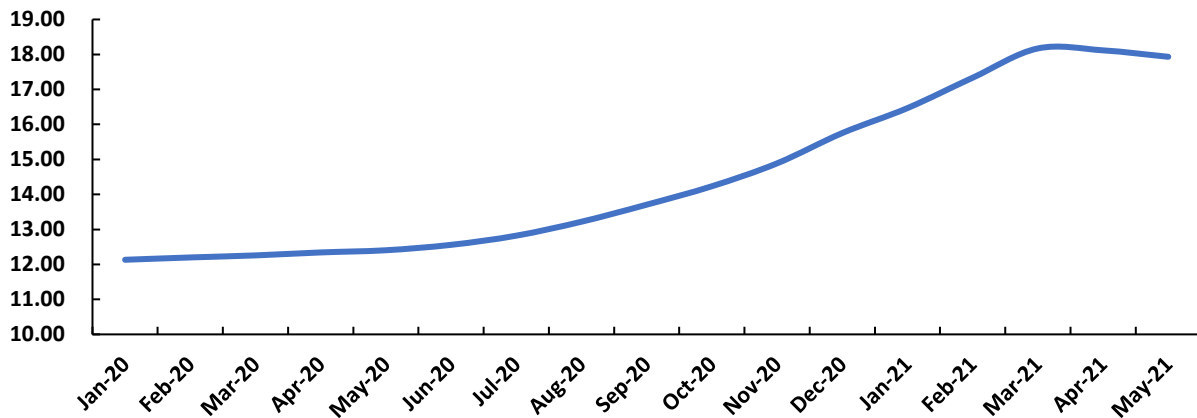


Nigeria’s Inflation Figures: A sustained or sporadic drop?

Headline Consumer Price Index (CPI) figures for May settled at 17.93% Y-o-Y vs 18.12% recorded in April 2021. The reduction in headline inflation was largely due to the impact of a high base from the prior year – due to the prevailing restrictions on human and economic activities on the back of the Covid 19 pandemic in 2020 – and a gradual resumption of business activities following an increased roll out of the vaccination program. The Food sub index grew at a slower rate in the month, settling at 22.28% Y-o-Y from 22.72% in April 2021 while the Core-sub index rose to 13.15% Y-o-Y from 12.74% in April 2021. However, on a M-o-M basis, the headline index, the food sub-index, and core sub-index increased by 4bps, 6bps, and 25bps to 1.01%, 1.05%, and 1.24%, respectively.

Chart 1 – Headline Inflation Trend



Source: CBN, AIICO Capital

Despite this mild improvement, the economic recovery remains fragile as sustained price volatility in agricultural products as well as transportation costs, remain major headwinds to consumer spending. In the coming month, we expect to see a further moderation in the headline inflation figures, albeit majorly driven by the impact of a high base from the prior year.

Fixed Income Market Review and Outlook

Money Market Review and Outlook... Tepid inflows in the month

There was some respite in the money market in June with banking system liquidity improving during the month. Average liquidity balance stood at ca ₦54.14bn vs a deficit of ca ₦177.82bn the previous month, as inflows of ca ₦320.31bn from Bond coupons, OMO and NTB maturities hit the system. However, OBB and Overnight rates trended slightly higher to settle at 16.71% and 17.19% from 15.31% and 15.88% respectively, the prior month.

In July, we expect rates to fall significantly on the back of significant inflows worth N1.52tn from bonds coupon payment, OMO and NTB maturities as well as bond maturities which are expected to mature in the month.

T-Bills Market Review and Outlook: Mixed to bullish sentiment played ensued in the NTB Market

Long dated NTBs were the most traded papers during the month, particularly the 26 May 2022 and 9 June 2022 maturities. Earlier in the month, trades were consummated at rates ranging between 9.00% - 9.30%. However, demand improved after the NTB auction where the 364-day paper closed at 9.40% (-24bps M-o-M) while the 91- & 182- day paper closed flat at 2.50% & 3.50% respectively. The buy side interest lingered on the long-dated papers, however, only a few offers were seen to match prevalent bids c.9.00%. The short to mid tenors mostly witnessed offers at higher rates than at the auctions. Furthermore, offers declined following the outcome of the last NTB auction in the month (30 June, with settlement on 1 July) where the 364-day paper closed at 9.15% (-25bps M-o-M) and the 91- & 182-day instruments closed flat at 2.50% and 3.50%. After the auction, trades on long dated bills ranged between 8.40% - 8.70% at the close of the month.

Chart 2 – NTB Auction Results

DATE	TENOR	MATURITY	OFFER (₦'bn)	SUB (₦'bn)	SOLD (₦'bn)	RATE (%)
9-Jun-21	91	9-Sep-21	4.74	6.86	5.06	2.50
9-Jun-21	182	9-Dec-21	7.82	11.70	10.09	3.50
9-Jun-21	364	9-Jun-22	78.71	308.49	164.11	9.64
16-Jun-21	91	16-Sep-21	2.52	14.37	1.61	2.50
16-Jun-21	182	16-Dec-21	1.70	2.64	1.10	3.50
16-Jun-21	364	16-Jun-22	10.61	264.73	27.87	9.40
30-Jun-21	91	30-Sep-21	2.88	5.03	2.26	2.50
30-Jun-21	182	30-Dec-21	20.00	5.13	3.31	3.50
30-Jun-21	364	30-Jun-22	58.86	435.85	158.04	9.15
			187.85	1,054.79	373.46	

Source: CBN, AIICO Capital

In July, we expect to see a steady decline in rates on the back of the significant value of maturities which are expected to hit the system in the month.

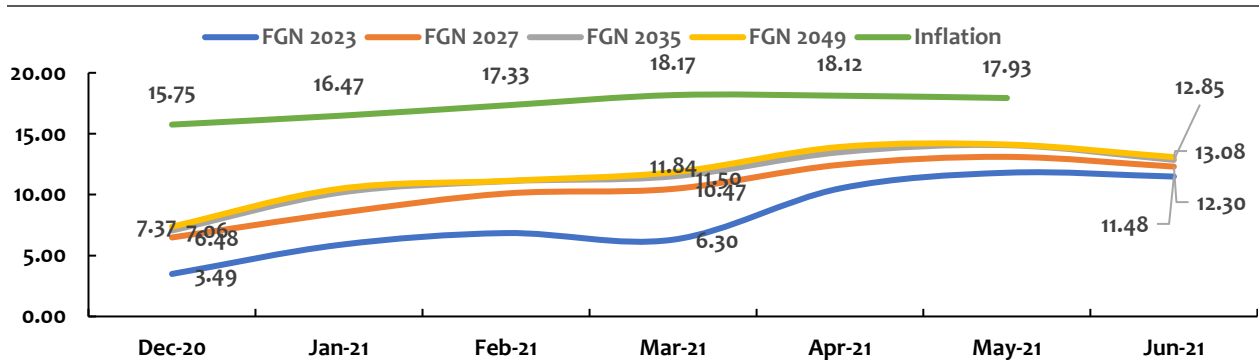
Bonds Market Review and Outlook

Buy side players dominated the FGN bonds market, amid short exposure coverings and position taking ahead of expected maturities in July.

Activities in the domestic bond market were largely bullish in June, due to reinvestment plans from maturity of the special bill, short sellers closing out positions, and spillover demand from May's bond auction, which resulted in a dip in the yield curve. This signified a reversal of the bearish trend sustained in May 2021. As the month progressed, there were relatively quiet trading sessions albeit with a bullish undertone leading up to the bonds auction.



Chart 3 – FGN Bond Yield Curve



Source: DMO, AIICO Capital

The auction which held on 23 June 2021, saw the DMO offer a total of ₦150bn worth of bonds which were oversubscribed by c. ₦267bn. Consequently, stop rates on the auction bonds, 2027s and 2035s closed at 12.74% (-36bps lower than previous month) and 13.50% (-50bps lower than previous month) respectively, while the 2050 maturity closed at 13.70%. Following the auction, the bullish momentum was sustained as investors sought to fill lost bids. The 2027s, 2035s, 2045s, 2049s and 2050s were the most actively traded securities during the month and across the yield curve, the short to mid end declined ca -18bps to -81bps, while the long-end losing ca -78bps to -126bps.

Chart 4 – Domestic Bond Auction Results

JUNE 2021 BOND AUCTION RESULTS							
SECURITY	MATURITY	OFFER (₦'bn)	SUB (₦'bn)	SOLD (₦'bn)	YIELD (%)	PREVIOUS (%)	CHANGE
16.288% FGN MAR 2027	17-Mar-27	50.00	66.21	50.81	12.74%	13.10%	-0.36%
12.50% FGN MAR 2035	27-Mar-35	50.00	127.45	103.90	13.50%	14.00%	-0.50%
12.98% FGN MAR 2050	27-Mar-50	50.00	223.82	171.09	13.70%	8.94%	4.76%
		150.00	417.49	325.80			

Source: DMO, AIICO Capital

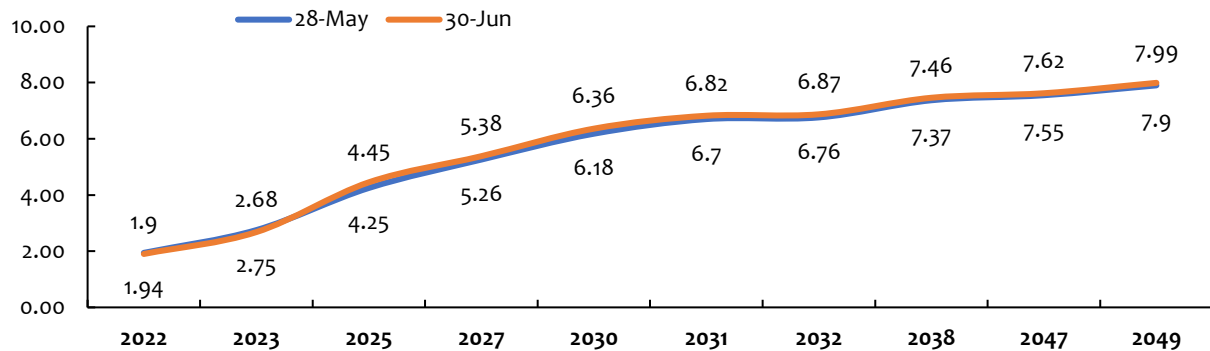
In July, we expect the significant maturities and coupons in July c. ₦1.5trn to drive ample demand for bonds across the curve. Market participants will also trade sentiments around the recently released Q3'21 bond issuance calendar.

Eurobond Market - Failed OPEC+ talks spurred mixed but weak market sentiments.

Cautious trading dominated activities as investors kept a close eye on the outcome of OPEC+ talks. The sovereigns and corporate traded relatively flat, albeit with a bearish tilt towards close of the month following an uptick in brent crude prices which was buoyed by the failed talks and discord amid OPEC+ members. In all, yields rose by 12 bps M-o-M.



Chart 5 – Sovereign Eurobond Yield Curve



Source: DMO, AIICO Capital

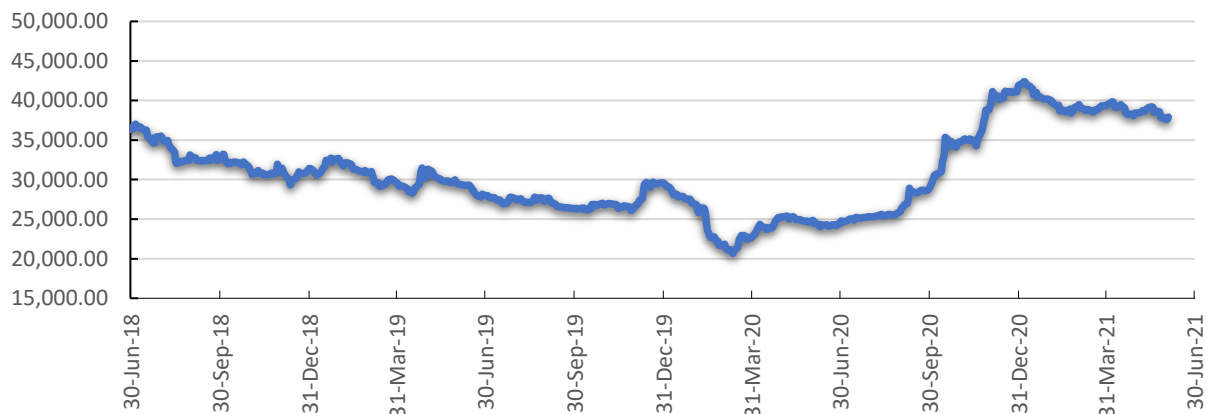
We expect sentiment in the Eurobond market to remain weak, as the increasing concerns around new variants of the Covid 19, OPEC+ pending resolutions coupled with inflationary pressures continue to dampen activity in the market.

Equities Market Review and Outlook

Equities Market in June... The Bears Clawback in the Month of June.

After some respite noticed in the month of May, the bears took charge of the domestic bourse in June, as investors continued rounds of profit taking, especially in market bellwethers. Consequently, the Nigerian Stock Exchange All Share Index (NSE ASI), lost 1.4% M-o-M to settle at 37,907.28 points, bringing total YTD loss to -5.9%.

Chart 6 – NSE ASI YTD Performance



Source: NSE, AIICO Capital

This trend was largely in line with the historical performance of the market in June, which has recorded a negative return in the June 8 times since 2010. On the back of this, activity level reduced as average volume and value traded fell by 18.8% and 10.9%



M-o-M to settle at 1.6m units and ₦16.2m by the end of the June. In the same vein, total market capitalization reduced by ₦316.8bn to settle at ₦19.8tn within the same period.

Sector Performance... Largely Positive Sector Performance

Performance across sectors was mixed with 4 of the sector indices closing in the green for the month, while 1 declined. The Consumer Goods index was the best performing, while the only Insurance index was the only sector loser. For the year, the Oil & Gas index remains the best performing, gaining 38.4% YTD while the Industrial Goods index has declined the most, down 8.0% YTD.

Chart 7 – Sector Performance

Index Name	M-o-M	YTD
NSE ASI	↓1.38%	↓5.87%
NSE Banking Index	↑2.82%	↓6.76%
NSE Insurance Index	↓0.27%	↑7.57%
NSE Industrial Goods Index	↑0.41%	↓8.02%
NSE Consumer Goods Index	↑6.95%	↑4.80%
NSE Oil & Gas Index	↑1.25%	↑38.41%

Source: NSE, AIICO Capital

The Banking index gained 2.8% in the month. This performance came on the back of the investor’s search for bargains following sustained periods of profit taking in the prior month. Investors continued to take advantage of relatively cheap valuations on some of the counters in the market, especially Tier-1 banks, ZENITH, UBA and ACCESS. The positive sentiment towards this sector can largely be attributed to the earnings resilience that has been demonstrated in prior years coupled with the increased prospect of interim dividend income.

The Consumer Goods index followed suit, advancing 7.0% M-o-M on the back of investors taking position in stocks such as NESTLE, FLOURMILLS and DANGOTE SUGAR. Despite the sustained pressures on consumer spending which should have a resultant impact on earnings of FMCGs, the resultant impact of a gradual return to business activities and social gatherings is expected to be a potential tailwind for earnings in the year.

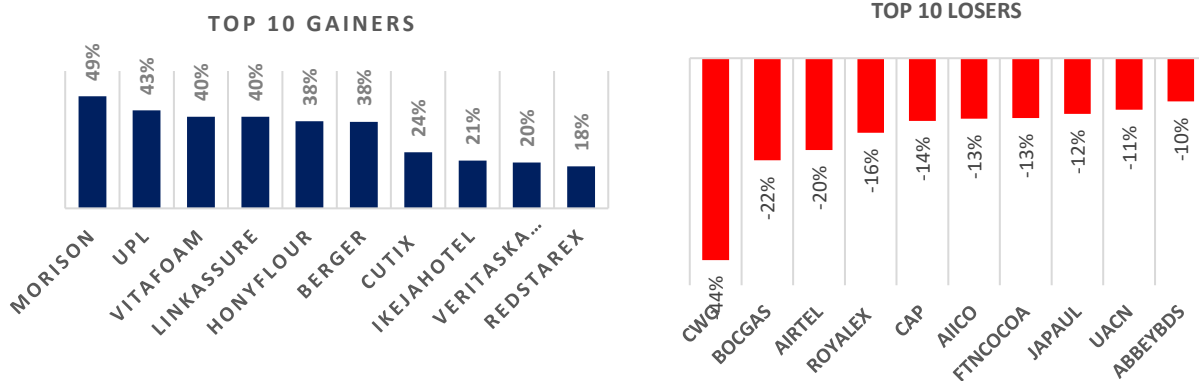
In the same vein, the Oil & Gas index advanced in the month, up 1.3% as investors took position in SEPLAT and CONOIL during the month. In our view, the buy interest in SEPLAT can be largely tied to the sustained improvement in oil prices during the month giving the majorly upstream play of the company.

The Industrial Goods Index also followed suit, advancing 0.4% M-o-M. The positive performance of the index was largely driven by appreciation in DANGCEM which offset the impact of the persistent sell offs in BUACEMENT. Despite the relatively positive view on the industry, given the gradual resumption of construction activities after the lull necessitated by the lockdown in 2020, the sentiment towards BUACEMENT has remained largely bearish as investors perceive current pricing of the stock to be overvalued, hence the sustained selloffs.



On the flipside, in a turn of fortunes, the Insurance index was the only sector decliner in the month, losing 0.3% M-o-M. We opine that the loss in the sector was largely due to profit taking, following there largely impressive gains that have been recorded in the sector. The major drags to the index’s performance were.

Chart 8 – Top 10 Gainers vs Losers in the Month



Source: NSE, AIICO Capital

Outlook for July... H1 Earnings Expectation to Drive Market Activity.

In July, expect to see mixed sentiments, albeit with a tilt towards bearish, as we expect investors to cycle between rounds of bargain hunting immediately followed by rounds of profit taking. This trend is in line with historical trading performance in the earlier periods of the third quarter of the year. Furthermore, we expect investor’s interest in the month to be largely shaped by H1:2021 earnings releases from corporates, especially stocks that have a sustained history of payment of interim dividend. Consequently, we expect to see the most interest in Tier-1 Banks, especially GTCO, ZENITH and UBA.

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