Monthly Economic & Financial Market Outlook

Economy in Need of Boosters: Priority for a Second-Term

Executive Summary

- *The Federal Government needs to appoint members of the cabinet with their respective portfolios in the month of June to enable them to start implementation of the Next Level growth and development agenda of the Federal Government of Nigeria (FGN)*
- *There are more compelling reasons now than before for the government to remove the petroleum subsidy and channel the money into some other social intervention programmes*
- *We recommend an adjustment to the electricity tariff in order to drive investment into this critical sector of the economy which would also accelerate the growth of small and medium scale businesses in the country*
- *There must be deliberate efforts and strategies to improve the quality of education and healthcare delivery in Nigeria, as well as increasing manpower development. This would improve productivity and boost economic growth and development of the country*
- *Such efforts will also help the country to conserve foreign exchange. Available figures from the Central Bank of Nigeria (CBN) shows that Nigerians spent a total of US$33.04bn between 2009 and 2018 as personal travel expenses on education and health related issues*
- *This amount increased the demand pressure in the foreign exchange market and could have been saved if the health and education sectors in Nigeria were better funded*
- *Developments of the solid mineral sector in Nigeria are necessary to expand the revenue base of the country and to earn foreign exchange*
- *Government should reintroduce tolls on the federal high roads in order to source funds for road maintenance across the country*
- *In order to manage the high interest expenses on the debt of the FGN relative to its current revenue, it should consider issuance of zero-coupon bonds. Such bonds and other bond issue going forward, should be tied to specific projects that have economic value addition to the country*
- *Government to consider crude oil swap arrangements with construction companies either local or foreign, for road or rail construction across the country*
- *This will help accelerate the development of road and rail transportation in the country and reduce direct government expenses on such projects*
- *There is the need for urgent passage of all the bills in the Oil and Gas sector and such bills should be signed into law*
- *Available data from the CBN shows that Foreign Direct Investment (FDI) accounted for only 11% of the total capital importation into the country between 2010 and 2018; Foreign Portfolio Investment (FPI) accounted for 70% of the total capital importation during the period while other investments accounts for 19%*
- *The high FPI reduces the effectiveness of any exchange rate management regime because of the distortions that are usually associated with FPI particularly in a developing country like Nigeria*
- *Government should engage Nigerians in diaspora and sell investment opportunities to them, both debt and equity in government instruments and entities in order to drive foreign remittance inflow*
- *According to data from the World Bank, Nigeria is amongst the countries with lowest growth in the foreign remittance inflows between 2008 and 2018*
- *Government should continue to implement policies and strategies that will maintain security of lives and properties in the country*
- *There is an urgent need to develop strategies to create rural economies across the food producing regions in the country and integrate such clusters into the industrial sector*
- *This will create job opportunities, boost the economy at the grass roots level and reduce rural-urban migrations*
- *Given the current rural-urban migration rate in the country, it is estimated that about 72% of the country's population will be living in urban areas by 2050. This may increase unemployment rate in the country and threaten food security*
- *Government should provide more incentives for export-orientated sectors of the economy in order to drive non-oil foreign exchange generation*
- *Government should develop mechanisms for harmonious relationships between the regulators in the manufacturing sector and operators*
- *The CBN should continue to restrict access to foreign exchange for the importation of items that Nigeria can produce locally and should work at unifying the multiple exchange rate regime in the country*
- *In another development, the crude oil price rallied further to hit a high of US$77.06/b in May 2019*
- *Sanctions on Iran and Venezuela and the production cut by the Organization of the Petroleum Exporting Countries (OPEC) continue to drive the crude oil price*

Executive Summary

- *The EIA forecasts the average price of Brent crude oil of US$69.64/b and US$67.00/b in 2019 and 2020, respectively*
- *The forecast is slightly lower than the average price of Brent in 2018 which was US$71.19/b*
- *However, it may be important to note that this report was released before the US-China trade negotiations fell apart and we may see a downward revision of the forecast in June as the trade war may result in reduced demand for oil*
- *The external reserves continued its upward trend in May 2019, rising to hit US$45.12bn as at end-May*
- *The rise in the external reserves was driven by an increase in the price of crude oil, and foreign inflows occasioned by stability in the foreign exchange rate*
- *However, FSDH Research warns that the rise in crude oil price may be temporary and could witness a reversal without warning since the current drivers are not based on strong global demand*
- *We expect the May inflation rate to further increase marginally to 11.39% from 11.37% recorded in April 2019*
- *In May, the Nigerian Stock Exchange All Share Index (NSE ASI) recorded its largest M-o-M appreciation since January 2018, rising by 6.55%*

International Scene:

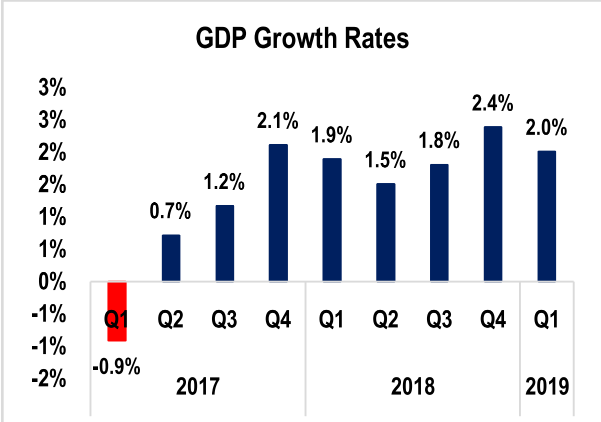
- *The Federal Open Market Committee (FOMC) of the US Federal Reserve System is expected to meet on 18-19 June 2019*
- *The general expectation is that the FOMC might maintain its monetary policy/patient stance given the muted expectation on global growth. There are however indications that it may cut rate very soon*
- *OPEC maintained its global economic growth forecast at 3.2% for 2019, following an estimated growth of 3.6% in 2018*
- *OPEC noted that improving growth trends in certain economies indicate some stabilisation on the global level, but downside risks still prevail.*

1.0 FSDH Research Provides Insights into the Nigerian Economy and the Need for Economic Boosters:

FSDH Research believes that Nigeria has the potential to grow well above the 5% mark but concerted efforts must be made.

The Federal Government of Nigeria (FGN) needs to appoint members of the cabinet with their respective portfolios in the month of June. This will enable them to start implementation of the Next Level growth and development agenda.

FSDH Research highlights a number of issues facing the country, which must be addressed in the next four years. Without doubt, Nigeria is in need of economic boosters in order to ensure shared progress and prosperity in the country.



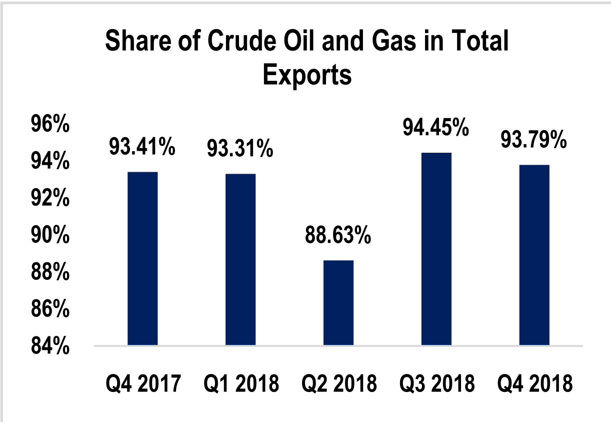
- **Accelerate Inclusive Growth**: Nigeria is faced with the problem of low growth – growing slower than the population growth rate. FSDH Research notes that the economy is continuing on a recovery path, but this is below the pre-recession growth rate of 5%. FSDH Research believes that Nigeria has the potential to grow well above the 5% mark, but concerted efforts must be made. We proffer the following boosters to grow the economy:
  - Reduce administrative delays in obtaining licences and approvals
  - Government should sell part of its shares in electricity to the private sector
  - Adjustment in the electricity tariff to enable the tariff to reflect cost. This will drive investment into the sector

Crude oil and gas dominates the balance of payment in Nigeria, and show the vulnerability of the Nigerian economy.

- **Reduce Dependence on Crude Oil**: Perhaps one of the major problems facing Nigeria is its high dependence on crude oil as a source of exports and, by extension, as a source of foreign exchange. Crude oil and gas dominate the balance of payments in Nigeria and show the vulnerability of the Nigerian economy.

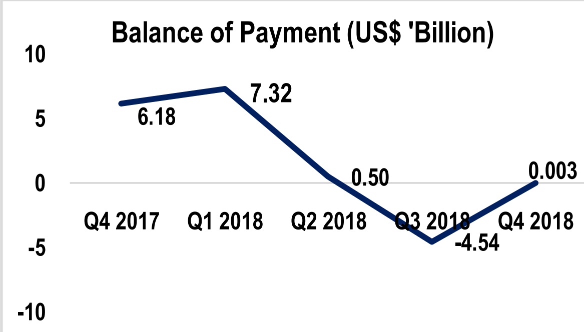
FSDH Research suggests the following boosters in reducing Nigeria's reliance on crude oil:

- Encouragement of investment in sectors with high-impact linkages such as real estate, agriculture, solid mineral development and manufacturing
- Government should engage international investors, provide licences and data to encourage investment in the solid minerals sector
- Government should provide more incentives for export-orientated sectors of the economy in order to drive non-oil foreign exchange generation. There is a need for further reforms at the ports to ease export of goods from Nigeria



The presence of weak infrastructural facilities in the country, including poor transportation and electricity supply, has increased the cost of production and discouraged investments in the country.

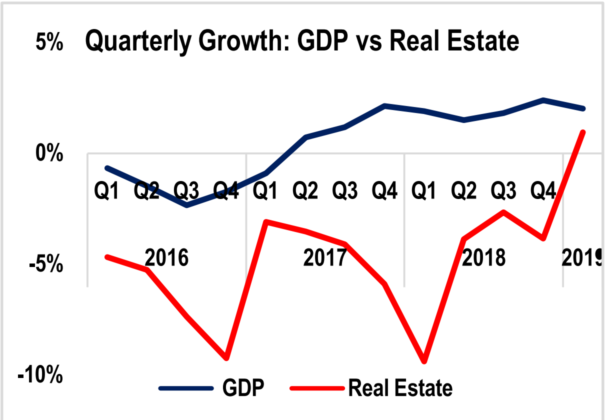
- Government should develop mechanisms for a harmonious relationship between the regulators in the manufactory sector and operators. This would increase the quality and products and raise the standards of Nigerian-made goods in order to compete on the international market



- There should be a backward-integration strategy and appropriate linkage of the industrial sector to farmers in order to develop the rural economy
- Promotion of manufacturing activities in areas Nigeria has competitive advantage
- Urgent border reforms to discourage dumping of goods that could be produced locally

- **Improve Infrastructure**: Nigeria has weak infrastructure that is unable to support a competitive economy. The appalling infrastructural facilities across virtually the whole country, including poor transportation and unreliable supplies of electricity and water have increased the cost of production and discouraged investment. FSDH Research highlights the following boosters for infrastructure in Nigeria:
  - All borrowings should be tied to capital projects that have economic value addition
  - Initiate more Public Private Partnership (PPP) agreements on infrastructure
  - Government should reintroduce tolls on the federal high roads in order to source fund for road maintenance across the country
  - Government to consider crude oil swap arrangements with construction companies, either local or foreign, for road or rail construction across the country. This will help to accelerate the development of road and rail transportation in the country and reduce direct government expenses on such projects. Eventually, such projects will improve competitiveness of the Nigerian economy

The housing gap in Nigeria is estimated to stand between 17 and 20 million units.



- **Overcome Housing Deficit**: In Nigeria, there is a significant shortage of affordable housing. The housing gap is estimated to stand between 17 and 20 million units. This means that Nigeria needs to build between 17 and 20 million housing units to ensure that this basic human need is satisfied. In monetary terms, Nigeria may require between N170trillon – N200trillion to bridge the housing gap if each unit costs N10million. Economic activity in the real estate sector only picked up in Q1 2019 after contracting consistently since Q1 2016. Some boosters for housing include:
  - Government should guarantee mortgage loans for its employees in order to buy affordable houses in Nigeria
  - In addition to the above-highlighted boosters for infrastructure, investment in Real Estate Fund (REF) should be encouraged

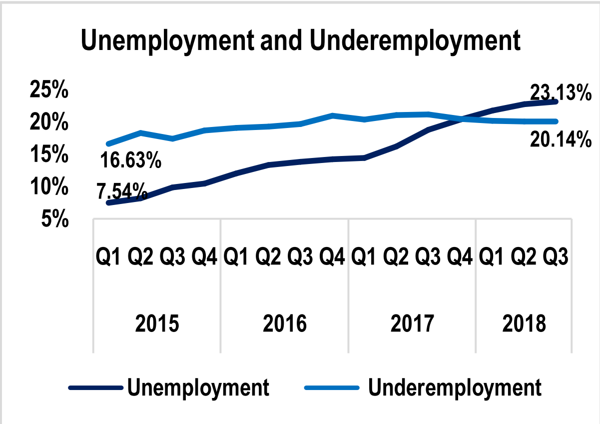
- The FGN should embark on land reforms including property rights to encourage investment in the real estate sector

In Nigeria, unemployment and underemployment rates are unacceptably high at 23.1% and 20.1% respectively.

- **Improve Foreign Direct Investment**: Foreign Direct Investment (FDI), which has the ability to create employment, provide foreign exchange, and increase government revenue, is low in Nigeria. Data from the CBN shows that Foreign Direct Investment accounted for only 11% of the total capital importation into the country between 2010 and 2018. Foreign Portfolio Investment (FPI) accounted for 70% of the total capital importation during the period while other investments accounts for 19%. The high FPIs reduce the effectiveness of any exchange rate management regime, due to the distortions that are usually associated with Foreign Portfolio Investment particularly in a developing country like Nigeria. Nigeria is one of the countries with the lowest growth in migrant remittance inflows between 2008 and 2018, according to data from the World Bank. The following boosters can be used to increase FDI in Nigeria:
  - Provision of enabling environment to attract more FDIs into Nigeria to drive growth and job creation
  - Improvement in the legal institution in Nigeria to increase the ability of investors to seek redress in the event of contract breaches
  - There is the need for urgent passage of all the bills in the Oil and Gas sector and such bills should be signed into law. This will bring about more clarity in the Oil and Gas sector and enable investors to take long-term investments in the sector. This would also help to attract FDI into Nigeria and create jobs in addition to increasing the revenue for the country
  - Government should engage Nigerians in diaspora to showcase investment opportunities to them, both debt and equity in government instruments and entities in order to drive foreign remittance inflow

There is the urgent need to develop strategies to create rural economies across the food producing regions in the country and integrate such clusters into the industrial sector.

- **Resolving the Problem of High Unemployment Rate**: Data from the National Bureau of Statistics (NBS) shows that unemployment and underemployment rates in Nigeria are high. Unemployment and underemployment rates as at Q3 2018 were 23.1% and 20.1% respectively, compared with 7.5% and 16.6% in Q1 2015. Given the current rural-urban migration rate in the country, it is estimated that about 72% of the country's population would be living in urban areas by 2050. This may increase the nation's unemployment rate and threaten food security, which may lead to criminal activities and violence.
  It could also put pressure on the economy, as it would create a high level of unproductivity and dependency. The following are some boosters the government can put in place to curb the high unemployment rate in the country:
  - There is an urgent need to develop strategies to create rural economies across the food-producing regions in the country and integrate such clusters into the industrial sector. This will create job opportunities, boost the economy at the grass roots level and reduce rural-urban migrations.



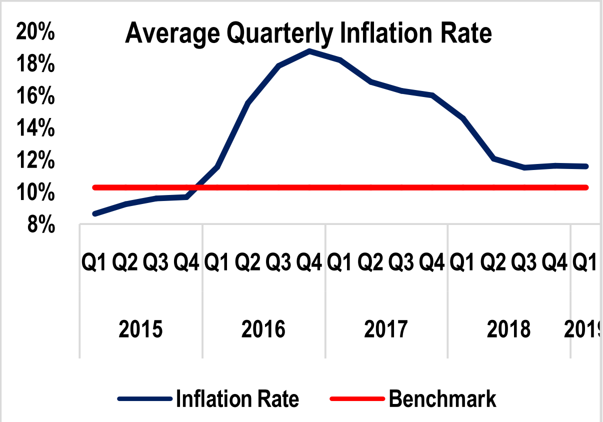
There must be deliberate efforts and strategies to improve the quality of education and healthcare delivery in Nigeria.

There must be deliberate efforts and strategies to improve the quality of education and healthcare delivery in Nigeria. In addition to increasing manpower development, this would improve productivity and boost economic growth and development

- Such efforts will also help the country to conserve foreign exchange. Available figures from the Central Bank of Nigeria (CBN) show that Nigerians spent a total of US$33.04bn between 2009 and 2018 as personal travel expenses on education and health related issues. This amount increased the demand pressure on the foreign exchange market and could have been saved if the health and education sectors in Nigeria were much better funded
- Urgent restructuring of the nation's educational system to enable it to provide relevant training that is needed in the modern digital age
- Establishment of well-funded technical training centres in all local government areas in the country in conjunction with private sector operators

Inflation rate in Nigeria is currently high at double-digits and has been so in the last four years, peaking at 18.72% in January 2017.

- **Addressing Double Digit Inflation Rate**: The inflation rate in Nigeria is currently high at double-digits and has been so for the last four years. The figure peaked at 18.72% in January 2017, when the economy was in recession. Through various monetary and fiscal policies that have been implemented, the inflation rate has fallen from that peak figure to 11.37% in April 2019 which is still above the CBN target of 6%-9%. Nigeria can address its single-digit inflation rate through some of the following initiatives:



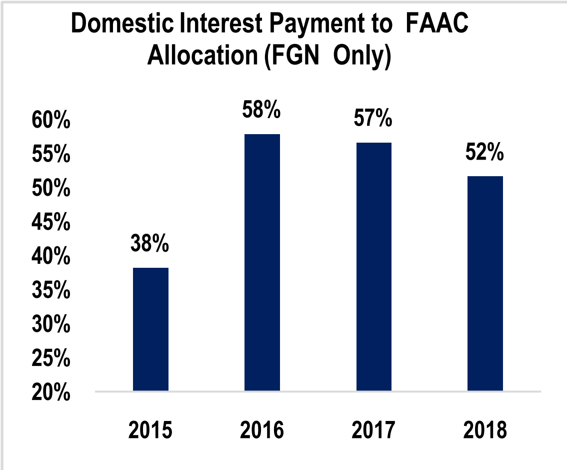
- Increase the production of food since the high inflation rate is fuelled by high food inflation
- Addressing issues that border around transportation of agricultural products from rural areas to urban areas
- Problems surrounding flooding and conflicts between herdsmen and farmers must also be tackled.

Nigeria has to urgently address the fragile exchange rate and the presence of multiple exchange rate regimes in the country.

- **Strengthen the Exchange Rate**: Another issue that Nigeria must address urgently is the fragile exchange rate and the presence of multiple exchange rate regimes in the country. The presence of multiple exchange rates may encourage arbitrage trading in the country, which may defeat the purpose for which the different regimes were created. In light of this, the following boosters can be applied:
  - Government should give incentives to export-orientated sectors to promote export and foreign exchange earnings
  - There should be widespread promotion of made-in-Nigeria goods
  - The CBN should continue to restrict access to foreign exchange for the importation of items that Nigeria can produce locally. This strategy should also have fiscal backing
  - The CBN should work at unifying the multiple exchange rate regimes in the country
  - Drive FDI and foreign remittance from Nigerians in Diaspora
  - Resolve the bottlenecks in the Power Sector to encourage improved power generation for households and businesses.

Nigeria has low government revenue in the face of rising expenditure, which has led to rising fiscal deficit.

- **Addressing Government Low Revenue and Rising Expenditures**: Nigeria has low government revenue in the face of rising expenditure. As a result, in order to make up for this shortfall, Nigeria resorts to borrowing from both internal and external sources. FSDH Research expresses concern over Nigeria's high debt profile and the increasingly high cost of financing this debt. FSDH Research points out the following boosters that the government can adopt:



The Federal Government should remove the petroleum subsidy and channel the money into some other social intervention programmes of the government that have direct impacts on the poor in view of the low government revenue.

  - The FG should remove the petroleum subsidy and channel the money into some other social intervention programmes of the government that have direct impacts on the poor in view of the low government revenue
  - In order to manage the high interest expenses on the debt of the federal government relative to its current revenue, it should consider issuance of zero-coupon bonds. Moving forward, such bonds and other bond issues should be tied to specific projects that have economic value addition to the country. There should be a mechanism to assess that debt contracted is used for intended projects

Government should consider issuance of zero-coupon bonds. Such bonds and other bond issue going forward, should be tied to specific projects that have economic value addition to the country.

- Development of the solid mineral sector in Nigeria in order to expand the revenue base of the country and earn foreign exchange. FSDH Research recommends a model in which FGN may partner with the private sector to invest in exploration of the mineral sector. After gathering adequate data on reserves, government can sell mining licences. Development of the solid minerals will also help boost the economies of the states of the federation since all states in the country have at least one solid mineral
- We recommend an adjustment to the electricity tariff in order to drive investments into this critical sector of the economy. This will also accelerate the growth of small and medium scale businesses that are handicapped due to epileptic power supply and the high cost of running on generator and other more expensive sources of power.

Insecurity has led to the displacements of people, disruption of economic activities in certain parts of the country, the destruction of lives, properties and infrastructure and discouragement of investments.

- **Maintain Security of Lives and Properties**: Insecurity in the country has not only led to the displacements of people, disruption of economic activities in certain regions, and the destruction of lives, properties and infrastructure, it has also discouraged investment. The government must urgently address insecurity issues in the country if it is hoping to attract investors, especially those intending to invest in capital infrastructure and projects. Some boosters for security in Nigeria include:
    - Employment of individuals, especially youths and the uneducated
    - Strategic partnership with foreign countries in the areas of data and intelligence gathering

FSDH Research believes addressing the highlighted issues will accelerate inclusive growth in Nigeria.

1.1 Global Developments:

FSDH Research observed an appreciation in the prices of sovereign bonds in the countries we monitored in May 2019.

FSDH Research observed appreciation in the prices of all the sovereign bonds in the countries we monitored in May 2019. Following three months of sell-off there was renewed interest on the Turkey Bond and consequently 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 3.48% to 66.23. This was followed by the 1.75% May 15, 2023 United States Government Bond with a price increase of 1.40% to 99.40. All the bonds we monitored recorded positive real yields in May 2019. **The Kenya Government Bond offered the most attractive real yield amongst the selected bonds in May.**

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The general expectation is that the FOMC might maintain its patient monetary policy stance at its June 2019 meeting.

The Federal Open Market Committee (FOMC) of the US Federal Reserve System is expected to meet on 18-19 June 2019. The general expectation is that the FOMC might maintain its patient monetary policy stance given the muted expectation on global growth. However, the FOMC may consider a rate cut soon. The Real Gross Domestic Product (GDP) in the US increased at an annual growth rate of 3.1% in Q1 2019, according to the 'second' estimate by the US Bureau of Economic Analysis (BEA) released on 30 May 2019. This estimate is lower than the 'advance' estimate of 3.2% released in April 2019. The 'second' estimate reflects downward revisions to non-residential fixed investment and private inventory investment offset by upward revisions to exports and personal consumption expenditures. Inflation rate in the US dropped to 1.8% in May 2019 from 2.0% in April. The US unemployment rate remained at 3.6% in May 2019 same as April figure, the lowest since 1969.

Table 1: Summary of Key Indicators

S/N	Indicators	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	101.79	101.45	104.06	105.94	104.28	100.70	100.54	66.23	99.40
2	Bond Yield	3.01%	16.31%	6.64%	10.37%	14.37%	7.32%	7.57%	21.02%	1.91%
3	Bond Price MoM Change	0.22%	0.56%	0.86%	0.36%	0.57%	0.55%	0.41%	3.48%	1.40%
4	Bond Yield MoM Change	(0.07%)	(0.28%)	(0.35%)	(0.19%)	(0.31%)	(0.33%)	(0.13%)	(0.89%)	(0.36%)
5	Bond Price YTD Change	(0.33%)	4.38%	1.07%	1.59%	0.94%	1.05%	1.76%	(10.50%)	2.56%
6	Bond Yield YTD Change	0.04%	(1.83%)	(0.52%)	(0.80%)	(0.63%)	(0.60%)	(0.53%)	4.04%	(0.59%)
7	Real Yield	0.51%	3.31%	3.72%	4.88%	3.00%	2.12%	3.17%	2.31%	(0.11)
8	Volatility	0.08	0.25	0.33	0.18	0.46	0.24	0.24	1.41	0.39
9	FX Rate MoM Change*	2.46%	(2.49%)	0.19%	0.11%	(0.10%)	1.15%	1.71%	(2.19%)	(0.43%)
10	FX Rate YTD Change*	0.38%	(6.65%)	(0.10%)	(0.54%)	(1.22%)	(6.01%)	1.37%	9.38%	(2.53%)
11	Inflation Rate	2.50%	13.00%	2.92%	5.49%	11.37%	5.20%	4.40%	18.71%	1.8%
12	Policy Rate	4.35%	15.75%	5.75%	9.00%	13.50%	7.75%	6.75%	24.00%	2.50%
13	Debt to GDP	47.60%	101.00%	68.70%	57.10%	21.30%	13.50%	55.80%	28.30%	105.00%
14	GDP Growth Rate	6.40%	5.50%	5.80%	5.90%	2.01%	0.50%	0.00%	(2.60%)	3.10%
15	Nominal GDP (US$'bn)	12,238bn	235bn	2,601bn	74.94bn	376bn	1,578bn	349bn	851bn	19,391bn
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

The upside potential for global economic growth in 2019 remains limited.

1.2 Global Economic Growth:

The Organization for Petroleum Exporting Countries (OPEC) maintained its global economic growth forecast at 3.2% for 2019, following an estimated growth of 3.6% in 2018. OPEC noted that improving growth trends in certain economies indicate some stabilisation on the global level, but downside risks still prevail.

The major downside risks include:

- The continuing US– China trade dispute
- High debt levels in both major advanced and developing countries
- Brexit and fiscal issues in some EU Member Country economies
- Fading impact of the US fiscal stimulus
- Economic slowdown in Japan

The upside potential for global economic growth in 2019 remains limited. Therefore, FSDH Research expects major central banks to maintain their patient stance. Additionally, current oil prices might not be sustained given that they are currently driven by sanctions and supply cuts.

Table 2: Economic Growth Rate Forecast

	2017	2018E	2019F
World	3.8%	3.6%	3.2%
OECD	2.5%	2.3%	1.7%
USA	2.3%	2.9%	2.6%
Japan	1.7%	0.8%	0.4%
Euro-zone	2.5%	1.8%	1.2%
China	6.9%	6.6%	6.2%
India	6.3%	7.3%	7.1%
Brazil	1.0%	1.1%	1.7%
Russia	1.5%	2.3%	1.6%

Source: OPEC Monthly Report, May 2019; F- Forecast

1.3 Nigeria's Economic Recovery: Fragility Lingers:

Recent happenings appear to be in favour of Africa's most populous country as activities both globally and locally have improved Nigeria's fiscal position.

The Nigerian economy appears to be moving in the right direction: the economy expanded by 2.01% in Q1 2019, the highest Q1 performance since 2015. Sorry to rain on your parade but there is a hitch: the Nigerian economy is still growing slower than its population, an indication of growing poverty. Additionally, the growth in Q1 2019 reflects a slowing recovery as the expansion continues to hover around the 2% mark, below the pre-recession growth. FSDH Research believes that Nigeria has the ability and potential to grow well above the 2% mark but concerted efforts must be made to invest in infrastructure and implement the necessary policies.

The good news is that there has been growth in some key growth sectors of the economy. The Agriculture sector gained momentum, recording the highest growth since Q4 2017. The Real Estate sector also appreciated by 0.93%, the first expansion in the sector since 2015. The multiplier effect of the expansion in these sectors cannot be overemphasised. The growth in Information and Communication, Agriculture, Trade, and Transportation and Storage sectors were the major drivers of the growth in Q1 2019. The bad news is that Oil, and Finance and Insurance sectors continue to contract.

In its last meeting on 20-21 May 2019, the Monetary Policy Committee (MPC) held the Monetary Policy Rate (MPR) at 13.50% in line with FSDH Research expectations. The Committee emphasised that increased consumer and mortgage lending in the Nigerian economy will have a positive impact on the flow of credit and ultimately result in economic growth. The MPC expects that monetary policy will focus on improving access to credit, reducing unemployment and stimulating economic growth. FSDH Research reiterates that complimentary fiscal policies are needed to stimulate strong credit creation. The MPC, in a similar vein, enjoined the Federal Government of Nigeria to build fiscal buffers by adjusting the oil price benchmark for the budget downwards.

The growth in the Nigerian economy, although fragile, remains on the right path. The suggested reforms will accelerate the country's potential to grow far beyond its current growth rate.

1.4 The US-China Trade War: A Tale of Two Economic Powerhouses:

There is a popular African proverb that says, 'When two elephants fight, it is the grass that suffers'. This comes to mind in studying the implications of the current trade war between the United States and China. In this case, however, both the elephants and the grass suffer, as both countries involved have been negatively affected by this particular trade war. Since Nigeria is not an island, but a player in the global economy, global happenings are likely to affect it. Even though the US-China trade war is between only two countries, there are implications for Nigeria, Africa's largest economy.

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Nigeria's share in the US-China trade war: implications for the giant of Africa. The escalating US-China trade war has not left Nigeria unscathed. It may reduce the demand for crude oil and consequently lead to a decline in the price of crude oil. US and China account for about 34% of the total demand for crude oil. A lower crude oil price may reduce the revenue for Nigeria and also have a negative impact on foreign exchange stability and the inflation rate.

The US-China trade war has led to a decline in trade between the two countries as both American and Chinese importers have turned to other countries such as Mexico, Japan and Brazil, to meet their import demand for commodities such as soybeans, beverages and rubber. If Nigeria had the capacity to produce the volume that met international standards and at competitive prices, it may have been able to partake in the opportunity that the US-China trade war presented.

FSDH Research notes the need to boost activities in the Nigerian manufacturing sector and export-orientated sectors to meet international standards. Data from the National Bureau of Statistics (NBS) show that the growth in the manufacturing sector has been epileptic. We reiterate the need for an increased effort to promote a more conducive business environment with focus on the major challenges facing businesses operating in Nigeria.

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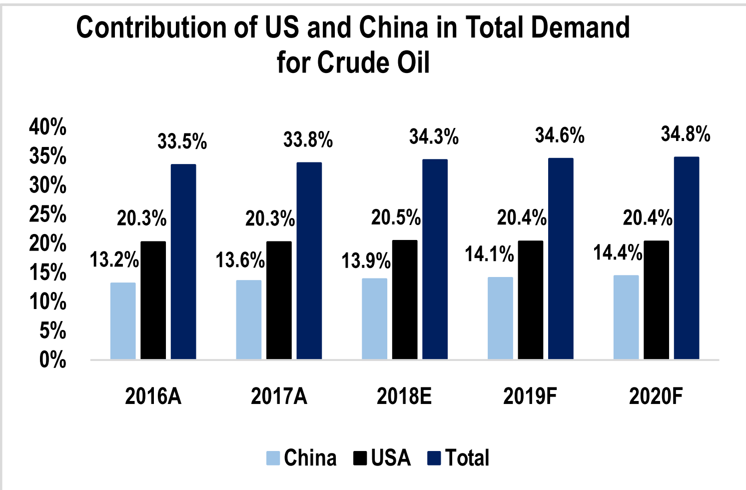
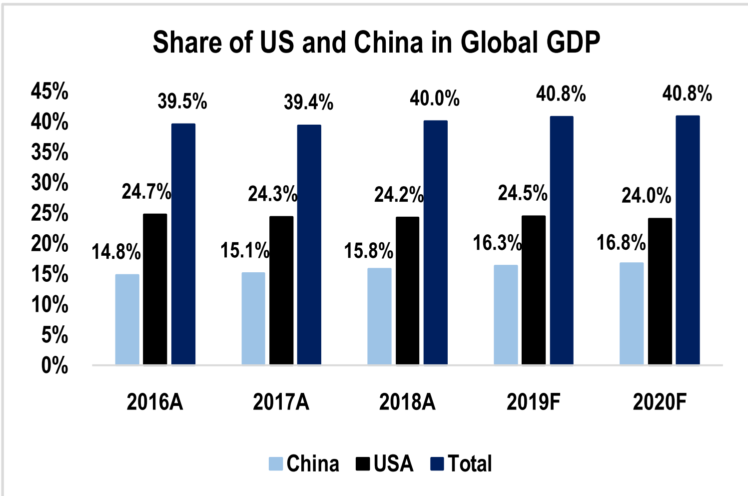




Sources: Energy Information Administration (EIA) and the International Monetary Fund (IMF)

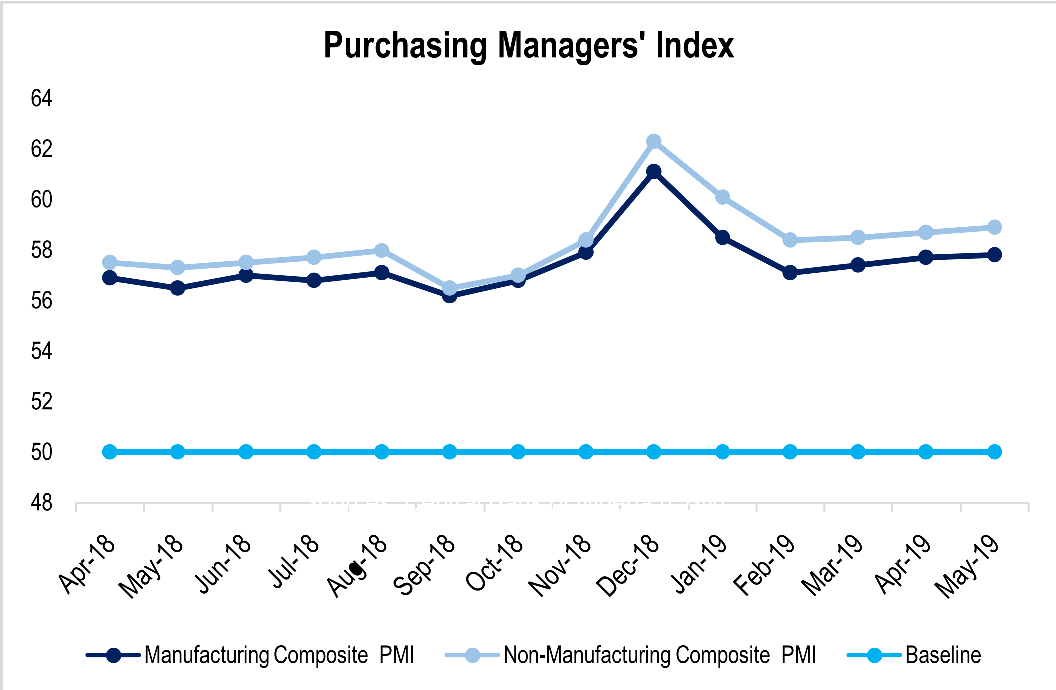
1.5 Purchasing Managers' Index (PMI):

Manufacturing and non-manufacturing activities continued on an upward trend in May 2019.

Manufacturing and non-manufacturing activities continued an upward trend in May 2019 as the Manufacturing and Non-Manufacturing PMI increased for the third consecutive month. The overall Manufacturing PMI was 57.8 points, a faster growth rate than 57.7 points recorded in April 2019. This was attributed to the faster rate of expansion of production level, supplier delivery time, employment level and new export orders. However, new orders and raw materials inventory expanded at a slower pace than in April 2019.

The Non-Manufacturing PMI expanded at a faster pace in May 2019 and stood at 58.9 points. The level of business activity, inventory, new export orders and imports in the non-manufacturing sector expanded at a faster rate than in the previous month. However, new orders and employment levels in the non-manufacturing sector expanded at a slower pace than in April.

PMI figures in April and May 2019 are better than February and March 2019. The levels of PMI figures in 2019 so far are 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.



1.6 Inflation Rate:

We expect the May inflation rate to further increase marginally to 11.39% from 11.37% recorded in April 2019.

If FSDH Research's May 2019 inflation rate forecast comes true, Nigeria may record the highest inflation rate figure since January 2019. That would not be good news for the economy or the purchasing power of Nigerians. Most people say they would not appreciate a situation where the prices of consumer goods increase faster than the expected increase in the approved National Minimum Wage. We expect the May inflation rate to further increase marginally to 11.39% from 11.37% recorded in April 2019. In addition, we expect the month-on-month change in the Consumer Price Index (CPI) to increase by 1.10% in May 2019, the highest since January 2019. With the onset of the rainy season, we have observed upward pressure on the food component of the inflation basket.

We consider the CBN may pursue economic growth at the expense of the inflation rate in the short-term. It may however, adjust its monetary policy tools such as Open Market Operations (OMOs) to reduce excessive supply of cash in the system. FSDH Research notes that one of the ways to reduce Nigeria's inflation rate on a sustainable manner is to improve the infrastructure in the country. Good transport network, good storage facilities, measures to increase farm yields, provision of securities and strategies to ensure linkage within the famers and the industrial sectors will increase the supply of food items, increase profit margin and lower the inflation rate.

Table 3: Inflation Rate Actual Vs. Forecast

Month	Jan-19A	Feb-19A	Mar-19A	Apr-19A	May-19F	Jun-19F	Jul-19F	Aug-19F	Sep-19F	Oct-19F	Nov-19F	Dec-19F
Inflation Rate	11.37%	11.31%	11.25%	11.37%	11.39%	11.24%	10.95%	10.79%	10.70%	10.78%	10.81%	11.09%
Adjusted Inflation Rate*	11.37%	11.31%	11.25%	11.37%	11.39%	12.16%	13.07%	12.92%	12.82%	12.90%	12.93%	13.21%

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*

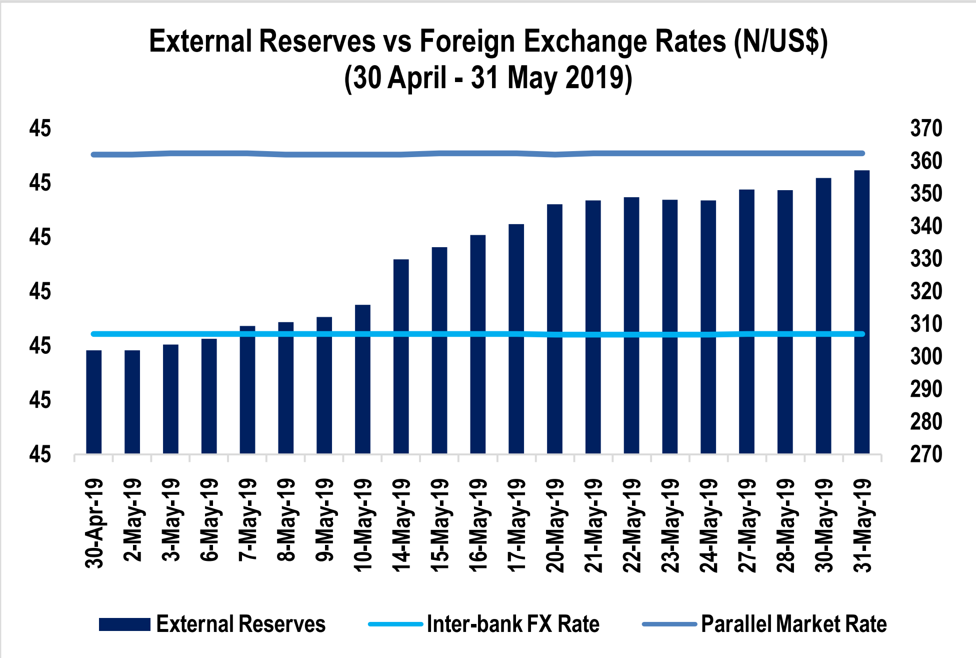
The external reserves continued its upward trend in May 2019, rising to hit US$45.12bn as at end-May.

The rise in the external reserves was driven by an increase in the price of crude oil, the stability in the foreign exchange market and the sustained FPI inflows.

1.7 Movement in the External Reserves:

The external reserves continued its upward trend in May 2019, rising to hit US$45.12bn as at end-May. The rise in external reserves was driven by an increase in the price of crude oil, and foreign inflows occasioned by stability in the foreign exchange rate.

The current position of the external reserves continues to provide short-term stability for the value of the Naira. According to the CBN, the external reserves position is enough to cover over 13 months of imports. 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 increased by 0.74%, from US$44.79bn at end-April to US$45.12bn at end-May 2019**.**



For the first time since inception in April 2017 the CBN was not a source of inflow in the I &E window in May 2019.

1.8 Currency Transaction at the I&E Window:

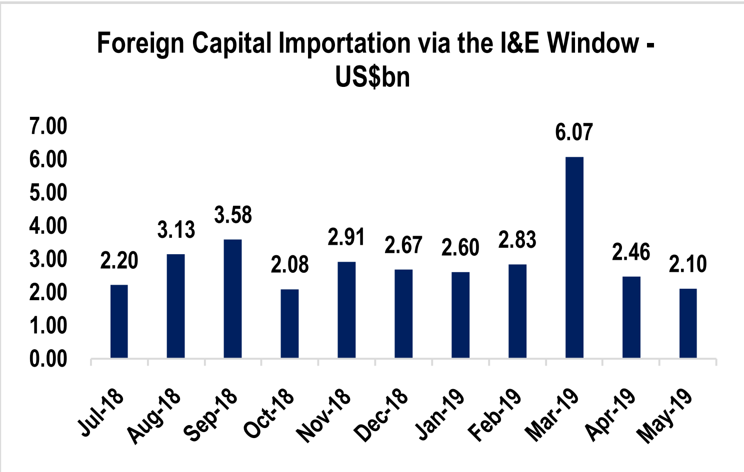
There was a further drop in capital importation via the Investors' and Exporters' Foreign Exchange Window (I&E window) in May 2019 following the steep decrease in April 2019. According to data obtained on Monday, 3 June 2019 from the FMDQ OTC Securities Exchange, contribution from Foreign Portfolio Investment (FPI) in May stood at US$1.45bn, accounting for 69.26% of total inflows. The FPI inflows, continue 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. FDI inflows into the I&E window have been considerably lower than FPI Inflows. From inception to May 2019, FDI inflows totalled US$2.25bn compared with total FPI inflows of US$30.88bn.

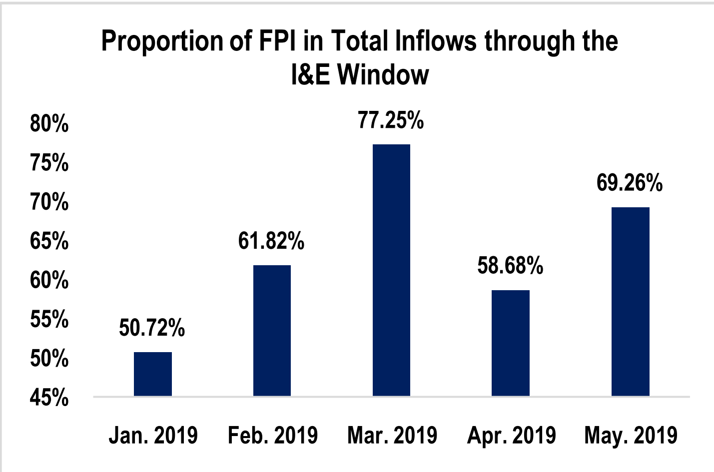
The total capital importation through the I&E window in May 2019 stood at US$2.10bn, the lowest figure recorded since October 2018. From inception to May 2019, capital importation through the I&E totalled U$64.70bn.

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

	February		March		April		May	
Source	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**
FDIs	0.20	6.91%	0.23	3.87%	0.16	6.54%	0.11	5.11%
FPIs	1.75	61.82%	4.69	77.25%	1.44	58.68%	1.45	69.26%
Other Corporates	0.03	1.15%	0.02	0.40%	0.03	1.17%	0.06	2.78%
CBN	0.01	0.38%	0.06	1.05%	0.01	0.41%	-	0.00%
Exporters	0.08	2.85%	0.14	2.25%	0.08	3.32%	0.06	2.81%
Individuals	0.02	0.76%	0.03	0.43%	0.004	0.17%	0.004	0.19%
Non-Bank Corporates	0.74	26.13%	0.90	14.76%	0.73	29.71%	0.42	19.85%
Other Corporates	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	**2.83**	**100%**	6.07	100%	**2.46**	**100%**	**2.10**	**100%**

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





Sources: FMDQ

1.9 Crude Oil Market and Bonny Light Price:

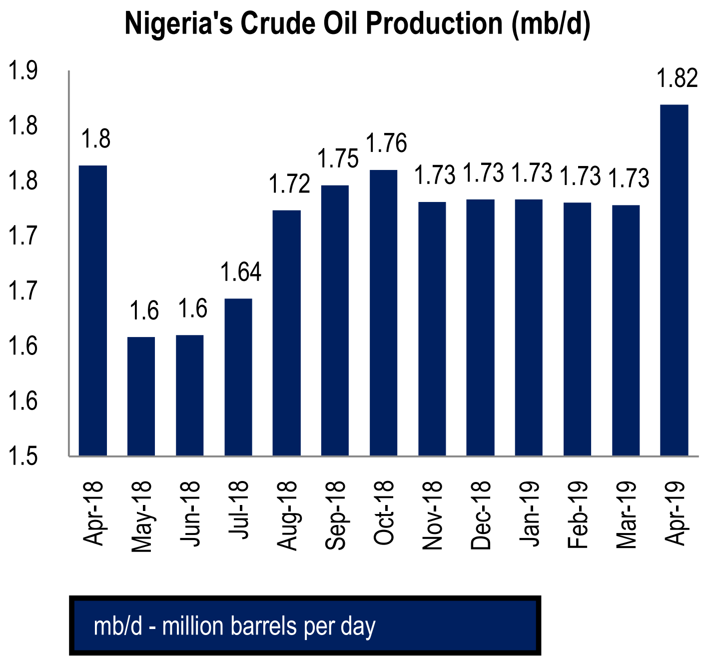
The crude oil price rallied further to hit a high of US$77.06/b in May 2019.

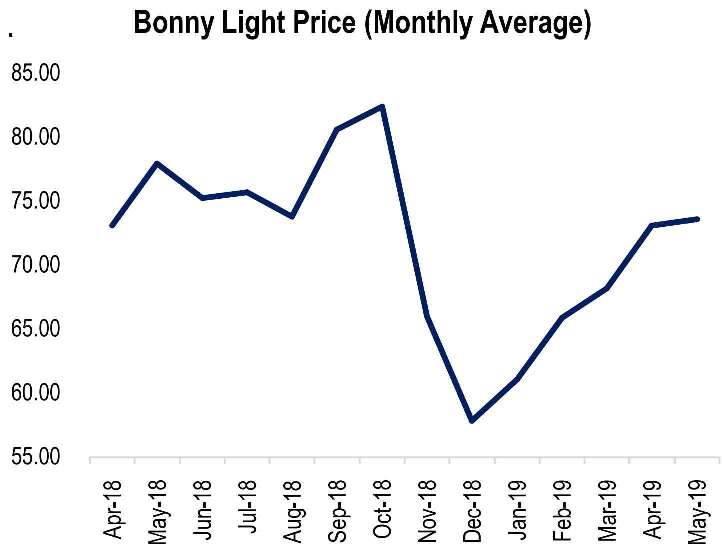
The crude oil price rallied further, briefly hitting a high of US$77.06/b in May 2019. Sanctions on Iran and Venezuela and OPEC's production cut continue to drive the crude oil price. However, given the renewed US-China trade tensions, FSDH Research stresses that the sanction-driven rise in crude oil price may be temporary and could drop sharply.

In its monthly report for May 2019, the US Energy Information Administration (EIA) revised upward its forecast of the average Brent crude oil price for 2019 for the third consecutive month. This higher forecast is primarily a reflection of tighter than expected global oil market balances in mid-2019 and increasing risk of supply disruption globally. The EIA forecasts an average price of Brent crude oil of US$69.64/b and US$67.00/b in 2019 and 2020, respectively. The forecast is now just slightly lower than the average price of Brent in 2018 which was US$71.19/b. However, it may be important to note that this report was released before the US-China trade negotiations fell apart and we may see a downward revision of the forecast in June as the trade war may result in reduced demand for oil.

The daily crude oil production in Nigeria increased by 5.27% to 1.82mb/d in April 2019, from 1.73mb/d in March.

According to secondary data available from OPEC's report for the month of May 2019, the daily crude oil production in Nigeria increased by 5.27% to 1.82mb/d in April 2019, from 1.73mb/d in March. 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.





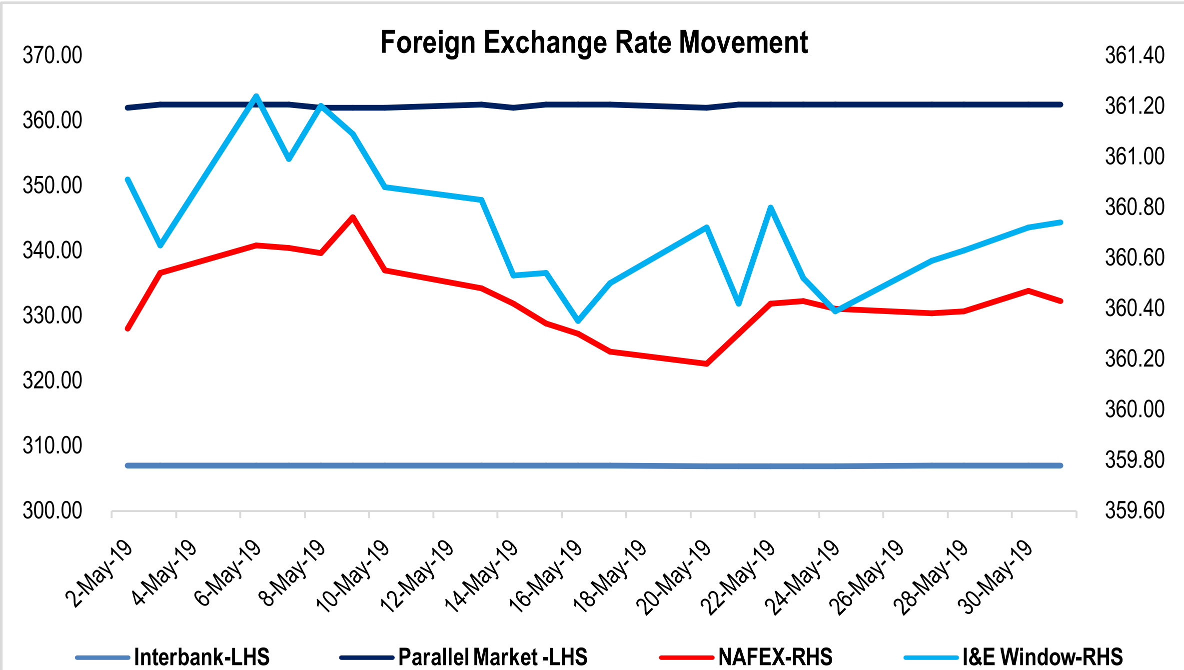
Sources: OPEC and Thomson Reuters

1.10 Foreign Exchange Rate:

We note that the foreign exchange rate is susceptible to the movements in crude oil market.

The rally in the oil price, the inflow of FPI and the external reserves at above US$44bn sustained the stability in the foreign exchange market in May 2019. However, FSDH Research observed a marginal depreciation in the value of the Naira in the I&E Window and parallel market, while it remained unchanged at the inter-bank market. Additionally, the premium between the inter-bank and parallel markets widened marginally in May 2019 compared with April 2019. We note that the foreign exchange rate is susceptible to movements in the crude oil market.

Month-on-month, the value of the Naira remained unchanged to close at N306.95/US at the inter-bank market while it depreciated by 0.14% to close at N362.50/US$ at the parallel market at the end of May compared with April 2019. At the I&E window, it depreciated marginally by 0.03% to stand at N360.74/US$ at end-May. The highest rates recorded at the inter-bank, parallel market and I&E window in May were N307.00/US$, N362.50/US$ and N361.24/US$ respectively. The lowest values were N306.90/US$, N362/US$ and N360.35/US$ respectively.



Sources: FMDQ and Cash Hunters

2.0 Interest Rate and Yield Analysis:

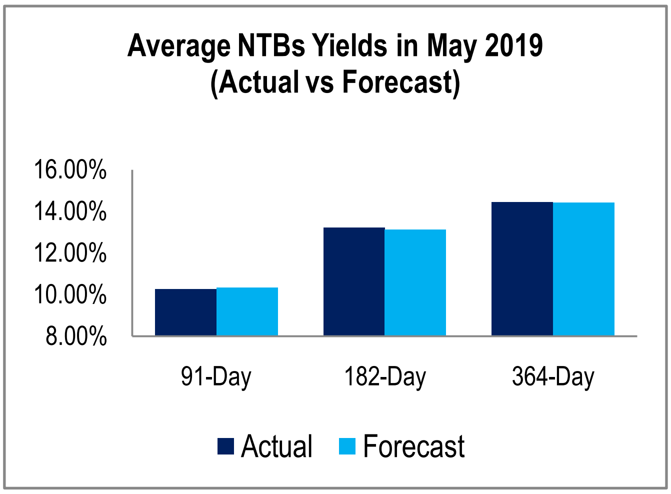
Most of the yields on the fixed income securities market decreased in May 2019 compared to April

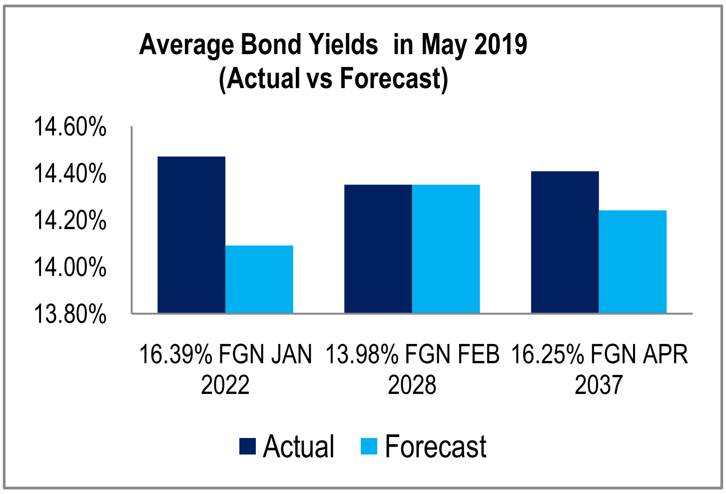
The yields on the selected FGN Bonds that we monitored moved in varying directions in May compared with April 2019.

Most of the yields on the fixed income securities market decreased in May 2019 compared with April 2019, despite the rise in the inflation rate. In a similar development, the yields on Nigerian Treasury Bills (NTBs) and Nigerian Inter-Bank Offered Rates (NIBOR) dropped in May compared with April. The yields on the selected FGN Bonds, however, recorded mixed performances. The low interest rate and yields in the advanced markets and the strategy of the CBN that favour a low interest rate environment to boost growth were the major drivers of yields in the market.

The fixed income market analysis for the month of May 2019 shows a net outflow of N514bn, compared with a net outflow of N572bn in April. The major outflows in May were the Open Market Operations (OMO) and Repurchase (REPO) Bills of N974bn, CBN's Foreign Exchange Sale of N335bn, Primary Nigerian Treasury Bills (NTBs) of N211bn and the FGN Bond auction of N111bn. Meanwhile, in April 2019, the major outflows were the OMO and REPO of N693bn, CBN's Foreign Exchange Sale of N408bn, Primary NTBs of N154bn and the FGN Bond auction of N97bn. The major inflows in May were the matured OMO and REPO Bills of N607bn, matured NTBs of N210bn, and the Federation Account Allocation Committee (FAAC)'s injection of about N301bn. The major inflows in April were the matured OMO and REPO Bills of N295bn, matured NTBs of N154bn, and the FAAC's injection of about N330bn.

All the average yields decreased at the NTBs auction in May, compared with April 2019. The average 91-Day NTB yield decreased to 10.26% in May, down from 10.49% in April. The average 182-day NTB yield closed at 13.21%, down from 13.39% in April. While the average 364-Day NTB yield stood at 14.45% in May down from 14.67% in April. The average Nigerian Interbank Offered Rate (NIBOR) dropped in May compared with April. The average 30-day NIBOR dropped to 11.51% in May, down from 12.07% in April, while 90-day and 180-day NIBOR decreased to 12.31% and 13.92% respectively in May 2019, down from 12.48% and 14.71% in April. The yields on the FGN Bonds that we monitored also moved in varying directions in May compared with April.





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

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Table 5: Market Liquidity (N'bn)						
	April 2019			May 2019		
	Total Inflow	Total Outflow	Net Flow	Total Inflow	Total Outflow	Net Flow
Primary Market: NTB	154	154	0	210	211	(1)
Open Market Operation & Rev Repo	295	693	(398)	607	974	(367)
Bond	1	97	(97)	0	111	(111)
FAAC	330	0	330	301	0	301
FX Market	0	408	(408)	0	335	(335)
CRR Debit/Credit	0	0	0	0	0	0
TSA Implementation	0	0	0	0	0	0
Total	**780**	**1,352**	**(572)**	**1,118**	**1,631**	**(514)**
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
April 2019	14.28%	14.54%	14.42%
May 2019	14.47%	14.35%	14.41%
Change	**0.19%**	**(0.19%)**	**(0.01%)**
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
April 2019	16.28%	12.07%	12.48%	14.71%	10.49%	13.39%	14.67%
May 2019	8.68%	11.51%	12.31%	13.92%	10.26%	13.21%	14.45%
Change	**(7.59%)**	**(0.56%)**	**(0.17%)**	**(0.79%)**	**(0.23%)**	**(0.18%)**	**(0.22%)**
Sources: CBN and FMDQ							

As government begins the implementation of the 2019 budget, yields are likely to trend higher.

2.1 Revised Outlook Going Forward:

FSDH Research expects a total inflow of about N1.36trn to hit the money market from the various maturing government securities and FAAC in June 2019. We estimate a total outflow of approximately N753bn from the various sources, leading to a net inflow of about N607bn. The market is expected to be liquid in the month of June 2019; this may necessitate the issuance of OMO to mop-up the liquidity in the system.

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. Some factors that may cause internal shocks include any adjustment to the PMS price or electricity tariff, possible excessive government borrowing and rising inflation rate.

Opportunities exist for the Federal Government of Nigeria (FGN) to issue ZCBs.

Opportunities exist for the FGN to issue Zero Coupon Bonds (ZCBs), which would create an opportunity for the FGN to manage its interest expenses in the face of current low revenue. ZCBs would be appropriate for fund managers to include in their portfolios to ensure a mix of assets.

It will also be beneficial for corporates to arrange for a swap in order to manage their interest rate obligations. This is important because of the uncertainty that surround the direction of interest rate in the short-term.

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

Date	06-Jun-19	13-Jun-19	20-Jun-19	27-Jun-19	28-Jun-19	Others*	Total
Inflows	177.60	300.74	119.35	33.34	351.30	377.50	1,359.84
Outflows	-	129.64	29.67	115.00	-	479.00	753.31
Net flows	**177.60**	**171.10**	**89.68**	**(81.66)**	**351.30**	**(101.50)**	**606.53**

*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-19F	10.26%	13.21%	14.45%	14.47%	14.35%	14.41%
Jun-19F	10.26%	12.69%	13.87%	14.46%	14.33%	14.39%
Jul-19F	12.09%	14.52%	15.70%	16.29%	16.16%	16.22%
Aug-19F	11.93%	14.36%	15.54%	16.13%	16.00%	16.06%
Sep-19F	11.83%	14.26%	15.45%	16.03%	15.90%	15.97%
Oct-19F	11.92%	14.34%	15.53%	16.11%	15.98%	16.05%
Nov-19F	11.95%	14.38%	15.56%	16.15%	16.02%	16.08%
Dec-19F	12.23%	14.66%	15.84%	16.43%	16.29%	16.36%

Sources: CBN, FMDQ, and FSDH Research Forecasts

The current yields on most of the outstanding FGN Eurobonds are lower than the coupon rates.

2.2 Investment Strategies:

1. **Investors should position for opportunities in Commercial Paper investment**
2. **Investors should trade in the short-end of the Treasury Bill and Bonds to enable them to respond quickly to market changes**
3. **Investors may plan to position in Eurobonds whose prices are lower than their respective par value**

The prices of most of the FGN Eurobonds were lower in May than in April 2019. Consequently, the yields on the bonds closed higher in the month of May than in April. This reflects rising uncertainties in the global economy in line with FSDH Research expectations.

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**
01-May-19	104.18	7.36%	103.39	4.69%	103.58	5.41%	101.55	5.08%
02-May-19	103.76	7.41%	103.33	4.71%	103.47	5.44%	101.54	5.09%
03-May-19	104.15	7.37%	103.38	4.68%	103.51	5.42%	101.61	5.06%
06-May-19	103.61	7.43%	103.29	4.73%	103.49	5.43%	101.40	5.13%
07-May-19	102.91	7.52%	103.18	4.80%	103.23	5.50%	101.31	5.16%
08-May-19	101.91	7.64%	103.04	4.88%	102.98	5.56%	101.24	5.19%
09-May-19	102.10	7.61%	102.94	4.93%	102.82	5.60%	101.44	5.12%
10-May-19	100.87	7.76%	103.29	4.72%	103.07	5.54%	101.18	5.21%
13-May-19	101.02	7.75%	103.15	4.80%	102.63	5.65%	101.35	5.15%
14-May-19	101.19	7.72%	103.27	4.72%	102.87	5.59%	101.43	5.12%
15-May-19	101.69	7.66%	103.32	4.69%	103.00	5.55%	101.62	5.05%
16-May-19	101.29	7.71%	103.37	4.65%	103.24	5.49%	101.45	5.11%
17-May-19	101.59	7.67%	103.27	4.70%	103.11	5.52%	101.79	4.99%
20-May-19	101.76	7.65%	103.37	4.64%	103.32	5.47%	101.80	4.99%
21-May-19	101.89	7.64%	103.44	4.60%	103.52	5.41%	101.83	4.98%
22-May-19	100.77	7.78%	103.56	4.52%	103.65	5.38%	101.59	5.06%
23-May-19	100.68	7.79%	103.36	4.63%	103.38	5.45%	101.58	5.06%
24-May-19	100.28	7.84%	103.34	4.64%	103.33	5.46%	101.61	5.05%
28-May-19	99.35	7.96%	103.32	4.64%	103.31	5.47%	101.38	5.13%
29-May-19	99.73	7.91%	103.16	4.74%	102.93	5.57%	101.63	5.04%
30-May-19	98.48	8.07%	103.33	4.63%	103.24	5.48%	101.43	5.11%

Source: Bloomberg

3.0 Equity Market:

3.1 The Secondary Market:

In May, the Nigerian Stock Exchange All Share Index (NSE ASI) recorded its largest M-o-M appreciation since January 2018, rising by 6.55%.

In May, the Nigerian Stock Exchange All Share Index (NSE ASI) recorded its largest M-o-M appreciation since January 2018. The NSE ASI rose by 6.55% (an appreciation of 6.52% in US Dollar) to close at 31,069.3 points. The recovery recorded in the equity market can be attributed to the listing of MTN Nigeria. Year-to-Date (YTD), the Index depreciated by 1.15%. The market capitalisation recorded a M-o-M gain of 24.87 % (a gain of 24.84% in US Dollar) to close at N13.68trn (US$30.39bn). **The difference in the rate of change between the market capitalisation and the Index was due to the Listing by Introduction of 20,354,513,050 ordinary shares of 2 Kobo each of MTN Nigeria Communications. Additionally, Newrest ASL Nigeria voluntarily delisted its shares.**

There was a pick-up in the value and number of deals in the equity market in May primarily due to high value trades on MTN Nigeria.

There was a pick-up in the value and number of deals in the equity market in May, primarily due to high value trades on MTN Nigeria. However, the limited supply of MTN Nigeria meant there was not a corresponding increase in the volume. The volume of stocks traded decreased by 29.22% to 6.06bn in May 2019. Access Bank Plc (605.02mn), UBA Plc (543.04mn), Zenith Bank Plc (456.71mn), Transcorp Plc (437.31mn), and GT Bank Plc (413.06 mn) were the five most highly traded stocks in May. In contrast, the value of stocks traded on the NSE in May increased by 51.77% to N109.90bn, from N72.41bn in April.

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

All the NSE Sectoral Indices depreciated further in May, except the NSE Industrial Index. The NSE Industrial Index recorded an appreciation of 5.05%, with a YTD depreciation of 8.45%, mainly attributable to the increase in share prices of Dangote Cement Plc (10.83%) and Cement Company of Northern Nigeria Plc (7.14%). The NSE Oil and Gas Index recorded the highest M-o-M depreciation of 6.44 % and a YTD depreciation of 13.12%.

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*
April	8.57	72.41	29,159.74	10.96	381.71	121.27	670.18	280.65	1078.83
May	6.06	109.90	31,069.37	13.68	361.57	119.81	630.93	262.58	1133.27
Change	(29.22%)	51.77%	6.55%	24.87%	(5.28%)	(1.20%)	(5.86%)	(6.44%)	5.05%
YTD			(1.15%)	16.76%	(9.37%)	(5.27%)	(15.74%)	(13.12%)	(8.45%)

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

Table 12: Major Earnings Announcements in May 2019						
Company and Result	**Turnover (Nm)**	**Change**	**PBT (Nm)**	**Change**	**PAT (Nm)**	**Change**
Chams Nigeria Plc						
3 Months, March 2019	1,259	70.42%	183	41.18%	183	53.44%
MRS Oil Nigeria Plc						
3 Months, March 2019	13,511	-59.73%	-731	-227.69%	-731	-295.05%
Forte Oil Plc						
3 Months, March 2019	42,556	50.02%	455	1877.36%	3,385	14.25%
Beta Glass Plc						
3 Months, March 2019	7,153	11.08%	1,826	8.86%	1,242	8.86%
AXA Mansard Insurance Plc						
3 Months, March 2019	17,423	22.97%	1,024	7.48%	890	8.22%
May & Baker Nigeria Plc						
3 Months, March 2019	1,869	-14.35%	196	-21.20%	134	-17.57%
Union Diagnostic & Clinical Services Plc						
3 Months, March 2019	324	-28.31%	35	-67.56%	33	-67.56%
First Aluminum Nigeria Plc						
Full Year, Dec. 2018	7,767	-17.26%	116	-77.71%	-175	-183.44%
Consolidated Hallmark Insurance Plc						
3 Months, March 2019	2,572	20.70%	277	-3.13%	199	-5.12%
Associated Bus Company Plc						
3 Months, March 2019	1,383	-6.66%	28	179.66%	4	-106.89%
Law Union And Rock Insurance Plc						
3 Months, March 2019	2,241	24.40%	77	-42.06%	65	-42.06%
Full Year, Dec. 2018	4,541	6.80%	490	-55.41%	264	-71.06%
Union Homes Real Estate Investment Trust (REIT)						
3 Months, March 2019	123	-15.75%	80	-16.82%	80	-16.82%
C & I Leasing Plc						
3 Months, March 2019	7,815	20.61%	435	7.21%	398	6.82%
Full Year, Dec. 2018	28,182	31.87%	1,540	22.04%	1,198	6.01%
MTN Nigeria Plc						
Full Year, Dec. 2018	1,039,118	17.13%	221,343	105.16%	145,686	79.70%
Source: NSE						

Table 13: Major Corporate Action Announcements in May 2019					
Company	**Result**	***DPS (N)**	**Closure Date**	**Payment Date**	**Interim/Final**
Smart Products Nigeria Plc	Full Year, Dec. 2018	0.15	01-Jul-19	05-Aug-19	Final
N.E.M Insurance Co (Nig) Plc	Full Year, Dec. 2018	0.13	03-Jun-19	25-Jun-19	Final
Law Union And Rock Insurance Plc	Full Year, Dec. 2018	0.02	03-Jun-19	26-Jun-19	Final
Forte Oil Plc	3 Months, March 2019	1.15	04-Jun-19	10-Jun-19	Interim
Aluminium Extrusion Ind.Plc	Full Year, Dec. 2018	0.09	17-Jun-19	02-Sep-19	Final
*Source: NSE; *DPS – Dividend Per Share*					

The NSE All-Share Index recorded the highest M-o-M appreciation of 6.55% in May.

All the stock markets that we monitored in Europe depreciated in May 2019. Similarly, all the stock market indices we monitored in North/Latin America depreciated, with the exception of the Brazil Stock Market Index. The S&P BSE SENSEX Index (India) was the only Index that recorded a depreciation in Asia while the African stock market recorded a mixed performance. The NSE ASI recorded the highest M-o-M appreciation of 6.55% in May.

Table 14: Foreign Equity Market Performance in May 2019			
North/Latin America	**YTD Change**		**Month-on-Month Change**
Dow Jones Industrial Average	6.38%		(6.69%)
S&P 500 Index	9.78%		(6.58%)
NASDAQ Composite	12.33%		(7.93%)
Brazil Stock Market Index	10.40%		0.70%
Europe			
Swiss Market Index	12.99%		(2.52%)
FTSE 100 Index (UK)	6.44%		(3.46%)
CAC 40 Index (France)	10.08%		(6.78%)
DAX Index (Germany)	11.06%		(5.00%)
SMSI Index (Madrid, Spain)	5.37%		(5.80%)
Africa			
NSE All-Share Index	(1.15%)		6.55%
FTSE/JSE Africa All Share Index	5.52%		(4.92%)
Nairobi All Share Index (Kenya)	6.76%		(4.70%)
GSE Composite Index (Ghana)	(4.32%)		4.98%
Asia/Pacific			
NIKKEI 225 Index (Japan)	2.93%		(7.45%)
S&P BSE SENSEX Index (India)	10.11%		1.75%
Shanghai Stock Exchange Composite Index (China)	16.23%		(5.84%)
Hang Seng Index (Hong Kong)	4.08%		(9.42%)
Sources: Bloomberg and Nigerian Stock Exchange (NSE)			

3.2. Outlook for the Month of June 2019:

We expect the equity to recover further in June 2019.

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

- Strategic positioning ahead of earnings season
- Crude oil price above US$70/b
- 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
- Investors should position in stocks that have good fundamentals and are currently trading below fair value
- We see opportunities in the banking, consumer goods, building materials, and oil and gas sectors of the equity market

The equity market recorded more appreciations than depreciations in the last six years between May and June. We expect the equity to recover further in June 2019.

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

	Year					
Months	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
May	37,794.75	41,474.40	34,310.37	27,663.16	29,498.31	38,104.54
June	36,164.30	42,482.48	33,456.83	29,597.79	33,117.48	38,278.55
% Change	**(4.31%)**	**2.43%**	**(2.49%)**	**6.99%**	**12.27%**	**0.46%**

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	189.00	170.00	260.00	22.21	8.51	240.00
Dangote Sugar	12.00	12.00	22.25	1.98	6.08	18.00
FBNH	6.95	6.80	13.45	1.69	4.11	11.00
Flour Mills	14.00	13.35	37.00	2.02	6.95	20.00
GT Bank	30.70	30.40	45.65	6.43	4.77	40.00
Nigerian Breweries	58.00	56.90	130.00	2.16	26.87	81.49
UBA	6.20	5.65	11.90	2.44	2.54	9.50
Zenith Bank	20.40	18.80	28.90	6.26	3.26	30.00
Seplat	513.40	500.00	769.00	82.59	6.22	760.00
11 Plc	175.00	150.00	200.00	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	2.64	16.39%	104.08	14.45%	2.00
2	13.98% FGN FEB 2028	8.73	13.98%	96.85	14.62%	4.71
3	16.25% FGN APR 2037	17.87	16.25%	109.85	14.67%	6.08

Source: FSDH Research. Prices and yields as at 06 June, 2019

The prices of the Eurobonds of First Bank of Nigeria Ltd. 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 10 June, 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	0.45	14.00%	100.17
Lagos	13.50% LAGOS 27-NOV-2020	13.50%	27-Nov-20	1.47	15.37%	97.62
			Corporate Bonds			
FCMB	15.00% FCMB 6-NOV-2020	15.00%	06-Nov-20	1.41	18.48%	95.81
NAHCO	15.25% NAHCO II 14-NOV-2020	15.25%	14-Nov-20	1.43	15.03%	100.23
Transcorp Hotels Plc	15.50% TRANSCORP 4-DEC-2020	15.50%	04-Dec-20	1.01	17.22%	98.48
Lafarge Africa Plc	14.75% LAFARGE 15-JUN-2021	14.75%	15-Jun-21	2.01	15.54%	98.68
FCMB	14.25% FCMB I 20-NOV-2021	14.25%	20-Nov-21	2.45	17.13%	94.44
UBA	16.45% UBA I 30-DEC-2021	16.45%	30-Dec-21	2.56	15.63%	101.64
Fidelity Bank	16.48% FIDELITY 13-MAY-2022	16.48%	13-May-22	2.92	15.90%	101.26
Transcorp Hotels	16.00% TRANSCORP 26-OCT-2022	16.00%	26-Oct-22	2.03	17.31%	97.84
Flour Mills of Nigeria	16.00% FLOURMILLS II 30-OCT-2023	16.00%	30-Oct-23	4.39	16.12%	99.59
Stanbic IBTC	182D T.Bills+1.20% STANBIC IA 30-SEP-2024	16.29%	30-Sep-24	5.31	15.58%	102.42
Stanbic IBTC	13.25% STANBIC IB 30-SEP-2024	13.25%	30-Sep-24	5.31	15.58%	91.73
			Supranational Bonds			
AfDB	11.25% AFDB 1-FEB-2021	11.25%	01-Feb-21	0.89	14.30%	97.56
			Corporate Eurobonds			
Zenith Bank Plc II	7.375% MAY 30, 2022	7.375%	30-May-22	2.97	5.54%	104.96
Access Bank Plc II	9.25%/6M USD LIBOR+7.677% JUN 24, 2021	9.25%	24-Jun-21	2.04	8.81%	100.00
First Bank Ltd.	8.00%/2Y USD SWAP+6.488% JUL 23 2021	8.00%	23-Jul-21	2.12	8.66%	99.51
Ecobank Nig. Ltd	8.75% AUG 14, 2021	8.75%	14-Aug-21	2.18	9.19%	99.84
Seplat Petroleum Development Company Plc	9.25% April 01, 2023	9.25%	01-Apr-23	3.81	7.85%	104.51
			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	64	13.30%	13.00%
Flour Mills Of Nigeria Plc	FLOUR MILLS CP IV 18-JUL-19	15.00%	18-Jul-19	38	12.64%	12.48%

*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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