SUMMARY OF PREVIOUS AUCTION

Marginal Rates:

13.98% FEB 2028	11.6000%
12.40% MAR 2036	12.7500%
12.98% MAR 2050	13.0000%

Amount:

13.98% FEB 2028	NGN50.00bn
12.40% MAR 2036	NGN50.00bn
12.98% MAR 2050	NGN50.00bn

SUMMARY OF CURRENT AUCTION

FGN JAN 2026

Auction Date	20/10/2021
Settlement Date	22/10/2021
Maturity Date	22/01/2026
Next Coupon Date	22/01/2022
Clean Price	105.29

FGN APR 2037

Auction Date	20/10/2021
Settlement Date	22/10/2021
Maturity Date	18/04/2037
Next Coupon Date	18/04/2022
Clean Price	122.37

FGN MAR 2050

Auction Date	20/10/2021
Settlement Date	22/10/2021
Maturity Date	27/03/2050
Next Coupon Date	27/03/2022
Clean Price	98.79

FGN Bond Auction Scheduled for 20th October 2021

Issue on Offer/Summary

The Federal Government of Nigeria (FGN), through the Debt Management Office (DMO), will be conducting a bond auction on Wednesday 20th of October 2021. The indicated total amount to be on offer is NGN150bn. All instruments on offer are re-opening issues.

12.50% FGN JAN 2026	**NGN50bn**
16.25% FGN APRIL 2037	**NGN50bn**
12.98% FGN MAR 2050	**NGN50bn**

Current Yield Analysis

The Debt Management Office (DMO) held its monthly auction in September 2021 where it offered NGN150bn on the 2028, 2036 and 2050 instruments collectively. The instruments on offer were oversubscribed with bid to cover ratios of 1.24x, 1.08x, and 1.32x across the **13.98% FEB 2028**, **12.40% MAR 2036** and **12.98% MAR 2050** instruments respectively.

Since the last auction in September, there has been a deceleration in inflation (headline inflation declined to 16.63% in September vs. 17.01% in August 2021) due to the high base effect and an influx of key agricultural products given the recent post-harvest season. Nonetheless, real rate of returns has remained entrenched in the negative region. Given previous trends, we do not expect this to impact investors participation at the coming auction.

On the part of the government, we note that there has been less inclination towards domestic borrowing so far in H1:2021. This is more so as the government currently seeks the approval of the National Assembly to take on an additional external loan of USD4.05bn and EUR710mn from the World Bank and other foreign sources. Thus, we do not expect yields at the coming auction to be significantly higher than yields in the secondary market. Since the last auction, average bond yield has increased marginally to 10.64% (as of 15th October 2021) from 10.57% (recorded on the date of the last auction). The mildly bearish sentiment is expected to persist for the rest of the year. **Please see the table below for our recommended bid rates based on our analysis of the current yield environment.**

Bond Absolute and Relative Valuation

In valuing the **13.98% FGN FEB 2028**, **12.40% FGN MAR 2036** 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 advised bid rates for the instruments:

Instrument	Fair Value	Implied Yield	Advised Bid Rates
12.50% FGN FEB 2026	105.29	10.90%	10.80% - 11.00%
16.25% FGN MAR 2037	122.37	12.89%	12.60% - 12.90%
12.98% FGN MAR 2050	98.79	13.18%	13.00% - 13.10%

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 the 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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