

Monthly Economic and Financial Market Outlook

Still Waiting for Policy Direction

November 2016

Executive Summary

The major highlights of the Monthly Economic and Financial Market Outlook report are:

- 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 International Monetary Fund (IMF) have indicated that economic activity in Sub-Saharan Africa has decelerated sharply against the backdrop of lower commodity prices and a less-supportive global environment
- The insulation of the Nigerian economy from the vagaries of oil price volatility remains the sustainable solution to the pressure on the external reserves
- The United States (U.S.) Energy Information Administration (EIA) in its monthly report for October 2016 showed that Brent crude oil prices are forecast to average US\$43/b and US\$51/b in 2016 and 2017, respectively
- The IMF added that the GDP in Nigeria is expected to contract in 2016 by 1.7% because of the disruption in oil production, with a forecast growth of 0.6% in 2017
- We expect the inflation rate to increase to 18.42% in November 2016, from 18.33% in October 2016
- The persistence of foreign exchange shortages makes the intervention of the Central Bank of Nigeria (CBN) at the foreign exchange market necessary despite the adoption of the flexible exchange rate policy
- The yields on fixed income securities are expected to be higher in November 2016 because of the elevated inflationary expectation
- The equity market may not witness improvement in activities towards the end of the year because of the current weak macroeconomic environment, and low liquidity in the equity market.

1.0 Global Developments:

In the countries we monitored, the prices of government bonds depreciated in more countries in October 2016 than they appreciated. The 8.8% September 2023 Turkey Government Bond and the 7.60% April 2021 Russia Government Bond both recorded the highest month-on-month price decrease of 1.65% and 1.29% to 95.10 and 96.37, respectively. The 12.71% June 2022 Kenya Government Bond recorded a month-on-month price increase of 1.67% to 100.57. This was followed by the 3.52% February 2023 China Government Bond. 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 October 2016.

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

The advance estimate from the United States (U.S.) Bureau of Economic Analysis (BEA) showed that the growth in the U.S. economy beat market expectations. It recorded an annualized growth rate of 2.9% (quarter-on-quarter) in Q3 2016, higher than the 1.4% recorded in Q2 2016 and beating market expectations of 2.5%. It is the strongest growth rate since Q1 2014, as exports recorded the highest growth in three years. The U.S. unemployment rate stood at 4.9% in October 2016, compared with 5% in the previous month. The inflation rate in the U.S. went up by 1.5% (year-on-year) in September 2016, higher than the 1.1% in August 2016 and in line with market expectations. It is the highest inflation rate since October 2014.

The US economy grew by 2.9% (quarter-on-quarter) in Q3 2016.

Table 1: Summary of Key Indicators

| S/N | Indicators | China | Egypt | India | Kenya | Nigeria | Russia | South Africa | Turkey | USA |
|-----|-----------------------|----------|---------|---------|----------|----------|----------|--------------|----------|----------|
| 1 | Bond Price | 105.51 | 100.24 | 105.85 | 100.57 | 105.47 | 96.37 | 96.97 | 95.10 | 101.12 |
| 2 | Bond Yield | 2.57% | 16.92% | 6.87% | 12.55% | 14.83% | 8.78% | 8.38% | 9.79% | 1.57% |
| 3 | Bond Price MoM Change | 1.09% | (0.15%) | 0.67% | 1.67% | 0.29% | (1.29%) | (0.57%) | (1.65%) | (1.14%) |
| 4 | Bond Yield MoM Change | (0.20%) | 0.03% | (0.16%) | (0.42%) | (0.12%) | 0.40% | 0.06% | 0.34% | 0.19% |
| 5 | Bond Price YTD Change | 2.86% | (9.27%) | 4.65% | 5.15% | (14.38%) | 5.29% | 7.40% | 4.85% | 3.74% |
| 6 | Bond Yield YTD Change | (0.55%) | 2.53% | (1.05%) | (1.19%) | 3.79% | (1.14%) | (1.29%) | (0.01%) | (0.55%) |
| 7 | Real Yield | 0.67% | 2.82% | 1.97% | 6.08% | (3.02%) | 2.68% | 2.28% | 2.63% | 0.07% |
| 8 | Volatility | 0.02 | 0.00 | 0.00 | 0.00 | -0.01 | 0.02 | -0.01 | -0.40 | -0.02 |
| 9 | FX Rate MoM Change* | 4.16% | 11.89% | 0.94% | (0.84%) | 35.89% | (14.94%) | (14.68%) | (35.67%) | 0.88% |
| 10 | FX Rate YTD Change* | 2.67% | 11.88% | 0.69% | (1.04%) | 36.73% | (17.13%) | (13.83%) | (35.67%) | 3.14% |
| 11 | Inflation Rate | 1.90% | 14.10% | 4.90% | 6.47% | 17.85% | 6.10% | 6.10% | 7.16% | 1.50% |
| 12 | Policy Rate | 4.35% | 14.75% | 6.25% | 10.00% | 14.00% | 10.00% | 7.00% | 7.50% | 0.50% |
| 13 | Debt to GDP | 43.90% | 90.50% | 67.20% | 52.80% | 11.50% | 17.70% | 50.10% | 32.90% | 104.17% |
| 14 | GDP Growth Rate | 6.70% | 2.30% | 7.10% | 1.80% | (2.06%) | (0.60%) | 0.60% | 3.10% | 1.50% |
| 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) asserts that global economic growth is expected to pick up in the HY2 2016 and gather more momentum in 2017. OPEC however maintained its global growth forecast at 2.9% and 3.1% for 2016 and 2017, respectively.

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

The U.S. growth forecast remains unchanged for 2016 and 2017. However, given the slowing recovery in the labour market and the severe impact from declining investments, the trend in US growth will need close monitoring. Growth in Japan and the Euro-zone also remains unchanged for 2016 and 2017. The forecasts for major emerging economies also remain at the same levels as in the previous month, with the exception of Russia, which was revised up to a decline of 0.6% in the current year, taking into consideration a better-than-expected development in the first half.

Numerous uncertainties for global economic growth in the remainder of 2016 and for 2017 remain. Among these uncertainties are: policy issues across the globe bear considerable weight, as do monetary policy decisions, which remain important in the near term. It added that the central banks policy decisions need close monitoring as monetary stimulus is becoming increasingly less effective. The impact of low or negative interest rates may also be taken into consideration.

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

| | 2016F | 2017F |
|-----------|--------------|--------------|
| World | 2.9% | 3.1% |
| OECD | 1.6% | 1.7% |
| USA | 1.5% | 2.1% |
| Japan | 0.7% | 0.9% |
| Euro-zone | 1.5% | 1.2% |
| China | 6.5% | 6.1% |
| India | 7.5% | 7.2% |
| Brazil | (3.4%) | 0.4% |
| Russia | (0.6%) | 0.7% |

Source: OPEC Monthly Report, October 2016

1.2 Regional Economic Growth: Sub-Saharan Africa:

The International Monetary Fund (IMF) has indicated that economic activity in sub-Saharan Africa has decelerated sharply, against the backdrop of lower commodity prices and a less-supportive global environment. The region’s output is only expected to expand by 1.4% in 2016, the worst growth performance in more than 20 years. The loss in momentum over the last two years has been on par with the deep slowdowns of previous decades. The report added that a modest recovery is possible in 2017, to slightly less than 3%.

The report showed that major risks to the growth outlook is from macroeconomic imbalances and heightened policy uncertainty prevalent in several of the region’s largest economies. The three largest commodity exporting countries are Nigeria, Angola and South Africa.

The IMF added that in the face of strong financial and economic pressures, the policy response in many of the hardest-hit countries has been slow and piecemeal. This is it said, is often accompanied by stopgap measures such as central bank financing and the accumulation of arrears, and leading to rapidly rising public debt. In oil-exporting countries with flexible regimes, exchange rates have been allowed to adjust only with reluctance, resulting in strong pressures on deposits and foreign exchange reserves. Thus, the delayed adjustment and ensuing policy uncertainty have been deterring investment and stifling new sources of growth, making a return to strong growth rates more difficult.

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| | 2016F | 2017F |
|---------------------------|--------|-------|
| Sub-Saharan Africa | 1.4% | 2.9% |
| Nigeria | (1.7%) | 0.6% |
| South Africa | 0.1% | 0.8% |
| Angola | 0.0% | 1.5% |
| Ethiopia | 6.5% | 7.5% |
| Kenya | 6.0% | 6.1% |
| Ghana | 3.3% | 7.4% |
| Cote d’Ivoire | 8.0% | 8.5% |

Source: OPEC Monthly Report, October 2016

1.3 Nigeria's Capital Importation Update:

The total capital imported into the Nigerian economy in Q3 2016 was US\$1.82bn, a fall of 33.7% from US\$2.75bn recorded in Q3 2015, but an increase of 74.84% from Q2 2016. This is according to the National Bureau of Statistics (NBS). The highest level of capital imported was in August 2016, representing the highest level since July 2015. Capital imported in September 2016 stood at US\$649.76mn, representing the second highest level of capital imported in any month in Q1 2016 and Q2 2016. **Unlike in the prior quarters, where Other Loans was responsible for majority of the increase, a number of investments types contributed to the quarterly increase.**

Year-on-year (y-o-y), the capital importation declined for each broad type: Foreign Direct Investments (FDIs), Foreign Portfolio Investments (FPIs), and Other Investments. FDIs recorded the largest decline of 52.54% y-o-y, compared with declines of 45.05% and 8.80% for Other investment and FPIs respectively. FDIs recorded an increase of 84.84%, while Other Investments recorded an increase of 7.80%. FPIs regained its position as the largest investment type and accounted for 50.51% of the foreign capital in Q3 2016. FDIs and Other investment accounted for 30.80% and 18.69% of the total capital imported during the period, respectively. A significant portion of the FPIs was recorded from debt financing as portfolio investment in Bonds and Money Market Instruments took the lead. Portfolio Equity on the other hand recorded a decline of 28% quarter-on-quarter, but the increase in other types of portfolio investment more than offset the decline from equity. **Bonds increased from zero in the Q2 2016 to US\$369mn in Q3 2016 while Money Market Instruments increased by 509% from US\$57.5mn.** This is the first quarter since Q2 2007 in which Equity was not the largest part of Portfolio Investment. Equity at US\$201.12mn remains considerably subdued relative to previous highs of US\$4,930mn in the Q1 2013 and US\$3,875mn in Q2 2014. This highlights the fact that equity investment has been hit severely by the recent economic events.

The total capital imported into the Nigerian economy in Q3 2016 was US\$1.82bn, a fall of 33.7% from US\$2.75bn recorded in Q3 2015, but an increase of 74.84% from Q2 2016.

A significant portion of the FPIs was recorded from debt financing as portfolio investment in Bonds and Money Market Instruments took the lead.

Bonds increased from zero in the Q2 2016 to US\$369mn in Q3 2016 while Money Market Instruments increased by 509% from US\$57.5mn.

| | 2015 | | | | 2016 | | |
|---|--------------|--------------|--------------|--------------|------------|--------------|--------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Foreign Direct Investment - Equity | 395 | 211 | 718 | 123 | 174 | 184 | 341 |
| Foreign Direct Investment - Other Capital | 0 | 0 | 2 | 2 | 1 | 0 | - |
| Portfolio Investment - Equity | 1,139 | 1,846 | 880 | 792 | 202 | 280 | 201 |
| Portfolio Investment - Bonds | 705 | 51 | 20 | 0 | 2 | - | 369 |
| Portfolio Investment - Money Market Instruments | 16 | 287 | 109 | 160 | 68 | 58 | 350 |
| Other Investments - Loans | 385 | 153 | 696 | 421 | 242 | 520 | 561 |
| Other Investments - Other Claims | 32 | 118 | 318 | 60 | 24 | 0 | 0 |
| Total | 2,672 | 2,666 | 2,743 | 1,559 | 712 | 1,042 | 1,822 |

Source: National Bureau of Statistics (NBS)

1.4 Inflation Rate:

The inflation rate remained elevated in October 2016. However, there was an observed slow-down in the month-on-month inflation rate reflecting a slow-down in inflationary pressure. **The inflation rate increased further in October 2016 to 18.33%, from 17.85% 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 expect November inflation rate at 18.42%.

We estimate that the inflation rate would be at 18.42% in November 2016 as shown on table 5 below.

| 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 |
|-----------------|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Actual/Forecast | 9.62% | 11.38% | 12.77% | 13.72% | 15.58% | 16.48% | 17.13% | 17.61% | 17.85% | 18.33% | 18.42% | 18.52% |

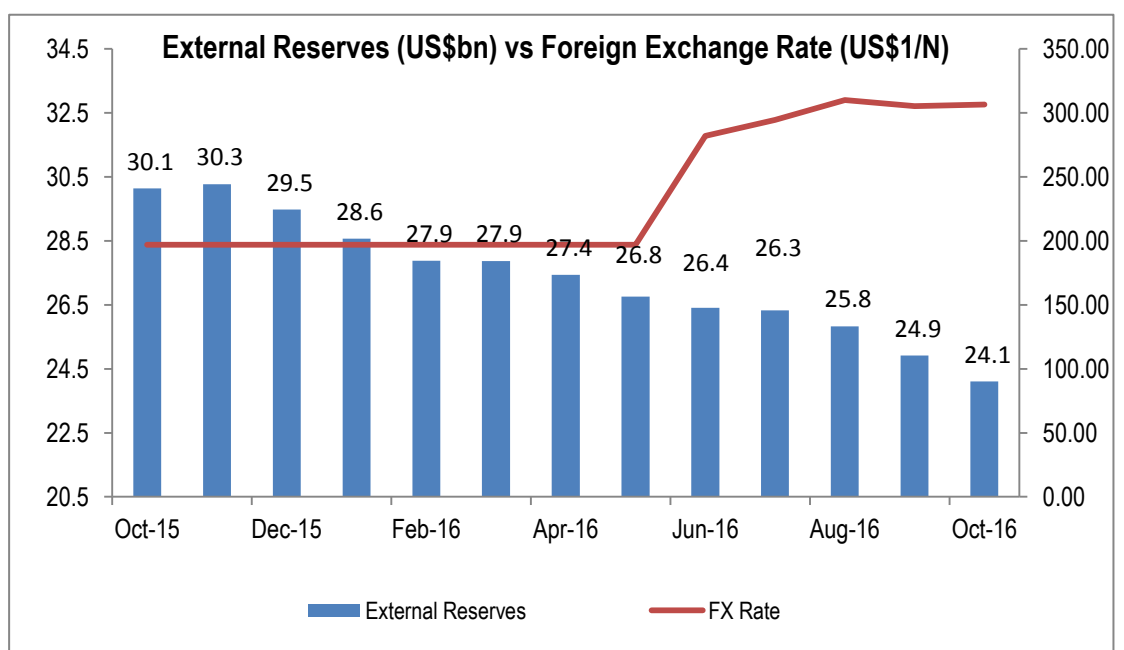
Source: National Bureau of Statistics and FSDH Research Analysis

1.5 Movement in the External Reserves:

The demand pressure on the external reserves in the face of low foreign exchange receipts persisted in October 2016. We note that the external reserves recorded consistent increase towards the end of October 2016. The recent accretion to the external reserves started from October 20, 2016. The inflow from international money transfer operators was the major reason for the increase in the external reserves. There was also a marginal increase in oil production, which also boosted the external reserves. The 30-day moving average external reserves declined by 2.36% to US\$23.95bn as at end-October 2016, from US\$24.53bn at end-September 2016. It increased by 0.21% to US\$23.95bn as at October 31, 2016 from US\$23.90bn on October 20, 2016. The average external reserves stood at US\$29.1bn in October 2016, from US\$24.9bn in September 2016.

The external reserves declined by 2.36% to US\$23.95bn as at end-October 2016, from US\$24.53bn at end-September 2016.

The insulation of the Nigerian economy from the vagaries of oil price volatility remains the sustainable solution for the pressure on the external reserves. The FGN should step up its actions at improving the business environment in order to stimulate productive economic activities. The critical elements to increasing the level of external reserves position lies in the improvement in the state of infrastructure.



1.6 Crude Oil Market and Bonny Light Price:

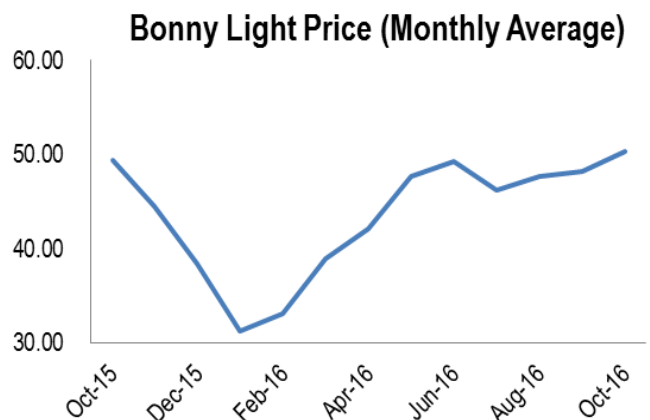
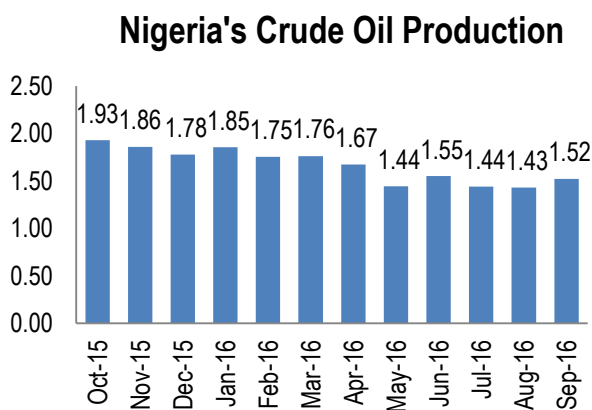
The daily crude oil production in Nigeria increased by 6.29% to 1.52mbpd in September 2016, from 1.43mbpd in August 2016. This is based on the secondary data available from the Organization of the Petroleum Exporting Countries (OPEC) report for the month of October 2016. The total OPEC crude oil production from secondary sources was 33.39mbpd in September 2016, an increase of 0.66% from 33.17mbpd over the previous month. The OPEC production level in September 2016 is 3.39mbpd higher than its collective production quota of 30mbd/d. Crude oil production output increased mostly from Iraq, Nigeria, Libya, Iran, Kuwait, and United Arab Emirates; while production recorded the largest drop in Saudi Arabia, Venezuela, Gabon, and Angola.

The daily crude oil production in Nigeria increased by 6.29% to 1.52mbpd in June 2016, from 1.43mbpd in May 2016.

The U.S Energy Information Administration (EIA) in its monthly report for October 2016 indicated that Brent crude oil prices are forecast to average US\$43/b in 2016 and US\$51/b in 2017, respectively. West Texas Intermediate (WTI) crude oil prices are forecast to average about \$1/b less than Brent in 2016 and in 2017. The current values of futures and options contracts suggest high uncertainty in the price outlook. The recent activity of U.S. onshore producers, along with expectations of higher U.S. production in 2017, is one of the drivers for lowering EIA's Brent crude oil forecast.

The average price of Bonny Light was US\$50.32b in October 2016, an increase of 4.49% from the average price of US\$48.16/b recorded in September 2016.

According to the data from Thomson Reuters, the Bonny Light oil price decreased by 5.60% to US\$46.84/b as at end-October 2016, from end-September 2016. The average price of Bonny Light was US\$50.32/b in October 2016, an increase of 4.49% from the average price of US\$48.16/b recorded in September 2016.



1.7 Foreign Exchange Rate:

We observed inflows from the international money transfer operators in October 2016 and it had positive impacts on the value of the Naira. The Naira appreciated by 2.35% at the parallel market to close at US\$1/N468 at end-October 2016 from US\$1/N479 as at end-September 2016. The average exchange rate at the parallel market depreciated by 6.84% to stand at US\$1/N466.08 in October 2016, compared with US\$1/N434.20 in September 2016.

We observed inflows from the international money transfer operators in October 2016 and it had positive impacts on the value of the Naira.

The inter-bank market appreciated in October 2016. As at end-October 2016, the value of the Naira closed at US\$1/N308.81 at the inter-bank market, an appreciation of 0.91% from US\$1/N311.62 at end-September 2016.

The inter-bank market appreciated in October 2016.

The persistence of foreign exchange shortages makes the intervention of the CBN at the foreign exchange market necessary despite the adoption of the flexible exchange rate policy. In our opinion, 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.

2.0 Interest Rate and Yield Analysis:

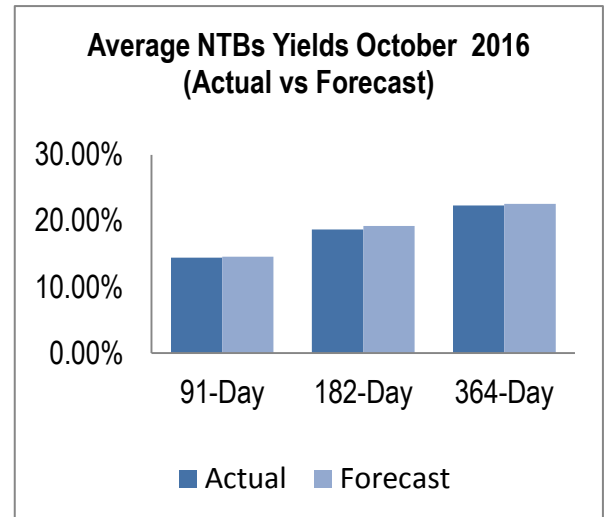
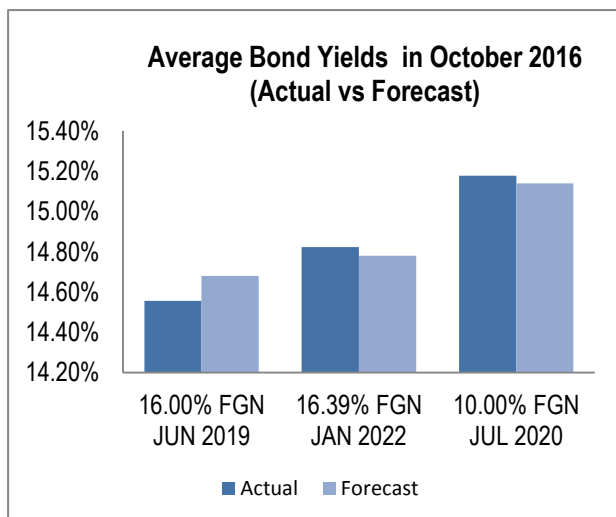
The yields on fixed income securities closed lower in October 2016, compared with September 2016. The increased purchases from investors due to the attractiveness of the yields on the FGN securities led to the lower yields in October 2016.

The fixed income market analysis for October 2016 shows a net outflow of about N18bn, compared with a net outflow of about N238bn in September 2016. The major outflows in October 2016 were the Open Market Operations (OMO) and Repurchase Bills (REPO) of N509bn, Primary NTBs of about N267bn, and the bond auction of about N105bn. Meanwhile, in September 2016, the major outflow were from the OMO and REPO of N951bn, Primary NTBs of about N314bn, and the bond auction of about N120bn. The major inflows in October 2016 were the matured OMO and REPO Bills of N426bn, matured NTBs of about N267bn, and the Federation Account Allocation Committee (FAAC) injection of about N170bn. In September 2016, matured OMO and REPO Bills of N572bn, matured NTBs of about N324bn, and the Federation Account Allocation Committee (FAAC) injection of about N231bn were the major inflows.

At the NTBs auction, average yields decreased across the various tenors in October 2016, compared with September 2016. The average 91-day NTB yield stood at 14.45% in October, down from 14.51% in September. The average 182-day NTB yield closed at 18.68%, down from 19.19% in September. The average 364-day NTB yield closed at 22.35%, down from 22.52% in September 2016. Meanwhile, the average 30-day NIBOR closed at 18.48% in October 2016, down from 19.43% in September 2016. The average 90-day NIBOR also decreased to 19.58%, from 20.28% in the preceding month.

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The yields on the FGN Bonds monitored closed higher in October 2016, compared with September 2016, except the 16% FGN June 2019.

Table 6: Average Bond Yields

| | 16.00% FGN JUN 2019 | 16.39% FGN JAN 2022 | 10.00% FGN July 2030 |
|----------------|---------------------|---------------------|----------------------|
| September 2016 | 14.60% | 14.76% | 15.03% |
| October 2016 | 14.56% | 14.82% | 15.12% |
| Change | (0.05%) | 0.07% | 0.14% |

Source: Financial Market Dealers Quotation

Table 7: Average Interest Rate and Yields

| | NIBOR | | | | Treasury Bill Yields | | |
|----------------|--------|---------|---------|---------|----------------------|---------|---------|
| | Call | 30 Day | 90 Day | 180 Day | 91-Day | 182-Day | 364-Day |
| September 2016 | 20.23% | 19.43% | 20.38% | 22.54% | 14.51% | 19.19% | 22.52% |
| October 2016 | 31.11% | 18.48% | 19.58% | 21.36% | 14.45% | 18.68% | 22.35% |
| Change | 10.88% | (0.95%) | (0.70%) | (1.19%) | (0.05%) | (0.51%) | (0.17%) |

Source: CBN and Financial Market Dealers Quotation

Table 8: Market Liquidity (N'bn)

| | September 2016 | | | October 2016 | | |
|---|----------------|---------------|----------|--------------|---------------|----------|
| | Total Inflow | Total Outflow | Net flow | Total Inflow | Total Outflow | Net Flow |
| Primary Market: NTB | 324 | 314 | 10 | 267 | 267 | 0 |
| Open Market Operations (OMO) & Rev Repo | 572 | 951 | (359) | 426 | 509 | (83) |
| BOND | - | 120 | (120) | 0 | 105 | (105) |
| FAAC | 231 | - | 231 | 170 | 0 | 170 |
| FX Market | - | - | - | - | - | - |
| CRR Debit/Credit | - | - | - | - | - | - |
| TSA Implementation | - | - | - | - | - | - |
| Total | 1,127 | 1,365 | (238) | 863 | 880 | (18) |

Source: Central Bank of Nigeria and Federal Ministry of Finance

2.1 Revised Outlook Going Forward:

A total inflow of about N614bn should hit the money market from the various maturing government securities and Federation Account Allocation Committee (FAAC) in the month of November 2016. Our expected outflows from the various sources such as government securities and statutory withdrawals are estimated at N539bn, leading to a net inflow of about N76bn. **The inflationary expectation is still elevated and expected to put an upward pressure on yields in November 2016.**

The inflationary expectation is still elevated and expected to put an upward pressure on yields in November 2016.

| Date | 03-Nov-16 | 16-Nov-16 | 17-Nov-16 | Others | Total |
|---|-----------|-----------|-----------|-----------|--------------|
| Inflows | 261.75 | 32.44 | 119.94 | 200.00 * | 614.13 |
| Outflows | 122.96 | 110.00 | 119.94 | 185.64 ** | 538.54 |
| Source: FSDH Estimates, *Statutory Allocation (FAAC), ** Cash Reserve Requirement (CRR) Debit | | | | | 75.58 |

| | Treasury Bills (Primary Market) | | | FGN Bonds (Secondary Market) | | |
|--|---------------------------------|---------|---------|------------------------------|--------|--------|
| | 91-Day | 182-Day | 364-Day | Jun-19 | Jan-22 | Jul-30 |
| JanA-16 | 4.19% | 7.57% | 9.52% | 10.90% | 11.77% | 11.91% |
| FebA-16 | 4.96% | 7.94% | 10.17% | 10.53% | 11.82% | 11.98% |
| MarA-16 | 5.73% | 8.27% | 10.17% | 10.33% | 11.47% | 12.06% |
| AprA-16 | 7.12% | 9.25% | 10.95% | 11.20% | 11.79% | 12.64% |
| MayA-16 | 8.21% | 9.53% | 13.34% | 13.21% | 13.51% | 13.63% |
| JunA-16 | 8.86% | 10.80% | 14.58% | 13.76% | 14.01% | 14.22% |
| JulA-16 | 12.45% | 14.91% | 18.67% | 14.59% | 14.58% | 14.86% |
| AugA-16 | 15.81% | 19.50% | 22.70% | 15.04% | 14.94% | 15.25% |
| SepA-16 | 14.51% | 19.19% | 22.52% | 14.60% | 14.76% | 15.03% |
| OctA-16 | 14.45% | 18.68% | 22.35% | 14.56% | 14.82% | 15.18% |
| NovF-16 | 14.67% | 19.15% | 22.66% | 14.77% | 15.07% | 15.43% |
| DecF-16 | 15.02% | 19.28% | 22.76% | 14.92% | 15.37% | 15.53% |
| Source: CBN, FMDQ, and FSDH Research Forecasts | | | | | | |

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

- The intention of the CBN to attract Foreign Portfolio Investments (FPI) into the domestic fixed income securities market
- The rising inflation rate and the weak currency
- The longer tenor Treasury Bill will continue to offer more attractive yields

2.2 Strategy:

- We recommend investments in Treasury Bills in order to maximize the current high yield. There should also be some investments in FGN Bonds to minimize reinvestment risk from current high yields level.

The average yields on the FGN Eurobonds were higher in October 2016 than in September 2016. Consequently, the average prices of the bonds closed lower in the month of October, compared with September 2016. The unabated macroeconomic risks continues to negatively impact the appetite for Nigeria's Euro Bond.

Table 11: 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 (%) |
| 03-Oct-16 | 101.100 | 6.450 | 98.733 | 6.608 | 100.964 | 4.547 |
| 04-Oct-16 | 101.104 | 6.449 | 98.661 | 6.621 | 100.992 | 4.529 |
| 05-Oct-16 | 101.035 | 6.467 | 98.496 | 6.652 | 100.982 | 4.532 |
| 06-Oct-16 | 100.925 | 6.496 | 98.320 | 6.686 | 100.877 | 4.593 |
| 07-Oct-16 | 100.637 | 6.574 | 97.988 | 6.749 | 100.734 | 4.678 |
| 10-Oct-16 | 100.623 | 6.578 | 97.875 | 6.770 | 100.838 | 4.616 |
| 11-Oct-16 | 100.433 | 6.629 | 97.838 | 6.777 | 100.732 | 4.679 |
| 12-Oct-16 | 100.217 | 6.687 | 97.563 | 6.829 | 100.585 | 4.765 |
| 13-Oct-16 | 99.821 | 6.795 | 97.072 | 6.924 | 100.500 | 4.816 |
| 14-Oct-16 | 99.764 | 6.811 | 96.907 | 6.956 | 100.582 | 4.766 |
| 17-Oct-16 | 99.366 | 6.920 | 96.429 | 7.048 | 100.646 | 4.727 |
| 18-Oct-16 | 99.543 | 6.871 | 96.573 | 7.020 | 100.573 | 4.770 |
| 19-Oct-16 | 99.931 | 6.765 | 97.060 | 6.927 | 100.656 | 4.718 |
| 20-Oct-16 | 99.974 | 6.753 | 97.359 | 6.870 | 100.823 | 4.616 |
| 21-Oct-16 | 99.968 | 6.755 | 97.142 | 6.912 | 100.823 | 4.615 |
| 24-Oct-16 | 100.109 | 6.716 | 97.355 | 6.871 | 100.948 | 4.538 |
| 25-Oct-16 | 100.272 | 6.672 | 97.445 | 6.854 | 100.948 | 4.537 |
| 26-Oct-16 | 100.242 | 6.680 | 97.521 | 6.840 | 100.948 | 4.535 |
| 27-Oct-16 | 100.090 | 6.721 | 97.330 | 6.877 | 100.948 | 4.534 |
| 28-Oct-16 | 99.766 | 6.811 | 96.659 | 7.006 | 100.885 | 4.572 |
| 31-Oct-16 | 99.893 | 6.776 | 96.871 | 6.965 | 100.969 | 4.519 |

Source: Bloomberg

3.0 Equity Market:

3.1 The Secondary Market:

Investors sentiments waned at the equity market in October 2016. The unclear economic direction and shortages of foreign exchange continue to weigh down risk appetite in the equity market. The Nigerian Stock Exchange All Share Index (NSE ASI) depreciated by 3.94% (a loss of 1.59% in US\$) in October 2016 to close at 27,220.09 points. The Year-to-Date (YTD) performance of the Index remains negative, closing October with a YTD loss of 4.97%. Similarly, the market capitalisation recorded a loss of 3.94% (a loss of 1.59% in US\$) to close at N9.35trn (US\$30.28bn).

The unclear economic direction and shortages of foreign exchange continue to weigh down risk appetite in the equity market.

Market activities decreased in the month of October 2016, compared with September 2016. The volume of stocks traded decreased by 54.13% to N3.67bn. The value of stocks traded also decreased by 34.97% to N32.02bn.

All the Sectoral Indices depreciated in October 2016, compared with September 2016. Month-on-month (MoM), The NSE Industrial Index recorded the highest depreciation of 7.52%, with a YTD depreciation of 21.70%. The NSE Banking Index recorded a MoM loss of 2.84%, with a YTD loss of 0.56%. The loss in the Industrial Index could be attributed to the decreases in the share price of Lafarge Africa (13.32%), Cement Company of Northern Nigeria (12.83%) and Dangote Cement (4.37%).

The Year-to-Date (YTD) performance of the Index remains negative, closing October with a YTD loss of 4.97%.

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

Table 12: Nigerian Equity Market: Key Indicators

| Month | Volume (bn) | Value (N'bn) | NSEASI | Market Cap. (N'trn) | Banking* | Insurance* | Consumer Goods* | Oil/Gas* | Industrial* |
|-----------|-------------|--------------|-----------|---------------------|----------|------------|-----------------|----------|-------------|
| September | 8.00 | 49.23 | 28,335.40 | 9.73 | 274.77 | 129.58 | 757.40 | 336.03 | 1,834.31 |
| October | 3.67 | 32.02 | 27,220.09 | 9.35 | 266.98 | 128.93 | 729.68 | 325.48 | 1,696.44 |
| Change | (54.13%) | (34.97%) | (3.94%) | (3.94%) | (2.84%) | (0.50%) | (3.66%) | (3.14%) | (7.52%) |
| YTD | - | - | (4.97%) | (5.09%) | (0.56%) | (9.59%) | (2.21%) | (8.72%) | (21.70%) |

Sources: NSE, FSDH Research. * NSE Sectoral Indices

Table 13: Major Earning Announcements in October 2016

| Company and Result | Turnover (Nm) | Change (%) | PBT (Nm) | Change (%) | PAT (Nm) | Change (%) |
|---|---------------|------------|-----------|------------|----------|------------|
| UBA PLC | | | | | | |
| 9 Months, Sept 2016 | 265,527 | 8.16 | 61,555 | 7.30 | 52,269 | 7.64 |
| FORTE OIL PLC | | | | | | |
| 9 Months, Sep. 2016 | 121,083 | 32.16 | 5,633 | 6.52 | 2,797 | -34.72 |
| GUARANTY TRUST BANK PLC | | | | | | |
| 9 Months, Sept 2016 | 329,284 | 43.56 | 140,837 | 52.98 | 119,927 | 59.56 |
| WEMA BANK PLC | | | | | | |
| 9 Months, Sep. 2016 | 37,892.33 | 16.36 | 1,494 | -2.26 | 1,270 | -2.26 |
| ZENITH BANK PLC | | | | | | |
| 9 Months, Sep. 2016 | 380,352 | 12.91 | 121,275 | 16.55 | 100,074 | 20.44 |
| NASCON ALLIED INDUSTRIES PLC | | | | | | |
| 9 Months, Sep. 2016 | 12,795 | 25.53 | 2,593 | 8.94 | 1,763 | 8.94 |
| FBN HOLDINGS PLC | | | | | | |
| 9 Months, Sep. 2016 | 417,300 | 7.00 | 57,455 | -3.54 | 42,517 | -15.33 |
| UNION BANK NIG. PLC | | | | | | |
| 9 Months, Sept 2016 | 91,400 | 7.03 | 13,275 | 40.48 | 13,012 | 40.82 |
| CONOIL PLC | | | | | | |
| 9 Months Sep. 2016 | 63,951 | 6.31 | 2,715 | 54.27 | 1,810 | 51.19 |
| DANGOTE CEMENT PLC | | | | | | |
| 9 Months, Sept. 2016 | 442,092 | 20.97 | 148,716 | -10.90 | 133,521 | -15.49 |
| NIGERIAN BREWERIES PLC | | | | | | |
| 9 Months, Sep. 2016 | 222,717 | 3.63 | 27,796 | -26.00 | 20,112 | -23.17 |
| LAFARGE AFRICA PLC | | | | | | |
| 9 Months, Sep 2016 | 161,044 | -25.11 | -40,368 | -210.56 | -37,402 | -215.46 |
| NESTLE NIGERIA PLC | | | | | | |
| 9 Months, Sep. 2016 | 129,482 | 19.91 | 5,504 | -73.55 | 485 | -97.19 |
| DANGOTE SUGAR REFINERY | | | | | | |
| 9 Months, Sep 2016 | 115,253 | 57.78 | 15,319 | 7.69 | 10,117 | 8.38 |
| TRANSNATIONAL CORPORATION OF NIGERIA PLC | | | | | | |
| 9 Months, Sep. 2016 | 41,920 | 37.76 | -12,780 | -277.75 | -14,210 | -341.26 |
| U A C N PLC | | | | | | |
| 9 Months, Sep. 2016 | 57,703 | 4.77 | 6,297 | 27.22 | 4,342 | 42.38 |
| FLOUR MILLS NIG. PLC | | | | | | |
| 6 Months, Sep. 2016 | 255,305 | 43.77 | 8,800 | -63.50 | 6,468 | -73.07 |
| DIAMOND BANK PLC | | | | | | |
| 9 Months, Sep. 2016 | 151,109 | -3.47 | 3,892 | -79.07 | 3,511 | -78.01 |
| GUINNESS NIG PLC | | | | | | |
| 3 Months, Sep. 2016 | 23,018 | 5.87 | -2,213.23 | -527.62 | -2,227 | -714.67 |
| ACCESS BANK NIGERIA PLC | | | | | | |
| 6 Months, June. 2016 | 174,069 | 3.22 | 50,022.93 | 27.89 | 39,488 | 26.21 |
| OANDO PLC | | | | | | |
| 9 Months, Sep. 2016 | 227,846 | 69.07 | -87,516 | 98.22 | -35,887 | -24.66 |

The Brazil Stock Market Index recorded the highest MoM appreciation of 11.23%, with a YTD appreciation of 49.77%.

Table 14 below shows the performance of some selected foreign equity markets around the world. The Brazil Stock Market Index (Brazil) recorded the highest MoM appreciation of 11.23%, with a YTD appreciation of 49.77%. This is followed by the NIKKEI 225 Index (Japan) with a MoM gain of 5.93%, and a loss of 5.75% YTD. The NSE All-Share Index (Nigeria) recorded the highest MoM depreciation of 3.94% MoM and, a YTD depreciation of 4.97%. This was followed by the NASDAQ Composite (U.S.) with a MoM loss 2.29%, and a gain of 3.65% YTD.

| North/Latin America | YTD Change | Month-on-Month Change |
|---|------------|-----------------------|
| Dow Jones Industrial Average | 4.12% | (0.91%) |
| S&P 500 Index | 4.02% | (1.94%) |
| NASDAQ Composite | 3.63% | (2.31%) |
| Brazil Stock Market Index | 49.77% | 11.23% |
| Europe | | |
| Swiss Market Index | (11.23%) | (3.82%) |
| FTSE 100 Index (UK) | 11.40% | 0.80% |
| CAC 40 Index (France) | (2.76%) | 1.37% |
| DAX Index (Germany) | (0.73%) | 1.47% |
| Africa | | |
| NSE All-Share Index | (4.97%) | (3.94%) |
| JSE All-Share Index (S/A) | (0.20%) | (2.62%) |
| Nairobi All Share Index (Kenya) | (5.94%) | 0.21% |
| GSE All-Share Index (Ghana) | (13.36%) | (2.62%) |
| Asia/Pacific | | |
| NIKKEI 225 Index (Japan) | (5.75%) | 5.93% |
| BSE 30 Index (India) | 6.94% | 0.23% |
| Shanghai Stock Exchange Composite Index (China) | (12.40%) | 3.19% |
| Hang Seng Index (Hong Kong) | 4.66% | (1.56%) |
| <i>Source: Bloomberg</i> | | |

3.2. Outlook for the Month of November:

The lacklustre trading pattern may continue except:

- There is an evidence that the stock of the foreign reserve will increase
- There are clear policies from the Federal Government to lift the economy
- The expected weak performance in most of the quoted company may also lead to additional poor performance in the equity market
- Going by historical performance, the equity market may receive a boost from the investment activities of institutional investors (pension funds and insurance companies) to end the year 2016
- However, going by the current weak macroeconomic environment, and low liquidity in the equity market the market may not witness improvement in activities towards the end of the year

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

Table 15: Equity Market Trend Analysis (2011-2015) – NSE ASI Analysis

| Months | Year | | | | |
|----------|-----------|-----------|-----------|-----------|-----------|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| October | 20,934.96 | 26,430.92 | 37,622.74 | 37,550.24 | 29,177.72 |
| November | 20,003.36 | 26,494.44 | 38,920.85 | 34,543.05 | 27,385.69 |
| % Change | (4.45%) | 0.24% | 3.45% | (8.01%) | (6.14%) |

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

The clarity of the economic policy direction of the FGN holds the short-to-medium needed upward push for the equity market.

The performance of the equity market in the last five years shows that the market recorded more negative performance between October and November. **The clarity of the economic policy direction of the FGN holds the short-to-medium term needed upward push for the equity market.**

| Asset Class | Fund Allocation |
|-------------------------------------|-----------------|
| Equities | 15% |
| Fund Placement | 15% |
| 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 |
|----------------|-----------------|-------------|--------------|--------------|-------------------|--------------|
| Dangote Cement | 164.00 | 123.51 | 203.96 | 9.20 | 17.82 | 180.13 |
| Dangote Sugar | 6.30 | 0.83 | 6.51 | 1.05 | 6.00 | 7.31 |
| Flour Mills | 18.05 | 16.13 | 24.99 | 7.85 | 2.30 | 20.94 |
| NASCON | 7.37 | 5.80 | 8.70 | 0.85 | 8.68 | 8.55 |
| Nestle Nigeria | 814.97 | 615.26 | 860.00 | 8.81 | 92.49 | 839.76 |
| UBA | 4.30 | 2.59 | 5.19 | 1.75 | 2.46 | 4.99 |
| Zenith Bank | 14.70 | 9.00 | 17.70 | 3.91 | 3.76 | 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 | 2.64 | 16.00% | 102.90 | 14.61% | 1.90 |
| 2 | 16.39% FGN JAN 2022 | 5.21 | 16.39% | 105.00 | 14.95% | 2.33 |
| 3 | 14.20% FGN MAR 2024 | 7.34 | 14.20% | 96.00 | 15.11% | 4.30 |
| 4 | 12.1493% FGN JUL 2034 | 17.69 | 12.15% | 81.20 | 15.24% | 5.99 |

Source: FSDH Research

Attractive Fixed Income Securities Trading on the FMDQ as at 31 October, 2016

| Issuer | Description | Coupon | Maturity Date | TTM (Years) * | Current Yield | Price |
|----------------------------|---|-------------|---------------|----------------|---------------------|-------------------|
| State Bonds | | | | | | |
| Lagos | 10.00% LAGOS 19-APR-2017 | 10.00% | 19-Apr-17 | 0.47 | 20.26% | 95.59 |
| Lagos | 14.50% LAGOS 22-NOV-2019 | 14.50% | 22-Nov-19 | 3.06 | 16.92% | 94.36 |
| Lagos | 13.50% LAGOS 27-NOV-2020 | 13.50% | 27-Nov-20 | 4.07 | 16.32% | 91.81 |
| Corporate Bonds | | | | | | |
| UBA | 13.00% UBA 30-SEP-2017 | 13.00% | 30-Sep-17 | 0.92 | 22.65% | 92.36 |
| UBA | 14.00% UBA II 30-SEP-2018 | 14.00% | 30-Sep-18 | 1.91 | 18.67% | 92.71 |
| FCMB | 15.00% FCMB 6-NOV-2020 | 15.00% | 06-Nov-20 | 4.01 | 19.49% | 87.87 |
| Lafarge Africa Plc | 14.25% LAFARGE 15-JUN-2019 | 14.25% | 15-Jun-19 | 2.62 | 16.17% | 95.95 |
| NAHCO | 15.75% NAHCO II 14-NOV-2020 | 15.75% | 14-Nov-20 | 4.04 | 16.02% | 99.19 |
| Transcorp Hotels Plc | 15.50% TRANSCORP 4-DEC-2020 | 15.50% | 04-Dec-20 | 2.54 | 18.79% | 93.78 |
| Lafarge Africa Plc | 14.75% LAFARGE 15-JUN-2021 | 14.75% | 15-Jun-21 | 4.62 | 15.97% | 96.07 |
| FCMB | 14.25% FCMB I 20-NOV-2021 | 14.25% | 20-Nov-21 | 5.05 | 17.45% | 89.52 |
| UBA | 16.45% UBA I 30-DEC-2021 | 16.45% | 30-Dec-21 | 5.16 | 15.93% | 101.70 |
| Fidelity Bank | 16.48% FIDELITY 13-MAY-2022 | 16.48% | 13-May-22 | 5.53 | 15.93% | 101.94 |
| Transcorp Hotels | 16.00% TRANSCORP 26-OCT-2022 | 16.00% | 26-Oct-22 | 3.70 | 17.82% | 95.44 |
| Stanbic IBTC | 182D T.bills+1.20% STANBIC IA 30-SEP-2024 | 16.29% | 30-Sep-24 | 7.91 | 16.19% | 100.39 |
| Stanbic IBTC | 13.25% STANBIC IB 30-SEP-2024 | 13.25% | 30-Sep-24 | 7.91 | 16.19% | 87.10 |
| Supranational Bonds | | | | | | |
| IFC | 10.20% IFC 11-FEB-2018 | 10.20% | 11-Feb-18 | 1.28 | 18.07% | 91.29 |
| AFDB | 11.25% AFDB 1-FEB-2021 | 11.25% | 01-Feb-21 | 2.50 | 14.11% | 94.24 |
| Corporate Eurobonds | | | | | | |
| Access Bank Plc | 7.25% JUL 25, 2017 | 7.25% | 25-Jul-17 | 5.47 | 4.38 | 102.03 |
| Fidelity Bank Plc | 6.88% MAY 09, 2018 | 6.88% | 02-May-18 | 18.35 | 17.38 | 86.50 |
| GT Bank Plc | 6.00% NOV 08, 2018 | 6.00% | 08-Nov-18 | 6.39 | 5.73 | 100.51 |
| Zenith Bank Plc | 6.25% APR 22, 2019 | 6.25% | 22-Apr-19 | 7.46 | 6.87 | 98.61 |
| Diamond Bank Plc | 8.75% May 21, 2019 | 8.75% | 21-May-19 | 22.17 | 20.80 | 77.00 |
| First Bank Plc | 8.25% AUG 07, 2020 | 8.25% | 07-Aug-20 | 13.99 | 13.49 | 84.50 |
| Access Bank Plc II | 9.25%/6M USD LIBOR+7.677% JUN 24, 2021 | 9.25% | 24-Jun-21 | 11.29 | 11.04 | 93.29 |
| First Bank Ltd. | 8.00%/2Y USD SWAP+6.488% JUL 23 2021 | 8.00% | 23-Jul-21 | 14.72 | 14.36 | 78.17 |
| Ecobank Nig. Ltd | 8.75% AUG 14, 2021 | 8.75% | 14-Aug-21 | 12.23 | 11.76 | 86.63 |
| Commercial Paper | | | | | | |
| Issuer | Description | Yield@Issue | Maturity Date | DTM (Years) ** | Valuation Yield (%) | Discount Rate (%) |
| FSDH Merchant Bank Ltd | FSDH CP I 28-NOV-16 | 16.64% | 28-Nov-16 | 28 | 20.51% | 20.20 |
| FSDH Merchant Bank Ltd | FSDH CP II 26-MAY-17 | 21.89% | 26-May-17 | 207 | 22.23% | 19.75 |

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

| 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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