

3 August 2018

Weekly economic and market update.

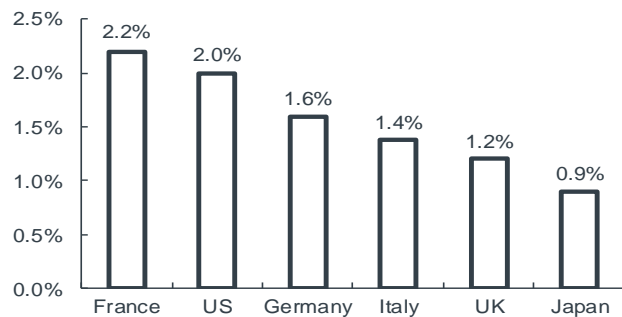
Overview of markets in the week ended 03 August 2018

Global economy

Data on US balance of trade was released today, showing trade deficit widened by 7.3% to USD46.3 billion in June, from USD43.2 billion in the previous month. That came below market's expectation of USD46.5 billion. Exports of goods and services were USD1.5 billion (0.7%) lower than the previous month, at USD213.8 billion, while imports rose USD1.6 billion (0.6%) to USD260.2 billion. The US deficit with China rose 0.9% to USD33.5 billion. **We view this survey result as a challenge to President Donald Trump's pledge to rebalance the US' trading book with the rest of the world.**

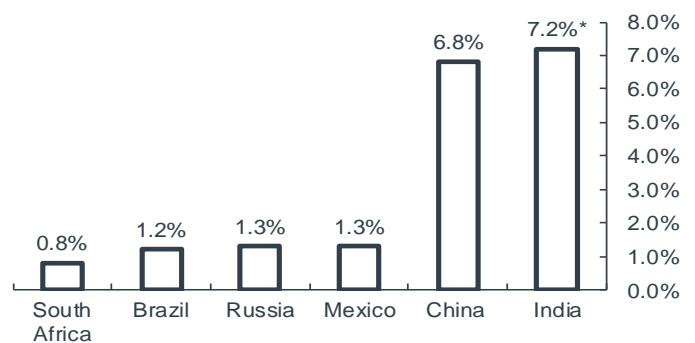
Bank of England policy makers voted unanimously to raise interest rate to 0.75%, from 0.50%. This was the highest level since the 2008-2009 financial crisis. **Amidst continued tightening in the labour market, as well as firmed wage growth, the hawkish monetary policy stance is aimed at driving inflation (currently 2.4%) towards the BOE's 2% target.**

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



Source: IMF, Cordros Research

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



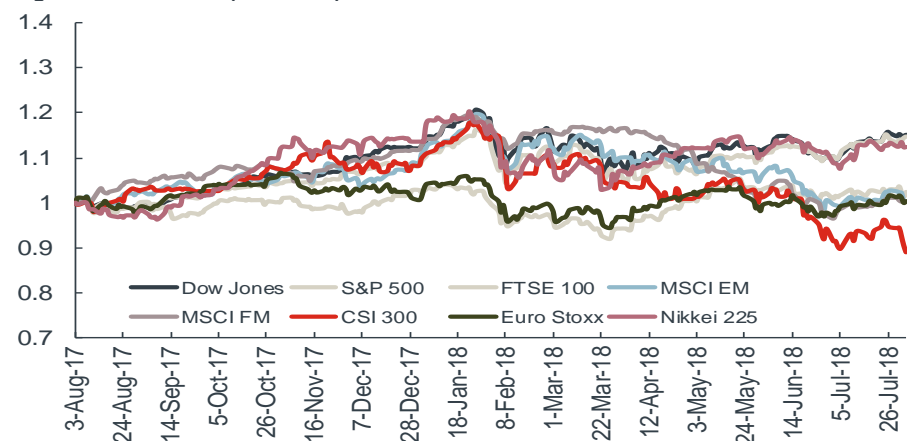
*Q4-2017

Source: IMF, Cordros Research

Global markets

Sentiments turned negative across most global markets within our coverage, with Asia (CSI 300: -5.85%, Nikkei 225: -0.83%) posting the largest loss. Investors in the Euro area (FSE 100: -0.57%, Euro Stoxx 50: -1.27%) were also bearish, while returns were mixed in the U.S (DJIA: -0.28%, S&P 500: +0.56%). Major contributing factors include corporate earnings, lingering trade war fears, monetary policy decision, and economic data. The bears also resurfaced in the emerging (MSCI EM: -2.28%) market, as significant selloffs in China, offset the gains in India (+0.59%) and Brazil (+2.36%). Frontier markets also closed negative, as shown in the MSCI FM (-0.85%) index, following losses in Nigeria (-0.37%), Kenya (-0.75%), and Morocco (-0.04%).

Fig 3: Global indices (index of 1)



Source: Bloomberg, Cordros Research

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Nigeria
Economy

The Central Bank of Nigeria (CBN) recently released its Purchasing Managers' Index (PMI) report for the month of July. The survey result showed continued expansion in business conditions, as manufacturers and service providers confirmed sustained improvement in their overall operations, with the headline manufacturing and non-manufacturing indices coming in at 56.8 (previously 57.0) and 57.7 (previously 57.5) respectively. **Still, there are no sufficient reasons to expect contracting PMIs over the rest of 2018, as the impact of the positive drivers supporting the encouraging figures deepen further.**

According to the Federal Inland Revenue Service's (FIRS) revenue performance report for H1-2018, the tax authority generated a total of NGN2.53 trillion in H1-18 from the collection of various taxes. Compared to the NGN1.78 trillion reported in the corresponding period of 2017, the latest figure represents an increase of 41.8%, and over 75% of the total target to date. **The revenue generation drive of the fiscal authority is yielding result and will support budget implementation, if sustained.**

Table 1: Macro indicators

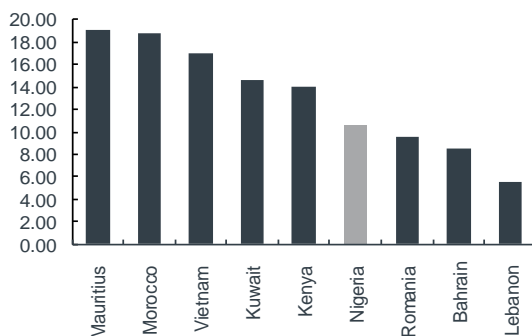
Macro indicators (Nig)	Current	Year start	Forecast
Real GDP growth	1.95%	2.11%	+2.70% (Q2-18)
MPR	14.00%	14.00%	14.00% (Next meeting)
CPI	11.23%	15.37%	11.16% (Jul-18)
Exchange rate (USD)	NGN305.95	NGN305.50	NGN306.00 (10th Aug)
Foreign reserve (USD'bn)	47.07	38.91	46.90 (10th Aug)
Unemployment	18.80%	18.80%	20.3% (Q4-17)
Brent crude oil price (USD)	73.21	66.57	72.30 (10th Aug)

Source: CBN, Bloomberg, NBS, Cordros Research

Capital markets
Equities

Proceedings in the equities market turned bearish, as the ASI shed 0.37% w/w to close at 36,499.67points, with investors booking profit on previous gains. Three of the five sessions week closed in the red, as the Month-to-Date and Year-to-Date losses rose to 1.40% and 4.56%, respectively. Total volume of trades dropped 1.82% to 1.39 billion units, valued at NGN20.32 billion (+21.37%). Most sectoral indices closed lower – Consumer Goods (-1.01%), Insurance (-0.53%), and Industrial Goods (-0.53%) -- save for the Banking (+0.83%) and Oil & Gas (+6.76%) indices. Market breadth was negative with 42 losers and 34 gainers, respectively led by INTBREW (-17.57%) and UNIONDAC (+50%).

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 recovery in the long term remains supported by stable 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
UNIONDAC	0.33	50.00%	-34.00%	INTBREW	30.50	-17.57%	-44.04%
NEIMETH	0.60	42.86%	-20.00%	DIAMONDBNK	1.17	-16.43%	-22.00%
MBENEFIT	0.37	23.33%	-26.00%	PHARMDEKO	1.90	-13.64%	-19.49%
NIGERINS	0.30	15.38%	-40.00%	SKYEBANK	0.62	-11.43%	24.00%
SEPLAT	710.00	13.60%	13.38%	NSLTECH	0.36	-10.00%	-28.00%

**CP: Closing price*

Source: NSE, Cordros Research

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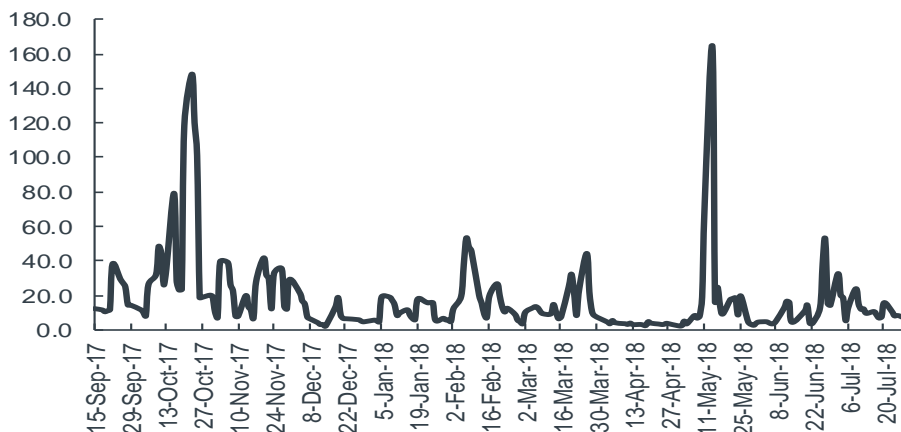
Fixed income and money market

Money market

The overnight lending rate contracted, by 192bps, w/w, to close at 5.33%, on the back of buoyant system liquidity. Inflows from (1) the monthly FAAC disbursement (NGN361.74 billion) and (2) matured OMO bills (NGN379.45 billion), outweighed outflows from OMO sales (NGN362.96 billion).

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 (NGN452.00 billion).

Fig 5: Overnight money market rate (%)



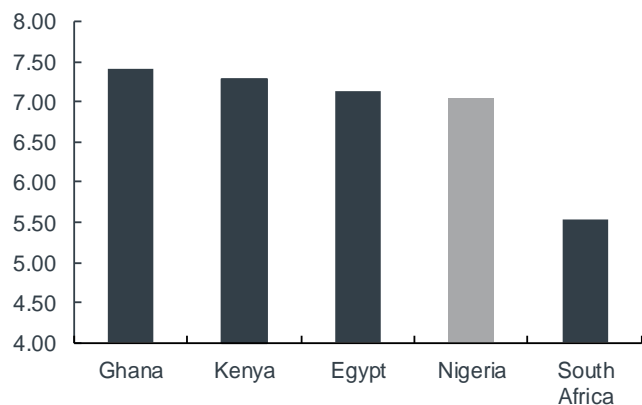
Source: FMDQ, Cordros Research

Treasury bills

Activities in the treasury bills market were bullish, as sentiments were driven by the healthy system liquidity. As a result, average yield moderated by 10 bps to 11.80%. Investor sentiment was positive across the short (-24 bps) and long (-1 bp) ends of the curve, amid demand for 41DTM (-78 bps) and 349DTM (-17 bps) bills, respectively. Conversely, a selloff of the 167DTM (+35 bps) bill led to yield expansion at the mid (+35 bps) segment. Meanwhile, at this week's NTB auction, the CBN fully allotted NGN215.63 billion worth of bills – NGN9.54 billion of the 91-day, NGN69.66 billion of the 182-day and NGN136.52 billion of the 364-day – at respective stop rates of 10% (previously 10%), 10.4% (previously 10.5%), and 11.30% (previously 11.49%).

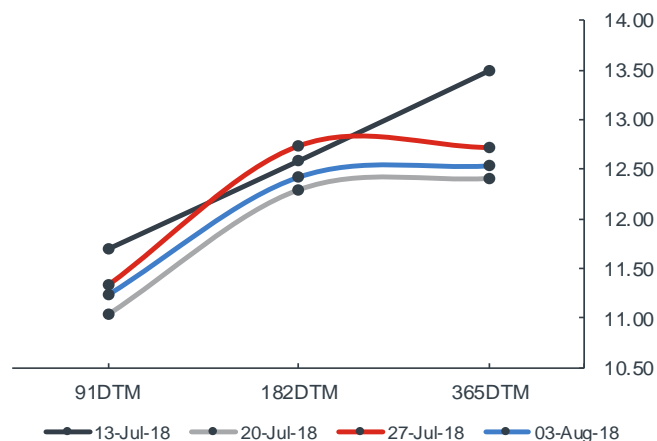
Yields are expected to be pressured, due to anticipated squeeze in liquidity position next week.

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

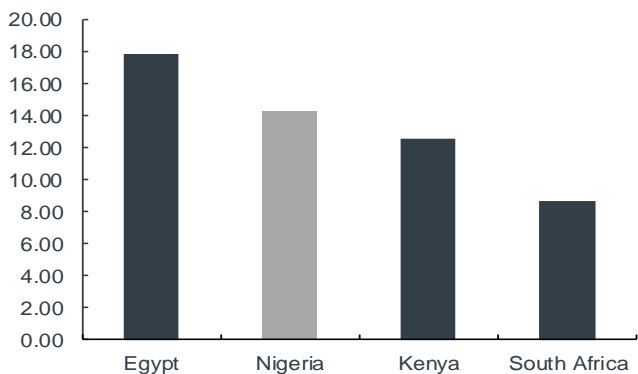
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Bond

Trading in the bond market was also bullish, driven by buoyant liquidity, as average yield shed 5 bps, w/w, to 13.86%. Demand for the FEB-2020 (-42 bps) and MAR-2036 (-10 bps) bonds led to yield contraction at the short (+9 bps) and long (-6 bps) ends of the curve, respectively. Yields at the mid segment were flat.

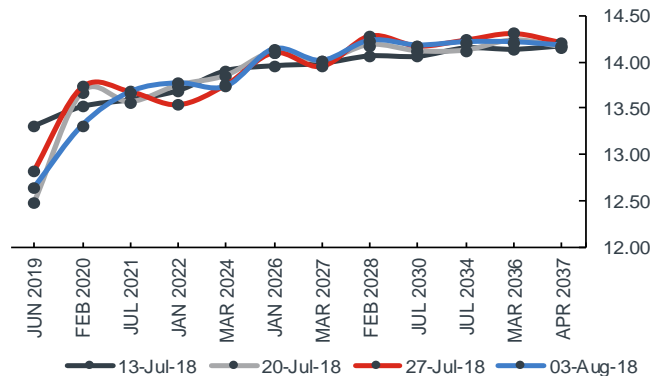
We reiterate our expectation for modestly higher yields in the medium term, anchored on (1) domestic monetary policy direction, (2) capital flight amid higher yields in safe haven assets, (3) political uncertainty stemming from the upcoming general elections, and (4) government borrowing to fund the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

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



Source: Bloomberg, Cordros Research

Fig 9: FGN bond yield curve



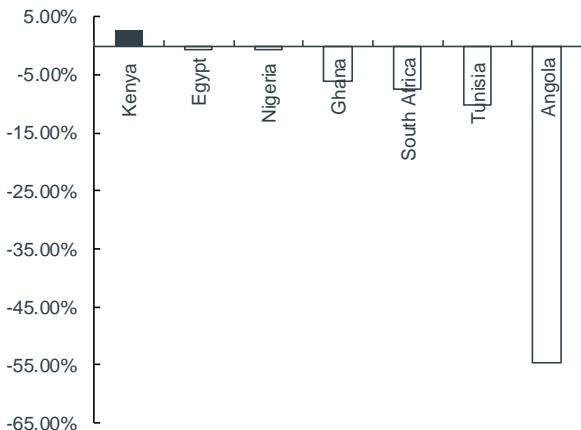
Source: FMDQ, Cordros Research

Foreign exchange

The USD/NGN remained stable during the week, as it closed flat at NGN360 in the parallel market, while it touched a record-low of NGN359 (last seen July 2016) mid-week. Conversely, the pair weakened by 0.11% to NGN362.28 in the I&E FX window. Total value of trades in the IEW dropped by 39.29% to USD487.55 million, with bulk of trades (99.82%) settled within the NGN360-NGN369/USD band. Meanwhile, the foreign reserves (as at 31st July) was USD175.79 million lower, at USD47.07 billion, against last week's close of USD47.25 billion. Trades in the FX forwards market were mixed, as the 3-month (+0.09%), 6-month (+0.24%), and 1-year (+0.45%) NGN/USD contracts appreciated to NGN371.99, NGN384.18, NGN404.25, respectively, while the 1-month (-0.04%) contract weakened to NGN365.57.

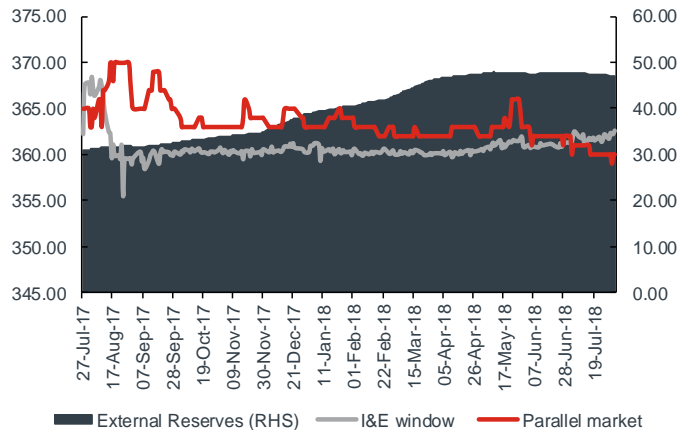
Our outlook for the FX market remains stability, as higher oil prices and stable production continue to support growth in the foreign reserves, providing the apex bank sufficient leegroom to sustain its usual interventions in the currency space.

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

*3 August 2018***Top business headlines of the week**

Pension fund assets now total N8.14trn, says PenCom

Transcorp to begin exploration of oil from OPL 281 in 2019

We're ready to quit, resell firms at discounts – Power distributors

Electricity companies supplied over 90,000 meters in first three months of 2018

FG seeks World Bank's assistance on power sector

Notore Chemical lists N100.75b shares on NSE

Work begins on Apapa ports rail line next week – Amaechi

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