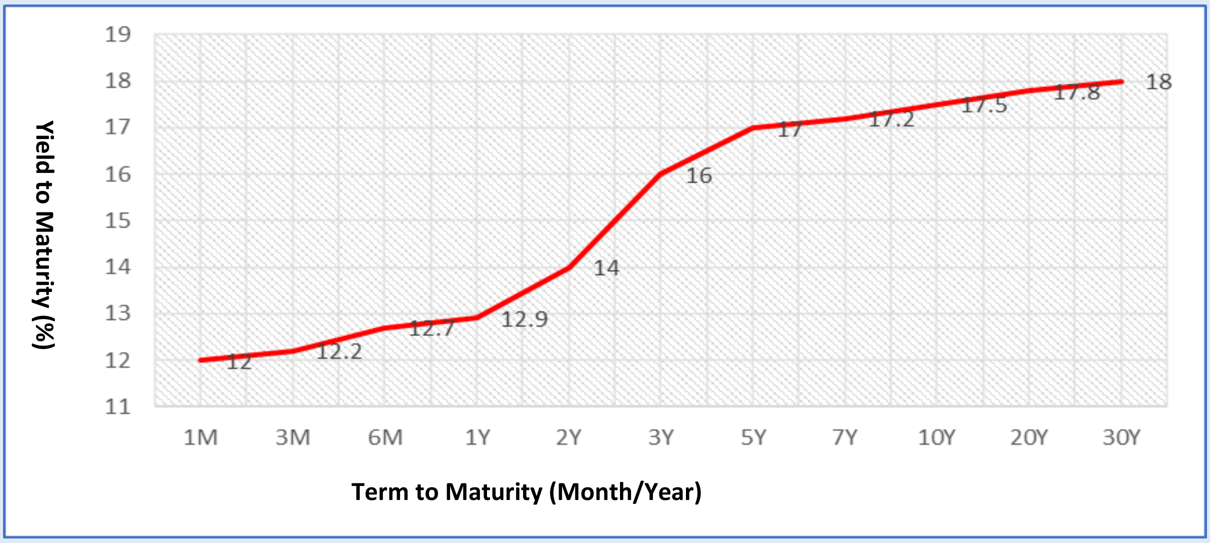

Figure 1: Normal Yield Curve (Month – M; Year – Y)

Figure 1 above shows a normal-shaped yield curve, with the vertical axis showing the annual percent yield, while the horizontal axis shows the investment holding period ranging from 1-month to 30-year maturities. It can be deduced from the curve therefore, that while a 1-month security attracts a yield of 12.00% per annum, a 30-year security attracts an 18.00% yield per annum, to compensate for the risk considerations of making the longer tenured investment.

[1] PIGM (2016) Understanding Yield Curves, https://investment.prudential.com/util/common/get?file=E6C1F59AB8CF65FF85257BF9006AC517

The Inverted Yield Curve

An inverted yield curve indicates that shorter-term yields are higher than the longer-term yields, and depicts investors' expectation that yields on longer-term bonds may continue to fall.

From figure 2 below, a 1-month security is seen to attract an 18.00% yield per annum, whereas its 30-year counterpart is priced at a 12.00% yield per annum. This decline is anticipated to be driven by an economic slowdown and/or low inflation. An inverted yield curve is, therefore, historically seen as an indication of an upcoming economic recession.

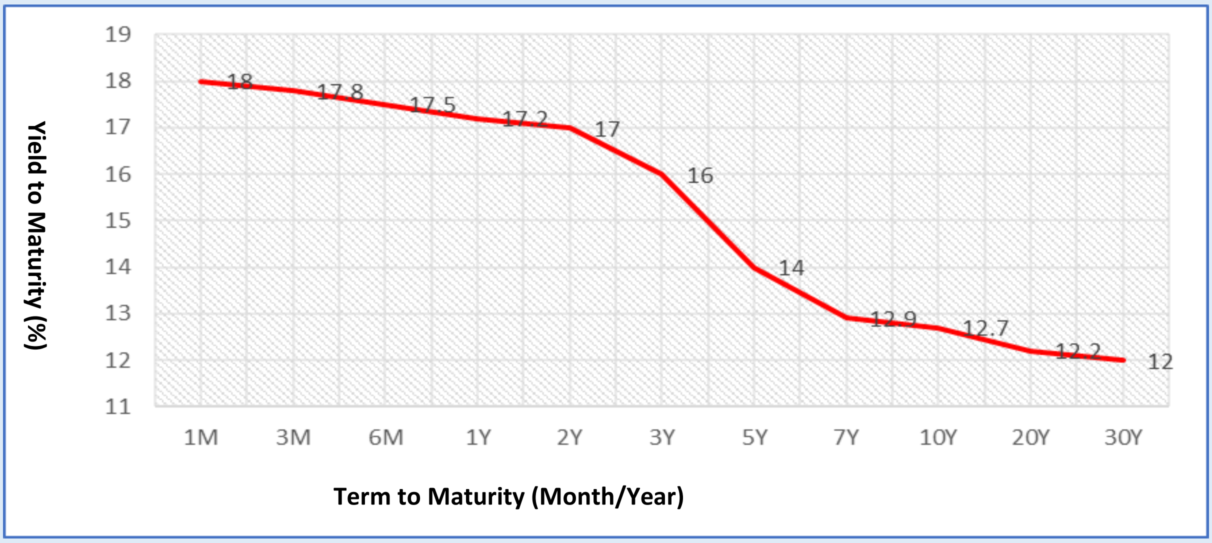

Figure 2: Inverted Yield Curve

Given the above scenario, investors tend to expect monetary authorities to reduce interest rates (and stimulate economic activities), and by implication, a lower interest rate will likely prevail across the financial markets in the future. Consequently, investors are willing to accept a lower yield on long-tenured bonds today before the bond prices increase further.

The Humped Yield Curve

A humped yield curve indicates that investors expect a gradual increase in the interest rates, to peak at the middle of the maturity spectrum, following which a decline will ensue.

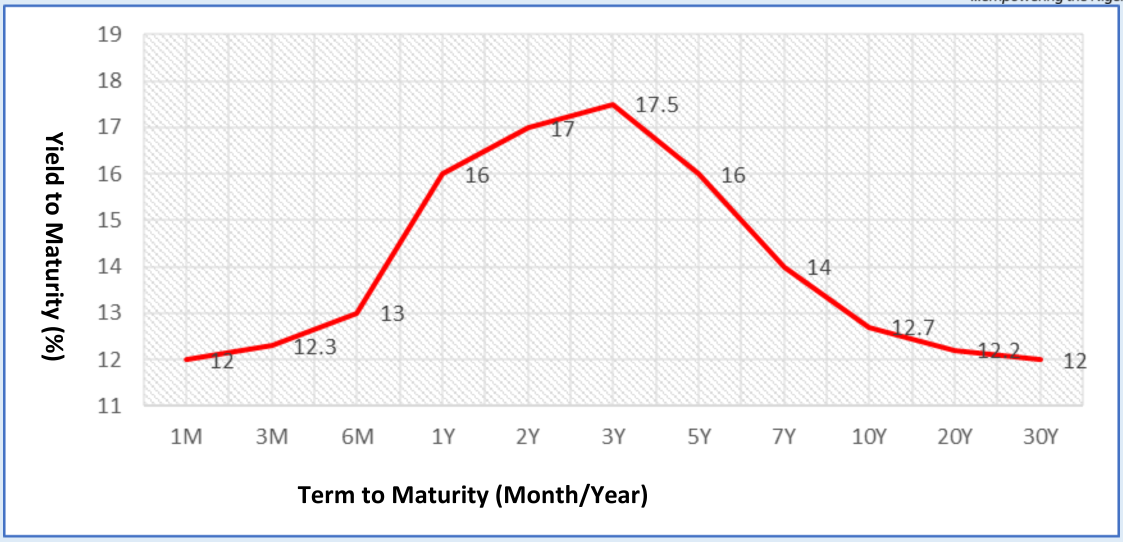

Figure 3: Humped Yield Curve

In figure 3 above, the yield on a 1-month security is priced at 12.00% per annum, while that of a 3-year and 20-year securities stand at 17.50% and 12.20% per annum, respectively. Usually, this scenario reflects investors' uncertainty about specific economic policies and interest rate direction in an economy. It may equally reflect a period of transition from a normal to an inverted yield curve or vice versa.

Furthermore, as shown in figure 4 below, when the short- and long-term yields of a humped curve are very close to each other, this gives rise to a relatively flat curve called the 'Flat Yield Curve'. A flat yield curve may also arise from a normal or inverted yield curve, depending on direction of change in economic conditions.

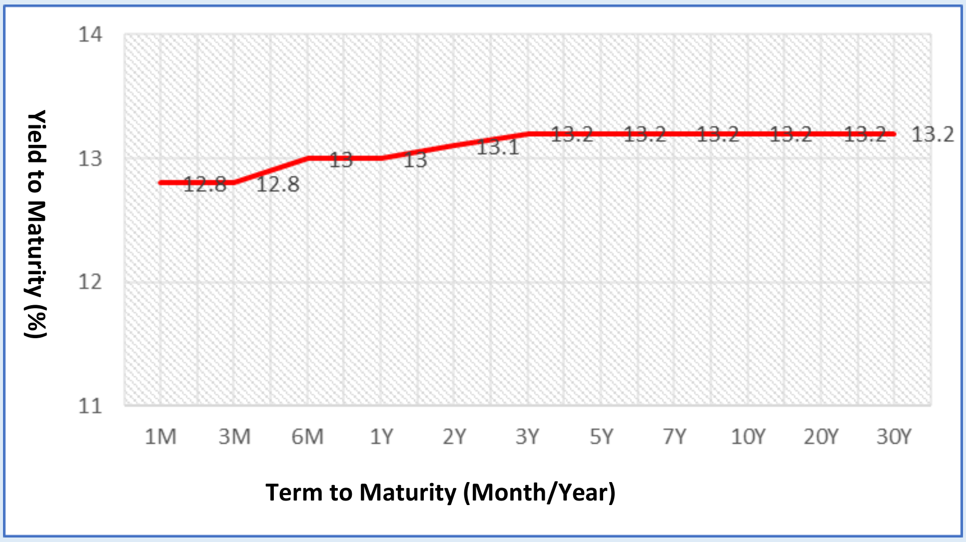

Figure 4: Flat Yield Curve

[Back to Top]

DISCLAIMER

The FMDQ Learning segment is produced by FMDQ OTC Securities Exchange (FMDQ) for information purposes only. FMDQ IS NOT an investment advisor, and it does not endorse or recommend any securities or other investments. Market data and certain other information that may appear in this segment, as well as reference materials and/or links to other sites, have been compiled from publicly available sources believed to be reliable and are for general informational purposes only. It does not constitute any offer, recommendation, or solicitation to any person to enter any transaction or adopt any hedging, trading, or investment strategy, nor does it constitute any prediction to likely future movements in rates or prices or any representation that any such future movements will not exceed those shown in any illustration contained therein. All rates and figures appearing are for illustrative purposes only. The accuracy or completeness of the information contained herein is not guaranteed and is not intended to be relied upon for investment purposes.

FMDQ, its affiliates, third party information providers, or any of these entities' officers, employees, directors, or agents have not: (1) attested to the merit of the information provided in this segment or on any of these securities; or (2) endorsed or sponsored any of these securities. ADVICE FROM A SECURITIES PROFESSIONAL IS STRONGLY ADVISED.

All information is provided "as is" without warranty of any kind. FMDQ (its affiliates) and the third-party information providers make no representations and disclaim all express, implied, and statutory warranties of any kind to user and/or any third party including warranties as to accuracy, timeliness, completeness, merchantability, or fitness for any purpose.
Unless, in the event of willful tortious misconduct or gross negligence, FMDQ (and affiliates) and the third-party information providers have no liability in tort, contract, or otherwise (and as permitted by law, product liability), to user and/or any third party. FMDQ (and affiliates) and the third-party information providers shall under no circumstance be liable to user, and/or any third party for any lost profits or lost opportunity, indirect, special, consequential, incidental, or punitive damages whatsoever, even if FMDQ has been advised of the possibility of such damages.