Cowry Research

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Review of H1 2018 & Outlook for H2 2018

Economy Grows on Stronger Oil Price… Smolders from Insecurity

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Executive Summary

- The global economic performance buoyed appreciably in the first half of 2018 going by leading economic indicators. It was driven improved economic conditions in the United States, Europe, China, amongst others. We anticipate that risk from the ongoing trade dispute involving the U.S. and other major players such as China and the Eurozone, if allowed to degenerate, would dent the output growth projections especially for advanced and emerging economies.

- Africa's biggest economy appeared to have grown modestly in the first half of 2018 as data from the National Bureau of Statistics reported real output growth of 1.95% in Q1 2018 while the Purchasing Managers' Index, a leading economic indicator, continued to trend above 50 points for both the manufacturing and non-manufacturing sectors. Notwithstanding the positives, output expansion should be limited to the extent that insecurity persists in agrarian regions as well as the speed at which the fiscal authorities execute the 2018 fiscal spending plan given the delay in the signing of the 2018 appropriation bill.

- The monetary authority remained focused on ensuring foreign exchange rate and price stability in anticipation of increased spending via election campaigns and 2018 budget execution among other things. The foreign exchange market saw a convergence of FX rates on the back of restrictive monetary policy, significant accretion to reserves, increased weekly foreign exchange interventions by CBN in the market, and boost in foreign portfolio inflows.

- Overall market performance indicator – the NSE All Share Index – increased year-to-date by 0.09%. Investors had earlier in the year (January) gained 17.91%, before the significant sell-offs by the foreign portfolio investors that came earlier than anticipated due to political uncertainties ahead of 2019 general elections. Howbeit, we note that the undervalued share prices in the market would present buy opportunities for investors in the second half of 2018.

Global Economy

The global economic performance buoyed appreciably in the first half of 2018 going by leading economic indicators as well as improving business and consumer confidence levels. The global economy thrived on the back of improved economic conditions in the United States, Europe, strengthening demand from major commodity importers such as China, recovery in global commodity prices (most especially crude oil) and boost in output recorded amongst commodity producers such as Nigeria. The relatively higher global crude oil prices were supported by sustained geopolitical tensions in the Middle East, mostly involving Iran and Syria, the output outages in Libya and Canada, production difficulties in Venezuela as well as sustained compliance in output freeze by Opec members plus cohorts like Russia. Inflationary pressures continued to build up, albeit benignly, as wage pressures increased amid shrinking unemployment rate.

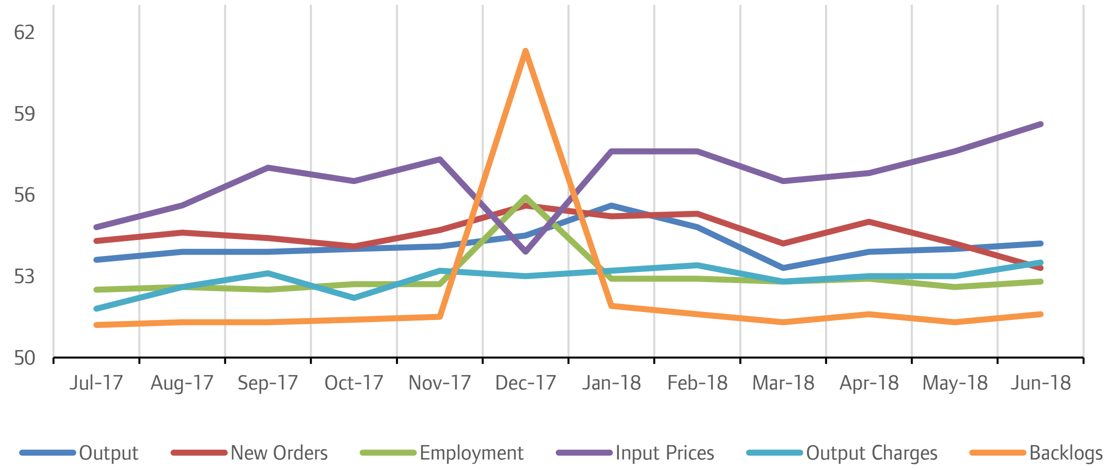
Monetary policy remained largely accommodative in the first half, especially in the Eurozone and China, although we saw gradual increase in benchmark interest rate in the United States by the US Fed; partly in response to the convergence between observed inflation rate and its 2% target.

On a negative note, however, the threat of a global trade war precipitated between the U.S. and its major trading partners in Asia, Europe and North America continued to loom and appeared to have poured cold water on earlier enthusiasm, with the tendency to reverse the upstart recorded earlier in the first half of 2018 given the negative impact on global trade. Also, concerning the on-going BREXIT saga between the United Kingdom and the European Union, unclear possible outcomes arising from the negotiations, a dire one being the possibility of a "hard BREXIT", further casts uncertainty on businesses and consumers, taming confidence and slowing down investment and spending decisions.

Global Business Activities Expand in H1 2018…

Global manufacturing and services activities remained solidly in expansion territory relative to the end of H2 2017, although appearing to have slowed from the beginning of the 2018. The J.P. Morgan Global All-Industry Output Index posted 54 points as at May 2018 (stronger than 53.7 points as at June 2017) as new orders index expanded faster at 54.2 points as at May 2018 (from 54.1 points as at June 2017) which resulted in increased work in progress – backlogs of work index upped to 51.3 from 51. Increased demand also led to increase in staffing levels as employment index increased to 52.6 from 52.2 even as input prices index swelled to 57.6 from 54.8; and partly transferred to the final consumer as output charges index (measuring selling price) increased to 53 from 52.

JP Morgan Global Manufacturing & Services PMI



Source: Markit, Cowry Research

Points: < 50 indicates a contraction; > 50 indicates an expansion; 50 indicates neutral

Global Commodities Mostly Rise on Increased Demand…

Global crude oil prices increased on relatively high crude on increased demand following output declines in Libya, Canada, Venezuela and Nigeria; in addition of supply concerns from Iran. Whilst world oil demand was estimated to have grown by an estimated 1.65 million barrels per day (mbpd) to 97.20 mbpd in 2017, it is expected to grow to 98.07 mbpd in Q2 2018 amid increased household income as well as vehicular activities. On the other hand, world oil supply increased y-o-y by 1.74% to average 97.86 mbpd as at May 2018; thus, implying an expected gap of about 210,000 bpd. Brent crude oil price increased by 19.37% year-to-date (YTD) and by 63.47% y-o-y in May 2018.

Similarly, the Agricultural Index and Metals Index appreciated YTD by 7.79% and 3.18% to 92.03 points and 86.79 points respectively amid increased economic growth, expectations of lower harvest due to weather concerns, and fears of a trade war. Major agricultural commodities such as Cocoa, Wheat (HRW) and Rice (Thai 5%) appreciated in value by 38.71%, 16.17% and 11.03% to USD2,659.94/MT, USD213.85/MT and USD451.0/MT respectively. In the same vein, base metals such as Copper, Aluminium and Iron ore firmed y-o-y by 19.33%, 21.98% and 15.00% to USD6,825.27/MT, USD2,299.67/MT and USD66.10/MT respectively.

Table 1: Global Commodity Prices

	May-18	Dec-17	Jun-17	YTD %Δ	Y-o-Y %Δ
Energy Prices					
Crude oil, Brent (USD/bbl)	76.65	64.21	46.89	19.37%	63.47%
Food Prices					
Cocoa (USD/mt)	2,659.94	1,917.68	1,998.25	38.71%	33.11%
Coffee, Arabica (USD/mt)	2,989.69	3,029.59	3,157.46	-1.32%	-5.31%
Groundnut (USD/mt)	1,420.00	1,231.00	1,450.00	15.35%	-2.07%
Palm oil (USD/mt)	660.00	672.00	677.00	-1.79%	-2.51%
Wheat, US HRW (USD/mt)	213.85	184.09	189.60	16.17%	12.79%
Rice, Thai 5% (USD/mt)	451.00	406.00	458.00	11.08%	-1.53%
Sugar, EU (USD/mt)	386.16	386.58	366.63	-0.11%	5.33%
Base Metals Prices					
Copper (USD/mt)	6,825.27	6,833.89	5,719.76	-0.13%	19.33%
Aluminium (USD/mt)	2,299.67	2,080.47	1,885.29	10.54%	21.98%
Iron ore (USD/dmtu)	66.10	72.25	57.48	-8.51%	15.00%

Source: IMF, Cowry Research

Global Stock Exchanges Close Negative in H1 2018 Amid Trade Uncertainties

Most regional stock markets ended H1 2018 in negative territory, with enthusiasm appearing to be dampened by geopolitical risks. Specifically, the droopy performance of the stock markets, despite a relatively healthy expansion in economic output, seemed indicative of fears concerning possible worsening trade conflicts between the US and its major trading partners especially in Asia and Europe. This is in addition to expected aggressive increase in US Fed funds rate – a trigger for portfolio investors to rebalance their portfolios in favour of fixed income assets.

In developed markets, U.S. Dow Jones Industrial Average sank year-to-date by 1.81%; howbeit the Standard & Poor's 500 Index rose by 1.67%. In Europe, Germany's XETRA DAX Index declined 4.73% even as U.K.'s FTSE 100 Index moderated by 0.66%; however, France's CAC 40 Index upped by 0.31% on a year-to-date basis. In Asia, China's Shanghai Composite Index plunged by 12.90%, Hong Kong's Hang Seng Index lost 3.22%, while Japan's Nikkei 225 tanked by 2.02%. In Africa, South Africa's JSE SA ASI tanked by 3.18%; however, Nigeria's NSE ASI rose by a paltry 0.09%.

Table 2: Performance of World Stock Exchanges

	30-Jun-18	31-Dec-17	YTD % Change	Difference
DJIA	24,271.41	24,719.22	-1.81%	-447.81
S&P 500	2,718.37	2,673.61	1.67%	44.76
FTSE 100	7,636.93	7,687.77	-0.66%	-50.84
XETRA DAX	12,306.00	12,917.64	-4.73%	-611.64
CAC 40	5,323.53	5,312.56	0.21%	10.97
Shanghai Composite	3,510.99	4,030.86	-12.90%	-519.87
Nikkei 225	22,290.00	22,750.00	-2.02%	-460.00
Hang Seng	28,955.11	29,919.15	-3.22%	-964.04
JSE SA ASI	57,610.98	59,504.67	-3.18%	-1,893.69
NSE ASI	38,278.55	38,243.19	0.09%	35.36

Source: Financial Times, Cowry Research

Performance of Major Economies

United States

The United States economy grew by year-on-year by 2.0% in the April of 2018 (however, slower than 2.9% and 2.2% in December 2017), driven by personal consumption expenditure, non-residential fixed investment and exports. The U.S. economy was also boosted by announced tax cuts which served as a boost to business confidence. Meanwhile, trade gap narrowed to USD 46.2 billion in April of 2018 from a USD 53.1 billion deficit in December 2017. This followed a 3.88% year-to-date increase in exports to USD211.25 billion which was accompanied by a 0.37% increase in imports to USD257.45 billion. Consumer prices rose y-o-y by 2.8% in May 2018 (faster than the 2.1% rise in December 2017) amid monthly increase in energy prices and medical care services and commodities, amongst other things, while unemployment rate declined to 3.8% in May 2017 (from 4.1% in December 2017). Against the backdrop of improved labour conditions, increased household spending, growth in business fixed investment, and an inflation rate above inflation target of 2%, among other factors, the Federal Reserve raised the target range for its federal funds rate by 25bps to 1.75% to 2% in June. The Federal Open Market Committee also hinted on further gradual increases in the target range for the federal funds rate consistent with sustained expansion of economic activity while also being mindful of a possible downside risk that a trade war between the U.S. and its trading counterparts could pose for business and consumers.

Europe

European economies grew amid improved domestic and external sector demand as well as sustained accommodative monetary policies. In the first quarter of 2018, seasonally adjusted GDP rose year-on-year by 2.5% and 2.4% in the Eurozone and European Union respectively; and quarter-on-quarter by 0.4% each. The EU also recorded seasonally adjusted current account surplus of EUR63.9 billion in the first quarter of 2018, 6.03% lower than the EUR68 billion current account surplus registered in the fourth quarter of 2017 but 45.56% higher than the surplus of EUR43.9 billion in the first quarter of 2017. Rate of employment rose y-o-y in the Eurozone and EU by 1.4% each in Q1 2018 – howbeit slower than +1.6% and +1.5% recorded in the first quarter of 2017 –while unemployment rates of E28 and Eurozone economies moderated to 8.4% and 7.0% respectively in May from 8.7% and 7.3% registered in December 2017. Consumer prices in European economies increased in the review period amid sustained confidence levels. In May 2018, annual inflation rates of the Eurozone and EU countries stood at 1.9% and 2.0% (higher than 1.4% and 1.7% in December 2017). Having considered the positive macroeconomic data, partly due to its accommodative monetary policy decisions (part of which is expected to be sustained on the long run), the Governing Council of the European Central Bank signalled the possibility of petering out its non-conventional monthly net asset purchases from the current EUR30 billion to USD15 billion by December 2018 and then to zero, subject to consonance between incoming macroeconomic data and its medium-term inflation outlook.

China

China's Gross Domestic Product grew year-on-year by 6.8% in Q1 2018, unchanged from 6.8% in Q4 2017 but lower than 6.9% in Q1 2017. Growth was driven by consumption, property investment and exports. Asia's largest economy however recorded a 54.43% year-to-date plunge in trade surplus from USD54.69 billion in December of 2017 to USD24.92 billion in May 2018 following an 8.16% y-o-y decline in exports to USD212.87 billion and a 6.138% year-to-date increase in imports to USD187.95 billion. The Asian economic giant also recorded annual increase in consumer prices of 1.8% in May 2018, unchanged from 1.8% as at December 2017. Notwithstanding the positives, the Chinese economic growth remained encumbered by rising domestic debt profile and slowing investments. In its response, China's monetary authority reduced the Reserve Requirements Ratio (RRR) from 17% for large institutions and 15% for smaller banks to 16% and 14% respectively. The cut in RRR served to cushion the negative impact of liquidity outflows from the financial system induced by rising interest rates in the U.S., concerns over an imminent trade war with the U.S., as well as decline in trade surplus. The fresh liquidity was meant to facilitate loans to small and medium scale business as well as help refinance Medium Term Facility loans (loans ranging from 3 months to 12 months) to state-owned banks in order to support economic growth. The Peoples Bank of China however retained OMO interest rates – the rate for 7-day reverse repos (the rate at which it lends to banks) remained at 2.55%, while the interest rates for the 14-day and 28-day tenor buckets were retained at 2.70% and 2.85% respectively.

Nigerian Economy

Nigerian Economy Points to Mixed Performance amid Challenges

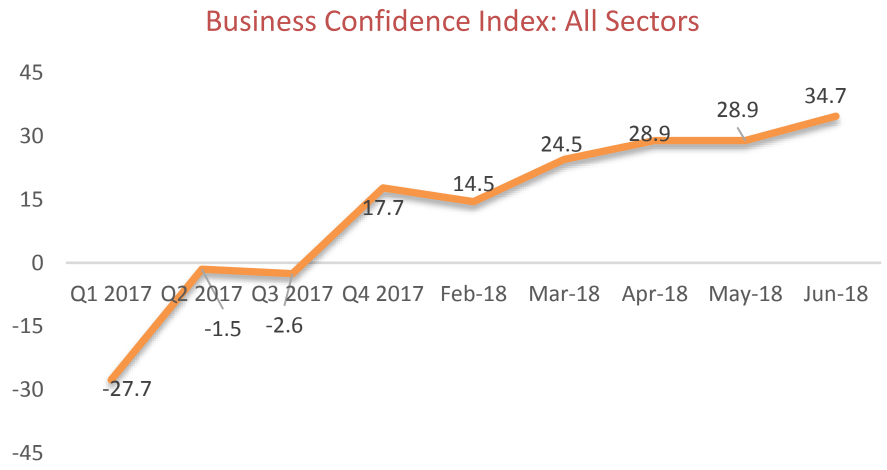
Africa's biggest economy appeared to have grown modestly in the first half of 2018 as data from the National Bureau of Statistics reported real output growth of 1.95% in Q1 2018 while the Purchasing Managers' Index, a leading economic indicator, continued to trend above 50 points for both the manufacturing and non-manufacturing sectors – indicative of expansion in business activities. Nigeria's modest economic story also hinged on the sustained recovery of global crude oil prices, and to a major extent, contribution from the agricultural sector which the Federal Government set as a fulcrum to its economic diversification strategy and which enjoyed sustained government interventions such as the CBN Anchor Borrowers Scheme.

However, in general terms, the Nigerian macroeconomic variables fared in mixed directions in the first half of 2018 as the rise in global crude oil prices, currently trending above USD70 a barrel, was partly countervailed by declining daily crude oil production which stood at 1.71 mbpd as at May (lower than budgeted 1.8 mbpd) amid peace in the oil-rich Niger Delta region. Also, the exit of foreign portfolio investors in response to monetary policy tightening in the U.S. as well as political uncertainties in Nigeria, exerted upward pressure on the NGN/USD foreign exchange rate, especially at the Investors and Exporters Foreign Exchange Window (I&E FX Window).

In addition, the late passage and approval of the 2018 appropriation bill, and concomitant slowdown on capital spending, reflected icy relations between the executive and legislature, and served to delay investment/spending decisions by business and other economic agents. Although U.S. shale oil no longer threatened global oil prices, the expected benefits from Nigeria's petrodollar revenue was partially eroded by growing subsidy claims on imported refined petroleum products which as accounts for about ten per cent of the Federal Government's 2018 budget. Being an election year, political risk heightened while insecurity worsened, especially in areas considered agrarian, thus negatively impacting food production exacerbating monthly food inflation rate. Finally, business sector optimism was contradicted by household pessimism.

Businesses Optimistic on Macroeconomy in H1 2018

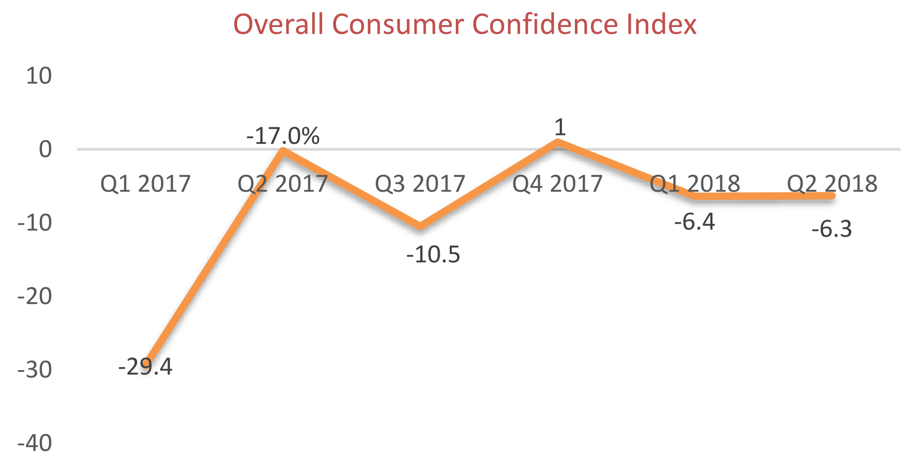
The improved economic performance in H1 2018 reflected better business confidence levels despite lingering business constraints such as low access to credit, high borrowing cost, insufficient power supply and insufficient demand amongst other things. According to CBN Monthly Business Expectations Survey, business sentiment towards the macroeconomy was generally positive in the first half as the confidence index peaked at 34.7 points as at June 2018, better than 17.7 points recorded as at Q4 2017. Business also expressed greater optimism with respect to their outlook on the volume of total order and business activity from their operations in June compared to Q4 2017, while prospects of creating new jobs also improved.



Source: CBN, Cowry Research

Households Remain Pessimistic in H1 2018

Consumers, on the other hand, had a pessimistic view of economic conditions as they were less inclined to make purchasing decisions on items such as consumer durables, house and lot, and motor vehicles. The buying conditions index fell to 32.0 points in Q2 2018 from 40.3 points in Q4 2017. An index above 50 points means more households indicated that "it was a good time to buy assets"; below 50 points meant more households believed that "it would not be an appropriate time to make those purchases"; while 50 points meant "the number of respondents on both sides were equal". Similarly, households were more pessimistic about their financial situation: which has to do with the level of savings, investments, and outstanding debts: as the family financial situation index posted minus 7.0 points in Q2 2018, worse than minus 5.6 points in Q4 2017. Furthermore, household outlook on family income level: which includes primary income and transfers: was less optimistic as the family income index declined 2.4 points as at Q2 2018 from 12.8 points as at Q4 2017. Overall Consumer Confidence Index worsened to -6.3 points in Q2 2018 from 1 point in Q4 2017.



Source: CBN, Cowry Research

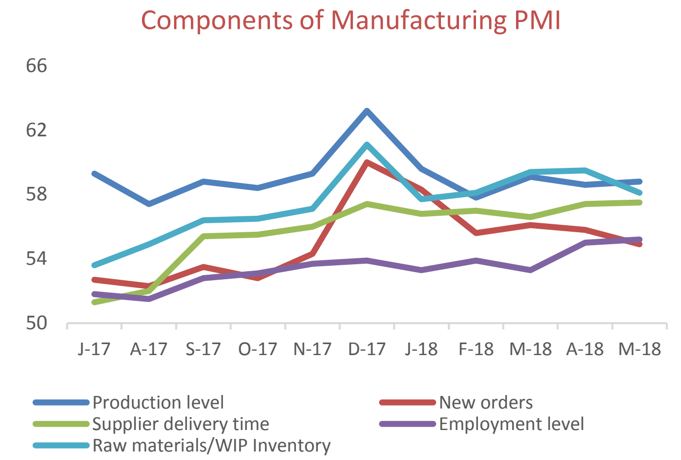
Local Manufacturing Expands in H1 2018, Albeit Slower Amid Weaker Consumption…

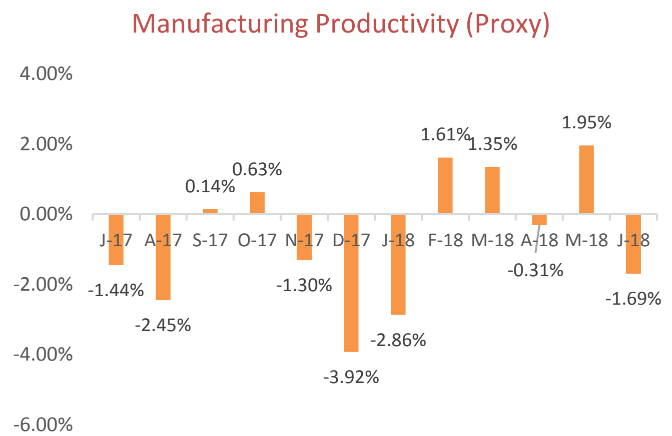
The manufacturing sector recorded sustained its expansion in the first half of 2018 as Purchasing Managers' Index (PMI) remained above 50.0 points. Howbeit, the expansion in the sector moderated, to 57 points as at June 2018 (from a stronger expansion in December 2017, at 59.3). Similarly output/production level expanded slower at 59.2 in June 2018 (from 63.2 in December 2017).

The weaker expansion in the output resulted from a slower expansion in new orders to 56.2 points in June 2018 (from 60 points in December 2017) as consumers largely held a more pessimistic view on the economy. The expansion in inventory level also slowed, to 57.7 points in June 2018 (from 61.1 points in December 2017); however, employment level grew at a faster pace, at 55.4 points in June 2018 (from 53.9 points as at December 2017).

Meanwhile input prices expanded at a slower pace to 61.9 points in June 2018 (from 63.4 as at December 2017) amid lower consumer confidence, stability in the foreign exchange rate as well as backward integration strategies adopted by local manufacturers; the benefit of which manufacturers transferred to financial consumers as the expansion in output prices slowed to 53.8 points (from 54.3 in December 2017).

Of the fourteen manufacturing sub-sectors under survey, 71.43% of sub-sectors recorded expansions (lower than 93.75% as at December 2017 during which sixteen sub-sectors were surveyed) – manufacturers of 'Petroleum & coal products', 'Food, beverage & tobacco products' and 'Textile, apparel, leather & footwear' recorded expansions: of 55.0 (from 75.0), 61.0 (from 61.9) and 58.7 (from 63.5 points) respectively. Only cement sub-sector was in contraction in June 2018, at 48.3 points (from an expansion level of 63.3 in December 2017).





Source: CBN, Cowry Research

Points: < 50 indicates a contraction; > 50 indicates an expansion; 50 indicates neutral

Table 3: Manufacturing PMI and its Components

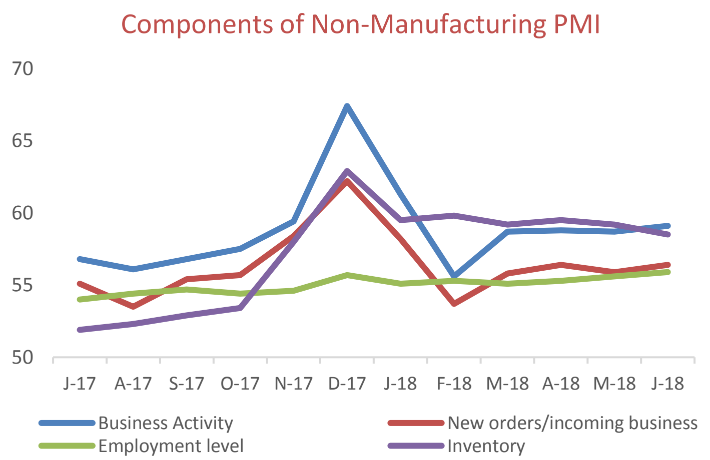
	Series Index, June 2018	Series Index, December 2017	Difference
Manufacturing Composite PMI	57	59.3	-2.3
Production level	59.2	63.2	-4
New orders	56.2	60	-3.8
Supplier delivery time	56.5	57.4	-0.9
Employment level	55.4	53.9	1.5
Raw materials/WIP Inventory	57.7	61.1	-3.4
New Export Orders	37.6	40.2	-2.6
Output Prices	53.8	54.3	-0.5
Input Prices	61.9	63.4	-1.5
Quantity of Purchases	47.6	53.6	-6
Outstanding Business/Backlog of Work	38	45.7	-7.7
Stock of Finished Goods	51.1	47.4	3.7

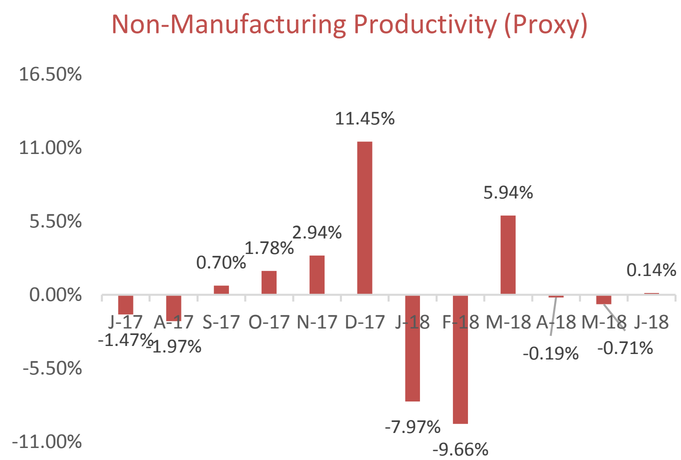
Source: CBN, Cowry Research

Local Non-Manufacturing Activities Also Expand Slower in H1 2018

The non-manufacturing sector activities also remained in an expansion mode, albeit, slower than the pace of activities recorded at the end of 2017. The slower expansion was driven by slower growth in business activity and incoming business at 59.1 points and 56.4 points as at June 2018 from 67.4 points and 62.2 points respectively as at December 2017. However, backlogs of work contracted faster in June 2019 compared to December 2017 – indicative of weakness in demand. Imports declined slower, to 40.1 in June 2018 (from 39.1 in December 2017) amid foreign exchange stability at most segments of the market.

Of all seventeen non-manufacturing sub-sectors under survey, 82.35% of sub-sectors recorded expansions as at June 2018 (lower than 88.23% as at December 2017 during which eighteen sub-sectors were surveyed). Notably, 'Agricultural', 'Transportation & warehousing' and 'Wholesale & retail trade' sub-sectors saw slower expansions of 69.2 (from 73.3), 50.8 (from 73.2) and 54.8 (from 62.4) respectively.





Source: CBN, Cowry Research

Points: < 50 indicates a contraction; > 50 indicates an expansion; 50 indicates neutral

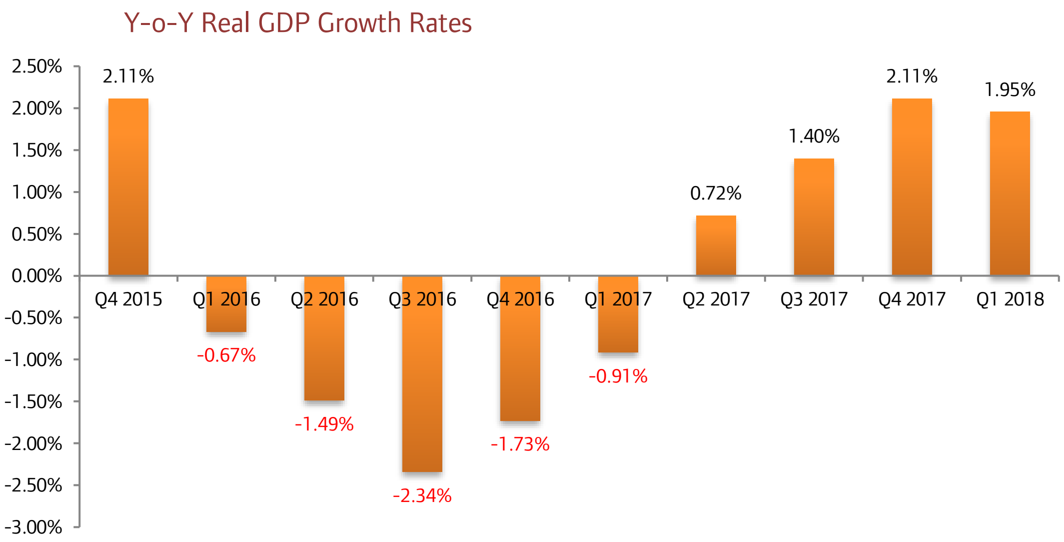
Table 4: Non-Manufacturing PMI and its Components

	Series Index, June 2018	Series Index, December 2017	Difference
Non-Manufacturing Composite PMI	57.5	62.1	-4.6
Business Activity	59.1	67.4	-8.3
New orders/incoming business	56.4	62.2	-5.8
Employment level	55.9	55.7	0.2
Inventory	58.5	62.9	-4.4
Average price of Inputs	52.2	56.1	-3.9
Outstanding Business/Backlog of Work	44	44.6	-0.6
New Export Orders	33.2	34.6	-1.4
Imports	40.1	39.1	1
Inventory (sentiments)	42.4	40.3	2.1

Source: CBN, Cowry Research

Q1 2018 Real Output Increases Y-o-Y by 1.95% on Higher Crude Oil Prices

Nigeria's real Gross Domestic Product grew year-on-year (y-o-y) by 1.95% in Q1 2018 to N16.11 trillion (0.16ppt slower than 2.11% growth to N18.56 trillion recorded in Q4 2017). However, quarter on quarter (q-o-q) performance tanked by 13.40% to halt the q-o-q growth in the last three quarters. The growth in real output was propelled by improved crude oil prices – as oil prices, especially Nigeria's bonny light three months average price rose to USD67.65 per barrel in Q1 2018 from USD57.53 per barrel in Q1 2017. Non-oil sector also grew slightly y-o-y by 0.76% to N14.56 trillion; however, fell q-o-q by 15.51% mainly on agricultural and trade sectors that slowed q-o-q by 28.24% and 11.65% respectively to N3.5 trillion and N2.75 trillion respectively in Q1 2018. The incessant clashes between the suspected herdsmen and farmers in Benue and Taraba states partly contributed to slower crop production and trade in the quarter under review.



Source: NBS, Cowry Research

Table 5: Breakdown of Q1 2018 Real Economic Output at 2010 Constant Prices

Major Sectors	Q1 2018 Share of Real GDP (%)	Q1 2018 Y-o-Y Growth (%)	Q4 2017 Y-o-Y Growth (%)
Agriculture	21.65%	3.00%	4.23%
Trade	17.06%	-2.57%	2.07%
Info & Comm	12.41%	1.58%	-1.46%
Manufacturing	9.91%	3.39%	0.14%
Mining & Quarrying	9.67%	14.85%	10.70%
Real Estate	5.63%	-9.40%	-5.92%
Construction	4.04%	-1.54%	4.14%
Financial Services	3.55%	13.30%	0.22%
Profes, Sci & Tech Services	3.51%	-2.35%	0.64%
Education	2.15%	0.45%	-1.04%
Other Economic Activities	10.4%		
Q1 2018 Real GDP	N16.11 Trillion	1.95%	2.11%

Source: NBS, Cowry Research

Comments: *Amounts in 2010 constant basic prices

Table 6: Breakdown of Major Sectors

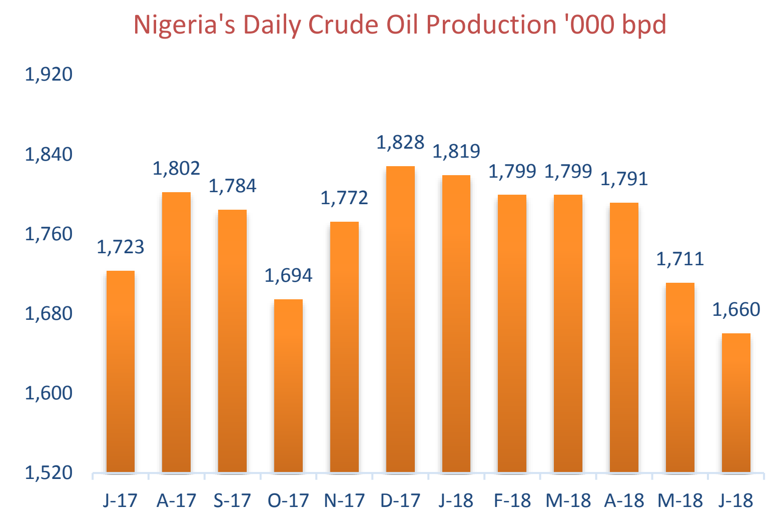
Major Sectors	Q1 2018	Q4 2017	Q-o-Q %Change
Oil & Gas (N 'Trn)	1.55	1.33	13.24%
Y-o-Y %Change	14.77%	8.38%	
Non-Oil Sector (N 'Trn)	14.56	17.23	-15.51%
Y-o-Y %Change	0.76%	1.45%	
Quarter GDP (N 'Trn)	16.11	18.56	-13.40%

Source: NBS, Cowry Research

Real Sector Update

Oil and Gas Sector: Upstream Petroleum Segment Sees Increased Vandalism

In the review period, the upstream segment of oil and gas sector witnessed declining performance as production volumes fell from a twelve-month peak of 1.83 mbpd registered in December 2017 to a trough of 1.63 mbpd registered in May 2018. The fall in output can be attributed to incessant attacks on oil and gas facilities in the Niger Delta and subsequent force majeure declared by Shell Petroleum Development Company (SPDC) which affected about 150 mbpd of crude oil exports from the Nembe Creek Trunk Line.

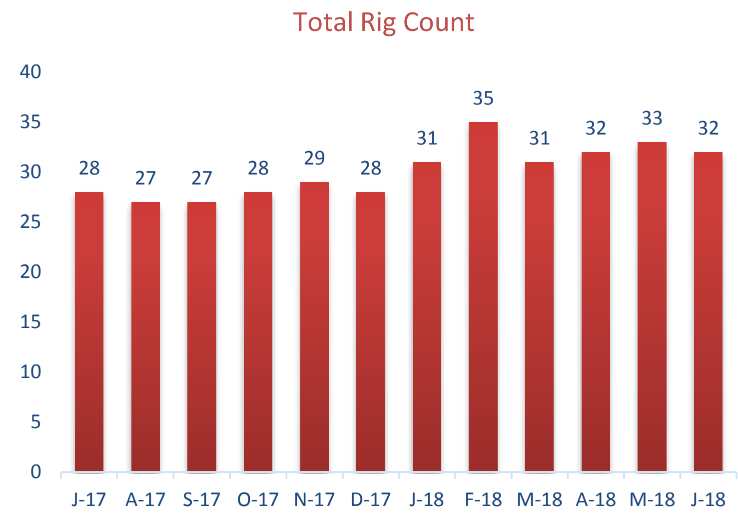


Source: Opec secondary sources, Cowry Research

On a year-to-date basis, crude oil production declined by 9.19% to 1.66 mbpd as at June 2018 amid pipeline vandalism

E&P Activities Favoured by Improved Margins

Despite the decline in crude oil output, exploration of production (E&P) activities at the wells, as measured by rig count, remained firm in H1 2018. E&P activities buoyed as international oil companies were egged by an apparent improvement in industry competitiveness coupled with sustained rally in global crude oil prices; thus translating to improved margins. Rig count in the first half of 2018 averaged 32.33, 20.50% higher than 26.83 averaged in the corresponding period of 2017. According to the Nigerian National Petroleum Corporation (NNPC), cost of crude oil production plunged from USD78 a barrel in 2015 to USD20 a barrel as at March 2018. Meanwhile, Nigeria's Bonny Light oil price which averaged USD52.04 a barrel as at December 2015, tanked to an average of USD71.52 a barrel as at June 2018.



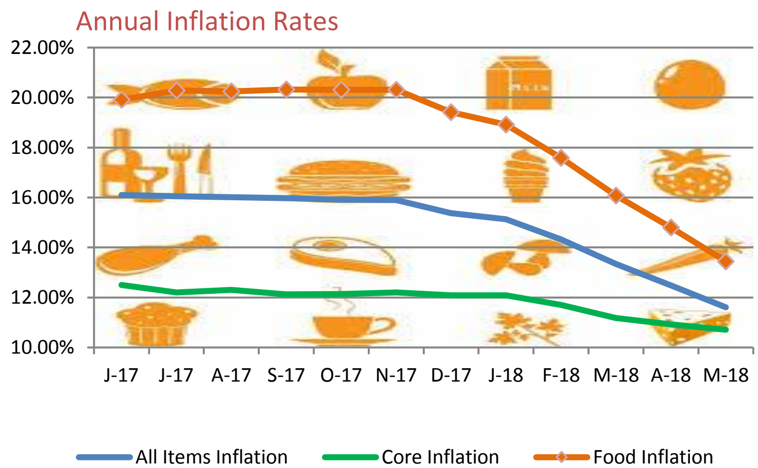
Source: Opec, Cowry Research

On a year-to-date basis, total rig count increased by 14.29% to 32 as at June 2018 amid improved production margins.

Inflation Update

Inflation Rate Moderates on Base Effects, Moderated Food Prices

According to the National Bureau of Statistics (NBS), Nigeria witnessed sustained decline in y-o-y headline inflation rate, to 11.61% as at May 2018 (from 15.37% as at December 2017) – the sixteenth consecutive disinflation since January 2017. The 12-month average percentage change also fell to 14.79% (from 16.50% as at December 2017). We note that the y-o-y drop in inflation rate was due to base effect of higher prices recorded in May 2017. Also, Food inflation rate moderated for the sixth consecutive month to 13.45% y-o-y (from 19.42% as at December 2017), partly on the back the harvest season. Core inflation rate fell y-o-y to 10.71% (from 12.10% as at December 2017) amid declines in Petrol Motor Spirit (PMS), gas and household kerosene prices. Amongst the core items, "housing water, electricity, gas and other fuel" inflation rate fell to 7.04% (from 8.29% as at December 2017), to remain in single digit, for the eleventh consecutive month. "Transport" inflation also moderated to 11.25% (from 12.35% as at December 2017), partly due to the 0.81% y-o-y decrease in PMS price witnessed in the month under review.



Source: NBS, Cowry Research

Government Sector Update

Federal Government Signs N9.12 trillion 2018 Budget… with Scruples

In June, the Federal Government, FG, finally signed the N9.12 trillion 2018 budget into law as amended by the National Assembly after much delay and in a bid to avoid breaching the deadline for accent. According to the FG, the 2018 Budget was designed to Consolidate on the achievements of the "2016 Budget of Change" and the "2017 Budget of Recovery & Growth", while facilitating delivery of the goals of Nigeria's Economic Recovery and Growth Plan (ERGP) 2017 – 2020.

Table 7: Presentation of Budget Estimates

Key Budget Estimates	Approved 2018 Budget	Approved 2017 Budget	Change
Appropriation Bill	9,120,334,988,225	7,441,175,486,758	22.57%
Supplementary	-	-	-
Projected Revenue	7,165,869,994,450	4,940,000,000,000	45.06%
Appropriation Bill + Supplementary	9,120,334,988,225	7,441,175,486,758	22.57%
Statutory Transfers	530,421,368,624	434,412,950,249	22.10%
Debt Service	2,203,835,365,699	1,841,345,727,206	19.69%
Sinking Fund (to retire certain maturing bonds)	190,000,000,000	177,460,296,707	7.07%
Total Recurrent (Non-Debt)	3,516,477,902,077	2,987,550,033,436	17.70%
Subsidy Re-investment	-	-	-
Special Intervention programme	350,000,000,000	350,000,000,000	0.00%
Capital Expenditure	2,869,600,351,825	2,177,866,775,867	31.76%
Capital Expenditure as % of total expenditure	44.94%	42.16%	-
Capital Expenditure as % of Budget	31.46%	29.27%	-
Budget Deficit (N'tn)	-1,954,464,993,775	-2,501,175,486,758	-21.86%
Deficit as percentage of GDP	1.73%	2.18%	-
Daily Crude Oil Production (M/Barrels)	2.3	2.2	4.55%
Crude Oil Bench Mark (USD)	50.5	44.5	17.11%
Exchange Rate (NGN/USD)	305	305	0.00%
Projected Proceeds from Privatisation	306,000,000,000	-	-
Domestic Borrowing	824,232,496,888	1,254,000,000,000	-34.27%

Source: Budget Office, Cowry Research

The revenue framework is based on a more ambitious revenue projection of N7.16 trillion (a 45.06% increase over N4.94 trillion in 2017), premised on daily crude oil production of 2.3 million barrels (a 4.55% increase over 2.2 mbpd in 2017), benchmark crude oil price of USD50.5 a barrel (as against USD42.5 a barrel in 2017) and exchange rate assumption of NGN35/USD.

Total projected revenue increased y-o-y by 40.94% to N7.16 trillion with oil revenue constituted 41.70% of total projected revenue. Furthermore, non-oil revenue accounted for 17.73% of total projected revenue, independent revenue accounted for 11.83% while other revenue sources accounted for the balance.

Table 8: Overview of the Revenue Framework

Fiscal Items	Approved 2018 Budget	Approved 2017 Budget	Change
Oil Production Volume (mbpd)	2.3	2.2	4.55%
Projected Budget Benchmark Price (USD per barrel)	50.5	44.5	13.48%
Average Exchange Rate (N/USD)	305	305	-
Revenue Projections	7,165,870,000,000	5,084,400,000,000	40.94%
Share of Oil Revenue	2,988,350,000,000	2,122,180,000,000	40.82%
Share of Dividend (NLNG)	31,250,000,000	29,590,000,000	5.61%
Share of Minerals and Mining	1,170,000,000	1,060,000,000	10.38%
Share of Non-Oil	1,248,790,000,000	1,373,210,000,000	-9.06%
Share of Company Income Tax (CIT)	*658,550,000,000*	*807,820,000,000*	*-18.48%*
Share of Value Added Tax (VAT)	*207,510,000,000*	*241,920,000,000*	*-14.22%*
Share of Customs	*324,860,000,000*	*277,560,000,000*	*17.04%*
Share of Federation Account and Levies	*57,870,000,000*	*45,900,000,000*	*26.08%*
Independent Revenue	847,950,000,000	807,570,000,000	5.00%
FGN's Share of Actual Balance in Special Accounts	27,220,000,000	6,640,000,000	309.94%
FGN's Unspent Balance of previous Fiscal Year	280,000,000,000	50,000,000,000	460.00%
Other revenue sources	1,771,140,000,000	679,360,000,000	160.71%

Source: Budget Office, Cowry Research

Projected expenditure, which was 22.57% higher than the 2017 projected expenditure of N7.44 trillion, comprised capital expenditure of N2.87 trillion (31.76% higher than 2017) and non-debt recurrent expenditure of N3.52 trillion (17.70% higher than 2017) among others. The share of projected capital expenditure to total budget increased to 31.46% in 2018 from 29.27% in 2017.

2017 Budget Underperforms on Revenue Shortfall, Delayed Passage

Meanwhile, the fiscal authority underperformed in its implementation of the 2017 budget, firstly, as revenue estimates fell short of projections and, secondly, as implementation of the budget was delayed partly due to disagreements between the executive and legislative arms of government as well as unfavourable weather conditions that delayed some capital projects. At N2.71 trillion, retained revenue in 2017 was 46.7% lower than projected N5.08 trillion as oil production was 15.5% short at 1.86 mbpd among other things. Also, total expenditure at N6.05 trillion was 18.7% short of projection even as the 2017 capex component of N1.24 trillion fell short of projected by 42.9% (June 2018 final estimate of N1.58 trillion was 27.2% lower).

Table 9: Summary of 2017 Budget Performance

	FY Budget	Actual (2017)	Actual 2018 Fiscal Year End	
GDP Growth Rate	1.50%	0.83%	1.95%	Mar-18
Oil Production	2.2 mbpd	1.86 mbpd	1.66 mbpd	Jun-18
Oil Price	USD44.5/bbl	USD54.6/bbl	USD77.7/bbl	May-18
Inflation Rate	15.74%	15.91%	11.61%	May-18
Exchange Rate (CBN Official Rate)	N305/USD	N305/USD	N305/USD	May-18
GDP	N108.0 Trn	N113.7 Trn	-	
Revenue	N5.08 Trn	N2.71 Trn	-	
Expenditure	N7.44 Trn	N6.05 Trn	-	
Capital Expenditure	*N2.17 Trn*	*N1.24 Trn*	*N1.58 Trn*	*Jun-18*
Surplus/(Deficit)	(N2.36 Trn)	(N3.34 Trn)	-	
Deficit to GDP	-2.19%	-2.94%	-	

Source: Budget Office, Cowry Research

Federal Government Implements Reforms to Diversify Economy

The FG continued on its reforms to improve the business environment in the country and to improve Nigeria's position on the "ease of doing business" global ranking when the Presidential Enabling Business Environment Council (PEBEC) kicked off its third 60-day National Action Plan (NAP 3.0) in February 2018. The action plan, targeted across various sectors of the economies and in various Ministries, Departments and Agencies (MDAs), sought to minimize the difficulties faced by Small and Medium Enterprises (SMEs) when accessing credit, paying taxes or moving goods across the country, amongst others, by removing critical bottlenecks and bureaucratic constraints to doing business in Nigeria.

Specifically, the reforms include: facilitating efficiency in tax remittances through the adoption of electronic filing of taxes for all categories of companies; increasing accessibility of affordable credit for SMEs by driving and incentivizing banks to utilize the collateral registry; and also increasing the number of SMEs that can access government contracts by communicating and enforcing the minimum employee requirement for pension contributions as 15 employees through the Bureau of Public Procurement.

Meanwhile, the FG launched its Economic Recovery and Growth Plan (ERGP) Focus Labs in March 2018 with the objective of fast tracking the attainment of the ERGP's broad objectives being:

1. Restoration of growth to a positive path and sustain it to, at least, 7% by 2020;
2. Investing in human capital and to improve their living standards; and
3. Build a globally competitive economy.

Accordingly, the Focus Labs, constituted with the central objective of attracting private capital to finance projects across the country and to raise the level of productivity in the country, were focused on three strategic sectors, which include:

1. Agriculture and transportation;
2. Power and gas; and
3. Manufacturing and processing (including solid minerals).

Specifically, the Focus Labs aim to:

1. Identify projects which will drive catalytic growth that will contribute in increasing private sector investments and create new jobs for Nigerians (Entry Point Projects or EPPs);
2. Develop clear implementation plans for each EPP with identified budget, key individuals responsible for these activities and accountable lead ministers along with key performance indicators;
3. Breakdown silos to harness private-public partnerships;
4. Align stakeholders to execute the plans; and
5. Build trust and credibility between the public and private sectors.

According to the Minister of Budget and National Planning, Senator Udoma Udo Udoma, the first phase of the multi-phased ERGP Focus Labs had identified over USD22.55 billion worth of potential investment opportunities across the country as at May 2018 as shown in the table below.

Table 10: Update on Focus Labs

Focus Lab	Identified Investment Opportunities	Job creation Potential
Agriculture and Transportation	USD4.73 billion	129,000
Power and Gas	USD8.57 billion	7,200
Manufacturing and Processing	USD9.25 billion	378,000
Total	USD22.55 billion	514,200

Source: Budget Office, Cowry Research

Power Sector Receives Investments from World Bank, Others for Grid Expansion…

In the review period, the World Bank, African Development Bank (AFDB), Japan International Cooperation Agency (JICA) and French Development Agency, amongst other multilateral donor agencies, raised USD1.57 billion for the Transmission Company of Nigeria (TCN) to expand the country's electricity grid to 20,000 megawatts (MW) within the next four years. The funds were raised to enable TCN implement the Transmission Rehabilitation and Exapansion Programme (TREP) which was initiated and approved by the Federal Government to steadily grow, stabilise and modernise the transmission network in order to take more electricity from the generation companies (Gencos) for onward distribution of power to consumers.

We note that the USD1.57 billion investment in transmission network to further expand the grid capacity to 20,000 MW from the total wheeling capacity of 7,500 MW, would further catalyse the much needed growth in the power sector as power generated by the Generation Companies (Gencos) could be transmitted to the Distribution companies (Discos). We expect the same priority to be extended to the other segments on the value chain in the sector in order to get the generated power down to the final consumers because as it is, the Discos in particular have capacity to distribute only 4,600 MW while the Gencos have capacity to generate 12,500 MW. Thus, the need for complete overhauling of the whole power value chain, given the significant benefits to real sector growth and the resultant boost in non-oil revenue.

Nigeria, Kingdom of Morocco Sign Major Trans-Saharan Trade Deal

In another development, the Federal Government of Nigeria and the Kingdom of Morocco in June 2018, signed multiple agreements in Morocco to strengthen their economic connections in the energy and agricultural sectors. In the energy sector, the agreement involved the construction of 5,660 kilometres Nigeria-Morocco Gas

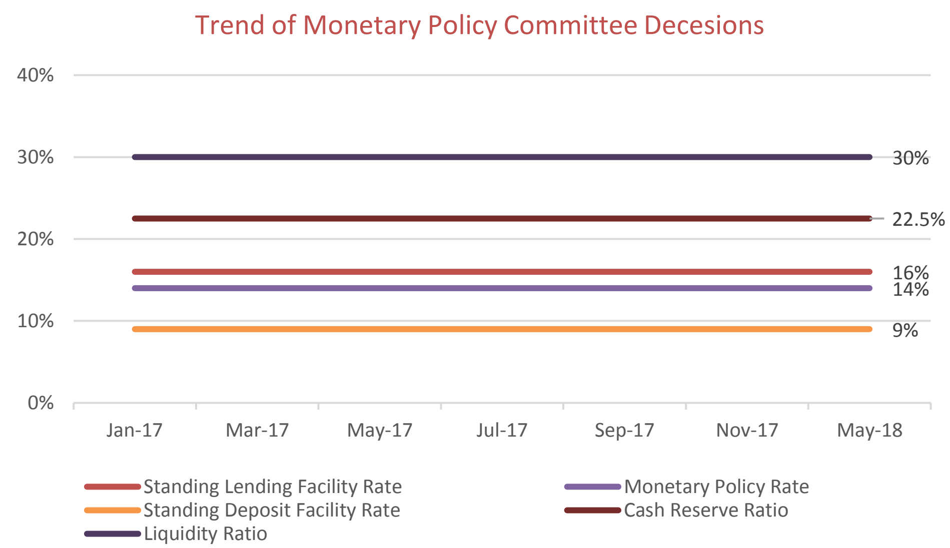
Pipeline (NMGP), a regional gas pipeline cutting across the West Africa sub-region to Morocco and Europe, which would subsequently cater for the gas supply from Nigeria, while another MOU was signed for the development of a chemical plant in Nigeria for producing ammonia and its derivatives. The agricultural sector deal was a cooperation agreement on vocational training and technical supervision to enhance skills on better management of agricultural outfits in Nigeria.

Monetary Sector Update

Update of Monetary Policies in H1 2018

Monetary Authority Retains Benchmark Policy Rate on Anticipated Election Spending

In the review period, the monetary authority remained focused on ensuring foreign exchange rate and price stability in anticipation of increased spending via election campaigns and 2018 budget excecution among other things. Hence, the Monetary Policy Committee (MPC), which held only one meeting, in May 2018, voted to retain policy rates at previous levels. Specifically, the MPC retained the Monetary Policy Rate (MPR) was retained at 14% in line with our expectation. In the same vein, Cash Reserve Ratio requirement and liquidity ratio were retained at 22.5% and 30% respectively while the Standing Lending Facility (SLFR) Rate and Standing Deposit Facility Rate (SDFR) maintained at +2% and -5% respectively.



Source: CBN, Cowry Research

Apex Bank Issues New Dividend Payment Rules…

The Central bank of Nigeria (CBN), in February, amended its rules on internal capital generation and dividend payout ratio. The new rules stipulated that Deposit Money Banks (DMBs) and Discount Houses (DHs) that have capital adequacy ratios of at least 3% above the minimum requirement, Composite Risk Rating (CRR) of "low" and Non-Performing Loan (NPL) ratio of more than 5% but less than10%, were to have dividend pay-out ratio of not more than 75% of profit after tax while those that meet the minimum capital adequacy ratio but have a CRR of "Above Average" or an NPL ratio of more than 5% but less than 10% shall have dividend payout ratio of not more than 30%. The reviewed policy was meant to protect DMB's capital from being eroded by their dividend policy decisions while also ensuring adequate liquidity for their operations.

Apex Bank Reviews Foreign Exchange Policy to Enhance Forex Supply

In May, CBN reviewed its foreign exchange rate policy in order to increase the availability of foreign exchange in the market. Accordingly, the apex bank directed all DMBs to buy and sell foreign exchange to travelers (both customers and non-customers) upon presentation of relevant, valid travel documents such as visa and ticket over the counter. In addition, the apex bank extended the number of days the Bureau De Change (BDC) operators could access foreign exchange from two days to three days. The resulting effect was a boost in supply to each BDC from USD40,000 weekly to USD60,000 weekly and an accompanying moderation in foreign exchange rate in the alternative market segments.

CBN, PBoC Sign 3-Year Bilateral Currency Swap Agreement to Facilitate Trade

Encouraged, in part, by the Nigeria's improving economic environment and rising external reserves, CBN and Peoples Bank of China (PBoC), on April 27 2018, finally signed a 3-year bilateral currency swap agreement worth USD2.5 billion, after two and half years of negotiations, to provide Renminbi liquidity to manufacturers, contractors and traders resident in Nigeria and Naira liquidity to their counterparties resident in China in order to facilitate trade between the two countries without going through a third currency, the US Dollar. Hence, the swap agreement is also expected to facilitate the management of Nigeria's external reserves of both due to anticipated decline in demand for the greenback by importers who in turn are also expected to benefit from mitigated currency risk due to exchange rate fluctuations.

We opine that the amount in focus, USD2.5 billion, would not be sufficient given that net imports from China in Q1 2018 alone amounted to about N468.44 billion or RMB10 billion at an official exchange rate of N46.17/RMB (see Table 14 below). Given that Nigeria is currently disadvantaged as a huge net importer from China, it does hold the shorter end of the stick with regards to the currency swap deal. Going forward, this could be partially reversed, and more sustainably, if Nigeria increases its exports of value added commodities to China, facilitated by a more effective, export-oriented, trade and investment policy drive as well as provision of critical infrastructure to boost efficiency and growth of local export-oriented business. Furthermore, given the swap deal would not provide a sustainable solution, we think sustained improvement in the external buffers occasioned by improvement in export receipts, would avail importers with Chinese invoices the opportunity to benefit from a strengthened Naira vis a vis the greenback, depending on the rate of accretion to the external reserves, as they would be buying third party currency at lower cost to execute trades.

H1 2018 Depository Corporations Survey

Money Supply Rises amid Increase in Net Foreign Assets

In the review period, CBN's depository corporations survey showed a 4.86% year-to-date increase in Broad Money to N25.17 trillion in May 2018; as a 23.52% year-to-date increase in Net Foreign Assets (NFA) to N18.30 trillion more than offset a 25.21% year-to-datde decrease in Net Domestic Assets (NDA) to N6.87 trillion. Growth in NFA was partly attributed to sustained high crude oil prices; bonny light traded at USD80.65 in May 17, 2018, the highest it has traded in 2018 and hovered around USD75.00. On domestic asset creation, the decrease in NDA resulted from a marginal 0.57% year-to-date decrease in Net Domestic Credit (NDC) to N25.76 trillion, accompanied by a 13.07% year-to-date increase in Other Liabilities (net) to N18.84 trillion.

Further breakdown of the NDC showed a 0.37% year-to-date decrease in Credit to the Private sector to N22.21 trillion (share of credit to private sector of NDC rose to 86.35% from 86.18% as at December 2017), accompanied by a 1.80% decrease in Credit to the Government to N3.51 trillion (its share of NDC moderated to 13.65% from 13.82%). On the liabilities side, the increase in Broad Money Supply followed a 7.54% year-to-date increase in Quasi Money (near maturing short term financial instruments, term deposits, etc) to N13.94 trillion and supported by Narrow Money that also increase by 1.72% to N11.23 trillion (of which Demand Deposits that rose by 4.72% to N9.65 trillion to offset the drop in currency outside banks by 11.51% to N1.58 trillion) in May 2018. Meanwhile, Reserve Money (Base Money) increased year-to-date by 4.48% to N6.77 trillion as bank reserves rose year-to-date by 13.09% to N4.49 trillion to offset a 10.50% decline in Currency in circulation to N1.93 trillion.

Table 11: Depository Corporations Survey

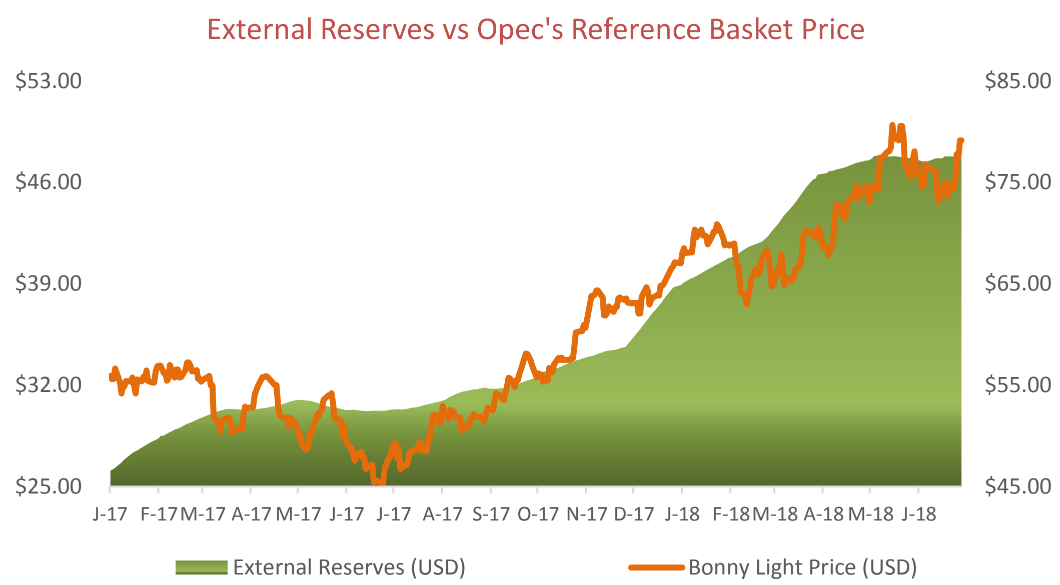
	Date	Value (N 'Trn)	YTD % Δ
Currency outside banks (Ntrn)	May, 2018	1.58	(11.51)
Bank reserves (Ntrn)	May, 2018	4.49	13.09
Currency in circulation (Ntrn)	May, 2018	1.93	(10.50)
Reserve money (Ntrn)	May, 2018	6.77	4.48
Demand deposits (Ntrn)	May, 2018	9.65	4.27
M1 Money (Ntrn)	May, 2018	11.23	1.72
Quasi money (Ntrn)	May, 2018	13.94	7.54
M2 Money (Ntrn)	May, 2018	25.17	4.86
Monetary Policy Rate (%)	May, 2018	14.00%	-
Credit to the Government (Ntrn)	May, 2018	3.51	(1.80)
Credit to the Private Sector (Ntrn)	May, 2018	22.21	(0.37)
Net Domestic Credit (Ntrn)	May, 2018	25.72	(0.57)
Net Foreign Assets (Ntrn)	May, 2018	18.30	23.52

Source: CBN, Cowry Research

External Sector Update

External Reserves Rise in H1 2018 Amid Heightened Political Risk

In the first half of the year, Nigeria's external reserves increased year-to-date by 23.27% to USD47.79 billion as at June ending amid boost in average global crude oil prices resulting from strong global demand for crude coupled with supply constraints – bonny light crude oil price grew by 17.91% to USD79.12 a barrel by the end of H1 2018. Growth in external reserves was in spite of a 9.19% year-to-date decrease in crude oil production to 1.66 million barrels per day in June due to incessant attacks of oil and gas installations as well as exit of foreign portfolio investors concerned about political risk ahead of the 2019 general elections.



Source: Oil Price.com, CBN, Cowry Research

Nigeria Posts Higher Merchandise Trade Surplus in Q1 2018

Foreign Trade Statistics report released by the National Bureau of statistics showed that merchandise goods worth N7.21 trillion were traded in Q1 2018, (19.74% higher than N6.02 trillion recorded in Q4 2017 and a 35.07% rise from the N5.23 trillion traded in Q1 2017). Of the total goods traded, value of export increased q-o-q by 20.02% (and y-o-y by 56.01%) to N4.69 trillion while the value of import rose q-o-q by 19.22% (and y-o-y by 8.04%) to N2.52 trillion, resulting in a 20.95% q-o-q increase (221.08% y-o-y) in trade surplus to N2.18 trillion in Q1 2018.

According to the report, crude oil export which grew q-o-q by 10% (y-o-y by 50.4%) to N3.58 trillion, constituted 76.3% of the export value in Q1 2018. This was indicative of Nigeria's longstanding albeit slowing overdepenence on crude oil exports for its U.S. dollar revenue and for shoring up its trade surplus – Nigeria's dependence of crude oil for its export receipts was 83.2% in Q4 2017. Non-Oil export, on the other, hand grew q-o-q by 237.12% (y-o-y by 237.24%) to N577.65 billion in Q1 2018, constituting 16.8% of the total export value. Meanwhile, Petrol Motor Spirit (PMS) as well as Machinery & Transportation Equipmments accounted for 33.6% and 26.6% of the import value in Q1 2018, up (from 34.4% and 24.5% in Q1 2017) respectively.

Europe was Nigeria's biggest export destination, accounting for 49% of total exports with The Netherlands accounting for 42% of Nigeria's exports to Europe. Following, Asia accounted for 28% of total exports with India accounting for 65% of exports to Asia; while the Americas was third at 13%, with the U.S. accounting for 65% of exports to the Americas.

The improvement recorded in the foreign sector partly resulted from the effect of foreign exchange policies of the Central Bank of Nigeria on external trade volumes coupled wdith improvement in non-oil exports.

Table 12: Nigeria's Exports by Destination (N' Million)

	Region	Q4 2017	Q1 2018	Change	% of Total Exports	% of Regional Exports
Africa	Total	382,777.2	492,284.2	28.61%	10%	100%
	ECOWAS	152,547.6	195,189.6	27.95%		40%
	Others	230,229.6	297,094.6	29.04%		60%
Americas	Total	879,194.0	593,581.7	-32.49%	13%	100%
	USA	502,218.3	386,927.3	-22.96%		65%
	Canada	189,329.7	68,413.9	-63.87%		12%
	Brazil	38,811.0	14,153.5	-63.53%		2%
	Others	148,834.9	124,086.9	-16.63%		21%
Europe	Total	1,538,584.7	2,284,294.6	48.47%	49%	100%
	Germany	44,674.9	67,643.6	51.41%		3%
	UK	136,818.2	145,631.7	6.44%		6%
	Netherlands	412,857.3	963,474.6	133.37%		42%
	Italy	88,926.9	111,495.2	25.38%		5%
	France	391,449.1	297,938.3	-23.89%		13%
	Spain	296,182.2	391,685.7	32.24%		17%
	Others	167,676.2	306,425.5	82.75%		13%
Asia	Total	1,033,794.9	1,310,997.1	26.81%	28%	100%
	Japan	40,212.1	64,910.3	61.42%		5%
	India	615,388.2	853,697.8	38.73%		65%
	China	43,516.0	62,529.4	43.69%		5%
	Others	334,678.7	329,859.6	-1.44%		25%
Oceania	Oceania	76,270.5	12,186.5	-84.02%	0.26%	100%
Total		3,910,621.2	4,693,344.2	20.02%	100%	100%

Source: NBS, Cowry Research

Table 13: Nigeria's Imports by Origin (N' Million)

	Region	Q4 2017	Q1 2018	Change	% of Total Imports	% of Regional Imports
Africa	Total	86,983.4	94,093.0	8.17%	4%	100%
	ECOWAS	17,101.5	17,797.1	4.07%		19%
	Others	69,881.9	76,295.9	9.18%		81%
Americas	Total	303,179.6	254,316.4	-16.12%	10%	100%
	USA	189,360.8	163,938.6	-13.43%		64%
	Canada	31,909.3	16,854.2	-47.18%		7%
	Brazil	62,465.8	61,980.0	-0.78%		24%
	Others	19,443.8	11,543.6	-40.63%		5%
Europe	Total	850,857.2	1,154,696.2	35.71%	46%	100%
	Germany	79,840.8	76,140.8	-4.63%		7%
	UK	110,282.7	57,296.6	-48.05%		5%
	Netherlands	125,238.5	305,797.8	144.17%		26%
	Italy	43,337.0	38,613.5	-10.90%		3%
	France	67,926.2	85,540.2	25.93%		7%
	Spain	42,996.0	46,051.3	7.11%		4%
	others	381,236.0	545,256.0	43.02%		47%
Asia	Total	845,045.1	989,185.5	17.06%	39%	100%
	Japan	23,203.2	27,308.1	17.69%		3%
	India	135,447.6	157,924.3	16.59%		16%
	China	465,126.7	530,979.0	14.16%		54%
	others	221,267.6	272,974.1	23.37%		28%
Oceania	Oceania	26,246.2	25,970.1	-1.05%	1%	100%
Total		2,112,311.5	2,518,261.1	19.22%	100%	100%

Source: NBS, Cowry Research

Table 14: Nigeria's Balance of Trade with Various Regions

	Region	Q4 2017	Q1 2018	Change
Africa	Total	295,793.7	398,191.3	34.62%
	ECOWAS	135,446.1	177,392.5	30.97%
	Others	160,347.7	220,798.7	37.70%
Americas	Total	576,014.4	339,265.4	-41.10%
	USA	312,857.6	222,988.7	-28.73%
	Canada	157,420.5	51,559.8	-67.25%
	Brazil	(23,654.8)	(47,826.5)	102.19%
	Others	129,391.1	112,543.4	-13.02%
Europe	Total	687,727.5	1,129,598.5	64.25%
	Germany	(35,166.0)	(8,497.2)	-75.84%
	UK	26,535.5	88,335.2	232.89%
	Netherlands	287,618.8	657,676.8	128.66%
	Italy	45,589.9	72,881.7	59.86%
	France	323,522.9	212,398.0	-34.35%
	Spain	253,186.2	345,634.4	36.51%
	others	(213,559.8)	(238,830.5)	11.83%
Asia	Total	188,749.8	321,811.6	70.50%
	Japan	17,008.9	37,602.2	121.07%
	India	479,940.6	695,773.5	44.97%
	China	(421,610.8)	(468,449.6)	11.11%
	others	113,411.1	56,885.5	-49.84%
Oceania	Oceania	50,024.3	(13,783.6)	-127.55%
Total		1,798,309.7	2,175,083.0	20.95%

Source: NBS, Cowry Research

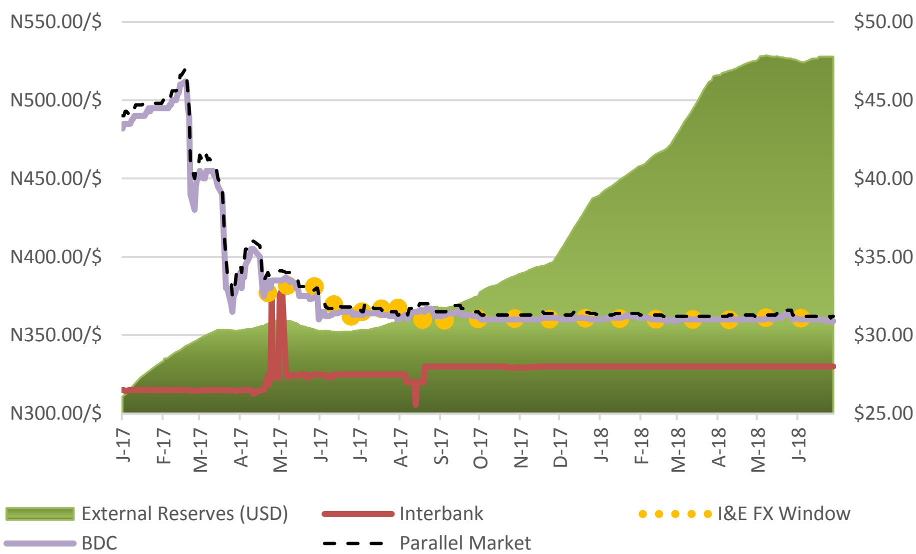
In Q1 2018, Nigeria maintained merchandise trade surplus with most of its trading partners. It however recorded worsening, and by far the biggest, trade deficit against China which, in recent times, has drastically reduced its appetite for Nigeria's crude.

Foreign Exchange Market Review

Foreign Exchange Market Rates Converge amid Increased Interventions

The foreign exchange market saw a convergence of FX rates on the back of restrictive monetary policy, significant accretion to reserves, increased weekly foreign exchange interventions by CBN in the market, and boost in foreign portfolio inflows. CBN sustained its weekly sales of USD210 million in the market via Secondary Market Intervention Sales (SMIS) of which USD100 million was allocated to Wholesale transactions, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. This is in addition to the USD60,000 weekly sales to each of the 4,106 BDCs in the country.

Evolution of External Reserves and Exchange Rates



Source: CBN, FMDQ, Cowry Research

I&E FX Market Records Increased Inflows, Activity…

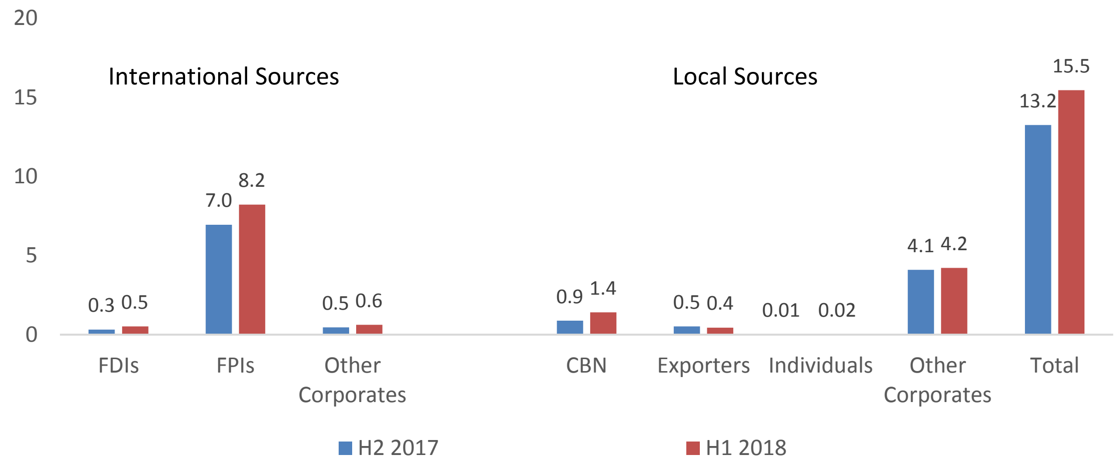
Meanwhile, foreign exchange inflows at the I&E FX window increased by 16.69% to USD15.45 billion in H1 2018 from USD13.24 billion recorded in H2 2017. Similarly, turnover at the I&E FX window spiked by 34.26% to USD30.08 billion over comparable periods amid increased trading activity.

Table 15: Foreign Exchange Inflows via I&E FX Window (USD Billion)

	Source	H2 2017	H1 2018	Change
INTERNATIONAL	FDIs	0.3176	0.5222	64.42%
	FPIs	6.9501	8.2142	18.19%
	Other Corporates	0.4523	0.6203	37.14%
LOCAL	CBN	0.8824	1.4164	60.52%
	Exporters	0.5217	0.4473	-14.26%
	Individuals	0.0145	0.0207	42.76%
	Other Corporates	4.105	4.2133	2.64%
	Total	13.2436	15.4544	16.69%

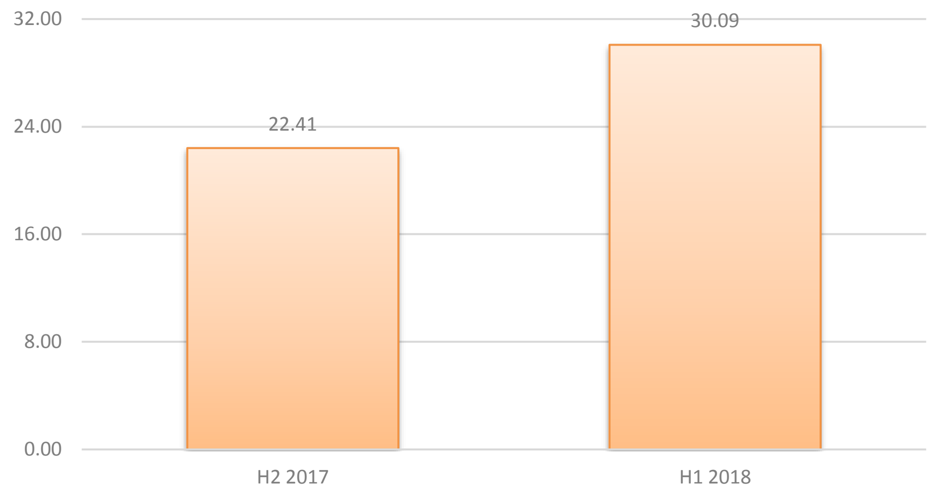
Source: FMDQ, Cowry Research

Foreign Exchange Inflows via I & E FX Window (USD Billion)



Source: FMDQ, Cowry Research

I&E FX Window Turnover (USD Billion)



Source: FMDQ, Cowry Research

The Local Currency Strengthens at Alternative Market Segments

Following favourable foreign exchange policies, the Nigerian Naira strengthened against the United States Dollar at the alternative market segments – the Naira appreciated at the Bureau De Change and parallel ('black') market segments by 0.28% and 0.55% year-to-date and by 1.37% and 1.63% y-o-y to N359/USD and N362/USD respectively. Although the local currency depreciated the I&E FX window by 0.27% year-to-date, it strengthened y-o-y by 1.82% to N361.32/USD. At the interbank market however, the Naira/USD rate closed flat year-to-date but depreciated y-o-y by 1.54% to N330/USD.

Against official rates of major foreign currency pairs, the Naira appreciated year-to-date by 0.08%, 2.71% and 2.84% to N305.75/USD, N402.46/USD and N356.44/USD respectively.

Table 16: NAIRA/USD Foreign Exchange Rates

	H1 2018 Close	2017 Close	H1 2017 Close	YTD %Δ	Y-o-Y %Δ
Naira/USD Pair					
Interbank Market	330	330	325	-	1.54%
I&E FX Window	361.32	360.33	368	0.27%	-1.82%
Bureau De Change	359	360	364	-0.28%	-1.37%
Parallel Market	362	364	368	-0.55%	-1.63%
Official Exchange Rates					
NGN/USD	305.75	306	305.9	-0.08%	-0.05%
NGN/GBP	402.46	413.65	397.12	-2.71%	1.34%
NGN/EUR	356.44	366.86	349.21	-2.84%	2.07%

Source: CBN, FMDQ, Cowry Research

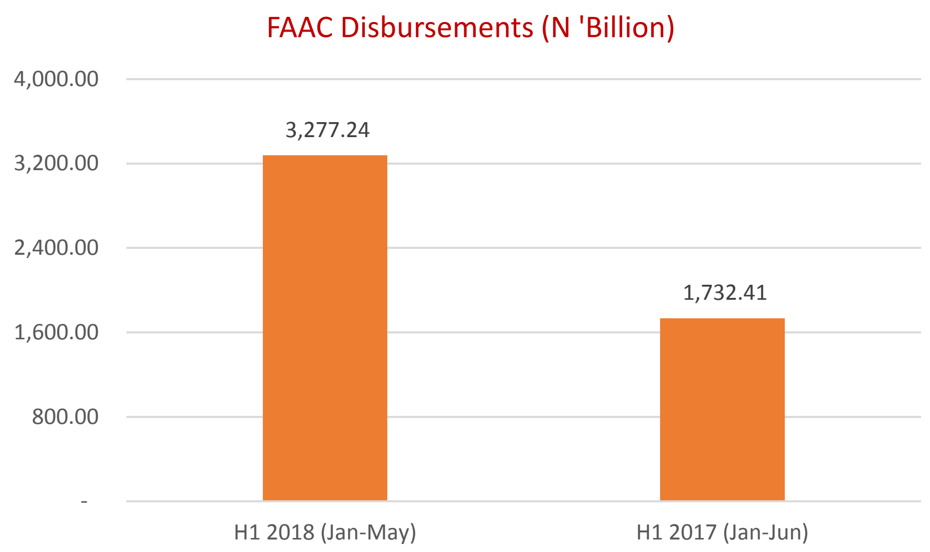
Money Market Review

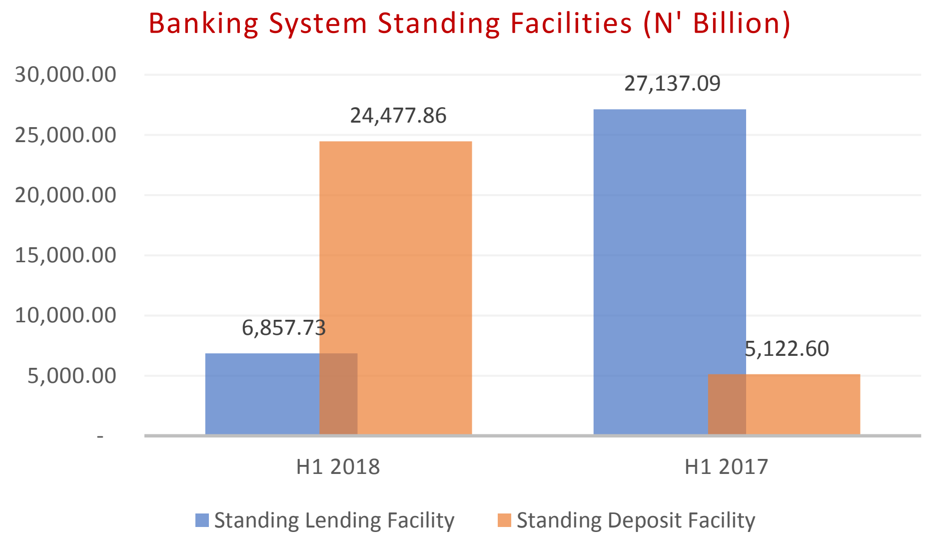
Against the backdrop of increased foreign exchange earnings, occasioned by increase in crude oil prices, the money market was slush with liquidity. Federation Accounts Allocation Committee (FAAC) disbursed 89.17% more funds to the banking system in just five months while Standing Deposit Facility (SDF) spiked 377.84% while Standing Lending Facility (SLF) plunged by 74.73%; indicative of surplus in the system. Hence, in its attempt to curb induced inflation, the apex bank conducted aggressive liquidity mop up via Open Market Operations (OMO) as financial system outflows via sale of treasury bills exceeded inflows via maturities (see Table 17 below). Also, the resulting net outflows from mop up activities in H1 2018 rose y-o-y by 173.50%. OMO stop rates however plunged to an average of 12.94% in H1 2018 from an average of 18.32% recorded in H1 2017 as the apex bank was essentially the price giver.

Table 17: T-Bills Sales and Maturities in H1 2018

	H1 2018 (N 'Billion)	H1 2017 (N 'Billion)	Change
System Injections			
Primary Market	2,210.93	2,467.18	-10.39%
Open Market Operations	4,863.43	1,186.08	310.04%
Total Inflows (Maturities)	7,074.36	3,653.25	93.65%
System Withdrawals			
Primary Market	1,653.37	2,798.75	-40.92%
Open Market Operations	8,869.69	2,115.45	319.28%
Total Outflows (Auctions)	10,523.06	4,914.20	114.14%
Net Financial System Outflows	(3,448.70)	(1,260.95)	173.50%

Source: CBN, Cowry Research

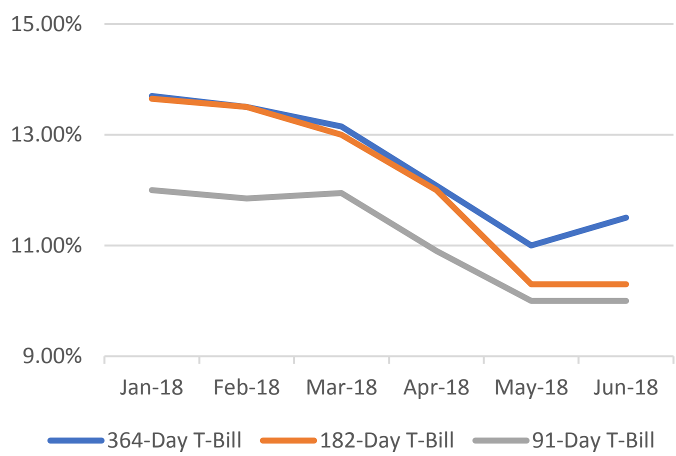

FAAC Disbursements (N 'Billion)
4,000.00
3,200.00
2,400.00
1,600.00
800.00
-
3,277.24
1,732.41
H1 2018 (Jan-May)
H1 2017 (Jan-Jun)

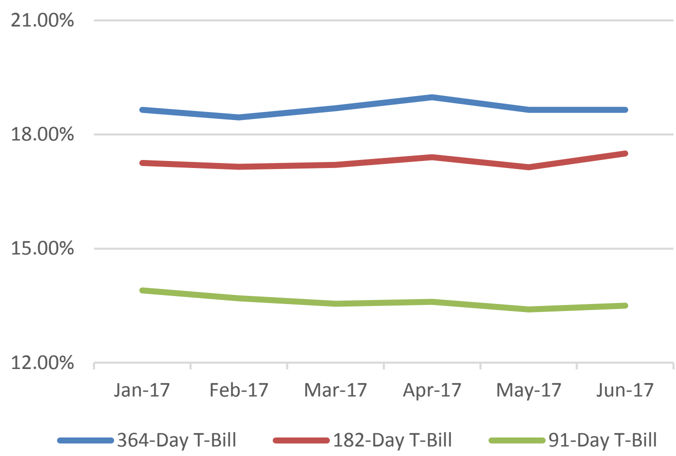

Banking System Standing Facilities (N' Billion)
30,000.00
25,000.00
20,000.00
15,000.00
10,000.00
5,000.00
-
6,857.73
24,477.86
27,137.09
5,122.60
H1 2018
H1 2017
Standing Lending Facility
Standing Deposit Facility

Treasury Bills Yields Plunge at Primary Market Auctions …

Treasury bills sales by the Central Bank, which were greater in H1 2018 relative to the corresponding period of the preceding year, came at lower cost (although still in double digit) in line with downward inflationary trend. End of June stop rates for the 91-day, 182-day and 364-day bills declined to 10.00% (from 13.50% in H1 2017), 10.30% (from 17.50% in H1 2017) and 11.50% (from 18.65% in H1 2017) respectively. However, real returns for all maturities were negative given an inflation rate of 11.61% recorded as at June 2018.

Stop Rates of Treasury Bills in H1 2018 vs H1 2017





Source: CBN, Cowry Research

Interbank Rates Less Volatile amid Liquidity Ease

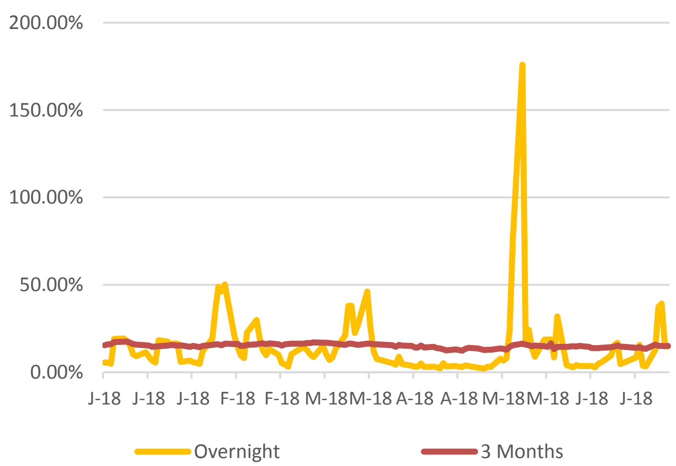
Interbank rates, especially the overnight funds rate, were much calmer in the first half of 2018 compared to the corresponding period of 2017 amid relative ease in financial system liquidity. Although the overnight funds touched a maximum of 176% in H1 2018 (higher to 166.74% in H1 2017), it averaged 14.93% in H1 2018 (lower than 22.59% in H1 2017). Similarly, 3 Months NIBOR peaked at 17.52% (higher than 16.22%) but on average, it registered 15.16% (lower than 20.47%).

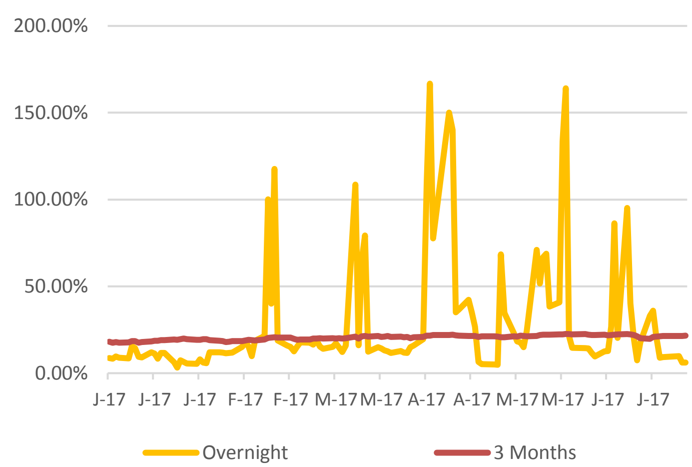
Table 18: Nigerian Interbank Offer Rates in H1 2018 vs H1 2017

	Overnight NIBOR	3 Months NIBOR		Overnight NIBOR	3 Months NIBOR
H1 2018 Low	2.13%	3.24%	H1 2016 Low	3.21%	17.52%
H1 2018 High	176%	17.52%	H1 2016 High	166.74%	16.22%
H1 2018 Average	14.93%	15.16%	H1 2016 Average	22.59%	20.47%

Source: FMDQ, Cowry Research

NIBOR movement in H1 2018 vs H1 2017

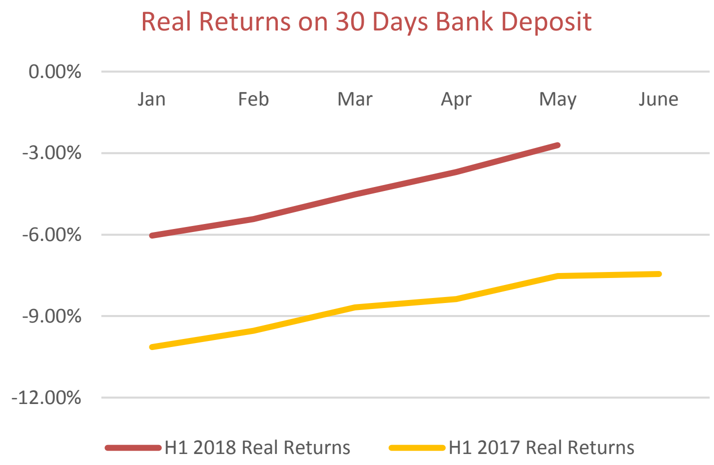




Source: FMDA, Cowry Research

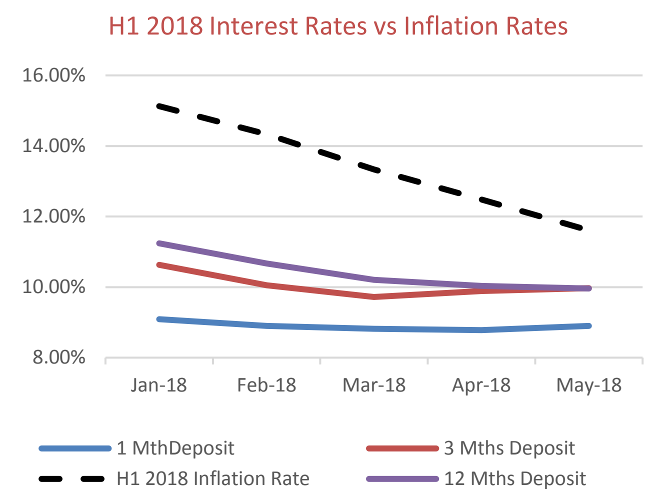
Real Returns Remain Negative Despite Higher Deposit Rates…

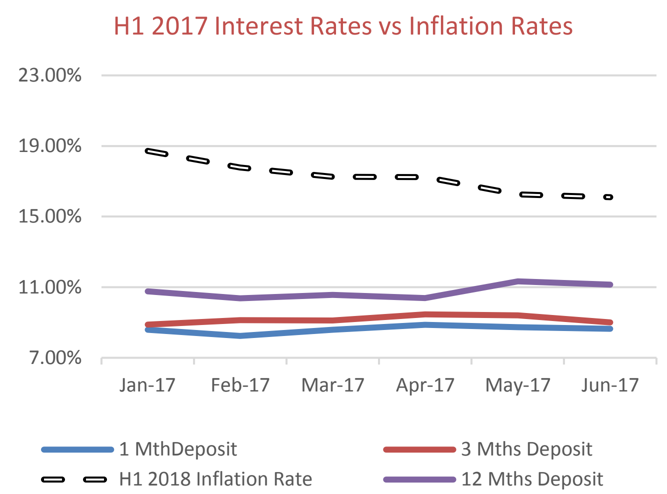
Commercial banks' depositors took higher interest rates in H1 2018 compared to H1 2017 as commercial banks sought for deposits amid declining yield environment. This was however eroded by rising inflation rates, resulting in significantly negative real returns. 30-day bank deposit rates averaged 8.89% in the review period (higher than 8.61% in H1 2017); interest rates on 3-month deposits averaged 10.05% in the review period (higher than 9.17% in the corresponding period of 2017); while 6-month deposit rates averaged 11.05% in H1 2018 (higher than 10.52% in H1 2017). However, average interest rates on 12 months deposits at 10.42% in the review period was lower than 10.76% in same period of 2017).



Source: CBN, Cowry Research

Real return on 30 days term deposits with commercial banks though negative in H1 2018, was an improvement over returns recorded in H1 2017.



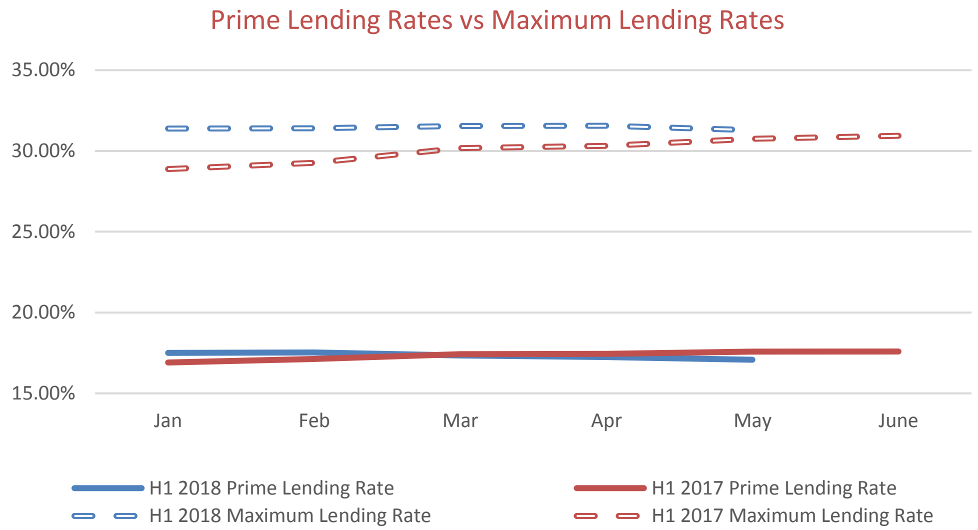


Source: CBN, Cowry Research

Non-Prime Borrowers Bear the Brunt in Decreasing Yield Environment…

In the review period, maximum lending rates to borrowers increased faster than the increase in prime lending rates. On average, maximum lending rate rose to 31.44% in H1 2018 (higher than 30.05% in in the corresponding period of 2017). Indicative of sustained risk aversion tendencies, prime lending rates however only moderately increased compared to rates in the corresponding period of 2017. On average, prime lending rates moderated to 17.34% in H1 2018 (compared to 17.35% in the corresponding period of 2017).

Hence, the gap between prime lending rates and maximum lending rates widened further.

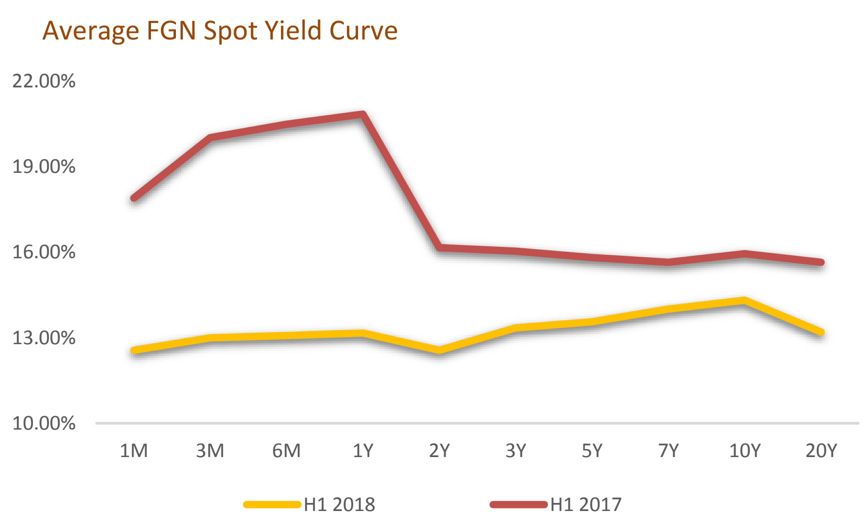


Source: CBN, Cowry Research

Bond Market Review

FGN Spot Yield Drops Across Maturities in H1 2018…

In H1 2018, the FGN spot yields moderated across all maturities compared with the same period in the previous year amid Federal Government debt management strategy of increasing foreign debt stock and extending the tenor of debt stock with an objective to lower borrowing costs. Also, the yield curve normalised as the yields on the shorter end of the curve were lower than yields on the longer end. The normalised yield curve was mainly due to the nation's economic recovery from recession, driven largely by increased crude oil prices, and supported by lower inflation rate amid increased dollar liquidity and stability in the exchange rate. This was a sharp contrast from the corresponding period of 2017 when the yield curve was inverted due to economic recession, aggravated by relatively higher inflation rate (cost push).



Source: FMDQ, Cowry Research

Federal Government Issues Fewer Bonds at Low Cost in H1 2018

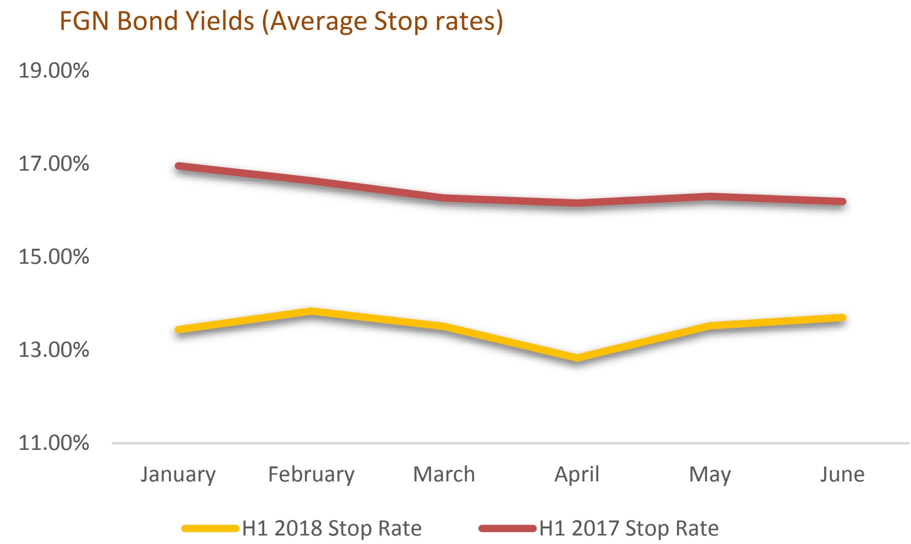
In the review period, the Federal Government issued lesser FGN bonds than it did in H1 2017, in line with its debt strategy to favour foreign debt over domestic debt in order to bring down its borrowing cost. Specificially, government issued FGN bonds worth N425.35 billion in H2 2018, 49.93% lower than N849.53 billion issued in H1 2017.

Table 19: FGN Bonds issued in H1 2018 (Amounts in N 'billion)

	January	February	March	April	May	June	Total
H1 2018 Total	110	79.62	64.06	90	50.45	31.22	425.35
H1 2017 Total	214.95	160	160	105.32	110	99.26	849.53
%age Δ	-48.83%	-50.24%	-59.96%	-14.55%	-54.14%	-68.55%	-49.93%

Source: DMO, Cowry Research

Meanwhile, yields (stop rates) of issued FGN bonds were significantly lower in the review period compared to the corresponding period of 2017 in line with the moderating inflationary trend occuring amid economic recovery as crude oil prices increased and foreign exchange rate stabilised amid increased forex liquidity. Stop rates averaged 13.47% in H1 2018, lower than 16.42% recorded in H1 2017.

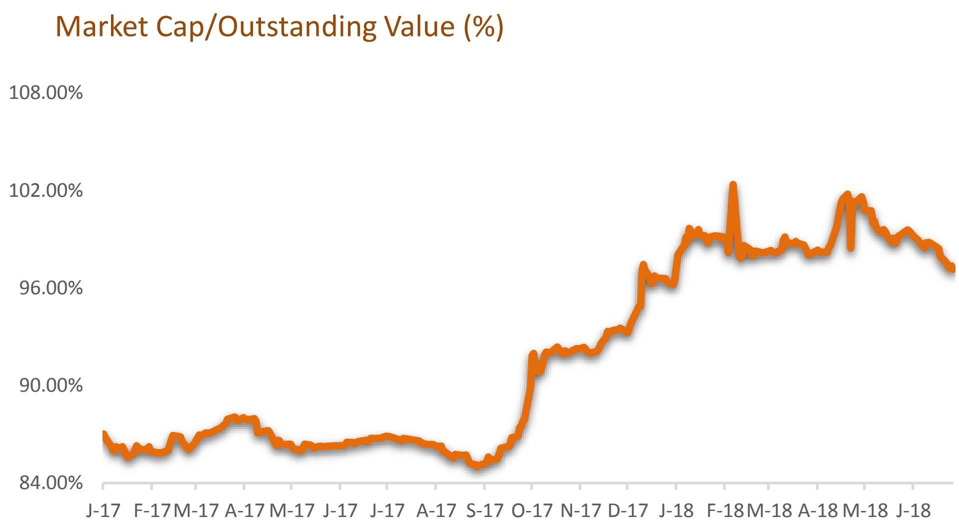


Source: DMO, Cowry Research

Local Bonds Yields Moderate Over the Counter in H1 2018 amid Federal Government Focus on Foreign Bonds Issuance…

The Over the Counter FGN bond market witnessed sustained bullish activity in H1 2018, resulting in yields decline and increase in price. This was chiefly due to the decrease in local bonds auctions amid Federal Government's increasing preference to foreign borrowings in line with its debt management strategy of moderating the cost of debt servicing. Indicative of the bullish activity was the increase in the ratio of market capitalization to outstanding bonds to 97.16% as at June 30, 2018 (given a market capitalization of N7.62 trillion and outstanding bond value of N7.86 trillion) from 86.81% recorded in June 30, 2017 (given a market capitalization of N6.11 trillion and outstanding bond value at N7.04 trillion).

Specifically, FGN bonds traded at the over-the-counter (OTC) segment appreciated in value for all the maturities we tracked while their corresponding yields went southward; the 20-year, 10% FGN JULY 2030 debt, the 10-year 16.39% FGN JAN 2022 note, the 7-year 16.00% FGN JUN 2019 paper and the 5-year 14.50% FGN JUL 2021 bond yields fell to 14.07% (from 16.03% in H1 2017), 13.66% (from 16.10% in H1 2017), 13.17% (from 16.47% in H1 2017) and 13.30% (from 16.27% in H1 2017) respectively.



Source: DMO, Cowry Research

FGN Eurobond Prices Moderate amid U.S Fed Rate Hike…

Federal Government Eurobond prices declined (and yields increased) following sell pressure against the backdrop of increased U.S Fed fund rate to a relatively more attractive range of 1.75% - 2.00%. On a year-on-year basis, the value of the FGN Eurobonds traded on the London Stock Exchange depreciated across maturities tracked and their corresponding yields moved northward – the 15-year, 7.875% FEB 16, 2018 debt lost the most by N10.38 (yield rose to 8.11%), followed by the 10-year, 6.75% JAN 28, 2021 note which depreciated by N4.39 (yield rose to 6.09%) and the 10-year, 6.38% JUL 12, 2023 bond that tanked by N6.54 (yield fell to 3.50%).

Table 20: FGN Eurobonds in H1 2018

Maturity	Bid Price June 2018	Δ from June 2017	Yield (%) June 2018	Y-o-Y ppt Yield Δ
6.75% JAN 28, 2021 (10-Yr)	101.54	-4.39	6.09%	1.18%
6.38% JUL 12, 2023 (10-Yr)	98.61	-4.36	6.70%	0.92%
7.875% FEB 16, 2032 (15-Yr)	98.07	-10.38	8.11%	2.33%

Source: FMDQ, Cowry Research

FG Increases External Debt Stock with Higher Cost Implications

Meanwhile, part of the proceeds of the USD2.5 billion Eurobond issued in February 2018 by the Federal Government was used to redeem some maturing domestic debt worth N279.67 billion in Q1 2018. The issued foreign note contributed to the surge in external debt stock in the quarter; thus, the proportion of external debt stock to the total debt stock rose to 29.71% (USD 22.07 billion) in Q1 2018 from 23.43% (USD 15.05 billion) in H1 2017. External debt service payments stood at USD225.25 million in Q1 2018 (from USD58.24 million in H1 2017).

Table 21: Nigeria's External Debt Stock (USD' million)

Category	Principal Balance Q1 2018	Percentage of Total Q1 2018	Principal Balance H1 2017	Percentage of Total Q1 2018
MULTILATERAL				
World Bank Group				
IDA	8,396.16		7,596.11	
IBRD	124.18		124.18	
African Development Bank Group				
ADB	1,319.93		1,002.33	
ADF	835.14		738.37	
BADEA	5.88		5.88	
EDF	70.28		68.58	
IDB	17.5		17.33	
IFAD	160.38		121.21	
SUB-TOTAL	10,929.45	49.52%	9,673.99	64.29%
BILATERAL				
China (Exim Bank of China)	1,896.94		1,768.95	
France (AFD)	274.98		218.25	
Japan (JICA)	77.6		73.83	
India (Exim Bank of India)				
Germany (KFW)	92.94		11.99	
SUB-TOTAL	2,342.46	10.61%	2,073.02	13.78%
COMMERCIAL				
EUROBONDS	8,500.00		3,000.00	
DIASPORA BOND	300		300	
SUB-TOTAL	8,800.00	39.87%	3,300.00	21.93%
GRAND TOTAL	22,071.91	100.00%	15,047.01	100.00%

Source: DMO, Cowry Research

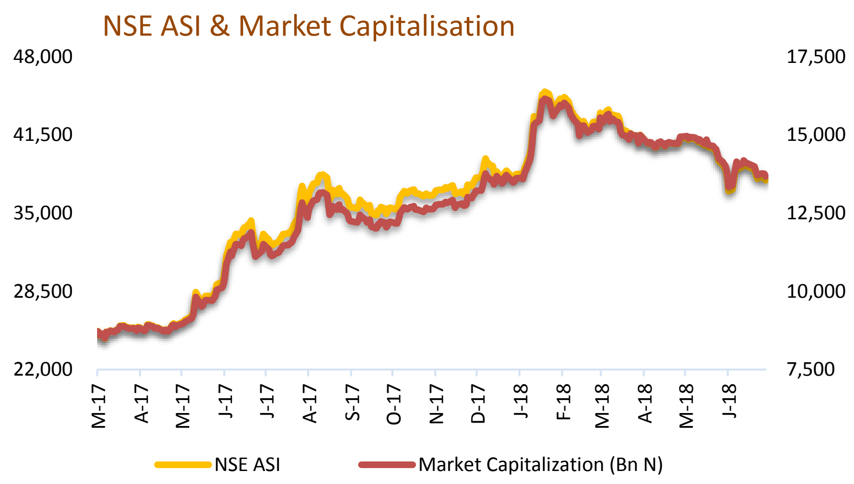
Equities Market Review

In the period under review, overall market performance indicator – the NSE All Share Index – increased year-to-date by 0.09% to 38,278.55 points as at June 29, 2018 (from 38,243.19 points as at December 29, 2017). Investors had earlier in the year (January) gained 17.91%, before the significant sell-offs (that came earlier than expected) by the foreign portfolio investors (FPIs) chiefly on political uncertainties ahead of 2019 general elections which moderated the year to date (YTD) gains of the local bourse to 0.09% despite the positive macroeconomic indices and relatively positive first quarter results posted by corporates.

Table 22: Equities Market Performance

	June 29, 2018 Close	H 1 2018 YTD %Δ	H1 2017 YTD %Δ
NSE ASI	38,278.55	0.09	23.23
Market Cap. (N' Trillion)	13.87	1.89	23.85

Source: NSE, Cowry Research



Source: DMO, Cowry Research

Table 23: NSE ASI Performance in H1 2018

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
YTD Returns		15.95%	13.30%	8.53%	7.91%	-0.36%	0.09%
Monthly Returns		15.95%	-2.28%	-4.21%	-0.57%	-7.67%	0.46%

Source: NSE, Cowry Research

H1 2018 Sector Performance

On a year-to-date basis, most sector gauges closed in green territory as investors' interest was sustained in the shares of Insurance, industrial and banking companies. Specifically, NSE Insurance index advanced the most by 7.94% to 150.44 points, followed by NSE Industrial and NSE Banking indexes that rose by 1.68% and 0.13% respectively to 2,008.70 points and 476.05 points respectively. However, the NSE Consumer Goods and NSE Oil/Gas indexes fell by 4.96% and 2.26% respectively to 927.72 points and 323.22 points as shares of most companies in these sectors were mostly hit by the sell pressure.

Table 24: Sector Performance in H1 2018

	H1 2018	Dec 30, 2017	% CHANGE
NSE BANKING	476.05	475.44	0.13%
NSE INSURANCE	150.44	139.37	7.94%
CONSUMER GOODS	927.72	976.10	-4.96%
NSE OIL/GAS	323.22	330.69	-2.26%
NSE IND	2,008.70	1,975.59	1.68%

Source: NSE, Cowry Research

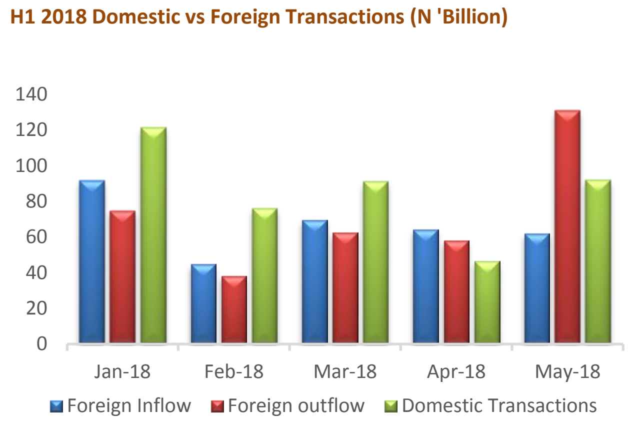
Trade Statistics

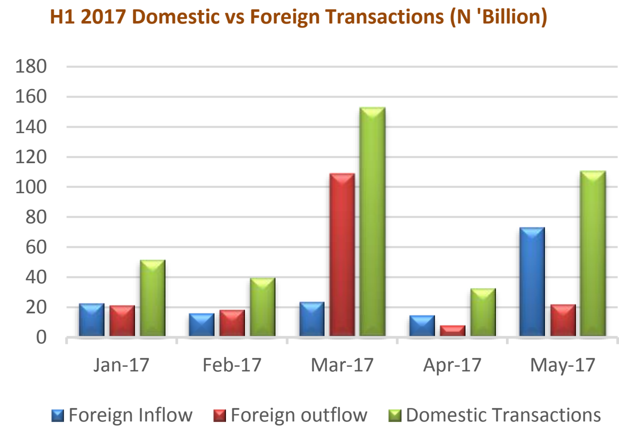
In H1 2018, activities in the equities market got a boost across-the-board as retail investors, domestic institutional investors and foreign portfolio investors showed preference for variable income assets compared to fixed income assets amid moderated yields across maturities and low equity prices. Total deals rose y-o-y by 45.47% to 644,974 deals, total volume of equities traded increased by 54.90% to 66.70 billion while Naira votes rose y-o-y by 113.22% to N794.64 billion.

Table 25: Equities Market Activity in H1 2018

	H1 2018	H1 2017	% Change
Total Deals (Jan-Jun)	644,974	443,364	45.47
Total Volume	66,701,698,523	43,062,400,589	54.90
Total Value	794,638,075,046	372,682,196,885	113.22
No of Trading Days	123	123	0.00
Average Deals	5,244	3,605	45.46
Average Volume	542,290,232	350,100,818	54.90
Average Value	6,460,472,155	3,029,936,560	113.22

Source: NSE, Cowry Research





Source: NSE, Cowry Research

FPI Outflows (Equities) Rise in Jan - May 2018 as Local Institutional Investors Step Up to the Plate…

The local bourse witnessed sharp increase in Foreign Portfolio Outflows towards the end of the review period on account of political uncertainty that beclouded the relative positive results churned out by companies in Q1 2018. However, the large increase in transactions by domestic institutional investors, including early positioning of the Pension Fund Administrators (PFA) ahead of the implementation of the multi-fund structure scheduled for July 2018, mitigated the negative effect of the outflows by the FPIs. The foreign portfolio inflows were dampened by the increased foreign outflows; specifically, foreign portfolio outflows spiked y-o-y by 104.08% to N364.61 billion in May 2018 while foreign portfolio inflows significantly increased y-o-y by 121.73% to N332.69 billion in May 2018. On the other hand, domestic institutional spending in the local bourse also rose y-o-y by 58.02% to N427.45 billion.

Table 26: Foreign Portfolio Transactions in H1 2018

	FPI Inflow (N 'Bn)	FPI Outflow (N 'Bn)	Domestic Transactions (N 'Bn)
Jan - May 2018	332.69	364.61	427.45
Jan - May 2017	150.04	178.66	270.51
y-o-y %Δ	121.73%	104.08%	58.02%

Table 27: Stock Performance in H1 2018

Top 20 Gainers in H1 2018 (in Value terms)				Top 20 Gainers in H1 2018 (in % change terms)			
TICKER	Price as @ 6/29/2018	Price as @ 12/30/2017	Change	TICKER	Price as @ 6/29/2018	Price as @ 12/30/2017	% Change
BETAGLAS	86.3	51.31	34.99	CCNN	24	9.5	152.63
OKOMUOIL	92	67.69	24.31	NEM	3.2	1.66	92.77
SEPLAT	650	626.22	23.78	UNITYBNK	0.97	0.53	83.02
NESTLE	1,575.00	1,555.99	19.01	LEARNAFRCA	1.58	0.88	79.55
CCNN	24	9.5	14.5	CAVERTON	2.18	1.29	68.99
UNILEVER	52.5	41	11.5	BETAGLAS	86.3	51.31	68.19
STANBIC	52	41.5	10.5	ETERNA	6.73	4.06	65.76
MRS	34.25	27.46	6.79	FIDSON	6	3.7	62.16
PRESCO	75	68.5	6.5	CILEASING	2.07	1.29	60.47
NASCON	22.75	18.5	4.25	CUTIX	3	2.01	49.25
GUINNESS	97.75	94	3.75	FCMB	2.18	1.48	47.3
ETI	20	17	3	MANSARD	2.8	1.93	45.08
FLOURMILL	32	29	3	NPFMCRFBK	1.8	1.25	44
ETERNA	6.73	4.06	2.67	WEMABANK	0.73	0.52	40.38
FIDSON	6	3.7	2.3	SKYEBANK	0.69	0.5	38
CONOIL	30	28	2	OKOMUOIL	92	67.69	35.91
FBNH	10.6	8.8	1.8	CUSTODIAN	5.12	3.89	31.62
NEM	3.2	1.66	1.54	STERLNBANK	1.4	1.08	29.63
CUSTODIAN	5.12	3.89	1.23	UNILEVER	52.5	41	28.05
CAP	35	34	1	STANBIC	52	41.5	25.3

Source: NSE, Cowry Research-

Table 28: Stock Performance in H1 2018

Bottom 13 Losers in H1 2018 (in Value terms)				Bottom 13 Losers in H1 2018 (in % change terms)			
TICKER	Price as @ 6/29/2018	Price as @ 12/29/2017	Change	TICKER	Price as @ 6/29/2018	Price as @ 12/29/2017	% Change
NB	114.2	134.9	-15.34	UNIONDICON	0.38	13.45	-97.17
TOTAL	210	229.95	-8.68	EQUITYASUR	0.21	0.5	-58
UNIONDICON	0.38	13.45	-97.17	ROYALEX	0.33	0.5	-34
INTBREW	42.35	54.5	-22.29	UAC-PROP	1.91	2.79	-31.54
MOBIL	183	194.6	-5.96	JAPAULOIL	0.36	0.5	-28
FO	32.85	43.48	-24.45	LASACO	0.36	0.5	-28
WAPCO	40.95	44.89	-8.78	CHAMS	0.37	0.5	-26
UACN	14	16.9	-17.16	MBENEFIT	0.37	0.5	-26
CADBURY	13	15.67	-17.04	FO	32.85	43.48	-24.45
GLAXOSMITH	19	21.61	-12.08	AIRSERVICE	4.5	5.95	-24.37
DANGFLOUR	10	12.15	-17.7	NEIMETH	0.57	0.75	-24
UBN	6.1	7.8	-21.79	FIRSTALUM	0.38	0.5	-24
AIRSERVICE	4.5	5.95	-24.37	GUINEAINS	0.38	0.5	-24

Source: NSE, Cowry Research

H1 2018 Closure of Register - Dividends and Bonuses

Table 29a: Stock Performance

Company	Dividend	Bonus	Closure of Register	AGM Date	Interim/Final
Vitafoam Nigeria Plc	N0.15	Nil	19th – 23rd February 2018	8th March 2018	9th March 2018
Nigeria Energy Sector Fund	N102	Nil	19th – 23rd February 2018	N/A	23rd February 2018
Nigerian Breweries Plc	N3.13	Nil	7th – 13th March 2018	20th April 2018	23rd April 2018
Transcorp Hotels Plc	N0.1245	Nil	7th March 2018	16th March 2018	19th March 2018
Total Nigeria Plc	N14	Nil	19th –23rd March 2018	21st June 2018	22nd June 2018
Africa Prudential Plc	N0.40	Nil	13th – 19th March 2018	27th March 2018	27th March 2018
United Capital Plc	N0.35	Nil	9th – 15th March 2018	23rd March 2018	28th March 2018
Nestle Nigeria Plc	N27.50	Nil	7th – 11th May 2018	22nd May 2018	23rd May 2018
Medview Airline Plc	N0.03	Nil	21st –27th March 2018	28th March 2018	3rd April 2018
NASCON Allied Industries Plc	N1.50	Nil	20th – 23rd April 2018	3rd May 2018	8th May 2018
Zenith Bank Plc	N2.45	Nil	4th – 9th April 2018	13th April 2018	13th April 2018
McNichols Consolidated Plc	N0.03	Nil	20th – 23rd March 2018	19th April 2018	24th April 2018
Guaranty Trust Bank Plc	N2.40	Nil	28th March 2018	10th April 2018	10th April 2018
Stanbic IBTC Holdings Plc	N0.50	Nil	29th March – 5th April 2018	19th June 2018	20th June 2018
Julius Berger Nigeria Plc	N1.00	Nil	4th – 6th June 2018	21st June 2018	22nd June 2018
Dangote Cement Plc	N10.50	Nil	16th – 20th April 2018	20th June 2018	21st June 2018
Access Bank Plc	N0.40	Nil	13th – 18th April 2018	25th April 2018	25th April 2018
GlaxoSmithKline Consumer Nig. Plc	(Special Dividend) N7.10 (Normal Dividend): N0.40	Nil	24th April 2018 – 4th May 2018	24th May 2018	25th May 2018
Custodian & Allied Plc	N0.32	Nil	12th – 17th April 2018	24th April 2018	24th April 2018
Cadbury Nigeria Plc	N0.16	Nil	11th – 15th June 2018	6th July 2018	9th July 2018
UBA Plc	N0.65	Nil	10th April 2018	23rd April 2018	23rd April 2018
MRS Oil Plc	Nil	1 for 5	2nd – 6th July 2018	1st August 2018	Not Applicable

Source: NSE, Cowry Research

Table 29b: Stock Performance

Company	Dividend	Bonus	Closure of Register	AGM Date	Interim/Final
Continental Re-Insurance Plc	N0.14	Nil	16th – 20th April 2018	25th April 2018	26th April 2018
CAP Plc	N2.05	Nil	28th May 2018 – 1st June 2018	13th June 2018	14th June 2018
AXA-Mansard Insurance Plc	N0.06	Nil	24th April 2018	10th May 2018	10th May 2018
Newrest ASL Plc	N0.18	Nil	12th – 15th June 2018	27th June 2018	28th June 2018
11 Plc (Formerly Mobil Oil Plc)	N8.00	Nil	28th May – 1 June 2018	28th June 2018	2nd July 2018
Dangote Flour Mills Plc	N0.20	Nil	23rd – 27th April 2018	22nd June 2018	27th June 2018
UAC of Nigeria Plc	N0.65	Nil	15th – 18th May 2018	20th June 2018	21st June 2018
Pharma-Deko Plc	N0.05	Nil	7th – 11th May 2018	22nd May 2018	23rd May 2018
Law Union & Rock Insurance Plc	N0.04	Nil	27th April 2018 – 2nd May 2018	3rd May 2018	5th May 2018
May & Baker Nigeria Plc	N0.20	Nil	23rd – 27th April 2018	31st May 2018	6th June 2018
FCMB Group Plc	N0.10	Nil	13th – 19th April 2018	27th April 2018	30th April 2018
Lafarge Africa Plc	(Dividend from Pioneer Profit) N1.50	Nil	23rd – 27th April 2018	16th May 2018	16th May 2018
Transnational Corporation of Nig Plc	N0.02	Nil	18th – 24th April 2018	30th April 2018	2nd May 2018
Okomu Oil Plc	N3.00	Nil	15th – 18th May 2018	12th June 2018	25th June 2018
Beta Glass Plc	N1.07	Nil	18th – 22nd June 2018	5th July 2018	6th July 2018
AIICO Insurance Plc	N0.05	Nil	21st – 23rd May 2018	24th May 2018	25th May 2018
Unilever Nig. Plc	N0.50	Nil	16th – 20th April 2018	10th May 2018	11th May 2018
The Frontier Fund	(Proposed Coupon) N7.50	Nil	23rd April 2018	N/A	27th April 2018
Nigerian Aviation Handling Co. Plc	N0.25	Nil	3rd – 5th July 2018	20th July 2018	20th July 2018
Regency Alliance Insurance Plc	N0.03	Nil	30th April – 4th May 2018	24th May 2018	25th May 2018
Dangote Sugar Refinery Plc	N1.25	Nil	16th – 20th April 2018	21st June 2018	22nd June 2018

Source: NSE, Cowry Research

Table 29c: Stock Performance

Company	Dividend	Bonus	Closure of Register	AGM Date	Interim/Final
Presco Plc	N2.00	Nil	9th – 13th July 2018	25th July 2018	26th July 2018
Rak Unity Petroleum Company Plc	N0.10	Nil	23RD – 27TH July 2018	16TH August 2018	16TH August 2018
Berger Paints Plc	N0.50	Nil	7TH - 11TH May 2018	7TH June 2018	8TH June 2018
Eterna Plc	N0.40	Nil	24TH – 28TH May 2018	19TH June 2018	20TH June 2018
Caverton Offshore Support Group Plc	N0.15	Nil	26TH April 2018	8TH May 2018	8TH May 2018
B.O.C. Gases Plc	N0.20	Nil	4TH – 11TH June 2018	28TH June 2018	28TH June 2018
Learn Africa Plc	N0.14	Nil	9TH – 13TH July 2018	2ND August 2018	3RD August 2018
Consolidated Hallmark Insurance Plc	N0.02	Nil	7TH – 11TH May 2018	22ND May 2018	22ND May 2018
Aluminium Extrusion Industries Plc	N0.085	Nil	13TH – 17TH August 2018	21ST September 2018	24TH September 2018
FBN Holdings Plc	N0.25	Nil	7th – 11th May 2018	15th May 2018	16th May 2018
Infinity Trust Mortgage Bank Plc	N0.02	Nil	10th – 17th May 2018	24th May 2018	30th May 2018
Vetiva S & P Nig. Sovereign Bond ETF	N12.50	Nil	26th April 2018 (Record date)	N/A	4th May 2018
NPF Microfinance Bank Plc	N0.17	Nil	4th – 8th June 2018	28th June 2018	28th June 2018
Fidelity Bank Plc	N0.11	Nil	14th – 18th May 2018	25th May 2018	25th May 2018
Vetiva Griffin 30 ETF	N0.25	Nil	26th April 2018 (Qualification date)	N/A	4th May 2018
Seplat Petroleum Dev. Co. Plc	US$0.05	Nil	17th May 2018	Interim Dividend	8th June 2018
Omoluabi Mortgage Bank Plc	N0.01	Nil	21st – 25th May 2018	26th July 2018	1st August 2018
Capital Hotel Plc	N0.05	Nil	11th – 15th June 2018	27th June 2018	4th July 2018
Lasaco Assurance Plc	N0.04	Nil	4TH – 8TH June 2018	21ST June 2018	5TH July 2018
Cement Company of Northern Nig. Plc	N1.25	Nil	18th – 22nd June 2018	28th June 2018	29th June 2018
Smart Product Nigeria Plc	N0.10	Nil	30TH July – 3RD August 2018	30TH August 2018	21ST September 2018
Nem Insurance Plc	N0.10	Nil	4TH – 8TH June 2018	20TH June 2018	20TH June 2018
Conoil Plc	N2.00	Nil	15TH – 22ND June 2018	13TH July 2018	23RD July 2018

Source: NSE, Cowry Research

Other Actions on the Bourse…

Table 30: Listings/Delistings/Supplementary Listings

Company	New Listings/Delisting	Supplementary Listings	Name Change	Date
Union Bank of Nigeria Plc		A total volume of 12,133,646,995 ordinary shares were added to the outstanding shares. These arose as a result of the right issue for 5 new ordinary shares for every 7 ordinary shares held as at 21 August 2017.		12-Jan-18
Nigerian Breweries Plc		A total volume of 67,801,163 ordinary shares were added to the outstanding shares. These additional shares were as a result of Scrip Dividend Scheme.		24-Jan-18
Seplat Plc		A total volume of 25,000,000 ordinary Shares at 50 Kobo each. These was as a result of the company's Long term Incentive Plan.		01-Feb-18
UAC of Nigeria Plc		960,432,193 units of UAC of Nigeria Plc resulting from the Right issue were added to its outstanding shares.		02-Mar-18
Seven-Up Bottling Company Plc	Voluntary Delisting			12-Mar-18
Lafarge Africa Plc		An additional volume of 3,097,653,023 units of Lafarge Africa Plc resulting from the Right issue were added to its outstanding shares.		22-Mar-18
Morison Industries Plc		Rights Issue of 836,983,125 ordinary shares of 50 kobo each at N0.60 per share on the basis of eleven (11) new ordinary shares for every two (2) ordinary shares held.		26-Mar-18
Flour Mills Nigeria Plc		An additional volume of 1,476,142,418 units of Flour Mills of Nigeria Plc were added to the outstanding shares. This arose as a result of the Rights Issue of ordinary shares of 50 kobo each at N27 per share.		26-Apr-18

Source: NSE, Cowry Research

Political Review

Nigeria's political scene in the first half of the year was characterized by worsened security crisis occasioned by the incessant destruction of lives and property by armed herdsmen in the middle belt, faceoffs between the executive and the legislative arms of the government, All Progressive Congress (APC) internal political wrangling, late signing of the budget and the declaration of intentions by new political gladiators to contest the February 16, 2019 Presidential election with the incumbent, President Muhammadu Buhari.

A) Worsened Security Crisis

Nigeria's Security Crisis Worsens on Herdsmen Attacks…

The period under review began with killings of 73 persons in two days of coordinated attacks on six communities in Benue state by suspected armed herders which was reportedly blamed on the anti-open grazing law enforced in the state that did not sit well with the Miyetti Allah Kautal Hore and thus threatened resistance to the law. Although the Sultan of Sokoto, Alhaji Muhammad Sa'ad Abubakar, the grand patron of the Northern-based organization, denied involvement of the Fulani herdsmen, the Miyetti Allah Cattle Breeders Association claimed that the killings were being fuelled by the 'draconian laws' put in place by some state governments to drive out the Fulani herdsmen due to ethnic hatred while also alluding that the attacks were a justified response to the alleged earlier killings of over 800 Fulanis in Taraba state.

Governor Ortom Tells Benue People: "Defend Yourselves!"…

The insecurity crisis in Benue State worsened as fresh attacks by the herdsmen were again reported in Waku Village, part of Gbajimba town and Yogbo community – all in Guma local government area of Benue State – that left the Governor's farm house sacked, six people killed and several properties destroyed in spite of the Federal

Government's move to increase the military presence in the State and other States affected by the attacks to tackle the security challenge. Frustrated by ineffectiveness of the law enforcement agencies, Benue State Governor, Samuel Ortom, charged the people of the state to adopt all legal means to defend themselves against further attacks from the armed herders and not remain sitting ducks.

United Nations, United States, Others Irked by Killings…

Head of the Regional Cooperation, European Union (EU) Delegation to Nigeria and the Economic Community of West Africa States (ECOWAS), Stefania Marrone, blamed the incessant farmers-herders clashes on climate change and stated that the prevalent insecurity in Nigeria and the Sahel has had negative impact on regional democracy while the Commanding General of the US Army, Africa, Brigadier General Eugene LeBoeuf, expressed US concerns over the increasing attacks in the country, stating that most of the attacks were fuelled by the invasion of foreign extremists in the region. U.S President, Donald Trump also encouraged President Muhammadu Buhari to make every effort to protect innocent civilians and protect human rights as recent report by the Amnesty International (AI) revealed that 1,813 lives were lost to attacks between January and June 2018 alone.

Measures to Curb the Incessant Killings

Buhari Approves USD1billion to Fight Insecurity Across the Country…

In an attempt to combat terrorism and extremism in the country and the West African sub-region, President Muhammadu Buhari, following a meeting with the Minister of Defence, Colonel Mansur Dan-Ali and the security chiefs in Abuja, approved the release of the controversial USD1 billion fund from the Excess Crude Account (ECA) for the purchase of military equipment from the United States as well as recruit and train military personnel. Also, the Commanding General of the US Army, Africa, Brigadier General Eugene LeBoeuf, gave assurance on the commitment of his country to assist Nigeria with strengthening its defence policy and border security.

Executive, Legislature Mull Creation of State Police…

In order to reshape and further strengthen the nation's security architecture, the Vice President, Professor Yemi Osinbajo, earlier in the year, lent his voice to the clamour for State policing, submitting that Nigeria could not be realistically policed from the centre due to its huge size. Corroborating the Vice President, the Governors of the 36 States under the aegis of Nigerian Governors' Forum (NGF) held the position that a decentralized police force would reduce the pressure on the Federal police system by concentrating the deployment of more Federal policemen to neighbouring States that could not afford State police. Federal lawmakers also described the current security system as a 'failed architecture' and cited the escalating killings by herdsmen across the country and the inability of the security agencies to end the incessant violence as reasons to endorse the creation of State Police. Consequently, they began the process of amending the 1999 Constitution to accommodate the creation of State Police.

B) Executive and Legislative Faceoffs

Presidency, Senate Head for Showdown over Delay in MPC Nominees' Confirmation...

The Presidency and the Legislature were often at loggerheads on several political fronts. The first was the Senate's refusal to confirm the President's nominees for the vacant positions on the Central Bank of Nigeria's (CBN) Monetary Policy Committee (MPC) due to the unsettled rift between the duo over the nomination of the acting chairman of the Economic and Financial Crimes Commission (EFCC), Mr. Ibrahim Magu. The standoff left eight positions in the 12-member committee vacant and subsequent cancellation of the first MPC meeting.

Court Restrains NASS from Taking Further Action on Vetoed Ammended Electoral Act…

The conflict between the two arms of government was further highlighted when the National Assembly, with the aim to pare the bandwagon effect of the outcome of the Presidential election on other elections, amended Section 25 of the Principal Act and substituted it with a New Section 25(1) that changed the sequence of elections so that the National assembly elections were conducted first, followed by State Houses of Assembly and Governorship elections, and finally, the Presidential election. Given the plethora of career politicians in the country who only seek to latch on to power, without altruistic motives, and thus benefit from the current sequence of elections, the amendment was meant to encourage politicians seeking for public office to do so based on their own merits and credibility and not to ride on the persona of the President who is being touted as a “man of integrity”. However, the President declined his assent to the Bill on the premise that it would impede the constitutionally-backed powers of the Independent National Electoral Commission (INEC) to organize and supervise elections in the country.

Lawmakers, Executive Disagree over Unapproved USD496 Million ECA Withdrawal…

In April, the House of Representatives also accused President Muhammadu Buhari of committing an impeachable offence by withdrawing the sum of USD496 million from the Excess Crude Account (ECA) for the purchase of twelve Embraer-manufactured fighter aircrafts from the United States Government to fight insecurity across the country without their express approval. The accusation was despite remedial attempts by the President, through a letter written to members of the Lower Chamber, to seek their approval to insert the said sum in the 2018 Appropriation bill which was under review. President Muhammadu Buhari took the decision on the presumption that the National Assembly would have no objection to the purchase of the highly specialized aircraft since it was a matter of national security. By his actions, the President, who had earlier in the month, approved the release of USD1 billion fund from the ECA after meeting with the Minister of Defence, Colonel Mansur Dan-Ali, and the security chiefs in Abuja, seemed to have neglected the warning by other stakeholders who argued that the fund in the ECA belonged to all the three tiers of government and would require the consent of the 36 state Houses of Assembly.

C) APC Internal Political Wrangling

Fresh Crisis Emerges in APC as Erstwhile NewPDP Bloc Threatens Pull Out…

Just some few months after President Buhari nullified the tenure elongation of the National Chairman, Chief John Odigie-Oyegun and other members of its National Working Committee (NWC), fresh crisis brewed within APC again as one of the power blocs in the ruling party – APC members that constituted the erstwhile new People's Democratic Party (nPDP) – threatened to pull out of the party, stating in a letter addressed to President Muhammadu Buhari and other party leaders that they were being marginalized and that the positions they got in the National Assembly have led to incessant persecutions against them. The aggrieved group gave the President and the leaders of the ruling party a seven-day ultimatum to convene an emergency meeting to address their issues.

nPDP, Other Aggrieved APC Members Fracture the Ruling Party, Form rAPC…

As a final show of protest against alleged continued marginalisation and persecution – such as the trials of Senate President, Bukola Saraki as well as squabbles between Governors and lawmakers from their states, etc –, majority of the members of the nPDP and other aggrieved members of the APC who defected from other political parties (such as Congress for Progressive Change, All Nigeria Peoples Party and Action Congress of Nigeria) joined forces to form a new coalition known as reformed All

Progressives Congress (rAPC), thus, breaking out from the ruling political party. The chairman of the newly formed rAPC, Engr. Buba Galadima, reiterated that the breakout was based on alleged injustice, harassment, elevated nepotism and failed promises suffered in APC, as well as failure by the current administration to deliver on good governance and safety of its citizens as promised.

D) Other Political Matters in H1 2018

Delay in Passage & Signing of the Budget…

The disharmony between the Legislative and Executive branches also manifested in the slow pace of the national budgeting process. The National Assembly, after increasing the 2018 budget to N9.12 trillion from N8.61 trillion, finally passed the long-awaited Appropriation Bill on Wednesday, May 16, 2018, which was presented by the President since November 2017. According to the lawmakers, the six months delay in the passage of the budget was due to the refusal of some of the executive officers of the Federal Government's Ministries, Departments and Agencies (MDAs) to interface with them as at when due.

According to the lawmakers, the budget increase was hinged on higher crude oil prices as the lawmakers increased the crude oil benchmark to USD51.00 per barrel from USD45.00 per barrel while Nigeria's sweet crude (bonny light) monthly average price rose by 22.59% to USD77.08 per barrel in May 2018 from USD62.88 per barrel in November 2017 when the budget was presented by the President. In spite of the increased budget, the National Assembly did not accommodate some of the anticipated enormous expenses such as the potential increase in fuel subsidy payments, the expected increase in minimum wage and the USD496 million spent on the controversial US made super Tucano aircrafts in the passed Appropriation Bill. Instead, the legislators asked the executive to provide for the fuel subsidy payments in a supplementary 2018 budget.

President Buhari finally put an end to the waiting game on its license to spend as he signed the 2018 budget of consolidation into law in June 2018 but lamented that it would be difficult to implement the capital expenditure part of the budget due to some nationally strategic infrastructure projects that were replaced by the National Assembly with fresh projects. According to the President, 6,403 projects worth N578 billion were newly introduced by the lawmakers and 4,700 projects worth N347 billion were cut which were meant to consolidate on the delivery of 2017-2020 Economic Recovery and Growth Plan (ERGP). He however hinted that while he would propose a supplementary budget to the lawmakers in order to execute the trimmed strategic infrastructure projects, he would also work with them on the budgeting process to restore the country's budget cycle back to the January-December fiscal year.

President Buhari Declares Intention to Re-contest in 2019…

Early in the second quarter of 2018, the President broke his silence on his re-election bid at the party's National Executive Council (NEC) meeting held at the party's secretariat in Abuja, where he formally declared his intention to re-contest in 2019. His claim that the declaration was hinged on the clamour by supporters to re-contest negated his 2011 promise of a one term presidency. This inevitably set him in a collision course with other major political stakeholders, elder statesmen and critics, such as former President Olusegun Obasanjo and Retired General Ibrahim Babangida who have expressed their disapproval of his idea to re-contest and who have also publicly canvassed for a younger generation to assume the mantle of leadership in the country. The President's announcement to seek re-election in 2019 set him up for a faceoff with other political gladiators, such as former Vice President Atiku Abubakar, who have also declared their intentions to run. Other much youthful aspirants include former CBN Deputy Governor, Dr. Kingsley Moghalu, popular motivational leader, Mr. Femi Fela Durotoye, and more recently, the publisher of Sahara Reporters, Mr Omoyele Sowore. Following the President's declaration, some of his political moves have been seen to be directed towards bolstering his political support from the South

West of the country and amongst the youth ahead of the 2019 elections; one of such moves was the replacement of May 29 with June 12 as democracy day to honour the late Chief Moshood Abiola Kashimawo (MKO), the Presidential Candidate on the platform of the Social Democratic Party (SDP), with the highest national honour, the Grand Commander of the Federal Republic (GCFR) and the signing of the age reduction Bill into law which was described as a landmark law.

Outlook for H2 2018

Global Economic Outlook

According to the International Monetary Fund (IMF), world output growth is projected at 3.9% for 2018, 0.2ppt higher than an estimated 3.7% growth recorded in 2017. Positive developments in the global commodities space should boost the prospects for commodities exporters although this might have a limiting effect for importing countries which would be contending with high input cost. Hence, there is a need for a balance in the crude oil market so that high oil prices do not discourage consumption amongst importers on the one hand while inducing increased shale on production on the other hand.

We also opine that the possibility of a global trade war remains a major threat to global economic growth outlook. We anticipate that risk from the ongoing trade dispute involving the U.S. and other major players such as China and the Eurozone, if allowed to degenerate, would dent the output growth projections especially for advanced and emerging economies. This is because a trade conflict is expected to emasculate the incentives for businesses to invest while households are expected to trim their expenditures which negative implications for government revenues.

Another challenge to global growth will be worsening development in China's credit market given high levels of non-performing loans and indebtedness which would tend to discourage loan creation, thus negatively impacting on its economic growth.

Nigerian Macroeconomic Outlook

We anticipate sustained growth in Nigeria's economy in line with IMF's 2.1% growth forecast for 2018. Our growth expectation is largely predicated on sustained high global crude oil prices at around USD70 a barrel in 2018 coupled with attainment of projected crude oil production of 1,800 mbpd amid calm in the restive oil-rich Niger Delta region. Hence, exchange rate stability is expected to be sustained in H2 2018 with beneficial implications for businesses. As a result, cost-push inflation is expected to remain subdued. In the manufacturing sector, backward integration strategy has taken hold and is yielding improved margins for businesses while further developing the business value chain.

Business confidence in the macroeconomy remained positive in June 2018 at 34.7 index points, according to CBN's expectations survey. The confidence level was an improvement over 28.9 index points recorded in May 2018 while businesses outlook for July 2018 revealed greater confidence in the macroeconomy at 64.9 index points. Businesses in the Industrial Sector, Construction Sector, Wholesale & Retail Sector and the Services Sector which, in June, registered confidence levels of 27.2 points, 50.0 points, 36.1 points and 37.8 points, expressed greater optimism for July given confidence levels of 56.9 points, 70.0 points, 61.1 points and 69.8 points respectively. Improvement in business confidence may imply expected increase in investments; howbeit, limited to consumer confidence levels which could be a drag.

Notwithstanding the positives, output expansion should be limited to the extent that insecurity persists in agrarian regions as well as the speed at which the fiscal authorities execute the 2018 fiscal spending plan given the delay in the signing of the 2018 appropriation bill. Attacks by Fulani herdsmen in the North has displaced large farming populations, a situation which makes farming impossible in those areas and which makes the sustenance of Q1 2018 3% growth in agricultural output untenable.

Foreign Exchange Outlook

Foreign exchange outlook is expected to be positive as the monetary authority remains poised to defend the value of the Naira vis a vis the US dollar and to ensure price stability. The NGN/USD exchange rate trended lower at the alternative market segments in H1 2018 largely due to increased intervention sales as well as smooth functioning of the I&E Forex window. Backed by growing foreign exchange reserves on accounting of strong global crude oil prices, Central Bank is expected to continue its intervention in the market in the face of likely increase in demand for the greenback for election purposes as well as to cushion the negative impact of anticipated foreign portfolio outflows as a result of political uncertainty.

Inflation Outlook

Our inflation outlook leans more towards upside risk given the threat of insecurity in food producing parts of the country and its tendency for causing upward movement in food prices. In addition, upcoming electioneering spending as well as budgetary expenditure are expected to add pressure to general prices levels. On the positive side, however, the inflationary pressures are expected to be mitigated by sustained stability in foreign exchange rate and aggressive liquidity mop up of excess financial system liquidity by the monetary authority.

Interest Rate Outlook

Short term interest rates are expected to be relatively stable as the benchmark interest rate, the MPR, is expected to be retained at 14% and as anticipated increase in money supply is expected to exert downward pressure on the price of money. We expect NIBOR to average between 14.50% - 15.50% for overnight funds and 3 months.

Meanwhile, as the fiscal authorities rebalance the country's debt portfolio in favour of long maturing instruments, we expect pressure on the short-term interest rates to abate, resulting in lower and more affordable interest rates for the private sector. On the other hand, we expect increased sale of long-dated fixed income instruments targeted at investors seeking relatively higher yields.

Bond Market Outlook

We expect the Debt Management Office (DMO) to stimulate investors' interest in the bonds market by increasing the coupon rates to 14.50% (13.50% as at June 28, 2018) and 15.00% (13.55% as at June 28, 2018) levels respectively for 7-year and 10-year bonds maturities respectively before the end of H2 2018. This is partly predicated on repatriation of the FPIs funds to a safer investment in other countries, especially United States as increases in rate from 1.75% - 2.00% range was signaled by its Federal Reserves. Thus, we feel the lower rates in the bonds market have fizzled out. Essentially, Federal Government had signaled to fund capital expenditure in the 2018 budget with long term borrowings and also to re-finance its short-term borrowings with foreign debts, thus, more issuances are expected in the bond space, especially foreign bond issuances as indicated in its debt management strategy to restructure its debt by increasing the foreign debt stock to 40% of the total debt stock which as at Q1 2018 stood at 29.71%. Estimated domestic borrowings in the 2018 budget stood at N793 billion (against N1.25 trillion in 2017 budget) while external borrowings stood at N849 billion (from N1.07 trillion in 2017 budget). Although the proposed debt in 2018 were lower than what were proposed in 2017, we note that Federal Government had hinted on a proposed supplementary budget to cater for its out-of-budget spending which could further necessitate increase in borrowings. However, we feel the executive might need to adjust its strategy on aggressive foreign borrowings in preference to local long-term borrowings as the former becomes increasingly expensive amid expected increases in foreign interest rates which could defeat its objective of lowering cost of borrowing.

Equities Market Outlook

With just 7months to the 2019 presidential election slated for February 16, 2019, and the anticipated further hike of the U.S Fed rate above 1.75% - 2% range, we anticipate a lukewarm outlook in H2 2018 for the Nigerian equities market. This is in spite of the stronger macroeconomic fundamentals recorded in the first half of the year which is expected to be sustained in the second half of 2018. We expect the political risk to continue to create an inverse relationship between high crude oil prices and the equities market for the rest of the year as expected sell pressure from the foreign portfolio investors (FPIs) would remain a major factor behind the moderation of the local bourse in H2 2018. However, we note that the undervalued share prices in the market would present buy opportunities for investors in the second half of 2018, given the anticipated better operating performances of most companies amid relatively lower interest rate, moderated inflation rate and relatively improved general economic activities – first quarter GDP growth was 1.95%. We also expect further participation of the Pension administrators in the equities market as they implement the Pension Multi-Fund Structure. This would further increase domestic institutional investors' participation in the market as already shown in their transactions which rose to N125.32 billion in May 2018 (from N89.70 billion in April 2018).

Political Outlook

As the 2019 general elections draw closer, the political space is expected to be dominated by activities revolving around: re-alignment of political interest in response to the outcome of the parties' primaries; methods of FG's anti-corruption crusade; likely pockets of attacks by militants in bid to attract political favor or significance; FG's containment or reduction of herdsmen's attacks in the middle belt and; front-loading of capital expenditure by the executive in order to finish up on some projects in H2 2018 for campaign purposes ahead of the elections. During his campaign ahead of 2015 elections, the President had centred his presidential aspiration on three main planks – security, anti-corruption and the economy. On all of these three, his achievements appear mixed especially when seen from the viewpoints of his supporters and his critics. We opine that a major Achilles heel for the President remains insecurity across the country as he suffered erosion of political capital in the Middle Belt due to incessant attacks by Fulani herdsmen, as well as the unresolved corruption allegations against members of his own cabinet which are major blemishes on his performance. We believe that in as much as certain macroeconomic indicators suggest that the administration has fairly performed on the economy amid increased crude oil prices, the country's recent rating as the poverty capital of the world with the largest number of extremely poor in early 2018 according to Brookings Institution, is quite beclouding. Also, the ongoing anti-corruption war would be another major issue the President would have to contend with in his bid for the second term in office even as the latest rating by the global anti-corruption body, Transparency International, revealed that the country slipped to 148th position in 2017 from 136th position it was in 2016. The weaknesses of the incumbent administration would certainly be exploited by other political gladiators if credible candidates are presented by the parties, especially the PDP, as they remain the only political party muscled enough to contend with the ruling political party at the presidential level. However, the possibility of strategic political alliance by other new political parties with the same ideology is likely to arise in the second half of the year, which might give the two major political parties a keen contest in the 2019 Presidential election.

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