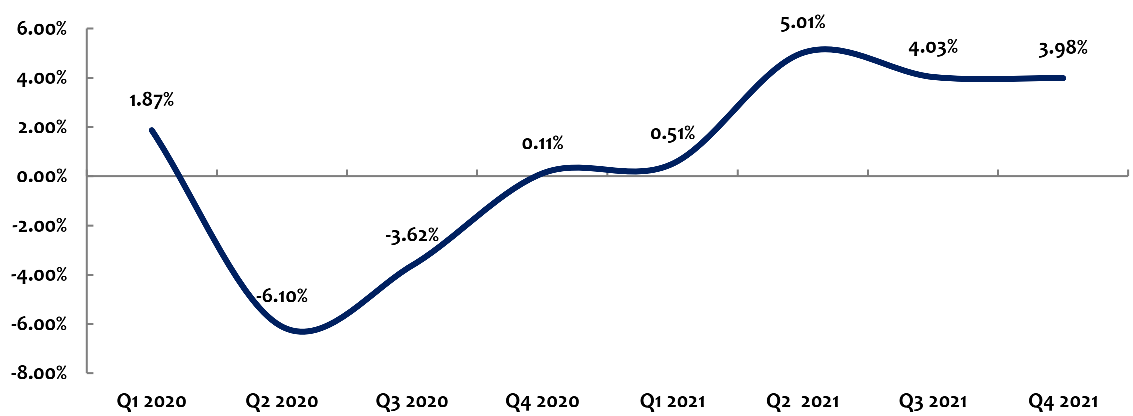
**February** 2022

## Macroeconomic Review

### Sustained Growth in the Nigerian Economy, with Q4 2021 GDP at 3.98% year-on-year

The Nigerian economy sustained its positive growth trajectory for the fifth consecutive quarter since the recession in 2020 as the economy recorded a real growth rate of +3.98% year-on-year in Q4 2021, resulting in cumulative 2021 GDP of +3.40% (from -1.92% in 2020 and higher than the Apex bank's forecast of +3.1% growth). Although the Q4:2021 growth lagged the +4.0% in the preceding quarter, it significantly surpassed the 0.1% expansion recorded in Q4 2020. Despite. This positive economic growth comes of the back of the sustained alleviation of some bottlenecks that plagued the economy in the prior year, due to COVID-19 pandemic related lockdowns.

**Chart 1 – Nigeria's Real GDP Trajectory**



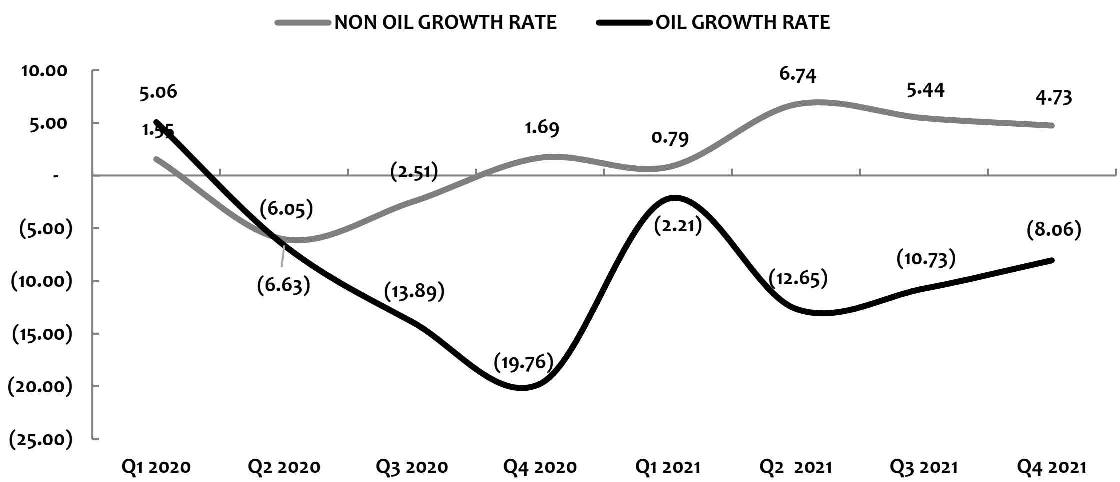

**Source: NBS, AIICO Capital**

The oil sector sustained its negative growth for the eighth consecutive quarter, recording a growth rate of -8.06% year-on-year in Q4 2021, from -10.73% in Q3 2021 and -19.76% in Q4 2020. Overall, annual growth for 2021 stood at -8.30%, better than the -8.89% recorded in 2020. The oil sector contracted despite significant improvement in global crude oil prices, with Brent crude trading above $100.00/barrel, its highest level in almost 8 years. The weakness in the oil sector is attributable to a decline in crude oil production, as Nigeria recorded an average daily oil production of 1.50 million barrels per day (mbpd) in Q4 2021, vs 1.57mbpd in Q3 2021 and 1.56mbpd in Q4 2020, as reported by the National Bureau of Statistic (NBS). This low crude oil output comes as a result of production shutdown, oil terminal maintenance and reduced investments.

The non-oil sector expanded by +4.73% in Q4 2021, lower than +5.44% expansion in Q3 2021 but better than +1.69% growth in Q4 2020. This growth was largely supported by improvement in the Agricultural sector, Telecommunication sector and Financial and Insurance sector.

Overall, the Oil sector contribution to GDP declined to 5.19% in Q4 2021 from 7.49% in Q3 2021, while Non-oil sector contribution rose to 94.81% in Q4 2021, from 92.51% in Q3 2021.

**Chart 2 – Oil vs Non-Oil GDP Trajectory**




**Source: NBS, AIICO Capital**

We opine that the local economy would sustain growth in the coming quarters, on expectation of improvement in both the oil and non-oil sectors. For the oil sector, we expect continued elevated global crude oil prices amid escalating tensions between Russia and Ukraine and in line with the Energy Information Administration (EIA) projection that Brent crude oil prices will average ca $79.00/barrel in 2022, higher than the nation's approved 2022 budget benchmark of $62.00/barrel. We also expect the high price levels to incentivize increased crude oil output for the nation, also supported by the passage of the Petroleum Industry Bill (PIB), which is expected to improve drilling activities. We also expect growth in the non-oil sector to remain resilient amid CBN's intervention policies (E.g., the 100 for 100 policy and imminent creation of special FX bidding scheme for manufacturers, Agro policies etc.).

## Fixed Income and Foreign Exchange Market Review and Outlook

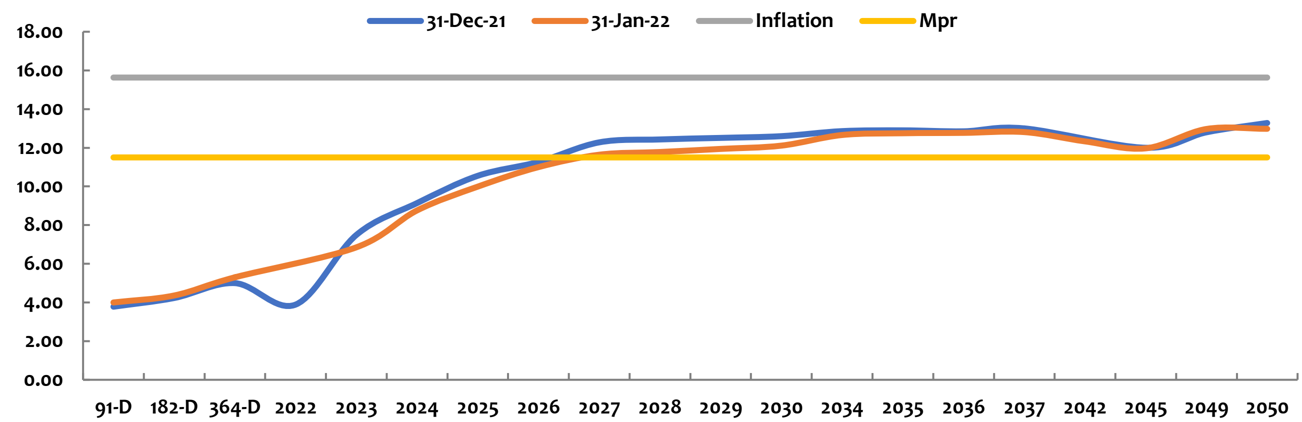
### Overview

Activity in the local fixed income and Eurobonds' spaces were dichotomous, amid a series of events that spurred contrasting market sentiments.

On the local front, the surfeit level of liquidity buoyed by OMO maturities and coupon inflows spurred a bullish affair across the curves (Bills and Bonds) coupled with the desperation of some market players to cover their positions amid a short squeeze on some maturities. The long end of the bills curve and short end of the bonds curve witnessed the most action for the month, with buyside activity dominating proceedings.

On the Eurobond front, the ongoing devastating tussle between Russian and Ukraine spurred a global risk-off sentiment, sending major SSA papers, Oil price and key commodities to significant highs. The fear of missing out on these attractive yields drove occasional buyside activity, but the dominant sentiment remained bearish.

**Chart 3 – Sovereign Yield Curve**

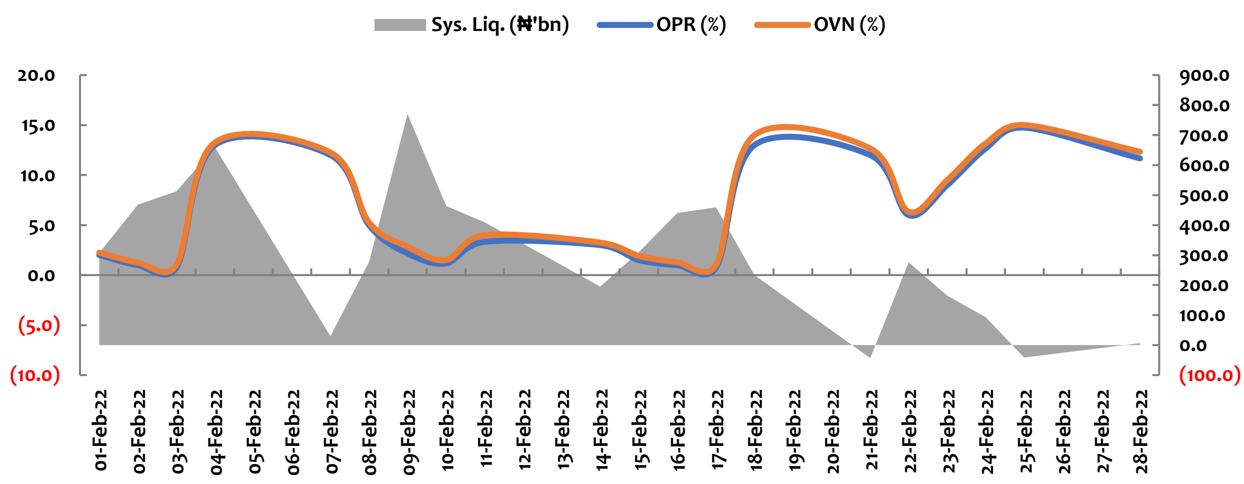



**Source: CBN, FMDQ, AIICO Capital**

## Money Market Review and Outlook… Less Aggressive Mop-Ups and Huge OMO Maturities ensured a relatively Buoyant System

System liquidity was elevated in February, averaging ₦299.64bn (vs ₦129.46bn in Jan'22), largely supported by reduced OMO sales (c.₦270bn) compared to maturities(c.₦674bn), repo maturities and less aggressive CRR debits. The occasional spikes observed in OPR and OVN rates (≥13.00%) was due to the Retail FX auction that happened every fortnight, and the bond auction settlement. Overall, Interbank rates closed considerably lower for the month, as the Overnight Policy Rate (OPR) and Overnight (ON) rates printed at an average of 6.29% and 6.70% from 9.31% and 9.89% in Jan'22 respectively.

**Chart 4 – System Liquidity and Interbank Rates**




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

***We expect the market to be buoyant amid expected maturities (OMO- c. ₦327bn; NTB - c. ₦295bn) and bond coupon payments (c. ₦343bn), thus, average OPR and OVN rates should steady at 7% to 8% levels.***

### T-Bills Market Review and Outlook - Buyside activity dominated the Market amid Robust System Liquidity.

The treasury bills market opened the month on a weak note, with very minimal trades executed on CBN Special bills and mid to long dated NTBs. However, activity picked up building up to the preliminary auction for the month with investors cherry-picking the long-dated papers at 5.10% levels and some mid dated papers at c.4.30%.

At the auction, the DMO dropped rates further on the 1-year paper by c.20bps, sustaining its declining trend since the start of the year while maintaining the rates on 91- and 182-day papers. The decline in stop rate left the market scrambling for offers in the market, as post auction trading led to a c.50bps drop in long dated papers. This bullish theme lingered to the last auction for the month with the DMO taking advantage of the aggressive bid levels and dropped rates by 85bps on the 1-year paper. The aggressive bids were driven by huge OMO maturities compared to issuances and less aggressive CRR debits. Secondary market trades were mostly executed at sub 4.10% to close the month.

Overall, average secondary NTB market rate dipped by c.90bps M-o-M to close at 3.59%.

**Chart 5 – NTB Auction Calendar**

| FEBRUARY 2022 NTB AUCTION RESULT | | | | |
|---|---|---|---|---|
| Tenor | Jan'22 Close | Feb'22 Auc 1 | Feb'22 Auc 2 | Change (bps) |
| 91 | 2.48% | 2.48% | 2.24% | (24.00) |
| 182 | 3.30% | 3.30% | 3.30% | 0.00 |
| 364 | 5.40% | 5.20% | 4.35% | (104.90) |

**Source: CBN, AIICO Capital**

***March is expected to sustain the bullish trend, supported by surfeit system liquidity (OMO- c. ₦327bn; NTB - c. ₦295bn) and bond coupon payments (c. ₦343bn) and the possibility of continued reduced supply on the OMO front. Average long-end rate should steady at 4.00% levels.***

## Bonds Market Review and Outlook

### Dominant Bullish Investors ensured Dip in Yields, supported by Surfeit Liquidity.

The Local bond market kicked off on a mixed note, with sideways trading witnessed across various maturities amid lack of clarity on market direction. As the month progressed, the market witnessed renewed buyside interest on the short end of the curve, most especially the 2026s, further prognosis showed that the intense buying activity was fueled by a short squeeze on the 2026s as most participants expected the Jan'22 auction (11.50%) to close higher than Dec' 21 (11.65%). Thus, most players were forced to cover their short positions, and this dragged yields further down significantly on the 2026s below 11.00%. The bullishness extended to all other short-dated papers, and this reflected at the auction for the month, with the DMO taking advantage of market's desperation selling almost 2x the offer and crashing the rate on the 2026s by 55bps while maintaining the marginal rate on the 2042s.

Post auction witnessed further buyside action, now extending to the belly of the curve (2034s to 2037s) as investors felt they were trading at a huge premium compared to where the short end was trading. This activity led to a steady decline of yields and in no time, the long end of the curve (2042s and 2050s) joined in the action – losing c.15bps in the process.

The month closed on a quiet note amid month-end bookkeeping, although there was a bullish undertone as excess cash was still lurking to be reinvested.

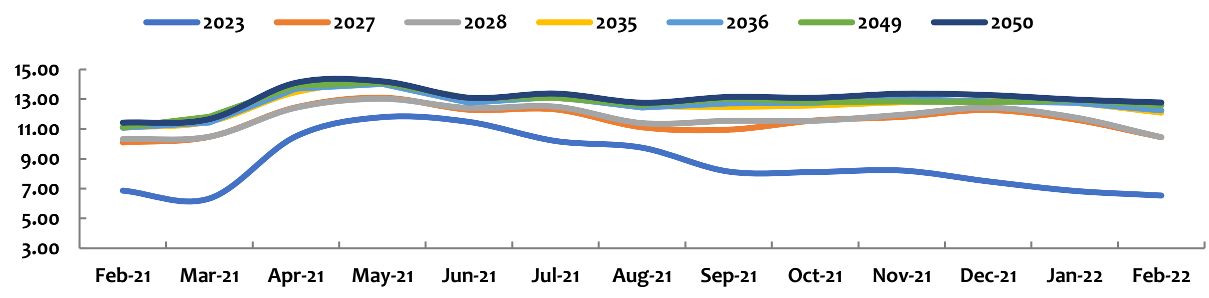
Overall, average yield in the secondary market dipped by 60ps M-o-M to close at 10.98%.

**Chart 6 – Sovereign Bonds February Auction Result**

| FEBRUARY 2022 BOND AUCTION RESULT | | | | | | |
|---|---|---|---|---|---|---|
| Maturity | Offer (₦'bn) | Sub (₦'bn) | Allot (₦'bn) | Yield | Nov'21 Close | Change (bps) |
| 22-Jan-26 | 75.00 | 325.40 | 103.47 | 10.95% | 11.50% | (55.00) |
| 21-Jan-42 | 75.00 | 232.32 | 193.92 | 13.00% | 13.00% | 0.00 |
| | 150.00 | 557.72 | 297.39 | | | |

**Source: DMO, AIICO Capital**

**Chart 7 – FGN Bond Yield Curve for Selected Maturities**




**Source: FMDQ, AIICO Capital**

***We expect the bonds market to sustain its bullish run to end the quarter, supported by coupon inflows. Possible upside/ yield retracement will be spurred by desperate profit takers.***

## Eurobond Market - Escalating Tensions Between Russia-Ukraine Sent Bearish Waves Down The SSA Instruments

Buyside activity dominated the Eurobond space at the start of the month, as the fear of missing out on these attractive levels pushed yields lower. This bullish trend was however short-lived, following the disappointing US inflation data (CPI at 7.50%)– accelerating to its highest since 1982, as soaring energy costs, labor shortages, and supply disruptions coupled with strong demand weighed on the economy.

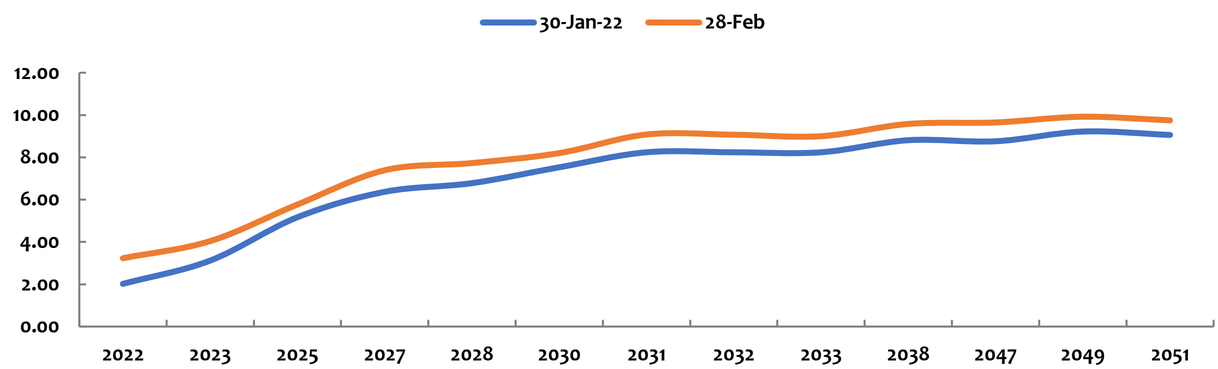
The bearishness intensified as escalation of tensions between Russia and Ukraine spurred a global risk-off sentiment- Oil trading at its highest level since 2013 ($110pb), prices of Gold and commodities advancing, investors fleeing to safe havens and yields on US treasuries dipping by c.30bps. NIGERIA, ANGOLA, and GHANA sovereign papers reacted aggressively with massive selloffs on the short end of the curve; GHANA papers most especially, inched up by c.400bps in the heat of the bearish theme.

Market players started grabbing the high-end offers as most of the sovereign papers entered junk status (near 19% levels on GHANA papers, and double digits on NIGERIA and ANGOLA respectively). Soon after the market realized it had overtraded the

Russian-Ukraine escalating tensions' sentiment and tried to cover the short positions created, thus causing yields to decline steadily.

Overall, the bears outweighed the bulls, with the GHANA Eurobond curve seeing the most action among the SSAs. The NGERIAs saw average yields inched up significantly by c.83bp M-o-M to close at 7.88%.

**Chart 8 – Sovereign Eurobond Yield Curve**




**Source: FMDQ, AIICO Capital**

***A mixed to bearish outlook is expected amid unsettling issues surrounding the Russia-Ukraine tussle. With heavy sanctions looming on the former by NATO and its allies, we expect oil prices to continue to trade at high levels, however with strategic reserves being released and OPEC+ agreeing to increase production (April 2022), there might be some respite on the demand side. All eyes will be on the US Feds' decision at its meeting this month, to see how the dilemma of rising inflation amid global commodities price hike and economic growth will be managed.***

## Foreign Exchange Market Review and Outlook… Naira appreciates in the Official window despite drop in FX Turnover

In its bid to continue to regulate Foreign Exchange (FX) transactions in the country, the Central Bank of Nigeria (CBN) indicated it would discontinue the sale of FX to Deposit Money Banks (DMBs) at the end of 2022, as it expects DMBs to begin sourcing their FX from export proceeds.

However, the impact of this announcement is yet to be seen as the FMDQ Nigerian Autonomous Foreign Exchange Fixing (NAFEX) depreciated month-on-month to ₦416.67/$1.00, from ₦415.33/$1.00 recorded the previous month.

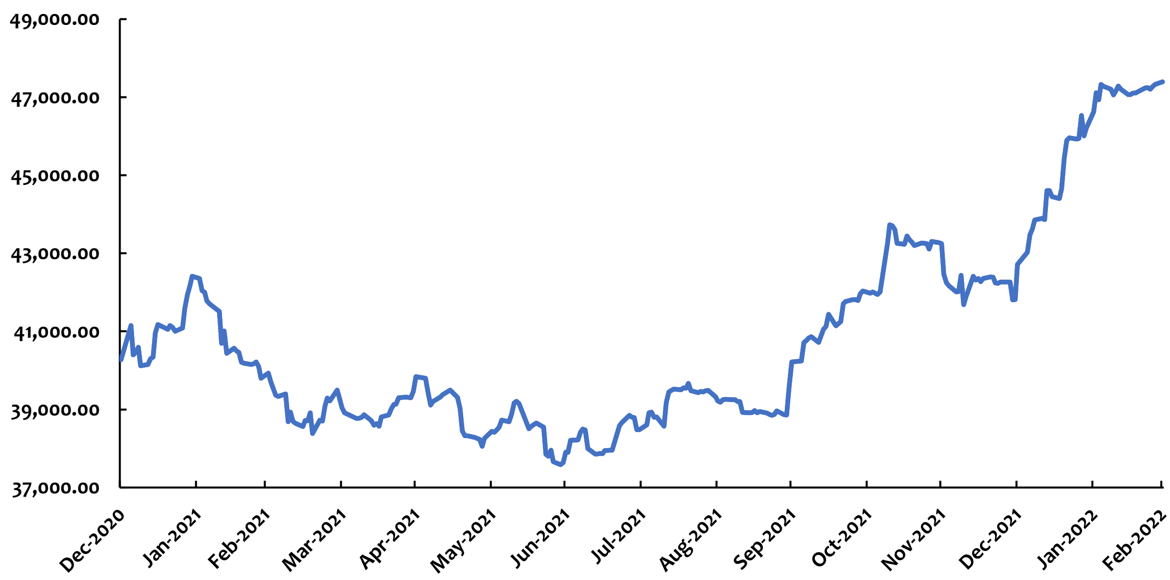
***We expect rates to remain steady in the absence of any major changes in market dynamics.***

## Equities Market Review and Outlook

### Equities Market in February… Bellwethers Drive Positive Performance

The positive trend in the domestic bourse was sustained in February, albeit at a slower pace as sustained buy interest in market bellwethers buoyed overall performance. Consequently, the NGX All Share Index appreciated 1.6% M-o-M to settle at a -3 Year high of 47,394.53 points. Investor sentiment, measured by market bready (advancers/decliners), stayed positive at 2.2x with 63 stocks advancing while 29 declined.

**Chart 9 – NSE ASI YTD Performance**




**Source: NSE, AIICO Capital**

**Positive Sentiments across Sectors**

Sector performance was largely positive in the month, with all sector indices trending northwards during the period. The Oil & Gas index advanced the most, up 7.8% M-o-M largely driven by positive sentiment on SEPLAT. In the same vein the Banking and Industrial Goods indices expanded 2.8% apiece M-o-M, on the back of gains in ZENITH and DANGCEM. Similarly, the Insurance and Consumer Goods indices improved 2.5% and 2.3% M-o-M respectively following buy interest in AIICO and GUINNESS.

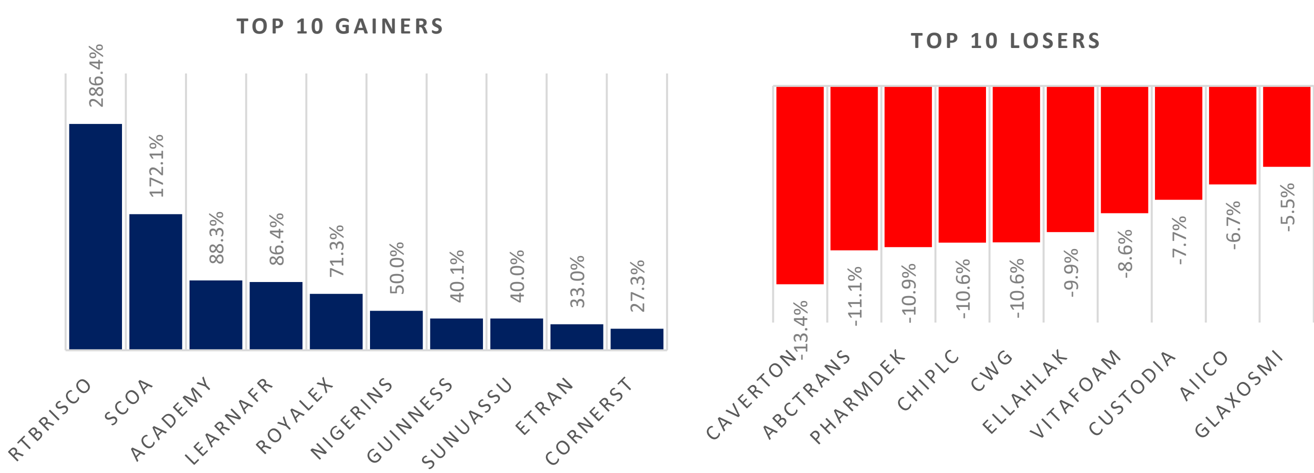
**Chart 10 – Sector Performance**

| Index | M-o-M | YTD |
|---|---|---|
| NGX All Share Index | 1.7% | 11.0% |
| NGX Banking Index | 2.8% | 11.7% |
| NGX Insurance Index | 2.5% | -3.6% |
| NGX Industrial Goods Index | 2.8% | 6.3% |
| NGX Consumer Goods Index | 2.3% | -0.2% |
| NGX Oil & Gas Index | 7.8% | 23.0% |

**Source: NSE, AIICO Capital**

On a YTD basis, the Oil & Gas, Banking, and Industrial Goods are up ca 23.0%, 11.7%, and 6.3% respectively, while the NSE Insurance and Consumer Goods indices are down ca 3.6% and 0.2%. The best performing stocks for the month were RTBISCO and SCOA, and ACADEMY while CAVERTON, ABCTRANS and PHARMDEK topped the laggards list.

**Chart 11 – Top 10 Gainers and Top 10 Losers in February**




**Source: NSE, AIICO Capital**

**Outlook for March… Earnings Releases to Drive Trading Activities**

In March, while we expect investors to take profit on bellwethers that have appreciated significantly since the start of the year, we expect to see additional trading activity driven by FY 2021 earnings which have started to trickle in. We expect investors to take position in stock with a consistent history of high dividend yield.