Macro

The Nigerian economy was supported by the recent uptrend in Brent oil prices, which inched up 7% month-on-month (m/m) to US$70/barrel levels in March 2018. While this was partly driven by increased tensions in the Middle East, the steeper decline in Venezuela's oil production levels was also supportive. We believe this as well as relative calm in the Niger Delta, which has seen oil production maintain 1.8million barrels per day levels (excluding condensates), should be a positive for oil sector output in Q1 2018. The nation's GDP growth could also see support from the continued resilience in business sentiment as indicated by the Central Bank of Nigeria's (CBN) March 2018 Purchasing Managers' Index (PMI). The index showed an expansion in both manufacturing and non-manufacturing activities for the 12th and 11th month respectively. With this said, we point out that the postponing of the passing of the N8.6trillion 2018 budget could limit the non-oil sector output (1.45% growth in Q4 2017) in the near term.

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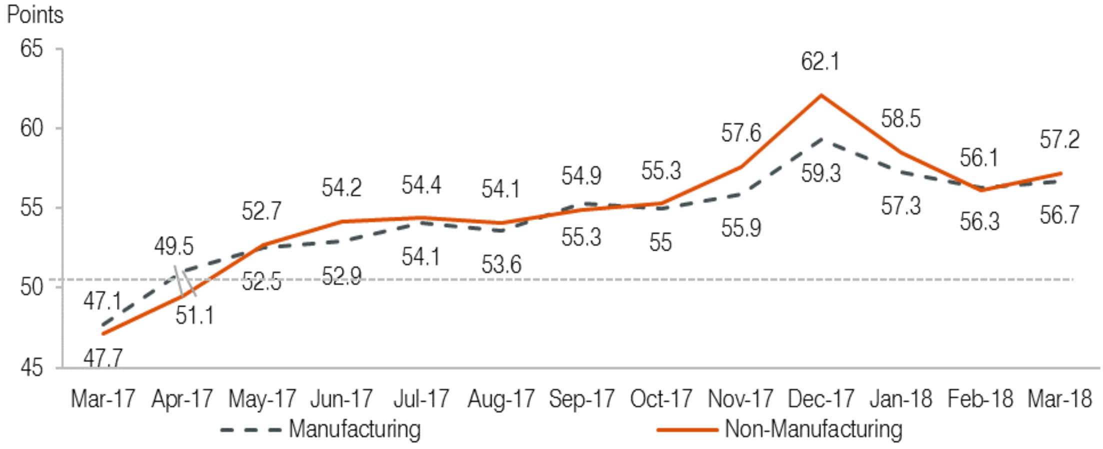
Central Bank of Nigeria's Purchasing Managers' Index

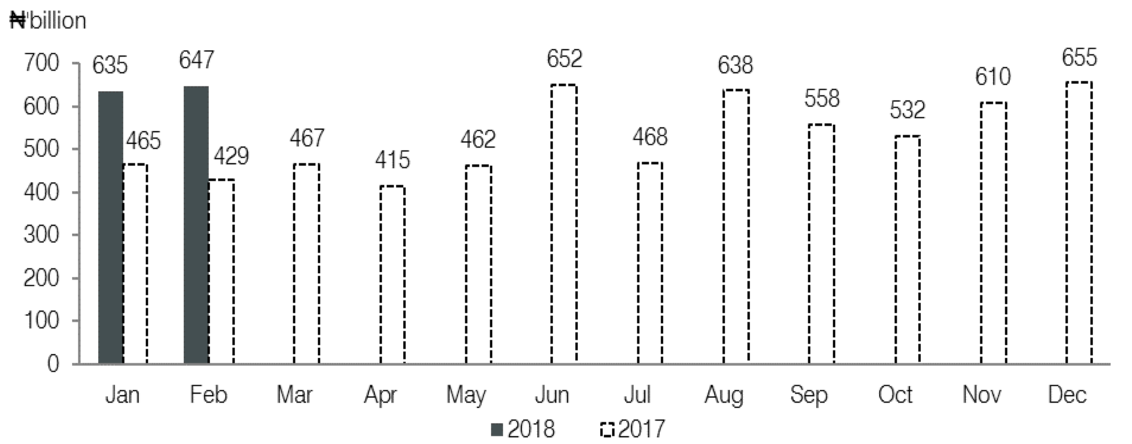


Source: CBN, Investment One Research

Fiscal

Although the President directed Ministries, Departments & Agencies of government to submit details of their budget to the National Assembly by the 23rd of March 2018, the National Assembly postponed the passing of the 2018 budget till May 2018. In our view, this could be a negative for the implementation of the budget, specifically capex spending, which the administration failed to fully disburse in 2016 and 2017 as a result of delays in the passing of the respective budgets in those years and difficulties in raising offshore debt. Nonetheless, Federation Account Allocation Committee (FAAC) disbursement in March 2018, generated in February 2018, continued to increase, rising 3% m/m and 53% year-on-year (y/y) to N655billion due to the gains from the oil sector. However, FACC disbursements are still below the N700billion threshold required to cover monthly salaries, statutory transfers and debt service, according to the Vice President. With this said, we expect the government's debt service to revenue ratio to decrease in the near term, from 45%, as the administration's refinancing efforts continue to bear fruit. This combined with the higher oil prices and the increase in excise duty on alcoholic beverages and tobacco should be a positive for the government's spending capacity and revenues.

Federation Account Allocation Committee (FAAC)

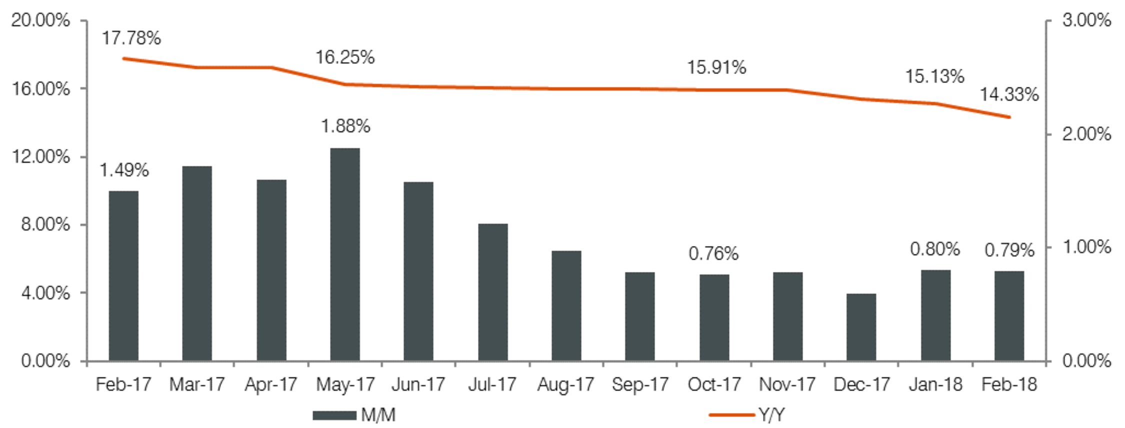


Source: NBS, Investment One Research

Inflation

In the month of February 2018 we saw headline inflation moderate for the 13th consecutive month according to the NBS inflation report. Headline inflation moderated to 14.33% y/y from 15.13% y/y in January 2018. This slowdown in inflation was largely influenced by the high base effect of 2017, with headline inflation at 17.78% February 2017 the highest since 2005 levels. The base effect was more prominent on the Food sub-index, which fell to a 14th month low of 17.59% y/y in February 2018 after hitting an eight year high of 20.32% y/y in September 2017. Core sub-index slowed by 40 basis points (bps) to the point of 11.71% y/y. Also, the rise in transport index moderated to 12.26% y/y in February 2018, from 12.38% y/y in January 2018, which we opine may have aided the downward trend in inflation. We highlight that the 15.10% y/y increase in average price paid for PMS to N172.5 per litre, in February 2018, though lower than January 2018's figure, may have hindered a further reduction in headline inflation.

Headline Inflation

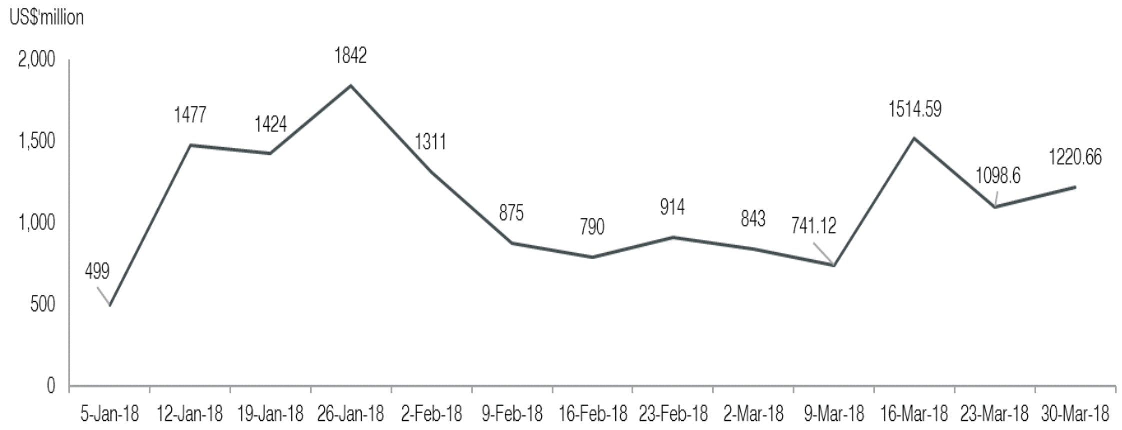


Source: FMDQ, Investment One Research

Foreign Exchange

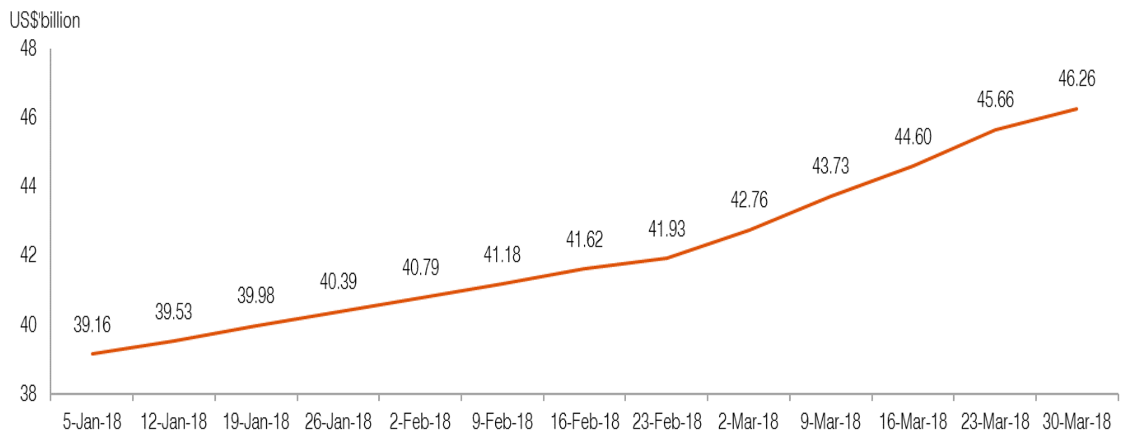
In the month of March, the CBN sold US$1.54billion, under its FX intervention, to various segments of the market in support of the NGN. Success in offshore borrowings, the recent stability in oil production and higher Brent oil prices contributed to the accretion in FX reserves, which inched by 8.73% m/m to US$46.26billion. While CBN's dollar sales supported the local currency in the parallel market at N363/USD levels, the accretion in FX reserves sustained confidence in the Investors' & Exporters' FX window as the Naira continued to close at N360/USD levels in this space. Furthermore, average weekly turnover increased to an average of US$1.26billion per week, from the previous month's US$1.02billion per week.

Investors' & Exporters' FX Window Weekly Turnover



Source: FMDQ, Investment One Research

Foreign Exchange Reserves Movement

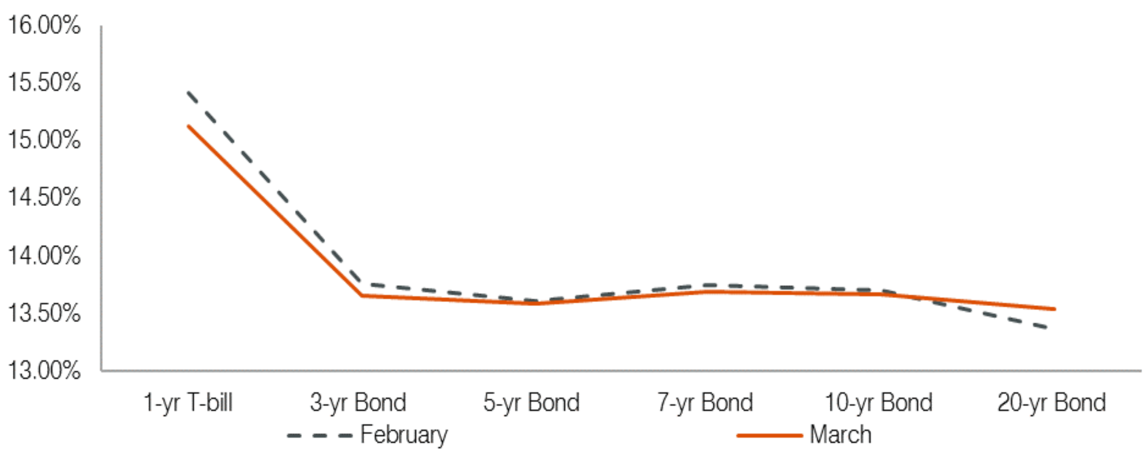


Source: FMDQ, Investment One Research

Monetary Policy and Fixed Income

While the Senate recently confirmed the appointment of two Deputy Governors and three members of the Monetary Policy Committee (MPC), the Monetary Policy Committee meeting, which was meant to take place in March 2018 was postponed to April 2018. Consequently, the benchmark interest rate remained at 14% but yields in the fixed income space contracted. This may not be unconnected to the continued refinancing of local debt with offshore borrowings with N480billion to be redeemed by the end of Q2 2018. Yield on the 5yr benchmark bond increased by 1bp while yields on the 7yr and 10yr benchmark bonds decreased by 13bps and 1bp m/m to 13.62%, 13.59% and 13.75% respectively while the yield on the 1yr T-bill shed 29bps m/m to 15.13%. With this said, the Apex bank continued to auction OMO bills (₦1.4trillion sold at 12.6-14.4% stop rates) to squeeze system liquidity in defence of the local currency.

Federal Government Naira Denominate Bond Yield Curve Movement



Source: FMDQ, Investment One Research

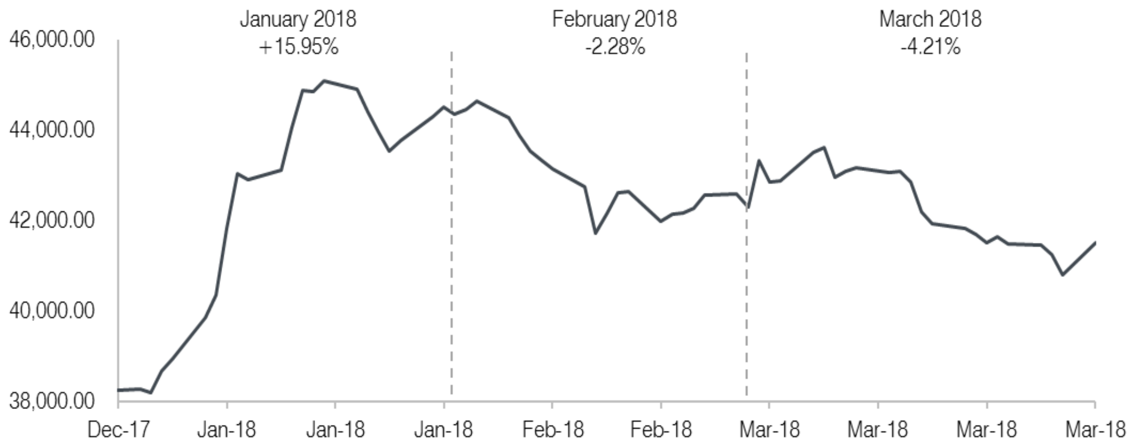
Equities

Investors were bearish in the equities market as the ASI shed 4.21% m/m in March 2018, despite the release of FY 2017 scorecards, which were fairly positive. Activity levels varied as average total daily volume fell by 18.94% m/m, while average total daily value rose by 22.38% m/m to 484 million units of shares and N6.49 billion respectively. While the decline in the ASI may not be unconnected with profit taking from the impressive returns on various stocks since the start of the year as well as investors positioning to take advantage of the earning season, we believe the strong fundamentals i.e. oil price between US$60-70 per barrel and increase in FX reserves should continue to sustain a favourable environment for both foreign and local investors in the near term.

Market Data	February 2018	March 2018
NSE-ASI (pts)	43,330.54	41,504.51
NSE-ASI (% Chng)	-2.28%	-4.21%
Market Cap. (N'Trillion)	15.55	14.99
Deals/Trades	112,118	102,703
Volume ('Billion)	11.94	10.17
Value Traded (N'Billion)	106.03	136.24

Source: NSE, Investment One Research

NSE-ASI Performance



Source: NSE, Investment One Research

Outlook

Macro: In the near term, we expect activities in the oil sector to continue to have a strong influence on the nation's GDP performance given the on-going improvement in production levels and the stability in Brent oil price. This combined with the recent rebound in consumer demand should be a positive for economic activities going forward.

Fiscal: Gains from the oil sector and the Voluntary Asset and Income Declaration Scheme should continue to be supportive of government revenues in the near term. Furthermore, with the administration commencing the refinancing of local debt, we could start to see a reduction in the country's debt service to revenue ratio towards the c.31% target set in the proposed 2018 budget. Although, this should be a positive for the government's spending capacity, the delay in passing of the 2018 budget is still a concern while the US Federal Reserve's rate hikes could pressure the cost of offshore borrowing.

Inflation: The stability of the Naira and the benefits of the high base effect of H1 2017, should bode well for a further moderation in headline inflation in 2018. However, we highlight that the majority of this may take place in H1 2018 as election spending and the possible increase in the national minimum wage in Q3 2018, could pressure consumer prices in H2 2018. Furthermore, lingering scarcity of PMS could also be a negative for our outlook.

Foreign Exchange: The country's FX reserves should continue to trend upward on the back of rising domestic oil production and global oil demand. While the strengthening of the nation's external position should be a positive for investor confidence and consequently capital importation, we could see a moderation going forward on the back of concerns regarding 2019 elections and the potential for heightened political risk. Nonetheless, we expect the strengthening of FX reserves to absorb likely demand pressures from foreign investor outflows in H2 2018 resulting in a fairly stable local currency. Although the timing of the passing of the proposed 2018 budget remains uncertain, plans to borrow offshore to part finance the N2trillion deficit and the possible re-inclusion of Nigeria in the JP Morgan GBI-EM Index could see FX reserves rise beyond our US$50billion outlook for Q2 2018.

Fixed Income & Monetary Policy: The slide in headline inflation could lead to the CBN shifting to a more accommodative monetary policy. While this and the refinancing of local debt with offshore borrowings portends to a decline in yields in the fixed income space, we highlight the need to continue to maintain foreign investor inflows in defense of the Naira. This may limit the potential moderation in yields in the fixed income space particularly with the possibility of increased political risk in H2 2018. As such, we see scope for only a 100basis point decrease in yields in the fixed income space, majority of which may be on short dated instruments. Nonetheless, we highlight a faster than expected hike in interest rates by the US Federal Reserve remains a downside risk while the potential re-inclusion of Nigeria in the JP Morgan GBI-EM Index poses an upside risk.

Equities: Although the decline in yield in the fixed income market should be a positive for equities market, we expect the Nigerian Stock Exchange to retrace post earnings season, in the absence of a positive catalyst, as focus shift towards 2019 elections. With this said, the much discussed IPO of MTN Nigeria as well as the possible re-inclusion of Nigeria in the JP Morgan GBI-EM index could be a positive for foreign investor sentiment, participation and consequently the NSE-ASI performance in Q2 2018.

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