

13 April 2018

Weekly Economic and Market Update.

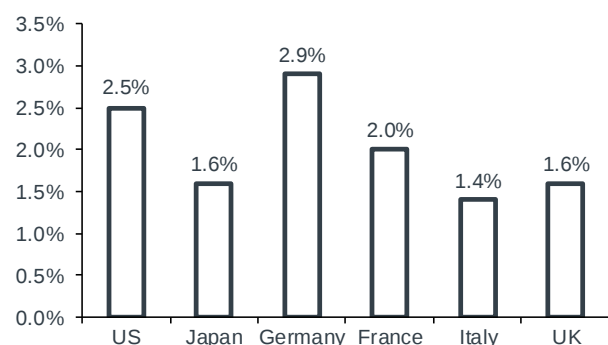
Overview of Markets in the Week Ended 13 April 2018

Global Economy

China reported a trade deficit of USD4.95 billion in March, from a USD23.56 billion surplus in the same month last year. This was the first trade deficit since February 2017 and missed market's expectation of a USD27.1 billion surplus. Imports in March were 14.4% higher y/y at USD179.07 billion, while exports fell by 2.7% y/y to USD174.18 billion. Notably, the trade surplus with the US, China's largest export market, dropped to USD15.32 billion, from USD21.0 billion in February. **Growth in the Chinese economy – largely driven by exports – is likely to be weighed upon by the trade gap, particularly in Q1, amidst trade war tensions with the US.**

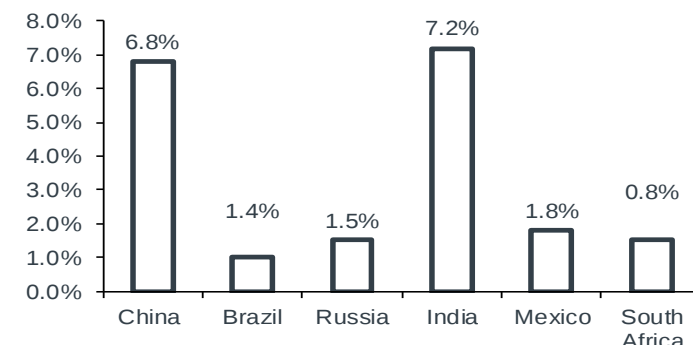
According to the Labor department, US core consumer prices recorded the largest increase in a year, advancing by 2.1% from the previous year. Acceleration in the annual core CPI, follows the drag from the previous year's plunge in prices for cellphone service plans which was dropped out of the calculation. The headline inflation was 2.4% higher y/y. Inflation dipped by 0.1% m/m in March – the first decline in 10 months – after rising 0.2% in February, and missing market's expectation of a flat reading. The decline was largely driven by a 4.9% drop in gasoline prices. **Amid record high producer price index, tightening labour market, increased tariffs and steadily growing economy, inflation in the economic giant is likely to further trend higher.**

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



Source: IMF, Cordros Research

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

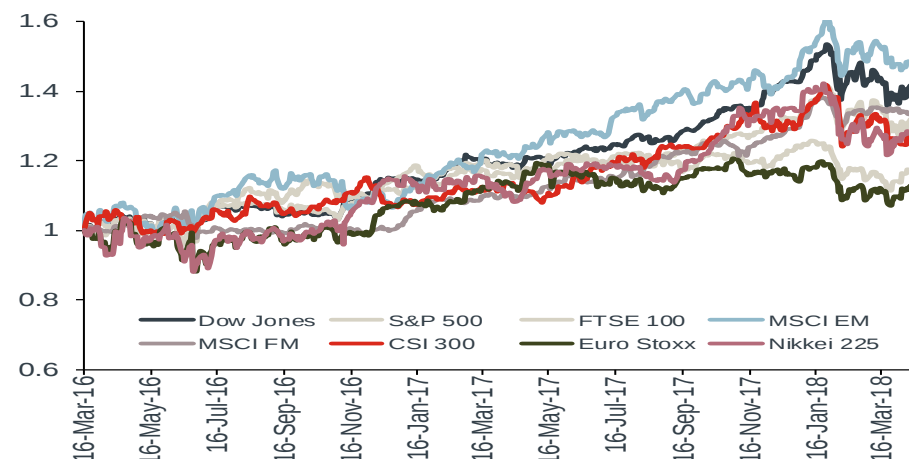


Source: IMF, Cordros Research

Global Markets

Global equities within our coverage were broadly positive this week, with the US (S&P 500: +2.79%; DJIA: +2.66%) market posting the largest gain, trailed closely by European (Euro Stoxx: +1.48%; FTSE 100: +1.13%) and Asian (Nikkei 225: +0.98%, CSI 300: +0.42%) stocks. The gains were largely hinged on (1) eased trade war tensions following Trump's softer approach, (2) rise in oil prices (boosting price of energy stocks), and (3) expected positive earnings (driving interests in the financial sector), which muted negative sentiments from unimpressive economic data and geopolitical concerns. Gains in China and Brazil (+0.14%) caused the MSCI EM (+1.28%) index to appreciate, while a loss in the MSCI FM (-0.72%) index was driven by negative sentiments in Kenya (-1.05%) and other regions, which outweighed gains in Nigeria (+0.21%) and Ghana (+1.11%).

Fig 3: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research

13 April 2018

Nigeria

Economy

According to the National Bureau of Statistics (NBS), Nigeria's headline consumer price index recorded its fourteenth consecutive deceleration, moderating to 13.34% y/y (compared to 14.33% in February 2018). On month-on-month basis, the headline index increased by 0.84% (vs. 0.79% the previous month). **Following the higher-than-expected moderation in March inflation, we revisit our model and revise our 2018 average inflation projection lower by 26 bps to 12.21%, from 12.47%.**

The Central Bank of Nigeria (CBN) released its Business Expectations Survey Report for the month of March. It shows an increase in the respondents' overall confidence index (CI) on the macroeconomy to 24.5 index points (vs. 14.5 points in February), on the back of improvements in volume of total order, business activity, and internal liquidity positions (financial conditions). The businesses outlook for April 2018 also indicated greater confidence in the macroeconomy at 64.1 index points (vs. 57.8 points previously). **We opine that business confidence will maintain an upward trajectory due to the continued improvement in macroeconomic conditions. However, constraining factors cited — insufficient power supply, high interest rate, insufficient demand, and unfavourable political climate — remain downside risks to the outlook.**

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)	NGN305.55	NGN305.50	NGN305.00 (20th Apr)
Foreign Reserve (USD'bn)	46.75	38.91	47.23 (20th Apr)
Unemployment	18.80%	14.2%*	20.3% (Q4-17)
Brent Crude Oil Price (USD)	72.17	66.57	70.46 (20th Apr)

* 2017

Source: CBN, Bloomberg, NBS, Cordros Research

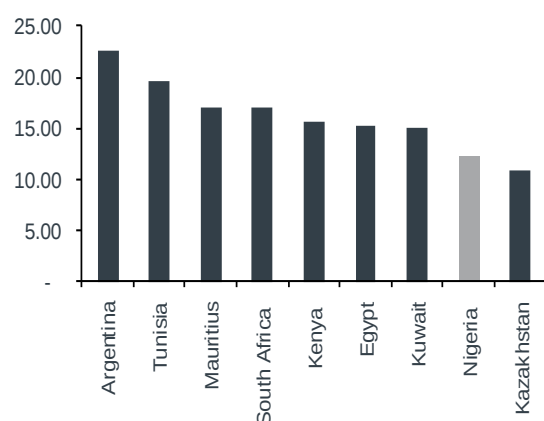
Capital Market

Equities

Proceedings in the equities market turned positive, with the ASI inching higher by 0.21% w/w to 40,928.70 points, amidst a three-to-two positive trade session during the week. Accordingly, the Month-to-Date and Year-to-Date returns improved to -1.39% and 7.02%, respectively. Meanwhile, total volume and value of trades were 19.82% and 26.04% lower this week, despite crosses in value stocks such as NB, ZENITHBANK, DANGCEM, and GUARANTY. It is also worth stating that there were 36 gainers and losers apiece, led by LEARNAFRCA (+18.56%) and CILEASING (-18.02%) respectively.

Still-strengthening macroeconomic fundamentals and declining fixed income yields continue to strengthen our medium-to-long term outlook for Nigerian risky assets, while relatively lower prices of value stocks buoy likelihood of bargain-hunting in the short term.

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
LEARNAFRCA	1.15	18.56%	30.68%	CILEASING	1.41	-18.02%	9.30%
MOBIL	200.00	17.65%	2.77%	HMARKINS	0.29	-14.71%	-42.00%
OANDO	6.90	15.19%	15.19%	UNILEVER	52.00	-13.04%	26.83%
CCNN	20.20	13.48%	112.63%	NEM	2.40	-11.11%	44.58%
JAPAUOIL	0.51	13.33%	2.00%	UBA	10.65	-10.50%	3.40%

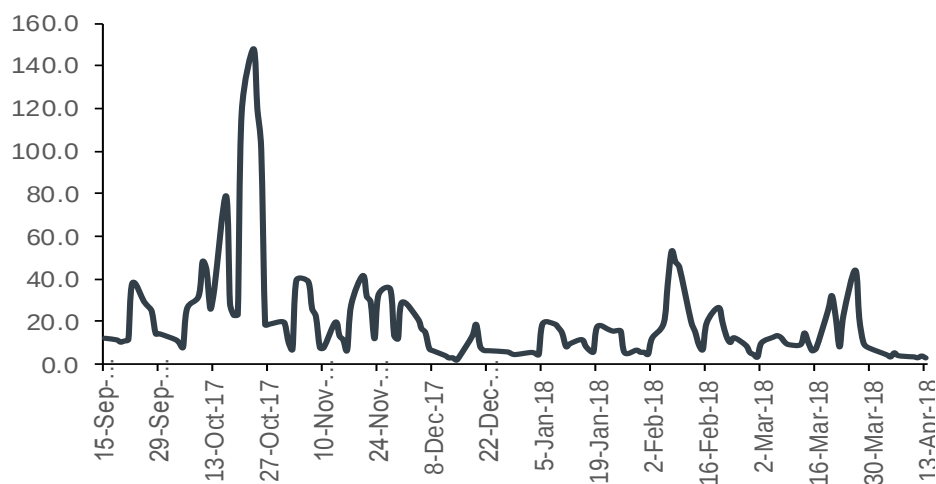
*CP: Closing Price

Source: NSE, Cordros Research

13 April 2018
Fixed Income and Money Market
Money Market

The overnight lending rate softened by 108 bps w/w to 2.92% (lowest since 14 December 2017), against last week's close of 4.00%. High system liquidity from the prior week carried on into this week, buoyed by inflows from matured OMO (NGN476.21 billion) bills. The CBN intervened once, via OMO auction, selling a total of NGN500.00 billion worth of bills.

Expected inflows of NGN349.15 billion from OMO (NGN276.08 billion) and treasury bill maturities (NGN73.07 billion) are expected to support liquidity in the coming week, leading to further moderation in the overnight money market rate.

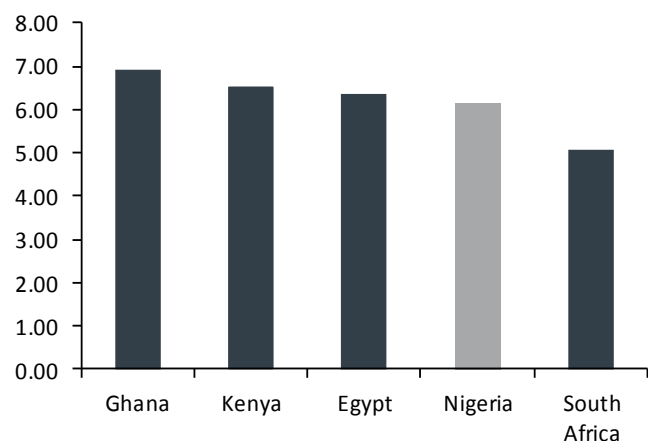
Fig 5: Overnight Money Market Rate (%)


Source: FMDQ, Cordros Research

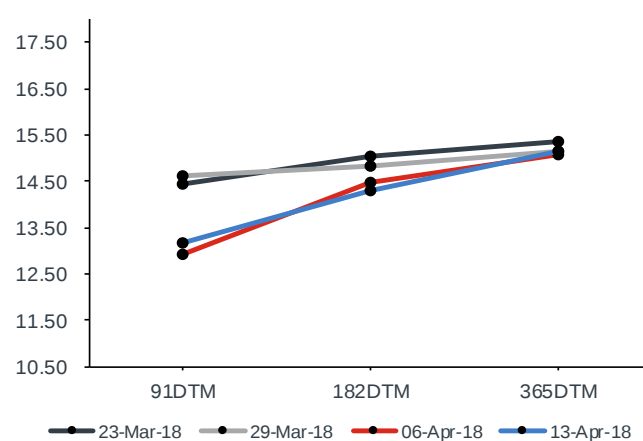
Treasury Bills

Proceedings in the NTB market were bullish, on the back of buoyant system liquidity and a further deceleration in inflation rate to 13.34% in March (vs. 14.33% a month before). As a result, average yield fell by 54 bps w/w to 13.80%. High demand for the 20DTM (-218 bps), 153DTM (-154 bps), and 307DTM (-124 bps) bills caused yield contraction at the short (-65 bps), mid (-52 bps), and long (-50 bps) ends of the curve, respectively.

Yields are expected to drop further in the meantime, supported by expected buoyant system liquidity. At the NTB auction scheduled for next week, the CBN is expected to offer NGN58.49 billion – NGN5.85 billion of the 91-day, NGN29.25 billion of the 182-day, and NGN23.40 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

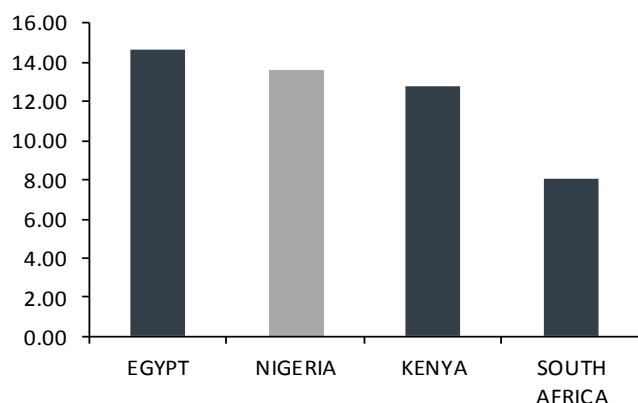
13 April 2018

Bond

Sentiments in the bond market were upbeat, buoyed by (1) high market liquidity and (2) the release of the March inflation figure (13.34% vs. 14.33% in February). Consequently, average yield declined by 31 bps w/w to 13.31%, with yields contracting at the short (-53 bps), mid (-15 bps), and long (-22 bps) segments. Notable bonds include the JUL-2019 (-139 bps), JAN-2026 (-24 bps), and JUL-2030 (-24bps), respectively.

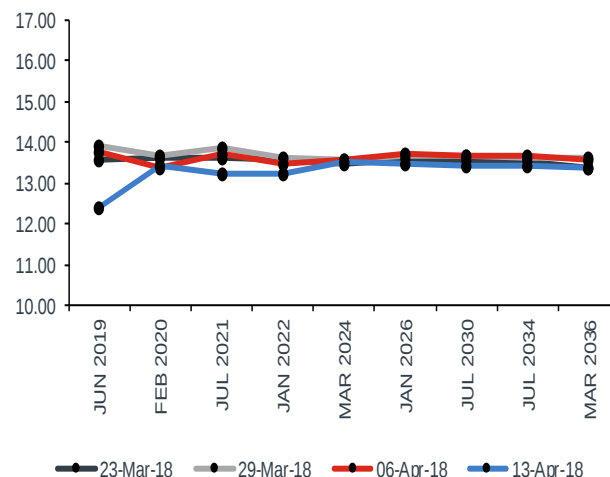
Our theme on the bond market continues to favour lower yields, driven by (1) investors continued reaction to sustained moderation in inflation rate, (2) strengthening signals of monetary easing, and (3) the FGN's new debt management strategy.

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



Source: investing.com, Cordros Research

Fig 9: FGN Bond Yield Curve



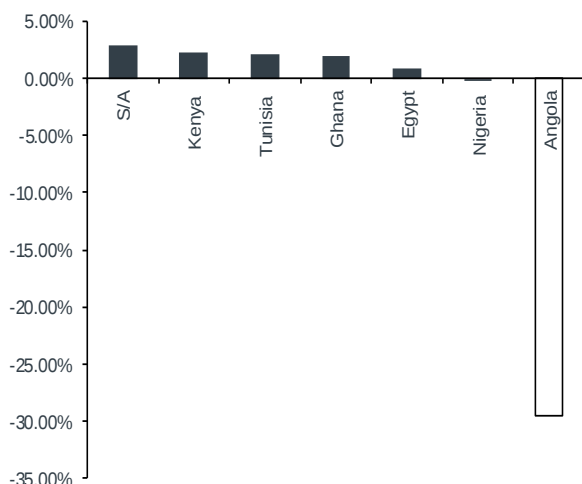
Source: FMDQ, Cordros Research

Foreign Exchange

The USD/NGN broke off from the NGN362/USD rate during the week, to close at NGN363/USD in the parallel market, while it weakened by 0.09% to NGN360.32/USD in the I&E FX window. Total turnover in the I&E FX window inched 6.78% higher to USD1.09 billion, with bulk (70.88%, vs 52.61% in the previous week) of trades settled within the NGN360-NGN369/USD band. Meanwhile, all OTC FX futures open contract rates remained flat from the previous week -- 1-month, 3-month, and 6-month contracts with settlement dates of 25-Apr-2018, 27-Jun-2018, and 26-Sep-2018 closed at NGN360.31, NGN360.61, and NGN361.06 respectively.

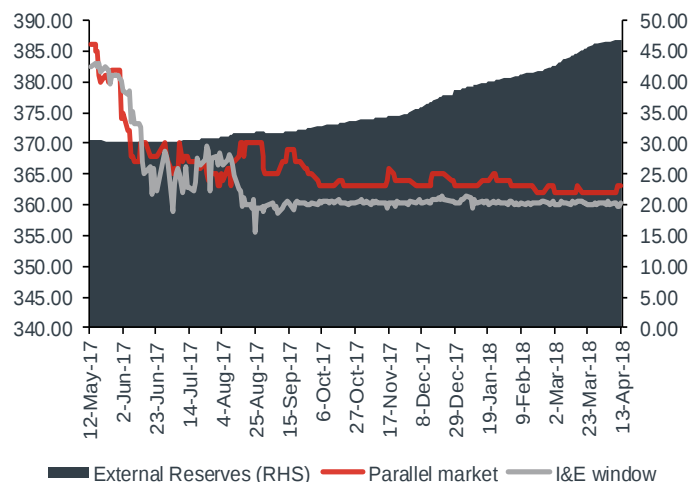
Our outlook for the FX market remains stability, as oil revenues – supported by rising oil prices and production – continue to shore up the foreign reserves. Also supportive of our outlook, are the marginal deviations of the highlighted future contract rates from the I&E FX rate.

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

*13 April 2018***Important Disclaimers**

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