July 2022

Macroeconomic Review

Heated Interest Rate Environment as Global Central Banks tackle Inflationary Pressures.

The start of H2 2022 has seen no respite in global macroeconomic conditions, as the world economy reels from the effect of the pandemic and Russia's invasion of Ukraine. Interest rates have remained persistently high, as central banks across the globe try to tame the rising inflationary pressures, although questions persist on whether central banks are under- or over-reacting in pursuit of monetary normalization, not excluding the fact the estimates of the risk of recession or even stagflation continues to edge upward.

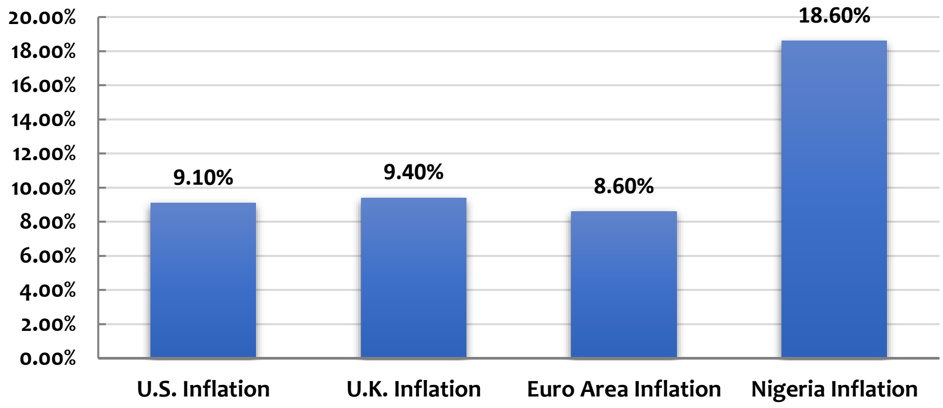
Global Markets

The U.S. Federal Reserve increased the fed funds rate target range by 75 basis points to 2.25% - 2.50%, during its meeting in July 2022 in line with market expectations. This was done in response to June 2022 Consumer Price Index (CPI) of 9.10%, the most since November 1981, up from 8.60% in May and beyond market expectations of 8.80%, with prices of Gasoline, fuel oil, electricity, and natural gas rising the highest since April 1980. Generally, price pressures are on the upswing, recession risks loom, and several indicators and corporate results point to economic stress.

The Bank of England (BoE) hiked its benchmark Rate by 25 bps to 1.25% during its July 2022 meeting, marking the fifth consecutive rate hike and increasing borrowing costs to the highest level in 13 years as it strives to cool surging inflation. The rate hike was predicted, but the vote split was more hawkish than expected, according to a Reuters poll, with eight wanting to support a 25bps boost and one against no raise. The annual inflation rate in the United Kingdom jumped to 9.40% in June 2022, the highest rate since 1982 and surpassed market prediction of 9.30%. Inflation is expected to hit 13.00% by the end of the year, even as recession remains inevitable.

Similarly, the European Central Bank (ECB) raised its 3 key interest rates by 50 bps during its July 2022 meeting, the first hike since 2011, ending an eight-year run of negative rates. The main refinancing rate is now at 0.50%, the marginal lending facility at 0.75% and the deposit facility flat. Inflation in the Eurozone continues to march upward and smash records, with no signs of abating. As such, the central bank has stated that additional interest rate normalization will be warranted in future sessions. The annual inflation rate in the Eurozone rose to a new high of 8.90% in July 2022, up from 8.6% in June.

Chart 1 – June Inflation Figures



Source: NBS, CNBC, AIICO Capital

The Nigerian Market

The Nigeria Monetary Policy Committee (MPC), like the major central banks around the world, raised its benchmark interest rate for a second consecutive time, to combat the accelerating inflation. Annual inflation in Nigeria increased for a fifth straight month to 18.60% in June of 2022, the highest rate since January of 2017, and compared to 17.70% percent in May.

The MPC voted unanimously to hike the rate by 100 basis points to 14.00% (six members voting to raise by 100 basis points, three by 50 basis points and one each calling for increases of 75 and 150 basis points). The committee expressed concern about the persistent “aggressive movement in inflation”, even after it hiked rates by 150bps at its May 2022 meeting and highlighted the broad shocks to capital flows due to the monetary policies of major global economies.

The committee also reiterated its resolve to curtail the spiraling inflation, narrow the negative real interest rate spread, restore price stability, while providing the necessary support to strengthen the fragile Nigerian economy.

Conclusion

Increasing energy and commodity prices continue to crush living standards globally, thus curbing inflation remains the priority for policymakers and central banks, while keeping close tabs on recession risks. Tighter monetary policy will inevitably have real economic costs, but delaying will only worsen them. It is imperative that the policies adopted should keenly address specific impacts on energy and food prices and focus on those most affected without distorting prices.

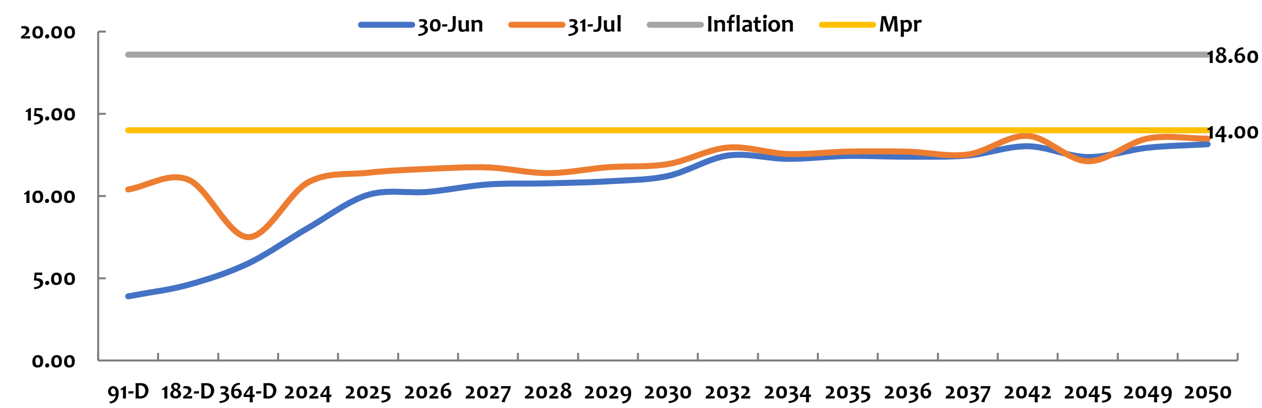
Fixed Income Market Review and Outlook

Overview

Activity in the local fixed income market was bearish overall, as tight system liquidity caused market players (especially banks) to sell-off their short-to-mid dated papers to raise liquidity to fund their obligations. The benchmark interest rate hike by Nigeria's MPC and DMO's decision at the auctions also steered the yield levels to an upward direction.

The SSA and other African sovereign Eurobonds, witnessed major sell-offs by market players due to global recession fears, lower oil prices, rising inflation, as well as the actions taken by major central banks on these matters.

Chart 2 – Nigerian Sovereign Yield Curve

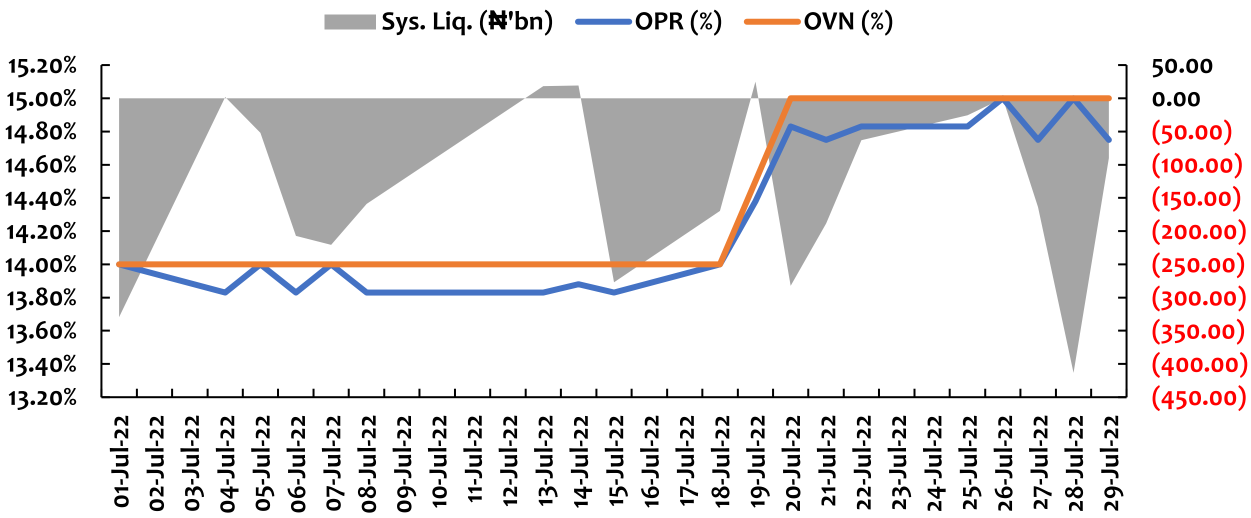


Source: CBN, FMDQ, AIICO Capital

Money Market Review and Outlook… System Liquidity Squeeze elevates Interbank Elevated Interbank Rates

Money market rates were elevated, staying at double digit levels on the back of tighter system liquidity which remained in a deficit for most of the month. In absolute terms, system liquidity in July averaged a negative balance of ₦143.17bn compared to ₦13.71bn in Jun'22, with Interbank rates closing higher, as the Overnight Policy Rate (OPR) and Overnight (ON) rates printed on average 14.32% and 14.45% in Jul'22 from 11.52% and 11.83% in Jun'22 respectively.

Chart 3 – System Liquidity and Interbank Rates



Source: CBN, FMDQ, AIICO Capital

We expect average OPR and OVN rates to remain elevated as system liquidity is projected to remain tight despite expected maturities (OMO- c. ₦150bn; NTB - c. ₦446bn) and bond coupon payments (c. ₦67bn).

T-Bills Market Review and Outlook - Mixed to Bearish Market driven by tight System Liquidity and MPC decision.

Mild demand was recorded on long dated papers earlier in the month, after the final auction in June saw the stop rate for the 1-year paper maintained at 6.07% against market's expectation of an uptick in rate due to prevailing secondary market levels. Nonetheless, the buy interest waned after system liquidity slipped to the negative territory and most banks suffered a major squeeze.

Banks resorted to selling short-dated securities (CBN special bills, NTBs and OMOs) to raise liquidity to fund their obligations, consequently, rates moved from 5% to 9% levels on August to November 2022 bills within days due to the aggressive sell-off. This bearish sentiment lingered for most part of the month and worsened to c.11.00% levels after the stop rate for the 1-year paper closed 93bps higher at the preliminary auction for the month, and the 2-day MPC meeting saw the benchmark interest rate increased by 100bps to 14.00% in a move to curb the spiraling inflation.

The sell-off persisted with liquidity hovering around c.₦260bn deficit, as such, market players expected the stop rates at the last auction of the month to reflect the existing market sentiment (rates closing higher).

The total subscription for the month was c.₦466bn (the lowest so far in the year), while c.₦368bn was allotted vs c.₦407bn offered. Additionally, post-auction activity was skewed to occasional tepidity with sustained bearish undertone. Overall, the average rate inched up by c.483bps M-o-M to close at 9.63%.

Chart 4 – NTB Auction Calendar

JULY 2022 NTB AUCTION RESULT				
Tenor	Jun'22 Close	Jul'22 Auc 1	Jul'22 Auc 2	Change M-o-M (bps)
91	2.40%	2.75%	2.80%	40.00
182	3.79%	4.00%	4.10%	31.00
364	**6.07%**	**7.00%**	**7.00%**	93.00

Source: CBN, AIICO Capital

A mixed to bearish market is projected for August amid expected maturities (OMO- c. ₦150bn; NTB - c. ₦446bn).

Bonds Market Review and Outlook

Bearish Bias prevailed amid Q3'2022 FGN Bond Issuance Calendar Release.

The expectation of a bullish market in July on the back of c.₦237bn in coupon credits, proved abortive due to the selling interests/improved offers witnessed across the curve.

At the start of the month, subtle buying interest was seen on 2042s and 2050s at 13.06% and 13.00%, with improved offers observed on 2025s and 2026s at 10.08% and 10.20% respectively. However, following the release of Q3 2022 FGN Bonds Issuance Calendar where the same set of papers (2025s, 2032s and 2042s) were on offer, the offer yields on the referenced papers and surrounding tenors improved on average c.12bps, as players took position ahead of the FGN bond auction slated for July 18th.

However, tight system liquidity fueled tepid activity, as there were more sellers than buyers, and this theme reflected in the FGN bond auction with the lowest subscription recorded so far in the year. The DMO also increased the marginal rates across the usual tenors by 90bps, 50bps and c.60bps on 2025s, 2032s and 2042s to 11.00%, 13.00% and 13.75%, respectively from the previous stop rates, and allotted c.₦124bn as against the offer of c. ₦225bn.

Post auction trading sessions witnessed choppy activity, with coupon inflows driving some demand albeit insufficient to push yields significantly lower, as the overall sentiment was still skewed to the bears. Most trades were executed on 2025s, 2032s, 2042s, 2049s and 2050s at c.11.25%, c.12.95%, c.13.70%, c.13.35%, c.13.40% respectively.

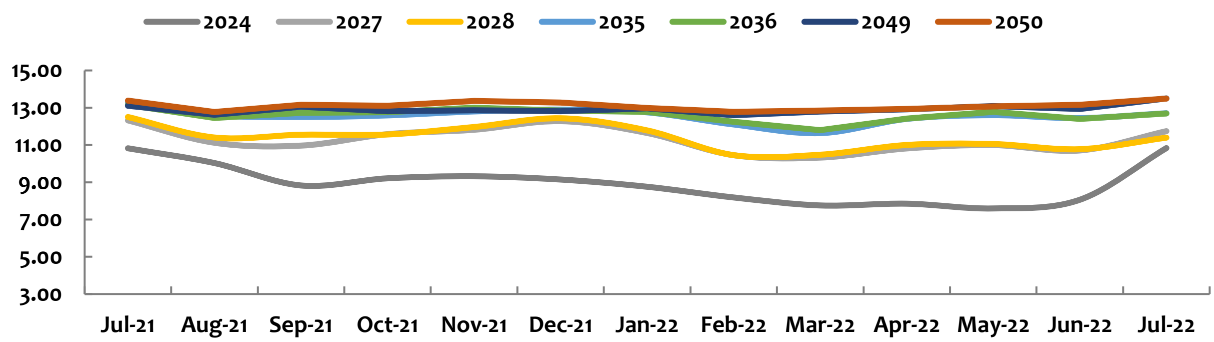
Overall, average yield in the secondary market inched up by 71bps M-o-M to close at 12.31%.

Chart 5 – Sovereign Bonds May Auction Result

July 2022 BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Yield	Jun'22 Close	Change M-o-M (bps)
23-Mar-25	75.00	11.75	5.30	**11.00%**	**10.10%**	90.00
27-Apr-32	75.00	25.62	17.82	**13.00%**	**12.50%**	50.00
21-Jan-42	75.00	104.92	100.72	**13.75%**	**13.15%**	59.90
	225.00	**142.30**	**123.85**			

Source: DMO, AIICO Capital

Chart 6 – FGN Bond Yield Curve for Selected Maturities



Source: FMDQ, AIICO Capital

The market is expected to trade cautiously, albeit with a mixed to bearish undertone amid uncertainty in yield direction and coupon inflows of c.₦67bn.

Eurobond Market - Mixed sentiment amid lower oil prices, US CPI print and seemingly dovish Fed tone.

There was renewed buyside interest at the start of the month across the SSA and other African markets, especially in Ghana, following its President's authorization of the finance minister to commence formal engagement with the IMF on a potential $1.5bn bailout program. However, after the release of June's FOMC meeting minutes and lower oil prices amid recession worries, there was a reversal in the bullish trend, with selling interest recorded across the curve. The bearish bias was exacerbated by the release of U.S' June CPI at 9.10% (50bps and 30bps higher than May's figure and June's market estimate of 8.80%, respectively), after which investors started pricing a 75bps to 100bps rate hike at July's meeting, leading to lower repricing of risk assets.

A healthy sea of green in the U.S stock market, the dollar retreat (exit from EUR/USD parity) amid ECB rate hike (50bps increase) and S&P midyear EM report - with a Stable outlook on most SSAs, restored some demand from traditional buyside players, especially on Nigeria and Angola papers, prior to July's FOMC meeting, while Ghana witnessed a momentary sell-off, as news of its Gross reserves declining by $3bn was misquoted as falling to $3bn.

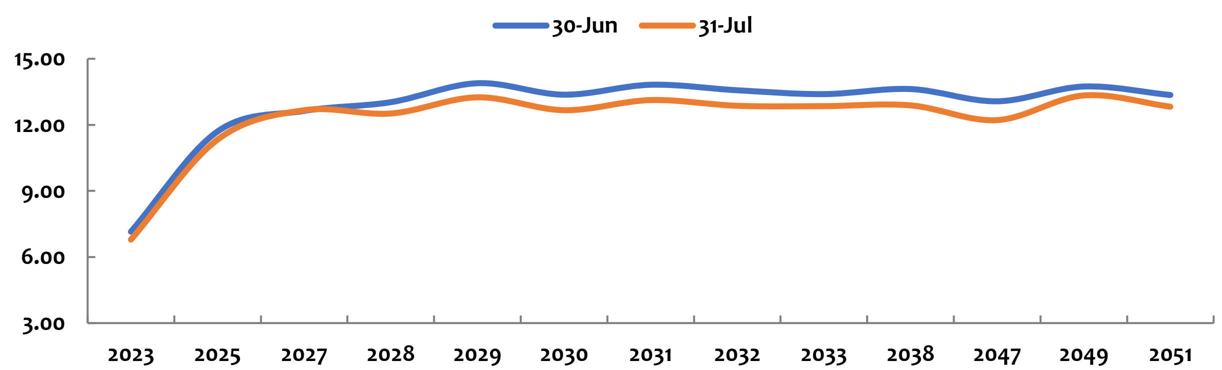
During its July meeting, the Federal Reserve raised the target range for the fed funds rate by 75bps to 2.25%-2.5%, the fourth consecutive rate hike, and pushing borrowing costs to the highest level since 2019, matching market forecasts. Thus, the mild sell-off that had occurred in response to IMF's recent cuts in its global growth outlook, turned bullish to close the month with short coverings and retail investors demand.

Overall, the average mid-yield across Nigeria's Eurobond curve dipped by c.54bps M-o-M to close at 12.26%

Other notable events:

- *Nigeria's excess crude account plunged to c.$376,000 from $2.1bn in 2015.*
- *Ghana lawmakers approved a $750 million AFREXIM borrowing plan.*
- *Ghana and Angola kept benchmark interest rates at 19.00% and 20.00% respectively at their July meetings*

Chart 7 – Sovereign Eurobond Yield Curve



Source: FMDQ, AIICO Capital

The Fed chair, Powell, stated in his latest press conference that the central bank will be looking for moderately restrictive level by the end of the year, meaning a 3.0% to 3.5% level for the fed funds rate. Thus, we expect the market to remain fragile with the overall tone still bearish. Recent cuts in global growth outlook by IMF (recession fears) should also affect the decisions of other major central banks and the potential lifting of the ban on Russia's oil should provide some relief regarding global energy crisis.

Foreign Exchange Market Review and Outlook... Naira Weakens at the NAFEX and Parallel Market

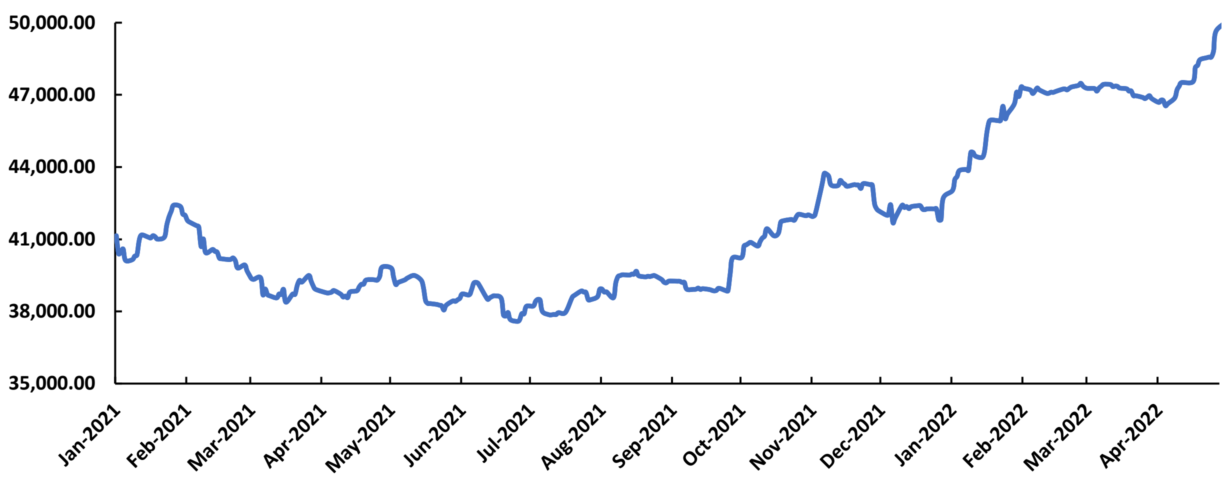
Nigerian foreign reserves started the month at $39.17bn and climbed steadily, reaching a high of $39.44bn as the Central bank slowed down on intervention, before declining to $39.18 billion at the end of July. At the FMDQ Nigerian Autonomous Foreign Exchange Fixing (NAFEX), the Naira weakened M-o-M to settle at ₦429.00/$1.00, from ₦425.00/$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, while at the parallel markets reports seen during the month suggested that rates skyrocketed to as high as N 710.00/$1.00 as panic buying drove demand for the dollar while local players sourced dollars for the payment of school fees and summer related expenses.

Equities Market Review and Outlook

Equities Market in July… Bears dictate Market Direction in July

The bears took hold of the domestic bourse in July as sustained selling pressure in market bellwethers dragged the benchmark index southwards. This bearish trend in the market can be closely tied to the paucity of drivers to boost activities, hence investors opted to take profit on counters that had appreciated in the prior months. Consequently, the NGX All Share Index fell 2.8% M-o-M to 50,370.25 points, while YTD return trimmed to +16.9%. Market breadth, a reflection of investor sentiment, showed the bearish mood, standing at 0.8x following 38 stocks advancing while 48 declined.

Chart 8 – NGX ASI YTD Performance



Source: NSE, AIICO Capital

Sector Performance… All Sector Indices Slid in July

Sector Performance was largely bearish with all sector indices returning a M-o-M loss in July save for the Oil & Gas index. The Consumer Goods index took the biggest hit, declining by 8.1% M-o-M in July, on the back of losses recorded in NB (-18.9%), INTBREW (-15.1%) and CADBURY (-10.7%), respectively. The Insurance index also followed suit, losing 6.3% M-o-M on the back of sell pressure on NEM (-10.5%). Similarly, the Banking and Industrial Goods indices lost c. 4.9% and 4.2%, respectively. Despite the gloomy performance from these sectors, the Oil & Gas index remains the only advancers MTD, with a positive return of 2.0%.

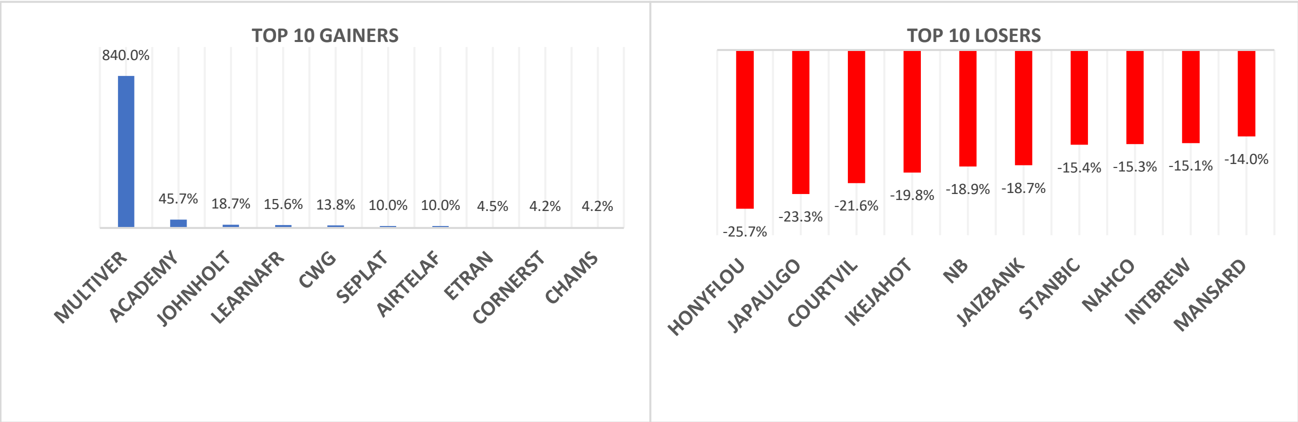
Chart 9 – Sector Performance

	MTD	YTD
NGSEINDX Index	-2.8%	17.9%
NSE Banking Index	-4.9%	-6.9%
NSE Insurance Index	-6.3%	-15.7%
NSE Industrial Goods Index	-4.2%	2.7%
NSE Consumer Goods Index	-8.1%	-2.7%
NSE Oil & Gas Index	2.0%	61.2%

Source: NSE, AIICO Capital

Amidst the gloomy performance from these sectors, the Oil & Gas index was the only advancers MTD, with a positive return of 2.0%. The best performing stocks in the week were MULTIVER, ACADEMY and JOHNHOLT while HONYFLOUR, JAPAULGO and COURTVIL topped the laggards list.

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



Source: NSE, AIICO Capital

Outlook for August… Market Lull expected to Persist

In August, we expect market activities to remain relatively soft as investors take advantage of the improving rates in the money market. Nevertheless, we do not rule out the possibility of investors strategically seeking to take position in stocks with a history of interim dividend payment, ahead of the release of H1:2022 earnings reports.