

Weekly Economic and Market Update.

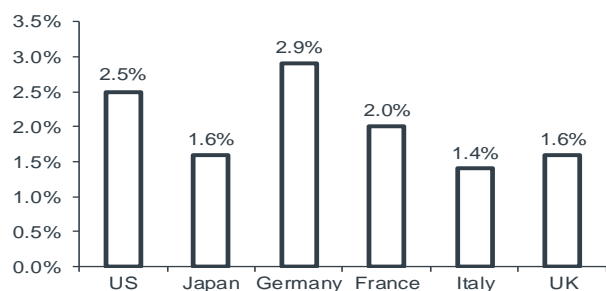
Overview of Markets in the Week Ended 11 May 2018

Global Economy

The US Labour Department released data showing slower-than-expected monthly growth in the US Consumer Price Index (CPI) for April by 0.2%, against market's expectation of 0.3%. However, the reading showed a rebound from the 0.1% drop in inflation in March. Higher costs of gas and rentals were tapered by moderation in healthcare prices. Excluding food and energy components, the core CPI inched higher by 0.1%, from 0.2% in the previous month. Annual inflation was 2.5% higher, from 2.3% in March, while the core CPI rose 2.1% y/y – same as in March. **While the tamed rise in prices eased concerns of an aggressive interest rate hike, the tighter labor market conditions as well as continued rise in oil prices are likely to cause increase in prices going forward.**

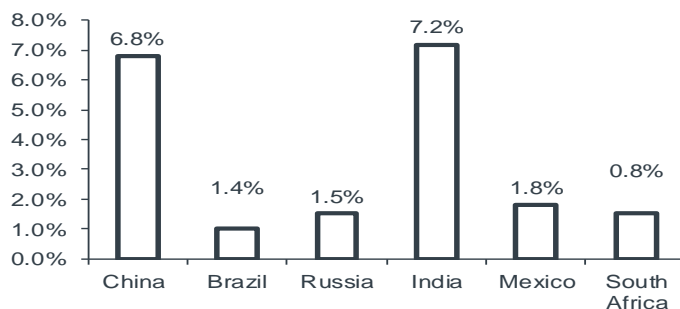
China's balance of trade in April improved to a USD28.78 billion surplus, from the USD4.98 billion trade deficit recorded in the previous month, and above polled market expectation of a USD24.7 billion surplus. Year-on-year, the trade surplus was lower by 23.15%, from USD37.45 billion posted in the same period last year. Imports (+21.5% to USD171.64 billion) and exports (+12.9% to USD200.49 billion) were higher than polled forecasts of 16% and 6.3% increases respectively. Notwithstanding the ongoing trade war, Chinese trade surplus with the US widened to USD22.19 billion in April, from USD15.43 billion in March. **The improvement in trade balance should boost growth in Q2 in the export-dependent economy.**

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



Source: IMF, Cordros Research

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

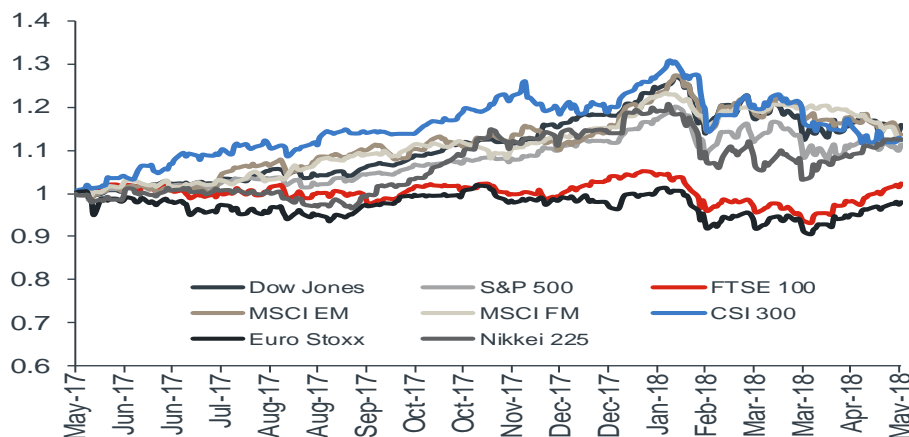


Source: IMF, Cordros Research

Global Markets

Activities in the global markets were broadly positive during the week, as investors shook off trade and geopolitical fears. Following last week's loss, demand rebounded strongly for US risky assets (DJIA: +2.44%; PP 500: +2.44%), with gains extended for six sessions in a row -- the longest winning streak since Feb 16. Sentiments were also positive in the Asian (CSI 300: +2.60%; Nikkei 225: +1.27%) and European (FTSE 100: +1.95%, Euro Stoxx 50: +0.31%) markets. Major drivers of the positive performances were the higher oil prices, better-than-expected economic data, tapered fears on interest rate hikes (following tamed inflation data), and positive corporate earnings. The MSCI EM (+1.79%) index, aided by gains in China and Brazil (+3.89%), also closed higher, while loss in Ghana of 0.68% -- halting 7-weeks of consecutive gains -- as well as in Nigeria (-0.48%) and Kenya (-0.62%), caused the MSCI FM (-0.71%) to close lower.

Fig 3: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research

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Nigeria
Economy

The National Bureau of Statistics' (NBS) capital importation report for the first quarter of 2018 shows that Nigeria imported total capital of USD6.30 billion during the period, representing 594.03% y/y and 17.11% q/q increases, from the USD908.27 million and USD5.38 billion recorded in Q1-17 and Q4-17 respectively. In terms of contribution, consistent with the previous quarter, Portfolio Investment (31.3% q/q and 1,355.7% y/y to USD4.57 billion) accounted for most (72.4%; previously 64.6%) of the inflows into the country in the review period. Foreign Direct Investment (FDI) was up 17% y/y but lower 35% on q/q basis. **Over the rest of 2018, we believe capital importation will benefit from the continued improvement in macroeconomic conditions. That said, we note downside risks, around (1) the paucity of reforms capable of attracting direct investments and (2) election concerns, which could affect portfolio inflows.**

The IMF Mission Chief to Nigeria disclosed during the week that the value of foreign holdings of Nigerian domestic debt, as at the end of Q1-2018, rose by 300% y/y to USD16 billion (vs. USD4 billion as at Q1-2017). He attributed this to soaring investors' confidence in Nigeria on the back of (1) exchange rate stability, (2) increasing oil prices and revenue, and (3) positive economic growth. **Strengthened foreign interest reinforces the improving fundamentals of the economy, and we are likely to see an increment in the foreign holdings (1) given the FG's commitment to increase the mix of USD debt in its total debt stock, and (2) if the macro-economic environment continues to progress at or above the current rate.**

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)	NGN305.80	NGN305.50	NGN305.60 (18th May)
Foreign Reserve (USD'bn)	47.85	38.91	48.07 (18th May)
Unemployment	18.80%	14.2%*	20.3% (Q4-17)
Brent Crude Oil Price (USD)	77.49	66.57	78.90 (18th May)

* 2017

Source: CBN, Bloomberg, NBS, Cordros Research

Capital Markets
Equities

Investors in the equities market remained downbeat, as the ASI dipped 0.48% to close at 41,022.31 points, amidst sessions of sideways trading during the week. Year-to-Date, the benchmark index remains positive at 7.27%, while the Month-to-Date return stands at a loss of 0.60%. Total volume and value of trades were 19.15% and 24.75% higher than the previous holiday-shortened week at 1.59 billion units and NGN25.99 billion, respectively. The Consumer Goods (-1.58%) and Banking (-0.01%) indices closed lower, while the Industrial Goods (+1.16%) and Insurance (+1.16%) indices closed higher. The Oil & Gas index closed flat. Meanwhile, CCNN (+29.75%) and NIGERINS (-14.29%) led the 32 gainers and 48 losers this week. **Interestingly, ETERNA, which has accumulated 70.69% YtD, also posted significant gain of 20.73% during the week, following the company's impressive FY-2017 result (PAT: + 35.7% y/y), and significant q/q growth in PAT from -NGN15.57 million to NGN510.82 million in Q1-2018.**

Despite selloffs in the equities market, we maintain our positive outlook for Nigerian risky assets in the medium to long term, as market fundamentals remain strengthened.

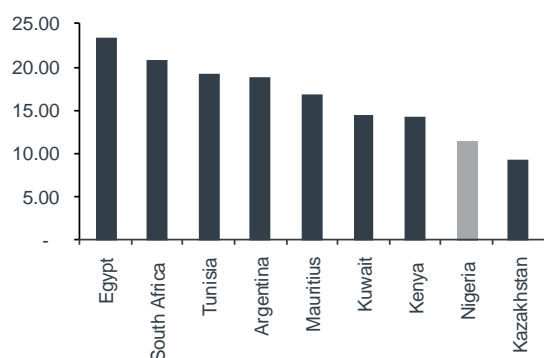
Fig 4: Trailing 12M P/E Ratios (Frontier Market)

Source: Bloomberg, Cordros Research

Table 2: Top Gainers and Losers

Ticker	Gainers			Losers			
	CP * (NGN)	WTD	YTD	Ticker	CP * (NGN)	WTD	YTD
CCNN	29.00	29.75%	205.26%	NIGERINS	0.24	-14.29%	-52.00%
ETERNA	6.93	20.73%	70.69%	JAPAUOIL	0.40	-13.04%	-20.00%
LINKASSURE	0.95	11.76%	43.94%	UAC-PROP	2.15	-12.60%	-22.94%
OKOMUOIL	90.00	11.11%	32.96%	UNITYBNK	1.07	-10.83%	101.89%
SKYEBANK	0.94	10.59%	88.00%	DIAMONDBNK	1.90	-9.95%	26.67%

*CP: Closing Price

Source: NSE, Cordros Research

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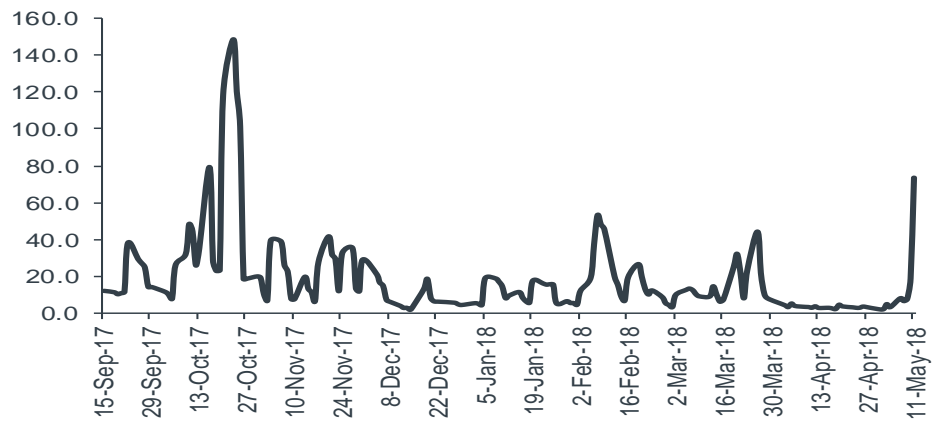
Fixed Income and Money Market

Money Market

The overnight lending rate spiked 7,009 bps w/w to close the week at 73.42% (highest since 25th October 2017), on the back of tight system liquidity. Outflows for FX sales (USD210 million + undisclosed amount for retail SMIS) and OMO auction (NGN454.16 billion) outweighed inflows from matured OMO bills (NGN290.92 billion).

Next week, inflows totaling NGN330.28 billion — maturing OMO bills (NGN262.61 billion) and treasury bills (NGN67.68 billion) — will offer support to system liquidity. However, liquidity mop-up and forex intervention by the CBN towards the end of the week are likely to exert upward pressure on the overnight lending rate.

Fig 5: Overnight Money Market Rate (%)



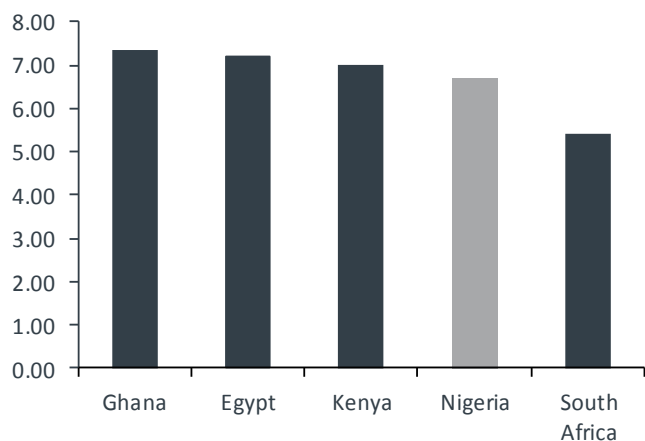
Source: FMDQ, Cordros Research

Treasury Bills

Proceedings in the NTB market were bearish, with sentiments driven by (1) decreased liquidity levels and (2) full allotment and slightly higher stop rate at the OMO auction. As a result, average yield surged 201 bps w/w to 13.30%. Selloffs of the 20DTM (+468 bps), 104DTM (+305 bps) and 202DTM (+264 bps) bills caused yield expansion at the short (+266 bps), mid (+202 bps) and long (+143 bps) ends of the curve.

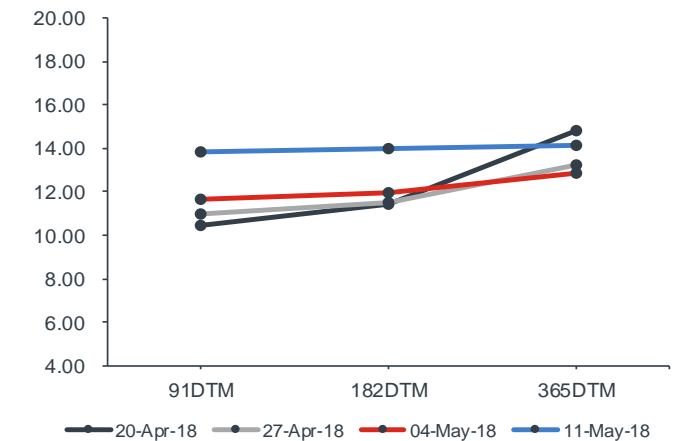
Yields are expected to be pressured, due to anticipated squeeze in liquidity position next week. At the NTB auction scheduled for next week, the CBN will offer NGN33.84 billion – NGN3.38 billion of the 91-day, NGN16.92 billion of the 182-day, and NGN13.54 billion of the 364-day – worth of bills to the 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

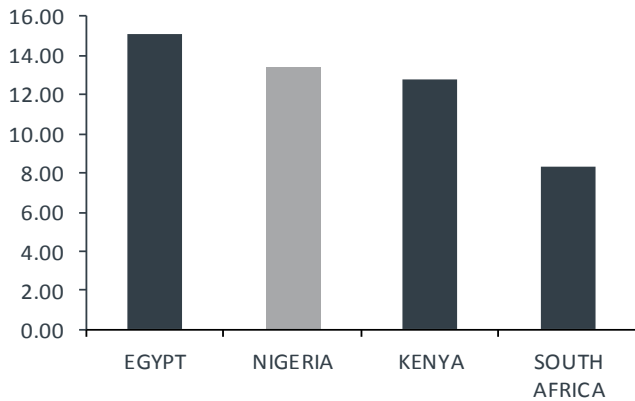
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Bond

Activities in the bond market were similarly bearish due to selloffs from offshore players — likely a fallout of heightened currency pressures in a few emerging market economies. Consequently, average yield rose by 30 bps w/w to 13.18%. Yields expanded at all ends (short: +47 bps; mid: +31 bps; long +13 bps) ends of the curve following selloffs of the JUL-2021 (+106 bps), JAN-2026 (+43 bps) and JUL-2030 (+22 bps) bonds.

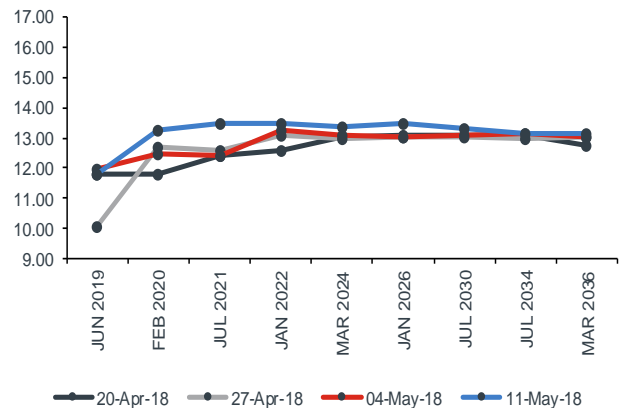
We reiterate our expectation for lower yields in the short-to-medium term, reflecting (1) falling inflation rate, (2) strengthening expectation of monetary easing, and (3) the FGN's new debt management strategy.

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



Source: investing.com, Cordros Research

Fig 9: FGN Bond Yield Curve



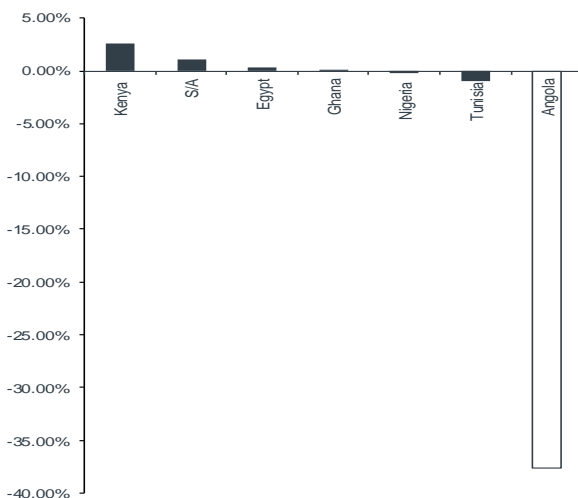
Source: FMDQ, Cordros Research

Foreign Exchange

The naira weakened against the USD in the parallel market and I&E FX window by 0.28% and 0.08% to NGN363 and NGN361.05, against NGN362 and NGN360.75 in the previous week, respectively. The depreciation of the naira, particularly in the I&E window (which hit its lowest level since December 2017 during the week at NGN361.36), was likely triggered by the stronger dollar, as investors sought to benefit from higher US treasury yields. Total turnover in the I&E FX window rose by 33.55% to USD1.04 billion, with bulk of trades (98.88%; previously 90.12%) consummated within the NGN360-369/USD band. 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. Meanwhile, trades in FX forwards showed the USD/NGN was weaker in the 1-month, 3-month, 6-month, and 1-year contracts by 0.35%, 0.69%, 1.25%, and 0.38% to NGN363.50, NGN370.07, NGN381.09, and NGN403.39 respectively.

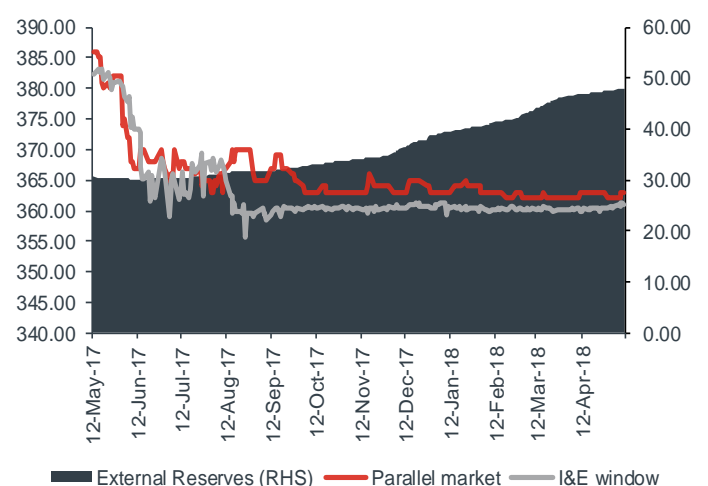
Theme for the forex market is continued stability, as oil prices (+3.53% w/w to USD77.51) continue to shore up the reserves and support the CBN's interventions in the market.

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

*11 May 2018***Important Disclaimers**

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