SUMMARY OF PREVIOUS AUCTION

Marginal Rates:

18.50% FEB 2031	18.55%
19.00% FEB 2034	19.00%

Amount:

18.50% FEB 2031	NGN873.53bn
19.00% FEB 2034	NGN621.38bn

SUMMARY OF CURRENT AUCTION

FGN MAR 2027

Auction Date	18/03/2024
Settlement Date	20/03/2024
Maturity Date	18/03/2027
Next Coupon Date	18/09/2024

FGN FEB 2034

Auction Date	18/03/2024
Settlement Date	20/03/2024
Maturity Date	19/02/2031
Next Coupon Date	19/08/2024
Clean Price	99.94

FGN FEB 2034

Auction Date	18/03/2024
Settlement Date	20/03/2024
Maturity Date	19/02/2034
Next Coupon Date	19/08/2024
Clean Price	99.59

FGN Bond Auction Scheduled for 18th March 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 18th of March 2024. The indicated total amount on offer is NGN450.00bn from three issues. The instruments include one new issue (Mar-27).

FGN MAR 2027	**NGN150.00bn**
FGN FEB 2031	**NGN150.00bn**
FGN FEB 2034	**NGN150.00bn**

Current Yield Analysis

At the last Primary Market Auction (PMA) held in February 2024, the DMO introduced two new instruments – FEB 31, and FEB 34, offering a total of NGN2.50trn (NGN1.25trn on each instrument). Due to the higher offer amount, the PMA saw higher investor participation as subscription more than tripled, printing at NGN1.90trn (vs NGN604.56bn at the previous auction in January). Also, the amount allotted was significantly higher as it rose to NGN1.49trn (vs NGN418.20bn in January). However, the bid-to-cover ratio fell to 1.27x from 1.45x in January, reflecting a higher allotment amount compared to the last auction. Consequently, the marginal rates on the Feb-31 and Feb-34 printed at 18.50% and 19.00% respectively.

In the upcoming auction, we anticipate an uptrend in rates across the offered instruments. We expect the recent upward adjustment (400bps) in the Monetary Policy Rate (MPR) by the Central Bank further to spur investors' demand for higher rate at the auction. Additonally, the results of the Treasury Bills Primary Market Auctions during the month, underscores investors' appetite for higher returns. Moreover, the central bank's commitment to liquidity management and its efforts to maintain appealing rates on government securities, particularly to attract foreign investors, along with the government's preference for domestic borrowing to address fiscal deficits, suggest a strong rationale for a possible uptick in interest rates.

In the secondary market, the sentiment has remained largely bearish since the last auction as the average bond yield rose to 18.33% as of 14th March 2024 from 16.12% at the last auction date. We expect this sentiment to persist in the near term as investors remain inclined towards seeking higher returns.

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

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 MAR 2027, 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	17.50% - 19.00%
FGN FEB 2031	99.94%	18.50%	18.50 – 19.50%
FGN FEB 2034	99.59%	19.08%	19.00% -21.00%

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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