

ECONOMIC AND FINANCIAL MARKET UPDATE

Q4 2011 Economic and Financial Market Report

17 January 2012

Review of Operating Environment

- ✓ The global economy keeps tinkering on the verge of a double-dip recession as the shadow cast by the Euro debt crisis, appears unrelenting, with knock-on effects for the rest of the global economy.
- ✓ The unemployment rate in the U.S fell to 8.5% in December, the lowest level since the 8.3% reported for February of 2009, the month that Congress approved the stimulus package.
- ✓ In a recent report the World Bank lowered its global GDP forecast for 2012 from 3.6% to 2.5% as a result of the risk of increasing Euro zone debt crisis and its impact on emerging market economies.
- ✓ The real GDP of the Nigerian economy grew by 7.40% in Q3'2011, driven by non-oil production activities, as against 7.86% in Q3'2010.
- ✓ Inflation rate was maintained at 10.5% for the month of November 2011.
- ✓ The CBN in its last session for 2011 maintained the MPR at 12.00%. We however expect to see further tightening in a bid to curtail inflationary pressures from the recent increase in the pump price of PMS.

Stock Market Review

- ✓ Trading at the Nigerian bourse recorded increased activities in Q4'2011; with volume and value of activities growing by 42.3% and 14.6% respectively above Q3'2011 figures.
- ✓ This was due to the attractive entry point presented to investors after the massive sell-down by foreign investors, occasioned by the Arab uprising and worsening condition in the Euro zone.
- ✓ The All share index recorded increased volatility during the period; it opened the quarter at **20,581.30** points and ended at **20,730.63** points, gaining 149.33 points. Market capitalization however, depreciated by **N30.578bn (\$197.28mn)** in the period under review.
- ✓ The market recorded a total volume of **23.46bn** units valued at **N139.27bn** in 209.01 million deals, compared with total volume of **16.49bn** units recorded in the preceding quarter.

	Q1'11	Q2'11	Q3'11	Q4'11
Index	-0.60%	+0.85%	-17.75%	-16.31%
Market Cap	N7.89tr	N7.99tr	N6.50tr	N6.53tr

Investment Objectives

- ✓ Investors should seek investment assets which will ensure safety of principal, income generation, and capital growth.
- ✓ There must be optimal balance of investment risk and return.
- ✓ Liquidity of investment assets is paramount for ease of exit.

Recommendation

- ✓ Going into Q1'2012, we see the overhanging Euro zone debt crisis, relatively low global risk appetite, and weak global economic growth outlook as constraints to a recovery of the market.
- ✓ We therefore recommend a cautious outlook for the equity market in Q1'2012 with a long term investment horizon.
- ✓ However, valuations of fundamentally strong stocks, with history of good benefit declaration, and attractive entry points in our view, remain compelling for long term investors.
- ✓ Recommended sectors include; Breweries, Food & Beverages, Conglomerate, Building Materials, and carefully selected Banking stocks.



Factors that will impact the market in Q1 '2012

- ✓ Uncertainty about the stability of the global economy
- ✓ Benefit declarations expected towards the end of Q1'2012 is widely expected to drive equity market interest this period.
- ✓ Liquidity challenges.
- ✓ The final lap of outcome of mergers and acquisitions in the banking industry.
- ✓ Improved regulatory oversight.
- ✓ Inflation and monetary policy rates.
- ✓ Likely renewal of foreign and institutional buying.



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IMPORTANT DISCLOSURE

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