

Executive Summary

Domestic Scene:

- A combination of events played out in the global market in January 2019 that resulted in the stability of the Nigerian economy and financial market
- FSDH Research notes, however, that these events are not permanent in nature and may not guarantee short-to-medium term stability of the economy and financial market
- FSDH Research notes that the outcome of the February general election may determine the direction of the Nigerian financial market this month
- The progress made with the US-China trade re-negotiations and the trade concessions that China has made so far have lifted the global oil price
- These actions have provided some temporary fiscal relief in Nigeria
- The US sanctions on Venezuela also reduced supply and help crude oil price increase. The US may also however adopt a strategy to increase global crude oil supply to keep price low
- FSDH Research believes Nigeria needs to adjust the crude oil budget benchmark in line with realities. It also needs to build the strong structure for non-oil exports
- FOMC of the US Federal Reserve System maintained interest rate in January. Market expectation is that the FOMC may not raise interest rate in the first half of the year 2019
- Investors who had anticipated interest rate hike in the US in the first half of the year may reconsider their investment strategy in emerging and developing markets
- Purchasing Manager's Index (PMI) figures dropped in January 2019: FSDH Research notes that the drop is in line with the historical trend of low manufacturing activities associated with January
- FSDH Research observed downward movement in the external reserves in early February

- The current external reserves position continues to provide short-term stability for the value of the Naira
- However, the medium-term stability in the foreign exchange market will depend on the country's foreign exchange receipts from both crude oil and non-oil products
- There was a significant increase in capital importation via Foreign Portfolio Investors (FPI) in the Investors' and Exporters' Foreign Exchange Window (I&E window) in January 2019. This resulted in the accretion in the external reserves
- The increase in the external reserves supported by the increase in the FPI led to an appreciation in the foreign exchange rate in January
- The equity market continued on a downward trend in January 2019, following a M-o-M appreciation in December 2018
- As noted earlier in our short-term Economic and Financial market outlook, FSDH Research expects uncertainties surrounding elections to dominate Q1 2019 and deter some investors
- However, the outcome of the general elections in February will determine the direction of the equity market in February.

International Scene:

- The International Monetary Fund (IMF) revised downwards its global economic growth forecast for 2019 and 2020 citing the negative effects of US – China tariff increases, new automobile fuel emission standards in Germany, sovereign and financial risks in Italy and weak market sentiments in Turkey.

1.0 Global Developments:

A combination of events played out in the global market in January 2019 that should result in short-term stability in the Nigerian economy.

The Fed said it would be “patient” regarding its short-term guardian on interest rate decision.

A combination of events played out in the global market in January 2019 that resulted in the stability of the Nigerian economy. FSDH Research notes, however, that the outcome of the February general election may determine the direction of the Nigerian financial market going forward. As December 2018 figures were released showing the negative impacts of the US-China trade war on the global economy and on the two economies, both countries made concerted efforts to end the trade dispute. China's exports dropped in December, recording the largest drop since 2016. Its imports from US also dropped. Its PMI recorded the steepest contraction since February 2016. The progress made with the trade re-negotiation and the trade concessions that China has made so far have lifted the global oil price. The US trade sanctions on Venezuela crude oil exports and the commencement of implementation of the cut in Organization of Petroleum Exporting Countries (OPEC) crude oil output also helped the crude oil price to recover from the opening levels in January 2019. The crude oil price closed the month at US\$63/b (Bonny Light) and US\$59.71/b (Brent).

Meanwhile Federal Open Market Committee (FOMC) of the US Federal Reserve System maintained the interest rate in January. The Fed said it would be “patient” regarding its short-term guardian on interest rate decision. The statement was interpreted to mean that the FOMC may not raise interest rate in the first half of the year 2019. Investors who had anticipated an interest rate hike in the US in the first half of the year may reconsider their investment strategy in the emerging and developing markets. These developments are positive for the short-term outlook of the Nigerian economy and financial market.

FSDH Research observed that, of the countries that we monitored in January 2019, the prices of sovereign bonds increased more than decreased. The 8.8% September 2023 Turkey Government Bond recorded the highest month-on-month (M-o-M) price increase of 7.84% to 79.80.

The Kenya Government Bond offered the most attractive real yield amongst the selected bonds in January.

Table 1: Summary of Key Indicators

S/N	Indicators	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	102.55	97.61	102.94	104.18	103.25	99.89	100.05	79.80	97.20
2	Bond Yield	2.84%	17.99%	7.15%	11.17%	15.00%	7.79%	7.74%	14.96%	2.44%
3	Bond Price MoM Change	0.41%	0.43%	(0.02%)	(0.11%)	(0.06%)	0.24%	1.27%	7.84%	0.29%
4	Bond Yield MoM Change	(0.12%)	(0.15%)	0.04%	0.00%	0.01%	(0.13%)	(0.36%)	(2.02%)	(0.06%)
5	Bond Price YTD Change	0.41%	0.43%	(0.02%)	(0.11%)	(0.06%)	0.24%	1.27%	7.84%	0.29%
6	Bond Yield YTD Change	(0.12%)	(0.15%)	0.04%	0.00%	0.01%	(0.13%)	(0.36%)	(2.02%)	(0.06%)
7	Real Yield	0.94%	6.02%	4.96%	6.47%	3.56%	3.49%	3.24%	(5.34%)	0.54%
8	Volatility	0.10	0.25	0.09	0.16	0.20	0.10	0.31	1.86	0.25
9	FX Rate MoM Change*	(2.72%)	(1.35%)	1.85%	(1.03%)	(0.69%)	(5.84%)	(8.02%)	(1.97%)	(0.02%)
10	FX Rate YTD Change*	(2.72%)	(1.35%)	1.85%	(1.03%)	(0.69%)	(5.84%)	(8.02%)	(1.97%)	(0.02%)
11	Inflation Rate	1.90%	11.97%	2.19%	4.70%	11.44%	4.30%	4.50%	20.30%	1.90%
12	Policy Rate	4.35%	16.75%	6.50%	9.00%	14.00%	7.75%	6.75%	24.00%	2.50%
13	Debt to GDP	47.60%	101.00%	68.70%	57.10%	21.30%	13.50%	53.10%	28.30%	105.00%
14	GDP Growth Rate	6.40%	5.30%	7.10%	6.00%	1.81%	1.50%	1.10%	1.60%	3.00%
15	Nominal GDP (US\$'bn)	12,238bn	235bn	2,597bn	74.94bn	376bn	1,578bn	349bn	851bn	19,391bn
16	Current Acct to GDP	1.30%	(6.50%)	(1.90%)	(5.90%)	2.00%	2.20%	(2.50%)	(5.50%)	(2.40%)

*-ve means appreciation while +ve means depreciation

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

1.1 The Global Economic Growth:

The IMF has revised downwards its global growth forecast for 2019 and 2020 from the forecast in October 2018 to 3.5% and 3.6% respectively.

The expected slow growth in the global economy also supports the FSDH Research view that crude oil price may not rally strong in 2019.

The International Monetary Fund (IMF) revised downwards its global economic growth forecast for 2019 and 2020 citing the negative effects of US – China tariff increases, new automobile fuel emission standards in Germany, sovereign and financial risks in Italy and weak market sentiments in Turkey. Consequently, the IMF revised downwards its global growth forecast for 2019 and 2020 from the forecast in October 2018 to 3.5% and 3.6% respectively.

The expected slow growth in the global economy also supports the FSDH Research view that crude oil price may not rally strong in 2019. Therefore, Nigeria needs to develop strategies to guard against a possible drop in crude oil exports. FSDH Research has noted the possible implications of the foregoing may be pressure on the exchange rate resulting in a movement towards N390/US\$, increase in the yields on fixed income securities and high inflation rate. The FGN may also limit foreign borrowing in the short-term.

Table 2: Global Economic Growth Rate (Actual vs Forecast)

				Difference from October 2018 WEO	
	2018E	2019F	2020F	2019F	2020F
Global	3.7%	3.5%	3.6%	-0.2%	-0.1%
Advanced Economies	2.3%	2.0%	1.7%	-0.1%	0.0%
USA	2.9%	2.5%	1.8%	0.0%	0.0%
Japan	0.9%	1.1%	0.5%	0.2%	0.2%
Euro-Area	1.8%	1.6%	1.7%	-0.3%	0.0%
Emerging Market and Developing Economies	4.6%	4.5%	4.9%	-0.2%	0.0%
China	6.6%	6.2%	6.2%	0.0%	0.0%
India	7.3%	7.5%	7.7%	0.1%	0.0%
United Kingdom	1.4%	1.5%	1.6%	0.0%	0.1%
Nigeria	1.9%	2.0%	2.2%	-0.3%	-0.3%
South Africa	0.8%	1.4%	1.7%	0.0%	0.0%

Source: IMF World Economic Outlook (WEO) Update, January 2019

1.2 High Unemployment Rate in Nigeria – FSDH Research Suggests Solutions:

FSDH Research notes that the unemployment rate in Nigeria is unsustainably high and urgent measures are required to avert the consequences of such a high unemployment rate.

Nigeria requires urgent restructuring of the nation's educational system to enable it to provide relevant training that is needed in the modern digital age.

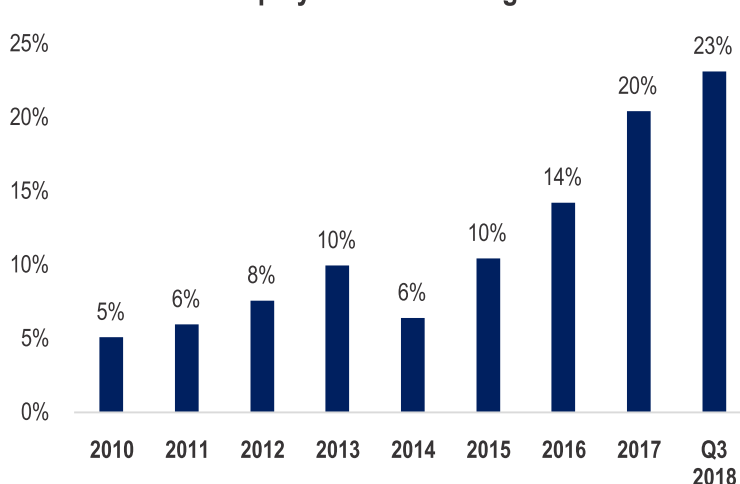
FSDH Research estimates that about 24 million Nigerians may be without jobs by 2022.

“The devil finds work for idle hands”. This rings true in the current situation in Nigeria where a significant number of people are unemployed despite being able and willing to work. FSDH Research notes that the unemployment rate in Nigeria is unsustainably high and urgent measures are required to avert the consequences of such a high unemployment rate. According to data from the National Bureau of Statistics (NBS), 20.93 million Nigerians were unemployed as at Q3 2018, representing an unemployment rate of 23.1% of the total labour force of 90.47million. The labour force population signifies all persons aged 15 to 64 years who are willing and able to work, regardless of whether or not they have a job. Out of the total unemployed, 63% (13.15 million) are youths within the age group of 15 to 34 years.

FSDH Research suggests the following measures to create jobs in Nigeria and to reduce the number of unemployed: urgent restructuring of the nation's educational system to enable it to provide relevant training that is needed in the modern digital age. Deliberate and consistent investments in the educational sector will also create jobs for teachers and administrators in the sector. Establishment of well-funded technical training centres in all local government areas in the country in conjunction with private sector operators. FSDH Research observes that certain workers from neighbouring countries come into Nigeria to do certain unskilled and semi-skilled jobs that Nigerian workers are not well equipped to do.

These measures and other complementary measures that will encourage investment in the labour-intensive sectors of the Nigerian economy are required as a matter of urgency. This is to enable the job growth rate in the country to overtake the population growth rate. If nothing is done, FSDH Research estimates that about 24 million Nigerians may be without jobs by 2022.

Unemployment Rate in Nigeria



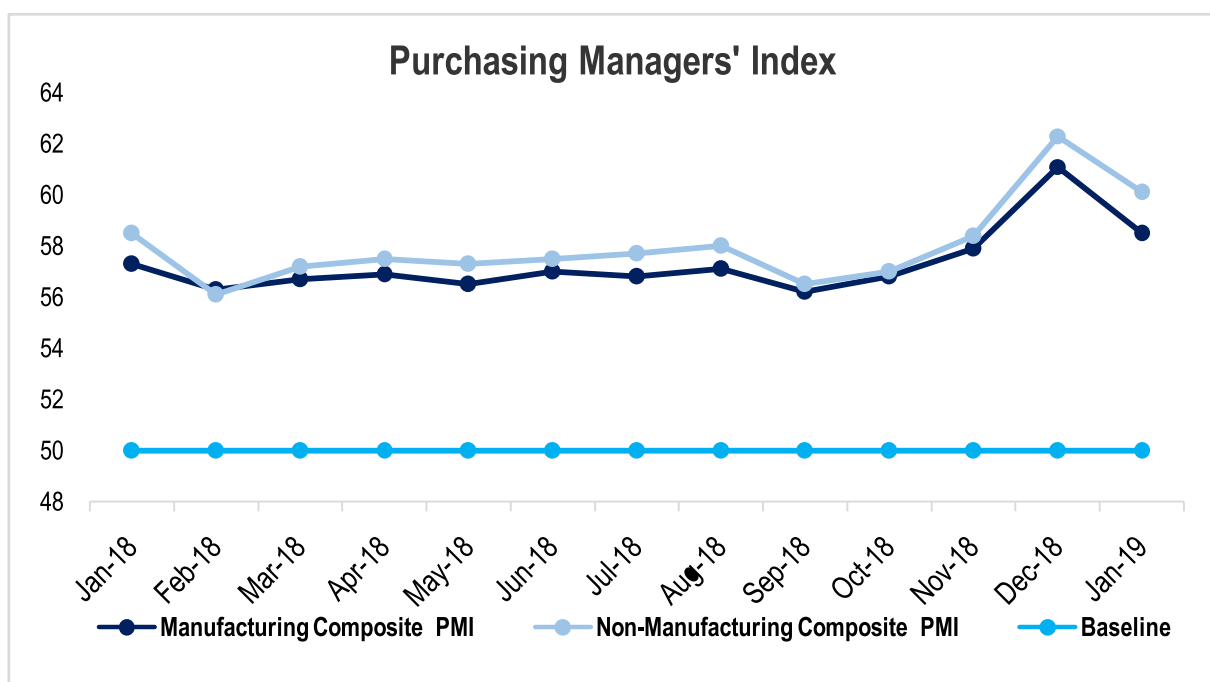
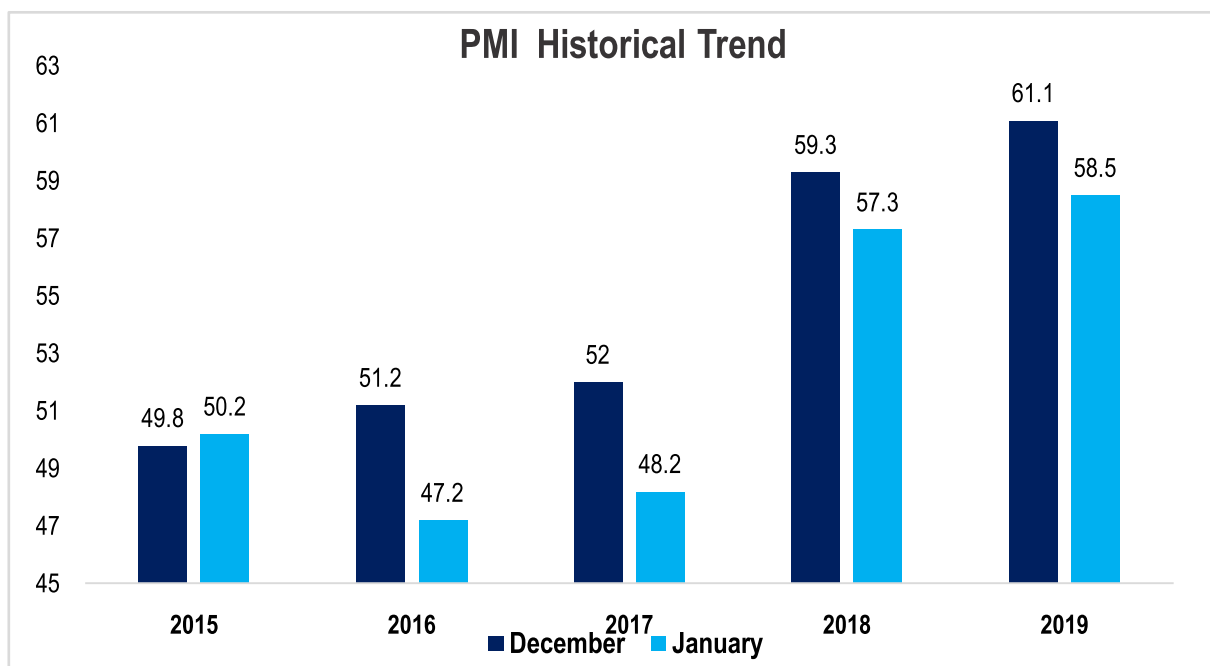
Total Unemployed Persons in Nigeria (Million)



1.3 Purchasing Managers' Index (PMI):

FSDH Research notes that the drop in the PMI is in line with the historical trend of low manufacturing activities associated with January.

Although there was a drop in PMI figures that the Central Bank of Nigeria (CBN) published for the month of January 2019, FSDH Research notes that the drop is in line with the historical trend of low manufacturing activities associated with January. The Manufacturing PMI stood at 58.5 points in January, from a four year high of 61.1 points in December 2018. Production levels, new orders, supplier delivery times, employment levels and inventories grew at a slower rate in January than the level recorded in December. The Non-Manufacturing PMI also decreased to 60.1 points in January from 62.3 points in December. Business activity, new orders,



1.4 Inflation Rate:

FSDH Research expects the January 2019 inflation rate to drop to 11.40% from 11.44% recorded in December 2018. The drop is not because the prices of consumer goods are dropping, but because the Consumer Price Index (CPI) increased faster in January 2018 (0.8%) than in January 2019 (0.78%). The NBS will release the inflation report for the month of January on Friday, 15 February 2019.

FSDH Research also expects the inflation to remain in double-digits in 2019.

We however anticipate a spike in the inflation rate from June 2019 due to adjustments to the price of Premium Motor Spirit (PMS) and electricity tariff. FSDH Research believes the CBN will continue to adjust its policies to keep yield above that inflation rate. **FSDH Research also expects the inflation rate to remain in double-digits in 2019.**

Table 3: Inflation Rate Actual Vs. Forecast

Month	Jan-19F	Feb-19F	Mar-19F	Apr-19F	May-19F	Jun-19F	Jul-19F	Aug-19F	Sep-19F	Oct-19F	Nov-19F	Dec-19F
Inflation Rate	11.40%	11.36%	11.40%	11.45%	11.22%	10.86%	10.57%	10.41%	10.31%	10.39%	10.43%	10.70%
Adjusted Inflation Rate*	11.40%	11.36%	11.40%	11.45%	11.22%	12.98%	12.69%	12.53%	12.43%	12.52%	12.55%	12.83%

Sources: National Bureau of Statistics and FSDH Research Analysis.

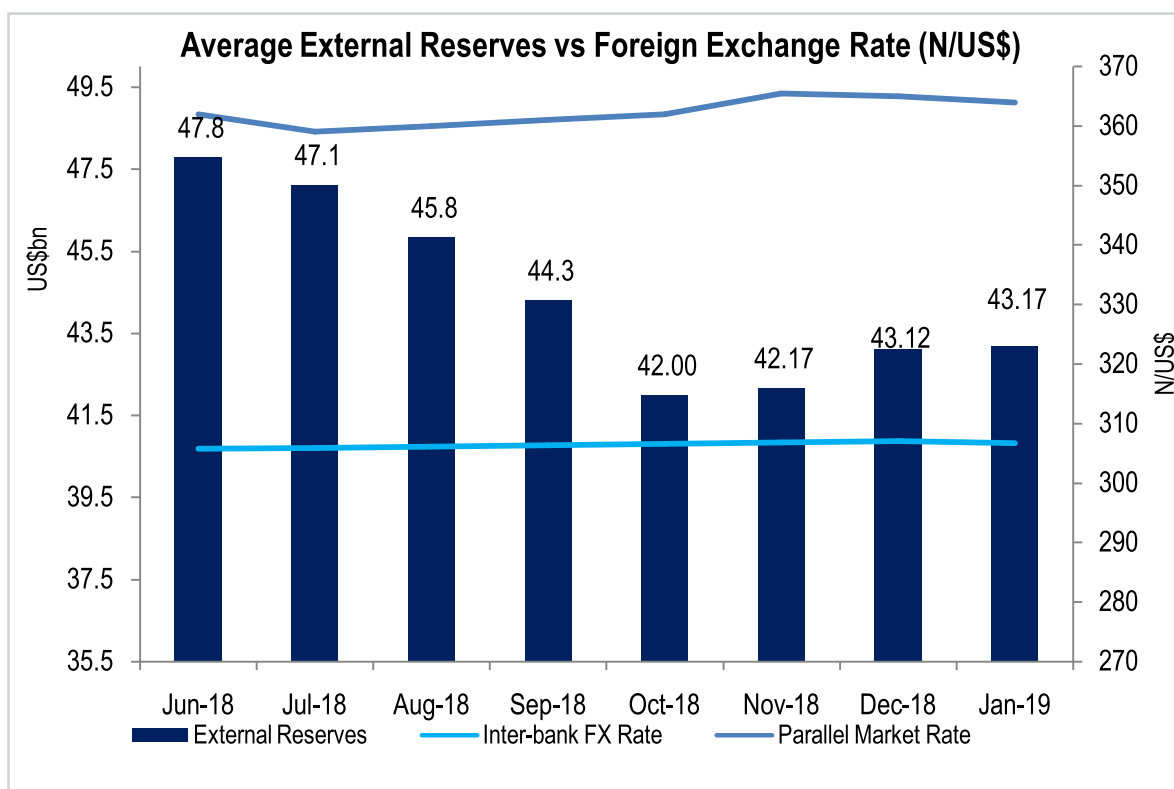
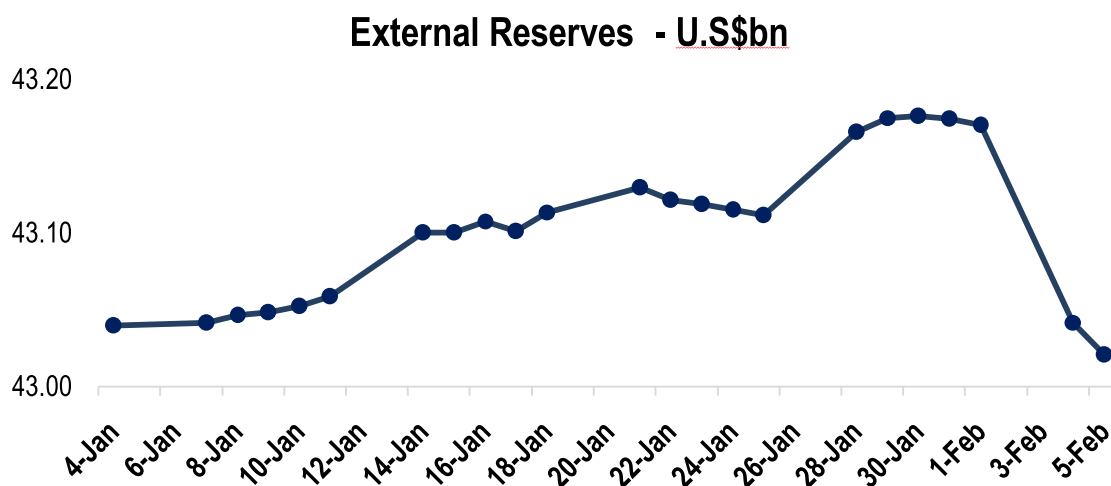
A- Actual, F – Forecast *Forecast after June assumes an adjustment to the electricity tariff and the PMS Pump Price

1.5 Movement in the External Reserves:

FSDH Research observed downward movement in the external reserves in early February

FSDH Research observed downward movement in the external reserves in early February. This may be a pointer to demand pressure at the foreign exchange market. This may lead to depreciation in the value of the Naira. This in the short-term is in line with our expectation.

The current position of external reserves continues to provide short-term stability for the value of the Naira. However, the medium-term stability in the foreign exchange market will depend on the country's foreign exchange receipts from both crude oil and non-oil products. The 30-Day moving average external reserves increased by 0.13%, from US\$43.12bn at end-December to US\$43.17bn at end-January 2019.



1.6 Currency Transaction at the I&E Window

FPI contribution in January stood at US\$1.32bn in January, accounting for 51.34% of total inflows, the highest contribution since April 2018.

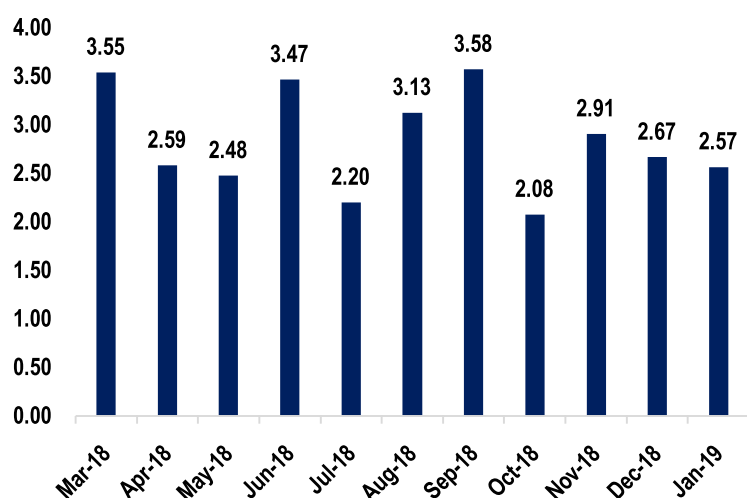
There was a significant increase in capital importation via Foreign Portfolio Investors (FPI) in the Investors' and Exporters' Foreign Exchange Window (I&E window) in January 2019. FPI contribution in January stood at US\$1.32bn in January, accounting for 51.34% of total inflows, the highest contribution since April 2018. This is based on data obtained as at Monday, 4 January 2019 from the FMDQ OTC Securities Exchange. This may be a reflection of foreign investors taking advantage of higher yields on fixed income securities. The total capital importation through the I&E window in January 2019 stood at US\$2.57bn. From inception to January 2019, capital importation through the I&E totalled US\$51.22bn.

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

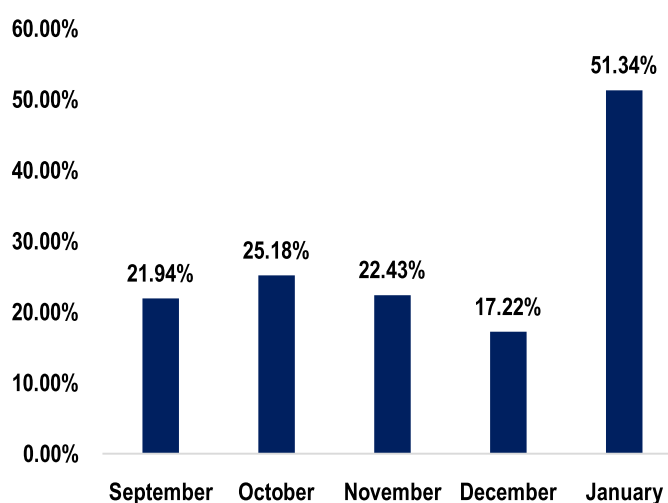
Source	October		November		December		January	
	Value (\$'bn)	PT	Value (\$'bn)	PT	Value (\$'bn)	PT	Value (\$'bn)	PT
FDIs	0.06	2.94%	0.05	1.88%	0.06	2.27%	0.23	8.79%
FPIs	0.52	25.18%	0.65	22.43%	0.46	17.22%	1.32	51.34%
Other Corporates	0.04	1.81%	0.04	1.26%	0.04	1.62%	0.05	1.97%
CBN	0.90	43.07%	1.33	45.57%	1.21	45.29%	0.45	17.65%
Exporters	0.11	5.39%	0.13	4.63%	0.14	5.35%	0.08	3.15%
Individuals	0.01	0.46%	0.01	0.45%	0.00	0.18%	0.00	0.18%
Non-Bank Corporates	0.44	21.15%	0.69	23.78%	0.63	23.57%	0.22	8.66%
Other Corporates	N/A	N/A	N/A	N/A	0.12	4.51%	0.21	8.26%
Total	2.08	100%	2.91	100%	2.67	100%	2.57	100%

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

Foreign Capital Importation via the I&E Window - US\$bn



Proportion of FPI in Total Inflows through the I&E Window



1.7 Crude Oil Market and Bonny Light Price:

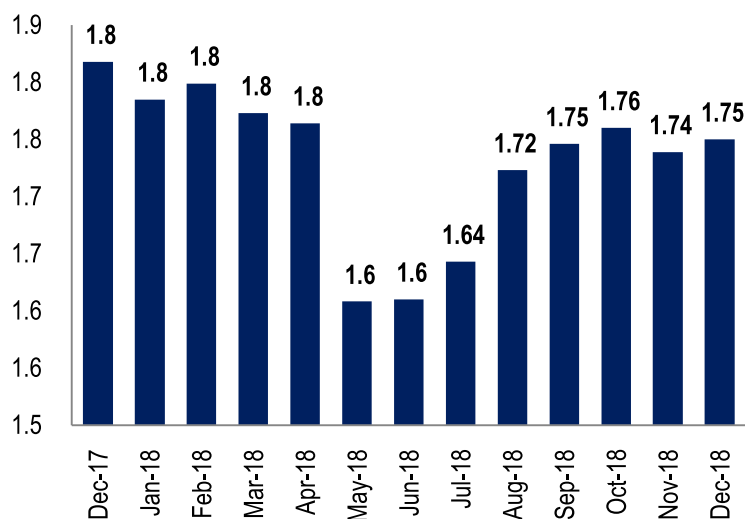
The daily crude oil production in Nigeria increased by 0.63% to 1.75mb/d in December 2018, from 1.74mb/d in November.

In its monthly report for January 2019, the EIA forecasts an average price of Brent crude oil of US \$ 60.52/b and US\$64.76/b in 2019 and 2020, respectively.

Crude oil price recovered in January 2019 compared with the position as at close of December 2018. This provides some temporary fiscal relief in Nigeria. Despite the increase, FSDH Research believes Nigeria needs to adjust the Budget benchmark. It also needs to build a strong structure for non-oil exports. Crude oil price is forecasted to be lower in 2019 compared with 2018, mostly as a result of expected oversupply. According to secondary data available from OPEC's report for the month of January 2019, the daily crude oil production in Nigeria increased by 0.63% to 1.75mb/d in December 2018, from 1.74mb/d in November. This is above the production quota from OPEC of 1.685mb/d but below the benchmark in the 2019 budget of 2.30 mb/d.

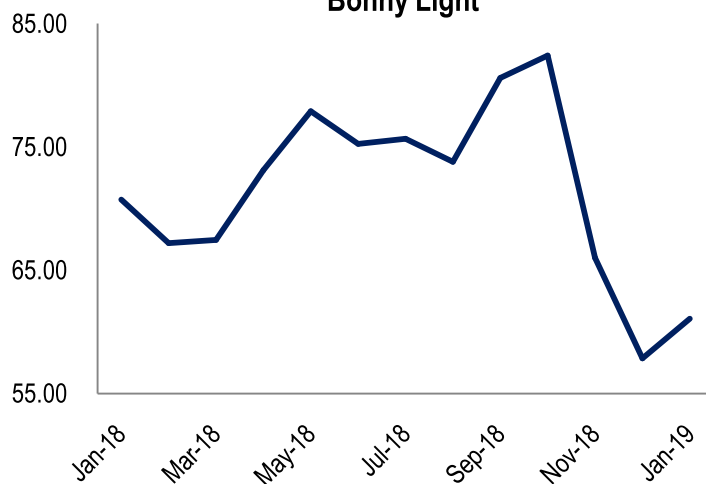
In its monthly report for January 2019, the US Energy Information Administration (EIA) forecasts an average price of Brent crude oil of US\$60.52/b and US\$64.76/b in 2019 and 2020, respectively. The forecast is lower than the average price of Brent in 2018. However, the EIA indicated that it expected some upward price movements in early 2019 from the need for global oil inventories to rise slightly to keep pace with demand growth and maintain five-year average levels of demand cover.

Nigeria's Crude Oil Production (mb/d)



mb/d - million barrels per day

Daily Crude Oil Price Movement (One Month) - Bonny Light



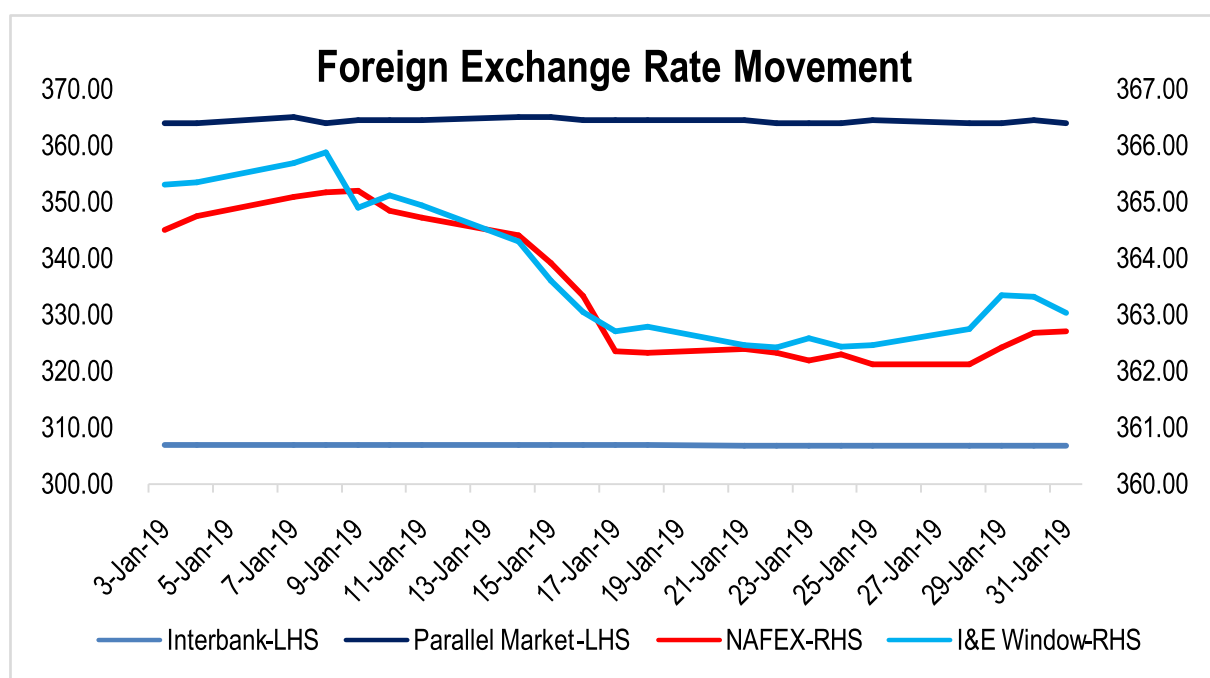
1.8 Foreign Exchange Rate:

FSDH Research expects the CBN to maintain the current tight monetary policy stance to ensure continued stability in the foreign exchange market.

The increase in the external reserves, supported by the increase in FPI, led to an appreciation in the foreign exchange rate in January. The premium between the inter-bank and parallel markets narrowed in January 2019 compared with December 2018. However, FSDH Research expects the CBN to maintain the current tight monetary policy stance to ensure continued stability in the foreign exchange market.

Month-on-month, the value of the Naira appreciated marginally by 0.08% and 0.27% to close at N306.75/US\$ and N364/US\$ at the inter-bank and parallel market respectively at the end of January compared with December 2018. Similarly, at the I&E window, it appreciated by 0.27% to stand at N363.03/US\$ at end-January. The highest rate recorded at the inter-bank, parallel market and I&E window in January were N306.95/US\$, N365/US\$ and N365.87/US\$. The lowest values were N306.75/US\$, N364/US\$ and N362.42/US\$.

The average exchange rate at the inter-bank and parallel market also appreciated by 0.03% and 0.57% to stand at N306.84/US\$ and N364.36/US\$ respectively in January compared to the average of N306.92/US\$ and N366.42/US\$ in December 2018. At the I&E window, it averaged N363.73/US\$ in January.



2.0 Interest Rate and Yield Analysis:

The CBN continues with its tight monetary policy stance throughout January 2019.

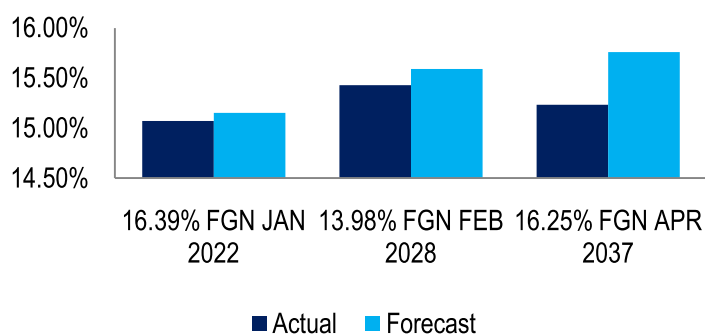
In line with expectations of FSDH Research, the CBN continued with its tight monetary policy stance throughout January 2019 as it continued to mop up excess liquidity through the use of Open Market Operations (OMOs). The goal is to curb inflation and maintain stability in the foreign exchange market. This approach led to an increase in the yields on Nigerian Treasury Bills (NTBs) in January 2019 compared with December.

The fixed income market analysis for the month of January shows a net outflow of N924mn, compared with a net outflow of N1.02trn in December. The major outflows in January were the Open Market Operations (OMO) and Repurchase (REPO) Bills of N2.73trn, CBN's Foreign Exchange Sale of N499bn, Primary NTBs of N481bn and the FGN Bond auction of N117bn. Meanwhile, in December, the major outflows were the OMO and REPO of N3.21trn, CBN's Foreign Exchange Sale of N497bn and the FGN Bond auction of N6bn. The major inflows in January were the matured OMO and REPO Bills of N1.29trn, matured NTBs of N639bn, and the Federation Account Allocation Committee (FAAC)'s injection of about N329bn. The major inflows in December were the matured OMO and REPO Bills of N2.25trn, FAAC's injection of about N365bn, and matured NTBs of N78bn.

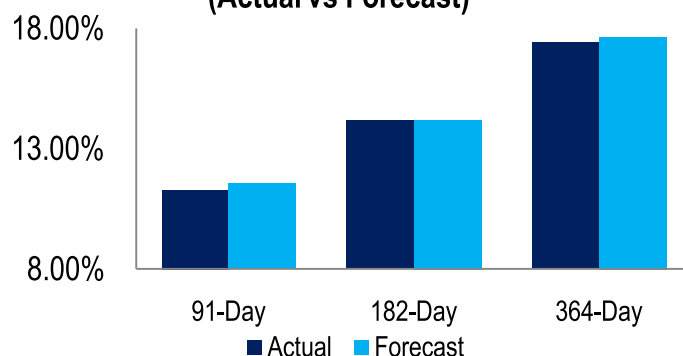
The average yield on all the three tenors were up to in the month of January 2019 compared with what was recorded in November (last auction in 2018).

At the NTBs auction, average yield on all the three tenors were up in the month of January 2019 compared with what was recorded in November (last auction in 2018). The CBN cancelled the NTB auctions scheduled for the 13th and 20th December, 2018 while it redeemed the maturing securities during the period. The average yields at the NTBs auction, on the 91-Day increased marginally to 11.27% in the month of January, compared with 11.23% recorded in November 2018. The average 182-Day NTB stood at 14.17%, up from 14.05% in November 2018. The average 364-Day NTB yield stood at 17.41% in January from 16.88% in November 2018. However, the average Nigerian Interbank Offered Rate (NIBOR) was down in January 2019 compared with December 2018.

**Average Bond Yields in January 2019
(Actual vs Forecast)**



**Average NTBs Yields in January 2019
(Actual vs Forecast)**



The average 30-day and 90-day NIBOR decreased to 14.79% and 13.74% in January 2019, down from 15.28% and 14.76% in December 2018. However, the average 180-Day NIBOR increased to 15.19% from 14.93% in December 2018. The yields on the FGN Bonds that we monitored similarly moved in varying directions, in January 2019. The average yield on the 16.39% FGN January 2022 increased marginally to 15.07% in January from 15.06% in December. The 13.98% FGN February 2028 closed at 15.43% in January 2019, lower than 15.79% in December 2018; the 16.25% FGN Apr 2037 closed at 15.23% in January 2019, lower than 15.60% in December 2018.

Table 5: Market Liquidity (N'bn)

	December 2018			January 2019		
	Total Inflow	Total Outflow	Net Flow	Total Inflow	Total Outflow	Net Flow
Primary Market: NTB	78	0	78	639	481	158
Open Market Operations & Rev Repo	2,245	3,210	(965)	1,929	2,725	(795)
Bond	0	6	(6)	0	117	(117)
FAAC	365	0	365	329	0	329
FX Market	0	497	(497)	0	499	(499)
CRR Debit/Credit	0	0	0	0	0	0
TSA Implementation	0	0	0	0	0	0
Total	2,688	3,712	(1,024)	2,898	3,822	(924)

Sources: Central Bank of Nigeria and Federal Ministry of Finance

Table 6: Average Bond Yields

	16.39% FGN JAN 2022	13.98% FGN FEB 2028	16.25% FGN APR 2037
December 2018	15.06%	15.79%	15.60%
January 2019	15.07%	15.43%	15.23%
Change	0.01%	(0.36%)	(0.37%)

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
December 2018	25.29%	15.28%	14.76%	14.93%	11.23%	14.05%	16.88%
January 2019	19.09%	14.79%	13.74%	15.19%	11.27%	14.17%	17.41%
Change	(6.20%)	(0.49%)	(1.02%)	0.26%	0.04%	0.12%	0.53%

Sources: CBN and FMDQ

2.1 Revised Outlook Going Forward:

NTB yields are likely to be influenced largely by the level of liquidity in the banking system, the short-term borrowing needs of the government and the need to maintain price stability.

FSDH Research expects a total inflow of about N2.33trn to hit the money market from the various maturing government securities and Federation Account Allocation Committee (FAAC) in February 2019. We estimate a total outflow of approximately N644bn from the various sources, leading to a net inflow of about N1.68trn. **FSDH Research expects the market to remain relatively liquid in February 2019. This may continue to necessitate the issuance of OMO to mop-up the liquidity in the system.** We expect the inflation rate in January to drop marginally from the level recorded in December 2018.

FSDH Research believes the yields on the NTBs may increase further, particularly on the long end from the current levels. NTB yields are likely to be influenced largely by the level of liquidity in the banking system, the short-term borrowing needs of the government and the need to maintain price stability.

The following factors will influence yields on fixed income securities in February 2019:

- The need to maintain stability in the foreign exchange market
- Election considerations
- The need to mop up liquidity associated with election spending
- Growing concerns on the health of the global economy

Table 8: Expected Inflow and Outflow Analysis February 2019 (N'bn)

Date	07Feb19	14Feb19	21Feb19	28Feb19	Others*	Total
Inflows	315.34	588.86	578.98	464.76	378.08	2,326.03
Outflows	-	-	165.00	-	479.00	644.00
Net flows	315.34	588.86	413.98	464.76	(100.92)	1,682.03

Source: FSDH Research Analysis, *Statutory Allocation (FAAC), and Cash Reserve Requirement (CRR) Debit

Table 9: Revised Average Yields – Actual vs Forecast

Treasury Bills (Primary Market)				FGN Bonds (Secondary Market)		
	91-Day	192-Day	364-Day	Jan-22	Feb-28	Apr-37
Jan-19A	11.27%	14.17%	17.41%	15.07%	15.43%	15.23%
Feb-19F	11.35%	14.44%	17.90%	15.16%	15.67%	15.77%
Mar-19F	11.39%	14.48%	17.94%	15.20%	15.71%	15.81%
Apr-19F	11.45%	14.53%	18.00%	15.26%	15.77%	15.87%
May-19F	11.21%	14.30%	17.77%	15.03%	15.53%	15.64%
Jun-19F	12.97%	16.06%	19.53%	16.34%	16.89%	17.20%
Jul-19F	12.68%	15.77%	19.23%	16.04%	16.60%	16.90%
Aug-19F	12.52%	15.61%	19.07%	15.88%	16.44%	16.74%
Sep-19F	12.42%	15.51%	18.98%	15.79%	16.34%	16.65%
Oct-19F	12.51%	15.59%	19.06%	15.87%	16.43%	16.73%
Nov-19F	12.54%	15.63%	19.09%	15.90%	16.46%	16.76%
Dec-19F	12.82%	15.91%	19.37%	16.18%	16.74%	17.04%

Sources: CBN, FMDQ, and FSDH Research Forecasts

2.2 Strategy:

Investors with large bond portfolios may take profit and buy back later when yields increase.

- FSDH Research expects yields in the bond market to increase above the current level. Investors with large bond portfolios may take profit and buy back later when yields increase. While those with small portfolios should take advantage of the current yields and buy gradually
- Traders in the Treasury Bill market may adopt a strategy that will allow them to shift from one tenor to another in order to take advantage of movements in yields
- Investors should stay in short-tenored fixed deposits. This will enable them to switch as market opportunities arise

The current yields on most of the FGN Eurobonds is lower than its coupon rate. Investors can take position in the bonds now as the yield is expected to increase.

The prices on the FGN Eurobonds were higher in January 2019 than in December 2018. Consequently, the yields on the bonds closed lower in the month of January than in December. The attractiveness of the yields on the FGN Euro bond compared with similar risk profiled bonds led to the increase in the prices in January 2019. **The current yields on most of the FGN Eurobonds is lower than its coupon rate. Investors can take position in the bonds now as the yield is expected to increase.**

Table 10: FGN Eurobonds

	15-Year 7.875% FGN Eurobond February 2032		10-Year 6.75% FGN Eurobond January 2021		10-Year 6.375% FGN Eurobond July 2023		5-Year 5.625% FGN Eurobond June 2022	
Date	Price (US\$)	Yield	Price (US\$)	Yield	Price (US\$)	Yield	Price (US\$)	Yield
02-Jan-19	90.91	9.07%	101.24	6.10%	96.19	7.38%	97.02	6.60%
03-Jan-19	91.45	9.00%	101.29	6.07%	96.43	7.32%	97.23	6.53%
04-Jan-19	93.08	8.77%	101.63	5.90%	97.49	7.03%	97.93	6.30%
07-Jan-19	94.99	8.52%	102.00	5.70%	98.73	6.71%	98.49	6.12%
08-Jan-19	94.86	8.53%	101.97	5.72%	98.73	6.71%	98.33	6.17%
09-Jan-19	95.91	8.39%	102.14	5.63%	99.29	6.56%	98.79	6.02%
10-Jan-19	95.49	8.45%	101.85	5.77%	99.10	6.61%	98.70	6.05%
11-Jan-19	95.50	8.45%	101.94	5.73%	99.34	6.55%	98.81	6.01%
14-Jan-19	95.01	8.51%	102.02	5.68%	99.18	6.59%	98.52	6.11%
15-Jan-19	95.54	8.44%	102.18	5.60%	99.48	6.51%	98.78	6.02%
16-Jan-19	96.19	8.36%	102.32	5.53%	99.75	6.44%	99.00	5.95%
17-Jan-19	95.86	8.40%	102.30	5.53%	99.65	6.47%	98.91	5.98%
18-Jan-19	97.19	8.23%	102.61	5.36%	100.17	6.33%	99.40	5.82%
21-Jan-19	97.35	8.21%	102.56	5.39%	100.16	6.33%	99.62	5.75%
22-Jan-19	96.91	8.27%	102.44	5.45%	100.09	6.35%	99.49	5.79%
23-Jan-19	97.89	8.14%	102.62	5.36%	100.33	6.29%	99.73	5.71%
24-Jan-19	98.66	8.04%	102.93	5.19%	100.80	6.17%	99.81	5.69%
25-Jan-19	98.76	8.03%	102.80	5.25%	100.82	6.16%	100.01	5.62%
28-Jan-19	97.90	8.14%	102.74	5.28%	100.56	6.23%	99.59	5.76%
29-Jan-19	97.00	8.25%	102.60	5.36%	100.23	6.31%	99.49	5.79%
30-Jan-19	97.59	8.18%	102.69	5.31%	100.37	6.28%	99.72	5.72%
31-Jan-19	99.98	7.88%	103.32	4.97%	101.70	5.93%	100.61	5.42%
Source: Bloomberg								

3.0 Equity Market:

3.1 The Secondary Market:

The equity market continued on a downward trend in January 2019, following a M-o-M appreciation in December 2018.

FSDH Research observed a decrease in the volume and value of stocks traded in January, despite significant trades on Diamond Bank and Access Bank.

All the NSE Sectoral Indices depreciated in January, except the NSE Industrial Index.

The equity market continued on a downward trend in January 2019, following a M-o-M appreciation in December 2018. The Nigerian Stock Exchange All Share Index (NSE ASI) depreciated by 2.78% (a loss of 2.70% in US Dollar) to close at 30,557.20 points. Similarly, the market capitalisation recorded a M-o-M loss of 2.78% (a loss of 2.70% in US Dollar) to close at N11.39trn (US\$37.15bn). The factors that resulted in a persistent decline in the Nigerian equity market in 2018 are still putting downward pressure on the equity market. These factors include pullback from foreign investors due to political considerations, rising global yields and increased yields on fixed income securities in Nigeria leading to a reallocation of portfolios away from the equity market.

FSDH Research observed a decrease in the volume and value of stocks traded in January, despite significant trades on Diamond Bank and Access Bank. The volume of stocks decreased by 20.04% to 6.24bn in January 2019. Diamond Bank Plc (1.30bn), Access Bank Plc (563.14mn), Zenith Bank Plc (548.89mn), UBA Plc (479.75mn), and GT Bank Plc (469.59mn) were the five most highly traded stocks in January. Similarly, the value of stocks traded on the NSE in January decreased by 5.29% to N59.60bn, from N62.93bn in December.

All the NSE Sectoral Indices depreciated in January, except the NSE Industrial Index. The NSE Industrial Index recorded a M-o-M appreciation of 5.78%, mainly attributable to the increase in the share prices of Cement Company of Northern Nigeria (23.71%), Lafarge Africa (0.40%) and Dangote Cement (0.16%). The NSE Oil and Gas Index recorded the highest M-o-M depreciation of 7.27%.

Table 11: Nigerian Equity Market: Key Indicators

Month	Volume (bn)	Value (N'bn)	NSEASI	Market Cap. (N'trn)	Banking*	Insurance*	Consumer Goods*	Oil/Gas*	Industrial*
December	7.81	62.93	31,430.50	11.72	398.94	126.48	748.83	302.23	1237.88
January	6.24	59.60	30,557.20	11.39	388.99	122.36	698.12	280.26	1309.38
Change	(20.04%)	(5.29%)	(2.78%)	(2.78%)	(2.49%)	(3.26%)	(6.77%)	(7.27%)	5.78%
YTD	N/A	N/A	(2.78%)	(2.78%)	(2.49%)	(3.26%)	(6.77%)	(7.27%)	5.78%

Sources: NSE and FSDH Research. * NSE Sectoral Indices

Table 12: Major Earnings Announcements in January 2019

Company and Result	Turnover (Nm)	Change	PBT (Nm)	Change	PAT (Nm)	Change
RED STAR EXPRESS PLC						
9 months, Dec. 2018	7,558	21.86%	534	24.71%	363	24.71%
TRIPPLE GEE AND COMPANY PLC						
9 Months, Dec. 2018	546	10.41%	23	121.91%	16	201.73%
CHELLARAMS PLC						
9 months, Dec. 2018	8,494	-0.86%	-1,115	-144.21%	-1,129	-145.62%
GUINNESS NIG PLC						
6 months, Dec. 2018	67,796	-3.91%	3,793	-7.10%	2,579	-21.06%
FLOUR MILLS NIG. PLC						
9 months, Dec. 2018	400,642	-6.28%	11,278	-42.17%	7,896	-40.40%
UNIVERSITY PRESS PLC						
9 Months, Dec. 2018	2,202	28.38%	376	4.08%	263	20.96%
NIGER INSURANCE CO. PLC						
Full year, Dec. 2018	4,456	-48.84%	303	-28.04%	236	-39.34%

Source: NSE

Table 13: Major Corporate Action Announcements in January 2019

Company	Result	*DPS (N)	Bonus	Closure Date	Payment Date	Interim/Final
VITAFOAM NIG PLC	Full year, Sep. 2018	0.25	1 for 5	18-Feb-19	08-Mar-19	Final

Source: NSE; *DPS – Dividend Per Share

Of the equity indices monitored by FSDH Research throughout January 2019, most appreciated, except the NSE ASI and The GSE Composite Index.

Of the equity indices monitored by FSDH Research throughout January 2019, most appreciated, except the NSE ASI and The Ghana Stock Exchange Composite Index (GSE Composite Index). These two indices depreciated by 2.78% and 2.66% respectively. The Ibovespa Brasil Sao Paulo Stock Exchange Index (Brazil) recorded the highest M-o-M appreciation of 10.89% in January, followed by The NASDAQ Composite Index which appreciated by 9.74% M-o-M.

Table 14: Foreign Equity Market Performance in January 2019

North/Latin America	YTD Change	Month-on-Month Change
Dow Jones Industrial Average	7.17%	7.17%
S&P 500 Index	7.87%	7.87%
NASDAQ Composite	9.74%	9.74%
Brazil Stock Market Index	10.82%	10.82%
Europe		
Swiss Market Index	6.41%	6.41%
FTSE 100 Index (UK)	3.58%	3.58%
CAC 40 Index (France)	5.54%	5.54%
DAX Index (Germany)	5.82%	5.82%
SMSI Index (Madrid, Spain)	5.91%	5.91%
Africa		
NSE All-Share Index	(2.78%)	(2.78%)
FTSE/JSE Africa All Share Index	2.69%	2.69%
Nairobi All Share Index (Kenya)	7.06%	7.06%
GSE Composite Index (Ghana)	(2.66%)	(2.66%)
Asia/Pacific		
NIKKEI 225 Index (Japan)	3.79%	3.79%
S&P BSE SENSEX Index (India)	0.52%	0.52%
Shanghai Stock Exchange Composite Index (China)	3.64%	3.64%
Hang Seng Index (Hong Kong)	8.11%	8.11%
Sources: Bloomberg and Nigerian Stock Exchange (NSE)		

3.2.Outlook for the Month of February2019:

We expect savvy investors to take strategic positions in the months leading to the expected recovery in Q2 2019.

However, the outcome of the general elections in February will determine the direction of the equity market in February.

As noted earlier in our Short-Term Economic and Financial Market Outlook, FSDH Research expects election uncertainties to dominate Q1 2019 and deter some investors. However, we expect savvy investors to take strategic positions in the months leading to the expected recovery in Q2 2019. Despite the overall decline in January, we have seen pockets of this positioning over the month and expect to see further examples in February.

The performance of the equity market in the last six years shows that the market recorded a mixed performance between January and February. However, the outcome of the general elections in February will determine the direction of the equity market in February.

Table 15: Equity Market Trend Analysis (2013-2018) – NSE ASI Analysis

Months	Year					
	2013	2014	2015	2016	2017	2018
January	31,853.19	40,571.62	29,562.07	23,916.15	26,036.24	44,343.65
February	33,075.14	39,558.89	30,103.81	24,570.73	25,329.08	43,330.54
% Change	3.84%	(2.50%)	1.83%	2.74%	(2.72%)	(2.28%)

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

3.3. Strategies:

- Investors can gradually enter the equity market through cost-averaging investment strategy
- Investors should position in stocks that have good fundamentals that are currently trading below their fair value
- We see opportunities in the banking, consumer goods, building materials, and oil and gas sectors of the equity market

The prices of the Eurobonds of the following companies are trading at discounts to their face values: First Bank and Ecobank, all of which offer attractive prices and yields. Investments in this security may generate good returns for investors who have US Dollar liquidity and can take the associated risks.

Table 16: Revised Asset Allocation	
Asset Class	Fund Allocation
Equities	25%
Fund Placement	10%
Treasury Bills	25%
Real Estate Investment Trust (REIT)	5%
Bonds	20%
Collective Investment Schemes	15%
Source: FSDH Research	

Table 17: Stock Recommendation One Year Target Price						
Stocks	Max Entry Price	52 Week Low	52 Week High	Trailing EPS	Trailing PE Ratio	Target Price
Dangote Cement	188.00	170.00	278.00	12.23	15.37	240.00
Dangote Sugar	13.60	12.45	23.35	2.50	5.44	18.00
FBNHoldings	7.45	6.80	13.85	1.11	6.70	11.00
Flour Mills of Nigeria	19.00	15.25	38.00	2.02	9.43	25.00
GT Bank	34.70	31.30	49.35	6.36	5.46	43.00
UBA	7.20	6.80	13.00	2.32	3.10	9.50
Zenith Bank	22.80	19.60	32.65	6.14	3.71	28.00
Seplat	530.00	520.00	785.00	188.12	2.82	760.00
Source: FSDH Research						

Table 18: Bond Recommendation						
S/N	Security Description	Tenor To Maturity (Yrs)	Coupon	Current Price (N)	Current Yield	Modified Duration
1	16.39% FGN JAN 2022	2.97	16.39%	103.50	14.88%	2.30
2	13.98% FGN FEB 2028	9.06	13.98%	95.00	15.00%	4.64
3	16.25% FGN APR 2037	18.20	16.25%	108.85	14.82%	5.92
Source: FSDH Research. Prices and yields as at 07 February, 2019						

Table 19: Attractive Fixed Income Securities Trading on the FMDQ as at 06 February, 2019

Issuer	Description	Coupon	Maturity Date	TTM (Years) *	Current Yield	Price
State Bonds						
Lagos	14.50% LAGOS 22-NOV-2019	14.50%	22-Nov-19	0.79	17.45%	97.84
Lagos	13.50% LAGOS 27-NOV-2020	13.50%	27-Nov-20	1.81	16.41%	95.55
Corporate Bonds						
FCMB	15.00% FCMB 6-NOV-2020	15.00%	06-Nov-20	1.75	19.58%	93.39
Lafarge Africa Plc	14.25% LAFARGE 15-JUN-2019	14.25%	15-Jun-19	0.35	14.32%	99.88
NAHCO	15.25% NAHCO II 14-NOV-2020	15.25%	14-Nov-20	1.77	16.11%	98.65
Transcorp Hotels Plc	15.50% TRANSCORP 4-DEC-2020	15.50%	04-Dec-20	1.12	19.36%	96.27
Lafarge Africa Plc	14.75% LAFARGE 15-JUN-2021	14.75%	15-Jun-21	2.35	16.05%	97.47
FCMB	14.25% FCMB I 20-NOV-2021	14.25%	20-Nov-21	2.51	17.52%	93.00
UBA	16.45% UBA I 30-DEC-2021	16.45%	30-Dec-21	1.00	16.00%	100.97
Fidelity Bank	16.48% FIDELITY 13-MAY-2022	16.48%	13-May-22	3.26	15.98%	101.16
Transcorp Hotels	16.00% TRANSCORP 26-OCT-2022	16.00%	26-Oct-22	2.17	17.84%	96.85
Stanbic IBTC	182D T.Bills+1.20% STANBIC IA 30-SEP-2024	16.29%	30-Sep-24	5.65	15.90%	101.37
Stanbic IBTC	13.25% STANBIC IB 30-SEP-2024	13.25%	30-Sep-24	5.65	15.90%	90.33
Supranational Bonds						
AfDB	11.25% AFDB 1-FEB-2021	11.25%	01-Feb-21	1.23	14.68%	96.34
Corporate Eurobonds						
Zenith Bank Plc II	7.375% MAY 30, 2022	7.375%	30-May-22	3.32	6.63%	102.16
Access Bank Plc II	9.25%/6M USD LIBOR+7.677% JUN 24, 2021	9.25%	24-Jun-21	2.38	9.78%	100.64
First Bank Ltd.	8.00%/2Y USD SWAP+6.488% JUL 23 2021	8.00%	23-Jul-21	2.46	8.87%	100.10
Ecobank Nig. Ltd	8.75% AUG 14, 2021	8.75%	14-Aug-21	2.52	9.74%	99.73
Seplat Petroleum Development Company Plc	9.25% April 01, 2023	9.25%	01-Apr-23	4.19	8.54%	102.42
Commercial Paper						
Issuer	Description	Yields at Issue	Maturity Date	DTM (Years) **	Current Yield (%)	Discount Rate (%)
Dangote Cement Plc	DANGCEM CP IV 14-MAY-19	13.96%	14-May-19	97	13.54%	13.07%
Flour Mills Of Nigeria Plc	FLOUR MILLS CP IV 18-JUL-19	15.00%	18-Jul-19	162	15.14%	14.19%

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

Table 20: Select Global Bonds Issue

Country	Bond
China	3.52% February 21, 2023
Egypt	17% April 03, 2022
India	8.15% June 11, 2022
Kenya	12.705% June 13, 2022
Nigeria	16.39% FGN January 2022
Russia	7.60% April 14, 2021
South Africa	7.75% February 28, 2023
Turkey	8.8% September 2023
United States	1.75% May 15, 2023

Source: Bloomberg

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