

07 March, 2017

Monthly Markets Review.

Overview of Markets in February 2017

Highlights:

- Global equities ended February on a positive note, with the upbeat mood supported by positive earnings report, encouraging economic data, monetary policy actions, currency swings, and most significantly, the “Trump factor”.
- Nigerian equities continued with the run of poor performance, with the All Share Index (ASI) posting a monthly loss of 2.72% in February. The loss, lower than the 3.12% decline recorded in January, was the result of investors exiting consumer goods stocks.
- The overnight money market rate expanded by 691bps to 13.83%, driven by sustained pressure on system liquidity.
- Average yield increased by 63bps in the NTB market, as tight liquidity position constrained demand.
- The bond market pared January’s loss, with average yield contracting by 10bps in February.
- In display of confidence following the improvement in the external reserves (up 9% at the end of January), the CBN fleshed its support for the naira in February, causing the LCY to appreciate significantly against the major foreign currencies at the parallel market.

Global Equity Markets

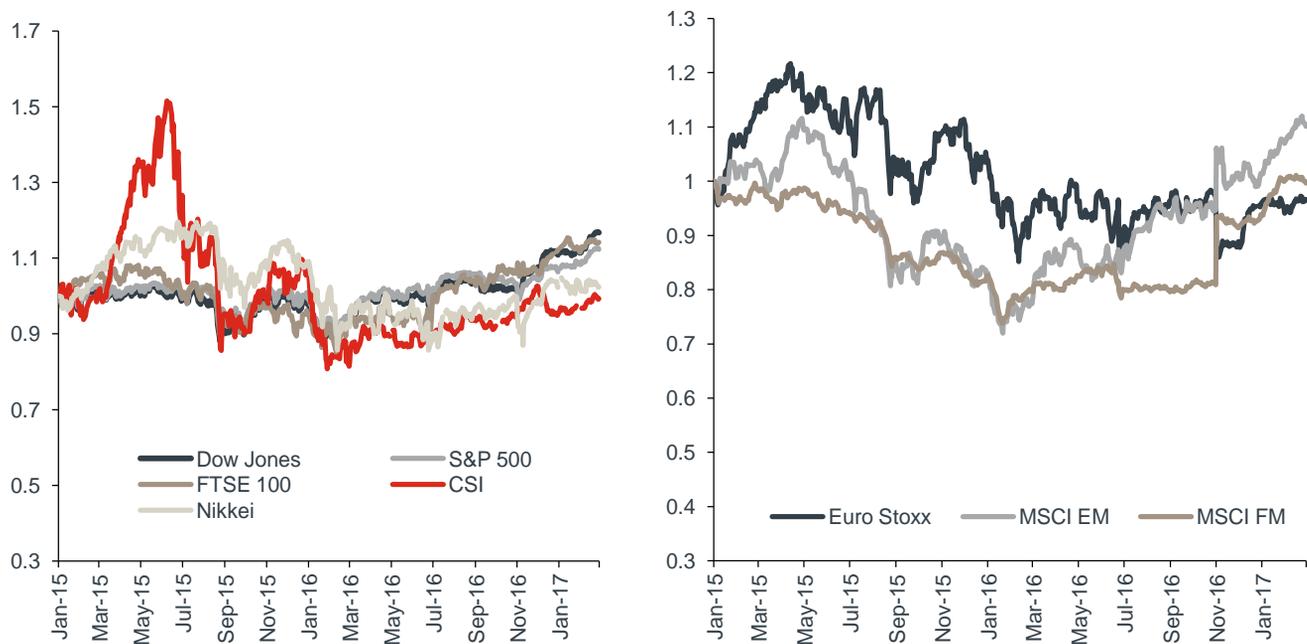
The U.S. equities extended gains recorded in January, with buying momentum stronger in the first half. The Dow Jones Industrial Average (DJIA) posted a monthly gain of 4.77% while the S&P 500 appreciated by 3.72% m/m. In the first half of the month, despite (1) growing concerns and uncertainty surrounding the new political environment under President Trump (for instance, the U.S. President had raucous exchanges with Australia and Mexico, and also put Iran “on notice” over potential new sanctions), and (2) weak earnings, investors focused on positive developments in the domestic economy to remain bullish on risky assets. Here, we highlight (1) robust economic data (strong job data, a rise in the U.S. productivity, and a drop in jobless claims in late January and early February), (2) the Federal Reserve holding rates and offering a positive view of the economy, and (3) positive earnings (particularly Apple’s). The Trump factor later boosted appetite following news report that President Donald Trump plans to (1) remove some industry regulations in the banking sector, which was particularly positive for bank stocks; and (2) unveil a “phenomenal” tax plan.

In the second half, bank stocks, which benefitted from Yellen’s signal that the central bank could raise interest rate “fairly soon”, further buoyed the markets. This, in addition to (1) encouraging economic data – e.g. still-low jobless claims and a surge in retail sales in January; (2) positive earnings reports from retailers such as Wal-Mart Stores, Inc., Home Depot Inc and Macy’s Inc; (3) advancement in crude oil prices, which lifted defensive sectors and energy stocks (Exxon Mobil and Chevron rose); enthused investor appetite. Gains recorded in the second half would have been bigger, save for concerns about market valuation, and minutes of Fed’s meeting which showed that “many” Fed officials expressed support for raising interest rates sooner than later if the economy stayed on course or strengthened.

In Europe, stock indices reversed January’s loss, with the Euro Stoxx 50 and FTSE 100 advancing by 2.75% m/m and 2.31% m/m respectively. Specifically, gains were supported by positive earnings (notably Volvo SE, Siemens SE, Société Générale and Total SA), euro weakness, optimism over strong export data from China, and better-than-expected UK trade data (exports rose 2.4% in December, Industrial production expanded 1.1% in December, and construction output increased by 1.8%). These were strong enough to subdue the impact of weak earnings reported by notable names such as Deutsche Bank AG and UBS.

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Fig 1: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research

Interestingly, the Euro Stoxx 50 remained resilient in the second half despite notable drags from a decline in oil prices, post-earnings falls in the shares of Maersk and Tullow Oil, and election-related worries. On the flipside, the FTSE 100 closed in the red in the second half, pressured by the aforementioned negatives.

Investors were also upbeat in Asia, with the CSI 300 (+1.91%) and Nikkei 225 (+0.41%) consolidating the gains recorded in January. News from the U.S. -- including President Trump's statement that he would announce tax reform measures -- and weakened expectations of U.S. growth (which drove investors back to emerging markets) had one of the biggest impacts on markets in this region. Internally, China's stronger-than-expected imports and exports in January provided enough buffer against negatives from (1) the central bank tightening liquidity by lifting open-market rates, (2) declining oil prices, and (3) the strengthening yen. Following these, stock indices closed higher in the first half.

Sentiment was mixed in the second half, as investors sifted through a combination of domestic and international developments. On the positive, the markets benefitted from consecutive gains recorded on Wall Street. Buying momentum was sustained, supported by President Donald Trump actions which 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 positive outcome of Janet Yellen's congressional testimony and the yen pulling back against the dollar mitigated selloffs triggered by lackluster performance on Wall Street overnight -- following the Fed meeting minutes -- and investors assessing the possible consequences of the weakening dollar for the competitiveness of Asian exports. The Chinese CSI 300 was more sensitive to the positives while the Japanese Nikkei retreated.

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Nigeria
Equities Market

Despite the smaller loss relative to January, equities performed generally poorly in February, wherein the ASI slipped in three of the month's four trading weeks. With the macro environment showing no prospect of near term improvement (manufacturing and non-manufacturing PMIs contracted in January), investors continued to play safe in risk free assets where yields were held up by the actions of the central bank which constantly drew liquidity away from the banking system. Uncommonly, the local traders did not trade on the news of the successful Eurobond issuance earlier in the month, neither did investors (including the offshore community) -- in apparent display of lack of confidence -- react to the new foreign exchange policy announced by the central bank in the penultimate trading week of the month.

The first half of the month, where the ASI lost 3.86%, was more bearish. Specifically, investors massively sold-off consumer goods stocks after (1) GUINNESS reported post tax loss in Q2-16/17, (2) ZUP announced a post tax loss in Q3-16/17, (3) VITAFOAM's Q1-16/17 PAT fell by 22.7%, and (4) FLOURMILL's Q3-16/17 earnings lagged the two previous quarters, owing to continued forex losses and elevated finance costs. In addition to exiting positions in the four companies mentioned above, investors (apparently in expectation of disappointing Q4 performances) massively sold down NESTLE and NB's stocks before the two companies publicly announced their 2016 full year results. The shares of UNILEVER, CADBURY, NASCON, and DANGSUGAR -- who are yet to declare their 2016 full year results -- were also sold off during the period. Overall, the Consumer Goods index closed the month 11.03% lower.

Table 1: NSE Sector indices Performance

NSE Sector Indices				
Index	28-Feb	31-Jan	m/m Change	y/y Change
NSE Banking	277.32	277.32	0.00%	1.09%
NSE Consumer Goods	588.35	661.26	-11.03%	-17.44%
NSE Industrial	1544.23	1556.12	-0.76%	-3.20%
NSE Insurance	122.91	124.89	-1.59%	-2.68%
NSE Oil/Gas	288.06	299.35	-3.77%	-7.87%

Source: NSE, Cordros Research

The Oil & Gas index dipped by 3.77% during the month, as investors sold off the shares of FO (-33.04%), ETERNA (9.39%), and TOTAL (2.42%). While the last two companies are yet to announce their end-2016 results, FO reported PAT of N93.6 million in Q4-16, down 94% y/y. Following the trend of sectoral underperformance, the Insurance and Industrial Goods indices fell by 1.59% and 0.76% respectively during the review period. The biggest losers in the insurance category were CONTINSURE (8.11%) and CUSTODYINS (5.28%), while CAP (-7.50%), CUTIX (-5.06%) and WAPCO (-4.9%) were the top losers in the industrial goods segment. Although DANGCEM gained 1.8% m/m, investors massively sold down the stock in the last sessions of the month despite announcing increases in 2016F per share earnings and dividends.

Table 2: NSE Top Gainers & Losers

Gainers			Losers		
Ticker	MTD	YTD	Ticker	MTD	YTD
BETAGLAS	27.57%	26.22%	UAC-PROP	-35.76%	-29.39%
CAVERTON	24.00%	3.33%	FO	-33.04%	-43.52%
JBERGER	11.00%	0.21%	VITAFOAM	-28.03%	-28.33%
AIRSERVICE	9.09%	15.20%	NESTLE	-21.60%	-29.63%
CAPHOTEL	6.63%	5.71%	FIDSON	-20.18%	-28.91%

Source: NSE, Cordros Research

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The ASI appreciated by 1.19% in the second half of the month as investors picked up the shares of NESTLE and NB respectively from their +4-year and YtD low levels respectively. NESTLE impressed with its Q4-16 earnings (PBT and PAT grew 88.6% y/y and 14.5% y/y respectively) while NB's Q4-16 PAT (N8.31 billion) recovered strongly from the low level it touched in Q3-16 (N1.04 billion).

The ASI has lost 2.95% thus far in March trading. We expect more companies with financial year ending December 2016 to announce their results this month in compliance with the NSE post listing requirement. Better-than-expected Q4 results (as in the case of NESTLE and NB) and significant improvement in the Naira exchange rate, could prove the turning point for the market this month. Otherwise, and with fixed income yields still elevated (the FGN recently introduced savings bonds for retail investors), the possibility of the ASI marking its first monthly gain remains to be seen.

Fixed Income and Money Market

Interbank

The money market overnight rate expanded by 691bps m/m to 13.83%, from January's close of 6.92%, driven by sustained pressure on system liquidity. During the review period, system liquidity mostly opened with a deficit balance, following series of withdrawal in the form of (1) OMO auctions, totaling N627.46 billion; (2) N1.2 billion debit to cover cash reserves requirements; (3) treasury bills (N202.4 billion) and bonds (N160 billion) sales; and (4) banks provisioning for a series of forex intervention (summing up to N772.1 million) by the CBN. All these combined to subdue the inflows (N929.6 billion) from OMO and primary market repayments and monthly budgetary disbursements to states and local governments. The greatest impact on the overnight rate, during the month, was from the FX intervention prefunding – as reflected in the money market rate touching highs of 132% and 133% on two of the intervention days.

A total sum of N250.1 billion inflows from maturing OMO bills is expected to hit the system in March. While this, in addition to anticipated injection from the monthly FAAC allocation, gives reasons to expect moderation in the money market rate, we sense potential upside risks from the sustained aggressive liquidity mop-ups by the central bank. Specifically, we note the likelihood of the apex bank to (1) increase the frequency of its dollar sale, and (2) continue its OMO mop ups in its bid to keep liquidity tight to constrain dollar demand.

Treasury Bills

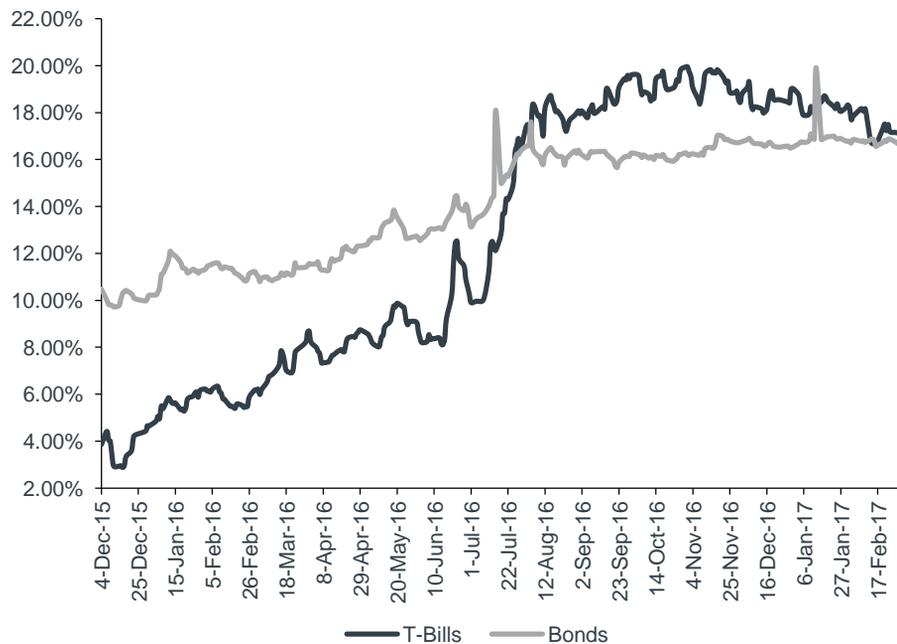
Activities ended on a bearish note in the treasury bills market, with average yield rising by 63bps to 17.13%, after contracting in January. Clearly, the selloff in February was driven by the persistent strain on system liquidity (discussed above). Exacerbating the upward yield movement in this space was the CBN's aggressive interbank forex intervention which caused banks to liquidate their positions to create liquidity for the intervention. The selloff was sizeable at the short (+92bps) and intermediate (+97bps) ends of the curve while yield increased by 36bps at the longer segment.

In the Primary market, the CBN, through the DMO, conducted an NTB auction during the month, wherein it sold N32.44 billion, N30.00 billion and N140.00 billion of the 91, 182 and 364- day bills at respective lower-than-previous stop rates of 13.69% (previously 13.80%), 17.15% (previously 17.25%), and 18.45% (previously 18.54%). The 364-day bill was oversold by N60.00 billion.

We think activities in the NTB space will largely reflect liquidity position, and in part, be sensitive to stop rates at the CBN's OMO auctions.

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Fig 2: Fixed Income Yields (Average)



Source: FMDQ, Cordros Research

FGN Bonds

Investors ignored unimpressive story about liquidity in the bond market, paring January’s loss, with average yield closing the month at 16.69% – having contracted by 10bps m/m. Short (-22bps) dated bonds attracted the most interest during the review period while demand for mid and long maturities caused yield to contract by 7bps and 6bps at the corresponding segments.

At February’s primary market auction (the second this year), 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-than-previous 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.

Investors are likely to be cautious ahead of March’s Primary Market Auction, taking a cue from the auction stop rates.

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Table 3: Benchmark Bonds – Secondary Market

Benchmark Bonds - Secondary Market					
New Nomenclature	Issue Date	TTM	28-Feb	Change	31-Jan
15.10 27-APR-2017	27-Apr-12	0.16	13.63%	-0.57%	14.20%
16.00 29-JUN-2019	29-Jun-12	16.12	16.12%	-0.23%	16.35%
15.54 13-FEB-2020	13-Feb-15	2.96	16.52%	-0.05%	16.56%
16.39 27-JAN-2022	27-Jan-12	4.38	16.57%	0.08%	16.50%
14.20 14-MAR-2024	14-Mar-14	4.91	16.15%	-0.09%	16.24%
14.50 22-JAN-2026	22-Jan-16	7.04	16.28%	0.11%	16.17%
10.00 23-JUL-2030	23-Jul-10	12.73	16.38%	-0.07%	16.45%
12.1493 18-JUL-2034	18-Jul-14	13.40	16.33%	-0.06%	16.39%

Source: FMDQ, Cordros Research

Foreign Exchange

In display of confidence following the improvement in the external reserves (up 9% at the end of January), the CBN fleshed its support for the naira in February, causing the LCY to appreciate significantly against the major foreign currencies at the parallel market.

In display of confidence following the improvement in the external reserves (up 9% at the end of January), the CBN fleshed its support for the naira in February with a new foreign exchange policy. The apex bank, through the new policy, aims to increase the availability of, and improve the ease of FX transactions by (1) providing direct additional funding to banks to meet demands for travel allowances (business and personal), medical needs, and school fees, (2) reducing the tenor of forward sales from the previous maximum cycle of 180 days, to no more than 60 days from the date of transaction, and (3) ending the allocation/utilization rules imposed on commercial banks. Banks were directed to disburse forex on weekly basis to retail users at a rate not exceeding 20% above the interbank market rate (we estimate between N366-N378/USD).

In the week of the announcement of the new policy, the CBN entered forward contracts with banks' customers where USD591 million was sold. That week, the naira gained significantly at the parallel market, reaching 2-month highs of N460/USD and N575/GBP, and 4-month high of N480/EUR.

Furthering the injection of dollars to the system, USD80 million was sold to retail customers and another USD100 million in currency forwards. In the final week of the month, the apex announced that it would sell dollars (we understand about USD367 million was sold) via a book-building process to clear a backlog of dollar demand for companies importing machinery, airline equipment and petroleum products. Overall, about USD1 billion had been made available to meet the needs of various users of foreign exchange since the modification of the foreign exchange policy by the CBN. Meanwhile, the latest forex utilization report published by the CBN showed that USD989.6 million was sold to importers and retail customers in January, compared to USD1.84 billion and USD1.07 billion disbursed in December and November respectively.

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Fig 3: Interbank Market FX Rate (Index of 1)

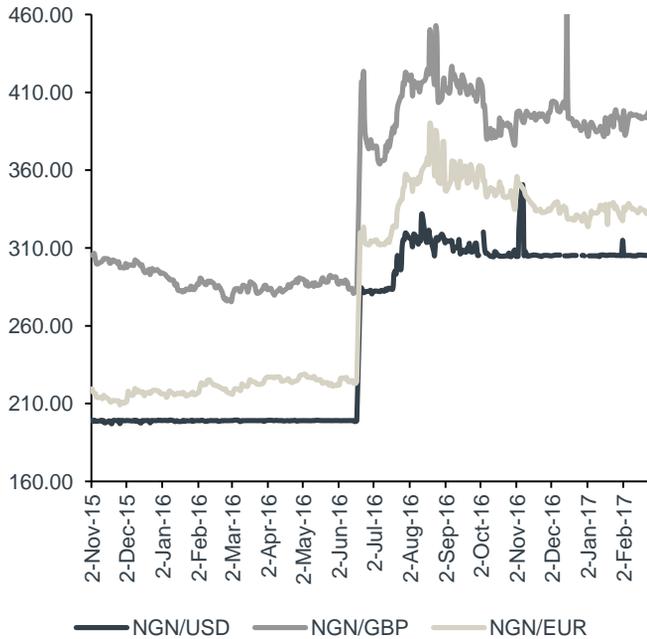
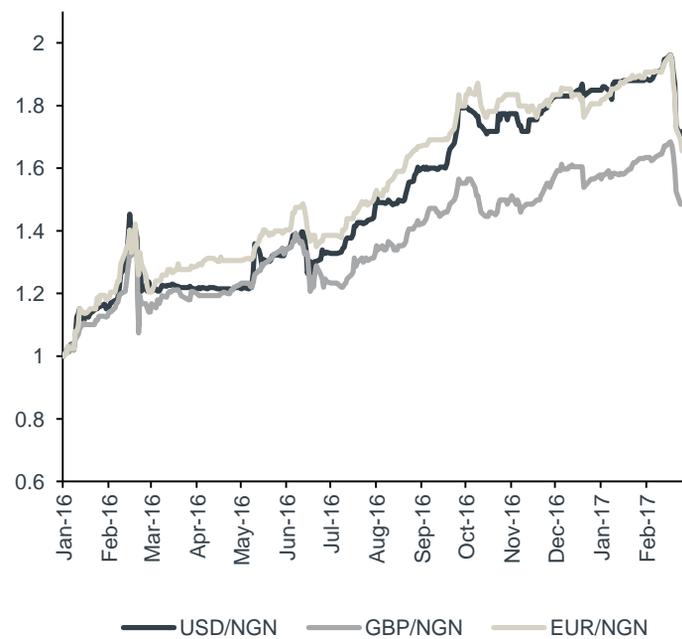


Fig 4: Parallel Market FX Rate (Index of 1)



Source: Bloomberg, AbokiFX, Cordros Research

After the initial loss, the foreign currencies appear to have found their balance, but are yet to resume visible gains against the naira. At the parallel segment, the NGN appreciated by 8.63% (N455/USD), 8.94% (N560/GBP) and 12.38% (N460/EUR) respectively against the dollar, pound and euro in February. At the interbank segment however, the NGN lost 0.08% (N305.50/USD), 1.92% (N393.36/GBP) and 1.50% (N334.33/EUR) respectively against the dollar, pound and euro.

The NGN/USD rate will remain within the N305-305.50 range at the interbank segment. We do not expect the NGN to lose ground against the foreign currencies at the parallel market provided the CBN continues funding weekly sales to retail users through the BDCs and banks, and (in addition to settling maturing contracts) clears as much available backlogs as possible through forward contracts.

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