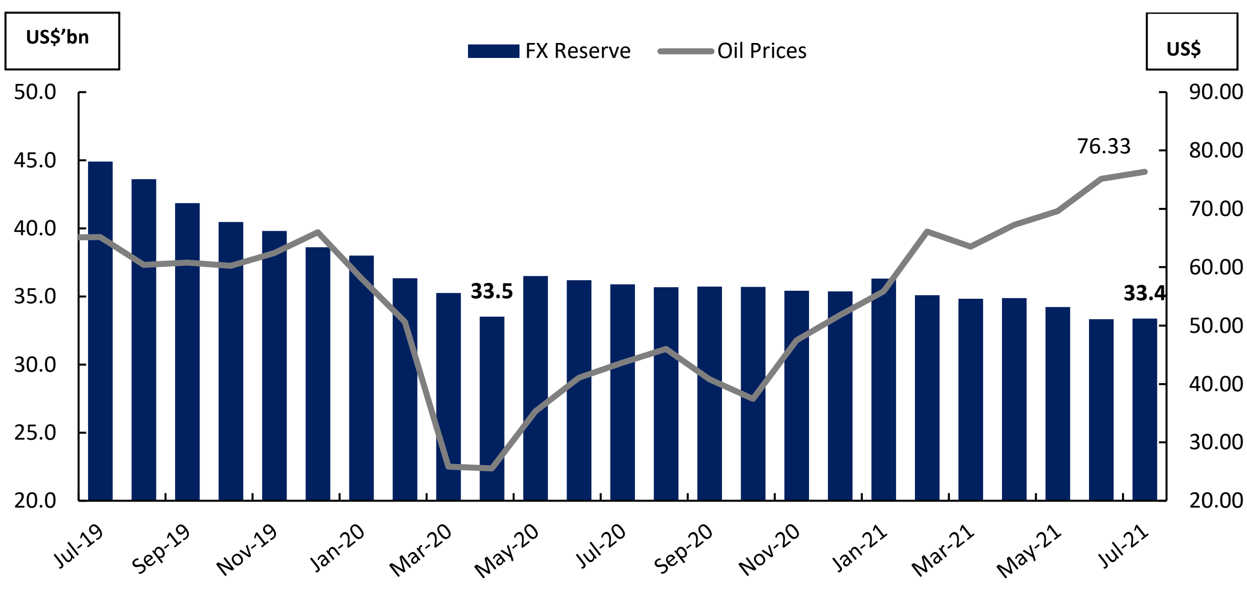
July 2021

Macroeconomic Review: External Reserves Rise as Oil Prices Remain on the Uptrend

Global crude oil prices maintained an upward trajectory in July, with Brent crude gaining ca +1.60% M-o-M to trade at $76.33pb while West Texas Intermediate crude (WTI) also gained ca +0.65% M-o-M to trade at $73.95pb by the end of the month. This increase comes despite the Organization of Petroleum Exporting Countries and allies (OPEC+) decision to increase global crude oil supply by 0.4million bpd monthly from August 2021, until phasing out current 5.8mbpd production cut as demand is forecast to rise to ca 98.24mbpd in Q3 2021, higher than 95.32mbpd in Q2 2021.

Relatedly, Nigeria's external reserves have been on the uptrend, rising ca 0.24% or US$79million in July, to settle at ca US$33.40bn. The expansion in foreign reserves may not be unconnected to an appreciation in inflow from Foreign Portfolio (FPIs) through the Investors and Exporters FX (I & E FX) window, rising to ca US$165.4million in July 2021 vs ca US$123.8million in June 2021. In terms of contribution to foreign inflows, Non-bank corporates, the CBN and Exporters contributed ca 36.71%, 28.05% and 15.04% of total inflows vs ca 31.06%, 33.57% and 14.13% recorded June.

Chart 1 – Nigeria's External Reserves vs Oil Price Trajectory



Source: CBN, AIICO Capital

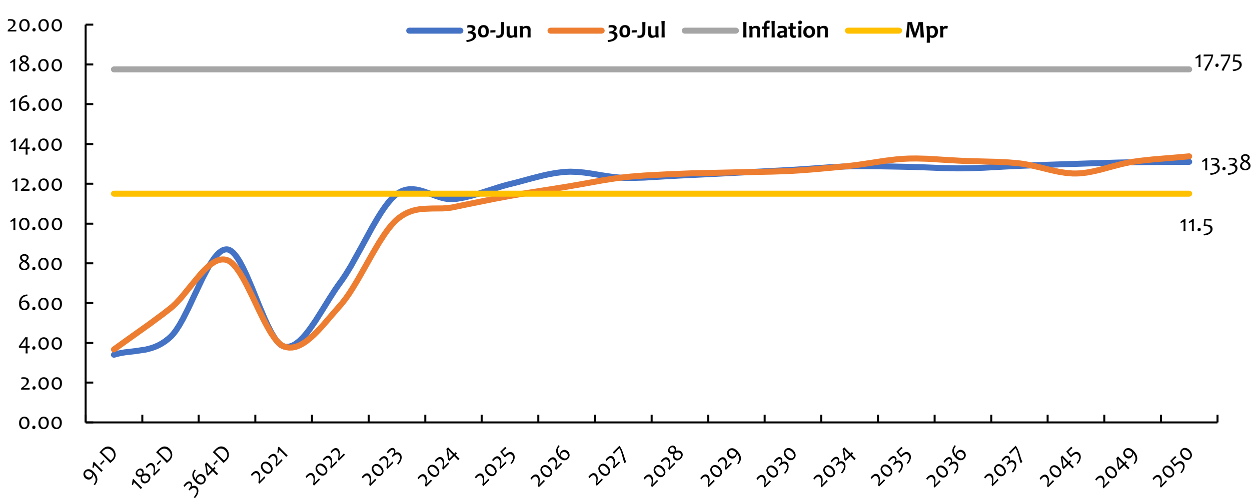
We expect external reserves to remain elevated on the back of a sustained increase in oil prices, which should also bode well for the CBN's current FX management strategy and import cover for the country. Despite the rising cases of COVID -19 variant infections, we opine that the acceleration in vaccination rates and easing of travel restrictions will be positive for oil prices. Finally, higher oil prices are also a positive for government revenue targets, with prices firmly above the US$40.0pb benchmark used for the 2021 budget.

Fixed Income Market Review and Outlook

Overview

Market sentiment in July was relatively weak despite the highly anticipated influx of liquidity from maturing instruments, Coupon inflows, OMO and NTB maturities, that were expected to drive a bullish bias. Contrarily, mixed to bearish sentiments dominated the bonds market with improved offers on the far mid to long end of the curve while investors held on to short end position amid uncertainty in interest rate direction. Similarly, the treasury bills market saw weak trading activity for most of the month, although there was occasional profit-taking on auction winnings by market players. Analysis of prevailing rates in the fixed income market continues to suggest that despite the slowdown in the inflation rate, the yield on instruments as well as the Monetary Policy Rate (MPR) remain below inflationary levels.

Chart 2 – Sovereign Yield Curve



Source: CBN, FMDQ, AIICO Capital

Money Market Review and Outlook… Liquidity Levels Surge on Plethora of Maturities

The month of July witnessed massive inflows into the system, with ca ₦1.4 trillion credited to the banking system in the form of NTB, OMO, Bond maturities and coupons as well as the statutory revenue allocations. Despite the traditional practice by the Apex bank to regulate inflows, system liquidity averaged ca ₦131.77 billion vs ca ₦54.12 billion observed in June. Thus, the Open Buy Back (OBB) and Overnight (ON) rates dipped by 400bps and 425bps to settle at 7.50% and 7.75%, respectively. We expect the momentum on liquidity to average down in August, due to lower volumes of NTB and OMO maturities.

T-Bills Market Review and Outlook: A Quiet Market, albeit with Buyside Undertone on the Long End of the Curve

The Treasury Bills market started the month on a relatively muted note as very few volumes were traded across the board – mostly sell-side activity on the very short end of the curve. Activity picked up later, buoyed by improved market supply at the

NTB auction, with most activity skewed to the far mid and long end, consisting largely of buying interest – as unmet bids at the auction filtered into the market. Overall, average benchmark yields fell by 56bps to 6.02%.

The OMO market, on one hand, sustained a bullish momentum for most of part of the month, due to the paucity of supply at the primary window by the CBN.

Chart 3 – NTB Auction Calendar

JULY 2021 NTB AUCTION RESULT			
Tenor	Jun'21 Close	Jul'21 Auc 1	Jul'21 Auc 2
91	2.50%	2.50%	2.50%
182	3.50%	3.50%	3.50%
364	9.15%	8.67%	8.20%

Source: CBN, AIICO Capital

We expect the treasury bills market to continue to witness bullish pressures on the long end of the curve, amid declining stop rates at subsequent auctions. In addition to this, we expect a total Nigerian Treasury Bills maturity of N208.7bn in August which could potentially boost system liquidity.

Bonds Market Review and Outlook

Expected Bull Run due to July's heavy Maturity was Dampened by a Surprisingly Mixed to Bearish Sentiment.

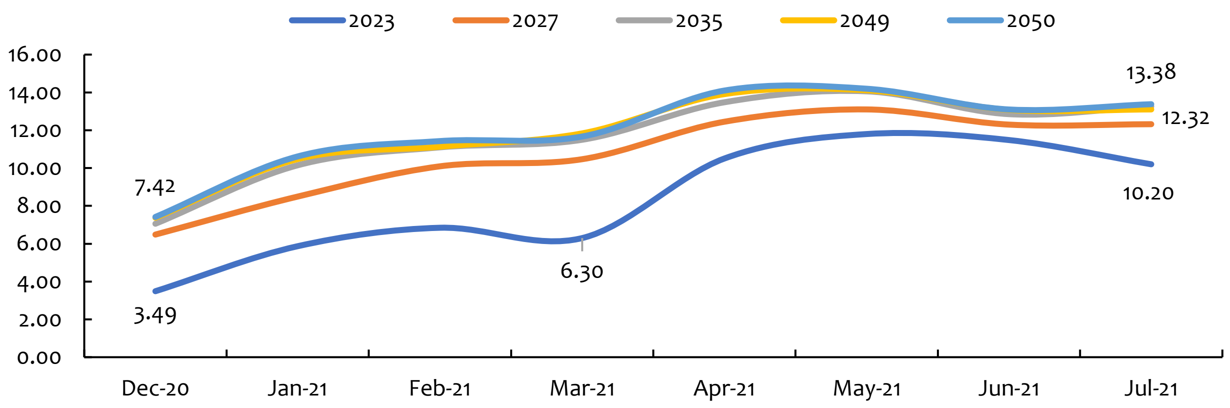
The bullish momentum in the Bond market faded at the start of the month as improved offers were seen across board particularly on the long end of the curve. There were minimal volumes traded, as participants remained cautious in anticipation of the release of the Q3'21 FGN bond issuance calendar. Following the release, it was observed that the 2027s and 2035s reissued in previous auctions, were replaced with 2028s and 2036s while maintaining the 2050s. This spurred an extended period of muted trading, as players looked to reposition themselves ahead of the auction. Despite the N561bn July maturity, the market traded mostly bearish with improved offers on the 2027s, 2035s and 2050s. At the auction, rates declined across the papers relative to previous closing rates, but the subscription level was surprisingly lower than market expectation – leaving the market to wonder where all the liquidity crept to. Unmet bids from the auction forced yields lower temporarily, causing average benchmark yields to dip by 8bps to 12.45%, however the lack of clarity on the short-term market direction caused some disinterest in the mid to long end of the curve; hence, keeping the buying interest concentrated mostly at the short end. Overall, yields inched 18bps northwards.

Chart 4 – Sovereign Bonds July Auction Result

JULY 2021 BOND AUCTION RESULT				
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Yield
23-Feb-28	50.00	56.41	31.71	**12.35%**
18-Mar-36	50.00	73.44	51.16	**13.15%**
27-Mar-50	50.00	156.26	55.20	**13.25%**
	150.00	**286.11**	**138.07**	

Source: DMO, AIICO Capital

Chart 5 – FGN Bond Yield Curve for Selected Maturities



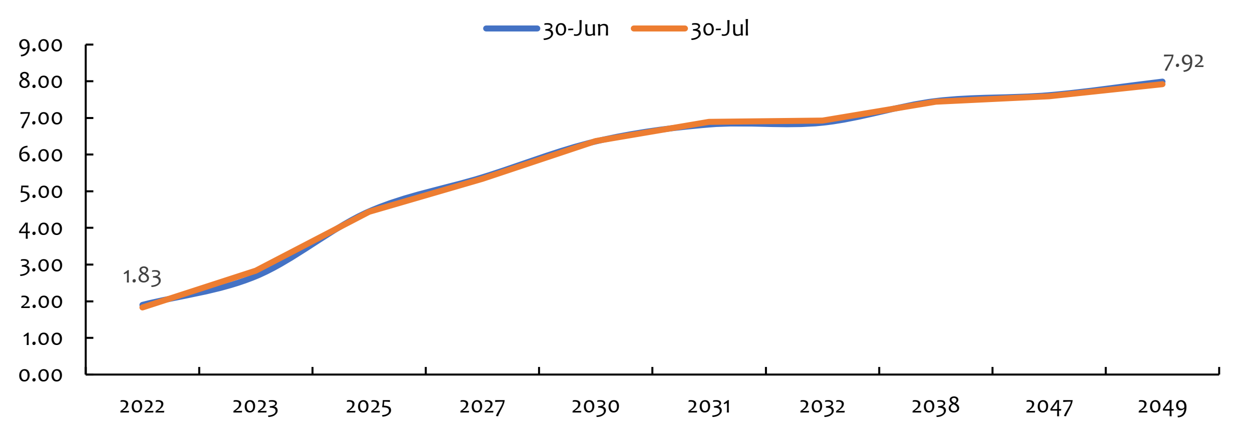
Source: FMDQ, AIICO Capital

We expect the market to sustain its relatively mixed sentiment, as short-term market direction remains very unclear. The expected coupon inflow for next month is ₦52.1bn

Eurobond Market - Weak Sentiments amid Concerns around Covid-19 Delta Variant

The Eurobond market sustained its relatively weak trend for a major part of the month. The steadily improving oil price was not enough to stir much optimism, as concerns around the new Covid-19 delta variant dampened market sentiments. The Nigerian corporates remain flat across the month, with occasional bearish sentiment seen on the ETI 31s, while the sovereigns were relatively flattish. Average benchmark yields rose marginally by 4bps to 5.80%.

Chart 5 – Sovereign Eurobond Yield Curve



Source: FMDQ, AIICO Capital

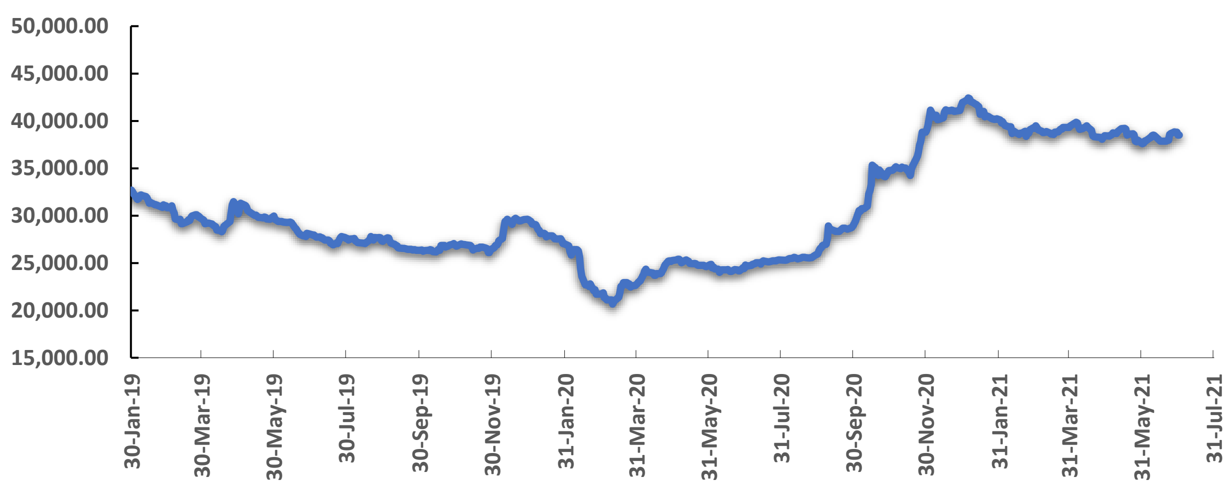
We expect the Eurobond market to continue to trade sideways as concerns around the new covid-19 delta strain continue to dampen market sentiment.

Equities Market Review and Outlook

Equities Market in July… Bearish trend Reversed in July as Investors Positioned for Interim Dividend

The downtrend in the domestic bourse was reversed in July as a rally in the market, driven by investor's positioning ahead of H1:2021 earnings releases and potential interim dividend income, buoyed the performance. Consequently, the benchmark index, rose by 1.69% M-o-M to settle at 38,547.08 points, while YTD loss trimmed to -4.28%.

Chart 6 – NSE ASI YTD Performance



Source: NSE, AIICO Capital

Market activity level improved in the month with average volume increasing by 16.80% M-o-M to settle at 252.1m units while value traded for the month declined by 6.47% to settle at ₦2.2bn.

Sector Performance… Oil & Gas Index Surges 20.4% in the Month

Sector Performance was mixed in the month, with three sector indices advancing, while two declined. The Oil & Gas index continued the rally from June, expanding by 20.4% M-o-M in July, on the back of significant gains recorded in TOTAL (+40.1%) which was driven by a rebound in earnings, and OANDO (+48.6%) as investors sought for bargains in the market. The Industrial Goods index also followed suit, advancing 4.6% M-o-M, majorly driven by positive sentiment around DANGCEM (+12.3%) following the announcement of the buyback program from the Dangote Cement Plc, as well as positive sentiment towards WAPCO (+7.8%) as construction activities pick up after delays necessitated by the Covid-19 pandemic in the prior year. Similarly, the Banking index rallied 4.1% M-o-M in July, as investors continued to take position in banking bellwethers that have a history of paying interim dividends at relatively attractive yields, especially Tier-1 Banks like ZENITH (+3.4%) and UBA (+4.1%). Despite the positive performance from these sectors, the Oil & Gas index remains the only advancer YTD, with an impressive return of 66.6% while the Industrial Goods and Banking indices have a total loss of 3.8% and 3.0% respectively.

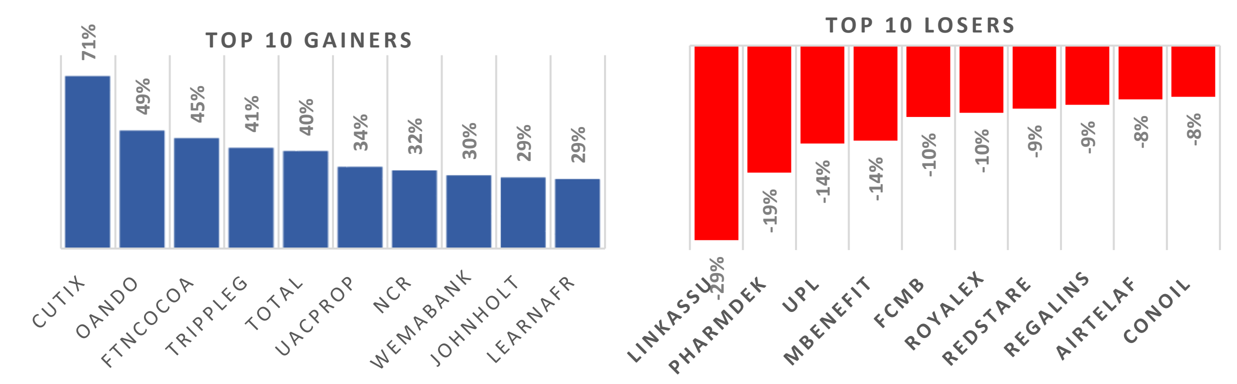
Chart 7 – Sector Performance

Index	MTD	YTD
NSE ASI	1.7%	-4.3%
NSE Banking Index	4.1%	-3.0%
NSE Insurance Index	-3.0%	4.4%
NSE Industrial Goods Index	4.6%	-3.8%
NSE Consumer Goods Index	-0.5%	4.2%
NSE Oil & Gas Index	20.4%	66.6%

Source: NSE, AIICO Capital

On the flip side, the Insurance index declined the most, extending losses from the prior month to fall 3.0% M-o-M, against the backdrop of price depreciation in Linkage Assurance Plc (-28.6%) and Sunu Assurance Nigeria Plc (-4.3%). In the same vein, after an impressive return in June, trading activities in July were characterized by rounds of profit-taking as the Consumer Goods sector index slid 0.5% M-o-M, due to sell-offs in Dangote Sugar Refinery Plc (-1.3%) and Nigerian Breweries Plc (-4.2%). Notwithstanding the dip in both indices in the month, the Insurance and Consumer Goods indices remain the second and third best-performing indices YTD with total returns of 4.4% and 4.2% respectively.

Chart 8 – Top 10 Gainers and Top 10 Losers in July



Source: NSE, AIICO Capital

Outlook for August… Investor Sentiment expected to Dampen

In August, the broad expectation for the market is somewhat bearish as we expect investors who hitherto took positions in some counters, in anticipation of dividend income or expected price appreciation following H1:2021 result announcements, to take profit in the month. We do not envisage any major triggers that could spur investor sentiment in August, although we do not rule out the possibility of some bargain hunting in the later periods of the month following expectations of price depreciation earlier in the month.