

27 October, 2017

Weekly Economic and Market Update.

Overview of Markets in the Week Ended 27th October

Global Economy

Following the ECB meeting on Thursday, it was announced that the bank will extend its bond-buying programme into September next year, but halve the pace of monthly purchase (currently EUR60 billion a month) beginning January. The bank, as expected, also maintained its stance about keeping the interest rates at record low, until well beyond the end of the QE. **The prospects of the eurozone economy remain bright amid sustained economic stimulus.**

US GDP data for the third quarter came in stronger than expected, with an annual growth rate of 3.0%, which was above economists' projection of 2.5%, but a tad lower than the 3.1% growth recorded in the second quarter. The result slightly surprised as it doused the impacts of the hurricanes. The data reflected strong contributions from personal consumption, inventory investment, and government spending. **The report strengthens expectation for a stronger global growth, supported by improving macroeconomic prospects in other advanced economies, particularly the euro area.**

Fig 1: Annualized GDP Growth Rate Q2-2017 – EMs1

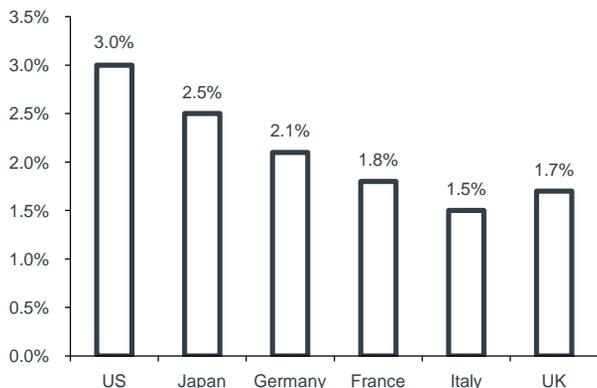
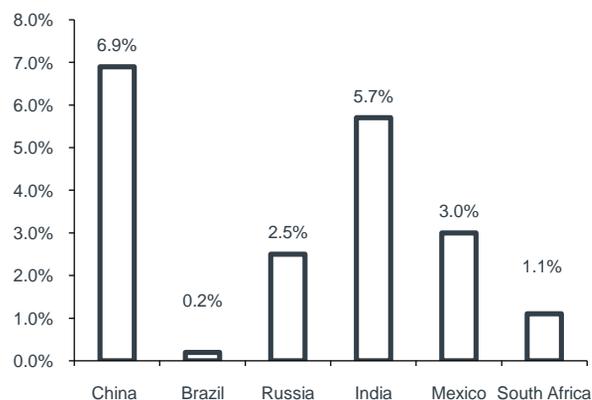


Fig 2: Annualized GDP Growth Rate Q2-2017 – DMs

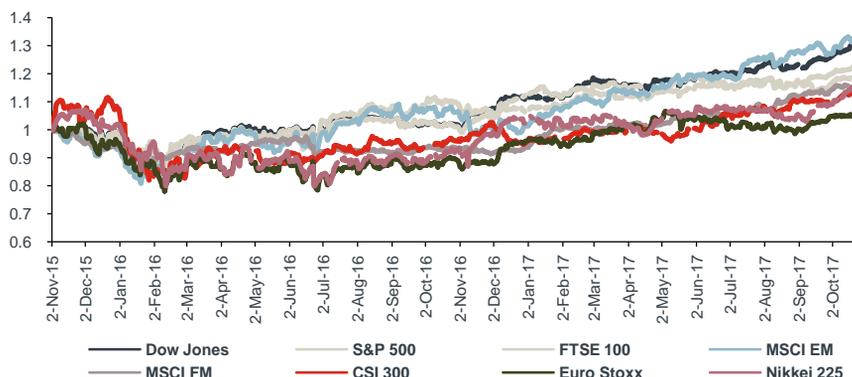


Source: IMF, Cordros Research

Global Markets

Performance was mixed across global equities, driven by a combination of factors including mixed quarterly corporate earnings, government decision, monetary policy action, politics, currency movement, and continued geopolitical standoff. Stock indices pairs in the U.S. (DJIA: +0.31%; S&P 500: -0.58%) and Europe (Euro Stoxx 50: +1.55%; FTSE 100: -0.29%) closed in opposite directions, while the Asian market (CSI 300: +2.42%; Nikkei 225: +2.57%) advanced. The MSCI EM index (-1.03%) closed in the red, amid selloffs in major regions, including Brazil (-0.05%), while upbeat sentiment in Kenya (+2.05%) and Ghana (+1.62%) overshadowed weakness in Nigeria (-0.34%) to support the MSCI FM index (+0.98%).

Fig 3: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research

27 October, 2017

Nigeria
Economy

Earlier today, MSCI announced its decision to retain the MSCI Nigeria Index in the MSCI Frontier Markets Indexes, removing Nigeria from the review list for potential reclassification to Standalone status. According to MSCI, the Investors' & Exporters' Window (IEW) improved currency market conditions for investors and paved way for its decision to remove Nigeria from the review list. **The decision will further consolidate gains from increased foreign portfolio investment inflow into Nigerian equities.**

Oil prices rose strongly on Thursday before breaking two-year-high and the USD60 mark on Friday. The price gain came after robust data from the EIA this week, plus rising confidence in OPEC's output cap extension. OPEC's Oil Market Report for October indicated that Nigeria's oil output rose 2.8% m/m and 11.4% q/q to 1.8mb/d in September, similar to Libya, amid output ramp-up and exemption from the May-2017 OPEC & non-OPEC members production cap expected to end in March 2018. **While noting the positive implication of the rally for the domestic economy, we think a further notable rise could encourage US oil producers to expand their drilling activities, constraining the rebalancing of the oil market.**

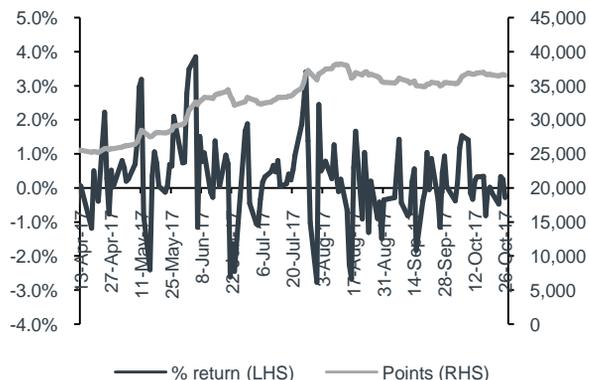
Table 1: Macro Indicators

Macro Indicators (Nig)	Current	Year Start
Real GDP growth	+0.55%	-1.30%
MPR	14.0%	14.0%
CPI	15.98%	18.55%
Exchange Rate (USD)	N305.75	N305.00
Foreign Reserve (US\$'bn)	33.62	25.84
Unemployment	14.2%	14.2%
Brent Crude Oil Price (US\$)	59.19	56.82

Source: CBN, Bloomberg, NBS, Cordros Research

Capital Market
Equities

The Nigerian equities market closed negative for the second consecutive week, amid mixed corporate earnings, with the ASI shedding 0.34% w/w to 36,646.46 points. Losses prevailed across the Industrial Goods (-3.28% w/w), Insurance (-3.08% w/w), Oil & Gas (-1.34% w/w), and Consumer Goods (-0.73% w/w) sectors, which subdued the 0.84% gain recorded in the Banking sector. The Banking index appreciated on the back of gains recorded by FIDELITYBK (+15.3% w/w), ACCESS (+3.79% w/w), UBA (+3.44% w/w) and FBNH (+3.16% w/w), as investors reacted to the impressive 9M-17 results recently released. As a result, the Month-to-Date and Year-to-Date returns moderated to 2.88% and 35.68% respectively.

Fig 4: All Share Index


Source: NSE, Cordros Research

Table 2: Top Gainers and Losers

Ticker	Closing Price	WTD	YTD	Ticker	Closing Price	WTD	YTD
NASCON	15.94	20.76%	87.53%	CUTIX	2.02	-22.31%	6.88%
FIDELITYBK	1.66	15.28%	97.62%	FO	38.29	-14.24%	-54.65%
UACN	18.05	12.04%	7.38%	MANSARD	2.02	-10.22%	20.96%
FIDSON	3.81	8.86%	197.66%	UPL	2.05	-7.66%	-51.65%
DANGSUGAR	15.2	8.42%	148.77%	WAPCO	52	-7.14%	26.98%

Given the two consecutive weeks of losses, we expect investors to take advantage of price declines in value stocks as the outlook for equities remains broadly positive.

27 October, 2017

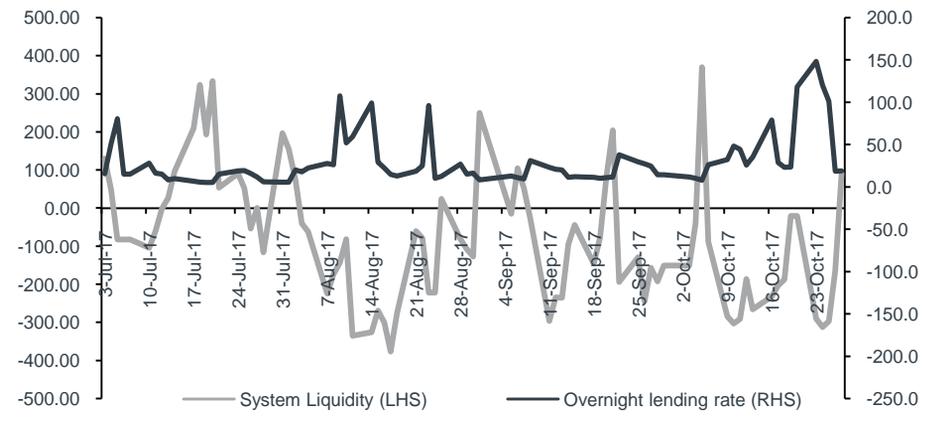
Fixed Income and Money Market

Money Market

The overnight money market rate dropped 9,958bps w/w to 18.75% from 118.33% last week – reflective of improved system liquidity from a deficit of N20.30 billion to a surplus of N91.64 billion. Liquidity position benefitted from inflows via monthly budgetary allocation to state and local governments (N247.89 billion) and matured OMO bills (N93.74 billion), while outflow included OMO sales (N180.59 billion) and debit for FX sales of USD195 million.

We think outflows via OMO auctions and FX sales are likely to subdue the impact of inflow via matured OMO bills worth N101.47 billion in the coming week.

Fig 5: Overnight Money Market Rate (%) and System Liquidity (N'trn)



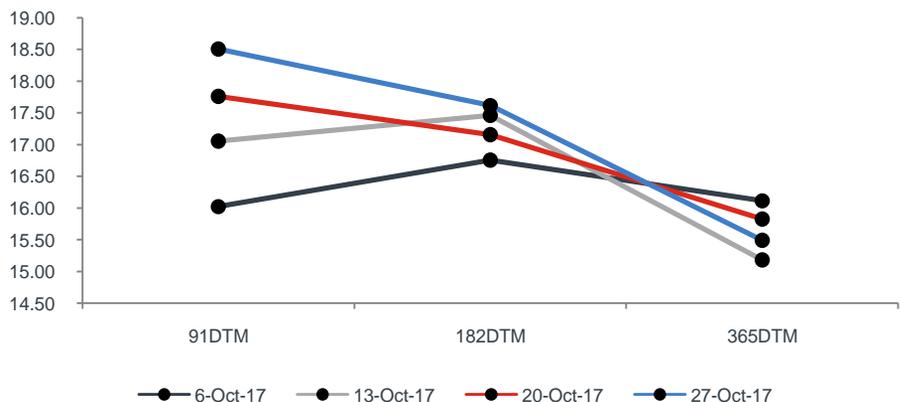
Source: CBN, FMDQ, Cordros Research

Treasury Bills

Despite improved liquidity in the system, sentiments remained bearish in the NTB market, with average yield expanding by 17 bps to 18.09%. Yield expanded across all ends of the curve, owing to selloffs of the 16-NOV-2017(+244 bps), 29-MAR-2018 (+87 bps), and 2-AUG-18 (+148 bps) bills respectively.

Sustained pressure on liquidity position to further constrain demand. At next week's primary auction, the apex bank will offer N23.05 billion, N23.43 billion, and N54.35 billion of the 91DTM, 182DTM, and 364DTM bills respectively.

Fig 6: T-Bills Yield Curve



Source: FMDQ, Cordros Research

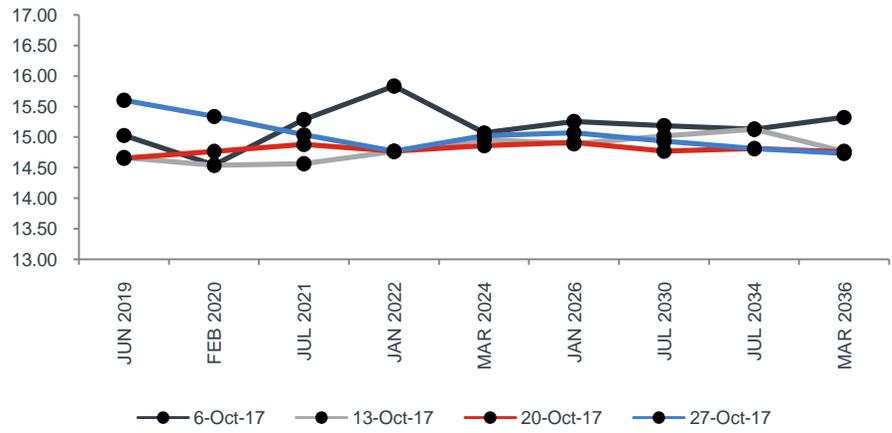
27 October, 2017

Bond

Proceedings were broadly bearish in the bond market despite improvement in liquidity position, as average yield expanded 17 bps w/w to 14.97%. Yields expanded across all ends of the curve – short, mid and long – driven by the 29-JUN-2019 (+50 bps), 13-FEB-2020 (+58 bps), and 17-MAR-2027 (+21 bps) bonds, respectively. Meanwhile, at the bond auction on Wednesday, the DMO fully allotted N100 billion -- comprising N3 billion (vs. N50 billion offered) and N97 billion (vs. N50 billion offered) of the FGN JUL 2021 and FGN MAR 2027 bonds at 15.00% apiece.

Yields will likely continue to trend northward, more so amidst an expected squeeze in liquidity position.

Fig 7: FGN Bond Yield Curve



Source: FMDQ, Cordros Research

Foreign Exchange

The naira was little changed at N360.31 (vs. N360.32 last week) in the I&E FX window, while it remained flat at N363 in the parallel market. Total volume traded in the I&E FX window for the week stood at USD 750.77 million (vs. USD 1.19 billion last week). Meanwhile, the CBN injected USD195 million into the FX market comprising USD100 million, USD50 million, and USD45 million into the wholesale, SME, and Invisibles windows, respectively.

Given the CBN's continued intervention, amid steady accretion to the foreign reserve, our theme on the naira exchange rate remains stability.

Fig 8: External Reserves and Brent Crude

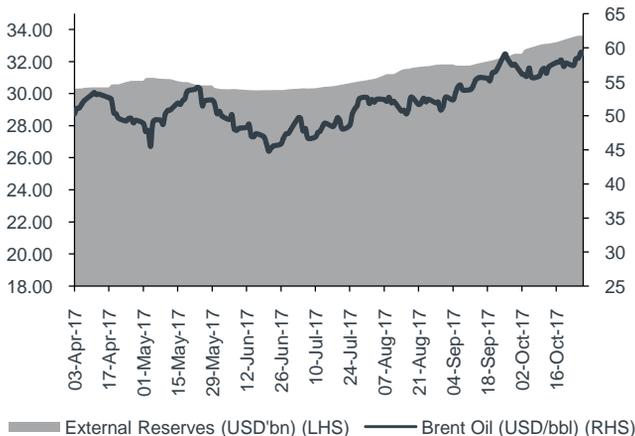
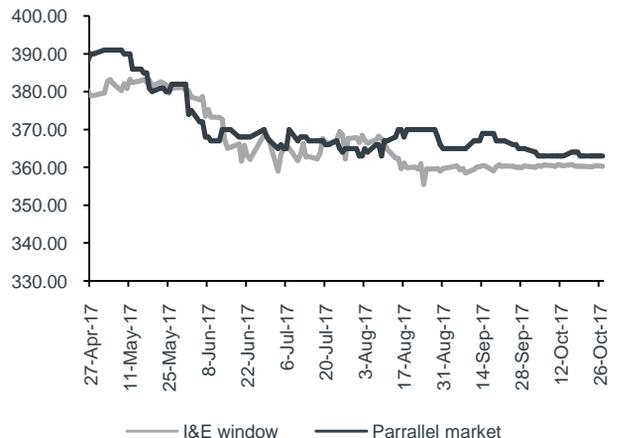


Fig 9: USD/NGN Exchange Rate



Source: FMDQ, Cordros Research

27 October, 2017

Important Disclosure

This document has been issued and approved by Cordros Capital (Cordros) and is based on information from various sources that we believe are reliable. However, no representation is made that it is accurate or complete. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or fact or for any opinion expressed herein. This document is for information purposes only. It does not constitute any offer or solicitation to any person to enter into any trading transaction.

Investments discussed in this report may not be suitable for all investors. This report is provided solely for the information of Cordros clients who are then expected to make their own investment decisions. Cordros conducts designated investment business with market counter parties and customers and this document is directed only to such persons. Cordros accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for private circulation only and may not be reproduced, distributed or published by any recipient for any purpose without prior express consent of Cordros. Users of this report should bear in mind that investments can fluctuate in price and value. Past performance is not necessarily a guide to future performance.

Cordros and/or a connected company may or may not have a relationship with any of the entities mentioned in this document for which it has received or may receive in the future fees or other compensation. Cordros is regulated by the Securities and Exchange Commission to conduct investment business in Nigeria.