Monthly Economic and Financial Market Outlook

Nigerian Economy Signals a Turnaround

August 2017

Executive Summary

Domestic Scene:

- A review of the latest Purchasing Managers' Index (PMI) report that the Central Bank of Nigeria (CBN) published for the month of July 2017 shows that the Nigerian economy is gathering more momentum for a turnaround.
- The Composite Non-Manufacturing Index (CNMI) also expanded to 54.1 points in July 2017 from 52.9 points in June 2017
- We expect the inflation rate in Nigeria to drop to 15.96% in July 2017 from 16.10% in June 2017.
- The accretion to the external reserves was boosted by improved oil production and relatively favourable crude oil price
- Nigeria has agreed to implement a production cap as soon as production hits 1.8mb/d.
- The value of the Naira strengthened in both the inter-bank and parallel foreign exchange market
- At the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) held on July 24-25, 2017, the committee decided to hold rates in line with our earlier expectation
- We expect the equity market to appreciate in the month of August 2017, albeit at a slower pace than the last five months due to profit taking activity
- Yields on fixed income securities may trend marginally lower in August 2017 because of the expectation of lower July 2017 inflation rate.

International Scene:

- The anticipated growth in the global economy remains on track according to the International Monetary Fund (IMF) in its July 2017 World Economic Outlook (WEO)
- According to OPEC, total OPEC crude oil production from secondary sources in June was increased mostly from Libya, Nigeria, Angola, Iraq; Saudi Arabia and Iran.

1.0 Global Developments:

In the countries we monitored, the prices of government bonds recorded a mixed performance in July 2017 compared with June 2017.

In the countries we monitored, the prices of government bonds recorded a mixed performance in July 2017 compared with June 2017. The 7.75% February 2023 South Africa Government Bond recorded the highest month-on-month price increase of 0.93% to 99.09. This was followed by the 8.15% June 2022 India Government Bond with an increase of 0.39% to 106.21. The 17% April 2022 Egypt Government Bond recorded the highest month-on-month price decrease of 0.32% to 95.95. This was followed by the 3.52% February 2023 China Government Bond, with a price decrease of 0.31% to 100.02. The India, Kenya, Russia, South Africa, China, United State (U.S), and Nigeria Bonds closed the month at positive real yields. Other bonds we monitored closed the month at negative real yields. **The India Government Bond offered the most attractive real yield amongst the selected bonds in July 2017**.

The U.S economy recorded a growth of 2.6% (quarter-on-quarter) in Q2 2017.

The U.S economy recorded a growth of 2.6% (quarter-on-quarter) in Q2 2017, from 1.2% in Q1 2017 from the advance estimate released by the U.S Bureau of Economic Analysis (BEA). The growth was boosted by strong consumer spending and a rebound in government consumption while exports slowed and housing investment shrank. Similarly, the inflation rate in the U.S increased by 1.6% in June 2017, below 1.9% in May and below market expectations of 1.7%. It is the lowest inflation rate since October 2016 due to a fall in gasoline prices.

Table 1: Summary of Key Indicators

S/N	Indicators	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	100.02	95.95	106.21	100.51	100.61	99.25	99.09	93.00	98.79
2	Bond Yield	3.52%	18.30%	6.63%	12.55%	16.19%	7.99%	7.95%	10.36%	1.97%
3	Bond Price MoM Change	(0.31%)	(0.32%)	0.39%	0.21%	(0.20%)	0.00%	0.93%	(0.19%)	0.30%
4	Bond Yield MoM Change	0.06%	0.12%	(0.12%)	(0.07%)	0.07%	0.01%	(0.20%)	0.06%	(0.05%)
5	Bond Price YTD Change	(3.56%)	(5.48%)	(0.32%)	3.48%	(1.76%)	1.07%	3.29%	4.26%	1.44%
6	Bond Yield YTD Change	0.66%	1.77%	(0.06%)	(0.91%)	0.52%	(0.28%)	(0.67%)	(0.75%)	(0.22%)
7	Real Yield	2.02%	(11.50%)	5.09%	5.08%	0.09%	3.59%	2.85%	(0.54%)	0.37%
8	Volatility	0.12	1.00	0.23	0.13	0.09	0.16	0.76	0.44	0.28
9	FX Rate MoM Change*	(0.81%)	(1.39%)	(0.61%)	0.24%	(3.78%)	1.86%	1.21%	0.15%	3.26%
10	FX Rate YTD Change*	(3.25%)	(1.51%)	(5.82%)	1.38%	(1.56%)	(2.59%)	(3.82%)	0.07%	10.96%
11	Inflation Rate	1.50%	29.80%	1.54%	7.47%	16.10%	4.40%	5.10%	10.90%	1.60%
12	Policy Rate	4.35%	18.75%	6.25%	10.00%	14.00%	9.00%	6.75%	8.00%	1.25%
13	Debt to GDP	46.20%	85.00%	69.50%	55.20%	18.60%	17.00%	51.70%	28.30%	106.00%
14	GDP Growth Rate	6.90%	3.40%	6.10%	4.70%	(0.52%)	0.50%	1.00%	5.00%	2.10%
15	Nominal GDP (US$)	11,199bn	336bn	2,264bn	70.53bn	405bn	1,283bn	295bn	858bn	18,569bn
16	Current Acct to GDP	1.80%	(5.90%)	(0.70%)	(5.20%)	(1.80%)	1.80%	(3.30%)	(3.80%)	(2.60%)

-ve means appreciation while +ve means depreciation

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

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1.1 The Global GDP:

The IMF forecasts global economic growth at 3.5% in 2017 and 3.6% in 2018.

According to the International Monetary Fund (IMF), the pickup in global growth anticipated in its April 2017 World Economic Outlook (WEO) remains on track. The IMF forecasts global economic growth at 3.5% in 2017 and 3.6% in 2018. The major drivers are the growth in global trade and industrial production, which it said remained well above 2015–16 levels despite retreating from the very strong pace registered in late 2016 and early 2017. It added that Purchasing Managers' Indices (PMIs) also signal sustained strength in manufacturing and services.

The growth forecast for Nigeria was maintained in the IMF's July WEO Update.

The report stated that the global growth forecasts are of different variants at the country level. U.S. growth projections are lower than in its April WEO, primarily reflecting the assumption that fiscal policy will be less expansionary going forward than previously anticipated. Growth was revised up for the Euro-area, where positive surprises to activity in late 2016 and early 2017 point to solid momentum; Japan's growth was also revised upward. China's growth projections have also been revised up, reflecting a strong Q1 2017 and expectations of continued fiscal support. The growth forecast for Nigeria was maintained at 0.8% in 2017.

The IMF highlighted that the risks around its global growth forecast appear broadly balanced in the near term, but remain skewed to the downside over the medium term.

The IMF highlighted that the risks around the global growth forecast appear broadly balanced in the near term, but remain skewed to the downside over the medium term. On the upside, the cyclical rebound could be stronger and more sustained in Europe, where political risk has diminished. On the downside, advanced market valuations and very low volatility in an environment of high policy uncertainty raise the likelihood of a market correction, which could dampen growth and confidence. It added that the strong credit growth in China comes with rising downside risks to medium-term growth. It also hinted that monetary policy normalization in some advanced economies, notably the U.S, could trigger a tightening in global financial conditions. Other risks it identified are anti-globalisation stance and geopolitical risks.

Table 2: Global Economic Growth (Actual vs Forecast)			
	2016A	2017F	2018F
World	3.2%	3.5%	3.6%
USA	1.6%	2.1%	2.1%
Japan	1.0%	1.3%	0.6%
Euro-Area	1.8%	1.9%	1.7%
Emerging & Developing Economies	4.3%	4.6%	4.8%
China	6.7%	6.7%	6.4%
India	7.1%	7.2%	7.7%
Sub-Saharan Africa	1.3%	2.7%	3.5%
Nigeria	(1.6%)	0.8%	1.9%
Source: IMF World Economic Outlook (WEO) Update, July 2017			

Table 3: World Trade Growth (Actual Vs Forecast)			
	2016A	2017F	2018F
World Trade Volume	2.3%	4.0%	3.9%
Imports:			
Advanced Economies	2.3%	3.9%	3.5%
Emerging & Developing Economies	2.2%	4.1%	4.6%
Source: IMF World Economic Outlook (WEO) Update, July 2017			

1.2 Purchasing Manager Index (PMI):

The CMI accelerated to 54.1 points in July 2017 from 52.9 points in June 2017.

A review of the latest Purchasing Managers' Index (PMI) report that the Central Bank of Nigeria (CBN) published for the month of July 2017 shows that the Nigerian economy is gathering more momentum for a turnaround. The PMI increased consistently between March 2017 and July 2017. The PMI supports our view that the Nigerian economy may exit the current recession in Q3, 2017. The manufacturing and non-manufacturing activities increased in the month of July 2017 compared with the level of activities recorded in the month of June 2017. The PMI report shows that the Composite Manufacturing Index (CMI) expanded for the fourth consecutive month in the year 2017 to attain the highest level since July 2014. The CMI accelerated to 54.1 points in July 2017 from 52.9 points in June 2017. The Composite Non-Manufacturing Index (CNMI) also expanded to 54.4 points in July 2017 from 54.2 points in June 2017 to attain the highest level since December 2014. The month of June 2017 is the third consecutive month of increase in the CNMI. A PMI below the 50 points level suggests a decline in business activity while a PMI higher than the 50 points level suggests an expansion. When the PMI is at the 50 point level, it means that the degree of business activity in the economy is unchanged.

We believe that manufacturing and non-manufacturing activities in the country have increased in the last few months largely because of the CBN's strategy to increase the supply of foreign exchange. This strategy has improved businesses' and consumers' confidence in the economy. The capital importation data from the CBN as at May 2017 shows that foreign investors have increased their investments in the Nigerian economy; thus increasing the supply of foreign exchange into the country. The total capital imported into the Nigerian economy between January 2017 and May 2017 stood at US$2.09billion, an increase of 82.78% over the amount of US$1.14billion recorded in the corresponding period of 2016. The implementation of the Investors' and Exporters' Foreign Exchange (I&E) window has attracted foreign investors to the economy. About 57% of the total foreign capital inflows into the Nigerian economy between January and May 2017 was recorded in April 2017 and May 2017 following the commencement of the I&E window on April 24, 2017. In addition to the foreign exchange inflows into Nigeria from foreign investors, the inflows of foreign exchange from the sale of crude oil have increased as a result of the increase in crude oil price and production. The average price of crude oil between January 01 and August 02, 2017 stood at US$51.83/barrel an increase of 25.88% over the average crude oil price of US$41.18/barrel in the corresponding period of 2016.

Most of the components of the PMI recorded increased levels of growth in July 2017 compared with June 2017. On the average, the Manufacturing Sub-Sector Indices recorded growth in July 2017 over the level recorded in June 2017.

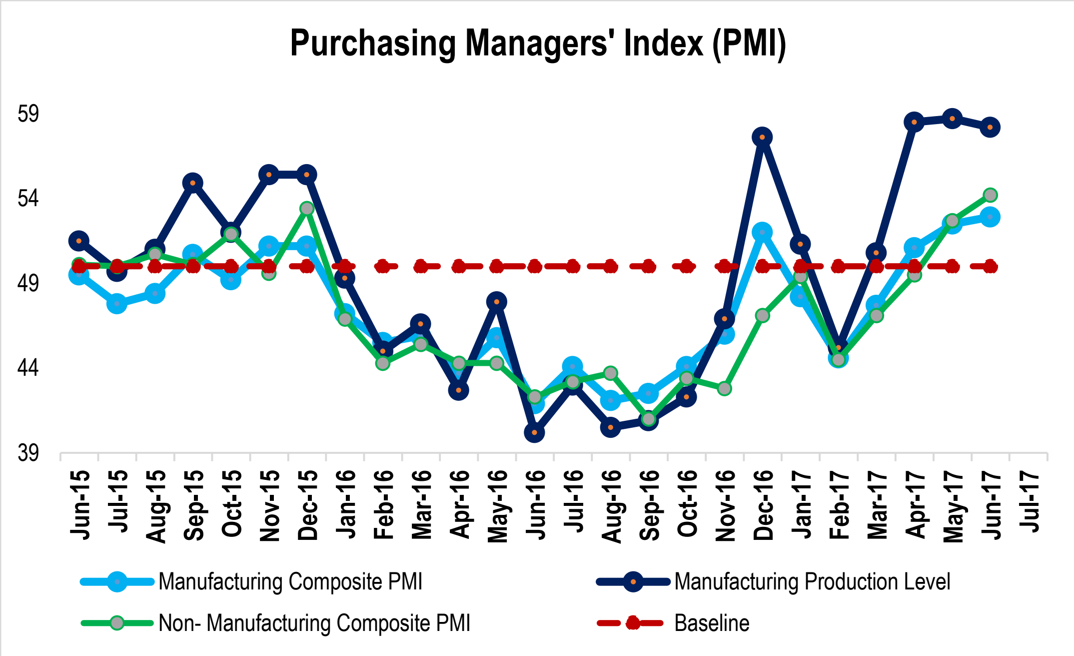


Table 4: Manufacturing Purchasing Manager Index (PMI)			
	June 2017	July 2017	Change
Composite PMI	52.9	54.1	1.2
Production Level	58.2	59.3	1.1
New Orders	51.0	52.7	1.7
Supplier Delivery Time	50.3	51.3	1.0
Employment Level	51.1	51.8	0.7
Raw Materials/WIP Inventories	52.3	53.6	1.3
New Export Orders	32.6	37.5	4.9
Output Prices	62.7	60.4	(2.3)
Input Prices	66.6	64.1	(2.5)
Quantity of Purchases	46.2	48.0	1.8
Business Outstanding/Backlog of Work	43.9	42.1	(1.8)
Stocks of Finished Goods	49.1	48.5	(0.6)

Source: Central Bank of Nigeria and FSDH Research Analysis

Table 5: Manufacturing Sub-Sector Indices			
	June 2017	July 2017	Change
Appliances and Components	57.1	66.0	8.9
Cement	42.4	64.1	21.7
Chemical and Pharmaceutical Products	48.1	60.9	12.8
Computer and Electronic Products	66.7	65.5	(1.2)
Electrical Equipment	53.4	53.3	(0.1)
Fabricated Metal Products	52.4	47.1	(5.3)
Food, Beverage and Tobacco Products	58.4	56.5	3.1
Furniture and Related Products	58.5	48.2	(5.3)
Non-metallic Mineral Products	40.9	48.9	8.0
Paper Products	61.8	53.5	(8.3)
Petroleum and Coal Products	58.1	45.2	(12.9)
Plastics and Rubber Products	61.2	49.8	(11.4)
Primary Metal	60.3	61.8	1.5
Printing and Related Support Activities	48.1	54.8	6.7
Textiles, Apparel, Leather and Footwear	54.9	56.5	1.6
Transportation Equipment	58.8	51.1	(7.7)

Source: Central Bank of Nigeria and FSDH Analysis

1.3 Inflation Rate:

The inflation rate stood at 16.10% in June 2017, from 16.25% recorded in May 2017.

The inflation rate (Year-on-year) dropped to 16.10% in June 2017, from 16.25% in May 2017. This is the fifth consecutive month of a decline in the inflation rate. There was a deceleration in the Month-on-Month inflation rate in June 2017, compared with May 2017. The month-on-month change in the CPI stood at 1.58% in June 2017, lower than 1.88% recorded in May 2017. Year-on-year (y-o-y), the Food Price Index (FPI) stood at 19.91% in June 2017, up from 19.27% in May 2017. The FPI was driven by higher prices of Meat; Bread and Cereals; Fish; Potatoes, Yams and Other Tubers; Oils and Fats; Milk, Cheese and Eggs; and Coffee, Tea and Cocoa. The Core Index stood at 12.5% in June 2017, lower than 13% recorded in May 2017. In June 2017, the largest increase in the Core Index were recorded in the Solid Fuels; Clothing Materials, Other Articles of Clothing and Clothing Accessories; Liquid Fuel; Spirits; Books and Stationeries; Passenger Transport by Air; Garments, Shoes and Footwear and Motorcycles.

We expect the July 2017 inflation rate to drop to 15.96%.

The downside to a consistent decline in inflation rate still emanates from structural impediments, which may also make the achievement of a sustainable single inflation rate difficult. We reiterate that the FGN's decision on Premium Motor Spirit (PMS) price and electricity tariff remains the major downside risks to low inflation rate in the short-to-medium term. We estimate that the inflation rate would decrease to 15.96% in July 2017 as shown on table 6 below. This may impact the yields on the fixed income securities.

Table 6: Inflation Rate Actual Vs. Forecast

Month	Jan-17A	Feb-17A	Mar-17A	Apr-17A	May-17A	Jun-17A	Jul-17F	Aug-17F	Sep-17F	Oct-17F	Nov-17F	Dec-17F
Actual/Forecast*	18.72%	17.78%	17.26%	17.24%	16.25%	16.10%	15.96%	15.82%	15.71%	15.53%	15.49%	15.36%

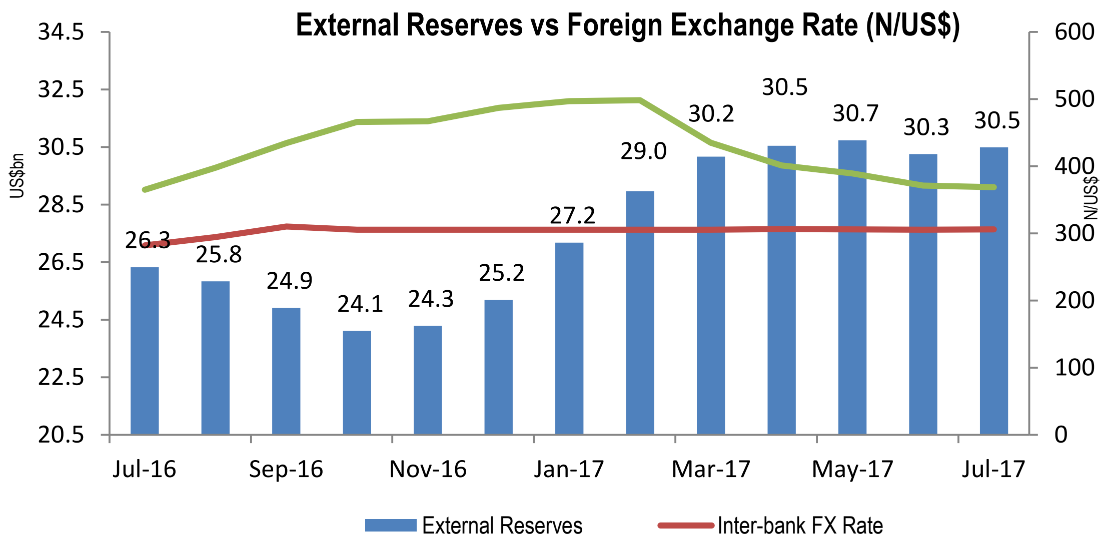
*Source: National Bureau of Statistics and FSDH Research Analysis. * Assumed no increase in fuel and electricity tariff. A- Actual, F - Forecast*

The external reserves increased by 1.49% to US$30.74bn as at July 27, 2017 from US$30.29bn at end-June 2017.

1.4 Movement in the External Reserves:

The accretion to the external reserves from improved oil production and relatively favourable crude oil price boosted the external reserves in July 2017. The 30-day moving average external reserves increased by 1.83% to US$30.84bn as at July 31, 2017 from US$30.29bn at end-June 2017. The average external reserves stood at US$30.50bn as at July 31, 2017 from US$30.25bn in June 2017. **The external reserves stood at US$30.93bn as at August 03, 2017.**

The relative stability in the average crude oil price around US$50/b and sustained oil production of an average of 2 million barrels per day (mb/d) are expected to boost the external reserves. However, Nigeria has agreed to implement a production cap as soon as production hits 1.8mb/d. The shale oil producers in the U.S are increasing production and threatening the OPEC and non-OPEC oil output cut to boost crude oil price. **The implementation of the economic reform agenda of the Federal Government of Nigeria (FGN) would boost foreign exchange earnings of the non-oil sector to the external reserves.**



1.5 Crude Oil Market and Bonny Light Price:

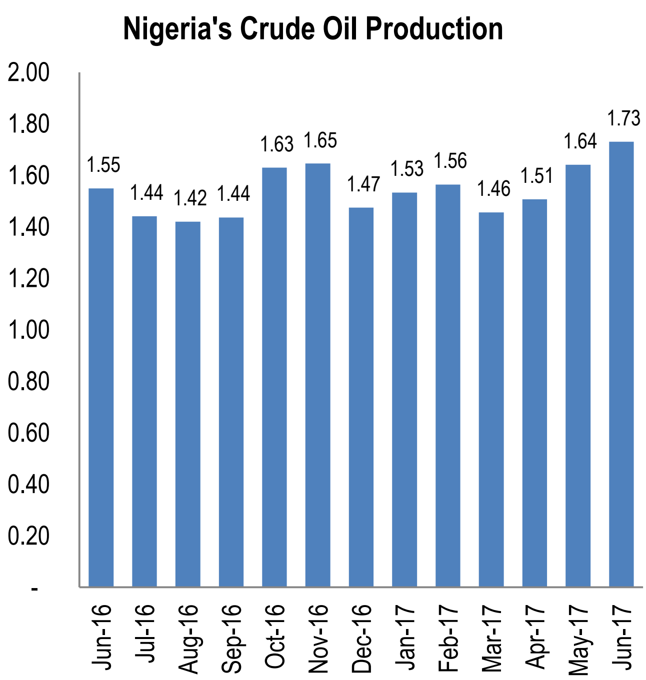
The daily crude oil production in Nigeria increased by 5.49% to 1.73mbpd in June 2017, from 1.64mbpd in May 2017.

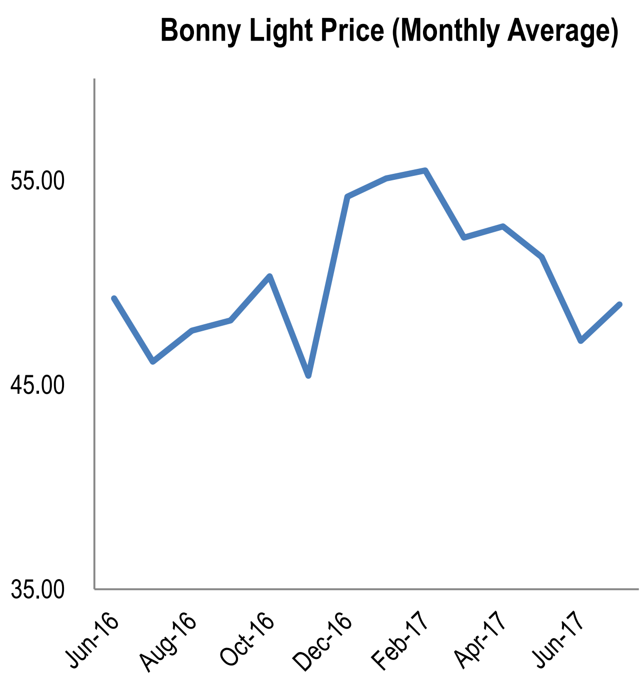
The daily crude oil production in Nigeria increased by 5.49% to 1.73mbpd in June 2017, from 1.64mbpd in May 2017. This is based on the secondary data available from the OPEC report for the month of July 2017. The total OPEC crude oil production from secondary sources was 32.61mb/d in June 2017, an increase of 1.24% from 32.21mb/d over the previous month. Crude oil production output increased mostly from Libya, Nigeria, Angola, Iraq; Saudi Arabia and Iran; while production recorded the largest drop in Venezuela, Gabon and Ecuador.

The U.S Energy Information Administration (EIA) in its monthly report for July 2017 indicated that Brent crude oil prices are forecast to average US$51/b in 2017 and US$52/b in 2018, US$2/b and US$4/b lower than projected in last month's Short-Term Energy Outlook (STEO), respectively. Average West Texas Intermediate (WTI) crude oil prices are forecast to be US$2/b lower than the Brent price in both 2017 and 2018.

The average price of Bonny Light was US$48.94/b in July 2017, an increase of 3.80% from the average price of US$47.15/b recorded in June 2017.

According to the data from Thomson Reuters, the Bonny Light crude oil price increased by 10.76% to US$52.60/b as at end-July 2017, from US$47.49/b at end-June 2017. The average price of Bonny Light was US$48.94/b in July 2017, an increase of 3.80% from the average price of US$47.15/b recorded in June 2017.





1.6 Foreign Exchange Rate:

The value of the Naira strengthened at the various segments of the foreign exchange market in July 2017.

The value of the Naira strengthened at the various segments of the foreign exchange market in July 2017. It appreciated at both the inter-bank and parallel markets in July 2017, compared with June 2017. The premium between the inter-bank and parallel market also converged further between June and July 2017. The value of the Naira has been buoyed by the CBN periodic supply of foreign exchange to meet genuine demand. The CBN has been able to achieve this because of consistent accretion to the external reserves.

Month-on-month, the value of the Naira appreciated at the inter-bank market to N305.65/US$ as at end-July 2017, an appreciation of 0.08% from N305.90/US$ at end-June 2017. The average exchange rate at the inter-bank market depreciated by 0.20% to stand at N306.31/US$ in July 2017, compared with N305.69/US$ in June 2017.

The parallel market rate appreciated in July 2017.

The parallel market rate appreciated in July 2017. The Naira appreciated at the parallel market by 1.09% to close at N367/US$ at end-July 2017, from N371/US$ at end-June 2017. The average exchange rate at the parallel market appreciated by 0.77% to stand at N368.48/US$ in July 2017, compared with N371.30/US$ in June 2017.

The long-term stability in the value of the Naira is hinged on improving the infrastructure in the country to support non-oil export growth.

The recent boost to the external reserves is expected to support stability in the value of the Naira at the foreign exchange market in the short-to-medium term. The long-term stability in the value of the Naira is hinged on improving the infrastructure in the country to support non-oil export growth.

1.7 The Monetary Policy Rate (MPC):

The MPC has indicated that inflation expectations appear sufficiently anchored with the current stance of monetary policy.

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) met on July 24-25, 2017 and decided to hold rates in line with our expectation. The MPC asserted that the Nigerian economy is on a path to moderate economic growth recovery with a positive short-to-medium-term outlook, premised largely on fiscal stimulus and a stable Naira exchange rate. It added that inflation expectations also appear sufficiently anchored with the current stance of monetary policy.

The MPC stated that it is not unmindful of the high cost of capital and its implications on the ailing economy, which should have necessitated an accommodating monetary policy stance. The MPC also noted the liquidity existing in the banking system and the continuous weakness in financial intermediation, but agreed on the need to support growth without jeopardizing price stability or upsetting other recovering macroeconomic indicators, particularly the relative stability in the foreign exchange market.

The MPC indicated that the reason to hold rates at its July 2017 meeting was mainly premised on the need to safeguard the stability achieved in the foreign exchange market, and to allow time for past policies to work through the economy. Specifically, the MPC considered the high banking system liquidity level; the need to continue to attract foreign investment inflow to support the foreign exchange market and economic activity; the expansive outlook for fiscal policy in the rest of the year; the prospective election related spending which could cause a jump in system liquidity, amongst others.

In summary, the MPC decided to:

- Retain the Monetary Policy Rate (MPR) at 14%
- Retain the Cash Reserve Requirement (CRR) at 22.50%
- Retain the Liquidity Ratio (LR) at 30%; and
- Retain the Asymmetric Window at +200 and -500 basis points around the MPR

We reiterate that the MPC may not change the current tight monetary policy stance except the inflation rate drops to the region around 11-12.5% and the exchange rate remains stable.

2.0 Interest Rate and Yield Analysis:

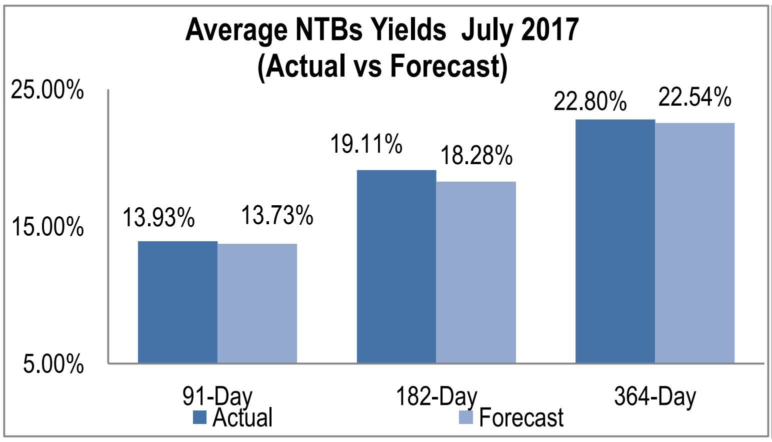
The yields on the fixed income securities recorded mixed performance in July 2017, compared with June 2017. The yields on the Nigerian Inter-Bank Offered Rates dropped, while the yields on the FGN Bonds we monitored increased in July 2017, compared with June 2017. However, the yields on the Nigerian Government Treasury Bills (NTBs) recorded varying movements.

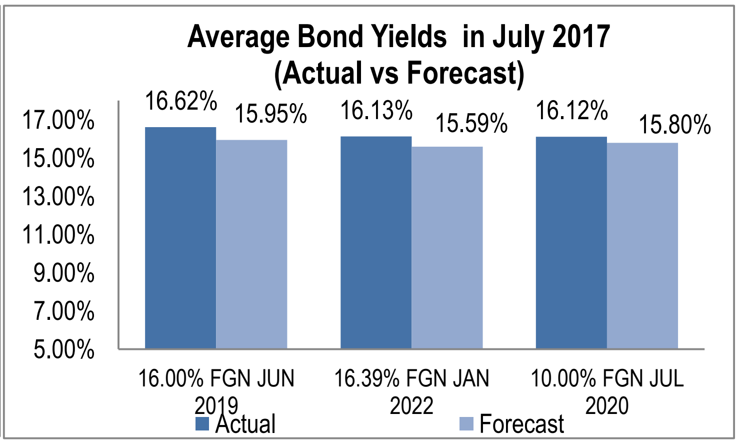
The yields on FGN Bonds increased marginally in July 2017, compared with June 2017.

The fixed income market analysis for the month of July 2017 shows a net outflow of about N631bn, compared with a net inflow of about N115bn in June 2017. The major outflows in July 2017 were the Primary NTBs of about N382bn; Open Market Operations (OMO) and Repurchase Bills (REPO) of N882bn; CBN's Foreign Exchange Sale of about N156bn; and the Bond auction of about N106bn. Meanwhile, in June 2017, the major outflows were the Primary NTBs of about N370bn; Open Market Operations (OMO) and Repurchase Bills (REPO) of N424bn; CBN's Foreign Exchange Sale of about N156bn; and the Bond auction of about N99bn. The major inflows in July 2017 were the matured OMO and REPO Bills of N318bn; matured NTBs of about N237bn; and the Federation Account Allocation Committee (FAAC) injection of about N320bn. In June 2017, major inflows were the matured OMO and REPO Bills of N527bn; matured NTBs of about N436bn; and the Federation Account Allocation Committee (FAAC) injection of about N201bn

The average yields on the NTBs auctions moved in varying directions across the various tenors in July 2017, compared with June 2017.

The yields on NTBs moved in different direction in July 2017, compared with June 2017. At the NTBs auction, average yield on the 91-day was down at 13.93% in the month of July compared to 13.97% recorded in June 2017. The average 182-Day NTB stood at 19.11%, up from 19.05% in June 2017. The average 364-Day NTB yield also closed higher at 22.80%, from 20.81% in June 2017. Meanwhile, the average 30-day NIBOR closed at 18.93% in July 2017, down from 19.77% in June 2017. The average 90-day NIBOR decreased to 21.11%, from 21.57% in the preceding month. While the average 180-day NIBOR decreased to 23.24%, from 23.86% in the preceding month.





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The yields on the FGN Bonds that we monitored closed higher in July 2017 over the preceding month. The average yield on the 16% FGN June 2019 increased to 16.62% in July from 16.45% in June. The 16.39% FGN Jan 2022 closed at 16.13% in July 2017, marginally lower than 16.11% in June 2017; the 10% FGN Jan 2030 also closed at 16.12% in July 2017, marginally lower than 16.03% in June 2017.

Table 7: Market Liquidity (N'bn)

	June 2017			July 2017		
	Total Inflow	Total Outflow	Net flow	Total Inflow	Total Outflow	Net Flow
Primary Market: NTB	436	370	66	237	382	(144)
Open Market Operations (OMO) & Rev Repo	527	424	103	318	882	(564)
BOND	0	99	(99)	20	106	(86)
FAAC	201	0	201	320	0	320
FX Market	0	156	(156)	0	156	(156)
CRR Debit/Credit	0	0	0	0	0	0
TSA Implementation	0	0	0	0	0	0
Total	**1,164**	**1,050**	**115**	**895**	**1,526**	**(631)**

Source: Central Bank of Nigeria and Federal Ministry of Finance

Table 8: Average Bond Yields

	16.00% FGN JUN 2019	16.39% FGN JAN 2022	10.00% FGN July 2030
June 2017	16.45%	16.11%	16.03%
July 2017	16.62%	16.13%	16.12%
Change	**0.17%**	**0.01%**	**0.09%**

Source: Financial Market Dealers Quotation

Table 9: Average Interest Rate and Yields

	NIBOR				Treasury Bill Yields		
	Call	30 Day	90 Day	180 Day	91-Day	182-Day	364-Day
June 2017	24.53%	19.77%	21.57%	23.86%	13.97%	19.05%	20.81%
July 2017	18.30%	18.93%	21.11%	23.24%	13.93%	19.11%	22.80%
Change	**(6.22%)**	**(0.84%)**	**(0.46%)**	**(0.62%)**	**(0.04%)**	**0.06%**	**1.99%**

Source: CBN and Financial Market Dealers Quotation

We expect the yields on the fixed income securities to trend downwards in August 2017.

2.1 Revised Outlook Going Forward:

A total inflow of about N866.66bn should hit the money market from the various maturing government securities and FAAC in the month of August 2017. Our expected outflows from the various sources such as government securities and statutory withdrawals are estimated at N919.72bn, leading to a net outflow of about N53bn. We expect the inflation rate in July 2017 to trend downward from the level recorded in June 2017. Yields on fixed income securities may trend marginally lower in August 2017 because of the expected decrease in the inflation rate in July 2017 and the liquidity and stability in the foreign exchange market.

Table 10: Expected Inflow and Outflow Analysis – August 2017 (N'bn)

Date	03-Aug-17	10-Aug-17	17-Aug-17	24-Aug-17	31-Aug-17	Others	Total
Inflows	314.56	93.91	32.44	95.66	101.23	228.88*	866.66
Outflows	229.14	-	62.44	150.00	193.14	285.00**	919.72
*Source: FSDH Research Analysis, *Statutory Allocation (FAAC), ** Cash Reserve Requirement (CRR) Debit*							(53.06)

Table 11: Revised Yields – Actual Vs Forecast

	Treasury Bills (Primary Market)			FGN Bonds (Secondary Market)		
	91-Day	182-Day	364-Day	Jun-19	Jan-22	Jul-30
JanA-17	14.45%	19.02%	22.95%	16.27%	16.08%	16.26%
FebA-17	14.23%	18.81%	22.69%	16.02%	16.05%	16.19%
MarA17	14.08%	18.81%	22.81%	15.79%	15.80%	15.90%
AprA-17	14.05%	18.94%	23.23%	16.01%	15.85%	15.86%
MayA-17	13.97%	18.79%	23.02%	17.15%	16.79%	17.00%
JunA-17	13.97%	19.05%	20.81%	16.45%	16.11%	16.03%
JulA-17	13.93%	19.11%	22.80%	16.62%	16.13%	16.12%
AugF-17	13.92%	19.06%	22.78%	16.58%	16.10%	16.10%
SepF-17	13.84%	19.02%	22.71%	16.47%	16.03%	16.07%
OctF-17	13.81%	18.83%	22.68%	16.39%	15.95%	15.99%
NovF-17	13.77%	18.79%	22.64%	16.35%	15.91%	15.95%
DecF-17	13.64%	18.66%	22.51%	16.22%	15.77%	15.82%
Source: CBN, FMDQ, and FSDH Research Forecasts						

Investors should take advantage of the current yields on the 182-Day and 364-Day Treasury Bills.

2.2 Strategy:

- Investors should take advantage of the current yields on the 182-Day and 364-Day Treasury Bills.
- Investors should also maintain a balanced portfolio in other fixed income securities, particularly in bonds in order to minimise reinvestment risk.

The average prices on the FGN Eurobonds were lower in July 2017 than in June 2017. Consequently, the average yields of the bonds closed higher in the month of July 2017 than in June 2017. The current yields on all the FGN Eurobonds are lower than their respective coupons.

Table 12: FGN Eurobonds

	10-Year 6.75% FGN Eurobond January 2021		10-Year 6.375% FGN Eurobond July 2023		5-Year 5.125% FGN Eurobond July 2018	
Date	**Price (US$)**	**Yield (%)**	**Price (US$)**	**Yield (%)**	**Price (US$)**	**Yield (%)**
03-Jul-17	106.345	4.789	103.29	5.721	102.043	3.063
04-Jul-17	106.283	4.808	103.285	5.722	101.908	3.197
05-Jul-17	105.542	5.028	102.011	5.972	101.835	3.255
06-Jul-17	104.5	5.34	100.641	6.245	101.592	3.495
07-Jul-17	104.458	5.352	100.591	6.255	101.509	3.575
10-Jul-17	105.125	5.149	101.556	6.062	101.752	3.324
11-Jul-17	105.163	5.136	101.709	6.031	101.835	3.235
12-Jul-17	105.907	4.91	102.479	5.878	101.877	3.176
13-Jul-17	105.583	5.004	102.314	5.91	101.835	3.214
14-Jul-17	105.939	4.896	102.365	5.9	101.835	3.208
17-Jul-17	105.792	4.939	102.696	5.834	101.835	3.203
18-Jul-17	105.938	4.894	102.911	5.792	101.835	3.197
19-Jul-17	106.125	4.836	103.23	5.729	101.766	3.253
20-Jul-17	106.251	4.794	103.485	5.678	101.877	3.132
21-Jul-17	106.583	4.693	103.884	5.599	101.855	3.149
24-Jul-17	106.532	4.707	103.842	5.607	101.855	3.143
25-Jul-17	106.408	4.743	103.513	5.671	101.855	3.138
26-Jul-17	106.876	4.601	104.043	5.567	101.898	3.08
27-Jul-17	107.094	4.532	104.332	5.51	101.939	3.031
28-Jul-17	107.083	4.534	104.322	5.512	101.835	3.136
31-Jul-17	107.219	4.491	104.399	5.497	101.783	3.186

3.0 Equity Market:

3.1 The Secondary Market:

The equity market appreciated for the fifth consecutive month in July 2017

The equity market appreciated for the fifth consecutive month in July 2017. Month-on-Month (MoM), The Nigerian Stock Exchange All Share Index (NSE ASI) appreciated by 8.23% (a gain of 8.31% in US$) to close at 35,844 points. The market continues to rally as a result of improved confidence in the economy, the stability in the foreign exchange market leading to the inflow of foreign investors and improved corporate earnings. **The Year-to-Date (YTD) performance of the Index remains positive, closing July with a YTD gain of 33.37%.** Similarly, the market capitalisation recorded a MoM gain of 7.87% (a gain of 7.95% in US$) to close at N12.35trn (US$40.42bn). The difference in the rate of change between the market capitalization and the Index was due to the voluntary delisting of the shares of the Ashaka Cement Plc and the consequent addition of 9,779,853 ordinary shares to the outstanding shares of Lafarge Africa Plc on The Nigerian Stock Exchange (NSE).

The Year-to-Date (YTD) performance of the Index remains positive, closing July with a YTD gain of 33.37%.

Market activities decreased in the month of July 2017, compared with June 2017. The volume of stocks traded decreased by 22.12% to 8.15bn. UBA Plc and FBN Holdings Plc were the two most highly traded stocks in July 2017. The value of stocks traded on The NSE in July 2017 also decreased by 17.20% to N91.19bn.

All the Sectoral Indices rose in July 2017, compared with June 2017.

All the Sectoral Indices rose in July 2017, compared with June 2017. MoM, The NSE Banking Index recorded the highest appreciation of 11.90%, with a YTD appreciation of 62.34%. The gain in the NSE Banking Index is mainly attributed to the increase in the share prices of Zenith Bank (17.81%), GT Bank (12.15%) and UBA (10.73%). The NSE Industrial Index recorded a MoM gain of 11.42%, with a YTD gain of 34.95%.

Table 13: Nigerian Equity Market: Key Indicators

Month	Volume (bn)	Value (N'bn)	NSEASI	Market Cap. (N'trn)	Banking*	Insurance*	Consumer Goods*	Oil/Gas*	Industrial*
June	10.46	110.14	33,117.48	11.45	397.97	137.86	795.40	323.16	1932.20
July	8.15	91.19	35,844.00	12.35	445.33	141.02	847.88	337.27	2152.88
Change	(22.12%)	(17.20%)	8.23%	7.87%	11.90%	2.29%	6.60%	4.37%	11.42%
YTD			33.37%	33.60%	62.34%	11.66%	18.98%	7.86%	34.95%

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

Table 14: Major Earning Announcements in July 2017						
Company and Result	**Turnover (Nm)**	**Change**	**PBT (Nm)**	**Change**	**PAT (Nm)**	**Change**
CEMENT CO. OF NORTH NIG. PLC						
6 months, June 2017	8,511	31%	1,372	42%	1,029	56%
UNITY BANK PLC						
6 months, Jun. 2017	42,354	7%	2,329	-11%	2,096	-11%
FLOUR MILLS NIG. PLC						
3 months, June 2017	148,975	25%	6,194	5%	4,532	3%
FORTE OIL PLC						
6 months, June 2017	65,648	-22%	4,739	11%	4,110	84%
OKOMU OIL PALM PLC						
6 months, June 2017	12,475	65%	7,811	100%	6,235	73%
UNION BANK NIG. PLC						
6 months, June. 2017	73,682	23%	9,460	6%	9,200	5%
MOBIL OIL NIG PLC						
6 months, June 2017	56,218	12%	3,681	-43%	2,474	-44%
U A C N PLC						
6 months, June 2017	48,448	32%	1,635	-58%	1,195	-55%
DIAMOND BANK PLC						
6 months, June. 2017	114,061	16%	10,778	3%	9,323	3%
DANGOTE CEMENT PLC						
6 months, June 2017	412,676	41%	155,581	25%	144,044	39%
NIGERIAN BREWERIES PLC.						
6 months, June 2017	181,010	15%	34,059	33%	23,751	-25%
JAIZ BANK PLC						
6 months, June 2017	3,837	40%	470	312%	470	312%
AXA MANSARD INSURANCE PLC						
6 months, June 2017	17,947	36%	2,317	-5%	2,122	-6%
HONEYWELL FLOUR MILL PLC						
3 months, June 2017	18,270	83%	804	548%	643	537%
FCMB GROUP PLC						
6 Months, June 2017	77,508	-12%	3,824	-77%	3,019	-81%
DANGOTE SUGAR REFINERY						
6 months, June 2017	118,677	68%	25,254	126%	17,101	132%
GLAXO SMITHKLINE CONSUMER NIG. PLC						
6 months, June 2017	7,455	9%	31	103%	22	101%
NASCON ALLIED INDUSTRIES						
6 months, June 2017	12,723	48%	2,880	54%	1,958	54%
FBN HOLDINGS PLC						
6 months, June 2017	288,813	8%	35,628	-22%	28,938	-19%
Source: NSE						

Table 15: Major Earning Announcements in July 2017					
Company	**Result**	**DPS(N)**	**Closure Date**	**Payment Date**	**Interim/Final**
FLOUR MILLS NIG. PLC	Full year, Mar. 2017	1.00	07-Aug-17	12-Sep-17	Final
HONEYWELL FLOUR MILL PLC	Full year, Mar. 2017	0.06	14-Sep-17	22-Sep-17	Final
N.E.M INSURANCE CO (NIG) PLC	Full year, Dec. 2016	0.08	07-Aug-17	28-Aug-17	Final
SKYE SHELTER FUND PLC	Full year, Dec. 2016	7.00	15-Sep-17	29-Sep-17	Final
CUSTODIAN AND ALLIED INSURANCE PLC	6 months, Jun. 2017	0.10	21-Aug-17	05-Sep-17	Interim
DANGOTE SUGAR REFINERY	6 month Jun 2017	0.50	11-Aug-17	14-Aug-17	Interim
Source: NSE					

The GSE Composite Index recorded the highest MoM appreciation of 14.88%, with a YTD appreciation of 33.60% as at July 31, 2017.

Table 16 below shows the performance of some selected foreign equity markets around the world. The GSE Composite Index recorded the highest MoM appreciation of 14.88%, with a YTD appreciation of 33.60% as at July 31, 2017. This is followed by The NSE All Share Index with a MoM gain of 8.23%, and a YTD gain of 33.37%. The DAX Index (Germany) Index recorded the highest MoM loss of 1.68%, but recorded a YTD gain of 5.55%. This was followed by the Nikkei 225 Index (Japan) with a MoM depreciation of 0.54% but a YTD appreciation of 4.24%.

Table 16: Foreign Equity Market Performance in July 2017

North/Latin America	YTD Change		Month-on-Month Change
Dow Jones Industrial Average	10.77%		2.54%
S&P 500 Index	10.34%		1.93%
NASDAQ Composite	17.93%		3.38%
Brazil Stock Market Index	9.45%		4.80%
Europe			
Swiss Market Index	10.16%		1.66%
FTSE 100 Index (UK)	3.21%		0.81%
CAC 40 Index (France)	4.76%		(0.53%)
DAX Index (Germany)	5.55%		(1.68%)
Africa			
NSE All-Share Index	33.37%		8.23%
FTSE/JSE Africa All Share Index	8.99%		6.97%
Nairobi All Share Index (Kenya)	21.01%		5.51%
GSE Composite Index (Ghana)	33.60%		14.88%
Asia/Pacific			
NIKKEI 225 Index (Japan)	4.24%		(0.54%)
S&P BSE SENSEX Index (India)	22.12%		5.15%
Shanghai Stock Exchange Composite Index (China)	5.46%		2.52%
Hang Seng Index (Hong Kong)	24.20%		6.05%

Sources: Bloomberg; NSE

3.2. Outlook for the Month of August:

We expect to see profit taking in the equity market in August 2017, especially on stocks that have recorded strong appreciation in their share price. The following factors may drive performance of the equity market:

- Expectations of improved Q2 results from quoted companies
- The stability in the macroeconomic environment
- Improved business and consumers' confidence in the Nigerian economy
- The sustained liquidity in the foreign exchange market leading to the inflow of foreign investors
- Profit taking activities

3.3. Strategies:

- We recommend that investors should maintain a medium-to-long term position in stocks that have good fundamentals
- Investors should also take strategic positions in stocks that pay interim dividends
- Building materials, food and beverages, agro-allied processing and banking stocks offer attractive returns.

Table 17: Equity Market Trend Analysis (2011-2016) – NSE ASI Analysis

	Year				
Months	**2012**	**2013**	**2014**	**2015**	**2016**
July	23,061.38	37,914.32	42,097.46	30,180.27	28,009.93
August	23,750.81	36,248.53	41,532.31	29,684.84	27,599.03
% Change	**2.99%**	**(4.39%)**	**(1.34%)**	**(1.64%)**	**(1.47%)**

Source: 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 between August and July, except in 2012.

The performance of the equity market in the last five years shows that the market recorded negative performances between August and July, except in 2012. **However, we expect the equity market to appreciate in the month of August 2017, albeit at a slower pace than the last five months due to profit taking activities.**

Table 18: Revised Asset Allocation	
Asset Class	**Fund Allocation**
Equities	25%
Fund Placement	15%
Treasury Bills	15%
Real Estate Investment Trust (REIT)	5%
Bonds	20%
Collective Investment Schemes	20%
Source: FSDH Research	

Table 19: One Year Target Price

Stocks	Max Entry Price	52 Week Low	52 Week High	Trailing EPS	Trailing PE Ratio	Target Price
Dangote Cement	**223.75**	**149.26**	**245.00**	**13.34**	**18.00**	**267.05**
FBN Holdings	**6.17**	**2.95**	**7.07**	**0.15**	**40.51**	**7.20**
Flour Mills	**31.54**	**16.20**	**29.50**	**3.41**	**8.56**	**37.53**
Unilever Nigeria	**30.00***	**27.81**	**50.01**	**1.49**	**26.76**	**42.00**
Lafarge Africa	**62.37**	**34.50**	**61.01**	**1.16**	**49.66**	**74.22**
UBA	**9.50**	**4.01**	**10.41**	**2.14**	**4.66**	**11.03**
Zenith Bank	**23.50**	**13.30**	**25.90**	**4.48**	**5.58**	**27.58**

*Source: FSDH Research *Right price*

Table 20: Bond Recommendation

S/N	Security Description	Tenor To Maturity (Yrs)	Coupon	Current Price (N)	Current Yield	Modified Duration
1	16.00% FGN JUN 2019	1.91	16.00%	98.80	16.73%	1.56
2	15.54% FGN FEB 2020	2.53	15.54%	98.15	16.46%	1.88
3	14.50% FGN JUL 2021	3.95	14.50%	94.95	16.27%	2.86
4	16.39% FGN JAN 2022	4.48	16.39%	100.80	16.13%	3.09

Source: FSDH Research. Prices and yields as at August 03, 2017

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

Table 21: Attractive Fixed Income Securities Trading on the FMDQ as at August 02, 2017

Issuer	Description	Coupon	Maturity Date	TTM (Years) *	Current Yield	Price
			State Bonds			
Lagos	14.50% LAGOS 22-NOV-2019	14.50%	22-Nov-19	2.31	18.63%	92.46
Lagos	13.50% LAGOS 27-NOV-2020	13.50%	27-Nov-20	3.32	17.69%	89.75
			Corporate Bonds			
UBA	14.00% UBA II 30-SEP-2018	14.00%	30-Sep-18	1.16	22.92%	91.26
FCMB	15.00% FCMB 6-NOV-2020	15.00%	06-Nov-20	3.26	20.87%	86.52
Lafarge Africa Plc	14.25% LAFARGE 15-JUN-2019	14.25%	15-Jun-19	1.87	18.33%	93.70
NAHCO	15.25% NAHCO II 14-NOV-2020	15.25%	14-Nov-20	3.29	17.39%	94.73
Transcorp Hotels Plc	15.50% TRANSCORP 4-DEC-2020	15.50%	04-Dec-20	1.99	20.37%	92.58
Lafarge Africa Plc	14.75% LAFARGE 15-JUN-2021	14.75%	15-Jun-21	3.87	17.29%	92.98
FCMB	14.25% FCMB I 20-NOV-2021	14.25%	20-Nov-21	4.30	18.73%	87.09
UBA	16.45% UBA I 30-DEC-2021	16.45%	30-Dec-21	4.41	17.21%	97.68
Fidelity Bank	16.48% FIDELITY 13-MAY-2022	16.48%	13-May-22	4.78	17.20%	97.62
Transcorp Hotels	16.00% TRANSCORP 26-OCT-2022	16.00%	26-Oct-22	3.12	19.19%	93.06
Stanbic IBTC	182D T.Bills+1.20% STANBIC IA 30-SEP-2024	16.29%	30-Sep-24	7.16	17.28%	95.94
Stanbic IBTC	13.25% STANBIC IB 30-SEP-2024	13.25%	30-Sep-24	7.16	17.28%	83.73
			Supranational Bonds			
AfDB	11.25% AFDB 1-FEB-2021	11.25%	01-Feb-21	2.00	15.79%	92.68
			Corporate Eurobonds			
Fidelity Bank Plc	6.88% MAY 09, 2018	6.88%	09-May-18	-	12.28%	96.19
GT Bank Plc	6.00% NOV 08, 2018	6.00%	08-Nov-18	-	4.82%	101.42
Zenith Bank Plc	6.25% APR 22, 2019	6.25%	22-Apr-19	-	6.08%	100.27
Diamond Bank Plc	8.75% May 21, 2019	8.75%	21-May-19	-	14.36%	91.34
First Bank Plc	8.25% AUG 07, 2020	8.25%	07-Aug-20	-	10.42%	94.88
Access Bank Plc II	9.25%/6M USD LIBOR+7.677% JUN 24, 2021	9.25%	24-Jun-21	-	9.40%	100.01
First Bank Ltd.	8.00%/2Y USD SWAP+6.488% JUL 23 2021	8.00%	23-Jul-21	-	10.58%	91.95
Ecobank Nig. Ltd	8.75% AUG 14, 2021	8.75%	14-Aug-21	-	11.78%	90.58
			Commercial Paper			
Issuer	Description	Yield@Issue	Maturity Date	DTM (Years) **	Valuation Yield (%)	Discount Rate (%)
Access Bank Plc	ACCESS CP II 25-AUG-17	22.33%	25-Aug-17	23	14.34%	14.21%
Nigerian Breweries Plc	NBPLC CP X 23-AUG-17	19.50%	23-AUG-17	21	14.15%	14.04%
UPDC Plc	UBPC PLC CP VI 14-SEP-17	23.45%	14-SEP-17	43	17.14%	16.80%

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

Table 22: Select Global Bonds Issue		
Country	**Bond**	**TTM***
China	**3.52% February 21, 2023**	**8**
Egypt	**17% April 03, 2022**	**7**
India	**8.15% June 11, 2022**	**7**
Kenya	**12.705% June 13, 2022**	**7**
Nigeria	**16.39% FGN January 2022**	**7**
Russia	**7.60% April 14, 2021**	**6**
South Africa	**7.75% February 28, 2023**	**8**
United States	**1.75% May 15, 2023**	**8**

*TTM – Tenor to maturity
Sources: Bloomberg

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