May 2023

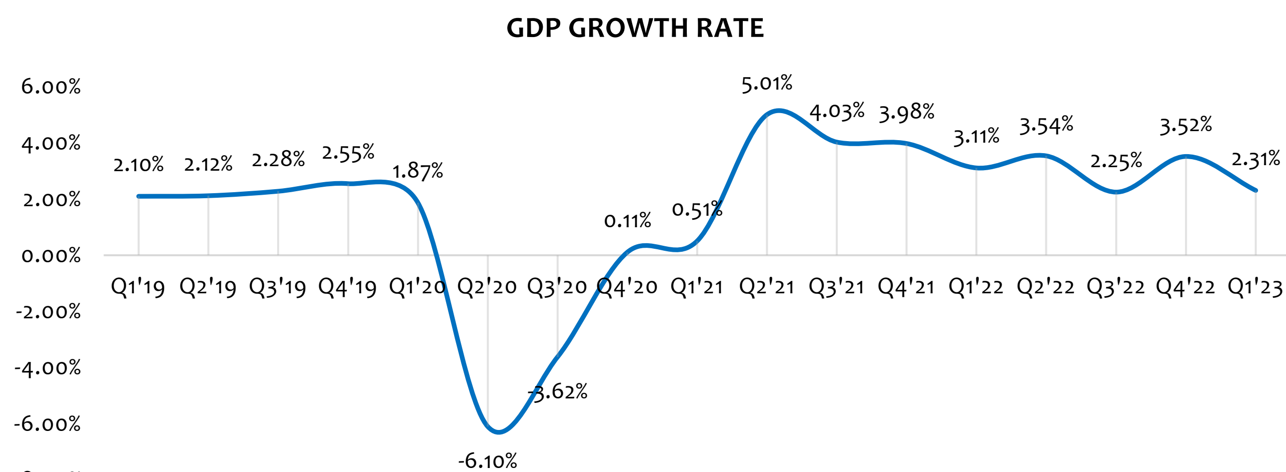
Macroeconomic Review

Nigeria's Gross Domestic Product – *Lower than expected growth numbers.*

Nigeria's Q1 2023 Gross Domestic Product (GDP) grew by 2.31% Y-o-Y, lower than the 2.85% estimate. Although, the growth rate was lower than 3.52% in Q4'2022 and 3.11% in Q1'2022, the real GDP growth rate also implied that the Q1'2023 GDP surpassed Q1'2022 value at N17.750 trillion. The Q1 2023 growth rate decreased by 0.80% (2.31%: Q1 2023 vs 3.11%: Q1 2022) and declined by 1.21% relative to 3.52% in Q4 2022. The Non-Oil sector performed poorly relative to preceding periods, which could be linked to the cash crunch during the period and aggressive interest rate hike that has persisted since last year. On the one hand, the Oil sector rose above its recurring double-digit negative growth rate, as it managed to hit -4.21% from -13.38% in the last quarter and -26.04% 12 months ago.

The Oil sector contracted by –4.21% (Y-o-Y) in Q1 2023, on the back of improved oil production at 1.5mbpd in Q1'2023 compared with 1.34mbpd in Q4'2022 and 1.49mbpd in Q1'2022. The Non-Oil sector grew by 2.77% Y-o-Y in Q1 2023, lower by 1.67% compared to Q4 2022 (4.44%) but -3.30% lower than Q1 2022 (6.08%). Overall, the Oil and Non-Oil sectors contributed 6.21% and 93.79%, respectively, to the total real GDP in Q1'2023, compared to the previous quarter where the Oil and Non-Oil sectors contributed 4.34% and 95.66%, respectively.

Chart 1 – GDP Growth Rate Trend



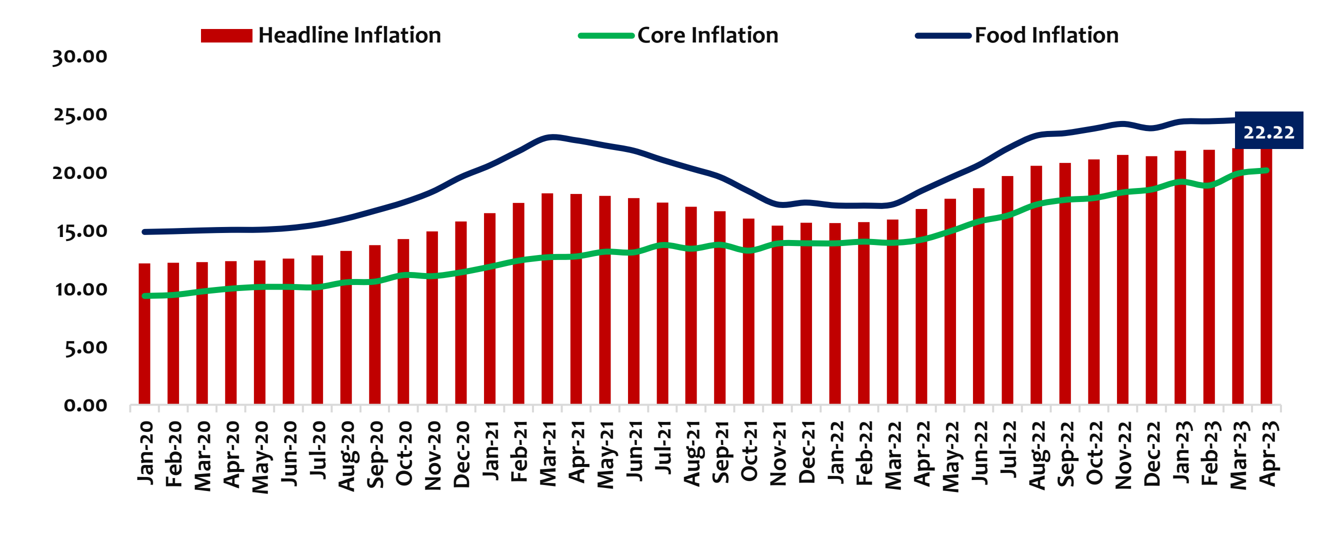
Source: NBS, AIICO Capital

Nigeria's Inflation – *No Case for a Pullback*

Nigeria's inflation for April 2023 increased to 22.22% Y-o-Y (Est. +22.10%), an increase of c.0.18% from 22.04% Y-o-Y recorded in March 2023. Again, the headline inflation pushed higher at 1.91% M-o-M in April 2023 vs 1.86% recorded in March 2023. Likewise, food and core inflation numbers jumped to 24.61% and 20.14% respectively, from 24.45% and 19.86% recorded in March 2023. On a monthly basis, the headline index grew by 1.91% in April (vs 1.86% in March). The core index grew by 1.46% M-o-M in April vs. 1.84% in March, while the food sub-index grew by 2.13% M-o-M compared to 2.07% in March.

The moderate rise in prices of the non-food components, as reflected in the M-o-M core inflation index (April:1.46% vs March:1.84%), does not provide sufficient case for a possible pullback in the overall inflation trend. Indeed, the increasing pace of inflation across all components remains noticeable, especially the food & non-alcoholic beverages of which both indices saw double-digit increase. Also, the inflationary pressures from high energy prices have not changed its course, let alone the high exchange rates and supply-chain bottlenecks across the country. Thus, based on the highlighted fundamentals and the recent removal of fuel subsidy, our prospect for the succeeding inflation readings is an upward trajectory.

Chart 2 – Headline, Food and Core Inflation



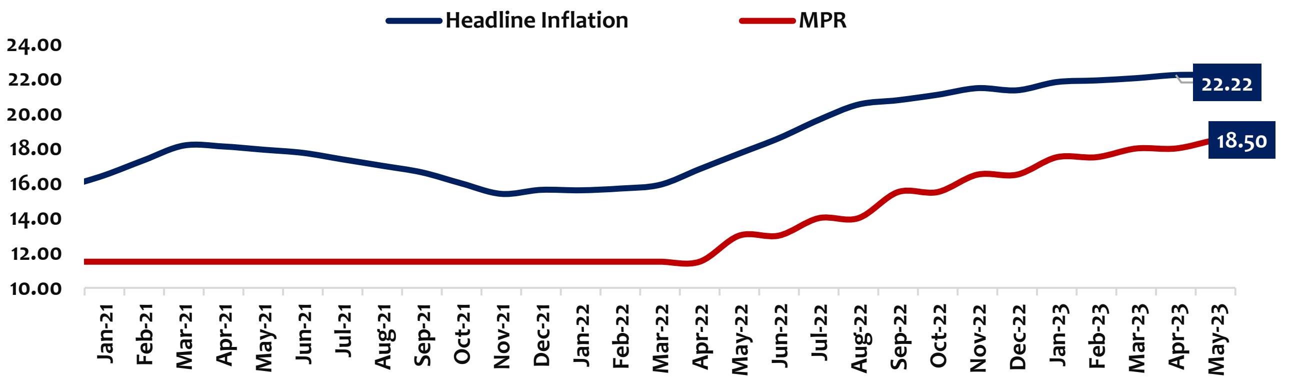
Source: NBS, AIICO Capital

<u>Nigeria's Interest Rate Decision</u> – *Another rate hike; No end in sight yet.*

At the last MPR meeting, the CBN governor, Godwin Emefiele, noted that the rate hike which began last year in May 2022 has kept inflation in check, as the hawkish policy has moderated inflation considerably (c.800bps). He also mentioned that according to research conducted by the committee, it was observed that inflation would have risen to about 30.48% YoY in April 2023 if the interest rate was not raised to address the surging inflation. Accordingly, the Monetary Policy Committee (MPC) raised the benchmark interest rate by 50bps to 18.50% and maintained all other parameters, that is, retained the Cash Reserve Ratio and Liquidity Ratio at 32.50% and 30.00% respectively, and kept the Asymmetric corridor at -700/+100 basis points around the MPR.

Amongst the 11-man committee, 10 members voted for 50bps hike, and 1 member voted for a 25bps increase, while all members voted to keep all other parameters constant. Conclusively, the MPC concluded to further tighten interest rate, albeit less aggressively due to the adverse effect on the economy and expects a slight increase in inflation before a slowdown, after factoring the key drivers.

Chart 3 – Nigeria's MPR and Inflation Trend



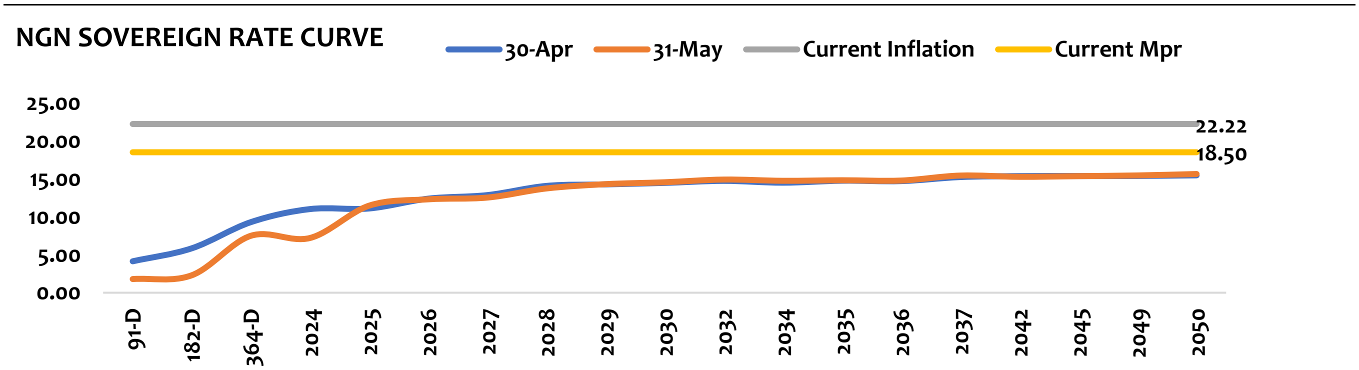
Source: NBS, AIICO Capital

Fixed Income Market Review and Outlook

Overview

At the start of the month, there was mixed to bearish sentiment in the treasury bills market as investors sold off holdings after April 2023's last Retail SMIS auction & CRR debit. Thereafter, renewed buying activity at the long end of the curve led to a decline in rates driven by CBN Swap maturities and other credits. The auction closed at lower rates with increased demand, causing a significant dip in stop rates. In the local bonds market, initial bearishness shifted as demand emerged for certain papers. The June 2023 FGN bond issuance calendar was revised, leading to bullish activity. While in the Eurobonds market, the elimination of fuel subsidy in Nigeria resulted in positive reactions in the Eurobond curve and stock markets.

Chart 4 – Nigerian Sovereign Yield Curve



Source: CBN, FMDQ, AIICO Capital

Money Market Review and Outlook – ***Improved system liquidity amid mild debits, swap maturities and FAAC credits.***

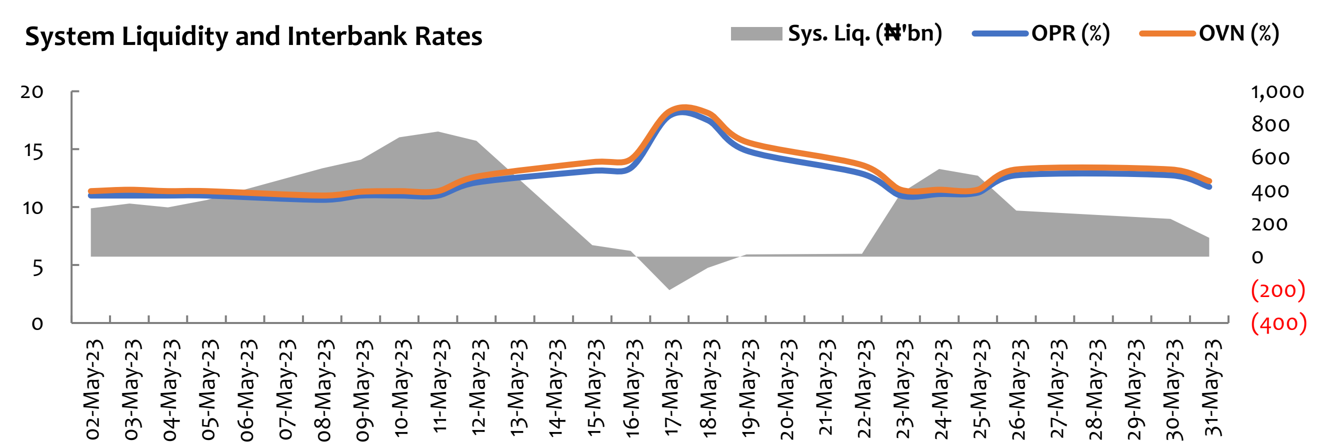
It was a relatively liquid month in May, significantly better than the previous month, as buoyant liquidity periods were observed. Though, there were liquidity crunch moments, which were fueled by the bi-weekly Retail SMIS auction, the FGN bond auction and mild CRR debits.

as buoyant liquidity periods sandwiched a momentary sparseness/liquidity crunch which was fueled by the bi-weekly Retail SMIS auction, the FGN bond auction and the mild CRR debits.

During the month, there were occasional CRR credits to the market by the CBN to ease the tightness and enable the banks to meet their liquidity obligations. Also, FAAC credits, OMO and Swap maturities bolstered the liquidity levels during the period.

Overall, system liquidity averaged ₦307.12 billion (vs ₦17.06 billion in Apr 2023), and the Open Repo rate and Overnight (ON) rate declined to an average of 12.38% and 12.87% from 16.98% and 17.35% in Apr 2023.

Chart 5 – System Liquidity and Interbank Rates



Source: CBN, FMDQ, AIICO Capital

Outlook: Preliminary estimates suggest that the last month in Q2 2023 should be mildly liquid, as expected inflow barring FAAC credits is ₦438.12 billion (Inclusive of NTB maturities, bond coupons and Sukuk rentals). Thus, we anticipate a slight uptick in the interbank rate by mid-month.

T-Bills Market Review and Outlook - ***Inflow of CBN swap maturities and statutory credits drove buyside activity despite early bearish pressures.***

In the early part of the month, there was a mixed to bearish market sentiment as investors sold off holdings after the April 2023 Retail SMIS auction & CRR debit. Selling was mainly focused on the short end of the curve to minimize losses, suggesting a potential increase in yield levels.

However, prior to the preliminary auction, there was renewed buying activity at the long end of the curve, leading to a decline in rates by approximately 118bps. This was driven by CBN Swap maturities and other statutory credits. Banks played a significant role as buyers, particularly for treasury bills and CBN special bills with specific maturities (August 2023, November 2023, March 2024, and May 2024 maturities).

The auction closed at lower rates compared to the previous month, driven by substantial buying interest. Lost bids moved to the secondary market, and the buying trend continued until the end of the month, resulting in a significant dip in stop rates, particularly for short and mid tenors, at the final auction. Notably, the 1-year paper (23 May 2024) traded approximately 60bps lower post-auction, reflecting increased demand even among fund managers.

Overall, the total NTB primary market subscription for the month printed at c.₦1.63 trillion, while c.₦324.43 billion was offered and same was allotted.

Generally, the average rate declined by c.256bps M-o-M to close at 3.87%.

Table 1 – Nigerian Treasury Bills (NTB) Auction Result

MAY 2023 NTB AUCTION RESULT				
Tenor	Apr'23 Close	May'23 Auc 1	May'23 Auc 2	Change M-o-M (bps)
91	5.30%	4.50%	2.29%	(301.00)
182	8.00%	6.44%	4.99%	(301.00)
364	**10.17%**	**8.99%**	**7.99%**	(218.00)

Source: CBN, AIICO Capital

Outlook: Sustained buyside interest is expected in the treasury bills space, as investors (banks especially) continue to stay at the short end of the yield curve while they continue to reassess market dynamics, even as they keep a close eye on the policies of the new administration. Also, the expected NTB maturity of c.₦404.51 billion should be re-tapped.

FGN Bonds Market Review and Outlook - ***Mixed to bullish sentiments; 2032, 2042 and 2050 papers retired at the auction.***

In the local bonds market, the month began bearish as market players offered on-the-run papers (2028s, 2032s, 2042s and 2050s) with limited demand from traditional buyside players. Offers increased to stimulate trades, which resulted in some hits on market bids, as short positions were opened with the expectation to cover at the auction.

The aggressive offers persisted but eased after the DMO managed auction expectations, closing papers slightly lower than the market levels, bar the 2042 papers which closed at 6bps above secondary market bids. The non-competitive allotments were also used to manage supply expectations.

Post-auction, demand emerged for the 2028s, with investors who lost at the auction scrambling to fill their bids, thus causing a decrease of approximately 25bps. The 2042s and 2050s also experienced demand, reducing yields by about 5bps from auction closing levels.

Ahead of the Presidential inauguration, the June 2023 FGN bond issuance calendar was revised, retiring the 2032, 2042 and 2050 papers and introducing new issues:2033 (10-year), 2038 (15-year) and 2053 (30-year) papers. This drove bullish activity, particularly in the 2042s and 2050s, leading to yield decreases of around 28bps and 18bps, respectively.

The month ended on a bullish note, with demand seen across various maturities: 2024, 2026, 2027, 2028, 2029, 2037, 2042, 2049, and 2050s.

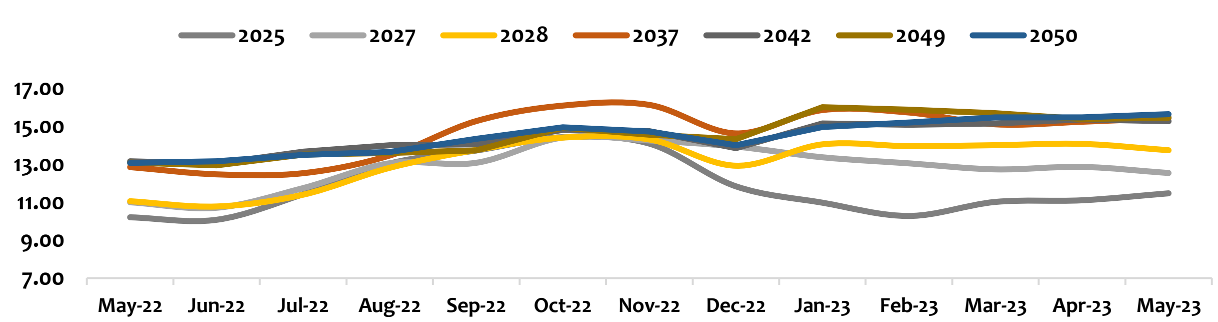
Overall, average mid-yield in the secondary market declined by c.20bps M-o-M to close at 13.90%.

Table 2 – April 2023 FGN Bonds Auction Result

MAY 2023 BOND AUCTION RESULT						
Maturity	**Offer (₦'bn)**	**Sub (₦'bn)**	**Allot (₦'bn)**	**Yield**	**Apr'23 Close**	**Change M-o-M (bps)**
23-Feb-28	90.00	74.60	61.91	**14.10%**	**14.00%**	10.00
27-Apr-32	90.00	10.20	9.39	**14.90%**	**14.80%**	10.00
21-Jan-42	90.00	53.86	53.16	**15.69%**	**15.40%**	29.00
27-Mar-50	90.00	340.26	243.69	**15.80%**	**15.80%**	0.00
	360.00	**478.92**	**368.16**			

Source: DMO, AIICO Capital

Chart 6 – FGN Bond Yield Curve for Selected Maturities



Source: FMDQ, AIICO Capital

Outlook: Investors will continue to reassess yield direction, albeit most likely have a bullish undertone, as they try to gauge the feasibility of fuel subsidy removal, the unification of exchange rates and the drive to bring interest rates low as announced by the President of Nigeria.

Eurobond Market - ***Buyside activity dominated proceedings; fuel subsidy removal talks.***

The markets shrugged off the initial weakness caused by the uptick in April's Eurozone inflation (inched upwards to 7.00% from 6.90%), as the much anticipated 25bps hike played out at May's FOMC meeting, causing a bullish theme across Nigeria, Angola and Egypt papers. The markets waved off the prospect that Fed Chair Powell might have one more hike in his radar, instead they stacked up bets that the US central bank's next move will be to cut its benchmark interest rate.

The trend turned bearish temporarily ahead of US CPI data release, however with US April inflation printing at 4.9% Y-o-Y (lower than the 5.5% estimate), it stirred a bullish reaction from investors.

There were occasional weaknesses across Angola and Nigeria curves, driven by the periodic fall in Crude oil prices while Ghana papers appreciated during this period amid the approval and disbursement of the $3 billion Extended Credit Facility (ECF) and $600 million tranche, respectively.

The commissioning of Dangote's refinery during the month also stirred positive sentiments across the Nigerian papers, as investors believe its operations will help eliminate a $26 billion foreign-exchange bill on the import of petroleum products and fertilizer.

At the conclusion of the month, coinciding with the Presidential inauguration ceremony, the recently inaugurated President of Nigeria, Bola Tinubu, delivered a firm declaration, affirming the elimination of the fuel subsidy. Tinubu stressed the government's commitment to reallocating the previously assigned funds from the fuel subsidy to crucial areas such as public infrastructure, education, healthcare, and job creation. The Nigerian Eurobond curve reacted to this information with a burst of bullish activity, gaining more than 2pts in a day, also the Nigerian stock market gained a whopping 5.22% in 24 hours.

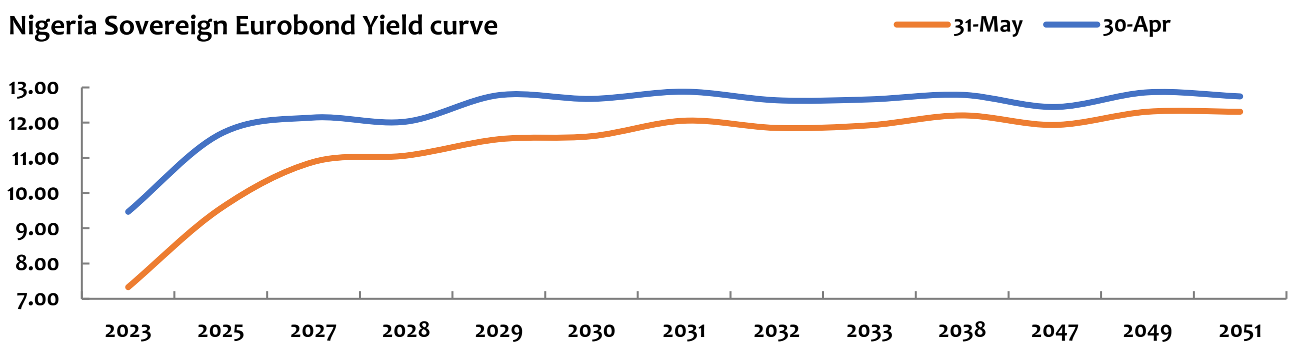
Overall, the average mid-yield across Nigeria's Eurobond curve plummeted by c.102bps M-o-M to close at 11.28%.

Other notable information:

- *Nigerian Senate agreed to convert $49 Billion owed to the Central Bank under the Ways and means scheme to long dated bonds.*
- *Fitch Ratings affirmed Nigeria's long-term-foreign currency issuer default rating at 'B-' with a stable outlook.*
- *US Non-farm payroll printed at 253,000 vs Est. 185,000. The unemployment rate also printed at 3.4% vs 3.6% surveyed.*
- *World Bank approved a $1 billion loan to Kenya to support the East African nation's economy.*
- *UK's inflation fell to 8.7% year-on-year in April 2023 due to a sharp slowdown in electricity and gas prices.*
- *Angola intends to remove $3.5 Billion fuel subsidy.*
- *Fitch downgraded Egypt's long-term foreign-currency issuer default Rating to B from B+. This marks Egypt's first downgrade since 2013 as the economic and fiscal outlook worsens.*
- *Moody's Rating Agency placed Egypt for a downward review. The downgrade review was due to its ability to finalize the targeted $2 billion in asset sales necessary to meet the IMF program's financing targets for fiscal 2023 which ends in June 2023.*
- *Disinflation in Ghana persisted in April after consumer price inflation decelerated for the fourth successive month. Specifically, headline inflation softened notably from 45.0% Y-o-Y in March to 41.2% Y-o-Y, less pronounced than 39.8% Y-o-Y, the median estimate of economists surveyed by Bloomberg. Meanwhile, M-o-M inflation stood at 2.4% in April.*

- *The Bank of Ghana temporarily halted its aggressive monetary tightening measures, maintaining the benchmark rate at 29.50%, following the approval of the $3 billion funding package from the International Monetary Fund.*

Chart 7 – Sovereign Eurobond Yield Curve



Source: FBN UK, AIICO Capital

<u>Outlook:</u> Risk aversion has eased, as US inflation surprises on the downside, leading investors to anticipate fewer rate hikes by the Fed and moderated yields impacting the USD. Investors will focus on positive economic fundamentals in the US, with moderating inflation and a resilient labor market. This aligns with the desired outcome for the Fed, potentially leading to a pause. If inflation moderates to the Fed's target, there is no reason to disrupt this trend. The USD may lose momentum, particularly as investors price in future US rate cuts.

<u>Foreign Exchange Market Review and Outlook</u> - ***Gross FX reserves decline further; Naira extends its loss against the dollar at the I&E Window.***

Cash trades at the unofficial window traded mostly between $/₦735 - $/₦740, while Inflows closed at $/₦745 (after hitting a peak of $/₦780). However, at the official window, NAFEX rate closed at $/₦465.32 in May'2023, representing a ₦2.62k depreciation when compared with previous month's close of $/₦462.70, while there was a ₦1.67k depreciation at the I&E window, as it closed at $/₦464.67. The Gross external reserves closed at c.$35.09 billion compared with $35.25 billion as at close of Apr'2023, representing a decline of c.$160 million. Factors such as CBN interventions to bolster the naira, below-average oil production, challenging global financial conditions, and a continued decline in crude oil prices have impacted the reserves.

<u>Outlook:</u> President Bola Ahmed Tinubu's plan to unify the exchange rates within the country has been received with great optimism amongst investors and it is expected to boost FX remits into the country. Thus, we anticipate a devaluation by the CBN in the interim.

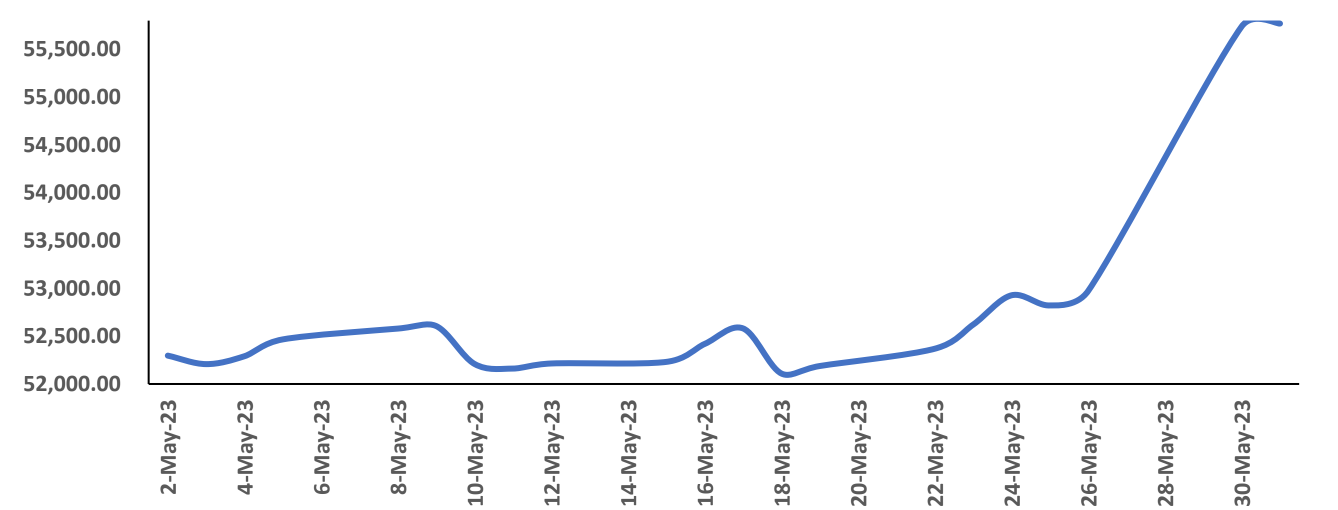
Equities Market Review and Outlook

Equities Market Performance in May – ***Investors gained ₦1.83 trillion as Nigerian Stocks posted the highest return In Sub-Saharan Africa.***

Activity in Nigerian equity market dwindled further in the early period of May, suggesting late profit taking by some participants. Observably, selling interest persisted in some bellwether stocks, particularly AIRTELAFRI, shedding over 6.00% in mid-May. Amongst other big names in the Banking Sector, WEMABANK trended downwards by roughly 2% in the same period.

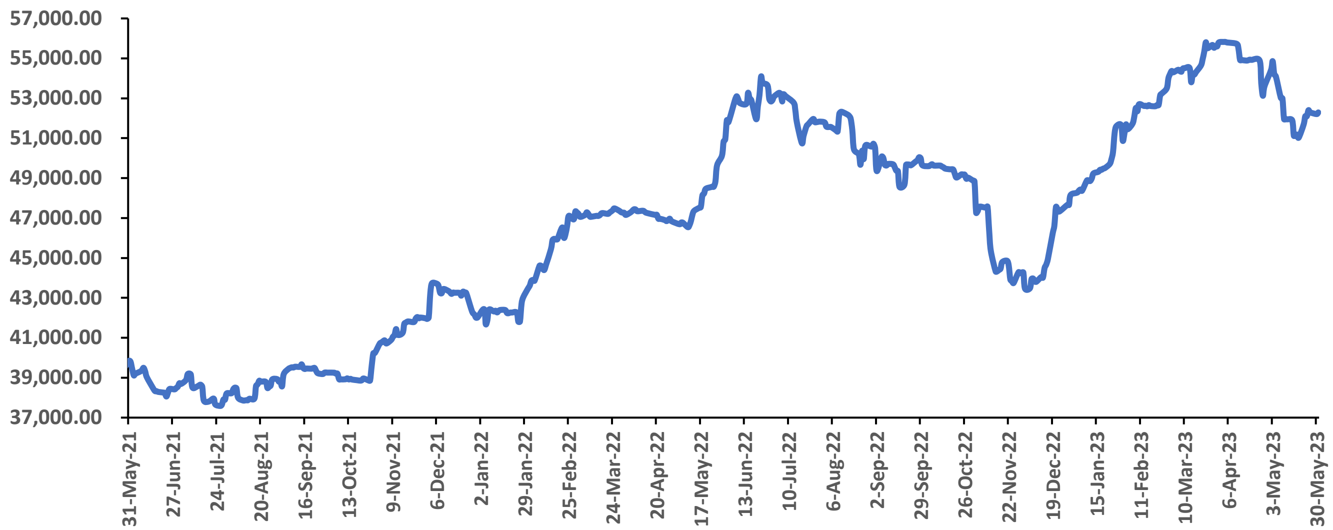
Going further into the month, activity toned down to lethargic posture, as the market began to trade cautiously ahead of the Presidential Inauguration Ceremony at Eagles' Square. Shortly after the first speech of President Bola Tinubu, market soared by over 5% in a single day, as investors aggressively took strategic positions on attractively priced tickers with positive sentiment linked to the promising economic policies and overall agenda to revive the Nigerian economy across potential sectors. Due to the quick jump at the tail end of May, the market closed off on a solid positive note, with all sectors in bullish territory.

Chart 8 – NGX ASI MTD Performance



Source: NSE, AIICO Capital

Chart 9 – NGX ASI YTD Performance



Source: NSE, AIICO Capital

Positive performance Across Sectors

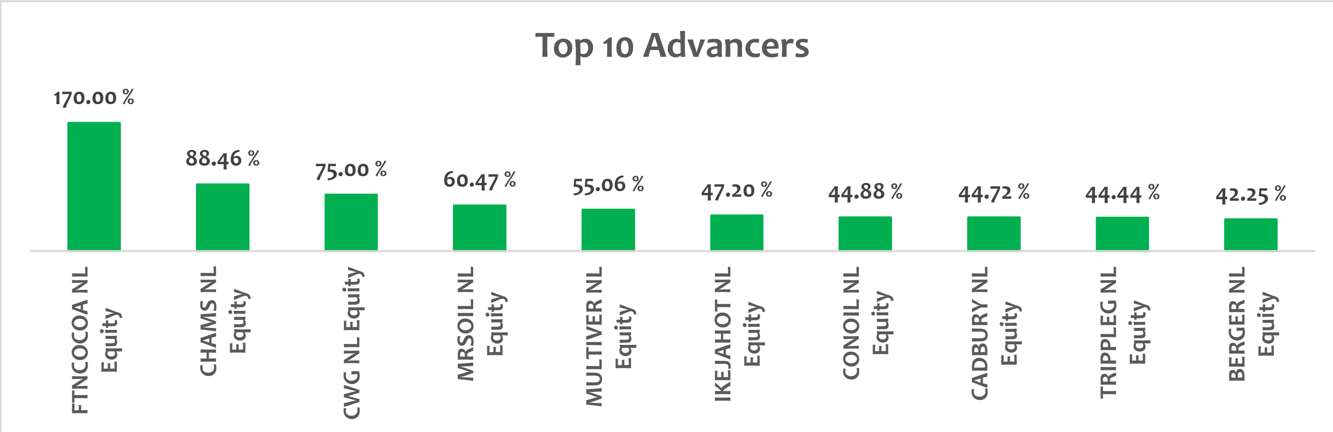
The NGX ASI settled at 6.42% for the month of May and 8.82% on a YTD basis. While all sectors witnessed a positive remark, the banking sector led the pack with 19.49% and 25.38% on a monthly and yearly basis, respectively. For further context, the NGX ASI closed at 55,769.28 points, while the Insurance goods, Consumer Goods, and Oil & Gas Indices scored a double-digit returns in May, safe for the Industrial goods index which retuned 1.67% in May.

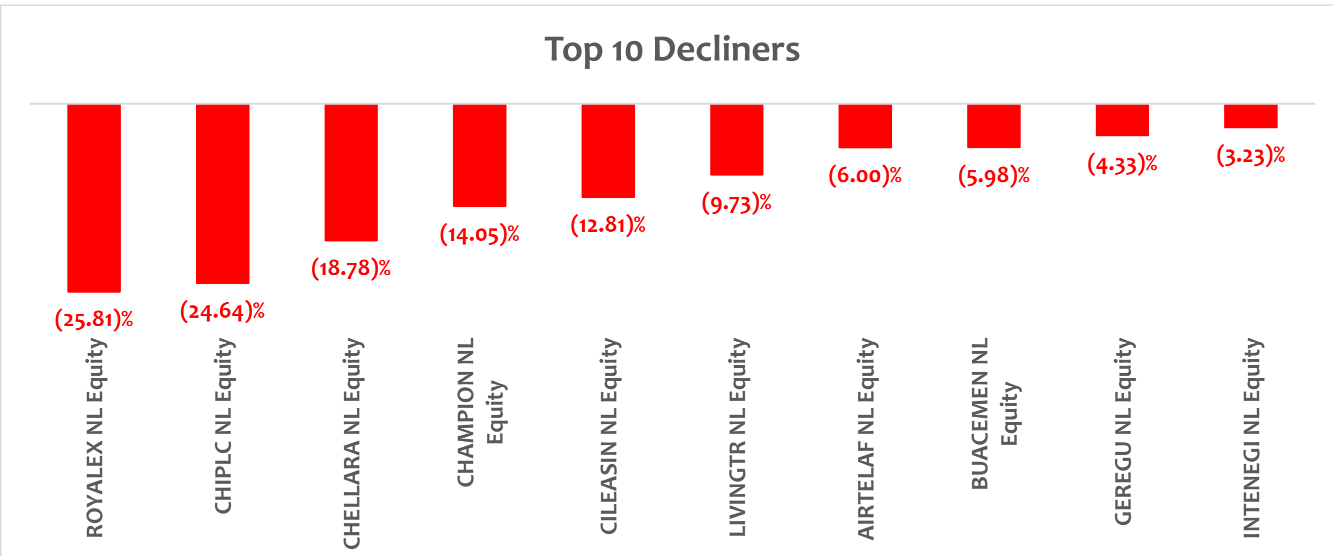
Table 3 – Sector Performance

	MTD	YTD
NGX ASI	6.42%	8.82%
NSE Banking Index	19.49%	25.38%
NSE Insurance Index	13.37%	19.88%
NSE Industrial Goods Index	1.67%	3.53%
NSE Consumer Goods Index	15.20%	44.00%
NSE Oil & Gas Index	18.67%	28.87%

Source: NSE, AIICO Capital

Chart 10 – Top 10 Gainers and Top 10 Losers in May 2023





Source: NSE, AIICO Capital

Outlook: We expect market optimism to remain in the picture in the coming month, although, with subtle fizzling out of some gains as market reprice, taking cognizance of the changing macroeconomic environment.