13 July 2018

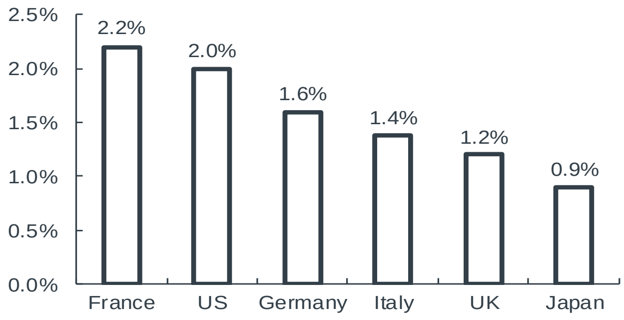
Weekly economic and market update.
Overview of markets in the week ended 13 July 2018

Global economy

The US consumer price index for June increased to 2.9% -- higher than the previous month's estimate of 2.8% and in line with polled market's expectation. That was the highest since February 2012 and was largely driven by the rise in oil prices. Month-on-month, inflation rose 0.1% -- a tad lower than the 0.2% in May, and short of market's expectation of 0.2%. The core inflation, which excludes food and energy prices, rose by 0.2%, same as in the previous month. **Amid sustained rally in oil prices, strong labour data, increased fiscal stimulus, and record-high PPI data, US inflation is likely to rise further, in line with the Fed's expectation.**

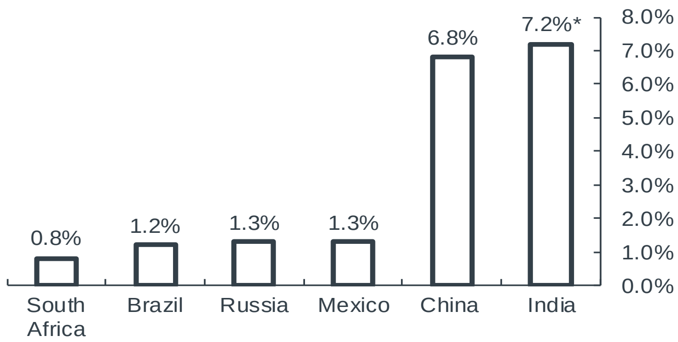
China's trade surplus in June narrowed to USD41.61 billion, against USD41.79 billion in the same month in the previous year but was much stronger than polled expectations of USD27.9 billion surplus. Imports rose by 14.1% y/y (May: +26% y/y) to USD175.1 billion, while exports grew at a slower pace of 11.3% y/y (May: +12.6% y/y) to USDUSD216.7 billion. The sensitive trade surplus with the US spiked to a record high of USD28.97 billion, from USD24.58 billion in the previous month, as data suggests Chinese traders moved up orders in a bid to avoid the US tariffs which came into effect in the first week of July. **The current episode of escalating trade war jitters portends a major risk to China's trade position, and indeed the rest of the world.**

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



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

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



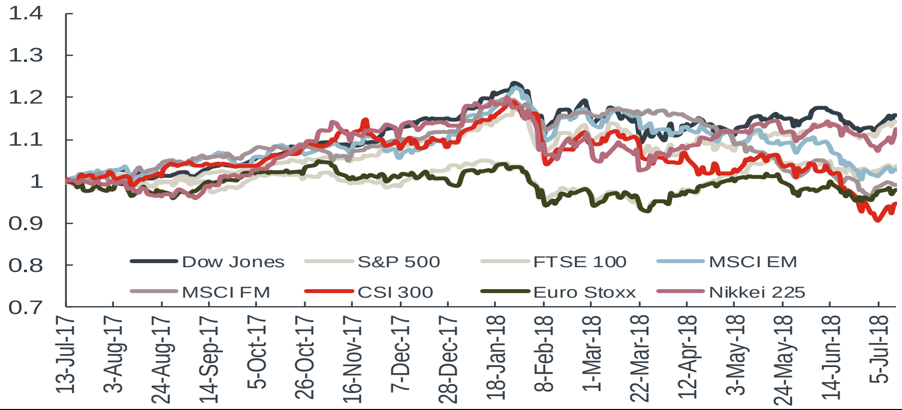
**Q4-2017*

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

Global markets

Proceedings across global markets within our coverage turned broadly positive, with Asia (CSI 300: +3.79%, Nikkei 225: +3.71%) recording the strongest rebound, as investors ignored trade war concerns, despite the Trump administration announcement of USD200 billion in new tariffs on China. Gains persisted in the US (S&P 500: +1.27%, DJIA: +1.84%) and Euro area (Euro Stoxx 50: +0.03%, FTSE 100: +0.66%), amidst corporate earnings releases, economic data, and a tech rally in the US. Returns in the emerging market (MSCI EM: +0.97) also turned positive, driven by gains in China, India (+2.48%), and Brazil (+1.21%). Gains were sustained in the frontier markets, despite continued selloffs in Nigeria (-0.62%), Kenya (-0.63%), and Morocco (-1.67%).

Fig 3: Global indices (index of 1)



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

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Nigeria

Economy

According to the NNPC Monthly Financial and Operations report for the month of March 2018, average crude oil and condensates production increased by 0.59% in the month of February to 2.01 mb/d (vs. 2.00 mb/d in January), highest since July 2017, while average daily gas production declined by 2.77 % to 8,163.58 mmscfd in March, from 8,396.38 mmscfd in February. Meanwhile, refining capacity utilization increased to 14.41% against 13.94% in February, attributable to the revamping of the refineries, specifically WRPC, despite the downturn in PHRC and KRPC during the month. **Despite the positive figures, we note the strong likelihood of reduced oil production figures in subsequent reports, particularly over Q2, due to the unplanned shutdown of two major pipelines — Trans Forcados and Nembe Creek Trunk Line — in May.**

The Central Bank of Nigeria (CBN) released its Consumer Expectations Survey Report for Q2-2018. It shows that consumers' overall outlook was marginally unchanged in Q2-2018 with the index increasing to -6.3 points (vs. -6.4 points in Q1-2018 and -17.0 points in Q2-2017). Respondents attributed the change in outlook to worsening economic conditions and family financial situation. However, the consumer outlook for the next quarter and next 12 months were positive at 16.2 and 21.2 points, respectively, attributable to the expected increase in net household income, the anticipated improvement in Nigeria's economic conditions, and expectations of increased savings in the next 12 months. **The improving consumer expectation suggests higher aggregate demand and positive performance for businesses.**

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)	NGN305.80	NGN305.50	NGN305.75 (20th July)
Foreign reserve (USD'bn)	47.70	38.91	47.60 (20th July)
Unemployment	18.80%	18.80%	20.3% (Q4-17)
Brent crude oil price (USD)	75.01	66.57	76.30 (20th July)

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

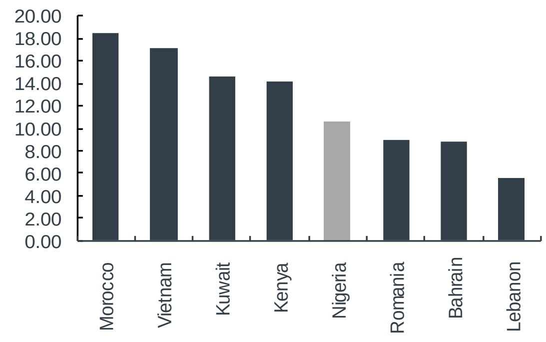
Capital markets

Equities

Sentiments remained bearish in the equities market, as the benchmark index dipped further, by 0.62% w/w, to 37,392.77 points. Of the five trading sessions, four closed in the red, as sell pressure persisted across major sectors. All sector indices – Insurance (-5.10%), Banking (-2.10%), Industrial Goods (-1.29%), and Consumer Goods (-0.43%) – save for the Oil & Gas (+0.71%) index, closed lower. 52 stocks closed negative, led by TANTALIZER (-25%), while 19 closed positive, led by CILEASING (+10.22%).

We guide investors to trade cautiously in the short-to-medium term, amidst continued selloffs, and the absence of a foreseeable one-off trigger in the near term. However, our positive view of Nigeria's long term macroeconomic outlook, in addition to the likelihood of lingering external risks settling, remain supportive of long-term gains.

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
CILEASING	2.48	10.22%	92.25%	TANTALIZER	0.27	-25.00%	-46.00%
FO	28.90	9.68%	-33.53%	MBENEFIT	0.34	-24.44%	-32.00%
MOBIL	180.50	9.39%	-7.25%	DUNLOP	0.23	-20.69%	-54.00%
EQUITYASUR	0.24	9.09%	-52.00%	MULTIVERSE	0.20	-16.67%	-60.00%
REGALINS	0.26	8.33%	-48.00%	SOVRENINS	0.23	-14.81%	-54.00%

CP: Closing price

Source: *NSE, Cordros Research*

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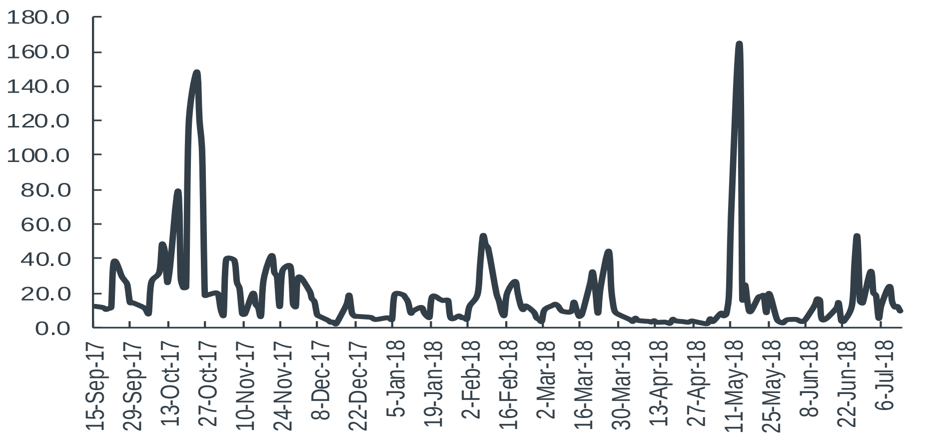
Fixed income and money market

Money market

The overnight lending rate shed 350 bps, w/w, to close at 9.42% amid healthy system liquidity. Inflows from OMO maturities (NGN406.83 billion) outweighed outflows from OMO (NGN315.33 billion) and FX (USD210 million) sales.

The overnight money market rate is likely to expand in the coming week, as we expect the apex bank to conduct open market operations to mop up the inflow of maturing OMO bills (NGN430.18 billion) and possible net primary auction repayments.

Fig 5: Overnight money market rate (%)



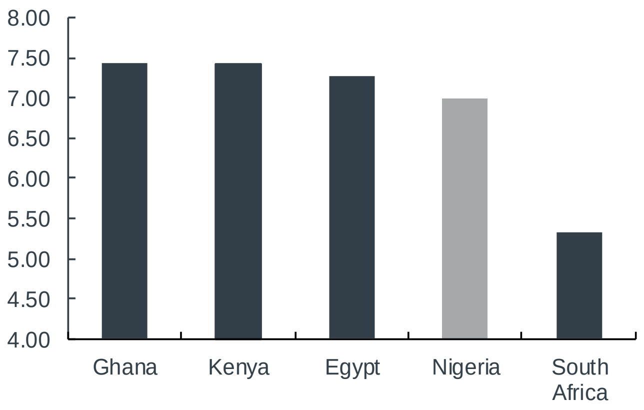
***Source**: FMDQ, Cordros Research*

Treasury bills

Activities in the treasury bills market were bullish, with sentiments supported by relatively healthy liquidity. Consequently, average yield moderated 20 bps to 12.18%. Investor sentiment was positive across the short (-31 bps), mid (-13 bps), and long (-2 bps) ends of the curve, amid increased demand for the 41DTM (-92 bps), 97DTM (-76 bps), and 244DTM (-38 bps) bills respectively.

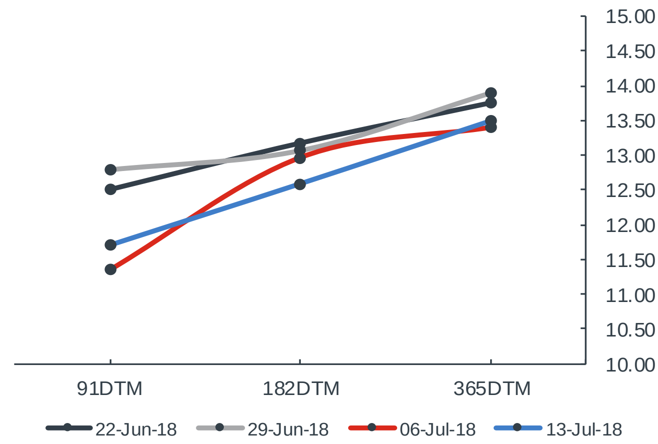
In the coming week, we expect a reversal of the bullish trend on the back of anticipated squeeze in liquidity. At the NTB auction scheduled for Wednesday, the CBN will offer NGN178.41 billion – NGN5.85 billion of the 91-day, NGN26.6 billion of the 182-day, and NGN1145.96 billion of the 364-day – worth of bills to the market

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



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

Fig 7: T-Bills yield curve (%)



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

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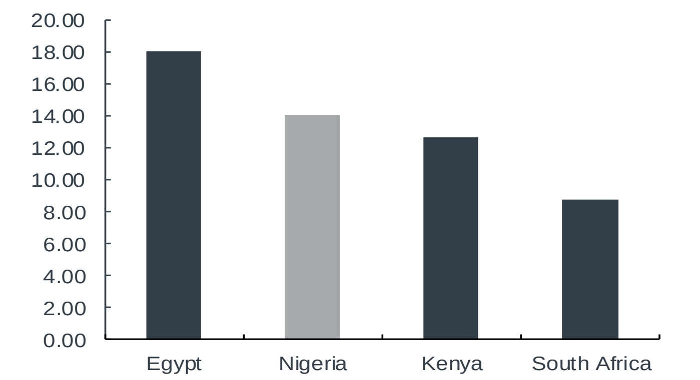
Bond

Trading in the bond market was mixed, albeit with a bearish tilt, as yields fell by 3 bps on average, w/w, to 13.89%. There was investor interest at the mid (-4 bps) and long (-8 bps) ends of the curve, with the FEB-2028 (-13 bps) and MAR-2036 (-19 bps) bonds recording the most significant contractions, respectively. Conversely, yield expanded at the short (+4 bps) segment, following selloffs of the JUL-2021 (+14 bps) bond.

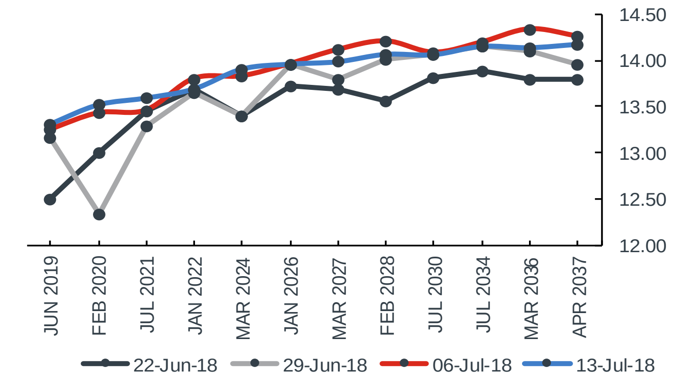
Our theme for the bond market favours higher yields in the medium term, anchored on (1) weakening signs of monetary easing, (2) capital flight amid higher yields in safe haven assets, (3) political uncertainty stemming from the upcoming elections, and (4) increased government borrowing to fund the 2018 budget.

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



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

Fig 9: FGN bond yield curve



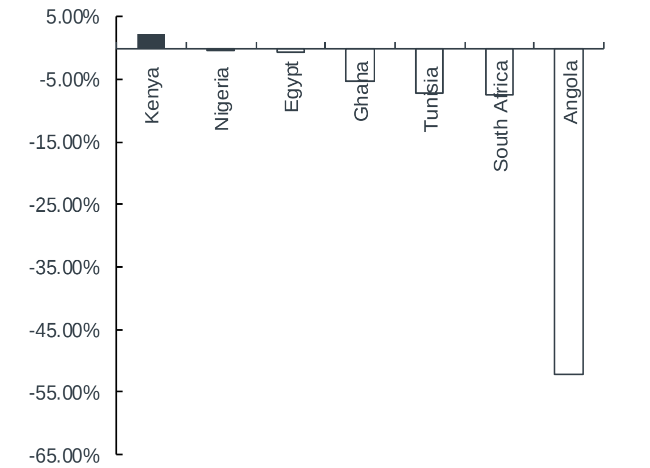
***Source**: FMDQ, Cordros Research*

Foreign exchange

The USD/NGN remained stable during the week, trading flat at NGN361 in the parallel market, while the pair strengthened by 0.39% to NGN362.53 in the I&E FX window. Total value of trades in the IEW recorded an upturn of 13.76% to USD778.96 million, with a bulk of trades (99.78%) settled within the NGN360-NGN369/USD band. Meanwhile, the foreign reserves (as at 11th July) was 0.20% lower, at USD47.70 billion, from last week's close of USD47.79 billion. Trades in the FX forwards were broadly positive, as the NGN/USD appreciated across all major dated contracts -- 1-month (+0.47%), 3-month (+0.72%), 6-month (+1.43%), and 1-year (+1.52%) – to NGN364.34, NGN370.91, NGN382.26, and NGN403.56, respectively.

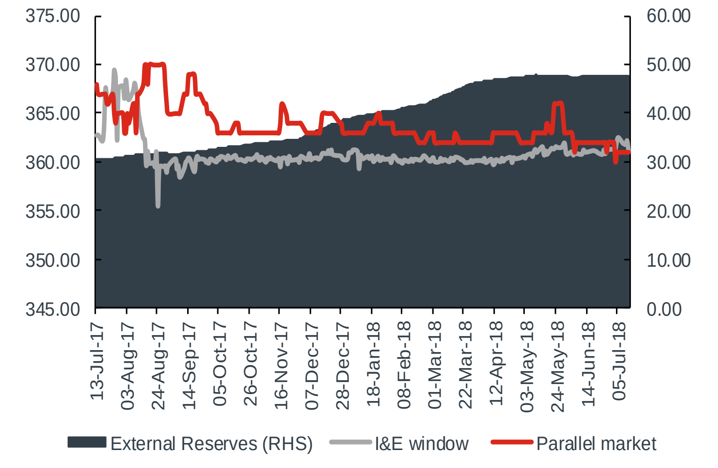
Our outlook for the FX market remains stability, as higher oil prices and stable production continue to support growth in the foreign reserves, providing the apex bank sufficient legroom to sustain its usual interventions in the currency space.

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*

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Top news stories of the week

- Buhari to sign Continental Free Trade Agreement soon
- FG unveils national carrier name, logo next week in London
- Power distribution firms owe NBET N859bn Guinness invests N6.5bn on PET plants
- Teleology awaits NCC's approval for licence transfer
- Oando, Shell, Agip sign $3.7b gas supply contract with NNPC
- N4.8trn bad debt: Senate to allow AMCON publish debtors' list
- Oil sector loses 754,000bpd to pipeline disruption