5-Year Policy Thrust of the Central Bank of Nigeria 2019-2024: Implications for the Financial Market

Executive Summary

The Central Bank of Nigeria (CBN) released its policy thrust for the next five years. The CBN has the following four key macroeconomic targets for 2019-2024:

- *Double-digit growth in the Gross Domestic Product (GDP)*
- *Single-digit inflation rate*
- *Foreign exchange rate stability*
- *Accelerating employment*

In order to achieve these key targets, the CBN has the following five key priorities:

- *Preserve domestic macroeconomic and financial stability*
- *Create robust payment system infrastructure*
- *Work with the Deposit Money Banks to improve access to credit for smallholder farmers, Micro Small & Medium Enterprises, (MSMEs) consumer credit and mortgage facilities for bank customers*
- *Grow external reserves*
- *Support efforts at diversifying the economy through intervention programmes in the agricultural and manufacturing sectors*

In this edition of our monthly Economic and Financial Market Report, FSDH Research reviews the policy and the implications for the financial market and outlines the opportunities

- *With the implementation of these priorities, more funds will be available to finance non-oil export-led sectors. This should create new businesses, reduce import dependency, grow foreign exchange earnings, ensure stable exchange rate and possibly cause the value of the currency to appreciate*
- *We expect growth in non-oil exports from Nigeria and reduction in the cost of exporting goods from Nigeria, therefore making exportation more profitable than before*
- *There may be a reduction in the country's import bill, a reduction in the cost of inputs for manufacturing companies and the development of agro-allied industries*
- *There may be a boost to the development of commodity exchange and opportunities in the logistics business as a result of the growth of agriculture and related businesses*
- *The CBN may propose moral suasion programmes and specific industry/product credit limit arrangements to channel bank loans towards agricultural and manufacturing sectors*
- *There may be increased lending to MSMEs in Nigeria, therefore stimulating growth and shared prosperity*
- *We may witness a reduction in smuggling, which would encourage local production, expansion and the demand for credit*
- *Consumer credit to grow and be more available than before, leading to a growth in consumer spending therefore accelerating investment and growth in the economy*
- *Foreign Direct Investment (FDI) may increase, provided there are complementary friendly fiscal policies*
- *FSDH Research expects an increase in the capital base of banks in Nigeria, which would enable the banking system to support larger and better viable projects*
- *There may be mergers and acquisitions in the Nigerian financial industry*
- *FSDH Research expects the development of mortgage-backed securities in the market. More loans may also be channelled to the real estate sector of the economy, creating jobs and shared prosperity in that sector*
- *The CBN may favour a low interest rate regime to the limit that the inflation rate and external reserves can accommodate, except there is any domestic or external shock*
- *There may be volatility in the interbank money market rates and yields on Treasury Bills in the secondary market. This may create trading opportunities for speculators*
- *We expect to see real positive yields in fixed income securities in Nigeria. This may attract investment in those instruments*
- *There may not be any major exchange rate depreciation or a devaluation as long as the external reserves remains strong. FSDH Research anticipates devaluation in the currency if or when the external reserves were no longer enough to cover more than 6 months of imports*
- *Nigeria may continue to witness the growth of FinTech and telecommunication businesses, which could increase the number of people having access to financial services*
- *We may see the rapid development of local software that will be used in the Nigerian financial system*
- *More unbanked people may be banked through the use of technology which will increase the market size for investment and savings products in Nigeria.*

Executive Summary

Other Macroeconomic Developments:

- *FSDH Research expects the June 2019 inflation rate to drop to 11.32% from 11.40% recorded in May 2019*
- *Increasing fears over the renewed US-China trade tensions and its effects on the global economy resulted in a downward movement in the price of crude oil for most of June 2019*
- *The average price of Bonny Light in June 2019 stood at US$66.68/b compared with an average of US$73.58/b in May*
- *The Energy Information Administration (EIA) forecasts an average price of Brent crude oil of US$66.69/b and US$67.00/b in 2019 and 2020, respectively*
- *The forecast is lower than the average price of Brent in 2018 which was US$71.19/b. This downward forecast is in line with FSDH Research predictions*
- *External reserves dropped to US$45.07bn from a high of US$45.18bn during the month of June 2019. This can be attributed to lower average crude oil prices and low Foreign Portfolio Investment (FPI) inflows*
- *The Nigerian Stock Exchange All Share Index (NSE ASI) resumed its downward trend in June 2019 following the appreciation in May 2019, depreciating by 3.55% (a depreciation of 3.55% in US Dollar) to close at 29,966.87 points.*

International Scene:

- *The Federal Open Market Committee (FOMC) of the US Federal Reserve System maintained the federal funds rate at a range of 2.25% - 2.5% in its June 2019 meeting*
- *However the FOMC noted that uncertainties about the outlook for the US economy have increased. These uncertainties have opened the possibility of a rate cut with most analysts predicting a rate cut in the second half of 2019*
- *In the June 2019 edition of its Global Economic Prospects (GEP), the World Bank downgraded the global growth rate in 2019 by 0.3% to2.6%*
- *World Bank notes that economic growth in the Emerging Markets and Developing Economies (EMDEs) remains constrained by subdued investment, leading to a downgraded forecast of 4.0% in 2019*
- *OPEC has extended the crude oil production cut until March 2020 to bring about stability on the world crude oil market.*

1.0 Five Year Policy Thrust of the Central Bank of Nigeria 2019- 2024: Implications for the Financial Market:

The CBN plans to stress and support improved GDP growth rate and greater private sector investment.

The Central Bank of Nigeria (CBN) released its vision and policy thrust for the next five years. The CBN has the following four key macroeconomic targets for 2019-2024:

1. Double-digit growth in the Gross Domestic Product (GDP)
2. Single-digit inflation rate
3. Foreign exchange rate stability
4. Accelerating employment

In order to achieve the key targets, the CBN has the following five key priorities:

1. Preserve domestic macroeconomic and financial stability
2. Create robust payment system infrastructure
3. Work with Deposit Money Banks (DMBs) to improve access to credit for smallholder farmers, MSMEs, consumer credit and mortgage facilities for bank customers
4. Grow external reserves
5. Support efforts at diversifying the economy through intervention programmes in the agriculture and manufacturing sectors

The CBN may favour a low interest rate regime in order to stimulate growth.

In this edition, we review the policy and the implications for the financial market and outline the opportunities.

Priority 1: Preserve domestic macroeconomic and financial stability A. The CBN plans to stress and support an improved GDP growth rate and greater private sector investment. It plans to leverage monetary policy tools to support a low inflation environment, while seeking to maintain stability in the exchange rate. The CBN may favour a low interest rate regime in order to stimulate growth. However, the CBN may adopt strategies to mop up excess liquidity in the financial system through the use of Open Market Operations (OMO) or other direct intervention in the financial market. This may lead to volatility in the interbank money market rates and the yields on Treasury Bills in the secondary market. The CBN may also support the establishment of storage facilities for agricultural produce in order to reduce wastages, and ultimately lower the cost of food, which affects the rate of inflation. The CBN may continue to support any initiative that will stimulate investment in agriculture and related businesses because of their direct impact on GDP growth and inflation rate.

B. The CBN will continue to sustain positive interest rate regime. This means that the conduct of monetary policy will be such that interest rate and yields on fixed income securities will be higher than the nation's inflation rate. The inflation rate will determine how high or low the interest rate and yields will move in Nigeria.

C. Support improved productivity in the agricultural and manufacturing sectors. The CBN will continue to support the agricultural and manufacturing sectors and related businesses through the provision of intervention funds, or provision of loans at concessionary rates. It may fund research institutes that can help develop improved seedlings to increase farm yields. This may also help to boost the development of commodity exchange.

The need to transport agricultural produce will increase. This should also throw up opportunities in the logistics business.

The CBN will continue to sustain positive interest rate regime.

D. **The CBN will continue with a managed float exchange rate strategy.** This implies that there may not be any major exchange rate depreciation or devaluation as long as the external reserves remain strong**.** FSDH Research would anticipate devaluation in the currency if or when the external reserves were no longer enough to cover more than 6 months of imports.

E. **Implement N500bn facility aimed at supporting the growth of non-oil exports and increase non-oil export earnings.** More funds will be available for non-oil export-led sectors. This may create new businesses, reduce import dependency, and grow foreign exchange earnings.

FSDH Research would anticipate devaluation in the currency if or when the external reserves were no longer enough to cover more than 6 months of imports.

F. **CBN to launch a Trade Monitoring System (TRMS) in October 2019: an automated system that will reduce the length of time required to process export documents from 1 week to 1 day.** This should facilitate export growth from Nigeria and reduce the cost of exporting goods from Nigeria, therefore making exportation more profitable than before. It is also an initiative to drive non-oil foreign exchange earnings into the country which will ensure foreign exchange rate stability.

G. **CBN to work with relevant government agencies to drive Foreign Direct Investment (FDI) into Nigeria through agriculture, manufacturing, insurance and infrastructure.** This initiative may accelerate more FDI in the identified sectors of the economy.

Implement N500bn facility aimed at supporting the growth of non-oil exports and increase non-oil export earnings.

H. **Recapitalising the banking industry with the purpose of positioning Nigerian banks amongst the top 500 in the world.** Nigerian banks may need to increase equity capital when new capital requirement is announced. This could necessitate mergers and acquisitions and the capital base of players in the Nigerian financial industry may increase. It should enable the banking system to support larger and better projects that are viable.

I. **The CBN will develop systems to ensure that necessary safeguards are put in place by banks and financial institutions to protect against loss of data, fraud and cyber incursions in their respective systems.** Nigerian banks may be made to undertake additional compulsory capital expenditure on Information and Technology infrastructure. However, this should strengthen the banking system and improve confidence and generate more deposits.

Recapitalising the banking industry with the purpose of positioning Nigerian banks amongst the top 500 in the world.

The CBN will drive the digital banking initiative through its cashless initiative, USSD, mobile banking, agent networks and payments service banks.

The CBN plans to link smallholder farmers to international buyers.

Priority 2: Robust Payment System Infrastructure

A. **The payment system department of the CBN will support the spread and utilisation of digital modes of transactions, so that every Nigerian will have access to financial services.** This will continue to be a preferred mode of banking compared with physical bank branches. This initiative will continue to drive the growth of FinTech and telecommunication businesses in Nigeria.

B. **The CBN will drive the digital banking initiative through its cashless initiative, USSD (Unstructured Supplementary Service Data), mobile banking, agent networks and payments service banks.** This will accelerate payment transaction and stimulate economic activity.

C. **To work with Nigeria Inter-Bank Settlement System (NIBSS), banks and FinTechs in developing a regulatory sandbox.** This initiative may lead to the rapid development of local software that can be used in the Nigerian financial system.

Priority 3: Work with the Deposit Money Banks to improve access to credit for smallholder farmers, MSMEs consumer credit and mortgage facilities for bank customers

A. **Targeted Development Finance. The CBN plans to boost productivity growth through the provision of improved seedlings, as well as access to finance for rural farmers in the agricultural sector, across 10 different commodities namely: rice, maize, cassava, cocoa, tomato, cotton, oil-palm, poultry, fish, and livestock/dairy**. This initiative may reduce the country's import bill, reduce the cost of inputs for the manufacturing companies and accelerate developments in the agro-allied industries.

B. **The CBN plans to link smallholder farmers to international buyers.** This may increase foreign exchange earnings for the country and ensure a stable exchange rate around the current corridor, even possibly lead to an appreciation in the value of the currency.

C. **The CBN will blacklist any individual or company that smuggles any restricted item into Nigeria. The CBN will also deny such person or company access to banking services in Nigeria.** This may reduce smuggling substantially and encourage local production and expansion. In addition, the demand for credit may expand. The effectiveness of this policy will require the cooperation of government in the areas of policing the land border and improvement of the business environment in Nigeria to encourage local production and at cost advantage.

D. **The CBN plans to deploy initiatives such as the Shared Agent Network Expansion Facility (SANEF) and payment service banks to increase access to financial services to individuals in underserved parts of the country. The CBN will ensure that 95% eligible Nigerians have access to financial services by 2024.** This will increase investable funds in the financial market, and will create opportunities for the development of investment products.

The CBN will blacklist any individual or company that smuggles any restricted item into Nigeria.

E. **CBN plans to encourage banks and financial institutions to lend from their balance sheet in order to support the growth of critical sectors of the economy, such as Agriculture, MSMEs and the Real Estate Sector.** The CBN may come up with a form of credit ceiling on certain products (such as government securities) or sectors of the economy to ensure that credit flows to CBN's preferred sectors.

F. **CBN to broaden the range of collaterals that MSMEs can provide to banks in order to obtain credit.** This may also stimulate lending to the MSMEs in Nigeria, therefore stimulating growth and shared prosperity. Viable business ideas will attract loans.

CBN to broaden the range of collaterals that MSMEs can provide to banks in order to obtain credit.

G. **The CBN plans to support an aggressive enrolment of prospective banking customers in the informal sector onto the BVN system with a view to overcoming the identity problems in the country.** This may boost consumer lending and stimulate investment in consumer goods.

H. **The CBN plans to support the development of a Trade Receivables Portal, to enable MSMEs to trade their invoices with financial institutions in order to improve their cash flow and support ongoing operations of their respective businesses.** This initiative should make lending to MSMEs more attractive and may boost trading opportunities in securities in the money market.

I. **The CBN will develop and announce a lending framework under which large departmental stores, automobile companies and equipment leasing companies, in partnership with financial institutions and credit bureaux, will be able to provide credit facilities at reasonable interest rates to consumers.** This will help stimulate consumer spending and economic growth. It will also encourage the growth of consumer credit. This framework may rely heavily on technology or credit cards.

The CBN plans to develop a framework that will enable banks to securitize mortgage loans, which can then be sold in the capital markets.

J. **The CBN plans to develop a framework that will enable banks to securitize mortgage loans, which can then be sold in the capital markets.** This initiative will stimulate activities in the real estate sector, unlock more funds to the real estate and increase trading opportunities in securities in the capital market.

Priority 4: Grow External Reserves

Most of the initiatives around inflow of FDI, supporting the non-oil export orientated sector and boosting agriculture production and productivity should increase the external reserves, if there are complementary supportive fiscal policies.

Support efforts at diversifying the economy through intervention programmes in the agricultural and manufacturing sectors.

Priority 5: Support efforts at diversifying the economy through intervention programmes in the agricultural and manufacturing sectors

The CBN may propose moral suasion programmes and specific industry/product credit limit arrangements to channel bank loans into the agricultural and manufacturing sectors.

FSDH Research notes that the above listed initiatives can transform the Nigerian economy and lead to consistent growth that can lift the population out of poverty. However, complementary fiscal policies are key to ensure the efficacy of these initiatives. Fiscal policies actions will be required in the following areas:

a. Improving the transportation network in the country so that goods can be moved easily from farmland to the market. This will reduce wastages.
b. Port and land border reforms to achieve a more efficient exportation process and to reduce smuggling activities.
c. Establishment of special court for speedy adjudication of disputes arising from commercial transactions.
d. Improving security of lives and properties in the country, particularly on the farmlands.
e. Implementations of measures to improve electricity generation, transmission and distribution in Nigeria. This is to reduce the costs of doing business so that locally manufactured goods are competitive both in local and international markets.
f. In addition, issues relating to storage facilities, investment in education and healthcare will need to be addressed.

If the following issues are not addressed, increasing lending to the economy may lead to a rise in non-performing loans in the Nigerian financial system. Fiscal policies such as the above, which are outside the scope of the CBN, will help provide the enabling environment to ensure these initiatives by the CBN achieve their goals.

1.1 Global Developments:

FSDH Research observed a further appreciation in the prices of sovereign bonds in the countries we monitored in June 2019.

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

The FOMC of the US Federal Reserve System maintained the federal funds rate at a range of 2.25% - 2.50% in its June 2019 meeting..

FSDH Research observed a further appreciation in the prices of sovereign bonds in the countries we monitored in June 2019. This may be a reflection of investors' desires to keep their investments in safe assets given the current uncertainties in the global economy. The interest on the Turkey Bond continued in June and consequently it recorded the highest month-on-month (M-o-M) price increase. The 8.8% September 2023 Turkey Government Bond recorded a M-o-M price appreciation of 14.84% to 76.06. This was followed by the 16.39% FGN January 2022 Nigeria Government Bond with a price increase of 1.81% to 106.17. All the bonds we monitored recorded positive real yields in June, with the exception of the Turkey and the United States. **The Kenya Government Bond offered the most attractive real yield amongst the selected bonds in June.**

The Federal Open Market Committee (FOMC) of the US Federal Reserve System maintained the federal funds rate at a range of 2.25% - 2.50% in its June 2019 meeting. However, the FOMC noted that uncertainties about the outlook for the US economy have increased. These uncertainties have opened the possibility of a rate cut with most analysts predicting a rate cut in the second half of 2019. Real Gross Domestic Product (GDP) in the US increased at an annual growth rate of 3.1% in Q1 2019, according to the 'third estimate' by the US Bureau of Economic Analysis (BEA) released on 27 June 2019, unchanged from the 'second estimate'. Inflation rate in the US fell to 1.8% in May 2019 from 2% in April. This is the highest rate since November 2018, reflecting a rebound in energy prices. The US unemployment rate remained unchanged from the previous month at 3.6% in May 2019.

Table 1: Summary of Key Indicators

S/N	Indicators	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	102.02	102.01	104.13	106.28	106.17	100.83	101.64	76.06	100.04
2	Bond Yield	2.93%	16.03%	6.58%	10.19%	13.46%	7.22%	7.22%	16.90%	1.74%
3	Bond Price MoM Change	0.22%	0.55%	0.06%	0.31%	1.81%	0.13%	1.10%	14.84%	0.64%
4	Bond Yield MoM Change	(0.08%)	(0.27%)	(0.06%)	(0.18%)	(0.90%)	(0.10%)	(0.35%)	(4.12%)	(0.17%)
5	Bond Price YTD Change	(0.11%)	4.95%	1.13%	1.91%	2.77%	1.18%	2.88%	2.78%	3.22%
6	Bond Yield YTD Change	(0.03%)	(2.11%)	(0.58%)	(0.98%)	(1.53%)	(0.70%)	(0.88%)	(0.08%)	(0.76%)
7	Real Yield	0.23%	1.93%	3.53%	4.49%	2.06%	2.12%	2.72%	(1.81%)	(0.06%)
8	Volatility	0.07	0.51	0.17	0.16	0.66	0.65	0.30	3.25	0.23
9	FX Rate MoM Change*	(0.56%)	(0.53%)	(0.97%)	1.05%	0.01%	(3.51%)	(3.50%)	(0.78%)	1.79%
10	FX Rate YTD Change*	(0.17%)	(7.22%)	(1.07%)	0.51%	(1.21%)	(9.74%)	(2.08%)	8.67%	(0.69%)
11	Inflation Rate	2.70%	14.10%	3.05%	5.70%	11.40%	5.10%	4.50%	18.71%	1.80%
12	Policy Rate	4.35%	15.75%	5.75%	9.00%	13.50%	7.50%	6.75%	24.00%	2.50%
13	Debt to GDP	47.60%	101.00%	68.70%	57.10%	21.30%	13.50%	55.80%	30.40%	105.00%
14	GDP Growth Rate	6.40%	5.50%	5.80%	5.60%	2.01%	0.50%	0.00%	(2.60%)	3.20%
15	Nominal GDP (US$'bn)	13,608	251	2,726	74.94	376	1,658	366	767	20,494
16	Current Acct to GDP	0.40%	(2.40%)	(2.30%)	(5.20%)	2.00%	7.00%	(3.50%)	(3.50%)	(2.40%)

-ve means appreciation while +ve means depreciation

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

1.2 Global Economic Growth:

According to the World Bank, the economic outlook for 2019 remains tilted towards the downside.

According to the World Bank, the economic outlook for 2019 remains tilted towards the downside. FSDH Research is of the opinion that this highlights the temporary nature of the current crude oil price. A downward review of the crude oil price has implications for crude oil exporting countries like Nigeria. In the June 2019 edition of its Global Economic Prospects (GEP), the World Bank downgraded the global growth in 2019 by 0.3% to 2.6%. The downward revision reflects weaker-than-expected international trade and investment during the first half of the year. There was a downward revision in global trade by 1% to 2.6% which is the weakest since the global financial crisis. The World Bank also warned that the risks are firmly skewed to the downside. The downside risks include: the possibility of destabilizing policy developments, renewed financial turmoil in emerging markets and developing economies (EMDEs) and sharper-than-expected slowdowns in major economies.

There was a downward revision in global trade by 1% to 2.6% which is the weakest since the global financial crisis.

The World Bank notes that economic growth in EMDEs remains constrained by subdued investment, leading to a downgraded forecast of 4.0% in 2019. The growth in sub-Saharan Africa was significantly lower than expected, reflecting persistent headwinds in major economies. The 2019 growth forecasts for Nigeria and South Africa are now 2.1% and 1.1% respectively. The growth forecast for China and India remained unchanged for 2019.

The World Bank recommends that EMDEs should urgently reinforce policy buffers, build resilience to possible negative shocks and implement reforms that promote private investment and improve public sector efficiency.

Table 2: GDP Growth Rate (Actual Vs Forecast)

							Difference From January 2019 GEP	
	2016A	2017A	2018E	2019F	2020F	2021F	2019F	2020F
World	2.6%	3.1%	3.0%	2.6%	2.7%	2.8%	(0.3%)	(0.1%)
USA	1.6%	2.2%	2.9%	2.5%	1.7%	1.6%	0.0%	0.0%
Japan	0.6%	1.9%	0.8%	0.8%	0.7%	0.6%	(0.1%)	0.0%
Euro-Area	2.0%	2.4%	1.8%	1.2%	1.4%	1.3%	(0.4%)	(0.1%)
Emerging & Developing Economies	4.1%	4.5%	4.3%	4.0%	4.6%	4.6%	(0.3%)	0.0%
China	6.7%	6.8%	6.6%	6.2%	6.1%	6.0%	0.0%	(0.1%)
India	8.2%	7.2%	7.2%	7.5%	7.5%	7.5%	0.0%	0.0%
Sub-Saharan Africa	1.3%	2.6%	2.5%	2.9%	3.3%	3.5%	(0.5%)	(0.3%)
Nigeria	(1.6%)	0.8%	1.9%	2.1%	2.2%	2.4%	(0.1%)	(0.2%)
South Africa	0.6%	1.4%	0.8%	1.1%	1.5%	1.7%	(0.2%)	(0.2%)

Source: World Bank, Global Economic Prospects (GEP), June 2019. A: Actual, E: Estimate, F: Forecast.

1.3 Nigeria Needs More Reciprocal External Trades:

There is a need to negotiate more reciprocal trading relationships that benefit Nigeria.

A one-sided relationship is rarely good or sustainable for individuals, organisations or countries. Most enduring relationships are anchored on mutually beneficial tenets. Our review of Nigeria's external trade figures over the years and the relationships with her trading partners show that there is a need to negotiate more reciprocal trading relationships that benefit Nigeria.

FSDH Research analysis of the external trade figures that the National Bureau of Statistics (NBS) published for Q1 2019 shows that Nigeria's exports and imports by destination are not well-aligned. Nigeria did not export anything to the three leading countries (China, Swaziland and United States of America) which accounted for over 50% of its total imports.

On a medium to long-term basis, Nigeria must develop strategies that will enable it to enjoy cost advantage in the production of many exportable goods from its natural resources. Most export-led economies around the world that we can identify today formulated and implemented specific programmes at certain points in the past to invest in their local competitiveness.

There should be a system where producers of raw materials can interface with the industrial sector so that the necessary raw materials may be sourced in the local market.

There should be a system where producers of raw materials can interface with the industrial sector so that the necessary raw materials may be sourced in the local market. This would help to increase the quality of raw materials produced locally in order to meet specific needs of the industry. Ultimately, more job opportunities would be available for the growing population of the country, rural-urban migration would reduce, external reserves grow, the value of the currency more stable, inflation rate remain within an acceptable region, and savings and investments would grow as more investible funds become available in the local financial system, bringing down the interest rate.

1.4 Nigeria's Population: From 196million to 411million:

Government can encourage investment into rural areas by leveraging on agriculture and other natural resources that are endowed in each area.

If the projections from the United Nations and World Poverty Clock are correct, Nigeria will be the 3rd most populous country by 2050, from the 7th position in 2018. That means Nigeria's population is projected to increase from 196million to 411million, adding 215million in 32 years. That may be good news as most countries will like to do business with Nigeria to enjoy part of the large market that would be created. However, this huge population size may be a ticking time bomb if not well planned for.

At 411 million population in 2050, Nigeria's population would have overtaken the population of Pakistan, Brazil, Indonesia and United States, who currently have higher populations than Nigeria. Nigeria will only be behind China and India which are predicted to be 2nd and 1st most populous countries respectively. Not only this, it is expected that 72% of Nigeria's population at that time will be living in urban areas, higher than 52% at the moment. In the face of these large numbers, as long as the economy is not growing fast enough, poverty in the land will continue.

The reset buttons that can accelerate the speed of the economy from the current level are steady and reliable power supply, good roads, improved security, law and order, social investment in education and healthcare delivery. Once these buttons are pressed, they will open the way for private investment that can create job opportunities and increase opportunities both for government and the citizens.

We see Nigeria as a world power by 2050, leveraging the population size to gather large economy power.

Development of the rural economy with the goal to increase economic activity in rural communities will help to reduce rural-urban migration. Government can encourage investment into rural areas by leveraging on agriculture and other natural resources that are endowed in each area. In addition, infrastructural facilities such as roads, telecommunication, water, and electricity should be provided in order to attract investors. We see Nigeria as a world power by 2050, leveraging the population size to gather large economy power.

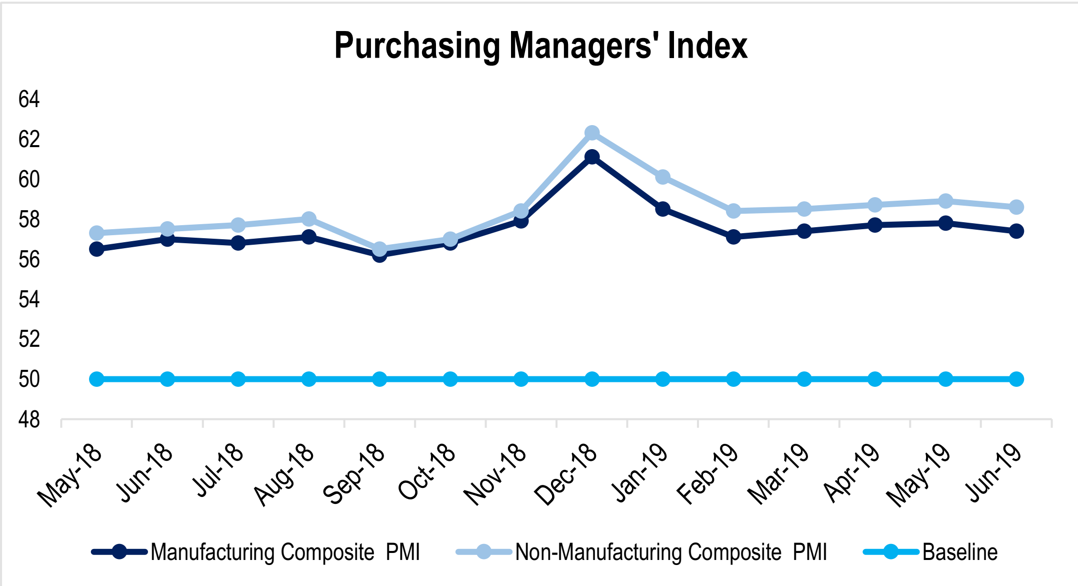
1.5 Purchasing Managers' Index (PMI):

The Manufacturing and Non-Manufacturing PMI increased in June 2019 but at a slower rate than the May levels.

The Manufacturing and Non-Manufacturing PMI increased in June 2019 but at a slower rate than the May levels. The overall Manufacturing PMI was 57.4 points in June, a slower growth rate than 57.8 points recorded in May 2019. This was attributed to the slowdown in the expansion of new orders, raw material inventory and stock of finished goods. However, production levels, and new export orders expanded at a faster pace than in May 2019.

Similarly, the Non-Manufacturing PMI expanded at a slower pace in June 2019 and stood at 58.6 points. The level of business activity, employment level, inventory and backlog of work in the non-manufacturing sector expanded at a slower rate than in the previous month. However, new orders, new exports orders and imports in the non-manufacturing sector expanded at a faster pace than in May.

Despite the slower rate of increase, the levels of PMI figures are still higher than the corresponding period of last year. As a result, we expect the GDP growth rate in the Q2 2019 to be higher than what was recorded in Q1 2019.



Sources: Central Bank of Nigeria (CBN)

1.6 Inflation Rate:

We expect the June inflation rate to drop to 11.32% from 11.40% recorded in May 2019.

Good news for Nigerian consumers, businesses and government as FSDH Research expects the June 2019 inflation rate to take a reverse turn from the trend it had recorded in the last two months. We expect it to drop to 11.32% from 11.40% in May 2019. You will recall that popular adage, 'Everything that goes up must come down'. Wait a moment. We are aware that the prices of the consumer items that you bought in June 2019 were higher than the prices of the same items you bought in May. You must be wondering, how has the inflation rate come down? What we are saying is that the prices of most of those items increased at a slower rate between May and June 2019 than the rate of increase between May and June 2018. With that, the inflation rate (Headline inflation rate) would drop in June 2019. This scenario is known as the 'base effect'.

The Central Bank of Nigeria (CBN) targets single-digit inflation rate for the Nigerian economy and reiterated the desire to achieve that target in the five-year plan it released a few weeks ago. In other words, any inflation rate in double-digit is considered high in our view. Given recent developments in the country, particularly in the agricultural sector, and farmers' inability to move their produce to the market efficiently, it may be difficult to achieve a single-digit inflation rate in 2019. The FGN however, has to play its role to ensure infrastructure development, in particular appropriate transport network, reliable electricity supply and security of lives and property. With these in place the road to single-digit inflation rate will be smooth

Table 3: Inflation Rate Actual Vs. Forecast

Month	Jan-19A	Feb-19A	Mar-19A	Apr-19A	May-19A	Jun-19F	Jul-19F	Aug-19F	Sep-19F	Oct-19F	Nov-19F	Dec-19F
Inflation Rate	11.37%	11.31%	11.25%	11.37%	11.40%	11.32%	11.22%	11.06%	10.96%	11.04%	11.08%	11.36%
Adjusted Inflation Rate*	11.37%	11.31%	11.25%	11.37%	11.40%	11.32%	11.22%	12.07%	13.08%	13.17%	13.20%	13.48%

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*

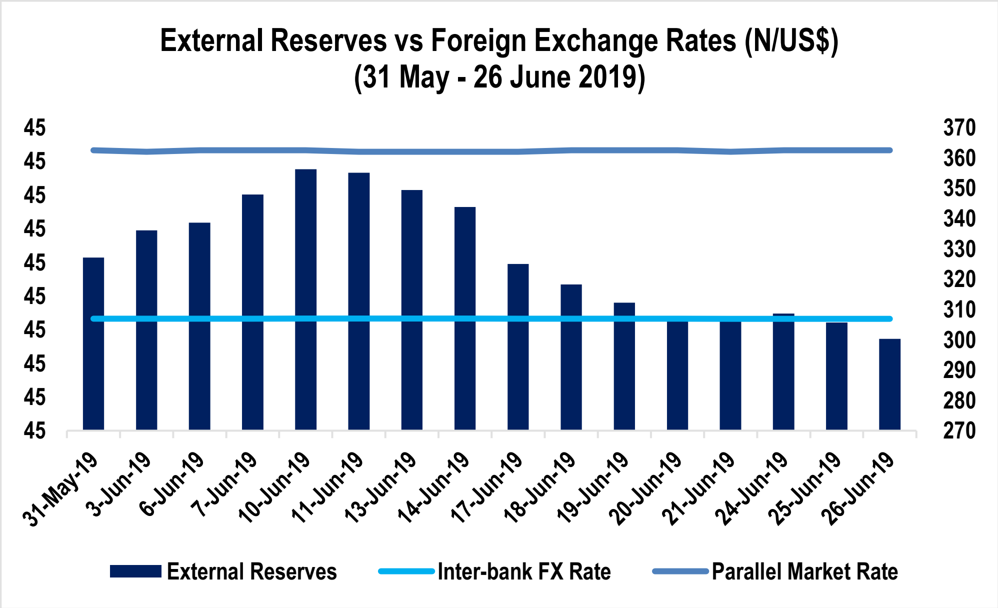
There was a depletion to the external reserves in June 2019 following the accretion over the last few months.

1.7 Movement in the External Reserves:

There was a depletion to the external reserves in June 2019 following the accretion over the last few months. The decrease in the external reserves may be attributed to lower average crude oil prices and low FPI inflows. However, FSDH Research notes that the external reserves at its current level, still provide short-term support for the value of the Naira. According to the CBN, the external reserves position is enough to cover over 13 months of imports.

The decrease in the external reserves may be attributed to lower average crude oil prices and low FPI inflows.

However, we reiterate that the medium-term stability in the foreign exchange market will depend on the country's ability to increase its foreign exchange receipts from both crude oil and non-oil products. The 30-Day moving average external reserves decreased by 0.11%, from US$45.12bn at end-May to US$45.07bn at end-June 2019**.**



The FPI inflow, albeit lower, continues to provide short-term stability for the foreign exchange market.

1.8 Currency Transaction at the I&E Window:

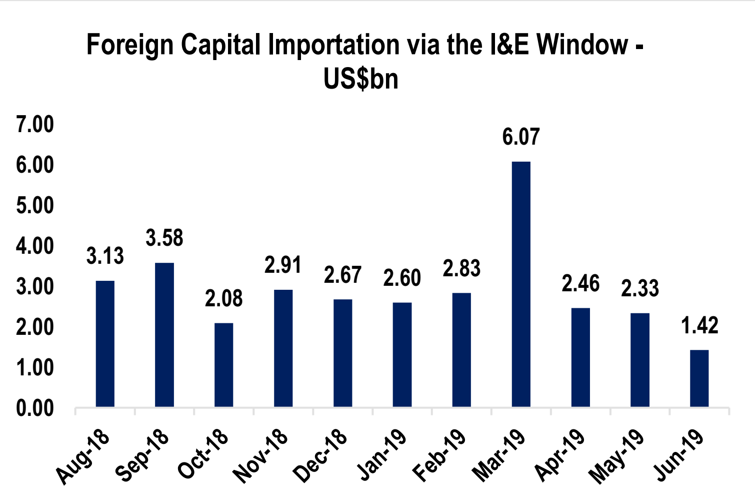
There was a further decline in capital importation via the Investors' and Exporters' Foreign Exchange Window (I&E window) in June 2019, the lowest figure since July 2017. Similarly, Foreign Portfolio Investment (FPI) via the I&E window decreased further in June. According to data obtained on Monday, 1 July 2019 from the FMDQ OTC Securities Exchange, contribution from FPI in June stood at US$0.83bn, the lowest inflow recorded in 2019, and accounted for 58.11% of total inflows. The FPI inflow, albeit lower, continues to provide short-term stability for the foreign exchange market. However, it is important to note that measures to attract Foreign Direct Investment (FDI) are needed. There was a further drop in FDI in June 2019.

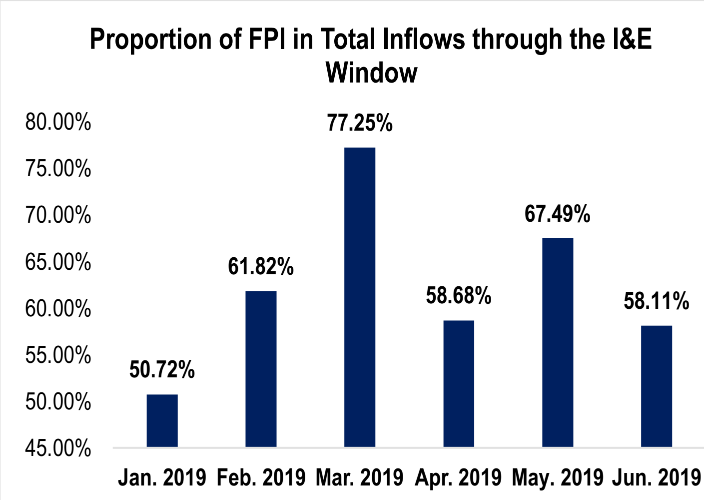
Total capital importation through the I&E window in June 2019 stood at US$1.42bn, the lowest monthly figure recorded since July 2017. From inception to June 2019, capital importation through the I&E totalled U$66.35bn.

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

	March		April		May		June	
Source	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**
FDIs	0.23	3.87%	0.16	6.54%	0.11	4.69%	0.08	5.47%
FPIs	4.69	77.25%	1.44	58.68%	1.57	67.49%	0.83	58.11%
Other Corporates	0.02	0.40%	0.03	1.17%	0.07	2.95%	0.06	4.15%
CBN	0.06	1.05%	0.01	0.41%	-	0.00%	-	0.00%
Exporters	0.14	2.25%	0.08	3.32%	0.08	3.29%	0.05	3.63%
Individuals	0.03	0.43%	0.004	0.17%	0.006	0.27%	0.003	0.23%
Non-Bank Corporates	0.90	14.76%	0.73	29.71%	0.50	21.31%	0.40	28.41%
Other Corporates	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	**6.07**	**100%**	**2.46**	**100%**	**2.33**	**100%**	**1.42**	**100.00%**

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





Sources: FMDQ and FSDH Research Analysis

Increasing fears over prolonged US-China trade tensions and the subsequent effect on the global economy resulted in a downward movement in crude oil prices for most of June 2019.

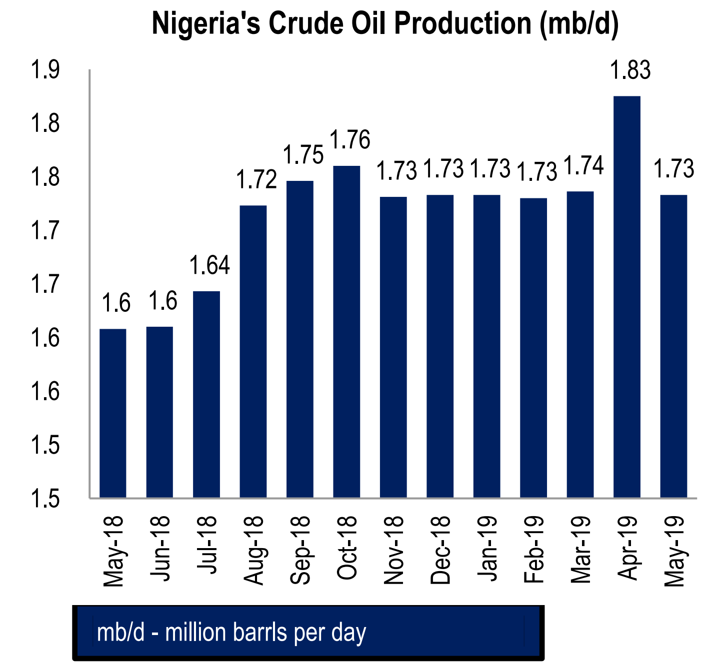
1.9 Crude Oil Market and Bonny Light Price:

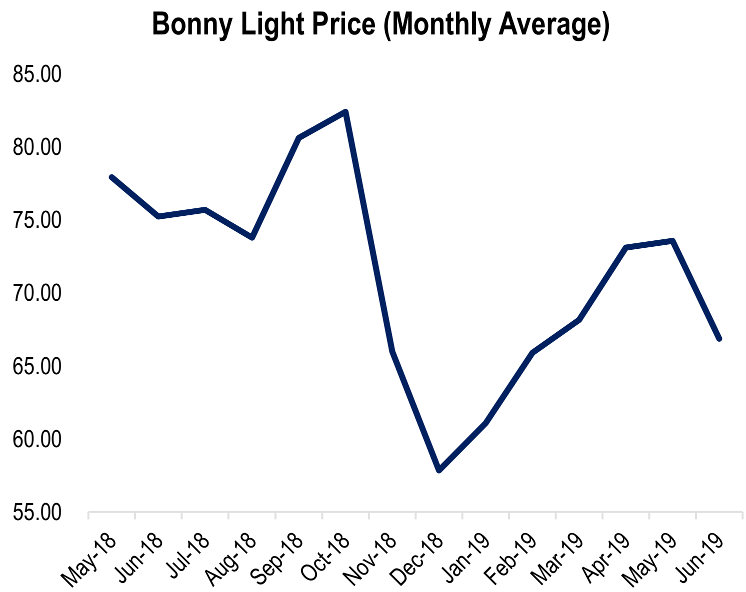
Increasing fears over prolonged US-China trade tensions and the subsequent effect on the global economy resulted in a downward movement in crude oil prices for most of June 2019. The average price of Bonny Light in June 2019 stood at US$66.68/b compared with the average of US$73.58/b in May. However, FSDH Research notes that there was a small increase in the price of crude oil towards the end of June, primarily due to the possibility of the Organization of Petroleum Exporting Countries (OPEC) extending cuts in production. At its meeting in 1 July 2019, OPEC agreed to extend its crude oil supply cut until 31 March 2020. Although there are still worries on crude oil demand, the latest move may take crude oil price to US$70/b.

The daily crude oil production in Nigeria increased by 5.04% to 1.73mb/d in May 2019.

In line with FSDH Research predictions, the US Energy Information Administration (EIA) in its monthly report for June 2019, revised downward its forecast of the average Brent crude oil price for 2019. This followed three consecutive months of upward review of forecasts. It however, maintain the forecast for 2020. The lower forecast for 2019 reflects rising uncertainty about global oil demand growth. The EIA forecasts an average price of Brent crude oil of US$66.69/b and US$67.00/b in 2019 and 2020, respectively. The forecast is lower than the average price of Brent in 2018 which was US$71.19/b.

According to secondary data available from OPEC's report for the month of June 2019, the daily crude oil production in Nigeria decreased by 5.04% to 1.73mb/d in May 2019, from 1.83mb/d in April. This is below the 2019 budget benchmark of 2.3 mb/d. The lower crude oil production compared with budget may have negative implications on Nigeria's revenue receipts and fiscal buffers.





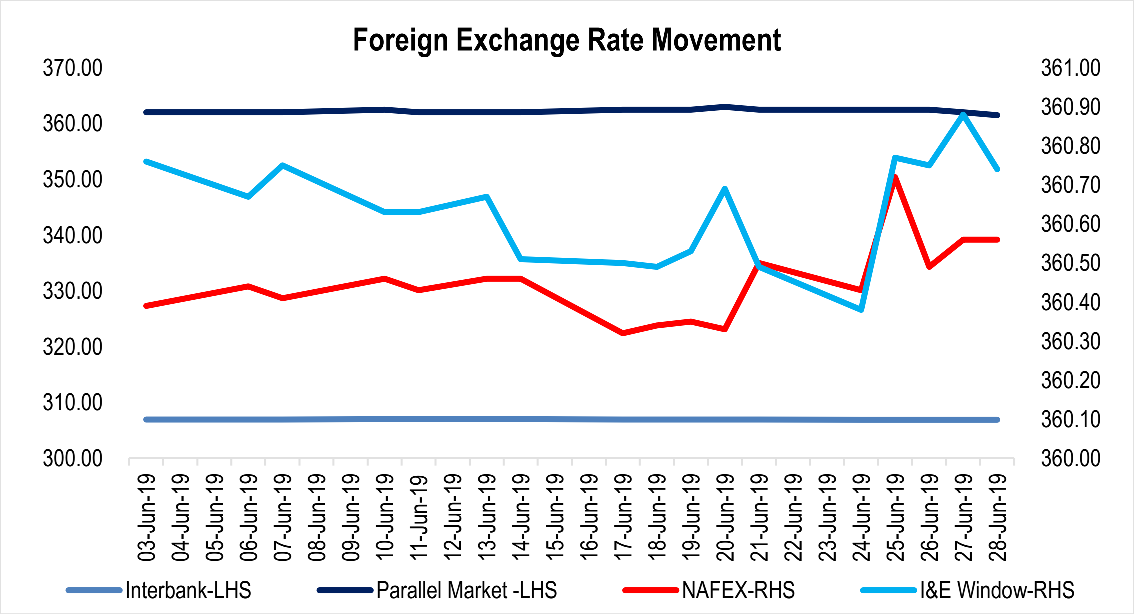
Sources: OPEC and Thomson Reuters

The macroeconomic environment provided additional support for the value of the Naira in June 2019.

1.10 Foreign Exchange Rate:

The macroeconomic environment provided additional support for the value of the Naira in June 2019. There was an appreciation in the value of the Naira in the inter-bank and parallel markets, while the value remained unchanged in the I&E Window. The premium between the inter-bank and parallel markets reduced marginally in June 2019 compared with May 2019. The foreign exchange rate is particularly susceptible to movements in the crude oil market.

Month-on-month, the value of the Naira remained unchanged to close at N360.74/US at the I&E window while it appreciated by 0.28% to close at N361.50/US$ at the parallel market at the end of June compared with May 2019. At the inter-bank market, it appreciated marginally by 0.02% to stand at N360.90/US$ at end-June. The highest rates recorded across the inter-bank, parallel market and I&E window in June were N307.00/US$, N363/US$ and N360.88/US$ respectively. The lowest values were N306.90/US$, N361.50/US$ and N360.38/US$ respectively.



The yields on the fixed income securities and the NIBOR moved in different directions in June 2019 compared with May 2019.

2.0 Interest Rate and Yield Analysis:

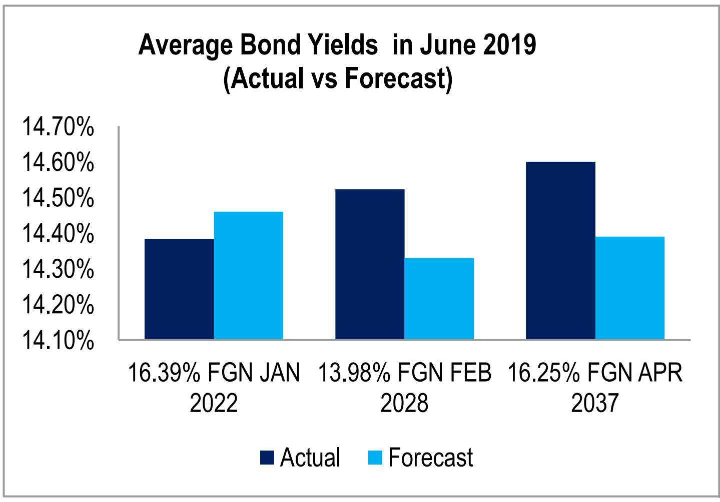
The yields on fixed income securities and the Nigerian Inter-Bank Offered Rate (NIBOR) moved in different directions in June 2019, compared with May 2019. The movements reflected the liquidity conditions in the financial system and developments in the broader economy. The major drivers of the yields were:

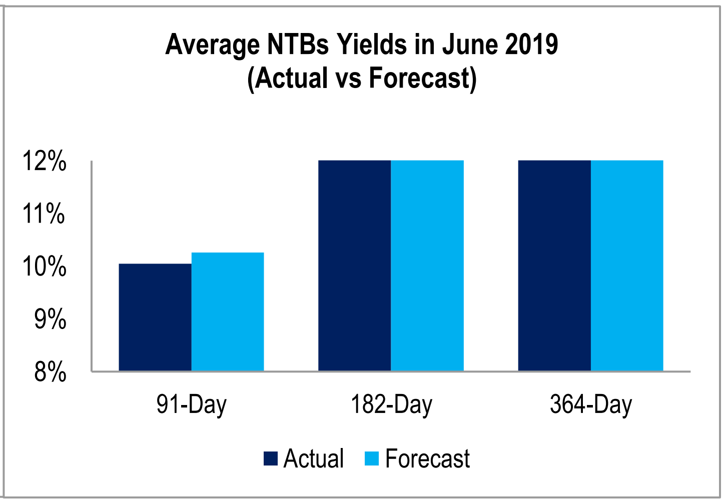
- **The low interest rate and yields in the advanced markets**
- **The strategy of the CBN that favours a low interest rate environment to boost growth**
- **Dearth of alternative investment instruments**
- **Increase in inflation rate**
- **Liquidity in the financial system because of matured government securities**

All the average yields decreased at the NTBs auction in June, compared with May 2019.

The fixed income market analysis for the month of June 2019 shows a reduction of net outflow in June 2019 of N321bn, compared with N514bn in May. The major outflows in June were the Open Market Operations (OMO) and Repurchase (REPO) Bills of N476bn, CBN's Foreign Exchange Sale of N567bn, Primary Nigerian Treasury Bills (NTBs) of N147bn and the FGN Bond auction of N97bn. Meanwhile, in May 2019, the major outflows were the OMO and REPO of N974bn, CBN's Foreign Exchange Sale of N335bn, Primary NTBs of N211bn and the FGN Bond auction of N111bn. The major inflows in June were the matured OMO and REPO Bills of N472bn, matured NTBs of N159bn, and the Federation Account Allocation Committee (FAAC)'s injection of about N335bn. The major inflows in May were the matured OMO and REPO Bills of N607bn, matured NTBs of N210bn, and the FAAC's injection of about N301bn.

All the average yields decreased at the NTBs auction in June, compared with May 2019. The average 91-Day NTB yield decreased to 10.05% in June, down from 10.26% in May. The average 182-day NTB yield closed at 12.67%, down from 13.04% in May. While the average 364-Day NTB yield stood at 13.86% in June down from 14.26% in May.





Sources: FMDQ, Central Bank of Nigeria (CBN), and FSDH Research

The average Nigerian Interbank Offered Rate (NIBOR) moved in varying directions in June compared with May. The average 30-day and 90-day NIBOR increased to 12.00% and 12.90% in June, from 11.51% and12.31% in May respectively, while 180-day NIBOR decreased to 13.90% in June 2019, from 13.92% in May. The yields on the FGN Bonds that we monitored also moved in varying directions in June compared with May. The yield on the 2022 bond declined while the yields on the 2028 and 2037 bonds moved upwards.

Table 5: Market Liquidity (N'bn)

	May 2019			June 2019		
	Total Inflow	Total Outflow	Net Flow	Total Inflow	Total Outflow	Net Flow
Primary Market: NTB	210	211	(1)	159	147	12
Open Market Operations & Rev Repo	607	974	(367)	472	476	(4)
Bond	0	111	(111)	0	97	(97)
FAAC	301	0	301	335	0	335
FX Market	0	335	(335)	0	567	(567)
CRR Debit/Credit	0	0	0	0	0	0
TSA Implementation	0	0	0	0	0	0
Total	1,118	1,631	(514)	966	1,287	(321)

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
May 2019	14.47%	14.35%	14.41%
June 2019	14.38%	14.52%	14.60%
Change	(0.09%)	0.17%	0.19%

Source: Financial Market Dealers Quotation (FMDQ)

Table 7: Average Interest Rate and Yields

	NIBOR				Treasury Bill Yields		
	Call	30-Day	90-Day	180-Day	91-Day	182-Day	364-Day
May 2019	8.68%	11.51%	12.31%	13.92%	10.26%	13.04%	14.26%
June 2019	8.28%	12.00%	12.90%	13.90%	10.05%	12.67%	13.86%
Change	(0.40%)	0.49%	0.60%	(0.02%)	(0.21%)	(0.37%)	(0.40%)

Sources: CBN and FMDQ

We expect the yields on the fixed income securities to remain at the current level in the short-term.

2.1 Revised Outlook Going Forward:

FSDH Research expects a total inflow of about N1.09trn to hit the money market from the various maturing government securities and the FAAC in July 2019. We estimate a total outflow of approximately N1.13trn from various sources, leading to a net outflow of about N40.54bn. We expect the inflation rate to drop below the current level in June 2019. Yields on fixed income securities may trend marginally lower in July 2019.

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

- The MPC's decision at its July 2019 meeting
- Expected decline in the inflation rate in June 2019
- Liquidity in the financial market and stability in the foreign exchange market
- Rising crude oil price and stability in crude oil production
- Low yields in the international market
- Government borrowing needs to fund the 2019 Budget deficit

FSDH Research believes if there are no internal and external shocks, interest rate and yields on fixed income securities may remain at the current level in the short-term.

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

Date	04-Jul-19	11-Jul-19	16-Jul-19	18-Jul-19	25-Jul-19	29-Jul-19	Others*	Total
Inflows	134.79	92.55	0.51	178.99	90.07	223.46	374.00	1,094.37
Outflows	88.86	-	-	107.05	115.00	-	479.00	1,134.90
Net flows	**45.93**	**92.55**	**0.51**	**71.94**	**(24.93)**	**223.46**	**(105.00)**	**(40.54)**

*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-19A	11.24%	14.14%	17.18%	14.84%	14.78%	14.54%
Mar-19A	10.81%	13.16%	14.41%	14.45%	14.24%	14.15%
Apr-19A	10.49%	13.39%	14.67%	14.28%	14.54%	14.42%
May-19A	10.26%	13.04%	14.26%	14.47%	14.35%	14.41%
Jun-19A	10.05%	12.67%	13.86%	14.38%	14.52%	14.60%
Jul-19F	10.20%	12.62%	13.80%	14.36%	14.50%	14.57%
Aug-19F	10.16%	12.59%	13.76%	14.25%	14.44%	14.50%
Sep-19F	10.06%	12.53%	13.66%	14.15%	14.34%	14.41%
Oct-19F	10.15%	12.61%	13.75%	14.23%	14.42%	14.49%
Nov-19F	10.18%	12.65%	13.78%	14.27%	14.46%	14.52%
Dec-19F	10.46%	12.93%	14.06%	14.55%	14.74%	14.80%

Sources: CBN, FMDQ, and FSDH Research Forecasts

2.2 Investment Strategies:

1. **Investors should position for opportunities in Commercial Paper investment**
2. **Investors should trade in the short-end of Treasury Bills and Bonds to enable them to respond quickly to market changes**
3. **Investors should also maintain a balanced portfolio in other fixed income securities, particularly in bonds, in order to minimise reinvestment risk**

The current yields on all the FGN Eurobonds are lower than their respective coupons.

The average prices on FGN Eurobonds were higher in June 2019 than in May 2019, except the 7.875% FGN Eurobond February 2032, which dropped marginally in price. Generally, the attractiveness of the yields on the FGN Euro Bond compared with similar risk-profiled bonds and improved investors' sentiments in Nigeria led to the increase in the demand and price in June 2019. The current yields on all the FGN Eurobonds are lower than their respective coupons. The bonds may continue to enjoy high patronage until there is a reversal in the yield movement for the advanced countries.

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**
03-Jun-19	97.60	8.18%	103.08	4.78%	102.51	5.68%	101.31	5.16%
04-Jun-19	98.46	8.07%	103.18	4.72%	102.77	5.61%	101.50	5.09%
05-Jun-19	99.16	7.98%	103.33	4.62%	103.07	5.53%	101.73	5.01%
06-Jun-19	99.54	7.93%	103.45	4.53%	103.30	5.46%	101.80	4.98%
07-Jun-19	100.37	7.83%	103.59	4.44%	103.54	5.40%	101.95	4.93%
10-Jun-19	100.59	7.80%	103.69	4.38%	103.67	5.36%	102.21	4.83%
11-Jun-19	100.32	7.83%	103.55	4.46%	103.51	5.41%	102.06	4.89%
12-Jun-19	99.59	7.92%	103.34	4.59%	103.39	5.44%	101.97	4.92%
13-Jun-19	99.46	7.94%	103.50	4.47%	103.42	5.43%	101.99	4.91%
14-Jun-19	99.56	7.93%	103.32	4.58%	103.43	5.42%	102.03	4.89%
17-Jun-19	99.77	7.90%	103.57	4.43%	103.55	5.39%	102.08	4.88%
18-Jun-19	101.14	7.73%	103.64	4.38%	104.13	5.23%	102.31	4.79%
19-Jun-19	101.75	7.65%	104.02	4.13%	104.36	5.17%	102.78	4.63%
20-Jun-19	104.01	7.38%	104.43	3.86%	105.34	4.91%	103.52	4.37%
21-Jun-19	103.16	7.48%	104.17	4.01%	105.08	4.97%	103.26	4.45%
24-Jun-19	103.61	7.43%	104.30	3.93%	105.28	4.92%	103.40	4.41%
25-Jun-19	103.21	7.48%	104.18	4.00%	105.13	4.96%	103.36	4.42%
26-Jun-19	103.48	7.44%	104.26	3.95%	105.28	4.92%	103.40	4.40%
27-Jun-19	104.02	7.38%	104.42	3.83%	105.70	4.80%	103.54	4.35%
28-Jun-19	104.84	7.28%	104.48	3.78%	106.03	4.71%	103.67	4.30%

Source: Bloomberg

The NSE ASI resumed its downward trend in June 2019 following the appreciation in May 2019.

3.0 Equity Market:

3.1 The Secondary Market:

The Nigerian Stock Exchange All Share Index (NSE ASI) resumed its downward trend in June 2019 following the appreciation in May 2019. The NSE ASI depreciated by 3.55% (a depreciation of 3.55% in US Dollar) to close at 29,966.87 points. In HY1 2019, the Index depreciated by 4.66%. The market capitalisation recorded a M-o-M loss of 3.50% (a loss of 3.50% in US Dollar) to close at N13.21trn (US$36.61bn). **The difference in the rate of change between the market capitalisation and the Index was due to the additional listing of 1,880,000,000 ordinary shares of Ellah Lakes Plc, as a consideration for the company's acquisition of the entire issued shares of Telluria Limited.**

Despite the decline in the number of deals in the equity market in June, there was an increase in value and volume of transactions.

Despite the decline in the number of deals in the equity market in June, there was an increase in value and volume of transactions. The volume of stocks traded increased by 79.47% to 10.88bn in June 2019. Wema Bank Plc (5.32bn), Zenith Bank Plc (1.12bn), Forte Oil Plc (992.78mn), GT Bank Plc (616.25mn), and Access Bank Plc (260.50mn) were the five most highly traded stocks in June. Similarly, the value of stocks traded on the NSE in June increased by 34.19% to N147.48bn, from N109.90bn in May.

All the NSE Sectoral Indices depreciated further, except the NSE Banking Index and the NSE Insurance Index.

All the NSE Sectoral Indices depreciated further, except the NSE Banking Index and the NSE Insurance Index which recorded an appreciation of 1.47% and 3.29% respectively. The NSE Industrial Index recorded the highest M-o-M depreciation of 4.01%, with a YTD depreciation of 12.12%, mainly attributable to the decrease in share prices of Cement Company of Northern Nigeria Plc (12.00%) and Dangote Cement Plc (7.77%). The NSE Oil and Gas Index recorded the second highest M-o-M depreciation of 3.56% and a YTD depreciation of 16.21%.

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*
May	6.06	109.90	31,069.37	13.68	361.57	119.81	630.93	262.58	1133.27
June	10.88	147.48	29,966.87	13.21	366.87	123.75	622.33	253.23	1087.80
Change	**79.47%**	**34.19%**	(3.55%)	(3.50%)	**1.47%**	**3.29%**	(1.36%)	(3.56%)	(4.01%)
YTD	-	-	(4.66%)	**12.67%**	(8.04%)	(2.16%)	(16.89%)	(16.21%)	(12.12%)

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

Table 12: Major Earnings Announcements in June 2019						
Company and Result	**Turnover (Nm)**	**Change**	**PBT (Nm)**	**Change**	**PAT (Nm)**	**Change**
PRESCO PLC						
3 months, March 2019	5,506	(16.45%)	2,576	(24.94%)	2,141	(17.58%)
Full Year, December 2018	21,345	(4.56%)	6,321	(19.12%)	4,284	(25.18%)
LAFARGE AFRICA PLC.						
3 months, March 2019	78,512	(2.64%)	123	104.17%	3,145	57.09%
Full Year, December 2018	308,425	3.10%	(19,508)		(19,508)	
MUTUAL BENEFITS ASSURANCE PLC						
Full Year, December 2018	15,841	12.84%	1,381	3.44%	1,149	12.37%
3 months, March 2019	5,727	20.58%	1,106	27.26%	890	32.46%
NPF MICROFINANCE BANK PLC						
Full Year, December 2018	3,950	8.09%	287	(64.97%)	196	(69.02%)
3 months, March 2019	972	4.65%	194	(6.79%)	194	(6.79%)
CORNERSTONE INSURANCE COMPANY						
Full Year, December 2018	11,570	25.75%	3,285	195.86%	3,018	189.75%
TRIPPLE GEE AND COMPANY PLC						
Full Year, March 2019	785	5.69%	35	(6.64%)	28	17.75%
Source: NSE						

Table 13: Major Corporate Action Announcements in June 2019					
Company	**Result**	***DPS (N)**	**Closure Date**	**Payment Date**	**Interim/Final**
PRESCO PLC	Full Year Dec. 2018	2.00	08-Jul-19	29-Jul-19	Final
NPF MICROFINANCE BANK PLC	Full Year, Dec. 2018	0.05	08-Jul-19	25-Jul-19	Final
C & I LEASING PLC	Full Year, Dec. 2018	0.08	15-Jul-19	31-Jul-19	Final
*Source: NSE; *DPS – Dividend Per Share*					

For the second consecutive month, the S&P BSE SENSEX Index (India) was the only Index that depreciated in Asia.

All the stock markets that we monitored in Europe and North/Latin America appreciated in June 2019. In Africa, the FTSE/JSE Africa All Share Index was the only Index to record a M-o-M appreciation, increasing by 4.59% in June. For the second consecutive month, the S&P BSE SENSEX Index (India) was the only Index that depreciated in Asia. The NASDAQ Composite recorded the highest M-o-M appreciation of 7.42%, with a YTD appreciation of 20.66%. The NSE All-Share Index recorded the largest depreciation in June 2019.

Table 14: Foreign Equity Market Performance in June 2019

North/Latin America	YTD Change		Month-on-Month Change
Dow Jones Industrial Average	14.03%		7.19%
S&P 500 Index	17.35%		6.89%
NASDAQ Composite	20.66%		7.42%
Brazil Stock Market Index	14.88%		4.06%
Europe			
Swiss Market Index	17.43%		3.93%
FTSE 100 Index (UK)	10.37%		3.69%
CAC 40 Index (France)	17.09%		6.36%
DAX Index (Germany)	17.42%		5.73%
SMSI Index (Madrid, Spain)	7.37%		1.90%
Africa			
NSE All-Share Index	(4.66%)		(3.55%)
FTSE/JSE Africa All Share Index	10.37%		4.59%
Nairobi All Share Index (Kenya)	6.54%		(0.21%)
GSE Composite Index (Ghana)	(6.90%)		(2.69%)
Asia/Pacific			
NIKKEI 225 Index (Japan)	6.30%		3.28%
S&P BSE SENSEX Index (India)	9.22%		(0.80%)
Shanghai Stock Exchange Composite Index (China)	19.45%		2.77%
Hang Seng Index (Hong Kong)	10.43%		6.10%

Sources: Bloomberg and Nigerian Stock Exchange (NSE)

There may be a recovery in the equity market in July as activity is stimulated through corporate actions in the month.

3.2. Outlook for the Month of July 2019:

We expect the following factors to drive performance of the equity market in the short-term:

- The continuous drop in yields on fixed income securities
- Crude oil price above US$70/b
- Strategic positioning as part of the earnings season
- Stability in the foreign exchange market

3.3. Strategies:

- Investors should position in stocks that have good fundamentals and are currently trading below their fair value
- Investors should take position in stocks that have a history of good dividend payment
- We see opportunities in the banking, consumer goods, building materials, and oil and gas sectors of the equity market

The equity market recorded more depreciations than appreciations in the last six years between June and July. There may be a recovery in the equity market in July as activity is stimulated through corporate actions in the month.

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

	Year					
Months	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
June	36,164.30	42,482.48	33,456.83	29,597.79	33,117.48	38,278.55
July	37,914.32	42,097.46	30,180.27	28,009.93	35,844.00	37,017.78
% Change	**4.84%**	**(0.91%)**	**(9.79%)**	**(5.36%)**	**8.23%**	**(3.29%)**

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

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	179.90	170.00	236.00	22.21	8.10	240.00
Dangote Sugar	10.70	10.60	19.50	1.98	5.42	18.00
FBNH	6.45	6.45	10.55	1.69	3.81	11.00
Flour Mills	14.00	13.35	32.75	2.02	6.95	25.00
GT Bank	30.00	30.00	41.50	6.43	4.66	45.00
Nigerian Breweries	60.50	56.90	113.90	2.16	28.03	81.49
UBA	6.25	5.65	10.35	2.44	2.56	9.50
Zenith Bank	19.45	18.80	26.00	6.26	3.11	32.00
Seplat	530.00	495.00	710.00	82.59	6.42	760.00
Lafarge Africa	12.50	9.55	39.45	-	-	20.53
11 Plc	175.00	150.00	190.00	23.88	7.33	218.14

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	2.57	16.39%	104.88	14.05%	1.93
2	13.98% FGN FEB 2028	8.66	13.98%	98.15	14.35%	4.67
3	16.25% FGN APR 2037	17.79	16.25%	111.15	14.48%	6.07

Source: FSDH Research. Prices and yields as at 02 July, 2019

The prices of the Eurobonds of First Bank of Nigeria Limited and Ecobank Nigeria Limited are currently trading at discount to their face values, offering attractive prices and yields. Investments in these securities may generate good returns for investors who have US Dollar liquidity and can take the associated risks.

Table 19: Attractive Fixed Income Securities Trading on the FMDQ as at 02 July, 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	0.39	12.77%	100.56
Lagos	13.50% LAGOS 27-NOV-2020	13.50%	27-Nov-20	1.41	14.50%	98.74
Corporate Bonds						
FCMB	15.00% FCMB 6-NOV-2020	15.00%	06-Nov-20	1.35	17.68%	96.85
NAHCO	15.25% NAHCO II 14-NOV-2020	15.25%	14-Nov-20	1.37	14.20%	101.21
Transcorp Hotels Plc	15.50% TRANSCORP 4-DEC-2020	15.50%	04-Dec-20	0.95	16.72%	98.94
Lafarge Africa Plc	14.75% LAFARGE 15-JUN-2021	14.75%	15-Jun-21	1.95	14.11%	101.03
FCMB	14.25% FCMB I 20-NOV-2021	14.25%	20-Nov-21	2.39	15.85%	96.91
UBA	16.45% UBA I 30-DEC-2021	16.45%	30-Dec-21	2.50	14.40%	104.16
Fidelity Bank	16.48% FIDELITY 13-MAY-2022	16.48%	13-May-22	2.86	14.93%	103.46
Transcorp Hotels	16.00% TRANSCORP 26-OCT-2022	16.00%	26-Oct-22	1.97	15.88%	100.12
Flour Mills of Nigeria	16.00% FLOURMILLS II 30-OCT-2023	16.00%	30-Oct-23	4.33	15.69%	100.89
Stanbic IBTC	182D T.Bills+1.20% STANBIC IA 30-SEP-2024	16.29%	30-Sep-24	5.25	15.00%	104.50
Stanbic IBTC	13.25% STANBIC IB 30-SEP-2024	13.25%	30-Sep-24	5.25	15.00%	93.74
Supranational Bonds						
AfDB	11.25% AFDB 1-FEB-2021	11.25%	01-Feb-21	0.83	13.22%	98.52
Corporate Eurobonds						
Zenith Bank Plc II	7.375% MAY 30, 2022	7.375%	30-May-22	2.91	5.07%	106.14
Access Bank Plc III	10.50 OCT 19, 2021	10.50%	19-Oct-21	2.30	5.62%	110.34
First Bank Ltd.	8.00%/2Y USD SWAP+6.488% JUL 23 2021	8.00%	23-Jul-21	2.06	12.21%	99.77
Ecobank Nig. Ltd	8.75% AUG 14, 2021	8.75%	14-Aug-21	2.12	9.01%	100.01
Seplat Petroleum Development Company Plc	9.25% April 01, 2023	9.25%	01-Apr-23	3.75	7.39%	105.97
Commercial Paper						
Issuer	Description	Yields at Issue	Maturity Date	DTM (Years) **	Current Yield	Discount Rate (%)
Flour Mills Of Nigeria Plc	FLOUR MILLS CP VI 13-AUG-19	14.75%	13-Aug-19	42	12.33	12.16%
Eterna Plc	ETERNA CP I 10-SEP-19	18.79%	10-Sep-19	70	12.84%	12.53%

*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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