

Monthly markets review.

Overview of markets in October and outlook

Highlights

- Sentiments were broadly negative across most global markets within our coverage, with all the major benchmark indices posting losses.
- Mixed trading was the theme for domestic equities in October, as earnings releases played a key role in swinging investor sentiments.
- The overnight lending rate eased 225 bps m/m to close at 4.92%, amidst robust system liquidity at the foot of the month.
- Bearish sentiments were sustained in the treasury bills market, as renewed hawkish signaling by the CBN drove yields higher for the third consecutive month, on average.
- The bearish trend persisted in the FGN Bond market, on the prospect of higher bond supply and increase in OMO rates.
- Stability was the theme for the FX market during the month, as the naira continued to trade range-bound.

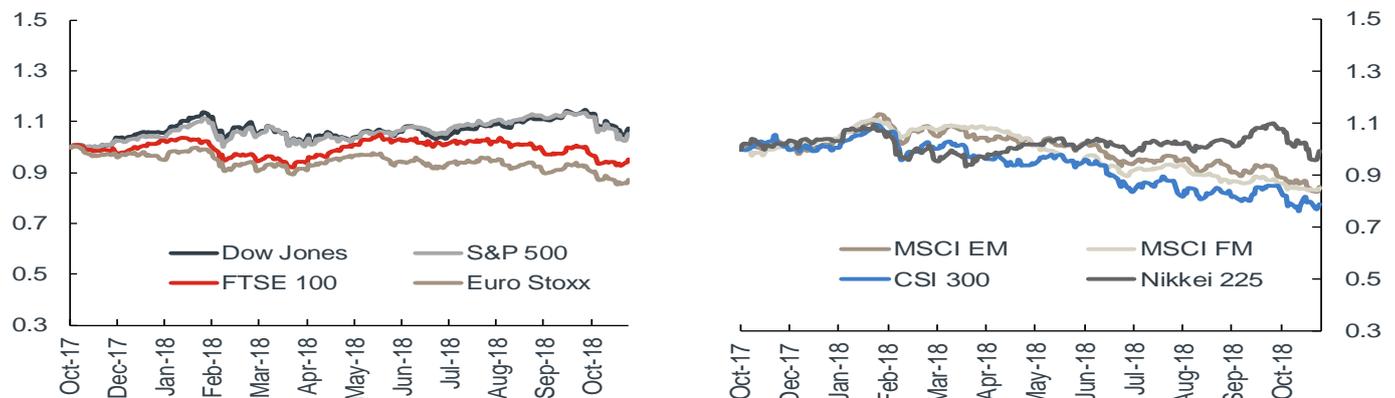
Global equities markets

Sentiments were broadly negative across most global markets within our coverage, with all the major benchmark indices posting losses.

The major benchmarks for US equities – the Dow and S&P 500 – lost 5.07% and 6.94% of their respective values during the month. A key driver of the selloff was the Fed’s hike in interest rates, which spooked investors’ sentiments and led to a rout in the market. In addition, concerns surrounding the US-China trade spat continued to negatively impact the market. Most of the losses occurred at the early part of the month, with the Dow and S&P 500 indices losing 4.56% and 5.60%, respectively, by mid-month. Losses slowed down over the rest of the month, with the Dow shedding 0.53%, while the S&P 500 inched lower by 1.42%.

The Euro area’s key market indices – the FTSE 100 (-5.09%) and Euro Stoxx 50 (-5.93%) – also closed the month negative. Geopolitical concerns in the area -- including worries surrounding Italy’s budget, Brexit uncertainties, as well as the political upheaval in Germany – weighed on the market’s performance. Weak economic data also contributed to the losses in the bloc. Return in the first half (FTSE 100: -6.40%, Euro Stoxx 50: -0.40%) of the month was negative, while it was mixed in the second half, as the FTSE 100 gained 1.41%, while the Euro Stoxx 50 dipped 0.40%.

Fig 1: Global Indices (Index of 1)



Source: Bloomberg, Cordros Research

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The Asian market was also not left out of the chain of losses. The CSI 300 index was down 8.29%, as a mild gain of 0.88% (in the latter half of the month) helped soften the impact of the significant loss of 9.08% recorded earlier in the month. The Nikkei 225 index also closed the month in negative territory, posting a loss of 9.12%. The major contributing factors were the weak economic data in the region (particularly in China, where GDP growth touched its lowest since Q1-2009 at 6.50% in Q3.), as well as trade war concerns with the US.

6 November 2018

Sell pressure also intensified in the emerging (MSCI EM: -8.78%) and frontier (MSCI FM: -3.49%) markets. The emerging market index's negative performance was driven by the losses in China and India (-4.93%), while losses in Argentina (-11.87%), Kenya (-3.55%), Morocco (-3.67%) and Nigeria (-0.92%) led to negative returns in the frontier market index.

Nigeria

Equities market

Mixed trading was the theme for domestic equities in October, as earnings releases played a key role in swinging investor sentiments. Political concerns and slow-paced economic growth also negatively impacted investor's sentiments during the period. As a result, the ASI dropped 0.92% m/m to 32,466.27 points. There were softer losses in the first half (-0.13%) of the month, while loss in the second half inched up 0.78%.

On earnings, among sectors within our coverage, performance in the Banking sector was mixed, with ZENITHBANK, GUARANTY, and ACCESS posting positive y/y growth in Q3-18 PAT, while UBA and FBNH recorded declines. Among the industrials, DANGCEM was impressive – leading to a boost in investor interest in the stock: +1.95% m/m – while WAPCO's performance was disappointing, as the cement producer's highly leveraged position weighed on finance costs and bottom line performance. This led to significant sell pressure in the cement producer's shares (-21% m/m).

Earnings performance in the consumer goods segment was also mixed, with NESTLE and CADBURY showing strong growth in the quarter, while NB, UNILEVER, FLOURMILL, and DANGSUGAR failed to impress. Earnings were broadly positive in the oil & gas segment, with TOTAL and MOBIL posting PAT growths (as opposed to FO), while in the Agricultural sector, PRESCO's earnings were positive, and OKOMUOIL's Q3 result, unimpressive. Overall, we saw market react accordingly.

Performance across the major sectoral indices was mixed, with the Banking (+1.69%) and Oil & Gas (+1.27%) indices closing in positive territory, while the Industrial Goods (-6.12%), Consumer Goods (-4.59%), and Insurance (-1.42%) indices posted negative returns. The respective index movers include ZENITHBANK (+9.30%), TOTAL (+8.20%), WAPCO (-21.17%), HONYFLOUR (-26.21%), and NIGERINS (-29.73%), respectively.

Table 1: NSE sector indices performance

Index	31-Oct	28-Sep	m/m Change	y/y Change
NSE Banking	418.21	411.25	1.69%	-12.04%
NSE Consumer Goods	723.54	758.36	-4.59%	-25.87%
NSE Industrial	1435.11	1528.69	-6.12%	-27.36%
NSE Insurance	123.49	125.27	-1.42%	-11.39%
NSE Oil/Gas	291.35	287.69	1.27%	-11.90%

Source: NSE, Cordros Research

Table 2: NSE top gainers & losers

Gainers			Losers		
Ticker	MTD	YTD	Ticker	MTD	YTD
FIDELITYBK	20.00%	-17.07%	CUTIX	-50.49%	1.00%
DIAMONDBNK	19.49%	-6.00%	NIGERINS	-29.73%	-48.00%
AIRSERVICE	17.86%	10.92%	HONYFLOUR	-26.21%	-49.05%
CORNERST	10.00%	-56.00%	JOHNHOLT	-24.53%	-20.00%
CADBURY	9.89%	-36.18%	GUINEAINS	-21.88%	-50.00%

Source: NSE, Cordros Research

Meanwhile, the lagging report from the NSE on foreign portfolio for September shows total transactions on the bourse in the month were 18.82% higher m/m, at NGN130.20 billion. Foreign investors accounted for 64.8% of total trades, with outflows (+27.60% m/m) growing at a faster pace than inflows (+10.58% m/m). Domestic players' contribution to the bourse's total turnover was lower, at 35.23% (previously 46.97%). The local investors were mostly institutional (56.5% of total domestic transactions), while retail players contributed the remaining 43.47% in the period.

However, despite the intermittent gains recorded in the month, stocks on the exchange remained largely undervalued. The benchmark index's P/E ratio stood at an average of 9.36x in the period,

vs 9.61x in same period last year, and also cheaper than MSCI FM's index P/E of 11.22x. The relative strength index (14-day RSI) average reading for the month printed at 41.25, showing the market traded close to the oversold region (30), with 33% having < 30 readings, and 5.81% having >70. Most stocks (c. 61%) traded within normal levels (between 30 and 70).

Our outlook for equities in the medium term remain conservative, as jitters surrounding the upcoming elections are likely to intensify as the date draws closer, and the absence of a positive catalyst fails to give respite to the expected sell pressure. However, recovery is likely in the long term, amidst stable macroeconomic fundamentals.

Fixed income and money market

Money market

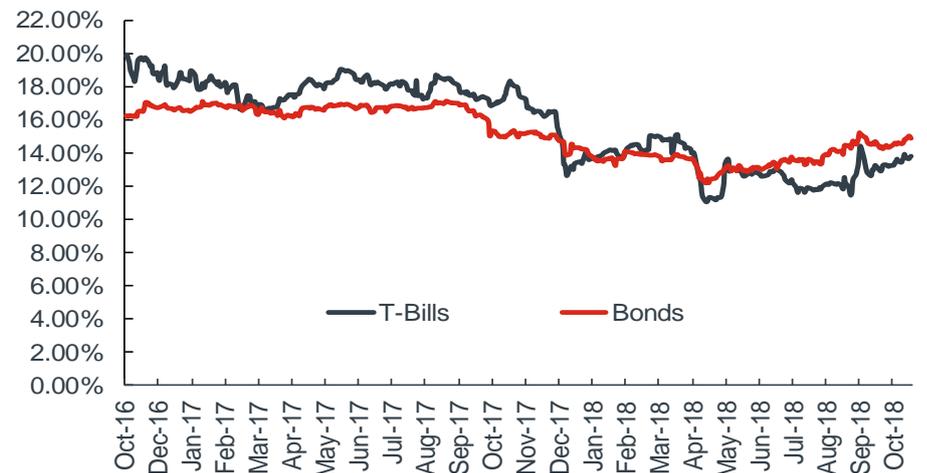
The overnight lending rate eased 225 bps m/m to close at 4.92%, amidst robust system liquidity at the foot of the month. Inflows from matured OMO bills (NGN1.28 trillion), bond coupon payments (NGN46.87 billion), and FAAC disbursements (c. NGN382.52 billion) to states and local governments (due to a delay in payment for the previous month) boosted to liquidity. In a bid to rein in excess liquidity, CBN mopped up a total of NGN1.26 trillion via its weekly OMO auctions. Other outflows include FX sales (USD1.18 billion) and bond primary market auctions (NGN88.08 billion).

We expect current buoyant liquidity to persist on the back of inflows from maturing OMO bills (NGN1.61 trillion), bond coupon payments (NGN23.49 billion), and the budgetary allocations (c. NGN400 billion) to state and local governments. In effect, a contraction in the overnight rate is likely.

Treasury bills

Bearish sentiments were sustained in the treasury bills market, as renewed hawkish signals from the CBN drove yields higher for the third consecutive month, on average. Over two successive weeks, in a likely bid to maintain foreign interest in naira assets and reduce USD demand pressures, the apex bank hiked stop rates, by 65 bps on average, on the short, mid and long tenored bills on offer at its weekly OMO auction to 11.50% (+45 bps from 11.25% previously), 13.00% (+50 bps from 12.5% previously), and 14.50% (+100 bps from 13.50% previously), respectively. In addition, yields at the primary auctions widened by 85 bps on average m/m, spurring further selloffs. Consequently, average yield closed at 13.81%, representing a 56 bps m/m increase. Yields rose across the short (+25 bps), mid (+30 bps), and long (+60 bps) ends of the curve, with the 3-JAN-19 (+60 bps), 21-FEB-19 (+42 bps), and 12-SEP-19 (+66 bps) bills recording significant expansions, respectively.

Fig 2: FGN bonds and treasury bills average yields



Source: FMDQ, Cordros Research

Three primary auctions were conducted during the month. At the first, 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%). At the second, the CBN fully allotted NGN147.63 billion worth of bills – NGN5.85 billion of the 91-day, NGN29.25 billion of the 182-day and NGN112.54 billion of the 364-day – at respective stop rates of 10.96% (previously 10.90%), 12.69% (previously 12.098%), and 13.449% (previously 13.33%). At the third, the CBN fully allotted NGN145.63 billion worth of bills – NGN7.85 billion of the 91-day, NGN43.52 billion of the 182-day and NGN93.92 billion of the 364-day – at respective stop rates of 10.9752% (previously 10.96%), 13.49% (previously 12.69%), and 14.40% (previously 13.449%).

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

In line with our expectation, bearish trend persisted in the FGN Bond market. Sentiments were weighed by (1) the release of the Q4-18 bond issuance calendar which indicated a NGN67 billion - NGN112 billion increase in planned borrowing, to NGN270 billion - NGN360 billion, compared to NGN203.34 billion sold in the previous quarter and (2) the increase in short term rates (as discussed above). Consequently, average yield climbed 28 bps m/m to close at 15.22%. Yields expanded at the short (+14 bps), mid (+42 bps) and long (+21 bps) segments. Notable bonds include the JUL-2021 (+39 bps), JAN-2026 (+51 bps), and MAR-2036 (+37 bps) bonds, respectively.

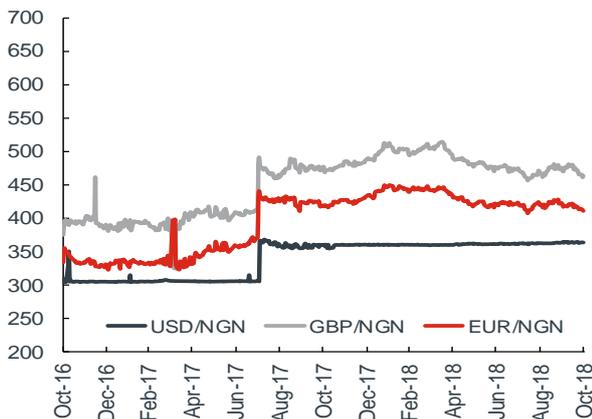
At the primary market auction, the DMO allotted a total of NGN88.08 billion – NGN12.65 billion of the APR-2023 (re-opening), NGN20.14 billion of the MAR-2025 (re-opening), and NGN55.29 billion of the FEB-2028 (re-opening) – in bonds (vs. NGN115 billion offered), at respective stop rates of 15.00% (same as previous auction), 15.15% (same as previous auction), and 15.32% (vs. 15.2459% at the previous auction). With sale of only 77% (September auction: 107%) of its planned NGN115 billion offer, despite fairly robust market demand (Total subscription: NGN143.48 billion, vs. NGN158.51 billion in September), we deduce a less desperate DMO.

We reiterate our expectation for modestly higher yields in the medium term, anchored on (1) domestic monetary policy direction, (2) sustained uptick in inflation rate, (3) capital flight amid higher yields in safe haven assets, and (4) political uncertainty stemming from the upcoming general elections. At the next bond auction on 21st Nov 2018, the DMO is expected to offer NGN115 billion – NGN35 billion of the APR-2023 (reopening), NGN35 billion of the MAR-2025 (re-opening) and NGN45 billion of the FEB 2028 (re-opening) – in bonds to investors.

Foreign exchange

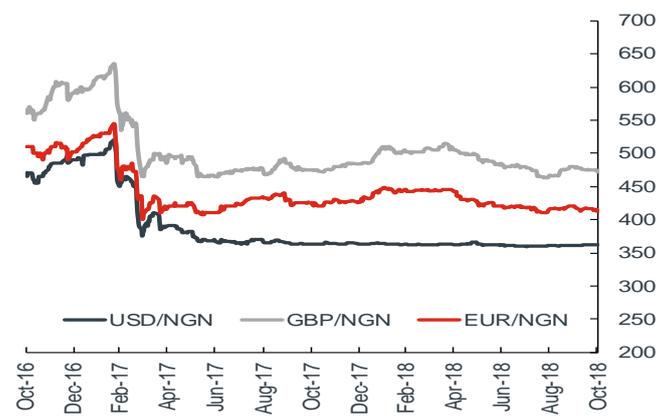
Stability was the theme of the FX market during the month, as the naira continued to trade range-bound. However, the foreign reserves remained under pressure, as it dropped USD2.31 billion – the fourth consecutive month of decline, and the largest m/m decline in the year so far -- to USD41.95 billion, amidst the CBN's continued intervention, wherein USD1.18 billion was sold. On the Bilateral Currency Swap Agreement (BCWA) with China, CNY53.44 million was sold (vs. CNY104.98 million last month). In the I&E FX window, the USD/NGN reached a high of NGN364.61, while it touched a low of NGN363.32 during the period. On a m/m basis, it weakened by 0.10% to NGN363.54. Meanwhile, the naira traded mostly flat at NGN362/USD (16 of 24 sessions) in the parallel market, closing 0.28% lower at NGN362 (vs NGN361 in the previous month).

Fig 3: Interbank market FX rate



Source: FMDQ, Bloomberg, Cordros Research

Fig 4: Parallel market FX rate



Source: abokiFX, Cordros Research

Total turnover in the IEW dropped 26.69% to USD4.80 billion in the month, with bulk of trades (98.76%) consummated within the NGN360-369/USD band. In the FX forwards market, the naira strengthened across most major-dated contracts – 1-month (+0.10%), 3-month (+0.05%), and 6-month (+0.02%) – save for the 1-year contract which closed lower by 1.23%. The respective closing prices are NGN366.60, NGN373.41, NGN384.03, and NGN411.95.

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

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