November 2022

Macroeconomic Review

Q3:2022 growth numbers for Nigeria and sustained hawkish CBN amid mounting inflationary pressures

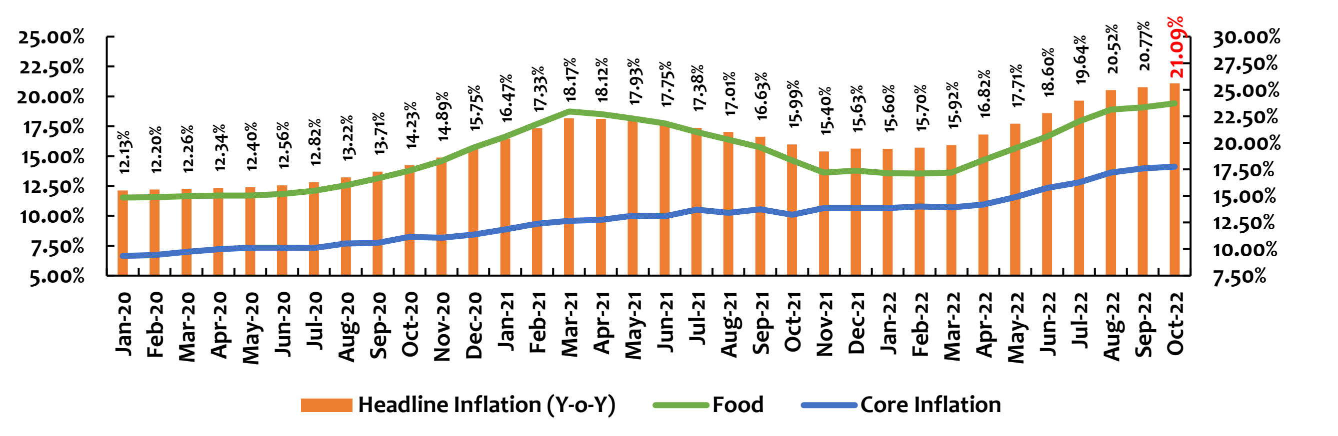
The Nigerian economy grew by 2.25% Y-o-Y (Est. 2.90%) in the third quarter of 2022 (vs 3.54% and 4.03% recorded in Q2:2022 and Q3:2021 respectively), as reported by the NBS. This represents the eighth quarter of growth but at the slowest rate since Q1:2021, attributable to the base effect of the recession and the challenging economic conditions that have hampered productive activities. However, real GDP grew at 9.68% Q-o-Q in Q3:2022, reflecting a higher economic activity in Q3:2022 than the preceding quarter. The Oil & Non-Oil Sectors grew by -22.67% and 4.27% respectively in real terms, resulting in a contribution of 5.66% and 94.34% by the Oil & Non-Oil Sectors respectively.

On the one hand, headline inflation rose for the ninth consecutive month to 21.09% Y-o-Y in October, an increase of c.32bps and c.509bps from 20.77% recorded in September and 15.99% recorded in October 2021 respectively, as reported by the National Bureau of Statistics. However, headline inflation recorded its third consecutive decline to 1.24% M-o-M (vs. 1.36% recorded in September), an indication that inflation might be responding to the consecutively aggressive rate hikes by the Monetary Policy Committee.

Food Inflation increased to 23.72% Y-o-Y (vs. 23.34% and 18.34 % recorded in September 2022 and October 2021 respectively), while the index declined by 0.20% M-o-M from the previous month to 1.23% in October. Core Inflation printed at 17.76% Y-o-Y (vs 17.60% and 13.24% observed in September 2022 and October 2021 respectively), while it lost c.66bps to print at 0.93% M-o-M.

Consequently, at the final MPC meeting for the year 2022, the Monetary Policy Committee voted to raise the MPR by 100bps to 16.50% while holding all other parameters constant. The Committee's choice to maintain a hawkish position, was based on the rationale that a loosening or hold stance at a period close to the festive season and the expected heavy spending during the 2023 general election at a time of high inflation, would greatly jeopardize the gains of the previous policy rates hikes and plunge the economy deeper into the inflation hole.

Chart 1 – Headline Inflation, Food Inflation and Core Inflation



Source: NBS, AIICO Capital

Outlook:

Heavy spending for the festive period & upcoming election, lingering insecurity issues in food producing states and persistent currency weakness is expected to elevate the pressure on prices of food and commodities as the festive season approaches.

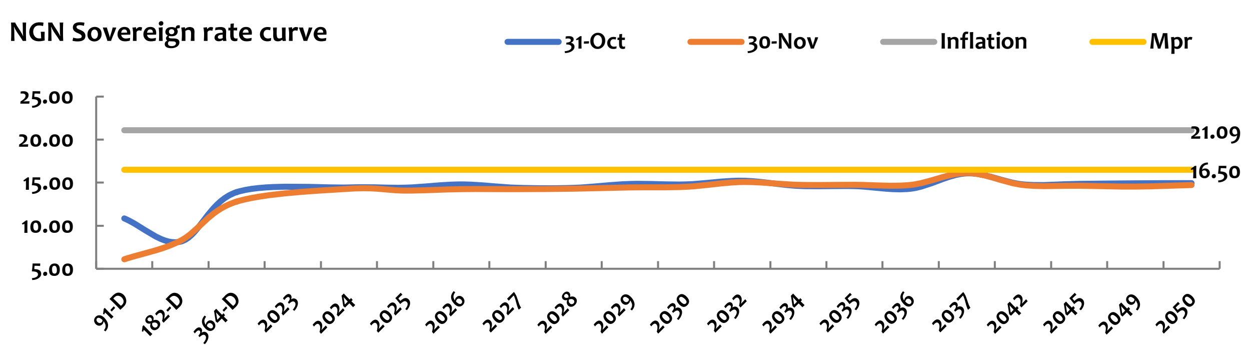
Fixed Income Market Review and Outlook

Overview

The local fixed income market witnessed a bullish theme in November, amid aggressive deposit money banks' interest in short-dated papers driven by FAAC inflows, CBN Special bills maturities, and significant interest from pension houses, insurance companies and asset managers on the high yielding FGN bond securities.

The Eurobond market also observed a bullish market with extended period of rally across the major African markets, driven by lower-than-expected US CPI and a soft-toned US Fed. However, there were few instances of sell-offs, spurred by unrest in China amid Covid-19 restrictions and country-specific issues (most especially Ghana).

Chart 2 – Nigerian Sovereign Yield Curve

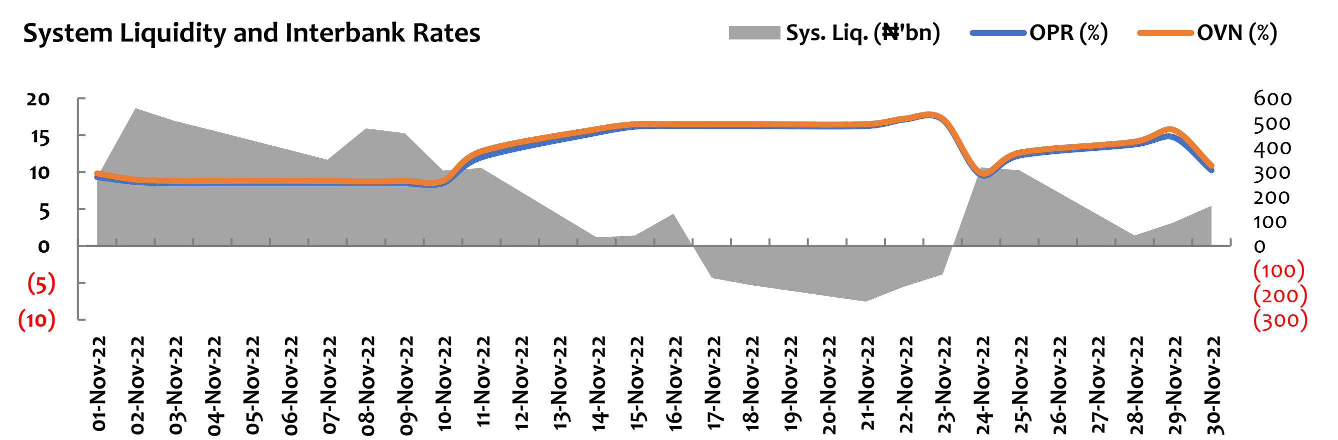


Source: CBN, FMDQ, AIICO Capital

Money Market Review and Outlook – ***Relatively buoyant market and lower interbank rates despite an increase in MPR***

System liquidity in November was significantly higher compared to October, which is quite a surprise, given our postulations as at the end of last month. At an average liquidity of ₦185.05bn (vs -₦12.46bn in Oct'22), and significant reduction in the average Overnight Policy Rate (OPR) and Overnight (ON) rates to 12.38% and 12.76% from 16.08% and 16.47% in Oct'22 respectively, we observed that late October FAAC inflows in the early period of November, less frequent CBN's discretionary CRR debits, OMO and CBN Special bills maturities were the major drivers of the relatively buoyant money market. However, the occasional interbank rate spikes were mostly caused by the initial reaction to the increase in benchmark interest rate to 16.50% (+100bps) by the MPC at its November meeting (the last for 2022), the bi-weekly Retail FX SMIS and CRR debits.

Chart 3 – System Liquidity and Interbank Rates



Source: CBN, FMDQ, AIICO Capital

Outlook: We expect the money market to be relatively liquid amid expected maturities (OMO- c. ₦35bn; NTB - c. ₦135bn; FGN bond Dec 2022 - c. ₦10bn), bond coupon and Sukuk rental payments (c. ₦33bn), thus, average OPR and OVN rates should steady at c.12% levels.

T-Bills Market Review and Outlook - ***Bullish market spurred by surfeit liquidity and aggressive demand by banks***

Activity in the treasury bills market was overall bullish, as late October FAAC inflows in the early period of November drove significant demand across the mid and long dated papers by banks and asset managers. In addition, the preliminary NTB auction for the month reflected a bullish theme particularly on the 364-day paper, thus causing the DMO/CBN to close the stop rate for the 1-year paper at c.51bps lower relative to October's close.

There was however a period of muted activity in the market, with investors staying on the sidelines ahead of the final MPC meeting in 2022, where a potential hike in key interest rate was envisaged given that October's CPI printed at 21.09% (+32bps).

With MPR increasing to 16.50%, the expectation of a bearish NTB auction was abortive, as it was oversubscribed amid surfeit liquidity and banks not wanting to lose their funds to potential CRR debits. The DMO however increased the stop rate for the 1-year paper by 85bps to reflect the recent key interest hike but maintained the rates for the 91- and 182-day papers. The total subscription for the month was c.₦881bn (3rd highest in 2022), while c.₦406bn was offered and c.₦523bn was allotted, as the DMO continue to borrow to shore up the widening deficit, albeit at a controlled cost.

Most of the activity was skewed to CBN Special bills (November and December 2022, March and May 2023), February OMO bills and NTBs (April, October and November 2023 papers).

Overall, the average rate dropped by c.192bps M-o-M to close at 9.05%.

Table 1 – Nigerian Treasury Bills (NTB) Auction Result

NOVEMBER 2022 NTB AUCTION RESULT				
Tenor	**Oct'22 Close**	**Nov'22 Auc 1**	**Nov'22 Auc 2**	**Change M-o-M (bps)**
91	6.50%	6.50%	6.50%	0.00
182	8.05%	8.05%	8.05%	0.00
364	**14.50%**	**13.99%**	**14.84%**	34.00

Source: CBN, AIICO Capital

Outlook: The treasury bills market is expected to trade mixed sentiments, albeit with a cautious bullish undertone due to year-end. We expect FAAC inflows to drive most of the buyside activity.

FGN Bonds Market Review and Outlook - *Mixed to bullish market, amid elevated interest from large ticket players*

The early period of the month witnessed a muted theme, with pockets of trades recorded across select maturities (2032s and 2037s), mostly sideways interests amid weak coupon flows (c.₦22bn).

As the month progressed, the market eased to a bullish theme with large ticket interests from Pension houses, some Insurance companies and Asset managers, recorded across 2026s, 2029s, 2032s, 2037s, 2049s and 2050s, however offers were scanty, thus causing a significant drop in yields on these papers.

Building up to the FGN bond auction, the market traded mixed sentiments with sideways interests recorded across the on-the-run papers (2029s, 2032s and 2037s). However, as the auction date drew close, it became increasingly clear that the auction would be oversubscribed on the 2037s, as Pension houses looked to participate after a brief hiatus from the primary window, given the relatively high yield and coupon. Expectedly, at the auction, the 2037s was oversubscribed, with the DMO taking advantage of the heavy demand by allotting almost 3 times the offer. The DMO also increased the stop rates for the 2029s, 2032s and 2037s to 14.75%, 15.20% and 16.20% respectively.

Post auction market sessions were mixed to bullish amid profit taking and covering of lost auction bids. 2026s, 2032s and 2037s recorded the most interest to close the month.

The DMO also offered ₦100bn (sold ₦130bn) of a 10-Year Ijarah Sukuk bond due December 2032 at a rental rate of 15.64% per annum.

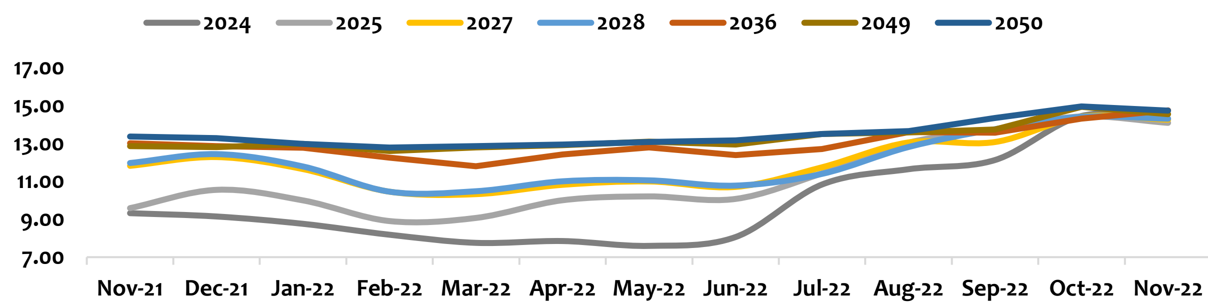
Overall, average mid-yield in the secondary market declined by 14bps M-o-M to close at 14.64%.

Table 2 – October 2022 FGN Bonds Auction Result

NOVEMBER 2022 BOND AUCTION RESULT						
Maturity	**Offer (₦'bn)**	**Sub (₦'bn)**	**Allot (₦'bn)**	**Yield**	**Oct'22 Close**	**Change M-o-M (bps)**
26-Apr-29	75.00	39.45	25.13	**14.75%**	**14.50%**	25.00
27-Apr-32	75.00	34.82	27.12	**15.20%**	**15.00%**	20.00
18-Apr-37	75.00	269.73	216.91	**16.20%**	**16.00%**	20.00
	225.00	**344.01**	**269.15**			

Source: DMO, AIICO Capital

Chart 4 – FGN Bond Yield Curve for Selected Maturities



Source: FMDQ, AIICO Capital

<u>**Outlook:**</u> Year-end preparation, weak bond coupon and maturity (Dec 2022), are expected to cause a relatively muted market.

<u>Eurobond Market</u> - ***Bullish market amid lower than expected US CPI and less hawkish Fed chatters***

The Eurobond space remained frail to start the month with few interests recorded across the African sovereign papers. Ghana, Nigeria, and Angola all witnessed positive sentiments with prices appreciating on average 1.5pts, with the former getting some comfort from the recent encouraging speech by the Ghanaian President, Nana Akufo-Addo that external debt holders will not incur losses on their holdings.

The US FOMC meeting took center stage a couple of days later, where a 4th consecutive 75bps rate hike was envisaged amid higher-than-expected JOLTS data. Expectedly, the 75bps hike was delivered, more importantly, the Fed chair Powell dismissed any glimmer of hope of a dovish Fed, after indicating the hike would persist to higher levels than previously anticipated albeit at a slower pace. The markets traded mixed sentiments afterwards with sideways interest recorded across the major SSAs sovereign papers.

However, a full-fledged bullish market ensued following the lower than anticipated October US CPI (7.7% vs 8.20% in September), making it unlikely that the Feds will hike by 75bps in its last FOMC meeting for the year (Dec 14). The Eurobond space enjoyed an extended period of rally across the major SSAs and MENAs (Nigeria, Ghana, Angola, and Egypt) with an average price increase of more than $3.

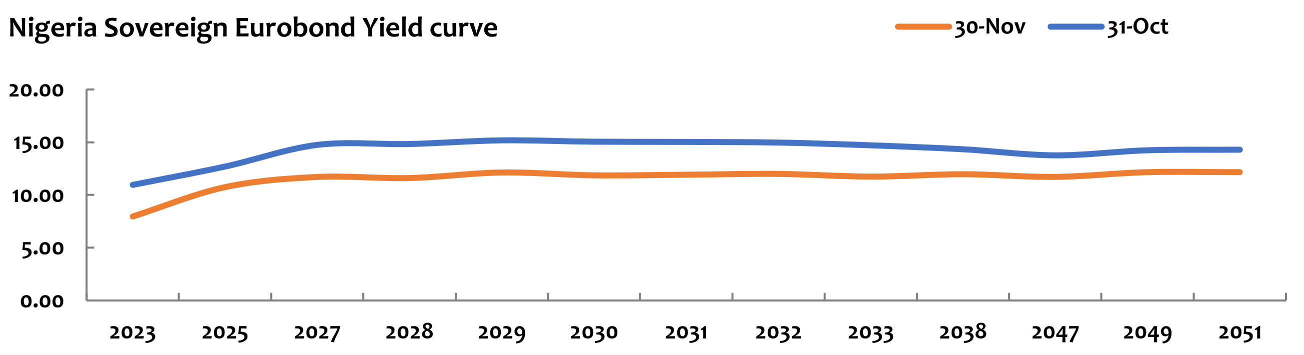
The overall theme for the month was bullish, albeit there were occasional weaknesses driven by lower equities trading, China's Covid-19 restrictions and push-back from its citizens, Ghana's lower credit rating and their proposed decision to seek a haircut on foreign bonds after President Nana Akufo-Addo recently opined that the IMF bailout talks would not result in losses for holders of external debt.

Overall, the average mid-yield across Nigeria's Eurobond curve dipped c.270bps M-o-M to close at 11.51%.

Major News:

- *The Bank of England voted by a majority of 7 - 2 to raise interest rates by 75 bps to 3% during its November meeting, the largest rate hike since 1989, increasing the cost of borrowing to the highest level since late 2008.*
- *The US Nonfarm payrolls grew by 261,000 in October, better than the estimate for 205,000, with the unemployment rate moving higher to 3.7%, while a broader jobless measure also increased to 6.8%.*
- *Fitch revised Egypt's outlook to negative; affirmed their rating at B+.*
- *Ghana's October consumer prices rose to 40.4% Y-o-Y (Est. 39.5%) from 37.20% in September.*
- *Kenyan dollar bonds surged after the government took a step toward securing $433 million from the International Monetary Fund (IMF).*
- *Kenya's FX reserves dropped to seven-year lows breaching four months import cover.*
- *S&P affirmed Angola at B- (outlook stable).*
- *Ghana's gross reserves fell to 2.9 months import cover $6.67bn (compared to Angola reserves $13.4bn, 7 months import cover) and increased its benchmark interest rate by 250bps to 27%; Est. 26.25%.*

Chart 5 – Sovereign Eurobond Yield Curve



Outlook: The recently released higher-than-expected non-farm payrolls report (263k vs Est. 200k) poses a significant threat to a pre-planned 50bps or lower rate increase in Dec 14, as the report suggests there is more room for a sustained 75bps hike to cool off the jobs market. It also signals that there is no recession in sight and the Feds can continue with the aggressive tightening stance. Risk assets across the SSAs and MENAs may witness lower prices, as US Treasury yields continue to soar higher. All eyes will be on Ghana for updates on their ongoing discussions with IMF.

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

Nigeria's foreign exchange reserves continued to decline significantly in November, as the Nigerian FX reserve lost c.$274 million M-o-M to close at $37.11 billion, amidst sustained intervention by the CBN. The Central Bank of Nigeria (CBN) interventions in foreign exchange market reached $12.74billion in eight months of 2022, as reported by CBN economic reports, albeit lower by 13.60% from the same period in 2021.

The FMDQ Nigerian Autonomous Foreign Exchange Fixing (NAFEX) depreciated by 0.52% M-o-M to settle at ₦445.30/$1.00, from ₦443.00/$1.00 recorded the previous month, while the I&E rate indicated that the greenback remained stable against the dollar at ₦445.00/$1.00. The spread between the official and parallel market rates continued to expand in November, averaging c.₦775/$1.00.

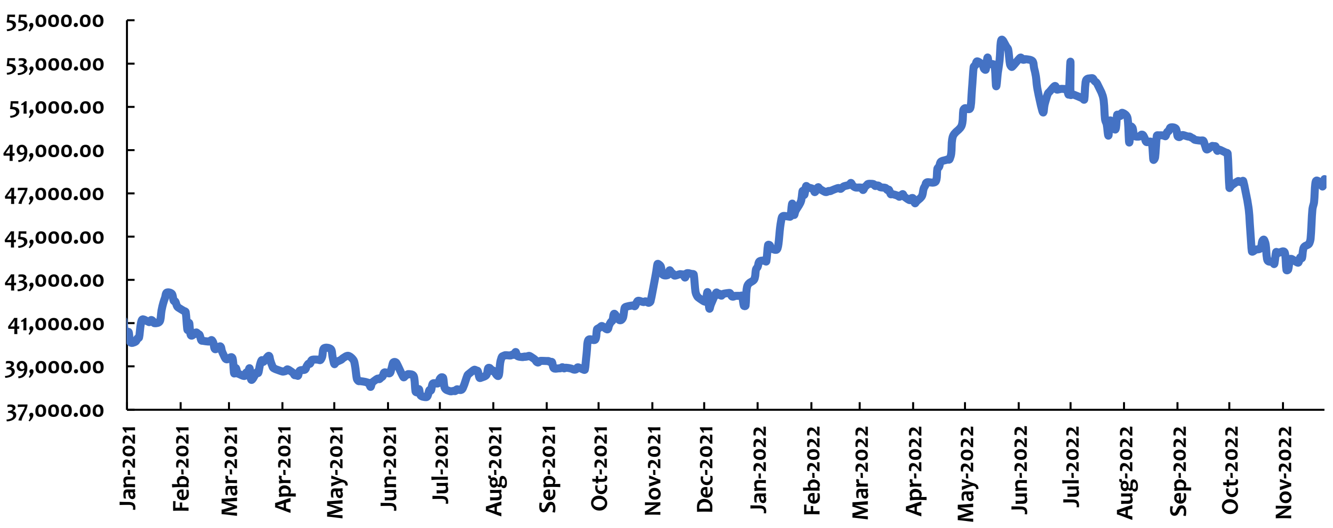
Outlook: We expect further weakening of the Naira against the dollar as the festive period approaches, amid election spending and persistent structural issues.

Equities Market Review and Outlook

<u>Equities Market Performance in November</u> – Curveball on Index Performance

In line with the historical trend seen in the fourth quarter of the year, we saw a largely positive performance at the domestic bourse as investors rebalanced their portfolios to close the year. Overall, this propelled a bullish record as opposed to market performance in the last four months, where a southward trajectory was witnessed. The NGX All-Share Index gained 8.7% M-o-M to close November at 47,660.04 points, while YTD returns extended to +11.6%. Market breadth, a measure of investor sentiment, was positive, settling at 1.1x as 45 stocks advanced while 42 declined.

Chart 6 – NGX ASI YTD Performance



Source: NSE, AIICO Capital

Mixed Performance Across Sectors

The performance observed across the sectors were mixed, with positive records in three (3) out of five (5) sectors. The NGX industrial index appreciated the most due to price appreciation in DANGCEM (+19.0%). Similarly, the NGX Banking and Insurance indices gained 5.8% and 3.6% M-o-M following gains in FBNH (13.7%), GTCO (13.6%), and NEM (12.5%), respectively. The NGX Industrial Index closed out with a bullish performance, gaining 13.2% M-o-M. The NGX Oil & Gas took the biggest hit, declining by 8.1% M-o-M. The NGX Consumer Goods index also followed suit, losing 4.5% M-o-M on the back of sell pressure on GUINNESS (-24.0%) and NESTLE (-20.7%), respectively.\

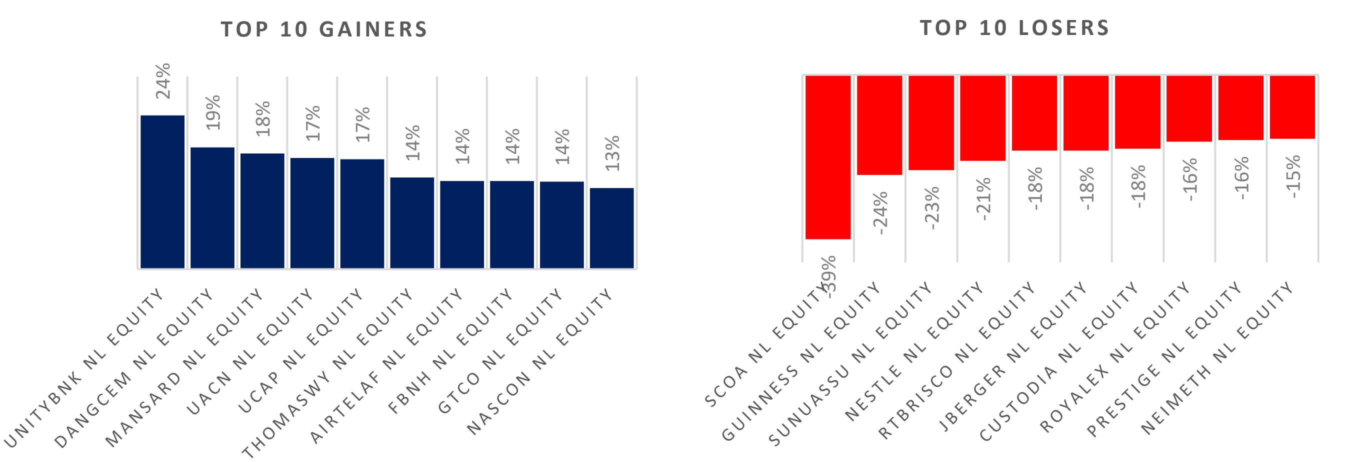
Table 3 – Sector Performance

	MTD	YTD
NGX ASI Index	8.7%	11.6%
NGX Banking Index	5.8%	-2.3%
NGX Insurance Index	3.6%	-16.5%
NGX Industrial Goods Index	13.2%	6.4%
NGX Consumer Goods Index	-4.5%	-8.0%
NGX Oil & Gas Index	-8.1%	28.4%

Source: NSE, AIICO Capital

The Oil & Gas and Industrial indices were the only advancers YTD, with a positive return of 28.4% and 6.4%, respectively while the Insurance, Consumer Goods, and Banking indices have a total YTD loss of 16.5%, 8.0%, and 2.3% respectively. The best performing stocks in the month were UNITYBNK, DANGCEM, and MANSARD while SCOA, GUINNESS, and SUNUASSU topped the laggards list.

Chart 7 – Top 10 Gainers and Top 10 Losers in September



Source: NSE, AIICO Capital

Outlook for December

We anticipate that investors will continue to take advantage of the lower prices in December. Furthermore, we expect renewed buy activity in the later periods of the month as investors get bullish ahead of FY:2022 results releases in expectation of dividend payments. Nonetheless, we do not rule out the possibility of profit-taking activities after rounds of bargain hunting.