*5 June 2018*

# Monthly Markets Review.
## Overview of Markets in May and Outlook

**Highlights**

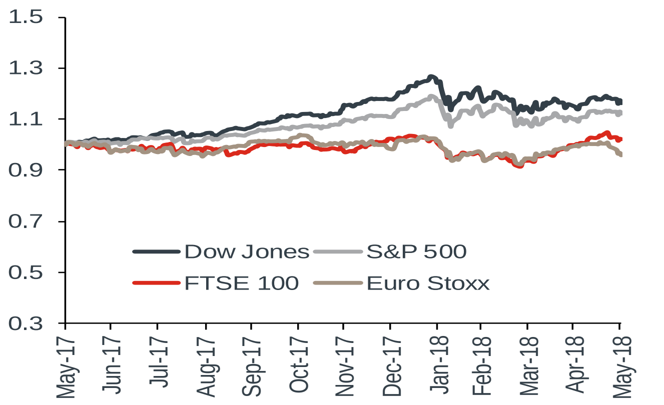
- Trading in global markets within our coverage was mixed, with the US posting gains while mixed sentiments was the common theme in the European and Asian markets.
- Selloffs persisted in the emerging and frontier markets, as the MSCI EM (-3.75%) and MSCI FM (-9.75%) indices remained subdued by the bears.
- Selloffs persisted in the Nigerian equities market, as the ASI declined for the fourth consecutive month, by 7.67% to 38,104.54 points.
- The overnight lending rate rose, by 125 bps, to close the month at 3.67%, on the back of reduced liquidity in the market.
- Treasury bill yields expanded, by 144 bps on average, on the back of tight system liquidity and slightly higher stop rates at the OMO auctions.
- FGN Bond yields reversed the downward trend amid tightened liquidity, higher primary auction rates and selloffs from foreign investors
- The dollar faced significant demand pressure during the month, causing the NGN to dip to record lows of NGN362.02 and NGN366.00 respectively in the I&E FX window and parallel market – rates last seen in August 2017 and November 2017, respectively.

**Global Equity Markets**

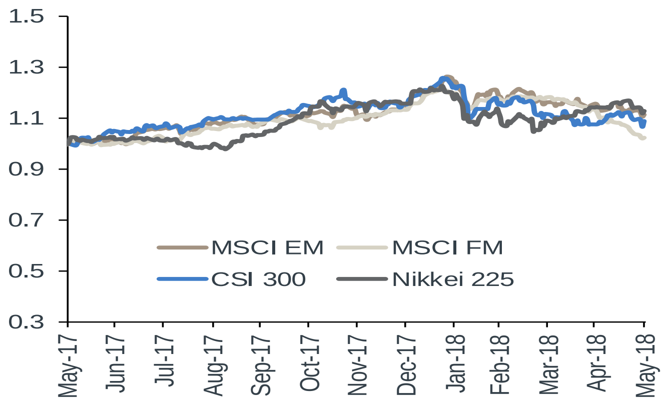
**Activities in US equities market remained positive, as the DJIA and S&P 500 recorded gains of 1.05% and 2.16% respectively.** The Dow had a strong start to the month, supported by; (1) higher oil prices (which boosted interests in energy stocks), (2) eased concerns about interest rate hike (following tamed inflation data), (3) positive corporate earnings, and (4) eased trade-war concerns, particularly between US and China. However, the second half of the month was negative - although not enough to offset the gains booked in the first half - driven by (1) resurfaced trade-relations worries, as the US imposed tariffs on its allies and (2) reemerged geopolitical worries, following cancelation of the proposed meeting between the US and North Korea. Rising US Treasury yields to above the 3%-mark, was also a major contributing factor to investors exiting riskier assets in the second half.

**Sentiments in European markets were mixed, with the FTSE 100 index closing higher by 2.25%, and the Euro Stoxx 50 index recording a 3.67% loss.** Both indices posted gains in the first half, with the FTSE 100 and Euro Stoxx 50 advancing by 2.85% and 0.79%, respectively. Upbeat views on the US-China trade spat and higher oil prices, similar to the US market, also had positive impact on equities in the UK and European markets. Investors shook off brewing geopolitical concerns in the region, at the time, whilst also riding on corporate news (which included news of corporate mergers), higher oil prices, as well as mixed economic data. Both indices posted losses during the second half, with the Euro Stoxx 50 recording a larger loss of 4.42%, than the FTSE 100's -0.58%. Geopolitical tensions relating to Italy and Spain, as well as the tariff announced by the US in the later part of the month, were the main drivers of the sell pressure experienced in the region during the second half.

**Fig 1: Global Indices (Index of 1)**




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




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

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**Asian stocks also posted mixed returns in May, with the CSI 300 index appreciating by 1.21%, while the Nikkei 225 index lost 1.18%.** Similar to the US and Europe, both the Chinese and Japanese markets closed positive in the first half of the month. More importantly, reduced geopolitical risk concerns, following the proposed historic reconciliation between North and South Korea; as well as ease in the US-China trade relations, boosted investor sentiments in the Asian markets. In the second half, stocks in China and Japan posted 3.10% and 2.70% losses respectively. The major factor that drove negative returns in the second half was renewed geopolitical concerns, following the cancellation of the North-South Korean summit, as well as concerns around US-China trade relations.

**Selloffs persisted in the emerging and frontier markets, as the MSCI EM (-3.75%) and MSCI FM (-9.75%) indices remained subdued by the bears.** Selloffs in the regions can largely be attributed to the rise in US Treasury yields during the period, which caused foreign investors to focus on risk-free assets in US markets. Loss in Brazil (-10.87%) equities, masked the gains in the Chinese and Indian (+0.46%) markets, while losses in Morocco (-5.32%), Kenya (-3.90%) and Nigeria (-7.67%) weighed on the frontier market index.

**Nigeria**

**Equities Market**

Selloffs persisted in the Nigerian equities market, as the ASI declined for the fourth consecutive month, by 7.67% to 38,104.54 points. This was the largest monthly loss since January 2016's -16.50%. Bulk of the loss was recorded in the second half, wherein a 10-day losing streak caused the market to lose 7.27%. Meanwhile, the first half bore an accumulated loss of -1.56%. The ASI YtD return turned negative on the last trading session of the month, at -0.36%, while market capitalization fell below the NGN14 trillion mark to close at NGN13.67 trillion.

The loss suffered was largely hinged on investors negative sentiments, as well as the rise in US Treasury yields, which averted foreign inflows from risky assets in emerging markets (including Nigeria) to the more attractive risk-less US treasuries. The aforementioned led investors to ignoring the notable positives in the Nigerian economy, viz: (1) continued GDP growth, although at a slower pace, (2) accretion to the foreign reserves and stability of the naira, supported by increased oil prices (+3.22% to USD77.59 as at end of March) and stable production, (3) continued decline in monthly inflation (15th consecutive decline to 12.48% in April), and (4) expansion of the Nigerian PMI (Manufacturing and non-Manufacturing sectors).

All major sector indices closed negative, with the Consumer Goods (-11.38%) index posting the largest loss, followed by the Banking (-8.77%), Industrial Goods (-7.63%), Oil &Gas (-4.88%), and Insurance (-2.58%) indices. Notable stocks in the aforementioned sectors that recorded sizeable price declines include NB (-16.94%), DIAMONDBNK (-34.16%), WAPCO (-17.14%), JAPAULOIL (-56.25%), and EQUITYASUR (-31.03%), respectively.

**Table 1: NSE Sector Indices Performance**

| Index | 31-May | 30-Apr | m/m Change | y/y Change |
|---|---|---|---|---|
| NSE Banking | 474.14 | 519.73 | -8.77% | -0.27% |
| NSE Consumer Goods | 890.55 | 1004.94 | -11.38% | -8.76% |
| NSE Industrial | 1919.25 | 2077.89 | -7.63% | -2.85% |
| NSE Insurance | 141.93 | 145.69 | -2.58% | 1.84% |
| NSE Oil/Gas | 346.22 | 363.97 | -4.88% | 4.70% |

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

Market breadth remained negative, albeit broader, with 75 losers (previously 65) and 21 gainers (previously 30), led by JAPAULOIL (-56.25%) and MBENEFIT (+54.17%) respectively. Despite the broad market selloff, IKEJAHOTEL posted significant gain (+41.01%) – the second-highest gainer

**Table 2: NSE Top Gainers & Losers**

| Gainers | | | Losers | | |
|---|---|---|---|---|---|
| Ticker | MTD | YTD | Ticker | MTD | YTD |
| MBENEFIT | 54.17% | -26.00% | JAPAULOIL | -56.25% | -58.00% |
| IKEJAHOTEL | 41.01% | 41.01% | DIAMONDBNK | -34.16% | -11.33% |
| CCNN | 30.32% | 180.53% | EQUITYASUR | -31.03% | -60.00% |
| MRS | 20.81% | 24.73% | TRANSCORP | -25.88% | -13.70% |
| LAWUNION | 20.51% | 22.08% | OANDO | -25.68% | 13.52% |

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

of the month – following the lift of the suspension (which was imposed on November 10, 2016) on the trading of its shares on 21st May.

A look at the NSE's domestic and foreign portfolio participation report for April showed decline in total value of transactions on the bourse by 22.11% to NGN212.23 billion. On a month-on-month basis, transactions by domestic investors (-36.05%) declined at a faster rate than foreign investors (-7.32%). As a result, for the first time since November 2017, the share of foreign investors trade ranked ahead of the local at 58%, while the domestic contribution declined to 42%. Net foreign flows dipped by 16.37% to NGN6.03 billion, comprising inflow of NGN64.28 billion and outflow of NGN58.25 billion. Institutional investors remained dominant among domestic players, constituting 51.85% (previously 65.07%) of total domestic transactions, as against retail investors contribution of 48.15% (vs 34.93% in the previous month).

**The significant moderation of stocks prices since February (14.1%), plus the still-positive macros, are in our view, suggestive of inherent value in the market. Hence, whilst the present selloffs call for cautious trading in the short term, they also call for investors to focus on fundamentally sound stocks for long term investment.**

**Fixed Income and Money Market**

**Money Market**

The overnight lending rate rose, by 125 bps, to close the month at 3.67%, amid pressured liquidity position (averaging NGN179.32 billion in May vs. NGN510.93 billion in April) for majority of the month. The CBN mopped up excess naira liquidity aggressively via its weekly OMO auctions, withdrawing a total of NGN1.81 trillion, and leading the overnight rate to spike to as high as 164.17% at the middle of the month, the highest level since 12th April 2017. Other outflows from FX sales (USD1.69 billion) and primary market auctions (NGN229.32 billion) also put a strain on liquidity. However, inflows from matured OMO bills (NGN1.34 trillion), primary market repayments (NGN675.60 billion), and the monthly budgetary disbursements (NGN319.29 billion) to states and local governments offered a boost to liquidity, leading to rates easing towards the close of the month.

**Notwithstanding expected inflows via maturing OMO (NGN1.02 trillion) and treasury (NGN247.54 billion) bills, as well as the budgetary allocations (we estimate NGN330 billion) to state and local governments, we expect the overnight rate to expand in June, with the central bank's OMO auctions and FX sales keeping a lid on liquidity position.**

**Treasury Bills**

The fifth month of the year saw treasury bill yields expand, by 144 bps on average, to 12.68%. In addition to tight system liquidity, the CBN also raised the stop rates at the OMO auctions, by 10 bps apiece on the short and long tenored OMO bills, to 11.5% and 12.15% respectively. As a result, NTB yields were pushed higher. That followed exchange rate concerns, where pressures re-emerged, following the rise in US bond yields and USD strengthening, which triggered a sell-off in emerging/frontier markets. These factors led to a slight depreciation of the naira at the I&E window and in the parallel market. Notably, average yield rose across all ends (short: +190 bps, mid: +154 bps, and long: +118 bps) of the curve, with the 21-JUN-18 (+212 bps), 25-OCT-18 (+193 bps), and 31-JAN-19 (+130 bps) notes recording significant expansions, respectively.

Three primary auctions were conducted during the month. At the first, NGN9.54 billion, NGN47.71 billion, and NGN38.17 billion of the 91-day, 182-day, and 364-day bills were allotted. The bills were 4.22x oversubscribed, with yields closing lower across the 91-day (10.00%; previously 10.90%), 182-day (10.95%; previously 12.00%), and 364-day (11.15%; previously 12.08%) bills. At the second auction, NGN3.38 billion, NGN16.92 billion, and NGN13.54 billion of the 91-day, 182-day, and 364-day bills were allotted. The bills were 2.16x oversubscribed, with yields closing lower across the 182-day (10.50%; previously 10.95%) and 364-day (10.70%; previously 11.15%) bills. The yield on the 91-day was unchanged at 10.00%. At the final auction, NGN4.96 billion, NGN24.80 billion, and NGN19.84 billion of the 91-day, 182-day, and 364-day bills were allotted. The auction was 2.08x oversubscribed, with yield remaining unchanged on the 91-day (10.00%), closing lower on the 182-day (10.30%; previously 10.50%), and higher on the 364-day (11.00%; previously 10.70%) bills.

**Our expectation of a tighter liquidity position suggests constrained demand in the NTB secondary market.**

**Bond**

FGN Bond yields reversed their downward trend amid tightened liquidity, higher primary auction rates and selloffs from foreign investors — a fallout of (1) heightened currency pressures in some emerging market economies (esp. Argentina & Turkey), (2) a stronger dollar, and (3) higher U.S. bond yields.  Aside from the aforementioned, it could also be argued that a number of offshore investors were spooked by political jitters in the domestic economy, as events gradually started unfolding in the build-up to the 2019 general elections – elevating the risk of uncertainties. Consequently, average yield recorded a 50 bps m/m contraction to close at 13.18%. Yields expanded at the short (+79 bps), mid (+32 bps), and long (+35 bps) ends of the curve. Notable bonds include the JUN-2019 (+218 bps), MAR-2024 (+36 bps), and APR-2037 (+51 bps), respectively.

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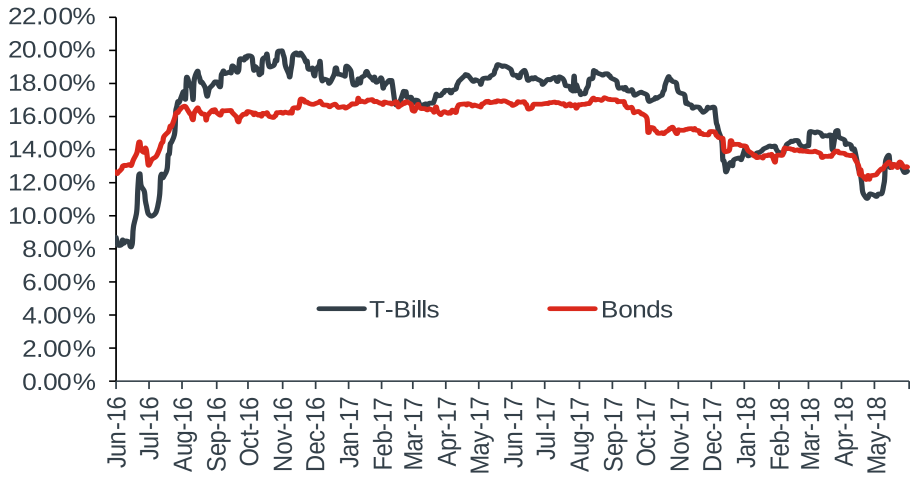
**Fig 2: FGN Bonds and Treasury Bills Average Yields**




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

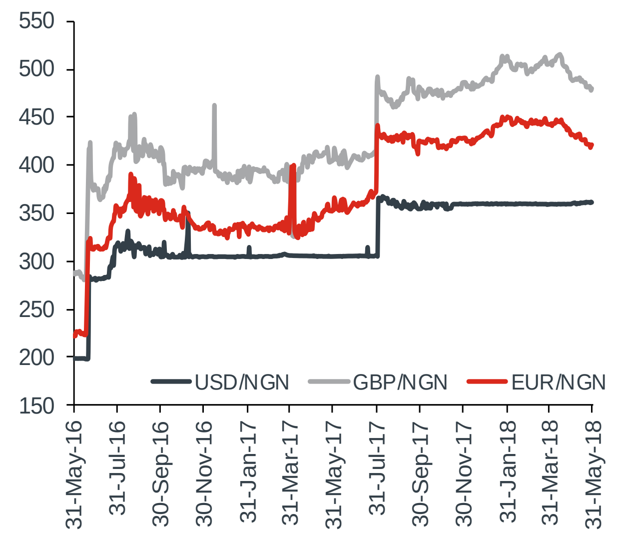
At the primary market auction, the DMO allotted NGN3.50 billion of the APR-2023 (re-opening), NGN8.45 billion of the MAR-2025 (re-opening), and NGN38.50 billion of the FEB-2028 (re-opening) bonds at respective stop rates of 13.50% (vs. 12.75% at the previous auction), 13.5% (vs. 12.85% at the previous auction), and 13.55% (vs. 12.89% at previous auction). The bid-cover ratio of 1.78x indicated a weak auction, leading to significantly higher stop rates compared to the previous auction, and thus, pressuring secondary market yields upwards.

**We expect yields to inch higher in the short to medium term anchored on (1) weakening signs of monetary easing, (2) capital flight amid higher yields in safe haven assets and political uncertainty stemming from the upcoming elections. At the next bond auction on 27th June 2018, the DMO is expected to offer NGN60 billion – NGN20 billion of the APR-2023 (re-opening), NGN20 billion of the MAR-2025 (re-opening) and NGN20 billion of the FEB 2028 (re-opening) – in bonds to investors.**

**Foreign Exchange**

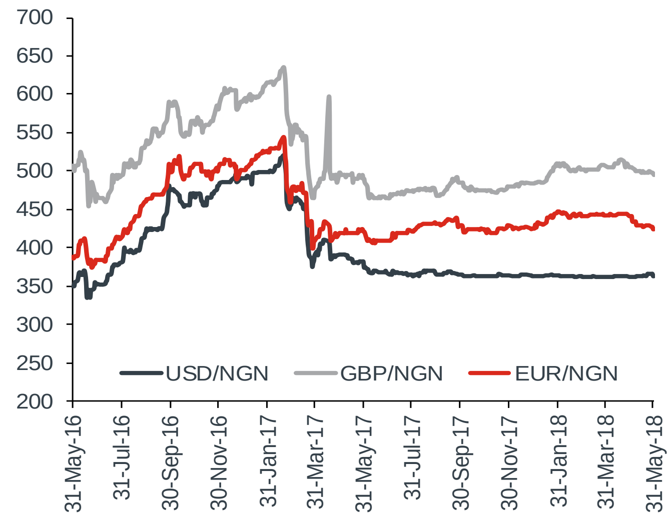
The dollar faced significant demand pressure during the month, causing the USD/NGN to fall to record lows of NGN362.02 and NGN366.00 in the I&E FX window and parallel market – levels last seen in August 2017 and November 2017, respectively. Again, the rise in US Treasury yields was a major contributing factor, causing increased demand for the greenback by FPIs exiting naira assets. However, this was not peculiar to the Nigerian market alone, as other emerging market currencies including the Turkish *Lira (--11.58%, MtD),* South African *Rand* (-1.93%, MtD), Mexican *Pesos* (-6.41%, MtD), Brazilian *Real* (-5.98%, MtD) and Argentinean *Pesos (-21.57%, MtD)*, also faced significant pressures during the period. Against the previous month's close, the USD/NGN weakened by 0.13% and 0.28% to NGN360.97 and NGN363 in the IEW and parallel market, respectively. Total turnover in the IEW dipped by 0.80% to USD5.29 billion, with more trades (92.4%; against 63.48% in April) consummated within the NGN360-NGN369/USD range.

**Fig 3: Interbank Market FX Rate**




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

**Fig 4: Parallel Market FX Rate**




***Source**: abokiFX, Cordros Research*

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Amidst the demand pressure on the dollar, the apex bank released circulars during the month, mandating Deposit Money Banks (DMBs) to buy and sell forex to travelers (both customers and non-customers) over the counter, upon presentation of valid and relevant documents. The CBN also increased the frequency of FX sales to licensed Bureau De Change (BDCs) to three times a week, (previously twice).

Further buttressing the apex bank's effort at easing the pressure on the LCY, its conventional weekly intervention summed up to USD1.69 billion in May, 107.35% higher than the amount sold in April, and was the highest monthly sales thus far this year. The FX reserve grew at a slower pace (0.27% to USD47.62 billion) compared to the previous months, reflecting in our view, slight pressure from the increased disbursements amidst demand pressure.

Asides the CBN's circulars to the DMBs and BDCs, another major development during the month was the signing of the currency-swap deal between Nigeria and China, worth Renminbi (RMB) 16 billion (equivalent of USD2.5 billion), which is aimed at improving local currency liquidity to Nigerian and Chinese businesses. This is intended to reduce difficulties accessing third currencies, and ease demand pressures on the US dollar.

In the FX forwards market, the naira weakened against the USD across all the major dated contracts: 1-month (-0.22%), 3-month (-0.43%), 6-month (-0.75%), and 1-year (-0.87%) to GN364.24, NGN371.97, NGN385.88, and NGN407.95 respectively.

**Our theme for the FX market remains stability, as stable oil prices and production will continue to support increased oil revenues and aid the apex bank's conventional interventions in the FX market.**

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