

April 2023

Macroeconomic Review

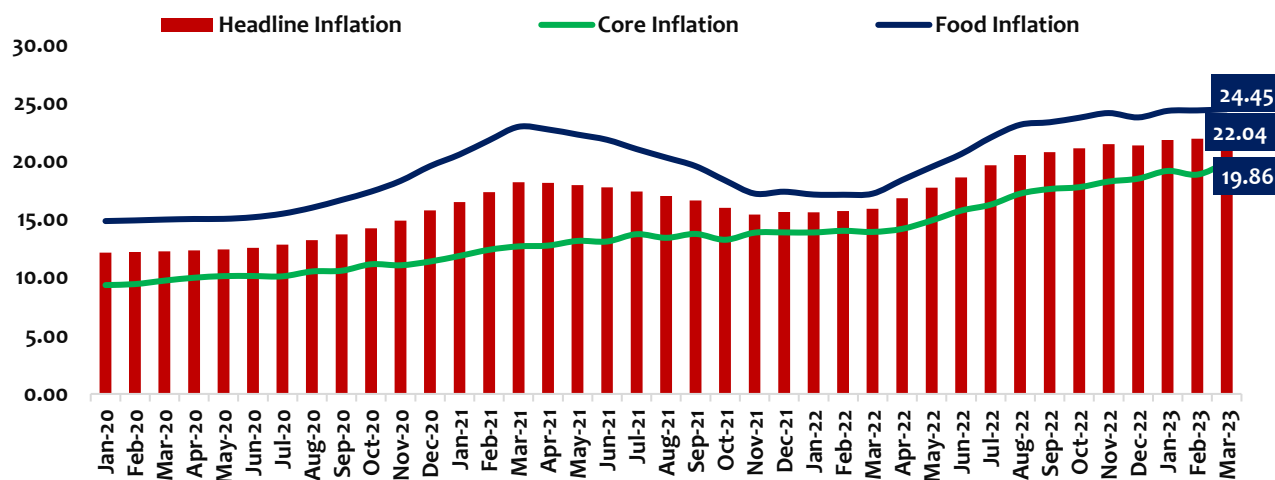
Nigeria’s Inflation – Reflecting the known reality.

Nigeria’s inflation for March 2023 rose to 22.04% Y-o-Y (Est. +21.80%), an increase of c.0.13% from 21.91% Y-o-Y recorded in February 2023. Moreso, headline inflation printed higher at 1.86% M-o-M in March 2023 vs 1.71% recorded in February 2023. Similarly, food inflation jumped to 24.45% from 24.35% recorded in February 2023 while core inflation also amplified to 19.86% in March, compared with 18.84% in February 2023.

Below is a summary of March 2023 Inflation report:

- On a monthly basis, the headline index grew by 1.86% in March (vs 1.71% in February)
- The core index grew by 1.84% M-o-M in March vs. 1.06% in February, while the food sub-index grew by 2.07% M-o-M compared to 1.90% in February.
- The urban inflation rate rose to 23.07% Y-o-Y (vs 22.78% Y-o-Y in February 2023).
- The rural inflation rate was printed at 21.09% Y-o-Y (vs 21.10% Y-o-Y in February 2023).

Chart 1 – Headline, Food and Core Inflation



Source: NBS, AIICO Capital

Outlook: Given the existing inflationary pressures, that is, the high cost of fuel, soaring exchange rate and regional demand-supply imbalances, we expect the rising pace of inflation to extend further in the next reading.

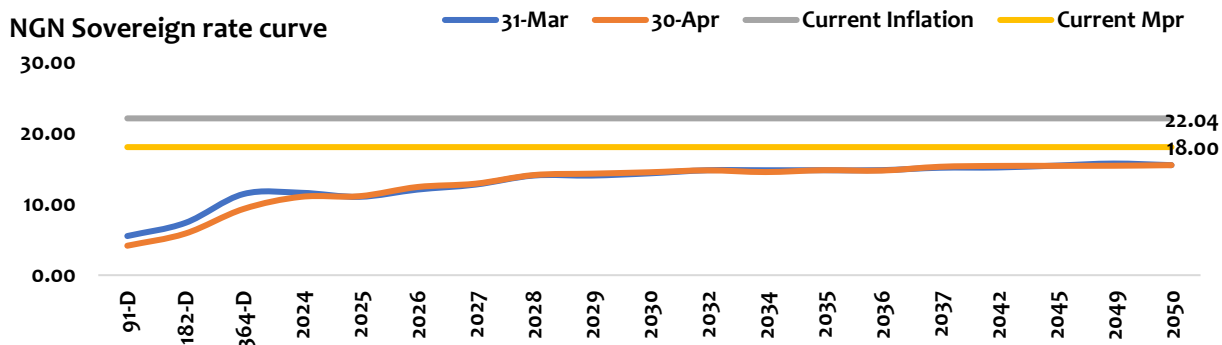
Fixed Income Market Review and Outlook

Overview

The extended period of sparing system liquidity in April, drove a mixed to bearish theme in the local fixed income market, as demand dropped significantly and executed trades were literally few and far between. However, liquidity influx in the latter part of the month spurred buyside interest across the treasury bills and FGN bonds market.

The Eurobond space also traded mixed sentiment amid US inflation and GDP data releases. The discussions around OPEC+ production cuts also supported higher bond prices in Nigeria and Angola.

Chart 2 – Nigerian Sovereign Yield Curve



Source: CBN, FMDQ, AIICO Capital

Money Market Review and Outlook – Tight system liquidity eased by late inflows from bond maturities, coupons and FAAC remits.

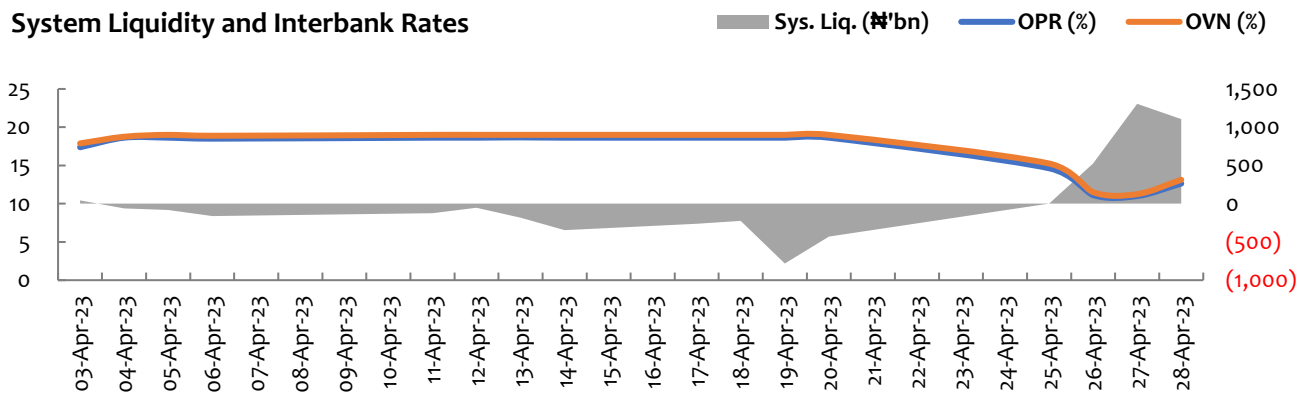
For the major part of the month, the money market was firmly in negative territory (extending the tight system liquidity situation that ensued towards the end of March), driven by Retail FX SMIS, CRR debits, NTB and FGN bonds primary market auctions. Market participants, especially banks, had to patronize CBN’s Standing Lending Facility (SLF) window to meet their obligations.

However, the liquidity situation improved towards the last few days of the month, bolstered by the heavy FGN 2023 bond maturity (c.₦735.96 billion), coupon (c.₦418.42 billion) and FAAC remits. System liquidity peaked at c.₦1.3 trillion and closed the month at similar level.

Overall, system liquidity averaged ₦17.06 billion (vs ₦173.30 billion in Mar 2023), and Overnight Policy Rate (OPR) and Overnight (ON) rates expanded to an average of 16.98% and 17.35% from 13.72% and 14.17% in Mar 2023.



Chart 3 – System Liquidity and Interbank Rates



Source: CBN, FMDQ, AIICO Capital

Outlook: The money market should witness an extended period of tight system liquidity, on the basis of low FGN bond coupon (c.₦22.03 billion), albeit OMO maturity (c.₦478.11 billion) should provide some relief. Thus, interbank rates are expected to stay at elevated levels for most part of the month.

T-Bills Market Review and Outlook - Bearish theme dominated the early periods, but improved system liquidity drove late buying activity.

The effect of the tight liquidity situation spurred bearish pressures in the treasury bills space. Market participants sold their papers (mostly across the belly to the long end of the curve) to raise liquidity to fund their obligations, thus recording trading losses in the process.

The impact of the selling interest also reflected in the preliminary treasury bills primary market auction, where the DMO managed rate expectation amid weak subscription levels, closing the 1-year paper at 14.70%, while maintaining the rates for the 91- and 182-day papers at 6.00% and 8.00% respectively.

The market soon after eased to a bullish theme due to the late liquidity influx which eased the selling interests that have dominated proceedings in previous sessions. Interest grew heavy on the long-dated papers, declining by more than 200bps to the 11.00% handle. This was also evident in the final auction for the month, where the stop rates for the 1-year paper closed at 10.17% and subsequent trading sessions saw c.45bps dip across the long end of the curve.

Overall, the total NTB primary market subscription for the month printed at c.₦1.10 trillion (of which 73% of the subscription was gathered at the last auction where system liquidity was surfeit), while c.₦281.10bn was offered and same was allotted.

Generally, the average rate declined by c.165bps M-o-M to close at 6.43%.



Table 1 – Nigerian Treasury Bills (NTB) Auction Result

APRIL 2023 NTB AUCTION RESULT				
Tenor	Mar'23 Close	Apr'23 Auc 1	Apr'23 Auc 2	Change M-o-M (bps)
91	6.00%	6.00%	5.30%	(70.00)
182	8.00%	8.00%	8.00%	0.00
364	14.74%	14.70%	10.17%	(457.00)

Source: CBN, AIICO Capital

Outlook: The NTB primary market rates are expected to trend upwards amid increased issuances by the DMO in addition to the rollover of the maturing bills (c.₦281.09 billion). Secondary market activity should be fairly quiet, with late buyside interest driven by FAAC inflows.

FGN Bonds Market Review and Outlook - Mixed market sentiments; late buying spurred by bond coupon and maturity.

With the 2037 and 2049 papers retired by the DMO and replaced with 2042 and 2050 papers based on Q2'2023 FGN bond issuance calendar, investors shifted their attention to the on-the-run papers with mixed trading sentiments, albeit not much activity was recorded in the early periods.

The dearth of liquidity practically caused muted trading sessions, as consummated volumes were few and far between. However, slight buying interests were observed on 2037s and 2049s by a few large ticket players due to their attractive coupons and yield levels.

Building up to the FGN bond auction, market participants took position on the auctioned papers and sold off in anticipation of higher closing yields at the auction. At the auction, the DMO carefully managed rate expectation by using non-competitive bids (a total of c.₦183.80 billion in addition to the competitive allotment of c.₦367.60 billion) to make up for the low competitive subscription. The marginal yield on the 2028s was maintained, while that of 2032s declined by 5bps. Conversely, the stop yields on 2042s and 2050s were 20bps and 5bps higher respectively compared to where the related tenors of 2037s and 2049s closed at the Mar'23 auction.

Post auction trading sessions were met with renewed buying interests, driven by coupon inflows and bond maturity. Most of the activity was skewed to 2037s, 2042s, 2049s and 2050s.

Overall, average mid-yield in the secondary market inched up marginally by c.1bp M-o-M to close at 14.10%.

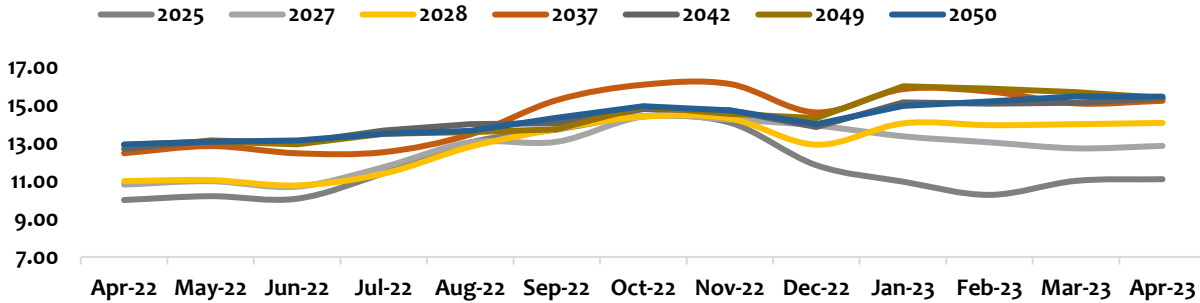
Table 2 – April 2023 FGN Bonds Auction Result

MARCH 2023 BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Yield	Mar'23 Close	Change M-o-M (bps)
23-Feb-28	90.00	14.00	4.60	14.00%	14.00%	0.00
27-Apr-32	90.00	5.00	2.00	14.80%	14.75%	5.00
21-Jan-42	90.00	101.00	95.00	15.40%	-	-
27-Mar-50	90.00	322.00	266.00	15.80%	-	-
	360.00	442.00	367.60			



Source: DMO, AIICO Capital

Chart 4 – FGN Bond Yield Curve for Selected Maturities



Source: FMDQ, AIICO Capital

Outlook: The meagre amount of coupon (c.₦22.03 billion) should drive little to no demand, thus a relatively muted to bearish market is envisaged.

Eurobond Market - Mixed to Bearish theme amid lower US inflation and underwhelming GDP report.

Positive jitters dominated the early periods in the Eurobonds market, amid the intended production cut by the OPEC+ members. The optimism around increase in crude oil price drove buy-side interests for most oil producing countries, like Nigeria, as well as the spillover effect across the SSA region. However, a sharp decline in US Jobs Opening data spurred mild selloffs across the curves.

The bearish theme was short-lived following the release of the U.S CPI report, which printed the U.S headline inflation rate at 5.00%, depicting a 0.20% below the 5.2% estimates. The market then geared up for a rebound, with hopes for an early halt in policy tightening.

The market took a U-turn to close the month after the Bureau of Economic Analysis of U.S reported the U.S Q1'2023's GDP real growth rate at 1.10%, which fueled fears of a recession as market expected a 2.0% real growth rate.

Overall, the average mid-yield across Nigeria's Eurobond curve expanded by c.46bps M-o-M to close at 12.29%.

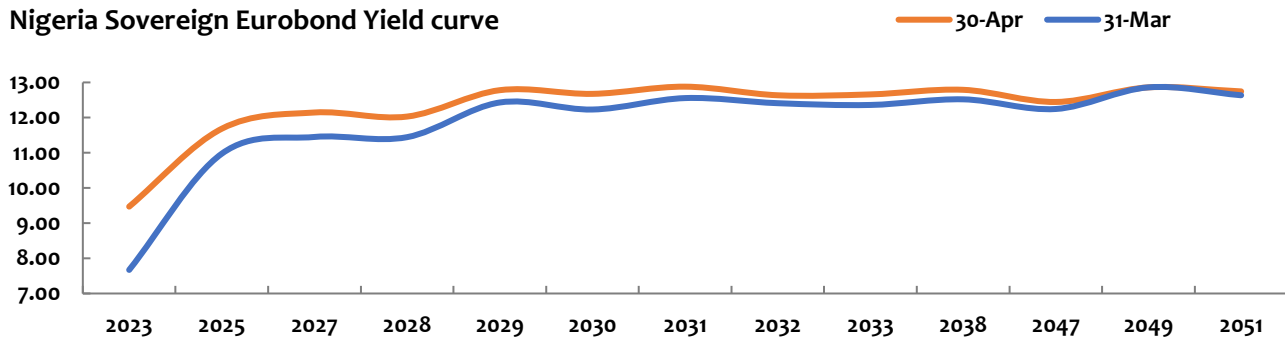
Other notable information:

- Nigeria received \$800 million loan from World Bank, which is intended to facilitate the execution of the long-discussed "fuel subsidy removal".
- Nigeria suspended her plans to remove fuel subsidy by June 2023.



- Ghana’s government held an Investors presentation meeting where they described in detail, the terms of the IMF deal, the ambitious macroeconomic objectives for the medium term and the progressive talks with external debt holders as part of the debt restructuring program.
- Kenya announced plans to raise \$2 billion from the Eurobond market, to facilitate the redemption of the July 2024 maturity.

Chart 5 – Sovereign Eurobond Yield Curve



Source: FBN UK, AIICO Capital

Outlook: The broad expectation is that the FOMC meeting in May 2023 may be the last in the rate-hike cycle given the already jittery market on the back of sky-high US debt ceiling and risk in the banking sector. We also expect a concrete update on Ghana’s foreign debt restructuring.

Foreign Exchange Market Review and Outlook - Prolonged decline in Gross FX reserves; Naira depreciates further against the dollar at the I&E Window.

Activity in the FX market was relatively muted, with medium-scale volatility in rates. Cash trades at the unofficial window traded mostly between \$/₦733 - \$/₦741, while Inflows closed at \$/₦745. However, at the official window, NAFEX rate closed at \$/₦462.70 in Apr’2023, representing a ₦1.55k depreciation when compared with previous month’s close of \$/₦461.15, while there was a ₦1.62k depreciation at the I&E window, as it closed at \$/₦463.00. The Gross external reserves closed at c.\$35.25 billion compared with \$35.50 billion as at close of Mar’2023, representing a decline of c.\$250 million. The sustained interventions by the CBN to support the naira, sub-par oil production, stiffer global financial situations, and the sustained fall in the crude oil price, are some of the factors that have affected the reserves.

Outlook: We expect continued strain in the Gross FX reserves, albeit OPEC+ suggested cuts should support oil prices and possibly improve FX remits.

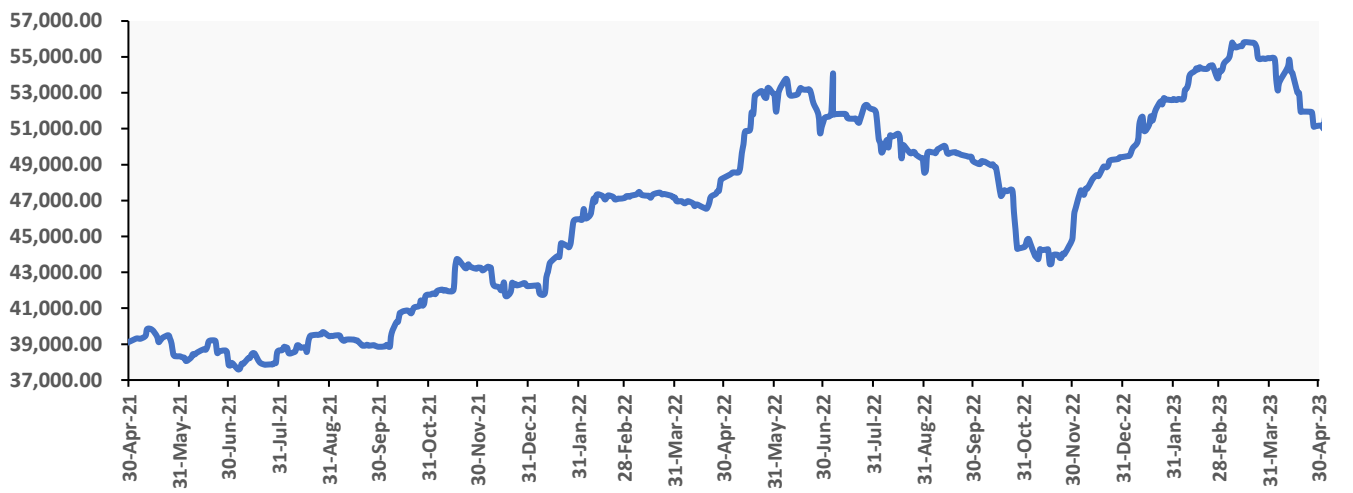


Equities Market Review and Outlook

Equities Market Performance in April – Underwhelming Nigerian Stock market’s performance amid higher inflation

The Nigerian stock market fell by N1.010 trillion in April 2023, despite strong 2022 fiscal year corporate profitability and dividend payouts to shareholders by listed companies. Notwithstanding the stock market’s 2.25% gain in the first four months of 2023, inflationary pressures, currency scarcity, and other macroeconomic challenges have continued to erode investors’ participation in low-priced fundamental stocks listed on the Exchange. In particular, the entire market capitalization finished April 2023 at N28.534 trillion, down from N29.544 trillion. In addition, the NGX All-Share Index fell 3.37 percent to 52,403.51 basis points from 54,232.34 basis points when it concluded trading in March 2023.

Chart 6 – NGX ASI YTD Performance



Source: NSE, AIICO Capital

Mixed performance Across Sectors

The NGX banking Index fell by 3.37% to 438.07 basis points as of April 28, 2023, according to sectoral performance. The NGX Insurance Index rose by 3.87% to 184.38 basis points, while the NGX Oil/Gas Index fell by 1.68% to 502.24 basis points. Furthermore, the NGX Consumer Goods Index increased by 4.75% to 736.14 basis points in April 2023, making it the highest gainer among other indices, while the NGX Industrial Goods Index decreased by 0.38 percent.

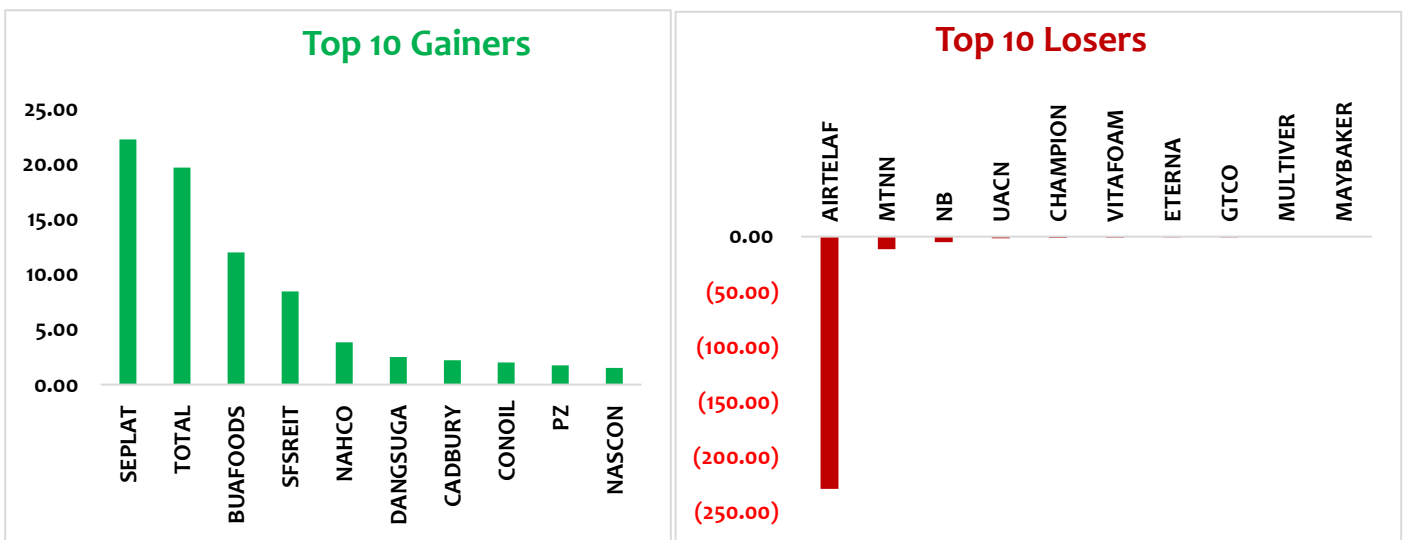


Table 3 – Sector Performance

	MTD	YTD
NGX ASI	↓ -3.37%	↑ 2.25%
NSE Banking Index	↓ -3.29%	↑ 4.93%
NSE Insurance Index	↑ 3.87%	↑ 5.75%
NSE Industrial Goods Index	↓ -0.38%	↑ 1.83%
NSE Consumer Goods Index	↑ 4.75%	↑ 25.00%
NSE Oil & Gas Index	↓ -1.68%	↑ 8.60%

Source: NSE, AIICO Capital

Chart 7 – Top 10 Gainers and Top 10 Losers in March 2023



Source: NSE, AIICO Capital

Outlook: Most investors are expected to keep their bullish outlook on bellwether equities and maintain prudence in their other stock picks, even as the salient uncertainties around the transition to a new government continues.

