

04 May, 2017

# Monthly Markets Review.

## Overview of Markets in April 2017

### Highlights:

- Global equities were mixed in April, with factors that shaped market performance ranging from economic data, corporate earnings, geopolitical tensions, monetary and fiscal policies actions, politics, currency swings, to oil price movements.
- Nigerian equities closed positive again, this time (+0.95%), higher than the 0.74% gain recorded in March, with stocks prices rallying principally on the back of the broadly better-than-expected January-March earnings.
- The overnight rate declined by 675 bps m/m to 4.75%, from last month's close of 11.50%, despite the prolonged drought in system liquidity.
- The Nigerian Treasury Bills market remained pressured, reflecting the continued impact of tight liquidity conditions on demand.
- Activities in the bond market largely mirrored trajectory in the T-bills space, with selloffs in three out of four weeks causing average yield to increase by 39 bps m/m to 16.66%.
- The apex bank remained resolute in the defense of the Naira, with the LCY strengthening against the USD at both the interbank and parallel markets.

### Global Equity Markets

**The U.S. equities reversed last month's losses, following strong buying momentum in the latter half of the month which overshadowed bearish proceedings in the first half.**

Specifically, the Dow Jones Industrial Average (DJIA) and S&P 500 advanced by 1.39% m/m and 1.01% m/m respectively. Stocks kicked-off the month on a weak note, as lacklustre economic data and disappointing auto sales elevated concerns that attractive equity valuations wouldn't be buttressed by commensurately strong corporate quarterly results expected during the month. Appetite remained weakened after (1) minutes of the Federal Reserve's March meeting showed policy makers plan to begin unwinding the central bank's gigantic balance sheet before the end of the year, (2) oil prices declined, (3) disappointing U.S. jobs report, (4) a U.S. missile strike on Syria, with financial stocks being hit the most, (5) cautious trading ahead of Q1 earnings season, and the meeting between President Donald Trump and Chinese counterpart Xi Jinping, and (6) geopolitical concerns, which lured investors out of risky assets into the perceived safety of treasuries, gold, and the Japanese yen. Notable losses by financial stocks, following earnings from three of the largest U.S. banks (J.P. Morgan Chase & Co., Citigroup Inc., and Wells Fargo & Co.) also weighed on the markets. Clearly, the aforementioned negatives overshadowed snippets of demand which ensued on the back of a rebound in oil prices, a reported increase in U.S. wholesale inventories, the dollar weakening against the yen, a drop in the U.S. trade deficit by almost 10% in February, and a fall in U.S. inflation at the wholesale level for the first time in seven months.

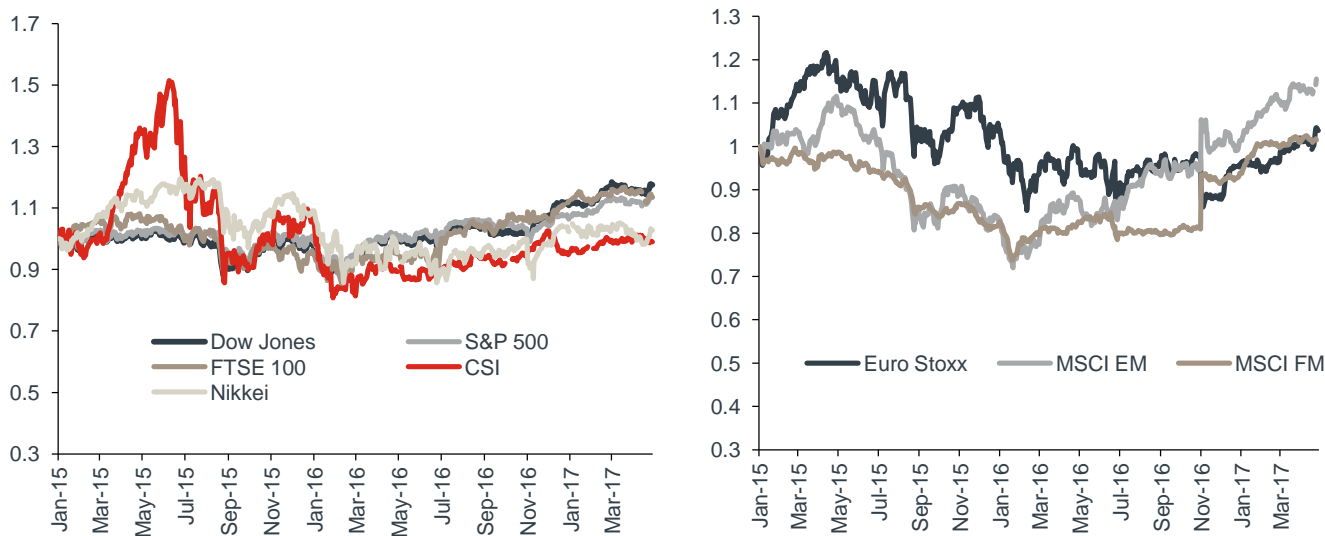
Appetite broadly strengthened in the second half, with gains recorded strong enough to erode earlier losses. Investors found respite in (1) a deluge of stronger-than-expected corporate earnings, (2) economic data – specifically underscoring the strongest U.S. labour market in years, (3) fresh optimism about Trump tax bill, and (4) strong showing by centrist Emmanuel Macron in the French presidential election, which averted fears of a euroskeptic-only runoff. Interestingly, investors ignored a drop in U.S. consumer confidence for optimism that Americans are better than they were before the 2016 election. Meanwhile, the gains recorded would have been much more stellar, save for data which showed that the U.S. economy grew at its weakest pace in three years, selloff in energy shares amid a fall in oil prices, and an outline of President Donald Trump's tax plan – which was seen as light on detail.

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Trading activities were mixed across European markets, with the Euro Stoxx 50 (+1.73% m/m) consolidating March's gain while the FTSE 100 lost 1.34% m/m. The mixed performance in the region reflected investors' reaction to a mix of positive and unimpressive developments. We highlight positives such as (1) encouraging eurozone final March manufacturing and services PMIs and (2) rising oil prices, both of which grappled with extended worries about the crisis in Syria and the hotly contested French election, President Donald Trump's comments on the dollar and interest rates – which prompted doubts about the rest of his administration's agenda – and U.S. airstrikes against Syria in the wake of a suspected chemical weapons attack that killed scores of Syrian civilians.

It was a similar story in the second half, wherein demand, on the one hand, was supported by centrist Emmanuel Macron's victory in the first round of voting in the French presidential election, and encouraging earnings report. On the flipside, risky assets suffered, no thanks to (1) U.K. Prime Minister Theresa May surprisingly calling an early general election, (2) a suspected terror attack in Paris just days ahead of the France's presidential election, (3) European Central Bank President Mario Draghi's discussion of monetary policy outlook, wherein he offered no major surprises, and (4) investors pushing up both the euro and the pound against the dollar following top-tier economic data for the eurozone and the U.K.

Fig 1: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research

Market performance across Asian markets mirrored the pattern observed in the euro area, with the Nikkei 225 (+1.52% m/m) rebounding, while the CSI 300 (-0.47% m/m) retreated. On the positive, rallies in oil and metal prices were positive for the Chinese market in particular, while the Nikkei 225 was pressured by concerns over the direction of U.S. policy and its effects on asset prices, and the yen strengthening, even as President Donald Trump's comments on the U.S. dollar sent the greenback lower against its Asian counterparts. Across the region, (1) international tensions over Syria and North Korea and (2) uncertainty about U.S.-China trade, and monetary policy in Japan and Europe also discouraged stock buying. Equities however benefitted from advancement in crude oil prices.

Proceedings remained mixed over the latter half of the month, with investors closely monitoring market trend in the U.S. In addition to a stronger dollar, overnight gains on Wall Street lifted appetite across markets in the region. Also, centrist presidential candidate Emmanuel Macron's victory in the first round of voting in France stoked appetite, in addition to (1) growing prospect of

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a U.S. tax overhaul and (2) the Bank of Japan's indication that it is unlikely to move away from easy-money policies. The bears rode an escalating regulatory crackdown on stock manipulation, and cautious sentiment on risk taking on Wall Street.

**Nigeria**
**Equities Market**

Nigerian equities closed positive again, this time (+0.95%), higher than the 0.74% gain recorded in March. Stocks prices rallied principally on the back of the broadly better-than-expected January-March earnings, which motivated appetite for risk. The Q1-17 results closely followed the 2016FY earnings (which also contributed to the market's gain in March), wherein a number of manufacturing companies and banks surprised investors with massive upturns in their final quarter performances. Specifically, during the first quarter, the earnings of consumer goods companies grew by 42% y/y on average, while those of cement (49% y/y), banking (40% y/y), and agric (133% y/y) companies all grew at high double-digits. The number of companies that recorded m/m gain increased to 40 (vs. 33 in March) while losers fell to 31 (vs. 34 the previous month). The shares of some of the companies from the above mentioned sectors that impressed with Q1-17 results featured on the top gainers' list, and here, we make particular reference to STANBIC (47.64%), LIVESTOCK (25.42%), and WAPCO (18.45%). Broadly, however, in addition to STANBIC and LIVESTOCK, CILEASING (36%), TRANSCORP (23.94%), and AIRSERVICE (22.19%) were among the top five performers of the month.

On the macro front, we note that the signals of a gradually recovering economy, as indicated by the PMI survey results, added to reason for investors to remain interested in equities. In its update on World Economic Outlook, the IMF reiterated its growth (albeit very marginal) expectation for the country, while the NBS guided to the possibility of the economy growing in the first quarter. The CBN remained resolute to achieving FX stability, especially in the volatile parallel market. In addition, the apex bank established the Investors' and Exporters' FX window - - wherein the Naira is expected, and has been trading freely since the window was opened -- for eligible transactions that include loan repayments, interest payments, capital repatriation, and remittances.

Sentiment was mixed across sectors, with investors cherry-picking the shares of Industrial Goods (+9.3%), Oil & Gas (+8.3%), and Banking (+2.7%) companies. In these categories, we note that the shares of WAPCO (+18.45%), OANDO (15.6%), and STANBIC (47.6%) were respectively on the spotlight. On the contrary, the Consumer Goods (-1.65%) and Insurance indices declined, pressured by price declines in the shares of UNILEVER (-9.1%) and CUSTODYINS (-6.2%). As regards the consumers, we note that the decline, following the 6.48% gain posted in February, was as a result of investors booking profits on the gains derived from the 2016F/Q4-16 results driven rallies. For instance, the shares of NESTLE (-3.1%) and UNILEVER (-9.1%) both declined, after gaining 31.6% and 20.8% respectively the previous month.

**Table 1: NSE Sector indices Performance**

NSE Sector Indices				
Index	28-Apr	31-Mar	m/m Change	y/y Change
NSE Banking	284.5	277.01	2.70%	3.71%
NSE Consumer Goods	616.12	626.45	-1.65%	-13.55%
NSE Industrial	1708.1	1562.69	9.31%	7.07%
NSE Insurance	123.89	124.75	-0.69%	-1.90%
NSE Oil/Gas	304.7	281.3	8.32%	-2.55%

Source: NSE, Cordros Research

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Total volume traded decreased by 27.3% to 4.21 billion shares, with FIDELITYBK, FBNH, and DIAMONDBNK accounting for 34% of total volume traded. Total value also fell by 45% to N27.6 billion, with GUARANTY, ZENITHBANK and ACCESS accounting for 38% of total value.

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

Gainers			Losers		
Ticker	MTD	YTD	Ticker	MTD	YTD
STANBIC	47.64%	75.00%	FCMB	-20.66%	-12.73%
CILEASING	36.00%	36.00%	TRANSEXP	-16.16%	17.00%
LIVESTOCK	25.42%	-11.90%	ETI	-11.38%	25.00%
TRANSCORP	23.94%	1.15%	ETERNA	-10.62%	2.26%
AIRSERVICE	22.19%	74.00%	MAYBAKER	-10.53%	-9.57%

Source: NSE, Cordros Research

**While noting the risk of profit-taking, better-than-expected 2017F earnings outlook, and importantly, improved developments in the FX markets, will continue to inspire gains on the local bourse.**

#### Fixed Income and Money Market

##### *Interbank*

The overnight rate declined by 675 bps m/m to 4.75%, from last month's close of 11.50%, despite the prolonged drought in system liquidity. Under the review period, the overnight rate jumped to as high as 200% in one of the trading sessions, as system liquidity was mostly in deficit. At the end of the first half of the month, the overnight rate closed at 66.83%, as the net inflow from maturing OMO bills worth N3.16 billion, was outweighed by outflows through (1) primary market bond auction worth N105.32 billion, and (2) the debit for FX forward contract sales totaling USD 758 million. In the second half of the month, we saw the squeeze on system liquidity gradually ease, following a barrage of inflows at the tail end of the month; we refer in particular to (1) a bond and OMO bill maturity totaling N516.38 billion and N78.52 billion respectively, (2) net NTB inflow of N77.89 billion in the third week, and (3) cash injections from monthly budgetary allocation worth N407.81 billion. This more than absorbed the net outflow of N154.06 billion through repeated OMO issuances, and USD1.18 billion from the sale of FX. Overall, system liquidity improved from the month's opening N88.83 billion to N153.62 billion as at 28th April.

**Major inflows are expected this month, comprising N323.3 billion worth of OMO bills and budgetary allocations (not expected to be any lower than the N400 billion minimum distributed in the last four months). That said, the frequency of both the central bank's OMO auctions and FX sales have the capacity to drain the system of liquidity. On balance, we expect overnight rate to rise above the end-April level to 15%.**

##### *Treasury Bills*

The Nigerian Treasury Bills market remained pressured, reflecting the continued impact of tight liquidity conditions on demand. Compared to March, average yield further expanded by 101 bps to 18.14%. During the month, system liquidity remained low, owing to consistent withdrawals (as discussed under interbank section) in the form of persistent OMO auctions, debits for FX sales, and bond purchases. Clearly, these more than doused the impact of a reported moderation in March inflation, from 17.78%, to 17.26%. Meanwhile, demand rebounded during the last week of the month, primarily driven by a surge in system liquidity, following considerable cash injections estimated at N1.04 trillion from (1) OMO bill maturity (N52.95 billion), (2) bond maturity (N516.38 billion), and (3) monthly fiscal allocations (N467.81 billion) to government agencies. The demand was however short-lived, grappling with withdrawals in the form of debits for FX sales (USD803.43 million), and net OMO outflow (N178.96 billion) during the same week.

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At the first NTB auction of the month, the apex bank fully allotted N234.89 billion across the 91-DTM (N35.00 billion), 182-DTM (N33.49 billion), and 364-DTM (N166.40 billion) maturities. The stop rate on the 91-DTM (13.55% vs. 13.55%) was unchanged from the previous auction, while the stop rate on the 182-DTM (17.21% vs. 17.20%) and 364-DTM (18.74% vs. 18.69%) came in higher than the previous auction. Noteworthy, the 91-DTM, 182-DTM, and 364-DTM bills were oversubscribed by N2.5 billion, N1.2 billion, and N0.37 billion respectively. Prior to the auction, the treasury bills space was rather quiet, as DMBs did not provide two-way quote, in compliance with the FMDQ's directive. Recall that DMBs, according to the circular, were not obliged to provide two-way quote between Friday, March 31, 2017 and Tuesday, April 4, 2017, to allow for the clearance of backlog of unsettled bills. At the second auction, the apex bank raised N89.63 billion (vs. planned N167.52 billion) across the 91-DTM (N12.30 billion vs. N36.79 billion offered), 182-DTM (N25.51 billion vs. N35.00 billion offered), and 364-DTM (N51.82 billion vs. N105.22 billion offered) bills. The stop rate on the 91-DTM (13.60%, previously 13.55%), 182-DTM (17.40%, previously 17.21%), and 364-DTM (18.98%, previously 18.74%) came in higher than the previous auction. It bears noting that, the 91-DTM, 182-DTM, and 364-DTM bills were oversubscribed by N1.6 billion, N0.60 billion, and N9.49 billion respectively.

Whilst we acknowledge inflows during the month estimated at N323.28 billion (from maturing OMO bills), the CBN's aggressive liquidity withdrawals via OMO sales, in addition to continued forex intervention, casts a doubt on sustained notable improvement in system liquidity. Hence, demand may likely remain constrained in this space.

Fig 2: Fixed Income Yields (Average)



Source: FMDQ, Cordros Research

**FGN Bonds**

At its fourth bond auction of the year, the Debt Management Office raised N105.32 billion, selling N15.03 billion (vs. N35 billion offered) of the JUL 2021, N34.04 billion (vs. N50 billion offered) of the MAR 2027, and N56.25 billion (vs. N50 billion offered) of the APR 2037 maturities. The stop rate on the JUL 2021 (15.99% vs. 16.24%) and MAR 2027 (16.24% vs. 16.29%) came in lower, while stop rate on the newly issued APR 2037 came in at 16.24%. The JUL 2021 and MAR 2027 bonds were undersold by N19.97 billion and N15.96 billion respectively, while the APR 2037 bond was oversold by N6.25 billion. Activities in the secondary market largely mirrored trajectory in the T-bills space, with selloffs in three out of four weeks causing average yield to increase by 39 bps m/m to 16.66%. Suffice to say that investors equally reacted to the low level of liquidity in the system, ignoring the moderation (to 17.72%, from 17.78%) in March inflation rate. However, notable improvement in the last week of the month (discussed under T-bills section) spurred demand, howbeit short-lived.

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During the month, the DMO issued the second tranche of the FGN Savings Bond, allotting N419.33 million of the 2-Yr FGNSB and N868.69 million of the 3-Yr FGNSB at 12.794% and 13.794% respectively.

**We anticipate activities to further reflect liquidity position. Meanwhile, expected moderation in April inflation may serve as a positive catalyst in the second half of the month.**

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

Benchmark Bonds - Secondary Market					
New Nomenclature	Issue Date	TTM	28-Apr	Change	31-Mar
16.00 29-JUN-2019	29-Jun-12	2.17	16.12%	0.32%	15.80%
15.54 13-FEB-2020	13-Feb-15	2.80	16.21%	0.43%	15.77%
16.39 27-JAN-2022	27-Jan-12	4.75	16.02%	0.12%	15.90%
14.20 14-MAR-2024	14-Mar-14	6.88	15.95%	0.31%	15.64%
14.50 22-JAN-2026	22-Jan-16	8.74	16.02%	0.40%	15.62%
10.00 23-JUL-2030	23-Jul-10	13.24	15.89%	0.07%	15.82%
12.1493 18-JUL-2034	18-Jul-14	17.22	15.77%	-0.01%	15.79%

Source: FMDQ, Cordros Research

### Foreign Exchange

The apex bank remained resolute in the defense of the Naira. Amongst the highlights of the month on the policy front were the (1) introduction of shorter-dated forward currency contracts (delivery ranging from 7 - 30 days), (2) opening of a special forex window and the introduction of Form Q, with the former enabling SMEs access FX not exceeding USD20,000 per quarter and the latter USD10,000, (3) establishment of the "Investors & Exporters" FX window, for end-users to access FX for bills collection, loan, and loan interest repayments, dividend/ income remittances, capital repatriation, and any other invisible transactions under memorandum 15 of the CBN foreign exchange manual, (4) increment of the limits on banks' FCY borrowings to 125% of shareholders' fund and (6) commencement of weekly sales of USD40,000 to BDC operators.

That said, the apex bank continued to intervene in the interbank market, injecting a total of USD2.55 million via various forms. Notwithstanding, the external reserves rose 1.85% m/m growth to USD30.86 billion (18.28% YTD). The flurry of interventions coincided with the strengthening of the LCY at the interbank market, with the NGN/USD (+0.15% m/m) and NGN/EUR (+0.64% m/m) strengthening to N305.85 and N332.72 respectively, while the NGN/GBP (-3.03% m/m) weakened to N409.58. In the parallel market, the NGN/USD (+1.27%) strengthened to N390, while the NGN/GBP (-1.04%) weakened to N485. The NGN/EUR was flat at N415. The Naira opened trading at N37.11 at the Investor' and Exporters' market, but closed the month's brief trading at N379.68.

**We expect the NGN/USD rate will hover around recent levels (N305-N306.10) 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 remains active in the FX market.**

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

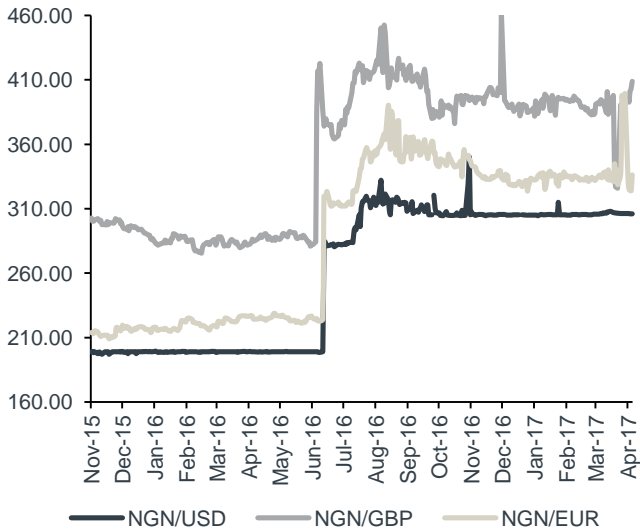
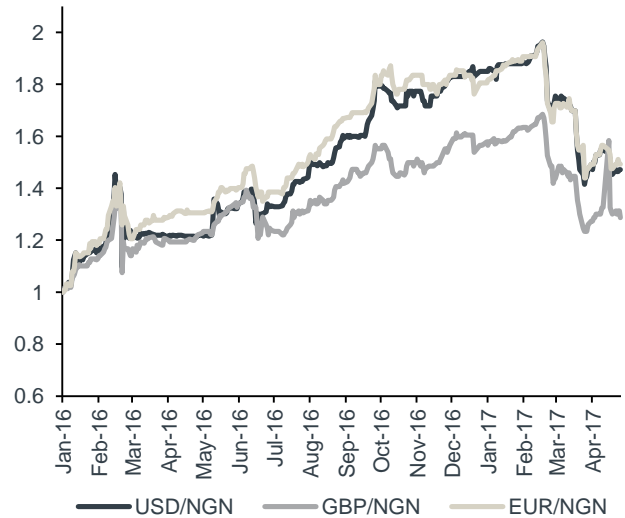


Fig 4: Parallel Market FX Rate (Index of 1)



Source: Bloomberg, AbokiFX, Cordros Research

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