

June 23, 2017

### Economy

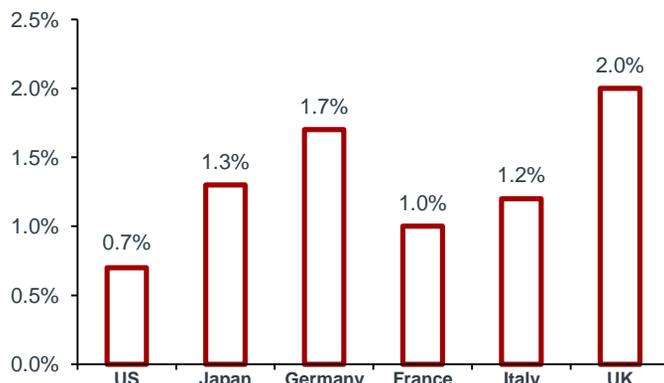
Oil prices came under significant pressure during the week, no thanks to continuing expansion in U.S. drilling that has helped to maintain high global supplies despite an OPEC-led initiative to cut production to tighten the market. Adding to the downside risk were signs of faltering demand which prompted weakening sentiment, cutting prices to levels comparable to when the OPEC output cuts were first announced late last year.

In a positive development for China, US stock index provider, MSCI, agreed during the week to include China's mainland domestic shares in its emerging markets index for the first time. The decision came as a progress for Beijing as it attempts to open up its financial markets in a bid to attract additional foreign capital. Recall that China's inclusion had been constantly rejected for the past three years, with the index provider citing worries about regulation and accessibility for global investors. The shares of 222 Chinese companies, known as A-shares, will be added to the Emerging Markets Index, though they will make up barely 0.7% of the index's value.

During the week, the Nigerian National Petroleum Corporation released the Financial and Operations report for the month of April 2017, where in, the corporation recorded a trading deficit of N5.27Billion in April, 2017 representing 6.20% decrease in the group operating deficit compared to March 2017 deficit of N5.62Billion. NNPC attributed the reduced deficit gap to the decrease in NPMC/NPSC/ML expenses relatively, although impacted by lower NPDC revenue. Other factors that impacted the overall NNPC's performance include production shutdown of Trans Niger Pipeline (TNP) & Nembe Creek Trunk Line (NCTL) due to pipeline leakages, shut down of Bonga Terminal for TAM and existing Force Majeure declared by SPDC as a result of the vandalized 48-inch Forcados export line during the period. The report also stated that, a total of 49.57 million barrels of crude oil & condensate was produced in the month of March 2017 representing an average daily production of 1.60 million barrels, a decrease of 2.62% compared to February 2017 performance due to ongoing maintenance and repair work at various terminals.

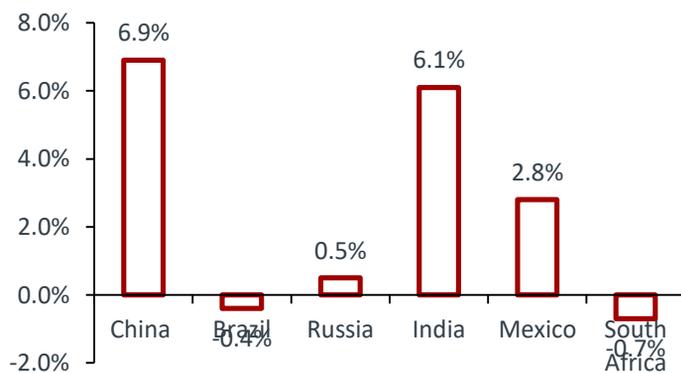
Barely two weeks after signing the budget, the Federal Government has wrapped up schemes to urgently release N350 billion -- 15.6 percent of aggregate capital votes estimated at N2.24 trillion - to partly finance planned capital projects for the year. The N350bn Capital expenditure is expected to finance medium-long term projects in key sectors including the Power, Works and Housing Ministry - N553.7 billion; Transportation – N150 billion, Defence – N104.24 billion, and Interior – N151. 91 billion, among others. The Federal Government's aspiration is to instantly release the first tranche of 2017 capital votes, after a cash-plan meeting of the federal Ministry of finance. Nigeria's 2017 Budget increased by 23 percent to N7.44 trillion, year-on-year, relative to N6.06 trillion recorded in 2016. Major expenditure outlay includes statutory transfers.

### Annualized GDP Growth Rate Q1-2017 - DMs



Source: Markit, Reuters, Financial Times, Cordros Research

### Annualized GDP Growth Rate Q1-2017 - EMs



Source: IMF World Economic Outlook

Macro Indicators (Nig)	Current	Year Start
Real GDP growth	-0.52%	-1.30%
MPR	14.0%	14.0%
CPI	16.25%	18.55%
Exchange Rate (USD)	N305.85	N305.00
Foreign Reserve (US\$'bn)	30.22	25.84
Unemployment	14.2%	14.2%
Brent Crude Oil Price (US\$)	45.58	56.82

Source: IMF, CBN, NBS, Cordros Research

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### Global Equities Market

Sentiment was mixed across global equities, with activities driven by falling oil prices, political event, economic data, and MSCI decision.

Trading was mixed in the U.S., with the S&P 500 advancing 0.06% w/w while the DJIA declined 0.09%. Earlier in the week, bullish sentiment dominated the bourse, as technology shares rebounded from a recent bout of sharp weakness. Gains were however pared in subsequent sessions, amid investors selling off energy shares after crude oil prices dipped. Adding to that, weak financials and consumer staples stocks weighed on the health-care and biotechnology sectors. Cautious trading ensued today as investors awaited economic data and remarks by Federal Reserve speakers while still keeping an eye on oil prices. The eventual release of encouraging new U.S. single-family home sales in May strengthened appetite. In Europe, stocks jumped at the start of the week, supported by rallying French shares following French President Emmanuel Macron's upstart party scoring a majority in parliamentary elections on Sunday. As was the case on Wall Street, gains were short-lived, as investors grappled with oil prices sinking toward bear-market, pressuring energy related stocks. The selloff was extended until yesterday when modest demand occurred owing to a brief rebound in oil prices. Overall, the oil price induced selloff dragged the FTSE 100 and Euro Stoxx 50 lower by 0.55% w/w and 0.22% w/w, with investors assessing mixed signals about the eurozone economy.

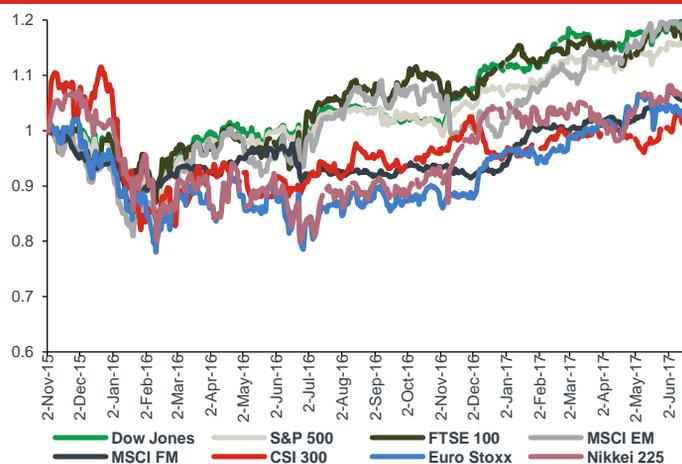
Asian markets closed higher, with the CSI 300 (+2.96% w/w) recording the largest gain within our coverage universe while the Nikkei 225 posted a weekly gain of 0.95%. The strongest influence on market activities during the week was a statement by MSCI Inc. that it would include Chinese stocks in its emerging-markets index, which particularly kept Chinese equities resilient. Investors also rode on the strong start to the week on Wall Street and European markets. On the flipside, demand tapered as (1) the declines in oil prices hurt energy shares, and (2) increased regulatory scrutiny over the borrowings of China's most prolific overseas deal makers weighed on markets.

### Nigerian Capital Market Equities

The market bucked four consecutive weeks of uptrend, as the All Share Index declined by 4.99% to 32,122.14 points, driving YTD performance lower to 19.53%, following broad profit taking across sector indices. The market had opened the week on a bullish note, with a cumulative gain of 1.66% in the first two trading sessions. However, profit taking ensued from Wednesday to Friday sessions, with a daily average loss 2.23% and cumulative loss of 6.70%. We attribute the loss during the week to a number of key events: (1) the plunge in crude oil prices to seven-month lows on, with WTI dropping below \$44 per barrel and Brent dipping below \$46, (2) the press release by Etisalat Nigeria on the initiation of the process to convert a syndicated loan by 134 Nigerian banks to equity – which drove sell-off across the banking, and (3) mounting concerns over most stocks trading above consensus' fair value. The negative close was not withstanding the news of a hold by MSCI on the reclassification of Nigeria index to a Standalone status. Comparing the performance of the indices, the Banking (-6.78% w/w) and Industrial Goods (-5.36% w/w) recorded the largest losses, as traders took profit in ZENITHBANK (-11.18% w/w), ACCESS (-11.40% w/w), DANGCEM (-4.59%), and WAPCO (-9.16%) respectively. Likewise, losses recorded in the shares of MANSARD (-15.77% w/w), NB (-7.38% w/w), and OANDO (-13.40% w/w) ensured that the Insurance (-5.36% w/w), Consumer Goods (-3.95% w/w) and Oil & Gas (-0.80% w/w) indices, respectively, shed weight.

Market breadth remained negative, with 21 gainers (35 last week) -- topped by NEIMETH (+44.12% w/w) -- versus 50 losers (40 last week) -- led by TRANSCORP (-23.12% w/w). Total volume traded declined by 15.58% to 2.3 billion shares (2.7 billion last week), with ZENITHBANK, TRANSCORP, and FBNH accounting for 28.80% of the market volume. The value of trades also fell by 23.30% to N24.58 billion (previously N32.04 billion), with ZENITHBANK, GUARANTY, and NB accounting for 49.53% of total value.

### Global Markets



Source: Bloomberg, Cordros Research

	NSE ASI	ASI % Δ	Volume ('mn)	Value (N'mn)	Deals
23-Jun-17	32,122.14	-2.45%	417.57	3,246.56	5,456
22-Jun-17	32,928.44	-1.64%	509.76	5,034.62	5,321
21-Jun-17	33,477.89	-2.61%	508.73	6,396.51	5,876
20-Jun-17	34,375.60	0.70%	392.27	4,217.41	5,412
19-Jun-17	34,135.10	0.96%	482.52	5,681.92	5,771
16-Jun-17	33,810.56	0.04%	493.27	6,237.24	5,474
15-Jun-17	33,797.84	0.59%	573.60	7,852.24	6,584
14-Jun-17	33,598.20	1.38%	759.05	6,295.12	7,357
13-Jun-17	33,141.85	-0.28%	410.22	5,545.89	6,167
12-Jun-17	33,235.28	-0.12%	501.08	6,111.78	6,635

Ticker	WTD	YTD	Ticker	WTD	YTD
NEIMETH	44.12%	25.64%	TRANSCORP	-23.12%	64.37%
ASHAKACEM	21.39%	42.10%	FIDSON	-16.67%	114.84%
LIVESTOCK	20.88%	30.95%	MANSARD	-15.77%	31.14%
CONOIL	17.26%	18.89%	DIAMONDBNK	-15.04%	28.41%
BERGER	15.40%	7.62%	FBNH	-14.51%	75.82%

Source: NSE, Cordros Research

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### Fixed Income and Money Market

#### Money Market

As we guided last week, the overnight money market rate declined further by 617 bps to 9.50%, from 15.67%. The rate contraction was driven by relative improvement in system liquidity amid inflows from (1) N152.61 OMO bills that matured during the week, (2) refunds to banks for forex cash provisions, and (3) N462.4 billion cash injection via the monthly budgetary allocation to states and local governments. The aforementioned subdued the impact of withdrawals, totaling N175.14 billion, through the series of OMO auctions (N75.89 billion) conducted by the apex bank during the week, and bond sales (N99.26 billion).

#### Treasury Bills

At Wednesday's NTB auction, the apex bank allotted N28.12 billion, N43.84 billion, and N61.29 billion of the 91, 182, and 364-day bills at respective stop rates of 13.50% (the same as previous), 17.50% (previously 17.30%), and 18.65% (previously 18.69%). The 91-day bill was fully allotted, the 182-day bill was undersubscribed by N11.29 billion, while the 364-day bill was oversubscribed by N32.25 billion. Appetite weakened in the secondary market, despite the relatively improvement in system liquidity, with selloff in three of five sessions. The selloff occurred at the short (+35 bps) and long (+12 bps) ends of the curve, while yield contracted at the mid (-11 bps) segment. Overall, average yield increased 11 bps w/w to 18.27%.

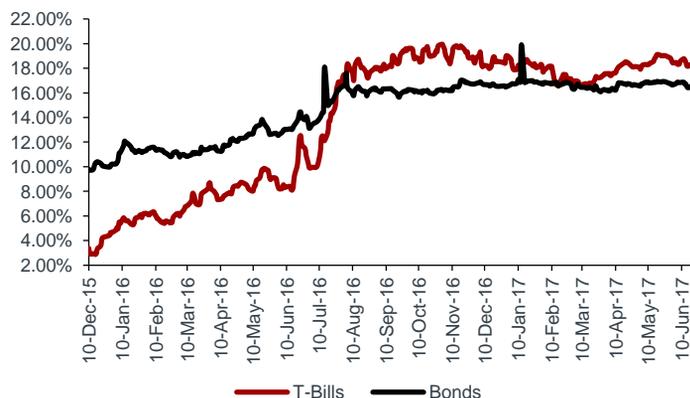
#### Bond

The bond market was also pressured, with average yield rising 30 bps w/w to 16.73%. The selloff was broad-based, most sizeable at the short (+61 bps) end, followed by the mid (+27 bps) and long (+8 bps) segments. At Wednesday's primary market auction, the DMO, on behalf of the FGN, allotted N4.22 billion, N30.25 billion, and N64.79 billion of the FGN JUL 2021, FGN MAR 2027, and FGN APR 2037 bonds, respectively, at lower stop rates of 16.19% (previously 16.30%), 16.19% (previously 16.29%), and 16.20% (previously 16.30%). The JUL 2021 bond was undersubscribed by N27.48 billion while the MAR 2027 and APR 2037 bonds were both oversubscribed by N7.35 billion and N38.24 billion respectively. During the week, Nigeria successfully issued her maiden diaspora bond in the international capital market, raising a total sum of USD300 million at the rate of 5.625% with a 5-year tenor. Worthy of note is the fact that the bond was oversubscribed, with the issuance attracting initial orders of c.190% of the offered amount, with final subscriptions of circa 130% of offer at the final transaction price. Following that, the DMO also revealed that the country plans to sell a N100 billion debut sovereign sukuk in the local market this month to help fund road projects. The Islamic bond, with a 7-year tenor, according to the DMO, will go on sale on June 28 for three days via book building, and will be tradable both on the NSE and FMDQ OTC platforms.

### Foreign Exchange

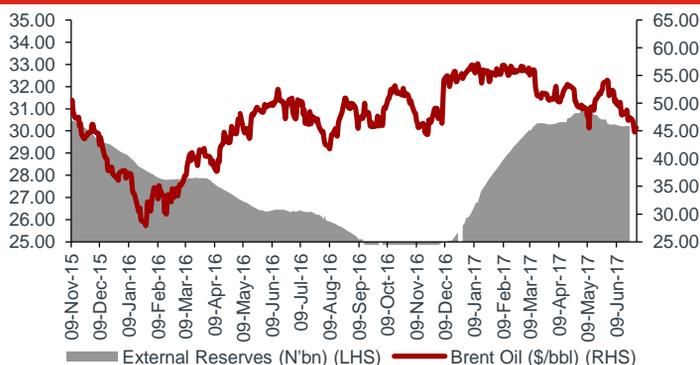
There was no major development in the FX market during the week, save for the apex bank's continuous bid to support the NGN, specifically injecting USD195 million into the FX market, comprising USD100 million (via the wholesale window), USD50 million (through the SMEs window), and USD45 million (for invisibles). This week's programme brings the total amount of CBN intervention to approximately US\$798 million MtD and US\$8.00 billion, since January. Also, a check on the turnover of trading on the I&E FX window revealed that approximately USD2.97 billion has been sold between April 28th and June 16th, 2017. Meanwhile, at the time of writing, the NGN – in the interbank market – had appreciated by 3.28% and 2.89% against the GBP and EUR to N401.06 and N352.90 respectively, while it weakened 0.03% against the USD to N305.85. In the parallel market, the NGN traded flat against the GBP and EUR, while it strengthened 0.27% against the USD to N369.00. The NGN weakened in the IEFX market during the week, where it lost 1.11% w/w against the USD to close at N369.36.

### Nigeria: Fixed Income Yields (Average)



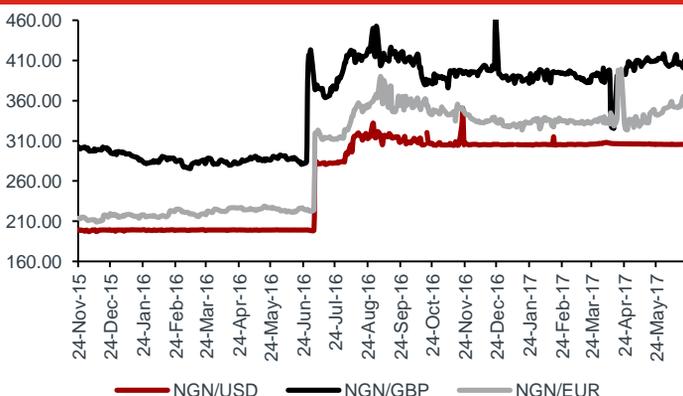
Source: FMDQ, Cordros Research

### 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:** As stated above, the sell-off this week is largely attributable to the concerns over the current trading value of the stocks compared to consensus' fair value and crude oil prices breaking fresh seven-month lows. Consequently, we expect the correction in the market to persist in the coming week. However, given just three trading sessions next week, we expect the loss to be minimal.

**Money Market:** While we acknowledge the possibility of the central bank stepping up its liquidity mopping via continued OMO auctions in particular, we expect further moderation in the overnight rate, as system liquidity benefits from notable inflow worth N236.12 billion from maturing OMO bill and budgetary allocations in the coming week. We particularly note the strength of this, given the fact that the week ahead is shortened (owing to a 2-day public holiday commemorating Eid-el-Fitr celebration), limiting the degree of withdrawal by the CBN.

**T-Bills:** We expect demand to rebound in the coming week, supported by improved system liquidity.

**Bond:** We expect the bulls to resurface in the coming week, as liquidity-fuelled demand makes a comeback.

**Currency:** With crude oil prices trading at seven-month lows, we do not rule out the NGN weakening across markets in the coming week.