Monthly Economic and Financial Market Outlook

Interest Rate Hike in US, Hold in Nigeria: What Next?

October 2018

Executive Summary

Domestic Scene:

- *The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) maintained all the policy rates at its meeting in September, in line with the expectations of FSDH Research*
- *The MPC however expressed concerns on some of the pressure points in the economy including high liquidity, rising inflation rate, foreign exchange demand pressure, weak credit growth and sluggish economic growth*
- *FSDH Research expects monetary policy response in the form of an increase in the issuance of Open Market operations (OMO) to mop up liquidity*
- *The yields on the Nigerian Treasury Bills (NTBs) and Federal Government Bonds may increase. This will prevent capital flight, encourage Foreign Portfolio Investment (FPI). This response presents investment opportunities in Nigeria*
- *We expect an increase in CRR in Q4 if there is elevated liquidity in the financial market*
- *FSDH Research warns that the Federal Government of Nigeria (FGN) needs to urgently implement policies that will grow and diversify the revenue base of the country to avoid imminent debt crisis*
- *Our analysis of the ratio of the interest payment on domestic debt relative to the FGN allocation from the Federal Account Allocation Committee (FAAC) shows that the FGN is spending too much of its revenue to pay interest on loans*
- *This leaves the government with little resources to spend on critical sectors of the economy that could support strong growth and maintain a healthy economy to generate revenue*
- *The inflation rate rose to 11.23% in August 2018, from 11.14% recorded in July*
- *FSDH Research forecasts that inflation rate will trend upwards in September 2018 on account of high food prices largely due to the drop in food supply*
- *The persistent demand for foreign exchange in the face of declining inflows, led to a consistent drawdown in the external reserves in September*
- *The CBN may be able to maintain short-term stability in the foreign exchange market if the current rising crude oil price is sustained and Nigeria is able to produce and find buyers for all its crude oil*
- *We have observed an upward trend in the yield on Nigerian Treasury Bills (NTBs) to attract more foreign inflows into Nigeria. The current yields on the NTBs should also attract more foreign investors and reduce capital flight as foreign investors' rollover their maturing NTB investments*
- *FSDH Research notes that most share prices are in oversold positions and these stocks may soon start to attract domestic bargain-hunting investors*

International Scene:

- *The Federal Open Market Committee (FOMC) of the US Federal Reserve increased the Federal Funds Rate by 0.25% to a range of 2% to 2.25% on 26 September 2018*
- *This development will increase the borrowing cost on any new Dollar denominated loan and provide buying opportunity for the FGN Eurobond as yields increase*
- *FSDH Research predicts the FOMC will still announce another rate increase before the end of the year as economic developments support a hike in interest rate*

1.0 Global Developments:

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

FSDH Research observed that the prices of sovereign bonds decreased in more countries we monitored in September 2018. This is in line with the rising yields in the international market. The 16.39% January 2022 Nigeria Government Bond recorded the highest month-on-month (M-o-M) price decrease of 1.20% to 104.42. This was followed by the 17% April 03, 2022 Egypt Government Bond, with a decrease of 1.06% to 96.17. The 8.8% September 2023 Turkey Government Bond recorded the highest month-on-month (M-o-M) price increase of 17.90% to 66.20. All the bonds we monitored recorded positive real yields in September except the Turkey Government Bond. **The Kenya Government Bond offered the most attractive real yield amongst the selected bonds in September**.

FSDH Research predicts the FOMC will announce another rate increase before the end of the year.

The Federal Open Market Committee (FOMC) of the US Federal Reserve increased the Federal Funds Rate by 0.25% to a range of 2% to 2.25% on 26 September 2018. FSDH Research predicts the FOMC will still announce another rate increase before the end of the year. This development will increase the borrowing cost on any new Dollar denominated loan. The Real Gross Domestic Product (GDP) in the US increased at an annual growth rate of 4.2% in Q2 2018, according to the third estimate released by the US Bureau of Economic Analysis (BEA). It is the highest growth rate since Q3 2014. Similarly, inflation rate in the US fell to 2.7% year-on-year (Y-o-Y) in August 2018, from 2.9% in July. This is the lowest figure in four months amid a slowdown in the cost of fuel, gasoline and shelter. It is however above the 2% target. The US unemployment rate remained unchanged at 3.9% in August 2018. These developments support further hikes in the US.

Table 1: Summary of Key Indicators

S/N	Indicators	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	100.00	96.17	100.39	103.16	104.42	100.00	97.74	66.20	94.84
2	Bond Yield	3.51%	18.53%	8.02%	11.62%	14.64%	7.74%	8.37%	19.73%	2.95%
3	Bond Price MoM Change	0.00%	(1.06%)	(0.16%)	(0.82%)	(1.20%)	0.40%	0.21%	17.90%	(0.86%)
4	Bond Yield MoM Change	(0.00%)	0.45%	0.05%	0.26%	0.43%	(0.18%)	(0.05%)	(4.53%)	0.21%
5	Bond Price YTD Change	0.00%	(7.53%)	(3.10%)	1.96%	(2.50%)	(3.85%)	(1.68%)	(24.69%)	(2.81%)
6	Bond Yield YTD Change	(0.00%)	2.88%	0.83%	(0.73%)	0.61%	1.42%	0.48%	7.99%	0.72%
7	Real Yield	1.21%	4.33%	4.33%	5.92%	3.41%	4.64%	3.47%	(4.79%)	0.25%
8	Volatility	0.00	0.49	0.17	0.52	1.05	0.32	0.32	0.00	0.32
9	FX Rate MoM Change*	0.54%	0.52%	2.27%	0.17%	0.06%	(2.92%)	(3.87%)	(7.99%)	0.02%
10	FX Rate YTD Change*	5.27%	0.81%	11.89%	(2.36%)	0.77%	12.00%	12.44%	37.28%	(3.46%)
11	Inflation Rate	2.30%	14.20%	3.69%	5.70%	11.23%	3.10%	4.90%	24.52%	2.70%
12	Policy Rate	4.35%	16.75%	6.50%	9.00%	14.00%	7.50%	6.50%	24.00%	2.25%
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%	8.20%	6.30%	1.50%	1.90%	0.40%	5.20%	2.90%
15	Nominal GDP (US$'bn)	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:

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

In its monthly oil market report for the month of September 2018, the Organization of the Petroleum Exporting Countries (OPEC) maintained its global economic growth forecasts at 3.8% and 3.9% for 2018 and 2019, respectively. It added that the growth trends between and within major regions are increasingly diverging, with emerging underlying fragility in several areas. A combination of monetary tightening, the weakening financial situations in some emerging and developing economies, rising trade tensions and ongoing geopolitical concerns in some parts of the world constitute challenges to the current global economic growth trend.

Monetary tightening by major OECD central banks is expected to continue and could slow the growth trend.

Within the Organisation for Economic Cooperation and Development (OECD) countries, the report showed that the US economy continues to benefit from considerable fiscal stimulus. Growth for the US is forecast at 2.9% and 2.5% in 2018 and 2019, respectively. Japan is forecast to grow at 1.1% for both 2018 and 2019. India's and China's economic growth are forecast at 7.6% and 6.6% for 2018, respectively. The report added that monetary tightening by major OECD central banks is expected to continue and could slow the growth trend not only in the OECD, but also in emerging and developing economies, particularly those with weak fiscal situations.

The Middle East and Latin America are showing signs of weakening oil demand; while the US, India and China show strong demand.

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OPEC notes that there exists uncertainty in the currency and financial markets that may further pressure emerging economies, particularly in light of developments in Argentina, Turkey and South Africa. It also noted that the currency depreciation has extended to some degree to the Indian Rupee, which it says may create some challenges for oil imports. The report indicated that global oil demand is also showing a divergent trend, with some regions; primarily the Middle East and Latin America, showing signs of weakening oil demand; while the US, India and China show strong demand.

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%	1.1%
Euro-zone	2.5%	2.0%
China	6.9%	6.6%
India	6.3%	7.6%
Brazil	1.0%	1.2%
Russia	1.5%	1.6%

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

1.2 Monetary Policy Committee (MPC): Response to Growing Concerns:

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) maintained all the policy rates at its meeting in September, in line with the expectations of FSDH Research. However, the MPC expressed concerns in the following areas:

- The impact of expected high liquidity in the financial system on price stability
- The rising inflation rate driven by escalating food prices
- Rising interest rate in the US and its impacts on Nigeria
- Weak credit growth and sluggish growth in the Nigerian economy
- Demand pressure at the foreign exchange market leading to a drawdown in the external reserves

FSDH Research expects an increase in CRR in Q4 2018 if there is elevated liquidity in the financial market.

- **Policy Response:**
  - The MPC maintained all policy rates
  - However, some members voted for an increase in Cash Reserve Requirement (CRR)
- **Implications:**
  - FSDH Research expects an increase in the issuance of Open Market Operations (OMO) to mop up liquidity
  - We expect an increase in CRR in Q4 if there is elevated liquidity in the financial market
  - The yields on the NTBs and Federal Government Bonds may increase
  - This should deter capital flight and encourage Foreign Portfolio Investment (FPI)
  - The interest rate on the new Commercial Paper in the market may also increase

1.3 FGN Should Diversify Nigeria's Revenue Base to Avoid Debt Crisis

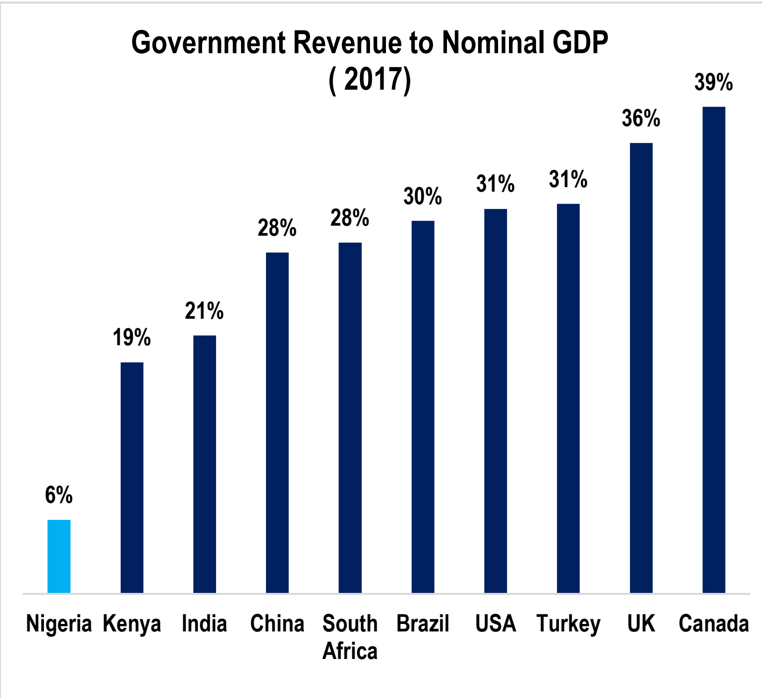
FSDH Research believes the FGN needs to urgently implement policies that will grow and diversify the revenue base of the country to avoid imminent debt crisis.

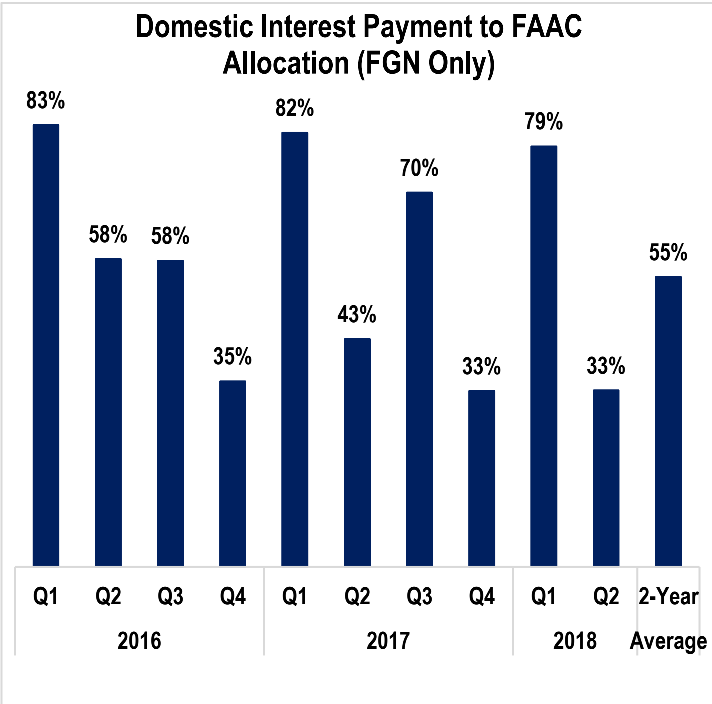
FSDH Research believes the Federal Government of Nigeria (FGN) needs to urgently implement policies that will grow and diversify the revenue base of the country to avoid imminent debt crisis. Our analysis shows that the growth in Nigeria's debt is higher than the growth in revenue. In addition, Nigeria has the lowest government revenue to Gross Domestic Product (GDP) ratio at 6% among some selected countries. Nigeria's over-dependency on crude oil revenue, combined with volatility in both the price and production of crude oil are the major reasons for sluggish growth in government revenue.

Our analysis of the ratio of the interest payment on domestic debt relative to the FGN allocation from FAAC shows that the FGN is spending too much of its revenue to pay interest on loans.

The current high interest payment relative to revenue may also increase the credit risk of the country.

Our analysis of the ratio of the interest payment on domestic debt relative to the FGN allocation from the Federal Account Allocation Committee (FAAC) shows that the FGN is spending too much of its revenue to pay interest on loans. This leaves the government with little resources to spend on critical sectors of the economy that could support strong growth and maintain a healthy economy to generate revenue. The current high interest payment relative to revenue may also increase the credit risk of the country. Although the government has been able to meet its debt obligations (interest and principal payments) so far, if the current situation is not addressed, the interest rate on government loans may increase because of the perceived elevated risk. This would also lead to higher interest rates for private sector operators. It is important to note that the external environment is becoming tighter than before because of the rising interest rate in the US.

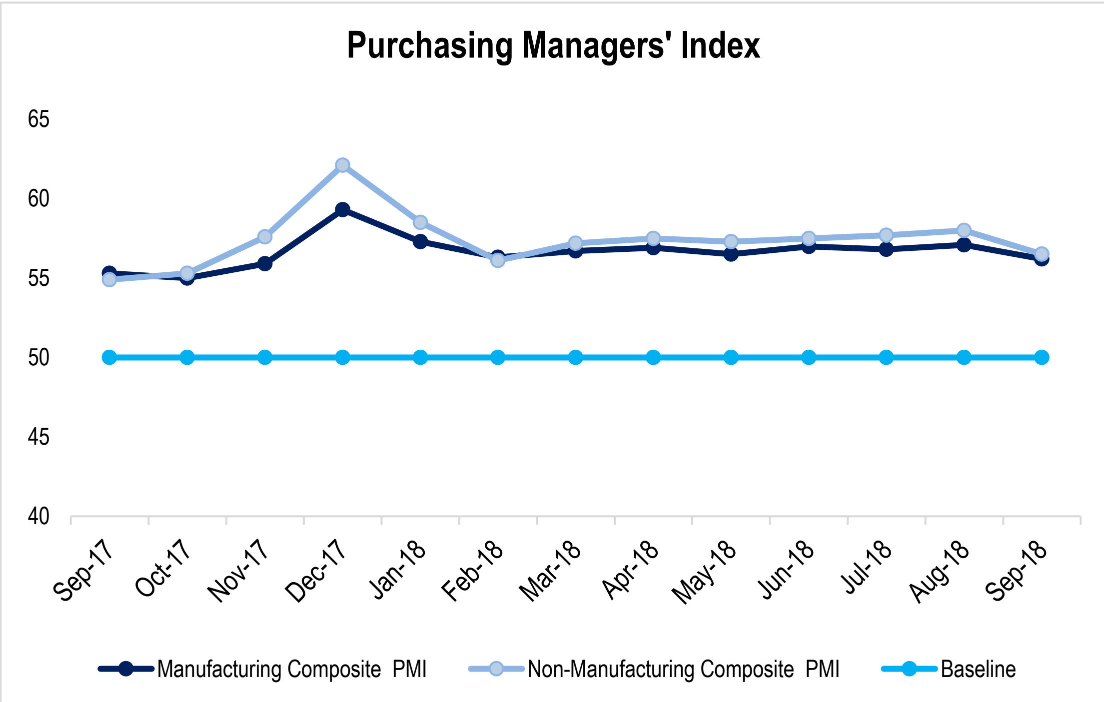




1.4 Purchasing Managers' Index (PMI):

The PMI published by the CBN for the month of September 2018 shows an expansion, albeit at a slower rate than August.

The PMI the CBN published for the month of September 2018 shows an expansion, albeit at a slower rate than August. The Manufacturing PMI of September stood at 56.2 points from 57.1 points recorded in August. There was a slowdown in production levels, new orders and employment level in September compared with August. The Non-Manufacturing PMI also decreased to 56.5 points in September, from 58.0 points in August. Business activity, new orders and employment levels also declined in September compared with August. The slowdown in the PMI is a reflection of the lull in economic activities, it is however not a perfect indicator for growth expectation in Gross Domestic Product (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:

Higher food prices placed upward pressure on the inflation rate.

The inflation rate rose to 11.23% in August 2018 from 11.14% recorded in July. Higher food prices placed upward pressure on the inflation rate. The Month-on-Month (M-o-M) change in the Consumer Price Index (CPI) stood at 1.05% in August, lower than the 1.13% recorded in July. This represents the second consecutive deceleration in the rate of change in the M-o-M inflation rate. Y-o-Y, the change in the Food Price Index (FPI) stood at 13.16% in August, up from 12.85% in July 2018. M-o-M, the FPI grew by 1.42% in August, compared with 1.40% in July. The increase in the prices of bread and cereals, potatoes, yam and other tubers, meat, vegetables, fish, fruits, and oils and fat drove the FPI during the period.

The Core Index stood at 10% in August, down from 10.20% in July. The largest increases in the Core Index were recorded in the prices of domestic services and household services, dental services, hospital services, medical services, repair of household appliances, tobacco, wine and repair of furniture.

FSDH Research forecasts that the inflation rate recorded for September 2018 will trend upwards to 11.37%.

FSDH Research forecasts that the inflation rate recorded for September 2018 will trend upwards to 11.37% on account of high food prices largely due to a drop in food supply. This short-term inflation outlook means that monetary policy stance will remain tight.

Table 3: Inflation Rate Actual Vs. Forecast

Month	Jan-18A	Feb-18A	Mar-18A	Apr-18A	May-18A	Jun-18A	Jul-18A	Aug-18A	Sep-18F	Oct-18F	Nov-18F	Dec-18F
Actual/Forecast*	15.13%	14.33%	13.34%	12.48%	11.61%	11.23%	11.14%	11.23%	11.37%	11.43%	11.43%	11.75%

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

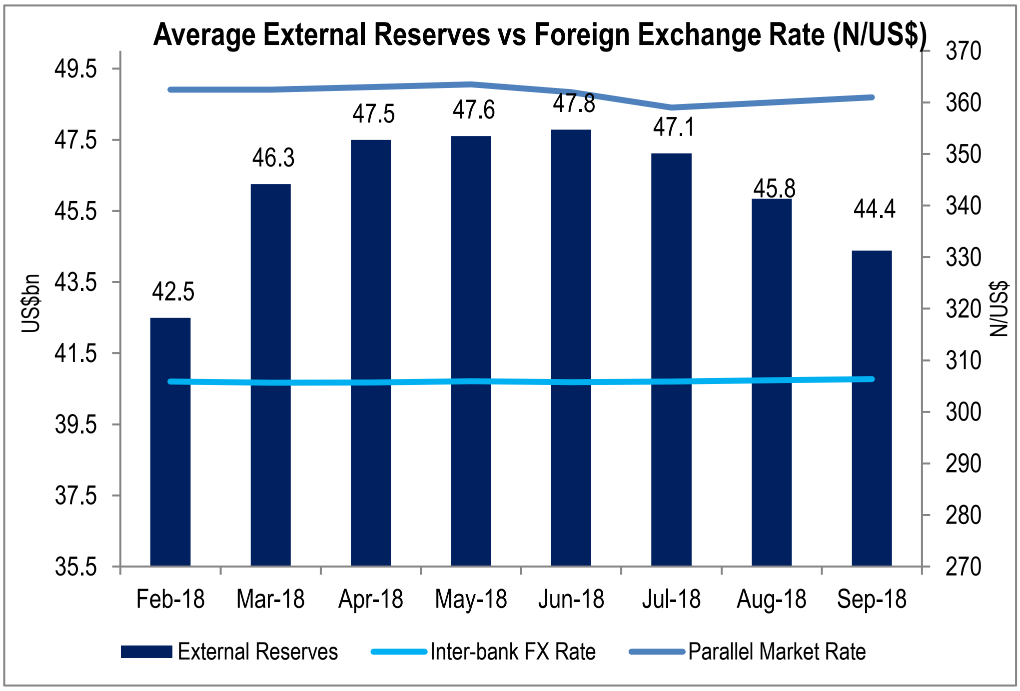
The persistent demand for foreign exchange in the face of declining inflows, led to a consistent drawdown in the external reserves in September.

The current crude oil price and stable production in Nigeria should support the external reserves in the short-term

1.6 Movement in the External Reserves:

The persistent demand for foreign exchange in the face of declining inflows, led to a consistent drawdown in the external reserves in September. The 30-Day moving average external reserves decreased by 3.18%, from US$45.84bn at end-August to US$44.38bn at end-September 2018.

Persistent capital flight from Nigeria in the face of rising yields in the US continues to weigh down the external reserves. The current crude oil price and stable production in Nigeria should support the external reserves in the short-term. The current yields on the NTBs should also attract more foreign investors and reduce capital flight as foreign investors rollover their maturing NTB investments.



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) from April 2017 to end-September 2018 stands at US$41.55bn. **Foreign Portfolio Investment (FPI) remains a critical component of the foreign inflows through the I&E window and accounted for 45.41% of total inflows from inception. FPIs accounted for 21.94% of total inflows in September, up from 17.46% in August.** We observed pullback from the foreign investors in FPI in the last few months as a result of rising uncertainties in the Nigerian economy.

The highest capital inflow came through the CBN in September same as in August 2018.

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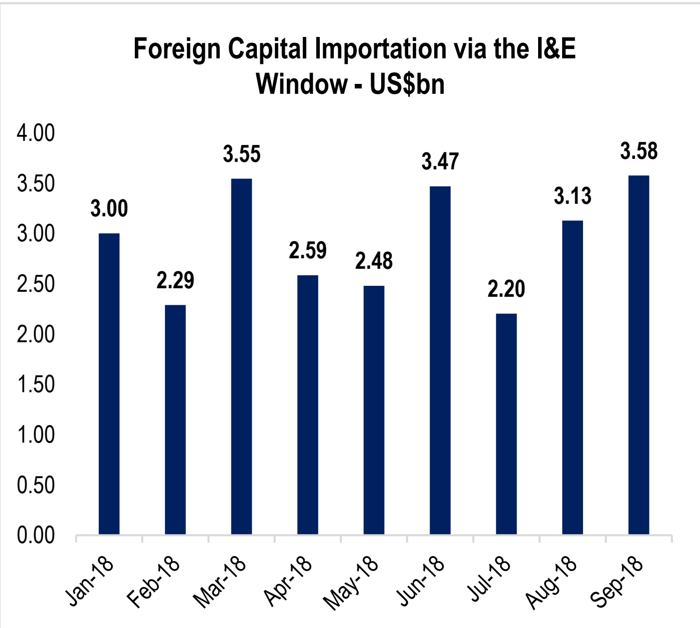
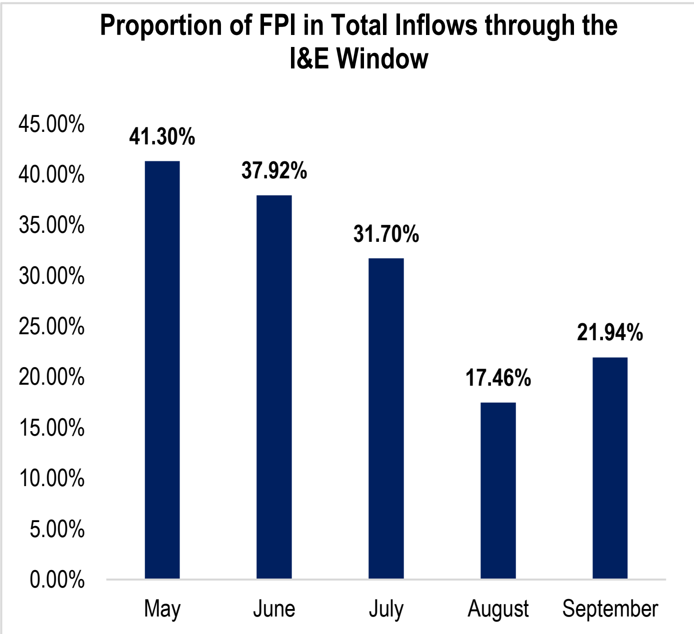
Table 4: Foreign Capital Importation through the I & E Window

	June		July		August		September	
Source	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**
FDIs	0.07	2.05%	0.01	0.52%	0.01	0.28%	0.05	1.34%
FPIs	1.32	37.92%	0.70	31.70%	0.55	17.46%	0.78	21.94%
Other Corporates	0.08	2.22%	0.08	3.43%	0.10	3.07%	0.05	1.30%
CBN	0.58	16.74%	0.65	29.67%	1.43	45.78%	2.02	56.40%
Exporters	0.08	2.35%	0.06	2.69%	0.08	2.62%	0.08	2.31%
Individuals	0.00	0.06%	0.01	0.47%	0.03	0.91%	0.02	0.53%
Non-Bank Corporates	N/A	N/A	N/A	N/A	N/A	N/A	0.26	7.39%
Other Corporates	1.34	38.66%	0.70	31.53%	0.93	29.87%	0.32	8.81%
Total	**3.47**	**100%**	**2.20**	**100%**	**3.13**	**100%**	3.58	100%

Source: FMDQ; PT – Proportion of Total *N/A: Not Applicable





1.8 Crude Oil Market and Bonny Light Price:

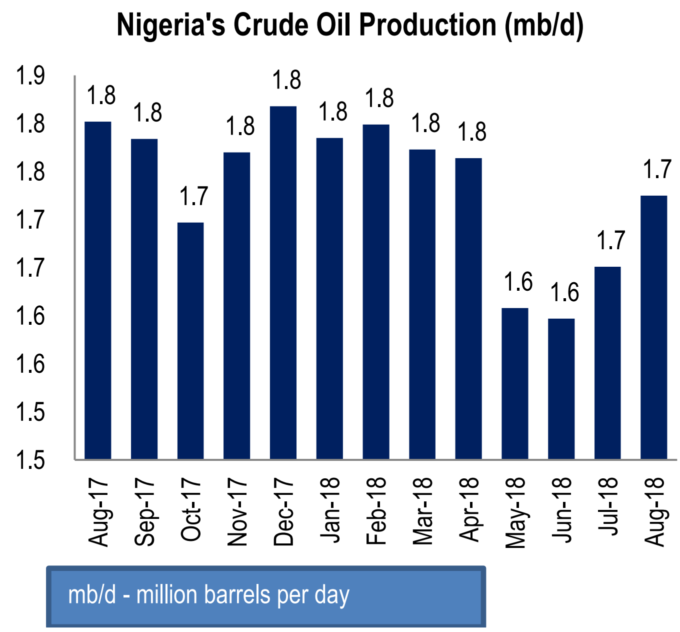
The daily crude oil production in Nigeria increased further by 4.48% to 1.73mb/d in August 2018 from 1.65mb/d in July.

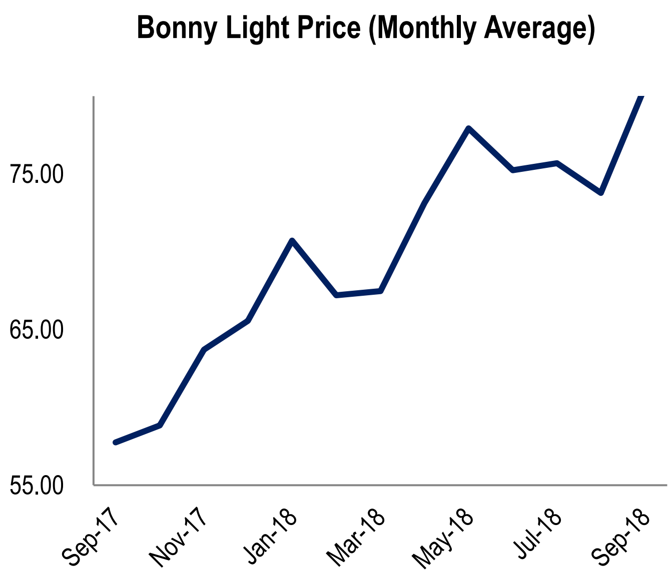
The daily crude oil production in Nigeria increased further by 4.48% to 1.73mb/d in August 2018 from 1.65mb/d in July. This is based on secondary data available from OPEC's report for the month of September 2018. The crude oil production is lower than the benchmark of 2.3mb/d. The total OPEC crude oil production from secondary sources was 32.57mb/d in August, an increase of 0.86% from 32.29mb/d in the previous month. Crude oil production output increased mostly in Libya, Nigeria, Saudi Arabia, and Iraq while production declined in Iran, Algeria and Venezuela.

In its monthly report for September 2018, the US Energy Information Administration (EIA) forecasts an average price of Brent crude oil of US$73/b and US$74/b in 2018 and 2019, respectively. The forecast is higher than the US$72/b and US$71/b predicted in the August 2018 monthly report for 2018 and 2019 respectively.

The average price of Bonny Light was US$80.62/b in September, an increase of 9.26% from the average price of US$73.79/b recorded in August.

According to data from Thomson Reuters, the Bonny Light crude oil price increased by 10.72% to US$86.53/b as at end-September, from US$78.15/b at end-August. The average price of Bonny Light was US$80.62/b in September, an increase of 9.26% from the average price of US$73.79/b recorded in August.





1.9 Foreign Exchange Rate:

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

The value of the Naira depreciated further at both the inter-bank and parallel markets in September 2018, compared with August 2018. The premium between the inter-bank and parallel markets widened in September 2018. This is an indication of the increased foreign exchange pressure.

The value of the Naira depreciated by 0.07% at the inter-bank market in September to N306.35/US$, compared with August. The average exchange rate at the inter-bank market also depreciated by 0.07% to stand at N306.27/US$ in September, compared with N306.6/US$ in August.

The CBN may be able to maintain short-term stability in the foreign exchange market if the current rising crude oil price is sustained and Nigeria is able to produce and find buyers for all its crude oil.

The value of the Naira also depreciated M-o-M at the parallel market to N361/US$ as at end-September 2018, a depreciation of 0.28% from N360/US$ at end-August. The average exchange rate at the parallel market depreciated by 0.46% to stand at N360.353/US$ in September, compared with N358.69/US$ in August.

The CBN may be able to maintain short-term stability in the foreign exchange market if the current rising crude oil price is sustained and Nigeria is able to produce and find buyers for all its crude oil.

2.0 Interest Rate and Yield Analysis:

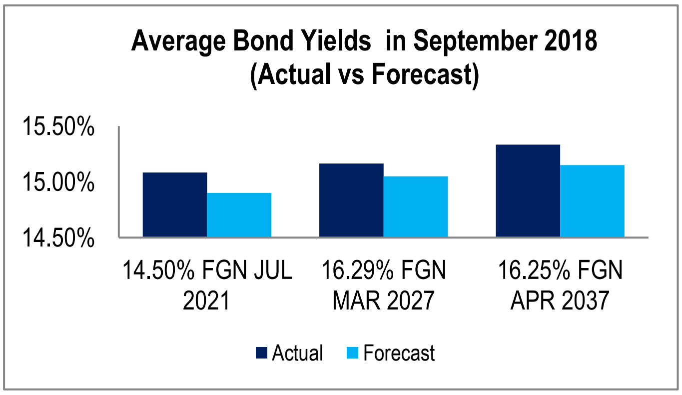
The yields on the fixed income securities increased in September 2018, compared with August 2018.

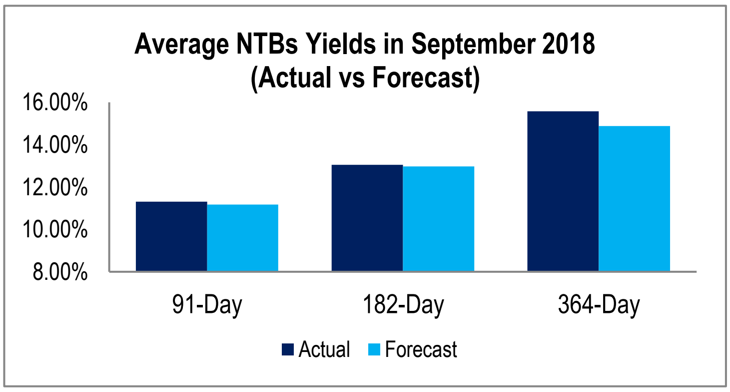
The yields in the fixed income market closed higher in September than in August 2018. The need to maintain foreign exchange stability because of the rising risks on the Nigerian economy and expectations of rate hike in the US in September 2018 were the major reasons for these higher yields. The CBN maintained the NTB yields in September around the yield of the last auction conducted in August.

The fixed income market analysis for the month of September shows a net outflow of N127.35bn compared with a net inflow of N627.35bn in August. The major outflows in September were the Open Market Operations (OMO) and Repurchase (REPO) Bills of N802bn, CBN's Foreign Exchange Sale of N593bn, Primary NTBs of N318bn and the FGN Bond auction of N97bn. Meanwhile, in August, the major outflows were the OMO and REPO of N991bn, CBN's Foreign Exchange Sale of N592bn, Primary NTBs of N456bn and the FGN Bond auction of N40bn. The major inflows in September were the matured OMO and REPO Bills of N1.02trn, the Federation Account Allocation Committee (FAAC's) injection of about N350bn and matured NTBs of N318bn. The major inflows in August were the matured OMO and REPO Bills of N1.9trn, matured NTBs of N456bn and the FAAC's injection of N355bn for July.

The CBN maintained the NTB yields in September around the yield of the last auction conducted in August.

At the NTBs auction, average yields increased across the various tenors in September, compared with August 2018. The average yields at the NTBs auction, on the 91-Day increased to 11.31% in the month of September compared with 10.61% recorded in August 2018. The average 182-Day NTB stood at 13.05%, up from 11.68% in August 2018. The average 364-Day NTB yield stood at 15.58% in September 2018 from 13.46% in August. Similarly, the average Nigerian Interbank Offered Rate (NIBOR) was up in September compared with August 2018. The average 30-Day NIBOR closed at 12.86% up from 11.87%.





The average 90-Day NIBOR increased to 13.77%, from 12.80% and the average 180-Day NIBOR also increased to 14.74%, from 14.44% in the preceding month. The yields on the FGN Bonds that we monitored closed higher in September 2018 than in the preceding month. The average yield on the 14.5% FGN July 2021 increased to 15.08% in September from 14.12% in August. The 16.29% FGN Mar 2027 closed at 15.16% in September 2018, higher than 14.60% in August 2018; the 16.25% FGN Apr 2037 also closed at 15.33% in September 2018, higher than 14.46% in August 2018.

Table 5: Market Liquidity (N'bn)

	August 2018			September 2018		
	Total Inflow	Total Outflow	Net Flow	Total Inflow	Total Outflow	Net Flow
Primary Market: NTB	456	456	0	318	318	0
Open Market Operations & Rev Repo	1895	991	904	1015	802	213
Bond	0	40	(40)	0	97	(97)
FAAC	355	0	355	350	0	350
FX Market	0	592	(592)	0	593	(593)
CRR Debit/Credit	0	0	0	0	0	0
TSA Implementation	0	0	0	0	0	0
Total	**2,706**	**2,079**	**627**	**1,684**	**1,811**	**(127)**

Sources: Central Bank of Nigeria and Federal Ministry of Finance

Table 6: Average Bond Yields

	14.50% FGN JUL 2021	16.29% FGN MAR 2027	16.25% FGN APR 2037
August 2018	14.12%	14.60%	14.46%
September 2018	15.08%	15.16%	15.33%
Change	**0.97%**	**0.57%**	**0.87%**

Source: Financial Market Dealers Quotation

Table 7: Average Interest Rate and Yields

	NIBOR				Treasury Bill Yields		
	Call	30-Day	90-Day	180-Day	91-Day	182-Day	364-Day
August 2018	9.06%	11.87%	12.80%	14.44%	10.61%	11.68%	13.46%
September 2018	8.61%	12.86%	13.77%	14.74%	11.31%	13.05%	15.58%
Change	**(0.45%)**	**0.99%**	**0.97%**	**0.30%**	**0.70%**	**1.37%**	**2.13%**

Sources: CBN and FMDQ

We envisage that yields on the fixed income securities market will trend upward in the month of October 2018.

2.1 Revised Outlook Going Forward:

A total inflow of about N1.07trn is expected to hit the money market from the various maturing government securities and FAAC in October 2018. We estimate a total outflow of approximately N858bn from the various sources, including government securities and statutory withdrawal, leading to a net inflow of about N1.07trn. Taking into account the recent increase in the Fed rate and expectations of a further increase in December 2018, together with the election considerations and weak economic performance, we envisage that the yields on fixed income securities will trend upward in the month of October.

Table 8: Expected Inflow and Outflow Analysis – October 2018 (N'bn)

Date	04-Oct-18	11-Oct-18	18-Oct-18	25-Oct-18	Others*	Total
Inflows	401.71	277.07	494.75	407.98	350.08	1,931.60
Outflows	133.49	105.00	35.09	105.00	479.00	857.59
Net Flows	**268.22**	**172.07**	**459.66**	**302.98**	**(128.92)**	**1,074.01**

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

Table 9: 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%
SepA-18	11.31%	13.05%	15.58%	15.08%	15.16%	15.33%
OctF-18	11.32%	13.08%	15.62%	15.46%	15.54%	15.74%
NovF-18	11.32%	13.08%	15.62%	15.66%	15.74%	15.94%
DecF-18	11.65%	13.41%	15.75%	15.99%	16.07%	16.19%

Sources: CBN, FMDQ, and FSDH Research Forecasts

The following factors will influence yields on fixed income securities in October 2018:

- The need to maintain stability in the foreign exchange market
- The rising yields in the international market
- Election consideration with associated expected liquidity injection
- The weak economic performance
- The rising inflation rate expectations

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

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

The average prices on the FGN Eurobonds were lower in September 2018 than in August. Consequently, the average yields on the bonds closed higher in the month of September than in August. We expect the yields to increase in October in line with global yields. Investors can take profit on the 10-Year 6.75% FGN Eurobond January 2021. Investors should wait until the yields on the FGN Eurobond increase before they take positions in them.

Table 10: 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**
03-Sep-18	97.68	8.16%	103.23	5.29%	100.00	6.37%	98.96	5.93%
04-Sep-18	96.06	8.37%	102.79	5.49%	99.40	6.52%	98.50	6.07%
05-Sep-18	95.70	8.41%	102.59	5.57%	98.92	6.64%	98.31	6.13%
06-Sep-18	97.10	8.24%	102.77	5.49%	99.41	6.52%	98.56	6.05%
07-Sep-18	97.83	8.14%	102.94	5.42%	99.70	6.45%	98.84	5.97%
10-Sep-18	97.92	8.13%	102.76	5.49%	99.66	6.46%	98.68	6.02%
11-Sep-18	97.46	8.19%	102.81	5.47%	99.35	6.53%	98.61	6.04%
12-Sep-18	97.79	8.15%	102.79	5.48%	99.41	6.52%	98.61	6.04%
13-Sep-18	99.63	7.92%	103.05	5.35%	99.95	6.38%	99.01	5.92%
14-Sep-18	100.25	7.84%	103.31	5.24%	100.44	6.27%	99.28	5.84%
17-Sep-18	99.75	7.90%	103.14	5.31%	100.25	6.31%	99.17	5.87%
18-Sep-18	99.38	7.95%	103.01	5.37%	99.97	6.38%	99.05	5.91%
19-Sep-18	100.00	7.87%	103.25	5.26%	100.28	6.30%	99.27	5.84%
20-Sep-18	101.32	7.71%	103.68	5.06%	100.95	6.14%	99.82	5.68%
21-Sep-18	101.40	7.71%	103.75	5.03%	100.94	6.14%	99.76	5.69%
24-Sep-18	101.73	7.66%	103.88	4.97%	101.16	6.09%	99.97	5.63%
25-Sep-18	101.82	7.65%	103.70	5.05%	101.12	6.10%	99.86	5.66%
26-Sep-18	102.25	7.60%	103.91	4.95%	101.37	6.04%	100.00	5.62%
27-Sep-18	103.12	7.50%	104.15	4.84%	101.83	5.93%	100.49	5.47%
28-Sep-18	102.73	7.55%	104.04	4.88%	101.57	5.99%	100.36	5.51%

Source: Bloomberg

3.0 Equity Market:

3.1 The Secondary Market:

The equity market depreciated for the third consecutive month in September 2018.

The equity market depreciated for the third consecutive month in September 2018. The Nigerian Stock Exchange All Share Index (NSE ASI) depreciated by 5.97% (a loss of 6.04% in US Dollar) to close at 32,766.37 points. **Year-to-Date (YTD), the Index recorded a depreciation of 14.32%.** Similarly, the market capitalisation recorded a M-o-M loss of 5.97% (a loss of 6.04% in US Dollar) to close at N11.96tn (US$39.05bn). **The decline recorded in the equity market can be largely attributable to the continued pullback from foreign investors due to the uncertainties surrounding the economy and rising global yields. The domestic investors have also adopted a cautious approach to the equity market, in the face of the bearish market trend.**

Year-to-Date (YTD), the Index recorded a depreciation of 14.32%.

The volume of stocks traded decreased by 23.19% to 4.15bn in September from 5.40bn in August. GT Bank Plc (619.64mn), Zenith Bank Plc (396.94mn), UBA Plc (393.64mn), Access Bank Plc (380.74mn), and Fidelity Bank Plc (203.83mn) were the five most highly traded stocks in September. Similarly, the value of stocks traded on The NSE in September decreased by 2.72% to N65.10bn, from N66.92bn in August.

All Sectoral Indices depreciated for the third consecutive month in September.

All Sectoral Indices depreciated for the third consecutive month in September. The NSE Insurance Index recorded the highest M-o-M depreciation of 9.77%, with a YTD depreciation of 10.12%. The loss recorded in the Insurance Index was mainly attributed to the decrease in the share prices of AXA Mansard Insurance Plc (15.22%) and N.E.M Insurance Company Plc (9.09%). The NSE Industrial Index recorded a M-o-M loss of 8.33%, with a YTD loss of 22.62%. The loss in the NSE Industrial Index was mainly attributed to the decrease in the share price of Dangote Cement Plc (10.09%) and Lafarge Africa Plc (6.33%).

Table 11: Nigerian Equity Market: Key Indicators

Month	Volume (bn)	Value (N'bn)	NSEASI	Market Cap. (N'trn)	Banking*	Insurance*	Consumer Goods*	Oil/Gas*	Industrial*
August	5.40	66.92	34,848.45	12.72	418.50	138.83	820.35	298.24	1,667.55
September	4.15	65.10	32,766.37	11.96	411.25	125.27	758.36	287.69	1528.69
Change	(23.19%)	(2.72%)	(5.97%)	(5.97%)	(1.73%)	(9.77%)	(7.56%)	(3.54%)	(8.33%)
YTD			(14.32%)	(12.10%)	(13.50%)	(10.12%)	(22.31%)	(13.00%)	(22.62%)

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

Table 12: Major Earnings Announcements in September 2018

Company and Result	Turnover (Nm)	Change	PBT (Nm)	Change	PAT (Nm)	Change
FIDELITY BANK PLC						
6 months, June 2018	88,917	3.61%	13,010	27.31%	11,843	31.06%
INTERLINKED TECHNOLOGIES PLC						
Full Year, Jun. 2018	158	(9.97%)	3	138.21%	2	119.13%

Source: NSE

Table 13: Major Corporate Actions Announcements in September 2018

Company	Result	*DPS (N)	Closure Date	Payment Date	Interim/Final
P.Z. CUSSONS PLC	Full Year, May 2018	0.15	24-Sep-18	19-Oct-18	Final
SKYE SHELTER FUND PLC	Full Year, Dec. 2017	8.00	21-Sep-18	05-Oct-18	Final

*Source: NSE; *DPS – Dividend Per Share*

All the equity market indices we monitored in Africa depreciated in September 2018 except the GSE Composite Index.

All the equity market indices we monitored in Africa depreciated in September 2018 except the GSE Composite Index. All the North/Latin America indices we monitored appreciated except the NASDAQ Composite Index. The Nikkei 225 Index recorded the highest M-o-M appreciation of 5.49%, with a YTD appreciation of 5.95%. This was followed by the Shanghai Stock Exchange Composite Index with a M-o-M gain of 3.53%, but a YTD depreciation of 14.69%. The Nairobi All Share Index recorded the highest M-o-M depreciation of 9.79%, with a YTD depreciation of 12.58% as at 28 September 2018. This was followed by the S&P BSE SENSEX Index with a M-o-M loss of 6.25% and a YTD gain of 6.37%.

Table 14: Foreign Equity Market Performance in September 2018

North/Latin America	YTD Change		Month-on-Month Change
Dow Jones Industrial Average	7.04%		1.90%
S&P 500 Index	8.99%		0.43%
NASDAQ Composite	16.56%		(0.78%)
Brazil Stock Market Index	3.85%		3.48%
Europe			
Swiss Market Index	(3.13%)		0.94%
FTSE 100 Index (UK)	(2.31%)		1.05%
CAC 40 Index (France)	3.41%		1.60%
DAX Index (Germany)	(5.19%)		(0.95%)
SMSI Index (Madrid, Spain)	(6.31%)		(0.07%)
Africa			
NSE All-Share Index	(14.32%)		(5.97%)
FTSE/JSE Africa All Share Index	(6.38%)		(5.05%)
Nairobi All Share Index (Kenya)	(12.58%)		(9.79%)
GSE Composite Index (Ghana)	11.75%		3.61%
Asia/Pacific			
NIKKEI 225 Index (Japan)	5.95%		5.49%
S&P BSE SENSEX Index (India)	6.37%		(6.25%)
Shanghai Stock Exchange Composite Index (China)	(14.69%)		3.53%
Hang Seng Index (Hong Kong)	(7.12%)		(0.36%)

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 October 2018:

FSDH Research notes that most share prices are in oversold positions and these stocks may soon start to attract domestic bargain-hunting 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. There may also be further pullback from foreign investors as yields in the global economy increase and the persisting uncertainties in the Nigerian economy make the Nigerian equity market less attractive.

3.3. Strategies:

Investors can gradually enter the equity market through cost averaging investment strategies.

- 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
- Investors can buy stocks that pay dividends.

Table 15: Equity Market Trend Analysis (2013-2017) – NSE ASI Analysis

	Year				
Months	**2013**	**2014**	**2015**	**2016**	**2017**
September	36,585.08	41,210.10	31,217.77	28,335.40	35,439.98
October	37,622.74	37,550.24	29,177.72	27,220.09	36,680.29
% Change	**2.84%**	**(8.88%)**	**(6.53%)**	**(3.94%)**	**3.50%**

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 negative performances in three of the five years between September and October. Given, **the current bearish trend in the market, the equity market may follow the downward trend recorded in 2014, 2015 and 2016.**

Table 16: 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 17: 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	8.15	7.60	13.45	2.15	3.79	12.00
Dangote Cement	205.00	205.00	278.00	12.19	16.82	273.00
Dangote Sugar	18.00	13.47	23.35	2.95	4.71	22.00
UBA	8.40	7.05	13.00	2.34	3.59	11.50
Flour Mills Nigeria	35.15	19.00	38.00	3.11	6.36	48.00
GT Bank	36.55	32.50	54.71	6.20	5.89	43.00
Seplat	660.00	450.00	785.00	177.39	3.55	780.00
Zenith Bank	26.00	19.60	33.51	5.87	3.66	32.00

Source: FSDH Research

Table 18: Bond Recommendation

S/N	Security Description	Tenor To Maturity (Yrs)	Coupon	Current Price (N)	Current Yield	Modified Duration
1	16.288% FGN MAR 2027	8.46	16.29%	106.00	15.01%	4.60
2	16.25% FGN APR 2037	18.54	16.25%	106.85	15.14%	5.71

Source: FSDH Research. Prices and yields as at 02 October, 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 19: 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	1.14	16.24%	98.20
Lagos	13.50% LAGOS 27-NOV-2020	13.50%	27-Nov-20	2.15	15.54%	96.33
			Corporate Bonds			
FCMB	15.00% FCMB 6-NOV-2020	15.00%	06-Nov-20	2.09	18.70%	93.79
Lafarge Africa Plc	14.25% LAFARGE 15-JUN-2019	14.25%	15-Jun-19	0.70	14.93%	99.50
NAHCO	15.25% NAHCO II 14-NOV-2020	15.25%	14-Nov-20	2.12	15.23%	99.98
Transcorp Hotels Plc	15.50% TRANSCORP 4-DEC-2020	15.50%	04-Dec-20	1.24	17.74%	97.60
Lafarge Africa Plc	14.75% LAFARGE 15-JUN-2021	14.75%	15-Jun-21	2.70	15.37%	98.60
FCMB	14.25% FCMB I 20-NOV-2021	14.25%	20-Nov-21	3.13	16.98%	93.54
UBA	16.45% UBA I 30-DEC-2021	16.45%	30-Dec-21	3.24	15.50%	102.28
Fidelity Bank	16.48% FIDELITY 13-MAY-2022	16.48%	13-May-22	3.61	15.58%	102.37
Transcorp Hotels	16.00% TRANSCORP 26-OCT-2022	16.00%	26-Oct-22	2.32	17.05%	98.11
Stanbic IBTC	182D T.Bills+1.20% STANBIC IA 30-SEP-2024	16.29%	30-Sep-24	5.99	15.90%	101.48
Stanbic IBTC	13.25% STANBIC IB 30-SEP-2024	13.25%	30-Sep-24	5.99	15.90%	90.01
			Supranational Bonds			
AfDB	11.25% AFDB 1-FEB-2021	11.25%	01-Feb-21	1.33	14.28%	96.46
			Corporate Eurobonds			
Zenith Bank Plc	6.25% APR 22, 2019	6.25%	22-Apr-19	-	5.41%	100.44
Diamond Bank Plc	8.75% May 21, 2019	8.75%	21-May-19	-	15.34%	96.16
Access Bank Plc II	9.25%/6M USD LIBOR+7.677% JUN 24, 2021	9.25%	24-Jun-21	-	10.43%	99.73
First Bank Ltd.	8.00%/2Y USD SWAP+6.488% JUL 23 2021	8.00%	23-Jul-21	-	9.11%	99.78
Ecobank Nig. Ltd	8.75% AUG 14, 2021	8.75%	14-Aug-21	-	9.91%	99.54
			Commercial Paper			
Issuer	Description	Yields at Issue	Maturity Date	DTM (Years) **	Current Yield (%)	Discount Rate (%)
Dangote Cement Plc	DANGCEM CP II 25-MAR -19	13.96%	25-Mar-19	173	14.59%	13.65%
Flour Mills Of Nigeria Plc	FLOUR MILLS CP I 31-MAY-19	14.25%	31-May-19	240	14.88%	13.56%
Access Bank Plc	ACCESS CP XVIII 15-NOV-18	12.90%	15-Nov-18	43	13.93%	13.71%

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

Table 20: 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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