Monthly Economic and Financial Market Outlook

Market Expects Policy Direction

June 2015

1.0. Global and Domestic Economic Issues:

There were more decreases in the bond prices in the month of May 2015 than in the month of April 2015.

The analysis of the bond market in the countries that we monitored shows that there were more decreases in prices in the month of May 2015, than the performance recorded in the month of April 2015. The 7.75% February 2023 South Africa Government Bond recorded the highest price decrease of 1.45% to 98.60 in May 2015. The 16.39% January 2022 Nigeria Government Bond recorded the highest month-on-month increase in price of 0.96% to 110.70 as at the end of May 2015. The Argentina Bond and the Russia Bond closed the month at negative real yields. Other bonds monitored closed the month at positive real yields. The real yield on the Nigerian Bond remains the most attractive amongst the countries monitored, followed by the Kenyan Bond.

United States economy contracted at an annual rate of 0.7% in Q1 2015.

The second official estimate from the United States (U.S.) Bureau of Labour Statistics (BLS) showed that the United States economy contracted at an annual rate of 0.7% in Q1 2015, down from a preliminary 0.2% growth. It is the first contraction in a year as the trade deficit widened and inventories accumulated less than expected. The US trade gap was US$40.9bn in April 2015, improving from a shortfall of US$50.60bn in March 2015, as exports rose by 1% and imports fell by 3.3%. Meanwhile, the final Markit U.S. Manufacturing Purchasing Manager Index (PMI) came in at 54 in May 2015, slightly better than preliminary reading of 53.8 but below 54.1 registered in April 2015. It is the lowest figure since January 2015, as new order volumes grew at the weakest pace in 16 months.

Table 1: Summary of Key Indicators

S/N	Indicators	Argentina	Brazil	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	95.00	99.65	100.07	112.31	100.99	101.83	110.70	87.10	98.60	98.20	98.19
2	Bond Yield	6.23%	13.07%	3.51%	14.12%	7.96%	12.31%	13.86%	10.88%	7.99%	9.11%	2.00%
3	Bond Price MoM Change	0.00%	-0.82%	-0.75%	-0.21%	-0.13%	-0.83%	0.96%	-0.77%	-1.45%	0.61%	-0.65%
4	Bond Yield MoM Change	-0.41%	1.40%	0.11%	0.03%	0.02%	0.19%	-0.25%	0.21%	0.25%	-0.10%	0.09%
5	Bond Price YTD Change	1.06%	-1.21%	1.14%	3.99%	0.24%	-3.14%	5.94%	19.32%	-1.19%	-7.10%	0.90%
6	Bond Yield YTD Change	-0.23%	1.53%	-0.16%	-1.01%	-0.05%	0.65%	-1.46%	-3.86%	0.20%	1.23%	-0.11%
7	Volatility	0.00	0.26	0.34	0.36	0.16	0.63	0.70	0.51	0.40	1.17	0.37
8	FX Rate MoM Change*	1.86%	4.92%	-0.03%	0.08%	0.61%	3.33%	0.03%	2.27%	2.01%	-2.05%	-2.02%
9	FX Rate YTD Change*	5.80%	19.01%	-0.07%	6.68%	1.21%	7.95%	8.49%	-13.10%	5.20%	12.13%	-9.67%
10	Inflation Rate	15.80%	8.17%	1.50%	10.96%	4.87%	6.87%	8.70%	16.40%	4.50%	7.91%	-0.20%
11	Policy Rate	21.13%	13.25%	5.10%	8.75%	7.50%	8.50%	13.00%	12.50%	5.75%	7.50%	0.25%
12	Debt to GDP	45.60%	58.91%	22.40%	87.10%	67.72%	51.70%	12.47%	13.41%	46.10%	33.00%	101.53%
13	GDP Growth Rate	0.40%	-1.60%	7.00%	4.30%	7.50%	5.10%	3.96%	-1.90%	2.10%	2.60%	2.70%
14	Nominal GDP (US$)	612bn	2.25trn	9.24trn	272bn	1.88trn	55bn	523bn	2.10trn	351bn	820bn	16.80trn
15	Current Acct to GDP	-0.90%	-4.17%	2.00%	-2.40%	-1.70%	-8.20%	7.10%	1.56%	-5.40%	-5.70%	-2.40%

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

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

1.1 Global Commodity Market Outlook:

The decline in the prices of commodities in Q1 2015 was due to increased supplies, bumper harvests, weak demand and a stronger U.S. Dollar.

According to the World Bank report, titled "The Commodity Markets Outlook", April 2015 Edition, the decline in commodity prices that began with metals and agriculture four years ago, joined by crude oil in mid-2014 continued in Q1 2015. Energy, metals, and agricultural prices were down 28%, 11%, and 5%, respectively, from the previous quarter. The decline in the prices of commodities in Q1 2015 was due to increased supplies, bumper harvests, weak demand and a stronger U.S. Dollar. The weakness is expected to continue for the remainder of 2015. All key price indices are projected to decline in 2015 before recovering moderately in 2016.

All key price indices are projected to decline in 2015 before recovering moderately in 2016.

Precious metals prices fell 2% on reduced investor demand driven by a stronger US Dollar and expectations of higher U.S. interest rates later this year.

The report indicated that the surplus in the supply of primary fuels lowered energy prices by 28% in Q1 2015, led by a 31% plunge in oil prices and a 16% fall in natural gas prices. It added that despite higher than expected demand, the oil market remains oversupplied, with large inventories, especially in the United States. The U.S. rig count fell by half in the past five months starting from November 2014, while oil production continues to climb by more than 1 mb/d (year-on-year). Non-energy commodity prices fell 6% in Q1 2015 over the previous quarter, with the index down a third from its high in 2011, due to abundant supply and large inventories. Metals prices dropped 11% as most markets remained in surplus, particularly iron ore. Agricultural prices fell 5%, with declines in all main sub-indices. Precious metals prices fell 2% on reduced investor demand driven by a stronger US Dollar and expectations of higher U.S. interest rates later this year.

All the main commodity price indices are expected to decline in 2015, mainly due to abundant supplies.

The World Bank said all the main commodity price indices are expected to decline in 2015, mainly due to abundant supplies. Energy prices are projected to fall by 42% from 2014, largely reflecting a 45% drop in oil prices. The report added that the World Bank's earlier projections of US$53/b for oil appear on the mark, with realized year-on-year declines implying flat oil prices for the rest of 2015. Natural gas prices are also expected to decline significantly following the lead of oil, especially in Europe and Asian Liquefied Natural Gas (LNG) markets. The U.S gas prices are projected to fall 15% due to continued growth in shale gas production. Coal prices are projected to decline by 12% due to weak import demand and surplus supply. The downside risks to the energy forecast include higher than expected production (supported by falling costs) and reduced supply stemming from voluntary cutbacks or market forces. The upside risks include earlier than expected closure of high-cost operations, supply restraint by major producers, and unexpected disruptions in supply stemming from geopolitical risks.

The World Bank expects that many metals markets are adjusting by closing high-cost operations.

The non-energy prices are expected to fall by 10% in 2015, with declines in all main indices. Metals prices are projected to decline by 13% due to capacity increase and slowing demand in China. The largest decline (35%) is expected for iron ore due to new low-cost mining capacity (mainly in Australia) coming online in 2015 and 2016. The World Bank expects that many metals markets are adjusting by closing high-cost operations. The metal market is expected to eventually tighten, in part due to large zinc mines closures, and as Indonesia's ore export ban weighs on supplies, notably nickel. The risks to the non-energy price forecasts are mostly to the downside, including slower demand in China and a tightening of the country's environmental restrictions to reduce pollution. However, lower production costs and further currency depreciation could sustain output and delay rebalancing supply and demand. An unexpected lifting of Indonesia's export ban could also weaken further metal prices.

An unexpected lifting of Indonesia's export ban could also weaken further metal prices.

The agricultural prices are projected to fall by 9% in 2015, with notable declines in all indices amid abundant supply and stocks for most commodities. The largest decline is projected for edible oils and meals (down 15%) mainly owing to large harvests in the Americas and rising stocks. Beverage and agricultural raw material prices will decline by about 8.5%. Similarly, fertilizer prices, a key cost for most agricultural commodities, are expected to decline by 4% on weaker demand and ample supply. The risks in the agriculture price forecasts are on the downside. Meanwhile, the report stated that, on trade policy, export restrictions are unlikely to be imposed given that markets are well supplied, and that the sharp decline in oil prices weakens pressures to divert food commodities to bio-fuels.

All the main commodity price indices are expected to decline in 2015, mainly due to abundant supplies.

A review of the last four largest oil price declines finds that the 2014-15 and 1985-86 crashes were primarily driven by supply-related factors while the 1990-91 sell-off was associated with the First Gulf War and the 2008-09 with the global financial crisis. There are several similarities between these two crashes. Prior to 1985-86, output surged in Alaska, the North Sea, and Mexico, while prior to 2014-15 new production surged from U.S. shale oil and (less so) Canadian oil sands and bio-fuels. Both episodes followed a period of high prices and also coincided with OPEC abandoning price targets. Some differences are also noteworthy. Although price volatility spiked during each episode, the increase was much smaller in 2014-15. In 1991-92 and 2008-09, oil prices reverted to

A number of factors can lead to a prolonged period of low oil prices.

earlier levels. The World Bank report added that some of the conditions that led to low prices during 1985-2003 are no longer in place. But shale oil's technological advances, short project cycle, and falling costs along with expected weakness in demand growth from developing economies could lead to another prolonged period of low oil prices.

1.2 GDP by Expenditure Approach:

The nominal Gross Domestic Product (GDP) (at current market prices) using the expenditure approach, of goods and services in Nigeria in Q1 2015 increased by 4.22% to N21.24trn, from N20.38trn recorded in the corresponding quarter of 2014. The nominal growth in GDP was slower relative to rates recorded in the corresponding quarter of 2014 and the preceding quarter of 2014 by 5.82% and 9.32% respectively. In real terms, the expenditure on GDP grew by 3.86%, from N15.60trn in the Q1 2014 to N16.20trn in Q1 2015. In a similar trend to nominal growth, real growth was slower relative to rates recorded in the corresponding quarter of 2014 and the preceding quarter of 2014 by 2.16% and 2.49% respectively.

In real terms, the value of final consumption expenditure of Households increased by 6.83% (year-on-year) to N10.43trn in Q1 2015.

The decomposition of the GDP by Expenditure Approach showed that, in real terms, the value of final Consumption Expenditure of Households increased by 6.83% (year-on-year) to N10.43trn in Q1 2015. This was higher than the growth recorded in Q1 2014 of 7.22%. On a quarter-on-quarter basis, household consumption declined in real terms by 19.12% from N12.89trn in Q4, 2014. Accordingly, the share of real final consumption expenditure to GDP decreased to 64.34% in Q1 2015 from 69.98% in Q4 2014, but higher than the 62.56% recorded in Q1 2014.

In real terms, the Government Final Consumption Expenditure (GFCE) grew by 42.81% and stood at N1.35trn in Q1 2015, better than growth recorded in the Q1 2014 which was negative, and Q4 2014 growth recorded at 16.56%. The share of GFCE to expenditure on GDP during Q1 2015 was recorded at 8.43%, higher than the share in Q1 2014 which was recorded at 6.07%, yet lower than the share in Q4 2014 which was recorded at 8.67%.

The gross fixed capital formation (GFCF), which captures investment activities carried out in the economy, in real terms, increased by 9.72%, lower than the growth rates of 10.36% and 2.73% recorded in Q1 2014 and Q4 2014 respectively. The growth was driven by growth in the non-residential buildings and purchases in machinery and equipment, which contributed 83.16% and 22.37% to growth respectively. The GFCF accounted for 17.16%

of real GDP in Q1 2015, higher when compared to 16.14% in Q1 2014, and 15.17% in Q4 2014.

In real terms, household consumption and savings represented 67.28% and 23.29% respectively of national disposable income.

In real terms, the exports of goods and services declined by 18.33% in Q1 2015 to N3.06trn. This was substantially lower than the growth recorded in Q1 2014 (18.12%). Real imports grew by 6.04%, up from 0.33% recorded in the corresponding quarter of 2014. The result of movement of both Exports and Imports led to a drop in Net Exports by 36.23% in Q1 2015, substantially lower from 35.81% growth recorded in the corresponding quarter of 2014.

The National Disposable Income (NDI) in nominal values grew by 3.61% in Q1 2015 to N20.09trn from N19.39trn in Q1 2014. This was lower than the growth rates recorded in Q1 and Q4 2014, which were recorded at 10.56% and 13.44% respectively. Quarter-on-quarter, the NDI slowed by 8.73%. While 76.10% of national disposable income was allocated by households for consumption in Q1 2015, 16.34% of income was devoted to savings in nominal terms. In real terms, household consumption and savings represented 67.28% and 23.29% respectively of national disposable income which stood at N15.50trn in Q1 2015, a 3.47% growth from N14.98trn in Q1 2014.

1.3 Foreign Trade:

The Nigerian economy achieved a trade surplus of N1.58trn in its merchandise trade in Q1 2015.

The latest foreign trade statistics released by the National Bureau of Statistics (NBS) for Q1 2015 shows that the Nigerian economy achieved a trade surplus of N1.58trn in its merchandise trade, with exports dominating the total trade in Q1 2015. On the average, exports accounted for about 67.67% of the total trade in the last nine quarters. On a quarterly basis, the contribution of exports to total merchandise trade increased to 66.30% in Q1 2015 from 59.30% in Q4 2014. In the last 9 quarters, the highest contribution of exports to total trade was recorded in Q3 2014 at 72.1%. Meanwhile, in the last nine quarters between Q1 2013 and Q1 2015, oil exports dominated the total merchandise trade at an average of 77.36%.The total trade as at Q1 2015 stood at N4.88trn, down 11.43% from N5.51trn in Q1 2014, and down 2.20% from N4.99trn in Q4 2014.

On the average, exports accounted for about 67.67% of the total trade in the last nine quarters.

The top destination for Nigeria's exports showed that India remained the preferred spot, followed by Netherlands, Spain, South Africa, Brazil and Ivory Coast. On the other hand, China remained Nigeria's number one import partner, followed by the United States and Belgium.

Top on the list of the imported goods in 2014 are: Boilers, Machinery and Appliances Thereof; Mineral Products; Base Metals and Articles Thereof; Vehicles, Aircrafts and Products Thereof; Products of the Chemical and Allied Industries; and Vegetable Products. The top on the list of the imported goods in the sub-categories in Q1 2015 are: Motor Spirit (ordinary); Other Wheat and Meslin; Semi Milled or Wholly Milled Rice; and Imported motorcycles and cycles. The leading export commodities are: Mineral Products (89.20%); Vehicles, Aircraft and Parts Thereof; Products of Chemical and Allied Industries (5.80%); Prepared Foodstuffs, Beverages, Spirits and Vinegar, Tobacco (1.70%); Vegetable Products (1.10%), and Base Metals and Articles Thereof (0.80%).

1.4 Nigeria's Capital Importation Update:

The capital imported into the Nigerian economy totalled US$2.67bn in Q1 2015.

According to the National Bureau of Statistics (NBS), the capital imported into the Nigerian economy totalled US$2.67bn in Q1 2015, resulting to the lowest value recorded in the last two years. The Q1 2015 capital importation was due to the high levels of uncertainty in the quarter due to a postponed election and depressed oil price. On a quarterly basis, there was an acceleration of the downward trend observed since Q4 2014, with a further drop of US$1.83bn or 40.63%; prior to this, Q4 2014 saw a 31.22% quarter on quarter decline from the US$6.54bn peak in Q3 2014.

The Foreign Portfolio Investment (FPI) stood at US$1.86bn in Q1 2015, a decrease of 7.11% from US$2bn in Q4 2014, and making up 73.48% of capital importation.

A further analysis showed that the Foreign Portfolio Investment (FPI) stood at US$1.86bn in Q1 2015, a decrease of 7.11% from US$2bn in Q4 2014, and making up 73.48% of capital importation, higher than the contribution of 44.52% and 69.65% in Q4 2014 and Q1 2014. Both year on year and monthly reductions in portfolio investment inflows were primarily driven by declines in equity capital, which were lower by US$1.12bn or 49.59% year on year, and by US$402.69mn or 26.11% relative to Q4 2014. The money market instruments also decreased by 87.22%, compared with Q1 2014 and by 93.03% in Q4 2014. However, the bonds component of portfolio investment increased by US$222.63mn (46.14%) relative to the corresponding quarter of 2014, and by US$475.64mn (207.27%) from Q4 2014. The main driver of the overall drop in capital inflows since Q4 2014 was from Other Investments, from a value of US$1.73bn in Q4 2014; it declined by US$1.31bn (75.90%) to reach US$416.34mn in Q1 2015. Its share of total capital imported went lower, from 38.40% in Q4 2014 to 15.58% in Q1 2015. This sharp decline was caused by the Other Claims component of Other Investments, in which inflows were lower by US$1.30bn (97.64%) quarter on quarter.

Year on year, Portfolio Investment recorded the highest decline of 35.15% to US$1.86bn in Q1 2015, from US$2.89bn in Q1 2014. This is followed by Other Investments, declining by US$128.33mn or 23.56%, driven by both Other Claims and Loans components, which declined by US$62.06mn (66.32%) and US$51.57mn (11.82%) since Q1 2014 respectively. Meanwhile, capital imported as Foreign Direct Investment (FDI) stood at US$394.61mn or 14.77% of the total in Q1 2015. The sector showed the lowest year on year decline in inflows, at US$96.09mn, at a negative 19.58%. Quarter on quarter, the decline was larger at US$374.25mn, at a negative 48.68%. In both cases over 99% of the decline was driven by FDI Equity, rather than FDI Other Capital.

The United Kingdom maintained the top position on the list of capital imported into Nigeria, with US$1.76bn, representing 65.85% of the total coming from this country in Q1 2015. This is followed by the United States (U.S.), which provided US$348.27mn (13.04%).

1.5 Inflation Rate:

The supply related problems of food products and the lack of full resolution of the security challenges in some parts of Northern Nigeria, as well as the devaluation of the Naira continued to put an upward pressure on the inflation rate. The inflation rate stood at 8.7% in April 2015 from 8.5% in March 2015. The April 2015 inflation rate represents the highest inflation rate recorded since July 2013, and the fifth consecutive month of increase in the Headline Index so far in 2015. The Food Price Index increased by 9.5% in April 2015 (year-on-year), higher than 9.4% in March 2015. The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) at its May 2015 meeting noted that the uptick in inflationary pressures, in recent time, was largely traceable to transient factors such as high demand for transportation, food and energy, especially in the period around the general elections as well as the Easter festivities. It also noted the roles played by system liquidity and the pass-through effects of the recent depreciation of the Naira exchange rate. We estimate that the inflation rate would increase to 8.9% in May 2015 as shown on table 2 below.

The April 2015 inflation rate represents the highest inflation rate recorded since July 2013.

Table 2: Inflation Rate Actual Vs Forecast

Date	Jan-14 A	Feb-14 A	Mar-14A	Apr-14A	May-14F	Jun-14F	Jul-14F	Aug-14F	Sep-14F	Oct-14F	Nov-14F	Dec-14F
FSDH Forecast	8.2%	8.4%	8.5%	8.7%	8.9%	8.8%	9.1%	9.3%	9.5%	9.5%	9.7%	9.7%

1.6 Movement in the External Reserves:

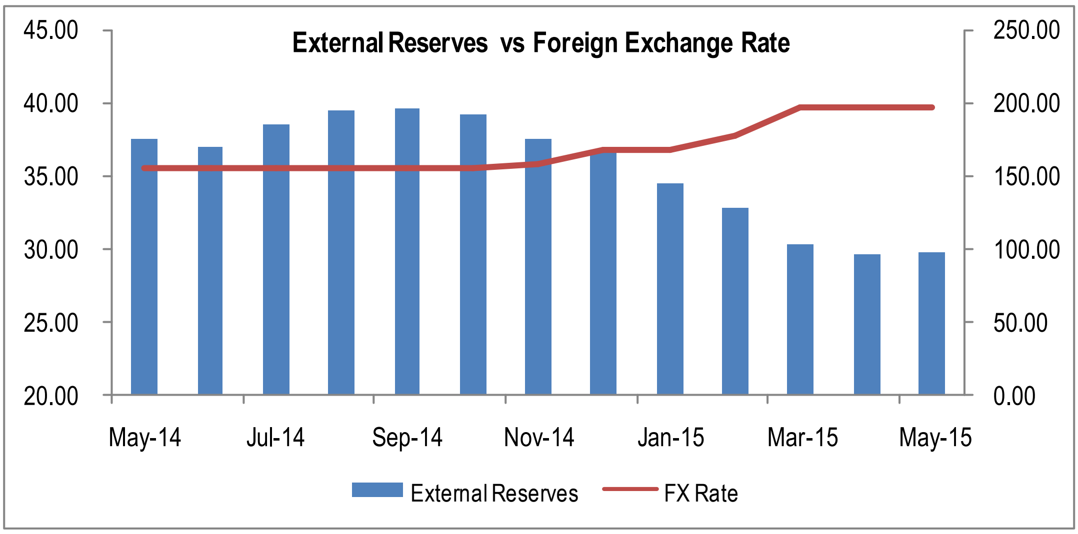
There was a return to continuous drawdown in the external reserves toward the end of May 2015.

There was a negative turn in the accretion to the external reserves observed towards the end of April 2015 to mid-May 2015, as there was a return to continuous drawdown in the external reserves toward the end of May 2015. The downward pressure towards the end of May 2015 was due to the pressure in the foreign exchange market. The increase in the average price of oil in the international market in May 2015 compared with April 2015 could not fully reflect in the external reserves as the glut in the international market continued to affect the sale of Nigerian crude oil, even as the intended production target has not been achieved in several months.

The external reserves decreased by 14.13% to stand at US$29.60bn as at end- May 2015 from US$34.47bn as at end-December 2014. Month-on-month, the external reserves increased marginally by 0.23% in May 2015, from US$29.53bn as at end April 2015. The average external reserve for the month of May 2015 stood at US$29.71bn, compared with the US$29.55bn in the month of April 2015.

The external reserves decreased by 14.13% to stand at US$29.60bn as at end- May 2015 from US$34.47bn at the end-December 2014.

The continued glut in crude oil supplies amidst softening prices, anchored by sluggish global output expansion could further threaten the foreign exchange earnings and accretion to external reserves over a longer period. A near-term rally in oil prices is further undermined by the diminishing market power of the Organization of the Petroleum Exporting Countries (OPEC).



1.7 Crude Oil Market and Bonny Light Price:

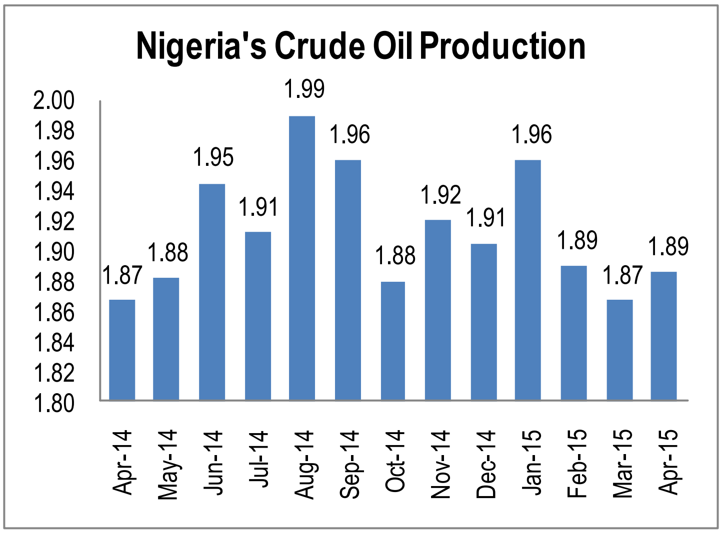
The daily crude oil production in Nigeria increased by 1.02% from 1.87mbpd in March 2015 to 1.89mbpd in April 2015.

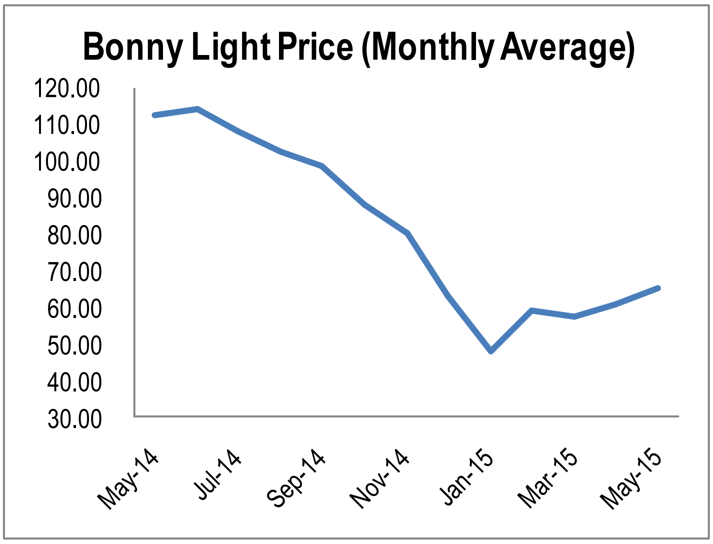
The daily crude oil production in Nigeria increased by 1.02% from 1.87mbpd in March 2015 to 1.89mbpd in April 2015 based on the secondary data available from the Organization of the Petroleum Exporting Countries (OPEC) report for the month of May 2015. The total OPEC crude oil production from secondary sources was 30.84mbpd in April 2015, an increase of 0.05% from 30.83mbpd over the previous month. Crude oil production output increased mostly from Iraq and Iran while production showed the largest drop in Angola.

The average price of Bonny Light was higher in May 2015 than in April 2015

The average price of Bonny Light was higher in May 2015 than April 2015.This increase was as a result of the decline in crude oil rigs and declining USA inventory putting upward pressure on the price of crude oil. The U.S Energy information Administration noted that the weekly oil inventories fell by 2.8 million barrels for the week ending May 22, 2015. According to the data from Reuters, the Bonny Light oil price decreased by 1.88% to US$63.72/b as at end-May 2015, from end-April 2015. However, the average price of Bonny Light was US$65.20/b in May 2015, 7.24% higher than the average price of US$60.80/b recorded in April 2015.

OPEC maintained the current 30 million barrels per day production quota for all members and encouraged all members to maintain their respective quotas. The decision in our view may set oil price southwards.





1.8 Exchange Rate:

There was an appreciation in the value of the Naira at the inter-bank and parallel segments of the foreign exchange market in May 2015, compared with April 2015. The relative stability and modest appreciation in the two segments of the market was largely due to the closure of the Retail Dutch Auction System (RDAS) market of the CBN and the modified two way quote trading system adopted by the CBN in the inter-bank market. The adoption of the approaches by the CBN has increased the convergence of the foreign exchange rates at both markets, and shielded the external reserves from sharp depletion. However, market participants have expressed worries that the CBN's current strategy has reduced liquidity from the market.

There was an appreciation in the value of the Naira at the inter-ban and parallel markets of the foreign exchange market in May 2015, compared to April 2015.

The average exchange rate at the inter-bank market depreciated marginally by 0.03% to stand at N199.17/US$1 for the month of May 2015, while at the parallel market it depreciated by 3.93% to N221.47/US$1 in May 2015 from N212.78/US$ in April 2015.

We expect certain level of depreciation in the foreign exchange market in the short term. The justifications for this are: declining and low external reserves, declining oil prices, growing demand pressure for foreign exchange in the market and the potential large fiscal deficit of the FGN in 2015.The CBN monetary policy stance at its last meeting also suggests that the CBN may possibly allow further flexibility in foreign exchange rates. This may result in a further depreciation of the Naira as the unmet demand in the market is large. Our revised foreign exchange rate forecast is shown on table 3 below.

Table 3: Exchange Rate US$/N Actual(A) Vs Forecast

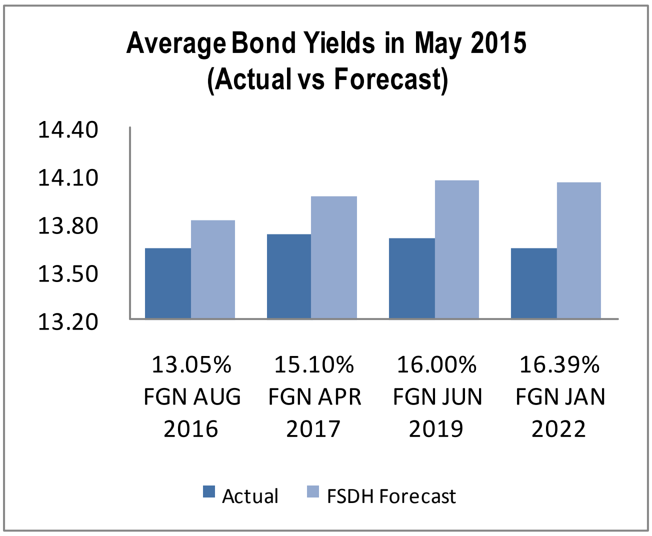
	Jan-A	Feb-A	Mar-A	Apr-A	May-A	Jun-F	Jul-F	Aug-F	Sep-F	Oct-F	Nov-F	Dec-F
Exchange Rate	168.00	177.00	197.07	199.12	199.17	215.00	216.00	216.00	215.50	215.00	215.00	214.00

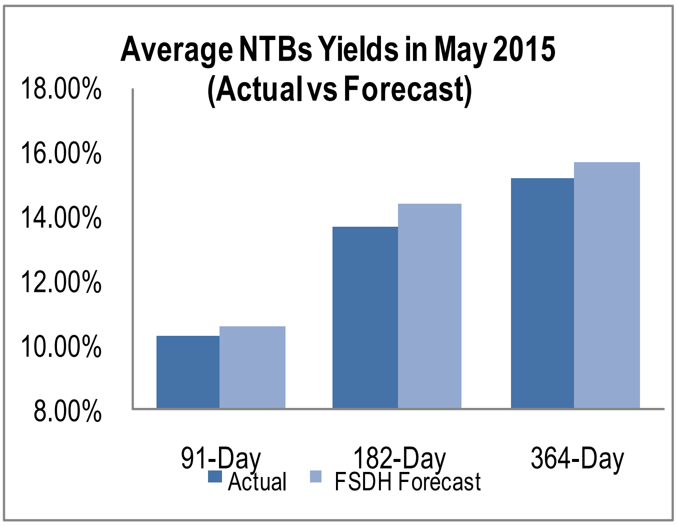
2.0 Interest Rate and Yield Analysis:

Our analysis of the liquidity situation in the money market and the fixed income securities market in the month of May 2015 shows that there was a net outflow of about N580bn from various sources, compared with a net inflow of about N191bn in the month of April 2015. The major outflows in the month of May 2015 were the Open Market Operations (OMO) of about N784bn, the Primary NTB of about N262bn, the Cash Reserve Requirement (CRR) debit of about N206bn, and the bond auction of about N60bn. Meanwhile, in the month of April 2015 the major outflow from the market was from the OMO of about N934bn, the Primary NTBs of about N363bn, the CRR of about N150bn, and the bond auction of about N70bn. The major inflows into the market in May were the matured OMO and REPO Bills of N273bn, the NTBs of about N262bn, and the Federation Account Allocation Committee injection of about N198bn. In April, the matured OMO and REPO Bills of N671bn, the Bond maturity of about N535bn, the NTBSs of about N269bn, and the FAAC of N223bn were the major inflows into the market.

The decline in the yields on the NTBs in May 2015 was due to the liquidity in the system from matured government securities.

The average yields on the Nigerian Government Treasury Bills (NTBs) auction decreased in May 2015 compared with April 2015. The average 91-day NTB yield decreased to 10.28% in May 2015 from 10.57% in April 2015. The average 182-day NTB yield closed at 13.70% in May, down from 14.42% in April; and the average 364-day NTB yield also decreased to 15.20%, from 15.71% in April. The average 30-day NIBOR decreased to close at 14.08% from 14.75% in April, and the average 90-day NIBOR also decreased to 15.25% from 16.91% in the preceding month. The decline in the yields on the NTBs in May 2015 was due to the liquidity in the system from matured government securities.





The average forecast yields on the bonds for the month of May were higher than the actual.

Our analysis of the average forecast yields on the bonds for the month of April were higher than the actual; primarily because of the higher liquidity in the system than we anticipated in May 2015.

Table 4: Average Bond Yields

	13.05% FGN AUG 2016	15.10% FGN APR 2017	16.00% FGN JUN 2019	16.39% FGN JAN 2022	14.20% FGN March 2024
April	13.97%	14.01%	14.11%	14.09%	15.44%
May	13.65%	13.74%	13.71%	13.65%	13.60%
Change	(0.32%)	(0.27%)	(0.40%)	(0.44%)	(1.83%)

Table 5: Average Interest Rate and Yields

	NIBOR				Treasury Bill Yields		
	Call	**30 Day**	**90 Day**	**180 Day**	**91-Day**	**182-Day**	**364-Day**
April	22.57%	14.75%	15.91%	16.88%	10.57%	14.42%	15.71%
May	13.45%	14.08%	15.25%	16.46%	10.28%	13.70%	15.20%
Change	(9.12%)	(0.67%)	(0.66%)	(0.42%)	(0.29)%	(0.72%)	(0.51%)

Table 6: Market Liquidity (N'bn)

	April 2015			May 2015		
	Total Inflow	**Total Outflow**	**Net flow**	**Total Inflow**	**Total Outflow**	**Net flow**
Primary Market: NTB	269	(353)	(84)	262	(262)	(0)
Open Market Operations (OMO) & Rev Repo	671	(934)	(263)	784	(784)	(512)
BOND	535	(70)	465	-	(60)	(60)
FAAC	223	-	223	198	-	198
RDAS	-	-	-	-	-	-
CRR (Debit)/Credit	-	(150)	(150)	-	(206)	(206)
Total	**1,698**	**(1,507)**	**191**	**732**	**(1,312)**	**(580)**

2.1 Revised Outlook Going Forward:

We expect that the CBN will issue NTBs at higher yields in June 2015.

We expect that a total inflow of about N1.17trn will hit the money market from the various government maturing securities and Federation Account Allocation Committee (FAAC) in the month of June 2015. Our expected outflows from the various sources such as government securities and statutory withdrawals are estimated at N736.35bn, leading to a net inflow of N436.94bn. This analysis does not include the possible CBN's interventions at the inter-bank segment of the foreign exchange market; and NNPC withdrawals from the system which are difficult to estimate. The current Nigeria economic fundamentals points to the fact that the government securities market should expect an increase in yields. Although, the yields may drop temporarily because of the huge liquidity in the market, we expect the declining oil prices, declining external reserves, weak exchange rate, expected rise in the inflation rate and expected fiscal deficit to lead to an increase in yields.

Table 7: Expected Inflow and Outflow Analysis - June 2015 (N'bn)

Date	04-June-15	11-June-15	17-June-15	18-Jun-2015	25-June-2015	Others	Total
Inflows	277.70	196.89	-	170.18	303.52	225.00*	1,173.29
Outflows	115.80	-	85.00	170.18	134.57	230.80**	736.35
*Statutory Allocation (FAAC), ** CRR Debit							436.94

Table 8: Revised Yields – Actual Vs Forecast

	Treasury Bills (Primary Market)			FGN Bonds (Secondary Market)				
	91-Day	182-Day	364-Day	Aug-16	Apr-17	Jun-19	Jan-22	Mar-24
JanA-14	11.52%	15.39%	17.04%	15.00%	15.22%	15.22%	15.26%	15.25%
FebA-14	11.17%	14.82%	17.33%	15.82%	15.99%	15.85%	15.76%	15.87%
MarA-14	11.09%	15.95%	18.51%	15.83%	15.99%	15.83%	15.81%	16.06%
AprA-14	10.78%	15.17%	16.47%	13.97%	14.01%	14.11%	14.09%	15.44%
MayA-14	10.28%	13.70%	15.20%	13.65%	13.74%	13.71%	13.65%	13.60%
JunF-14	10.34%	14.03%	15.74%	13.66%	13.81%	13.91%	13.89%	13.98%
JulF14	9.64%	13.33%	15.04%	13.48%	13.62%	13.72%	13.70%	13.79%
AugF-14	9.84%	13.53%	15.24%	13.67%	13.81%	13.92%	13.89%	13.98%
SepF-14	10.04%	13.73%	15.44%	13.83%	13.98%	14.08%	14.06%	14.15%
OctF-14	10.04%	13.73%	15.44%	13.87%	14.01%	14.12%	14.09%	14.19%
NovF-14	10.24%	13.93%	15.64%	14.03%	14.18%	14.28%	14.26%	14.35%
DecF-14	10.24%	13.93%	15.64%	13.81%	13.95%	14.05%	14.03%	14.12%

Yields are expected to increase in the month of June 2015.

As noted earlier, yields are expected to be higher in the month of June 2015. The following factors would drive yields on the fixed income securities in the next few months:

- The fiscal position of the Federal Government. The government is expected to run a higher fiscal deficit in the year 2015.
- The declining oil price and lower oil sales.
- The weak exchange rate.
- The weak external reserves position.

2.2 Strategies:

- Fund Managers should take short positions in the market in anticipation of an increase in yields.

The average yields on the FGN Eurobonds were lower in May 2015 than that recorded in April 2015. The prices of all the FGN Eurobonds closed the month higher than the par values. However, the prices of all the bonds closed lower in the month of May than that of April 2015 signalling an expectation of an increase in yields in June 2015.

Table9: FGN Eurobonds

	10year 6.75% FGN Eurobond January 2021		10year 6.375% FGN Eurobond July 2023		5 year 5.125% FGN Eurobond July 2018	
Date	**Price (US$)**	**Yield (%)**	**Price (US$)**	**Yield (%)**	**Price (US$)**	**Yield (%)**
04-May-15	107.851	5.148	105.955	5.461	102.922	4.133
05-May-15	107.897	5.138	106.045	5.448	102.985	4.111
06-May-15	108.120	5.094	106.404	5.395	103.062	4.083
07-May-15	108.082	5.100	106.385	5.397	103.037	4.091
08-May-15	108.123	5.091	106.465	5.385	103.100	4.069
11-May-15	108.127	5.089	106.409	5.393	103.075	4.076
12-May-15	107.200	5.270	105.542	5.521	102.637	4.222
13-May-15	107.157	5.278	105.432	5.537	102.823	4.158
14-May-15	106.980	5.311	105.170	5.576	102.648	4.216
15-May-15	107.085	5.290	105.169	5.576	102.663	4.210
18-May-15	107.041	5.298	104.984	5.603	102.661	4.210
19-May-15	106.056	5.493	104.018	5.749	102.351	4.314
20-May-15	105.658	5.573	103.552	5.819	102.185	4.368
21-May-15	105.671	5.568	103.610	5.810	102.132	4.386
22-May-15	105.559	5.590	103.510	5.825	102.175	4.370
25-May-15	105.532	5.596	103.315	5.855	102.262	4.341
26-May-15	105.145	5.673	103.096	5.889	101.970	4.440
27-May-15	105.028	5.697	102.983	5.906	101.758	4.512
28-May-15	105.110	5.679	103.051	5.895	101.770	4.507
29-May-15	105.106	5.680	103.077	5.891	101.780	4.503

3.0 Equity Market:

3.1 The Secondary Market:

The NSE ASI depreciated by 1.15% in the month of May 2015.

The equity market recorded a slight depreciation in May 2015 after trending upward in February, March and April 2015. The decrease in the market performance was due to the persisting macroeconomic issues which dampened investors' sentiments that had improved in the last three months as a result of the successful conduct of the general elections. The Nigerian Stock Exchange All Share Index (NSE ASI) depreciated by 1.15% (a loss of 1.10% in US$) on a month-on-month basis to close at 34,310.37 points. The market capitalisation also fell by 1.09% (a loss of 1.04% in US$) to close at N11.66trn (US$59.18bn). Year-To-Date as at end-May the Index has decreased by 1%.

The downside risks to the sustained recovery in the equity market are still emanating from the weak corporate performance, weak exchange rate position and security issues in some northern states in the country.

The equity market recorded a slight depreciation in May 2015 after trending upward in February, March and April 2015.

A cursory look at the movements in the individual sectoral indices shows that the highest month-on-month gain was recorded in the NSE Industrial Index with a gain of 2.03%, as some stocks in the Index continue to offer upward potential in their prices. This was followed by the NSE Insurance Index with a gain of 1.80%. The highest month-on-month loss was recorded in the NSE Consumer Goods Index with a loss of 4.05%, followed by the Oil and Gas Index with a loss of 0.95%. The mixed performance of the sectoral indices was as a result of the conflicting effects of the depressed investor sentiments and the continued activities of bargain hunters.

Table 10: Nigerian Equity Market: Key Indicators

Month	Volume (bn)	Value (N'bn)	NSEASI	Market Cap. (N'trn)	Banking*	Insurance*	Consumer Goods*	Oil/Gas*	Industrial*
APRIL	10.72	103.43	34,708.11	11.79	389.37	146.29	880.62	382.24	2,183.12
MAY	7.95	72.73	34,310.37	11.66	391.92	148.92	844.93	378.61	2,227.49
Change	(25.80%)	(29.68%)	(1.15%)	(1.09%)	0.65%	1.80%	(4.05%)	(0.95%)	2.03%
YTD			(1.00%)	1.58%	11.53%	(0.49%)	(6.49%)	(0.39%)	4.11%

Sources: NSE, FSDH Research. * NSE Sectoral Indices

Table 11: Major Earning Announcements in May 2015

Company and Result	Turnover (Nm)	Change (%)	PBT (Nm)	Change (%)	PAT (Nm)	Change (%)
UACN PROPERTY DEVELOPMENT						
3 Months, Mar. 2015	1,447.02	-53.59	227.43	-52.96	184.06	-52.09
U A C N PLC						
3 Months, Mar. 2015	17,729.42	-10.86	2,296.18	-12.48	1,676.21	-14.95
ASHAKA CEM. PLC						
3 Months, Mar. 2015	4,560.72	-29.90	1,160.68	-58.78	889.01	-53.68
TOTAL NIGERIA PLC						
3 Months, Mar. 2015	60,042.75	-0.91	625.53	-63.41	223.22	-79.14
VITAFOAM NIG PLC						
Full Year, Sep. 2014	16,712.92	-0.57	709.72	15.35	435.60	11.87
CHAMPION BREWERIES						
3 Months, Mar 2015	245.63	41.02	13.40	103.42	9.20	102.35
TRANSCORP HOTELS PLC						
3 Months, Mar. 2015	3,216.50	-22.02	977.56	-44.35	747.82	0.63
NATIONAL SALT CO. NIG. PLC						
3 Months, Mar 2015	2,873.29	6.63	695.91	-14.48	473.22	-16.00
Full Year, Dec 2014	11,250.54	3.81	2,856.40	-29.27	1,867.10	-30.84

Table 12: Major Benefit Announcements in May 2015

Company	Result	DPS(N)	Bonus Ratio	Closure Date	Payment Date	Interim/final
UACN PROPERTY DEVELOPMENT	Full Year, Dec. 2014	0.50		7-Aug-15	2-Sep-15	Final
SMART PRODUCTS NIGERIA PLC	Full Year, Dec. 2014	0.25	-	3-Jul-15	11-Aug-15	Final
SKYE BANK PLC	Full Year, Dec. 2014	-	1 for 20	21-May-15	NA	Final
E-TRANZACT INTERNATIONAL PLC	Full Year, Dec. 2014	0.05	-	22-Jun-15	6-Aug-15	Final
AIRLINE SERVICES AND LOGISTICS PLC	Full Year Dec. 2014	0.15	-	15-Jun-15	3-Jul-15	Final
NATIONAL SALT CO. NIG. PLC	Full Year Dec. 2014	0.50	-	25-May-15	12-Jun-15	Final
COMPUTER WAREHOUSE GROUP	Full Year, Dec. 2014	0.02	-	8-Jun-15	1-Jul-15	Final

The Nikkei 225 Index (Japan) recorded the highest MoM growth of 5.34% with a gain of 17.84% in its YTD performance.

The table 13 below shows the performance of some selected foreign equities markets around the world. The Nikkei 225 Index (Japan) recorded the highest MoM growth of 5.34% with a gain of 17.84% in its YTD performance. This is followed by the GSE All Share Index (Ghana) with a MoM return of 3.95%, and a growth of 4.49% in its YTD performance. The least MoM performance was recorded in the Nairobi All Share Index (Kenya), with a loss of 6.39%, and a YTD depreciation of 0.47%.

Table 13: Foreign Equity Market Performance in May 2015

North/Latin America	YTD Change		Month-on-Month change
Dow Jones Industrial Average	1.05%		0.95%
S&P 500 Index	2.36%		1.05%
NASDAQ Composite	7.05%		2.60%
Brazil Stock Market Index	5.51%		(6.17%)
Europe			
Swiss Market Index	2.83%		1.77%
FTSE 100 Index (UK)	6.37%		0.34%
CAC 40 Index (France)	17.21%		(0.76%)
DAX Index (Germany)	16.40%		(0.35%)
SMSI Index (Madrid, Spain)	9.07%		(1.40%)
Africa			
NSE All-Share Index	(1.00%)		(1.15%)
JSE All-Share Index (S/A)	5.02%		(3.99%)
Nairobi All Share Index (Kenya)	(0.47%)		(6.39%)
GSE All-Share Index (Ghana)	4.49%		3.95%
Asia/Pacific			
NIKKEI 225 Index (Japan)	17.84%		5.34%
BSE 30 Index (India)	1.20%		3.03%
Hang Seng Index (Hong Kong)	16.18%		(2.52%)

The equity market is expected to remain quiet in the month of June.

.

3.2. Outlook for the Month of June:

- The market may remain quiet in the month of June and await the release of Q2 results.
- The political stability in the country should attract foreign investment which will add liquidity in the market.
- The success recorded so far in the fight against the insecurity in the North-East of Nigeria should help to boost economic activities in the region. This will in turn boost the revenue and profitability of companies that sell goods and services in the region.
- The policy direction of the current administration may set the path that the equity market would follow in the short term.

3.3. Strategies:

- Strategic investment in some value stocks may be a good move at the moment.

Table 14: Equity Market Trend Analysis

	YEARS				
MONTHS	**2010**	**2011**	**2012**	**2013**	**2014**
MAY	26,183.21	25,866.62	22,066.40	37,794.75	41,474.40
JUNE	25,384.14	24,980.20	21,599.57	36,164.30	42,482.48
% CHANGE	**(3.05%)**	**(3.43%)**	**(2.12%)**	**(4.31%)**	**2.43%**

Going by the average historical trend over the last five years, the equity market should record a negative performance in the month of June 2015. The Q1 2015 weak corporate performance and the low economic activities coming from the shortage of petroleum products may result in a weak performance in the equity market in the month of June 2015.

Table 15: Revised Asset Allocation	
Asset Class	**Fund Allocation**
Equities	30%
Fund Placement	10%
Treasury Bills	15%
Real Estate Investment Trust (REIT)	5%
Bonds	25%
Collective Investment Schemes	15%

Table 16: Bond Recommendation

S/N	Security Description	Tenor To Maturity	Coupon	Current Price	Current Yield	Modified Duration
1	13.05% FGN AUG 2016	1.19	13.05%	99.25	13.71%	1.03
2	16% FGN JUN 2019	4.06	16.00%	106.40	13.88%	2.78
3	14.20% FGN MAR 2024	8.77	14.20%	101.90	13.81%	4.81
4	12.1493% FGN JUL 2034	19.11	12.15%	88.10	15.94%	6.40

Table 17: Stock Recommendation

Stocks	Max Entry Price	52 Week Low	52 Week High	Trailing EPS	Trailing PE Ratio	Target Price
FBNH	9.05	6.37	10.54	2.34	3.87	10.50
UACN	41.50	26.22	42.31	5.43	7.64	48.14
Flour Mills	34.01	27.67	39.80	1.04	32.70	39.45
UPDC	10.46	8.10	11.99	2.46	4.24	12.13
Transcorp	2.75	2.28	3.59	0.06	45.41	3.19
WAPIC	0.54	0.50	0.64	0.01	37.99	0.63
Dangote Cement	180.00	141.9	190	10.59	16.99	208.80
Diamond Bank	4.49	3.45	5.45	1.24	3.62	5.21
Dangote Sugar	6.50	5.10	7.74	0.85	7.61	7.54
Lafarge Africa	98.00	76	98.50	7.31	13.40	122.00
Zenith Bank	20.20	15	25.05	3.30	6.12	23.43
Nig. Breweries	147.99	128	172	5.36	27.60	164.66
Nestle	869.00	746.25	1050	24.20	35.90	1,008.04

Table 18: Select Global Bonds Issue

Country	Bond	TTM*
Brazil	12.50% January 05, 2016	1
China	3.52% February 21, 2023	8
Egypt	17% April 03, 2022	7
India	8.15% June 11, 2022	7
Kenya	12.705% June 13, 2022	7
Nigeria	16.39% FGN JAN 2022	7
Russia	7.60% April 14, 2021	6
South Africa	7.75% February 28, 2023	8
United States	1.75% May 15, 2023	8

*TTM – Tenor to maturity

For enquiries please contact us at our offices:

Lagos Office: 5th-8th floors UAC House, 1/5 Odunlami Street, Lagos. Tel: 234-1-2702880-2; 234-1-2702887.

Port Harcourt Office: 2nd Floor, Mainstreet Bank Building (Former Afribank Building) 5 Trans Amadi Road, Port Harcourt. Tel: 234-8024081331.

Abuja Office: Abia House (2nd Floor), Plot 979, 1st Avenue, Off Ahmadu Bello Way, Cadastral Zone AO, Central Business District, Abuja. Tel.: 09-6700535, 09-2731170

Website: www.fsdhgroup.com **email:** research@fsdhgroup.com

Our Reports and Prices are also Available on Bloomberg {FSDH<GO>}