**October** 2021

## Macroeconomic Review

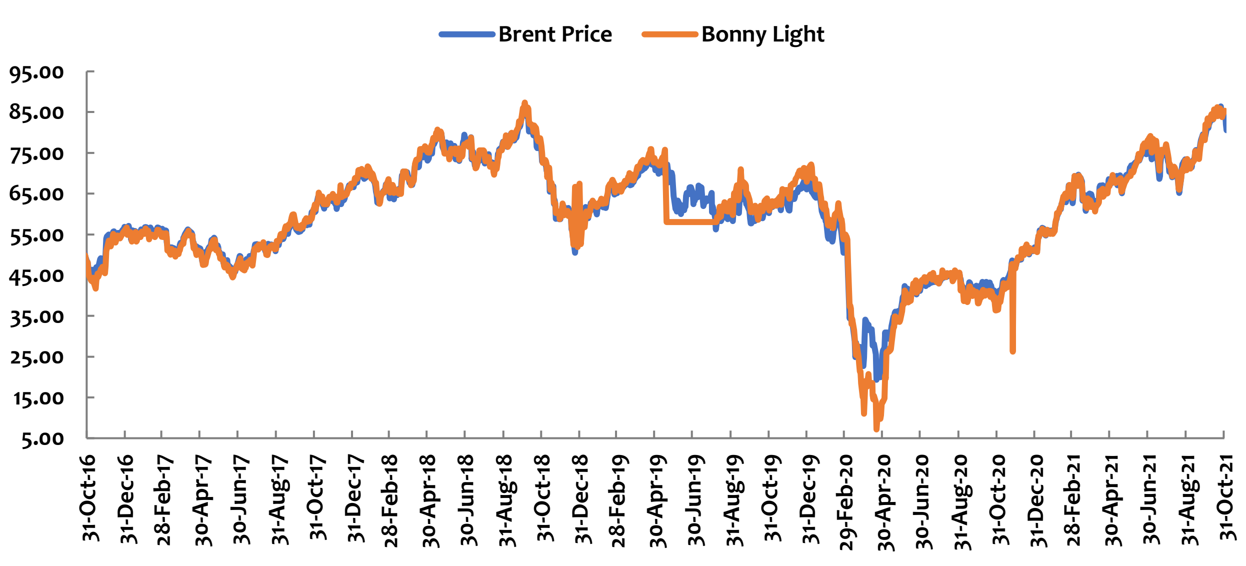
### Global Crude Oil Prices Soar on Energy Supply Concerns and OPEC+ Decision

International benchmark Brent crude prices soared through October, just as industries began to recover fully from the effects of the last year's demand dip caused by the pandemic. During the month, oil prices rose swiftly as the Organization of Petroleum Exporting Countries and its allies (OPEC+) reiterated that it would not increase the quota on production volumes despite rising crude demand.

Some reports had termed the surge in oil prices as an "Energy Crisis" as the energy market was struggling with a supply problem. More details on this were highlighted in the International Energy Agency's (IEA) October monthly report, as the industry's ongoing shift from oil to gas boosted oil prices. As per the report, the acute shortage of natural gas, LNG, and coal supplies caused a steep rise in energy costs, triggering a major shift to oil products and direct crude usage for power production. Investor's concerns were centered on the possibility that demand would outpace supply as rising natural gas prices encouraged the use of reasonably priced oil vin electricity generation, which boosted crude sentiment.

Despite pressure from the United States (one of the world's top oil consumers) and large importers to boost production output, the major energy producers agreed at the recently concluded OPEC+ meeting to stick to the current policy of ramping up production by 400,000 bpd to ensure a stable and balanced market. Furthermore, the decision to adhere to the existing plan was part of the strategy to tackle high gasoline prices, which fueled concerns that rising energy costs would hinder the global economic recovery as the world recovers from the COVID 19 pandemic.

**Chart 1 – Global Crude Oil Price Movement vs Bonny Light Price Movement**




**Source: CBN, AIICO Capital**

## Fixed Income and Foreign Exchange Market Review and Outlook

### Overview

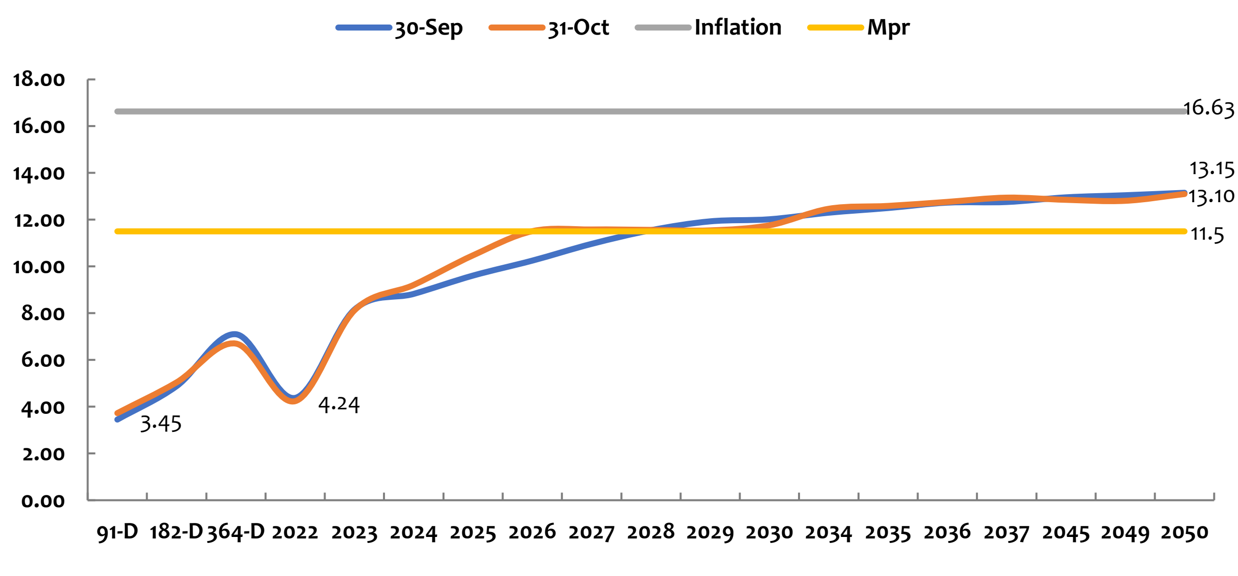
The treasury bills market witnessed substantial demand, steered by the consecutive reduction in stop rates for 1-year NTBs, reduced issuances in the OMO market and most local banks trying to deploy idle cash amid CRR debit fears. Major buyside activity was skewed to the long end of the curve, while mild sell-offs ensued at the short end of the spectrum.

On the other hand, activity in the Bonds market was mixed, albeit with a slightly bearish undertone, as most investors only cherry-picked the relatively high yielding papers amid rate uncertainty, while coupon inflows towards close of the month dampened the bearish effect with major demand skewed to the 2026s, 2028s, 2049s and 2050s.

In the Eurobonds market, the rise in US 10-year treasuries alongside the Feds' asset purchase narrowing, drove a mixed to bearish theme across the curve.

Overall, the average rate inched up by c.7bps M-o-M across the NTB and FGN bonds curve combined.

**Chart 2 – Sovereign Yield Curve**

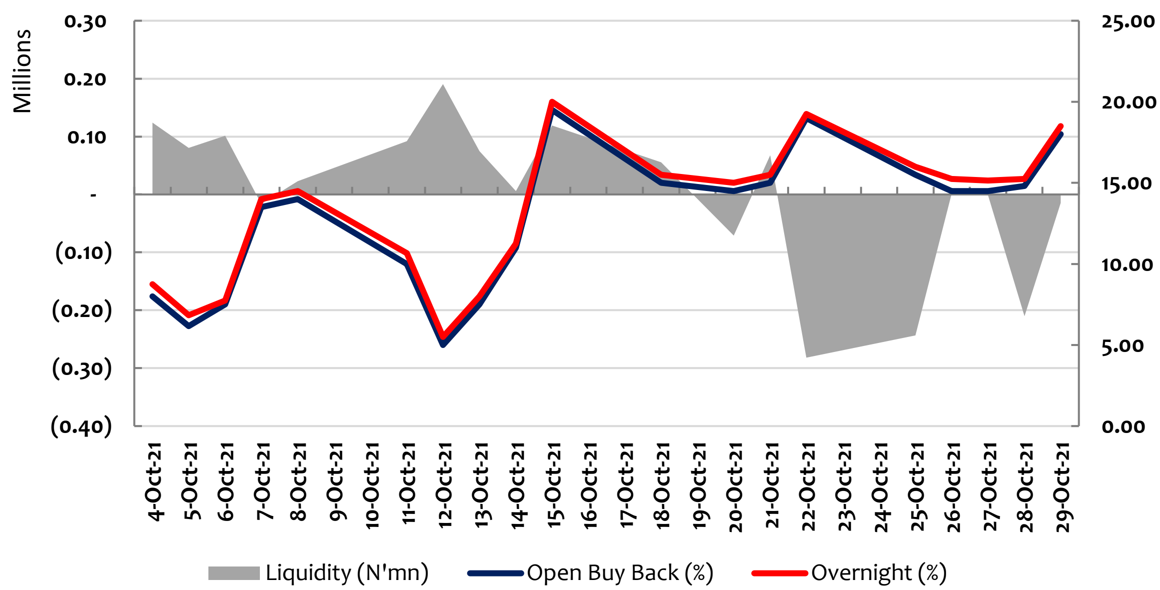



**Source: CBN, FMDQ, AIICO Capital**

### Money Market Review and Outlook… Lower System Liquidity as Supply wanes

Inter-bank system liquidity was tighter in October, averaging ca ₦5.09bn, lower than ca ₦77.67bn recorded the previous month, due to reduced inflows from OMO maturities and bonds coupon payments. As a result, Interbank rates closed higher for the month, as the Open Buy Back (OBB) and Overnight (ON) rates closed at an average of 12.79% and 13.30% from 12.18% and 12.87% in September.

**Chart 3 – System Liquidity and Interbank Rates**




**Source: CBN, FMDQ, AIICO Capital**

***In the coming month, we expect rates to trend further northwards, on expectation of decreased inflows to the banking system, as only N539.48bn in expected to impact the system from bonds coupon payment, OMO and NTB maturities.***

## T-Bills Market Review and Outlook - Bullish Market driven by Lower Stop Rates for the 1-year NTB papers.

The NTB market started October with sell-offs, following the 30bps rate hike on the 1-year NTB paper at the last auction in Sept'2021. However, with CBN offering lower than (₦20.0bn to ₦50.0bn) the maturing amounts (₦70.0bn to ₦100.0bn) at the OMO auctions, there were excess funds that needed outlets to be deployed to. Thus, with more maturities, FAAC credits and coupon inflows, the long-end NTBs witnessed an extended period of buyside interest which trickled into the NTB auctions and subsequently caused a decline on the stop rates for the 1-year papers. Total subscription for the month was c.₦924.0bn, with the DMO/CBN allotting only 46% (c.₦422.0bn) of bids – this further drove a bullish theme for the month, as unmet bids filtered into the secondary market, particularly on the long end of the curve, with Jul'2022 to Oct'2022 papers witnessing the most traction, while mild sell-offs were observed on the short-dated papers.

Overall, average secondary NTB market rate dipped by c.38bps M-o-M.

**Chart 4 – NTB Auction Calendar**

| October 2021 NTB AUCTION RESULT | | | | | |
|---|---|---|---|---|---|
| Tenor | Sep'21 Close | Oct'21 Auc 1 | Oct'21 Auc 2 | Change (bps) | Tenor |
| 91 | 2.50% | 2.50% | 2.50% | 0.00 | 91 |
| 182 | 3.50% | 3.50% | 3.50% | 0.01 | 182 |
| 364 | **7.50%** | **7.25%** | **6.99%** | (51.00) | 364 |

**Source: CBN, AIICO Capital**

***We expect market participants to continue to trade cautiously, albeit with a slightly bullish undertone – largely supported by impending maturities.***

## Bonds Market Review and Outlook

### A Mixed Market amid Uncertainty in Yield Direction.

The long end of the yield curve opened with sell-side interest, as the market had a knee-jerk reaction to the rate hike on the 1-year NTB, while the short to mid tenors traded sideways with a slightly bullish undertone, as investors cherry-picked the relatively high yield papers. The trading pattern in the bonds market undulated, with occasional buying sentiments driven by maturities and coupon inflows.

Building up to the FGN bonds auction, the market was largely quiet amid uncertainties as to where the 2026s and 2037s were going to close, given that these were the new bonds the DMO swapped with the 2028s and 2036s issued at previous auctions.

At the auction, which was oversubscribed by ca.₦100.0bn (the lowest in 9 months), the DMO sold ca.₦192.0bn (the lowest since Jul'2021) vs ₦150.0bn, closing the 2026s, 2037s and 2050s at 5bps, 20bps and 20bps higher respectively, compared to the levels the 2028s, 2036s and 2050s closed respectively at September's auction.

The month however closed with renewed buying interest on select maturities (2026s, 2029s, 2049s and 2050s), following the credit of the major coupons (2023s, 2029s and 2049s) for the quarter.

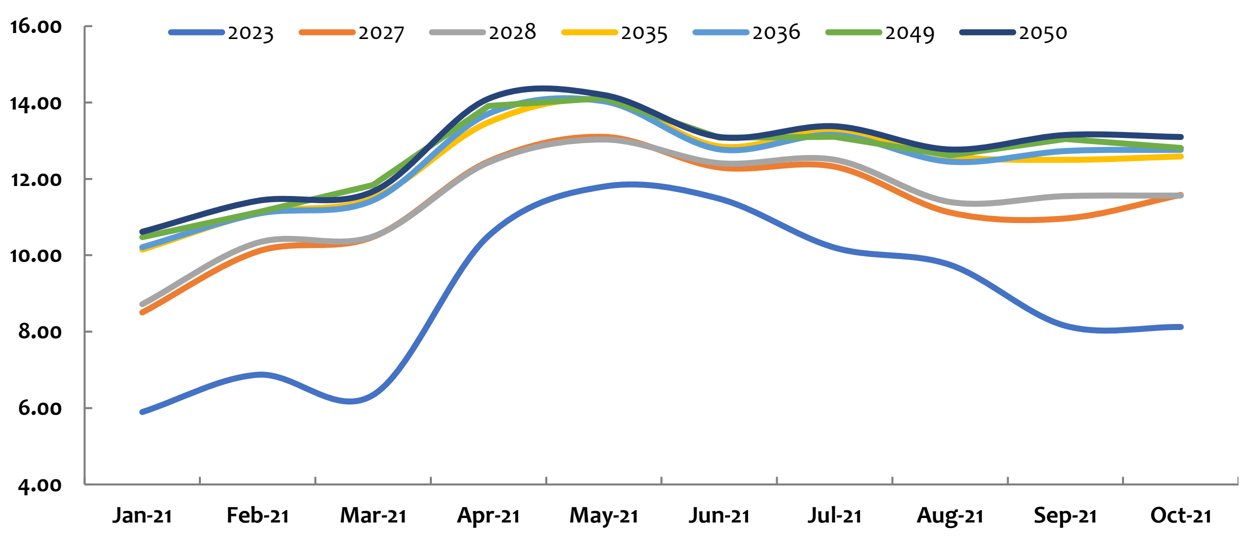
Overall, average yield in the secondary market inched up by 15bps M-o-M.

**Chart 5 – Sovereign Bonds October Auction Result**

| October 2021 FGN BOND AUCTION RESULT | | | | | | |
|---|---|---|---|---|---|---|
| Maturity | Offer (₦'bn) | Sub (₦'bn) | Allot (₦'bn) | Yield | Aug'21 Close | Change (bps) |
| 22-Jan-26 | 50.00 | 49.05 | 44.80 | **11.65%** | - | - |
| 18-Apr-37 | 50.00 | 80.92 | 52.72 | **12.95%** | - | - |
| 27-Mar-50 | 50.00 | 120.74 | 95.24 | **13.20%** | 13.00% | 20.00 |
| | **150.00** | **250.72** | **192.77** | | | |

**Source: DMO, AIICO Capital**

**Chart 6 – FGN Bond Yield Curve for Selected Maturities**




**Source: FMDQ, AIICO Capital**

***We expect the bonds market to be choppy, amid thin coupon credits and year-end profit taking.***

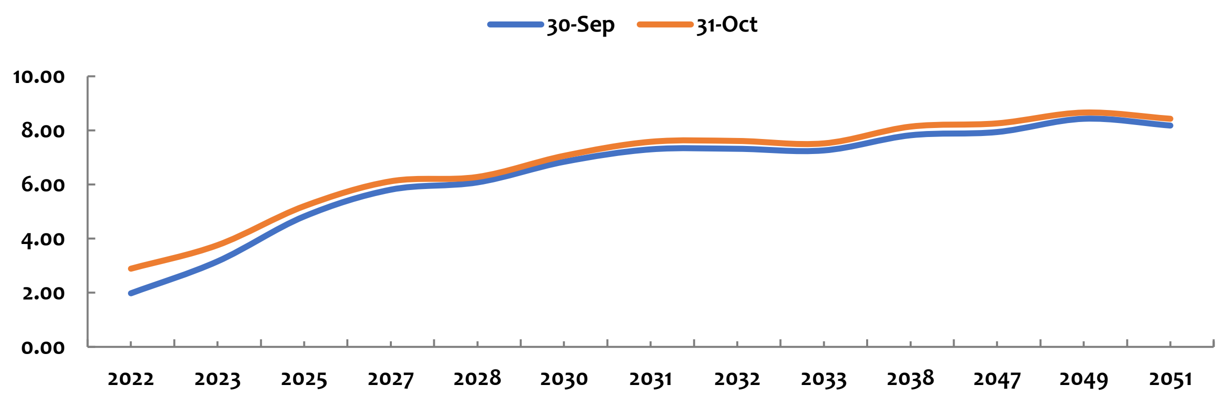
### Eurobond Market - Mixed market with a bearish undertone.

Activity in the Eurobond market was bearish during the early part of the month, with some sell-offs seen across board, majorly due to the rise in U.S. 10-year treasury. Average rate closed c.30bps higher in the first 2 weeks.

The market thereafter saw renewed buyside interest briefly, as the transient floating of the U.S. debt ceiling and news of a forestalled debt default by China's Evergrande lessened the global risk off sentiment. However, potential of fresh supply, asset purchase narrowing, inflationary worries in the U.S, Covid-19 worries as well as steadfast uptick in the U.S. 10-year treasury continued to fuel a bearish theme across board afterwards.

Overall, it was a relatively weak market with average yield inching up by c.35bps M-o-M to close at 6.73%

**Chart 7 – Sovereign Eurobond Yield Curve**




**Source: FMDQ, AIICO Capital**

***With the Feds reducing asset purchases by $15bn a month but emphasized labour market development related to rate hikes, this should see more engagement in the Eurobond space, mostly sideways***

### Foreign Exchange Market Review and Outlook… Naira depreciates further at Official Window

The FMDQ Nigerian Autonomous Foreign Exchange Fixing (NAFEX) closed at to ₦415.10/US$1.00 for the month. This represents a ₦1.72 depreciation from ₦413.38/US$1.00 recorded in September. Forex turnover, however declined month-on-month by 13.58% to US$3.86bn in the month under review.

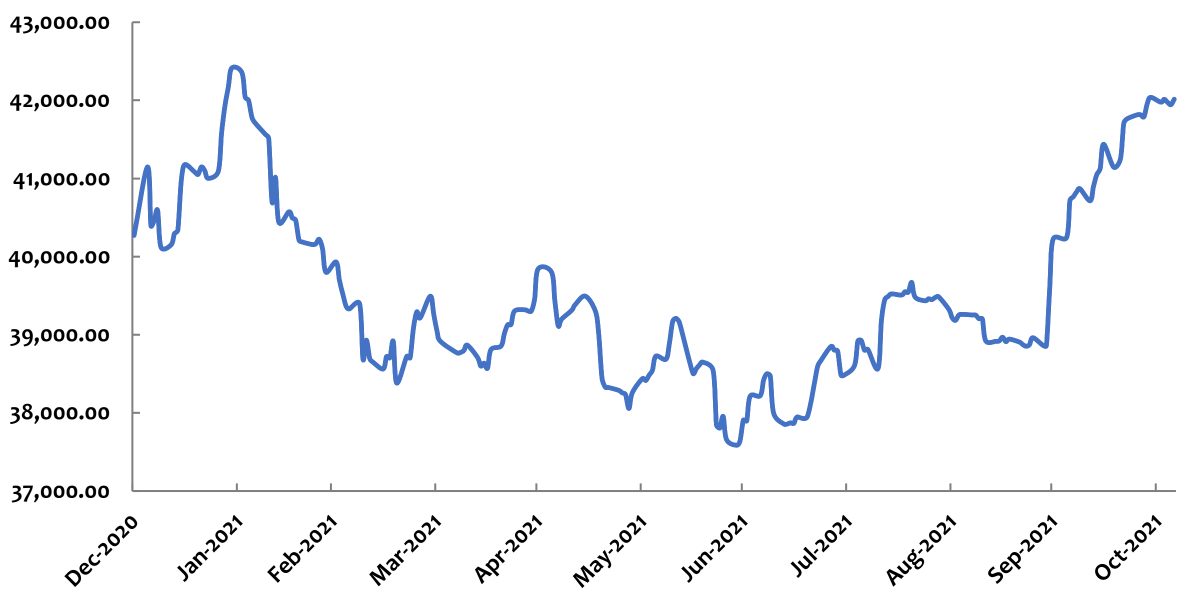
***We expect rates to remain at current levels in the absence of any significant change in market dynamics. However, we expect to see increased volatility in the pricing of the Naira on the back of expectation of increased demand for the green back as we approach the yuletide season.***

## Equities Market Review and Outlook

### Equities Market in October… Bargain Hunting in Bellwethers Buoys Market

The positive trend in the domestic bourse intensified in October, as investors increasingly took advantage of bellwethers trading at relatively attractive entry prices, especially technology stocks. On the back of this bullish trend, the overall performance of the Benchmark index turned positive in the month, settling at +4.4% YTD following an expansion of 4.5% in October with the All Share Index closing at 42,038.60 points. Market breadth, a measure of investor sentiment was positive, settling at 2.0x as 57 stocks advanced while 28 declined.

**Chart 8 – NSE ASI YTD Performance**




**Source: NSE, AIICO Capital**

**Sector Performance… Positive Performance observed Across Sectors**

Sector performance was positive in October, driven by the publication of Q3'2021 financial results and cheap valuations of major counters. The Banking, Oil & Gas, Industrial Goods, Insurance, and Consumer Goods indices all expanded in the month. The Banking index gained the most, up 10.7% M-o-M, attributable to gains in FBNH (+37.3 %), UBA (+13.9 %), FIDELITY (+12.6 %), and GTCO (+2.1 %), as a result of positive earnings releases and attractive valuations. The Oil & Gas index ranked second, gaining ca 6.4% M-o-M on the back of price appreciation in SEPLAT (+3.0%). The Industrial Goods, Insurance and Consumer Goods indices followed suit, recording growth of ca 4.2%, 4.0%, and 0.9% respectively M-o-M.

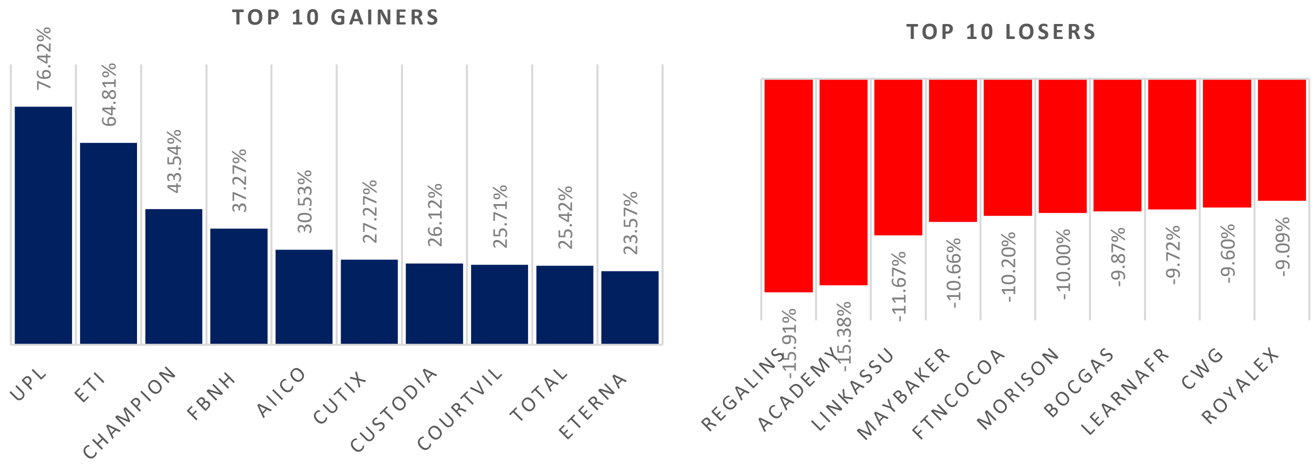
**Chart 9 – Sector Performance**

| | D-o-D | W-o-W | MTD | YTD |
|---|---|---|---|---|
| NGSEINDX Index | 0.2% | 0.7% | 4.5% | 4.4% |
| NSE Banking Index | 1.2% | 2.4% | 10.7% | 4.4% |
| NSE Insurance Index | 1.5% | 5.3% | 4.0% | -5.1% |
| NSE Industrial Goods Index | 0.3% | 0.5% | 4.2% | 6.1% |
| NSE Consumer Goods Index | -0.4% | 1.5% | 0.9% | -0.7% |
| NSE Oil & Gas Index | 2.1% | 4.0% | 6.4% | 72.8% |

**Source: NSE, AIICO Capital**

On a YTD basis, the Oil & Gas, Industrial Goods and Banking indices are up 72.8%, 6.1%, and 4.4% respectively, while the NSE Insurance and Consumer Goods indices are down ca 5.1% and 0.7%. The best performing stocks for the month were UPL and ETI, while REGALINS and ACADEMY topped the laggards list.

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




**Source: NSE, AIICO Capital**

**Outlook for November… Investors to take Profit**

Following successive months of significant gains in the market, we expect to see increased profit taking in the market, especially in bellwethers that have appreciated over the past months. Nevertheless, we believe that some buy interest will return to the market closer to the end of the year as fund managers rebalance portfolios for the close of the year.