December 2022

Macroeconomic Review

Inflation continues to blow hot in the Nigerian Economy, dampens yuletide celebrations

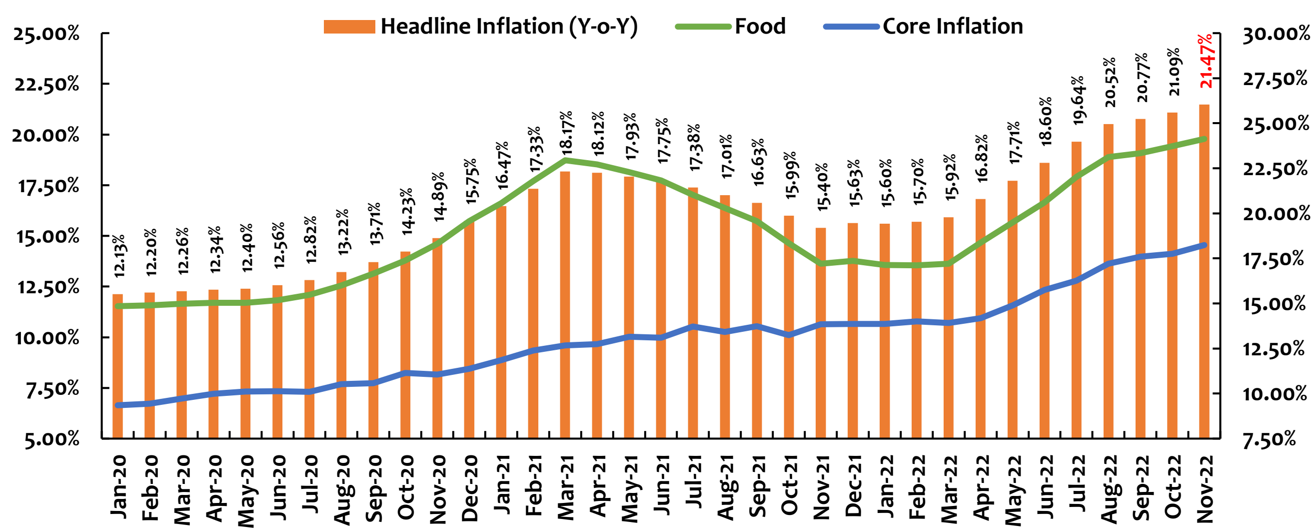
Nigeria's inflation for November 2022 quickened to 21.47% Y-o-Y (Est. +21.30%), an increase of c.0.38% from 21.09% Y-o-Y recorded in October 2022. In addition, the headline inflation grew at 1.39% M-o-M in November 2022 vs 1.24% recorded in October 2022.

Food inflation expanded to 24.13% from 23.72% recorded in October 2022 while core inflation, which strips out the cost of food and energy, quickened to 18.24% in November, compared with 17.76% in October 2022.

Amid the Yuletide celebrations, most Nigerians had to ration their spending due to high consumer costs across the country. The basic needs have become very expensive, from energy costs to transportation, food, clothes, etc.

According to data from the National Bureau of Statistics (NBS), inflation rose steadily throughout the year, from 15.6% in January to 21.5% in November. Based on antecedents, December's inflation is projected to hit 21.80%, due to the escalated spending nationwide.

Chart 1 – Headline Inflation, Food Inflation and Core Inflation



Source: NBS, AIICO Capital

Outlook:

The persistent rise in energy (fuel) costs, nationwide flooding that has disrupted food supply chains and increases in the cost of imports caused by currency depreciation will continue to mount pressure on the prices of commodities in the coming months.

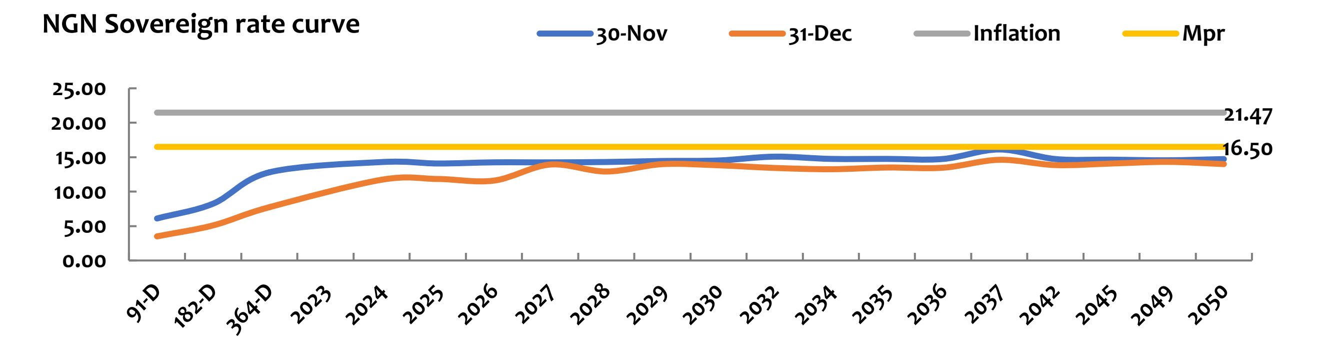
Fixed Income Market Review and Outlook

Overview

There was significant demand for short-dated securities in the local fixed income space, due to ample system liquidity. The longer dated papers (bonds) also traded bullish, as idle cash from big ticket players needed to be reinvested before the close of the year, short coverings also aided the bullish bias.

The Eurobond space was mixed to bullish, amid central banks' rate decisions and mixed signals from China's Covid-19 protocols. The most important event in December was Ghana's decision to suspend payments on some of their foreign obligations. This sparked a chaotic mood amongst investors, with a group of international bond holders forming a committee to address the issue.

Chart 2 – Nigerian Sovereign Yield Curve

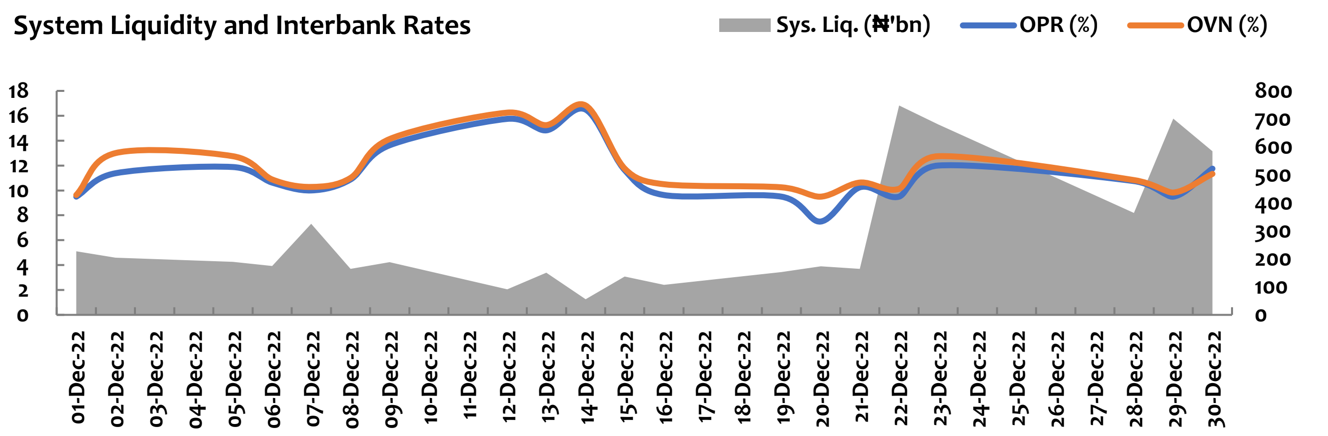


Source: CBN, FMDQ, AIICO Capital

Money Market Review and Outlook – *Ample system liquidity to close the year*

The year closed in a buoyant state, as higher than expected FAAC inflows (₦902bn), CBN Special bill maturities, FX swap maturities, FGN bond maturity and less frequent mop-ups by the CBN, ensured system liquidity hovered around positive territory all through Dec'22. Average liquidity during the month was ₦279.18bn (vs ₦185.05bn in Nov'22), and there was a decline in the average Overnight Policy Rate (OPR) and Overnight (ON) rates to 11.35% and 11.88% from 12.38% and 12.76% in Nov'22.

Chart 3 – System Liquidity and Interbank Rates



Source: CBN, FMDQ, AIICO Capital

<u>Outlook:</u> We expect the money market to remain liquid for most part of Jan'23 amid expected maturities (OMO- c. ₦60bn; NTB - c. ₦277bn), bond coupon (c. ₦256bn), thus, average OPR and OVN rates should steady at c.10% levels.

<u>T-Bills Market Review and Outlook</u> - ***Buyside interest dominate market activity amid surfeit liquidity.***

Following the release of Q1 2023 Nigerian Treasury Bills issuance calendar, the pulse in the secondary market swayed to a muted theme briefly, as investors tried to analyze the information. However, with heavy inflows hitting the system from maturities (FX swap and CBN Special bill), market players (especially banks and institutional clients) had no choice than to deploy the excess liquidity to available outlets. The demand was mostly skewed to long dated bills, as it was trading at double digits (c.13.20%).

The bullish theme intensified as FAAC credits hit the system, as banks now had to channel their funds to OMO, CBN Special bills and NTBs or risk losing it to CRR at 0%. Thus, rates declined across the curve causing the year to end at single digit return on 1-year bills.

To buttress, the NTB auctions (3) during month were bullish with heavy subscriptions recorded, and the DMO/CBN's allotment were not sufficient to cover the huge demand. The total subscription for the month was c.₦1.53trn (Highest in 2022), while c.₦135bn was offered and c.₦185bn was allotted (2nd lowest in 2022).

Overall, the average rate dropped by c.361bps M-o-M to close at 5.44%.

Table 1 – Nigerian Treasury Bills (NTB) Auction Result

	DECEMBER 2022 NTB AUCTION RESULT				
Tenor	Nov'22 Close	Dec'22 Auction 1	Dec'22 Auction 2	Dec'22 Auction 3	Change M-o-M (bps)
91	6.50%	6.49%	5.50%	2.74%	(376.00)
182	8.05%	8.00%	7.30%	7.15%	(90.00)
364	**14.84%**	**13.05%**	**9.89%**	**8.49%**	**(635.00)**

Source: CBN, AIICO Capital

Outlook: The theme in the treasury bills market is expected to be bullish, as the market is still awash with liquidity, thus making it a classic case of too much cash chasing too few securities. We anticipate the rates across the long end bills to drop below 7% discount.

FGN Bonds Market Review and Outlook - ***Mixed theme amid year-end position covering and profit taking.***

Activity in the FGN bonds space was bullish at the start of the month, amid fears that the longest on-the-run paper (2037s) may not be reissued at December's FGN bond auction. Surrounding tenors also witnessed buyside interest from Pension houses, Insurance companies and Asset managers who are big on long dated securities.

The bullish sentiment lingered for most part of the month with investors extending their buying scope to short-dated bond securities (2024s to 2028s) amid significant decline in treasury bills' rates. Though the 2037s was reopened at December's FGN bond auction, the auction was still oversubscribed, as idle cash and players with short positions crowded the auction.

The DMO took advantage of the heavy demand by reducing the stop rates for the 2029s, 2032s and 2037s to 14.60%, 14.75% and 15.80% respectively.

Post auction market sessions were mixed to bullish amid profit taking and covering of lost auction bids.

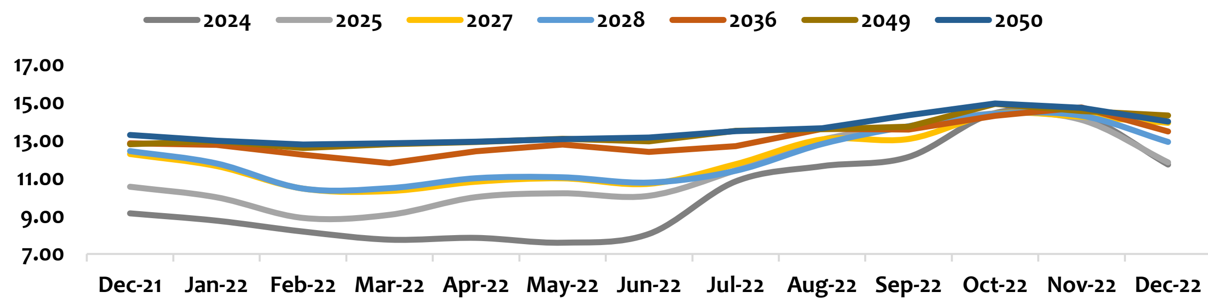
Overall, average mid-yield in the secondary market declined by 124bps M-o-M to close at 13.40%.

Table 2 – October 2022 FGN Bonds Auction Result

DECEMBER 2022 BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Yield	Nov'22 Close	Change M-o-M (bps)
26-Apr-29	75.00	48.85	45.45	**14.60%**	**14.75%**	(15.00)
27-Apr-32	75.00	109.41	40.42	**14.75%**	**15.20%**	(45.00)
18-Apr-37	75.00	373.95	178.65	**15.80%**	**16.20%**	(40.00)
	225.00	**532.20**	**264.52**			

Source: DMO, AIICO Capital

Chart 4 – FGN Bond Yield Curve for Selected Maturities



Source: FMDQ, AIICO Capital

<u>Outlook:</u> We anticipate a quiet start to the year, albeit the underlying theme will be bullish amid buoyant system liquidity

<u>Eurobond Market</u> - Mixed market sentiments amid Central banks' interest rate decisions and Ghana's economic woes

It was a bullish start to the month, fueled by the Fed Chair Powell's dovish speech on interest rate trajectory and optimism over the potential reopening of the Chinese economy. Risk on sentiments dominated the African space leading to an average price appreciation of c.2pts across the curves, as market players liked the signaling of a reduction in the pace of rate hikes, although peak rates seemed to be 'somewhat higher' than earlier projected.

As the month progressed, the market slipped to bearish mode following a higher-than-expected non-farm payrolls report (263k vs Est. 200k), US PPI (7.4% vs Est. 7.20%) and strong U.S. Services data. However, following a staff level agreement reached between Ghana and the IMF, and the commencement of talks with bilateral lenders and foreign investors, the Ghana curve recorded a bull run. The SSAs and MENAs then experienced an appreciation in prices amid the lower-than-expected US CPI reading (7.10% vs 7.30%).

The Eurobond space then traded mixed to bearish, following the expected 50bps hike by the US Fed at its December meeting. Despite the anticipated hike, the Fed chair Powell indicated that the rate pivot is still a long way to go albeit at a slower pace, thus causing the market to reverse some of the earlier gains recorded, with key African papers trading lower.

The highlight of the month was Ghana's announcement of its suspension of payments on Eurobonds, Commercial term loans and most of their bilateral debts. Thus, causing the prices across Ghana's Eurobond curve to decline by more than 7pts, as investors tried to digest the news and evaluate their losses. A group of international holders subsequently formed a creditor committee to address the ongoing issue, with material update to be provided in due course.

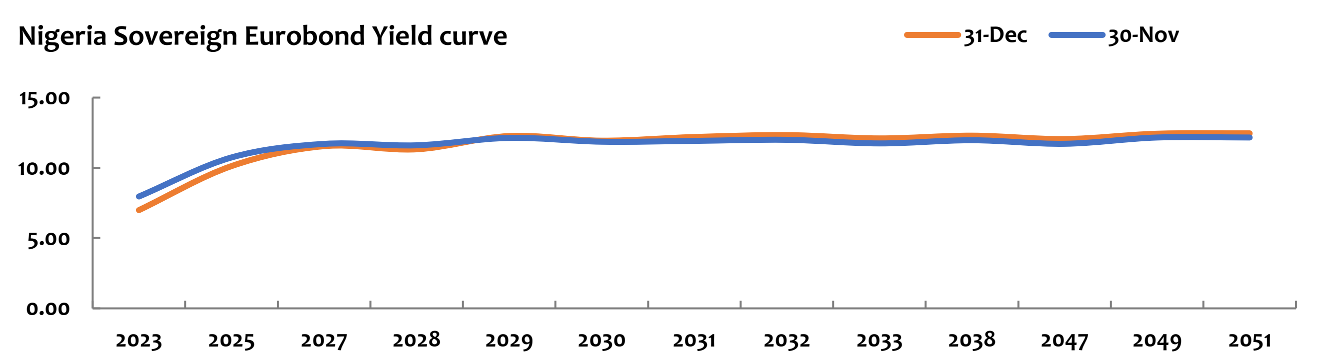
As the yuletide season approached, most markets and institutional investors paused from active trading, causing a lull Eurobonds market. Ghana however continued to witness demand from risk players given its extreme cheapness relative to other SSAs.

Overall, the average mid-yield across Nigeria's Eurobond curve increased by c.3bps M-o-M to close at 11.54%.

Other notable information:

- *Kenya inflation slows to 9.5%.*
- *Ghana intends to swap local debt (Treasury bills not inclusive) for new 2027, 2029 2032 and 2037 bonds in restructuring deal, with no haircut on principals.*
- *Ghana's local debt score was cut to 'selective default' by S&P amidst debt exchange plan, outlook negative.*
- *Kenya seeks $750m funding from World Bank as part of planned external borrowing.*
- *Angola cabinet approved the $39.5bn 2023 budget.*
- *The economy of Ghana advanced by 2.9% from a year earlier in the third quarter of 2022, decelerating from a downwardly revised 4.7% rise in the previous three-month period.*
- *S&P cut Ghana's rating to default amid suspension of Eurobond payment.*

Chart 5 – Sovereign Eurobond Yield Curve



<u>Outlook:</u> It is a critical period for Ghana Eurobond holders as more information is expected to be shared in early 2023 on the potential haircuts to be made. The global outlook on rates will also play a significant role in how the market will react in 2023. We expect a slower pace of rate hikes as most economies slip into recession..

<u>Foreign Exchange Market Review and Outlook</u> - FX reserves decline further; Naira sustains its free fall against the dollar

The FX market has witnessed a tumultuous 2022 amid several policies and moves by the CBN. December 2022 was a much calmer month with less volatility in the official and unofficial markets. The exchange rate closed the year at an official rate of ₦461.5/$1 at the Investor and Exporter (I&E) window, representing a 5.7% depreciation within one year. However, at the unofficial market, the exchange rate closed between ₦730/$1 - ₦735/$1 on cash trades, while Inflows closed at ₦740/$1. The Gross external reserves closed the year at $37.08bn from $40.52bn at the start of 2022.

It is interesting to note that other factors have affected the depreciation of the naira asides the CBN's policies and they include higher interest rates globally, significant reduction in foreign investors' portfolio inflows into Nigeria, decline in Nigeria's crude oil production and a rise in demand for forex by companies looking to repatriate funds.

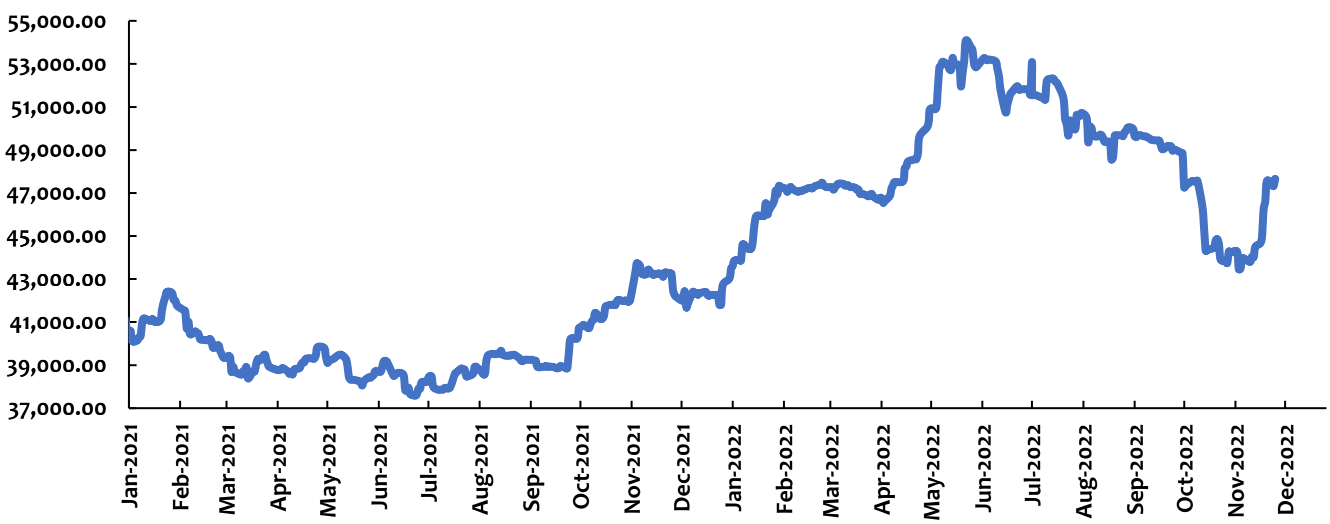
Outlook: We expect further weakening of the Naira against the dollar, amid the persistent structural issues and CBN's unorthodox policies.

Equities Market Review and Outlook

Equities Market Performance in December – Increased buyside interest at the end the year

The year ended on a positive note, as investors increased their buying pressure in the domestic bourse. Overall, this propelled a bullish record as opposed to market performance for the last four months, where a southward trajectory was maintained. The NGX All-Share Index gained 7.5% M-o-M to close December at 51,251.06 points, while YTD returns extended to +19.9%. 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

Positive performance Across Sectors

There was an upbeat performance across all the sectors, with positive records in five (5) out of five (5) sectors. The NGX Industrial index appreciated the most gaining 12.5% M-o-M. The NGX Consumer Goods followed right after with a gain of 7.8% M-o-M. The NGX Banking and Insurance indices gained 3.02% and 6.1% M-o-M following gains. The NGX Oil indices gained 4.4% M-o-M.

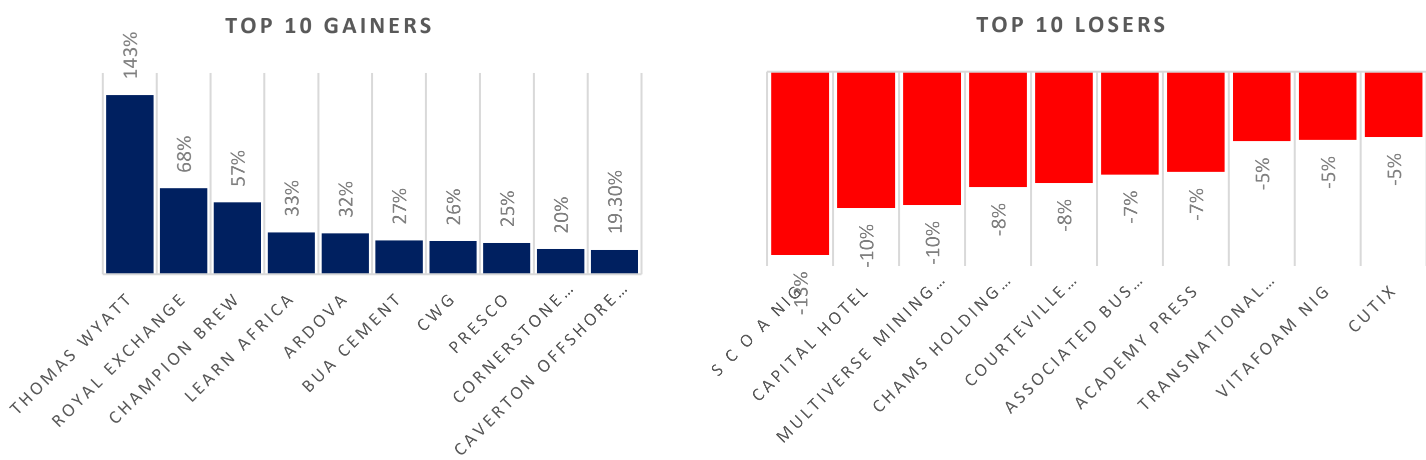
Table 3 – Sector Performance

	MTD	YTD
NGX ASI INDEX	↑ 7.50%	↑ 20.00%
NGX Banking Index	↑ 3.02%	↑ 2.80%
NGX Insurance Index	↑ 6.10%	↓ -12.00%
NGX Industrial Goods Index	↑ 12.50%	↑ 19.70%
NGX Consumer Goods Index	↑ 7.80%	↓ -0.06%
NGX Oil & Gas Index	↑ 4.40%	↑ 34.00%

Source: NSE, AIICO Capital

The insurance Index and Consumer Goods Index were the only sectors that recorded a negative YTD, with a negative return of 12% and 0.06% respectively. While the Banking, Industrial Goods and Oil & Gas have a total YTD gain of 2.8%,19.7% and 34% respectively.

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



Source: NSE, AIICO Capital

Outlook

Most investors will stay cautious ahead of the 2023 elections. We however anticipate that the bulls would retain their dominance in the first week and first month of the new year as investors position to benefit from 2022 full year earnings releases. Nevertheless, the discovery of the monumental oil theft in the Niger Delta region of the country has put a hold on the heavy outflow on the national capacity of daily oil production.

At the last check, Nigeria daily oil output has increased from 900m to about 1.3m bpd. That is a cheering news to all the oil and Gas stocks listed on the exchange and when that numbers begin to grow and eventually reached our daily output limit, there would be a multiplier effect across the country, inflation will eventually be tamed while interest rates will begin to moderate.