



# ARM Research

## 2018 Outlook

05 February 2018



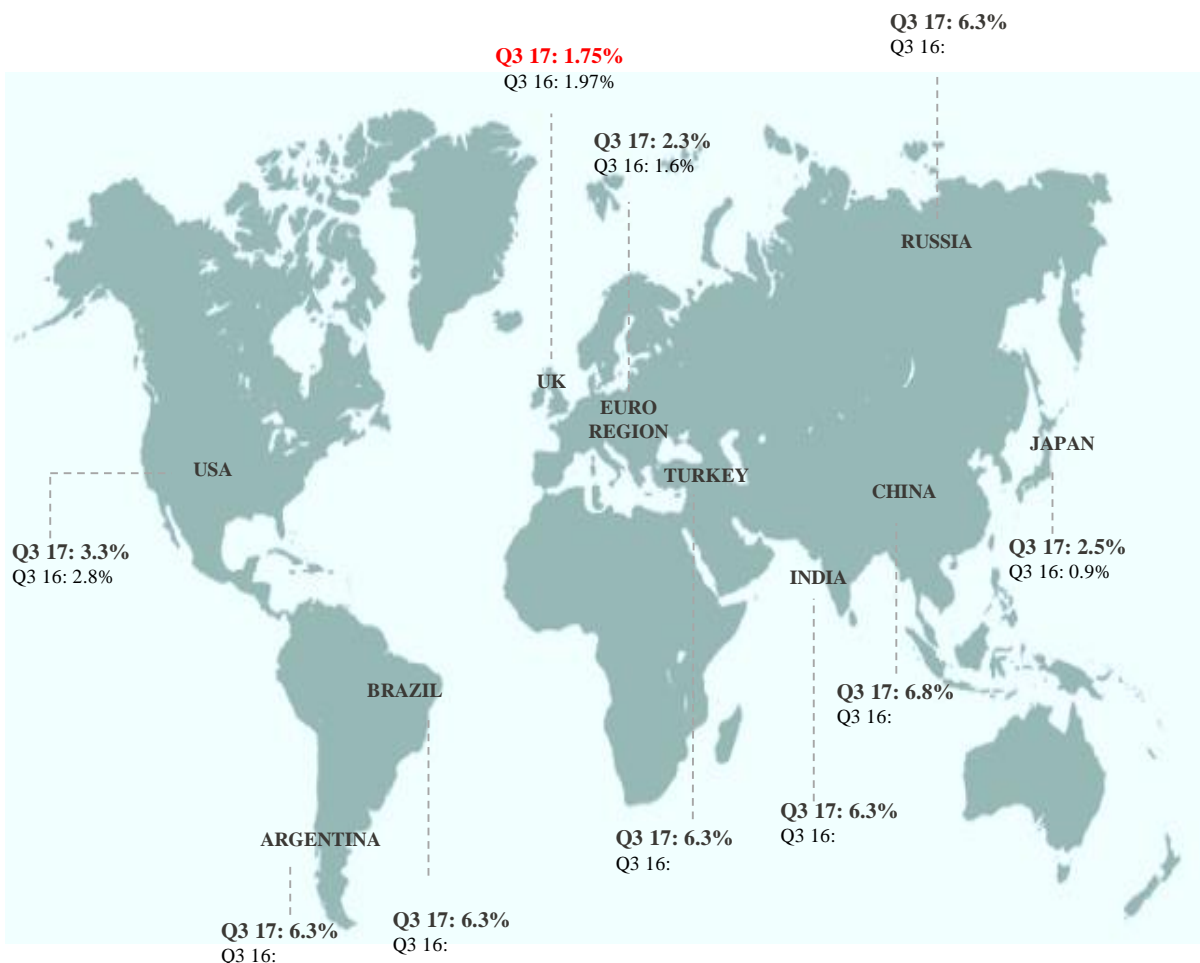
# GLOBAL ECONOMY

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## Global Growth rides on the swing of improved fundamentals

*Global economy was upbeat with economic momentum in DMs prompting a rumbling effect across the globe.*



- The driver for growth was a recipe of supportive fiscal policies in some key countries following years of slower growth, low inflation, and strong global trade
- The IMF estimated that global GDP expanded by 3.6% over 2017 relative to 3.2% in 2016.
- DMs are estimated to have grown by 2.2% YoY (compared to 1.7% in FY 16) while growth in EMs is estimated at 4.6% from 4.3% in FY 16.
- On DMs - higher growth emanated from growing domestic demand and exports in US, Euro area and Japan which masked the fragile growth in UK.
- Growth in EMs was largely underpinned by higher commodity prices and strong consumer spending which supported growth in Russia, Brazil, China, and Turkey even as India recovered from the downturn.
- In the third quarter alone, based on consensus estimate, global GDP growth came it at 3.3% reflecting the troika of recovery in global investment and manufacturing activity, expansion in world trade, and increased global consumption.

# Global Growth rides on the swing of improved fundamentals

*Stable growth in advanced economies and broadening emerging market recovery to drive growth momentum*



- Growth in US was mainly reflective of strong numbers on private domestic investment and private inventory investment - an off-shoot of strong demand from manufacturing and energy sectors.
- Despite slower growth in consumer spending, which makes two-thirds of the GDP, growth in net exports and government spending neutered its impact
- Going into 2018, the passage of the republican tax bill, job growth as well as other fiscal expansionary measures will be major drivers for growth next.
- The IMF forecasts 2.3% growth in 2018 (2017:2.2%).



- The improved output in the Euro area reflected the continued transmission impact of an accommodative monetary policy on household final consumption expenditure, increased gross capital formation, and healthy trade balance across the region.
- However, the market focus in 2018 should revolve around political uncertainties in Germany and Italy, complexities of Brexit procedures, weakness in the EU banking sector as well as changing monetary policies.
- The IMF forecast growth of 1.9% in 2018 (2017: 2.1%).
- On the positive, tailwinds from an improving labour market and accommodative financial conditions should continue to support growth.

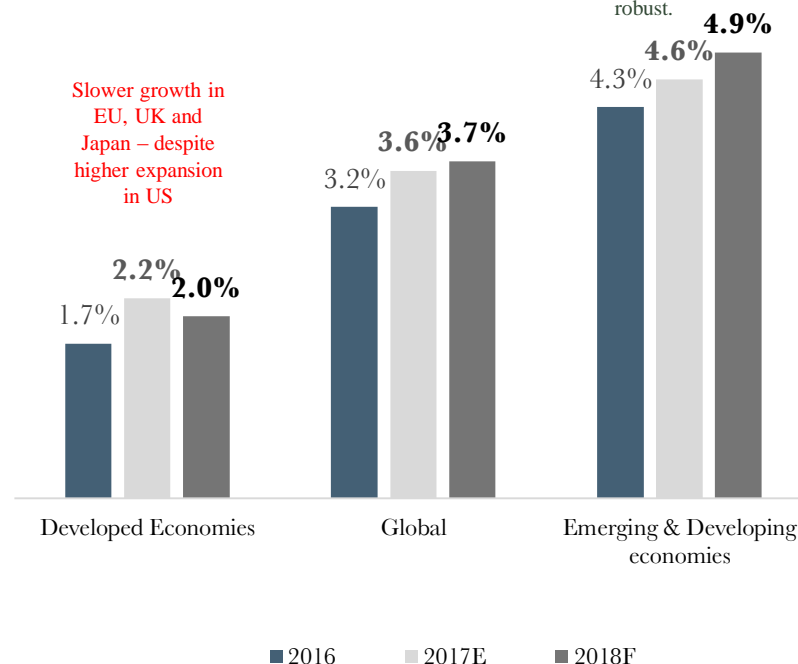


- UK economy remained resilient over 2017 propelled by growth in industrial production, agriculture, construction, and services. However, Brexit-related constraints on investment amidst weakness in consumption and slowdown in employment growth remained a concern.
- IMF forecasts growth to rise 20bps to 1.7% YoY in 2018 as consumption growth is expected to remain weak – in line with modest wage growth in 2018.
- Headwinds remain subdued investment spending on the back of Brexit uncertainty.



- Real GDP in China remained robust in the third quarter though lagging the 6.9% apiece recorded in Q1 and Q2 17.
- Growth was steady in key sectors of the economy as policy tweaks by the government continued to support growth. Irrespective, fixed investment spending continued to decelerate underpinned by structural adjustment of the economy.
- Going forward, we expect concerns over rising housing prices and China's bulging debt in the NFC to weigh on fixed investment spending, thereby, keeping growth subdued in 2018. IMF forecast
- IMF estimates a 6.8% growth in 2017 and 6.5% for 2018.

EM growth is expected to remain upbeat led by consumption and recovering global trade. Recoveries in both Russia, Brazil, and India will become more rooted, while growth in Mexico and China should remain robust.

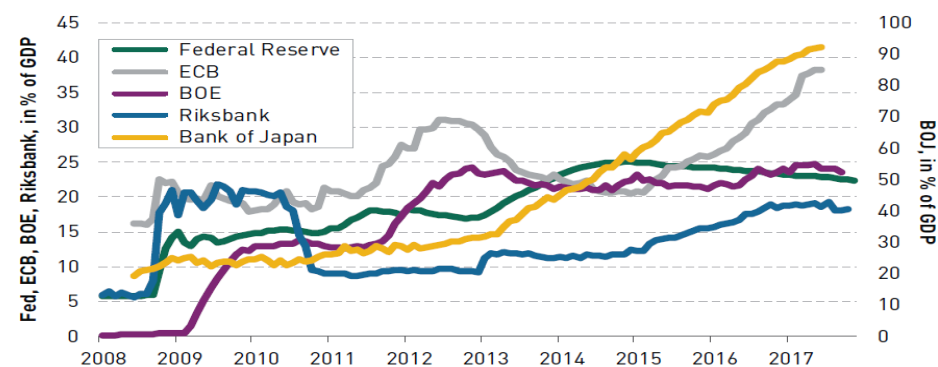


## Synchronized growth leads to synchronized policy normalization

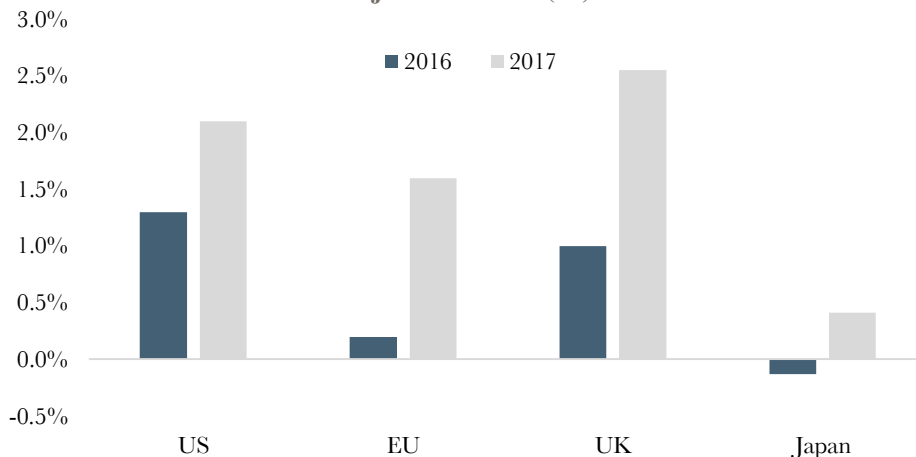
*Synchronized global growth is allowing for monetary policies to shift toward a path of synchronized normalization that will facilitate each individual central bank's ability to follow through on its exit of extraordinary measures.*

- Gradual improvement in the labor market and higher fiscal stimulus justifies the policy normalization in our view - Fed retained its forecast for three additional rate increases in 2018 and 2019 unchanged.
- The Fed commenced its balance sheet unwinding in Q4 17 by reducing its stimulus by \$10 billion assets per month. - Fed will increase this number by \$10 billion every quarter, meaning it would reach its maximum of \$50 billion by the end of 2018.
- While the spotlight has been primarily on the US Federal Reserve in recent years, in many ways, the pivotal change and influence lies with the ECB. It has been the anchor for government bond yields and its policy shift represents a more dramatic turn.
- Even with a new chairman leading the Fed, the US policy path will likely be a continuation of its recent course.
- The ECB and, at some point, the Bank of Japan (BOJ) will alter their policies in a more significant manner.
- ECB plans to cut its monthly bond purchases by 50% to €30 billion starting January until September 2018. However, a faster rate of growth in the inflation rate, from rising energy prices in 2018, could change the ECBs position earlier than anticipated.
- Amidst the rising price pressure from imported and energy related products, the prospect of a further rate hike is likely by the BOE.
- Elsewhere in Japan, the BoJ continues to reiterate its resolve to maintain its accommodative policy until inflation attains its 2% target from current level of 0.2% as at October 2017.

Global Central Bank Balance Sheet Growth



Mean Inflation rate across major economies (%)

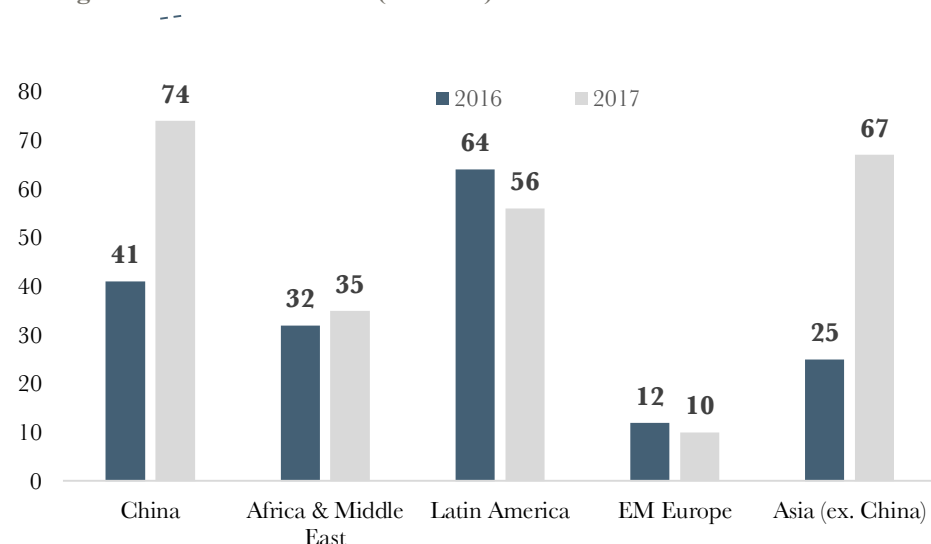


# Pick up in EM Growth spur Portfolio Flows

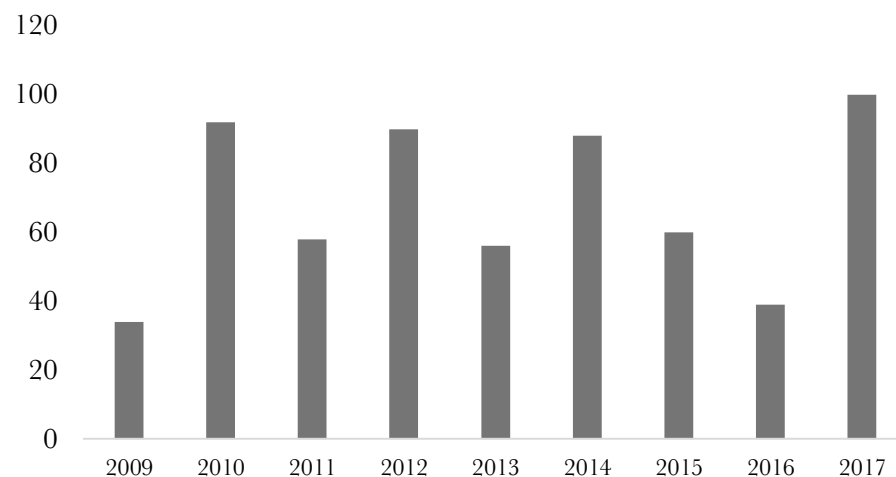
*Capital flows to EMs remained resilient over 2017, continuing its recovery after a sharp decline in 2015 – 2016.*

- According to the IIF, portfolio inflows to EMs over 2017 is estimated at \$1 trillion – the highest since 2014.
- The increase in capital flows towards EMs was underpinned by broadening global recovery and a greater appetite for risk together with highly favorable global financial conditions.
- On the pull side, higher commodity prices and improving economic fundamentals which lessened default risk as well as a more stable currency market were key drivers for the strong portfolio flows to EMs.
- Importantly, despite rate hikes by global central banks, portfolio flows to EMs debt was boosted by shrinking but still significant inflation differentials and carry trade opportunities.
- IIF cited that the firming capital flows over the period is driven by foreign investors' appetite for EM debt.
- The surge in EM debt flows is reminiscent of a rise in government spending across most EM countries which necessitated pent up domestic and external debt issuances with pass through effect on fixed income yields.
- Whereas, concerns over fragile economic recovery, political and policy risk in key EM countries continues to trump portfolio flows to Equity.

Foreign Portfolio flows to EM (\$'billion)

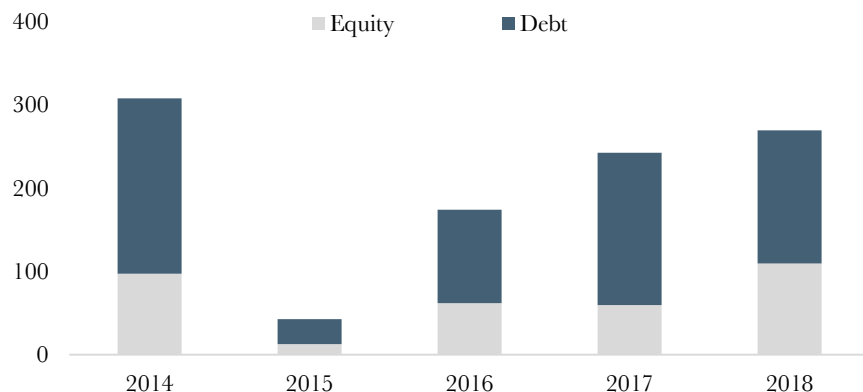


Foreign Flows into Emerging Local Markets Debt (\$'billions)

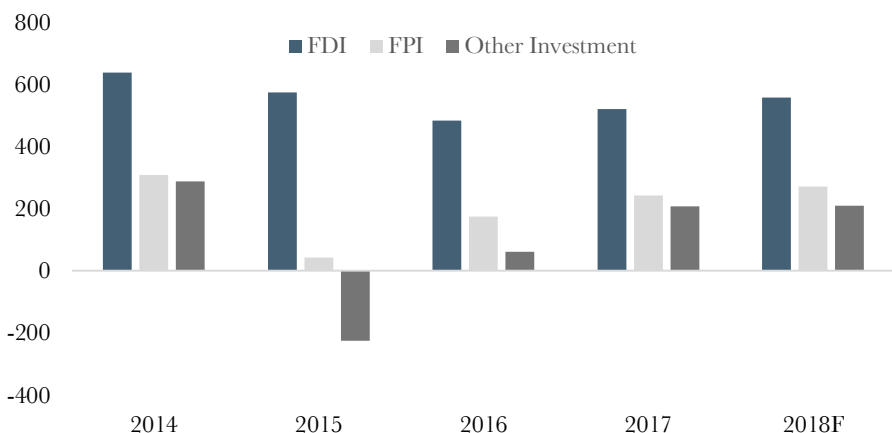


# Hawkish Renditions across DMs set to weigh on EM Asset

EM Portfolio flows breakdown by asset class (\$'billion)



Non-Resident Capital Flows to EMs (\$'billions)



- Going into 2018, we think EMs are now more resilient than before. In our view, a stable and growing global economy, higher commodity prices, and improving fundamentals in key equity and debt market will support flows to EMs.
- More so, EMs growth is expected to further outpace the growth picture for the developed market.
- Irrespective, while we remain broadly constructive on EM fundamentals and valuation, flows to EMs will certainly face headwinds.

## Headwinds

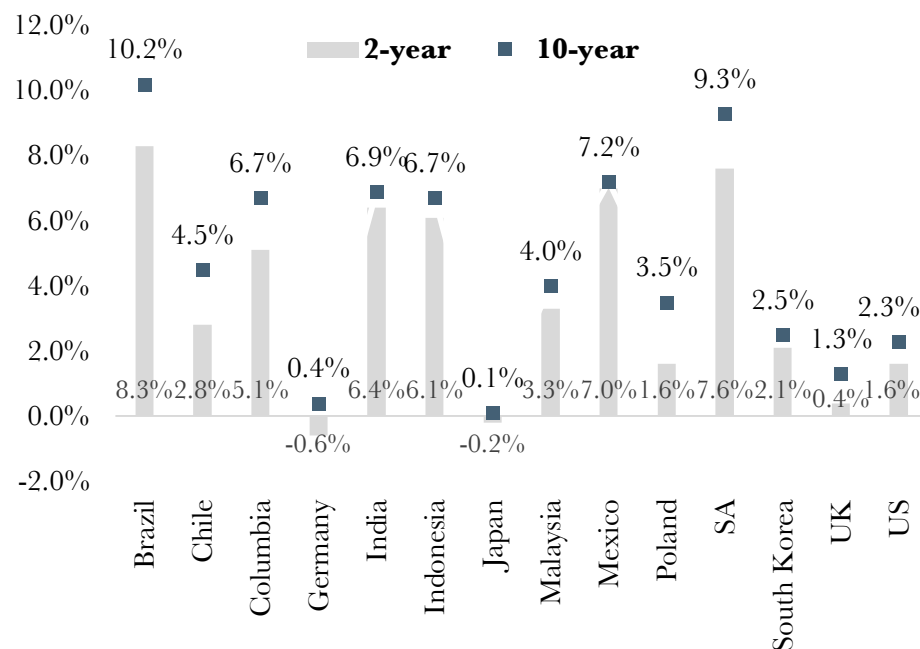
- EM assets that benefited from low rates during the years of low U.S. real interest rates could face a headwind as term premium returns to the U.S. Treasury market.
- The European Central Bank's reduction in stimulus tightens global liquidity.
- A slowing Chinese economy, with potentially messy deleveraging, could put depreciating pressure on China's currency and further tighten credit.
- Political risks come to the fore with heightened volatility around uncertain geopolitical tension in Asia and the Middle East.
  - ✓ concerns over tensions between North Korea and the US
  - ✓ growing conflicts between Saudi Arabia and Iran
  - ✓ NATO conflicts and territorial disputes in the South China.
  - ✓ US stance on NAFTA agreement could lead to a breakdown in talks and a U.S withdrawal from NAFTA will hit EM equities in the near term as concerns on trade emanates

# Constructive Approach towards EM Assets

*The impact of policy normalisation on EMs should vary from country to country. There are still attractive valuations in specific countries, but not all EMs will fare well as rates rise*

- EMs with macro imbalances or low rate environments should be impacted harder by rising rates - Turkey or Venezuela remain fundamentally vulnerable to a rate shock, in our view.
- EMs with lower rates - South Korea or Singapore, which despite strong macro fundamentals could also be vulnerable to currency depreciation as the yield differential with the US flips.
- We are positive on Brazil, Argentina, Columbia, South Africa, Ukraine, India and Kazakhstan.
- Negative on UAE, Qatar, Saudi Arabia, Malaysia, Singapore and Thailand. We expect higher volatility in Mexico, Turkey, South Africa and the Middle East

Government Bond Yields (Two and 10-Year Yields)



Emerging Markets relative to Developed Markets: Price-to-Earnings





**AFRICA**

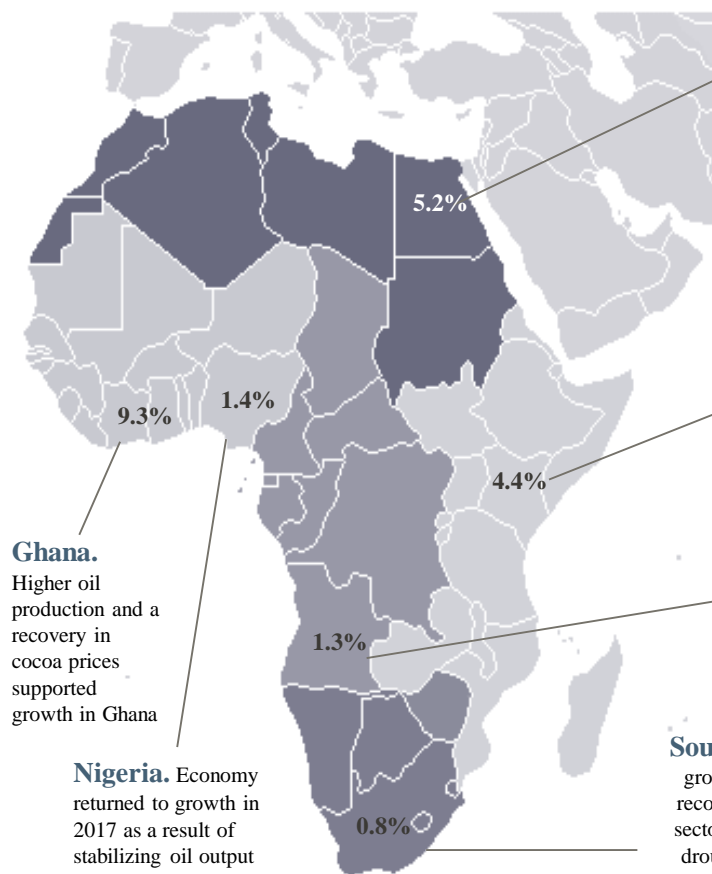
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# Africa Economy back from the Brink

*Africa's economy is on course for a modest recovery as higher global commodity prices supported growth in SSA while fiscal consolidation supported modest growth seen in the North.*

## Q3 2017 GDP GROWTH (YoY)



**Egypt.** Growth in Egypt was largely driven by sharp expansion in agriculture sector. More so, IMF-backed reforms in Egypt appears to be yielding positive result as cut back in energy subsidies and public wage bills moderated fiscal deficit to 5.4% of GDP (H2 16: 6.4%).

**Kenya.** The impact of prolonged political crisis and adverse weather conditions on investment, external indicators and agriculture sector slowed down growth in Kenya.

**Angola.** The combination of recovery in oil output, higher crude oil prices and receding political tension supported growth.

**South Africa.** Economy growth was supported by recovery in the agricultural sector a fall-out of receding drought in the region, and expansion in mining and quarrying sector.

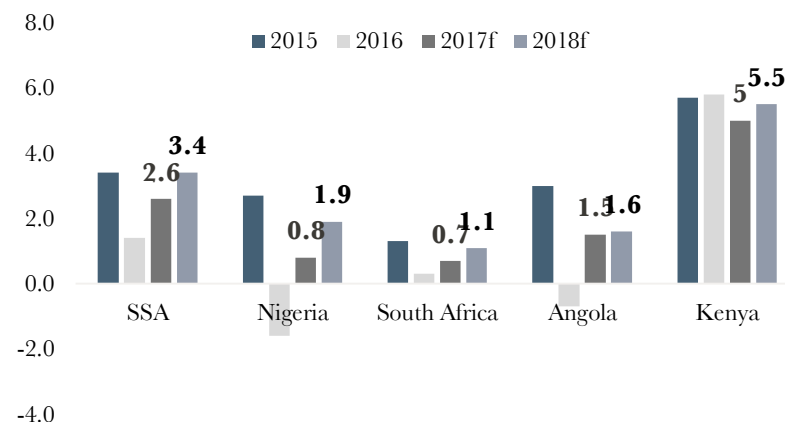
	Monetary Policy	Avg. inflation	Currency
Nigeria	Unchanged	16.7%	-14.4%
S/A	-25bps to 6.75%	5.3%	+9.8%
Kenya	Unchanged	8.02%	-0.4%
Angola	+200bps to 18%	30.1%	+0.6%
Ghana	-100bps to 20%	12.4%	-4.9%
Egypt	+400bps to 18.75%	29.6%	+2.3%
Tunisia	+25bps to 5.0%	3.7%	-6.3%
Morocco	Unchanged	1.6%	+8.2%

## Economic Growth to Tilt towards Pre-2016 Levels

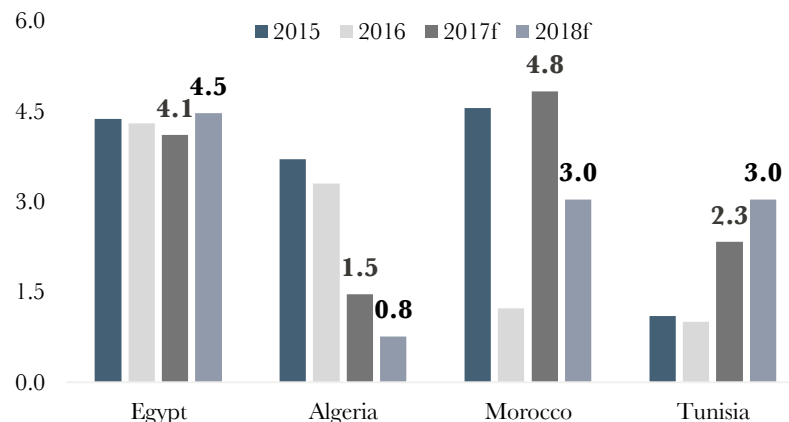
*We expect that economic growth in Sub-Saharan Africa will continue to accelerate in 2018*

- Growth in SSA will be driven largely by faster growth in the region's three biggest economies – Nigeria, South Africa, and Angola – all of which have suffered slowdowns in recent years.
- Nigeria's economy returned to growth in 2017, and we expect that it will strengthen in 2018 because of higher oil production and crude prices, and the gradual loosening of currency controls.
- Growth in South Africa will also pick up next year. Slowing inflation will allow the Reserve Bank to loosen policy, stimulating demand.
- Angola suffered a much more painful economic shock in 2016-17, and will now accelerate faster than its peers. But the country's delicate current account position, over-valued currency, and substantial FX-denominated debts make it the most fragile of Africa's big three.
- Growth in Kenya will accelerate more gradually than most expect in 2018.
- Ghana's economy will accelerate briskly in 2018 as a result of higher oil output and a positive terms of trade shock.
- Cote d'Ivoire's economy will remain strong in 2018, but growth will ease over the medium term as the country's investment boom ebbs.
- An anti-corruption campaign in Tanzania will limit public spending and cut growth in 2018.
- Whilst Tunisia is expected to benefit from favorable weather conditions, higher consumer spending is projected to drive growth in Egypt as the impact of currency-induced inflationary pressure recedes.

GDP forecast in selected SSA



GDP forecast in selected North Africa economies



# COMMODITIES

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# Commodity Prices Crater from Supply Glut

*The weakness in commodity prices that began earlier in the year continued for the rest of the year as major commodities faced an over-supply market*

•but Deficit picture across Barley market drove an upsurge in price

•S&P GSCI Agricultural Index decline (-9% YoY), driven by surplus in **Wheat, Rubber, Crude, Palm Oil (CPO), Raw Sugar and Cocoa**

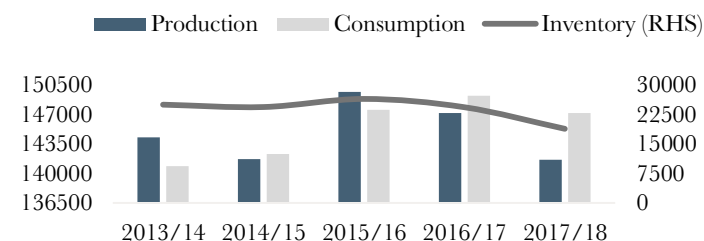
Average price movement across key soft commodities

Commodity	Price		
	2017	2016	%
Barley (\$/Tonne)	153.5	150.4	2.1
Cocoa (\$/Tonne)	2011.8	2852.7	-29.5
Rubber (\$/Kg)	2.1	1.6	32.7
Crude Palm Oil (\$/Tonne)	650.4	641.8	1.3
Sugar (\$/Pound)	15.9	18.2	-13.0
Wheat (\$/Bushel)	486.1	535.2	-9.2

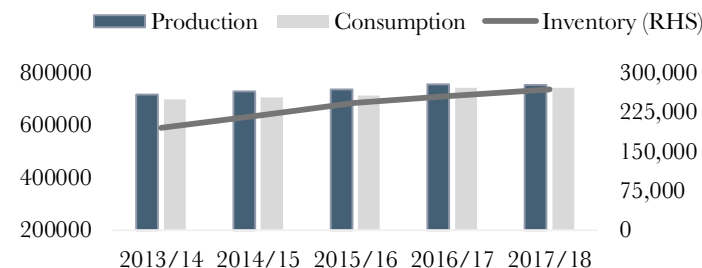
Summary of movements in supply and demand across major soft commodities

Commodity	2017			2016		
	Supply	Demand	Balance	Supply	Demand	Balance
Barley	147.1	149.2	-2.1	149.6	147.5	2.0
Cocoa	4.7	4.2	0.4	4.0	4.1	-0.2
Crude Palm Oil	58.83	59.28	-0.4	62.3	60.0	2.3
Sugar	164.7	169.2	-4.5	171.5	171.6	-0.2
Wheat	753.9	739.6	14.3	735.3	711.7	23.6

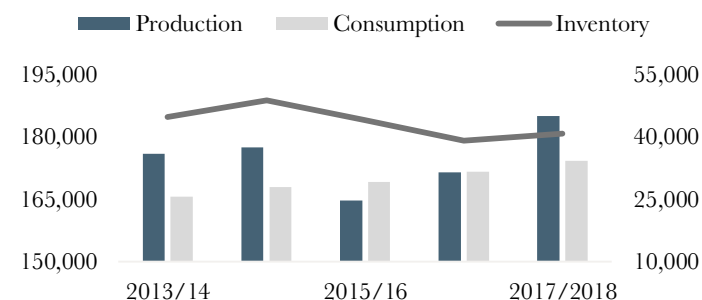
Global Barley Production, Consumption, and Inventories



Global Wheat Production, Consumption, and Inventories

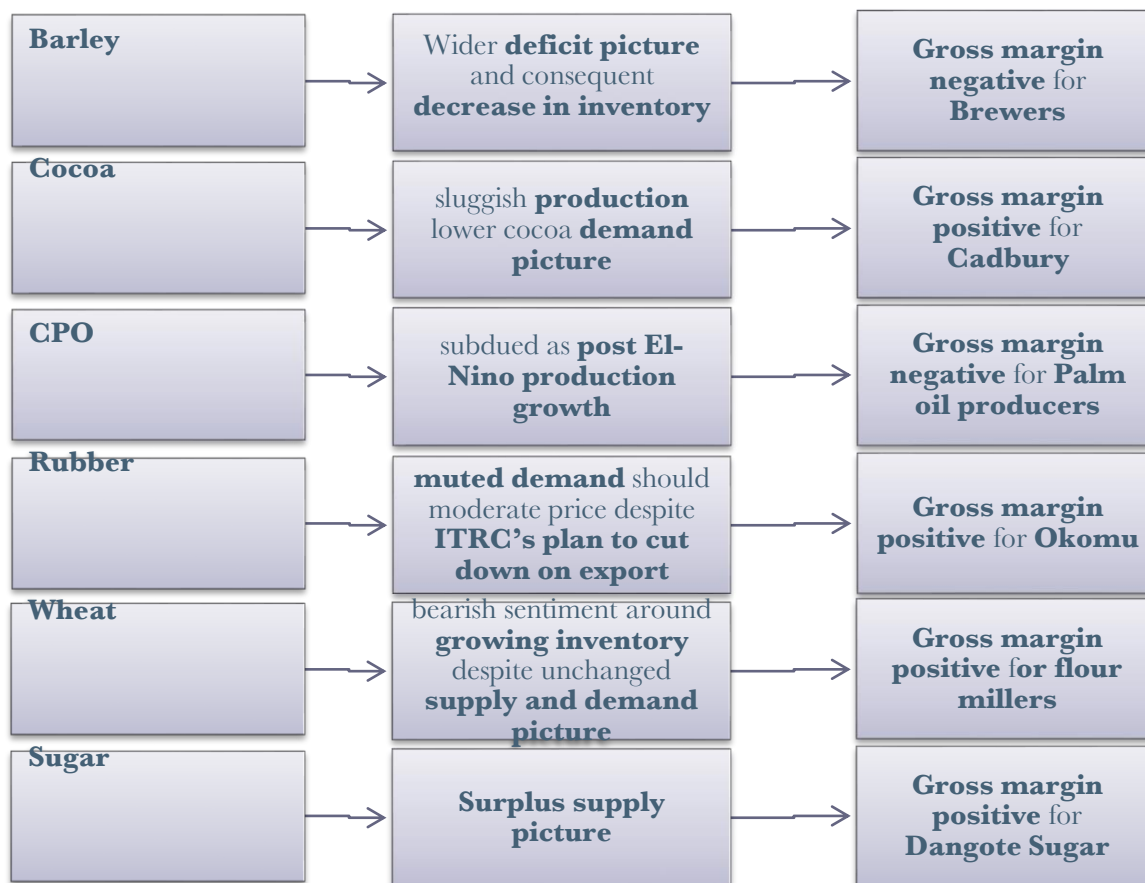


Global Sugar Production, Consumption, and Inventories



## Overall, we maintain a mixed outlook for commodity prices over 2018

### *Bearish commodity prices portend varied impact for Nigeria food producers*



- Tying it all together, our expectation for barley and cocoa prices remain bullish buoyed by wider deficit in the market as unfavorable weather conditions implies constrained production and lower inventory levels.
- Similarly, we are cautiously optimistic on our outlook for rubber prices premised on ITRC's decision to support prices by imposing a quota on production.
- Elsewhere, our outlook for CPO, sugar, and wheat are bearish underpinned by favorable weather conditions which guides to higher production, elevated inventory levels as well as persisting market surplus.
- Overall, we maintain a mixed outlook for commodity prices over 2018.

# OPEC Roars Back to Show She hasn't Lost that Old Magic

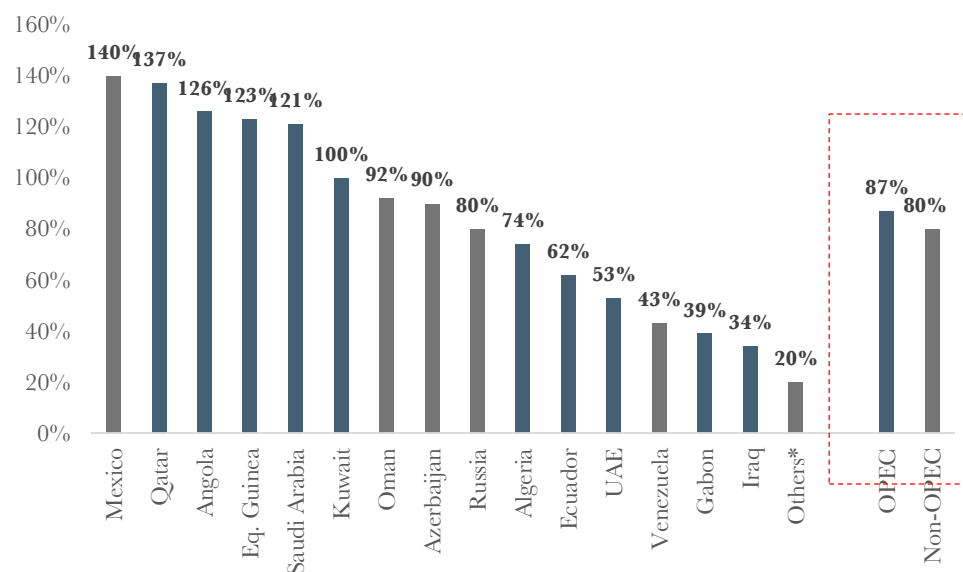
*The cartel and its allies stood together and agreed to extend its production agreement until December 2018 and has scheduled June 2018 to assess the market and evaluate its agreement.*

- Saudi Arabia and Russia, the key players, reinforced their alliance to comply with the agreement.
- Russia has aligned its objectives towards the agenda, protecting the investment plans with Saudi Arabia, especially after the recent visit of Saudi King last month.
- More importantly, Nigeria and Libya, have now been included in the agreement. Both countries are expected to limit production to 2017 high which informed the cap on their collective output at 2.8mbpd (excluding condensate).
- Assuming Libya produces at its 2017 peak of 1.01mbpd, this implies Nigeria's production should hover around 1.8mbpd which is ~2.1mbpd (inclusive of condensate).

OPEC crude oil production (mbpd) – Historical and Target

	Q1 17	Q2 17	Q3 17	Oct-17	2017 avg. supply	Production Target
Algeria	1.05	1.05	1.05	1.01	1.04	1.04
Angola	1.63	1.65	1.64	1.71	1.66	1.67
Ecuador	0.53	0.53	0.54	0.54	0.52	0.52
Equatorial Guinea	0.14	0.14	0.13	0.14	0.13	0.13
Gabon	0.20	0.20	0.20	0.20	0.20	0.19
Iran*	3.80	3.79	3.83	3.82	3.79	3.80
Iraq	4.45	4.46	4.48	4.38	4.43	4.35
Kuwait	2.71	2.71	2.71	2.71	2.70	2.71
Qatar	0.61	0.61	0.61	0.60	0.61	0.62
Saudi Arabia	9.88	9.96	9.99	10.00	9.98	10.06
UAE	2.94	2.91	2.92	2.91	2.88	2.87
Venezuela	2.00	1.96	1.93	1.86	1.93	1.97
<b>Total OPEC 12</b>	<b>29.94</b>	<b>29.97</b>	<b>30.03</b>	<b>29.89</b>	<b>29.87</b>	<b>29.93</b>
Libya**	0.66	0.71	0.93	0.96	0.78	
Nigeria**	1.51	1.59	1.77	1.74	1.74	
<b>Total OPEC 14</b>	<b>32.11</b>	<b>32.28</b>	<b>32.73</b>	<b>32.59</b>	<b>32.39</b>	<b>29.93</b>

2017 Average Compliance by OPEC and non-OPEC members



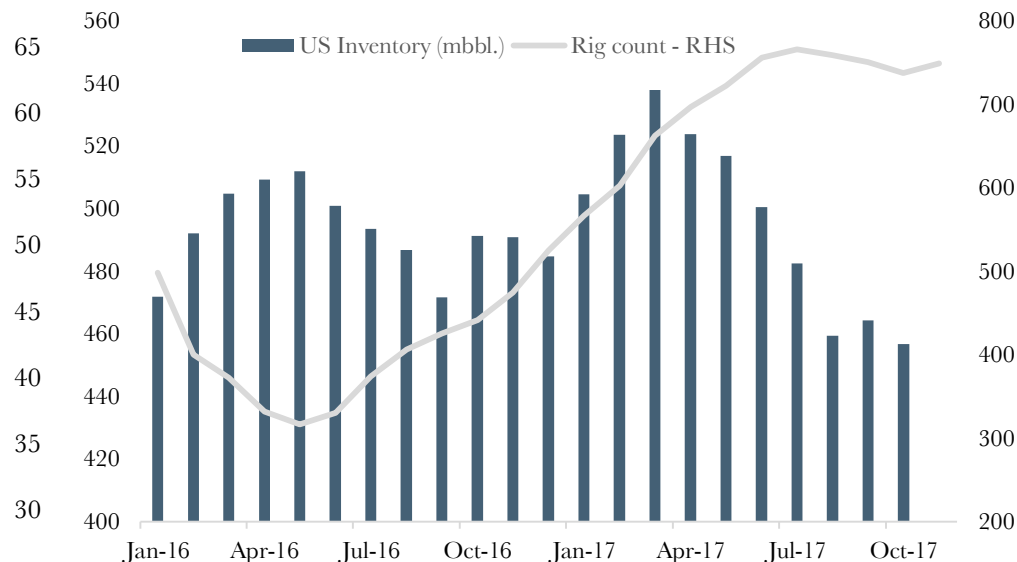
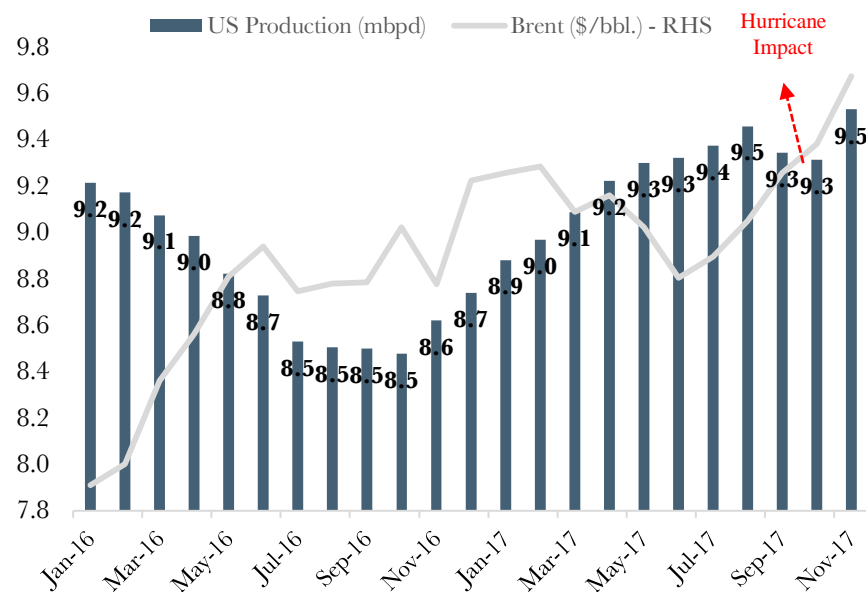
# US increasingly pumps as hurricane impact cools off

## US production continues to rise, though slower than expected on the back of recent tropical storm

- Consensus forecast of a rise in US oil production to ~10.5mbpd was cut short by impact of hurricane.
- Much of the rise has come entirely from unconventional (or shale) oil sources, supported by a recovery in oil prices
- The two biggest shale oil fields (**Eagle Ford and Permian**) which account for 90% of total unconventional production recorded a 14% and 21% rise in output respectively.
- Technological advances has supported increased efficiency in shale oil production. Production now seems resilient to crude oil prices below \$50/bbl.
- The recent uptick in prices has seen a return in hedging activity - data from E&P companies which account for around 75% of total US shale oil production shows a steep rise in hedges in the last few months.

### Rally in crude oil prices has supported increase in US production

### US Inventory and Rig count





## Demand - a key driver for the rebalancing path

*Demand dynamics have been particularly strong this year amid a robust global economic performance*

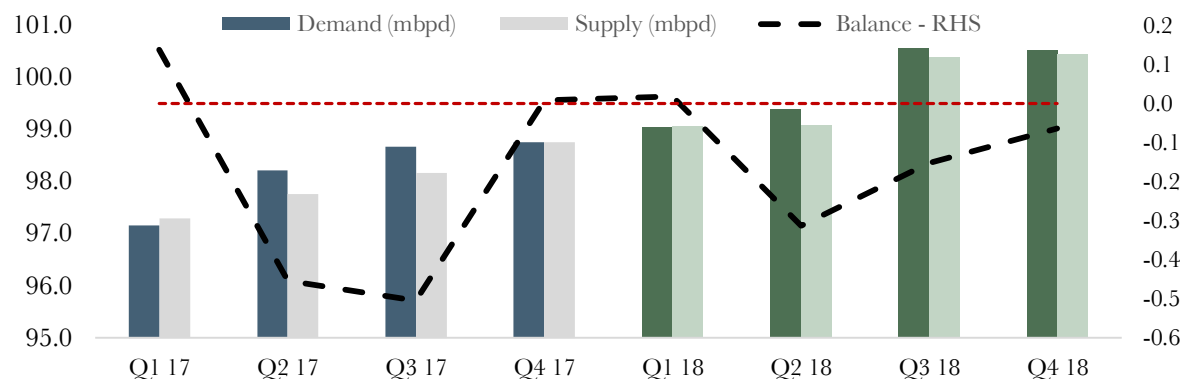
- Global economic growth has been supported by the developed nations, a reflection of manufacturing activity recovery, positive consumption, and confidence hitting new highs.
- China's demand has been very resilient this year on the back of upbeat economy. Increasing gasoline and jet fuel demand alongside rising LPG and fuel oil demand, accounted for the bulk of these gains.
- To add, India's oil demand rebounded as data reveals that India's economic growth is picking up after the disappointing Q2 17 performance.
- Overall, global oil demand has increased by 3% (+2.7mbpd) from the start of the year to 98.7mbpd

### Global Demand (mbpd)

	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17*
US	19.5	19.5	19.9	19.8	19.5	20.0	19.9	19.9
Europe	13.6	13.9	14.4	14.2	13.9	14.2	14.6	14.4
Others	13.4	12.5	12.8	13.3	13.3	12.5	12.7	12.8
<b>OECD</b>	<b>46.6</b>	<b>45.9</b>	<b>47.2</b>	<b>47.2</b>	<b>46.7</b>	<b>46.8</b>	<b>47.3</b>	<b>47.1</b>
CHINA	12.3	12.6	12.3	12.6	13.0	13.0	12.7	12.7
Other Asia	12.9	13.1	12.6	13.1	13.0	13.4	13.0	13.5
Other Non-OECD	24.2	24.7	25.4	25.0	24.4	25.0	25.8	25.3
<b>Non-OECD</b>	<b>49.4</b>	<b>50.4</b>	<b>50.4</b>	<b>50.6</b>	<b>50.4</b>	<b>51.4</b>	<b>51.4</b>	<b>51.5</b>
<b>Total Demand</b>	<b>96.0</b>	<b>96.3</b>	<b>97.5</b>	<b>97.8</b>	<b>97.2</b>	<b>98.2</b>	<b>98.7</b>	<b>98.6</b>

## *The hope of rebalancing looks set to garner momentum*

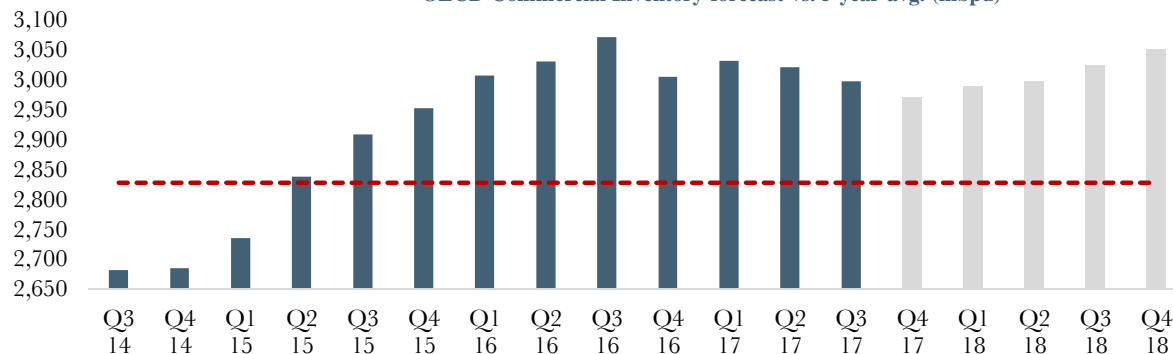
**Crude oil market will switch back to deficit over 2018 underpinned by strong OPEC compliance and robust demand.**



Source: EIA, ARM Research

Some of that OECD deficit will be offset by continued releases from US SPR, reducing the draw on industry stocks and thus forcing OPEC to further extend cut

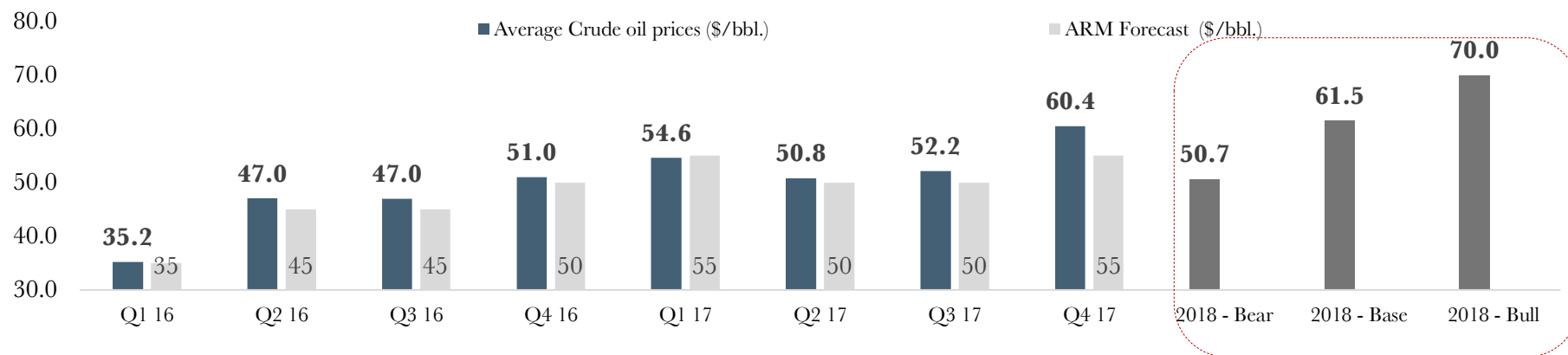
### **OECD Commercial Inventory forecast vs. 5-year avg. (mbpd)**



Source: EIA, ARM Research

- From the demand perspective, crude oil demand has outstripped supply this year as global economic growth remains firm.
- We forecast global oil demand growth of 1.3mbpd reflecting improved demand from key consumers - OECD Europe, OECD Asia, China, and India.
- OPEC and EIA forecast a global oil demand growth of average 1.5mbpd. IEA recently lowered its demand forecasts. However, the base of the adjustment is still high when compared to previous years and is keeping a higher course for 2018.
- On Supply, we expect higher compliance by OPEC and non-OPEC members to the production cut hinged on strong commitment shown by Russia and Saudi Arabia
- However, inherent risk largely stems from US production.
- On this basis, we expect the impact of higher prices and increased hedging activity to drive increase in US production. Consequently, we forecast an average output of 9.8mbpd for 2018 from ~9.2mbpd in 2017
- This implies that ~65% of production cut by OPEC will be offset by higher production from the US.
- This will lead to a seasonally adjusted deficit of 100kbpd in 2018.**

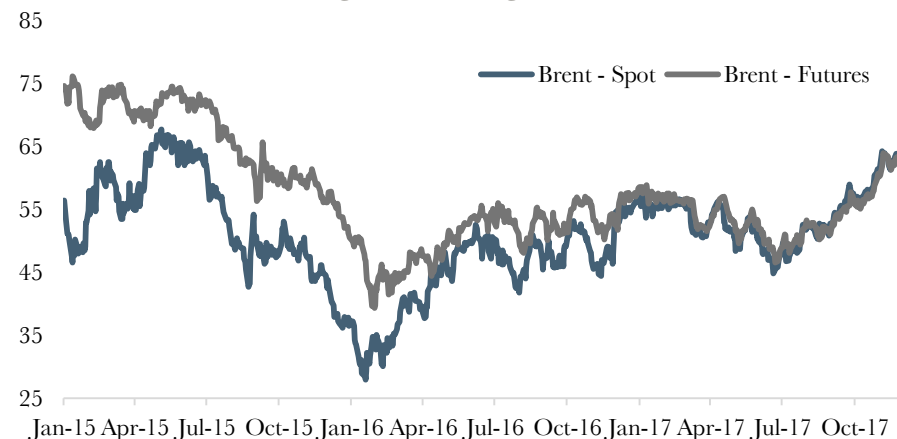
## Crude Oil Price Forecast (\$/bbl.)



**Crude oil prices in 2018 will consolidate to ~\$60/bbl.**

- Given our view on a faster pace of market rebalancing, the effect of U.S. production rising given higher prices could be relatively contained by the futures' curve term structure which would offer less attractive conditions to hedge.
- Furthermore, speculative position could have a greater influence in the short-term than market fundamentals.
- Inherent risks are skewed to the upside - the risk of an overtightening due to further disruptions, higher compliance by OPEC, and demand exceeding our conservative forecast
- Based on the foregoing dynamics, we envisage the rebalancing process of the crude markets would leave 2018 prices stable, albeit slightly lower in H2 18.
- Given the interpolation between changes in net supply and Brent crude, ***we update our crude oil forecast to \$55/bbl. - \$65/bbl. with a base case of \$61.50 for 2018*** (previous forecast \$50/bbl. \$55/bbl.)

## Oil market is shifting from Contango to Backwardation



Source: Bloomberg, ARM Research

# DOMESTIC MACRO

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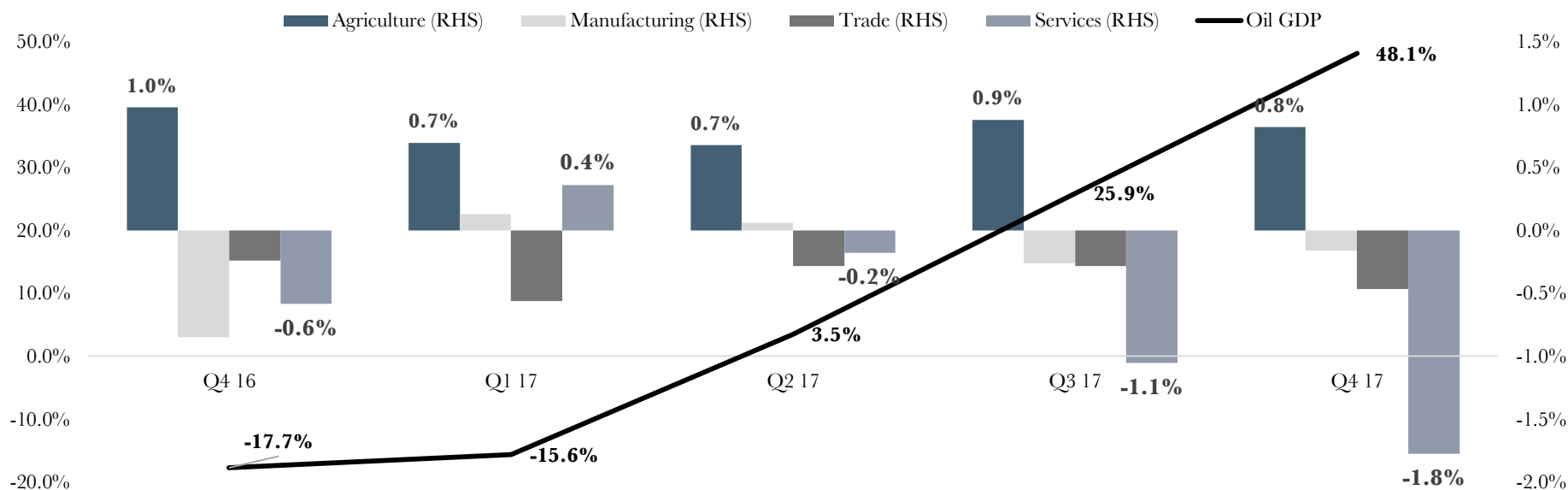


## GDP: Oil-led recovery pulls Nigeria out of recession

*After four consecutive quarters of contraction, the domestic economy re-emerged in the Q2 and further sustained the recovery momentum in Q3 with combined 9M 2017 GDP growth of 0.4% YoY.*

- Nigeria's economy re-emerged in the second quarter (0.72% YoY) and further sustained the recovery momentum in the third quarter (1.4% YoY) with combined nine-month 2017 GDP growth of 0.4% YoY.
- Irrespective of the growth in Agriculture sector (+3.1% YoY), non-oil GDP swung into a contraction in the third quarter by -0.8% YoY (9M 17: +0.1% YoY).
- The contraction was underpinned by deceleration in services, manufacturing and trade sectors (-0.9%, -0.3% and -2.1% YoY respectively over 9M 17).
- Elsewhere, after reporting two consecutive quarters of growth on the back of improved FX liquidity and economic recovery, the manufacturing sector turned the corner in Q3 17, declining 2.9% YoY on the back of a significant decline in oil refining.

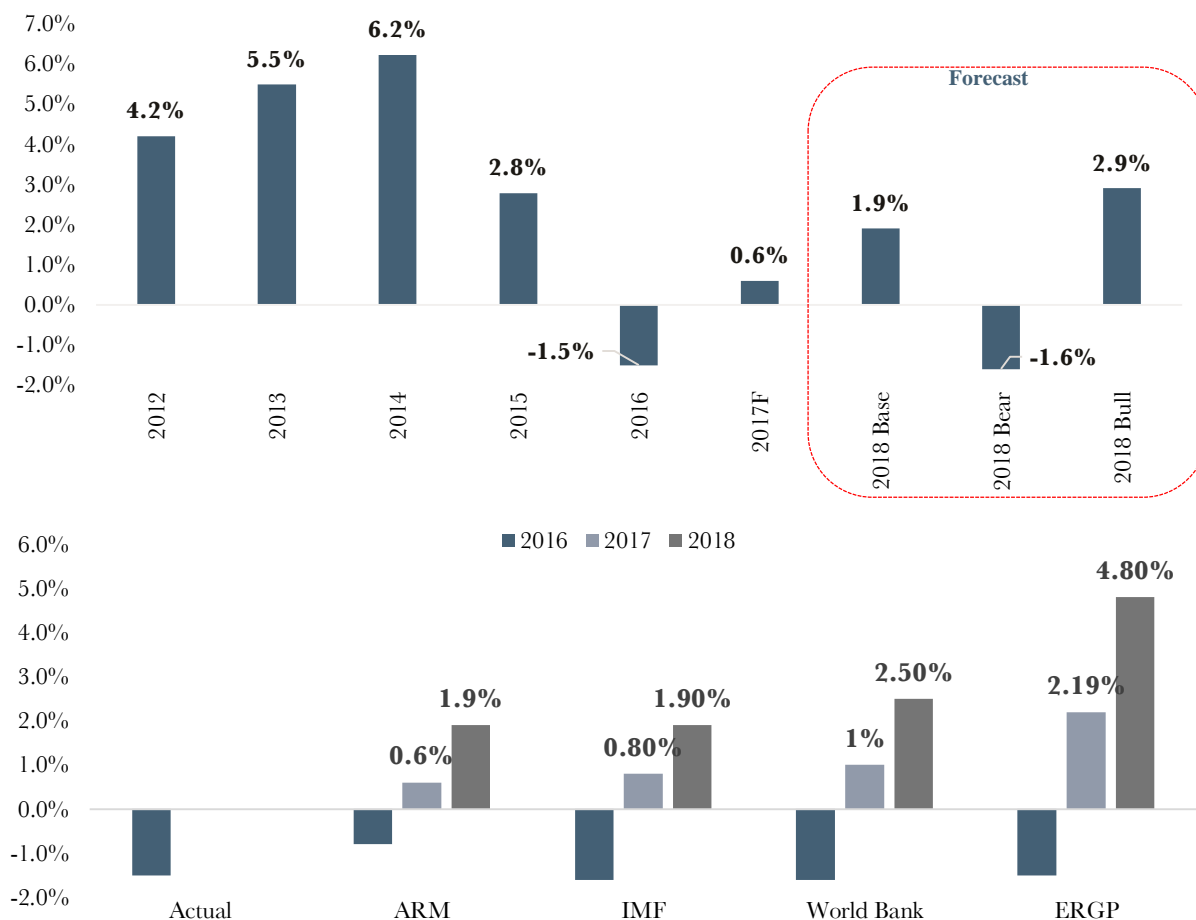
YoY Growth in Oil, Agric, Manufacturing, Trade, Services GDP



# Oil and Agric Output to Support 2018 GDP Growth Story

*Tying our views on both the oil and non-oil component of growth, we forecast a real GDP growth of 1.9% in 2018 which is the base case.*

- Our average crude oil production estimate, culminate in oil GDP growth forecast of 8.4% YoY.
- The FX-induced concerns on importation and, economic diversification and self-sufficiency in food production to drive 3% YoY growth in the Agriculture sector over 2018.
- We see room for a soft growth of 0.9% in the manufacturing and trade sector (+0.8% YoY) underpinned by sustained currency stability as well as the prospects for a wage increase in the coming year.
- Given the low base in Services over 2017 and accelerated pace of internet penetration, we look for a mild growth of 0.6% YoY over 2018.
- Overall, given the resilience of Agriculture sector and recovery in both Manufacturing and non-manufacturing divisions, we expect sustained growth in the non-oil GDP ( +1.3% YoY).

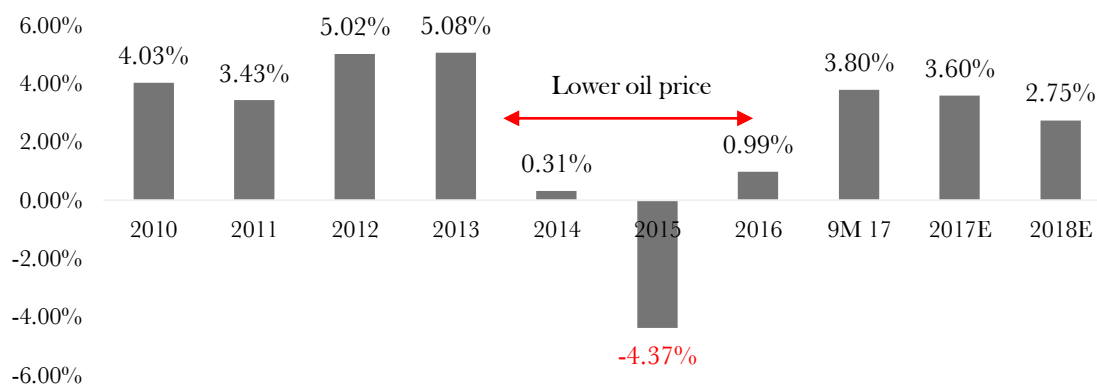


## Balance of Payment: Visibly Losing Size but Gaining Weight

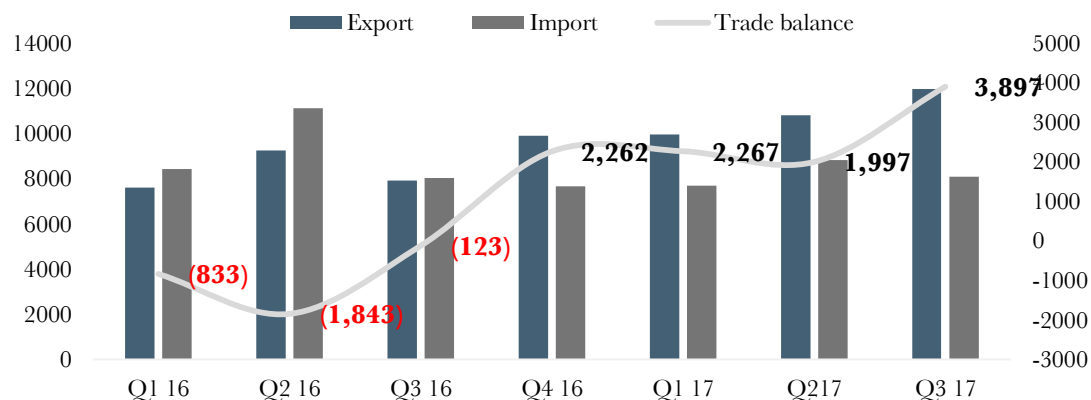
*Despite gains, the shrinking CA balance combined with impending difficulty in sustaining the net capital inflows as well as rapidly rising loan repayment places the positive balance of payment on a tightrope.*

- Nigeria's current account (CA) surplus expanded from \$1.2 billion in Q2 2017 to \$2.3 billion in the third quarter, the 'bluest ink' in the overall current account in four quarters.
- There are a few factors that have acted to push the surplus higher in recent quarters.
- First, the increase in trade surplus, which was largely in a deficit between Q3 2015 and Q3 2016 due to collapse in crude oil production and prices, has recovered this year as oil prices have rebounded from their multi-year lows in early 2016 and more importantly, crude oil production has recovered sizably.
- In addition, Nigeria received far more transfer payments in the third quarter and made less transfer payments abroad.
- The deficit in the services balance has trended higher in recent quarters, but not enough to prevent the overall current account surplus from expanding.
- That said, the CA surplus, which is equivalent to ~2.4% of GDP at present (Q2 17: 1.4%), is likely to shrink as the combination of slower rise in export and higher import guides to lower trade surplus.

Current account (% of GDP)



Trade balance trend (\$'million)



# Net capital inflows remain Buoyant

- On the financial account, capital flows to Nigeria extended its solid growth in Q3 17 largely on the back of improved FX liquidity from the introduction of the I&E Window, elevated high yield environment as well as the attractive valuation of the equity market relative to peers.
- Despite the strong growth in portfolio flows to the country in the review period, sizable drawdown in the FX reserve (+8x QoQ to \$2.8 billion) nullified the growth in capital flows to cause a decline in financial accounts (-9% QoQ to \$3.1 billion).

## Lower trade surplus to shrink current account balance

### CURRENT ACCOUNT

- We expect the CA to shrink to 2.75% of our estimated GDP compared to our estimate of 3.6% in FY 17, largely on the back of slower growth in exports coming from our conservative stance on crude production.

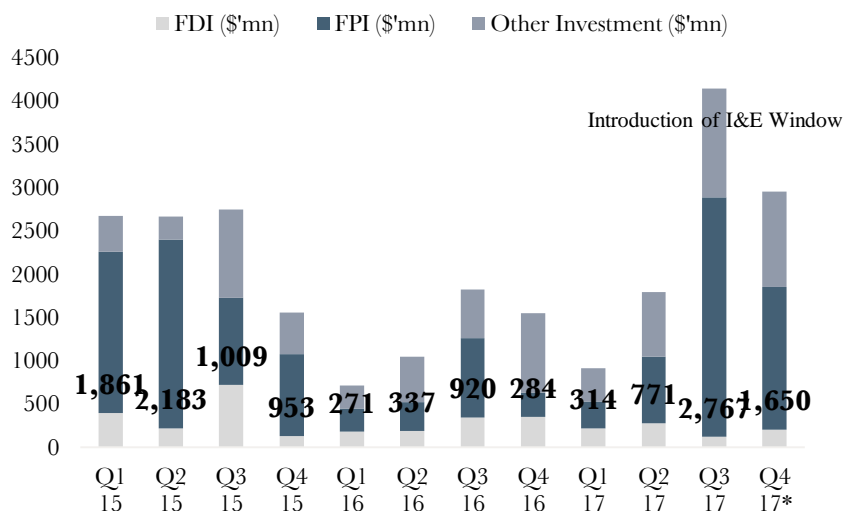
### FINANCIAL ACCOUNT

- Hawkish environment in advanced economies, lower domestic yield environment as well as political risk should cause a cool off in flows to short term instruments as well as bonds.
- Likewise, we expect slower flows to equities due to one-offs in previous quarters.
- Elsewhere, increased FX interventions by the CBN on the back of lower capital flows suggests further decline in the FA.

### BALANCE OF PAYMENT

- Overall, our expectation for a shrinking CA as well as lower FA suggests a downside to the currency.

Capital flows (\$'million)



	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17
CA Balance as % of G.D.P	1.00	-1.51	-0.03	3.42	3.17	1.38	2.38
Capital and Financial Account Balance as % of G.D.P	-6.73	6.62	8.62	-5.98	0.42	3.85	3.22
BoP % of G.D.P	-0.65	-0.72	-3.04	3.36	3.49	0.34	2.89
External Reserves (US \$ million)	27336	26506	23807	26991	29996	30341	33160
Number of Months of Imports Equivalent	9.72	7.16	9.05	10.58	11.69	10.33	9.05
External Debt Stock (US\$ million)	11195	11262	11583	11406	13808	15047	15352

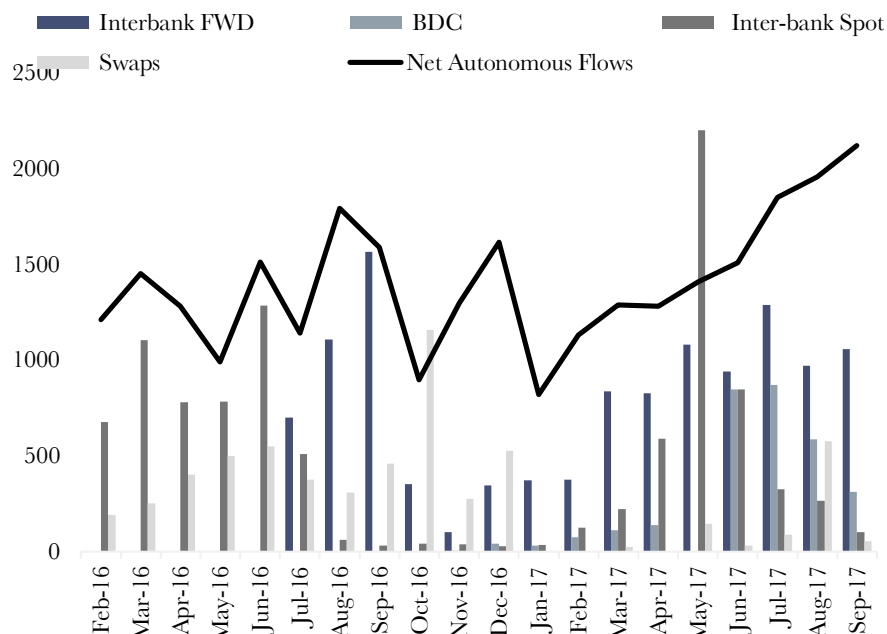


# FX: CBN slows its tap as Hot money fired up

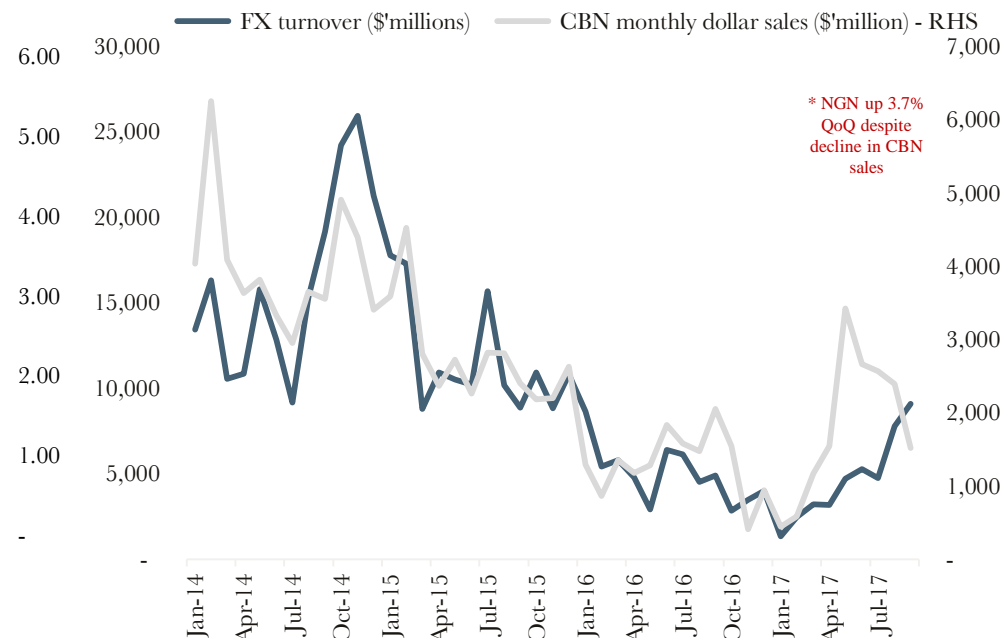
*The second half of 2017 has seen larger FX moves than we anticipated in our H2 17 Nigerian Strategy Report.*

- CBN average monthly dollar sales over Q3 17 declined by 14% to \$2.1 billion relative to \$2.5 billion in Q2 17 with September sales printing at \$1.5 billion.
- Notwithstanding the cutback in dollar sales, the naira remained stable over the Q3.
- This disparate movement occurred mainly due to higher than expected portfolio flows over the period (average Q3: \$1.4 billion, H1 17: \$470 million) which gave the CBN room to reduce its supply at the IEW from \$845 million in June 2017 to \$101 million in September 2017.
- This also afforded the CBN more room to intervene in other segment of the market, particularly the SMIS. Furthermore, despite strong (but moderating) dollar sales by the apex bank, the external reserve firmed up by 28% over H2 17 to \$39 billion on the back of higher oil inflows

Net autonomous flows lower CBN tap in IEW and higher sales to BDCs and SMIS



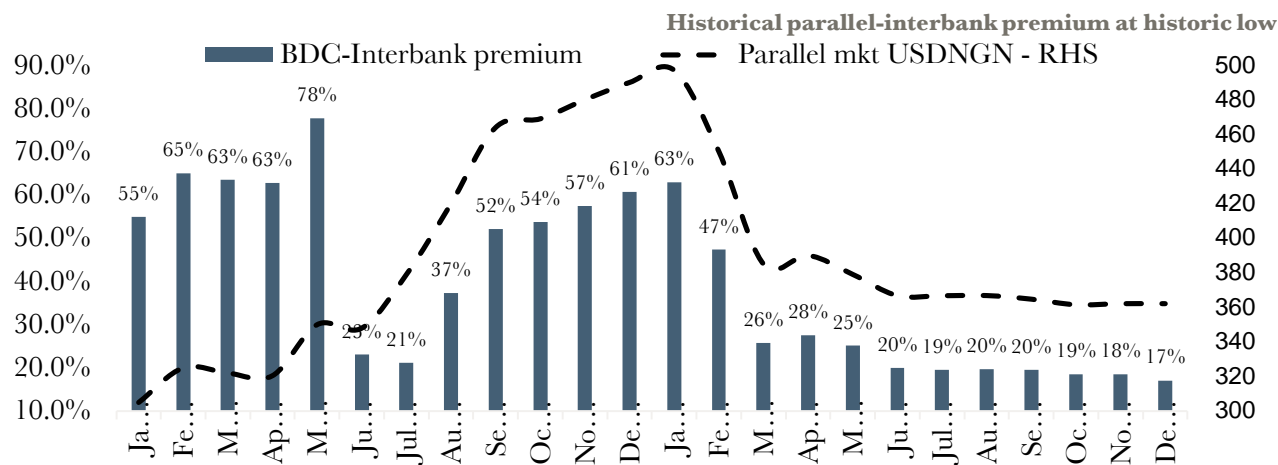
Increased FPI flows, kept the IEW well greased



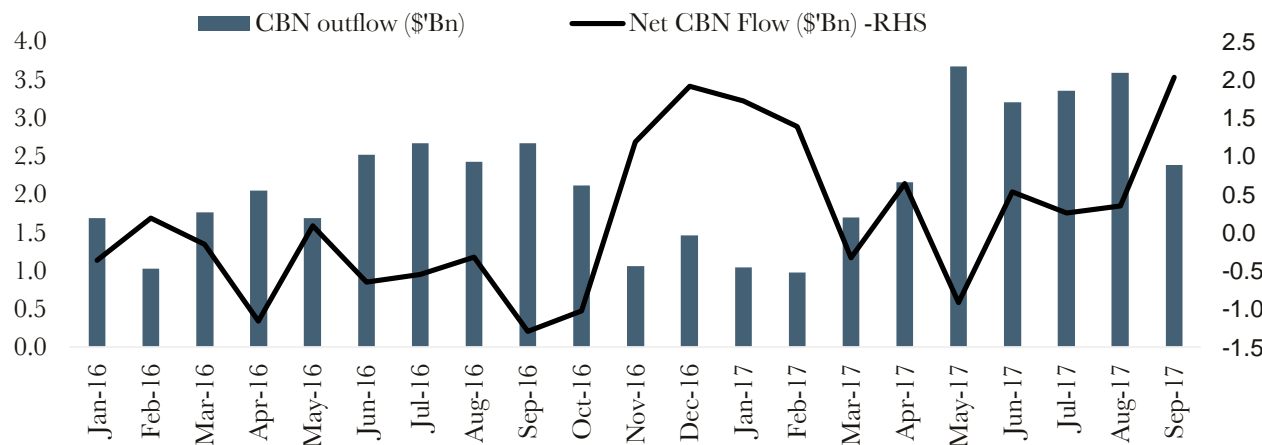
## Parallel-interbank premium at 27-month low of 17.0%

*The premium between the parallel and official market contracted to a 27-month low of 17.0% - the NGN also gained grounds at the NAFEX and BDC segment, appreciating by 2.8% and 2.3% respectively.*

- In July, the FMDQ selected Bloomberg as a partner saddled with the responsibility to report transactions in the I&E window electronically and enhance price discovery and transparency.
- Consequently, Bloomberg's USDNGN reporting became based on the I&E window as opposed to the CBN-determined Wholesale Secondary Market Intervention Sales (SMIS) interbank rate.
- Further in August, the apex bank directed banks to quote the floating IEW rate rather than a fixed exchange rate, a move towards a unified, floating exchange rate.

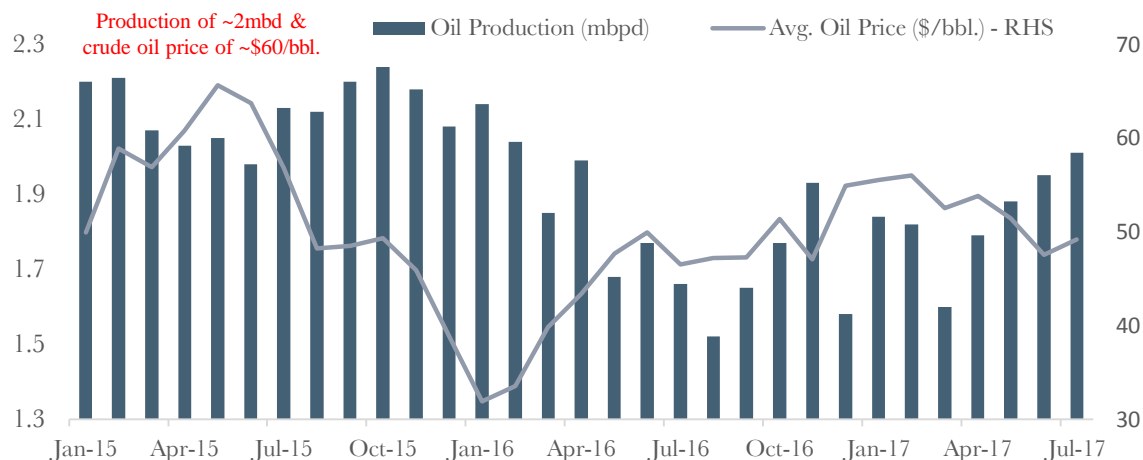


**The decline in import sales and cut back in intervention kept net flows at historic level**

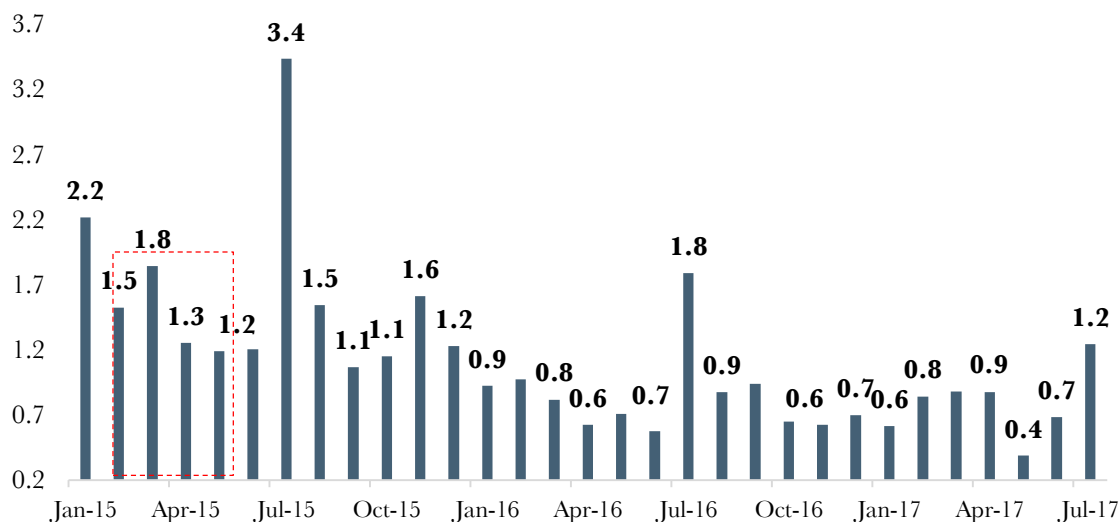


## We estimate an average of \$1.2 billion monthly in oil inflow

*Coalescing our analysis with historical trend, we forecast an average oil inflow of ~\$1.2 billion monthly over 2018*



Oil Inflows through the CBN (\$\*billion)

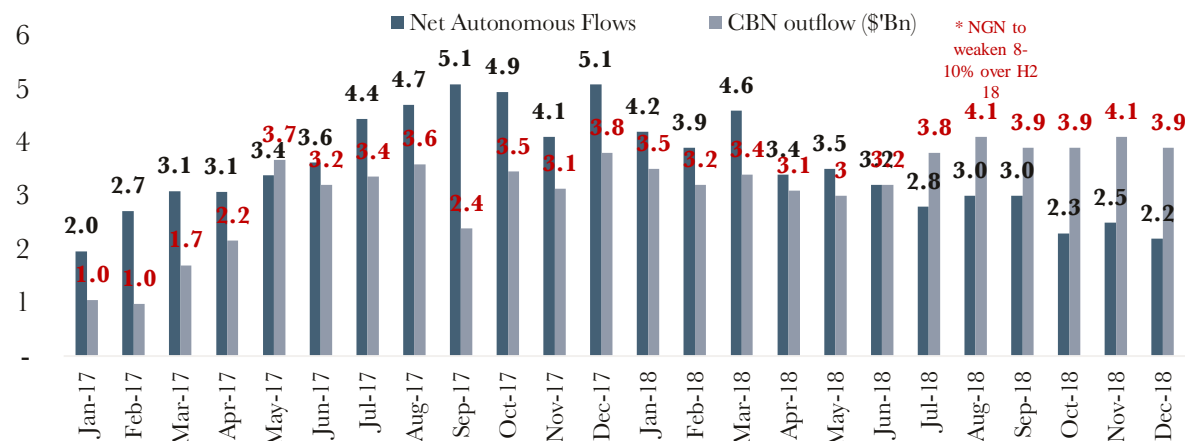


- Looking at historical trend in Nigeria's production and crude oil prices alongside oil inflows, we sleuth for clues and conclusion.
- In the period where Nigeria's production hovered around 2mbpd alongside ~\$60/bbl., monthly oil inflows averaged \$1.2 billion.
- Coalescing our analysis with historical trend, we forecast an average oil inflow of ~\$1.2 billion monthly over 2018
- However, should oil prices trend at our bear case of \$50/bbl., keeping production estimate unchanged, monthly oil inflow should print at ~\$900 million over 2018.
- Also, assuming our bull case for oil prices at \$70/bbl. while keeping production estimate unchanged, monthly oil inflow should print ~\$1.8 million over 2018.

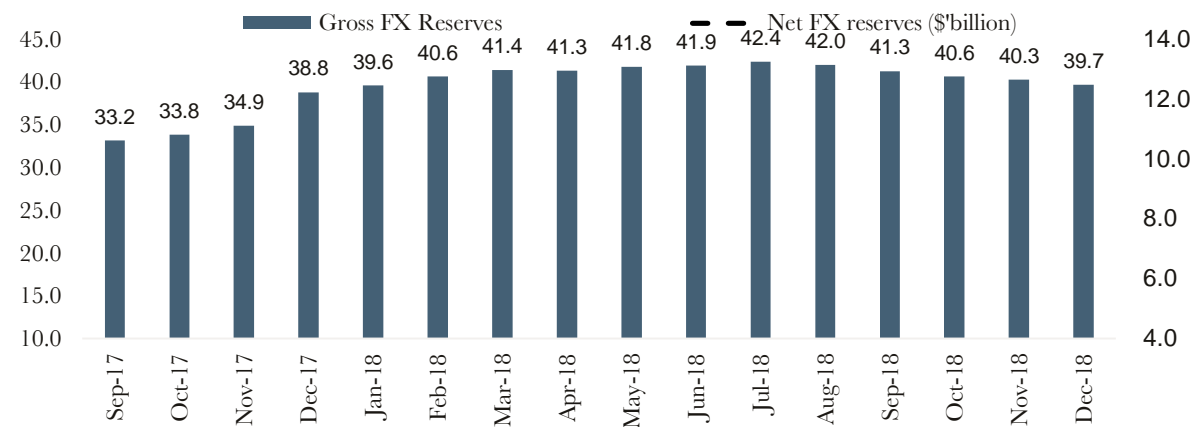
## FX Reserve should cross \$40bn but depletion is in the cards

*While noting the healthy reserve at the disposal of the apex bank, our expectation of decline in portfolio flows, speaks to a more aggressive sale by the apex bank to keep the dollar within current band.*

Decline in autonomous flows would drive constant short-term demand-supply overlap over 2018.



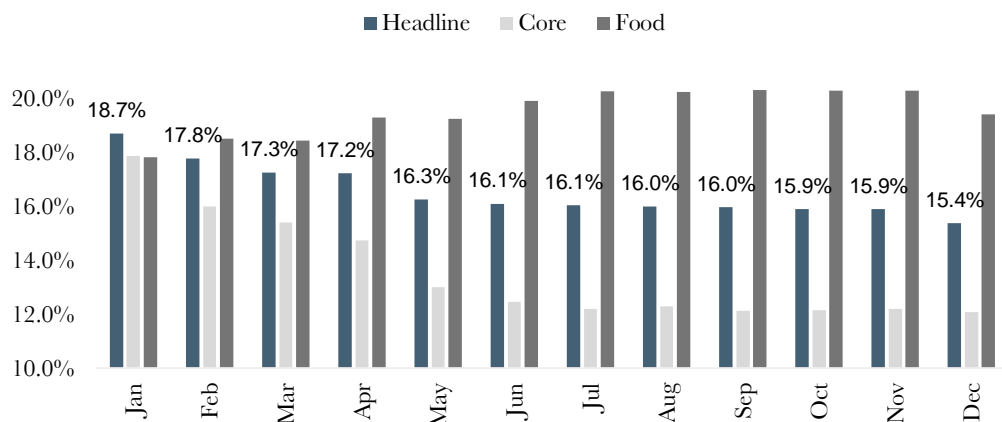
Rebounding imports could slightly dim the picture – especially from an import cover perspective.



- Adjusting current reserve levels of \$38.77 billion for estimated outstanding swap liabilities of \$2 billion, with CBN having access to only 73% of total reserves, we estimate that import cover, using net reserves, should remain above 10 months by the end of H1 18.
- However, we expect a steeper drawdown in FX reserves over H2 18 as the political concerns – with electioneering activities expected to enter its prime – further dampens flows into the economy, with current flows taking a safe flight.
- While noting the healthy reserve at the disposal of the apex bank, our expectation of decline in portfolio flows, speaks to a more aggressive sale by the apex bank (even a stronger participation by the apex bank in the IEW) to keep the dollar within current band.
- Overlaying the steep decline from May, when dollar sales was at a peak of \$3.4 billion – to \$1.5 billion in September on our monthly sales over 2018, we estimate a monthly sale of \$1.9 billion (with overall average monthly outflow from the CBN estimated at \$3.6 billion)
- Stemming from the increased intervention at the IEW, with the cut back on special intervention forward contracts creating some cushion.

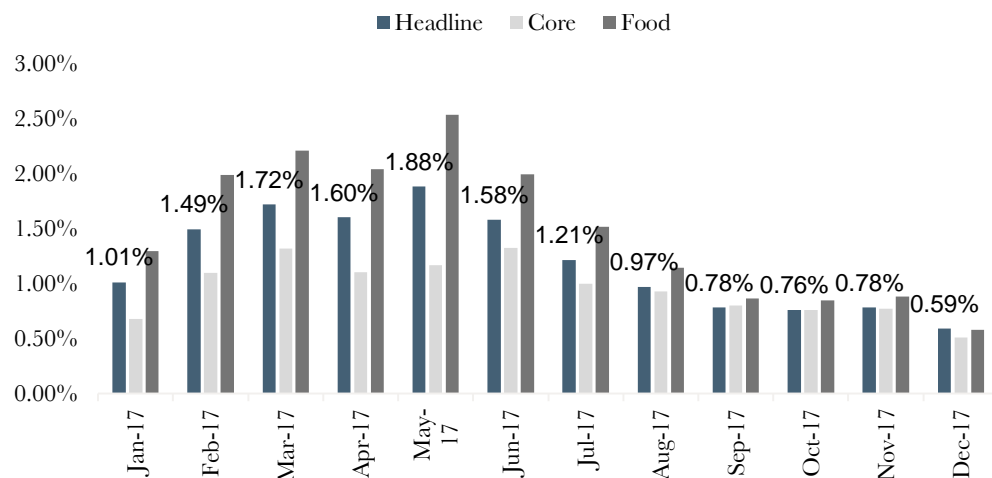
# Inflation has peaked, but downside risks remain

*Confined energy prices underpin benign core pressure while elevated transport costs wind up food inflation*



- Food inflation expanded 127bps over H2 17 to 19.24% YoY.
- Core inflation dipped 274 bps to average 12.18% YoY over H2 17 with education, Housing, Water, Electricity and other Gases and Fuel (HWEGF) and transport inflation as the key drivers.
- The latter two divisions recorded sharp YoY declines in July following the NNPC's strategic decision to crash nationwide diesel prices by 42% in late June.
- Over H2 17, MoM headline inflation trended lower (-70bps to 0.59% MoM).
- Food inflation declined over H2 17 (-104bps to 0.58% MoM) due to higher food output in the harvest months.
- Farm food inflation (H2 17 average: -109bps to 0.69% MoM)
- The deceleration in core (-32bps to 0.51% MoM) reflects ebbing pressures which captured the absence of fresh supply shocks and gains from FX liquidity pass-through.
- Energy inflation – biggest decliner in the core basket (-51bps to 0.57% MoM)

## Historical MoM Headline Inflation

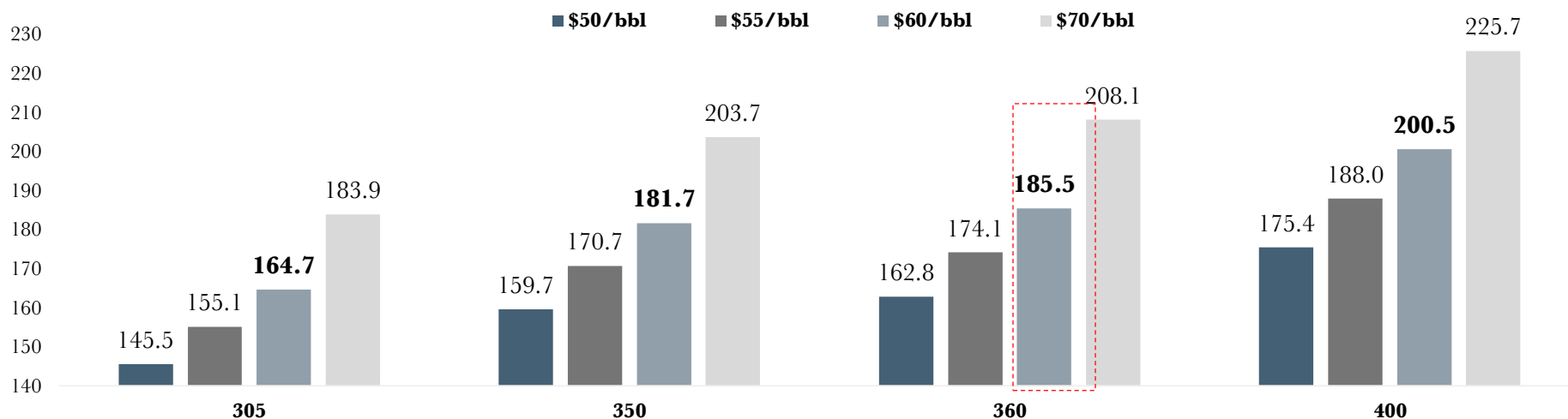


## Transport inflation to dictate headline trajectory over 2018

*Despite prospect for price hikes, we hold the view that energy prices will be managed in 2018 to quell political uprising and garner political popularity*

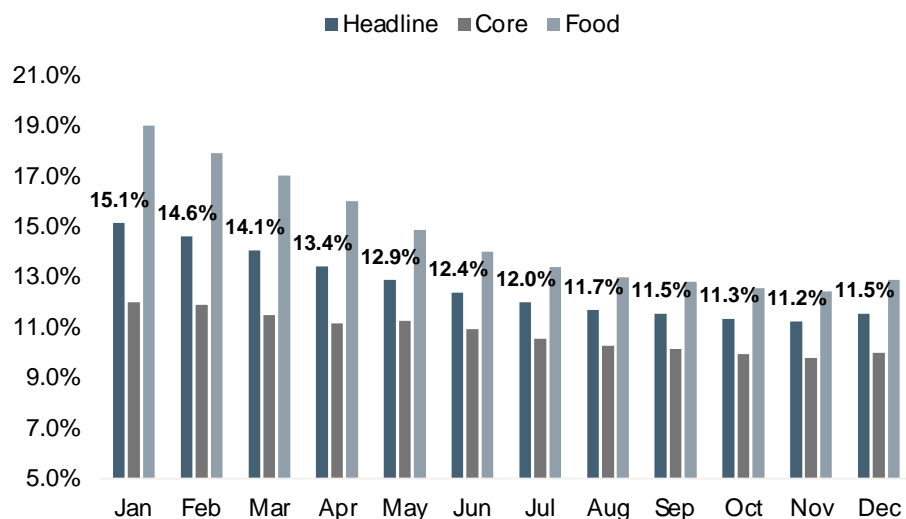
- In setting out our view on inflation over 2018, currency, though indirect, remains central. We narrow the scope of potential shocks on core inflation in the forthcoming year to higher electricity tariffs, rising energy prices and elevated cost of transportation.
- As it stands, using the PPPRA pricing template, the current landing cost of PMS is N164.7. Nevertheless, we hold the view that PMS, diesel, and electricity prices will be managed in 2018 to quell political uprising and garner political popularity against the impending 2019 elections.
- On food inflation, the waning impact of currency-induced jump in food prices which posed a high base over H1 17 suggests a moderation for food inflation in 2018. FEWSNET reports that farmers responded favorably to the elevated domestic prices with aggregate production of major cereals (such as maize, millet, rice, and sorghum) higher than historical levels to drive moderation in prices.
- On the downside, the scale of the decline in food inflation will be tapered by structural bottlenecks in transportation costs.

Changes in PMS prices for different crude price and USDNGN assumptions

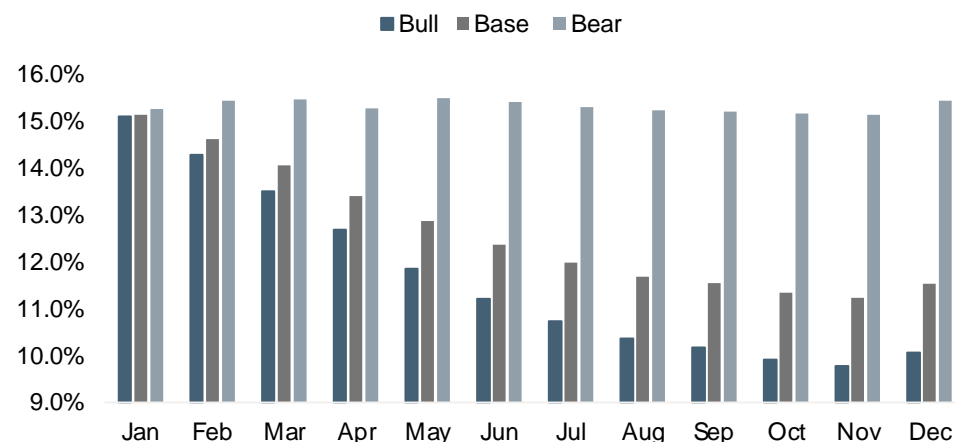


*Summing up developments across both core and food inflation sub-components and adjusting for their respective weightings in the CPI basket, we project mean headline inflation to hover around 12.7% YoY over 2018 (2017: 16.55%).*

Inflation forecast for Jan-Dec 18 (Headline, Core and Food)



Inflation forecast for Jan-Dec 18 (Bull, Base and Bear)



Source: ARM Research

Source: ARM Research

### 2018 Average YoY

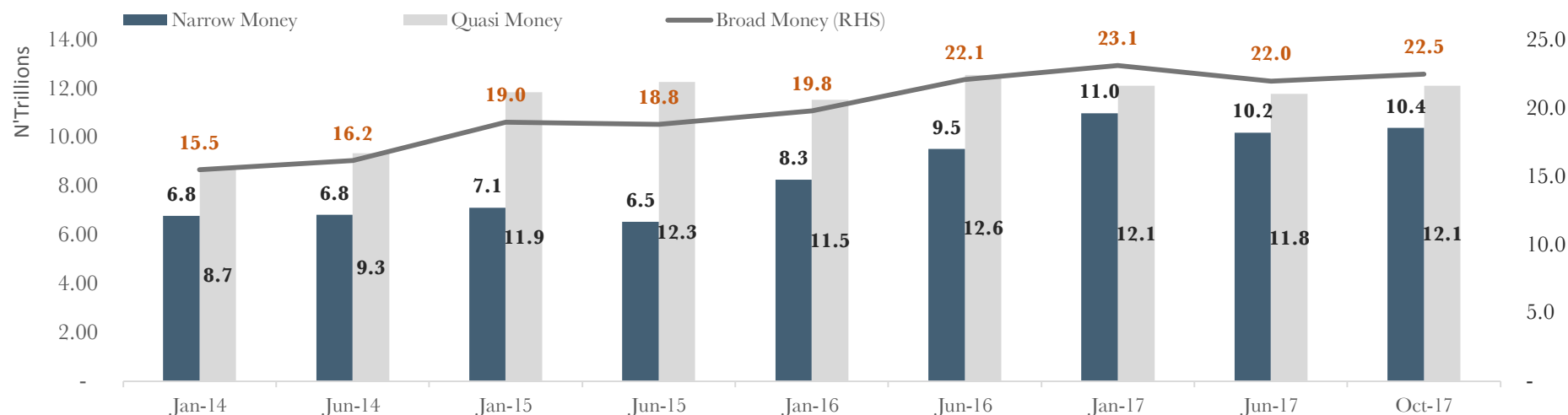
<b>Base</b>	<b>12.70%</b>
<b>Bull</b>	<b>11.60%</b>
<b>Bear</b>	<b>15.30%</b>

### Scenario analysis for inflation forecast over 2018

Weights	2014	2015	2016	2017
Bull	40%	40%	0%	20%
Base	30%	35%	15%	20%
Bear		20%	40%	40%

# Monetary Policy: Turning back the clock on monetary easing

*In contrast to the first half of 2017 where impact of monetary tightening weighed on monetary indicators, the second half of 2017 saw an expansion in monetary indicators.*

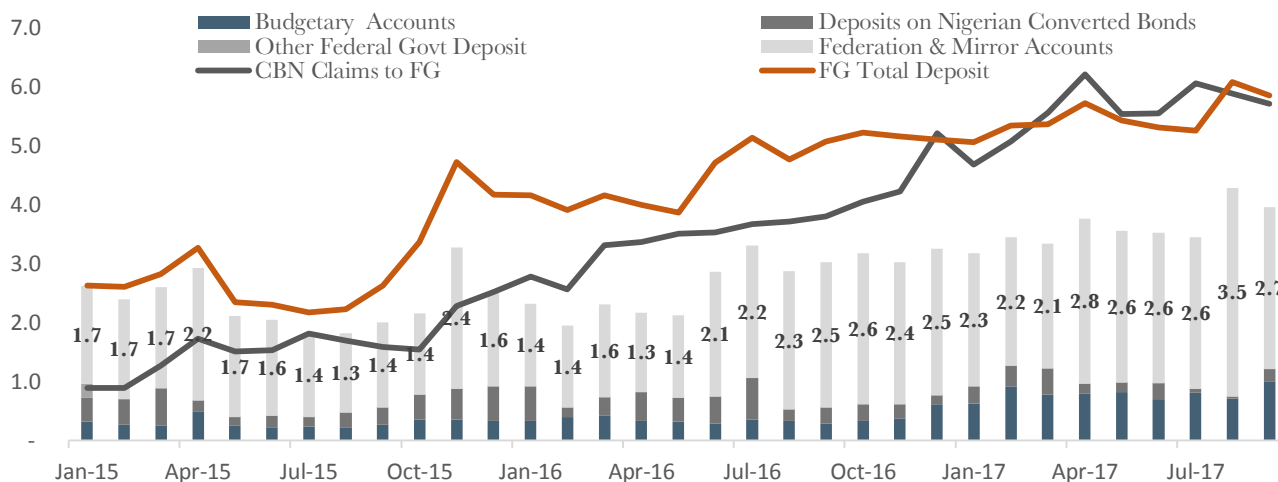


- This expansion largely reflected the change of posture by the CBN towards a more accommodative policy stance given that the CBN ceased issuance of the one-year OMO and gradually reduced clearing rates at the OMO auctions.
- Specifically, broad money (M2) grew at 2.4% to N22.5 trillion in H2 with annualized reading of 8.3% slightly lagging behind CBN's target of 10.9% for 2017.
- Parsing through the breakdown reveals expansion in both constituents of M2 - quasi money (+2.7%) and narrow money (+2.0%).
- The expansion in narrow money (M1) emanated from demand deposit (+2.5%) while currency outside the banking system fell by 90bps over the period. The expansion in demand deposit reflected higher private sector deposits at the CBN (+2.0% to N2.6 trillion) which neutered lower deposit at commercial banks and merchant banks.
- For quasi money, the growth reflected expansion in time and savings (+3% to N11.9 trillion) underpinned by higher deposit at Commercial banks (N11.6 trillion) and merchant banks (N200 billion).
- Given the decline in foreign currency deposits (-3.3% to N4.0 trillion), the overall expansion in time and savings deposit over H2 17 largely stemmed from expansion in naira denominated deposits (+3.1% to N7.6 trillion) as impact of currency appreciation ensured switch from foreign currency deposits to naira denominated deposit, as the attraction for dollar deposit seems to have waned with time.

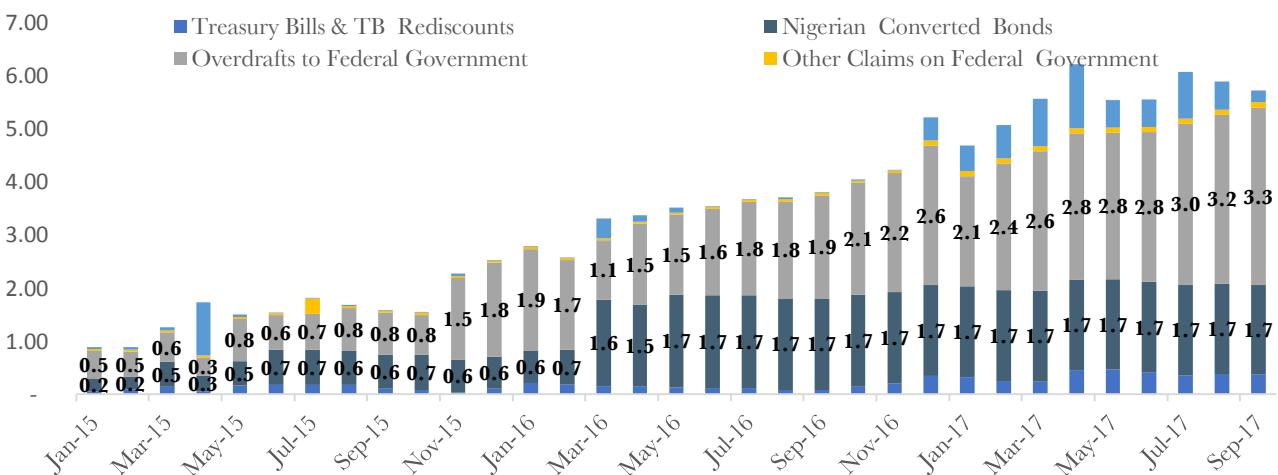


## CBN 'back-door' funding cools off

*In a clear divergence from prior period where the CBN financing to the FG grew by over double-fold and created discourse and concern in the market, the improved revenue picture for the FG has led to moderation in the apex bank's exposure to the FG*



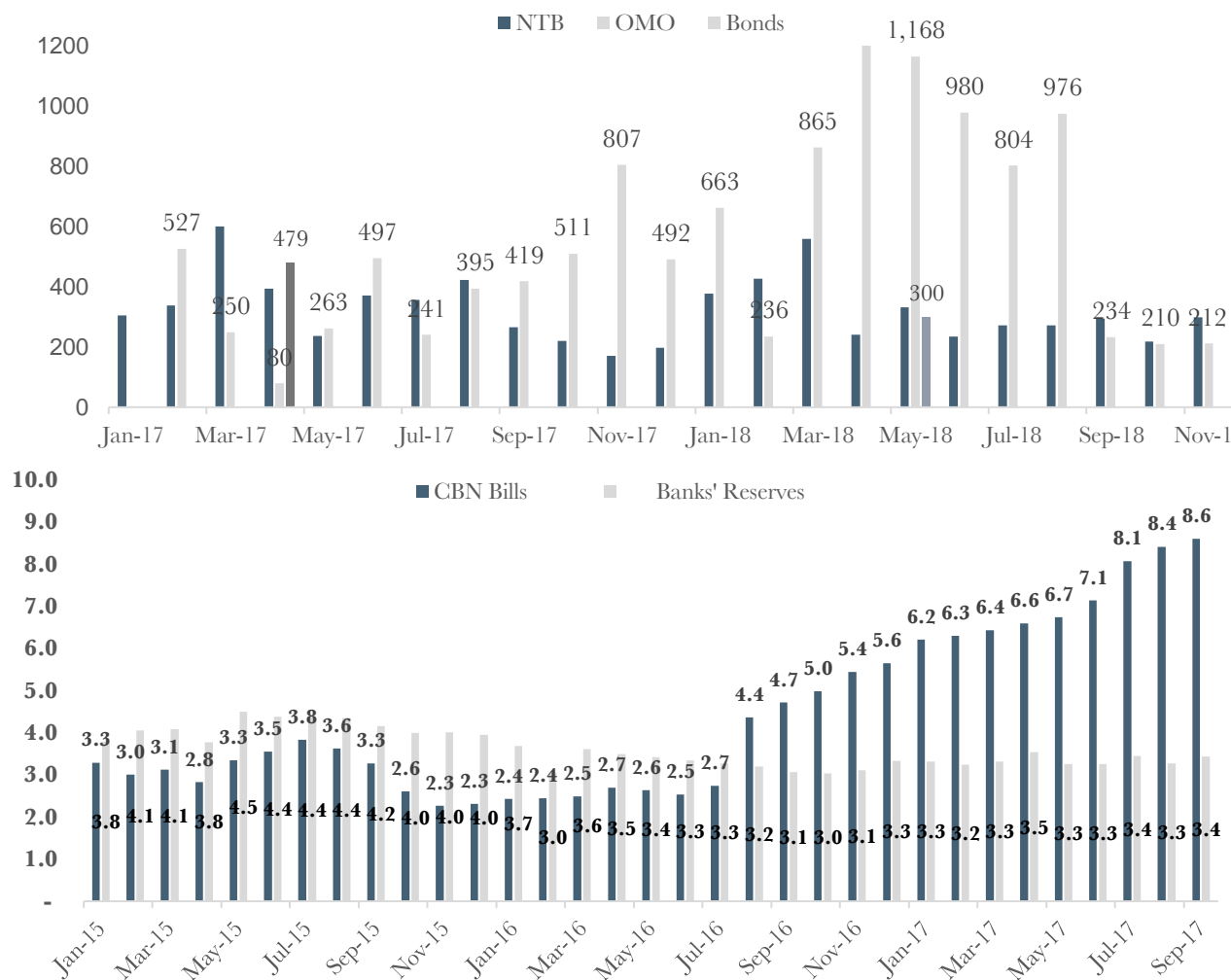
- Specifically, after rising by 107% over 2016 on the back of sharp expansion in Treasury bills (242%) and overdrafts (49%).
- CBN claims to FG expanded more modestly over 2017 by 9.6% largely driven by a slower pace of increase in Treasury bills (7.6%) and overdrafts (27%).
- Most of the expansion occurred in the 1st half of 2017 wherein revenue picture remained subdued with modest recovery.
- More importantly, FG's deposit with the CBN also expanded by 15% over 2017 to N5.9 trillion, reflecting increase in the federation & mirror account (+10% to N2.8 trillion) and budgetary account (+63% to N994 billion).
- Consequently, FG deposit with the CBN currently surpasses CBN claims to the FG, which from the surface is a breather to previously publicized concern.
- Overall, the expansion in banking sector liquidity and lowering of short-term rates (via moderated OMO intervention & lower T-bill rates) while expanding liquidity into the economy with lower backdoor FGN financing, suggest an easing posture by the monetary authority.



# How will the apex bank manage impending liquidity?

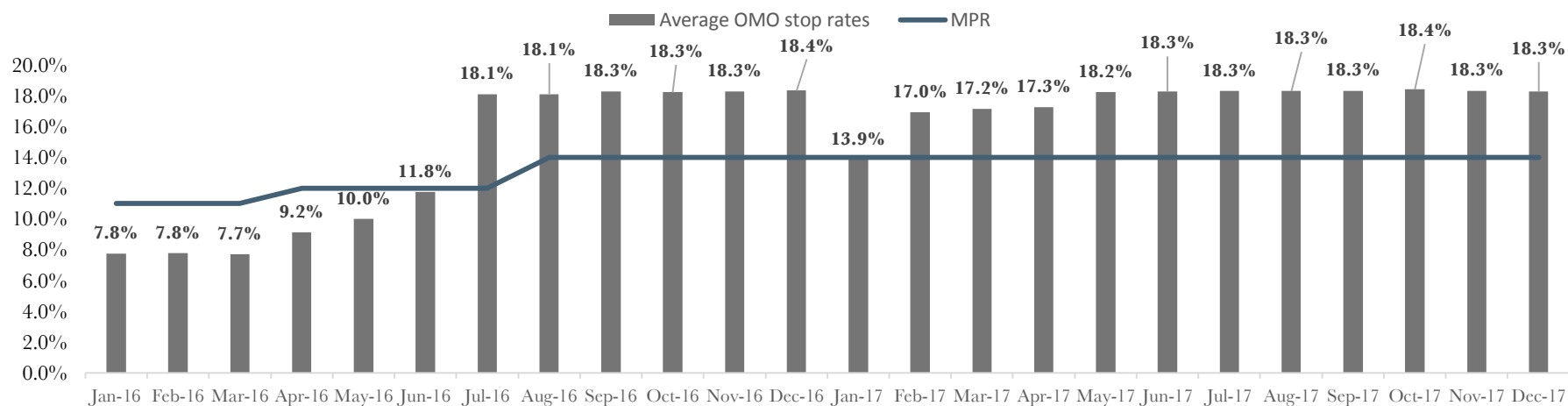
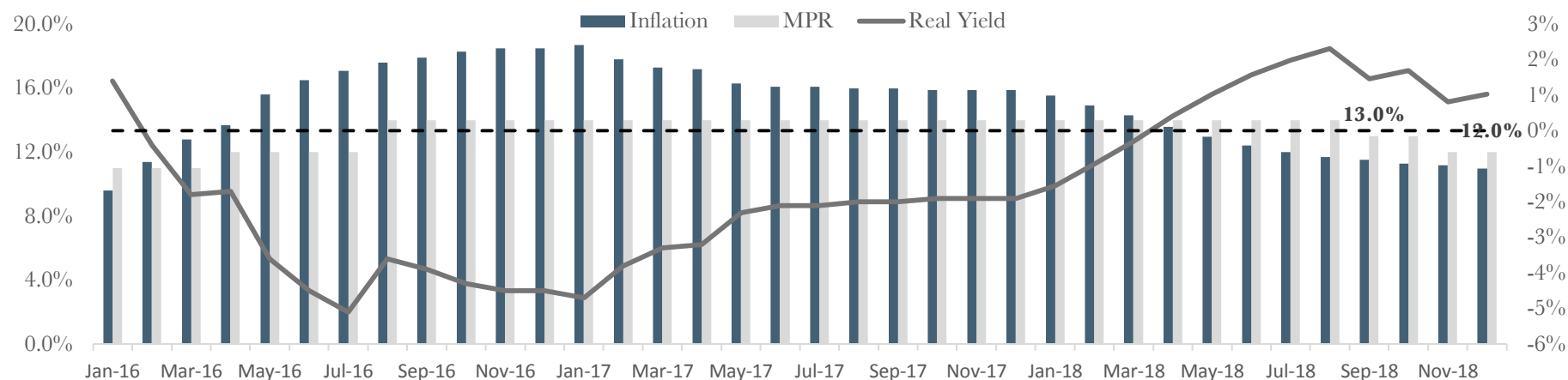
*Over 2018, the monetary policy looks set to grapple with an elevated liquidity profile from maturing bills and bonds.*

- Total of N6.6 trillion from maturing OMO bills, N2.6 trillion maturing Treasury bills, and ~N300 billion from maturing bonds,
- In framing our outlook, we assume that the fiscal authorities stick with refinancing of maturing treasury bills via Eurobond Issuance of \$3 billion.
- The balance of \$2.5 billion which equates to ~N900 billion is just 35% of the overall maturity of N2.6 trillion and we assume the FG rolls over the balance of N1.7 trillion.
- Consequently, the CBN will have to grapple with liquidity profile of ~N7.8 trillion.
- To our minds, with lesser justification to finance the FG and grow its asset base, we think the CBN will be under less pressure to increase its liabilities at high rates.
- More so, the macro picture has improved, particularly the currency picture, and thus signals less pressure from the CBN to mop-up impending liquidity.
- On balance, we think the CBN will at best rollover its maturing bills while leaving the system liquid from maturing treasury bills and bonds.
- Irrespective, any possible shock on Inflation from higher PMS prices may force the CBN to hike the CRR in a bid to rein in on inflationary pressure.



# Naira stability and subdued inflation underpin dovish rate outlook

*We see increased prospects for easing as real yields expand in 2018.*



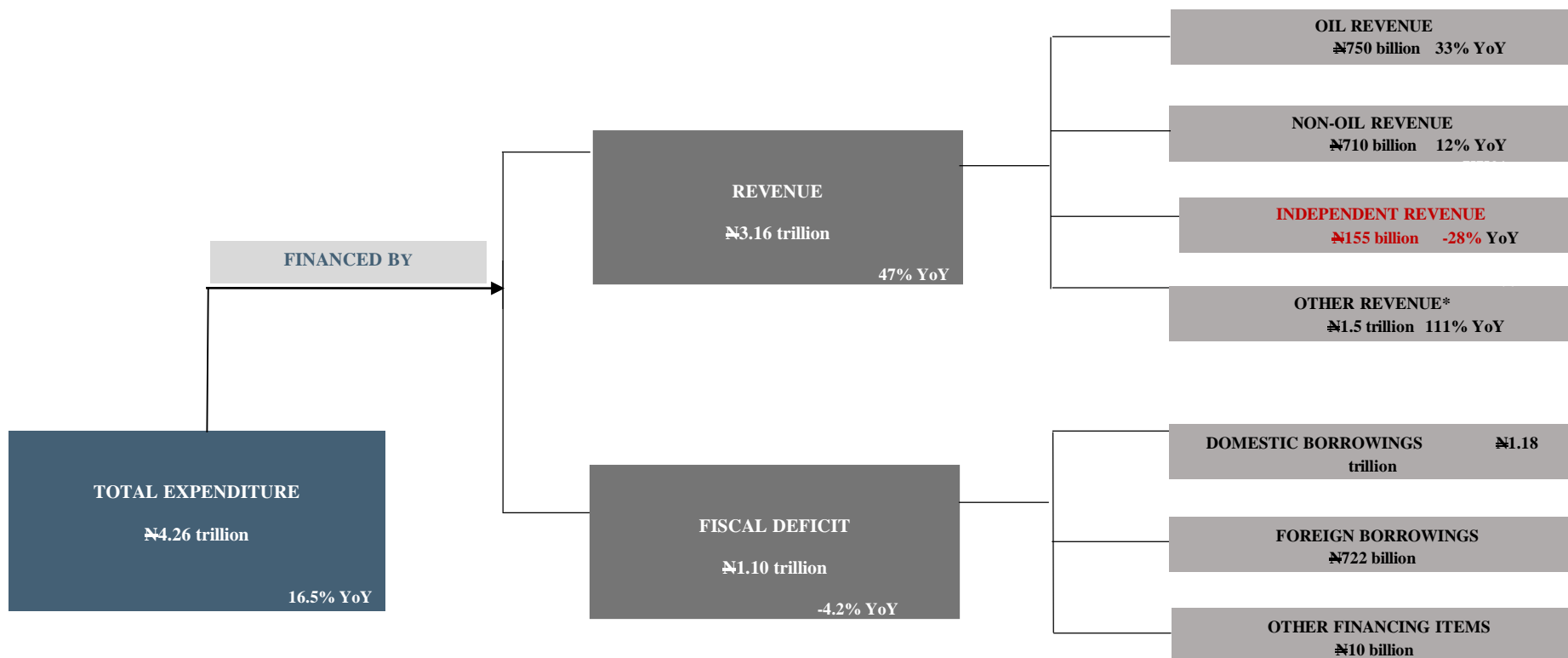
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# Federal Revenue Growth Shows Signs of Life

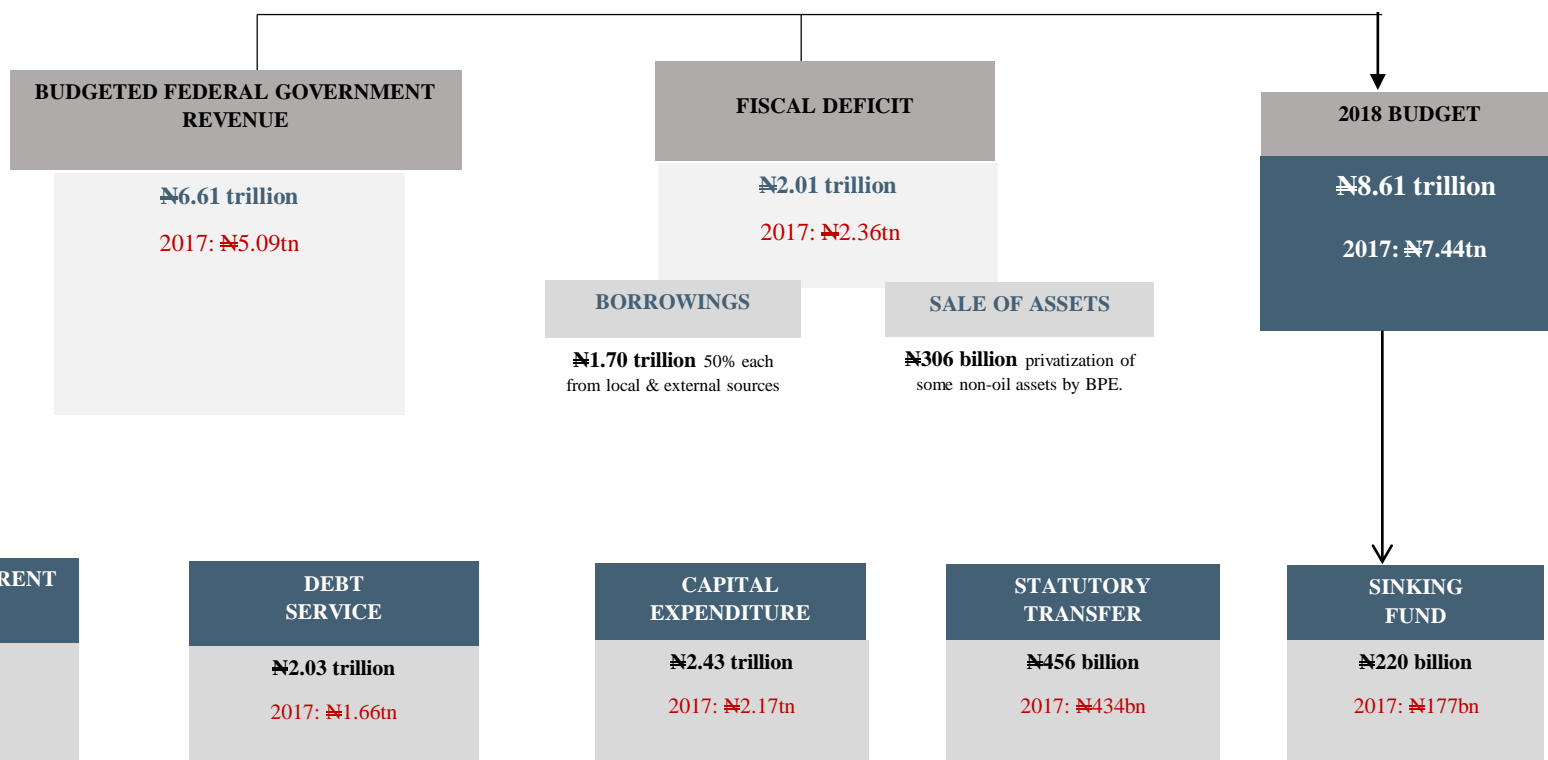
*Over the nine-months of 2017, federal retained revenue surged to N3.2 trillion – 50% higher than actual revenue in 9M 16, though 4% lower than the pro-rated budget projections.*



Source: Budget Office, ARM Research

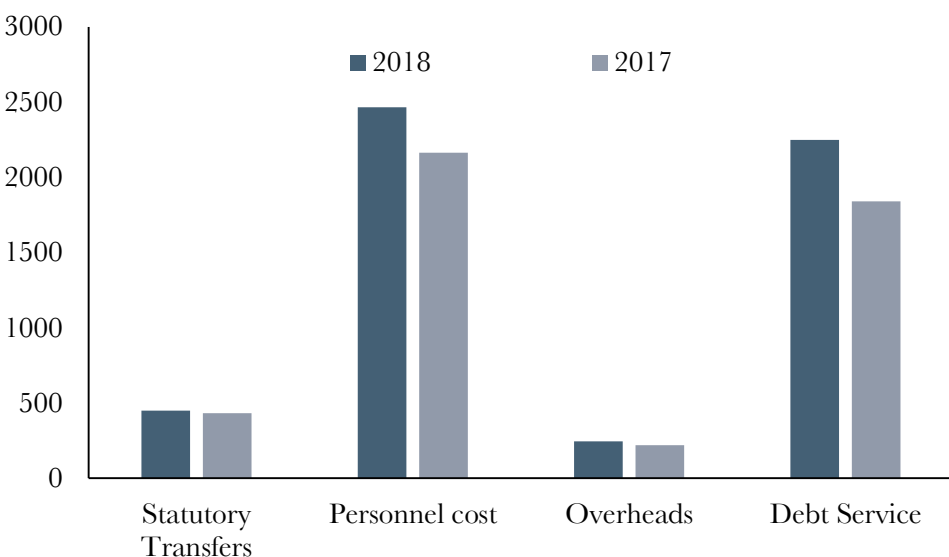
\* Includes Paris Club refund worth ₦467 billion and transfer from capital development fund worth ₦626 billion

**2018 Budget: Record high expenditure but implementation is key to stimulate the economy**



## 2018 Budget: Record high expenditure but implementation is key to stimulate the economy

- Focusing on expenditure, the increase, to a large extent, is planned to go into debt service (+21.3% YoY) and non-debt recurrent expenditure (+16.8% YoY) even as other expenditure components including capital expenditure and Statutory Transfers are projected to increase, albeit modestly.
- On non-debt recurrent expenditure, the breakdown reveals an increase of 12.2% YoY to N2.1 trillion in personnel expenses earmarked to meet promotion arrears and recruitments by the Military, Police Force and Para Military agencies.
- Other allocations under non-debt recurrent expenditure include special intervention programmes, Power Sector Reform programme, presidential amnesty programme and service wide votes which combined increased by 37.7% YoY to N1.2 trillion.



Capital Expenditure (N'billion)	2016	2017	2018
Power, Works & Housing	423.0	553.7	<b>555.9</b>
Transportation	188.7	241.7	<b>263.1</b>
Special Intervention Programmes	200.0	150.0	<b>150.0</b>
Defence	130.9	139.3	<b>145.0</b>
Agriculture	46.2	103.8	<b>119.0</b>
Water Resources	46.1	104.2	<b>95.1</b>
Industry, Trade & Investment	5.9	81.7	<b>82.9</b>
Interior	61.7	63.8	<b>63.3</b>
Education	35.4	56.7	<b>61.7</b>
Health	28.7	55.6	<b>71.1</b>
FCT	29.3	30.4	<b>40.3</b>
Zonal Intervention Projects	100.0	100.0	<b>100.0</b>
North East Intervention Fund	12.0	45.0	<b>45.0</b>
Niger Delta	19.4	34.2	<b>53.9</b>

*Actual revenue receipts may lag expectations and widen fiscal deficit*

	2018 Budget	Estimates		
		Bear	Base	Bull
<b>Oil production (mbpd)</b>	2.3	2.0	2.0	2.0
<b>Oil price (\$/bbl)</b>	45	50	60	70
<b>Exchange rate (N/\$)</b>	305	305	305	305
Oil and gas receipts (N' billion)	4,955	4,787	5,749	6,702
Net Oil Revenue (N' billion)	4,955	4,787	5,749	6,702
FG Share of oil revenue (N' billion)	2,442	2,020	2,426	2,828
Non-Oil revenue (N' billion)	1,395	881	991	1,028
FG independent revenue (N' billion)	848	251	287	450
Other revenue (N' billion)	1,654	635	705	1,450
<b>FG Total revenue (N' billion)</b>	<b>6,607</b>	<b>3,786</b>	<b>4,408</b>	<b>5,756</b>
FGN Expenditure (N' billion)	8,612	7,320	7,320	7,320
<b>Fiscal deficit (N' billion)</b>	<b>(2,005)</b>	<b>(3,534)</b>	<b>(2,912)</b>	<b>(1,564)</b>

- Going forward, we expect oil revenue to receive a boost from higher oil prices and crude production
- On the non-oil leg, we hold pessimistic views on proceeds from the sale of non-oil assets, recoveries and independent revenue which suggests that revenues could track lower than expectation
- On the other hand, higher imports and expected hike in excise duty rates on alcohol and tobacco is expected to drive custom revenue which would in turn support non-oil revenue
- In view of the mentioned, we project actual retained revenues to lag FG's projection with our base case scenario suggesting an implied fiscal deficit of N2.9 trillion in 2018.
- Underlying our fiscal deficit estimate, we have assumed budget implementation of 85%



# SUMMARY



GLOBAL	VIEW		IMPLICATION	IMPACT ON NIGERIA	
<b>Economy</b>	Positive	Economic recovery in EMs and stable growth in DMs to support global growth			
<b>Monetary Policy</b>	Negative	Global central banks are likely to unwind stimulus measures - Rate hike, Balance sheet reduction	Prospect of capital flight & Higher rates	Interest rate	
<b>Portfolio Flows</b>	Neutral	Though policy normalisation will weigh on portfolio flows over 2018, we see higher commodity prices, positive current account balances, equity valuations, interest yield differential being at such levels that the pressure on Ems will be subdued.	FPI will become more selective to EM assets. Commodity exporters and robust economic picture will be the focus	<b>Political and inflation risk will be a concern</b>	<b>Capital outflow is likely</b>
<b>Crude Oil</b>	Positive	Increased demand and Strong compliance by OPEC will support the rebalancing process - base case of \$60/bbl.	Positive for Commodity exporters/Negative for Importers	Higher oil revenue and Reserve to support fiscal and FX	<b>Prospect for higher PMS, Diesel, and electricity prices - and attendant inflationary pressure</b>
DOMESTIC					
<b>GDP</b>	Positive	Higher crude oil production, recovery in ICT, FX Liquidity and resilience in Agriculture to support growth of 1.9%	Positive sentiments but reliance on oil sector guides to long-term concerns	Structural challenges still guides to more fiscal support	<b>There is more to Economic growth than numbers</b>
<b>Fiscal Policy</b>	Positive	Higher revenue but ambitious target. Increased spending & debt consolidation	Budget 2018 will be strongly implemented in H1	Consumer spending likely to improve	<b>Real income may be depressed due to aggressive tax collection</b>
			Aggressive tax collection without increasing tax rates H2 government spending will be bugged down by political considerations	Payment to Pension arrears & Wage Increase	<b>Budget Implementation may fall short</b>
<b>Inflation</b>	Positive	Absence of supply shocks guides to moderation in Inflation (Average: 12.7%)	Downtrend in Yields on the back of expected Monetary Response		<b>International debt as a substitute for domestic will leave a question of exchange rate exposure</b>
<b>Balance of Payment</b>	Positive	Still positive to slower trade surplus and moderation in portfolio flows guides to lower BoP balance	CBN Intervention will accelerate	Accretion to the reserve raises no cause for alarm	<b>Prospect for higher PMS prices, election spending and wage review are risk to Inflation</b>
<b>FX Reserve</b>	Positive	\$1.2 billion expected monthly oil inflow to support accretion in reserve to ~\$45 billion in H1 2018, but political risk in H2 could lead to a slight depletion	Improved external sector balances	Stability in the FX market	<b>Headwinds remains crude oil prices and production</b>
<b>Monetary Policy</b>	Positive	CBN will succumb to pressure and lower interest rates by 200bps	Lower Interest Rate Environment	Debt refinancing and capital raising Positive for Equities	<b>Possible depreciation in H2 but CBN may be compelled to manage</b>
<b>Politics</b>	Negative	A case of continuity or change? Negative or Positive Change	Increased uncertainty to deter fresh investment		<b>Fiscal consolidation will be compromised as election spending kicks in</b>

# FIXED INCOME

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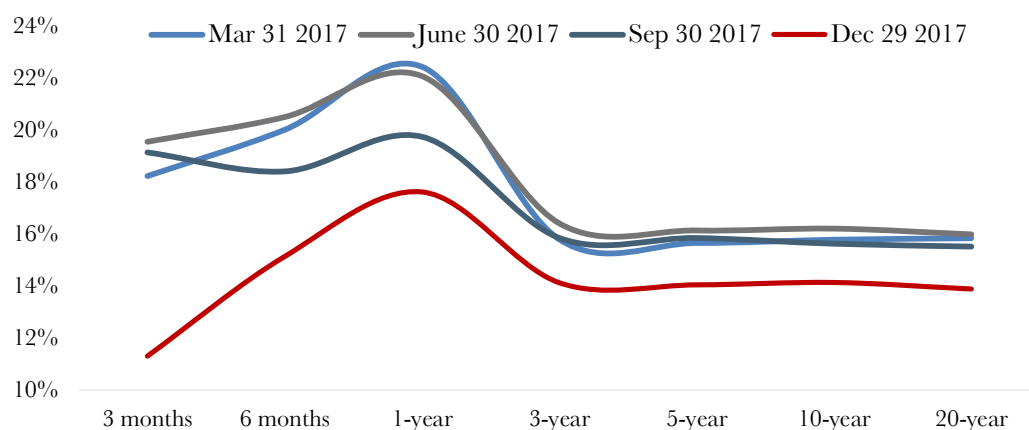


# A shift in fiscal and monetary stance drive yield downtrend

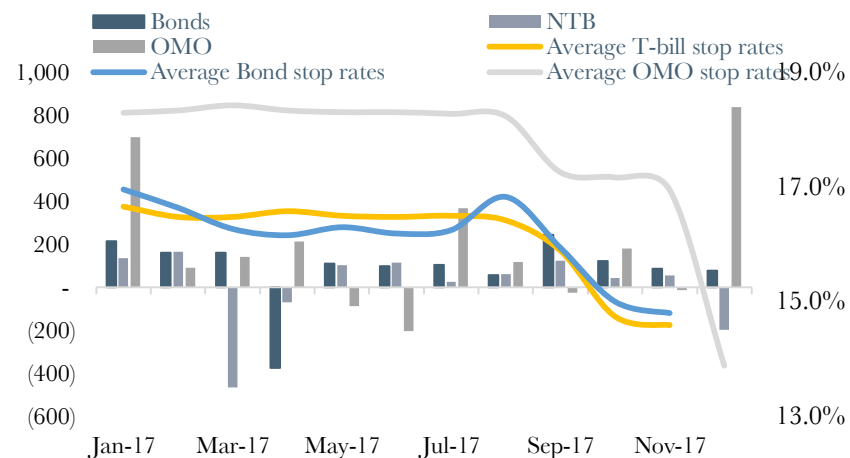
*Naira yield curve dipped (-636bps) in H2 17 tracking a swing in policy stance by fiscal and monetary authorities.*

- On the monetary leg, after a hostile strain on system liquidity via OMO issuance (net OMO issuance in H1 17: N893 billion), the CBN allowed liquidity build up into massive demand at the primary market which eventually resulted in rates decline at the primary market auction (PMA).
- For context, contrary to net OMO issuance in the first half, it was a case of net OMO maturity of N636 billion between July and November 2017.
- In addition, the CBN ceased issuance of the one-year bills at its OMO auctions, which led to a downtrend in Treasury bill yields with longer term rates dropping faster than that of shorter-term instruments
- On the other side, the fiscal authorities switched borrowing preference in favor of foreign debt and raised a total of \$4.5 billion from the external market over 2017. Consequently, total bond issuance over H2 of N692 billion was 20% lower than issuance in the first half.
- More so, the DMO withdrew the issuance of the 20-year bond and redeemed maturing Treasury bills in December (N198 billion) using \$500 million from the recently issued Eurobond proceeds (\$3 billion).

Trend in the naira yield curve



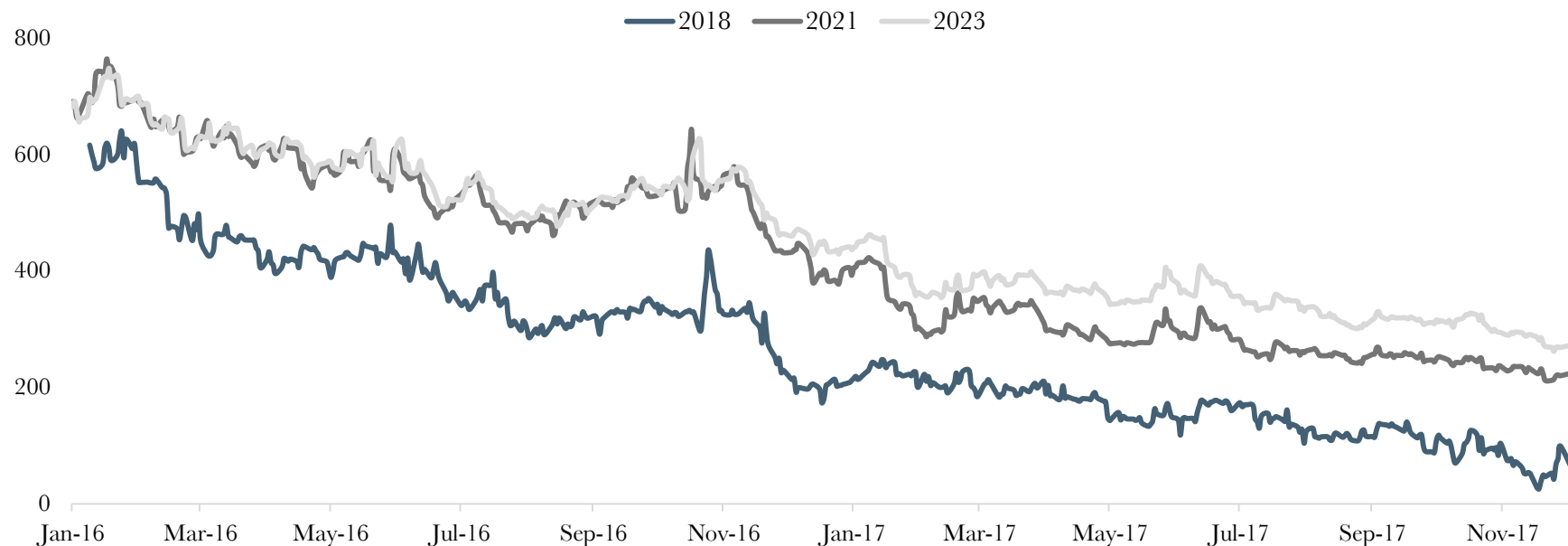
FG's Net paper issuances vs Borrowing cost



### *The reach for yield beams on sovereign Eurobond*

- Movement across Eurobond yields mimicked patterns observed in the domestic market. Average yields on the sovereign Eurobonds declined by over the second half.
- Also, similar pattern trailed Nigeria's recent issue in November (10yr and 30yr) which slipped 31bps apiece in 2017.
- The rally in dollar bond prices emanated despite ratings downgrade and rate normalisation in the US that has narrowed the Z-spreads to comparable US treasuries by 1700bps over H2 2017.
- Overall, the pattern across Eurobond yields reflects positive sentiments trailing improved external sector balances. Insert footnote on the rating decision

#### Nigeria's sovereign z-spreads to comparable US treasuries



# Liquidity influence meld into prior dovish yield outlook

*Tying it all together, we see downward slope in the naira yield curve over 2018 with dovish monetary policy and elevated repayment cycle creating a gravitational pull on yields.*

- We expect the monetary policy to loosen its grip, over 2018, with an expected cut in MPR to 12% in H2 2018. In addition to the foregoing, monetary policy also looks set to grapple with an elevated liquidity profile for NTBs and bonds over 2018.
- This view would sit well with a fiscal side, now inclined to reduce its borrowing cost, should result in more forceful fiscal pressures on the apex bank to adopt an accommodative stance given its renewed attempts at economic stimulation.
- More so, given FG's appetite for external borrowings to fund the budget and refinance maturing treasury bills, the combination of lower bond issuance and net NTB maturity, is expected to drive a gravitational force in rates.
- To estimate the quantum of domestic FG's debt over 2018, we use our base case budget deficit estimate of N2.9
- Our base case assumes successful asset sale of N306 billion and Eurobond issuance of \$4 billion (\$2.5 billion - maturing treasury bills, \$1.5 billion budget support). Consequently, the FG would need to raise N1.2 trillion (Gross: N1.5 trillion, maturity: N302 billion) in 2018 from the bond market. This scenario assumes N200 billion of CBN funding to the government.

N'billion	(Asset sale + \$4.7 bn foreign debt)	Asset sale + \$3.3 bn foreign debt	Asset sale + \$4 bn foreign debt	Asset sale + \$3bn foreign debt	Asset sale + \$2.5bn foreign debt	Asset sale + \$2bn foreign debt	No asset sale + \$2.78 bn foreign debt	No asset sale + \$1.5 bn foreign debt	No asset sale + \$1 bn foreign debt
<b>Projected deficit</b>	<b>2,900</b>	<b>2,900</b>	<b>2,900</b>	<b>2,900</b>	<b>2,900</b>	<b>2,900</b>	<b>2,900</b>	<b>2,900</b>	<b>2,900</b>
Sale of Assets	306	306	306	153	153	153	-	-	-
Foreign Borrowings	1,434	1,000	1,220	915	763	610	850	510	305
Domestic Borrowings	1,161	1,594	1,374	1,832	1,985	2,137	2,050	2,390	2,595
CBN ways and means*	220.6	221	221	221	221	221	221	221	221
<b>Borrowings from capital market</b>	<b>939.9</b>	<b>1,373</b>	<b>1,153</b>	<b>1,611</b>	<b>1,764</b>	<b>1,916</b>	<b>1,829</b>	<b>2,169</b>	<b>2,374</b>
2017 net issuance**	1,268	1,268	1,268	1,268	1,268	1,268	1,268	1,268	1,268
YoY increase (N billion)	- 328	105	- 115	343	496	648	561	901	1,106



Thank you