

August 11, 2017

### Economy

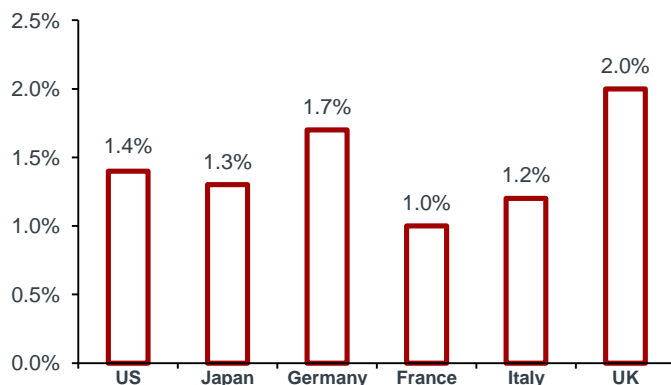
According to data released by the Labor Department today, U.S. consumer prices rose slightly in July as higher food costs were partly offset by falling prices for a range of other goods, suggesting benign inflation that could persuade a cautious Federal Reserve to delay raising interest rates until December. The Consumer Price Index edged up 0.1% in July after being unchanged in June. Accordingly, y/y CPI rose to 1.7% from 1.6% in June, slightly below consensus estimate of 1.8% y/y. Stripping out the volatile food and energy components, consumer prices gained 0.1% for the fourth straight month, while core CPI rose 1.7% in the 12 months through July and has increased by the same margin for three consecutive months. But with the labor market near full employment and economic growth accelerating, expectation is that the U.S. central bank will announce a plan to start unwinding its massive bond portfolio at its policy meeting next month.

Chinese trade data produced a rare miss in July with annual growth levels undershooting expectations. China's economy recorded an increase in its trade surplus for the fifth month in July, albeit at a slower pace, with the soft growth partly attributable to cooling producer price inflations. USD Exports increased by 7.2% (11.3% in June) while imports rose 11% (17.2% in June), resulting in a trade surplus of USD46.74 billion (from USD42.77 billion in June). The world's second largest economy recorded a rare miss from consensus on the import and export growth rates of 10.9% and 16.2%, respectively, but was higher compared to the surplus estimate of USD46.08 billion. Notably, China's trade surplus with the US – its largest export market – declined marginally to USD25.2 billion from USD25.4 billion in June amid the closely watched tensions that loomed between the two economic giants.

In Nigeria, the federal government, in its continued stride to encourage and attract investment into the country, lifted the suspension on processing Pioneer Status Incentives; adding 27 new key industries into the scheme with the objective of improving economic growth and diversification, industrial and sectoral development, employment, skills & technology and import substitution. The scheme provides 3-5 years tax holiday, tax free dividend amidst postponement of capital allowance. E-commerce services, manufacture of starches and starch products, manufacture of animal feeds, Tanning and dressing of Leather amongst others are the newly included industries which of course are all in tandem with the Economic Recovery and Growth Plan of the Country.

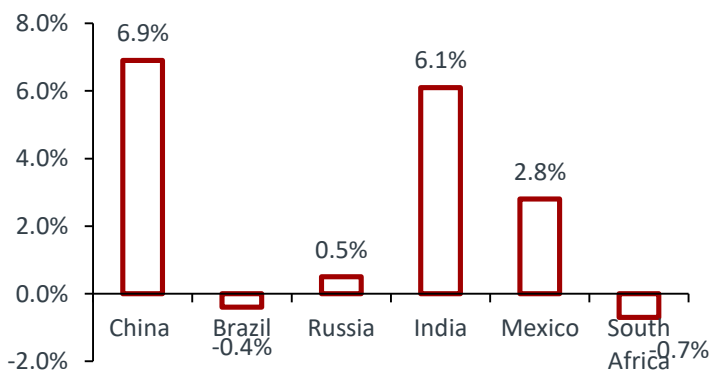
At the Federal Executive Council (FEC) meeting on Wednesday, the 2018-2020 Medium-Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) was approved, wherein GDP growth rates of 3.5%, 4.5%, and 7% are projected for 2018, 2019, and 2020 respectively. The MTEF assumption is based on crude oil projection of 2.3 million barrels per day for 2018 (comprising of 1.8 million bpd in regular crude and 500,000 bpd in terms of condensate), anchored on a projected price of USD45 per barrel and an exchange rate of N305/USD. As part of its 2016 debt management strategy to rebalance the country's debt portfolio in favour of longer maturing debt, the FEC approved the restructuring of Nigeria's debt profile from short term debt to medium term debt. The FEC announced its plan to refinance existing treasury bills (currently priced at an average of 18%) obligations with cheaper medium-term Eurobonds (with the last USD1.5 billion FGN Eurobond issued at 7.875%) in a bid to limit the crowding out impact of the sovereign borrowings on private sector and limit the currently elevated debt service cost.

### Annualized GDP Growth Rate Q1-2017 - DMs



Source: Markit, Reuters, Financial Times, Cordros Research

### Annualized GDP Growth Rate Q1-2017 - EMs



Source: IMF World Economic Outlook

Macro Indicators (Nig)	Current	Year Start
Real GDP growth	-0.52%	-1.30%
MPR	14.0%	14.0%
CPI	16.10%	18.55%
Exchange Rate (USD)	N305.60	N305.00
Foreign Reserve (US\$'bn)	31.22	25.84
Unemployment	14.2%	14.2%
Brent Crude Oil Price (US\$)	51.7	56.82

Source: IMF, CBN, NBS, Cordros Research

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### Global Equities Market

Sentiment was bearish across global equities, with stocks across Europe taking the biggest hit. Elevated geopolitical tension with North Korea and the U.S. – in addition to disappointing quarterly results and unimpressive economic data – had the most impact on investor appetite during the week.

After commencing the week with modest but broad-based gains – with the Dow posting its 9th straight record while the S&P also logged closing high on Monday – U.S. stocks retreated, pressured primarily by elevated tensions with North Korea and the U.S., in addition to disappointment with the quarterly results of some high-profile companies (notably Walt Disney Co.), initial claims for U.S. unemployment-insurance benefits inching higher in the latest week. Despite the bearish bias on the bourse, the shares of Apple Inc. and those of Goldman Sachs Group Inc attracted investor interest during the week. In all, the DJIA (-1.03% w/w) and S&P 500 (-1.56% w/w) closed in the red. The bears dominated trading activities across European markets, with concerns hinged on downbeat reading on German industrial output, escalating tensions between the U.S. and North Korea, and sizable drops in the shares of German consumer-goods company Henkel, Paddy Power Betfair PLC, and PostNL NV (after discouraging earnings guidance). The aforementioned overshadowed gains recorded amid a pullback in the euro. Overall, the FTSE 100 and Euro Stoxx 50 had posted weekly losses of 2.51% and 2.72% at the time of writing.

Asian investors started the week on a bullish note, riding on last week's Friday's gains on Wall Street and in Europe – driven by upbeat U.S. employment report. Gains were however short-lived, driven by (1) the U.S. dollar weakening, (2) extended geopolitical tension triggered by rancor between the U.S. and North Korea, and (3) broad selloff following strong year-to-date gains. On the back of the stated, the CSI 300 and Nikkei 225 declined by 1.62% w/w and 1.12% w/w respectively.

### Nigerian Capital Market

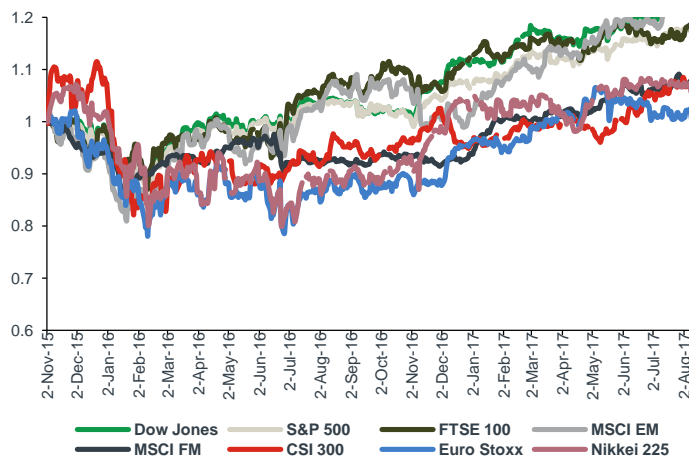
#### Equities

The domestic bourse ended the week on a bullish note for the fifth consecutive time, with the All Share Index appreciating further by 2.07% w/w to 38,198.60 points, improving the Month-to-Date and Year-to-Date returns to 6.57% and 42.14%, respectively. Notably, the market capitalization closed at N13.17 trillion, the highest since 2013. During the week, activities were broadly bullish, as the market closed positive on all trading sessions – except Thursday, wherein most sector indices recorded losses save for the consumer goods index (as the rally in NESTLE and GUINNESS persisted). The w/w performance was driven by investor interest in consumer and industrial goods stocks – following impressive Q2-17 earnings releases – and short-lived interest in banking shares, as investors positioned ahead of interim dividend declaration by Tier 1 banks yet to release their audited H1-17 results (ZENITHBANK yesterday reported double-digit growth across most income line items and declared an interim dividend of N0.25).

Performance across sectors was mixed, with the Consumer Goods (+9.71% w/w) index, leading the gainers, followed by the Industrial Goods (+2.89% w/w) index as investors demanded for the shares of NESTLE (+17.69%) and CCNN (+8.84%), respectively. The Insurance (-3.02% w/w), Oil & Gas (-2.78% w/w), and Banking (-0.94% w/w) indices booked losses, as investors sold of the shares of NEM (-18.52% w/w), FO (-10.55%), and FBNH (-2.09% w/w) respectively.

However, market breadth was negative with 30 gainers – topped by GUINNESS (+27.08%) versus 37 losers – led by NEM (-18.52%). Total volume traded decreased by 39.74% to 1.52 billion shares (2.52 billion last week) with GUARANTY, NB, and NESTLE accounting for 56.00% of the market volume. Similarly, the value of trades fell by 74.70% to N28.87 billion (N114.12 billion) with ACCESS, ZENITHBANK, and GUARANTY accounting for 33% of total value.

### Global Markets



Source: Bloomberg, Cordros Research

	NSE ASI	ASI % Δ	Volume ('mn)	Value (N'mn)	Deals
11-Aug-17	38,198.60	0.25%	353.65	6,301.04	4,079
10-Aug-17	38,102.85	-0.11%	362.67	5,596.72	4,055
9-Aug-17	38,144.02	0.38%	328.65	6,101.93	4,983
8-Aug-17	37,999.56	1.26%	218.22	5,071.36	5,336
7-Aug-17	37,525.38	0.27%	254.49	5,797.06	4,207
4-Aug-17	37,425.15	0.78%	515.48	6,302.23	4,132
3-Aug-17	37,135.23	0.62%	412.12	4,721.95	4,207
2-Aug-17	36,905.06	0.50%	251.01	3,777.41	4,047
1-Aug-17	36,720.62	2.45%	849.60	94,049.10	5,602
31-Jul-17	35,844.00	-2.77%	490.16	5,265.81	5,558

Ticker	WTD	YTD	Ticker	WTD	YTD
GUINNESS	27.08%	10.17%	NEM	-18.52%	4.76%
NAHCO	20.27%	12.66%	MORISON	-13.27%	-40.61%
NESTLE	17.69%	49.14%	DANGSUGAR	-12.54%	113.42%
UNILEVER	10.37%	29.29%	CAVERTON	-12.50%	16.67%
UBN	10.11%	4.91%	CONTINSURE	-12.23%	23.23%

Source: NSE, Cordros Research

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### Fixed Income and Money Market

#### Money Market

The overnight money market rate surged 3675 bps to 59.25%, from last week's 22.50%, reflecting tight liquidity position for the week. The rate rose to as high as 107.75% during the week – the highest since June – before moderating to 52.21% on Thursday amid an inflow of N113.05 billion via matured OMO bills. This week's sizable expansion is attributable to the persistent withdrawal via OMO auctions held by the apex bank throughout the week save for Tuesday. In all, N83.43 billion (vs. N180 billion offered) was sold – comprising N1.20 billion of the shorter-dated bills and N82.23 billion of the longer-tenured bills, at respective stop rates of 17.95% and 18.55%. In addition, outflows via FX sale of USD195 million further pressured liquidity.

#### Treasury Bills

The Treasury bills market closed on a bearish note, with average yield expanding by 87 bps to 18.23%, from last week's 17.37%. The yield expansion was largely driven by the increased pressure on system liquidity during the week (as discussed above). Yields at the short (+194 bps), mid (+44 bps) and long (+29 bps) ends of the curve increased, following selloffs of 48DTM (+388 bps), 174DTM (+109 bps), and 202DTM (+81 bps) bills, respectively.

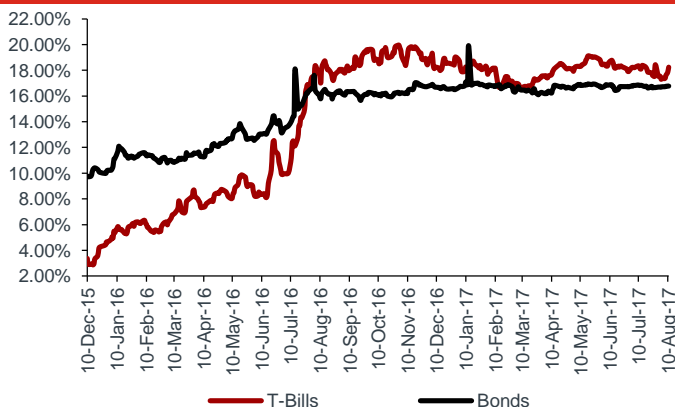
#### Bond

Proceedings in the bond space remained bearish, as average yield expanded by 4 bps to 16.77%, reflecting the continued strain on system liquidity. Yields expanded at the short (+4 bps) and long (+12 bps) ends of the curve, while investors were upbeat at the mid (-10 bps) end, driven by the 30-MAY-2018 (+20 bps), 18-JULY-2034 (+28 bps), and 13-FEB-2020 (-16 bps) bonds, respectively.

### Foreign Exchange

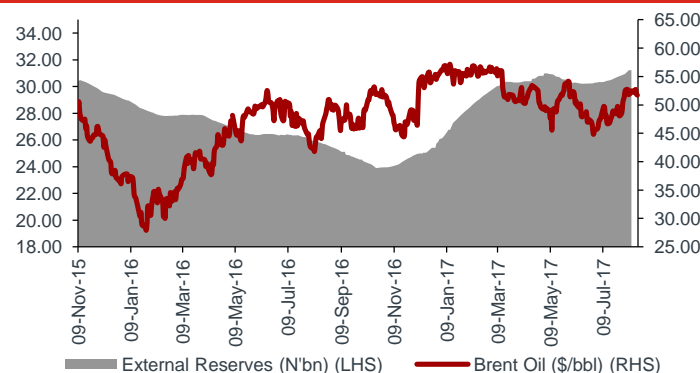
Performance of the naira was mixed across various segments of the currency market, despite the apex bank intervention for the second time in August, with the injection of USD195 million – comprising USD100 million (via the wholesale window), USD50 million and USD 45 million (via the SMEs and Invisibles windows respectively), into the market – bringing total intervention Month-to-Date to USD390 million. At the time of writing, the CBN's referenced USD/NGN lost 0.02% to N305.60. In the Bloomberg referenced NAFEX window, the naira strengthened against the GBP by 0.23% to 474.96 while depreciating against the USD (0.47%) and EUR (0.57%) to N365.20 and N432.19, respectively. In the parallel market, the naira depreciated by 0.55%, 0.63% and 1.42% against the USD, GBP and EUR to N367, N478, and N430 respectively. Conversely, the FMDQ referenced USD/NGN in the I&E FX window appreciated by 0.45% to N364.78. On the other hand, the reported increase in foreign reserves was reflected in dated forward contracts at the interbank OTC segment, as the 3 months, 6 months and 12 months forward contracts appreciated w/w by 0.09%, 0.12% and 0.32% to N384.32/USD, N405.41/USD and N447.94/USD, respectively.

### Nigeria: Fixed Income Yields (Average)



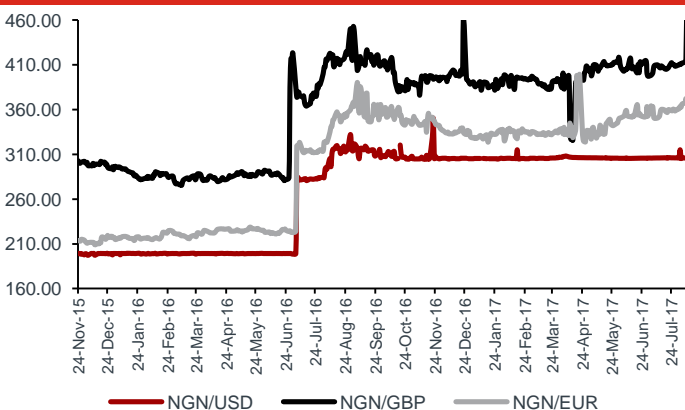
Source: FMDQ, Cordros Research

### Nigeria: External Reserves and Brent Crude



Source: CBN, Bloomberg, Cordros Research

### Nigeria: Exchange Rate



Source: CBN, Bloomberg, Cordros Research

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## Outlook

**Equities:** Activity this week was driven by continued investors' reaction to earnings releases by consumer and industrial goods names, in line with our prognosis. In the coming week, we believe rally will resurface in the banking sector, as investors position ahead of UBA, GUARANTY, and ACCESS bank's H1-17 corporate earnings (on Friday, 30 million, 35 million and 29.4 million shares of GUARANTY, UBA and ACCESS, respectively were crossed in block transactions), all of which will be accompanied with interim dividend declaration. While we expect some profit-taking in the week ahead, we believe the quality of earnings by the banks will dictate market performance.

**Money Market:** We expect the overnight money market rate to trend northward in the coming week as system liquidity remains pressured amid persistent OMO auctions by the apex bank, in addition to debit for FX sales. We look for the magnitude of outflow outweighing expected inflow (valued at N168.04 billion) from maturing OMO bill.

**T-Bills:** At next week's NTB auction, the apex bank will offer N62.44 billion worth of bills - comprising N32.44 billion and N30 billion of the 91DTM and 182DTM bills, respectively. We expect an uptick in average yield in the coming week, as demand remains constrained by tight liquidity position.

**Bonds:** We look for average yield closing higher in the coming week, as low system liquidity continues to put a lid on demand.

**Currency:** The mixed activity across markets despite intervention by the apex bank broadly reflects the high demand for imports, following the softening of the NGN/USD rate. In the coming week, we expect the NGN to appreciate against the USD in the NAFEX and parallel markets, as the apex bank intervention strengthens, particularly in the NAFEX market.

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