Monthly Economic and Financial Market Outlook

Macrofactors Weighs on Sentiments

July 2015

1.0. Global and Domestic Economic Issues:

There was a general decrease in prices in the month of June 2015, compared with the mixed performance recorded in the month of May 2015.

The analysis of the bond market in the countries that we monitored shows that there was a general decrease in prices in the month of June 2015, compared with the mixed performance recorded in the month of May 2015. The Argentina Government Bond recorded the highest price decrease of 6.84% to 88.50 in June 2015; followed by the 16.39% January 2022 Nigeria Government Bond which recorded a decrease in price of 3.95% to 106.33. 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 monitored, followed by the Nigerian Bond. The Nigerian Bond yield recorded the highest yield in June, indicating it is trading at a high yield premium than most of the countries and reflecting the current macroeconomic factors in the country. The implication of this is that if there is positive news that can change the current negative economic perspective of the country, there may be a rush for the Nigeria Bond.

The U.S. economy grew by 2.90% in Q1 2015.

The Nigeria Bond is trading at a higher premium than other markets.

At the end of its June 2015 meeting, the Federal Open Market Committee (FOMC) of the United States (U.S.) Federal Reserves (Fed) maintained its fund rate at 0.25% in order to support continued progress towards maximum employment and price stability. The U.S. economy grew by 2.90% in Q1 2015. On a quarter-on-quarter basis the U.S. economy shrank at an annual rate of 0.2% in Q1 2015. The country's exports decreased less than previously estimated but personal expenditures and imports rose more. The unemployment rate declined to 5.3% in June, a seven year low, from 5.5% in May 2015. Meanwhile, inflation rate in the US was flat at 0.0% in May, following a 0.2% drop in April 2015. However, the monthly inflation index rose to 0.4%, the biggest increase in more than two years.

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	99.21	99.90	112.00	99.91	98.78	106.33	86.50	97.75	97.70	96.59
2	Bond Yield	7.45%	14.20%	3.53%	14.17%	8.17%	12.97%	14.84%	11.08%	8.14%	9.20%	2.22%
3	Bond Price MoM Change	(6.84%)	(0.30%)	(0.14%)	(0.26%)	(1.14%)	(2.89%)	(3.95%)	(1.10%)	(0.98%)	(0.51%)	(1.74%)
4	Bond Yield MoM Change	0.10%	0.85%	0.02%	0.04%	0.22%	0.64%	0.96%	0.29%	0.18%	0.02%	0.24%
5	Bond Price YTD Change	(5.85%)	(1.65%)	0.97%	3.71%	(0.83%)	(6.03%)	1.75%	18.49%	(2.04%)	(7.57%)	(0.74%)
6	Bond Yield YTD Change	0.62%	2.66%	(0.14%)	(0.96%)	0.15%	1.31%	(0.48%)	(3.66%)	0.36%	0.34%	(0.12%)
7	Volatility	0.00	0.21	0.52	0.19	0.39	0.89	1.31	0.60	0.34	1.09	0.51
8	FX Rate MoM Change*	1.11%	(2.38%)	0.05%	0.14%	(0.27%)	1.79%	0.20%	5.59%	(0.02%)	0.70%	1.52%
9	FX Rate YTD Change*	6.84%	16.76%	(0.07%)	6.74%	0.96%	9.55%	8.54%	(9.01%)	5.17%	12.74%	(7.83%)
10	Inflation Rate	15.30%	8.47%	1.20%	13.10%	5.01%	7.03%	9.00%	15.80%	4.60%	8.09%	0.00%
11	Policy Rate	22.51%	13.75%	4.85%	8.75%	7.25%	10.00%	13.00%	11.50%	5.75%	7.50%	0.25%
12	Debt to GDP	45.60%	58.91%	22.40%	90.50%	67.72%	49.80%	11.00%	17.92%	39.00%	33.00%	101.53%
13	GDP Growth Rate	1.10%	(1.60%)	7.00%	4.30%	7.50%	4.90%	3.96%	(2.20%)	2.10%	2.30%	2.90%
14	Nominal GDP (US$)	540bn	2346bn	10360bn	287bn	2067bn	60.94bn	569bn	1861bn	350bn	800bn	17419bn
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 World Bank forecasts global growth at 2.8% in 2015. Growth is expected to pick up to 3.2% in 2016.

The latest Global Economic Prospect, June 2015 edition of the World Bank titled, “The Global Economy in Transition” forecasts global growth at 2.8% in 2015, lower than the anticipated growth rate in January 2015. The growth is expected to pick up to 3.2% in 2016. The report added that the developing economies are facing two transitions. First, the widely expected tightening of monetary conditions in the U.S., along with monetary expansion by other major central banks, has contributed to broad-based appreciation in the U.S. Dollar and is exerting downward pressure on capital flows to developing countries. Many developing-country currencies have weakened against the U.S. Dollar, particularly those of countries with weak growth prospects or elevated vulnerabilities. In some countries, this trend has raised concerns about balance sheet exposures in the presence of sizeable Dollar-denominated liabilities. Second, despite some pickup in Q1 2015, lower oil price is having an increasingly pronounced impact. In the oil-importing countries, the benefits to activity have so far been limited, although they are helping to reduce vulnerabilities. In oil-exporting countries, lower prices are sharply reducing activity and increasing fiscal, exchange rate, or inflationary pressures. The report added that the risks to the global economy remain tilted to the downside, with some pre-existing risks receding but new ones emerging.

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The high-income countries are expected to grow at 2.0% in 2015 (compared with 1.8% in 2014) and 2.3%, on average in 2016–17. The expected growth pickup reflects the recovery in the Euro Area, continued robust activity in the U.S., and increased traction from Japan’s monetary, fiscal, and structural policy efforts. In the U.S., growth is expected to strengthen to 2.7% in 2015 and further to 2.8% in 2016. The U.S. growth would be driven predominantly by private consumption. The unemployment rate is expected to fall to 5.2% by end-2015, below the level at the start of the previous monetary tightening cycle in 2004.

Euro-area growth is now projected to reach 1.5% this year, increasing to average 1.7% in 2016-17. The recovery in the Euro Area has progressed more rapidly than expected since late 2014, supported by a weakening euro, declining oil prices, record low interest rates, and an improvement in banks’ credit supply conditions. Fiscal policy will be broadly neutral in 2015 and 2016, following several years of significant consolidation efforts. The turmoil in Greece is having wide-ranging repercussions for the Greek economy itself, but had limited knock-on effects on the Euro-area as a whole. However, the risk remains that a further deterioration affects broader Euro-area confidence.

In Japan, growth is forecast to average 1.1% in 2015, before accelerating to 1.7% in 2016, supported by expansionary policies.

China is expected to decelerate modestly to 7.1% in 2015, decelerating to 7% and 6.9% in 2016 and 2017.

For emerging market economies, the World Bank stated that as structural adjustments and policy efforts to address financial vulnerabilities continue, growth in China is expected to decelerate modestly to 7.1% in 2015, decelerating to 7% and 6.9% in 2016 and 2017, respectively. In order to support activity amid tightening regulations on trust and interbank lending, the People's Bank of China (PBOC) continued to ease monetary policy in early 2015, lowering benchmark deposit and lending rates, making targeted cuts in the required reserve ratio, and announcing plans to accept municipal bonds as collateral for its refinancing and lending operations with commercial banks; leading to a shift towards greater bank lending in the Chinese economy.

Nigeria is expected to grow by 4.5% and 5.1% in 2015 and 2016 respectively.

Growth in Brazil, Russia, India, China and South Africa (BRICS) countries (except China) is soft and has increasingly diverged. Falling oil prices and geopolitical sanctions have been accompanied by a steep slowdown in 2014 and are expected to result in a contraction in the Russian Federation in 2015. Fragile confidence, increases in administered prices, and low commodity prices are expected to contribute to a recession in Brazil in 2015 with a modest recovery in 2016–17. In contrast, growth is gradually resuming in South Africa, but is held back by energy shortages, weak investor sentiment amid policy uncertainty, and by the anticipated tightening of monetary and fiscal policies. In India, activity is buoyed by stronger confidence as a reform-minded government implements its agenda and lower oil prices help contain vulnerabilities. Nigeria is expected to grow by 4.5% and 5.1% in 2015 and 2016 respectively.

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

	2014E	2015F	2015F	2016F
World	2.6	2.8	3.3	3.2
USA	2.4	2.7	2.8	2.4
Japan	0.0	1.1	1.7	1.2
Euro-Area	0.9	1.5	1.8	1.6
Developing Economies	4.6	4.4	5.2	5.4
China	7.4	7.1	7.0	6.9
India	7.3	7.5	7.9	8.0
Sub-Saharan Africa	4.6	4.2	4.6	5.0
Nigeria	6.2	4.5	3.9	5.1

Source: World Bank's Global Economic Prospect, June 2015

1.2 Restriction of Some Items from the Foreign Exchange Market:

The CBN has excluded some items from accessing foreign exchange at the Nigerian foreign exchange market.

Nigeria stands to save about $16.44bn from foreign exchange from the position.

The CBN has excluded some items from accessing foreign exchange at the Nigerian foreign exchange market in order to encourage local production of these items. Our analysis shows that the value of the items is about: N3.24trn or $16.44bn. The amount represents about 37.29% of the manufacturing sector GDP or about 50.62% of the total foreign exchange sold at the CBN window in 2014. The CBN stated that the exclusion of the items was necessary to sustain the stability of the foreign exchange market and ensure the efficient utilization of foreign exchange and the derivation of optimum benefit from goods and services imported into Nigeria. It added that the implementation of the policy will help conserve foreign reserves as well as facilitate the resuscitation of domestic industries and improve employment generation.

Table 3: Restricted Items from the Foreign Exchange Market

S/No	Item	S/No	Item	S/No	Item	S/No	Item	S/No	Item
1	Rice	9	Incense	17	Enamelware	25	Wood Particle Boards and Panels	33	Tableware
2	Cement	10	Tinned Fish in Source (Geisha)/Sardines and Fish	18	Steel Drums	26	Wood Fiber Boards and Panels	34	Tiles – Vitrified and Ceramic
3	Margarine	11	Cold Rolled Steel Sheets	19	Steel Pipes	27	Plywood Boards and Panels	35	Textiles
4	Palm Kernel/Palm Oil Products/Vegetable Oils	12	Galvanized Steel Sheets	20	Wire Rods (deformed and no deformed)	28	Wooden Doors	36	Woven Fabrics
5	Meat and Processed Meat Products	13	Roofing Sheets	21	Iron Rods and Reinforcing Bars	29	Furniture	37	Clothes
6	Vegetables and Processed Vegetable Products	14	Wheelbarrows	22	Wire Mesh	30	Toothpicks	38	Plastic and Rubber Products, Cellophane Wrappers and Finished Aluminium Cans
7	Poultry – Chicken, eggs, Turkey	15	Head Pans	23	Steel Nails	31	Glass and Glassware	39	Soap and Cosmetics
8	Private Airplanes/Jets	16	Metal Boxes and Containers	24	Security and Razor Wire	32	Kitchen Utensils	40	Tomatoes/Tomato Pastes
								41	Eurobond/Foreign Currency Bond/Share Purchases

The CBN added that the importation of these items are not banned, thus importers wishing to import these items shall do so using their own funds without any recourse to the Nigerian foreign exchange markets. We are of the opinion that if the policy is effectively implemented, the total manufacturing industry will receive a boost; the foreign reserve would rise and may have a positive impact on employment generation in the long run.

1.3 The Nigerian Telecommunication Industry:

The "Nigerian Telecommunication Report" released by the National Bureau of Statistics in June 2015 show that the share of telecommunications in real GDP has fluctuated between a relatively narrow margin between 2010 and Q1 2015, peaking at 9.32% in Q1 2010, and reaching a low of 7.68% in Q3 2012. Nonetheless the annual averages has shown steady marginal declines; from 9.03% of real GDP in 2010, it declined to 8.68% in 2011, with marginal declines of 0.04% points in 2012, 0.07% points in 2013 and 0.11% points in 2014.

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The total number of subscribers has been increasing rapidly over the period of review. From 2.27 million registered lines in 2002, to 127.61 million in 2014. Annual growth has averaged 46.29% between 2002-2014, with the highest rate recorded in 2004 at 153.65%, whilst 2011 saw the lowest rise, of 8.53%. The 8.97% growth recorded in 2014 represented an additional 11.44 million subscribers in that year alone. The subscriber data is broken into four sections according to the technology type used. The first two are for mobile technology; Global System for Mobile Communications (GSM), or 2G, and Core Division Multiple Access (CDMA), or 3G, whilst the latter two are fixed lines, either wireless or wired. Mobile subscribers using GSM dominate, with 98.34% of the total, followed by CDMA with 1.54% of the total, whist fixed wire and wireless make up 0.09% and 0.04% respectively.

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A total of 143,057,324 subscribers were registered with GSM technology to the four networks of MTN, Etisalat, Globacom and Airtel as of April 2015. MTN dominated the number of subscriptions, with 61,218,803 subscribers (42.84%) of the total. Globacom followed with 21%, whilst Airtel was third most dominant at 20.48% and Etisalat was fourth with 15.69%. Since May 2014, monthly growth in GSM subscribers has averaged 0.95%, with the greatest increase being recorded in December 2014 at 1.97% and the lowest in July of the same year at a negative 0.43%. The growth in subscribers was mainly driven by Globacom, which recorded an average rate of 1.45% over the period, followed by Etisalat with 1.37%, and Airtel with 1.29%, whilst MTN recorded the lowest average monthly growth in subscribers at 0.44%. The greatest monthly growth rate of the four networks was recorded for Globacom in July 2014, in which the number of subscribers increased by 6.37% to 1,637,543. The lowest rate was recorded for Airtel, in which 436,260 subscribers were recorded.

Of the GSM users, a total of 86,904,705 had an Internet subscription with the GSM providers in May 2015. This means that of all of the active GSM lines, 60.75% had an internet subscription. This ratio had been steadily increasing since April 2014, from the 134,957,821 (48.77%) internet subscribers of the GSM total in that month, there was an 11.98% point rise in the internet subscibers by May 2015. The majority of internet subscriptions were for MTN, with 39,520,285 (45.48%) of the total, followed by Globacom with 19,690,526 (22.66%) of the total. Airtel ranked third with 17,272,665 (19.88%) of the total, whilst Etisalat had the lowest number, with 10,421,229 (11.99%) of the total.

The four GSM network carriers recorded a total of 15,357 active subscribers leaving their networks in April 2015.

Looking at the porting activities in the sector, the four GSM network carriers recorded a total of 15,357 active subscribers leaving their networks in April 2015. Of these, MTN recorded the most, with 8,161 or 53.14% of the total leaving the network for another. Airtel followed, with 3,381 (22.02%) subscribers of the total transferring, whilst Globacom came third with 2,038 or 13.27% of the total. Etisalat had the fewest wishing to transfer, at 1,777 or 11.57% of the total.

1.4 Inflation Rate:

The inflation rate spiked to the upper bound of the CBN target of 9% in May 2015.

The inflation rate spiked to the upper bound of the CBN target of 9% in May 2015. The rise in the inflation rate was caused by the hike in the price of food items due to the late start of the raining season (which have pushed back the harvest season), coupled with higher transportation cost as a fall-out of scarcity of Premium Motor Spirit (PMS) and the ongoing impact of the devaluation of the Naira. The inflation rate stood at 9.0% in May 2015 from 8.7% in April 2015. The May 2015 inflation rate represents the fifth consecutive month of increase in the Headline Index in 2015, and the highest inflation rate recorded since May 2013. The Food Price Index increased by 9.8% in May 2015 (year-on-year), higher than 9.5% in April 2015. We estimate that the inflation rate would increase to 9.1% in June 2015 as shown on table 4 below:

Table 4: Inflation Rate Actual Vs Forecast

Date	Jan-15 A	Feb-15A	Mar-15A	Apr-15A	May-15A	Jun-15F	Jul-15F	Aug-15F	Sep-15F	Oct-15F	Nov-15F	Dec-15F
FSDH Forecast	8.2%	8.4%	8.5%	8.7%	9.00%	9.1%	9.4%	9.6%	9.7%	9.8%	9.9%	9.9%

1.5 Movement in the External Reserves:

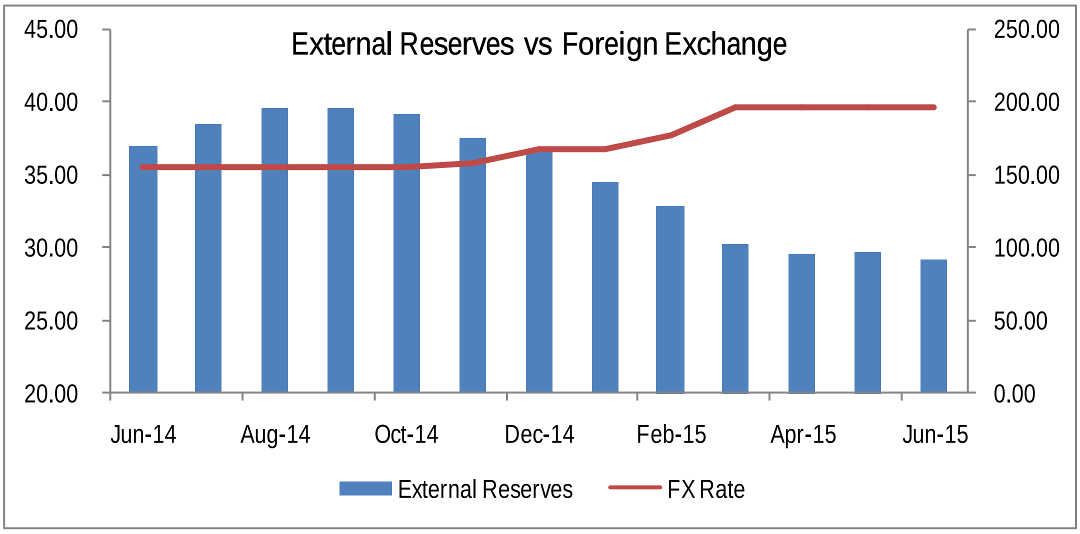
The demand pressure in the foreign exchange market persisted in June 2015.

The demand pressure in the foreign exchange market persisted in June 2015, as the Central Bank of Nigeria (CBN) continued with the use of the external reserves to defend the value of the Naira via intervention in the order-driven quotes at the inter-bank market of the foreign exchange market. The combination of a sharp drop in the price of oil in the international market and the low level of oil production has led to a revenue shock, with less accrual to the external reserves compared with the historical level. The CBN engaged in more aggressive foreign exchange administrative measures in June 2015 to curb the incessant demand for foreign exchange.

The external reserves decreased by 15.87% to stand at US$29bn as at end-June 2015 from US$34.47bn as at end-December 2014.

The external reserves decreased by 15.87% to stand at US$29bn as at end-June 2015 from US$34.47bn as at end-December 2014. Month-on-month, the external reserves decreased by 2.03% in June 2015 to US$29bn, from US$29.60bn as at end May 2015. The average external reserve for the month of June 2015 stood at US$29.13bn, compared with the average of US$29.71bn in the month of May 2015. It is estimated that the current external reserves can cover less that 5 months of imports.

Meanwhile, the monthly OPEC report for June 2015 indicated that the Atlantic Basin market remained oversupplied with sweet crudes (Bonny Light variant), despite elevated refinery runs. The report added that about 15 million barrels (15mb) of Nigerian crude remained unsold, and of which 10mb were already loaded onto tankers, pressuring light crude grades. This implies that there would be less accretion to the external reserves in the short-to-medium term.



1.6 Crude Oil Market and Bonny Light Price:

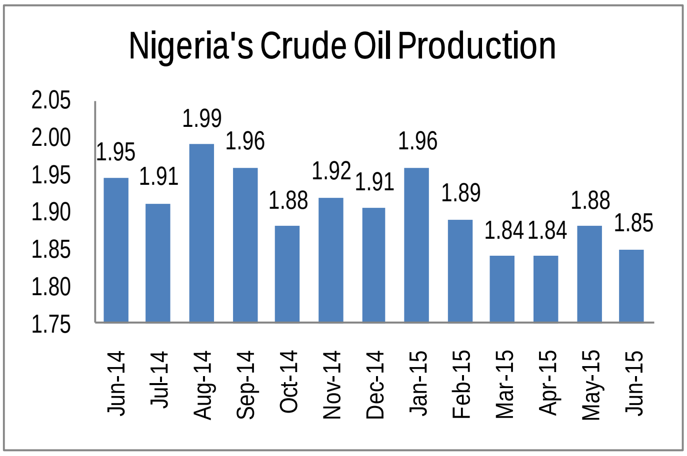
The daily crude oil production in Nigeria decreased by 1.60% to 1.85mbpd in May 2015, from 1.88mbpd in April 2015.

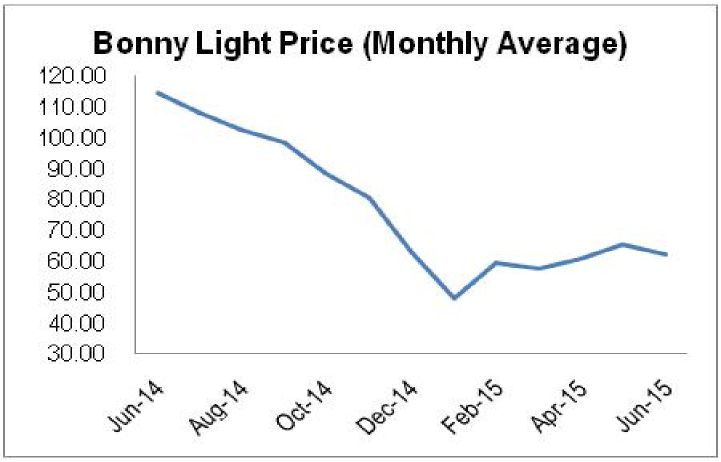
The daily crude oil production in Nigeria decreased by 1.60% to 1.85mbpd in May 2015, from 1.88mbpd in April 2015 based on the secondary data available from the Organization of the Petroleum Exporting Countries (OPEC) report for the month of June 2015. The total OPEC crude oil production from secondary sources was 30.98mbpd in May 2015, an increase of 0.10% from 30.95mbpd over the previous month. Crude oil production output increased mostly from Iraq, Angola, United Arab Emirates, Algeria, Qatar and Iran; while production recorded the largest drop in Kuwait, Libya and Nigeria.

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

The U.S Energy Information Administration (EIA) noted that North Sea Brent crude oil prices averaged US$64/b in May, a US$5/b increase from April and the highest monthly average of 2015; despite estimated global inventories increasing by more than 2mbd for the third consecutive month. The EIA added that several factors contributed to higher prices in May, including continued signals of higher global oil demand growth, expectations for declining U.S. tight oil production in the coming months, and the growing risk of unplanned supply outages in the Middle East and North Africa. According to the data from Reuters, the Bonny Light oil price decreased by 4.87% to US$60.62/b as at end-June 2015, from end-May 2015. However, the average price of Bonny Light was US$62/b in June 2015, a decrease of 4.91% from the average price of US$65.20/b recorded in May 2015.

There is a considerable downside risk to Nigeria's fiscal position from the current over-shooting of the OPEC's agreed production quota by some member countries insistence on maintaining their market share in the international market. The Nigerian National Petroleum Corporation (NNPC) is contemplating cutting Bonny Light price in order to attract buyers for Nigeria's unsold crude sitting in tankers in the Atlantic Basin.





1.7 Exchange Rate:

The CBN continued with its intervention in the inter-bank market via the order-driven system.

The administrative measures put in place to address the instability in the value of the Naira yielded some results in June 2015, as the Naira appreciated in the inter-bank and official segments of the foreign exchange market. The CBN continued with its intervention in the inter-bank market via the order-driven system which has been replaced by the two way quote system, with an assurance of its willingness to meet all genuine demand. There has also been increasing convergence between the inter-bank market rate and the official market rate. The CBN has also restricted about 41 items from having access to the foreign exchange market in order to conserve the external reserves from rapid depletion. The CBN believes Nigeria can produce these restricted items locally, and in the process achieve its developmental objectives through resuscitation of domestic industries and improve the employment generation.

The average exchange rate at the official market appreciated marginally by 0.04% to stand at N196.92/US$1 in June 2015. The inter-bank market rate appreciated by 0.11% to stand at N198.96/US$1 for the month of June 2015, while at the parallel market it appreciated by 0.55% to N220.25/US$1 in June 2015.

We expect the pressure on the stability of the Naira to continue in July 2015. The fiscal position of the government still remains weak and there is no sign of a sharp upward correction in the price of oil in the international market. The over-dependence of the Nigerian economy on oil receipts significantly exposes the Naira to external shocks, and in this instance the shock that led to the slide in the price of oil in the international market is more of a permanent feature than a transient shock factor. Looking at the strong demand for foreign exchange in the face of weak supply, we think the value of Naira may weaken in the short term. Our revised foreign exchange rate forecast is shown on table 5 below.

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

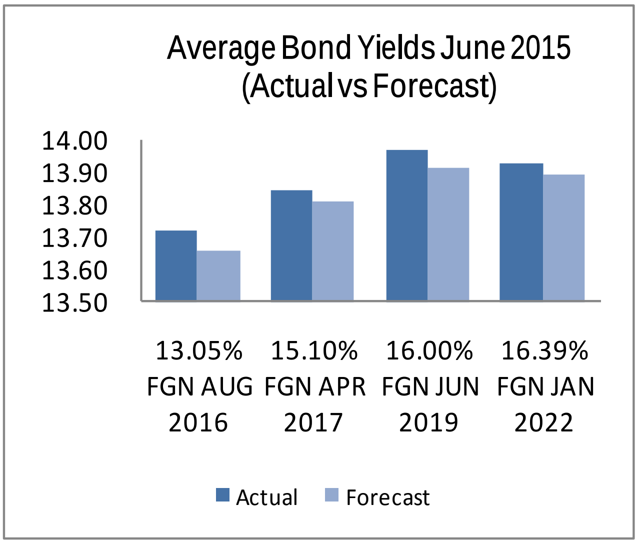
	Jan-A	Feb-A	Mar-A	Apr-A	May-A	Jun-A	Jul-F	Aug-F	Sep-F	Oct-F	Nov-F	Dec-F
Exchange Rate	168.00	177.00	197.07	199.12	199.17	198.96	216.00	216.00	215.50	215.00	215.00	214.00

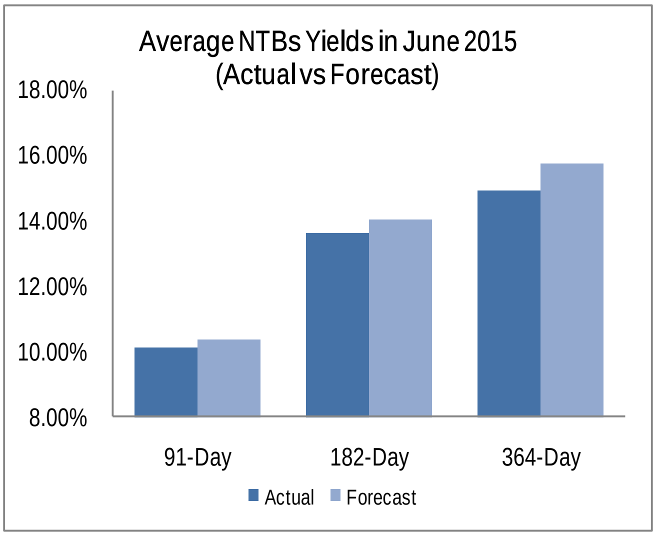
2.0 Interest Rate and Yield Analysis:

Our analysis of the liquidity situation in the money market and the fixed income securities market in the month of June 2015 shows that there was a net inflow of about N338bn from various sources, compared with a net outflow of about N580bn in the month of May 2015. The major outflows in the month of June 2015 were the Open Market Operations (OMO) of about N517bn, the Primary NTB of about N250bn, and the bond auction of about N80bn. Meanwhile, in the month of May 2015 the major outflow from the market was from the OMO of about N784bn, the Primary NTBs of about N262bn, the CRR of about N206bn, and the bond auction of about N60bn. The major inflows into the market in June were the matured OMO and REPO Bills of N678bn, the NTBs of about N256bn, the Federation Account Allocation Committee injection of about N218bn, and the CRR Credit of about N54bn. In May, the matured OMO and REPO Bills of N273bn, the NTBSs of about N262bn, and the FAAC of N198bn were the major inflows into the market.

The decrease in the yields on the NTBs in June 2015 was due to the persistent short-term liquidity in the system from matured government securities.

The average yields on the Nigerian Government Treasury Bills (NTBs) auction decreased in June 2015 compared with May 2015. The average 91-day NTB yield decreased to 10.15% in June 2015 from 10.28% in May 2015. The average 182-day NTB yield closed at 13.62% in June, down from 13.70% in May; and the average 364-day NTB yield also decreased to 14.94% in June, from 15.20% in May. The average 30-day NIBOR increased to close at 15.38% from 14.08% in April, and the average 90-day NIBOR also increased to 16.47% from 15.25% in the preceding month. The decrease in the yields on the NTBs in June 2015 was due to the persistent short-term liquidity in the system from matured government securities.





The average forecast yields on the bonds for the month of June were lower than the actual.

Our analysis of the average forecast yields on the bonds for the month of June were lower than the actual; primarily because of the risk premium introduced by the instability in the foreign exchange market and the expectation of rising 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
May	13.65%	13.74%	13.71%	13.65%	13.60%
June	13.72%	13.84%	13.97%	13.92%	15.48%
Change	0.07%	0.10%	0.25%	0.27%	1.88%

Table 7: Average Interest Rate and Yields

	NIBOR				Treasury Bill Yields		
	Call	30 Day	90 Day	180 Day	91-Day	182-Day	364-Day
May	13.45%	14.08%	15.25%	16.46%	10.28%	13.70%	15.20%
June	14.05%	15.38%	16.47%	17.53%	10.15%	13.62%	14.94%
Change	0.60%	1.30%	1.22%	1.07%	(0.13%)	(0.08%)	(0.26%)

Table 8: Market Liquidity (N'bn)

	May 2015			June 2015		
	Total Inflow	Total Outflow	Net flow	Total Inflow	Total Outflow	Net flow
Primary Market: NTB	262	(262)	(0)	236	250	14
Open Market Operations (OMO) & Rev Repo	784	(784)	(512)	678	517	161
BOND	-	(60)	(60)	-	80	(80)
FAAC	198	-	198	218	-	218
RDAS	-	-	-	-	-	-
CRR (Debit)/Credit	-	(206)	(206)	54	NA	54
Total	732	(1,312)	(580)	1,186	847	338

2.1 Revised Outlook Going Forward:

We expect the low price of oil and the low accretion to external reserves to put an upward pressure on yields in July.

We expect that a total inflow of about N941bn will hit the money market from the various government maturing securities and Federation Account Allocation Committee (FAAC) in the month of July 2015. Our expected outflows from the various sources such as government securities and statutory withdrawals are estimated at N531bn, leading to a net inflow of N410bn. 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 in the longer dated TBs and FGN Bonds, while the 91day and 182day TBs are expected to decline. We expect the low price of oil and the low accretion to external reserves to put an upward pressure on yields in July. The latest move of the FGN to bail out state governments who currently face financial challenges will increase the debt position of the FGN and may cause yields on FGN securities to rise.

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

Date	02-Jul-15	09-Jul-15	16-Jul-15	23-Jul15	30-Jul15	Others	Total
Inflows	260.30	70.56	124.49	159.89	102.67	223.18*	941.09
Outflows	-	70.56	-	229.89	-	230.80**	531.25
*Statutory Allocation (FAAC), ** CRR Debit							409.84

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	9.64%	13.33%	15.04%	13.97%	13.95%	14.09%	14.05%	15.73%
AugF-15	9.84%	13.53%	15.24%	14.16%	14.14%	14.28%	14.24%	15.92%
SepF-15	10.04%	13.73%	15.44%	14.32%	14.31%	14.44%	14.41%	16.09%
OctF-15	10.04%	13.73%	15.44%	14.36%	14.34%	14.48%	14.44%	16.12%
NovF-15	10.24%	13.93%	15.64%	14.52%	14.51%	14.64%	14.61%	16.29%
DecF-15	10.24%	13.93%	15.64%	14.30%	14.28%	14.42%	14.38%	16.06%

Yields are expected to be higher in the month of July 2015.

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

- The expectation of a further depreciation in the value of the Naira.
- 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 June 2015 than that recorded in May 2015. The prices of all the FGN Eurobonds closed the month higher than their par values. However, the prices of all the bonds closed lower in the month of June than that of May 2015 signalling an expectation of an increase in yields in July 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-Jun-15	105.088	5.683	102.960	5.909	101.730	4.520
02-Jun-15	104.971	5.706	102.870	5.923	101.693	4.532
03-Jun-15	104.59	5.784	102.660	5.955	101.541	4.584
04-Jun-15	104.281	5.846	102.280	6.014	101.389	4.636
05-Jun-15	103.940	5.916	101.910	6.072	101.231	4.691
10-Jun-15	103.832	5.937	101.510	6.135	101.018	4.764
11-Jun-15	103.581	5.988	101.270	6.172	100.812	4.836
12-Jun-15	104.277	5.844	101.660	6.110	100.828	4.830
15-Jun-15	104.113	5.877	101.320	6.164	100.750	4.858
16-Jun-15	103.785	5.945	101.080	6.202	100.576	4.919
17-Jun-15	103.702	5.962	100.770	6.251	100.577	4.918
18-Jun-15	104.642	5.767	101.860	6.079	100.982	4.774
19-Jun-15	104.879	5.718	102.150	6.034	101.227	4.688
22-Jun-15	105.061	5.680	102.350	6.002	101.446	4.610
23-Jun-15	105.357	5.619	102.780	5.935	101.738	4.507
24-Jun-15	105.369	5.616	102.770	5.936	101.684	4.524
25-Jun-15	105.286	5.632	102.670	5.952	101.513	4.584
26-Jun-15	104.999	5.690	102.150	6.034	101.417	4.618
29-Jun-15	103.916	5.914	100.760	6.253	100.823	4.829
30-Jun-15	103.995	5.897	100.930	6.226	100.737	4.859

3.0 Equity Market:

3.1 The Secondary Market:

The NSE ASI depreciated by 2.49% in the month of June 2015.

The equity market continued its down trend in June 2015. The decrease in the market performance was due to the overwhelming influence of the difficult macroeconomic environment which dampened investors' sentiments. The Nigerian Stock Exchange All Share Index (NSE ASI) depreciated by 2.49% (a loss of 2.28% in US$) on a month-on-month basis to close at 33,456.83 points. The market capitalisation also fell by 2.04% (a loss of 1.83% in US$) to close at N11.42trn (US$57.99bn). Year-To-Date as at end-June the Index has decreased by 3.46%. There has been a general weakness in investors' sentiments arising from the general macroeconomic conditions that have worsened the profitability of quoted companies at the bourse

A cursory look at the movements in the individual sectoral indices shows that the only month-on-month gain was recorded in the NSE Industrial Index with a gain of 1.99%, as some stocks in the Index continue to offer upward potential in their prices. All other sectoral indices recorded month-on-month losses. The highest month-on-month loss was recorded in the NSE Banking Index with a loss of 6.03%, followed by the Insurance Index with a loss of 3.51%.

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*
MAY	7.95	72.73	34,310.37	11.66	391.92	148.92	844.93	378.61	2,227.49
JUNE	6.11	101.73	33,456.83	11.42	368.29	143.69	842.70	368.54	2,271.73
Change	(23.13%)	39.88%	(2.49%)	(2.04%)	(6.03%)	(3.51%)	(0.26%)	(2.66%)	1.99%
YTD			(3.46%)	(0.49%)	4.81%	(3.98%)	(6.73%)	(3.04%)	6.18%

Sources: NSE, FSDH Research. * NSE Sectoral Indices

Table 13: Major Earning Announcements in June 2015

Company and Result	Turnover (Nm)	Change (%)	PBT (Nm)	Change (%)	PAT (Nm)	Change (%)
AVON CROWN CAPS & CONTAINER						
3 months, Mar 2015	13,165.00	-2.88	21.98	-0.92	-42.37	-134.21
TRIPPLE GEE AND COMPANY PLC						
Full Year, Mar. 2015	777.09	-8.58	53.92	143.57	40.76	163.06
NIGER INSURANCE CO. PLC						
Full year, Dec. 2014	11,064.82	5.95	644.78	-9.96	690.97	10.13
UNITY KAPITAL ASSURANCE PLC						
3 months, Mar. 2015	1,002.52	1.23	276.24	385.68	217.37	282.18
Full Year, Dec. 2014	3,032.05	4.49	175.02	-21.33	141.48	-46.41
EQUITY ASSURANCE PLC.						
3 months, Mar. 2015	1,261.26	-21.75	161.92	205.80	112.05	157.20
Full Year, Dec. 2014	4,846.00	4.98	310.76	185.15	183.33	141.87
INTERNATIONAL BREWERIES PLC						
Full Year, Mar. 2015	20,649.30	11.65	2,815.55	-28.28	1,946.49	7.55

Table 14: Major Benefit Announcements in June 2015

Company	Result	DPS(N)	Bonus Ratio	Closure Date	Payment Date	Interim/final
INTERNATIONAL BREWERIES PLC	Full year, Mar. 2015	0.25	-	20-Jul-15	11-Aug-15	Final
N.E.M INSURANCE CO (NIG) PLC	Full year, Dec. 2014	0.06	-	N/A	N/A	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
ECOBANK TRANSNATIONAL	Full year, Dec. 2014	0.00	1 for 15	22-Jul-15	NA	Final
AIRLINE SERVICES AND LOGISTICS PLC	Full Year Dec. 2014	0.15	-	15-Jun-15	3-Jul-15	Final
C & I LEASING PLC	Full year, Dec. 2014	0.08	-	15-Jun-15	7-Jul-15	Final

The Nairobi All share Index (Kenya) recorded the highest MoM growth of 1.41% with a gain of 0.93% in its YTD performance.

The table 15 below shows the performance of some selected foreign equities markets around the world. The Nairobi All share Index (Kenya) recorded the highest MoM growth of 1.41% with a gain of 0.93% in its YTD performance. This is followed by the Brazil Stock Market Index with a MoM return of 0.61%, and a growth of 6.15% in its YTD performance. All other equities markets recorded MoM losses. The least MoM performance was recorded in the FTSE 100 Index (UK), with a loss of 6.63%, and a YTD depreciation of 0.69%.

Table 15: Foreign Equity Market Performance in June 2015

North/Latin America	YTD Change	Month-on-Month change
Dow Jones Industrial Average	(1.14%)	(2.17%)
S&P 500 Index	0.20%	(2.10%)
NASDAQ Composite	5.30%	(1.64%)
Brazil Stock Market Index	6.15%	0.61%
Europe		
Swiss Market Index	(2.25%)	(4.95%)
FTSE 100 Index (UK)	(0.69%)	(6.63%)
CAC 40 Index (France)	12.11%	(4.35%)
DAX Index (Germany)	11.62%	(4.11%)
SMSI Index (Madrid, Spain)	4.88%	(3.84%)
Africa		
NSE All-Share Index	(3.46%)	(2.49%)
JSE All-Share Index (S/A)	4.09%	(0.89%)
Nairobi All Share Index (Kenya)	0.93%	1.41%
GSE All-Share Index (Ghana)	4.03%	(0.44%)
Asia/Pacific		
NIKKEI 225 Index (Japan)	15.96%	(1.59%)
BSE 30 Index (India)	1.02%	(0.17%)
Hang Seng Index (Hong Kong)	11.21%	(4.28%)

We don't expect a major improvement in the earnings of the quoted companies.

3.2. Outlook for the Month of July:

- We don't expect a major improvement in the earnings of the quoted companies in Q2 2015.
- The market may drop further in the month of July.
- The policy direction of the current administration may set the path that the equity market would follow in the short term.

3.3. Strategies:

- Speculators may take a short position.
- Long term investors may maintain a hold position

Table 16: Equity Market Trend Analysis

	YEARS				
MONTHS	2010	2011	2012	2013	2014
JUNE	25,384.14	24,980.20	21,599.57	36,164.30	42,482.48
JULY	25,844.18	23,826.99	23,061.38	37,914.32	42,097.46
% CHANGE	1.81%	(4.62%)	6.77%	4.84%	(0.91%)

The historical performance of the equity market did not follow a particular trend. Going by the current development in the economy we expect the market to follow the July 2014 trend in July 2015.

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	1.11	13.05	98.25	14.78	0.95
2	16% FGN JUN 2019	3.98	16.00	102.95	14.98	2.88
3	14.20% FGN MAR 2024	8.68	14.20	96.10	15.01	4.61
4	12.1493% FGN JUL 2034	19.03	12.1493	82.00	15.04	5.97

Table 19: Stock Recommendation

Stocks	Max Entry Price	52 Week Low	52 Week High	Trailing EPS	Trailing PE Ratio	Target Price
UACN	44.49	26.22	44.49	5.43	8.19	51.61
Flour Mills	33.50	27.67	39.80	1.04	32.21	38.86
UPDC	10.20	8.1	11.99	2.46	4.14	11.83
Transcorp	2.70	2.28	3.59	0.06	44.58	3.13
WAPIC	0.50	0.5	0.64	0.01	35.18	0.58
Dangote Cement	170.00	141.9	190	10.59	16.05	183.58
Diamond Bank	4.10	3.45	5.45	1.24	3.31	4.76
Dangote Sugar	6.64	5.1	7.74	0.85	7.77	7.70
Lafarge Africa	101.00	76	103	7.07	14.28	117.16
Zenith Bank	19.36	15	25.05	3.30	5.87	22.46
Nig. Breweries	144.00	128	172	5.36	26.85	164.66
Nestle	854.00	746.25	1050	24.20	35.28	937.29
GT Bank	26.90	17	31.88	3.47	7.75	29.07
PZ Cussons	31.94	23.99	35	1.01	31.62	35.43
AIICO Insurance	0.95	0.71	1.19	0.20	4.76	1.10

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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