

27 April 2018

Weekly Economic and Market Update.

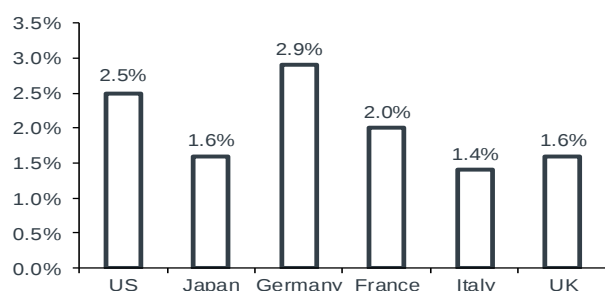
Overview of Markets in the Week Ended 27 April 2018

Global Economy

According to the Commerce Department, the US economy expanded at a slower annualized rate of 2.3%, from 2.9% in the previous quarter. Although that beat polled market's expectation of a 2.0% growth rate, it is the lowest in a year. Personal consumption (the U.S. economy's key driver) grew at its slowest pace in five years, amid reduced spending on cars, clothing, and footwear, and stalled growth in residential investment. Meanwhile, impact of trade on the US economy turned positive, contributing 0.2%, against -1.16% in the previous quarter. **Despite the conventionally weak start to the year, growth in the world's economic giant is likely to accelerate and reach the current administration's 3% target, amid tax cuts and increased government spending.**

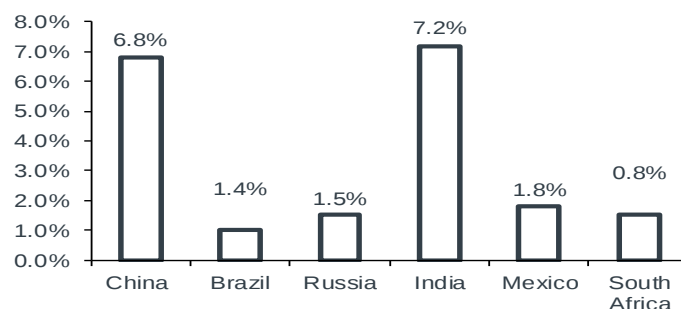
During the week, IHS Markit released Japan's flash Manufacturing PMI for April which showed expansion in the index to 53.3, from 53.1 in March. The estimate showed faster rates of growth in output, new orders, and employment, as well as a strengthened business optimism. However, a stronger yen in the period caused a drop in new export order. With regard to price, output costs recorded stronger upticks, and input prices eased from the previous month. **The expansion in the PMI suggests further growth in the Asian economy; more so as the BOJ sustains its expansionary monetary policy.**

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



Source: IMF, Cordros Research

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

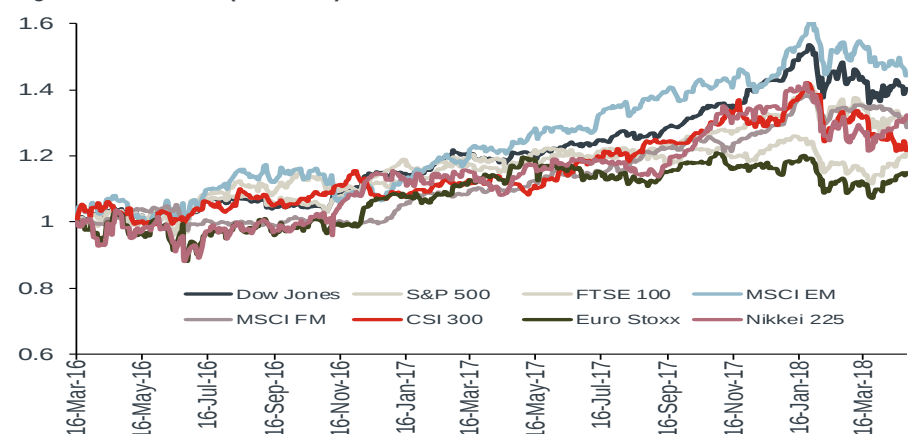


Source: IMF, Cordros Research

Global Markets

Performance across global equities was mixed. On the positives, weaker currencies and cooling geopolitical tensions (following the historic meeting of North and South Korean leaders) boosted investors' sentiments, while rising US bond yields, as well as disappointing economic data, weighed on returns. Proceedings were positive for European (FTSE 100: +1.36%; Euro Stoxx: +0.59%) stocks, while sentiments were mixed in the U.S. (S&P 500: +0.11%; DJIA: -0.68%) and Asian (Nikkei 225: +1.38%; CSI 300: -0.11%) markets. The MSCI EM (-2.05%) index closed lower, as losses in China and other major markets, outweighed gains in Brazil (+1.63%). The MSCI FM index also shed 2.05%, as Kenya (-1.78%) recorded its third consecutive week of loss, while gains persisted in Ghana (+0.95%) for the sixth straight week and resurfaced in Nigeria (1.05%).

Fig 3: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research

27 April 2018

Nigeria

Economy

The World Bank, on Monday, released its latest Migration and Development Brief. It showed that remittances to Nigeria rose by 10% to USD22 billion, from USD19.64 billion in 2016, supported by improving economic growth in advanced economies and higher oil prices benefiting regional economies. Remittance inflows to Nigeria represent the highest in the Sub-Saharan region, and the fifth highest in the world. **We expect further increase in remittances this year to serve as a boost to Nigeria's current account in its balance of payments.**

It was gathered that the Federal Inland Revenue Service (FIRS) generated a total of NGN1.17 trillion in Q1-18 from the collection of various taxes. Compared to the NGN778.19 billion reported in the corresponding quarter of 2017, the latest figure represents an increase of 50.3%, and 69.5% of the total target to date. **Though unfolding rather slowly, the revenue generation drive of the fiscal authority is yielding result and will support budget outturn if sustained.**

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)	NGN305.65	NGN305.50	NGN305.50 (4th May)
Foreign Reserve (USD'bn)	47.01	38.91	47.93 (4th May)
Unemployment	18.80%	14.2%*	20.3% (Q4-17)
Brent Crude Oil Price (USD)	74.51	66.57	73.00 (4th May)

* 2017

Source: CBN, Bloomberg, NBS, Cordros Research

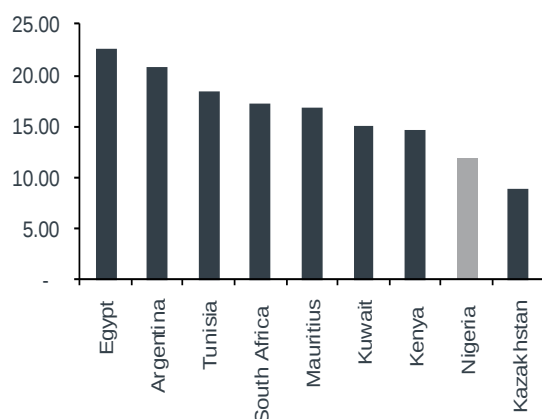
Capital Market

Equities

Gains resurfaced strongly on the equities market, as the ASI posted its highest weekly gain in 12 weeks. It was a week of mixed trading, wherein two sessions of gain – including today's month-high of 1.21% — offset three sessions of losses. The Consumer Goods (+6.30%) index posted the largest gain among major sectoral indices, followed by the Oil & Gas (+3.25%) and Banking (+0.67%) indices, while the Industrial Goods and Insurance indices shed 4.89% and 1.41% respectively. The notable stocks include; NESTLE (+13.53%), FO (+20.69%), UBA (+3.57%), DANGCEM (-1.80%), and MBENEFIT (-17.24%) respectively.

We look for extension of gains on the bourse, amidst significant drop in fixed income yields, and relatively lower prices of risky assets.

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
FO	45.20	20.69%	3.96%	UNITYBNK	1.00	-21.26%	88.68%
NESTLE	1615.00	13.53%	3.79%	GLAXOSMITH	24.00	-20.79%	11.06%
LEARNAFRCA	1.35	12.50%	53.41%	MBENEFIT	0.24	-17.24%	-52.00%
HMARKINS	0.32	10.34%	-36.00%	SKYEBANK	0.81	-14.74%	62.00%
INTBREW	51.80	9.05%	-4.95%	NPFMCRFBK	1.75	-13.37%	40.00%

*CP: Closing Price

Source: NSE, Cordros Research

27 April 2018

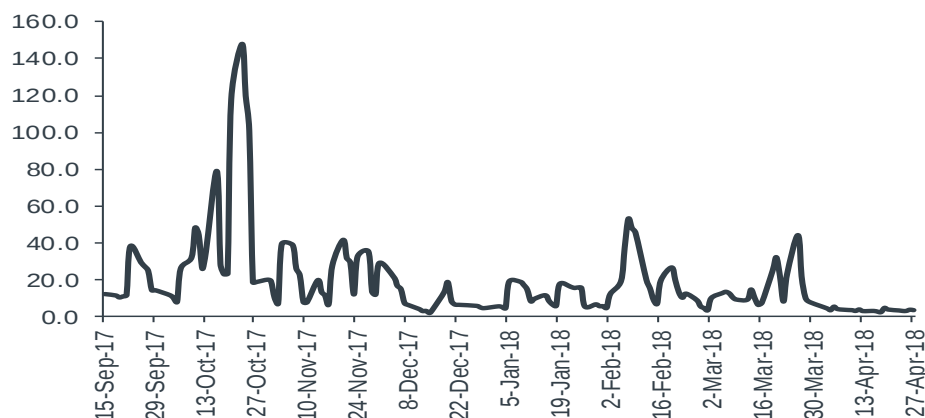
Fixed Income and Money Market

Money Market

In line with our expectation, the overnight lending rate eased to 3.42%, representing a 33 bps w/w contraction, against last week's close of 3.75%. Inflows from matured OMO bills (NGN226.68 billion) and monthly FAAC disbursements (NGN348.40 billion) outweighed outflows from FX sales (USD210 million), OMO auctions (NGN276.68 billion), and bond auction (NGN90.00 billion).

Next week, inflows totaling NGN377.52 billion — maturing OMO bills (NGN186.68 billion) and maturing treasury bills (NGN190.84 billion) — are likely to outweigh outflows; thus, higher liquidity. In effect, a contraction in the overnight lending rate is likely.

Fig 5: Overnight Money Market Rate (%)



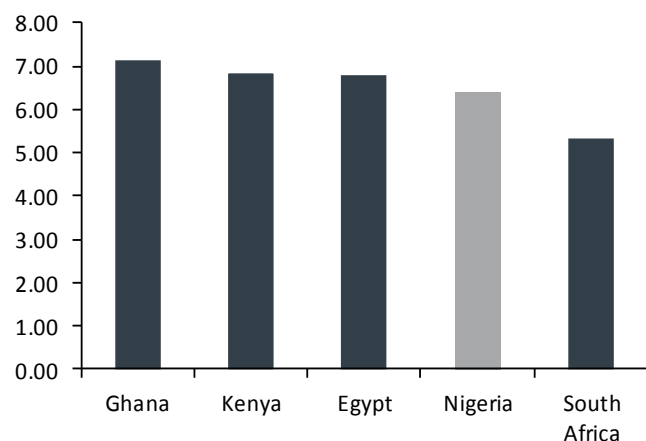
Source: FMDQ, Cordros Research

Treasury Bills

Proceedings in the NTB market were bullish, with sentiments driven by increased liquidity levels. As a result, average yield fell by 8 bps w/w to 11.31%. High demand for the 125DTM (-91 bps) and 279DTM (-270 bps) bills caused yield contraction at the mid (-18 bps) and long (-9 bps) ends of the curve, while selloffs of the 34DTM (+188 bps) led to yield expansion at the short (+28 bps) segment.

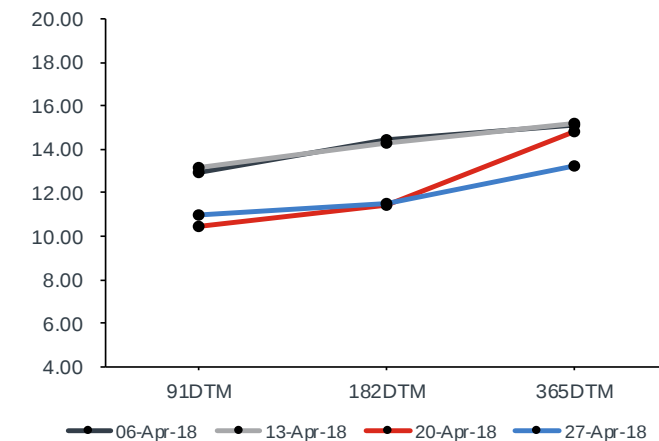
Yields are expected to drop in the meantime, supported by expected buoyant system liquidity. At the NTB auction scheduled for next week, the CBN will offer NGN95.42 billion – NGN9.54 billion of the 91-day, NGN47.71 billion of the 182-day, and NGN38.17 billion of the 364-day – worth of bills to the market.

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

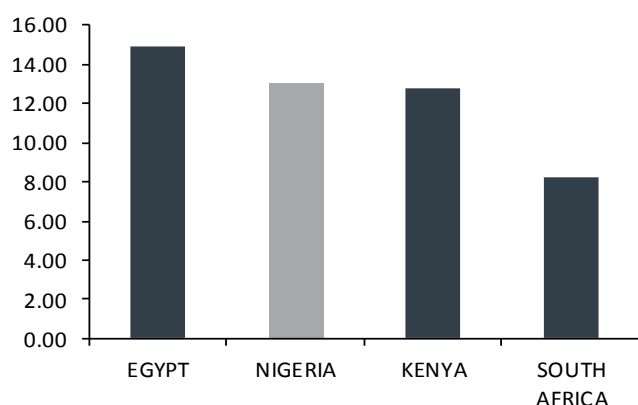
27 April 2018

Bond

Activities in the bond market were mixed, albeit with a bearish tilt, with slight selloffs occurring on the back of higher-than-expected cut-off rates at the CBN's OMO auction. Consequently, average yield rose by 1 bp to 12.68%. Yield contraction at the short (-4 bps) and mid (-1 bp) ends of the curve were overshadowed by yield expansion at the long (+7 bps) segment. Notable bonds include the JUN-2019 (-173 bps), MAR-2024 (-5 bps), and MAR-2036 (+28 bps). At Wednesday's primary auction, the DMO allotted NGN38.29 billion of the APR-2023 (new issue), NGN37.75 billion of the MAR-2025 (re-opening), and NGN63.96 billion of the FEB-2028 (re-opening) bonds at respective stop rates of 12.75%, 12.85% (vs. 13.53% at the previous auction), and 12.89% (vs. 13.60% at previous auction). The auction was 1.87x oversubscribed.

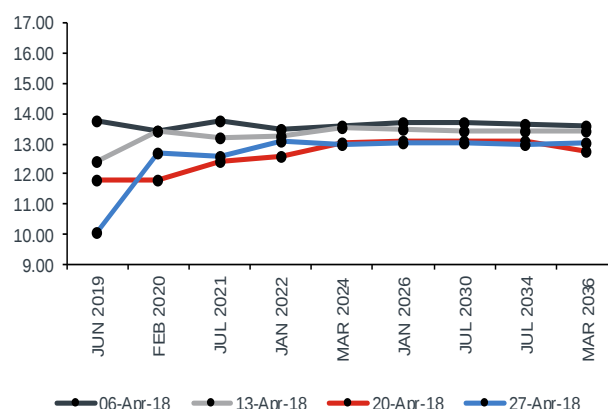
We reiterate our expectation for lower yields in the short-to-medium term, reflecting (1) falling inflation rate, (2) strengthening expectation of monetary easing, and (3) the FGN's new debt management strategy.

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



Source: investing.com, Cordros Research

Fig 9: FGN Bond Yield Curve



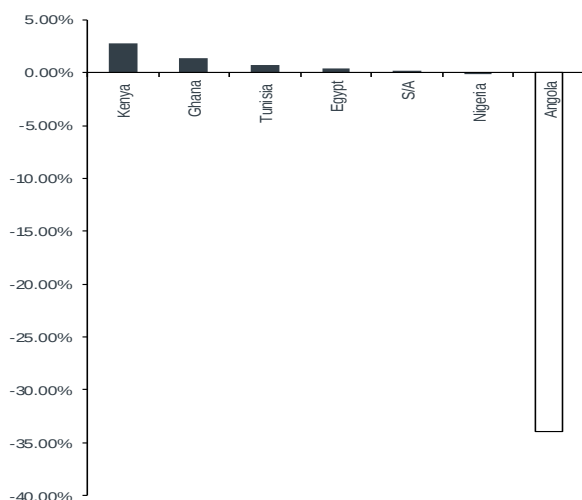
Source: FMDQ, Cordros Research

Foreign Exchange

The CBN continued to support the naira, injecting USD210 million into the forex market during the week, comprising USD100 million, USD55 million, and USD55 million disbursements to the wholesale, SMEs, and invisibles windows, respectively. The NGN strengthened marginally against the USD in the I&E FX window by less than 1 bps to NGN360.41, while it remained flat at NGN363 in the parallel market for the 12th consecutive session. Total turnover in the I&E FX window dropped 19.40% to USD860.88 million, with bulk of trades consummated within the NGN360-369/USD band. Meanwhile, trades in FX forwards showed appreciation in the 1-year dated (+0.84%) forwards to NGN405.34, while 1-month, 3-month, and 6-month forwards dropped 0.06%, 0.34%, and 1.05% to NGN363.19, NGN369.41, and NGN379.75 respectively.

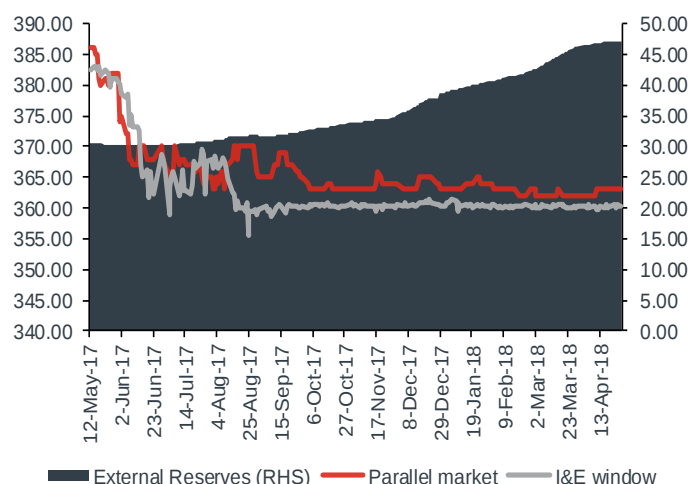
Theme on the forex market is likely to remain stability, as oil prices continue to shore up the reserves and support the CBN's interventions in the market.

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

27 April 2018

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