

May 12, 2017

### Economy

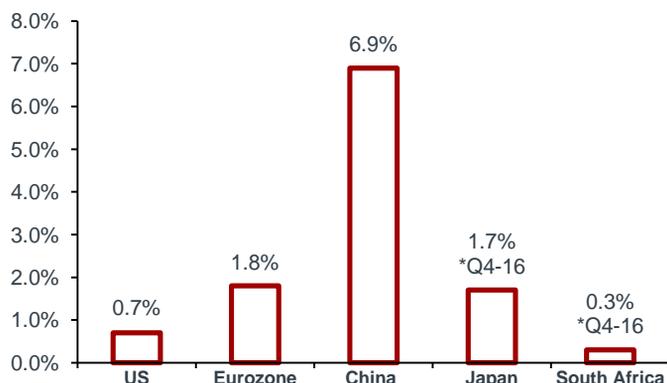
U.S. consumer prices rebounded in April amid increases in the cost of gasoline, food and rents, pointing to steadily rising inflation that could keep the Federal Reserve on track to raise interest rates next month. The Labor Department said on Friday its Consumer Price Index rose 0.2 percent after dropping 0.3 percent in March. The rise in prices suggested that March's drop, which was the first in 13 months, was an aberration. In the 12 months through April, the CPI increased 2.2 percent. While that was a slowdown from March's 2.4 percent increase, the year-on-year gain in the CPI was still larger than the 1.7 percent average annual increase over the past 10 years.

The United States and China have agreed to take action by mid-July to increase access for U.S. financial firms and expand trade in beef and chicken among other steps as part of Washington's drive to cut its trade deficit with Beijing. The deals are the first results of 100 days of trade talks that began last month, when a meeting between U.S. President Donald Trump and Chinese President Xi Jinping proved far more friendly than had been expected after last year's U.S. presidential campaign, but the immediate impact was unclear. "This will help us to bring down the deficit for sure," U.S. Commerce Secretary Wilbur Ross said at media briefing in Washington. "You watch and you'll see."

In Nigeria, the National Assembly on Thursday passed the 2017 Appropriation Bill, with estimates totalling N7.441tn. The passage followed the consideration and adoption of a report by the Senate and House of Representatives' Committees on Appropriations on the bill. Of the total, N434,412,950,249 is for statutory transfers; N1,841,345,727,206 for debt service; N177,460,296,707 for sinking fund for maturing bonds; N2,990,920,033,435 for recurrent (non-debt) expenditure; while the sum of N2,174,496,775,867 is for contribution to the Development Fund for Capital Expenditure (exclusive of capital expenditure in statutory transfers) for the year ending on December 31, 2017.

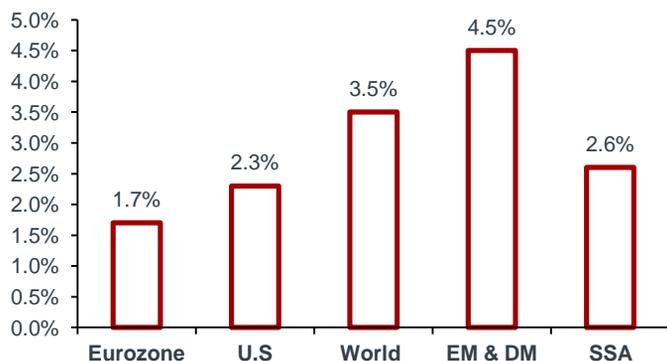
The National Bureau of Statistics on Thursday released the Internally Generated Revenue figures for 35 states for the 2016 fiscal period with the total IGR rising by 17 per cent. Specifically, the IGR increased by N119.28bn from N682.67bn in 2015 to N801.95bn. The bureau in the report, a copy of which was made available to our correspondent in Abuja, stated that Anambra State had yet to report its IGR in full for the year under review. It said while some states recorded a decline in revenue, others were able to shore up their revenue base during the period.

### Annualized GDP Growth Rate Q1-2017



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	-1.30%	2.84%
MPR	14.0%	11.0%
CPI	17.26%	9.4%
Exchange Rate (USD)	N305.60	N198.52
Foreign Reserve (US\$'bn)	30.91	28.98
Unemployment	13.9%	9.9%
Brent Crude Oil Price (US\$)	50.59	37.22

Source: IMF, CBN, NBS, Cordros Research

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### Global Equities Market

Sentiments remained mixed across global equities, with the U.S markets declining while the bulls dominated activities in Asia, with varied proceedings in the European markets. This week, investor appetite was driven by economic and trade data, oil prices, currency swings, and partly, earnings reports.

The biggest blow to equities trading on Wall Street was weaker-than-expected data on retail sales and inflation, which pointed to an uncertain economic environment. This combined with lingering political uncertainty drove cautious trading during the week. Also, notable drops in the shares of Boeing Co., Walt Disney Co., and 3M Co pressured the market. This week's activities suggest that investors were looking for new catalysts to push shares higher after the lack of surprise in the French presidential election. Meanwhile, after a week of sharp declines, oil prices stabilized during the week, on the news that OPEC might be open to extending its production cuts into 2018 and a reported drawdown in U.S inventory. This was positive for the market, as it boosted energy stocks. In all, the DJIA (-0.61% w/w) extended last week's loss while the S&P 500 (-0.36% w/w) pared gain. European investors, rising from the positive performance after Emmanuel Macron won the French presidential election on Sunday, reacted to a mix bag of positive and negative developments, including (1) encouraging German trade data, (2) the euro marching in the wake of a lackluster economic outlook for the British economy, and (3) notable increases in share prices today, with French media company Vivendi posting the biggest rally. The positives boosted the FTSE 100 (+1.60% w/w) while the Euro Stoxx 50 (-0.82% w/w) succumbed to the negatives.

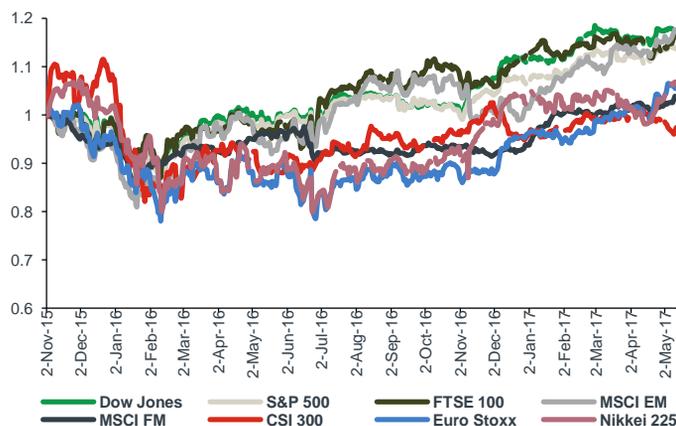
In Asia, investors further rode on Emmanuel Macron's victory in France's presidential election. While global geopolitical concerns linger, local drivers subdued the impact. Specifically, markets in the region had a muted reaction to the unexpected firing of James Comey, the director of the Federal Bureau of Investigation. Despite Asian equities tracking overnight weakness in Europe and the U.S., the boost provided by a bounce in oil prices lifted both the CSI 300 (+0.08% w/w) and Nikkei 225 (+2.25% w/w).

### Nigerian Capital Market Equities

Surprisingly, it was a record breaking week in the market, with the All Share Index posting the largest singular gain of 3.18%, since 15th of June 2016, setting a 9 month-high at 28,423.70 points. We attribute this week's record gain to demand for blue chip stocks across board, most notably, the banking and consumer goods names. On the back of continued strong demand, the All Share Index (closed 7.46% higher this week) has advanced in the last 10 trading sessions, extending gains to the third straight week close at 28,192.46 points. Judging by market activity in the past three weeks, and more specifically, the spike in the number of deals and volume traded this week, we sense improved investors -- both local and foreign -- appetite for risk assets on domestic bourse, following the (1) reduced apprehension in the macroeconomic environment, (2) impressive 2016FY and Q1-2017 performance of highly capitalized names, and (3) increased confidence about the stability and liquidity of the FX. The All Share Index gained in four out of the five trading sessions, recording its largest gain on Thursday (3.18%), before declining modestly by 0.81% on Friday. Compared to last week, all indices closed higher, with the Consumer Goods (+13.36% w/w) index recording the largest gain, bolstered by demand for NESTLE (+12.08% w/w), NB (+17.05% w/w), PZ (+20.40% w/w), and CADBURY (+14.52% w/w). Likewise, the Banking (+11.18% w/w) and Oil & Gas (+2.74% w/w) indices extended gains from last week, as investors demanded the shares of ZENITHBANK (+12.05% w/w), GUARANTY (+12.36% w/w), STANBIC (+6.12% w/w), TOTAL (+5.45% w/w), FO (+15.73% w/w), and OANDO (+20.22% w/w) respectively. The Industrial Goods (+0.46% w/w) and Insurance (+2.93% w/w) indices staged a comeback, buoyed by price appreciations in DANGCEM (+3.33% w/w), BETAGLAS (+4.98% w/w), CCNN (+8.91% w/w), MANSARD (+10.81% w/w), CUSTODYINS (+8.25% w/w), and CONTINSURE (+2.56% w/w).

Market breadth was positive, with 56 gainers (42 last week) -- topped by MAYBAKER (+36.17% w/w) -- versus 11 losers (14 last week) -- led by SEPLAT (-5.27% w/w). Total volume traded increased by 128.08% w/w to 3.26 billion shares (1.15 billion last week), with FBNH, FCMB, and ZENITHBANK accounting for 43.59% of the market volume. The value of trades also increased by 175.28% to N28.74 billion (previously N10.44 billion), with ZENITHBANK, GUARANTY, and FBNH accounting for 43.72% of total value.

### Global Markets



Source: Bloomberg, Cordros Research

	NSE ASI	ASI % Δ	Volume ('mn)	Value (N'mn)	Deals
12-May-17	28,192.46	-0.81%	1,063.16	9,191.36	5,342
11-May-17	28,423.70	3.18%	801.08	7,821.91	6,481
10-May-17	27,546.68	2.95%	584.12	5,651.26	5,121
09-May-17	26,756.21	1.28%	539.23	2,815.83	4,519
08-May-17	26,418.33	0.70%	267.64	3,257.22	3,907
05-May-17	26,235.63	0.26%	442.83	2,961.13	4,220
04-May-17	26,166.80	0.19%	255.65	2,452.52	5,106
03-May-17	26,116.79	0.58%	264.49	2,896.15	3,958
02-May-17	25,965.18	0.80%	191.02	2,129.69	3,392

Ticker	WTD	YTD	Ticker	WTD	YTD
MAYBAKER	31.96%	36.17%	SEPLAT	-5.88%	5.27%
ETI	22.50%	-4.67%	AIRSERVICE	-5.63%	87.60%
FIDSON	21.52%	50.00%	NEIMETH	-5.36%	-32.05%
PZ	20.40%	24.55%	BOCGAS	-4.83%	-4.83%
OANDO	20.22%	83.40%	TRANSEXPR	-4.82%	-21.00%

Source: NSE, Cordros Research

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### Fixed Income and Money Market

#### Interbank

The overnight rate expanded by 10.25% to 29.50%, as system liquidity tightened. We attribute this week's rate movement to (1) the debit for FX sales worth USD195.20 million, (2) net outflow from OMO sales, totalling N6.16 billion, and (3) the N110 billion withdrawn via bond auction.

#### Treasury Bills

The treasury bills market continued to reflect tight liquidity condition, as the apex bank remained committed to its mopping up activities. Specifically, this week, system liquidity further dropped following cash withdrawals for treasury bills, bonds, and FX purchases, which overshadowed the impact of N87 billion inflow from maturing OMO bill during the week. Selloff was most sizeable at the short (+55 bps) end of the curve, followed by the mid (+16 bps) and long (+7 bps) segments. Overall, average yield moved northward by 16 bps w/w to 18.42%.

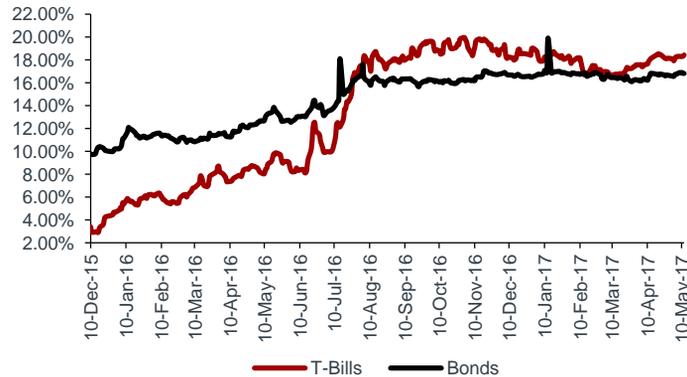
#### Bonds

At Wednesday's primary market auction, the DMO raised N110 billion (vs. planned N140 billion) across the JUL 2021 (N10 billion vs. N40 billion offered), MAR 2027 (N35 billion vs. N50 billion offered), and APR 2037 (N65 billion vs. N50 billion offered) maturities. Compared to the last auction, stop rates on the JUL 2021 (16.30%, previously 15.99%), MAR 2027 (16.29%, previously 16.24%), and MAR 2037 (16.30%, previously 16.25%) came in higher. Notably, the APR 2037 and MAR 2027 bonds were oversubscribed by N41.67 billion and N2.94 billion respectively, while the JUL 2021 bond was undersubscribed by N22.71 billion. The secondary market closed bullish, albeit marginally, with average yield dropping 1 bps to close at 16.82%. Week-on-week, the intermediate (-14 bps) end of the curve attracted interest while yield was pressured at the shorter (+29 bps) segment. Trading was mixed at the long end of the curve, wherein average yield fell by less than 1 bp.

### Foreign Exchange

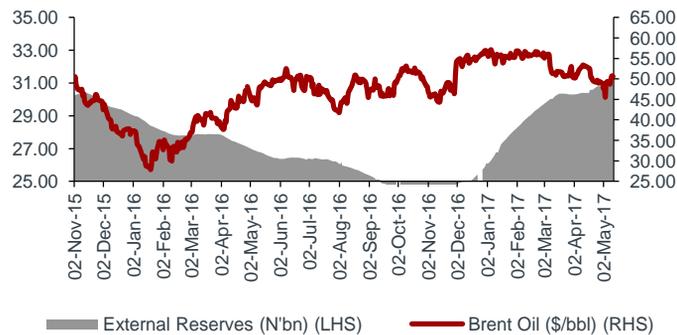
It was relatively quiet on the policy front this week, as the USD/NGN seems to be stabilizing around N389/N391 levels in the parallel market, particularly since the commencement of the USD40,000 weekly FX sales to 3,200 BDC operators. In a similar fashion, the apex bank continued to intervene in the currency space, selling USD195.2 million cumulatively at both the interbank and I&E (USD14 million) windows, with the former comprising of (1) forward contracts, worth USD 100 million, (2) spot delivery for invisibles worth USD 44 million, as well as (3) sales to SMEs. This week's programme brings the total amount of CBN intervention to approximately N5.82 billion, since January. That said, the naira-- in the interbank market -- strengthened against the basket of currencies we track. The USD/NGN (+0.03% w/w), GBP/NGN (+0.68%), and EUR/NGN (+1.42% w/w) strengthened to N305.60, N409.44, and N344.28 respectively. In the parallel market, the USD/NGN (+0.26% w/w), GBP/NGN (+1.00% w/w), and EUR/NGN (+0.47% w/w) strengthened to N390, N495, and N420 respectively. Meanwhile, the USD/NGN (-0.07% w/w) weakened to N382.44.

### Nigeria: Fixed Income Yields (Average)



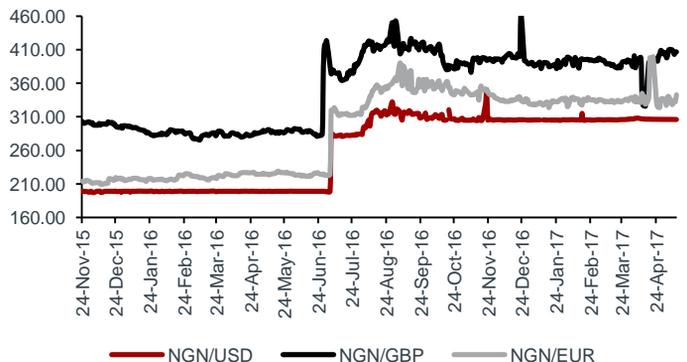
Source: FMDQ, Cordros Research

### 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:** Following three weeks of consecutive gains, we expect the market to close lower in the coming week, as traders exit short term profitable positions (as evident in today's trade).

**Interbank:** We expect the overnight rate to move northward in the coming week, driven by (1) sales of T-bills in the primary auction, (2) debit for FX sales, and (3) further OMO auctions targeted at the maturing N41.23 billion worth of OMO bills.

**T-Bills:** At next week's NTB auction, the apex bank will offer N110.94 billion across the 91-day (N32.44 billion), 182-day (N22.82 billion), and 364-day (N55.68 billion) bills. In the secondary market, we expect average yield to further rise, owing to expectation of further liquidity mopping by the apex bank.

**Bonds:** We expect demand to persist in the coming week amid attractive yields.

**Currency:** We expect the naira to trade within its current band at the interbank and I&E markets, while we foresee modest gains in the parallel market as demand pressure continues to taper.