25 May 2018

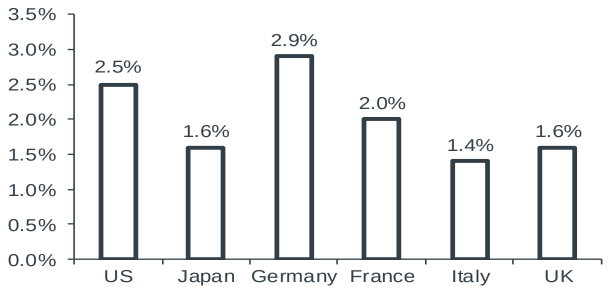
Weekly Economic and Market Update.
Overview of Markets in the Week Ended 25 May 2018

Global Economy

Annual inflation in the United Kingdom recorded its third consecutive month of decline, as it dipped 10 bps to 2.4% in April, against 2.5% in the previous month. This was below market's expectations of a 2.5% price growth and was the lowest since March 2017. The softer increase in prices was largely driven by reduction in transport cost amid decline in air fares, which muted higher fuel and lubricant prices. The annual core inflation also eased during the period to 2.1%, from 2.3% in March. **As the higher-than-expected indicative PPI data for last month has shown, inflation is likely to edge higher going forward – maintaining the BOE's 2% target -- particularly driven by higher energy costs.**

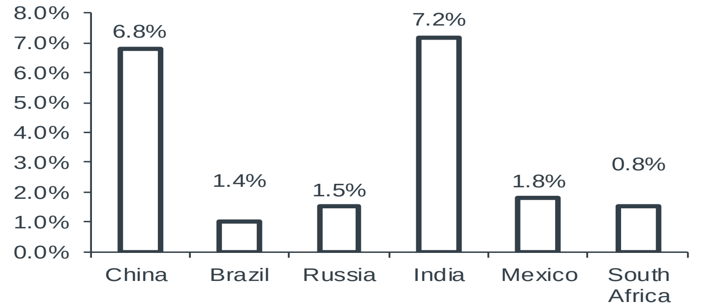
Trade balance in Japan improved 30.9% to JPY626 billion in April, from JPY478 billion in the same period last year. This came much higher than polled market expectation of a JPY405.6 billion surplus. Exports grew by 7.8% (March: +2.1%) to JPY5.822 billion, largely driven by increased sale of transport equipment and machinery, while imports rose at a slower pace of 5.9% (March: -0.6%) to JPY6.196 billion, amidst increased purchase of mineral fuels and chemicals. The trade surplus with the US inched up 4.7% to JPY615.7 billion, after a 0.3% decline in March. That came after Tokyo informed the WTO it had the right to impose tariffs worth JPY50 billion (USD451 million) on U.S. goods — equivalent to the impact of the U.S. tariffs newly imposed on Japanese steel and aluminum products. **The potential global trade war, sparked off by the US, remains a potential headwind to Japanese trade balance.**

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



***Source**: IMF, Cordros Research*

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

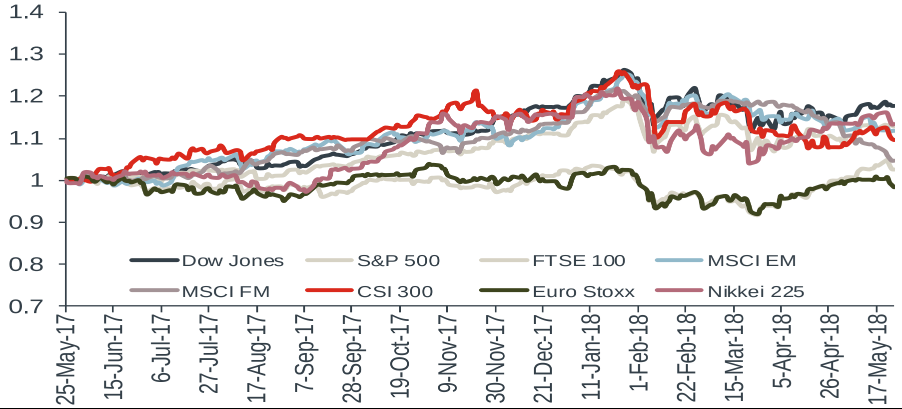


***Source**: IMF, Cordros Research*

Global Markets

Activities were mixed in global markets within our coverage, as the US (DJIA: +0.36%; S&P 500: +0.35%) market closed positive (at the time of writing), while European (FTSE 100: -0.90%, Euro Stoxx 50: -1.98%) and Asian (CSI 300: -2.22%; Nikkei 225: -2.09%) markets closed lower. Activities, during the week, were hinged on resurfaced trade and geopolitical concerns, as well as the Fed's hawkish monetary policy tone during the week. Meanwhile, losses persisted in the MSCI EM (-0.24%) index, as sell pressures in China and Brazil (-3.77%) outweighed the gains which resurfaced in India (+0.22%). Similarly, the MSCI FM (-2.91%) index has continued to post declines, as losses persisted in Morocco (-1.03%) and Nigeria (-1.34%), while it resurfaced in Kenya (-2.16%). It is also worth stating, that the bears continued to dominate the Ghanaian (-2.62%) market, as it posted its third consecutive loss, owing to profit-taking on the 7-week accumulated gains.

Fig 3: Global Indices (Index of 1)



***Source**: Bloomberg, Cordros Research*

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Nigeria

Economy

Data from the National Bureau of Statistics, released on Monday, shows that the domestic economy expanded in the three months to March 2018, with real GDP growing by 1.95% y/y (vs. revised 2.11% y/y in the previous quarter and -0.91% y/y in Q1-2017. The oil sector grew by 14.77% y/y in Q1-18 while output in the non-oil sector expanded by 0.76% y/y. While it is cheering, on the surface, that the latest data shows expansion in both oil and non-oil sectors, the fact that growth rate in the latter significantly lags the strong double-digit recorded in the former is concerning. **Following the broadly in-line GDP outturn over Q1-18, we retain our 2.63% 2018FY GDP forecast, implying a projection of 2.70% in Q2-18. That position reflects our thought that the economy will witness little or no structural reforms over 2018.**

The CBN's Monetary Policy Committee (MPC) held its second meeting of the year during the week. In line with our expectation and consensus, the MPC again held the line across all its policy variables, retaining the MPR at 14.0%, CRR at 22.5%, liquidity ratio at 30.0%, and the asymmetric corridor around the MPR at +200/-500 bps. The MPC's main focus remains exchange rate stability and moderating inflation. More than ever before, the tone of the Committee suggests lower-for-longer status quo. **We will continue to monitor external developments and domestic macroeconomic fundamentals and adjust our monetary policy guidance accordingly.**

Table 1: Macro Indicators

Macro Indicators (Nig)	Current	Year Start	Forecast
Real GDP growth	1.95%	-1.30%*	+2.70% (Q2-18)
MPR	14.00%	14.00%	14.00% (Next meeting)
CPI	12.48%	18.72%*	11.36% (May-18)
Exchange Rate (USD)	NGN305.90	NGN305.50	NGN305.90 (1st June)
Foreign Reserve (USD'bn)	47.75	38.91	47.90 (1st June)
Unemployment	18.80%	14.2%*	20.3% (Q4-17)
Brent Crude Oil Price (USD)	76.25	66.57	74.50 (1st June)

* 2017

***Source**: CBN, Bloomberg, NBS, Cordros Research*

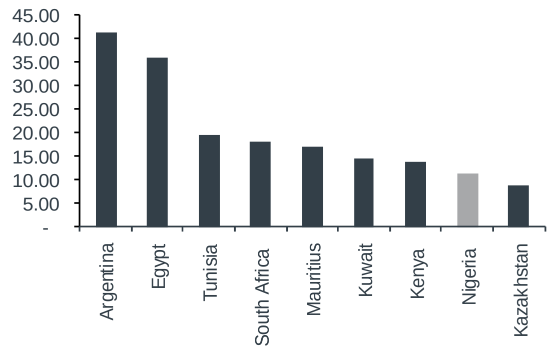
Capital Markets

Equities

The equities market remained in the negative territory, with the ASI posting a significant decline of 2.84% -- the largest weekly loss since mid-March -- to 39,323.62 points, amidst still-dampened investor sentiments. The benchmark index dipped below the 40,000-mark on Thursday, following a significant loss of 1.06% -- the highest loss in the month so far – amidst sell offs of high-cap stocks. Year-to-date, returns dropped to 2.83%, while Month-to-Date loss stood at 3.74%. Volume and value of trades were higher during the week by 27.52% and 22.56%, to 1.37 billion units, and NGN16.02 billion, respectively. IKEJAHOTEL was the best performing stock this week, as it gained 44.94% during the week, following the lift of the suspension imposed on its shares on Monday. Meanwhile ETERNA, with a loss of 22.27%, was the top loser.

The persisting sell-offs and continued sessions of sideways trading suggest a need for cautious trading by investors. However, still-strengthening macroeconomic fundamentals remain supportive of potential gains for patient funds.

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
IKEJAHOTEL	2.58	44.94%	44.94%	ETERNA	5.27	-22.27%	29.80%
MRS	36.05	21.18%	31.28%	JAPAULOIL	0.24	-20.00%	-52.00%
LAWUNION	0.98	20.99%	27.27%	TRANSCORP	1.33	-16.35%	-8.90%
NIGERINS	0.25	19.05%	-50.00%	AIICO	0.57	-16.18%	9.62%
HMARKINS	0.30	11.11%	-40.00%	EQUITYASUR	0.21	-16.00%	-58.00%

****CP: Closing Price***

***Source:** NSE, Cordros Research*

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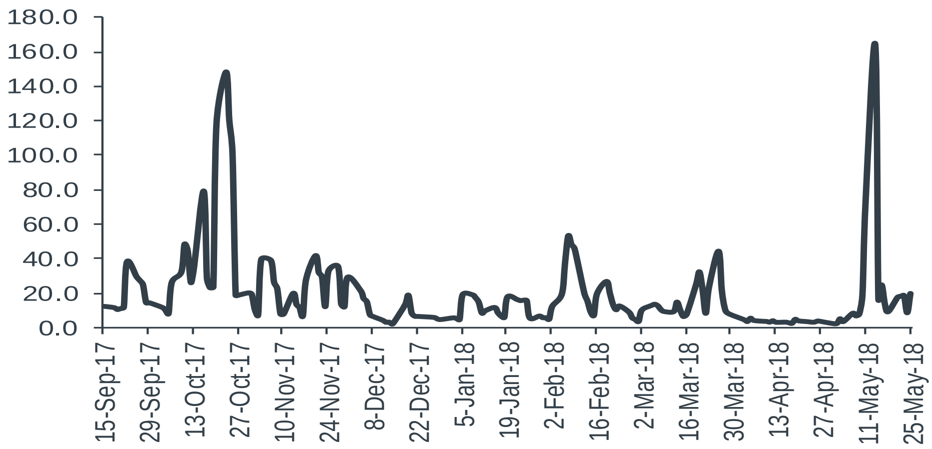
Fixed Income and Money Market

Money Market

The overnight lending rate advanced 1,067 bps w/w to 19.67%, against last week's close of 9.00%. The rate movement was consistent with significant outflows from FX sales (USD210 million), OMO auctions (NGN150.53 billion), and bond auction (NGN50.45 billion), all of which offset inflows from matured OMO bills (NGN266.95 billion) and bond coupon payments (NGN17.87 billion).

Next week, inflows worth NGN930.50 billion — maturing OMO bills (NGN206.37 billion), maturing treasury bills (NGN99.21 billion), bond coupon payments (NGN305.63 billion), and the monthly FAAC disbursement (NGN319.29) — 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 (%)



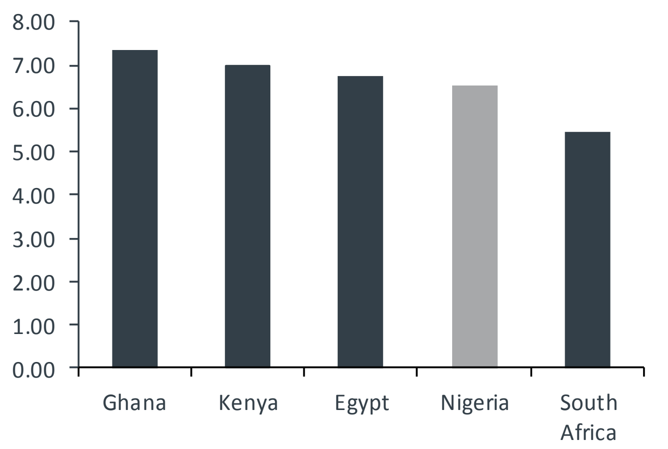
***Source**: FMDQ, Cordros Research*

Treasury Bills

Proceedings in the NTB market were mixed, as bullish sentiments, on the back of relatively healthy liquidity earlier in the week and slight expectations of a rate cut at the MPC meeting, were tapered by the CBN OMO interventions towards the end of the week. As a result, average yield moderated by 5 bps w/w to 13.01%. Demand for the 111DTM (-33 bps) and 300DTM (-84 bps) bills led to yield contraction at the mid (-1 bps) and long (-10 bps) ends of the curve, while yield at the short segment was flat.

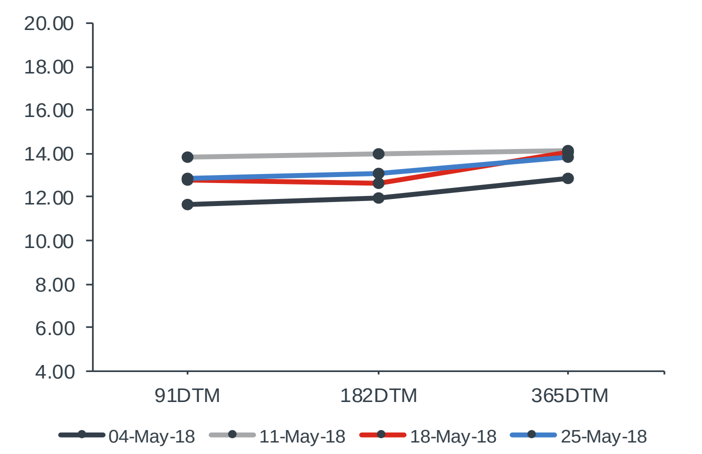
Yields are expected to drop in the meantime, supported by expected buoyant system liquidity. At the NTB auction scheduled for next week, the CBN will offer NGN49.61 billion – NGN4.96 billion of the 91-day, NGN24.80 billion of the 182-day, and NGN19.84 billion of the 364-day – worth of bills to the market.

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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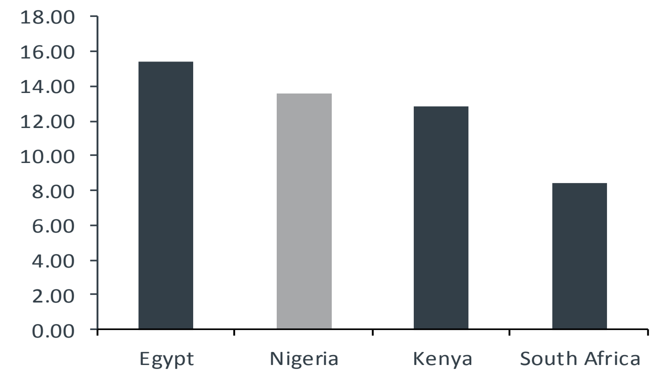
Bond

Bearish sentiment persisted in the bond market, driven by (1) lingering fears of continued sell-offs by foreign investors and (2) higher stop-rates at the primary auction. Consequently, average yield rose by 7 bps to 13.34%. Yields expanded at the short (+16 bps) and long (+5 bps) ends of the curve, following selloffs of the JUN-2019 (+101 bps) and APR-2037 (+10 bps) bonds. Conversely, yield contracted at the mid (-2 bps) segment, with yield on the MAR-2027 (-12 bps) moderating. At Wednesday's primary auction, the DMO allotted NGN3.50 billion of the APR-2023 (re-opening), NGN8.45 billion of the MAR-2025 (re-opening), and NGN38.50 billion of the FEB-2028 (re-opening) bonds at respective stop rates of 13.50% (vs. 12.75% at the previous auction), 13.5% (vs. 12.85% at the previous auction), and 13.55% (vs. 12.89% at previous auction). The auction was 1.78x oversubscribed.

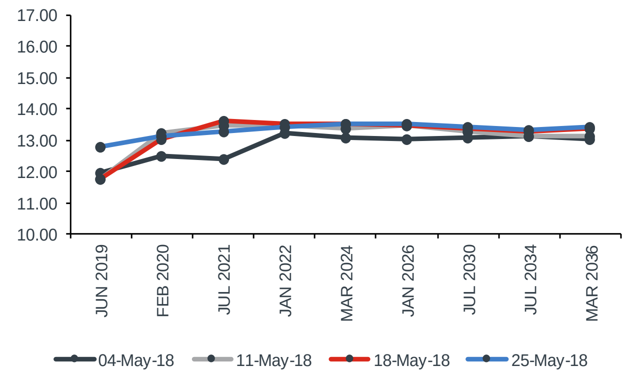
We expect yields to remain stable at current levels in the short term. However, our theme continues to favour lower yields in the long term, reflecting (1) falling inflation rate and (2) the FGN's new debt management strategy.

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



***Source**: investing.com, Cordros Research*

Fig 9: FGN Bond Yield Curve



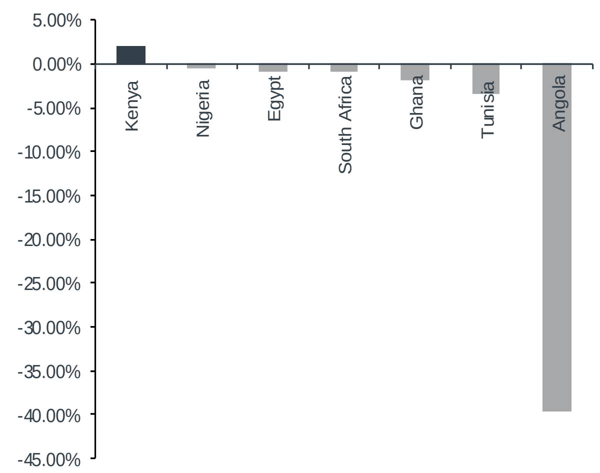
***Source**: FMDQ, Cordros Research*

Foreign Exchange

Mid-week, the NGN depreciated significantly against the USD to NGN366 – the highest since November 2017 – in the parallel market. The USD/NGN has traded flat at NGN366 since the significant decline on Wednesday (vs. 364 last week). Similarly, the USD/NGN dropped by 0.20% to NGN361.57 in the I&E FX window, against last week's close of NGN360.85. Latest data by the CBN (dated 21st May) shows the foreign reserves dipped by 0.09%, from the previous week, to USD47.75 billion, as the naira (as well as other EM currencies) came under pressure, amidst rising US treasury yields. This comes despite the CBN's continued intervention in the FX market, as it injected USD210 million during the week. Meanwhile, trades in FX forwards showed the USD/NGN was weaker in the 1-month (-0.19%) and 3-month (-0.03%) contracts, while it strengthened in the 6-month (+0.38%) and 1-year (+0.04%) contracts to NGN364.97, NGN372.42, NGN384.78, and NGN404.93 respectively.

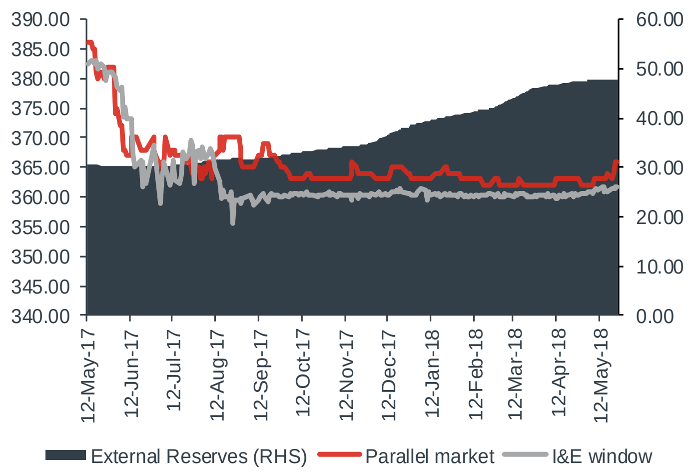
While the naira appears pressured by the still-strengthening dollar, and foreign reserves show declines, we believe the apex bank's intervention in the FX market will remain healthy; supported by rising oil revenue.

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*