

Monthly Economic and Financial Market Outlook

Will Crude Oil Market Receive the Required Stimulus?

December 2018

Executive Summary

Domestic Scene:

- *There are measures to stop the continuous decline in the crude oil price despite counter measures from the US*
- *The Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC members have agreed to a crude oil production cut*
- *FSDH Research believes the trade war ceasefire between China and US should stimulate global growth and lead to recovery in crude oil market*
- *Low oil price has damaging impacts on the Nigerian economy*
- *If low oil price continues there may be a devaluation of the currency, increase in inflation rate and interest rate/yields may rise*
- *Non-performing loans in the banking system may also increase because of low oil price*
- *FSDH Research urges government at all levels to intensify efforts to implement policies that will grow the non-oil sectors of the economy, as we are aware that the crude oil market is highly volatile*
- *The increase in the Purchasing Managers' Index (PMI) published for the month of November is an indication of an increase in the economic activities that are usually associated with the last quarter of the year*
- *FSDH Research forecasts that the inflation rate for November 2018 will trend upwards to 11.31% on account of higher food prices*
- *FSDH Research notes that the proceeds from the US\$2.86bn Eurobond issuance contributed to the growth of external reserves in November*
- *The total capital importation through the I & E Window in November is the lowest figure recorded since inception in August 2017, an indication of foreign investors' careful approach to investing in Nigeria*
- *The Central Bank of Nigeria (CBN) remained the largest contributor to the inflow in November, the same trend observed in the last three months*
- *As expected, the yields on the Federal Government of Nigeria securities (except on 91-Day NTB) increased in November compared with October*
- *The limited outlets for liquidity in the financial market led to a drop in the interbank rates*
- *The bearish trend that dominated the equity market in October continued in November*
- *The oversold positions of stocks may attract the interest of domestic investors. Fund Managers' activities may also drive the market up in December.*

International Scene:

- *The current economic developments support arguments for a further hike in interest rate in the US. FSDH Research expects the FOMC of the US Federal Reserve to raise interest rates by 0.25% when it meets on 18-19 December 2018.*

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

1.0 Global Developments:

FSDH Research observed that the prices of sovereign bonds increased in all the countries we monitored in November 2018. The Turkey Bond continues to regain ground after the sell-off it experienced a few months ago. Consequently, the Turkey Bond recorded the highest month-on-month (M-o-M) price increase for the second consecutive month. The 8.8% September 2023 Turkey Government Bond recorded the highest M-o-M price increase of 10.30% to 76.00. This was followed by 7.75% February 28, 2023 South Africa Government Bond, with a price increase of 1.53% to 98.30. All the bonds we monitored recorded positive real yields in November except the Turkey Government Bond. **The Kenya Government Bond offered the most attractive real yield amongst the selected bonds in November.**

The Real Gross Domestic Product (GDP) in the US increased at an annual growth rate of 3.5% in Q3 2018, according to the 'second' estimate by the US Bureau of Economic Analysis (BEA) released on 28 November 2018. Inflation rate in the US increased to 2.5% year-on-year (Y-o-Y) in October 2018, from 2.3% in September, mainly due to an increase in fuel and gasoline prices. This figure is higher than the 2% inflation target set for the US economy. The US unemployment rate was unchanged at 3.7% in October 2018, below the target of 6.5%. The current economic developments support arguments for a further hike in interest rates in the US. **FSDH Research expects the Federal Open Market Committee (FOMC) of the US Federal Reserve to raise interest rates by 0.25% when it meets on 18-19 December 2018. This may place further demand pressure on foreign exchange in Nigeria.**

FSDH Research expects the FOMC of the US Federal Reserve to raise interest rates when it meets on 18-19 December 2018.

Table 1: Summary of Key Indicators

S/N	Indicators	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	101.62	97.03	102.22	104.46	103.84	99.40	98.30	76.00	95.50
2	Bond Yield	3.10%	18.19%	7.42%	11.14%	14.80%	8.03%	8.23%	16.13%	2.83%
3	Bond Price MoM Change	0.72%	0.13%	0.58%	0.12%	0.22%	0.09%	1.53%	10.30%	0.67%
4	Bond Yield MoM Change	(0.19%)	(0.04%)	(0.20%)	(0.07%)	(0.12%)	(0.04%)	(0.42%)	(2.61%)	(0.14%)
5	Bond Price YTD Change	1.62%	(6.70%)	(1.33%)	3.25%	(3.04%)	(4.42%)	(1.12%)	(13.54%)	(2.14%)
6	Bond Yield YTD Change	(0.41%)	2.54%	0.23%	(1.21%)	0.76%	1.71%	0.34%	4.39%	0.60%
7	Real Yield	0.60%	0.49%	4.11%	5.56%	3.54%	4.53%	3.13%	(5.49%)	0.33%
8	Volatility	0.26	0.10	0.18	0.09	0.23	0.15	0.40	2.18	0.34
9	FX Rate MoM Change*	(0.22%)	(0.06%)	(6.28%)	0.48%	0.61%	1.83%	(6.49%)	(7.40%)	0.10%
10	FX Rate YTD Change*	6.52%	0.75%	8.21%	(0.64%)	1.57%	14.01%	10.72%	27.17%	(6.08%)
11	Inflation Rate	2.50%	17.70%	3.31%	5.58%	11.26%	3.50%	5.10%	21.62%	2.50%
12	Policy Rate	4.35%	16.75%	6.50%	9.00%	14.00%	7.50%	6.75%	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%	7.10%	6.30%	1.50%	1.30%	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

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

OPEC revised its 2019 global economic growth forecast downward to 3.5%.

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:

Meanwhile, the US and China have agreed a trade war truce for 90 days to enable them to negotiate. The International Monetary Fund (IMF) said if trade restrictions in services are reduced by 15%, global GDP could increase by 1.5%. However, the IMF also warned that if the recently announced trade tariffs were to remain, 0.75% of global GDP could be lost by 2020. The latest monthly oil market report published by the Organization of the Petroleum Exporting Countries (OPEC) records that the latest output numbers and economic indicators have confirmed a slowing growth trend in several important economies, leading to a downward revision in the global economic growth forecast for 2019 to 3.5%. The 2018 growth forecast remains unchanged at 3.7%. OPEC indicated that global debt is an important aspect that may dampen economic growth going forward. The cartel notes that debt levels in the Organisation for Economic Co-operation and Development (OECD) have risen in key economies and in some emerging and developing economies.

In the OECD, the divergence of growth trends has increased. Significant fiscal stimulus in the US has supported strong growth in Q3 2018. The expectation that this momentum will carry over to 2019 has led to an upward revision in the growth forecast for the US in 2019. In contrast, the Euro-zone recorded disappointing growth in Q3 2018, leading to a downward revision in growth forecast to 1.9% and 1.7% in 2018 and 2019 respectively.

In non-OECD countries, the growth forecast for India and China have been revised downwards to 7.5% and 6.5% respectively in 2018. Growth in Brazil is forecast at 1.1% in 2018 and 1.8% in 2019. The 2019 forecast may be revised depending on the policy actions by the incoming government as well as commodity price developments. Russia's growth remains unchanged but also dependent on political developments and commodity prices.

Table 2: Economic Growth Rate Forecast

	2017	2018F	2019F
World	3.8%	3.7%	3.5%
OECD	2.5%	2.4%	2.0%
USA	2.3%	2.9%	2.6%
Japan	1.7%	1.1%	1.1%
Euro-zone	2.5%	1.9%	1.7%
China	6.9%	6.5%	6.1%
India	6.3%	7.5%	7.2%
Brazil	1.0%	1.1%	1.8%
Russia	1.5%	1.6%	1.7%

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

1.2 What if Crude Oil Prices Continue to Drop? Possible Implications for the Nigerian Economy:

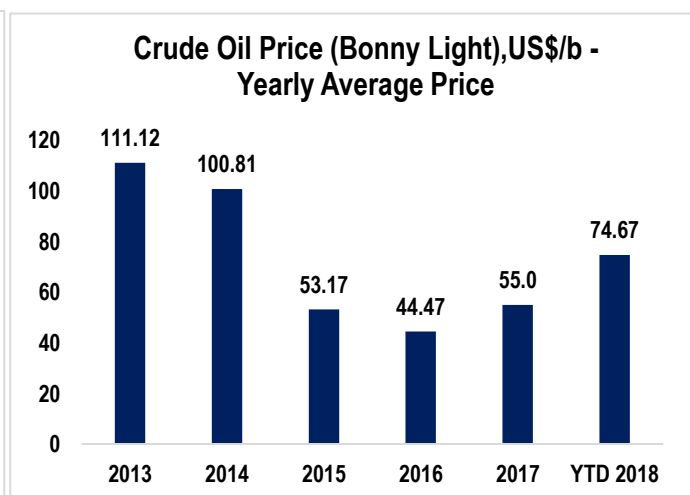
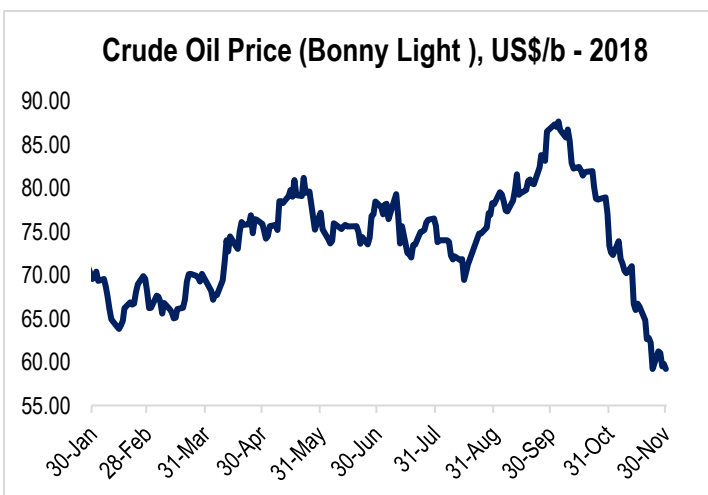
FSDH Research notes the significant drop in the price of crude oil in October 2018 and highlights implications on the Nigerian economy should the price continue to fall. According to data obtained from the US Energy Information Administration (EIA) Short-Term Energy Outlook (STEO) in its report for November 2018, crude oil prices declined in October at a faster rate than in any month since July 2016. Brent spot crude oil price declined by US\$10/b in October to close at US\$75/b. Similarly, Bonny Light crude oil price declined by 16.01% in October to close at US\$73.34/b. The price of Bonny Light crude oil dropped further to US\$59.22/b as at 30 November 2018. This represents a drop of US\$28.44/b from the highest price of US\$87.66 recorded in October 2018. The decline in oil prices is attributed to two major factors: the indication of a global economic slowdown, and the higher-than-expected global crude oil supply.

Crude oil is important to the Nigerian economy as the major source of revenue for the Government and the largest supplier of foreign exchange to the country. A significant drop in either the price of crude oil or production will directly have a negative impact of the fiscal position of the country. It will also cause major macroeconomic instability, particularly in the exchange rate and inflation rate.

FSDH Research notes that the crude oil market developments in 2018 and 2019 appear better than in 2017. Despite these fairly positive developments, we are aware that the crude oil market is very volatile, therefore it is crucial to learn from the events that happened in 2014 through to 2017 in order to take proactive measures against unwarranted economic crisis in Nigeria. Government at all levels must intensify efforts to implement policies that will grow the non-oil sectors of the economy.

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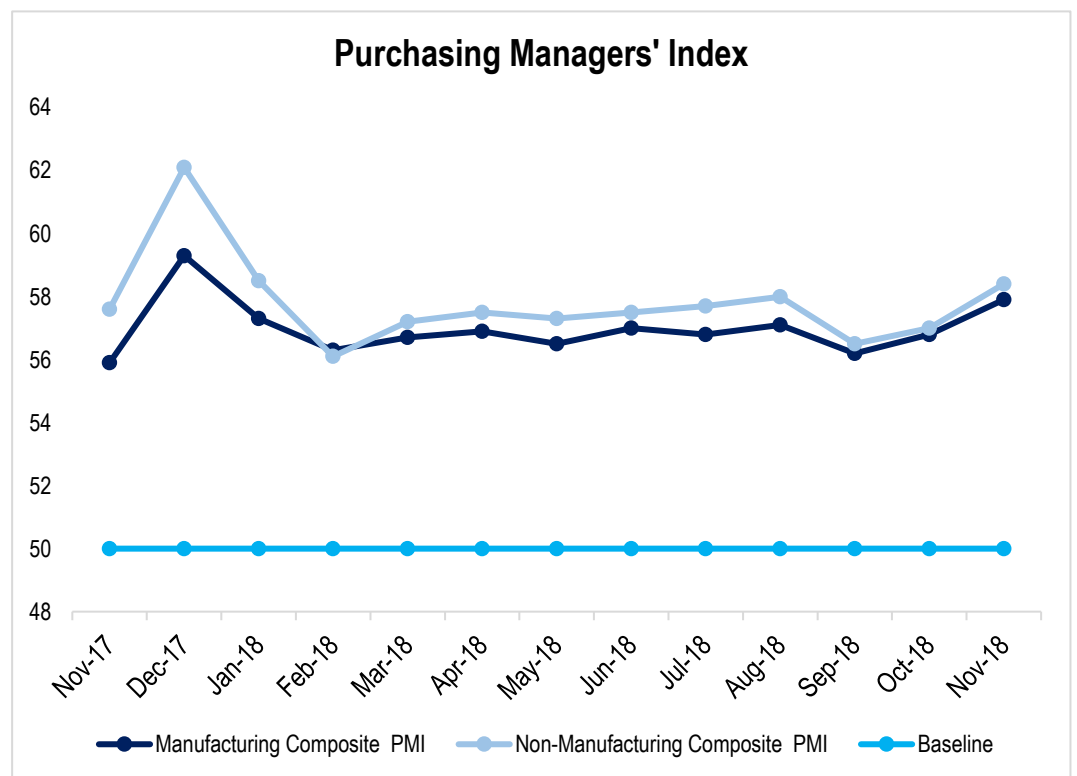
Government at all levels must intensify efforts to implement policies that will grow the non-oil sectors of the economy.



1.3 Purchasing Managers' Index (PMI):

The PMI for the month of November 2018, published by the Central Bank of Nigeria (CBN), shows a second consecutive month of a faster rate of increase in the PMI than the previous month. The Manufacturing PMI stood at 57.9 points in November, from 56.8 points in October. Production level, new orders, supplier delivery time, employment level and inventories grew at a faster rate in November than the level recorded in October. The Non-Manufacturing PMI also increased to 58.4 points in November from 57.0 points in October. Business activity, new orders, employment level and inventories grew at a faster rate in November 2018 than in October. The increase in the PMI is an indication of an increase in the economic activities usually associated with the last quarter of the year. This may have a positive impact on the GDP in Q4 2018.

The PMI the CBN published for the month of November 2018 shows a second consecutive month of a faster rate of increase in the PMI than the previous month.



A deceleration in food prices drove down the inflation rate in October.

1.4 Inflation Rate:

The inflation rate dropped to 11.26% in October, following two consecutive months of increase. A deceleration in food prices drove down the inflation rate in October. The Month-on-Month (M-o-M) change in the Consumer Price Index (CPI) stood at 0.74% in October, lower than the 0.84% recorded in September. This represents the fourth 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 13.28% in October, down from 13.31% in September 2018. M-o-M, the FPI grew by 0.82% in October, compared with 1.00% in September. The increase in the prices of bread and cereals, potatoes, yam and other tubers, meat, vegetables and fruits drove the FPI during the period.

The Core Index stood at 9.9% in October, up from 9.8% in September. The largest increases in the Core Index were recorded in the prices of fuels and lubricants, vehicle spare parts, domestic and household services, dental services, carpets and other floor coverings, repair of household appliances, medical services and hospital services.

FSDH Research forecasts that the inflation rate for November 2018 will inch up to 11.28% as a result of the impacts of end of year purchases.

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-18A	Nov-18F	Dec-18F
Actual/Forecast	15.13%	14.33%	13.34%	12.48%	11.61%	11.23%	11.14%	11.23%	11.28%	11.26%	11.28%	11.63%

Sources: National Bureau of Statistics and FSDH Research Analysis.

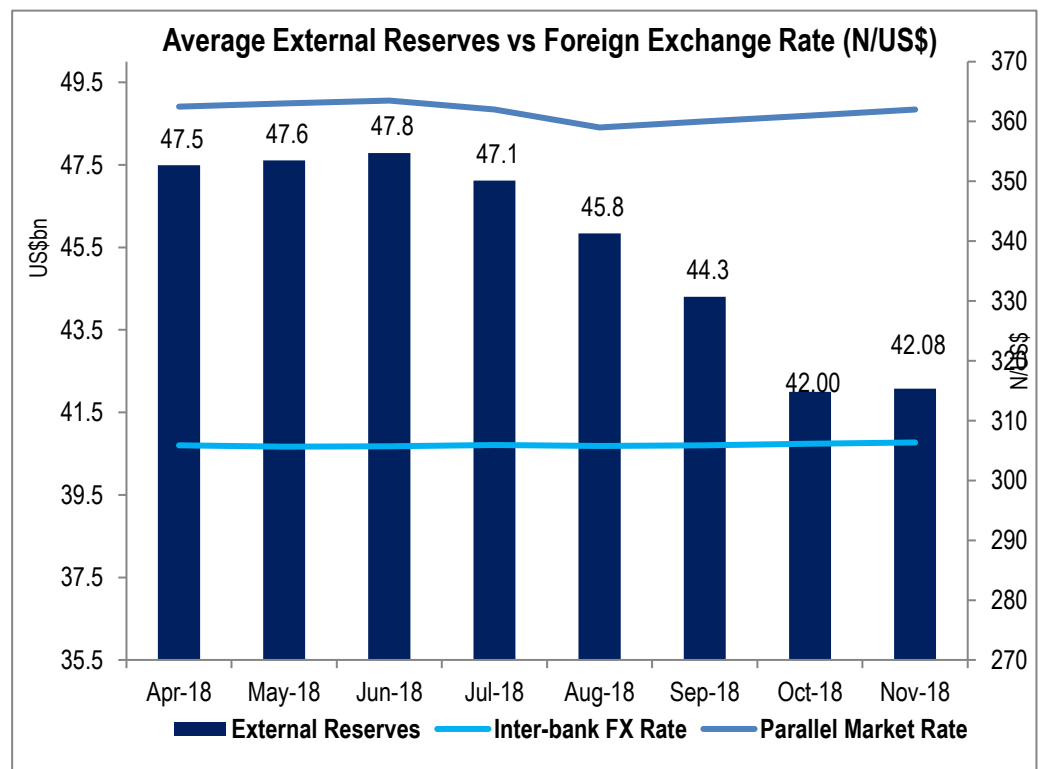
A- Actual, F - Forecast

The external reserves recorded some accretion in November following four months of consistent drawdown.

1.5 Movement in the External Reserves:

There was accretion to the external reserves in November following four months of consistent drawdown. FSDH Research notes that the proceeds from the US\$2.86bn Eurobond issuance contributed to the growth of external reserves in November. The 30-Day moving average external reserves increased by 0.19%, from US\$42bn at end-October to US\$42.08bn at end-November 2018.

The decline in oil prices will also negatively affect the external reserves. However, OPEC and non-OPEC members have agreed to cut production by 1.2 mb/d, effective January 2019 for an initial period of six months. Consequently, the oil price may recover and sustain the external reserves in the short-term.



The highest capital inflow came through the CBN for the fourth consecutive month in November 2018.

1.6 Currency Transaction at the I&E Window

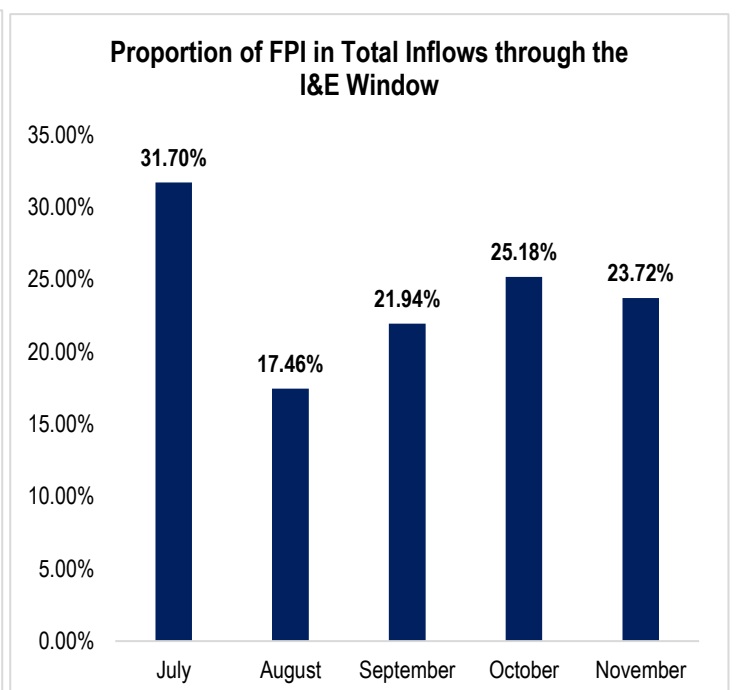
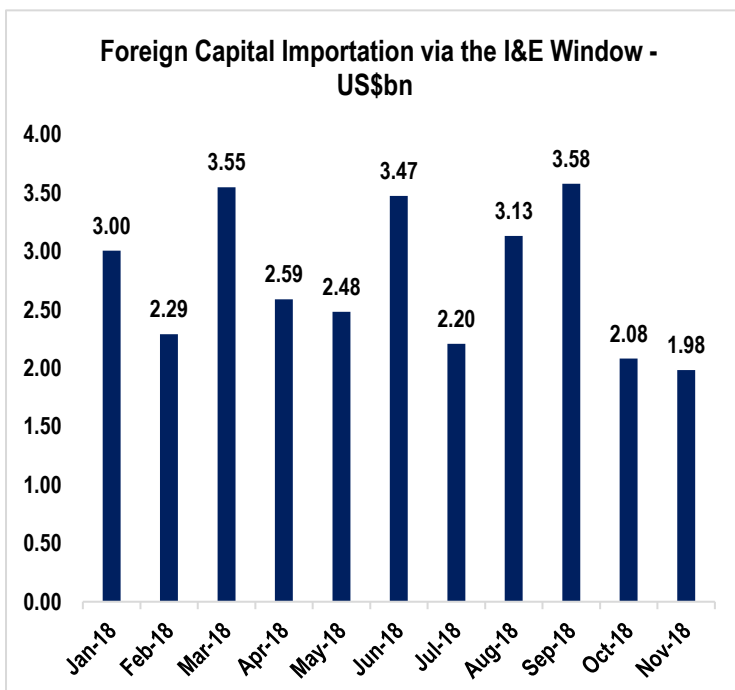
The data obtained as at Monday, 3 December 2018 from the FMDQ OTC Securities Exchange on the total capital importation through the Investors' and Exporters' Foreign Exchange Window (I&E window) in November 2018 stands at US\$1.98bn. The amount recorded in November is the lowest figure recorded since August 2017, which is an indication of foreign investors' careful approach to investing in Nigeria. The total capital importation through the I & E from inception to November 2018 totalled US\$45.62bn.

The CBN remained the largest contributors to the inflow in November, the same trend observed in the last three months.

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

Source	August		September		October		November	
	Value (\$'bn)	PT	Value (\$'bn)	PT	Value (\$'bn)	PT	Value (\$'bn)	PT
FDIs	0.01	0.28%	0.05	1.34%	0.06	2.94%	0.04	2.16%
FPIs	0.55	17.46%	0.78	21.94%	0.52	25.18%	0.47	23.72%
Other Corporates	0.10	3.07%	0.05	1.30%	0.04	1.81%	0.03	1.47%
CBN	1.43	45.78%	2.02	56.40%	0.90	43.07%	0.79	39.97%
Exporters	0.08	2.62%	0.08	2.31%	0.11	5.39%	0.11	5.59%
Individuals	0.03	0.91%	0.02	0.53%	0.01	0.46%	0.01	0.60%
Non-Bank Corporates	N/A	N/A	0.26	7.39%	0.44	21.15%	0.53	26.49%
Other Corporates	0.93	29.87%	0.32	8.81%	N/A	N/A	N/A	N/A
Total	3.13	100%	3.58	100%	2.08	100%	1.98	100%

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



1.7 Crude Oil Market and Bonny Light Price:

The major driver of the crude oil movements in the short-term are the suspension of the trade war between China and US and the crude oil output cut. Already, OPEC and Non-OPEC members have agreed to cut production to avoid over supply. The daily crude oil production in Nigeria decreased by 0.96% to 1.75mb/d in October 2018, from 1.77mb/d in September. This is based on secondary data available from OPEC’s report for the month of November 2018. The total OPEC crude oil production from secondary sources was 32.90mb/d in October, an increase of 0.39% from 32.77mb/d in the previous month. Crude oil production increased mostly in UAE, Saudi Arabia, Libya and Angola while production declined in Iran, Kuwait, Venezuela and Nigeria.

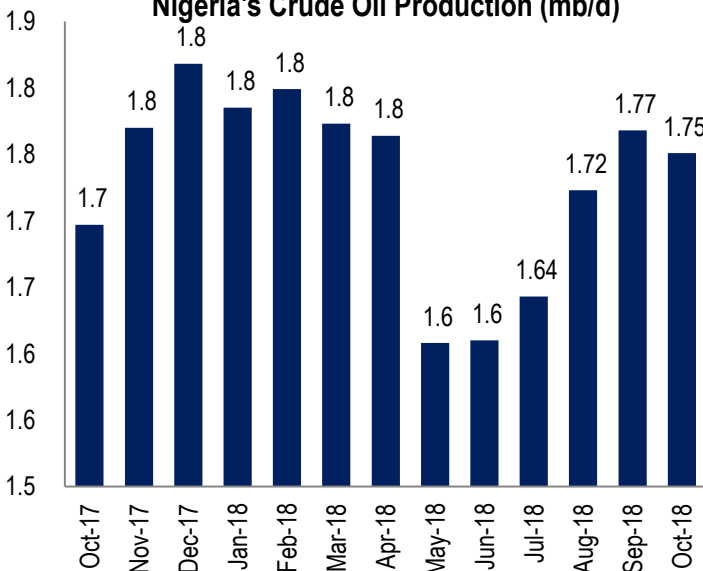
In its monthly report for November 2018, the US Energy Information Administration (EIA) forecasts an average price of Brent crude oil of US\$73.12/b and US\$71.92/b in 2018 and 2019, respectively. The forecast is lower by \$1.31/b and \$3.14/b than the forecast in the October 2018 monthly report for 2018 and 2019 respectively.

According to data from Thomson Reuters, the Bonny Light crude oil price decreased for the second consecutive month. Bonny Light crude oil price decreased by 18.46% to US\$59.80/b as at end-November, from US\$73.34/b as at end-October. The average price of Bonny Light was US\$66.32/b in November, a decrease of 19.53% from the average price of US\$82.42/b recorded in October.

The daily crude oil production in Nigeria decreased by 0.96% to 1.75mb/d in October 2018, from 1.77mb/d in September.

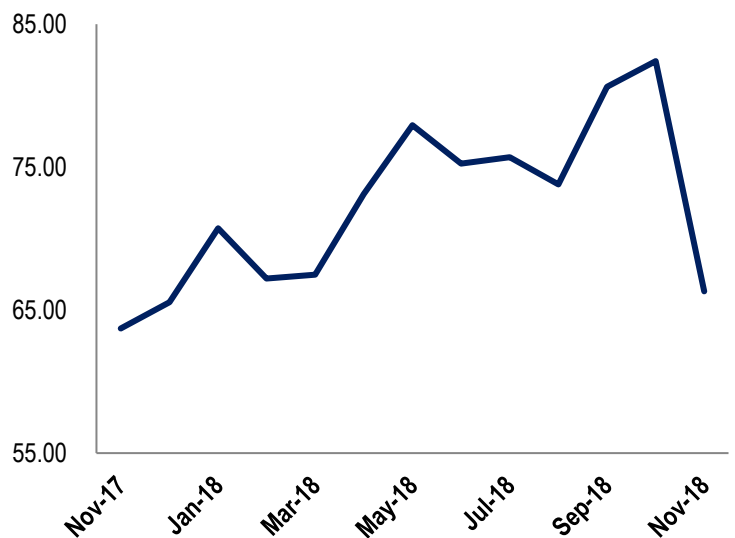
The average price of Bonny Light was US\$66.32/b in November, a decrease of 19.53% from the average price of US\$82.42/b recorded in October.

Nigeria's Crude Oil Production (mb/d)



mb/d - million barrels per day

Bonny Light Price (Monthly Average)

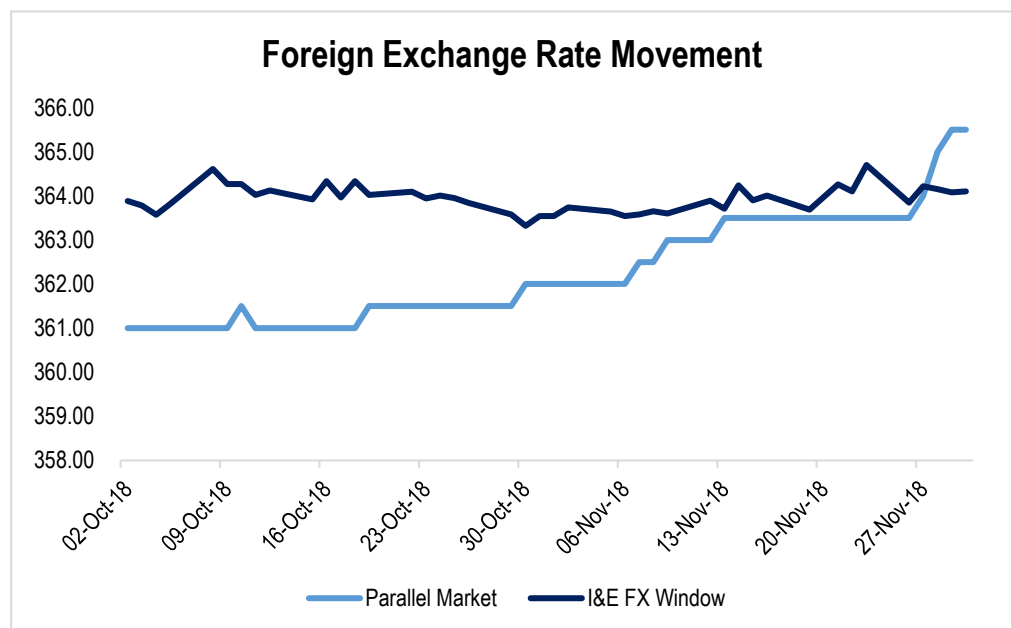


1.8 Foreign Exchange Rate:

There was a further depreciation in the value of the Naira at both the inter-bank and parallel markets in November 2018, compared with October 2018. Demand pressure in the foreign exchange market persisted, as the parallel market rate ramped up to surpass rate at the I&E Window in November 2018. FSDH Research expects the CBN to maintain the current tight monetary policy stance until the foreign exchange demand pressure abates.

The value of the Naira depreciated by 0.07% at the inter-bank market in November to N306.80/US\$, compared with October. Similarly, the average exchange rate at the inter-bank market depreciated by 0.07% to stand at N306.71/US\$ in November, compared with N306.50/US\$ in October.

The value of the Naira also depreciated M-o-M at the parallel market to N365.50/US\$ as at end-November 2018, a depreciation of 0.96% from N362/US\$ at end-October. The average exchange rate at the parallel market depreciated by 0.57% to stand at N363.36/US\$ in November, compared with N361.27/US\$ in October.

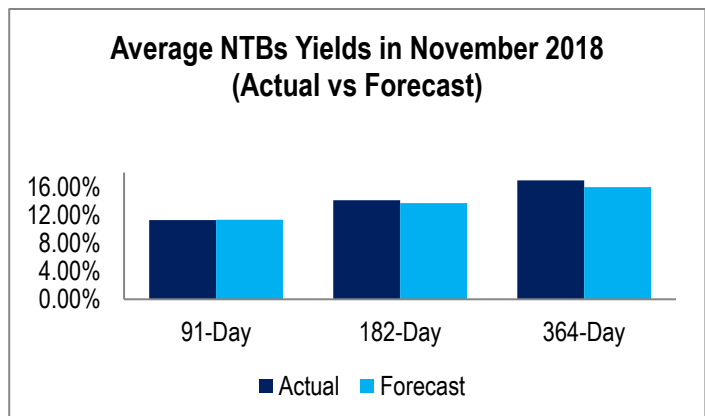
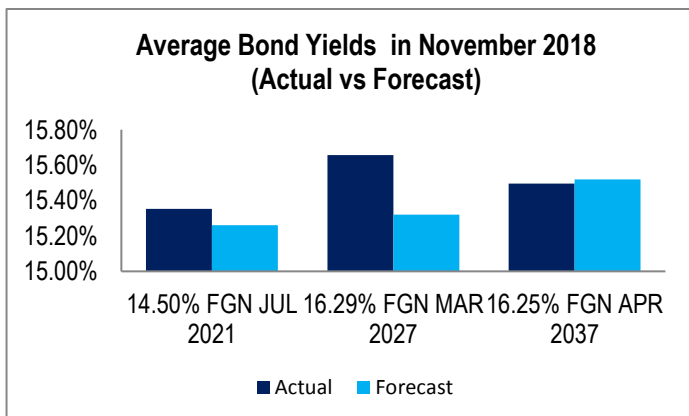


2.0 Interest Rate and Yield Analysis:

The CBN continued with its tight monetary policy stance in November with the objective of maintaining stability in the foreign exchange market. The yields on the FGN securities increased in November compared with October except on 91-Day NTB. The fixed income market analysis for the month of November shows a net outflow of N516bn, compared with a net outflow of N1.21trn in October. The major outflows in November were the Open Market Operations (OMO) and Repurchase (REPO) Bills of N2.50trn, CBN's Foreign Exchange Sale of N529bn, Primary NTBs of N279bn and the FGN Bond auction of N40bn. Meanwhile, in October, the major outflows were the OMO and REPO of N2.07trn, CBN's Foreign Exchange Sale of N529bn, Primary NTBs of N426bn and the FGN Bond auction of N88bn. The major inflows in November were the matured OMO and REPO Bills of N2.03trn, the Federation Account Allocation Committee (FAAC)'s injection of about N380bn, and matured NTBs of N424bn. The major inflows in October were the matured OMO and REPO Bills of N1.27trn, FAAC's injection of about N350bn, and matured NTBs of N281bn.

The CBN continues with its tight monetary policy stance in November with the objective of maintaining stability in the Foreign exchange market.

At the NTBs auction, average yields moved in varying directions as the 182-Day and 364-Day NTB increased in November, compared with October 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 11.23% in the month of November, compared with 11.25% recorded in October 2018. The average 182-Day NTB stood at 14.05%, up from 13.63% in October 2018. The average 364-Day NTB yield stood at 16.88% in November 2018 from 15.91% in October. Although the aggregate outflow in the market in November exceeded the inflows, the NTBs maturity repayment in November led to increase in liquidity. This led to a decrease in rates and yields.



The limited outlets for the liquidity in the financial market led to a drop in the interbank rates.

The limited outlets for the liquidity in the financial market led to a drop in the interbank rates. The average Nigerian Interbank Offered Rate (NIBOR) was down in November compared with October 2018. The average 30-day NIBOR closed at 12.64% in November 2018, down from 13.75% in October. The average 90-day and 180-Day NIBOR also decreased to 13.88% and 14.45%, from 14.03% and 14.80% in October 2018, respectively. However, the yields on the FGN Bonds that we monitored increased in November 2018. The average yield on the 14.5% FGN July 2021 increased to 15.35% in November, from 15.11% in October. The 16.29% FGN Mar 2027 closed at 15.66% in November 2018, higher than 15.18% in October 2018; the 16.25% FGN Apr 2037 increased to close at 15.50% in November 2018,

Table 5: Market Liquidity (N'bn)

	October 2018			November 2018		
	Total Inflow	Total Outflow	Net Flow	Total Inflow	Total Outflow	Net Flow
Primary Market: NTB	281	426	(145)	424	279	145
Open Market Operations & Rev Repo	1,265	2,066	(800)	2,027	2,500	(473)
Bond	0	88	(88)	0	40	(40)
FAAC	350	0	350	380	0	380
FX Market	0	529	(529)	0	529	(529)
CRR Debit/Credit	0	0	0	0	0	0
TSA Implementation	0	0	0	0	0	0
Total	1,896	3,109	(1,212)	2,831	3,347	(516)

Sources: Central Bank of Nigeria and Federal Ministry of Finance

higher than 15.17% in October 2018.

Table 6: Average Bond Yields

	14.50% FGN JUL 2021	16.29% FGN MAR 2027	16.25% FGN APR 2037
November 2018	15.11%	15.18%	15.17%
December 2018	15.35%	15.66%	15.50%
Change	0.24%	0.48%	0.33%

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
November 2018	15.30%	13.75%	14.03%	14.80%	11.25%	13.63%	15.91%
December 2018	8.59%	12.64%	13.88%	14.45%	11.23%	14.05%	16.88%
Change	(6.71%)	(1.11%)	(0.15%)	(0.35%)	(0.02%)	0.42%	0.98%

Sources: CBN and FMDQ

2.1 Revised Outlook Going Forward:

FSDH Research expects a total inflow of about N2.68trn to hit the money market from the various maturing government securities and FAAC in December 2018. We estimate a total outflow of approximately N579bn from the various sources, leading to a net inflow of about N2.10trn. The Debt Management Office (DMO) through the CBN has cancelled the NTB auctions scheduled for the 13th and 20th December 2018 while it will redeem the maturing securities. FSDH Research believes the DMO will use the proceeds of the Eurobond to redeem the maturing FGN Securities leaving investors with huge liquidity looking for investment outlet. Consequently, the yields on government securities and the interest rates in money market may drop in December. This is in line with the trend that FSDH Research observed in December 2017 following the issuance of Eurobonds.

The CBN has cancelled the NTB auctions scheduled for the 13th and 20th December, 2018 while it will redeem the maturing securities.

The CBN may not increase the yields on the fixed income securities in December unless there are indications of significant capital flight from the financial system from foreign investors. Given the limited investment options in Nigeria, the yields of the Open Market Operations (OMO) may remain at the current levels until the end of the year.

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

Date	06-Dec-18	13-Dec-18	20-Dec-18	27-Dec-18	Others	Total
Inflows	684.84	551.36	497.81	588.89	357.98	2,680.88
Outflows	-	100.00	-	-	479.00	579.00
Net flows	684.84	451.36	497.81	588.89	(121.02)	2,101.88

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%
NovA-18	11.23%	14.05%	16.88%	15.35%	15.66%	15.50%
DecF-18	N/A	N/A	N/A	15.52%	15.82%	15.92%

Sources: CBN, FMDQ, and FSDH Research Forecasts

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

- ❖ The strategy of the DMO / CBN to repay the maturing NTBs in December and to cancel the December auction
- ❖ The need to maintain stability in the foreign exchange market
- ❖ Expectations of a further hike in the Fed Rate of the US
- ❖ The need to mop up liquidity associated with electioneering spending
- ❖ The rising inflation rate expectations

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

2.2 Strategy:

- Although yields on bonds may increase above the current level early next year, FSDH Research believes the yields are attractive at the current level. Investors should strategically position in the bonds.
- Investors should take advantage of the current yields in the long end of the secondary Treasury Bills market, particularly in the secondary market
- We also spot some opportunities in the Eurobond market for investors with Dollar to invest

The prices on the FGN Eurobonds were lower in November 2018 than in October. Consequently, the yields on the bonds closed higher in the month of November than in October. This is in line with rising yields in the global market. We expect the yields to increase in December as the Fed is expected to raise the key interest rate by 0.25% on 18-19 December 2018. The current yields on the 10-Year 6.75% FGN Eurobond January 2021 is lower than its coupon rate. Investors can take profit on the Eurobond and buy back later when the yield increases.

Table 10: FGN Eurobonds

Date	15-Year 7.875% FGN Eurobond February 2032		10-Year 6.75% FGN Eurobond January 2021		10-Year 6.375% FGN Eurobond July 2023		5-Year 5.625% FGN Eurobond June 2022	
	Price (US\$)	Yield	Price (US\$)	Yield	Price (US\$)	Yield	Price (US\$)	Yield
01-Nov-18	97.02	8.25%	103.29	5.16%	99.86	6.41%	99.32	5.83%
02-Nov-18	97.27	8.21%	103.33	5.14%	100.07	6.36%	99.48	5.78%
05-Nov-18	97.27	8.21%	103.48	5.07%	100.12	6.34%	99.48	5.78%
06-Nov-18	97.35	8.20%	103.48	5.07%	100.07	6.35%	99.36	5.82%
07-Nov-18	97.40	8.20%	103.48	5.07%	100.17	6.33%	99.35	5.83%
08-Nov-18	96.48	8.32%	103.29	5.15%	99.77	6.43%	99.13	5.89%
09-Nov-18	95.94	8.39%	103.15	5.21%	99.50	6.50%	98.97	5.94%
12-Nov-18	95.81	8.40%	103.08	5.25%	99.30	6.55%	99.05	5.92%
13-Nov-18	95.45	8.45%	102.98	5.29%	99.14	6.59%	98.88	5.97%
14-Nov-18	95.42	8.45%	102.81	5.37%	99.07	6.61%	98.77	6.01%
15-Nov-18	93.54	8.70%	102.72	5.41%	98.60	6.73%	98.42	6.12%
16-Nov-18	93.50	8.71%	102.52	5.51%	98.51	6.75%	98.37	6.13%
19-Nov-18	93.28	8.74%	102.69	5.42%	98.41	6.78%	98.32	6.15%
20-Nov-18	91.71	8.95%	102.43	5.55%	97.55	7.00%	98.02	6.25%
21-Nov-18	92.07	8.91%	102.47	5.53%	97.56	7.00%	98.06	6.24%
22-Nov-18	91.75	8.95%	102.30	5.61%	97.50	7.02%	97.96	6.27%
23-Nov-18	90.25	9.16%	101.99	5.76%	96.62	7.25%	97.50	6.42%
26-Nov-18	89.54	9.26%	101.92	5.79%	96.13	7.37%	97.39	6.45%
27-Nov-18	88.08	9.47%	101.42	6.04%	95.11	7.65%	96.78	6.65%
28-Nov-18	88.63	9.39%	101.37	6.06%	95.41	7.57%	96.65	6.69%
29-Nov-18	90.02	9.19%	101.68	5.90%	95.88	7.45%	97.29	6.49%
30-Nov-18	90.04	9.19%	101.52	5.98%	95.98	7.42%	97.21	6.51%

Source: Bloomberg

3.0 Equity Market:

3.1 The Secondary Market:

The bearish trend in the equity market persisted in November 2018. The Nigerian Stock Exchange All Share Index (NSE ASI) depreciated by 4.90% (a loss of 4.97% in US Dollar) to close at 30,874.17 points. Year-to-Date (YTD), the Index recorded a depreciation of 19.27%. Similarly, the market capitalisation recorded a M-o-M loss of 4.90% (a loss of 4.97% in US Dollar) to close at N11.27trn (US\$36.74bn). The persistent decline in the Nigerian equity market can be attributed to the continued pullback from foreign investors due to political considerations and rising global yields. The increased yields on fixed income securities in Nigeria also led to reallocation of portfolios away from the equity market.

The bearish trend in the equity market persisted in November 2018.

FSDH Research observed an increase in the volume and value of stocks traded in November, mostly as a result of significant trades on Zenith Bank. The volume of stocks increased by 7.46% to 5.44bn in November. Zenith Bank Plc (1.11bn), Diamond Bank Plc (669.19mn), FCMB Group Plc (481.90mn), Access Bank Plc (374.71mn), and FBN Holdings Plc (368.68mn) were the five most highly traded stocks in November. Similarly, the value of stocks traded on the NSE in November increased by 23.28% to N74.86bn, from N60.73bn in October.

FSDH Research observed an increase in the volume and value of stocks traded in November, mostly as a result of significant trades on Zenith Bank.

Two of the NSE Sectoral Indices appreciated in November while three depreciated.

The NSE Insurance Index and the NSE Consumer Goods Index recorded a M-o-M appreciation of 2.33% and 1.59% respectively. The NSE Industrial Index recorded the highest M-o-M depreciation of 13.28%, with a YTD depreciation of 37%.

Two of the NSE Sectoral Indices appreciated in November while three depreciated.

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*
October	5.06	60.73	32,466.27	11.85	418.21	123.49	723.54	291.35	1435.11
November	5.44	74.86	30,874.17	11.27	398.47	126.37	735.02	276.03	1244.53
Change	7.46%	23.28%	(4.90%)	(4.90%)	(4.72%)	2.33%	1.59%	(5.26%)	(13.28%)
YTD	N/A	N/A	(19.27%)	(17.18%)	(16.19%)	(9.33%)	(24.70%)	(16.53%)	(37.00%)

Sources: NSE and FSDH Research. * NSE Sectoral Indices

Table 12: Major Earnings Announcements in November 2018

Company and Result	Turnover (Nm)	Change	PBT (Nm)	Change	PAT (Nm)	Change
MEDVIEW AIRLINE PLC						
9 Months, Sep. 2018	7,847	-48.75%	-1,446	-298.54%	-1,533	-340.49%
VALUALLIANCE VALUE FUND						
Full Year June 2018	1,147	-11.67%	1,062	-8.34%	1,044	-8.51%

Source: NSE

Table 13: Major Corporate Action Announcements in November 2018

Company	Result	*DPS (N)	Bonus	Closure Date	Payment Date	Interim/Final
VALUALLIANCE VALUE FUND	Full year Jun. 2018	13.00		11-Dec-18	20-Dec-18	Final
PRESTIGE ASSURANCE CO. PLC	Full year, Dec. 2017	-	41 for 100	28-Nov-18	N/a	Final

Source: NSE; *DPS – Dividend Per Share

The Hang Seng Index (Hong Kong) recorded the highest M-o-M appreciation of 6.11% in November, with a YTD depreciation of 11.41%.

All the North/Latin America equity market indices that FSDH Research monitored appreciated in November 2018. Amongst the equity markets in Asia Pacific we monitored, only one Index depreciated. Across the equity market indices in Europe and Africa, more indices depreciated than appreciated. The Hang Seng Index (Hong Kong) recorded the highest M-o-M appreciation of 6.11% in November, with a YTD depreciation of 11.41%. The Ghana Stock Exchange Composite Index recorded the highest M-o-M depreciation of 7.57%, with a YTD appreciation 1.93%.

Table 14: Foreign Equity Market Performance in November 2018

North/Latin America	YTD Change	Month-on-Month Change
Dow Jones Industrial Average	3.31%	1.68%
S&P 500 Index	3.24%	1.79%
NASDAQ Composite	6.19%	0.34%
Brazil Stock Market Index	17.15%	2.38%
Europe		
Swiss Market Index	(3.67%)	0.17%
FTSE 100 Index (UK)	(9.20%)	(2.07%)
CAC 40 Index (France)	(5.81%)	(1.76%)
DAX Index (Germany)	(12.85%)	(1.66%)
SMSI Index (Madrid, Spain)	(10.18%)	1.42%
Africa		
NSE All-Share Index	(19.27%)	(4.90%)
FTSE/JSE Africa All Share Index	(14.86%)	(3.29%)
Nairobi All Share Index (Kenya)	(14.67%)	1.20%
GSE Composite Index (Ghana)	1.93%	(7.57%)
Asia/Pacific		
NIKKEI 225 Index (Japan)	(1.82%)	1.96%
S&P BSE SENSEX Index (India)	6.28%	5.09%
Shanghai Stock Exchange Composite Index (China)	(21.74%)	(0.56%)
Hang Seng Index (Hong Kong)	(11.41%)	6.11%
Sources: Bloomberg and Nigerian Stock Exchange (NSE)		

FSDH Research expects to see increased activities in the equity market in December 2018.

3.2. Outlook for the Month of December 2018:

FSDH Research expects to see increased activities in the equity market in December 2018 as well as an appreciation. We note that most share prices are in oversold positions and these stocks may attract the interest of domestic investors. The Fund Managers' strategies to position in the market towards year-end may also drive the market up in December. However, we note that some investors will continue to tread carefully in the equity market, particularly because of election considerations. We reiterate that 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 strategy
- 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.

Months	Year					
	2012	2013	2014	2015	2016	2017
November	26,494.44	38,920.85	34,543.05	27,385.69	25,241.63	37,944.60
December	28,078.80	41,329.19	34,657.15	28,642.25	26,874.62	38,243.19
% Change	5.98%	6.19%	0.33%	4.59%	6.47%	0.79%

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 December 2018.

The performance of the equity market in the last six years shows that the market recorded positive performances between November and December. Looking at the oversold position, the equity market may appreciate in December 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	7.50	7.00	13.45	2.37	3.17	12.00
Dangote Cement	190.00	185.00	278.00	12.23	15.54	273.00
Dangote Sugar	13.10	12.45	23.35	2.50	5.24	22.00
UBA	7.75	7.05	13.00	2.32	3.34	11.50
Flour Mills Nigeria	21.00	15.25	38.00	2.28	9.23	32.00
GT Bank	35.30	32.50	54.71	6.36	5.55	43.00
Seplat	598.90	498.00	785.00	188.12	3.18	780.00
FBN Holdings	7.70	6.80	14.75	1.11	6.93	12.00
Zenith Bank	23.85	19.60	33.51	6.14	3.88	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	8.29	16.29%	102.15	15.80%	4.37
2	13.98% FGN FEB 2028	9.24	13.98%	90.40	15.99%	4.69
3	16.25% FGN APR 2037	18.46	16.25%	102.85	15.76%	5.83

Source: FSDH Research. Prices and yields as at 03 December, 2018

The prices of the Eurobonds of the following companies are trading at discounts to their face values: Seplat, 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 03 December, 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	0.97	18.19%	96.83
Lagos	13.50% LAGOS 27-NOV-2020	13.50%	27-Nov-20	1.98	16.46%	95.15
Corporate Bonds						
FCMB	15.00% FCMB 6-NOV-2020	15.00%	06-Nov-20	1.93	19.64%	92.80
Lafarge Africa Plc	14.25% LAFARGE 15-JUN-2019	14.25%	15-Jun-19	0.53	14.57%	99.82
NAHCO	15.25% NAHCO II 14-NOV-2020	15.25%	14-Nov-20	1.95	16.17%	98.49
Transcorp Hotels Plc	15.50% TRANSCORP 4-DEC-2020	15.50%	04-Dec-20	1.08	19.74%	96.21
Lafarge Africa Plc	14.75% LAFARGE 15-JUN-2021	14.75%	15-Jun-21	2.53	16.06%	97.35
FCMB	14.25% FCMB I 20-NOV-2021	14.25%	20-Nov-21	2.97	17.48%	92.79
UBA	16.45% UBA I 30-DEC-2021	16.45%	30-Dec-21	3.07	15.97%	101.09
Fidelity Bank	16.48% FIDELITY 13-MAY-2022	16.48%	13-May-22	3.44	15.99%	101.23
Transcorp Hotels	16.00% TRANSCORP 26-OCT-2022	16.00%	26-Oct-22	2.35	17.86%	96.63
Stanbic IBTC	182D T.Bills+1.20% STANBIC IA 30-SEP-2024	16.29%	30-Sep-24	5.83	16.46%	99.29
Stanbic IBTC	13.25% STANBIC IB 30-SEP-2024	13.25%	30-Sep-24	5.83	16.46%	88.19
Supranational Bonds						
AfDB	11.25% AFDB 1-FEB-2021	11.25%	01-Feb-21	1.16	14.57%	96.59
Corporate Eurobonds						
Zenith Bank Plc	6.25% APR 22, 2019	6.25%	22-Apr-19	0.39	6.78%	99.79
Access Bank Plc II	9.25%/6M USD LIBOR+7.677% JUN 24, 2021	9.25%	24-Jun-21	2.56	10.22%	100.26
First Bank Ltd.	8.00%/2Y USD SWAP+6.488% JUL 23 2021	8.00%	23-Jul-21	2.64	9.32%	99.49
Ecobank Nig. Ltd	8.75% AUG 14, 2021	8.75%	14-Aug-21	2.70	9.92%	99.70
Seplat Petroleum Development Company Plc	9.25% April 01, 2023	9.25%	01-Apr-23	4.33	9.52%	99.04
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	112	15.00%	14.34%
Flour Mills Of Nigeria Plc	FLOUR MILLS CP I 31-MAY-19	14.25%	31-May-19	179	14.39%	13.45%

*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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