AIICO CAPITAL
Aim higher. Reach further

MONTHLY MARKET REPORT
| JUNE 2023

Aim higher. Reach further

www.aiicocapital.com

REPORT SUMMARY

Review

- The US economy remains resilience in the phase of extended hawkish policy.
- Sweeping reforms by Nigeria's new president takes stage.
- System liquidity remains robust.
- Treasury bills market closed bullish.
- Amidst new local bonds issuance, market closed bullish.
- Optimism in Nigeria's bourse maintains a solid footing.
- Nigeria's Eurobonds market settled on a positive note.

Outlook

- Slower pace of policy tightening by the U.S Feds.
- System liquidity is expected to remain positive.
- The treasury bills market is expected to remain bullish.
- For the local bonds market, we envision a mixed-to-bullish sentiment in the subsequent month.
- We see likelihood for an extended bullish rally in the local equity market, although, with occasional pull backs.
- Several potentially opposing catalysts should champion uncertainties in the Eurobonds market.

GLOBAL MACROECONOMIC REVIEW

In the early period of June, the World Bank revised global GDP growth rate for 2023 from 1.7% predicted in January, to 2.10%. The World Bank expects the greater-than-expected resilience felt in the economy to dissolve out later into 2023, given the combined effects from the Fed's tightening policy and the war in Eastern Europe.

Meanwhile, China's trade statistics revealed a lower economic growth, as total export fell by 7.5% YoY, the first decline in 3-month, and a 4.5% decline in total import. In a bid to further support the economic recovery, the People's Bank of China (PBoC) cut rate by 10bps to 3.55%

On the bright side, the US final GDP data showed an expansion of 2.00% in its final reading, from 1.30% estimated earlier, while the country's inflation increased by 4.00% in May, down from 4.9% in April, with expectation for a further decline. It is interesting to see US economy on a stronger-than-forecasted footing, alongside improvement in the inflation rate. In response, the U.S Federal Reserve kept policy rate unchanged after several consecutive rate hikes, in order to access the lagging impacts of the policies and economic health, with prospect for additional two hikes or more, but at a less aggressive pace. Thus, instilling an anticipation for a policy pivot much later into 2024.

US, UK, Euro Area and China

				
GDP	↓ Q1'23 2.00% Q4'22 (2.60%)	– Q1'22 0.10% Q4'22 (0.10%)	↑ Q1'23 0.10% Q4'22 (0.00%)	↑ Q1'23 2.20% Q4'22 (0.60%)
MONETARY/ BANK RATE	– Jun'23 5.25% May'23 (5.25%) Jun'22 (1.75%)	↑ Jun'23 5.00% May'23 (4.50%) Jun'22 (1.25%)	↑ May'23 3.75% Mar'23 (3.50%) May'22 (0.00%)	↓ Jun'23 3.55% May'23 (3.65%) Jun'22 (3.70%)
INFLATION RATE	↓ May'23 4.00% Apr'23 (4.90%) May'22 (8.60%)	↓ May'23 8.70% Apr'23 (8.70%) May'22 (7.90%)	↓ May'23 6.10% Apr'23 (7.00%) May'22 (8.10%)	↓ Jun'23 0.00% May'23 (0.20%) Jun'22 (2.50%)

For the United Kingdom, the Bank of England unexpectedly increase its interest rate by 50bps, to 5.00%, exerting further pressures to squash the stubbornly high inflation. Prior to the BoE's decision, the Consumer Price Index showed that inflation grew at 8.70% YoY, outpacing expectations of 8.40%. While on a monthly basis, core inflation grew by 7.10% in May from 6.8% in the preceding month, indicating the highest increase since 1992.

In similar moves, the European Central Bank raised its policy rate by another 25bps to 4.00%, while also stressing the impact of wage growth over the inflation rate and reinforcing its readiness to remain hawkish till inflation moderates satisfactorily. In the recent data, the eurozone inflation fell to 5.59% in June, from 6.10% in May. While core inflation rose to 5.40% in June, from 5.30%, drifting slightly from its 5.70% highest level seen in March 2023.Despite the attempt of OPEC+ members to push up oil prices to desired levels, the average oil price declined to $74.98pb in Jun'23, from $75.77pb in May'23, as the likelihood for a more interest rate hike continues to take a toll in the oil market.

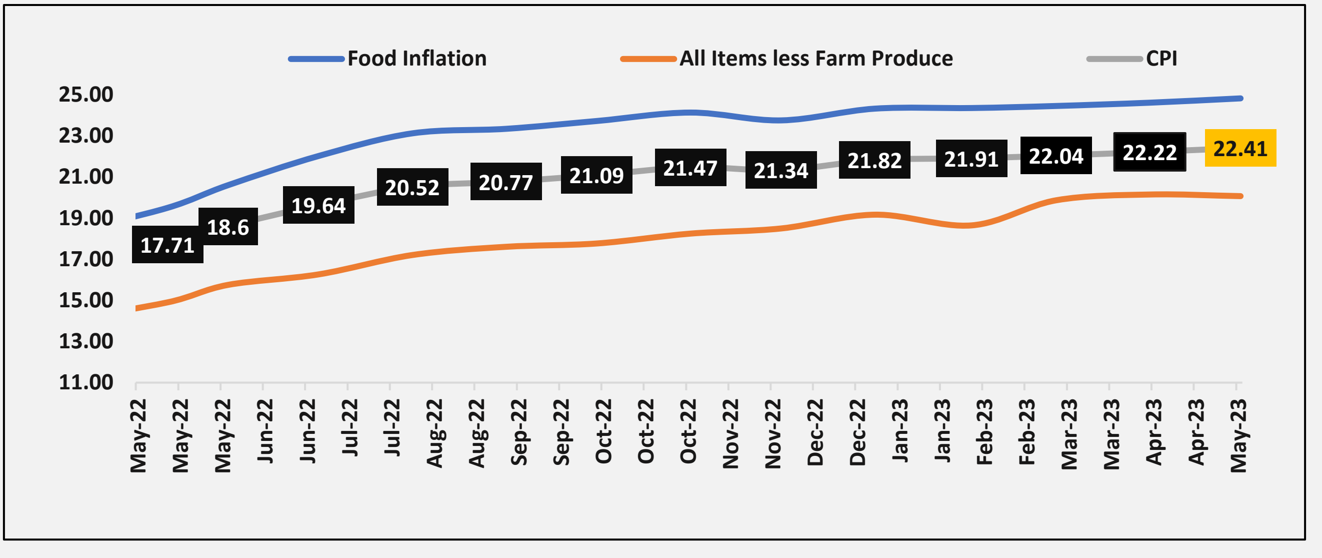
DOMESTIC MACROECONOMIC REVIEW

After the presidential inaugural ceremony, the month of June encapsulated the several reforms approved by President Bola Ahmed Tinubu. Notably, the abrupt removal of fuel subsidy, unification of foreign exchange windows alongside a switch to floating system from the fixed exchange system, new Electricity Act, new Data Protection Act, and suspension of the CBN Governor and the EFCC Chairman.

Amid these sweeping reforms and policies, the Nigeria Bureau of Statistics reported the country's Consumer Price Index and Foreign Trade data. Nigeria's foreign trade declined by 17.47% year-on-year to ₦12.05tn, between Q1'22 and Q1'23, partly influenced by the decline in economic activities worsened by the cash crunch. However, total trade increased by 2.77% from ₦11.72 trillion in Q4'22. Drilling further, the trade balance stood positive at ₦927.16 billion, marking the second consecutive trade surplus after the trade deficit in Q3'22. Although, this showed a reduction in total imports and exports by 0.26% and 0.09%, respectively.

Furthermore, Nigeria's inflation for May recorded a further uptick, with the CPI at 22.41% YoY from 22.22% in April. Likewise, food numbers rose to 24.82% from 24.61% recorded in April 2023. However, core inflation moderated to 20.06% in May, from 20.14% in April 2023.

Outlook: As the prevailing issues continue to mount pressures on the prices of goods and services, we envisage a sustained upward trajectory in the short-to-medium term. The drastic removal of fuel subsidy and the bold step to float the rate of foreign exchange should be fully captured in the subsequent inflation readings.



MARKET UPDATE

Foreign Exchange Market – Massive currency devaluation amid Unification of Exchange rates; Gross FX reserves declined further.

During the month, the Nigerian FX market witnessed substantial transformations and adjustments, reflecting the country's efforts towards a unified and more transparent foreign exchange system. The month began with an exchange rate of $/₦464.67 under the central bank's multiple exchange rate windows system. However, Nigeria's new president pushed for the unification of these windows, leading to a change in the foreign exchange policy.

As a result, the I &E exchange rate depreciated by a remarkable 39% in just one month, closing at $/₦769.25, while the NAFEX rate closed at $/₦756.24 (opening rate $/₦465.46). This marked one of the largest one-month depreciations of the currency in decades. Nevertheless, this shift brought about the achievement of exchange rate parity during the month, ending years of significant disparity between the value of the naira and the dollar.

The Gross external reserves closed at c.$34.19 billion compared with $35.09 billion as at close of May'2023, representing a decline of c.$90 million. Factors such as below-average oil production, challenging global financial conditions, and a continued decline in crude oil prices have impacted the reserves.

Outlook: The volatility in the Nigerian FX market is expected to persist. Recently the Central Bank of Nigeria (CBN) commenced the provision of offer quotes for Naira-Settled OTC FX Futures (NSOFF) contracts with tenors ranging from thirteen (13) to sixty (60) months. A move which is aimed at facilitating long-term foreign exchange (FX) risk hedging for market participants.

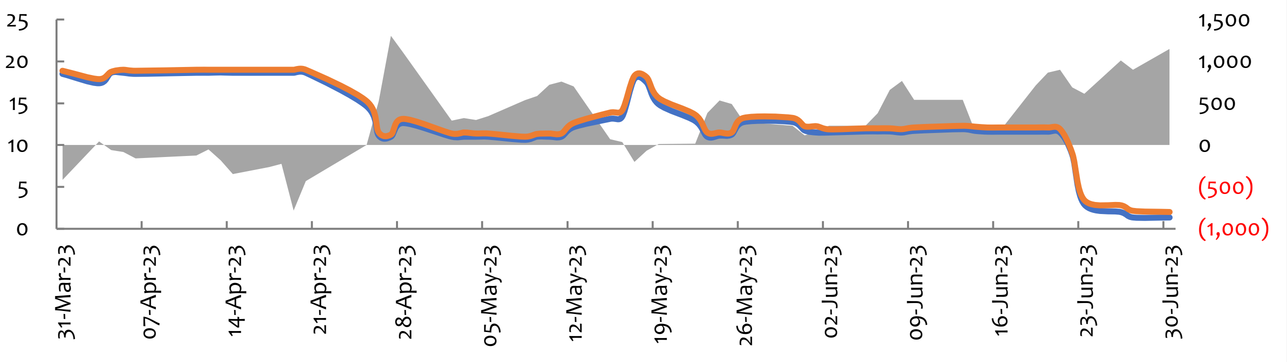
Money Market Review and Outlook – *Suspension, policy reform and surplus system liquidity.*

Q2 2023 ended on a buoyant note, as system liquidity improved tremendously due to a fine mix of mostly CRR refunds and FAAC Inflows. Following the suspension of the CBN governor, Godwin Emefiele in June, the Nigerian financial landscape witnessed a change of extant policies, which reverberated across various markets. Specifically, the money market witnessed an upshoot in liquidity, as it averaged ₦569.94 billion compared to the ₦307.12 billion recorded in May 2023, and key to this was the refund of CRR to Deposit Money banks (DMBs) to ease their liquidity woes. Interbank rates plunged consequently, averaging single digits for the first time in more than 6 months. To buttress, the Open Repo Rate (OPR) and Overnight Rate (OVN) closed at 1.36% and 2.00% but averaged 9.42% and 9.91% compared to 12.38% and 12.87% recorded in May 2023, respectively.

On a quarterly basis, system liquidity averaged ₦313.42 billion in Q2 2023 (vs ₦434.91 billion in Q1 2023), and the Open Repo Rate and Overnight (ON) rate averaged 12.69% and 13.15%, respectively in Q2 2023 (vs 12.03% and 12.47% in Q1 2023). This was due to the incessant CRR debits at the early part of Q2 2023 and lower liquidity profile (Maturities and Coupon inflows).

MARKET UPDATE

System Liquidity and Interbank Rates



Outlook: We expect an upward trajectory in the liquidity status for Q3 2023. This is premised on the anticipated maturities and coupon inflows: NTB and OMO maturities - ₦438.12 billion, FGN bond coupon - ₦265.73 billion and potential FAAC credits. Thus, interbank funding and FD placements rates are expected to trend lower.

Treasury Bills – *Buyside interest dominated proceedings amid substantial injection of liquidity and relaxed policy measures.*

Mixed sentiments dominated the early part of June 2023, as investors had varying views for the last month in the quarter. A few investors sought to manage their idle cash by investing in treasury bills and Promissory notes, while others capitalized on their positions and booked profits as they anticipated higher yields at the succeeding NTB auctions.

However, as a sequel to the suspension of the CBN governor, Godwin Emefiele, there was a removal of the floor and ceiling in the interbank money market rates. This, coupled with buoyant system liquidity, spurred a bullish theme as the month progressed with ample demand for treasury bills. Market players, especially banks, tilted to treasury bills rather than interbank placement whose rates ranged between 1% to 1.50%.

As the month drew to a close, the influx of funds from the Federation Account Allocation Committee (FAAC) spiked liquidity by around ₦468 billion, bringing the total to c.₦1 trillion, thus intensifying the demand across the curve as banks sought to utilize their idle funds.

The buyside interest also reflected at the NTB auctions, with oversubscription recorded across all tenors and decline in stop rates. The total NTB primary market subscription for the month printed at c.₦1.87 trillion, while c.₦404.51 billion was offered and same was allotted.

Generally, the closing average M-o-M rate declined by c.25bps to 3.62%.

MARKET UPDATE

On a quarterly comparison, the treasury bills market started on a bearish note, primarily influenced by factors such as CRR debit and the FX retail auction. However, the market quickly shifted towards a bullish trend as system liquidity improved. This was driven by the maturity of CBN swaps and a significant inflow of approximately ₦468 billion from the FAAC. These events injected liquidity into the market, leading to an optimistic outlook and increased demand for treasury bills.

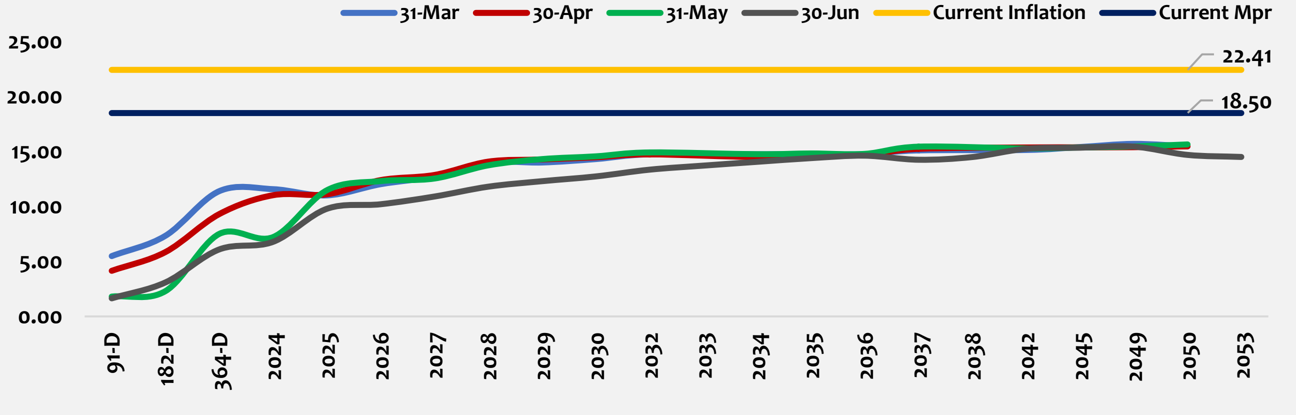
JUNE 2023 NTB AUCTION RESULTS							
Tenor	Mar'23 Close	May'23 Close	Jun'23 Auc 1	Jun'23 Auc 2	Jun'23 Auc 3	Change M-o-M (bps)	Change Q-o-Q (bps)
91	6.00%	2.29%	4.48%	4.89%	2.87%	+58.00	(313.00)
182	8.00%	4.99%	6.00%	5.12%	4.37%	(62.00)	(363.00)
364	14.74%	**7.99%**	**9.45%**	**8.24%**	**6.23%**	(176.00)	(851.00)

Outlook: Q3 2023 is expected to remain bullish amid the anticipated NTB and OMO maturities of ₦438.12 billion, which will augment the already buoyant system liquidity level. Though, the mismatch between current interest rate levels and inflationary rate poses a subtle twist that the DMO may be forced to increase short term interest rates at some point.

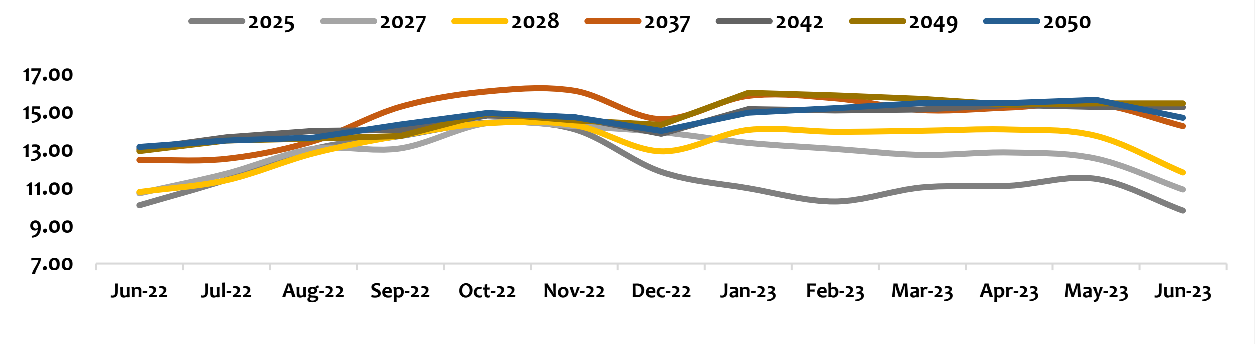
FGN Bond Market – *Overall bullish, mostly driven by liquidity influx; unprecedented rally to end Q2 2023*

The local bonds market endured a bullish start to the last month in Q2 2023, sustaining the buyside interest that was evident as at close of May 2023. This was mostly driven by investors who continued to close their short exposures following the retirement of 2032, 2042 and 2050 FGN bonds by the DMO and subsequent introduction of new securities (2033, 2038 and 2053 papers). The buoyancy in system liquidity also sparked the bullish trajectory in the FGN local bonds market, particularly around the short-dated papers.

NGN SOVEREIGN RATE CURVE



MARKET UPDATE



The FGN bond auction was oversubscribed, and the allotment and subscription levels were the highest recorded in the last 3 auctions. The Longest dated paper (2053) witnessed the most demand at c.300 billion, while c.221 billion was allotted. Relative to the previous closing yields, the marginal rates at June's auction were lower across all tenors.

Post auction, the yield curve adjusted further downwards, as unmet demand at the auction filtered to the secondary market and the buoyant system liquidity also drove intense buying. There was also an unprecedented rally to end the month, as large ticket investors sought to close their books with all available cash fully utilized. Thus, the 2053 lost c.95bps to close the month.

Overall, average mid-yield in the secondary market declined by c.81bps M-o-M to close at 13.09%.

To summarize Q2 2023 performance, the local bond yields experienced a significant average decline of more than c.100 bps Q-o-Q. The period began with a prevailing bearish bias due to a low level of liquidity in the market. However, it gradually shifted to a bullish state as market players capitalized on the opportunity of high yields and utilized excess funds in the system. This shift was primarily driven by the refunds received from the Cash Reserve Ratio (CRR). The improved liquidity and attractive yields prompted investors to take advantage of the favourable market conditions and contributed to the overall decline in bond yields during the quarter

JUNE 2023 BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Yield	May'23 Close	Change M-o-M (bps)
26-Apr-29	90.00	154.34	86.38	13.90%	2028s (14.10%)	(20.00)
21-Jun-33	90.00	34.45	18.57	14.70%	2032s (14.90%)	(20.00)
21-Jun-38	90.00	152.61	100.64	15.45%	2042s (15.69%)	(24.00)
21-Jun-53	90.00	293.71	221.56	15.70%	2050s (15.80%)	(10.00)
	360.00	635.12	427.16			

Outlook: The broader outlook on the yield direction for FGN bonds is mixed to bullish for Q3 2023. Expected coupon inflows totalling c.₦768.83 billion (July 2023: ₦265.73 billion) over the next 3 months, will continue to drive buyside activity. Investors will also continue to cherry-pick the attractive yields, especially across the on-the-run papers.

MARKET UPDATE

Equities Market Performance in June – *Nigerian stocks reach its highest in over 15 years.*

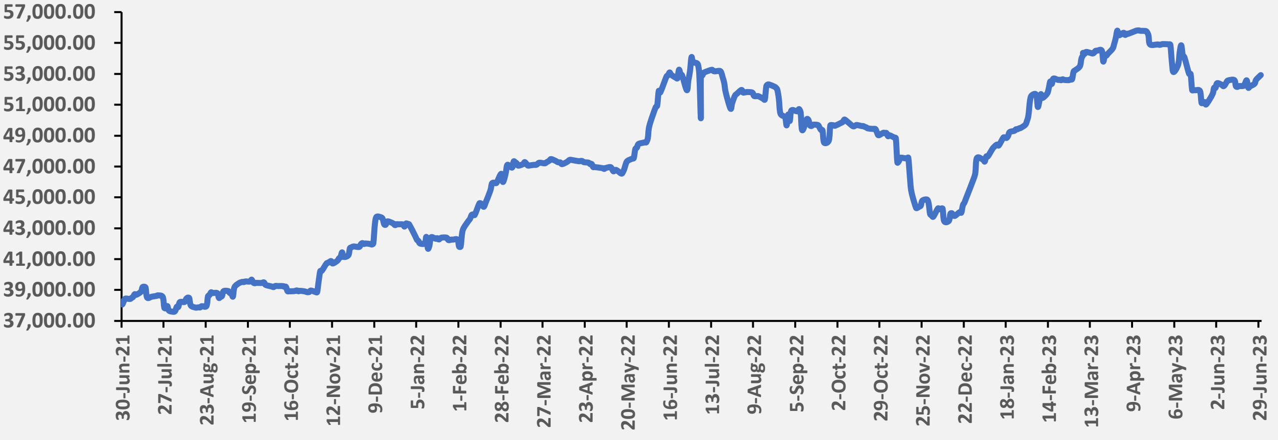
The Nigerian equity market exhibited a positive performance in the first half of 2023, with the performance index at the Nigerian Exchange reaching its best level in over 15 years.

The All-Share Index (ASI) of the Nigerian Exchange Limited (NGX) rose 18.96% Year-to-Date (YtD) to settle at 60,968.27 basis points. Also, the market capitalization climbed from ₦27.92 trillion at the end of 2022 to ₦33.197 trillion at H1'2023; a growth of c.18.90% and actual earnings of c. ₦5.28 trillion.

Diverse factors, including corporate initiatives, strong earnings reports from some businesses, and dividend reinvestments, have been cited as the causes of the restored confidence in the Nigerian equity market that is reflected in the rebound in the local exchange.

To add, the emergence of President Tinubu's regime has contributed to the market enthusiasm, with some footprints of some foreign investors cherry-picking tickers with sound fundamentals. Some of the policies that has gained market confidence includes the harmonization of the exchange rate system.

NGX ASI YTD Trend

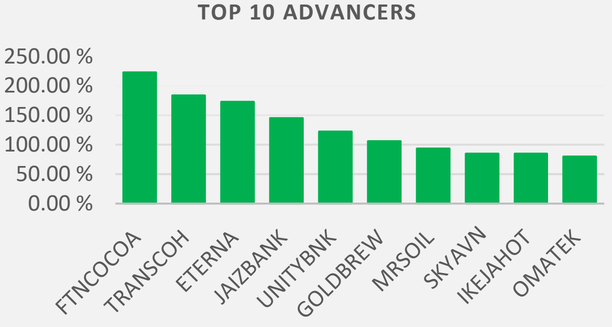


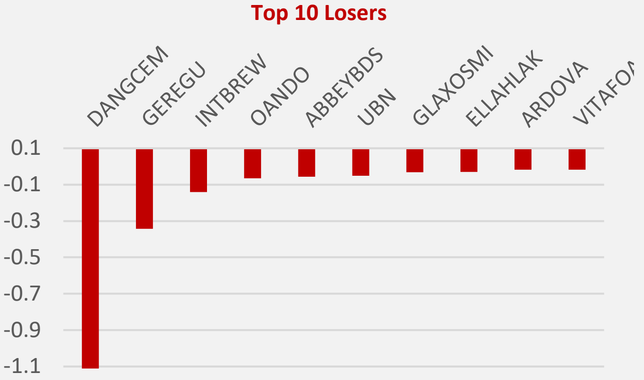
Positive performance Across All Sectors

June was a month of greens across all sectors. The Oil &Gas Index gained the most at 30.18%, followed by the Banking Index (+23.30%). The Consumer Goods Index (+5.51%) and the Industrial Goods Index (+ 0.13%) were also positive, while the Insurances Index ended the month positive as well (32.55%).

	MTD	YTD
NGX ASI	9.32%	18.96%
NGX Banking Index	23.30%	54.59%
NGX Insurance Index	32.55%	58.91%
NGX Industrial Index	0.13%	3.66%
NGX Consumer Index	5.51%	51.93%
NGX Oil & Gas Index	30.18%	67.76%

MARKET UPDATE



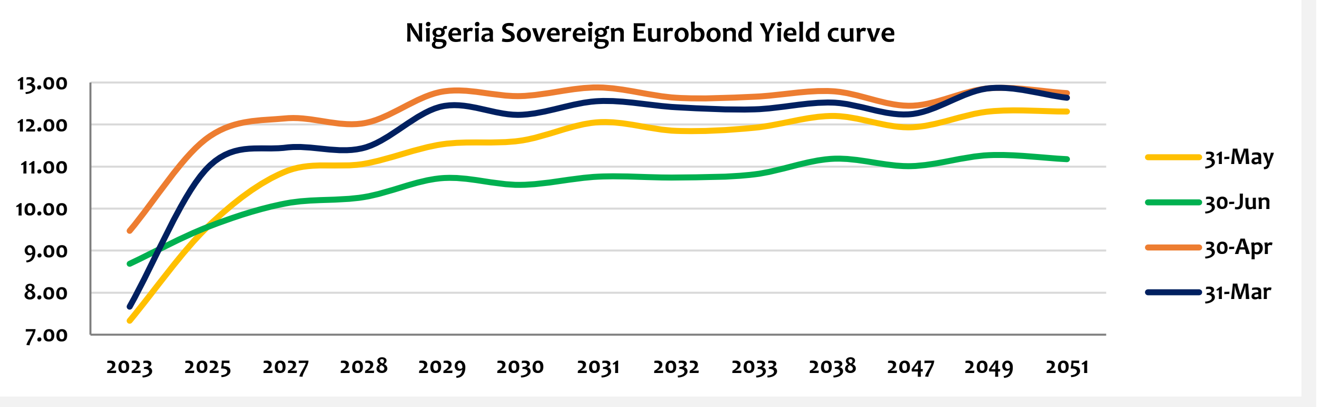


Outlook: We predict that the equities markets will be more bullish in the second half of the year, after the floating of a unified exchange rate to ease liquidity constraints and restore foreign investors' trust, as well as the government's anticipated market-friendly policies.

EUROBONDS

Eurobonds Market – *Mixed to bullish activity amid slowdown in US inflation and benchmark interest rate hold stance.*

The month began with a bullish tone, particularly in the Nigerian curve, as investors reacted positively to the fuel subsidy removal, the suspension of the CBN governor, and the shift from a fixed exchange rate policy to a managed float system. Angola also experienced a bullish trend after announcing a reduction in gasoline subsidies, while Egypt remained bearish, and Ghana maintained a flat trend.



As the month progressed, the Eurobonds market shifted to a mixed to bearish sentiment due to declining crude oil prices, concerns about economic growth, and the ECB's commitment to raising interest rates.

However, late buying activity was spurred by lower US inflation at 4.00% and the FOMC's decision to maintain the benchmark interest rate at 5.25%. Despite this, the ECB's rate increase (+25bps to 4.00%), the UK's policy rate increase (+50bps to 5.00%), and some profit taking by investors led to a mild bearish sentiment towards the end of the month.

Overall, the average mid-yield across Nigeria's Eurobond curve declined by c.75bps M-o-M to close at 10.53%.

On a quarterly basis, the sub-Saharan Africa Eurobond market exhibited a bearish outlook in Q2 2023 as investors sought safety in the US dollar. Factors such as the ongoing war in Ukraine, increasing inflation, and global economic growth concerns contributed to this sentiment. The US Federal Reserve raised interest rates by 25 basis points to 5.25%, at a slower pace compared to Q1 2023. Inflation in the US dropped by 200 basis points from 6.00% in February to 4.00% in May. However, it remained far from the Fed's 2.00% target. As a result, the US dollar strengthened and yields on US Treasuries rose, making sub-Saharan African Eurobonds less appealing.

EUROBONDS

In Q2 2023, no sub-Saharan African countries issued new Eurobonds, unlike Q1 2022 when Nigeria and Angola did so. Nigerian Eurobond yields reached a record high of 12.5% due to high debt levels, political uncertainty, and the global economic slowdown. Positive market response to the new administration's policies, including fuel subsidy removal, brought temporary relief and short-term rallies. Ghanaian Eurobond yields rose to 14.5% due to an ongoing debt crisis and uncertainties surrounding the IMF bailout. Fitch downgraded Ghana's Long-Term Local-Currency Issuer Default Rating to 'RD' from 'CCC' due to missed debt payments and solvency concerns. Kenyan Eurobond yields increased slightly to 11.5% amid rising debt levels and the global economic slowdown. Similarly, Zambian Eurobond yields climbed to a record high of 2,500 bps due to the country's ongoing debt crisis and IMF bailout uncertainties. Encouragingly, the IMF and Zambian authorities reached a staff-level agreement, meeting the necessary benchmarks for the first review.

Other notable information:

- The US jobless claims rose to 261,000 in June, surpassing consensus estimates and the preceding 233,000.
- UK's core inflation printed higher-than-expected at 7.1% in May, from 6.8% in April.
- Ghana's GDP grew by 4.2% in Q1'23 from 3.7% in Q4'22.

Outlook: The Q3 2023 outlook for the sub-Saharan Africa Eurobond market is uncertain. Analysts have differing views, with some expecting a potential market recovery as investors seek yield elsewhere, while others anticipate a continued bearish trend due to global economic risks. Key factors influencing the market include the global economic conditions, rising inflation, US interest rate hikes, and progress in debt restructuring efforts.

Moreso, the high yields on existing Eurobonds and the risk of credit downgrades should hinder countries from raising capital in the international market. It will be interesting to watch the Fed pivot to a dovish policy after a possible soft landing.

Contact us now to receive valuable investment guidance today.

AIICO Capital Limited
Plot 12, 2nd Floor, Churchgate Street, Victoria Island, Lagos State.

: +234 9062 547 284
: +234 9167 429 986
: +234 9167 065 277

: accs@aiicocapital.com
: www.aiicocapital.com

Disclaimer:
The information provided in this material is general in nature and does not constitute financial advice. AIICO Capital Limited does not assume any liability or responsibility in relation to the information provided in this material, including information provided by third parties. While every effort has been made to ensure the information provided is accurate, do not rely solely on this information to make a financial or investment decision. Before making any financial or investment decision, consult your financial adviser.

AIICO Capital Limited does not give any warranty as to the accuracy, reliability or completeness of the information contained in this material. AIICO Capital Limited, its employees and affiliates do not accept any liability for any error or omission in this material or for any loss or damage suffered by a recipient or any other person.