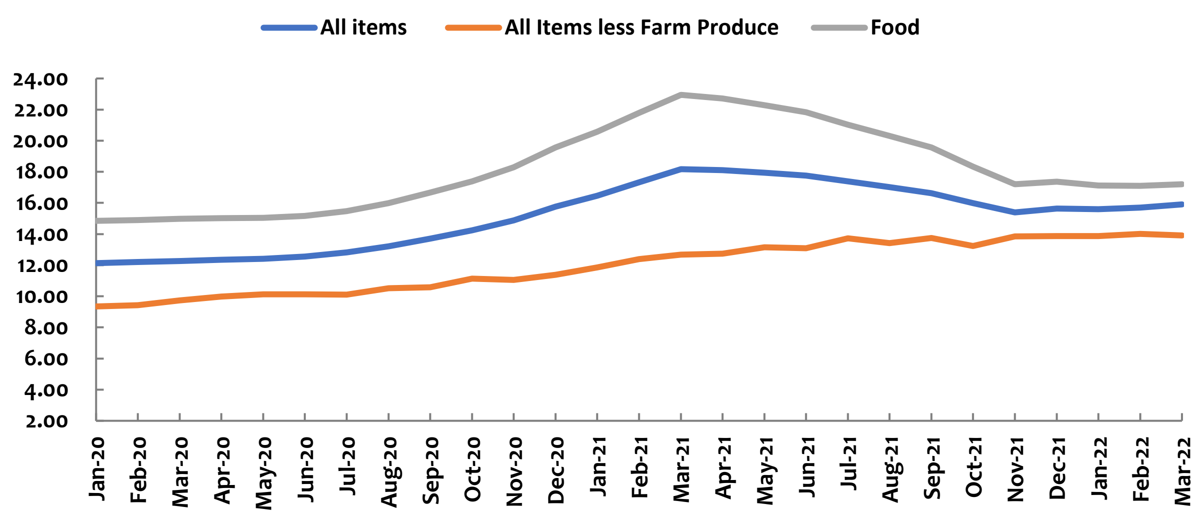
April 2022

Macroeconomic Review

Inflationary Pressures Mount as Nigeria's CPI Hits 15.92% Y-o-Y

Nigeria's inflation rate accelerated to 15.92% in March 2022 (12bps higher than Bloomberg's consensus estimate), representing a 22bps increase from 15.70% recorded in February 2022. Food inflation remained elevated at 17.20%, up from 17.11% recorded the previous month, due to global supply chain delays and increased commodity prices. The annual core inflation index, which includes volatile agricultural produce prices, dipped to 13.91% in February from 14.01% the previous month. Likewise, the Urban and Rural inflation rates rose by 16.44% and 15.42% up, from 16.25% and 15.18% recorded in February 2022.

Chart 1 – Inflation Chart



Source: NBS, AIICO Capital

On a monthly basis, the food and core sub-indices moved in opposite directions, with the latter at 0.98% for March 2022, down from 1.33% printed in Feb'22 while the former grew by 1.99% (an increase of 12bps from 1.87% recorded in February 2022). The increase in the food index was premised on higher food prices during the planting season; however, the core index deflected market expectations, implying that inflationary pressures on energy prices had eased in March.

Outlook

We expect inflationary pressures to be sustained as the effect of local supply chain bottlenecks are expected to weigh on food prices during the planting season. Furthermore, the escalating political tensions caused by the Russia-Ukraine crisis are likely to cause a rise in energy and other imported materials prices.

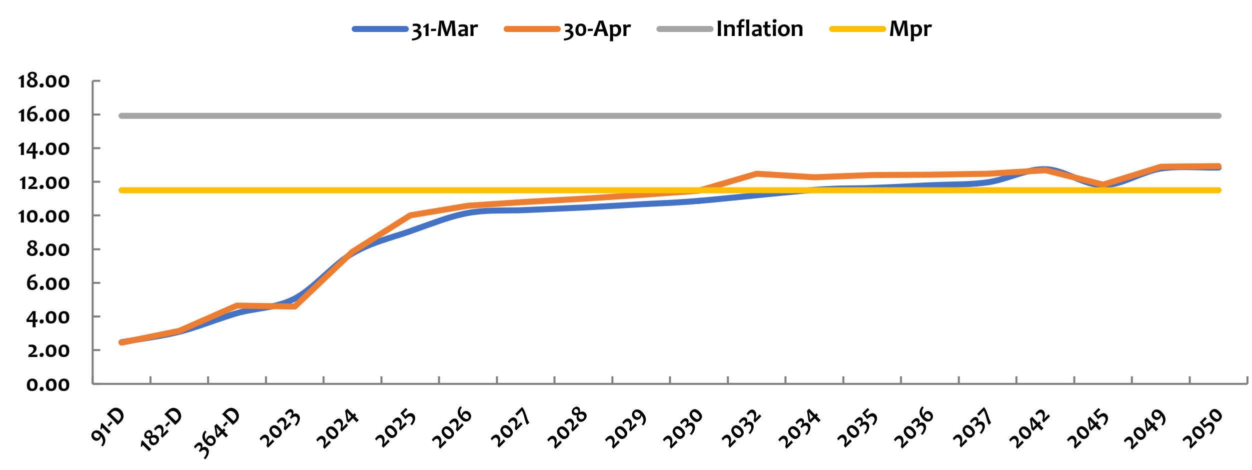
Fixed Income Market Review and Outlook

Overview

Activity in the local fixed income and Eurobonds' markets were similar, amid a series of related events that drove an overall bearish theme. On the local front, the relative dearth of market liquidity, increase in 1-year stop rate, upsurge in customary bond auction offerings (need to shore up widening fiscal deficit); all ensured a cautious but bearish approach to trading in both the bills and bonds markets.

On the Eurobond front, the rising inflationary pressures (US inflation hit 8.50%), elevated commodity prices and overtly hawkish Fed official tone (possible 75bps hike), spurred a major global risk-off tone on dollar-denominated assets, with selloffs of these papers (especially EMs and African bonds) and capital flight to safe havens.

Chart 2 – Nigerian Sovereign Yield Curve

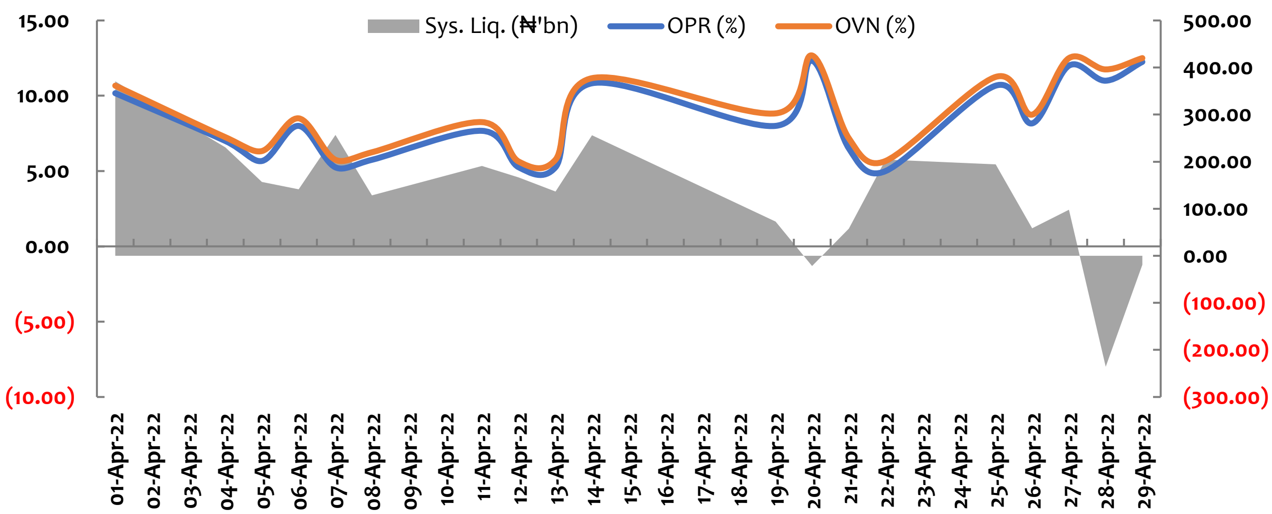


Source: CBN, FMDQ, AIICO Capital

Money Market Review and Outlook… Weak OMO Maturities and Sustained CRR Debits Tightened Liquidity

The money market kickstarted Q2'22 with ample liquidity, largely buoyed by late FAAC inflows. However, successive mop-ups by the CBN and reduction in OMO maturities, ensured the month was less liquid. In absolute terms, system liquidity in April averaged ₦128.54bn (vs ₦239.66bn in Mar'22), with Interbank rates closing relatively higher, as the Overnight Policy Rate (OPR) and Overnight (ON) rates printed on average 8.25% and 8.77% from 6.52% and 7.05% in Mar'22 respectively.

Chart 3 – System Liquidity and Interbank Rates



Source: CBN, FMDQ, AIICO Capital

We expect the market to be less buoyant amid expected maturities (OMO- c. ₦125bn; NTB - c. ₦273bn) and bond coupon payments (c. ₦22bn). Thus, average OPR and OVN rates should steady at 10% to 11% levels.

T-Bills Market Review and Outlook - Cautious trading as DMO/CBN increases 1-year Borrowing Costs.

The final NTB auction in Q1'22, where the 1-year paper rose sharply by 45bps, spurred a cautious approach to trading in Apr'22. Investors stayed as short as possible on the rate curve to safeguard excess funds amid CRR fears, while also cherry-picking some of the long-dated papers.

Building up to the preliminary auction for the month, market players sold off existing exposures on the long end of the curve, as the possibility of further rate hike lingered. At the auction, the DMO unsurprisingly hiked its benchmark rate on the 1-year paper by c.15bps, sustaining its upward trajectory since the last auction in Q1'22, while somewhat maintaining the rates on 91- and 182-day papers.

The sell-off theme was evident all through the month, bolstered by funding pressures due to a dearth of liquidity. This theme lingered into the last auction for April, with another 19bps rate hike on the 1-year paper. Generally, total subscription for the month was c.₦510bn with only c.₦289bn allotted vs c.₦262bn offered.

Overall, secondary market trades were mostly executed at >4.65% to end the month, while average rate inched up by c.16bps M-o-M to close at 3.42%.

Chart 4 – NTB Auction Calendar

April 2022 NTB AUCTION RESULT				
Tenor	Mar'22 Close	Apr'22 Auc 1	Apr'22 Auc 2	Change (bps)
91	1.75%	1.74%	1.74%	(1.00)
182	3.00%	3.00%	3.00%	0.00
364	4.45%	4.60%	4.79%	34.00

Source: CBN, AIICO Capital

A mixed to bearish theme is expected in May 2022 amid expected system liquidity (OMO- c. ₦125bn; NTB - c. ₦273bn) and bond coupon payments (c. ₦22bn). Average long-end rate should steady at 4.85% levels.

Bonds Market Review and Outlook

Widening Fiscal Deficit and increased Bond Offerings, drove a Restrained but Bearish Theme.

The release of Q2’22 FGN bonds calendar, where the customary ₦150bn offer was increased to a range of ₦210bn to ₦240bn and the introduction of a new bond (Mar 2032), prompted a cagey approach from market players, albeit with a bearish undertone. The market was overtly mixed, as sell-side activity was seen at the belly (2035s to 2037s) of the curve, while the short (2024s to 2028s) and long dated (2045s to 2050s) papers traded mostly sideways.

During the month, there were comments from the Minister of Finance, Zainab Ahmed, about the need for the country to tap from the domestic market to cushion the widening fiscal deficit due to surging oil subsidies. This sent the secondary market to a bearish overdrive, in a bid to force the DMO to increase yields at the auction, as investors demanded more premium for holding government securities.

At the auction, the DMO increased the marginal rate on 2042s by 20bps (relative to Mar’ 22) and closed the 2025s and new bond (2032s) at 10.00% and 12.50% respectively, while selling c.5bn less than offered – as the DMO tried to manage rising yield expectations.

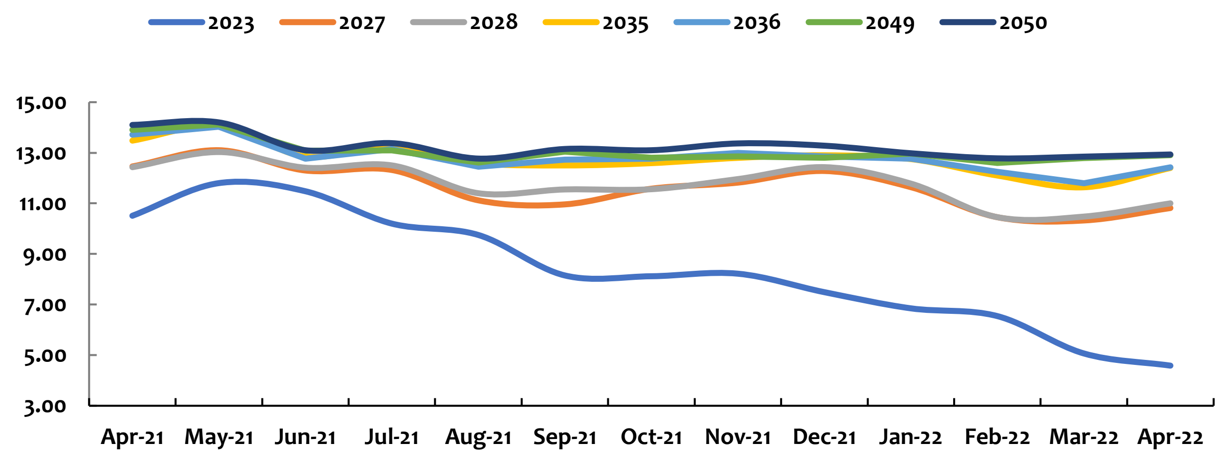
Post auction witnessed sideways trading, with most bids on the auctioned papers quoted at c.2bps shy of the stop rates. Overall, average yield in the secondary market increased by 45bps M-o-M to close at 11.17%.

Chart 5 – Sovereign Bonds April Auction Result

APRIL 2022 BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Yield	Mar'22 Close	Change (bps)
23-Mar-25	75.00	108.43	74.28	10.00%		
27-Apr-32	75.00	78.22	65.92	12.50%		
21-Jan-42	75.00	222.76	79.68	12.90%	12.70%	20.00
	225.00	409.40	219.88			

Source: DMO, AIICO Capital

Chart 6 – FGN Bond Yield Curve for Selected Maturities



Source: FMDQ, AIICO Capital

We expect the bonds market to sustain its cautious but bearish approach in the near term, bolstered by the liquidity drought due to very low coupon inflows.

Eurobond Market - Early Bullish Theme overshadowed by overtly hawkish Fed Tone.

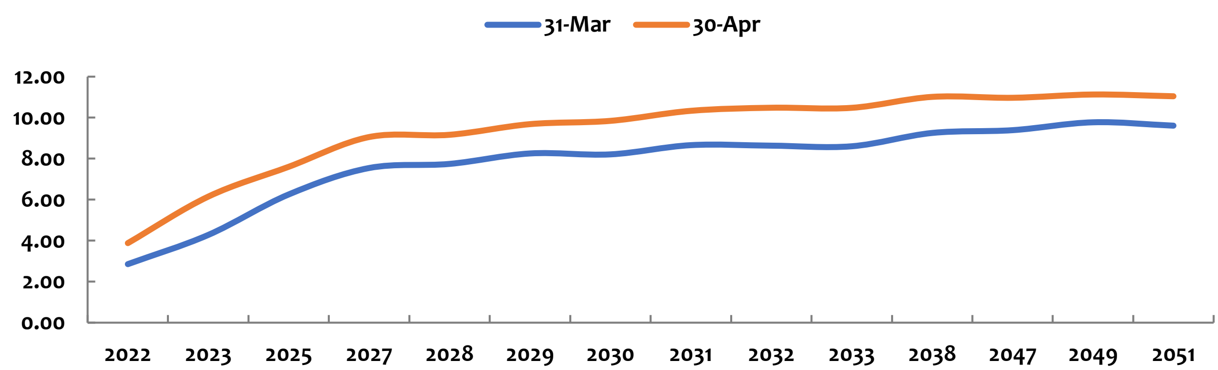
The announcement of Russia's slowdown on their advances towards Ukraine, prompted markets into a risk-on act to start the month, with African Eurobonds being bought across the curve. The Angola curve was the most active earlier in the month, further driven by its new issuance - ANGOL 32s at 8.75%, becoming the second African country to tap from the international debt market. Ghana was better bid, on the back of the passage of the E-levy and government budget cuts. Most active bonds were Ghana Jan 26s, Mar 27s and Feb 27s. Nigeria curve traded mainly 2-way with NGERIA 25s and 29s seeing the most action.

As the month progressed, the bears came in droves, strengthened by the 60bps rise in US inflation to 8.50% and hawkish commentary from FED officials such as Bullard's 75bp hike. Ghana, Nigeria and Angola had major hits, with the last 2 being worse off, owing to renewed lockdowns imposed by China, as a measure to curb the recent wave of Covid-19 variant, thus affecting global oil demand.

In other news, Nigeria plans to raise about $950 million selling overseas bonds as early as May, to shore up widening fiscal deficit, while Kenya may scrap US$1bn Eurobond issuance plans amid rising global yields.

Overall, the bears outweighed the bulls substantially. The NGERIAs saw average yield inched up significantly by c.156bps M-o-M to close at 9.35%.

Chart 7 – Sovereign Eurobond Yield Curve



Source: FMDQ, AIICO Capital

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 depreciates at NAFEX

Nigerian foreign reserves increased by $32.52 million and closed at $39.58 billion at the end of April, amidst the continuous intervention of the CBN. The FMDQ Nigerian Autonomous Foreign Exchange Fixing (NAFEX) depreciated month-on-month to settle at ₦419.00/$1.00, from ₦416.17/$1.00 recorded the previous month. The reference to the CBN SMIS Window indicated that the greenback remained stable against the dollar at ₦430.00/$1.00.

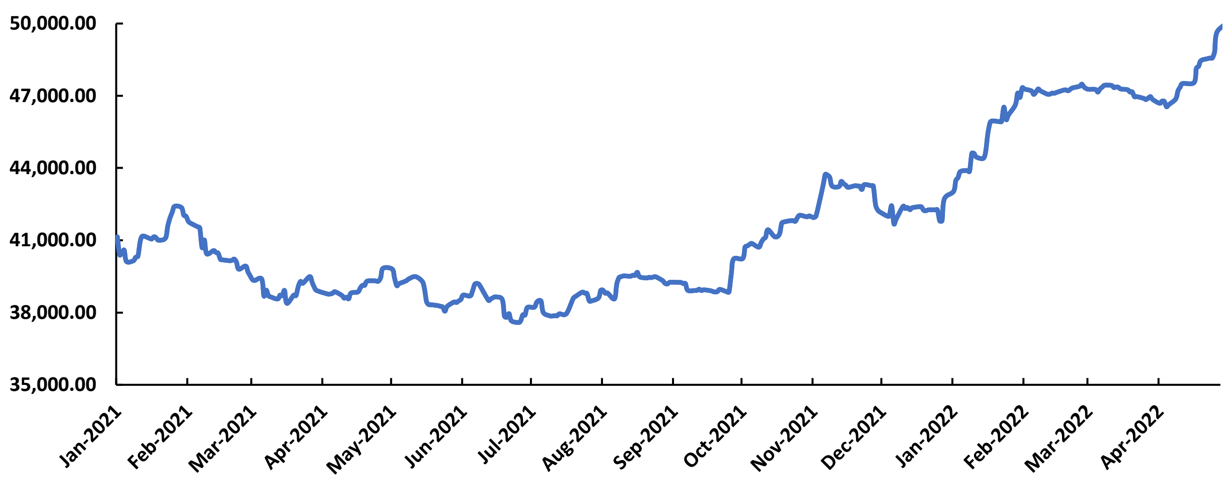
In the absence of significant changes in market conditions, we expect rates to remain stable.

Equities Market Review and Outlook

Equities Market in November… Earnings Releases bolster Market Return in April

After slowing down from the bullish start to the year, significant buy interest was noticed in the market in April on the back of renewed interest from investors in market bellwethers. Consequently, the benchmark All Share Index, expanded 5.7% M-o-M, reaching a 14-year high to close at 49,638.94points. As such YTD return also expanded to 16.2%. Market breadth – gainers against losers – also reflected the positive sentiment as 67 stocks advanced while 27 declined.

Chart 8 – NGX ASI YTD Performance



Source: NSE, AIICO Capital

Mixed Sentiments Across Sectors…All Sectors Advance

Performance across sectors was positive as all indices advanced M-o-M. The Oil & Gas index was the best performing sector index, expanding 19.1% on the back of gains in SEPLAT. Similarly, the Consumer goods index improved by 11.5% on the back of renewed interest in brewers following improved financial results. The Banking and Insurance indices also followed suit, jumping 6.2% and 3.7% respectively while the Industrial goods index closed out the positive performance with a 3.3% appreciation.

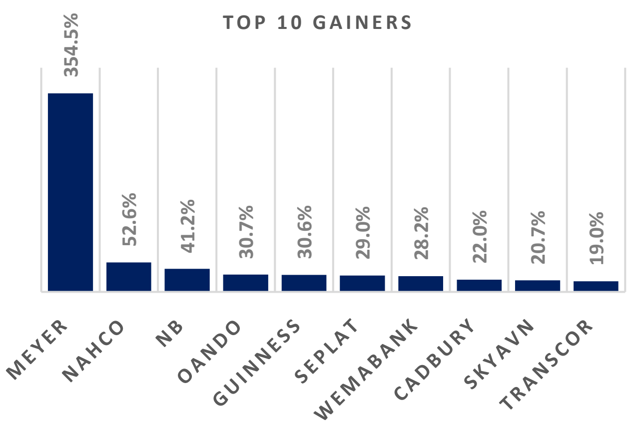
Chart 9 – Sector Performance

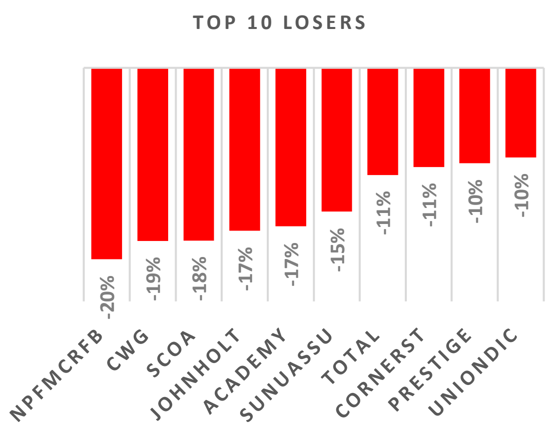
	MTD	YTD
NGX All Share Index	5.7%	16.2%
NGX Banking Index	6.2%	7.1%
NGX Insurance Index	3.7%	-2.5%
NGX Industrial Goods Index	3.2%	8.8%
NGX Consumer Goods Index	11.5%	4.9%
NGX Oil & Gas Index	19.1%	52.0%

Source: NSE, AIICO Capital

On a YTD basis, the Oil & Gas, Industrial Goods, Banking and Consumer Goods indices are up ca 52.0%, 8.8%, 7.1% and 4.9% respectively, while the Insurance index in the red, down 2.5%. The best performing stocks for the month were MEYER, NAHCO and NB, while NPFMCRFB, CWG and SCOA topped the laggards list.

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





Source: NSE, AIICO Capital

Outlook for May… Expect some Profit Taking

In May, as the euphoria around the release of Q1 results simmer, we expect to see some sell offs as investors take profit following significant gains recorded in April.