MONTHLY MARKET REPORT
OCTOBER 2023

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REPORT SUMMARY

Review

- Global Macros: Global central banks kept policy rate unchanged, amidst mixed GDP growth numbers.
- Nigeria's Macros: Inflation rate worsened to 26.72%.
- Money Market: Robust liquidity, interest rate shifts and CBN's strategic moves.
- Treasury bills: Buoyant liquidity drove demand, but shocking NTB and OMO auctions altered sentiments.
- FGN Bonds: Shifting sentiments, higher yields, and DMO's debt appetite.
- Nigeria's equity: Mixed-to-bullish activities, championed by GEREGU, BUACEMENT, UBA & AIRTELAFRI.
- Nigeria's Eurobonds: SSA and MENA Bonds experienced volatility amid geopolitical tensions and Central Banks' sentiments.

Outlook

- The US Federal Reserve is expected to put a brake on its aggressive rate hike cycle.
- A monthly decline in Nigeria's inflation is likely, due to the harvest season. Although, yearly increase remains very much expected.
- Persistent tightening activity by the CBN in the financial system.
- We anticipate a bearish bias in the treasury bills market, impacted by the OMO auctions.
- The Bond market is expected to sustain a mixed to bearish sentiment in November.
- Bullish bias in the equity market should ease in November.
- We expect a bullish theme in the Eurobonds market.

GLOBAL MACROECONOMIC REVIEW

In the latest World Economic Outlook, the International Monetary Fund (IMF) expects the global economy to grow at a slower pace due to the impact of the aggressive rate tightening by central banks. The IMF forecasted 3.00% in 2023 and 2.90% in 2024 global GDP growth rate from 3.50% in 2022, while Emerging and Developed economies should see a marginal decline in growth. Nonetheless, data released by major economies in October revealed the following; Stable inflation in the US, less hawkish BoE and ECB, and China's potentials to hit its 5.0% GDP growth target by the end of 2023.

In the United States, the US non-farm payroll for September revealed that 336k jobs were added (Est. 170k), while unemployment rate was maintained at 3.80%. Moreso, inflation rate in the United States stayed at 3.70% y/y, with no changes from August's headline inflation. On a monthly basis, prices grew at a slower pace at 0.40% m/m, from 0.60% m/m in August, while core consumer price index slowed at 4.10% y/y in September from 4.30% y/y in August. Broadly, the US gross domestic product surprised the market with 4.90% expansion in Q3'2023, despite 4.70% estimate. The GDP was mostly supported by high government and consumer spending.

US, UK, Euro Area and China

GDP	Q3'23 4.90% Q2'23 (2.10%)	Q2'23 0.20% Q1'23 (0.30%)	Q3'23 0.10% Q2'23 (0.40%)	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%)	Oct'23 3.45% Sep'23 (3.45%) Oct'22 (3.65%)
INFLATION RATE	Sep'23 3.70% Aug'23 (3.70%) Sep'22 (8.20%)	Sep'23 6.70% Aug'23 (6.70%) Sep'22 (10.10%)	Oct'23 2.90% Sep'23 (4.30%) Oct'22 (10.60%)	Sep'23 0.00% Aug'23 (0.10%) Sep'22 (2.80%)

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

Similarly, inflation in the United Kingdom remained unchanged at 6.70% in September, while core inflation slowed to 6.10% in September (Est. 6.00%), from 6.20% in August.

Accordingly, the Bank of England kept rate at 5.25% for the third time in a row, signalling a "higher for longer" mantra like the Federal Reserve. Although, 3 committee members voted for 25bps hike in rate, while the 6 committee members voted a "hold". As of printing time, the quarterly GDP growth rate for the United Kingdom is forecasted to grow at 0.20%, with no changes expected from the 0.20% in Q2'2023. Similarly, market expects 0.60% y/y GDP growth rate in Q3'2023, from 0.60% in Q2'2023.

Progressively, Inflation in the Euro Area grew at 2.90% y/y in October, marking the lowest yearly growth since July 2021, while market forecasted inflation rate at 3.10%, from 4.30% in September. Monthly inflation reading grew at a slower pace at 0.10% m/m from 0.3% m/m in the prior period and core consumer prices eased at 4.20% y/y in October, from 4.50% y/y in September. The European Central Bank maintained the main refinancing rate in the meeting held in October.

GLOBAL MACROECONOMIC REVIEW

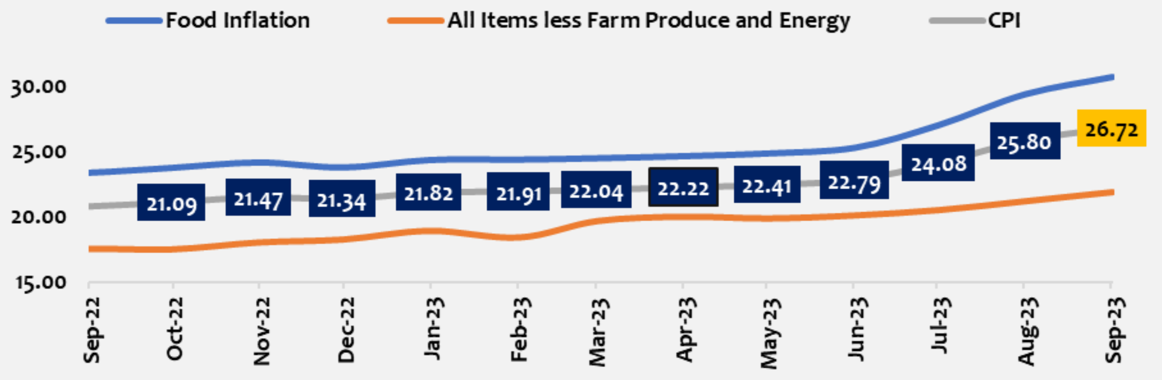
Unlike the resilience in other developed economies, China's economy has stayed hurt owing to lower demand. The trend in economic data has not been consistent as well. The inflation rate for September flattened out, after growing at 0.10% in August. Although, the recent expansionary policies have been relatively supportive to the aggregate demand, as the country grew at 4.90% y/y in Q3'2023, beating 4.40% y/y market estimate.

The country also expanded faster judging from the quarter-on-quarter performance, with 1.30% q/q in Q3, higher than 0.5% q/q growth rate in Q2. While the geopolitical tensions and property market weakness continue to threaten growth, the economy would need to grow at c. 4.40% in Q4 to hit the 5.0% yearly growth target set by the government for 2023. Finally, the 1-year and 5-year loan prime rates were left unchanged at 3.45% and 4.20%, respectively .

DOMESTIC MACROECONOMIC REVIEW

On the domestic front, Nigeria's inflation for September jumped to 26.72% y/y, from 25.80% y/y in August 2023, adding 0.92 percentage points between August and September (Bloomberg Est. 27.10%). The headline inflation moderated to 2.10% m/m in September 2023 vs 3.18% in August 2023. On a monthly basis, the headline index grew by 2.10% in September (vs 3.18% in August).

The food inflation amplified to 30.64% in September from 29.34% seen in August 2023. Similarly, the core inflation, which strips out food and energy items, increased to 21.84% y/y in September from 21.15% y/y in August, according to the National Bureau of Statistics (NBS).



Source: NBS, AIICO Capital

Furthermore, Nigeria's total capital importation amounted to $1.03 billion in Q2' 2023, showing a decline of 9.04% from $1.13 billion recorded in Q1 and 32.90% decline in the last 12 months.

The drag in the total capital importation was influenced by the huge decline in the foreign portfolio investments component, which fell to $106.85 million in Q2'2023, from $649.28 million in Q1'2023 and $757.32 million from Q2'2022. In the first quarter of 2023, the total foreign portfolio investment accounted for 57.32% of the total inflows. However, the sharp decline have resulted to 10.37%, while other investments accounted for the largest share, to a tune of 81.28% (or $771.53 million) out of $1.03 billion in Q2'2023.

Outlook: While overall inflation remains high at 26.72%, there was a slight decrease in monthly food inflation, dropping from 3.87% in August to 2.45% in September, likely due to expectations of the upcoming harvest season. However, a sustained decline is not anticipated in the medium to long term as Nigeria's inflation will likely continue to be influenced by factors such as elevated energy prices, supply chain issues, and the rapid depreciation of the naira against the US dollar at both the official and parallel markets, driven by dollar shortage. Thus, we expect the Monetary Policy Committee to maintain their hawkish stance at the next meeting.

Lastly, the recent initiatives by the CBN and the FG are poised to make the local economy more attractive to foreign entities, thus, expected to drive more capital inflows.

MARKET UPDATE

Foreign Exchange Market – Naira's free fall persists, albeit reforms by the CBN and FGN to boost dollar supply provide a glimmer of hope.

The cost of a dollar crossed ₦1,000 in the parallel market, leading to increased prices for consumer goods in a heavily import-dependent economy. The Central Bank of Nigeria (CBN) was criticized for not intervening in recent weeks, causing businesses and individuals to seek forex in the parallel market. In addition, the Association of Bureau De Change Operators of Nigeria (ABCON) urged the CBN to permit online dollar operations and Point of Sale (POS) agency for BDCs to boost forex liquidity. They also requested regulatory approvals for BDCs to access diaspora remittances.

In response to the worsening currency issues, there were key FX market reforms which included the lifting of the ban on 43 items imposed under the Godwin Emefiele CBN era, a change in terminology from Investors' and Exporters' (I&E) FX Window to Nigerian Autonomous Foreign Exchange Market (NAFEM), and renaming Naira-Settled OTC FX Futures to Cleared Naira-Settled Non-Deliverable Forwards (Cleared USD/NGN NDFs), aligning the product with international standards and distinguishing it from Naira-Settled Exchange-Traded FX Futures (NSEFF).

Despite these reforms, the parallel market still witnessed the naira's significant depreciation by approximately ₦153.50 (or 15.29%) m/m, against the US dollar, closing at around $/₦1,157.50, even reaching highs of $/₦1,300 during the month. In addition, the exchange rate at the Nigerian Autonomous Foreign Exchange Market (NAFEM) experienced a sharp depreciation of ₦60.05 to $/₦815.32, from September. The NAFEX rate also declined to $/₦905.75, a decrease of ₦128.96 from September.

On the positive side, gross external reserves slightly increased to approximately $33.40 billion compared to the $33.24 billion recorded in September 2023. This improvement was attributed to increased crude oil output in the previous month, supported by stable global crude oil prices above $85.00 per barrel. Nigeria's Crude oil output rose by 14.1% m/m to 1.35 million barrels per day in September (according to OPEC), hitting 20-month highest.

Outlook: We anticipate a gradual strengthening of the Naira against the dollar, underpinned by concerted efforts from both the CBN and FGN to maintain its stability. The recent re-introduction of high-yield OMO bills has attracted Foreign Portfolio Investors (FPIs), enabling the CBN to address the backlog of forex demands, particularly in the banking and airline sectors. Furthermore, the FGN is actively engaging with various international entities to secure funding in excess of $13.5 billion for essential development projects, including securitization of gas and oil dividends, collaboration with the World Bank, and funding from Qatar's Sovereign Wealth Fund.

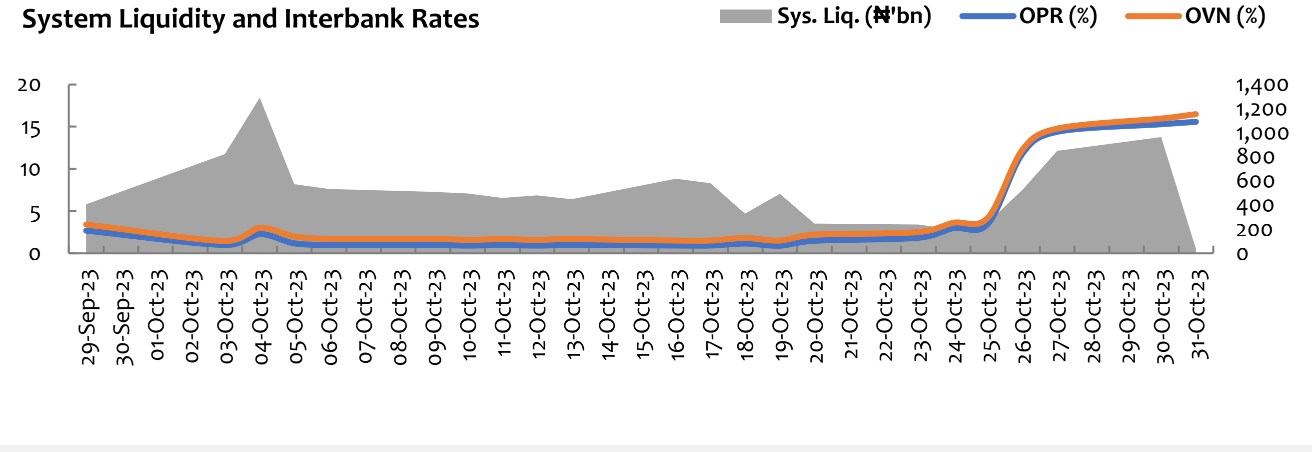
Money Market Review and Outlook – *Robust liquidity, interest rate shifts and CBN's strategic moves.*

In October, the market displayed strong positive momentum, opening with over ₦800 billion in liquidity. This boost was primarily attributed to late FAAC credits and bond coupon inflows. Consequently, interbank rates experienced a significant decline, with the Open Repo Rate (OPR) and Overnight Rate (OVN) maintaining low single-digit levels between 0.90% and 2.00%. System liquidity jumped over the ₦1 trillion mark. However, it saw a slight dip by mid-month due to the settlement of the FGN bond auction.

MARKET UPDATE

Towards the end of the month, the money market underwent a notable transformation in response to ongoing inflationary pressures and currency weakness issues, which the CBN attributed to the growing money supply.

The CBN initiated a series of changes, starting with the removal of the ₦2 billion cap on Standing Deposit Facility (SDF) for commercial banks. Subsequently, there was the first over-allotment at the treasury bills auction since March 8, 2023, the first OMO auction since August 2023, and substantial multiple CRR debits. As a result, system liquidity closed the month at just under ₦35 billion, accompanied by the Open Repo Rate (OPR) and Overnight Rate (OVN) soaring to 15.58% and 16.46%, respectively.



Source: CBN, FMDQ, AIICO Capital

However, the overall average liquidity for the month stood at ₦521.52 billion, marking a significant increase from the ₦45.21 billion recorded the previous month. Furthermore, the average Open Repo Rate (OPR) and Overnight Rate (OVN) settled at 3.87% and 4.90%, respectively, as opposed to the 10.40% and 11.12% reported in the preceding month.

Outlook: The recent CBN reforms are expected to boost short-term interest rates, including interbank rates, in response to currency and inflation challenges. While the reintroduction of OMO auctions aims to stabilize prices in the short term, there are concerns about its potential long-term impact on the CBN's balance sheet if not carefully managed. In November, an estimated ₦750.53 billion liquidity injection is anticipated from OMO and NTB maturities, ₦22.40 billion from FGN bond coupons and ₦9.40 billion from FGN Promissory notes.

Treasury Bills – *Buoyant liquidity drove demand, but shocking NTB and OMO auctions altered sentiments.*

Strong liquidity at the beginning of the month fueled considerable buying activity in the treasury bills market, with robust demand across all maturities, primarily concentrated in the longer end of the curve. Market participants anticipated a drop in stop rates at the preliminary NTB auction due to short supply (approximately ₦36.56 billion) by the DMO, prompting intensified buying interest.

At the auction, bullish sentiments prevailed as expected, evident in the bid-to-cover ratio of 8.78x and a significant decline in stop rates across various tenors. While the market maintained a bullish tone for most of the month, the final auction marked a shift as the DMO surprisingly sold 3.42x more bills than offered, raising stop rates significantly across the usual three tenors.

MARKET UPDATE

Post-auction sessions witnessed mixed to bearish sentiments, with many auction winners selling their low-rate acquisitions at a loss due to higher secondary market bids. Bearish sentiments intensified after the CBN announced an OMO auction to close the month, with an offered amount of ₦400 billion across four maturities, the highest since February 2021. Closing rates far exceeded NTB auction levels, triggering another round of sell-off in the secondary market.

Overall, the average mid-rate expanded by 246bps to settle at 10.52% m/m.

OCTOBER 2023 NTB AUCTION RESULT				
Tenor	Sep'23 Close	Oct'23 Auc 1	Oct'23 Auc 2	Change M-o-M (basis points)
91	4.99%	3.67%	6.00%	+100.90
182	6.55%	5.11%	9.00%	+245.00
364	11.37%	9.25%	13.00%	+163.00

OCTOBER 2023 OMO AUCTION RESULT					
DATE	TENOR	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Closing Rate
30-Oct-23	99	75.00	81.50	25.00	13.99%
30-Oct-23	183	75.00	104.25	25.00	14.49%
30-Oct-23	267	100.00	103.50	25.00	15.00%
30-Oct-23	365	150.00	343.50	325.00	17.50%
		400.00	632.75	400.00	

Source: CBN, AIICO Capital

Outlook: We anticipate upward movement in auction bids in November, influenced by recent actions taken by the CBN, most notably the reintroduction of OMO auctions. With liquidity constraints expected to persist, the FGN may have no alternative but to roll over maturing NTB obligations at elevated rates, resulting in heightened cost of debt. The forthcoming MPC meeting of the new CBN cabinet will also provide insights into future interest rate direction.

FGN Bond Market – *Shifting sentiments, higher yields, and DMO's debt appetite.*

The local FGN bond market displayed a mixed performance, initially marked by buyside interest across various maturities in the short, mid, and long segments of the yield curve, driven by investors' appetite for higher yield with idle funds. However, this sentiment rerouted to a bearish tone towards the end of the month following the FGN bond auction.

Scanning through the Q4 2023 FGN bond issuance calendar, the DMO revealed plans to reissue the existing on-the-run papers, maintaining a monthly offer size of ₦360 billion. The notice altered the bullish dynamics in the secondary market as investors positioned themselves ahead of the FGN bond auction, anticipating higher yields.

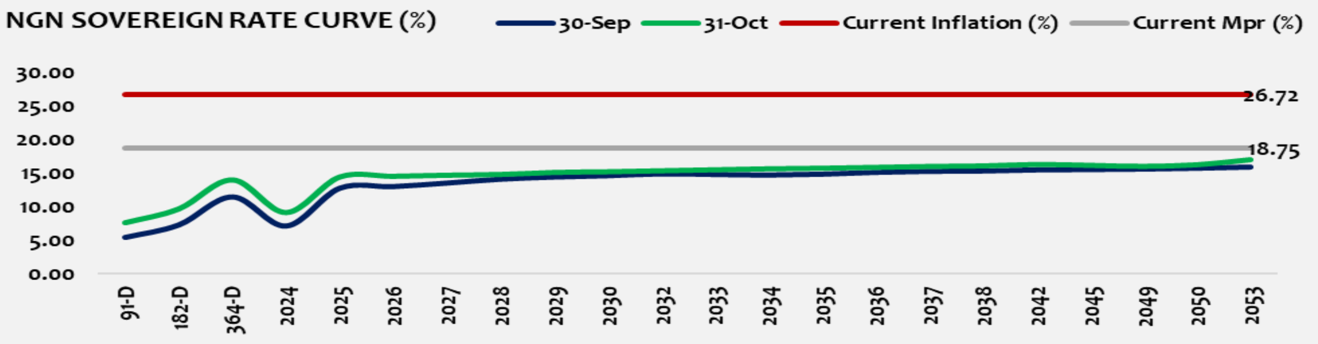
At the auction, the DMO allocated a lower volume than offered to competitive bidders, although an additional ₦40 billion was allotted to non-competitive bidders for the 2033 paper. The closing rates were notably higher than the previous auction, indicating the DMO's willingness to raise long-term debt even at increased costs.

Post-auction sentiment turned mixed to bearish, with traditional buyside participants primarily seeking bargain yields. The market took a decisive bearish turn, especially in response to surprising results from the NTB and OMO auctions. The longest-dated paper (2053s) experienced an increase of more than 50 basis points compared to its auction closing rate.

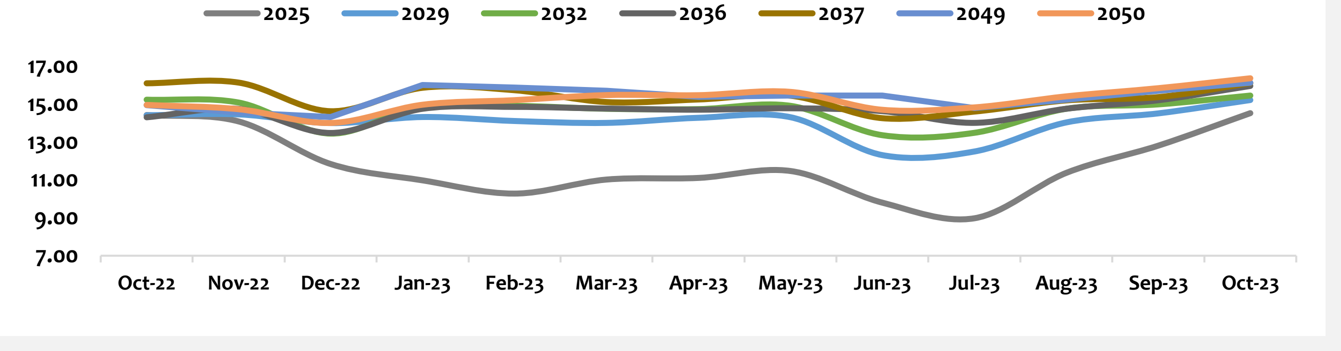
In conclusion, the average mid-yield rose by c.91bps to close at 15.35% m/m.

MARKET UPDATE

OCTOBER 2023 BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Marginal Rate	Sep'23 Close	Change M-o-M (basis points)
26-Apr-29	90.00	41.38	20.53	**14.90%**	**14.50%**	**+40.00**
21-Jun-33	90.00	24.47	22.27	**15.75%**	**15.45%**	**+30.00**
21-Jun-38	90.00	66.41	54.86	**15.80%**	**15.55%**	**+25.00**
21-Jun-53	90.00	250.84	237.09	**16.60%**	**16.25%**	**+35.00**
	360.00	**383.11**	**334.76**			



Source: FMDQ, NBS, CBN, AIICO Capital



Source: DMO, AIICO Capital

Outlook: With anticipated coupon inflows of ₦22.40 billion, the local bond market is likely to sustain a mixed to bearish outlook. Yields are predicted to maintain an upward trajectory, and the DMO's upcoming bond auction is expected to be subdued, influenced by recent CBN initiatives and the prevailing constraints in system liquidity.

MARKET UPDATE

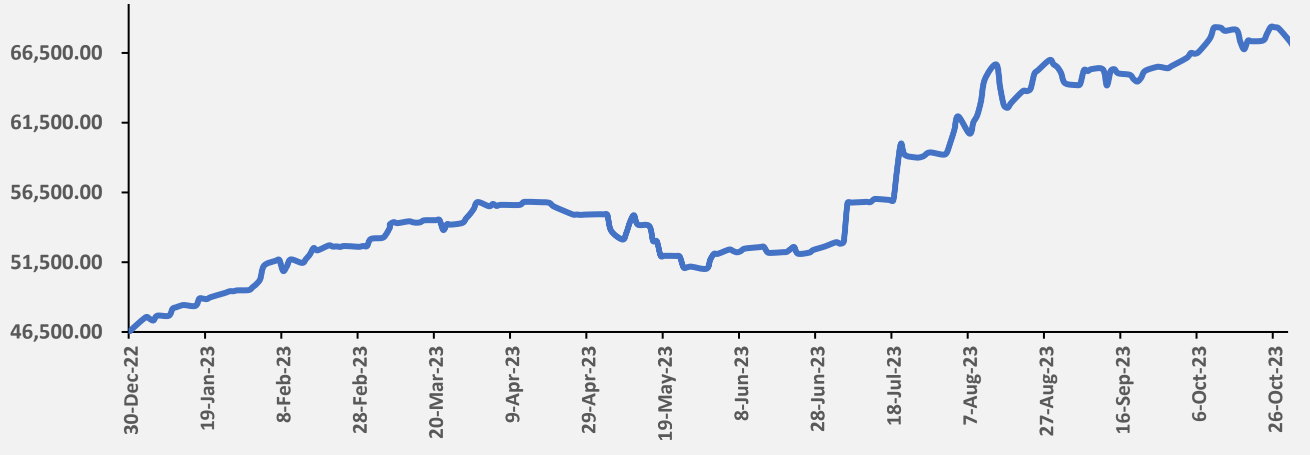
Equities Market Performance in September – *Mixed-to-bullish activities, championed by GEREGU, BUACEMENT, UBA & AIRTELAFRI.*

Activities in October were mixed but gradually tilted to a bullish theme towards the end of the month, with GEREGU and AIRTELAFRI being the major movers. The All-Share Index (ASI) of the Nigerian Exchange Limited (NGX) appreciated by 4.30% to settle at 69,236.19 points, while year-to-date return settled at +35.09%. Also, the market capitalization increased by 4.70% m/m to ₦38.04 trillion at the end of October.

To expatiate, after the bargain hunting on DANGCEM, DANGSUGAR, BUACEMENT and NB around the first week of October, GEREGU trended dramatically thereafter. The modest earnings report for Q3 (42% increase in revenue and 9.7% increase in bottom line) drove the share price of GEREGU downward by 7.22%. At mid-month through month end, Q3 earnings report drove market sentiment, with increasing buyside interests for the major banking stocks, as depreciation in naira favoured FX revaluations and sustained the bullish bias, while the consumer goods sector witnessed less profitability. MTNN endured selloffs due to concerns around the fine of c. N61bn in tax default ordered by the TAX Appeal Tribunal, alongside poor Q3 result.

Interestingly, GEREGU, AIRTELAFRI, and UBA appreciated by +16.49%, 19.39%, and 24.40%, respectively, m/m.

NGX ASI YTD Trend



Source: NGX, AIICO Capital

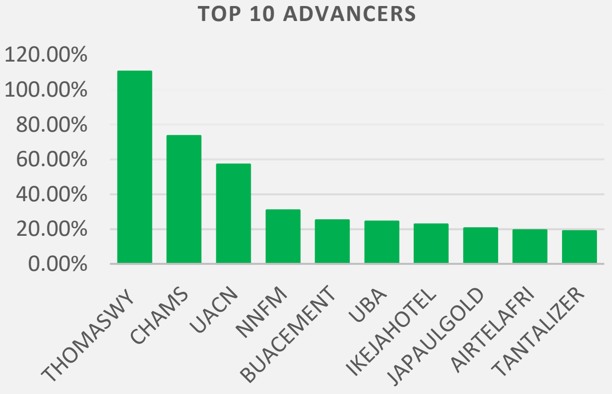
Bullish performance across key sectors

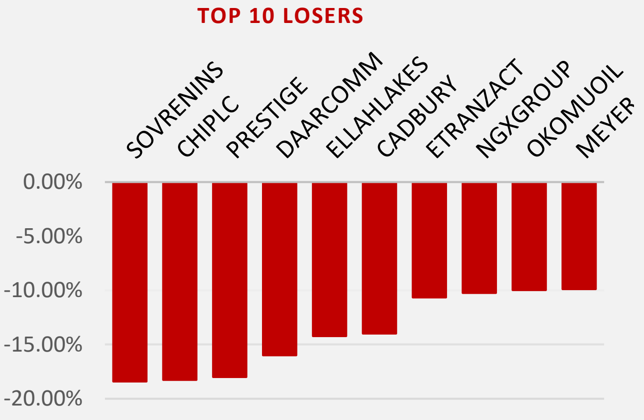
The Banking Index was the best performing sector, gaining 7.54% m/m, closely followed by the Industrial Index at 6.54% m/m. Furthermore, the Oil & Gas and Consumer Indices appreciated by 2.38% and 1.48%, respectively.

	MTD	YTD
NGX ASI	4.30%	35.09%
NGX Banking Index	7.54%	71.60%
NGX Insurance Index	-1.61%	59.69%
NGX Industrial Index	6.54%	18.05%
NGX Consumer Index	1.48%	95.13%
NGX Oil & Gas Index	2.38%	102.35%

Source: NGX, AIICO Capital

MARKET UPDATE





Source: Bloomberg, AIICO Capital

Outlook: We expect to see some relief in November, giving the size of the upward trend, which has led most tickers to a perceived resistance level. Also, investors interest in profit taking ahead of the festive season could tame market performance.

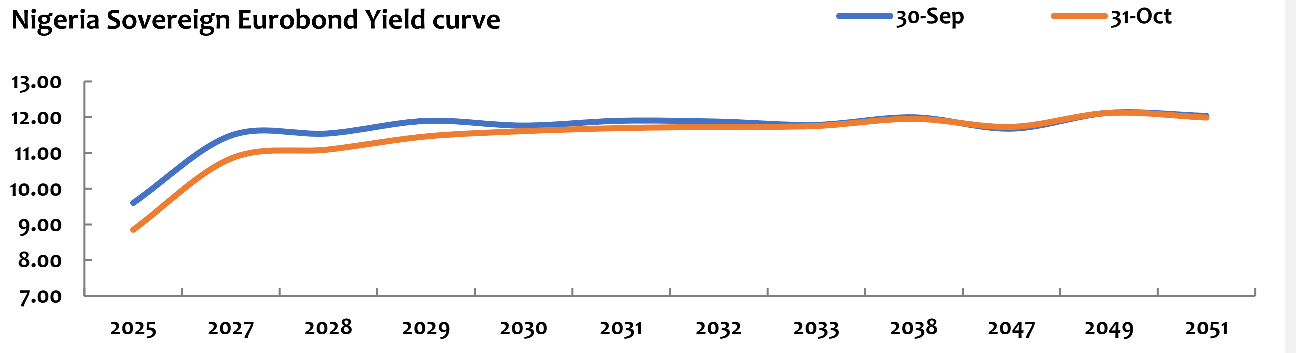
EUROBONDS

Eurobonds Market – *SSA and MENA Bonds experienced volatility amid geopolitical tensions and Central Banks' sentiments.*

The month exhibited an overall positive performance in the SSA and MENA bond markets, with major central banks adopting a less hawkish stance that helped offset geopolitical tensions in the Middle East.

Initially, the month began with mixed to bearish sentiments, influenced by concerns that the Fed might maintain lower interest rates for a longer duration, compounded by weaker-than-expected US job data. However, the market's bearish outlook briefly shifted to a bullish one as oil prices rose, though this positivity was short-lived due to the predominant event of the month — the Israel-Hamas conflict. This territorial struggle, resulting in significant casualties, particularly in Gaza, impacted the oil market and sent oil prices soaring. There were also fears that the ongoing conflict might draw in superpower nations, including Iran (supporting Palestine), the US (supporting Israel), and the UAE region.

As a result, investors factored in country-specific risks in their Eurobond transactions, leading to sell-offs in many African bonds, notably Egypt and Ghana. The latter, in an investor presentation, discussed the progress of ongoing debt restructuring talks, crucial for accessing the next tranche of the $3 billion IMF loan. Meanwhile, the US GDP for Q3'23 exceeded expectations, growing at 4.90% compared to a consensus estimate of 4.70%, with other economic indicators remaining robust.



Source: FBN UK, AIICO Capital

Toward the end of the month, the market turned bullish as investors anticipated that the US Federal Reserve and other major central banks would maintain their current stance, in line with recent data. Strong bullish momentum was evident across SSA and MENA bonds, which led the average yield to decline by 24bps to 11.40% m/m across the Nigerian sovereign Eurobond curve.

EUROBONDS

Other notable information:

- Ghana's Finance Minister, Ken Ofori Atta, proposed substantial adjustments for Eurobond debt, including a 30-40% nominal haircut, capping coupons at 5%, and limiting maturities to 20 years for external bondholders, with final decisions pending.

- S&P Global Ratings downgraded Egypt's long-term foreign and local currency sovereign credit ratings to 'B-' from 'B'.

- Inflation dynamics varied across African nations, with Egypt's rate hitting 38.0% in September, Angola reaching a 10-month high of 15.01%, and Ghana's inflation declining to a one-year low of 38.1% in September.

- Kenya's Central Bank confirmed plans to repurchase $500 million in Eurobonds to address concerns about its debt repayment capability.

Outlook: The recent decision by the US Federal Reserve aligns with existing anticipation for an economic slowdown, potentially relieving pressure on the Federal Reserve's battle against inflation. Consequently, we anticipate that the Eurobond market will maintain its bullish trajectory as investors seek attractively priced bonds. Additionally, investors' attention will remain focused on the final proposal to Ghana's Eurobond holders within the ongoing debt restructuring discussions.

Contact us now to receive valuable investment guidance today.

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