Monthly Economic & Financial Market Outlook

Economic Realities: Policy Options

Executive Summary

Domestic Scene:

- *Following the conclusion of the Presidential election, FSDH Research believes there are pressure points in the Nigerian economy that the Federal Government of Nigeria (FGN) must quickly address in order to stimulate broad based and strong inclusive growth*
- *FSDH Research notes that the Nigerian economy is not expanding enough to lift citizens out of poverty. Therefore, it needs to expand faster than it is at the moment*
- *The economic pressure points include: weak disposable income, high unemployment rate, weak infrastructure development in the economy that may not support the growth ambition of the FGN, depression in the real estate sector, fragile foreign exchange market and weak revenue generation for the FGN leading to large fiscal deficits*
- *Policy Options include:*
  - *Reduction of all administrative delays in obtaining licences and approvals*
  - *Investment in infrastructure (through partnership with the private sector) that will reduce the risks involved in Agriculture and agro-allied industries*
  - *Government should support the provision of long-term mortgage loans at concessionary terms for their workers to activate the economic activities in the real estate sector*
  - *Urgent restructuring, deliberate and consistent investments in the nation's educational system to enable it provide relevant trainings that are needed in the modern digital age*
  - *Removal of the "subsidy" on the Premium Motor Spirit (PMS) to free up more resources to critical sectors of the Nigerian economy*
  - *Adjustment of the electricity tariff to reflect current costs in the economy, to enable the sector to attract investment and to guarantee an efficient metering system*
  - *The CBN may consider the removal of multiple exchange rate system*
- *FSDH Research expects the February 2019 inflation rate to drop marginally to 11.31% from 11.37% in January*
- *The current position of external reserves continues to provide short-term stability for the value of the Naira*
- *The medium-term stability in the foreign exchange market will depend on the country's foreign exchange receipts from both crude oil and non-oil products*
- *Progress made on the US-China trade deal, Organization of the Petroleum Exporting Countries (OPEC) production cut and US sanctions in Venezuela pushed crude oil price further up in February 2019*
- *Capital importation via Foreign Portfolio Investors (FPI) in the Investors' and Exporters' Foreign Exchange Window increased for the second consecutive month in February 2019. This provided support for the foreign exchange rate*
- *Supported by the increase in the price of crude oil and increased FPIs, the Naira remained relatively stable in February 2019*
- *FSDH Research anticipates that the yields on Nigerian Treasury Bills are likely to be influenced largely by the level of liquidity in the banking system, the short-term borrowing needs of the government and the need to maintain price stability*
- *We anticipate that the Monetary Policy Committee(MPC) of the Central Bank of Nigeria will maintain the current tight monetary policy stance when it meets on 25-26 March 2019*
- *The equity market may appreciate further in March after peaceful elections.*

International Scene:

- *The risks of an expected slowdown in the Eurozone, the ongoing challenges in emerging and developing economies and a slowdown in trade have resulted in a downward revision of the global economic growth in 2019.*

FSDH Research observed that the prices of sovereign bonds recorded a mixed performance in February 2019.

1.0 Global Developments:

FSDH Research observed that the prices of sovereign bonds recorded a mixed performance in February 2019. There was some sell-off on the Turkey Bond following months of appreciation. Consequently, the Turkey Bond recorded the highest month-on-month (M-o-M) price decrease. The 8.8% September 2023 Turkey Government Bond recorded a M-o-M price depreciation of 1.25% to 78.80. This was followed by 7.75% February 28, 2023 South Africa Government Bond, with a price decrease of 0.29% to 99.76. The 17% April 03, 2022 Egypt Bond recorded the highest M-o-M price increase of 3.08% to 100.62. All the bonds we monitored recorded positive real yields in February except the Turkey Government Bond because of high inflation rate at 20.35%. **The Kenya Government Bond offered the most attractive real yield amongst the selected bonds in February**

FSDH Research expects the Fed to maintain rates when it meets on 19-20 March 2019.

There is a correlation between the movement in energy price and inflation rate in the US. This is one of the main reasons the US president wants lower oil prices.

The Real Gross Domestic Product (GDP) in the US increased at an annual growth rate of 2.6% in Q4 2018, according to the 'initial' estimate by the US Bureau of Economic Analysis (BEA) released on 28 February 2019. The real GDP increased by 2.9% in 2018, compared with an increase of 2.2% in 2017. Inflation rate in the US slowed for the third consecutive month to 1.6% in January 2019. It is the lowest rate since June 2017, mainly due to a sharp fall in energy prices, namely gasoline. This figure is lower than the 2% inflation target set for the US economy. The US unemployment rate rose to 4% in January 2019 from 3.9% in December 2018 but below the target of 6.5%.**There is a correlation between the movement in energy price and inflation rate in the US. This is one of the main reasons the US president wants lower oil prices.**

Table 1: Summary of Key Indicators

S/N	Indicators	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	102.33	100.62	103.46	105.05	103.99	100.05	99.76	78.80	96.95
2	Bond Yield	2.90%	16.72%	6.95%	10.82%	14.64%	7.71%	7.82%	15.40%	2.52%
3	Bond Price MoM Change	(0.21%)	3.08%	0.50%	0.84%	0.72%	0.16%	(0.29%)	(1.25%)	(0.26%)
4	Bond Yield MoM Change	0.05%	(1.27%)	(0.20%)	(0.35%)	(0.36%)	(0.08%)	0.08%	0.44%	0.08%
5	Bond Price YTD Change	0.21%	3.52%	0.48%	0.73%	0.66%	0.40%	0.98%	6.49%	0.03%
6	Bond Yield YTD Change	(0.07%)	(1.42%)	(0.22%)	(0.35%)	(0.35%)	(0.21%)	(0.28%)	(1.58%)	0.02%
7	Real Yield	1.20%	4.02%	4.90%	6.68%	3.27%	2.71%	3.82%	(4.95%)	0.92%
8	Volatility	0.11	1.54	0.39	0.39	0.52	0.07	0.33	0.50	0.10
9	FX Rate MoM Change*	(0.03%)	(0.63%)	(0.48%)	(0.75%)	(0.29%)	0.45%	5.36%	2.76%	(0.60%)
10	FX Rate YTD Change*	(2.75%)	(1.99%)	1.38%	(1.79%)	(0.97%)	(5.36%)	(2.22%)	0.84%	(0.62%)
11	Inflation Rate	1.70%	12.70%	2.05%	4.14%	11.37%	5.00%	4.00%	20.35%	1.60%
12	Policy Rate	4.35%	15.75%	6.25%	9.00%	14.00%	7.75%	6.75%	24.00%	2.50%
13	Debt to GDP	47.60%	101.00%	68.70%	57.10%	21.30%	13.50%	53.10%	28.30%	105.00%
14	GDP Growth Rate	6.40%	5.50%	6.60%	6.00%	2.40%	1.50%	1.10%	1.60%	2.60%
15	Nominal GDP (US$'bn)	12,238bn	235bn	2,597bn	74.94bn	376bn	1,578bn	349bn	851bn	19,391bn
16	Current Acct to GDP	1.30%	(6.50%)	(1.90%)	(5.20%)	2.00%	2.20%	(2.50%)	(5.50%)	(2.40%)

-ve means appreciation while +ve means depreciation

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

There are some recent developments which could support the global economy at its current level

1.1 The Global Economic Growth:

Recent developments that may support the global economy in the short-term are:

- The recovery in the price of crude oil
- Progress in the US-China trade negotiations
- The delay in the implementation of monetary policy tightening in the US

However, the risks of global growth are:

- Expected slowdown in the Eurozone
- Ongoing challenges in emerging and developing economies
- A slowdown in global trade

These risk factors have resulted in a downward revision of the global economic growth in 2019.

In the Organisation for Economic Co-operation and Development (OECD), the divergence of growth trends has increased. Economic growth in the US continues, although at a slower pace due to ongoing political challenges and trade frictions. As a result, the growth forecast for the US was lowered to 2.5%. The Euro-zone is expected to slow further in 2019.

In non-OECD countries, the growth forecast remained broadly unchanged. However, the 2019 forecast may be revised depending on policy actions by new governments as well as commodity price developments. China reported a slightly better than expected growth of 6.6% for 2018. The Chinese government had set a growth target of 6.5% for the economy. The relatively strong growth in the Chinese economy may also provide support for the crude oil price in the short term.

Table 2: Economic Growth Rate Forecast

	2017	2018E	2019F
World	3.8%	3.6%	3.3%
OECD	2.5%	2.3%	1.9%
USA	2.3%	2.9%	2.5%
Japan	1.7%	0.8%	1.0%
Euro-zone	2.5%	1.8%	1.3%
China	6.9%	6.6%	6.1%
India	6.3%	7.5%	7.2%
Brazil	1.0%	1.1%	1.8%
Russia	1.5%	1.6%	1.6%

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

FSDH Research notes that the Nigerian economy is not expanding enough to lift citizens out of poverty.

1.2 Pressure Points in the Economy:

Following the conclusion of the Presidential election, FSDH Research believes there are pressure points in the Nigerian economy that the Federal Government of Nigeria (FGN) must quickly address in order to stimulate broad-based and strong inclusive growth. FSDH Research notes that the Nigerian economy is not expanding enough to lift citizens out of poverty. Therefore, it needs to expand faster than it is at the moment. These economic pressure points include:

- Weak disposable income and consumer purchasing power
- High unemployment
- Weak infrastructure development in the economy that may not support the growth ambition of the Federal Government of Nigeria
- Weak educational and healthcare system in the country
- Economic depression in the real estate sector
- Unsustainable pricing of Premium Motor Spirit (PMS) and Electricity tariff that discourage investments
- Fragile foreign exchange market and exchange rate
- Weak revenue generation for the FGN leading to large fiscal deficits

The reduction in the import duties on manufactured cars.

Policy Options:

I. Reduction of all administrative delays in obtaining licences and approvals. This includes titles to landed properties for building and agricultural purposes

ii. Investment in data generation in the solid mineral sector. Government can sell the data to potential investors interested in the sector. This will reduce the risk inherent in this untapped sector of the economy

iii. There is the need for human capacity building in business management and leadership. This should not be restricted to business schools, which are only affordable to a few people

iv. Urgent restructuring, deliberate and consistent investments in the nation's educational system to enable it provide relevant trainings that are needed in the modern digital age. We observed critical skill gap in the nation's educational system, particularly in the public schools at all levels. The sector can create more jobs for teachers and administrators and can also attract foreign investments and save foreign exchange earnings

v. Deliberate and consistent investments in the educational sector will also create jobs for teachers and administrators in the sector

vi. Establishment of well-funded technical training centres in all local government areas in the country in conjunction with private sector operators

vii. Investment in infrastructure (through partnership with the private sector) that will reduce the risks involved in Agriculture and agro-allied industries

viii. Government should support the provision of long-term mortgage loans at concessionary terms for their workers to activate the economic activities in the real estate sector in Nigeria

ix. The removal of the “subsidy” on the Premium Motor Spirit (PMS) to free up more resources to critical sectors of the Nigerian economy, to drive competition amongst the operators and to attract investment in the sector

x. Adjustment of the electricity tariff to reflect current costs in the economy. This will enable the sector to attract investments and to guarantee an efficient metering system
xi. The reduction in the import duties on imported manufactured cars. This is to avoid high cost associated with brand new cars in the country so that Nigerians are not pushed to buy fairly used vehicles with their associated negative environmental impacts. While we understand the need for the government to use the import duties to encourage investments in the local auto industry, a graduated import duty policy for a few years, say five years, would be appropriate
xii. Investments in affordable public healthcare system to increase productivity of workers, reduce brain-drain and reduce medical tourism with its associated drain on foreign exchange earnings
xiii. The CBN may consider the removal of the multiple exchange rate system. The exchange rate needs to move to the rate at which actual trades are taking place in the market
xiv. The CBN needs to maintain tight monetary policy stance in Nigeria to ensure price stability.

The economy expanded by 1.93% in Full Year (FY) 2018, higher than 0.82% recorded in 2017.

1.3Final Judgment on the Performance of the Nigerian Economy: Implications:

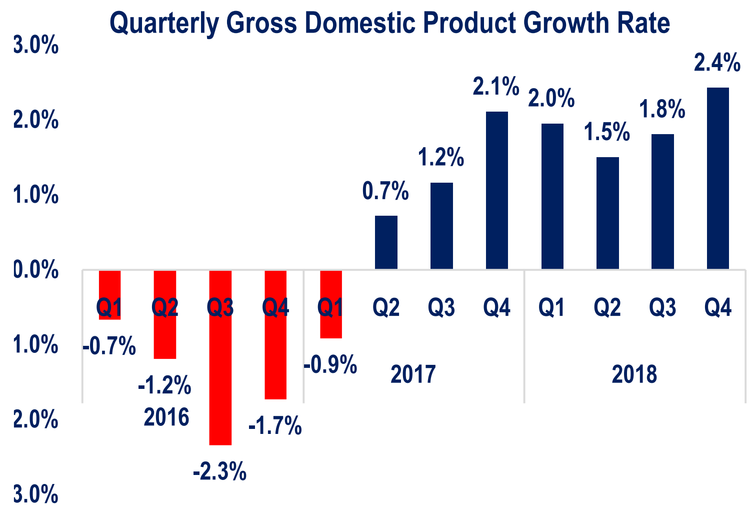
The National Bureau of Statistics (NBS) released its final judgment on the performance of the Nigerian economy in 2018 in February 2019. The report containing the judgment shows that the Nigerian economy has continued to recover. The economy expanded by 1.93% in Full Year (FY) 2018, higher than 0.82% recorded in 2017. The Nigerian economy is however growing slower than the growth rate in its population, an indication of growing poverty! This means that the economy is not expanding in such a way that can create enough job opportunities for the unemployed population, which the NBS put at 21million as at Q3 2018. Although that is the sad reality, there is a way out. Nigeria can grow at above 6% if appropriate policies and the will power to implement the policies are in place.

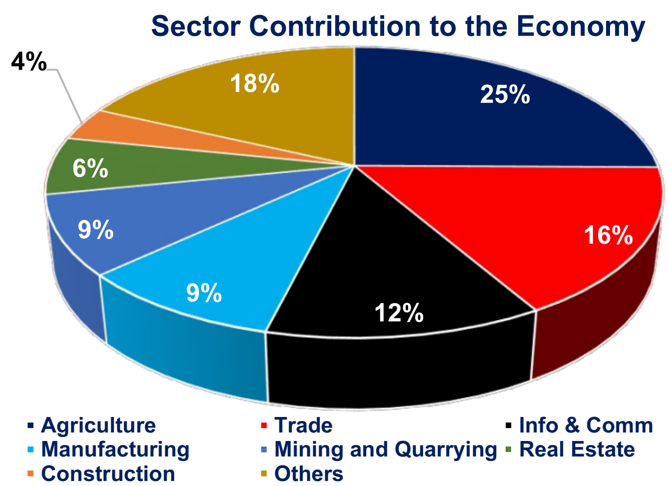
The Nigerian economy is growing slower than the growth rate in its population, an indication of growing poverty.

If you are searching sectors of the economy to start a business or to lend money to, you should be looking at the fastest growing or largest sectors of the economy. These are also the sectors where policy-makers can easily achieve tangible results to show the impacts of their policies on the economy. Therefore, such sectors usually command government's attention and 'protection'. The most influential sectors that drove performance in FY 2018 are: Information and Communication; Agriculture; Manufacturing, Transportation and Storage, and Mining and Quarrying sectors. The five fastest growing sectors on average between Q1 2017 – Q4 2018 are Electricity, Gas, Steam, and Air Conditioning Supply; Transportation and Storage; Water Supply, Sewage, Waste Management and Remediation; Information and Communication and Mining and Quarrying.

Urgent intervention in the education and real estate sectors are required.

Urgent intervention in the education and real estate sectors are required. These are labour-intensive sectors that can generate jobs for both skilled and unskilled labour. The expansion in these sectors can also promote economic activities in other sectors of the economy and help to generate jobs while growing the economy.



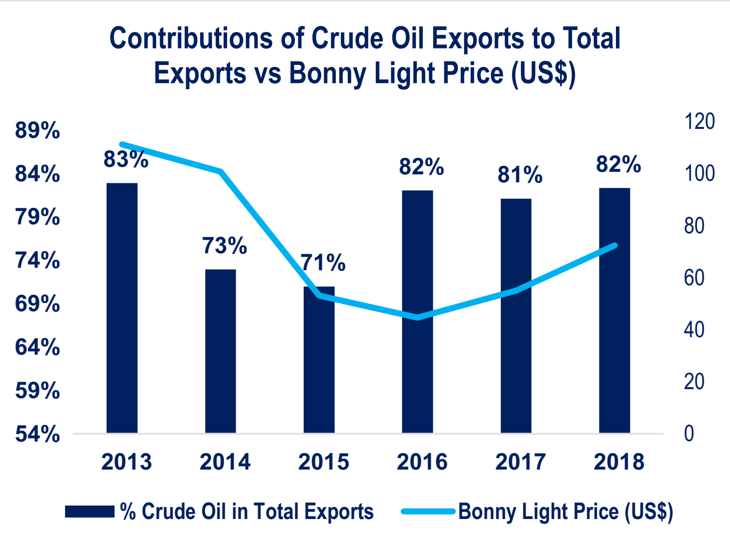


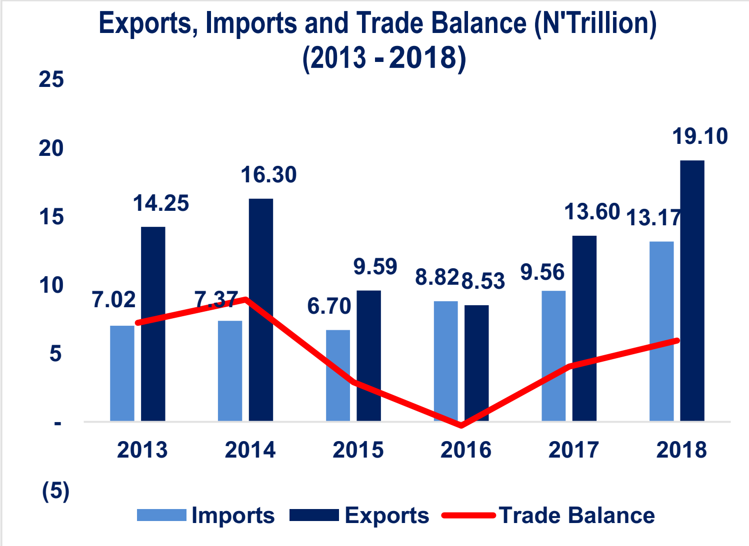
1.4Foreign Trade Update:

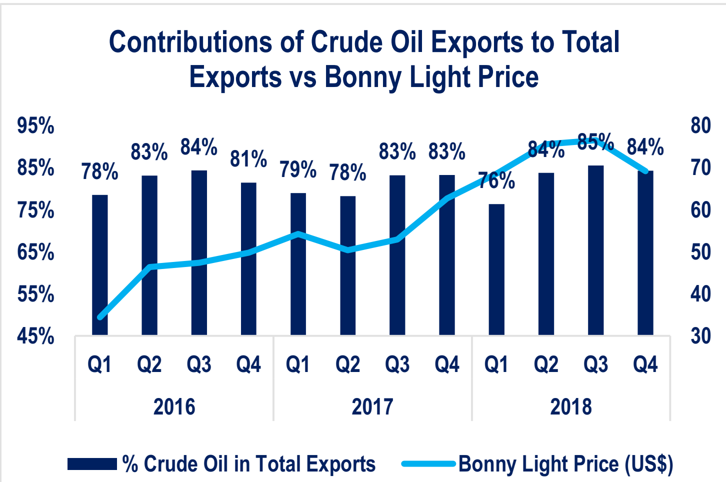
Nigeria's external trade position remains vulnerable to movements in the crude oil market. Although there was an increase in non-oil exports, FSDH Research observes the continued dominance of crude oil exports to total exports. A significant drop in either the price of crude oil or production will not be favourable for Nigeria's trade position and exchange rate.

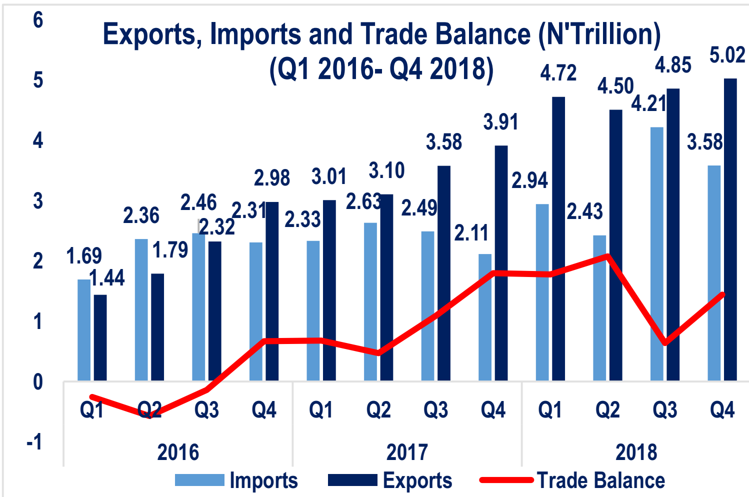
In Q4 2018, there was an increase in non-oil exports by 42.48% compared with Q3 2018 and 35.73% compared with Q4 2017. However, crude oil exports still accounted for 84% of total exports. Exports at N5.02trn, accounted for 58.37% of the total trade while imports, at N3.58trn, accounted for 41.63%. **Trade balance (the difference between exports and imports) increased by 125.54% to N1.44trn in Q4 2018 from N0.64trn in Q3 2018but depreciated by 19.85% compared with Q4 2017.**

In 2018, the trade balance reached its highest value since 2015, driven by a faster increase in exports than imports.







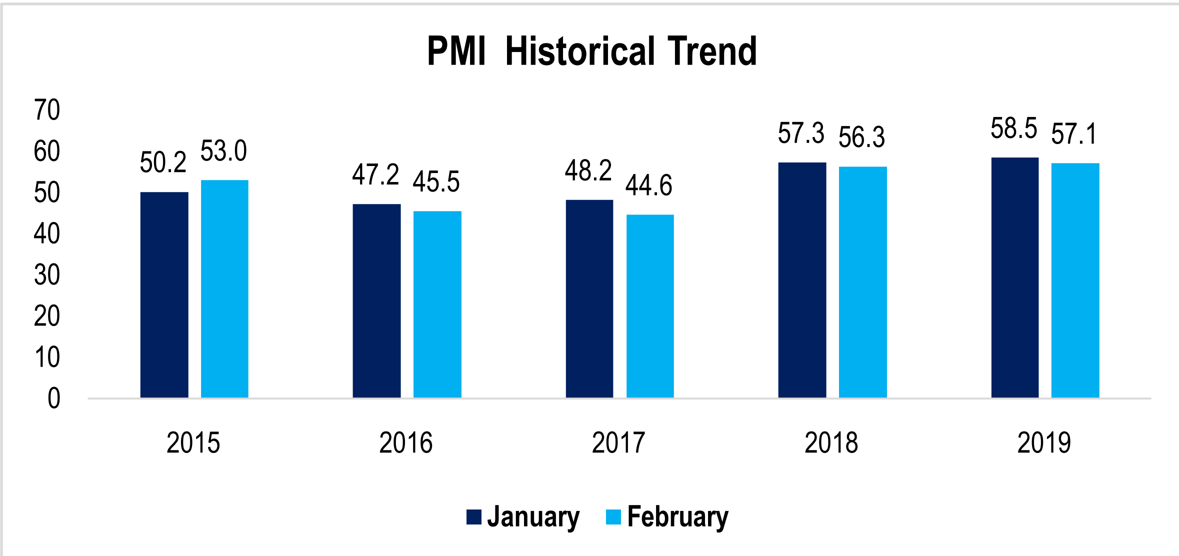


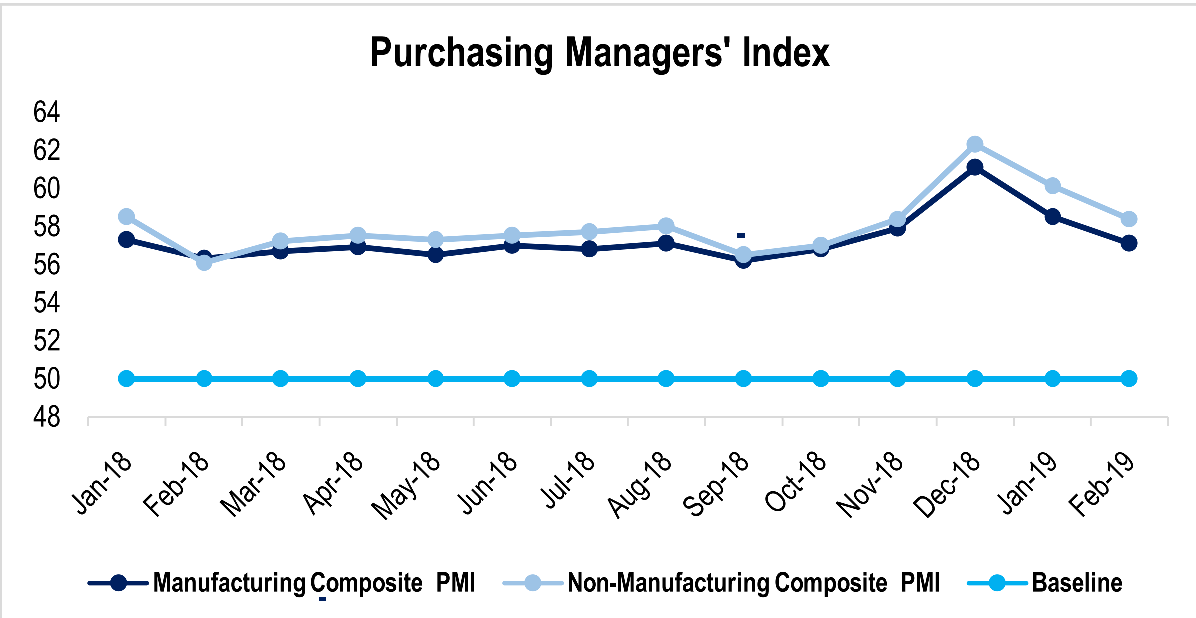
FSDH Research notes that the drop in the PMI is in line with the 3-year historical trend of reduced manufacturing activities in February compared to January.

1.5 Purchasing Managers' Index (PMI):

The downward trend in the PMI figures continued in February 2019 as both the Manufacturing and Non-Manufacturing divisions witnessed reduction in values compared to the previous month. In February 2019, the overall Manufacturing PMI was 57.1 points, stemming from an expansion in suppliers' delivery time, employment level and raw materials inventory. However, there was an expansion in production levels and in the level of new orders, at a slower pace than January 2019.

The expansion in manufacturing activities in February occurred at a slower pace than in January 2019: this has been the pattern in the past 3 years. In the same vein, Non- Manufacturing PMI expanded, albeit at a slower pace than January and stood at 58.4. The business activity, level of new orders, employment level and raw materials inventory in the overall non-manufacturing sector expanded in February, though at a slower pace than the previous month. The lower expansion in the PMI in February was in line with the trend observed since 2016.





FSDH Research expects the February 2019 inflation rate to drop to 11.31% from 11.37% recorded in January 2019

1.6 Inflation Rate:

FSDH Research expects the February 2019 inflation rate to drop to 11.31% from 11.37% recorded in January 2019 despite the electioneering spending before and during the presidential election in February. The price monitor that FSDH Research conducted on both food and non-food items in February shows that most prices increased at a slower rate in February than in January. The slower pace of increase is the reason we expect a drop in the inflation rate in February. The National Bureau of Statistics (NBS) will release the inflation figure for the month of February on Friday, 15 March 2019, ahead of the MPC meeting scheduled for 25-26 March 2019.

Although the inflation rate in trending downward, FSDH Research stresses that certain economic realities may not guarantee the continued downward trend. The key limiting factors to the continued drop in inflation rate are the need for adjustments to the current pricing regime of the Petroleum Motor Spirit (PMS) and the electricity tariff. Any adjustment of these prices will shift the inflation curve. **FSDH Research believes inflation rate in double digits, as we predict in 2019 and through 2022, may not justify a reduction in the monetary policy rates.**

Table 3: Inflation Rate Actual Vs. Forecast

Month	Jan-19A	Feb-19F	Mar-19F	Apr-19F	May-19F	Jun-19F	Jul-19F	Aug-19F	Sep-19F	Oct-19F	Nov-19F	Dec-19F
Inflation Rate	11.37%	11.31%	11.35%	11.41%	11.18%	10.82%	10.53%	10.37%	10.27%	10.35%	10.39%	10.66%
Adjusted Inflation Rate	11.37%	11.31%	11.35%	11.41%	11.18%	12.94%	12.65%	12.49%	12.39%	12.48%	12.51%	12.79%

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*

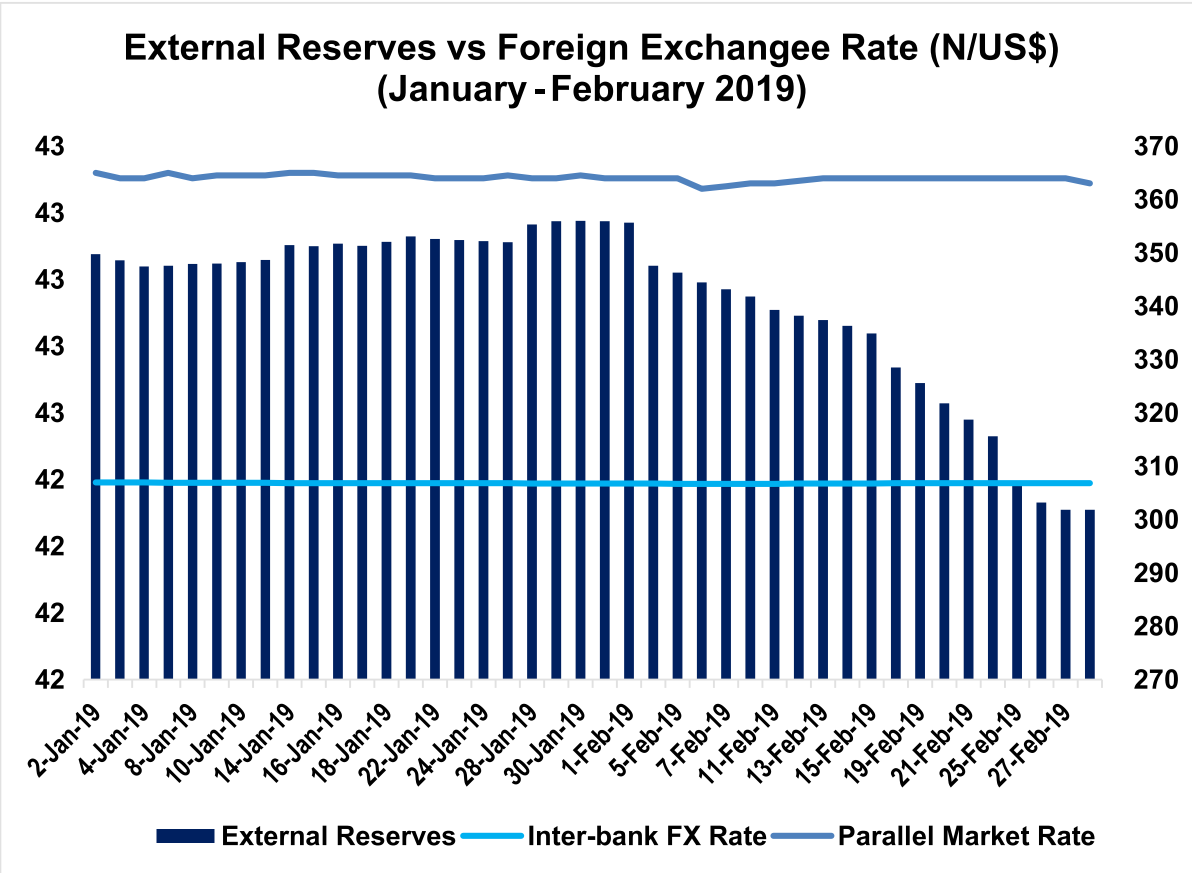
FSDH Research observed downward movement in the external reserves in early February through month end.

1.7Movement in the External Reserves:

The downward movement in the external reserves observed in early February continued until the end of the month to dip at US$42.31bn, the lowest level in the last 3 months.However, we observed that the external reserves has been rising since the beginning of March largely driven by portfolio investment. Ironically, despite the continuous decline in the country's external reserve in February, the Naira appreciated rather than declined. This might be due to an increase in the Foreign Portfolio Investment (FPI) in the country. The 30-Day moving average external reserves declined by 2%, from US$43.17bn at end-January to US$42.3bn at end-February 2019.

Nigeria, therefore, must improve her foreign exchange receipts from non-oil products.

The current position of external reserves continues to provide short-term stability for the value of the Naira. However, the medium-term stability in the foreign exchange market will depend on the country's foreign exchange receipts from both crude oil and non-oil products. With forecasts from both the Organization of the Petroleum Exporting Countries (OPEC) andUS Energy Information Administration (EIA) predicting that the price of crude oil would be lower in 2019 than in 2018, FSDH Research warns that the external reserve position of the country may be adversely affected in 2019. Nigeria, therefore, must improve her foreign exchange receipts from non-oil products.



The highest capital inflow came from FPI for the second consecutive month.

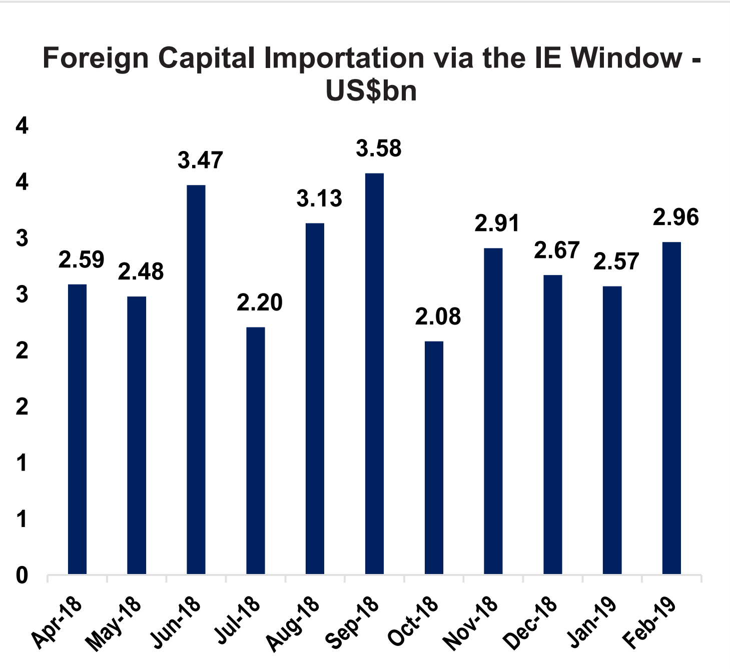
1.8 Currency Transaction at the I&E Window

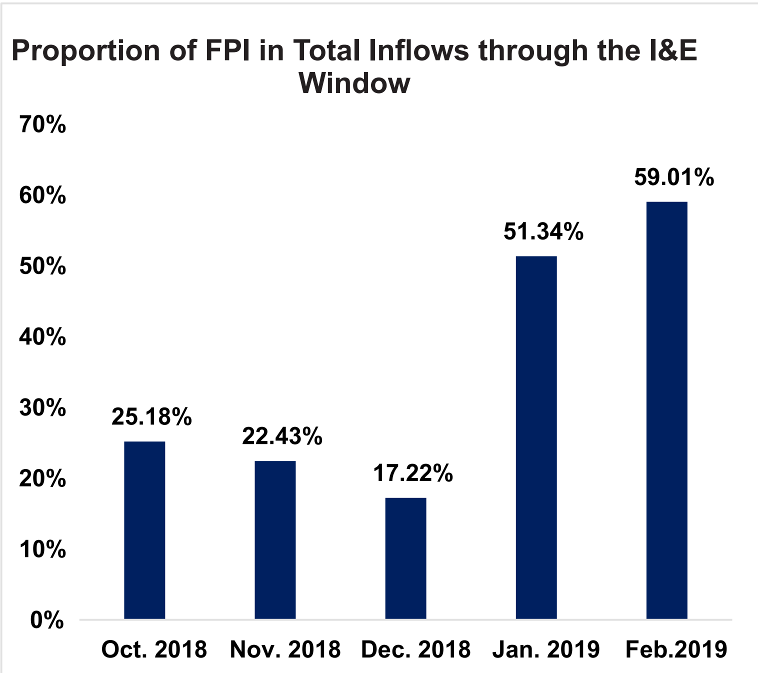
Capital importation via Foreign Portfolio Investors (FPI) in the Investors' and Exporters' Foreign Exchange Window (I&E window) increased for the second consecutive month in February 2019. According to data released on Friday, 1 March 2019 from the FMDQ OTC Securities Exchange, FPI's contribution in February stood at US$1.75bn, accounting for 59.01% of total inflows. We believe the increase in FPI was as a result of foreign investors' interest in the Nigerian fixed income market. These investors are now taking advantage of the relative attractive yields on fixed income securities. The increase in FPI has supported the stability in the foreign exchange market despite the decrease in external reserves. The total capital importation through the I&E window in February 2019 stood at US$2.96bn, the highest level recorded since October 2018. From inception to February 2019, capital importation through the I&E totalled U$54.18bn.

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

	November		December		January		February	
Source	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**
FDIs	0.05	1.88%	0.06	2.27%	0.23	8.79%	0.20	6.59%
FPIs	0.65	22.43%	0.46	17.22%	1.32	51.34%	1.75	59.01%
Other Corporates	0.04	1.26%	0.04	1.62%	0.05	1.97%	0.03	1.10%
CBN	1.33	45.57%	1.21	45.29%	0.45	17.65%	0.15	4.92%
Exporters	0.13	4.63%	0.14	5.35%	0.08	3.15%	0.08	2.72%
Individuals	0.01	0.45%	0.00	0.18%	0.00	0.18%	0.02	0.73%
Non-Bank Corporates	0.69	23.78%	0.63	23.57%	0.22	8.66%	0.74	24.94%
Other Corporates	N/A	N/A	0.12	4.51%	0.21	8.26%	N/A	N/A
Total	**2.91**	**100%**	**2.67**	**100%**	**2.57**	**100%**	**2.96**	**100%**

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





The daily crude oil production in Nigeria increased by 3% to 1.79mb/d in January 2019, from 1.74mb/d in December.

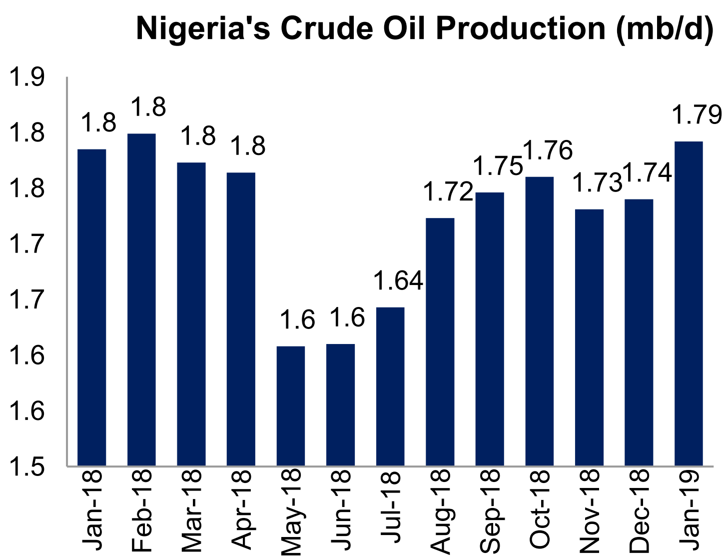
1.9 Crude Oil Market and Bonny Light Price:

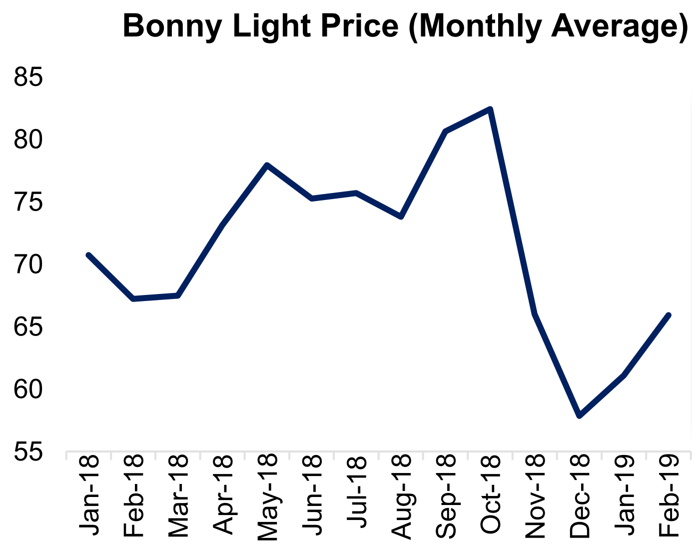
Progress made on the US-China trade deal, OPEC production cut and US sanctions on Venezuela all pushed the crude oil price further up in February 2019. FSDH Research notes that some of these factors are temporary. Therefore, a long term decision should not be made based on them. President Trump tweeted that oil prices were getting too high, and requested OPEC to relax. The US may take steps to increase supply in order to force down the oil price. This strategy will be easy to achieve given the current weak demand.

According to secondary data available from OPEC's report for the month of February 2019, the daily crude oil production in Nigeria increased by 3% to 1.79mb/d in January 2019, from 1.74mb/d in December. This is below the 2019 budget benchmark of 2.3mb/d.

In its monthly report for February 2019, the EIA forecasts an average price of Brent crude oil of US$61.03/b and US$62/b in 2019 and 2020, respectively.

In its monthly report for January 2019, the EIA forecasts an average price of Brent crude oil of US$61.03/b and US$62/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 lower forecast further supports our position that Nigeria may generate lower revenue in 2019 than 2018.





Supported by the increase in the price of crude oil and increased FPIs, the Naira remained relatively stable in February 2019.

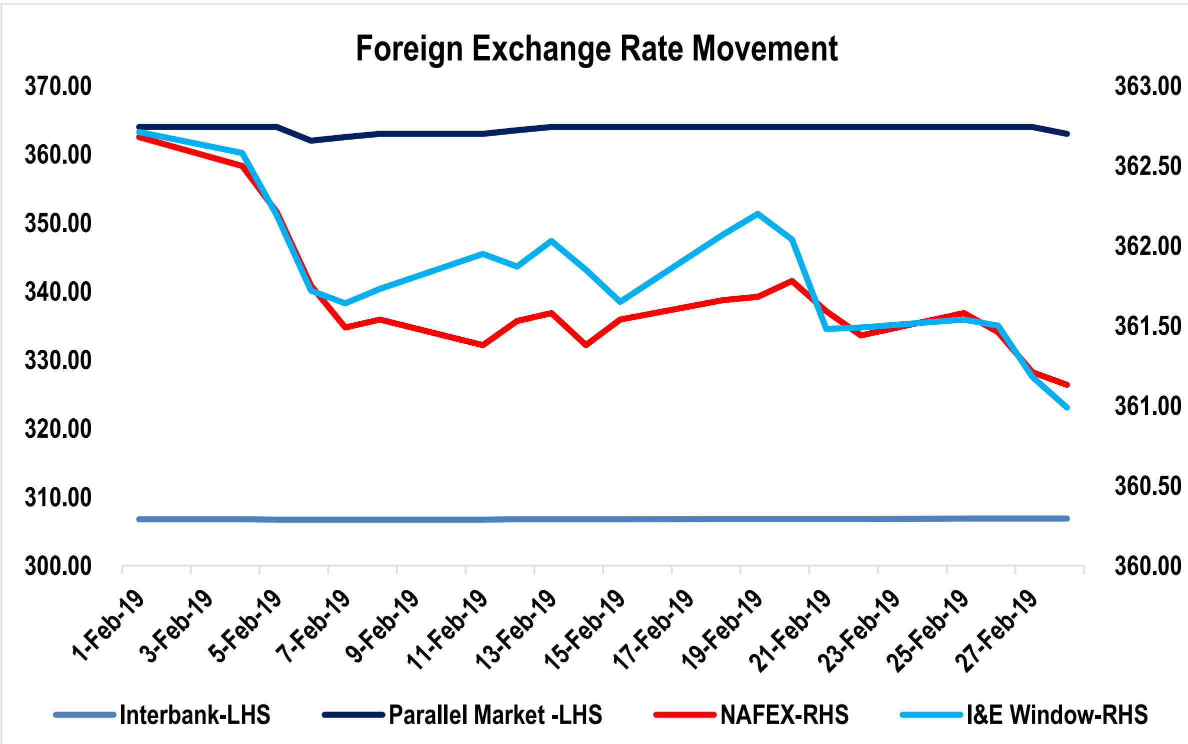
FSDH Research expects the CBN to maintain the current tight monetary policy stance to ensure continued stability in the foreign exchange market.

1.10 Foreign Exchange Rate:

Supported by the increase in the price of crude oil and increased FPI, the Naira remained relatively stable in February 2019. Additionally, the premium between the inter-bank and parallel markets narrowed in February 2019 compared with January 2019. FSDH Research expects the CBN to maintain the current tight monetary policy stance to ensure continued stability in the foreign exchange market.

Month-on-month, the value of the Naira depreciated marginally by 0.03% to close at N306.85/US at the inter-bank market while it appreciated by 0.28% to close at N363/US$ at the parallel market at the end of February compared with January 2019. At the I&E window, it appreciated by 0.57% to stand at N360.99/US$ at end-February. The highest rates recorded at the inter-bank, parallel market and I&E window in February were N306.85/US$, N364/US$ and N362.71/US$ respectively. The lowest values were N306.70/US$, N362/US$ and N360.99/US$ respectively.

The average exchange rate at the inter-bank and parallel market appreciated by 0.02% and 0.19% to stand at N306.77/US$ and N363.65/US$ respectively in February compared to the average of N306.84/US$ and N364.36/US$ in January. At the I&E window, it averaged N361.82/US$ in February from N363.73/US$ in January.



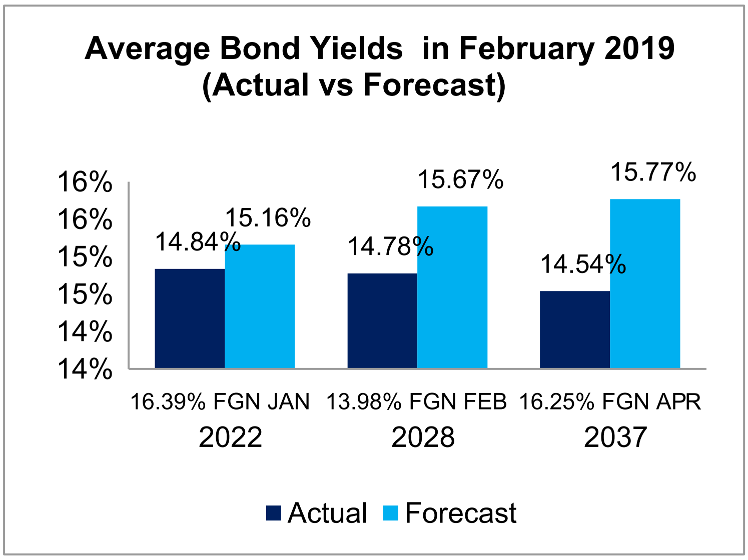
The average yield on the Treasury Bills, NIBOR, FGN Bonds and FGN Euro Bond were down in the month of February compared with what was recorded in January

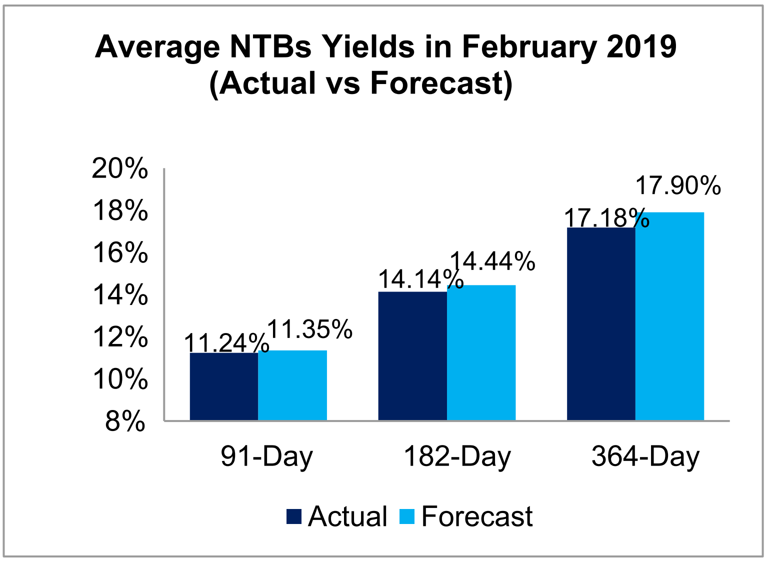
2.0 Interest Rate and Yield Analysis:

Following the conclusion of the presidential election in February 2019, the yields on the fixed income securities dropped. Temporary increase in the crude oil price and limited investment opportunities for investors both locally and abroad led to the influx of portfolio investments in the market. This led to a higher demand for fixed income securities and lower yields.

The fixed income market analysis for the month of February shows a net outflow of N1.95trn, compared with a net outflow of N924bn in January. The major outflows in February were the Open Market Operations (OMO) and Repurchase (REPO) Bills of N2.95trn, CBN's Foreign Exchange Sale of N1.03trn, Primary NTBs of N269bn and the FGN Bond auction of N150bn. Meanwhile, in January, the major outflows were the OMO and REPO of N2.73trn, CBN's Foreign Exchange Sale of N499bn, Primary NTBs of N481bn and the FGN Bond auction of N117bn. The major inflows in February were the matured OMO and REPO Bills of N1.87trn, matured NTBs of N269bn, and the Federation Account Allocation Committee (FAAC)'s injection of about N315bn. The major inflows in January were the matured OMO and REPO Bills of N1.92trn, matured NTBs of N639bn, and the FAAC's injection of about N329bn.

At the NTBs auction, average yield on the 91-Day decreased marginally to 11.24% in the month of February, compared with 11.27% recorded in January 2019.





The average 182-Day NTB was down marginally to 14.14%, from 14.17% in January. The average 364-Day NTB yield stood at 17.18% in February from 17.41% in January. The average Nigerian Interbank Offered Rate (NIBOR) was also down in February compared with January. The average 30-day, 90-day and 180-day NIBOR decreased to 11.93%, 12.77% and 14.70% respectively in February 2019, down from 14.79%, 13.74% and 15.19% in January. The yields on the FGN Bonds that we monitored closed lower in February than in January.

Table 5: Market Liquidity (N'bn)

	January 2019			February 2019		
	Total Inflow	Total Outflow	Net Flow	Total Inflow	Total Outflow	Net Flow
Primary Market: NTB	639	481	158	269	269	0
Open Market Operations & Rev Repo	1,929	2,725	(795)	1874	2,952	(1,078)
Bond	0	117	(117)	0	150	(150)
FAAC	329	0	329	315	0	315
FX Market	0	499	(499)	0	1,034	(1,034)
CRR Debit/Credit	0	0	0	0	0	0
TSA Implementation	0	0	0	0	0	0
Total	**2,898**	**3,822**	**(924)**	**2,457**	**4,405**	**(1,947)**

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
January 2019	15.07	15.43	15.23
February 2019	14.84	14.78	14.54
Change	**(0.23)**	**(0.65)**	**(0.69)**

Source: Financial Market Dealers Quotation

Table 7: Average Interest Rate and Yields

	NIBOR				Treasury Bill Yields		
	Call	30-Day	90-Day	180-Day	91-Day	182-Day	364-Day
January 2019	19.09%	14.79%	13.74%	15.19%	11.27%	14.17%	17.41%
February 2019	18.93%	11.93%	12.77%	14.70%	11.24%	14.14%	17.18%
Change	(0.16%)	(2.86%)	(0.96%)	(0.48%)	(0.03%)	(0.03%)	(0.24%)

Sources: CBN and FMDQ

We believe the short term outlook doesn't justify the current yields. FSDH Research expects profit-taking in the market before the end of the month.

2.1 Revised Outlook Going Forward:

FSDH Research expects a total inflow of about N1,014bn to hit the money market from the various maturing government securities and FAAC in March 2019. We estimate a total outflow of approximately N755bn from the various sources, leading to a net inflow of about N260bn.

We believe the short-term outlook of the economy does not justify the current yields. Therefore, FSDH Research expects profit-taking in the market before the end of the month. We also expect the CBN to continue with the issuance of OMO to mop-up the liquidity in the system. We expect the inflation rate in February to drop marginally from the level recorded in January 2019.

Although the risks associated with the general election have reduced, the short-term economic outlook in Nigeria may not support sustained downward movements in yields. Fiscal deficit, weak exchange rate, declining external reserves in the face of a weak global crude oil market, and an expected increase in the inflation rate due to possible adjustments to the electricity tariff and the PMS pump price are some of the considerations that may not support a consistent drop in yields.

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

Date	07-Mar-19	14-Mar-19	21-Mar-19	28-Mar-19	Others*	Total
Inflows	229.21	176.27	171.51	60.55	376.92	1,014.45
Outflows	-	92.89	110.00	72.93	479.00	754.82
Net flows	**229.21**	**83.38**	**61.51**	**(12.38)**	**(102.08)**	**259.63**

*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 -19F	11.26%	14.18%	17.26%	14.89%	14.92%	15.01%
Apr -19F	11.29%	14.24%	17.31%	14.95%	14.98%	15.06%
May-19F	11.01%	14.01%	17.08%	14.72%	14.75%	14.83%
Jun -19F	12.57%	15.77%	18.84%	16.03%	16.11%	16.39%
Jul -19F	12.28%	15.48%	18.55%	15.74%	15.82%	16.10%
Aug-19F	12.12%	15.32%	18.39%	15.58%	15.66%	15.94%
Sep-19F	12.02%	15.22%	18.29%	15.48%	15.56%	15.84%
Oct -19F	12.10%	15.30%	18.38%	15.57%	15.65%	15.93%
Nov-19F	12.14%	15.34%	18.41%	15.60%	15.68%	15.96%
Dec -19F	12.42%	15.61%	18.69%	15.88%	15.96%	16.24%

Sources: CBN, FMDQ, and FSDH Research Forecasts

We expect the yields in the bond market to trend higher from the current levels.

2.2 Strategy:

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

We expect that the MPC of the CBN will maintain the current tight monetary policy stance when it meets on 25-26 March 2019.

We expect profit taking on fixed income securities

- We expect profit taking on fixed income securities
- We expect the yields in the bond market to trend higher from the current levels
- Traders in the Treasury Bill market may adopt a strategy that will allow them to shift from one tenor to another in order to take advantage of movements in yields
- Investors should stay in short-tenored fixed deposits. This will enable them to switch as market opportunities arise

The current yields on all the FGN Eurobonds is lower than its coupon rate.

The prices on the FGN Eurobonds were higher in February than in January 2019. Consequently, the yields on the bonds closed lower in the month of February than in January. The attractiveness of the yields on the FGN Euro bonds compared with similar risk-profiled bonds led to an increase in prices in February 2019. **The current yields on all the FGN Eurobonds is lower than its coupon rate. It may be a good time to take profit on the bonds as the yields may increase in the short-term.**

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**
1-Feb-19	99.76	7.90%	103.22	5.02%	101.53	5.98%	100.46	5.47%
4-Feb-19	99.58	7.93%	102.98	5.15%	101.37	6.02%	100.26	5.54%
5-Feb-19	100.82	7.77%	103.14	5.06%	101.78	5.91%	100.58	5.43%
6-Feb-19	100.66	7.79%	103.13	5.06%	101.79	5.91%	100.60	5.43%
7-Feb-19	99.79	7.90%	103.09	5.08%	101.45	6.00%	100.26	5.54%
8-Feb-19	99.14	7.98%	102.82	5.22%	101.03	6.10%	100.08	5.60%
11-Feb-19	98.81	8.02%	102.83	5.21%	100.81	6.16%	99.92	5.65%
12-Feb-19	99.76	7.91%	103.01	5.11%	101.14	6.08%	100.30	5.52%
13-Feb-19	100.75	7.78%	103.26	4.98%	101.53	5.98%	100.50	5.46%
14-Feb-19	100.43	7.82%	103.04	5.08%	101.30	6.03%	100.28	5.53%
15-Feb-19	100.76	7.78%	103.19	5.00%	101.43	6.00%	100.42	5.48%
18-Feb-19	100.07	7.87%	102.96	5.12%	101.06	6.09%	100.08	5.60%
19-Feb-19	100.85	7.77%	103.12	5.04%	101.36	6.02%	100.38	5.50%
20-Feb-19	101.46	7.70%	103.29	4.94%	101.80	5.90%	100.63	5.41%
21-Feb-19	101.72	7.66%	103.46	4.84%	102.09	5.83%	100.92	5.32%
22-Feb-19	101.59	7.68%	103.49	4.83%	102.09	5.83%	100.86	5.34%
25-Feb-19	101.98	7.63%	103.63	4.75%	102.33	5.76%	101.17	5.24%
26-Feb-19	101.71	7.66%	103.63	4.75%	102.33	5.76%	101.10	5.26%
27-Feb-19	102.60	7.56%	103.79	4.65%	102.96	5.60%	101.39	5.16%
28-Feb-19	102.66	7.55%	103.76	4.65%	103.06	5.57%	101.44	5.15%

Source: Bloomberg

The NSE ASI appreciated by 3.81% in February 2019 (an appreciation of 3.78% in US Dollar) to close at 31,721.76 points.

3.0 Equity Market:

3.1 The Secondary Market:

The Nigerian Stock Exchange All Share Index (NSE ASI) appreciated by 3.81% in February 2019 (an appreciation of 4.38% in US Dollar) to close at 31,721.76 points. However, despite the release of impressive full year results from Dangote Cement (with a dividend per share of N16.00) and Zenith Bank (final dividend of N2.50), there was some profit-taking towards the end of the month. Year-to-Date (YTD), the Index recorded an appreciation of 0.93%. Similarly, the market capitalisation recorded a M-o-M gain of 3.81% (a gain of 4.38% in US Dollar) to close at N11.83trn (US$32.77bn). We note that some investors are still adopting a cautious approach due to the upcoming state government elections.

FSDH Research observed increased activity in the equity market in February.

FSDH Research observed increased activity in the equity market in February. The volume of stocks increased by 26.41% to 7.89bn in February 2019. Diamond Bank Plc (1.01bn), UBA Plc (698.58mn), Transcorp Plc (698.04mn), Zenith Bank Plc (686.01mn), and Access Bank Plc (631.26mn) were the five most highly traded stocks in February. Similarly, the value of stocks traded on the NSE in February increased by 56.07% to N93.02bn, from N59.60bn in January.

All the NSE Sectoral Indices appreciated in February, except the NSE Industrial Index.

All the NSE Sectoral Indices appreciated in February, except the NSE Industrial Index. The NSE Industrial Index recorded a M-o-M depreciation of 2.76%. The NSE Insurance Index recorded the highest M-o-M appreciation of 8.92%, with a YTD appreciation of 5.37%,followed by the NSE Banking Index with a M-o-M appreciation of 5.68% and a YTD appreciation of 3.05%. The increase in the Banking Index can mainly be attributable to the increase in share prices of UBA Plc. (9.56%), Zenith Bank Plc. (6.22%) and GT Bank Plc. (5.68%).

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*
January	6.24	59.60	30,557.20	11.39	388.99	122.36	698.12	280.26	1309.38
February	7.89	93.02	31,721.76	11.83	411.10	133.27	730.36	298.61	1273.20
Change	**26.41%**	**56.07%**	**3.81%**	**3.81%**	**5.68%**	**8.92%**	**4.62%**	**6.55%**	**(2.76%)**
YTD			**0.93%**	**0.93%**	**3.05%**	**5.37%**	**(2.47%)**	**(1.20%)**	**2.85%**

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

Table 12: Major Earnings Announcements in February 2019						
Company and Result	**Turnover (Nm)**	**Change**	**PBT (Nm)**	**Change**	**PAT (Nm)**	**Change**
Newrest ASL Nigeria Plc						
Full year Dec. 2018	5,426	38.40%	1,509	284.96%	1,488	247.29%
Transcorp Hotels Plc						
Full Year, Dec. 2018	17,425	25.87%	5,042	36.99%	3,714	38.48%
Transnational Corporation Of Nigeria Plc						
Full Year, Dec. 2018	104,163	29.74%	22,402	82.05%	20,627	94.46%
Nigerian Breweries Plc.						
Full Year, Dec. 2018	350,226	-4.26%	29,422	-36.90%	19,438	-41.18%
United Capital Plc						
Full year, Dec. 2018	9,259	3.86%	6,221	12.14%	4,338	-0.56%
Africa Prudential Plc						
Full year, Dec. 2018	4,486	35.28%	2,395	15.86%	1,953	13.89%
Cutix Plc						
9 Months, Jan. 2018	4,132	7.51%	463	-9.39%	301	-9.39%
Dangote Cement Plc						
Full Year, Dec. 2018	901,213	11.87%	300,806	3.87%	390,325	91.10%

Source: NSE

Table 13: Major Corporate Action Announcements in February 2019					
Company	**Result**	***DPS (N)**	**Closure Date**	**Payment Date**	**Interim/Final**
Newrest ASL Nigeria Plc	Full Year Dec. 2018	0.20	29-Apr-19	17-May-19	Final
Transcorp Hotels Plc	Full year, Dec. 2018	0.15	28-Feb-19	19-Mar-19	Final
Transnational Corporation Of Nigeria Plc	Full Year, Dec. 2018	0.03	01-Mar-19	19-Mar-19	Final
Nigerian Brew Plc.	Full year, Dec. 2018	1.83	07-Mar-19	20-May-19	Final
Zenith Bank Plc	Full year, Dec. 2018	2.50	11-Mar-19	19-Mar-19	Final
United Capital Plc	Full year, Dec. 2018	0.30	14-Mar-19	02-Apr-19	Final
Africa Prudential Registrars Plc	Full year, Dec 2018	0.50	14-Mar-19	26-Mar-19	Final
Dangote Cement Plc	Full year, Dec. 2018	16.00	04-Jun-19	18-Jun-19	Final

*Source: NSE; *DPS– Dividend Per Share*

The Shanghai Stock Exchange Composite Index (China) recorded the highest M-o-M appreciation of 13.79% in February.

Most of the equity indices we monitored in February 2019 appreciated, except the Brazil Stock Market Index, S&P BSE SENSEX Index (India) and The Ghana Stock Exchange Composite Index (GSE Composite Index). These Indices depreciated by 1.86%, 1.07% and 0.99% respectively. The Shanghai Stock Exchange Composite Index (China) recorded the highest M-o-M appreciation of 13.79% in February, with a YTD appreciation 17.93%. This was followed by the CAC 40 Index (France) which appreciated by 4.96% M-o-M, with a YTD appreciation of 10.78%.

Table 14: Foreign Equity Market Performance in February 2019

North/Latin America	YTD Change		Month-on-Month Change
Dow Jones Industrial Average	11.10%		3.67%
S&P 500 Index	11.08%		2.97%
NASDAQ Composite	13.52%		3.44%
Brazil Stock Market Index	8.76%		(1.86%)
Europe			
Swiss Market Index	11.38%		4.68%
FTSE 100 Index (UK)	5.15%		1.52%
CAC 40 Index (France)	10.78%		4.96%
DAX Index (Germany)	9.06%		3.07%
SMSI Index (Madrid, Spain)	8.56%		2.50%
Africa			
NSE All-Share Index	0.93%		3.81%
FTSE/JSE Africa All Share Index	6.19%		3.41%
Nairobi All Share Index (Kenya)	8.64%		1.48%
GSE Composite Index (Ghana)	(3.62%)		(0.99%)
Asia/Pacific			
NIKKEI 225 Index (Japan)	6.85%		2.94%
S&P BSE SENSEX Index (India)	(0.56%)		(1.07%)
Shanghai Stock Exchange Composite Index (China)	17.93%		13.79%
Hang Seng Index (Hong Kong)	10.79%		2.47%

Sources: Bloomberg and Nigerian Stock Exchange (NSE)

We expect the equity market to record a stronger performance in March.

3.2.Outlook for the Month of March 2019:

We expect the equity market to record a stronger performance in March. The following factors should drive performance of the equity market:

- Release of corporate earnings and actions
- Temporary drop in the yields on the fixed income securities
- Political Stability
- Stability in the foreign exchange market

3.3. Strategies:

- Investors should position in stocks that have good fundamentals that 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 may appreciate in March after peaceful elections.

- **The performance of the equity market in the last six years shows that the market usually appreciated between February and March, except in 2014 and 2018. The equity market may appreciate in March after peaceful elections.**

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

	Year					
Months	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
February	33,075.14	39,558.89	30,103.81	24,570.73	25,329.08	43,330.54
March	33,536.24	38,748.01	31,744.82	25,306.22	25,516.34	41,504.51
% Change	**1.39%**	**(2.05%)**	**5.45%**	**2.99%**	**0.74%**	**(4.21%)**

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	**195.00**	**170.00**	**268.80**	**22.91**	**8.51**	**240.00**
Dangote Sugar	**14.55**	**12.45**	**23.35**	**2.50**	**5.83**	**18.00**
FBNH	**8.20**	**6.80**	**13.45**	**1.11**	**7.38**	**11.00**
Flour Mills	**19.25**	**15.25**	**38.00**	**2.02**	**9.55**	**25.00**
GT Bank	**37.30**	**31.30**	**47.70**	**6.27**	**5.95**	**43.00**
UBA	**7.60**	**6.80**	**1290**	**2.32**	**3.27**	**9.50**
Zenith Bank	**22.75**	**19.60**	**31.00**	**6.16**	**3.69**	**28.00**
Seplat	**596.90**	**520.00**	**785.00**	**76.25**	**7.83**	**760.00**
Source: FSDH Research						

Table 18: Bond Recommendation						
S/N	**Security Description**	**Tenor To Maturity (Yrs)**	**Coupon**	**Current Price (N)**	**Current Yield**	**Modified Duration**
1	16.39% FGN JAN 2022	2.90	16.39%	104.70	14.33%	2.24
2	13.98% FGN FEB 2028	8.98	13.98%	98.85	14.21%	5.00
3	16.25% FGN APR 2037	18.12	16.25%	113.20	14.20%	6.03
Source: FSDH Research. Prices and yields as at 04 March, 2019						

The prices of the Eurobonds of the following companies are trading at discounts to their face values: Access Bank, First Bank and Ecobank, all of which offer 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 04 March, 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	0.72	16.52%	98.61
Lagos	13.50% LAGOS 27-NOV-2020	13.50%	27-Nov-20	1.73	15.93%	96.38
Corporate Bonds						
FCMB	15.00% FCMB 6-NOV-2020	15.00%	06-Nov-20	1.68	19.12%	94.24
Lafarge Africa Plc	14.25% LAFARGE 15-JUN-2019	14.25%	15-Jun-19	0.28	12.36%	100.41
NAHCO	15.25% NAHCO II 14-NOV-2020	15.25%	14-Nov-20	1.70	15.64%	99.37
Transcorp Hotels Plc	15.50% TRANSCORP 4-DEC-2020	15.50%	04-Dec-20	1.05	18.35%	97.36
Lafarge Africa Plc	14.75% LAFARGE 15-JUN-2021	14.75%	15-Jun-21	2.28	15.47%	98.59
FCMB	14.25% FCMB I 20-NOV-2021	14.25%	20-Nov-21	2.51	16.82%	94.55
UBA	16.45% UBA I 30-DEC-2021	16.45%	30-Dec-21	2.82	15.27%	102.57
Fidelity Bank	16.48% FIDELITY 13-MAY-2022	16.48%	13-May-22	3.19	15.46%	102.41
Transcorp Hotels	16.00% TRANSCORP 26-OCT-2022	16.00%	26-Oct-22	2.10	17.30%	97.81
Stanbic IBTC	182D T.Bills+1.20% STANBIC IA 30-SEP-2024	16.29%	30-Sep-24	5.58	15.08%	104.43
Stanbic IBTC	13.25% STANBIC IB 30-SEP-2024	13.25%	30-Sep-24	5.58	15.08%	93.25
Supranational Bonds						
AfDB	11.25% AFDB 1-FEB-2021	11.25%	01-Feb-21	1.16	13.91%	97.27
Corporate Eurobonds						
Zenith Bank Plc II	7.375% MAY 30, 2022	7.375%	30-May-22	3.24	6.51%	102.47
Access Bank Plc II	9.25%/6M USD LIBOR+7.677% JUN 24, 2021	9.25%	24-Jun-21	2.31	9.74%	100.77
First Bank Ltd.	8.00%/2Y USD SWAP+6.488% JUL 23 2021	8.00%	23-Jul-21	2.39	8.95%	99.97
Ecobank Nig. Ltd	8.75% AUG 14, 2021	8.75%	14-Aug-21	2.44	9.71%	99.85
Seplat Petroleum Development Company Plc	9.25% April 01, 2023	9.25%	01-Apr-23	4.08	8.49%	102.56
Commercial Paper						
Issuer	Description	Yields at Issue	Maturity Date	DTM (Years) **	Current Yield	Discount Rate (%)
Dangote Cement Plc	DANGCEM CP IV 14-MAY-19	13.96%	14-May-19	71	11.74%	11.48%
Flour Mills Of Nigeria Plc	FLOUR MILLS CP IV 18-JUL-19	15.00%	18-Jul-19	136	13.58%	12.93%

*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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