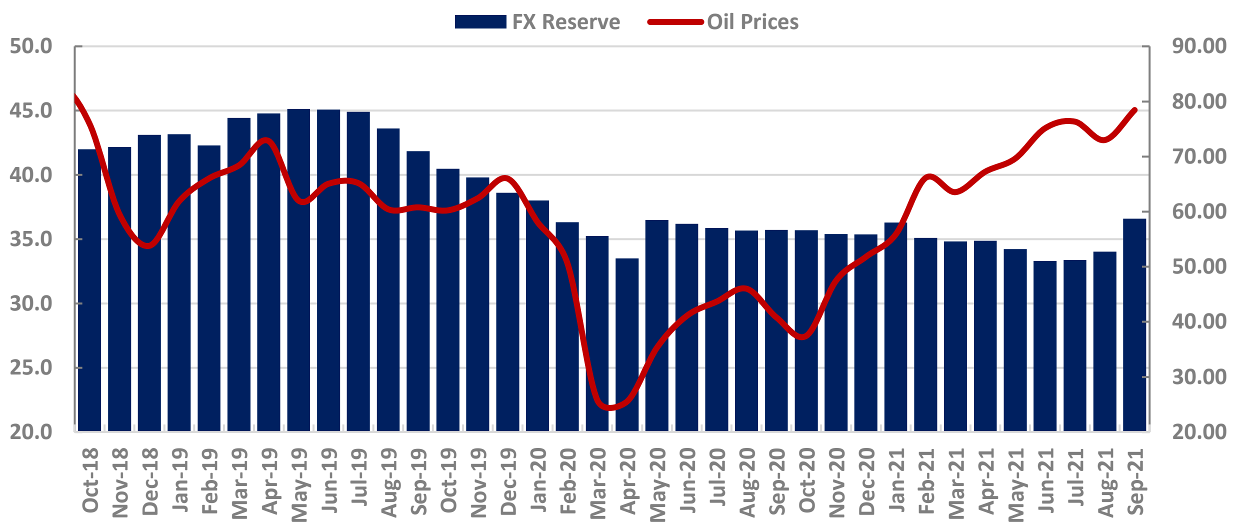
September 2021

Macroeconomic Review

Foreign Reserve rise to 18-Month High

Nigeria's foreign reserves rose to its highest in 19 months, growing by ca US$2.58bn in September to US$36.60bn. The expansion can closely be tied to a sustained increase in global crude oil prices, with Brent crude oil price trading at its highest level in 3 years at US$80.00 per barrel (pb) and steadied above the nation's budget benchmark crude oil price of US$40.00pb.

Chart 1 – Foreign Reserves vs Oil Price Trajectory



Source: CBN, FMDQ, AIICO Capital

Can the Current Reserve Level sustain Imports?

To assess the viability of the current reserve level, we look at the import cover, a metric used to estimate the number of months of import of critical goods and services, the foreign reserves of a country can cover. The IMF suggests that a minimum of 3 months' worth of import cover should be appropriate. From our analysis, data from the National Bureau of statistics (NBS) estimated total import at US$16.81 billion as at Q2 2021. Juxtaposing this against the current level of external reserves at US$36.78bn, shows that the estimated months of import cover is 2.19 months (below the 3-month mark). As such, the expansion in reserves, though positive, still falls short of the required level and considering the heavy dependence on import, the relatively low import cover suggests that there is a greater need to drive external reserves northwards.

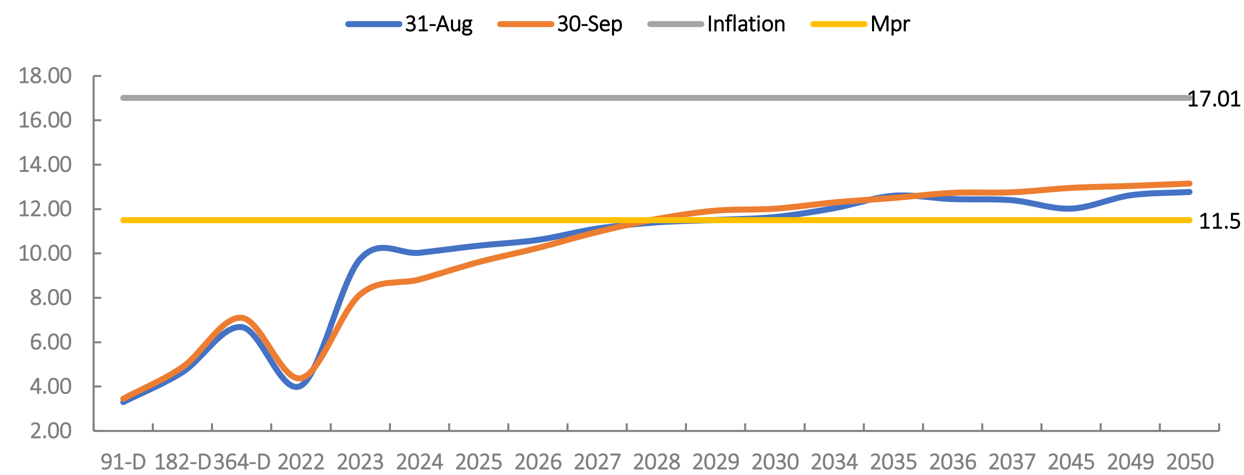
In our view, we expect continued improvement in the nation's reserve levels in the near term, on the expectation that Brent crude oil prices remain elevated while demand surges on the back of more economies re-opening as Covid-19 vaccination roll outs increase.

Fixed Income and Foreign Exchange Market Review and Outlook

Overview

The third quarter of the year ended on quite an eventful note, starting with the surprise rate hikes in both the NTB and FGN bonds markets and accelerated Eurobonds issuances by the DMO – taking advantage of low borrowing costs, and Egypt's participation in the Eurobonds market as well. Market players came into the month of September with a bullish outlook in the local market, due to impending coupon inflows and maturities, however, the DMO mopped up the bulk of the expected liquidity at the auctions by selling more than anticipated and significantly taking rates higher. This gesture was replicated in the international capital markets, as the DMO borrowed US$1.0bn more than initially planned via Eurobonds, due to mammoth subscription levels. Overall, the average rate inched up by c.190bps M-o-M across the NTB and FGN bonds curve combined.

Chart 2 – Sovereign Yield Curve

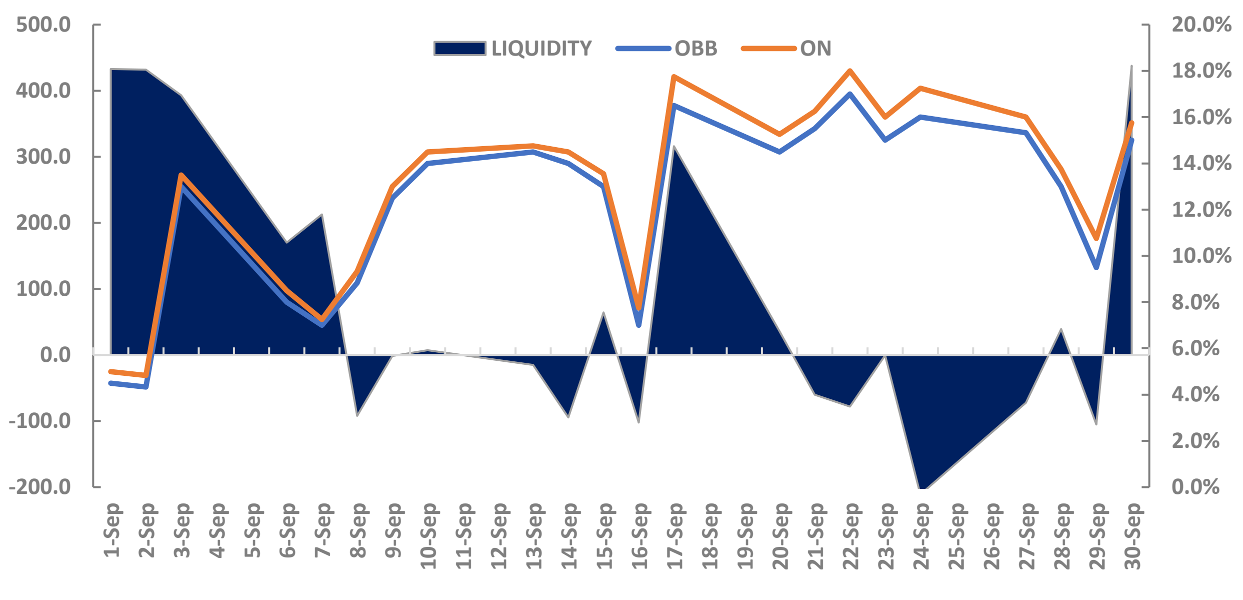


Source: CBN, FMDQ, AIICO Capital

Money Market Review and Outlook… Maturities and Coupon Payments bolster System Liquidity.

System liquidity remained elevated at the close of September, driven by favorable flows from OMO, T-bill maturities and Bonds coupons worth ca ₦911.89 bn along with FAAC disbursements estimated at ca ₦355.0bn. The average system liquidity balance in the month stood at ca ₦77.67bn, higher than ca ₦76.83bn recorded the previous month. Consequently, the Open Buy Back (OBB) and Overnight (ON) rates trended lower to settle at an average of 12.18% and 12.87% from 13.28% and 13.73% in August despite CRR debits and funding pressures.

Chart 3 – System Liquidity and Interbank Rates



Source: CBN, FMDQ, AIICO Capital

On the back of projected inflows from bond coupon payments, OMO, and NTB maturities worth ca ₦745.55bn, we expect system liquidity and interbank lending rates to remain at similar levels. However, the Apex bank's conventional technique of tightening liquidity could potentially lead to a spike in lending rates.

T-Bills Market Review and Outlook - Mixed Sentiments dominated the Treasury Bills Market amid Surprise DMO/CBN move.

A shocking 40bps hike in 1-year stop rate at the first auction of the month, after an extended period of steady rate decline, spurred a mixed to largely bearish market. Participants switched to a sell-off mode, particularly on the long end of the curve (July 2022 to September 2022 papers) – buoyed by excess supply, with rates trading at c.7.00%. However, robust system liquidity buoyed by maturities, helped ease the bearish effect later in the month.

Subsequent auctions witnessed weak market sentiment with a bearish undertone, as participants prepared for more surprise actions by the DMO. The DMO however maintained the rate for the 1-year paper in the penultimate auction for the month but moved the rate by another 30bps to close the month. The market traded largely mixed during this period with uncertainties clouding market judgements.

Overall, average secondary NTB market rates inched up by c.23bps M-o-M.

Chart 4 – NTB Auction Calendar

	SEPTEMBER 2021 NTB AUCTION RESULT				
Tenor	Aug'21 Close	Sep'21 Auc 1	Sep'21 Auc 2	Sep'21 Auc 3	Change (bps)
91	2.50%	2.50%	2.50%	2.50%	0.00
182	3.50%	3.50%	3.50%	3.50%	(0.01)
364	**6.80%**	**7.20%**	**7.20%**	**7.50%**	**70.00**

Source: CBN, AIICO Capital

We expect market participants to trade cautiously in the last quarter of the year, albeit with a slightly bullish undertone – largely supported by impending maturities.

Bonds Market Review and Outlook

A mixed to bearish Market, despite excess Borrowing from the Eurobond Space.

A relatively bullish start to the month (with major buying interest seen on the short end of the curve) following the decline in marginal yields at August's FGN bonds' auction soon turned bearish after the DMO's surprise rate hike on the 1-year NTB paper. There was sell interest across the curve for major part of the month, particularly on the 28s, 35s, 36s and 50s, however, coupon inflows of ca. ₦292.0bn tempered the bearish sentiment. During the month as well, the DMO accelerated their Eurobonds issuance (initially meant to take place in October) and raised US$4.0bn (US$1.0bn more than the initial offer). The amount was spread across three tenors - 7yr (US$1.25bn @ 6.125%), 12yr (US$1.50bn @ 7.375%), and 30yr (US$1.25bn @ 8.25%). The offer saw significant subscriptions (more than US$12.0bn) possibly indicating investors' confidence in the country. This should ordinarily imply less borrowing from the local markets, nonetheless, the DMO at its September's FGN bonds' auction oversold by and increased the stop rate on the longest paper by 20bps. This move fueled more sell side activity coupled with the 30bps hike in 1-year NTB rate to close the month.

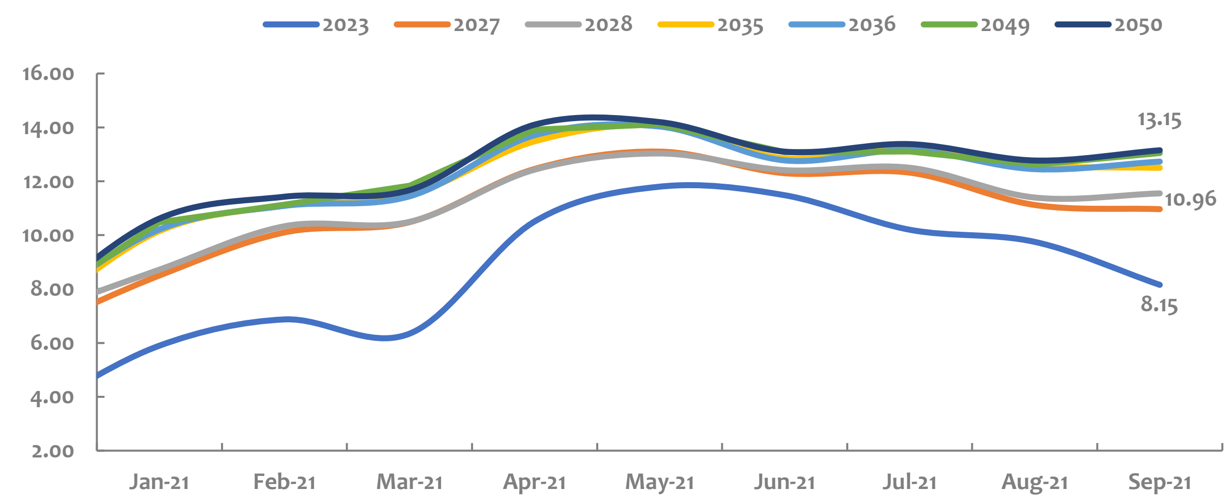
Overall, average yields in the secondary market inched up by 19bps M-o-M.

Chart 5 – Sovereign Bonds August Auction Result

SEPTEMBER 2021 FGN BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Yield	Aug'21 Close	Change (bps)
23-Feb-28	50.00	52.43	42.37	**11.60%**	**11.60%**	0.00
18-Mar-36	50.00	125.58	115.85	**12.75%**	**12.75%**	0.00
27-Mar-50	50.00	156.31	118.83	**13.00%**	**12.80%**	20.00
	150.00	**334.32**	**277.05**			

Source: DMO, AIICO Capital

Chart 6 – FGN Bond Yield Curve for Selected Maturities



Source: FMDQ, AIICO Capital

We expect the mixed market sentiments to linger amid rate uncertainties and DMO's actions at subsequent auctions. Expected coupon inflows of ca. ₦194.0bn will likely spur some buyside activity, as investors will cherry-pick the relatively attractive yields.

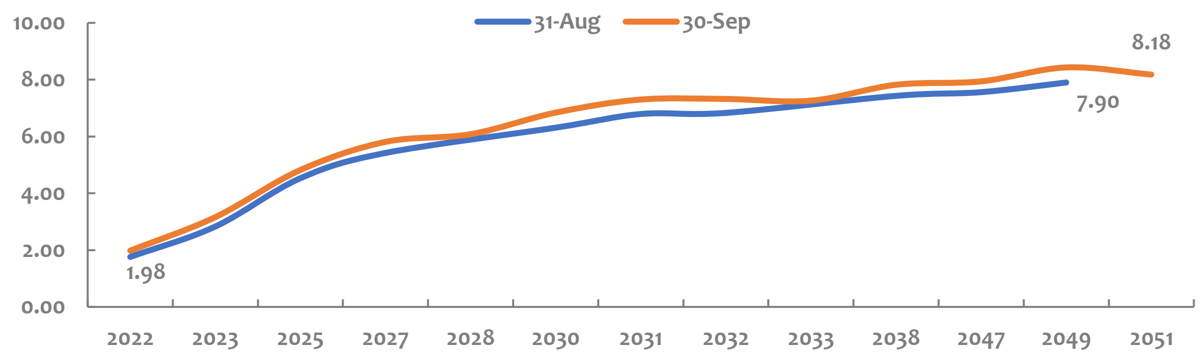
Eurobond Market - Weak to Bearish Sentiments as Emerging Markets dominated the Eurobonds Space with Fresh Issuances.

Activity in the Eurobond market started on a quiet note with weak sentiments dominating the trading sessions. However, news of Nigeria tapping into the Eurobonds market earlier than anticipated drove some bearish activity as market players geared up for the impending supply. The auction, which was largely oversubscribed, saw prorated allotments across the tenors, with unmet bids filtering into the secondary market. Thereafter, Egypt, another emerging market, sold US$3.0bn in its second Eurobond issuance of the year, joining a rush of emerging market governments taking advantage of low borrowing costs before the U.S. Federal Reserve starts tapering its pandemic stimulus. The issuance was three times oversubscribed, with total bids of US$9.0bn by more than 300 investors from U.S., Europe, Asia, Middle East, and Africa.

The resultant effect of the supply saw mixed trading sentiments, with a slightly bearish tilt, particularly on the corporates but the sovereigns were more bullish as unmet demand was steadily being filled in the secondary market.

Overall, it was a relatively weak market with average yields inched up by c.64bps M-o-M to close at 6.38%.

Chart 7 – Sovereign Eurobond Yield Curve



Source: FMDQ, AIICO Capital

We expect the Eurobond market to continue to trade sideways, even as concerns around the new covid-19 delta strain continues to dampen market sentiment, despite soaring oil prices.

Foreign Exchange Market Review and Outlook… An end to Naira Exchange Rate Speculation?

Amid supply shocks and devaluation concerns, the FMDQ Nigerian Autonomous Foreign Exchange Fixing (NAFEX) depreciated by 0.46% to settle at ₦413.38/US$1.00. While responding to questions at the recently concluded Monetary Policy Committee (MPC) meeting, the president of the Central Bank of Nigeria (CBN) alleged that a website popular for publishing exchange rates from the parallel market was the cause of the exchange rate depreciation. The CBN governor re-emphasized that the only recognizable FX rate is the I&E FX rate, reiterating that *"The CBN act section 2, does make it clear that only the Central Bank can determine the value of the naira"*. Nigeria's exchange rate had faced a lot of speculations due to exchange rate misalignment between different exchange windows alongside continued notions of a devaluation to the naira.

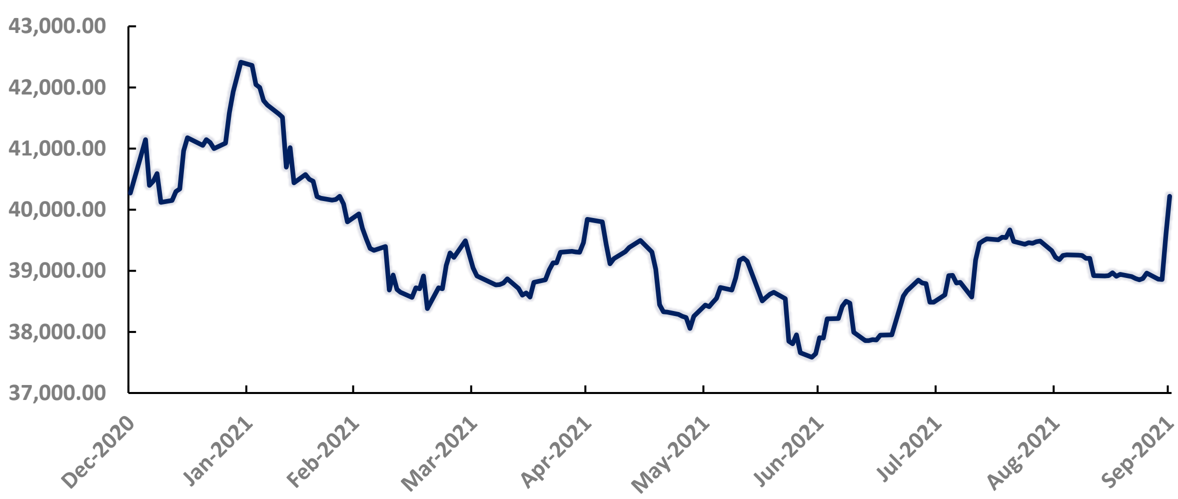
Despite the recent developments, we expect the demand pressure on the Naira to remain in the last quarter of the year. The Apex bank is expected to boost forex supply to banks alongside seeking regulatory sanctions on unauthorized activities in the FX market.

Equities Market Review and Outlook

Equities Market in September… Cheap Valuation Spurs Buy Activity in Bellwethers

As the euphoria around the release of H1:2021 and Interim dividends, diminished, investors opted to take advantage of the relatively attractive prices of fundamentally sound counters in the domestic bourse and this spurred the positive return recorded in the month. This was largely reflected in the pricing trajectory, especially in market bellwethers, which saw significant buy interest in the month. Consequently, the benchmark index expanded 2.6% M-o-M, crossing 40,000 points, to settle at 40,221.17 while YTD loss trimmed to 0.1%. Market breadth, a measure of investor sentiment was relatively flat at 1.0x as 41 stocks advanced while 42 declined.

Chart 8 – NSE ASI YTD Performance



Source: NSE, AIICO Capital

Sector Performance… Mixed Performance across sectors in September

Mixed sentiments were witnessed across the different sectors of the domestic equities market. The Industrial Goods index saw significant improvement gaining ca 7.2% M-o-M, on the back of increased buy interest in Dangote Cement Plc (+15.2%). In the same vein, the Consumer Goods index gained ca 2.7% due to demand in Nestle Nigeria Plc (+5.7%). On the flipside, the Insurance sector declined the most, losing 9.42% M-o-M, largely attributable to sell-offs in Lasaco Assurance Plc (-14.4%). The Banking sector also depreciated during the month, down ca 1.6% as sell pressure was seen on Stanbic IBTC Plc (-4.9%), Zenith Bank Plc (-2.3%) and United Bank for Africa Plc (-0.7%). Similarly, the Oil and Gas index also lost ca 0.31%.

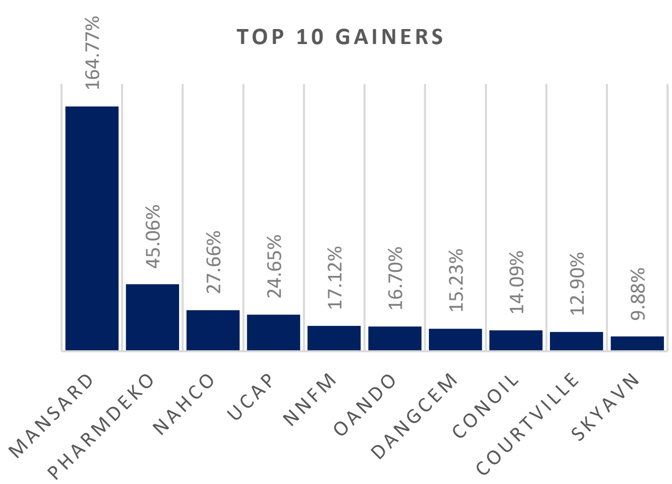
Chart 9 – Sector Performance

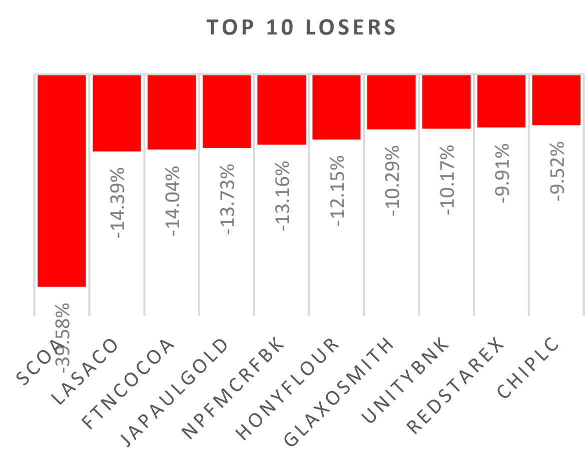
	D-o-D	W-o-W	MTD	YTD
NGSEINDX Index	1.6%	3.5%	2.6%	-0.1%
NSE Banking Index	-0.3%	2.5%	-1.6%	-5.6%
NSE Insurance Index	0.0%	-7.3%	-9.4%	-8.7%
NSE Industrial Goods Index	4.1%	6.7%	7.2%	1.8%
NSE Consumer Goods Index	-0.1%	3.4%	2.7%	-1.1%
NSE Oil & Gas Index	-0.1%	1.0%	-0.3%	62.4%

Source: NSE, AIICO Capital

On a YTD basis, the Oil & Gas and Industrial Goods indices are up 62.4% and 1.8% respectively, while the NSE Insurance, Banking, Consumer Goods indices are down ca 8.69%, 5.64% and 1.08%. The best performing stocks for the month were MANSARD and PHARMDEKO, while SCOA and LASACO topped the laggards list.

Chart 10 – Top 10 Gainers and Top 10 Losers in September





Source: NSE, AIICO Capital

Outlook for October… Investors to take continue Hunting for Bargains

In line with the historical trend seen in the fourth quarter of the year, we expect to see a largely positive performance for the market. This is predicated on investors continuing to take advantage of the relatively attractive cheaper pricing, especially for market bellwethers. Nevertheless, we do not rule out the possibility of bouts of profit taking immediately followed by rounds of bargain hunting.