

# **Monthly Economic and Financial Market Outlook**

*Will OPEC Decision Lift Nigerian Economy?*

*December 2016*

## Executive Summary

- The Organization of Petroleum Exporting Countries (OPEC) asserts that global economic growth is expected at 2.9% and 3.1% in 2016 and 2017, respectively
- The Nigerian real Gross Domestic Product (GDP) contracted by 2.24% (year-on-year) in Q3 2016, compared with the growth of 2.84% in Q3 2015
- The OPEC and non-OPEC member countries have agreed on a crude oil production cut, with effect from January 2017
- The latest move by OPEC and non-OPEC members has resulted in a rally in the oil price
- Nigerian economy should benefit from the oil price rally if it can increase production to 2.2mb/d, while oil price move to US\$55/b. This may increase oil revenue by over 60% from the current level. Consequently, this will accelerate the economic recovery process in the short term
- We expect the inflation rate to increase to 18.45% in November 2016, from 18.33% in October 2016
- The shortage of foreign exchange to meet demand remains a challenge for the stability of the value of the Naira.
- The macroeconomic risks still have a negative impact on yields on fixed income securities in the short-to-medium term
- Any positive pronouncement in December 2016 from the FGN that will improve confidence in the economy will likely lead to a modest appreciation in the equity market.

## 1.0 Global Developments:

In the countries we monitored, the prices of government bonds depreciated in more countries in November 2016 than they appreciated. The 8.8% September 2023 Turkey Government Bond and the 12.71% June 2022 Kenya Government Bond recorded the highest month-on-month price decrease of 4.47% and 3.93% to 90.85 and 96.61, respectively. The 8.15% June 2022 India Government Bond recorded a month-on-month price increase of 2.24% to 108.22. This was followed by the 17% April 2022 Egypt Government Bond with a marginal increase of 0.46% to 100.70. The Nigeria Bond closed the month at negative real yield. Other bonds we monitored closed the month at positive real yields. The Kenya Government Bond offers the most attractive real yield amongst the selected bonds in November 2016.

According to the second estimate released by the United States (U.S.) Bureau of Economic Analysis, the U.S. economy grew at an annualized 3.2% in Q3 2016. This is higher than the 1.4% growth in the previous period and better than a 2.9% expansion in the advance estimate. It is the highest growth rate in two years, as consumer spending, exports and investment in real estate rose faster than anticipated while fixed investment fell more. Similarly, the U.S. unemployment rate fell to 4.6% in November 2016 from 4.9% in the previous month and well below market expectations of 4.9%. It was the lowest jobless rate since August 2007.

*The prices of government bonds depreciated in more countries in November 2016 than they appreciated.*

*The US economy grew at an annualized 3.2% in Q3 2016.*

S/N	Indicators	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	104.74	100.70	108.22	96.61	102.08	95.96	95.35	90.85	97.58
2	Bond Yield	2.69%	16.77%	6.36%	13.59%	15.77%	8.85%	8.73%	10.72%	2.15%
3	Bond Price MoM Change	(0.73%)	0.46%	2.24%	(3.93%)	(3.21%)	(0.43%)	(1.67%)	(4.47%)	(3.50%)
4	Bond Yield MoM Change	(2.79%)	(14.51%)	(8.34%)	(12.64%)	(10.92%)	(9.62%)	(8.91%)	0.93%	(0.94%)
5	Bond Price YTD Change	2.11%	(8.85%)	7.00%	1.01%	(17.13%)	4.84%	5.61%	0.17%	0.11%
6	Bond Yield YTD Change	(0.43%)	2.39%	(1.56%)	(0.15%)	4.73%	(1.07%)	(0.93%)	0.14%	0.03%
7	Real Yield	0.59%	3.17%	2.16%	6.91%	(2.53%)	2.75%	2.33%	3.56%	0.55%
8	Volatility	0.24	6.10	0.88	1.47	1.28	0.24	0.74	1.74	1.47
9	FX Rate MoM Change*	1.65%	50.50%	2.35%	0.36%	1.33%	1.11%	4.05%	37.43%	(3.43%)
10	FX Rate YTD Change*	5.74%	56.38%	3.27%	(0.47%)	36.74%	(13.66%)	(10.03%)	15.10%	(2.52%)
11	Inflation Rate	2.10%	13.60%	4.20%	6.68%	18.33%	5.80%	6.40%	7.00%	1.60%
12	Policy Rate	4.35%	14.75%	6.25%	10.00%	14.00%	10.00%	7.00%	8.00%	0.50%
13	Debt to GDP	43.90%	85.00%	67.20%	52.80%	11.50%	17.70%	50.10%	32.90%	104.17%
14	GDP Growth Rate	6.70%	2.30%	7.30%	6.20%	(2.24%)	(0.40%)	0.70%	3.10%	1.60%
15	Nominal GDP (US\$)	10,866bn	331bn	2,074bn	63bn	481bn	1,326bn	313bn	718bn	17,947bn
16	Current Acct to GDP	2.70%	(3.40%)	(1.25%)	(11.40%)	(3.80%)	5.10%	(4.40%)	(4.50%)	(2.70%)

\*-ve means appreciation while +ve means depreciation

Sources – Bloomberg, Central Banks, FSDH Research Analysis and Trading Economics

**1.1 The Global GDP:**

The Organization of the Petroleum Exporting Countries (OPEC) maintains its global economic growth at 2.9% and 3.1% for 2016 and 2017, respectively. The Organization for Economic Cooperation and Development (OECD) growth remains at 1.6% for 2016 and 1.7% for 2017. The U.S. Gross Domestic Products (GDP) growth forecast also remains unchanged at 1.5% for 2016 and 2.1% for 2017. Euro-zone and UK figures have been revised up from 1.5% to 1.6% and 1.6% to 1.8%, respectively, in 2016 and from 1.2% to 1.3% and 0.7% to 0.8%, respectively, in 2017. Also, Japan’s GDP growth forecast remains unchanged at 0.7% for 2016 and 0.9% for 2017.

*OPEC maintained its global economic growth forecast at 2.9% and 3.1% for 2016 and 2017, respectively.*

The forecast for major emerging economies also remains at the same level as in the previous month, with the exception of Russia, which was revised up to a GDP growth forecast of 0.8% in 2017, and China, for both this year and the next. China experienced three solid quarters of 6.7% growth, leading to a 2016 GDP growth forecast of the same level and its 2017 GDP growth forecast revised up to 6.2% from 6.1%.

*The numerous uncertainties for the global economy for the remainder of 2016, and for 2017 remain.*

The IMF reiterated that numerous uncertainties for global economic growth throughout the remainder of the year and for 2017 remain. Among these uncertainties are: policy issues across the globe and monetary policy decisions. The US Federal Reserve (Fed) is expected to raise interest rates in December 2016. The market consensus is an increase of 0.25%. The European Central Bank (ECB), the Bank of Japan (BoJ), the Bank of England (BoE), and the People’s Bank of China (PBoC) are likely to maintain relatively more accommodative monetary policies.

	2016F	2017F
World	2.9%	3.1%
OECD	1.6%	1.7%
USA	1.5%	2.1%
Japan	0.7%	0.9%
Euro-zone	1.6%	1.3%
China	6.7%	6.2%
India	7.5%	7.2%
Brazil	(3.4%)	0.4%
Russia	(0.6%)	0.8%

*Source: OPEC Monthly Report, November 2016*

The GDP contracted by 2.24% in Q3 2016..

### 1.2 Domestic Real GDP:

According to the National Bureau of Statistics (NBS), the Nigerian economy contracted further in Q3 2016. The real Gross Domestic Product (GDP) contracted by 2.24% (year-on-year) in Q3 2016, compared with the growth of 2.84% in Q3 2015. The NBS earlier reported a GDP contraction of 2.06% in Q2 2016, leading to three quarters of GDP contraction. The oil sector recorded a decline of 22.01% in Q3 2016, compared with the growth of 1.6% recorded in Q3 2015. The oil sector contributed approximately 8.19% to the real GDP in Q3 2016, lower than the 8.26% contribution in Q2 2016.

The non-oil sector recorded a growth of 0.03% in Q3 2016, compared with the growth of 3.46% in Q2 2015; reversing the last two quarters of negative growth recorded in Q1 and Q2 2016. The non-oil GDP recorded growth from Agriculture (crop production); Information and Communication; and Other Services.

The nominal GDP stood at N26.56trn in Q3 2016. This represents an increase of 9.26% from N24.31trn recorded in Q3 2015. In Q3 2016, the services sector contributed 50.24% to the GDP, followed by agriculture at 28.65% and industries at 21.11%.

	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Real GDP	2.84%	2.11%	(0.36%)	(2.06%)	(2.24%)
Non-Oil Sector	3.05%	3.14%	(0.18%)	(0.38%)	0.03%
Oil Sector	1.06%	(8.28%)	(1.89%)	(17.48%)	(22.01%)

Source: National Bureau of Statistics

Contribution to GDP	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Agriculture	26.79%	24.18%	20.48%	22.55%	28.65%
Industries	23.51%	21.52%	24.33%	22.65%	21.11%
Services	49.70%	54.30%	55.20%	54.80%	50.24%
Growth Rate	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Agriculture	3.46%	3.48%	3.09%	4.53%	4.54%
Industries	(0.13%)	(3.04%)	(5.49%)	(9.53%)	(12.21%)
Services	3.97%	3.69%	0.80%	(1.25%)	(1.17%)

Source: National Bureau of Statistics

The Nigerian economy recorded a reduction in its trade deficit in Q3 2016.

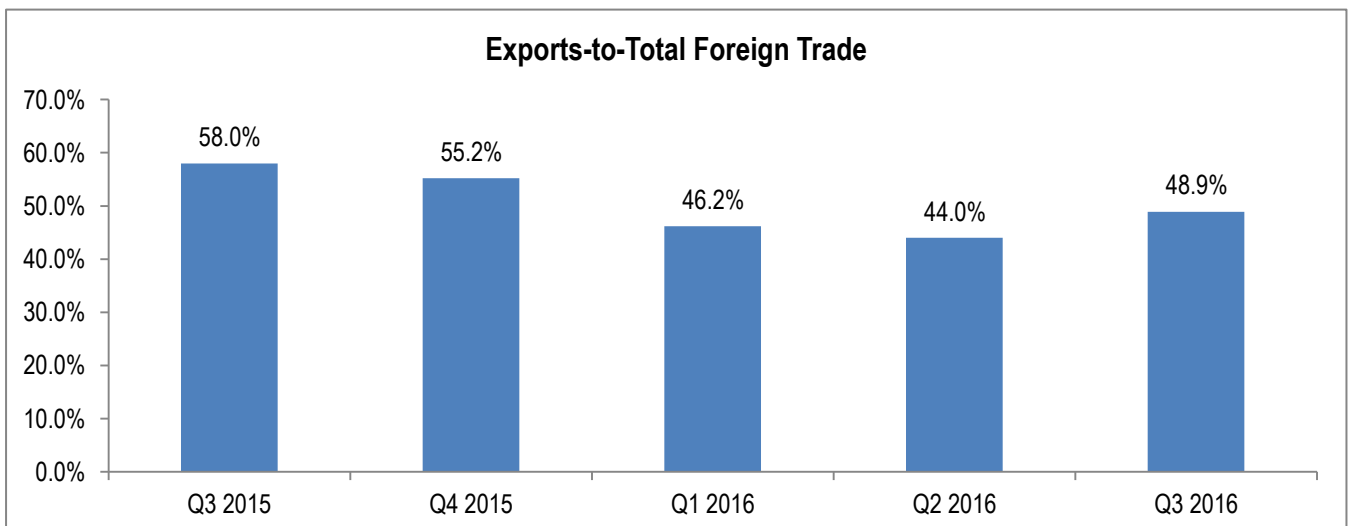
### 1.3 Foreign Trade:

The Nigerian economy recorded a reduction in its trade deficit in Q3 2016. This is contained in the NBS Foreign Trade Statistics, Q3 2016. Consequently, the Nigerian economy recorded a trade deficit of N104.14bn in its merchandise trade in Q3 2016, but an improvement over the trade deficit of N484.24bn recorded in Q2 2016. The higher rate of growth in exports was the main reason for the reduction in the level of deficit in Q3 2016. In Q3 2016, Nigeria’s total trade stood at N4.72trn, an increase of 16.26% from N4.06trn recorded in Q2 2016. Exports recorded an increase of 29.05% to N2.31trn in Q3 2016, from N1.79trn in Q2 2016. On the average, exports accounted for about 61.06% of the total trade in the last fifteen quarters. Imports on the other hand, increased by 6.17% to N2.41trn in Q3 2016, from N2.27trn in Q2 2016. The highest contribution of exports to total trade was 72.10% in Q3 2014, while the lowest contribution was 44% in Q2 2016. On a quarterly basis, the contribution of exports to total merchandise trade increased marginally to 48.9% in Q3 2016 from 44% in Q2 2016. Meanwhile, in the last fifteen quarters between Q1 2013 and Q3 2016, oil exports dominated the total merchandise trade at an average of 77.23%.

Table 5: Foreign Trade Statistics (N'trn)

	Exports	Imports	Trade Balance	Total Trade
Q3 2015	2.33	1.69	0.64	4.02
Q4 2015	1.94	1.58	0.36	3.52
Q1 2016	1.44	1.67	(0.24)	3.11
Q2 2016	1.79	2.27	(0.48)	4.06
Q3 2016	2.31	2.41	(0.10)	4.72

Source: National Bureau of Statistics



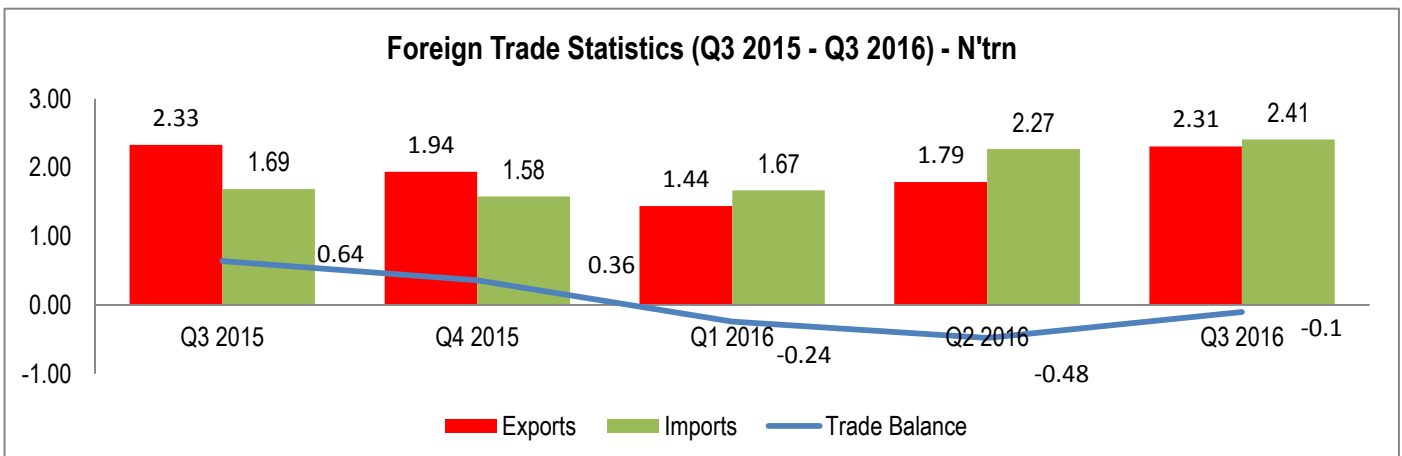
Adjusting the exports and imports figures in Q3 2016 for foreign exchange depreciation, the exports figure in Q3 2016 grew over Q2 2016, while imports in Q3 2016 dropped over Q2 2016. Thus the adjusted trade deficit in Q3 2016 dropped lower than the trade deficit in Q2 2016. However, we believe this was because of the shortage of foreign exchange to engage in imports during the period.

	Exports			Imports		
	N'bn	US\$'bn	Adjusted N'bn ***	N'bn	US\$'bn	Adjusted N'bn***
Q2 2016*	1,788	6.32*	1,788	2,272	8.03*	2,272
Q3 2016**	2,309	7.41**	2,097	2,413	7.74**	2,191
% Change	29.14%	17.25%	17.28%	6.21%	(3.61%)	(3.57%)

Source: National Bureau of Statistics and FSDH Research Estimates  
 \*Foreign Exchange Rate of US\$1/N282.97  
 \*\*Foreign Exchange Rate of US\$1/N311.62  
 \*\*\*After adjusting for the impact of depreciation/devaluation of the Naira

The top destination for Nigeria's exports showed that India remained the preferred spot, followed by the U.S., Spain, France, Netherlands, South Africa and Indonesia. On the other hand, China remained Nigeria's number one import partner, followed by Belgium, Netherlands, U.S. and India.

Top on the list of the imported goods in Q2 2016 are: Mineral Products; Boilers, Machinery and Appliances; Products of the Chemical and Allied Industries; Plastic, Rubber and Articles thereof; and Prepared Foodstuffs, Beverages, Spirits, Vinegar and Tobacco. The top on the list of the imported goods in the sub-categories in Q3 2015 are: Mineral Fuel and Lubricants; Machinery and Transport Equipment; and Chemicals and Related Products. The leading export commodities are: Mineral Products (97.3%); Prepared Foodstuffs, Beverages, Spirits and Vinegar (1.1%) and; Vegetable Products (0.4%).



#### 1.4 Telecommunication Industry:

**According to the NBS, the total number of subscribers increased rapidly over the past decade.** At the end of 2005 there were 19.51mn subscribers, but by the end of 2015 there were 151.01mn, which is equivalent to an increase of 13.14mn subscribers. However, growth has been declining more recently, possibly as a result of high market penetration leaving less room for large expansion. The total number of subscribers as at Q3 2016 stood at 153.27mn compared with 149.17 in Q2 2016, which represents a quarterly increase of 2.32%. **The number of subscribers has therefore surpassed its previous peak of 152.12mn, attained in November 2015.** The yearly increase in total subscriber numbers was 1.73%, compared with the growth rate of 0.69% at the end of the previous quarter. This ends a decline in the year on year growth rate that had been witnessed over the past year. From the end of Q2 2015, until the same period in 2016, the year-on-year (y-o-y) growth rate had declined consistently, from 12.05% to 0.69%.

*The number of subscribers has therefore surpassed its previous peak of 152.12mn, attained in November 2015.*

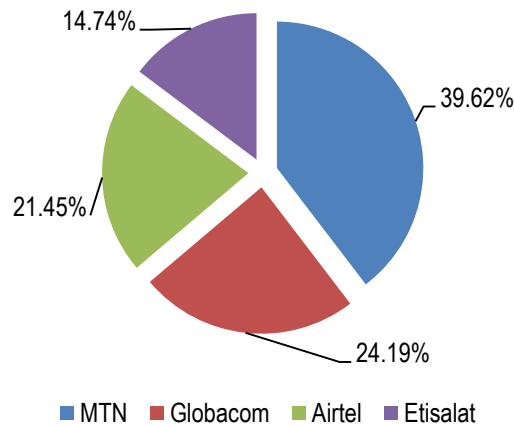
Global System for Mobile Communications (GSM) accounted for 99.72% of the total in Q3 2016, followed by Code Division Multiple Access (CDMA) with 0.18% of the total, whilst fixed wired and wireless make up 0.08% and 0.02% respectively. The dominance of GSM users has increased since September 2015 when 98.52% of subscribers used this technology type; largely as a result of the continuing decline of CDMA users. In Q3 2016, the total number of GSM subscribers was 152.84mn, an increase of 2.45% relative to Q2 2016. The number of GSM subscribers has now increased in every month since April 2016. This was the first quarter since the previous year in which each GSM provider recorded positive quarter-on-quarter (q-o-q) growth in subscriber numbers. MTN recorded the largest quarterly increase of 3.68%, to reach 60.55mn subscribers, compared with 59.40mn in Q2 2016. This was MTN's highest quarterly growth rate since 2014, and the first quarter since 2014 in which MTN recorded the highest growth rate among GSM providers. Airtel recorded the second largest q-on-q growth rate of 2.49%, with 32.77mn subscribers, compared with 31.97mn in June 2016. Globacom and Etisalat had 36.96mn and 22.54mn subscribers respectively, and recorded growth rates of 1.78% and 0.29%.

As a result of these trends, MTN regained slightly more market share in Q3 2016 than in Q2 2016, with an increase in its share of subscriber numbers from 39.15% in June to 39.62% in September 2016, although this is still below the share of 42.10% in September



2015. Airtel was the only other provider to increase its share relative to the previous quarter, and saw a marginal increase from 21.44% in June to 21.45% in September 2016. Globacom's share fell from 24.35% in June to 24.19% in September 2016, although this remains significantly above the 21.09% recorded in the previous year. Etisalat also saw a reduction in its share at 14.74% in September 2016, compared to 15.06% in June and 15.83% in September 2015.

### Market Share of GSM Operators



The proportion of the GSM users that have internet services increased throughout 2014 and 2015. But this trend has reversed, and throughout 2016 the proportion has declined fairly consistently. The proportion stood at 61.21% in Q3 2016, compared with 65.39% and 61.79% in Q3 2015 and Q2 2016. MTN remained the provider with the highest number of internet subscriptions, with 32.77mn (35.03%), whereas Etisalat accounted for the smallest number, with 15.06mn (16.10%). Globacom and Airtel accounted for 28.74% and 20.13% of the total respectively.

In Q3 2016, Etisalat remained the largest beneficiary of porting activities, and in net terms they recorded an increase from 27,956 to 37,178 porters between the Q2 2016 and Q3 2016. All other providers recorded net losses from porting activities. The largest was MTN, as in all previous quarters since Q3 2013. In total, they lost 18,007 porters in Q3 2016, although this is less than the 24,019 porters they lost in the previous quarter. Airtel and Globacom recorded similar net losses, of 9,772 and 9,544 respectively. However, in the case of Airtel, this is a sharp decline from the net gain of 6,023 porters recorded in the previous quarter.

*The proportion of the GSM users that have internet services increased throughout 2014 and 2015.*

**1.5 Inflation Rate:**

The cost push factors continue to push the inflation rate upwards in October 2016. The major drivers of the rising inflation rate are the weak foreign exchange rate and the higher energy prices. However, we observed a slow-down in the month-on-month inflation rate reflecting a slow-down in inflationary pressure. **The inflation rate stood at 18.33% in October 2016, from 17.85% recorded in September 2016.** The inflation rate in October 2016 was driven by the faster growth in all major divisions of the Headline Index. Year-on-year (y-o-y), the Food Price Index (FPI) increased by 17.10% in October 2016, from 16.60% in September 2016. The FPI was driven by higher prices of Bread and Cereals, Fish, and Meat. The Core Index increased by 18.10% in October 2016, higher than 17.70% recorded in September 2016. In October 2016, the largest increases in the Core Index were recorded in the Housing, Water, Electricity, Gas and Other Fuels as well as, Fuels and Lubricants for Personal Transport Equipment and Education.

*The inflation rate increased further in October 2016 to 18.33%, from 17.85% in September 2016.*

**We estimate that the inflation rate would be at 18.45% in November 2016** as shown on table 7 below.

*We expect November inflation rate at 18.45%.*

**Table 7: Inflation Rate Actual Vs Forecast**

Month	Jan-16 A	Feb-16A	Mar-16A	Apr-16A	May-16A	Jun-16A	Jul-16A	Aug-16A	Sep-16A	Oct-16A	Nov-16F	Dec-16F
<b>Actual/Forecast</b>	9.62%	11.38%	12.77%	13.72%	15.58%	16.48%	17.13%	17.61%	17.85%	18.33%	18.45%	18.55%

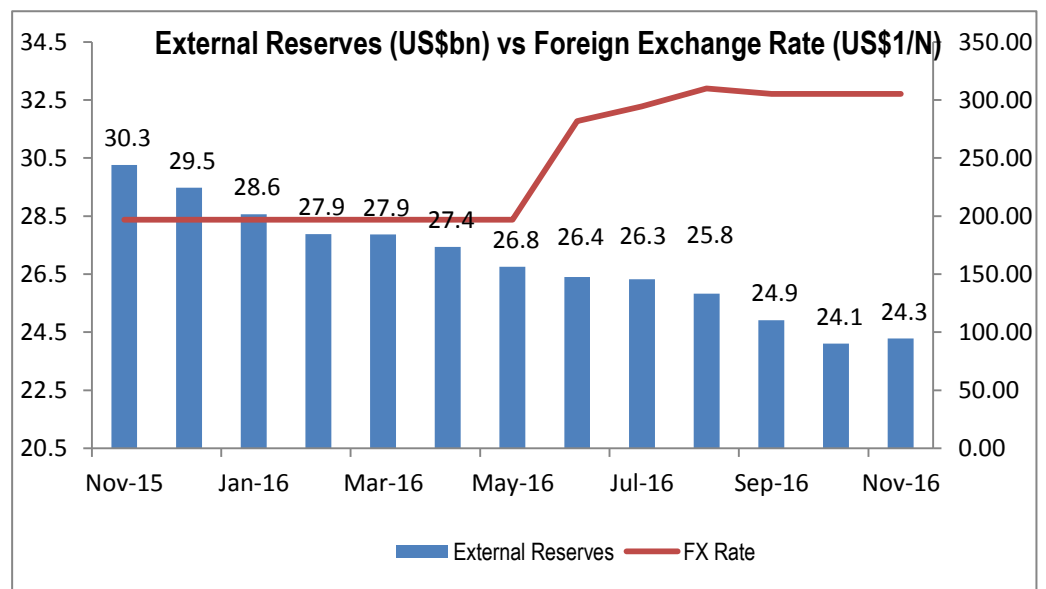
*Source: National Bureau of Statistics and FSDH Research Analysis*

### 1.5 Movement in the External Reserves:

The external reserves trended upwards for most part of November 2016. The improvement in oil production and the favourable price oil in the international market lifted the level of the external reserves. The inflows from the international money transfer operators also boosted the external reserves. The 30-day moving average external reserves increased by 3.42% to US\$24.77bn as at end-November 2016, from US\$23.95bn at end-October 2016. The average external reserves stood at US\$24.29bn in November 2016, from US\$24.10bn in October 2016.

The low oil production level arising from the security challenges in the Niger Delta have limited the accretion to the external reserves at current demand level. Although there has been an improvement in oil output but the impact on the external reserves is limited. We expect the inflows via international money transfer to bolster the external reserves in the short-term. However, the improvement in infrastructure that will promote economic activities for exports is the long-term solution to keeping the external reserves at an adequate level.

*The external reserves increased by 3.42% to US\$24.77bn as at end-November 2016, from US\$23.95bn at end-October 2016.*



### 1.6 Crude Oil Market and Bonny Light Price:

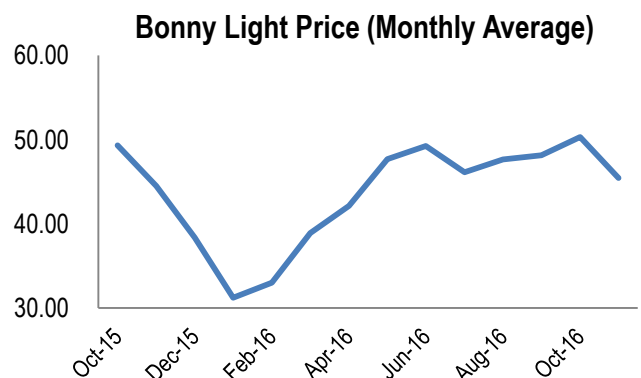
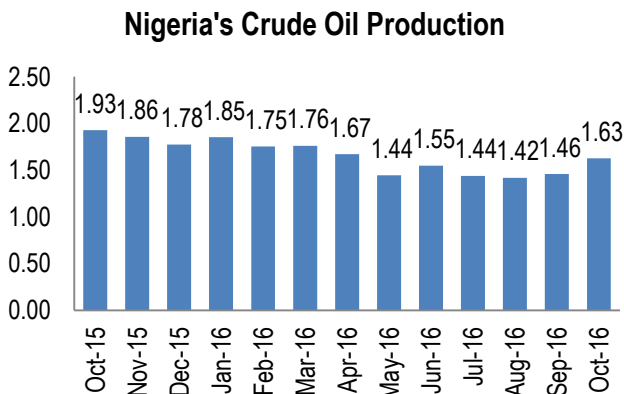
The daily crude oil production in Nigeria increased by 11.64% to 1.63mbpd in October 2016, from 1.46mbpd in September 2016. This is based on the secondary data available from the Organization of the Petroleum Exporting Countries (OPEC) report for the month of November 2016. The total OPEC crude oil production from secondary sources was 33.64mb/d in October 2016, a marginal increase of 0.69% from 33.41mb/d over the previous month. The OPEC production level in October 2016 is 3.64mbpd higher than its collective production quota of 30mbd/d. Crude oil production output increased mostly from Nigeria and Libya; while production recorded the largest drop in Angola and Saudi Arabia. However, the OPEC member countries at their meeting on November 30, 2016 agreed on a production cut, with members agreeing on a collective output of 32.5mbd. This represents a removal of 1.14mbd from OPEC output of 33.64mb/d in October 2016. The new production quota will be implemented in January 2017.

*The daily crude oil production in Nigeria increased by 11.64% to 1.63mbpd in October 2016, from 1.46mbpd in September 2016.*

The U.S Energy Information Administration (EIA) in its monthly report for December 2016 expects Brent crude oil prices to average US\$48/b in Q4 2016 and Q1 2017. The Brent crude oil price is expected to average US\$43/b in 2016 and US\$51/b in 2017. The West Texas Intermediate (WTI) crude oil prices are forecast to average US\$47/b in 2017. The values of futures and options contracts indicate significant uncertainty in the price outlook, with THE New York Mercantile Exchange (NYMEX) contract values for February 2017 delivery traded during the five-day period ending November 3 suggesting that a range from US\$35/b to US\$66/b encompasses the market expectation of WTI prices in February 2017 at the 95% confidence level.

According to the data from Thomson Reuters, the Bonny Light oil price decreased by 4.10% to US\$48.76/b as at end-November 2016, from end-October 2016. The average price of Bonny Light was US\$45.45/b in November 2016, a decrease of 9.68% from the average price of US\$50.32/b recorded in October 2016.

*The average price of Bonny Light was US\$45.45b in November 2016, a decrease of 9.68% from the average price of US\$50.32/b recorded in October 2016.*



### 1.7 Foreign Exchange Rate:

**The value of the Naira recorded mixed performance in the different segments of the foreign exchange market in November 2016.** The Naira appreciated by 1.25% at the inter-bank market to close at US\$1/N305 at end-November 2016 from US\$1/N308.81 as at end-October 2016. **The CBN intervention at this segment of the market doused the foreign exchange demand pressure, leading to an appreciation in the value of the Naira.** The average exchange rate at the inter-bank market depreciated by 0.68% to stand at US\$1/N308.40 in November 2016, compared with US\$1/N306.48 in October 2016.

*The value of the Naira recorded mixed performance in the different segments of the foreign exchange market in November 2016.*

**The parallel market depreciated in November 2016.** As at end-November 2016, the value of the Naira closed at US\$1/N478 at the parallel market, a depreciation of 2.09% from US\$1/N468 at end-October 2016.

*The inter-bank market appreciated in November 2016.*

**The CBN intervention through periodic sale at the inter-bank market persists and expected to continue in the short-to-medium term. The scarcity of foreign exchange to meet demand remains a challenge for the stability of the value of the Naira.** We reiterate that the value of the Naira can be enhanced by the diversification of Nigeria's exports. This is also an important channel for fostering economic growth and increasing the resilience of the Naira against the U.S. Dollar, through infrastructure upgrade and trade openness.

*The yields on fixed income securities closed higher in November 2016, compared with October 2016.*

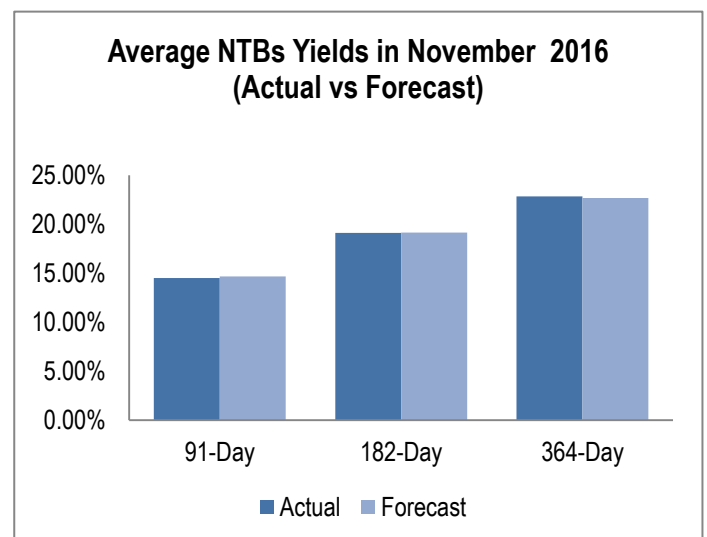
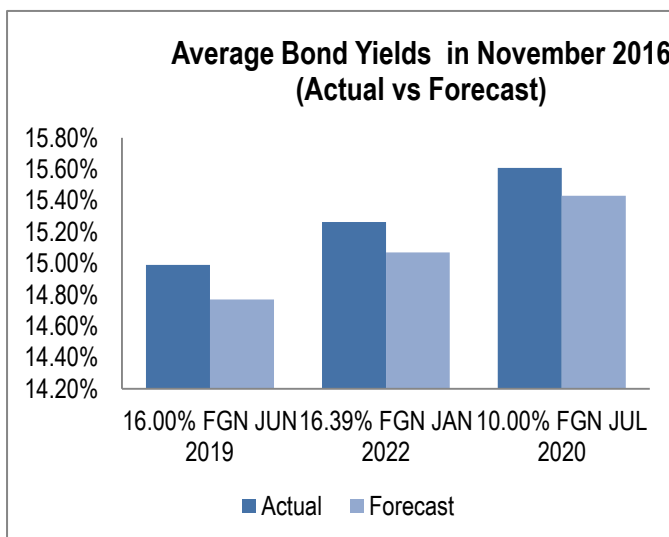
## 2.0 Interest Rate and Yield Analysis:

The yields on fixed income securities closed higher in November 2016, compared with October 2016. The high inflation rate and the increased tendency towards higher expected inflationary pressure in the short-term led to the higher yields in November 2016. There was a higher preference for the Nigerian Government Treasury Bills (NTBs) in November 2016 because of the high yields.

The fixed income market analysis for November 2016 shows a net inflow of about N90bn, compared with a net outflow of about N18bn in October 2016. The major outflows in November 2016 were the Open Market Operations (OMO) and Repurchase Bills (REPO) of N221bn, Primary NTBs of about N208bn, and the bond auction of about N39bn. Meanwhile, in October 2016, the major outflow were from the OMO and REPO of N509bn, Primary NTBs of about N267bn, and the bond auction of about N105bn. The major inflows in November 2016 were the matured OMO and REPO Bills of N220bn, matured NTBs of about N208bn, and the Federation Account Allocation Committee (FAAC) injection of about N130bn. In October 2016, matured OMO and REPO Bills of N105bn, matured NTBs of about N267bn, and the FAAC injection of about N170bn were the major inflows.

*At the NTBs auction, average yields increased across the various tenors in November 2016, compared with October 2016.*

At the NTBs auction, average yields increased across the various tenors in November 2016, compared with October 2016. The average 91-day NTB yield stood at 14.50% in November, up from 14.45% in October. The average 182-day NTB yield closed at 19.11%, up from 18.68% in October. The average 364-day NTB yield closed at 22.85%, up from 22.35% in October 2016. Meanwhile, the average 30-day NIBOR closed at 17.43% in November 2016, down from 18.48% in October 2016. The average 90-day NIBOR increased to 19.79%, from 19.58% in the preceding month.



The yields on the FGN Bonds monitored closed higher in November 2016, compared with October 2016.

**Table 8: Average Bond Yields**

	16.00% FGN JUN 2019	16.39% FGN JAN 2022	10.00% FGN July 2030
October 2016	14.56%	14.82%	15.12%
November 2016	14.99%	15.26%	15.61%
Change	0.43%	0.44%	0.43%

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
October 2016	31.11%	18.48%	19.58%	21.36%	14.45%	18.68%	22.35%
November 2016	15.84%	17.43%	19.79%	21.59%	14.50%	19.11%	22.85%
Change	(15.26%)	(1.05%)	0.21%	0.23%	0.05%	0.43%	0.50%

Source: CBN and Financial Market Dealers Quotation

**Table 10: Market Liquidity (N'bn)**

	October 2016			November 2016		
	Total Inflow	Total Outflow	Net flow	Total Inflow	Total Outflow	Net Flow
Primary Market: NTB	267	267	0	208	208	0
Open Market Operations (OMO) & Rev Repo	426	509	(83)	220	221	(1)
BOND	0	105	(105)	0	39	(39)
FAAC	170	0	170	130	-	130
FX Market	-	-	-	-	-	-
CRR Debit/Credit	-	-	-	-	-	-
TSA Implementation	-	-	-	-	-	-
Total	863	880	(18)	558	468	90

Source: Central Bank of Nigeria and Federal Ministry of Finance

The expected higher inflation rate is the main reason for an upward pressure on yields in December 2016.

### 2.1 Revised Outlook Going Forward:

A total inflow of about N781bn should hit the money market from the various maturing government securities and Federation Account Allocation Committee (FAAC) in the month of December 2016. Our expected outflows from the various sources such as government securities and statutory withdrawals are estimated at N411bn, leading to a net inflow of about N370bn. **The macroeconomic risks still have a negative impact on yields in the short-to-medium term. The expected higher inflation rate is the main reason for an upward pressure on yields in December 2016.**

**Table 11: Expected Inflow and Outflow Analysis - November 2016 (N'bn)**

Date	01-Dec-16	08-Dec-16	13-Dec-16	15-Dec-16	22-Dec-16	29-Dec-16	Others	Total
<b>Inflows</b>	117.18	88.17	-	115.06	125.91	134.17	200.00*	780.58
<b>Outflows</b>	117.18	-	110.00	-	-	-	183.87**	411.04
<i>Source: FSDH Estimates, *Statutory Allocation (FAAC), ** Cash Reserve Requirement (CRR) Debit</i>								<b>369.54</b>

**Table 12: Revised Yields – Actual Vs Forecast**

	Treasury Bills (Primary Market)			FGN Bonds (Secondary Market)			
	91-Day	182-Day	364-Day	Jun-19	Jan-22	Mar-26	Mar-36
<b>JanA-16</b>	4.19%	7.57%	9.52%	10.90%	11.77%	12.08%	-
<b>FebA-16</b>	4.96%	7.94%	10.17%	10.53%	11.82%	12.01%	-
<b>MarA-16</b>	5.73%	8.27%	10.17%	10.33%	11.47%	11.97%	12.95%
<b>AprA-16</b>	7.12%	9.25%	10.95%	11.20%	11.79%	12.54%	12.95%
<b>MayA-16</b>	8.21%	9.53%	13.34%	13.21%	13.51%	13.47%	13.66%
<b>JunA-16</b>	8.86%	10.80%	14.58%	13.76%	14.01%	14.14%	14.28%
<b>JulA-16</b>	12.45%	14.91%	18.67%	14.59%	14.58%	15.40%	14.85%
<b>AugA-16</b>	15.81%	19.50%	22.70%	15.04%	14.94%	15.25%	15.22%
<b>SepA-16</b>	14.51%	19.19%	22.52%	14.60%	14.76%	15.17%	15.16%
<b>OctA-16</b>	14.45%	18.68%	22.35%	14.56%	14.82%	15.33%	15.39%
<b>NovA-16</b>	14.50%	19.11%	22.85%	14.99%	15.26%	15.74%	15.75%
<b>DecF-16</b>	15.05%	19.31%	22.94%	15.05%	15.40%	15.95%	16.07%
<i>Source: CBN, FMDQ, and FSDH Research Forecasts</i>							

The following factors will influence yields on fixed income securities in December 2016:

- ❖ Inflation rate is expected to close the year higher but to decelerate from early part of 2017
- ❖ The yields on the fixed income securities may continue to rise
- ❖ The government may continue to use OMO to influence short-term liquidity in the market
- ❖ The market still awaits appropriate economic policy direction in order to make investment decisions



## 2.2 Strategy:

- Investors should take advantage of the current yields on Treasury Bills. The NTBs remain attractive for managing the short term movements in interest rates, as well as offering opportunities for investments in a high yield environment.
- Investors should also maintain a balanced portfolio in other fixed income securities, particularly in bonds in order to minimise reinvestment risk.

The average yields on the FGN Eurobonds were higher in November 2016 than in October 2016. Consequently, the average prices of the bonds closed lower in the month of November, compared with October 2016. This is due to expectations of higher yields globally because of the impending FOMC rate hike in December 2016.

**Table 13: FGN Eurobonds**

Date	10-Year 6.75% FGN Eurobond January 2021		10-Year 6.375% FGN Eurobond July 2023		5-Year 5.125% FGN Eurobond July 2018	
	Price (US\$)	Yield (%)	Price (US\$)	Yield (%)	Price (US\$)	Yield (%)
01-Nov-16	100.042	6.735	96.943	6.952	100.969	4.518
02-Nov-16	99.819	6.796	96.570	7.024	100.969	4.516
03-Nov-16	99.818	6.796	96.452	7.048	100.927	4.541
04-Nov-16	99.726	6.822	96.357	7.066	100.885	4.566
07-Nov-16	100.386	6.640	96.962	6.949	100.927	4.539
08-Nov-16	101.088	6.448	97.873	6.774	101.271	4.320
09-Nov-16	100.350	6.650	96.705	7.000	101.063	4.449
10-Nov-16	97.795	7.365	93.679	7.600	99.938	5.160
11-Nov-16	97.000	7.593	92.401	7.860	99.396	5.507
14-Nov-16	94.998	8.176	90.611	8.233	98.625	6.006
15-Nov-16	97.833	7.355	94.039	7.528	99.875	5.201
16-Nov-16	98.162	7.262	93.884	7.560	99.823	5.235
17-Nov-16	98.953	7.039	94.385	7.460	100.208	4.987
18-Nov-16	98.670	7.119	93.983	7.541	100.083	5.067
21-Nov-16	99.042	7.015	94.798	7.378	100.375	4.879
22-Nov-16	98.634	7.130	94.284	7.482	100.417	4.851
23-Nov-16	98.180	7.260	93.777	7.586	100.375	4.878
24-Nov-16	98.333	7.217	93.800	7.581	100.375	4.878
25-Nov-16	98.250	7.241	93.692	7.603	100.375	4.877
28-Nov-16	98.250	7.241	93.757	7.591	100.375	4.877
29-Nov-16	97.708	7.397	92.957	7.754	100.333	4.904
30-Nov-16	97.342	7.503	92.857	7.775	100.292	4.930

Source: Bloomberg

### 3.0 Equity Market:

#### 3.1 The Secondary Market:

The equity market recorded its second largest MoM loss in 2016 in November, as the macroeconomic challenges continue to affect quoted companies. The Nigerian Stock Exchange All Share Index (NSE ASI) depreciated by 7.27% (a loss of 6.02% in US\$) in November 2016 to close at 25,241.63 points. **The Year-to-Date (YTD) performance of the Index remains negative, closing November with a YTD loss of 11.87%.** Similarly, the market capitalisation recorded a MoM loss of 7.06% (a loss of 5.81% in US\$) to close at N8.69trn (US\$28.49bn).

Market activities picked up in the month of November 2016, compared with October 2016. The volume of stocks traded increased by 65.96% to N6.09bn. The value of stocks traded also increased marginally by 0.56% to N32.20bn.

**All the Sectoral Indices fell in November 2016, compared with October 2016.** Month-on-month (MoM), The NSE Oil and Gas Index recorded the highest depreciation of 17.57%, with a YTD depreciation of 24.76%. The NSE Industrial Index recorded a MoM loss of 10.63%, with a YTD loss of 30.03%. The loss in the NSE Oil and Gas Index could be attributed to the decreases in the share price of Forte Oil (55.24%), Total (24.96%) and Oando (23.28%).

The equity market recorded its second largest MoM loss in the year in November, as the macroeconomic challenges continue to affect quoted companies.

The Year-to-Date (YTD) performance of the Index remains negative, closing November with a YTD loss of 11.87%.

All the Sectoral Indices depreciated in November 2016, compared with October 2016.

**Table 14: Nigerian Equity Market: Key Indicators**

Month	Volume (bn)	Value (N'bn)	NSEASI	Market Cap. (N'trn)	Banking*	Insurance*	Consumer Goods*	Oil/Gas*	Industrial*
October	3.67	32.02	27,220.09	9.35	266.98	128.93	729.68	325.48	1,696.44
November	6.09	32.20	25,241.63	8.69	254.52	123.94	720.84	268.28	1,516.12
Change	65.96%	0.56%	(7.27%)	(7.06%)	(4.67%)	(3.87%)	(1.21%)	(17.57%)	(10.63%)
YTD	-	-	(11.87%)	(11.79%)	(5.20%)	(13.09%)	(3.40%)	(24.76%)	(30.03%)

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

Table 15: Major Earning Announcements in November 2016

Company and Result	Turnover (Nm)	Change (%)	PBT (Nm)	Change (%)	PAT (Nm)	Change (%)
<b>FORTE OIL PLC</b>						
9 Months, Sep. 2016	121,083	32.16	5,633	6.52	2,797	(34.72)
<b>GUARANTY TRUST BANK PLC</b>						
9 Months, Sept 2016	329,284	43.56	140,837	52.98	119,927	59.56
<b>CADBURY NIGERIA PLC</b>						
9 Months, Sep. 2016	21,326	1.20	(842)	(2,165)	(842)	(3,050)
<b>WEMA BANK PLC</b>						
9 Months, Sep. 2016	37,892	16.36	1,494	(2.26)	1,270	(2.26)
<b>ZENITH BANK PLC</b>						
9 Months, Sep. 2016	380,352	12.91	121,275	16.55	100,074	20.44
<b>NASCON ALLIED INDUSTRIES</b>						
9 Months, Sep. 2016	12,795	25.53	2,593	8.94	1,763	8.94
<b>CAP PLC</b>						
9 Months, Sept. 2016	4,710	(7.61)	1,517	(11.99)	1,031	(11.99)
<b>FBN HOLDINGS PLC (First Bank)</b>						
9 Months, Sep. 2016	417,300	7.00	57,455	(3.54)	42,517	(15.33)
<b>CONOIL PLC</b>						
9 Months Sep. 2016	63,951	6.31	2,715	54.27	1,810	51.19
<b>DANGOTE CEMENT PLC</b>						
9 Months, Sept. 2016	442,092	20.97	148,716	(10.90)	133,521	(15.49)
<b>LAFARGE AFRICA PLC.</b>						
9 Months, Sep 2016	161,044	(25.11)	(40,368)	(210.56)	-37,402	(215.46)
<b>7 UP BOTTLING COMP. PLC</b>						
6 Months, Sep. 2016	46,977	18.72	(1,946)	(182.06)	(1,557)	(185.53)
<b>DIAMOND BANK PLC</b>						
9 Months, Sep. 2016	151,109	(3.47)	3,892	-79.07	3,511	(78.01)
<b>AXA MANSARD INSURANCE PLC</b>						
9 Months, Sep. 2016	16,943	25.48	3,714	86.94	3,040	71.04
<b>ACCESS BANK NIGERIA PLC</b>						
9 Months, Sep. 2016	274,468	6.55	72,004	19.27	57,095	18.72
<b>FCMB GROUP PLC</b>						
9 Months, Sep. 2016	140,727	28.76	14,176	453.08	12,981	595.80
<b>P Z CUSSONS NIGERIA PLC.</b>						
3 Months, Aug. 2016	16,753	12.04	(2,431)	(544.62)	(1,586)	(471)
<b>UBA PLC.</b>						
9 Months. Sept 2016	265,527	8.16	61,555	7.30	52,269	7.64
<b>FLOUR MILLS NIG. PLC</b>						
6 Months, Sep. 2016	255,305	43.77	8,800	(63.50)	6,468	(73.07)
<b>HONEYWELL FLOUR MILL PLC</b>						
9 Months, Dec. 2016	24,423	(6.75)	482	(57.31)	389	(56.92)
<b>NESTLE NIGERIA PLC</b>						
9 Months, Sep. 2016	129,482	19.91	5,504	(73.55)	485	(97.19)

The Dow Jones Industrial Average (US) recorded the highest MoM appreciation of 5.41%, with a YTD appreciation of 9.75%.

Table 16 below shows the performance of some selected foreign equity markets around the world. The Dow Jones Industrial Average (US) recorded the highest MoM appreciation of 5.41%, with a YTD appreciation of 9.75%. This is followed by the NIKKEI 225 Index (Japan) with a MoM gain of 5.07%, and a loss of 0.97% YTD. The GSE All-Share Index (Ghana) recorded the highest MoM depreciation of 8.83% MoM and, a YTD depreciation of 21.01%. This was followed by the NSE All-Share Index (Nigeria) with a MoM loss 7.27%, and a gain of 11.87% YTD.

Table 16: Foreign Equity Market Performance in November 2016			
North/Latin America	YTD Change		Month-on-Month Change
Dow Jones Industrial Average	9.75%		5.41%
S&P 500 Index	7.58%		3.42%
NASDAQ Composite	6.32%		2.59%
Brazil Stock Market Index	42.81%		(4.65%)
<b>Europe</b>			
Swiss Market Index	(10.69%)		0.61%
FTSE 100 Index (UK)	8.67%		(2.45%)
CAC 40 Index (France)	(1.27%)		1.53%
DAX Index (Germany)	(0.96%)		(0.23%)
<b>Africa</b>			
NSE All-Share Index	(11.87%)		(7.27%)
JSE All-Share Index (S/A)	(0.96%)		(0.75%)
Nairobi All Share Index (Kenya)	(6.24%)		(0.31%)
GSE All-Share Index (Ghana)	(21.01%)		(8.83%)
<b>Asia/Pacific</b>			
NIKKEI 225 Index (Japan)	(0.97%)		5.07%
BSE 30 Index (India)	2.05%		(4.57%)
Shanghai Stock Exchange Composite Index (China)	(8.17%)		4.82%
Hang Seng Index (Hong Kong)	3.99%		(0.63%)
Source: Bloomberg			

### 3.2. Outlook for the Month of December:

- The movement in the NSE ASI shows that the equity market is awaiting clear economic policy direction for investors to take positions
- Any positive pronouncement in December 2016 from the FGN that will improve confidence in the economy will likely lead to a modest appreciation in the equity market
- The planned crude oil production cut may have positive impact on oil price. Consequently, equity prices may respond positively.

### 3.3. Strategies:

- We recommend that investors should maintain a medium-to-long term position in the equity market
- We reiterate that long-term investors should take long positions in stocks that have strong fundamentals.

Months	Year				
	2012	2013	2014	2015	2016
NOVEMBER	26,494.44	38,920.85	34,543.05	27,617.45	25,241.63
DECEMBER	20,730.63	28,078.80	41,329.19	34,657.15	28,642.25
% Change	(21.75%)	(27.86%)	19.65%	25.49%	13.47%

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

*The current economic headwinds and the initiative of the government may determine the movement in the equity market in December 2016.*

The performance of the equity market in the last three years shows that the market recorded positive performances between November and December. **However, the current economic headwinds and the initiative of the government may determine the movement in the equity market in December 2016.**

Asset Class	Fund Allocation
Equities	20%
Fund Placement	10%
Treasury Bills	30%
Real Estate Investment Trust (REIT)	5%
Bonds	25%
Collective Investment Schemes	10%

Source: FSDH Research

Stocks	Max Entry Price	52 Week Low	52 Week High	Trailing EPS	Trailing PE Ratio	Target Price
Access Bank	5.50	3.59	6.20	2.59	2.13	7.98
Dangote Cement	162.00	123.51	203.96	9.20	17.60	180.13
Dangote Sugar	6.08	0.83	6.51	1.05	5.79	7.31
FCMB	1.06	0.71	1.91	0.64	1.66	1.94
Flour Mills	18.49	16.13	24.99	7.85	2.36	31.00
NASCON	6.80	5.80	8.70	0.85	8.01	8.55
UBA	4.39	2.59	5.19	1.75	2.51	4.99
Wema	0.52	0.51	1.03	0.06	8.67	0.83
Zenith Bank	14.34	9.00	17.7	3.91	3.67	17.05

Source: FSDH Research

S/N	Security Description	Tenor To Maturity (Yrs)	Coupon	Current Price (N)	Current Yield	Modified Duration
1	16% FGN JUN 2019	2.56	16.00%	100.70	15.64%	1.91
2	16.39% FGN JAN 2022	5.14	16.39%	101.90	15.77%	3.22
3	14.20% FGN MAR 2024	9.12	12.50%	83.60	15.96%	4.70
4	12.1493% FGN JUL 2034	19.28	12.40%	78.40	16.04%	5.88

Source: FSDH Research

The Eurobonds of the following companies are trading at huge discounts: Fidelity Bank, Diamond Bank, First Bank. Investments in them may generate good returns for investors who have U.S. Dollar and can take the associated risks.

Table 21: Attractive Fixed Income Securities Trading on the FMDQ as at November 30, 2016

Issuer	Description	Coupon	Maturity Date	TTM (Years) *	Current Yield	Price
<b>State Bonds</b>						
Lagos	10.00% LAGOS 19-APR-2017	10.00%	19-Apr-17	0.38	18.40%	97.03
Lagos	14.50% LAGOS 22-NOV-2019	14.50%	22-Nov-19	2.98	17.87%	92.45
Lagos	13.50% LAGOS 27-NOV-2020	13.50%	27-Nov-20	3.99	17.25%	89.47
<b>Corporate Bonds</b>						
UBA	13.00% UBA 30-SEP-2017	13.00%	30-Sep-17	0.83	22.29%	93.21
UBA	14.00% UBA II 30-SEP-2018	14.00%	30-Sep-18	1.83	20.33%	90.63
FCMB	15.00% FCMB 6-NOV-2020	15.00%	06-Nov-20	3.93	20.43%	85.74
Lafarge Africa Plc	14.25% LAFARGE 15-JUN-2019	14.25%	15-Jun-19	2.54	16.80%	94.85
NAHCO	15.75% NAHCO II 14-NOV-2020	15.75%	14-Nov-20	3.95	16.96%	96.59
Transcorp Hotels Plc	15.50% TRANSCORP 4-DEC-2020	15.50%	04-Dec-20	2.46	19.50%	92.76
Lafarge Africa Plc	14.75% LAFARGE 15-JUN-2021	14.75%	15-Jun-21	4.54	16.91%	93.33
FCMB	14.25% FCMB I 20-NOV-2021	14.25%	20-Nov-21	4.97	18.38%	86.89
UBA	16.45% UBA I 30-DEC-2021	16.45%	30-Dec-21	5.08	16.87%	98.57
Fidelity Bank	16.48% FIDELITY 13-MAY-2022	16.48%	13-May-22	5.45	16.86%	98.64
Transcorp Hotels	16.00% TRANSCORP 26-OCT-2022	16.00%	26-Oct-22	3.62	18.76%	93.30
Stanbic IBTC	182D T.bills+1.20% STANBIC IA 30-SEP-2024	16.29%	30-Sep-24	7.83	16.98%	96.98
Stanbic IBTC	13.25% STANBIC IB 30-SEP-2024	13.25%	30-Sep-24	7.83	16.98%	84.09
<b>Supranational Bonds</b>						
IFC	10.20% IFC 11-FEB-2018	10.20%	11-Feb-18	1.20	18.55%	91.33
AfDB	11.25% AFDB 1-FEB-2021	11.25%	01-Feb-21	2.42	15.03%	92.73
<b>Corporate Eurobonds</b>						
Access Bank Plc	7.25% JUL 25, 2017	7.25%	25-Jul-17		6.82%	100.26
Fidelity Bank Plc	6.88% MAY 09, 2018	6.88%	02-May-18		18.92%	85.50
GT Bank Plc	6.00% NOV 08, 2018	6.00%	08-Nov-18		6.26%	99.54
Zenith Bank Plc	6.25% APR 22, 2019	6.25%	22-Apr-19		7.16%	98.03
Diamond Bank Plc	8.75% May 21, 2019	8.75%	21-May-19		22.22%	75.40
First Bank Plc	8.25% AUG 07, 2020	8.25%	07-Aug-20		14.06%	83.63
Access Bank Plc II	9.25%/6M USD LIBOR+7.677% JUN 24, 2021	9.25%	24-Jun-21		11.59%	92.18
First Bank Ltd.	8.00%/2Y USD SWAP+6.488% JUL 23 2021	8.00%	23-Jul-21		14.32%	78.84
Ecobank Nig. Ltd	8.75% AUG 14, 2021	8.75%	14-Aug-21		11.76%	86.63
<b>Commercial Paper</b>						
Issuer	Description	Yield@Issue	Maturity Date	DTM (Years) **	Valuation Yield (%)	Discount Rate (%)
Ecobank Nigeria Ltd	ECOBANK CP 28-Dec-16	14.51%	28-Dec-16	28	14.48%	14.32%
FSDH Merchant Bank Ltd	FSDH CP II 26-MAY-17	21.89%	26-May-17	177	21.50%	19.48%

\*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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