



MONTHLY MARKET REVIEW AND FORECAST FOR SEPTEMBER '19

TRUSTFUND PENSIONS LTD RESEARCH

Outline

Global Economy

Domestic Macro Review

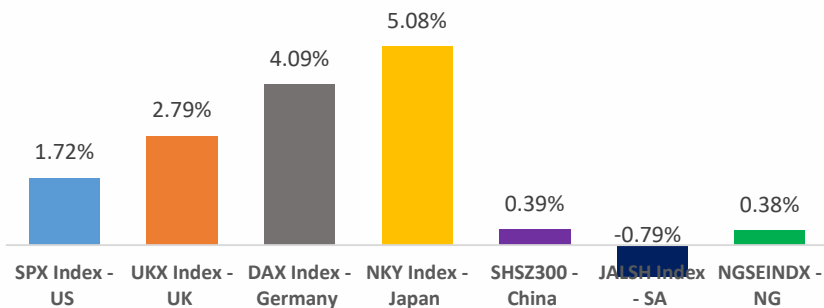
Equity market

Fixed Income Market

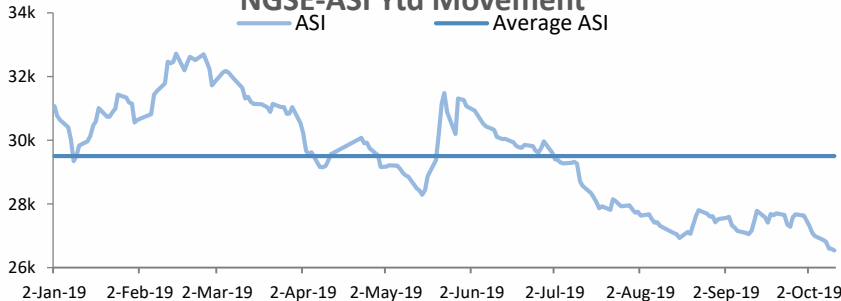
Outlook

GLOBAL MARKET

Global Market Performance



NGSE-ASI Ytd Movement



Commodity Market

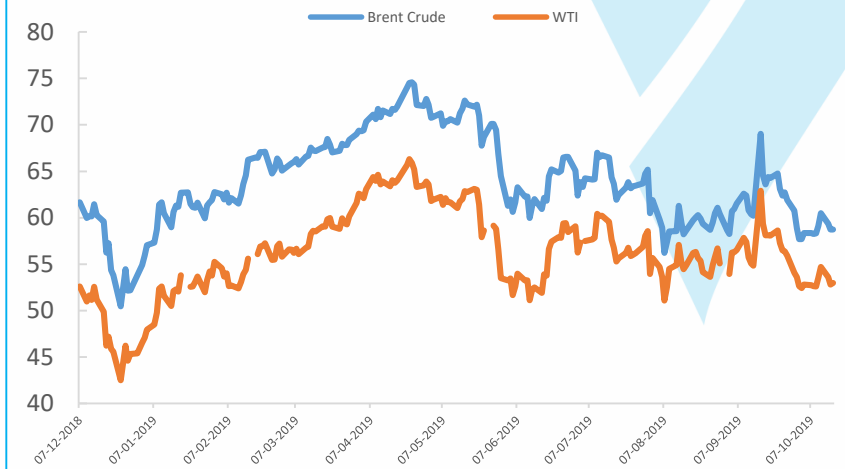
Energy			Agriculture		
	Price (\$)	Ytd (%)		Price (\$)	Ytd (%)
WTI Crude	52.94	16.6%	Cattle	113.90	-10.0%
Brent Crude	59.03		Coffee	94.20	-7.6%
Metals			Corn	395.75	5.5%
Gold	1,489.36	16.0%	Cotton	64.81	-10.4%
Iron Ore	611.50	36.7%	Wheat	521.75	3.7%
Silver	17.50	13.0%	Sugar	12.37	2.8%
Aluminium	1,728.00	-6.4%	Soybean	936.00	6.0%
Copper	5,730.00	-4.0%			

The Global stock market traded positive in September due to improving trade discussions between US/China and improving macroeconomic data which took pressure off recession concerns. Though, attacks on two major Saudi oil facilities, formal impeachment inquiry against Trump and UK's parliament passage of a bill that prevents 'no deal' BREXIT casted dark shadows on global growth outlook.

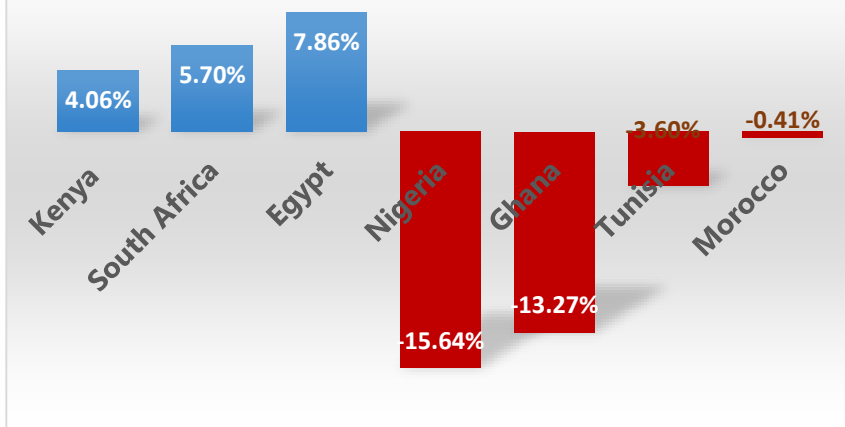
OUTLOOK

We believe developments from the ongoing trade talks between US and China will continue to be the major market driver in October. Other news to keep tab on is the EU/BREXIT worries and the release of major macros/corporate results.

Ytd Oil Price Movement (\$)

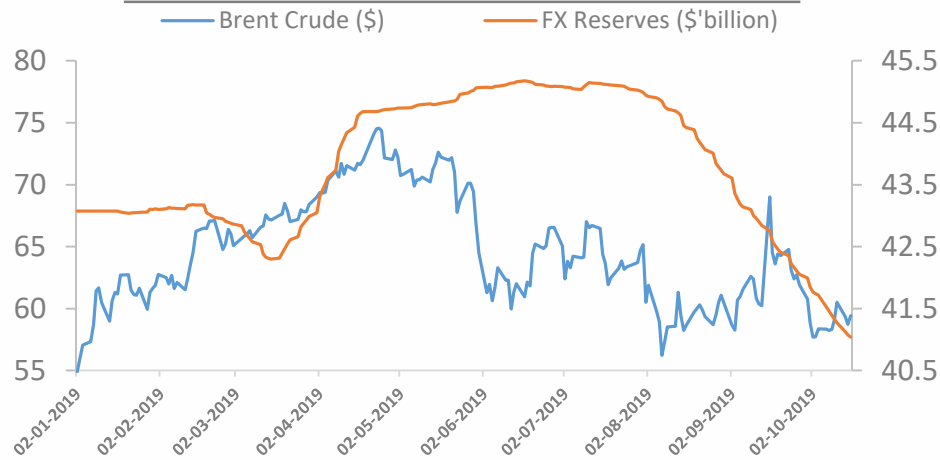


African indexes Ytd Performance (%)

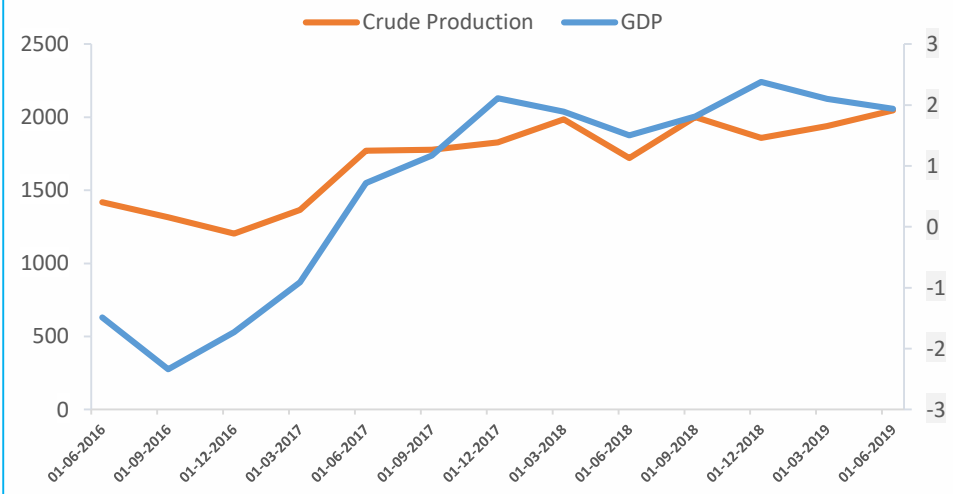


DOMESTIC MACRO REVIEW

FX Reserve Vs. Brent Crude Ytd Movement



GDP Growth Vs. Crude Production

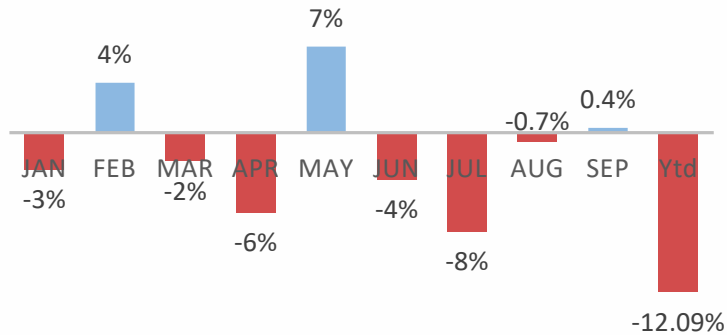


- **FX Reserve**- Official reserves contracted by 4.03% or \$1.76 billion in September to close at \$41.85 billion. The decline at an average of c.\$400m per week is largely attributable to exit of foreign investors from riskier emerging markets to more attractive environments. Hence, we foresee a drop below the \$40 billion level in the near term.
- **Exchange Rates** – The CBN Official rate remained relatively unchanged at ₦307 in September, similar to IE & FX Window rate which pegged at ₦362.23/\$. We however expect relative stability of the exchange rate as the CBN prioritizes a stable FX regime over stronger external reserves and lower interest rates.
- **Oil** – Brent crude rose by 55bps to \$63.54 in September, supported by the attack on a major oil facility in Saudi Arabia.
- **GDP** – In line with IMF forecast, we project a GDP growth rate of 2.3% for 2019FY. We however expect a lower run rate on output growth as the recent land border closure, volatility in Oil prices (currently below the \$60 2019 budget Benchmark) and budget deficit financing will continue to pressure government revenue.
- **Inflation** – Headline inflation for September printed higher at 11.24%, which is 22bps greater than 11.02% recorded in August and almost at par with its 12-month moving average of 11.3%. The increase in inflation is attributable to the partial closure of Seme border in September which have seen upswing in the prices of Rice, frozen food and milk. We expect higher inflation reading in the month ahead following Federal Government's announcement of complete ban on imports via land borders.
- **PMI** – The Manufacturing PMI printed at 57.7 in September, indicating an expansion in the manufacturing sector for the thirtieth consecutive session, howbeit, at a slower pace.

EQUITY MARKET

A slight breather in September

All Share Index MoM Performance (%)



MACROS	Current	Previous	% Change
GDP Growth (Q-Q)	1.94%	2.10%	-0.16%
CPI (Aug-19 Inflation)	11.02%	11.08%	-0.06%
MPR	13.50%	13.50%	0.00%
Brent Crude (w/w)	\$58.48	\$58.90	-0.71%
External Reserves (Billion)	\$41.46	\$41.52	-0.15%

Sector Performance

Index Snapshots	Ytd Return (%)	Div. Yield (%)	P/E Ratio (x)	Div. Payout Ratio
All Share Index	-12%	5.69%	7.0x	44.64
Industrial Goods	-12%	5.14%	9.5x	43.99
Insurance	-16%	6.26%	3.5x	28.44
Banking	-20%	9.72%	3.1x	37.53
Pension Index	-23%	6.88%	5.3x	40.47
Consumer Goods	-30%	5.05%	19.3x	94.14
Oil & Gas	-34%	7.76%	3.3x	30.64

The market sentiment in the local bourse turned bullish in September, making it the third month of positive performance this year. The optimism witnessed in the month is attributable to President Buhari's newly constituted Economic Advisory Committee and Q3 Portfolio rebalancing by portfolio managers. Also supporting the positive performance is the court ruling that further solidifies Buhari's Presidency and signals policy consistency/stability to foreign players. Consequently, the apex index gained modest 38bps to close at 27,630, moderating Ytd loss to 12.09%. The main-Board is trading at a price-to-earnings ratio of 6.99x on a trailing basis, 7.09 times estimated earnings of its members for the coming year and dividend yield is 5.83% on a trailing 12-month basis.

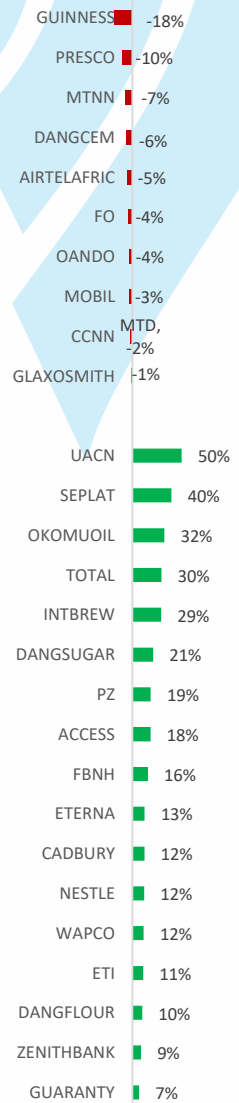
UACN emerged as the best performing stock for September as the counter closed at ₦7.50, representing 50% rise above ₦5 recorded in August. Other stocks that supported the bourse according to their weighting are NESTLE, SEPLAT, GUARANTY, ACCESS, ZENITHBANK and WAPCO.

OUTLOOK

In the absence of any catalyst to support buy sentiment and considering the negative market breadth, we expect market volatility to linger through the last quarter of the year as market players weigh their options amidst exacerbated global growth concerns/ geopolitical risk. So far, the recent CBN mandate to banks to increase their LDR to 65%, proposed VAT increase to 7.5%, inflation rate above CBN target of single digit and flagging consumer spending have kept foreign investors at bay, which is evident in the depletion of foreign reserve at an average of \$400 million weekly. However, the current price level (P/E: 7.13x, Div.Yld: 5.81%) creates attractive entry point for investors to position for market rebound.

Thus, we maintain our cautious stance and recommend cherry-pick of stocks with strong fundamentals and dividend payment history.

Top Performers and Laggards for the month



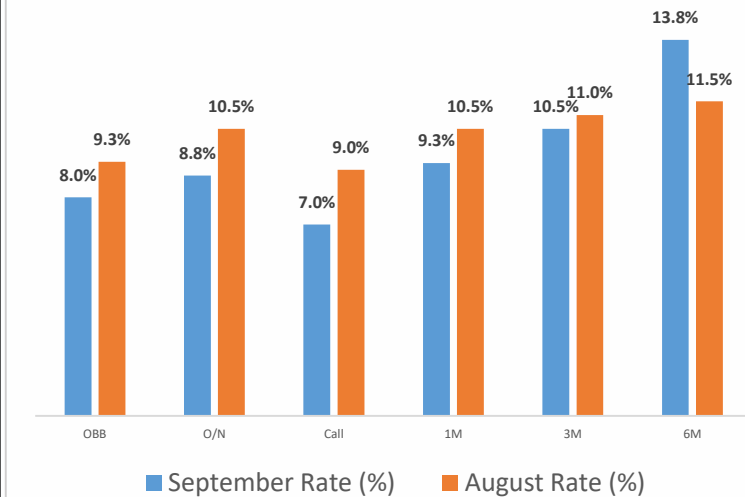
FIXED INCOME MARKET

Investors blanched Bonds amidst high level of market uncertainties

Treasury Bills Yield Curve (%)



Money Market Rates (%)



Treasury Bills

Average discounted rate for Treasury Bills contracted by 51bps to close at c.12.5%, with demands witnessed across the curve. The 91-day, 180-day and 365-day bills closed at 12.1%, 12% and 13.1% respectively.

Bonds

Amidst global growth concerns and lack of strong signals from the fiscal policy makers, there was quiet in the Bond secondary market as foreign players sell-off the mid- and long dated instruments while pocket of demands were witnessed in the short-end of the curve. Thus, average bond yield increased by modest 2bps to close at 14.5%.

OUTLOOK

Given the current conditions of the market, the expectation of a bland trading session within the bond space would not be far fetched. Furthermore, we expect mixed trading in the Treasury Bills market as the CBN struggle to keep rates in check while mopping up maturities expected in October. Additionally, interbank rates are expected to remain at these levels, barring any liquidity shocks to the system.

BONDS

Nomenclature	TTM(yrs)	Previous Yield (%)	Current Yield (%)	Change (%)
7.00 23-OCT-2019	0.06	13.27	12.28	-0.99
15.54 13-FEB-2020	0.37	13.57	12.74	-0.83
14.50 15-JUL-2021	1.79	14.40	14.36	-0.04
16.39 27-JAN-2022	2.33	14.09	14.25	0.16
12.75 27-APR-2023	3.57	14.35	14.42	0.07
14.20 14-MAR-2024	4.45	14.28	14.17	-0.11
13.53 23-MAR-2025	5.48	13.85	14.15	0.30
12.50 22-JAN-2026	6.31	14.13	14.14	0.01
16.2884 17-MAR-2027	7.46	14.19	14.18	-0.01
13.98 23-FEB-2028	8.40	14.13	14.30	0.17
15.00 28-NOV-2028	9.16	14.14	14.32	0.18
14.55 26-APR-2029	9.57	14.15	14.33	0.18
12.49 22-MAY-2029	9.64	14.15	14.33	0.18
8.50 20-NOV-2029	10.14	14.16	14.35	0.19
10.00 23-JUL-2030	10.81	14.17	14.36	0.19
12.1493 18-JUL-2034	14.80	14.39	14.48	0.09
12.40 18-MAR-2036	16.46	14.27	14.51	0.24
16.2499 18-APR-2037	17.55	14.30	14.49	0.19
14.80 26-APR-2049	29.57	14.56	14.68	0.12
Total Outstanding Value	8,940.47	14.13	14.15	0.02
Total Market Capitalization	8,552.37			

Source: FMDQ, Trustfund Pensions Research

Market Outlook and Strategy

The IMF recently revised its 2019 growth projection for Nigeria from 2.0% to 2.3%, citing higher oil prices which, in our view, is key to catalyzing economic activities. We expect growth to be spurred by improvement in agriculture and oil production in 2019FY. We believe growth will also be supported by better budget execution and manufacturing growth.

Equity

Valuation remains compelling, trading at a P/E of 7.4x (discount to MSCI FM average of 12.2x)

Some key drivers of the equities market in the rest of the year are : 1) Monetary policy orientation in developed markets & MPC reactions ;2) Corporate earnings performance ;3) Crude oil price and 4) The pace of macro recovery in Nigeria.

Nonetheless, we will remain cautious.

Bonds

The extent of the CBN's response to inflationary pressures, possible capital flight and the size of government borrowing will likely determine yield direction in H2'19.

We expect yields to rise further for the rest of the year as CBN will likely raise rates to retain the appeal of domestic treasuries for FPIs. Thus, we expect investors to play short in the near term

Money Market

OMO bills are likely to remain the key policy tool of the central bank towards ensuring price, liquidity and exchange rate management

While we expect yields on T-bills to trend higher from the current levels, we will be strategic and continue to deal at the best rate for liquidity and flexibility

We will be cautious on equity positions and scale down exposure to some heavyweight stocks. Proceeds will be reinvested in attractive alternatives to support NAV growth.



THANK YOU
