SUMMARY OF PREVIOUS AUCTION

Marginal Rates:

16.29% MAR 2027	15.00%
14.55% APR 2029	15.50%
14.70% JUN 2033	16.00%
15.45% JUN 2038	16.50%

Amount:

16.29% MAR 2027	NGN28.61bn
14.55% APR 2029	NGN9.15bn
14.70% JUN 2033	NGN23.34bn
15.45% JUN 2038	NGN211.52bn

SUMMARY OF CURRENT AUCTION

FGN FEB 2031

Auction Date	19/02/2024
Settlement Date	21/02/2024
Maturity Date	19/02/2031
Next Coupon Date	19/08/2024

FGN FEB 2034

Auction Date	19/02/2024
Settlement Date	21/02/2024
Maturity Date	19/02/2034
Next Coupon Date	19/08/2024

FGN Bond Auction Scheduled for 19th February 2024

Issue on Offer/Summary

The Federal Government of Nigeria (FGN), through the Debt Management Office (DMO), will be conducting a bond auction on Monday 19th of February 2024. The indicated total amount on offer is NGN2.50trn from two issues. The instruments include two new issues (Feb-31 and Feb-34).

FGN FEB 2031	**NGN1.25trn**
FGN FEB 2034	**NGN1.25trn**

Current Yield Analysis

At the last Primary Market Auction (PMA) held in January 2024, the DMO reopened three instruments – Apr-29, Jun-33, and Jun-38 and introduced the MAR 27. The PMA saw higher investor participation as subscription level rose to NGN437.56bn (vs NGN341.23bn in December). This is despite the negative liquidity (NGN311.42bn) the week before. Furthermore, the amount allotted was significantly higher as it rose to NGN332.01bn (vs NGN62.11bn in December 2023). However, the bid-to-cover ratio fell to 1.32x from 5.49x in December, reflecting a higher allotment amount compared to the last auction. Notwithstanding, marginal rates on the Apr-29, Jun-33, Jun-38 remained flat at 15.50%, 16.00%, and 16.50% respectively. The new issue garnered a higher subscription level than what was allotted, with a bid-to-cover ratio of 1.94x and a marginal rate of 15.00%.

In the upcoming auction, a record-high offer of NGN2.50trn across just two instruments amid low system liquidity (NGN76.91bn as of 16th February 2024) signals a potential uptick in rates compared to the last auction. This expectation is hinged on the monetary authority's commitment to liquidity management and its aim to maintain attractive rates on treasury instruments. Additionally, anticipation of an upward adjustment in the Monetary Policy Rate (MPR) by the Central Bank further bolsters this projection. Furthermore, the Government's prioritization of domestic financing to address budget deficits provides addition impetus for a rate increase. We note that there was a surge in rate at the last Treasury Bills Primary Market Auction which underscores investors' appetite for higher returns.

In the secondary market, the sentiment has been predominantly bearish as the average bond yield rose to 16.12% as of 16th February 2024 from 13.94% at the last auction date. We anticipate this sentiment to persist in the near term as investors remain inclined towards seeking higher returns.

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 **FGN FEB 2031** and **FGN FEB 2034** 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
FGN MAR 2027	Nil	Nil	16.00% - 17.00%
FGN APR 2029	Nil	Nil	17.00% -18.00%

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 analyzed the issues on offer given the current yield environment market liquidity and 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 a 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 called municipal bonds, while those issued by organizations are corporate bonds.

The government usually issues bonds at the primary market to raise domestic funds to meet 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 the 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, N100 or N1,000, as with Nigerian bonds. A 2-year bond issued at a 12% annual coupon with a par value of N1000 implies that the issuer will make three semi-annual payments of N60 and a final N1060 on the maturity date.

Bonds can be purchased at both the primary and secondary markets and 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. Therefore, an investor can trade bonds at the secondary market 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 conducted by the Debt Management Office, which serves as the government representative. An existing government instrument can also be re-issued at the primary market, wherein 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 them 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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