

3 March 2016

# Monthly Markets Review

## Overview of Markets in February 2016

### Highlights:

- Global equity markets remained subdued in February. The first half of the month was turbulent while reprieve came in the second half. On average, we thought February (MSCI World shed 0.96% m/m) was a better month, compared to January (MSCI World lost 6.1% m/m).
- Despite continued concerns on the impact of weak oil prices on the economy, the Nigerian All Share Index recorded a 2.74% m/m gain in February, spurred majorly by bargain hunting, amid dividend and earnings expectation ahead of FY'15 earnings releases.
- The CBN maintained its stance on “no devaluation” as the Naira remained pegged at N197.00/US\$. The parallel market rate, however, was very volatile during the month.
- Interbank lending rates dropped to their lowest, on average, in 25 month period from January 2014 levels.
- Treasury bills market was quiet, with a bearish tilt, despite high liquidity.
- There was a slight contraction in yields in the FGN bond market, as activities remained quiet for most of the month.

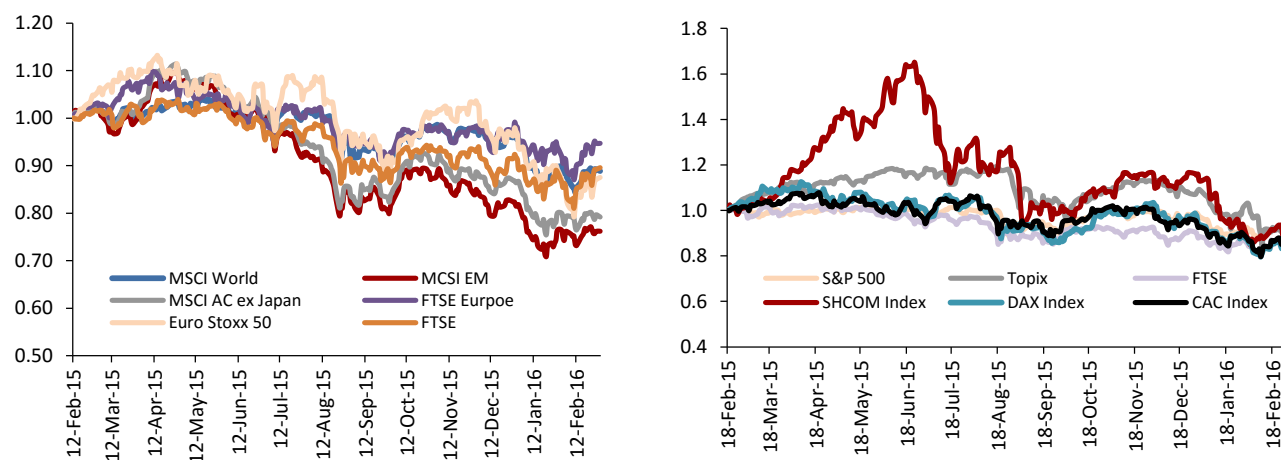
### Global Equity Markets

**U.S equities performed poorly in February, with the S&P 500 returning -0.4%.** The m/m decline, the second in a row, this year, was recorded amid a number of good and bad economic news in both the domestic economy and outside. From within, reports showing -- (1) a subdued degree of confidence about the prospects for growth in the service sector over the next 12 months (2) heavy downsizing in the retail and energy sectors, (3) decline in the Index of Small Business Optimism, and (4) manufacturers’ uncertainty about the economic outlook -- negatively impacted equities during the period. Also discouraging sentiments towards the market were some external developments, including (1) double-digit decline in Chinese exports and imports in January (2) decline in Chinese factory and services PMIs, (3) reports that the Euro Area made a disappointing start to 2016, and (4) continued volatility in the price of oil.

There was some respite towards month-end after reports showed sustained employment growth and increased retail sales in January. Gains by energy shares (on the back of proposed Iran support of Russia-Saudi led move to freeze production) as well as dovish comments by the ECB president supported the S&P 500 to a 1.9% -- which was too small to offset the 2.3% loss posted in at the beginning -- in the second half.

**Eurozone markets followed the same pattern as in the U.S.** FTSE Europe ex UK was down by 0.3% while Euro Stoxx 50 closed 3.26% lower, in February. Investors sold off in the first half of the month (in continuation of the difficult start in January) and bought back strongly in the second half. Global concerns were a significant factor in the declines, with weaker Chinese data (discussed above) and volatility in oil price putting pressure on equity markets. Internally, worries over (1) a widened Q4-2015 trade deficit, (2) growing signs of stress in the European banking sector, and (3) slower manufacturing and service output growth in January -- were also to the fore. Helping inspire the bulls towards the end of the month were signs that oil price will rebound (as stated above), and hints of more easing from the ECB president.

**Figure 1: Global Indices (Index of 1)**



Source: Bloomberg

**Unlike other global markets, Japanese equities were very weak in most of February.** This is because investors were confronted with more disturbing economic news during the period. The market index (Topix) closed the month down 9.4%, after losing 7.4% in January. Although the market -- like the others -- gained in the second half of the month, the rebound was much insignificant at 0.1%. The move by the central bank (the Bank of Japan) to implement a negative interest rate had the strongest adverse impact on equities (considering its wildly expected potential pressure on the financial system). Earlier comments by the Prime Minister signaling possibility of forex intervention amid heightened volatility (with the Yen consequently gaining), record decline in annual exports in January, a fall in inflation rate to zero in January, and a 0.4% contraction of economic growth in Q4-2015 (preliminary estimate) were all on the list of investor concerns.

**There were fewer trading days in China as markets were closed for the New Year holiday.** That said, the market traded quite contrary to the trend seen in the advanced markets. Investors were in a buying mood at the beginning of the month as stocks appeared broadly attractive after a massive sell-off (wherein equities fell by

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22.6%) in January. But the buying frenzy was with caution, and didn't last. In the end, the Shanghai Composite Index closed 1.8% down in the month. A series of factors -- notably double-digit decline in exports and imports in January and decline in factory and services PMIs -- accounted for the weak performance.

## Nigeria

### Equities Market - Is February's Gain A Dead Cat Bounce?

The domestic bourse delivered a rebound (+2.74% m/m) from January's 16.50% disappointing loss. The gain was spurred majorly by bargain hunting, amid dividend and earnings expectation ahead of FY'15 earnings releases. The market's positive performance came despite persistent pressure on the price of oil -- and by extension, subdued confidence in the economy. Although a Saudi-Russia led proposed output freeze (at January levels) surfaced in the month, final decisions on the agreement are to be made in a meeting scheduled to hold in March.

Interestingly, the Oil & Gas index performed impressively, recording the highest m/m gain of 19.76%, primarily driven by strong rallies in SEPLAT (+79.67%) -- following the successful acquisition of OML 53 from Chevron after a protracted court case -- and FO (+14.83%). The Industrial Goods (+6.86% m/m) index also attracted investors' interest, as reflected in the relatively solid gains recorded in heavyweight DANGCEM (+9.96%) and WAPCO (+5.65%).

Figure 2:

NSE Sector Indices				
Index	This Month	Last Month	m/m Change	y/y Change
NSE Banking	229.92	238.89	-3.75%	-14.37%
NSE Consumer Goods	604	620.75	-2.70%	-19.06%
NSE Industrial	1856.52	1737.29	6.86%	-14.32%
NSE Insurance	126.86	132.72	-4.42%	-11.04%
NSE Oil/Gas	383.93	320.58	19.76%	7.68%

Source: NSE

On the flip side, the Financial Services sector performed poorly, following losses in the Banking (-3.75% m/m) and Insurance (-4.42% m/m) indices, owing to declines recorded by ZENITHBANK (-12.21% m/m), GUARANTY (-4.71% m/m), AIICO (-6.98% m/m) and CONTINSURE (-2.11% m/m) respectively. Notably, the Banking index moved lower as the issuance of two profit warnings in two months of 2016 (by FBNH and FCMB) confirmed investors' skepticism of the banking sector. The Consumer Goods (-2.70% m/m) index similarly declined, as NESTLE (-3.38% m/m) and GUINNESS (-2.16% m/m) both failed to impress.

Market breadth was notably negative, with 27 gainers -- topped by SEPLAT (+79.67%) -- versus 53 losers -- led by CONOIL (-29.55%).

**Figure 3:**

Gainers			Losers		
Ticker	MTD	YTD	Ticker	MTD	YTD
SEPLAT	79.67%	71.92%	CONOIL	-29.55%	-29.55%
INTBREW	21.88%	21.95%	OANDO	-25.75%	-49.66%
AGLEVENT	15.94%	29.03%	NEIMETH	-23.26%	-25.84%
CUTIX	15.33%	-4.82%	DIAMONDBNK	-22.91%	-40.00%
FO	14.83%	3.64%	FCMB	-22.45%	-55.03%

Source: NSE

Volume traded expanded by 118.52% to 12.39 billion shares, worth N52.72 billion and traded in 62,003 deals, compared to the 5.67 billion shares valued at N42.05 billion that exchanged hands in 67,483 deals in January. WEMABANK (3.82 billion), TIGERBRANDS (3.32 billion) and FCMB (682.76 million) accounted for 63.18% of total volume traded during the month, while GUARANTY (N8.99 billion), ZENITHBANK (N6.82 billion) and SEPLAT (N5.53 billion) accounted for 40.49% of total value of transactions.

## Fixed Income

### Interbank

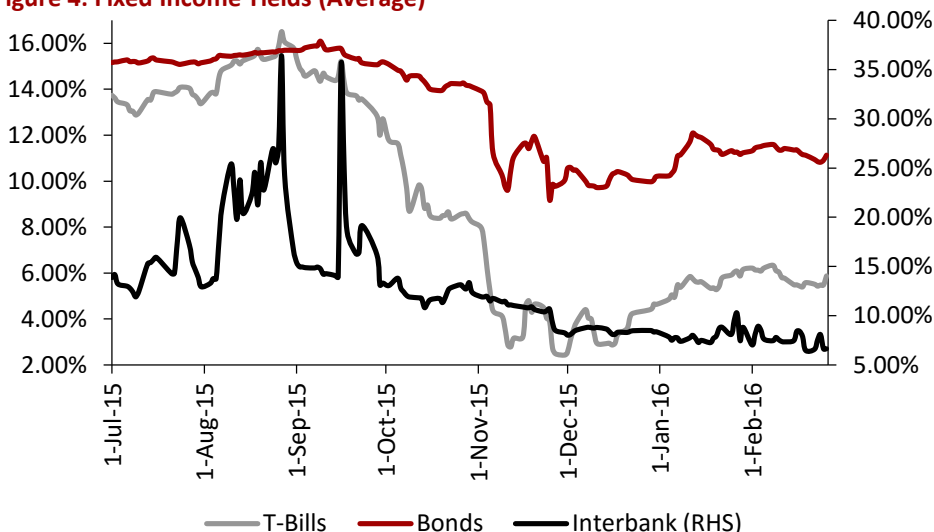
In February, rates in the interbank market inched up slightly, rising 2bps on average to 7.12%. The overnight and 6-month rates expanded by 37bps and 23bps to 1.26% and 10.65%, respectively. Conversely, the 1 and 3-month rates moved in the opposite direction, contracting by 47bps and 4bps to 7.56% and 9.10% in that order. System liquidity was relatively high, starting the month at N460billion and rising 8% to end the month at N498billion. In addition to banks provisioning funds for the weekly forex intervention by the CBN, the apex bank sold N116.68billion of the 192-day OMO bill in the first week of the month. This saw rates rise 53bps to 7.62%. OMO maturities worth N331.35billion hit the system in the second week of the month and with the absence of any OMO auctions to douse liquidity, rates declined 28bps on average to 7.34%. On the back of high liquidity, rates continued to fall into the third week, contracting by 87bps, on average, to 6.47% - the lowest in a 25-month period from January 2014. OMO maturities worth N234.45billion, as well as budgetary allocation to the tiers of government (c. N123.4billion) hit the system in the final week, however, liquidity withdrawals, in the form of OMO auctions (N293.76billion on the last Friday of the month and N101.80billion on the last day of the month), drove rates 17bps higher, on average, at the end of the last week to 6.64% and a further 48bps on the last day of the month.

### Treasury Bills

The second month of the year saw treasury bill yields expand marginally by 1bps, on average, to 6.17%. Investors lightened positions at the short (+43bps) and long (+2bps) ends of the curve, however, they were upbeat at intermediate (-46bps) end. The first week of the month was defined by a primary auction in which the apex bank fully allotted N45.18billion of the 91-day, N80.00billion of the 182-day and

N117.22billion of the 364-day bills at respective marginal rates of 4.95% (4.29% at the previous auction), 7.978% (7.59% the previous auction) and 9.49% (9.3285% at the previous auction). The stop rates (which came higher than expected) led market participants into re-pricing bills in the secondary market, causing yields to expand 6bps to 6.22%. The second week saw a 44bps contraction in average yield to 5.77%, due to the absence of OMO auctions, and the prevailing buoyant system liquidity.

**Figure 4: Fixed Income Yields (Average)**



Source: FMDQ

Another primary auction was held during the third week of the month, wherein the apex bank fully allotted N32.44billion of the 91-day, N30.00billion of the 182-day and N80.00billion of the 364-day bills at respective stop rates of 4.85%, 7.30%, and 8.98%. That week, average yield recorded a 19bps contraction to settle at 5.58%, as investors favoured medium and long term bills at the expense of short term bills -- owing to rates at the auction coming in lower than expected. The final week of the month saw yields expand by 29bps to 5.87%, as the Central Bank withdrew liquidity via OMO auctions.

**FGN Bonds**

In line with previous trends, the bond market remained quiet in February. Trading in earlier sessions was especially cautious as most traders were looking forward to the outcome of February’s bond auction to drive market sentiment. At the auction (held February 10, 2016), the FGN, via the DMO, offered N40.00billion and N50.00billion worth of the 15.54% FEB 2020 (5yr) and 12.50% JAN 2026 (10yr) bonds respectively, in re-openings. The auction was oversubscribed, with marginal rates of 12.19% (for FEB 2020) and 12.39% (for JAN 2026), against the 12.24% and 12.50% at which they were respectively allotted at the January auction. The lower yields at the auction spurred bullish sentiments; however, this was short-lived, as profit-taking activities ensued.

Figure 5:

Benchmark Bonds - Secondary Market					
New Nomenclature	Issue Date	TTM	29-Feb	Change	29-Jan
15.10 27-APR-2017	27-Apr-12	1.16	10.23%	0.24%	9.99%
16.00 29-JUN-2019	29-Jun-12	3.33	10.60%	-0.15%	10.75%
15.54 13-FEB-2020	13-Feb-15	3.95	11.93%	-0.06%	12.00%
16.39 27-JAN-2022	27-Jan-12	5.91	11.86%	-0.05%	11.91%
14.20 14-MAR-2024	14-Mar-14	8.04	12.09%	0.03%	12.06%
14.50 22-JAN-2026	22-Jan-16	9.90	12.07%	-0.21%	12.28%
10.00 23-JUL-2030	23-Jul-10	14.39	12.14%	0.07%	12.07%
12.1493 18-JUL-2034	18-Jul-14	18.38	12.21%	0.13%	12.08%

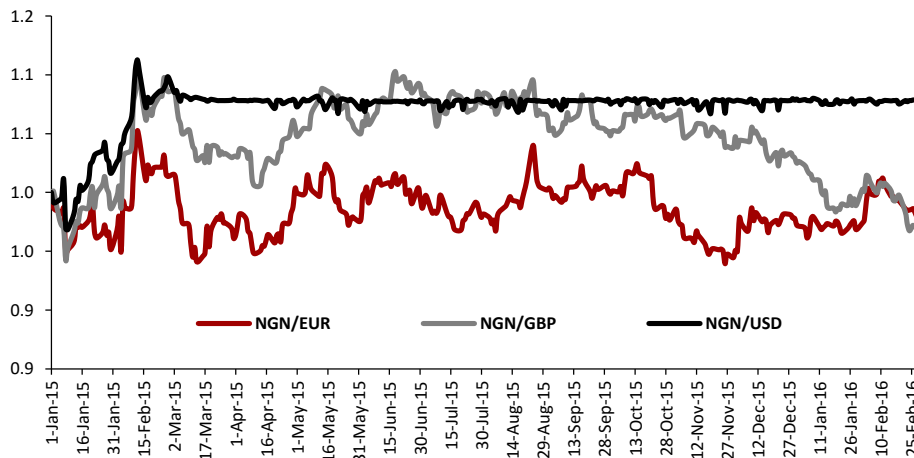
Source: FMDQ

Crude oil prices were volatile for most of the month, but did not materially affect trading, given that the price of the commodity have been below the budget benchmark (\$38.00) for most of the year. The market responded positively (briefly) to developments suggesting that the FGN might borrow less than initially projected in 2016 budget, following reports of recoveries from the implementation of the Treasury Single Account. Inflation for January was unchanged from December at 9.6%, with market participants reacting indifferently to that development. Average bond yield fell by 1bps m/m to 11.22%.

### Foreign Exchange

The CBN maintained its stance on “no devaluation” as the Naira remained pegged at N197.00/US\$. The parallel market rate, however, was very volatile during the month. Worthy of note, is that the Naira hit an all-time low of N400.00/US\$, as individuals, importers and businessmen engaged in panic buying of the greenback and other major currencies. Shortly after the all-time depreciation, the local currency found respite, as it exchanged at N290.00/US\$, indicating a 27.50% appreciation (from the N400/US\$ low level). The huge appreciation was spurred by (1) increased Dollar sales by the CBN and oil companies, (2) traders/speculators massively reducing their Dollar holdings, and (3) the proposed plan by retail operators to introduce a single quote across the parallel market and maintain a bid-ask spread of 3.5%. Despite the rebound, the local currency posted m/m depreciations of 5.86%, 3.53% and 5.42% against the USD, GBP and EUR respectively to trade at N325.00, N440.00 and N350.00.

**Figure 6: Exchange Rate (Index of 1)**



Source: Bloomberg

In the interbank market, the Naira appreciated against one of the three currencies we track. The NGN/GBP (+2.26% m/m) strengthened to close at N283.32, while the NGN/USD (-0.05% m/m) and NGN/EUR (-0.43% m/m) weakened to exchange at N199.05 and N216.42 respectively.

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