

August 25, 2017

According to the IHS Markit's Flash Eurozone Composite Purchasing Managers' Index, Euro zone manufacturing activities recorded their best month of growth in six-and-a-half years in August, offsetting the weakest services growth in seven months and keeping overall activity on steady path. The composite PMI increased to 55.8 in August, from 55.7 in July, slightly above the Reuters poll median estimate of 55.5. Specifically, manufacturing PMI rose to 57.4 from 56.6, driven by strong new export orders performance since February 2011, as Germany was on the spotlight. On the other hand, however, non-manufacturing PMI dipped to 54.9 from 55.4, the weakest in seven months, along with a slowdown in new orders growth and business expectations.

The office of the national statistics in UK released the monthly economic report for August stating that (1) the rate of unemployment fell to 4.4% in the 3 months to June 2017, its lowest level since 1975, while real wages fell 0.5% in the 3 months to June 2017 compared with the period a year ago, (2) the contribution to nominal GDP growth from wage income (compensation of employees) slowed to 1.7 percentage points in Q2-2017 compared with the same quarter a year ago, lower than the 2.1 percentage points recorded in each of the previous three quarters, (4) growth in private consumption slowed to 0.1% in Q2-2017, the slowest rate of quarterly growth since Q4-2014, and (5) the second GDP estimate shows that the UK economy grew by 0.3% in Q2-2017, unchanged from the preliminary GDP estimate published on 26 July 2017.

In Nigeria, the National Bureau of Statistics (NBS) released its Q2-2017 Capital Importation Report, showing that capital inflows into the domestic economy recorded a notable improvement during the review period, expanding by 97.34% q/q and 71.98% y/y to USD1.79 billion, from USD908.27 million and USD1.04 billion respectively. In terms of contribution, Portfolio Investment (145.69% q/q and 128.43% y/y to USD770.51 million) accounted for the most inflows into the country in the three months to June, followed by Other Investments in the form of loans (95.02% q/q and 43.59% y/y to USD747.47 million), and Foreign Direct Investment (29.80% q/q and 48.88% y/y to USD274.37 million). While we acknowledge potential risks (notably political uncertainty and possible resurgence of militants attack on oil and gas installations which could undermine FX stability) on the horizon, we think developments in the FX space will further dictate the direction of foreign investments over H2-2017.

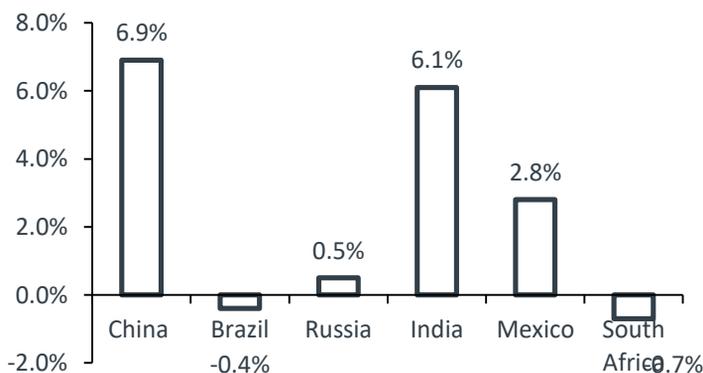
In a circular released by the CBN on Thursday, the apex bank announced the introduction of two new instruments to Non-Interest Financial Institutions (NIFIs) known as the Funding for Liquidity Facility (FfLF) and the Intra-day Facility (IDF). The introduction of these new facilities is aimed at improving liquidity management and deepening the financial system. The FfLF will be issued to provide liquidity facility on overnight basis to the NIFIs and is to be terminated on the next business day. It is to be issued at zero percent interest rate upon provision of eligible security collateral by the NIFIs, which must not be less than 110% of the facility's value. IDFs, on the other hand, will be issued with settlements of the facilities due the same business day while NIFIs provide the eligible securities (with 110% of the facility as minimum value) as collateral for the facility.

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)	N305.80	N305.00
Foreign Reserve (US\$'bn)	31.60	25.84
Unemployment	14.2%	14.2%
Brent Crude Oil Price (US\$)	52.45	56.82

Source: IMF, CBN, NBS, Cordros Research

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Global Equities Market

Stock indices across our universe of coverage posted positive returns, with the exception of the Nikkei, driven largely by monetary policy speeches and snippets of impressive quarterly earnings, as investors ignored major negatives from continued geopolitical tension and political turmoil.

In the U.S., investors started the week feeling reluctant to take positions in risky assets amid still-elevated geopolitical tensions, in addition to political turmoil in Washington – after President Donald Trump threatened to shut down the U.S. government if Congress doesn't fund his campaign pledge to build a wall on the Mexican border. While markets oscillated between modest gains and losses for most of the week, risky assets appreciated today, as Federal Reserve Chairwoman Janet Yellen gave a speech at Jackson Hole symposium, defending post-crisis banking regulations, although with no clues to the central bank's monetary policy path. In corporate news, retailers had a strong early showing on better-than-expected quarterly results, buoying investor appetite, and further supported by a relatively strong durable goods report. At the time of writing, the DJIA and S&P 500 had appreciated by 0.80% w/w and 0.55% w/w respectively. In Europe, similar to the U.S., stocks pulled back early in the week, on the back of lingering tensions between the U.S. and North Korea, despite the shares of Maersk and Fiat Chrysler Automobiles riding on deal developments. While maintaining a cautious stance, investor optimism gained modest momentum ahead of the closely watched gathering of central bankers in Jackson Hole, Wyo., particularly speeches from U.S. Fed Chairwoman Janet Yellen and ECB President Mario Draghi. Both the FTSE 100 (+1.44% w/w) and Euro Stoxx 50 (+0.13% w/w) advanced.

In Asia, investors were upbeat early in the week, despite (1) soft trading on Wall Street, (2) continued geopolitical tension, and (3) uncertainties about what could emerge from a central banking conclave in Jackson Hole, Wyo. Specifically bolstering Japanese stocks was the yen pulling back after inflation ticked higher, but in the end, the Nikkei 225 closed the week lower (-0.09%). On the other hand, the Chinese CSI 300 (+1.91% w/w) remained resilient w/w.

Nigerian Capital Market

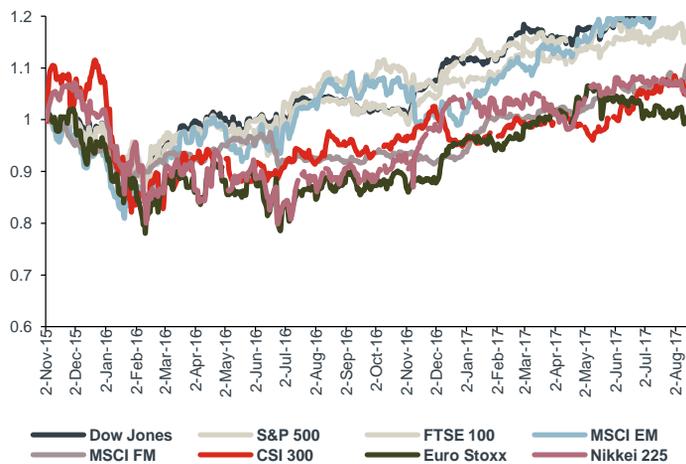
Equities

The Nigerian equities market closed negative for the second consecutive week, as losses prevailed across most sectors, with the ASI shedding 0.74% w/w to 36,646.46 points. As a result, the Month-to-Date and Year-to-Date returns moderated to 2.24% and 36.36%, respectively. The market opened the week negative, as investors took profit in the shares of DANGCEM (-4.17%), and ZENITHBANK was (-0.48%). The bull resurfaced on Tuesday, with gains extending till Wednesday, as investors bought shares across the banking, industrial, and consumer goods sectors. However, the upbeat momentum waned Thursday (as investors booked profit on the two consecutive days of gains), before rebounding today – solely due to bargain hunting in the consumer goods sector (specifically demand for the shares of NB, DANGSUGAR and INTBREW). Notable developments during the week were (1) the off-market deal in GUARANTY, wherein 71 million units were crossed (at an average price of N40.80) between some offshore funds and local investors on Thursday, in a deal worth N2.89 billion (USD9.2 million), following the impressive half-year results and (2) impressive H1 results released by UBA and ACCESS, with both declaring interim dividends of 20 kobo and 25 kobo, respectively.

Performance across sectors was broadly bearish, with the Oil & Gas (-3.71% w/w) index recording the largest loss, following selloffs in TOTAL (-4.96%), MOBIL (-14.45%), MRS (-5.02%), and CONOIL (-14.22%) as margin pressure clouds earnings outlook for the sector. Similarly, the Insurance (-5.35% w/w), and Industrial Goods (-2.89% w/w) indices recorded negative returns, driven by profit-taking in the shares of MANSARD (-7.32%), CUSTODYINS (-5.26%), DANGCEM (-4.00%), and WAPCO (-3.39%), respectively. On the other hand, the Consumer Goods (+2.38% w/w) index recorded the largest gain, as investors bought the shares of NB (+4.96%) and NESTLE (+0.83%). The Banking (+0.31% w/w) index followed suit, with snippets of demand for bellwethers – led by gains recorded in UBA (+3.74%), STANBIC (+2.96%), and ACCESS (+2.94%).

Market breadth remained repressed, closing negative with 38 losers (previously 48) – led by MOBIL (-14.45%) – and 29 gainers (previously 19) – led by CAVERTON (+16.00%). However, total volume traded increased by 10.28%, with UNITYKAP, GUARANTY, and AIICO accounting for 37.66% of total market volume. Total value of trades declined by 3.28%, with GUARANTY, NESTLE, and ZENITHBANK accounting for 55.87% of total value.

Global Markets



Source: Bloomberg, Cordros Research

	NSE ASI	ASI % Δ	Volume ('mn)	Value (N'mn)	Deals
25-Aug-17	36,646.46	0.19%	422.45	3,249.11	3,618
24-Aug-17	36,575.86	-1.30%	238.16	5,492.13	4,162
23-Aug-17	37,059.21	0.26%	264.29	5,530.96	2,422
22-Aug-17	36,962.48	1.03%	244.32	3,672.76	3,829
21-Aug-17	36,584.44	-0.91%	368.38	6,272.69	3,729
18-Aug-17	36,920.56	1.66%	236.62	4,807.69	3,803
17-Aug-17	36,316.58	0.59%	225.14	5,479.03	5,110
16-Aug-17	36,102.38	-2.68%	224.77	5,090.19	4,882
15-Aug-17	37,096.60	-2.25%	391.63	5,436.36	5,285
14-Aug-17	37,950.96	-0.65%	316.12	4,224.45	4,113

Ticker	WTD	YTD	Ticker	WTD	YTD
CAVERTON	16.00%	11.11%	MOBIL	-14.45%	-19.33%
UAC-PROP	9.09%	4.96%	CONOIL	-14.22%	-9.58%
CILEASING	8.82%	104.00%	UNILEVER	-9.23%	30.00%
INTBREW	8.79%	83.84%	MANSARD	-7.32%	22.75%
DANGSUGAR	6.56%	109.66%	LINKASSURE	-6.49%	54.00%

Source: NSE, Cordros Research

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Fixed Income and Money Market

Money Market

The overnight money market rate contracted by 30 bps to 12.58%, from last week's 12.88%, following sizable inflows from the disbursement of monthly budgetary allocations (N228.70 billion) to state and local governments, and repayment of matured OMO bills worth N95.66 billion. Noteworthy, the rate trended northward for most of the week, rising as high as 96.00% on Wednesday (before moderating to 10.08% yesterday), as the apex bank kept liquidity position tight via persistent OMO issuances, in addition to payments for bond (amounting to N56.05 billion) and FX purchases. We estimate total withdrawal through open market treasury bills sales during the week at N219.98 billion (vs. N225 billion offered), comprising N28.37 billion of the shorter-dated bills and N191.61 billion of the longer-dated bills at respective stop rates of 17.95% and 18.55%.

Treasury Bills

The treasury bills market closed on a bullish note, with average yield contracting by 3 bps to 18.55%, from 18.58% last week. The upbeat momentum was driven by relative improvement in system liquidity, which spurred renewed interest at the short (-17 bps) and mid (-5 bps) ends of the curve, as investors demanded for the 7-SEPT-2017(-169 bps), 28-SEPT-2017(-111 bps), 7-DEC-2017(-27 bps), and 18-JAN-2018(-20 bps) bills respectively. Conversely, yield at the long (+6 bps) segment expanded as investors sold off the 5-JULY-2018 (+58 bps) and 12-JULY-2018 (+57 bps) bills respectively.

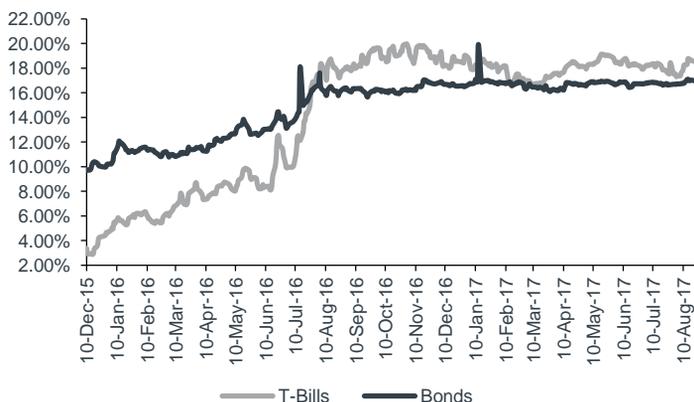
Bond

During the week, the DMO, on behalf of the FGN, allotted bonds valued at N56.05 billion (vs. 135 billion offered) – comprising N9.18 billion (vs. N35 billion offered), N17.51 billion (vs. N50 billion offered), and N29.36 billion (vs. 50 billion offered) of the JUL-2021, MAR-2027, and APR-2037 bonds, respectively – all in reopening. The 5-year, 10-year, and 20-year bonds, although undersubscribed, were issued at stop rates of 16.80% (previously 16.24%), 16.80% (previously 16.25%) and 16.90% (previously 16.25%) respectively, the highest since January. Proceedings were bearish in the secondary market, as average yield expanded by 17 bps to 16.66% against last week's 16.49%. Investors sold off at the short (+22 bps), mid (+27 bps), and long (+16 bps) ends of the curve, wherein yields expanded to 16.89%, 16.66%, and 16.63% respectively – with the 29-JUNE-2019 (+9 bps), 13-FEB-2020 (+26 bps), and 18-APRIL-2037 (+32 bps) bonds in the spotlight.

Foreign Exchange

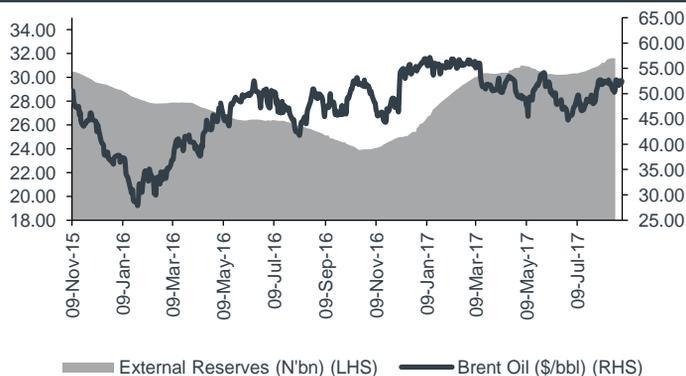
During the week, the apex bank, in its persistent stride to improve FX liquidity, sold USD195 million, comprising USD100 million, USD50 million, and USD45 million through the wholesale, SMEs, and invisibles windows respectively. That brings the CBN's total intervention Month-to-Date to USD949 million, while foreign exchange reserves, according to CBN reports, stands at a 2-year high of USD31.60 billion (as at 18th August, 2017), reflecting healthy accretion to the nation's reserve since the turn of the month. Meanwhile, at the time of writing, the CBN's referenced USD/NGN (-0.07%) had weakened to N305.80. In the interbank market, the NGN weakened against all the Bloomberg-referenced NAFEX rates – USD (-1.64%), GBP (-0.04%), and EUR (-0.80%) – closing at N367.99, N466.91, and N429.74, respectively. In the parallel market, the LCY weakened against the GBP (-0.63%) and EUR (-0.47%) to N478 and N432, respectively, while it closed flat against the USD at N370. The FMDQ referenced USD/NGN (+0.12%) appreciated to N359.56 in the I&E FX window.

Nigeria: Fixed Income Yields (Average)



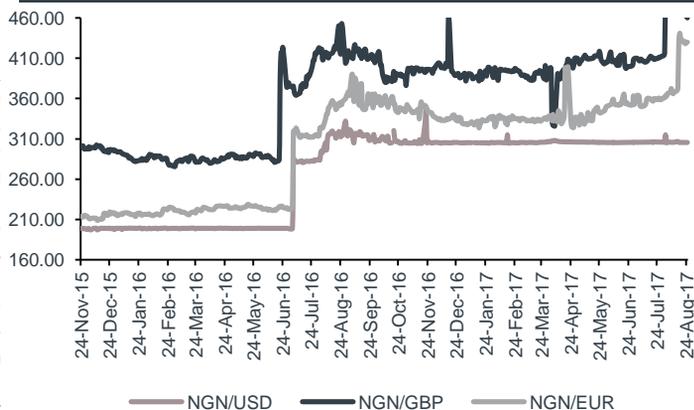
Source: FMDQ, Cordros Research

Nigeria: External Reserves and Brent Crude



Source: CBN, Bloomberg, Cordros Research

Nigeria: Exchange Rate



Source: CBN, Bloomberg, Cordros Research



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Equities: Following two weeks of consecutive sell-offs, we believe the market presents opportunity for bargain hunting. Broadly, we expect some volatility in the market (as witnessed this week) as activities in the interim will be driven by developments in the local economy. Overall, we look for a mixed performance in the coming week, albeit with a bullish bias.

Money market: Despite expected inflows from maturing OMO bills valued at N101.23 billion next week, we expect the overnight money market rate to close higher, as the apex bank issues more OMO bills to mop up liquidity from the system.

T-bills: At next week's NTB auction, the apex bank will issue bills valued at N193.14 billion – comprising of N26.14 billion, N62 billion and N105 billion of the 91-day, 182-day and 364 day bills respectively. We expect demand in the auction to mirror liquidity position while investors – in the secondary market – take a cue from the auction stop rates.

Bonds: We expect a mixed trading session in the coming week, with selloffs outweighing demand on expected tight system liquidity.

Currency: We expect the naira to strengthen modestly in the interbank market, while trading within its current band in the parallel market and the I&E window, as the CBN sustains its interventions in the various segments of the market.

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