Weekly Economic and Market Review.

Synoptic

October 06, 2017

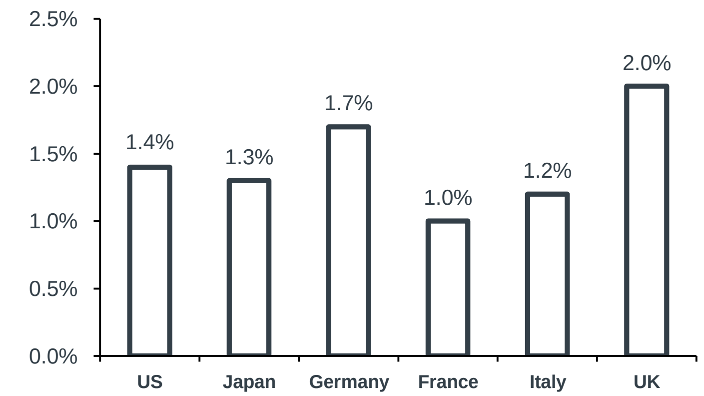
According to data released by IHS Markit during the week, the global all-industry PMI for September expanded steadily at 54.0 – signifying further increase in the combined manufacturing and service sectors. Over the third quarter as a whole, the average headline index stood at 53.8, slightly above the prior two quarters (both 53.7) and recording the best quarterly growth outcome in three years. The global manufacturing sector grew at a strong and steady pace with a reported PMI of 53.2 – unchanged from Augusts' 75-month high –while the global services sector expanded with a reported PMI of 54.0 – down slightly from 54.1 in August whilst recording the 98th month of consecutive expansion. The global expansion was broad-based, with output increasing across the six categories covered by the survey. While the consumer services, intermediate goods and financial services categories expanded at faster rates, the business services, consumer goods, and investment goods categories recorded weaker growth. Also, the rates of expansion improved in the euro area, the UK and Russia, while output increased at slower rates in US, Japan, and Australia. The improvement in the index over the past year has been broad-based, coupled with the ameliorated surveys for all major economies, and is consistent with the world GDP growth of c. 4% annualized.

The US Commerce Department, on Thursday, released the trade report, wherein it was stated that the trade deficit narrowed in August as exports of goods and services increased to the highest level in two and a half years. The trade gap declined by 2.70% to USD42.40 billion, from the revised trade deficit of USD43.7 billion in July. Exports during the period rose by 0.4% to USD195.3 billion – the highest since December 2014 – while imports decreased marginally by 0.1% to USD237.7 billion. Exports was driven by increased demand for drugs, semiconductors and equipments, while import of industrial supplies and material dropped. Economists had forecast a lower rate of contraction in the trade deficits to USD42.7 billion in August. When adjusted for inflation, the trade deficit will be USD61.8 million – lower than the second-quarter average of USD62.4 billion. The Commerce Department further stated that the impact of the Hurricanes Harvey, Irma, and Maria will be reflected in subsequent trade reports until normal trade activities resume in the affected areas. Notably, the politically-sensitive US-China trade deficit rose 4.0% to USD34.9 billion – the highest level since September 2014 – as exports to the region increased 8.8%, while imports increased 5.1% to a record high.

The National Bureau of Statistics released the monthly Fiscal statistics (Revenue and Expenditure) during the week, wherein Nigeria's fiscal sector recorded underperformed projections for the seven months to July 2017 with both oil and non-oil revenues lagging. Between January and July, cumulative net distributable revenue (for the federating units: central, states and local governments) amounted to N1.97 trillion, 50.12% lower than projected N3.96 trillion. A breakdown showed that accumulated gross oil revenue amounted to N1.95 trillion, 37.33% lower than the N3.11 trillion projected. After making adjustments for accumulated deductions (comprising Joint Venture cash calls, etc) which amounted to N738.75 billion (315.22% higher than projected N177.92 billion) and accumulated 13% Derivation charge of N157.48 billion (58.71% lower than projected N381.40 billion), total accumulated net oil revenue amounted to N1.05 trillion – 58.71% lower than projected N2.55 trillion. In the same vein, the cumulative net non-oil revenue was 32.42% below projection at N920.39 billion, as net Customs revenue was N324.38 billion (14.05% lower than expected N389.05 billion) and net FIRS revenue amounted to N596.02 billion (38.66% lower than projected N971.61 billion). Consequently, the cumulative Federal Government retained revenue was 15.73% short of projection (N2.57 trillion) at N2.63 trillion, while the cumulative expenditure of N3.13 trillion was below budget projection of N4.34 trillion. As a result, fiscal balance as at July 2017 showed a deficit of N500 billion, 71.71% lower than projected N1.77 trillion.

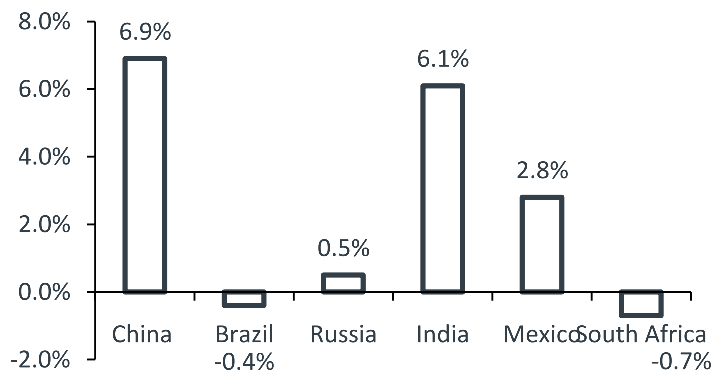
On Tuesday, the Federal Government commenced a fresh 60-day national action plan as part of its efforts to improve the ease of doing business in the country with the aim of further reducing challenges faced by the SMEs when getting credit, paying taxes, or moving goods across the country, among others – by removing critical bottlenecks and bureaucratic constraints. According to the statement, the plan will increase productivity through industrialization, enhance exports and foreign exchange earnings, while creating jobs and reducing poverty. Particularly, the reforms will eliminate manual registration process at the Corporate Affairs Commission in 10 additional states, increase access to credit for SMEs by registering at least 300 microfinance banks on the collateral registry, and enforce the elimination of illegal roadblocks on major trading routes across the country, all of which are in tandem with the administration's medium term economic growth and recovery plans.

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	+0.55%	-1.30%
MPR	14.0%	14.0%
CPI	16.01%	18.55%
Exchange Rate (USD)	N305.65	N305.00
Foreign Reserve (US$'bn)	32.74	25.84
Unemployment	14.2%	14.2%
Brent Crude Oil Price (US$)	56.00	56.82

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

Global Equities Market

Performance across global equities was mostly bullish, driven by encouraging economic data and currency swings – which subdued the impact of regional political turmoil.

U.S. stocks rose early in the week, as President Donald Trump addressed a mass shooting in Las Vegas that left scores dead and injured. Following that, appetite remained strong, driven primarily by a flurry of encouraging economic data, including (1) Jobless claims dropping 12,000 to 260,000, as disruptions from hurricanes ease, (2) the moderation in the U.S. trade deficit moderated by 2.7% in August to USD42.4 billion from USD43.6 billion in July, (3) the ISM manufacturing and services index strengthening in September, (4) auto sales coming in better than expected, and (5) a jump in construction outlay in August. Gains were particularly strong yesterday after Congress passed a budget resolution – a step seen as setting the stage for an overhaul of the tax code. Today however, modest selloff ensued amid September data showing the U.S. economy posted its first monthly decline in jobs in about seven years due to hurricanes in the Gulf Coast and Florida. On the balance, the DJIA and S&P 500 had posted weekly gains of 1.51% and 1.30% respectively at the time of writing. Despite trading in tight range after violent clashes in Catalonia in Spain during the weekend's independence referendum, European stocks were boosted by a weaker euro, before retreating slightly – as investors reassessed what could be termed a tumultuous week of political drama in Spain and the U.K. while looking ahead to the closely watched jobs report in the U.S. The FTSE 100 (+2.01% w/w) and Euro Stoxx 50 (+0.29% w/w) closed higher.

Although several major markets were shut for holidays (including China's week-long holiday) during the week, Asian equities benefitted from the broadly upbeat sentiment across most regions and gains in the U.S. dollar. Suffice to say that the Japanese Nikkei tracked overnight strength on Wall Street to move closer to levels last seen in 1996, and posted a weekly gain of 1.64%. Buoyed by a relatively strong return in Brazil (+2.20% w/w), the MSCI EM index (+1.95% w/w) advanced, while a rebound in Nigeria (+2.49% w/w) supported the MSCI FM index (+1.71% w/w) despite selloffs in Kenya (-0.76% w/w) and Ghana (-1.64% w/w).

Nigerian Capital Market

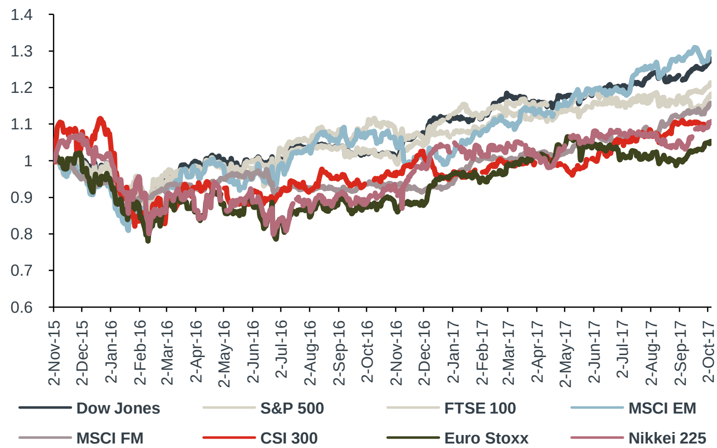
Equities

The Nigerian equities market rebounded this week, in line with our outlook, as the ASI closed higher to completely reverse last week's loss. The market had started the holiday-shortened week on Tuesday (-0.38%) with a negative performance largely due to losses recorded by DANGCEM (-1.40%), NB (-1.82%), and PZ (-6.81%) – specifically, the sell-off in PZ was on the back of the not-so-impressive Q1 scorecard wherein it posted pre-tax and post-tax losses of N181 million and N123 million respectively. The bulls resurfaced on Wednesday, with gains extending till Friday (with a cumulative gain of 2.85%), driven by robust investor interest in fundamentally sound large cap counters across sectors – DANGCEM, WAPCO, ZENITHBANK, GUARANTY, UBA, GUINNESS, NB, NESTLE, SEP LAT, and TOTAL – which more than outweighed snippets of profit taking. Overall, the All Share Index advanced by 2.49% w/w to 36,320.93 points, improving the YtD return to 35.15%. Notably, the management of UBA announced that it has completed the process for the cancellation of the 2.08 billion shares in its Staff Share Investment Trust Scheme (SSIT) which had been hitherto crossed to the Bank, bringing the total outstanding shares to 34.19 billion. Also, DANGCEM in a press release today, stated it has withdrawn its interest in acquiring the entire share capital of PPC, in a transaction estimated at USD700.47 million (in line with the bid by AfriSam).

Sectoral performance during the week was broadly bullish, save for the Insurance index (-1.21% w/w) which closed negative stemming solely from profit taking in the shares of CONTINSURE (-12.00%). The Industrial Goods (+6.15% w/w) and Banking (+3.17% w/w) indices recorded the largest gains, as demand for the shares of WAPCO (+13.08%), DANGCEM (+2.17%), UBA (+9.26%), and ZENITHBANK (+6.88%) was robust during the week. In the same vein, the Oil &Gas (+1.80% w/w) and Consumer Goods (+1.42% w/w)indices posted positive returns, as investors hunt bargain in the shares of SEPLAT (+4.97%), TOTAL (+4.33%), GUINNESS (+3.67%), and NB (+3.03%).

Market breadth remained strong, closing positive with 37 gainers (previously 32) – led by CILEASING (+19.63%) – and 24 losers (previously 30) – led by MRS (-14.13%). Total volume traded increased by 12.60%, with FCMB, DIAMONDBNK, and FBNH accounting for 44.76% of total market volume. In the same vein, total value of trades rose by 7.25%, with GUARANTY, ZENITHBANK, and NB accounting for 44.34% of total value.

Global Markets



***Source**: Bloomberg, Cordros Research*

	NSE ASI	ASI % Δ	Volume ('mn)	Value (N'mn)	Deals
6-Oct-17	36,320.93	1.53%	367.07	3,743.45	3,773
5-Oct-17	35,773.98	1.17%	317.44	2,853.49	3,327
4-Oct-17	35,358.57	0.15%	174.07	2,720.03	3,599
3-Oct-17	35,306.09	-0.38%	634.33	5,790.36	3,850
29-Sep-17	35,439.98	0.03%	235.82	3,833.11	2,809
28-Sep-17	35,429.31	0.93%	346.22	3,995.82	3,066
27-Sep-17	35,103.40	0.44%	136.40	1,269.20	2,860
26-Sep-17	34,951.27	-1.16%	500.30	3,621.00	3,120
25-Sep-17	35,361.52	-0.36%	107.15	1,367.13	2,848

Ticker	WTD	YTD	Ticker	WTD	YTD
CILEASING	19.63%	290.00%	MRS	-14.13%	-36.49%
CAVERTON	18.27%	36.67%	CONTINSURE	-12.00%	33.33%
PRESCO	15.25%	69.58%	PZ	-9.42%	62.41%
WAPCO	13.08%	39.95%	UNITYBNK	-8.33%	0.00%
NAHCO	10.00%	7.91%	CADBURY	-6.01%	0.39%

***Source**: NSE, Cordros Research*

CORDROS RESEARCH

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Fixed Income and Money Market

Money Market
The overnight money market rate expanded by 1,175 bps to 26.00% against 14.25% last week, following outflows via (1) OMO auction, wherein N422.66 billion (vs N320 billion offered) was sold – comprising N15.20 billion (vs N100 billion offered) of the short-tenured bill and N407.45 billion (vs. N220 billion offered) of the mid-tenured bill; and (2) debit for FX sales worth USD195 million. The outflows outweighed the inflows recorded during the week via OMO bills worth N283.41 billion (on Thursday) and the refund of excess debits for FX sale (on Wednesday). Notably, rates contracted on most trading sessions of the week save for today – which halted the eight consecutive days of moderation in rates – following the outflows recorded at today's OMO auction (1.04x oversubscribed), wherein N103.46 billion was sold.

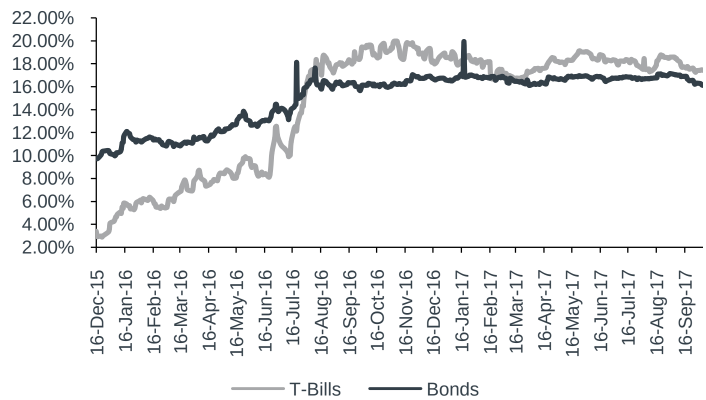
Treasury Bills
At the NTB auction this week, the apex bank sold bills worth N130.37 billion – comprising N11.77 billion (vs. N28.69 billion offered), N12.23 billion (vs. N33.49 billion offered), and N106.37 billion (vs. N68.18 billion offered) of the 91-day, 182-day, and 364-day bills respectively. Notably, the 182-day and 364-day bills were sold at lower stop rates of 15.50% (previously 16.80%) and 15.73% (previously 17.00%), while the 91-day bill was sold higher at 13.25% (previously 13.15%). Furthermore, the bills were 4x oversubscribed, with pressure on the long and mid ends of the curve, while the short end was under-subscribed. Sentiments in the secondary market were bullish – on the back of relatively improved system liquidity -- with average yield contracting by 52 bps to 16.90%. Yield contracted across board – short (-79 bps), mid (-79 bps), and long (-25 bps) segments to 17.32%, 16.90%, and 16.64% respectively as investors demanded for the 4-JAN-2018 (-205 bps), 11-JAN-2018(-248 bps), and 21-JUN-2018(-119 bps) bills. Save for today wherein snippets of selloff ensued, average yield contracted on all trading sessions of the week.

Bond
In line with our expectation, average yield in the bond market contracted by 68 bps week-on-week to 15.16%, as the relative improvement in system liquidity earlier in the week drove demand across all ends of the curve. However, following the decline in system liquidity today (discussed above), yields expanded on the short and mid ends of the curve relative to yesterday's level. Overall, yields contracted across all ends of the curve week-on-week – short (-98 bps), mid (-101 bps), and long (-54 bps) – following robust demand for the 29-JUN-2019 (-98 bps), 13-FEB-2020 (-128 bps), and 14-MAR-2024 (-90 bps) bonds, respectively.

Foreign Exchange
Following the steady accretion to the foreign reserves, currently at USD32.74 billion – highest since February 2015 -- the CBN, during the week, further injected USD195 million into the FX market, comprisingUSD100 million, USD50 million, and USD45 million to the wholesale, SME, and invisibles windows respectively. In the I&E FX window, total turnover for the week stood at USD799.70 million (excluding today's data), however, the FMDQ's referenced USD/NGN depreciated by 0.07% to N360.64 against N360.40 last week.

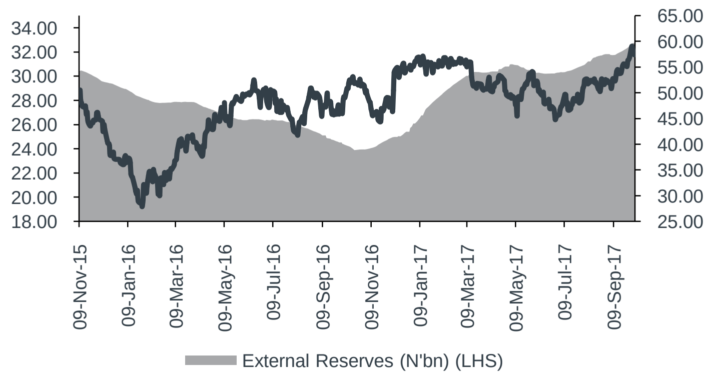
In the parallel market, the LCY gained across all the currency we track – USD (+0.55%), GBP (+1.44%), and EUR (+2.09%) to N363, N478, and N421 respectively. Similarly, the naira appreciated against all Bloomberg's referenced rates– USD/NGN (+0.97%), GBP/NGN (+3.65%), and EUR/NGN (2.00%) to respective rates of N355.49, N463.42, and N415.64. Accordingly, the CBN USD/NGN spot rate appreciated by 0.03% to N305.65.

Nigeria: Fixed Income Yields (Average)



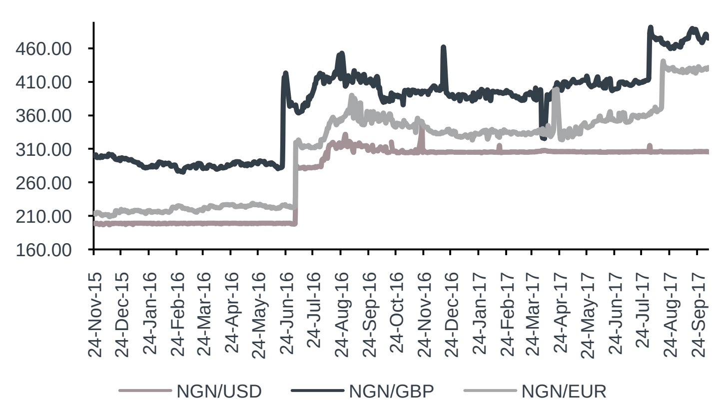
Source: *FMDQ, Cordros Research*

Nigeria: External Reserves and Brent Crude



Source: *CBN, Bloomberg, Cordros Research*

Nigeria: Exchange Rate



Source: *CBN, Bloomberg, Cordros Research*

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Equities: We expect performance in the coming week to be driven by (1) investors taking position in fundamentally sound stocks ahead of Q3 earnings releases, and (2) profit taking in large cap counters, following the gains recorded this week. Overall, the impact of bargain hunting will more than outweigh the snippets of profit taking.

Money Market: We expect the overnight lending rate to trend northwards in the coming week, as outflows via OMO auctions outweigh inflow via maturing OMO bills worth N61.59 billion.

T-Bills: We expect the persisting demand to further moderate average yield in the coming week, albeit modestly, as system withdrawal further pressures liquidity position.

Bond: We expect mixed reactions in the coming week, albeit with a bullish bias, as investor interest remain stoked, with the average yield closing lower.

Currency: Given the CBN's sustained intervention, we expect the naira to appreciate modestly in the interbank market and the I&E window in the coming week, while trading within its current band in the parallel market.

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