Weekly Economic and Market Review
Synoptic

July 28, 2017

Economy

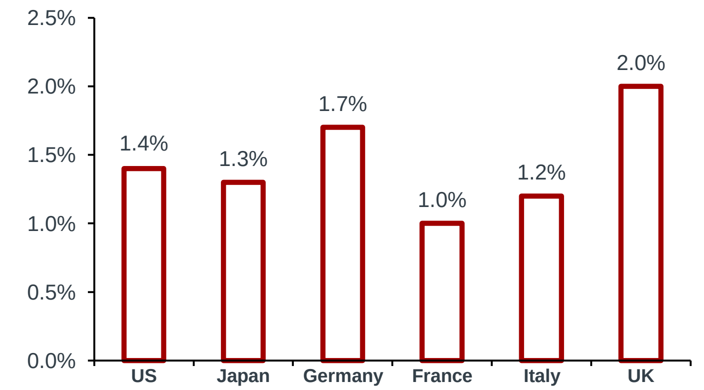
The U.S. economy accelerated in the second quarter as consumers ramped up spending and businesses invested more on equipment, but persistent sluggish wage gains cast a dark shadow over the growth outlook. Gross domestic product increased at a 2.6% annual rate in the April-June period, which included a boost from trade, the Commerce Department said in its advance estimate on Friday. The rebound in GDP more than doubled up on a revised 1.2% pace of growth in the first quarter, suggesting the early-year slowdown largely reflected seasonal quirks such as poor weather and late tax refunds. The economy has expanded for eight straight years in the wake of the 2007-09 recession, energized by the strongest labor market in years. The U.S. has added 16.6 million new jobs since 2010 to drive the unemployment rate down to a nearly 16-year low of 4.4%. The economy got a big boost from a rebound in consumer spending, the largest source of the nation's economic growth. A smaller lift came from business as firms increased fixed investment just 2.2% in the spring after a 8.1% gain in the first quarter, when enthusiasm for the new pro-business Trump administration may have triggered a jump in corporate spending.

During the week, the eurozone IHS Markit's Flash Composite Purchasing Managers' Index for July was released, which revealed a contraction to 55.8 (below median expectation in a Reuters poll for a modest dip to 56.2) from June's 56.3, as Germany and France, the two largest economies in the club, missed expectations, suggesting an even more robust pace of business activity in many of the bloc's other members. Despite coming off recent highs, the composite PMI index was still comfortably above the 50 level that separates growth from contraction and suggests that eurozone businesses started the second half of 2017 with solid growth. The upturn was once again broad-based. Manufacturers continued to report stronger output growth than service providers, despite the rate of expansion easing to the weakest since January. The rate of job creation continued to run at one of the highest seen over the past decade.

At the end of its 257th meeting (fourth this year), the Central Bank of Nigeria's (CBN) Monetary Policy Committee (MPC) voted to maintain status quo by retaining the: (1) Monetary Policy Rate (MPR) at 14.0% (2) Asymmetric corridor around the MPR at +200/-500bps; (3) Cash Reserves Ratio (CRR) at 22.5%; (4) Liquidity Ratio (LR) at 30.0%. The Committee considered developments in the global and domestic economy since its last meeting including (i) headwinds confronting global growth amid tightening monetary stance in the U.S., (ii) downward trend in global inflation, (iii) volatility in global crude oil market, (iv) slower contraction in the domestic economy (GDP contracted by 0.52% y/y in Q1-2017), (v) continued drop in domestic headline inflation rate in June (at 16.10% y/y) – noting the still-high food prices, which the MPC expects to moderate in Q3 -- and (vi) relative improvement in the forex space, heralding stability of the average naira exchange rate across various segments of the market.

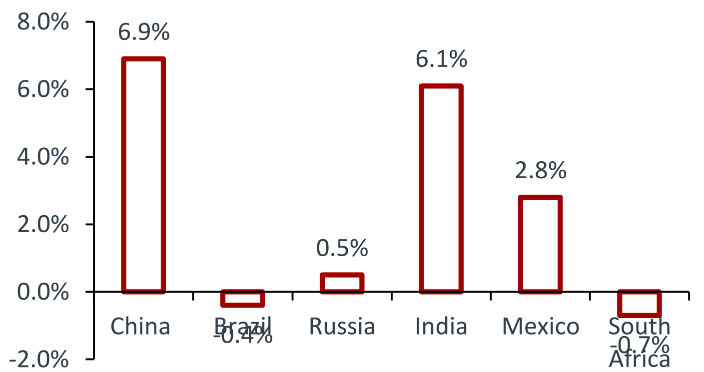
The Joint Opec-Non-Opec Ministerial Monitoring Committee (JMMC), at its meeting on Monday, agreed Nigeria would join the deal by capping or even cutting its output from 1.8 million bpd, once production stabilizes at the 1.8 million bpd. The agreed cap on production will be lower than its 2.2 million barrels per day estimate for the its 2017 fiscal year. The committee reviewed the June 2017 events as well as the first six months of the Declaration of Cooperation, and noted 98% compliance level of participating OPEC and Non-OPEC producing countries towards reducing excess output by 1.8 million barrels per day until the end of March 2018. The JMMC also noted that the oil market was making consistent progress towards rebalancing amid a downward adjustment in crude oil production by 351 million barrels by participating producing countries on the one hand, and a reduction in the overhang of OECD commercial oil stocks by a 5-year average level of 90 million barrels to 250 million barrels during H1 2017. This is in addition to a reported slowing down of well productivity of U.S. shale oil drillers amid accelerating cost inflation, deceleration of rig count growth and constrained access to the capital market.

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	16.10%	18.55%
Exchange Rate (USD)	N306.65	N305.00
Foreign Reserve (US$'bn)	30.74	25.84
Unemployment	14.2%	14.2%
Brent Crude Oil Price (US$)	52.41	56.82

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

CORDROS CAPITAL

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Global Equities Market

Sentiment remained mixed across global equities, with the biggest market drivers being corporate releases and monetary policy decision. Investors equally assessed economic data, oil prices, and currency swings.

Investors in the U.S. took a cautious posture early in the week, awaiting a barrage of corporate earnings and the outcome of the Fed meeting. Appetite strengthened over the week, as most of the results released came in better-than-anticipated, and the Federal Reserve offered an encouraging update on its monetary-policy outlook – particularly noting that the central bank's approach to monetary policy normalization would take extra care – in addition to its cautious outlook on inflation which pressured the dollar. Demand was sustained amid (1) advancement in oil prices, and (2) official data showing that the U.S. economy grew at an impressive 2.6% annual rate in the second quarter of the year. Meanwhile, a report that the number of Americans who applied for unemployment benefits rose in late July sparked some selloffs. While the DJIA (+1.01 w/w%) was buoyed by the aforementioned positives, the S&P 500 (-0.22% w/w) reversed last week's gain. In Europe, upbeat developments from Germany and Greece, positive earnings (from which the stocks of Anheuser-Busch InBev SA and Diageo benefitted), and rising oil prices, all combined to stoke investor appetite. On the other hand, weak earnings (which particularly pressured the shares of German lender Deutsche Bank AG and Swiss bank UBS), cautious trading ahead of the Fed's policy decision, and weakening dollar drove sell-offs. On the balance, the Euro Stoxx 50 advanced by 0.18% w/w while the FTSE 100 declined by 1.15% w/w.

Amid the weaker dollar, a fresh pullback in commodity prices hurt equities across Asian markets. Selloffs persisted, following declining share prices on Wall Street. On the brighter side, a rebound in oil and metal prices, and continued strength of technology stocks after upbeat earnings news both in the U.S. and Asia, both offered some respite. Overall, the CSI 300 and Nikkei 225 posted weekly losses of 0.18% and 0.70% respectively.

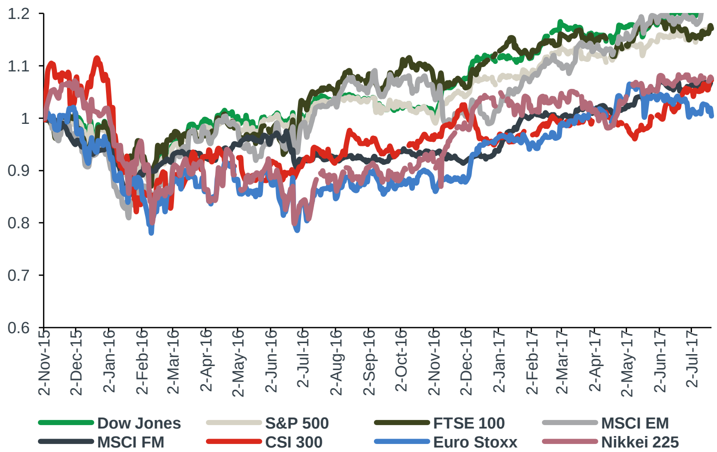
Nigerian Capital Market
Equities

The Nigerian equities market had its busiest day of the week today, with several companies reporting their quarterly results before and after the close of trading in line with our expectation. The bourse sustained the bullish momentum for the third consecutive week, with the NSE ASI advancing further by 8.36% w/w to 36,864.71 points - to reach a new year high and the highest since November 2014 - thus increasing the MtD and YtD returns to 11.31% and 37.17%, respectively. During the week, activity was broadly strong as the market closed positive on most of the trading sessions – save for today, when the market lost 1.02% due to the selloffs in the Industrial Goods, Oil & Gas and Insurance indices to outweigh the gains in the Banking and Consumer Goods indices. During the week, investors' interest in the Banking (+9.52% w/w) counters persisted, as the news of approval of interim dividends by the Boards of Tier 1 banks continued to stoke appetite, while positioning ahead of earnings releases by DANGCEM, NESTLE, DANGSUGAR, and NB lifted the Industrial and Consumer Goods indices.

Performance across sectors was bullish with all sector indices appreciating 5.60% on average. The Banking index led the gainers, as the interest in ETI (+13.33%), ZENITHBANK (+12.85%), GUARANTY (+9.63%), UBA (+7.57%) and ACCESS (+4.77%) persisted, trailed by the Consumer Goods (+7.53% w/w) and Industrial Goods (+5.94% w/w) indices, which booked gains due to positioning in NESTLE (+9.29%), NB (+7.94%), DANGCEM (+11.09%), and WAPCO (+1.25%), respectively. In the same vein, the Oil & Gas (+3.08% w/w), and Insurance (+1.96% w/w) indices advanced, following demand for the shares of FO (+6.45%), TOTAL (+5.06%), CONTINSURE (+5.38%), and MANSARD (+3.45%).

Market breadth remained positive, with 48 gainers (35 last week) - topped by CONOIL (+21.41% w/w) - versus 22 losers (32 last week) - led by CADBURY (-18.17% w/w). Total volume traded declined by 39.05% to 2.21 billion shares (3.63 billion last week), with ZENITHBANK, ACCESS, and DIAMONDBNK accounting for 41.08% of the market volume. Also, the value of trades declined by 12.18% to N30.64 billion (previously N34.89 billion), with ZENITHBANK, GUARANTY, and UBA accounting for 75.24% of total value.

Global Markets



Source: *Bloomberg, Cordros Research*

	NSE ASI	ASI % Δ	Volume ('mn)	Value (N'mn)	Deals
28-Jul-17	36,864.71	-1.02%	525.60	8,137.98	5,799
27-Jul-17	37,245.17	1.37%	542.80	8,009.29	5,939
26-Jul-17	36,740.77	3.40%	335.33	4,643.04	5,385
25-Jul-17	35,532.98	2.54%	513.44	5,896.64	5,451
24-Jul-17	34,652.42	1.86%	293.75	3,949.07	3,712
21-Jul-17	34,020.37	0.96%	378.19	5,112.13	4,516
20-Jul-17	33,695.83	0.54%	191.43	2,181.78	3,718
19-Jul-17	33,514.93	0.23%	331.43	3,244.90	4,055
18-Jul-17	33,436.61	0.41%	2,403.65	21,613.29	3,715
17-Jul-17	33,301.43	0.12%	322.81	2,734.36	3,830

Ticker	WTD	YTD	Ticker	WTD	YTD
CONOIL	21.41%	-2.88%	CADBURY	-18.17%	1.55%
PRESCO	20.00%	82.54%	MORISON	-17.58%	-17.58%
DANGSUGAR	19.34%	77.74%	LIVESTOCK	-13.33%	-7.14%
MAYBAKER	15.77%	243.62%	NEIMETH	-13.04%	2.56%
STANBIC	15.51%	150.20%	UAC-PROP	-8.94%	4.96%

Source: *NSE, Cordros Research*

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Fixed Income and Money Market

Money Market

In accordance with our expectation for the week, the overnight rate contracted by 909 bps to 5.83%, from last week's 14.92%. The rate contraction was driven by improvement in system liquidity following notable inflows from (1) OMO repayment valued at N65.03 billion, (2) FAAC allocation of N652.23 billion to the three tiers of government, and (3) bond maturity valued at N20.99 billion. Meanwhile, the apex bank attempted subduing the impact of the inflow by allotting N198.02 billion (vs. N205.00 billion offered) worth of OMO bills during the week, in addition to FX sales valued at USD195 million.

Treasury Bills

In line with our expectation for the week, demand was sustained in the NTB market, with average yield declining by 30 bps w/w to close at 17.53%. As we guided, the bullish proceedings were driven by improved liquidity position following a list of significant inflows (discussed above). Bills at the short (-68 bps) end of the curve – notably the 27DTM (-393 bps to 12.12%) and 20DTM (-238 bps to 12.45%) – were the most appealing to investors. The respective lower magnitude of demand for bills at the intermediate and longer segments of the curve caused yields to contract – on average – by 26 bps and 4 bps across both ends.

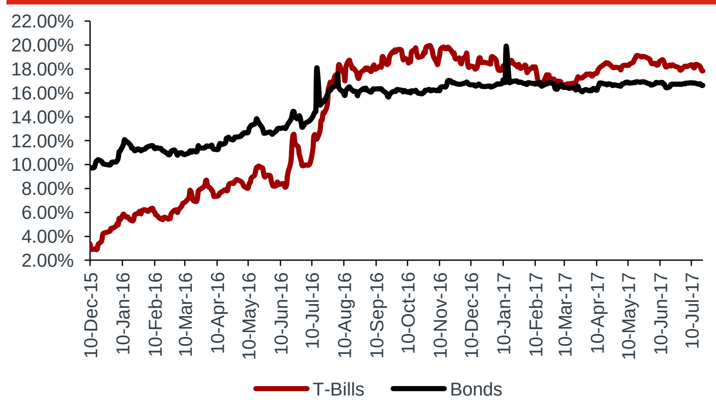
Bond

The bond space was relatively quiet, with soft activities across all ends of the curve moving average yield 4 bps northward to close at 16.32% w/w. Specifically, modest selloffs at the mid and long segments of the curve caused yields to expand 6 bps and 5 bps respectively, while yield contracted 1 bp at the short end after snippets of demand.

Foreign Exchange

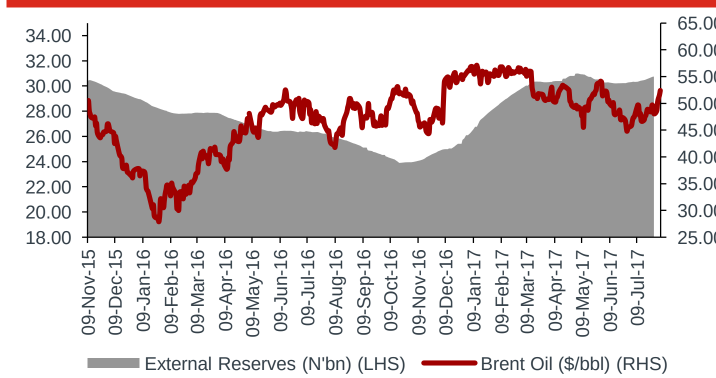
The LCY in the interbank market depreciated against all currencies we track – the USD (-0.28%), the GBP (-0.62%) and the EUR (-0.41%) to N306.65, N412.27 and N369.25 respectively. The depreciation across of the NGN across the currencies we track, broadly reflects the increased demand for payment of tuition and summer vacations. In the parallel market, NGN/GBP and NGN/EUR also lost by 0.85% and 0.95% to N474 and N424 respectively while NGN/USD appreciated by 0.27% to N365. Meanwhile, in the I&E FX window the naira lost 0.34% against the USD to N367.60. During the week, the CBN injected USD 195 million – comprising USD100 million (via the wholesale window), USD 50 million, and USD 45 million (via the SMEs and Invisibles windows respectively) into the FX market. This week's inflow brings the total intervention from Month-to-Date to USD 727.50 million.

Nigeria: Fixed Income Yields (Average)



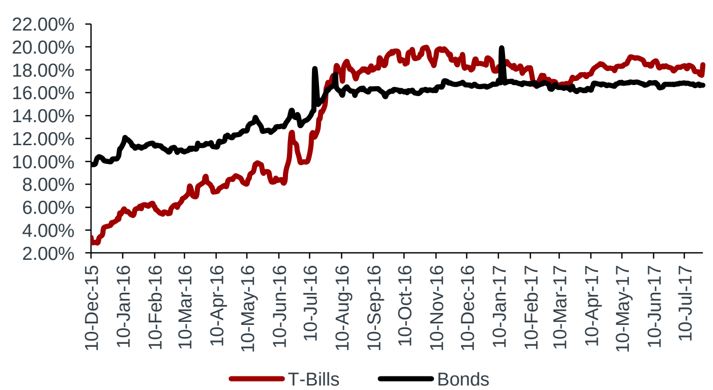
***Source**: FMDQ, Cordros Research*

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: The market was awash with Q2 earnings releases today, though market reaction was minimal given the lateness of most. We expect reaction to the results to be evident next week, as investors evaluate the performance and act appropriately. We still expect more results to be released in the coming week, which will further drive performance. Given that activities in the market have been stretched for three consecutive weeks, we expect market movement to be broadly mixed in the coming week.

Money Market: We expect the overnight rate to close higher in the coming week, as the apex bank continues its liquidity mop up via OMO auctions and continued FX sales. Accordingly, we expect that to overshadow the impact of N85.42 billion inflow from maturing OMO on Thursday.

T-Bills: Next week, the central bank will offer N229.14 billion – comprising N29.14 billion, N80.00 billion, and N120.00 billion – worth of bills to investors. We look for healthy demand at the auction amid relatively improved liquidity position. In the secondary market, we expect investors to remain upbeat, with yield closing lower than this week's level.

Bond: We expect a mixed session in the coming week, with the likelihood of demand rebounding modestly amid relatively improved system liquidity.

Currency: We expect the currency to remain unchanged or slightly depreciate against the currencies we track, given the increased demand for FX this season, albeit, the intervention by the CBN should reduce imbalances.