

4 May 2018

Monthly Markets Review.

Overview of Markets in April and Outlook

Highlights

- Global equities were mixed in April, reflecting investors' assessment of geopolitical tensions, trade war fears, economic data, and first quarter earnings.
- Investors remained bearish in the equities market, as the ASI dropped for the third consecutive month by 0.57%.
- The overnight lending rate declined, by 566 bps, to close the month at 2.42%, on the back of surplus liquidity in the market.
- Treasury bill yields contracted, by 350 bps on average, driven by surplus liquidity, declining inflation rate, reduced auction supply, and monetary policy rate cut expectations
- Trading in the bond market was bullish, amid surplus liquidity, the lower-than-expected fall in March inflation rate, and reduction in both OMO sale frequency and stop rates.
- The naira remained stable, despite significant decline in the apex bank's intervention in the FX market by 44.02% to USD816.18 million.

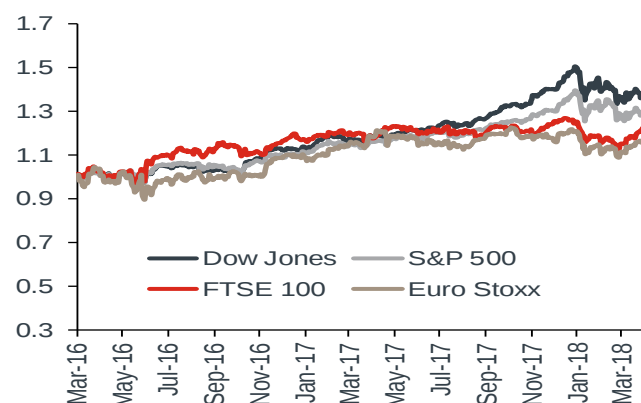
Global Equity Markets

U.S. equities snapped losses, in what was a volatile month, with the DJIA and S&P 500 advancing by 0.25% and 0.27% respectively. Earlier in the month, concerns were hinged primarily on technology shares weakness (amid potentially greater government regulation) and trade-war jitters. Notwithstanding, the bulls dominated activities, in sync with signals that the U.S.-China trade war highlight might have been overblown, particularly with President Trump taking a softer approach.

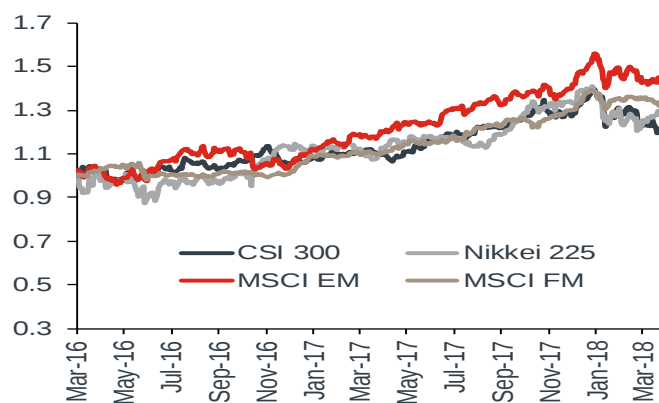
The impact of Q1-18 earnings was strong on Wall Street over the second half of the month. The deluge of corporate result guided investors to focus on resilient sectors. To mention, the energy and consumer discretionary sectors attracted interest while investors liquidated holdings in consumer staples and technology sectors. Also, the financial sector advanced, thanks to rising interest rates which is being viewed as capable of boosting financials' profits. However, the rising interest rate was negative for utilities and real estate sectors. Equally supportive of the bullish run were encouraging economic data including housing stats, industrial production, and retail sales – although jobless claims were a bit disappointing. On balance, the volatility in the latter half of the month ended with a bearish bias for both the Dow and S&P 500.

European equities, the best performing within our coverage universe, were strong in both halves of the month. Specifically, the FTSE 100 and Euro Stoxx 50 were up 6.42% and 5.21% respectively in April. Investors began the month (and indeed Q2-18) with the same technology-sector and trade-war worries that dogged markets during the first quarter. However, the intermittent pause in the U.S.-China trade skirmish more than allayed fears after (1) China hit back against U.S. tariffs on its products, (2) U.S. President Donald Trump threatened China with additional tariffs, and (3) a potential military conflict in Syria. Away from trade war concerns, investors interpreted the ECB minutes – which showed policy makers taking a gradual approach to unwinding QE – as positive.

Fig 1: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research



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In the latter half of the month, attention shifted from geopolitical concerns to the earnings season. Gains were led by commodity and industrial shares. Also, ahead of the ECB meeting, bond yields gained and lifted financial stocks. Following the ECB meeting, the euro shed weight, after ECB President Mario Draghi offered little in the way of providing further insight into when the central bank will wind down bond purchases and hike rates. That further bolstered appetite, in addition to U.K.-listed stocks advancing amid the pound losing some basis points against the dollar. The shares of J Sainsbury PLC were in the limelight, thanks to enthusiasm around merger news which offset losses among resource companies. On the downside, buying momentum tapered after (1) U.S. 10-year Treasury yields jumped to the psychologically important 3% level, which is seen as a headwind for equities, (2) traders weighed the limited strikes on the Syrian regime over the weekend, and (3) news of potential fresh U.S. sanctions against Russia.

Sentiment was mixed across Asian markets, with the CSI 300 (-3.63% m/m) and Nikkei 225 (+4.72% m/m) following a V-shaped trajectory in April. Most of the activities during the first half of the month were on the back of tech shares selloff (which particularly deepened in the U.S.) and escalating trade tensions with the U.S. Markets continued on the back foot, amid (1) Syria tensions (discussed earlier), (2) hawkish statements from the U.S. Fed – which took the wind out of Wall Street's sails overnight, and (3) disappointing data showing first trade deficit in China in 13 months. While signals that the U.S. and China are open to negotiations rather than intensifying tit-for-tat trade tariffs spurred a sanguine view of equities among investors, the impact was potent in Japan but weak in China.

In the latter half of the month, Asian investors slightly shifted focus to the start of earnings season in the U.S. Demand picked up, thanks to (1) better-than-expected economic growth in China, (2) indications of easing tensions on the Korean Peninsula, (3) higher oil prices, (4) Chinese government talks of economic and market reforms, (5) a weaker yen, and (6) receding geopolitical risks, in part as the leaders of North and South Korea gather for a historic meeting. Notwithstanding the aforementioned positives, Chinese shares remained pressure while Japanese stocks fired on. Meanwhile, tech selloffs continued, following a downbeat outlook from Taiwan Semiconductor Manufacturing Co.

Investors continued to reduce their risk across emerging and frontier markets, with the MSCI EM and MSCI FM indices posting monthly losses of 0.41% and 3.95% respectively. The selloffs may not be unconnected with medium term political and economic policy uncertainties in countries across the region. The selloff in China overshadowed the gain in Brazil (+2.11% m/m) to weigh on the emerging market index while the decline in the frontier market index reflects a significant loss in Kenya (-6.18% m/m) and profit taking in Nigeria (-0.57%) – which subdued a gain in Ghana (+1.74% m/m)

Nigeria

Equities Market

Investors remained bearish in the equities market, as the ASI dropped for the third consecutive month by 0.57%, following 11 sessions of losses (accumulating 4.41% loss) and 9 sessions of gains (accumulating 3.87% gain). Most sessions were relatively quiet, as reflected in the lower volume (-14.01% m/m) and value (-22.02% m/m) of trades at 8.46 billion units and NGN106.11 billion, respectively. The loss recorded in the benchmark index during the month, largely reflects an extension of the market correction, following the strong gains recorded in H2-2017 (+15.48%) and January (+15.95%). That has muted positive sentiments surrounding strengthening macroeconomic fundamentals — amidst rise in GDP growth and decline in inflation – and broadly positive corporate releases.

Three of the five major sectoral indices closed in the red – Industrial Goods (-5.21%), Insurance (-3.57%), and Banking (-0.16%), despite broadly positive Q1-2018 earnings of bellwether stocks such as DANGCEM (-5.38%) and ZENITHBANK (-6.31%). A loss in MBENEFIT (-29.41%) shares – the month's top loser – was a major drag for the insurance index. Meanwhile, positive sentiments in oil and gas stocks, particularly for companies with major stakes in the upstream sector such as OANDO (+52.75%) and SEPLAT (+15.02%) – booking the top and 6th positions on the gainers chart respectively – supported the Oil & Gas (+4.92%) index. That followed a strong rally in oil prices (+6.97%), which closed at a four-year high of USD75.17/barrel, consequently boosting investors' sentiments in the oil & gas stocks. The significant gain in OANDO is also attributable to

Table 1: NSE Sector Indices Performance

Index	30-Apr	29-Mar	m/m Change	y/y Change
NSE Banking	519.73	520.57	-0.16%	9.32%
NSE Consumer Goods	1004.94	978.14	2.74%	2.95%
NSE Industrial	2077.89	2192.12	-5.21%	5.18%
NSE Insurance	145.69	151.09	-3.57%	4.53%
NSE Oil/Gas	363.97	346.91	4.92%	10.06%

Source: NSE, Cordros Research

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the lifting of the SEC-imposed technical suspension on the stock late last year, following corporate governance issues, which prompted the need for an audit.

Table 2: NSE Top Gainers & Losers

Gainers			Losers		
Ticker	MTD	YTD	Ticker	MTD	YTD
OANDO	52.75%	52.75%	MBENERT	-29.41%	-52.00%
LEARNAFRCA	39.18%	53.41%	GLAXOSMITH	-29.41%	11.06%
ETI	22.94%	18.24%	UAC-PROP	-21.90%	-11.83%
AIICO	16.13%	38.46%	JAPAUOIL	-18.64%	-4.00%
NESTLE	15.87%	2.76%	UNITYBNK	-18.03%	88.68%

Source: NSE, Cordros Research

The latest Domestic & Foreign Portfolio Participation report by the NSE for March, showed total domestic and foreign transactions on the bourse grew positively by 28.50% to NGN272.48 billion. In particular, total foreign transactions increased at a faster pace of 58.87% to NGN132.21 billion, than the 8.88% uptick in domestic transactions of NGN140.27 billion. However, domestic investors remained dominant players on the exchange, contributing 51.48% of total transactions. It is also worth stating, that net foreign flows remained positive at NGN7.21 billion, following increase in foreign inflows (+55.29%) and outflows (+63.06%) to NGN69.71 billion and NGN62.50 billion respectively.

Highlight of the month, besides the lifted suspension on trading of OANDO shares, was the migration of ACCESS, WAPCO, SEPLAT, and UBA to the Premium board — the elite board for companies that meet the Exchange's most stringent corporate governance and listing standards. The companies met the necessary requirements, which include: attaining a minimum market capitalization of NGN200 billion, a minimum score of 70% on the Corporate Governance Rating System (CGRS) and maintain a minimum free float of 20% of their issued share capital or a free float value equal to or above NGN40 billion. The companies join DANGCEM, FBNH, and ZENITHBANK to make a total of 7 companies on the Premium board.

In the medium to long term, we look for gains on the domestic bourse, on the back of (1) fast-declining yields of fixed income securities, (2) relatively lower prices of value stocks, and (3) positive macroeconomic fundamentals

Fixed Income and Money Market

Money Market

The overnight lending rate declined, by 566 bps, to close the month at 2.42%, on the back of surplus liquidity in the market. Liquidity averaged NGN510.93 billion in April vs. NGN187.48 billion in March, representing a 173% increase. Inflows into the system include matured OMO bills (NGN1.32 trillion), primary market repayments (NGN340.05 billion), and the monthly budgetary disbursements (NGN348.40 billion) to states and local governments while outflows include FX sales (USD816.18 million), OMO sales (NGN2.03 trillion), and primary market auctions (NGN241.69 billion).

Significant inflows from maturing OMO bills (NGN1.21 trillion), treasury bills (NGN357.73 billion), bond coupon payments (NGN323.49 billion), and budgetary allocations to state and local governments (estimated at NGN350 billion) are likely to support liquidity in May, leading to a contraction in the overnight money market rate.

Treasury Bills

The fourth month of the year saw treasury bill yields contract, by 350 bps on average, to 11.24%. Sentiment was bullish on the back (1) surplus system liquidity, (2) reduced supply of bills at the primary market auctions, (3) expectations of a rate cut at the April MPC meeting, and (4) excess demand at the CBN's OMO auctions. Notably, average yield dropped across all ends (short: -403 bps, mid: -348 bps, and long: -304 bps) of the curve, with the 17-MAY-18 (-642 bps), 30-AUG-18 (-441 bps), and 15-NOV-18 (-425 bps) notes recording significant contractions, respectively.

Two primary auctions were conducted during the month. At the first, NGN9.52 billion, NGN17.60 billion, and NGN68.08 billion of the 91-day, 182-day, and 364-day bills were allotted. The bills were 2.15x oversubscribed, with yields closing lower across the 91-day (11.75%; previously 11.95%), 182-day (12.70%; previously 13.00%), and 364-day (13.04%; previously 13.15%) bills. At the second 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.

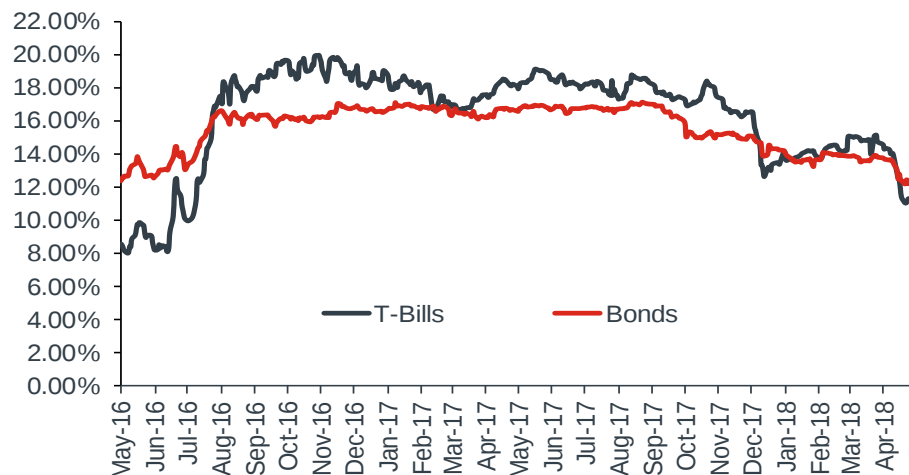
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The reduced stop rates and supply of OMO bills, further deceleration in inflation rate, as well as the CBN's relative tolerance for surplus liquidity in the market, are likely to stoke bullish sentiments in the NTB secondary market, spur demand and thus, drive yields southwards.

Bond

Similarly, trading in the bond market was bullish, amid (1) surplus liquidity, (2) the lower-than-expected fall in March inflation rate to 13.34% (from 14.3% in February), and (3) the reduction in both OMO sale frequency and stop rates. Consequently, average yield recorded a 102 bps m/m contraction to close at 12.67%. Yields contracted at the short (-169 bps), mid (-66 bps), and long (-61 bps) ends of the curve. Notable bonds include the JUN-2019 (-388 bps), MAR-2027 (-77 bps), and JUL-2034 (-62 bps) notes respectively.

Fig 2: FGN Bonds and Treasury Bills Average Yields



Source: FMDQ, Cordros Research

During the month, 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 indicated 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. Following that, at the primary market 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.

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 12.57% for April) will remain key drivers of yield movement in the near-to-medium term.

Foreign Exchange

The naira remained stable despite significant decline in the apex bank's intervention in the FX market by 44.02% to USD816.18 million, against NGN1.18 billion in the previous month. The USD/NGN closed flat at NGN362 in the parallel market, with trades remaining within the range of NGN362-NGN363/USD. In the I&E FX window, the naira weakened marginally against the USD by 0.12% to NGN360.51, trading within a range of NGN359.81-NGN360.54, as against NGN360.00-NGN360.57 in the previous month.

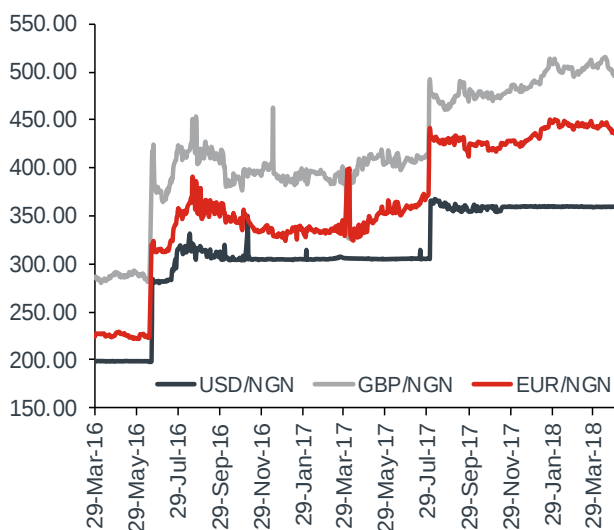
The I&E FX window marked its one-year of operation on April 24th, with a total turnover of USD41.80 billion. During the month, total turnover on the window increased at a slower pace of 3.49% (previously 24.99%) to NGN5.33 billion, with bulk of transactions (63.48%) still traded within the NGN360-369/USD band, while 36.47% of trades were executed within the NGN340-359/USD band.

With regards to the forwards rates, the naira appreciated across major dated contracts — 1-month (+0.16%), 3-month (+0.51%), 6-month (+1.05%), and 1-year (+0.93%) — to NGN363.43, NGN370.39, NGN383.01, and NGN404.42, respectively.

Highlight of the month was the announcement by the Association of Bureaux De Change Operators of Nigeria (ABCON) President of the launch of a website (www.naijabdcs.com) — a live rate engine room created by the association to promote transparency and price discovery in the foreign exchange (FX) market. This followed the CBN's non-objection approval on the engine room and was launched on May 2nd. The website is to serve as a reliable platform for local and international investors to access uniform forex rates across the country.

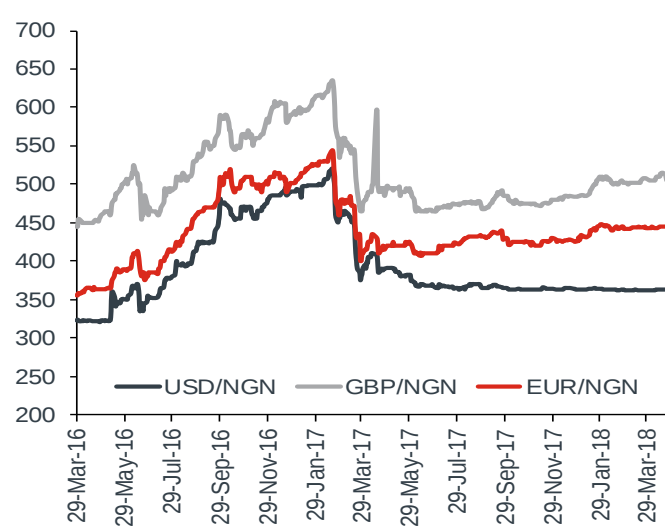
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Fig 3: Interbank Market FX Rate



Source: FMDQ, Bloomberg, Cordros Research

Fig 4: Parallel Market FX Rate



Source: abokiFX, Cordros Research

In the absence of any shocks, it is likely rates remain stable, with the naira trading within current band, as the apex bank persists in its interventions in the FX market – supported by healthy external reserves position. Plus, the recently sealed USD2.4 billion Nigeria-China currency-swap agreement further positions the LCY on the path of sustained stability in the medium term.

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