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MONTHLY MARKET REPORT AUGUST 2023

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REPORT SUMMARY

Review

- Global Macros: Navigating Uncertainty in a Shifting Landscape.
- Nigeria's Macros: Rising Inflationary Pressures and Economic Rebalancing.
- Money Market: A Month of Challenges and Buoyancy.
- Treasury bills: A Month of Bullish Beginnings, Bearish Twists, and Resilient Rally
- FGN Bonds: Calm Prelude to Bearish Crescendo, with local bond auction as the Keynote.
- Bullish performance in the equity market, boosted by the banking and oil & gas sectors.
- Upbeat Beginnings to Bearish Endings: A Month of Shifting Tides in the Eurobonds Market.

Outlook

- Stronger-than-expected economic data raises expectation for a 25bps rate hike by the Feds.
- Nigeria's inflationary pressures is expected to persist.
- System liquidity is expected to float around its positive territory.
- Familiar volatility should resurface in the treasury bills market.
- The size of bond issuance could be a pivotal point for the market given the statement made by the finance minister.
- It is likely to see the ASI cross over 70,000 points next month.
- Surge in crude oil prices and tensions from the oppositions party and US rate decision should be the centre focus.

GLOBAL MACROECONOMIC REVIEW

The global financial landscape in August was marked by significant developments and challenges. At the outset of the month, USD-dominated assets experienced a downturn due to Fitch Ratings' downgrade of the US debt market from AAA to AA. This downgrade signalled mounting concerns over the growing debt burden, political dysfunction, widening government deficit, tighter credit conditions, and high federal funds rates.

In the United States, the July job report fell slightly short of market expectations, with 187,000 jobs added. However, the unemployment rate decreased to 3.5% as anticipated, indicating a stable labor market. Moreover, average hourly earnings surpassed market projections, increasing by 0.4% m/m and 4.4% y/y, suggesting increased purchasing power for consumers.

Inflation in the US saw the headline Consumer Price Index (CPI) rising to 3.2% in July, while the Core CPI increased moderately at 4.7% y/y. Simultaneously, total household debt surged to $17.06 trillion in Q2'23, primarily driven by a notable increase in credit card balances.

US, UK, Euro Area and China

	US	UK	Euro Area	China
GDP	Q2'23 ↑ 2.10% Q1'23 (2.00%)	Q2'23 ↑ 0.20% Q1'23 (0.10%)	Q2'23 – 0.10% 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 ↑ 4.25% Jun'23 (4.00%) Jul'22 (0.50%)	Aug'23 ↓ 3.45% Jul'23 (3.55%) Aug'22 (3.65%)
INFLATION RATE	Jul'23 ↑ 3.20% Jun'23 (3.00%) Jul'22 (8.50%)	Jul'23 ↓ 6.80% Jun'23 (7.90%) Jul'22 (10.10%)	Aug'23 – 5.30% Jul'23 (5.30%) Aug'22 (9.10%)	Aug'23 ↑ 0.10% Jul'23 (-0.30%) Aug'22 (2.50%)

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

In the United Kingdom, core inflation held steady at 6.9% in July, while headline inflation slowed to 6.8% y/y, thanks to declining gas and electricity prices. The European Union also saw its headline inflation for July come in at 5.3% y/y, slightly lower than the 5.5% estimate, while core inflation remained stable at 5.50%.

China, on the other hand, faced economic challenges with its modest inflation slipping into deflation (-0.3% y/y), the first since 2021. However, core inflation in China increased to 0.8% y/y, reaching levels not seen since August 2022. Although, inflation managed to show a modest increase at 0.1% in August. China's industrial profits also contracted by 15.5% y/y for the seventh consecutive time, prompting the People's Bank of China to cut its 1-year loan-prime rate by 10bps, aiming to boost economic activity.

GLOBAL MACROECONOMIC REVIEW

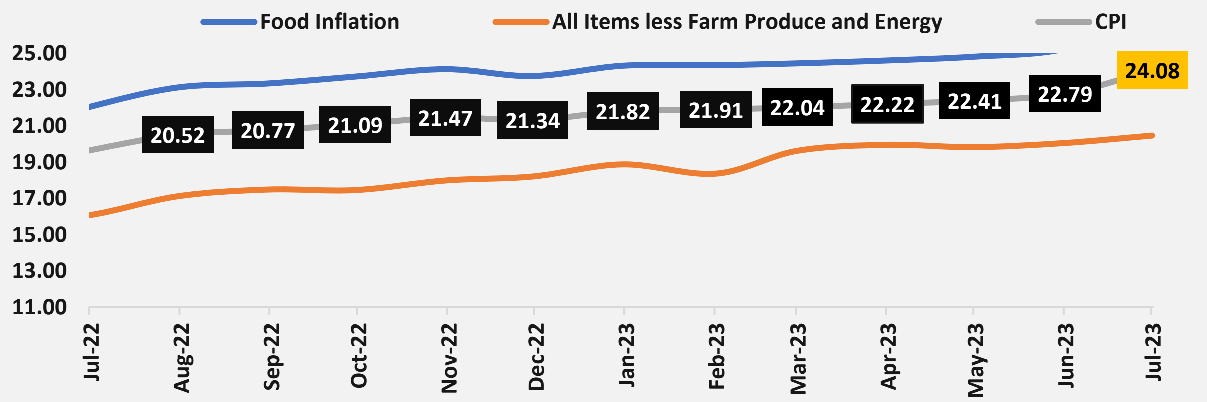
The Bank of England took a proactive stance in the fight against inflation, raising interest rates by 25bps to 5.25%. While the European Central Bank and US Federal Reserve's upcoming policy decisions were closely watched, Jerome Powell's speech at the Jackson Hole Symposium on Aug 25, 2023, emphasized the Fed's commitment to decisive policy actions, even at the risk of economic challenges.

The US GDP for Q2'23 was revised downward to a growth rate of 2.1% y/y, reflecting lower inventory and non-residential fixed income investment. In the Eurozone, the GDP growth rate remained at 0.3% y/y in the second estimate for Q2'23.

DOMESTIC MACROECONOMIC REVIEW

Nigeria grappled with inflationary pressures as July's inflation surged to 24.08% y/y, up from 22.79% y/y in June 2023, according to the National Bureau of Statistics (NBS). Food inflation also saw a notable increase to 26.98% in July. Core inflation, which previously strips out only food items, now factors energy prices in its computation, rose to 20.47% y/y. These increases were attributed to factors such as higher foreign exchange rates, crude market liberalization, and heightened insecurity.

In the second quarter of 2023, Nigeria's GDP grew at 2.51% y/y, lower than the consensus estimate of 2.80%. The non-oil sector showed resilience with a growth rate of 3.58%, partially due to the extension of the old currency's validity period. However, the oil sector faced challenges, registering a negative growth of 13.43% in Q2'23, primarily because of a decline in crude oil production.



Source: NBS, AIICO Capital

Additionally, during the month, the Central Bank of Nigeria (CBN) released its financial statements for 2022, revealing an outstanding debt of $13.8 billion in foreign currency swaps owed to global banks. These developments is expected to underscore the challenges and possible opportunities in Nigeria's domestic market.

Outlook : Looking ahead, Nigeria's economy is expected to continue facing contractionary policies aimed at curbing inflation. The rising crude oil prices could provide some relief for the oil sector if measures to revive production and exports are effectively implemented.

To alleviate the impact of fuel subsidy removal, the Nigerian National Petroleum Company Limited (NNPC) partnered with NIPCO Gas Limited to build Compressed Natural Gas (CNG) stations across the country. This initiative, supported by President Bola Tinubu, aims to reduce transportation costs and carbon emissions, with the first phase set to commence in Q1'24.

As the financial landscape evolves, investors and market participants are closely monitoring these dynamics, awaiting further policy decisions and economic indicators that will shape the months ahead.

MARKET UPDATE

Foreign Exchange Market – The quest to strengthen the Naira amid Economic Reforms and Global Pressures continues

The government's efforts to address economic issues by eliminating fuel subsidies and reforming the exchange system have faced criticism. The Nigerian naira continues to face significant challenges this year, registering a more than 40% depreciation against the US dollar.

In the parallel market, the naira closed the month at an alarming rate of $/₦940.00. The Investors and Exporters (I&E) exchange rate depreciated to $/₦756.94, a ₦5.77 drop from July's close. The NAFEX rate also declined to $/₦775.15, decreasing by ₦4.26 from June's close.

Gross external reserves ended the month at approximately $33.63 billion, down from $33.95 billion in July, marking a decline of approximately $33 million. These developments underscore the ongoing challenges in Nigeria's financial landscape.

Outlook: In the coming months, the Nigerian foreign exchange (FX) market is poised to maintain its current state of volatility due to ongoing pressures. To achieve stability, addressing supply constraints will be crucial.

Money Market Review and Outlook – *The Ebb and Flow of Liquidity: A Month of Challenges and Buoyancy*

At the outset, liquidity appeared robust, with an average of approximately ₦800 billion. However, this optimism gave way to concern later as liquidity took a sharp downturn due to the Central Bank of Nigeria's (CBN) latest round of Cash Reserve Ratio (CRR) debits, aimed at banks falling short of the 65% minimum Loan to Deposit Ratio (LDR) requirement.

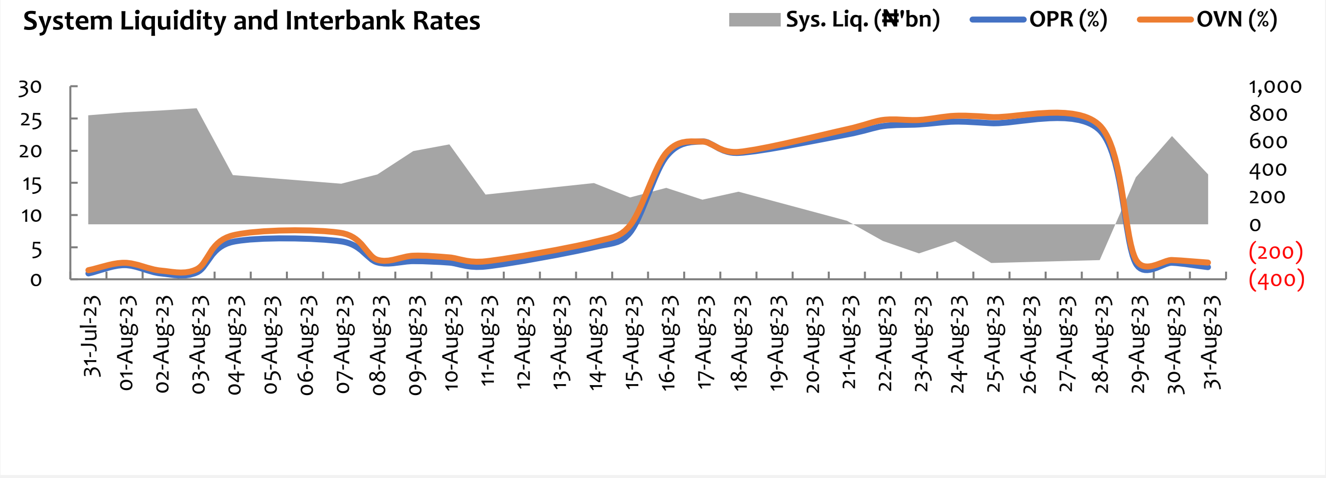
The liquidity position continued to deteriorate, particularly as debits from the FGN bond auction winnings further drained liquidity. As the weeks progressed, system liquidity languished in negative territory, prompting a surge in funding rates, which reached as high as approximately 25.00%.

Moreover, we saw signs of improvement towards the end of the month, buoyed by the influx of FGN 2028 coupon inflows and FAAC credits exceeding ₦400 billion. This infusion of funds provided some respite, albeit liquidity declined further due to CBN’s intervention at the FX window.

Overall, System liquidity averaged around ₦275.77 billion, a notable decline from the ₦516.27 billion recorded in the previous month of July 2023.

The Open Repo Rate (OPR) and Overnight Rate (OVN) mirrored this liquidity challenge, significantly increasing to 10.77% and 11.46%, respectively, from the more favorable levels of 5.39% and 5.91% observed in July 2023.

MARKET UPDATE



Source: CBN, FMDQ, AIICO Capital

Outlook: Anticipated market conditions for September suggest a favourable liquidity outlook by mid-month, driven by expected inflows, including ₦554.06 billion from NTB and OMO maturities, ₦391.35 billion from FGN bond coupons, and ₦8.24 billion from FGN Sukuk Rentals, alongside potential FAAC credits. Interbank rates are anticipated to trend downward, although temporary rate spikes may occur due to factors like funding for the FGN bond auction and sporadic CBN FX interventions.

Treasury Bills – *A Month of Bullish Beginnings, Bearish Twists, and Resilient Rally.*

The month began with a robust buyside interests despite the bank-wide CRR debit by the CBN to address the Loan-to-Deposit Ratio (LDR) shortfall. Most bids were domiciled on the one-year paper at the time (25-July-2024), which enticed investors with a substantial rate drop from 10% to 9% handles.

This bullish sentiment persisted during the preliminary NTB auction, where ₦153.98 billion was sold across three tenors, aligning with the offering size. Notably, stop rates for the 91, 182, and 364-day papers saw significant declines, reaching 5.00%, 5.90%, and 9.80% (from 12.15%), respectively.

However, a bearish tone emerged later in the week, following the CBN's first Open Market Operations (OMO) auction of the year, where ₦150 billion was sold across three maturities. Closing rates soared well above NTB auction levels, hitting 10.00%, 12.98%, and 14.49% for the three papers.

As the month unfolded, market trends diverged, with some investors favoring the short end of the curve to manage liquidity risks, while others sought higher yields at the long end. Higher NTB rates were influenced by prior NTB auction winners selling at a loss due to more attractive OMO rates.

At the final NTB auction, tight liquidity prompted selloffs across the NTB curve. The stop rate on the one-year paper closed at 13.97% from 9.80% in the preceding auction.

Post-auction, excitement gripped the market, particularly for the newly issued one-year paper, driven by investors' efforts to recover lost bids. Additionally, a late rally was fueled by the inflow of FAAC and FGN coupons.

Throughout the month, the NTB primary market subscription totaled around ₦2.38 trillion, with ₦457.20 billion offered and allotted. The closing average month-on-month rate increased by approximately 59 basis points, settling at 7.68%.

MARKET UPDATE

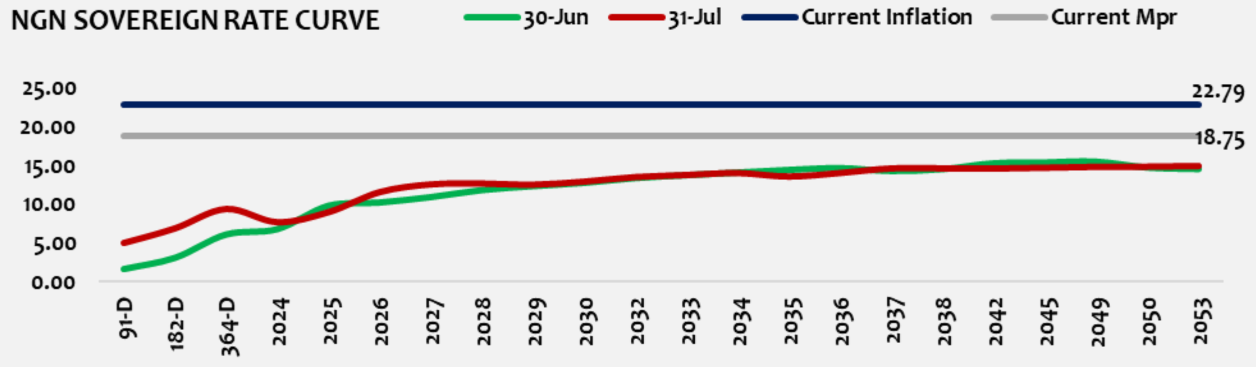
AUGUST 2023 NTB AUCTION RESULT				
Tenor	Jul'23 Close	Aug'23 Auc 1	Aug'23 Auc 2	Change M-o-M (basis points)
91	6.00%	5.00%	5.19%	(81.00)
182	8.00%	5.90%	8.00%	+0.00
364	**12.15%**	**9.80%**	**13.97%**	**+182.00**

Source: CBN, AIICO Capital

Outlook: In the forthcoming NTB auctions for this month, we anticipate investors to raise their bid rates in response to the amplified issuance volume of ₦544.05 billion, a notable increase from the previous ₦457.20 billion in August. The dynamics of the secondary market will remain significantly influenced by the prevailing liquidity conditions.

FGN Bond Market – *Calm Prelude to Bearish Crescendo, with DMO Auction as the Keynote.*

Over the past month, the local bonds market displayed a dynamic mix of trends. It started calmly, shifted to a bullish theme, and eventually trended bearish. Key activities revolved around various bonds, notably 2026, 2027, 2049, 2050 and 2053 papers.



Source: FMDQ, NBS, CBN, AIICO Capital

During the pivotal FGN bond auction for the month, stop rates surged significantly higher compared to the previous one, with the auctioned papers: 2029s, 2033s, 2038s, and 2053s, closing at 13.85%, 15.00%, 15.20%, and 15.85%, respectively. The DMO sold lower volumes than offered, and the subscription level was the lowest recorded so far this year. Subsequently, it was a bearish affair post-auction, dominated by sell-offs in short-dated papers.

Mid-month, the market saw mixed activity, with a subsequent quiet period marked by a bearish tone on select papers, particularly around papers like the 2025, 2026, 2027, 2037, and 2053. This bearish posture was also spurred by the sharp increase in rates at the OMO auction relative to the preliminary NTB auction.

The month ended on a sober note, amid weak demand for traditional buy-side investors. Overall, amid the fluctuations, the average yield saw an 88 basis points uptick to 14.07% month-on-month.

MARKET UPDATE

AUGUST 2023 BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Marginal Rate	July'23 Close	Change M-o-M (basis points)
26-Apr-29	90.00	13.23	10.43	13.85%	12.50%	+135.00
21-Jun-33	90.00	5.57	4.07	15.00%	13.60%	+140.00
21-Jun-38	90.00	49.53	25.53	15.20%	14.10%	+110.00
21-Jun-53	90.00	244.23	187.73	15.85%	14.30%	+155.00
	360.00	**312.56**	**227.76**			

Source: DMO, AIICO Capital

Outlook: Anticipated market dynamics point towards a gradual rise in activity, as market participants prepare for the forthcoming Federal Government of Nigeria (FGN) bond auction and the anticipated influx of coupon inflows, expected to reach approximately ₦391 billion.

The increased buyside activity for next month will be partly driven by recent statements made by Finance Minister Wale Edun.

His declarations signal a strategic shift towards reducing borrowing from both local and foreign markets. Edun underscores the intent to reinvest proceeds from subsidy removal and exchange rate harmonization across various sectors, aimed at boosting government revenue and creating a more attractive environment for domestic and foreign investments.

MARKET UPDATE

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

The Nigerian Exchange Limited (NGX) concluded the month of August on a positive note, as bargain hunting outweighed profiting taking.

The All-Share Index (ASI) of the Nigerian Exchange Limited (NGX) appreciated by 3.44% to settle at 66,548.99 points, while year-to-date return settled at +29.85%. Also, the market capitalization increased by 4.03% m/m to ₦36.42 trillion at the end of August.

In August, activities were mixed, although sellers dominated the market in the early part of the month, particularly AIRTEL and SEPLAT, but at a less aggressive pace. Around mid-month, activities began to stir bullish, as barrage of buyside interests scouted for DANGSUGAR, TRANSCORP, NASCON, and BUAFOODS.

The delayed earnings report for key banking stocks sprinkled some bearish jitters. Nonetheless, occasional cherry-picking sustained prices, as evidenced by smaller deviations.

Towards the end of the month, the proposed scheme consideration for the merger of DANGSUGAR, NASCON and Dangote Rice Limited instilled euphoria coupled with STANBIC's earnings result that showed 121.6% y/y jump in PAT for H1'23. The banking sector regained stronger confidence on the back of this release and the bullish trajectory took a stronger posture shortly before the month ended.

NGX ASI YTD Trend

Source: NGX, AIICO Capital

Mixed Sectorial Performance

Given the unique trend witnessed in August, the consumer goods sector scored the highest gains of 24.51%, while the industrial, oil & gas and banking sector appreciated by 0.57%, 0.91%, and 0.95%, respectively.

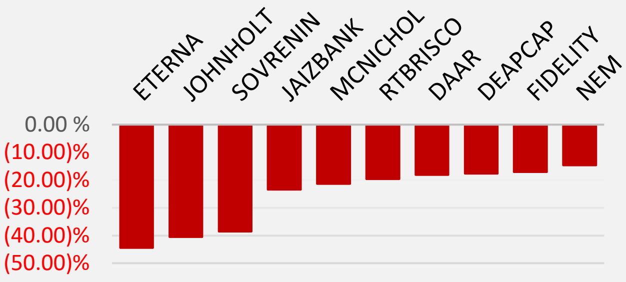
	MTD	YTD
NGX ASI	↑ 3.44%	↑ 29.85%
NGX Banking Index	↑ 0.95%	↑ 54.80%
NGX Insurance Index	↑ 3.08%	↑ 54.14%
NGX Industrial Index	↑ 0.57%	↑ 19.02%
NGX Consumer Index	↑ 24.51%	↑ 80.50%
NGX Oil & Gas Index	↑ 0.91%	↑ 103.22%

Source: NGX, AIICO Capital

MARKET UPDATE

TOP 10 ADVANCERS

TOP 10 LOSERS



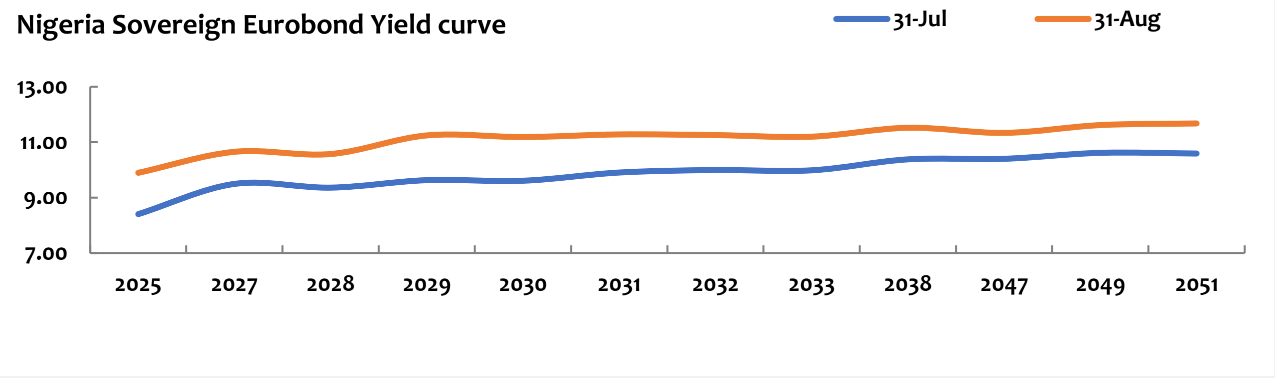
Source: Bloomberg, AIICO Capital

Outlook: Given the amplified bullish rally, we see possibility for the ASI to cross the 70,000 index points. However, we don't expect a significant gain going forward, as the market has somewhat baked nearly all market-friendly policies, which could justify profit taking by some investors.

Eurobonds Market – *Upbeat Beginnings to Bearish Endings: A Month of Shifting Tides in the Eurobonds Market*

The Eurobonds market in the past month displayed a dynamic and responsive nature. It began with positive sentiment but turned bearish, largely influenced by Fitch's US debt rating downgrade and disappointing US job data.

Throughout the month, the market witnessed mixed trends driven by various factors, such as the alternating shocks from US July CPI at 3.20% y/y (vs Est. 3.30%), including the unveiling of the Central Bank of Nigeria's annual financial statements, which was last published in 2016. The underwhelming revelations from the 2022 financials as regards the country's true foreign exchange reserve position spurred another round of selloffs in the Nigerian Eurobond's curve.



Source: FBN UK, AIICO Capital

This negative sentiment lingered for a while, albeit a mid-month rally was prompted by a $3 billion loan agreement between NNPCL and Afrexim bank, boosting confidence in foreign currency availability to ease repatriation fears for foreign investors and increase FX supply for local transactions in the interim.

The bullish tone lasted for a while but was briefly interrupted by Federal Reserve Chairman Powell's hawkish speech at the Jackson Hole Symposium and concerns over BRICS expansion, following their invitation to Argentina, Egypt, Iran, Ethiopia, Saudi Arabia, and the United Arab Emirates to join the bloc.

The month concluded with a bearish tone due to a military coup in Gabon (which spilled into other African papers), and weaker US economic data. Towards the end, there were pockets of buyside interest in attractively priced papers.

Overall, the average mid-yield across Nigeria's Eurobond curve increased by c.126 basis points M-o-M to close at 11.12%.

EUROBONDS

Other notable information:

- The National Bureau of Statistics (NBS) reported unemployment data for the first time in two years yesterday with a revised methodology. The data showed that the unemployment rate in Nigeria fell to 4.1% in Q1 2023 from 5.3% in the prior quarter.

- Nigeria's S&P Global Stanbic IBTC PMI fell for a second straight month in July, coming in at 51.7 from 53.2 in the month prior.

- Moody's, a ratings agency, downgraded the credit ratings of 27 U.S. banks and placed some of the nation's biggest lenders under review for potential downgrades.

- China's heavily indebted property developer Evergrande group filed for Chapter 15 bankruptcy protection in a U.S. court.

- S&P Global Ratings affirmed Kenya's 'B/B' long-and short-term foreign and local currency foreign credit ratings and kept the outlook at negative.

Outlook: The optimistic outlook on Nigeria's Eurobonds remains steadfast, underpinned by the ongoing reforms enacted by the current government. However, there are concerns around the outcome of the ongoing tribunal, as chaos from opposing parties can spur a negative outlook for the country.

Also, the oil producing nations, Angola and Nigeria particularly, may witness some buoyancy in their Eurobonds amid the surge in crude prices.

Contact us now to receive valuable investment guidance today.

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