SUMMARY OF PREVIOUS AUCTION

Marginal Rates:

19.30% APR 2029	19.89%
18.50% FEB 2031	21.00%
19.00% FEB 2034	21.98%

Amount:

18.50% APR 2029	NGN100.00bn
18.50% FEB 2031	NGN100.00bn
19.00% FEB 2034	NGN100.00bn

SUMMARY OF CURRENT AUCTION

FGN APR 2029

Auction Date	19/08/2024
Settlement Date	21/08/2024
Maturity Date	17/04/2029
Next Coupon Date	17/10/2024
Clean Price	98.82

FGN FEB 2031

Auction Date	13/05/2024
Settlement Date	15/05/2024
Maturity Date	21/02/2031
Next Coupon Date	21/08/2024
Clean Price	91.54

FGN MAY 2033

Auction Date	13/05/2024
Settlement Date	15/05/2024
Maturity Date	15/05/2033
Next Coupon Date	15/11/2024
Clean Price	93.66

FGN Bond Auction Scheduled for 19th August 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 August 2024. The indicated amount on offer is NGN190.00bn. All instruments on offer are re-opening issues.

FGN APR 2029	**NGN70.00bn**
FGN FEB 2031	**NGN70.00bn**
FGN MAY 2033	**NGN50.00bn**

Current Yield Analysis

In line with economic realities, the DMO concluded the last bond auction in July 2024 offering higher rates to investors. Marginal rates on the trio instrument 2029, 2031, and 2034 increased by 25bps, 81bps, and 48bps to 19.89%, 21.00%, and 21.98% respectively. We note the lower investor participation at the last PMA as subscription fell to a 21-month low of NGN279.66bn (vs NGN305.26bn at the previous auction in June). In the same vein, the amount offered, total bids and amount allotted all fell to NGN300.00bn, NGN186.00bn, and NGN225.71bn (vs NGN450.00bn, NGN245.00bn, and NGN297.01bn at the June auction). However, bid-to-cover ratio increased to 1.24x from 1.03x in June due to the relative low amount allotted on the 2031 maturity (NGN6.18bn).

The upcoming auction is poised for a rate decrease, driven by the DMO's decision to delay and downsize the auction, effectively flooding the market to suppress rates and attract investors. This strategic move is further supported by the recent inflation downtick to 33.40%, a nearly two-year low, which will contribute to the downward pressure on rates. With the domestic dollar bond offering coinciding with the FGN bond auction, there's little reason to expect rates to remain elevated, setting the stage for a potential rate reduction.

Meanwhile, in the secondary market, the sentiment has been bearish since the last auction as the average bond yield rose to 19.70% as of 16th August 2024 from 19.29% at the last auction date.

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 Bond Absolute and Relative Valuation

In valuing the **FGN APR 2029, FGN FEB 2031** and **FGN MAY 2033** 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 APR 2029	98.82	19.68%	19.90% - 20.50%
FGN FEB 2031	91.54	20.85%	20.20% - 20.80%
FGN MAY 2033	93.66	21.51%	21.30% - 21.50%

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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