Global Economy Review: ...

USA: The US unemployment rate moved up slightly to 5% in September 2016, compared to 4.9% in the previous month and missed market expectations of a stabilized 4.9%. This was the highest jobless rate since April, as the number of unemployed persons rose by 90 thousand to 7.9 million. In the meantime, the labor force participation rate edged up marginally by 0.1 percentage point to 62.9%. Among the major working groups, the unemployment rate for Hispanics increased to 6.4% in September, while the rates for adult men (4.7%), adult women (4.4%), teenagers (15.8%), Whites (4.4%), Blacks (8.3%), and Asians (3.9%) showed little or no change. In another development, the US ISM Non-Manufacturing PMI moved up to 57.1 points, representing a 5.7 percentage points improvement over 51.4 points recorded in August. This is the highest reading since October 2015 and well above market expectations of 53 points as business activity, new orders and employment all expanded at a faster pace.

Russia: Despite the existing embargo on the Russian economy by the West, businesses have significantly improved, thereby, dissipating prior concerns on the economic direction in 2016. The Country’s recent economic development showed Consumer prices for September 2016 dropped to 6.4% year-on-year, against 6.9% growth in the previous month and below market expectations of 6.6%. This is the lowest inflation rate since February 2014, as food, housing and utilities, clothing and footwear, transport prices rose at a slower pace. On a monthly basis, prices went up 0.2%. In another development, the Country’s unemployment dropped to 5.2% in August 2016, compared to 5.3% reported in July and well below market expectations of 5.4%. This is the lowest jobless rate since September 2015, as the number of unemployed people decreased by 88 thousand to 4.04 million while economically active rate increased by 0.6 million to 77.5 million (53 percent of population).

India: The Reserve Bank of India lowered its repurchase rate by a surprising 25 basis points to 6.25% on October 4th, 2016 meeting, saying the stance of monetary policy remains accommodative and the decision will help to bring inflation rate back to Central Bank's 4% target in the medium-term while supporting growth. India’s consumer price index rose 5% year-on-year in August, easing from its 6% increase in July. The repo policy rate is now at its lowest since November 2010. The central bank also cut its reverse repo rate to 5.75 percent while it kept its cash reserve ratio at 4 percent.
Nigeria Economy: …

The National Bureau of Statistics (NBS) is expected to release the September 2016 inflation figure (year-on-year) on the 15th of October. Recall that August’s CPI came in at 17.6%, representing 50bps over July’s 17.1%. In the meantime, we have highlighted the challenges faced by the economy which would strongly affect September’s inflation estimate.

The GDP: The Gross Domestic Product (GDP) which measures productive activities in the Country continues to trend in the negative region; -0.36% and -2.06% in Q1 and Q2 2016 respectively. This has thrown the economy into a full recession. The economic condition has been weakened by the incessant vandalisation of crude oil facilities in the Oil-rich Niger-Delta region, leading to a significant drop in production from 2.16 mbpd in Q4 2015 to 1.4 mbpd as at July-ending. Due to this challenge, the oil sector’s contribution to the economy dropped to 8.26%. Although, the non-oil sectors’ contribution stood at 91.74%, the structural challenges in the system weakened components of the non-oil sector, such as; manufacturing, mining and quarrying. There is a strong market perception that the GDP estimate for Q3 2016, scheduled to be release on the 25th of November by the NBS will remain in the negative region.

The FOREX: Despite the recent floating of foreign exchange rate (FOREX) by the CBN in order to provide a flexible market driven demand and supply, the Naira has continued to decline against foreign currencies. At the current BDC rate of N470 to a dollar, the pressure is highly felt by businesses and households. Most businesses which import some components of their raw materials (due to structural challenges), access FOREX at N470 to a dollar. This is heating up the system as business overheads rises significantly resulting in cost driven inflation.

The FAO: A recent release by the Food and Agriculture Organization Int’l (FAO) shows that the Food Price Index (FPI) went up in September by 5 points as a result of surge in sugar prices, moderate increases in dairy products, meats and oils. The September value is the highest since March 2015. The FAO Vegetable Index rose by 1.7% due to higher quotations of palm, soy and rapeseed oils. The FAO Dairy Index appreciated by 13.8% due to higher prices of butter as result of reduced stocks and stronger demand in the EU. The FAO Sugar Price Index rose by 6.7% as result of surge in global sugar prices.

Our eye on the market places in September 2016 revealed that prices of food items have risen considerably. The prices of onions, tomatoes, beans, sweet potatoes, fish, vegetable oil, garri, palm oil, Irish potatoes, rice and yam were up by 51.67%, 28.62%, 26.19%, 20.47%, 13.49%, 13.02%, 11.43%, 12.79%, 10%, 5.56% and 4.76% respectively. The price of meat however, remained unchanged.

Our expectation: Based on the above considerations, we expect inflation to spike in September to 17.8%. It will be impacted by high cost of import bills.
Foreign Exchange:
In the review period, the interbank exchange rate traded predominantly with moderate liquidity. The CBN was the major player as it sustained its intervention role in order to provide liquidity to the system. The Naira depreciated further by 1.56% to close at N306.75 against the US Dollar as supply side continues to exert pressure. As the pressure on the Naira exacerbated, so did foreign reserves account, it shed additional 0.82% to close at $24.33 billion week-to-date as at October 7th. At the parallel market, the Naira appreciated by 4.08% to close at N47 against the Dollar. A total volume of $47.45 million was traded in the week on OTC FX Futures. *We might likely see lesser pressure on the Naira this week as the CBN continues to provide liquidity to the system.*

Money Market:
On the average, cost of funds using average NIBOR as our guide moved up to 18.30% against 14.51% % a week ago. OBB and Overnight rates rose to 15.67% and 16.17 respectively against previous week’s 14.33% and 15.17% as liquidity intensified.

The Treasury bill market traded all through the week in the bullish territory. With the absence of any OMO auction, demands filtered through in the earlier part of the week. Earliest interest was tilted to the short end of the curve but moved to the mid and long end as investors sought for more attractive yields. Lower stop rates at the Primary auction also contributed to the aggressive demand seen during the week. There was slight sell off on Friday on the back of OMO auction announcement which prompted profit taking from traders. Week-on-week, average yield dipped by 65bps when compared with last week’s close. CBN conducted an OMO auction and sold N283.12 billion of the October 5th, 2017 maturity at a stop rate of 18.50%.

This week, OMO bills worth N233.84bn matures on Thursday, October 13th, 2016. *We expect market to trade sideways as traders fix their eyes on expected auctions.*

Bond Market:
The fixed income market traded on a weak momentum all through the week as a good number of investors exited long positions as result of system liquidity. The major drivers of activities were more of offshore players who appeared to have gone short considering the government outlook on domestic borrowing in order to fund the existing deficit budget. Week-on-week, yields on average, dropped by 10bps. We expect a calm session at the start of the coming week. *This week, we expect the market to trade sideways.*
Equity Market:
In the week under review, the equity market traded for four sessions in the light of Public Holiday observed on Monday. There were three bearish sessions against the four sessions, thereby pushing the market to bearish territory. Week-on-week, the NSE All-Share Index and Market Capitalization depreciated by 1.77% to close at 27,835.22 and N9.56 trillion respectively. Similarly, all other Indices finished lower during the week with the exception of the NSE ASeM Index which closed flat. YTD return moved up to -2.82%.

Meanwhile, turnover of 934.91 million shares worth N6.36 billion in 12,352 deals were traded this week by investors on the floor of the Exchange in contrast to a total of 1.29 billion shares valued at N9.30 billion that exchanged hands last week in 15,258 deals.

Twenty-two (22) equities appreciated in price during the week, lower than thirty-five (35) equities of the previous week. Thirty-five (35) equities depreciated in price, higher than thirty-two (32) equities of the previous week, while one hundred and twenty-three (123) equities remained unchanged.

Equity Market Outlook: Week ending October 14th, 2016
We are gradually entering into Q3 earnings’ season which is expected to provide a firmer clue on how 2016 financials would look like. Minimum impact of earnings against price upward movement is expected considering the fact that little corporate action pronouncements would be reported during this season. We expect the market to trade in mixed zone this week. There might be profit taking from traders and portfolio managers given that the market has witnessed a consistent 3-week uptrend in a row.

At this point, we strongly advise that investors take keen interest in equities’ fundamentals before taking an investment position. Ensure that you buy based on strong fundamentals. We equally advise taking a medium-long term view of the market. Note that a good number of stocks now trade at attractive positions (below/at fair value). For guidance, please refer to our GTI Top 5-Stock Picks.
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