

Macroeconomic Review

Nigeria’s Consumer Price Index... Festivities Drive Increase in Price Levels

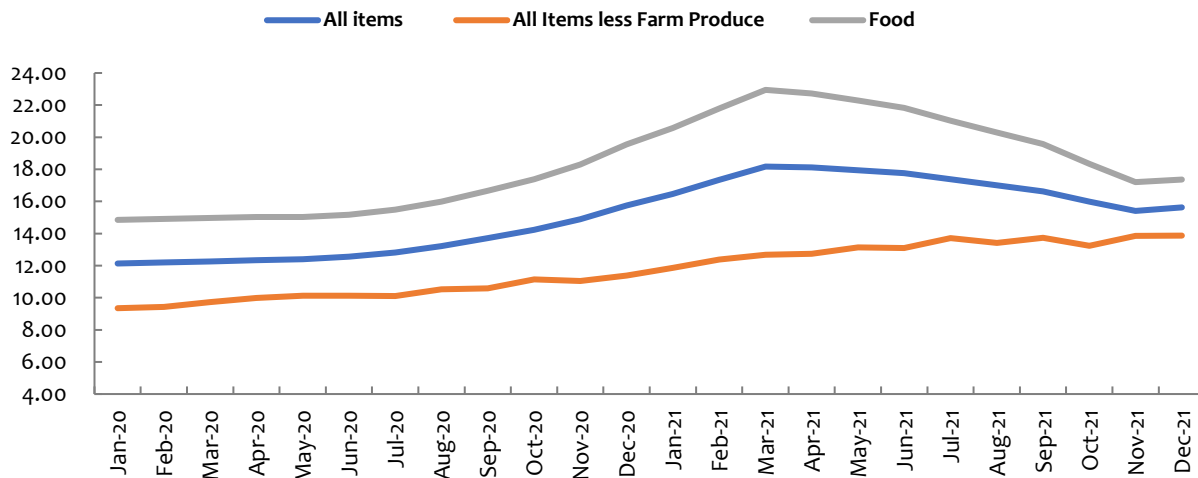
In December, the Consumer Price Index (CPI) expanded 15.63% Y-o-Y, a 0.23% increase from 15.40% recorded in November 2021. The composite food inflation grew by 17.37% year-on-year (vs. 17.21% recorded in November 2021) while the All items less farm produce sub-index also expanded 13.87% year-on-year (vs. 13.85% recorded in November 2021).

The food sub-index grew 2.19% month-on-month largely due to the increased consumer spending observed in the yuletide season. Bread and cereals, Meat, Fish, Potatoes, yam and other tubers, soft drinks, and fruit all saw price rises, contributed to the increase in the food sub-index.

The core sub-index (all items less farm produce) grew at a slower rate, settling at 1.12% M-o-M in December, a 0.13% reduction from 1.26% in November. Prices for gas, liquid fuel, wine, actual and imputed housing rentals, narcotics, tobacco, spirit, cleaning, repair, and hire of clothes, garments, shoes, and other footwear, and clothing materials, other pieces of clothing, and clothing accessories grew the most for the period under review.

Likewise, the Urban and Rural Inflation figures rose by 1.87% and 1.77% from 1.12% and 1.04% recorded in November 2021, respectively.

Chart 1 – Inflation movement over a period of 12 months



Source: NBS, AIICO Capital

With the yuletide season over, we expect to see a moderation in inflation rate for the rest of Q1 2022 as the impact of the high base from the previous year should dictate headline inflationary trend. However, we believe pressures from utilities reflected in the core index present a case for additional inflationary pressures further into the year.

Fixed Income and Foreign Exchange Market Review and Outlook

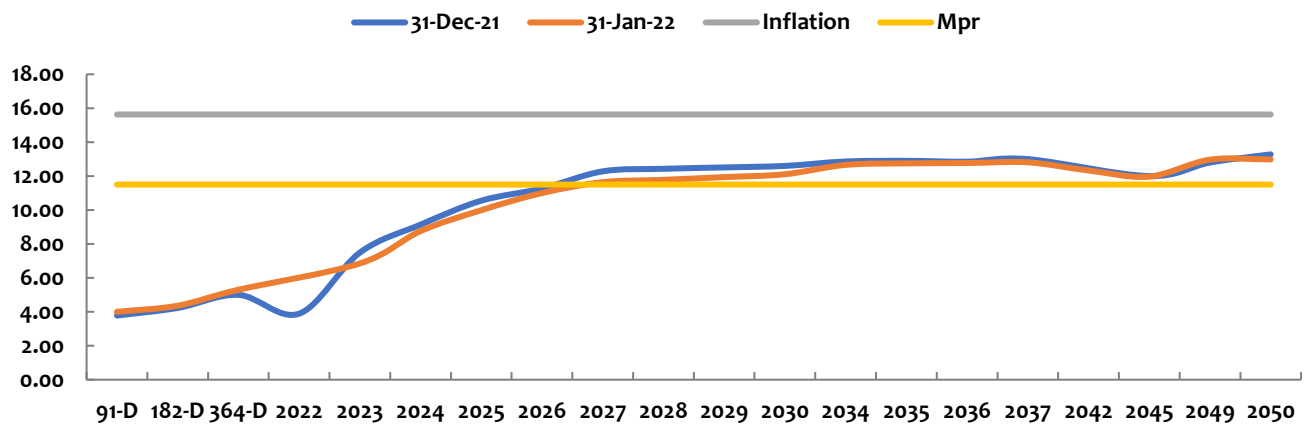
Overview

The local fixed income space witnessed an influx of liquidity, buoyed by coupon inflows and NTB, OMO and bond maturities. Thus, the market was skewed to the bulls, particularly on the short end of the curve (NTBs, OMOs and short dated bonds). The longer dated papers saw cautious trading, as investors managed their risk levels despite the surfeit liquidity on the back of potential rise in yields later in the year.

On the Eurobond front, the global inflation narrative was reiterated in the Federal Open Market Committee (FOMC) minutes published in Jan 2022, as such all eyes are on March 2022 Fed meeting, market already pricing a minimum of 4 rate hikes this year. The European Central Bank (ECB) maintained benchmark rate, while Bank of England (BoE) increased theirs by 25bps to 0.50% to rein in rising inflationary pressures.

For Sub Saharan Africa, it was largely mixed to bearish, as NIGERIA, GHANA and ANGOLA saw some sell pressures, then occasional cherry-picking of the high yields especially on the GHANA sovereign curve. For context, the negative GHANA basis persisted at the start of the year due to weak fiscal policies but corrected amid promised spending cuts and e-levy drive. Later, some strong buying flows were mainly concentrated in the short end of the Ghana curve as yield curve remains inverted to a large degree, then turned bearish occasionally. Fitch also upgraded Angola to 'B-'; Outlook Stable - Angola will return to international capital markets this year to sell Eurobonds.

Chart 2 – Sovereign Yield Curve



Source: CBN, FMDQ, AIICO Capital

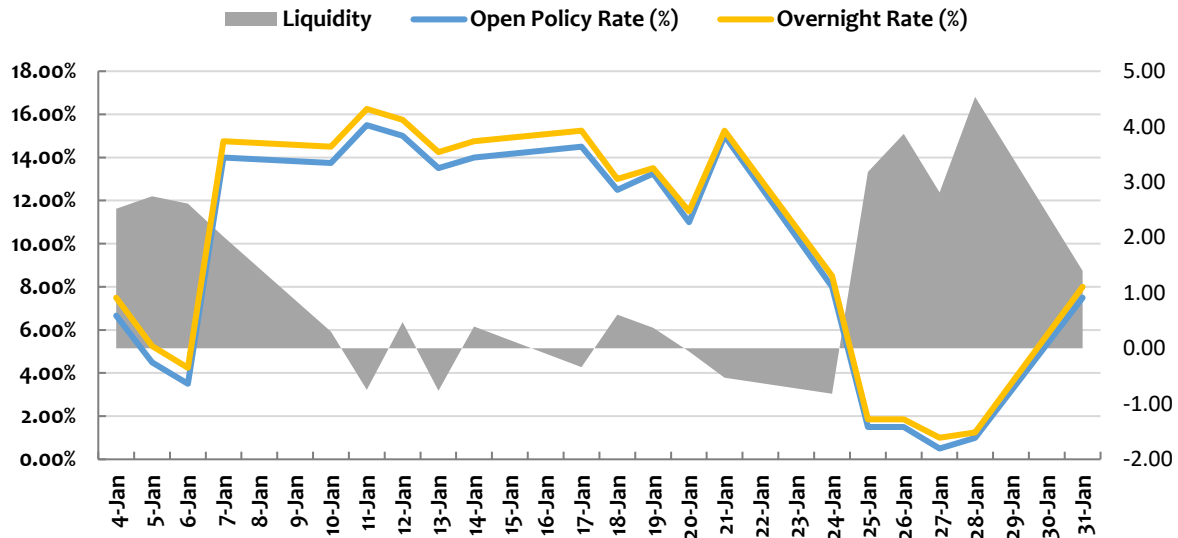
Money Market Review and Outlook... A Plethora of Maturities Buoy Liquidity Levels

Inter-bank system liquidity averaged ca ₦122.96bn in January 2022, higher than December 2021’s average of ₦34.88bn. This was due to significant inflows in the month from OMO maturities, bond maturity, as well as bonds coupon payments. As a result,



Interbank rates closed lower for the month, as the Open Policy Rate (OPR) and Overnight (ON) rates closed at an average of 9.33% and 9.91% from 12.94% and 13.42% in December 2021.

Chart 3 – System Liquidity and Interbank Rates



Source: CBN, FMDQ, AIICO Capital

We opine that interbank rates will trend higher in the coming month, due to expectation of decreased inflows to the banking system, as only N947.59bn is expected to impact the system from bonds coupon payment, OMO and NTB maturities.

T-Bills Market Review and Outlook - A Bullish market driven by Surfeit System Liquidity.

The NTB market kickstarted the year on a relatively quiet note, save for some selloffs seen on Apr-22 papers. However, activity picked up as the first NTB auction for the year approached, with mixed trading sentiments dominating – most investors were not keen on holding the long end papers at <5.00%. Thus, this theme played out at the auction with the 1-year paper closing 60bps higher (5.50%) than Dec’21 close (4.90%).

Post-auction saw a bullish affair across the CBN SPEBs, OMO and NTB markets; with coupon inflows, NTB, OMO and Bond maturities (c. ₦1.4trn) as the major drivers. Investors sought outlets to deploy the ample liquidity amid CRR fears, however they were keen to play mostly on tenors ≤ 1-year and the very short-dated bonds. The closing auction for the month reflected the bullish theme, as the stop rates for the 91,182- and 364-day papers declined by 1bp, 14bps and 10bps respectively between both auctions.

Overall, average secondary NTB market rate inched up by c.22bps M-o-M, due to the low starting base for 2022 before the selloffs drove rates to cross the 5.00% mark.



Chart 4 – NTB Auction Calendar

JANUARY 2021 NTB AUCTION RESULT				
Tenor	Dec'21 Close	Jan'22 Auc 1	Jan'22 Auc 2	Change (bps)
91	2.49%	2.50%	2.48%	(1.00)
182	3.45%	3.44%	3.30%	(15.00)
364	4.90%	5.50%	5.40%	50.00

Source: CBN, AIICO Capital

A liquid February buoyed by expected maturities (NTB – c. ₦213bn; OMO – c. ₦674bn), should translate to a bullish affair, also supported by the fact that the CBN has consistently reduced the supply at the OMO front. Average long-end rate should steady at 5.00% levels.

Bonds Market Review and Outlook

Mixed to Bullish Market, amid Ample Liquidity and Waning Risk Appetite on the Long End.

The Local bond market sustained the selloff that lingered for most part of the latter trading sessions in Dec’21, with the 26s,28s and 37s seeing the most interest, albeit very lax in terms of traded volumes due to wide bid-ask spreads. However, there was an upturn of events with renewed buy-side activity dominating the market, largely supported by coupon inflows (c. ₦218bn) and the expected huge FGN bond Jan 2022 maturity (c. ₦605bn). The 26s and 50s witnessed the most traction, losing c.45bps and c.20bps as they both traded close to sub 11.00% and 13.00% respectively.

During the month, the DMO released the Q1’22 FGN bonds calendar which slowed down activity, as players tried to digest and take positions ahead of the auction. A new bond (FGN 2042s) was introduced, and market practically benchmarked it to where the 2037s was trading as against the 2045s. A chunk of investors perceived it was going to close around the 13.00% mark and there were no surprises, as the auction closed as expected.

Post auction saw some buy-side activity majorly on the short-dated papers (2023s - 2028s) as investors would rather keep their risk level on the short end of the yield curve, while there was mild sell-off on the 2036s, 2042s, 2049s and 2050s.

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 22ps M-o-M.

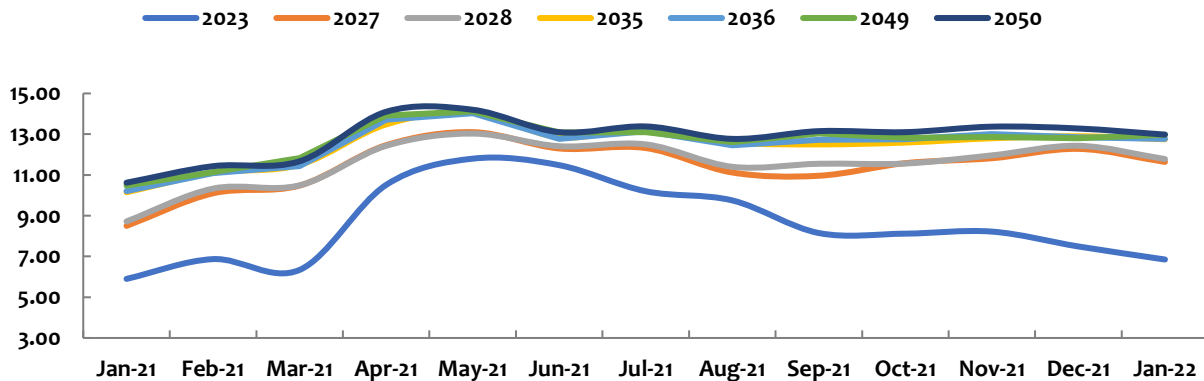


Chart 5 – Sovereign Bonds January Auction Result

JANUARY 2021 BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Yield	Nov'21 Close	Change (bps)
22-Jan-26	75.00	111.19	81.72	11.50%	11.65%	(15.00)
21-Jan-42	75.00	214.05	88.92	13.00%		
	150.00	325.24	170.64			

Source: DMO, AIICO Capital

Chart 6 – FGN Bond Yield Curve for Selected Maturities



Source: FMDQ, AIICO Capital

We expect the bonds market to be mixed to bearish, amid low coupon credits (c.₦59bn).

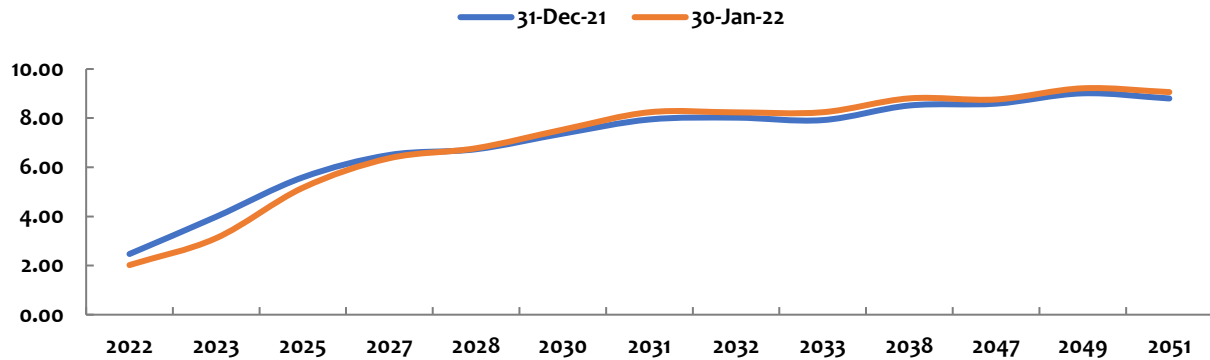
Eurobond Market - Mixed to Bearish Market amid the Fed’s Inflationary Concerns and Upsurge in Oil Prices.

Sentiment in the Eurobond market was soft at the start of the year. However, the hawkish tone of the minutes of the U.S. Federal Reserve meeting, pushed U.S. treasuries northwards, consequently triggering selloffs across the SSA sovereign curves. It was a mixed tone thereafter, bearish on some days as investors guided their decisions around the hawkish Fed tone but bullish on other days amid some respite from the recent sell pressures, on the back of the uptrend in crude oil prices, coupon inflows and the attractive yield levels.

Overall, the bears outweighed the bulls, with the GHANA Eurobond curve seeing the most action among the SSAs, due to weak fiscal policies and perceived incapability to manage its debt levels. The NIGERIAS saw average yields inch up marginally by c.1bp M-o-M to close at 7.04%



Chart 7 – Sovereign Eurobond Yield Curve



Source: FMDQ, AIICO Capital

The bearish outlook is expected to persist, as the market reacts to expectations of a U.S. interest rate hike in March 2022.

Foreign Exchange Market Review and Outlook... Naira appreciates at Official Window

The FMDQ Nigerian Autonomous Foreign Exchange Fixing (NAFEX) closed at ₦415.33/\$1.00 for the month. This represents a ₦19.67 appreciation from ₦435.00/\$1.00 recorded in December.

In the absence of any significant changes in market conditions, we expect rates to remain unchanged in the near term.

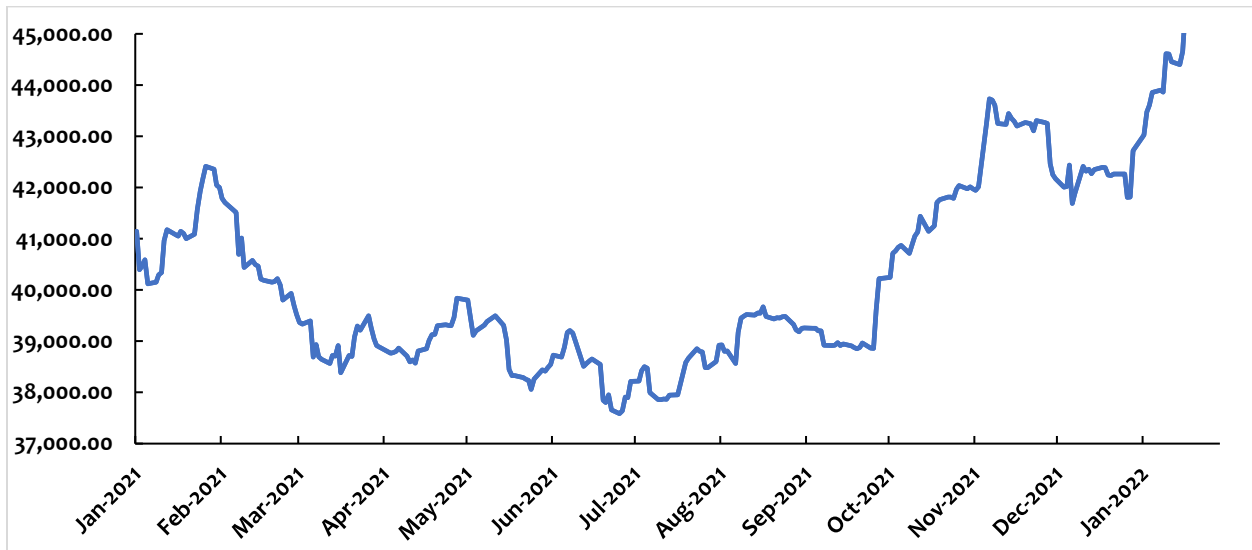
Equities Market Review and Outlook

Equities Market in November... Bellwethers Drive Positive Performance

The bullish run from the tail end of 2021, was sustained into 2022 as investors continued to take advantage of relatively cheap valuation in the domestic bourse. Investors’ interest was majorly on market bellwethers, especially the technology and banking counters, which drove the performance for the month northwards. Consequently, the Benchmark index (NGX ASI) advanced 9.1% M-o-M to settle at 42,624.67 points. Market breath (advancers/decliners) a measure of investor sentiment, reflected this positive view with 61 stocks gaining while 30 stocks declined.

Chart 8 – NSE ASI YTD Performance





Source: NSE, AIICO Capital

Mixed Sentiments Across Sectors...Earnings Season

Sector performance was generally mixed, albeit with buy impulses and crosses visible across many market bellwethers. The Oil & Gas index advanced 14.1%, spurred by buy interest in SEPLAT. The Banking and Industrial Goods indices followed suit, gaining 8.7% and 3.4% respectively, on the back of sustained buy interest in banking counters trading at relatively attractive prices as well as DANGCEM following the announcement of the stock repurchase program. On the flipside, the Insurance and Consumer Goods indices declined by 6.0% and 2.5%, respectively.

Chart 9 – Sector Performance

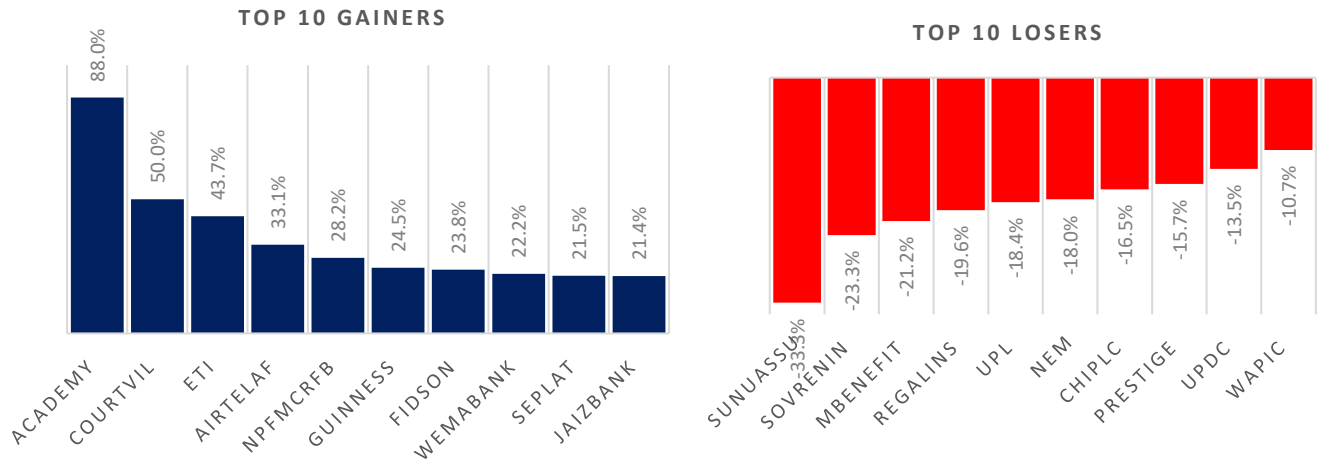
	D-o-D	W-o-W	M-o-M	YTD
NGSEINDX Index	↑ 0.9%	↑ 0.5%	↑ 9.1%	↑ 9.1%
NSE Banking Index	↑ 0.4%	↑ 4.8%	↑ 8.7%	↑ 8.7%
NSE Insurance Index	↓ -0.2%	↓ -3.1%	↓ -6.0%	↓ -6.0%
NSE Industrial Goods Index	↑ 0.5%	↓ -5.1%	↑ 3.4%	↑ 3.4%
NSE Consumer Goods Index	↓ -0.2%	↑ 2.0%	↓ -2.5%	↓ -2.5%
NSE Oil & Gas Index	↑ 0.3%	↑ 3.5%	↑ 14.1%	↑ 14.1%

Source: NSE, AIICO Capital

On a YTD basis, the Oil & Gas, Banking, and Industrial Goods are up ca 14.1%, 8.7%, and 3.4% respectively, while the NSE Insurance and Consumer Goods indices are down ca 6.0% and 2.5%. The best performing stocks for the month were ACADEMY and COURTVILLE, while SUNUASSURANCE and SOVRENINS topped the laggards list.



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



Source: NSE, AIICO Capital

Outlook for February... Investors to take Position at the End of the month

Following a largely positive January, we expect to see increased profit taking for most of February. Nevertheless, we envisage to see renewed buy interest in the later periods of the month as investors take positive ahead of FY:2021 earnings releases in anticipation of dividend income.

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