Monthly Economic and Financial Market Outlook

Lift-Off Delayed by Fiscal Spending

June 2016
Executive Summary

The major highlights of the Monthly Economic and Financial Market Outlook report are:

- The Organization of the Petroleum Exporting Countries (OPEC) noted that the global economy is recording improved momentum.

- There is a possibility that the Nigerian economy may record another negative growth in Q2 2016.

- We expect a possibility of the adoption of a flexible exchange rate by the CBN in June 2016.

- We expect the inflation rate to increase to 15.58% in May 2016 from 13.72% in April 2016.

- An upward adjustment of the official exchange rate can attract foreign investments that may lead to an accretion to the external reserves.

- We expect the yields on the fixed income securities to increase in the month of June 2016.

- We expect strategic long-term investors to take position in the stocks that have strong fundamentals.
1.0. Global Developments:

The prices of government bonds depreciated in more countries in May 2016 than they appreciated. The 17% April 2022 Egypt Government Bond recorded the highest month-on-month price decrease of 10.70% to 106.26. The Nigeria Government Bond followed the Egypt Government Bond with a decrease of 4.30% to 110.52. The 12.71% June 2022 Kenya Government Bond recorded the only month-on-month price increase of 0.44% to 95.53. The Argentina Bond and Nigeria Bond closed the month at negative real yields. Other bonds we monitored closed the month at positive real yields. The Kenya Government Bond still offers the most attractive real yield amongst the selected bonds in May 2016.

According to the United States (U.S.) Bureau of Economic Analysis, the U.S. economy grew by 0.8% (year-on-year) in Q1 2016, higher than the 0.5% increase initially estimated. Consumption expenditure continued to boost growth as spending on home building increased more than expected and the drag from net trade and inventories were smaller. In contrast, business investment fell faster than anticipated. Meanwhile, the Chinese economy grew by 1.1% (quarter-on-quarter) in Q1 2016, lower than the 1.5% recorded in Q4 2015. China’s trade surplus also increased to US$45.56bn in April 2016, from US$34.13bn recorded in April 2015. It is the largest trade surplus since February 2016 as exports and imports fell more than expected. Similarly, inflation rate in China stood at 2.3% in April 2016, same as in the previous month.

The US economy grew by 0.8% in Q1 2016.
1.1 The Global GDP:
The Organization of the Petroleum Exporting Countries (OPEC) noted that the global economy is recording improved momentum. The OPEC Oil Market Report for May 2016 maintained the 2016 global growth forecast at 3.1%, unchanged from previous assessment.

The report stated that in the Organization for Economic Cooperation and Development (OECD), only the U.S. posted very low Q1 2016 growth. The Euro-zone growth forecast showed a trend to the upside and Japan seemed to weaken again. These counter-balancing effects kept OECD growth unchanged at 1.9% for 2016. India and China continue to expand at a considerable rate.

OPEC added that many country-specific economic challenges remain and geopolitical issues and their potential to spill over into the real economy may add to this risk.

<table>
<thead>
<tr>
<th>Country</th>
<th>2015E</th>
<th>2016F</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>2.9%</td>
<td>3.1%</td>
</tr>
<tr>
<td>OECD</td>
<td>2.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>USA</td>
<td>2.4%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Euro-zone</td>
<td>1.5%</td>
<td>1.6%</td>
</tr>
<tr>
<td>China</td>
<td>6.9%</td>
<td>6.5%</td>
</tr>
<tr>
<td>India</td>
<td>7.3%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Brazil</td>
<td>(3.8%)</td>
<td>(3.4%)</td>
</tr>
<tr>
<td>Russia</td>
<td>(3.7%)</td>
<td>(1.1%)</td>
</tr>
</tbody>
</table>

Source: OPEC Monthly Report, May 2016
The Nigerian economy contracted by 0.36% (year-on-year), compared with the growth of 3.96% in the corresponding period of 2015 and 2.11% in Q4 2015.

The contraction in the GDP was because of the decline in the activities recorded in the Manufacturing, Financial Institutions, and Real Estate sub-sectors.

1.2 Domestic Real GDP:
In Q1 2016, the Nigerian economy suffered from energy shortages and price hikes, scarcity of foreign exchange and depressed consumer demand, amongst others. The Nigerian economy contracted by 0.36% (year-on-year) in Q1 2016, compared with the growth of 3.96% in the corresponding period of 2015 and 2.11% in Q4 2015. Quarter-on-quarter (Q-o-Q), the GDP contracted by 13.71% in Q1 2016. The oil sector recorded a decline of 1.89%, compared with the decline of 8.15% recorded in Q1 2015. Q-o-Q, the oil sector increased by 10.27%. The oil sector contributed approximately 10.29% to the real GDP in Q1 2016, higher than the 7.95% contribution in Q4 2015.

The non-oil sector recorded a contraction of 0.18% in Q1 2016, compared with the 5.59% and 3.14% recorded in Q1 2015 and Q4 2015, respectively. The contraction in the GDP in Q1 2016 was because of the decline in the activities recorded in the Manufacturing, Financial Institutions, and Real Estate sub-sectors. However, there was growth in Crop Production, Trade and, Telecommunications and Information Services sub-sectors.

The nominal GDP stood at N22.26trn in Q1 2016. This represents an increase of 5.80% from N21.04trn recorded in Q1 2015, but lower by 14.15% from N25.93trn recorded in Q4 2015. In Q1 2016, the services sector contributed 55.20% to the GDP, followed by industries at 24.33% and agriculture at 20.48%.

<table>
<thead>
<tr>
<th>Table 3: Contribution and Growth Rate by Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
</tr>
<tr>
<td>Industries</td>
</tr>
<tr>
<td>Services</td>
</tr>
<tr>
<td>Agriculture</td>
</tr>
<tr>
<td>Industries</td>
</tr>
<tr>
<td>Services</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics

<table>
<thead>
<tr>
<th>Table 4: Yearly Real GDP Growth Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
</tr>
<tr>
<td>Real GDP</td>
</tr>
<tr>
<td>Non-Oil Sector</td>
</tr>
<tr>
<td>Oil Sector</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics
1.3 Unemployment Rate:
According to the National Bureau of Statistics (NBS), the unemployment rate in Nigeria stood at 12.1% as at Q1 2016 from 10.4% and 9.9% in Q4 2015 and Q3 2015 respectively. The underemployment rate increased to 19.1% (15.02mn) in Q1 2016, from 18.7% (14.4mn) and 18.3% (13.2mn) in Q4 and Q3 2015. The NBS noted that there were a total of 24.50mn people between ages 15-64 who were either unemployed or underemployed in the labour force in Q1 2016. The figure stood at 22.45mn and 20.73mn in Q4 2015 and Q3 2015 respectively.

The report showed that the economically active population or working age population (persons within ages 15-64) increased from 105.02million in Q4 2015 to 106million in Q1 2016. In Q1 2016, the labour force population (i.e those within the working age population willing, able and actively looking for work) increased to 78.4million from 76.9 million in Q4 2015, representing an increase in the labour force by 1.99%. This means 1.52mn economically active persons within ages 15-64 entered the labour force in Q1 2016. Within the same period, the total number of people in full employment (who did any type of work for at least 40hours) decreased by 0.97%.

The NBS is of the view that, with an economically active or working age population of 106mn and labour forces population of 78.4mn. This means 27.6mn persons within the economically active or working age population decided not to work for various reasons in Q1 2016, compared with 28.06mn in Q4 2015.

<table>
<thead>
<tr>
<th>Table 5: Labour Force Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 2015</td>
</tr>
<tr>
<td>78.4</td>
</tr>
<tr>
<td>Q1 2016</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics
1.4 Foreign Trade:
The latest foreign trade statistics released by the National Bureau of Statistics (NBS) shows that the Nigerian economy achieved a trade deficit of N184bn in its merchandise trade in Q1 2016. The imports dominated the total trade in Q1 2016. In Q1 2016, Nigeria’s total trade stood at N2.72trn, a decrease of 22.73% from N3.52trn recorded in Q4 2015. This was because of the sharp fall in the value of both imports and exports. Exports recoded the highest decline of 34.54% to N1.27trn in Q1 2016, from N1.94trn in Q4 2015.

On the average, exports accounted for about 63.34% of the total trade in the last thirteen quarters. The highest contribution of exports to total trade was 72.10% in Q3 2014, while the lowest contribution was 46.60% in Q1 2016. On a quarterly basis, the contribution of exports to total merchandise trade decreased to 46.60% in Q1 2016 from 55.20% in Q4 2015. Meanwhile, in the last thirteen quarters between Q1 2013 and Q1 2016, oil exports dominated the total merchandise trade at an average of 75.18%.

The top destination for Nigeria’s exports showed that India remained the preferred spot, followed by the United States, Spain, Netherlands, France and South Africa. On the other hand, China remained Nigeria’s number one import partner, followed by the United States and Belgium.

Top on the list of the imported goods in Q1 2016 are: Boilers, Machinery and Appliances Thereof; Mineral Products; Products of the Chemical and Allied Industries; Vehicles, Aircrafts and Products Thereof; and Base Metals and Articles Thereof. The top on the list of the imported goods in the sub-categories in Q1 2015 are: Motor Spirit (ordinary); Durum Wheat; Imported motorcycles and cycles; Cane Sugar; Mixtures of Odoriferous Substances; Other Machine Tools for Working Stone, Ceramic and concrete; and Milk and Cream in powder. The leading export commodities are: Mineral Products (83%); Vehicles, Aircraft and Parts Thereof (5.7%); and Prepared Foodstuffs, Beverages, Spirits and Vinegar, Tobacco (5%).

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Imports</th>
<th>Trade Balance</th>
<th>Total Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2016</td>
<td>1.27</td>
<td>1.45</td>
<td>(0.18)</td>
<td>2.72</td>
</tr>
<tr>
<td>FY 2015</td>
<td>9.59</td>
<td>6.70</td>
<td>2.90</td>
<td>16.29</td>
</tr>
<tr>
<td>Q1 2015</td>
<td>2.67</td>
<td>1.73</td>
<td>0.94</td>
<td>4.39</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>2.65</td>
<td>1.71</td>
<td>0.95</td>
<td>4.36</td>
</tr>
<tr>
<td>Q3 2015</td>
<td>2.33</td>
<td>1.69</td>
<td>0.64</td>
<td>4.02</td>
</tr>
<tr>
<td>Q4 2015</td>
<td>1.94</td>
<td>1.58</td>
<td>0.36</td>
<td>3.52</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics
1.5 Inflation Rate:
The inflation rate spiked higher for the third consecutive month in April 2016. The April 2016 inflation rate spiked to 13.72%, from 12.77% in March 2016. The inflation rate in April 2016 was driven by the faster growth in all major divisions of the Headline Index, except the restaurants and hotels division. The lingering structural constraints continued to manifest on the Food Index in April 2016. Month-on-month (m-o-m), the Food Price Index increased to 13.19% in April 2016, from 12.74% in March 2016. The Core Index was impacted by higher electricity tariff, kerosene prices, higher Premium Motor Spirit (PMS) prices and vehicle spare parts in April 2016. The Core Index increased by 13.35% in April 2016, higher than 12.17% recorded in March 2016.

The rising inflationary pressure is traced to legacy factors including energy crisis reflected in incessant scarcity of refined petroleum products and exchange rate pass through from imported goods. Other factors are the high cost of electricity, high transport cost, reduction in food output, high cost of inputs and low industrial output.

We estimate that the inflation rate would increase to 15.58% in May 2016 as shown on the table 7 below.

<table>
<thead>
<tr>
<th>Date</th>
<th>Jan-16 A</th>
<th>Feb-16A</th>
<th>Mar-16A</th>
<th>Apr-16A</th>
<th>May-16F</th>
<th>Jun-16F</th>
<th>Jul-16F</th>
<th>Aug-16F</th>
<th>Sep-16F</th>
<th>Oct-16F</th>
<th>Nov-16F</th>
<th>Dec-16F</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSDH Forecast</td>
<td>9.62%</td>
<td>11.38%</td>
<td>12.77%</td>
<td>13.72%</td>
<td>15.58%</td>
<td>15.19%</td>
<td>14.98%</td>
<td>14.74%</td>
<td>14.75%</td>
<td>14.99%</td>
<td>14.81%</td>
<td>14.93%</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics and FSDH Research Analysis
1.6 Movement in the External Reserves:
The external reserves still faces significant shocks from domestic and external factors. The level of external reserves is worsened by low oil output despite the recent rally in oil prices at the international market. The demand level for foreign exchange remained elevated in May 2016, with the attendant negative impact on the external reserves. The 30-day Moving Average external reserves decreased by 2.62% to US$26.39bn as at end-May 2016 compared with end-April 2016.

The short-term revenue outlook for the FGN is faced with significant challenges and this would hamper the accretion to the external reserves. The planned spending on capital projects are long-term solutions that would create a conducive investment climate that engender production for exports, leading to more inflows into the external reserves.

We are of the opinion that the possible adoption of a flexible exchange rate would boost the country’s external reserves. The upward adjustment of the official exchange rate would attract foreign investments that could lead to an accretion to the external reserves.
1.7 Crude Oil Market and Bonny Light Price:
Nigeria produced a total of 59.27 millions barrel (mb) of crude oil and condensate for the month of February 2016, representing an average daily production of 2.04mbd. This represents a decrease of about 10.85%, relative to January 2016. Of the February 2016 production level, Joint Ventures (JVs) and Production Sharing Contracts (PSC) contributed about 34.57% and 42.69% respectively. Other production arrangements accounted for 22.73%.

The average price of Bonny Light was US$47.69/b in May 2016, an increase of 13.17% from the average price of US$42.14/b recorded in April 2016.

According to the data from Thomson Reuters, the Bonny Light oil price increased by 9.06% to US$50.32/b as at end-May 2016, from end-April 2016. The average price of Bonny Light was US$47.69/b in May 2016, an increase of 13.17% from the average price of US$42.14/b recorded in April 2016.

### Table 8: Nigeria’s Crude Oil and Condensate Production (mbd)

<table>
<thead>
<tr>
<th></th>
<th>Joint Ventures</th>
<th>Production Sharing Contracts</th>
<th>Others</th>
<th>Total Production</th>
<th>Average Daily Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-15</td>
<td>20.09</td>
<td>26.85</td>
<td>17.22</td>
<td>64.16</td>
<td>2.07</td>
</tr>
<tr>
<td>Apr-15</td>
<td>19.71</td>
<td>26.01</td>
<td>15.26</td>
<td>60.99</td>
<td>2.03</td>
</tr>
<tr>
<td>May-15</td>
<td>20.02</td>
<td>27.20</td>
<td>16.42</td>
<td>63.64</td>
<td>2.05</td>
</tr>
<tr>
<td>Jun-15</td>
<td>18.53</td>
<td>25.75</td>
<td>15.17</td>
<td>59.44</td>
<td>1.98</td>
</tr>
<tr>
<td>Jul-15</td>
<td>19.57</td>
<td>27.97</td>
<td>18.78</td>
<td>66.12</td>
<td>2.13</td>
</tr>
<tr>
<td>Aug-15</td>
<td>20.65</td>
<td>26.50</td>
<td>18.64</td>
<td>65.80</td>
<td>2.12</td>
</tr>
<tr>
<td>Sep-15</td>
<td>21.71</td>
<td>26.37</td>
<td>17.89</td>
<td>65.97</td>
<td>2.20</td>
</tr>
<tr>
<td>Oct-15</td>
<td>24.28</td>
<td>27.85</td>
<td>17.37</td>
<td>69.49</td>
<td>2.24</td>
</tr>
<tr>
<td>Nov-15</td>
<td>20.92</td>
<td>27.07</td>
<td>17.46</td>
<td>65.44</td>
<td>2.18</td>
</tr>
<tr>
<td>Dec-15</td>
<td>18.91</td>
<td>28.33</td>
<td>17.33</td>
<td>64.57</td>
<td>2.08</td>
</tr>
<tr>
<td>Jan-16</td>
<td>19.88</td>
<td>28.48</td>
<td>18.13</td>
<td>66.49</td>
<td>2.14</td>
</tr>
<tr>
<td>Feb-16</td>
<td>20.49</td>
<td>25.31</td>
<td>13.47</td>
<td>59.27</td>
<td>2.04</td>
</tr>
<tr>
<td>Total</td>
<td>244.65</td>
<td>323.48</td>
<td>206.04</td>
<td>773.95</td>
<td>2.11</td>
</tr>
</tbody>
</table>


NNPC shows that natural crude oil and condensate production averaged 2.04mb/d in February 2016.
1.8 Foreign Exchange Rate:
The value of the Naira was stable at the CBN official market and the inter-bank market in May 2016, while it recorded a depreciation at the parallel market. The CBN’s restrictive administrative measures ensured stability at the CBN window and the inter-bank markets as demand for foreign exchange were pushed towards the parallel market. As at end-May 2016, the value of the Naira closed at US$1/N197 and US$1/N199.10 at the CBN window and inter-bank market respectively, same as in April 2016.

The parallel market recorded increased demand pressure in May 2016 because of the price deregulation at the downstream sector of the petroleum sector. The decision by the Federal Government not to bridge the foreign exchange differential for oil marketing companies led to the increased demand at the parallel market. Consequently, the Naira depreciated by 8.63% at the parallel market to close at US$1/N351 from US$1/N320.70 at end-April 2016. The average exchange rate at the parallel market depreciated by 4.71% to stand at US$1/N337.21 in May 2016, compared with US$1/N321.33 in April 2016.

We expect the intended implementation of a more flexible foreign exchange market should bring short-to-medium term stability to the Naira. The adoption of a flexible exchange rate would lead to the Naira being more appropriately priced and attract foreign inflows that may shore up its value. The long-term solution to a strong Naira is through the improvement of the investment climate through extensive investment in infrastructure.
2.0 Interest Rate and Yield Analysis:
The weak macroeconomic environment, particularly the inflationary pressure from supply bottlenecks and imported inflation impacted interest rates and yields in May 2016. Consequently, yields increases trailed the rising inflation rate, amongst other factors.

The fixed income market analysis for May 2016 shows a net inflow of about N69bn, compared with a net inflow of about N34bn in April 2016. The major outflows in May 2016 were the Primary NTBs of about N262bn, the Open Market Operations (OMO) and Repurchase Bills (REPO) of N89bn, and the bond auction of about N100bn. Meanwhile, in April 2016, the major outflow was from the Primary NTBs of about N386bn, the OMO and REPO of N81bn, and the bond auction of about N100bn. The major inflows in May 2016 were the matured NTBs of about N262bn, OMO and REPO Bills of N116bn, and the Federation Account Allocation Committee (FAAC) injection of about N142bn. In April 2016, the matured NTBs of about N386bn, OMO and REPO Bills of N91bn, and the Federation Account Allocation Committee (FAAC) injection of about N123bn were the major inflows.

At the NTBs auction, average yields increased across the various tenors in May 2016, compared with April 2016. The average 91-day NTB yield stood at 8.21% in May, up from 7.12% in April. The average 182-day NTB yield closed at 9.53%, up from 9.25% in April. The average 364-day NTB yield closed at 13.34%, up from 10.95% in April 2016. The average 30-day NIBOR closed at 9.67% in May 2016, up from 8.45% in April 2016. The average 90-day NIBOR increased to 11.74%, from 10.53% in the preceding month.
The yields on the FGN Bonds monitored closed higher in May 2016, compared with April 2016.

### Table 9: Average Bond Yields

<table>
<thead>
<tr>
<th></th>
<th>15.10% FGN APR 2017</th>
<th>16.00% FGN JUN 2019</th>
<th>16.39% FGN JAN 2022</th>
<th>10.00% FGN July 2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>10.76%</td>
<td>11.20%</td>
<td>11.79%</td>
<td>12.64%</td>
</tr>
<tr>
<td>May</td>
<td>11.71%</td>
<td>13.21%</td>
<td>13.51%</td>
<td>13.63%</td>
</tr>
<tr>
<td>Change</td>
<td>0.95%</td>
<td>2.01%</td>
<td>1.72%</td>
<td>0.99%</td>
</tr>
</tbody>
</table>

Source: Financial Market Dealers Quotation

### Table 10: Average Interest Rate and Yields

<table>
<thead>
<tr>
<th></th>
<th>NIBOR</th>
<th>Treasury Bill Yields</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Call</td>
<td>30 Day</td>
</tr>
<tr>
<td>April</td>
<td>4.76%</td>
<td>8.45%</td>
</tr>
<tr>
<td>May</td>
<td>7.30%</td>
<td>9.67%</td>
</tr>
<tr>
<td>Change</td>
<td>2.54%</td>
<td>1.22%</td>
</tr>
</tbody>
</table>

Source: CBN and Financial Market Dealers Quotation

### Table 11: Market Liquidity (N’bn)

<table>
<thead>
<tr>
<th></th>
<th>April 2016</th>
<th>May 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Inflow</td>
<td>Total Outflow</td>
</tr>
<tr>
<td>Primary Market: NTB</td>
<td>386</td>
<td>386</td>
</tr>
<tr>
<td>Open Market Operations (OMO) &amp; Rev Repo</td>
<td>91</td>
<td>81</td>
</tr>
<tr>
<td>BOND</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>FAAC</td>
<td>123</td>
<td>0</td>
</tr>
<tr>
<td>FX Market</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>CRR Debit/Credit</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TSA Implementation</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>601</td>
<td>567</td>
</tr>
</tbody>
</table>

Source: Central Bank of Nigeria and Federal Ministry of Finance
2.1 Revised Outlook Going Forward:

A total inflow of about N960bn should hit the money market from the various maturing government securities and Federation Account Allocation Committee (FAAC) in the month of June 2016. Our expected outflows from the various sources such as government securities and statutory withdrawals are estimated at N705bn, leading to a net outflow of about N255bn. This analysis does not include the Cash Reserve Requirement (CRR).

The market is expected to be tight in the month of June 2016.

### Table 12: Expected Inflow and Outflow Analysis - June 2016 (N'bn)

<table>
<thead>
<tr>
<th>Date</th>
<th>02-Jun-16</th>
<th>09-Jun-16</th>
<th>16-Jun-16</th>
<th>23-Jun-16</th>
<th>30-Jun-16</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflows</td>
<td>143.85</td>
<td>129.61</td>
<td>314.33</td>
<td>107.46</td>
<td>115.03</td>
<td>150.00</td>
<td>950.28</td>
</tr>
<tr>
<td>Outflows</td>
<td>143.85</td>
<td>-</td>
<td>252.44</td>
<td>107.46</td>
<td>-</td>
<td>201.28</td>
<td>705.03</td>
</tr>
</tbody>
</table>

Source: FSDH Estimates, *Statutory Allocation (FAAC), ** Cash Reserve Requirement (CRR) Debit

### Table 13: Revised Yields – Actual Vs Forecast

<table>
<thead>
<tr>
<th>Treasury Bills (Primary Market)</th>
<th>FGN Bonds (Secondary Market)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>91-Day</td>
</tr>
<tr>
<td>JanA-16</td>
<td>4.19%</td>
</tr>
<tr>
<td>FebA-16</td>
<td>4.96%</td>
</tr>
<tr>
<td>MarA-16</td>
<td>5.73%</td>
</tr>
<tr>
<td>AprA-16</td>
<td>7.12%</td>
</tr>
<tr>
<td>MayA-16</td>
<td>8.21%</td>
</tr>
<tr>
<td>JunF-16</td>
<td>8.99%</td>
</tr>
<tr>
<td>JulF-16</td>
<td>9.20%</td>
</tr>
<tr>
<td>AugF-16</td>
<td>9.27%</td>
</tr>
<tr>
<td>SepF-16</td>
<td>9.56%</td>
</tr>
<tr>
<td>OctF-16</td>
<td>10.08%</td>
</tr>
<tr>
<td>NovF-16</td>
<td>10.31%</td>
</tr>
<tr>
<td>DecF-16</td>
<td>10.67%</td>
</tr>
</tbody>
</table>

Source: CBN, FMDQ, and FSDH Research Forecasts

We expect that the interest rate and yield will rise further in the month of June, compared with May 2016. The Nigerian economy still suffers from significant domestic and external shocks that could increase the yields and interest rate in the fixed income market.
2.2 Strategy:

- Fund managers and traders should play at the short-end of the market.

The average yields on the FGN Eurobonds were higher in May 2016 than in April 2016. Consequently, the average prices of the bonds closed lower in the month of May, compared with April 2016. The flagging macroeconomic environment in Nigeria may be responsible for the rising yields on the FGN Eurobonds.

Table 14: FGN Eurobonds

<table>
<thead>
<tr>
<th>Date</th>
<th>10-Year 6.75% FGN Eurobond January 2021</th>
<th>10-Year 6.375% FGN Eurobond July 2023</th>
<th>5-Year 5.125% FGN Eurobond July 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price (US$)</td>
<td>Yield (%)</td>
<td>Price (US$)</td>
</tr>
<tr>
<td>02-May-16</td>
<td>97.968</td>
<td>7.261</td>
<td>93.676</td>
</tr>
<tr>
<td>03-May-16</td>
<td>97.434</td>
<td>7.399</td>
<td>93.079</td>
</tr>
<tr>
<td>04-May-16</td>
<td>97.047</td>
<td>7.499</td>
<td>92.56</td>
</tr>
<tr>
<td>05-May-16</td>
<td>97.503</td>
<td>7.382</td>
<td>92.983</td>
</tr>
<tr>
<td>06-May-16</td>
<td>97.596</td>
<td>7.359</td>
<td>93.107</td>
</tr>
<tr>
<td>09-May-16</td>
<td>97.743</td>
<td>7.321</td>
<td>93.218</td>
</tr>
<tr>
<td>10-May-16</td>
<td>97.709</td>
<td>7.33</td>
<td>93.291</td>
</tr>
<tr>
<td>11-May-16</td>
<td>98.145</td>
<td>7.218</td>
<td>93.681</td>
</tr>
<tr>
<td>12-May-16</td>
<td>98.757</td>
<td>7.062</td>
<td>94.45</td>
</tr>
<tr>
<td>13-May-16</td>
<td>98.785</td>
<td>7.055</td>
<td>94.515</td>
</tr>
<tr>
<td>16-May-16</td>
<td>99.264</td>
<td>6.933</td>
<td>95.132</td>
</tr>
<tr>
<td>17-May-16</td>
<td>99.985</td>
<td>6.75</td>
<td>95.932</td>
</tr>
<tr>
<td>19-May-16</td>
<td>98.911</td>
<td>7.024</td>
<td>94.691</td>
</tr>
<tr>
<td>20-May-16</td>
<td>98.863</td>
<td>7.036</td>
<td>94.65</td>
</tr>
<tr>
<td>23-May-16</td>
<td>98.510</td>
<td>7.127</td>
<td>94.421</td>
</tr>
<tr>
<td>24-May-16</td>
<td>98.278</td>
<td>7.187</td>
<td>94.233</td>
</tr>
<tr>
<td>25-May-16</td>
<td>98.314</td>
<td>7.178</td>
<td>94.323</td>
</tr>
<tr>
<td>26-May-16</td>
<td>98.607</td>
<td>7.103</td>
<td>94.843</td>
</tr>
<tr>
<td>27-May-16</td>
<td>98.683</td>
<td>7.084</td>
<td>94.867</td>
</tr>
<tr>
<td>31-May-16</td>
<td>98.661</td>
<td>7.089</td>
<td>94.83</td>
</tr>
</tbody>
</table>

Source: Bloomberg
3.0 Equity Market:

3.1 The Secondary Market:

The Bulls dominated the equity market for most of May 2016, with the highest Month-on-Month (MoM) gain in the year 2016. The YTD performance of the Index bounced back into positive territory during the month. However, profit taking towards the end of the month resulted in a negative Year-to-Date (YTD) return. MoM, the Nigerian Stock Exchange All Share Index (NSE ASI) appreciated by 10.38% (a gain of 10.38% in US$) in May 2016 to close at 27,663.16 points. Year-to-Date as at end-May, the Index depreciated by 3.42%. The market capitalisation also gained 10.21% of its value (a gain of 10.21% in US$) to close at N9.50trn (US$48.23bn).

The following factors affected the equity market in May 2016:

- The decision of the MPC to maintain rates and possible adoption of a flexible exchange rate
- The price deregulation at the downstream sector of the petroleum sector
- The signing of the Budget 2016 by the President
- Profit taking as the uncertainty surrounding the economy persisted.

Market activities was lower in the equity market in the month of May 2016, compared with April 2016. The volume of stocks traded decreased by 31.37% to 7.86bn. However, the value of stocks traded increased by 54.62% to N51.96bn.

All the sectoral indices appreciated in May 2016, than April 2016.

### Table 15: Nigerian Equity Market: Key Indicators

<table>
<thead>
<tr>
<th>Month</th>
<th>Volume (bn)</th>
<th>Value (N’bn)</th>
<th>NSEASI</th>
<th>Market Cap. (N’trn)</th>
<th>Banking*</th>
<th>Insurance*</th>
<th>Consumer Goods*</th>
<th>Oil/Gas*</th>
<th>Industrial*</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>11.45</td>
<td>33.60</td>
<td>25,062.41</td>
<td>8.62</td>
<td>235.30</td>
<td>132.69</td>
<td>611.05</td>
<td>317.26</td>
<td>1,843.99</td>
</tr>
<tr>
<td>May</td>
<td>7.86</td>
<td>51.96</td>
<td>27,663.16</td>
<td>9.50</td>
<td>282.35</td>
<td>134.26</td>
<td>707.08</td>
<td>336.05</td>
<td>1,944.46</td>
</tr>
<tr>
<td>Change</td>
<td>(31.37%)</td>
<td>(54.62%)</td>
<td>10.38%</td>
<td>10.21%</td>
<td>20.00%</td>
<td>1.18%</td>
<td>15.72%</td>
<td>5.92%</td>
<td>5.45%</td>
</tr>
<tr>
<td>YTD</td>
<td>(3.42%)</td>
<td>(3.55%)</td>
<td>5.16%</td>
<td>(5.86%)</td>
<td>(5.24%)</td>
<td>(5.75%)</td>
<td>(10.26%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: NSE, FSDH Research. * NSE Sectoral Indices
Table 16: Major Earning Announcements in May 2016

<table>
<thead>
<tr>
<th>Company and Result</th>
<th>Turnover (Nm)</th>
<th>Change (%)</th>
<th>PBT (Nm)</th>
<th>Change (%)</th>
<th>PAT (Nm)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NESTLE NIGERIA PLC</td>
<td>36,130.87</td>
<td>31.12</td>
<td>8,725.41</td>
<td>150.23</td>
<td>6,681.39</td>
<td>126.16</td>
</tr>
<tr>
<td>3 Months, March 2016</td>
<td>13,192.83</td>
<td>32.03</td>
<td>1,729.94</td>
<td>-32.70</td>
<td>1,205.81</td>
<td>-45.03</td>
</tr>
<tr>
<td>TRANSCORP PLC</td>
<td>3,436.48</td>
<td>-12.54</td>
<td>2,207.34</td>
<td>-61.74</td>
<td>1,645.40</td>
<td>-68.82</td>
</tr>
<tr>
<td>3 Months, Mar. 2016</td>
<td>3,435.60</td>
<td>-5.52</td>
<td>4,025.00</td>
<td>-14.54</td>
<td>3,583.00</td>
<td>-10.49</td>
</tr>
<tr>
<td>CAVERTON OFFSHORE SUPPORT GROUP</td>
<td>2,264.09</td>
<td>9.06</td>
<td>224.73</td>
<td>-4.99</td>
<td>152.82</td>
<td>-2.17</td>
</tr>
<tr>
<td>E-TRANZACT INTERNATIONAL PLC</td>
<td>4,415.64</td>
<td>-25.96</td>
<td>208.75</td>
<td>-58.13</td>
<td>109.59</td>
<td>1.25</td>
</tr>
<tr>
<td>3 Mths, Mar 2016</td>
<td>2,667.04</td>
<td>9.06</td>
<td>224.73</td>
<td>-4.99</td>
<td>152.82</td>
<td>-2.17</td>
</tr>
<tr>
<td>PHARMA - DEKO PLC</td>
<td>183.51</td>
<td>-41.93</td>
<td>-58.13</td>
<td>398.18</td>
<td>-398.18</td>
<td></td>
</tr>
<tr>
<td>3 Months, Mar. 2016</td>
<td>341.44</td>
<td>-11.99</td>
<td>-62.57</td>
<td>-1,793.32</td>
<td>-1,793.32</td>
<td></td>
</tr>
<tr>
<td>FTN COCOA PROCESSING PLC</td>
<td>8,209.43</td>
<td>26.48</td>
<td>1,847.63</td>
<td>-1.08</td>
<td>1,538.75</td>
<td>3.38</td>
</tr>
<tr>
<td>3 Months, Mar. 2016</td>
<td>3,617.07</td>
<td>26.48</td>
<td>292.43</td>
<td>-4.99</td>
<td>221.40</td>
<td>-75.10</td>
</tr>
<tr>
<td>ASHAKA CEM. PLC</td>
<td>8,047.62</td>
<td>-13.67</td>
<td>37.74</td>
<td>-93.11</td>
<td>101.15</td>
<td>-114.54</td>
</tr>
<tr>
<td>6 Months, March 2015</td>
<td>1,567.00</td>
<td>212.48</td>
<td>207.28</td>
<td>238.28</td>
<td>207.28</td>
<td>238.28</td>
</tr>
<tr>
<td>JOHN HOLT PLC</td>
<td>4,516.38</td>
<td>212.48</td>
<td>341.72</td>
<td>239.13</td>
<td>271.23</td>
<td>207.21</td>
</tr>
<tr>
<td>6 Months, Mar. 2016</td>
<td>1,326.00</td>
<td>5.24</td>
<td>38.00</td>
<td>106.55</td>
<td>7.00</td>
<td>101.15</td>
</tr>
<tr>
<td>ARBICO PLC</td>
<td>62,711.19</td>
<td>0.12</td>
<td>2,342.67</td>
<td>-82.82</td>
<td>4,689.16</td>
<td>-56.15</td>
</tr>
<tr>
<td>Full year, Dec. 2015</td>
<td>12,400.29</td>
<td>-24.90</td>
<td>4,264.38</td>
<td>303.50</td>
<td>3,624.73</td>
<td>272.80</td>
</tr>
<tr>
<td>JOHN HOLT PLC</td>
<td>1,176.50</td>
<td>-41.23</td>
<td>120.75</td>
<td>-19.96</td>
<td>129.75</td>
<td>-19.96</td>
</tr>
<tr>
<td>3 Mths, Mar 2016</td>
<td>246.69</td>
<td>58.57</td>
<td>15.77</td>
<td>39.75</td>
<td>13.04</td>
<td>28.65</td>
</tr>
</tbody>
</table>

Source: Nigerian Stock Exchange

Table 17: Major Benefit Announcements in May 2016

<table>
<thead>
<tr>
<th>Company</th>
<th>Result</th>
<th>DPS(N)</th>
<th>Bonus Ratio</th>
<th>Closure Date</th>
<th>Payment Date</th>
<th>Interim/Final</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-TRANZACT INTERNATIONAL PLC</td>
<td>Full year, Dec. 2015</td>
<td>0.10</td>
<td>-</td>
<td>1-Jun-16</td>
<td>08-Jul-16</td>
<td>Final</td>
</tr>
</tbody>
</table>
The table 18 below shows the performance of some selected foreign equity markets around the world. The Nigerian Stock Exchange All Share Index recorded the highest MoM appreciation of 10.38%, with a YTD depreciation of 3.42%. This is followed by the BSE 30 Index (India) with a MoM gain of 4.14%, and a gain of 2.11% in its YTD performance. The Brazil Stock Market Index recorded the highest MoM depreciation of 10.09% and a YTD gain of 11.81%. This was followed by the Ghana All Share Index, with a MoM loss of 3.85%, and a YTD depreciation of 11.86%.

Table 18: Foreign Equity Market Performance in April 2016

<table>
<thead>
<tr>
<th>North/Latin America</th>
<th>YTD Change</th>
<th>Month-on-Month Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dow Jones Industrial Average</td>
<td>2.08%</td>
<td>0.08%</td>
</tr>
<tr>
<td>S&amp;P 500 Index</td>
<td>2.59%</td>
<td>1.53%</td>
</tr>
<tr>
<td>NASDAQ Composite</td>
<td>(1.19%)</td>
<td>3.62%</td>
</tr>
<tr>
<td>Brazil Stock Market Index</td>
<td>11.81%</td>
<td>(10.09%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Europe</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Swiss Market Index</td>
<td>(6.82%)</td>
<td>3.21%</td>
</tr>
<tr>
<td>FTSE 100 Index (UK)</td>
<td>(0.18%)</td>
<td>(0.18%)</td>
</tr>
<tr>
<td>CAC 40 Index (France)</td>
<td>(2.83%)</td>
<td>1.73%</td>
</tr>
<tr>
<td>DAX Index (Germany)</td>
<td>(4.47%)</td>
<td>2.23%</td>
</tr>
<tr>
<td>SMSI Index (Madrid, Spain)</td>
<td>(5.61%)</td>
<td>(0.01%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Africa</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NSE All-Share Index</td>
<td>(3.42%)</td>
<td>10.38%</td>
</tr>
<tr>
<td>JSE All-Share Index (S/A)</td>
<td>6.34%</td>
<td>1.79%</td>
</tr>
<tr>
<td>Nairobi All Share Index (Kenya)</td>
<td>(1.43%)</td>
<td>(2.26%)</td>
</tr>
<tr>
<td>GSE All-Share Index (Ghana)</td>
<td>(11.86%)</td>
<td>(3.85%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Asia/Pacific</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NIKKEI 225 Index (Japan)</td>
<td>(6.77%)</td>
<td>3.41%</td>
</tr>
<tr>
<td>BSE 30 Index (India)</td>
<td>2.11%</td>
<td>4.14%</td>
</tr>
<tr>
<td>Shanghai Stock Exchange Composite Index (China)</td>
<td>(17.59%)</td>
<td>(0.74%)</td>
</tr>
<tr>
<td>Hang Seng Index (Hong Kong)</td>
<td>(5.02%)</td>
<td>(1.20%)</td>
</tr>
</tbody>
</table>

Source: Bloomberg
3.2. Outlook for the Month of May:

- The possible adoption of a flexible exchange rate policy may boost inflow of foreign portfolio investment into the equity market
- The equity market still offers opportunity for medium-to-long term investors.

3.3. Strategies:

- We recommend that investors should maintain a medium-to-long term position in the market
- We reiterate that long-term investors should take long positions in stocks that have strong fundamentals.

| Table 19: Equity Market Trend Analysis (2011-2015) |
|---------------------------------|-------|-------|-------|-------|-------|
| YEARS                           | 2011  | 2012  | 2013  | 2014  | 2015  |
| Months                         |       |       |       |       |       |
| May                            | 25,866.62 | 22,066.40 | 37,794.75 | 41,474.40 | 34,310.37 |
| June                           | 24,980.20 | 21,599.57 | 36,164.30 | 42,482.48 | 33,456.83 |
| % Change                       | (3.43%) | (2.12%) | (4.31%) | 2.43% | (2.49%) |

Source: The Nigerian Stock Exchange

As the details of FGN’s economic agenda are still largely unclear, the market may follow historical trend and depreciate in June.

The performance of the equity market in the last five years shows that the market recorded a negative performance between May and June, with the exception of 2014. The market is likely to suffer from weak investors’ confidence because of lack of clear economic policy direction from the FGN in June 2016. We note that the market offers attractive growth prospect but may take a lead from historical trend in June 2016.
### Table 20: Revised Asset Allocation

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Fund Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>25%</td>
</tr>
<tr>
<td>Fund Placement</td>
<td>15%</td>
</tr>
<tr>
<td>Treasury Bills</td>
<td>25%</td>
</tr>
<tr>
<td>Real Estate Investment Trust (REIT)</td>
<td>5%</td>
</tr>
<tr>
<td>Bonds</td>
<td>20%</td>
</tr>
<tr>
<td>Collective Investment Schemes</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: FSDH Research

### Table 21: One Year Target Price

<table>
<thead>
<tr>
<th>Stocks</th>
<th>Max Entry Price</th>
<th>52 Week Low</th>
<th>52 Week High</th>
<th>Trailing EPS</th>
<th>Trailing PE Ratio</th>
<th>Target Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>NASCON</td>
<td>8.00</td>
<td>5.20</td>
<td>8.70</td>
<td>0.86</td>
<td>9.30</td>
<td>9.28</td>
</tr>
<tr>
<td>Dangote Sugar</td>
<td>6.69</td>
<td>5.17</td>
<td>7.26</td>
<td>1.04</td>
<td>6.42</td>
<td>7.76</td>
</tr>
<tr>
<td>Nestle Nigeria</td>
<td>755.00</td>
<td>615.26</td>
<td>965.98</td>
<td>34.65</td>
<td>21.79</td>
<td>839.76</td>
</tr>
<tr>
<td>GT Bank</td>
<td>17.75</td>
<td>13.37</td>
<td>28.60</td>
<td>3.35</td>
<td>5.30</td>
<td>20.59</td>
</tr>
<tr>
<td>Dangote Cement</td>
<td>170.00</td>
<td>123.51</td>
<td>185</td>
<td>9.71</td>
<td>17.51</td>
<td>180.13</td>
</tr>
<tr>
<td>Zenith Bank</td>
<td>13.91</td>
<td>9.00</td>
<td>20.56</td>
<td>3.33</td>
<td>4.18</td>
<td>16.14</td>
</tr>
<tr>
<td>Flour Mills</td>
<td>21.44</td>
<td>16.13</td>
<td>35.69</td>
<td>9.22</td>
<td>2.32</td>
<td>23.94</td>
</tr>
<tr>
<td>Transcorp</td>
<td>1.31</td>
<td>0.96</td>
<td>2.97</td>
<td>0.03</td>
<td>43.67</td>
<td>1.52</td>
</tr>
</tbody>
</table>

Source: FSDH Research

### Table 22: Bond Recommendation

<table>
<thead>
<tr>
<th>S/N</th>
<th>Security Description</th>
<th>Tenor To Maturity (Yrs)</th>
<th>Coupon</th>
<th>Current Price (N)</th>
<th>Current Yield</th>
<th>Modified Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>16% FGN Jun 2019</td>
<td>3.07</td>
<td>16.00%</td>
<td>107.30</td>
<td>13.03%</td>
<td>2.26</td>
</tr>
<tr>
<td>2</td>
<td>16.39% FGN Jan 2022</td>
<td>5.65</td>
<td>16.39%</td>
<td>110.80</td>
<td>13.58%</td>
<td>3.55</td>
</tr>
<tr>
<td>3</td>
<td>14.20% FGN Mar 2024</td>
<td>7.78</td>
<td>14.20%</td>
<td>102.30</td>
<td>13.70%</td>
<td>4.53</td>
</tr>
<tr>
<td>4</td>
<td>12.15% FGN Jul 2034</td>
<td>18.13</td>
<td>12.15%</td>
<td>89.10</td>
<td>13.79%</td>
<td>6.40</td>
</tr>
</tbody>
</table>

Source: FSDH Research
<table>
<thead>
<tr>
<th>Country</th>
<th>Bond</th>
<th>TTM*</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>3.52% February 21, 2023</td>
<td>8</td>
</tr>
<tr>
<td>Egypt</td>
<td>17% April 03, 2022</td>
<td>7</td>
</tr>
<tr>
<td>India</td>
<td>8.15% June 11, 2022</td>
<td>7</td>
</tr>
<tr>
<td>Kenya</td>
<td>12.705% June 13, 2022</td>
<td>7</td>
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<tr>
<td>Nigeria</td>
<td>16.39% FGN JAN 2022</td>
<td>7</td>
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<tr>
<td>Russia</td>
<td>7.60% April 14, 2021</td>
<td>6</td>
</tr>
<tr>
<td>South Africa</td>
<td>7.75% February 28, 2023</td>
<td>8</td>
</tr>
<tr>
<td>United States</td>
<td>1.75% May 15, 2023</td>
<td>8</td>
</tr>
</tbody>
</table>

*TTM – Tenor to maturity

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