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Monthly Markets Review.

Overview of Markets in September 2016

Highlights:

- Global equity markets followed a V-shaped trajectory in September, with stocks indices falling sharply in the first half and rebounding thereafter in the second half. The gains in the second half were however too late and too little to offset earlier losses. Defining factors were (1) the expectation and the eventual decisions taken by the U.S, Japanese and European central banks; (2) the movement of crude oil prices; (3) the fine levied on Deutsche bank; and (4) politics in U.S.
- The Nigerian equities market rebounded from the loss in August, with the benchmark All Share Index posting a monthly gain of 2.67%, following positive announcement, reports and earnings.
- System liquidity remained strained, as the CBN continued with aggressive OMO mop ups, consequently pushing interbank lending rates higher.
- The treasury bills market remained bearish, fuelled by speculation and investor reaction to the outcome of the MPC meetings. The CBN's aggressive OMO issuance also adversely affected market performance by draining system liquidity in addition to high stop rates at those auctions.
- The bond market recorded a bullish performance in September with average yield contracting by 12bps.
- The naira followed a V-shaped trajectory during the month, touching all-time lows in the parallel market while firming up in the interbank segment.

Global Equity Markets

U.S equities struggled in September, wherein gain in the second half was both too late and too little to offset the loss recorded in the first half (especially at the beginning). The S&P 500 fell 0.5% m/m while Dow Jones was down 0.8% m/m. Contradicting statements from prominent Fed members had raised uncertainty over the timing of interest rate hike, and forced investors into exercising caution on equities, particularly the financials. The indices were also impacted by investors exiting holding of energy companies following lower oil prices – on (1) the resumption of exports from Libya and Nigeria and worries that U.S. rig counts would continue to rise and (2) initial suspicion that OPEC's output freeze deal would fall through.

Selloffs on APPLE's shares -- after the iPhone maker failed to impress investors with the new iPhone 7 -- and reaction to the ECB's policy inaction at the September monetary policy committee meeting also impacted negatively

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on stocks indices. Towards the end of the month, Wall Street was negatively impacted by decline in the shares of big banks as investors fretted that Deutsche Bank might raise additional capital to offset huge litigation fine and absorb the impact of negative interest rate.

On the bright side, concerns that interest rate would be raised in September was subsequently doused by some lackluster economic data (e.g. a gradual rise in consumer prices, a weaker-than-expected reading on the services sector, as well as decline in retail sales and manufacturing output, all in August) which bolstered views that the Fed may decide otherwise. Indeed, the Fed left interest rate unchanged at the FOMC meeting, but strongly signaled it could still tighten monetary policy by the end of this year as the labour market conditions improve further. Besides, the rising price of crude oil, the recovery of APPLE's shares, as well as the perceived win by Democrat Hillary Clinton over Republican Donald Trump in the first presidential debate also helped to buoy investor sentiment. The surprise deal by OPEC to cut output had the biggest impact on the price of oil.

UK's FTSE 100 delivered a total return of 1.4% over the period while Euro Stoxx 50 index shed 1.6%. The first half of the month was broadly bearish, but stocks prices rallied in the second half. The lackluster economic data in the U.S highlighted above and larger-than-expected decline in Germany's industrial production in July had raised concerns on global growth. Despite these, the ECB (encouraged by some cheering data and the absence of a marked adverse impact of the UK's vote to leave the EU) refrained from unleashing more stimulus for the euro zone, consequently drawing negative reaction from investors. Financial stocks also came under pressure as the higher-than-expected fine (US\$14 billion) on Deutsche Bank raised concerns that other European banks may face similar penalties. Selloff of energy shares on falling crude oil prices also weighed on investor sentiment.

On the positive side, shares rode on the back of the U.S Fed's decision to leave interest rate unchanged and the strong recovery of oil prices.

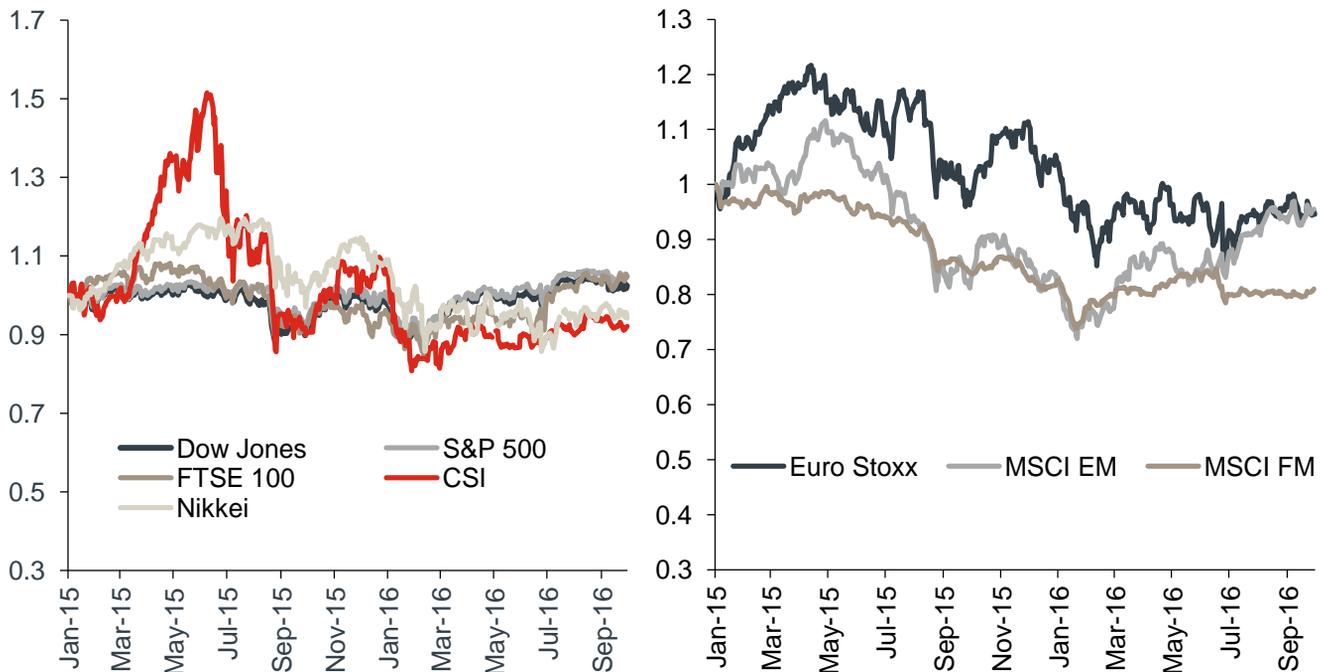
In Asia, Japan's stock market was more subdued in September, with Nikkei 225 down 2.6% m/m. Uncertainty over the outcomes of central bank policy meetings (the BOJ and the Fed) weighed on risk appetite. In Japan, investors were particularly concerned that the BOJ could cut interest rates more deeply into negative territory, a move which could negatively impact Japanese banks. Besides speculations ahead of the central banks' meetings, a slump in crude oil price during the first half of the month as well as declines in retail sales and core consumer prices (both in August) -- underscoring the limits of stimulus in reviving growth -- at the tail end of the month pulled stocks lower.

Meanwhile, the U.S Fed's decision to leave interest rate unchanged and the overhauling of the BOJ's monetary stimulus program both impacted positively on the market. At the monetary policy committee meeting held during the

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month, the BOJ introduced QQE with yield curve control, under which it will purchase government bonds so that 10-year JGB yields will remain more or less around zero percent. Stocks were also buoyed by the OPEC deal-fuelled rally in crude oil prices and the outcome of the first presidential election in the U.S. These positives were however too little, too late.

Fig 1: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research

China's CSI 300 also fell by 2.2% m/m, after delivering a strong 3.9% return in August. Decline was significant in the first half (-2.7%), outweighing the marginal gain (+0.5%) in the latter half. The decline was caused more by external developments -- (1) ECB policy inaction; (2) falling price of crude oil; (3) uncertainty ahead of Fed meeting in the U.S; and (4) heightened geopolitical tensions following North Korea's powerful nuclear test.

Besides, investors reacted positively to (1) impressive data, wherein trade data topped forecasts and imports recorded their first annual rise (1.5% y/y in August) since late 2014; (2) favourably revised rules on foreign institutional investments in the country's domestic securities using the yuan; (3) the U.S Fed's decision to leave interest rate unchanged; (4) the outcome of the first presidential election in the U.S; and (5) the surprise deal by OPEC to cut crude oil output.

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Nigeria

Equities Market

The Nigerian equities market rebounded from the loss in August, with the benchmark All Share Index posting a monthly gain of 2.67%. Sentiments were mostly driven by positive announcement and reports, as well as upbeat earnings. The gain further supports the view that investors have somewhat priced in the current weakness in the macroeconomic environment into their equities exposure, as the advancement in the NSEASI came amid a host of disappointing economic data (e.g. negative GDP growth, declining capital importation, rising unemployment rate and up trending July inflation) that hit the market in the buildup to September.

The gain (+0.46%) recorded in the first half of the month, in particular, could be attributed to (1) a strong rally in heavyweight DANGCEM following management's announcement of an upward adjustment in the ex-factory price of its 50kg cement, and an acceleration in the installation of coal mills and mining initiative; and (2) positive reaction to CONOIL's impressive FY'2015 result, on the back of which the downstream oil major declared a N3.00 dividend.

Gains were consolidated in the second half (+2.20%) of the month amid a mix of profit-taking and bargain hunting – with proceedings ending with a bullish bias. Primarily underpinning the rally was the strong buying momentum in the Oil & Gas sector, driven by the expectation, and the eventual agreement by OPEC members to cut production for the first time in eight years. The OPEC production cut deal, which is seen to have positive impact on oil prices in near term, is coming at a time that militancy activities has reduced in the Niger Delta region and some of Nigeria's largest oil facilities (hitherto on force majeure) have resumed operation.

The Oil & Gas index (+9.82% m/m) consequently posted the biggest gain in the review period. The strongest rallies were recorded by CONOIL (+75.50%), TOTAL (+22.92%) and SEPLAT (+14.29%). The Consumer Goods index (+5.45% m/m) similarly closed higher, as UNILEVER (+20.51%), CADBURY (+17.79%) and NB (+7.13%) attracted investor interest; while gains in LAWUNION (+37.74%) and CONTINSURE (+6.06%) buoyed the Insurance (+0.23% m/m) index. On the reverse, selloffs in GUARANTY (-9.43%) and UBA (-3.45%), ASHAKACEM (-18.45%) and WAPCO (-5.52%) weighed on the Banking (-2.84% m/m) and Industrial Goods (-0.35% m/m) indices respectively.

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Table 1: NSE Sector Indices Performance

NSE Sector Indices				
Index	30-Sep	31-Aug	m/m Change	y/y Change
NSE Banking	274.77	282.79	-2.84%	2.34%
NSE Consumer Goods	757.4	718.28	5.45%	1.50%
NSE Industrial	1834.31	1840.78	-0.35%	-15.34%
NSE Insurance	129.58	129.28	0.23%	-9.14%
NSE Oil/Gas	336.03	305.99	9.82%	-5.76%

Source: NSE, Cordros Research

Market breadth was positive, with 45 gainers – topped by CONOIL (+75.50% m/m) – versus 35 losers – led by CAVERTON (-47.95% m/m); in contrast to the 18 gainers and 54 losers recorded the previous month. Total volume traded fell by 12.30% to 4.89 billion shares, worth N43.89 billion, and traded in 65,189 deals, compared to the 5.57 billion shares, valued at N58.75 billion, that exchanged hands in 76,274 deals the previous month. Banking stocks again dominated market activity by volume, as FCMB (639.33 million), UBA (480.53 million) and DIAMOND (468.10 million) collectively accounted for 32.52% of total volume traded during the month; while GUARANTY (N11.00 billion), NB (N5.48 billion) and ZENITHBANK (N4.43 billion) contributed 47.66% of the total value of transactions.

Table 2: NSE Sector Indices Performance

Gainers			Losers		
Ticker	MTD	YTD	Ticker	MTD	YTD
CONOIL	75.50%	45.92%	CAVERTON	-47.95%	-69.23%
LAWUNION	37.74%	0.00%	NEIMETH	-23.73%	1.12%
CUTIX	35.67%	28.31%	BETAGLAS	-22.27%	-43.78%
TOTAL	22.92%	100.67%	ASHAKACEM	-18.45%	-34.92%
UNILEVER	20.51%	8.67%	PORTPAINT	-13.64%	-59.57%

Source: NSE, Cordros Research

Fixed Income and Money Market

Interbank

Interbank lending rates were on average slightly higher in September (18.48%) in comparison to the previous month (18.24%). Last month's

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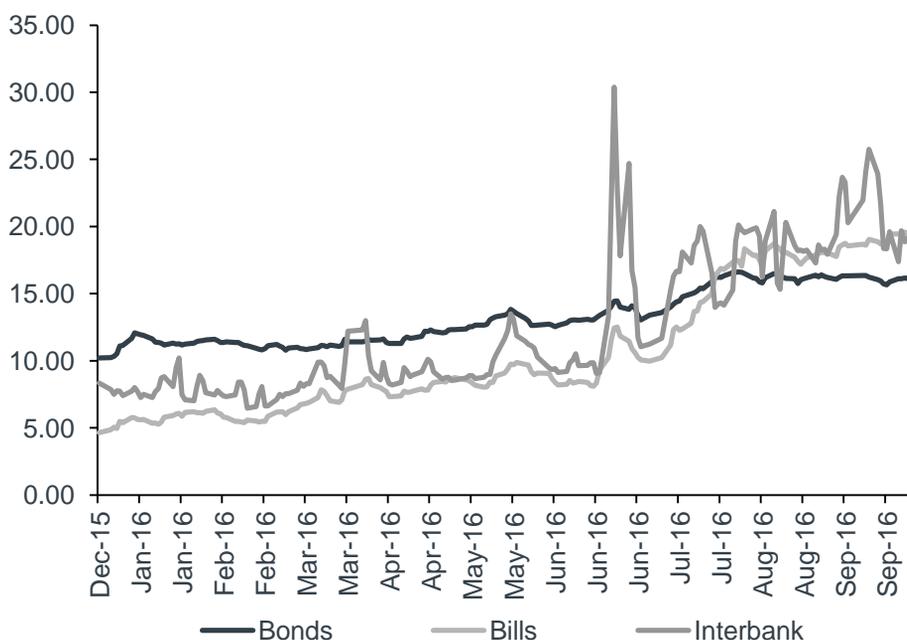
increase (+24bps) was considerably more modest than the expansion recorded in the previous month (+410bps) even though system liquidity remained strained and banks remained significantly reliant on the apex bank's discount lending window.

During the month, the CBN maintained its aggressive interventions, issuing N1.2 trillion worth of OMO bills versus N539 billion in corresponding inflows. System liquidity however benefitted from improved inflows from statutory allocations after devaluation boosted federal distributive income. The overnight (-317bps) and 6 (6bps) month rate dropped to 14.83% and 20.34% respectively. The 1 (+205bps) and 3 (+215bps) month rates jumped to 18.90% and 19.84% respectively.

Treasury Bills

Average yield at the treasury bills market expanded by 142bps m/m to 19.60% in September from 18.18% in August. One major driver for the yield uptick was the decision of the MPC to hold benchmark interest rates at the meeting held during the month. Prior to the meeting, investors began buying aggressively, speculating that the CBN may lower rates following data from the Statistics Office indicating that the country had officially fallen into a recession. In the absence of a rate cut at the meeting, yields rose by more 57bps that week. The CBN's constant OMO activity also adversely affected secondary trading in the treasury market by reducing liquidity, in addition to high stop rates at those auctions.

Fig 2: Fixed Income and Money Market Yields (Average)



Source: FMDQ, Cordros Research

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At the primary market, the DMO via the CBN conducted two auctions. At the first NTB auction, the apex bank sold N48.10 billion, N48.45 billion and N86.69 billion of the 91-day, 182-day and 364-day bills at respective stop rates of 14.00% (vs. 14.39%), 17.77% (vs. 17.50%) and 18.48% (vs. 18.42%). The second PMA result was released with stop rates for the 91, 182 and 364 – Days closing at 14.00%, 17.27% and 18.30% respectively.

FGN Bonds

The bond market bucked the trend among fixed and money market securities, recording a contraction versus expansion in the previous month. While trading was predominantly bearish for most of the month, huge gains before and after September's MPC meeting were able to offset losses from the other sessions. Average yield in the secondary market contracted by 12bps m/m to close September at 16.28%.

At bond auction held during the month, the DMO sold N15 billion, N30 billion and N60 billion of the JUL 2021, JAN 2026 and MAR 2036 bonds at respective stop rates of 15.1430%, 15.5357% and 15.5974%; marginally higher than stop rates recorded at the previous auction (c.15.0800%, 15.2848% and 15.5300% in that order). Also During the month, the DMO released the fourth quarter bond issuance calendar, showing it could raise between N250 billion to N340 billion, after raising N335 billion (excluding non-competitive allotments) in the third quarter.

Table 3: Benchmark Bonds – Secondary Market

Benchmark Bonds - Secondary Market					
New Nomenclature	Issue Date	TTM	30-Sep	Change	31-Aug
15.10 27-APR-2017	27-Apr-12	0.57	20.01%	0.15%	19.86%
16.00 29-JUN-2019	29-Jun-12	14.65	14.65%	-0.75%	15.39%
15.54 13-FEB-2020	13-Feb-15	3.37	15.08%	-0.07%	15.15%
16.39 27-JAN-2022	27-Jan-12	4.79	15.04%	-0.09%	15.14%
14.20 14-MAR-2024	14-Mar-14	5.32	15.03%	-0.10%	15.13%
14.50 22-JAN-2026	22-Jan-16	7.45	15.10%	-0.13%	15.23%
10.00 23-JUL-2030	23-Jul-10	13.14	15.20%	-0.20%	15.39%
12.1493 18-JUL-2034	18-Jul-14	13.81	15.17%	-0.22%	15.39%

Source: FMDQ, Cordros Research

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Foreign Exchange

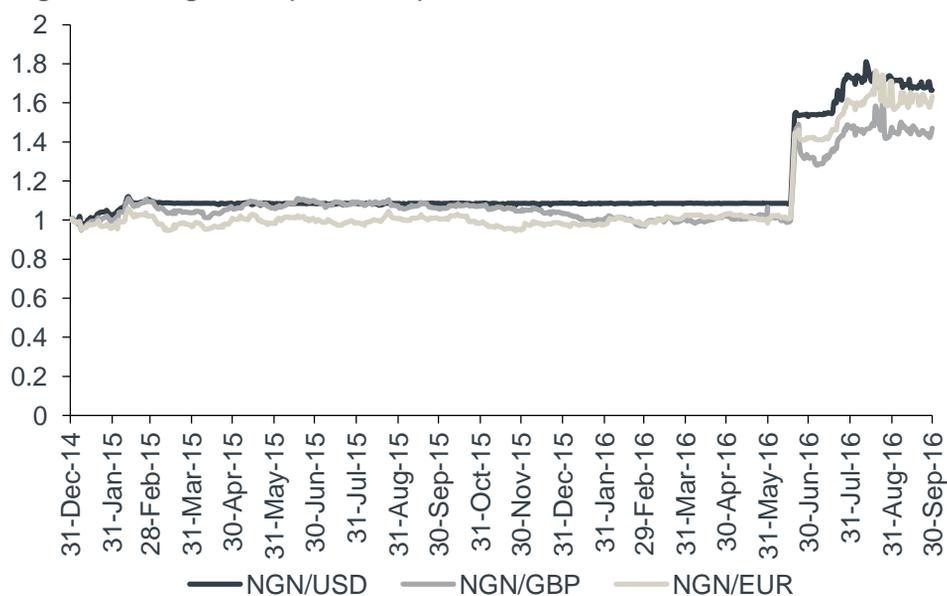
The naira followed a V-shaped trajectory during the month, touching all-time lows in the parallel market while firming up in the interbank segment. While the LCY, in the interbank market, benefitted from the apex bank’s reinforced support – by continuously selling the greenback to the official market – it came under severe attack in the parallel segment owing to heightened speculation and hoarding of the USD.

During the first half of the month, wherein the NGN hit a record low of N425/\$ (in the parallel market), the CBN readmitted suspended banks to the FX market. In addition, the apex bank released a circular which shows an amendment to the provisions of Memorandum 21 of FX manual to allow currency inflows by resident Nigerian nationals and/or companies to invest in money market instruments, bonds, and equities.

The local unit hit multiple historical lows during the second half of the month (the lowest being N490/\$) as dollar shortage – amid external reserve depletion – persisted. Traders reportedly attributed the free fall of the naira to heavy demand pressure on the greenback, mounted by summer travelers and parents paying schools fees of their children studying abroad. By month end, the NGN was N475.00, N585.00 and N500 against the USD, GBP and EUR respectively, representing monthly losses of 13.10%, 9.35% and 8.45%.

At the interbank market segment however, the LCY appreciated against the dollar (+3.48% m/m), pound (+0.33% m/m) and euro (+4.50% m/m) to exchange at N305.25, N417.93 and N361.17 respectively.

Fig 3: Exchange Rate (Index of 1)



Source: Bloomberg, Cordros Research

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That said, we sense potential gains for the naira from (1) higher crude oil prices (on the back of OPEC's production cut deal) and improvement in local production (with Qua Iboe and Forcados resuming operation); (2) the Monetary Policy Committee's commitment to an interest rate environment that is attractive for foreign portfolio inflows – by retaining its benchmark rate at 14% in its September meeting; (3) the reported endorsement by the National Executive Council to suggestions guiding to the sales of FG assets to meet the country's short term dollar requirement; (4) statements from the finance minister pointing to commitment from international investors for the planned \$1 billion Eurobond; and (5) fresh proposal by the leaders of the Bureau de Change (BDC) operators to the CBN, for the proceeds of international remittances to be sold directly to the BDCs via Travelex.

*07 October 2016***Important Disclaimers**

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