



HOW WOULD RECENT EVENTS AFFECT
YOUR FINANCIAL INVESTMENTS?

FIND ANSWERS ON THE
ARM WEEKLY ECONOMIC
& FINANCIAL COMMENTARY

Weekly Economic & Financial Commentary

...for the week 22nd – 26th October 2018

Global Economy

- ◆ Preliminary estimate of the U.S Q3 18 GDP printed at 3.5% (Q3 17: 2.8%), higher than the Bloomberg estimate of 3.0% - albeit lower than the 4.2% growth rate reported in Q2 18. Consumer spending – which is the largest component of GDP – grew 4% YoY to reach the highest level last seen in Q4 14, offsetting the 7.9% decline in business spending. Elsewhere, the central bank of Canada raised its benchmark interest rate this week by 25bps to 1.75%, in a move aimed at slowing the rate of growth in inflation to its long-term target of 2% from September 2018 level of 2.2%.

Domestic Economy

- ◆ The Federal Executive Council (FEC) on Wednesday approved the 2019-2021 Medium-Term Expenditure Framework and Fiscal Strategy Paper which outlined FG's fiscal strategies and macroeconomic projections for 2019-2021 as well as framework for the annual budget over the same period. Importantly, the FG expects GDP growth and inflation of 3.0% and 9.98% in 2019 respectively compared to ERGP expectation of 4.5% and 13.39% respectively. The council also approved the government's proposed ₦8.73 trillion expenditure for 2019 which is ₦400 billion lower than 2018 budget. The budget was premised on assumptions of \$60/bbl oil price, exchange rate of ₦305/\$ and crude oil production of 2.3 mbpd.

Equities

- ◆ The Nigeria equity market closed positive for the second consecutive week with the NSE ASI increasing by 0.20% WoW. Most of the gains was seen in the last trading day as the market gained 1.1% on Friday alone. Pertinently, the bullish performance reflected gains in DANGCEM (+0.48%), SEPLAT (+4.86%), TOTAL (+8.2%), STANBIC (+2.2%) and ZENITHBANK (+4.8%). DIAMOND (+20%), FIDELITY (+10.58%) and ROYALEX (+10.0%) were the highest gainers of the week. On a sectoral basis, the Banking (+1.07%), Construction (+5.63%), Insurance (+1.34%), Oil & Gas (+3.19%), Real Estate (+0.37%) and Construction (+0.02%) sectors closed positive while the Brewers (-1.17%), Personal Care (-3.23%) and Food (-0.04%) sectors closed negative.

Fixed Income

- ◆ Average yields in the fixed income market rose to a four-week high of 14.67% (+13bps WoW) on the back of elevation at both ends of the curve. For context, in a bid to mop up ₦284.1 billion worth of OMO bills maturity which hit the system on Thursday, CBN initiated an OMO sale same day, which saw 1-year OMO bill close +50bps higher to 14.5%. This stoke upward pressure in the secondary market, with NTB yields expanding +18bps WoW to 14.26%, as investors repriced in tandem with higher OMO rates. Furthermore, following higher stop rates at this week's Bond auction, secondary market bond yields edged up 7bps WoW to 15.07%.

The week in Review

- ◆ Preliminary estimate of the U.S Q3 18 GDP printed at 3.5% (Q3 17: 2.8%), higher than the Bloomberg estimate of 3.0% - albeit lower than the 4.2% growth rate reported in Q2 18. Consumer spending – which is the largest component of GDP – grew 4% YoY to reach the highest level last seen in Q4 14, offsetting the 7.9% decline in business spending.

- ◆ Elsewhere, the central bank of Canada raised its benchmark interest rate this week by 25bps to 1.75%, in a move aimed at slowing the rate of growth in inflation to its long-term target of 2% from September 2018 level of 2.2%.

		Index Returns (%)				Index Characteristics			Global Fixed Income				Global Currencies					
Country	Index	Level (in \$)	WoW (%)	YTD (%)	52-Wk	P/E (x)	Mkt. Cap (\$'bn)	Div. Yld (%)	1-Yr Tenor	WoW (pps)	10-yr Tenor	WoW (pps)	Inflation (%)	This Week	Prior Week	WoW (%)	YTD (%)	
US	S&P 500	2,669	-3.6	-0.2	4.2	18.7		2.0	US 2.62		3.09	0.9	2.3	Euro (€)	1.1	1.2	-1.0	-5.0
	NASDAQ	7,224	-3.0	4.6	10.2	41.4	11,143.3	1.1	UK 0.71	0.0	1.24	1.5	2.4	GBP (£)	1.3	1.3	-1.9	-5.0
UK	FTSE ASI	6,940	-1.6	-9.7	-7.3	15.4		4.8	Euro -0.24	1.2	0.94	-6.7	2.1	JPY (¥)	112.0	112.6	0.5	0.7
France	CAC 40	4,967	-2.3	-6.5	-8.9	15.8	973.7	3.6	Japan -0.17	0.0	0.08	0.4	1	INR (₹)	73.5	73.3	-0.2	-13.1
Germany	XETRA DAX	11,201	-3.1	-13.3	-14.7	13.4		3.5	China 2.76	-0.9	3.39	-1.7	2.5	CNY (¥)	6.9	6.9	-0.2	-6.3
Japan	NIKKEI 25	21,185	0.0	-6.9	-3.7	15.3	5.1	2.1	India 7.42	-0.5	7.88	-0.6	5.61	MXN (\$)	19.4	19.3	-0.9	1.1
China	Shanghai Comp	2,599	0.0	-21.4	-23.9	12.2	4,002.6	3.0	Mexico 8.21	0.6	8.33	-0.8	5.02	RUB (p.)	65.8	65.5	-0.5	-12.3
Brazil	Ibovespa	84,936	0.9	11.2	11.9	19.8	38.0	3.6	Turkey 26.65	6.1	17.34	3.1	24.52	ZAR (R)	65.8	65.5	-0.5	-12.3
India	BSE Sens	33,349	-2.8	-2.1	0.6	21.5	455.7	1.6	Russia 7.72	2.3	4.41	-0.1	3.4	EGP (£)	17.9	17.9	0.1	-0.7
Russia	RTS	583	-2.6	-3.6	1.7	5.5	2.8	6.9	Egypt 19.73	0.6	14.18	0.0	16	KES (sh)	101.3	101.0	-0.3	1.9
Mexico	S&P/BMV IPC	45,848	-3.3	-7.1	-6.4	18.1		2.4	South Africa 8.10	0.4	9.72	-0.8	4.9	GHS (¢)	17.9	17.9	0.1	-0.7
Turkey	Borsa Istanbul	90,542	-6.1	-21.5	-15.6	6.8	0.4	4.6	Kenya 9.52	-0.6	12.67	-0.2	5.7	XOF (₣)	575.0	568.3	-1.2	-1.9
Indonesia	JCI Index	5,785	0.0	-9.0	-3.2	18.8	423.8	2.3	Ghana 15.00	0.0	19.00	0.0	9.8	XAF (₣)	582.5	592.2	1.7	-4.2
Kazakhstan	KASE Index	2,197	-1.3	1.6	7.5	6.6	3.2	75.6	Nigeria 13.45	0.9	15.21	-0.6	11.3	NGN (₦)	362.9	363.1	0.0	-0.8
Vietnam	VN Index	901	0.0	-8.5	7.2	15.9	122.2	1.7	Global Commodities				Global Indicators for the Week					
South Africa	FTSE/JSE ASI	50,838	-2.4	-14.6	-13.2	14.9		4.3		This Week	Prior Week	WoW (%)	YTD (%)		Latest	Prior		
Egypt	EGX 30	13,024	0.0	-13.3	-6.7	12.3	10.5	7.5	Brent Crude \$/bbl	77.3	79.8	-3.1	15.6	U.S GDP - Q3 18 **	3.5%	4.2%		
Kenya	NSEASI	146	-0.3	-14.8	-7.7	11.9	20.3	5.3	OPEC Crude \$/bbl	75.0	79.5	-4.0	16.4	U.S PCE prices - Q3 18 **	1.6%	2.0%		
Morocco	MSCI MX	301	-0.2	-10.7	-11.1	18.7	8.8	3.9	Gasoline \$/gal	181.3	191.4	-5.3	4.3	E.U's Interest rate decision	0.0%	0.0%		
Ghana	GSE Composite	2,821	-1.5	9.3	20.1	25.0	4.5	0.6	Natural Gas \$/MBtu	3.2	3.3	-2.8	10.2	Canada's Interest rate Decision	1.75%	1.5%		
Tunisia	TunIndex	7,357	-2.0	17.1	21.0	19.2	0.7	2.1	Gold \$/t oz	1237.4	1226.5	0.9	-5.0	Japan's Inflation - October	1.5%	1.3%		
BRVM	BRVM	177	-2.5	-27.1	-23.8	8.6	8.7	N/A N/A	Sugar \$/lb	13.9	13.9	-0.3	-11.7	U.S Goods Trade Balance - September (\$'bn)	76.04	75.80		
Mauritius	SEMDEX	2,240	0.3	1.7	2.0	23.3	9.3		Wheat \$/bsh	504.5	514.8	-2.0	4.7	U.S Composite PMI** (Index ppts)	54.80	53.90		
Nigeria	NGSE ASI	32,907	0.20	-13.95	-9.89	9.3	32.2	5.4	Crude Palm oil IYR/MT	2148.0	2224.0	0.0		E.U's Composite PMI** (Index ppts)	52.70	54.10		

Source: Bloomberg, Reuters, ARM Research

Last updated at 17:21 GMT

The week in Review

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Currency	This Week	Prior Week	WoW (%)	YTD (%)	Report released this week (Click Link below for Full report)
External Reserve (\$'bn)	42.34	42.72	-0.88%	9.23%	* Initial View - Nigerian Breweries Plc - Tough operating environment drives Q3 loss
USD/NGN (₦/\$)					* Initial View - Unilever Nigeria Q3 2018 - One-off disposal gains mask operating weakness in Q3
NAFEX	363.8	364.02	0.05%	-0.96%	* Initial View - FBNH Plc 9M 2018 - Sticky NPLs, dawdling provision, margin pressure
Parallel	360.5	360.5	0.00%	0.42%	* Initial View - Access Bank 9M 2018 - Lower effective tax saves the day
Economic Snapshot	Latest (%)	Prior	CHG (pps)	2018 Avg.	* Initial View - The Okomu Oil Palm Plc - Lower cost of sales propels earnings
Inflation YoY (September)			CHG (pps)		* Initial view- Dangote Cement Plc Q3 18 - Slack Nigeria performance slowed earnings growth
Headline	11.28	11.23	0.0	12.42	
Core	9.84	10.02	-0.2	10.78	
Food	13.31	13.16	0.2	14.79	
GDP (%) - YoY	Q2 18	Q1 17	FY 17	FY18F	
Real GDP	1.5	2	0.8	2.4	
Oil	-3.95	14.8	5.5	8.8	News Headline for the week (click news for link)
Agriculture	1.2	3	3.4	3.3	* FG, states, LGs record N43bn shortfall in allocation
Manufacturing	0.7	3.4	-0.2	2.6	* FEC approves 2019-2021 MTEF, puts 2019 budget at ₦8.73tn
Services	4.1	0.5	-0.8	1.3	* Reps panel asks SEC to take over Capital Oil
Labor Data (%) - Q3 17			Latest	Prior	* Manufacturers, others get N171bn BoI loans in nine months
Unemployment Rate			18.8	16.2	* FG records N26.92bn shortfall in bond auction
Underemployment			21.2	21.1	* Removal of VAT to make domestic air fares more affordable — Buhari
Capital Importation (\$'mn)	Q2 18	Q1 18	QoQ (%)	YoY (%)	* Nigeria has serious revenue problem –Budget Office
Foreign Portfolio Investment - Equities	1048.39	701.6	49.4%	70.7%	* Emefiele: Forex Restriction on 41 Items Saved Nigeria's Economy
Bonds	400.14	335.9	19.1%	591.4%	* House Approves FG's \$2.868bn Eurobond
Money Marke	2670.93	3,527.6	-24.3%	2609.1%	* CBN orders astronomical increase in capital base of Microfinance banks
Foreign Direct Investment	261.35	246.62	6.0%	-4.7%	* AMCON names non-paying debtors
Balance of Payment (\$'mn)	Q2 18	Q1 18	Q4 17	QoQ	* PFAs invest N1.49 trn in Treasury Bills
Trade Balance	8,639	5,901	5,473	46.4%	* \$8.1bn transfer: Court to hear MTN's case against CBN
CA Balance	5,736	3,523	3,656	62.8%	* DMO: FG Resorted to Eurobond to Access Limitless Funds

Source: CBN, NBS, FMDQ, Aboki FX, ARM Research

The week in Review

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- On a sectoral basis, the Banking (+1.07%), Construction (+5.63%), Insurance (+1.34%), Oil & Gas (+3.19%), Real Estate (+0.37%) and Construction (+0.02%) sectors closed positive while the Brewers (-1.17%), Personal Care (-3.23%) and Food (-0.04%) sectors closed negative.

Index Performance

	Level	Index Returns (%)				
		WoW	MTD	QTD	YTD	1 year
NSE ASI	32907.33	0.20	0.43	0.43	-13.95	-9.89
NSE ASI (\$)	90.44	0.20	0.25	0.00	-0.15	-0.11
Market Cap (₦'bn)	12013.72	0.20%	0.43	0.00	-0.12	-0.05
Market Cap (\$'mn)	33019.23	0.25%	0.25	0.00	-0.13	-0.06
NSE 30	1476.17	0.13	0.17	0.17	-15.49	-11.81
NSE Premium	2414.24	0.47	2.50	2.50	-5.85	-0.26
NSE 50	1709.01	0.59	0.74	0.74	-12.36	-8.67
NSE ASEM	786.19	-0.77	-1.44	-1.44	-27.69	-32.15
NSE Banking	420.89	1.13	2.34	2.34	-11.47	-9.10
NSE Insurance	124.88	0.47	-0.31	-0.31	-10.40	-9.34
NSE Consumer	738.56	-0.97	-2.61	-2.61	-24.34	-20.12
NSE Oil & Gas	297.65	4.12	3.46	3.46	-9.99	4.23
NSE Industrial	1458.35	-4.06	-4.60	-4.60	-26.18	-28.40
NSE Lotus	2272.47	0.35	0.42	0.42	-11.25	-0.25
NSE Pensions	1218.91	-0.05	-0.59	-0.59	-11.66	-5.26

Top 10 Gainers

Company	This Week	WoW
DIAMBK	1.44	20.0%
FIDELITY	2.09	10.6%
ROYALEX	0.22	10.0%
JBERGER	23.70	10.0%
TOTAL	198.00	8.2%
UPDC	1.77	7.9%
UNIONDAC	0.30	7.1%
HMARKINS	0.30	7.1%
CUSTODIA	5.40	5.9%
AIICO	0.79	5.3%

Top 10 Losers

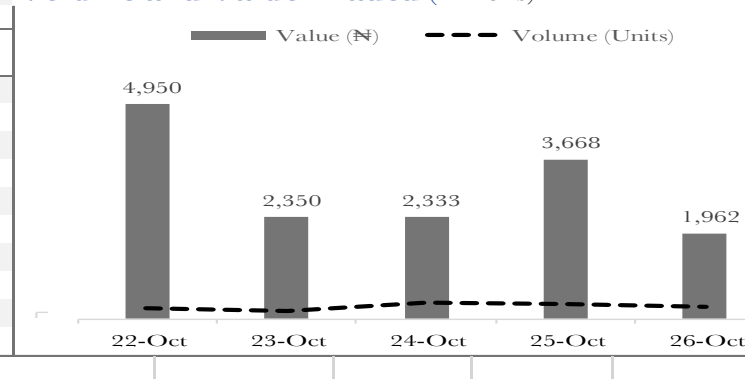
Company	This Week	WoW
WAPCO	18.25	-13.1%
BETAGLAS	62.10	-11.5%
AGLEVENT	0.36	-10.0%
PORT	2.52	-10.0%
UPDC REIT	8.10	-10.0%
UNITYKAPITAL	0.27	-10.0%
NNFM	5.35	-9.3%
CUTIX	2.03	-9.0%
LIVESTOC	0.52	-8.8%
TRANEX	0.65	-8.5%

Sector Performance

	Returns (%)		
	WoW	QTD	YTD
Banking	1.07%	1.95%	-7.40%
Brewers	-1.17%	-3.85%	-33.87%
Cement	0.02%	2.19%	-10.85%
Personal Care	-3.23%	-5.81%	-15.11%
Construction	5.63%	-0.49%	-9.64%
Food	-0.04%	-1.02%	-15.82%
Insurance	1.34%	-0.04%	-8.98%
Oil & Gas	3.19%	4.34%	-18.17%
Real Estate	0.37%	-0.50%	-2.99%

ARM Indices

	WoW	QTD	YTD
Large Cap (Top 10%)	0.44%	0.96%	-12.53%
Mid Cap (Mid 30%)	-0.07%	-0.67%	-13.13%
Small Cap (Bottom 60%)	-2.68%	-18.84%	-56.80%

Volume and Value Traded (millions)

Source: NSE, Bloomberg, ARM Research

The week in Review

- ◆ Average yields in the fixed income market rose to a four-week high of 14.67% (+13bps WoW) on the back of elevation at both ends of the curve. For context, in a bid to mop up ₦284.1 billion worth of OMO bills maturity which hit the system on Thursday, CBN initiated an OMO sale same day, which saw 1-year OMO bill close +50bps higher to 14.5%. This stoke upward pressure in the secondary market, with NTB yields expanding +18bps WoW to 14.26%, as investors repriced in tandem with higher OMO rates.

- ◆ Furthermore, following higher stop rates at this week's Bond auction, secondary market bond yields edged up 7bps WoW to 15.07%.

	This Week	Prior Week	WoW change	Primary Market Auction (Rates)	120 Days	180 Days	1 Year	Issuance (N'billion)	120 Days	180 Days	1 Year
Money Market				OMO				OMO			
Overnight (O/N)	11.42%	12.67%	-1.25%	25-Oct-18	11.50%	13.00%	14.50%	25-Oct-18	0.13	11.8	174.1
Open Buy Back (OBB)	10.33%	13.33%	-3.00%	18-Oct-18	11.25%	12.75%	14.00%	18-Oct-18	0.12	45.7	229.5
NIBOR - 1M	14.09%	13.98%	0.11%	11-Oct-18		12.50%	13.50%	11-Oct-18		31.8	217.3
NIBOR - 3M	14.16%	13.95%	0.21%	04-Oct-18		12.50%	13.50%	04-Oct-18		80.6	472.4
NIBOR - 6M	15.00%	14.72%	0.28%	20-Sep-18		12.50%	13.50%	20-Sep-18		31.0	306.5
Treasury Bills				Treasury Bills	91 Day	182 Day	364 Day	Treasury Bills	91 Day	182 Day	364 Day
1-month	12.44%	12.84%	-0.40%	17-Oct-18	10.96%	12.69%	13.45%	17-Oct-18	5.8	29.2	112.5
3-month	13.02%	12.91%	0.11%	03-Oct-18	10.90%	12.10%	13.33%	03-Oct-18	9.5	17.6	106.4
6-month	13.37%	13.60%	-0.23%	19-Sep-18	11.00%	12.20%	13.48%	19-Sep-18	5.4	8.4	168.4
9-month	15.62%	14.19%	1.43%	29-Aug-18	11.00%	12.30%	13.05%	29-Aug-18	22.7	38.8	145.5
12-month	16.38%	15.73%	0.65%								
FGN Bonds (Local)				FGN Bonds	5 Year	7 Year	10 Year	FGN Bonds	5 Year	7 Year	10 Year
16.00% 29-JUN-2019	14.38%	14.28%	0.10%	24-Oct-18	15.00%	15.15%	15.34%	24-Oct-18	12.7	20.1	55.3
15.54% 13-FEB-2020	14.56%	14.20%	0.36%	26-Sep-18	15.00%	15.10%	15.25%	26-Sep-18	17.5	7.4	71.9
14.50% 15-JUL-2021	15.22%	15.16%	0.06%	15-Aug-18	14.39%	14.60%	14.69%	15-Aug-18	8.8	7.9	21.0
16.39% 27-JAN-2022	14.71%	15.71%	-1.00%	27-Jul-18	13.69%	14.00%	14.30%	25-Apr-18	38.3	12.8	39.0
14.20% 14-MAR-2024	15.13%	15.13%	0.00%	29-Jun-18	13.50%	13.80%	13.81%	23-Mar-18	100.5	89.1	45.1
12.50% 22-JAN-2026	15.17%	14.96%	0.21%	Corporate Bonds				Corporate Eurobond			
16.2884% 17-MAR-2027	15.24%	15.12%	0.12%	DUFIL 18.25% 1-SEP-2022	16.66%	16.61%	0.05%	ZENITH 6.25% 22-APR-2019	5.44%	5.46%	-0.02%
12.1493% 18-JUL-2034	15.29%	15.39%	-0.10%	FCMB 17.25% 8-DEC-2023	16.43%	16.43%	0.00%	DIAMOND 8.75% 21-MAY-2019	14.63%	13.84%	0.79%
16.2499% 18-APR-2037	15.17%	15.14%	0.03%	FIDELITY 16.48% 13-MAY-2022	15.76%	15.77%	-0.01%	FBN 6.488% 23-JUL-2021	9.09%	9.12%	-0.03%
FGN Eurobonds				LAPO MFB 17.75% 19-DEC-2022	18.58%	18.59%	-0.01%	ECOBANK 8.75% 14-AUG-2021	9.96%	9.98%	-0.02%
6.50% 28-Nov-2027	7.67%	7.48%	0.19%	MIXTA 17.00% 16-JAN-2022	15.82%	15.63%	0.19%	ACCESS 10.50% 19-OCT-2021	7.80%	10.48%	-2.68%
7.625% 28-Nov-2047	8.64%	8.50%	0.14%	STANBIC 13.25% 30-SEP-2024	16.14%	16.08%	0.06%	ZENITH 7.375% 30-MAY-2022	7.04%	7.05%	-0.01%
7.875% 16-FEB-2032	8.26%	8.05%	0.21%	STERLING 16.50% 3-AUG-2023	16.03%	16.03%	0.00%				
5.625% 27-JUN-2022	5.88%	5.79%	0.09%	UBA 16.45% 30-DEC-2021	15.71%	15.68%	0.03%				
				VIATHAN 16.00% 14-DEC-2027	16.15%	16.05%	0.10%				

Source: DMO, FMDQ, Bloomberg, ARM Research

Economic and Financial Calendar for the week 29th October - 2nd November 2018

	Monday 29-Oct	Tuesday 30-Oct	Wednesday 31-Oct	Thursday 1-Nov	Friday 2-Nov
Global	U.S Core PCE price index - September	France Q3 GDP - QoQ**	Japan's monetary policy meeting	U.S Manufacturing PMI - October	U.S Trade Balance - September
	U.S PCE price index - September	Italy's Q3 GDP - QoQ**	Spain's GDP - Q3 18**	U.K monetary policy meeting	U.S Unemployment rate - October
	Japan unemployment rate - September	EU's Q3 GDP - QoQ**	Canada's GDP (MoM) - August	China's monetary policy meeting	Canada's merchandise Trade - September
	Italy's producer price index - September	Japan's industrial production - September	EU's Consumer Price Index - October**	U.K's Manufacturing PMI - October	Germany's Manufacturing PMI - October
	U.S Personal income - September	Spain's retail sales - September	Japan's consumer confidence Index - October	China's Manufacturing PMI - October	U.S Nonfarm Payroll - October
				Australia's trade Balance - September	
Domestic			Daily energy generated and sent out - Q3 18		

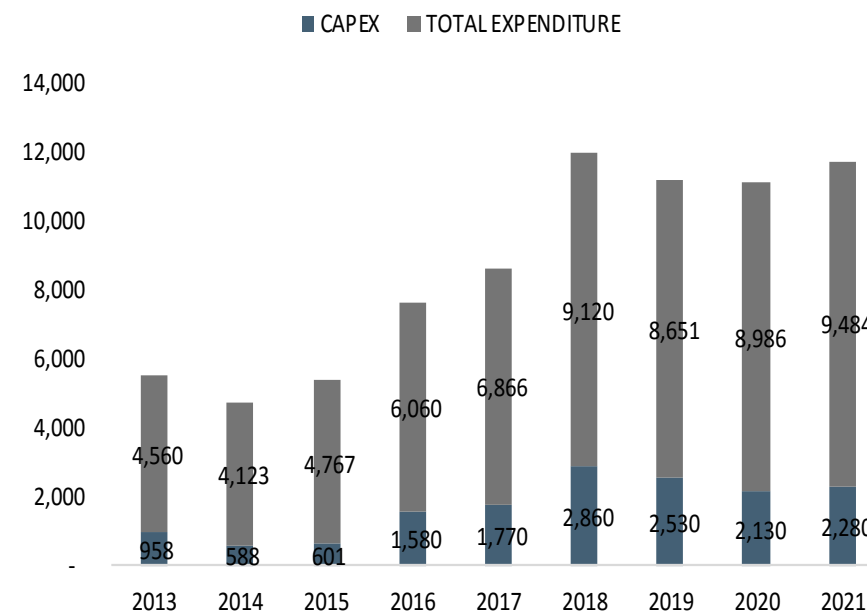
* means Preliminary Estimate

** means preliminary

Lower CAPEX Spend: The Devil is in the Implementation

- ◆ The budget office published the Medium-Term Expenditure Framework for 2019 to 2021 which revealed a lower expenditure plan for 2019, bucking the trend in prior years where proposed budget is higher year over year.
- ◆ Precisely, the government plans a total expenditure of ~~₦~~8.7 trillion, representing a 4.6% decline from ~~₦~~9.12 trillion for 2018. According to provided breakdown, the decline stemmed from capital expenditure which is planned at ~~₦~~2.5 trillion, ~~₦~~331 billion lower than ~~₦~~2.9 trillion for 2018. On the flip side, total recurrent expenditure (debt and non-debt) for 2019 is planned at ~~₦~~6.2 trillion, ~~₦~~636 billion higher than 2018 budget.
- ◆ In our view, the weaker capital expenditure plan reflects weak FG receipts which is insufficient to fully meet recurrent expenditure – takes priority over CAPEX - resulting in higher borrowings for recurrent with little room for capex spend. For context, FG's total receipts in 2017 totaled ~~₦~~2.6 trillion while actual recurrent expenditure amounted to ~~₦~~4.6 trillion.
- ◆ Consequently, the deficit between revenue and recurrent had to be borrowed leaving less room for capital expenditure. In fact, actual CAPEX amounted to ~~₦~~1.4 trillion, lower than ~~₦~~2.24 trillion budgeted.

Figure 1: Trend in Public Expenditure and CAPEX



Source: Budget Office, ARM Research



Thank You



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