Market Round-up: After a Black November, Stocks Should Stabilize in December

2th December 2014

Global Macros – A "happy day" for net oil importers: Importantly, continued downtrend in the global crude oil market has ignited renewed confidence in petroleum importing nations who henceforth are able meet energy needs at cheaper cost. Majorly, countries like the United States have been having a "*Honey Moon*", with the S&P 500 index advancing 1.96% in November - consolidating the Ytd rally to +17.9% . Consequently, the IMF raised the 2014 growth forecast for the world's biggest economy to 3.5%, particularly in view of rising non-farm employment and favourable terms of trade. The EURO STOXX 50 index (Euro composite bluechip index) rallied a significant 4.65% in November, further boosting the global equity performance picture. The China Shangai composite index surged a record 13.64%, complementing the 2.07% appreciation in the Indian Bombay Composite Index for the month. Nonetheless, energy stocks suffered notable selloff across the globe. Continued slide in petroleum prices portends major threat to the future of multi-billion dollar Shale Gas and Offshore exploration activities globally. Against this background, Gulf stocks and equity market in other oil exporting countries suffered high losses. Overall, the MSCI world equity index added 1.87% in November.

Nigeria– Fleet of fiscal and monetary responses to macro falters:

Macro-economic headwinds swaying against the Nigerian economy got fierce in November, with the Naira recording fresh all-time lows. The nation's FX resrve fell to $36.85billion (worsening the 3 months depreciation to $2.6billion or 7%). Consequently, the economic management team unvieled austerity meaures that sought to moderate government spendings and enhance non-oil sector revenue. The overall aim is to minimize the expected fiscal deficit. However, considering the high recurrent expenditure pattern of the Nigerian budgetary system (c.75% of 2014 Appropriation Act), increased fiscal deficit seems inevitable. The impending deficit will have to be financed locally or externally; if financed locally, Nigeria will experience increased government bond issuance and higher yield levels. The other alternative is to finance the fiscal deficit through increased current account deficit (lower net export earnings). In the absence of

Equities:

NSE Market Cap. (N'bn):		11,404
NSE Market Cap. ($'mn):		63,839
NSE All Share Index (points):		34,543
YTD Return (%):		-16.4%
November Return (%):		-8.0%
P/E (x):		11.1x
Dividend Yield (%):		4.7%
Fixed Income:		
Interbank Rate:	O/N:	13.42%
	30-day:	14.04%
	90-day:	14.57%
Treasury Bills:	90-days:	13.43%
	180-days:	13.85%
	360-days:	13.3%
Bonds:	5-Year:	13.28%
	10-Year:	13.01%
	20-Year:	1307%
Exchange Rate:		
NGN/USD:		178.65
NGN/USD – Nov Return:		-7.5%

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significant surge in foreign portfolio investment (FPI), the Naira is expected to go through turbulent times in the near future if the expected deficit is financed externally. Thus, the current macro-economic balance support high yield levels in the near term, either through rapid increase in government bond issuance or lesser attraction to Nigerian bonds from foreign investors.

Further responses from the Apex Bank

The CBN at its November convocation reviewed the MPR from 12% to 13%, to support the Naira & attract investment inflows. Also, CRR on private sector deposit was raised by 5% to 20%, thus mopping up over N500 billion from the interbank system and reducing speculative tendencies against the domestic currency. This came as the Naira lost 10% in 3 months through November. We expect Naira depreciation to wane, even as oil price decline continues in the global market. We forecast a GDP growth of 7.1% 2014 (higher than the 6.77% in 2013). Broadly, GDP growth has come in stronger in 2014, compared to the previous year. Growth in 2014Q3 is 6.12%, relative to 5.17% in 2013Q3.

Equities – Another black month for stocks : The Nigerian equity extended the pullback in November, falling 8% to close the month at 34,542. Aggregate daily turnover for the month was N5 billion (representing 35% rise compared to the preceeding month), highlighting the strong pulse of the selloff. Overall, the YTD performance weakened to -16.42%, rendering broad market valuation more attractive at 4.7% div yield and 11.1x P/E. The pressure on Nigerian stocks can be explained by domestic and external liquidity factors, including currency weakness (-14% YTD) and estimated 30% decline in crude oil price to $70/barrel levels. In essence, negative macro-economic shocks, currency weakness and weak global liquidity have turned the tide on the Nigerian stock market towards the tail end of the year. Elsewhere in the fixed income market, yield levels improved marginally, motivating relative attraction to bonds and money market placements. Majorly, the Consumer Goods sector has shed 21.3% in the year, while the Industrial Goods and Financial

Services baskets have trimmed 18.7% and 20.4%, respectively. The Financial Services sector is more attractive now at 5.9x P/E and 7.5% div yield.

Bonds yields recorded fresh 6-month highs: The negative sentiment in the domestic bonds market persisted in November, with average bond yield appreciating a marginal 68bps to close the month at 13.1%. This is an indication of depressed investor appetite for Nigerian debts, particularly as renewed pressure on fiscal revenue lifts the risk premium on federal government debts. The bearish pressure on T-bills was more intense, average Treasury bill rate closed the month at 13.46%, translating to 1.9% MoM increase. The bechmark 5-year bond recorded the highest appreciation in yield for the month (+58bps). The generic 5-year,10 -year and 20-year instruments posted 13.28%, 13.01% and 13.07% yield levels, respectively. Considering the negative outlook for equity performance in the wake of depressed global liquity and pre-election preparations, we anticipate sustained demand for bonds and gradual decline in yields level for the rest of the year.

Strategic considerations for December performance: Last week's increment in CRR on private sector deposits from 15% to 20% by the CBN will translate to lower revenue and yield on asset for DMBs. Notably, most Banks have maintained a balanced Net Foreign Exchange position, with better capacity to weather the impact of Naira devaluation. That said, the impact of devaluation on banks' debtors and quality of loan book cannot be overemphazied. We look forward to moderated earnings growth in the Financial Services setor in 2014Q4. The new era of lower prices ushered into the cement space by Dangote Cement precipitated fresh concerns for investors, leading to increased selloff on Cement stocks as investors project lower earnings in the sector. In our view, a lower price environment should deepen the focus of strategic push toward cost optimization and operating efficiencies in the cement industry. Similarly, only a handful of the Consumer Goods names have yielded above average performance e.g. 7UP

December Market - Summary Outlook: Even as we see minimal downside from the current levels, we expect Investor sentiment towards stocks to remain weak till after the 2015 elections. Financial Services remained the cheapest sector at 5.9x P/E and 7.5% dividend yield. Continued pressure on oil export earnings, a fragile Naira and depressed global capital flows suggest a conservative outlook for equity market performance in December. This is more so as fears concerning upcoming general elections should continue to keep foreign portfolio infows on hold. Generally, we think the NSE ASI is close to the bottom, with less downside from the current levels. Majorly, broad market valuation of the Nigerian equities is relatively cheap at P/E- 11.1x and div yield 4.7%, compared to the MSCI frontier market index level – (16.5x P/E).

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