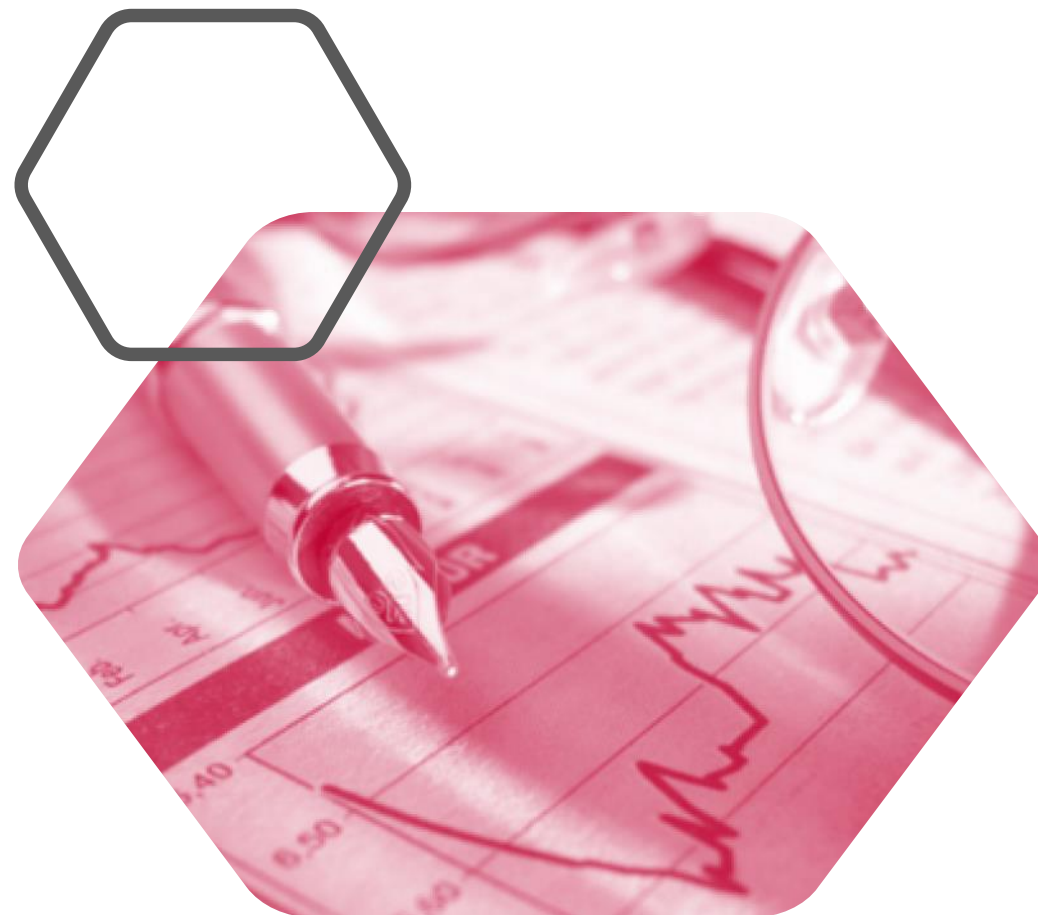


Macro Review:

Q3 2019 Highlights and Q4 2019
Outlook.

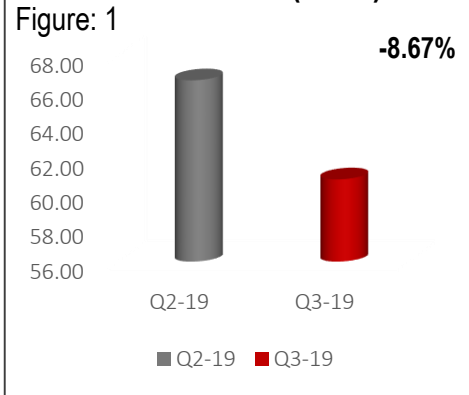
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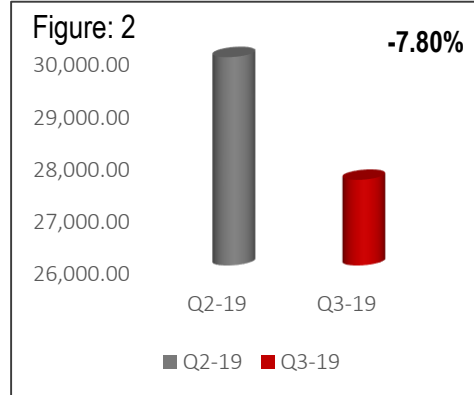


Key Points

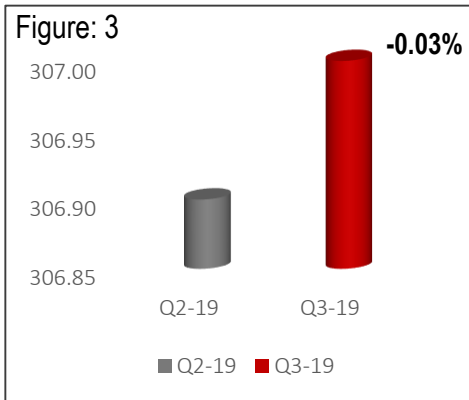
Brent Crude (\$/bbl)



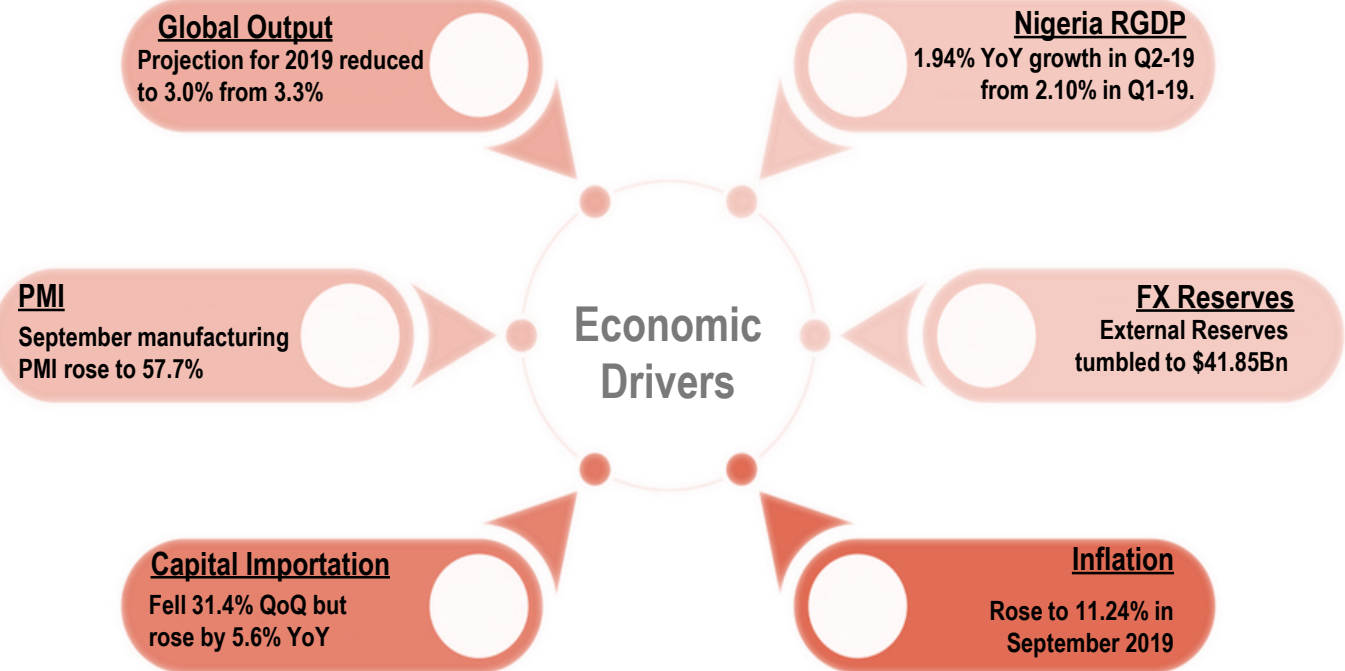
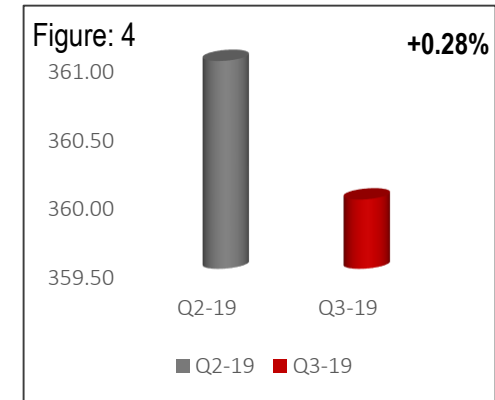
NSE ASI



Official Exchange Rate

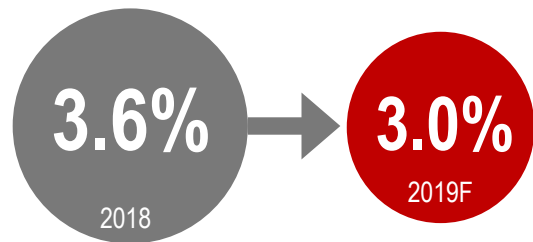


Parallel Market

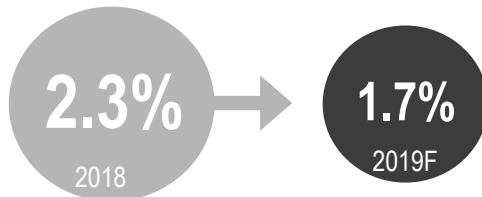


Global Economic Growth – Review and Outlook

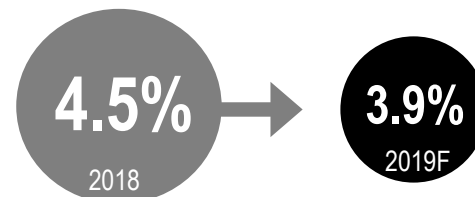
Global Growth Rate (Revised Downwards)



Advanced Economies (Revised Downwards)



Emerging Economies (Revised Downwards)



Source: IMF

IMF OCTOBER 2019 Theme: Global Manufacturing Downturn, Rising Trade Barriers.

IMF forecasted the global growth rate to 10 years low, forecasting a 3.0% global growth rate which is a 0.3% downgrade from previous publication in April. Global growth is expected to be better in 2020 with a forecast of 3.4% global growth rate (a 0.2% downgrade from April publication).

This downgrades were driven by the strains in some number of emerging markets in Latin America, the Middle East, and developing Europe. With uncertainties and prominent downside risks in countries like China, United States and the UK, an economic slowdown or a much more subdued pace of global activity could materialize.

Global growth has fallen over the past year, witnessed in both advanced economies and emerging economies.

Rising trade and geographic tension has led to a weakened momentum in manufacturing activities.

Global Economic Growth – World and Advanced Economies

Table: 1

	2018 (%)	2019 Old Projection (%)	2019 New Projection (%)	Difference (%)
World Output	3.6	3.2	3.0	-0.2

Table: 2

	2018 (%)	2019 Old Projection (%)	2019 New Projection (%)	Difference (%)
Advanced Economies	2.3	1.9	1.7	-0.2
United States	2.9	2.6	2.4	-0.2
Euro Area	1.9	1.3	1.2	-0.1
Germany	1.5	0.7	0.5	-0.2
France	1.7	1.3	1.2	-0.1
Italy	0.9	0.1	0.0	-0.1
Spain	2.6	2.3	2.2	-0.1
Japan	0.8	0.9	0.9	0.0
United Kingdom	1.4	1.3	1.2	-0.1
Canada	1.9	1.5	1.5	0.0
Other Advanced Economies	2.6	2.1	1.6	-0.5

Source: IMF

Global Economic Growth – Emerging Economies

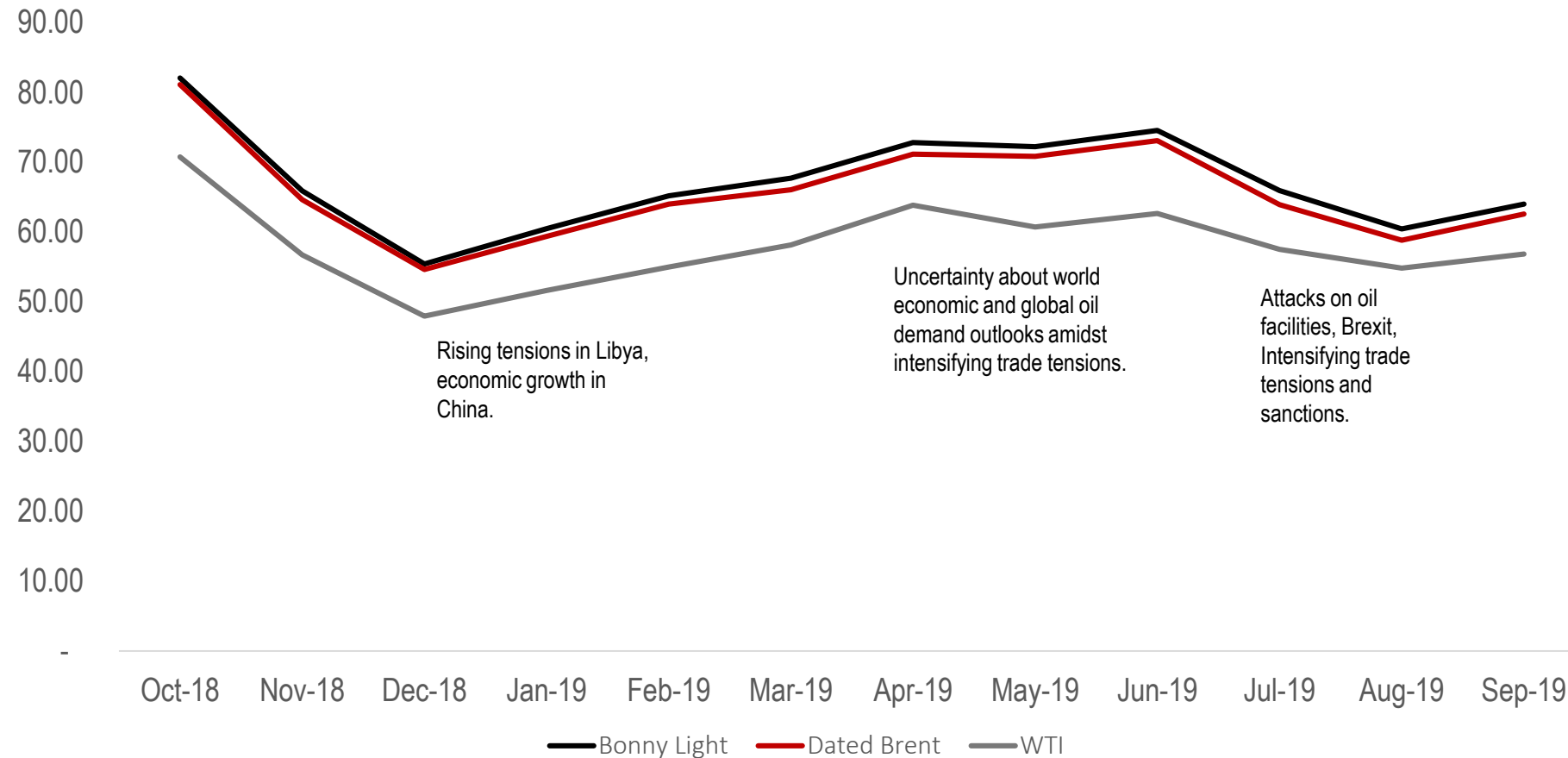
Table: 3

	2018 (%)	2019 Old Projection (%)	2019 New Projection (%)	Difference (%)
Emerging Markets and Developing Economies	4.5	4.1	3.9	-0.2
Emerging and Developing Asia	6.4	6.2	5.9	-0.3
China	6.6	6.2	6.1	-0.1
India	6.8	7.0	6.1	-0.9
ASEAN	5.2	5.0	4.8	-0.2
Emerging and Developing Europe	3.1	1.2	1.8	0.6
Russia	2.3	1.2	1.1	-0.1
Latin America and the Caribbean	1.0	0.6	0.2	-0.4
Brazil	1.1	0.8	0.9	0.1
Mexico	2.0	0.9	0.4	-0.5
Middle East and Central Asia	1.9	1.4	0.9	-0.5
Saudi Arabia	2.4	1.9	0.2	-1.7
Sub-Saharan Africa	3.2	3.4	3.2	-0.2
Nigeria	1.9	2.3	2.3	0.0
South Africa	0.8	0.7	0.7	0.0

Source: IMF

Comparative Crude Oil Prices – Last 12 months

Figure: 5



Oil price remains relatively low despite the attack that resulted in loss of about 5% of global oil production, Brexit, trade war and sanctions.

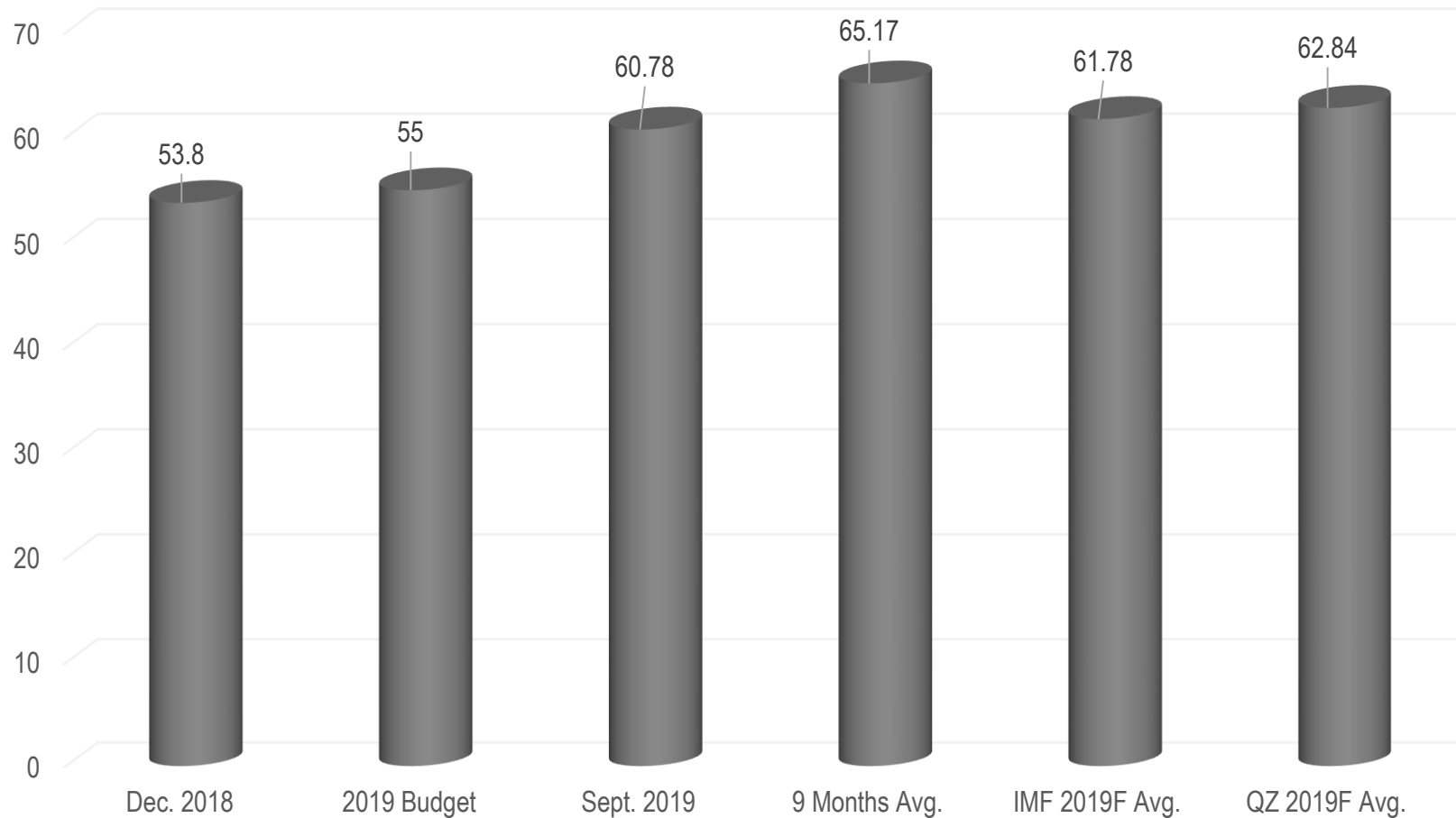
The attack on Saudi's oil facility only raised oil prices for a short period, after which prices started falling again.

There seem to be relatively no obvious factor to drive up oil price for a long period in the next quarter.

Source: OPEC, Quantum Zenith Research

Expectations for Crude Oil Price – Brent

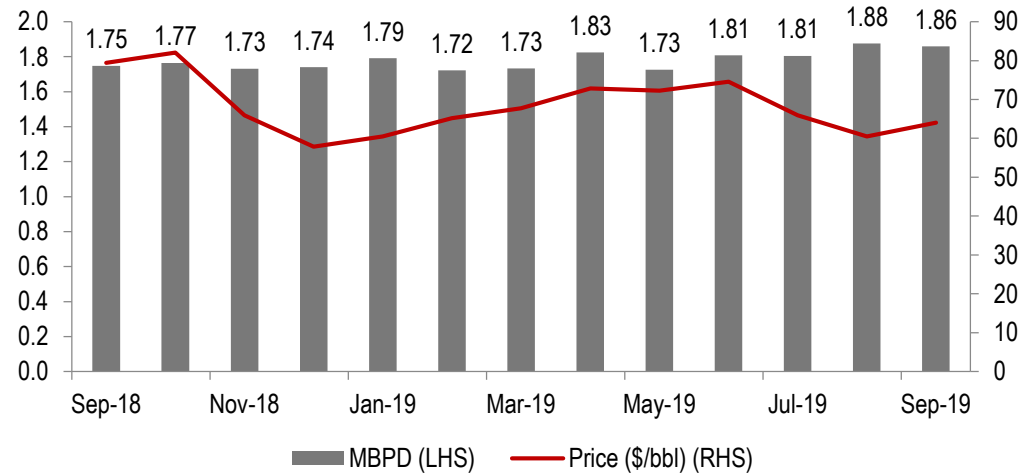
Figure: 6



Source: Bloomberg, IMF, Quantum Zenith Research

Government Finances – Oil Production & Reserves

Figure: 11

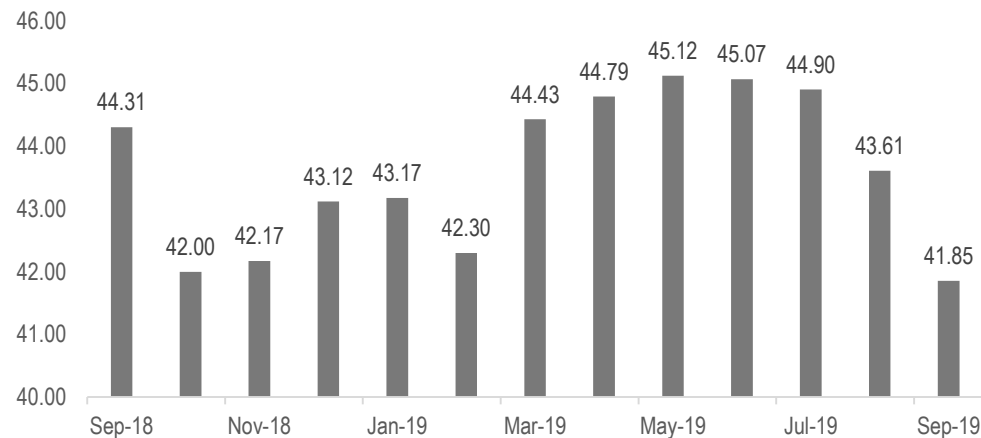


Source: OPEC, Quantum Zenith Research

OPEC Oil prices has been about \$68.36/bbl over the period of 12 months while Nigeria's oil production has consistently been around the 1.72 – 1.88MB PD window.

Figure: 12

Foreign Reserves \$'Bn

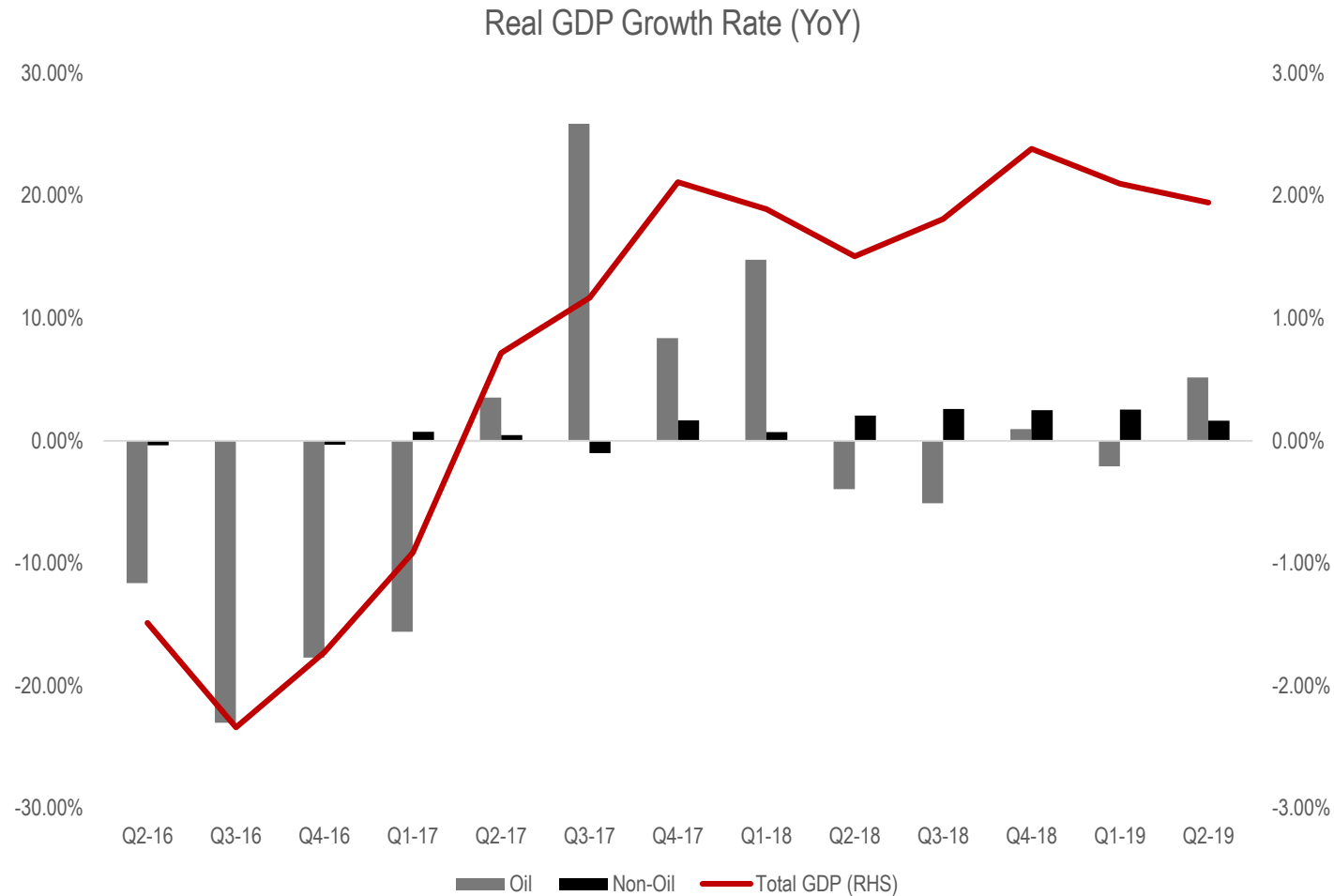


Source: CBN, Quantum Zenith Research

The country's foreign reserve has been on a free fall this quarter, from about \$44.3Bn in September 2018, to \$41.9Bn at the end of Q3-2019.

Domestic Economic Growth - GDP

Figure: 7

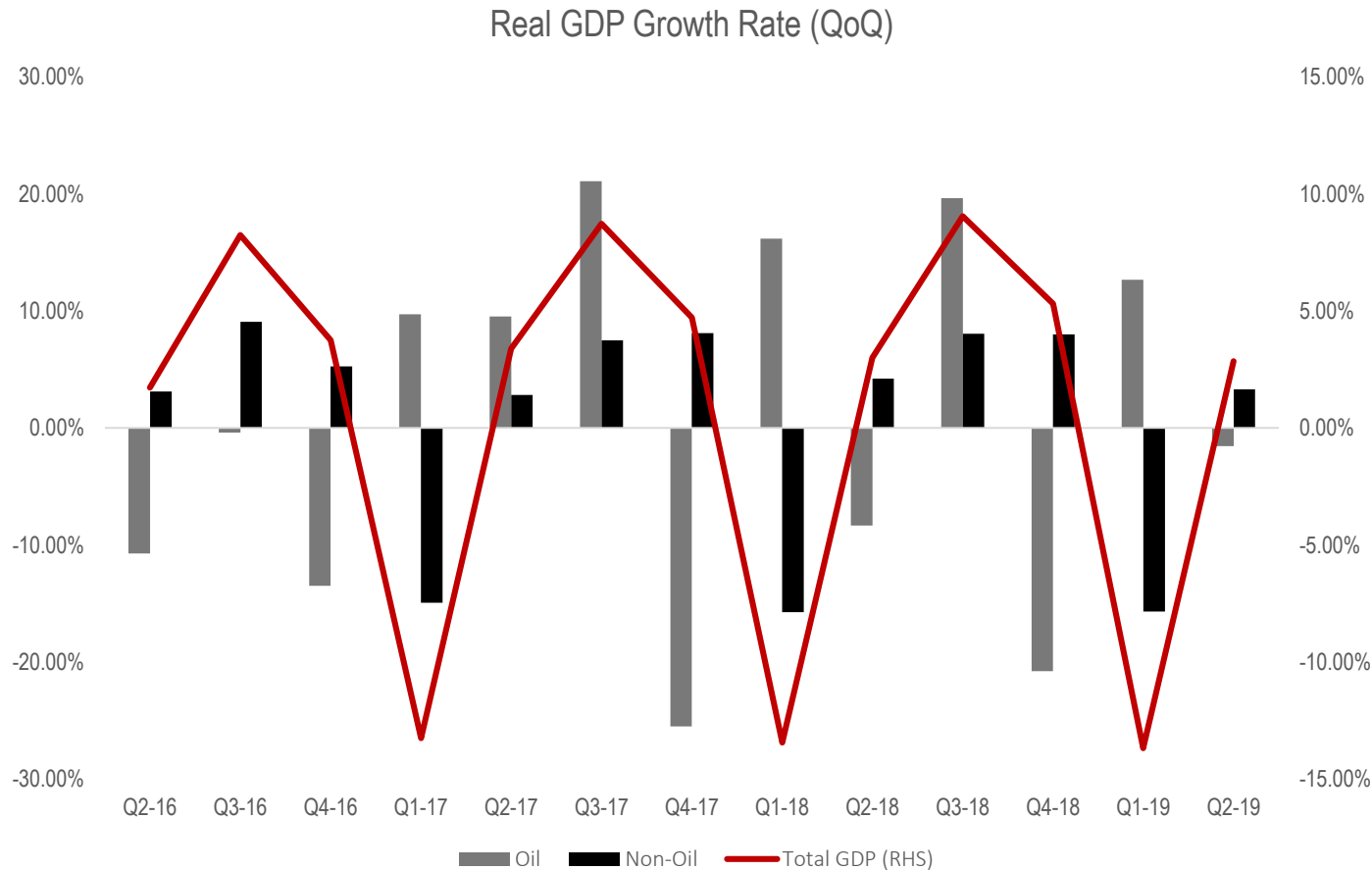


Source: NBS, Quantum Zenith Research

- Real GDP grew by 1.94% YoY in Q2 2019, driven largely by the oil sector with a growth rate of 5.15% YoY, contributing about 9% to GDP.
- Despite government's plan towards supporting Agriculture and Manufacturing in the country, sluggish growth rate was witnessed by the agricultural sector with a real GDP growth rate of 1.79% YoY, while the manufacturing sector contracted by 0.13% YoY.
- Likewise, financial and insurance sector recorded a contraction of 2.24% YoY.

Domestic Economic Growth - GDP

Figure: 8



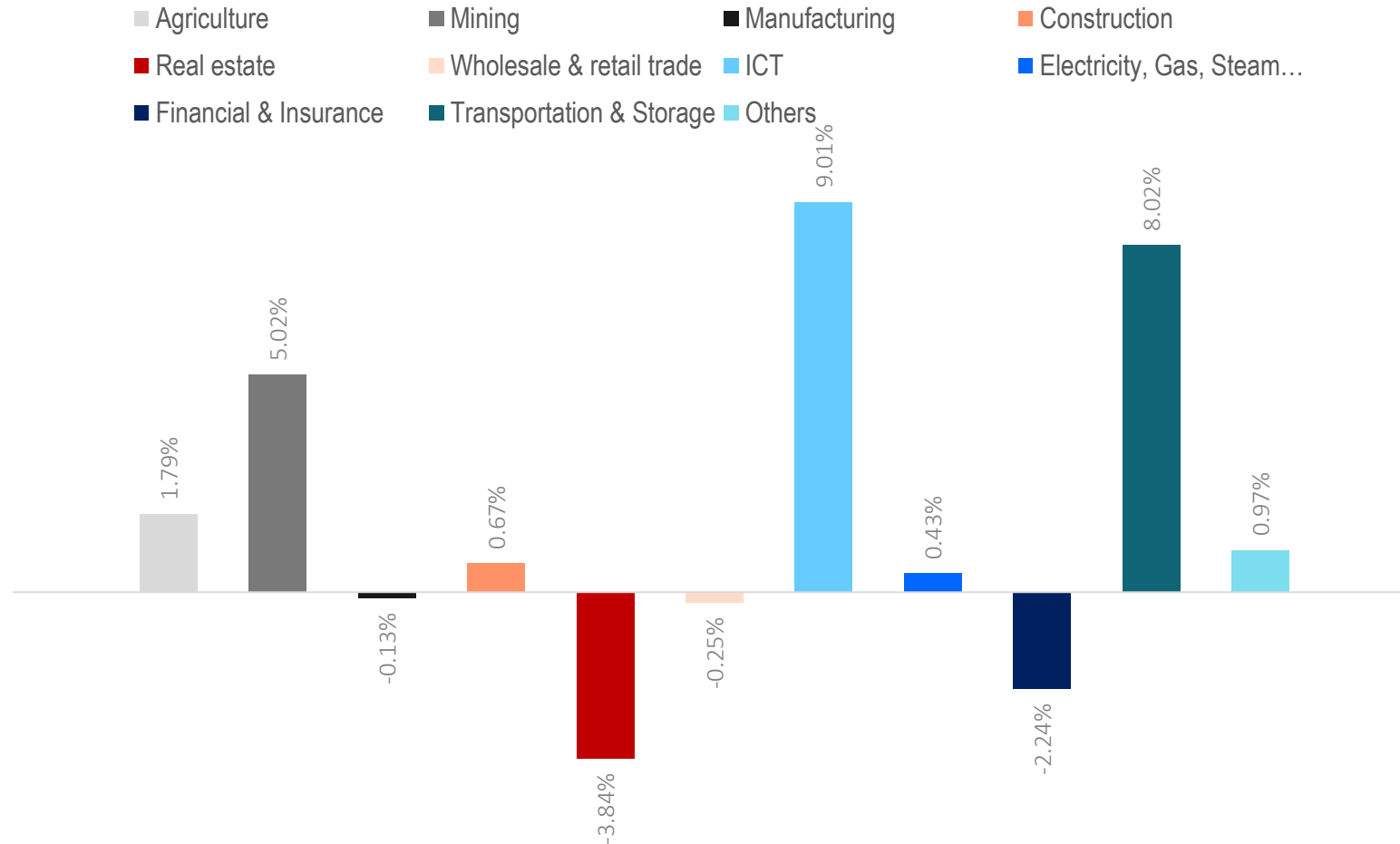
Source: NBS, Quantum Zenith Research

- ❑ The agricultural sector being the largest contributor to GDP, contributing 22.8% to GDP, recorded a growth of 7.2% QoQ.
- ❑ Despite government effort to resurrect the manufacturing sector, it also contracted by 4.4% QoQ, contributing about 9.1% to GDP which is lower than previous quarter's 9.8% contribution to GDP.
- ❑ Construction and Real estate sectors contributing about 10.9% to GDP also grew at 12.1% QoQ and 18.8% QoQ respectively. With the real estate sector surging from a negative growth (-27.1%) to the current 18.8% QoQ.
- ❑ The Nigerian oil sector declined by 1.6% QoQ while contributing only 8.8% to the GDP, yet it contribute over 80% to Foreign Reserve and Government Revenue.

Domestic Economic Growth - GDP

Real GDP Sector Growth Rate (YoY)

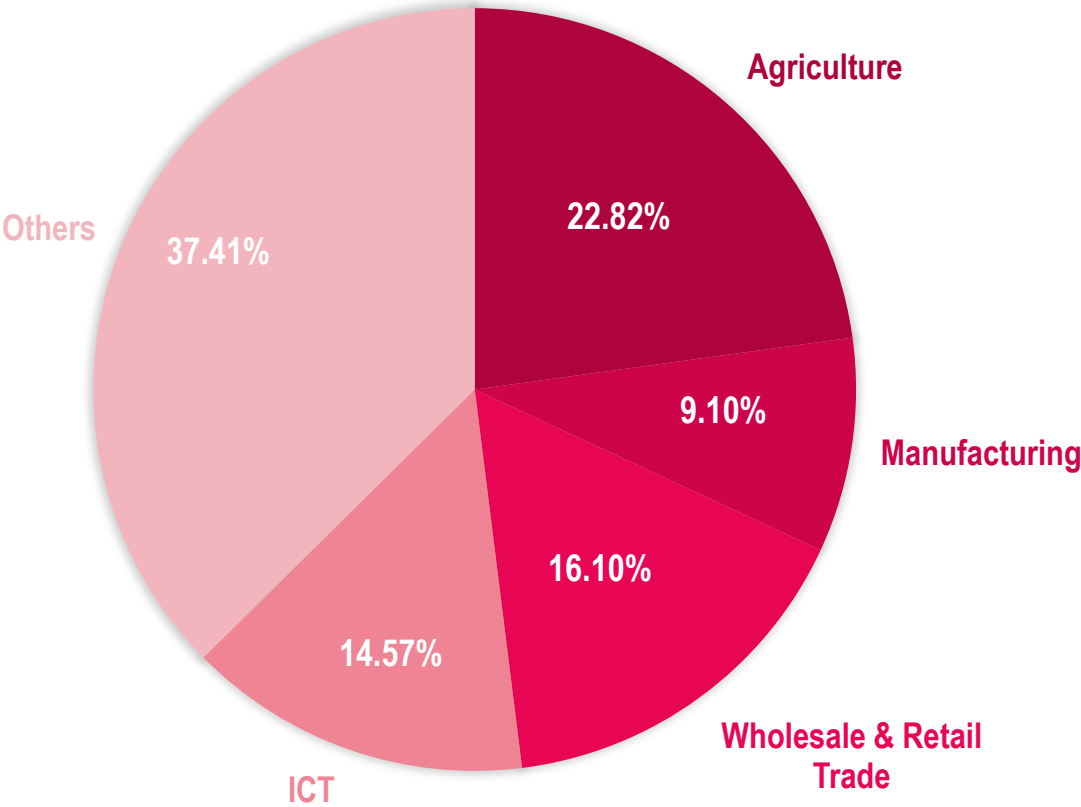
Figure: 9



Source: NBS, Quantum Zenith Research

Figure: 10

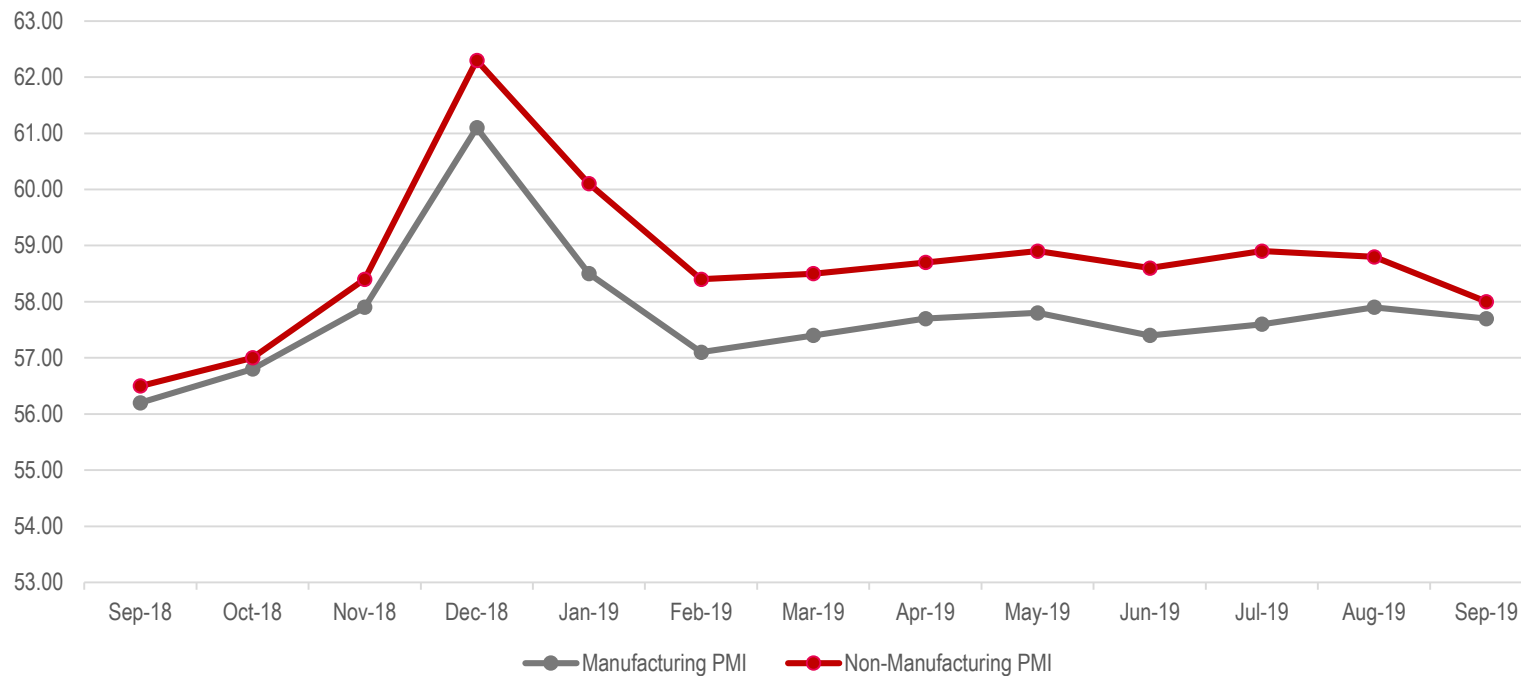
CONTRIBUTION TO NIGERIA'S GDP



Source: NBS, Quantum Zenith Research

Purchasing Managers Index

Figure: 13



Source: CBN, Quantum Zenith Research

- The PMI continues to look promising in the third quarter of 2019, according to data published by the CBN.
- The composite PMI for the manufacturing sector tracks production level, level of new orders, suppliers' delivery time, employment level and raw materials inventory/work in progress, while the composite PMI for the nonmanufacturing sector tracks business activity, level of new orders, employment level and raw materials inventory.

Capital Importation

Table: 4

\$'Mn	Q2-19	Q1-19	Q2-18	%Δ Q-o-Q	%Δ Y-o-Y
Foreign Direct Investments	222.89	243.37	261.34	-8.42%	-14.71%
<i>Equity</i>	222.89	242.67	255.71	-8.15%	-12.83%
<i>Other Capital</i>	-	0.70	5.63	-100.00%	-100.00%
Portfolio Investments	4,292.89	7,145.97	4,119.46	-39.93%	4.21%
<i>Equity</i>	496.84	656.19	1,048.39	-24.28%	-52.61%
<i>Bonds</i>	316.28	565.65	400.14	-44.09%	-20.96%
<i>Money Market Instruments</i>	3,479.77	5,924.13	2,670.93	-41.26%	30.28%
Other Investments	1,304.44	1,096.15	1,132.74	19.00%	15.16%
<i>Loans</i>	890.96	752.29	1,121.66	18.43%	-20.57%
<i>Other Claims</i>	413.48	343.86	11.08	20.25%	3631.77%
Total Capital Importation	5,820.2	8,485.5	5,513.5	-31.4%	5.6%

Source: NBS, Quantum Zenith Research

- Capital inflows pulled back to \$5.82bn in Q2-19 from \$8.49bn in Q1-19. Comparing it with Q2-18, there is a 5.6% increase in total capital importation.
- The 31.4% QoQ decline was largely driven by substantial decline in Portfolio Investments inflows.

Table: 5

Top 5 countries of origin	Q2-19	Q1-19	Q2-18
1	UK	UK	UK
	3,134.47	4,531.22	1,772.53
2	US	US	US
	1,150.82	1,532.37	1,224.09
3	UAE	SA	UAE
	343.59	763.50	535.98
4	S. Africa	UAE	S. Africa
	314.16	272.88	396.40
5	Belgium	Switzerland	Belgium
	207.85	271.04	368.82

FX Inflows through the I & E Window \$'Mn

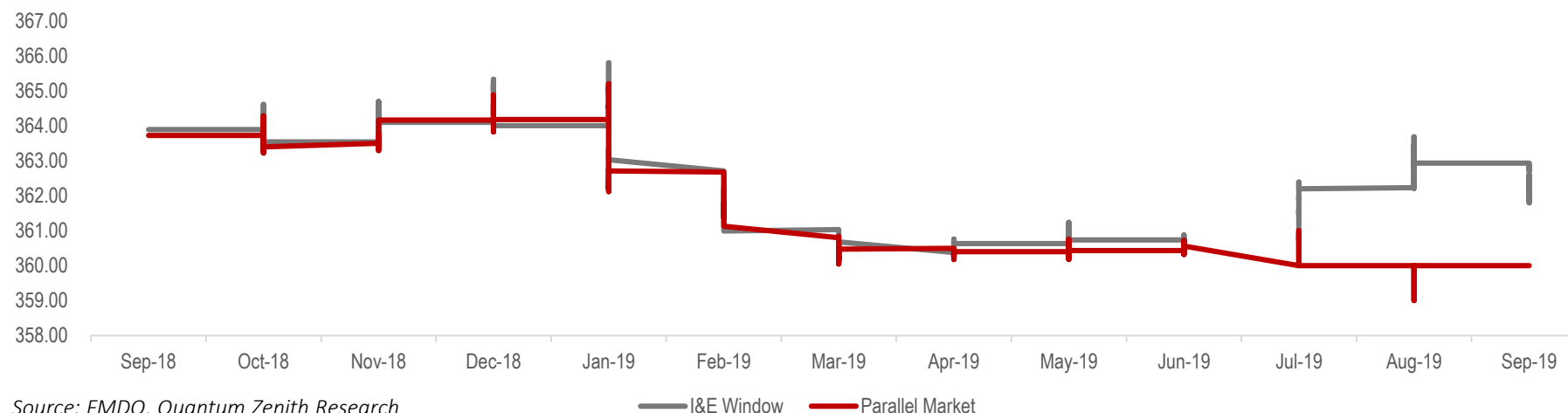
Table: 6

Source	Participant	Q3-19	Q3-19	Q2-19	Q2-19	Q1-19	Q1-19	Q4-18	Q4-18	Q3-18	Q3-18
International	FDI	909.2	11.31%	392.2	5.35%	659.5	5.22%	192.4	2.30%	68.5	0.70%
International	FPI	2,272.00	28.26%	4,320.70	58.95%	7,824.70	61.92%	1,817.70	21.79%	2,204.70	23.40%
International	Corporates	201	2.50%	173.9	2.37%	108.8	0.86%	125	1.50%	231	2.50%
Domestic	CBN	2,855.90	35.52%	38.50	0.53%	1,473.40	11.66%	3,728.30	44.70%	4,212.90	44.80%
Domestic	Exporters	219.7	2.73%	245	3.34%	320.7	2.54%	412.1	4.90%	245.9	2.60%
Domestic	Individuals	36.8	0.46%	16.4	0.22%	53.4	0.42%	29.7	0.40%	58.7	0.60%
Domestic	Corporates	1,546.20	19.23%	2,143.50	29.24%	2,195.60	17.38%	2,035.00	24.40%	2,381.80	25.30%
Total		8,040.80	100.00%	7,329.90	100.00%	12,636.10	100.00%	8,340.20	100.00%	9,403.50	100.00%

Source: FMDQ, Quantum Zenith Research

Figure: 14

Exchange Rates (USD/NGN)

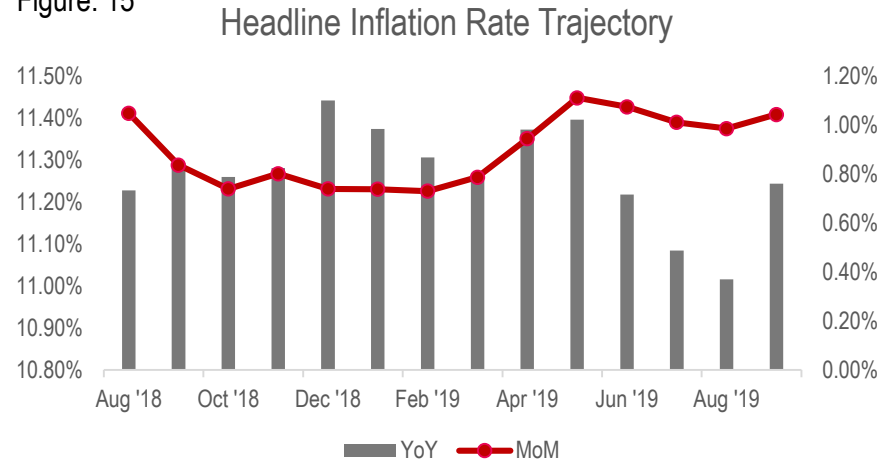


Source: FMDQ, Quantum Zenith Research

Naira depreciated by 25bps at the I&E window against the dollar to ₦362.23 at the end of Q3, while the parallel market rate appreciated by 55bps from ₦361.00 to ₦360.00.

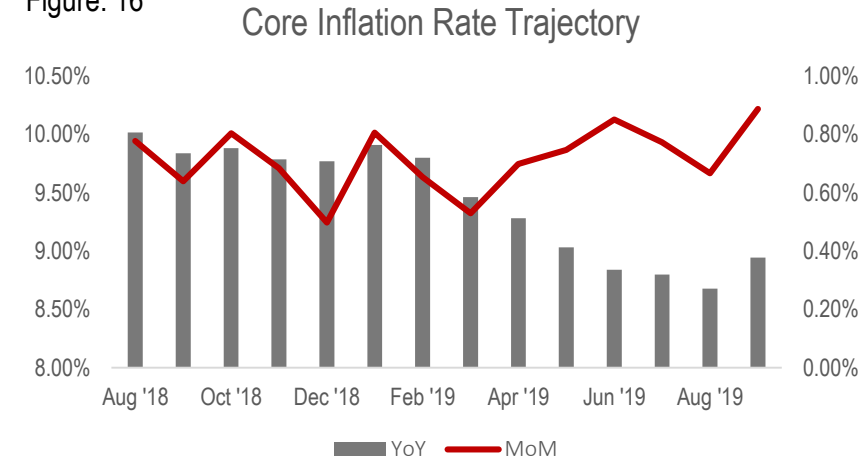
Inflation Rate

Figure: 15



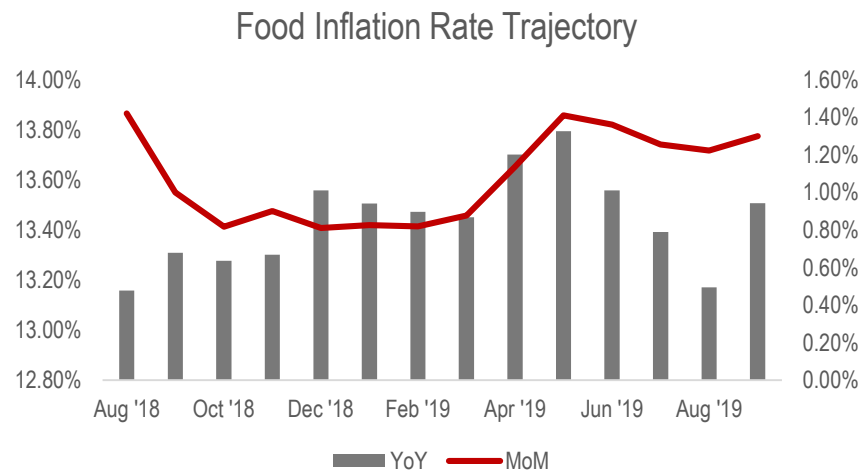
Source: NBS, Quantum Zenith Research

Figure: 16



Source: NBS, Quantum Zenith Research

Figure: 17

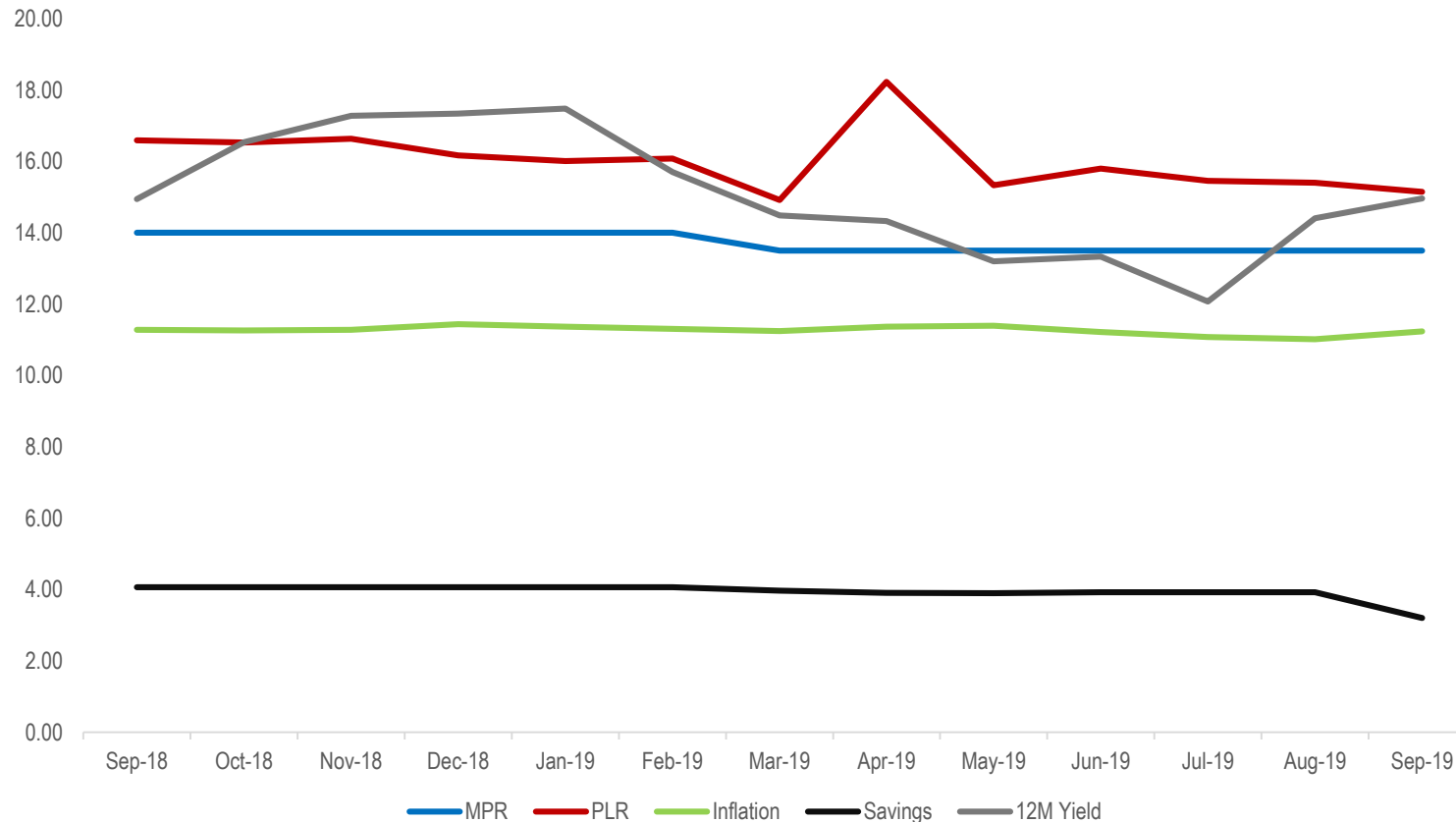


Source: NBS, Quantum Zenith Research

Inflation rate stood at 11.24% (year-on-year) in September 2019, showing that the headline inflation rate soared by 22bps. Month-on-month (m/m) headline inflation rate increased to 1.04% up from 0.99% reported in August 2019. The increase in the headline inflation rate was driven by the spike in food prices as a result of excessive floods and closure of the country's borders which raised the food index by 34bps YoY and 8bps MoM to 13.51% YoY and 1.30% MoM respectively. The core index also rose for the first time in 2019 by 26bps YoY and 22bps MoM to 8.94% YoY and 0.89% MoM respectively. The currently border closure is expected to lead to accelerated growth in food prices. Therefore, average inflation rate for next quarter is not expected to slow down.

Interest Rate

Figure: 18



Source: CBN, Quantum Zenith Research

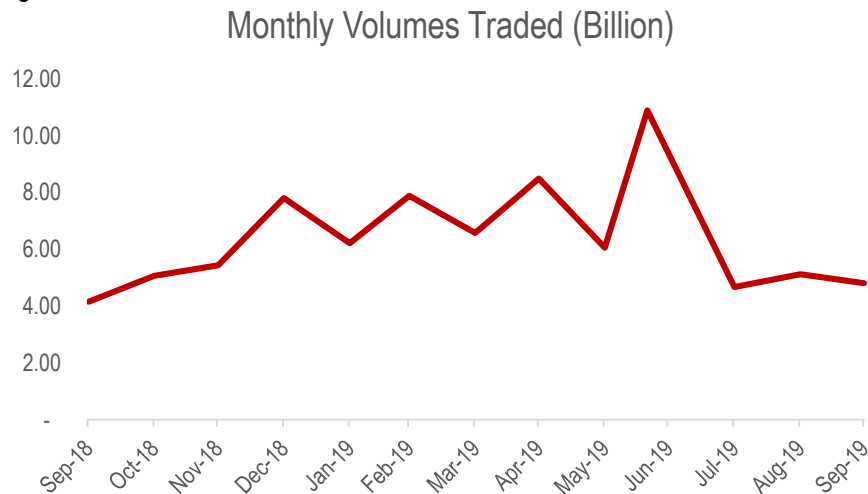
- The MPC held its meetings in July and September, 2019. MPR was retained at 13.5% with asymmetric window at +200 and -500 basis points around the MPR, despite inflation rate that is higher than the CBN's target and sluggish economic growth.
- Liquidity ratio and the CRR ratio were also maintained at 30% and 22.5% respectively.
- The MPC argued that a clear understanding of the quantum and timing of liquidity injections into the economy is required before deciding on possible adjustments to the stance of monetary policy.

Market Review and Outlook

Equity Market

- The local bourse was bearish during the third quarter as the NSE ASI depreciated by 780bps. The Market's best performing for the quarter was WAPCO, gaining 32.50% during the quarter, while Forte Oil was the highest loser, after recording a price depreciation of 41.04%.
- Market capitalization on the other hand rose by 1.85% which was driven by the listing of Airtel Nigeria on NSE in July, adding up to ₦1.364Tn to the equity market at the end of first trading day.
- The ASI seem to be lagging when compared with the MSCI Emerging Market Index and the MSCI Frontier Market Index.

Figure: 19



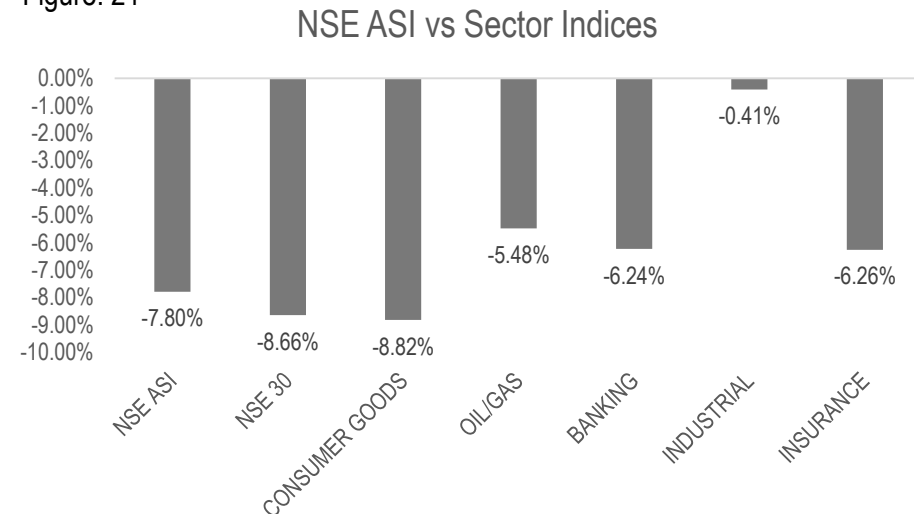
Source: NSE, Quantum Zenith Research

Figure: 20



Source: NSE, Quantum Zenith Research

Figure: 21



Source: NSE, Quantum Zenith Research

Fixed Income Update

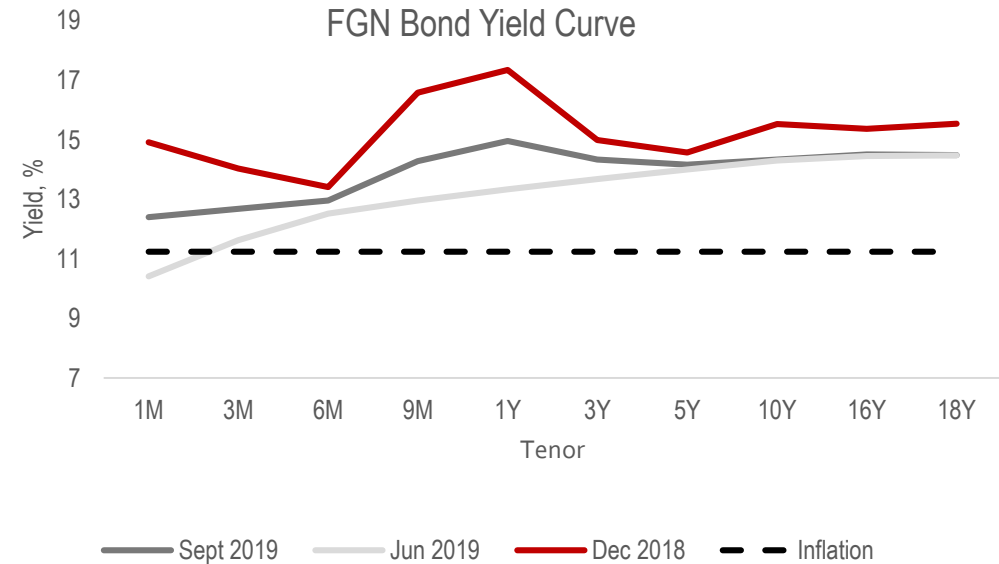
Table: 7

NITTY Fixing	Sept-19 Yield	June-19 Yield	Dec-18 Yield	QoQ Change	YTD Change
1 Month	12.40%	10.41%	14.91%	1.99%	-2.51%
3 Months	12.68%	11.63%	14.04%	1.05%	-1.36%
6 Months	12.96%	12.52%	13.41%	0.44%	-0.45%
9 Months	14.28%	12.96%	16.58%	1.32%	-2.30%
12 months	14.96%	13.33%	17.34%	1.63%	-2.38%
NITTY Average	13.46%	12.17%	15.26%	1.29%	-1.80%
FGN Bond Average	14.34%	14.24%	15.20%	0.10%	-0.86%
FGN Eurobond Average	6.38%	6.42%	8.25%	-0.04%	-1.87%

Source: FMDQ, Quantum Zenith Research

Average yields on Treasury bills rose in at the end of Q3-2019 to 13.46%, while federal government bonds recorded a yield appreciation of 10bps on average to 14.34%. Conversely, average yield on FGN Eurobond depreciated by 4bps.

Figure: 22



Source: FMDQ, Quantum Zenith Research

Inflation rate has averaged 11.11% during the quarter, with September's inflation rate being the highest in the quarter, reported to be 11.24%.

Despite rising inflation rate, the FGN Bond yield curve still shows a positive real return for investors as yields on treasury bills, FGN bonds and FGN Eurobonds are above the inflation rate, rising above numbers recorded in previous quarter.

Equities – Our thoughts are unchanged; we look to the fundamentals as economic concerns linger

- The local bourse sustained its bearish performance in Q3 as investors watch from the sidelines with anticipation of a positive trigger. This trend is expected to continue through Q4 and the ASI is expected to decline further.
- With no factor or incentive attracting foreign investors, sluggish economic policies accompanied with a harsh business environment, the low relative valuation of NSE Stocks is expected to persist as sell-offs continues.
- The CBNs directive for banks to maintain a minimum L/D ratio of 65% from December 2019 is a cause for concern for many banks, as banks avoid the risk of non-performing loans and write offs, which could potentially alter the fundamentals of some favourite banks.

Fixed Income

- Fund managers showed conservative investment approach, as most of the capital inflows in Q3 were directed towards the fixed income market. This is expected to continue through Q4, as the equity market is not looking so attractive enough for both foreign and local investors.
- Yields on both treasury bills and feral government bonds is not expected to soar so high in Q4, it is expected to be in the current corridor or even inch down.

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