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# MONTHLY MARKET REPORT
# NOVEMBER 2023

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# REPORT SUMMARY

## Review

- Global Macros: Interest rate remained unchanged across major central banks.
- Nigeria’s Macros: Q3’23 GDP at 2.54% amidst persistent rise in inflation.
- Money Market: Liquidity constraints and CBN's commitment to strengthen Monetary Policy Tools.
- Treasury bills: Bearish start, Bullish reversal, and increased NTB issuance at the primary market window.
- FGN Bonds: Mixed start, surge in yields at the auction, and late-month bullish reversal.
- Nigeria’s equity: ASI climbed to a new high in November, while newly-listed stock, MECURE appreciated by 305.41%
- Nigeria’s Eurobonds: Rollercoaster month ends bullish despite mixed global economic Indicators.

## Outlook

- The US Federal Reserve is expected to put a brake on its aggressive rate hike cycle.
- Higher inflation rate is expected to persist.
- Interbank rates should maintain its elevated status.
- Anticipate sustained overallotment and relatively higher stop rates at the NTB primary market.
- December should be cautious for bonds, with an underlying bullish bias from traditional buy-side players.
- The equity market is expected to trade sideways for the most part of December.
- Sustained bullish bias in the Eurobonds market, albeit cautiously, as the holiday season nears.

# GLOBAL MACROECONOMIC REVIEW

The global market witnessed some optimism in November, as the MSCI All Country World Index appreciated by 9.07% after three consecutive months of decline. Precisely, the S&P 500 (+8.92%), NASDAQ composite (+10.70%), FTSE 100 (+1.80%), DAX (+9.49%) and SHCOMP (+0.36%) ended the month on a bullish note. Similarly, the US 10-year treasury, UK 10-year gilt and Germany 10-year government bond all observed a decline in yields, by 60bps, 15bps and 37bps, respectively, compared to the previous month.

The bullish bias was noticeably influenced by the softening hawkish policies by central banks in the developed economies and market confidence in economic activities.

Starting with the United States, the Federal Reserve maintained interest rate at 5.25-5.50% for the second straight meeting, with continuous reassessment of consumer spending and consumer prices. Moreso, the Fed's tone on interest rate tightening eased in the minutes of the FOMC meeting.

## US, UK, Euro Area and China

| | US | UK | Euro Area | China |
|---|---|---|---|---|
| GDP | Q3'23 5.20% Q2'23 (2.10%) | Q3'23 0.00% Q2'23 (0.20%) | Q3'23 -0.10% Q2'23 (0.20%) | Q3'23 4.90% Q2'23 (6.30%) |
| MONETARY/ BANK RATE | Nov'23 5.50% Oct'23 (5.50%) Nov'22 (4.00%) | Nov'23 5.25% Oct'23 (5.25%) Nov'22 (3.00%) | Oct'23 4.50% Sep23 (4.50%) Oct'22 (2.00%) | Nov'23 3.45% Oct'23 (3.45%) Nov'22 (3.65%) |
| INFLATION RATE | Oct'23 3.20% Sep'23 (3.70%) Oct'22 (7.70%) | Oct'23 4.60% Sep'23 (6.70%) Oct'22 (11.10%) | Nov'23 2.40% Oct'23 (2.90%) Nov'22 (10.10%) | Oct'23 -0.20% Sep'23 (0.00%) Oct'22 (2.10%) |

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

Furthermore, the US added 150k jobs (Est. 180k) in October, with a slight uptick in unemployment rate from 3.80% to 3.90%, while Labour Force Participation declined to 62.70% from 62.80%. Later into the month, the US Bureau of Labour Statistics reported Consumer Price Index (CPI) at 3.20% for October after stabilizing at 3.70% in both August and September. Unpacking the data, Shelter grew slower at 6.70% from 7.20%, while food component and energy prices increased at +3.30% (from +3.70% in September) and -4.50% (from -0.50% in September). Although, transportation services grew at 9.20% in October from 9.10% in September. Core CPI increased relatively slower, as core CPI increased at 4.00% y/y (from 4.10%) and 0.2% m/m (from 0.30%)

At the end of the month, US GDP figures revealed that the economy grew at 5.20% in Q3'2023 (Est. 5.00%) from 2.10% in the last quarter, marking the fastest expansion since Q4'2021. Although, the growth was an upward revision from the preliminary 4.90% reported in October.

# GLOBAL MACROECONOMIC REVIEW

For the second consecutive time, the Bank of England maintained interest rate at 5.25% in the November policy meeting, with intention to keep rate high for an extended period. Fortunately, the country's inflation rate significantly suppressed in October at 4.60%, from 6.70% increase in both August and September and lower than 4.80% estimate. Notably, the cost of housing and utilities, electricity, and food inflation fell significantly for the period. However, monthly core consumer prices remained unchanged, while growing at a slower pace at 5.70% y/y.

Interestingly, the UK's economy managed to escape market's forecasted contraction at 0.00% (Est. -1.0%), following an increase of 0.20% in the Q2'2023. To elucidate, the 0.10% fall in services sector was offset by 0.10% increase in construction output, while increase in net trade was partly offset by some contraction in household and government spending.

In the European Area, preliminary headline inflation grew at 2.40%, lower than the preceding, month (2.90%) and market estimates (2.70%). The decline in energy and food prices both components increase at a slower pace at -11.50% and +6.90%, respectively.

In China, robust supply of agricultural products impacted inflation rate to grow at -0.20% in October, following its 0.00% reading in the prior month. For emphasis, food prices declined by 4.00%, lowest in roughly 2 years, while non-food inflation remained at 0.70%. Core inflation appreciated at 0.60% while monthly consumer price index declined by 0.20%.

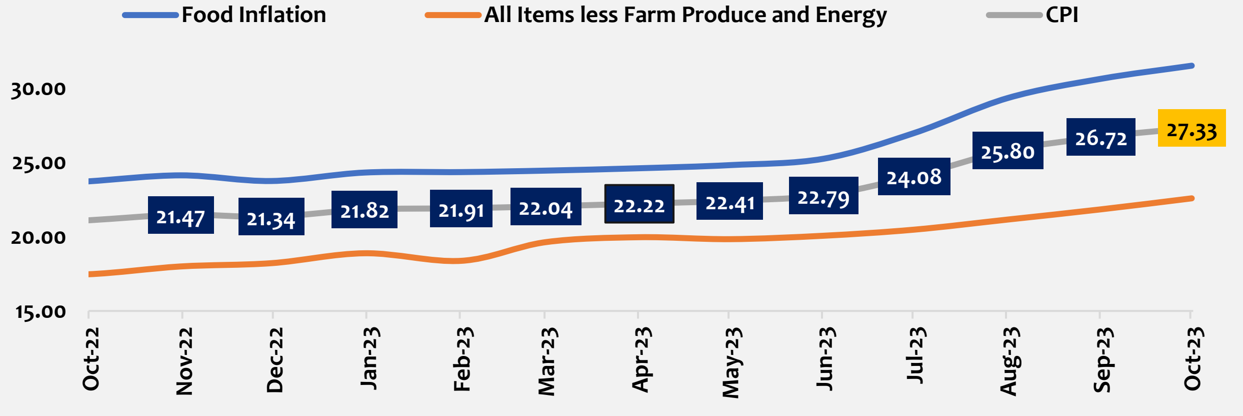
According to China's National Bureau of Statistics, China's factory activity remained below 50 points. The country's PMI settled at 49.4 points (Oct. 49.5 points). The slowdown reflects the marginal decline across New Orders, foreign sales and output, while the Non-manufacturing PMI eased to 53.2 points in November (October: 54.5%).

# DOMESTIC MACROECONOMIC REVIEW

The Central Bank of Nigeria cleared part of its outstanding FX backlogs while simultaneously issuing OMO Bills at the beginning of the month. Further into the month, the Nigerian Upstream Regulatory Commission (NURC) reported that the aggregate crude oil production declined after two consecutive months of increase (October: 1.56mbpd vs September: 1.57mbpd). This was attributed to fall in crude oil prices in the reviewed period.

During the month, Fitch Ratings affirmed Nigeria's long-term foreign-currency issuer rating at "B-", with a stable outlook, supported by liquid domestic market, large oil & gas reserve and the overall size of the economy. Nevertheless, Fitch recognised the current challenges including weak currency, elevated inflation and poor governance.

In October, Nigeria's year-on-year inflation rose to 27.33%, up from 26.72% in September 2023, contributing an additional 0.61 percentage points and surpassing Bloomberg's estimate of 27.7%. Despite this, headline inflation showed a second consecutive monthly moderation, dropping to 1.73% in October from 2.10% in September. Food inflation increased to 31.52% from 30.64% in September, and core inflation, excluding food and energy items, rose to 22.58% in October, up from 21.84% in September, as reported by the National Bureau of Statistics (NBS).

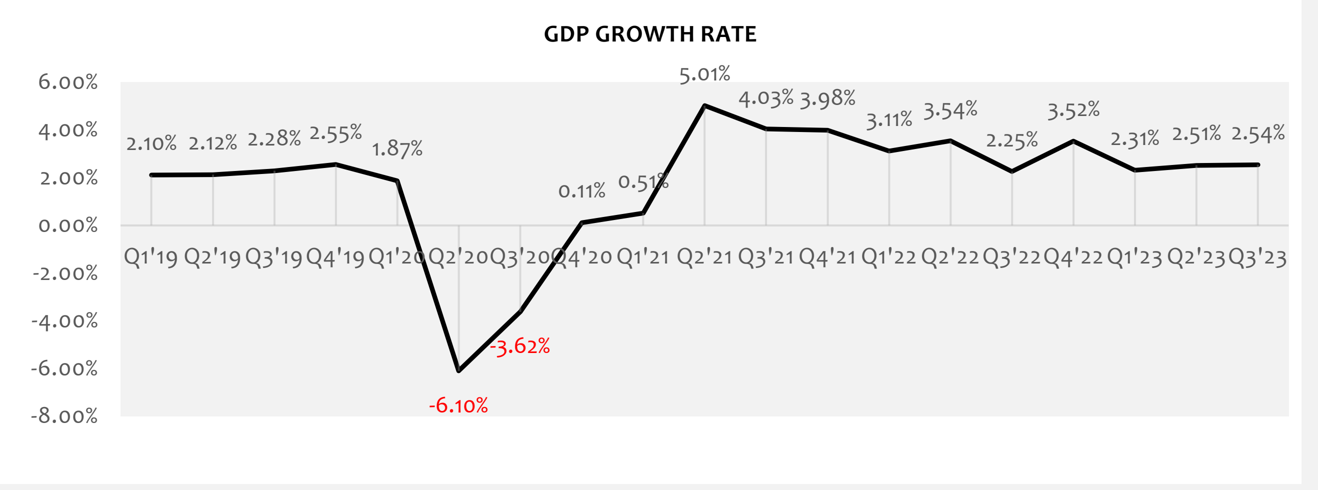



*Source: NBS, AIICO Capital*

**Outlook:** Given the prevalent factors contributing to the surge in inflation, future inflation rates are expected to maintain an upward trend. Hence, this sets the stage for increasing pressure on the central bank, prompting contemplation of a potential interest rate hike at the next Monetary Policy Committee (MPC) meeting.

In Q3'2023, Nigeria's Gross Domestic Product (GDP) expanded at 2.54% year-on-year, slightly below the Bloomberg estimate of 2.85%. This growth marked an improvement from the previous quarter's 2.51% and a substantial increase from the 2.25% recorded in the same period of 2022. The real GDP for Q3'23 was valued at N19.440 trillion, up from N17.72 trillion in Q2'2023.

Drilling further, the Trade category faced a decline, growing at 1.53% in Q3, down from 2.41% in Q2'2023 and 5.08% in Q3'2022. Similarly, the Information and Communication sector exhibited a slower growth rate of 6.69%, compared to 8.60% in Q2'2023 and 10.53% in Q3'2022. The Agricultural components, however, maintained stable levels. In a broader perspective, the Non-Oil sector grew by 2.75% in Q3'23, a slight reduction from 3.58% in Q2'23.




*Source: NBS, AIICO Capital*

The Oil sector, on the other hand, sustained a negative growth rate of -0.85% in Q3'2023, although, an improvement from -13.43% in Q2'2023 and -22.67% in Q3'2022. The enhanced growth rate in the oil sector was attributed to improved oil production during the third quarter. The Non-Oil sector's year-on-year growth in Q3'23 was 2.75%, showing a decline of -0.84% compared to Q2'23 (3.58%) and -1.52% compared to Q3'22 (4.27%).

**Outlook**: We expect the improved oil production output to positively impact the GDP growth rate in the next reading, while the non-oil sector should suffer some short-term distress following the policy reforms by the 5-month-old government in administration.

# MARKET UPDATE

**Foreign Exchange Market** – Naira saw modest gain, FX Reserves dipped; CBN Governor emphasized FX Reforms.

In November, the Naira experienced a marginal 0.86% appreciation against the USD in the parallel market, closing at approximately $/₦1,147.50, with occasional lows reaching $/₦1,010. The NAFEX rate also saw an appreciation, reaching $/₦848.20, reflecting a ₦57.55 gain month-on-month. Conversely, the Nigerian Autonomous Foreign Exchange Market (NAFEM) depreciated to $/₦832.32, marking a ₦17.00 loss m/m.

Due to the persistent intervention by the CBN in the spot FX (NAFEM) market, the gross FX reserves declined by c.$390 million to $33.00 billion. The drop can also be attributed to decreased dollar oil receipts, as the Brent crude futures price lost $4.58 per barrel month-on month, closing at $82.83 per barrel. The decline in oil price resulted from uncertainties after OPEC+ agreed to voluntary output cuts nearing 2 million barrels per day for the coming year, with individual countries announcing their cuts.

On a positive note, at the 58th Annual Chartered Institute of Bankers of Nigeria Dinner, the CBN governor highlighted successful payments of FX forward obligations to 31 banks, subject to proper validation. New foreign exchange guidelines and legislation are in the pipeline, with extensive consultations planned before implementation. The governor also aims for daily FX trade to exceed $1.00 billion, emphasizing discipline and focused commitment, while also expressing the intention to rebuild the country's FX reserves to levels comparable with similar economies.

**Outlook:** We anticipate a gradual Naira strengthening against the dollar, supported by joint efforts from the CBN and FGN to ensure stability.

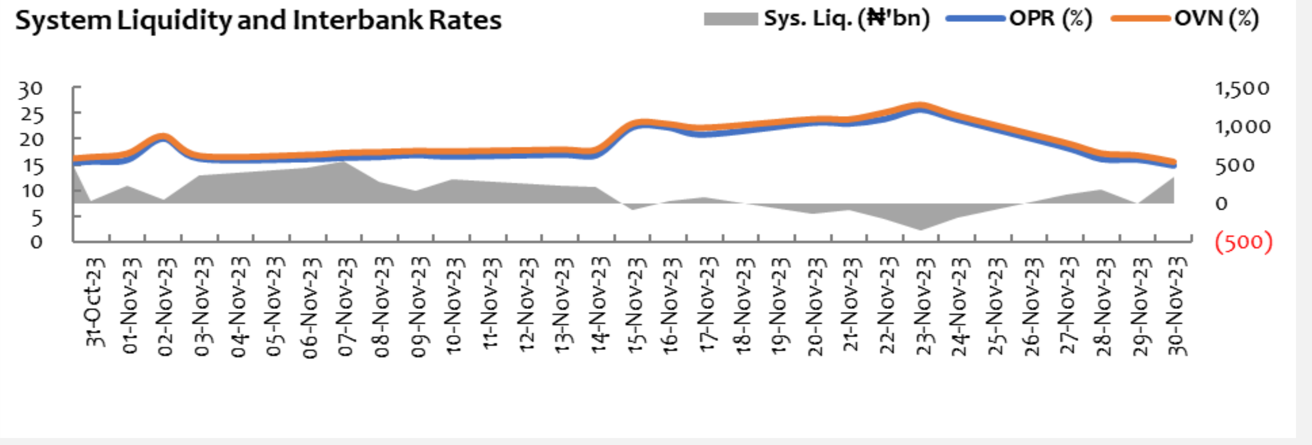
**Money Market Review and Outlook** – *Liquidity constraints and CBN's commitment to strengthen Monetary Policy Tools.*

The effect of the removal of the ₦2 billion cap on Standing Deposit Facility (SDF) for commercial banks was visible in November, as interbank rates were persistently >15.75% during the month, even on days of buoyant system liquidity. This is a stark contrast to the low single digit rates observed in the prior month. Furthermore, overall liquidity position was weak compared to the previous month, as persistent CRR debits, FX interventions, Treasury bills and FGN bond auction debits stifled liquidity. This is in addition to the surprise OMO auction witnessed at the start of the month which was undersubscribed due to tight liquidity.

Specifically, the average system liquidity for November plummeted to ₦111.38 billion from ₦521.52 billion in the preceding month. The average Open Repo Rate (OPR) and Overnight Rate (OVN) settled at 19.00% and 19.91%, respectively, compared to the 3.87% and 4.90% reported in the previous month.

On the monetary policy front, the MPC postponed its November meeting, marking the second consecutive delay. However, during the 58th Annual Chartered Institute of Bankers of Nigeria Dinner, the CBN governor addressed concerns about the dislocation of monetary transmission mechanisms, emphasizing a forthcoming review of policy tools and mechanisms to enhance effectiveness. The governor also expressed the CBN's intention to implement further tightening measures over the next two quarters in response to rising inflation.

# MARKET UPDATE




*Source: CBN, FMDQ, AIICO Capital*

**Outlook:** We anticipate sustained high interbank rates as the CBN continues its efforts to absorb surplus liquidity. December is projected to witness a liquidity injection of approximately ₦204.96 billion from OMO and NTB maturities, alongside over ₦176.15 billion from FGN bond coupons, ₦173.17 billion from FGN Promissory notes, and ₦32.52 billion from FGN Sukuk bonds.

**Treasury Bills** – *Bearish start, Bullish reversal, and increased NTB issuance at the primary market window.*

The month began with a bearish tone in the treasury bills market, influenced by the preliminary OMO auction, setting a precedent with the longest dated OMO paper's stop rate at 17.98%. As anticipated, the subsequent NTB auction displayed higher closing rates, notably a sharp rise in the 1-year paper from 13.00% to 16.75%.

However, the market transitioned to a bullish trend, buoyed by FAAC inflows, the sustained absence of OMO auctions, and reduced CRR debits. Key trading activity focused on January, March, October, and November 2024 papers.

The DMO conducted two auctions, offering ₦521.83 billion and selling c.₦1.05 trillion across various maturities, sustaining the trend of overallotment at the primary market window. Notably, the final auction's stop rates improved by 100bps on the 91- and 182-day maturities, while the 364-day remained unchanged, compared to the initial NTB auction.

Post-auction sessions witnessed significant buying, particularly for November 2024 bills around 14.80%. Overall, the average mid-rate declined by c.34bps to settle at 10.17% m/m.

# MARKET UPDATE

| NOVEMBER 2023 NTB AUCTION RESULT | | | | |
|---|---|---|---|---|
| Tenor | Oct'23 Close | Nov'23 Auc 1 | Nov'23 Auc 2 | Change M-o-M (basis points) |
| 91 | 6.00% | 7.00% | 8.00% | +200.10 |
| 182 | 9.00% | 11.00% | 12.00% | +300.00 |
| 364 | 13.00% | 16.75% | 16.75% | +375.00 |

| NOVEMBER 2023 OMO AUCTION RESULT | | | | | |
|---|---|---|---|---|---|
| Date | Tenor | Offer (₦'bn) | Sub (₦'bn) | Allot (₦'bn) | Closing Rate |
| 1-Nov-23 | 97 | 50.00 | 1.00 | 1.00 | 13.98% |
| 1-Nov-23 | 181 | 50.00 | 15.50 | 11.00 | 14.48% |
| 1-Nov-23 | 265 | 50.00 | 11.25 | 11.00 | 14.99% |
| 1-Nov-23 | 342 | 100.00 | 100.20 | 54.20 | 17.98% |
| | | 250.00 | 127.95 | 77.20 | |

*Source: CBN, AIICO Capital*

**Outlook:** We expect sustained overallotment and elevated stop rates at the NTB primary market, as the DMO/CBN persist in absorbing surplus liquidity and narrowing the negative returns on risk-free investments.

## FGN Bond Market – *Mixed start, surge in yields at the auction, and late-month bullish reversal.*

The local FGN bonds market experienced a mixed to bearish start as investors aimed to exit on-the-run papers (2029s, 2033s, 2038s and 2053s), anticipating higher yields at the upcoming FGN bond auction.

At the auction, the DMO, for the first time in four auctions, allotted more than the offered size, issuing ₦434.50 billion worth of bonds as against the offered amount of ₦360 billion. Although the 2029s, 2033s, and 2038s were undersubscribed, substantial subscription focused on the 2053s, resulting in significant upticks in closing yields, particularly the 2053s closing at 18.00%.

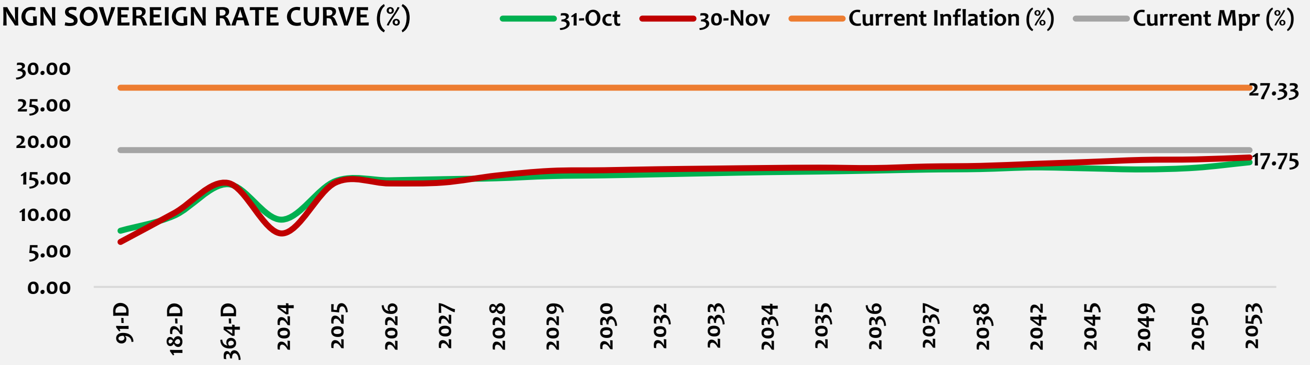
Post-auction, a bearish sentiment persisted, adjusting the yield curve upward, but trading volumes remained limited as investors hesitated to incur losses. However, the market turned bullish towards the month-end, driven by renewed interest from traditional buy-side investors and a short squeeze from players closing short positions. Speculation also arose about the potential retirement of the 2053 paper ahead of the December bond auction, with considerations to shift the longest-dated paper to the 2038s.

Overall, the average mid-yield rose by c.36bps to close at 15.70% m/m

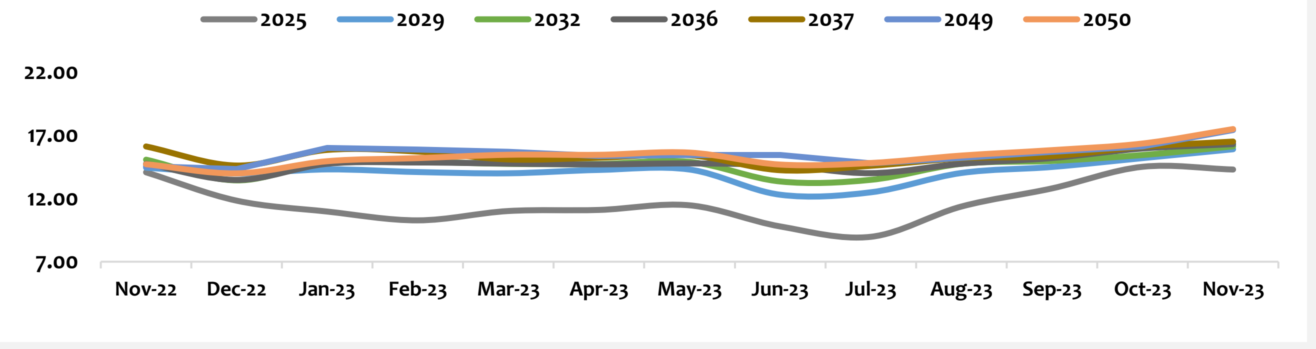
| NOVEMBER 2023 BOND AUCTION RESULT | | | | | | |
|---|---|---|---|---|---|---|
| Maturity | Offer (₦'bn) | Sub (₦'bn) | Allot (₦'bn) | Marginal Rate | Oct'23 Close | Change M-o-M (basis points) |
| 26-Apr-29 | 90.00 | 34.77 | 31.47 | 16.00% | 14.90% | +110.00 |
| 21-Jun-33 | 90.00 | 33.19 | 33.19 | 17.00% | 15.75% | +125.00 |
| 21-Jun-38 | 90.00 | 47.07 | 47.07 | 17.50% | 15.80% | +170.00 |
| 21-Jun-53 | 90.00 | 330.27 | 322.77 | 18.00% | 16.60% | +140.00 |
| | 360.00 | 445.30 | 434.50 | | | |

*Source: DMO, AIICO Capital*

# MARKET UPDATE




*Source: FMDQ, NBS, CBN, AIICO Capital*




*Source: DMO, AIICO Capital*

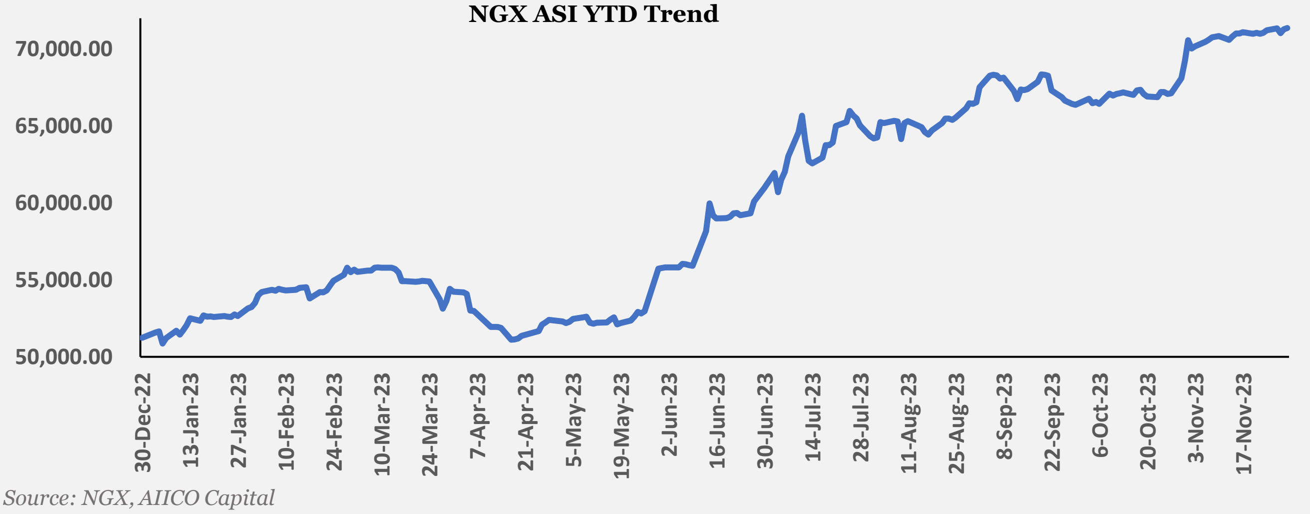
**Outlook**: We envisage a cautious December with an underlying bullish bias from traditional buy-side players, driven by the expected ₦176.15 billion coupon inflows. The upcoming December bond auction will play a pivotal role in shaping market sentiments.

# MARKET UPDATE

**Equities Market Performance in November** – *ASI climbed to a new high in November, while newly-listed stock, MECURE appreciated by 305.41%.*

Initially, the strong bullish bias on AIRTELAFR spilled into the early sessions of November. Subsequently, market optimism heightened further, as OANDO, BUACEMENT and NB led the bullish movers. Despite the selloffs witnessed occasionally, market settled on a bullish note, with top banking tickers, including consumer name like NESTLE. Thus, the All-Share Index (ASI) of the Nigerian Exchange Limited (NGX) appreciated by 3.08% to settle at 71, 365.25 points, while year-to-date return settled at +39.25%. Also, the market capitalization increased by 2.66% m/m to ₦39.05 trillion at the end of November.

The newly-listed stock, MECURE topped the weekly advancers, as investors showed significant interest, considering the potential upside in the pharmaceutical industry after the exit of GSK from the Nigerian market. Since its listing at N2.96 on November 7$^{th}$, the stock gained 305.41% to N12.00 at the end of the month.




*Source: NGX, AIICO Capital*

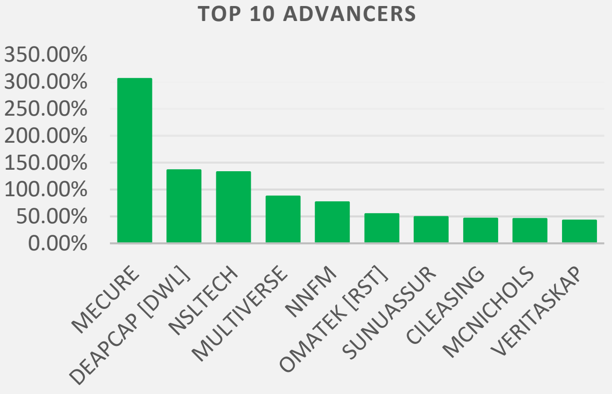
**Relatively mixed performance among the sectorial indices**

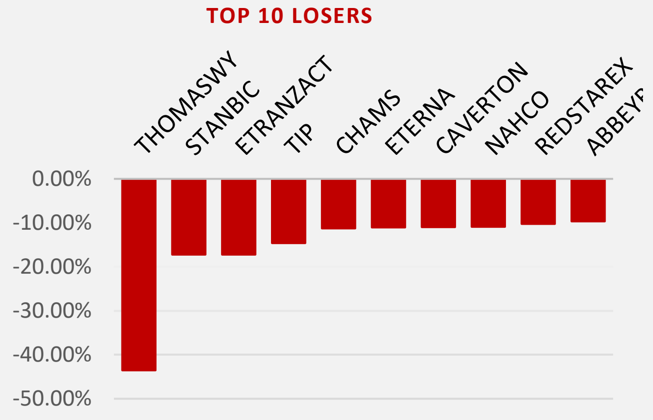
The Oil & Gas Index scored double-digit growth at 11.85%, while the banking index appreciated by 4.42%. On the flip side, the industrial and consumer goods indices declined by 1.93% and 0.63%, respectively.

| | MTD | YTD |
|---|---|---|
| NGX ASI | 3.08% | 39.25% |
| NGX Banking Index | 4.42% | 79.17% |
| NGX Insurance Index | 8.74% | 73.65% |
| NGX Industrial Index | -1.93% | 15.78% |
| NGX Consumer Index | -0.63% | 93.90% |
| NGX Oil & Gas Index | 11.85% | 126.31% |

*Source: NGX, AIICO Capital*

# MARKET UPDATE




*Source: Bloomberg, AIICO Capital*

**Outlook:** We expect the equity market to trade sideways for the most part of December.

# EUROBONDS

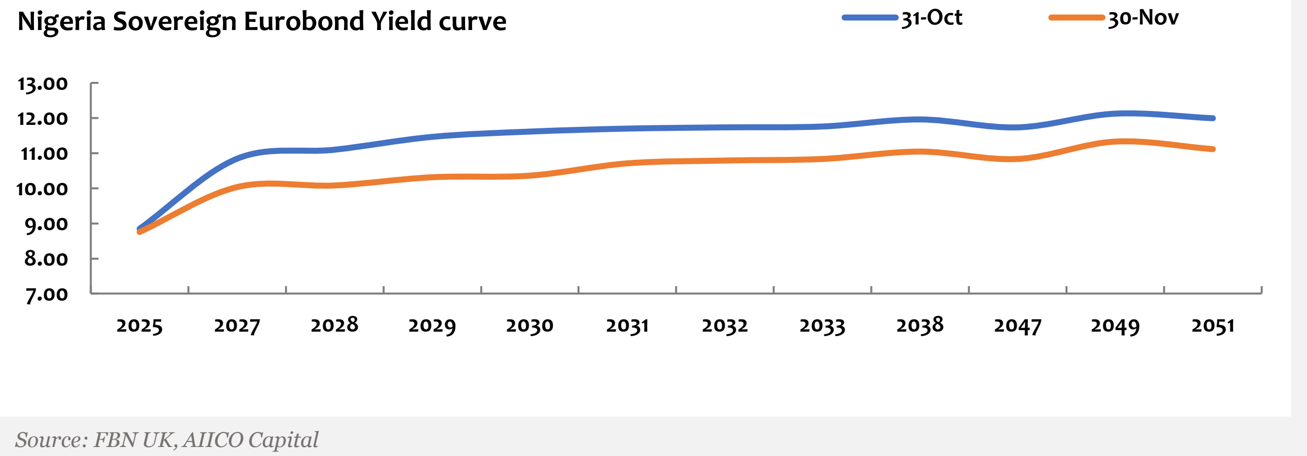
**Eurobonds Market** – *Rollercoaster month ends bullish despite mixed global economic indicators.*

The SSA and North African Eurobond markets began the month on a notably bullish note, driven by the decisions of the US Federal Reserve and Bank of England to maintain interest rates at 5.50% and 5.25%, respectively. This positive momentum was further supported by favourable economic indicators such as lower Euro Area inflation (2.90% in Oct 2023 vs. 4.30% in Sept 2023) and weaker-than-expected US employment figures.

Despite a brief bearish period, due to a decline in oil prices and hawkish sentiments from ECB President Lagarde and Fed Chair Powell, the markets shifted back to a bullish theme following lower-than-expected US CPI data and a less hawkish tone in the released Fed meeting minutes. Specifically, US inflation for October grew at 3.20% (against an estimate of 3.30%), down from 3.70% in September.

The positive sentiment prevailed throughout the month, with a minor setback caused by mild hawkish comments from certain Fed speakers expressing uncertainty about whether the Feds have reached the completion of rate hikes. President Biden and US Treasury Secretary Yellen also acknowledged the persistence of high prices, emphasizing ongoing efforts to address inflation and economic challenges.

Overall, the month ended on a bullish note, as the average mid-yield across Nigerian papers declined by c.89bps to settle at 10.52% M-o-M, despite a mixed economic picture revealed by key US data, including modest figures for Consumer Spending m/m and Core PCE Price Index y/y slightly below expectations.




*Source: FBN UK, AIICO Capital*

# EUROBONDS

**Other notable information:**

- US nonfarm payrolls rose by 150,000, missing the 170,000 consensus. Also, the unemployment rate rose to 3.9%, the highest since January 2022.

- US Consumer Spending m/m grew at 0.2%, met the forecast of 0.2%, while Initial Jobless Claims were at 218k, in line with expectations.

- US PCE Price Index m/m was 0%, below the forecast of 0.1%, and US Core PCE Price Index y/y at 3.46%, slightly below the 3.5% forecast.

- Zambia faced hurdles in its $3 billion Eurobond debt restructuring as objections from official creditors, including China and France, thwarted the revised deal.

- Bank of Ghana maintained its 30% benchmark interest rate, aligning with market expectations.

- Kenya abandoned plans for international capital markets due to high dollar debt costs, opting for more cost-effective concessional funding alternatives in the current fiscal year.

**Outlook:** We expect sustained bullish bias in the Eurobonds market, albeit cautiously, as the holiday season nears. Also, the upcoming Fed meeting is poised to offer clarity and forward guidance regarding potential rate cuts. Finally, investors' attention will be keenly directed towards the final proposal to Ghana's Eurobond holders within the ongoing debt restructuring.

Contact us now to receive valuable investment guidance today.

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