FIRST CITY ASSET MANAGEMENT LIMITED
A MEMBER OF FCMB GROUP PLC

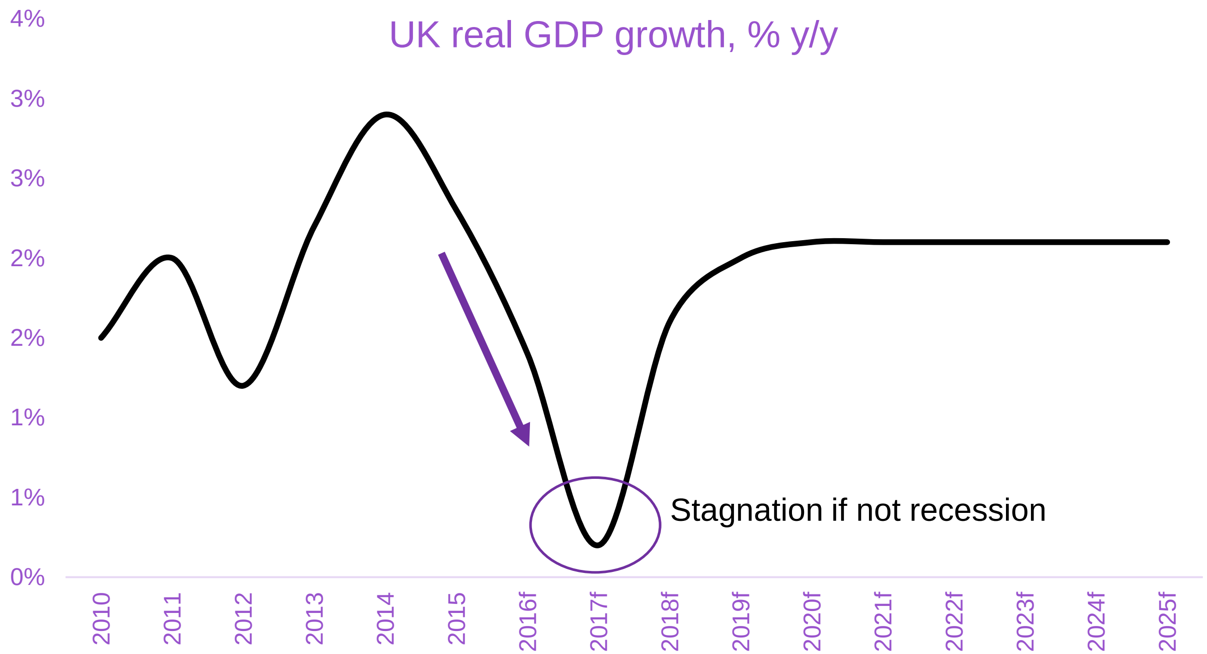
UNITED KINGDOM EXITS THE EUROPEAN UNION: ECONOMIC IMPLICATIONS AND MARKET REACTION

Contents

MACRO ECONOMIC OVERVIEW

Macro overview: UK economy

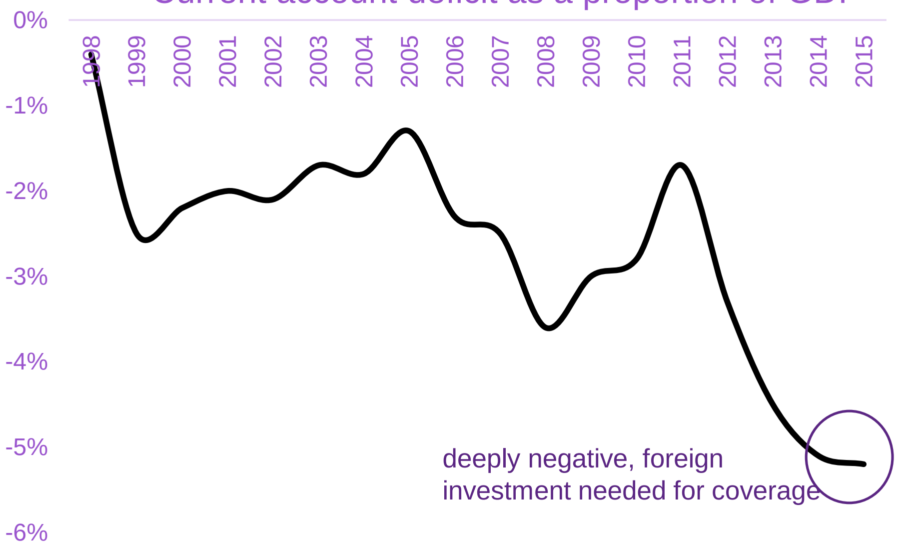
- UK economic growth is likely to be weak in 2016-2017.
- Uncertainty over the future of bilateral economic relations to weigh on confidence and investment, and sterling depreciation to drive up inflation and erode purchasing power.
- Recession is not likely but is possible if market volatility causes credit squeeze and confidence does not return.
- There will be knock-on effects for the EU and the global economy.
- Slower growth and stronger dollar (safe haven asset) will delay US monetary tightening



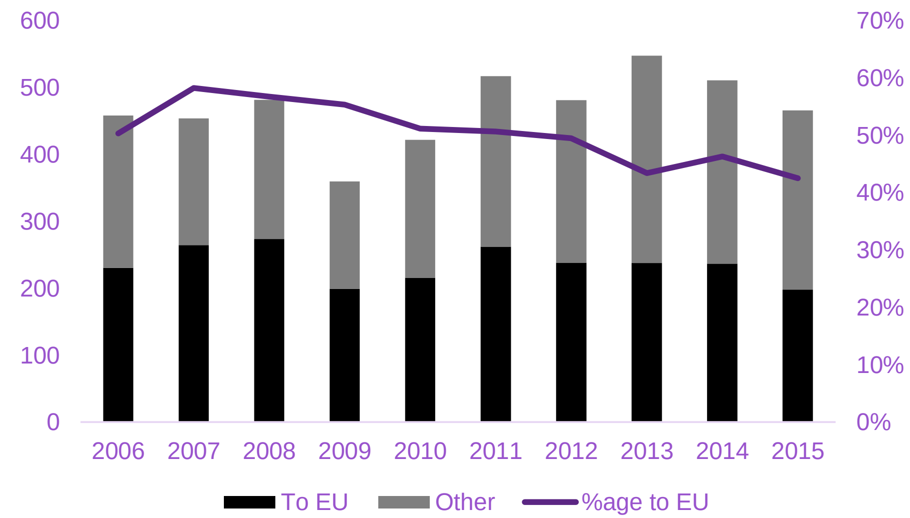
Macro overview: UK economy

- The UK runs a large current account deficit that requires foreign funding.
- Foreigners are unlikely to be willing to invest in UK while there is uncertainty about relations with EU, UK's most important trading partner. Export firms may exit.
- Decline of investment inflows together with likely rate cuts/monetary easing to support economy mean the pound is likely to weaken further.
- Around half of UK exports currently go to EU, meaning that exports will not necessarily benefit in the short-term if the UK is not able to secure free/cheap access to EU single market.

Current account deficit as a proportion of GDP



UK exports



Macro overview: UK economy

- Clarity over the future of UK-EU relations is likely to take time to emerge. Two years of negotiation following the activation of Article 50.

- EU will drive a hard bargain to discourage other members from pursuing a similar path to the UK.

- Ideally, the UK will want to maintain access to single market.

- However, this will come at the cost of maintaining free movement of people. Switzerland and Norway examples.

- Most ‘leavers’ voted to exit because of immigration concerns and the new leadership will have a tough balancing act.

- Coming at a time when there is no leadership.

Macro overview: Nigerian economy

- Nigeria is facing domestic challenges which will be the main determinants of economic trajectory.

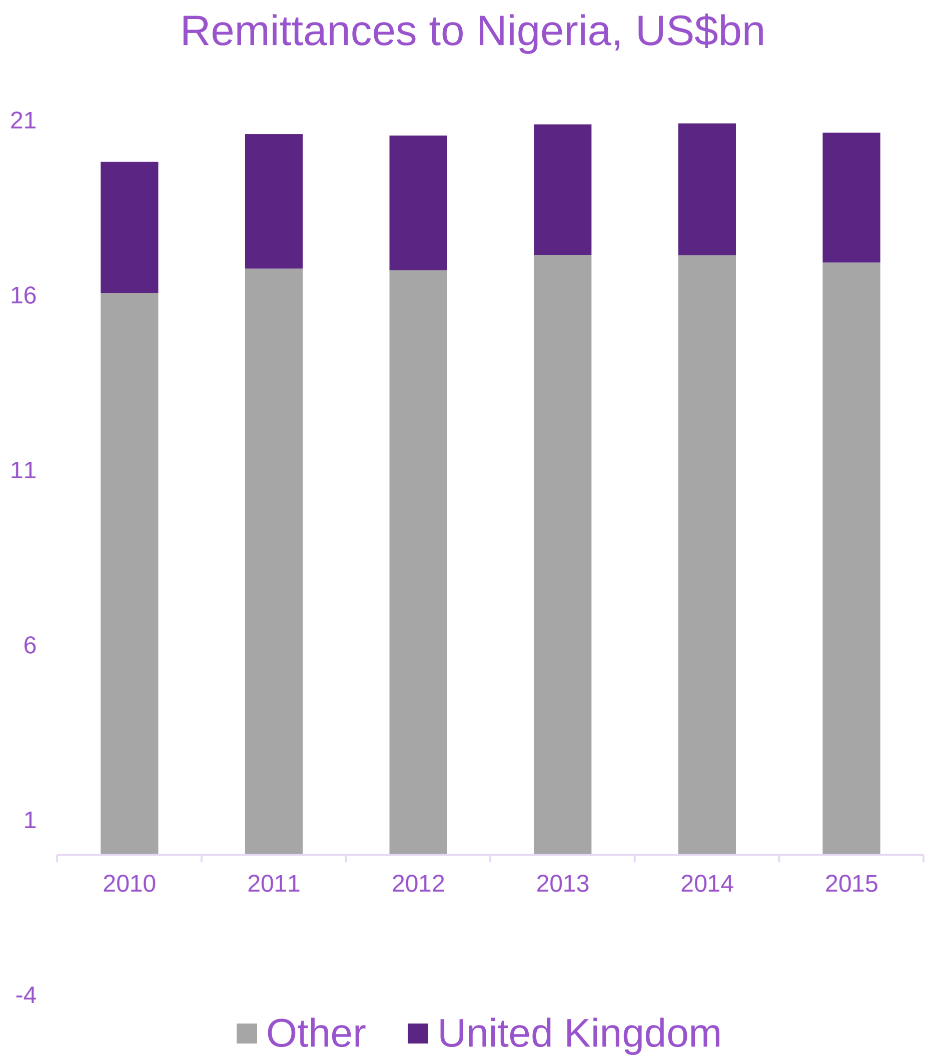
- BUT, all else being equal, Brexit is likely to be negative for Nigerian real GDP growth.

- We see four main transfer mechanisms:

(1) Remittances
(2) Investment
(3) Oil prices
(4) Currency
(5) Trade

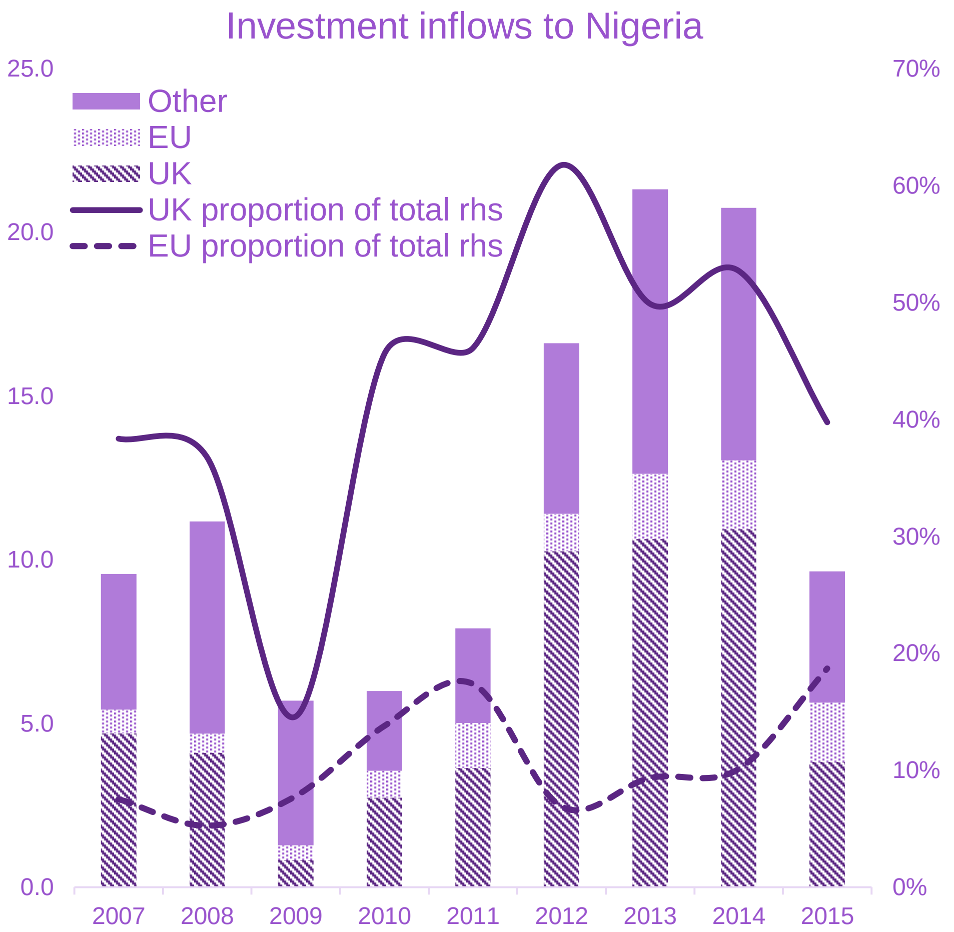
Macro overview: Nigerian economy

- Remittances are hugely important source of foreign exchange: US$20bn p.a.
- UK second largest source after USA. US$3.7bn in 2015.
- Pound depreciation will decrease US$ value of these flows. 10% depreciation to date would have wiped US$600m off last years flows.
- Likely to be further pound depreciation versus dollar so real impact is likely to be greater.
- Slower UK economy and increase in unemployment could lead to a decline in £ value of remittances too.



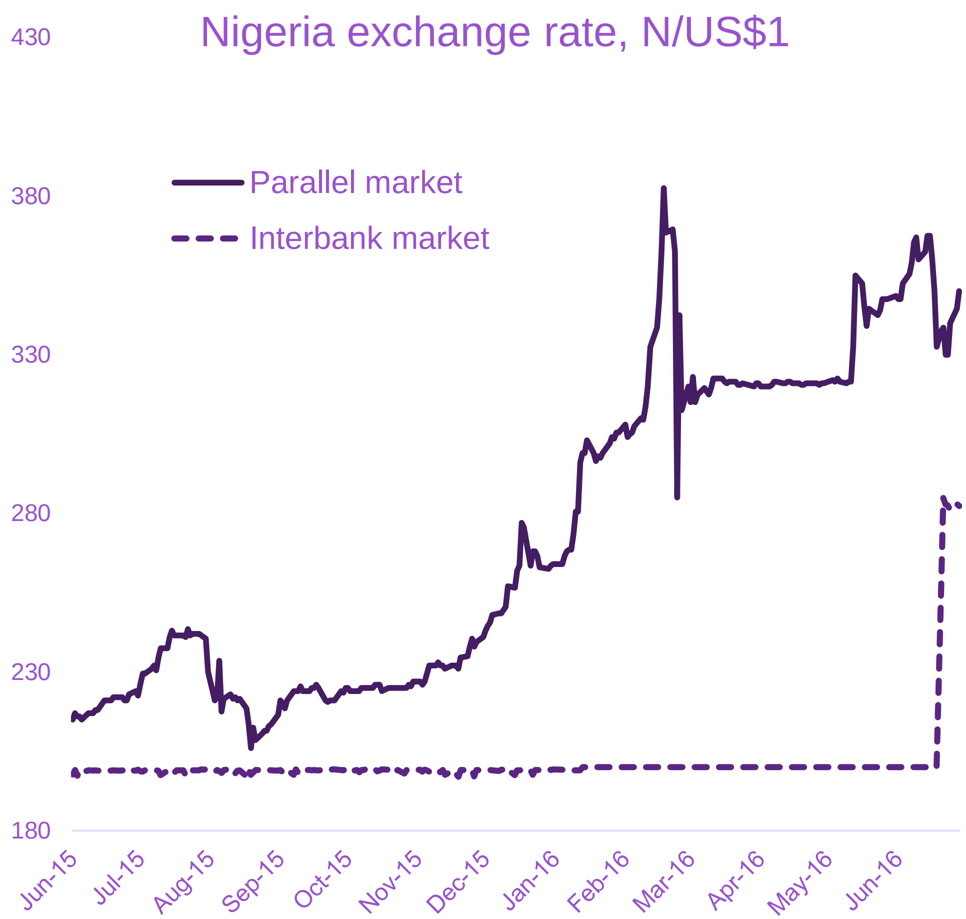
Macro overview: Nigerian economy

- The UK is an extremely important source of investment flows to Nigeria.
- Over last nine years, an average of 43% of investment inflows to Nigeria have come from UK.
- Significant proportion are portfolio flows from UK-domiciled funds that raise capital from EU and elsewhere.
- Uncertainty of financial regulations and the UK/global economy could see investment flows slow.



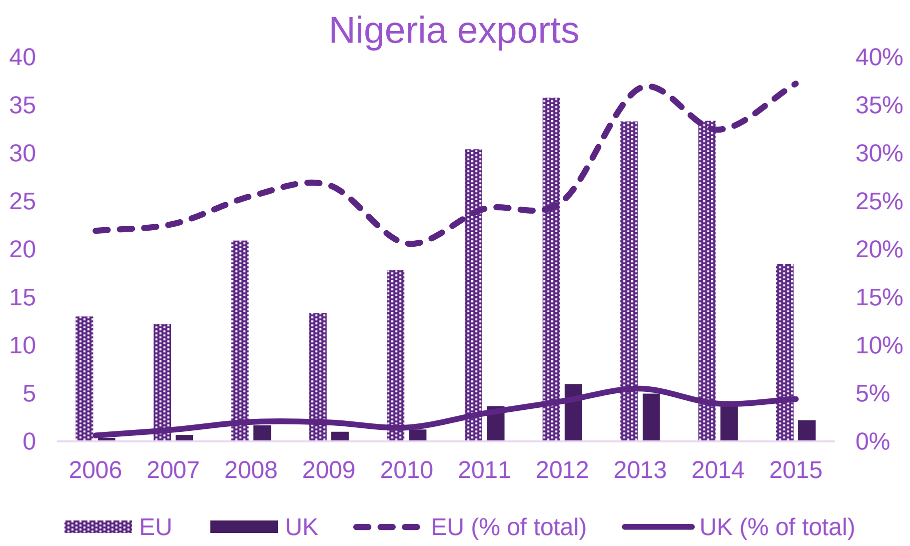
Macro overview: Nigerian economy

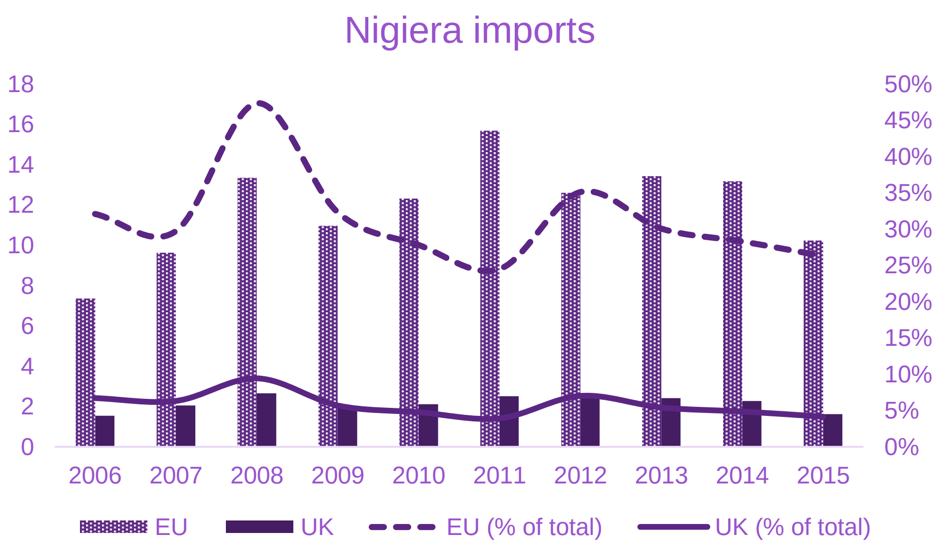
- Oil prices: downside risks have increased owing to risk aversion while upside has been capped by weaker outlook for UK growth.
- More negative outlook for main sources of foreign exchange (remittances, investment flows, oil revenues) means that pressure on currency will build.
- This means Naira is likely to depreciate, now it is free-floating.
- That said, the lack of liquidity on the interbank market makes us question how free-floating the Naira really is. If it is not, lower inflows will keep dollar liquidity tight rather than leading to depreciation.



Macro overview: Nigerian economy

- Nigeria trades much more with the EU than it does with the UK.
- The idea that Nigeria can secure more attractive trade deal with the UK when it is out of the EU is likely mistaken.
- Nigeria's trade with Europe is more important so it will not strike a deal with UK that angers EU.
- The UK will also be constrained. It wants free access to single market. If it achieves that, it will not be able to go and make deals with other countries that are more preferential than the deals the EU has with those countries.





IMPACT ON TRADITIONAL ASSET CLASSES

ASSET CLASSES

Foreign Exchange markets

UK

The Bloomberg British Pound index, which measures the value of the Pound against a basket of other major currencies, weakened by over 11% following the outcome of the referendum.

The fall in the value of the Pound reflected concerns over the UK's economic growth prospects, as well as likelihood of policy easing, via rate cuts and additional quantitative easing, by the Bank of England.

Futures Implied interest rates for the UK are 0.44% by September and 0.40% by December. The Base rate is currently 0.50%.

GBP:USD is trading at levels last seen in 1985, when it fell to as low as GBP:USD1.0520. Current support and resistance levels are 1.2925 and 1.4413

Given expectations of weaker growth, as well as policy easing in the UK, we are of the view that the UK is likely to record net capital outflows, in the near-term.

The British Pound might very well weaken even further against other major currencies, as we approach year-end.

Foreign Exchange markets

Nigeria

The Nigerian Naira was largely unaffected by events in the UK. This was unsurprising, given that the currency is not fully convertible.

The Naira's continued stability will depend, among other factors, on Nigeria's ability to repair damaged crude oil pipelines (informal talks are on-going, between the Nigerian government and militants in the oil-producing Niger Delta region), and hence, increase crude oil output. In the absence of a fall in the price of crude oil from the current level of about US$48per barrel, increased production should have a positive effect on Nigeria's reserves and on the Central Bank of Nigeria's ability to support the currency in the interbank market.

We expect the currency to trade in the range of N250 – N300, over the next 6 months. Our projection assumes limited inflow of direct and portfolio investments.

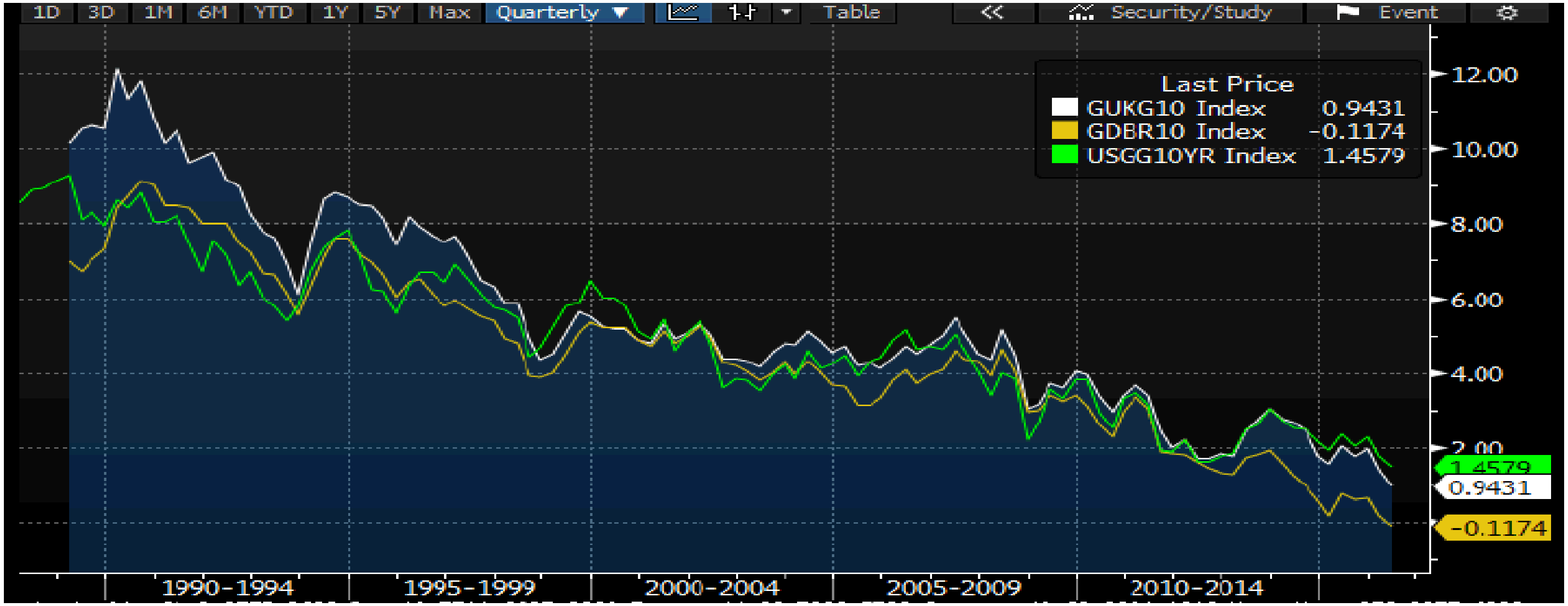
ASSET CLASSES

Bond markets

UK

Following the outcome of the vote, the yield on the UK 10-year Generic Government Gilt fell by 44 basis points, to 0.95%, its lowest level ever.

Risk aversion in markets might drive yields in the UK sovereign bond market, as well as in "safe haven" countries such as Germany, Japan and the US, even lower. Our view on UK sovereign yields takes into account the recent credit downgrade of the UK by both S&P and Fitch Ratings



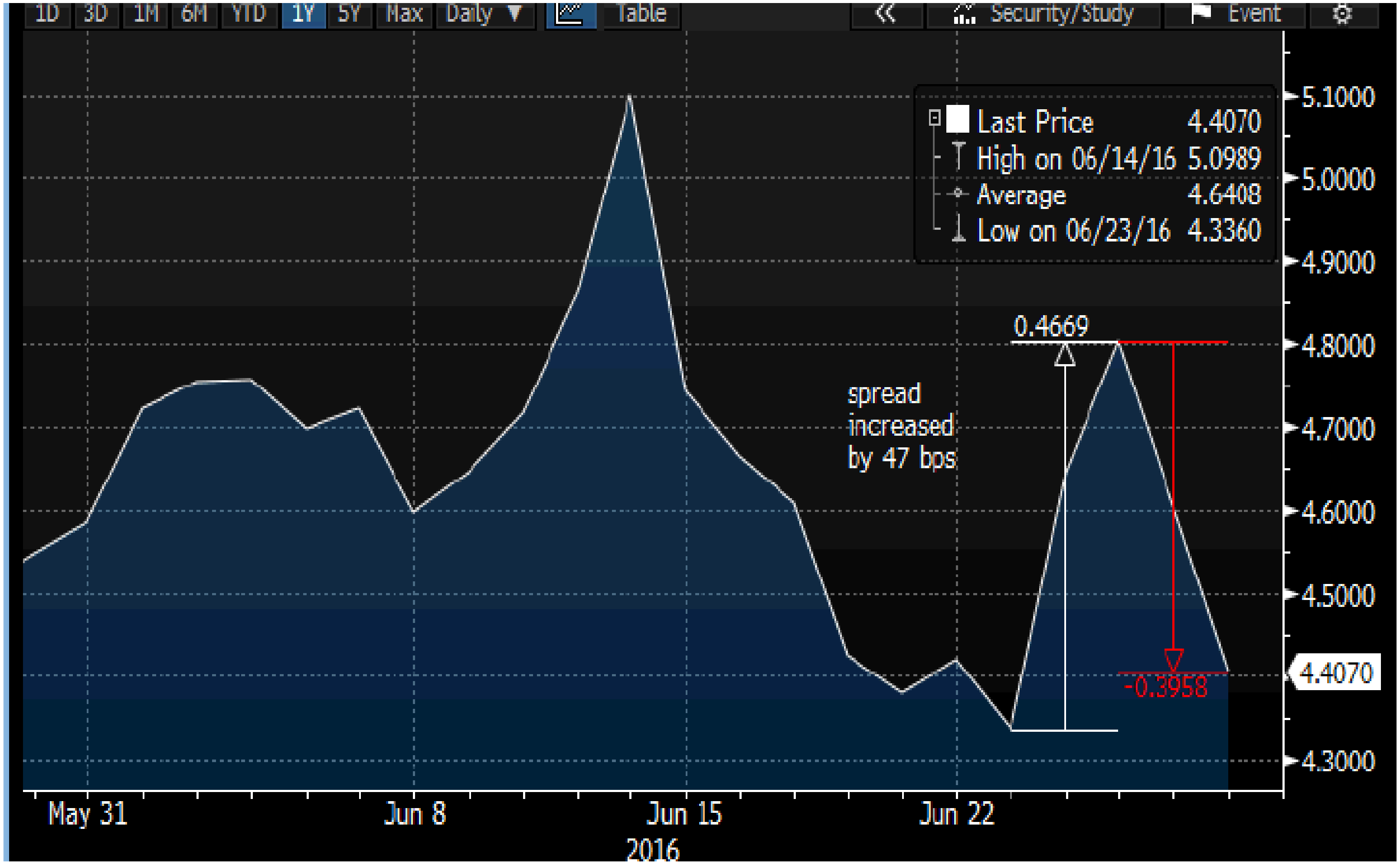
Bond markets

Nigeria

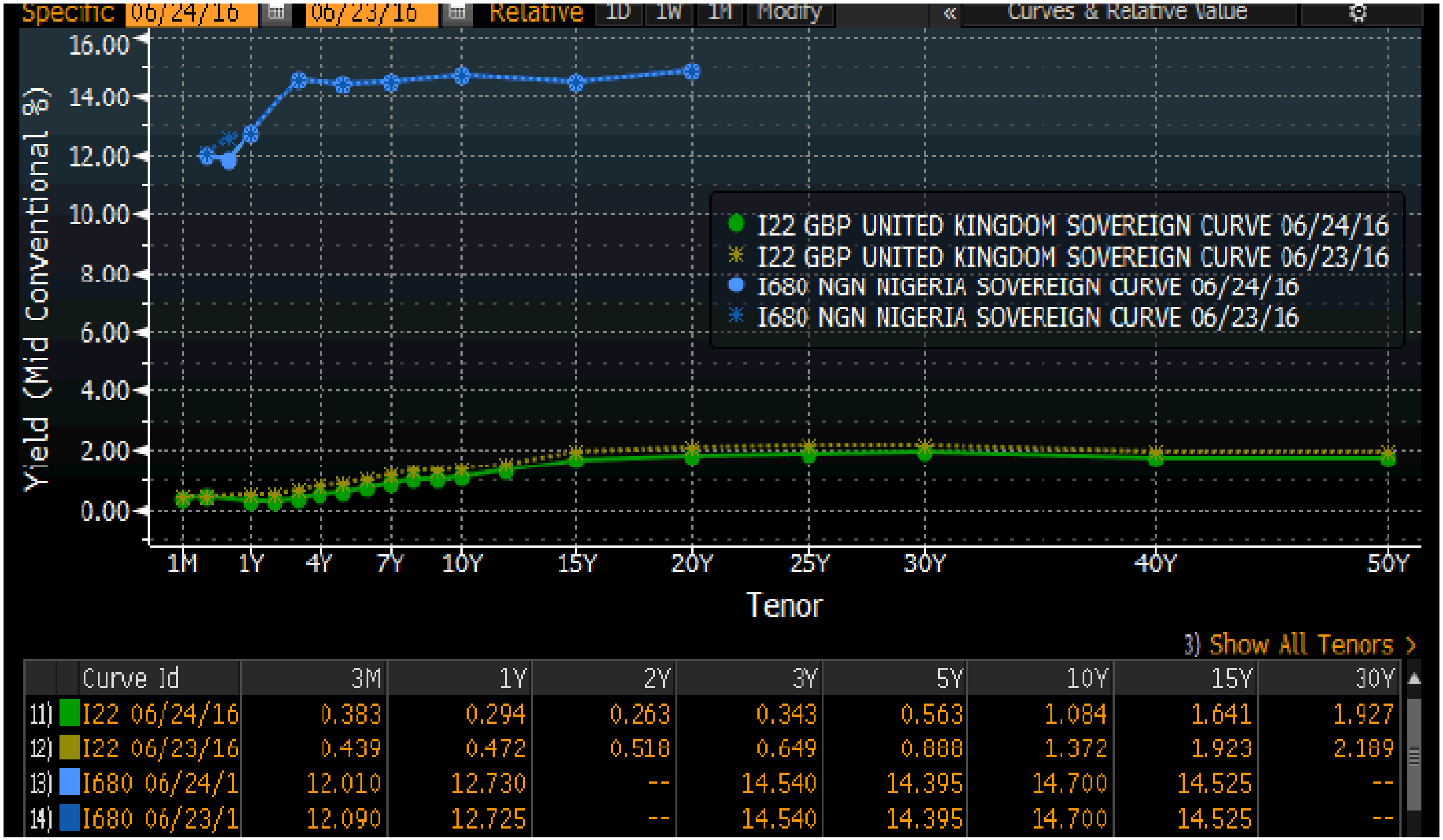
In what appeared to be a reaction to the outcome of the British vote, the spread between the 2-year US Treasury Note and similar maturity Nigerian sovereign USD Eurobond, widened by 47 basis points, to 4.81%, still about 239 basis points below its all-time high of 7.20% recorded at the beginning of the year.

However, USD Eurobonds issued by Nigerian financials were unaffected by the flight to safety. For instance, the Fidelity Bank 6.875% May 2018s Eurobond continued to trade on bid. Demand for USD Eurobonds issued by Nigerian entities is expected to remain relatively strong, in light of limited supply; the Nigerian government’s plan to issue a new Eurobond might not materialise until next year.

Spread between 2-year US Generic T-Note and Nigerian Govt 2018s Eurobond



Nigerian Domestic Sovereign Yield curve was largely unaffected by the outcome of the UK vote



	Curve Id	3M	1Y	2Y	3Y	5Y	10Y	15Y	30Y
11)	I22 06/24/16	0.383	0.294	0.263	0.343	0.563	1.084	1.641	1.927
12)	I22 06/23/16	0.439	0.472	0.518	0.649	0.888	1.372	1.923	2.189
13)	I680 06/24/1	12.010	12.730	--	14.540	14.395	14.700	14.525	--
14)	I680 06/23/1	12.090	12.725	--	14.540	14.395	14.700	14.525	--

ASSET CLASSES

Equity markets

UK

Following the decision of the UK to exit the European Union, the FTSE 100 index fell by more than 8%. The initial selloff soon gave way to selective bargain hunting, leading to the index regaining all previous losses from the selloff.

We maintain our position that the sectors of the FTSE 100 most susceptible to the likely negative effects of Brexit, are Financials, Construction and Consumer Discretionary. Also, companies that are heavily reliant on the UK domestic market, are more likely to feel the negative impact of slower economic growth.

We view companies such as National Grid and Randgold Resources, as good buys, in the current environment.

The rally of the last couple of days is unlikely to be sustained, and markets will eventually reflect the impact of expected weaker domestic growth and eventual rate cuts, in equity prices

ASSET CLASSES

Equity markets

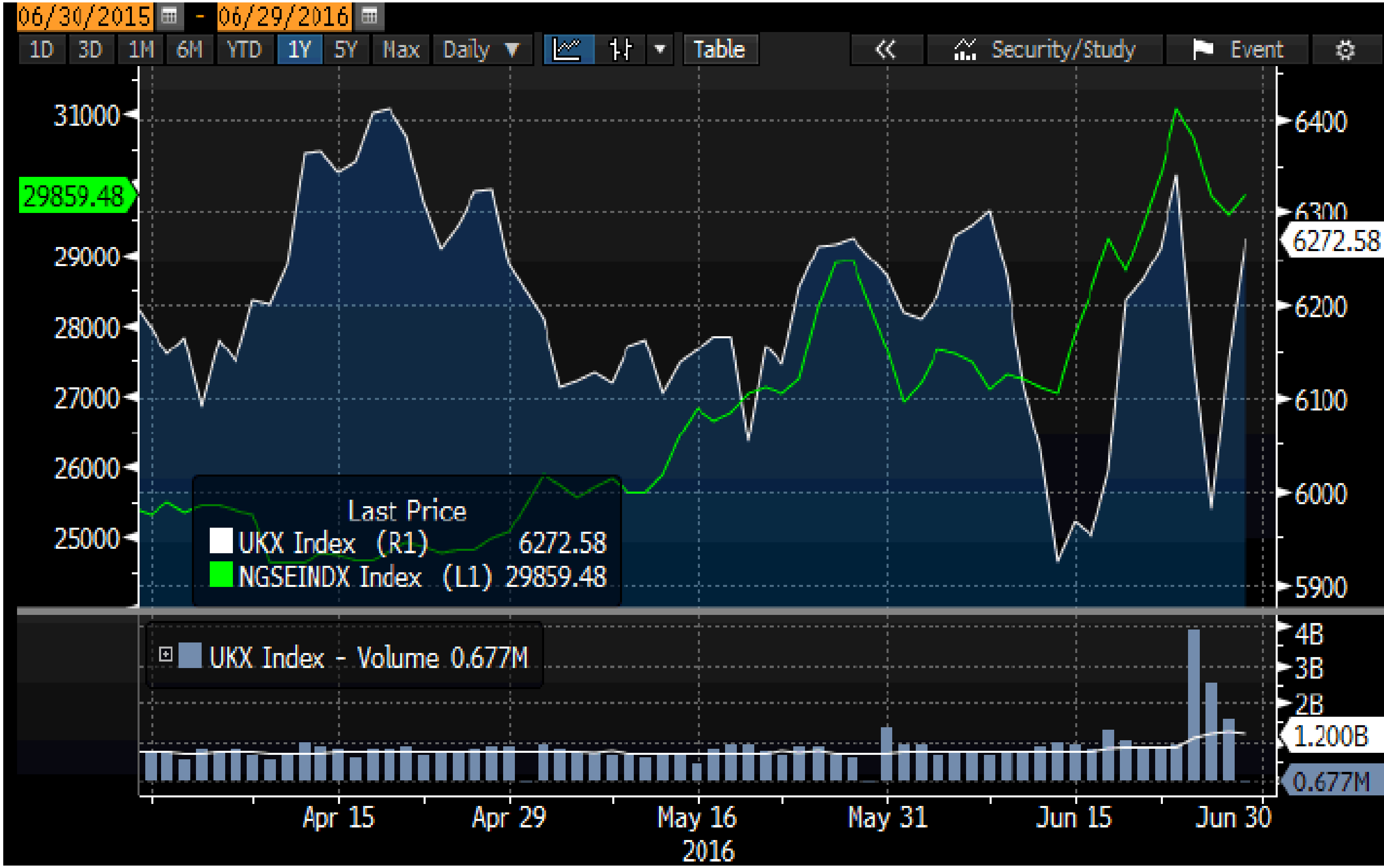
Nigeria

The Nigerian Stock Exchange All-share Index fell by just 1.52%, following the outcome of the British Referendum. The smaller drop, compared with the over 8% decrease in the FTSE 100 index, showed the resilience of the Nigerian equity market to Brexit.

We expect sentiment in the Nigerian market to continue to be dominated by issues such as liquidity in the local FX market, outlook for the resolution of crude oil production challenges and prospects for oil price gains in international markets.

Following Brexit, unconstrained funds seeking higher yields outside the UK, may find the Nigerian equity market attractive. In Nigeria, we favour the Agriculture and Industrial Goods sectors of the equity index.

FTSE 100 INDEX & NIGERIAN STOCK EXCHANGE ALL-SHARE INDEX



IMPACT OF 'BREXIT' ON UK REAL ESTATE MARKET

BREXIT EFFECT ON UK PROPERTY MARKET

2016 PRE-BREXIT ‘SLOWDOWN’

- UK prime real estate – central London – traditional safe haven for surplus assets
- 40% of London’s 8.66m people not born in the UK.
- 55% of London property owners are Non-EU - from Middle East, Russia, Asia and Africa.
- Recent slowdown in prime real estate (£1m - £5m) due to global market turmoil and UK tax regime.

BREXIT EFFECT ON UK PROPERTY MARKET

2016 POST-BREXIT ‘PRICE REDUCTION’

- Reduced demand from domestic buyers – uncertain of UK’s economic future.
- Sharp fall in pound led to deals re-negotiated e.g Eurozone buyers gained huge discounts.
- Exit of major financial services firms and city bonuses from the UK.
- New build market will definitely suffer as people wait and see impact on economy.
- Best case scenario will see market ‘flat’ or prices reduce by 3%-5% at top end.
- Foreign buyers ‘bonanza’ as pound falls – but less stock as people ‘wait and see’.

IMPACT OF 'BREXIT' ON UK IMMIGRATION POLICY

UK IMMIGRATION 'PRE-BREXIT'

- Net Migration figures on the increase – 318,000 in 2014 vs 244,000 in 2010

- UK government target to reduce net migration meant stricter policies for:

a) Admitting Non-EU students, family members and workers.

b) Eligibility criteria for work visas more selective e.g minimum salary for £18,600 to bring spouse or family

c) Reduced student work rights

EU LAW

- Does not allow UK to restrict number of EU citizens entering UK – over 150,000 arrived in 2015

- Key factor leading to 'leave vote' – 52% for more control on immigration

UK IMMIGRATION 'POST-BREXIT'

(Q1) WILL BREXIT CURB IMMIGATION?

- Donald Tusk (EU President) - “There will be no single market a la carte”
  - UK cannot choose tariff free trade and reject freedom of movement!
  - No clarity on this issue yet; needs further negotiation (article 50)

(Q2) IMPACT OF ‘BREXIT ON VALUE OF UK PASSPORT?

- Quality of Nationality Index has downgraded UK passport in value by 19 places to No. 30 (from number 11 last year)

- Criteria – economic health, human development peace, visa free travel and ability to live and work easily.

- Immigration policies ‘Post Brexit’ will affect status of UK passport

Q & A

Thank you

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