5 April 2018

Monthly Markets Review.
Overview of Markets in March and Outlook

Highlights

- Risky assets within our universe of coverage remained pressured, with concerns hinged primarily on geopolitical tensions and monetary policy decisions.
- The bears remained dominant on the domestic bourse, despite a positive earnings season.
- The overnight lending rate trended northwards, by 358 bps, following substantial outflows via FX and OMO sales.
- Treasury bill yields contracted, by 38 bps on average, as market players reacted to the declining inflation rate and reduced supply at the primary auction.
- Trading in the bond market was mixed, albeit with a bearish tilt, as strain in system liquidity kept a tight lid on demand, amid the lower-than-expected fall in February inflation rate to 14.33%.
- The naira remained stable during the month, as the CBN continued its support via persistent interventions, albeit at a slower pace.

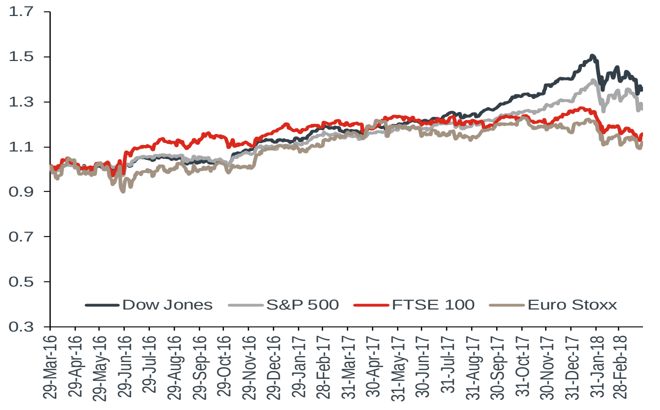
Global Equity Markets

U.S. equities extended losses, with the DJIA (-4.09% m/m) and S&P 500 (-4.01% m/m) posting negative returns for the month of March. As was the case in February, investors focused less on continued positive narratives about global economic growth. While the major concern in the second month of the year was largely inflation and bond market related, risky assets, in March, were flustered mainly by government actions which triggered geopolitical tensions. In that regard, we highlight the (1) resignation of Gary Cohn, US President's Chief Economic Adviser, (2) plans by President Trump to impose a 25% tariff on steel and a 10% tariff on aluminum imports, (3) replacement of Gary Cohn with incoming chief economic adviser, Larry Kudlow, which suggested alignment with President Trump's case for a stronger dollar and a tough position on China, and (4) elevated trade war between the U.S. and China, signaled by an announcement by President Trump to impose tariffs on up to USD60.0 billion worth of Chinese imports particularly in the aerospace, information & communication technology, and machineries categories. While the trade war concerns oscillated between easing and resurging during the month, the overall impact on stock prices was negative.

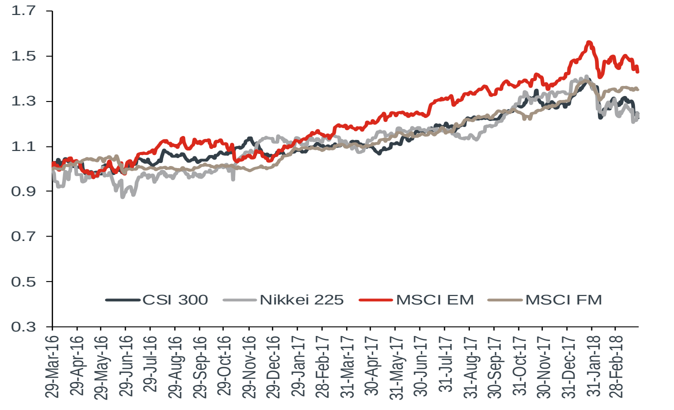
Away from government action, sentiments also weakened, on the back of notable tech selloffs which was triggered by the news of social media giant Facebook data-use breach, hint of a more aggressive interest rate hike by the Fed after an optimistic outlook for the U.S. economy, and a drop in crude oil prices (to USD65/barrel levels) following higher output in the U.S. Meanwhile, oil prices later rebounded – boosting energy shares – amid declining output in Venezuela.

European markets were equally hit by the technology-sector and trade-war worries that ruffled equities during the month. Compared to their respective February's close points, both the FTSE 100 and Euro Stoxx 50 were lower by 2.26% and 2.19% respectively in March. In addition to global trade war fears, European investors focused on monetary policy decisions and unimpressive corporate earnings. Specifically on monetary policy decisions, easing concerns that the Federal Reserve will raise borrowing rates by more than anticipated this year caused the

Fig 1: Global Indices (Index of 1)



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



***Source**: Bloomberg, Cordros Research* euro and the U.K. pound to appreciate against the U.S. dollar. Also, shares of metal producers were hit after the resignation of White House economic adviser Gary Cohn.

Despite the continued selloffs across European markets, we note bargain hunting (albeit short-lived) during the month. Suffice to say that investors found respite in external developments. For instance, in the U.S., industrial production rose the most in four months in February, the University of Michigan's consumer-sentiment index jumped to a 14-year high in March, while jobs data was better-than-expected. Plus, markets in the Eurozone got a boost from German utility stocks after a complex deal within the industry was reached. Both the euro and pound later retreated; the former, on the back of a disappointing reading on German business sentiment while the latter was driven by a slowdown in British inflation which helped lift U.K. blue-chip stocks.

It was a similar narrative across Asian markets, with the Nikkei 225 (-4.12% m/m) and CSI 300 (-3.22% m/m) extending losses. As expected, stocks were pressured by the fears of the escalation of trade protectionism after President Trump announced steel and aluminum tariffs. Still a part of the geopolitical jitters was Italian elections, in addition to the negative impact of the news that (1) Gary Cohn would resign as President Trump's top economic adviser after he lost a fight over tariffs and (2) U.S. Secretary of State Rex Tillerson had been fired. On the monetary policy front, the People's Bank of China (PBOC) was spurred to lift borrowing rates following Fed rate move – causing stock prices to drop.

Though short-lived, markets in the region enjoyed moments of upbeat trading, thanks to news of a surprise meeting between North Korean leader Kim Jong Un and President Donald Trump, which eased some investors' worries about geopolitical tensions. Plus, investors too cues from bullish sentiment on Wall Street after the U.S. February jobs report eased investors' worries about inflation.

Activities across emerging and frontier markets were equally downbeat, with the MSCI EM and MSCI FM indices posting monthly losses of 2.72% and 0.22% respectively. The selloffs in China and Brazil (-0.10% m/m) weighed on the emerging market index while the decline in the frontier market index reflects losses in Nigeria (-4.22% m/m) and other regions – which overshadowed gains in Kenya (+5.20 m/m) and Ghana (+0.89% m/m) amid improving macroeconomic conditions.

Nigeria

Equities Market

The bears remained dominant on the domestic bourse, despite a positive earnings season – with most companies posting impressive Q4-17 and 2017FY results in line with market expectations – and still-positive macroeconomic fundamentals. It can be argued that investors were still booking profit on the notable accumulated gains from 2017 (+42.30%) through January 2018(+15.95%). The ASI shed 4.21%m/m – the second consecutive loss in the year and the largest monthly loss since November 2016 – to close at 41,504.51 points, with 14 of 21 trade sessions closing in the red. Notwithstanding February and March's selloffs, it is worth stating that the market posted a positive return (+8.53%) for the first quarter of the year. For insight, that was the first quarterly gain since Q1-2013 (+19.44%), corroborating our view that the current episode of profit-taking is likely to revert.

Many of the companies, as earlier stated, posted broadly positive FY-17 earnings. Most tier I banks – GUARANTY, ZENITHBANK (-8.15%), and UBA (-7.48%) -- posted positive growth in their FY-17 earnings. However, significant impairment provisions weighed on overall earnings. In the consumer goods segment, NESTLE, CADBURY, and FLOURMILL also reported impressive FY-17 earnings, overshadowing the unimpressive performance in PZ's Q3-18 earnings. The market's heavy weight, DANGCEM, also posted impressive earnings, showing significant growths in revenue. However, surge in the effective tax rate, weighed on the bottom line.

On the macroeconomic front, the NBS' GDP report for the fourth quarter of 2017 showed continued expansion in output growth for the period, and more importantly, a more balanced growth for the oil and non-oil sectors (relative to Q3-17). In addition, inflationary conditions continue to improve with February figures showing a faster-than-expected moderation in consumer prices. Also, within context, PMI data for the month of March cements expectation for continued output expansion over Q1-18.

The Banking (-9.55%) index recorded the largest loss among the sectoral indices, owing to profit taking in GUARANTY (-8.78%) and ZENITHBANK (-8.15%). The Industrial Goods (-6.77%), Insurance (-4.08%), and Consumer Goods (-2.54%) indices also followed suit, following selloffs in the shares of DANGCEM (-3.63%), AFRINSURE (-42.11%), and NESTLE (-4.30%) respectively. The Oil & Gas index was the sole gainer, inching higher by 0.95%, following earlier interests in JAPAULOIL (+9.26%) shares.

Market breadth remained negative, with 68 losers and 35 gainers, led by GLAXOSMITH (+61.90%) and FTNCOCOA (-50.00%) respectively. In particular, GLAXOSMITH's significant gain (having led the weekly gainers' list for two consecutive weeks) was driven by the declaration of a special dividend of NGN7.10/s (from the sale of its drinks business), in addition to the 40 kobo/s dividend from its FY-17 earnings, both translating to a yield of 34.01% as at the day of the announcement.

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Table 1: NSE Sector Indices Performance

Index	29-Mar	28-Feb	m/m Change	y/y Change
NSE Banking	520.57	575.56	-9.55%	9.49%
NSE Consumer Goods	978.14	1003.67	-2.54%	0.21%
NSE Industrial	2192.12	2351.35	-6.77%	10.96%
NSE Insurance	151.09	157.52	-4.08%	8.41%
NSE Oil/Gas	346.91	343.64	0.95%	4.90%

Source:*NSE, Cordros Research*

Table 2: NSE Top Gainers & Losers

Gainers			Losers		
Ticker	MTD	YTD	Ticker	MTD	YTD
GLAXOSMITH	61.90%	57.33%	FTNCOCOA	-50.00%	-60.00%
ABCTRANS	44.44%	4.00%	SOVRENINS	-45.24%	-54.00%
NEM	30.95%	65.66%	AFRINSURE	-42.11%	-56.00%
FIRSTALUM	27.91%	10.00%	REGALINS	-39.58%	-42.00%
HMARKINS	26.92%	-34.00%	UNITYBNK	-31.46%	130.19%

Source: *NSE, Cordros Research*

A major highlight of the month was the "Milost drama", which triggered mixed trading in JAPAULOIL and UNITYBNK stocks during the month. Milost Global Inc — a New York-based private equity firm — had announced a USD350 million and USD1 billion investment in Japaul Oil and Unity Bank, respectively. That sparked interest in the stocks, particularly in JAPAULOIL, which peaked 177.14% return earlier in the month, from the day of the announcement in February. However, controversy regarding validation of the PE firm's statements, after UNITYBANK's management denied the firm's claims, caused selloffs in the respective stocks.

Meanwhile, the shares of Seven-up Bottling Company Plc were voluntarily delisted from the NSE during the month, following the minority shareholders' prior approval of a USD70 million takeover bid by the majority shareholder, Affelka.

Notwithstanding continued decline, our medium-to-long term outlook for equities favours positive returns, anchored on strengthening optimism about macroeconomic conditions, positive corporate performance, declining yields on debt instruments, and partly, compelling re-entry opportunity created by lower share prices.

Fixed Income and Money Market

Money Market

In line with our outlook, the overnight lending rate trended northwards, by 358 bps, to close the month at 8.08%. Outflows from FX (USD1.18 billion) sales, OMO sales (NGN1.88 trillion), and primary market auctions (NGN343.73 billion) outweighed inflows from matured OMO bills (NGN 534.05 billion) and primary market repayments (NGN599.33 billion).

Despite expected significant inflows from maturing OMO bills (valued at NGN1.32 trillion) and budgetary allocations to state and local governments (estimated at NGN400 billion), the overnight money market rate is likely to expand in April, as we expect the apex bank to ramp up the frequency of its open market operations, in order to mop up excess liquidity.

Treasury Bills

The third month of the year saw treasury bill yields contract, by 38 bps on average, to 14.74%. Sentiments were bullish as market players reacted to (1) higher-than-expected moderation in February inflation (14.33%), and (2) the release of the NTB auction calendar for Q2-2018. The released calendar indicated a marked reduction in the amount of bills being offered (NGN481 billion) compared to the amount maturing (NGN964 billion) — in line with the government's new debt management strategy of substituting expensive short-dated domestic debt for cheaper long-dated foreign borrowings. Notably, average yield dropped across all ends (short: -45 bps, mid: -34 bps, and long: -26 bps) of the curve, with the 19-APR-18 (-170 bps), 05-JUL-18 (-103 bps), and 17-JAN-19 (-68 bps) notes recording significant contractions, respectively.

Two primary auctions were conducted during the month. At the first, NGN6.22 billion, NGN4.00 billion, and NGN85.50 billion of the 91-day, 182-day, and 364-day bills were allotted. The bills were

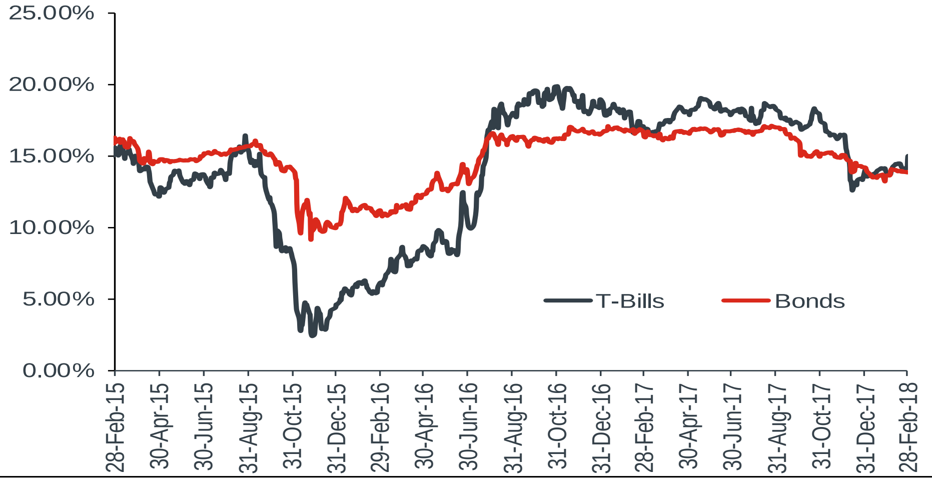
1.8x oversubscribed, with yields closing lower across the 91-day (11.75%; previously 11.85%), 182-day (13.00%; previously 13.50%), and 364-day (13.19%; previously 13.50%) bills. At the second auction, NGN5.40 billion, NGN8.39 billion, and NGN40.18 billion of the 91-day, 182-day, and 364-day bills were allotted by the CBN. The bills were 1.48x oversubscribed, with a higher stop rate on the 91-day (11.95%; previously 11.75%) and lower stop rate on the 364-day (13.15%; previously 13.19%) bills. The stop rate on the 182-day bill closed at 13.00%, same as in the prior auction.

While the reduced supply of bills at the primary market auctions may likely fuel bullish sentiments in the secondary market, the expected squeeze in liquidity position may likely constrain demand, driving yields northward. Plus, the frequency and supply of OMO bills, in addition to the stop rates at the OMO auctions, could dictate yield direction – particularly for the longer dated bills.

Bond

Trading in the bond market was mixed, albeit with a bearish tilt, as strain in system liquidity kept a tight lid on demand, amid the lower-than-expected fall in February inflation rate to 14.33%. Consequently, average yield recorded a 1 bp m/m expansion to close at 13.69%.

Fig 2: FGN Bonds and Treasury Bills Average Yields



***Source**: FMDQ, Cordros Research*

Yield contraction at the short (-4 bps) and mid (-7 bps) ends of the curve were offset by expansion at the long (+12bps) segment. Notable bonds include the FEB-2020 (-22 bps), MAR-2024 (-13 bps), and MAR-2036 (+22bps) notes respectively.

Table 3: Benchmark Bonds – Secondary Market

Description	TTM	29-Mar	Change	28-Feb
^16.00 29-JUN-2019	1.25	13.92	-0.09	14.01
^15.54 13-FEB-2020	1.88	13.68	-0.22	13.89
^14.50 15-JUL-2021	3.30	13.89	0.12	13.76
^16.39 27-JAN-2022	3.83	13.62	0.01	13.61
^14.20 14-MAR-2024	5.96	13.59	-0.13	13.72
^12.50 22-JAN-2026	7.82	13.69	-0.06	13.75
^16.2884 17-MAR-2027	8.97	13.75	-0.01	13.76
^10.00 23-JUL-2030	12.32	13.65	0.01	13.64
^12.1493 18-JUL-2034	16.30	13.62	0.07	13.54
^12.40 18-MAR-2036	17.97	13.64	0.22	13.42
^16.2499 18-APR-2037	19.06	13.54	0.17	13.37

***Source**: FMDQ, Cordros Research*

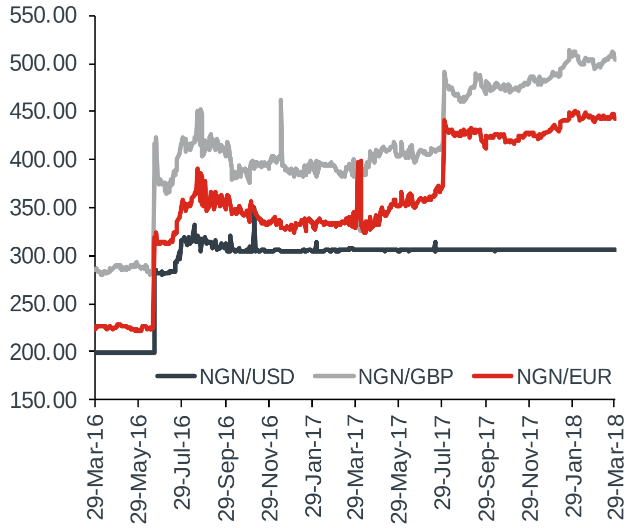
Similar to the released NTB auction calendar, the March bond circular revealed a reduced offered amount of NGN70 billion (NGN10 billion of the 5-year; NGN30 billion of the 7-year; and NGN30 billion of the 10-year bonds) compared to the NGN140 billion earlier guided in the Q1-18 bond issuance calendar. Following that, at the primary market auction, the DMO allotted NGN10.05 billion of the JUL-2021 note (re-opening), NGN8.91 billion of the MAR-2025 note (new issue) and NGN45.10 billion of the FEB-2028 (re-opening) note at respective marginal rates of 13.40% (vs. 13.70% previously), 13.53%, and 13.60% (vs. 13.98% at previous auction).

Our theme on the bond market continues to favour downward trending yields, as continued signals of monetary easing, the federal government's new debt management strategy, and moderating inflation rate (we estimate 13.52% for March) will remain key drivers of yield movement in the near-to-medium term.

Foreign Exchange

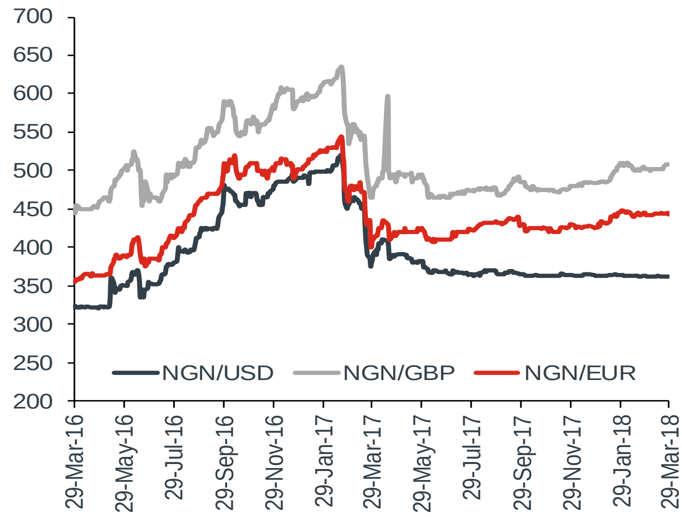
The naira remained stable during the month, as the CBN continued its support via persistent interventions, albeit at a slower pace. Total injections into the forex market dipped by 20.96% to USD1.18billion, against USD1.49 billion in the previous month – USD400 million and USD335.43 million to the wholesale window and in SMIS respectively, with USD220 million apiece to the SMEs and invisibles segments. Meanwhile, foreign reserves (+1.21%: USD46.21 million) remained buoyed by oil revenues, amid stable oil prices (+6.48% to USD70.04) and production (OPEC: +1.40% to 1.81 mb/d).

Fig 3: Interbank Market FX Rate



Source: *FMDQ, Bloomberg, Cordros Research*

Fig 4: Parallel Market FX Rate



Source*: abokiFX, Cordros Research*

Accordingly, the USD/NGN strengthened by 0.10% and 0.28% to NGN360.06 and NGN362 in the I&E FX window and parallel market, respectively. Interestingly, the USD/NGN was unchanged at NGN362 in the parallel market throughout the month, save for three sessions – wherein it traded atNGN363/USD. Growth in total value of trades in the I&E FX window turned positive, improving by 24.99% to USD5.15 billion. Bulk of trades (62.79%, previously 65.63%) in the window remained in the NGN360-NGN369/USD band, while 37.2% traded within the NGN340-NGN359/USD band.

Our view of the forex market remains positive, as growth in oil revenues continue to shore up the foreign reserves, supporting the CBN's interventions in the market and aiding stability of the naira.

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Important Disclaimers