Market Round-up: Awaiting the numbers; Stocks likely to shed weight in January

9th January 2015

Global Macros – Awaiting the numbers: Globally, as investors patiently await the 2014FY growth and capital market performance data across the globe, the United States economy exhibited stronger macro outlook in December, with impressive jobs and output data. Majorly, total employment rose by 321,000 in November, compared with average monthly gain of 224,000 over the prior 12 months. Job gains in the world's biggest economy were widespread, led by growth in professional and business services, retail trade, health care, and manufacturing. The recent decline in global crude oil prices and further advance in shale production is anticipated to help fuel growth and improve trade balance in the new year. Fears remain nonetheless, particularly from the Eurozone's slackening ouput and extended depreciation in currency values across Sub-Saharan Africa. Overall, the US composite S&P 500 index accellerated 10.61% in 2014, further assisted by the marginal gains in December. The UK FTSE 100 fell by 5.7% in the year. Likewise, all the major emerging market stocks markets gained in the year - South Africa (+5.01%), China (+3.53%), India (+29.8%) and Turkey (+26%). Overall, the MSCI world equity index added 1.04% in December.

Nigeria– Weakening Naira overshadowed lower inflation level:

FX pressure swaying against the Nigerian economy got fierce in December, with the Naira recording fresh all-time lows of N187/USD in the interbank market. The nation's FX reserve also fell to $34.46billion (worsening the 12 months depreciation to $9billion or 26%). On the positive note however, headline inflation fell by 0.1%, following an episode of volatile inflation that peaked at 8.5% in September. 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 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

Equities:

NSE Market Cap. (N'bn):		11,478
NSE Market Cap. ($'mn):		61,691
NSE All Share Index (points):		34,657
YTD Return (%):		-16.1%
November Return (%):		-0.33%
P/E (x):		11.6x
Dividend Yield (%):		4.5%

Fixed Income:

Interbank Rate:	O/N:	10.95%
	30-day:	14.52%
	90-day:	15.24%
Treasury Bills:	90-days:	14.03%
	180-days:	13.01%
	360-days:	15.50%
Bonds:	5-Year:	15.3%
	10-Year:	14.9%
	20-Year:	15.2%

Exchange Rate:

NGN/USD:	186
NGN/USD – Nov Return:	-4.14%

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government bond issuance or lesser attraction to Nigerian bonds from foreign investors.

Equities – NSE ASI recorded maginal decline (-0.33%): Contrast to the precipitous decline in November, Nigerian equities waned mildy in December. The market index lost 0.33% in the month, pushing the 2014 year-end performance to -16.14%. Aggregate daily turnover for the month was N6.2 billion (representing 37% outperformance compared to the Ytd average). The higher trade value in the month was due to few cross trades, and not indicative of a strong directional trade. Broad market valuation remained stable at 4.5% div yield and 11.6x P/E. The pressure on Nigerian stocks can be explained by weaker macro fundamentals, including currency weakness (-17.17% YTD) and estimated 5% decline in crude oil price to $55/barrel levels. Elsewhere in the fixed income market, yield levels accelerated marginally, prompting relative attraction to bonds and money market placements. Majorly, the Industrial Goods sector shed 10.4% in the year, while the Consumer Goods and Financial Services baskets have trimmed 17.0% and 21.5%, respectively. The Financial Services sector remained attractive now at 5.8x P/E and 7.7% div yield.

Treasury Bills/Bonds yields breached new YTD highs: The sell off in the local bonds market persisted in December, with average bond yield rallying a significant 1.77% to close the month at 14.95%. This is a signal to weaker investor appetite for Nigerian debts, particularly as renewed pressure on fiscal revenue lifts the risk premium on federal government debts. Comparatively, the bearish pressure on T-bills was less intense - average Treasury bill rate closed the month at 13.76%, translating to 0.25% MoM increase. The bechmark 5-year bond recorded the highest appreciation in yield for the month (+102bps). The generic 5-year,10 -year and 20-year instruments posted 15.3%, 14.9% and 15.2% yield levels, respectively. Considering the negative outlook for goverment fiscal earnings in the wake of depressed global crude oil price and pre-election sell off, we anticipate sustained apathy towards Nigerian assets and elevated yields level in the first quarter of 2015.

Strategic considerations for January performance: The Naira closed 2014 at N186.05/$US in the interbank market, an implied 17.17% decline in the year. The local unit touched a low of N187.05/$US earlier in December, amidst accelerated exit from foreign portfolio investors. Last year's increasse in CRR on private sector deposits by the CBN and proposed implementation of the Treasury single accout by the Federal Ministry of Finance (FMF) is expected to weigh on the operating income and profitability of DMBs. Similarly, the impact of devaluation and further currency depreciation on banks' debtors and quality of loan book cannot be overemphazied. We look forward to moderated earnings growth in the Financial Services setor in 2014FY. The new era of lower prices ushered into the cement space by Dangote Cement is proving to be unsustainable, especially with the new surge in operating cost of cement makers. In our view, investors fears for major Industrial Goods sector names (including ASHAKA and WAPCO) may be overhyped. In our view, a lower price environment should deepen the focus of strategic push toward cost optimization and operating efficiencies in the cement industry. Cement makers are expected back on the positive path in 2015H2. Similarly, only a handful of the Consumer Goods names have yielded above average performance e.g. 7UP

January Market - Summary Outlook: We expect broad investor sentiment to improve after the general elections, even as weaker fiscal earnings and pressured Naira remain major concerns for investors. The Financial Services basket remained the cheapest sector from a fundamental point of view, at 5.8x P/E and 7.7% dividend yield. Thus, losses in equities should reverse in the new year, particularly starting from the second half of 2015. Continued pressure on oil export earnings, a fragile Naira and depressed global capital flows suggest a conservative outlook for equity market performance in 2015Q1. This is more so as fears concerning upcoming general elections should continue to keep foreign portfolio inflows on hold. Generally, we think the NSE ASI is close to the bottom, with less downside from the current levels. Majorly, Nigeria's composite market valuation is relatively cheap, at P/E- 11.6x and div yield 4.5%, compared to the frontier market average (MSCI Frontier index level – 16.5x P/E).

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