20 April 2018

Weekly Economic and Market Update.

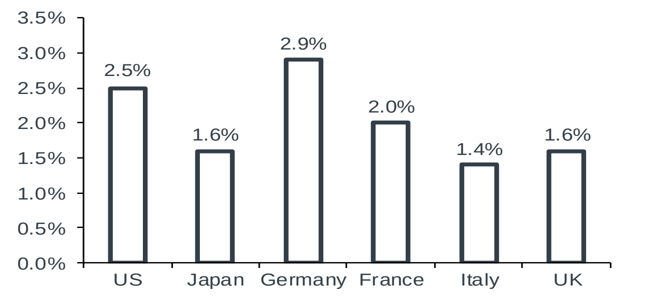
Overview of Markets in the Week Ended 20 April 2018

Global Economy

Data released by the National Bureau of Statistics showed the Chinese economy maintained its pace of growth at 6.8% (y/y) in Q1 2018 – same as in the previous two quarters. The better-than-expected growth was on the back of a pickup in construction and manufacturing, which accounts for 39% of GDP and grew 6.3% from a year earlier. Increased consumption, property investments and exports also supported the growth in the quarter. The services sector, which remained China's largest GDP-contributor (accounting for 57% of economic output), expanded by 7.5% y/y. **Growth in the Chinese economy may likely lose momentum from current levels going forward, in line with the official full year target of a 6.5% growth, as local governments are expected to wind down infrastructure projects to curtail debts, and as property sales cool off. The trade rift with the US also pose a downside risk to the economic giant's growth.**

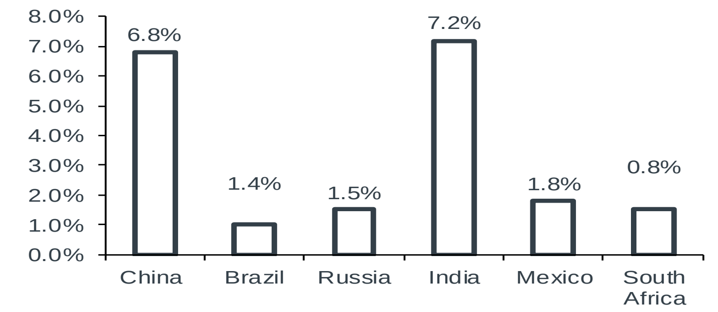
Inflation rate in the UK fell to 2.5% in March, falling short of polled expectations that the CPI will hold steady at 2.7%. This was the lowest rate of price growth in a year and has dampened expectations of likelihood of two more interest rate hikes to 1.00% by the end of the year. Year-on-Year, prices rose slower for housing, water, electricity, gas and other fuels; as well as for clothing and footwear. Inflation was unchanged for restaurants and hotels, while it picked up for transport. The annual core inflation, which excludes prices of energy, food, alcohol, and tobacco dipped 1 bp to 2.3% -- falling short of market's consensus of 2.5%. Month-on-month, consumer prices inched up by 0.1%, against 0.4% m/m growth in February. **Amidst likelihood of an increase in interest rate in May, inflation is likely to draw closer to the BOE's CPI target of 2%.**

Fig 1: Annualized GDP Growth Rate Q4-2017 – DMs1



***Source**: IMF, Cordros Research*

Fig 2: Annualized GDP Growth Rate Q4-2017 – EMs

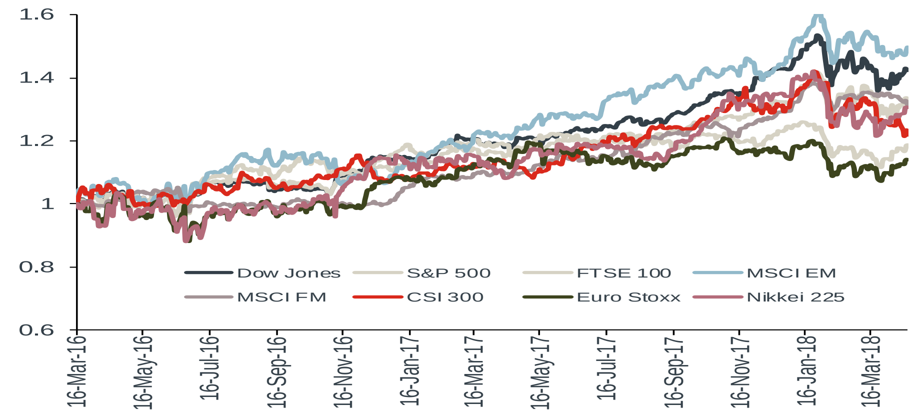


***Source**: IMF, Cordros Research*

Global Markets

Most global stock market indices within our coverage closed positive, as investors shifted focus away from trade war and geopolitical concerns to broadly positive corporate earnings releases. European market (FTSE 100: +1.26%; Euro stoxx 50: +1.16%) posted the largest gain, while stocks in the US (DJIA: +0.44%; SP 500: +069%) trailed closely. On the other hand, proceedings in Asia (Nikkei 225: +1.76; CSI 300: -2.85%) were mixed. Continued gains in Brazil (+0.34%) and other regions outweighed a loss in China, causing the MSCI EM (+ 1.20%) index to close positive. Meanwhile, selloffs persisted in Kenya (- 6.73%), and the bears resurfaced in Nigeria (-0.28%), offsetting the marginal gain in Ghana (less than 0.01%), and causing the MSCI FM (-1.06%) index to close lower.

Fig 3: Global Indices (Index of 1)



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

20 April 2018

Nigeria

Economy

The Central Bank of Nigeria (CBN) released its Consumer Expectations Survey Report for Q1-2018. It shows that consumers' overall outlook worsened in Q1-2018 with the index decreasing to -6.4 points (vs. 1.0 points in Q4-2017 and -29.4 points in Q1-2017) Respondents attributed the moderation in outlook to worsening economic conditions and family financial situation. However, the consumer outlook for the next quarter and next 12 months were positive at 20.8 and 28.5 points, respectively, attributable to the expected increase in net household income, the anticipated improvement in Nigeria's economic conditions, and expectations of increased savings in the next 12 months. **The improving consumer expectation suggests positive performance for businesses.**

In the April 2018 presentation of its World Economic Outlook (WEO), the International Monetary Fund (IMF) retained its 2018 GDP projection for Nigeria's economy at 2.1%. The Fund hinged its forecast primarily on (1) improved oil prices, revenue, and production, and (2) recently introduced foreign exchange measures that contribute to better foreign exchange availability. **While noting the positive feed-through of stronger output growth to business outturn and asset performance, we highlight risk factors including politics and external shocks.**

Table 1: Macro Indicators

Macro Indicators (Nig)	Current	Year Start	Forecast
Real GDP growth	1.92%	-1.30%*	+1.93% (Q1-18)
MPR	14.00%	14.00%	14.00% (Next meeting)
CPI	13.34%	18.72%*	12.57% (Apr-18)
Exchange Rate (USD)	NGN305.60	NGN305.50	NGN305.00 (27th Apr)
Foreign Reserve (USD'bn)	47.01	38.91	47.30 (27th Apr)
Unemployment	18.80%	14.2%*	20.3% (Q4-17)
Brent Crude Oil Price (USD)	73.06	66.57	70.00 (27th Apr)

* 2017

***Source**: CBN, Bloomberg, NBS, Cordros Research*

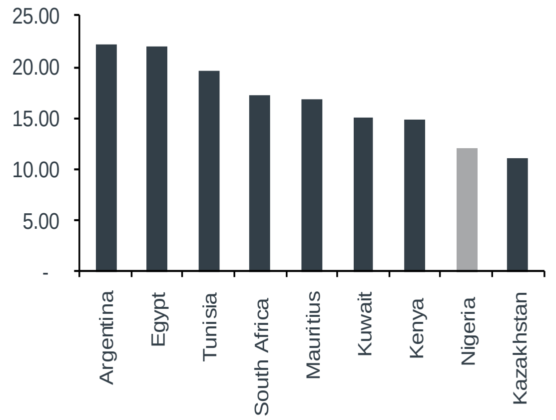
Capital Market

Equities

Nigerian equities closed negative, with the ASI shedding 0.28% to 40,814.89 points, following sessions of mixed trading during the week. The Month-to-Date and Year-to-Date returns dipped to -1.66% and 6.72% respectively. Three of the five major indices – Insurance (-1.17%), Consumer Goods (-0.86%), and Industrial Goods (-0.04%) – closed in the red, following selloffs of HMARKINS (-14.71%), UNILEVER (-13.04%), and JBERGER (-4.86%) stocks. Meanwhile, interests in the shares of SKYEBANK (+12.68%) and MOBIL (+17.65%) led to gains in the Banking (+2.34%) and Oil & Gas (+0.73%) indices.

We reiterate our positive outlook for risky assets, amid (1) rapidly declining fixed income yields, (2) relatively lower prices of value stocks, (3) expected positive corporate releases, and strengthening macroeconomic fundamentals.

Fig 4: Trailing 12M P/E Ratios (Frontier Market)



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

Table 2: Top Gainers and Losers

Gainers				Losers			
Ticker	CP * (NGN)	WTD	YTD	Ticker	CP * (NGN)	WTD	YTD
OANDO	9.60	39.13%	60.27%	AGLEVENT	0.55	-14.06%	-21.43%
SKYEBANK	0.95	18.75%	90.00%	MOBIL	172.00	-14.00%	-11.61%
JBERGER	27.00	14.89%	-3.57%	MBENEFIT	0.29	-12.12%	-42.00%
UNITYBNK	1.27	14.41%	139.62%	NIGERINS	0.31	-8.82%	-38.00%
NNFM	6.85	9.60%	20.18%	PRESCO	66.00	-8.33%	-3.65%

****CP: Closing Price***

***Source:** NSE, Cordros Research*

20 April 2018

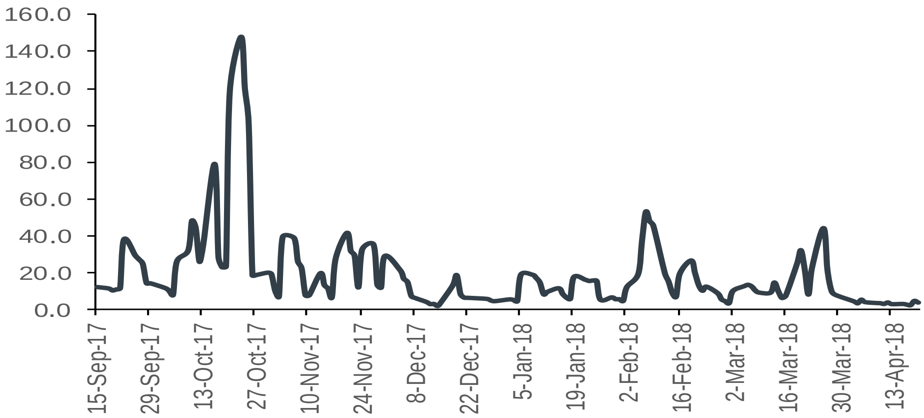
Fixed Income and Money Market

Money Market

The overnight lending rate rose 83 bps w/w to 3.75%, against last week's close of 2.92%. Outflows from (1) OMO (NGN500.00 billion) sales, (2) FX sales (USD210 million), and (3) treasury bills auction (NGN56.49 billion), outweighed inflows from (1) matured OMO bills (NGN276.08 billion), and (2) matured treasury bills (NGN116.98 billion).

With maturing OMO bills valued at NGN226.68 billion, and the monthly FAAC disbursements to state and local governments likely to support liquidity in the coming week, we expect a contraction in the overnight lending rate.

Fig 5: Overnight Money Market Rate (%)



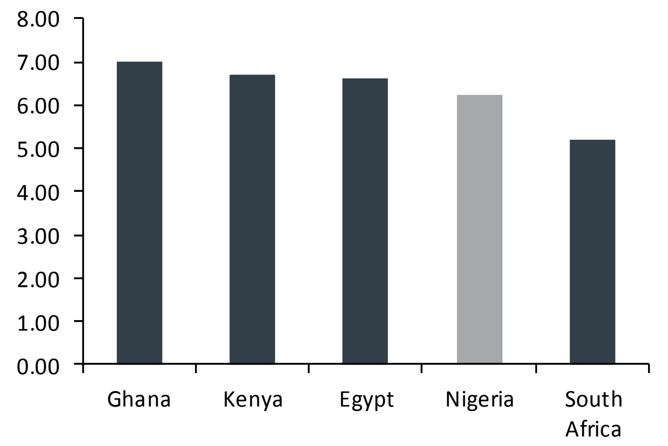
***Source**: FMDQ, Cordros Research*

Treasury Bills

In line with our expectations, activities in the treasury bills market were bullish, amid surplus system liquidity. Consequently, average yield crashed to 11.39%, representing a 241 bps w/w contraction. Investor sentiment was positive across the short (-326 bps), mid (-215 bps), and long (-183 bps) ends of the curve, amid high demand for the 41D (-555bps), 174D (-323 bps) and 209D (-345 bps) bills respectively. Meanwhile, at this week's primary market auction, NGN5.85 billion, NGN29.25 billion, and NGN23.40 billion of the 91-day, 182-day, and 364-day bills were allotted. The bills were 7.51x oversubscribed, with yields closing lower across the 91-day (10.90%; previously 11.75%), 182-day (12.00%; previously 12.70%), and 364-day (12.08%; previously 13.04%) bills.

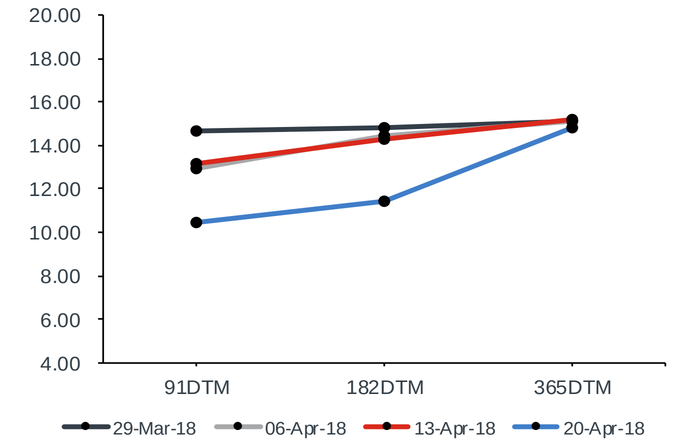
Yields are expected to drop in the meantime, supported by expected buoyant system liquidity.

Fig 6: Yield on 10-year Eurobonds (Nigeria vs. African peers) (%)



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

Fig 7: T-Bills Yield Curve (%)



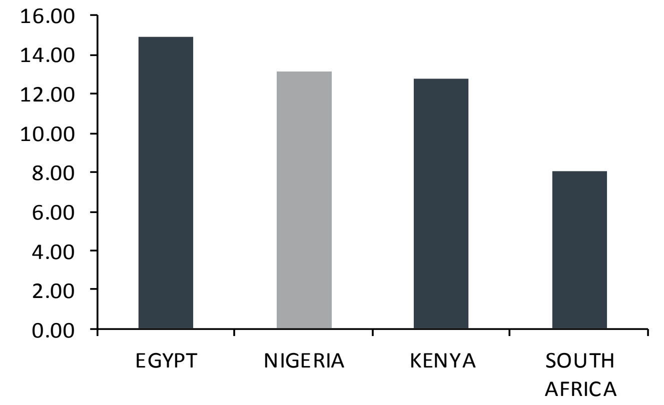
***Source**: FMDQ, Cordros Research*

Bond

Trading in the bond market was also bullish, on the back of surplus liquidity, as average yield fell by 64 bps to close at 12.67%. Buy sentiments were spread across the short (-93 bps), mid (-48bps), and long (-47 bps) segments, with the FEB 2020 (-166 bps), MAR 2027 (-59 bps), and MAR 2036 (-64 bps) bonds recording significant contractions. On Tuesday, the DMO released the Q2-2018 bond issuance calendar and the bond offer circular for April. In sync with the FGN's bias for cheap longer dated external debt, the calendar indicates a reduced offer amount of NGN220 billion (vs. NGN280 billion in Q1-2018 and NGN415 billion in Q2-2017) – strengthening the case for lower yields in the short-to-medium term.

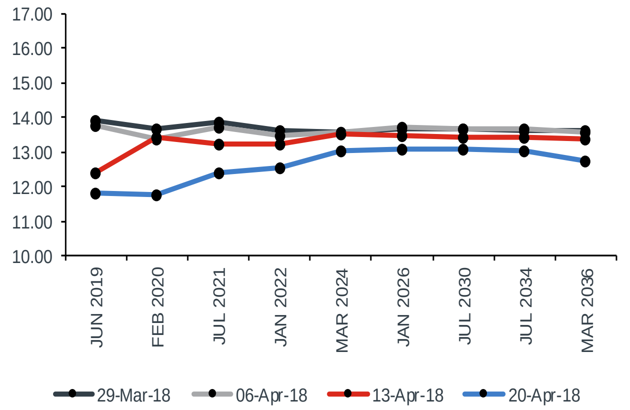
We expect yields to take a cue from auction stop rates. However, our theme on the bond market continues to favour lower yields, driven by (1) investors reaction to sustained moderation in inflation rate, (2) strengthening signals of monetary easing, and (3) the FGN's new debt management strategy. At the FGN bond auction scheduled for Wednesday, 25th April 2018, the DMO plans to offer NGN90 billion – NGN30 billion of the APR-2023 (new issue), NGN30 billion of the MAR-2025 (re-opening) and NGN30 billion of the FEB 2028 (re-opening) – in bonds to investors.

Fig 8: Yield on 10-year bonds (Nigeria vs. African peers)



***Source**: investing.com, Cordros Research*

Fig 9: FGN Bond Yield Curve



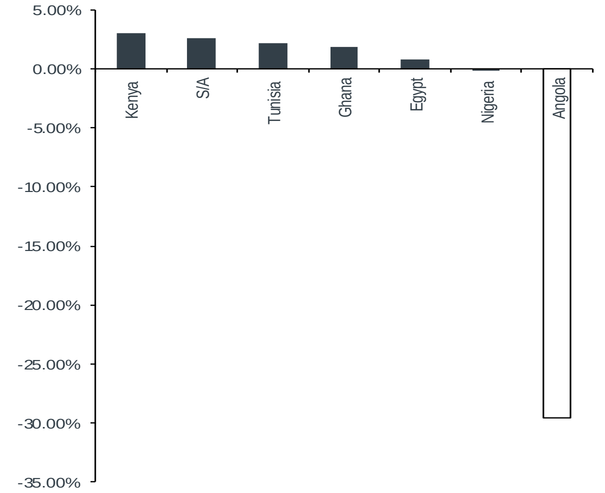
***Source**: FMDQ, Cordros Research*

Foreign Exchange

The CBN resumed its conventional support of the naira via interventions, as USD210 million was injected into the forex market -- allocating USD100 million to the wholesale window, and USD55 million apiece to the SMEs and invisibles segments. The USD/NGN traded flat at NGN363 throughout the week in the parallel market, while it weakened by 0.03% to NGN360.42 in the I&E FX market. Total turnover dipped 8.90% during the week to USD1.07 billion, with bulk of trades still consummated within the NGN360-369/USD band. Meanwhile, the 1-month (+0.15%), 3-month (+0.36%), and 6-month (+0.81%) FX forwards appreciated from the previous week at NGN363.19, NGN369.41 and NGN379.75, while the 1-year forward depreciated by 0.84% to NGN408.78.

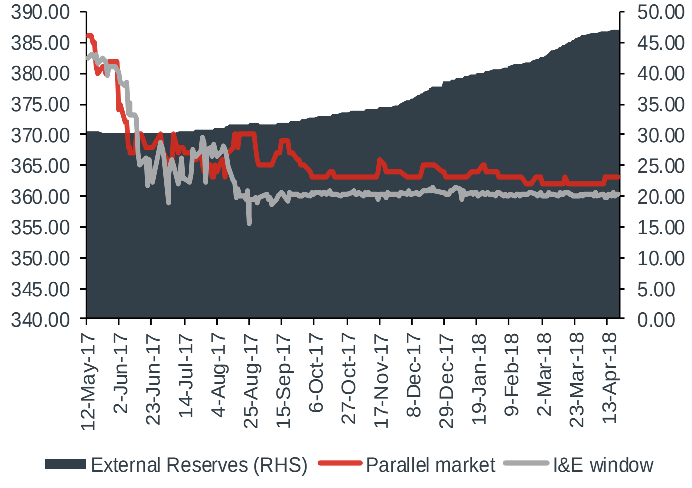
Our outlook for the FX market, particularly in the short to medium term, remains stability, as oil revenues – supported by rising oil prices and production – continue to shore up the foreign reserves.

Fig 10: Naira vs. Other African Currencies (YtD Returns)



***Source**: Bloomberg, FMDQ, CBN, Cordros Research*

Fig 11: USD/NGN Exchange Rate vs. External Reserves (USD'bn)



***Source**: Bloomberg, FMDQ, CBN, aboki FX, Cordros Research*