SECURITIES
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NIGERIA

Is the Recent Bullish Run in the Nigerian Equities Market Sustainable?

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The Nigerian Equities Market has been growing rapidly from May 2017. Statistics indicate that the market has recorded gains at a rate last seen in 2008. At close of business on Friday, 2nd June, 2017, the NSE All-Share Index stood at 31,371.63, rising by 16.73% year-to-date. Market Capitalization stood at N10.86 trillion. The last time the ASI reached 31,000 points was on September 30, 2015 when it closed at 31,217.77. Prior to this period, the index lost 3.22% from January to April, 2017, closing at 25,758.51 points.

This recent impressive performance raises a number of questions in the minds of capital market investors, operators and regulators. Such questions include; what are the major drivers of this recent trend? What is the outlook on these drivers and how long can they continue to drive the equities market? What implications can be drawn from these drivers and performance so as to sustain the current growth? This Policy Brief is an attempt to answer these questions.

Recent Performance of Nigerian Equities Market

The Nigerian Equities Market has experienced steady downturns in recent times. But in the last one month, the market has performed splendidly. As at 02 June 2017, the All Share Index and Market Capitalization reached 31,371.63 and N10.857 trillion respectively, the highest values in about 22 months. Figures 1 and 2 show a one-year trend of the All Share Index and the market Capitalization.

From **figure 1**, the market capitalization could be seen at its peak on 2nd June 2017 with a value of N10.86 trillion, the highest value since 10th August 2015.

Market Capitalization increased from N8.99 trillion on the 2nd of May 2017 to N10.86 trillion on 2nd June 2017, rising by 17.23% month-on-month. It also increased by 15.56% year-to-date from N9.167 trillion at the beginning of the year. Year-on-year, there has been an increase of 13.93%, from N9.34 trillion on the 2nd June, 2016. It could also be seen from **figure 2** that All Share Index (ASI) was at its highest point on the 2nd June 2017 with a value of 31,371.63, the highest value since 8th July 2015. The Index rose by 17.23% or 5,406.45 points month-on-month, from 25,965.18 on the 2nd May 2017. Year-to-date, the index grew by 15.16% or 4,754.74, from 26,616.89 in January 2nd, 2017. The Index also grew by 13.35% or 4,187.99 year-on-year, from 27,183.64.

Figure 1: Market Capitalization (₦'trillion)

Figure 2: All Share Index (in thousands)

Drivers of the Recent Performance

A number of factors can be identified driving the recent performance in the equities market; the major ones are discussed in what follows:

- **Global Factors**

According to the International Monetary Fund (IMF), the world economy is now witnessing stronger activity with improved expectations of more robust global demand, reduced deflationary pressures, and optimistic financial markets. The IMF has also reported that World growth would rise from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018. With improved global growth and existing low interest rate in many developed countries, Emerging and Frontier markets like Nigeria are projected to experience higher economic growth and capital inflows. This is part of the explanation for the bullish trend.

- **Domestic Macroeconomic Factors**

Domestic factors have a role to play. Data from the National Bureau of Statistics (NBS) shows that the economy contracted marginally by 0.52 per cent in Q1 2017, a much more positive development considering that the economy shrank by 1.58% in 2016; indicating that Nigeria is on the path of recovery as depicted in **figure 3.** Headline inflation (year-on-year)in **figure 4**, moderated for the third consecutive month, falling to 17.24% in April, from 17.26 per cent in March, 17.78 per cent in February and 18.72 per cent in January 2017, effectively reversing the monthly upward momentum since January, 2016.

CBN intervention in the foreign exchange market has helped strengthen the Naira. The currency has recovered substantially gaining more than 30% year-to-date in the parallel market; this is largely due to the Central Bank's continued interventions in the market. Another positive news is that the Morgan Stanley Capital International (MSCI) just increased the weighting assigned to Nigerian stocks to 7.9% from 6.5% previously in its frontier markets basket of equities. In the commodities market, crude oil price has been stable at above $50 rising by about 6.0% year-to-date and 6.5% year-on-year (a recent decline is being observed though). All these development combined also drive the Nigerian equities market to the positive terrain.

- **Regulatory**

The Securities & Exchange Commission (SEC), as the apex regulator of the Nigerian Capital Market, has been implementing a number of initiatives in the capital market to help boost confidence and increase activities. The e-Dividend scheme stands out in this regard. As at 30th April, 2017, a total of 2.2 million investors had enrolled on the e-dividend payment platform. It is also on record that thousands of investors have been able to get their outstanding dividends paid and this has resulted in bringing many retail investors back to the market, thereby contributing to market growth.

Figure 3: Real GDP Growth Rate(%)

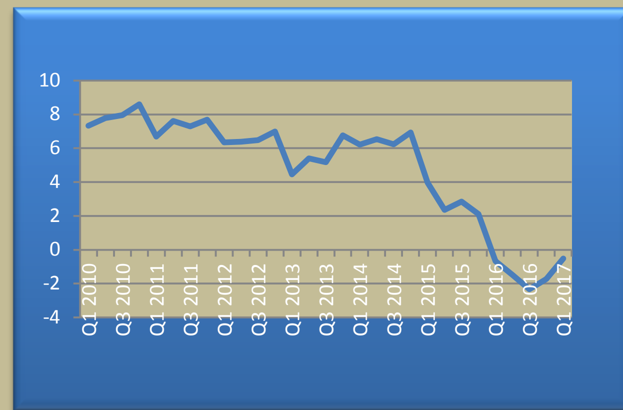


Figure 4: Inflation Rate (%)

Most importantly is the newly-introduced **Investors' and exporters' FX window (IEFW)** by the CBN in April, 2017. This has portfolio investors, exporters, authorised dealers and the CBN as participants. The aim is to address the needs for capital repatriation, dividend remittances, loan repayments, loan interest repayments, software subscription payments amongst others. The IEFW is market determined based on a willing buyer willing seller basis

This initiative by the CBN has contributed to restoring the confidence of foreign investors and increased foreign optimism and participation in the market. Domestic investors who envisage increased foreign participation are also taking positions in the market.

- **Company Results**

One other factor responsible for the appreciation in the equity market is the improvement in the Q1, 2017 results of quoted companies compared with the corresponding period of last year and the immediate past quarter. With the expectation of an improved macroeconomic environment also, there is a growth prospect for companies' performance in subsequent quarters.

Outlook on Drivers

- **Global Economic Outlook**

Uncertainty surrounding the direction of macroeconomic policy in the advanced economies continues to cast doubt on the prospects of sustained recovery. Global inflation appears to be trending upward on the back of improved commodity prices and depreciated currencies in several emerging markets. Other threats include the possibility of low oil prices due to renewed investments in shale oil exploration and production, continuing monetary policy normalization by the U.S. Fed which may result in strengthening of the U.S dollar, and consequent capital reversal from Nigeria and other emerging market economies.

- **Domestic Macroeconomic Outlook**

The Q1 2017 GDP figures indicate that the economy is on its way out of recession. This is further supported by available data and other government initiatives. The appropriate implementation of the Economic Recovery and Growth Plan (ERGP) and the 2017 budget of over N7trillion are expected to spur growth. Nigeria's macroeconomic growth for 2017 is projected to be positive (0.8% by the IMF and 1% by the World Bank). It is also expected that Inflation will maintain its downward trajectory in the near future. Latest data released by the National Bureau of Statistics indicated that unemployment/Underemployment figures increased from 33.6% in Q3 to 35.2% in Q4 2016. Therefore, rising unemployment and inability of some governments at various levels to honour their salary obligations present a challenge to household income and saving. This consequently may affect investment in the equities market.

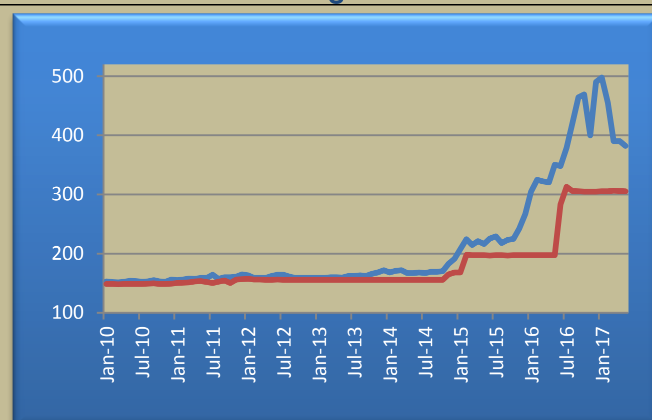
- **Regulatory**

The SEC has made it clear that it would continue its aggressive implementation of the Capital Market Master-Plan. This involves implementing several market initiatives including the e-Dividend and the take-off of the Direct Cash Settlement in September 2017. These would help ensure that investors' confidence is restored and the market grows. Recent decline in crude oil price and foreign reserves seem to pose a challenge on the ability of the CBN to maintain its intervention in the foreign exchange market (crude oil prices declined from $52.16 in April to $49.89 in May while the foreign reserves declined from $30.86billion to $30.33billion).

- **Company Results**

It is expected that corporate earnings will improve in subsequent quarters as the government's efforts at easing business environment begin to yield fruits. This will be supported by the special FX window for SMEs introduced by the CBN, huge infrastructure spending and the activities of the Development Bank of Nigeria in providing finance to corporate.

Figure 5: Parallel (in blue) and Official (in red) Exchange Rates



Implications and General Outlook

From the foregoing, the current bullish trend of the Nigerian equities market will depend on many global, domestic, regulatory and industrial factors. On the global scene, possibility of low oil prices due to renewed investments in shale oil exploration and production and stronger dollar may result in capital reversal from Nigeria and other emerging market economies. This will affect the Nigerian capital market negatively.

In the domestic front, favourable macroeconomic conditions, timely implementation of the Economic Recovery and Growth Plan and judicious execution of the approved 2017 Budget would help accelerate growth and restore confidence in the economy. ***The sustenance of the current foreign exchange intervention regime and the IEFW which are supported by the relatively stable oil prices and restoration of security in the Niger Delta region will be critical in ensuring the equities market maintains the current momentum.***

Regulatory efforts of developing the capital market and protecting investors by the SEC coupled with a favourable business environment that yield higher corporate results are equally key for the growth of the market.