Weekly Economic and Market Review

Synoptic

May 19, 2017

Economy

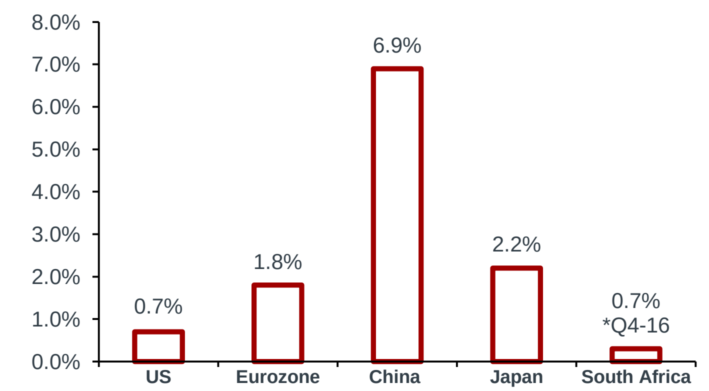
According to official data from Japan, the country's economy grew faster than expected in the first quarter of the year. Specifically, the economy grew at 0.5% quarter-on-quarter and 2.2% year-on-year – fastest rate for a year. Following the GDP figures, Japan has now recorded its longest period of expansion in more than a decade. the output growth was particularly driven by strong exports, a pick-up in consumption, and investment for the Tokyo Olympics in 2020. On exports, exporters benefited from the recent falls in the yen against the US dollar, which has made domestic products more competitive and bolstered the value of profits earned overseas. The data suggest that Prime Minister Shinzo Abe will further encourage Japanese consumers and companies to spend more, as Abenomics appear to be working.

On Wednesday and Thursday, national representatives of OPEC and officials from its Vienna secretariat met to deliberate options at draining inventories and supporting prices. According to the panel – the Economic Commission Board (ECB) – reviewing scenarios for the oil producer group's meeting next week, OPEC is looking at option of deepening and extending its deal to reduce crude output. In particular, Saudi Arabia and non-OPEC Russia, the world's top two oil producers, have agreed on the need to prolong the current cuts until March 2018, although Saudi Energy Minister Khalid al-Falih said extended curbs would be on the same terms.

In Nigeria, according to the National Bureau of Statistics (NBS), the headline consumer price index has recorded its third deceleration in seventeen months. Headline inflation was 17.24% in April, 2 bps down from 17.26% in March, 36 bps higher than Bloomberg's median estimate and Cordros' forecast of 16.9% apiece. On month-on-month basis, the headline index increased by 1.60% (vs. 1.72% the previous month).Food inflation rose to 19.30%, from 18.44% in March. On m/m basis, food inflation climbed by 2.04%, a slower pace than the 2.21% recorded in March, driven by notable increases in the prices of bread and cereal, meat, fish, potatoes, yam and other tubers, milk, cheese and eggs, coffee, tea, and cocoa. Core inflation increased at a slower pace in April, rising by 14.80%, versus 15.4% in March, with the highest increases reported in wines and spirits, clothing materials and other articles of clothing, liquid fuel, fuel and lubricants for personal transport equipment, solid fuels, audio-visual, photographic and information processing equipment.

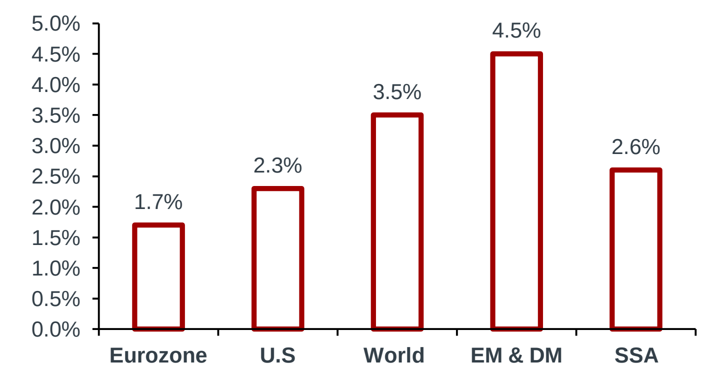
Nigeria's gross federally-collected revenue rose by 20.4 per cent in February 2017 to N545.05 billion, as against the N433.86 billion recorded in January 2017, the Central Bank of Nigeria's (CBN) economic report for February 2017 has shown. The increase relative to the preceding month level was attributed to the rise in receipts from both oil and non-oil components. But, the revenue receipt recorded in February, fell short of the 2017 provisional monthly budget estimate of N792.71 billion by 31.2 per cent, according to the report. Gross oil receipts, at N292.82 billion or 53.7 per cent of total revenue, fell below the provisional monthly budget estimate by 0.6, but were 37.9 per cent higher than the receipts in January 2017. The increase in oil revenue relative to the preceding month reflected the significant rise in receipts from domestic crude oil/gas sales and PPT/Royalties.

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	Year Start
Real GDP growth	-1.30%	-1.30%
MPR	14.0%	14.0%
CPI	17.24%	18.55%
Exchange Rate (USD)	N305.45	N305.00
Foreign Reserve (US$'bn)	30.72	25.84
Unemployment	13.9%	9.9%
Brent Crude Oil Price (US$)	53.43	56.82

***Source**: IMF, CBN, NBS, Cordros Research*

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Global Equities Market

Sentiments were mixed across global equities, with trading activities primarily shaped by economic data, movements in commodity prices, political uncertainty, and currency swings.

On Wall Street, earlier in the week, appetite was lifted following a jump in oil prices (on hopes of an extended OPEC deal). However, the gains recorded were short-lived as investors fretted over heightened political uncertainty marked by fears that President Donald Trump's economic agenda was trapped between a rock and a hard place. Whilst demand returned to the bourse on (1) positive economic data – a drop in jobless claims and a jump in the Philadelphia Fed manufacturing index (albeit still below 50) and (2) notable increases in the prices of technology shares (Apple Inc., Amazon.com Inc., and Facebook Inc.), the market failed to recover from the political turmoil induced selloffs. Accordingly, the DJIA and S&P 500 declined by 0.71% w/w and 0.70% w/w respectively. In Europe, markets reacted to a mix of positive and negative triggers. On the bright side, sentiment strengthened on a rise in commodity shares, driven by an increase in oil and metals prices. Save for that, trading was mostly cautious as investors refrained from making big bets on risky assets. In this regard, we highlight (1) decline in automobile shares, (2) a rise in the euro, and (3) political uncertainty in the U.S. In all, the FTSE 100 (+0.42% w/w) closed in the green while the Euro Stoxx 50 (-1.57% w/w) closed lower than last week's level.

The story in Asia mirrored the trading pattern in Europe. Earlier in the week, investors shook off reasons to worry including weekend's North Korean missile test, global cyber security attack. Concerns were heightened, on the back of (1) a falling U.S. dollar, which particularly pressured Japanese stocks, and (2) political uncertainty which raised doubts about President Trump administration's ability to make progress on policy. Meanwhile, investors ended the week taking a cue from overnight gains on Wall Street. The gains were further supported by a rise in commodity prices. Overall, the Chinese CSI 300 (+0.55%) posted weekly gain while the Nikkei 225 (-1.47% w/w) – which impressed the most within our coverage universe the previous week –recorded the second biggest loss this week.

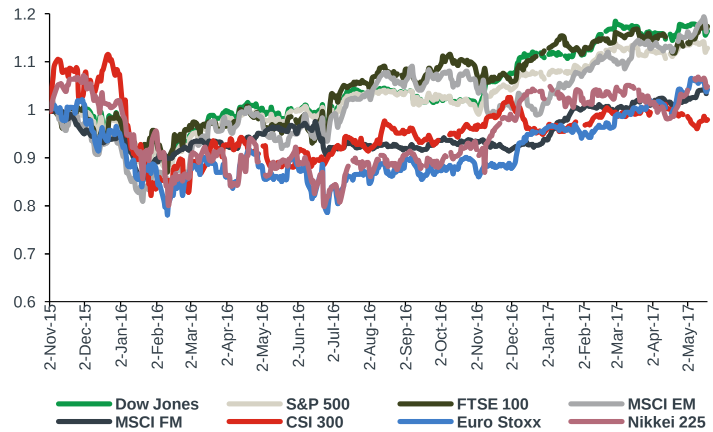
Nigerian Capital Market

Equities

The market closed lower for the first time in four weeks, following profit taking selloffs in oil & gas and consumer goods names. The All Share Index shed 0.28% w/w to close at 28,113.38 points. That said, fundamentally, the market remains strong, particularly in light of (1) improved stability and liquidity in the currency space, and (2) the government's recent progress in creating and harnessing growth and stability in the Nigerian economy. Supporting this, the Vice President signed 3 executive orders this week, aimed at (1) increasing the support for local contents in public procurement by the Federal Government, (2) promoting transparency and efficiency in the business environment, and (3) increasing efficiency with regards to budget submission, making particular reference to statutory and non-statutory agencies, including organizations owned by the Federal Government. On economic data, the recently published inflation figure for the month of April (17.24% y/y, previously 17.26% Y/Y) showed that prices appear to be sticky downwards. The ASI closed negative in only one of five session, but the loss was heavy (2.41%), owing to declines in the shares of large-capped companies: SEPLAT (-5.00%), ZENITHBANK (-5.68%) and NESTLE (-4.43%). Comparing the performance of the indices, the Oil & Gas (-3.26% w/w) recorded the largest loss, as traders liquidated their holdings in SEPLAT (-8.13% w/w), TOTAL (-1.45% w/w), and FO (-5.00% w/w). Likewise, the Consumer Goods (-1.48% w/w) and Industrial Goods (-0.12% w/w) closed lower, following selloffs in NB (-3.38% w/w), UNILEVER (-0.03% w/w), DANCEM (-1.22% w/w), and CCNN (-8.18% w/w) respectively. On the flip side, the Banking (+2.58% w/w) and Insurance (+0.38% w/w) indices advanced, following demand for GUARANTY (+5.00%), ACCESS (+1.94% w/w), CUSTODINS (+1.17%), and CONTINSURE (+5.00% w/w).

Market breadth was positive, with 30 gainers (56 last week) -- topped by MAYBAKER (+14.84 w/w) -- versus 28 losers (11 last week) -- led by AIRSERVICE (-13.22% w/w). Total volume traded declined by 30.24% w/w to 2.27 billion shares (3.26 billion last week), with ACCESS, ZENITHBANK, and FBNH accounting for 43.99% of the market volume. The value of trades also increased by 28.13% to N32.65 billion (previously N28.74 billion), with ZENITHBANK, GUARANTY, and SEPLAT accounting for 44.37% of total value.

Global Markets



***Source**: Bloomberg, Cordros Research*

	NSE ASI	ASI % ∆	Volume ('mn)	Value (N'mn)	Deals
19-May-17	28,113.38	0.04%	305.97	5,399.32	4,100
18-May-17	28,101.63	0.72%	353.14	9,162.44	4,034
17-May-17	27,900.44	1.05%	371.46	3,490.71	3,910
16-May-17	27,609.67	0.35%	569.18	6,682.28	4,632
15-May-17	27,513.69	-2.41%	670.96	7,912.07	4,034
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

Ticker	WTD	YTD	Ticker	WTD	YTD
MAYBAKER	14.84%	56.38%	AIRSERVICE	-13.22%	62.80%
LINKASSURE	11.54%	16.00%	CILEASING	-11.84%	34.00%
UBA	9.62%	62.00%	DIAMONDBNK	-11.00%	1.14%
OANDO	7.77%	97.66%	ETERNA	-8.74%	14.52%
NEIMETH	7.55%	-26.92%	CCNN	-8.18%	-8.00%

***Source**: NSE, Cordros Research*

Fixed Income and Money Market

Interbank

The overnight rate contracted by 342 bps w/w to 26.08%, despite a persistent drag on system liquidity. System liquidity closed with a deficit balance throughout the week. The overnight rate rose to as high as 66.75% this week, before declining on the last day of the week, after the apex bank refunded commercial banks excess naira it offered in an earlier dollar auction. Compared to last week, system liquidity declined to a deficit of N72.03 billion (previously +N91.55 billion). Notable movement of funds includes (1) the debit for FX sales worth USD457 million, (2) OMO sales totaling N74.23 billion, and (3) inflow from maturing OMO bills worth N43.21 billion.

Treasury Bills

Again, selloffs dominated the treasury bills space, with average yield expanding by 70 bps w/w to close at 19.12%. We attribute this week's bearish proceedings to (1) still tight liquidity conditions amid continued withdrawals in the form of OMO sales and FX sales debits, (2) lower-than-expected drop in April inflation rate, and partly (3) seemingly renewed interest in risky assets- marked by three consecutive weeks of gains (the All Share Index closed positive in four of five sessions this week, despite posting a weekly loss). Selloff was most notable at the short (+117 bps) end of the curve, followed by the intermediate (+83 bps) and long (+31 bps) segments. The apex bank raised N110.94 billion at Wednesday's auction. The stop rates on the 91-day (13.50%, previously 13.60%), 182- day (17.15%, previously 17.26%), and 364-day (18.70%, previously 18.92%) bills came in lower relative to the last auction. Notably, the 91-day, 182-day, and 364-day bills were oversubscribed by N5.27 billion, N5.98 billion, and N82.51 billion, respectively.

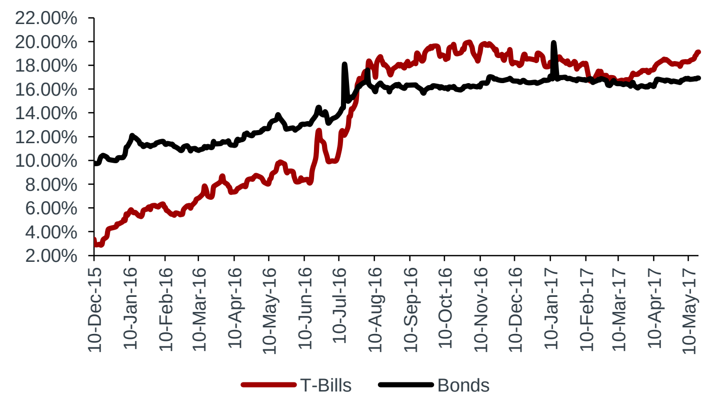
Bonds

Investors were similarly downbeat in the bonds market, with broad-based selloff driving average yield up by 11 bps w/w to 16.93%, from last week's close of 16.82%. Yield expanded in three of five sessions, save for today's contraction (less than 1 bp). Clearly, the lower-than-expected fall in April inflation rate spooked appetite. Yield expansion was most notable at the short (+45 bps) segment of the curve.

Foreign Exchange

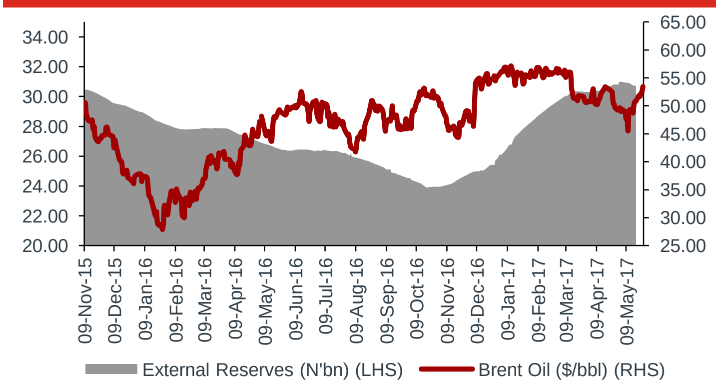
It was relatively quiet on the policy front this week, asides that the apex bank released a circular to clear the air on items "Valid for Foreign Exchange". There was no major change in the list, except for the apex bank laying emphasis on specific items. Meanwhile, the apex bank continued to intervene in the currency space, selling USD457 million at the interbank segment of the market, comprising (1) spot and forward contracts worth USD267.3 million, (2) spot delivery for invisibles worth USD 40 million, and (3) sales to SMEs and wholesale users totaling USD50 million and USD100 million respectively. This week's programme brings the total amount of CBN intervention to approximately N6.26 billion, since January. Meanwhile, a check on the volume of trading on the IEFX showed approximately USD1.075 billion has been sold by both the CBN and autonomous sources between April 28th and May 12thh, 2017. That said, the naira -- in the interbank market -- weakened against two of the currencies we track. The GBP/NGN (-0.79% w/w) and EUR/NGN (-2.13%) weakened to N412.73 and N351.94 respectively, while the USD/NGN (+0.05% w/w) strengthened to N305.45. In the parallel market, the USD/NGN (+2.56% w/w) and GBP/NGN (+1.01%) strengthened to N380 and N495, while the EUR/NGN closed flat at N420. Meanwhile, the USD/NGN (-0.22% w/w) weakened to N381.61 in the IEFX window.

Nigeria: Fixed Income Yields (Average)



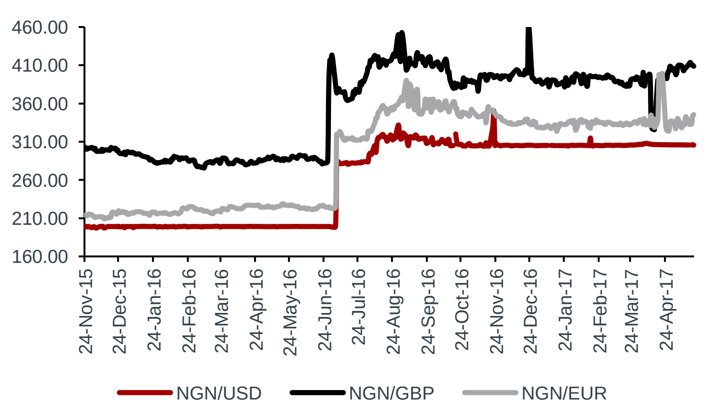
***Source**: FMDQ, Cordros Research*

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: We expect the bullish trend we've seen in the previous weeks to resurface on the domestic bourse, as investors continue to find banking and consumer goods names attractive.

Interbank: We expect the drag on system liquidity to taper in the coming week, owing to inflows from maturing OMO bills worth N131.41 billion and budgetary disbursements to the states and local governments, worth approximately N200 billion. Nonetheless, we expect the activities of the apex bank -- via OMO and FX sales -- to reduce the impact of the expected inflows on system liquidity.

T-Bills: Next week, N131.41 billion worth of OMO bills will mature into the system. We expect this, in addition to anticipated inflow from monthly fiscal allocation, to improve liquidity position. Notwithstanding, we expect yields to further move southward, as the impact of the boost in liquidity will be muted by continued withdrawals via OMO sales and debits for FX purchases.

Bonds: The CBN's Monetary Policy Committee (MPC) meets next week. We look for the Committee holding the line on its policy stance. Thus, we expect further uptick in yield, as demand succumbs to tight system liquidity.

Currency: We expect the naira to trade within its current band at the interbank, parallel and I&E markets, as the apex bank continues to support the naira.