Monthly Economic and Financial Market Outlook

Urgent Measures Needed to Stimulate Growth

September 2018

Executive Summary

Domestic Scene:

- *The real Gross Domestic Product (GDP) growth rate of 1.50% recorded in Q2 2018 was below the expectations of most analysts. This represents a fragile growth driven by the Non-Oil sector. The dominant sectors of the economy either recorded low growth or contracted in Q2 2018, indicating that urgent actions are required*
- *Agriculture, which is the largest sector of the Nigerian economy at 22.86%, recorded a marginal growth of only 1.19%*
- *FSDH Research notes that the slow growth in the Agriculture sector, if not checked, may lead to food shortages in the country, subsequent escalating food prices and increased inflation rate*
- *Deliberate engagement strategies are required to improve the security situation in the country*
- *Trade, which is the second largest sector of the Nigerian economy, contracted by 2.14% and entered into recession in Q2 2018*
- *Improvement in the business environment can lead to job creation and payment of salary of workers, particularly among the state civil servants, will stimulate purchasing power*
- *The contraction in the Real Estate sector can be reversed if government at all levels partners with private sector operators to provide affordable housing units for Nigerians*
- *The total value of foreign capital imported into Nigeria in Q2 2018 dropped by 12.53%, compared with Q1 2018. This drop is an indication of the risk aversion of foreign investors due to rising uncertainties in the Nigerian economy and the expectation of a rate hike in the US*
- *The Purchasing Managers' Index (PMI) published by the CBN for the month of August 2018 expanded further. Although the expansion in the PMI is a good development, it may not necessarily translate to an increase in the GDP in Q3 2018*
- *The inflation rate dropped further to 11.14% in July 2018, from 11.23% recorded in June due to base effect. We note, however, the rising pressure from food prices and its impact on inflation rate going forward*
- *FSDH Research forecasts that inflation rate will remain flat at 11.14% in August 2018*
- *The drawdowns from the external reserves was unabated during the month as the demand for foreign exchange by foreign investors for capital repatriation continued*
- *We have observed an upward trend in the yield on Nigerian Treasury Bills (NTBs) to attract more foreign inflows into Nigeria*
- *The shortfall in crude oil production is weighing down on the full benefits of the favourable crude oil price in the international market on the external reserves*
- *The proportion of inflows from Foreign Portfolio Investments (FPIs) in the total capital inflow recorded a steep decline in August. Rising uncertainties in Nigeria and rising yields in the international market are major reasons. The pullback from foreign investors may lead to an increase in yields on FGN Bonds*
- *The value of the Naira depreciated at both the inter-bank and parallel markets in August 2018, compared with July 2018. Policies that will increase the supply of foreign exchange into Nigeria from non-oil sources are required to maintain a stable exchange rate*
- *The growing interest of retail investors in the equity market may provide long-term and stable liquidity for the market*

International Scene:

- *FSDH Research expects the Federal Open Market Committee (FOMC) of the US Federal Reserve to raise the rate when it meets on 25-26 September 2018*
- *This may lead to a further increase in global yield.*

1.0 Global Developments:

FSDH Research observed that the prices of sovereign bonds decreased in more countries we monitored in August 2018.

FSDH Research observed that the prices of sovereign bonds decreased in more countries we monitored in August 2018. The 8.8% September 2023 Turkey Government Bond recorded the highest month-on-month (M-o-M) price decrease of 16.44% to 56.15. This was followed by the 16.39% January 2022 Nigeria Government Bond, with a decrease of 1.61% to 105.69. The 12.705% June 2022 Kenya Government Bond and the 1.75% May 2023 United States Treasury Note recorded M-o-M price increases of 0.56% and 0.55% to 104 and 95.66 respectively. All the bonds we monitored recorded positive real yields in August except the US Treasury Note. **The Kenya Government Bond offered the most attractive real yield amongst the selected bonds in August**.

The U.S economy recorded a growth of 4.2% in Q2 2018.

The Real Gross Domestic Product (GDP) in the US increased at an annual growth rate of 4.2% in Q2 2018, according to the second estimate released by the US Bureau of Economic Analysis (BEA). This is higher than the 4.1% growth released in the preliminary reading. It is the highest growth rate since Q3 2014. The non-residential fixed investment rose more than anticipated, mainly boosted by software and information processing equipment, while imports fell, mainly due to petroleum. Similarly, inflation rate in the US increased to 2.9% year-on-year (Y-o-Y) in July 2018, same as in June. We reiterate that the strong growth in the economy, rising inflation rate above the 2% target, and the unemployment rate above the target of 6.5% justify additional rate increase in the US. **FSDH Research expects the Federal Open Market Committee (FOMC) of the US Federal Reserve to raise the rate when it meets on 25-26 September 2018.**

Table 1: Summary of Key Indicators

S/N	Indicators	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	100.47	97.19	100.55	104.00	105.69	99.60	97.54	56.15	95.66
2	Bond Yield	3.40%	18.08%	7.97%	11.36%	14.21%	7.92%	8.42%	24.26%	2.74%
3	Bond Price MoM Change	(0.54%)	(1.53%)	(0.50%)	0.56%	(1.61%)	(1.29%)	(1.32%)	(16.44%)	0.55%
4	Bond Yield MoM Change	12.80%	61.40%	14.80%	(21.00%)	56.36%	57.00%	37.20%	5.23%	(10.20%)
5	Bond Price YTD Change	1.88%	(6.54%)	(2.94%)	2.80%	(1.31%)	(4.23%)	(1.88%)	(36.12%)	(1.97%)
6	Bond Yield YTD Change	(0.41%)	2.43%	0.78%	(0.99%)	0.17%	1.60%	0.53%	12.52%	0.51%
7	Real Yield	1.30%	4.58%	3.80%	7.32%	3.07%	5.42%	3.32%	6.36%	(0.16%)
8	Volatility	0.34	0.56	0.20	0.21	0.85	0.52	0.46	7.31	0.23
9	FX Rate MoM Change*	0.22%	(0.17%)	3.24%	0.20%	0.20%	7.62%	10.83%	35.06%	(0.89%)
10	FX Rate YTD Change*	4.75%	0.30%	9.84%	(2.53%)	0.71%	14.49%	15.70%	57.68%	(3.47%)
11	Inflation Rate	2.10%	13.50%	4.17%	4.04%	11.14%	2.50%	5.10%	17.90%	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%	101.20%	68.70%	57.10%	21.30%	12.60%	53.10%	28.30%	105.00%
14	GDP Growth Rate	6.70%	5.40%	8.20%	5.70%	1.50%	1.80%	0.80%	7.40%	2.90%
15	Nominal GDP (US$'bn)	12,390	235	2,597	74.94	376	1,578	349	851	19,391
16	Current Acct to GDP	1.30%	(6.50%)	(1.90%)	5.09%	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:

OPEC maintained its global growth forecast at 3.8% and 3.6% for 2018 and 2019, respectively.

In its Monthly Oil Market Report for August 2018, the Organization of the Petroleum Exporting Countries (OPEC) maintained its global growth forecast at 3.8% and 3.6% for 2018 and 2019, respectively. The report added that the counterbalancing trends in global growth were a major reason for maintaining the forecasts.

In the emerging economies, China did better than expected in H1 2018 and India is maintaining a solid and relatively high growth momentum.

The OPEC report stated that the consequences of monetary policy tightening in the US, to some extent in the Euro-zone, and to a lesser extent in Japan, are reducing the OECD growth dynamic in the coming year. After some softening of the growth trend in Q1 2018, US growth rebounded considerably in Q2 2018, driven by fiscal stimulus measures and still relatively accommodative monetary policies. In 2019, US economic growth is forecast to slow down to 2.5%, due to monetary tightening and a cyclical slow-down. In the emerging economies, China did better than expected in H1 2018 and India is maintaining a solid and relatively high growth momentum. On the other hand, the report said that Brazil is facing ongoing challenges and Russia is continuing its low growth pattern.

The OPEC report identified that numerous challenges have emerged to the global growth outlook. The main areas of concern include: political uncertainties and trade-related developments. In addition, negative impacts from trade tensions on global investments, capital flows and consumer spending may also have a detrimental effect on the global oil market. It added that monetary policy decisions and rising global debt levels also need monitoring.

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Table 2: Economic Growth Rate Forecast

	2017	2018F
World	3.8%	3.8%
OECD	2.5%	2.4%
USA	2.3%	2.9%
Japan	1.7%	1.2%
Euro-zone	2.5%	2.0%
China	6.9%	6.6%
India	6.3%	7.3%
Brazil	1.0%	1.6%
Russia	1.5%	1.8%

Source: OPEC Monthly Report, August 2018; F- Forecast

1.2 Low GDP Growth Rate in Nigeria: A New Norm?

The GDP growth rate of 1.50% recorded in Q2 2018 was below the expectations of most analysts.

The real GDP growth rate of 1.50% recorded in Q2 2018 was below the expectations of most analysts. Although the fragile growth was driven by the Non-Oil sector, the fact that dominant sectors of the economy either recorded low growth or contracted in Q2 2018 indicates that urgent actions are required. Agriculture, which is the largest sector of the Nigerian economy at 22.86%, recorded a marginal growth of only 1.19%. FSDH Research notes that the slow growth in the Agriculture sector, if not checked, may lead to food shortage in the country and consequently escalating food prices and rising inflation rate.

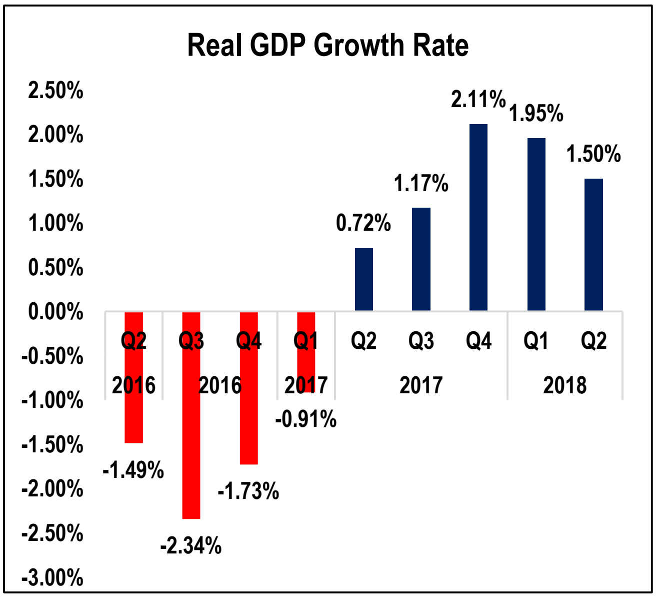
The weak purchasing power in the country (occasioned by non-payment of salaries, high unemployment rate and high consumer prices) is responsible for the contraction in the Trade sector.

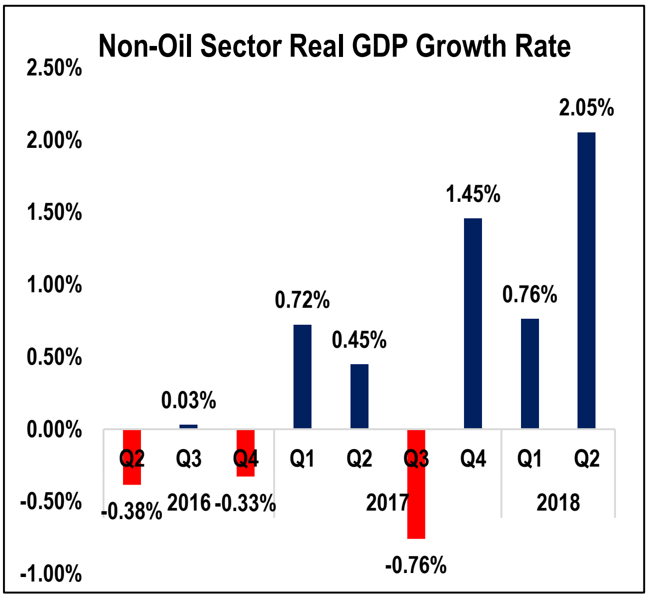
Trade, which is the second largest sector of the Nigerian economy, contracted by 2.14% and also entered a recession in Q2 2018. The weak purchasing power in the country (occasioned by non-payment of salaries, high unemployment rate and high consumer prices) is responsible for the contraction in the Trade sector. Improvement in the business environment that can lead to job creation and payment of salary of workers, particularly among the state civil servants, will stimulate purchasing power.

The current low GDP growth rate is not strong enough to stimulate credit creation. It has also increased the risk of doing business in Nigeria.

Urgent measures are required so that low GDP growth rate does not become a new norm in Nigeria.

FSDH Research observes strong growth in the Information & Communication and the Construction sectors of the economy. We believe the two sectors can achieve higher growth rates given the enormous potentials inherent in these sectors. The contraction in the Real Estate sector can be reversed if government at all levels partners with private sector operators to provide affordable housing units for Nigerians. Government can provide land, lower the cost of registration and perfection of titles, and provide long-term loans for their employees. The current low GDP growth rate is not strong enough to stimulate credit creation. It has also increased the risk of doing business in Nigeria. Therefore, urgent measures are required so that low GDP growth rate does not become a new norm in Nigeria.





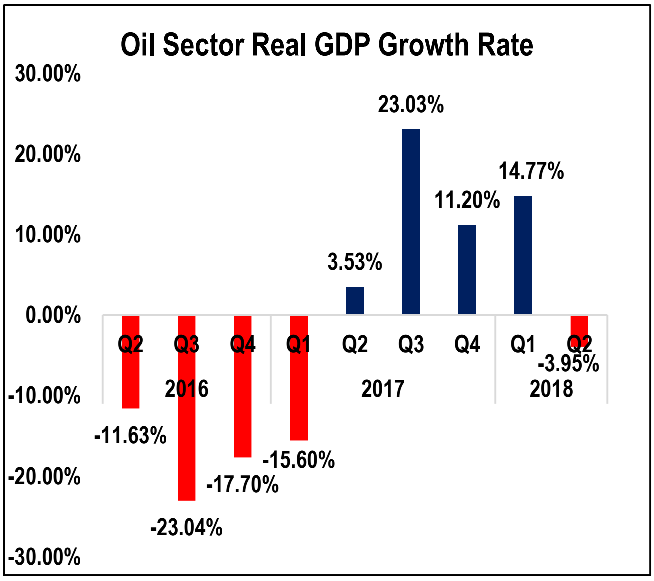


Table 3: Performance of Leading Sectors of the Nigerian Economy: Q2 2018

Activity Sectors	^Contribution	GDP GR	WG
Agriculture	22.86%	1.19%	0.27%
Trade	16.45%	(2.14%)	(0.35%)
Information & Communication	13.63%	11.81%	1.61%
Manufacturing	9.29%	0.68%	0.06%
Mining and Quarrying	8.71%	(3.84%)	(0.33%)
Real Estate	6.83%	(3.88%)	(0.27%)
Construction	4.51%	7.66%	0.35%
Professional, Scientific and Technical	3.59%	2.07%	0.07%
Financial and Insurance	3.31%	1.28%	0.04%
Public Administration	3.16%	2.72%	0.09%

Sources: National Bureau of Statistics (NBS) and FSDH Research Analysis; ^Sector Contribution to GDP, GR: Growth Rate; WG: Weighted Growth

1.3 Nigeria's Capital Importation Update:

The total value of capital importation into Nigeria stood at US$5.51bn in Q2 2018.

The total value of foreign capital importation into Nigeria stood at US$5.51bn in Q2 2018, a drop of 12.53%, compared with Q1 2018. This drop is an indication of the risk aversion of foreign investors. Both Foreign Portfolio Investments (FPI) and Other Investments declined in Q2 2018 over Q1 2018. However, Foreign Direct Investments (FDI) increased marginally in Q2 over Q1 2018. The risk aversion towards Nigeria is due to rising uncertainties in the Nigerian economy and the expectation of a rate hike in the US.

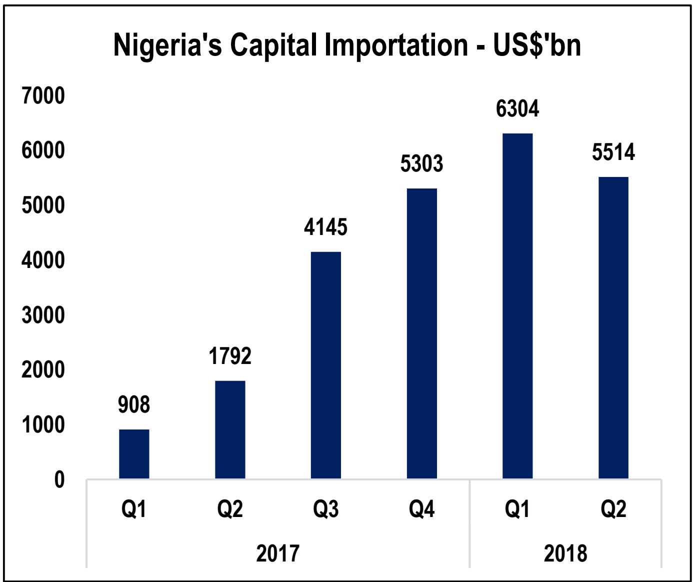
Investments in both Equity and Bonds (under Portfolio Investments) reported steady quarter-on-quarter growth, with 49.43% and 19.13% respectively.

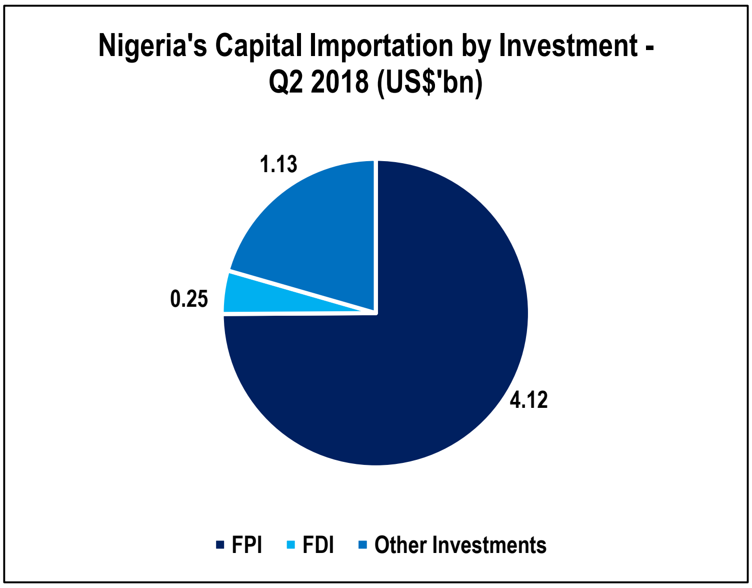
FPI remained the most significant component of total capital inflow into Nigeria in Q2 2018 but contracted by 9.76% over the previous quarter. The Central Bank of Nigeria (CBN) may raise the yield on short-term securities to attract FPI in order to ensure stability in the foreign exchange market. Consequently, the yields on the Nigeria Treasury Bills (NTBs) may increase.

Table 4: Nigeria Capital Importation – Investment Type (US$'mn)

	2017				2018	
	Q1	Q2	Q3	Q4	Q1	Q2
Foreign Direct Investment - Equity	210.10	274.07	117.47	377.80	246.61	255.71
Foreign Direct Investment - Other Capital	1.28	0.30	0.13	0.61	0.005	5.63
Portfolio Investment - Equity	101.99	614.05	1,932.07	989.20	701.61	1,048.39
Portfolio Investment - Bonds	-	57.87	115.43	309.54	335.88	400.14
Portfolio Investment - Money Market Instruments	211.61	98.59	719.91	2,178.79	3,527.60	1,132.75
Other Investments - Loans	369.28	747.47	956.69	1,091.20	1,268.44	1,121.66
Other Investments - Other Claims	14.00	-	302.88	435.72	223.49	11.08
Total	908.27	1,792.34	4,145.10	5,302.50	6,303.63	5,513.55

Source: NBS

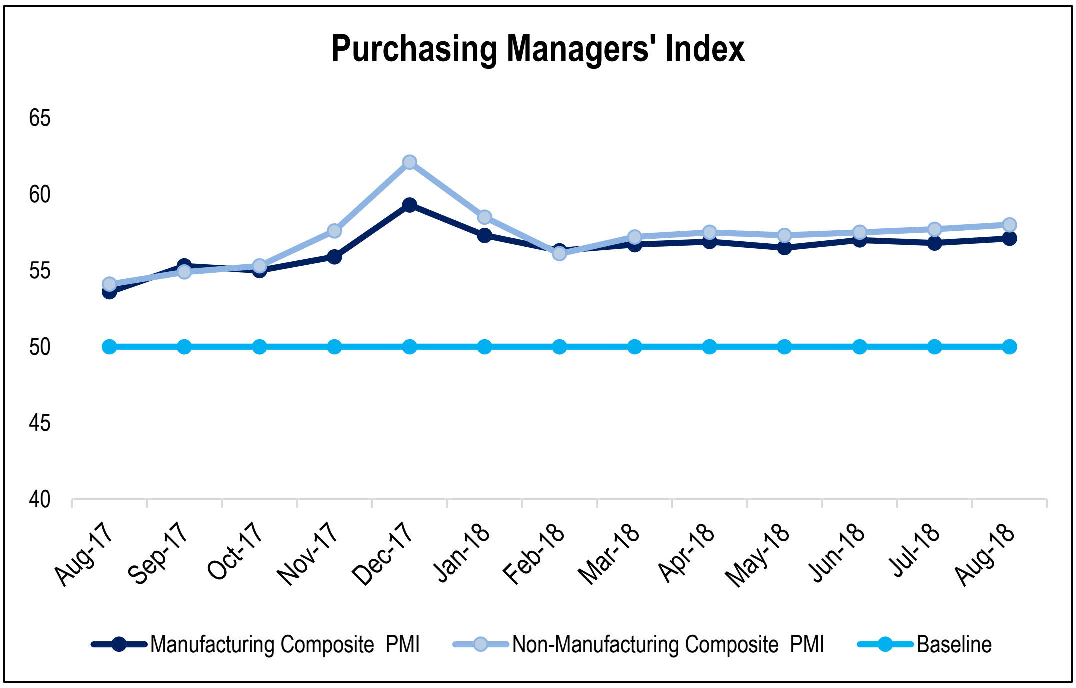




The PMI published by the CBN for the month of August 2018 expanded further.

1.4 Purchasing Managers' Index (PMI):

The PMI published by the CBN for the month of August 2018 expanded further. The Manufacturing PMI of July stood at 57.1 points from 56.8 points recorded in July. Production levels, new orders and employment level grew at a faster rate in August than in July. The Non-Manufacturing PMI also increased to 58.0 points in August, from 57.7 points in July. New orders and equipment grew at a faster rate in August than in July. Although the expansion in the PMI is a good development, it may not necessarily translate to an increase in the GDP in Q3 2018. FSDH Research reiterates that a combination of monetary, fiscal and trade policies is needed to stimulate a sustainable growth path.



1.5 Inflation Rate:

We note the rising pressure from food prices and its impact on inflation rate.

The inflation rate dropped further to 11.14% in July 2018, from 11.23% recorded in June. 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 1.13% in July, lower than the 1.24% recorded in June. This represents the first time the rate of change in the M-o-M inflation rate has decelerated since February 2018. Y-o-Y, the change in the Food Price Index (FPI) stood at 12.95% in July, down from 12.98% in June 2018. M-o-M, the FPI grew by 1.40% in July, compared with 1.57% in June. The increase in the prices of Potatoes, yam and other tubers, Vegetables, Bread and cereals, Fish, Oils and Fat and Fruits drove the FPI during the period. **We note the rising pressure from food prices and its impact on the inflation rate.**

The Core Index stood at 10.20% in July, down from 10.40% in June. The largest increases in the Core Index were recorded in the prices of medical services, carpets and other floor coverings, vehicle spare parts, domestic services and household services, pharmaceutical products, paramedical services, hairdressing salons and personal grooming establishments, dental services, motor cars, fuels and lubricants for personal transport equipment.

FSDH Research forecasts that inflation rate will remain flat at 11.14% in August 2018

FSDH Research forecasts that inflation rate will remain flat at 11.14% in August 2018. Looking at the movements in food prices in July, the inflation rate may remain in double digits in 2018.

Table 5: Inflation Rate Actual Vs. Forecast

Month	Jan-18A	Feb-18A	Mar-18A	Apr-18A	May-18A	Jun-18A	Jul-18A	Aug-18F	Sep-18F	Oct-18F	Nov-18F	Dec-18F
Actual/Forecast*	15.13%	14.33%	13.34%	12.48%	11.61%	11.23%	11.14%	11.14%	11.27%	11.32%	11.32%	11.65%

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

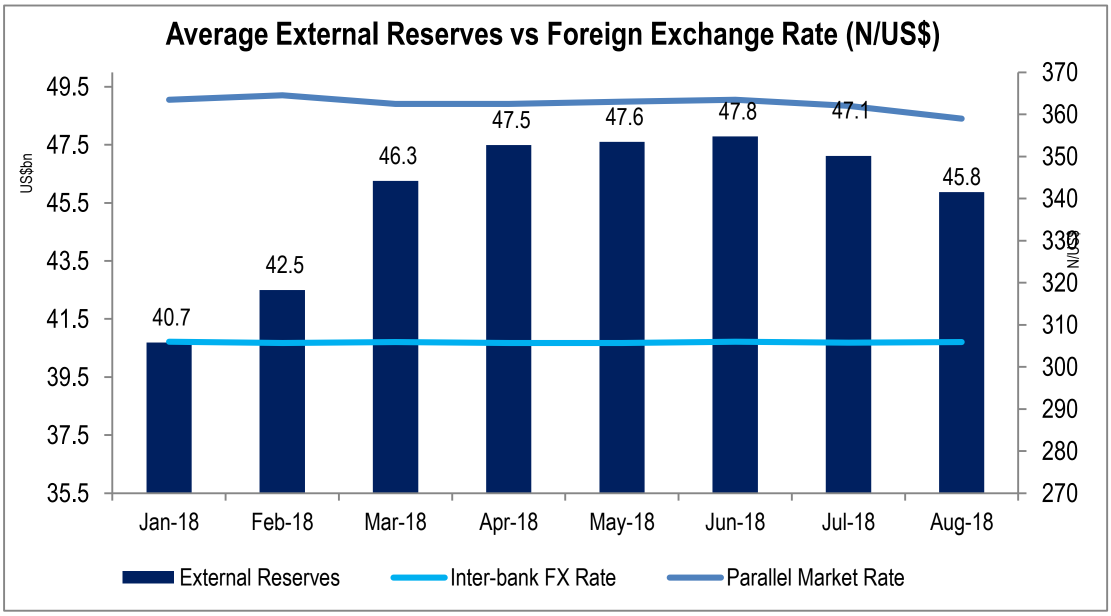
The persistent demand for foreign exchange by foreign investors for capital repatriation continued in August 2018.

We have observed an upward trend in the yield on the NTBs to attract more foreign inflows to Nigeria.

1.6 Movement in the External Reserves:

The persistent demand for foreign exchange by foreign investors for capital repatriation continued in August 2018. Consequently, the drawdowns from the external reserves was unabated during the period. The 30-Day moving average external reserves decreased by 2.72%, down from US$47.12bn at end-July to US$45.84bn at end-August 2018.

The shortfall in crude oil production is weighing down on the external reserves from the full benefits of the favourable crude oil price in the international market. The rising yields in the US from the monetary policy normalisation of the US Fed is also leading to capital flight, as US Treasury yields becomes attractive. We have observed an upward trend in the yield on NTBs to attract more foreign inflows to Nigeria.



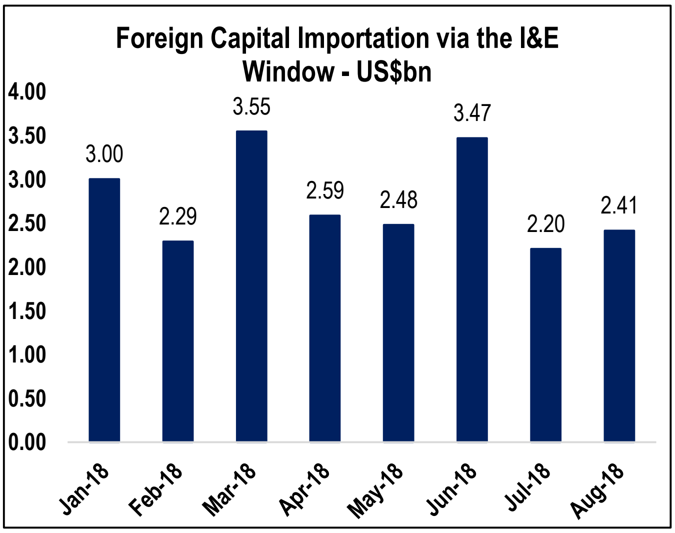
1.7 Currency Transaction at the I&E Window

Foreign Portfolio Investment (FPI) remains a critical component of the foreign inflows.

The total capital importation from inception of the Investors' and Exporters' Foreign Exchange Window (I&E window) in April 2017 to 31 August 2018 stands at US$37.28bn. Total inflow in the month of August recovered from the level recorded in July 2018. Foreign Portfolio Investment (FPI) remains a critical component of the foreign inflows through the I&E window and accounted for 48.13% of total inflows from inception. Policies to attract FPIs will continue to be relevant to the stability of the FX rate in Nigeria in the short-term.

Policies to attract FPIs will continue to be relevant to the stability of the FX rate in Nigeria in the short-term.

The amount and the proportion of the FPIs in the total capital inflow in the last few months have been on a consistent decline. The proportion of inflows from FPIs recorded a steep decline in August. Rising uncertainties in Nigeria and rising yields in the international market are major reasons. The pullback from foreign investors may lead to an increase in yields on FGN Bonds.



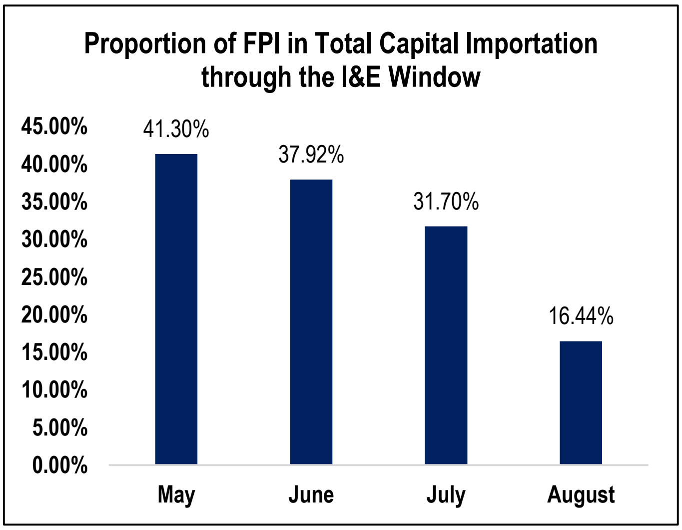


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Table 6: Foreign Capital Importation through the I & E Window

	June		July		August	
Source	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**
FDIs	0.07	2.05%	0.01	0.52%	0.01	0.36%
FPIs	1.32	37.92%	0.70	31.70%	0.40	16.44%
Other Corporates	0.08	2.22%	0.08	3.43%	0.09	3.70%
CBN	0.58	16.74%	0.65	29.67%	1.17	48.52%
Exporters	0.08	2.35%	0.06	2.69%	0.06	2.46%
Individuals	0	0.06%	0.01	0.47%	0.02	0.82%
Other Corporates	1.34	38.66%	0.7	31.53%	0.67	27.71%
Total	**3.47**	**100%**	**2.2**	**100%**	**2.41**	**100%**

Source: FMDQ; PT – Proportion of Total

1.8 Crude Oil Market and Bonny Light Price:

The daily crude oil production in Nigeria increased by 4.38% to 1.67mb/d in July 2018 from 1.60mb/d in June.

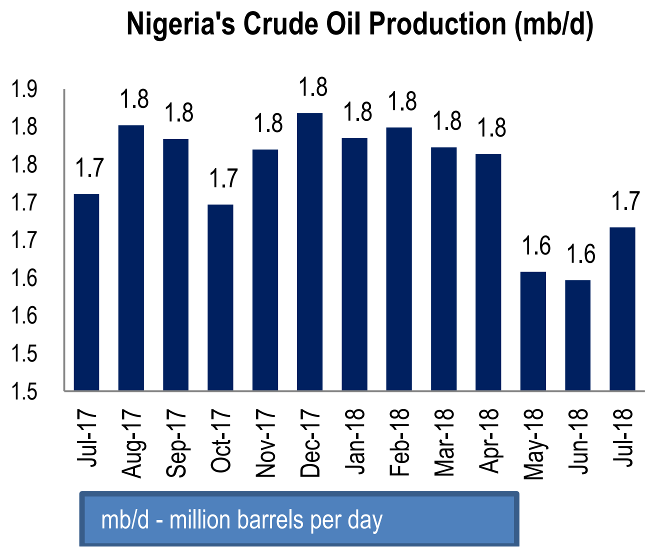
The daily crude oil production in Nigeria increased by 4.38% to 1.67mb/d in July 2018 from 1.60mb/d in June. This is based on secondary data available from the Organization of the Petroleum Exporting Countries (OPEC) report for the month of August 2018. The crude oil production is lower than the benchmark of 2.3mb/d. This may make funding of the 2018 Budget difficult. The total OPEC crude oil production from secondary sources was 32.32mb/d in July, a marginal increase of 0.12% from 32.28mb/d in the previous month. Crude oil production output increased mostly in Kuwait, Nigeria, United Arab Emirates, and Iraq; while declines were recorded in Libya, Iran, Saudi Arabia and Venezuela.

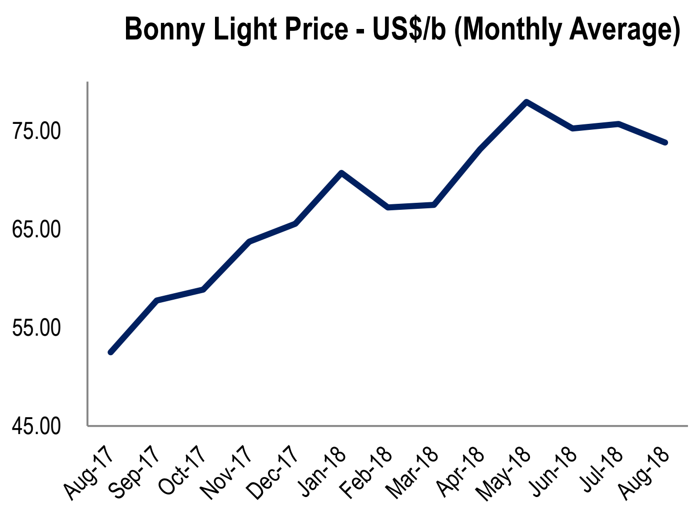
In its monthly report for August 2018, the US Energy Information Administration (EIA) forecasts an average price of Brent crude oil of US$72/b and US$71/b in 2018 and 2019, respectively. The forecast for 2018 is lower than the US$73/b predicted in the July 2018 monthly report, but higher than the US$69/b predicted for 2019.

The average price of Bonny Light was US$73.79/b in August, a decrease of 2.51% from the average price of US$75.69/b recorded in July.

According to data from Thomson Reuters, the Bonny Light crude oil price increased by 3.28% to US$78.15/b as at end-August, from US$75.67/b at end-July. The average price of Bonny Light was US$73.79/b in August, a decrease of 2.51% from the average price of US$75.69/b recorded in July.

If Nigeria is not able to increase production to take full advantage of the current crude oil price in the international market, the demand pressure on foreign exchange may continue and imported inflation may result.





1.9 Foreign Exchange Rate:

The value of the Naira depreciated at both the inter-bank and parallel markets in August 2018, compared with July 2018.

The value of the Naira depreciated at both the inter-bank and parallel markets in August 2018, compared with July 2018. The premium between the inter-bank and parallel markets narrowed further in August 2018, compared with July 2018.

The value of the Naira depreciated by 0.08% at the inter-bank market in August to N306.15/US$, compared with July. The average exchange rate at the inter-bank market also depreciated by 0.08% to stand at N306.06/US$ in August, compared with N305.81/US$ in July.

The value of the Naira also depreciated M-o-M at the parallel market to N360/US$ as at end-August 2018, a depreciation of 0.28% from N359/US$ at end-July. However, the average exchange rate at the parallel market appreciated by 0.37% to stand at N358.69/US$ in August, compared with N360.02/US$ in July.

Policies that will increase the supply of foreign exchange into Nigeria from non-oil sources are required to maintain stable exchange rate.

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2.0 Interest Rate and Yield Analysis:

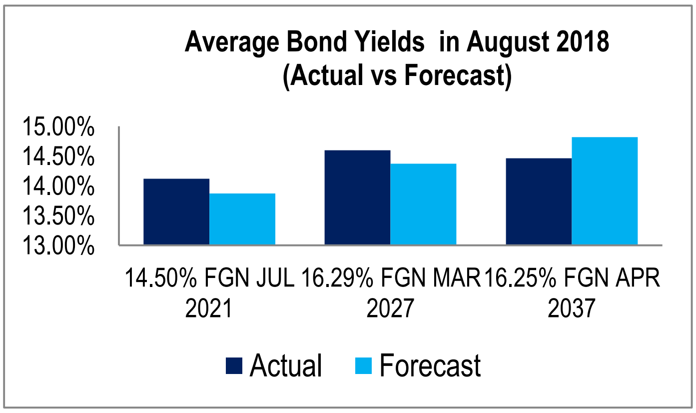
The yields on FGN Bonds increased in August 2018, compared with July 2018.

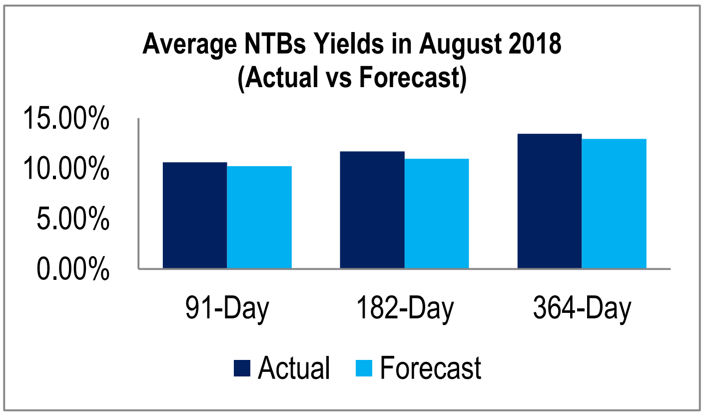
Rising uncertainties, the weak Q2 2018 GDP growth rate and expectations of another rate hike in the US in September 2018 caused the yields in the fixed income securities market to increase. The yields on the Nigerian Government Treasury Bills (NTBs) and FGN Bonds increased, however the yields on the Nigerian Inter-Bank Offered Rates (NIBOR) dropped in August compared with July.

FSDH Research observed a sharp increase in the yields on NTBs at the second auction in August. The need to make NTBs attractive to foreign investors in order to attract foreign inflows may be the major factor for the sharp increase in the NTBs. The fixed income market analysis for the month of August shows a net inflow of N627.35bn compared with a net inflow of N162.94bn in July. The major outflows in August were the Open Market Operations (OMO) and Repurchase (REPO) Bills of N991bn, CBN's Foreign Exchange Sale of N592bn, Primary NTBs of N456bn and the FGN Bond auction of N40bn. Meanwhile, in July, the major outflows were the OMO and REPO of N1.39trn, CBN's Foreign Exchange Sale of N621bn, Primary NTBs of N209bn and the FGN Bond auction of N31bn. The major inflows in August were the matured OMO and REPO Bills of N1.9trn, matured NTBs of N456bn and the Federation Account Allocation Committee (FAAC's) injection of about N355bn. The major inflows in July were the matured OMO and REPO Bills of N1.38trn, matured NTBs of N348bn and the FAAC's injection for May and June, totalling about N686bn.

The average NIBOR dropped in August compared to July 2018.

Average yields at the NTBs auction, on the 91-Day increased to 10.61% in the month of August compared with 10.26% recorded in July 2018. The average 182-Day NTB stood at 11.68%, up from 11.08% in July 2018. The average 364-Day NTB yield stood at 13.46% in August 2018 from 12.99% in July. However, the average NIBOR was down in August compared with July 2018. The average 30-Day NIBOR closed at 11.87% down from 13.16%.





We note that the current yields on the FGN Bonds are lower than the coupon rates.

The average 90-Day NIBOR decreased to 12.80%, from 13.78% and the average 180-Day NIBOR also decreased to 14.44%, from 15.20% in the preceding month. The yields on the FGN Bonds that we monitored closed higher in August 2018 over the preceding month. The average yield on the 14.5% FGN July 2021 increased to 14.12% in August from 13.55% in July. The 16.29% FGN Mar 2027 closed at 14.6% in August 2018, higher than 14.01% in July 2018; the 16.25% FGN Apr 2037 also closed at 14.46% in August 2018, higher than 14.19% in July 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 increase further.**

Table 7: Market Liquidity (N'bn)

	July 2018			August 2018		
	Total Inflow	Total Outflow	Net Flow	Total Inflow	Total Outflow	Net Flow
Primary Market: NTB	348	209	139	456	456	0
Open Market Operations & Rev Repo	1387	1396	(9)	1895	991	904
Bond	0	31	(31)	0	40	(40)
FAAC	686	0	686	355	0	355
FX Market	0	621	(621)	0	592	(592)
CRR Debit/Credit	0	0	0	0	0	0
TSA Implementation	0	0	0	0	0	0
Total	**2,421**	**2,258**	**163**	**2,706**	**2,079**	**627**

Sources: Central Bank of Nigeria and Federal Ministry of Finance

Table 8: Average Bond Yields

	14.50% FGN JUL 2021	16.29% FGN MAR 2027	16.25% FGN APR 2037
July 2018	13.55%	14.01%	14.19%
August 2018	14.12%	14.60%	14.46%
Change	**0.57%**	**0.59%**	**0.27%**

Source: Financial Market Dealers Quotation

Table 9: Average Interest Rate and Yields

	NIBOR				Treasury Bill Yields		
	Call	30-Day	90-Day	180-Day	91-Day	182-Day	364-Day
July 2018	12.63%	13.16%	13.78%	15.20%	10.26%	11.08%	12.99%
August 2018	9.06%	11.87%	12.80%	14.44%	10.61%	11.68%	13.46%
Change	**(3.57%)**	**(1.29%)**	**(0.98%)**	**(0.75%)**	**0.35%**	**0.60%**	**0.47%**

Sources: CBN and FMDQ

The yields on the NTBs in September may hover around the levels in the second auction in August; however, we expect the yields on the FGN Bonds to increase.

2.1 Revised Outlook Going Forward:

A total inflow of about N1.67trn is expected to hit the money market from the various maturing government securities and FAAC in September 2018. We estimate a total outflow of approximately N871bn from the various sources, including government securities and statutory withdrawal, leading to a net inflow of about N800bn. We expect the inflation rate in August 2018 to trend marginally upward from the level recorded in July 2018. The yields on the NTBs in September may hover around the levels recorded in the second auction in August. However, we expect the yields on the FGN Bonds to increase. The need to maintain stability in the foreign exchange market will be the major driver of yields.

Table 10: Expected Inflow and Outflow Analysis – September 2018 (N'bn)

Date	06-Sep-18	13-Sep-18	20-Sep-18	27-Sep-18	Others	Total
Inflows	294.52	376.88	401.91	260.32	337.67	1,671.29
Outflows	-	105.00	182.14	105.00	479.00	871.14
Net Flows	**294.52**	**271.88**	**219.77**	**155.32**	**(141.33)**	**800.15**

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

Table 11: Revised Average 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%
AugA-18	10.61%	11.68%	13.46%	14.12%	14.60%	14.46%
SepF-18	11.18%	12.98%	14.88%	14.90%	15.05%	15.15%
OctF-18	11.19%	12.99%	14.89%	15.15%	15.30%	15.50%
NovF-18	11.22%	13.02%	14.92%	15.40%	15.55%	15.80%
DecF-18	11.31%	13.11%	15.01%	15.73%	15.78%	15.98%

Sources: CBN, FMDQ, and FSDH Research Forecasts

FSDH Research anticipates an increase in yields on the FGN Bonds in September. The following factors will influence yields on fixed income securities in September 2018:

- The need to maintain stability in the Foreign Reserves
- The expected hike in rates in the global market, particularly the US
- The funding need of the Federal Government to finance the 2018 budget
- The weak growth rate in the economy.

2.2 Strategy:

- Investors to position to take investment opportunities in bond portfolio as the yield increases
- Investors should take advantage of the current yields on one year Treasury Bills

Investors to position to take investment opportunities in bond portfolio as the yield increases.

The average prices on the FGN Eurobonds were lower in August 2018 than in July. Consequently, the average yields on the bonds closed higher in the month of August than in July. Investors can buy the 15-year 7.875% FGN Eurobond February 2032 at the current price while they can take profit on the 10-Year 6.75% FGN Eurobond January 2021.

Table 12: FGN Eurobonds

	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	
Date	**Price (US$)**	**Yield**	**Price (US$)**	**Yield**	**Price (US$)**	**Yield**	**Price (US$)**	**Yield**
01-Aug-18	102.33	7.60%	104.79	4.68%	102.40	5.81%	100.81	5.39%
02-Aug-18	101.50	7.69%	104.62	4.75%	102.09	5.88%	100.78	5.40%
03-Aug-18	101.68	7.67%	104.63	4.75%	102.17	5.86%	100.89	5.37%
06-Aug-18	101.75	7.66%	104.58	4.76%	102.25	5.84%	100.95	5.35%
07-Aug-18	101.25	7.72%	104.30	4.88%	101.98	5.90%	100.65	5.44%
08-Aug-18	101.23	7.73%	104.19	4.92%	101.92	5.92%	100.72	5.41%
09-Aug-18	100.37	7.83%	103.97	5.01%	101.55	6.00%	100.30	5.54%
10-Aug-18	98.21	8.10%	103.79	5.09%	101.01	6.13%	100.11	5.59%
13-Aug-18	96.08	8.37%	103.10	5.38%	99.16	6.58%	98.52	6.06%
14-Aug-18	97.91	8.13%	103.34	5.28%	99.87	6.41%	99.41	5.79%
15-Aug-18	97.73	8.16%	103.33	5.28%	99.89	6.40%	98.97	5.93%
16-Aug-18	97.78	8.15%	103.36	5.26%	100.00	6.37%	99.09	5.89%
17-Aug-18	97.87	8.14%	103.41	5.24%	99.95	6.39%	99.00	5.92%
20-Aug-18	97.80	8.15%	103.08	5.38%	100.06	6.36%	99.15	5.87%
21-Aug-18	98.46	8.06%	103.14	5.35%	100.26	6.31%	99.22	5.85%
22-Aug-18	99.33	7.96%	103.58	5.16%	100.68	6.21%	99.62	5.73%
23-Aug-18	99.29	7.96%	103.54	5.17%	100.72	6.20%	99.65	5.73%
24-Aug-18	99.40	7.95%	103.59	5.15%	100.76	6.19%	99.65	5.73%
27-Aug-18	99.40	7.95%	103.54	5.17%	100.77	6.19%	99.60	5.74%
28-Aug-18	99.56	7.93%	103.63	5.13%	100.70	6.20%	99.59	5.74%
29-Aug-18	99.48	7.94%	103.59	5.14%	100.72	6.20%	99.57	5.75%
30-Aug-18	98.69	8.04%	103.31	5.26%	100.25	6.31%	99.28	5.84%
31-Aug-18	97.81	8.15%	103.13	5.34%	100.02	6.37%	98.96	5.93%

Source: Bloomberg

3.0 Equity Market:

3.1 The Secondary Market:

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

The equity market depreciated further in August 2018, following the depreciation recorded in July. The Nigerian Stock Exchange All Share Index (NSE ASI) depreciated by 5.86% (a loss of 6.14% in US Dollar) to close at 34,848.45 points. **Year-to-Date (YTD), the Index recorded a depreciation of 8.88%**. Similarly, the market capitalisation recorded a M-o-M loss of 5.13% (a loss of 5.40% in US Dollar) to close at N12.72tn (US$41.57bn). **The decline recorded in the equity market can be largely attributable to the pullback from foreign investors who had hitherto dominated market transactions. The domestic investors have also adopted a cautious approach to the equity market because of the uncertainties surrounding the economy.**

Year-to-Date (YTD), the Index recorded a depreciation of 8.88%.

The volume of stocks traded decreased by 19.48% to 5.40bn in August from 6.70bn in July. UBA Plc (824.47mn), NEM Insurance Plc (472.70mn), Zenith Bank Plc (391.70mn), Diamond Bank Plc (240.69mn), and GT Bank Plc (238.82mn) were the five most highly traded stocks in August. Similarly, the value of stocks traded on The NSE in August decreased by 8.38% to N66.92bn, from N73.04bn in July.

All Sectoral Indices depreciated further in August.

All Sectoral Indices depreciated further in August. The NSE Banking Index recorded the highest M-o-M depreciation of 8.64%, with a YTD depreciation of 11.98%. The loss recorded in the Banking Index was mainly attributed to the decrease in the share prices of UBA Plc (16.23%) and FBN Holdings Plc (12.87%). The NSE Consumer Goods Index recorded a M-o-M loss of 6.84%, with a YTD loss of 15.96%. The loss in the NSE Consumer Goods Index was mainly attributed to the decrease in the share price of Flour Mills Plc (15.33%) and Nestle Plc (6.25%).

Table 13: Nigerian Equity Market: Key Indicators

Month	Volume (bn)	Value (N'bn)	NSEASI	Market Cap. (N'trn)	Banking*	Insurance*	Consumer Goods*	Oil/Gas*	Industrial*
July	6.71	73.04	37,017.78	13.41	458.07	147.68	880.62	316.22	1,780.57
August	5.40	66.92	34,848.45	12.72	418.50	138.83	820.35	298.24	1,667.55
Change	(19.48%)	(8.38%)	(5.86%)	(5.13%)	(8.64%)	(5.99%)	(6.84%)	(5.69%)	(6.35%)
YTD			(8.88%)	(6.52%)	(11.98%)	(0.39%)	(15.96%)	(9.81%)	(15.59%)

*Sources: NSE and FSDH Research. * NSE Sectoral Indices*

Table 14: Major Earnings Announcements in August 2018						
Company and Result	**Turnover (Nm)**	**Change**	**PBT (Nm)**	**Change**	**PAT (Nm)**	**Change**
U A C N PLC						
6 Months, June 2018	36,982.10	(21.88%)	2,102.31	14.84%	1,365.98	14.33%
PHARMA - DEKO PLC						
6 Months, June 2018	684.38	(1.95%)	2.56	105.60%	2.56	105.60%
ZENITH BANK PLC						
6 Months, June 2018	322,201.00	(15.31%)	107,358.00	16.46%	81,737.00	8.52%
VERITAS KAPITAL ASSURANCE PLC						
6 Months, Jun 2018	2,133.45	28.88%	93.62	(68.90%)	65.54	(73.22%)
CONOIL PLC						
6 Months, Jun. 2018	54,481.29	21.27%	809.78	28.96%	550.65	28.87%
THE INITIATES PLC						
6 Months, June 2018	420.07	53.33%	81.91	151.01%	61.43	151.01%
CORNERSTONE INSURANCE COMPANY						
6 Months, June 2018	7,103.54	27.38%	415.19	147.91%	322.04	133.78%
UNION HOMES REAL EST. INVEST. TRUST (REIT)						
Full Year, Dec. 2017	530.62	(14.10%)	325.00	(17.72%)	294.71	(20.58%)
GUARANTY TRUST BANK PLC (GT Bank)						
6 Months, June 2018	226,632.06	5.85%	109,632.62	8.44%	95,581.58	14.22%
NOTORE CHEMICAL IND PLC						
Full Year, Sep 2017	35,893.60	42.43%	-2,148.14	81.85%	8,652.43	172.00%
LINKAGE ASSURANCE PLC						
6 Months, Jun 2018	3,650.76	35.27%	750.02	(69.27%)	493.77	(78.52%)
UPDC REAL ESTATE INVESTMENT TRUST (REIT)						
Full Year, Dec. 2017	2,637.78	43.04%	2,208.35	46.04%	2,208.35	46.04%
STANBIC IBTC HOLDINGS PLC						
6 Months, Jun. 2018	114,207.00	17.50%	50,730.00	73.92%	43,084.00	78.68%
ACCESS BANK NIGERIA PLC						
6 Months, June. 2018	253,024.19	2.62%	45,842.74	(11.92%)	39,625.18	0.42%
UBA PLC.						
6 Months, June. 2016	258,042.00	15.86%	58,140.00	1.06%	43,792.00	3.43%
GUINNESS NIG PLC						
Full Year, June 2018	142,975.79	13.55%	9,943.16	273.51%	6,717.61	249.20%
Source: NSE						

Table 15: Major Corporate Actions Announcements in August 2018					
Company	**Result**	*** DPS (N)**	**Closure Date**	**Payment Date**	**Interim/Final**
ACCESS BANK NIGERIA PLC	6 Months Jun. 2018	0.25		7-Sep-18	21-Sep-18
UBA PLC.	6 Month, Jun. 2018	0.20	-	12-Sep-18	17-Sep-18
GUINNESS NIG PLC	Full Year, June 2018	1.84	-	24-Sep-18	25-Oct-18
P.Z. CUSSONS PLC	Full Year, May 2018	0.15	-	N/A	19-Oct-18
ZENITH BANK PLC	6 Months Jun. 2018	0.30	-	20-Aug-18	29-Aug-18
GT BANK PLC	6 Months Jun. 2018	0.30	-	22-Aug-18	30-Aug-18
STANBIC IBTC BANK PLC	6 Months, June 2018	1.00	-	29-Aug-18	26-Sep-18
*Source: NSE; *DPS – Dividend Per Share*					

All the equity market indices we monitored in Europe depreciated in August.

All the equity market indices we monitored in Europe depreciated in August. All the North/Latin America indices we monitored appreciated except the Brazil Stock Market Index. The NASDAQ Composite Index recorded the highest M-o-M appreciation of 5.71%, with a YTD appreciation of 17.47%. This was followed by the S&P 500 Index with a M-o-M gain of 3.03%, but a YTD depreciation of 8.52%. The NSE All Share Index recorded the highest M-o-M depreciation of 5.86%, with a YTD depreciation of 8.88% as at 31 August 2018. This was followed by the Shanghai Stock Exchange Composite Index with a M-o-M loss of 5.25% and a YTD loss of 17.60%.

Table 16: Foreign Equity Market Performance in August 2018

North/Latin America	YTD Change		Month-on-Month Change
Dow Jones Industrial Average	5.04%		2.16%
S&P 500 Index	8.52%		3.03%
NASDAQ Composite	17.47%		5.71%
Brazil Stock Market Index	0.36%		(3.21%)
Europe			
Swiss Market Index	(4.03%)		(1.86%)
FTSE 100 Index (UK)	(3.32%)		(4.08%)
CAC 40 Index (France)	1.77%		(1.90%)
DAX Index (Germany)	(4.29%)		(3.45%)
Africa			
NSE All-Share Index	(8.88%)		(5.86%)
FTSE/JSE Africa All Share Index	(1.41%)		2.15%
Nairobi All Share Index (Kenya)	(3.08%)		(2.66%)
GSE Composite Index (Ghana)	7.86%		(2.52%)
Asia/Pacific			
NIKKEI 225 Index (Japan)	0.44%		1.38%
S&P BSE SENSEX Index (India)	13.46%		2.75%
Shanghai Stock Exchange Composite Index (China)	(17.60%)		(5.25%)
Hang Seng Index (Hong Kong)	(6.79%)		(2.43%)
Sources: Bloomberg and Nigerian Stock Exchange (NSE)			

We expect to see activities mainly from the domestic investors in the equity market in September.

3.2. Outlook for the Month of September 2018:

We expect to see activities, mainly from domestic investors, in the equity market in September. We recognise that most share prices are in oversold positions and these stocks may soon start to attract the interest of domestic investors such as asset managers and retail investors. Nevertheless, the recent surge in the yields on the NTBs may lead to liquidity realignment from the equity market, causing a further decline in prices.

3.3. Strategies:

Investors should position in stocks that have good fundamentals.

- Investors can gradually enter the equity market through cost averaging investment strategies
- Investors should position in stocks that have good fundamentals
- We see opportunities in the banking, consumer goods, building materials and oil and gas sectors of the equity market.

Table 17: Equity Market Trend Analysis (2013-2017) – NSE ASI Analysis

	Year				
Months	**2013**	**2014**	**2015**	**2016**	**2017**
August	36,248.53	41,532.31	29,684.84	27,599.03	35,504.62
September	36,585.08	41,210.10	31,217.77	28,335.40	35,439.98
% Change	**0.93%**	**(0.78%)**	**5.16%**	**2.67%**	**(0.18%)**

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

The performance of the equity market in the last five years shows that the market recorded positive performances in three of the five years between August and September. **The current mood in the market may make the equity market trade differently from historical trend.**

Table 18: Revised Asset Allocation	
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	

Table 19: Stock Recommendation One Year Target Price

Stocks	Max Entry Price	52 Week Low	52 Week High	Trailing EPS	Trailing PE Ratio	Target Price
Access Bank	10.07	9.00	13.45	2.15	4.42	12.00
Dangote Cement	234.84	204.52	278.00	12.19	18.71	273.00
Dangote Sugar	18.00	11.97	23.35	2.95	5.34	22.00
UBA	9.60	8.00	13.00	2.34	3.42	11.50
Flour Mills Nigeria	35.15	20.50	38.00	3.11	7.83	48.00
GT Bank	36.55	36.00	54.71	6.20	5.81	43.00
Seplat	669.50	450.00	785.00	177.39	3.66	780.00

Source: FSDH Research

Table 20: Bond Recommendation

S/N	Security Description	Tenor To Maturity (Yrs)	Coupon	Current Price (N)	Current Yield	Modified Duration
1	14.50% FGN JUL 2021	2.87	14.50%	99.70	14.61%	2.24
2	14.20% FGN MAR 2024	5.53	14.20%	96.80	15.07%	3.46
3	16.288% FGN MAR 2027	8.54	16.29%	104.85	15.25%	4.32
4	16.25% FGN APR 2037	18.63	16.25%	105.80	15.29%	5.74

Source: FSDH Research. Prices and yields as at 03 September, 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 this security may generate good returns for investors who have US Dollar liquidity and can take the associated risks.

Table 21: Attractive Fixed Income Securities Trading on the FMDQ as at 03 September, 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	1.22	16.19%	98.12
Lagos	13.50% LAGOS 27-NOV-2020	13.50%	27-Nov-20	2.23	15.64%	96.04
			Corporate Bonds			
FCMB	15.00% FCMB 6-NOV-2020	15.00%	06-Nov-20	2.18	18.81%	93.37
Lafarge Africa Plc	14.25% LAFARGE 15-JUN-2019	14.25%	15-Jun-19	0.78	14.57%	99.71
NAHCO	15.25% NAHCO II 14-NOV-2020	15.25%	14-Nov-20	2.20	15.34%	99.77
Transcorp Hotels Plc	15.50% TRANSCORP 4-DEC-2020	15.50%	04-Dec-20	1.33	17.82%	97.35
Lafarge Africa Plc	14.75% LAFARGE 15-JUN-2021	14.75%	15-Jun-21	2.87	15.72%	98.78
FCMB	14.25% FCMB I 20-NOV-2021	14.25%	20-Nov-21	3.21	16.75%	93.92
UBA	16.45% UBA I 30-DEC-2021	16.45%	30-Dec-21	3.32	15.24%	102.99
Fidelity Bank	16.48% FIDELITY 13-MAY-2022	16.48%	13-May-22	3.69	15.31%	103.14
Transcorp Hotels	16.00% TRANSCORP 26-OCT-2022	16.00%	26-Oct-22	2.41	17.09%	97.96
Stanbic IBTC	182D T.Bills+1.20% STANBIC IA 30-SEP-2024	16.29%	30-Sep-24	6.07	16.05%	100.86
Stanbic IBTC	13.25% STANBIC IB 30-SEP-2024	13.25%	30-Sep-24	6.07	16.05%	89.35
			Supranational Bonds			
AfDB	11.25% AFDB 1-FEB-2021	11.25%	01-Feb-21	1.41	13.87%	96.76
			Corporate Eurobonds			
Zenith Bank Plc	6.25% APR 22, 2019	6.25%	22-Apr-19	0.62	5.54%	100.43
Diamond Bank Plc	8.75% May 21, 2019	8.75%	21-May-19	0.70	9.91%	99.20
Access Bank Plc II	9.25%/6M USD LIBOR+7.677% JUN 24, 2021	9.25%	24-Jun-21	2.79	10.05%	100.20
First Bank Ltd.	8.00%/2Y USD SWAP+6.488% JUL 23 2021	8.00%	23-Jul-21	2.87	9.04%	99.59
Ecobank Nig. Ltd	8.75% AUG 14, 2021	8.75%	14-Aug-21	2.93	9.79%	99.47
			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	3	13.71%	13.70%
Access Bank Plc	ACCESS CP XV 18-SEP -18	17.51%	18-Sep-18	15	13.47%	13.40%
Dangote Cement Plc	DANGCEM CP II 25-MAR -19	13.96%	26-Mar-19	204	14.14%	13.11%

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

Table 22: 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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