Nigeria's Economic Outlook

Political Environment | Time to decide.

In February 2019 Nigerians will vote for their next president, deciding who will lead Africa's largest economy and most populous country for the next four years. They will also elect the governors of 29 of Nigeria's 36 states, and all federal and state legislators.

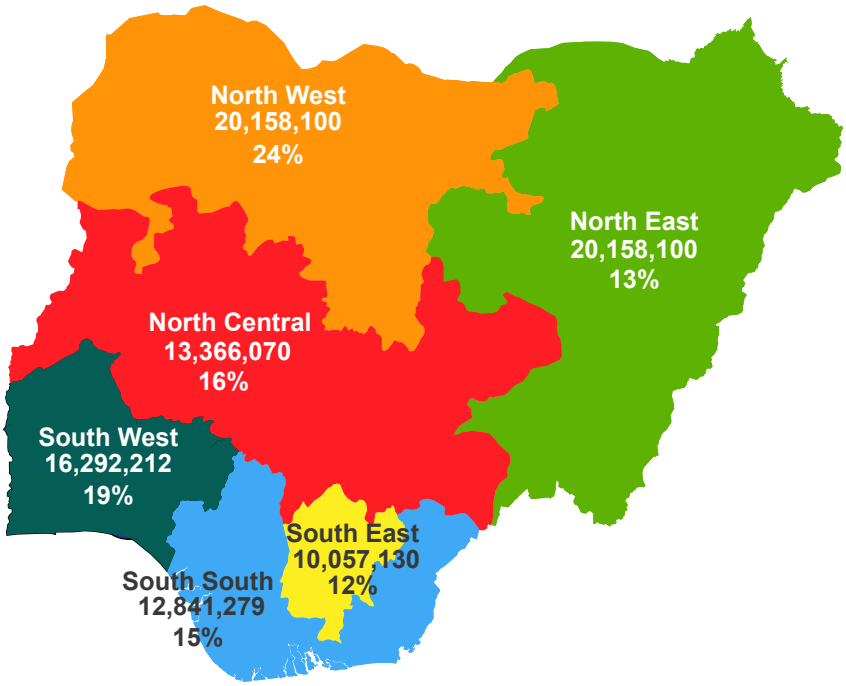
The major parties contesting the elections are the governing All Progressives Congress (APC) and the opposition People's Democratic Party (PDP), with the incumbent, President, Muhammadu Buhari and former Vice President, Atiku Abubakar, as their respective flag bearers.

However there are other smaller parties also contesting. including Kingsley Moghalu (Young Progressive Party - YPP), Gbenga Olawepo-Hashim (People's Trust - PT), Oby Ezekwesili (Action Congress Party of Nigeria - ACPN), Fela Durotoye (Alliance for New Nigeria - ANN) and Omoyele Sowore (African Action Congress - AAC).

The Independent Electoral Commission (INEC) recently disclosed that the final register for the 2019 general elections stands at around 84 million voters which was broken down according to geopolitical regions as follow;

Total Registered Voters (2019)

84,004,084



The presidential race will be decided in a few key states. We explore the key factors that will determine the results.

Key factors which will determine results.

The first will be the degree to which the ruling party either remains united behind the incumbent president's candidacy or sees additional high-profile defections and a widening of existing factional divisions.

The 2015 elections marked a turning point in Nigeria's political journey since the return to civilian rule in 1999. This was the first time an opposition party had won both the presidential election and a majority in the legislative and gubernatorial polls. It was also the first time that an incumbent president had been defeated.

History repeated itself in July 2018 with the mass defection back to PDP of a sizeable number of senators, federal representatives and others including the Senate President, Bukola Saraki and the Speaker of the House, Yakubu Dogara who left the party at the last election.

The 2015 elections marked a turning point in Nigeria's political journey since the return to civilian rule in 1999.

Within the ruling party, powerbrokers are already shifting their focus to the next electoral cycle in 2023.

The second will also be how the voters perceive the president to have performed over the past four years.

The Incumbent President will be measured on the performance of the economy, fighting corruption, combating insecurity, improving public services and creating social welfare programmes.

At the inception of this administration, the new president took several months to name his cabinet. Speculation over his health and criticism of his presidential style, persisted.

Overseas visits by the president to address an undisclosed health issue helped create a fertile environment in which an internal party conflict then festered.

The economy entered recession, largely as a result of low world oil prices, reduced oil production, the government's slow policy response and illiberal economic policies.

The naira plummeted as the Central Bank of Nigeria imposed foreign exchange controls to avoid devaluation, and food prices shot up as the effects of protectionist trade policies hit consumers.

On security, the presidency claims to have weakened the Boko Haram

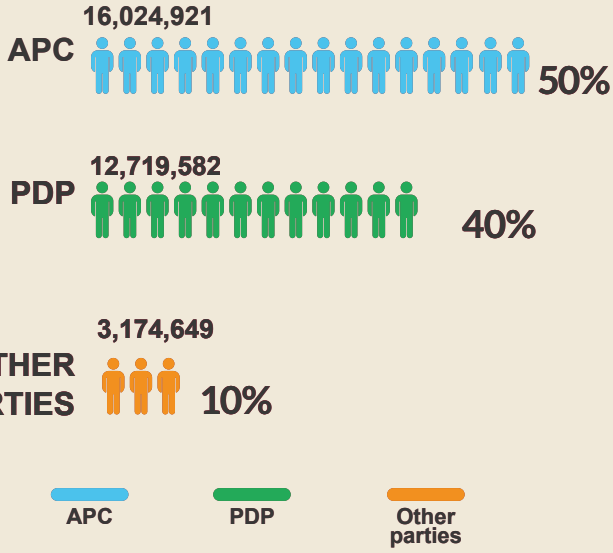
The 2015 Elections results: A snapshot of the past.

2015 Historic Data

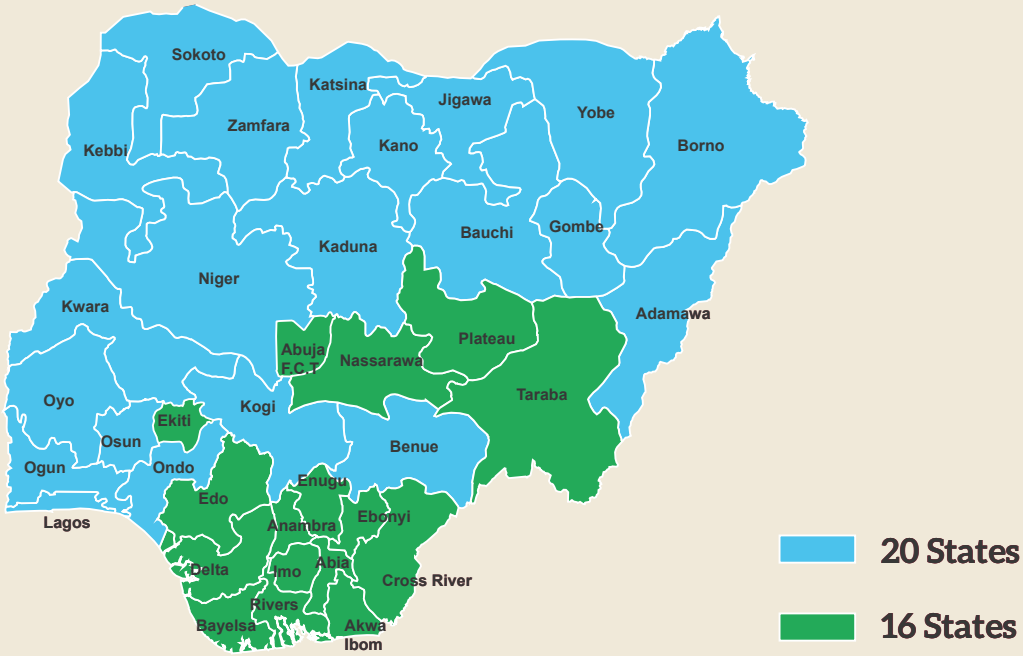
67,632,376
Registered Voters

31,746,490
Accredited Voters

47%
voters turnout



Result by States



insurgency, however clashes between farmers and Fulani Headsmen have left may dead and devastated parts of the Middle Belt region.

Over the past few weeks however, there have also been high profile defections from the PDP to the ruling APC such as the defection of former Governor of Akwa Ibom State Senator Godswill Akpabio and a host of others. Looking ahead, the PDP's competitiveness will depend on its ability to unify against a well-financed incumbent president who retains a strong support base across much of the north.

The likely Results of the 2019 Elections.

Using the total number of registered voters for the year 2019 and recent Osun and Ekiti Gubernatorial elections as a barometer for the upcoming election, we envisage a close contest particularly in battle ground states such as Lagos, Ekiti, Osun, Kwara, Benue and Sokoto.

Under these circumstances, we have created two scenarios in which either candidate may win the election.

2019 Voters Data

84,004,084
Registered Voters

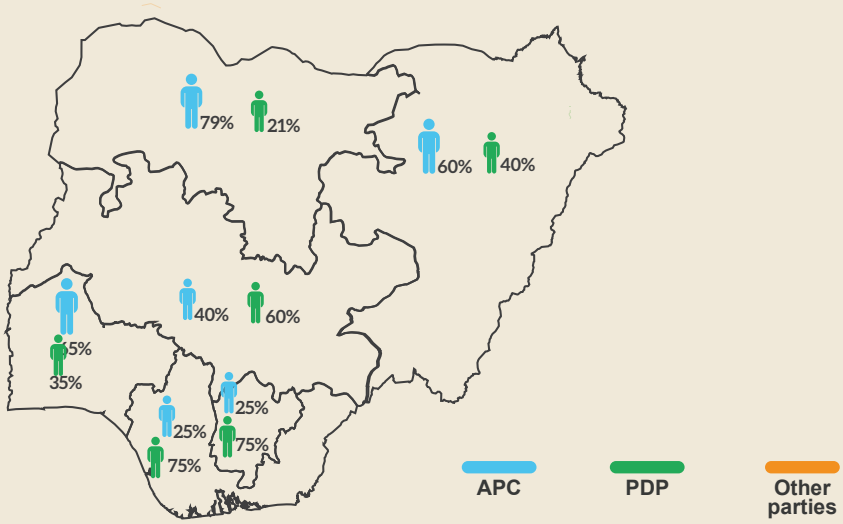
39,601,298.65
Accredited Voters

Assumption:
47% assumed turnover based on 2015 election.

Scenario 1: Incumbent President Buhari to win

Likely election outcome

Regions to win



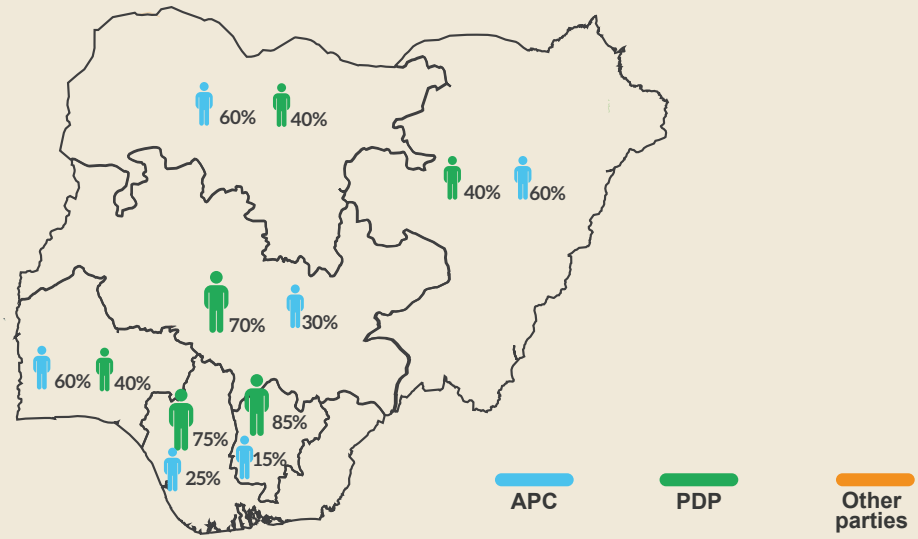
Assumptions:

1. APC and PDP share 90% of voters while other parties share 10%.
2. Voting pattern reflects the 2015 elections across both parties with slight moderations.
3. President Buhari maintains his strong position in key states in the N/West, especially Kaduna, Kano and Katsina.
4. He is expected to make gains in the South South and South East regions from 8% and 7% in 2015 to 25% and 25% in 2019 respectively.
5. He is expected to see reduced support in the North Central and North East regions from 58% and 78% in 2015 to 40% and 60% in 2019 respectively. This is due to the resent farmer-herdsmen clashes in the North central region and also the fact that the opposition, Atiku Abubakar hails from the North Eastern region.
6. The APC to leverage the power of incumbency.

Scenario 2: Atiku Abubakar to win

Likely election outcome

Regions to win



Assumptions:

1. APC and PDP share 90% of voters while other parties share 10%.
2. Take advantage of the frustration of the political elites who have openly aired their disapproval of the incumbent's second term bid as well as the commitment of the recent defectors to deliver a significant number of votes for the party.
3. N/Central zone may switch overwhelmingly in favour of the PDP, due to the herdsmen's crisis, especially in Benue and Plateau States.
4. PDP's popularity in the S/South and S/East remains unchanged in 2019 as the PDP has maintained dominance in the Zone for 20 straight years.
5. Young voters may swing votes away from the APC without necessarily voting for the PDP which may significantly drag the APC margin in favour of PDP.

REGION	KEY ISSUES/ INFLUENCERS TO WATCH
South-west	• Incumbent governor of Lagos State's inability to recontest on the APC platform. • Appointed candidate of outgoing Ogun State governor defection to another party. • Loss of PDP state (Ekiti and Ondo) to APC. • 2023 Factor.
North-Central	• Defection of Kwara and Benue state governors
South-South	• Cross carpeting of several influencers such as Akpabio, Udo
South-East	• Imo state inter party rift • Choice of Peter Obi as PDP running mate has divided party • Candidates Oby Ezekwesili and Kingsley Moghalu may split votes. • Anambra Governor Obiano likely to support APC.
North -East	• Insurgency could distrupt elections • Home state of the PDP candidate • Gombe State governor's influence • Influence of defectors in Taraba (Aisha Alhassan), and Bauchi (Yugu and Muazi)
North-West	• Strong hold and popularity of incumbent president • High profile defection of Sokoto state governor Aminu Tambuwal, and Kano State Senator Rabiu Kwankwaso • Infighting between APC governor and senators in Kaduna may lead to gang up. • Current party crises in Zamfara and non-fielding of candidate.

Conclusion

The 2019 election is anticipated to be a tightly contested election. Success in the 2019 presidential elections hinges on the ability of the two main parties involved to consolidate votes in their respective strongholds. We have seen that a victory is likely for the PDP, if they are able to gain ground in the North. This victory is possible even if APC retains victory in the same regions as in 2015. Conversely, the APC will need to consolidate its votes in the South West, while retaining its firm grip in the North in order to secure a second term for President Muhammadu Buhari.

GDP | Oil sector continues to fuel economy

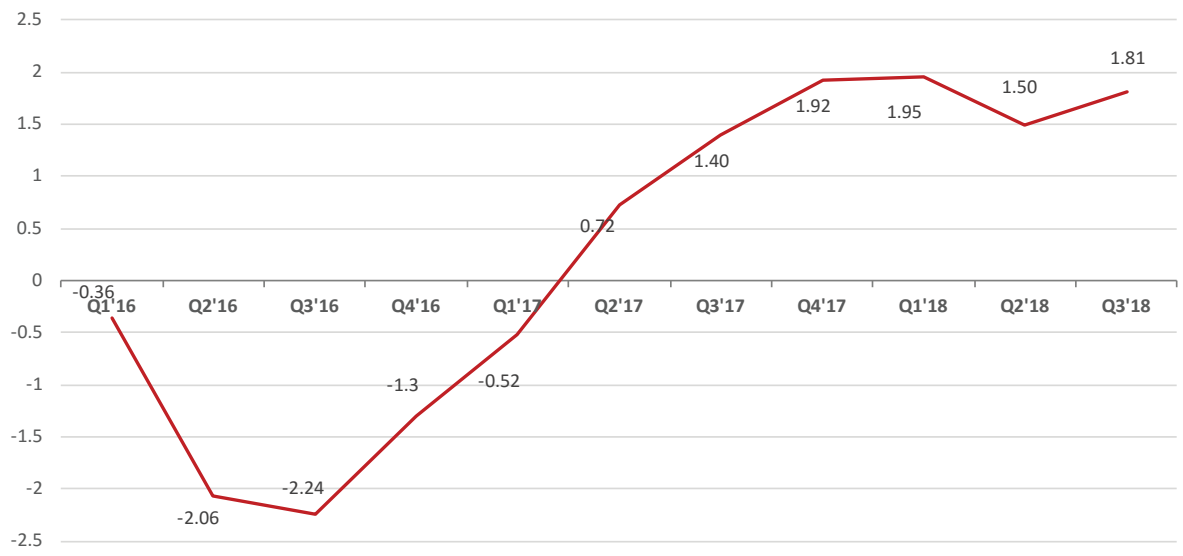
The year 2018 has again highlighted the unsustainable dependence of the Nigerian economy on oil revenues. The Non-oil sector has however begun to contribute more meaningfully to growth, with expansions in the Agriculture and Services sectors especially. The relative stability in the forex market has aided economic growth in the period in view.

Nigeria's Gross Domestic Product (GDP) grew by 1.95% (year-on-year) in real terms in the first quarter of 2018. This shows a stronger growth when compared with the first quarter of 2017 which recorded a growth of -0.91% indicating an increase of 2.87% points.

In the second quarter of 2018, Nigeria's Gross Domestic Product (GDP) grew by 1.50% (year-on-year) in real terms to N16.58trillion. Growth in Q2 2018 was 0.79% points higher when compared to the second quarter of 2017 which recorded a growth of 0.72%, but –0.45% points slower than 1.95% recorded in the first quarter of 2018.

The nation's Gross Domestic Product (GDP) grew by 1.81% (year-on-year) in real terms in the third quarter of 2018. Compared to the third quarter of 2017 which recorded a growth of 1.17%, there is an increase of 0.64% points. This growth rate is higher relative to growth recorded in the third quarter of 2017 by 2.88% points. This marks a positive real growth for six consecutive quarters since the recovery from recession in Q2'2017

Figure 9: GDP Growth Rate (%) 2016 - 2018



Source: NBS, SAMTL RESEARCH

Real growth of the oil sector was –2.91% (year-on-year) in Q3 2018 indicating a decrease of –25.94% points relative to rate recorded in the corresponding quarter of 2017. Growth increased by 1.04% points when compared to Q2 2018 which was –3.95%. Quarter-on-Quarter, the oil sector recorded a growth rate of 19.64% in Q3 2018. The Oil sector contributed 9.38% to total real GDP in Q3 2018, down from figures recorded in the corresponding period of 2017 and up compared to the preceding quarter, where it contributed 9.84% and 8.55% respectively.

The non-oil sector grew by 2.32% in real terms during the reference quarter. This is higher by 3.08% points compared to the rate recorded same quarter of 2017 and 0.28% point higher than the second quarter of 2018. This sector was driven this quarter mainly by Information and communication; other drivers were Agriculture, Manufacturing, Trade, Transportation and Storage and Professional, Scientific and Technical Services. In real terms, the Non-Oil sector contributed 90.62% to the nation's GDP, higher from share recorded in the third quarter of 2017 recorded as 90.16% and lower than the second quarter of 2018 recorded as 91.45%.

The nation is expected to experience a relatively sluggish pace of growth in 2019 due to a number of factors. The uncertainties accompanying the 2019 elections, which might impact new investments and general economic activities negatively. Clashes between farmers and herders continue to undermine the successes of the several policy incentives by the Federal Government and the CBN. On the positive side, the implementation of the N30,000 minimum wage in 2019 will have a positive effect on

Figure 10: Real Oil and Non Oil Year on Year Growth rate

Source: NBS, SAMTL RESEARCH

consumption spending. It is expected that the oil sector will continue to be the prime driver of the Nigerian economy in the year 2019 and this poses a major concern. The price of the commodity dropped towards the end of the year 2018 and continues to remain at those levels.

Crude Oil | Positive and negative effect to increase oil prices.

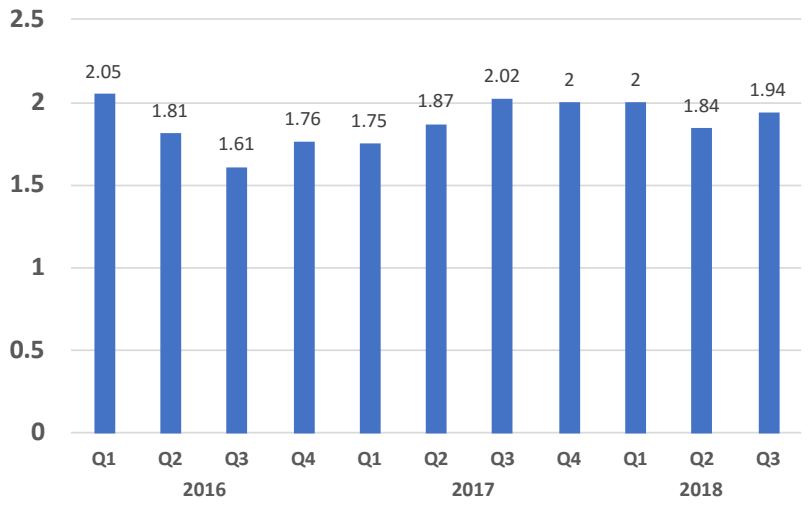
2018 was a year of mixed performance for the Nigerian Oil and Gas Industry as the rise in oil prices during the year had both positive and negative effects on the sector. The higher prices caused Nigeria's crude oil exports to rise to a multi-year high of N15.3trn which was a 39% increase from the 2017 levels. Despite this, the spread between the selling price of N145/litre and the landing cost of Premium Motor Spirit (PMS) widened significantly resulting in the piling up of subsidy payment under recovery worth N487.9bn in the books of the Nigerian National Petroleum Corporation (NNPC).

This sector contributed over 80% of Nigeria's total export earnings in the year 2018 and was one of the key determinants of the stability of the nation's financial system.

The nation in the third quarter of 2018 recorded an average daily oil production of 1.94million barrels per day (mbpd), lower than the daily average production of 2.02mbpd recorded in the same quarter of 2017 by -0.08mbpd but higher than that of the second quarter of 2018 production volume of 1.84mbpd by 0.10mbpd.

Nigeria's crude oil production is estimated to average 2.30mbpd in the

Figure 11: Crude Oil Production (bp) Q1'2016 - Q3'2018



Source: : OPEC, SAMTL RESEARCH

year 2019 as the Egina FPSO kicks off in January 2019 and also due to the recent peace in the Niger Delta region of the country. Other factors that might affect the sector in the year 2019 include the general elections which might result in policy changes, potential disruption to production in the Niger Delta region, global supply and demand and OPEC policies.

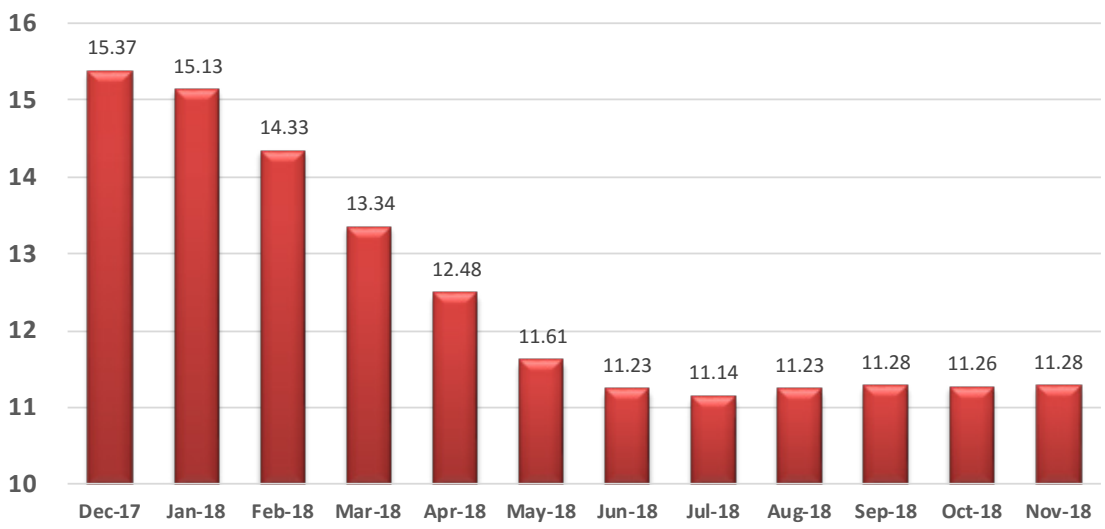
Inflation | Food index hinders disinflation

The headline inflation rate declined from 15.37% in December 2017 to 11.28% in November 2018. It recorded a seven month consecutive month-on-month disinflation from January 2018 (15.13%) to July 2018 (11.14%). It however began to rise again from the month of August mostly due to rise in the food index.

On month-on-month basis, the Headline index increased by 0.80% in November 2018, up by 0.006% points from the rate recorded in October 2018 (0.74)%.

Election induced spending, the implementation of the proposed N30,000 minimum wage and a possible devaluation of exchange rate could lead to an increase in the headline inflation rate in 2019.

Figure 12: Inflation Rate (%) Dec 2017. - Nov. 2018



Source: NBS, SAMTL RESEARCH

2019 Budget

Summary of 2018 Budget Performance

As at the end of Q3, Federal Government's actual aggregate revenue was N2.84 trillion, 40% higher than 2017 revenue. This includes:

- Oil Revenue of N1.51 trillion (101% higher than 2017);
- Company Income Tax (CIT) of N500.37 billion (23% higher than 2017);
- Value-Added Tax (VAT) of N100.37 billion (5% higher than 2017); and
- Customs Collections of N229.62 billion (11% higher than 2017)

It was reported that the overall revenue performance is only 53% of the target in the 2018 Budget largely because some one-off items such as the N710 billion from Oil Joint Venture Asset restructuring are yet to be actualized and have been rolled over to 2019.

Furthermore, of the total appropriation of N9.12 trillion, N4.59 trillion had been spent as at the 30th of September 2018 against the prorated expenditure target of N6.84 trillion. This represents a 67% performance.

Capital releases only commenced after the signing of the 2018 Budget on 20th June, 2018. As at 14th December 2018, a total of N820.57 billion had been released for capital projects.

The projected revenue for the 2019 budget is N6.97 trillion which is 3% lower than the estimate of the 2018 budget.

Budget

In the 2019 budget, FG proposes to spend N8.83trn in the fiscal year, with N2.28 trillion been allocated for capital spending, inclusive of capital in statutory transfers.

The 2019 budget is reported to have been designed to place the economy on the path of inclusive, diversified and sustainable economic growth, in other to continue to lift significant numbers of our citizens from poverty.

The projected revenue for the 2019 budget is N6.97 trillion which is 3% lower than the estimate of the 2018 budget. Despite the recent softening in international oil prices, the general view is that the downward trend in oil prices in recent months is not necessarily reflective of the outlook for 2019.

Recurrent (non-debt) spending expected to rise by 34.17%, from N3.52 trillion in FY2018 to N4.72 trillion (reflecting increases in salaries & pensions including provisions for implementation of a new minimum wage).

At N2.14 trillion, debt service is 24.24% of the planned spending. Provision to retire maturing bond to local contractors decreased by 36.84% from N190 billion in FY2018 to N120 billion.

Overall budget deficit of N1.859 trillion in 2019 represents 1.33% of GDP.

Budget deficit is to be financed mainly by borrowing N1.649 trillion. N824.82 billion is expected from Domestic sources while foreign sources (gradual shift away from commercial to more concessionary financing) will finance N824.82 billion.

The 2019 budget lies on following assumptions:

- Oil Price Benchmark of $60 per barrel
- Oil Production of 2.3ml bpd
- Inflation Rate of 9.98%
- Exchange Rate of N305 to $1
- GDP Growth Rate 3.01%
- Nominal GDP N139.65trn
- Nominal Consumption N119.28trn

Figure 13: Budget breakdown (N Billions)

HIGHLIGHTS (NGN' Bn)	2019 Proposed	2018 Approved	% Change
Aggregate Revenue	**6,970**	**7,166**	**-2.7%**
Oil Revenue	3,737	3,021	23.7%
Non-Oil Revenue	3,233	4,145	-22.0%
Aggregate Expenditure	**8,833**	**9,120**	**-3.1%**
Statutory Transfers (incl. capex)	492	530	-7.2%
Recurrent Non-Debt	4,400	3,513	25.2%
Debt Service	2,140	2,014	6.3%
Sinking fund	120	190	-36.8%
Capital Expenditure	2,031	2,873	-29.3%
Capex % of total expenditure	23.0%	31.5%	-27.0%
Budget Deficit	-1,860	-1,954	-4.8%

Source: FG Appropriation Bill

Portfolio inflow and Outflow

Period	Total Transaction (N'Bn)	Foreign Inflow (N'Bn)	Foreign Outflow (N'Bn)	Foreign (%)
Jan-18	394.44	91.75	74.64	42.18
Feb-18	212.05	44.89	38.33	39.25
Mar-18	272.48	69.71	62.50	48.52
Apr-18	212.23	64.28	58.25	57.74
May-18	318.27	62.06	130.89	60.62
Jun-18	187.78	47.96	54.45	54.54
Jul-18	146.07	19.83	16.34	24.76
Aug-18	133.84	36.66	34.31	53.03
Sep-18	130.2	40.55	43.78	64.77
Oct-18	121.45	40.82	42.66	68.73
Nov-18	149.72	34.97	49.39	56.35
2018 YTD	1877.17	437.14	469.71	48.31
2017 YTD	1526.27	419.88	279.19	45.8

Portfolio Inflow and Outflow | Global market and local politics cause pressure.

In Q1-2018, capital flows into Nigeria sustained the uptrend seen since the introduction of the Investors and Exporters window to reach its highest level witness since Q1-2013, as total capital imported jumped 594.0% to $6.3bn.

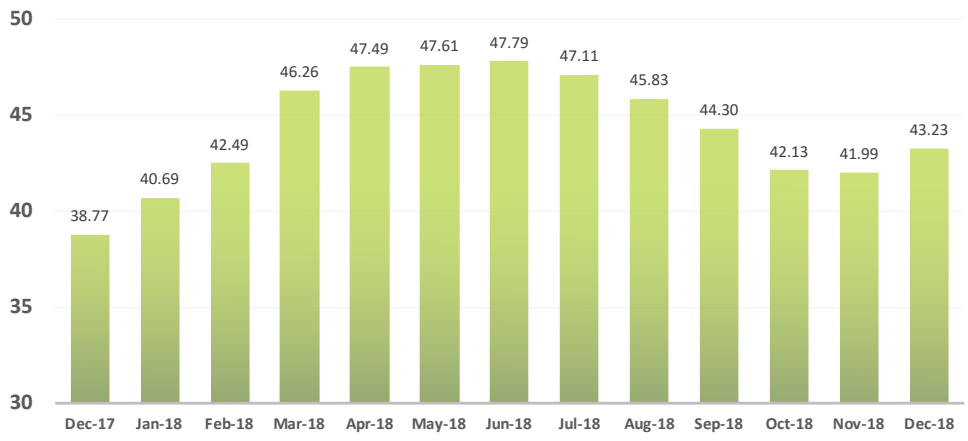
However, Q2-2018 and Q3-2018 witness drastic change amid renewed pressure from the global market and local political uncertainties which spooked foreign investors away from riskier naira assets. Consequently, capital inflows into the country fell deeply in Q3-2018 to its lowest since Q1-2017, down 31.1% y/y to $2.9bn.

As at Q3-2018, FPI which declined 37.7% to a year low of $1.7bn, still contributed 60.3% to the total capital inflows, followed by Other Investments components (comprising of Trade credits, Loans, Currency deposits, and other claims) which contributed 21.1%. On the contrary, FDI improved significantly to $530.6mn, after advancing 351.2% y/y but its contribution to the total inflow remained underwhelming at 18.6%.

Foreign Exchange and Foreign Reserves | Global oil prices boost foreign reserve to provide FX stability.

At the beginning of the year 2018, between January to March the external reserves rose from $40.69bn to $46.26bn. This eternal reserve rose significantly due to higher oil production and prices and drawdowns on Eurobond issues.

Figure 14: Foreign Reserves ($'bn) Dec 2017. - Dec. 2018



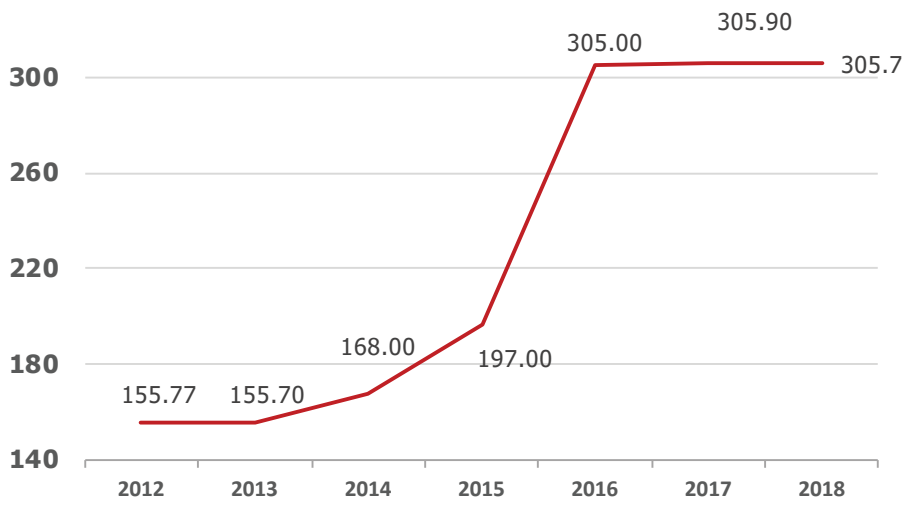
Source: NBS, SAMTL RESEARCH

Similarly, in Q2 2018 the eternal reserves continued to rise. As at the end of June 2018 external reserve stood at $47.79bn. Higher oil production and prices were the main factors for this increase. The Crude oil price at June rose as high as $79pb while the level of production during this period was about 1.89mbd.

Between July to September 2018, foreign reserves lost USD3.4 billion due to continued sell-off of in local asset showing no sign of reduction.

During the year, the foreign exchange rate remained relatively stable across

Figure 15: Foreign Exchange Trends (N/$) 2012 - 2018



Source: Bloomberg, SAMTL RESEARCH

	Jan-18	Dec-18	Chg (%)
CBN Spot (N/$)	305.50	307.00	0.49
CBN SMIS (N/$)	330.00	358.31	8.58
I&E FX Window (N/$)	361.00	364.00	0.83
Parallel Market (N/$)	363.00	364.00	0.28

different market strata. The stability in the FX environment was largely due to the CBN sustained intervention. This was done through the weekly injection of an average of $210m into the FX market.

This buoyed liquidity and kept the local currency relatively stable compared to a widespread currency market rout across Emerging and Frontier Markets. To ease pressure on Naira, CBN commenced the sale of Chinese Yuan in H2-2018, following the currency swap agreement, worth $2.5bn (¥15.0bn or N720.0bn), signed with the People's Bank of China on 27th April, 2018, while sustaining its aggressive OMO mop-up exercise.

Money Market & Fixed Income | Yields continue to rise

The Nigerian Treasury Bills (NTBs) began the year slowly with yields averaging 13% on 364-day NTB, which paled in comparison to the average yield of 18% recorded in the preceding year, 2017. The yield curve however began to rise due to sell-offs caused by the up stir across emerging and developed markets caused by rising United States yields.

In the debt market, offshore sell-offs increased as the foreign portfolio investors exited the Nigerian markets due to the current political climate in Nigeria and its associated risks. In Q4 2018, yield on the NTB began to rise again as the CBN tried to control the large scale outflow of foreign portfolio from Nigeria. This was done to renew the interest of these

Figure 16: Treasury Bills Rate 2018

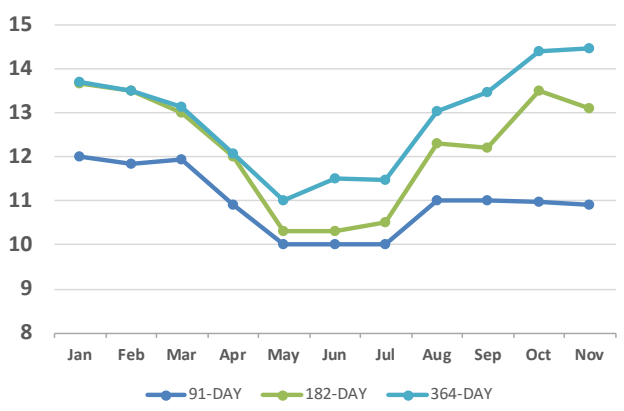
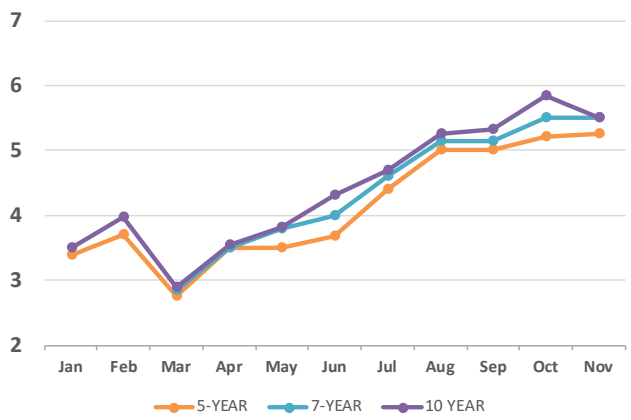


Figure 17: Bonds Yield 2018



Source: CBN

Month	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
Inter-Bank Call Rate (%)	15.58	26.19	15.16	3.1	25.43	5	2.86	2.45	4.57	14.18	7.17
MPR (%)	14	14	14	14	14	14	14	14	14	14	14
Treasury Bill (%)	12.27	11.88	11.84	11.43	10	10.11	10	10.64	11	10.94	10.91
Savings Deposit (%)	4.07	4.07	4.07	4.07	4.07	4.07	4.07	4.07	4.07	4.07	4.07
One Month Deposit (%)	9.09	8.9	8.82	8.78	8.9	8.88	9.61	8.77	8.79	8.71	8.84
Three Months Deposit (%)	10.63	10.05	9.72	9.89	9.97	9.38	9.45	9.51	9.44	9.47	9.41
Six Months Deposit (%)	11.72	11.3	10.93	10.71	10.62	10.15	10.02	9.84	9.76	10.15	10.11
Twelve Months Deposit (%)	11.24	10.67	10.21	10.03	9.96	10.05	10.26	9.95	10.08	10.46	10.43
Prime Lending (%)	17.5	17.53	17.35	17.24	17.08	16.78	16.83	16.65	16.59	16.53	16.64
Max Lending (%)	31.39	31.4	31.55	31.56	31.29	31.17	31.09	30.93	30.77	30.67	30.8

investor in Nigerian assets and also as a bid to support the exchange rate.

This led to a year-high yield of 15% towards the end of the year.

Given the rebound in oil prices in 2018 (at $71pb vs $54bp in 2017 and above the 2018 budget benchmark of $51pb), and the shift towards Eurobonds for the 2018 capital budget Financing and domestic debt repayment in H1 18, the DMO raised a significantly lower amount of FGN Bonds and NTBs in 2018 compared to the 2017 Fiscal year.

In Q4 2018, yield on the NTB began to rise again as the CBN tried to control the large scale outflow of foreign portfolio from Nigeria.

The FG issued a total of $5.3bn in Eurobonds, with $2.5bn ($1.25bn 2030s & $1.25bn 2038s) issued for the refinancing of domestic treasury bills in Feb 2018 and $2.8bn ($1.19bn 2025; $1bn 2031 & $750m 2049) for the financing of domestic capital projects in Dec 2018. Rates at the Dec 2018 Auction were 150bps higher than levels on similar tenors ($1.5bn 2027s & $1.5bn 2047s) issued in Dec 2017. Three Nigerian banks repaid their Eurobond maturities totaling $621m while the FG repaid its July 2018 $500m maturity, having raised $2.5bn in Eurobonds earlier in the year. Fidelity Bank and GTB paid back their maturities of $44.50m and $276.93m respectively, while First bank called back its 2020 Eurobond 2years early.

The DMO raised a total amount of N854bn in FGN Bonds in 2018 which was 45% below the N1.55trn raised in the 2017 Fiscal year. The average stop rates also moderated by 170bps from 15.90% in 2017 to 14.20% in 2018. Worthy of note also was that the DMO seized its floatation of the 20-yr bonds and instead restricted itself to the 3, 5 and 10-yr tenors as against the 5, 10 and 20-yr tenors which characterized the issuances in 2017.

It is expected that yields on fixed income financial instruments will continue to increase in 2019 as the CBN is expected to continue its efforts to control foreign outflows. The federal government is expected to embark on borrowings to finance the 2019 budget resulting in increased activities

in the NTB and bond markets. This is due to the uncertainty and volatility in crude oil prices which is a major determinant of budget implementation.

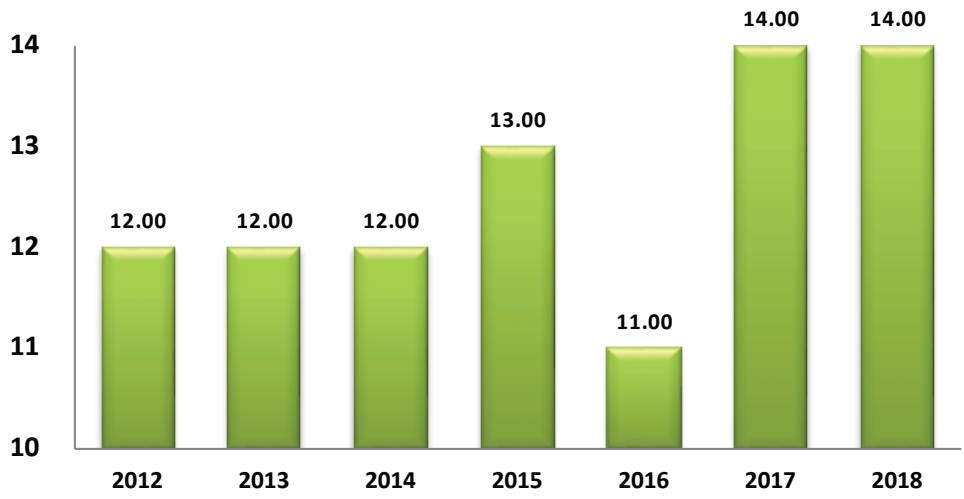
Broad Money supply (M2) averaged N10.2 Trillion from 2000 until 2018, reaching an all-time high of N31.8 Trillion in November of 2018. M2 expanded by 6% in between the period of January 2018 to November 2018 due to the contraction of 1% in other assets net (OAN) in the same period. Narrow money (M1) contracted by 2% in the period. Net Domestic Credit (NDC) expanded by 0.38% in the period, despite net credit to government contracting by 24.95%. Credit to the private sector grew by 4.95% in the period.

Monetary Policy | Status quo is maintained all year

During the year 2018, at all the Monetary Policy Committee (MPC) meetings held, the committee agreed to retain all monetary policy parameter unchanged. The committees' decision to hold the rate of the year was centered on the following factors: implementation of the Economic Recovery and Growth Plan (ERGP) and the 2018 budget, improvements in the security challenges, enhanced flow of credit to the real sector and stability in the foreign exchange market.

At the last MPC meeting for the year which held on the 21st and 22nd of November, 2018. The MPC decided to leave the monetary policy rate and all other monetary policy parameter unchanged. The benchmark interest rate (MPR) at remains at 14.00%. The asymmetric corridor also remains at +200bps and -500bps around the MPR. Moreover, the committee left the Cash Reserve Ratio (CRR) stable at 22.50% and Liquidity Ratio at

Figure 18: Monetary Policy Rate (%) 2012 - 2018



Source: : CBN, SAMTL RESEARCH

30.00%.

The Committee explained that by holding its policy position constant, it has confidence in the various policies and administrative measures deployed by the CBN which have resulted in the moderation of domestic price levels and stability in the foreign exchange. Thus, a hold position is an expression of confidence in the policy regime, given the gradual improvements in both output growth and price stability.

In the accompanying statement, the MPC stressed that loosening would encourage the flow of credit to the real sector, reduce the aggregate cost of credit and spur business spending and investment. Thereby reinforcing the CBN's support for output growth and economic recovery. However, it believes that doing so will reverse more rapidly, the gains of price and exchange rate stability achieved so far given the liquidity impact that would entail.

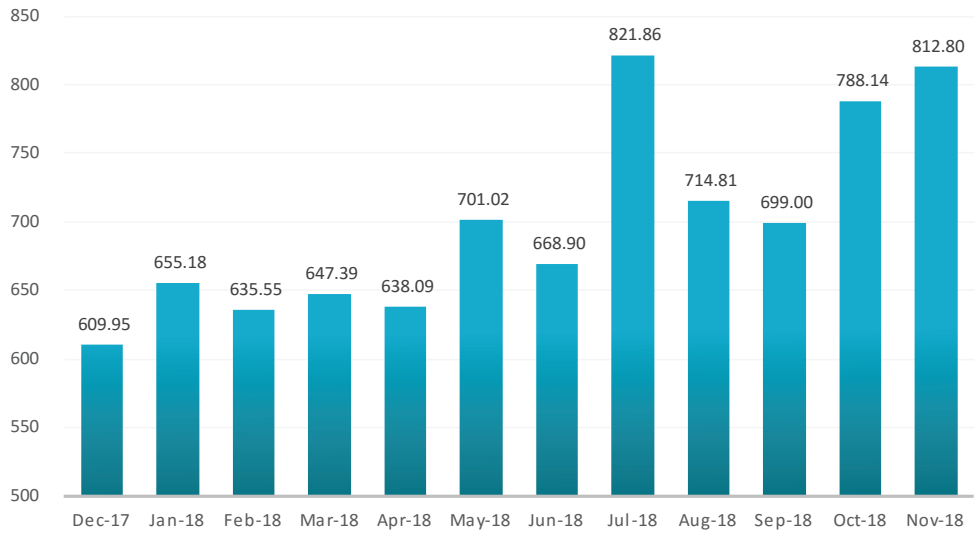
Analyst expect the MPC to retain its rate in H1-2019. This is due to political uncertainties, until a stable environment is established in H2-2019.

FAAC | Oil producing states continue to get most allocation.

The Federation Account Allocation Committee (FAAC) disbursed the sum of N7.71trn to the three tiers of government from January to November 2018 from the revenue generated.

The amount disbursed comprised of N6.46trn from the Statutory Account,

Figure 19: FAAC (N'bn) Allocations Dec 2017. - Nov. 2018



Source: NBS, SAMTL RESEARCH

N99.16bn from Valued Added Tax (VAT) and N1.12trn exchange gain allocation.

Federal government received a total of N3.15trn from the total of N7.71trn generated. States received a total of N2trn and Local governments received N1.5trn. The sum of N583.04bn was shared among the oil producing states as 13% derivation fund.

Revenue generating agencies such as Nigeria Customs Service (NCS), Federal Inland Revenue Service (FIRS) and Department of Petroleum Resources (DPR) received N49.53bn, N84.97bn and N46.33bn respectively as cost of revenue collections.

Further breakdown of revenue allocation distribution to the Federal Government of Nigeria (FGN) to November 2018, revealed that the sum of N2.64trn was disbursed to the FGN consolidated revenue account; N57.19bn shared as share of derivation and ecology; N28.59bn as stabilization fund; N96.1bn for the development of natural resources; and N66.37bn to the Federal Capital Territory (FCT) Abuja between January to November 2018.

This decline in the market was attributed to the increase in interest rates in the United States and also the rising trade tensions between China and the United States.

Equity Market | Global development & local uncertainties cause down turn.

The Nigerian Equity Market experienced a good run in the year 2017 spilling into early 2018. It closed the period Q1'2018 up 8.5% Year to Date at 41,504.51 points and N14.99 trillion in market cap. However, this trajectory was reversed as the index began to drop.

By Q2 2018, the index gave a return of -7.8% barely ending with a positive Year to Date of 0.09% at 38,278.55 points and N11.87 trillion market cap. This decline in the market was attributed to the increase in interest rates in the United States and also the rising trade tensions between China and the United States.

Q3 2018 saw the market experience a free fall, recording a quarterly return of -14.4%, a Year to Date of -14.3% at 32,766.37 points and a market cap of N11.96 trillion. This was caused by further market sell-offs, continued rate hikes in advanced economies and especially political uncertainties leading up to the 2019 general elections.

Q4 2018 continued this trend as the market returned -9.8% on the quarter, leading to the equities market recording a return -17.81% at 31,430.50 points at the end of the year 2018. The market cap stood at N11.720 trillion at December 31, 2018 from 13.609 trillion at the December 29, 2017.

The Consumer Goods sector declined by 23.3% (Brewers: -22.9%, Food: -8.2%, Personal & Household Producers: -18.4%) due to factors like the new charge on alcoholic beverages, intense rivalry among brewers, and weaker revenue growth for the food producers due to the Apapa gridlock.

Oil price trajectory (which has a positive correlation with stocks in the upstream sub-sector) sustained investor sentiments in the upstream sub-sector (+2.2%) while the downstream sub-sector continued to battle with capped margins.

The overall performance Banks was poor (-16.1%) though Tier-2 lenders reported better returns due to their low market pricing; Tier-1 (-17.4%) and Tier-2 (+15.3%).

The Agricultural sector grew by -1.4% due to farmer/herder clashes in parts of Adamawa, Benue, and Borno State, and also due to cases of flash flooding which affected agricultural activities.

The market cap stood at N11.720 trillion at December 31, 2018 from 13.609 trillion at the December 29, 2017.

Factors which will impact the equities market in the year 2019 include:

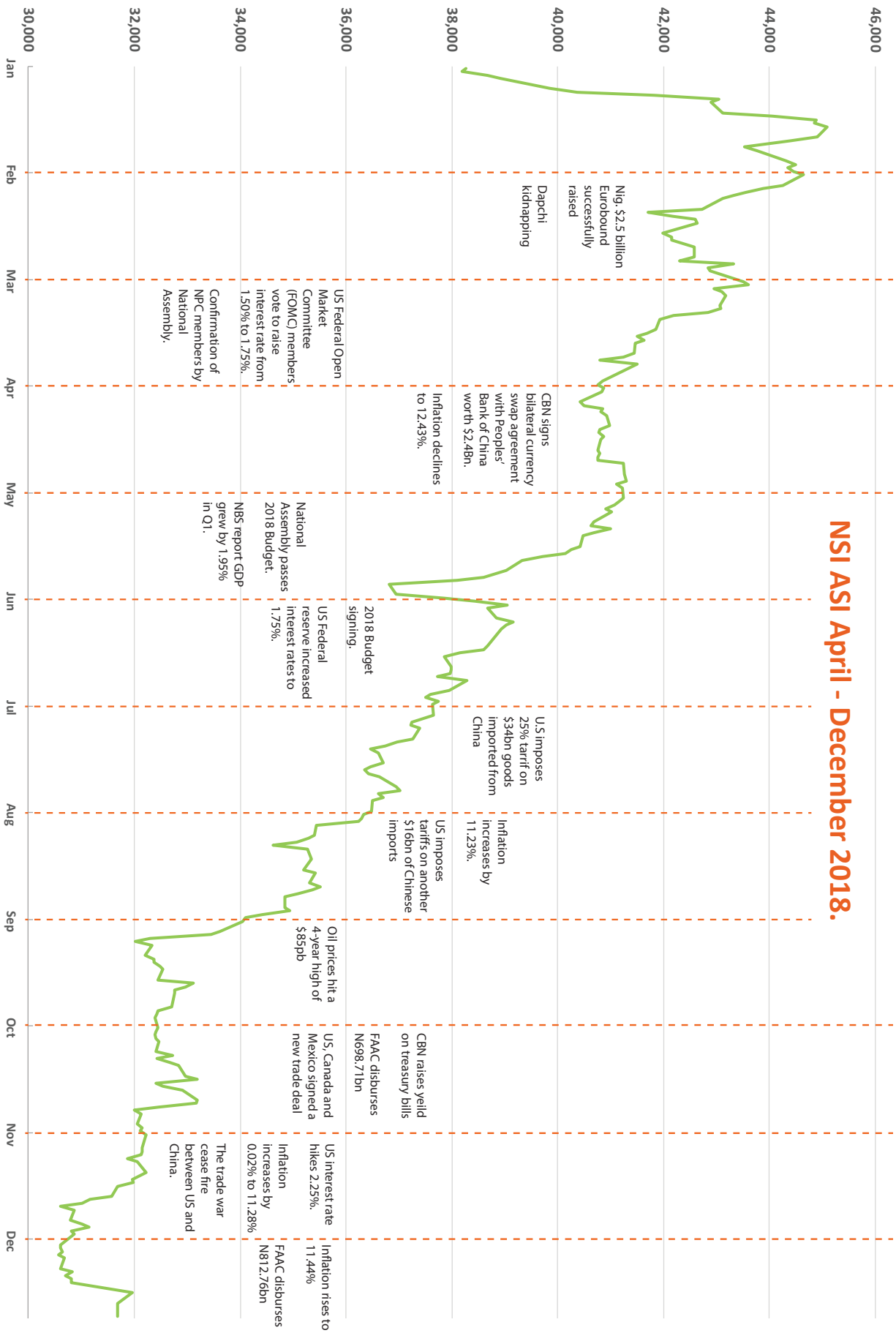
1. Election Day is fast approaching and the outcome of this will have a major effect on the equities market. Regardless of who wins, we foresee the outcome of the election having a positive effect on the market thus providing buying opportunities. This is due to the fact that uncertainties will generally reduce and also due to the forward looking economic policies of the major political parties. However investor sentiments could remain negative until the official swearing in takes place in July 2019.

2. The external political and economic environment is expected to affect the equities market prospects. The trade tension between the US and China will continue to impact the market in the year 2019.

3. It is expected that higher global interest rates, especially the U.S. Fed rate will be hiked leading to further new capital outflows from emerging markets like Nigeria.

4. A slightly higher but still sluggish pace of economic growth is expected in the year 2019. This would reflect on the economic and corporate performances in general.

5. Companies such as MTN and Sahco Plc are expected to be listed on the Nigerian Stock exchange which could have a positive impact on the equities market.


NSI ASI April - December 2018.
46,000
44,000
42,000
40,000
38,000
36,000
34,000
32,000
30,000
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Nig. $2.5 billion Eurobound successfully raised
Dapchi kidnapping
CBN signs bilateral currency swap agreement with Peoples' Bank of China worth $2.4Bn.
Inflation declines to 12.43%.
US Federal Open Market Committee (FOMC) members vote to raise interest rate from 1.50% to 1.75%.
Confirmation of NPC members by National Assembly.
National Assembly passes 2018 Budget.
NBS report GDP grew by 1.95% in Q1.
2018 Budget signing.
US Federal reserve increased interest rates to 1.75%.
U.S imposes 25% tarrif on $34bn goods imported from China
Inflation increases by 11.23%.
US imposes tariffs on another $16bn of Chinese imports
Oil prices hit a 4-year high of $85pb
CBN raises yeild on treasury bills
FAAC disburses N698.71bn
US, Canada and Mexico signed a new trade deal
US interest rate hikes 2.25%.
Inflation increases by 0.02% to 11.28%
The trade war cease fire between US and China.
Inflation rises to 11.44%
FAAC disburses N812.76bn