

LBS Breakfast Session

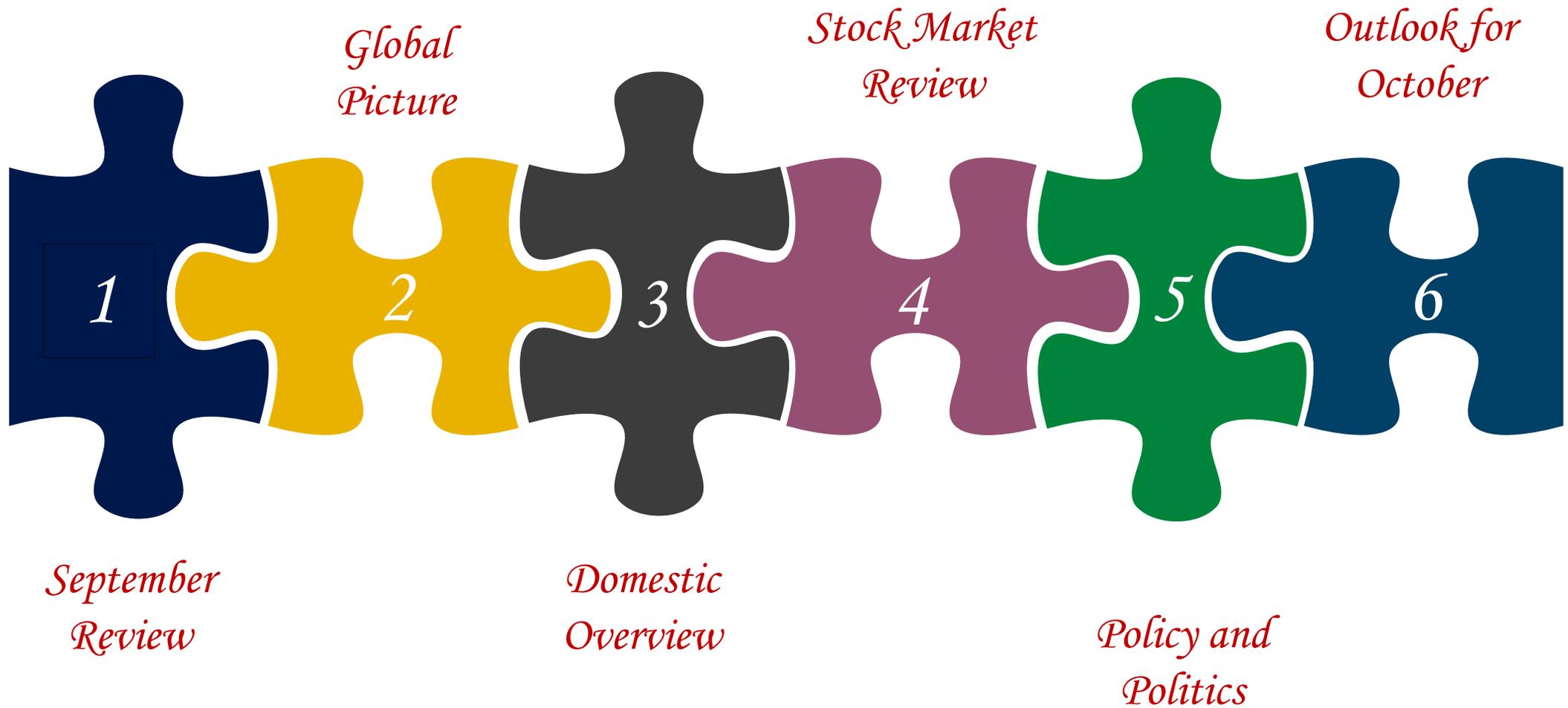
*No Stability, No Democracy
Bumpy Road Ahead
Fasten Your Seat Belts*

*Presented by Bismarck Rewane
CEO, Financial Derivatives Company Ltd.*

October 3rd, 2018



A September to Remember



September Review

External Imbalances

September Review

- ❑ Oil hits a four and a half year high of \$85pb
- ❑ A few optimists are talking three-digit oil prices again
- ❑ A hail Mary pass for Nigeria
- ❑ At a time of growing external imbalances
- ❑ Production up marginally to 1.73mbpd
- ❑ Estimated revenue for October- \$7.5bn - \$8bn
- ❑ No force majeure during September



September Review

- ❑ Rig count fell to 14 as cargo lifting slows
- ❑ US Federal Reserve increases benchmark rate by 25 basis points
- ❑ US dollar strengthens against a basket of currencies
- ❑ It has gained 0.85% against the euro in 12 months and 3.31% against the Chinese yuan
- ❑ The naira traded relatively flat at the parallel market at N361/\$
- ❑ Depreciated 0.23% in the I/E window

September Review

- ❑ The CBN intervened with \$1.04bn in September
- ❑ 30.67% lower than August (\$1.5bn)
- ❑ Confirming the determination to defend the currency but also protect the reserves
- ❑ CBN tacitly devalued the naira in the wholesale window to N357/\$ from N340
- ❑ The level of FPI outflows from the NSE increased
- ❑ Foreign investor participation in the NSE increased to N71bn



September Review

- ❑ External reserves bled 3.18% falling below \$44.4bn
- ❑ Export prices percentage change now 35.5%
- ❑ As against import price percentage change of 16.3%
- ❑ Exporters closed November forward transactions at N365/\$
- ❑ Terms of trade for 2018 up by 16.52% to 26.8



The background of the slide is a collage of financial-related images. It features several silver coins scattered across the frame. Overlaid on the coins are two line graphs: one in the upper left quadrant showing a fluctuating line, and another in the lower right quadrant showing a line that trends upwards. The overall color palette is a mix of metallic greys, silvers, and light greens.

A September to Remember!

Monetary Issues

September Review

- ❑ The erosion of capital flows is being buoyed by higher oil revenues
- ❑ M2 growth increased by 4.47% annualized
 - ❑ With minimal transmission impact on price level
- ❑ Headline inflation changed direction, increasing 0.09% to 11.23%
 - ❑ First time in 18 months and is a point of inflection
- ❑ CBN maintained status quo for the 13th time
- ❑ As the lesser of two evils – between more tightening and keeping the noose tight

A September to Remember!

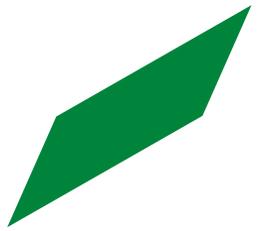


Impact on Corporates

September Review

- ❑ CBN pulls the plug on Skye Bank, using a bridge bank, Polaris
- ❑ Stock market lost 5.97% in September
 - ❑ Partly due to tepid earnings but more from the post MTN and Skye Bank jitters
- ❑ PMI fell marginally to 53.7, driven by further inventory destocking for Christmas
- ❑ Supermarket traffic declined by over 10%
 - ❑ Partly due to flooding and poor road maintenance in the Lagos metropole

September Review



- ❑ Higher than usual rainfall for September
- ❑ Airline traffic load factors high but passenger traffic falls
- ❑ 2.2% fall in passenger traffic in the first eight months of 2018 to the USA
 - ❑ After spiking 23% in the first six months of 2018
 - ❑ Base year effects of Abuja airport closure reduced capacity and traffic
- ❑ Nigeria suspends the national carrier project for unknown reasons
- ❑ Labour calls a warning strike on minimum wage
 - ❑ Called it off after an “agreeable meeting”

September Review

- ❑ FAAC creeps up by 3.8% to N741.8bn on higher oil revenue
- ❑ Average opening position of the banking system up by 24.86% to N423.23bn
- ❑ Overnight interbank rates swung between 3% -19%



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Global Picture

US: Fed Increases Benchmark Rate

- ❑ US Fed has signaled an end to the era of “accommodative” monetary policy
- ❑ Raised the benchmark interest rate by 25bps to 2.25% per annum for the third time this year – in line with expectations
- ❑ Another rate hike expected in December and three more in 2019
- ❑ Forecasts faster-than-expected GDP growth of 3.1% this year and moderate expansions for at least three more years
- ❑ Unemployment is projected to fall further from 3.9% to 3.5% and be sustained through 2020
- ❑ Inflation to stay stable near its 2% target

Amazon raises Minimum Wage

- ❑ Amazon.com agrees to lift its minimum wage to \$15 per hour or \$120 per day (N43,200 per day)
- ❑ Compared to Nigeria, asking for \$10 per day (N3,600)



US: Trade War Just Got Bigger

- ❑ Stakes have been raised further in escalating trade war with China
- ❑ Latest round of tariffs is 10% on \$200bn of Chinese products – set to increase to 25% by year-end
- ❑ China has accused the US of “trade bullyism”
- ❑ Plans to impose tariffs on 5,207 US products worth about \$60bn
- ❑ In total, the US has imposed three rounds of tariffs on Chinese products totaling \$250bn
- ❑ US said the ultimate goal is to achieve free trade with zero tariffs and subsidies on both sides
- ❑ Escalating trade war threatens to derail the global supply chain

US: Out with NAFTA, in with USMCA

United States–Mexico–Canada–Agreement

- ❑ Trilateral pact with Canada and Mexico rescues \$1.2trn open-trade zone
- ❑ Deal is aimed at bringing more jobs to the US – big win for Trump before the mid-term elections
- ❑ Attempts to make the region more competitive vs. Asia & Europe
- ❑ Leaves North American trade flows largely unaltered
- ❑ The deal forces auto companies to produce more in the US or Canada – as against producing cheaply in Mexico
- ❑ US tariffs on steel and aluminum from Canada and Mexico to remain



US Equity Markets

- ❑ No profit, no problem in IPO market - stock investors are welcoming money losing companies, says the Wall Street Journal
- ❑ Approximately 83% of US listed IPOs in 2018 lost money in the last 12 months
- ❑ Analysts and market watchers are concerned of another bubble in the making



EU: Trade War hits Growth

- ❑ Growth losing steam as European factories saw diminished demand amid Brexit tremors
- ❑ PMI fell to 53.2 in September from 54.6 – lower than analysts' forecasts
- ❑ Stagnation of exports contributed to one of the worst months in almost two years
- ❑ Uncertainty around both the Italian budget and Brexit deal likely to weigh on GDP growth in H2' 18
- ❑ Loose monetary policy and a weaker euro will continue to be growth-supportive
- ❑ Increasing wages should gradually exert some upward price pressures

UK

- ❑ “No deal” Brexit would entail substantial costs for the UK – IMF
- ❑ The larger the impediments to trade, the costlier
- ❑ Possibility of a “no deal” Brexit six months before exit from the EU is a major economic concern
- ❑ A “crash” out of the EU would lead to reduced GDP growth, a wider deficit and a depreciation in the pound
- ❑ Causing the economy to contract
- ❑ GDP growth to reach 1.5% in 2018 if broad Brexit agreement is struck

Impact

❑ On Nigeria

- ❑ Nigeria's trade with Britain will increase with soft or hard Brexit
- ❑ Nigeria's trade with commonwealth countries will be stronger
- ❑ Concessioning funding from commonwealth sources
- ❑ While reaping from EU- Merkel & May's visit to Nigeria



❑ On Corporates

- ❑ International financing will become more expensive
 - ❑ Companies likely to hedge on forex-denominated transactions
- ## ❑ Likely Policy Action
- ❑ CBN may respond by tightening further – lending rates to increase further



Sub-Saharan Africa

South Africa: President outlines Stimulus Measures

- ❑ President Ramaphosa has launched a 450bn rand (\$31.4bn) economic stimulus and recovery plan
- ❑ Needs faster growth to create jobs, lower unemployment (27%), and lower poverty and inequality ahead of elections in 2019
- ❑ Stimulus will focus on funding infrastructure, boosting growth and creating jobs
- ❑ Fitch says measures to support growth may be related to long-standing policy ideas that have been slow to implement
- ❑ “Balancing growth promotion, pressure to address inequality and fiscal consolidation could be challenging if growth does not recover ” – *Fitch*

Ghana: Nominal GDP 25% larger after Rebasing

- ❑ Changed its base year from 2006 to 2013 and included new data sources to better reflect economic structure
- ❑ Data now accurately reflects activity in its petroleum, communication technology and construction sectors
- ❑ The rebasing means that current GDP value including oil is estimated at 256.67bn cedis (\$58.9bn), up from 123.65bn cedis
- ❑ GDP growth for 2017 lowered from 8.5% to 8.1%
- ❑ Per capita income rose to 8,863 cedis (\$2,035) in 2017, compared to 4,679 cedis at the last rebasing in 2013



Domestic Economic Performance
September to Remember, October to Shudder

Economic Indicators

Leading Economic Indicator	August	September	% Change	Impact	October's Forecast*
YTD M2 growth (%)	4.04 (July)	2.98 (August)	-1.06	Still below CBN's benchmark of 10.48%	3-3.5 (September)
Average Opening Position (N'bn)	338.96	423.23	24.86	Lower interest rates & weaker naira	300-400
FAAC (N'bn)	714.8	741.8	3.8	Would clear salary backlog and boost consumer disposable income	700-750
T Bills (91 days) (%) – Primary	11.00	11.00	-	Would increase government debt service	11.00
T Bills (182 days) (%) – Primary	10.40	12.20	+1.8		12-12.5
Average NIBOR (%) (OBB, O/N)	9.14	7.69	-1.45	In tandem with increased naira liquidity	9-12
Average Lending Rate (%) (pa)	18.00	18.00	-	Still high, lower lending rates needed to boost activities in the real sector	18-21
Inflation (%)	11.14 (July)	11.23 (August)	0.09	Increased commodity prices would reduce consumer disposable income	11.53 (September)
PMI	FBN: 54.8 CBN: 57.1	FBN: 53.7 CBN: 56.2	-2.01 -1.58	PMI to remain in the expansion territory ahead of festive sale surge	53-54 57-57.5
Oil Price (\$pb; avg)	73.81	78.78	6.73	Oil price above \$80pb is positive for fiscal and dollar accretion	80-82

Economic Indicators

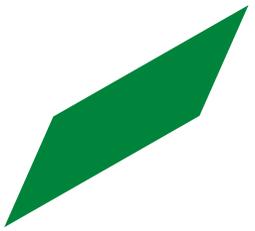


Leading Economic Indicator	August	September	% Change	Impact	October Forecast*
Oil Production (mbpd)	1.65 (Jul)	1.73 (Aug)	4.85	Higher production + higher oil prices is positive for dollar and fiscal revenue	1.65-1.70 (Aug)
Power (MW; avg)	3,660	3,514	-3.99	Average output still below 4,000MWh/hour	3,600-3,800
Natural Gas (\$/MMBtu; end)	2.92	3.04	4.11	Would boost export revenue	2.5-3.0
External Reserves (\$bn) (end)	45.84	44.38	-3.18	FPI outflows weighing on external reserves, currency weakness imminent	40-43
Exchange rate (N/\$; month-end)	Parallel : 361 IFEM: 306.15 IEFX: 362.64	Parallel: 361 IFEM: 306.35 IEFX: 363.92	- 0.07 -0.35	Stable exchange rate is good for manufacturers. Outlook is for a weaker naira	Parallel: 360-362 IFEM: 306.50 IEFX: 364-365
Stock Market Cap (N'trn)	12.72	11.96	-5.97	Saddled with capital outflows owing to political uncertainty	11.50-12.00

*: FDC's Forecast

Leading Indicators, Impacts & Outlook

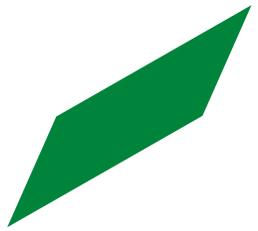
Directionally negative, nominally positive



- ❑ The most potent indicators with maximum positive impact are: average opening position, FAAC, oil price, oil production and natural gas price
- ❑ Oil price at almost 5-year high pushing revenues towards \$7bn-\$8bn in October
- ❑ Replenishing the outward investor flows
- ❑ Providing artificial floor for the external reserves at \$43bn

Leading Indicators, Impacts & Outlook

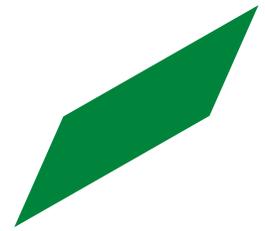
Directionally negative, nominally positive



- ❑ The naira is now trading in a converging, concentric range, close to fair value
- ❑ Its PPP value is N336.01/\$, showing an undervaluation to the IE rate (N363/\$)
- ❑ External imbalances and weaker external reserves are putting the currency under pressure
- ❑ If oil price remains above \$86pb for another 6 weeks
- ❑ Naira will be stable at current rates – N363/\$ (IE window)

Leading Indicators, Impacts & Outlook

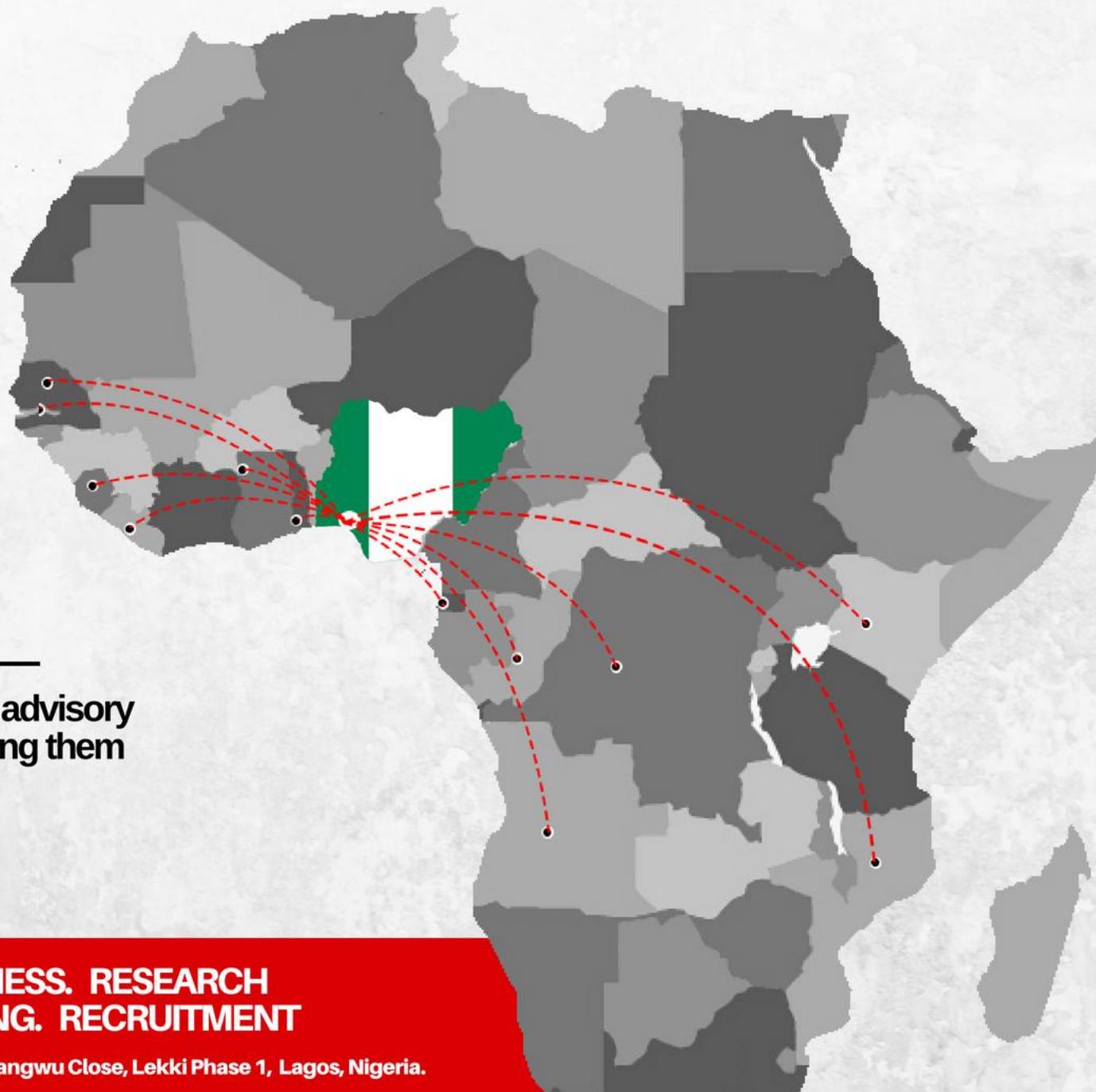
Directionally negative, nominally positive



- ❑ The interest rate/inflation differential is now naira negative at 0.6%
- ❑ Meaning that interest rates are likely to increase in Nigeria
- ❑ Inflation in Nigeria will spike by 2-3% after the minimum wage
- ❑ Lending rates up from 18%p.a to 20%p.a for investment grade credit
- ❑ Lending is now interest rate inelastic
- ❑ CBN intervention lending, not enough but goes a long way



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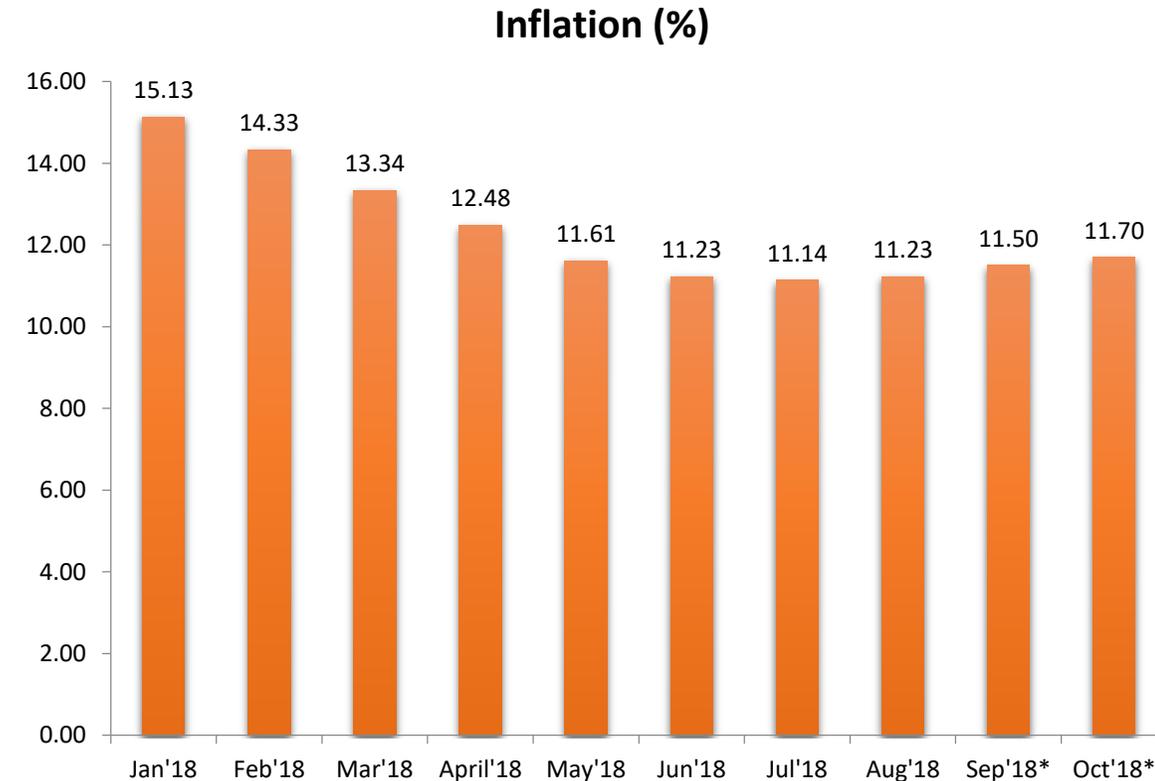
Domestic Production Economy



Inflation Reverses Downward Trend

Source: NBS, FDC Think Tank

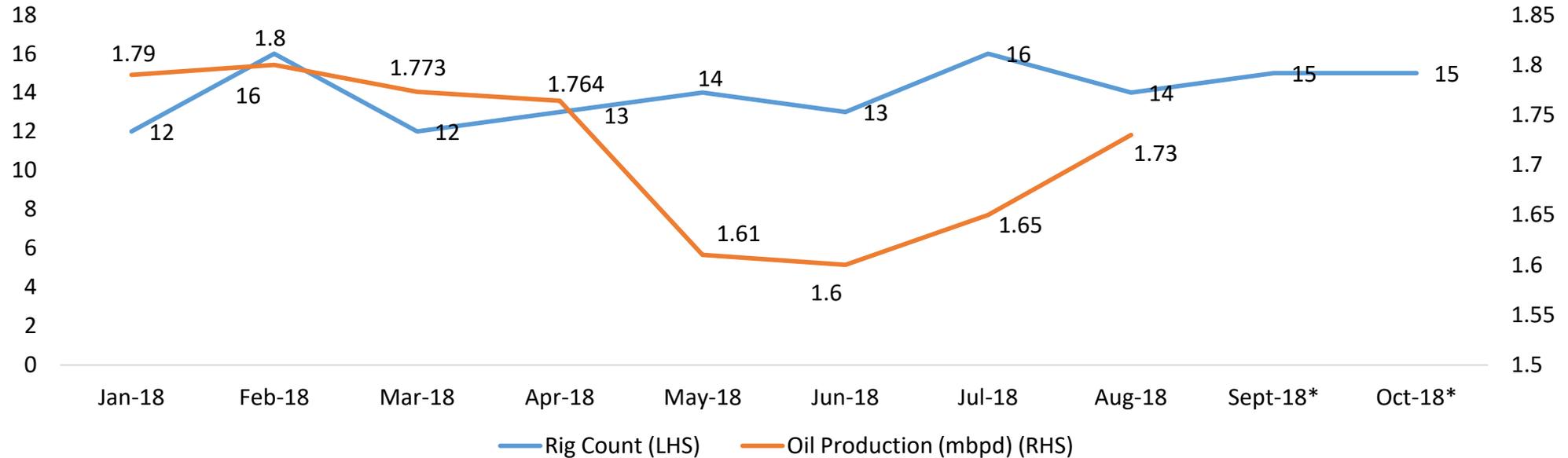
- ❑ Inflation increased to 11.23% in August
- ❑ Reversing its downward trend
- ❑ Heightened risks to inflation include:
 - ❑ Incessant flooding
 - ❑ Election campaigning funds
 - ❑ Increased FAAC disbursements on higher oil proceeds
- ❑ Estimated to jump to 13.2% after wage review and M2 growth



Rig Count Down, Oil Production Up

Nigeria's Oil production Vs Rig Count

Source: OPEC, Baker Hughes



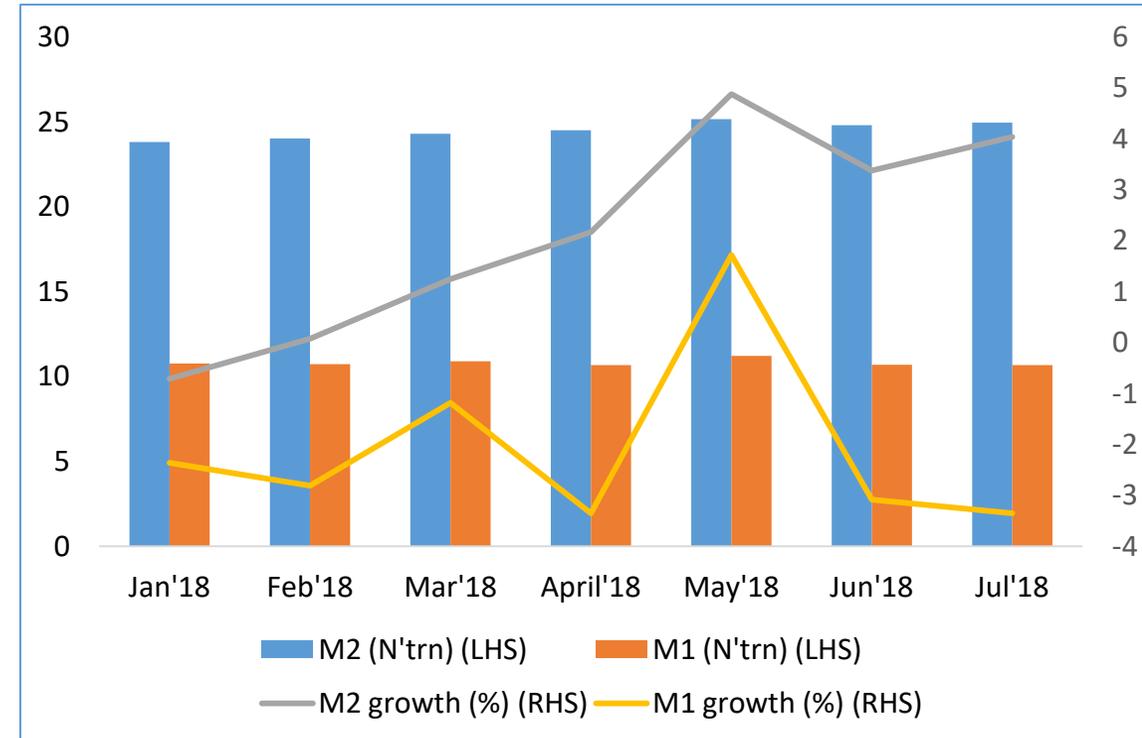
- ❑ The number of operational rigs down by two to 14 in August, flatlining in September and October at 15
- ❑ Despite increased oil production (up 4.8% to 1.73mbpd in August)
- ❑ Oil exports expected to reach six-month high of 1.88mbpd in November

A small green seedling with two leaves is growing out of a pile of gold coins. The background is white with a faint grid pattern. The text is written in a green, italicized font.

*Domestic Financial & Monetary
Indicators*

Money Supply: Pre-election Time

- ❑ M2 supply up 4.47% (annualized) in August
- ❑ On the back of higher FAAC disbursements and election spending
- ❑ However, transmission effect has been minimal
- ❑ Looming minimum wage review to increase M2 supply in the coming months
- ❑ Estimate for M2 growth in September and October is 8% to N25.92trn



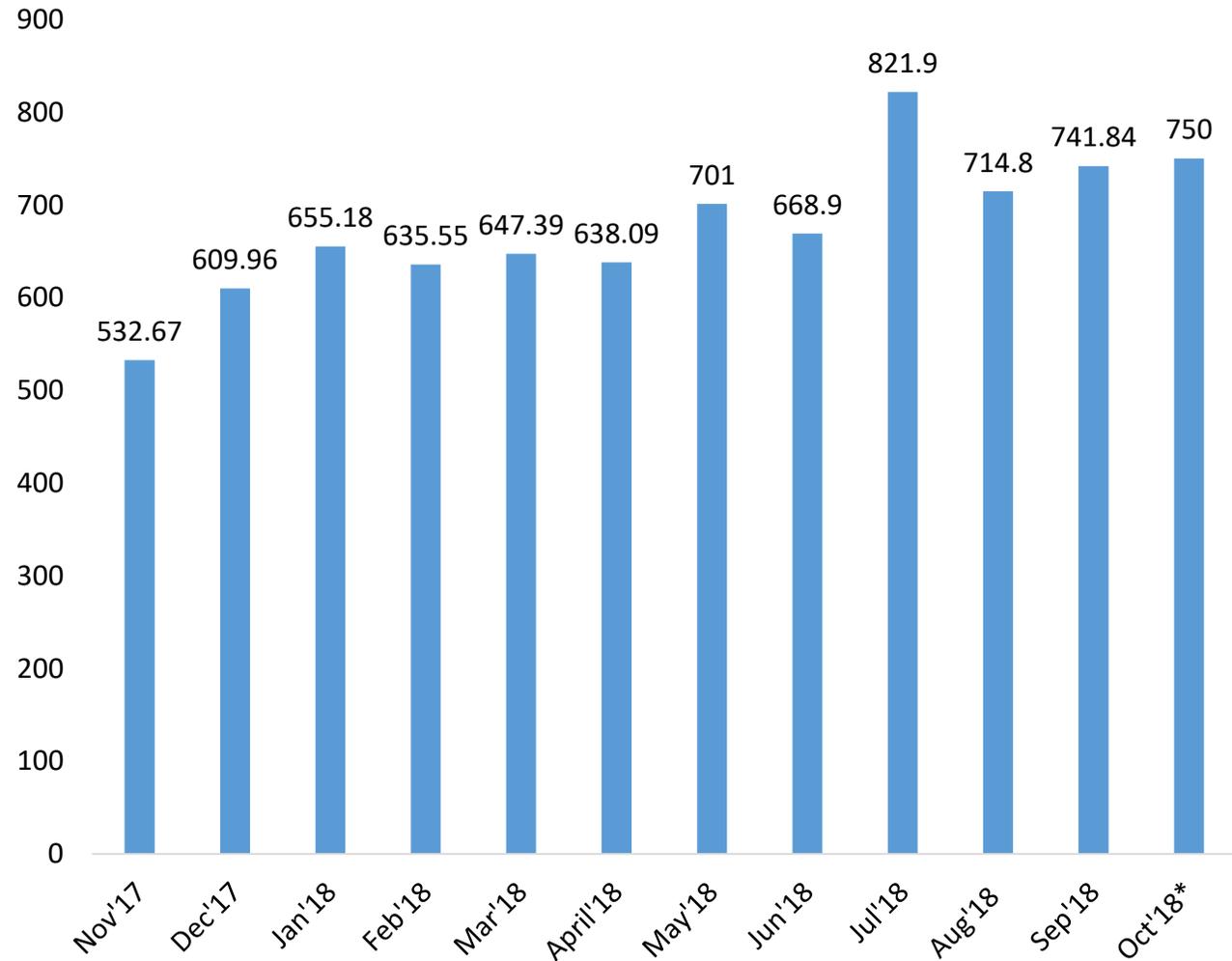
Source: CBN, FDC Think Tank

FAAC Up On Higher Oil Proceeds

- FAAC up 3.8% to N741.84bn in September
- On the back of increased oil production and higher oil prices
- Brent oil above \$80pb = higher FAAC disbursements in the coming months
- To increase to N750bn in October



FAAC (N'bn)



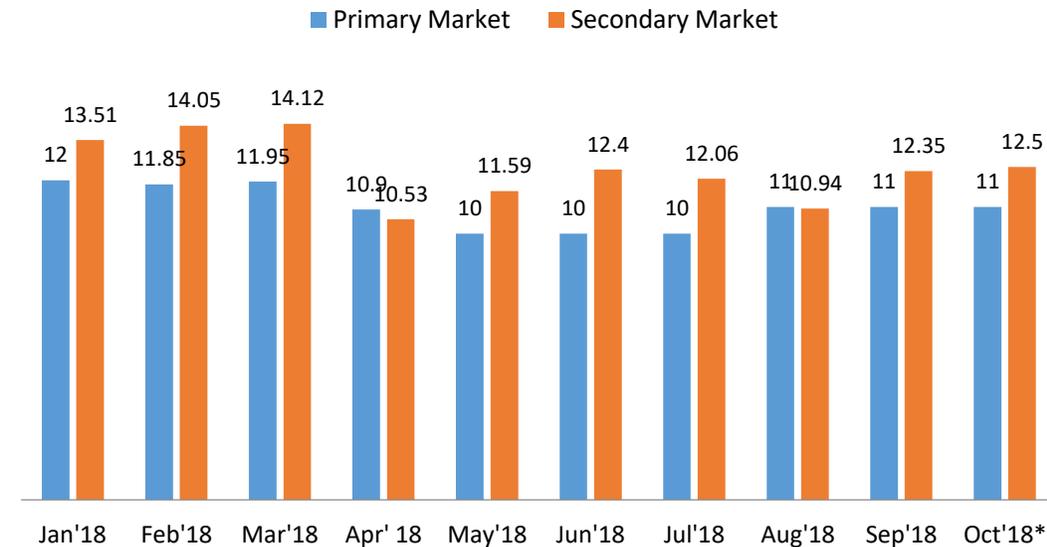
Treasury Bills Rates- Outlook

- ❑ Increase in T/Bills rates in September
- ❑ Would increase government debt service burden



Tenor	Primary market rates (August 29th) (%)	Primary market rates (September 28 th) (%)	Secondary market rates (August 31st) (%)	Secondary market rates (September 28th) (%)
91-day	11.00	11.00	10.94	12.35
182-day	12.30	12.20	12.37	12.39
364-day	13.05	13.48	12.97	13.46

91-Day T/Bills (%)



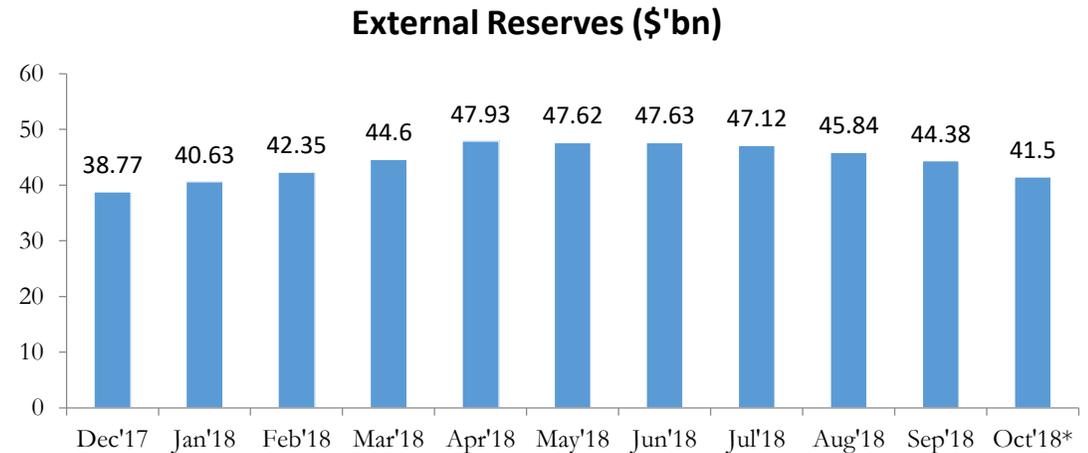
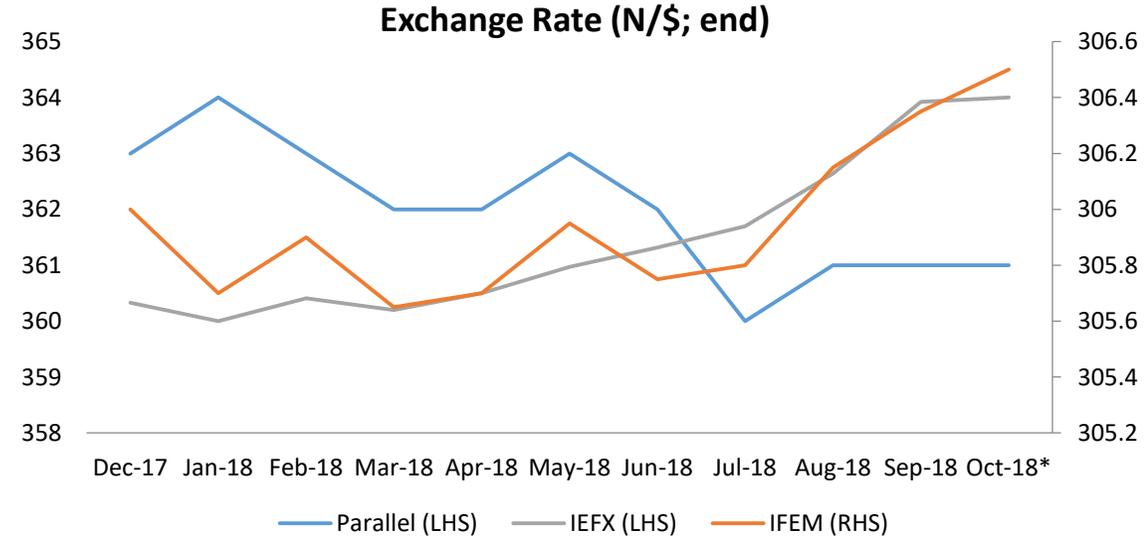
Source: FMDQ, FDC Think Tank

Forex Market Outlook



- ❑ Exchange rate stability in Q4 would depend on the CBN's ability to defend the naira
- ❑ Would mount pressure on external reserves
- ❑ Gross external reserves level may decline to \$30bn by 2018-end

Source: FMDQ, CBN, FDC Think Tank



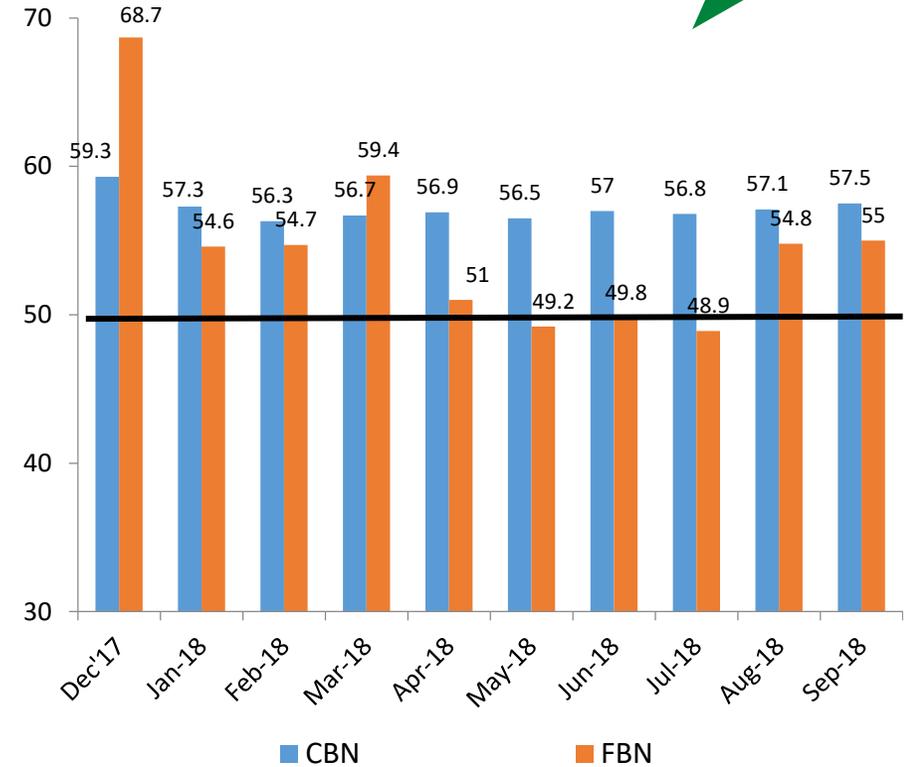


*Market Proxies Mostly Contracting,
Disposable Income Shrinking*

September PMI down 2% to 53.7



Purchasing Mangers Index	August	September
FBN	54.8	53.7 
CBN	57.1	56.2 

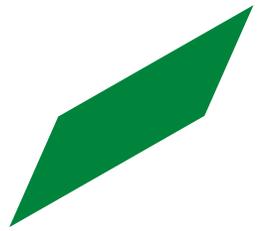


Source: FBNQuest, CBN, FDC Think Tank

❑ Projected to remain in the expansion territory in Q4'18

❑ Festive season sales expected to improve activities in the manufacturing sector

Avg. Power Output down 3.99%



 **5053 MW**
Peak Energy
Generated

 **3514 MWH/H**
Average Energy
Generated

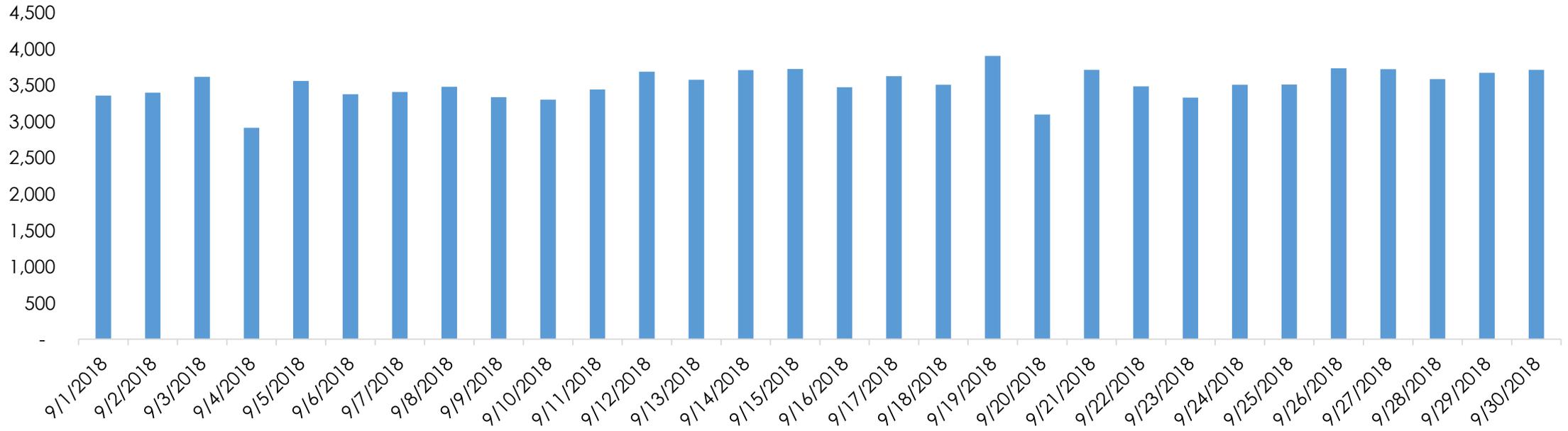
 **595.2 MMSCF/D**
Average Gas
Delivered to Plants

 **0**
Total Grid
Collapses

 **3578 MW**
Average
Constrained
Energy



Power Output MWh/h



Source: Lavayo Advisors

Power Sector News

- ❑ Power supply fell to a low of 2,006MW
- ❑ 12 firms confirm interest in acquiring Yola DisCo
- ❑ Gas suppliers threaten to abandon Gencos after N701bn Payment Assurance Guarantee expires in December
- ❑ Concerns rise over power sector liquidity as Discos' debt hits N103bn



Ships Awaiting Berth

- ❑ Down 28.9% in September
 - ❑ From 38 to 27 (Lagos Port)
- ❑ In line with PMI decline
- ❑ Forex availability is reducing the need for inventory build up



Mixed Movements in E-payments

Volume of transactions in Aug'18 relative to Jul'18

- ❑ Cheques ↓ 4.17%
- ❑ PoS ↑ 8.52%
- ❑ NEFT ↑ 40.51%
- ❑ NIP ↑ 8.79%

Value of transactions in Aug'18 relative to Jul'18

- ❑ Cheques ↓ 4.08%
- ❑ PoS ↑ 10.68%
- ❑ NEFT ↑ 25.09%
- ❑ NIP ↑ 6.83%

❑ Total value of payment up 7.96% to N8.54trn in September (34.2% of M2)

Impact Analysis-Directionally Negative, Nominally Positive

- ❑ Slow down in performance of market proxies in September
- ❑ FBN PMI remains in the expansion territory for the second consecutive month
 - ❑ Would boost growth rate of the manufacturing sector in Q3
- ❑ Average power output still below 4,000MWh/hour





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▪ Africa

• New York

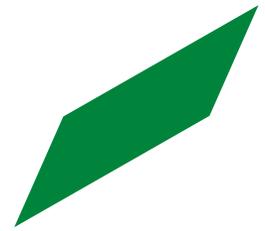
• London

• Paris



Commodities

Commodities Outlook and Nigeria

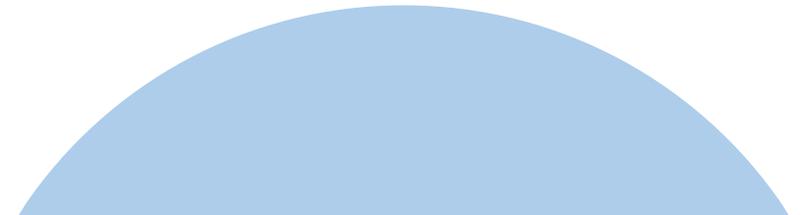


Export Commodities	September	%Change (Aug-Sept)	Import Commodities	September	%Change (Aug-Sept)
Oil (\$/b) 	78.81	6.77% ↑	Wheat (\$/bushel) 	5.16	-8.02% ↓
Liquefied Natural Gas (\$/mmbtu) 	2.90	-0.34% ↓	Sugar (\$/pounds) 	11.41	9.08% ↑
Cocoa (\$/mt) 	2,233	0.90% ↑	Rice (\$/cwt) 	10.32	-4.27% ↓



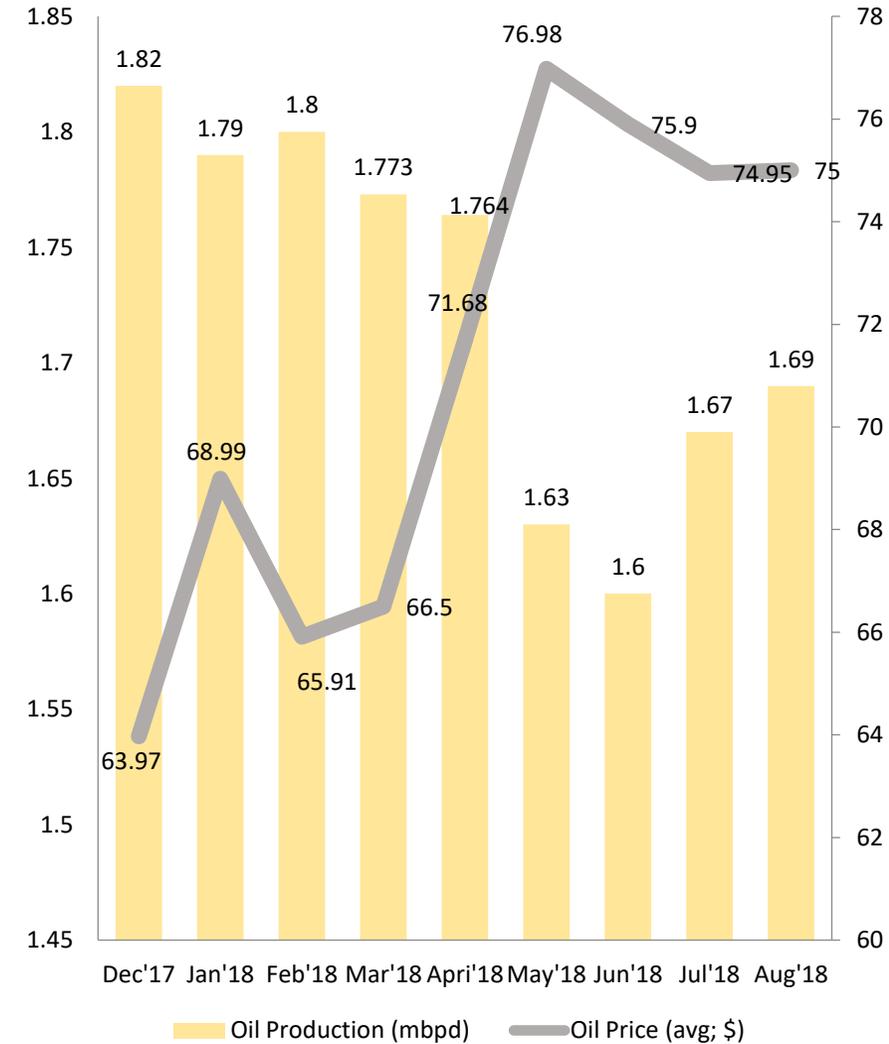
Exports

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Oil Market Outlook

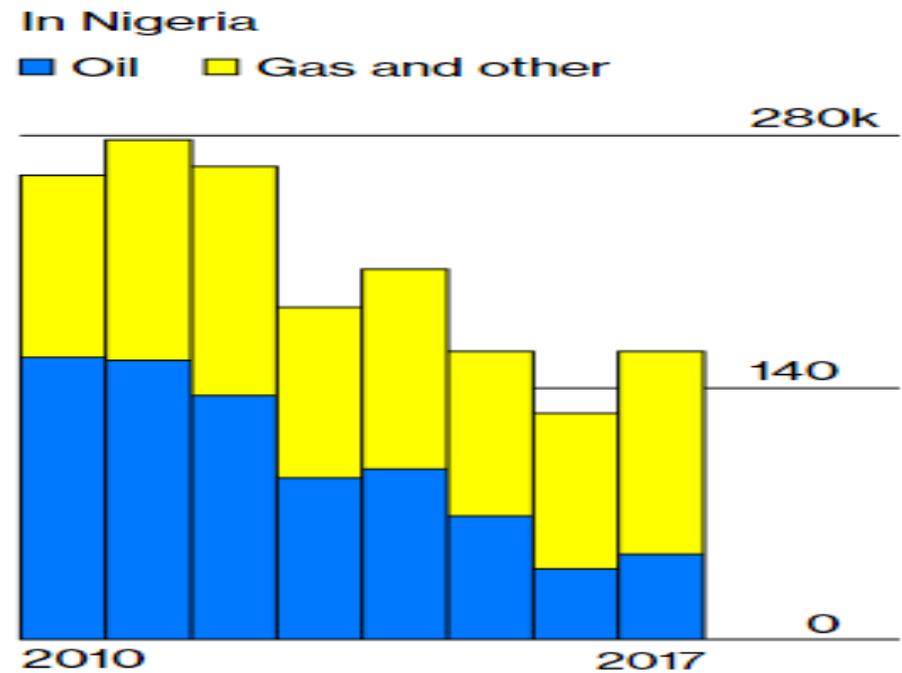
- ❑ Brent hit a four-year high of \$84pb
- ❑ Driven largely by expectations of sanctions on Iran by November
- ❑ President Trump calling for lower oil prices
- ❑ Analysts are projecting Brent at \$100pb by 2018-end
- ❑ Is this good or bad for Nigeria?
 - ❑ The good: increased oil revenue, higher FAAC disbursements
 - ❑ The bad: higher landing costs



Royal Dutch Shell & Nigeria

- ❑ Shell drilled its first commercial well in Nigeria in the 1950s
- ❑ Approximately 30% of oil is stolen in Delta
- ❑ Shell considered as arrogant and bureaucratic
- ❑ The Ogoni crisis and judicial execution of Saro Wiwa means Shell could be blacklisted by environmentalists and militants
- ❑ Company is strategic investor in NLNG, SNEPCO, etc

Shell's daily oil and gas production, in barrels of oil equivalent



Source: Bloomberg Intelligence

Aligning Shell with Nigeria's Strategy

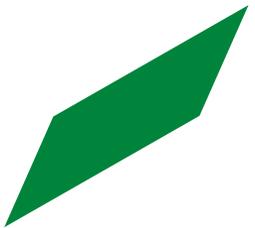
Shell

- ❑ Now earns more from selling natural gas around the world than from oil
- ❑ In Nigeria, looking to shift focus to petroleum deposits off the coast in the Gulf of Guinea
- ❑ Away from theft, spills and corruption and toward gas – mainly used in power generation

Nigeria

- ❑ Oil sales still accounted for over 50% of federal revenue in 2017
 - ❑ Shell accounted for only 7%
- ❑ Train-7 deal to increase output and earnings from gas exports in 2021
- ❑ Eagerly awaiting the passage of PIB
- ❑ Divested from downstream with sale of WOLCHEM
- ❑ Buying some of its assets sold earlier to Nigerian operators

Export Commodities



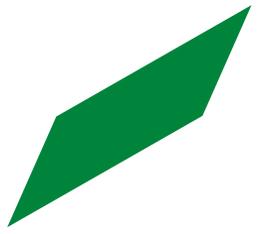
Liquefied Natural Gas

- ❑ Average LNG price fell by 0.34% in September (m-o-m)
- ❑ Suppressed by reports of an uptick in US natural gas supply and storage
- ❑ LNG consumption also fell in Japan, the world's largest importer of LNG

Outlook

- ❑ Price of LNG likely to increase in October on strong US winter demand

Export Commodities



Cocoa

- ❑ Prices relatively higher (0.9%) in September than August
- ❑ Ivory Coast and Ghana plan to harmonize cocoa marketing efforts in a cartel move
- ❑ Prices also supported by lower production in Nigeria due to fungal attacks and flood incidence

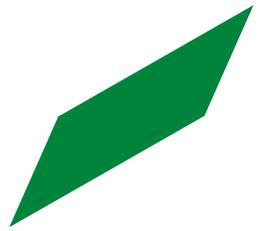
Outlook

- ❑ Ghana is projecting an 11% increase in cocoa output in the near term
- ❑ Could dampen market sentiment and weigh on prices



Imports

Import Commodities



Wheat

- ❑ Price of wheat fell 8% in September
- ❑ Bearish sentiment partly attributed to a surge in Canadian and US output
- ❑ USDA raised its forecast for global wheat production in 2018/2019



Outlook

- ❑ Wheat prices expected to decline further on relatively robust supply from Russia and US
- ❑ Degree of price decline to be limited by bargain hunting activities

Import Commodities

Sugar

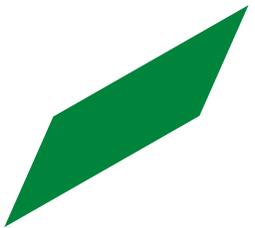
- ❑ Price of sugar rose sharply by 9.08% in September
- ❑ Driven by India's attempt to limit output
- ❑ A weaker US dollar also made sugar attractive



Outlook

- ❑ Sugar prices likely to decline in October due to profit taking
- ❑ The global market will also remain conscious of health risks

Import Commodities



Rice

- ❑ Global price of rice fell by 4.27% in September
- ❑ On weak Indonesian rice imports
- ❑ Chinese rice harvests also began in September



Outlook

- ❑ Chinese harvests to keep the global rice market relatively saturated in October
- ❑ Prices to remain relatively low



Commodity In Focus : Cassava

Facts about Cassava

❑ Total global production (2016):

Estimated at 277.1 mn tonnes

❑ World's top producers:   Nigeria

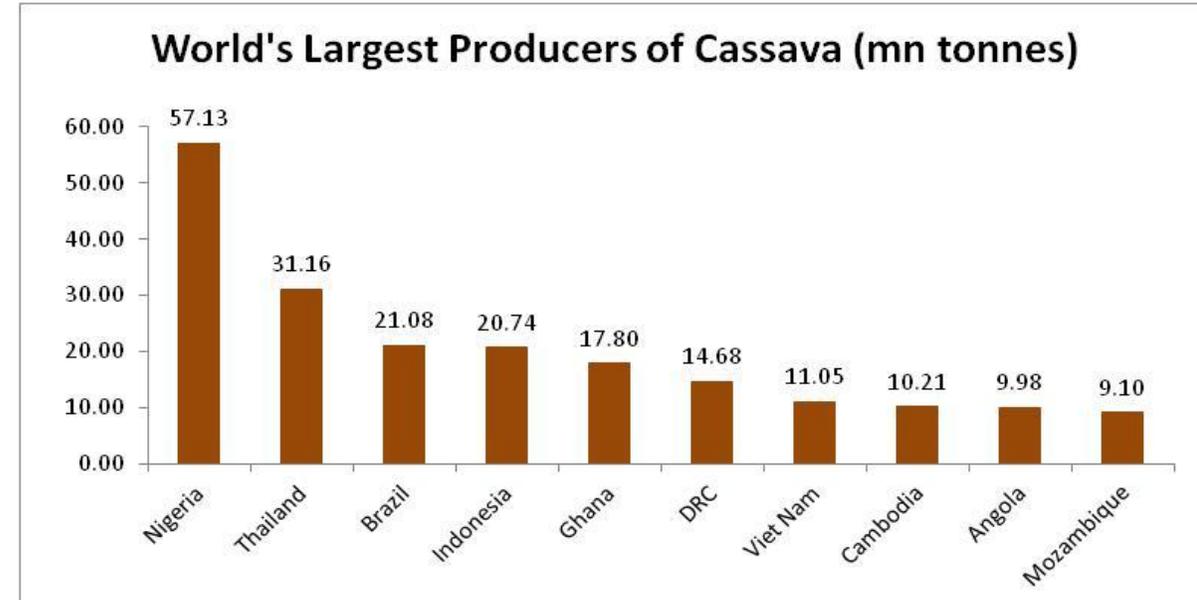
 Thailand,  Brazil

❑ World's top consumers:   Nigeria,

 Indonesia,  Brazil

❑ Uses (food): garri,, fufu/akpu, cassava flour (lafun), African salad (abacha)

❑ Uses (industrial): industrial starch, biofuel, alcohol, livestock feed



Cassava Production in Nigeria

❑ **Total Production (2016):** Estimated at 57.13mn tonnes (approx. 20.6% of global)

❑ Down 1% from 2015, partly due to pastoral conflicts

❑ **Rank in global production:** 1st

❑ **Potential Output:** 100mn tonnes

❑ Mainly cultivated in southern and middle belt states- Benue, Kwara, Kogi, Delta, Ogun, and Edo

❑ A 50kg bag of garri in Nigeria now costs N6,500, 12-month high is N16,000

❑ Down 13% from N7,500 in August

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Stock Market Review

Stock Market – Another Month, Another Loss

❑ Market dominated by preserver investor

type

❑ Actions driven by loss aversion

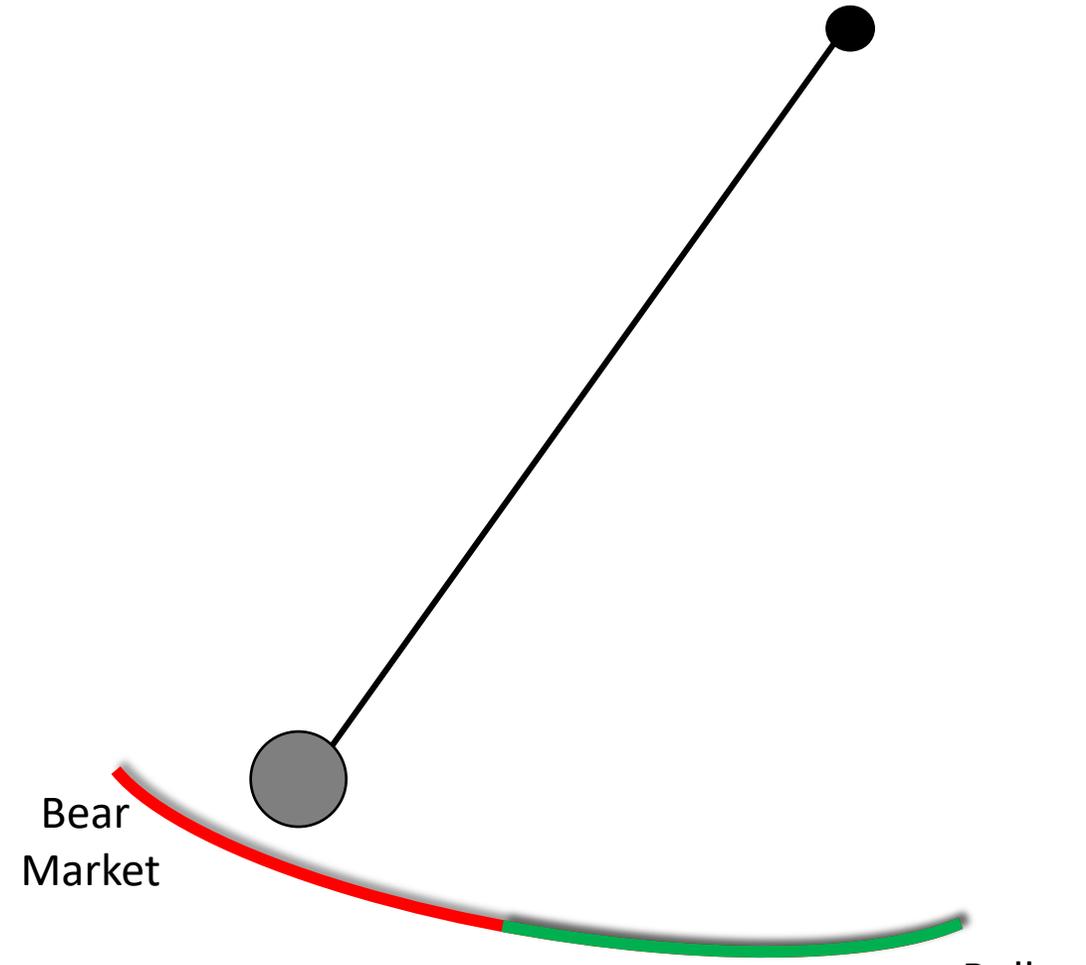
❑ Concerned about short term performance in a bearish market

❑ Flight to safe haven

❑ Rising rates in advanced economies to exacerbate declining foreign participation in the local bourse

Bear
Market

Bull
Market



Nigerian Stock Market in September

❑ Election fever dampens investors' confidence

❑ Market cap ↓ 5.97% (N760bn) to N11.96trn

❑ NSE ASI ↓ 5.97% to 32,766.37 points

❑ Seven days positive, 13 days negative

❑ P/E ratio down 12.7% to 9.34x

❑ Political fracas negative for market sentiment

Peer Comparison

Exchange	September Return	YTD Return	Driver
NSE ASI	-5.97%	-14.32%	Political uncertainty
JSE ASI	-5.04%	-6.38%	Slow economic growth and political jostle
GSE ASI	3.61%	11.75%	Strong business environment propelled by government

Stock Market in September

❑ Average volume traded ↓ 32% to 207mn units

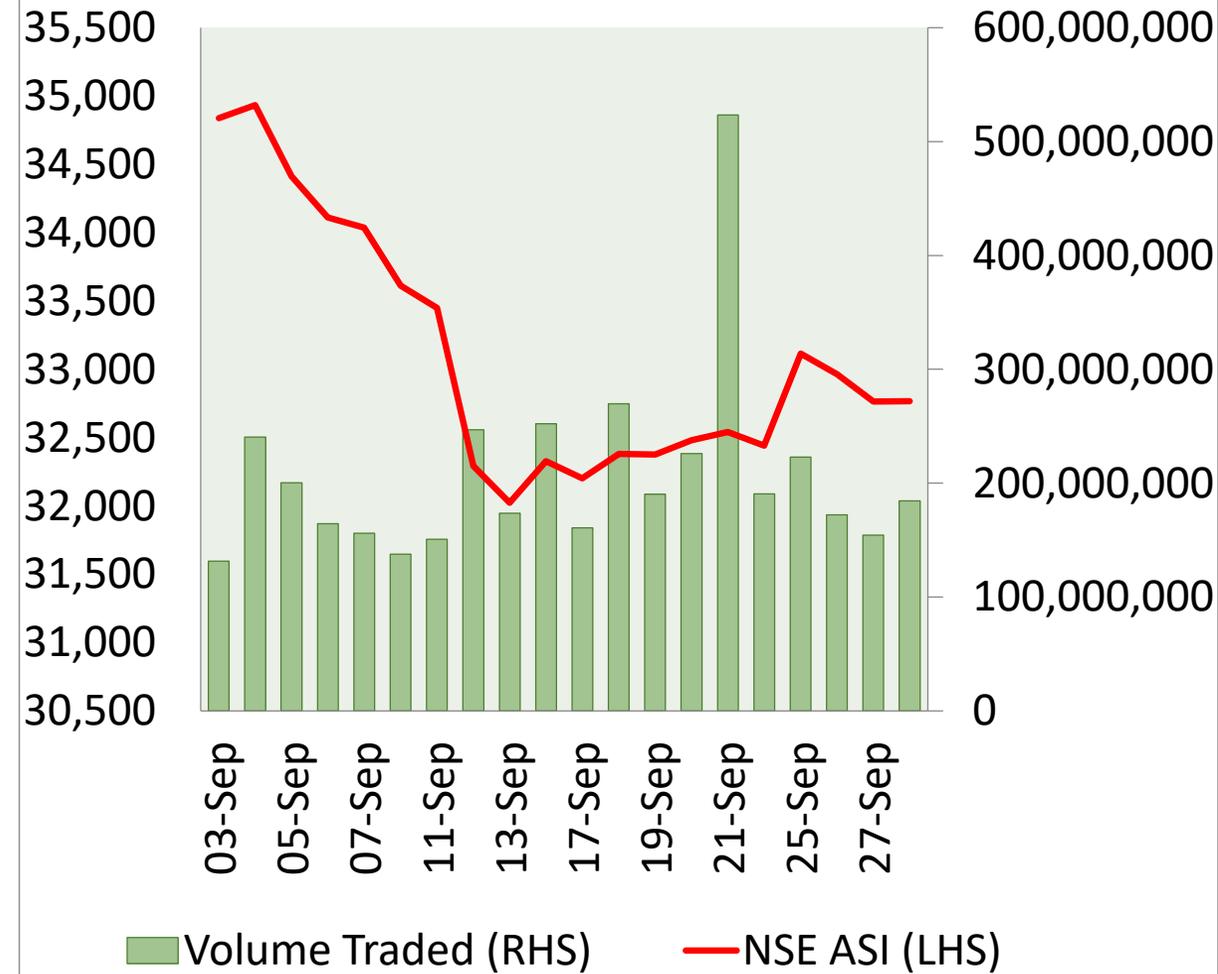
❑ Average value of transaction ↓ 1.96% to N3.26bn

❑ Negative market breadth of 0.44x

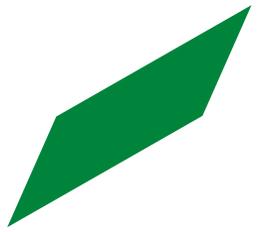
❑ 66 stocks lost, 74 remained neutral and 29 gained



NSE Performance



Sectoral Indices Maintain Downward Spiral



- ❑ Heavyweights dragged down most sectoral indices

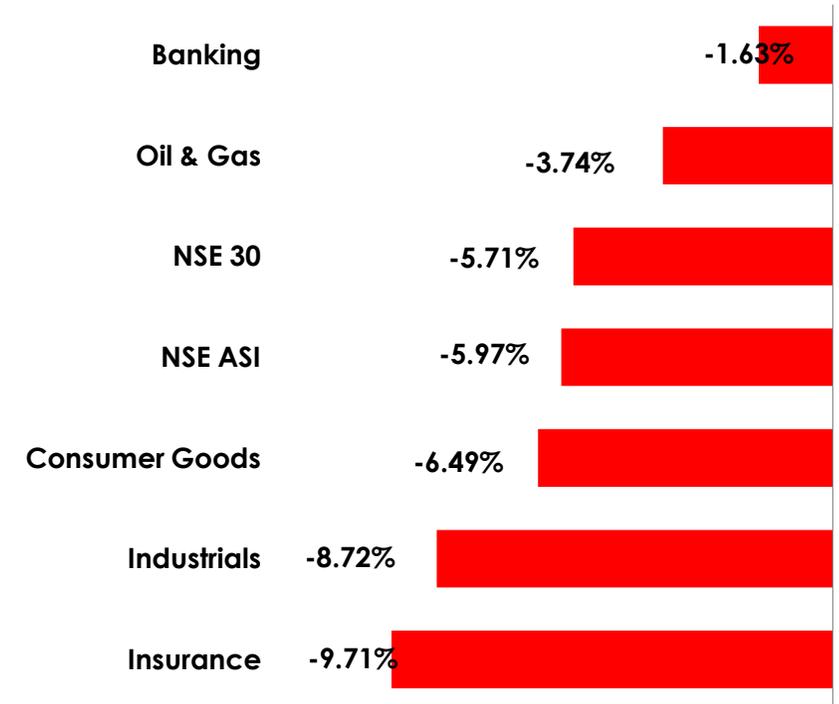
- ❑ As less robust Q2'18 economic growth weighed on investors' optimism

- ❑ Insurance index reversed some of its gains

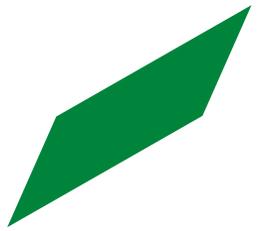
 - ❑ Possible mergers and acquisitions remain inevitable

 - ❑ Dilemma on recapitalization deadline weighed on the index

Sector performance



Asset Managers Nervous as hell !!!

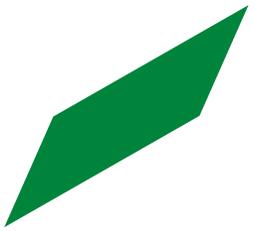


- ❑ Reduction in equity allocation due to bearish sentiment
- ❑ Fund managers playing at the long end of the yield curve
 - ❑ As short tenured instruments are less attractive

	Sep-18	Jul-18	
Asset Classes	N'B	N'B	Change
Equity	150.98	163.23	-8%
Money Market	200.25	236.06	-15%
FGN Bond	1,204.75	1,116.21	8%
Treasury bills	286.90	316.27	-9%
Mutual fund	11.07	10.85	2%
State bond	48.46	50.5	-4%
Supra-National Bond	0.79	0.99	-20%
CORPORATE BONDS	75.53	62.96	20%
Real estate	5.58	5.58	0%
Cash	10.61	14.74	-28%
Receivables	0.56	0.67	-17%
Total	1,995.48	1,978.06	

Corporate Action – 'Skye' is no longer the limit

- ❑ After more than 2 years of liquidity injection
- ❑ CBN revoked the banking license of Skye Bank
- ❑ Bridge bank (Polaris) in collaboration with AMCON expected to reposition the defunct bank
- ❑ Skye Bank investors lost N10.8bn overnight
- ❑ NSE ASI largely undeterred
 - ❑ Gained 0.7% since the suspension of trading on Skye Bank shares
 - ❑ NSE Banking index gained 2.58%



MTN Saga – Is there light at the end of the tunnel?

- ❑ Regulations walking back its talk & MTN licks its wound
- ❑ Softer tone of the CBN over the repatriation dispute
 - ❑ Group's stocks have gained 21.83% since then
 - ❑ Possibility of an amicable resolution
- ❑ Deadlock could push MTN Group to cut its losses and move on
 - ❑ To preserve shareholder value of the rest of its subsidiaries
- ❑ MTN could list by introduction not by subscription
- ❑ Limit its Capex in 2018/19
- ❑ More a victim than a villain

Corporate Action – Others

- ❑ Lafarge shareholders approve N90bn rights issue
 - ❑ After the N129bn rights issue in Q4'17
 - ❑ Continuous dilution of shareholders' interest will weigh on stock price
- ❑ Insurance recapitalization deadline in limbo
 - ❑ Both October 1 2018 and January 2019 resisted by labor group (ASSBIFI)
 - ❑ Due to the integration and transition concerns
 - ❑ Labor group proposed December 2019 ultimatum

Unintended Consequences

- ❑ Skye Bank's dissolution will have a domino effect on other banks
 - ❑ Call for better transparency and corporate governance to protect minority shareholders
- ❑ Stricter supervision and enforcement of sanctions by regulators
 - ❑ Spotlight on erring banks – *no bank is safe*
- ❑ Insurance recapitalization deadline dilemma creates uncertainty for insurance stocks
- ❑ MTN Group will carefully assess the impending listing on the NSE

Outlook For October

- ❑ Market will remain highly volatile as investor confidence ebbs
- ❑ Technical analysis will determine most investment decisions
- ❑ Q3' 18 financial performance will be largely positive
 - ❑ Impressive performance will not overturn market's negative sentiment



*Corporate Earnings
Expectations of Q3'18*

Banking

Fidelity

FY'18 Financial Performance

- ❑ Gross Income ↑ 3.6% to N88.9bn
- ❑ NIMs ↓ to 6.5% (H1'17 – 7%)
- ❑ PBT ↑ 27.3% to N13bn
- ❑ NPLs ↓ to 6.1%
- ❑ Stock has gained 12.5% since earnings release

Sector Outlook

- ❑ Banking earnings will maintain upward trend
 - ❑ Buoyed by the boost in NII
- ❑ Impairments will taper by at least 150bps
 - ❑ From tighter loan book management

Consumer Goods

PZ Cussons

FY'18 Financial Performance

- ❑ Revenue  by 3% to N80.6bn from N78.2bn
- ❑ Operating profit  38% to N8.2 from N13.2
- ❑ PAT  49% to N1.9bn from N3.7
- ❑ Free cash flow  312% to N8.7 from negative N4.1

Sector Outlook

- ❑ Top line growth will be relatively flat
- ❑ Owing to the jostle for market share
- ❑ Reduced operating efficiency will weigh on profitability

Coca Cola

- ❑ Coca-Cola is close to a full acquisition of Chi Limited in 2019
- ❑ The leading juice company in Nigeria
- ❑ Part of a global strategy to diversify away from sugar intensive CSDs
- ❑ Coke is also looking at introducing blended coffee drinks and horlicks in Nigeria

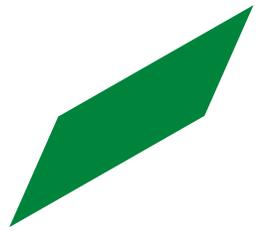
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Aviation Update

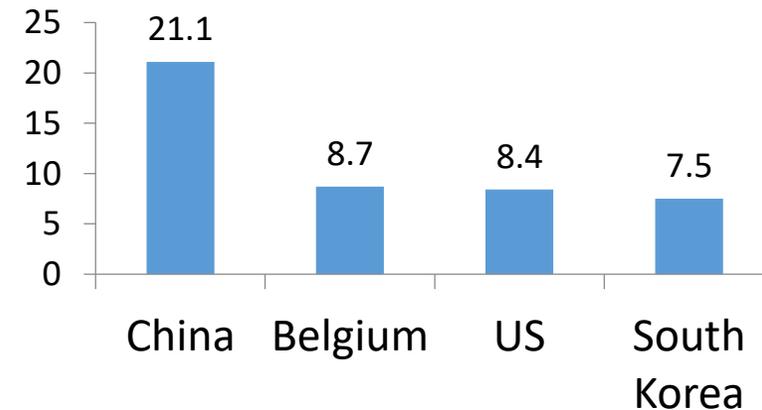
Global Aviation

- ❑ Global aviation profitability fell in Q2 2018 by 7.5%
- ❑ Global airlines cash flow remained unchanged
- ❑ The decline in profit can be attributed to the surge in the price of oil
- ❑ The price of jet fuel is steady at under \$90pb
- ❑ Passenger demand is a reflection of global economic growth

Nigerian Aviation

- ❑ International airline passenger traffic up to Europe and Asia
- ❑ Down 2.2% to the US
- ❑ Visa restrictions and anti money laundering activity discouraging US traffic
- ❑ Reduced rotational expatriates on the Lagos-Houston routes affecting load factor
- ❑ Strengthening US dollar and falling yuan and British pound affecting consumer preference
 - ❑ Medical, education and trading traffic
- ❑ Trade with China, South Korea and Malaysia reflecting in growing demand

Major Suppliers (%)



Nigerian Aviation

- ❑ Emirates now the largest network carrier of passengers to the US
- ❑ Ethiopian airlines dominating the regional market with Asky
- ❑ Also fiercely competing with Emirates and Qatar for Middle and far East market share
- ❑ Emirates to commence Dubai-Abuja-Kano flights in February 2019
- ❑ Lufthansa is maintaining strong market share for EU traffic
- ❑ Professional, corporates and consulting traffic mainly BA, Lufthansa, KLM/Airfrance, Virgin
- ❑ Traders, businessmen, students and medical tourism – Emirates, Qatar, Turkish Airlines

Nigerian Aviation

- ❑ Students, techies, generation X – Delta, Turkish Airlines, ET
- ❑ Two Primera Air flights grounded as airline collapses
- ❑ Leaving passengers including Nigerians stranded
- ❑ Airline failed to secure long-term financing which led to a file for bankruptcy

Domestic Aviation

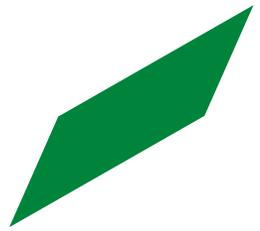
- ❑ Airpeace building capacity but struggling with on-time performance
- ❑ Arik constrained by cash and limited equipment
- ❑ National carrier had always been a dead on arrival concept
- ❑ Promo and discount fares between network carriers
- ❑ Mainly to London, Paris, Rome and Dubai

Real Estate Update

Vacancy Factor Spikes in Q3



Vacancy Factor- Q2'18 Vs Q3'18



	Q2'18			Q3'18		
	RVF (%)	CVF (%)	VFI (%)	RVF (%)	CVF (%)	VFI (%)
Ikoyi	6	20	12	45	31	45
VI	33	24	29	23	23	23
Total	24	24	24	27	25	26

- ❑ General Vacancy Factor increased by 2% to 26% in Q3'18
- ❑ In line with PMI and other LEIs
- ❑ Affordability, access and security remain key considerations for buyers

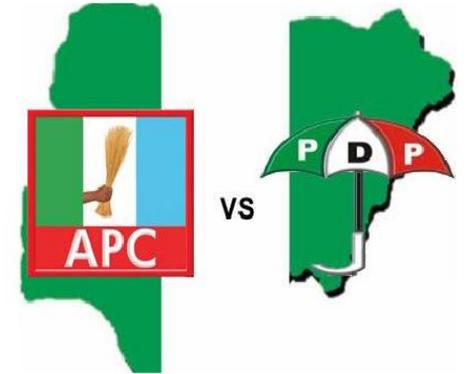
The Real Estate Market in Q4'18



An increase in interest rates could deter potential investors from the real estate market



An increase in headline inflation could increase investors' interests in real estate (hedge against inflation)



Political tensions could slow activities across all sectors including real estate

Developments to Watch

Development	Location	Completion Date
Alliance Place	Lagos	Ongoing
Cornerstone Head Office	Lagos	Ongoing
Kingsway Tower	Lagos	Ongoing
Novare Central Office Park	Abuja	2018





Monetary Policy Update

MPC Outlook

- ❑ Key considerations for November meeting
 - ❑ US Fed rate hike in December and its impact on capital flows
 - ❑ The resurgence of inflationary pressures
 - ❑ Increased liquidity from pre-election spending and FAAC distributions which is rising in tandem with increase in oil receipts
 - ❑ Impact of flooding on food supply and prices
 - ❑ External reserves depletion
 - ❑ Increased forex demand as budget 2018 is implemented
 - ❑ Q3' 18 GDP growth and Q1' 18 unemployment numbers will be published before next meeting
- ❑ T/Bill rates in secondary market to increase again to 12-13% pa

Debt Crisis Brewing??

❑ Debt Profile (June 30th 2018):

- ❑ Total domestic debt stock at N15.63trn

- ❑ Foreign debt stock at \$22.08bn – has ballooned by 106.2% since 2015

- ❑ Debt/revenue forecast at 52.6% in 2018

❑ Federally-collected revenues have undershot N1.1trn monthly projection

- ❑ By an average of over 25%

- ❑ Impacted negatively by a drop in crude oil production figures

❑ New minimum wage structure only possible by increasing borrowing

Politics Update



No stability, No democracy

- ❑ The winning Buhari machine of 2015 is under threat
- ❑ The opposition has successfully altered the narrative from integrity and change to competence, energy, youth & radiance
- ❑ The growing internal squabbles of the APC is taking a huge toll on its reputation
- ❑ The PDP turmoil of 2017 has now shifted to the APC – The Nigerian factor
- ❑ In most States there are parallel primaries by warring factors
- ❑ Osun, slim margin of less than 1% shows the vulnerability of the APC
- ❑ Federal Govt. APC, State Gov. APC and yet could barely squeeze a victory

No stability, No democracy

- ❑ The NWC of the APC is now in damage control mode after bungling the Lagos primaries
 - ❑ Ambode has conceded and awaits the next move by the Godfather
- ❑ The PDP national convention in Port Harcourt is a ticking time bomb
- ❑ The choice of a presidential candidate from 12 contestants means that losers may drift back to the APC
- ❑ It looks like a straight race between Saraki, Atiku, Kwankwaso & Tambuwal
- ❑ How to manage the fall out will determine the future of the PDP & its coalition
- ❑ In the APC, crisis in Rivers, Delta, Lagos, Ogun could alter the 2019 political map

No stability, No democracy

- ❑ The 2019 Presidential race is likely to be keenly contested
- ❑ The 2 leading candidates could be of Northern & Fulani extraction
- ❑ Splitting the North West & North East which is Buhari country
- ❑ Buhari is still the favourite in the North West & North East
- ❑ The deciding votes will be the Southern states especially the South West
- ❑ Buhari and APC will struggle in the South West where his negative residual is high

No stability, No democracy

- ❑ In the S. East & South South the opposition are likely winners
- ❑ The North Central will go to the opposition
- ❑ The battleground States remain Kano, Lagos, Jigawa & Rivers
- ❑ The vote against any candidate will be more potent than the vote for a candidate
- ❑ The presidential race will be cliff hangar



*Outlook
for
October*

October Outlook

- ❑ Q3 GDP estimates are up marginally to 1.7%
- ❑ Minimum wage of approximately N45,000 will be agreed
 - ❑ Increasing the arrears and backlog of many states
- ❑ Inflation in October likely to spike to 11.50%
- ❑ External reserves will fall to \$43bn
- ❑ The court of appeal may throw up a surprise verdict in Osun
- ❑ Price of oil will fall back to \$70pb in November
- ❑ The NASS will adjourn its resumption again until the end of October

October Outlook

- ❑ T/bill rates in the secondary market will go back up to 13% -14% for 180-days
- ❑ The unemployment plus underemployment data will spike up to 42%
- ❑ MTN will be absolved of wrongdoing
- ❑ The banks will be refunded their penalty by the CBN
- ❑ The stock market will remain deeply in negative territory in October
- ❑ The presidential contest will become a two-way race, which will be keenly contested
 - ❑ At this point too close to call

Corporate Humour



The difference between a misfortune and a calamity is this: If Donald Trump fell into the Hudson River it would be a misfortune, and if someone rescued him, that would be a calamity
- *Anonymous*

Never buy a portable TV in the street from a man who is out of breath
- *Arnold Glasgow*



Corporate Humour



Save a boyfriend for a rainy day
and another in case it doesn't
- Mae West

A picture is worth a thousand
words, particularly if you cannot
read
- Harry Hershfield



Corporate Humour



Opera is when a guy gets stabbed
in the back and instead of
bleeding he sings
- Ed Gardner

I go to the Opera whether I need
the sleep or not
- Henny Youngman



Corporate Humour



Half the people in Hollywood are dying to be discovered and the other half are afraid they will be
- *Ethel Barrymore*

American films usually involve a car chase whereas a European movie usually involves a small boy and a bicycle
- *Boyd Farrow*



Corporate Humour



To take care of something according to Al Pacino is getting rid of him, whilst taking care of something the Julie Andrews way is nurturing him for love
- *Father Ted*

The word duck is 75 percent obscene
- *Lenny Bruce*



Corporate Humour



Et cetera etc – an expression that makes people think you know more than you do
- *Herbert Prochnow*

Everything that goes up must come down. But there comes a time when for a man that not everything that's down can come up
- *George Burns*



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*Thank
you*

