Monthly Economic and Financial Market Outlook

Time for Portfolio Realignment

October 2017

Executive Summary

Domestic Scene:

- The current positive macroeconomic developments in the country have reduced the risk inherent in the Nigerian economy. Consequently, the yields on fixed income securities are dropping
- The recent efforts of the DMO to restructure the country's debts is also contributing to the declining yields
- The declining yields should prompt the realignment of investors' portfolios in favour of equity market in search of higher returns
- Investors with foreign exchange may also take advantage of the opportunities in some Euro Bonds in the market
- A review of the latest Purchasing Managers' Index (PMI) report that the Central Bank of Nigeria (CBN) published for the month of September 2017 shows that economic activities in the manufacturing and non-manufacturing sector continue to strengthen
- The Composite Non-Manufacturing Index (CNMI) expanded to 55.3 points in September 2017, from 53.6 points in August 2017
- The total capital imported into the Nigerian economy increased to US$1.79bn in Q2, 2017 from US$908mn in Q1, 2017 and US$1.04bn in Q2, 2016
- We expect the inflation rate in Nigeria to drop marginally to 15.96% in September 2017 from 16.01% in August 2017
- The external reserves is at the highest level since February 2015
- The stability in the value of the Naira should attract additional foreign capital, which will increase the external reserves
- We expect the positive Gross Domestic Product (GDP) growth rate and lower inflation rate to attract more investments to the fixed income securities. Consequently, yields should drop further
- We expect the equity market to rally in Q4 2017 especially in December, in line with the historical trend.

International Scene:

- The Organization of the Petroleum Exporting Countries (OPEC) released a global growth forecast of 3.5% for 2017 in its monthly report for September 2017
- OPEC highlighted that the challenges remain for the global economic growth outlook, mainly related to global political developments and upcoming monetary policy decisions, particularly in the US and the Euro-zone.

1.0 Global Developments:

In the countries we monitored, the prices of government bonds recorded more decreases than increases in September 2017, compared with August 2017.

In the countries we monitored, the prices of government bonds recorded more decreases than increases in September 2017, compared with August 2017. The 8.80% September 2023 Turkey Government Bond recorded the highest month-on-month price decrease of 1.40% to 91.60. This was followed by the 1.75% May 2023 United States (U.S) Government Treasury Note with a decrease of 1.16% to 98.49. The 17% April 2022 Egypt Government Bond recorded the highest month-on-month price increase of 5.58% to 106.50. This was followed by the 16.39% January 2022 Nigeria Government Bond, with a price increase of 1.94% to 101.63. The China, India, Kenya, Russia, South Africa, and U.S Bonds closed the month at positive real yields. Other bonds we monitored closed the month at negative real yields. **The Kenya Government Bond offered the most attractive real yield amongst the selected bonds in September 2017**.

The U.S economy recorded a growth of 3.1% in Q2 2017.

The Fed also indicated that it will begin to unwind its quantitative easing from October 2017.

The US economy grew by 3.1% in Q2 2017, from the final estimate released by the U.S Bureau of Economic Analysis (BEA). It is the strongest growth rate since Q1 2015. The BEA added that private inventory investment increased more than previously estimated, but the general picture of economic growth remains the same. Similarly, the inflation rate in the U.S increased to 1.9% year-on-year (Y-O-Y) in August 2017, from 1.7% in July 2017. It is the highest reading in three months, due to rising shelter and gasoline cost as Hurricane Harvey shut down refineries in the Gulf coast. The United States Federal Reserve (U.S Fed) kept its Federal Funds Rate (Fed Rate) unchanged at 1%-1.25% at its September 2017 meeting. The Fed also indicated that it will begin to unwind its quantitative easing from October 2017.

Table 1: Summary of Key Indicators

S/N	Indicators	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	99.72	106.50	105.78	101.05	101.63	100.56	99.42	91.60	98.49
2	Bond Yield	3.58%	14.97%	6.69%	12.39%	15.83%	7.55%	7.88%	10.73%	2.04%
3	Bond Price MoM Change	0.12%	5.58%	(0.57%)	(0.03%)	1.94%	0.46%	(0.17%)	(1.40%)	(1.16%)
4	Bond Yield MoM Change	(0.02%)	(1.74%)	0.12%	0.00%	(0.64%)	(0.16%)	0.04%	0.33%	0.22%
5	Bond Price YTD Change	(3.85%)	4.91%	(0.72%)	4.03%	(0.77%)	2.41%	3.63%	2.69%	1.13%
6	Bond Yield YTD Change	0.72%	(1.57%)	(0.00%)	(1.07%)	0.16%	(0.72%)	(0.73%)	(0.38%)	(0.16%)
7	Real Yield	1.78%	(16.96%)	3.33%	5.33%	(0.18%)	4.25%	3.08%	(0.47%)	0.14%
8	Volatility	0.08	2.15	0.28	0.07	0.82	0.12	0.36	0.55	0.48
9	FX Rate MoM Change*	0.94%	0.02%	2.10%	0.21%	0.97%	(0.87%)	4.02%	2.90%	(0.57%)
10	FX Rate YTD Change*	(4.39%)	(2.83%)	(4.05%)	0.62%	12.16%	(6.92%)	(1.34%)	1.12%	10.98%
11	Inflation Rate	1.80%	31.92%	3.36%	7.06%	16.01%	3.30%	4.80%	11.20%	1.90%
12	Policy Rate	4.35%	18.75%	6.00%	10.00%	14.00%	8.50%	6.75%	8.00%	1.25%
13	Debt to GDP	46.20%	92.30%	69.50%	55.20%	18.60%	17.00%	51.70%	28.30%	106.00%
14	GDP Growth Rate	6.90%	4.90%	5.70%	5.00%	0.55%	2.50%	1.10%	5.10%	2.20%
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

.

1.1 The Global GDP:

The OPEC released a global growth forecast of 3.5% for 2017 in its monthly report for September 2017.

The Organization of the Petroleum Exporting Countries (OPEC) reviewed upwards its global growth forecast to 3.5% for 2017 in its monthly report for September 2017, from 3.4% in its August 2017 monthly report. The growth forecast for 2018 is unchanged at 3.4%. OPEC indicated that the global economic growth momentum has gained traction lately and has become more balanced, with all major economies now showing positive growth in 2017. The growth forecast is driven by improved economic activities in the Organisation for Economic Growth and Development (OECD) economies.

The strong economic growth dynamics in the Euro-zone and the U.S economy are the main drivers of the economic growth expectation in the OECD. Additionally, the major emerging economies held up well, as China's growth in HY1 2017 was better-than-expected. Major structural reforms in India in HY1 2017 had negative impacts on its growth during the period. Russia and Brazil will also continue their recovery, though this also depends on developments in commodity prices and politics, as well as presidential elections in both countries in the coming year.

.

Debt levels remain high in some key economies, an issue that will probably require further attention if interest rates continue to rise gradually, particularly in the U.S.

OPEC highlighted that the challenges remain for the global economic growth outlook, mainly related to global political developments and upcoming monetary policy decisions, particularly in the US and the Euro-zone. It added that high valuations in equity and bond markets, with low volatility, pose a risk at a time when central banks have become more willing to reduce monetary stimulus measures. It is also of the opinion that debt levels remain high in some key economies, an issue that will probably require further attention if interest rates continue to rise gradually, particularly in the U.S.

Table 2: Economic Growth Rate Forecast

	2017F	2018F
World	3.5%	3.4%
OECD	2.2%	2.0%
USA	2.1%	2.2%
Japan	1.4%	1.2%
Euro-zone	2.1%	1.8%
China	6.7%	6.3%
India	6.9%	7.5%
Brazil	0.5%	1.5%
Russia	1.5%	1.4%

Source: OPEC Monthly Report, September 2017; F- Forecast

1.2 Purchasing Manager Index (PMI):

The CMI stood at 55.3 points in September 2017, from 53.6 points in August 2017.

A review of the latest Purchasing Managers' Index (PMI) report that the Central Bank of Nigeria (CBN) published for the month of September 2017 shows that the Nigerian economic activities in the manufacturing and non-manufacturing sector continue to strengthen. The PMI continued on its positive path in September 2017. The manufacturing and non-manufacturing activities increased in the month of September 2017, compared with the level of activities recorded in the month of August 2017. The PMI report shows that the Composite Manufacturing Index (CMI) expanded for the sixth consecutive month in the year 2017. For the CMI; the Production Level, New Orders, Supplier Delivery Time, Employment Level, and Raw Material Inventories grew at a faster rate in September 2017. The CMI stood at 55.3 points in September 2017, from 53.6 points in August 2017. The Composite Non-Manufacturing Index (CNMI) also expanded for the fifth consecutive month to 54.9 points in September 2017 from 54.1 points in August 2017. A PMI below the 50 points level suggests a decline in business activity while a PMI higher than the 50 points level suggests an expansion. When the PMI is at the 50 points level, it means that the degree of business activity in the economy is unchanged.

Economic activities have improved on account of increased supply of foreign exchange, and this has lifted consumer and business confidence on the future path of the Nigerian economy.

Economic activities have improved on account of increased supply of foreign exchange, and this has lifted consumer and business confidence on the future path of the Nigerian economy. Most of the components of the PMI recorded increased levels of growth in September 2017 compared with August 2017. On the average, the Manufacturing Sub-Sector Indices recorded growth in September 2017 over the level recorded in August 2017.

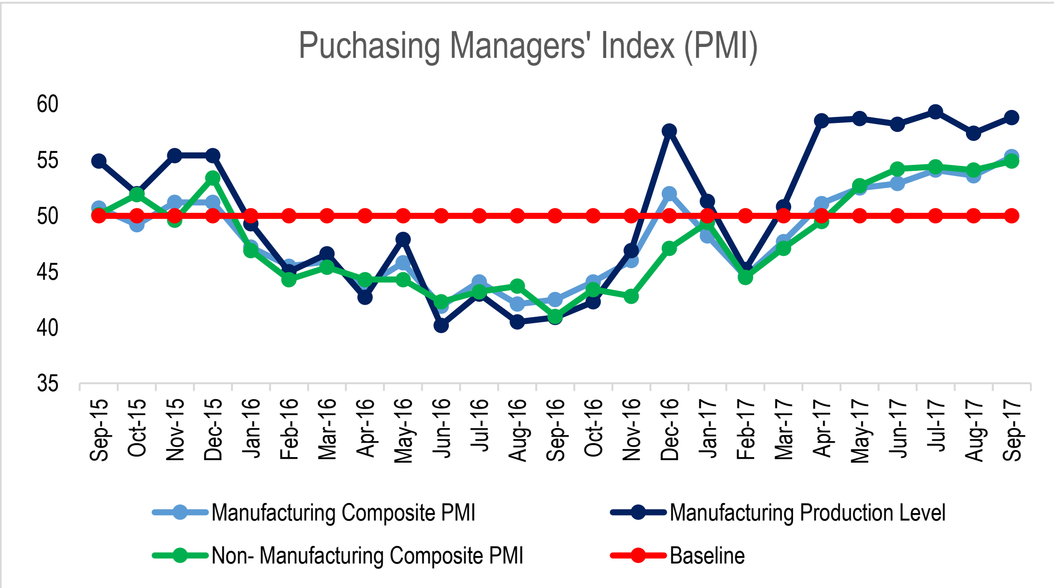


Table 3: Manufacturing Purchasing Manager Index (PMI)

	August 2017	September 2017	Change
Composite PMI	53.6	55.3	1.7
Production Level	57.4	58.8	1.4
New Orders	52.3	53.5	1.2
Supplier Delivery Time	52.0	55.4	3.4
Employment Level	51.5	52.8	1.3
Raw Materials/WIP Inventories	54.9	56.4	1.5
New Export Orders	36.7	30.4	(6.3)
Output Prices	58.8	58.2	(0.6)
Input Prices	64.9	65.7	0.8
Quantity of Purchases	49.0	49.4	0.4
Business Outstanding/Backlog of Work	47.9	51.9	4.0
Stocks of Finished Goods	51.6	50.4	(1.2)

Source: Central Bank of Nigeria

Table 4: Manufacturing Sub-Sector Indices

	August 2017	September 2017	Change
Appliances and Components	61.0	73.0	12.0
Cement	51.2	54.1	2.9
Chemical and Pharmaceutical Products	59.9	61.6	1.7
Computer and Electronic Products	68.2	52.5	(16.7)
Electrical Equipment	55.5	62.7	7.2
Fabricated Metal Products	48.8	50.4	1.6
Food, Beverage and Tobacco Products	53.2	56.8	3.6
Furniture and Related Products	51.9	55.5	3.6
Non-metallic Mineral Products	54.1	59.8	5.7
Paper Products	54.6	53.7	(0.9)
Petroleum and Coal Products	47.7	45.6	(2.1)
Plastics and Rubber Products	50.2	58.6	8.4
Primary Metal	42.7	42.7	0.0
Printing and Related Support Activities	55.3	58.8	3.5
Textiles, Apparel, Leather and Footwear	56.5	51.4	(5.1)
Transportation Equipment	17.5	55.0	37.5

Source: Central Bank of Nigeria

1.3 Inflation Rate:

The inflation rate stood at 16.01% in August 2017, from 16.05% recorded in July 2017.

The inflation rate (Year-on-Year) dropped marginally to 16.01% in August 2017, from 16.05% in July 2017. This is the seventh consecutive month of a decline in the inflation rate. There was a deceleration in the Month-on-Month inflation rate in August 2017, compared with July 2017. The month-on-month change in the CPI stood at 0.97% in August 2017, lower than 1.21% recorded in July 2017. Year-on-year (y-o-y), the Food Price Index (FPI) stood at 20.25% in August 2017, marginally down from 20.28% in July 2017. The FPI was driven by higher prices of Bread and Cereals; Meat; Fish; Oil and Fats; Milk Cheese and eggs, Coffee, Tea and Cocoa. The Core Index stood at 12.30% in August 2017, higher than 12.20% recorded in July 2017. The largest increase in the Core Index were recorded in Clothing Materials and Articles of Clothing; Garments, Passenger Transport by Air, Motorcycles, Shoes and Other Footwear, Furniture and Furnishing; Books and Stationary; Non-Durable Household Goods, Pharmaceutical Products and Maintenance, Repair of Personal Transport Equipment, and Glassware, Tableware and Household Utensils.

We expect the September 2017 inflation rate to drop marginally to 15.96%.

Our forecast shows that the inflation rate will remain in the range of 15.60% - 15.96% for the remainder of 2017. **We estimate that the inflation rate would decrease marginally to 15.96% in September 2017 as shown on table 5 below.** This may impact the yields on the fixed income securities.

Table 5: Inflation Rate Actual Vs. Forecast

Month	Jan-17A	Feb-17A	Mar-17A	Apr-17A	May-17A	Jun-17A	Jul-17A	Aug-17A	Sep-17F	Oct-17F	Nov-17F	Dec-17F
Actual/Forecast*	18.72%	17.78%	17.26%	17.24%	16.25%	16.10%	16.05%	16.01%	15.96%	15.77%	15.73%	15.60%

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

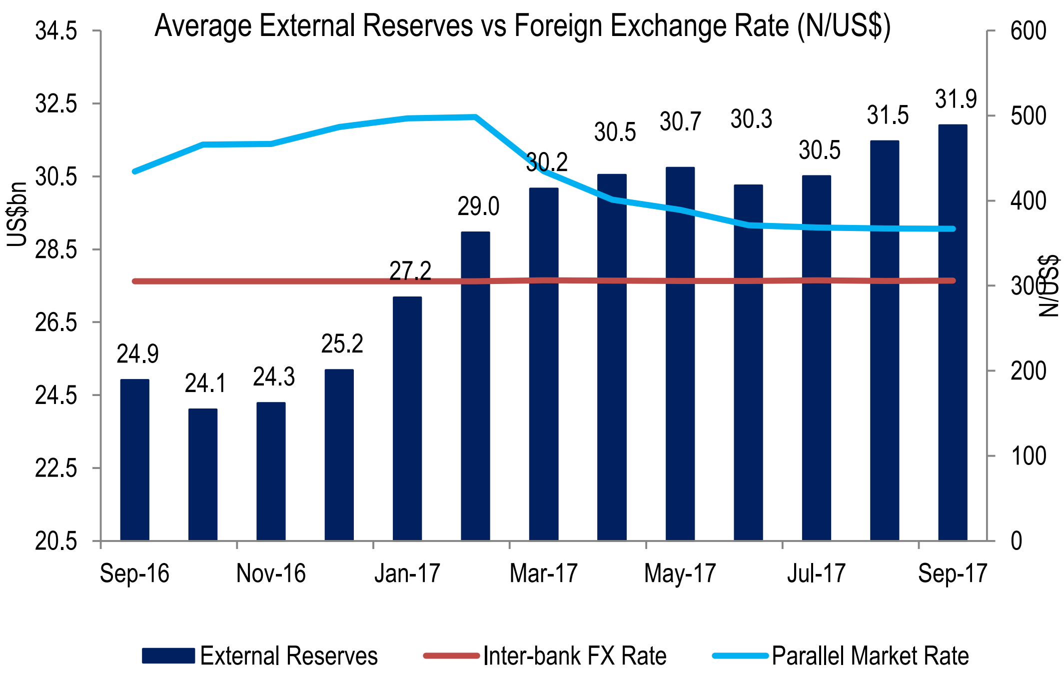
The external reserves increased by 2.07% to US$32.49bn as at end-September 2017, from US$31.83bn at end-August 2017.

The stability in the value of the Naira should attract additional foreign capital, which will increase the external reserves.

1.4 Movement in the External Reserves:

The external reserves recorded decline in the first week of September 2017, as the CBN intervened in the foreign exchange market to ensure Naira stability. The external reserves have resumed consistent growth since 08 September, 2017. The 30-day moving average external reserves increased by 2.07% to US$32.49bn as at end-September 2017 from US$31.83bn at end-August 2017. The average external reserves stood at US$32.03bn as at end-September 2017, from US$31.49bn in August 2017.

The outlook for the macroeconomic environment in Nigeria is positive, as oil production and oil price remain favourable in the short-term. The stability in the value of the Naira should attract additional foreign capital, which will increase the external reserves.



1.5 Crude Oil Market and Bonny Light Price:

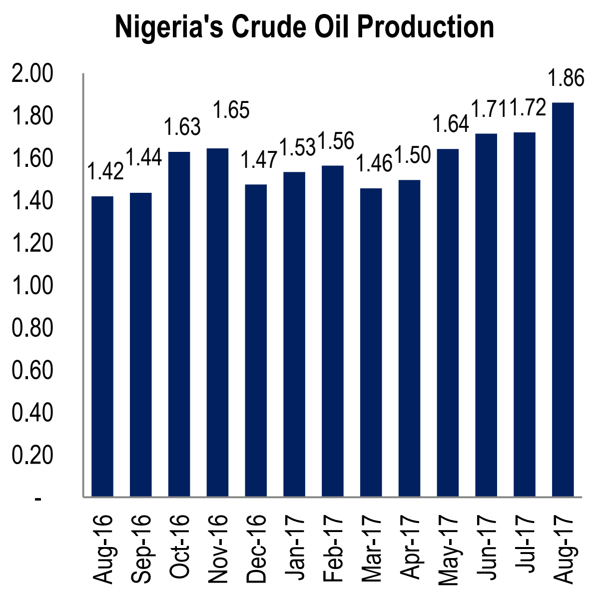
The daily crude oil production in Nigeria increased by 8.14% to 1.86mbpd in August 2017, from 1.72mbpd in July 2017.

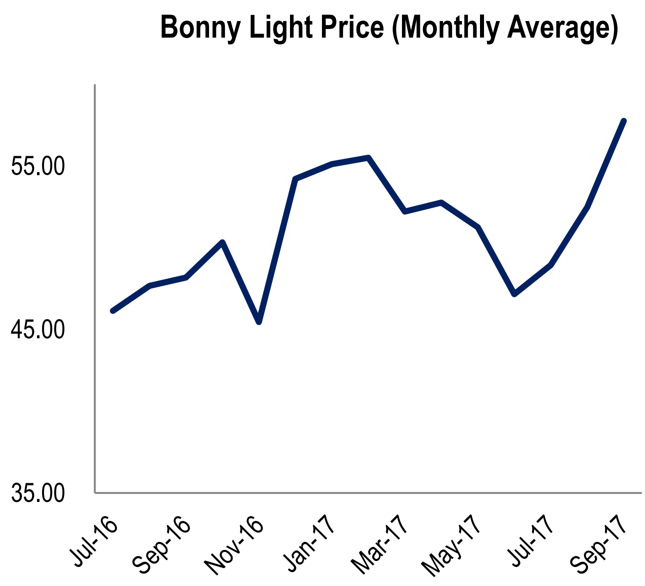
The daily crude oil production in Nigeria increased by 8.14% to 1.86mb/d in August 2017, from 1.72mb/d in July 2017. This is based on the secondary data available from the OPEC report for the month of September 2017. The total OPEC crude oil production from secondary sources was 32.76mb/d in August 2017, a marginal decrease of 0.21% from 32.70mb/d over the previous month. Crude oil production output increased mostly from Nigeria, Angola, Algeria, Qatar, Equatorial Guinea and Kuwait; while production recorded the largest drop in Gabon, Venezuela, Iraq, United Arab Emirates and Saudi Arabia.

The U.S Energy Information Administration (EIA) in its monthly report for September 2017 released average forecast Brent crude oil price of US$51/b in 2017 and US$52/b in 2018.

The average price of Bonny Light was US$57.75/b in September 2017, an increase of 10.06% from the average price of US$52.47/b recorded in August 2017.

According to the data from Thomson Reuters, the Bonny Light crude oil price increased by 6.19% to US$56.98/b as at end-September 2017, from US$53.66/b at end-August 2017. The average price of Bonny Light was US$57.75/b in September 2017, an increase of 10.06% from the average price of US$52.47/b recorded in August 2017.





The value of the Naira appreciated at the various segments of the foreign exchange market in September 2017, compared with August 2017.

1.6 Foreign Exchange Rate:

The value of the Naira appreciated at the various segments of the foreign exchange market in September 2017, compared with August 2017. The premium between the inter-bank and parallel market was marginally tighter in September 2017, compared with August 2017. The availability of foreign exchange in the Investors' and Exporters' Window (I&E Window) to meet genuine demand and the readiness of the CBN to support the foreign exchange market, continue to support the value of the Naira.

Month-on-month, the value of the Naira appreciated marginally at the inter-bank market to N305.75/US$ as at end-September 2017, a marginal appreciation of 0.03% from N305.85/US$ at end-August 2017. However, the average exchange rate at the inter-bank market depreciated by 0.07% to stand at N305.89/US$ in September 2017, compared with N305.67/US$ in August 2017.

The parallel market rate appreciated in September 2017, compared with August 2017. The Naira appreciated at the parallel market by 0.68% to close at N365.50/US$ at end-September 2017, from N368/US$ at end-August 2017. However, the average exchange rate at the parallel market depreciated by 0.12% to stand at N367.50/US$ in September 2017, compared with N367.05/US$ in August 2017.

The developments in the global oil market is pivotal to the short-term stability in the value of the Naira.

The developments in the global oil market is pivotal to the short-term stability in the value of the Naira. Meanwhile, policies that will increase the productive base of the Nigerian economy are necessary to maintain the long-term stability of the foreign exchange rate.

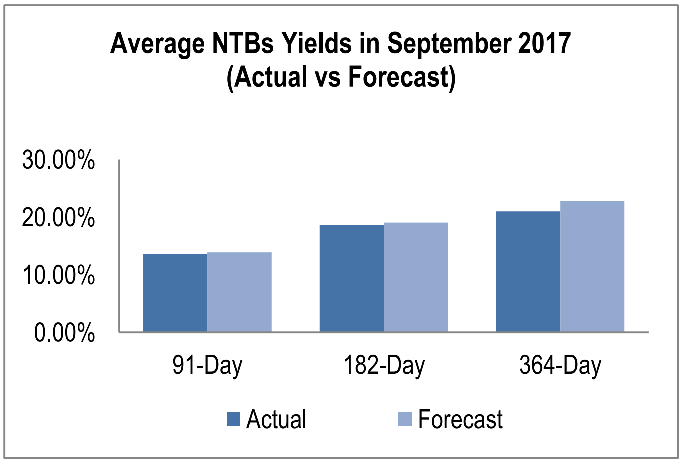
2.0 Interest Rate and Yield Analysis:

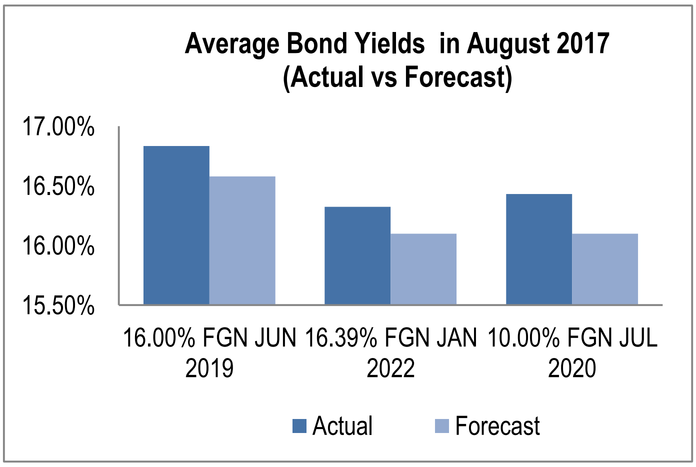
The yields on the Nigerian Government Treasury Bills (NTBs), the selected FGN Bonds and the Nigeria Inter-Bank Offered Rate (NIBOR) decreased in September 2017, compared with August 2017.

The yields on the fixed income securities dropped across board in September 2017, compared with August 2017.

The fixed income market analysis for the month of September 2017 shows a net outflow of about N554bn, compared with a net outflow of about N499bn in August 2017. The major outflows in September 2017 were the Open Market Operations (OMO) and Repurchase Bills (REPO) of N612bn; CBN's Foreign Exchange Sale of about N468bn; Primary NTBs of about N390bn and the Bond auction of about N244bn. Meanwhile, in August 2017, the major outflows were the Open Market Operations (OMO) and Repurchase Bills (REPO) of N762bn; CBN's Foreign Exchange Sale of about N534bn; Primary NTBs of about N425bn; and the Bond auction of about N56bn. The major inflows in September 2017 were the matured OMO and REPO Bills of N531bn; matured NTBs of about N315bn; and the Federation Account Allocation Committee (FAAC) injection of about N315bn. In August 2017, major inflows were the matured OMO and REPO Bills of N572bn; matured NTBs of about N485bn; and the Federation Account Allocation Committee (FAAC) injection of about N221bn.

The yields on NTBs moved in similar direction in September 2017, compared with August 2017. At the NTBs auction, average yield on the 91-day was down to 13.65% in the month of September compared with 13.82% recorded in August 2017. The average 182-Day NTB stood at 18.67%, down from 19.02% in August 2017. The average 364-Day NTB yield also closed lower at 21.02%, from 22.73% in August 2017. Meanwhile, the average 30-day NIBOR closed at 18.10% in September 2017, down from 19.05% in August 2017. The average 90-day and 180-Day NIBOR also decreased to 20.68% and 22.40%, from 21.79% and 23.394% in August 2017, respectively.





The yields on the FGN Bonds that we monitored closed lower in September 2017 over the preceding month. The average yield on the 16% FGN June 2019 dropped to 16.28% in September from 16.84% in August. The 16.39% FGN Jan 2022 closed at 16.16% in September 2017, marginally lower than 16.33% in August 2017; the 10% FGN Jan 2030 also closed at 16.31% in September 2017, marginally lower than 16.43% in August 2017.

Table 6: Market Liquidity (N'bn)

	August 2017			September 2017		
	Total Inflow	Total Outflow	Net Flow	Total Inflow	Total Outflow	Net Flow
Primary Market: NTB	485	425	59	315	390	(75)
Open Market Operations (OMO) & Rev Repo	572	762	(190)	531	612	(82)
BOND	0	56	(56)	0	244	(244)
FAAC	221	0	221	315	0	315
FX Market	0	534	(534)	0	468	(468)
CRR Debit/Credit	0	0	0	0	0	0
TSA Implementation	0	0	0	0	0	0
Total	**1,278**	**1,777**	**(499)**	**1,278**	**1,400**	**(554)**

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
August 2017	16.84%	16.33%	16.43%
September 2017	16.28%	16.16%	16.31%
Change	**(0.55%)**	**(0.17%)**	**(0.12%)**

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
August 2017	30.18%	19.05%	21.79%	23.39%	13.82%	19.02%	22.73%
September 2017	19.15%	18.10%	20.68%	22.40%	13.65%	18.67%	21.02%
Change	**(11.03%)**	**(0.95%)**	**(1.11%)**	**(0.99%)**	**(0.17%)**	**(0.35%)**	**(1.71%)**

Source: CBN and Financial Market Dealers Quotation

2.1 Revised Outlook Going Forward:

The positive GDP growth rate has reduced the risks inherent in the Nigerian economy. This coupled with lower inflation is expected to attract more investments and to have a downward impact on yields on fixed income securities.

A total inflow of about N991.65bn should hit the money market from the various maturing government securities and FAAC in the month of October 2017. Our expected outflows from the various sources such as government securities and statutory withdrawals are estimated at N699.16bn, leading to a net inflow of about N292.50bn. We expect the inflation rate in September 2017 to trend marginally downward from the level recorded in August 2017. The positive GDP growth rate has reduced the risks inherent in the Nigerian economy. This coupled with lower inflation is expected to attract more investments and to have a downward impact on yields on fixed income securities.

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

Date	05-Oct-17	12-Oct-17	19-Oct-17	26-Oct-17	Others	Total
Inflows	413.78	62.06	183.62	93.74	238.47*	991.65
Outflows	130.37	-	133.79	150	285**	699.16
*Source: FSDH Research Analysis, *Statutory Allocation (FAAC), ** Cash Reserve Requirement (CRR) Debit*						**292.50**

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%
JulA-17	13.93%	19.11%	22.80%	16.62%	16.13%	16.12%
AugA-17	13.82%	19.02%	22.73%	16.84%	16.33%	16.43%
SepA-17	13.65%	18.67%	21.02%	16.28%	16.16%	16.31%
OctF-17	13.60%	16.59%	18.58%	15.89%	15.82%	15.86%
NovF-17	13.56%	16.55%	18.54%	15.85%	15.78%	15.82%
DecF-17	13.43%	16.41%	18.41%	15.72%	15.65%	15.69%
Source: CBN, FMDQ, and FSDH Research Forecasts						

We anticipate a further drop in yields on the fixed income securities.

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

- The positive GDP growth rate which has reduced the risks inherent in the Nigerian economy
- The liquidity and stability in the foreign exchange market
- The plan of the Debt Management Office (DMO) to refinance domestic debt, particularly NTBs with cheaper foreign debt
- The expectation of marginal drop in the inflation rate for September 2017

2.2 Strategy:

Investors should take advantage of the current yields on the 182-Day and 364-Day Treasury Bills.

- Investors should take position in the Treasury Bill yields of 180-Day and 364-Day despite the drop in the NTB yields, as current yields on both the bills are still higher than inflation rate
- Investors should realign their portfolios to increase the long-dated bonds
- Investors with foreign exchange should take advantage of the opportunities in some Euro Bonds in the market.

The average prices on the FGN Eurobonds were higher in September 2017 than in August 2017. Consequently, the average yields of the bonds closed lower in the month of September 2017 than in August 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**
01-Sep-17	107.562	4.33%	106.099	5.15%	101.856	2.89%
04-Sep-17	107.45	4.36%	106.098	5.15%	101.856	2.89%
05-Sep-17	107.667	4.30%	106.319	5.11%	101.898	2.84%
06-Sep-17	107.627	4.31%	106.376	5.10%	101.898	2.83%
07-Sep-17	107.594	4.31%	106.529	5.07%	101.898	2.81%
08-Sep-17	107.637	4.30%	106.799	5.01%	101.898	2.80%
11-Sep-17	107.542	4.32%	106.732	5.03%	101.898	2.79%
12-Sep-17	107.469	4.34%	106.605	5.05%	101.898	2.79%
13-Sep-17	107.594	4.30%	106.665	5.04%	101.898	2.78%
14-Sep-17	107.469	4.34%	106.559	5.06%	101.877	2.78%
15-Sep-17	107.533	4.31%	106.597	5.05%	101.918	2.72%
18-Sep-17	107.533	4.31%	106.626	5.04%	101.918	2.71%
19-Sep-17	107.438	4.34%	106.42	5.08%	101.858	2.78%
20-Sep-17	107.376	4.36%	106.291	5.11%	101.845	2.79%
21-Sep-17	106.958	4.48%	105.846	5.19%	101.726	2.91%
22-Sep-17	107.038	4.46%	106.092	5.14%	101.592	3.08%
25-Sep-17	106.877	4.50%	105.762	5.21%	101.745	2.87%
26-Sep-17	106.793	4.53%	105.53	5.25%	101.750	2.86%
27-Sep-17	106.335	4.67%	104.789	5.40%	101.662	2.96%
28-Sep-17	106.417	4.64%	104.769	5.40%	101.555	3.08%
29-Sep-17	106.627	4.57%	104.981	5.36%	101.600	3.02%

Source: Bloomberg

3.0 Equity Market:

3.1 The Secondary Market:

The equity market depreciated for the second consecutive month in September 2017 as a result of continued profit taking.

The equity market depreciated for the second consecutive month in September 2017 as a result of continued profit taking. Month-on-Month (MoM), The Nigerian Stock Exchange All Share Index (NSE ASI) depreciated by 0.18% (a loss of 0.15% in US$) to close at 35,439.98 points. This is the second MoM depreciation since February 2017. **The Year-to-Date (YTD) performance of the Index remains positive, closing September with a YTD gain of 31.87%.** Similarly, the market capitalisation recorded a MoM loss of 0.17% (a loss of 0.14% in US$) to close at N12.22trn (US$39.96bn). The difference in the rate of change between the market capitalization and the Index was due to the voluntary delisting of Avon Crowncaps and Containers and the supplementary listing of 12.67mn additional shares of Nigerian Enamelware Plc. Additionally, 879.65mn shares were added to the outstanding shares of UACN Property Development Company from its Rights Issue.

The YTD performance of the Index remains positive, closing September with a YTD gain of 31.87%

Market activities decreased significantly in the month of September 2017, compared with August 2017. The volume of stocks traded decreased by 49.01% to 3.81bn in September 2017 from 7.48bn in August 2017. Guaranty Trust Bank Plc, Access Bank Plc and Zenith Bank Plc were the three most highly traded stocks in September 2017. The value of stocks traded on The NSE in September 2017 decreased by 68.50% to N62.51bn, from N198.43bn in August 2017.

All the Sectoral Indices dropped in September 2017, compared with August 2017, except the NSE Banking Index and the NSE Insurance Index.

All the Sectoral Indices dropped in September 2017, compared with August 2017, except the NSE Banking Index and the NSE Insurance Index. MoM, the NSE Insurance Index appreciated by 1.59% while the NSE Banking Index appreciated by 0.11%. The NSE Oil and Gas Index recorded the highest MoM depreciation of 6.05%, with a YTD depreciation of 10.19%. The loss in the NSE Oil and Gas Index is mainly attributed to the decrease in the share prices of Oando Plc (-12.92%), Seplat Plc (-8.24%) and Total Nigeria Plc (-5.71%). The NSE Industrial Index recorded a MoM loss of 3.30%, with a YTD gain of 24.37%.

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*
August	7.48	198.43	35,504.62	12.23	439.69	137.54	946.88	298.93	2,051.96
September	3.81	62.51	35,439.98	12.22	440.17	139.73	921.79	280.83	1984.19
Change	(49.01%)	(68.50%)	(0.18%)	(0.17%)	0.11%	1.59%	(2.65%)	(6.05%)	(3.30%)
YTD	-	-	31.87%	32.12%	60.46%	10.64%	29.35%	(10.19%)	24.37%

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

Table 13: Major Earning Announcements in September 2017						
Company and Result	**Turnover (Nm)**	**Change**	**PBT (Nm)**	**Change**	**PAT (Nm)**	**Change**
FORTIS MICROFINANCE BANK PLC						
6 Months, June 2017	2,608	28%	968	153%	678	153%
P Z CUSSONS NIGERIA PLC.						
Full Year, May 2017	79,630	15%	4,811	53%	3,687	73%
NIG ENAMELWARE COMP. PLC						
3 Months, Jul. 2017	420	-5%	9	-4%	6	2%
Source: NSE						

Table 14: Major Earning Announcements in September 2017					
Company	**Result**	**DPS(N)**	**Closure Date**	**Payment Date**	**Interim/Final**
P.Z. CUSSONS PLC	Full year, May 2017	0.50	02-Oct-17	13-Oct-17	Final
Source: NSE					

The DAX Index (Germany) recorded the highest MoM appreciation of 6.41%.

Table 15 below shows the performance of some selected foreign equity market. The DAX Index (Germany) recorded the highest MoM appreciation of 6.41%, with a YTD appreciation of 11.74% as at 29 September, 2017. This is followed by the Ibovespa Brasil Sao Paulo Stock Exchange Index (Brazil) with a MoM gain of 4.88%, and a YTD gain of 23.36%. The Nairobi All Share Index (Kenya) recorded the highest MoM loss of 4.11%, but recorded a YTD gain of 21.65%. This was followed by the GSE Composite Index with a MoM depreciation of 2.63% but a YTD appreciation of 37.71%.

Table 15: Foreign Equity Market Performance in September 2017

North/Latin America	YTD Change		Month-on-Month Change
Dow Jones Industrial Average	13.37%		2.08%
S&P 500 Index	12.53%		1.93%
NASDAQ Composite	20.67%		1.05%
Brazil Stock Market Index	23.36%		4.88%
Europe			
Swiss Market Index	11.41%		2.60%
FTSE 100 Index (UK)	3.22%		(0.78%)
CAC 40 Index (France)	9.61%		4.80%
DAX Index (Germany)	11.74%		6.41%
Africa			
NSE All-Share Index	31.87%		(0.18%)
FTSE/JSE Africa All Share Index	9.73%		(1.67%)
Nairobi All Share Index (Kenya)	21.65%		(4.11%)
GSE Composite Index (Ghana)	37.71%		(2.63%)
Asia/Pacific			
NIKKEI 225 Index (Japan)	6.50%		3.61%
S&P BSE SENSEX Index (India)	17.49%		(1.41%)
Shanghai Stock Exchange Composite Index (China)	7.90%		(0.35%)
Hang Seng Index (Hong Kong)	25.24%		(1.49%)

Sources: Bloomberg; NSE

3.2. Outlook for the Month of October:

We expect the equity market to rally in October 2017. The following factors should drive the performance of the equity market:

- Further improvements in the quoted companies' earnings for Q3, 2017
- A sustained oil price above US$50bbl
- Expectation of a higher GDP growth in excess of 2% for Q3, 2017
- The drop in yields in the fixed income leading to a shift in investor's interest to the equity market
- Stability in foreign exchange market

Additionally, we expect the equity market to rally in Q4 2017 especially in December, in line with the historical trend and some of the factors highlighted above.

3.3. Strategies:

- Investors may take strategic positions in stocks that have good fundamentals to take advantage of the expected rally in the market
- Building materials, food and beverages and banking stocks offer attractive returns.

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

	Year				
Months	**2012**	**2013**	**2014**	**2015**	**2016**
September	26,011.63	36,585.08	41,210.10	31,217.77	28,335.40
October	26,430.92	37,622.74	37,550.24	29,177.72	27,220.09
% Change	1.61%	2.84%	(8.88%)	(6.53%)	(3.94%)

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

We expect that the stability in the economy and the release of Q3 2017 results to drive the equity market in October 2017.

The performance of the equity market in the last five years shows that the market recorded negative performances between October and September, except in 2013 and 2012. **We expect that the stability in the economy and the release of Q3 2017 results may buoy the equity market in October 2017.**

Table 17: Revised Asset Allocation	
Asset Class	**Fund Allocation**
Equities	30%
Fund Placement	10%
Treasury Bills	10%
Real Estate Investment Trust (REIT)	5%
Bonds	25%
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**
Access Bank	**9.63**	**5.15**	**10.76**	**2.67**	**3.61**	**11.30**
Dangote Cement	**212.99**	**149.26**	**245**	**13.34**	**15.97**	**248.13**
Dangote Sugar	**13.7**	**5.71**	**14.91**	**2.01**	**6.82**	**15.99**
FBNH	**5.64**	**2.95**	**7.07**	**0.15**	**38.01**	**6.55**
Flour Mills	**26.55**	**16.2**	**31**	**3.41**	**7.78**	**30.93**
Lafarge Africa	**54.73**	**34.5**	**63**	**1.16**	**43.58**	**65.13**
Nigerian Breweries	**165**	**112.82**	**193**	**4.17**	**39.52**	**193**
UACN	**15**	**12.02**	**21.05**	**2.20**	**6.80**	**17.55**
UBA	**8.64**	**4.01**	**10.41**	**2.41**	**3.58**	**10.17**
Zenith Bank	**23.4**	**13.3**	**25.9**	**5.40**	**4.33**	**27.20**
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	1.80	16.00%	99.05	16.58%	1.46
2	15.54% FGN FEB 2020	2.42	15.54%	98.10	16.50%	1.92
3	14.50% FGN JUL 2021	3.84	14.50%	94.40	16.50%	2.75
4	16.39% FGN JAN 2022	4.38	16.39%	91.15	19.46%	2.88
Source: FSDH Research. Prices and yields as at September 12, 2017						

The prices of the Eurobonds of the following companies are trading at huge discounts to their face values: Ecobank Nigeria, Diamond Bank, FCMB and Stanbic IBTC 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 October 05, 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	2.13	16.48%	96.51
Lagos	13.50% LAGOS 27-NOV-2020	13.50%	27-Nov-20	3.15	16.36%	93.12
Corporate Bonds						
UBA	14.00% UBA II 30-SEP-2018	14.00%	30-Sep-18	0.99	20.75%	94.23
FCMB	15.00% FCMB 6-NOV-2020	15.00%	06-Nov-20	3.09	19.49%	89.89
Lafarge Africa Plc	14.25% LAFARGE 15-JUN-2019	14.25%	15-Jun-19	1.69	16.17%	97.17
NAHCO	15.25% NAHCO II 14-NOV-2020	15.25%	14-Nov-20	3.11	16.04%	98.07
Transcorp Hotels Plc	15.50% TRANSCORP 4-DEC-2020	15.50%	04-Dec-20	1.81	18.42%	95.77
Lafarge Africa Plc	14.75% LAFARGE 15-JUN-2021	14.75%	15-Jun-21	3.69	16.42%	95.44
FCMB	14.25% FCMB I 20-NOV-2021	14.25%	20-Nov-21	4.13	18.17%	88.91
UBA	16.45% UBA I 30-DEC-2021	16.45%	30-Dec-21	4.24	16.69%	99.21
Fidelity Bank	16.48% FIDELITY 13-MAY-2022	16.48%	13-May-22	4.60	16.73%	99.17
Transcorp Hotels	16.00% TRANSCORP 26-OCT-2022	16.00%	26-Oct-22	2.95	17.70%	96.39
Stanbic IBTC	182D T.Bills+1.20% STANBIC IA 30-SEP-2024	16.29%	30-Sep-24	6.99	16.04%	101.03
Stanbic IBTC	13.25% STANBIC IB 30-SEP-2024	13.25%	30-Sep-24	6.99	16.04%	88.53
Supranational Bonds						
AfDB	11.25% AFDB 1-FEB-2021	11.25%	01-Feb-21	1.83	15.44%	93.71
Corporate Eurobonds						
Fidelity Bank Plc	6.88% MAY 09, 2018	6.88%	09-May-18	-	6.94%	99.96
GT Bank Plc	6.00% NOV 08, 2018	6.00%	08-Nov-18	-	4.38%	101.69
Zenith Bank Plc	6.25% APR 22, 2019	6.25%	22-Apr-19	-	4.53%	102.52
Diamond Bank Plc	8.75% May 21, 2019	8.75%	21-May-19	-	14.23%	92.31
First Bank Plc	8.25% AUG 07, 2020	8.25%	07-Aug-20	-	9.27%	98.11
Access Bank Plc II	9.25%/6M USD LIBOR+7.677% JUN 24, 2021	9.25%	24-Jun-21	-	8.79%	102.07
First Bank Ltd.	8.00%/2Y USD SWAP+6.488% JUL 23 2021	8.00%	23-Jul-21	-	9.72%	95.00
Ecobank Nig. Ltd	8.75% AUG 14, 2021	8.75%	14-Aug-21	-	11.42%	92.14
Commercial Paper						
Issuer	Description	Yield@Issue	Maturity Date	DTM (Years) **	Valuation Yield (%)	Discount Rate (%)
EcoBank Nigeria Plc	ECOBANK CP 27-OCT-17	20.95%	27-Oct-17	22	22.04%	21.76%
Access Bank Plc	ACCESS CP VI 22-DEC-17	22.07%	22-Dec-17	78	18.71%	17.99%
Access Bank Plc	ACCESS CP IX 27-FEB-18	22.38%	27-Feb-18	145	18.30%	17.06%

*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

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, Skye Bank Building (Former Mainstreet Bank Building) 5 Trans Amadi Road, Port Harcourt. Tel: 234-8024081331

Abuja Office: Leadway House (First Floor), Plot 1061 Herbert Macaulay way, Central Business District, Abuja-Nigeria. Tel.: 234-9-2918821

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

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