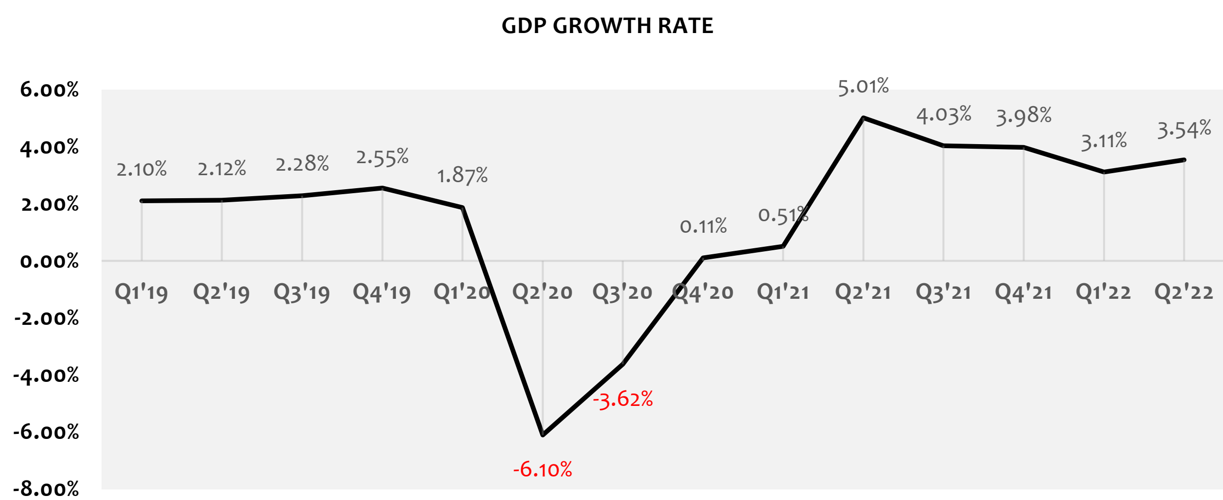
August 2022

Macroeconomic Review

Nigerian Economy Grew Faster than expected in Q2 2022 while CPI Soared to a high of 19.64% in July

Nigeria's Real Gross Domestic Product (GDP) reportedly grew by 3.54% Y-o-Y in the second quarter of the year (beating the Bloomberg estimate of 2.90%). The seventh consecutive growth since the recession in 2020 represents an increase compared to 3.11% recorded in the first quarter of 2022, and a decrease when compared to 5.01% in Q2 2021. Growth was majorly driven by a 4.77% increase in the non-oil sector (particularly the services and agriculture subsector) with a contribution of 93.67% to total real GDP while the Oil sector recorded contracted by 11.77% with a contribution of 6.33% to total real GDP as oil production per barrel declined to 1.43mpb in Q2 (vs 1.49mpb in Q1).

Chart 1 – GDP Growth Rate

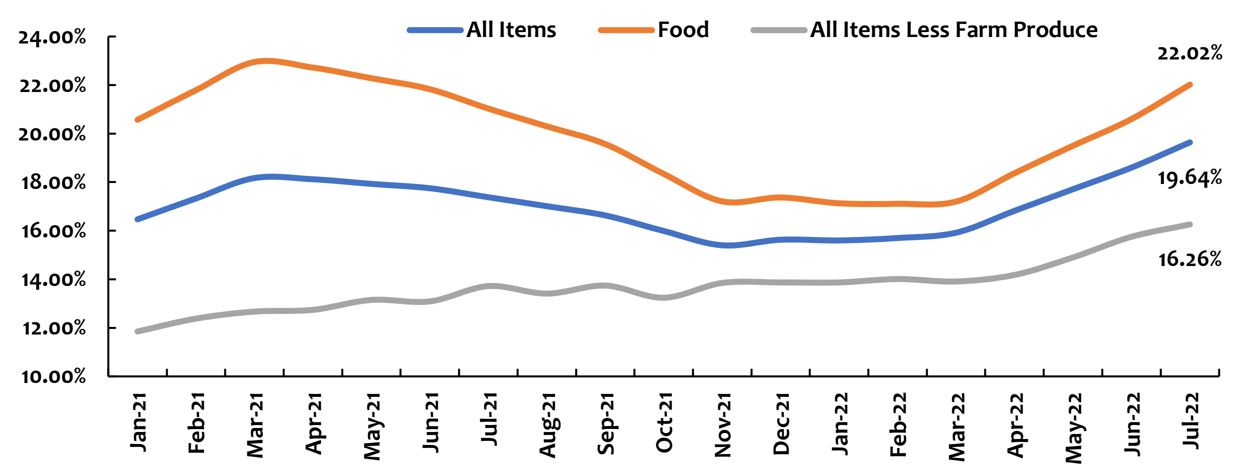


Source: NBS, AIICO Capital

According to the National Bureau of Statistics, Consumer Price Index (CPI) rose to 19.64% in the month of July. The biggest drivers of inflationary pressure were prices of gas, bread and cereal as hikes in energy prices, electricity tariffs and insecurity in food-producing states drove shortages in the supply of food in the country and contributed to rising food prices.

Overall, food inflation accelerated to 22.02% from 20.6% recorded in June while core inflation rose to 16.26% vs 15.75% recorded in June 2022. The Urban and Rural inflation rate were recorded at 20.09% and 19.22% respectively from 19.09% and 18.13% recorded in the previous month.

Chart 2 – Inflation Rate



Source: NBS, AIICO Capital

Outlook: We expect prevailing security challenges, high energy costs and continued foreign exchange depreciation to place a continuous uptrend in prices in the coming months.

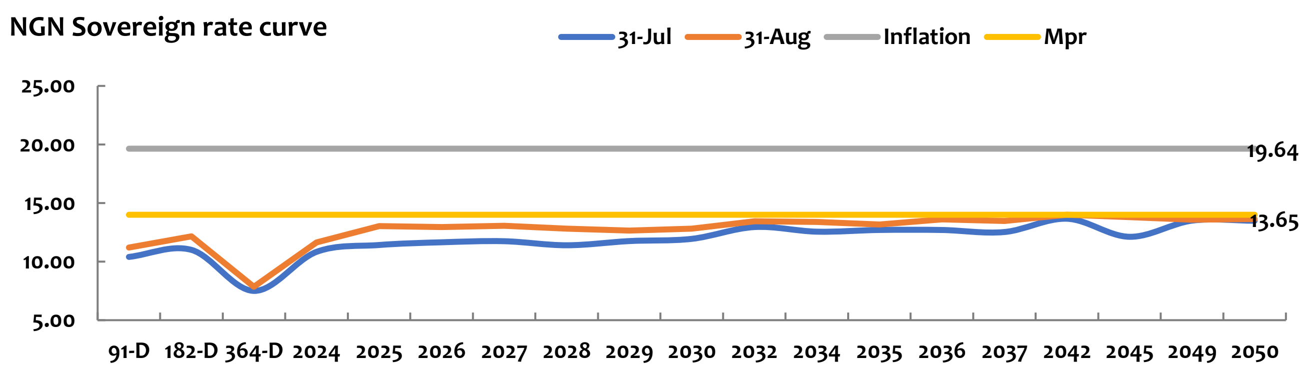
Fixed Income Market Review and Outlook

Overview

Bearish bias dominated market activity at both the primary and secondary local fixed income space, as parsimonious system liquidity caused market players (especially banks) to sell-off their short to mid dated papers to raise liquidity to fund their obligations.

The SSA and other African sovereign Eurobonds, witnessed a mixed to bearish market, amid Fed Chair Powell's aggressive stance at this year's Jackson hole symposium and global recession fears.

Chart 3 – Nigerian Sovereign Yield Curve

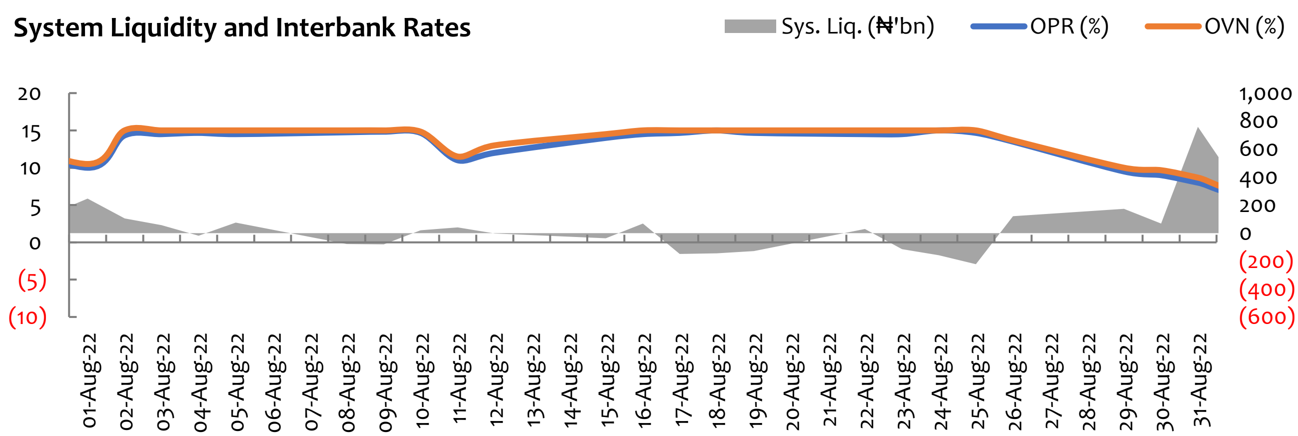


Source: CBN, FMDQ, AIICO Capital

Money Market Review and Outlook - ***Tight system liquidity amid weak coupon flows spurred higher interbank rates***

System liquidity was tight during August, as there were no significant flows barring late FAAC credits. Average system liquidity was c.₦27bn compared to (c.₦137bn) recorded in July, with the Overnight Policy Rate (OPR) and Overnight (ON) rates averaging 13.34% and 13.75% from 14.32% and 14.45% in July respectively. There was also reduced CBN intervention at the Retail SMIS auction due to low system liquidity.

Chart 4 – System Liquidity and Interbank Rates



Source: CBN, FMDQ, AIICO Capital

Outlook: We expect the market to be liquid amid expected maturities (OMO- c. ₦35bn; NTB - c. ₦516bn) and bond coupon payments (c. ₦360bn).

<u>T-Bills Market Review and Outlook</u> - Bearish market driven by tight system liquidity.

Activity in the Treasury bills market started on a bearish note, as short tenored papers were offered at double digits c.12.00%, between 9.00% and 10.00% on mid tenors, while the long end remained muted.

The sell-off in the secondary market was bolstered by thin liquidity status (low coupon inflows and OMO maturities) and the bi-weekly retail SMIS auction, thus forcing most Banks to sell their short to mid-dated securities (CBN special bills, NTBs and OMOs) to raise liquidity to fund their obligations.

The bearish sentiment nosedived to the auctions held during the month, with the DMO increasing the stop rates across the usual tenors amid low bid volumes and high bid rates. Several anecdotes of the CBN/DMO padding the subscription and allotment amounts with supposed bridge financing (Self buy-back of auctioned bills), also made the rounds during the month.

The total subscription for the month was c.₦498bn (the second lowest so far in the year), while c.₦446bn was offered and same was allotted.

Post-auction activity was skewed to occasional tepidity with sustained bearish undertone, however by close of the month, there was renewed demand by market players amid improved system liquidity status augmented by July's FAAC inflows.

Overall, the average rate inched up by c.77bps M-o-M to close at 10.40%.

Table 1 – Nigerian Treasury Bills (NTB) Auction Result

August 2022 NTB AUCTION RESULT				
Tenor	**Jul'22 Close**	**Aug'22 Auc 1**	**Aug'22 Auc 2**	**Change M-o-M (bps)**
91	2.80%	3.50%	4.00%	120.00
182	4.10%	4.50%	5.00%	90.00
364	**7.00%**	**7.45%**	**8.50%**	150.00

Source: CBN, AIICO Capital

<u>Outlook:</u> The market is expected to trade bullish, amid coupon inflows of c.₦360bn and DMO's recent revision of Q3'22 FGN bond issuance calendar

<u>FGN Bonds Market Review and Outlook</u> - Bearish bias encouraged by thin coupon inflows.

Selling interest dominated the early sessions in the month, with 2025s, 2028s, 2032s and 2042s being the most offered papers. Offer yields across the curve kept increasing as liquidity thinned out of the system, averaging c.23bps increase W-o-W, with sellers being desperate to raise cash to fund their needs.

The absence of real demand in the market ensured activity was tepid, as there were more sellers than buyers, and this theme was reflected in the FGN bond auction with the second lowest subscription recorded so far in the year. The DMO also increased the marginal rates across the usual tenors by 150bps, 50bps and c.25bps on 2025s, 2032s and 2042s to 12.50%, 13.50% and 14.00%, respectively from the previous stop rates, and allotted c.₦201bn as against the offer of c. ₦225bn.

Post auction trading sessions witnessed sustained bearishness, as offers on the auctioned papers rose on average c.30bps amid worsened liquidity. However, the month closed bullish due to FAAC inflows which spurred demand especially on 2042s, 2049s and 2050s, then sellers started hoarding their offers due to the improved system liquidity.

Most trades were executed on 2025s, 2032s, 2042s, 2049s and 2050s at c.12.90%, c.13.50%, c.14.15%, c.13.50%, c.13.65% respectively.

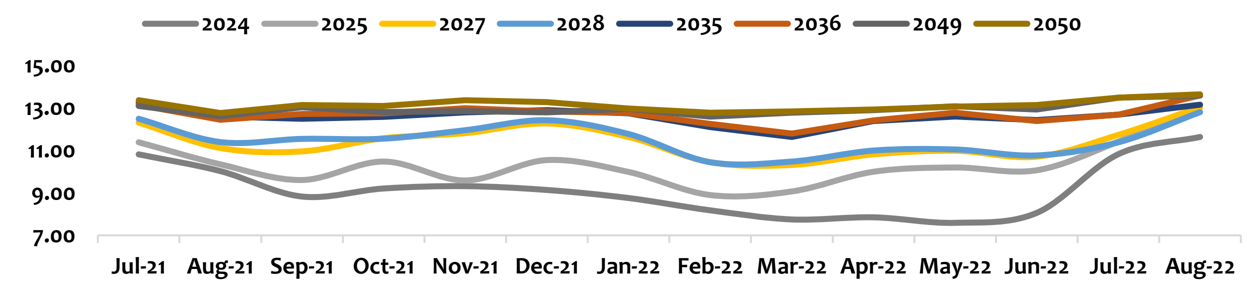
Overall, average yield in the secondary market inched up by 88bps M-o-M to close at 13.19%

Table 2 – August 2022 FGN Bonds Auction Result

August 2022 BOND AUCTION RESULT						
Maturity	**Offer (₦'bn)**	**Sub (₦'bn)**	**Allot (₦'bn)**	**Yield**	**Jul'22 Close**	**Change (bps)**
23-Mar-25	75.00	23.01	4.21	**12.50%**	**11.00%**	150.00
27-Apr-32	75.00	40.79	28.84	**13.50%**	**13.00%**	50.00
21-Jan-42	75.00	183.27	167.52	**14.00%**	**13.75%**	25.10
	225.00	**247.08**	**200.57**			

Source: DMO, AIICO Capital

Chart 5 – FGN Bond Yield Curve for Selected Maturities



Source: FMDQ, AIICO Capital

Outlook: The market is expected to trade bullish, amid coupon inflows of c.₦360bn and DMO's recent revision of Q3'22 FGN bond issuance calendar.

<u>Eurobond Market</u> - Mixed to bearish sentiment amid aggressive Fed Chair tone and global recession fears.

At the start of the month, it appeared recession risks may have eased concerns on how aggressive the US Fed will be as regards future interest rate hikes. Thus, the African Eurobond markets witnessed buying interests across the curve, with Nigeria and Angola seeing the most traction.

Nonetheless, Nancy Pelosi's controversial visit to Taiwan, fresh concerns regarding global growth and most importantly, strong US Jobs data report exceeding market expectation with c.528,000 jobs added, caused a reversal in the bullish trend as it suggests the US economy will not enter a recession anytime soon, paving the way for the Fed to maintain its recent hawkish stance.

There was occasional demand for Nigeria's front end (2025s) by some asset managers as it provided good value compared to surrounding tenors, the same can be said for Ghana Feb 2027s and Angola 2048s.

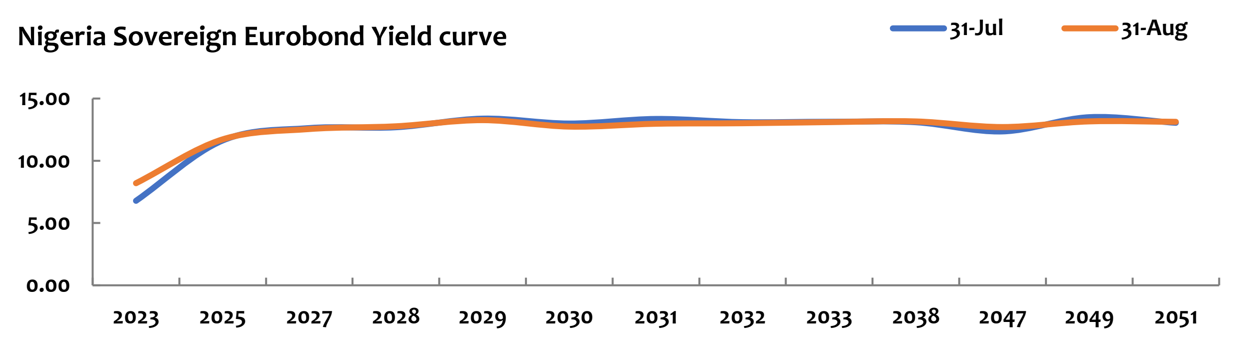
The market traded on a lull, building up to one of the most important annual events, the "2022 Jackson Hole symposium". During the event, market players kept close tabs on the US Fed speakers for insights on inflation outlook and rate hike trajectory. However, in the African Eurobond markets, there were a few buyers of Nigeria front end, entire Angola curve and Ghana bellies, while sellers continued to offer mid dated Nigeria papers and the entire Egypt curve. The signals from US Chair Powell's speech suggest that the Fed is not slowing down in terms of rate hikes despite July's US CPI report printing lower at 8.50%, lower than the market estimate of 8.70% and June CPI of 9.10%.

Overall, the average mid-yield across Nigeria's Eurobond curve inched up by c.6bps M-o-M to close at 12.50%.

Major News:

- *Nigeria's inflation accelerated to 19.64% in July, vs 18.60% recorded in June.*
- *Fitch downgraded Ghana to 'CCC', amid deteriorating public finances, lack of access to bond markets, and significant decline in external liquidity.*
- *Ghana intends to double its IMF funding target to $3 billion over three years.*
- *The Bank of England (BoE) increased its benchmark rate by 50bps to 1.75%, the biggest increase in 27 years and expects inflation to rise above 13.00% by the end of the year.*

Chart 6 – Sovereign Eurobond Yield Curve



Source: FMDQ, AIICO Capital

Outlook: No respite is expected in the rate hike trajectory. The US Fed will most likely hike by 75bps at its September meeting, spurring another round of bearish bias across dollar denominated markets. Ghana's $3bn IMF funding to happen sooner than expected and will spur a mildly bullish bias in its curve, though the fundamentals are still not looking good.

Foreign Exchange Market Review and Outlook - **Marginal decline in NAFEX rate and reduced CBN intervention**

Sustained efforts by the CBN so far this year to strengthen the Naira have been abortive, as excess demand by market forces continue to weigh on the limited forex liquidity. In August, the Nigerian foreign exchange reserve decreased by c.$194 million M-o-M to close at $39.03 billion, amidst reduced intervention by the CBN. The FMDQ Nigerian Autonomous Foreign Exchange Fixing (NAFEX) depreciated by 0.41% M-o-M to settle at ₦428.91/$1.00, from ₦426.83/$1.00 recorded the previous month, while the I&E rate indicated that the greenback remained stable against the dollar at ₦428.95/$1.00. The parallel market continued to trade wide off the I&E market rate, as it averaged c.₦710/$1.00, as most of the retail and institutional demand have been clogging that space.

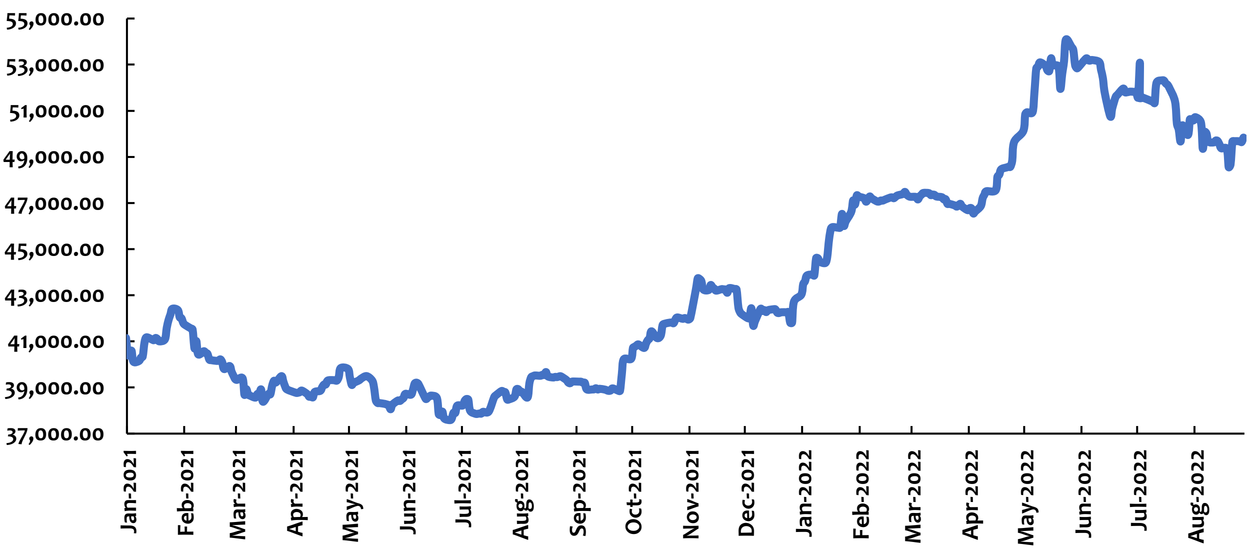
Outlook: We expect CBN to continue to devise means to reduce the demand in the parallel market and strengthen the Naira. However, FX restrictions at the official window will force traders, manufactures and exporters to source liquidity elsewhere.

Equities Market Review and Outlook

Equities Market Performance in August - **Mixed sentiment amid announcement of interim dividend payment**

Despite the published earnings report which spilled into August, the NGX All Share Index fell 1.1% M-o-M to 49,836.51 points, while the YTD return trimmed to +16.7%. Investor sentiment, measured by market breadth (advancers/decliners) was relatively flat at 1.1x with 44 stocks advancing while 39 declined.

Chart 7 – NGX ASI YTD Performance



Source: NGX, AIICO Capital

Mixed Sentiments Across Sector

Sector Performance was generally mixed in the month, albeit with buy impulses and crosses visible across many market bellwethers. The Insurance index advanced 7.9%, spurred by buy interest in NEM. The Consumer Goods and Banking Goods indices followed suit, gaining 4.8% and 2.4% respectively, on the back of sustained buy interest in NESTLE as well as STANBIC, following the announcement of interim dividend payment. On the flipside, the Industrial Goods and Oil & Gas indices declined by 13.8% and 4.3%, respectively.

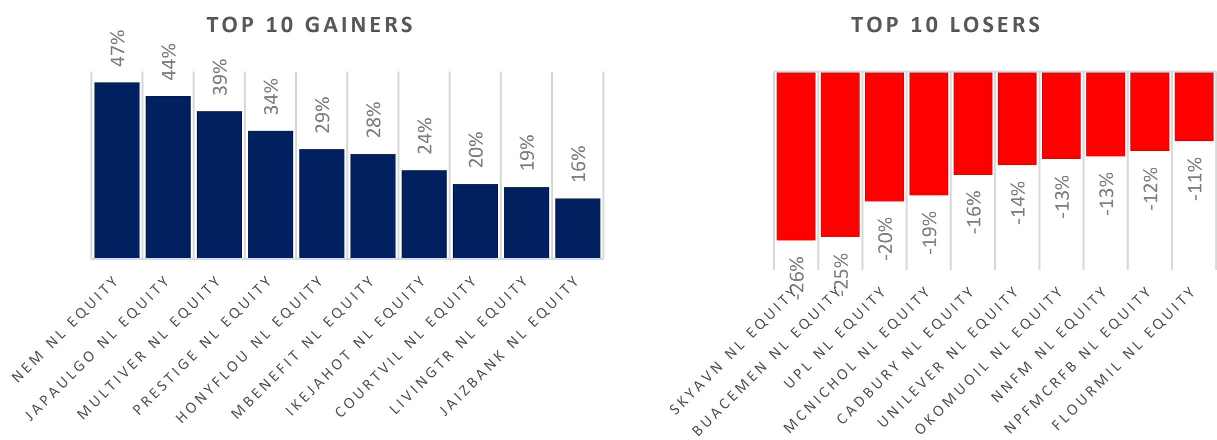
Chart 8 – Sector Performance

	MTD	YTD
NGSEINDX Index	-1.1%	16.7%
NSE Banking Index	2.4%	-4.6%
NSE Insurance Index	7.9%	-9.0%
NSE Industrial Goods Index	-13.8%	-11.5%
NSE Consumer Goods Index	4.8%	1.9%
NSE Oil & Gas Index	-4.3%	54.2%

Source: NGX, AIICO Capital

On a YTD basis, the Oil & Gas and Consumer Goods indices are up 54.2% and 1.9% respectively, while the NSE Industrial, Insurance, and Banking indices were down ca 11.5%, 9.0% and 4.6%. The best performing stocks for the month were NEM and JAPAULGO, while SKYAVN and BUACEMEN topped the laggards list.

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



Source: NGX, AIICO Capital

Outlook for September… Expect the bearish bias to sustain

The bearish sentiment in the domestic equities space is expected to persist in September, as observed in August. However, we anticipate that investors will continue to invest in stocks with a persistent history of dividend yields.