

Monthly Economic and Financial Market Outlook

Local Competitiveness: A Prerequisite for Inclusive Growth

November 2018

Executive Summary

Domestic Scene:

- *FSDH Research believes that infrastructure development is critical for the sustainable growth of the Nigerian economy*
- *Adequate and functional infrastructure will have a multiplier effect on the growth of the economy and should attract investment into the non-oil sector*
- *The Global Competitive Report (GCR) 2018 released by the World Economic Forum (WEF) on 16 October 2018 rates Nigeria's overall score in 2018 at 48 points out of a possible total of 100*
- *Governments at all levels need to prioritise investment in human capital in order to improve Nigeria's competitiveness*
- *Specifically, Nigeria needs quality education that will equip the workforce with the skills needed for the fourth industrial revolution, commonly referred to as 'the digital revolution'*
- *Given the FGN's revenue constraints, we believe partnership arrangements with the private sector can be a cost-effective funding model for infrastructure development in Nigeria*
- *The short-term forecast for the Nigerian economy is unimpressive, according to the latest report issued by the International Monetary Fund (IMF)*
- *FSDH Research believes the Nigerian economy has the potential to perform better than the IMF's forecast*
- *For this to materialise, however, coordinated policies are urgently required in the following areas to achieve strong and inclusive growth: security of lives and property, infrastructure, rule of law, and diversification of the revenue and productive base of the economy*
- *FSDH Research forecasts that the inflation rate for October 2018 will trend upwards to 11.34% on account of high food prices, largely due to a drop in food supply*
- *The short-term inflation outlook means that monetary policy stance will remain tight*
- *Capital flight as a result of rising global yields is weighing down the external reserves*
- *The CBN has increased the yields on Treasury Bills to reduce capital flight. It may adopt additional rate increase until demand pressure for foreign exchange abates*
- *The investors' apathy that dominated the equity market in Q3 2018 continued in October*
- *Looking at the oversold position in the equity market, the equity market may appreciate in November 2018.*

International Scene:

- *Economic developments in the US support a further hike in interest rate*
- *FSDH Research expects the Federal Open Market Committee (FOMC) of the US Federal Reserve to raise interest rates in December 2018*
- *FSDH Research's analysis of the latest Organization of the Petroleum Exporting Countries (OPEC) view of the global economy should support strong crude oil price (around US\$70/b)*
- *OPEC notes that the major threats to the global economy are: 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.*

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

1.0 Global Developments:

FSDH Research observed that the prices of sovereign bonds increased in more countries we monitored in October 2018. There was demand for the Turkey Bond in October after the sell-off it experienced a few months ago. Thus, the price of the Turkey Bond appreciated between September and October. The 8.8% September 2023 Turkey Government Bond recorded the highest month-on-month (M-o-M) price increase of 4.08% to 68.90. This was followed by the 8.15% June 11, 2022 India Government Bond, with a price increase of 1.23% to 101.63. The 7.75% February 28, 2023 South Africa Government Bond recorded the highest month-on-month (M-o-M) price decrease of 0.95% to 96.81, as the economy remains in recession. 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 October.**

FSDH Research expects the FOMC of the US Federal Reserve to raise interest rates in December 2018. This may further place demand pressure on foreign exchange in Nigeria.

The Real Gross Domestic Product (GDP) in the US increased at an annual growth rate of 3.5% in Q3 2018, according to the “advance” estimate the US Bureau of Economic Analysis (BEA) released on 26 October 2018. The GDP grew by 4.2% in Q2 2018. The Q3 GDP reflects positive contributions from personal consumption expenditures (PCE), private inventory investment, state and local government spending, federal government spending, and non-residential fixed investment that were partly offset by negative contributions from exports and residential fixed investment. Inflation rate in the US dropped to 2.3% year-on-year (Y-o-Y) in September 2018, from 2.7% in August. This is the lowest figure in the last seven months and mainly due to a sharp slowdown in gas prices and smaller increases in fuel and shelter costs. It is however above the 2% inflation target set for the US economy. The US unemployment rate declined to 3.7% in September 2018 from 3.9% in August 2018. These developments support arguments for a hike in interest rate in the US. **FSDH Research expects the Federal Open Market Committee (FOMC) of the US Federal Reserve to raise interest rates in December 2018. This may further place demand pressure on foreign exchange in Nigeria.**

Table 1: Summary of Key Indicators

S/N	Indicators	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	100.90	96.91	101.63	104.33	103.61	99.32	96.81	68.90	94.86
2	Bond Yield	3.29%	18.23%	7.62%	11.21%	14.91%	8.07%	8.65%	18.74%	2.97%
3	Bond Price MoM Change	0.90%	0.77%	1.23%	1.14%	(0.78%)	(0.68%)	(0.95%)	4.08%	0.02%
4	Bond Yield MoM Change	(0.23%)	(0.30%)	(0.40%)	(0.41%)	0.27%	0.33%	0.28%	(0.99%)	0.02%
5	Bond Price YTD Change	0.90%	(6.82%)	(1.90%)	3.12%	(3.25%)	(4.50%)	(2.62%)	(21.62%)	(2.79%)
6	Bond Yield YTD Change	(0.23%)	2.58%	0.43%	(1.14%)	0.88%	1.75%	0.76%	7.00%	0.74%
7	Real Yield	0.79%	2.23%	3.85%	5.68%	3.63%	4.67%	3.75%	(5.78%)	0.67%
8	Volatility	0.29	0.15	0.37	0.19	0.45	0.21	0.23	2.03	0.22
9	FX Rate MoM Change*	1.53%	(0.00%)	1.98%	1.21%	0.19%	0.47%	4.26%	(8.12%)	(2.64%)
10	FX Rate YTD Change*	6.72%	0.81%	13.63%	(1.13%)	0.96%	12.41%	16.16%	32.19%	(6.18%)
11	Inflation Rate	2.50%	16.00%	3.77%	5.53%	11.28%	3.40%	4.90%	24.52%	2.30%
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	6.50%	5.40%	8.20%	6.30%	1.50%	1.90%	0.40%	5.20%	3.00%
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

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

OPEC revised its 2018 global economic growth forecast downward by 0.1% to 3.7%.

The US economy continues to benefit from considerable fiscal stimulus.

OPEC also stated that Russia's economy remains impacted by a combination of sanctions and low domestic demand.

1.1 The Global Economic Growth:

FSDH Research's analysis of the latest Organization of the Petroleum Exporting Countries (OPEC) view of the global economy should support strong crude oil price around US\$70/b in 2019. Although the report highlights some threats to global economy in 2019, it maintains global growth forecast at 3.9%. This is according to the monthly oil market report of OPEC for October. OPEC revised its 2018 global economic growth forecast downward by 0.1% to 3.7%. OPEC notes that the major threats to the global economy are: 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.

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 unchanged at 2.9% and 2.5% in 2018 and 2019, respectively. Japan is forecast to grow at 1.1% for both 2018 and 2019, as the economy continues to face relatively soft domestic demand and some external trade-related weakness.

In non-OECD countries, Brazil's forecast was revised downwards as the economy faces softening domestic demand and the effects of currency depreciation. India's and China's growth forecasts remain unchanged at 7.6% and 6.6% in 2018 respectively. OPEC also stated that Russia's economy remains impacted by a combination of sanctions and low domestic demand.

Table 2: Economic Growth Rate Forecast

	2017	2018F	2019F
World	3.8%	3.7%	3.6%
OECD	2.5%	2.4%	2.1%
USA	2.3%	2.9%	2.9%
Japan	1.7%	1.1%	1.1%
Euro-zone	2.5%	2.0%	1.9%
China	6.9%	6.6%	6.2%
India	6.3%	7.6%	7.4%
Brazil	1.0%	1.1%	1.8%
Russia	1.5%	1.6%	1.7%

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

1.2 IMF’s Forecast on Nigerian Economy Unimpressive:

The short-term forecast for the Nigerian economy is unimpressive, according to the latest report issued by the International Monetary Fund (IMF). The uninspiring forecast stresses the need for Nigeria’s economic managers to implement additional growth-enhancing policies that can lift more Nigerians out of poverty. The IMF released the forecast in the October edition of the World Economic Database, which accompanied its World Economic Outlook (WEO) titled ‘Challenges to Steady Growth’.

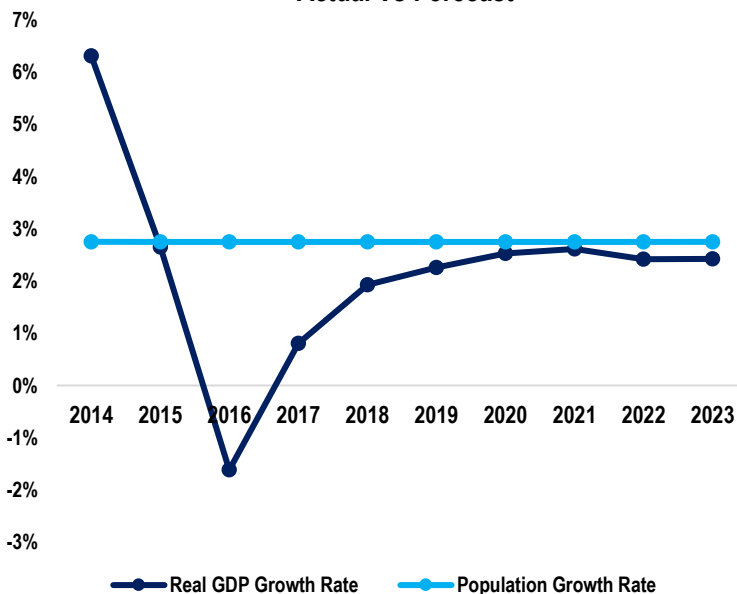
The IMF predicts that the Nigerian population will grow faster than the growth in the real Gross Domestic Product (GDP) over the next five years. This means that expansion in Nigeria’s economy may not be enough to improve the standard of living of her citizens. Nigeria’s inflation rate forecast by the IMF shows that there is no hope of single digit inflation rate before 2023. The double-digit inflation rate may make the yields on fixed income securities remain high in Nigeria and thus increase the finance cost for private sector operators.

FSDH Research believes the Nigerian economy has the potential to perform better than the IMF’s forecast. For this to materialise, however, coordinated policies are urgently required in the following areas to achieve strong and inclusive growth: security of lives and property, infrastructure, rule of law, and diversification of the revenue and productive base of the economy.

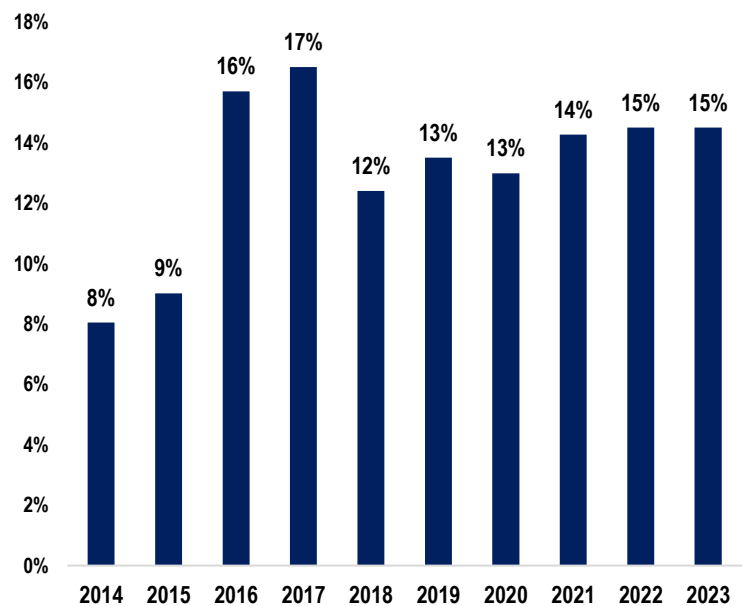
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Nigeria’s inflation rate forecast by the IMF shows that there is no hope of single digit inflation rate before 2023.

Growth in Real GDP Vs Population: Actual Vs Forecast



Inflation Rate : Actual Vs Forecast



1.3 Global Competitive Ranking: What Nigeria Must Do to Increase Scores:

The Global Competitive Report (GCR) 2018 released by the World Economic Forum (WEF) on 16 October 2018 rates Nigeria's overall score in 2018 at 48 points out of 100 points. Despite this low score, FSDH Research observes that Nigeria recorded improvements in some key indicators over the previous year. However, the fact that the overall score is below 50 points highlights that Nigeria needs more policy measures to increase her competitive ranking.

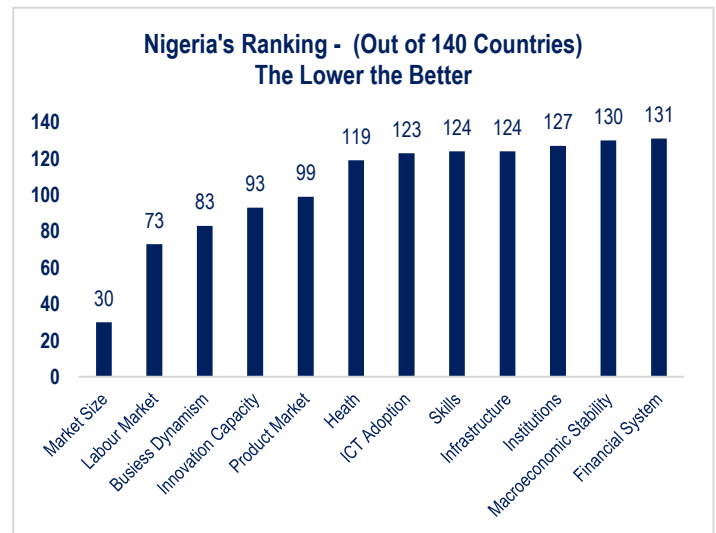
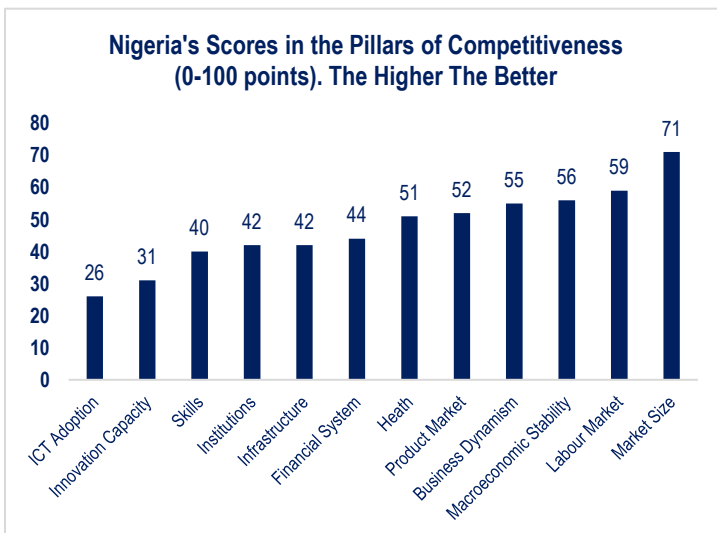
Despite this low GSR score, FSDH Research observes that Nigeria recorded improvements in some key indicators over the previous year.

FSDH Research's analysis of the components of the rating system reveals some areas of improvement for Nigeria, and the strategy to increase the rating. Nigeria recorded the lowest scores under the Information and Communication Technology (ICT) Adoption and Innovation Capacity. These two sectors have certain things in common: they both require a certain level of entrepreneurial mind-set, risk-taking and they have the capacity to stimulate growth and enhance productivity needed for improved competitiveness. Some of the initiatives that can change Nigeria's narrative in these areas include: restructuring of the educational system to provide Information and Communications Technology (ICT) training for students, and provision of financial support for innovation centres to incubate business ideas. Nigeria recorded the highest score in 'Market size', reflective of the large market size and labour market in Nigeria.

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Governments at all levels also need to prioritise investment in human capital in order to improve Nigeria's competitiveness.

Governments at all levels also need to prioritise investment in human capital in order to improve Nigeria's competitiveness. According to the US Central Intelligence Agency (CIA), about 62% of the Nigerian population falls between the ages of 0-24 years. This means that it is essential for the country to invest in quality education that will equip her workforce with the skills needed for the fourth industrial revolution, commonly referred to as 'the digital revolution'.



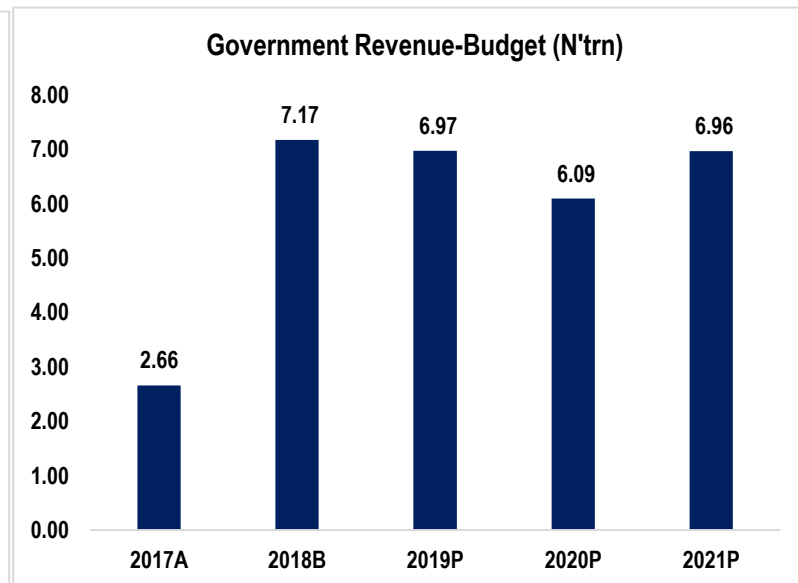
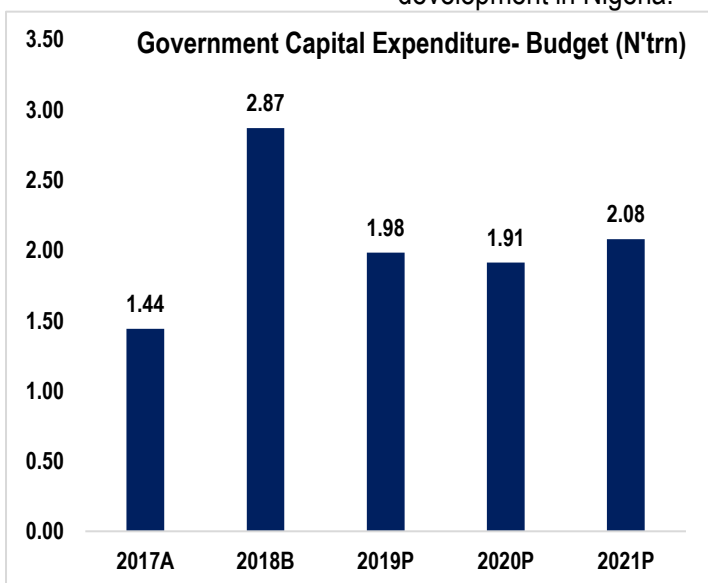
1.4 FSDH Research Believes it is Time to Actively Involve the Private Sector to Fund Infrastructure in Nigeria:

FSDH Research believes it is time for the Federal Government of Nigeria (FGN) to involve the private sector to finance the infrastructure gap in Nigeria. It is estimated that about US\$100 billion must be invested annually to finance infrastructure development in Nigeria to close the deficit. However, the weak revenue generation of the Nigerian Government shows that the country cannot meet the capital required through annual budgetary allocation. The FGN 2019 budget call circular, published on 25 October 2018 by the Budget Office of Nigeria, indicates that the capital expenditure for 2019 is set at about N1.98trn, 30.92% lower than the N2.87trn approved in the 2018 budget. Adjusting the proposed capital expenditure in 2019 for inflation, it represents a steep decline from the 2018 figure in real terms. This underscores the need for Public-Private Partnerships (PPP) to drive infrastructure development in Nigeria.

The draft 2019-2021 Medium-Term Expenditure Framework and Fiscal Strategy Paper notes that Nigeria faces medium-term fiscal challenges, especially with respect to revenue generation. FSDH Research believes that one of the reasons for the weak revenue generation is inadequate infrastructure in the country. Adequate and functional infrastructure will have a multiplier effect on the growth of the economy and should attract investment into the non-oil sector.

FSDH Research believes that infrastructure development is critical for the sustainable growth of the Nigerian economy. Given the FGN revenue constraints, partnership arrangements with the private sector can be a cost-effective funding model for infrastructure development in Nigeria.

Government Capital Expenditure- Budget (N'trn)



Government Revenue-Budget (N'trn)

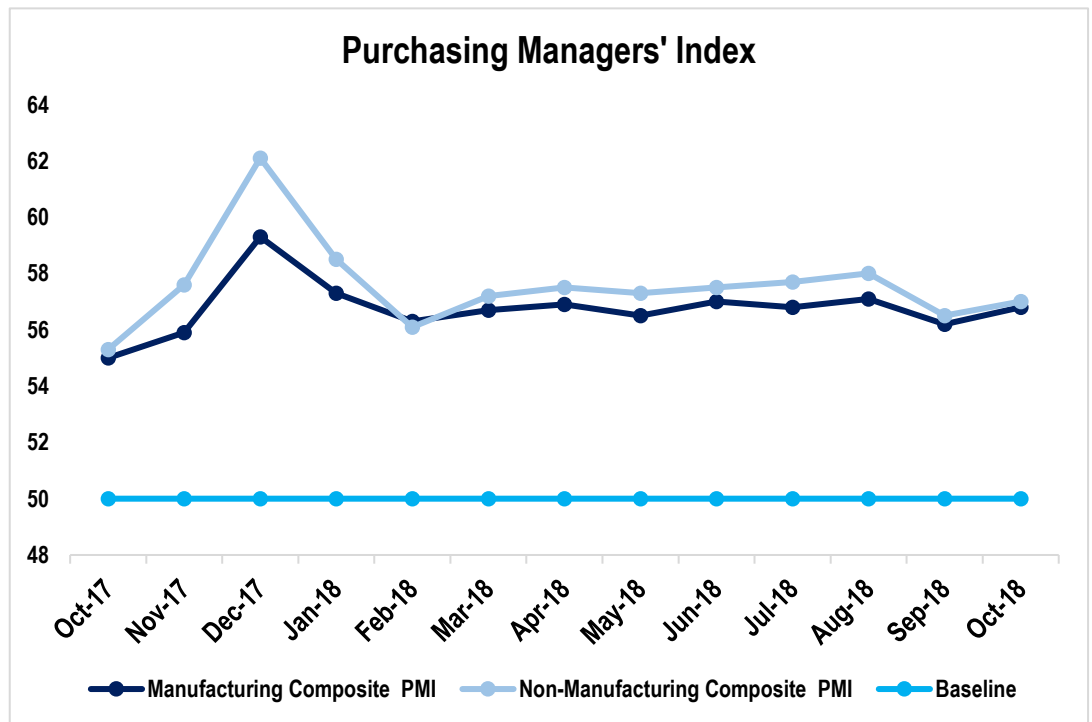
Adequate and functional infrastructure will have a multiplier effect on the growth of the economy and should attract investment into the non-oil sector.

We believe partnership arrangements with the private sector can be a cost-effective funding model for infrastructure development in Nigeria.

1.5 Purchasing Managers' Index (PMI):

The PMI the Central Bank of Nigeria (CBN) published for the month of October 2018 shows an expansion at a faster rate than the PMI recorded in September. The Manufacturing PMI stood at 56.8 points in October, from 56.2 points recorded in September. Production level, new orders, supplier delivery time and inventories grew at a faster rate while employment level grew at a slower rate in October than the level recorded in September. The Non-Manufacturing PMI also increased to 57.0 points in October from 56.5 points in September. Business activity, new orders, employment level and inventories grew at a faster rate in October 2018 than in September. The increase in the PMI is an indication of an increase in the economic activities that are usually associated with the last quarter of the year. This may have positive impact on the GDP in Q4 2018.

The PMI the CBN published for the month of October 2018 shows an expansion at a faster rate than the PMI recorded in September.



1.6 Inflation Rate:

The inflation rate rose for the second consecutive month to **11.28% in September 2018, from 11.23% recorded in August. 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 0.84% in September, lower than the 1.05% recorded in August. This represents the third 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 13.31% in September, up from 13.16% in August 2018. M-o-M, the FPI grew by 1.00% in September, compared with 1.42% in August. The increase in the prices of bread and cereals, potatoes, yam and other tubers, meat, vegetables, fish, fruits, milk, and cheese and eggs drove the FPI during the period.

Higher food prices placed upward pressure on the inflation rate.

The Core Index stood at 9.8% in September, down from 10% in August. The largest increases in the Core Index were recorded in the prices of fuels and lubricants for personal transport, vehicle spare parts, dental services, tobacco, carpets and other floor coverings, furniture and furnishings and hospital services.

FSDH Research forecasts that the inflation rate for October 2018 will trend upwards to 11.34% on account of high food prices largely due to a drop in food supply. The short-term inflation outlook means that monetary policy stance will remain tight.

FSDH Research forecasts that the inflation rate recorded for October 2018 will trend upwards to 11.34%.

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-18A	Oct-18F	Nov-18F	Dec-18F
Actual/Forecast	15.13%	14.33%	13.34%	12.48%	11.61%	11.23%	11.14%	11.23%	11.28%	11.34%	11.39%	11.86%

Sources: National Bureau of Statistics and FSDH Research Analysis. .

A- Actual, F - Forecast

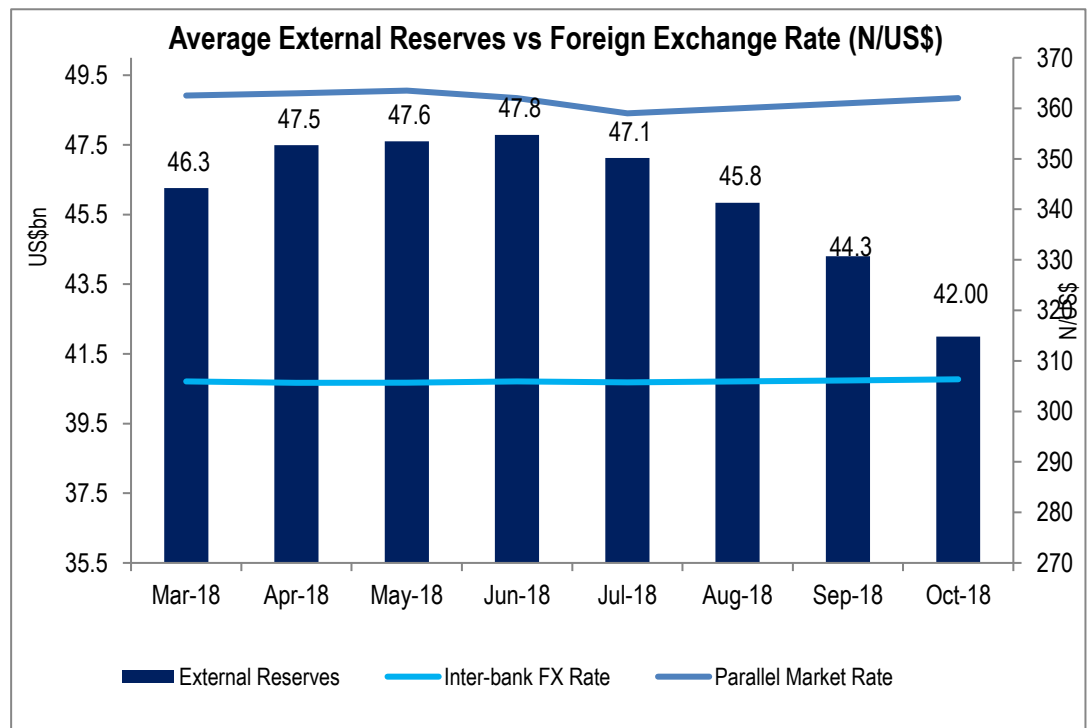
The demand pressure for foreign exchange in the face of declining inflows, led to a further drawdown in the external reserves in October.

1.7 Movement in the External Reserves:

The demand pressure for foreign exchange in the face of declining inflows led to a further drawdown in the external reserves in October. The external reserves has dropped by over US\$5bn between May and October 2018. The 30-Day moving average external reserves decreased by 5.21%, from US\$44.31bn at end-September to US\$42.00bn at end-October 2018.

Capital flight as a result of rising global yields is weighing down the external reserves. The CBN has increased the yields on Treasury Bills to reduce capital flight, and may adopt additional rate increase until demand pressure for foreign exchange abates. The current crude oil price and slight improvements in production in Nigeria should support the external reserves in the short-term.

Capital flight as a result of rising global yields is weighing down the external reserves.



The highest capital inflow came through the CBN for the third consecutive month in October 2018.

1.8 Currency Transaction at the I&E Window

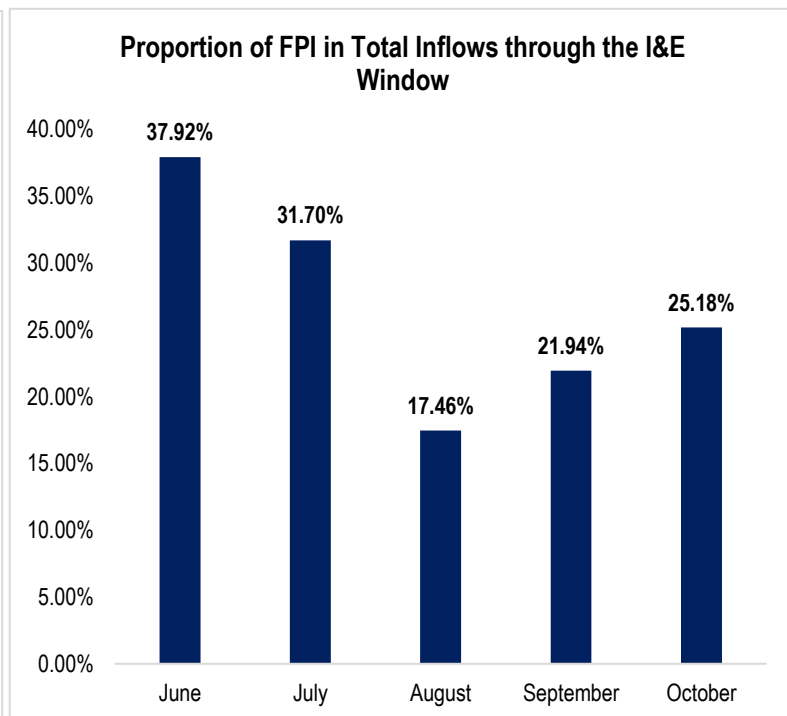
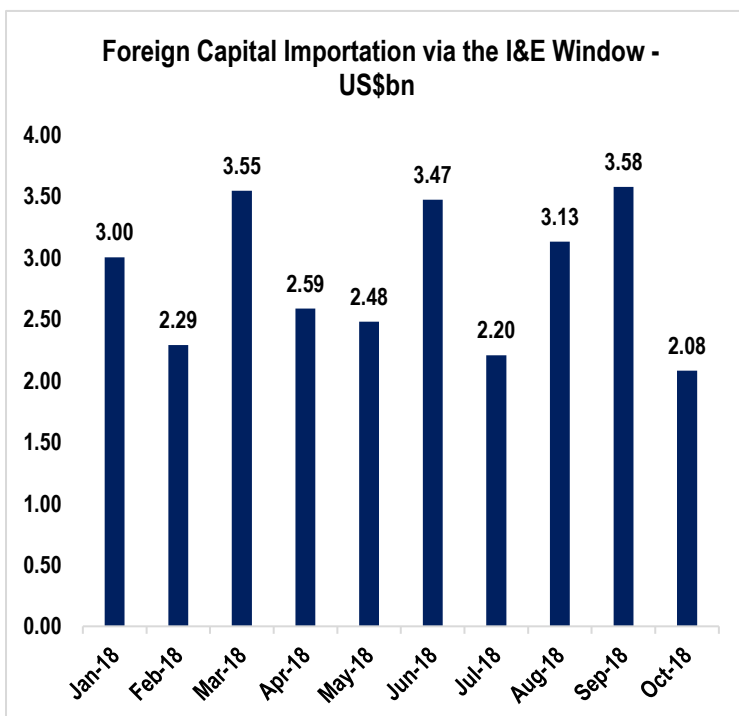
The data obtained as at Tuesday, 02 November 2018 from the FMDQ OTC Securities Exchange on the total capital importation through the Investors' and Exporters' Foreign Exchange Window (I&E window) in October 2018 stands at US\$2.08bn. The amount recorded in October is the lowest figure recorded since January 2018, which is an indication of foreign investors' apathy for investments in Nigeria at the moment.

The CBN remained the largest contributors to the inflow in October, the same trend observed in September. Some investors are adopting a careful approach to investing in Nigeria on account of political considerations.

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

Source	July		August		September		October	
	Value (\$'bn)	PT	Value (\$'bn)	PT	Value (\$'bn)	PT	Value (\$'bn)	PT
FDIs	0.01	0.52%	0.01	0.28%	0.05	1.34%	0.06	2.94%
FPIs	0.70	31.70%	0.55	17.46%	0.78	21.94%	0.52	25.18%
Other Corporates	0.08	3.43%	0.10	3.07%	0.05	1.30%	0.04	1.81%
CBN	0.65	29.67%	1.43	45.78%	2.02	56.40%	0.90	43.07%
Exporters	0.06	2.69%	0.08	2.62%	0.08	2.31%	0.11	5.39%
Individuals	0.01	0.47%	0.03	0.91%	0.02	0.53%	0.01	0.46%
Non-Bank Corporates	N/A	N/A	N/A	N/A	0.26	7.39%	0.44	21.15%
Other Corporates	0.70	31.53%	0.93	29.87%	0.32	8.81%	N/A	N/A
Total	2.20	100%	3.13	100%	3.58	100%	2.08	100%

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



1.9 Crude Oil Market and Bonny Light Price:

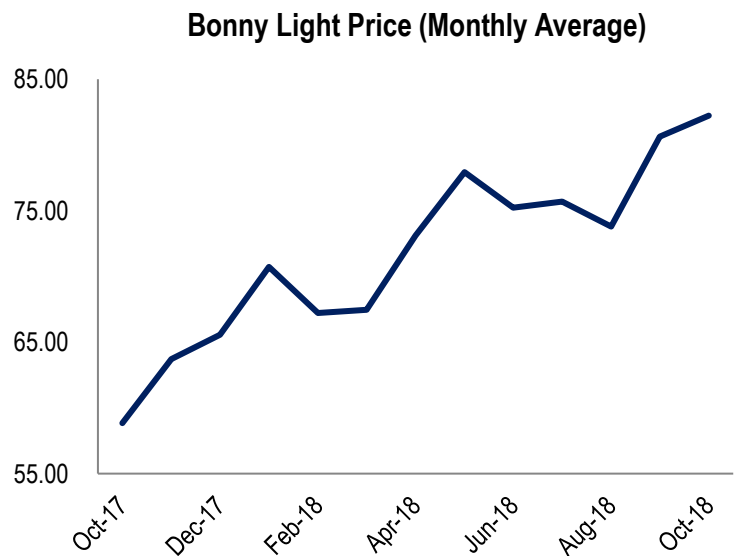
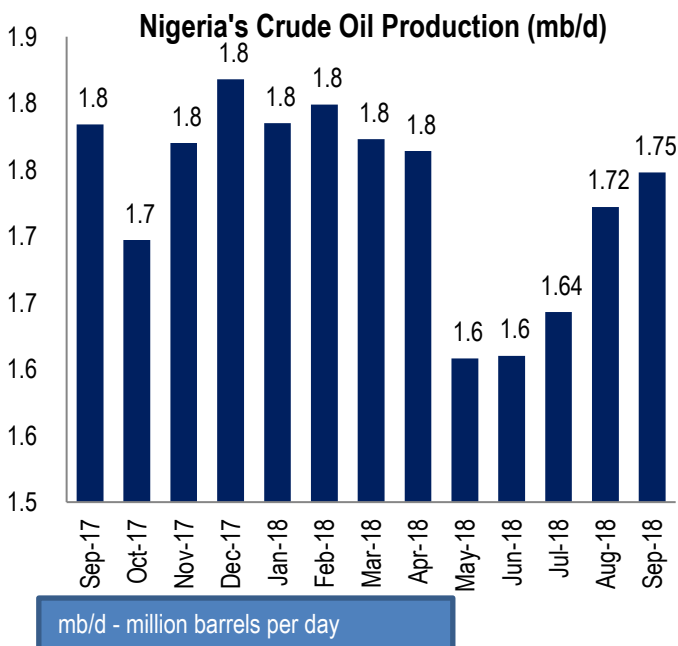
The daily crude oil production in Nigeria increased by 1.51% to 1.75mb/d in September 2018, from 1.72mb/d in August. This is based on secondary data available from OPEC’s report for the month of October 2018. However, crude oil production is still lower than the benchmark of 2.3mb/d. The total OPEC crude oil production from secondary sources was 32.76mb/d in September, an increase of 0.40% from 32.63mb/d in the previous month. Crude oil production increased mostly in Libya, Saudi Arabia, and Angola while production declined in Iran, Algeria and Venezuela.

In its monthly report for October 2018, the US Energy Information Administration (EIA) forecasts an average price of Brent crude oil of US\$74.43/b and US\$75.06/b in 2018 and 2019, respectively. The forecast is higher than the US\$73/b and US\$74/b predicted in the September 2018 monthly report for 2018 and 2019 respectively.

According to data from Thomson Reuters, the Bonny Light crude oil price decreased by 15.24% to US\$73.34/b as at end-October, from US\$86.53/b at end-September. The average price of Bonny Light was US\$82.23/b in October, an increase of 1.99% from the average price of US\$80.62/b recorded in September.

The daily crude oil production in Nigeria increased by 1.51% to 1.75mb/d in September 2018 from 1.72mb/d in August.

The average price of Bonny Light was US\$82.23/b in October, an increase of 2.51% from the average price of US\$80.62/b recorded in September.



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

1.10 Foreign Exchange Rate:

The value of the Naira depreciated further at both the inter-bank and parallel markets in October 2018, compared with September 2018. The premium between the inter-bank and parallel markets widened further in October 2018. This is an indication of persisting demand pressure in the foreign exchange market. As noted earlier, the implication of the persisting foreign exchange demand pressure is that the CBN will maintain the current tight monetary policy stance.

The value of the Naira depreciated by 0.08% at the inter-bank market in October to N306.60/US\$, compared with September. Similarly, the average exchange rate at the inter-bank market depreciated by 0.07% to stand at N306.50/US\$ in October, compared with N306.27/US\$ in September.

The value of the Naira also depreciated M-o-M at the parallel market to N362/US\$ as at end-October 2018, a depreciation of 0.28% from N361/US\$ at end-September. The average exchange rate at the parallel market depreciated by 0.26% to stand at N361.27/US\$ in October, compared with N360.353/US\$ in September.

2.0 Interest Rate and Yield Analysis:

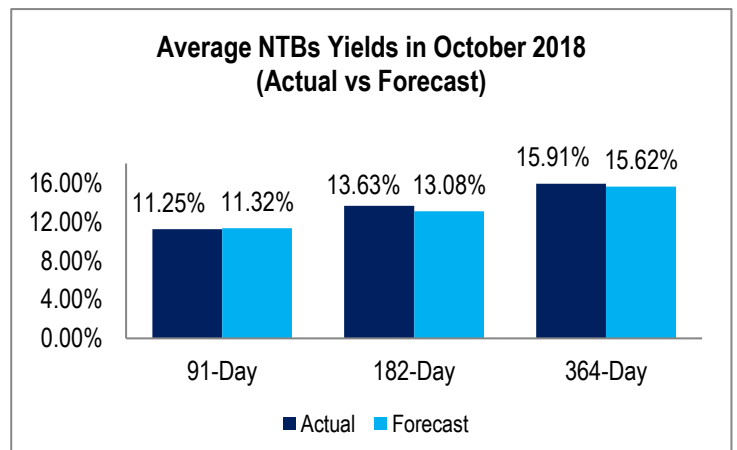
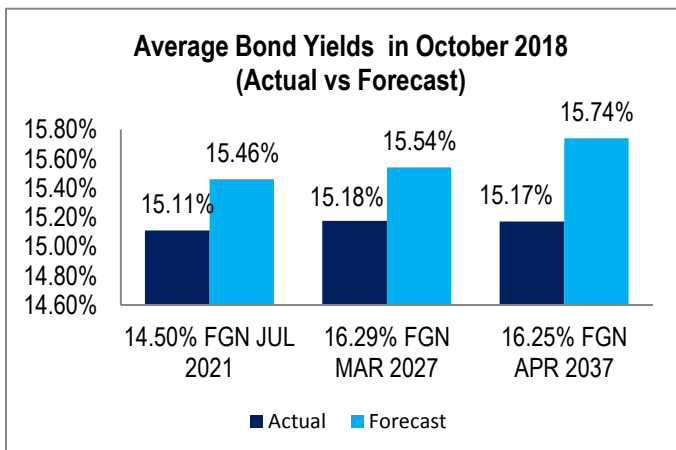
Most of the yields in the fixed income market closed higher in October than in September 2018. The need to maintain price stability in the foreign exchange market necessitated the increase in the yields in October.

The fixed income market analysis for the month of October shows a net outflow of N1.21trn, compared with a net outflow of N127bn in September. The major outflows in October were the Open Market Operations (OMO) and Repurchase (REPO) Bills of N2.07trn, CBN's Foreign Exchange Sale of N529bn, Primary NTBs of N426bn and the FGN Bond auction of N88bn. Meanwhile, in September, the major outflows were the OMO and REPO of N802bn, CBN's Foreign Exchange Sale of N593bn, Primary NTBs of N318bn and the FGN Bond auction of N97bn. The major inflows in October were the matured OMO and REPO Bills of N1.27trn, the Federation Account Allocation Committee (FAAC)'s injection of about N350bn, and matured NTBs of N281bn. The major inflows in September were the matured OMO and REPO Bills of N1.02trn, FAAC's injection of about N350bn, and matured NTBs of N318bn.

At the NTBs auction, average yields moved in varying directions as the 182-Day and 364-Day NTB increased in October, compared with September 2018, while the 91-Day NTB dropped over the same period. The average yields at the NTBs auction, on the 91-Day decreased marginally to 11.25% in the month of October, compared with 11.31% recorded in September 2018. The average 182-Day NTB stood at 13.63%, up from 13.05% in September 2018. The average 364-Day NTB yield stood at 15.91% in October 2018 from 15.58% in September. Similarly, the average Nigerian Interbank Offered Rate (NIBOR) was up in October compared with September 2018. The average 30-Day NIBOR closed at 13.75% up from 12.86%.

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

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



The average 90-Day NIBOR increased to 14.03%, from 13.77% and the average 180-Day NIBOR also increased to 14.80% from 14.74% in the preceding month. The yields on the FGN Bonds that we monitored also moved in varying directions in October 2018. The average yield on the 14.5% FGN July 2021 increased to 15.11% in October, from 15.08% in September. The 16.29% FGN Mar 2027 closed at 15.18% in October 2018, higher than 15.16% in September 2018; the 16.25% FGN Apr 2037 decreased to close at 15.17% in October 2018, lower than 15.33% in September 2018.

Table 5: Market Liquidity (N'bn)

	September 2018			October 2018		
	Total Inflow	Total Outflow	Net Flow	Total Inflow	Total Outflow	Net Flow
Primary Market: NTB	318	318	0	281	426	(145)
Open Market Operations & Rev Repo	1015	802	213	1265	2066	(800)
Bond	0	97	(97)	0	88	(88)
FAAC	350	0	350	350	0	350
FX Market	0	593	(593)	0	529	(529)
CRR Debit/Credit	0	0	0	0	0	0
TSA Implementation	0	0	0	0	0	0
Total	1,684	1,811	(127)	1,896	3,109	(1,212)

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
September 2018	15.08%	15.16%	15.33%
October 2018	15.11%	15.18%	15.17%
Change	0.03%	0.01%	(0.16%)

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
September 2018	8.61%	12.86%	13.77%	14.74%	11.31%	13.05%	15.58%
October 2018	15.30%	13.75%	14.03%	14.80%	11.25%	13.63%	15.91%
Change	6.68%	0.89%	0.26%	0.05%	-0.06%	0.58%	0.32%

Sources: CBN and FMDQ

Although the yields on the fixed income securities market may trend upward in the month of November 2018, we do not foresee any significant movement in yields from the current levels.

2.1 Revised Outlook Going Forward:

A total inflow of about N2.82trn is expected to hit the money market from the various maturing government securities and FAAC in November 2018. We estimate a total outflow of approximately N1.03trn from the various sources, including government securities and statutory withdrawal, leading to a net inflow of about N1.79trn. While we note that yields may inch up from the current levels, we do not foresee a significant movement in yields.

FSDH Research also notes the possibility of increased liquidity in the financial system as a result of the implementation of the new minimum wage and electioneering spending. The Central Bank of Nigeria (CBN) may adopt the following strategies to manage liquidity: increase the yields on Nigerian Treasury Bills (NTBs), and/or increase the Cash Reserve Requirement (CRR) if there is elevated liquidity in the system.

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

Date	01-Nov-18	08-Nov-18	15-Nov-18	22-Nov-18	29-Nov-18	Others*	Total
Inflows	527.17	368.49	552.07	429.28	594.36	352.58	2,823.95
Outflows	145.29	-	128.24	130.00	150.60	479.00	1,033.14
Net Flows	381.88	368.49	423.82	299.28	443.75	(126.42)	1,790.81

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%
OctA-18	11.25%	13.63%	15.91%	15.11%	15.18%	15.17%
NovF-18	11.30%	13.66%	15.93%	15.26%	15.32%	15.52%
DecF-18	11.76%	14.12%	16.20%	15.72%	15.79%	15.91%

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
- ❖ The need to mop up liquidity associated with electioneering spending
- ❖ Risk premium on Nigeria on account of weak economic performance
- ❖ The rising inflation rate expectations

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

2.2 Strategy:

- Investors should position to take investment opportunities in bond market as the yield increases
- Investors should take advantage of the current yields in the long end of the Treasury Bills market

The prices on the FGN Eurobonds were lower in October 2018 than in September. Consequently, the yields on the bonds closed higher in the month of October than in September. This is in line with the rising yields in the global market. We expect the yields to increase in November in line with global yields. Investors can take profit on the 10-Year 6.75% FGN Eurobond January 2021 and buy back later when the yield increases.

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
01-Oct-18	102.73	7.55%	104.02	4.89%	101.61	5.98%	100.37	5.51%
02-Oct-18	102.48	7.58%	103.85	4.97%	101.38	6.04%	100.22	5.56%
03-Oct-18	102.89	7.53%	104.05	4.88%	101.85	5.92%	100.37	5.51%
04-Oct-18	101.56	7.68%	103.87	4.95%	101.29	6.06%	100.08	5.60%
05-Oct-18	100.85	7.77%	103.78	4.99%	101.13	6.10%	99.91	5.65%
08-Oct-18	100.79	7.78%	103.75	5.00%	100.94	6.14%	99.71	5.71%
09-Oct-18	99.48	7.94%	103.59	5.07%	100.49	6.25%	99.50	5.77%
10-Oct-18	99.38	7.95%	103.52	5.10%	100.53	6.24%	99.50	5.77%
11-Oct-18	98.87	8.01%	103.50	5.10%	100.27	6.31%	99.40	5.81%
12-Oct-18	99.29	7.96%	103.59	5.06%	100.47	6.26%	99.61	5.74%
15-Oct-18	99.66	7.92%	103.75	4.98%	100.80	6.17%	99.82	5.68%
16-Oct-18	99.97	7.88%	103.96	4.89%	101.03	6.12%	99.99	5.63%
17-Oct-18	99.75	7.90%	104.03	4.85%	101.03	6.12%	99.96	5.63%
18-Oct-18	99.05	7.99%	103.65	5.02%	100.77	6.18%	99.74	5.70%
19-Oct-18	98.66	8.04%	103.65	5.02%	100.67	6.21%	99.69	5.72%
22-Oct-18	98.34	8.08%	103.60	5.04%	100.56	6.23%	99.63	5.74%
23-Oct-18	97.58	8.18%	103.59	5.04%	100.36	6.28%	99.51	5.77%
24-Oct-18	97.61	8.17%	103.68	5.00%	100.40	6.27%	99.58	5.75%
25-Oct-18	97.38	8.20%	103.39	5.13%	100.22	6.32%	99.48	5.78%
26-Oct-18	97.29	8.21%	103.42	5.11%	100.13	6.34%	99.47	5.79%
29-Oct-18	97.28	8.21%	103.44	5.11%	100.10	6.35%	99.44	5.79%
30-Oct-18	96.60	8.30%	103.10	5.26%	99.71	6.44%	99.28	5.84%
31-Oct-18	96.44	8.32%	103.12	5.25%	99.73	6.44%	99.24	5.86%

3.0 Equity Market:

3.1 The Secondary Market:

The investors' apathy that dominated the equity market in Q3 2018 continued in October. The Nigerian Stock Exchange All Share Index (NSE ASI) depreciated by 0.92% (a loss of 1.00% in US Dollar) to close at 32,466.27 points. Year-to-Date (YTD), the Index recorded a depreciation of 15.11%. Similarly, the market capitalisation recorded a M-o-M loss of 0.92% (a loss of 1.0% in US Dollar) to close at N11.85tn (US\$38.66bn). The increase in the yields on fixed income securities in Nigeria, increase in the interest rate in advanced countries, and pullback from foreign investors due to the political considerations were the major drivers of the decline in the NSE ASI. The domestic investors also adopted a cautious approach to the equity market, in the face of the bearish market trend.

FSDH Research observed that some investors strategically entered the market in October to take advantage of the low prices of stocks as the volume of stocks traded increased. 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. However the general decline in the prices of stocks led to a decrease in the value of traded stocks.

All Sectoral Indices depreciated for the fourth consecutive month in September. The NSE Industrial Index recorded the highest M-o-M depreciation of 6.12%, with a YTD depreciation of 27.36%.

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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*
September	4.15	65.10	32,766.37	11.96	411.25	125.27	758.36	287.69	1528.69
October	5.06	60.73	32,466.27	11.85	418.21	123.49	723.54	291.35	1435.11
Change	22.01%	(6.72%)	(0.92%)	(0.92%)	1.69%	(1.42%)	(4.59%)	1.27%	(6.12%)
YTD			(15.11%)	(12.91%)	(12.04%)	(11.39%)	(25.87%)	(11.90%)	(27.36%)

Sources: NSE and FSDH Research. *NSE Sectoral Indices

Table 12: Major Earnings Announcements in October 2018

Company and Result	Turnover (Nm)	Change	PBT (Nm)	Change	PAT (Nm)	Change
UBA PLC.						
9 months, Sept 2018	374,829	12.26%	79,111	1.00%	61,698	1.28%
LAFARGE AFRICA PLC.						
9 months, Sep 2018	234,300	4.75%	-14,361	-1413.21%	-10,373	-1205.98%
GUARANTY TRUST BANK PLC (GT Bank)						
9 months, Sept 2018	337,270	8.83%	164,246	9.47%	142,224	13.26%
ZENITH BANK PLC						
9 months, Sep. 2018	474,607	-10.66%	167,307	9.67%	144,179	11.56%
DANGOTE CEMENT PLC						
9 months, Sept. 2018	685,290	13.54%	247,364	12.35%	158,277	2.70%
ACCESS BANK NIGERIA PLC						
9 months, Sep. 2018	375,230	2.79%	70,268	-3.62%	62,911	11.55%
AXA MANSARD INSURANCE PLC						
9 months, Sep. 2018	28,949	28.09%	3,355	18.20%	2,645	0.61%
TRANSNATIONAL CORPORATION OF NIGERIA						
9 Months, Sep. 2018	79,861	40.71%	17,717	95.94%	15,963	95.02%
ECOBANK TRANSNATIONAL INCORPORATED						
9 months, Sep. 2018	572,658	1.40%	96,321	38.78%	75,515	30.72%
FBN HOLDINGS PLC						
9 months, Sep. 2018	441,489	0.52%	51,340	-7.38%	44,897	-0.23%
TOTAL NIGERIA PLC						
9 months, Sep. 2018	226,915	2.58%	11,440	18.20%	7,666	28.70%
NIGERIAN BREWERIES PLC.						
9 months, Sep. 2018	254,998	-5.63%	22,474	-34.72%	14,790	38.40%
NASCON ALLIED INDUSTRIES						
9 months, Sep. 2018	5,934	-25.73%	2,337	-24.19%	1,589	-24.19%
UNILEVER NIGERIA PLC						
9 months, Sep. 2018	72,305	10.72%	12,652	94.09%	9,565	98.18%
STANBIC IBTC HOLDINGS PLC						
9 months, Sep. 2018	168,801	9.45%	70,380	54.17%	59,757	58.62%
11 Plc (Formerly MOBIL OIL NIG PLC)						
9 months Sep. 2018	125,042	41.70%	11,646	70.60%	7,871	71.35%
NESTLE NIGERIA PLC						
9 months, Sep. 2018	203,135	9.66%	48,089	38.21%	33,118	44.12%
DANGOTE SUGAR REFINERY						
9 months, Sep 2018	116,756	-28.38%	26,207	-33.23%	16,710	-36.99%
FLOUR MILLS NIG. PLC						
6 months, Sep. 2018	269,737	-9.62%	8,302	-38.40%	5,069	-45.81%
FORTE OIL PLC						
9 months, Sep. 2018	94,813	39.37%	376	-179.20%	9,139	80.11%

Source: NSE

Table 13: Major Corporate Action Announcements in October 2018

Company	Result	*DPS (N)	Closure Date	Payment Date	Interim/Final
TOTAL NIGERIA PLC	9 months, Sep. 2018	3.00	26-Nov-18	10-Dec-18	Interim
NIGERIAN BREW PLC.	9 months, Sep. 2018	0.60	23-Nov-18	10-Dec-18	Interim
NESTLE FOODS NIGERIA PLC	9 months, Sep. 2018	20.00	26-Nov-18	10-Dec-18	Interim
SEPLAT PETROLEUM DEVELOPMENT COMPANY PLC	9 months, Sep. 2018	0.05US\$	14-Nov-18	06-Dec-18	Interim

Source: NSE; *DPS – Dividend Per Share

All the equity market indices that FSDH Research monitored in October 2018 across different regions depreciated, except the Brazil Stock Market Index.

All the equity market indices that FSDH Research monitored in October 2018 across different regions depreciated, except the Brazil Stock Market Index which gained by 10.19%. We attributed this development to the impact of the monetary policy tightening in the US and the negative impact of the trade war between the US and China. Hang Seng Index (Hong Kong) recorded the highest depreciation of 10.11% in October.

Table 14: Foreign Equity Market Performance in October 2018		
North/Latin America	YTD Change	Month-on-Month Change
Dow Jones Industrial Average	1.60%	(5.07%)
S&P 500 Index	1.43%	(6.94%)
NASDAQ Composite	5.83%	(9.20%)
Brazil Stock Market Index	14.43%	10.19%
Europe		
Swiss Market Index	(3.83%)	(0.72%)
FTSE 100 Index (UK)	(7.28%)	(5.09%)
CAC 40 Index (France)	(4.12%)	(7.28%)
DAX Index (Germany)	(11.38%)	(6.53%)
SMSI Index (Madrid, Spain)	(11.43%)	(5.46%)
Africa		
NSE All-Share Index	(15.11%)	(0.92%)
FTSE/JSE Africa All Share Index	(11.96%)	(5.96%)
Nairobi All Share Index (Kenya)	(15.68%)	(3.55%)
GSE Composite Index (Ghana)	10.27%	(1.32%)
Asia/Pacific		
NIKKEI 225 Index (Japan)	(3.71%)	(9.12%)
S&P BSE SENSEX Index (India)	1.13%	(4.93%)
Shanghai Stock Exchange Composite Index (China)	(21.30%)	(7.75%)
Hang Seng Index (Hong Kong)	(16.51%)	(10.11%)
Sources: Bloomberg and Nigerian Stock Exchange (NSE)		

FSDH Research notes that the increase in the volume of shares traded in October is an indication of the gradual interest in the Nigerian equity market.

3.2. Outlook for the Month of November 2018:

FSDH Research notes that the increase in the volume of shares traded in October is an indication of the gradual growth of interest in the Nigerian equity market. While we note that some investors are trading carefully in the equity market, particularly because of election considerations, we believe the market has strong growth potential for investors with a medium-to-long-term view.

3.3. 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, food and beverages, building materials, and oil and gas sectors of the equity market
- Investors can buy stocks that pay dividends.

Table 15: Equity Market Trend Analysis (2012-2017) – NSE ASI Analysis

Months	Year					
	2012	2013	2014	2015	2016	2017
October	26,430.92	37,622.74	37,550.24	29,177.72	27,220.09	36,680.29
November	26,494.44	38,920.85	34,543.05	27,385.69	25,241.63	37,944.60
% Change	0.24%	3.45%	(8.01%)	(6.14%)	(7.27%)	3.45%

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

Looking at the oversold position in the equity market, the equity market may appreciate in November 2018.

The performance of the equity market in the last six years shows that the market recorded positive performances between October and November in three of the six years. Looking at the oversold position in the equity market, the equity market may appreciate in November 2018.

Asset Class	Fund Allocation
Equities	25%
Fund Placement	10%
Treasury Bills	25%
Real Estate Investment Trust (REIT)	5%
Bonds	15%
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	8.35	7.60	13.45	2.37	3.53	12.00
Dangote Cement	204.90	200.00	278.00	12.23	16.75	273.00
Dangote Sugar	18.00	12.70	23.35	2.50	5.20	22.00
UBA	7.90	7.05	13.00	2.32	3.40	11.50
Flour Mills Nigeria	35.15	18.25	38.00	2.28	8.13	48.00
GT Bank	36.55	32.50	54.71	6.36	5.90	43.00
Seplat	660.00	490.00	785.00	188.12	3.32	780.00
FBN Holdings	7.65	6.62	14.75	1.11	6.88	12.00
Zenith Bank	26.00	19.60	33.51	6.14	3.83	32.00

Source: FSDH Research

S/N	Security Description	Tenor To Maturity (Yrs)	Coupon	Current Price (N)	Current Yield	Modified Duration
1	16.288% FGN MAR 2027	8.38	16.29%	103.40	15.54%	4.47
2	16.25% FGN APR 2037	18.46	16.25%	105.55	15.34%	6.01

Source: FSDH Research. Prices and yields as at 02 November, 2018

The prices of the Eurobonds of the following companies are trading at discounts to their face values: Diamond Bank, First Bank, Access Bank and Ecobank, all of which 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 01 November, 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	1.06	17.71%	96.99
Lagos	13.50% LAGOS 27-NOV-2020	13.50%	27-Nov-20	2.07	16.06%	95.61
Corporate Bonds						
FCMB	15.00% FCMB 6-NOV-2020	15.00%	06-Nov-20	2.01	19.22%	93.22
Lafarge Africa Plc	14.25% LAFARGE 15-JUN-2019	14.25%	15-Jun-19	0.62	15.09%	99.47
NAHCO	15.25% NAHCO II 14-NOV-2020	15.25%	14-Nov-20	2.04	15.75%	99.13
Transcorp Hotels Plc	15.50% TRANSCORP 4-DEC-2020	15.50%	04-Dec-20	1.16	19.00%	96.56
Lafarge Africa Plc	14.75% LAFARGE 15-JUN-2021	14.75%	15-Jun-21	2.62	15.83%	97.70
FCMB	14.25% FCMB I 20-NOV-2021	14.25%	20-Nov-21	3.05	17.40%	92.77
UBA	16.45% UBA I 30-DEC-2021	16.45%	30-Dec-21	3.16	15.91%	101.23
Fidelity Bank	16.48% FIDELITY 13-MAY-2022	16.48%	13-May-22	3.53	15.97%	101.31
Transcorp Hotels	16.00% TRANSCORP 26-OCT-2022	16.00%	26-Oct-22	2.44	17.58%	97.07
Stanbic IBTC	182D T.Bills+1.20% STANBIC IA 30-SEP-2024	16.29%	30-Sep-24	5.91	16.36%	9.69
Stanbic IBTC	13.25% STANBIC IB 30-SEP-2024	13.25%	30-Sep-24	5.91	16.36%	88.45
Supranational Bonds						
AfDB	11.25% AFDB 1-FEB-2021	11.25%	01-Feb-21	1.25	14.65%	96.26
Corporate Eurobonds						
Zenith Bank Plc	6.25% APR 22, 2019	6.25%	22-Apr-19	-	5.53%	100.32
Diamond Bank Plc	8.75% May 21, 2019	8.75%	21-May-19	-	14.80%	96.93
Access Bank Plc II	9.25%/6M USD LIBOR+7.677% JUN 24, 2021	9.25%	24-Jun-21	-	10.49%	99.78
First Bank Ltd.	8.00%/2Y USD SWAP+6.488% JUL 23 2021	8.00%	23-Jul-21	-	9.14%	99.93
Ecobank Nig. Ltd	8.75% AUG 14, 2021	8.75%	14-Aug-21	-	10.0%	99.55
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	144	14.15%	13.40%
Flour Mills Of Nigeria Plc	FLOUR MILLS CP I 31-MAY-19	14.25%	31-May-19	211	14.91%	13.73%

*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
<i>Source: Bloomberg</i>	

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