September 2022

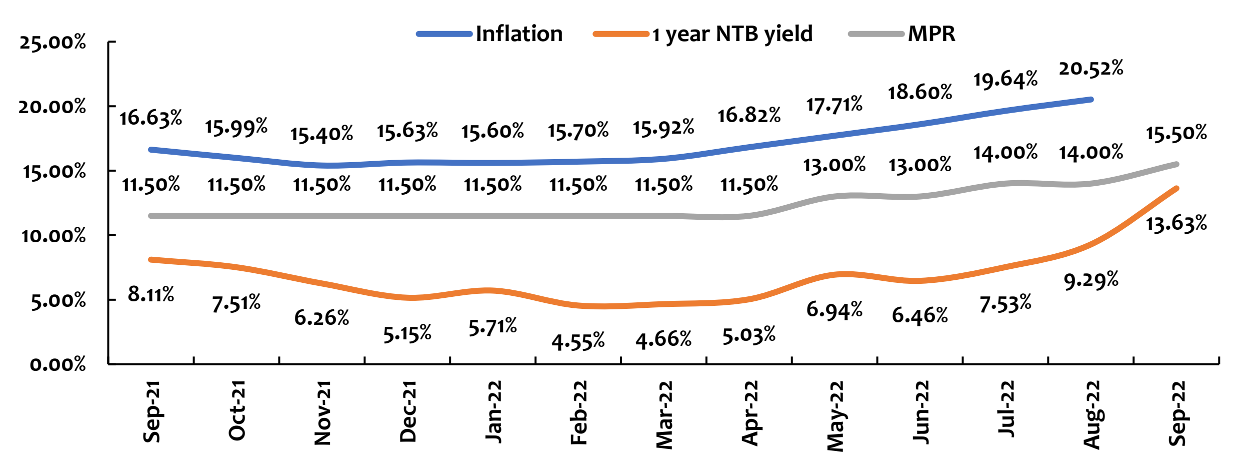
Macroeconomic Review

CBN hikes benchmark interest rate to 15.50% as inflation accelerates to 20.52% in August

At the penultimate Monetary Policy Committee (MPC) meeting for 2022, the Committee voted unanimously to raise the Monetary Policy rate by 150bps to 15.50% and increase the Cash Reserve Ratio (CRR) to a minimum of 32.50%. The Committee considered the spillover effect that supply bottlenecks and global inflationary pressures, despite the aggressive rate hikes by several central banks, would have on advanced and particularly Emerging markets.

The Committee deliberated majorly on the continued uptrend in headline inflation (year-on-year), as it rose to 20.52% in August 2022 and noted that this trajectory is expected to continue in the medium term, driven by legacy structural issues, elevated exchange rate pressures, rising capital flow reversals, in addition to the outlined shocks from the global economy

Chart 1 – MPR, Inflation and 1-year NTB yield



Source: NBS, AIICO Capital

The Monetary Policy Committee thus agreed to tighten policy rate and increase CRR to combat the surging inflation that has subjected investors in the Nigerian economy to negative real returns on their investments.

Outlook: We expect the CBN to maintain their hawkish policy to control inflation, especially with the projected increase in consumer spending and the election season.

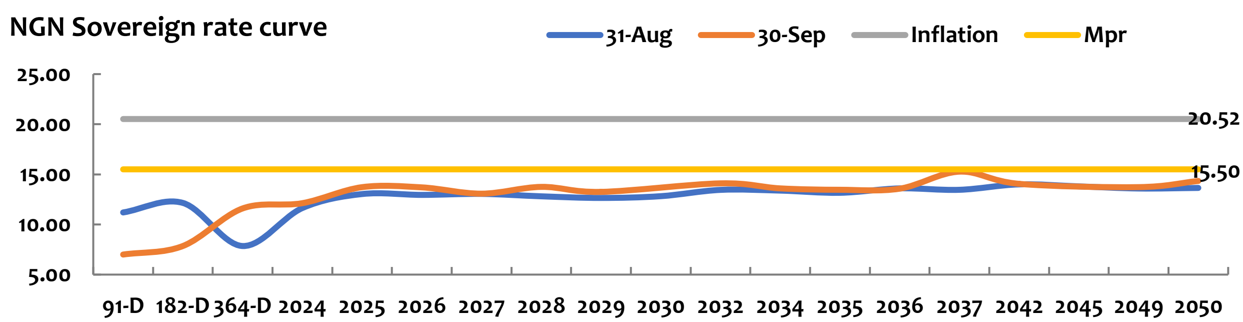
Fixed Income Market Review and Outlook

Overview

Activity in the local fixed income market (Treasury bills and bonds) was mixed overall, as the early buying interest was quelled by the bearish moves of Nigeria's Monetary Policy Committee (MPC) and Debt Management Office (DMO). Monumental interest rate hike to 15.50% and higher stop rates/yields at the primary auctions drove the selloffs across the yield curves.

In the Eurobond space, the hawkish US Fed talks about taming the surging inflationary pressures spurred lower repricing of risk assets across the major African markets. Few investors however saw good value in some of the papers, especially the Ghana papers as it traded around 35% to 40% yield levels.

Chart 2 – Nigerian Sovereign Yield Curve



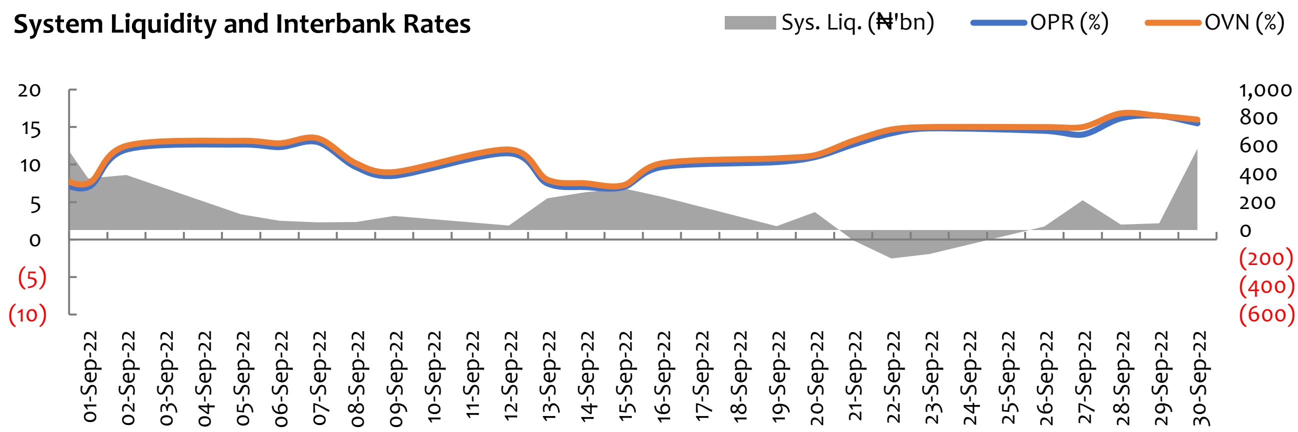
Source: CBN, FMDQ, AIICO Capital

Money Market Review and Outlook – ***Coupon inflows bolstered market liquidity but higher interest rate stifled liquidity by close of month.***

System liquidity was relatively buoyant in September 2022, averaging c.₦129bn, a stark contrast from August's c.₦27bn. This was buoyed by ample coupon inflow of c. ₦360bn and less frequent mop-ups by the CBN. The average Overnight Policy Rate (OPR) and Overnight (ON) rates printed at 11.71% and 12.17% from 13.34% and 13.75% in August respectively.

Post MPC, however, saw overnight rates soar to 16.00% levels as market became short on liquidity, with most banks selling their short-term papers to create liquidity to fund their obligations

Chart 3 – System Liquidity and Interbank Rates



Source: CBN, FMDQ, AIICO Capital

Outlook: We expect the market to be liquid amid expected maturities (OMO- c. ₦100bn; NTB - c. ₦431bn) and bond coupon payments (c. ₦254bn). However, the latest policy decisions should see aggressive mop-ups by the CBN, thus causing average OPR and OVN rates to steady at 14.50% to 16% levels.

T-Bills Market Review and Outlook - **Bullish activity dampened by MPC's latest policy decision.**

The early trading periods of the month were muted, amid weak market sentiment and sustained illiquidity. However, CBN's announcement of an OMO auction (the first since June 2022), where ₦50bn was sold, stirred mixed market reactions with mild activity observed across the long end of the curve.

The market swayed bearish temporarily post NTB auction (the preliminary auction for the month) where stop rates increased across the usual tenors, particularly on the 1-year paper (+150bps to 10%). Nonetheless, liquidity influx from OMO maturities, coupon inflows and FOMO spurred buying interest on the long end of the curve.

Furthermore, demand across the mid to long dated papers intensified after the 1-year paper at the next NTB auction closed c.25bps lower at 9.75%, as coupon inflows drove buying activity. The total subscription for the month was c.₦867bn (the 4th highest in 2022), while c.₦515bn was offered and c.₦553bn was allotted.

The market however closed bearish amid Nigeria's MPC monumental rate hike, increase in stop rates at the final auction for the month and strained market liquidity.

Overall, the average rate declined by c.158bps M-o-M to close at 8.82%, driven by early investors' buying.

Table 1 – Nigerian Treasury Bills (NTB) Auction Result

SEPTEMBER 2022 NTB AUCTION RESULT					
Tenor	Aug'22 Close	Sep'22 Auc 1	Sep'22 Auc 2	Sep'22 Auc 3	Change M-o-M (bps)
91	4.00%	5.50%	5.50%	6.49%	249.00
182	5.00%	5.85%	6.00%	7.50%	250.00
364	**8.50%**	**10.00%**	**9.75%**	**12.00%**	**350.00**

Source: CBN, AIICO Capital

Outlook: Given the weakness in the market based on the MPC's latest monetary policy decision, expected maturities (OMO- c.₦100bn; NTB - c.₦431bn) and late FAAC inflows, we envisage a mixed market in October.

FGN Bonds Market Review and Outlook - Mixed to bearish bias amid MPC's decision and higher stop rates.

The final month in Q3'2022 started off on a mildly bullish note with specific interest witnessed on 2042s and 2050s at c.14.00% and 13.55% respectively but offers were weak to match the bids. The rally on 2042s was exacerbated following the DMO's decision to replace 2042s with a reopening of 2037s in their revised September FGN bond offering.

Broadly speaking, coupon inflows of c.₦360bn drove buying interest across the curve save for the auction papers 2025s, 2032s and 2037s, where sideways interest were recorded amid expected supply. At the auction, the DMO closed the 2037s at 14.50% (50bps higher relative to 2042s closing rate at August's auction) and increased the marginal rates of 2025s and 2032s by 100bps and 34.9bps to 13.50% and 13.849% respectively.

The market traded mixed to bearish post auction with sellers appearing in their droves, as investors sought to offload their winnings in anticipation of an expected rise in yields. Shortly after, activity was muted as players looked forward to the MPC meeting where a 50bps hike was predicted.

The surprise benchmark rate hike by the MPC to 15.50%, ensured the month closed bearish, as yields rose on average 104bps across the curve, with buyers clawing back to their shells and sellers marauding the market. 2037s crossed the 15.00% mark, leaving the auction winners with a bitter pill to swallow, as they were forced to take a major hit on their long exposures.

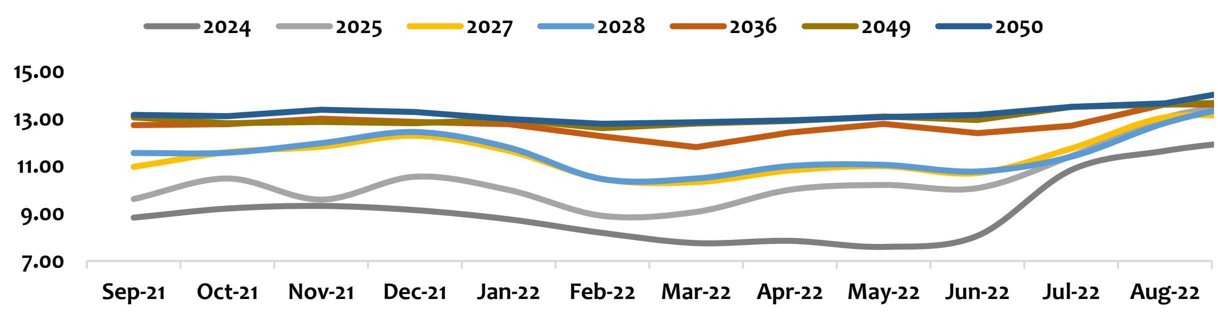
Overall, average yield in the secondary market inched up by 51bps M-o-M to close at 13.70%.

Table 2 – September 2022 FGN Bonds Auction Result

SEPTEMBER 2022 BOND AUCTION RESULT						
Maturity	**Offer (₦'bn)**	**Sub (₦'bn)**	**Allot (₦'bn)**	**Yield**	**Aug'22 Close**	**Change M-o-M (bps)**
23-Mar-25	75.00	43.86	42.36	**13.50%**	**12.50%**	100.00
27-Apr-32	75.00	56.94	47.44	**13.85%**	**13.50%**	34.90
18-Apr-37	75.00	145.64	139.40	**14.50%**		-
	225.00	**246.44**	**229.20**			

Source: DMO, AIICO Capital

Chart 4 – FGN Bond Yield Curve for Selected Maturities



Source: FMDQ, AIICO Capital

<u>Outlook:</u> The FGN bonds market is expected to sustain its bearish momentum despite coupon inflows of c.₦254bn. The Q4'22 auction bonds - 2029s, 2032s and 2037s, should witness the most action, as expectation of increased supply will spur rise in yields.

<u>Eurobond Market</u> - Markets remain jittery amid hawkish US Fed comments

The African Eurobonds space traded mixed tempo, with selling interest observed across Nigeria and Angola Eurobond papers, while few demand were recorded across the belly to long end of the Ghana curve, as some investors take advantage of the cheapness of the curve compared to other African markets.

The US inflation declined Y-o-Y to 8.30% from 8.50% but above the market forecast of 8.10%. Furthermore, the M-o-M readings printing higher than expected (0.1% vs Est. -0.1%) spooked risk assets with most curves (Nigeria, Angola, Ghana, and Egypt) retracing from their highs, amid the growing possibility of the US Feds hiking the benchmark interest rate by 75bps or more at its next meeting.

Investors had mixed reactions to the 75bps rate hike (current high is 3.25%) by the US Feds, there was demand for front-end Nigeria, Ghana, and Angola papers, while selling interests were seen across the long-end Egypt papers.

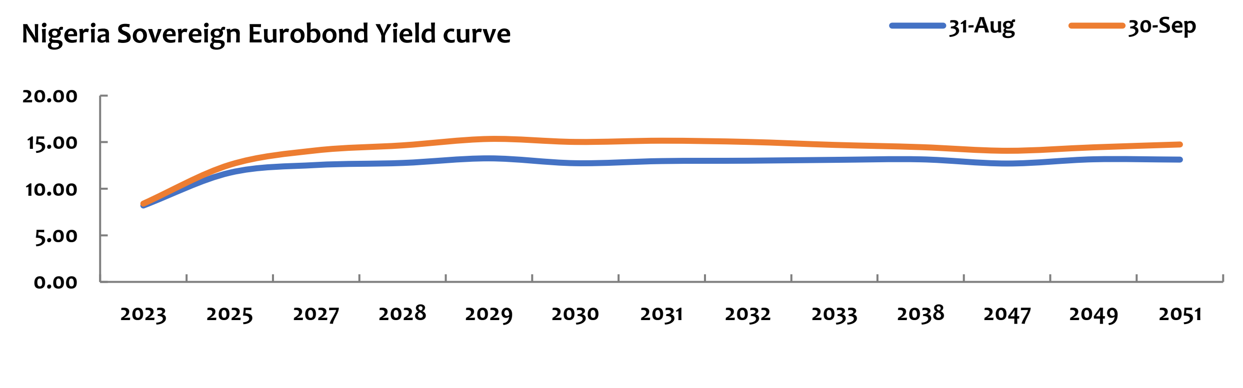
Sentiments remained weak to close the month amid a combination of hawkish US Fed chatters, extended declines in the Stock market, and Ghana/IMF discussions and general global investors' pessimism. Ghana suffered the most beating with short end yields crossing the 40% mark as offshore and local investors continue to selloff their exposures due to weak economic outlook and structural challenges.

Overall, the average mid-yield across Nigeria's Eurobond curve inched up by c.156bps M-o-M to close at 14.06%

Major News:

- *Nigeria's inflation accelerated to 20.52% in August vs 19.64% recorded in July.*
- *OPEC+ meeting where they agreed to cut supply by 100,000bpd in the month of October.*
- *In other news, the US economy added 315,000 jobs in the month of August, above market estimate, however, the unemployment rate rose to 3.7% from 3.5% recorded in July.*
- *The ECB raised their main refinancing rate by 75bps to 1.25% (EST. 1.25%) and Egypt's inflation rate accelerated to 14.60% (the fastest in 4 years).*
- *Ghana's $3bn IMF funding to happen sooner than envisaged.*
- *Ghana's Q2'22 GDP rose to 4.8% (Est. +2.7%) while its producer prices rose 46% y/y in August versus +41.2% in July, according to the Ghana Statistical Service.*
- *Fitch Ratings downgraded Ghana's Long-Term Local- and Foreign-Currency Issuer Default Ratings (IDRs) to 'CC', from 'CCC.*
- *Angola bucked trend and cut interest rates to 19.5% (previous 20.00%) while Nigeria raised its benchmark rate to 15.50% (previous 14.00%).*
- *Kenya's central bank hiked its benchmark interest rate by its largest margin in seven years. The 75bps increase took rates to 8.25%.*

Chart 5 – Sovereign Eurobond Yield Curve



Source: FMDQ, AIICO Capital

Outlook: We expect the markets to remain jittery, with the sell-off in the stock market, volatile currencies, and high bond yields all signaling low investors' confidence.

Foreign Exchange Market Review and Outlook - **FX reserves deplete further; Naira worsens against the dollar**

Despite rising oil prices this year, the Nigerian foreign exchange reserves have continued to deplete by billions of dollars. In September, the Nigerian FX reserve decreased by c.$772 million M-o-M to close at $38.25 billion, amidst sustained intervention by the CBN. The FMDQ Nigerian Autonomous Foreign Exchange Fixing (NAFEX) depreciated by 1.98% M-o-M to settle at ₦437,74/$1.00, from ₦428.91/$1.00 recorded the previous month, while the I&E rate indicated that the greenback remained stable against the dollar at ₦437.57/$1.00. The spread between the official and parallel market rates expanded in September, as it averaged c.₦735/$1.00 as at the time of writing, due to excess demand pressure from manufacturers, exporters, students amongst others.

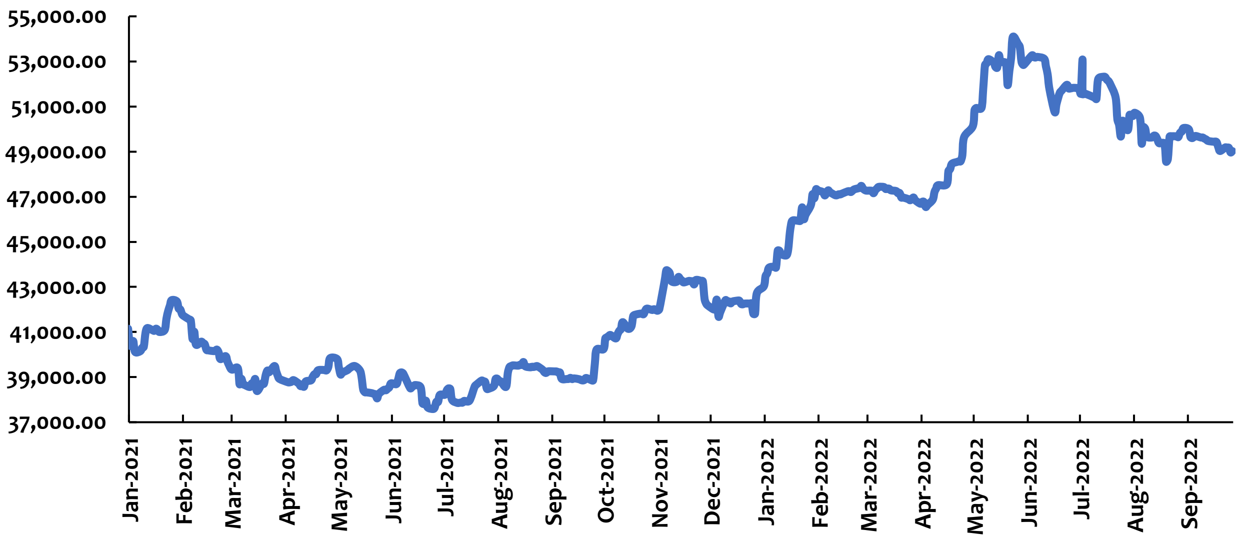
Outlook: We expect further weakening of the Naira against the dollar, amid the persistent structural issues.

Equities Market Review and Outlook

Equities Market Performance in September – **Selloff in the equity market, driven by benchmark rate hike**

The domestic bourse reflected a bearish trend as the NGX All Share Index dipped 1.6% M-o-M to close September at 49,024.16 points, while YTD returns dropped to +14.8%. Market performance mirrored dampened sentiments from investors due to the aggressive move in inflation figures alongside the reaction of the Central Bank of Nigeria (CBN) to combat inflationary pressures which have allowed for an aggregated 400bps hike in the monetary policy rate (MPR) this year. Most of the local investors have been steered to the fixed income markets, to source more attractive rates. Consequently, the NGX All Share Index fell 1.6% M-o-M to close at 49,024.16 points, while YTD returns reduced to +14.8%.

Chart 6 – NGX ASI YTD Performance



Source: NGX, AIICO Capital

Bearish Sentiments Across Sectors

Sector Performance was largely bearish in the month of September, with all indices trending southwards. The Insurance index took the biggest hit, declining by 6.5% M-o-M, on the back of losses recorded in LINKASSU (-9.6%), SUNUASSU (-8.6%) and WAPIC (-7.9%) as investors continue to selloffs on their holdings. The Oil & Gas index also followed suit, losing 4.5% M-o-M on the back of sell pressure on TOTAL (-10.0%). Similarly, the Consumer, Banking, and Industrial goods indices lost c. 2.6%, 2.1%, and 0.2%, respectively.

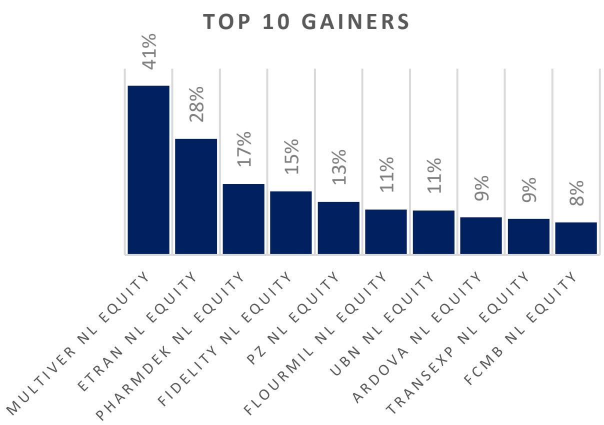
Chart 7 – Sector Performance

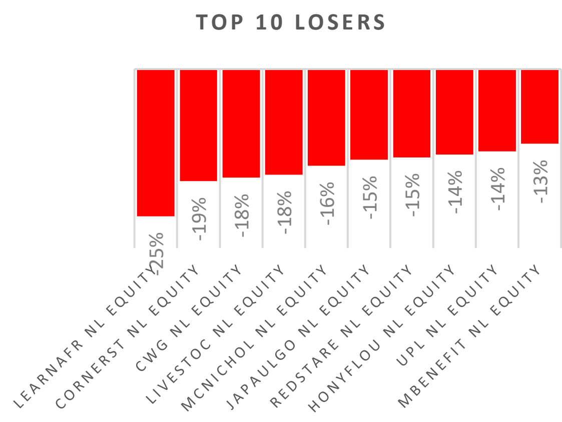
	MTD	YTD
NGSEINDX Index	-1.6%	14.8%
NSE Banking Index	-2.1%	-6.6%
NSE Insurance Index	-6.5%	-14.9%
NSE Industrial Goods Index	-0.2%	-11.7%
NSE Consumer Goods Index	-2.6%	-0.8%
NSE Oil & Gas Index	-4.5%	47.3%

Source: NGX, AIICO Capital

The Oil & Gas index remain the only advancers YTD, with a positive return of 47.3% while the Insurance, Industrial Goods, Banking, and Consumer Goods indices have a total YTD loss of 14.9%, 11.7%, 6.6%, and 0.8% respectively. The best performing stocks in the month were MULTIVER, ETRAN, and PHARMDEK while LEARNAFR, CORNERST, and CWG topped the laggards list.

Chart 8 – Top 10 Gainers and Top 10 Losers in September





Source: NSE, AIICO Capital

Outlook for October… Bearish Sentiments to Persist

In October, we anticipate market activities to be relatively bearish, albeit on a softer note. However, given inflationary pressures and the CBN's hawkish attitude on rates, we do not rule out the possibility of local investors deliberately seeking alternative investment options.