3 August 2018

Monthly markets review.
Overview of markets in July and outlook

Highlights

- Performance across global markets within our coverage was broadly positive, as investors recovered from the selloffs which ensued in the previous month.
- Sentiments in the domestic equities market were negative in July, as the ASI shed 3.29% to close at 37,017.78 points.
- The overnight lending rate fell, by 450 bps, to close the month at 9.58%, amid buoyant system liquidity throughout the month
- The seventh month of the year saw treasury bill yields moderate, by 116 bps on average, to 11.82%, as buoyant liquidity drove bullish sentiments
- FGN bond yields sustained their upward trend amid higher primary auction rates and selloffs from foreign investors
- The naira remained stable during the month, as it strengthened against the dollar in the parallel by 0.55% to NGN360, while it weakened by 0.30% to NGN362.40 in the I&E FX window.

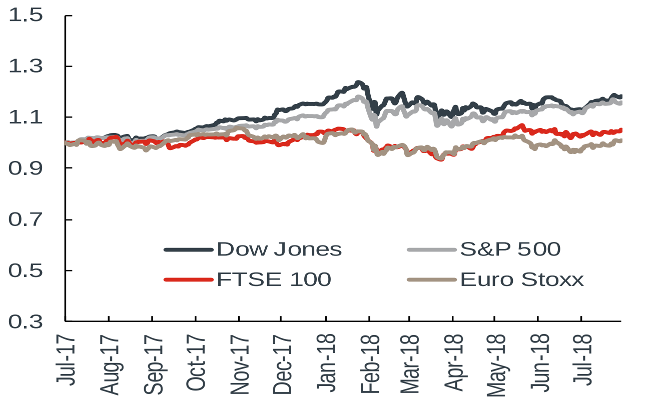
Global equity markets

Performance across global markets within our coverage was broadly positive, as investors recovered from the selloffs which ensued in the previous month. The global economy remained strong, including the outlook for the full year, as shown by the IMF retaining its growth estimate of 3.9% for 2018 and 2019, apiece (2017: 3.7%).

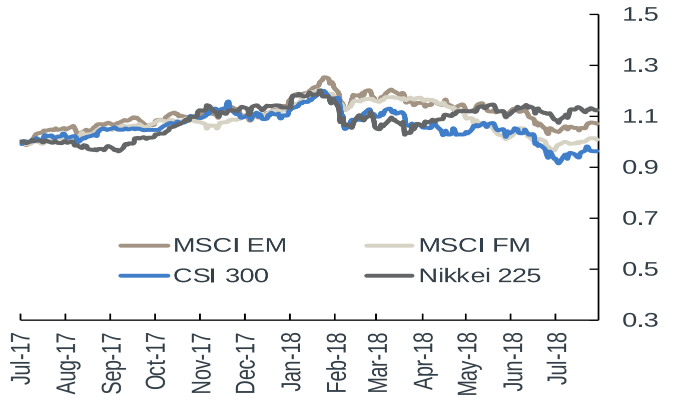
It was a bullish month for US equities, with the DJIA (+4.71%) and S&P 500 (+3.60%) indices posting significant upturns. Impressive corporate releases and positive economic data – a highlight being the record-high GDP growth of 4.1%, as well as still-tight labour data and fast-paced retail prices growth – were major contributing factors to investors' bullish sentiments in the month. These outweighed lingering jitters surrounding the Trump-led trade war, as Trump announced commencement of the USD200 billion in new tariffs on China, and further made comments to impose tariffs on all Chinese goods imported to the US, amounting to over USD500 billion. Jerome Powell's reiteration of the likelihood of two more rate hikes by the end of the year, also sparked interest in risky assets.

The benchmark indices in the euro area – FTSE 100: +1.46% and Euro Stoxx 50: +3.83% – also closed positive, with more gains posted in the second half (FTSE 100: +1.13% and Euro Stoxx 50: +2.05%), than the first (FTSE 100: +0.33% and Euro Stoxx 50: +1.74%). Positive corporate releases also played significant role in bolstering gains in European risky assets. Further supportive of gains was the rally of shares in auto makers, following a truce deal struck between the EU's top official and the US President on trade issues. These offset losses which emanated from (1) selloffs in mining stocks, following a stronger-dollar-induced rise in metal prices, and (2) political concerns, amidst lingering Brexit concerns.

Fig 1: Global Indices (Index of 1)



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



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Investors in Asia were not left out of the rally which ensued during the month, as Japan's Nikkei 225 and China's CSI 300 indices posted upticks of 1.12% and 0.19%, respectively. The first half was negative for China equities, as the US-China trade feud intensified, following the kick-off of the US-imposed tariffs on Chinese imports in the first week of July. Japan, on the other hand, had a positive first half. For the rest of the month, corporate updates outweighed the impact of lower oil prices (which weighed on energy stocks) as well as disappointing economic data, to drive gains in Asian bourses.

Similarly, gains resurfaced in emerging (MSCI EM: +1.68%) and frontier (MSCI FM: +3.41%) markets, halting five and three consecutive months of declines, respectively. This comes as sell-pressure in emerging markets' risky assets eased, after rising US yields led to risk off sentiments in previous months. Gains in China, Brazil (+8.88%), and India (+6.16%), led to the positive returns in the emerging market, while interest in other FMs outweighed selloffs in Nigeria (-3.29%), Kenya (-2.24%), and Morocco (-1.12%).

Nigeria

Equities market

Sentiments in the equities market were negative in July, as the ASI shed 3.29% to close at 37,017.78 points. Of the 22 trading sessions, 13 closed in the red, as risk-off sentiments in emerging markets' risky assets continued to drive selloffs. A deluge of mixed corporate earnings releases also played significant role in driving market activities in the month. Impact of stable macro fundamentals remained muted, despite improved growth data (GDP: 1.95%), continued decline in inflation (11.23%), and still strengthened PMI readings. Total volume and value of trades were both lower by 6.0% and 21.69%, at 6.68 billion units, and NGN73.02 billion, respectively.

All sectoral indices closed in the red, with the Industrial Goods posting the largest loss of 11.44%, owing to significant selloffs in WAPCO, which lost 32.84% of its value during the month, following a disappointing performance in H1-2018, with a loss after tax of NGN3.90 billion, against a profit of NGN19.73 billion in similar period last year. The Consumer Goods (-7.11%), Oil & Gas (-3.34%), Insurance (-3.06%), and Banking (-2.39%) indices followed suit, on the back of losses in PZ (-27.05%), FO (-23.74%), WAPIC (-24.0%), and FIDELITYBK (-13.48%) shares, respectively.

Table 1: NSE sector indices performance

Index	31-Jul	29-Jun	m/m Change	y/y Change
NSE Banking	458.07	476.05	-3.78%	-3.65%
NSE Consumer Goods	880.62	927.72	-5.08%	-9.78%
NSE Industrial	1780.57	2008.7	-11.36%	-9.87%
NSE Insurance	147.68	150.44	-1.83%	5.96%
NSE Oil/Gas	316.22	323.22	-2.17%	-4.38%

Source:*NSE, Cordros Research*

Table 2: NSE top gainers & losers

Gainers			Losers		
Ticker	MTD	YTD	Ticker	MTD	YTD
CUTIX	46.00%	117.91%	TANTALIZER	-41.67%	-58.00%
CCNN	29.17%	226.32%	WAPCO	-32.84%	-38.74%
CUSTODIAN	19.53%	57.33%	UNIONDAC	-31.58%	-48.00%
CILEASING	17.87%	89.15%	DUNLOP	-31.03%	-60.00%
CONTINSURE	16.55%	20.71%	PZ	-27.05%	-26.70%

Source: *NSE, Cordros Research*

According to the latest Domestic & Foreign Portfolio Participation report by the NSE for June, total transactions on the bourse declined by 41% m/m to NGN187.78 billion, with both foreign and domestic transactions dropping by 46.92% and 31.88%, to NGN102.41 billion, and NGN85.37 billion, respectively. On foreign flows, the rate of foreign outflows reduced significantly to NGN54.45 billion, from the record-high NGN130.89 billion in May. A slower pace in the decline of foreign inflows (-22.72% to NGN47.96 million), led to the reduction in foreign net outflows to -NGN6.49 billion (May: -NGN68.83 billion). On domestic transactions, institutional investors remained the major players, contributing 65.88% of total domestic transactions, against 34.12% contribution by retail investors.

Meanwhile, during the month, eight stocks (African Alliance Insurance Plc, Cornerstone Insurance Plc, R. T. Briscoe Plc, Royal Exchange Plc, STACO Insurance Plc, Standard Alliance Insurance

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Plc, Universal Insurance Company Plc, Veritas Kapital Assurance Plc) were placed on full suspension, for failing to file relevant accounts. However, upon the release of its FY-2017 account, the suspension on Royal Exchange Plc's stocks were lifted.

Our outlook for equities in the near-to-medium term remains conservative, in the absence of a near term one-off positive catalyst (save for potential better-than-expected Q2 corporate earnings); more so, amidst brewing political concerns. However, stable macroeconomic fundamentals – in addition to the likelihood of external jitters easing – remain supportive of market recovery in the long term.

Fixed income and money market

Money market

The overnight lending rate fell, by 450 bps, to close the month at 9.58%, amid buoyant system liquidity throughout the month. Inflows from matured OMO bills (NGN1.48 trillion), primary market repayments (NGN1.66 billion), and two sets of FAAC disbursements (c. NGN681 billion) to states and local governments (due to a delay in payment for the previous month) offered a boost to liquidity. In order to rein in excess liquidity, CBN mopped up a total of NGN1.40 trillion via its weekly OMO auctions. Other outflows include FX sales (USD1.54 billion) and primary market auctions (NGN206.35 billion).

We expect the overnight rate to contract in August, following anticipated buoyant liquidity position from inflows from maturing OMO bills (NGN1.90 trillion), bond coupon payments (NGN62.15 billion), as well as the budgetary allocations (we estimate NGN360 billion) to state and local governments.

Treasury bills

The seventh month of the year saw treasury bill yields moderate, by 116 bps on average, to 11.82%, as buoyant liquidity drove bullish sentiments. Average yield fell across all ends (short: -164 bps, mid: -93 bps, and long: -70 bps) of the curve, with the 27-SEP-18 (-219 bps), 1-NOV-18 (-219 bps), and 31-JAN-19 (-137 bps) bills recording significant contractions, respectively.

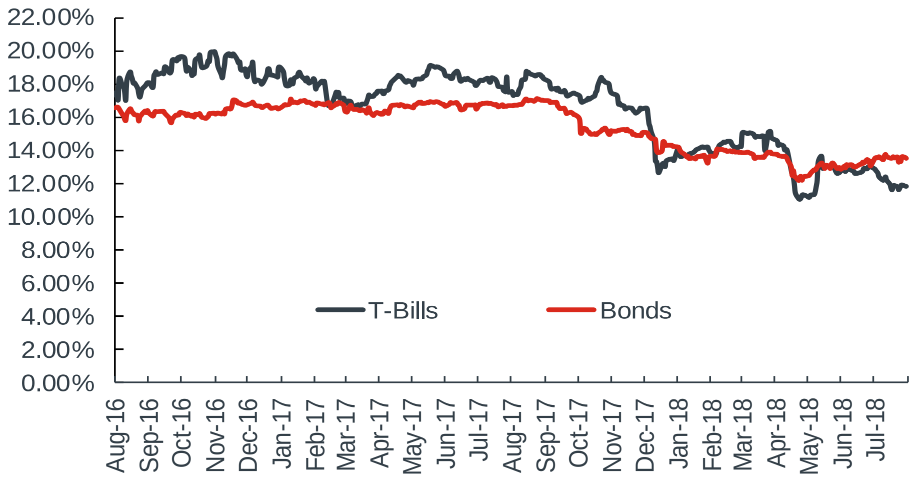
Two primary auctions were conducted during the month. At the first, NGN102.31 billion worth of bills were sold, against an offering of NGN170.51 billion. NGN9.52 billion, NGN33.93 billion, and NGN58.86 billion of the 91-day, 182-day, and 364-day bills were allotted at respective stop rates of 10% (previously 10%), 10.5% (previously 10.3%), and 11.5096% (previously 11.5%). At the second 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%).

Our expectation of a healthy liquidity position in the coming month, as discussed above under money market, suggests likelihood of high demand in the NTB secondary market.

Bond

FGN Bond yields sustained their upward trend, amid higher primary auction rates and selloffs from foreign investors — a fallout from general risk-off sentiments towards emerging markets, in addition to political jitters in the domestic economy, ahead of the 2019 general elections. Consequently, average yield recorded a 21 bps m/m expansion to close at 13.87%. Yields expanded at the short (+26 bps), mid (+22 bps), and long (+10 bps) ends of the curve. Notable bonds include the FEB-2020 (+121 bps), MAR-2024 (47 bps), and APR-2037 (+23 bps), respectively.

Fig 2: FGN bonds and treasury bills average yields



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

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At the primary market auction, the DMO allotted NGN8.93 billion of the APR-2023 (re-opening), NGN11.58 billion of the MAR-2025 (re-opening), and NGN46.39 billion of the FEB-2028 (re-opening) bonds at respective stop rates of 13.69% (vs. 13.50% at the previous auction), 14.00% (previously 13.80%), and 14.30% (vs. 13.81% previously). Demand was weak, with total bid-cover ratio of 1.15x (vs. 2.14x in the previous auction), leading to significantly higher stop rates compared to the previous auction, and thus, pressuring secondary market yields upwards.

Our theme for the bond market favours higher yields – albeit not at significant level above current rates - in the medium term, anchored on (1) domestic monetary policy direction, (2) capital flight amid higher yields in safe haven assets, (3) political uncertainty stemming from the upcoming general elections, and (4) government borrowing to fund the 2018 budget. At the next bond auction on 15th Aug 2018, the DMO is expected 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.

Foreign exchange

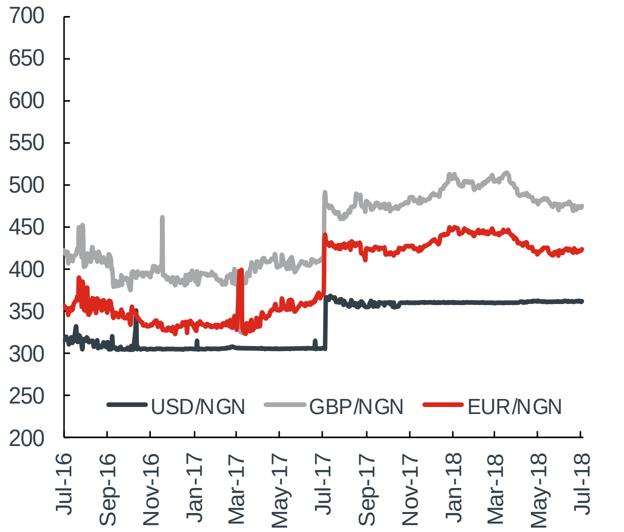
The apex bank continued its conventional intervention into the FX market, selling USD1.54 billion in the month of July, against USD1.62 billion in the previous month. The CBN also commenced its intervention into the FX market in Chinese yuan – a fallout of the Bilateral Currency Swap Agreement (BCSA) signed with the People's Bank of China (PBoC) on April 27 – wherein CNY69.86 million was sold. The SMIS disbursements, coupled with a likely spike in other outflows (IEW, FAAC, etc.), weighed on the foreign reserves, which, for the first time since May-2017, declined sharply by USD668.83 million, to close at USD47.12 billion. The BCSA, is expected to cushion demand for the dollar, and support stability of the naira.

However, the naira remained stable during the month, as it strengthened against the dollar by 0.55% to NGN360 in the parallel market, while it weakened by 0.30% to NGN362.40 in the I&E FX window. Bulk of trades executed in the IEW remained within the NGN360-NGN369/USD band, with total trades lower by 14.29%, at USD3.75 billion, against USD4.38 billion in the previous month.

In the FX forwards market, the naira remained strong across most of the major-dated contracts – 3-month (+0.08%), 6-month (+0.20%), and 1-year (+0.12%) – save for the 1-month contract which closed lower by 0.20%. The respective closing prices were NGN372.21, NGN384.74, NGN405.31, and NGN365.69.

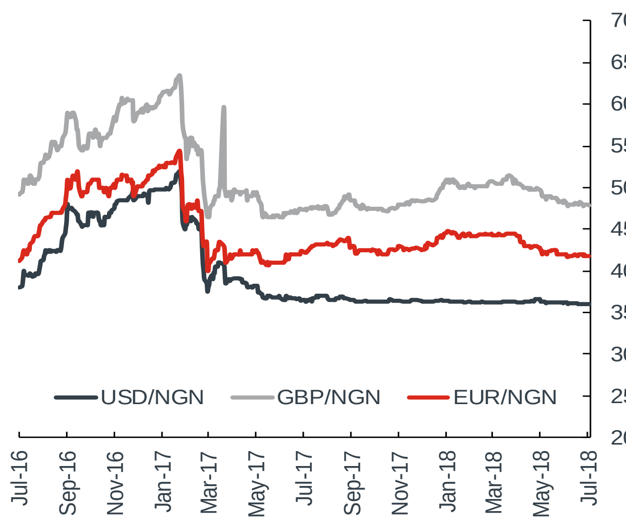
Our outlook for the FX market, particularly in the short to medium term, remains stability, as oil revenues – supported by higher oil prices (YtD: +11.04% to USD74.25/barrel) and stable production – continue to shore up the foreign reserves. However, exit from the financial markets by foreign investors, owing to risk off sentiments in emerging market's risky assets, remains potential headwind to the already declining foreign reserves.

Fig 3: Interbank market FX rate



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

Fig 4: Parallel market FX rate



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