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Monthly Markets Review.

Overview of Markets in September 2017

Highlights:

- Sentiments were mixed across global equities market, with economic data, geopolitical tension, politics, natural disaster, monetary policy decisions, and currency swings making the list of factors that shaped activities.
- The prices of Nigerian equities closed lower for the second consecutive month, as investors took profit across most sectors, particularly the Oil and Gas, wherein stocks recorded the largest contraction.
- The overnight money market rate expanded by 583 bps to 14.25% vs. 8.42% last month, following substantial outflows from auctions and FX sales.
- Demand rebounded in the Nigerian Treasury Bills market, supported by relatively stable and improved system liquidity and partly renewed foreign investor interest.
- The bond market posted a positive return in September, also on improved liquidity position and renewed foreign investor interest.
- The apex bank continued to defend the Naira via continuous intervention in the FX market. The Naira weakened against the USD at the interbank market and remained flat at the parallel market.

Global Equity Markets

Stocks advanced in the U.S., with gains largely concentrated in the first half of the month, with the DJIA and S&P 500 posting monthly returns of 2.08% and 1.93% respectively.

Despite a barrage of drag factors in the earlier part of the month, investors focused on positive developments to increase holdings in risky assets. We highlight some of the defining factors to include (1) a better-than-expected reading on services activity (confirming a healthy outlook for the U.S. economy), (2) a rise in oil prices (which particularly triggered a rally in energy shares), (3) congressional leaders and President Donald Trump agreeing to extend the debt limit deadline and fund the government through mid-December, (4) financial shares outperforming in the wake of comments from Treasury Secretary Steven Mnuchin that he hopes to see a tax overhaul by the end of the year, and (5) a lull (albeit short-lived) in geopolitical tension. Indeed, the gains recorded would have been bigger, no thanks to lingering concerns over North Korea-U.S. and North Korea-Japan tensions, doubts about President Donald Trump's business-friendly agenda, news of a key Federal Reserve official resigning, hurricane concerns, continued concerns about elevated stock valuations, a jump in inflation rate, a smaller-than-expected rise in jobless claims, a fall in retail sales, a mild dip in the Empire State factory gauge, and a slight drop in consumer sentiment.

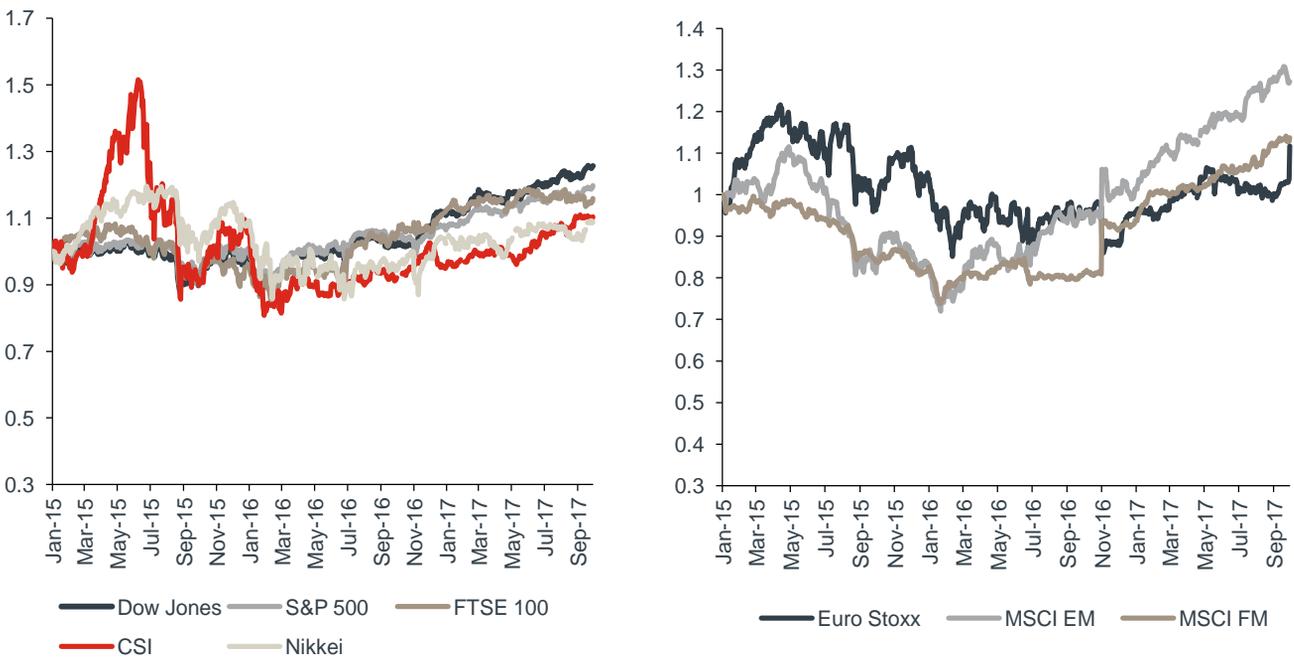
Sentiments remained upbeat in the latter half of the month, although with gains lagging the levels recorded in the first two weeks. Clearly, the bullish momentum was sustained, on the back of positive expectation ahead of the Federal Reserve meeting that held during the week, an upward revision to output growth in the U.S. in the second quarter of the year, and strengthening business sentiments – with a reported jump in durable goods orders in August. The positive momentum attained amid the aforementioned tapered, as investors sifted through fresh threats from North Korea (particularly to test a hydrogen bomb over the Pacific Ocean), the Fed's outlined plan for the reduction of its USD4.5 trillion balance sheet, and a sharp decline in technology shares.

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In Europe, sentiments were mixed, with the Euro Stoxx 50 outperforming (+12.13% m/m) while the FTSE 100 (-0.78% m/m) headed the opposite direction – driven by a notable selloff in the first half of the month. Making the list of investors’ worries were (1) increasing geopolitical turmoil amid threats from North Korea, (2) the euro strengthening, as the ECB provided no fresh stimulus, (3) the Bank of England hinting rates could rise in coming months, (4) disappointing data from China, and (5) depressed U.K. stocks as the pound rallied. Meanwhile, it was not all bearish in the region in the first half, as demand ensued, following the news of an upward revision to the eurozone economic growth figures, Hurricane Irma taking a narrower path over Florida than had been anticipated, fears over North Korea’s potential nuclear arsenal diminishing, banking shares benefitting from rising bond yields, and auto makers shares advancing after key ratings upgrades.

Investors switched into top gear in the concluding half of the month, supported by cooling North Korea tension, banking shares soaring on expectations of higher interest rates in the U.S. and Europe, and encouraging economic data – a fall in Germany’s unemployment rate to a record low in September to 5.6%, and Eurozone inflation in September stabilizing at 1.5%. The highlighted positives shifted investors’ focus from the news of consumer spending in France coming in weaker-than-expected in August, and a downward revision to U.K.’s Q2 GDP, and Ryanair underperforming as the company canceled hundreds of flights.

Fig 1: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research

Taking a cue from Wall Street, Asian investors found risky assets attractive, causing the CSI 300 (+0.38 m/m) to extend August’s gain, albeit marginally, while the Nikkei 225 rebounded with a monthly return of 3.61%. The gains in the first half is attributable to diminishing concerns over North Korea tension, a fall in Japanese yen, and feed through from positive developments in the U.S. Amid the strengthened appetite, investors traded cautiously, assessing the likely decision from the Bank of England, and a massive storm that was nearing the U.S.

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It was a similar picture in the second half, as the bullish run on Wall Street further stoked investor appetite, and supported by rising bond yields which boosted finance stocks in Japan. Clearly, traders ignored local concerns including (1) election worries in Germany and New Zealand, (2) credit-rating downgrade for China, and (3) fresh threats from North Korea.

Despite the monthly losses recorded in Nigeria (-0.18%), Kenya (-4.11%), and Ghana (-1.91%), the MSCI FM index closed September in the green, posting 1.83% m/m. On the other hand, gains in China (+0.38% m/m) and Brazil (+4.81% m/m) were not sufficient to lift the MSCI EM index (-0.55% m/m).

Nigeria

Equities Market

The Nigerian equities market closed lower for the second consecutive month, with the All Share Index at 0.18% below August closing level. The loss reduced the YtD return to 31.87%. While the oil & gas sector remained the largest drag on market performance, the month witnessed renewed sell-offs in the consumer and industrial goods sectors – exacerbated by profit taking in the shares of FLOURMILL (-8.45%) and WAPCO (-11.06%) – the cumulative impact of which more than outweighed the gains in the banking and insurance sectors. Reflecting the lull in the market, the average daily volume and value of trades declined by 31.85% and 60.21% to 221 million shares and N3.43 billion respectively. While we attribute the poor performance to the absence of any fundamental news in the market, we believe the sizeable gains YtD left some legroom for profit taking.

The recently released Foreign Portfolio Investment (FPI) report for August shows that investors' participation in Nigerian bourse rebounded significantly. Total FPI transactions increased by 244% to N208.34 billion from N60.50 billion recorded in the previous month, reflecting improving confidence in the I&E FX window from the offshore community. More precisely, foreign inflow during the month was at a high of N165.47 billion (from N38.44 billion in July), compared to outflow of N42.87 billion, resulting in net inflow of N122.60 billion (compared to N16.38 billion in July). Consequently, foreign share of total trade in the local market increased to 52%, overtaking the locals for the first time since June 2016. The same report shows that institutional investors accounted for 79.3% of total local trades, from 60% in July.

The negative performance for the review month was notwithstanding the improving macro environment, as shown by the recently released September PMI data, signaling that both manufacturing and non-manufacturing activities expanded for the sixth and fifth consecutive months respectively, to 55.3 and 54.9.

The bourse was overwhelmed by sell-offs, with 47 stocks recording price declines, from 46 in August while 26 recorded price gains, from 35 the month before. Decline was high among low-cap stocks, with the shares of NEITMETH (-21.84%), MORISON (-19.51%), and ENAMELWA (-16.65%) leading the pack.

Table 1: NSE Top Gainers & Losers

Gainers			Losers		
Ticker	MTD	YTD	Ticker	MTD	YTD
CILEASING	63.00%	226.00%	NEIMETH	-21.84%	-12.82%
AIRSERVICE	26.06%	186.40%	MORISON	-19.51%	-60.00%
GUINNESS	25.84%	14.40%	ENAMELWA	-16.65%	-20.80%
NEM	16.00%	10.48%	PRESKO	-13.73%	47.13%
AFRIPRUD	12.18%	14.75%	AGLEVENT	-13.24%	-38.54%

Source: NSE, Cordros Research

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Most sector indices closed lower, except the Insurance (+1.59%) and Banking indices (+0.11%) – which benefitted from bargain hunting in the shares of LINKASSURE (2.99%), MANSARD (2.56%), CONTINSURE (2.04%), STANBIC (3.21%), GUARANTY (2.07%), and ZENITHBANK (1.74%) respectively. On the flip side, the negative investor sentiment in the Oil and Gas sector persisted, with the index losing 6.05%, on the back of sell-offs in the shares of OANDO (-12.92%), SEPLAT (-8.24%), and MRS (-4.99%). In the same vein, the Industrial Goods (-3.30%) and Consumer Goods (-2.65%) indices recorded negative returns, as investors took profit in WAPCO (-11.06%), BETAGLASS (-5.00%), FLOURMILL (-8.45%), and NB (-8.35%), respectively.

Table 2: NSE Sector indices Performance

NSE Sector Indices				
Index	29-Sep	31-Aug	m/m Change	y/y Change
NSE Banking	440.17	439.69	0.11%	55.65%
NSE Consumer Goods	921.79	946.88	-2.65%	28.33%
NSE Industrial	1984.19	2051.96	-3.30%	7.79%
NSE Insurance	139.73	137.54	1.59%	8.08%
NSE Oil/Gas	280.83	298.93	-6.05%	-8.22%

Source: NSE, Cordros Research

Total volume traded contracted by 43.70% to 4.21 billion shares (previously 7.48 billion), with GUARANTY, ACCESS, and ZENITHBANK accounting for 28.78% of total volume traded. Total value also dipped by 67.13% to N65.23 billion (previously N198.49 billion), with GUARANTY, NESTLE, and ZENITHBANK accounting for 53.88% of total value.

Fundamentally, we believe the market remains strong, with the outlook for the economy and corporate earnings in Q3-17 and FY-17 broadly bullish. We expect performance in the month of October to be dictated by bargain hunting in value stocks ahead of the Q3 earnings season - with the Consumer and Industrial Goods stocks likely to attract the most investor interest.

Fixed Income and Money Market

Money Market

The overnight money market rate expanded by 583 bps to 14.25%, compared to last month close of 8.42%, following substantial outflows via (1) OMO bills worth N599.47 billion (vs. N960 billion offered), (2) NTB and Bond auctions worth N75 billion and N108.78 billion respectively, and (3) FX sales worth USD 1.24billion. Notwithstanding significant inflows from matured OMO bills worth N559.47 billion and budgetary allocations to state and local governments worth N228.7 billion, system liquidity closed in the deficit (N150.35 billion), compared to N250.41 billion surplus it closed in the previous month. During the month under review, the overnight lending rate ranged between 9.33% and 38.00%, compared to the previous month, wherein rates hovered between 5.50% and 107.75%.

Notwithstanding the expected improvement in system liquidity from maturing OMO bills worth N514.37 billion and budgetary disbursement to state and local governments, we expect the overnight rate to remain elevated, with more money likely to leave the system via (1) OMO and FX sales and (2) bond and T-bill auctions.

Treasury Bills

Validating our prognosis for the month, demand rebounded in the Nigerian Treasury Bills market, with average yield contracting by 90 bps m/m to 17.41%, supported by relatively stable and improved system liquidity, albeit still in deficit. In addition to the boost provided by liquidity

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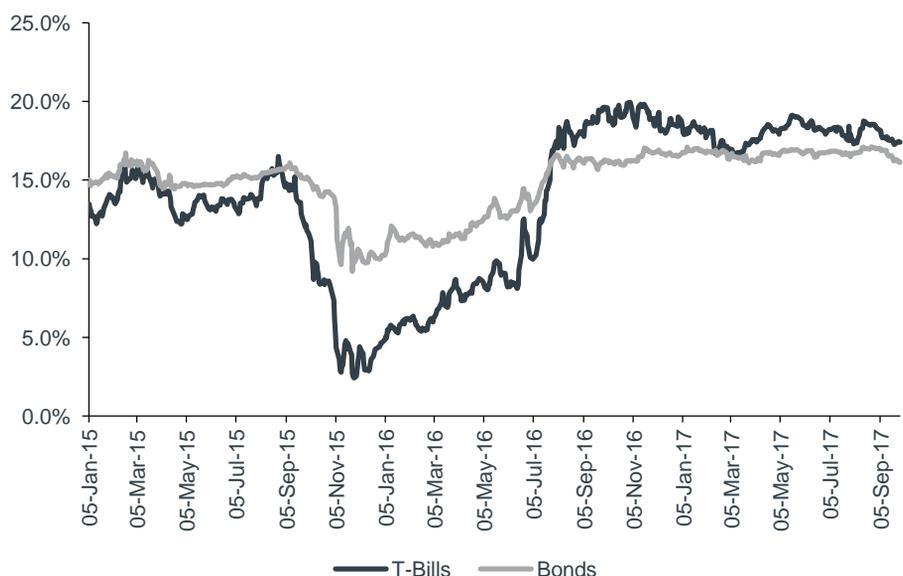
position, renewed foreign investor interest (evident at the NTB auctions held during the month) – alluded to by traders – equally played a major role in market performance in September amid (1) attractive yield particularly at the longer end of the curve, (2) inflation remaining fairly benign (moderating to 16.01% in August), and (3) the CBN’s Monetary Policy Committee (MPC) pulling no surprise at its meeting during the month.

Reflecting increased demand for long-dated bills, yield at the long end of the curve recorded the largest contraction, dropping 152 bps, as all traded bills attracting investor interest, with the 286DTM (-229 bps to 16.15%) and 321DTM (-203 bps to 16.17%) bills in the spotlight. Also, demand for the 118DTM (-206 bps to 17.17%) and 167DTM (-117 bps to 17.38%) caused yield to contract at the mid (-113 bps) segment of the curve. Conversely, yield expanded, on average, at the short end (+35 bps).

The apex bank conducted two NTB auctions during the month, with the longer dated bill oversubscribed at both auctions, driven by increased demand for the one-year bill following the cessation of the same from the apex bank’s persistent OMO auction. At the first auction, the CBN fully allotted treasury bills worth N174.15 billion, comprising N22.92 billion of the 91-day, N25.14 billion of the 182-day, and N126.09 billion of the 364-day bills at respective stop rates of 13.25% (previously 13.30%), 17.36% (previously 17.36%), and 17.75% (previously 18.52%). Notably, the short and mid dated bills recorded lower subscription, while the longer dated bill was 3.9x oversubscribed. At the second auction, the apex bank sold N215.89 billion (vs. planned N140.89 billion) – comprising N22.78 billion (vs. N28.12 billion offered) of the 91-day, N24.74 billion (versus N23.68 billion offered) of the 182-day, and N168.36 billion (vs. N89.08 billion offered) of the 364-day bills, respectively. The bills were sold at lower stop rates of 13.15% (previously 13.25%), 16.80% (previously 17.36%), and 17.00% (previously 17.75%), respectively. Notably, the mid and long dated bills were 4x oversubscribed, reflecting relatively improved liquidity position and the one-year bill attracting significant interest (as earlier discussed).

We expect average yield to further trend southward in October, as demand remains healthy on the back of improved liquidity position and still-attractive yields. On liquidity, we highlight expected inflows from maturing OMO bills worth N514 billion, in addition to monthly budgetary allocation to state and local governments.

Fig 2: FGN Bonds and Treasury Bills Average Yields



Source: FMDQ, Cordros Research

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Bonds

Similar to the pattern of activities in the treasury bills space, the bond market posted a positive return in September, with average yield contracting by 91 bps m/m to 16.09%. It bears noting that the renewed foreign investor interest observed in the NTB market also played out in the bond market, supported by (1) a further drop in inflation rate to 16.01% in August, and (2) the MPC's decision of maintaining status quo at its September meeting while guiding to likely rate cut in the short to near term. Demand occurred across board, with bonds at the short (-107 bps) end of the curve attracting the most interest, while yields at the intermediate and long ends of the curve dropped 86 bps apiece.

At the primary market auction held during the month, the apex bank sold bonds worth N243.78 billion (vs. N135 billion offered), comprising N35.26 billion (vs. N35 billion offered) of the FGN JUL 2021, N76.93 billion (vs. N50 billion offered) of the FGN MAR 2027, and N131.59 billion (vs. N50 billion offered) of the FGN APR 2037 bonds at respective notably lower stop rates of 16.00% (previously 16.80%), 15.90% (previously 16.80%), and 15.92% (previously 16.90%) amid increased demand – thanks to improved liquidity position during the auction period. In total, the bonds were 2.92x oversubscribed helping the DMO augment the shortfall following the disappointing auction in August.

Table 3: Benchmark Bonds – Secondary Market

Benchmark Bonds - Secondary Market					
New Nomenclature	Issue Date	TTM	29-Sep	Change	31-Aug
16.00 29-JUN-2019	29-Jun-12	1.71	16.01%	-0.66%	16.67%
15.54 13-FEB-2020	13-Feb-15	2.07	15.83%	-0.99%	16.81%
14.50 15-JUL-2021	15-Jul-16	2.88	16.02%	-0.75%	16.77%
16.39 27-JAN-2022	27-Jan-12	2.98	15.83%	-0.64%	16.47%
14.20 14-MAR-2024	14-Mar-14	3.79	15.97%	-0.60%	16.57%
12.50 22-JAN-2026	22-Jan-16	4.33	15.75%	-0.93%	16.68%
16.2884 17-MAR-2027	17-Mar-17	6.46	15.61%	-1.15%	16.76%
12.1493 18-JUL-2034	18-Jul-14	12.14	15.92%	-0.66%	16.58%
12.40 18-MAR-2036	18-Mar-16	12.81	15.97%	-0.69%	16.66%
16.2499 18-APR-2037	18-Apr-17	16.80	15.50%	-1.26%	16.75%

Source: FMDQ, Cordros Research

The DMO issued the September tranche of the FGN Savings Bond, allotting N160.04 million of the FGNSB SEP 2019 and N252.66 million of the FGNSB SEP 2020 at 13.817% and 14.817% respectively, again revealing waning interest in the retail savings product, as total allotment further dipped (compared to August auction) despite relatively higher coupon rates. It was also reported that the debut FGN Sukuk bond issued during the month was oversubscribed by more than N5 billion.

According to the DMO, the FGN plans to sell as much as USD5.5 billion of Eurobonds (USD2.5 billion to be issued this month) in the next three months to fund capital projects and replace local-currency debt, a move that may likely reduce the supply of local bonds in the primary market, and consequently keep stop rates low at the PMAs. In the secondary market, investors may likely take a cue from such lower stop rates, hence, our expectation for average yield contracting further in October, particularly amid expected improvement in system liquidity.

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Foreign Exchange

The apex bank continued defense of the Naira, with a total of USD1.24 billion sold in September (vs. USD1.50 billion sold in August) – comprising USD485 million, USD300 million, USD255 million, and USD200 million, to the Retail Secondary Market, SMEs, invisibles, and wholesale segments, respectively. Meanwhile, the foreign reserves continued to record steady accretion, reaching USD32.16 billion as at 22nd September - the highest since February 2015 - amidst the increase in global oil prices which reached a two-year high of N59.02 during the month and stable oil production of 1.74 mmb/d as at August 2017. Activities in the I&E FX window continued to improve, with total turnover increasing by 14.61% m/m to USD4.22 billion in September, from USD3.68 billion in August. We understand that the window attracted a lot of FX from the offshore investors that purchased government bonds and T-bills during the month. A bulk of the transactions (c. 53%) in the window traded within the rate range of N340–N359, compared to last month, wherein most of the transactions (c.65%) settled at the rate range of N360–N369. That said, the NGN recorded modest loss against the USD in the I&E FX window, wherein it weakened by 0.20% to N360.40. Conversely, the CBN's USD/NGN spot rate appreciated by 0.03% to N305.75. In the interbank space, the naira depreciated against the pound (-4.19% to N481.63) and euro (-0.05% to N425.72), but remained flat against the USD at N355.49. The LCY also closed flat against the USD at N365 in the parallel market, but weakened against the GBP/NGN (-3.63%) and EUR/NGN (-0.46%) to N485 and N430, respectively.

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

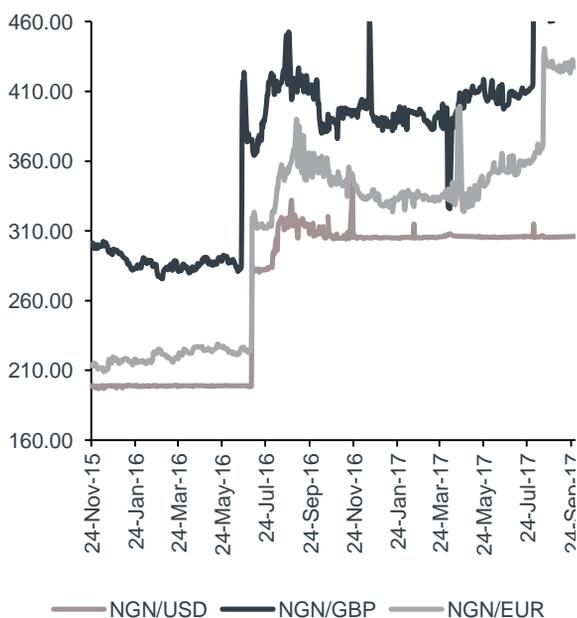
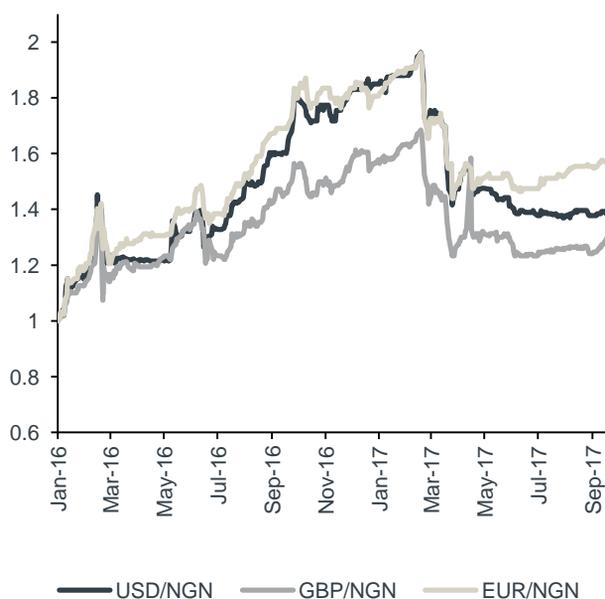


Fig 4: Parallel Market FX Rate (Index of 1)



Source: FMDQ, Cordros Research

There was no major development (in terms of policy) in the FX market during the month, save for the release of a circular by the CBN informing authorized dealers of the deployment of Electronic Certificate of Capital Importation (eCCI) platform as a replacement for the hard copy CCI previously issued. The aim is to enhance transparency and efficient processing of foreign investment flows to the country.

We expect the naira to appreciate against the USD in the parallel market and the I&E window, as interventions by the apex bank persist, amid steady accretion to the foreign reserve – supported by relatively bullish outlook on oil price and production in the near term – in addition to inflows from portfolio investors.

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