5 October 2018

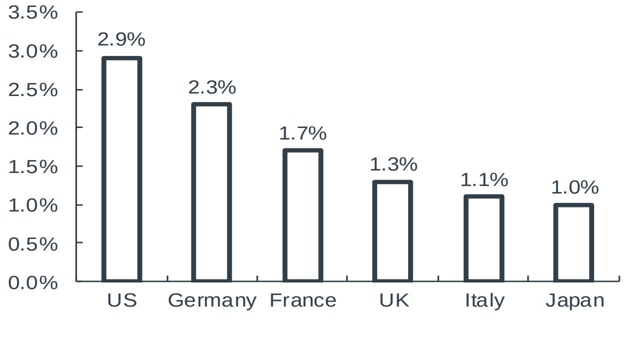
Weekly economic and market update.
Overview of markets in the week ended 05 October 2018

Global economy

In spite of the ongoing trade war between U.S and its major trading partners, U.S trade deficit widened further to USD53.2 billion (+6.4% m/m) as exports (-0.8% m/m to USD209.4 billion) shrank in the face of declining soybeans exports even as imports (+0.6% m/m to USD262.7 billion) touched a new high. **We expect moderation in trade deficit over the October as the impact of the newly implemented tariff on Chinese goods kicks in.**

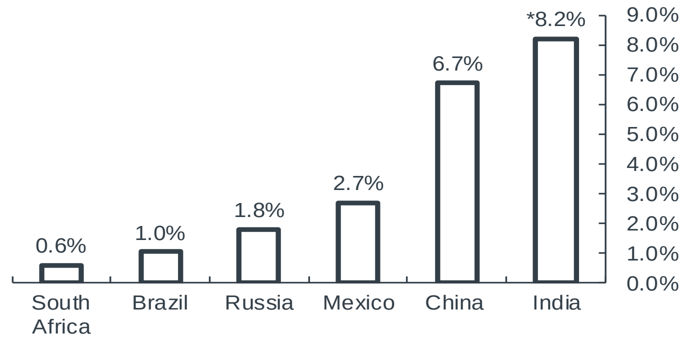
Elsewhere, China's Manufacturing PMI – though remaining above 50-point mark– slowed in September to 50.8 index points (August: 51.3 index points), missing consensus estimate of 51.2 index points. This reflected the intensifying impact of the U.S.-China trade war on China's manufacturing export sector. **The near-term outlook for the Chinese manufacturing export sector remains weak, albeit the Chinese government may apply some further stimulus measures to support growth.**

Fig 1: Annualized GDP growth rate Q2-2018 – DMs



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

Fig 2: Annualized GDP growth rate Q2-2018 – EMs



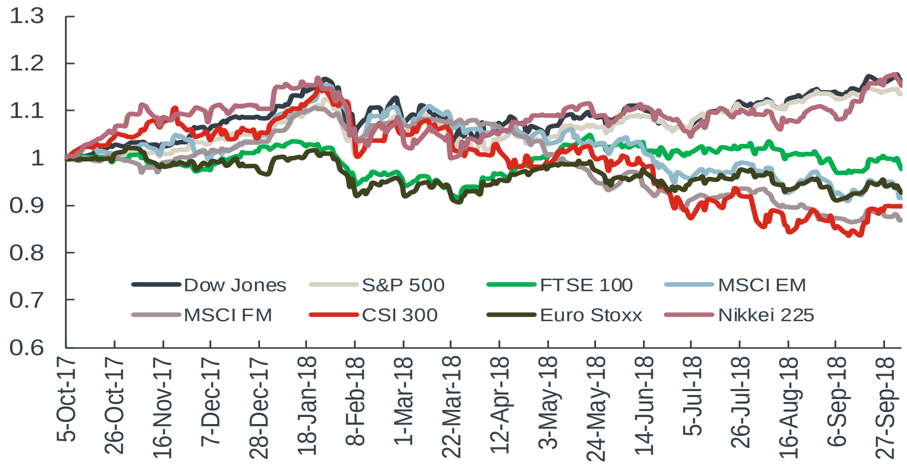
**Q1-2018*

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

Global markets

Across our coverage universe, equity markets broadly underperformed, with negative sentiments seen mostly at the twilight of the week. Evidently, global equities had posted positive returns up until midweek before wiping off the gains to leave the markets in red. Notably, the poor performance was led by European indices (FTSE 100: -2.28%, Euro Stoxx 50: -1.41%), followed closely by the Asian (Nikkei 225: -1.39%). The Chinese market was closed this week for the National Day. Meanwhile U.S equities were mixed (DJIA: 0.20%, S&P 500: -0.53%) driven by rising U.S yields which negatively impacted equity sentiments. Elsewhere, MSCI EM index (-3.58%) reversed gains from the prior week, while the MSCI FM index (-0.87%) sustained its poor performance as investors continue to keep emerging market assets at arm's length.

Fig 3: Global indices (index of 1)



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

Nigeria

Economy

On Tuesday, the CBN released its monthly Purchasing Managers Index report which showed sustained expansionary trend for the eighteenth consecutive month in September. Manufacturing and non-manufacturing indices printed 56.2 and 56.5 points respectively, suggesting sustained healthy business conditions. Though still well ahead of the 50.0 expansion mark, both indices expanded at a slower pace for the period vs 57.1 and 58.0, respectively, in August. **Again, we reiterate that PMI is not always a seamless and consistent guide to economic performance. However, a sustained expansionary reading provides some support to our positive Q3-2018 GDP expectation.**

The World Bank revised its 2018 economic growth forecast for Nigeria to 0.9% from 2.1%, as the country's recovery faltered in the first half of the year, weighed by a fall in oil production (due to pipeline closures) and a contraction in the agriculture sector (due to the herdsmen crisis in the Middle-Belt), which partially offset a rebound in the services sector and dampened non-oil growth. **Although we are optimistic about a rebound in the oil sector growth, we expect the underlying economy to remain weak, reflecting our thought that the economy will witness little or no structural reforms over the rest of 2018.**

Table 1: Macro indicators

Macro indicators (Nig)	Current	Year start	Forecast
Real GDP growth	1.50%	2.11%	*UR (Q3-18)
MPR	14.00%	14.00%	14.00% (Next meeting)
CPI	11.23%	15.37%	11.54% (Sep-18)
Exchange rate (USD)	NGN306.40	NGN305.50	NGN306.45 (12th Oct)
Foreign reserve (USD'bn)	43.92	38.91	43.47 (12th Oct)
Unemployment	18.80%	18.80%	20.30% (Q4-17)
Brent crude oil price (USD)	84.51	66.57	83.00 (12th Oct)

*UR: Under review

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

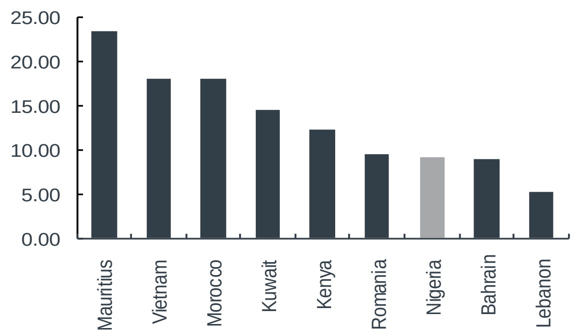
Capital markets

Equities

The equities market closed negative, with the benchmark index dropping 1.17%, w/w, to 32,383.15 points, amidst continued selloffs across major counters. All sessions of the week closed in the red. As a result, the Year-to-Date losses rose to 15.32%. The bears dominated all major sectoral indices – Insurance (-1.01%), Banking (-0.65%), Industrial Goods (-0.35%), and Consumer Goods (-0.32%) – save for the Oil & Gas (+1.13%) index, which closed positive. Market breadth remained negative with 31 losers and 26 gainers.

Our outlook for equities in the near-to-medium term is negative, and we guide investors to trade cautiously, amidst absence of a near term positive catalyst and political jitters ahead of the upcoming 2019 elections. 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
CUTIX	4.73	15.37%	135.32%	NIGERINS	0.30	-18.92%	-40.00%
FO	22.10	10.22%	-49.17%	LAWUNION	0.55	-15.38%	-28.57%
JAPAULOIL	0.24	9.09%	-52.00%	NEIMETH	0.59	-10.61%	-21.33%
AIICO	0.83	7.79%	59.62%	UAC-PROP	1.76	-9.74%	-36.92%
UACN	11.50	7.48%	-31.95%	ROYALEX	0.20	-9.09%	-60.00%

****CP: Closing price***

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

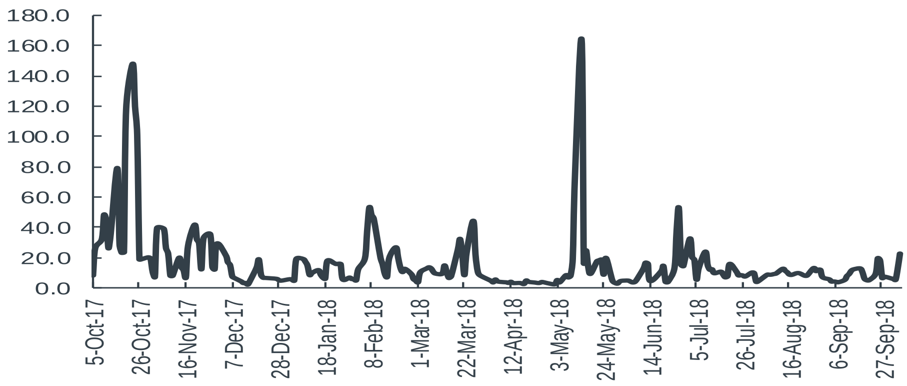
Fixed income and money market

Money market

The overnight lending rate surged 1,533 bps, w/w, to 22.50%, against last week's close of 7.17%. Following the FAAC inflows which hit the system late last week Friday, buoyant system liquidity persisted for the first two trading days of the week. However, on Thursday, the CBN mopped up excess liquidity via OMO auction, selling a total of NGN552.99 billion worth of bills, following an inflow of matured OMO bills (NGN278.37 billion). Funding for FX sales, today, led to a further contraction in liquidity, leading to an expansion in the overnight rate.

Next week, inflows from maturing OMO bills (NGN268.22 billion), are likely to outweigh outflows; thus, boosting system liquidity. In effect, a contraction in the overnight lending rate is on the cards.

Fig 5: Overnight money market rate (%)



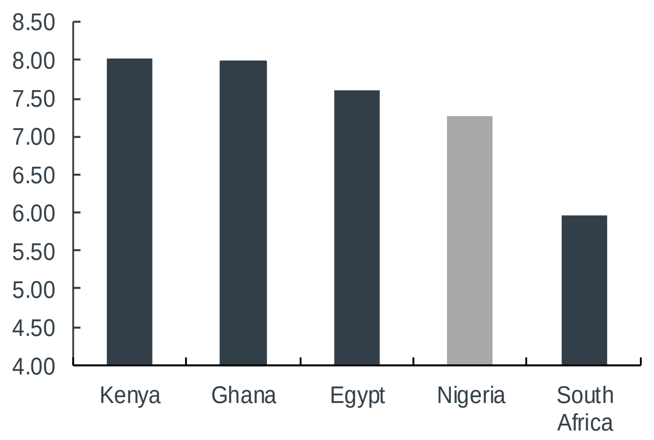
***Source**: FMDQ, Cordros Research*

Treasury bills

Activities in the treasury bills market were mixed, albeit with a slightly bearish tilt, as high demand at the beginning of the week was tapered. As a result, average yield rose marginally (+1 bp), w/w, to 13.26%. Investor sentiment was negative at the short (+45 bps) end of the curve, amid a selloff of the 20DTM (+74 bps). Conversely, yields contracted at the mid (-1 bp) and long (-68 bps) segment, driven by demand for the 181DTM (-69 bps) and 349DTM (-233 bps) bills, respectively. At Wednesday's primary action, the CBN fully allotted NGN133.49 billion worth of bills – NGN9.52 billion of the 91-day, NGN17.60 billion of the 182-day and NGN106.37 billion of the 364-day – at respective stop rates of 10.90% (previously 11.00%), 12.098% (previously 12.20%), and 13.33% (previously 13.475%).

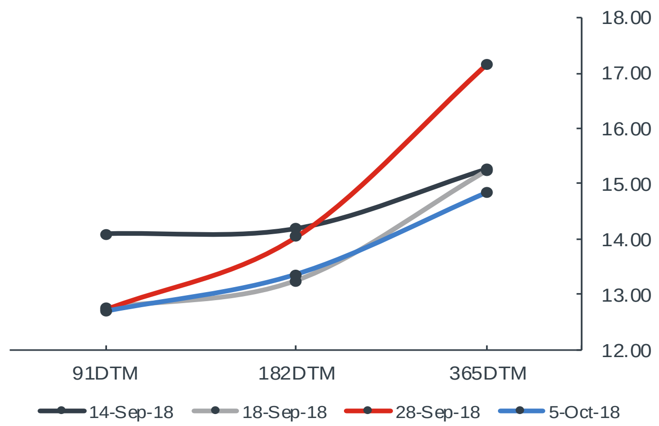
Yields are expected to fall in the coming week, supported by expected buoyant system liquidity.

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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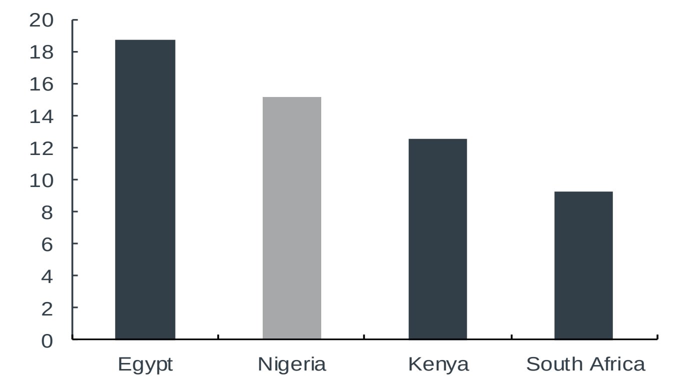
Bond

Bullish sentiments persisted in the bond market, following sustained demand from local investors taking advantage of relatively attractive yields. Consequently, yields declined by 17 bps on average, w/w, to close at 14.77%. Yields contracted across the short (-41 bps), mid (-5 bps) and long (-5 bps) ends of the curve, following demand for the JUN-2019 (-106 bps), JAN-2026 (-18 bps), and JUL 2034 (-11 bps) bonds, respectively.

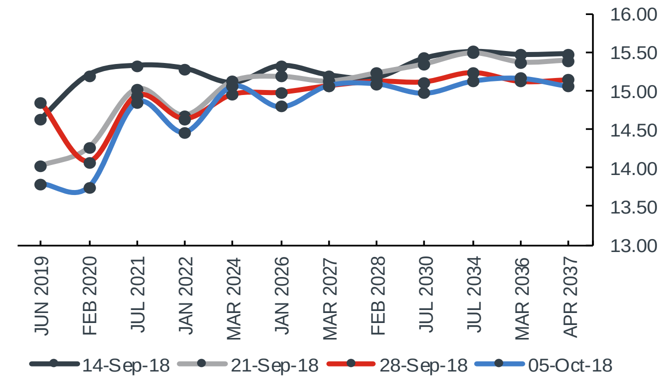
We reiterate our expectations for modestly higher yields in the medium term, anchored on (1) strengthening signs of monetary tightening, (2) capital flight amid higher yields in safe haven assets, (3) political uncertainty stemming from the upcoming elections, and (4) increased government borrowing to 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



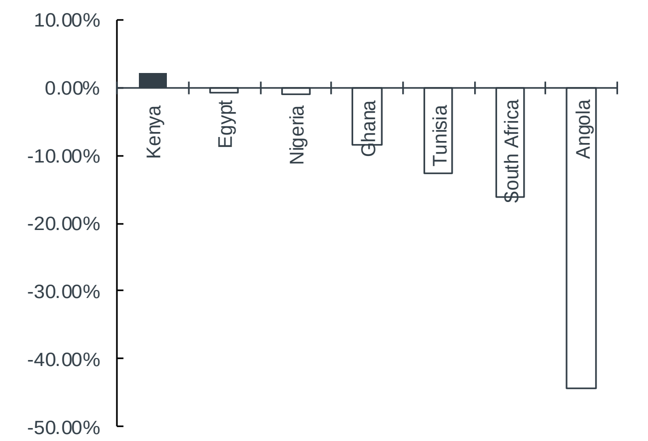
***Source**: FMDQ, Cordros Research*

Foreign exchange

FX reserves depleted further by USD382 million over the week to USD43.92 billion, amidst the apex bank's continued interventions into the forex market, wherein USD210 million was sold -- USD100 million to the wholesale window, and USD55 million apiece to the SMEs and invisibles segments. Against that backdrop, USD/NGN traded largely flat in the parallel market and strengthened slightly in I&E window (+0.03%) to close the week at NGN361 and NGN363.82 respectively. Meanwhile, total turnover in the IEW slipped 11.5% to USD1.02 billion, with 99.89% of trades consummated within the NGN360-NGN369/USD band. In the FX forwards market, the USD/NGN appreciated mildly in the 1-month (+0.08%), 3-month (+0.23%) and 6-month (+0.44%) dated contracts to NGN367.42, NGN374.64 and NGN386.29 respectively, while it depreciated in the 1-year (-0.98%) contract to NGN410.40.

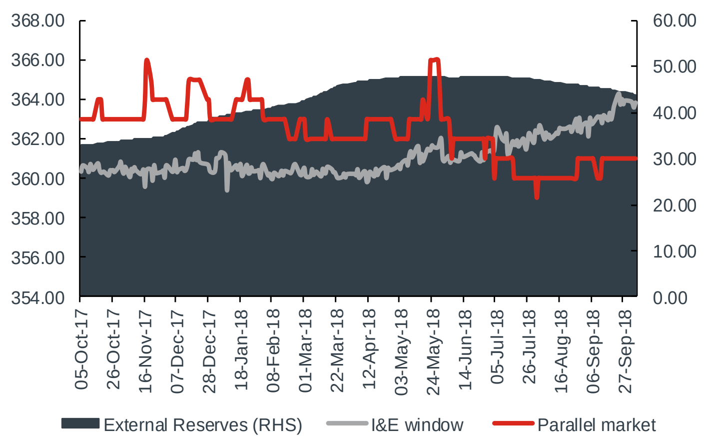
Rising oil prices and stable production continue to support our stable outlook for the FX market, as it aids the build-up in our foreign reserves and provides the apex bank sufficient legroom to sustain its interventions in the currency space.

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 wants 15% interest on $8.1bn MTN refunds
- NNPC earns $416m from oil, gas export in one month
- Investors stake $5bn on telecoms every quarter – NCC
- FG increases gas flare penalty from N10 to N613
- MTN mulls new share trading
- Our refineries will be fully functional before 2019 ending – Kachikwu

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