March 2023

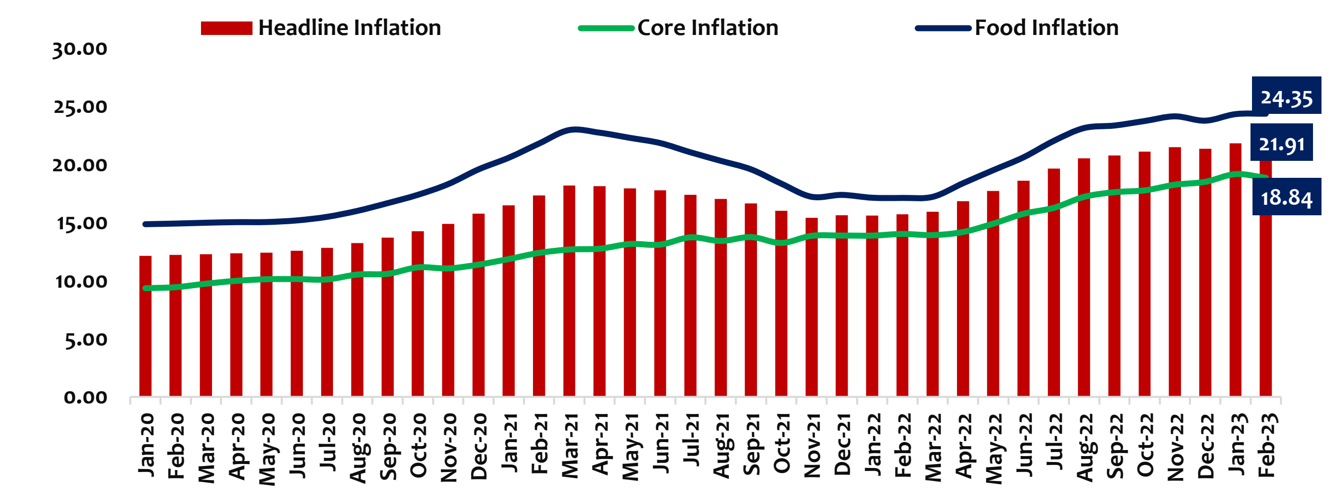
Macroeconomic Review

Nigeria's Inflation – ***Annual headline inflation nudged higher.***

Nigeria's annual inflation rate increased to 21.91% in February 2023, up from 21.82% the previous month and beyond market expectations of 21.85%. Food prices, the most important component of the CPI basket, rose further to 24.35% in February, after rising by 24.32% the previous month, owing to the scarcity of the new Naira notes and chronic food shortages - Vegetables, grains, and cooking oil prices were the main factors driving price increases.

As a result of the Central Bank of Nigeria's naira redesign policy, the country has suffered an unprecedented cash constraint in recent months. The annual core inflation rate, which excludes farm products, fell marginally in February to 18.84%, from a 16-year high of 19.16% the previous month. Consumer prices grew 1.71% month on month, lowering from the previous month's 1.86% increase, which was the highest in nearly 16 years.

Chart 1 – Headline, Food and Core Inflation



Source: NBS, AIICO Capital

Outlook:

We expect the inflation rate to experience a similar pace in the coming month, due to expectations of increased spending tied to the circulation of the old and redesigned currency notes. The impact of the flood should also continue to phase off in the coming month.

Nigeria's MPC Meeting – ***MPC maintained hawkish stance amid persistently high inflation.***

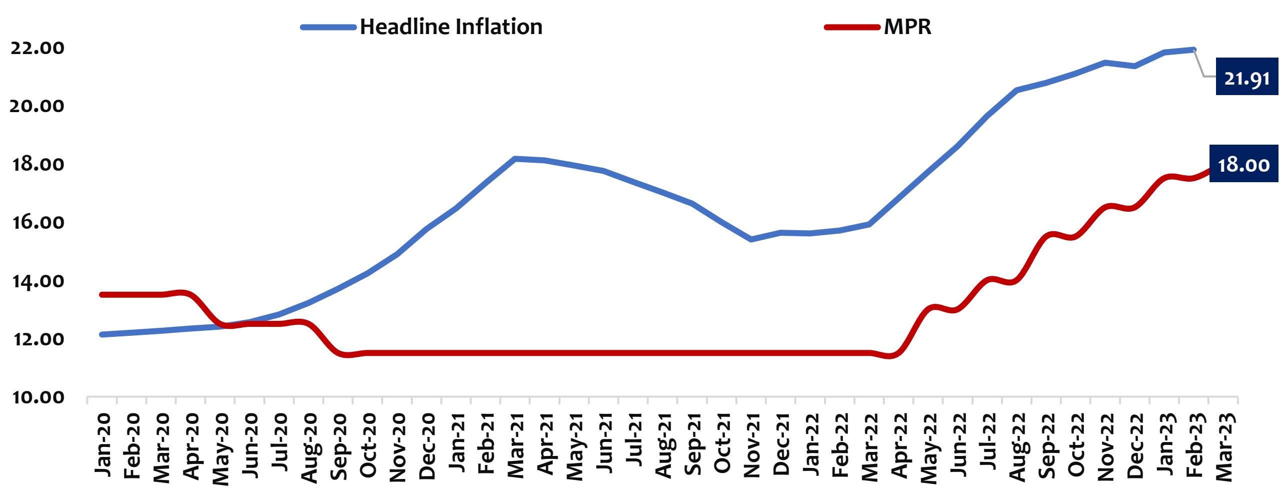
The Monetary Policy Committee (MPC) met on March 20th and 21st, 2023, confronted with new and existing challenges, including the recent bank failures in the United States and Switzerland, amidst widespread monetary policy tightening, which added a new dimension to the risks confronting the global financial system, as well as persistent but declining global inflation.

The MPC noted the decline in M-o-M domestic headline inflation, as reflected in the last CPI reading (1.71% vs 1.87% in Jan'23), but noted the high chances of fuel subsidy removal, which is more likely to filter into the inflation numbers in the coming months, hence the need to tighten further. Although, the MPC intend to moderately increase interest rate subsequently, they cited the possible risk it could have on deposit money banks. They however reiterated the fact that previous rate hikes have shown that the Nigerian financial system remains robust and resilient, as seen from the healthy financial indicators of banks, bolstered by CBN's vigorous prudential guidelines.

As a result of these issues, the committee voted to:

- Increase the MPR by 50 basis points to 18.0 percent.
- Maintain the asymmetric corridor of +100/-700 basis points around the MPR.
- Maintain the CRR at 32.5 percent.
- Maintain the Liquidity Ratio at 30%.

Chart 2 – Monetary Policy Rate (MPR) & Headline inflation



Outlook:

We expect the Monetary Policy Committee to stay on the course of rate hike, but at a slower pace in the subsequent meetings.

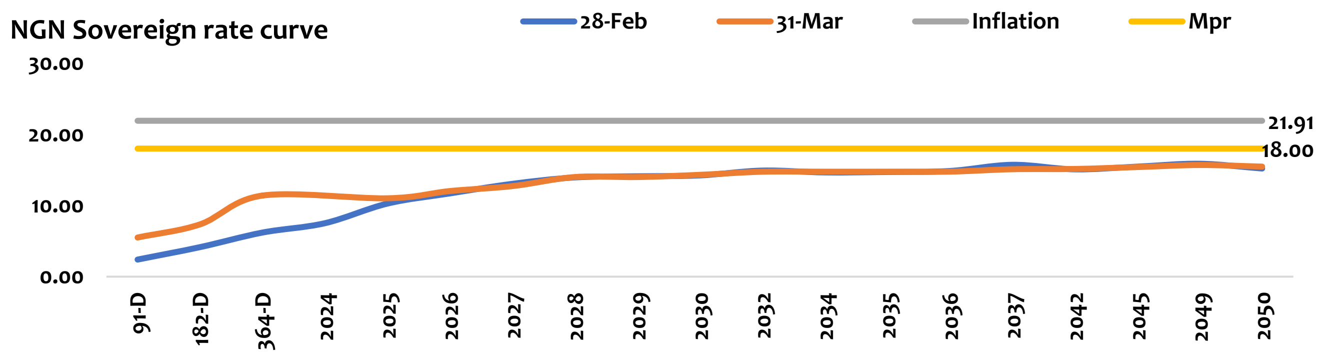
Fixed Income Market Review and Outlook

Overview

The theme in the local fixed income market was overall mixed to bearish. Early periods were bullish due to the surfeit liquidity while latter periods were bearish as liquidity dwindled significantly due to the sustained statutory debits and primary market auctions. The DMO also released Q2'2023 FGN bond issuance calendar, where they replaced the existing 2037 and 2049 papers with 2042 and 2050 maturities, while retaining the 2028 (but replaced with 2029 in June 2023 FGN bond auction) and 2032 papers.

The fallout of some banks in the US and Europe amid liquidity and market risk related issues, exacerbated the bearish theme in the Eurobonds space, though the major central banks swung to action immediately to calm investors' nerves. Thankfully, some relief was provided across the SSA regions, fueled by improved oil prices and dovish Fed tone.

Chart 3 – Nigerian Sovereign Yield Curve



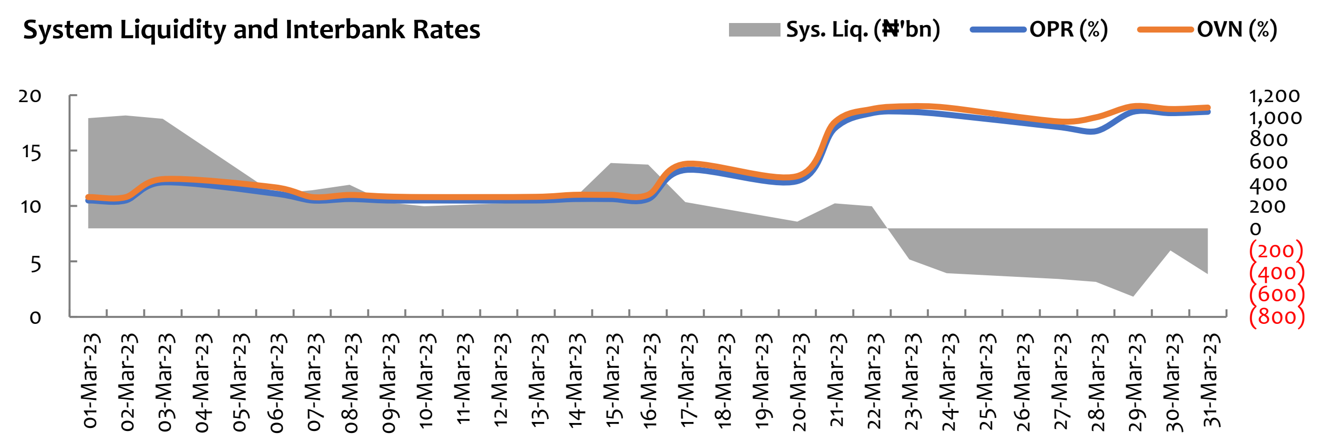
Source: CBN, FMDQ, AIICO Capital

Money Market Review and Outlook –*Surfeit liquidity weakened by sustained statutory debits and primary market auctions.*

System liquidity was buoyant at the start of the month, bolstered by late Feb'2023 FAAC inflows that spilled into the new month. Interbank rates held steady at 10.00% - 13.00% for an extended period before liquidity thinned out from the system due to the bi-weekly Retail FX SMIS, CRR debits, oversupplied FGN bonds and Treasury bills at the primary market auctions. Although, the FGN bond coupon inflows (c.₦352.1bn) and OMO maturity (c. ₦90bn) were healthy in Mar'2023, the funding pressure during the month outweighed the credits into the system.

The liquidity situation worsened towards the end of the month, closing in the negative territory (c.-₦415.28bn), as statutory debits ensured most banks sought funding at the CBN's Standing Lending Facility (SLF) window to meet their obligations. The combined effect of tight system liquidity and the latest MPC's decision to increase the benchmark interest rate (MPR) by 50bps to 18.00%, caused the interbank rate to close at elevated levels (c.18.00% - 20.00%). Overall, System liquidity averaged ₦173.30bn (vs ₦447.31bn in Feb 2023), and Overnight Policy Rate (OPR) and Overnight (ON) rates expanded to 13.72% and 14.17% from 12.11% and 12.52% in Feb 2023.

Chart 4 – System Liquidity and Interbank Rates



Source: CBN, FMDQ, AIICO Capital

<u>Outlook:</u> Expectations of the heavy FGN bond maturity (c.₦735.96bn) and coupon (c.₦418.42bn) should provide relief to the current tightness in the market. Thus, interbank rates are expected to moderate from mid-month when the inflows start trickling in, albeit occasional strain cannot be ruled out amid CBN's discretionary debits.

<u>T-Bills Market Review and Outlook</u> - ***Early buyside activity dampened by tight system liquidity.***

Bullish bias dominated the early periods of the month, supported by elevated system liquidity. The bulk of the transactions were skewed to the mid-long dated papers, with 22-Feb-2024 (the current 1-year bill at the time) trading between 5.60% and 6.00%. Sustained buyside activity was also fueled by the risk of leaving funds idle just for it to be mopped up by the CBN at zero cost.

As system liquidity dwindled, buyside activity lessened with sparse trades executed across the curve. It exacerbated after the second NTB primary market auction, where banks especially had to sell their holdings to raise cash to fund their obligations. This ultimately impacted the final NTB primary market auction for Q1'2023, as subscription level was low and the DMO was forced to close the 91,182 and 364-day papers at ridiculously high levels.

The NTB auction result altered market's prognosis, with most participants seeing it as an aberration. Thus, subsequent trading sessions saw few buyside interest on the newly issued 1-year bill (28-Mar-2024) by Fund Managers and Pension houses at c.250bps below the stop rate (14.74%). However, tight system liquidity fostered muted activity to close the month.

The total NTB primary market subscription for the month printed at c.₦2.10trn (92% of the subscription came in the first 2 auctions where system liquidity was surfeit), while c.₦531.84bn was offered and c.₦631.84bn was allotted.

Overall, the average rate inched by c.383bps M-o-M to close at 8.08%.

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: NTB issuances in Apr'23 is anticipated to be lower compared to Mar'23 due to the expected maturity (c.₦281.09bn). Also, secondary market rates are expected to trend lower later in the month, supported by coupons and FAAC inflows.

FGN Bonds Market Review and Outlook - ***Bullish bias waned amid tight liquidity conditions; 2037 and 2049 bonds retired by the DMO.***

Activity in the FGN bonds market witnessed the same bullish fate as that of the treasury bills. The on-the-run bonds (2028s, 2032s, 2037s and 2049s) witnessed the most traction as investors expressed interest to invest in these papers. Feb'23 FGN bond auction winners also saw this as an opportunity to exit their holdings at profitable levels.

The buyside activity lingered for a while and spilled into the FGN bond auction for Mar'23. For better context, the demand was heavy especially on 2037 and 2049 papers, as participants positioned for the feasibility of these papers being replaced with new issues/reopening of existing papers at subsequent primary market auctions because of the outstanding issues on these papers. Consequently, the DMO exploited the substantial demand at the auction to close the 2037 and 2049 papers at significantly lower levels.

Post auction trading sessions saw the 2037 and 2049 papers trade c.50bps lower than where they closed at the auction, as most participants tried to fill their lost bids at the secondary market. However, the market eased its rally as liquidity declined from the system.

The Debt Management Office (DMO) released the Q2'2023 FGN bond issuance calendar during the month and as envisaged, the 2037 and 2049 papers were replaced with 2042 and 2050 papers, while the 2028 (to be subsequently replaced with 2029 in June 2023 FGN bond auction) and 2032 papers were retained. Also, the offer size ranged between 320bn and 400bn each month.

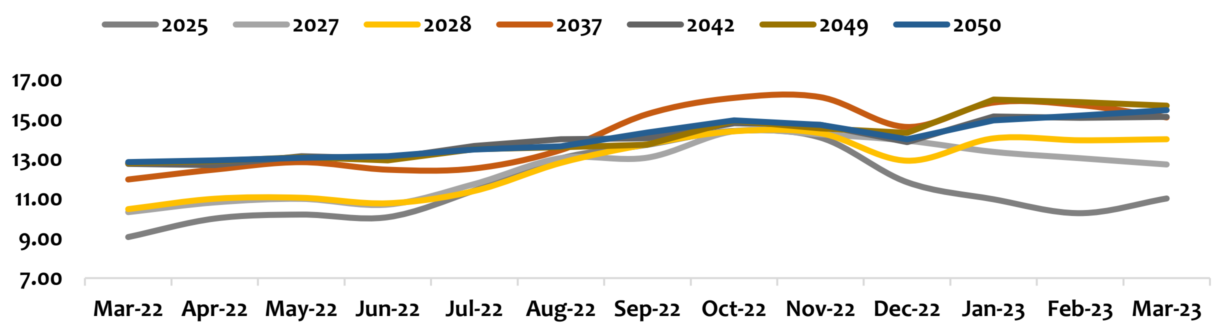
Overall, average mid-yield in the secondary market inched up by c.43bps M-o-M to close at 14.26%.

Table 2 – March 2023 FGN Bonds Auction Result

MARCH 2023 BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Yield	Feb'23 Close	Change M-o-M (bps)
23-Feb-28	90.00	72.75	70.85	**14.00%**	**13.99%**	1.00
27-Apr-32	90.00	30.86	21.76	**14.75%**	**14.90%**	(15.00)
18-Apr-37	90.00	355.63	144.24	**15.20%**	**15.90%**	(70.00)
26-Apr-49	90.00	349.37	326.51	**15.75%**	**16.00%**	(25.00)
	360.00	**808.61**	**563.36**			

Source: DMO, AIICO Capital

Chart 5 – FGN Bond Yield Curve for Selected Maturities



Source: FMDQ, AIICO Capital

Outlook: The broad market expectation for Apr'23 is a bullish theme, largely dependent on the impending heavy FGN bond maturity (c.₦735.96bn) and coupon (c.₦418.42bn). However, the early days will be plagued with muted to bearish activity as a result of tight liquidity conditions.

Eurobond Market - ***Mixed to Bearish theme spurred by US & Euro Banks' financial crisis.***

The Eurobonds market extended its bearish momentum at the start of the month, as the market anticipated the release of the US ISM manufacturing sector activity report to assess the likely impact on monetary policy decisions. Sell offs spilled across board in the SSA region. However, Nigeria's curve recovered some of its losses in the previous month, as few investors banked on the expected removal of fuel subsidy based on President-elect, Senator Bola Tinubu's manifesto.

In addition, the risk-off sentiment, Fed Chair Jerome Powell's testimony, and unclear progress on Ghana's talks with China regarding the country's debt restructuring, intensified the selloffs across several maturities in the SSA region. Moreso, the better-than-expected US initial jobless claims spurred more sell interest, as bets of longer US Fed rate hike trajectory waxed strong.

The major event during the month was the collapse of Silicon Valley Bank (SVB), Signature bank and Credit Suisse bank, and their subsequent acquisitions by First Citizens Bancshares, Flagstar Bank and UBS respectively. Liquidity and market risk-related issues fueled by the sharp rise in Fed funds rate in 2022 adversely affected the assets of these banks and caused a major run on the bank, as depositors demanded for their funds which their inability to pay resulted to their bankruptcy. This news spurred another round of risk off sentiment in the equities and Eurobond markets, while the US treasury yields found a bit of solace, as investors ran to haven assets. It also stressed the fact that the US Fed will need to tread a softer path in terms of interest rate pace and magnitude at subsequent meetings, so as not to spur another bank failure.

Some relief was seen in the market following the Fed's decision to hike by the expected 25bps, which takes the benchmark interest rate to the 4.75% - 5.00% bound. This comes on the back of the US banks' financial crisis and slower pace of inflation - the annual inflation rate in the US slowed to 6.00% (Est. 6.00%) in Feb'2023 from 6.40% in Jan'23.

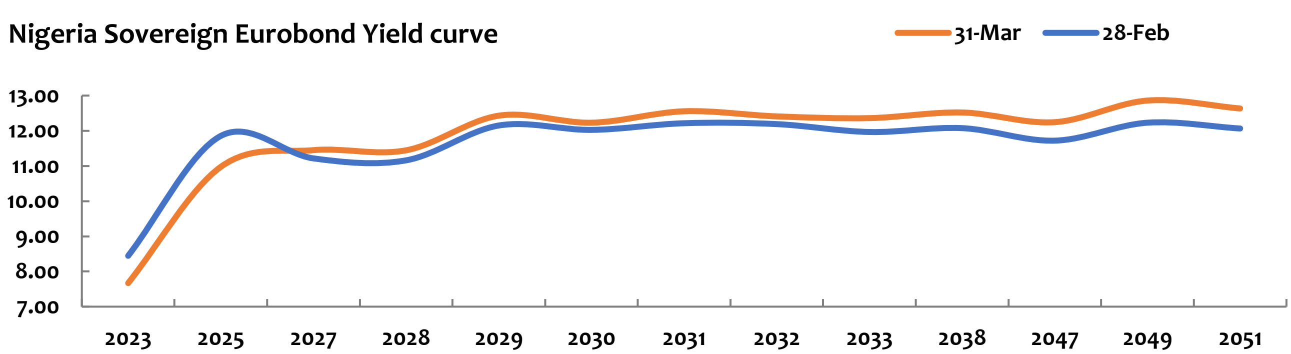
Global sentiments also improved, especially for the oil producing regions (Angola and Nigeria), following improved oil prices and assurances by major central banks that there will not be a repeat of the 2008 financial crisis. Additionally, IMF's approval of $3bn loan to Sri Lanka sprinkled positive sentiments for Ghana for hopes on the long-discussed $3bn loan facility.

Overall, the average mid-yield across Nigeria's Eurobond curve expanded by c.19bps M-o-M to close at 11.83%.

Other notable information:

- *The S&P opined that Ghana stands to ask external creditors to write off as much as 50% of the debt it owes them.*
- *According to OPEC, Nigeria produced 1.44mbpd in Feb'23, marking its highest production output over the past one year.*
- *US Non-Farm Payrolls printed at 311,000 (Est. 225,000) and the Unemployment rate increased to 3.40%.*
- *The Bank of England (BoE) and European Central Bank (ECB) raised their benchmark rates by 25bps and 50bps to 4.25% and 3.00% respectively.*
- *Headline inflation in Angola slowed further in Feb'23, coming in at 11.54% y/y from 12.55% y/y in Jan'23*
- *Angola cut its benchmark rate by 100bps to 17.00%, the lowest level since mid-2021.*
- *Fitch upgraded Ghana's Long-Term Local-Currency Issuer Default Rating (LTLC IDR) to 'CCC' from 'RD'. However, affirmed the Long-Term Foreign-Currency (FC) IDR at 'RD'.*

Chart 6 – Sovereign Eurobond Yield Curve



Source: FBN UK, AIICO Capital

<u>Outlook:</u> On the strength of the fallout of some of the major US and Euro commercial banks, the Fed is expected to stay on course for a softer path in terms of the pace and magnitude of the rate hikes, thus leading to some relief in the Eurobond market. 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 - ***Sustained decline in Gross FX reserves; Naira appreciates against the dollar at the I&E Window.***

The FX market was much calmer in Mar'23 post-election, with reduced demand for USD at the unofficial window. However, reduced allocation for deposit money banks at the official windows has spurred delayed payment/delivery of FX obligations by market players and by extension, students studying in the diaspora. Cash trades at the unofficial window traded mostly between $/₦735 - $/₦740, while Inflows closed at $/₦742. However, at the official window, NAFEX rate closed at $/₦461.15 in Mar'2023, representing an ₦0.08k depreciation when compared with previous month's close of $/₦461.07, while there was a ₦0.62k appreciation at the I&E window, as it closed at $/₦461.38. The Gross external reserves closed at c.$35.49bn compared with $36.68bn as at close of Feb'2023, representing a decline of $1.18bn. This can be ascribed to CBN's intervention at its multiple windows.

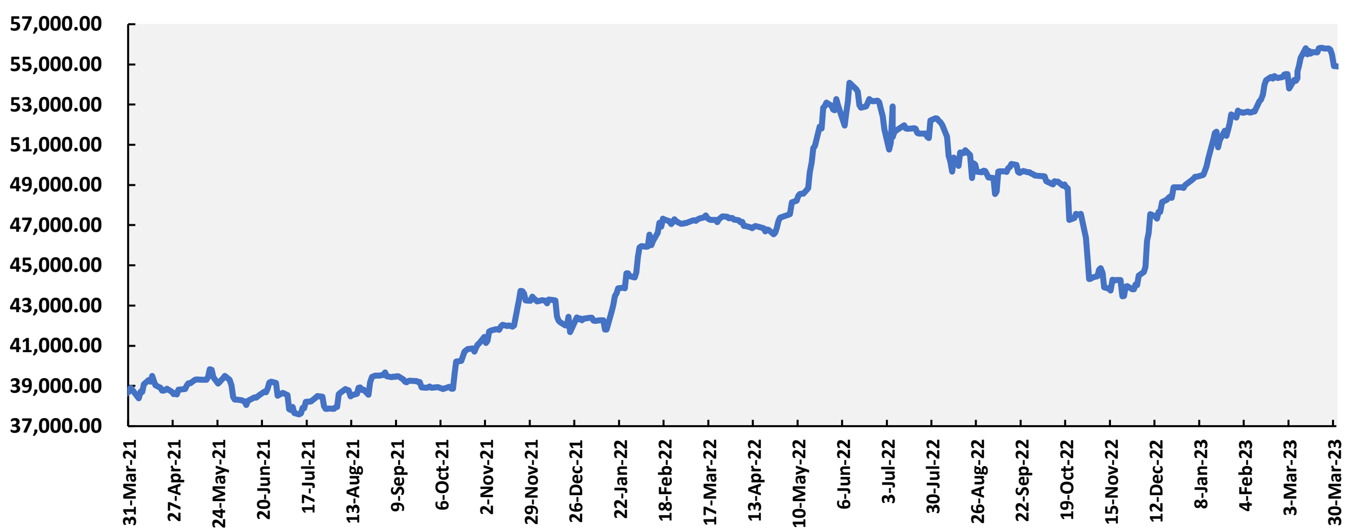
Outlook: We expect sustained pressure in the Gross FX reserves, albeit OPEC+ proposed cut should aid oil prices and improve FX remits.

Equities Market Review and Outlook

Equities Market Performance in March – ***Decline in the stock market's performance amid higher inflation and political unrest.***

The Nigerian Exchange (NGX) market capitalization fell by ₦857 billion in March 2023 due to political instability, inflationary pressure, and a lack of local currency in the domestic economy. Nigerians went to the polls on February 25 and March 18, 2023, to determine their country's leadership, prompting foreign investors to exit some fundamental stocks on the Exchange. In addition, according to the National Bureau of Statistics (NBS), the inflation rate jumped to 21.91 percent in February 2023 from 21.82 percent in January, this dampened investors' sentiments and ultimately impacted the stock market return. Overall, the stock market gained ₦1.63 trillion in market capitalization in the first quarter, as it closed at ₦29.544 trillion on March 31, 2023, , up from ₦27.915 trillion when it opened.

Chart 7 – NGX ASI YTD Performance



Source: NSE, AIICO Capital

Negative performance Across Sectors

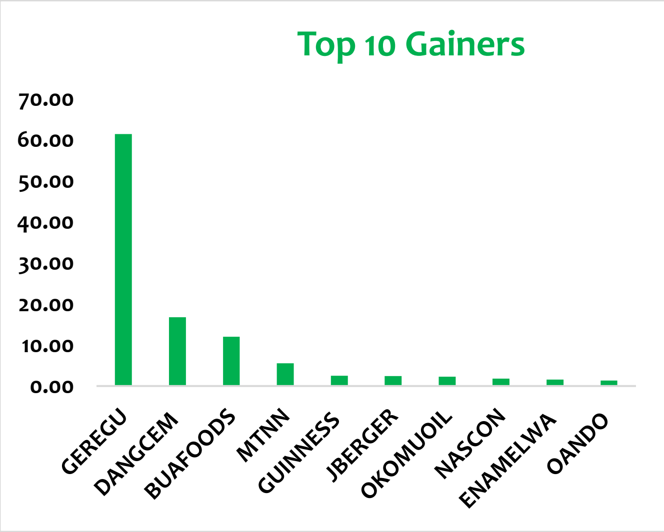
The sector's performance was generally negative as of March 31, 2023, with the NGX Consumer Goods Index being the lone positive registered at the end of March. The index rose by approximately 4.36 %. However, there were downsides in the remaining sectors. The NGX Oil &Gas Index led the losers with a -9.65% drop throughout the month. The NGX Banking Index fell by c.-2.95% for the month, while the NGX Industrial Goods index fell by c.-2.44% and the NGX Insurance Index fell by -1.14%.

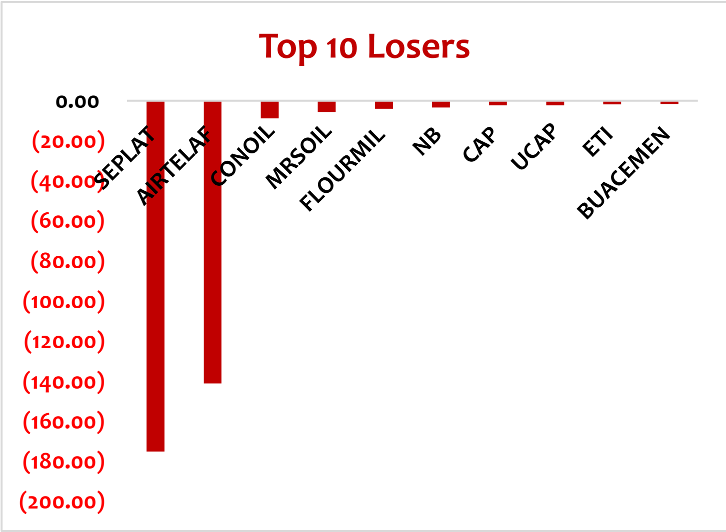
Table 3 – Sector Performance

	MTD	YTD
NGX ASI	-2.82%	5.82%
NSE Banking Index	-2.95%	8.50%
NSE Insurance Index	-1.14%	1.81%
NSE Industrial Goods Index	-2.44%	2.21%
NSE Consumer Goods Index	4.36%	19.32%
NSE Oil & Gas Index	-9.65%	10.45%

Source: NSE, AIICO Capital

Chart 8 – Top 10 Gainers and Top 10 Losers in March 2023





Source: NSE, AIICO Capital

Outlook

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