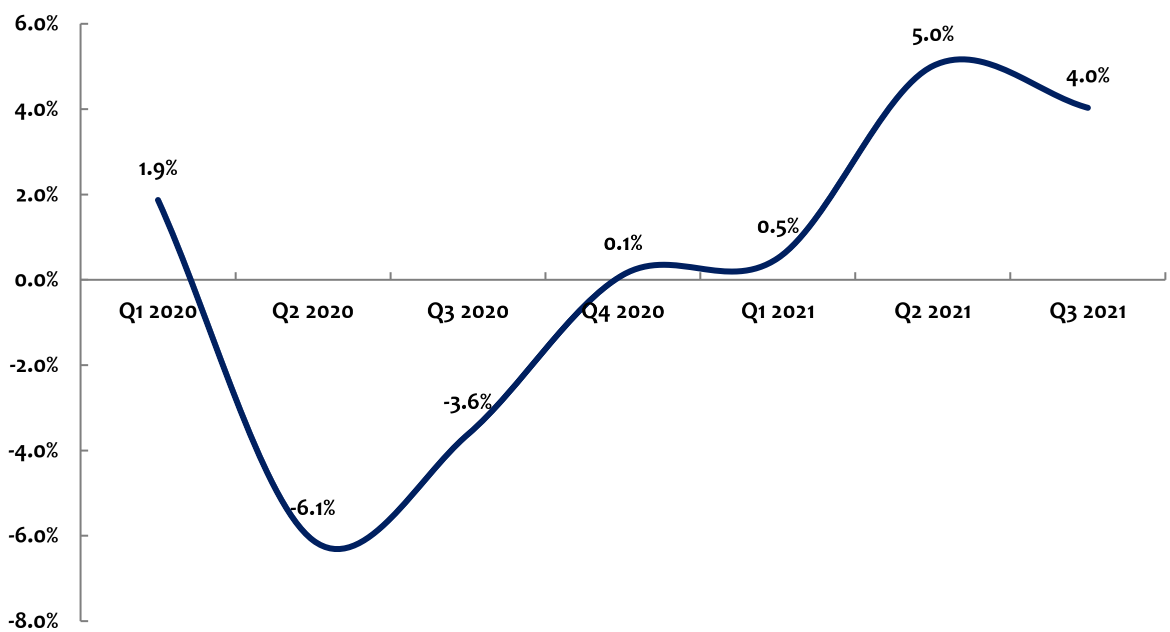
November 2021

Macroeconomic Review

Sustained Growth in the Nigerian Economy, with Q3 2021 GDP at 4.03% year-on-year

Nigeria sustained its growth trajectory for the fourth consecutive quarter, as the economy recorded a real growth rate of 4.03% year-on-year in Q3 2021. Although this expansion of 4.03% reflects a decline of 0.98% when compared to Q2 2021 growth rate of 5.01%, it shows a significant increase of 7.65% from Q3 2020's contraction of -3.62%. This positive economic growth comes off the back of recovery in the manufacturing, transportation as well as commerce industries, where activities came to a standstill in the base year, due to Coronavirus restrictions.

Chart 1 – Nigeria's Real GDP – Quarterly Growth



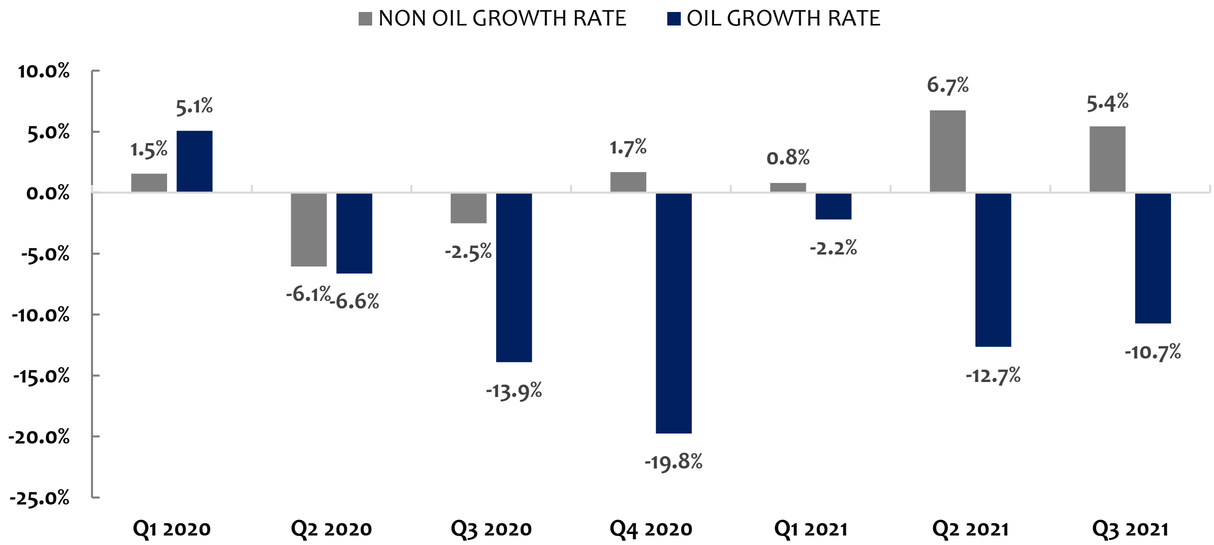
Source: NBS, AIICO Capital

The oil sector contracted for the seventh consecutive quarter, recording a growth rate of -10.73% year-on-year in Q3 2021, better than -12.65% in Q2 2021 and -13.89% in Q3 2020. This contraction in the oil sector is attributable to a decline crude oil production, as Nigeria's crude oil production stood at 1.3 million barrels per day (mbpd) in Q3 2021 vs 1.4 mbpd in Q2 2021, as reported in the Monthly Oil Market Report by Organization of Petroleum Exporting Countries (OPEC) in November 2021. This comes despite a sustained improvement in Global crude oil prices.

The non-oil sector recorded a growth rate of 5.44% year-on-year in Q3 2021, lower than 6.74% year-on-year in Q2 2021 but higher than a contraction of -2.51% in Q3 2020. This growth was largely supported by the resumption of economic activities in industries that were greatly affected by the pandemic restrictions from the base year.

Overall, the Oil sector contribution rose to 7.49% of total real GDP in Q3 2021 from 7.42% in Q2 2021, while Non-oil contribution declined to 92.51% in Q3 2021, from 92.58% in Q2 2021.

Chart 2 – Nigeria's Real GDP – Quarterly Growth



Source: NBS, AIICO Capital

We opine that this accelerated growth is as a result of the low base effect of last year, therefore we do not expect the fast-paced growth to be sustained in subsequent quarters despite Brent crude oil price trading above US$80.00/barrel and projected to average ca $71.59/barrel in 2021 by the Energy Information Administration (EIA) which is higher than the nation's approved 2021 budget benchmark of $40.00/barrel.

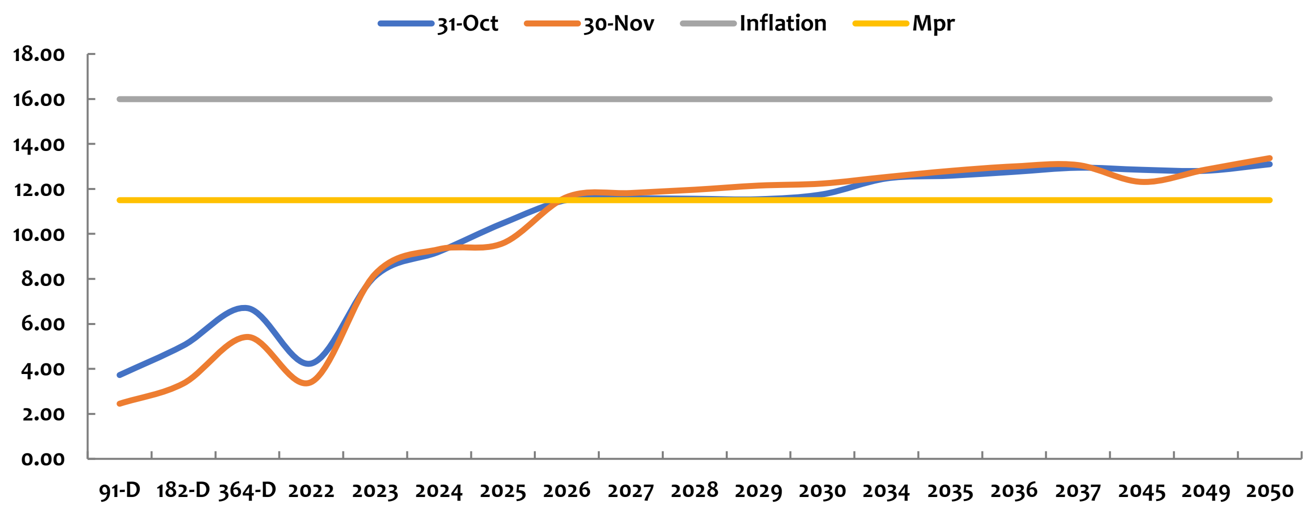
Fixed Income and Foreign Exchange Market Review and Outlook

Overview

The NTB market and the FGN bond yield curve (particularly the mid to long end of the curve) had divergent trends, which market players pinned on the uncertainty in yield direction. Investors would rather stay on the short end of the curve than risk greater losses owing to duration. On the NTB front, long dated NTBs were the most traded papers, losing c.70bps in the process, while bargain offers on 2037s and 2050s were snapped up by some investors.

In the Eurobonds market, inflationary concerns, and recent surge in new strain (Omicron) of Covid-19 cases, drove intense selloffs as global sentiments remain frail.

Chart 3 – Sovereign Yield Curve

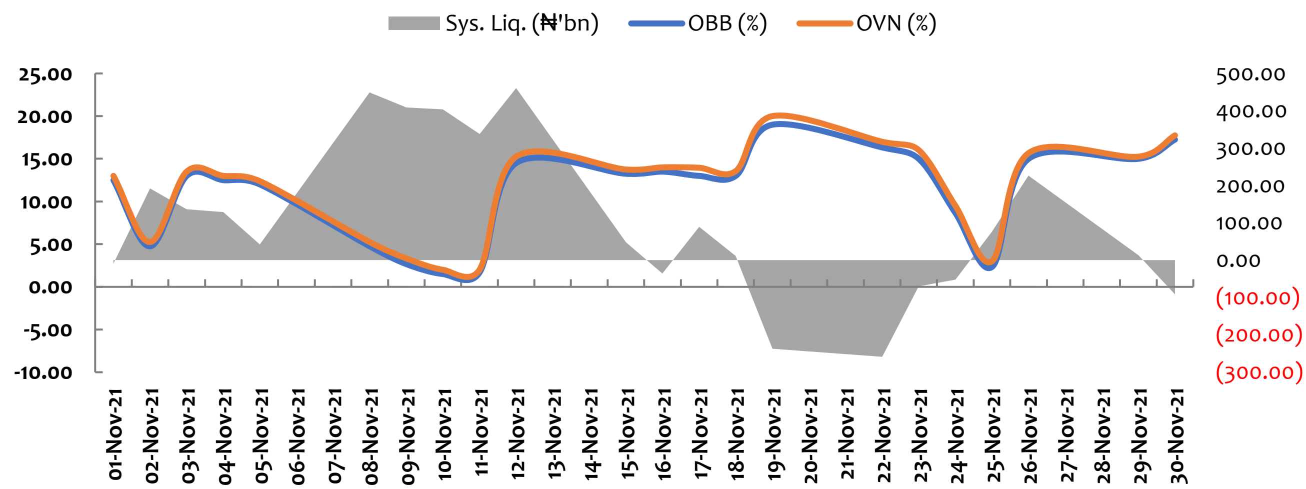


Source: CBN, FMDQ, AIICO Capital

Money Market Review and Outlook… Relatively buoyant system liquidity spurred by CBN's SPEB maturities and less OMO issuances

Inter-bank system liquidity was more buoyant as it averaged ₦103.25bn (vs ₦5.09bn in Oct'21), largely due to CBN's Special bill maturities and reduced OMO sales compared to maturities. Thus, Interbank rates closed considerably lower for the month, as the Open Buy Back (OBB) and Overnight (ON) rates printed on average 10.96% and 11.56% from 12.79% and 13.30% in Oct'21 respectively.

Chart 4 – System Liquidity and Interbank Rates



Source: CBN, FMDQ, AIICO Capital

We expect higher OBB and OVN rates, as banks brace up for the heavy withdrawals due to year-end festivities

T-Bills Market Review and Outlook - A Bullish market driven by relatively buoyant system liquidity.

Buyside activity dominated the NTB market in the month of November, as investors sought solace in the short end of the Nigerian yield curve (≤3 years, FGN bonds inclusive). The long-end NTB papers (August to November) were the most traded securities, experiencing a decline of over 70bps from c.6.05% to close at c.5.35%. This is also evident in the consecutive decline in the stop rates for 1-year papers at the NTB auction, as total subscription (₦991bn) at this month's auctions dwarfed the allotment by 2.41x, with only ₦260bn on offer.

Reduced OMO issuances by the CBN also meant that the liquidity from that spectrum needed outlets to be deployed to, hence the steady decline in rates. However, occasional mild selloff was seen on the very short-dated papers, as participants used them as a stopgap to aid their funding needs.

Overall, average secondary NTB market rate dipped by c.141bps M-o-M.

Chart 5 – NTB Auction Calendar

NOVEMBER 2021 NTB AUCTION RESULT				
Tenor	Oct'21 Close	Nov'21 Auc 1	Nov'21 Auc 2	Change (bps)
91	2.50%	2.50%	2.50%	0.00
182	3.50%	3.50%	3.50%	0.00
364	**6.99%**	**6.50%**	**5.89%**	(110.00)

Source: CBN, AIICO Capital

As the market anticipates the release of Q1'22 NTB issuance calendar, we expect the bullish momentum to sustain, supported by expected maturities (NTB – c.₦122bn; OMO – c. ₦195bn).

Bonds Market Review and Outlook

Uncertainty in yield direction and year-end profit taking spurred a bearish market

The November FGN bond yield curve had 2 distinct trends; the short end of the curve (2022s to 2025s) was bullish, while the far mid to long end of the curve (2035s to 2050s) was bearish amid uncertainty in yield direction. Most players sold off their existing long exposures (those held from when yields touched 14.00%) to book profits for the year, although major activity was barely seen across the curve, as it was mostly choppy. This bearish theme, despite the NTB going in the opposite direction, nosedived to the November FGN bonds auction – causing the longest tenor to inch up by 10bps, although this rate hike can also be pinned on the DMO selling 3x the offer, as it appears there's still an ample appetite to borrow.

The month closed on a relatively flat note, with barely any activity – only bargain offers snapped up by some asset managers.

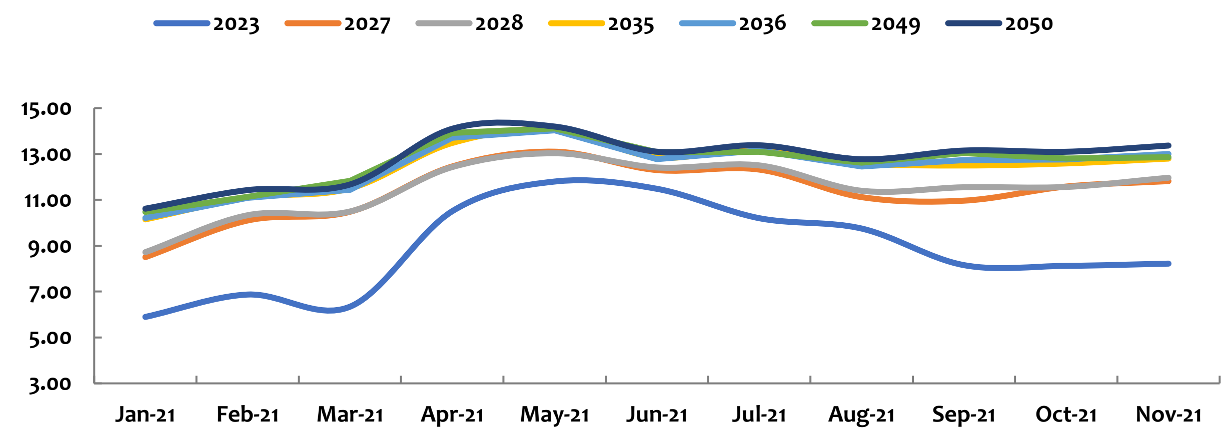
Overall, average yield in the secondary market inched up by 18bps M-o-M.

Chart 6 – Sovereign Bonds November Auction Result

NOVEMBER 2021 BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Yield	Oct'21 Close	Change (bps)
22-Jan-26	50.00	50.75	37.15	**11.65%**	**11.65%**	0.00
18-Apr-37	50.00	46.69	32.19	**12.95%**	**12.95%**	0.00
27-Mar-50	50.00	169.71	155.91	**13.30%**	**13.20%**	10.00
	150.00	**267.15**	**225.25**			

Source: DMO, AIICO Capital

Chart 7 – FGN Bond Yield Curve for Selected Maturities



Source: FMDQ, AIICO Capital

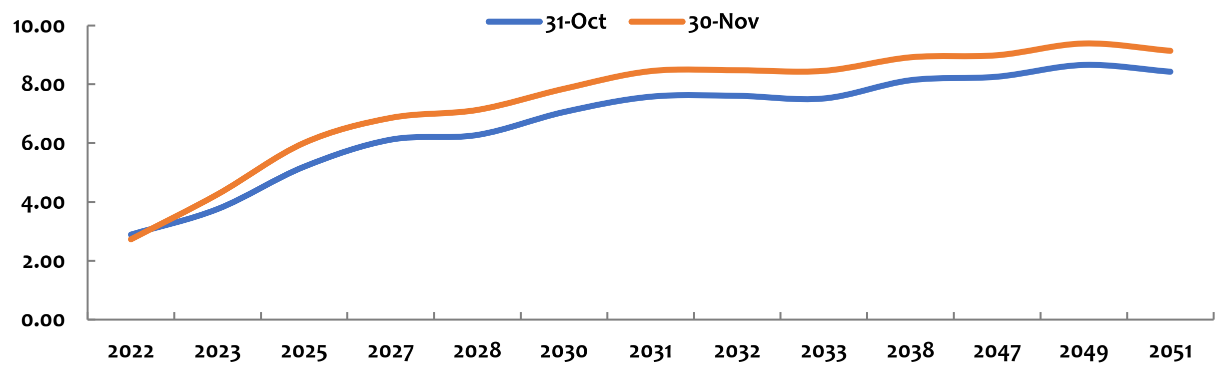
We expect the bonds market to be choppy, amid thin coupon credits and year-end profit taking.

Eurobond Market - Mixed to bearish market amid the Feds' inflationary concerns and surge in Omicron strain of Covid-19.

Investors anticipated a hawkish tilt at the US-Feds reserve meeting held at the start of the month, however after the meeting, the US 10-year treasury experienced a decline - causing the yields to compress marginally. The bullish trend was short-lived, as inflationary concerns caused the U.S. 10-year treasury to prod northwards, hence, fueling a global risk off sentiment. Furthermore, President Biden's reappointment of Powell as Fed chairman, worsened Covid-19 concerns due to the occurrence of a new strain (Omicron) in South Africa, and a decline in crude price due to the synchronized effort of the U.S. and affiliates to release volumes from their strategic oil reserves, intensified the bearishness.

Overall, it was a relatively weak market with average yields inched up by c.70bps M-o-M to close at 7.44%.

Chart 8 – Sovereign Eurobond Yield Curve



Source: FMDQ, AIICO Capital

The bearish outlook is expected to persist, as global sentiment remains frail amid the continuous surge in Omicron infected cases.

Foreign Exchange Market Review and Outlook… Naira gains at official window despite drop in FX turnover

The FMDQ Nigerian Autonomous Foreign Exchange Fixing (NAFEX) appreciated month-on-month to ₦415.07/$1.00, from ₦415.10/$1.00 recorded the previous month. However, forex turnover declined month-on-month by 14.81% to $3.38bn in November.

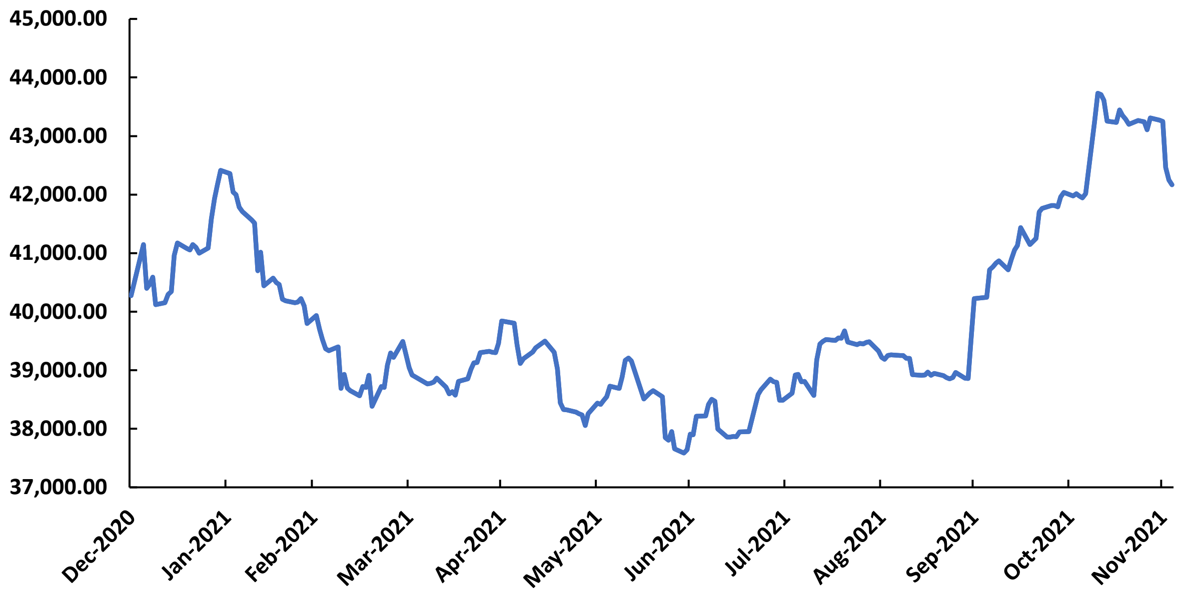
We expect rates to remain at current levels in the absence of any significant change in market dynamics.

Equities Market Review and Outlook

Equities Market in November… Bellwethers Drive Positive Performance

The positive run in the domestic bourse was sustained in November, largely driven by sustained gains in market bellwethers which buoyed the benchmark, NGX All Share index 2.9% M-o-M to 43,248.85 points, while YTD return improved to +7.4%. Despite some price depreciation seen in bellwethers such as GTCO which was plagued by significant sell pressure, the price appreciation in MTNN and AIRTEL offset the impact. Investor sentiment, measured by gainers against the decliners, was bearish, settling at 0.5x as 28 stocks advanced against 57x losers.

Chart 9 – NSE ASI YTD Performance



Source: NSE, AIICO Capital

Sector Performance… Most Sectors Decline

Performance across sectors was largely bearish in November with four sector indices declining while one advanced. The Insurance index was the only advancer, up 4.3% M-o-M, on the back of gains in AIICO (+56.6%). On the flipside, the Oil & Gas index depreciated the most due to price depreciation in SEPLAT (-5.0%). Similarly, the Banking and Consumer Goods indices lost 4.8% and 3.9% M-o-M following losses in GTCO (-14.1%) and FIDELITY (-9.0%) respectively. The Industrial Goods index closed out the negative performance, losing 0.7% M-o-M.

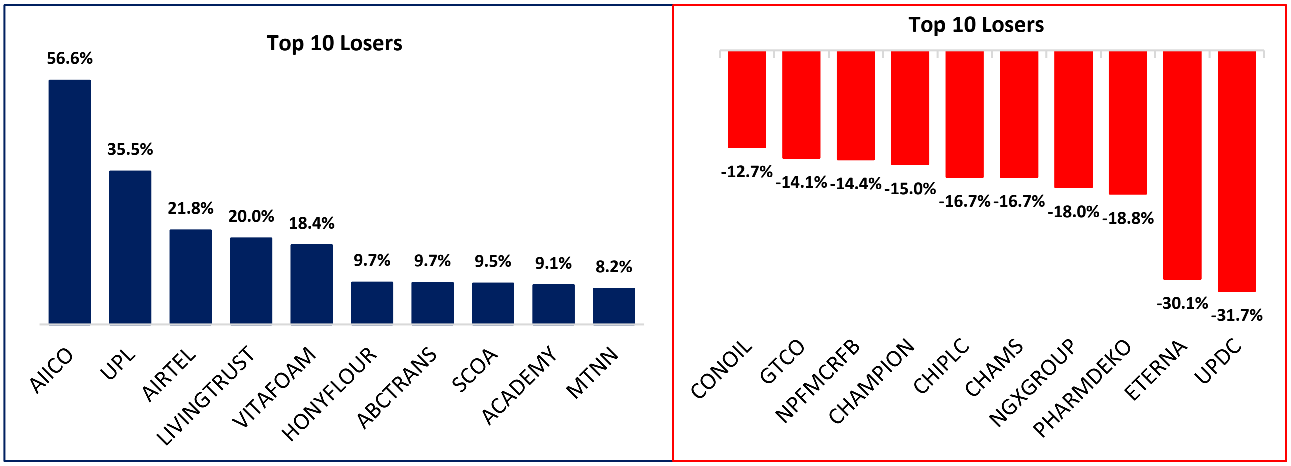
Chart 10 – Sector Performance

	MTD	YTD
NGSEINDX Index	2.88%	7.39%
NSE Banking Index	-4.78%	-0.57%
NSE Insurance Index	4.28%	-0.52%
NSE Industrial Goods Index	-0.72%	6.81%
NSE Consumer Goods Index	-3.92%	-4.70%
NSE Oil & Gas Index	-7.56%	53.95%

Source: NSE, AIICO Capital

On a YTD basis, the Oil & Gas and Industrial Goods indices remain the only advancers, up 54.0% and 6.8% respectively, while the Consumer Goods, Banking and Insurance indices are down 4.7%, 0.6% and 0.5% respectively. The best performing stocks for the month were AIICO (+56.6%), UPL (+35.5%) and AIRTEL (+21.8%) while UPDC (-31.7%), ETERNA (-30.1%) and PHARMADEKO (+18.8%) topped the laggards list.

Chart 11 – Top 10 Gainers and Top 10 Losers in November



Source: NSE, AIICO Capital

Outlook for December… Investors to take Position at the End of the month

We expect to see bearish sentiments in earlier period of the month, as investors take profit, however we anticipate some improved buy interest closer to the end of the month as fund managers rebalance portfolios for the close of the year. Hence, we expect to see some late rallies in market bellwethers.

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