10 August 2018

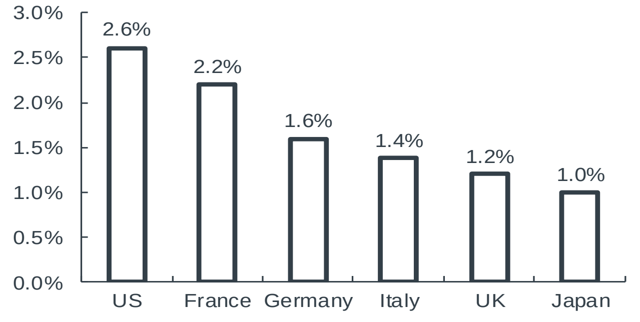
Weekly economic and market update.
Overview of markets in the week ended 10 August 2018

Global economy

According to data released by the U.S. Bureau of Labor Statistics, inflation remained flat at an over 6-year high of 2.9% in July. This came a tad lower than polled market expectation of 3%. Excluding food and energy prices, the core inflation was higher at 2.4% (highest since September 2008), as against 2.3% in June. On a month-on-month basis, consumer prices rose 0.2%, an inch up from June's 0.1% growth. **The pace of growth in consumer prices, which is in line with the Fed's 2% target, is supportive of the central bankers' projection of 2 more rate hikes by the end of the year.**

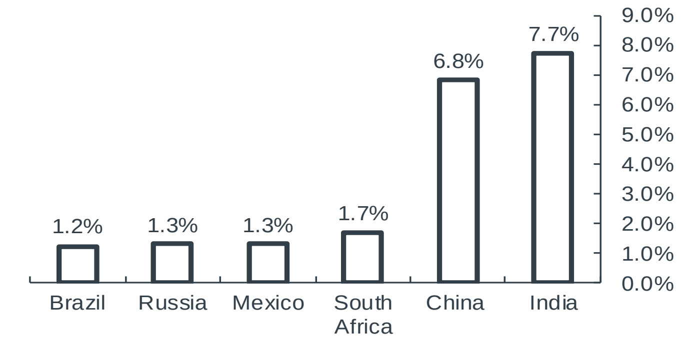
Data on China's balance of trade was released mid-week, showing the trade surplus in July narrowed sharply to USD28.05 billion, against USD44.85 billion in the corresponding period last year. This also came much lower than consensus estimate of USD39.33 billion. Imports rose by 27.3% to a near record-high, while exports rose at a slower pace of 12.2%. It is worth stating, that the politically-sensitive trade surplus with the US narrowed marginally, to USD28.09 billion, from USD28.93 billion recorded in June. **Growth in the export-dependent economy remains threatened by the lingering trade war concerns.**

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



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

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



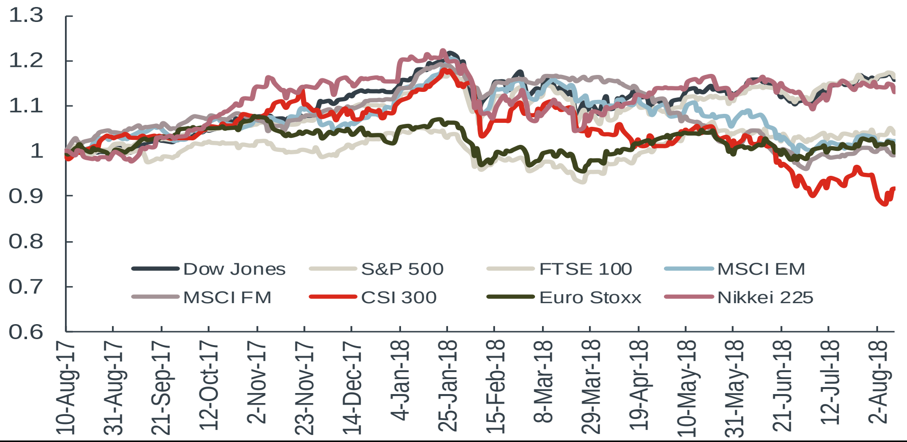
**Q4-2017*

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

Global markets

Proceedings were mixed across global markets within our coverage. Sentiments in the US were negative with the DJIA and S&P 500 indices closing lower by 0.62% and 0.26%, respectively, while returns in Asia (CSI 300: +2.71%, Nikkei 225: -1.01%) and the Euro area (FSE 100: +0.29%, Euro Stoxx 50: -1.74%) were mixed. Fresh trade war concerns, corporate earnings, other corporate updates and declining oil prices were major contributing factors. Investors in the emerging markets (MSCI EM: +0.50%) closed the week positive, as resurfaced gains in China and still-positive sentiments in India (+0.83%), offset the loss in Brazil (-5.50%). Meanwhile, the MSCI FM index (-1.27%) remained in negative territory, owing to losses in Nigeria (-2.89%) and other regions, which outweighed the gains in Morocco (+0.17%) and Kenya (+0.98%).

Fig 3: Global indices (index of 1)



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

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Nigeria

Economy

According to reports, CBN Deputy Governor guided towards an increase in the Monetary Policy Rate (MPR) before the 2019 general elections. He stated that the apex bank is “in the mood” for tightening and will increase its main interest rate if inflation doesn’t slow. He also stated that he was not concerned about a reversal in capital flows. **The comments were in line with the change in the tone of the recent MPC meeting statements. However, we do not expect a rate hike in the short term, due to the risk of destabilising the fragile economic recovery.**

According to data from Bloomberg, Nigeria’s crude oil exports rose to 1.64mbpd in the month of July (vs. revised 1.61m bpd in June), representing the first increase in four months. Combined crude and condensate exports rose to 1.762mbpd (vs. revised 1.688mbpd in June). **We expect to see further uptick in oil exports in the near term, following the recent reopening of two major pipelines — Trans Forcados and Nembe Creek Trunk Line — 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	11.23%	15.37%	11.16% (Jul-18)
Exchange rate (USD)	NGN306.00	NGN305.50	NGN306.00 (17th Aug)
Foreign reserve (USD’bn)	46.76	38.91	46.51 (17th Aug)
Unemployment	18.80%	18.80%	20.3% (Q4-17)
Brent crude oil price (USD)	73.06	66.57	73.20 (17th Aug)

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

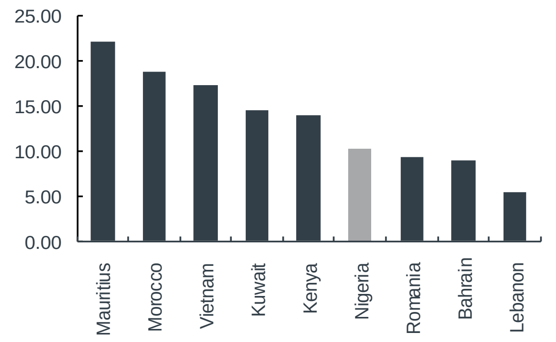
Capital markets

Equities

Sentiments in the equities market remained bearish during the week, with all trading sessions of the week closing in negative territory. The ASI shed 2.89% w/w, closing at 35,446.47 points – lowest since October 2017. Month-to-date and Year-to-date losses also increased, to -4.24% and -7.31%, respectively. All sectoral indices closed negative, with the Industrial Goods (-4.42%) index posting the largest loss, following a significant loss in DANGCEM shares, which largely led to the significant loss in today’s session. The Banking index was down 1.35% from the previous week, despite the attractive dividends, of 30 kobo apiece, declared by GUARANTY and ZENITHBANK. Market breadth was negative, with 24 losers and 21 gainers.

In the short to medium term, selloffs are likely to persist in the absence of a near-term positive trigger, and amidst brewing political concerns. However, macroeconomic fundamentals remain stable and 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
HMARKINS	0.33	10.00%	-34.00%	CUSTODIAN	5.25	-14.22%	34.96%
NIGERINS	0.33	10.00%	-34.00%	IKEJAHOTEL	2.82	-9.90%	58.43%
EQUITYASUR	0.24	9.09%	-52.00%	ALEX	8.30	-9.78%	-14.08%
UNIONDAC	0.36	9.09%	-28.00%	UCAP	2.80	-9.09%	-20.68%
WAPCO	30.50	8.93%	-32.06%	BETAGLAS	78.00	-9.09%	52.02%

CP: Closing price

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

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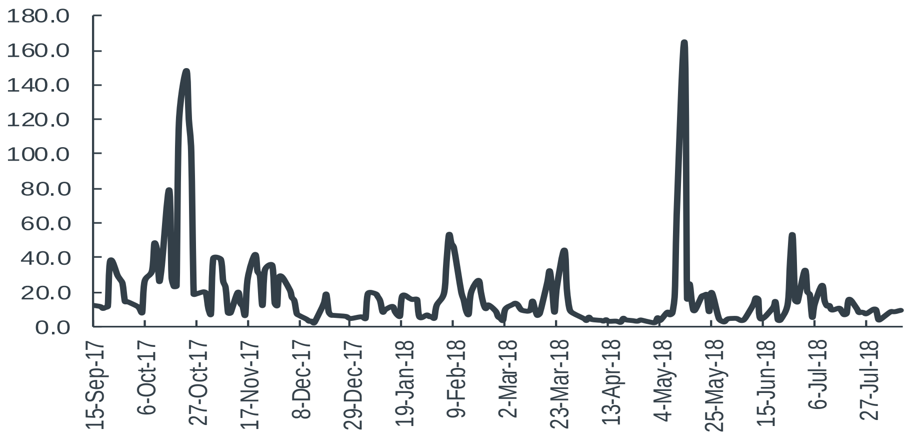
Fixed income and money market

Money market

In line with our expectation, the overnight lending rate expanded, by 392 bps, w/w, to close at 9.25%. System liquidity contracted, in comparison to the previous week, as outflows for FX (USD210 million) and OMO (NGN377.06 billion) sales outweighed inflows from matured OMO bills (NGN452.00 billion).

Next week, inflows from maturing OMO bills (NGN440.0 billion) and bond coupon payments (NGN47.12 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 (%)



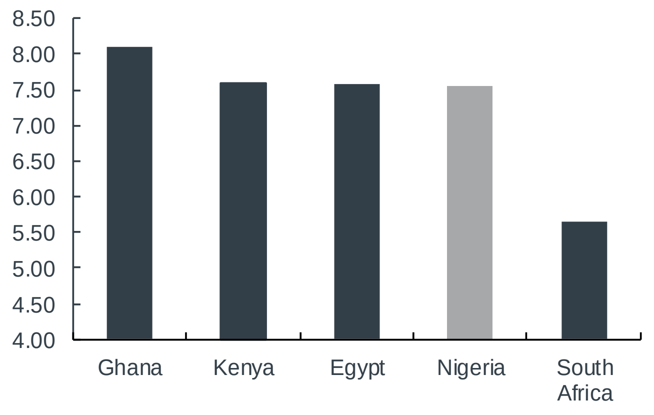
***Source**: FMDQ, Cordros Research*

Treasury bills

Activities in the treasury bills market were bearish, as lower system liquidity weighed on sentiments. Consequently, average yield rose 19 bps to 11.99%. Investor sentiment was negative across the short (+28 bps) and mid (+27 bps) ends of the curve, amid selloffs of the 55DTM (+81 bps) and 111DTM (+46 bps bills. Conversely, demand for the 237DTM (-27 bps) bill led to yield contraction at the long (-4 bps) segment.

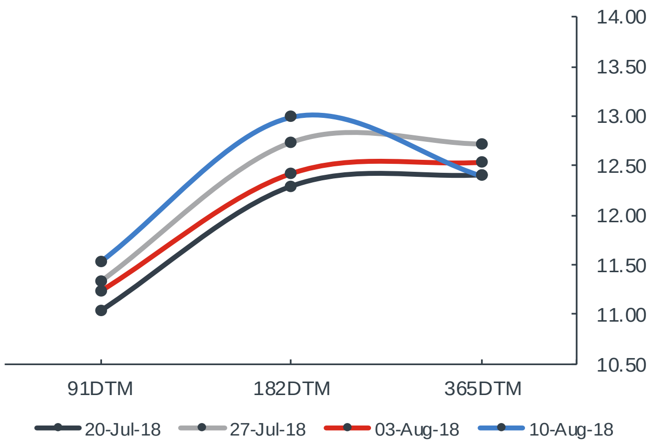
In the coming week, we expect a reversal in the bearish trend, on the back of anticipated healthy liquidity. At the NTB auction scheduled for Wednesday, the CBN will offer NGN33.38 billion – NGN3.38 billion of the 91-day, NGN10.00 billion of the 182-day, and NGN20.00 billion of the 364-day – worth of 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*

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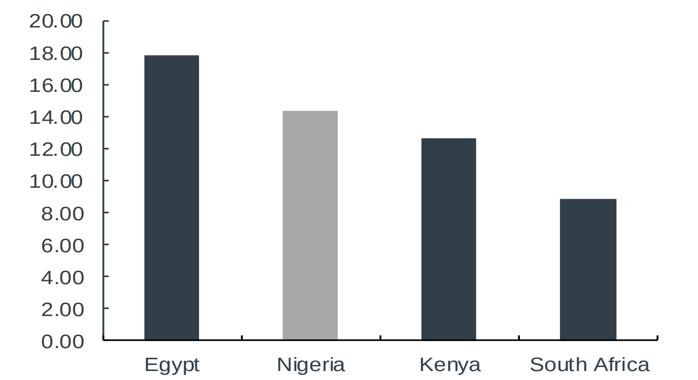
Bond

Trading in the bond market was bearish, amidst selloffs by foreign investors, with increasing political tensions, ahead of the 2019 general elections, weighing heavily on investor sentiments. As a result, average yield rose 23 bps, w/w, to 14.09%. Selloffs of the FEB-2020 (+64 bps), MAR-2027 (+48 bps) and MAR-2036 (+26 bps) bonds led to yield expansion at the short (+27 bps), mid (+23 bps), and long (+16 bps) ends of the curve, respectively.

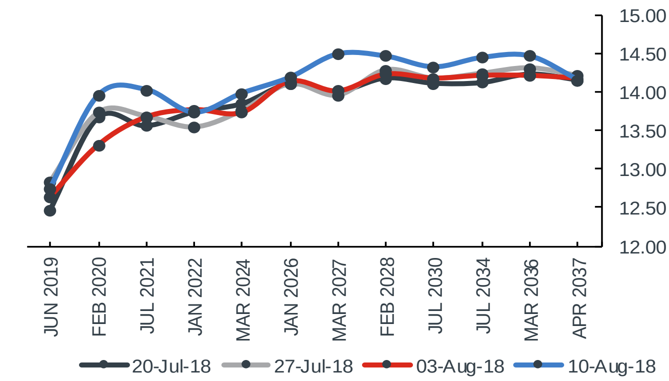
We expect yields to take a cue from primary auction stop rates in the coming week. However, we reiterate our expectation for modestly higher yields in the medium term, anchored on (1) domestic monetary policy direction, (2) capital flight amid higher yields in safe haven assets, (3) political uncertainty stemming from the upcoming general elections, and (4) government borrowing to fund the 2018 budget. At the FGN bond auction scheduled for Wednesday, 15th August 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



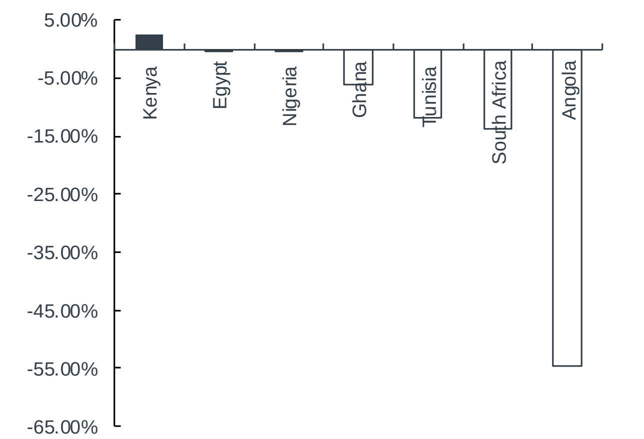
***Source**: FMDQ, Cordros Research*

Foreign exchange

The USD/NGN remained stable during the week, as the pair closed flat at NGN360 in the parallel market – for the fourth consecutive week. Conversely, the pair strengthened by 0.18% to NGN362.00 in the I&E FX window. It is also worth stating that, in the CBN SMIS window (also reported by the FMDQ), the naira weakened significantly by 6.67%, to close at NGN352.00, against NGN330.00 in the previous week. Total value of trades in the IEW increased by 51.46% to USD738.45 million, with bulk of trades (99.87%) still-consummated within the NGN360-NGN369/USD band. Meanwhile, for the fifth consecutive week, the foreign reserves (as at 8th August) continued to decline, and was USD253.69million lower, at USD46.76 billion, against last week's close of USD47.01 billion. In the FX forwards market, the NGN/USD appreciated across all major dated contracts – 1-month (+0.23%), 3-month (+0.28%), 6-month (+0.61%), and 1-year (+0.99%) -- to NGN364.73, NGN370.93, NGN4381.83, and NGN400.24, respectively.

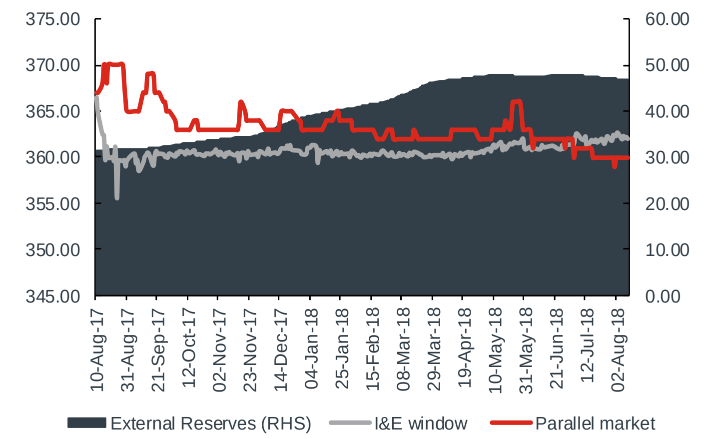
Our outlook for the FX market remains stability, as higher oil prices and stable production continue to support growth in the foreign reserves, providing the apex bank sufficient legroom to sustain its usual interventions in the currency space.

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*

Top business headlines of the week

- NSIA raises NBET's liquidity with $417.4m
- FG removes VAT on LPG
- Prices of goods to rise as haulage cost shoots by 500%
- Discos: New power policy'll raise tariff by 14%
- Nigeria borrows $3.1bn for railway, airports projects
- Reduce borrowing, tap private investments – World Bank tells FG
- SEC, others to discuss capital market master plan

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