

6 March 2018

# Monthly Markets Review.

## Overview of Markets in February 2018 and Outlook

### Highlights:

- Global equities were rattled by inflation and bond market concerns in February, with all indices that we track closing in the red. The equities market snapped to a loss, after an impressive start to the year.
- The equities market in February recorded loss, after an impressive start to the year.
- The overnight lending rate fell by 75bps to close the month at 4.5%, driven by buoyant system liquidity in the last week of the month.
- Sentiments in the bond market reversed, with average yield recording a 31 bps m/m expansion to close at 13.72%.
- The USD/NGN strengthened by 0.11% to NGN360.09 in the I&E FX window, while it weakened by 0.27% to NGN363 in the parallel market.

### Global Equity Markets

**After a bullish start to the year, U.S. equities retreated, with the DJIA and S&P 500 declining by 4.28% m/m and 3.89% m/m respectively in February** – following a significantly pressured first half of the month. Activities during the month – arguably Wall Street's wildest month since 2008 – reflected a sharp contrast to what January offered. Investors largely ignored positive narratives about global economic growth, and jettisoned earlier optimism about corporate performance, which was hinged on the expected impact of the U.S. tax reform bill. Earlier in the month, the Dow tumbled c.12% in just 14 days. Risky assets came under the whims of inflation and bond market concerns. Investors worries about the 10-year Treasury rate creeping closer to 3% were exacerbated by Fed chief Jerome Powell's upbeat outlook on the economy and inflation – suggesting higher-than-expected interest rate hikes during the year.

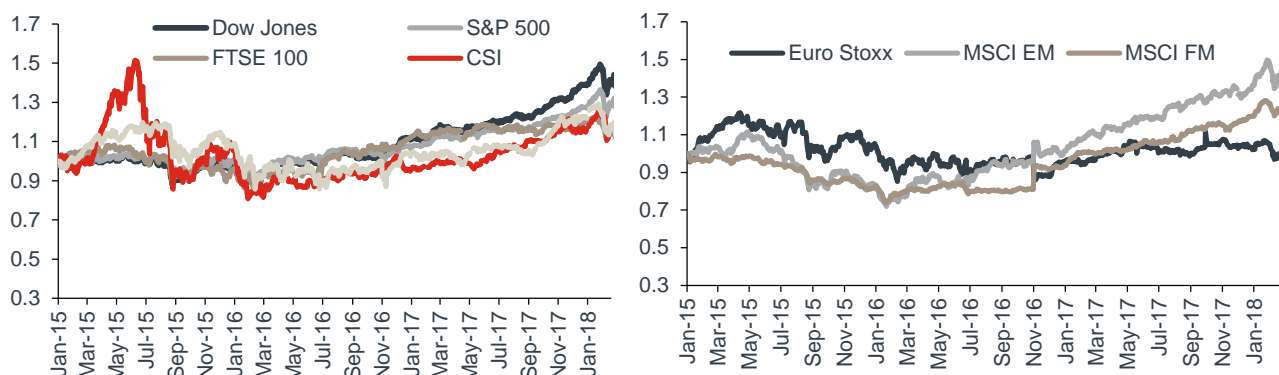
Worries eased over the second half of the month, thanks to encouraging corporate earnings and upbeat data on the labour market. Meanwhile, demand was short-lived amid a strengthening dollar and a slide in the price of oil -- which sent energy stocks to the market's sharpest losses.

**European stocks were not left out of the broad selloffs induced by inflation and treasury rate concerns. Both the FTSE 100 (-4.00% m/m) and Euro Stoxx 50 (-4.46% m/m) closed lower than their respective January levels.** Losses for banks and commodity companies further dampened appetite for risk. We note particularly bearish sentiment on the German bourse after Deutsche Bank posted a bigger-than-expected loss in the fourth quarter. These overshadowed a rally for chip makers that came after Apple-supplier AMS AG reported a major jump in revenue and lifted its sales forecasts.

Earnings-related drag continued in the second half of the month, with specific mention of consumer products heavyweight Reckitt Benckiser Group PLC and German auto maker Daimler AG. In addition, investors received disappointing updates on manufacturing and services activity in the Eurozone. While the latter part of the half saw cautious trading, as investors waited for remarks from Federal Reserve officials who may give more insight into the central bank's thoughts on interest rates; some investors rode on (1) a pullback in the euro on news of a potentially favorable development for the U.K. in its Brexit negotiations with the European Union, and (2) a short-lived rebound on Wall Street. Though too little and too late, the buying lifted the Euro stoxx 50 (+0.35%) in the second half while the FTSE 100 (-0.86%) found no respite.

6 March 2018

Fig 1: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research

**Asian markets followed U.S. stock benchmarks, closing lower (as U.S. government borrowing costs continued to rise) despite earlier calm from a steady dollar. The CSI 300 and Nikkei 225 posted monthly losses of 5.90% and 4.46% respectively,** notwithstanding a positive second half. Chinese equities, particularly, weakened, following a muted manufacturing reading; while Japanese and Korean shares saw earnings-related hits, with Samsung Electronics falling more than 4% after rival and customer Apple's latest-quarter results. Indeed, the impact of President Donald Trump striking a mostly conciliatory tone in his first State of the Union address was overshadowed by the aforementioned concerns.

While jitters about higher interest rates in the U.S. lingered into the latter half of the month, Asian investors focused on domestic developments while tracking bargain hunting on Wall Street. Specifically, the prospects of a weaker dollar and a solid outlook for Asian exports were interpreted as rightly positioning Asia to ride out interest-rates hikes from the Federal Reserve.

**Emerging and frontier markets stocks were equally ruffled.** Specifically, the MSCI EM index declined by 4.73% m/m, consistent with China's loss and weaknesses across other countries in the region – all of which subdued 0.52% m/m gain in Brazil. Similarly, the MSCI FM index (-1.63% m/m) shed weight, despite a notable rally in Ghana (+8.46% m/m) and snippets of demand in Kenya (+0.65% m/m). We note profit taking in Nigeria (-2.28% m/m) and bearish sentiments across other countries in the region.

**Nigeria**

**Equities Market**

The equities market in February recorded loss, after an impressive start to the year. The ASI dipped 2.28% -- the largest monthly loss since February 2017 (-2.72%) -- to 43,330.54 points. Of the 20 sessions during the month, 9 closed negative (-8.93%), while 11 ended positive (+6.72%). The loss suffered during the month (-2.28%) wiped some of the gains recorded in January (+15.95%), causing the Year-to-Date return to moderate to 13.30%. Major drivers of activities during the month include; (1) investors booking profit on previously accumulated gains, and (2) US markets rout which sparked selloffs in global markets and dampened appetite in Nigeria.

Suffice to say that the loss recorded would have been bigger, save for investors assessing the impact of positive news both on the macroeconomic front and corporate landscape. On economic data, the NBS reported that Q4-17 GDP expanded by 1.92% y/y (2017FY: 0.83%), with growth supported by a rebound in the non-oil sector – suggesting corporate performance likely improved during the quarter. Though released at the tail end of the month, data on Nigeria's capital importation and foreign trade statistics for the fourth quarter of 2017 were also encouraging. Plus, the CBN's PMI data for the month of February shows that business owners and manufacturers remain optimistic of the economic environment, strengthening optimism for sustained output growth over Q1-18.

**6 March 2018**

On corporate releases, Seplat Petroleum Development Company Plc's Q4-2017 result was most impressive, driving rally in the company's stocks, while Nigerian Breweries Plc reported fair performance. On the other hand, Total Plc and United Capital Plc performances were below expectation, but soothed shareholders by declaring per share dividends of NGN14.00 and NGN0.35, with respective yields of 7.33% and 8.66%. Also, dividends were declared by Nigerian Breweries Plc (NGN3.13 per share), Transcorp Hotels Plc (NGN12.45 per share), and Africa Prudential Registrars Plc (NGN0.40 per share), with respective yields of 2.45%, 164.90% and 8.44%.

**Table 1: NSE Top Gainers & Losers**

Gainers			Losers		
Ticker	MTD	YTD	Ticker	MTD	YTD
LINKASSURE	24.64%	30.30%	HMARKINS	-48.00%	-48.00%
UNITYBNK	17.11%	235.85%	UNIC	-47.83%	-52.00%
NEM	16.02%	26.51%	COURTVILLE	-46.00%	-46.00%
BETAGLAS	15.64%	40.52%	MULTIVERSE	-37.50%	-40.00%
UNILEVER	15.06%	24.88%	SKYEBANK	-34.01%	94.00%

Source: NSE, Cordros Research

All sector indices – Oil & Gas (-6.16%), Consumer Goods (-2.82%), Banking (-1.81%), and Industrial Goods (-1.41%) – closed negative, save for the Insurance (+0.06%) index. The notable stocks include MOBIL (-14.86%), NB (-7.17%), FBNH (-17.20%), WAPCO (-5.55%), and LINKASSURE (+26.64%) respectively. Meanwhile, 25 (vs. 68 in January) stocks posted gains during the period, while 74 (vs. 17 in January) recorded losses, led by LINKASSURE (+26.64%) and HMARKINS (-48.00%) respectively.

**Table 2: NSE Sector indices Performance**

Index	NSE Sector Indices			
	28-Feb	31-Jan	m/m NGE	y/y Change
NSE Banking	575.56	586.16	-1.81%	21.06%
NSE Consumer Goods	1003.67	1032.79	-2.82%	2.82%
NSE Industrial	2351.35	2384.93	-1.41%	19.02%
NSE Insurance	157.52	157.43	0.06%	13.02%
NSE Oil/Gas	343.64	366.19	-6.16%	3.92%

Source: NSE, Cordros Research

The NSE's recent Foreign Portfolio Investment Flows report for January showed that total transactions (NGN480.80 billion) on the bourse remained healthy, although declining by 17.96% from the high-based December figures, which was flattered by a surge in domestic transactions, following a cross-deal in DANGCEM. Foreign and domestic transactions dropped by 19.42% and 16.87% to NGN166.39 billion and NGN228.05 billion, but remained well above 2017 monthly averages of NGN100.63 billion and NGN111.28 billion respectively. Domestic investors continued to dominate activities in the market, contributing 57.82% (previously 57.05% in December), while foreign investors accounted for 42.18% (previously 42.95%) of total transactions during the period. Foreign inflows remained higher than outflows during the period, although, net inflow dropped by 87.81% m/m to USD17.11 million, compared to December's NGN140.38 million.

A major highlight of the month was the release of the CBN's circular titled, 'RE: Internal Capital Generation and Dividend Payout Ratio' – an update to an earlier circular released in 2004 – which contains requirements to be met by Nigerian banks vis-à-vis dividend payment, and is aimed at ensuring sufficient and adequate capital build up consistent with banks' risk appetite.

6 March 2018

Initial reaction to the circular triggered mild selloffs of banking stocks. The panic was however short-lived, thanks to a number of analyst reports (including Cordros') that showed the impact of the amendment on banks' (1) dividend payouts as largely immaterial, and (2) capital buffers as positive. It is also worth stating that the news on fund financing in JAPAUOIL by Milost Global Inc (a New York based Private Equity firm), and an announced acquisition of a tier II bank (speculated to be UNITYBNK), spurred interests in the stocks, gaining 8% and 17.11% respectively.

Technically, the market maintained neutral momentum through most of February, as the average 14-day Relative Strength Index (RSI) stood at 52.03, from an overbought position in January (Ave. RSI: 73.61).

**Our outlook for the equities market remains positive, on the backdrop of strengthening macroeconomic fundamentals, and the release of more Q4-2017 corporate earnings, which are broadly expected to be positive and are likely to support positive investors' sentiments.**

#### Fixed Income and Money Market

##### *Money Market*

The overnight lending rate fell by 75bps to close the month at 4.5%, driven by buoyant system liquidity in the last week of the month (NGN279.53 billion vs. NGN136.41 billion in the first three weeks) and anticipation of an inflow via maturing OMO bills (NGN 109.38 billion). Outflows from FX (USD1.49 billion vs. USD1.41 billion in January) and OMO sales (NGN566.84 billion vs. NGN2.08 trillion), outweighed inflows from the monthly FAAC disbursement to state and local governments (NGN223.99 billion) and matured OMO bills (NGN214.12 billion). Average system liquidity decreased by 0.6% to N157.87 billion, from N158.88 billion in January.

**Notwithstanding expected inflows via maturing OMO bills, valued at NGN864.75 billion, and budgetary allocations (we estimate NGN200 billion) to state and local governments, we expect the overnight rate to expand in March, with the central bank's OMO auctions and FX sales keeping a lid on liquidity position.**

##### *Treasury Bills*

The second month of the year saw treasury bills yields expand, once again by 41 bps, on average, to 14.22%. Investors sold-off at all ends (short: +115 bps, mid: +18 bps and long: +1 bp) of the curve, with the 08-MAR-18 (+202 bps), 02-AUG-18 (+82 bps), and 13-SEP-18 (+39 bps) notes recording the largest expansions respectively. During the month, the Minister of Finance, Kemi Adeosun, announced plans to redeem treasury bills worth NGN762.5 billion using proceeds of the recently issued USD2.5 billion Eurobond – the second tranche of the USD5.5 billion which was approved last year – in line with the government's new debt management strategy aimed at reducing borrowing costs.

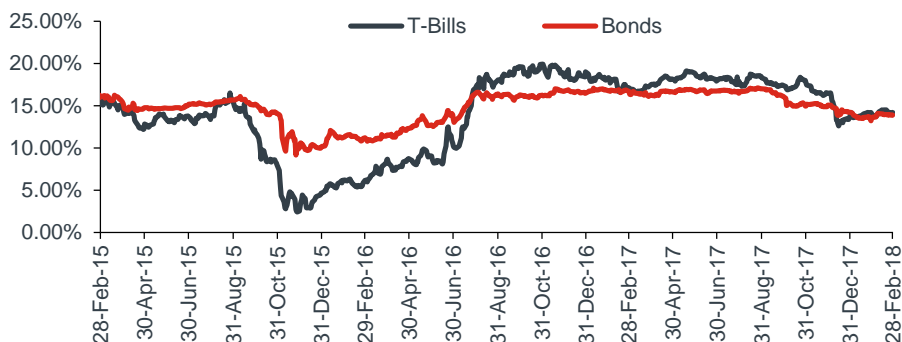
Two primary auctions were conducted during the month. At the first, the apex bank fully allotted NGN6 billion of the 91-day, NGN30 billion of the 182-day, and NGN140 billion of the 364-day bills at respective stop rates of 11.95% (12.00% at the previous auction), 13.65% (13.65% at the previous auction), and 13.70% (13.70% at the previous auction). At the second auction, without prior notice, the CBN halved the total amount of bills offered. Specifically, the bank reduced the volume of the one-year bill (from NGN222.08 billion to NGN52.00 billion) while it offered higher amounts of the 91-day (from NGN7.89.

billion to NGN13.00 billion) and 182-day (from NGN30.00 billion to NGN64.99 billion) bills. Reflecting the increased liquidity position and reduced supply (of the one-year bill), yields closed lower across the 91-day (11.85%; previously 11.95%), 182-day (13.50%; previously 13.65%), and 364-day (13.50%; previously 13.70%) bills – with respective allotments of NGN13.00 billion, NGN65.91 billion, and NGN52.00 billion.

**While our expectation for a tighter liquidity position suggests constrained demand in the NTB market; we think still-attractive yields (particularly at the longer end of the curve), in addition to possible limited supply at the bi-weekly NTB auction, may likely stoke bullish sentiments in the secondary market.**

**6 March 2018**
**Bond**

Sentiments in the bond market reversed, with average yield recording a 31 bps m/m expansion to close at 13.72%. Sell-offs were recorded at all ends (short: +45 bps, mid: +42 bps, and long: +10 bps) of the curve, driven by the JUL-2021 (+64 bps), MAR-2027 (+38 bps), and APR-2037 (+14bps) notes respectively.

**Fig 2: FGN Bonds and Treasury Bills Average Yields**


Source: FMDQ, Cordros Research

At the primary auction, the FGN, via the DMO, allotted NGN27.18 billion (vs. NGN50 billion offered) of the JUL 2021 (re-issue) and NGN52.44 billion (vs. NGN50 billion offered) of the FEB-2028 (new-issue) bonds, at respective marginal rates of 13.70% (compared with 13.38% recorded at the previous auction and 22 bps less than the secondary market rate) and 13.98%. The JUL 2021 bond was undersubscribed, while the FEB-2028 bond was 1.57x oversubscribed.

**Table 3: Benchmark Bonds – Secondary Market**

Benchmark Bonds - Secondary Market3					
New Nomenclature	Issue Date	TTM	29-Sep	Change	31-Aug
^16.00 29-JUN-2019	29-Jun-12	1.33	13.99%	0.36%	13.63%
^15.54 13-FEB-2020	13-Feb-15	1.95	13.86%	0.21%	13.64%
^14.50 15-JUL-2021	15-Jul-16	3.37	13.68%	0.56%	13.12%
^16.39 27-JAN-2022	27-Jan-12	3.91	13.57%	0.48%	13.09%
^14.20 14-MAR-2024	14-Mar-14	6.03	13.71%	0.27%	13.44%
^12.50 22-JAN-2026	22-Jan-16	7.89	13.75%	0.30%	13.44%
^16.2884 17-MAR-2027	17-Mar-17	9.04	13.71%	0.32%	13.38%
^10.00 23-JUL-2030	23-Jul-10	12.39	13.65%	0.22%	13.43%
^12.1493 18-JUL-2034	18-Jul-14	16.38	13.57%	0.15%	13.42%
^12.40 18-MAR-2036	18-Mar-16	18.04	13.36%	-0.03%	13.38%
^16.2499 18-APR-2037	18-Apr-17	19.13	13.34%	0.11%	13.23%

Source: FMDQ, Cordros Research

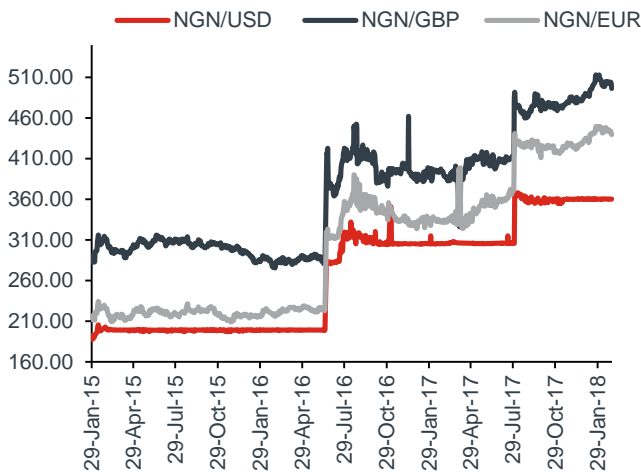
6 March 2018

We reiterate our expectation for lower yields in the short to medium term, anchored on sustained moderation of inflation rate (we estimate 14.66% for February), anticipated monetary easing, and the FGN’s commitment to its new debt strategy. At the next bond auction, the DMO will offer NGN35 billion - NGN45 billion of the FGN MAR 2025 (new issue) bond. In addition, NGN45 billion - NGN50 billion of the FGN JUL 2021 and FGN FEB 2028 bonds will be offered in re-openings.

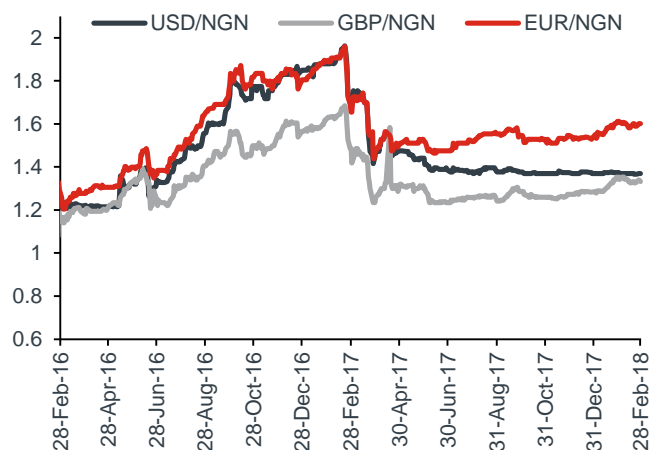
**Foreign Exchange**

The USD/NGN strengthened by 0.11% to NGN360.09 in the I&E FX window, while it weakened by 0.27% to NGN363 in the parallel market. Foreign reserves continued to record accretion, increasing by 4.26% m/m to USD42.35 billion – highest since February 2014 (USD42.40 billion) – with stability in oil prices (USD65.78 per barrel) and production (OPEC: 1.86mb/d) supportive of oil revenues. Consequently, the CBN increased its intervention, with monthly disbursement rising by 5.70% to USD1.49 billion during the period. The bulk (43.51%: USD647.04 million) of the sales passed through the Secondary Market Intervention Sales (SMIS), followed by the wholesale window with USD400 million, and the SMEs and invisibles segments with USD55 million apiece.

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



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



Source: FMDQ, Cordros Research

Total turnover in the I&E FX window dropped by 34.39% m/m to USD3.95 billion, with bulk (65.63%) of transactions consummated still within the range of NGN360 to NGN369, while 34.04% of transactions traded within the NGN340 to NGN359 band. Highlight during the month was the release of the CBN’s circular to authorized FX dealers, stating the abolishment of commission charges on retail forex transactions.

**In the absence of supply shocks, it is likely the naira remains stable at the current bands across the various markets, as the apex bank sustains its interventions in the FX space. Indeed, the external reserves will continue to benefit from stable oil prices and production, sustained foreign portfolio inflows, and proceeds from external borrowings.**

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**6 March 2018**

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