

Weekly economic and market update.

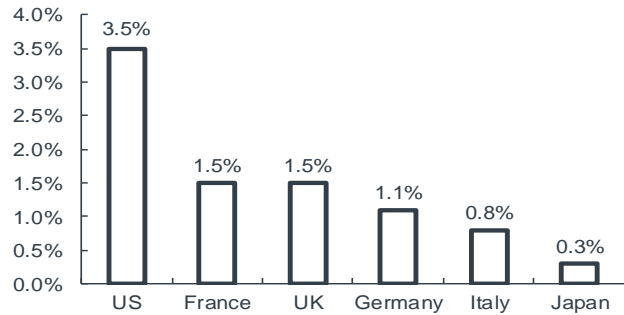
Overview of markets in the week ended 07 December 2018

Global economy

After two-days of fierce negotiations, which ended on Friday in Vienna, members of OPEC and OPEC+ eventually reached an agreement to cut output by 1.2 mb/d – larger than market had expected. The cartel and its allies had initially proposed to take off 1.0 mb/d off the market to help propel crude prices which have come under pressure in recent times. It is important to highlight that Iran is exempted from the deal following currently depressed output occasioned by U.S sanctions. OPEC+ members are expected to take a 400kp/d haircut, while OPEC member countries (ex-Iran) will take the balance. **With the U.S shale producers remaining a key risk to global crude prices, we expect that the agreement to provide some respite to crude oil price in the short to medium term.**

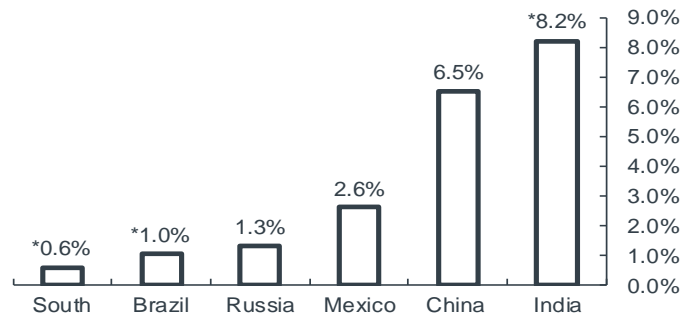
According to the US Labour department, the US economy added another 155k new jobs in November, with knock-on effect holding the unemployment rate tight at 3.7% – lowest level in 49 years. In the same vein, sturdy economic growth underpinned higher wage growth as average hourly earnings expanded by 0.2% m/m (October: 0.1%) in the period. **Whilst we acknowledge that the impact of the ongoing trade war will weigh slightly on growth, we expect still healthy economic data to induce the Fed to hike rate one more time in 2018.**

Fig 1: Annualized GDP growth rate Q3-2018 – DMs



Source: Bloomberg, Cordros Research

Fig 2: Annualized GDP growth rate Q3-2018 – EMs



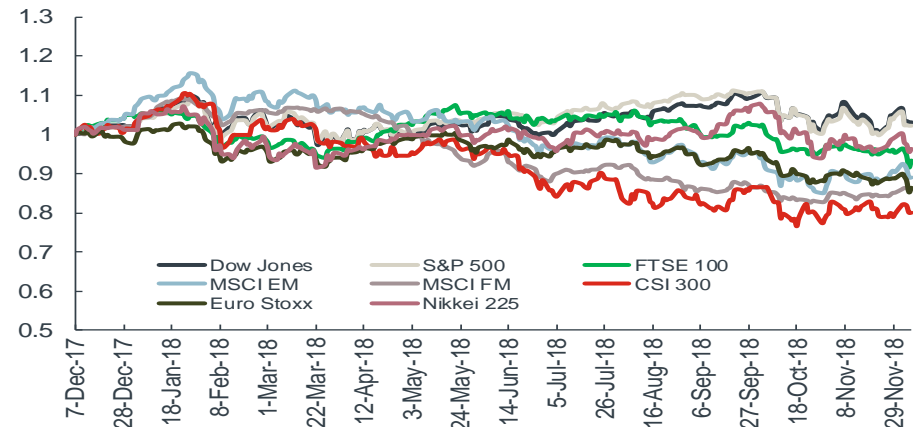
*Q2-2018

Source: Bloomberg, Cordros Research

Global markets

The U.S yield curve inverted over the week with knock-on effect casting doubt on the sustainability of U.S economic growth. That, together with sustained concern over trade war truce and unclear Brexit deal weighed on investors' sentiments over the week. Marked losses were evident across our coverage universe with investors dumping risky assets across the U.S (DJIA: -2.3%, S&P 500: -2.1%), Europe (Euro Stoxx: -2.5%, FTSE 100: -1.9%), and Asia (Nikkei: -3.0%). The Chinese index (CSI 300: +0.3%) closed the week positive following its strong commitment to increase imports from the U.S. Returns were positive across emerging markets (+1.6%) driven by gains in China while frontier markets sold-off, weighed by negative returns in Morocco (-0.1%) and Kenya (-0.3%).

Fig 3: Global indices (index of 1)



Source: Bloomberg, Cordros Research

Nigeria

Economy

The Central Bank of Nigeria (CBN) released its Business Expectations Survey Report for the month of November. It shows an increase in the respondents' overall confidence index (CI) on the macroeconomy to 25.9 index pts (vs. 23.2 pts in October), on the back of improvements in volume of total order, business activity, and financial conditions (working capital). The businesses outlook for December 2018 also indicated greater confidence in the macroeconomy at 65.6 index pts (vs. 64.4 pts previously). **We opine that business confidence will maintain an upward trajectory, due to the continued improvement in macroeconomic conditions. Notably, the trade and service sectors are likely to be buoyed by end-of-year festivities.**

The CBN revealed in its Economic Report for October 2018, showing that the Federal Government's retained revenue fell sharply by 38.4% in the month to NGN682 billion (monthly budget estimate: NGN1.11 trillion), and it recorded a deficit of NGN66.51 billion within same period. **Nigeria's fiscal deficit may widen further in 2018 due to persistent shortfalls in Federally collected revenues and suggests the FGN will need to seek more funding by issuing debt.**

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	11.26%	15.37%	11.27% (Nov-18)
Exchange rate (USD)	NGN306.85	NGN305.50	NGN306.90 (14th Dec)
Foreign reserve (USD'bn)	42.49	38.91	42.80 (14th Dec)
Unemployment	18.80%	18.80%	20.30% (Q4-17)
Brent crude oil price (USD)	63.02	66.57	68.00 (14th Dec)

Source: CBN, Bloomberg, NBS, Cordros Research estimates

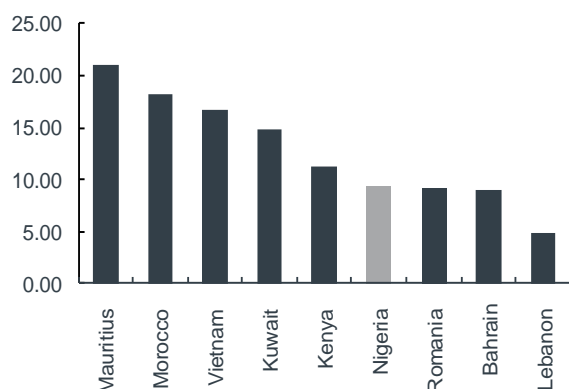
Capital markets

Equities

In the first week of December, the domestic equities market got off to a quiet start as the ASI closed the week largely flat (-0.02%) at 30,866.82 points. The ASI posted positive returns in three of the five sessions, which were effectively wiped off by the losses seen on Thursday and Monday's sessions. Against that backdrop, the MtD posted negative return at -0.02%, while YtD loss notched mildly higher to -19.29%, respectively. On sectoral breakdown, the Industrial Goods (-2.1%) and Insurance (-3.1%) indices closed negative, while the Consumer Goods (+0.6%), Banking (+0.9%), and Oil & Gas (+2.0%) indices closed positive.

In the short to medium term, we expect the negative performance of the equities market to persist, 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
DIAMONDBNK	1.02	56.92%	-32.00%	CONTINSURE	1.75	-12.50%	25.00%
IKEJAHOTEL	1.87	11.31%	5.06%	PRESTIGE	0.49	-10.91%	-2.00%
AICO	0.70	11.11%	34.62%	AIRSERVICE	6.30	-10.00%	5.88%
JAIZBANK	0.44	10.00%	-30.16%	MRS	25.70	-9.98%	-6.41%
CHAMPION	1.59	9.66%	-23.56%	SCOA	2.93	-9.85%	-9.85%

*CP: Closing price

Source: NSE, Cordros Research

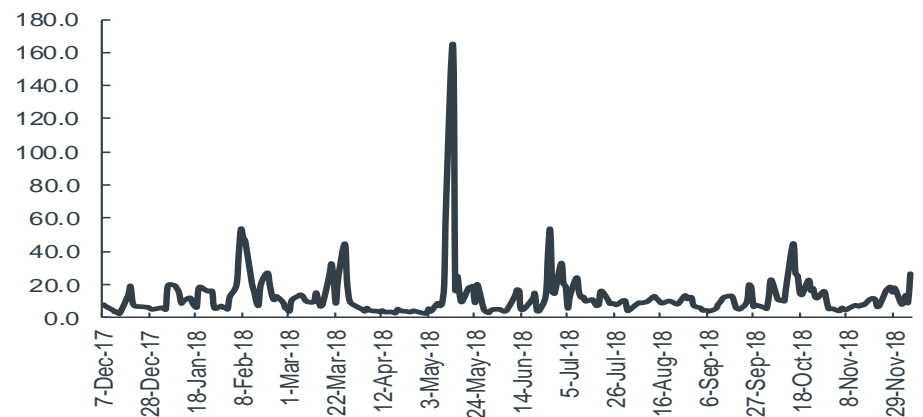
Fixed income and money market

Money market

The overnight lending rate surged 873 bps w/w to 26.08%, against last week's close of 17.36%. The CBN showed no signs of slowing down on its daily OMO interventions, selling a total of NGN932.76 billion worth of bills to combat inflows from OMO maturities (NGN684.84 billion), retail FX refunds (c. NGN200 billion), and the monthly FAAC disbursements (NGN399.59 billion). Other outflows include USD210 million for the retail FX sales.

Next week, inflows worth NGN551.36billion — maturing OMO (NGN498.72 billion) and treasury (NGN52.65 billion) bills — will offer support to system liquidity. In effect, a contraction in the overnight lending rate is likely. However, liquidity mop-up and forex intervention by the CBN are likely to exert upward pressure on the overnight lending rate.

Fig 5: Overnight money market rate (%)



Source: FMDQ, Cordros Research

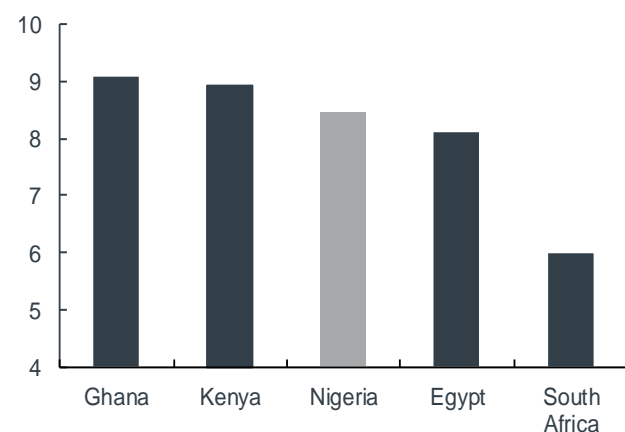
Treasury bills

Activities in the treasury bills market were significantly bearish as market players sold off on the back of the CBNs consecutive OMO auctions. As a result, yields rose 82 bps on average, w/w, to close at 15.57%. Sell pressure was spread across the short (+136 bps), mid (+90 bps) and long (+24 bps) ends of the curve, with the 132DTM (+165 bps), 146DTM (+123 bps), and 237DTM (+73 bps) bills recording significant yield expansions, respectively.

The CBN announced plans to fully redeem NGN78.05 billion in maturing treasury bills on the 13th and 20th of December, while those due on the 3rd of January 2019 will be partially redeemed by NGN84.45 billion per instructions by the Debt Management Office (DMO). This implies there will be no Primary Market Auctions held by the CBN in December.

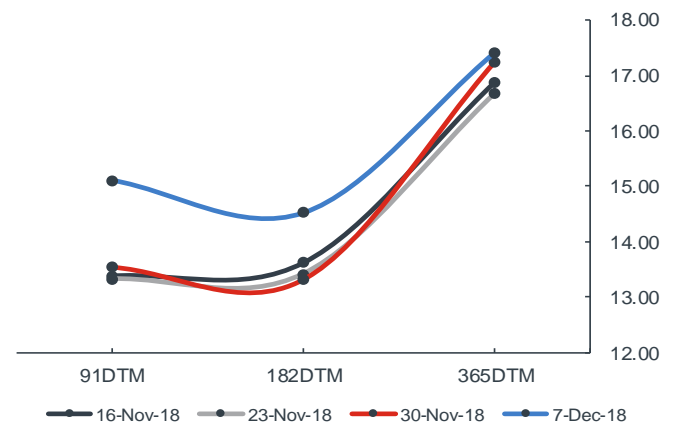
Yields are expected to be pressured as the CBN is expected to continue with the pace of its OMO interventions.

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



Source: Bloomberg, Cordros Research

Fig 7: T-Bills yield curve (%)



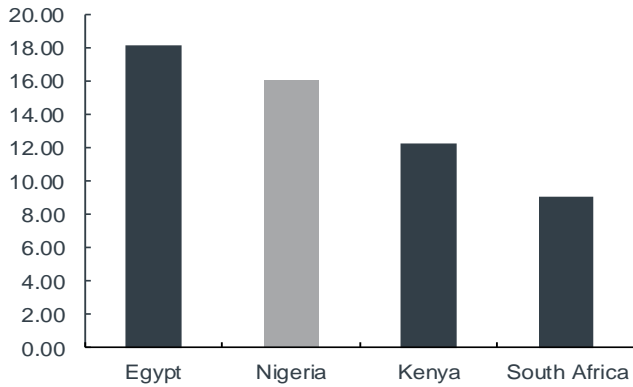
Source: FMDQ, Cordros Research

Bond

Trading in the bond market was quiet as investors remained risk-off on bonds. Average yield widened by 14 bps w/w to 15.55%. Yields expanded across the short (+36 bps), mid (+3 bps) and long (+3 bps) segments, following selloffs of the JUN-2019 (+36 bps), MAR-2024 (+14 bps), and APR-2037 (+5 bps) bonds, respectively.

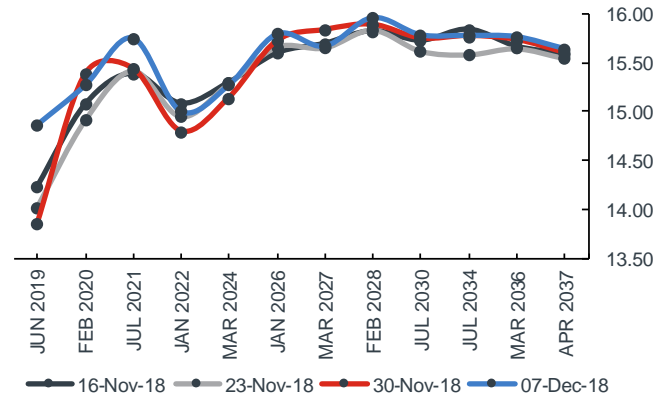
Our theme on the bond market continues to favour modestly higher yields in the medium term, anchored on (1) domestic monetary policy direction, (2) uptick in inflation rate, (3) capital flight amid higher yields in safe haven assets, and (4) political uncertainty stemming from the upcoming general elections.

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



Source: Bloomberg, Cordros Research

Fig 9: FGN bond yield curve (%)



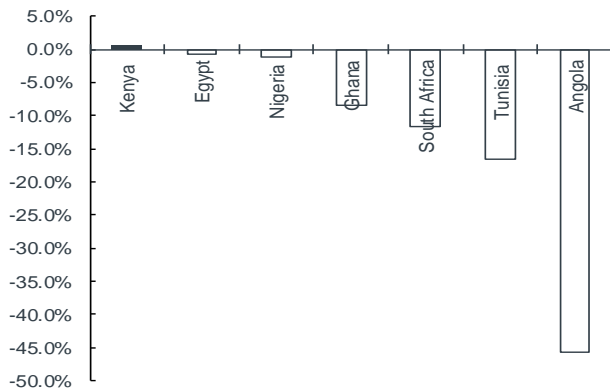
Source: FMDQ, Cordros Research

Foreign exchange

Extending its build up from last week, CBN recorded another foreign reserve accretion of USD318.73 million w/w to USD42.49 billion. The apex bank sustained its weekly FX intervention across various windows selling USD210 million distributed across wholesale (USD100 million), SMEs (USD55 million) and invisible (USD55 million) windows. Consequently, the naira appreciated by 1.1% to USD366 in the parallel market, while it depreciated in the I&E window by 0.3% to USD365.33. Meanwhile, total turnover at the I&E window surged by 23.8% to USD1.99 billion with total trades executed within the NGN355.50-365.91/USD band. At the forwards market, the USD/NGN depreciated across all contracts shedding 0.4%, 0.6%, 0.5% and 0.2% at the 1-month, 3-month, 6-month and 1-year contracts to NGN369.08, NGN376.52, NGN387.17 and NGN414.53 respectively.

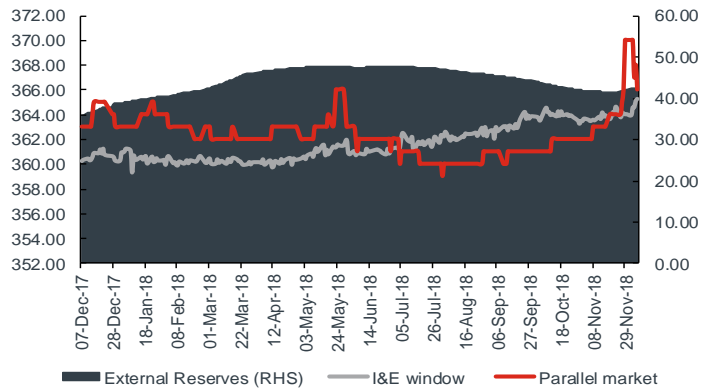
In the short to medium term, we expect the naira to remain range-bound, as higher oil revenues (despite the recent plunge in oil price) continue to help shore up the reserves, thereby supporting the CBN's continued intervention. The USD2.86 billion Eurobond proceed, is also expected to provide additional legroom, further supporting our views.

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

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