Monthly Economic and Financial Market Outlook

Oil Prices Weigh on Sentiments

September 2015

1.0. Global and Domestic Economic Issues:

There was a general decrease in the prices of bonds in the countries that we monitored in the month of August 2015.

There was a general decrease in the prices of bonds in the countries that we monitored in the month of August 2015, compared with the increases recorded in the month of July 2015. The 16.39% January 2022 Nigeria Government Bond recorded the highest price decrease of 3.87% to 102.10 in August 2015; followed by the 8.8% September 2023 Turkey Government Bond, which recorded a decrease in price of 3.41% to 93.40. 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 Nigerian economy still faces significant headwinds from the low oil prices, with its negative impact on the fiscal revenue of government, and the ability of the CBN to defend the Naira. The foreign demand for Nigeria's bond is also slowing down by the concern about the appropriate pricing of the foreign exchange rate of the Naira. However, the announcement of the fiscal and trade policies of the Federal Government could spur increased demand for FGN Bonds.

The US economy grew by 3.7% in Q2 2015 higher than initially estimated.

According to the second estimate released by the Bureau of Economic Analysis of the U.S, the U.S. economy grew by 3.7% in Q2 2015; higher than the 2.3% growth initially reported and beat market expectations due to higher business spending and quicker build up of inventories. Meanwhile, the Chinese monetary authority has devalued the Chinese Yuan by about 4% and reduced its policy rate to 4.6% from 4.85%, in order to stimulate exports, which has been declining in recent time. The weak economic data from China has also adversely affected the price of oil in the international market. The recent foreign trade data from China shows that the monetary policy is achieving the desired result.

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	99.78	100.91	111.59	100.61	99.12	102.10	85.50	97.69	93.40	98.11
2	Bond Yield	7.65%	12.92%	3.38%	14.22%	8.03%	12.89%	15.85%	11.45%	8.17%	10.04%	2.02%
3	Bond Price MoM Change	0.00%	0.20%	0.49%	-0.43%	0.16%	-0.09%	-3.87%	-2.65%	-0.16%	-3.41%	0.16%
4	Bond Yield MoM Change	0.10%	-0.51%	-0.07%	0.09%	-0.03%	0.02%	0.99%	0.69%	0.04%	0.66%	-0.02%
5	Bond Price YTD Change	-5.85%	-1.09%	1.99%	3.33%	-0.13%	-5.71%	-2.30%	17.12%	-2.10%	-11.64%	0.82%
6	Bond Yield YTD Change	1.20%	1.37%	-0.29%	-0.91%	0.01%	1.23%	0.53%	-3.29%	0.38%	2.16%	-0.09%
7	Volatility	0.00	0.11	0.29	0.23	0.25	0.02	1.04	1.47	0.51	1.63	0.47
8	FX Rate MoM Change*	1.18%	4.68%	2.74%	0.06%	3.37%	1.51%	0.08%	7.36%	5.17%	4.79%	2.18%
9	FX Rate YTD Change*	8.94%	34.76%	2.81%	9.41%	5.16%	14.68%	8.49%	9.07%	15.44%	19.70%	-7.24%
10	Inflation Rate	14.80%	9.56%	1.60%	8.40%	3.78%	5.84%	9.20%	15.80%	5.00%	6.81%	0.20%
11	Policy Rate	17.93%	14.25%	4.60%	8.75%	7.25%	11.50%	13.00%	11.00%	6.00%	7.50%	0.25%
12	Debt to GDP	43.00%	58.91%	41.06%	90.50%	65.50%	49.80%	10.50%	17.92%	39.00%	33.00%	103.00%
13	GDP Growth Rate	1.10%	-2.60%	7.00%	3.00%	7.00%	4.90%	2.35%	-4.60%	1.20%	2.30%	2.70%
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%	3.40%	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 Domestic Real GDP

The Nigerian economy grew by 2.35% in Q2 2015.

On an aggregate basis, the Nigerian economy when measured by the Real Gross Domestic Product (GDP) grew by 2.35% (year-on-year) in Q2 2015, compared with 6.54% in the corresponding period of 2014 and 3.96% in Q1 2015. The oil sector recorded a negative growth of 6.79%, compared with the growth of 5.14% recorded in Q2 2014. On a quarter-on-quarter basis, the oil sector also declined by 3.82%. The oil sector contributed approximately 9.80% to the real GDP in Q2 2015, lower than the 10.76% contribution in Q2 2014, and the 10.45% contribution recorded in Q1 2015. The non-oil sector recorded a growth of 3.46% in Q2 2015, lower than the 6.71% recorded in the corresponding period in 2014, and the 5.59% recorded in Q1 2015. The non-oil sector growth was driven by growth in activities recorded in the Trade; Construction; Crop Production; Information and Communication; and Electricity, Gas, Steam and Air Conditioning.

The nominal GDP stood at N22.86trn in Q2 2015, representing an increase of 5.17% from N21.73trn recorded in Q2 2014, and marginally lower by 0.85% from N21.04trn recorded in Q1 2015. In Q2 2015, the services sector contributed 54.36% to the GDP, followed by Industries at 24.52% and Agriculture at 21.12%.

The lack lustre performance of the GDP in Q2 2015 was due to the uncertainties that surrounded the general elections, and the inadequate petroleum products supply during the period. We recall that the Nigerian economy was almost at a standstill in Q2 due to the aforementioned factors. We expect the Q3 2015 GDP to show some improvement.

1.2 Foreign Trade:

The Nigerian economy achieved a trade surplus of N1.39trn in its merchandise trade in Q2 2015.

The latest foreign trade statistics released by the National Bureau of Statistics (NBS) for Q2 2015 shows that the Nigerian economy achieved a trade surplus of N1.39trn in its merchandise trade, with exports dominating the total trade in Q2 2015. On the average, exports accounted for about 66.85% of the total trade in the last ten quarters. On a quarterly basis, the contribution of exports to total merchandise trade increased to 65.8% in Q2 2015 from 60.7% in Q1 2015. In the last 10 quarters, the highest contribution of exports to total trade was recorded in Q3 2014 at 72.10%. Meanwhile, in the last ten quarters between Q1 2013 and Q2 2015, oil exports dominated the total merchandise trade at an average of 76.31%. The total trade as at Q2 2015 stood at N4.37trn, down 34.38% from N6.66trn in Q2 2014, and down marginally by 0.46% from N4.39trn in Q1 2015.

India remained the number one spot for the top destination for Nigeria's exports, followed by Spain, Netherlands, South Africa, Brazil, France and United States. On the other hand, China remained Nigeria's number one import partner, followed by the United States and India.

Top on the list of the imported goods in Q2 2015 are: Boilers, Machinery and Appliances Thereof; Mineral Products; Products of the Chemical and Allied Industries Thereof; Vehicles, Aircrafts and Products Thereof; Vegetable Products; Base Metals and Articles of Base Metals. The top on the list of the imported goods in the sub-categories in Q2 2015 are: Motor Spirit (ordinary); Spelt, Common Wheat and Meslin; Machine Tools (for working stone, ceramics, concrete, etc); Imported Motorcycles and cycles; and Semi Milled or Wholly Milled Rice. The leading export commodities are: Mineral Products (87.3%); Vehicles, Aircraft and Parts Thereof (8.7%); Vegetable Products (1.3%); Prepared Foodstuffs; and Beverages, Spirits; and Vinegar (0.9%).

1.3 Nigeria's Capital Importation Update:

According to the National Bureau of Statistics (NBS), the capital imported into the Nigerian economy totalled US$2.666bn in Q2 2015, relatively unchanged from the US$2.672bn recorded in Q1 2015. The NBS stated that the quarter-on-quarter marginal growth in the capital imported, showing a lower level, will be maintained as long as an uncertain economic environment remains.

The capital imported into the Nigerian economy totalled US$2.67bn in Q2 2015, relatively unchanged from the US$2.672bn recorded in Q1 2015.

A further analysis showed that the Foreign Portfolio Investment (FPI) remains the largest investment type at US$2.18bn in Q2 2015, an increase of 17.33% from US$1.86bn in Q1 2015, and making up 81.88% of capital importation, higher than the contribution of 69.65% and 55.60% in Q1 2015 and Q2 2014. The key driver in the quarterly growth in the portfolio investment was equity, which increased by 62.02% to US$706.70mn in Q2 2015, relative to Q1 2015. The money market instruments also increased by 1,675% to US$286.53bn in Q2 2015, from US$16.14bn in Q1 2015. The bonds component of portfolio investment decreased to US$654.58mn on a quarterly basis, so that its share of total portfolio investment declined from 26.39% in Q1 2014 to 2.31% in Q2 2015. Year-on-year, all the sub-sectors declined, with equity suffering the highest losses, down by US$2.03bn (52.36%), accounting for 74.22% of the overall decline.

Other Investments recorded the second largest capital inflows by investment type. It declined by US$144.27mn (36.45%) from the preceding quarter, driven primarily by the decline in loans which were lower by US$231.60mn (60.18%). Other Claims were up US$86.34 (274.03%) and at US$272.07mn, represented 15.58% of the total capital imported in Q2 2015. Other investments mainly comprised of loans, which at US$153.23mn represented 86.23% of the total. Also, Other Claims, stood at US$117.85mn represented 43.32% of the total. Currency deposits held the remaining US$0.99mn (0.36%).

Meanwhile, capital imported as Foreign Direct Investment (FDI) stood at US$211.14mn or 14.77% of the total in Q2 2015. The sector is mainly comprised of equity, which makes up 99.94% (US$211.14mn) of the total, while Other Capital holds the remaining US$0.13mn. There were declines of 46.69% to US$183.47mn and 55.36% to US$261.85mn both on a quarter-on-quarter and year-on-year basis, respectively.

Table 2: Capital Importation By Investment Type – US$mn

	2013		2014				2015	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Foreign Direct Investment - Equity	195	114	490	462	544	768	395	211
Foreign Direct Investment - Other Capital	0.65	7.87	0.30	11.41	0.29	1.03	0.05	0.13
Portfolio Investment- Equity	3,533	2,719	2,260	3,875	3,770	1,542.	1,139	1,846
Portfolio Investment-Bonds	32	428	482	732	1,000	229	705	51
Portfolio Investment- Money Market Instruments	171	249	126	310	357	232	16	287
Other Investments -Trade Credits	-	-	14.70	1.37	5.08	0.88	-	-
Other Investments -Loans	240	921	436	237	350	391	385	153
Other Investments -Currency Deposits	-	2.48	-	-	-	-	-	0.99
Other Investments -Other Claims	248	241	94	175	515	1,336	32	118
Total	4,419	4,681	3,905	5,804	6,543	4,500	2,672	2,666

1.4 External Sector Development:

The deficit in the current account was at US$3.61bn, which is equivalent to 3.4% of GDP in the review period.

According to the Central Bank of Nigeria (CBN), the performance of the external sector deteriorated further in Q1 2015. This was reflected in the negative outcomes (deficits) of 4.5%, 3.4% and 1.1% of the Gross Domestic Product (GDP), recorded respectively, in the overall balance; current; and capital and financial accounts. These developments could be attributed to the continued decline in the global oil prices, as well as, the repatriation of investment income and lower foreign investment flows associated with the unpredictable political environment during the national electioneering in Q1 2015. Also, the stock of external reserves was depleted by 14.3% to US$29.36bn but could finance 7.1 months of current import commitments. In a bid to prevent further depletion of the external reserve, prevent multiple exchange rate regime, and realign the exchange rate with current realities, the CBN closed the official window and adopted the inter-bank exchange rate in February 2015. The NBS added that the weak performance of the external sector and its vulnerability to external shocks reflects more the dismal contributions of the non-oil sector and low production in the economy. The holdings of external reserves showed that the share of the CBN holdings in the total stock of reserves stood at 85.1%, while that of the Federation and the Federal Government were 7.7% and 7.2%, respectively.

The deficit in the current account was at US$3.61bn, which is equivalent to 3.4% of GDP in the review period. The development was attributed to lower exports, increased out-payments in the income account which was caused by lower investment income and increased repatriation of income and dividends by non-residents. Both aggregate exports and imports (fob) declined by 28.2% and 18.3% to US$14.33bn and US$12.41bn, respectively. The drop in imports reflected suppressed trade-related activities during the 2015 general elections.

The deficit in the services account narrowed from US$5.55bn and US$5.34bn recorded in the preceding and corresponding quarters in 2014, respectively, to US$4.09bn. This could be attributed to reduction in out-payments in respect of transportation services which declined by 43.3% from its Q4 2014 level. The deficit in the income account widened by 32.8% and 50.9% from US$4.96bn and US$4.37bn in Q4 2014 and Q1 2014, respectively to US$6.59bn. The development was attributed to out-payments of dividend and distributed branch profits to foreign investors which increased by 27.5% from US$4.36bn in Q4 2014 to US$5.56bn in Q1 2015. The surplus in the current transfers account decreased by 7.8% when compared with its level in Q4 2014 due largely to the decline in workers' remittances, reflecting weak global economic conditions.

1.5 Inflation Rate:

The inflation rate was muted at 9.2% in July 2015, same as in June 2015.

The inflation rate was muted at 9.2% in July 2015, same as in June 2015. However, the inflation rate continues to be driven by supply related factors and tight monetary policy environment aimed at achieving exchange rate stability, which is putting an upward pressure on inflation expectations. The Food Price Index was also muted at 10% in July 2015 (year-on-year), same as in June 2015, and remains at a record high for the year, partly as a result of higher imported food prices and the Ramadan period. The implementation of the Treasury Single Account (TSA) by the Central Bank of Nigeria (CBN) exerted an upward pressure on inflation rate via the interest rate channel in August 2015. We estimate that the inflation rate would increase to 9.3% in August 2015 as shown in table 3 below. Although the inflation rate is higher than the upper range of the inflation rate target of the CBN at 9%, it may not bring about any policy response from the monetary authority.

Table 3: Inflation Rate Actual Vs Forecast

Date	Jan-15 A	Feb-15A	Mar-15A	Apr-15A	May-15A	Jun-15A	Jul-15A	Aug-15F	Sep-15F	Oct-15F	Nov-15F	Dec-15F
FSDH Forecast	8.2%	8.4%	8.5%	8.7%	9.00%	9.2%	9.2%	9.3%	9.5%	9.5%	9.7%	9.7%

1.6 Movement in the External Reserves:

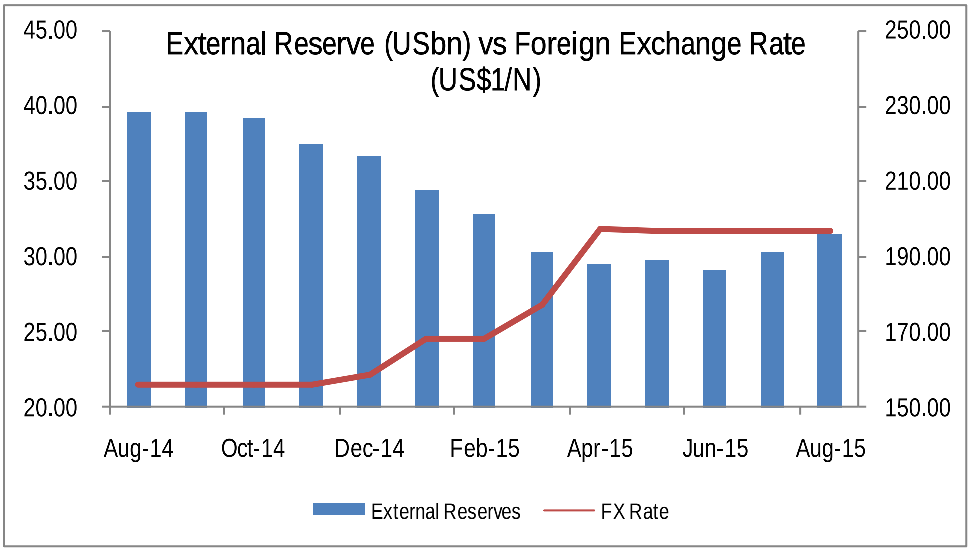
The CBN has been drawing down from the external reserves towards the end of August 2015.

The CBN has been drawing down from the external reserves towards the end of August 2015 to defend the value of the Naira, in order to reduce the growing divergence between the inter-bank and parallel market rates. The divergence in the foreign exchange rate between the two markets is threatening the sustenance of the relatively stable foreign exchange rate recorded for most part of August 2015.

The external reserves decreased by 9.14% to stand at US$31.32bn as at end-August 2015 from US$34.47bn as at end-December 2014. Month-on-month, the external reserves decreased marginally by 0.45% in August 2015 to US$31.32bn, from US$31.46bn as at end-July 2015. The average external reserve for the month of August 2015 stood at US$31.53bn, compared with the average of US$30.27bn in the month of July 2015. It is estimated that the current external reserves can cover less than 6 months of imports.

Month-on-month, the external reserves decreased marginally by 0.45% in August 2015 to US$31.32bn, from US$31.46bn as at end-July 2015.

There is a need for continuous vigilance by the CBN in the foreign exchange market, as the market remains under-supplied, compared to the demand level. We expect the speculative attack on the Naira to continue until there is a positive trend in the price of crude oil, as well as credible implementation of appropriate fiscal policy by the government. The stemming of fiscal leakages through the TSA is going to increase the available revenue to the government and shore up external reserves, but it is still a temporary respite for the external reserves level; the diversification of the income stream of the economy and the increase in infrastructure level are more of a permanent solution to the accretion to the external reserves.



1.7 Crude Oil Market and Bonny Light Price:

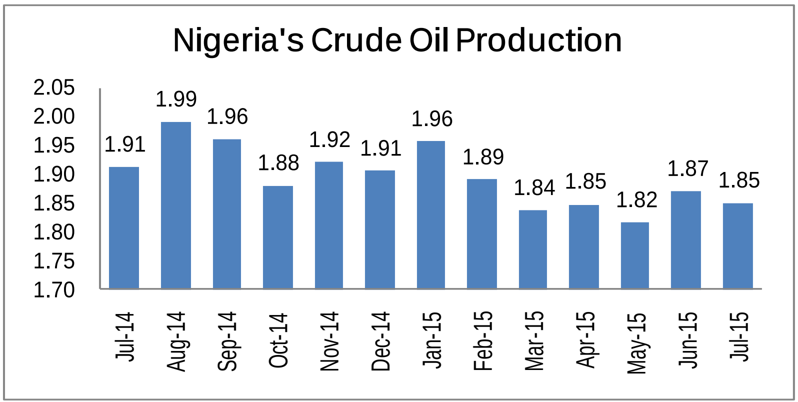
The daily crude oil production in Nigeria decreased by 1.07% to 1.85mbpd in July 2015, from 1.87mbpd in June 2015.

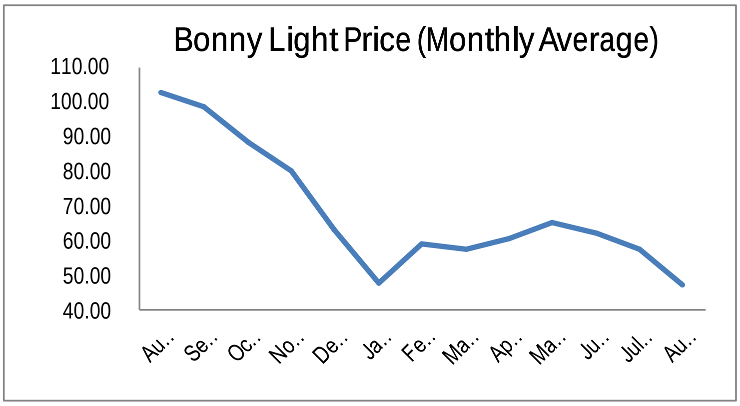
The daily crude oil production in Nigeria decreased by 1.07% to 1.85mbpd in July 2015, from 1.87mbpd in June 2015 based on the secondary data available from the Organization of the Petroleum Exporting Countries (OPEC) report for the month of August 2015. The total OPEC crude oil production from secondary sources was 31.51mbpd in July 2015, a marginal increase of 0.32% from 31.41mbpd over the previous month. The collective OPEC production has consistently been above the agreed OPEC production quota of 30mb/d. Crude oil production output increased mostly from Iraq, Angola, Saudi Arabia, Iran and United Arab Emirates; while production recorded the largest drop in Libya, Nigeria, Qatar, Ecuador, and Venezuela.

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

The U.S Energy Information Administration (EIA) in its monthly report for August 2015 noted that the North Sea Brent crude oil prices averaged US$57/b in July 2015, a decrease of 8.06% from US$62/b in June 2015. The price declines reflect concerns about lower economic growth in emerging markets, expectations of higher oil exports from Iran, and continuing actual and expected growth in global inventories. EIA forecasts that Brent crude oil prices will average US$54/b in 2015 and US$59/b in 2016, representing downward revisions of US$6/b and US$8/b respectively. The West Texas Intermediate (WTI) crude oil prices in both 2015 and 2016 are forecast to average US$5/b less than the Brent price.

According to the data from Reuters, the Bonny Light oil price decreased by 8.76% to US$49.67/b as at end-August 2015, from end-July 2015. However, the average price of Bonny Light was US$47.50/b in August 2015, a decrease of 17.10% from the average price of US$57.30b recorded in July 2015.





1.8 Exchange Rate:

The demand and supply imbalance in the foreign exchange market is putting pressure on the stability of the Naira.

The demand and supply imbalance in the foreign exchange market is putting pressure on the stability of the Naira, as there continues to be stifled demand in the system from the administrative measures of the CBN, ranging from the use and access to foreign exchange in the foreign exchange market. The divergence between the inter-bank and parallel markets rates is increasing, as the available U.S. Dollar for sale is lower than the demand level per unit of time. The CBN has been forced to adopt a tight monetary policy stance and capital controls in the foreign exchange market in order to protect the foreign exchange rate from speculative and real demand due to the volatility in oil prices and inadequate fiscal policy support.

The average exchange rate at the official market depreciated by 0.04% to stand at N197/US$1 in August 2015. The average inter-bank market rate also depreciated by 0.02% to stand at N199.06/US$1 for the month of August 2015; while it appreciated by 3.52% to N230.36/US$1 at the parallel market in August 2015.

The primary driver of the exchange rate remains the perceived ability of the CBN to defend the Naira given the outlook for a sustained lower oil price in the international market, as the value of the Naira remains strongly tied to the level of external reserves, which in itself is tied to the oil price level. We reiterate that there is a need for complimentary fiscal policy by the Federal Government, aimed at diversifying the income stream of the Nigerian economy.

The Naira still faces external shocks and the possibility of a further devaluation as the weak global economic recovery continues, with the excess supply of oil in the international market; thus we are inclined to maintain our forecast exchange rates as shown in table 4 below.

Table 4: Exchange Rate US$/N Actual(A) Vs Forecast

	Jan-A	Feb-A	Mar-A	Apr-A	May-A	Jun-A	Jul-A	Aug-A	Sep-F	Oct-F	Nov-F	Dec-F
Exchange Rate	168.00	177.00	197.07	199.12	199.17	198.96	196.97	199.06	215.50	215.00	215.00	214.00

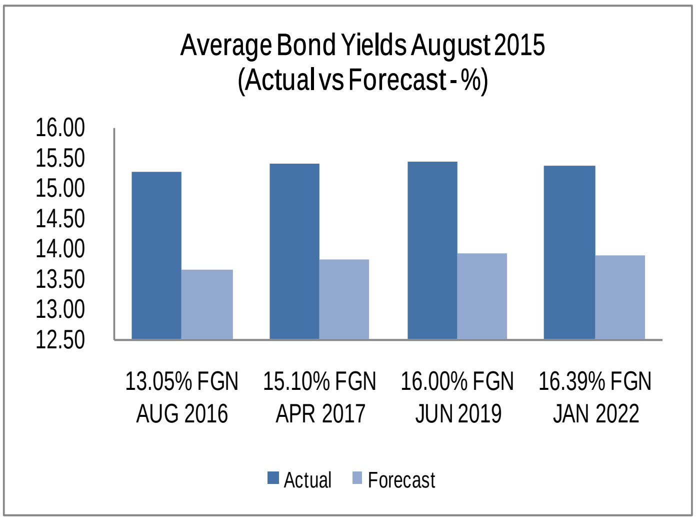
2.0 Interest Rate and Yield Analysis:

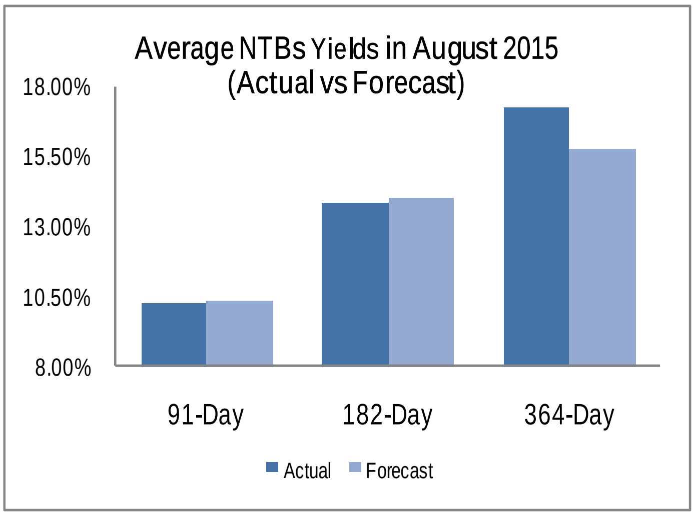
Our analysis of the liquidity situation in the money market and the fixed income securities market in the month of August 2015 shows that there was a net inflow of about N290bn from various sources, compared with a net outflow of about N132bn in the month of July 2015. The major outflows in the month of August 2015 were the Primary NTB of about N257.61bn, Open Market Operations (OMO) of about N73.27bn, and the bond auction of about N80bn. Meanwhile, in the month of July 2015 the major outflow from the market was from the OMO of about N771.82bn, the Primary NTBs of about N178.37bn, and the bond auction of about N44bn. The major inflows into the market in August were the matured NTBs of about N257.61bn, OMO and REPO Bills of N183.21bn, and the Federation Account Allocation Committee injection of about N260bn. In July, the matured OMO and REPO Bills of N362.97bn, the NTBs of about N229.45bn, and the FAAC of N270bn were the major inflows into the market.

The average forecast yields on the bonds for the month of August 2015 increased, compared to July 2015.

The average yields on the Nigerian Government Treasury Bills (NTBs) auction increased in August 2015 compared with July 2015. The average 182-day NTB yield closed at 13.84% in August, up from 13.49% in July; and the average 364-day NTB yield closed at 17.94% in August, up from 14.94% in July; while the average 91-day NTB yield closed unchanged at 10.26% in August 2015, same as in July 2015. The average 30-day NIBOR increased to close at 17.08% in August 2015, from 14.31% in July 2015, and the average 90-day NIBOR also increased to 18.69% from 15.99% in the preceding month.

The implementation of the TSA and the existing 31% CRR on deposits of banks is responsible for the tight liquidity condition in the market.





Our analysis of the average forecast yields on the bonds for the month of August were mostly lower than the actual. The deviation was due to the continuous pressure faced by the Naira from the volatility in the price of oil in the international market.

Table 5: Average Bond Yields

	13.05% FGN AUG 2016	15.10% FGN APR 2017	16.00% FGN JUN 2019	16.39% FGN JAN 2022	10.00% FGN July 2030
July	14.59%	14.70%	14.86%	14.87%	15.49%
August	15.26%	15.39%	15.43%	15.37%	15.50%
Change	0.67%	0.69%	0.57%	0.50%	0.01%

Table 6: Average Interest Rate and Yields

	NIBOR				Treasury Bill Yields		
	Call	30 Day	90 Day	180 Day	91-Day	182-Day	364-Day
July	11.01%	14.31%	15.99%	16.80%	10.26%	13.49%	14.94%
August	33.41%	17.08%	18.69%	19.77%	10.26%	13.84%	17.24%
Change	22.40%	2.77%	2.70%	2.97%	0.00%	0.36%	2.31%

Table 7: Market Liquidity (N'bn)						
	July 2015			August 2015		
	Total Inflow	Total Outflow	Net flow	Total Inflow	Total Outflow	Net flow
Primary Market: NTB	229	178	51	258	258	-
Open Market Operations (OMO) & Rev Repo	363	772	(409)	183	73	110
BOND	0	44	(44)	0	80	(80)
FAAC	270	-	270	260	-	260
RDAS	-	-	-	-	-	-
CRR (Debit)/Credit	-	-	-	-	-	-
Total	862	994	(132)	701	411	290

2.1 Revised Outlook Going Forward:

The implementation of the TSA is putting pressure on the liquidity level in the system.

We expect that a total inflow of about N942bn will hit the money market from the various government maturing securities and Federation Account Allocation Committee (FAAC) in the month of September 2015. Our expected outflows from the various sources such as government securities and statutory withdrawals are estimated at N636.81bn, leading to a net inflow of N305.19bn. 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 implementation of the TSA is putting pressure on the liquidity level in the system; the CBN needs to inject additional liquidity in the system in order to improve the lending activities by the banks. This can be achieved by a way of lowering the Cash Reserve Requirement (CRR) as soon as the macroeconomic environment improves. There is also a compelling reason to remove the 31% CRR imposed on banks deposits. We are of the opinion that yields would increase in the month of September, except there are some form of liquidity injection by the CBN. More so, the existing weak macroeconomic condition is still weighing down liquidity from foreign investors.

Table 8: Expected Inflow and Outflow Analysis - September 2015 (N'bn)						
Date	03-Sep-15	10-Sep-15	17-Sep-15	24-Sep-15	Others	Total
Inflows	234.47	101.53	76.58	292.30	237.12*	942.00
Outflows	172.85	-	156.58	76.58	230.80**	636.81
*Statutory Allocation (FAAC), ** CRR Debit						305.19

Table 9: 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%
JulA-15	10.26%	13.49%	14.94%	14.59%	14.70%	14.86%	14.86%	15.49%
AugA-15	10.26%	13.84%	17.24%	15.26%	15.39%	15.43%	15.43%	15.50%
SepF-15	10.30%	13.89%	17.31%	15.31%	15.41%	15.66%	15.69%	15.70%
OctF-15	10.40%	13.99%	17.41%	15.41%	15.51%	15.76%	15.78%	15.80%
NovF-15	10.50%	14.09%	17.51%	15.51%	15.61%	15.86%	15.89%	15.90%
DecF-15	10.50%	14.09%	17.51%	15.51%	15.61%	15.86%	15.88%	15.90%

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

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

- The implementation of the TSA by the CBN on behalf of the Federal Government.
- The volatility in oil price and the negative impact on the external reserves.
- The expectation of an increase in inflation rate.

2.2 Strategies:

- Fund Managers should maintain a hold position in the market as the expected increase in yield may not justify a change of strategy.
- Deposit takers may go long at the current low rates

The average yields on the FGN Eurobonds were higher in August 2015 than that recorded in July 2015. Consequently, the prices of all the bonds closed lower in the month of August than that of July 2015 and all the bonds are now trading at discounts.

Table 10: 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 (%)
03-Aug-15	101.689	6.380	97.966	6.709	99.645	5.256
04-Aug-15	101.499	6.421	97.662	6.760	99.645	5.256
05-Aug-15	101.261	6.472	97.447	6.796	99.649	5.254
06-Aug-15	101.090	6.509	97.353	6.812	99.639	5.258
07-Aug-15	100.736	6.587	96.988	6.873	99.424	5.339
10-Aug-15	100.422	6.656	96.703	6.922	99.233	5.411
11-Aug-15	100.090	6.729	96.368	6.979	99.093	5.464
12-Aug-15	99.745	6.806	95.695	7.094	98.718	5.608
13-Aug-15	99.643	6.828	95.533	7.122	98.919	5.531
14-Aug-15	99.460	6.869	95.223	7.176	98.796	5.579
17-Aug-15	99.385	6.886	95.111	7.196	98.717	5.609
18-Aug-15	98.911	6.993	94.447	7.312	98.503	5.691
19-Aug-15	98.390	7.111	93.696	7.444	98.272	5.782
20-Aug-15	96.869	7.460	91.678	7.807	97.139	6.222
21-Aug-15	96.544	7.536	91.068	7.918	96.808	6.353
24-Aug-15	94.448	8.031	88.577	8.383	95.730	6.782
25-Aug-15	95.086	7.880	89.719	8.169	96.450	6.497
26-Aug-15	95.527	7.776	90.349	8.052	96.969	6.294
27-Aug-15	97.554	7.303	93.018	7.567	98.041	5.875
28-Aug-15	97.828	7.240	93.193	7.536	97.952	5.911

3.0 Equity Market:

3.1 The Secondary Market:

The NSE ASI depreciated by 1.64% in the month of August 2015.

The equity market continued its downward trend in August 2015, for four consecutive months. The decrease in the market performance was due to the tough operating environment, as quoted companies continued to be negatively impacted by a myriad of domestic and external negative shocks to their earnings and outlook. The Nigerian Stock Exchange All Share Index (NSE ASI) depreciated by 1.64% (a loss of 1.63% in US$) on a month-on-month basis to close at 29,684.84 points. The market capitalisation also fell by 1.32% (a loss of 1.31% in US$) to close at N10.21trn (US$51.82bn). Year-To-Date as at end-August the Index has decreased by 14.35%. The difficult economic environment has also had a negative effect on the disposable income of local investors resulting in withdrawals from the equity market, while foreign investors are still waiting for the Naira to settle at the perceived equilibrium price level before investing in the market.

A cursory look at the movements in the individual sectoral indices shows that most of the indices recorded a month-on-month loss, except the NSE Oil and Gas Index which appreciated by 3.47%. The largest month-on-month loss was recorded in the NSE Banking Index with a loss of 5.04%, a reflection of the perceived impact of the regulatory headwinds on the potential earnings of the banks. Other indices were negatively impacted by the weakening macroeconomic environment, particularly the weak consumer spending power.

Table 11: Nigerian Equity Market: Key Indicators

Month	Volume (bn)	Value (N'bn)	NSEASI	Market Cap. (N'trn)	Banking*	Insurance*	Consumer Goods*	Oil/Gas*	Industrial*
July	6.19	85.41	30,180.27	10.34	315.71	134.55	734.17	339.30	2,223.50
August	10.95	70.58	29,684.84	10.21	299.81	130.21	731.27	351.07	2,198.00
Change	76.82%	(17.36%)	(1.64%)	(1.32%)	(5.04%)	(3.23%)	(0.40%)	3.47%	(1.15%)
YTD			(14.35%)	(11.06%)	(14.68%)	(12.99%)	(19.07%)	(7.64%)	2.73%

Sources: NSE, FSDH Research. * NSE Sectoral Indices

Table 12: Major Earning Announcements in August 2015

Company and Result	Turnover (Nm)	Change (%)	PBT (Nm)	Change (%)	PAT (Nm)	Change (%)
EVANS MEDICAL PLC						
Full year, Dec. 2013	3,699.46	-23.95	-1,004.72	-607.85	-820.51	388.40
MAY & BAKER NIGERIA PLC						
6 Months June 2015	3,408.75	10.67	43.73	127.14	29.73	118.45
INTERNATIONAL BREWERIES PLC						
3 Months, Jun 2015	5,224.42	0.24	618.83	-40.58	420.81	40.58
VITAFOAM NIG PLC						
6 Months, March 2015	9,321.88	5.29	547.54	60.51	341.12	-12.83
NASCON ALLIED INDUSTRIES						
6 Months, June 2015	6,605.76	22.79	1,518.10	-2.89	1,032.31	-2.89
ZENITH BANK PLC						
6 Months, June 2015	229,082.00	24.21	72,201.00	24.79	53,180.00	12.09
STERLING BANK PLC						
6 Months, June 2015	55,042.14	11.45	6,055.62	1.43	5,425.50	6.93
GUARANTY TRUST BANK PLC (GT Bank)						
6 Months, June 2015	152,995.74	15.05	63,111.97	18.19	53,373.58	21.28
ACCESS BANK NIGERIA PLC						
6 Months, June. 2015	168,642.00	43.00	39,113.00	44.23	31,287.00	35.60
P Z CUSSONS NIGERIA PLC.						
Full Year, May 2015	73,126.07	0.30	6,556.81	-5.66	4,570.79	-10.07
FLOUR MILLS NIG. PLC						
3 Months, June 2015	82,281.30	-1.98	1,188.19	-66.48	971.98	-65.57
OKOMU OIL PALM PLC						
6 Months, June 2015	4,991.43	-2.50	2,138.53	-23.60	1,842.03	-30.21
3 Months, Mar. 2015	2,423.73	32.45	1,184.76	74.49	1,033.26	80.32

Table 13: Major Benefit Announcements in August 2015

Company	Result	DPS(N)	Bonus Ratio	Closure Date	Payment Date	Interim/final
ZENITH BANK PLC	6 Months Jun. 2015	0.25	-	24-Aug-15	28-Aug-15	Interim
GT BANK PLC	6 Months, June 2015	0.25	-	8-Sep-15	21-Sep-15	Interim
ACCESS BANK NIGERIA PLC	6 Months, June 2014	0.25	-	3-Sep-15	10-Sep-15	Interim
P.Z. CUSSONS PLC	Full year, May 2015	0.61	-	14-Sep-15	30-Sep-15	Final
CUSTODIAN AND ALLIED INSURANCE PLC	6 Months, Jun. 2015	0.06	-	17-Aug-15	15-Sep-15	Interim

The Shanghai Stock Exchange Composite Index (China) recorded the highest MoM depreciation of 12.49% and a loss of 0.89% in its YTD performance.

The table 14 below shows the performance of some selected foreign equities markets around the world. All Indices recorded a MoM loss. The Shanghai Stock Exchange Composite Index (China) recorded the highest MoM depreciation of 12.49% and a loss of 0.89% in its YTD performance. This is followed by the Hang Seng Index (Hong Kong) with a MoM loss of 12.04%, and a loss of 8.20% in its YTD performance. The least MoM depreciation was recorded in the NSE All Share Index, with a loss of 1.64%, and a YTD depreciation of 14.35%. This is followed by the GSE All Share Index (Ghana), with a loss of 1.98%, and a YTD depreciation of 4.70%.

Table 14: Foreign Equity Market Performance in August 2015

North/Latin America	YTD Change		Month-on-Month change
Dow Jones Industrial Average	(7.27%)		(6.57%)
S&P 500 Index	(4.21%)		(6.26%)
NASDAQ Composite	0.85%		(6.86%)
Brazil Stock Market Index	(6.76%)		(8.33%)
Europe			
Swiss Market Index	(1.77%)		(6.40%)
FTSE 100 Index (UK)	(4.85%)		(6.70%)
CAC 40 Index (France)	8.90%		(8.45%)
DAX Index (Germany)	4.63%		(9.28%)
SMSI Index (Madrid, Spain)	(0.29%)		(8.36%)
Africa			
NSE All-Share Index	(14.35%)		(1.64%)
JSE All-Share Index (S/A)	0.41%		(4.00%)
Nairobi All Share Index (Kenya)	(12.33%)		(3.77%)
GSE All-Share Index (Ghana)	(4.70%)		(1.98%)
Asia/Pacific			
NIKKEI 225 Index (Japan)	8.25%		(8.23%)
BSE 30 Index (India)	(4.42%)		(6.51%)
Shanghai Stock Exchange Composite Index (China)	(0.89%)		(12.49%)
Hang Seng Index (Hong Kong)	(8.20%)		(12.04%)

Table 15: Equity Market Trend Analysis

	YEARS				
Months	2010	2011	2012	2013	2014
August	24,268.24	21,497.61	23,750.81	36,248.53	41,532.31
September	23,050.59	20,373.00	26,011.63	36,585.08	41,210.10
% Change	(5.02%)	(5.23%)	9.52%	0.93%	(0.78%)

3.2. Outlook for the Month of September:

- We expect the market to remain relatively flat in September, as there are no major events around the world that would serve as catalysts to the market.
- We reiterate that the equities market would have short term "kneejerk" reactions to policy announcements in September.

3.3. Strategies:

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

We expect the market to react to policy direction in September.

The historical performance of the equity market in September on average followed a slight downward trend. However, the possibility of a positive acceptance of policy direction by the Federal Government may make the market not to follow the historical trend.

Table 16: 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 17: One Year Target Price

Stocks	Max Entry Price	52 Week Low	52 Week High	Trailing EPS	Trailing PE Ratio	Target Price
NASCON	6.10	5.2	8.94	0.69	8.84	7.08
UACN	35.00	26.22	44.49	4.31	8.12	40.60
Flour Mills	23.22	23	39.80	2.53	9.18	26.94
United Capital	1.29	1.14	1.73	0.33	3.91	1.50
Transcorp	2.28	1.96	3.59	0.02	114.00	2.64
Stanbic IBTC	21.65	18.00	31.61	2.56	8.46	25.11
Julius Berger	42.00	38.08	57.63	6.09	6.90	48.72
Dangote Sugar	6.88	5.10	7.74	0.93	7.43	7.98
Lafarge Africa	103.00	76.00	104.50	8.64	11.92	119.48
Zenith Bank	15.25	13.75	25.05	3.35	4.55	17.69
Nig. Breweries	126.59	110.15	172.00	5.06	25.02	146.84
Nestle	839.79	746.25	1050.00	24.33	34.51	937.29
GT Bank	24.50	17.00	31.88	3.67	6.68	28.42
PZ	26.61	20.87	35.00	1.15	23.14	30.87

Table 18: Bond Recommendation

S/N	Security Description	Tenor To Maturity	Coupon	Current Price	Current Yield	Modified Duration
1	13.05% FGN AUG 2016	0.95	13.05%	97.75	15.67%	0.85
2	16% FGN JUN 2019	3.82	16.00%	100.50	15.80%	2.71
3	14.20% FGN MAR 2024	8.53	14.20%	92.55	15.82%	4.38
4	12.1493% FGN JUL 2034	18.87	12.1493%	78.45	15.74%	6.06

Table 19: 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: Leadway House (Ground Floor), Plot 1061 Herbert Macaulay way, Central Business District, Abuja-Nigeria. Tel.: 09-6700535, 09-2731170

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

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