SUMMARY OF PREVIOUS AUCTION

Marginal Rates:

12.50% JAN 2026	6.70%
12.50% MAR 2035	9.35%
9.80% JUL 2045	9.75%
12.98% MAR 2050	9.90%

Amount:

12.50% JAN 2026	NGN25.42bn
12.50% MAR 2035	NGN21.45bn
9.80% JUL 2045	NGN16.09bn
12.98% MAR 2050	NGN53.69bn

SUMMARY OF CURRENT AUCTION

FGN JAN 2026

Auction Date	23/09/2020
Settlement Date	24/09/2020
Maturity Date	22/01/2026
Next Coupon Date	15/12/2020
Clean Price	126.91

FGN MAR 2035

Auction Date	23/09/2020
Settlement Date	24/09/2020
Maturity Date	27/09/2020
Next Coupon Date	27/03/2035
Clean Price	122.57

FGN JUL 2045

Auction Date	23/09/2020
Settlement Date	24/09/2020
Maturity Date	24/01/2021
Next Coupon Date	24/07/2045
Clean Price	100.70

FGN MAR 2050

Auction Date	23/09/2020
Settlement Date	24/09/2020
Maturity Date	27/09/2020
Next Coupon Date	27/04/2050
Clean Price	128.13

FGN Bond Auction Scheduled for 23rd September 2020

Issue on Offer/Summary

The Federal Government of Nigeria (FGN), through the Debt Management Office (DMO), will be conducting a bond auction on Wednesday 23rd of September 2020. The total amount on offer is expected to amount to NGN150bn. All four (4) instruments on offer are re-opening issues.

12.50% FGN JAN 2026	**NGN25bn**
12.50% FGN MAR 2035	**NGN40bn**
9.80% FGN JUL 2045	**NGN45bn**
12.98% FGN MAR 2050	**NGN40bn**

Current Yield Analysis

Buying interest remained strong at the last FGN Bonds Primary Market Auction (PMA) evidenced by the respective bid to cover ratios of 1.29x, 2.28x, 2.89x and 2.13x across the four tenors (**12.50% JAN 2026**, **12.50% MAR 2035**, **9.80% JUL 2045** and **12.98% MAR 2050**) on offer. This reflects the tilt in investors' preference towards mid-to-long tenured instruments. The marginal rates on the four instruments auctioned treaded mixed paths: an increase was recorded on the **12.50% JAN 2026** instrument to 6.70% (*vs. 6.00% at the previous auction*) while other instruments saw a decline in rates.

Bullish sentiment continued to dominate the secondary market for Treasury Bonds evinced by the 30bps decline in average yields to 7.43% (vs. 7.73% as at the last Auction). The bond space has been largely influenced by increased system liquidity- a result of the series of OMO Maturities and FAAC Allocation (NGN676.40bn in September). In addition to this, the dearth of other attractive instruments and rotational placement by foreign investors due to the inability to repatriate their funds, have all contributed to the bullish momentum in the market.

The rising concern about a second wave of the coronavirus raises a cloud of uncertainty on the global economy recovery. This has impacted the outlook for global oil demand and triggered a decline in crude-oil prices below USD40per barrel last week.

Despite the CBN's clampdown on currency speculators and resumption of intervention in the official foreign exchange window, rates have since circled back in the parallel market to NGN465/ USD as at 21st of September 2020. This is premised on the sustained illiquidity within the official foreign exchange channel amid the backlog of foreign portfolio fund set for repatriation and the forex requirement as the country opens up its airspace. This has left ample financial liquidity within the system, a development which bodes well for robust patronage at the coming auction.

The continued rise in inflation rate and the adverse impact on the real rate of return remains a cause for concern. Nonetheless, the dearth of attractive investment instruments supports the level of oversubscription witnessed at the previous auctions. Against this backdrop, we expect strong investors' participation in the upcoming auction.

Please refer to page 5 for our disclaimer notice and other relevant disclosures

Bond Absolute and Relative Valuation

In valuing the **12.50% FGN JAN 2026**, **12.50% FGN MAR 2035**, **9.80% FGN JUL 2045** and **12.98% FGN MAR 2050** re-opening offers with the current yield curve as the basis for discounting, we arrived at the following fair value, implied yield and an IRR for the instruments:

Instrument	Fair Value	Implied Yield	IRR
12.50% FGN JAN 2026	130.46	6.44%	-9.04%
12.50% FGN MAR 2035	128.82	9.59%	4.79%
9.80% FGN JUL 2045	102.43	9.72%	4.86%
12.98% FGN MAR 2050	134.62	10.00%	4.73%

Our valuation gives a fair-trading price ex coupon payment, the expected return on the bond considering its periodic interest payments and the expected return on the bond's periodic payments. We analysed the issues on offer given the current yield environment, market liquidity, as well as a review of the recent past auctions, whilst also introducing market sentiment factor into our valuation, on which we advise bid yield ranges for both issues on offer

About Bonds

A bond is a fixed income debt instrument issued by the government (federal or state government) or corporate institutions with a definite date of maturity and a fixed interest payment (known as coupon) payable either semi-annually or annually. Unlike equities, bonds are issued with a guarantee of the initial investment and can have tenors as long as 20 years.

A treasury note refers to a government bond instrument with a term to maturity of 1 to 10 years while a treasury bond has a maturity of 10 years and above. Bonds issued by state governments of a country are referred to as municipal bonds while those issued by organizations are corporate bonds.

The government usually issue bonds at the primary market to raise domestic funds to meet its fiscal responsibilities. This can be done from time to time as the need arises. Nigerian FGN bond instruments are named by their maturity, coupon, tenor etc. such as 13.05% FGN AUG 2016 instrument.

How is Return Determined?

Bonds are mostly issued with a coupon otherwise known as **the periodic interest payable**. Bond instruments are usually issued at par; that is, N100 or N1,000 as is the case with Nigerian bonds. A 2-year bond issued at 12% annual coupon with a par value of N1000 implies that the issuer will make 3 semi-annual payments of N60, and a final N1060 on the maturity date.

Bonds can be purchased at both the primary and secondary markets, they are either quoted in price or yields. **There is an inverse relationship between the price of a bond and its yield to maturity (YTM).** At issuance, the yield on a bond instrument is most likely the coupon on that instrument. At the secondary market therefore, an investor can trade bonds by quoting a yield that reflects the variance between the par value and the current price based on the current market dynamics.

How does the Auction Process work?

Bond instruments are issued through a competitive bidding process at auctions as conducted by the Debt Management Office which serves as the representative of the government. An existing government instrument can be re-issued also at the primary market in which case the DMO re-issues based on the current market yield to maturity.

Bonds are auctioned at established rates which determine the return to investors.

Purchasing these instruments in the primary market and holding it till maturity would mean that the investor gets a fixed interest payment, however, there is a secondary market in which investors can trade these bonds to meet their immediate liquidity needs.

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