AIICO CAPITAL

MONTHLY MARKET UPDATE

February 2023

Macroeconomic Review

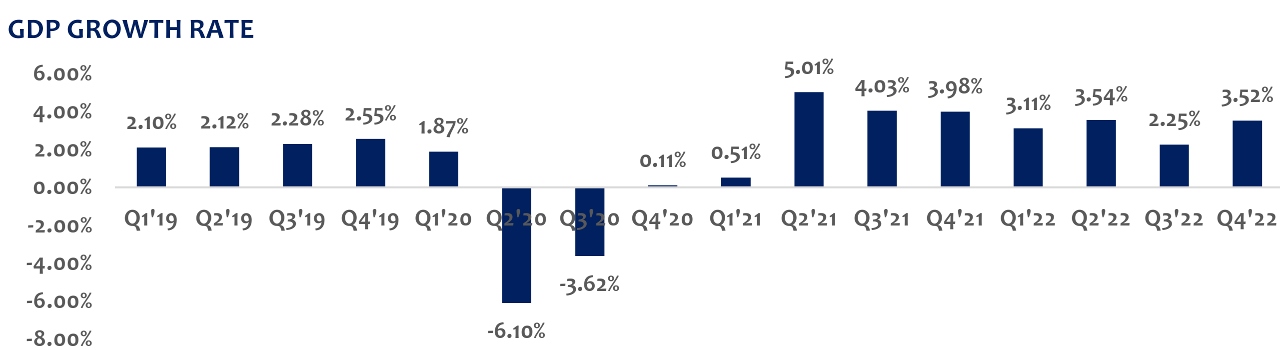
Nigeria's GDP - *The Silver Lining?*

The Africa's largest economy posted a real gross domestic product of N21.04 trillion, depicting 3.52% growth for Q4 and 3.10% growth for 2022, as revealed by the National Bureau of Statistics. Noticeably, the 3.10% full year result was at par with the World Bank's estimate, but above the 3.00% IMF estimate. By comparing the year-on-year performance, the Q4 2022 growth rate decreased by 0.47% (3.52%: Q4 2022 vs 3.98%: Q4 2021) but rose by 1.27% relative to 2.25% in Q3 2022, quarter-on-quarter. Despite the pullback in the oil sector performance, the non-Oil sector has continued to serve as a cushion to the overall GDP performance in recent times.

The Oil sector contracted by –13.38% (Y-o-Y) in Q4 2022, implying a relative improvement when compared to -22.67% decline in Q3 2022. However, the overall performance of the oil sector in 2022 indicated a worse negative real growth of -19.22%, compared to -8.30% in 2021. On the other side, the non-oil sector grew by 4.44% Y-o-Y in Q4 2022, albeit lower by 0.29% compared to Q4 2021(4.73%) but 0.18% higher than Q3 2022 (4.15%).

Overall, the Oil and non-Oil sector contributed 5.67% and 94.33%, respectively, to the total real GDP in 2022. When compared to the previous year, the Oil sector contributed 7.24% while the non-Oil sector contributed 92.76%.

Chart 1 – Nigeria's GDP Growth Rate Trend



Outlook:

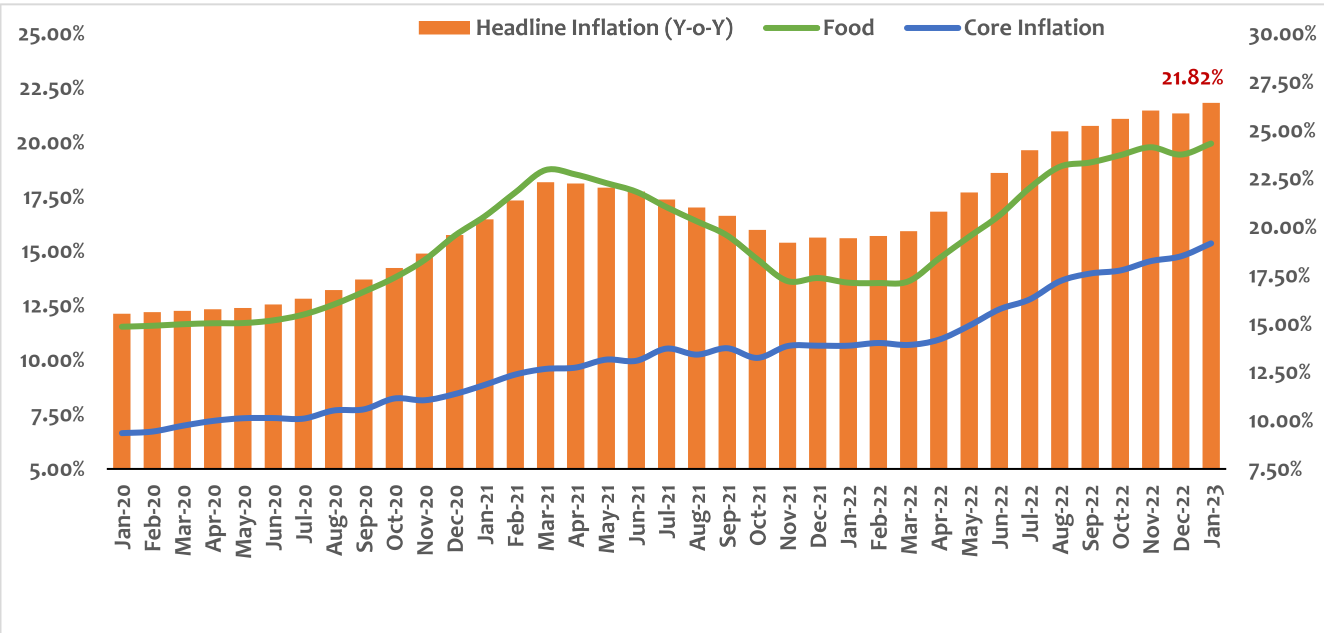
In the subsequent quarters, we expect to see a positive growth rate, given that the oil sector has begun to show some positivism in its route to recovery, matching up with the descent result seen in the non-oil sector.

Nigeria's Inflation - ***Mounting Pressures***

January's inflation figures ushered in the steepest uptick in the general prices of goods and services since August 2022, as the Nigeria's Consumer Price Index increased by 0.47% to 21.82% in January, from 21.34% in December, year-on-year. Similarly, the food and core inflation also witnessed a sharp jump, with 0.56% increase in food inflation to 21.53% and 0.66% upsurge in core inflation to 19.16%, year-on-year in January.

The incidence of structural issues, currency depreciation and high petrol prices have kept inflation rate on a relatively high level. To add, the period under review also captured the ripple impact of the petrol scarcity that reverberated across Nigeria with respect to high cost of transportation while trickling down to the final goods and services.

Chart 2 – Headline, Food and Core Inflation



Source: NBS, AIICO Capital

Outlook:

While our stance on inflation remains at an upward trajectory, given the yet-to-be-addressed reoccurring factors, we expect the inflation rate in February to post a moderate rate of increase. This is due to the reduction in economic activities in affiliation to the presidential, house of assembly and gubernatorial election, coupled with the scarcity of the redesigned naira notes which hindered spending.

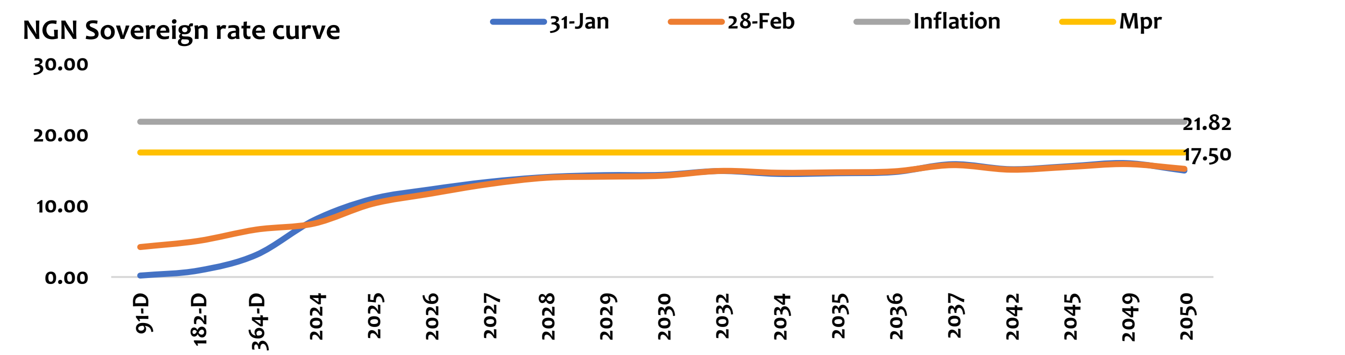
Fixed Income Market Review and Outlook

Overview

Activity in the local fixed income market was mixed overall, as earlier buyside interest due to excess liquidity was dampened mid-month, due to the oversupply at the FGN bond auction, CBN's Retail FX SMIS and discretionary CRR debits. The latter stages however recorded renewed buyside activity driven by coupon inflows, FAAC and other statutory credits.

Surging inflationary pressures and unfavorable data from the US economy drove a bearish affair for most part of the month across the SSA and MENA Eurobond markets. However, intermittent demand from investors dampened the sell-off, though the underlying theme remains bearish.

Chart 3 – Nigerian Sovereign Yield Curve



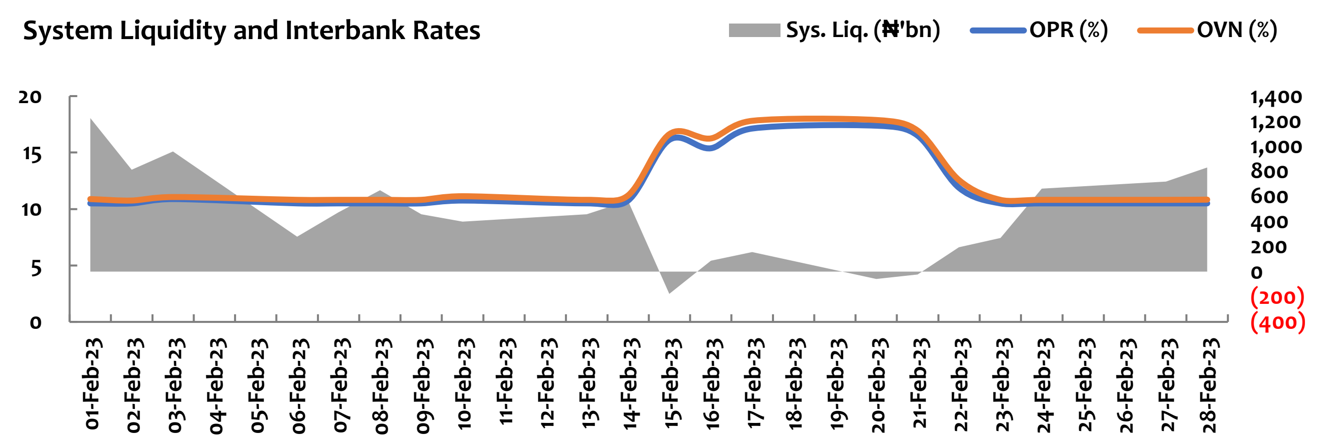
Source: CBN, FMDQ, AIICO Capital

Money Market Review and Outlook – *Interbank rates expanded amid a relatively liquid market*

As expected in our January 2023 prognosis, February recorded lower liquidity numbers amid weak coupon inflows (₦95.6bn), OMO (₦175bn), CBN Special bill maturities, FAAC and other statutory credits. System liquidity averaged ₦447.31bn (vs ₦709.62bn in Jan 2023), and Overnight Policy Rate (OPR) and Overnight (ON) rates expanded to 12.11% and 12.52% from 10.10% and 10.55% in Jan 2023.

There were occasional negative liquidity figures recorded during the month, due to the oversupply at the FGN bond auction, CBN's Retail FX SMIS and discretionary CRR debits. The month however closed on a significantly buoyant note, due to late FAAC inflows and other statutory credits.

Chart 4 – System Liquidity and Interbank Rates



Source: CBN, FMDQ, AIICO Capital

Outlook: We envisage an increased level of liquidity amid coupon inflows (c.₦352.1bn), expected maturities (OMO- c. ₦90bn; NTB - c. ₦531.8bn) and FAAC credits. Thus, interbank rates should witness a decline, with occasional heightened levels amid CBN's discretionary CRR exercise.

T-Bills Market Review and Outlook - ***Mixed to bearish theme amid liquidity drain and sharp increase in NTB stop rates.***

Surfeit liquidity drove heightened demand for treasury bills at the start of the month, as investors jostled to deploy their idle cash to available securities amid CBN's discretionary mop-ups. The buy interest was evident across all tenors, albeit tilted more to the long-dated papers with most trades executed at c.2.50% levels. This also reflected in the preliminary NTB auction for the month, where the DMO sold ₦200bn more than what was offered (c.₦217bn), as they took advantage of the demand influx.

The demand pulse lingered for a while but halted mid-month amid a liquidity drain caused by the oversupply at the FGN bond auction and subsequent CBN Retail FX SMIS. Rates rose across all tenors due to the significant sell-offs, as short, mid and long dated papers touched 2.00%, 4.00% and 5.20% respectively from the lows of 0.20%, 0.60% and 2.60%.

The bearish theme spilled into the final NTB auction for the month, as stop rates rose significantly across all tenors, with the 1-year recording a monumental jump of c.766bps to close at 9.90%. Also noteworthy is the drastic shrunk in subscription levels compared to the preliminary auction for the month (c.₦296bn vs c.₦1,056bn). Overall, the total subscription for the month printed at c.₦1.35trn, while c.₦480bn was offered and c.₦680bn was allotted.

Overall, the average rate inched by c.285bps M-o-M to close at 4.25%.

Table 1 – Nigerian Treasury Bills (NTB) Auction Result

FEBRUARY 2023 NTB AUCTION RESULT				
Tenor	Jan'23 Close	Feb'23 Auc 1	Feb'23 Auc 2	Change M-o-M (bps)
91	0.29%	0.10%	3.00%	271.00
182	1.80%	0.30%	3.24%	144.00
364	**4.78%**	**2.24%**	**9.90%**	512.00

Source: CBN, AIICO Capital

Outlook: It appears the sharp rise at the last NTB auction in Feb'23 was a one-off and it is likely we see some correction at subsequent auctions. The NTB maturities this month looks slightly heavy at c.₦531.8bn, however with 3 auctions slated for the month, we anticipate a steady increase in stop rates at the primary market auctions and slightly lower rates in the secondary market with support from OMO maturities, Coupon and FAAC inflows.

FGN Bonds Market Review and Outlook - ***Mixed theme overall; significant borrowing at the FGN bond auction.***

Buyside interest dominated the FGN bonds market at the early periods of the month, with the demand skewed to short-dated papers (2024s, 2025s and 2026s) because of the value they portend amid the significantly low rates on bills of a relatively similar duration.

For the better part of the month however, most of the activity was skewed to the on-the-run papers (2028s, 2032s, 2037s and 2049s). Investors traded mixed sentiments across these papers, even as the FGN bond auction approached, with the overarching theme of a bullish showing envisaged due to how liquid the market was.

As expected, at the auction, the DMO took advantage of the significant demand to borrow as much as possible, surpassing the expected ₦360bn, while managing their borrowing cost. (Please see the auction result below)

Post auction market sessions were mixed to bearish due to the oversupply at the auction. Bids rose significantly, particularly across the 2037s and 2049s, with offers also rising in tandem. The rise was exacerbated by thin liquidity as most investors needed to settle their winnings, thus leading to forced sales. However, with late coupon inflows and statutory credits, market swayed to a bullish theme with renewed demand recorded across the curve.

Overall, average mid-yield in the secondary market declined by c.14bps M-o-M to close at 13.83%.

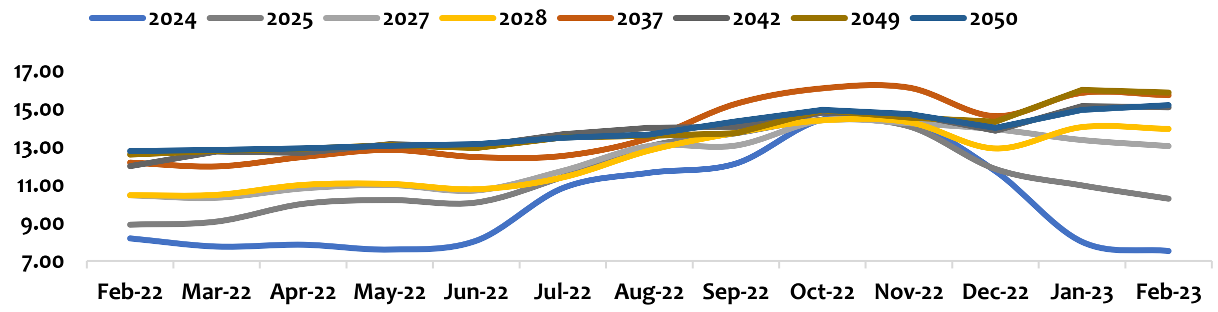
Table 2 – February 2023 FGN Bonds Auction Result

JANUARY 2023 BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Yield	Jan'23 Close	Change M-o-M (bps)
23-Feb-28	90.00	296.21	257.41	**13.99%**	**14.00%**	(1.00)
27-Apr-32	90.00	78.00	51.12	**14.90%**	**14.90%**	0.00
18-Apr-37	90.00	296.62	220.56	**15.90%**	**15.80%**	10.00
26-Apr-49	90.00	321.27	241.47	**16.00%**	**15.90%**	10.00

360.00	992.11	770.56

Source: DMO, AIICO Capital

Chart 5 – FGN Bond Yield Curve for Selected Maturities



Source: FMDQ, AIICO Capital

Outlook: We anticipate a bullish tilt to market activity this month amid expectedly higher coupon remits (c.₦352.1bn). However, a lot will depend on the DMO's plan for the month having borrowed c.₦1.43trn (in 2 auctions combined) which is significantly more than what was intended for Q1'2023 (c.₦1.08trn).

Eurobond Market - ***Inflation woes spurred selloffs in most markets, albeit occasional bullish pressures were witnessed***

The Eurobond space kickstarted the month with a rebound after days of weakness, amid lower ratings of most sovereigns and central banks interest rate decisions. Most SSAs and MENAs papers parred back some of the losses with price appreciation of c.1.25pts, while also awaiting the interest rate decision by the US Fed. As expected, the 25bps hike happened at the first FOMC meeting this year and Fed Chair Jerome Powell's made some comments about policy makers making progress in the battle against inflation. This raised the hopes of market players that the central bank is nearing the end of its rate-hike cycle.

The markets switched to a bearish mode, with selloffs recorded across the SSA markets, as the spillover effect of lower equities trading driven by disappointing earnings from top US tech companies, dampened the rally fueled by investors' optimism that rates were close to peaking. The sell-off was bolstered by the U.S. jobs report (US Non-Farm Payrolls printed at 571,000, higher than market estimate of 188,000), which added weight to a possible hawkish Fed narrative.

The markets eased slightly after sustained days of sell-off, with buying interest seen across some SSAs, following the release of the US Jobless Claims report which printed as expected in the survey (196k vs Est. 190k). However, subsequent to the release of US inflation numbers, where according to the Bureau of Labor Statistics, January inflation increased by 6.4% (higher than estimate of 6.20%, but moderated from 6.5% in Dec'2022), caused the market to trade bearish, as the dollar gained while Eurobond papers experienced mild weakness amid expected future tightening measures by the US Feds.

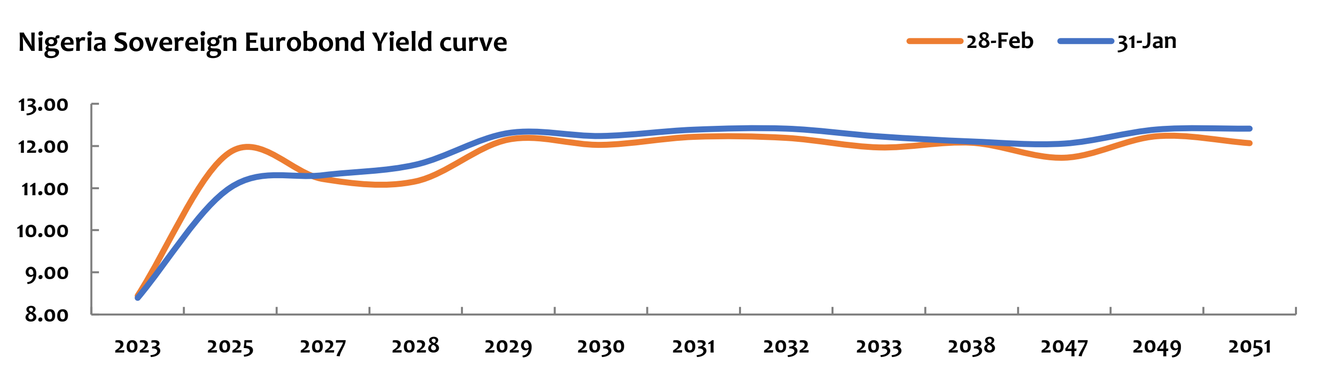
Activity however closed on a positive note after prolonged days of sell-off, as investors cherry-picked the relatively higher yields albeit less aggressively. The Nigerian curve also witnessed a day rally amid the release of election results.

Overall, the average mid-yield across Nigeria's Eurobond curve declined by c.11bps M-o-M to close at 11.64%.

Other notable information:

- *The Bank of England (BoE) and European Central Bank (ECB) both raised their benchmark rates by 50bps to 4.00% and 2.50% respectively.*
- *US Non-Farm Payrolls printed at 571,000 (Est. 188,000) and Unemployment rate declined to 3.40%.*
- *Kenya revised 2022/2023 budget expenditure and deficit from the projected 6.2% of GDP to an estimated 5.7% of the total GDP.*
- *Ghana concluded its local debt exchange programme with 85% participation.*
- *Ghana's headline inflation unexpectedly slowed down for the first time in twenty months in Jan'2023, as non-food price growth declined. Contextually, the CPI growth declined from 54.1% Y-o-Y in Dec'22 to 53.6% Y-o-Y.*
- *Ghana's long-term foreign currency issuer default rating was downgraded to "restricted default" from "C" by Fitch, on the back of its inability to make the coupon payment on the 2026 Eurobond maturity.*
- *Egypt's inflation climbed to 25.8% in January from 21.3% in December, marking the highest inflation in 5 years.*

Chart 6 – Sovereign Eurobond Yield Curve



<u>Outlook:</u> The underlying theme remains bearish as the rate hike trajectory stretches further, thus, the Eurobond markets will experience sustained periods of sell-off until global inflation especially US inflation records a significant decline, one that convinces the Fed governors of a slowdown in tightening measures. There will also be occasional bullishness amid coupon reinvestments and cherry-picking of yields. We also expect Ghana to provide significant updates to external debt holders amid the debt restructuring talks and IMF bailout.

Foreign Exchange Market Review and Outlook - ***FX reserves decline further; Naira held steady against the dollar at the I&E window.***

There was a relatively heightened demand for cash trades in the unofficial FX market by political personnel largely due to election, thus rates traded mostly between $/₦750 - $/₦760, while Inflows closed at $/₦756. However, at the official window, NAFEX rate closed at $/₦461.07 in Feb'2023, representing a ₦0.23k appreciation when compared with previous month's close of $/₦461.30, while there was a ₦0.50k depreciation at the I&E window, as it closed at $/₦462. The Gross external reserves closed at $36.68bn compared with $37.00bn as at close of Jan'2023, representing a decline of $317m in 1 month. This can be ascribed to CBN's intervention at its multiple windows.

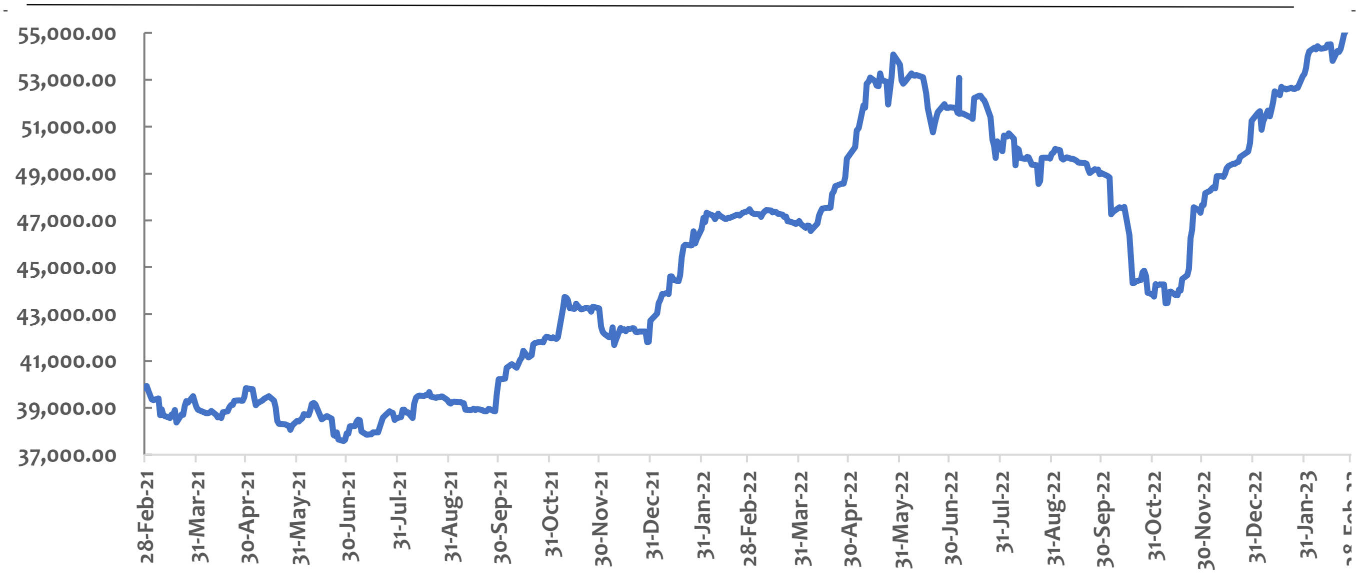
Outlook: With the presidential and senatorial/house of assembly elections out of the way, we expect a bit of calmness in the unofficial FX market, however one cannot rule out some USD demand by political personnel for the upcoming gubernatorial election. We anticipate a slight decline in NAFEX and I&E rates.

Equities Market Review and Outlook

Equities Market Performance in February – ***Despite election uncertainty, the NGX All-Share Index ends February with a profit.***

The All-Share Index (ASI), which appreciated by 4.82% to close at 55,806.26 points, marked a favorable conclusion for the Nigerian stock market in the month of February 2023. In a similar line, the Nigerian Exchange Limited (NGX) market capitalization which recorded N 28.99 trillion at the start of the month, completed the month of February at N 30.40 trillion, showing a MTD gain of c. N 1.40 trillion for the period.

Chart 7 – NGX ASI YTD Performance



Source: NSE, AIICO Capital

Positive performance Across Sectors

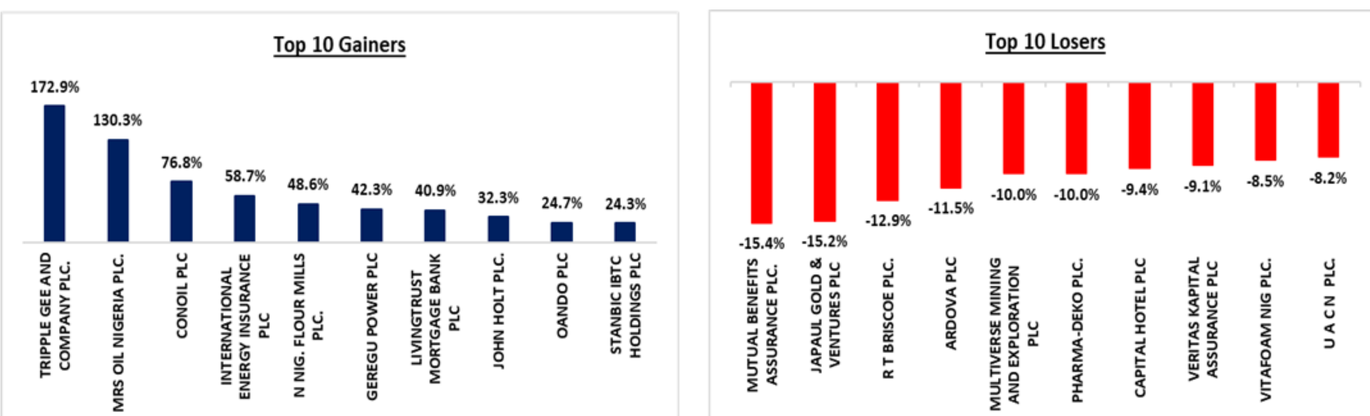
As of February 28, 2023, the sector's performance was mostly positive, with the NGX Oil & Gas Index leading the gainers with an increase of c.15.97% during the month. The NGX Consumer Goods Index followed with a c.8.24% monthly gain, the NGX Banking and NGX Industrial Goods indices gained c.3.99% and c.2.57%, respectively, for the month while the NGX Insurance Index declined by c.2.26% at the close of the month.

Table 3 – Sector Performance

	MTD	YTD
NGX ASI	4.82%	8.89%
NSE Banking Index	3.99%	11.80%
NSE Insurance Index	-2.26%	2.98%
NSE Industrial Goods Index	2.57%	4.77%
NSE Consumer Goods Index	8.24%	14.34%
NSE Oil & Gas Index	15.97%	22.25%

Source: NSE, AIICO Capital

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



Source: NSE, AIICO Capital

Outlook

We expect the domestic bourse to continue to witness a bullish theme amid released earnings report and dividends announcements.