

20 July 2018

Weekly economic and market update.

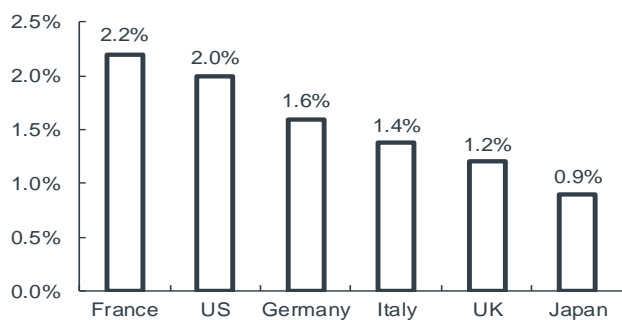
Overview of markets in the week ended 20 July 2018

Global economy

The Consumer Price Index in the UK, for the month of June, rose by 2.40% from a similar period in the previous year – unchanged from the previous month and below polled market expectation of 2.6%. This was the lowest pace of price growth since March 2017. On a monthly basis, consumer price growth was flat, compared to a 0.4% growth in the previous month, and short of market's expectation of a 0.2% m/m rise in prices. Meanwhile, the core inflation, which excludes prices of energy, food, alcohol and tobacco, grew by 1.9% y/y, compared to 2.1% in the previous month. **The soft pace in price growth dampened market's expectations of a possible rate hike at the Bank of England meeting in August.**

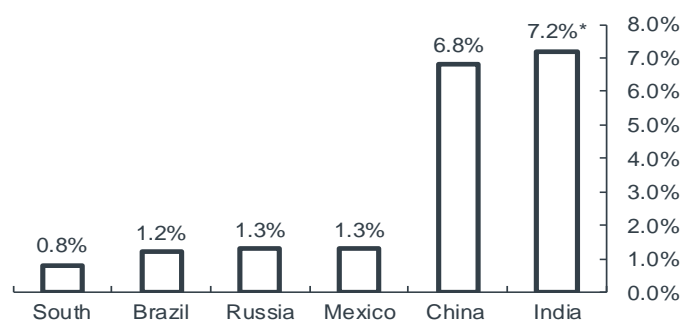
During the week, China released its Q2-2018 GDP data, which showed the economy expanded by 6.7% y/y – a tad slower than the 6.8% recorded in the previous quarter and coming in line with polled market expectation. This was the weakest pace of expansion since Q3-2017, as the intensified trade rifts with the US, and efforts to deleverage its economy weighed on its economic growth. For the first half of the year, the Chinese economy expanded 6.8%, compared to the same period last year. **While the economic growth remains above the Chinese government's target of 6.5%, the continued efforts to deleverage its debts (raising cost of credit) and lingering trade conflict with the US, remain likely headwinds to the economy's growth.**

Fig 1: Annualized GDP growth rate Q1-2018 – DMs



Source: IMF, Cordros Research

Fig 2: Annualized GDP growth rate Q1-2018 – EMs



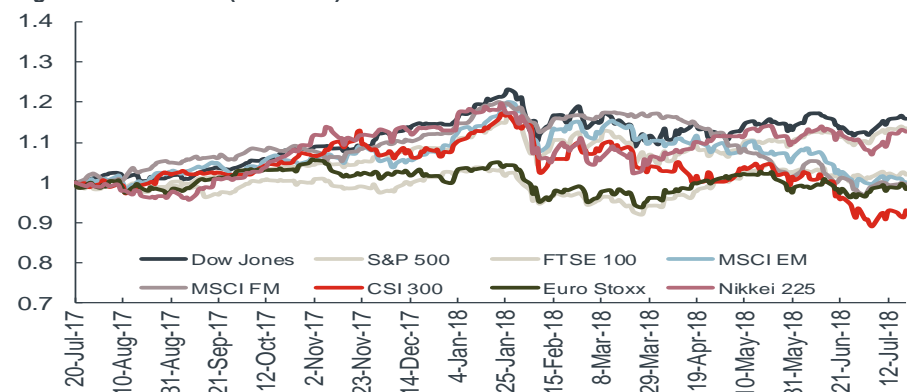
*Q4-2017

Source: IMF, Cordros Research

Global markets

Proceedings were mixed across global markets, with returns in the US (S&P 500: +0.11%; DJIA: +0.04%) and Asia (CSI 300: +0.01%, Nikkei 225: +0.44%) markets closing positive, while sentiments turned negative in the Euro area (FTSE 100: -0.31%, Euro Stoxx 50: -0.48%), as at the time of writing. Major contributing factors include the lower oil prices, economic data, corporate earnings, monetary policy comments by US Fed's Powell, and resurfaced trade war fears, which intensified today, following Trump's comments to impose tariffs on all Chinese goods imported to the US, which amounts to over USD500 billion. Losses resurfaced in emerging markets (MSCI EM: -1.39%), following gains in China (+3.12%), which offset the loss in India (-0.12%). Meanwhile, gains persisted in the frontier markets (MSCI FM: +0.31%), as gains in Kenya (+0.64%) and other regions, offset losses in Nigeria (-2.11%) and Morocco (-0.84%).

Fig 3: Global indices (index of 1)



Source: Bloomberg, Cordros Research

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Nigeria
Economy

The IMF, in the July update of its World Economic Outlook, upgraded its growth forecast for Nigeria's GDP in 2019 to 2.3%, while it retained its 2.1% forecast for 2018, citing an improved outlook for oil prices. **While it is safe to expect improved growth from the oil sector, supported by stable domestic production and improved oil prices, we note the weak growth in the non-oil sector, which is likely to continue to be plagued by weak consumer demand, infrastructural deficit, and insecurity in the Middle-belt and North East regions.**

During the week, Shell Petroleum Development Company Nigeria Limited (SPDC) reported that it had lifted the force majeure on Bonny Light exports, one of the country's major sources of oil revenue, following the repair and re-opening of the Nembe Creek Trunk line. **We expect to see an uptick in oil production and exports in the near term, a bonus for Nigeria's export earnings and government revenues.**

Table 1: Macro indicators

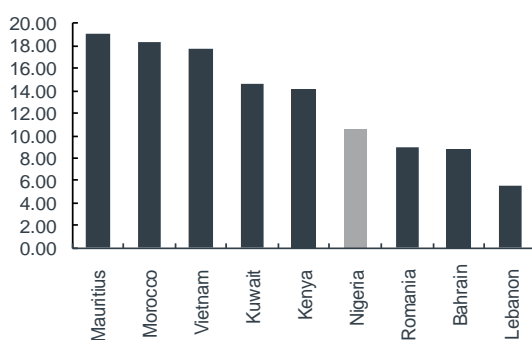
Macro indicators (Nig)	Current	Year start	Forecast
Real GDP growth	1.95%	2.11%	+2.70% (Q2-18)
MPR	14.00%	14.00%	14.00% (Next meeting)
CPI	11.61%	15.37%	10.90% (Jun-18)
Exchange rate (USD)	NGN305.85	NGN305.50	NGN305.85 (27th July)
Foreign reserve (USD'bn)	47.45	38.91	47.27 (27th July)
Unemployment	18.80%	18.80%	20.3% (Q4-17)
Brent crude oil price (USD)	72.91	66.57	74.00 (27th July)

Source: CBN, Bloomberg, NBS, Cordros Research

Capital markets
Equities

The equities market extended its bearish run for the third consecutive week, as the ASI shed 2.11% w/w, to close at 36,603.44 points, amid persisting negative sentiments. Four of the five sessions for the week closed in the red, as the Month-to-Date and Year-to-Date losses rose to 4.38% and 4.29%, respectively. Activities picked up during the week, as total volume of trades jumped 37.50% to 1.66 billion units, valued at NGN14.83 billion (-14.40%). Most sector indices closed lower – Consumer Goods (-3.72%), Banking (-3.59%), Industrial Goods (-3.26%), and Oil & Gas (-2.22%) – save for the Insurance (+0.08%) index. Market breadth was negative, with 54 losers against 16 gainers, respectively, led by UNIONDAC (-34.29%) and LINKASSURE (+9.72%).

In our view, selloffs are likely to persist in the short to medium term, in the absence of a positive one-off catalyst. However, likelihood of gains in the long term remain supported by still-positive macroeconomic fundamentals.

Fig 4: Trailing 12M P/E ratios (frontier market)


Source: Bloomberg, Cordros Research

Table 2: Top gainers and losers

Gainers				Losers			
Ticker	CP* (NGN)	WTD	YTD	Ticker	CP* (NGN)	WTD	YTD
LINKASSURE	0.79	9.72%	19.70%	UNIONDAC	0.23	-34.29%	-54.00%
SOVRENINS	0.25	8.70%	-50.00%	TANTALIZER	0.21	-22.22%	-58.00%
CCNN	24.90	8.26%	162.11%	NEIMETH	0.43	-17.31%	-42.67%
NAHCO	4.00	7.82%	0.50%	EQUITYASUR	0.20	-16.67%	-60.00%
LAWUNION	1.00	6.38%	29.87%	WAPCO	32.50	-13.33%	-27.60%

*CP: Closing price

Source: NSE, Cordros Research

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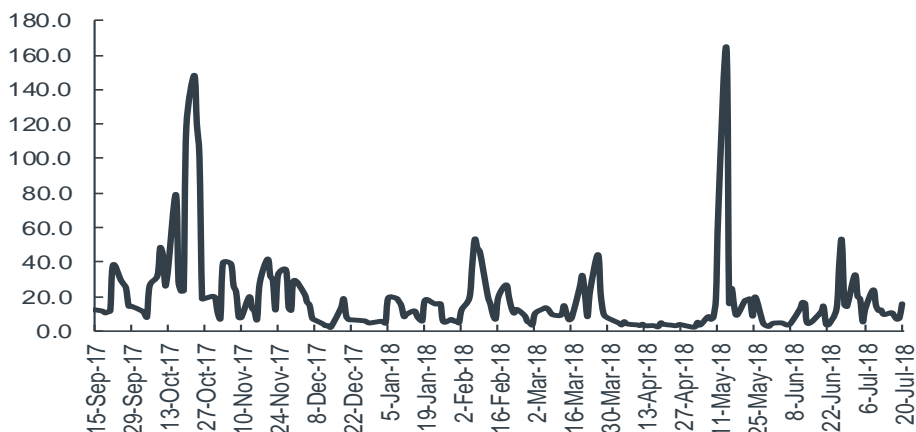
Fixed income and money market

Money market

In line with our expectation, the overnight lending rate expanded, by 625 bps, w/w, to close at 15.67%. System liquidity was relatively healthy for the major part of the week, on the back of inflows from matured OMO bills (NGN523.74 billion), (2) primary market repayments (NGN71.37 billion), and (3) bond coupon payments. However, outflows for OMO (NGN496.26 billion) and FX sales (USD210 million) reduced liquidity, leading to a rate expansion.

Next week, inflows from (1) maturing OMO bills (NGN404.32 billion), (2) monthly FAAC disbursement to state and local governments (NGN321.50 billion), and (3) bond coupon payments are likely to outweigh outflows; thus, higher liquidity. In effect, a contraction in the overnight lending rate is likely.

Fig 5: Overnight money market rate (%)



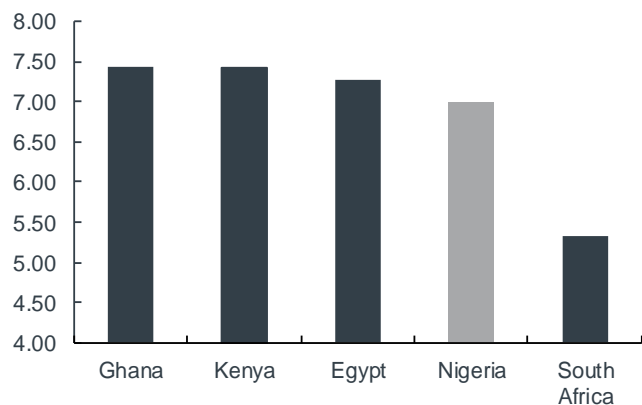
Source: FMDQ, Cordros Research

Treasury bills

Activities in the treasury bills market were bullish, with sentiments supported by relatively healthy system liquidity. Consequently, average yield fell 32 bps to 11.87%. Investor sentiment was positive across the short (-54 bps), mid (-33 bps), and long (-18 bps) ends of the curve, amid increased demand for the 76DTM (-102 bps), 132DTM (-132 bps), and 195DTM (-46 bps) bills, respectively. Meanwhile, at this week's primary market auction, NGN107.05 billion worth of bills were sold, against an offering of NGN178.41 billion. NGN5.85 billion, NGN26.60 billion, and NGN74.60 billion of the 91-day, 182-day, and 364-day bills were allotted at respective stop rates of 10% (previously 10%), 10.5% (previously 10.5%), and 11.49% (previously 11.5096%).

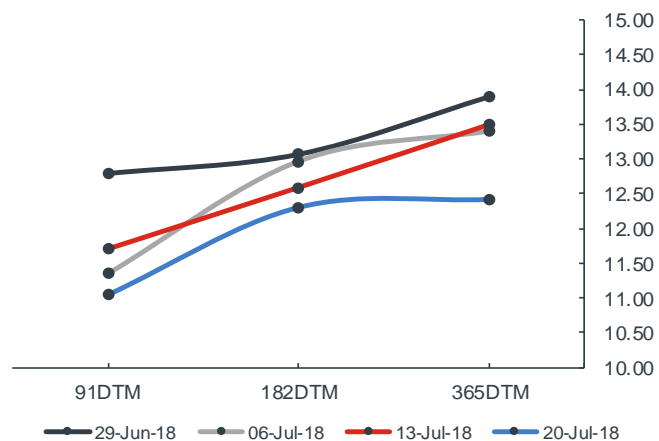
In the coming week, we expect the bullish trend to persist, on the back of anticipated healthy liquidity.

Fig 6: Yield on 10-year eurobonds (Nigeria vs. African peers) (%)



Source: Bloomberg, Cordros Research

Fig 7: T-Bills yield curve (%)



Source: FMDQ, Cordros Research

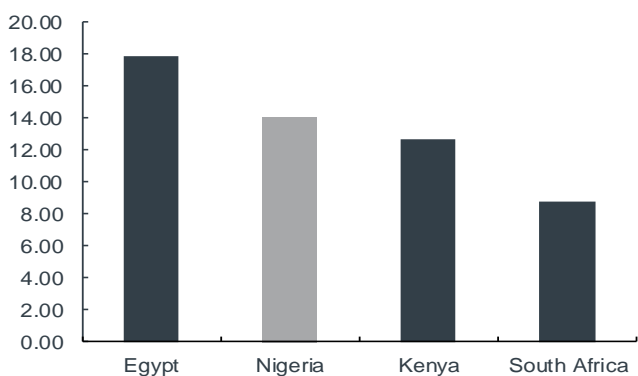
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Bond

Trading in the bond market were mixed, albeit with a bullish tilt, as positive sentiments, amid healthy liquidity, were tapered by the release of the Q3-18 bond issuance calendar and bond offer circular for July. In line with expectations of increased government borrowing to fund the 2018 budget, the calendar indicates an increased offer amount of NGN270 billion (vs. NGN220 billion in Q2-2018 but still less than the NGN405 billion in Q3-2017) – strengthening the case for higher yields in the medium term. As a result, average yield fell by 3 bps, w/w, to 13.85%. Demand for the JUN-2019 (-83 bps) bond led to yield contraction at the short (-16 bps) end of the curve. Conversely, yields expanded at the mid (+5 bps), and long (+2 bps) segments, with the JAN-2026 (+14 bps), and MAR-2036 (+9 bps) bonds recording the most significant expansions, respectively.

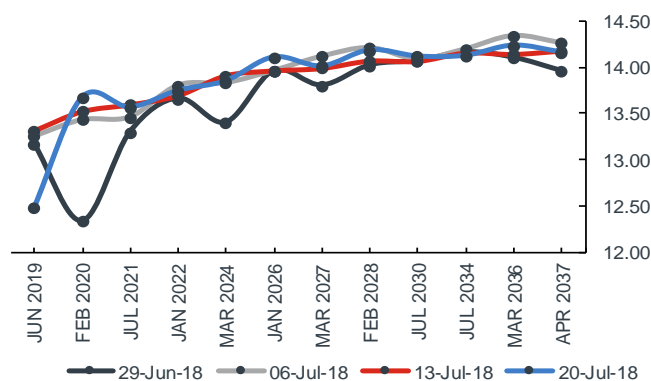
We expect yields to take a cue from auction stop rates in the coming week. However, we reiterate our expectation for modestly higher yields in the medium term, anchored on (1) weakening signs of monetary easing, (2) capital flight amid higher yields in safe haven assets, (3) political uncertainty stemming from the upcoming elections, and (4) increased government borrowing to fund the 2018 budget. At the FGN bond auction scheduled for Wednesday, 25th July 2018, the DMO plans to offer NGN90 billion – NGN25 billion of the APR-2023 (re-opening), NGN25 billion of the MAR-2025 (re-opening), and NGN40 billion of the FEB 2028 (re-opening) – in bonds to investors.

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



Source: Bloomberg, Cordros Research

Fig 9: FGN bond yield curve



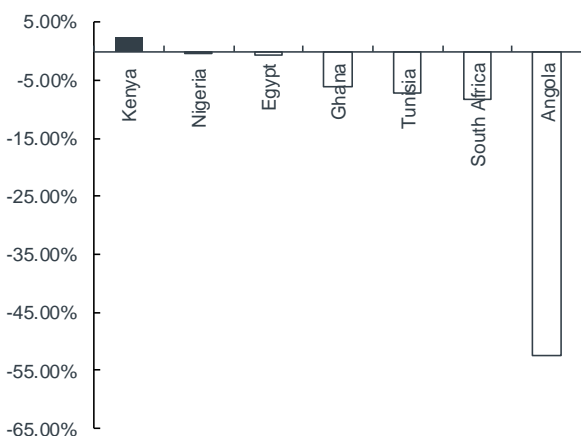
Source: FMDQ, Cordros Research

Foreign exchange

The forex market remained stable during the week, as the naira strengthened against the dollar by 0.28% to NGN360 in the parallel market, while it weakened marginally by 0.12% to NGN361.60 in the I&E FX window. However, the foreign reserves continued to decline (for the second consecutive week), dropping by 0.37% to USD47.45 billion, amidst sustained intervention in the FX market by the apex bank, wherein USD210 million was sold. Total turnover in the IEW dropped by 19.61% to USD626.24 million, with 99.79% of trades consummated within the NGN360-NGN369/USD band. In the FX forwards market, the NGN/USD depreciated across all major dated contracts – 1-month (-0.10%), 3-month (-0.06%), and 6-month (-0.05%) – save for the 1-year (-0.17%) contract, closing at NGN364.72, NGN371.15, NGN382.47, and NGN402.86, respectively.

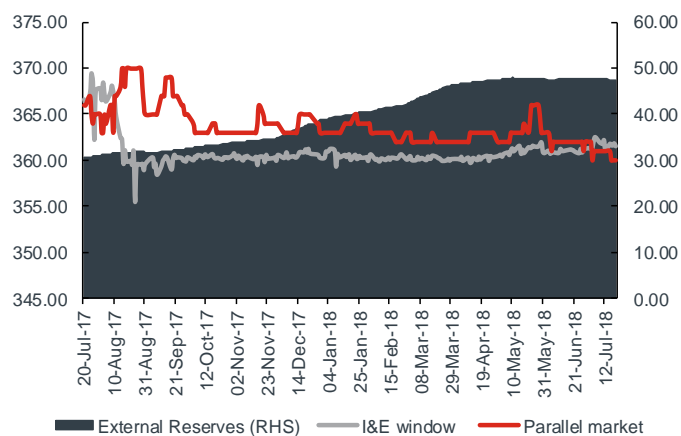
Our theme for the forex market is continued stability, as still-high oil earnings continue to shore up the reserves and support the CBN's interventions in the market.

Fig 10: USD/NGN vs other African currencies (YtD returns)



Source: Bloomberg, FMDQ, CBN, Cordros Research

Fig 11: USD/NGN exchange rate vs. external reserves (USD'bn)



Source: Bloomberg, FMDQ, CBN, aboki FX, Cordros Research

*20 July 2018***Top news stories of the week**

- Senate approves N348bn to 74 oil marketers for outstanding subsidy claims
- FG unveils new national carrier, Nigeria Air, targets 81 routes
- CBN recovers N65b illegal bank charges
- Cement price too high, Osinbajo tells manufacturers
- World Bank spent \$300m on community projects in Nigeria
- DisCos are technically insolvent, says BPE
- Auto Policy: Dangote Sinotruck to begin local trucks production

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