24 August 2018

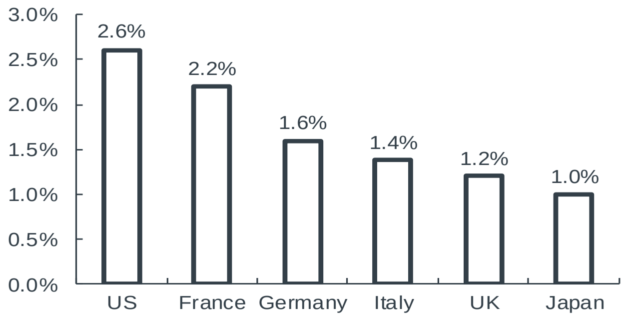
Weekly economic and market update.
Overview of markets in the week ended 24 August 2018

Global economy

Data on Japan's CPI for July was released today, which showed that inflation increased by 0.9% y/y, against 0.7% growth in the previous month. This was the highest in four months and was above polled market expectation of 0.4% growth. The rise in prices was largely driven by increase in food and energy prices. Core inflation, which excludes fresh food prices, was unchanged at 0.8%, but inched below market consensus of 0.9%. On monthly basis, prices rose 0.3%, against 0.1% in the previous month. **While the rise in prices reflects positives of the Abenomics policies, it remains far below BOJ's 2% target, and could delay the BOJ's exit from the ultra-loose policy.**

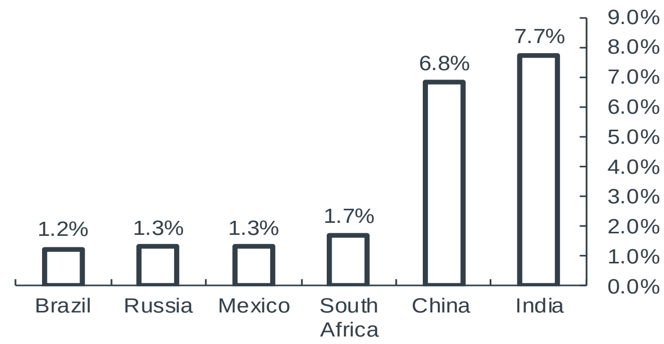
According to IHS Markit, the US composite PMI dropped to 55 in August, from 55.7 in the previous month, and below market expectation of 56.3. This was the slowest pace of expansion since April, with both manufacturing and service sectors recording declines in the period. Growth in new order eased to its weakest in eight months, while employment increased the least in over a year. **While the above-50 reading is indicative of growth in the economic giant, the lingering trade war concerns remains a threat to growth in the economic giant.**

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



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

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



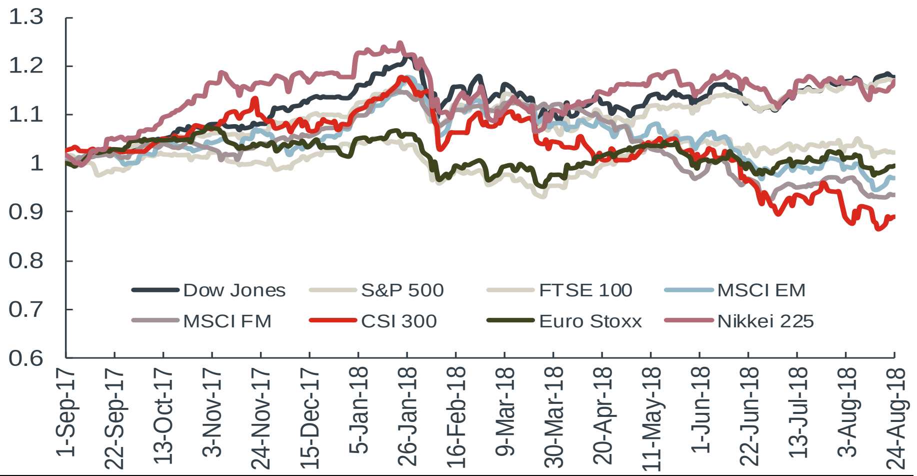
**Q4-2017*

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

Global markets

Most global market indices within our coverage closed the week positive, at the time of writing. Gains resurfaced in Asia (CSI 300: +2.96%%; Nikkei 225: +1.49%) and the Euro area (Euro Stoxx 50: +1.68%; FTSE 100: +0.25%), while sentiments were mixed in the US, with the Dow posting a loss of 0.05%, and the S&P 500 inching up 0.24%. Major contributing factors include political issues, optimism over US-China trade talks, earnings releases, and economic data. The emerging (MSCI EM: +2.47%) and frontier (MSCI FM: +0.47%) markets also closed the week positive, owing to gains recorded in China and India (+0.80%), as well as in Nigeria (+0.45%) respectively.

Fig 3: Global indices (index of 1)



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

Nigeria

Economy

The National Bureau of Statistics' (NBS) capital importation report for the second quarter of 2018 shows that total capital imported during the period stood at USD5.51 billion, representing a 207.62% y/y increase from the USD1.79 billion recorded in Q2-17. However, on a q/q basis, total capital importation fell 12.53% (vs. NGN6.30 billion in Q1-18) – the first q/q decline since Q1-2017. In terms of contribution, consistent with the previous quarter, Portfolio Investment (-9.76% q/q and +434.64% y/y to USD4.12 billion) accounted for most (74.7%; previously 72.4%) of the inflows into the country in the review period. Foreign Direct Investment (FDI) was up 5.97% q/q but lower by 4.75% on y/y basis. **Over the rest of 2018, we believe capital importation will decline further, with portfolio inflows, which constitute the bulk of capital imports, expected to slow down amidst (1) uncertainty ahead of the 2019 general elections, (2) monetary policy normalization across developed markets, and (3) global trade war fears.**

The Central Bank of Nigeria recently released the guidelines for accessing the Real Sector Support Facility (RSSF) -- introduced at the last MPC meeting -- via funds from deposit money banks' CRR and corporate bonds. The release of the guidelines, according to the apex bank, is part of measures aimed at increasing the flow of credit to the real sector (agriculture and manufacturing) of the economy and stimulating growth in employment-elastic sectors. The facilities (Differentiated CRR and Corporate Bonds programme) are set at NGN10 billion per project and are to be administered at an interest rate of 9% per annum. **We believe DMB's risk averseness to credit creation will continue to play out, at least in the short term, considering still-attractive returns on government securities.**

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	11.14%	15.37%	11.24% (Aug-18)
Exchange rate (USD)	NGN306.10	NGN305.50	NGN306.20 (31st Aug)
Foreign reserve (USD'bn)	46.26	38.91	45.96 (31st Aug)
Unemployment	18.80%	18.80%	20.3% (Q4-17)
Brent crude oil price (USD)	75.27	66.57	76.00 (31st Aug)

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

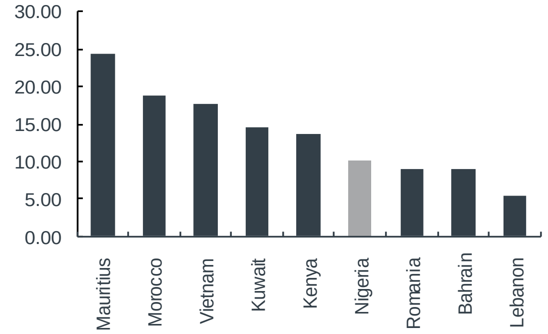
Capital markets

Equities

The bulls resurfaced in the holiday-shortened week, as the ASI closed higher by 0.45% w/w to 35,426.21 points – halting three consecutive weeks of losses and posting the highest weekly gain in 8 weeks. Accordingly, the Month-to-Date and Year-to-Date losses moderated to 4.30% and 7.94%, respectively. Investor interest in DANGCEM stocks contributed the most to gains recorded in the two (out of three) positive sessions of the week. The Industrial Goods and Insurance indices closed positive, while the Banking, Consumer Goods, and Oil & Gas indices posted negative returns. Meanwhile, market breadth remained negative, with 44 losers and 13 gainers.

Our outlook for equities in the near to medium term remain conservative, in the absence of a near term one-off positive catalyst; and more so, amidst brewing political concerns. However, stable macroeconomic fundamentals remain supportive of recovery in the long term.

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
AIRSERVICE	5.30	19.10%	-10.92%	UNIONDAC	0.26	-10.34%	-48.00%
SKYEBANK	0.57	18.75%	14.00%	UPL	2.07	-10.00%	-9.21%
FCMB	1.83	7.65%	23.65%	LIVESTOCK	0.55	-9.84%	-33.73%
DANGCEM	235.00	6.82%	2.17%	INTBREW	32.00	-9.09%	-41.28%
NEM	3.00	5.26%	80.72%	REDSTAREX	5.20	-8.77%	1.56%

CP: Closing price

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

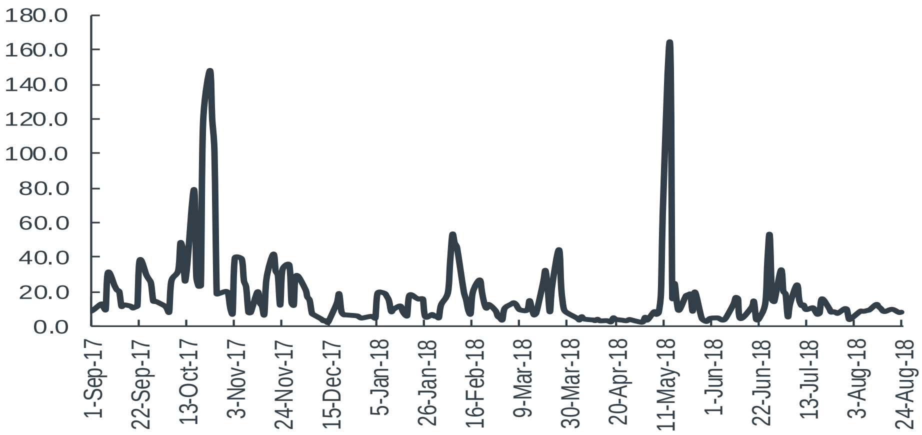
Fixed income and money market

Money market

In line with our expectation, the overnight lending rate moderated by 41 bps w/w to 7.92%, against last week's close of 8.33%. Buoyant liquidity from the previous week was sustained in the short week of trading and was further boosted by inflows from OMO maturities (NGN364.33 billion) and bond coupon payments (NGN15.03 billion). The CBN conducted its usual liquidity mopping operations. However, demand remained weak for the second consecutive week, as it mopped up only NGN97.90 billion from the system.

Next week, inflows worth c. NGN674.44 billion — maturing OMO bills (NGN314.77 billion), and the monthly FAAC disbursement (c. NGN360 billion) — 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 (%)



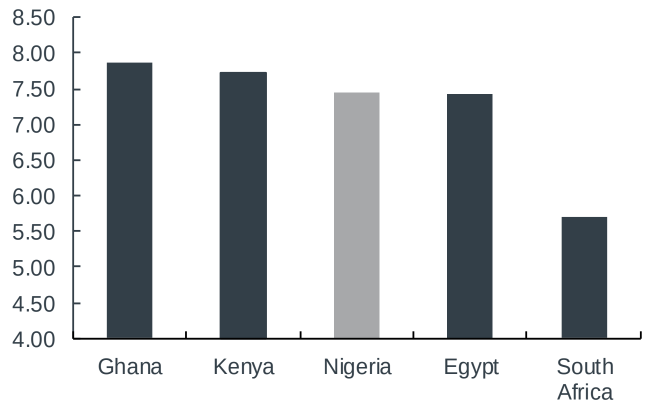
***Source**: FMDQ, Cordros Research*

Treasury bills

Activities in the treasury bills market were bullish, as still-healthy system liquidity supported demand. Yields shed 5 bps on average, w/w, to close at 12.15%. Investor sentiment was positive at the mid (-11 bps) segment, while selloff ensued at the short (+4 bps), and long (+15 bps) ends of the curve, amid demand for 97DTM (-45 bps) bill and sell pressure in the 20DTM (+97 bps) and 223DTM (+20 bps) bills, respectively.

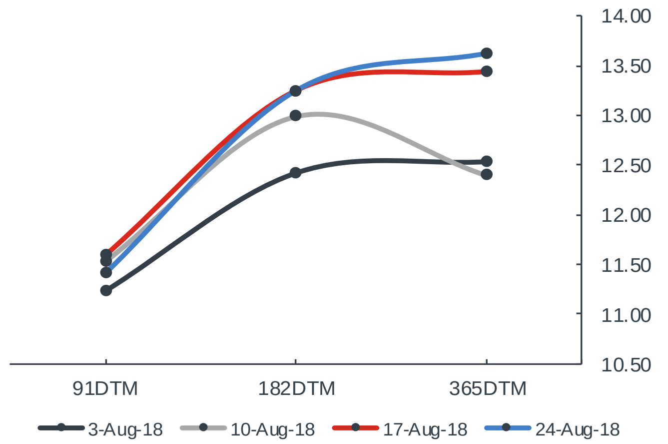
Yields are expected to drop in the meantime, supported by expected buoyant system liquidity. At the NTB auction scheduled for next week, the CBN will offer NGN206.95 billion – NGN24.96 billion of the 91-day, NGN44.99 billion of the 182-day, and NGN137.00 billion of the 364-day – worth of bills to the market.

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



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

Fig 7: T-Bills yield curve (%)



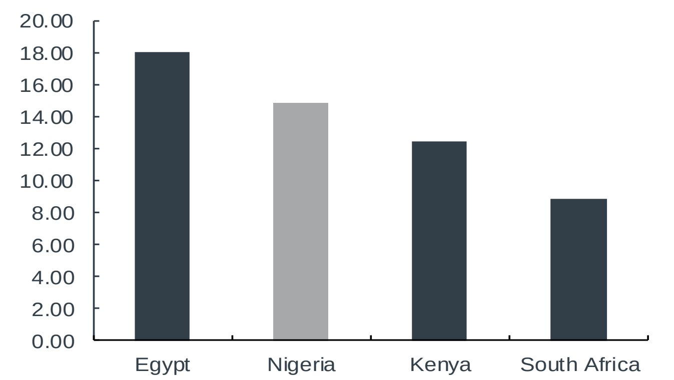
***Source**: FMDQ, Cordros Research*

Bond

Conversely, trading in the bond market was bearish, as average yield inched up 1 bp w/w, to close at 14.55%. Yield expansion at the long (+23 bps) end of the curve, outweighed contractions at the short (-10 bps) and mid (-3 bps) segments, following selloff of the APR-2037 (+73 bps) bond, and demand for the JUL-2021 (-25 bps) and FEB-2028 (-8 bps) bonds respectively.

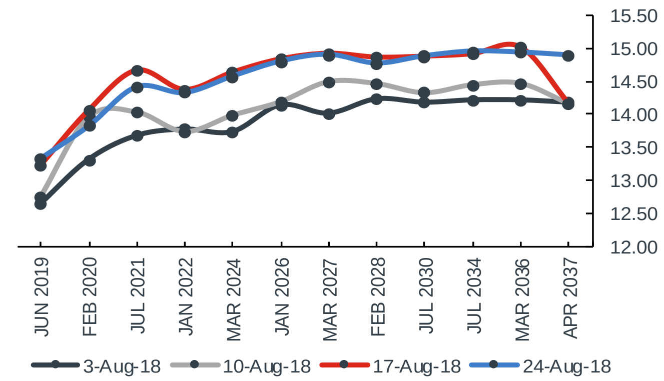
We reiterate our expectation for modestly higher yields in the medium term, anchored on (1) domestic monetary policy direction, (2) capital flight amid higher yields in safe haven assets, (3) political uncertainty stemming from the upcoming general elections, and (4) government borrowing to fund the 2018 budget.

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



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

Fig 9: FGN bond yield curve



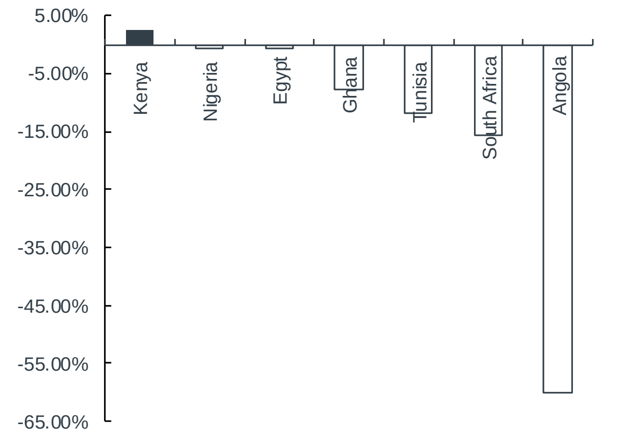
***Source**: FMDQ, Cordros Research*

Foreign exchange

Foreign reserves declined further during the week, by USD115.69 million to USD46.26 billion, despite absence of the apex bank's conventional weekly interventions into the FX market. However, the naira remained stable during the week, with the USD/NGN pair closing flat at NGN360 in the parallel market for the sixth consecutive week, and strengthening by 0.04% to NGN362.35 in the I&E FX window. Total turnover in the IEW, in the holiday-shortened week, stood at USD238.92 million, with 99.25% of trades consummated within the NGN360-369/USD band. In the FX forwards market, the NGN/USD appreciated in the 1-month (+0.06% to NGN365.23) and 6-month (+0.08% to NGN383.32) contracts, while it depreciated in the 3-month (-0.03% to NGN371.80), and 1-year (-0.13% to NGN4704.78) contracts.

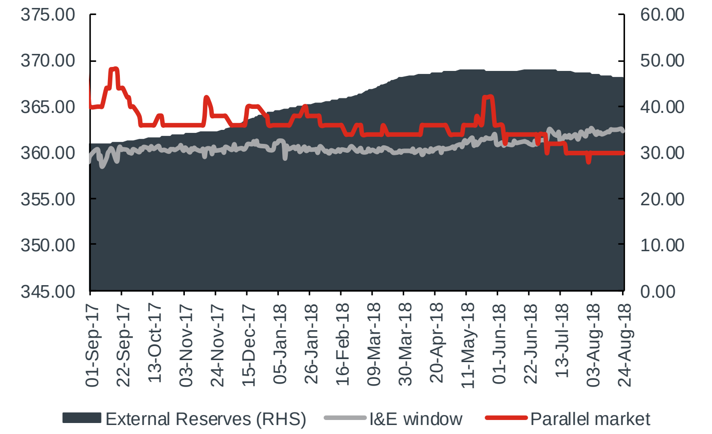
Despite continued decline in the foreign reserves, our outlook for the FX market remains stability, as oil prices remain at comfortable levels and production remains stable, aiding inflow of oil revenues, which provide the apex bank sufficient legroom to sustain its interventions in the currency space.

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*

Top business headlines of the week

- CBN pegs maximum credit facility to agric, manufacturing at N10bn
- Tax remittance: ABCON kicks as banks suspend BDCs' accounts
- FG to submit 2019 budget in September
- Eaton raises stake in NEM, buys 130 million shares
- SEC slashes costs of raising funds at capital market
- Power gencos give FG six conditions to avoid shutdown of operations
- Power firms reject TCN as proposed N72bn fund manager