

Economy

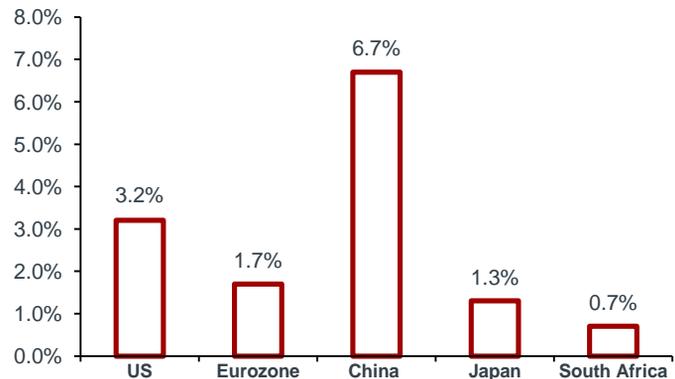
The Federal Reserve will likely need to raise interest rates at an upcoming meeting, Fed Chair Janet Yellen said on Tuesday, although she flagged considerable uncertainty over economic policy under the Trump administration. Yellen said delaying rate increases could leave the Fed's policymaking committee behind the curve and eventually lead it to hike rates quickly, which she said could cause a recession. "Waiting too long to remove accommodation would be unwise," Yellen told the U.S. Senate Banking Committee, citing the central bank's expectations the job market will tighten further and that inflation would rise to 2 percent.

Japan's economy grew for a fourth straight quarter in the final three months of last year as a weaker yen supported exports, but tepid private consumption and the risks of rising U.S. protectionism cast doubts over a sustainable recovery. Data on Monday showed the world's third-largest economy grew an annualized 1.0 percent in October-December, roughly in line with the 1.1 percent increase markets had expected, following a revised 1.4 percent expansion in July-September. Japan's export-driven growth over the quarter has helped fill the economic shortfall left by anemic domestic demand, but accompanying this tailwind are concerns Japan's persistent trade surplus with the U.S may make it a target of U.S.

In Nigeria, the Presidency has assured the citizens that the economy of the country is on course for recovery and growth. The Digital Engagement Office of the Presidency gave the assurance in its 23rd newsletter published on the official website of the Presidency, @AsoRock. In the newsletter, the Presidency thus gave 11 proofs that the economy was getting out of recession: "After two consecutive quarters of negative growth, the non-oil economy showed, in Q3 2016, a modest return to positive territory, at 0.03%. This was partly due to the continued good performance of agriculture and the solid minerals, two sectors prioritised by the federal government.

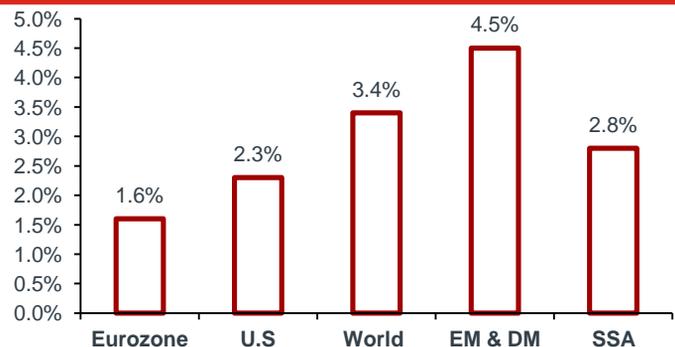
According to the National Bureau of Statistics (NBS), Nigerian consumer prices have increased for fourteen consecutive months. Headline inflation was 18.72% in January, up from 18.55% in December 2016, and 10bps higher than Bloomberg's median estimate of 18.6%. On month-on-month basis, the headline index increased 1.01% (vs. 1.06% in December 2016). Food prices rose 17.82%, from 17.39% in the last month of 2016. On m/m basis, food inflation climbed by 1.29%, from 1.33% in December 2016, with the highest increases recorded in Bread, Oil & Fats, Fish, Cereals, Meat, Potatoes, Yams and Other Tubers. Imported Food inflation was 20.6%, from 21.58 in December 2016. Core inflation increased 17.9%, versus 18.1% in December 2016, with the highest increases reported in electricity, gas, liquid fuel, solid fuel, passenger transport by air, and fuel and lubricants for personal transport equipment. On a m/m basis, the core index increased at a higher rate of 0.68% (vs. 0.62% December 2016).

Annualized GDP Growth Rate Q3'2016



Source: Markit, Reuters, Financial Times, Cordros Research

IMF 2017 economic growth forecast



Source: IMF World Economic Outlook

Macro Indicators (Nig)	Current	2016 Year Start
Real GDP growth	-2.24%	2.84%
MPR	14.0%	11.0%
CPI	18.72%	9.4%
Exchange Rate (USD)	N305.50	N198.52
Foreign Reserve (US\$'bn)	29.00	28.98
Unemployment	13.9%	9.9%
Brent Crude Oil Price (US\$)	55.31	37.22

Source: IMF, CBN, NBS, Cordros Research

Feb 17, 2017

Global Equities Market

Global equities extended gains, with all stock indices – save for the Nikkei 225 – within our coverage advancing. Factors that impacted market performance this week included strong economic data, positive earnings, monetary policy statements, and currency swings. In addition, the “Trump factor” still played host.

Investors in the U.S. rode on early gains in the financials and industrials sectors to book a positive start to the week for the markets. Subsequently, cautious trading ensued, following expectations of comments from Federal Reserve Chairwoman Janet Yellen. Investor appetite further strengthened on the back of a rally in banks’ stocks after Yellen signaled that the central bank could gradually raise interest rates sooner rather than later. While a decline in energy shares snapped the multi-session streak of simultaneous records on Thursday, investors remained bullish, with sentiment bolstered by (1) President Donald Trump’s promise of a “massive” tax plan in the “not-too-distant future;” (2) encouraging economic data – such as still-low U.S. jobless claims, and a surge in retail sales in January; and (3) positive earnings. At the time of writing, the DJIA (+1.73% w/w) and S&P 500 (+1.34% w/w) were up week-on-week. In Europe, investors interpreted U.S. President Donald Trump’s recent meetings with international dignitaries as signaling a softer foreign-policy stance, a positive development for the stock markets. The financial stocks rally – sparked by Janet Yellen’s statements – was equally positive for the markets in the region. Gains were however pared following a slide in the shares of heavyweight Nestlé (after the consumer-products giant said sales slowed in 2016 and forecast subdued growth in 2017) and a retreat for banks and major oil companies (as oil prices headed lower). Adding to this were negatives from (1) notable losses recorded by Royal Dutch Shell PLC and BP PLC after both companies went “ex-dividend”; (2) a 10% slump in the shares of Royal Vopak, following guidance by the provider of storage for the oil and chemicals industries that 2017 EBITDA will not exceed the 2016 result; and (3) disappointing economic data from the region (GDP for Germany expanded by 1.7% in Q4-2016, falling short of a 1.8% forecast, while eurozone GDP growth was cut to 0.4% from 0.5%). Overall, the FTSE 100 and Euro Stoxx 50 both posted weekly gains of 0.45% and 0.68% respectively.

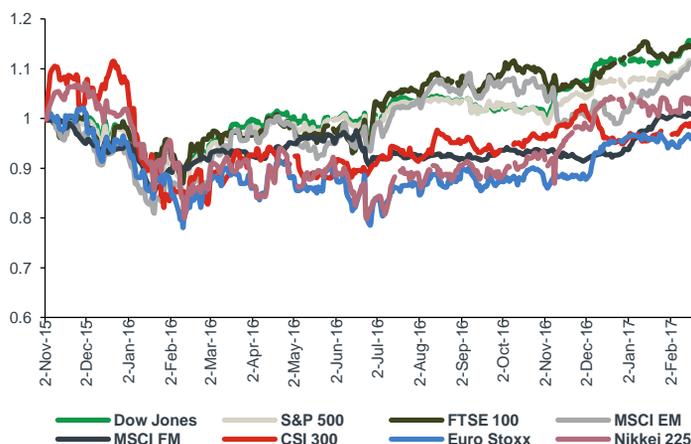
Asian markets benefitted from the consecutive gains recorded on Wall Street. In particular, recent actions by President Donald Trump helped soothe investor worries about ties between the U.S. and its key Asian trading partners, with Trump’s confirmation of the “One China” policy. The expectation of Janet Yellen’s congressional testimony pushed investors into a cautious mood, as signs build that the Trump-driven reflation trade is back. The outcome of the testimony was however positive. In between, buying momentum tapered, as the U.S. dollar weakened and profit-taking sent major stock indexes lower. The China’s CSI 300 closed 0.23% w/w higher, while the Japanese Nikkei 225 declined 0.74% w/w.

Nigerian Capital Market Equities

The Nigerian equities market closed negative for the third consecutive week, after losing in three out of five sessions. With a bearish start to the week, the All Share Index (ASI) posted back-to-back losses, shedding 0.38% on Monday and 0.84% on Tuesday, with the latter being the largest loss recorded this week. Sentiments remain low, with the ASI reaching a nine-month low on Tuesday. Contrary to our speculation, the local traders did not ride on the news of the successful Eurobond issue to stir a “noisy rally” on the local bourse. Although investors continued to purchase trusted names in equities, high subscription rates at the recent treasury bills and bond auctions highlight continued strong preference for risk free assets. Overall, the ASI declined by 0.69% w/w to close at 25,164.91 points. The Consumer Goods (-4.63% w/w) index recorded the largest loss, owing to selloffs in NESTLE (-3.91% w/w) and GUINNESS (-6.23% w/w). The Banking (-0.44% w/w) and Insurance (-1.75% w/w) indices were weighed down by investors liquidating their positions in ZENITHBANK (-2.91% w/w), ACCESS (-1.73% w/w), MANSARD (-6.25% w/w) and CUSTODYINS (-2.70% w/w) respectively. Conversely, the Industrial Goods (+0.73% w/w) and Oil & Gas (+1.63% w/w) indices were bolstered by gains in DANGCEM (+1.13% w/w), WAPCO (+0.53% w/w), TOTAL (+1.11% w/w) and SEPLAT (+1.33% w/w).

Market breadth was positive, with 27 gainers -- topped by PZ (21.29% w/w) -- versus 25 losers -- led by VITAFOAM (-16.67% w/w). Total volume traded increased by 1.97% to 1.07 billion shares, with STACO (23.49%), ZENITHBANK (12.37%) and GUARANTY (8.29%) accounting for 44.16% of total volume. Total value traded increased by 7.19% to N8.61 billion with GUARANTY (24.92%), ZENITHBANK (23.22%) and NB (10.81%) accounting for 58.94% of total value.

Global Markets



Source: Bloomberg, Cordros Research

	NSE ASI	ASI % Δ	Volume ('mn)	Value (N'mn)	Deals
17-Feb-17	25,164.91	0.44%	480.00	1,979.41	2,713
16-Feb-17	25,055.29	-0.30%	144.40	1,535.21	2,303
15-Feb-17	25,130.26	0.39%	161.94	1,796.86	4,216
14-Feb-17	25,032.17	-0.84%	144.89	1,914.31	2,868
13-Feb-17	25,244.65	-0.38%	141.92	1,381.89	2,386
10-Feb-17	25,340.02	0.07%	201.73	2,587.12	2,604
09-Feb-17	25,322.30	-0.54%	143.23	1,549.30	2,551
08-Feb-17	25,460.45	0.05%	347.82	1,413.98	2,934
07-Feb-17	25,446.66	-0.55%	207.18	1,576.63	2,791
06-Feb-17	25,587.09	-0.83%	152.40	903.53	2,706

Ticker	WTD	YTD	Ticker	WTD	YTD
PZ	21.29%	-7.66%	VITAFOAM	-13.04%	-16.67%
JBERGER	10.22%	-0.49%	FIDSON	-11.40%	-21.09%
BETAGLAS	10.22%	20.22%	NB	-8.00%	-22.29%
FO	9.91%	-29.87%	CAP	-7.50%	-7.50%
UCAP	7.61%	39.93%	ETERNA	-6.70%	7.74%

Source: NSE, Cordros Research

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Fixed Income and Money Market

Interbank

The money market overnight rate expanded by 650bps w/w to close at 18.67%, from last week's 12.17%, driven by significance cash withdrawal in the system. The apex bank debited commercial lenders for T-bills (N202.4 billion) and bonds (N160 billion) purchases. While liquidity position improved on Thursday, following a N256.41 billion OMO repayment, the CBN mopped the inflow by selling N178.44 billion and N19.14 billion of the 321 and 174-day bills in an OMO auction conducted today.

Treasury Bills

In the Primary market, the CBN, through the DMO, conducted an NTB auction this week, wherein it sold N32.44 billion, N30.00 billion and N140.00 billion of the 91, 182 and 364- day bills at respective stop rates of 13.69% (vs. 13.80%), 17.15% (vs. 17.25%), and 18.45% (vs. 18.54%). The 364-day bill was oversold by N60.00 billion. In the secondary market, proceedings ended on a bearish note, with average yield expanding by 36bps w/w to 16.77%. Yields at the short (+81bps w/w), intermediate (+30bps w/w) and long (+6bps w/w) ends of the curve were pressured, with the 30-MAR-17 (+157bps w/w), 29-JUN-17 (+89bps w/w) and 4-JAN-18 (+32bps w/w) maturities respectively recording the largest expansion at each respective end.

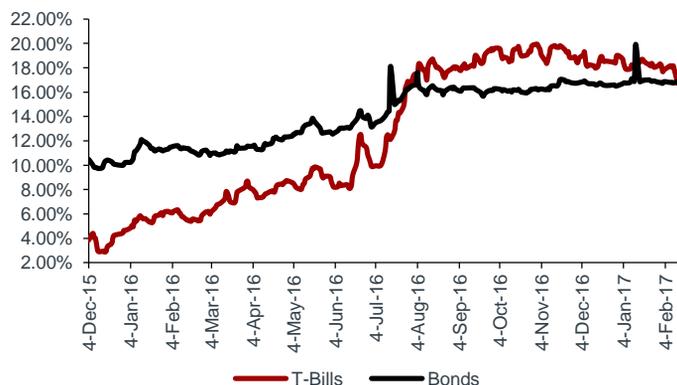
Bonds

At this year's second primary market auction, the DMO sold a total of N160.00 billion worth of bonds across the JUL 2021 (108.96 billion), JAN 2026 (8.17 billion) and MAR 2036 (139.90 billion) notes, at respective lower stop rates of 16.55% (vs. 16.89%), 16.61% (vs. 16.99%) and 16.77% (vs. 16.99%). The total amount sold at the auction was N50.00 billion higher than the offered amount, with each bond offered oversold. In the secondary market, investors were upbeat, as circa 76% of traded notes recorded yield contraction. The demand occurred at the intermediate (-37bps) and long (-34bps) ends of the curve, while the shorter (+28bps) segment came under pressure. Notably, the FEB 2020 (-50bps to 16.06%) bond attracted the most interest. Overall, average yield closed at 16.61%, having contracted by 13bps w/w.

Foreign Exchange

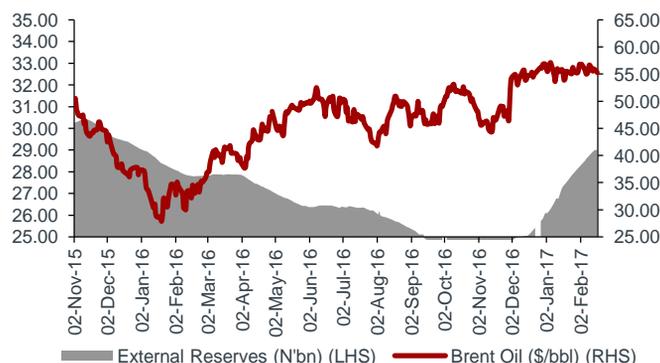
On the back of improved oil prices, the Nigerian foreign exchange reserves increased to USD29.05 billion, soaring 11.35% this year, however FX scarcity still lingers as the Central Bank continues to moderate supply. The CBN confirmed the allocation of USD2.83 billion to the manufacturing, raw materials and agricultural sectors between December 2016 and January 2017. Besides the apex bank's daily intervention (USD1.5 million), it was business as usual in both the interbank and parallel segments of the FX market. At the time of writing, the naira -- in the interbank segment of the market -- depreciated against two of the currencies we track. The NGN/USD (-0.16% w/w) and NGN/EUR (+0.16% w/w) weakened to N305.50 and N335.72 respectively, while the NGN/GBP (+0.48% w/w) strengthened to N393.47. In the parallel market space, the NGN/USD (-198% w/w), NGN/GBP (-2.11% w/w) and NGN/EUR (-1.32% w/w) weakened to N516.00, N630.00 and N538.00 respectively.

Nigeria: Fixed Income Yields (Average)



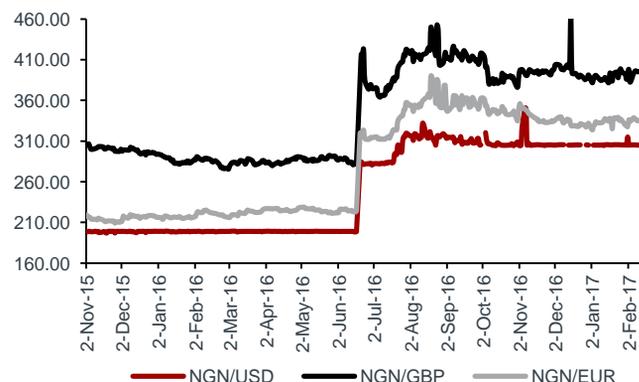
Source: FMDQ, Cordros Research

Nigeria: External Reserves and Brent Crude



Source: CBN, Bloomberg, Cordros Research

Nigeria: Exchange Rate



Source: CBN, Bloomberg, Cordros Research

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Outlook

Equities: With three losses in a row, we expect bargain hunting to drive market momentary recovery next week. That said, visibility on the drivers of fundamental and sustainable recovery remains very low.

Interbank: A total sum of N198.05 billion (from maturing OMO bills) is expected to hit the system next week, in addition to the disbursement of January budgetary allocation to states and local governments. The impact of the aforementioned inflows on money market rate should be offset by the liquidity mopping action of the CBN.

T-bills: We expect activities in this segment to be driven by liquidity position.

Bonds: We expect cautious trading in the coming week.

Currency: We expect the local currency to hover around recent levels in the interbank market, whilst the slide in the parallel market rate is expected to continue.