FMDQ SPOTLIGHT

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...empowering the Nigerian debt capital & FX markets

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NEW STORIES

₦47.00bn Lagos State Bond Approved for Listing on FMDQ …Deepens the DCM and Paves the Way for Other Sub-national Issues

The Lagos State Government has undoubtedly set the pace in 2017 for sub-nationals in the Nigerian debt capital market ("DCM"), having successfully raised a ₦47,000,000,000.00 Series 1 7-year 16.50% Fixed Rate Bond due 2023 ("the Lagos State Bond") under its ₦500,000,000,000.00 Debt Issuance Programme. As with all the debt securities listed and quoted on FMDQ OTC Securities Exchange ("FMDQ" or the "OTC Exchange"), the OTC Exchange again provided its credible and efficient platform for the listing and subsequent trading of the Lagos State Bond following the approval of the FMDQ Board Listings, Markets and Technology Committee, making this the first sub-national bond to be issued in the Nigerian DCM and listed on FMDQ in 2017.

To align the standards in the Nigerian market to those of the model markets around the world, FMDQ, whilst currently providing permitted trading status for circa ₦225.00 billion of the previously issued bonds by the Lagos State Government on its platform, has continued to demonstrate its full commitment to making the Nigerian DCM robust and deep, through its capacity as the DCM market organiser and front-line regulator. Outstanding value delivery, as continues to be the focus of the OTC Exchange, was delivered through the efficient and swift listing process which was availed to the issuer and the sponsor of the listing on FMDQ, the Registration Member (Listings), Chapel Hill Denham Advisory Partners Ltd.

As a DCM-focused OTC Exchange, FMDQ facilitates growth and development in the debt capital markets, effectively cascading this to the Nigerian economy through the direct and indirect initiatives generated and implemented. Through its efficient platform for the registration, listing, quotation and valuation of debt securities, the OTC Exchange has significantly improved transparency, and integrated the domestic and international markets through enhanced trade visibility, improved market surveillance, global presence and competitiveness, enhanced secondary market liquidity and effective price formation. The Lagos State Government has formally joined the league of issuers to benefit from the tailored FMDQ Listings and Quotations service, and indeed, all the benefits availed from a listing on FMDQ. A prestigious and unique listing ceremony, in honour of the issuer, to commemorate this significant milestone, will soon be held.

Not resting on its laurels, FMDQ, through the requisite systems which promote operational excellence, and its timely and market-oriented product innovation strategies, which have seen the emergence of the short-term bonds, among other debt securities, supports the corporate and government issuers, towards maximising the potential of their respective businesses and institutions via the Nigerian DCM.

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FMDQ Holds Dealing Member (Specialists) CEOs Meeting; Discuss Market Update and Phase 2 Activation

Having successfully launched Phase 1 of the Dealing Member (Specialists) ("DMS") Market Project during the second half of last year, FMDQ is now set to activate Phase 2 of the Project, which will see the integration of the banks i.e. FMDQ Dealing Member (Banks) in the DMS market. In preparation for this, the OTC Exchange has facilitated the engagement of Settlement Banks, the documentation of the DMS Phase 2 Market Framework, outlining the operational structure of the market, product coverage and stakeholders in the market, and test sessions following the upgrade to the Q-Deal Trading System to reflect Settlement Bank features, which includes but are not limited to loss limit management, traded volume management and settlement reports.

Further to the above, a high-level meeting was therefore hosted by FMDQ for the DMS CEOs, where further developments towards the preparations for activation of Phase 2, registration with Settlement Banks, and very importantly, steps to ensure success, ahead of a planned Phase 2 DMS market go-live later this year were discussed.

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$354mm Settles as 9th OTC FX Futures Contract Matures on FMDQ

The 9th Naira-settled OTC FX Futures contract, NGUS MAR 22 2017, with a notional amount of $354.00mm, matured and settled on Wednesday, March 22, 2017 on FMDQ, the OTC FX Futures Exchange.

The NGUS MAR 22 2017 contract, which stopped trading eight (8) days earlier, was valued against the Nigerian Inter-Bank Foreign Exchange Fixing ("NIFEX") Spot rate as published by FMDQ on March 22, 2017; and brings the total value of contracts so far matured on the OTC FX Futures Exchange to $2.42bn, with about $6.24bn worth of OTC FX Futures contracts traded so far.

The Central Bank of Nigeria ("CBN") again, refreshed the quotes for the existing 1- to 11-month contracts and introduced a new 12-month contract, NGUS MAR 28 2018, for $1.00bn at $/₦298.50. These quotes are available on FMDQ's website at www.fmdqotc.com.

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Nigeria Makes History; With 1st Ever Listing of Eurobond on FMDQ

- **Paves Way for Domestic Listing of Nigerian Corporates' Eurobonds**
- **Ignites the vision for an 'Afrodollar' market**

The Federal Government of Nigeria (FGN) demonstrated its recognition of the crucial role which debt capital markets play in sustaining the growth and development of an economy, when it announced its intention to list, for the first time in the history of the nation, its Eurobond domestically. The FGN, through the Debt Management Office (DMO), successfully raised $1.00bn from the international markets in February, and following a series of strategic engagements that spanned at least three (3) years with FMDQ and other stakeholders on the importance, to the nation's debt capital market and economy, of listing domestically, the sovereign's Eurobonds, the DMO achieved this most commendable feat when it listed the $1.00bn Eurobond on FMDQ's platform at the beginning of the month.

In a unique and prestigious Ceremony held to commemorate and honour the issuer for the listing of the first foreign currency-denominated bond – $1.00bn Federal Government of Nigeria Eurobond (FGN Eurobond), 7.875% FGN 16-FEB-2032 – in Nigeria, and indeed on FMDQ, the OTC Exchange proudly hosted the Federal Government of Nigeria, represented by the Director-General of the DMO, Dr. Abraham Nwankwo, along with key representatives from the DMO. The OTC Exchange was also honoured to host the Securities and Exchange Commission (SEC), the adviser to the issuer and co-sponsor of the Eurobond on FMDQ, Stanbic IBTC Capital Limited, the arranger/dealer and co-sponsor of the issue on FMDQ, Standard Chartered Capital and Advisory Nigeria Limited, and other parties to the listing, including representatives of Citigroup Global Markets Limited and the legal advisers to the issue, Banwo & Ighodalo and Udo Udoma & Belo-Osagie, amongst others.

Whilst making the opening remarks, FMDQ's Chairman, Dr. (Mrs.) Sarah O. Alade (OON), who was ably represented by the Vice Chairman of FMDQ, Mr. Jibril Aku, congratulated the issuer on this epochal step, noting that this move by the FGN to list on a domestic exchange, in addition to listing offshore was a welcome development, and a stance which would rightly position the nation to maximise its potential via the debt capital market. In line with FMDQ's vision for the transformation of the markets, the OTC Exchange, since its debut onto the Nigerian financial markets landscape, already granted permitted trading status for $1.50bn of the previously issued FGN Eurobonds and $3.15bn of Eurobonds issued by Nigerian companies, ensuring price formation and providing information transparency to protect investors' interests.

The SEC's Director-General, Mr. Mounir Gwarzo, ably represented by Mr. Adamu Sambo, Head, Registration and Exchanges Department, SEC, in his remarks, also commended the issuer for achieving this milestone and reiterated the SEC's commitment to continue to support the development of the nation's debt capital market, ensuring that integrity and efficiency are always upheld for the protection of investors.

Delivering the keynote address at the Ceremony, Dr. Abraham Nwankwo, highlighted critical milestones achieved by this transaction, which included, inter alia, being the longest tenored debt security, at fifteen (15) years, issued by the FGN in the international capital markets. The transaction also marked the first outing by the FGN since 2013, and the first issued by a sovereign from Sub-Saharan Africa, in 2017. Dr. Nwankwo, whilst emphasising the nation's recognition that the wide infrastructural gap, which constrains the development efforts of the nation, could be better matched by tapping into long-term financing options, via domestic and foreign debt capital markets, underscored the confidence of the international markets in the potential of Nigeria's economic development as evidenced by the over-subscription in the Eurobond. He also commended the crucial support of key stakeholders, including the Honourable Minister of Finance, in achieving this feat.

Stanbic IBTC Capital Limited, represented by Mr. Yinka Sanni, the CEO of Stanbic IBTC Holdings PLC, lauded the efforts of the DMO in achieving this milestone transaction, commenting, "we wish to first and foremost congratulate the Federal Government of Nigeria, as this is indeed a testament to international investor confidence in Nigeria's roadmap towards economic recovery and growth. We equally wish to congratulate the Federal Ministry of Finance team, led by the Honourable Minister of Finance, for a job very well done on this highly successful return to the international capital markets. The overwhelming success of the transaction on the whole evidences the underlying potential of Nigeria, and Stanbic IBTC Capital Limited is indeed proud to be part of this transaction. We are also pleased to sponsor the quotation of this Eurobond on FMDQ's platform. Though Stanbic IBTC Capital Limited has sponsored many listings on FMDQ's platform, this particular listing is very special as it represents the first ever Eurobond on the OTC Exchange. We believe this is yet another commendable step by FMDQ towards deepening the domestic debt capital markets, by enhancing access of local investors to internationally traded securities".

Similarly, Standard Chartered Capital and Advisory Nig. Ltd., represented by Mrs. Bola Adesola, CEO Standard Chartered Bank Nigeria Ltd., during her remarks highlighted, "we are pleased to have sponsored the listing of the FGN 15-year 7.875% Eurobond on FMDQ, Nigeria's premier fixed income listing exchange. The transaction was a successful one that shows the resilience of the Nigerian economy and the many economic factors working to promote a more sustainable economic future for the country. Standard Chartered has been and remains a key supporter of the FGN serving in several capacities such as being the sovereign ratings advisor to the Government. We acted as Joint Lead Manager on this issue and are encouraged by its global acceptance. This is one of the many ways we as a bank continue to reiterate our commitment to Nigeria as we assure our stakeholders that we are truly here for good".

In his closing address, Mr. Bola Onadele. Koko, MD/CEO of FMDQ, commented, "the OTC Exchange shall continue to lead the revolution in the development of the Nigerian OTC markets by providing credible market structures to aggregate all trade data of its Dealing Members acting as liquidity providers to the various products on its platform, ensuring continuous information symmetry. Whilst FMDQ continues to lend its itself as a worthy and operationally excellent platform, serving as the point of integration between the domestic and international markets, it is expected that this laudable step paves the way and encourages the corporates to follow the FGN's lead towards deepening the Nigerian debt capital market".

The need to develop Nigeria's bond market to bridge the prevailing long-term financing gaps, has been remarkably underscored by this symbolic listing on FMDQ, the DCM-focused OTC Exchange in Nigeria. By instituting requisite systems and infrastructure, this listing on FMDQ's platform will attract and avail prospective investors the opportunity to buy and trade on the secondary market of a Nigerian securities exchange. Through the effective network effects provided by FMDQ's Dealing Members, who invariably are responsible for circa 99% of the secondary market trading activity in the Nigerian fixed income market, FMDQ shall continue to innovate and improve its offerings to further enhance liquidity for the on-the-run FGN Eurobond.

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Pioneer Listing of an Exchange Traded Fund on FMDQ – The Vetiva S&P Nigerian Sovereign Bond ETF

FMDQ, welcomed the pioneer listing of an exchange traded fund (ETF) on its platform – The Vetiva S&P Nigerian Sovereign Bond Exchange Traded Fund ("the Vetiva S&P ETF") - at a Ceremony which held on March 13, 2017. The listing of this Fund on its platform, validates the OTC Exchange's goal of bringing the Nigerian fixed income market operations under a single governance structure. It further creates the opportunity for issuers and investors to tap into and utilise the mass benefits availed by the OTC Exchange in the Nigerian debt capital market – a market which FMDQ is focused on transforming and aligning with global standards.

In line with the tradition of the OTC Exchange, the Fund Manager, Vetiva Fund Managers Ltd., represented by its Managing Director, Mr. Damilola Ajayi; alongside the Registration Member (Listings) and sponsor of the Fund on FMDQ's platform, Vetiva Securities Ltd., represented by Mr. Abiodun Oliyide, Group Head Fixed Income Sales & Trading, amongst others, were hosted to a unique ceremony. Highlights of the Ceremony included the signing of the FMDQ Funds Listing Register by the Fund Manager, sponsor of the Fund and FMDQ; the presentation of the FMDQ Funds Listing Certificate to the Fund Manager, the unveiling of the Funds Listing plaque and scroll, and the special autograph impression, all in favour of the Fund Manager. The Registration Member (Listings) and sponsor of the Fund on the OTC Exchange was also presented with a tombstone.

Welcoming the guests to the ceremony, Ms. Tumi Sekoni, Vice President & Divisional Head, Marketing & Business Development at FMDQ, congratulated the Fund Manager for recognising the efficiency and reliability of the FMDQ platform and its subsequent decision to list its ETF on same. According to Ms. Sekoni, the FMDQ Listings and Quotations service has been tailored to provide Fund Managers and other issuers, an avenue to improve the credibility of their issues and in turn benefit from the information transparency which such a listing on FMDQ guarantees.

Mr. Damilola Ajayi, in his special address, remarked that, “The Vetiva S&P Nigerian Sovereign Bond ETF, provides access to a basket of Federal Government long-dated securities and creates a mechanism for retail investors to trade these securities freely”. He further commented that the ability to save and invest is crucial to individual and collective prosperity and, as a nation, any effort geared toward developing a platform to enhance this culture is an effort in the right direction.

The Vetiva S&P ETF was developed to track the S&P Nigeria Sovereign Bond Index. The Index was launched in December 2013 and tracks the performance of local currency denominated sovereign long-dated debt publicly issued by the Federal Government of Nigeria. The Index level is available through S&P Dow Jones Indices’ website with a ticker symbol of **SPFINGU.**

This listing on FMDQ, shall avail the ETF benefits which include but are not limited to, global visibility through the dedicated ‘Funds’ page on FMDQ’s corporate website and transparency to the ETF through its inclusion in the FMDQ Daily Quotations List. FMDQ shall continue to lend itself a worthy platform, spearheading initiatives targeted at improving liquidity of Funds listed on its platform, thereby supporting the aspirations of Fund Managers and making the markets within its purview globally competitive; with a view to positioning the Nigerian financial markets towards achieving its full potential of driving growth and development in the nation.

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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 - February 2017)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	1,185,120	3,823
Foreign Exchange Derivatives	2,431,913	7,844
Treasury Bills	11,600,321	37,418
FGN Bonds	2,352,559	7,588
Other Bonds*	1,630	5
Eurobonds	22,443	72
Repurchase Agreements/Buy-Backs	5,218,576	16,833
Unsecured Placements/Takings	170,661	550
Money Market Derivatives	5,985	19
Commercial Papers	-	-
Total	**22,989,208**	**74,154**
No. of Business Days	40	40
Average Daily Turnover	**574,730**	**1,854**

Average $/₦ @ 310.02

mm - million

*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 @ March 7, 2017; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for January to February 2017 period amounted to c. ₦23.00trn. Trading activities in T.bills contributed the largest to overall turnover, accounting for 50.46% of the market. Secured market transactions (Repos/Buy-backs) accounted for 22.70%, whilst FX market transactions accounted for 15.73%, Bonds, 10.34%, and Unsecured Placement & Takings, Money Market Derivatives and Commercial Papers representing less that 1%, of overall market turnover.

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

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

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

The top ten (10) Dealing Member (Banks) accounted for 70.97% (₦16.31trn) of the overall turnover in the market, with the top three (3) accounting for 29.54% (₦6.79trn) of this sub-section of the market. Ecobank Nigeria Ltd., Access Bank PLC and United Bank for Africa PLC maintained their positions for the second month running, as the leaders in the value traded for the overall over-the-counter market, ranking 1st, 2nd and 3rd respectively.

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Introduction to Yield Curves – Part 3

This is the third and final part of the 3-part series on 'Introduction to Yield Curves'. Part 1 (published in the FMDQ Spotlight - January 2017 edition) provided an overview of the concept of Yield Curves, across different maturity spectrums, typically ranging from three (3) months to twenty (20) years in the fixed income market. Part 2 (published in the FMDQ Spotlight – February 2017 edition) focused on the various uses of the yield curve in investment analysis, particularly its use as an indicator of future macroeconomic direction and interest rates, a benchmark for pricing fixed income securities and a portfolio management strategy. In this final part of the series, the construction, shapes and uses of the Sovereign Yield Curve in the Nigerian fixed income market, will be explored.

The Nigerian Sovereign Yield Curve: Construction and Shapes

The Nigerian Sovereign Yield Curve (the "NGN Yield Curve" or the "Curve") gives a graphical representation of the prevailing mark-to-market yields across FGN-issued benchmark treasury instruments (that is, the Nigerian treasury bills and FGN bonds). The Curve shows the yields that investors in the market are willing to lock-in now across various maturities into the future, ranging from the short-term (3-month treasury bills) to the long-term (10 -year or 20-year FGN bonds). The short-end of the Curve represents yields on short-tenured fixed income securities (typically 3-month to 12-month maturities), while the long-end of the Curve represents securities with 10-year to 20-year maturities.

The table below shows the yields of the benchmark treasury bills and FGN bonds at various time periods (Dec. 31, 2015; Dec. 31, 2016 and Feb. 28, 2017). These yields were used to further construct the Yield Curves (see Chart 1) for the specified periods.

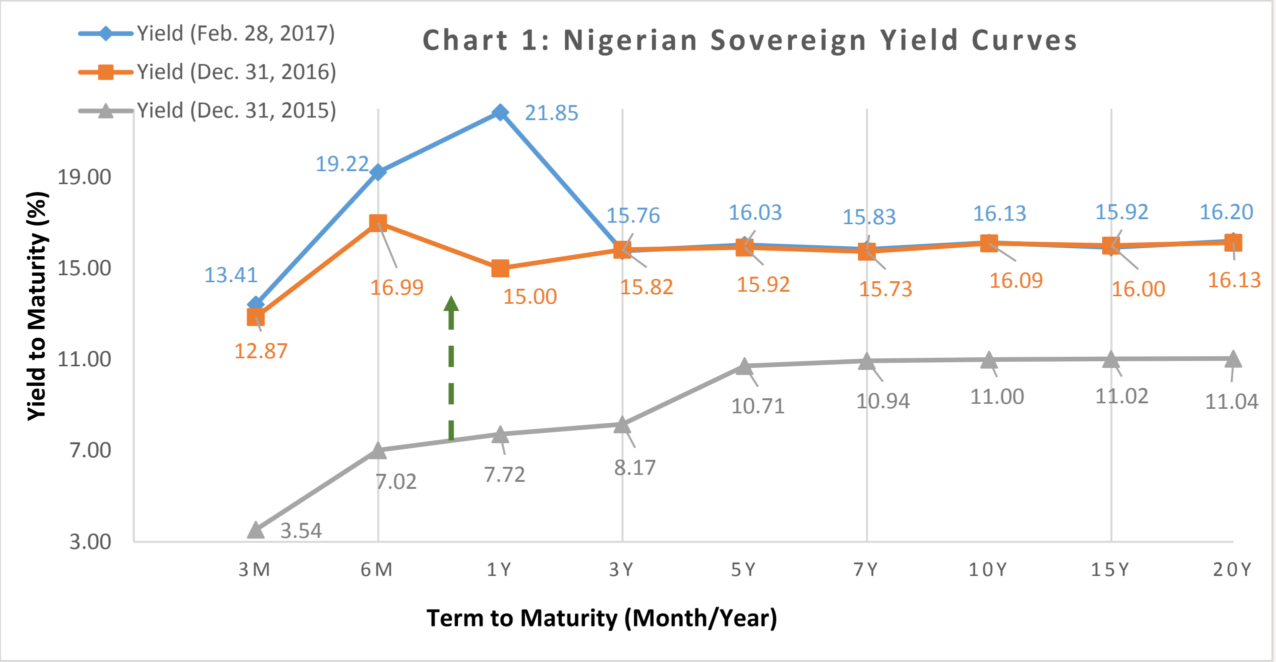
Table 1: Nigerian Sovereign Yields (Yield-to-Maturity)

Maturity		Yield (Feb. 28, 2017)	Yield (Dec. 31, 2016)	Yield (Dec. 31, 2015)
3M	NGN T.bills - 3M	13.41	12.87	3.54
6M	NGN T.bills - 6M	19.22	16.99	7.02
1Y	NGN T.bills - 12M	21.85	15.00	7.72
3Y	FGN Bond - 3Y	15.76	15.82	8.17
5Y	FGN Bond - 5Y	16.03	15.92	10.71
7Y	FGN Bond - 7Y	15.83	15.73	10.94
10Y	FGN Bond - 10Y	16.13	16.09	11.00
15Y	FGN Bond - 15Y	15.92	16.00	11.02
20Y	FGN Bond - 20Y	16.20	16.13	11.04

Source: FMDQ-Bloomberg E-Bond Trading and Surveillance System

Note: M – month; Y - year

In plotting the yield curves below, the yields (as shown in the table above) of benchmark FGN treasury instruments with maturities ranging from three (3) months to twenty (20) years were obtained for the specified dates (Dec. 31, 2015; Dec. 31, 2016 and Feb. 28, 2017) and charted with yield and term-to-maturity on the vertical and horizontal axes respectively.



From Chart 1 above, it can be observed that the NGN Yield Curve sloped upwards as at Dec. 31, 2015, when short-term yields (3M – 1Y) were sub 8%, and long-term yields (10Y-15Y) hovered around 11%. This upward trend is theoretically indicative of investors' expectation of higher future interest rates. Further to this, the Curve experienced an upward shift in 2016, as a result of an increase in the benchmark interest rate (the Monetary Policy Rate (MPR)) by 200 basis points from 12% to 14%, at the Central Bank of Nigeria's Monetary Policy Committee meeting. Following this, the Curve experienced some inversion in 2016 and has remained inverted into 2017 (that is, long-term debt instruments have a lower yield than short-term instruments of the same credit quality - this is typical during periods of monetary policy tightening) as short-term yields crossed the 20% mark, whereas long-term yields maintained a 15% - 16% bracket.

Beyond the MPR, there are other factors that determine the shapes of the NGN Yield Curve. These include, amongst others, the macroeconomic policy (especially interest rate policy), systemic liquidity (the volume of money in the financial system) and investors' risk appetite (the likelihood of investors to assume investment risk). For instance, investors are more inclined to play at the short-end of the yield curve (3M – 1Y maturities) when confronted with policy uncertainties and an expectation of a high inflation rate. Furthermore, when the FGN issues treasury bills at relatively high interest rates (perhaps, to mop-up systemic liquidity and ease inflationary pressures in the economy), investors will crowd-in on the short-end of the Curve to optimise portfolio returns.

Uses of the Nigerian Sovereign Yield Curve

- From an issuer perspective, the NGN Yield Curve provides a useful pricing benchmark for issuers of all forms of debt market instruments such as corporate bonds, State government bonds, short-term bonds, agency bonds, infrastructure bonds, commercial papers, etc. This ensures that the issued securities generate maximum interest from investors and are competitively priced vis-à-vis the risk ratings of the issuer(s)
- Similarly, investors and portfolio managers often utilise the NGN Yield Curve for investment analysis, and to position portfolios in line with return expectations and duration. Active trading in fixed income securities is ideally preceded by detailed analysis of the shape, slope and trend in a country's sovereign yield curve
- The NGN Yield Curve also gives an indication of the prevailing and future macroeconomic policy environment. For instance, the current tight monetary policy stance of the CBN is clearly reflected at the short-end of the Curve, where treasury bills' yields hover between 16% and 20%, in a bid to keep systemic liquidity within an acceptable level
- In addition, the Curve facilitates decision making for investment managers, issuers and banks, with regards to the rate (and timing) for issuance of debt securities. As the NGN Yield Curve shifts (with a corresponding increase or decrease in the benchmark interest rate), bank customers, for instance, whose loans are typically benchmarked to the MPR often anticipate an adjustment in their loan repayment obligations

In conclusion, through effective monitoring of its yields, shape and slope, the Yield Curve lends itself a valuable tool for investors and market participants alike to optimally leverage on interest rate movements within the financial market. Similarly, it provides a leading indicator of future macroeconomic trends, in addition to serving as a benchmark for pricing other fixed income securities.

For the 'Introduction to Yield Curves' series, the following learning points are noteworthy, *inter alia*:

- Yield Curves are graphs that show the range of yields that investors in the fixed income market expect to get on their investments over defined maturity periods, typically from three (3) months to twenty (20) years
- Yield Curves are ideally expected to be upward sloping, however, the prevailing (or expected) macroeconomic and monetary policies could invert or hump a curve
- Monetary policy stance has significant impact on the slope and shape of the Yield Curve. A tight monetary policy generally tends to shift the curve upwards (as yield increases across all maturities) while a loose monetary policy will contract the curve
- Portfolio managers often employ several strategies to optimise returns from the Yield Curve. These include, the bullet, barbell, ladder and "riding the yield curve" strategies
- A robust understanding of the dynamics of the Yield Curve is essential for efficient valuation and pricing of treasury instruments and for optimum fixed income portfolio management

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