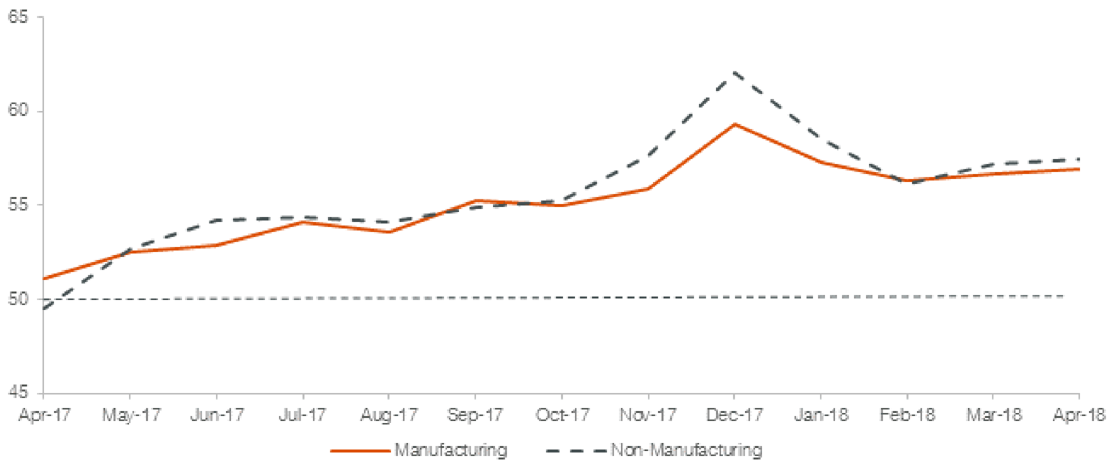
INVESTMENT ONE

April 2018 Macro & Market Update
May 4, 2018

Macro

The Nigerian economy has continued to see financial support from the uptrend in average Brent crude oil price, inching up by about 7.5% month on month (m/m) in the outgone month to USD71.69 per barrel on average in April 2018. This was majorly driven by the tensions in the Middle East as well as the OPEC and non-OPEC allies production cut agreement. Similarly, the Central Bank of Nigeria's (CBN) Purchasing Manager Index (PMI) readings for the month of April were positive as both manufacturing and non-manufacturing activities were reflective of an expansion in activities for the 13th and 12th consecutive month respectively (readings of 56.9 and 57.5 points respectively). This could be supportive of non-oil GDP growth in the near term. Furthermore, we may see the economy reap significantly from the implementation of Economic Reforms Growth Plan in the medium term.

Central Bank of Nigeria's Purchasing Managers' Index



Source: CBN, Investment One Research

Contacts:

Ayodeji Dawodu
Ayodeji.Dawodu@Investment-One.com

Moses Hammed
Moses.Hammed@Investment-one.com

Olayemi Olamofe
Olayemi.Olamofe@investment-one.com

Abayomi Ajayi
Abayomi.Ajayi@invvestment-one.com

Oluwatobi Elegbede
Oluwatobi Elegbede@investment-one.com

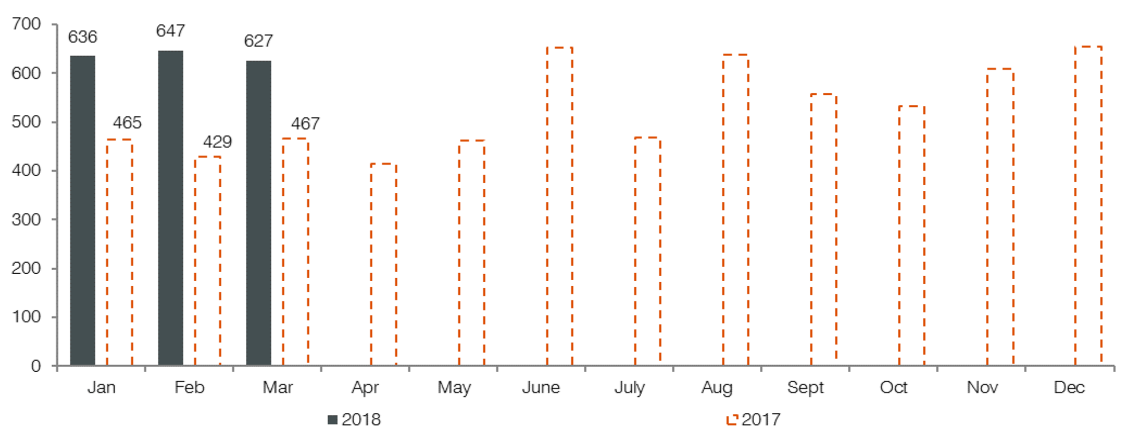
Douye Mac-Yoroki
Research@investment-one.com

Fiscal

In the outgone month, revenue shared by the Federal Account Allocation Committee fell by almost 4% m/m to N626.82 billion owing to a 13% m/m decrease in crude export sales. This is well below the monthly target of N709 billion required to meet personnel and debt service cost, according to the vice president. The Voluntary Asset and Income Declaration Scheme (VAIDS) generated 7% of its 305 billion target, bringing in about 20 billion to the nation's tax net by its initial deadline date. We may see a significant increase to this number given the extension of the deadline date, especially with the recent growth in the non-oil sector (1.45% y/y in Q4 2017).

Also supportive of government revenues is the increase in Brent crude oil price, up 7.5% m/m on average as well as the stability in oil production levels (around 1.8 million barrels per day, excluding condensates). However, we highlight the uncertainty around the passage of the 2018 budget and its effects on capital expenditure, which has been identified as a key driver to the growth of the economy.

Federation Account Allocation Committee (FAAC)

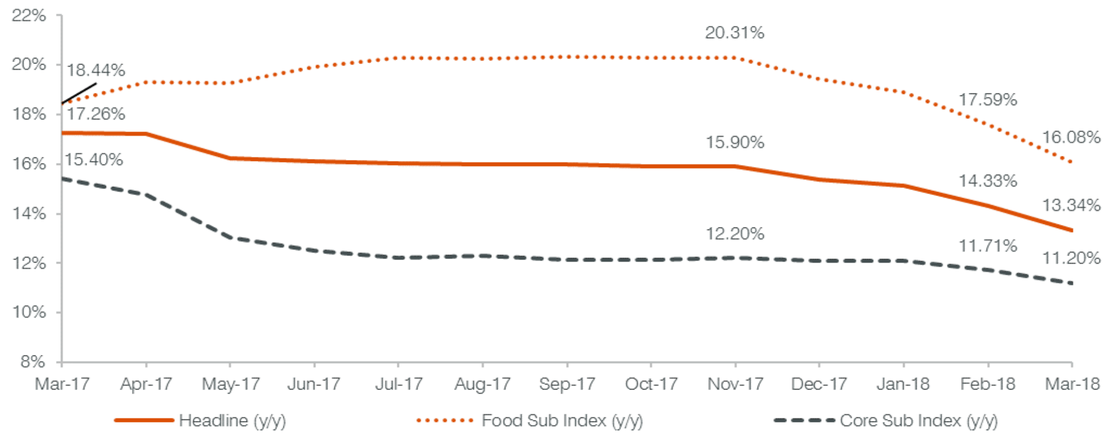


Source: NBS, Investment One Research

Inflation

According to the NBS' inflation report for March 2018 released in April 2018, the consumer price index slowed down for the fourteenth consecutive month. The headline inflation rate declined to its two-year low of 13.34% in March compared to the inflation figure of 14.33% in February. This is largely in line with our estimate of 13.35% for the month of March 2018. We highlight that the slowdown in headline inflation was mainly the result of the high base effect. This was more prominent on the Food sub-index, which fell to a 20-month low of 16.08% y/y in March 2018 after hitting an eight-year high of 20.32% in September 2017. We opine that this may not be unconnected with the already high prices in the market as well as weak consumer demand.

Headline Inflation

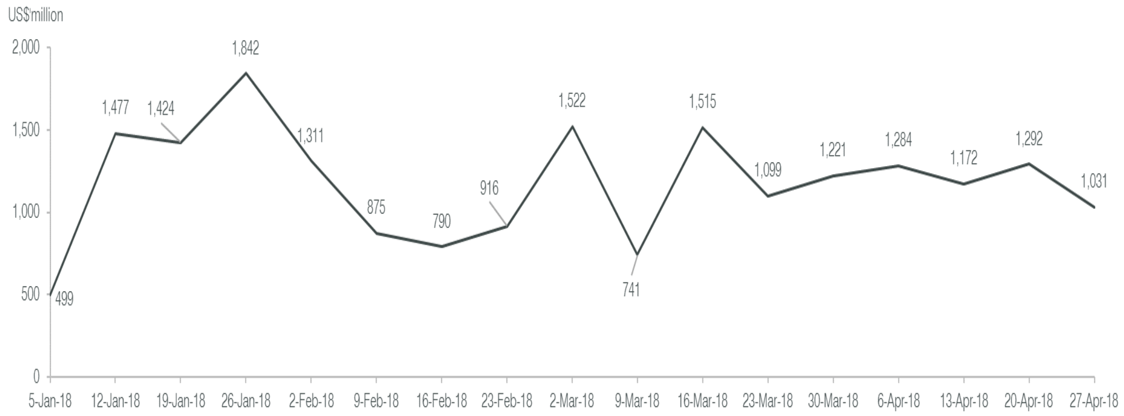


Source: FMDQ, Investment One Research

Foreign Exchange

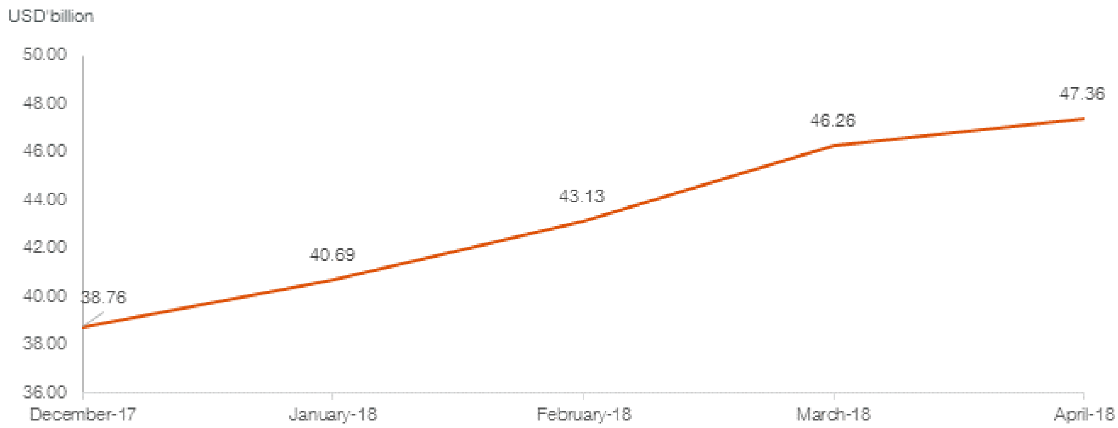
Despite the CBN's continuous intervention in the foreign exchange market where it sold about 1.03billion through its Secondary Market Intervention Sales, stability in oil production and accretion in Brent oil price (7.5% m/m to USD71.69 per barrel) saw the nation's FX reserves inched up by about 2.36% m/m to USD47.36billion. While CBN's dollar sales supported the local currency in the parallel market (c.N362/USD), accretion in reserves maintained confidence in the Investors and Exporters' FX (IEFX) window as the Naira closed at N360/USD levels in this space with turnover hitting an average of about USD1.29billion per week. This was flat against the average weekly turnover in March 2018.

Investors' & Exporters' FX Window Weekly Turnover



Source: FMDQ, Investment One Research

Foreign Exchange Reserves Movement



Source: FMDQ, Investment One Research

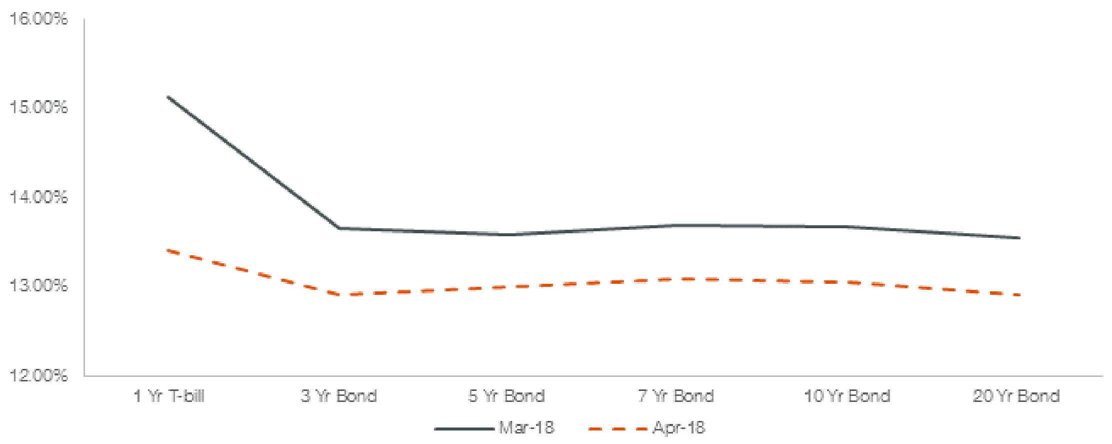
Monetary Policy and Fixed Income

The Monetary Policy Committee held its first meeting of 2018 in April following the confirmation of the President's Deputy Governors and Monetary Policy Committee members by the Senate. Although the Monetary Policy Rate was held constant at 14.00% at the meeting, yields in the fixed income space continued to contract. We believe the moderation in yield may not be unconnected with the on-going refinancing of local debt using the proceeds of the successful USD2.5billion Eurobond issuance in February 2018 (about N154billion worth of local debt redeemed in April 2018).

While this may have supported an improvement in system liquidity, which averaged N509billion in April 2018 compared to N199billion in March 2018, as well as the decline in stop rates at CBN's OMO auction (down 170bps and 240bps to 10.90% and 12.00% 100-day and 245-day maturities respectively) may have led to increased demand in the Treasury bill space causing a downward trend in yields. Furthermore, the April 2018 bond auction was largely oversubscribed with stop rates ranging between 12.75% and 12.89%, compared to 13.40% and 13.60% in the March 2018.

Consequently, 1yr T-bill declined by 173bps m/m to 13.40%, 5yr benchmark bond shed 55bps m/m to 13.07% while the yields on the 7yr and 10yr benchmark bond both declined by 61bps m/m to close at 13.04% and 13.06% respectively.

Federal Government Naira Denominate Bond Yield Curve Movement



Source: FMDQ, Investment One Research

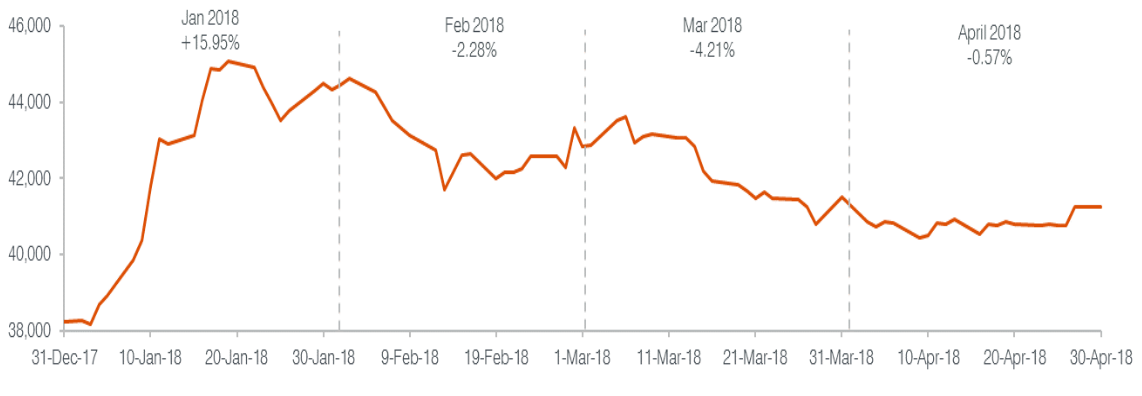
Equities

The Nigerian equities market continued to trade sideways in April 2018, falling by 0.57% m/m despite the uptrend in global oil prices, the release of largely positive Q1 2018 scorecards from the likes of GTB, Dangote Cement, Zenith Bank & Seplat as well as dividend payouts. Also, activity levels declined with average total daily volume and average total daily value down 12.59% and 18.18% m/m to 423 million units of shares and N5.31billion respectively.

Market Data	March 2018	April 2018
NSE-ASI (pts)	41,504.51	41,268.01
NSE-ASI (% Chng)	-4.21%	-0.57%
Market Cap. (N'Trillion)	14.99	14.95
Deals/Trades	102,703	92,807
Volume ('Billion)	10.17	8.46
Value Traded (N'Billion)	136.24	106.11

Source: NSE, Investment One Research

NSE-ASI Performance



Source: NSE, Investment One Research

Outlook

Macro: Recent surge in Brent oil prices to (above USD70/barrel) and stability in oil production levels at around 1.8mbpd (excl. condensates) should be supportive of oil sector performance. This combined with the resilience seen in business confidence, rising consumer demand and lower yield environment could be a positive for economic activities in the near term. Nevertheless, further delays in the passing of the budget could hinder its full implementation and its impact on GDP performance.

Fiscal: Going forward, we believe the gains from the oil sector and the tax developments should be supportive of government revenues in the near term. Moreover, the extension of the VAIDS deadline to June 2018 may lead to a further increase in the tax net as well as meeting the revenue target set at N305 billion. This should further translate to a higher tax to GDP ratio from the current level of about 6% and the government's spending capacity over the medium to longer term. Furthermore we believe tax revenues may see significant increments compared to last year on the back of growth in oil sector as well as tax initiatives. This may have been partly responsible for the 51% y/y rise in tax revenues in Q1 2018 to N1.17 trillion. While we expect the budget to be passed in May 2018 given the recent trends, we highlight the delays in the passage of the budget as a concern, particularly its effects on the capital expenditure plans, which constitute about 28% of the 2018 budget.

Inflation: Given our view of a stable NGN/USD rate and the administration's increased efforts to improve the availability of petroleum products nationwide, we see headline inflation continue to slow in the near term. Consequently, we could see the increase in consumer prices fall to 12.50% y/y for the month of April 2018 before proceeding to 11.40% y/y for the month of May 2018.

Foreign Exchange: With the bullish sentiment in the global oil market and domestic oil production levels remaining stable at 1.8million barrels per day, we expect the nation's reserves to continue to increase. Accretion to reserves should also see support from the recent USD2.4billion currency swap with China, aimed at reducing the use of USD in bilateral trade and offshore financing of the N2trillion deficit in the proposed 2018 budget. Strengthening of the country's FX reserves should be supportive of CBN's FX policy and foreign investor confidence. Nonetheless, we highlight the possible increase in US Shale production and its negative impact on Brent oil prices could pose a downside risk while the much discussed re-inclusion of Nigerian Government bonds in the J.P. Morgan GBI-EM Index could be a positive for foreign currency inflows.

Fixed Income & Monetary Policy: While the headline inflation for April is like to print around 12.50%, we are of the view the Monetary policy is more likely to reduce the Monetary Policy Rate in July 2018 by as much as 100bps to 13.00%. However, given the recent moderation in yields in the secondary fixed income market and the need to offer real returns despite inflation moderating, we could are unlikely to see a significant decline in yields in the near term. As a result, we expect CBN to continue to issue 245-day OMO bills at stop rates around 12% levels (13.20% equivalent yield).With this said, we re-iterate that the possible re-inclusion of Nigerian Government bonds in the J.P. Morgan GBI-EM could be a positive for yield contraction.

Equities: We could see the equities market remain volatile in the near term. Despite the recent moderation in yields in the fixed income market. Our view is premised on the absence of positive news flow to drive the All Share Index's performance. While investor focus could be on the 2019 elections, we point out the potential implementation of the updated PFA investment guidelines, re-inclusion of Nigerian Government bonds in the J.P. Morgan GB-EMI and the much discussed IPO of MTN Nigeria as possible catalyst for the equities markets performance in the medium term.

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Address:

Investment Management & Research

INVESTMENT ONE Financial Services Limited

37, Karimu Kotun Street,

Victoria Island, Lagos.

Nigeria

Email: research@investment-one.com

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