

# Weekly economic and market update.

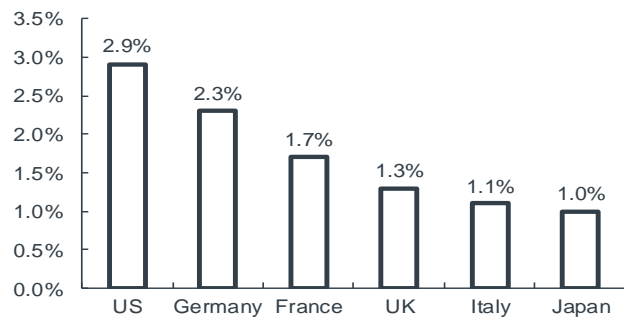
## Overview of markets in the week ended 16 November 2018

### Global economy

In line with expectations, the U.S Labour department reported that October inflation expanded by 2.5% y/y, (September: 2.3% y/y) – fastest increase in 9 months – driven largely by sharp increases in the cost of gasoline and rent. On a month-on-month basis, CPI rose 0.3% compared to 0.1% in the previous month. Ex-volatile food and energy prices, m/m headline printed 0.2% (September: 0.1% m/m). Strong employment data, together with faster wage growth continue to fuel CPI following improved domestic demand. **Whilst the Fed held policy parameters unchanged in the last meeting, a steady rise in inflation will certainly keep the Fed on course for another rate hike in December.**

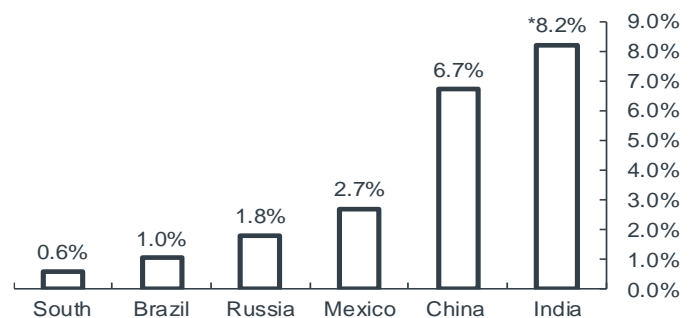
Elsewhere, the preliminary reading for Q3-18 GDP in Japan shows that economic activities contracted by 0.3% q/q compared to 0.7% in the prior quarter largely driven by the impact of natural disaster. Particularly, severe flooding in western Japan in July and magnitude 6.6 earthquake in northern Japan in September significantly dragged activities in the period. To add, trade war concerns also markedly weighed on export in the period. **With disappointing data largely induced by temporary factors, we expect activities to bounce back going forward.**

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



Source: Bloomberg, Cordros Research

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



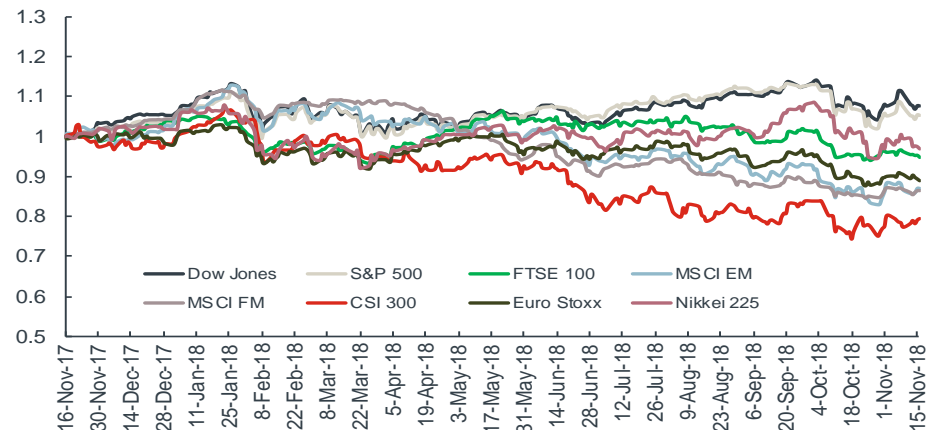
\*Q1-2018

Source: Bloomberg, Cordros Research

### Global markets

Global equity markets across our coverage traded largely bearish as investors dumped risky assets in the U.S (DJIA: -2.7%, S&P 500: -1.9%), and Europe (Euro Stoxx: -1.7%, FTSE 100: -1.5%). Meanwhile, sentiments were mixed in Asia (CSI 300: 2.8%, Nikkei: -2.6%). To our mind, the combined impact of continued hawkish rendition, Brexit concerns in the EU, and the recent crude oil price rout largely weighed on investors' sentiment in the week. Elsewhere, whilst return was positive in emerging markets (MSCI EM: -0.5%), frontier markets (MSCI FM) sustained its benign performance shedding 1.8% on the back of sell offs in Vietnam (-2.2%), Kenya (-1.5%), and Nigeria (-0.3%).

Fig 3: Global indices (index of 1)



Source: Bloomberg, Cordros Research

## Nigeria

## Economy

On Wednesday, Nigeria concluded on its highly anticipated Eurobond issue, raising a total of USD2.86 billion, comprising a USD1.18 billion 7-year series, USD1 billion 12-year series, and USD750 million 30-year series. The issue was oversubscribed, with a bid to cover ratio of more than 3x, and priced fairly at a weighted average yield of 8.4%, relative to the indicative rate of 8.6%. **The issue, in conjunction with domestic bond issuances so far, imply the FGN is near completing the total borrowing of NGN1.6 trillion required to partly fund the deficit in the 2018 budget. However, in the context of the fiscal year spending target (NGN9.1 trillion), amidst underperforming revenues, there lies the risk of some way higher deficit than budgeted, in which case the FGN may (1) raise higher debt than budgeted, and/or (2) reduce budget expenditure implementation to our bear case estimate of 85% (NGN7.75 trillion).**

According to the Executive Chairman of the Federal Inland Revenue Service (FIRS), the tax authority generated a total of NGN4.3 trillion between January and the end of October this year from the collection of various taxes. He attributed the remarkable performance to the agency's focus on businesses with over NGN1 billion in annual turnover without any record of commensurate payment of tax obligations. **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	1.50%	2.11%	1.83 (Q3-18)
MPR	14.00%	14.00%	14.00% (Next meeting)
CPI	11.28%	15.37%	11.33% (Oct-18)
Exchange rate (USD)	NGN306.70	NGN305.50	NGN306.75 (23rd Nov)
Foreign reserve (USD'bn)	41.62	38.91	41.45 (23rd Nov)
Unemployment	18.80%	18.80%	20.30% (Q4-17)
Brent crude oil price (USD)	67.02	66.57	71.00 (23rd Nov)

Source: CBN, Bloomberg, NBS, Cordros Research estimates

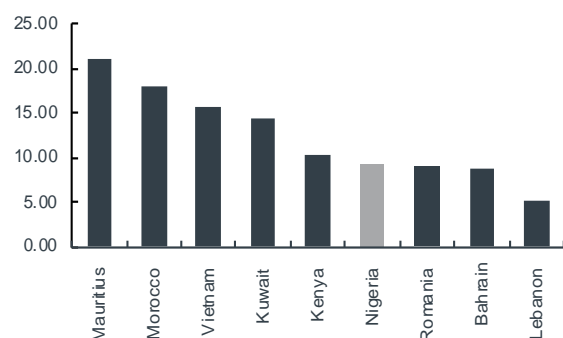
## Capital markets

## Equities

Nigeria's equities market was largely bearish with the NSE shedding -0.44% to close the week at 32,058.28 points. Even as the market recorded some gains (0.61%) at the close of the market today, losses across prior sessions largely muted today's gain thereby leaving MtD and YtD losses at -1.3% and 16.2% respectively. On sectoral analysis, performance was largely mixed with the Oil & Gas index (-1.13%) recording the steepest decline, followed closely by the Banking (-0.83%) and Insurance (-0.46%) indices. Meanwhile returns were positive in the Industrial (+1.02%) and Consumer Goods (-0.04%) indices.

**Again, we reiterate our negative outlook for the equities market in the short to medium term, amidst growing political concerns ahead 2019 elections, and absence of a positive market trigger. However, positive 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
UNITYBNK	0.93	30.99%	75.47%	DIAMONDBNK	0.90	-29.69%	-40.00%
FLOURMILL	17.20	11.69%	-40.69%	CILEASING	2.06	-26.43%	59.69%
PRESTIGE	0.56	9.80%	12.00%	ETERNA	4.50	-17.43%	10.84%
GLAXOSMITH	12.05	9.55%	-44.24%	UPL	1.92	-11.93%	-15.79%
NIGERINS	0.24	9.09%	-52.00%	UAC-PROP	1.44	-10.00%	-48.39%

\*CP: Closing price

Source: NSE, Cordros Research

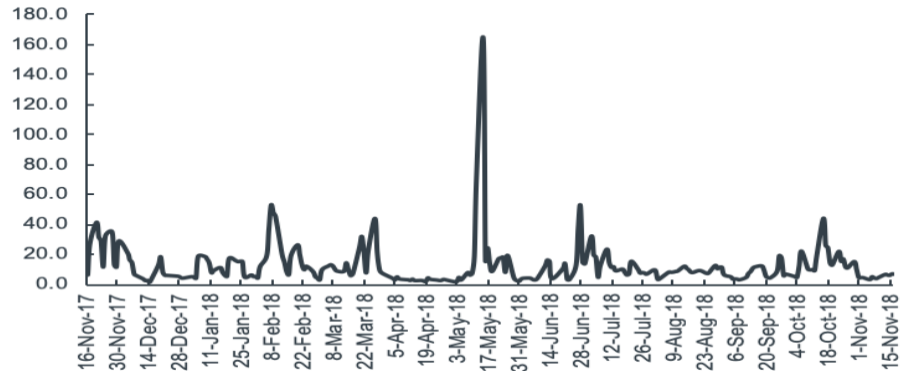
**Fixed income and money market**

**Money market**

In line with our expectation, the overnight lending rate rose by 217bps w/w to 7.17%, against last week's close of 5.00%. System liquidity was slightly compressed, relative to the previous week, as outflows from the CBN's OMO (NGN450.52 billion) and FX (USD 210 million) auctions outweighed inflows from matured OMO bills (NGN423.83 billion).

**Next week, inflows from maturing OMO bills (NGN408.98 billion) and bond coupon payments (NGN9.37 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 (%)**



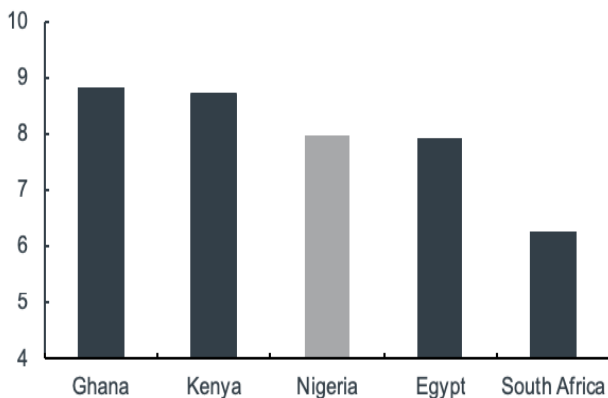
Source: FMDQ, Cordros Research

**Treasury bills**

Activities in the treasury bills market were bearish as market players sold off (1) due to the CBN's OMO interventions, and (2) in anticipation of higher yields at the primary auction. Consequently, average yield rose 32 bps w/w to close at 14.00%. Sell pressure was spread across the short (+25 bps), mid (+11 bps), and long (+19 bps) ends of the curve, with respective yields on the 13DTM (+89 bps), 118DTM (+37 bps) and 244DTM (+88 bps) bills, respectively. At this week's primary action, the CBN fully allotted NGN128.24 billion worth of bills – NGN3.38 billion of the 91-day, NGN16.92 billion of the 182-day and NGN107.94 billion of the 364-day – at respective stop rates of 10.95% (previously 10.9752%), 13.16% (previously 13.49%), and 14.45% (previously 14.40%).

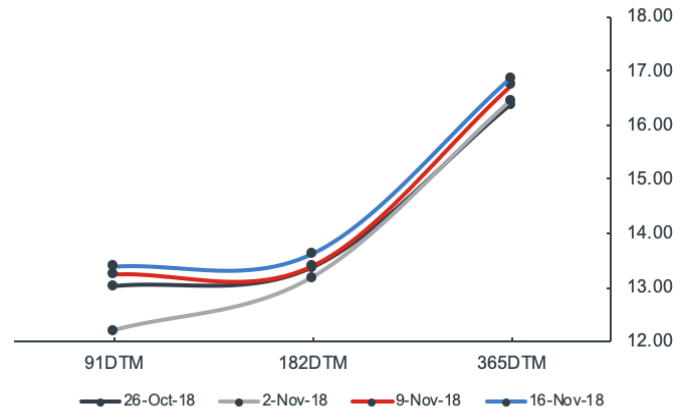
**Yields are expected to fall in the coming week, supported by expected buoyant system liquidity.**

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



Source: Bloomberg, Cordros Research

**Fig 7: T-Bills yield curve (%)**



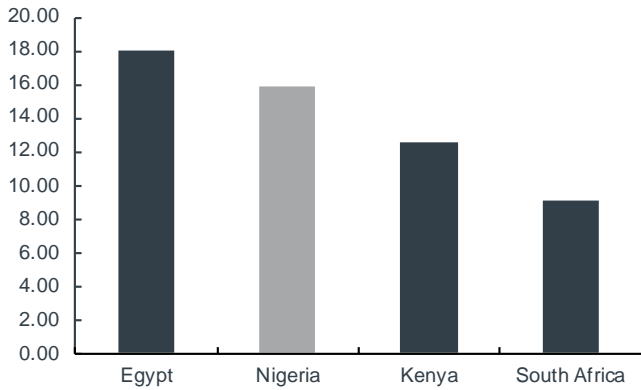
Source: FMDQ, Cordros Research

**Bond**

Activities in the bond market were bearish, amidst cautious trading by market players and persisting emerging market risk-off sentiments. As a result, average yield rose 5 bps w/w to close at 15.42%. Yields expanded across the short (+9 bps), mid (+1 bps), and long (+7 bps) ends of the curve following selloffs of the FEB-2020 (+35 bps), MAR-2027 (+7 bps), and APR-2037 (+17 bps) bonds, respectively.

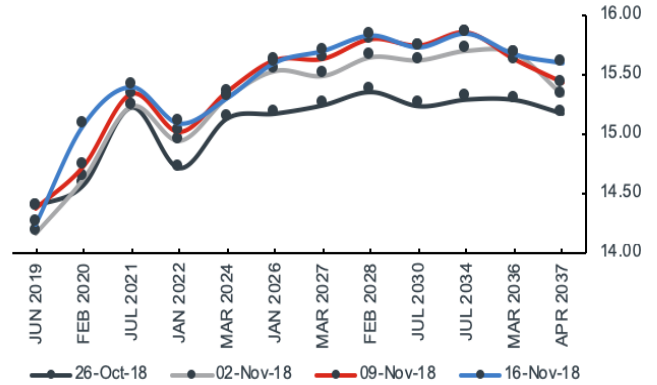
**We reiterate our expectation for modestly higher yields in the medium term, anchored on (1) domestic monetary policy direction, (2) sustained uptick in inflation rate, (3) capital flight amid higher yields in safe haven assets, and (4) political uncertainty stemming from the upcoming general elections.**

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



Source: Bloomberg, Cordros Research

**Fig 9: FGN bond yield curve (%)**



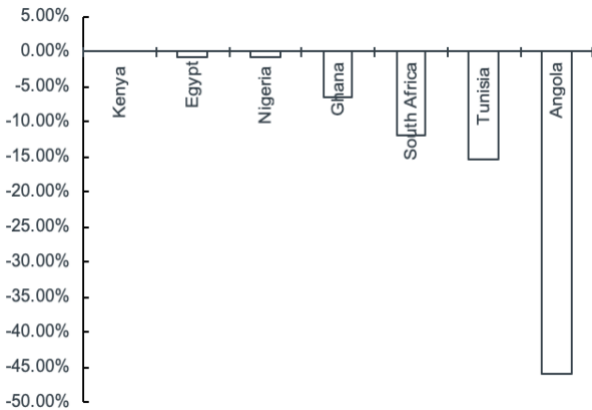
Source: FMDQ, Cordros Research

**Foreign exchange**

Extending its decline from last week, the FX reserves shed some USD136 million following the CBN's FX intervention across its different strata of FX windows. The apex bank sold a total of USD210 million distributed across wholesale (USD100 million), SMEs (USD55 million) and invisible (USD55 million) windows. Hence, the naira remained largely range-bound with parallel market rate trading flat to close at NGN363, while I&E window rate mildly depreciated by 0.11% to NGN364.01. Total turnover at the I&E window moderated sharply by 39% to USD586 million with most of the trades executed within the NGN360-369/USD band. In the FX forwards market, the USD/NGN depreciated across all contracts shedding 0.1%, 0.2%, 0.3%, 0.6% in the 2-month, 3-month, 6-month and 1-year, respectively.

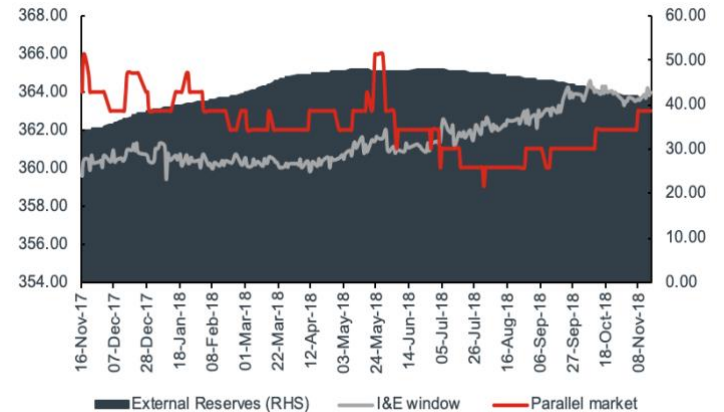
**In the short to medium term, we expect the naira to remain stable, as higher oil revenues (despite the recent decline in oil price) continue to shore up the foreign reserves, supporting the CBN's continued intervention. The USD2.86 billion Eurobond proceed, is expected to provide some respite to the foreign reserves, further supporting our outlook.**

**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

- Diamond Bank denies talks about merger, acquisition
- Teleology takes over 9mobile, appoints directors
- Fuel Supply: NNPC set to control more than 14% market share
- MTN to offer mobile banking in Nigeria next year
- Nigeria'll be second biggest rice importer in 2019 –USDA
- No money, no jobless data, Nigeria's chief statistician says

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