

Monthly Economic and Financial Market Outlook

Unconventional Monetary Policy Requires Complementary Fiscal Measures

August 2018

Executive Summary

Domestic Scene:

- The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) maintained rates at the end of its July 2018 meeting. However, it intends to deploy unconventional strategies to boost credit creation and economic growth
- The MPC encouraged large corporations to issue Commercial Papers (CPs); the CBN may buy the CPs if necessary. FSDH Research believe this measure will increase the issuance of CPs in Nigeria in HY2, 2018. The yields on the CPs may also drop or trail the yields on Nigerian Treasury Bills (NTBs)
- Similarly, the CBN plans to implement measures to direct Cash Reserve Requirement (CRR) fund to the manufacturing and agriculture sectors of the Nigerian economy at 9% interest rate with a minimum tenor of 7 years and moratorium period of 2 years
- FSDH Research believes that the CBN's proposed policy measures may increase credit creation and business expansion to stimulate growth. However, complementary fiscal measures are required to de-risk the economy
- FSDH Research's analysis of Nigeria's Balance of Payments (BOP) position as at Q1 2018 confirms our view that the country's external position remains strong but vulnerable to developments in the crude oil and gas market
- FSDH Research recommends that government at all levels must intensify efforts to implement policies which would grow the non-oil sectors of the economy
- The Purchasing Managers' Index (PMI) published for the month of July 2018 by the CBN shows an expansion. The slowdown in the PMI reiterates FSDH Research earlier position on the weak economic recovery in Nigeria
- The favourable crude oil price offers support to the accretion to the external reserves in the short-term, despite the slowdown in foreign capital inflows
- FSDH Research forecasts a further drop in the inflation rate to 11.01% in July 2018. Looking at the movements in food prices in June, the inflation rate may remain in double digits in 2018
- Investors can gradually enter the equity market through cost averaging investment strategy. Some stocks in the banking, consumer goods, building materials and oil and gas sectors of the equity market are attractive at their current prices
- The yields on the FGN Bonds may inch up from current levels, as government increases its borrowing from the Bond market to finance the 2018 budget and the yields in the international market increase.

International Scene:

- The International Monetary Fund (IMF), in its July 2018 World Economic Outlook (WEO) update notes that global growth remains strong and in line with April 2018 forecast at 3.9% both for 2018 and 2019. The positive outlook for the global economy should sustain a high crude oil price. This will prolong stability in the Nigerian foreign exchange market
- The Federal Open Market Committee (FOMC) of the United States (US) Federal Reserve (The Fed) maintained its anchor interest rate at 1.75%-2.00% at the end of its July 2018 meeting. We expect two more rate hikes in September and December 2018. This may increase the yields in the international market and offer attractive opportunities for investors with foreign currency. It may also make borrowing from the international market unattractive.

FSDH Research observed that the yields on sovereign bonds in most of the countries we monitored decreased in July 2018 over the level recorded in the month of June.

1.0 Global Developments:

FSDH Research observed that the prices of sovereign bonds decreased in more countries we monitored in July 2018. The 8.8% September 2023 Turkey Government Bond recorded the highest month-on-month (M-o-M) price decrease of 7.95% to 67.20. This was followed by the 17% April 2022 Egypt Government Bond, with a decrease of 1.18% to 98.70. The 3.52% February 2023 China Government Bond and the 7.72% February 2023 South Africa Government Bond recorded the highest M-o-M price increases of 0.63% each to 101.02 and 98.85, respectively. All the bonds we monitored recorded positive real yields in June except the US Treasury Note. **The Kenya Government Bond offered the most attractive real yield amongst the selected bonds in July.**

The US economy recorded a growth of 4.1% in Q2 2018.

The Real Gross Domestic Product (GDP) in the US increased at an annual rate of 4.1% in Q2 2018, according to the third and final estimate released by the US Bureau of Economic Analysis (BEA). This is far above the revised 2.2% growth in Q4 2017. It is the strongest growth rate since Q3 2014. The Q2 2018 growth was supported by higher consumer spending and soybean exports, while business spending slowed. Similarly, inflation rate in the US increased to 2.9% year-on-year (Y-o-Y) in June 2018, from 2.8% in May. However, the US unemployment rate decreased to 3.9% in July 2018, from 4.0% in June. The unemployment rate in July is lower than the 6.5% target. The strong growth in the economy, rising inflation rate above the 2% target, and the unemployment rate above the benchmark justify additional rate increases in the US. **FSDH Research expects the Federal Open Market Committee (FOMC) of the US Federal Reserve to raise the rate in September and December 2018.**

Table 1: Summary of Key Indicators

S/N	Indicators	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	101.02	98.70	101.05	103.43	107.42	100.90	98.85	67.20	95.14
2	Bond Yield	3.28%	17.46%	7.83%	11.57%	13.64%	7.35%	8.05%	19.03%	2.84%
3	Bond Price MoM Change	0.63%	(1.18%)	0.47%	0.32%	(0.07%)	(0.49%)	0.63%	(7.95%)	(0.37%)
4	Bond Yield MoM Change	(0.15%)	0.45%	(0.15%)	(0.13%)	(0.02%)	0.19%	(0.16%)	2.33%	0.10%
5	Bond Price YTD Change	2.43%	(5.09%)	(2.46%)	2.22%	0.30%	(2.98%)	(0.57%)	(23.55%)	(2.50%)
6	Bond Yield YTD Change	(0.54%)	1.81%	0.64%	(0.78%)	(0.39%)	1.03%	0.15%	7.29%	0.61%
7	Real Yield	1.38%	3.06%	2.83%	7.22%	2.41%	5.05%	3.45%	3.64%	(0.06%)
8	Volatility	0.14	0.29	0.19	0.16	0.22	0.25	0.22	1.49	0.18
9	FX Rate MoM Change*	2.87%	(0.17%)	0.11%	(0.42%)	0.17%	(0.73%)	(4.78%)	6.44%	0.18%
10	FX Rate YTD Change*	4.55%	0.47%	6.82%	(2.74%)	0.51%	7.44%	5.46%	22.62%	(2.56%)
11	Inflation Rate	1.90%	14.40%	5.00%	4.35%	11.23%	2.30%	4.60%	15.39%	2.90%
12	Policy Rate	4.35%	16.75%	6.50%	9.00%	14.00%	7.25%	6.50%	17.75%	2.00%
13	Debt to GDP	47.60%	101.00%	68.70%	57.10%	21.30%	12.60%	53.10%	28.30%	105.00%
14	GDP Growth Rate	6.70%	5.40%	7.70%	5.70%	1.94%	1.30%	0.80%	7.40%	2.80%
15	Nominal GDP (US\$)	12,238bn	235bn	2,597bn	74.94bn	376bn	1,578bn	349bn	851bn	19,391bn
16	Current Acct to GDP	1.30%	(6.50%)	(1.90%)	(5.90%)	2.00%	2.20%	(2.50%)	(5.50%)	(2.40%)

*-ve means appreciation while +ve means depreciation

Sources: Bloomberg, Central Bank of Various Countries; Trading Economics; and FSDH Research Analysis

1.1 The Global Economic Growth:

In its July 2018 World Economic Outlook (WEO) update, the International Monetary Fund (IMF) noted that global growth remains strong and in line with its April 2018 forecast at 3.9% both for 2018 and 2019. While growth in the US is in line with the April 2018 forecast, the IMF revised down the growth projections for the euro area, Japan, and the United Kingdom, reflecting negative surprises to activity in early 2018. The IMF maintains a growth forecast of 2.1% for Nigeria in 2018, but raised the 2019 forecast for Nigeria to 2.3% from 1.9%. The positive growth outlook for the global economy would sustain a high crude oil price and may increase further from the current level. It would also justify monetary policy normalisation in the advanced economies. Global yields may continue to increase with its attendant effects of capital flights from the emerging markets.

The IMF forecasts global growth at 3.9% for 2018 and 2019 in July 2018.

The major risks to the global economy are: trade tensions; geopolitical concerns, mounting political uncertainties, and monetary policy normalisation in advanced economies which could trigger a tightening in global financial conditions.

Table 2: Global Economic Growth (Actual vs Forecast)

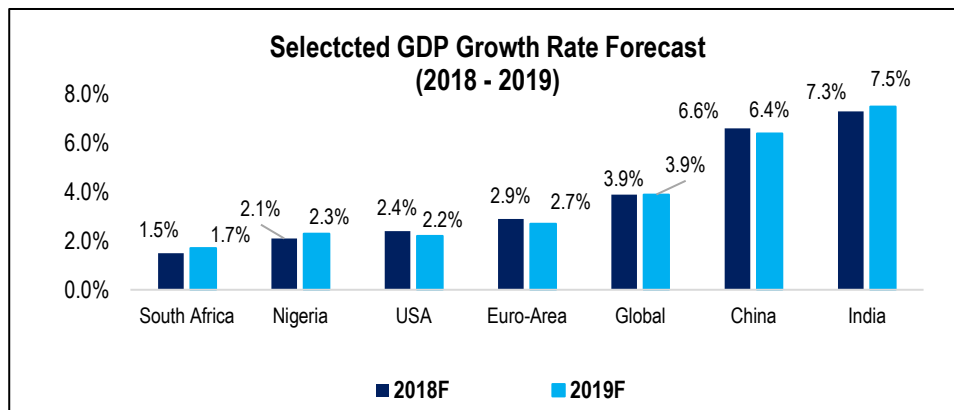
	2017A	2018F	2019F
Global	3.7%	3.9%	3.9%
USA	2.3%	2.9%	2.7%
Japan	1.7%	1.0%	0.9%
Euro-Area	2.4%	2.2%	1.9%
China	6.9%	6.6%	6.4%
India	6.7%	7.3%	7.5%
United Kingdom	1.7%	1.4%	1.5%
Nigeria	0.8%	2.1%	2.3%
South Africa	1.3%	1.5%	1.7%

Source: IMF World Economic Outlook (WEO) Update, July 2018

Table 3: World Trade Growth (Actual vs Forecast)

	2017A	2018F	2019F
World Trade Volume	5.1%	4.8%	4.5%
Advanced Economies	4.2%	4.3%	4.0%
Emerging & Developing Economies	6.7%	5.7%	5.4%
Exports:			
Advanced Economies	4.2%	4.5%	3.9%
Emerging & Developing Economies	6.4%	5.1%	5.3%

Source: IMF World Economic Outlook (WEO) Update, July 2018



1.2 Strong Balance of Payments but Vulnerable:

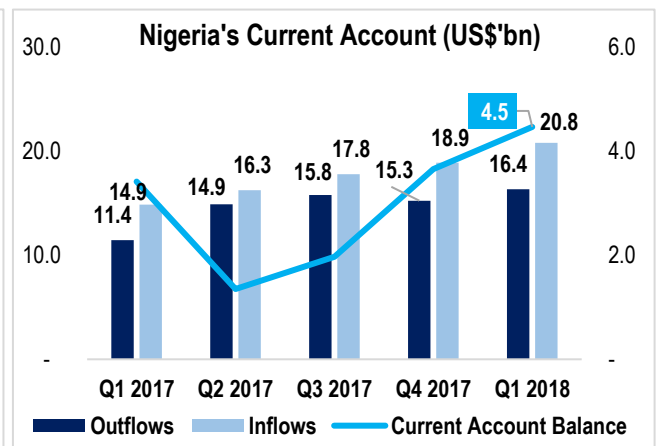
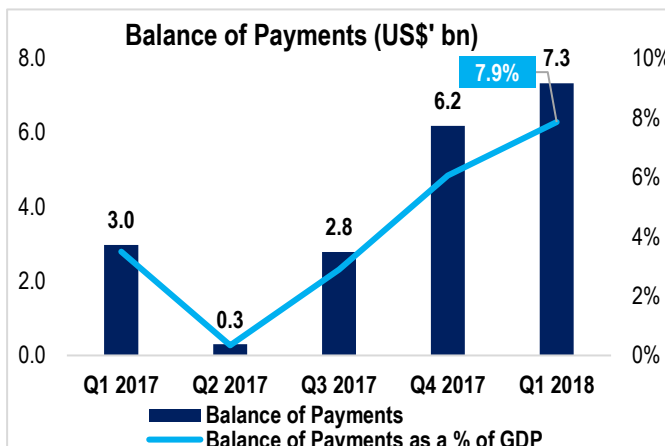
FSDH Research’s analysis of Nigeria’s Balance of Payments (BOP) position as at Q1 2018 confirms our view that the country’s external position remains strong but vulnerable to developments in the crude oil and gas market. The provisional BOP figures for Q1 2018 published by the Central Bank of Nigeria (CBN), indicates that the overall BOP for Nigeria shows a surplus of US\$7.32bn in Q1 2018, an increase from a surplus of US\$2.98bn in Q1 2017. The overall BOP as a percentage of Gross Domestic Product (GDP) grew to 7.85% in Q1 2018 from 3.49% in Q1 2017.

The current account component of the BOP shows that it increased to a surplus of US\$4.47bn in Q1 2018, from a surplus of US\$3.42bn in Q1 2017. Nigeria’s inflows were dominated by crude oil and gas exports, accounting for 93.28% of total exports and 64.46% of total inflows. The financial account recorded a net outflow of US\$10.29bn, from a net inflow of US\$355.88mn in Q1 2017. Inflows into the financial account were dominated by other investments and portfolio investments, accounting for 52.73% and 40.85% of total inflows respectively. The BOP report shows that the external reserves as at Q1 2018 stood at US\$46.73bn compared with US\$30bn in Q1 2017, and finance approximately 16.2 months of imports. This is higher than the global and West African Monetary Zone benchmarks of 3 months and 6 months respectively.

FSDH Research notes that the Nigerian economy is overly dependent on crude oil, which presents a significant downside risk. Government at all levels must intensify efforts to implement policies that would grow the non-oil sectors of the economy. This would ensure that the economy is mitigated against consequences attached to adverse developments in the crude oil market and would also encourage more foreign capital inflows in the form of Foreign Direct Investments and Foreign Portfolio Investments.

FSDH Research’s analysis of Nigeria’s BOP position as at Q1 2018 confirms our view that the country’s external position remains strong but vulnerable to developments in the crude oil and gas market.

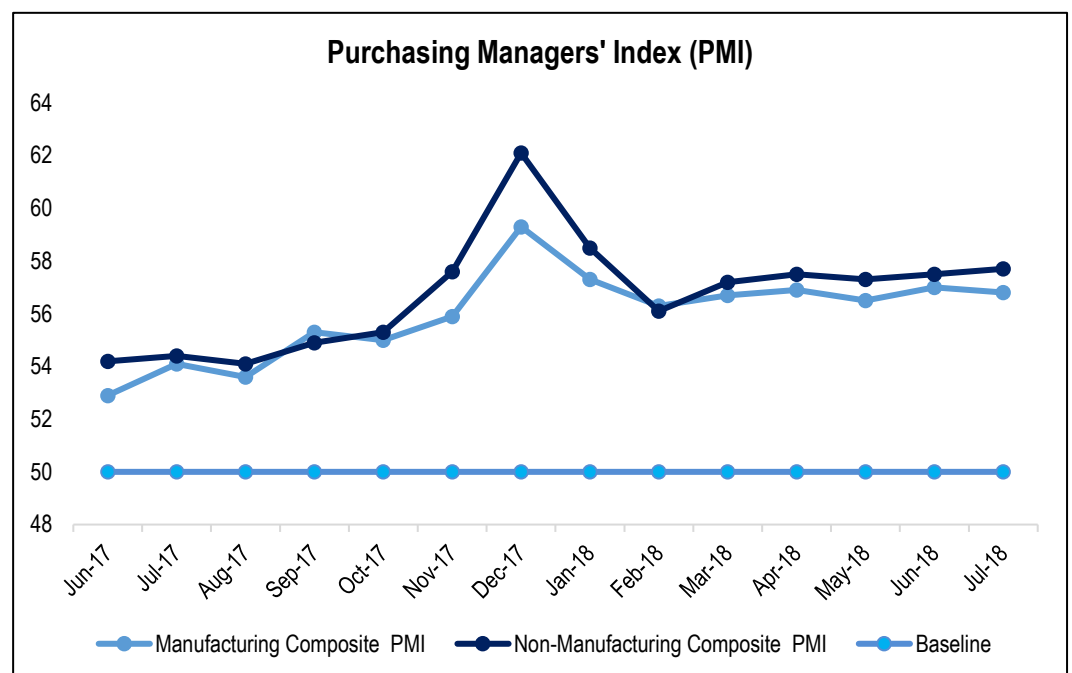
Government at all levels must intensify efforts to implement policies that would grow the non-oil sectors of the economy.



1.3 Purchasing Managers' Index (PMI):

The PMI published for the month of July 2018 by the CBN showed an expansion. The Manufacturing PMI of July stood at 56.8 points from 57.0 points recorded in June, however the Non-Manufacturing PMI increased marginally to 57.7 points, from 57.5 points in June. The slowdown in the PMI reiterates FSDH Research earlier position on the weak economic recovery in Nigeria. FSDH Research believes that a combination of monetary, fiscal and trade policies is needed to stimulate growth.

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The CBN intends to deploy unconventional strategies to boost credit creation and economic growth.

1.4 MPC Maintains Rates to Deploy Unconventional Strategies:

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) maintained rates at the end of its July 2018 meeting. The MPC maintained the Monetary Policy Rate (MPR) at 14%, with the asymmetric corridor at +200 and -500 basis points around the MPR; it retained the Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) at 22.50% and 30%, respectively. However, it intends to deploy unconventional strategies to boost credit creation and economic growth.

The MPC is encouraging large corporations to issue Commercial Papers (CPs), which may be bought by the CBN if necessary. FSDH Research believe this measure will increase the issuance of CPs in Nigeria in HY2, 2018. The yields on the CP may also drop or trail the yields on the Nigerian Treasury Bills (NTBs). The measure will reduce the finance cost for large corporates and increase their profitability. Similarly, the CBN plans to implement measures to direct Cash Reserve Requirement (CRR) funds to the manufacturing and agriculture sectors of the Nigerian economy at 9% interest rate with a minimum tenor of 7 years and moratorium period of 2 years.

The data from the CBN shows that net domestic credit decreased marginally by 0.57% to N25.72trn in May 2018, from N25.86trn in December 2017. The net credit to the private sector shrank marginally by 0.37% to N22.21trn during the same period.

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FSDH Research believes that these measures may increase credit creation and business expansion to stimulate growth. However, complementary fiscal measures are required to de-risk the economy.

Table 4: Monetary Aggregates (Money Supply) – N'mn

Month	Narrow Money	Quasi Money	Broad Money	Ratio of M1 to M2	Net Domestic Credits	Net Credits to Government	Net Credits to Private Sector	Ratio of Private Sector Credits to Domestic Credits
	M1	QM	M2					
May-17	10,184,904	11,790,439	21,975,343	46%	26,145,051	4,214,341	21,930,710	84%
Jun-17	9,883,821	11,790,391	21,674,213	46%	26,404,355	4,425,788	21,978,567	83%
Jul-17	10,325,981	11,874,338	22,200,319	47%	27,160,163	4,987,790	22,172,373	82%
Aug-17	9,890,813	11,960,641	21,851,454	45%	26,821,447	4,824,226	21,997,221	82%
Sep-17	10,064,248	11,889,746	21,953,994	46%	26,985,305	4,963,406	22,021,899	82%
Oct-17	10,393,062	12,107,556	22,500,618	46%	27,174,806	5,245,889	21,928,917	81%
Nov-17	10,115,050	12,196,068	22,311,118	45%	26,349,069	4,392,408	21,956,660	83%
Dec-17	11,036,352	12,965,060	24,001,412	46%	25,863,281	3,574,029	22,289,252	86%
Jan-18	10,779,944	13,051,972	23,831,916	45%	25,846,386	3,857,433	21,988,953	85%
Feb-18	10,760,862	13,288,231	24,019,092	45%	26,909,597	4,288,313	22,621,284	84%
Mar-18	10,912,604	13,390,446	24,303,050	45%	26,267,137	3,823,345	22,443,791	85%
Apr-18	10,670,629	13,850,006	24,520,635	44%	27,476,827	5,222,737	22,254,089	81%
May-18	11,226,313	13,942,701	25,169,014	45%	25,716,588	3,509,844	22,206,744	86%
Growth : Dec 17-May 18	1.72%	7.54%	4.86%		(0.57%)	(1.80%)	(0.37%)	

Sources: Central Bank of Nigeria and FSDH Research Analysis

1.5 Inflation Rate:

The inflation rate dropped further to 11.23% in June 2018, from 11.61% recorded in May. The drop in inflation was in line with the expectation of FSDH. The Month-on-Month (M-o-M) change in the Consumer Price Index (CPI) stood at 1.24% in June, higher than the 1.09% recorded in May. Y-o-Y, the change in the Food Price Index (FPI) stood at 12.98% in June, down from 13.45% in May 2018. M-o-M, the FPI grew by 1.57% in June, compared with 1.33% in May. The increase in the prices of potatoes, yam and other tubers, bread and cereals, oil and fats, fish, milk, cheese and eggs, vegetables and meat drove the FPI during the period.

The Core Index stood at 10.40% in June, down from 10.70% in May. The largest increases in the Core Index were recorded in the prices of fuels and lubricants for personal transport equipment, garments, domestic and household services, books and stationery, actual and imputed rentals for housing, tobacco, vehicle spare parts, hairdressing salons and personal grooming establishments, pharmaceutical products, dental services, maintenance and repair of personal transport equipment, paramedical services, hospital services.

FSDH Research forecasts a further drop in the inflation rate to 11.01% in July 2018. Looking at the movements in food prices in June, the inflation rate may remain in double digits in 2018.

The inflation rate dropped further to 11.23% in June 2018, from 11.61% recorded in May.

FSDH Research expects the July 2018 inflation rate to drop to 11.01%.

Table 5: Inflation Rate Actual Vs. Forecast

Month	Jan-18A	Feb-18A	Mar-18A	Apr-18A	May-18A	Jun-18A	Jul-18F	Aug-18F	Sep-18F	Oct-18F	Nov-18F	Dec-18F
Actual/Forecast*	15.13%	14.33%	13.34%	12.48%	11.61%	11.23%	11.01%	10.74%	10.56%	10.32%	10.11%	10.42%

Sources: National Bureau of Statistics and FSDH Research Analysis. * Assumed no increase in fuel, electricity tariff and food shortage.
A- Actual, F - Forecast

The external reserves recorded persistent drawdown in July 2018.

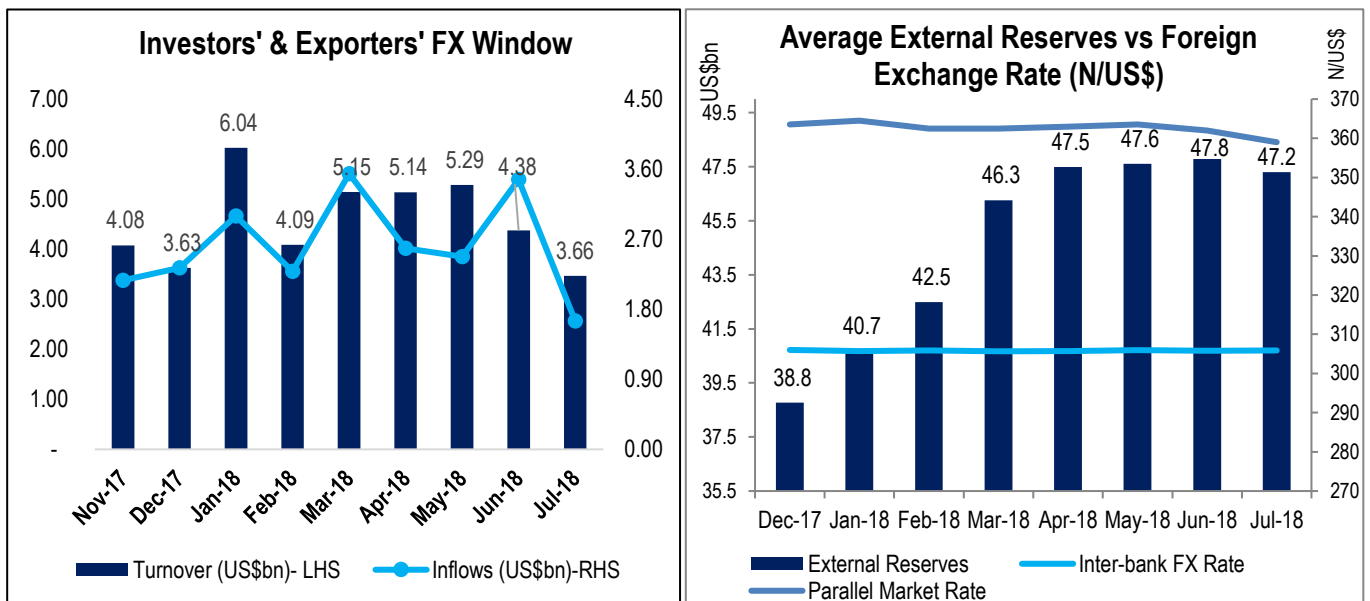
1.6 Movement in the External Reserves:

The external reserves recorded persistent drawdown in July 2018. This was due to the foreign investors' pull-back from the Nigerian market and the increase in demand at the foreign exchange market. The 30-day moving average external reserves decreased by 1.32%, down from US\$47.79bn at end-June to US\$47.16bn at 30 July 2018.

The favourable crude oil price offers support to the accretion to the external reserves, despite the slowdown in foreign capital inflows.

The total turnover at the Investors' and Exporters' FX Window (I&E Window) between April 2017 and July 2018 stood at US\$59.41bn. The total inflow through the I&E Window was US\$34.29bn during the period. Our analysis shows that the total inflows and turnover through the I&E Window in July were the lowest figures recorded since August 2017. The two largest contributors to the inflows in July were US\$0.56bn from Other Corporates, and US\$0.54bn from Foreign Portfolio Investments (FPIs).

The favourable crude oil price offers support to the accretion to the external reserves in the short-term, despite the slowdown in foreign capital inflows.



1.7 Crude Oil Market and Bonny Light Price:

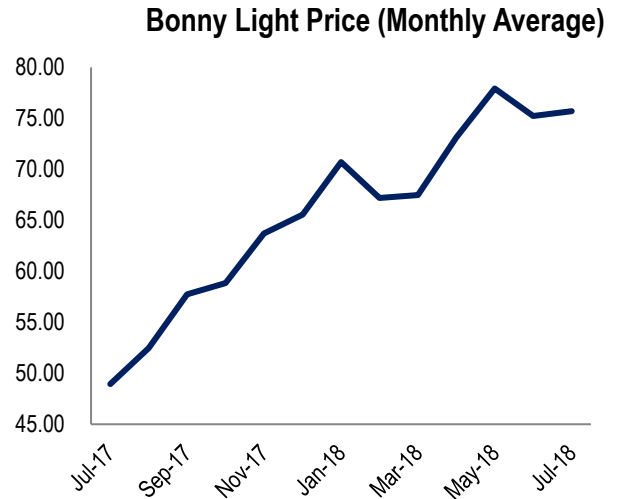
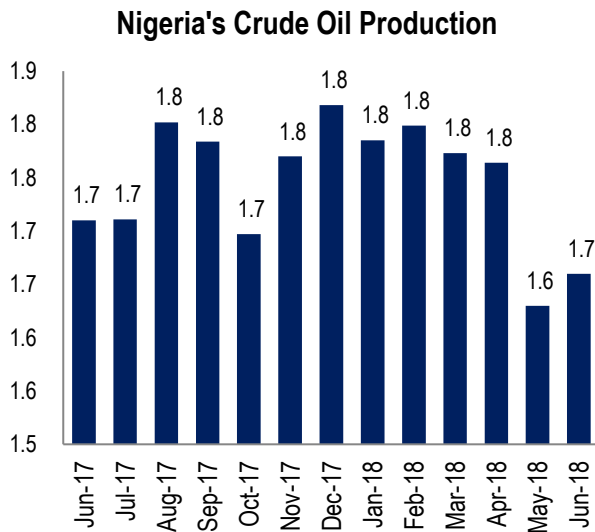
The daily crude oil production in Nigeria increased by 1.84% to 1.66mb/d in June 2018 from 1.63mb/d in May. This is based on secondary data available from OPEC’s report for the month of July 2018. The total OPEC crude oil production from secondary sources was 32.33mb/d in June, a marginal increase of 0.56% from 32.15mb/d in the previous month. Crude oil production output increased mostly in Saudi Arabia, Iraq, Nigeria, Kuwait and United Arab Emirates; while declines were recorded in Libya, Venezuela and Angola.

In its monthly report for July 2018, the US Energy Information Administration (EIA) forecasts an average price of Brent crude oil of US\$73/b and US\$69/b in HY2 2018 and 2019, respectively. These forecasts for HY2 2018 and 2019 are higher than the figures predicted by the EIA in their June 2018 monthly report of US\$71/b and US\$68/b, respectively.

According to data from Thomson Reuters, the Bonny Light crude oil price decreased by 3.54% to US\$75.67/b as at end-July, from US\$78.45/b at end-June. The average price of Bonny Light was US\$75.69/b in July, a marginal increase of 0.60% from the average price of US\$75.24/b recorded in June.

The daily crude oil production in Nigeria decreased by 1.84% to 1.66mb/d in June 2018 from 1.63mb/d in May.

The average price of Bonny Light was US\$75.69/b in July, a marginal increase of 0.60% from the average price of US\$75.24/b recorded in June.



1.8 Foreign Exchange Rate:

The foreign exchange market recorded a mixed performance in July 2018. The value of the Naira appreciated at the parallel market, while it depreciated at the inter-bank in July 2018, compared with June. The premium between the inter-bank and parallel markets narrowed in July 2018, compared with June 2018.

The value of the Naira appreciated by 0.84% at the parallel market in July to N359/US\$, compared with June. The average exchange rate at the parallel market also appreciated by 0.74% to stand at N360.02/US\$ in July, compared with N362.68/US\$ in June.

The value of the Naira depreciated M-o-M at the inter-bank market to N305.90/US\$ as at end-July 2018, a depreciation of 0.05% from N305.75/US\$ at end-June. However, the average exchange rate at the inter-bank market appreciated by 0.03% to stand at N305.81/US\$ in July, compared with N305.90/US\$ in June.

FSDH Research believes that the favourable price of crude oil and the positive outlook of the Nigerian economy should support the stability of the value of the Naira.

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2.0 Interest Rate and Yield Analysis:

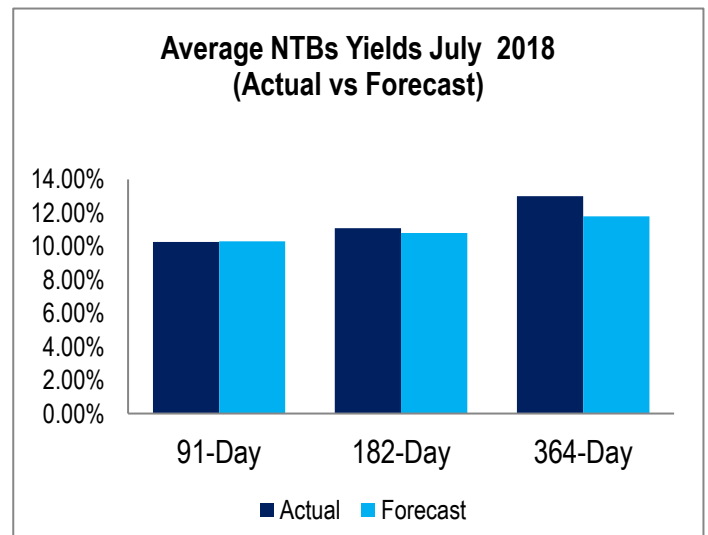
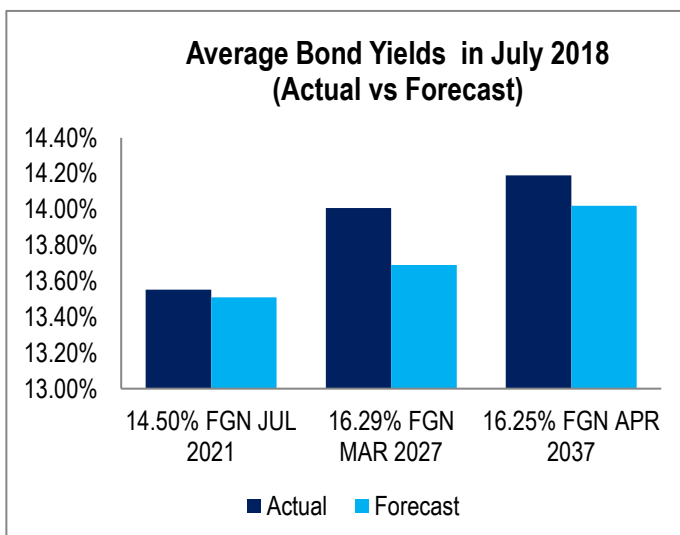
The yields on the fixed income securities recorded a mixed performance in July 2018, compared with June. The Nigerian Inter-Bank Offered Rates (NIBOR) dropped, while the yields on the FGN Bonds we monitored increased in July compared with June. However, the yields on the Nigerian Government Treasury Bills (NTBs) recorded varying movements.

The yields on FGN Bonds increased July 2018, compared with June 2018.

The fixed income market analysis for the month of July shows a net inflow of N162.94bn, compared with a net outflow of N223.51bn in June. The major outflows in July were the Open Market Operations (OMO) and Repurchase (REPO) Bills of N1.39trn, CBN's Foreign Exchange Sale of N621bn, Primary NTBs of N209bn and the Bond auction of N31bn. Meanwhile, in June, the major outflows were the OMO and REPO of N753bn, CBN's Foreign Exchange Sale of N545bn, Primary NTBs of N233bn and the Bond auction of N31bn. The major inflows in July were the matured OMO and REPO Bills of N1.38trn and the matured NTBs of N348bn. Federation Account Allocation Committee (FAAC's) injection for May and June, totalling about N686bn, also hit the system. The major inflows in June were the matured OMO and REPO Bills of N1.02trn, matured NTBs of N318bn and there were no FAAC injection for June 2018.

The average yields on the NTBs auctions moved in varying directions across the various tenors in July 2018, compared with June.

At the NTBs auction, average yield on the 91-day was down to 10.26% in the month of July compared with 10.36% recorded in June 2018. The average 182-Day NTB stood at 11.08%, up from 10.97% in June 2018. The average 364-Day NTB yield also closed marginally lower to 12.99% July 2018. Meanwhile, the average 30-day NIBOR closed at 13.16% in July 2018, down from 13.87% in June 2018. The average 90-day NIBOR



decreased to 13.78%, from 14.48% in the preceding month. The average 180-day NIBOR also decreased to 15.20%, from 15.84% in the preceding month.

The yields on the FGN Bonds that we monitored closed higher in July 2018 over the preceding month. This is in line with the expectations of FSDH Research. The average yield on the 14.5% FGN July 2021 increased to 13.55% in July from 13.46% in June. The 16.29% FGN Mar 2027 closed at 14.01% in July 2018, higher than 13.51% in June 2018; the 16.25% FGN Apr 2037 also closed at 14.19% in July 2018, higher than 13.67% in June 2018. Despite the increase in the yields, we note that the current yields are lower than the coupon rates on the FGN Bonds. This means that the yields may still increase.

The yields on the FGN Bonds that we monitored closed higher in July 2018 over the preceding month.

	June 2018			July 2018		
	Total Inflow	Total Outflow	Net Flow	Total Inflow	Total Outflow	Net Flow
Primary Market: NTB	318	233	85	348	209	139
Open Market Operations & Rev Repo	1,021	753	269	1387	1396	(9)
Bond	0	31	(31)	0	31	(31)
FAAC	0	0	0	686	0	686
FX Market	0	545	(545)	0	621	(621)
CRR Debit/Credit	0	0	0	0	0	0
TSA Implementation	0	0	0	0	0	0
Total	1,339	1,562	(224)	2,421	2,258	163

Sources: Central Bank of Nigeria and Federal Ministry of Finance

	14.50% FGN JUL 2021	16.29% FGN MAR 2027	16.25% FGN APR 2037
June 2018	13.46%	13.51%	13.67%
July 2018	13.55%	14.01%	14.19%
Change	0.10%	0.50%	0.52%

Source: Financial Market Dealers Quotation

	NIBOR				Treasury Bill Yields		
	Call	30 Day	90 Day	180 Day	91-Day	182-Day	364-Day
June 2018	11.65%	13.87%	14.48%	15.84%	10.36%	10.97%	12.99%
July 2018	12.63%	13.16%	13.78%	15.20%	10.26%	11.08%	12.99%
Change	0.98%	(0.71%)	(0.71%)	(0.65%)	(0.11%)	0.11%	(0.00%)

Sources: CBN and FMDQ

2.1 Revised Outlook Going Forward:

A total inflow of about N2.68trn is expected to hit the money market from the various maturing government securities and FAAC in August 2018. We estimate a total outflow of approximately N1.14trn from the various sources, including government securities and statutory withdrawal, leading to a net inflow of about N1.53trn. We expect the CBN to use OMO to manage the liquidity in the market. We predict the inflation rate in July 2018 to trend downward from the level recorded in June 2018. Yields on the short-tenored fixed income securities may trend marginally lower in August 2018 because of the expected decrease in the inflation rate in July 2018. The yields on the FGN Bonds may however inch up from the current levels, as government increases its borrowing from the Bond market to finance the 2018 budget and the yields in the international market increase.

Yields on the short-tenored fixed income securities may trend marginally lower in August 2018.

Table 9: Expected Inflow and Outflow Analysis – August 2018 (N'bn)

Date	02-Aug-18	09-Aug-18	16-Aug-18	23-Aug-18	30-Aug-18	Others	Total
Inflows	539.95	452.00	473.40	364.33	521.72	324.25	2,675.65
Outflows	215.63	105.00	33.38	105.00	206.95	479.00	1,144.97
Net Flows	324.32	347.00	440.02	259.33	314.77	(154.75)	1,530.68

Source: FSDH Research Analysis, *Statutory Allocation (FAAC) and Cash Reserve Requirement (CRR) Debit

Table 10: Revised Yields – Actual vs Forecast

	Treasury Bills (Primary Market)			FGN Bonds (Secondary Market)		
	91-Day	182-Day	364-Day	Jul-21	Mar-27	Apr-37
JanA-18	12.72%	14.86%	16.33%	13.40%	13.43%	13.33%
FebA-18	12.26%	14.56%	15.73%	13.66%	13.72%	13.44%
MarA-18	12.21%	13.90%	15.16%	13.62%	13.64%	13.33%
AprA-18	11.65%	13.16%	14.36%	13.07%	13.29%	13.22%
MayA-18	10.26%	11.17%	12.29%	13.12%	13.31%	13.25%
JunA-18	10.36%	10.97%	12.99%	13.46%	13.51%	13.67%
JulA-18	10.26%	11.08%	12.99%	13.55%	14.01%	14.19%
AugF-18	10.23%	10.96%	12.92%	13.87%	14.37%	14.82%
SepF-18	10.05%	10.78%	12.74%	14.19%	14.69%	15.19%
OctF-18	9.81%	10.54%	12.50%	14.45%	14.95%	15.47%
NovF-18	9.60%	10.33%	12.29%	14.74%	15.24%	15.76%
DecF-18	9.91%	10.64%	12.60%	15.05%	15.45%	15.87%

Sources: CBN, FMDQ, and FSDH Research Forecasts

FSDH Research anticipates a marginal drop in yields on the NTBs in August 2018, while we expect the yields on the FGN Bonds to trend higher from the current levels. The same factors that affected yields in July will continue to impact the yields in August.

2.2 Strategy:

Investors may take profit on their bond investment portfolio to buy back later when the yield increases.

- Investors may take profit on their bond investment portfolio to buy back later when the yield increases
- Investors should take advantage of the current yields on one year Treasury Bills.

The average prices on the FGN Eurobonds were higher in July 2018 than in June. Consequently, the average yields on the bonds closed lower in the month of July than in June. The current yields on all the FGN Eurobonds are lower than their respective coupons. It may be a good time to take profit on some of the Eurobond investments. We expect prices to drop soon because of our expectation of an increase in global yields.

Table 11: FGN Eurobonds

Date	15-Year 7.875% FGN Eurobond February 2032		10-Year 6.75% FGN Eurobond January 2021		10-Year 6.375% FGN Eurobond July 2023		5-Year 5.625% FGN Eurobond June 2022	
	Price (US\$)	Yield	Price (US\$)	Yield	Price (US\$)	Yield	Price (US\$)	Yield
02-Jul-18	98.07	8.11%	102.12	5.85%	99.14	6.58%	98.10	6.17%
03-Jul-18	98.54	8.05%	102.27	5.78%	99.50	6.49%	98.52	6.05%
04-Jul-18	98.58	8.05%	102.15	5.83%	99.39	6.52%	98.50	6.06%
05-Jul-18	99.53	7.93%	102.69	5.60%	99.99	6.38%	98.92	5.93%
06-Jul-18	100.80	7.78%	103.09	5.43%	101.03	6.13%	99.43	5.79%
09-Jul-18	102.73	7.55%	103.73	5.17%	101.61	6.00%	100.24	5.56%
10-Jul-18	102.25	7.61%	103.70	5.18%	101.76	5.96%	100.18	5.57%
11-Jul-18	102.92	7.53%	103.80	5.14%	101.82	5.95%	100.31	5.54%
12-Jul-18	102.94	7.53%	103.89	5.10%	101.78	5.96%	100.45	5.50%
13-Jul-18	103.21	7.49%	104.29	4.92%	101.90	5.93%	100.51	5.48%
16-Jul-18	102.85	7.54%	104.23	4.95%	101.86	5.94%	100.44	5.50%
17-Jul-18	101.59	7.68%	103.95	5.06%	101.28	6.07%	99.88	5.66%
18-Jul-18	101.25	7.72%	103.85	5.11%	101.18	6.10%	99.91	5.65%
19-Jul-18	101.12	7.74%	103.93	5.06%	101.26	6.08%	100.02	5.62%
20-Jul-18	101.77	7.66%	103.98	5.04%	101.40	6.04%	100.13	5.59%
23-Jul-18	102.19	7.61%	104.01	5.03%	101.53	6.01%	100.28	5.54%
24-Jul-18	102.28	7.60%	104.02	5.02%	101.55	6.01%	100.29	5.54%
25-Jul-18	102.63	7.56%	104.05	5.01%	101.59	6.00%	100.24	5.56%
26-Jul-18	104.02	7.40%	104.73	4.72%	102.51	5.79%	101.13	5.30%
27-Jul-18	104.14	7.39%	104.74	4.71%	102.57	5.77%	101.19	5.28%
30-Jul-18	103.97	7.41%	104.85	4.67%	102.65	5.75%	101.29	5.25%

Source: Bloomberg

3.0 Equity Market:

3.1 The Secondary Market:

The equity market depreciated in July 2018, following the appreciation recorded in June. The Nigerian Stock Exchange All Share Index (NSE ASI) depreciated by 3.29% (a loss of 3.34% in US Dollar) to close at 37,017.78 points. **Year-to-Date (YTD), the Index recorded a depreciation of 3.20%**. Similarly, the market capitalisation recorded a M-o-M loss of 3.29% (a loss of 3.34% in US Dollar) to close at N13.41tn (US\$43.84bn). **The slow-down in the equity market can be attributed to the pullback from some foreign investors due to uncertainty ahead of next year's general elections in Nigeria and rising global yields.**

Market activities weakened for the sixth consecutive month in July. The volume of stocks traded decreased by 5.58% to 6.71bn in July from 7.10bn in June. Medview Airlines Plc (650.03mn), UBA Plc (583.78mn), Sterling Bank Plc (578.77mn), Zenith Bank Plc (520.18mn), and Access Bank Plc (478.16mn) were the five most highly traded stocks in July. Similarly, the value of stocks traded on The NSE in July decreased by 22.21% to N73.04bn, from N93.89bn in June.

All Sectoral Indices depreciated in July. The NSE Industrial Index recorded the highest M-o-M depreciation of 11.36%, with a YTD depreciation of 9.87%. The loss recorded in the Industrial Index was mainly attributed to the decrease in the share prices of Lafarge Africa Plc (32.84%) and Beta Glass Plc (10.83%). The NSE Consumer Goods Index recorded a M-o-M loss of 5.08%, with a YTD loss of 9.78%. The loss in the NSE Consumer Goods Index was mainly attributed to the decrease in the share price of International Breweries Plc (12.63%) and Nigerian Breweries Plc (8.06%).

The equity market depreciated in July 2018, following the appreciation recorded in June.

Year-to-Date (YTD), the Index recorded a depreciation of 3.20%.

All Sectoral Indices depreciated in July.

Table 12: Nigerian Equity Market: Key Indicators

Month	Volume (bn)	Value (N'bn)	NSEASI	Market Cap. (N'trn)	Banking*	Insurance*	Consumer Goods*	Oil/Gas*	Industrial*
June	7.10	93.89	38,278.55	13.87	476.05	150.44	927.72	323.22	2008.70
July	6.71	73.04	37,017.78	13.41	458.07	147.68	880.62	316.22	1780.57
Change	(5.58%)	(22.21%)	(3.29%)	(3.29%)	(3.78%)	(1.83%)	(5.08%)	(2.17%)	(11.36%)
YTD			(3.20%)	(1.47%)	(3.65%)	5.96%	(9.78%)	(4.38%)	(9.87%)

Sources: NSE and FSDH Research. * NSE Sectoral Indices

Table 13: Major Earnings Announcements in July 2018

Company and Result	Turnover (Nm)	Change	PBT (Nm)	Change	PAT (Nm)	Change
TRANSNATIONAL CORPORATION OF NIGERIA PLC						
6 months, Jun. 2018	54,089	58.28%	11,944	163.53%	10,875	161.19%
WEMA BANK PLC						
6 Months Jun. 2018	33,034	8.45%	1,815	26.61%	1,570	28.84%
UNITED CAPITAL PLC (Formerly UBA CAPITAL PLC)						
6 Months, June 2018	3,881	0.13%	2,394	0.68%	2,011	0.68%
UNILEVER NIGERIA PLC						
6 months, Jun. 2018	45,125	5.85%	7,546	56.70%	5,599	59.53%
DANGOTE CEMENT PLC						
6 months, June 2018	482,439	16.91%	185,538	19.25%	113,164	3.15%
ECOBANK TRANSNATIONAL INCORPORATED						
6 Months, June 2018	384,588	-0.58%	65,099	40.78%	51,552	36.62%
NASCON ALLIED INDUSTRIES						
6 months, June 2018	6,056	-3.29%	1,674	-1.88%	1,139	-1.88%
LAFARGE AFRICA PLC.						
6 months, Jun 2018	162,298	4.82%	-6,346	-134.94%	-3,902	-119.78%
DANGOTE SUGAR REFINERY						
6 months, June 2018	84,080	-27.94%	19,900	-21.19%	12,720	-25.61%
UNION BANK NIG. PLC						
6 months, June. 2018	83,333	15.64%	11,664	23.30%	11,458	24.54%
NIGERIAN AVIATION HANDLING COMPANY PLC						
6 months, June 2018	4,643	25.23%	501	146.69%	419	137.49%
NEIMETH INTERNATIONAL PHARM						
9 mths Jun 2018	1,335	45.65%	61	123.60%	61	123.60%
FCMB GROUP PLC						
6 Months, June 2018	83,925	8.28%	7,105	85.78%	5,726	89.67%
11 Plc (Formerly MOBIL OIL NIG PLC)						
6 months, June 2018	85,911	52.82%	8,060	118.97%	5,448	120.25%
SEPLAT PLC						
6 months, June. 2018	104,794	159.93%	37,093	358.50%	14,844	76.04%
AXA MANSARD INSURANCE PLC						
6 months, Jun. 2018	16,133	28.21%	1,877	-18.98%	1,544	-27.25%
FBN HOLDINGS PLC						
6 months, June. 2018	293,335	1.57%	38,876	9.12%	33,520	13.68%
STERLING BANK PLC						
6 months, June 2018	77,637	35.96%	6,363	46.82%	6,214	63.44%
FLOUR MILLS NIG. PLC						
3 months, June 2018	133,029	-10.70%	5,213	-15.84%	3,649	-19.47%
NESTLE NIGERIA PLC						
6 months, June 2018	135,296	10.97%	31,873	30.31%	21,458	29.67%

Source: NSE

Table 14: Major Corporate Actions Announcements in July 2018

Company	Result	DPS(N)	Closure Date	Payment Date	Interim/Final
LINKAGE ASSURANCE PLC	Full year, Dec. 2017	0.05	14-Aug-18	03-Sep-18	Final
CUSTODIAN INVESTMENT PLC (FORMERLY CUSTODIAN AND ALLIED INSURANCE PLC)	6 months, Jun. 2018	0.10	20-Aug-18	06-Sep-18	Interim

Source: NSE

All the equity market indices we monitored in America and Europe appreciated in July.

All the equity market indices we monitored in America and Europe appreciated in July. All the equity market indices we monitored in Africa depreciated. Amongst the equity markets in Asia Pacific we monitored, only one index depreciated. The Brazil Stock Market Index recorded the highest M-o-M appreciation of 8.88%, with a YTD appreciation of 3.69%. This is followed by the Swiss Market Index with a M-o-M gain of 6.56%, with a YTD depreciation of 2.21%. The NSE All Share Index recorded the highest M-o-M depreciation of 3.29%, with a YTD depreciation of 3.20% as at 31 July 2018. This was followed by the Nairobi All Share Index with a M-o-M loss of 2.87% and a YTD loss of 0.43%.

Table 15: Foreign Equity Market Performance in July 2018

North/Latin America	YTD Change	Month-on-Month Change
Dow Jones Industrial Average	2.82%	4.71%
S&P 500 Index	5.34%	3.60%
NASDAQ Composite	11.13%	2.15%
Brazil Stock Market Index	3.69%	8.88%
Europe		
Swiss Market Index	(2.21%)	6.56%
FTSE 100 Index (UK)	0.79%	1.46%
CAC 40 Index (France)	3.74%	3.53%
DAX Index (Germany)	(0.87%)	4.06%
SMSI Index (Madrid, Spain)	(1.62%)	2.41%
Africa		
NSE All-Share Index	(3.20%)	(3.29%)
FTSE/JSE Africa All Share Index	(3.48%)	(0.31%)
Nairobi All Share Index (Kenya)	(0.43%)	(2.87%)
GSE Composite Index (Ghana)	10.65%	(0.87%)
Asia/Pacific		
NIKKEI 225 Index (Japan)	(0.93%)	1.12%
S&P BSE SENSEX Index (India)	10.42%	6.16%
Shanghai Stock Exchange Composite Index (China)	(13.03%)	1.02%
Hang Seng Index (Hong Kong)	(4.47%)	(1.29%)

Sources: Bloomberg and Nigerian Stock Exchange (NSE)

3.2. Outlook for the Month of August 2018:

FSDH Research believes the equity market is approaching an oversold position. There may be a reversal of the downward trend as the economic fundamentals now support a recovery in the equity market. The following factors should drive the performance of the equity market:

- Stability in the foreign exchange market
- Bargain-hunting investors taking advantage of current low prices
- Portfolio rebalancing from Pension Fund Administrators (PFAs)

3.3. Strategies:

- Investors can gradually enter the equity market through cost averaging investment strategies
- We see opportunities in the banking, consumer goods, building materials and oil and gas sectors of the equity market

FSDH Research believes the equity market is approaching an oversold position.

The equity market may appreciate in August from current levels.

Months	Year				
	2013	2014	2015	2016	2017
July	37,914.32	42,097.46	30,180.27	28,009.93	35,844.00
August	36,248.53	41,532.31	29,684.84	27,599.03	35,504.62
% Change	(4.39%)	(1.34%)	(1.64%)	(1.47%)	(0.95%)

Sources: The Nigerian Stock Exchange (NSE) and FSDH Research Analysis

The equity market recorded a negative performance between July and August in the last five years. Looking at the current developments in the market, the equity market may appreciate in August from current levels as investors take advantage of the current low prices.

Asset Class	Fund Allocation
Equities	25%
Fund Placement	10%
Treasury Bills	20%
Real Estate Investment Trust (REIT)	5%
Bonds	20%
Collective Investment Schemes	20%

Source: FSDH Research

Stocks	Max Entry Price	52 Week Low	52 Week High	Trailing EPS	Trailing PE Ratio	Target Price
Access Bank	10.00	9.50	13.45	2.13	4.69	12.00
Dangote Cement	234.00	204.52	278.00	12.19	19.20	273.00
Dangote Sugar	18.00	11.97	23.35	2.95	5.73	22.00
UBA	9.55	8.46	13.00	2.34	4.08	11.50
Flour Mills Nigeria	35.15	26.50	38.00	3.11	9.24	48.00
GT Bank	36.55	36.55	54.71	5.90	6.79	43.00
Seplat	660.00	450.00	785.00	177.39	3.97	780.00
Zenith Bank	26.00	22.00	33.51	5.97	3.85	32.00

Source: FSDH Research

S/N	Security Description	Tenor To Maturity (Yrs)	Coupon	Current Price (N)	Current Yield	Modified Duration
1	14.50% FGN JUL 2021	3.04	14.50%	102.40	13.50%	2.26
2	14.20% FGN MAR 2024	5.71	14.20%	102.60	13.52%	3.71
3	16.288% FGN MAR 2027	8.72	16.29%	112.30	13.81%	4.64
4	16.25% FGN APR 2037	18.80	16.25%	115.20	13.94%	6.31

Source: FSDH Research. Prices and yields as at 01 August, 2018

The prices of the Eurobonds of the following companies are trading at discounts to their face values: Diamond Bank, First Bank, and Ecobank offer attractive prices and yields. Investments in these securities may generate good returns for investors who have US Dollar holdings and can take the associated risks.

Table 20: Attractive Fixed Income Securities Trading on the FMDQ as at 31 July, 2018

Issuer	Description	Coupon	Maturity Date	TTM (Years) *	Current Yield	Price
State Bonds						
Lagos	14.50% LAGOS 22-NOV-2019	14.50%	22-Nov-19	1.31	15.16%	99.17
Lagos	13.50% LAGOS 27-NOV-2020	13.50%	27-Nov-20	2.33	14.88%	97.31
Corporate Bonds						
FCMB	15.00% FCMB 6-NOV-2020	15.00%	06-Nov-20	2.27	18.05%	94.45
Lafarge Africa Plc	14.25% LAFARGE 15-JUN-2019	14.25%	15-Jun-19	0.87	13.65%	100.44
NAHCO	15.25% NAHCO II 14-NOV-2020	15.25%	14-Nov-20	2.29	14.58%	101.19
Transcorp Hotels Plc	15.50% TRANSCORP 4-DEC-2020	15.50%	04-Dec-20	1.42	16.89%	98.29
Lafarge Africa Plc	14.75% LAFARGE 15-JUN-2021	14.75%	15-Jun-21	2.87	14.61%	100.26
FCMB	14.25% FCMB I 20-NOV-2021	14.25%	20-Nov-21	3.31	16.15%	95.25
UBA	16.45% UBA I 30-DEC-2021	16.45%	30-Dec-21	3.42	14.64%	104.69
Fidelity Bank	16.48% FIDELITY 13-MAY-2022	16.48%	13-May-22	3.78	14.68%	105.03
Transcorp Hotels	16.00% TRANSCORP 26-OCT-2022	16.00%	26-Oct-22	2.50	16.36%	99.23
Stanbic IBTC	182D T.Bills+1.20% STANBIC IA 30-SEP-2024	16.29%	30-Sep-24	6.17	14.94%	105.24
Stanbic IBTC	13.25% STANBIC IB 30-SEP-2024	13.25%	30-Sep-24	6.17	14.94%	93.27
Supranational Bonds						
AfDB	11.25% AFDB 1-FEB-2021	11.25%	01-Feb-21	1.25	13.43%	97.67
Corporate Eurobonds						
Zenith Bank Plc	6.25% APR 22, 2019	6.25%	22-Apr-19	-	5.17	100.75
Diamond Bank Plc	8.75% May 21, 2019	8.75%	21-May-19	-	8.96	99.82
Access Bank Plc II	9.25%/6M USD LIBOR+7.677% JUN 24, 2021	9.25%	24-Jun-21	-	10.13	100.07
First Bank Ltd.	8.00%/2Y USD SWAP+6.488% JUL 23 2021	8.00%	23-Jul-21	-	9.12	99.39
Ecobank Nig. Ltd	8.75% AUG 14, 2021	8.75%	14-Aug-21	-	9.84	99.35
Commercial Paper						
Issuer	Description	Yields at Issue	Maturity Date	DTM (Years) **	Current Yield (%)	Discount Rate (%)
Nigerian Breweries Plc	NBPLC CP II 06-SEP-18	16.00%	06-Sep-18	37	12.02%	11.87%
Access Bank Plc	ACCESS CP XV 18-SEP -18	17.51%	18-Sep-18	49	12.06%	11.86%
Dangote Cement Plc	DANGCEM CP II 25-MAR -19	13.96%	26-Mar-19	238	13.70%	12.58%

*TTM – Tenor to Maturity; ** DTM – Day to Maturity
Source: FMDQ

Table 21: Select Global Bonds Issue	
Country	Bond
China	3.52% February 21, 2023
Egypt	17% April 03, 2022
India	8.15% June 11, 2022
Kenya	12.705% June 13, 2022
Nigeria	16.39% FGN January 2022
Russia	7.60% April 14, 2021
South Africa	7.75% February 28, 2023
Turkey	8.8% September 2023
United States	1.75% May 15, 2023
Source: Bloomberg	

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