Monthly Economic and Financial Market Outlook

Nigerian Economy on a Recovery Path

July 2017

Executive Summary

Domestic Scene:

- The hope that the Nigerian economy will exit the current recession has improved further as the manufacturing and non-manufacturing activities increased in the month of June 2017 despite the decrease in the monetary aggregates
- Manufacturing Purchasing Manager's Index (PMI) in Nigeria expanded for the third consecutive month in the year 2017 to attain the highest level since March 2015. The Composite Manufacturing Index (CMI) increased to 52.9 points in June 2017 from 52.5 points in May 2017
- The Composite Non-Manufacturing Index (CNMI) also expanded to 54.2 points in June 2017 from 52.7 points in May 2017 to attain the highest level since December 2014
- The growth in the monetary aggregate was below targets, as the CBN employed tools to tame high inflation rate and stabilise the foreign exchange
- We expect the inflation rate in Nigeria to drop to 15.64% in June 2017 from 16.25% in May 2017. However, the government decision on Premium Motor Spirit (PMS) price and electricity tariff still remain downside risks to the path of inflation in 2017
- We do not believe there will be enough justification for the Monetary Policy Committee (MPC) of the CBN to increase interest rate when it meets on July 24-July 25, 2017
- The accretion to the external reserves still significantly depends on the sustained oil production and efforts of the Organization of the Petroleum Exporting Countries (OPEC) and Russia to adhere to the agreed oil output cut till March 2018
- The long-term stability of the foreign exchange rate depends on the conducive domestic business environment; particularly the sustained improvement in infrastructure
- We expect the overall performance of the equity market for July 2017 to be positive, provided quoted companies report strong Q2 June 2017 results
- Yields on fixed income securities may trend marginally lower in July 2017 because of the expectation of lower June 2017 inflation rate.

International Scene:

- The OPEC released a global growth forecast of 3.4% for 2017, from 3.1% in 2016 in its monthly report for June 2017
- The OPEC asserted that the improving momentum in the global economy from Q1 2017 is expected to continue for the remainder of 2017
- The increased output from Nigeria and Libya have had a downside pressure on oil prices in May/June 2017. Thus, OPEC is considering placing a cap on crude oil production for Nigeria and Libya.

1.0 Global Developments:

The prices of government bonds appreciated in more countries in June 2017 than they depreciated.

In the countries we monitored, the prices of government bonds appreciated in more countries in June 2017 than they depreciated. The 3.52% February 2023 China Government Bond recorded the highest month-on-month price increase of 0.99% to 100.34. This was followed by the 17% April 2022 Egypt Government Bond, with a price increase of 0.83% to 96.26. The 7.75% February 2023 South Africa Government Bond recorded the highest month-on-month price decrease of 0.76% to 98.18. This was followed by the 1.75% May 2023 United States (U.S) Government Bond with a decrease of 0.61% to 98.49. The India, Russia, Kenya, South Africa, China and U.S Bonds closed the month at positive real yields. Other bonds we monitored closed the month at negative real yields. **The India Government Bond offers the most attractive real yield amongst the selected bonds in June 2017**.

The U.S economy recorded a growth of 1.4% (quarter-on-quarter) in Q1 2017.

The United States (U.S) economy recorded a growth of 1.4% (quarter-on-quarter) in Q1 2017 from the second estimate released by the U.S Bureau of Economic Analysis (BEA), higher than second estimate of 1.2% released earlier. The BEA report also showed that consumer spending and exports increased more than previously anticipated. On the other hand, non-residential investment was revised lower and the slowdown from inventories was higher than initially estimated.

Table 1: Summary of Key Indicators

S/N	Indicators	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	100.34	96.26	105.79	100.31	100.82	99.25	98.18	93.18	98.49
2	Bond Yield	3.45%	18.18%	6.75%	12.62%	16.12%	7.98%	8.15%	10.30%	2.02%
3	Bond Price MoM Change	0.99%	0.83%	0.59%	0.21%	0.26%	(0.05%)	(0.76%)	0.03%	(0.61%)
4	Bond Yield MoM Change	(0.19%)	(0.25%)	(0.17%)	(0.06%)	(0.08%)	0.02%	0.17%	0.01%	0.11%
5	Bond Price YTD Change	(3.26%)	(5.17%)	(0.71%)	3.27%	(1.56%)	1.08%	2.34%	4.46%	1.13%
6	Bond Yield YTD Change	0.60%	1.65%	0.06%	(0.84%)	0.45%	(0.29%)	(0.47%)	(0.81%)	(0.17%)
7	Real Yield	1.95%	(11.52%)	4.57%	3.41%	(0.13%)	3.88%	2.75%	(0.60%)	0.12%
8	Volatility	0.32	0.37	0.34	0.04	0.24	0.22	0.43	0.26	0.22
9	FX Rate MoM Change*	(0.55%)	(0.07%)	0.11%	0.26%	1.16%	3.65%	(0.60%)	(0.26%)	1.65%
10	FX Rate YTD Change*	(2.42%)	(0.11%)	(5.18%)	1.14%	2.15%	(4.53%)	(5.09%)	(0.08%)	7.96%
11	Inflation Rate	1.50%	29.70%	2.18%	9.21%	16.25%	4.10%	5.40%	10.90%	1.90%
12	Policy Rate	4.35%	16.75%	6.25%	10.00%	14.00%	9.00%	7.00%	8.00%	1.25%
13	Debt to GDP	46.20%	85.00%	69.50%	55.20%	18.60%	17.00%	51.70%	28.30%	106.00%
14	GDP Growth Rate	6.90%	3.40%	6.10%	4.70%	(0.52%)	0.50%	1.00%	5.00%	2.10%
15	Nominal GDP (US$)	11,199bn	336bn	2,264bn	70.53bn	405bn	1,283bn	295bn	858bn	18,569bn
16	Current Acct to GDP	1.80%	(5.90%)	(0.70%)	(5.20%)	(1.80%)	1.80%	(3.30%)	(3.80%)	(2.60%)

-ve means appreciation while +ve means depreciation

Sources – Bloomberg, Central Bank of Various Countries, FSDH Research Analysis and Trading Economics

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1.1 The Global GDP:

OPEC released a global growth forecast of 3.4% in 2017, from 3.1% in 2016.

The Organization of the Petroleum Exporting Countries (OPEC) released a global growth forecast of 3.4% for 2017, from 3.1% in 2016 in its monthly report for June 2017. The OPEC asserted that the improving momentum in the global economy from Q1 2017 is expected to continue for the remainder of 2017. However, there are downside risks from United Kingdom (UK) and potentially temporary dips in the United States (U.S) and India, which are both expected to rebound in the remainder of the year.

The oil cartel opines that the U.S GDP is expected to grow in 2017, given the latest positive momentum in its labour market as well as in other short-term indicators. It added that the Euro-zone has had a strong start in 2017, and its recovery is forecast to continue. The report also indicated that China has shown strong output numbers in recent months, and despite expected deceleration, it is still expected to be close to its target growth rate of 6.5%. India is also expected to resume a GDP growth path after the slowdown recorded in Q1 2017. Brazil and Russia are forecast to rebound into positive territory after two years of recession, depending on the development of commodity prices and in the case of Brazil also on near-term political developments.

The OPEC indicated that while global economic growth is improving, some uncertainties remain.

The OPEC indicated that while global economic growth is improving, some uncertainties remain. The uncertainties include: policy issues and monetary policy decisions, which remain particularly important in the short-term. It added that global debt levels remain high in some key economies, and probably requiring further attention if interest rates continue to rise gradually, particularly in the US. It emphasised that sustained stability in commodity prices is critical for the current improvements in global economic growth.

Table 2: Economic Growth Rate Forecast

	2016	2017F
World	3.1%	3.4%
OECD	1.8%	2.0%
USA	1.6%	2.2%
Japan	1.1%	1.4%
Euro-zone	1.7%	1.7%
China	6.7%	6.5%
India	7.9%	7.0%
Brazil	(3.6%)	0.5%
Russia	(0.2%)	1.2%

*Source: OPEC Monthly Report, June 2017; *F- Forecast*

1.2 Purchasing Manager Index (PMI):

The PMI in Nigeria increased to 52.7% in June 2017, compared with 52.5% in May 2017.

The hope that the Nigerian economy will exit the current recession has improved further as the manufacturing and non-manufacturing activities increased in the month of June 2017 despite the decrease in the monetary aggregates. A review of the latest Purchasing Managers' Index (PMI) that the Central Bank of Nigeria (CBN) published for the month of June 2017 confirms this. The PMI report shows that the Composite Manufacturing Index (CMI) expanded for the third consecutive month in the year 2017 to attain the highest level since March 2015. The CMI increased to 52.9 points in June 2017 from 52.5 points in May 2017. The Composite Non-Manufacturing Index (CNMI) also expanded to 54.2 points in June 2017 from 52.7 points in May 2017 to attain the highest level since December 2014. The month of June is the second consecutive month of increase in the CNMI. A PMI below 50 points level suggests a decline in business activity while a PMI higher than 50 points level suggests an expansion. When the PMI is at the 50 point level, it means that the degree of business activity in the economy is unchanged.

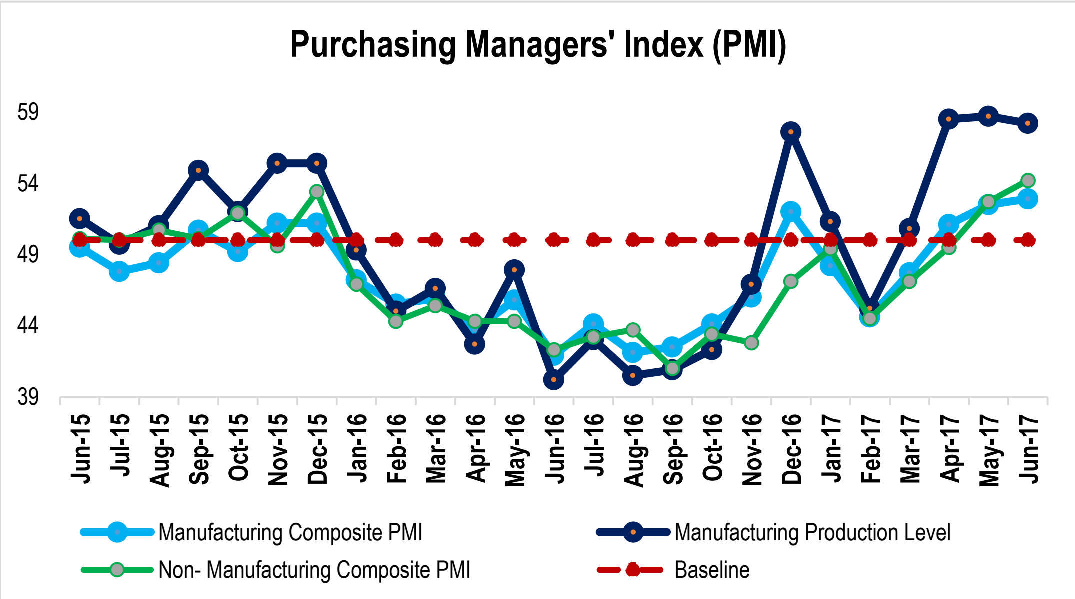


Table 3: Manufacturing Purchasing Manager Index (PMI)	May 2017	June 2017	Change
Composite PMI	52.5	52.9	0.4%
Production Level	58.7	58.2	(0.5%)
New Orders	50.5	51.0	0.5%
Supplier Delivery Time	49.9	50.3	0.4%
Employment Level	50.7	51.1	0.4%
Raw Materials/WIP Inventories	50.8	52.3	1.5%
New Export Orders	37.6	32.6	5.0%
Output Prices	61.3	62.7	1.4%
Input Prices	68.4	66.6	(1.8)%
Quantity of Purchases	46.1	46.2	0.1%
Business Outstanding/Backlog of Work	42.3	48.9	1.6%
Stocks of Finished Goods	51.8	49.1	(2.7%)

Source: Central Bank of Nigeria and FSDH Research Analysis

Table 4: Manufacturing Sub-Sector Indices	May 2017	June 2017	Change
Appliances and Components	56.1	57.1	1.0%
Cement	54.7	42.4	(12.3%)
Chemical and Pharmaceutical Products	53.0	48.1	(4.9%)
Computer and Electronic Products	49.7	66.7	17.0%
Electrical Equipment	56.3	53.4	(0.9%)
Fabricated Metal Products	48.8	52.4	3.6%
Food, Beverage and Tobacco Products	54.4	58.4	(1.0%)
Furniture and Related Products	49.0	58.5	(4.5%)
Non-metallic Mineral Products	48.1	40.9	(7.2%)
Paper Products	57.7	61.8	4.1%
Petroleum and Coal Products	62.1	58.1	(4.0%)
Plastics and Rubber Products	60.7	61.2	0.5%
Primary Metal	64.5	60.3	(4.2%)
Printing and Related Support Activities	48.9	48.1	(0.8%)
Textiles, Apparel, Leather and Footwear	54.9	54.9	0.0%
Transportation Equipment	45.0	58.8	13.8%

Source: Central Bank of Nigeria and FSDH Analysis

1.3 Inflation Rate:

The inflation rate stood at 16.25% in May 2017, from 17.24% recorded in April 2017.

The inflation rate (Year on Year) dropped to 16.25% in May 2017, from 17.24% in April 2017. This is the fourth consecutive month of a decline in the inflation rate. Despite the drop in the year-on-year inflation rate, we believe there is still inflationary pressure in the economy. The month-on-month change in the CPI stood at 1.88% in May 2017, higher than 1.60% recorded in April 2017. Year-on-year (y-o-y), the Food Price Index (FPI) stood at 19.27% in May 2017, down from 19.30% in April 2017. The FPI was driven by higher prices of Bread and Cereals; Meat; Fish; Potatoes, Yams and Other tubers; Milk, Cheese and Eggs; and Vegetables. The Core Index stood at 13% in May 2017, lower than 14.80% recorded in April 2017. In May 2017, the largest increase in the Core Index were recorded in the Wine and Spirits; Clothing Materials and Other Articles of Clothing; Liquid Fuel; Fuel and Lubricants for Personal Transport Equipment; Solid Minerals; and Motor Car, Motorcycle and Air Transport.

We expect the June 2017 inflation rate to drop to 15.64%.

Although the inflation rate has maintained a downward trend, we do not expect it to drop to single digit in 2017. In addition, we believe that the FGN's decision on Premium Motor Spirit (PMS) price and electricity tariff remains the downside risks to low inflation rate in the short-to-medium term. We estimate that the inflation rate would drop to 15.64% in June 2017 as shown on table 5 below. This may impact the yields on the fixed income securities. However, we do not believe this will be enough justification for the Monetary Policy Committee (MPC) of the CBN to increase interest rate when it meets on July 24-July 25, 2017.

Table 5: Inflation Rate Actual vs Forecast

Month	Jan-17A	Feb-17A	Mar-17A	Apr-17A	May-17A	Jun-17F	Jul-17F	Aug-17F	Sep-17F	Oct-17F	Nov-17F	Dec-17F
Actual/Forecast*	18.72%	17.78%	17.26%	17.24%	16.25%	15.64%	15.06%	14.68%	14.57%	14.39%	14.35%	14.21%

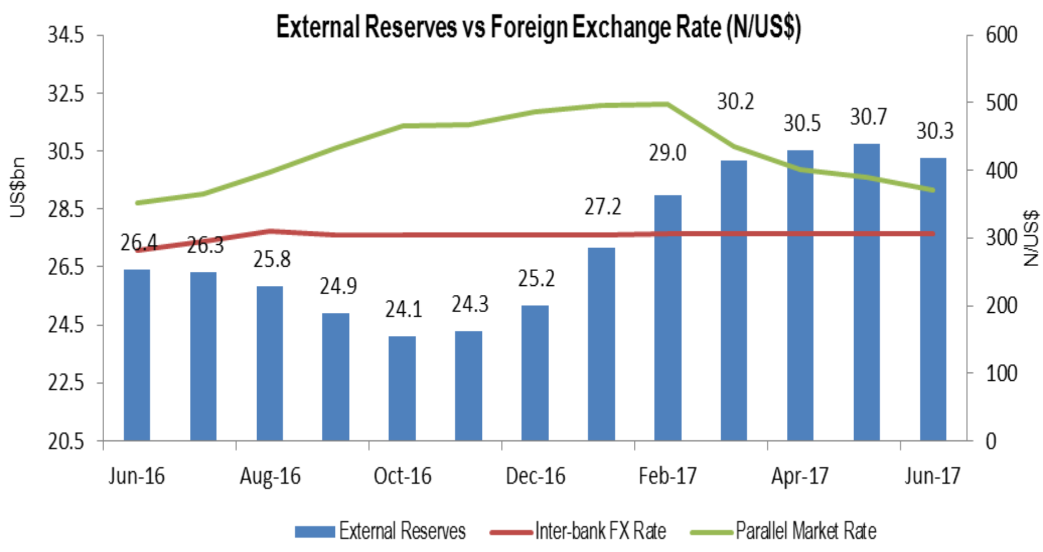
*Source: National Bureau of Statistics and FSDH Research Analysis. * Assumed no increase in fuel and electricity tariff. A- Actual, F - Forecast*

1.4 Movement in the External Reserves:

The external reserves decreased marginally by 0.13% to US$30.29bn as at end-June 2017, from US$30.33bn at end-May 2017.

The external reserves dropped marginally in June 2017 because of the strategy of the CBN to increase the supply of foreign exchange to meet demand. The 30-day moving average external reserves decreased marginally by 0.13% to US$30.29bn as at end-June 2017, from US$30.33bn at end-May 2017. The average external reserves stood at US$30.25bn in June 2017, from US$30.73bn in May 2017. However, the improvement in the domestic and external environment; improved crude oil production output and the global crude oil price condition have created a positive outlook for the accretion to the external reserves. **The external reserves has been increasing marginally since mid-June 2017, after dropping for greater part of May 2017. It stood at US$30.33bn as at July 07, 2017.**

The accretion to the external reserves still significantly depends on the sustained oil production and efforts of the OPEC and Russia to adhere to the agreed oil output cut till March 2018. The global oil supply is still higher than the global demand, and puts a downward pressure on oil price. There are indications that OPEC would place a production cap on Nigeria and Libya in order to limit crude oil supply and stabilise global crude oil price. **The relative stability in the value of the Naira and the improving business environment in Nigeria are expected to increase foreign capital flows into the Nigerian economy. Thus, we expect the external reserves to increase in the medium-term.**



1.5 Crude Oil Market and Bonny Light Price:

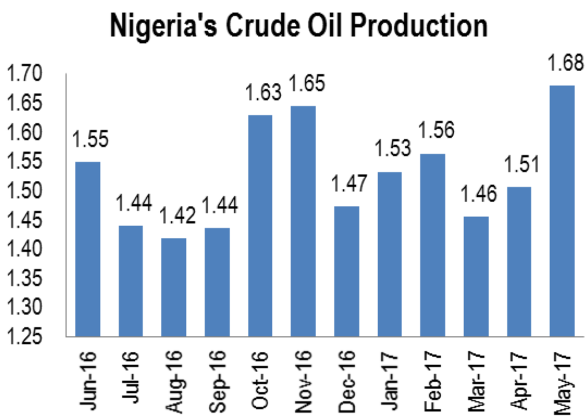
The daily crude oil production in Nigeria increased by 11.26% to 1.68mbpd in May 2017, from 1.51mbpd in April 2017.

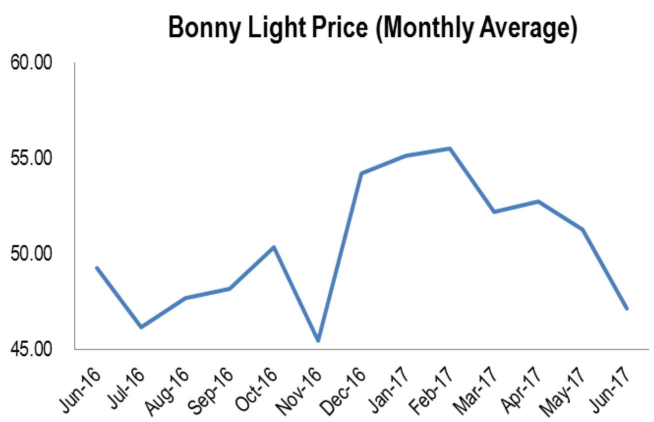
The daily crude oil production in Nigeria increased by 11.26% to 1.68mbpd in May 2017, from 1.51mbpd in April 2017. This is based on the secondary data available from the OPEC report for the month of June 2017. The total OPEC crude oil production from secondary sources was 32.14mb/d in May 2017, an increase of 1.07% from 31.80mb/d over the previous month. Crude oil production output increased mostly from Libya, Nigeria and Iraq; while production recorded the largest drop in Angola, United Arab Emirates, Venezuela and Gabon. The increased output from Nigeria and Libya have had a downside pressure on oil prices in May/June 2017. Thus, OPEC is considering placing a cap on the crude oil production for Nigeria and Libya.

The U.S Energy Information Administration (EIA) in its monthly report for June 2017 indicated that Brent crude oil spot prices averaged US$50/b in May 2017, compared with the average of US$52/b recorded in April 2017. EIA forecasts Brent prices to average US$53/b in 2017 and US$56/b in 2018. West Texas Intermediate (WTI) crude oil prices are forecast to average US$2/b less than Brent prices in both 2017 and 2018.

The average price of Bonny Light was US$47.15/b in June 2017, a decrease of 8% from the average price of US$51.25/b recorded in May 2017.

According to the data from Thomson Reuters, the Bonny Light crude oil price decreased by 5.32% to US$47.49/b as at end-June 2017, from US$50.16/b at end-May 2017. The average price of Bonny Light was US$47.15/b in June 2017, a decrease of 8% from the average price of US$51.25/b recorded in May 2017.





1.6 Foreign Exchange Rate:

The foreign exchange market recorded mixed performance in June 2017.

The foreign exchange market recorded a mixed performance in June 2017. It appreciated at the parallel market, while it depreciated at the inter-bank market. However, the convergence between the inter-bank and parallel markets continued in the month of June 2017. The relative stability in the value of the Naira has increased the positive sentiment on the Nigerian economy, with expected higher foreign capital inflow into Nigeria in the short-to-medium term.

The parallel market rate appreciated marginally in June 2017.

The parallel market rate appreciated marginally in June 2017. The Naira appreciated at the parallel market by 2.96% to close at N370/US$ at end-June 2017, from N382/US$ at end-May 2017. The average exchange rate at the parallel market appreciated by 4.79% to stand at N371.30/US$ in June 2017, compared with N389.10/US$ in May 2017.

Month-on-month, the value of the Naira depreciated at the inter-bank market as at end-June 2017, the value of the Naira closed at N305.95/US$ at the inter-bank market, a marginal depreciation of 0.16% from N305.40/US$ at end-May 2017. The average exchange rate at the inter-bank market appreciated marginally by 0.04% to stand at N305.57/US$ in June 2017, compared with N305.69/US$ in May 2017.

The long-term stability of the foreign exchange rate depends on the conducive domestic business environment; particularly the sustained improvement in infrastructure.

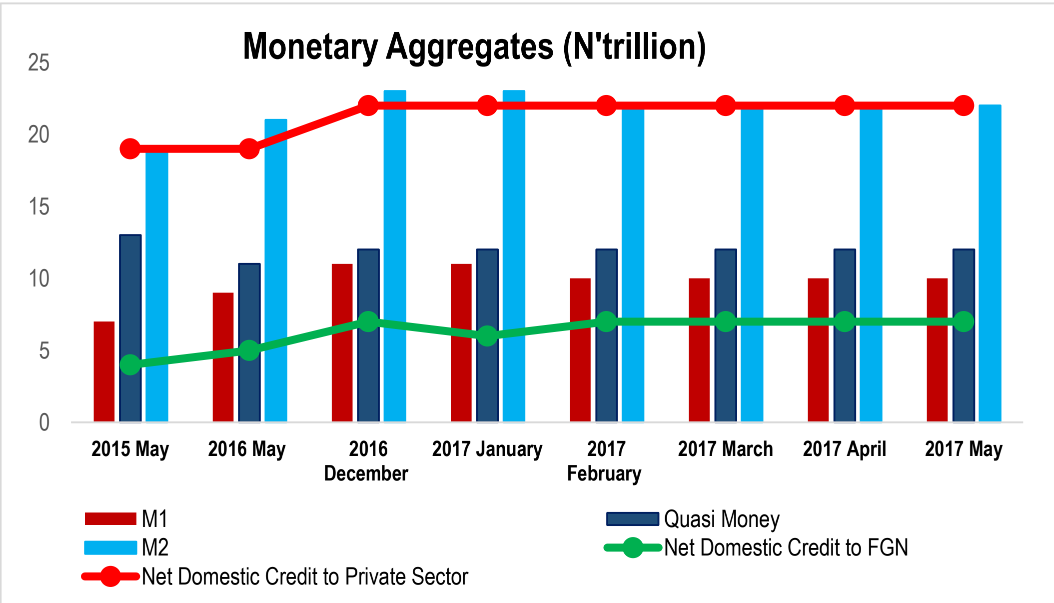
The long-term stability of the foreign exchange rate depends on the conducive domestic business environment; particularly the sustained improvement in infrastructure. This will help to create a diversified manufacturing base that can promote exports to earn foreign exchange.

1.7 Monetary Aggregates:

The monetary aggregates as at May 2017 show that the annualised growth rate in the money supply is below the target set by the CBN for the year 2017.

The monetary aggregates (narrow money and broad money) as at May 2017 show that the annualised growth rate in the money supply is below the target set by the CBN for the year 2017. In Nigeria, narrow money supply (M1) is the sum of demand deposits and currency in circulation less the cash currency held in deposit money banks' vault. Quasi money supply (QM) is the savings deposits plus time deposits. Broad money supply (M2) is the sum of M1 and QM (M2 = M1 + QM). The M2 decreased by 6.04% to N22trillion in May 2017 from N23.4trillion in December 2016. The major drop in M2 is from M1, which dropped by 7.98% to N10.2trillion in May 2017, from N11.1trillion in December 2016. The QM also dropped by 4.30% to N11.8trillion from N12.3trillion in December 2016. The CBN's growth target for M2 in 2017 is 10.29%; thus the contraction in M2 as at May 2017 is a deviation from the growth target for the year. This may not be unconnected with the tight money stance of the CBN aimed at stabilizing the foreign exchange market and moderating inflation.

The net domestic credit increased marginally by 0.41% to N26.8trillion in May 2017 from N26.6trillion in December 2016. The annualised growth rate in the net domestic credit in May 2017 was 1%, below the target growth rate of 17.93% for 2017. The net domestic credit to the Federal Government increased by 3.45% to N4.8trillion in May 2017 from N4.7trillion in December 2016 but the net domestic credit to private sector dropped marginally by 0.23% to N21.93trillion in May 2017 from N21.98trillion in December 2016.



2.0 Interest Rate and Yield Analysis:

The yields on NTBs moved in different direction in June 2017, compared with May 2017.

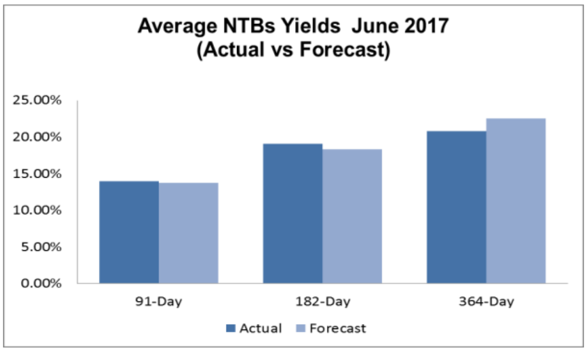
The yields on the fixed income securities and the Nigerian Inter-Bank Offered Rate were at varying rate of change in June 2017, compared with May 2017. The major drivers of the yields are:

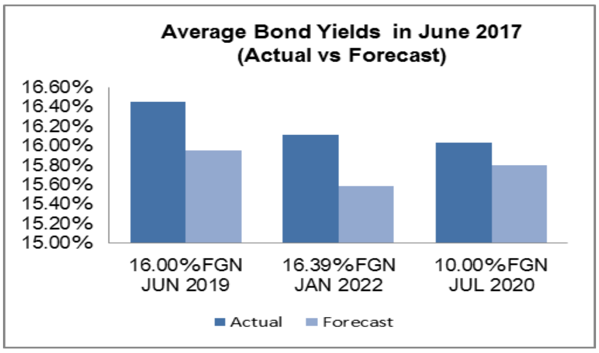
- **The increased sale of NTBs by the Central Bank of Nigeria (CBN)**
- **The FGN's strategy to attract more investors to the FGN Bonds**
- **Liquidity level swings in the NIBOR market, mainly due to foreign exchange funding.**

The fixed income market analysis for the month of June 2017 shows a net inflow of about N115bn, compared with a net outflow of about N270bn in May 2017. The major outflows in June 2017 were the Primary NTBs of about N370bn; Open Market Operations (OMO) and Repurchase Bills (REPO) of N424bn; CBN's Foreign Exchange Sale of about N156bn; and the Bond auction of about N99bn. Meanwhile, in May 2017, the major outflows were the Primary NTBs of about N459bn; Open Market Operations (OMO) and Repurchase Bills (REPO) of N250bn; CBN's Foreign Exchange Sale of about N195bn; and the Bond auction of about N140bn. The major inflows in June 2017 were the matured OMO and REPO Bills of N527bn; matured NTBs of about N436bn; and the Federation Account Allocation Committee (FAAC) injection of about N201bn. In May 2017, major inflows were the matured OMO and REPO Bills of N323bn; matured NTBs of about N257bn; and the Federation Account Allocation Committee (FAAC) injection of about N194bn.

The yields on the fixed income securities and the Nigerian Inter-Bank Offered Rate were at varying rate of change in June 2017, compared with May 2017.

The yields on NTBs moved in different direction in June 2017, compared with May 2017. At the NTBs auction, average yield on the 91-day closed unchanged at 13.97% in the month of June 2017, same as in May 2017. The average 182-Day NTB stood at 19.05%, up from 18.79% in May 2017. The average 364-Day NTB yield closed lower at 20.81%, from 23.02% in May 2017. Meanwhile, the average 30-day NIBOR closed at 19.77% in June 2017, up from 19.69% in May 2017. The average 90-day NIBOR decreased to 21.57%, from 21.71% in the preceding month.





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The yields on the FGN Bonds that we monitored also recorded varying performance in June 2017 over the preceding month. The average yield on the 16% FGN June 2019 increased marginally to 16.45% in June from 16.39% in May. The 16.39% FGN Jan 2022 closed at 16.11% in June 2017, lower than 16.18% in May 2017; the 10% FGN Jan 2030 also closed at 16.03% in June 2017, marginally lower than 16.04% in May 2017.

Table 6: Market Liquidity (N'bn)

	May 2017			June 2017		
	Total Inflow	Total Outflow	Net flow	Total Inflow	Total Outflow	Net Flow
Primary Market: NTB	257	459	(202)	436	370	66
Open Market Operations (OMO) & Rev Repo	323	250	73	527	424	103
BOND	0	140	(140)	0	99	(99)
FAAC	194	0	194	201	0	201
FX Market	0	195	(195)	0	156	(156)
CRR Debit/Credit	0	0	-	0	0	0
TSA Implementation	0	0	-	0	0	0
Total	**774**	**1,044**	**(270)**	**1,164**	**1,050**	**115**

Source: Central Bank of Nigeria and Federal Ministry of Finance

Table 7: Average Bond Yields

	16.00% FGN JUN 2019	16.39% FGN JAN 2022	10.00% FGN July 2030
May 2017	16.39%	16.18%	16.04%
June 2017	16.45%	16.11%	16.03%
Change	**0.06%**	**(0.06%)**	**(0.00%)**

Source: Financial Market Dealers Quotation

Table 8: Average Interest Rate and Yields

	NIBOR				Treasury Bill Yields		
	Call	30 Day	90 Day	180 Day	91-Day	182-Day	364-Day
May 2017	43.37%	19.69%	21.71%	23.90%	13.97%	18.79%	23.02%
June 2017	24.53%	19.77%	21.57%	23.86%	13.97%	19.05%	20.81%
Change	**(18.84%)**	**0.08%**	**(0.14%)**	**(0.04%)**	**0.00%**	**0.26%**	**(2.21%)**

Source: CBN and Financial Market Dealers Quotation

2.1 Revised Outlook Going Forward:

We expect the yields on the fixed income securities to drop in June 2017.

A total inflow of about N772bn should hit the money market from the various maturing government securities and FAAC in the month of July 2017. Our expected outflows from the various sources such as government securities and statutory withdrawals are estimated at N807bn, leading to a net outflow of about N35bn. **We expect the inflation rate to drop below the current level in June 2017. Yields on fixed income securities may trend marginally lower in July 2017.**

The following factors will influence yields on fixed income securities in July 2017:

- The MPC decision at its July 2017 meeting
- Expected further decline in the inflation rate in June 2017
- The liquidity and stability in the foreign exchange market
- Improved fiscal condition of the FGN because of improvement in crude oil production
- Development of multiple sources of raising long-term debt which are cheaper for the FGN

Table 9: Expected Inflow and Outflow Analysis – July 2017 (N'bn)

Date	06-Jul-17	13-Jun-17	20-Jul-17	27-Jul-17	Others	Total
Inflows	122.94	89.96	277.91	65.03	215.86*	771.70
Outflows	177.00	-	204.96	140.00	285.00**	806.96
*Source: FSDH Research Analysis, *Statutory Allocation (FAAC), ** Cash Reserve Requirement (CRR) Debit*						(35.27)

Table 10: Revised Yields – Actual Vs Forecast

	Treasury Bills (Primary Market)			FGN Bonds (Secondary Market)		
	91-Day	182-Day	364-Day	Jun-19	Jan-22	Jul-30
JanA-17	14.45%	19.02%	22.95%	16.27%	16.08%	16.26%
FebA-17	14.23%	18.81%	22.69%	16.02%	16.05%	16.19%
MarA17	14.08%	18.81%	22.81%	15.79%	15.80%	15.90%
AprA-17	14.05%	18.94%	23.23%	16.01%	15.85%	15.86%
MayA-17	13.97%	18.79%	23.02%	17.15%	16.79%	17.00%
JunA-17	13.97%	19.05%	20.81%	16.45%	16.11%	16.03%
JulF-17	13.61%	18.16%	22.42%	16.07%	15.73%	15.65%
AugF-17	13.23%	17.78%	22.04%	15.69%	15.35%	15.27%
SepF-17	13.12%	17.67%	21.93%	15.58%	15.24%	15.16%
OctF-17	13.09%	17.49%	21.90%	15.50%	15.16%	15.08%
NovF-17	13.05%	17.45%	21.86%	15.46%	15.12%	15.04%
DecF-17	12.91%	17.31%	21.72%	15.32%	14.98%	14.90%
Source: CBN, FMDQ, and FSDH Research Forecasts						

2.2 Strategy:

Investors should take advantage of the current yields on one year Treasury Bills. The NTBs at the long-end remain attractive as they have higher yields than the inflation rate.

- Investors should take advantage of the current yields on one year Treasury Bills. The NTBs with the longer-tenor remain attractive as they have higher yields than the inflation rate
- Investors should also maintain a balanced portfolio in other fixed income securities, particularly in bonds in order to minimise reinvestment risk.

The average prices on the FGN Eurobonds were higher in June 2017 than in May 2017, except the 6.75% FGN Eurobond January 2021, which dropped marginally in price. Generally, the attractiveness of the yields on the FGN Euro Bond compared with similar risk profiled Bonds and improved investors' sentiments in Nigeria led to the increase in the demand and price in June 2017. The current yields on all the FGN Eurobonds are lower than their respective coupons.

Table 11: FGN Eurobonds

	10-Year 6.75% FGN Eurobond January 2021		10-Year 6.375% FGN Eurobond July 2023		5-Year 5.125% FGN Eurobond July 2018	
Date	Price (US$)	Yield (%)	Price (US$)	Yield (%)	Price (US$)	Yield (%)
1-Jun-17	107.25	4.5670	104.814	5.436	102.189	3.083
2-Jun-17	107.25	4.5660	104.798	5.439	102.189	3.078
5-Jun-17	107.301	4.5490	104.859	5.427	102.231	3.034
6-Jun-17	107.325	4.5410	104.96	5.408	102.271	2.992
7-Jun-17	107.2	4.5760	104.8	5.438	102.272	2.976
8-Jun-17	107.125	4.5930	104.707	5.454	102.206	3.032
9-Jun-17	107.095	4.6000	104.513	5.491	102.172	3.059
12-Jun-17	107.095	4.5990	104.537	5.486	102.147	3.077
13-Jun-17	106.969	4.6340	104.423	5.507	102.147	3.072
14-Jun-17	106.75	4.6970	104.048	5.579	102.064	3.135
15-Jun-17	106.126	4.8760	103.617	5.661	101.898	3.288
16-Jun-17	105.969	4.9210	103.339	5.715	101.856	3.324
19-Jun-17	106.001	4.9100	103.222	5.737	101.856	3.319
20-Jun-17	105.083	5.1820	101.686	6.038	101.773	3.394
21-Jun-17	105.781	4.9730	102.204	5.935	101.814	3.342
22-Jun-17	105.844	4.9510	102.21	5.934	101.835	3.317
23-Jun-17	106.189	4.8470	102.782	5.822	101.918	3.231
26-Jun-17	106.438	4.7720	103.235	5.733	102.168	2.983
27-Jun-17	106.668	4.7030	103.739	5.635	102.168	2.978
28-Jun-17	106.406	4.7790	103.464	5.688	102.127	3.001
29-Jun-17	106.333	4.7970	103.307	5.718	102.042	3.074
30-Jun-17	106.345	4.7910	103.275	5.724	102.043	3.068

3.0 Equity Market:

3.1 The Secondary Market:

The equity market appreciated for the fourth consecutive month in June 2017.

The equity market appreciated for the fourth consecutive month in June 2017. Month-on-Month (MoM), The Nigerian Stock Exchange All Share Index (NSE ASI) appreciated by 12.27% (a gain of 12.11% in US$) to close at 33,117.48 points. The improved macroeconomic environment; especially the increased supply of foreign exchange which has resulted in buoyed investors' sentiments continues to have a positive impact on the equity market. **The Year-to-Date (YTD) performance of the Index remains positive, closing June with a YTD gain of 23.23%.** Similarly, the market capitalisation recorded a MoM gain of 12.30% (a gain of 12.14% in US$) to close at N11.45trn (US$37.44bn). The difference in the rate of change between the market capitalization and the Index was due to the addition of 396.79mn ordinary shares to the outstanding shares of Oando Plc on The Nigerian Stock Exchange (NSE), following the conclusion of a debt to equity conversion exercise.

The Year-to-Date (YTD) performance of the Index remains positive, closing June with a YTD gain of 23.23%.

Market activities increased in the month of June 2017, compared with May 2017. The volume of stocks traded increased by 7.49% to 10.46bn. Access Bank Plc and FBN Holdings Plc were the two most highly traded stocks in June 2017. The value of stocks traded on The NSE in June 2017 also increased by 7.13% to N110.14bn.

All the Sectoral Indices rose in June 2017, compared with May 2017 except the NSE Insurance Index which declined by 0.56%.

All, the Sectoral Indices rose in June 2017, compared with May 2017 except the NSE Insurance Index, which declined by 0.56%. MoM, The NSE Banking Index recorded the highest appreciation of 11%, with a YTD appreciation of 45.08%. The gain in the NSE Banking Index is mainly attributed to the increase in the share prices of Sterling Bank (38.67%), UBA (16.80%) and Zenith Bank (10.24%). The NSE Industrial Index recorded a MoM gain of 10.96%, with a YTD gain of 21.12%.

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	9.73	102.81	29,498.31	10.20	358.54	138.63	733.84	295.65	1741.28
June	10.46	110.14	33,117.48	11.45	397.97	137.86	795.40	323.16	1932.20
Change	7.49%	7.13%	12.27%	12.30%	11.00%	(0.56%)	8.39%	9.30%	10.96%
YTD			23.23%	23.85%	45.08%	9.16%	11.61%	3.35%	21.12%

*Sources: NSE, FSDH Research. * NSE Sectoral Indices*

Table 13: Major Earning Announcements in June 2017						
Company and Result	**Turnover (Nm)**	**Change**	**PBT (Nm)**	**Change**	**PAT (Nm)**	**Change**
INTERNATIONAL BREWERIES PLC						
Full Year Mar 2017	32,711	41%	2,892	(21%)	1,034	61%
MUTUAL BENEFITS ASSURANCE PLC						
3 Months, Mar. 2017	3,745	14%	876	114	660	108%
ROYAL EXCHANGE PLC						
3 Months, March 2017	6,974	21%	(180)	(179%)	(237)	(253%)
UNIVERSAL INSURANCE COMPANY PLC						
Full Year Dec 2015	729	1%	-157	(134%)	(187)	(143%)
CONOIL PLC						
Full Year, Dec. 2016	85,024	3%	4,281	24%	2,838	23%
LINKAGE ASSURANCE PLC						
Full Year, Dec. 2016	4,030	6%	943	2%	545	7%
3 Months, Mar 2017	1,760	10%	1,788	169%	1,420.00	167%
STANDARD ALLIANCE INSURANCE PLC						
3 Months, Mar. 2017	1,002	(22%)	323	108%	270.91	133%
Full Year. Dec. 2016	4,378	(16%)	(1,242)	(252%)	(1,342)	(1,612%)
Source: NSE						

Table 14: Major Earning Announcements in June 2017					
Company	**Result**	**DPS(N)**	**Closure Date**	**Payment Date**	**Interim/Final**
UPDC REAL ESTATE INVESTMENT TRUST (UPDC REIT)	Full Year, Dec. 2016	0.24	NA	05-Jul-17	20-Jul-17
CONOIL PLC	Full Year Dec. 2016	3.10	NA	10-Jul-17	21-Aug-17
Source: NSE					

The NSE All Share Index recorded the highest MoM appreciation of 12.27%, with YTD appreciation of 23.23%.

Table 15 below shows the performance of some selected foreign equity markets around the world. The NSE All Share Index recorded the highest MoM appreciation of 12.27% for the second consecutive month. The YTD appreciation stood at 23.23% as at June 30, 2017. This is followed by the Nairobi All Share Index (Kenya) with a MoM gain of 3.05%, and a YTD gain of 14.68%. The FTSE/JSE Africa All Share (South Africa) Index recorded the highest MoM loss of 3.64%, but recorded a YTD gain of 1.89%. This was followed by the CAC 40 Index with a MoM depreciation of 3.08% but a YTD appreciation of 5.31%.

Table 15: Foreign Equity Market Performance in June 2017

North/Latin America	YTD Change		Month-on-Month Change
Dow Jones Industrial Average	8.03%		1.62%
S&P 500 Index	8.24%		0.48%
NASDAQ Composite	14.07%		(0.94%)
Brazil Stock Market Index	4.44%		0.30%
Europe			
Swiss Market Index	8.36%		(1.22%)
FTSE 100 Index (UK)	2.38%		(2.76%)
CAC 40 Index (France)	5.31%		(3.08%)
DAX Index (Germany)	7.35%		(2.30%)
Africa			
NSE All-Share Index	23.23%		12.27%
FTSE/JSE Africa All Share Index	1.89%		(3.64%)
Nairobi All Share Index (Kenya)	14.68%		3.05%
GSE All-Share Index (Ghana)	16.30%		2.34%
Asia/Pacific			
NIKKEI 225 Index (Japan)	4.81%		1.95%
S&P BSE SENSEX Index (India)	16.13%		(0.72%)
Shanghai Stock Exchange Composite Index (China)	2.86%		2.41%
Hang Seng Index (Hong Kong)	17.11%		0.41%

Sources: Bloomberg; NSE

3.2. Outlook for the Month of July:

We expect to see some profit taking in the equity market in July 2017. However, we expect the overall performance of the equity market for July 2017 to be positive, especially if companies report strong Q2 June 2017 results. The following factors may drive performance:

- The stability in the macroeconomic environment
- Strong Q2 results from quoted companies
- Improved sentiments towards the Nigerian economy
- The sustained liquidity in the foreign exchange market
- Any unexpected possible change in the MPC policy decision.

3.3. Strategies:

- We recommend that investors should maintain a medium-to-long term position in stocks that have good fundamentals
- Investors should also take strategic positions in interim dividend paying stocks
- Building materials, food and beverages, agro-allied processing and banking stocks offer attractive returns.

Table 16: Equity Market Trend Analysis (2011-2016) – NSE ASI Analysis

	Year				
Months	**2012**	**2013**	**2014**	**2015**	**2016**
June	21,599.57	36,164.30	42,482.48	33,456.83	29,597.79
July	23,061.38	37,914.32	42,097.46	30,180.27	28,009.93
% Change	**6.77%**	**4.84%**	**(0.91%)**	**(9.79%)**	**(5.36%)**

Source: The Nigerian Stock Exchange (NSE) and FSDH Research Analysis

The performance of the equity market in the last five years shows that the market recorded negative performances between June and July, except in 2012 and 2013.

The performance of the equity market in the last five years shows that the market recorded negative performances between June and July, except in 2012 and 2013. **However, we expect the equity market to appreciate in the month of July 2017. There may however be some dips in the market due to profit taking activity.**

Table 17: Revised Asset Allocation	
Asset Class	**Fund Allocation**
Equities	25%
Fund Placement	15%
Treasury Bills	15%
Real Estate Investment Trust (REIT)	5%
Bonds	20%
Collective Investment Schemes	20%

Source: FSDH Research

Table 18: One Year Target Price

Stocks	Max Entry Price	52 Week Low	52 Week High	Trailing EPS	Trailing PE Ratio	Target Price
Dangote Cement	**209.03**	**149.26**	**213.97**	**12.00**	**17.08**	**213.97**
Dangote Sugar	**9.22**	**5.71**	**9.76**	**1.32**	**6.60**	**9.70**
Flour Mills	**24.60**	**16.20**	**29.50**	**3.37**	**6.77**	**29.28**
GT Bank	**37.37**	**20.65**	**36.00**	**5.03**	**6.87**	**37.37**
Lafarge Africa Plc	**54.00**	**34.50**	**66.60**	**3.68**	**13.60**	**64.26**
UBA	**9.18**	**4.01**	**9.47**	**2.14**	**3.97**	**9.47**
Zenith Bank	**21.84**	**13.30**	**22.90**	**4.48**	**4.60**	**22.90**

Source: FSDH Research

Table 19: Bond Recommendation

S/N	Security Description	Tenor To Maturity (Yrs)	Coupon	Current Price (N)	Current Yield	Modified Duration
1	16.00% FGN JUN 2019	1.98	16.00%	99.25	16.45%	1.63
2	15.54% FGN FEB 2020	2.60	15.54%	98.30	16.34%	1.95
3	14.50% FGN JUL 2021	4.02	14.50%	95.25	16.15%	2.73
4	16.39% FGN JAN 2022	4.56	16.39%	101.00	16.06%	2.92

Source: FSDH Research. Prices and yields as at July 10, 2017

The prices of the Eurobonds of the following companies are trading at huge discounts to their face values: Ecobank Nigeria, Diamond Bank, First Bank and Fidelity Bank offer attractive prices and yields. Investments in them may generate good returns for investors who have U.S. Dollar holdings and can take the associated risks.

Table 20: Attractive Fixed Income Securities Trading on the FMDQ as at July 07, 2017

Issuer	Description	Coupon	Maturity Date	TTM (Years) *	Current Yield	Price
			State Bonds			
Lagos	14.50% LAGOS 22-NOV-2019	14.50%	22-Nov-19	2.38	18.45%	92.61
Lagos	13.50% LAGOS 27-NOV-2020	13.50%	27-Nov-20	3.39	17.58%	89.84
			Corporate Bonds			
UBA	14.00% UBA II 30-SEP-2018	14.00%	30-Sep-18	1.23	22.30%	91.38
FCMB	15.00% FCMB 6-NOV-2020	15.00%	06-Nov-20	3.33	20.76%	86.54
Lafarge Africa Plc	14.25% LAFARGE 15-JUN-2019	14.25%	15-Jun-19	1.94	17.78%	94.37
NAHCO	15.25% NAHCO II 14-NOV-2020	15.25%	14-Nov-20	3.36	17.29%	94.90
Transcorp Hotels Plc	15.50% TRANSCORP 4-DEC-2020	15.50%	04-Dec-20	3.55	20.04%	92.87
Lafarge Africa Plc	14.75% LAFARGE 15-JUN-2021	14.75%	15-Jun-21	3.94	17.20%	93.17
FCMB	14.25% FCMB I 20-NOV-2021	14.25%	20-Nov-21	4.37	18.64%	87.21
UBA	16.45% UBA I 30-DEC-2021	16.45%	30-Dec-21	4.48	17.11%	97.97
Fidelity Bank	16.48% FIDELITY 13-MAY-2022	16.48%	13-May-22	4.85	17.08%	97.99
Transcorp Hotels	16.00% TRANSCORP 26-OCT-2022	16.00%	26-Oct-22	3.19	19.09%	93.15
Stanbic IBTC	182D T.Bills+1.20% STANBIC IA 30-SEP-2024	16.29%	30-Sep-24	7.23	17.00%	97.01
Stanbic IBTC	13.25% STANBIC IB 30-SEP-2024	13.25%	30-Sep-24	7.23	17.00%	84.64
			Supranational Bonds			
AfDB	11.25% AFDB 1-FEB-2021	11.25%	01-Feb-21	1.82	15.60%	93.65
			Corporate Eurobonds			
Access Bank Plc	7.25% JUL 25, 2017	7.25%	25-Jul-17	-	12.57%	99.78
Fidelity Bank Plc	6.88% MAY 09, 2018	6.88%	09-May-18	-	12.09%	96.00
GT Bank Plc	6.00% NOV 08, 2018	6.00%	08-Nov-18	-	4.78%	101.54
Zenith Bank Plc	6.25% APR 22, 2019	6.25%	22-Apr-19	-	6.29%	99.92
Diamond Bank Plc	8.75% May 21, 2019	8.75%	21-May-19	-	14.24%	91.26
First Bank Plc	8.25% AUG 07, 2020	8.25%	07-Aug-20	-	10.93%	93.58
Access Bank Plc II	9.25%/6M USD LIBOR+7.677% JUN 24, 2021	9.25%	24-Jun-21	-	9.58%	99.58
First Bank Ltd.	8.00%/2Y USD SWAP+6.488% JUL 23 2021	8.00%	23-Jul-21	-	10.70%	91.53
Ecobank Nig. Ltd	8.75% AUG 14, 2021	8.75%	14-Aug-21	-	11.95%	90.00
			Commercial Paper			
Issuer	Description	Yield@Issue	Maturity Date	DTM (Years) **	Valuation Yield (%)	Discount Rate (%)
Access Bank Plc	ACCESS CP II 25-AUG-17	22.33%	25-Aug-17	49	20.60%	20.05%
Nigerian Breweries Plc	NBPLC CP X 23-AUG-17	19.50%	23-AUG-17	47	20.60%	20.07%
UPDC Plc	UBPC PLC CP VI 14-SEP-17	23.45%	14-SEP-17	69	21.70%	20.85%

*TTM – Tenor to Maturity; ** DTM – Day to Maturity
Source: FMDQ

Table 21: Select Global Bonds Issue		
Country	**Bond**	**TTM***
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 January 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
Sources: Bloomberg

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