

13 October, 2017

Weekly Economic and Market Update.

Overview of Markets in the Week Ended 13th October

Global Economy

According to data released by the Labour Department during the week, the US Producer Price Index rose by 0.4% in September – after increasing 0.2% in August – driven by the persisting disruption at refineries across the Gulf Coast area which drove hikes in gasoline prices. Year-on-year, the PPI surged 2.6%, recording the biggest increase since February 2012. **The rise in the PPI is likely to taper going forward, amid improved crude oil supplies and repairs at the refineries affected by the Hurricane Harvey.**

The IMF upgraded the global economic growth forecast for 2017 and 2018 by 0.1% apiece, to 3.6% and 3.7% respectively – driven by improvement in trade, investment and consumer confidence. Growth forecasts were reviewed upward for the euro zone, Japan, China, emerging market Europe, and China, unchanged for the US, and revised downward for Sub Saharan Africa. **Despite long term challenges, global growth appears strong, supported by short term fundamentals.**

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

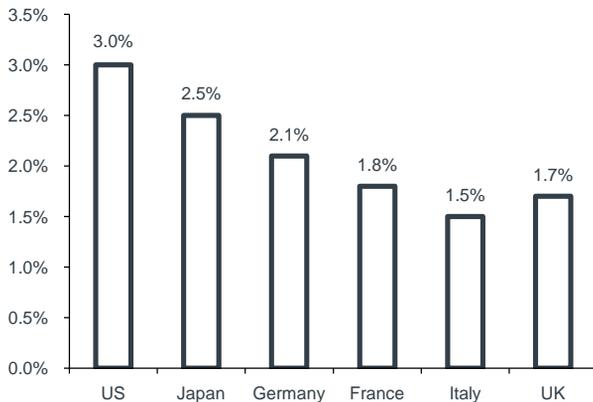
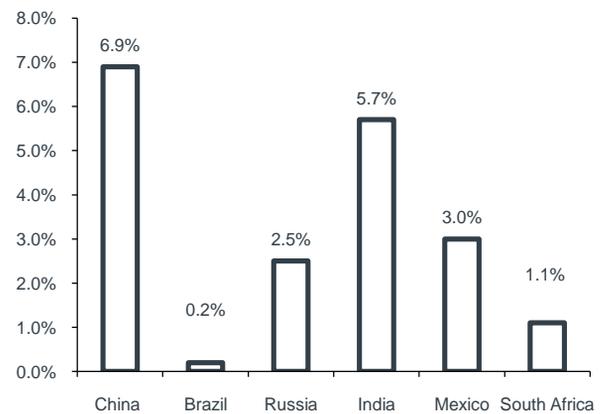


Fig 2: Annualized GDP Growth Rate Q2-2017 – DMs

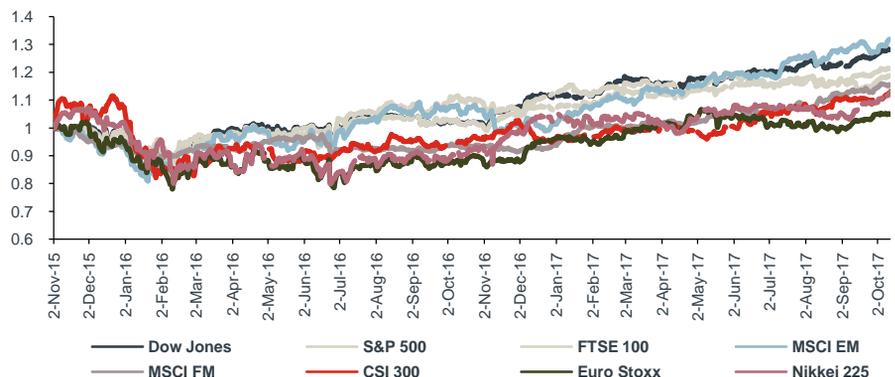


Source: IMF, Cordros Research

Global Markets

Global equities remained strong, riding on encouraging economic data, cooling regional political tension, and positive earnings. The gains were most notable in China (Nikkei 225: +2.24%; CSI 300: +2.20%), followed by the U.S. (DJIA: +0.30%; S&P 500: +0.06%), and closely trailed by European indices (FTSE 100: +0.24%; Euro Stoxx 50: +0.02%). Supported by a further gain in Brazil (+1.55%), the MSCI EM (+1.68%) index closed in the green, while the MSCI FM (-0.25%) index succumbed to bearish sentiments in Kenya (-0.91%) – amid election worries – and Ghana (-0.23%) despite upbeat momentum in Nigeria (1.45%).

Fig 3: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research

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Nigeria
Economy

The National Bureau of Statistics and the National Pension Commission released a report on Nigeria's pension fund asset data, showing that the country's pension fund asset grew by N862 billion to N6.164tn as of December 31, 2016 (representing 6% of the country's GDP), against 5.57% last year, with domestic investment accounting for 98.56% (government securities: 71.28%; equities: 9.48%; money market: 6.51%) and 1.44% in the foreign market. **It is safe to expect the relatively attractive yield environment to further increase PFAs' exposure to debt securities.**

During the week, the federal government approved the sale of 3 National Integrated Power Project (NIPP) Generating Companies in continuation of the 2013 NIPP privatization that was suspended, following rectification of transmission and Gas supply challenges. **We think the plan, if well delivered, will bring efficiency to the energy sector.**

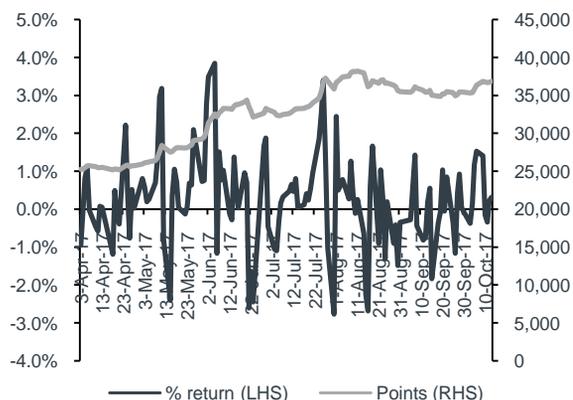
Table 1: Macro Indicators

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)	N305.50	N305.00
Foreign Reserve (US\$'bn)	33.08	25.84
Unemployment	14.2%	14.2%
Brent Crude Oil Price (US\$)	567.35	56.82

Source: CBN, Bloomberg, NBS, Cordros Research

Capital Market
Equities

The Nigerian bourse ended the second consecutive week on a bullish note, with the NSE ASI advancing further by 1.45% w/w to 36,848.17 points, thus increasing the MtD and YtD returns to 3.97% and 37.11%, respectively. All – Insurance (7.90% w/w), Oil & Gas (1.82% w/w), Banking (1.41% w/w), Industrial Goods (0.66% w/w) and Consumer Goods (0.05% w/w) – sector indices closed positive. Notably, 513 million units of DIAMOND, 31 million units of ZENITHBANK, 19 million units of UBA, and 16 million units of ACCESS were crossed at average prices of N0.99, N25.18, N9.20, and N9.86, respectively. Also, during the week, the management of Flour Mills of Nigeria Plc announced it has received regulatory approval to commence with activities to raise additional funds through Rights Issue (in line with a N40 billion shelf programme registered in H2 2016) and Medium-Term notes (N70 billion proposed, but tenors are yet to be disclosed).

Fig 4: All Share Index

Table 2: Top Gainers and Losers

Ticker	Closing Price	WTD	YTD	Ticker	Closing Price	WTD	YTD
MANSARD	2.51	25.50%	50.30%	UPL	2.22	-13.62%	47.64%
CCNN	9.68	20.10%	93.60%	AGLEVENT	0.55	-11.29%	42.71%
LINKASSURE	0.88	17.33%	76.00%	PAINTCOM	0.59	-9.23%	-9.23%
REDSTAREX	5.46	14.95%	24.09%	LAWUNION	0.81	-8.99%	1.25%
TRANSCORP	1.52	14.29%	74.71%	CILEASING	1.78	-8.72%	256.00%

Source: NSE, Cordros Research

Whilst noting possibility of momentum profit taking given the two consecutive weeks of gains, the outlook for equities remains broadly positive.

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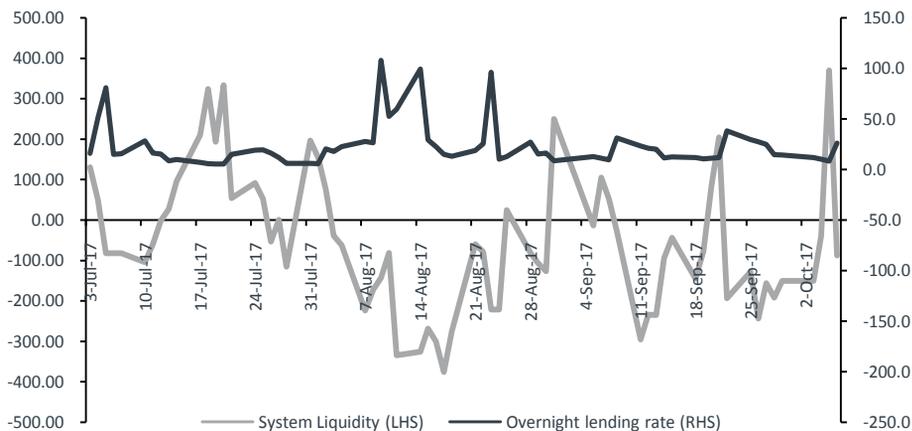
Fixed Income and Money Market

Money Market

The overnight money market rate expanded w/w by 933 bps to 35.33%, as outflows (via OMO and Fx sales) worth over N166.01 billion subdued the impact of the inflow (via matured OMO bills) worth N75.64 billion.

Given the level of deficit in system liquidity, and the expected outflow via OMO bills and NTB auction, the inflow via maturing OMO bills worth N75.64 billion, might not have much impact on moderating system liquidity.

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



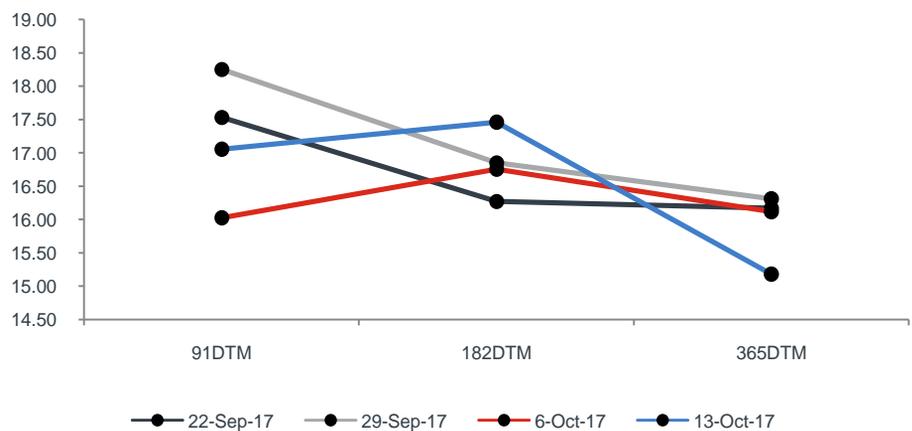
Source: CBN, FMDQ, Cordros Research

Treasury Bills

Proceedings in the treasury bills market were bearish, on the back of reduced system liquidity, with average yield expanding by 22 bps to 17.11%. Yields expanded at the short and mid segments, while moderating at the long end of the curve. Notable bills include 28-DEC-2017(+232 bps), 25-JAN-2018 (+85 bps), and 3-MAY-2018(-117 bps) respectively.

At next week's NTB auction, the apex bank will offer bills worth N173.79 billion. Despite selloffs this week, yields at all ends of the curve remain relatively attractive.

Fig 6: T-Bills Yield Curve



Source: FMDQ, Cordros Research

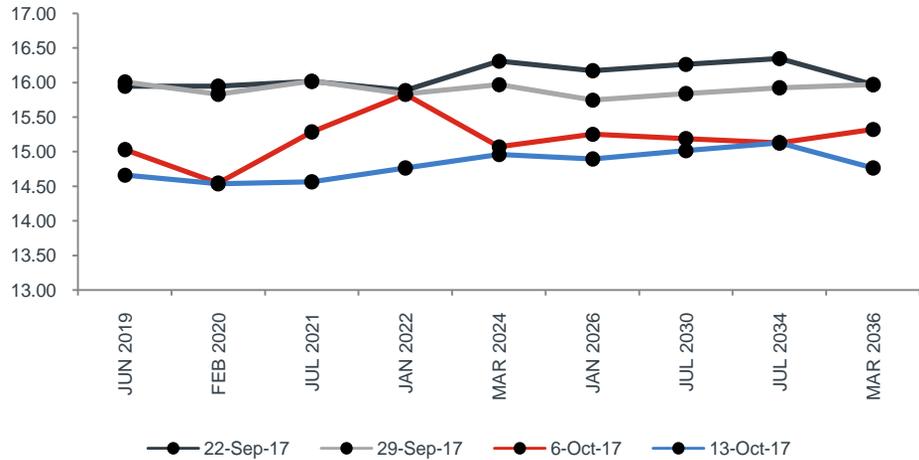
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Bond

The bond market closed bullish on every session of the week, with average yield contracting 37 bps w/w to 14.81%. Following investor interest, yields contracted at the short, mid, and long ends of the curve, driven by the 29-JUN-2019, 27-JAN-2022, and 18-MAR-2036 bonds, respectively.

Relatively attractive yields across all ends of the curve, owing to current trend in the yield environment, signals a likelihood of continued demand for FGN bonds.

Fig 7: FGN Bond Yield Curve



Source: FMDQ, Cordros Research

Foreign Exchange

The FMDQ's referenced USD/NGN appreciated by 0.05% to N360.43 while the naira was flat at N363 in the parallel market. The CBN, during the week, injected USD195 million into the FX market, while total turnover in the I&E FX window for the week stood at USD921.04 million (excluding today's data).

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

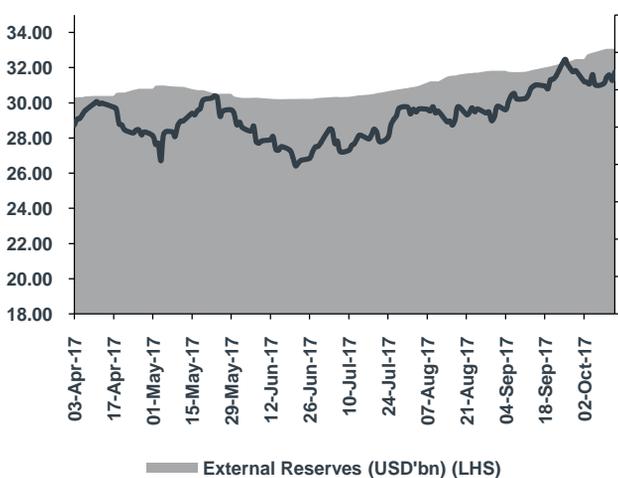
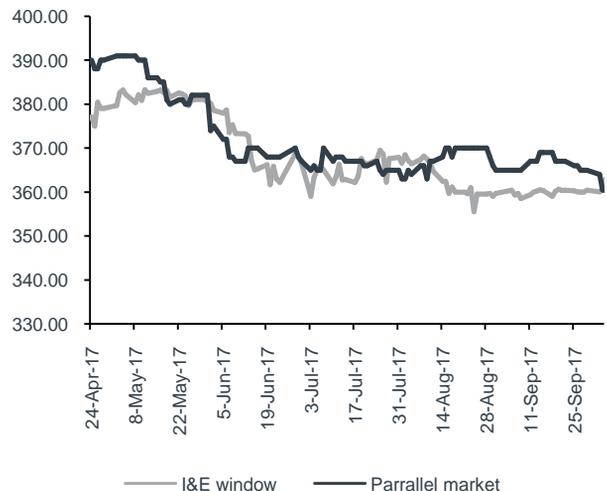


Fig 9: USD/NGN Exchange Rate



Source: FMDQ, Cordros Research

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