Economic and Financial Markets Outlook (2017 – 2021):

A Changing Economy

FSDH Research

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Contents

Executive Summary:

- *The current foreign exchange shortage and the pressure on the Nigerian economy from the external sector are changing the consumption and the production patterns in Nigeria. These challenges provide exceptional opportunity for Nigeria to look inwards and build comparative advantage. This will create employment opportunities, industrialise the economy and provide the platform to earn the needed foreign exchange.*
- *The Nigerian economy needs to be competitive before it can create the wealth that is required for its growing population. And this will ensure an inclusive and sustainable growth.*
- *Coordinated fiscal, monetary and trade policies and incentives that will attract investment capital from the private sector to develop the nation's infrastructure are prerequisites. These will create an environment where both small and large businesses will emerge to provide the needs of the nation using its endowed resources.*
- *The World Bank and the International Monetary Fund (IMF) expect that the global economy will grow at a faster pace in 2017 than it recorded in 2016.*
- *Most economies would record higher economic growth in 2017 than in 2016. Policy stimulus and improvements in global commodity prices would drive most of the growth.*
- *Prices of global commodities should appreciate in 2017 and 2018 looking at consensus forecasts.*
- *Political tensions from the advanced economies have created policy uncertainties, particularly on Brexit and the outcome of U.S. Presidential election.*
- *We expect the Federal Open Market Committee (FOMC) of the U.S Federal Reserve to increase the Federal Funds Rate (The Fed Rate) faster than anticipated in 2017.This is to curb the expected rise in inflation rate that will arise from aggressive fiscal spending and tax cut in the U.S. Consequently, yields and interest rates in the international financial market may rise and may cause capital flight to advance economies from the emerging economies.*
- *Nigeria may manage the impacts of the global economic developments if oil production increases. The increase in oil production can only occur on a sustainable basis provided there is peace in the Niger Delta region.*
- *The outlook of inflation rate in Nigeria largely depends on what happens to electricity tariff and price of the Petroleum Motor Sprit (PMS). We expect these prices to increase in line with the economic realities. Although we expect inflation rate to drop, it would remain in double digits with increase in electricity tariff and PMS price.*
- *The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) may commence an accommodative monetary policy toward the end of Q1, 2017. This may cause the interest rate and yield to decline marginally.*
- *Exchange rate may remain stable with increased crude oil production, drop in imports, and increase in foreign inflows through Foreign Direct Investments (FDIs) and Foreign Portfolio Investments (FPIs).*
- *With appropriate policies that will inspire investors' confidence, the equity market is ready for a rally.*

1.0 Global Economic Growth:

The IMF forecasts global growth rate of 3.4% for 2017.

The IMF notes that policy stimulus and improvement in commodity prices will aid the growth.

Many emerging market and developing economies still face policy challenges because of weaker commodity prices.

The growth forecast of the IMF for Nigeria at 0.8% in 2017 is lower than the forecasts of the World Bank and Fitch Ratings at 1% and 1.5%, respectively.

The International Monetary Fund (IMF) stated that economic activity is projected to improve in 2017, especially in emerging market economies. This is contained in its latest World Economic Outlook (WEO) Update for January 2017. The IMF projects global growth at 3.4% in 2017, from an estimated growth of 3.16% in 2016. Advanced economies are projected to grow by 1.9% in 2017, from 1.6% in 2016, led by growth in the United States (U.S). **The IMF projects a growth of 4.5% in 2017 for the Emerging Markets and Developing Economies (EMDE) from an estimate of 4.1% in 2016.** The IMF notes that policy stimulus and improvement in commodity prices will aid the growth.

The report indicated that financial market sentiment toward emerging market economies has improved. However, prospects differ sharply across countries and regions, with emerging Asia in general and India in particular showing robust growth. Sub-Saharan Africa is also experiencing a sharp slowdown. **It added that many emerging market and developing economies still face policy challenges because of weaker commodity prices. The IMF added that the real Gross Domestic Product (GDP) contraction in Nigeria was estimated at 1.5% in 2016 because of the disruption in oil production. Other factors are foreign currency shortages from lower oil receipts, lower power generation, and weak investors' confidence. It added that Nigeria will record a growth of 0.8% in 2017.**

The growth forecast of the IMF for Nigeria at 0.8% in 2017 is lower than the forecasts of the World Bank and Fitch Ratings at 1% and 1.5%, respectively.

The IMF notes that political tensions from the advanced economies have created policy uncertainties, particularly on Brexit and the outcome of U.S. Presidential election.

Table 1: Regional GDP Growth (Actual Vs Forecast)

	2015	2016E	2017F	2018F
World	3.2%	3.1%	3.4%	3.6%
USA	2.6%	1.6%	2.3%	2.5%
Japan	1.2%	0.9%	0.8%	0.5%
Euro-Area	2.0%	1.7%	1.6%	1.6%
Emerging & Developing Economies				
China	6.9%	6.7%	6.5%	6.0%
India	7.6%	6.6%	7.2%	7.7%
Sub-Saharan Africa				
Nigeria	2.7%	(1.5%)	0.8%	2.3%
South Africa	1.3%	0.3%	0.8%	1.6%

Source: IMF World Economic Outlook (WEO) Update, January 2017

The political choices in Europe make it harder to advance or even maintain economic reforms in the Euro-area. In the U.S, the normalization of monetary policy and the faster pace of the Fed Rate increases may threaten the global financial system and create foreign exchange misalignment. The IMF added that, across the world, protectionist trade measures have been on the rise. This may likely change global trade and economy.

The World Bank forecast a global growth rate of 2.7% for 2017.

Looking at the World Bank forecast as contained in the Global Economic Prospects, January 2017, the global economy will grow by 2.7% in 2017 to reach 2.9% in 2019. The U.S economy is expected to grow from 1.6% in 2016 to 2.2% in 2017. The China economy is expected to decelerate from a growth rate of 6.7% in 2016 to 6.5% in 2017. Growth in India is expected to increase in 2017 to 7.6% compared with 7% in 2016. The growth in Sub-Saharan Africa is expected to increase from 1.5% to 2.9% while Nigeria's growth is expected to recover from a contraction of 1.7% in 2016 to a growth of 1% in 2017.

The U.S forecast does not incorporate the effects of policy proposals of the new U.S. administration, as their scope and ultimate form are still uncertain.

The table 2 below shows the global growth forecast for different regions.

Table 2: GDP Growth Rate (Actual Vs Forecast)

Country	2014A	2015A	2016E	2017F	2018F	2019F
World	2.7%	2.7%	2.3%	2.7%	2.9%	2.9%
United States	2.4%	2.6%	1.6%	2.2%	2.1%	1.9%
Japan	0.3%	1.2%	1.0%	0.9%	0.8%	0.4%
Euro Area	1.2%	2.0%	1.6%	1.5%	1.4%	1.4%
Emerging and Developing Economies						
China	7.3%	6.9%	6.7%	6.5%	6.3%	6.3%
India	7.2%	7.6%	7.0%	7.6%	7.8%	7.8%
Sub-Saharan Africa	4.7%	3.1%	1.5%	2.9%	3.6%	3.7%
Nigeria	6.3%	2.7%	(1.7%)	1.0%	2.5%	2.5%
South Africa	1.6%	1.3%	0.4%	1.1%	1.8%	1.8%

Source: World Bank Global Economic Prospects, January 2017

1.1 Global Bond Market:

The 5.87% March 31, 2023 Argentina Government Bond recorded the highest Year-on-Year (YoY) price increase of 22.96% to 121.68 in December 2016.

The prices of government bonds appreciated in more countries in 2016 than in 2015. The 5.87% March 31, 2023 Argentina Government Bond recorded the highest Year-on-Year (YoY) price increase of 22.96% to 121.68 in December 2016. This was followed by the 7.60% April 14, 2021 Russia Government Bond which recorded a YoY price increase of 7.28% to 98.20. The Argentina Bond, Egypt Bond and the Nigeria Bond closed the year at negative real yields. **The real yield on the Kenya Bond remains the most attractive amongst the countries we monitored, followed by the India Bond**.

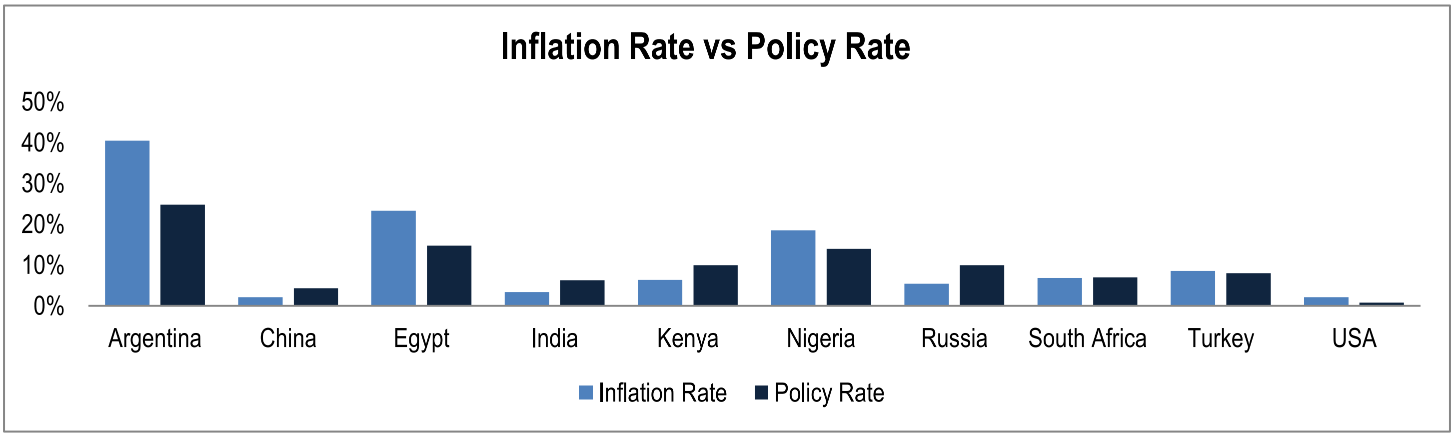
Table 3: Summary of Key Indicators

S/N	Indicators	Argentina	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	121.68	103.72	101.51	106.55	97.13	102.41	98.20	95.937	89.2	97.39
2	Bond Yield	1.59%	2.86%	16.53%	6.69%	13.46%	15.67%	8.27%	8.62%	11.11%	2.19%
3	Bond Price YoY Change	22.96%	1.11%	(8.12%)	5.35%	1.56%	(16.87%)	7.28%	6.26%	0.17%	(0.08%)
4	Bond Yield YoY Change	(4.23%)	(0.26%)	2.15%	(1.23%)	(0.28%)	4.63%	(1.65%)	(1.05%)	0.53%	0.07%
5	Real Yields	(38.91%)	0.76%	(6.77%)	3.06%	7.11%	(2.81%)	2.87%	2.02%	2.58%	0.49%
6	Volatility	6.89	1.04	0.65	0.65	0.26	0.26	0.60	0.24	0.61	0.47
7	FX Rate YoY Change*	18.57%	6.50%	56.86%	2.61%	0.20%	36.80%	(18.38%)	(12.69%)	17.21%	(3.32%)
8	Inflation Rate	40.50%	2.10%	23.30%	3.41%	6.39%	18.55%	5.40%	6.80%	8.53%	2.10%
9	Policy Rate	24.75%	4.35%	14.75%	6.25%	10.00%	14.00%	10.00%	7.00%	8.00%	0.75%
10	Debt to GDP	48.40%	43.90%	85.00%	69.00%	52.80%	11.50%	17.70%	50.10%	32.90%	104.17%
11	GDP Growth Rate	(3.80%)	6.80%	2.30%	7.30%	5.70%	(2.24%)	(0.40%)	0.70%	(1.80%)	1.90%
12	Nominal GDP (US$)	583	11,008	331	2,095	63	481	1,331	313	718	18,037
13	Current Acct to GDP	(0.90%)	2.70%	(3.40%)	(1.25%)	(11.40%)	(3.80%)	5.10%	(4.40%)	(4.50%)	(2.70%)

***-ve means appreciation while +ve means depreciation**

Sources – Bloomberg, Central Banks, Trading Economics and FSDH Research Analysis

The relationship between the policy rate and the inflation rate in the countries covered did not follow a particular pattern. While some countries have inflation rate higher than policy rate, the reverse is the case in some other countries.



1.2 Risks to the Global Economic Growth Outlook:

- Commodity prices outlook.
- Increase in fiscal spending in the U.S. and planned tax cut.
- Expected increases in the Federal Funds Rate in the U.S.
- The growth outlook for the Chinese economy.
- U.S. Dollar appreciation and the negative impact on emerging and developing economies could weigh down global growth.
- Trade protectionist stance in the advanced economies.
- The consistency of the OPEC and some non-OPEC crude oil output cut.

US Dollar appreciation and the negative impact on emerging and developing economies could weigh down global growth

1.3 Implications for the Nigerian Economy:

- The expected increase in interest rates and yields may increase the interest expense of the FGN.
- Attracting Foreign Portfolio Investment (FPI) into Nigeria may be difficult because of the attractiveness of the U.S. fixed income securities.
- The fiscal deficit that the Federal Government of Nigeria will run in 2017 may increase.
- U.S. Dollar appreciation may lower oil price and reduce FGN's oil revenue
- The yields and interest rates in Nigeria may remain high despite easing monetary policy stance.
- The growing protectionism policy in advanced countries may have negative impact on Nigeria's exports.

Attracting FPI and FDI into Nigeria may be difficult because of the attractiveness of the U.S. fixed income securities.

Nigeria may manage the impacts of the global economic development if oil production increases. The increase in oil production can only occur on a sustainable basis provided there is peace in the Niger Delta region.

Nigeria should also develop strategies to take advantage of its large market size which its population offers. Nigeria also has a comparative advantage in agriculture and agro-allied business value chain if it develops its infrastructure.

Nigeria should also develop strategies to take advantage of its large market size which its population offers.

1.4 Global Commodity Markets:

The prices for both energy and non-energy commodities rose in Q4 2016 compared with prices recorded earlier in the year. According to the World Bank, commodity price indexes for both energy and non-energy are expected to rise by 26% and 3% respectively in 2017.

According to the World Bank, commodity price indexes for both energy and non-energy are expected to rise by 26% and 3% respectively in 2017.

Energy Prices: Crude oil, coal and natural gas price rose in 2016 as the Organization of Petroleum Exporting Countries (OPEC) and Non-OPEC members countries agreed to lower production. Coal prices firmed up as supply tightness in China continued. Natural gas was equally faced with supply tightness as some notable producers suffered production outages. Energy prices is projected to continue to rise further in 2017 and to further tighten in the second half of 2017 as large stock overhang depletes.

Metals and agricultural prices are expected to record increases for the first time in the last six years.

Non-Energy Prices: The World Bank notes that the prices of non-energy commodities are expected to increase by 3% in 2017. **Metals and agricultural prices are expected to record increases for the first time in the last six years.** Metal prices are expected to uptick following supply tightness particularly for lead and zinc. For the agricultural prices, the outlook for the components varies considerably, largely dependent on supply conditions. Oil and meals as well as raw material components are expected to record growth while grains prices are expected to be on the decline. Table 4 below shows the forecast for some selected products:

Table 4: Commodity Price Forecast in Nominal U.S. Dollars

Commodity	Unit	2014	2015	2016	2017	2018	2019	2020
Coal, Australia	$/mt	70.1	57.5	65.9	70.0	60.0	55.0	55.4
Crude Oil, avg	$/bbl	96.2	50.8	42.8	55.0	60.0	61.5	62.9
Natural gas, US	$/mmbtu	4.37	2.61	2.49	3.00	3.50	3.61	3.71
Cocoa	$/kg	3.06	3.14	2.89	2.60	2.63	2.66	2.69
Palm oil	$/mt	821	623	700	750	761	771	782
Maize	$/mt	193	170	159	160	163	167	170
Rice, Thailand, 5%	$/mt	423	386	396	385	389	393	397
Wheat, US, HRW	$/mt	285	204	167	150	156	161	167
Aluminum	$/mt	1,867	1,665	1,604	1,700	1,734	1,769	1,804
Copper	$/mt	6,863	5,510	4,868	5,400	5,509	5,620	5,733
Iron Ore	$/dmt	96.9	55.8	58.4	65.0	55.0	55.4	55.8
Gold	$/toz	1,266	1,161	1,249	1,150	1,138	1,126	1,114

Source: Commodity Markets Outlook, World Bank - January 2017

1.5 Global Oil Price:

The decision of the OPEC and some non-OPEC countries to cut crude oil production has led to a significant boost to oil prices.

The decision of the OPEC and some non-OPEC countries to cut crude oil production has led to a significant boost to oil prices. The intention is to influence a sharp draw down from the existing global supply glut and influence an upward bias; thus allowing oil price to rise to stimulate investment in the sector.

Oil prices in the international market trended up for most part of 2016, with even a more significant increase recorded since November 2016.

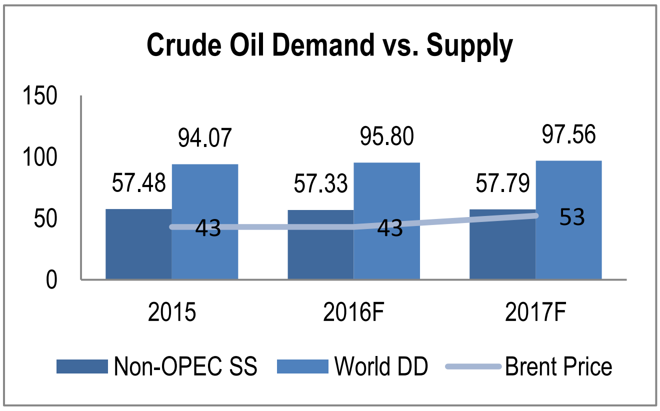
Oil prices in the international market trended up for most part of 2016, with even a more significant increase recorded since November 2016. The OPEC Reference Basket (ORB) fell sharply by 39.10% to US$22.48/b as at January 20, 2016 from US$31.27/b as at end-December 2015. In 2016, the ORB also increased by 70.45% to close at US$53.30/b as at December 30, 2016. The Bonny Light also increased by 51.71% to US$56.01/b at end-December 2016, from US$36.92/b at end-December 2015.

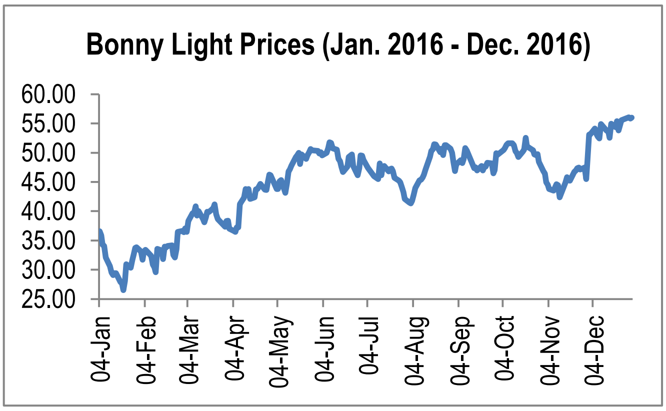
According to the EIA the total crude oil demand in 2016 is estimated at 97.56mb/d while supply is 98.37mb/d leading to excess supply of 0.81mb/d. Non-OPEC producers are expected to supply 57.79mb/d leaving 39.77mb/d for OPEC members to fill.

Table 5: Global Demand and Supply for Oil (mb/d)

	2015	2016E	2017F	2018F
World Oil Demand	94.07	95.80	97.56	99.40
World Oil Supply	95.78	97.83	98.37	99.03
Excess Supply	1.71	2.03	0.81	0.37
Non-OPEC Supply	57.48	57.33	57.79	58.40
Demand Gap to Fill by OPEC	36.59	38.47	39.77	41.00

Source: U.S Energy Information Administration (EIA); FSDH Research Analysis





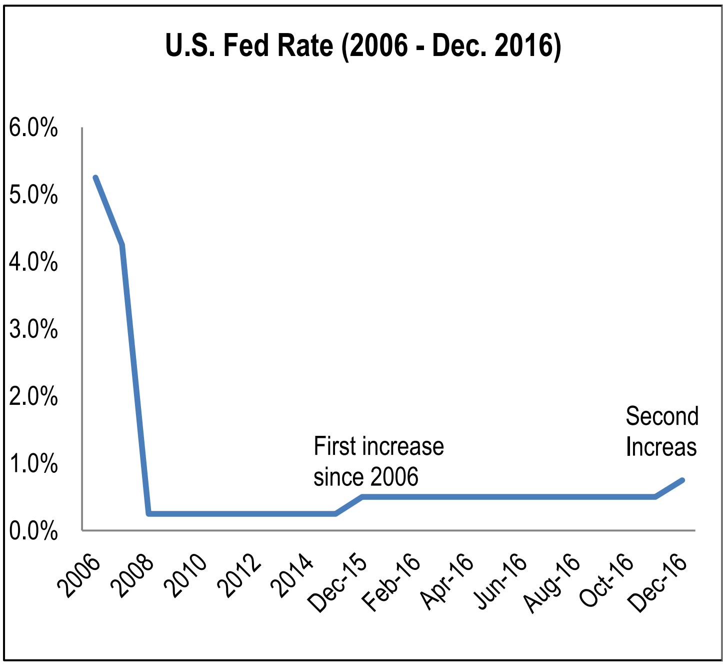
1.6 FOMC Rate Decision:

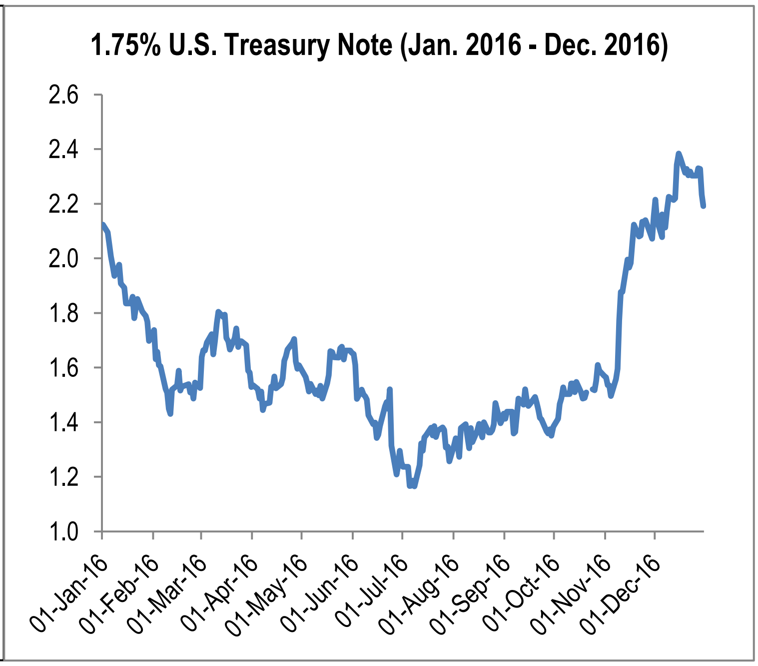
The Federal Open Market Committee (FOMC) of the U.S. Federal Reserve (The Fed) raised the Federal Funds Rate (Fed Rate) by 0.25% to 0.50%-0.75% at its December 2016 meeting and indicated an accelerated pace of increases over time. We expect the FOMC to increase the Fed Rate faster in 2017 because of the aggressive fiscal spending and tax cuts policy of President Donald Trump. This is because these fiscal actions will drive inflation rate above the 2% target of the FOMC. The chart below shows that the Fed Rate was in the region of 5% in 2016.

The U.S. Fed raised the funds rate by 0.25% at its December 2016 meeting and indicated an accelerated pace of increases over time.

Implications of the Rate Hike:

- Flow of funds to the U.S. from emerging markets and developing countries.
- Appreciation of the U.S. Dollar.
- Downward pressure on commodity prices.
- Increase in the yields on the Dollar denominated fixed income securities.
- Increase in the cost of fund from the international debt market.
- Drop in the global liquidity.





2.0 The Nigerian Economy:

2.1 Real Gross Domestic Product (GDP):

The Nigerian economy entered into a recession having recorded two quarters of consecutive negative economic growth in Q1 and Q2 2016.

The Nigerian economy entered into a recession in Q2 2016. Factors that led to the contraction are: drop in oil production; foreign exchange shortages; non-payment of salaries; weak electricity generation; and low investors' confidence. The economy contracted further in Q3 2016. According to the National Bureau of Statistics (NBS), the Nigerian economy as measured by the GDP contracted by 0.36%, 2.06% and 2.24% in Q1, Q2 and Q3 2016, respectively. This is lower than the growth rates of 3.96%, 2.35% and 2.84% recorded in Q1, Q2 and Q3 2015, respectively. **The non-oil sector of the economy grew in Q3 2016, having recorded negative growths in Q1 2016 and Q2 2016.** The sector recorded a marginal growth of 0.03% in Q3 2016, compared with 3.05% recorded in the corresponding period of 2015, and the negative growth of 0.38% in Q2 2016. The growth in the non-oil sector was driven by increased activities in Crop Production, Information and Communication and, Other Services.

The non-oil sector of the economy grew in Q3 2016, having recorded negative growths in Q1 2016 and Q2 2016.

The oil sector recorded a significant contraction in activities in 2016. The oil production loss because of vandalization of pipelines was responsible for the contraction in the oil GDP. The oil GDP contracted by 22.01% in Q3 2016, from a growth of 1.06% recorded in Q3 2015. The non-oil sector contributed 91.81% to the GDP in Q3 2016, while the oil sector contributed 8.19%.

The Services sector is the largest sector of the Nigeria economy, accounting for 53.18% and 50.24% of the GDP as at December 2015 and Q3 2016 respectively.

The Services sector remains the largest sector of the Nigeria economy, accounting for 53.18% and 50.24% of the GDP as at December 2015 and Q3 2016 respectively. This is followed by Agriculture, which contributed 23.11% and 28.65% of the GDP as at December 2015 and Q3 2016 respectively. The third largest sector is Industries, which accounted for 23.71% and 21.11% of the GDP as at December 2015 and Q3 2016 respectively. The Services sector remains the fastest growing sector with an average growth rate of 3.90% over the last 7 quarters, followed by Agriculture 2.54%, while Industries recorded an average decline rate of 5.06%. Going forward, we expect that the following factors will drive GDP performance between 2017 and 2021:

I. **Recovery in Activities in the Oil Sector:** The expected peace in the Niger Delta following the renewed negotiation with the aggrieved parties in the region could stop vandalism of oil facilities and encourage oil production. This will increase the supply of foreign exchange to the manufacturing sector of the economy.

II. **Import Substitution Strategy of the FGN:** The current high cost of imported goods should alter the consumption pattern in favour of locally made inputs and goods. This is happening already and some companies are taking advantages of it to grow revenue and make profit.

III. **Development of Critical Infrastructure:** Developments of power and transport networks will drive investments in Nigeria. The FGN has indicated the adoption of Public Private Participation (PPP) arrangement with the private sector for the development of some critical infrastructure in the country. With appropriate structure put in place to encourage private sector participation, economic activities will improve. We think the FGN should concession major roads and railways in the country to attract private investments.

The FGN has indicated the adoption of Public Private Participation (PPP) arrangement with the private sector for the provision of some critical infrastructure.

IV. **The FGN's Clear Economic Policy Direction:** The low investors' confidence in Nigeria is because of the FGN's vague economic policy direction. The FGN has promised to release its policy thrust in February 2017. Coordinated fiscal, monetary and trade policies that inspire confidence in investors will stimulate economic activities.

Coordinated fiscal, monetary and trade policies that inspire confidence in investors will stimulate economic activities

V. **The Abolition of the Joint Venture Cash Call in the Oil and Gas Sector:** The new funding model should encourage the International Oil Companies (IOCs) to invest more in oil exploration and production. This should stimulate economic activities.

VI. **Development of the Housing Sector:** In our September 2016 Economic and Financial Market Outlook, we stated that the FGN should partner with the private real estate development firms. This can be achieved by providing land and guaranteeing mortgage loans for civil servants to buy housing units. This will generate employment opportunities and stimulate activities in construction, real estate and building materials sectors. The multiplier effect of it on the economy is high.

VII. **Global Economic Outcomes:** The global economy development as it relates to the demand for oil will impact economic activities in Nigeria. In the short-term the movement in oil price will affect economic activities in Nigeria because of the reliance on the sector for revenue and foreign currency

Table 6: GDP at Current Market Prices							
Year	**2015A**	**2016E**	**2017F**	**2018F**	**2019F**	**2020F**	**2021F**
GDP (N'trn)	95.18	100.98	108.35	115.86	124.04	135.81	150.40
Real Growth Rate	2.79%	(1.70%)	1.60%	3.45%	2.23%	5.11%	6.29%
Source: NBS, FSDH Research							

We expect the GDP at current market price to grow to N149.92trn in 2021, from N95.18trn in 2015.

The Broad Expectations and Drivers of Activities in 2017-2021:

- **Construction and Real Estate Development:** These sectors are labour intensive and government is already planning to involve private sector operators using various structures. The FGN plans to roll out a N1trillion real estate fund to provide affordable housing units.
- **Concession of Major Roads and Railway Lines:** This will accelerate activities in the construction and building materials sectors and attract FDIs from foreign development partners.
- **Rice and Sugar Plantation and processing may receive a boost:** Rising price of imported rice and sugar will promote local development.
- **Solid Mineral Development:** The need to diversify the revenue and FX earnings. Government has approved the release of intervention funds already. But more importantly, there should be transparent means of allocating resources and the interests of the host communities should be protected.
- **Local Refinery of Crude Oil:** Dangote refinery will come on stream between 2019 – 2020 reducing demands for foreign refined oil.
- **Fertiliser Plant to Boost Agriculture:** Dangote Fertiliser should also come on stream in December 2019. This will increase agriculture yields and conserve foreign exchange on importation of food.

The tables 7, 8 and 9 show the growth outcomes we expect in the different sectors of the Nigerian economy. It also shows where we expect opportunities given the relative size of the economy.

Table 7: GDP at 2010 Constant Prices (N'mn)

	2015A	2016E	2017F	2018F	2019F	2020F	2021F	CAGR *
Agriculture	15,952,220	16,458,094	16,951,837	17,714,669	18,246,109	18,975,954	19,640,112	3.53%
Mining And Quarrying	6,732,508	6,203,615	6,265,651	6,422,292	6,550,738	6,780,014	7,390,215	1.57%
Manufacturing	6,586,619	6,174,821	6,205,695	6,252,238	6,346,021	6,853,703	7,504,805	2.20%
Electricity, Gas ,Steam And Air Conditioning Supply	272,432	170,004	176,804	181,578	187,025	200,117	215,126	(3.86%)
Water Supply, Sewerage, Waste Management And Remediation	94,883	102,096	109,242	120,167	128,578	138,864	152,057	8.18%
Construction	2,680,216	2,492,230	2,517,152	2,617,839	2,693,756	2,909,256	3,229,275	3.15%
Trade	11,697,588	11,808,254	11,940,506	12,346,484	12,692,185	13,390,255	14,394,525	3.52%
Accommodation And Food Services	654,215	569,991	581,391	642,437	706,680	770,282	831,904	4.09%
Transportation And Storage	805,456	830,703	858,947	906,189	956,935	1,004,782	1,062,055	4.72%
Information And Communication	7,708,114	7,992,517	8,112,404	8,290,877	8,415,240	8,591,960	8,780,983	2.20%
Arts, Entertainment And Recreation	141,329	156,847	172,532	189,785	204,209	224,630	247,093	9.76%
Financial And Insurance	2,123,897	1,884,288	1,903,131	1,935,485	1,954,839	2,091,678	2,290,388	1.27%
Real Estate	5,264,696	4,867,199	4,915,871	5,038,768	5,114,349	5,523,497	6,020,612	2.26%
Professional, Scientific And Technical Services	2,516,074	2,269,372	2,292,066	2,344,784	2,374,094	2,421,575	2,494,223	(0.15%)
Administrative & Support Services	14,474	14,360	14,439	15,016	15,437	15,977	16,536	2.24%
Public Administration	1,644,783	1,592,031	1,607,952	1,670,662	1,704,075	1,806,320	1,905,667	2.48%
Education	1,498,707	1,494,283	1,519,686	1,642,781	1,741,348	1,863,242	2,002,985	4.95%
Human Health And Social Services	484,336	473,696	480,802	511,092	531,536	558,112	589,925	3.34%
Other Services	2,151,384	2,294,979	2,317,929	2,480,184	2,579,391	2,759,948	2,953,145	5.42%
Total	**69,023,930**	**67,849,380**	**68,944,037**	**71,323,325**	**73,142,547**	**76,880,168**	**81,721,629**	2.85%

Source: NBS, FSDH Research, * Compound Annual Growth Rate (2015 – 2021)

Table 8: Sectoral Growth Rate (%)

	2015A	2016E	2017F	2018F	2019F	2020F	2021F	Average *
Agriculture	(3.72%)	3.17%	3.00%	4.50%	3.00%	4.00%	3.50%	3.53%
Mining And Quarrying	(5.27%)	(7.86%)	1.00%	2.50%	2.00%	3.50%	9.00%	1.69%
Manufacturing	(1.46%)	(6.25%)	0.50%	0.75%	1.50%	8.00%	9.50%	2.33%
Electricity, Gas ,Steam And Air Condition-Ing Supply	(9.25%)	(37.60%)	4.00%	2.70%	3.00%	7.00%	7.50%	(2.23%)
Water Supply,Sewerage, Waste Manage-Ment And Remediation	15.38%	7.60%	7.00%	10.00%	7.00%	8.00%	9.50%	8.18%
Construction	4.35%	(7.01%)	1.00%	4.00%	2.90%	8.00%	11.00%	3.31%
Trade	5.14%	0.95%	1.12%	3.40%	2.80%	5.50%	7.50%	3.54%
Accommodation And Food Services	2.27%	(12.87%)	2.00%	10.50%	10.00%	9.00%	8.00%	4.44%
Transportation And Storage	4.51%	3.13%	3.40%	5.50%	5.60%	5.00%	5.70%	4.72%
Information And Communication	6.22%	3.69%	1.50%	2.20%	1.50%	2.10%	2.20%	2.20%
Arts, Entertainment And Recreation	9.40%	10.98%	10.00%	10.00%	7.60%	10.00%	10.00%	9.76%
Financial And Insurance	7.12%	(11.28%)	1.00%	1.70%	1.00%	7.00%	9.50%	1.49%
Real Estate	2.11%	(7.55%)	1.00%	2.50%	1.50%	8.00%	9.00%	2.41%
Professional, Scientific And Technical Services	5.26%	(9.81%)	1.00%	2.30%	1.25%	2.00%	3.00%	(0.04%)
Administrative & Support Services	3.52%	(0.79%)	0.55%	4.00%	2.80%	3.50%	3.50%	2.26%
Public Administration	(12.28%)	(3.21%)	1.00%	3.90%	2.00%	6.00%	5.50%	2.53%
Education	7.67%	(0.30%)	1.70%	8.10%	6.00%	7.00%	7.50%	5.00%
Human Health And Social Services	2.48%	(2.20%)	1.50%	6.30%	4.00%	5.00%	5.70%	3.38%
Other Services	17.86%	6.67%	1.00%	7.00%	4.00%	7.00%	7.00%	5.45%

Source: NBS, FSDH Research; * Average (2016 – 2021)

Table 9: Contribution to GDP (%)

	2015A	2016E	2017F	2018F	2019F	2020F	2021F	Average *
Agriculture	23.11%	24.26%	24.59%	24.84%	24.95%	24.68%	24.03%	**24.56%**
Mining And Quarrying	9.75%	9.14%	9.09%	9.00%	8.96%	8.82%	9.04%	**9.01%**
Manufacturing	9.54%	9.10%	9.00%	8.77%	8.68%	8.91%	9.18%	**8.94%**
Electricity, Gas ,Steam and Air Conditioning Supply	0.39%	0.25%	0.26%	0.25%	0.26%	0.26%	0.26%	**0.26%**
Water Supply, Sewerage, Waste Management And Remediation	0.14%	0.15%	0.16%	0.17%	0.18%	0.18%	0.19%	**0.17%**
Construction	3.88%	3.67%	3.65%	3.67%	3.68%	3.78%	3.95%	**3.74%**
Trade	16.95%	17.40%	17.32%	17.31%	17.35%	17.42%	17.61%	**17.40%**
Accommodation And Food Services	0.95%	0.84%	0.84%	0.90%	0.97%	1.00%	1.02%	**0.93%**
Transportation And Storage	1.17%	1.22%	1.25%	1.27%	1.31%	1.31%	1.30%	**1.28%**
Information And Communication	11.17%	11.78%	11.77%	11.62%	11.51%	11.18%	10.74%	**11.43%**
Arts, Entertainment And Recreation	0.20%	0.23%	0.25%	0.27%	0.28%	0.29%	0.30%	**0.27%**
Financial and Insurance	3.08%	2.78%	2.76%	2.71%	2.67%	2.72%	2.80%	**2.74%**
Real Estate	7.63%	7.17%	7.13%	7.06%	6.99%	7.18%	7.37%	**7.15%**
Professional, Scientific And Technical Services	3.65%	3.34%	3.32%	3.29%	3.25%	3.15%	3.05%	**3.23%**
Administrative & Support Services	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	**0.02%**
Public Administration	2.38%	2.35%	2.33%	2.34%	2.33%	2.35%	2.33%	**2.34%**
Education	2.17%	2.20%	2.20%	2.30%	2.38%	2.42%	2.45%	**2.33%**
Human Health And Social Services	0.70%	0.70%	0.70%	0.72%	0.73%	0.73%	0.72%	**0.71%**
Other Services	3.12%	3.38%	3.36%	3.48%	3.53%	3.59%	3.61%	**3.49%**

Source:: NBS, FSDH Research; * Average (2016 -2021)

2.2 Opportunities:

- Rapid infrastructure development – rail, road, power and gas plants. This will also create jobs
- Road concessioners may introduce toll on the major highways across the country as a source of funding. This will promote alternative funding mechanism
- We expect FGN and state governments to sign more Public Private Partnership (PPP) deals to promote infrastructure development
- New agreements to fund oil and gas may be signed. This will facilitate financing opportunities
- Import substitution strategies in agro-allied industries
- Manufacturing sector should receive a boost as more FX may be more available than in 2016
- Construction activities should continue to grow – Road, Rail, etc.
- We expect more corporate and infrastructure bonds in the market
- Housing project developments may improve.

We expect FGN and state governments to sign more Public Private Partnership (PPP) deals

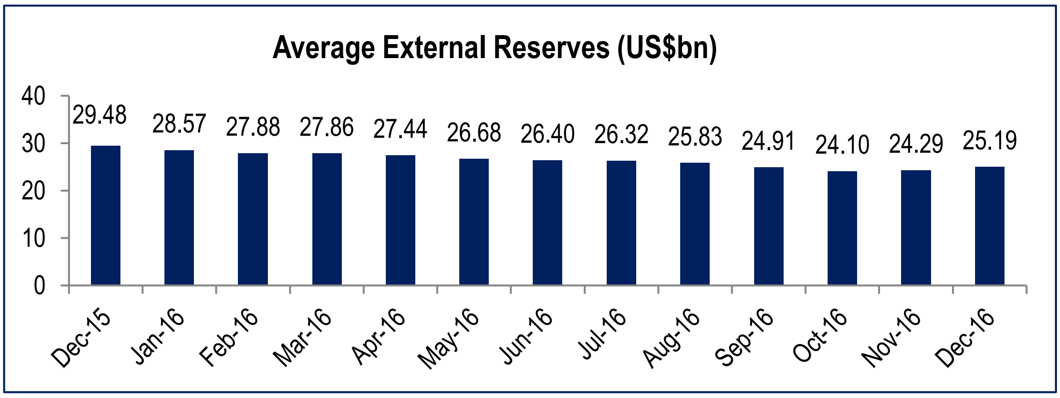
2.3 Risks:

- Possible breakdown of the negotiations with the Niger Delta region
- Renewed hostility between some Fulani herdsmen and communities in Northern Nigeria may reduce economic activities. This could lead to a sharp drop in agriculture activities in these areas, with the negative effect on GDP
- The increase in global interest rate
- The weak economic performance in advanced countries, which can reduce demand for crude oil.

The drop in the oil production and price affected exports earnings and consequently the country's external reserves came under severe pressure.

3.0 External Reserves:

The drop in oil production and price affected export earnings and consequently the country's external reserves came under severe pressure. According to the CBN, the 30-Day Moving Average of Nigeria's external reserves as at December 30, 2016 stood at US$25.84bn, representing a decrease of US$3.23bn or 11.11%, compared with US$29.07bn at the end of December 2015. The external reserves dropped to a low of US$23.90bn on October 19, 2016 but recovered consistently thereafter. The increase was a combination of the inflows from the International Money Transfer Operators (IMTOs), increase in oil production and inflows from the African Development Bank.



Year-on-year, external reserves dropped consistently between 2013 and 2016. The following factors were responsible for the consistent drop:

- Drop in oil price
- Drop in oil production
- Drop in crude oil exports
- Drop in foreign capital flow into Nigeria
- Persistent demand for foreign exchange and the need to maintain foreign exchange stability

Table 10: External Reserve (US$bn) - End Year Figure

Year	US'$bn	Change
2011	32.92	-
2012	44.18	34.22%
2013	43.61	(1.29%)
2014	34.47	(20.96%)
2015	29.07	(15.66%)
2016	25.84	(11.10%)

Source : CBN

Going forward, the following factors should lead to accretion to the external reserves:

- ✓ **Increase in oil production, export and price**
- ✓ **Capital inflows – Both FDI and FDI**
- ✓ **Expected drop in imports**
- ✓ **Growth in non-oil exports**

Our forecast external reserves in 2017 – 2021 are shown in the table below:

Table 11: External Reserves 2017-2021 (US$bn)

Year	2016A	2017F	2018F	2019F	2020F	2021F
External Reserves	25.84	30.42	35.1	41.21	46.81	47.52

Source: FSDH Research

Table 12: Capital Importation into Nigeria (US$ million)

	FDIs	FPIs	Others	Total
2010	729	3,867	1,400	5,996
2011	1,753	4,513	1,637	7,904
2012	2,000	13,488	1,129	16,616
2013	1,279	17,369	2,670	21,318
2014	2,277	14,917	3,557	20,751
2015	1,447	6,005	2,191	9,643
2016	1,044	1,813	2,267	5,124

Source: NBS and CBN

Table 13: Crude Oil Revenue

Year	Crude Oil Price US$/b	Domestic Production mb/d	Crude Oil Exports(mb/d)	Exports (FOB) (US$bn)
2011	113.76	2.38	1.93	99.88
2012	113.72	2.32	1.87	96.9
2013	110.99	2.18	1.73	97.82
2014	100.4	2.21	1.76	82.59
2015	52.65	2.13	1.68	45.37
2016 *	41.85	1.84	1.39	27.86
Change (2011-2016)	(63.21%)	(22.88%)	(28.21%)	(72.11%)

*Source: CBN; * YTD September 2016*

4.0 Foreign Trade:

The Nigerian economy recorded a reduction in its trade deficit in Q3 2016. This is contained in the NBS Foreign Trade Statistics, Q3 2016. The Nigerian economy recorded a trade deficit of N104.14bn in its merchandise trade in Q3 2016, but an improvement over the trade deficit of N484.24bn recorded in Q2 2016. The higher rate of growth in exports than imports was the main reason for the reduction in the level of deficit in Q3 2016. **In Q3 2016, Nigeria's total trade stood at N4.72trn, an increase of 16.26% from N4.06trn recorded in Q2 2016.** Exports recorded an increase of 29.05% to N2.31trn in Q3 2016, from N1.79trn in Q2 2016. **On the average, exports accounted for about 61.06% of the total trade in the last fifteen quarters.** Imports on the other hand, increased by 6.17% to N2.41trn in Q3 2016, from N2.27trn in Q2 2016. The highest contribution of exports to total trade was 72.10% in Q3 2014, while the lowest contribution was 44% in Q2 2016. On a quarterly basis, the contribution of exports to total merchandise trade increased marginally to 48.9% in Q3 2016 from 44% in Q2 2016. **Meanwhile, in the last fifteen quarters between Q1 2013 and Q3 2016, oil exports dominated the total merchandise trade at an average of 77.23%.**

The higher rate of growth in exports was the main reason for the reduction in the level of deficit in Q3 2016.

On the average, exports accounted for about 61.06% of the total trade in the last fifteen quarters.

Top on the list of the imported goods in Q3 2016 are: Mineral Products; Boilers, Machinery and Appliances; Products of the Chemical and Allied Industries; Plastic, Rubber and Articles thereof; and Prepared Foodstuffs, Beverages, Spirits, Vinegar and Tobacco. The top on the list of the imported goods in the sub-categories in Q3 2016 are: Mineral Fuel and Lubricants; Machinery and Transport Equipment; and Chemicals and Related Products. The leading export commodities are: Mineral Products (97.3%); Prepared Foodstuffs, Beverages, Spirits and Vinegar (1.1%) and; Vegetable Products (0.4%).

Going by the increase in oil production, import substitution strategy of the FGN and the support given to the development of the agro allied processing; the export forecast in our forecast year may be higher than 2016.

The following factors are expected to influence the foreign trade performance of the Nigerian economy in the short-to-medium term:

- The efforts of the government to promote non-oil exports may boost exports
- The current devaluation of the Naira will encourage export but discourage import
- Moving away from exports of only primary products (raw materials)

- Exports of refined petroleum products from the proposed Dangote Refinery may boost exports
- Nigeria will continue to import basic inputs and machinery for manufacturing companies.

The weak foreign exchange rate has altered the consumption and production patterns. This is contributing to the changing economy.

Table 14: Foreign Trade Statistics (N'bn)

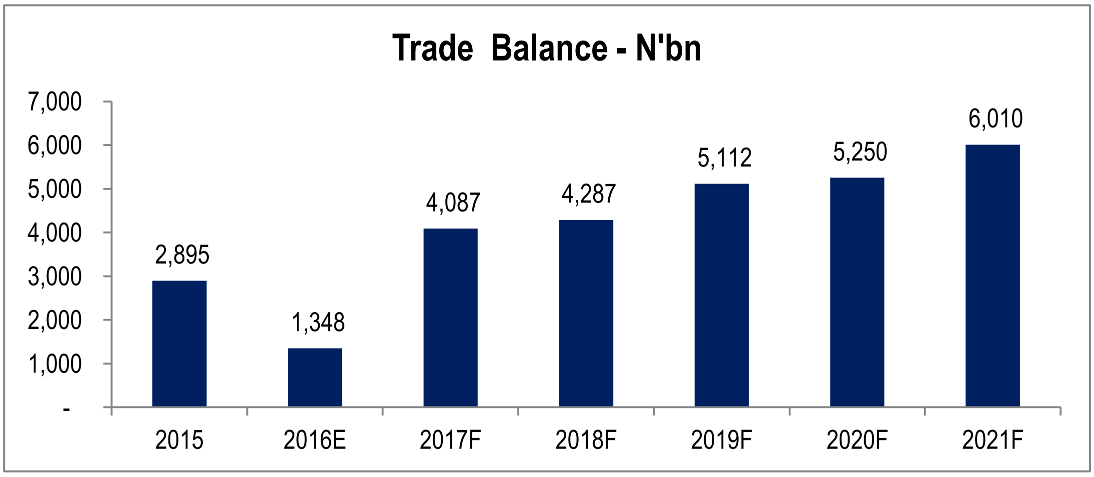
Year	Imports	Exports	Trade Balance	Total Trade
2015A	6,697,966	9,593,042	2,895,076	16,291,008
2016E	7,367,762	8,715,459	1,347,697	16,083,222
2017F	8,104,539	12,191,740	4,087,201	20,296,278
2018F	8,590,811	12,878,190	4,287,379	21,469,002
2019F	9,020,352	14,133,035	5,112,684	23,153,387
2020F	9,200,759	14,450,525	5,249,767	23,651,284
2021F	9,338,770	15,348,830	6,010,060	24,687,600

Source: NBS, FSDH Research

Table 15: Analysis of Exports (N'bn)

Year	Total Export	Crude Export	Non-Oil Export	Crude Oil Exports to Total Exports	Non-Crude Oil Export to Total Exports
2015A	9,593,042	6,809,540	2,783,502	71.0%	29.02%
2016E	8,715,459	6,273,750	2,441,709	72.0%	28.02%
2017F	12,191,740	8,629,821	3,561,919	70.8%	29.22%
2018F	12,878,190	9,051,328	3,826,862	70.3%	29.72%
2019F	14,133,035	9,862,620	4,270,415	69.8%	30.22%
2020F	14,450,525	10,026,376	4,424,150	69.4%	30.62%
2021F	15,348,830	10,603,610	4,745,220	69.1%	30.92%

Source: NBS, FSDH Research



Adjusting the exports and imports figures in Q3 2016 for foreign exchange depreciation, the exports figure in Q3 2016 grew over Q2 2016, while imports in Q3 2016 dropped over Q2 2016. Thus the adjusted trade deficit in Q3 2016 dropped lower than the trade deficit in Q2 2016. However, we believe this was because of the shortage of foreign exchange to engage in imports during the period.

Table 16: Nigeria's Exports and Imports

	Exports			Imports		
	N'bn	US$'bn	Adjusted N'bn ***	N'bn	US$'bn	Adjusted N'bn***
Q2 2016*	1,788	6.32*	1,788	2,272	8.03*	2,272
Q3 2016**	2,309	7.41**	2,097	2,413	7.74**	2,191
% Change	29.14%	17.25%	17.28%	6.21%	(3.61%)	(3.57%)

Source: National Bureau of Statistics and FSDH Research Estimates
**Foreign Exchange Rate of US$1/N282.97*
***Foreign Exchange Rate of US$1/N311.62*
****After adjusting for the impact of depreciation/devaluation of the Naira*

Our estimate shows that Nigeria would record a favourable balance of trade balance in 2016.

Our estimate shows that Nigeria would record a favourable balance of trade balance in 2016. This is principally as a result of a devaluation effect. Our forecast for total merchandise trade for Nigeria in 2017 is N20.30trn, while we expect this figure to increase to N24.69trn in 2021. Favourable export will be the main driver.

4.1 Implications:

- The balance of payment is expected to become positive and persist in the forecast period
- We expect the foreign exchange rate to remain stable in the forecast period, as foreign exchange inflows increase from other sources
- The non-oil sectors offers attractive opportunities for investments as the FGN continues to push for import substitution in some viable non-oil export to reduce import bills.

5.0 Foreign Exchange Rate:

The CBN succumbed to a devaluation of the Naira in June 2016.

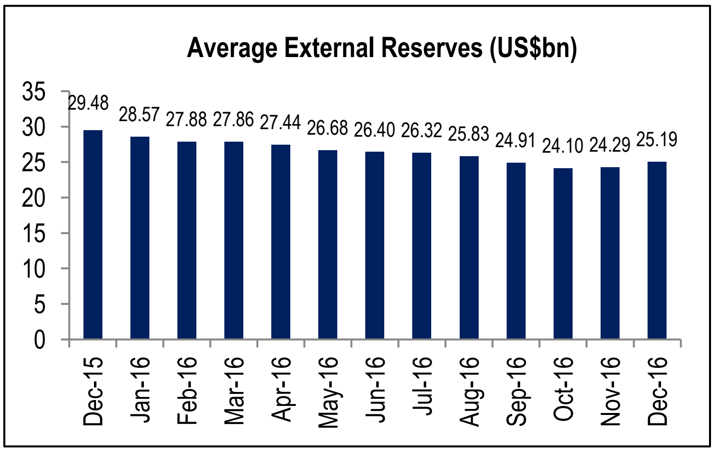
The CBN succumbed to a devaluation of the Naira in June 2016. The persistent demand pressure in the foreign exchange market led to the adoption of a flexible exchange rate policy in June 2016. **The CBN adopted the policy to stem the incessant outflow from the external reserves.** The action led to the closure of the official market of the CBN. The premium between the inter-bank and parallel market reduced to N46.15 from N165.90 on June 20, 2016. However, the premium has since increased significantly to about N180.

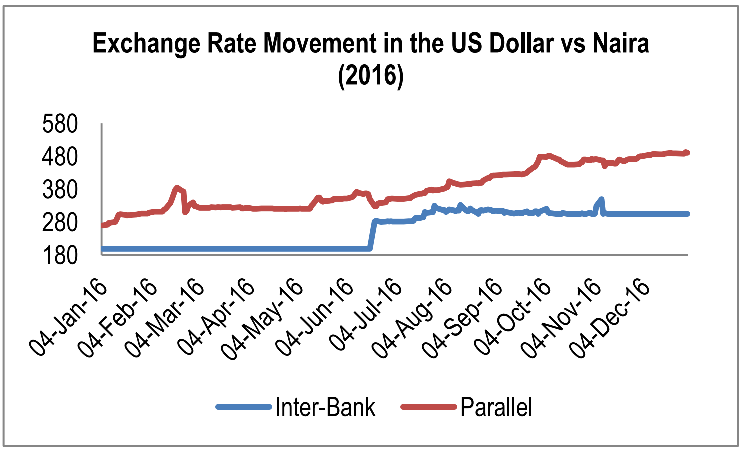
The CBN also introduced the forward market to control unwarranted demand and manage the outlook for the value of the Naira.

The CBN also indicated that it would be intervening in the market via Secondary Market Intervention to stabilise the value of the Naira. The CBN also introduced the forward market to control unwarranted demand and manage the outlook for the value of the Naira.

Year-on-year, the value of the Naira depreciated by 34.73% and 45.01% to close 2016 at US$/N305 and US$/N491 at the inter-bank and parallel markets, respectively.

The CBN participates and intervenes in the foreign exchange market via the inter-bank market since it shut its own market in June 2016. The premium between the inter-bank and parallel markets has widened because of the foreign exchange scarcity. Year-on-year, the value of the Naira depreciated by 34.73% and 45.01% to close 2016 at US$/N305 and US$/N491 at the inter-bank and parallel markets, respectively. The highest rate recorded at the inter-bank and parallel markets in 2015 were US$/N350.22 and US$/N493, respectively. The lowest values were US$/N199.08 and US$/N270, respectively.





Under a managed float foreign exchange system, it is difficult to forecast the foreign exchange rate. However, we believe the following factors will drive the foreign exchange rate in the short-term.

Table 17: Our View of the Important Determinants of Foreign Exchange Rate in Nigeria

Indicators	Our View
Balance of Payment (BoP) Position	Not Favourable/ Favourable
Balance of Trade	Not Favourable/ Favourable
Oil Price Forecast /Crude Oil Production	Favourable
Militants in the Niger Delta	Not Favourable/ May be curtailed
Fiscal Position – Debt Sustainability	Favourable
Fiscal Position – Fiscal Deficits/GDP	Within Limit
Fiscal Position – Interest Cover	Not Favourable
Political Stability	Favourable
Possibility of FOMC Increasing Rate	Not Favourable/ Impact minimal
The External Reserve Position	Fair/Expect Minimal Accretion
Inflow of FDIs, FPIs and Others in 2017-2021	Favourable
Growth in Non-Oil Export	Not Favourable/Favourable

Source: FSDH Research

Table 18: Foreign Exchange Rate Forecasts (2017-2021)

Year	2017F	2018F	2019F	2020F	2021F
Lower Band (US$/N)	300	295	310	295	280
Higher Band (US$/N)	315	310	325	310	295

Source: FSDH Research

With increased non-oil exports, drop in imports, improved productivity from energy supply; the foreign exchange rate may appreciate in 2018.

From the table above, we think the foreign exchange rate may trade between US$300 – US$315 in 2017. With increased non-oil exports, drop in imports, improved productivity from energy supply; the foreign exchange rate may appreciate in 2018.

FSDH Research estimates a debt-to-GDP ratio of 16.14% to end year 2016.

Although the Debt-to-GDP ratio is low at about 16.14%, the rising debt service to revenue ratio which is projected at about 34% remains a major stress point.

6.0 Public Debt:

The available data from the Debt Management Office (DMO) shows that Nigeria's total debt stock (addition of external and domestic debt) as at June 2016 stood at N16.30trn. This represents an increase of 29.37% from the December 31, 2015 figure of N12.60trn. A breakdown of the debt stock shows that external debt accounted for 19.56% of the total debt stock at N3.19trn (US$11.26bn at an average exchange rate of US$1/ N283), while domestic debt stock accounted for 80.44% of the total debt stock at N13.11trn (US$1/N283). **The debt-to-GDP for 2015 stood at 11.50%. FSDH Research estimates a debt-to-GDP ratio of 16.14% to end year 2016**. This means that Nigeria's debt portfolio still has wide fiscal sustainability space; as the debt-to-GDP ratio is below the applicable critical limit of 40% that the government sets for the economy.

Although the Debt-to-GDP ratio is low at about 16.14%, the rising debt service to revenue ratio which is projected at about 34% remains a major stress point.

The table below identifies the factors that will drive the public debt in our forecast period. Factors with increase (+) means that they will increase the public debt. Factors with decrease (-) mean they will reduce the public debt.

Table 19: Determinants of Public Debt

S/N	Factors	Impact
1	Increase in oil price	Decrease (-)
2	Increase in oil production	Decrease (-)
3	Decrease in oil price	Increase (+)
4	Decrease in oil production	Increase (+)
5	Drop in FDI	Increase (+)
6	Drop in taxation	Increase (+)
7	Increase in inflation rate	Increase (+)
8	Low investors' confidence	Increase (+)
9	Increase in FDI	Decrease (-)
10	Expansionary fiscal policy	Increase (+)

Source: FSDH Research

Most of the factors point to the fact that public debt will increase in the forecast period.

Most of the factors point to the fact that public debt will increase in the forecast period. We believe the FGN will intensify its efforts to access more foreign loans to reduce its crowding out effect on the private sector. There may also be increase in the interest expense-to-revenue. The interest rate and yields on fixed income securities may remain high; although we expect it to drop marginally in 2017.

Table 20: Public Debt - N'bn

	Total Debt	Domestic Debt	Foreign Debt	Foreign/Total Debt	Debt to GDP
2014A	11,243	9,612	1,632	14.51%	12.47%
2015A	12,604	10,492	2,112	16.75%	13.24%
2016E	16,952	13,553	3,399	20.05%	16.79%
2017F	19,325	15,045	4,281	22.15%	17.84%
2018F	21,345	16,179	5,165	24.20%	18.43%
2019F	23,319	17,531	5,788	24.82%	18.86%
2020F	24,951	18,681	6,270	25.13%	18.43%
2021F	26,199	19,518	6,681	25.50%	17.47%

Source: DMO and FSDH Research

7.0 Unemployment Rate:

According to the National Bureau of Statistics (NBS), the unemployment rate increased to 13.9% in Q3 2016, from 13.3% in Q2 2016. This represents a ninth consecutive quarter rise in the unemployment rate since Q3 2014. The underemployment rate increased to 19.7% in Q3 2016, from 19.3% in Q2 2015. A total of 27.12 million people were either unemployed or underemployed in the labour force in Q3 2016, compared with 26.06 million in Q2 2015.

The report showed that the economically active population or working age population (persons within ages 15-64) increased from 106.69million in Q2 2016 to 108.03million in Q3 2016. In Q3 2016, the labour force population (i.e. those within the working age population willing, able and actively looking for work) increased to 80.67million from 79.9million in Q2 2016, representing an increase of 0.98%. This means 782,886 economically active persons within 15-64 entered the labour force between July 01, 2016 and September 30, 2016. Within the same period, the total number of people in full employment (who did any type of work for at least 40hours) decreased by 0.51% (272,499).

The NBS noted that the unemployment rate increased to 13.9% in Q3 2016, from 13.3% in Q2 2016.

The NBS added that 27.36mn persons within the working age population decided not to work for various reasons in Q3 2015.

Table 21: Labour Force Statistics

	Labour Force (million)	Full Time Employed (million)	Under Employed (million)	Unemployed (million)	Unemployment Rate	Under Employment Rate
Q2 2016	79.9	53.8	15.4	10.6	13.3%	19.3%
Q3 2016	80.7	53.6	15.9	11.1	13.9%	19.7%

Source: National Bureau of Statistics

The urgent development of the sectors of the Nigerian economy that is labour intensive will address the high unemployment rate. Such sectors are:

- Construction
- Real estate
- Manufacturing.

8.0 Nigeria's Capital Importation Update:

Year-on-year (y-o-y), the capital importation decreased by 46.89% to US$5.12bn in 2016, from US$9.64bn in 2015.

The total capital imported into the Nigerian economy in Q4 2016 was US$1.55bn, a fall of 0.64% and 15% from US$1.56bn and US$1.82bn recorded in Q4 2015 and Q3 2016, respectively. This is according to the National Bureau of Statistics (NBS). The highest level of capital imported in the quarter was in December 2016. The decline in capital imported relative to the previous quarter was entirely due to a decline in Foreign Portfolio Investment (FPI); while both Foreign Direct Investment (FPI) and Other Investment increased. **The quarterly decline in FPI was mainly due to base effects, as there were large investments in money market instrument and bonds in Q3 2016; which were absent in Q3 Q4 2016.**

Year-on-year (y-o-y), the capital importation decreased by 46.89% to US$5.12bn in 2016, from US$9.64bn in 2015. This was the lowest value since the series started in 2007, reflecting the various economic challenges that afflicted the Nigerian economy in 2016. FPI recorded the highest decline of 69.81%, while FDI decreased by 27.83%. Other Investments increased by 3.48%; this was entirely due to an increase in loans. Other Investment was the largest component of capital imported in Q4 2016 at 59.40%. This was followed by FDI at 22.25% and FPIs at 18.35% (lowest share since 2009), respectively. A significant portion of the FPIs was recorded from equity at 62.08% (US$176.45mn). Money Market instruments and bonds accounted for 28.98% (US$82.37mn) and 8.94% (US$25.40mn), respectively. **The three sectors that accounted for a greater percentage of capital imported are banking; telecommunications and; oil and gas sector**.

Table 22: Nigeria Capital Importation – Investment Type (US$'mn)

	2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Foreign Direct Investment - Equity	395	211	718	123	174	184	341	344
Foreign Direct Investment - Other Capital	0	0	2	2	1	0	-	0.1
Portfolio Investment - Equity	1,139	1,846	880	792	202	280	201	284
Portfolio Investment - Bonds	705	51	20	0	2	-	369	25
Portfolio Investment - Money Market Instruments	16	287	109	160	68	58	350	82
Other Investments - Loans	385	153	696	421	242	520	561	917
Other Investments - Other Claims	32	118	318	60	24	0	0	3
Total	2,672	2,666	2,743	1,559	712	1,042	1,822	1,549

Source: National Bureau of Statistics (NBS))

9.0 Inflation Rate:

Our outlook of the inflation rate is benign in the medium-term.

The inflation rate maintained upward momentum throughout 2016. It was also outside the CBN's target of 6%-9%. It rose marginally above the target range to 9.62% in January 2016. The lowest, highest and average inflation rates recorded between January 2016 and December 2016 are 9.62%, 18.55% and 15.62% respectively. The inflationary pressure in 2016 was driven by structural factors that include: high cost of power and energy, transport, production factors, and rising prices of imports from a devaluation effect. However, there has been a slowdown in the month-on-month inflation rate as the strength of the pass-through from the devaluation of the Naira and higher energy prices wane.

Our forecast shows that the inflation rate in 2017 would decelerate to average 12.46%, compared with an average of 15.62% in 2016. This is based on the assumption that there are no increases in the Premium Motor Spirit (PMS) pump price and electricity tariff. We think it may be difficult to maintain these prices at the current prices given the current economic realities.

The following factors will influence inflation rate in 2017:

- The stability in the foreign exchange rate
- Base effect of the previous increase in the Consumer Price Index
- The higher interest rates because of government budget deficit financing
- Improved oil production and local substitution
- Increased local food production
- Further disruption to food production in some food producing areas in Northern Nigeria
- Moderate growth in global commodities prices
- Credits to specific sectors of the economy to boost production
- Possible increase in electricity tariff
- Possible increase in PMS pump price.

The inflation rate maintained an upward momentum throughout 2016..

The positive effects overweigh the negative effects; therefore our outlook for the inflation rate is benign in the short to medium-term. Our monthly inflation rate forecast between January and December 2017 is shown on the table 23 below:

Table 23: Inflation Rate Forecast		
Month	**Inflation Rate**	**Adjusted Inflation Rate***
Jan-17	18.64%	18.64%
Feb-17	16.88%	19.15%
Mar-17	15.39%	18.75%
Apr-17	14.45%	18.09%
May-17	12.27%	16.62%
Jun-17	11.23%	16.74%
Jul-17	10.61%	16.85%
Aug-17	10.24%	16.84%
Sep-17	10.13%	16.79%
Oct-17	9.96%	16.74%
Nov-17	9.93%	16.73%
Dec-17	9.80%	16.59%

**The adjusted inflation rate assumes PMS and electricity tariff increase*
Source: FSDH Research

Our yearly average inflation rate forecast between 2017 and 2021 is shown on the table 15 below:

Table 24: Average Inflation Rate							
Year	**2015A**	**2016A**	**2017F**	**2018F**	**2019F**	**2020F**	**2021F**
Average Inflation	9.0%	15.62%	12.46%	8.93%	8.75%	9.05%	9.00%
Adjusted Inflation	9.0%	15.62%	17.38%	10.80%	8.73%	9.03%	8.99%

Source: NBS, FSDH Research Analysis

9.1 Implications:

- The inflation rate expectation in 2017 may make it difficult for the monetary policy to reduce interest rate to a level that the fiscal authority expects.
- Yield on fixed income securities may remain in double digit.

9.2 Risks to the Single Digit Inflation Rate:

Unforeseen or on-going geopolitical tensions could disrupt the flow of international trade and create scarcity of commodities around the globe.

1. **Geopolitical Tensions:** Unforeseen or on-going geopolitical tensions could disrupt the flow of international trade and create shortage of commodities around the globe.

2. **Renewal of the Niger Delta Militancy:** The current agitation from unmet demand of the Niger Delta militants threatens oil production and the stability of the value of the Naira. The devaluation of the Naira will lead to a more restrictive monetary policy via higher interest rate, with a negative impact on inflation rate via interest rate channel. It will also lead to an increase in the prices of imported inputs.

3. **Disruption in Local Food Production:** The ensuing crisis between the Fulani herdsmen and farming communities in some northern states could disrupt food production. The non-resolution of the crisis would lead to food scarcity of some essential food crops and drive inflation rate higher.

4. **The increase in the Electricity Tariff:** It may be difficult for the FGN to retain the current electricity tariff. This is because all the variables used to arrive at the tariff have changed. Therefore, an upward review of the electricity tariff is imminent as the current tariff is not cost reflective. This may cause inflation rate to rise except the increase in electricity generation offset the increase in tariff, causing consumers to spend less on alternative power, which is more expensive.

5. **Increase in the PMS Pump Price:** This will also increase the inflation rate as it permeates every other sector in the Consumer Price Index.

The FGN have indicated that the goal of the 2017 Budget is to restore economic growth.

10.0 A Glimpse into the Proposed 2017 FGN Budget:

The Federal Government of Nigeria (FGN) has indicated that the goal of the 2017 Budget is to restore economic growth. This it intends to achieve by bringing about stability and greater harmonisation of the monetary, fiscal and trade policies, while guaranteeing security for all. The effort to diversify the economy and job creation is also to be enhanced through promoting activities in agriculture, manufacturing, solid minerals and services. Midstream and downstream of the oil and gas sectors are also important.

Major Highlights:

- **The expected FGN revenue in 2017 is N4.94tr representing 28% increase over 2016**
- **The expected FGN expenditure is N7.30tr representing 20% increase over 2016**
- **The budget deficit of N2.356tr in 2017 represents 7% higher than 2016**
  - ***Deficit Finance borrowing of N2.32tr - Domestic: N1.25tr; Foreign:***
  - ***N1.06tr.***
- At N1.66tr, debt service is 22% of planned spending (about same as in FY2016)
- Capital spending is 31% of total FGN expenditure in 2017
- Proposed budget deficit to GDP is -2.18% from -2.14% in 2016
- The debt service to revenue ratio is projected to be about 33.7% in FY2017
- Ratio of budget deficit to total FGN revenue in 2017 is -47.67% from -57.2% in 2016

Table 25: Budget 2017 Assumptions

Description	2016	2017	Actual as at Q3 2016
Real GDP Growth (YoY)	4.37%	2.5%	(2.24%)
Oil Production (mbpd)	2.2	2.2	1.46
Oil Price ($pb)	38	42.5	42.95
Exchange Rate (N/$US)	197	305	305.25
Inflation Rate (%)	9.81%	15.74%	17.85%
Fiscal Deficit (N'tr)	(2.20)	(2.36)	-
Fiscal Deficit/GDP (%)	(2.14%)	(2.18%)	(1.44%)

Source: Budget and National Planning, FSDH Research

10.1 The Policy Thrust of Budget 2017

- The abolition of the JV cash-calls in the funding of the upstream oil Joint Venture projects
- The introduction of the tailor-made Public Private Partnership (PPP) for funding infrastructure
- Continuation of the Amnesty programme for the Niger Delta Militants
- Recapitalization of the Bank of Industry and the Bank of Agriculture to reposition SMEs
- The tax credits to companies to boost exports
- The planned payment of the outstanding debt the FGN agencies owed to the electricity distribution companies (Discos)

Table 26: Proposed 2017 Budget - Expenditure (N'bn)

Fiscal Items	2016	2017	Variance	
	N'bn	N'bn	N'bn	%
FGN Expenditure	6,060	7,299	1,239	20.45%
Statutory Transfers	351	419	68	19%
Debt Service	1,362	1,664	302	22%
Sinking Fund – LCB	113	177	64	56%
Recurrent (Non-Debt) Expenditure	2,645	2,979	334	13%
Capital Expenditure	1,831	2,243	412	23%
Fiscal Deficit	(2,204)	(2,356)	(152)	7%
Ratio of Capex to Total FGN Exp.	30.21%	30.74%	-	0.53%
Ratio of Recurrent to Total FGN Exp.	69.79%	69.26%	-	(0.53%)
Ratio of Budget Deficit to Total FGN Rev.	(57.2%)	(47.67%)	-	9.53%

Source: Budget and National Planning, FSDH Research

Table 27: Proposed 2017 Budget - Revenue (N'bn)

Fiscal Items	2016	2017	Variance	
	N'bn	N'bn	N'bn	%
Total FGN Revenue	3,856	4,942	1,086	28%
Share of Oil Revenue	718	1,985	1,267	177%
Share of Dividend (NLNG)	96	30	(66)	(69%)
Share of Mineral & Mining	7	1	(6)	(85%)
Share of Non-Oil	1,455	1,373	(81)	(6%)
Independent Revenue	1,506	808	(698)	(46%)
FGN's share of Bal. in Special Accts	11	7	(4)	(38%)
FGN's Bal. in Special Levies Accts	14	9	(5)	(35%)
FGN's Unspent Bal. of Previous Year	50	50	-	-
FGN's Share of Signature Bonus	-	114	114	-
Recoveries & Fines	-	565	565	-

Source: Budget and National Planning, FSDH Research

Table 28: Proposed 2017 Budget - Deficit Financing				
Fiscal Items	2016	2017	Variance	
	N'bn	N'bn	N'bn	%
FGN Retained Revenue	3,856	4,942	1,086	28%
FGN Expenditure	6,060	7,299	1,239	20%
Fiscal Deficit	(2,204)	(2,356)	(152)	7%
Deficit/GDP	(2.14%)	(2.18%)	-	(0.04%)
Financing Items:				
Sales of Government Property	25	25	-	-
Privatization Proceeds	10	10	-	-
FGN's Share of Signature Bonus	1	-	(1)	-
New Borrowings	1,819	2,321	502	28%
- Domestic Borrowing	1,183	1,254	71	6%
- Foreign Borrowing	636	1,068	432	68%
Other FGN Recoveries	350	-	(350)	-
Source: Budget and National Planning, FSDH Research				

10.2 Implications:

- We expect the monetary policy stance of the CBN to remain tight in the short-term.
- We expect the yields on the fixed income securities market to remain high
- The increase in yields on local TBs and Bonds may attract more foreign capital in the short-term.
- The yields on the Eurobonds may increase further.
- There may be improvements in the fiscal position of the FGN if crude oil production is sustained.
- There may also be an improvement in the balance of payment position of the country.
- Cost of borrowing in the emerging markets may increase.
- We expect peace in the Niger Delta region.
- We expect more activities in infrastructure development across the country.
- More private sector participations in line with our expectations.

11.0 Interest Rate:

The CBN in July 2016 increased the Monetary Policy Rate (MPR) to 14% from 12%.

Investors patronised the fixed income securities market in the second half of 2016 because of increase in yields. The need for the CBN to maintain price stability led to increase in yields. The Nigerian Interbank Offered Rates (NIBOR) increased across all the tenors between 2015 and 2016. The NIBOR on the 30-Day, 90-Day and 180-Day increased by 8.76%, 7.88% and 9.45% respectively. The increase was as a result of the relatively tight liquidity in the system from the existing reserve requirements and the Treasury Single Account (TSA) implementation by the FGN.

The CBN in July 2016 increased the Monetary Policy Rate (MPR) to 14% from 12%. It retained the symmetric corridor of +/-2% to an asymmetric corridor of -7 and +2% around the MPR. It also retained the CRR at 22.50%; and maintained the Liquidity Ratio (LR) at 30%. The CBN also introduced greater flexibility in the foreign exchange market.

Table 29: Yields Vs Inflation Rate - 2016

NTBs Yields Vs Inflation Rate					
	Average January	**Average December**	**Change**	**RY* January**	**RY* December**
91-Day NTB	4.19%	14.50%	10.31%	(5.43%)	(4.05%)
182-Day NTB	7.57%	19.17%	11.60%	(2.05%)	0.62%
364-Day NTB	9.52%	22.98%	13.46%	(0.10%)	4.43%
Inflation Rate	9.62%	18.55%			
FGN Bonds Yields Vs Inflation Rate					
	Average January	**Average December**	**Change**	**RY* January**	**RY* December**
16.00% FGN Jun 2019	10.90%	15.65%	4.75%	1.28%	(2.90%)
16.39% FGN Jan 2022	11.77%	15.71%	3.94%	2.15%	(2.84%)
10.00% FGN Jul 2030	11.91%	15.86%	3.95%	2.29%	(2.69%)
30-Day NIBOR	8.34%	15.52%	7.185	(1.28%)	(3.03%)
90-Day NIBOR	9.84%	18.30%	8.46%	0.22%	(0.25%)
180-Day NIBOR	11.28%	21.39%	10.11%	1.66%	2.84%

RY: Real Yield.

Source: NBS, FMDQ, FSDH Research

The average NIBOR in 2016 stood at 12.32%, 12.89%, 14.69% and 16.51% for overnight, 30-Day, 90-Day and 180-Day respectively. In 2015, the average NIBOR stood at 15.08%, 13.99%, 15.26% and 16.44%, respectively.

The average yields on the Nigerian Government Treasury Bills (NTBs) auction for the 91-Day, 180-Day and 364-Day TB were 10.94%, 13.66% and 16.73% compared with 9.86%, 13.11% and 15.56% in 2015. Meanwhile the average yields in 2016 on the 7-year, 10-year and 20-year FGN Bond stood at 13.30%, 13.73% and 14.04% respectively, compared with 14.06%, 14.21% and 14.90% respectively in 2015.

The Monetary Policy Committee (MPC) of the CBN has indicated that it may commence an accommodative monetary policy soon.

The Monetary Policy Committee (MPC) of the CBN has indicated that it may commence an accommodative monetary policy soon. We believe that this may lower inter-bank rates and lower the yields on fixed income securities.

The major drivers of interest rates and yields in 2017 would be:

- The anticipated increase in interest rates in the U.S.
- The inflation rate – actual and expectation
- Fiscal deficit financing
- Foreign exchange rate dynamics
- Fiscal cautions.

We expect the average yield on bonds in 2017 to be lower than the average yield in 2016.

Bond Market:

- The outcomes and expectations in key macroeconomic variables would influence bond yields. These include inflation rate, MPR, OMO operations, exchange rate, oil price, fiscal deficit and debt service ratios
- The pace of increase in the U.S. Fed rate would have significant impact on global capital flow with its attendant impacts on the FGN Bond market. **However, we expect the average yield on bonds in 2017 to be lower than the average yield in 2016.**

We expect the liquidity level in the system and the OMO activities of the CBN to be a major influence on the NTBs.

Treasury Bills (TBs):

- We expect the liquidity level in the system and the OMO activities of the CBN to be a major influence on the NTBs. The banking system liquidity is the major liquidity to watch. **We expect the average yields to be lower than that of the year 2016.**

Fixed Deposits:

- We also expect the fixed deposit rate to drop when the NTB yields drop.

We expect the drop in the interest rate and yields to be more pronounced in HY2 2017 from HY1 2017.

Our forecast monthly average interest rate on the 90-Day Fixed Deposit and the yields on the Treasury Bills and FGN Bonds are presented on the tables 30, 31 and 32 below.

Table 30: 90-Day Fixed Deposit Rates Forecasts - 2017

Month	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Rate	16.42%	14.66%	13.17%	12.23%	11.55%	10.51%	9.89%	9.52%	9.41%	9.39%	9.36%	9.23%

Source: FSDH Research

Table 31: Treasury Bill Yields – Monthly Average Actual Vs Forecast						
	2016 - Actual			2017 - forecast		
	91day	182day	364day	91day	182day	364day
Jan	4.19%	7.57%	9.52%	15.27%	19.64%	21.14%
Feb	4.96%	7.94%	10.17%	13.51%	17.88%	19.38%
Mar	5.73%	8.27%	10.17%	12.02%	16.39%	17.89%
Apr	7.12%	9.25%	10.95%	11.08%	15.45%	16.95%
May	8.21%	9.53%	13.34%	10.40%	14.77%	16.27%
Jun	8.86%	10.80%	14.58%	9.36%	13.73%	15.23%
Jul	12.45%	14.91%	18.67%	8.74%	13.11%	14.61%
Aug	15.81%	19.50%	22.70%	8.37%	12.74%	14.24%
Sep	14.51%	19.19%	22.52%	8.26%	12.63%	14.13%
Oct	14.45%	18.68%	22.35%	8.24%	12.61%	14.11%
Nov	14.50%	19.11%	22.85%	8.21%	12.58%	14.08%
Dec	14.50%	19.17%	22.98%	8.08%	12.45%	13.95%
Average	**10.44%**	**13.66%**	**16.73%**	**10.13%**	**14.50%**	**16.00%**

Source: FMDQ, FSDH Research

Table 32: FGN Bond Yields – Monthly Average Actual Vs Forecast						
	2016 - Actual			2017 - Forecast		
Month	Jun-19	Jan-22	Jul-30	Jun-19	Jan-22	Jul-30
Jan	10.90%	11.77%	11.91%	16.20%	16.65%	17.00%
Feb	10.53%	11.82%	11.98%	14.93%	15.39%	15.73%
Mar	10.33%	11.47%	12.06%	13.45%	13.90%	14.25%
Apr	11.20%	11.79%	12.64%	13.70%	14.37%	14.50%
May	13.21%	13.51%	13.63%	14.02%	14.44%	14.82%
Jun	13.76%	14.01%	14.22%	12.99%	13.41%	13.79%
Jul	14.59%	14.58%	14.86%	12.97%	13.39%	13.77%
Aug	15.04%	14.94%	15.25%	12.60%	13.02%	13.40%
Sep	14.60%	14.76%	15.03%	12.49%	12.91%	13.29%
Oct	14.56%	14.82%	15.18%	12.42%	12.84%	13.22%
Nov	14.99%	15.26%	15.61%	12.39%	12.81%	13.19%
Dec	15.65%	15.71%	15.86%	12.26%	12.68%	13.06%
Average	**13.28%**	**13.70%**	**14.02%**	**13.37%**	**13.82%**	**14.17%**

Source: FMDQ, FSDH Research

Our forecast yearly average yields on the treasury bills and the FGN Bond are presented on the table below:

Table 33: Interest Rates Forecasts (2017 – 2021)

Year	Average Inflation	91 NTB	182 NTB	364 NTB	7yr FGN Yields	10yr FGN Yields	20yr FGN Yields	Prime Lending Rate	90 -Day Deposit Rate
2017F	12.46%	10.13%	14.50%	16.00%	13.37%	13.82%	14.17%	16.76%	11.28%
2018F	8.93%	9.43%	9.93%	11.43%	11.81%	11.93%	12.28%	14.43%	11.93%
2019F	8.75%	9.25%	9.75%	11.25%	11.63%	11.75%	12.10%	14.25%	11.75%
2020F	9.05%	9.55%	10.05%	11.55%	11.93%	12.05%	12.40%	14.55%	12.05%
2021F	9.00%	9.50%	10.00%	11.50%	11.88%	12.00%	12.35%	14.50%	12.00%

Source: FSDH Research Analysis

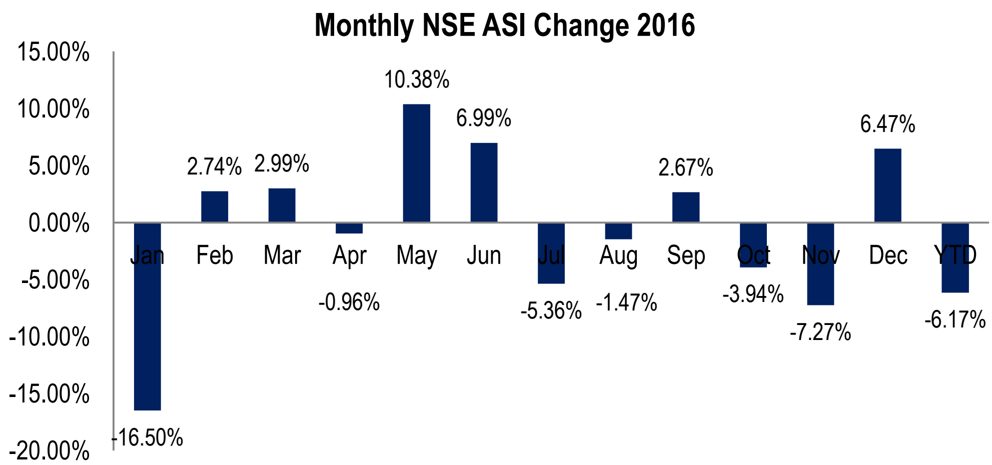
We note that the interest rate and the yields on the tables 30, 31, 32 and 33 above were based on the unadjusted inflation rate forecast for the period. If inflation rate changes based on the adjusted outlook; this will increase yields.

12.0 Equity Market:

12.1 The Secondary Market:

The monthly performance of The Nigerian Stock Exchange All Share Index (NSE ASI) moved in varying directions.

The equity market was characterised by mixed sentiments in 2016 as the weak macroeconomic environment impacted negatively on the market. The monthly performance of The Nigerian Stock Exchange All Share Index (NSE ASI) moved in varying directions. The news of the flexible foreign exchange market and removal of subsidy on PMS which filtered into the market in the month of May bolstered the equity market as it appreciated by 10.38%. In a similar vein, the month of January recorded the worst Month-on-month (MoM). The Index depreciated by 16.5% as crude oil prices dipped to as low as US$26.52/b. MoM, the market recorded growth in the following months: February 2.74%, March 2.99%, May 10.38%, June 6.99%, September 2.67% and December 6.47%. The equity market shed value in the following months: January 16.5%, April 0.96%, July 5.36%, August 1.47%, October 3.94% and November 7.27%. The NSE ASI closed the year at 26,874.62 points, representing a depreciation of 6.17% (a loss of 40.9% in US$). Similarly, the market capitalization also lost 6.13% (a loss of 40.86% in US$) to close the year 2016 at N9.25trn (US$30.32bn).



The performance of the NSE in 2016 is linked to a combination of the following factors:

12.2 Positive factors

- The decision of the CBN to adopt the flexible exchange rate
- The removal of subsidy on PMS
- The deregulation of the downstream sector of the petroleum industry
- The signing of the Budget 2016 Bill into Law
- Speculators taking advantage of low prices.

12.3 Negative factors

- The depreciation in the value of Naira after the adoption of a flexible foreign exchange rate regime
- Uncertainty surrounding the direction of the FGN's economic policies
- Profit taking/sell-off as the uncertainty surrounding the economy persisted
- High yields in the fixed income securities
- Investors' apathy
- The drop in the crude oil price
- The weak consumer purchasing power in the country
- The weak corporate earnings
- The pull-back strategy adopted by foreign investors on account of the weak Naira.

Looking ahead into 2017, we think the following factors will drive the market:

- Speedy implementation of the 2017 budget
- The current attractive valuation in the market
- The appreciation in the crude oil price and improved output in Nigeria
- The economic policy direction of the FGN
- Corporate earnings
- The passage of Petroleum Industry Bill (PIB) into law
- The import substitution strategies of the government to improve local production, generating employment opportunities will lead to more retention of investible funds within the local market
- Opportunities inherent in the country due to efforts of the current government to correct the infrastructural deficit in the country, especially in transport system.

Most of the quoted companies are currently trading at huge discounts to their intrinsic values while some are even trading below book value.

Most of the quoted companies are currently trading at huge discounts to their intrinsic values while some are even trading below book value. We believe that the market may rally in 2017. If the FGN can communicate economic policies that inspire investors' confidence in sectors of the economy.

12.4 Sectoral Performance and Outlook:
12.4.1 Banking:

The crash in oil prices and production had adverse impact on the loans in the banking sector.

The crash in oil prices and production had adverse impact on the loans in the banking sector. The U.S Dollar shortage and devaluation have also had negative impacts on the operations of the companies in the sector. Consequently, a number of loans are not performing; thus raising the non-performing loans in the sector. The devaluation of the Naira has also decreased the capital adequacy ratio of the banks and limited their credit creation. The major drivers of activities in the sector in the short-to-medium term are:

1. Increase in the price of oil
2. Increase in crude oil production
3. Investment of the private sector in the development of infrastructure
4. Release of capital expenditure
5. Payment of civil servant salaries
6. Complete privatisation of the power industry and the review of electricity tariff.

We believe there are lot of opportunities in the banking industry to lend to the non-oil sector. Government should also provide the needed incentives to these sectors.

12.4.2 Consumer Goods

The weak purchasing power and shortage of foreign exchange are the major factors that affected the consumer goods sector. Looking into the short-to-medium term, some of the drivers of the sector are:

The weak purchasing power and shortage of foreign exchange are the major factors that affected the consumer goods sector.

- Government is putting in place measures to pay outstanding salaries
- Adoption of the PPP to address infrastructure challenge will lower transport and operation cost and create job opportunities that can stimulate effective demand
- The increase in crude oil price and production may help to increase foreign exchange inflow. With the huge market in Nigeria, the consumer good segment of the economy should experience growth if some of the challenges in the sector are addressed
- We also note that companies are increasingly substituting local inputs for imported inputs were available. This will change the Nigeria economy across different value chain.

12.4.3 Industrial Goods

The renewed commitment of the FGN to develop infrastructure in the country will trigger investment opportunities for the industrial goods sector.

Investments in critical infrastructure (road, rail, housing, power transmission and ports) have direct impacts on the industrial sector of the NSE. The establishment of a Social Housing Fund by the Federal Government to deepen the mortgage system and expand its availability across all states of the Federation will help boost the industrial sector. The revitalization of the mortgage market through the Nigeria Mortgage Refinance Company (NMRC) should deepen the real estate sector of the Nigerian economy. The renewed commitment of the FGN to develop infrastructure in the country will trigger investment opportunities for the industrial goods sector. Specifically, we see opportunities in building materials, construction and real estate.

12.4.4 Oil and Gas

The deregulation of the downstream will also improve efficiency. The abolition of the JV Cash Call will also improve activities.

The peace in the Niger Delta will increase crude oil production coupled with increase in crude oil price will boost activities in the upstream oil and gas industry. The deregulation of the downstream will also improve efficiency. The abolition of the JV Cash Call will also improve activities. We think the problems that plagued the sector in the past would soon be eliminated this year given the recent moves of the government. We think the sector offers good investment opportunities for investors.

A cursory look at some of the selected stock markets performance in December 2016 shows that the Brazil Stock Market Index (Ibovespa) was the best performing market at 38.93%.

A cursory look at some of the selected stock markets performance in December 2016 shows that the Brazil Stock Market Index (Ibovespa) was the best performing market at 38.93%. This was followed by the FTSE 100 Index (UK). On the flip side, the GSE All-Share Index recorded the worst performance, with a drop of 15.33% during the period.

Table 34: Some Selected Stock Market Indices as at December 2016

North/Latin America	**YTD Change**
Dow Jones Industrial Average	13.42%
S&P 500 Index	9.54%
NASDAQ Composite	7.50%
Brazil Stock Market Index (Ibovespa)	38.93%
Europe	
Swiss Market Index	(6.78%)
FTSE 100 Index (UK)	14.43%
CAC 40 Index (France)	4.86%
DAX Index (Germany) Deutsche Boerse AG	6.87%
SMSI Index (Madrid, Spain)	(2.24%)
Africa	
NSE All-Share Index	(6.17%)
FTSE/JSE All-Share Index (S/A)	(0.08%)
GSE All-Share Index (Ghana)	(15.33%)
Nairobi All-Share Index (Kenya)	(8.48%)
Asia/Pacific	
NIKKEI 225 Index (Japan)	3.39%
BSE 30 Index (India)	1.95%
Shanghai Stock Exchange Composite Index	(12.31%)
Hang Seng Index (Hong Kong)	0.39%

Source: Financial Times

Looking at the outlook for 2017, we are proposing the following fund allocation model for investors. This is very important as investors navigate through the challenging markets ahead.

Table 35: Asset Allocation

Asset Class	Fund Allocation
Equities	25%
Fund Placement	15%
Treasury Bills	15%
Real Estate Investment Trust (REIT)	5%
Bonds	20%
Collective Investment Schemes	20%
Total	**100%**

Source: FSDH Research

Table 36: Stock Recommendations

Stocks	Max Entry Price	52 Week Low	52 Week High	Target Price
Flour Mills	19.54	16.13	24.99	**25.00**
Dangote Sugar	6.43	5.17	7.19	**8.00**
GT Bank	25.81	13.37	27.10	**28.83**
Zenith Bank	16.00	9.00	17.70	**20.70**
Dangote Cement	170.00	123.51	203.96	**210.00**
Nestle Nigeria Plc	750.00	615.26	860.00	**940.00**
UBA	4.90	2.59	5.19	**6.50**
FBNH	3.94	2.95	5.13	**5.00**
NASCON	8.15	5.80	8.70	**10.20**
Presco	42.16	44.69	33.00	**51.00**
Okomu Oil	47.81	27.99	47.00	**9.18**
Cadbury	9.91	9.03	20.50	**11.50**
Lafarge Africa	46.00	38.82	105.00	**56.00**

Source: NSE; FSDH Research

Table 37: Summary of Forecast (2017-2021)					
Economic Indicators	**2017F**	**2018F**	**2019F**	**2020F**	**2021F**
Nominal GDP (Ntrn)	108.35	115.86	123.66	135.39	149.92
Real GDP (N'bn)	68.94	71.32	73.14	76.88	81.72
Real GDP Growth Rate	1.61%	3.45%	2.55%	5.11%	6.30%
Import (N'trn)	8.10	8.59	9.02	9.20	9.34
Export (N'trn)	12.19	12.88	14.13	14.45	15.35
Trade Balance (N'trn)	4.09	4.29	5.11	5.25	6.01
Total Trade (N'trn)	20.30	21.47	23.15	23.65	24.69
Public Debt (N'trn)	19.33	21.35	23.32	24.95	26.20
Debt/GDP (%)	17.84%	18.43%	18.86%	18.43%	17.47%
Average Inflation (%)	12.46%	8.93%	8.75%	9.05%	9.00%
91 NTB (%)	10.13%	9.43%	9.25%	9.55%	9.50%
364 NTB (%)	16.00%	11.43%	11.25%	11.55%	11.50%
10Yr FGN Yields (%)	13.82%	11.93%	11.75%	12.05%	12.00%
Prime Lending Rate	16.76%	14.43%	14.25%	14.55%	14.50%
90-day Deposit Rate	11.28%	11.93%	11.75%	12.05%	12.00%
Source: FSDH Research					

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