MONTHLY MARKET REPORT JULY 2023

REPORT SUMMARY

Review

- Upward review of global economic growth.
- US Fed: Higher prospects for soft landing.
- Softer hawkish posture by the Nigerian Central Bank.
- Excess liquidity in the money market.
- Strong bearish treasury bills market with over 300bps upsurge in average yield.
- A bullish start, but bearish close for FGN local bonds market.
- Positive equity market for July, boosted by oil & gas and banking sector.
- Nigeria's Eurobonds market settled on a bullish note.

Outlook

- Anticipation of a phase off in policy tightening.
- System liquidity is expected to remain positive.
- Possibility of an uptick in treasury yields, although, hinged on DMO's verdict.
- Smaller bond issuance in view for August.
- Lower chances for a positive return in Nigerian equity market.
- Stable outlook by S&P plus higher crude oil prices could trickle into a positive remark for the Eurobonds market.

GLOBAL MACROECONOMIC REVIEW

The Federal Reserve of the United States somewhat resumed its commitment to raise interest rate with the intention to tame the sticky inflation that has plagued the US economy and the world at large.

So far, the Fed has raised policy rate by a cumulative of over 500bps since early 2022, regardless of the pain that is typically tied to a higher interest rate environment, particularly risking the economy to a potential recession. Nonetheless, the first reading of US GDP growth rate for Q2’2023 printed at 2.40% q/q, and 2.60% y/y.

In addition, the International Monetary Fund (IMF) latest (as of July 2023) economic outlook report revised the projection for US economic growth for 2023 to 1.8% from 1.6% estimated in April. While expected growth for 2024 was revised downwards to 1.0% from 1.1%.

US, UK, Euro Area and China

	US	UK	Euro Area	China
GDP	Q2’23 2.40% Q1’23 (2.00%)	Q1’23 0.10% Q4’22 (0.10%)	Q2’23 0.30% Q1’23 (-0.10%)	Q2’23 0.80% Q1’23 (2.20%)
MONETARY/ BANK RATE	Jul’23 5.50% Jun’23 (5.25%) Jul’22 (2.50%)	Aug’23 5.25% Jun’23 (5.00%) Aug’22 (1.75%)	Jul’23 4.35% Jun’23 (4.00%) Jul’22 (0.50%)	Jul’23 3.55% Jun’23 (3.55%) Jun’22 (3.70%)
INFLATION RATE	Jun’23 3.00% May’23 (4.00%) Jun’22 (9.10%)	Jun’23 7.90% May’23 (8.70%) Jun’22 (9.40%)	Jul’23 5.30% Jun’23 (5.50%) Jul’22 (8.90%)	Jun’23 0.00% May’23 (0.20%) Jun’22 (2.50%)

Source: Bloomberg, Trading Economics, Investing.com, AIICO Capital

While the growth projections for the United Kingdom was revised to 0.4% and 1.0% for 2023 and 2024 respectively, from -0.3% and 1.0% forecasted three months ago.

In sum, IMF reported an upward revision for advanced economies at 1.5% in 2023 from 1.3%. While emerging markets and developing economies were revised to 4.0% by the end of 2023 from 3.9% estimated earlier. For Nigeria, IMF maintained its outlook at 3.2% and 3.0% for 2023 and 2024, correspondingly.

GLOBAL MACROECONOMIC REVIEW

Economic growth in China has been dragged by slow demand – hugely impacted by the lengthy lockdown - as reflected in June inflation at 0%, while market expected 0.2%. After the release of China's Q2'23 economic performance, urgent steps to reawaken the economy was discussed at China's politburo meeting, presided by President Xi.

The Political Bureau of the Communist Party of China (CPC) Central Committee painted the current economic challenges in China as new and concluded on implementing a slew of policies to tackle these challenges and boost economic activities, with the GDP growth target at 5% for 2023. Based on recent data, China's economic growth has stayed positive, although, less than forecasts, as Q2'2023 GDP grew by 6.3% y/y, lower than 4.5% seen in Q1'23, which average 5.4% for H1'23. IMF maintained its economic outlook for China at 5.2% and 4.5% for 2023 and 2024.

For the United Kingdom and European Union, inflation rate has been considerably mixed, with headline declining and core inflation remaining sticky.

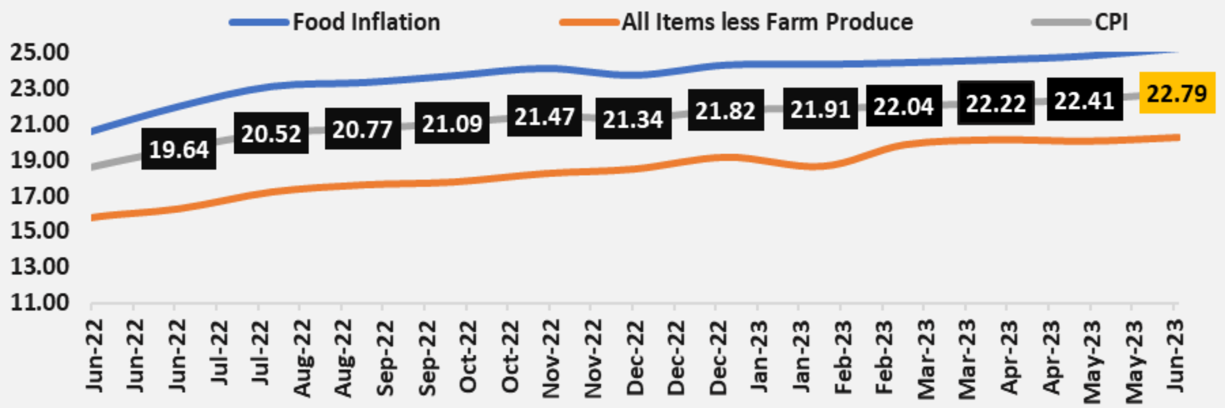
The UK headline inflation slowed to 7.90% in June (from 8.70% in May), below expectation of 8.20%, while core inflation printed at 6.90% from its peak at 7.10%.

Inflation in the Eurozone declined for the third time in a row at 5.30% in July, while core inflation remained unchanged at 5.50% in July 2023. The fight to rein in inflation at 2.0% levels while keeping employment and economic growth positive remains a challenge, although, recent data shows improvement since its record high levels of 10.60% in October 2022 and 11.10% in same period for the Eurozone and United Kingdom, respectively. The European Central Bank (ECB) raised policy rate by 25bps to 4.25%.

DOMESTIC MACROECONOMIC REVIEW

Nigeria's inflation accelerated to 22.79% y/y in June 2023, higher by 0.38% compared to 22.41% y/y recorded in May (Bloomberg Est. 23.00%). The headline inflation grew by 2.13% m/m in June 2023 vs 1.94% recorded in May 2023. The food inflation increased to 25.25% from 24.82% recorded in May 2023. However, core inflation, which strips out food items, worsened to 20.27% in June, from 20.06% in May 2023.

At the end of H1'23, Nigeria's inflation had soared to a 7-year high of 22.79% y/y, based on National Bureau of Statistics' (NBS) data. In the same period last year, inflation clocked 18.60%, indicating sustained inflationary pressures over the period. Recently, the fuel subsidy removal and adoption of a managed-float exchange rate system have exacerbated the pains of an already high inflationary environment.



Source: NBS, AIICO Capital

Outlook : In the absence of any cushion to the soaring pace of inflation, we expect the next reading to remain elevated.

In the period review, the Monetary Policy Committee (MPC) raised the benchmark interest rate by 25bps to 18.75% and adjusted its asymmetric corridor to -300/+100 basis points around the MPR.

The acting governor of the CBN, Folashodun Shonubi, stated that the members of the committee unanimously attested to the fact that previous rate hikes helped cushion the ravaging effect of the rising inflation rate. However, he also noted that the liquidity injections by the new government had its ripple impact on inflation. Hence, the members of the committee voted to either raise or hold the MPR.

Among the 11-man committee, 6 members voted to raise interest rate, of which 4 voted for 25bps while 2 voted for 50bps. 5 members voted to hold. In addition, all members voted to adjust the asymmetric corridor to +100/-300 around the MPR from +100/-700, while holding other parameters constant.

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

The gap between the official FX rate and the parallel market has been steadily widening, driven by a surge in demand and constrained foreign exchange supply. This has inflicted the banks with challenges in meeting FX demands, given the market volatility in the recently supposed floated foreign exchange market.

In the parallel market, the naira exchanged at an alarming rate of $/₦870.00 to close the month, while the Investors and Exporters (I&E) exchange rate improved to $/₦756.94 (a ₦12.31 appreciation from June's close of $/₦769.25). However, the NAFEX rate closed at $/₦770.89, depreciating by ₦14.65 from June's close of $/₦756.24.

At the recent MPC meeting, the acting CBN governor acknowledged that the current forex volatility primarily results from limited foreign currency supply. Nonetheless, he expressed optimism that addressing the supply issues could potentially alleviate the volatility.

The Gross external reserves concluded at approximately $33.95 billion, compared to $34.12 billion at the end of May 2023, signifying a decline of approximately $170 million.

Outlook: We expect the Nigerian FX market to continue to witness instability in the interim, as it remains under pressure, and a concerted effort to address supply constraints is imperative to mitigate volatility and stabilize the Naira's value.

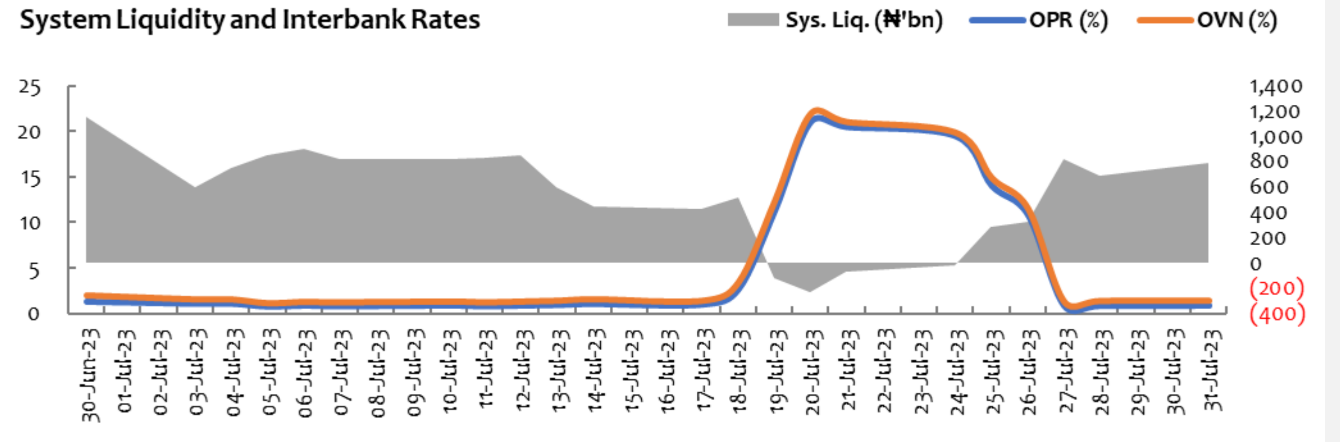
Money Market Review and Outlook – *Surfeit system liquidity overall; FGN bond auction funding; MPR increased to 18.75%.*

The low interbank rates and elevated system liquidity (spurred by FAAC inflows) extended into the first few weeks of July 2023, as rates hovered between 0.8% and c.2.50%, while system liquidity dangled around c.₦700bn levels.

By mid-month, liquidity thinned out from the system due to the FGN bond auction, where the DMO oversold by c.₦300bn, thus effectively throwing the market's liquidity status into negative territory. The aftermath was a monumental increase in interbank rates to numbers above 11.30% levels. To emphasize, interbank rates rose to touch the highs of 21.00% due to heightened demand to fulfil funding obligations.

As the month headed for a close, the policy committee members raised MPR by 25 basis points to 18.75% and the adjustment of the asymmetric corridor to +100/-300 basis points around the MPR from +100/-700 basis points. These changes, alongside the circular released as regards the penalization of deposit money banks who fail to meet the required minimum Loan-to-Deposit Ratio (LDR) of 65%, drove a mixed close to the month, as banks focused on pursuing higher returns on loans in a bid to avoid debits of up to 50% of the LDR shortfall as CRR surcharge.

FAAC inflows boosted liquidity at the end of the month. Thus, funding rates closed between c.0.90% and 1.40% levels.



Source: CBN, FMDQ, AIICO Capital

Outlook: We anticipate a mildly robust liquidity status in August, premised on the expected maturities and coupon inflows: NTB and OMO maturities - ₦497.20 billion, FGN bond coupon - ₦111.75 billion and potential FAAC credits. Interbank rates should maintain a downward trend, albeit there will be spikes during the month, largely due to funding for the FGN bond auction debit.

Treasury Bills – *Mixed to bearish theme driven by shocking NTB auction result after the latest small-sized MPR hike*

It was a calm start to the month, albeit mild buyside activity was still observed across the mid to long dated papers. Most of the trades were consummated around 4.00% levels on the mid-dated papers, while demand on the long end was seen around 5.80% - 6.00%. This translated to the preliminary auction for the month, where the stop rates for the mid and long tenors declined significantly, bolstered by substantial demand from fund managers and pension fund houses.

Post NTB auction, despite the surfeit liquidity and relative demand on the long end, there was resistance from market players regarding the current rate levels, thus, this led to an extended period of quiet sessions albeit weak demand was still seen at c.6.00% levels on the long end, with most of the activity skewed to the short end at sub 2.00% levels.

The hike in MPR to 18.75% and the aftermath of the shocking NTB auction result, where the stop rates increased significantly across the usual tenors, especially the 1-year paper which increased from 5.94% to 12.15%, incited a reaction in the secondary market space. Bid and offers jumped substantially to 10.00% - 11.00%, with most of the trades consummated at mid-10.00%.

The total NTB primary market subscription for the month printed at c.₦1.09 trillion, while c.₦406.10 billion was offered and same was allotted.

Generally, the closing average m/m rate increased by c.347 basis points to 7.09%.

MARKET UPDATE

JULY 2023 NTB AUCTION RESULT				
Tenor	Jun'23 Close	Jul'23 Auc 1	Jul'23 Auc 2	Change M-o-M (basis points)
91	2.87%	2.86%	6.00%	+313.00
182	4.37%	3.50%	8.00%	+363.00
364	**6.23%**	**5.94%**	**12.15%**	**+592.00**

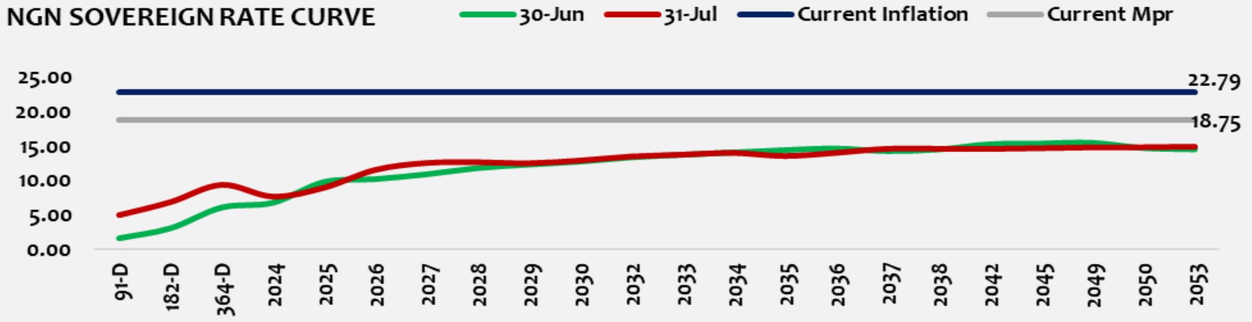
Source: CBN, AIICO Capital

Outlook: We anticipate an increase in NTB issuance in August (₦457.20 billion vs ₦406.10 billion in July), thus, we expect market players to adjust their bid rates upwards to earn better returns on their cash given that the DMO signalled at the last NTB auction they were willing to increase short term interest rates.

FGN Bond Market – *Bullish start dampened by post-auction reversal, spurring bearish sentiments with notable yield fluctuations.*

July started on a bullish note in the local bonds market similar to how June 2023 opened.

This was marked by a widespread demand across the yield curve (especially 2028, 2029, 2032, 2037, 2038, 2050 and 2053 papers), fuelled by the market's anticipation of a further descent in yields.



Source: FMDQ, NBS, CBN, AIICO Capital

The bubbling demands spilled into the auction and resulted to a sizeable pullback in stop rates.

While the DMO offered ₦360.00 billion worth of bonds, total subscription printed ₦945.14 billion, representing 162.54% above total bonds offered. Surprisingly, the DMO sold bonds worth ₦656.73 billion, implying 82.43% above the ₦360,00 billion offered.

Precisely, ₦52.62 billion and ₦39.86 billion were allotted on the 2029 and 2033 papers, while ₦146.49 billion and ₦417.77 billion were sold on the 2038 and 2053 papers. In addition, ₦1.10 billion was sold for the 2029 papers, being a Non-Competitive allotment.

Consequently, the stop rates declined significantly across all tenors by more than 100 basis points.

MARKET UPDATE

JULY 2023 BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Yield	June'23 Close	Change M-o-M (basis points)
26-Apr-29	90.00	102.40	52.62	**12.50%**	**13.90%**	**(140.00)**
21-Jun-33	90.00	50.86	39.86	**13.60%**	**14.70%**	**(110.00)**
21-Jun-38	90.00	191.19	146.49	**14.10%**	**15.45%**	**(135.00)**
21-Jun-53	90.00	600.69	417.77	**14.30%**	**15.70%**	**(140.00)**
	360.00	**945.14**	**656.74**			

Source: DMO, AIICO Capital

However, the post-auction period witnessed a reversal of this bullish trend, with a decline in enthusiasm following the massive sales at the auction and market participants' demands satisfactorily met.

Subsequently, the market tilted to a bearish theme till the end of the month, exacerbated by the small sized MPR hike and more importantly, the upsurge in stop rates for the usual tenors at the last NTB auction.

Overall, average mid-yield in the secondary market increased by c.10 basis points m/m to close at 13.18%.

Outlook: On the strength of what has transpired so far, we expect a lot to be determined by the DMO at the next FGN bonds auction (14-Aug-2023). Investors will look to see if the DMO is willing to align with current market realities or will continue to borrow cheaply.

Also, with over ₦4.2 trillion borrowed so far this year in the FGN bonds market, the DMO can afford to temporarily take a pause on their aggressive borrowing and wait for the market to adjust to considerably lower levels before issuing more debts. Expected coupon for August is ₦111.75 billion.

MARKET UPDATE

Equities Market Performance in July – *Nigerian equity closed on a positive note, boosted by the oil & gas and banking sectors.*

The Nigerian equity market maintained a positive overall performance in the month of July.

The All-Share Index (ASI) of the Nigerian Exchange Limited (NGX) appreciated by 5.53% to settle at 64, 337.52 points, while year-to-date return delivered +25.53%. Also, the market capitalization increased by 5.46% m/m to ₦35.01 trillion at the end of July.

Market activities in July was mixed, as participants were optimistic ahead of Q2'23 earnings and positive jitters on notable names like ACCESSCORP, DANGCEM, BUACEMENT, and DANGSUGAR bumped with profit taking and unimpressive earnings result of top stocks in the consumer goods and telecommunication sector, including GUINNESS, NB and MTNN.

MTNN's H1'23 revenue increased by 21.96%, but PAT declined by 29.15%, due to increased cost pressures linked to the recent macroeconomic environment, particularly losses due to FX revaluation. Although, the expected pull back appears to be temporally halted due to its announcement of an interim dividend of N5.60k.

Also, NESTLE: H1'23 revenue increased by 17% but PAT fell by 280% y/y, impacted by huge finance and advertising cost.

Source: NGX, AIICO Capital

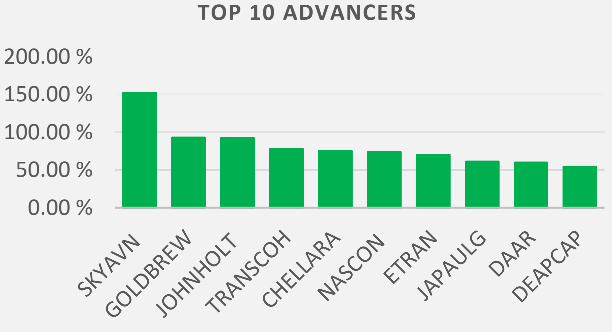
Mixed Sectorial Performance

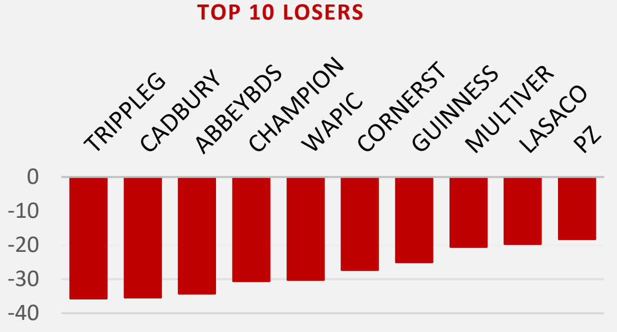
Observing the poor earnings result for the heavy-weight stocks in the consumer segment, the consumer goods sector declined by 4.58%. In contrast, the banking, industrial, and oil & gas sectors appreciated in value by 3.84%, 14.17%, and 20.05%.

	MTD	YTD
NGX ASI	5.53%	25.53%
NGX Banking Index	3.84%	60.53%
NGX Insurance Index	-5.89%	49.54%
NGX Industrial Index	14.17%	18.36%
NGX Consumer Index	-4.58%	44.97%
NGX Oil & Gas Index	20.05%	101.40%

Source: NGX, AIICO Capital

MARKET UPDATE





Source: Bloomberg, AIICO Capital

Outlook: We expect market trend to be mostly determined by the H1'23 earnings report, due to the potential lagging effects of the sweeping policies implemented in early June even with the cash crunch witnessed in the first quarter. The monthly return for August could result to a bearish close. However, we expect banking and oil & gas companies to cushion possible negative effect from industries mostly affected by the new economic atmosphere.

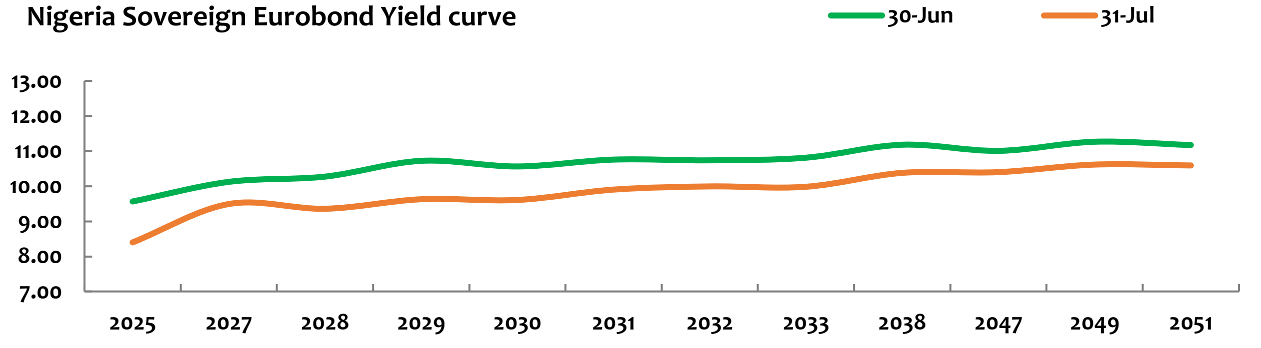
EUROBONDS

Eurobonds Market – *Global economic data and US Fed's decision drove mixed trends, albeit ending on a bullish note*

The Eurobonds market expressed a mixed trend in the month of July but settled on a bullish note.

Anticipation surrounding the US labour market data significantly influenced the market sentiment early in the month. Following the release of robust ADP Employment data, indicating 497,000 jobs added in June, surpassing expectations by 125.90% and previous data by 86.14%, the market shifted towards a strong bearish trajectory.

Nigeria Sovereign Eurobond Yield curve



Source: FBN UK, AIICO Capital

However, the Nigerian Eurobonds market experienced buoyancy during the month, primarily driven by the lower-than-expected US inflation print, liquidity from the redemption of the NIGERIA 2023 Eurobond paper and the heavyweight OPEC members and allies implementing extended output cuts . The June CPI weakened by a full percentage point to 3.00%, signalling a possible shift towards a dovish posture by the US central bank.

During the month, the market tilted to a bearish theme again, driven by China's disappointing GDP report. The second largest economy recorded a 0.8% quarterly growth rate for Q2'2023 (from 2.2% in Q1'23). Thereafter, the Eurobonds market reacted positively to strong US economic data, including PMI, Q2'23 GDP, Jobless Claims, and Core PCE Price Index, despite the 25 basis points increase in interest rates by the US Federal Reserve.

As the month drew to a close, the Eurobonds market displayed a mixed to bullish trend, marked by occasional profit taking activity and subsequent ample buyside activity across oilers such as Nigeria and Angola, as well as Ghanaian papers. This surge in demand was largely in response to China's announcement of plans to boost consumption.

Overall, the average mid-yield across Nigeria's Eurobond curve declined by c.67 basis points M-o-M to close at 9.86%.

Other notable information:

- U.S. initial jobless claims printed at 221,000, lower than 235,000 estimate.
- U.S. Q2'2023 advanced GDP growth rate showed 2.4%, above market expectation of 2.0%.
- Nigeria's total capital importation declined by 28% between Q1'23 and Q1'22, from $1.57 billion to $1.13 billion, as revealed by the National Bureau of Statistics.
- Angola's annual economic growth decelerated sharply to a two-year low of 0.3% in Q1 2023 from 2.6% in Q4 2022, marking the slowest growth rate since Q2'2021.
- The International Monetary Fund (IMF) approved c. $1 billion for Kenya, with an immediate disbursement of $415.4 million, and widened the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements to 48 months from 38 months, as the country continue to implement economic reforms and confront challenges with climate change.

- Fitch revised Kenya's outlook to Negative, Affirms at 'B'.

Outlook: The recent revision of the outlook of Nigeria by S&P Global Ratings to stable (affirmed 'B-/B' long- and short-term foreign and local currency sovereign credit ratings) from negative, is expected to drive further bullish activity across the Nigerian papers, this should have a spillover effect on the rest of the SSA and North African papers. Investors will also keep a keen eye on the breeding war emanating in Niger and its ripple effect on the rest of surrounding African countries.

On the global front, the USD is expected to lose further momentum amid the recent downgrade of the United States of America's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'AA+' from 'AAA' by Fitch, based on the expected fiscal deterioration over the next three years, a high and growing general government debt burden, and the erosion of governance relative to 'AA' and 'AAA' rated peers over the last two decades that has manifested in repeated debt limit standoffs and last-minute resolutions. Also, future interest rate cuts and potentially increasing prospects of countries who want to join the BRICS movement, pose a risk to the strength of the USD on a long-term basis.

Contact us now to receive valuable investment guidance today.

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