

03 November 2016

Monthly Markets Review.

Overview of Markets in October 2016

Highlights:

- Global equity markets, with the exception of Wall Street, were mostly upbeat in October; the key drivers being economic data, corporate earnings, the movement of crude oil prices, and political activities in the U.S.
- Nigerian equities underperformed in October, with the All Share Index (ASI) posting a monthly loss of 3.94%. The loss, the biggest since July, came amid broadly subdued July to September corporate earnings and profit-taking on the gains recorded in September.
- The overnight rate increased by 191bps month-on-month to close at 16.75%.
- Treasury bills came under pressure for the third consecutive month, as yields expanded following consistent supply of higher yielding OMO bills and low system liquidity levels.
- The bond market recorded another bullish monthly performance in October, with average yield contracting by 10bps.
- Liquidity concern lingered in the Nigerian FX market, despite the CBN's intervention to support the naira.

Global Equity Markets

The U.S. equities remained pressured in October, with investor appetite weakening the most in the first half. The S&P 500 depreciated by 0.91% m/m while the Dow Jones Industrial Average recorded a bigger 1.94% m/m loss. Investors, during the earlier part of the month, grappled with a set of economic data which bolstered expectations that the Federal Reserve will raise interest rate before year end. Specifically, we refer to (1) the boost in factory and services activities in September, (2) a job report which – despite falling short of expectation – was widely assessed to support the case for a Fed rate hike in the near term. Adding to investor concerns which negatively affected equities in the latter part of the half are weak Chinese economic data, a slump in crude oil price, and anxiety over what Q3 earnings (of financials in particular) would turn out to be. While the quarterly results eventually released by some big-name banks came in better-than-expected, and coupled with (1) a jump in Apple's shares due to rival Samsung Electronics' worsening Smartphone recall crisis, and (2) polls showing Democrat Hillary Clinton's lead widening in the U.S. presidential race; the impact was overshadowed by the drag factors stated earlier.

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The DJIA closed marginally higher in the second half while the S&P 500 significantly pared the losses recorded in the first half. Investor sentiment seesawed amid a mix of positive and negative drivers. The positives were (1) impressive corporate results (e.g. Alphabet, Chevron, McDonald's Corp. and Microsoft Corp.); (2) robust economic data – which suggests that the U.S. economic recovery may have regained some of the momentum lost within the last year; (3) a weakening dollar, following traders repositioning and profit-taking after its significant appreciation over the past two months. These were however too weak to buoy the indices, as the market struggled with (1) a lower-than-expected rise in the U.S. industrial production in September; (2) new concerns about whether the pace of economic activity was justifying equity valuations – following GE's unimpressive earnings which overshadowed most of the positive corporate results highlighted above; (3) the dollar strengthening to an eight-month high; and (4) a further dip in oil prices, on uncertainty surrounding a proposed meeting of major oil producers to discuss the OPEC's move to curb crude production.

In Europe, stock indices remained strong, with the UK's FTSE 100 advancing by 0.80% m/m while the EuroStoxx 50 recorded a bigger 1.77% monthly gain. Gains in the early part of the month were driven by M&A prospect and the recovery of Deutsche Bank AG shares. The bull was strengthened by oil price rally (which bolstered energy shares), merger hopes in Italy's struggling banking sector, hints by the European Central Bank President, Mario Draghi, guiding towards the possibility of more stimulus for the eurozone economy, a boost to banks' shares following positive reads from the U.S. bank earnings, an encouraging reading of German business sentiment, and a better-than-expected growth data from the U.K. All these outweighed negatives from (1) investors selling off on concerns over Britain's exit from the EU following comments from UK's Prime Minister; (2) initial prospects of monetary stimulus for the eurozone being scaled back; (3) a Bloomberg's report flagging the possible withdrawal of ECB's bond buying program before the March 2017 due date; (4) profit warning induced declines in shares (e.g. declines in airline shares and tech shares following EasyJet and Ericsson AB's profit warnings respectively; and (5) investor negative reaction to a "flash crash" in the pound.

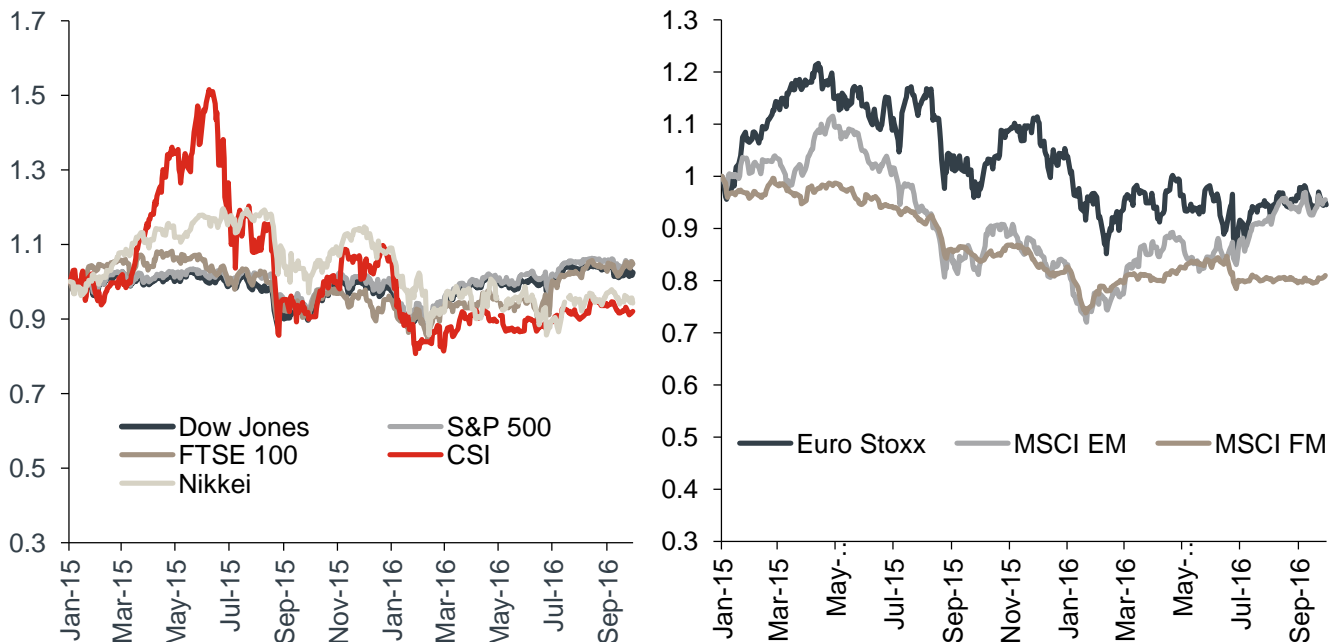
Interestingly, the EuroStoxx 50, despite (1) a slump in crude oil prices; (2) strengthening dollar; (3) disappointing earnings – e.g. financial results (particularly Italian banks), Swiss chip maker AMS AG and brewer Anheuser-Busch InBev; and (4) lower-than-expected growth data from France, remained resilient during the second half of the month. The UK's FTSE 100, on the other hand, closed negative in the second half due to issues highlighted above, and also as a result of diminishing prospects of further monetary stimulus by the Bank of England.

In Asia, the Japanese stock market rebounded strongly from last month's loss, with the Nikkei 225 delivering a stellar gain of 5.93%. The index benefitted from the rally (albeit short-lived) on Wall Street after Deutsche

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Bank's shares recovered – following reports that the bank and the U.S. Justice Department were close to a US\$5.4 billion (vs. US\$ 14 billion) settlement. Also, the market rode on robust corporate earnings, rising oil prices, an uptick in global bond yields which lifted Japanese financials, moderation in consumer prices for the seventh straight month in September, and upbeat U.S. factory and services sector reports which bolstered the dollar against the yen.

Fig 1: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research

Furthermore, stocks were positively impacted by other external factors (1) the outcome of the third U.S. presidential debate; (2) encouraging news from the European Central Bank; and (3) weak economic data from the U.S which prompted traders to dial back expectations for a rise in U.S. interest rates in December. All these helped to moderate the impact of negative reactions to (1) the health problems of Thailand's King Bhumibol Adulyadej; (2) renewed prospects of a December interest rate hike in the U.S; (3) heated discussions over the UK's exit from the EU; (3) an earthquake which rocked Western Japan; and (4) a sharp decline in electric utilities stocks after a nuclear-power skeptic's win in a Japanese gubernatorial race.

China's CSI 300 also recorded a 2.55% m/m gain, up from September's 2.2% loss. The gain was more considerable in the first half (+1.62%), with the key drivers being (1) hopes that government's restrictions of fresh purchases to cool pressure in the property sector could renew appetite in the stock market; (2) surging oil prices; and (3) the positive external factors which drove rally in Japanese market above.

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The above mentioned factors which had negative impact on stocks in Japan also affected the Chinese market. In addition, stocks came under pressure from the increasing reality of a December rate hike in the U.S; disappointing economic set of data -- the fall in China's September imports and exports, a notable fall in industrial profits for September, and South Korean slowdown -- and declines in crude oil prices.

Nigeria

Equities Market

Nigerian equities underperformed in October, with the All Share Index (ASI) posting a monthly loss of 3.94%. The loss, the biggest since July, came amid broadly subdued July to September corporate earnings and profit-taking on the gains recorded in September.

At the beginning of the month, stocks prices suffered as a result of investors taking profit after the market had rallied in most weeks of September. Anxiety over what the overall Q3 results would be -- after a few notable companies widely missed expectations -- held investors back from re-entering the market after the selloffs. The second half of the month was essentially about earnings, the broadly worse-than-expected announcements which prevented equities from recovering.

Summarizing the Q3 earnings with focus on sectors that drive market activity, the banks impressed, supported by the high interest rate environment (which bolstered yield on assets) and revaluation gains from the depreciation of the naira. Consumer goods companies broadly disappointed, owing to significant margin contraction and fx related losses. The earnings of cement producers were also impacted by elevated costs and weak sales volumes. Record low volumes and values of trade were recorded in 19th October (81.9 million shares worth N592.2 million) and 21st October (70.9 million shares worth N656 million) sessions.

All sectoral indices closed in negative, with Industrials (-7.52% m/m) and Consumer Goods (-3.66% m/m) leading, following declines in the shares of CADBURY (-21.47%), PZ (-15.46%), DANGCEM (-4.37%) and WAPCO (-13.32%). The Banking (-2.84%) and Insurance (-0.50%) indices also declined as investors liquidated their positions in GUARANTY (-2.08%), ZENITHBANK (-3.35%), NEM (-2.44%) and CUSTODYINS (-3.00%) respectively. Decline in the shares of FO (-27.67%), CONOIL (-0.55%) and OANDO (-8.52%) pushed the Oil & Gas (-3.14%) index lower.

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Table 1: NSE Sector Indices Performance

NSE Sector Indices				
Index	31-Oct	30-Sep	m/m Change	y/y Change
NSE Banking	266.98	274.77	-2.84%	-0.56%
NSE Consumer Goods	729.68	757.4	-3.66%	-2.21%
NSE Industrial	1696.44	1834.31	-7.52%	-21.70%
NSE Insurance	128.93	129.58	-0.50%	-9.59%
NSE Oil/Gas	325.48	336.03	-3.14%	-8.72%

Source: NSE, Cordros Research

Market breadth was negative, with 20 gainers -- topped by CAVERTON (+44.74% m/m) -- versus 61 losers -- led by FO (-27.67% m/m); compared to 45 gainers and 35 losers in the previous month. Total volume traded decreased by 24.58% to 3.68 billion shares, valued at N 32.11 billion and traded in 55,711 deals, compared to 4.89 billion shares, worth N43.89 billion, traded in 65,189 deals during the previous month. The Banking stocks dominated market activity by volume as ACCESS (473.78 million), DIAMNODBNK (348.62 million), UBA (289.94 million), FCMB (259.60 million), FBNH (349.83 million) collectively accounted for 75.18% of total volume, whilst GUARANTY (N534.99 billion), SEPLAT (N311.66 billion) and ZENITHBANK (N308.72 billion) accounted for 36% of total value traded in the month.

Table 2: NSE Sector Indices Performance

Gainers			Losers		
Ticker	MTD	YTD	Ticker	MTD	YTD
CAVERTON	44.74%	-55.47%	FO	-27.67%	-63.64%
TOTAL	16.95%	134.68%	NAHCO	-25.72%	-32.01%
OKOMUOIL	13.29%	42.08%	ASHAKACEM	-24.65%	-50.96%
TRANSEXPR	12.00%	-0.88%	GLAXOSMITH	-23.88%	-56.37%
AIRSERVICE	10.00%	-0.45%	FIDSON	-23.49%	-49.20%

Source: NSE, Cordros Research

Fixed Income and Money Market
Interbank

The overnight rate increased by 191bps month-on-month to close at 16.75%. Although rates were less volatile in the month of October in

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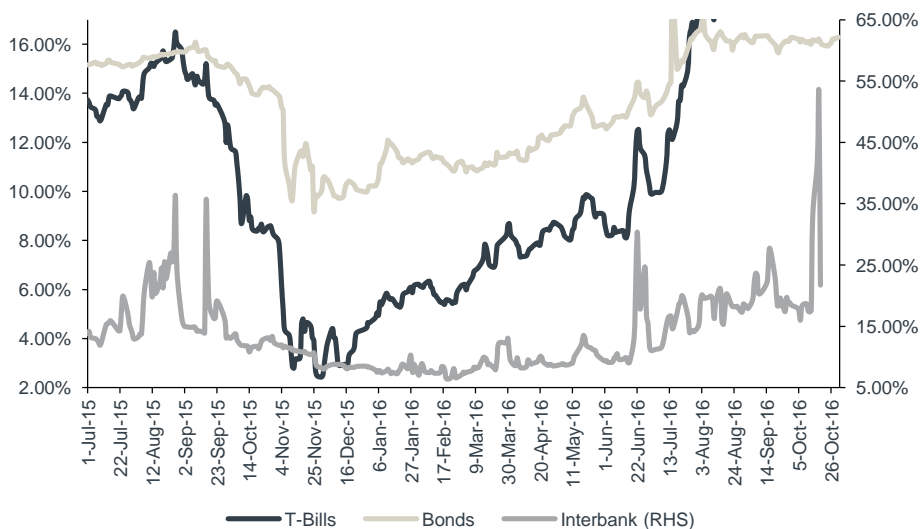
comparison with the previous month, a special forex auction late in the month put pressure on the overnight rate.

Treasury Bills

Average yield in the treasury bills market expanded for a third consecutive month by 29bps m/m to close at 19.94%. Pressure from low system liquidity levels combined with the consistent supply of the higher yielding OMO bills by the apex bank were the main drivers for the uptick in yield during the month.

At the primary market, the DMO, via the CBN conducted two auctions. At the first NTB auction, the apex bank sold N28.00 billion, N33.49 billion and N68.18 billion of the 91-day, 182-day and 364-day bills at respective stop rates of 13.90%, 17.09% and 18.25% -- lower than stop rates (14.00%, 17.77% and 18.48% respectively) recorded in the previous auction. At the second PMA, stop rates were slightly higher as the 91, 182 and 364-day bills closed at 14.00%, 17.27% and 18.30% respectively.

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



Source: FMDQ, Cordros Research

FGN Bonds

Average yield in the secondary market contracted for the second successive month, declining by 10bps m/m to close September at 16.29%. Similar to the NTB market, the sentiment in the bond market was mainly liquidity driven.

At the bond auction held during the month, the DMO sold N95 billion (N10

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billion, N45 billion and N40 billion across the 5, 10 and 20-Yr bonds respectively) worth of bonds. Stop rates on the JAN 2026 (15.4771% vs. 15.5357%) and MAR 2036 (15.4880% vs. 15.5974) bonds came in lower than rates at the previous auction, while stop rate on the JUL 2021 (15.2990% vs. 15.1430%) note was higher than rate at the September auction.

Table 3: Benchmark Bonds – Secondary Market

Benchmark Bonds - Secondary Market					
New Nomenclature	Issue Date	TTM	31-Oct	Change	30-Sep
15.10 27-APR-2017	27-Apr-12	0.49	19.45%	-0.56%	20.01%
16.00 29-JUN-2019	29-Jun-12	14.66	14.66%	0.01%	14.65%
15.54 13-FEB-2020	13-Feb-15	3.28	15.09%	0.01%	15.08%
16.39 27-JAN-2022	27-Jan-12	4.70	14.96%	-0.08%	15.04%
14.20 14-MAR-2024	14-Mar-14	5.24	14.91%	-0.12%	15.03%
14.50 22-JAN-2026	22-Jan-16	7.37	15.06%	-0.04%	15.10%
10.00 23-JUL-2030	23-Jul-10	13.05	15.34%	0.14%	15.20%
12.1493 18-JUL-2034	18-Jul-14	13.72	15.31%	0.14%	15.17%

Source: FMDQ, Cordros Research

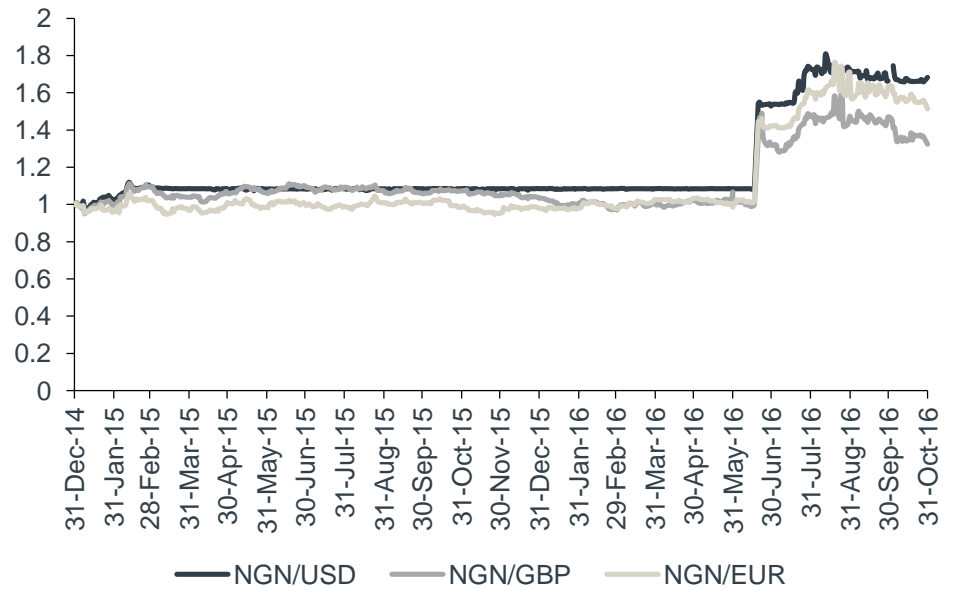
Foreign Exchange

The apex bank fleshed its support for the naira in October in a number of ways; (1) increased weekly disbursement to BDCs to \$15,000 from \$10,000, following the directive that all purchases be routed via Travelex and First Bank; (2) \$313 million forwards sold to manufacturers and airline operators in a special auction to clear backlog; and (3) a Special Secondary Market Intervention (SSMIS) wherein 60 and 90 day forwards were sold to companies in both the agricultural and manufacturing sectors. Recall that the MPC had left interest rate unchanged at the last meeting in September while the CBN amended the provisions of Memorandum 21 of FX manual—all in a bid to encourage currency inflows by resident Nigerian nationals and/or companies and foreign portfolio investors.

Notwithstanding, liquidity concern lingered, leaving the wide spread between the official and parallel market rates open. The naira -- in the interbank segment of the market-- appreciated against two of the currencies we currently track. The NGN appreciated against the GBP (+10.07% m/m) and EUR (+7.62% m/m) to close the month at N376.07 and N334.69 respectively, and lost against the USD (1.17%) to close at N308.81. In the parallel market, the LCY appreciated by 1.05% and 3.42% to N470.00 and N565.00 against the USD and GBP respectively, but depreciated by 2.00% to N510.00 against the EUR.

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Fig 3: Exchange Rate (Index of 1)



Source: Bloomberg, Cordros Research

*03 November 2016***Important Disclaimers**

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