# Monthly Economic and Financial Market Outlook

*Awaiting Fiscal Stimulus*

*August 2015*

## 1.0. Global and Domestic Economic Issues:

*There was a general increase in the prices of the bond market in the countries that we monitored in July 2015.*

There was a general increase in the prices of bonds in the countries that we monitored in July 2015, compared with the decreases recorded in the month of June 2015. The 7.60% April 14, 2021 Russia Government Bond recorded the highest price increase of 1.54% to 87.83 in July 2015; followed by the 1.75% May 2023 United States (U.S.) Treasury Note, which recorded an increase in price of 1.41% to 97.95. The Argentina Bond and the Russia Bond closed the month at negative real yields. The real yield on the Kenyan Bond remains the most attractive amongst the countries we monitored, followed by the Nigerian Bond. The higher yield on the Nigerian Bond in July continues to reflect the macroeconomic headwinds the economy was faced with during the review period. The appropriate pricing of the foreign exchange rate, inflationary expectation, and policy direction of the Federal Government remain critical factors that could spur a renewed interest by investors in taking advantage of the high yield on the Nigerian bond.

*The Fed maintained its target rate at 0-0.25% at its July 2015 meeting.*

The Federal Open Market Committee (FOMC) of the U.S. Federal Reserve (Fed) maintained the federal fund rate at 0-0.25% at the end of its July 2015 meeting, in order to support continued progress toward maximum employment and price stability. The Fed added that in determining how long to maintain this target range, the FOMC will assess progress, both realized and expected, toward its objectives of maximum employment and 2% inflation rate. The FOMC also notes that it will be appropriate to raise the target range for the federal funds rate when it has seen some further improvement in the labour market and is reasonably confident that inflation will move back to its 2% target over the medium term. Meanwhile, the recent devaluation in China may delay a rate hike in the U.S.

Table 1: Summary of Key Indicators

| S/N | Indicators | Argentina | Brazil | China | Egypt | India | Kenya | Nigeria | Russia | South Africa | Turkey | USA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Bond Price | 88.50 | 99.58 | 100.42 | 112.08 | 100.46 | 99.21 | 106.21 | 87.83 | 97.85 | 96.70 | 97.95 |
| 2 | Bond Yield | 7.56% | 13.43% | 3.46% | 14.13% | 8.06% | 12.87% | 14.86% | 10.76% | 8.13% | 9.38% | 2.04% |
| 3 | Bond Price MoM Change | 0.00% | 0.37% | 0.52% | 0.07% | 0.55% | 0.44% | (0.12%) | 1.54% | 0.10% | (1.02%) | 1.41% |
| 4 | Bond Yield MoM Change | 0.11% | (0.77%) | (0.08%) | (0.03%) | (0.11%) | (0.10%) | 0.02% | (0.32%) | (0.01%) | 0.18% | (0.19%) |
| 5 | Bond Price YTD Change | (5.85%) | (1.29%) | 1.49% | 3.77% | (0.29%) | (5.62%) | 1.63% | 20.32% | (1.94%) | (8.51%) | 0.66% |
| 6 | Bond Yield YTD Change | 1.10% | 1.89% | (0.22%) | (1.00%) | 0.05% | 1.21% | (0.46%) | (3.98%) | 0.34% | 1.50% | (0.07%) |
| 7 | Volatility | 0.00 | 0.19 | 0.21 | 0.10 | 0.20 | 0.63 | 0.72 | 0.91 | 0.36 | 0.91 | 0.86 |
| 8 | FX Rate MoM Change* | 1.09% | 10.26% | 0.14% | 2.44% | 0.76% | 3.12% | (0.13%) | 11.65% | 4.37% | 3.35% | (1.52% |
| 9 | FX Rate YTD Change* | 7.86% | 28.74% | 0.07% | 9.34% | 1.73% | 12.97% | 8.40% | 1.60% | 9.76% | 15.67% | (9.22%) |
| 10 | Inflation Rate | 15.00% | 8.89% | 1.40% | 11.40% | 5.40% | 6.62% | 9.20% | 15.30% | 4.70% | 6.81% | 0.10% |
| 11 | Policy Rate | 17.93% | 14.25% | 4.85% | 8.75% | 7.25% | 11.50% | 13.00% | 11.00% | 6.00% | 7.50% | 0.25% |
| 12 | Debt to GDP | 45.60% | 58.91% | 22.40% | 90.50% | 65.50% | 49.80% | 10.50% | 17.92% | 39.00% | 33.00% | 102.00% |
| 13 | GDP Growth Rate | 1.10% | (1.60%) | 7.00% | 3.00% | 7.50% | 4.90% | 3.96% | (2.20%) | 2.10% | 2.30% | 2.30% |
| 14 | Nominal GDP (US$) | 540bn | 2,346bn | 1,0360bn | 287bn | 2,067bn | 60.94bn | 569bn | 1,861bn | 350bn | 800bn | 17,419bn |
| 15 | Current Acct to GDP | (0.90%) | (4.17%) | 2.10% | (0.44%) | (1.40%) | (7.50%) | 2.60% | 3.09% | (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 Economic Outlook:

*The IMF forecasts global growth at 3.3% in 2015, and strengthen to 3.8% in 2016.*

According to the World Economic Outlook Update, July 2015 edition, of the International Monetary Fund (IMF), the global economy is forecast to grow at 3.3% in 2015, with a gradual pickup in advanced economies and a slowdown in emerging market and developing economies. In 2016, the IMF says growth is expected to strengthen to 3.8%. The IMF said in Q1 2015, world economy grew at 2.2%, which was about 0.8% lower than the forecasts in the April 2015 WEO. The shortfall reflected to an important extent an unexpected output contraction in the U.S, with attendant spill-over to Canada and Mexico. The performance of the U.S. economy in Q1 2015 was affected by one-off factors, notably harsh winter weather and port closures, as well as a strong downsizing of capital expenditure in the oil sector. The IMF added that outside North America, positive and negative surprises were roughly offsetting, while the growth in output and domestic demand in the emerging market and developing economies broadly weakened. However, the IMF noted that the underlying drivers for a gradual acceleration in economic activity in advanced economies, which includes easy financial conditions, more neutral fiscal policy in the Euro-area, lower fuel prices, and improving confidence and labour market conditions, remain intact.

*The underlying drivers for acceleration in consumption and investment in the U.S. remain intact.*

The growth in advanced economies is projected to increase from 1.8% in 2014 to 2.1% and 2.4% in 2015 and 2016 respectively. It is expected that the unforeseen weakness in North America, which accounts for the lion's share of the growth forecast revision in advanced economies, is likely to prove a temporary setback. The underlying drivers for acceleration in consumption and investment in the U.S, which include wage growth, labour market conditions, easy financial conditions, lower fuel prices, and a strengthening housing market, remain intact. Furthermore, the IMF stated that the economic recovery in the Euro-area seems broadly on track, with a generally robust recovery in domestic demand and inflation beginning to increase. In Japan, growth in Q1 2015 was stronger than expected, supported by a pickup in capital investment.

*Growth in emerging market and developing economies is projected to slow from 4.6% in 2014 to 4.2% in 2015.*

Growth in emerging market and developing economies is projected to slow from 4.6% in 2014 to 4.2% in 2015. The slowdown reflects the dampening impact of lower commodity prices and tighter external financial conditions, particularly in Latin America and oil exporters; the rebalancing in China, and structural bottlenecks; as well as economic distress related to geopolitical factors. In 2016, growth in emerging market and developing economies is expected to pick up to 4.7%, largely on account of the projected improvement in economic conditions in a number of distressed economies, including Russia and some economies in the Middle East and North Africa.

*The upside risk to the global economic outlook stems from lower oil prices, especially in advanced economies.*

*The downside risks to the outlook are from the disruptive asset price shifts and a further increase in financial market volatility.*

The upside risk to the global economic outlook stems from lower oil prices, especially in advanced economies. The downside risks to the outlook are from the disruptive asset price shifts and a further increase in financial market volatility. The IMF added that the term and risk premium on longer-term bonds are still very low, and there is a possibility of markets reacting strongly to surprises in this context. Such asset price shifts also bear risks of capital flow reversals in emerging market economies. The U.S. Dollar appreciation also poses risks of balance sheet and funding risks for Dollar debtors, especially in some emerging market economies. Other downside risks include low medium-term growth or a slow return to full employment amid very low inflation and crisis legacies in advanced economies; greater difficulties in China's transition to a new growth model; as illustrated by the recent financial market turbulence; and spill-over to economic activity from increased geopolitical tensions in Ukraine, the Middle East, or parts of Africa.

Table 2: Regional GDP Growth (Actual Vs Forecast) %

| | 2013 | 2014 | 2015F | 2016F |
|---|---|---|---|---|
| World | 3.4 | 3.4 | 3.3 | 3.8 |
| USA | 2.2 | 2.4 | 2.5 | 3.0 |
| Japan | 1.6 | (0.1) | 0.7 | 1.2 |
| Euro-Area | (0.4) | 0.8 | 1.5 | 1.7 |
| Emerging & Developing Economies | 5.0 | 4.6 | 4.2 | 4.7 |
| China | 7.7 | 7.4 | 6.8 | 6.3 |
| India | 6.9 | 7.3 | 7.5 | 7.5 |
| Sub-Saharan Africa | 5.2 | 5.0 | 4.4 | 5.1 |
| Nigeria | 5.4 | 6.3 | 4.5 | 5.0 |

*Source: IMF World Economic Outlook (WEO) Update, July 2015*

Table 3: World Trade Growth (Actual Vs Forecast ) %

| | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| World Trade Volume | 3.5 | 3.2 | 4.1 | 4.4 |
| Imports: | | | | |
| Advanced Economies | 2.1 | 3.3 | 4.5 | 4.5 |
| Emerging & Developing Economies | 5.2 | 3.4 | 3.6 | 4.7 |
| Exports: | | | | |
| Advanced Economies | 3.1 | 3.3 | 3.2 | 4.1 |
| Emerging & Developing Economies | 4.6 | 3.4 | 5.3 | 5.7 |

*Source: IMF World Economic Outlook (WEO),July 2015*

## 1.2 Public Debt:

*Nigeria's total debt stock as at June 2015 stood at N12.12trn.*

The available data from the Debt Management Office (DMO) shows that the Nigeria's total debt stock (addition of external and domestic debt) as at June 2015 stood at N12.12trn, representing an increase of 7.83% from the December 31, 2014 figure of N11.24trn. A breakdown of the debt stock shows that external debt accounted for 16.77% of the total debt stock at N2.03trn (US$10.32bn at an average exchange rate of US$1/ N196.95), while domestic debt stock accounted for 83.23% of the total debt stock at N10.09trn (US$1/N188.58bn). The debt-to-GDP for 2014 stood at 12.47%. FSDH Research estimates a debt-to-GDP ratio of 12.89% to end year 2015. 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% set for the economy by the government.

We expect the FGN to increase the external debt as the current mix is lower than the optimal mix of 40% external and 60% domestic.

## 1.3 Unemployment Rate:

*The unemployment rate in Nigeria increased to 8.2% in Q2 2015 from 7.5% in Q1 2015.*

According to the Nigerian Bureau of Statistics (NBS), the number of unemployed in the labour force in Q2 2015 increased by 9.58% (529,923), resulting in an unemployment rate of 8.2% in Q2 2015 from 7.5% in Q1 2015. This represents a third consecutive rise in the unemployment rate since Q3 2014. The number of underemployed in the labour force in Q2 2015 increased by 11.16% (1,362,274), resulting in an increase in the underemployment rate to 18.3% (13.5mn) in Q2 2015, from 16.6% (12.2mn) in Q1 2015. The NBS noted that there were a total of 19.6 million people between ages 15-64 who were either unemployed or underemployed in the labour force in Q2 2015, compared to 17.7 million in Q1 2015.

The report showed that the economically active population or working age population (persons within ages 15-64) increased from 102.8million in Q1 2015 to 103.5million in Q2 2015. In Q2 2015, the labour force population (i.e those within the working age population willing, able and actively looking for work) increased to 74million from 73.4million in Q1 2015, representing an increase in the labour force by 0.81%. This means 574,498 economically active persons within 15-64 entered the labour force between April 01, 2015 and June 30, 2015. Within the same period, the total number of people in full employment (who did anytime type of work for at least 40hours) decreased by 2.37% (1,317,700). The NBS asserted that the drop in the number of full employment (those working less than 40 hours) despite a rise in the labour force can be attributed more to job losses or previously fully employed persons choosing or being forced to work part time or in underemployment.

*29.5mn persons decided not to work in Q2, 2015.*

The NBS is of the view that, with an economically active or working age population of 103.5mn and labour force population of 74.0mn, this means 29.5mn persons within the economically active or working age population decided not to work for various reasons in Q2 2015 compared to 29.3mn in Q1 2015.

### 1.4 Inflation Rate:

The combination of supply related bottlenecks continue to put an upward pressure on food and other goods and services in the inflation basket in June 2015. The inflation rate increased for the sixth consecutive month in 2015 to 9.2% in June 2015 from 9.0% in May 2015. The Food Price Index increased by 10% in June 2015 (year-on-year), higher than 9.8% in May 2015. There are significant upward biases to the inflation rate in Nigeria, stemming from supply–related shocks, insecurity in the food producing region of the country and the pressure on the foreign exchange rate. The devaluation of the Naira and the restrictions placed on some items in the foreign exchange market also has an upward bias on domestic prices. We estimate that the inflation rate would increase to 9.4% in July 2015 as shown on table 4 below:

*The inflation rate increased for the sixth consecutive month in 2015 to 9.2% in June 2015.*

Table 4: Inflation Rate Actual Vs Forecast

| Date | Jan-15 A | Feb-15A | Mar-15A | Apr-15A | May-15A | Jun-15A | Jul-15F | Aug-15F | Sep-15F | Oct-15F | Nov-15F | Dec-15F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FSDH Forecast | 8.2% | 8.4% | 8.5% | 8.7% | 9.00% | 9.2% | 9.4% | 9.6% | 9.7% | 9.8% | 9.9% | 9.9% |

## 1.5 Movement in the External Reserves:

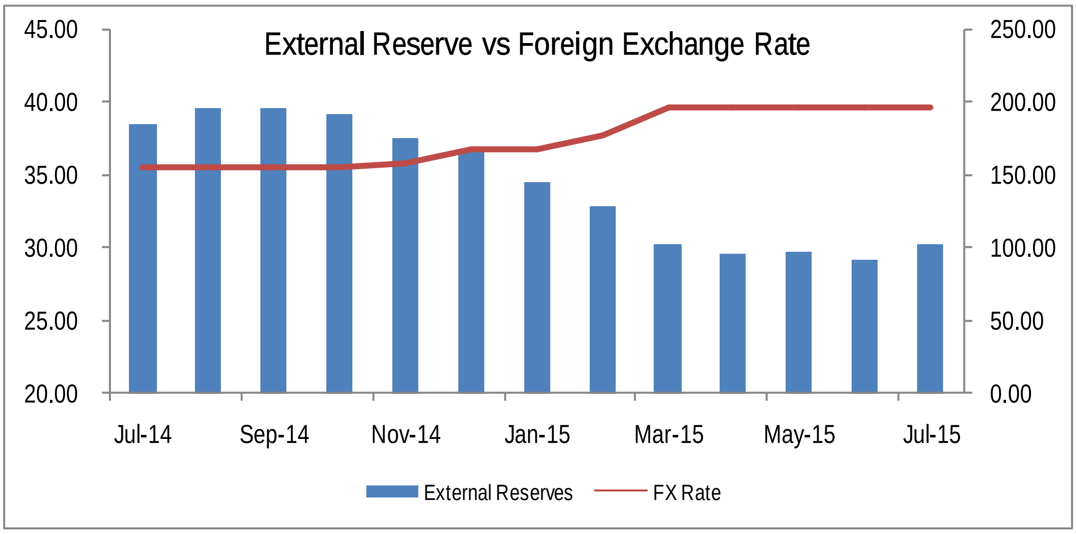
*The external reserve was boosted by the efforts of the CBN at stemming speculative demand for the Naira.*

There has been continuous accretion to the external reserves since July 01, 2015 till date following the CBN's policy to restrict some items from access to the official foreign exchange market. The external reserves was boosted by the efforts of the CBN at stemming speculative demand for the Naira, as well as putting a lid on the illicit fund flow through the banking system. The curtailment of the acceptance of foreign currency cash deposits by the banks led to the supply of the foreign exchange in the parallel market thus reducing the pressure on the external reserves to a large extent.

The external reserves decreased by 8.99% to stand at US$31.50bn as at end-July 2015 from US$34.47bn as at end-December 2014. Month-on-month, the external reserves increased by 8.62% in July 2015 to US$31.50bn, from US$29bn as at end-June 2015. The average external reserve for the month of July 2015 stood at US$30.27bn, compared with the average of US$29.13bn in the month of June 2015. It is estimated that the current external reserves can cover less that 6 months of imports.

*Month-on-month, the external reserves increased by 8.62% in July 2015 to US$31.50bn, from US$29bn as at end-June 2015*

We note that successful efforts of the CBN at conserving the external reserves in July 2015 from further sharp draw downs are temporary measures, and cannot guarantee the long term conservation of the external reserves. The implementation of additional complementary fiscal policy by the Federal Government to stem the over-dependence on oil revenue and eliminate or reduce the leakages in the economy would help to further the recent accretion to the external reserves.



## 1.6 Crude Oil Market and Bonny Light Price:

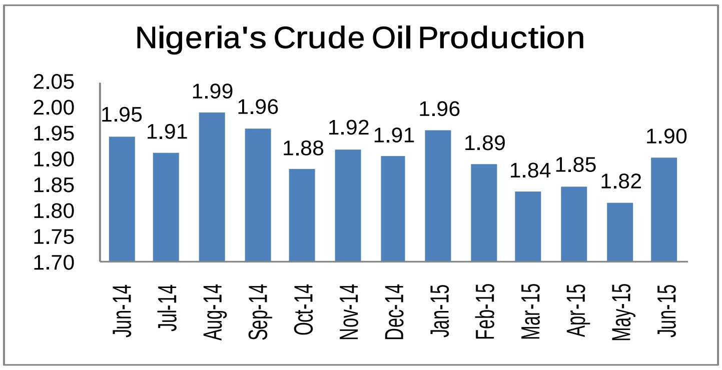
*The daily crude oil production in Nigeria increased by 4.40% to 1.90mbpd in June 2015, from 1.82mbpd in May 2015.*

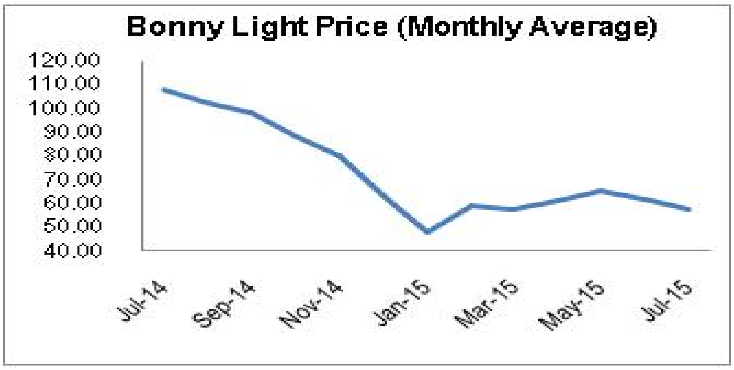
The daily crude oil production in Nigeria increased by 4.40% to 1.90mbpd in June 2015, from 1.82mbpd in May 2015 based on the secondary data available from the Organization of the Petroleum Exporting Countries (OPEC) report for the month of July 2015. The total OPEC crude oil production from secondary sources was 31.38mbpd in June 2015, an increase of 0.90% from 31.10mbpd over the previous month, and clearly above the agreed collective OPEC production quota of 30mb/d. Crude oil production output increased mostly from Iraq, Nigeria, Saudi Arabia, United Arab Emirates and Qatar; while production recorded the largest drop in Libya, Iran, Kuwait, Algeria, Angola, Venezuela and Ecuador.

*The average price of Bonny Light was lower in July 2015 than in June 2015.*

The U.S Energy Information Administration (EIA) noted that North Sea Brent crude oil prices averaged US$61/b in June 2015, lower than US$64/b in May 2015. Crude oil prices in July was impacted by the Greek economic crisis, lingering concerns about lower economic growth in China, higher oil exports from Iran, and continuing growth in global oil supply and inventories. The EIA added that monthly Brent crude oil prices have averaged between US$55/b and US$65/b per month in 2015 since falling to US$48/b in January 2015. The EIA forecasts that Brent crude oil prices will average US$60/b and US$67/b in 2015 and 2016, respectively. According to the data from Reuters, the Bonny Light oil price decreased by 10.26% to US$54.40/b as at end-July 2015, from end-June 2015. However, the average price of Bonny Light was US$57.30/b in July 2015, a decrease of 7.58% from the average price of US$62/b recorded in June 2015.

According to OPEC, the Nigerian National Petroleum Corporation (NNPC) cut its July official selling price for Bonny light and Qua Ibo to 10-year lows relative to North Sea Brent, as an overhang of 15mb July cargoes were unsold. The OPEC added that loading delays also hurt certain Nigerian grades as refiners looked for more reliable alternatives. Moreover, West African crudes were undermined by excess supply and relatively high freight rates for their cargoes making cheap North Sea and Mediterranean grades more attractive to some European buyers.



## 1.7 Exchange Rate:

The various administrative measures put in place by the CBN in the foreign exchange market seem to be achieving the desired results. Although the measures have been criticised by many analysts' especially foreign analysts; the exchange rate at the official window remain stable while the parallel market rate is appreciating. The CBN restricted some items from the market, closed the two-way quote in the interbank market and encouraged the banks not to accept cash dollar deposits from customers.

*The CBN has been leading the efforts by Nigerian banks to curtail the acceptance of foreign currency cash deposits.*

The average exchange rate at the official market depreciated by 0.51% to stand at N196.97/US$1 in July 2015. The inter-bank market rate also depreciated by 0.50% to stand at N198.99/US$1 for the month of July 2015, and also shed 0.45% of its value at the parallel market to N238.96/US$1 in July 2015.

We expect further convergence in the value of the Naira amongst the different segments of the foreign exchange market in August 2015. The long run stability in the value of the Naira depends on the insulation of the Nigerian economy from the consistent volatility in oil revenue, which is mostly outside the influence of the Nigerian economy. The efforts of the CBN need to be complemented with fiscal policy, which should be aimed at improving the level of infrastructure, the regulatory environment, and improving the competitiveness of the Nigerian manufacturer and farmers.

*The efforts of the CBN need to be complemented with fiscal policy..*

Although the CBN may keep to its current exchange rate position, we believe that with the huge demand pressure in the foreign exchange market in the face of the declining oil price and unsold oil production, we are inclined to maintain our forecast exchange rates as shown in table 5 below.

Table 5: Exchange Rate US$/N Actual(A) Vs Forecast

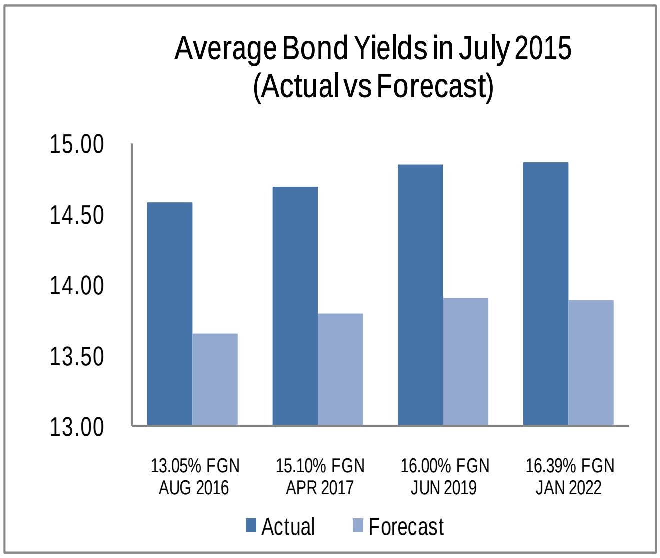
| | Jan-A | Feb-A | Mar-A | Apr-A | May-A | Jun-A | Jul-A | Aug-F | Sep-F | Oct-F | Nov-F | Dec-F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Exchange Rate | 168.00 | 177.00 | 197.07 | 199.12 | 199.17 | 198.96 | 196.97 | 216.00 | 215.50 | 215.00 | 215.00 | 214.00 |

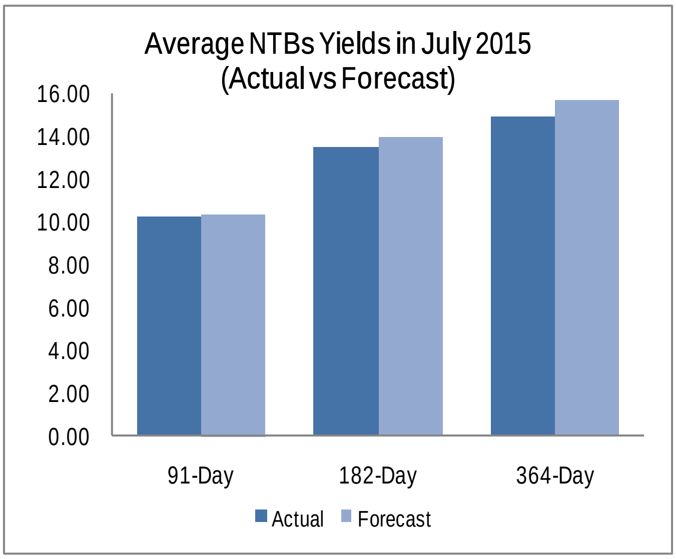
## 2.0 Interest Rate and Yield Analysis:

Our analysis of the liquidity situation in the money market and the fixed income securities market in the month of July 2015 shows that there was a net outflow of about N132bn from various sources, compared with a net inflow of about N338bn in the month of June 2015. The major outflows in the month of July 2015 were the Open Market Operations (OMO) of about N771.82bn, the Primary NTB of about N178.37bn, and the bond auction of about N44bn. Meanwhile, in the month of June 2015 the major outflow from the market was from the OMO of about N517bn, the Primary NTBs of about N250bn, and the bond auction of about N80bn. The major inflows into the market in July were the matured OMO and REPO Bills of N362bn, the NTBs of about N229bn, and the Federation Account Allocation Committee injection of about N270bn. In June, the matured OMO and REPO Bills of N678bn, the NTBSs of about N256bn, and the FAAC of N218bn were the major inflows into the market.

*The unstable macroeconomic environment had a major impact on the direction of yield in July 2015.*

The average yields on the Nigerian Government Treasury Bills (NTBs) auction recorded mixed performance in July 2015 compared with June 2015. The average 91-day NTB yield increased to 10.26% in July 2015 from 10.15% in June 2015. The average 182-day NTB yield closed at 13.49% in July, down from 13.62% in June; and the average 364-day NTB yield closed unchanged at 14.94% in July, same as in June. The average 30-day NIBOR decreased to close at 14.31% in July 2015, from 15.38% in June 2015, and the average 90-day NIBOR also decreased to 15.99% from 16.47% in the preceding month. The unstable macroeconomic environment had a major impact on the direction of yield in July 2015.



*The average forecast yields on the bonds for the month of July were mostly lower than the actual.*

Our analysis of the average forecast yields on the bonds for the month of July were mostly lower than the actual; majorly from the persistence of the risk premium added by the market, coming from the pressure on the Naira and the expectation of higher inflation rate.

Table 6: 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 |
|---|---|---|---|---|---|
| June | 13.72% | 13.84% | 13.97% | 13.92% | 15.48% |
| July | 14.59% | 14.70% | 14.86% | 14.87% | 15.49% |
| Change | 0.87% | 0.86% | 0.89% | 0.95% | 0.01% |

Table 7: Average Interest Rate and Yields

| | NIBOR | | | | Treasury Bill Yields | | |
|---|---|---|---|---|---|---|---|
| | Call | 30 Day | 90 Day | 180 Day | 91-Day | 182-Day | 364-Day |
| June | 14.05% | 15.38% | 16.47% | 17.53% | 10.15% | 13.62% | 14.94% |
| July | 11.01% | 14.31% | 15.99% | 16.80% | 10.26% | 13.49% | 14.94% |
| Change | (3.04%) | (1.07%) | (0.48%) | (0.73%) | 0.11% | (0.13%) | 0.00% |

Table 8: Market Liquidity (N'bn)

| | June 2015 | | | July 2015 | | |
|---|---|---|---|---|---|---|
| | Total Inflow | Total Outflow | Net flow | Total Inflow | Total Outflow | Net flow |
| Primary Market: NTB | 236 | 250 | 14 | 229 | 178 | 51 |
| Open Market Operations (OMO) & Rev Repo | 678 | 517 | 161 | 363 | 772 | (409) |
| BOND | - | 80 | (80) | 0 | 44 | (44) |
| FAAC | 218 | - | 218 | 270 | - | 270 |
| RDAS | - | - | - | - | - | - |
| CRR (Debit)/Credit | 54 | NA | 54 | - | - | - |
| Total | 1,186 | 847 | 338 | 862 | 994 | 132 |

## 2.1 Revised Outlook Going Forward:

*The expected mop-up activity of probable excess liquidity by the CBN in the month of August 2015 is expected to lead to an increase in yield.*

We expect that a total inflow of about N775.28bn will hit the money market from the various government maturing securities and Federation Account Allocation Committee (FAAC) in the month of August 2015. Our expected outflows from the various sources such as government securities and statutory withdrawals are estimated at N558.41bn, leading to a net inflow of N216.87bn. 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 foreign investors participation is still hinged on their perception of the appropriate equilibrium price of the foreign exchange rate of the Naira, and they are expected to hold on to this position, as the CBN continues to use administrative measures to restrict access to the foreign exchange market. The expected mop-up activity of probable excess liquidity by the CBN in the month of August 2015 is expected to lead to an increase in yield. This is consistent with the general macroeconomic risk in the country at the moment.

Table 9: Expected Inflow and Outflow Analysis - August 2015 (N'bn)

| Date | 06-Aug-15 | 13-Aug-15 | 17-Aug-15 | 20-Aug-15 | 27-Aug-15 | Others | Total |
|---|---|---|---|---|---|---|---|
| Inflows | 195.18 | 183.21 | - | 62.44 | 101.92 | 232.54* | 775.28 |
| Outflows | 195.18 | - | 70.00 | 62.44 | - | 230.80** | 558.41 |
| *Statutory Allocation (FAAC), ** CRR Debit | | | | | | | 216.87 |

Table 10: 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-15 | 11.52% | 15.39% | 17.04% | 15.00% | 15.22% | 15.22% | 15.26% | 15.25% |
| FebA-15 | 11.17% | 14.82% | 17.33% | 15.82% | 15.99% | 15.85% | 15.76% | 15.87% |
| MarA-15 | 11.09% | 15.95% | 18.51% | 15.83% | 15.99% | 15.83% | 15.81% | 16.06% |
| AprA-15 | 10.78% | 15.17% | 16.47% | 13.97% | 14.01% | 14.11% | 14.09% | 15.44% |
| MayA-15 | 10.28% | 13.70% | 15.20% | 13.65% | 13.74% | 13.71% | 13.65% | 13.60% |
| JunA-15 | 10.15% | 13.62% | 14.94% | 13.72% | 13.84% | 13.97% | 13.92% | 15.48% |
| JulF-15 | 10.26% | 13.49% | 14.94% | 14.59% | 14.70% | 14.86% | 14.87% | 15.49% |
| AugF-15 | 10.35% | 13.60% | 15.02% | 14.65% | 14.75% | 14.99% | 15.11% | 15.60% |
| SepF-15 | 10.45% | 13.70% | 16.22% | 14.75% | 14.85% | 15.09% | 15.21% | 15.70% |
| OctF-15 | 10.55% | 13.80% | 16.32% | 14.85% | 14.95% | 15.19% | 15.31% | 15.80% |
| NovF-15 | 10.65% | 13.90% | 16.42% | 14.95% | 15.05% | 15.29% | 15.41% | 15.90% |
| DecF-15 | 10.65% | 13.90% | 16.42% | 14.95% | 15.05% | 15.29% | 15.41% | 15.90% |

*Yields are expected to trend higher in the month of August 2015.*

The yields on fixed income securities are expected to trend higher in the month of August 2015. The following factors would drive yields on the fixed income securities in the next few months:

- The reluctance of foreign investors to come into the fixed income securities market.
- The increase in the debt position of the FGN.
- Declining oil price and oil revenue.
- The expectation of an increase in inflation rate.

## 2.2 Strategies:

- Fund Managers should maintain short positions in the market in anticipation of an increase in yields.
- Deposit takers may go long at the current low rates.

The average yields on the FGN Eurobonds were higher in July 2015 than that recorded in June 2015. Consequently, the prices of all the bonds closed lower in the month of July than that of June 2015.

Table 11: 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 (%) |
| 01-Jul-15 | 104.031 | 5.888 | 100.958 | 6.221 | 100.737 | 4.859 |
| 02-Jul-15 | 104.036 | 5.887 | 100.971 | 6.219 | 100.750 | 4.854 |
| 03-Jul-15 | 104.024 | 5.889 | 100.923 | 6.227 | 100.776 | 4.845 |
| 06-Jul-15 | 103.750 | 5.946 | 100.695 | 6.263 | 100.766 | 4.848 |
| 07-Jul-15 | 102.461 | 6.218 | 99.291 | 6.490 | 99.584 | 5.276 |
| 08-Jul-15 | 102.291 | 6.254 | 99.163 | 6.511 | 99.524 | 5.299 |
| 09-Jul-15 | 103.015 | 6.100 | 99.815 | 6.405 | 100.057 | 5.104 |
| 10-Jul-15 | 103.656 | 5.964 | 100.340 | 6.320 | 100.284 | 5.021 |
| 13-Jul-15 | 103.630 | 5.970 | 100.345 | 6.319 | 100.391 | 4.982 |
| 14-Jul-15 | 103.298 | 6.039 | 100.048 | 6.367 | 100.209 | 5.048 |
| 15-Jul-15 | 103.199 | 6.060 | 100.040 | 6.368 | 100.36 | 4.993 |
| 16-Jul-15 | 103.482 | 5.999 | 100.193 | 6.343 | 100.447 | 4.961 |
| 17-Jul-15 | 103.450 | 6.006 | 100.175 | 6.346 | 100.473 | 4.951 |
| 20-Jul-15 | 103.430 | 6.010 | 100.078 | 6.362 | 100.471 | 4.952 |
| 21-Jul-15 | 103.328 | 6.031 | 99.987 | 6.377 | 100.410 | 4.974 |
| 22-Jul-15 | 102.705 | 6.163 | 99.390 | 6.474 | 100.230 | 5.039 |
| 23-Jul-15 | 102.602 | 6.185 | 99.217 | 6.502 | 100.114 | 5.082 |
| 24-Jul-15 | 102.134 | 6.285 | 98.611 | 6.602 | 99.867 | 5.173 |
| 27-Jul-15 | 101.592 | 6.402 | 98.151 | 6.678 | 99.602 | 5.271 |
| 28-Jul-15 | 101.294 | 6.466 | 97.807 | 6.735 | 99.320 | 5.376 |

## 3.0 Equity Market:

### 3.1 The Secondary Market:

*The NSE ASI depreciated by 9.79% in the month of July 2015.*

The equity market continued its downward trend in July 2015, for the third consecutive month. The decrease in the market performance was due to the persisting difficult macroeconomic environment which dampened investors' sentiments and the lacklustre Q2 earnings performance by most quoted companies. The Nigerian Stock Exchange All Share Index (NSE ASI) depreciated by 9.79% (a loss of 9.98% in US$) on a month-on-month basis to close at 30,180.27 points. The market capitalisation also fell by 9.43% (a loss of 9.62% in US$) to close at N10.34trn (US$52.51bn). Year-To-Date as at end-July the Index has decreased by 12.92%. The difficult operating environment has been weighing down the performance of the market. The major factors that continue to plague the market are more of external factors, which include the unresolved security challenges in some parts of the country, the instability in the foreign exchange rate, and regulatory headwinds. The profitability of quoted companies in Q2 2015 was also negatively impacted by the weak consumer spending premised on the delay in the payment of workers' salaries in most states across the nation.

A cursory look at the movements in the individual sectoral indices shows that all indices recorded a month-on-month loss. The largest month-on-month loss was recorded in the NSE Banking Index with a loss of 14.28%, as the sector has been hit by the adverse macroeconomic condition as well as regulatory headwinds. Followed by the NSE Consumer Goods Index with a loss of 12.88%, as this sector is struggling with the devaluation of the Naira and the weak consumer spending power.

Table 12: Nigerian Equity Market: Key Indicators

| Month | Volume (bn) | Value (N'bn) | NSEASI | Market Cap. (N'trn) | Banking* | Insurance* | Consumer Goods* | Oil/Gas* | Industrial* |
|---|---|---|---|---|---|---|---|---|---|
| June | 6.11 | 101.73 | 33,456.83 | 11.42 | 368.29 | 143.69 | 842.70 | 368.54 | 2,271.73 |
| July | 6.19 | 85.41 | 30,180.27 | 10.34 | 315.71 | 134.55 | 734.17 | 339.30 | 2,223.50 |
| Change | 1.30% | (16.04%) | (9.79%) | (9.43%) | (14.28%) | (6.36%) | (12.88%) | (7.93%) | (2.12%) |
| YTD | | | (12.92%) | (9.87%) | (10.16%) | (10.09%) | (18.75%) | (10.74%) | 3.92% |

Sources: NSE, FSDH Research. * NSE Sectoral Indices

Table 13: Major Earning Announcements in July 2015

| Company and Result | Turnover (Nm) | Change (%) | PBT (Nm) | Change (%) | PAT (Nm) | Change (%) |
|---|---|---|---|---|---|---|
| CADBURY NIGERIA PLC | | | | | | |
| 6 months, June 2015 | 14,138 | -7.72 | -251 | -113.99 | -251 | -119.84 |
| FLOUR MILLS NIG. PLC | | | | | | |
| Full year, Mar. 2015 | 309,000 | -5.21 | 7,720 | -5.85 | 8,500 | 57.41 |
| FBN HOLDINGS PLC (First Bank) | | | | | | |
| 6 months, June. 2015 | 271,266 | 27.97 | 52,086 | 7.95 | 40,061 | 7.75 |
| UNION BANK NIG. PLC | | | | | | |
| 6 months, June. 2015 | 55,958 | 5.81 | 6,614 | 2.26 | 6,458 | 1.81 |
| UNILEVER NIGERIA PLC | | | | | | |
| 6 months, Jun. 2015 | 28,722 | -1.91 | 94.07 | -95.34 | 86 | -94.16 |
| TRANSCORP HOTELS PLC | | | | | | |
| 6 months, June 2015 | 7,241 | -10.22 | 2,484 | -20.95 | 1,758 | -16.50 |
| DIAMOND BANK PLC | | | | | | |
| 6 months, June. 2015 | 104,504 | 6.27 | 14,193 | -11.69 | 12,155 | -11.83 |
| FIDELITY BANK PLC | | | | | | |
| 6 months, June 2015 | 71,890 | 13.65 | 9,664 | 2.46 | 8,214 | 2.46 |
| UNITY BANK PLC | | | | | | |
| 6 months, Jun. 2015 | 33,563 | 8.79 | 8,775 | 11.10 | 7,897 | 11.10 |
| GLAXO SMITHKLINE CONSUMER NIG. PLC | | | | | | |
| 6 months, June 2015 | 15,445 | -1.43 | 424 | -66.06 | 297 | -65.56 |
| LAFARGE AFRICA PLC. | | | | | | |
| 6 months, Jun 2015 | 116,709 | 12.05 | 29,722 | 15.00 | 26,210 | 21.86 |
| NESTLE NIGERIA PLC | | | | | | |
| 6 months, June 2015 | 65,924 | -1.90 | 10,607 | -23.87 | 8,887 | 1.90 |
| U A C N PLC | | | | | | |
| 6 months, June 2015 | 37,375 | -7.16 | 2,146 | -57.60 | 1,038 | -70.19 |
| UACN PROPERTY DEVELOPMENT | | | | | | |
| 6 months, June 2015 | 3,497 | -41.55 | -1,578 | -438.99 | -1,578 | -671.55 |
| DANGOTE CEMENT PLC | | | | | | |
| 6 months, June 2015 | 242,215 | 15.94 | 128,726 | 20.23 | 121,808 | 27.63 |

Table 14: Major Benefit Announcements in July 2015

| Company | Result | DPS(N) | Bonus Ratio | Closure Date | Payment Date | Interim/final |
|---|---|---|---|---|---|---|
| HONEYWELL FLOUR MILL PLC | Full year, Mar. 2015 | 0.05 | | 14-Sep-15 | 25-Sep-15 | Final |
| RED STAR EXPRESS PLC | Full year, Mar. 2015 | 0.35 | - | 5-Aug-15 | 14-Sep-15 | Final |
| FLOUR MILLS NIG. PLC | Full year, Mar. 2015 | 2.10 | | 7-Aug-15 | 14-Sep-15 | Final |
| STANBIC IBTC BANK PLC | 6 months, Jun. 2015 | 0.90 | - | 31-Jul-15 | 28-Aug-15 | Final |
| N.E.M INSURANCE CO (NIG) PLC | Full year, Dec. 2014 | 0.06 | - | 6-Jul-15 | 31-Jul-15 | Final |

*The Swiss Market Index recorded the highest MoM growth of 7.37% with a gain of 4.95% in its YTD performance.*

The table 15 below shows the performance of some selected foreign equities markets around the world. The Swiss Market Index recorded the highest MoM growth of 7.37% with a gain of 4.95% in its YTD performance. This is followed by the CAC 40 Index (France) with a MoM return of 6.10%, and a growth of 18.95% in its YTD performance. The least MoM performance was recorded in the NSE All Share Index, with a loss of 9.79%, and a YTD depreciation of 12.92%. This is followed by the Nairobi All Share Index (Kenya), with a loss of 9.74%, and a YTD depreciation of 8.90%.

Table 15: Foreign Equity Market Performance in July 2015

| North/Latin America | YTD Change | | Month-on-Month change |
|---|---|---|---|
| Dow Jones Industrial Average | (0.75%) | | 0.40% |
| S&P 500 Index | 2.18% | | 1.97% |
| NASDAQ Composite | 8.28% | | 2.84% |
| Brazil Stock Market Index | 1.71% | | (4.17%) |
| | | | |
| Europe | | | |
| Swiss Market Index | 4.95% | | 7.37% |
| FTSE 100 Index (UK) | 1.98% | | 2.69% |
| CAC 40 Index (France) | 18.95% | | 6.10% |
| DAX Index (Germany) | 15.33% | | 3.33% |
| SMSI Index (Madrid, Spain) | 8.81% | | 3.75% |
| | | | |
| Africa | | | |
| NSE All-Share Index | (12.92%) | | (9.79%) |
| JSE All-Share Index (S/A) | 4.59% | | 0.48% |
| Nairobi All Share Index (Kenya) | (8.90%) | | (9.74%) |
| GSE All-Share Index (Ghana) | (2.77%) | | (6.54%) |
| | | | |
| Asia/Pacific | | | |
| NIKKEI 225 Index (Japan) | 17.96% | | 1.73% |
| BSE 30 Index (India) | 2.24% | | 1.20% |
| Hang Seng Index (Hong Kong) | 4.37% | | (6.15%) |

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*We expect the market to remain relatively flat in August.*

### 3.2. Outlook for the Month of August:

- We expect the market to remain relatively flat in August, as there are no major events around the world that would serve as catalysts to the market.
- However, the policy direction of the current administration may set the path that the equity market would follow in the short term. Any positive fiscal measure may push the market up.

### 3.3. Strategies:

- Speculators should maintain a hold position.
- Long term investors may take strategic long positions in some stocks.

Table 16: Equity Market Trend Analysis

| | YEARS | | | | |
|---|---|---|---|---|---|
| Months | 2010 | 2011 | 2012 | 2013 | 2014 |
| July | 25,844.18 | 23,826.99 | 23,061.38 | 37,914.32 | 42,097.46 |
| August | 24,268.24 | 21,497.61 | 23,750.81 | 36,248.53 | 41,532.31 |
| % Change | (6.10%) | (9.78%) | 2.99% | (4.39%) | (1.34%) |

The historical performance of the equity market in August on average followed a downward trend. However, the current developments this year may not make the market to follow the historical trend.

| Table 17: Revised Asset Allocation | |
|---|---|
| Asset Class | Fund Allocation |
| Equities | 10% |
| Fund Placement | 20% |
| Treasury Bills | 30% |
| Real Estate Investment Trust (REIT) | 5% |
| Bonds | 25% |
| Collective Investment Schemes | 10% |

Table 18: Bond Recommendation

| S/N | Security Description | Tenor To Maturity | Coupon | Current Price | Current Yield | Modified Duration |
|---|---|---|---|---|---|---|
| 1 | 13.05% FGN AUG 2016 | 1.03 | 13.05 | 98.15 | 15.05 | 0.87 |
| 2 | 16% FGN JUN 2019 | 3.90 | 16.00 | 102.45 | 15.13 | 2.80 |
| 3 | 14.20% FGN MAR 2024 | 8.61 | 14.20 | 95.75 | 15.09 | 4.53 |
| 4 | 12.1493% FGN JUL 2034 | 18.95 | 12.15 | 82.65 | 14.92 | 6.38 |

Table 19: One Year Target Price

| Stocks | Max Entry Price | 52 Week Low | 52 Week High | Trailing EPS | Trailing PE Ratio | Target Price |
|---|---|---|---|---|---|---|
| UACN | 37.00 | 26.22 | 44.49 | 4.31 | 8.58 | 42.92 |
| Flour Mills | 30.46 | 27.67 | 39.80 | 3.24 | 10.02 | 37.65 |
| NASCON | 6.80 | 5.95 | 8.94 | 0.67 | 10.14 | 7.89 |
| Transcorp | 2.46 | 2.06 | 3.59 | 0.02 | 123.00 | 3.20 |
| United Capital | 1.37 | 1.27 | 1.73 | 0.33 | 4.15 | 1.58 |
| Stanbic IBTC | 21.00 | 21.00 | 31.61 | 2.56 | 8.21 | 24.36 |
| Dangote Sugar | 6.10 | 5.10 | 7.74 | 0.93 | 6.59 | 7.08 |
| Lafarge Africa | 103.00 | 76.00 | 104.50 | 8.64 | 11.92 | 119.48 |
| Zenith Bank | 17.31 | 15.00 | 25.05 | 3.30 | 5.25 | 20.08 |
| Nig. Breweries | 127.05 | 120.50 | 172.00 | 5.06 | 25.11 | 147.38 |
| Nestle | 850.01 | 746.25 | 1050.00 | 24.33 | 34.93 | 937.29 |
| GT Bank | 25.05 | 17.00 | 31.88 | 3.47 | 7.22 | 29.06 |
| PZ | 30.00 | 23.99 | 35.00 | 1.01 | 29.70 | 34.80 |
| Julius Berger | 45.58 | 38.08 | 57.63 | 6.09 | 7.49 | 52.87 |

Table 20: 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

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