

12 June, 2017

Monthly Markets Review.

Overview of Markets in May 2017

Highlights:

- Global equities were largely positive in May – save for the Euro Stoxx which closed in the red within our coverage universe – thanks to positive economic data, currency swings, oil price movement, and political events.
- The prices of Nigerian equities closed higher for the third month in a row, driven mainly by the sense of improving access to FX by the foreign portfolio investors through the I&E window, coupled with signals of a gradually recovering economy.
- From 4.75% at the end of April, average interbank lending rate increased, and closed at 12.33% in May.
- The treasury bills market remained pressured, still grappling with low system liquidity amid increasing attractiveness of risky assets.
- Demand remained low in the bond space, with average yield rising 11 bps m/m to close at 16.77%.
- The apex bank focused on driving FX policies of the previous months, with the LCY strengthening against the USD at both the interbank and parallel markets.

Global Equity Markets

The U.S equities sustained the bullish performance it recorded over the second half of April, with investor appetite remaining strong in both halves of May. On a month-on-month basis, the Dow Jones Industrial Average (DJIA) and S&P 500 closed higher, posting gains of 0.33% and 1.16% respectively. The earliest boost on Wall Street was a deal among Congressional leaders to fund the government through Sept. 30 – which removed the overhang of a potential geopolitical risk – in addition to a reported slowdown in inflation figures for March (a month after hitting a five-year peak). Whilst investors held off from making big bets ahead of the Fed meeting held during the month, the outcome of the meeting modestly stoked appetite, as the Fed, as expected, maintained status quo while calling Q1 GDP weakness “transitory”. Also positive for the market was stability in oil prices (after a week of declines), on the news that OPEC might be open to extending its production cuts into 2018, coupled with a reported drawdown in U.S inventory. This was in addition to encouraging job data, which provided respite amid House Republicans’ step to begin rolling back Dodd-Frank reforms and Obamacare. Meanwhile, gains were pared as the bears rode on (1) data showing that the productivity of American firms and their employees fell in the first quarter at the fastest rate in a year, (2) weaker-than-expected data on retail sales and inflation, which pointed to an uncertain economic environment, and (3) lingering political uncertainty.

Although political turmoil lingered in the second half of the month, demand persisted, supported by (1) rallying oil prices, (2) positive economic data – a drop in jobless claims, an upbeat private-sector jobs report, and a jump in the Philadelphia Fed manufacturing index (albeit still below 50), and (3) notable increases in the prices of technology shares (Apple Inc., Amazon.com Inc., and Facebook Inc.). The gains recorded were however shy of the levels posted in the first half, as investors fretted over (1) fears that President Donald Trump's economic agenda was trapped between a rock and a hard place, and (2) disappointing job data (the Labor Department reported that 138,000 jobs were created during the month, compared to an average consensus of 185,000 jobs).

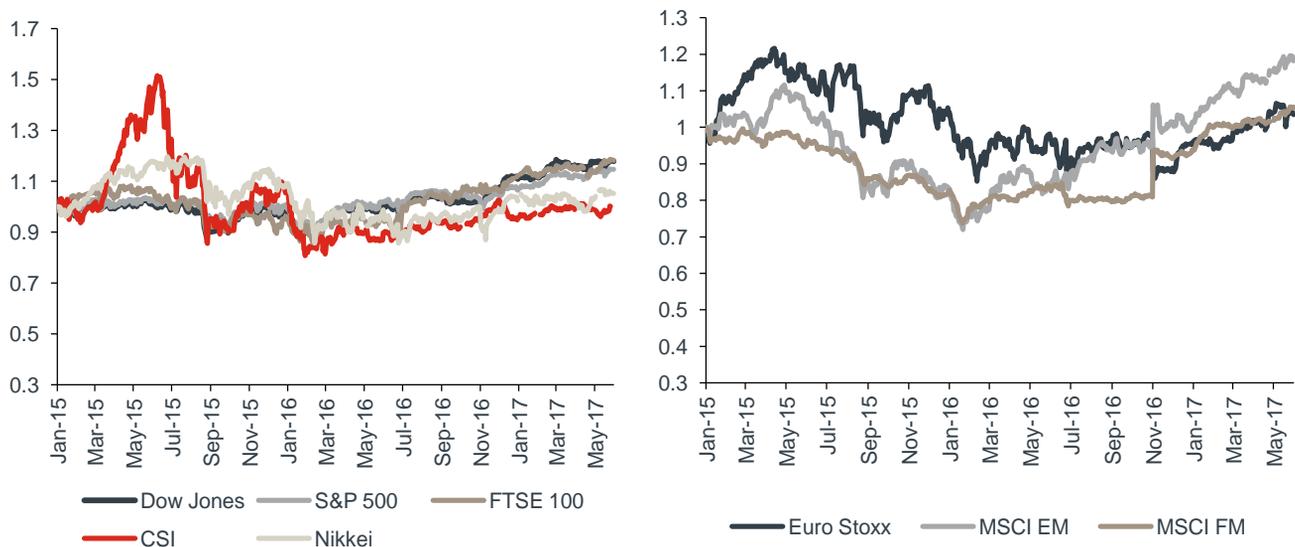
Sentiment was mixed across European markets, with the FTSE 100 (+4.39% m/m) recording the biggest gain within our coverage universe to reverse last month's loss, while the Euro Stoxx 50 (-0.14% m/m) pared April's gain. Worthy of mention is the fact that

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investors were broadly upbeat in the first half, driven by (1) a bailout deal struck between Greece and its creditors, (2) data showing continued expansion in manufacturing activity throughout the eurozone, (3) impressive earnings reports from heavyweights such as Royal Dutch Shell PLC and HSBC Holdings PLC., (4) Emmanuel Macron's victory at the French presidential election, and (5) encouraging German trade data.

Performance across European markets in the second half was below the robust level observed in the first half, no thanks to a rise in the euro, political uncertainty in the U.S., U.S. jobs data falling short of expectations, and energy companies declining after President Trump's withdrawal from the Paris climate agreement fueled speculation that U.S. producers will start pumping more oil. Meanwhile, snippets of demand ensued on (1) a rise in commodity shares, driven by an increase in oil and metals prices, and (2) stronger than expected U.K construction purchasing managers' index.

Fig 1: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research

Investors were upbeat in Asia, with the CSI 300 (+1.54% m/m) and Nikkei 225 (+2.36% m/m) closing higher than their respective April levels. The region kicked off the month with an earnings-related boost, particularly in Japan. Strengthening investor appetite, we highlight (1) overnight gains in the U.S., (2) Emmanuel Macron's victory in France's presidential election, and (3) a bounce in oil prices. On the other hand, making the list of investors' worries were (1) slumping commodities prices in China, (2) global geopolitical concerns, and (3) China's crackdown on speculation and borrowing which could potentially hurt metals demand. The above-mentioned weighed upon the CSI 300 while the Nikkei 225 closed positive, in the first half.

During the second half, investors shook off reasons to worry, including North Korean missile test, global cyber security attack, a falling U.S. dollar (which particularly pressured Japanese stocks), and political uncertainty (which raised doubts about President Trump administration's ability to make progress on policy). Meanwhile, investors ended the month taking a cue from overnight gains on Wall Street. The gains were further supported by a rise in commodity prices. On the positive, strong U.S. economic data and a weaker yen spurred demand. In what was a reverse of the first half, the CSI 300 eroded first half loss while the Nikkei 225 pared earlier gains.

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Nigeria
Equities Market

The prices of Nigerian equities closed higher for the third month in a row. Although we had expected equities prices to rise further from their April closing levels, the magnitude of returns (see company specific returns below) recorded in May was surprising. The All Share Index -- reaching record high -- appreciated by 14.52%, the highest monthly return in eight years (May 2009: +39.09%), while the average daily volume and value of trades stood at 464 million shares and N4.9 billion respectively, the most since February 2016 (589.8 million shares) and April 2015 (N5.17 billion) respectively. While it was the broadly better-than-expected January-March earnings that motivated appetite for risk in April, equities rally in May was driven mainly by the sense of improving access to FX by the foreign portfolio investors through the I&E window. Also during the month, the report that PENCOS (the apex regulator of the Nigerian pension fund administrators) approved the implementation of the multi-fund structure -- having the potential to significantly increase local pension funds' exposure to equities -- by PFAs for RSA funds, contributed immensely to equities rally.

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. Even the extended negative growth data released during the month (-0.52% in Q1-17) was disregarded, given that the contraction continued to thin out, suggesting that a recovery is near.

Typically, the buying activity was initially the show of locals, while trades from the offshore community, in select companies specifically, became more visible afterwards. 61 stocks recorded price gains during the review period, from 40 in April while only 17 recorded price declines, from 31 the month before. Interestingly, gain ranged between 20.4% and 107.3% for up to 38% of the total gainers, and was in excess of 10% for up to 69% of the total gainers. The shares of FIDSON (107.3%) and MAYBAKER (75.29%) appreciated the most, while those of MOBIL (14.26%) and SEPLAT (14.15%) declined the most.

Table 1: NSE Top Gainers & Losers

Gainers			Losers		
Ticker	MTD	YTD	Ticker	MTD	YTD
FIDSON	107.27%	27.37%	BOCGAS	-6.25%	-1.49%
MAYBAKER	75.29%	1.36%	JOHNHOLT	-6.35%	-6.35%
FBNH	67.19%	32.17%	LEARNAFRCA	-9.76%	-12.94%
OANDO	46.19%	-9.04%	SEPLAT	-14.15%	-4.22%
MANSARD	43.31%	42.41%	MOBIL	-14.26%	-9.75%

Source: NSE, Cordros Research

All sector indices, except the Oil & Gas (-2.97%), closed the month higher. Demand was strong for banking stocks, leading the index to rise by 26%. Top gainers in this category were FBNH (+67.19%), ETI (+37.48%), UBA (+28.87%), and GUARANTY (+27.7%). The Consumer Goods index rebounded strongly (+19.11%), after underperforming in April. Leading the gain in this category were PZ (+25.34%), NB (+21.53%), and NESTLE (+20.36%). The Insurance index also rebounded (+11.90%) on the back of gains by MANSARD (+43.31%), LAWUNION (+28.95%), and LINKASSURE (+26%).

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Table 2: NSE Sector indices Performance

NSE Sector Indices				
Index	31-May	28-Apr	m/m Change	y/y Change
NSE Banking	358.54	284.5	26.02%	30.70%
NSE Consumer Goods	733.84	616.12	19.11%	2.97%
NSE Industrial	1741.28	1708.1	1.94%	9.15%
NSE Insurance	138.63	123.89	11.90%	9.77%
NSE Oil/Gas	295.65	304.7	-2.97%	-5.45%

Source: NSE, Cordros Research

Total volume traded increased by 126.6% to 9.54 billion shares (previously 4.21 billion), with FBNH, ZENITHBANK, and ACCESS accounting for 34% of total volume traded. Total value also increased by 264.78% to N100.68 billion (previously N27.6 billion), with GUARANTY, ZENITHBANK and DANGCEM accounting for 46% of total value.

Fundamentally, we note that only a few stocks have much upside from current price level, suggesting that a correction is imminent. But that said, with the ongoing rally's major life battery (developments in the FX market) remaining charged, we think equities will have strong wings to fly.

Fixed Income and Money Market

Interbank

From 4.75% at the end of April, average interbank lending rate increased, and closed at 12.33% in May, 267 bps short of our 15% estimate. Similar to April, the NIBOR was very volatile last month, reaching a high of 138%. The inflows of N496 billion from budgetary allocations and N53.28 billion net OMO bills were outweighed by outflows through (1) primary market bond auction worth N110.95 billion, (2) net T-bills sales worth N80 billion, and (3) debit for FX sales totaling USD2.1 billion.

Major inflows are expected this month, comprising N733 billion worth of OMO bills and budgetary allocations (not expected to be any lower than the N400 billion minimum distributed in the last five months). That said, we expect NIBOR to close below the May ending rate of 12%, notwithstanding both the central bank's OMO auctions and FX sales, having the capacity to drain liquidity from the system.

Treasury Bills

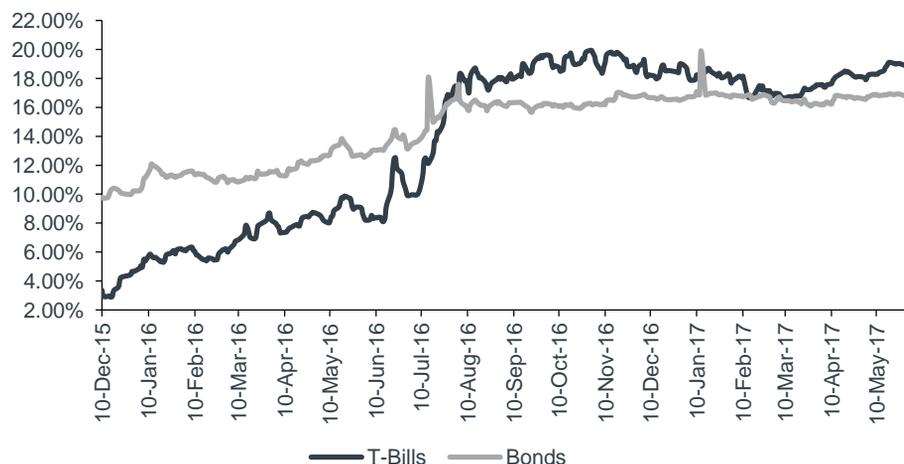
Activities in the treasury bills space largely validated our expectation for the month, as demand remained constrained on continued pressure on system liquidity. Specifically, as we prognosticated, the apex bank kept a lid on liquidity via its persistent withdrawals through daily OMO sales, and continued forex intervention, in addition to withdrawals through bond sales. Earlier in the month, the late demand that ended April – following considerable cash injections (estimated at N1.04 trillion) which significantly improved liquidity position – faded amid the aforementioned downside factors. Selloff persisted for the rest of the month, save for the last week, wherein demand ensued on the back of system liquidity swinging to a surplus balance from a deficit position in the preceding week. Aside pressure from system liquidity, the bearish proceedings during the month is attributable to lower-than-expected drop in April inflation rate, and increasing attractiveness of risky assets. Compared to the prior month, average yield expanded by 65 bps to 18.79%, with yields at the short (+131 bps) end of the curve being the most pressured relative to the intermediate (+60 bps) and long (+29 bps) segments. Notably, the 08-Jun-17 (+331 bps to 19.98%) bill recorded the largest expansion.

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There were three NTB auctions during the month. At the first auction, the apex bank raised N230.61 billion (vs. planned N150.61 billion) across the 91-day (N29.14 billion vs. N45.18 billion offered), 182-day (N23.43 billion vs. N23.43 billion offered), and 364-day (N178.03 billion vs. N82.00 billion offered) bills. In line with our expectation for the auction, the stop rates on the 182-day (17.26%, previously 17.40%) and 364-day (18.81%, previously 18.98%) came in lower than the previous auction, while the stop rate on the 91-day (13.60%, previously 13.60%) was unchanged. Noteworthy, the 182 and 364-day bills were oversubscribed by N6.11 billion and N123.57 billion respectively while the 91-day was undersubscribed by N15.04 billion respectively. The central bank raised N110.94 billion at the second 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 first 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. A total sum of N117.15 billion was raised at the last auction, with stop rates on the 91-day (13.40%, previously 13.50%), 182-day (17.14%, previously 17.15%), and 364-day (18.65%, previously 18.70%) bills coming in lower relative to the preceding auction. Notably, the 91-day, 182-day, and 364-day bills were oversubscribed by N0.36 billion, N0.54 billion, and N83.74 billion respectively.

We look for demand rebounding, as system liquidity improves on considerable inflows (including N733 billion from maturing OMO bills, in addition to monthly fiscal allocation) in June, notwithstanding continued OMO issuances, withdrawal through bond and T-bills auctions, and debits for FX sales. Key risk to our outlook, however, is the likelihood of the level of activity in the equities market remaining upbeat.

Fig 2: FGN Bonds and Treasury Bills Average Yields



Source: FMDQ, Cordros Research

FGN Bonds

The bond market, also in line with our expectation, closed the month on a bearish note, with average yield rising by 11 bps to close at 16.77%, from 16.66% in April. Although trading was mixed during the month, the magnitude of selloff overshadowed demand, as (1) a lower-than-expected fall in April inflation rate spooked appetite, (2) investors found a safe haven in equities, and (3) system liquidity remained at low ebb. Yields rose across all (short: +5 bps; mid: +33 bps; and long: +16 bps) ends of the curve.

At the month'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 April's auction, stop rates on the JUL 2021 (16.30%, previously 15.99%), MAR 2027 (16.29%, previously 16.24%), and APR 2037 (16.30%, previously 16.25%) came in higher. Notably, the

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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.

During the month, the DMO issued the third tranche of the FGN Savings Bond, allotting N307.65 million of the 2-Yr FGNSB and N483.20 million of the 3-Yr FGNSB at 13.189% and 14.189% respectively.

In addition to the expected improvement in system liquidity, we anticipate a downtrend in yields, further supported by expected significant moderation (we estimate 16.04%) in May inflation – which could particularly provide a boost in the second half of the month.

Table 3: Benchmark Bonds – Secondary Market

Benchmark Bonds - Secondary Market					
New Nomenclature	Issue Date	TTM	31-May	Change	28-Apr
16.00 29-JUN-2019	29-Jun-12	2.08	16.43%	0.30%	16.12%
15.54 13-FEB-2020	13-Feb-15	2.70	16.39%	0.19%	16.21%
16.39 27-JAN-2022	27-Jan-12	4.66	16.19%	0.17%	16.02%
14.20 14-MAR-2024	14-Mar-14	6.79	16.01%	0.06%	15.95%
14.50 22-JAN-2026	22-Jan-16	8.65	16.15%	0.14%	16.02%
10.00 23-JUL-2030	23-Jul-10	13.15	16.08%	0.19%	15.89%
12.1493 18-JUL-2034	18-Jul-14	17.13	16.02%	0.24%	15.77%

Source: FMDQ, Cordros Research

Foreign Exchange

Unlike in April, there was no major policy announcement in the FX market in May. The apex bank focused on driving policies of the previous months, selling as much FX as possible on the spot, and through forward contracts. By our estimate, the apex bank intervened in the market with a total of USD2.09 billion, compared to USD2.55 billion in April, while the external reserves fell by a marginal 1.53% m/m to USD30.33 billion. Data from the CBN shows that the current account surplus in Q1-17 was higher than in the same period of 2016 (USD2.91 billion vs. USD1.14 billion), but the amount was below the USD3.33 billion surplus reported in Q4-16. Also, while total cash flow through the economy increased by 8.2% y/y, it decreased by 4.3% on q/q basis. The cash flow data revealed that although net flow through the CBN improved significantly y/y and q/q in Q1-17, net flow through autonomous sources fell at double-digit y/y and q/q during the period. Notwithstanding the amount spent by the apex bank intervening in the market, we think demand remains sizeable, with backlog estimated at about USD3-4 billion.

Overall, in the interbank market, the NGN appreciated against the USD (+0.15%) and the GBP (+0.95%) in May to N305.40 and N405.70 respectively, but depreciated against the EUR (-6.30%) to N353.68. In the parallel segment, the LCY strengthened further (+2.05%) against the USD to N382 but declined against the GBP (-1.03%) and EUR (-1.69%) to N490 and 422 respectively. The Naira opened trading at N379.04 at the Investors and Exporters' market, but closed the month's trading at N380.50.

We expect the naira to trade within its current band at the interbank market, and gain further against the dollar in the parallel market and the I&E window, as the apex bank remains resolute in providing liquidity.

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

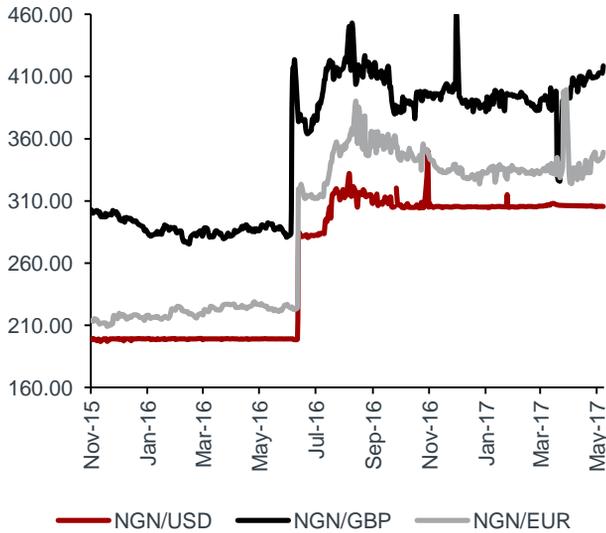
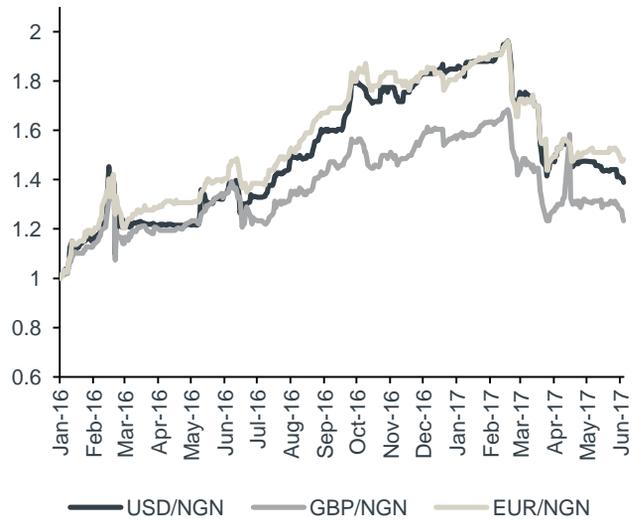


Fig 4: Parallel Market FX Rate (Index of 1)



Source: Bloomberg, AbokiFX, Cordros Research

*12 June, 2017***Important Disclaimers**

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