

06 April, 2017

# Monthly Markets Review.

## Overview of Markets in March 2017

### Highlights:

- Performance was mixed across global equities in March, with economic data, government policy, geopolitical tension, oil price movements, currency swings, and money policy decisions playing host.
- Nigerian equities market rebounded, posting its first monthly gain of the year, with the All Share Index advancing by 0.74%.
- Demand remained pressured by still-tight liquidity in the Nigerian treasury bills market, with average yield moving northward by 42bps m/m to close at 17.55%.
- Investors remained upbeat in the bond market, with average yield declining by 42bps m/m to 16.27%, from 16.69% in February.
- The LCY strengthened largely in the parallel market space in the month of March, as the central bank continued to build on its policies.

### Global Equity Markets

**The U.S. equities posted its first monthly loss this year, following notable selloffs in the second half which eroded gains recorded in the first half.** On a m/m basis, the Dow Jones Industrial Average (DJIA) and S&P 500 declined by 0.72% and 0.04% respectively. Earlier in the month, investors' worries over sustaining the market's previous surge were allayed by President Donald Trump's conciliatory tone in his speech, wherein he said that he would push Congress for \$1 trillion in infrastructure investment. Buying momentum was sustained on the back of (1) the decision of the European Central Bank President, Mario Draghi, of leaving easing measures in place while downplaying deflation concerns, (2) stronger-than-expected monthly jobs report, (3) the Fed's decision of raising rates for the third time since December 2015, and (4) continued impressive employment data. These were strong enough to subdue the impact of (1) early concerns over growing geopolitical tensions as North Korea tested four ballistic missiles off its east coast, (2) investors refraining from taking big positions ahead of the Federal Reserve's monetary policy meeting amid mounting expectations for an interest rate hike, (3) cautious trading ahead of the meeting of the Group of 20 finance ministers in Germany, and (4) losses in the energy, telecoms and health-care sectors.

Investors were reluctant to make big bets in the second half amid scanty economic and corporate news. One of the biggest blows on risky assets was the delay in a closely watched health-care vote which raised questions about President Trump's ability to win passage of its ambitious legislative agenda. Cautious trading heightened amid U.K.'s invocation of Article 50 (which officially starts the country's withdrawal from the European Union), in addition to declining oil prices. Meanwhile, snippets of demand that ensued could be attributed to a stream of positive economic data – economic growth slowed less than previously reported in the fourth quarter, jobless claim fell to near-lowest level in decades, and consumer confidence in March soared to the highest level in more than 16 years.

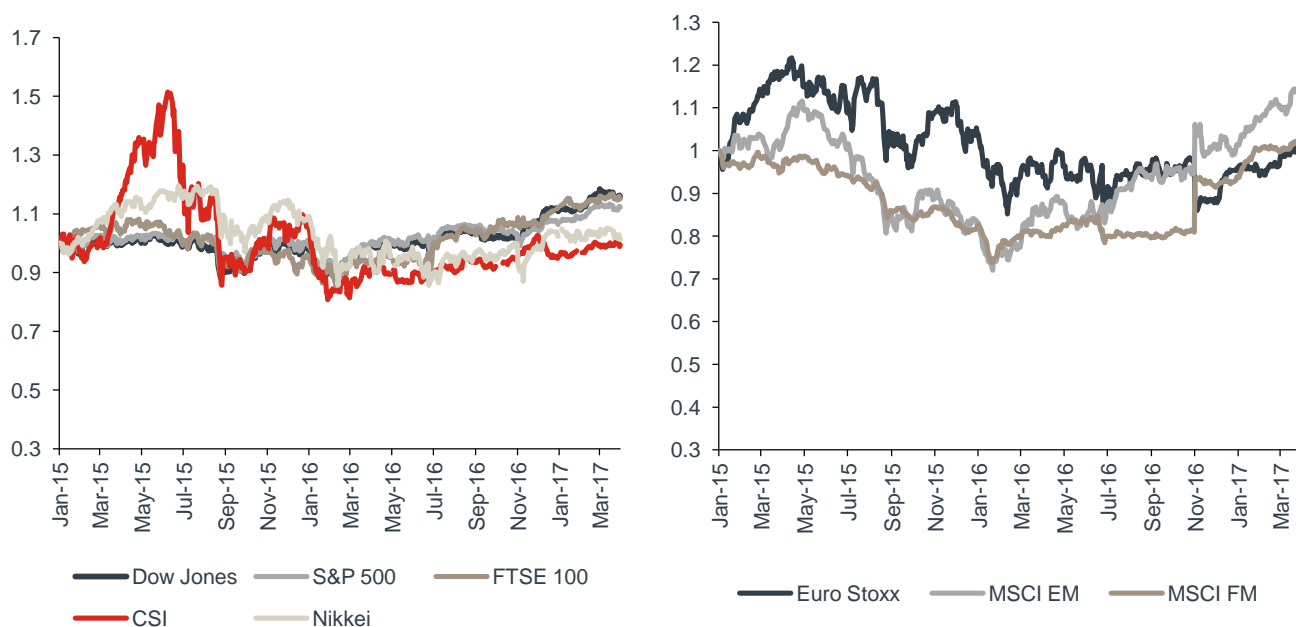
**European markets fired on, with the FTSE 100 consolidating February's gain by 0.82% while the Euro Stoxx 50 – which recorded the biggest gain within our coverage universe – impressed with 5.46% increase.** Equities remained resilient despite (1) downbeat economic data from the region -- manufacturing orders in Germany fell 7.4% in January from the month before while France's trade deficit widened to €7.94 billion (USD8.38 billion) in January from €3.57 billion in December – (2) banking stocks coming under pressure as German lender Deutsche Bank AG shares slid after the bank said it is planning an 8 billion euro (USD8.5 billion) share sale in a bid to strengthen its capital position, (3) eurozone inflation dropping more than

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expected in March (a subtle indication the ECB may scale back its stimulus measures), (4) extended worries about the possibility of President Trump’s administration pushing through its pro-growth reforms, and (5) the official firing gun for the U.K.’s Brexit negotiations with the European Union. Investors particularly rode on U.S. private-sector payrolls data which showed stronger-than-expected job creation in the world’s largest economy, banks shares charging up on ECB’s Mario Draghi suggestion that deflationary pressures have lessened, and a slid in the euro.

Buying momentum tapered in the second half, owing largely to (1) investors’ reaction to the Group of 20 meeting among finance officials, (2) losses posted by French equities following a poll showing respondents favouring center-right politician Emmanuel Macron in France’s first presidential debate, (3) concerns about whether the Trump administration can soon deliver the fiscal and regulatory changes needed to support the “Trump trade” that has lifted global equities in recent months, and (4) the delayed health-care-bill vote in the U.S.

Fig 1: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research

**Trading activities in Asia mirrored the pattern observed on Wall Street, with selloffs in the second half paring gains recorded in the first half.** The Nikkei 225 (-1.10% m/m) lost steam while the CSI 300 (+0.09% m/m) closed higher than last month’s level. Investors took their cues from a report that Japan’s economy grew at a faster pace than initially estimated in the quarter ended December, a global bond selloff after European Central Bank President Mario Draghi hinted the central bank was unlikely to introduce fresh stimulus measures, and the eventual outcome of the Fed’s meeting. Gains recorded in the first half would have been bigger, save for (1) worries about a possible pullback in U.S. stocks after their recent strings of record highs, (2) the report of China’s surprise swing to a trade deficit, (3) a slowdown in China’s inflation to the lowest point in two years, (4) the yen strengthening against the dollar, and (5) investors cautiousness ahead of the Group of 20 meeting mentioned earlier.

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Appetite largely weakened in the second half, wherein the Japanese Nikkei 225 – in particular – gave up the 2.40% gain accumulated in the earlier half amid a 3.41% loss. Markets in the region were reactive to lacklustre performance on Wall Street, a stronger yen, and President Trump's inability to push through its policy initiatives. The aforementioned shifted focus from higher oil prices and a rebound in the U.S. dollar against the yen.

## Nigeria

### Equities Market

Nigerian equities posted its first monthly gain of the year – validating our prognosis – with the All Share Index advancing by 0.74%. The rebound – which could have been stronger, save for the selloff in the first half of the month – on the domestic bourse was primarily driven by a mix of positive economic and corporate news. Recall that we had guided to the potential impact of better-than-expected Q4 earnings and significant improvement in the Naira exchange rate in our review of markets in the month of February. Specifically, a number of manufacturing companies (LAFARGE, DANGCEM, CCNN, UNILEVER, and CADBURY) released their full year 2016 results, and surprised investors with massive upturns (compared to Q3) in their final quarter performances.

On the economic front, investors found respite in the less-apprehensive macro space. Indeed, risky assets benefitted from a confluence of positive events ranging from (1) the release of Nigeria's Economic Recovery and Growth Plan (NERGP) by the Ministry of Budget and National Planning, (2) a moderation in February inflation rate (to 17.78%, from 18.72%), (3) steady accretion to the foreign reserves, which averaged USD30 billion during the month, (4) the naira strengthening to record-high (N375/USD) in the parallel market, (5) the MPC (acting in line with consensus, and suggesting policy consistency) pulling no negative surprise in its second meeting of the year, (6) the National Assembly's approval and eventual successful issuance of USD500 million Eurobond at lower rate, to (7) slower rate of decline in manufacturing and non-manufacturing activities in March – as revealed by the CBN's PMI data for the month.

Sentiment was mixed across sectors, with investors cherry-picking the shares of manufacturing – Consumer Goods (+6.48%) and Industrial Goods (+1.20%) – companies. For reference, we highlight NESTLE (+31.58%), UNILEVER (20.77%), BETAGLAS (+15.70%), and WAPCO (+10.23%) respectively. Some Insurance (+1.50%) stocks – namely, CONTINSURE (+8.82%) and MANSARD (+1.27%) – were also on the spotlight. On the contrary, the Oil and Gas (-2.35%) index extended losses, pressured by price declines in the shares of TOTAL (-4.60%), while the Banking (-0.11%) index, which closed flat in February, shed weight amid selloffs in ZENITHBANK (-4.42%) and ACCESS (-6.55%).

**Table 1: NSE Sector indices Performance**

Index	NSE Sector Indices			
	31-Mar	31-Jan	m/m Change	y/y Change
NSE Banking	277.01	277.32	-0.11%	0.98%
NSE Consumer Goods	626.45	588.35	6.48%	-12.10%
NSE Industrial	1562.69	1544.23	1.20%	-2.05%
NSE Insurance	124.75	122.91	1.50%	-1.22%
NSE Oil/Gas	281.3	288.06	-2.35%	-10.04%

Source: NSE, Cordros Research

Market breadth was negative with 33 gainers -- topped by NESTLE (+31.58% m/m), versus 34 losers-- led by LIVESTOCK (-29.76% m/m). Total volume traded increased by 40.14% to 5.79 billion shares, with ZENITHBANK, CUSTODYINS and DIAMONDBNK accounting for 32.39% of total volume traded. Total value increased by 36.93% to N50.20 billion, with ZENITHBANK, GUARANTY and NB accounting for 43.19% of total value.

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**Table 2: NSE Top Gainers & Losers**

Ticker	Gainers		Ticker	Losers	
	MTD	YTD		MTD	YTD
NESTLE	31.58%	-7.41%	LIVESTOCK	-23.38%	-29.76%
AIRSERVICE	23.61%	42.40%	UCAP	-20.40%	2.93%
UNILEVER	20.77%	0.00%	UNITYBNK	-18.99%	16.36%
BETAGLAS	15.70%	46.04%	7UP	-17.00%	-35.66%
UBA	15.40%	28.22%	AFRIPRUD	-16.03%	-20.98%

Source: NSE, Cordros Research

We expect the current improvement – albeit modest – in the macroeconomic environment, especially the currency space, will further stoke investor appetite, particularly in the event of no negative surprise(s). Better-than-expected first quarter results (we expect a few top names to announce results before the end of the month) may act as catalyst.

#### Fixed Income and Money Market

##### Interbank

The money market overnight rate contracted by 233bps, from February's close of 13.83%, amid improvement in system liquidity. During the review period, system liquidity increased by 92% to N92.96 billion, from N48.49 billion, despite withdrawals in the form of (1) Treasury bills (N563.98 billion) and bond (N160 billion) sales; (2) OMO auctions, worth N335.21 billion; and (3) debit for FX sales totalling USD1.55 billion. We sense that inflows in form of (1) budgetary disbursements to states and local governments (N285 billion) in the third week; as well as (2) OMO repayments, totalling N250.08 million, had soothing effect on the overnight rate.

**Maturing OMO bills and bonds worth N158.54 billion and N516.38 billion respectively are expected to hit the system in April. In addition, liquidity should get a boost from budgetary disbursement to states and local governments. Noting that, increased issuance of OMO bills and continued intervention in the FX market, should keep a tight lid on liquidity.**

##### Treasury Bills

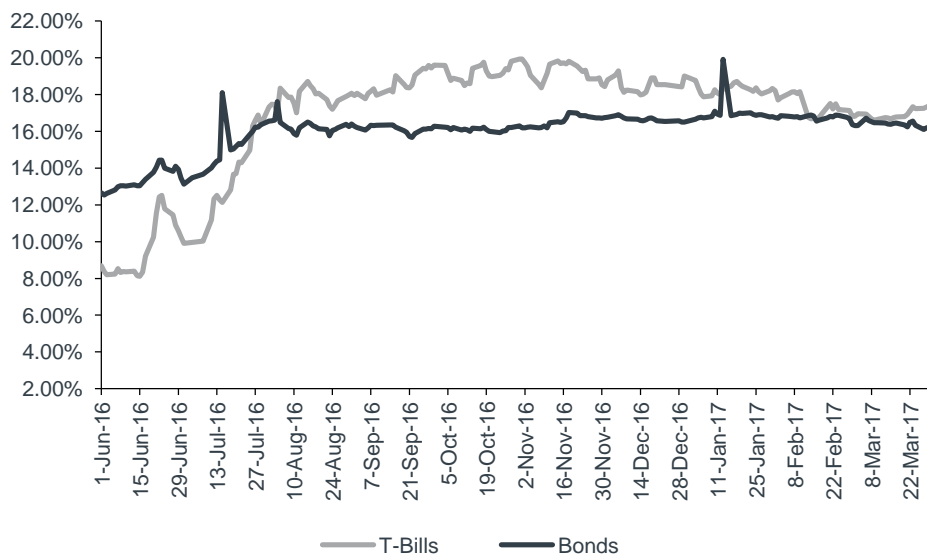
Trading activities in March further revealed the continued impact of tight liquidity on demand, with average yield moving northward by 42bps to close at 17.55%. While modest improvement in system liquidity, during the month, on the back of maturing bills and government budget disbursements, and a drop (from 18.72% to 17.78%) in February inflation rate, stoked investor appetite, the impact was short-lived, as the CBN sustained its aggressive liquidity mop up via OMO auctions, in addition to its continued forex intervention (as discussed under interbank section).

At its first NTB auction of the month, the apex bank sold N253.76 billion (vs. planned N213.76 billion) across the 91-day (N39.00 billion), 182-day (N48.45 billion), and 364-day (N166.30 billion) bills. The stop rate on the 91-day bill (13.60% vs. 13.65%) came in lower while the 364-day (18.50% vs. 18.56%) bill recorded a higher stop rate relative to the previous auction. The stop rate on the 182-day (17.20% vs. 17.20%) bill was however unchanged from the last auction's. Noteworthy, the 182-day and 364-day bills were oversubscribed by N2.00 billion and N49.93 billion respectively, with the latter oversold by N40.00 billion. At the second auction, the apex bank fully allotted N134.98 billion across the 91-day (N28.12 billion), 182-day (N23.68 billion), and 364-day (N83.17 billion) bills. The stop rate on the 91-day (13.55% vs. 13.60%) bill came in lower, while the 364-day bill (18.69% vs. 18.56%) recorded a higher stop rate compared to the previous auction. The stop rate on the 182-day (17.20% vs. 17.20%) bill was unchanged from the last auction's. Noteworthy, the 182-day and 364-day bills were oversubscribed by N4.62 billion and N7.21 billion respectively, while the 91-day was undersubscribed by N11.07 billion.

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We expect demand to rebound, following significant inflows from maturing OMO bills and bonds (as discussed under interbank section). More so, expected fall in March inflation rate should enthruse appetite.

Fig 2: Fixed Income Yields (Average)



Source: FMDQ, Cordros Research

**FGN Bonds**

At its third bond auction of the year, the DMO -- on behalf of the FGN -- raised N160 billion (vs. planned N130 billion) across the JUL 2021 (N30 billion), MAR 2027 (N50 billion), and MAR 2036 (N80 billion) bonds. Stop rates on the JUL 2021 (16.24% vs. 16.55%) and MAR 2036 (16.28% vs. 16.77%) bonds came in lower relative to the previous auction while the MAR 2027 (new issue) recorded a stop rate of 16.29%. Notably, the JUL 2021 maturity was undersold by N15 billion, while the MAR 2036 maturity was oversold by N45 billion. Appetite remained strengthened in the secondary market, with average yield declining by 42bps m/m to 16.27%, from 16.69% in February. The NBS' reported moderation in February inflation to 17.78%, from 18.72% in January, also enthused appetite. On a month-on-month basis, all traded bonds, with the exception of the JUL 2017 (+191bps to 19.71%) and AUG 2017 (+67bps to 20.03%), experienced yield contraction. Consequently, yield fell at the intermediate (-55bps) and long (-60bps) ends of the curve, while the shorter segment posted yield expansion of 22bps.

During the month, the DMO published the allotment result of the first tranche of the FGN Savings Bond on its website, revealing that it allotted N2.07 billion of the FGNSB MAR 2019 at a coupon rate of 13.01%, with reported successful subscriptions of 2,575. In addition, Nigeria raised USD500 million by issuing a 15-year Eurobond with a yield of 7.5%.

**Driven by our expectation of a further moderation in inflation rate for the month of March, we prognosticate demand to remain healthy in this space over April.**

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**Table 3: Benchmark Bonds – Secondary Market**

Benchmark Bonds - Secondary Market					
New Nomenclature	Issue Date	TTM	31-Mar	Change	28-Feb
15.10 27-APR-2017	27-Apr-12	0.07	12.21%	-1.42%	13.63%
16.00 29-JUN-2019	29-Jun-12	15.80	15.80%	-0.32%	16.12%
15.54 13-FEB-2020	13-Feb-15	2.87	15.77%	-0.74%	16.52%
16.39 27-JAN-2022	27-Jan-12	4.29	15.90%	-0.67%	16.57%
14.20 14-MAR-2024	14-Mar-14	4.83	15.64%	-0.51%	16.15%
14.50 22-JAN-2026	22-Jan-16	6.95	15.62%	-0.66%	16.28%
10.00 23-JUL-2030	23-Jul-10	12.14	15.84%	-0.54%	16.38%
12.1493 18-JUL-2034	18-Jul-14	12.64	15.82%	-0.51%	16.33%

Source: FMDQ, Cordros Research

### Foreign Exchange

As the central bank continued to build on its policies, the LCY strengthened largely in the parallel market space in the month of March. Keen on narrowing the spread between its concessional rates, and the black market rates, the apex bank (1) instructed Bureaus des Change Operators (BDC) to sell the greenback to end users at a rate of NGN362/USD – an 11% increase from the rate set in January – leaving the BDC operators with a N2 profit margin, (2) approved additional BDC operators – bringing the total number to 3,124 -- partaking in the weekly auction held by the International Money Transfer firm, Travelex; (3) increased the amount auctioned to each BDCs, from USD 8,000 to USD 10,000; and (4) agreed to sell dollar to end users at NGN360/USD for personal and business travel allowances, school fees, and medical bills. Also, in the ERGP unveiled during the month, a remark was made to the fact that the current ban on forty-one (41) goods and services from accessing foreign exchange in the inter-bank foreign exchange rate market is a temporary policy measure that would be reviewed with a view to removing the market restrictions over time.

The roll out of the new policies very much aligned with the continuous improvement in the external reserves, which was up 2.20% m/m to USD30.30 billion. In display of doggedness, the central bank injected a total of USD1.5 billion into the economy last month, via 60-day currency forward (USD1.4 billion) and spot (USD150 million) transactions, with the latter responsible for the appreciation of the LCY in the parallel market. Overall, the LCY weakened modestly against the dollar and pound (in what seems to be an attempt at targeted depreciation) at the interbank window, with the NGN/USD (-0.43% m/m) and NGN/GBP (-0.42% m/m) weakening to N306.31 and N389.11 respectively, while the NGN/EUR (+3.68% m/m) strengthened to N309.01. In the parallel market space, the NGN strengthened against the USD (+13.19% m/m), GBP (+14.29% m/m) and EUR (+9.78% m/m) to N395.00, N480.00, and N415.00 respectively.

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

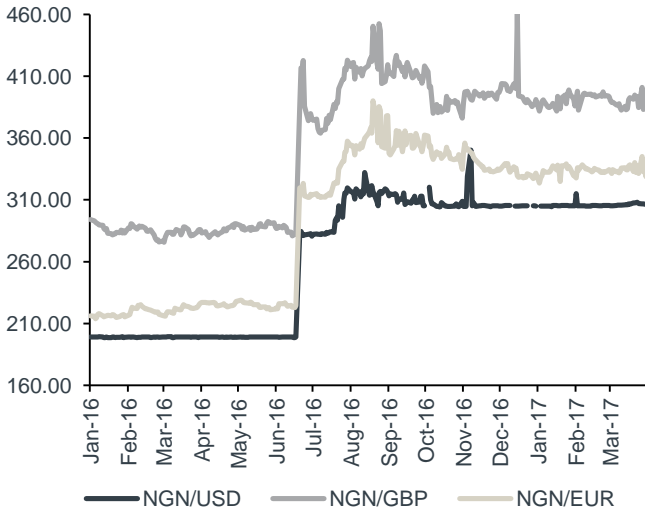
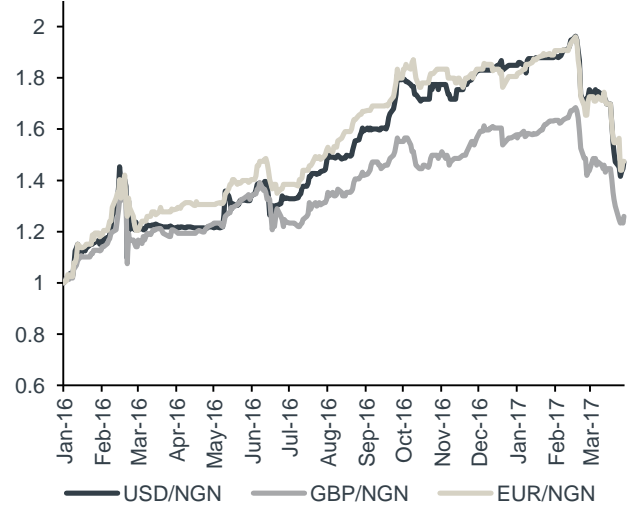


Fig 4: Parallel Market FX Rate (Index of 1)



Source: Bloomberg, AbokiFX, Cordros Research

The NGN/USD rate will remain within the N305-310 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 its active participation in the FX market.

*06 April, 2017***Important Disclaimers**

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