FMDQ SPOTLIGHT

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FMDQ Welcomes British Prime Minister During Official Visit to Lagos

In the wake of a historic moment in the nation's financial center, Lagos - the visit of the British Prime Minister - FMDQ OTC Securities Exchange ("FMDQ" or the "OTC Exchange") was most honoured to play host to the British Prime Minister, Ms. Theresa May, at her offices, Exchange Place, on Wednesday, August 29, 2018. Ms. May visited Nigeria as part of her Africa tour to improve trade and investment relations between the United Kingdom and Africa. The British Prime Minister, on her first official visit to Lagos State, was fittingly welcomed by the FMDQ Board Chairman, Dr. Okwu Joseph Nnanna, ably represented by the Vice Chairman of the Board, Mr. Jibril Aku, and the Managing Director/CEO of FMDQ, Mr. Bola Onadele. Koko to Exchange Place. This deliberate effort to strengthen bilateral relations between Nigeria, and Africa as a whole, with the UK is indeed commendable and most welcome.

The Nigerian financial markets play a crucial role in promoting and supporting sustainable economic development over time, therefore, the choice of FMDQ for the hosting and reception of the British Prime Minister, UK and Nigeria business sector leaders and other executives from the British High and Deputy High Commissions in Nigeria, among others, was in no way far-fetched. Alhaji Aliko Dangote, GCON, President, Dangote Industries, Mr. Femi Otedola, Chairman, Forte Oil PLC, Mr. Tony Elumelu, CON, Chairman, Heirs Holding Limited, Mr. Jim Ovia, Founder/Chairman, Zenith Bank PLC, were among some of the key business leaders that were met by the Prime Minister.

Chief amongst the attractions for the British PM at FMDQ's offices, Exchange Place, was the FMDQ Next Generation Empowerment Programme (FMDQ-Next) - a learning and development initiative which promotes financial market education among students across all levels (primary, secondary and tertiary), as well as fresh graduates, within the country. The British PM met with the FMDQ-Next 2018 Summer Camp participants who were being taught principles of financial markets and how to trade various financial markets securities in a simulated trading environment - the FMDQ Q-Hub. Ms. May applauded FMDQ for championing such a worthy cause and expressed delight at the tactical steps taken by the OTC Exchange to drive sustainable development. The participants, who comprised of children between the ages of twelve (12) and fifteen (15), had the unique opportunity to engage with the Prime Minister and delighted her with some of their key learnings.

Also, of interest to Ms. May and the UK delegation was the depiction of the evolution of FMDQ from its launch onto the Nigerian financial markets landscape up until date vis-à-vis the commendable achievements made by the OTC Exchange so far in its quest to transform the Nigerian financial markets to be globally competitive.

She mingled with the audience during a cocktail and networking session which had different focus groups dissecting opportunities for cross-border collaboration and opportunities in the finance, fintech and infrastructures spaces. Ms. May, following a one-on-one interview with Alhaji Dangote, then went on to sign the FMDQ Visitors' Register as she departed Exchange Place, on her way back to the international airport set to leave the country in continuation of her Africa tour, having made an indelible mark in the future of the OTC Exchange and paved the path for relations which FMDQ and the host of business delegates should expectedly build on to drive the much-needed economic advancement in Nigeria.

From providing an avenue for accessing and raising capital, to availing Nigerian and foreign portfolio investors, alongside other market participants, an avenue for value transfer and hedging of financial market risk exposures, the entrepreneurial and dynamic spirit with which FMDQ has undertaken and deployed requisite strategic initiatives for the transformation of the Nigerian financial markets is indeed laudable considering its just almost five (5) years in operation.

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FMDQ Hosts Publisher/CEO, BusinessDay Media, Mr. Frank Aigbogun at Exchange Place

In recognition and appreciation of the formidable collaborative relationship between BusinessDay Media and FMDQ, made possible by the continued support and contributions of BusinessDay Media towards the achievement of the OTC Exchange's mandate and desire to revolutionise the Nigerian financial markets, FMDQ hosted the Publisher/CEO, BusinessDay Media, Mr. Frank Aigbogun, at its new business premises, Exchange Place, today, August 31, 2018, at an impressive Ceremony in honour of BusinessDay Media's Publisher and CEO, Mr. Frank Aigbogun, during his first visit to Exchange Place.

Among those present at the Ceremony were Mr. Ayo Gbeleyi, former Commissioner for Finance, Lagos State, Dr. Wura Abiola, Managing Director, Management Transformation Limited, Mr. Boason Omofaye, Head, Business News, Channels Television and other key representatives from BusinessDay Media. The Ceremony was marked by interesting activities including a private tour of FMDQ's trading simulation room for its learning and development initiative for the next generation (i.e. students across the primary, secondary and tertiary levels), FMDQ Q-Hub, its training rooms for the development of the OTC Exchange's staff and capacity building for its markets stakeholders, and a walk-through of the depiction of FMDQ's evolution timeline from inception to date. Other major highlights of the Ceremony included an "FMDQ HardTalk" session with Mr. Aigbogun on critical economic and political issues, a series of well-articulated goodwill messages and a presentation of a memento to the guest of honour.

Whilst delivering the Special Address, Mr. Bola Onadele, Koko, Managing Director/CEO of FMDQ stated, "we are proud to partner with the likes of BusinessDay who celebrates our little drops of water which, more important than promoting the brand, promotes our mandate and thus support our mission to empower the financial markets". He further stated, "it was time to put the debt capital markets on the map of discussions as part of the wider plans to win the share of mind of governments, corporates, retail investors, amongst others, towards its potential to achieve exponential growth for the economy, and BusinessDay, without doubt, has continued to do a fantastic job".

Mr. Aigbogun, during his remarks, expressed his delight and appreciation to the OTC Exchange for welcoming him to Exchange Place and honouring BusinessDay Media in such a grand manner. He commended the OTC Exchange for its exemplary initiatives which have continued to set the pace for the certain transformation of the Nigerian financial markets towards global competitiveness and reiterated the full commitment of BusinessDay Media to continue to play its part, in collaboration with and support of FMDQ, in the delivery of the nationwide desire for true and certain economic development.

26th OTC FX Futures Contract Matures and Settles on FMDQ

On Wednesday, August 29, 2018, the 26th OTC FX Futures contract, NGUS AUG 29 2018, with contract amount of $349.44 million, matured and settled on FMDQ. This maturity brings the total value of matured Naira-settled OTC FX Futures contracts on FMDQ, since the inception of the market in June 2016, to circa $11.02 billion; with a total of about $14.99 billion worth of OTC FX Futures contracts traded so far.

The contract, which stopped trading on August 21, 2018, was valued for settlement against the NAFEX – the Nigerian Autonomous Foreign Exchange Fixing – the FMDQ reference Spot FX rate published same day. The associated clearing/settlement activities were effected accordingly.

The Central Bank of Nigeria, as observed over the last twenty-five (25) maturities, introduced a new contract, NGUS AUG 21 2019 for $1.00 billion at $/₦364.40 to replace the matured contract. The apex Bank also refreshed its quotes on the existing 1- to 11-month contracts. The contracts quotes are published daily on FMDQ's website at www.fmdqotc.com and on the FMDQ Twitter page, @FMDQOTCExchange.

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Corporates Continue to Seek Opportunities in the Commercial Paper Market

FMDQ has accomplished a full and clear revival of the Commercial Paper (CP) market with registered CP Programmes on the FMDQ Platform now well above ₦1.00 trillion. The month of August saw key activities in the CP quotations space on the OTC Exchange, wherein the ₦100.00 billion CP Programmes of Union Bank of Nigeria PLC and Flour Mills of Nigeria of PLC respectively, were registered on the OTC Exchange's platform.

As these institutions and a host of others continue to effectively and sustainably meet their funding needs, as well as contribute to the development of the nation's debt markets, FMDQ continues to take crucial steps, in collaboration with market stakeholders, towards promoting transparency, governance, integrity and efficiency in the Nigerian CP market.

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FMDQ Admits C & I Leasing PLC ₦7.00bn Fixed Rate Secured Bond to its Platform

The Board Listings, Markets and Technology Committee of FMDQ granted the approval of the C & I Leasing PLC ₦7.00 billion 5-Year 16.54% Series 1 Fixed Rate Senior Secured Bond (the "C & I Leasing Bond") under a ₦20.00 billion Debt Issuance Programme on its platform. In streamlining the efficiency of its processes and delivering value to both corporate and commercial businesses desirous of accessing the debt capital markets (DCM), FMDQ has continued to avail its credible platform as well as tailor its Listings, Quotations and Notings services to suit the needs of issuers. The proceeds from the C & I Leasing Bond will largely be used to boost C & I Leasing PLC's business expansion exercise and to restructure the company's debts over a period of five (5) years.

By listing its bond on FMDQ, C & I Leasing PLC enjoys exceptional benefits which include, but are not limited to, enhanced investor confidence in the issuer, transparent/relevant information disclosure on the issue, effective price formation and global visibility. A formal listing ceremony is being planned to commemorate the listing of the C & I Leasing Bond on FMDQ, in honor of the issuer, C & I Leasing PLC.

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FMDQ TURNOVER & DEALING MEMBER (BANKS) LEAGUE TABLE

FMDQ Turnover & Dealing Member (Banks) League Table Report

The FMDQ OTC Market Turnover Report shows the turnover on all products traded on the FMDQ secondary market – Foreign Exchange (FX), Treasury Bills (T.bills), Bonds (FGN Bonds, other Bonds (Agency, Sub-national, Corporate & Supranational) & Eurobonds)) Commercial Papers and Money Market (Repurchase Agreements (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 - July 2018)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	23,766,452	65,876
Foreign Exchange Derivatives	13,042,161	36,150
Treasury Bills	40,194,174	111,412
FGN Bonds	6,486,095	17,977
Other Bonds*	90,059	250
Eurobonds	42,001	116
Repurchase Agreements/Buy-Backs	15,312,578	42,438
Unsecured Placements/Takings	535,197	1,484
Money Market Derivatives	25,550	71
Commercial Papers	-	-
Total	**99,494,266**	**275,775**
No. of Business Days	146	146
Average Daily Turnover	**681,468**	**1,889**

Average YTD $/₦ @ 360.78
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 @ August 6, 2018; Figures reported by Dealing Member (Banks) on a week-ending basis

The total turnover for the January to July 2018 period amounted to ₦99.49 trillion. Trading activities in T.bills contributed the largest to overall turnover, accounting for 40.40% of the market. FX market transactions (Spot FX and FX Derivatives) accounted for 37.00% whilst the Repos/Buy-Backs product category accounted for 15.39% of overall market turnover. Bonds and Unsecured Placements & Takings, which contributed the least to overall market turnover, accounted for 6.65% and 0.54% respectively.

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Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - July 2018)

The FMDQ League Table shows the rankings of its top ten (10) Dealing Member (Banks) by overall market turnover in the FMDQ Markets.

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

The top ten (10) Dealing Member (Banks) accounted for 76.23% (₦75.85 trillion) of the overall turnover in the market, with the top three (3) accounting for 58.13% (₦44.90 trillion) of this sub-section of the market. Stanbic IBTC Bank PLC, Access Bank PLC and United Bank for Africa PLC were the leaders in the value traded for the overall over-the-counter (OTC) market, ranking 1st, 2nd and 3rd respectively.

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Derivatives Pricing

The April, May and June 2017 editions of FMDQ Spotlight provided an overview of derivatives, including the features and types of derivatives, the uses of derivatives, the market stakeholders/players, and the key concepts that feature prominently in derivatives transactions. This edition takes the learning on derivatives a little further and focuses on the pricing of derivatives.

To recall, derivatives are financial market products whose values are derived from one or more underlying assets or sets of assets, which can be bonds, stocks, commodities, precious metals, market indices, interest rates, etc. Though the market price of a derivative product is based on and determined by the underlying asset, its ownership is distinct and exclusive. Derivatives can be traded over-the-counter or on organised securities exchanges such as FMDQ.

Derivatives are used by financial and non-financial institutions for a variety of reasons, including risk management, speculation and arbitrage. Generally, derivatives such as forwards, futures, options, and swaps are used by most businesses to reduce the volatility of their earnings streams by hedging exposures to interest rate, exchange rate and commodity price risks.

The pricing of derivatives depends on the component of the product and different types of derivatives have different pricing mechanisms. This piece will focus on pricing of the three (3) most common types of derivatives - forwards, futures and swaps.

1. Forward Pricing

A forward contract is a non-standardised contract between two (2) parties to buy or to sell an asset at a specified future time at a price agreed upon 'today', making it a type of derivative instrument. Forward prices are usually the predetermined 'delivery' price for the underlying asset by both the buyer and seller of the 'forward contract' to be paid at an agreed date in the future. So, at the outset, it's a 'zero-sum game' and only in the event of a movement in the price of the underlying will the forward price also change – positively or negatively.

The standard forwards contract calculation is:

$$F = S \times e^{(r \times t)}$$

Where "F" is contract forward price, "S" is the underlying asset's spot price, "e" is the mathematical irrational constant approximated at 2.7183, "r" is the risk-free that applies to the life of the forward contract and "t" is the delivery date in years.

The forward price takes its value from the current open market value (called the spot price) of the underlying asset while taking a good look at interest rates, time and inflation for that period. Where currencies are involved, the risk of currency movement needs to be built in.

For example, assume a security is currently trading at $100.00 per unit. An investor wants to enter into a forward contract that expires in one (1) year. The current annual risk-free interest rate is 6%. Using the above formula, the forward price is calculated as:

F = $100.00 x e^ (0.06 x 1) = $106.18

2. **Futures Pricing**

A futures contract (more colloquially, futures) is a standardised forward contract, where it involves a legal agreement to buy or sell a security/product at a predetermined price at a specified time in the future. The pricing of a futures contract is much more dynamic than the pricing of a forward contract. One of the primary differences between forwards and futures is that the price of a futures contract changes on a daily basis, depending on the movement of the market for that contract; another is that futures contracts are standardised and are traded on organised Exchanges.

For Futures contracts, the basic pricing formula is as follows:

$F(t, T) = S(t) \times (1 + r)^{(T-t)}$

Where F (t, T) is the futures price, which is found by compounding the present value S(t) at time t to maturity T by the risk-free rate of return, r. In summary, the futures price is found by finding the value of money 'today' using the compound interest rate.

$F(t, T) = S(t)\, e^{r(T-t)}$

The above formula gives the value of a futures contract when continuous compounding is used.

For example, a grains merchant (a farmer) who wants to secure a selling price for the next harvest season and a corn flakes manufacturer (an industrialist) desiring to hold down the buying price of the grain to take advantage of a possible rise in price of grains in the following season (depending on information available) can both enter into a futures contract. Both the farmer and the industrialist enter into a futures contract for the farmer to deliver a notional one hundred (100) bags of grains to the industrialist at a given time the following season at a price of $5.00 per bag of grains.

To both parties, the agreed price is fair. Assume the price of grains increases by $1.00 per bag just the following day after both parties have entered into the contract. The farmer, as the holder of the short (sell) position, has lost $1.00 per bag. The spread over the agreed number of bags is the net loss of the farmer. On the days the price changes, the farmer's account is debited with the loss position and the industrialist's account is credited with the same amount. This continues as the market moves throughout the life of the contract. Note that where the price direction changes to the benefit of the farmer, the opposite debit and credit entries to the accounts are performed.

After the settlement of the contract, where the contract is settled in favour of the industrialist in the above example, the industrialist pays cash in the cash market for the market value of the grains and uses the profit made on the futures contract towards the purchase, effectively reducing his actual cost of purchase of the grains.

3. Options Pricing

An option is a contract which gives the buyer (the owner or holder of the option) the right, but not the obligation, to buy or sell an underlying asset or instrument at a specified price (the strike price) on a specified date.

Option pricing refers to the amount per share at which an option is traded. The price, or cost, of an option is an amount of money known as the premium. The buyer pays the premium to the seller in exchange for the right granted by the option.

For example, a trader expects company AB stock price to go up to ₦100.00 in the next one (1) month. He sees an opportunity to buy an option contract of the company at ₦50.00 with a strike price of ₦85.00 per share. He pays the cost of the option at ₦50 x 100 shares = ₦500.00. The stock price rises as expected and stabilises at ₦110.00 per share and trades at that price until the expiry date of the contract. On the contract expiry date, the trader executes the call option and buys the 100 shares of the company at ₦85.00 strike price and then sells the new stock on the market at ₦110.00 thereby making ₦25.00 per share with a total profit of ₦2,500.00.

Conclusion

Derivatives pricing is as dynamic as the variants of derivatives types. Even within the derivatives categories, the pricing still varies. This is perhaps why it is said that derivatives pricing is complex and therefore requires complex formulas and calculations. In all, it will be useful to note that as the markets develop, the need to trade the different variants of derivatives will gradually compel the need to deepen the market knowledge of all the aspects of the product.

As a thought-leader in the Nigerian OTC financial markets space, FMDQ will continue to address observed knowledge gaps and skills in the Nigerian financial markets, through its market education and capacity building initiative, ensuring that capacities are aligned with the rapid market transformation and product innovation in the Nigerian and global financial markets.

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