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MONTHLY MARKET REPORT
SEPTEMBER 2023

REPORT SUMMARY

Review

- Global Macros: Lesser aggression in rate hike cycle.
- Nigeria's Macros: Inflation rate worsened to 25.80%.
- Money Market: Late liquidity surge eased tightness; MPC meeting postponed.
- Treasury bills: Mixed to bearish market overall amid persistent statutory debits.
- FGN Bonds: Selling interest dominated market events overall amid tight market liquidity.
- Nigeria's equity: After the fierce combat between the bulls and bears, market settled on a bearish note.
- Nigeria's Eurobonds: Bearish posture fueled by an interplay of weak US economic indicators and worsening currency crisis in Nigeria.

Outlook

- The era for a pause on rate hike would be determined by CPI and Labour data.
- No end in sight. We expect inflation to linger.
- System liquidity is expected to be supported by FAAC and Bond coupon inflows.
- Expect to see a mixed sentiment In the treasury bills market.
- The size of statutory debits and actions of the new CBN governor should dictate the direction of the FGN local bonds market.
- The fierce battle between the bulls and bears is expected to continue in the Nigerian bourse.
- "Higher for Longer" interests would be a major bearish catalyst for the Eurobonds, subject to US inflation numbers.

GLOBAL MACROECONOMIC REVIEW

Among major headlines, the global crude oil market was at the spotlight for the most part of September. The OPEC+ giants, Saudi Arabia and Russia, announced voluntary oil production cuts totalling 1.3mbpd till the end of the year. This move has raised concerns around cost push inflationary pressures and tougher business conditions, amid higher oil prices (crossed $94pb during the month).

Elsewhere, the market continues to gauge the US economy with respect to the general price levels and sufficient indications to support or oppose the likelihood of a soft landing and in turn, the return to normalcy in macroeconomic dynamics. To give some perspective, the US Non-farm payroll for August showed that 187k jobs were added, from the downwardly revised 157k in July, although, market expectation averaged 157k. Further, unemployment rate in the US increased to 3.80% in August from 3.50% in the preceding month, while average hourly earnings slowed to 0.20% m/m (from 0.40%) and 4.30% y/y (from 4.40%).

Regarding US CPI, the market expected 3.20% y/y inflation rate, however, the Bureau of Labour Statistics reported 3.70%, while core inflation slowed to 4.30% y/y in August from 4.70% in July and market forecast.

US, UK, Euro Area and 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	Sep'23 - 5.50% Aug'23 (5.50%) Sep'22 (3.25%)	Sep'23 - 5.25% Aug'23 (5.25%) Sep'22 (2.25%)	Sep'23 4.50% Jul'23 (4.25%) Sep'22 (1.25%)	Aug'23 3.45% Jul'23 (3.55%) Aug'22 (3.65%)
INFLATION RATE	Aug'23 3.70% Jul'23 (3.20%) Aug'22 (8.30%)	Aug'23 6.70% Jul'23 (6.80%) Aug'22 (9.90%)	Sep'23 4.30% Aug'23 (5.20%) Sep'22 (9.90%)	Aug'23 0.10% Jul'23 (-0.30%) Aug'22 (2.50%)

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

At the September FOMC meeting, the US kept interest rate at 5.25-5.50%, while maintaining that members of the Federal Reserve could hold interest rate for a longer period and possibly raise by a quarter basis points subject to the unfolding economic data.

Inflation rate fell slightly to 6.70% in the United Kingdom, from 6.80% in August, impacted by food inflation. Thankfully, the core inflation significantly moderated to 6.20% in August from 6.90% in July, which was materially lower than 6.90% forecasted by market players. On the back of this, the Bank of England held rate unchanged at 5.25% - adopting a wait-and-see approach as data suggest that the full impact of the rate hikes that has lasted almost two years have begun to hit hard on inflationary pressures including economic activities. As such, the GDP growth rate for the United Kingdom printed a final estimate at 0.20% q/q in the second quarter.

GLOBAL MACROECONOMIC REVIEW

Glancing into the Euro Zone, the GDP growth rates in the past 7 readings have revolved around zero levels. In the final estimate in Q2, the EU GDP growth rate printed at 0.10%, impacted by a period of no growth in the largest economy in the Euro Area (Germany).

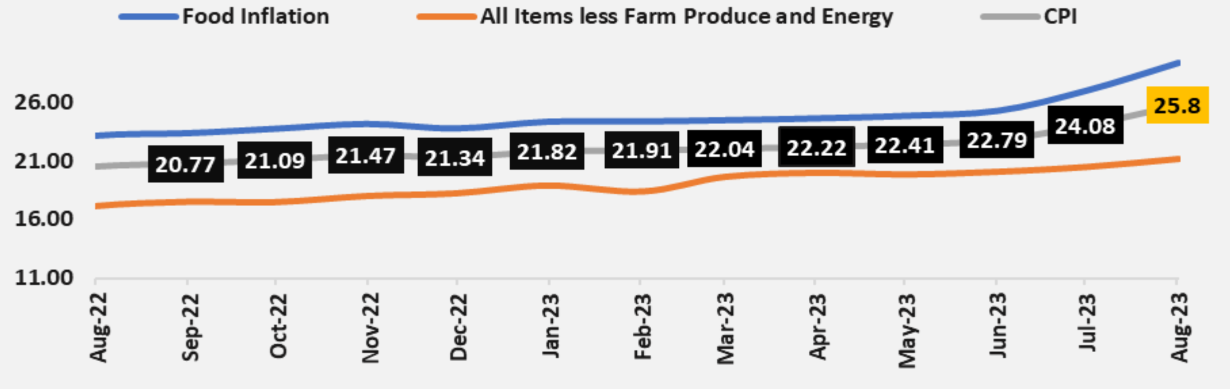
On the bright side, inflation in the Euro Area has consistently contracted since April 2023. To recall, the headline inflation in the Eurozone peaked in October 2022 at 10.60%. In September 2023, inflation rate printed at 4.30% y/y from 5.20% in the previous month, while core inflation sharply eased from 5.30% in August to 4.50% in September.

Accordingly, the European Central Bank raised interest rate by 25bps to 4.50%, while signalling possibility of hitting the climax in its rate tightening cycle. Although, the bank is expected to maintain its high interests rate for a longer period.

DOMESTIC MACROECONOMIC REVIEW

After decoupling Nigeria's trade statistics, we observed a 7.60% decline in total trade value between Q2'2022 and Q2'2023. Similarly, the value of total imports and total exports also fell by 10.37% and 5.20%, respectively, within the same period. In value terms, total exports was estimated to ₦ 7.01 trillion, while imports totalled ₦5.73 trillion, summing up to ₦12.74 trillion as of Q2'2023. The value of total trades saw a 5.77% uptick on a quarterly basis, with imports and exports increasing by 2.99% and 8.15%, respectively, between Q1'2023 and Q2'2023, with improved trade surplus at +39.08% q/q and +27.37% y/y.

In August, Nigeria's inflation increased to 25.80% y/y from 24.08% y/y in July 2023, adding 1.72 percentage points between July and August (Bloomberg Est. 25.00%). The headline inflation amplified by 3.18% m/m in August 2023 vs 2.89% seen in July 2023. The food inflation amplified to 29.34% in August from 26.98% seen in July 2023. However, the core inflation, which strips out food and energy items, increased to 21.15% y/y in August from 20.47% y/y in July, according to the National Bureau of Statistics (NBS).



Source: NBS, AIICO Capital

Unsurprisingly, the inflation numbers have continued its upward trajectory, reflecting current fundamental issues coupled with the ripple impacts of the recent policies that has taken effect over the past 3 months (that is, the managed-float foreign exchange system and fuel subsidy removal).

Outlook : We expect to see an uptick in the general prices of goods and services in the short to medium term, pending any major shift in economic dynamics and/or policies, and this may persuade the central bank's monetary policy committee to raise interest rates at its next MPC meeting.

MARKET UPDATE

Foreign Exchange Market – Naira's voyage in turbulent waters continues; Gross FX reserves depletes further.

Despite the transformations and reforms by the Nigerian government and Central bank towards a unified and more transparent foreign exchange system, the fate of the Naira has continued to witness a significant downturn in fortunes.

The parallel market witnessed the Naira's staggering depreciation by approximately ₦90.00 m/m, marking a substantial 9.85% decline against the US Dollar. Amidst volatility, the parallel market rate closed at $/₦1,005.00. Simultaneously, the NAFEX rate relinquished approximately ₦1.64 m/m, reflecting a marginal 0.21% depreciation, concluding at $/₦776.79. Surprisingly, amidst intermittent CBN interventions, the I&E window experienced a glimmer of resilience, gaining about ₦7.44 m/m, constituting a commendable 0.98% appreciation and sealing the month at $/₦755.27.

The Gross external reserves disclosed a modest retreat, closing at approximately $33.24 billion in contrast to the $33.95 billion recorded in August 2023—a slight decline amounting to approximately $72 million. Despite recent surges in crude oil prices, the CBN's gross reserves remained relatively unchanged, bearing the brunt of challenges like crude vandalism, oil theft, an escalating economic crisis, and concerns about public fund management.

A disconcerting narrative unfolds when one examines the quarterly perspective. In the third quarter of 2023, the Naira confronted a monumental depreciation compared to the preceding quarter, plummeting from a rate of around $/₦770.50 to a staggering $/₦1,005.00—an astonishing c.30% loss. Simultaneously, the external reserves retreated from $34.12 billion at the conclusion of Q2 to $33.24 billion, casting shadows over Nigeria's economic stability.

Outlook: The naira's journey in the fourth quarter of 2023 is poised to remain tumultuous, with persistent headwinds buffeting its value. As the months unfurl, the Central Bank of Nigeria (CBN) faces an arduous decision-making juncture to realign the official exchange rate with market dynamics and preserve its dwindling external reserves.

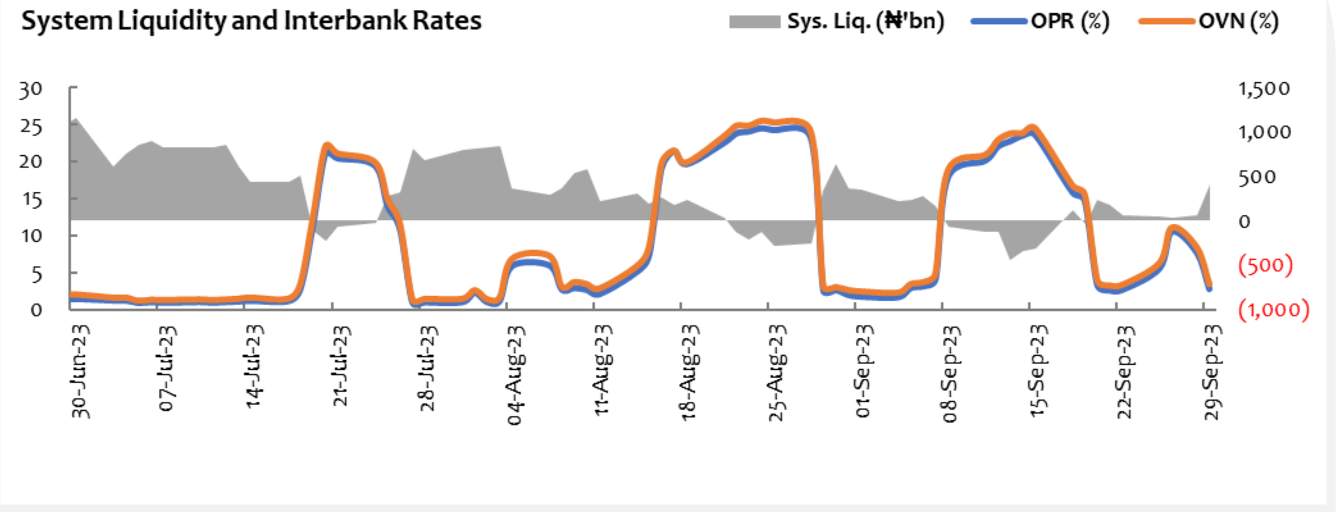
Money Market Review and Outlook – *Late liquidity surge eased tightness; MPC meeting postponed.*

The third quarter of 2023 concluded on a high note, with a surge in market liquidity, primarily fueled by late FGN bond coupon inflows and FAAC credits. Prior to this substantial influx, market liquidity had been running thin, plagued by recurring weekly LDR shortfall and CRR debits, CBN interventions at the FX I&E Window, and FGN bond auction deductions, collectively pushing the system into negative territory.

Overall, in September 2023, system liquidity averaged at ₦45.21 billion, a sharp decline from the ₦275.77 billion recorded in August 2023. However, the intriguing part is that despite this liquidity squeeze, both the Open Repo Rate (OPR) and the Overnight Rate (ON) experienced a marginal moderation, closing at an average of 10.40% and 11.12%, compared to 10.77% and 11.46% from the previous month. This shift can be attributed to high interbank rates in the middle of the month, sandwiched by markedly lower rates at the beginning and end of September.

In a noteworthy development, the penultimate MPC meeting, originally slated for September 25th and 26th, was postponed due to the screening process of the newly appointed CBN governor, Olayemi Cardoso, and his four deputy governors by the Nigerian Senate. The rescheduled date for the MPC meeting is yet to be announced (as of writing time).

MARKET UPDATE



Source: CBN, FMDQ, AIICO Capital

Taking a broader view on a quarterly basis, system liquidity averaged ₦282.63 billion in Q3 2023, compared to ₦313.42 billion in Q2 2023. Over the same period, the Open Repo Rate and Overnight (ON) rate averaged 8.89% and 9.53%, respectively, in Q3 2023, marking a notable contrast to the 12.69% and 13.15% recorded in Q2 2023.

Outlook: In Q4 2023, we anticipate a substantial boost in liquidity driven by upcoming maturities and coupon inflows, including NTB and OMO maturities at ₦1.11 trillion, FGN bond coupons at ₦539.83 billion, FGN promissory notes at ₦182.61 billion, FGN Sukuk Rentals totalling ₦32.52 billion, and potential FAAC credits. As a result, interbank funding and FD placement rates are expected to decrease. However, the future course of the new CBN administration remains uncertain, as they strive to secure investor confidence and articulate their monetary policy approach.

Treasury Bills – *Mixed to bearish market overall amid persistent statutory debits.*

The month commenced with mixed dynamics, featuring persistent buying interest juxtaposed with select maturities on offer. This balance gradually gave way to bearish market sentiment, characterized by selling pressure at the long end. However, short-dated papers witnessed a mild surge in buying interest.

The preliminary auction of the month attracted substantial subscription, subsequently leading to a drop in rates across the usual tenors. The spotlight exceled on the newly issued one-year paper (05-Sep-2024) post-NTB auction, generating significant demand. Mid-month presented challenges, with a bearish undertone at the subsequent NTB auction. Despite high subscription, late bank-wide CRR debits for LDR shortfalls the prior week significantly impacted market liquidity. In response, the CBN raised rates across standard tenors at the auction.

The market entered a sluggish phase, with limited cherry-picking activities, primarily by those with constrained funds for investment. The prevailing undertone leaned bearish, with some market participants selling their holdings to raise liquidity for their obligations. However, the market regained momentum towards the month's end. Oscillations were observed as it anticipated the timing of FAAC credits and late coupon inflows, building up to the final NTB auction. This led to a notable reduction in stop rates across the 91, 182, and 364-day papers at the auction, followed by a bullish theme post-auction.

MARKET UPDATE

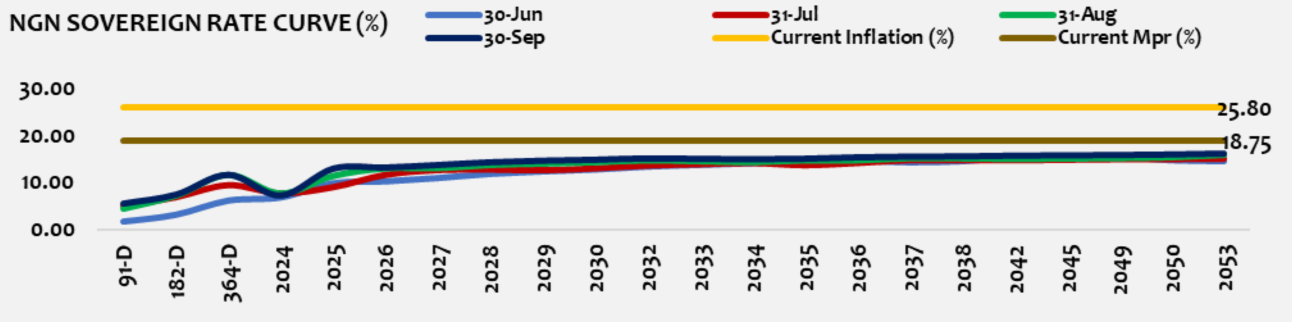
NTB AUCTION RESULT (Q1 2023 - SEP 2023)								
Tenor	Q1'2023 Close	Q2'2023 Close	Aug'23 Close	Sep'23 Auc 1	Sep'23 Auc 2	Sep'23 Auc 3	Change M-o-M (basis points)	Change Q-o-Q (basis points)
91	6.00%	2.87%	5.19%	4.50%	6.50%	4.99%	(20.00)	+212.00
182	8.00%	4.37%	8.00%	7.00%	7.00%	6.55%	(145.00)	+218.00
364	**14.70%**	**6.23%**	**13.97%**	**12.55%**	**12.98%**	**11.37%**	(260.00)	+514.00

Source: CBN, AIICO Capital

In summary, the average mid-rate experienced an upward shift of approximately 38 basis points, closing at 8.06% m/m.

On a quarterly basis, Q3 2023 in the Treasury bills market unfolded with mixed sentiments. The quarter commenced on a bullish note as market participants sought appealing opportunities, buoyed by a relatively liquid system. Midway through Q3, offers began to gain strength across the board. This shift was influenced by a significant increase in stop rates during auctions and the prevailing tightness in system liquidity as market players sought ways to meet their financial obligations. Additionally, the CBN introduced the year's first OMO auction, prompting participants to exit positions in anticipation of higher yields. Overall, the average mid-rate increased by 444 basis points q/q.

Outlook: Q4 2023 is poised for a bullish trajectory, bolstered by the anticipated influx of NTB and OMO maturities totaling ₦1.11 trillion. This surge in liquidity promises to reinforce the market's already buoyant stance. However, a shadow looms in the form of recurrent CRR debits by the CBN to address LDR shortfalls, a factor that has thus far curtailed significant market activity. In addition to the bullish momentum, investors will keenly observe whether the new administration will embark on strategic measures to address the challenge of negative real returns on investments.



Source: FMDQ, NBS, CBN, AIICO Capital

FGN Bond Market – *Selling interest dominated market events overall amid tight market liquidity.*

The FGN local bonds market exhibited a series of fluctuating trends and mixed sentiments throughout the month. It commenced on a tranquil note, characterized by sideways market activity focused on bonds maturing in 2025, 2026, 2027, 2037, and 2053. However, this serenity took a dramatic turn post-FGN bond auction. At the bond auction, the DMO sold ₦251.50 billion out of the ₦360.00 billion offered, despite total subscription slightly falling short at ₦290.99 billion. This event triggered notable rate increases, with the 2029, 2033, 2038, and 2053 papers witnessing spikes of 65bps, 45bps, 35bps, and 40bps, respectively, compared to the previous auction.

MARKET UPDATE

SEPTEMBER 2023 FGN BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Marginal Rate	Aug'23 Close	Change M-o-M (basis points)
26-Apr-29	90.00	44.55	43.65	**14.50%**	**13.85%**	**+65.00**
21-Jun-33	90.00	10.95	10.45	**15.45%**	**15.00%**	**+45.00**
21-Jun-38	90.00	29.69	25.69	**15.55%**	**15.20%**	**+35.00**
21-Jun-53	90.00	205.81	171.71	**16.25%**	**15.85%**	**+40.00**
	360.00	**290.99**	**251.49**			

Source: DMO, AIICO Capital

Following the auction, the market continued to trend bearishly, driven by the substantial surge in stop rates and the constraints of tight system liquidity. However, occasional buyside activity emerged, primarily fueled by coupon inflows. In summary, the average mid-yield in the secondary market experienced an upsurge approximately 37 basis points (bps) m/m, culminating at a rate of 14.43%.

The Nigerian local bond market, throughout Q3 2023, showcased a dynamic narrative of mixed sentiments and evolving yields as well. The bears held sway in July and August, steering the market downwards. Their dominance followed the MPC's decision to raise the monetary policy rate by 25bps to 18.75%. Yields moved in a northward direction during this period, impacting investor strategies. As the quarter drew to a close, a mild bullish undercurrent emerged, painting a picture of resilience. Investor demand tilted towards shorter-term maturities, bringing a subtle shift in sentiment. Overall, yields across the bond yield curve increased by 134 basis points q/q.

Outlook: While anticipated coupon inflows, totaling approximately ₦539.83 billion (with October 2023 contributing ₦400.28 billion), provide a liquidity boost over the next three months, investors face intriguing choices. The path ahead is rife with mixed signals, making yield direction uncertain. Investors will continue their discerning pursuit of attractive yields, particularly focusing on the on-the-run papers.

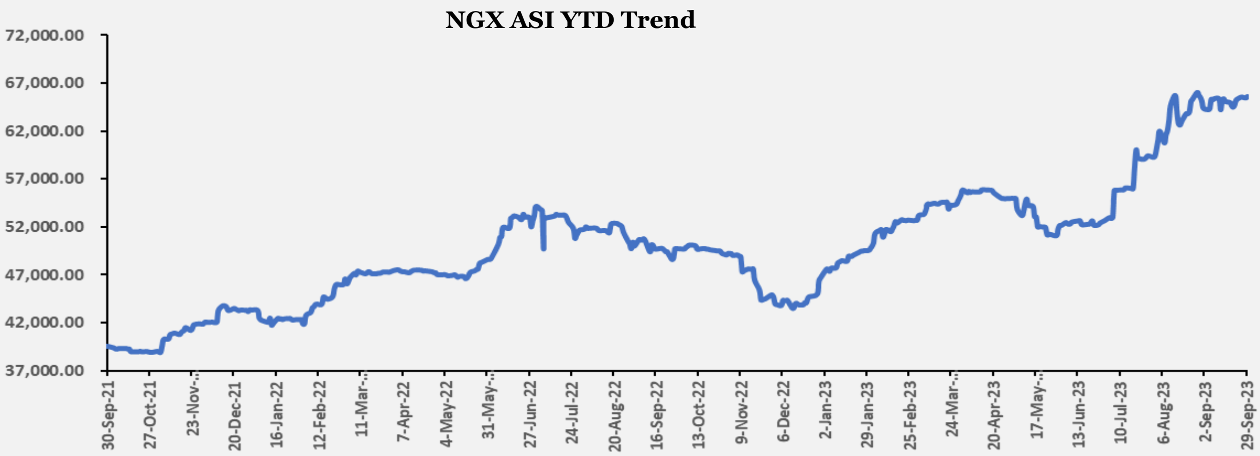
MARKET UPDATE

Equities Market Performance in September – *After the fierce combat between the bulls and bears, market settled on a bearish note.*

The All-Share Index (ASI) of the Nigerian Exchange Limited (NGX) depreciated by 0.25% to settle at 66,382.14 points, while year-to-date return settled at +29.52%. Also, the market capitalization also fell by 0.25% m/m to ₦36.33 trillion at the end of September.

While market continued to trade sideways, the equity market witnessed a sharp selloffs around the mid-month, during which the CBN's circular seeks to prevent banks from spending gains made from FX revaluation alongside FTSE Russel's downward reclassification of Nigeria's stock market from Frontier market to "unclassified" status. The ASI dipped 1.24% in a single day, following this twin bearish catalyst.

Subsequently, market recovered some of its losses, with the banking and consumer goods sector bouncing around a region. The Oil & Gas Sector was mostly impacted by the dramatic decline in OANDO which lost c. 33.52% in the last week of September.



Source: NGX, AIICO Capital

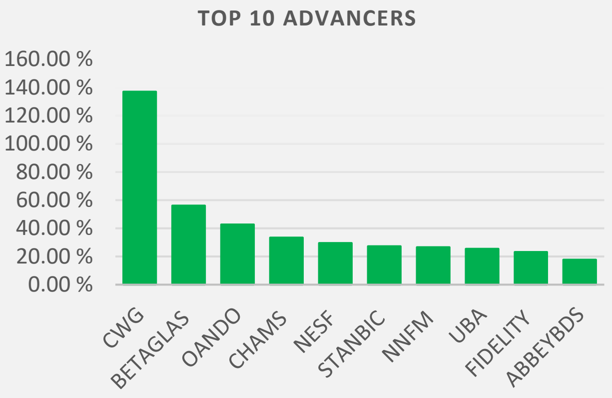
Mixed Sectorial Performance

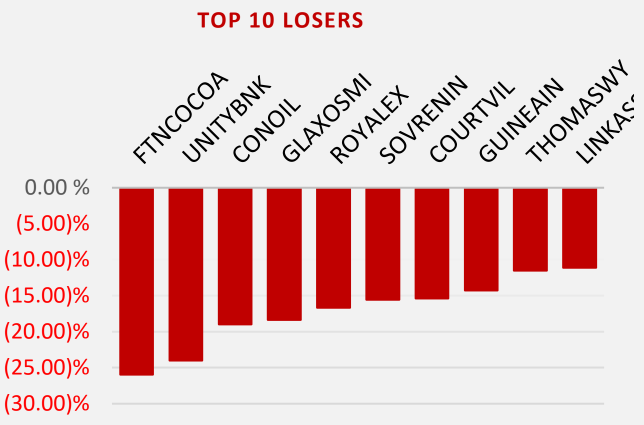
The strong decline in the industrial (-6.91%) and oil & gas (-2.75%) sectors engulfed the gains seen in the banking (+3.08%) and consumer goods (+6.91%) sector.

	MTD	YTD
NGX ASI	-0.25%	29.52%
NGX Banking Index	3.08%	59.57%
NGX Insurance Index	5.30%	62.31%
NGX Industrial Index	-6.91%	10.80%
NGX Consumer Index	6.53%	92.28%
NGX Oil & Gas Index	-2.75%	97.63%

Source: NGX, AIICO Capital

MARKET UPDATE





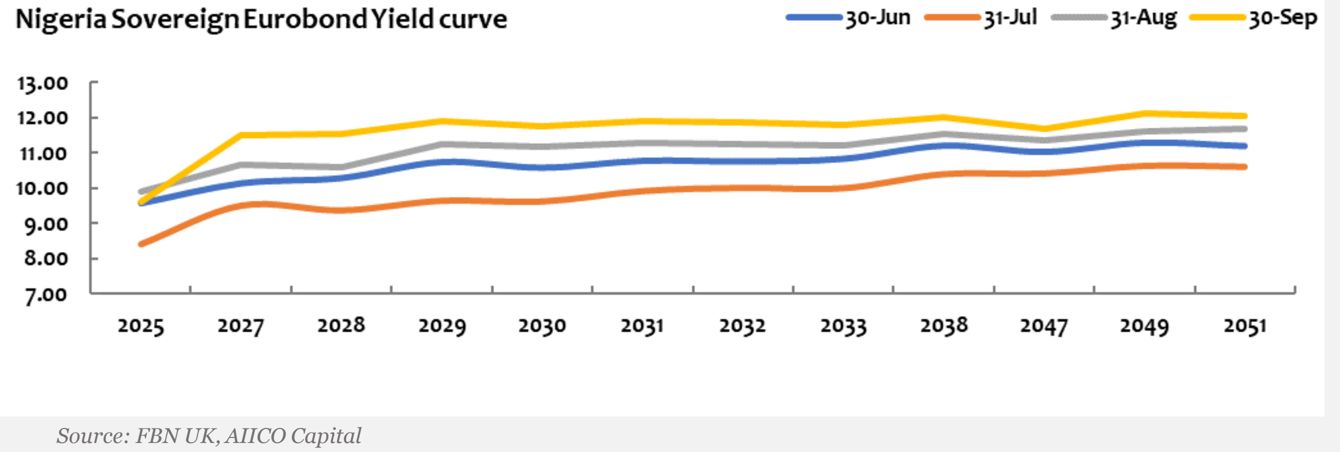
Source: Bloomberg, AIICO Capital

Outlook: We expect the mixed sentiment to persist in the coming month, in the absence of any strong catalyst.

Eurobonds Market – *Bearish posture fueled by an interplay of weak US economic indicators and worsening currency crisis in Nigeria.*

The month kicked off with a bullish tone post the UK bank holiday. However, this optimism waned as the market felt the repercussions of the military coup in Gabon and observed weaker US economic data. Tensions surrounding Nigeria's Presidential Tribunal verdict and concerns about the $3 billion NNPC loan stalling added complexity to the market's direction. Nonetheless, higher oil prices and stronger-than-expected US unemployment data introduced mixed sentiments.

As the month progressed, the Eurobonds market reacted to pivotal catalysts. The surge in crude oil prices and concerns over the US Consumer Price Index (CPI) report played a significant role in influencing market sentiment. Bullish activity took hold, particularly after US core CPI eased to 4.30% y/y in August, down from 4.70% y/y in July.



Source: FBN UK, AIICO Capital

The US Federal Reserve's (US Feds) decision to hold rates at 5.50% during their FOMC meeting initially generated a bullish market bias. However, sentiment turned bearish following Jerome Powell's speech, indicating the US Feds' willingness to maintain the rate hike stance for a prolonged period. These developments led to a shift in market posture.

The final week of the month began with relative calmness. However, it concluded on a bearish note as the market faced poor US economic indicators, higher US inflation print and a worsening currency crisis in Nigeria, particularly as the parallel market exchange rate crossed the $/₦1000 threshold.

In summary, the average mid-yield across Nigeria's Eurobond curve witnessed a monthly upswing of approximately 52 basis points, closing at 11.64%

On a quarterly review, the Eurobond market experienced an impulsive quarter, driven by a complex interplay of global and domestic factors. The quarter began on a bearish note, influenced by the US Federal Reserve's hints of additional rate hikes. However, sentiment turned bullish in mid-July with favorable US CPI data and robust consumer sentiment. A bearish resurgence occurred in early August, following a US credit rating downgrade and concerns over debt ceiling negotiations. August remained mixed as investors grappled with global economic risks and domestic developments. September witnessed a renewed bearish tone as US headline inflation surged (from 3.20% to 3.70% amid higher energy prices) , and the Federal Reserve maintained a hawkish stance.

Other notable information:

- Nigeria's public debt stock which includes external and domestic debt stood at ₦87.38trn ($113.42bn) in Q2 2023 from ₦49.85trn ($108.30bn) in the first three months of 2023, marking a growth rate of 75.27% quarter-on-quarter basis.

- Total external debt stood at ₦33.25trn ($43.16bn) in Q2 2023 from ₦19.64trn in Q1 2023, while total domestic debt was ₦54.13trn ($70.26bn) from ₦30.21trn in Q1 2023.

- Meanwhile, the share of external debt in naira terms to total public debt was 38.05%, while the share of domestic debt to total public debt was 61.95%.

- The US Gross Domestic Product (GDP) remained stable at a 2.10% annualized rate for Q2'2023, aligning with economist predictions. Meanwhile, the Q1'2023 growth rate experienced an uptick to 2.20% from the previously reported 2.00%.

- As talks dragged on with bilateral creditors, Ghana shifted its Eurobond revamp timeline.

- In a surprise move, the Egyptian election authority announced that Egyptians will hold a presidential vote on December 10-12, 2023. Until recently, it was widely expected that the polls would not take place until the first few months of next year, with Egyptian state media typically referring to an election in 2024.

- In Kenya, the government is seeking advice on repaying $2 billion in bonds due next year, and President William Ruto has committed to buying back a portion of the 2024 Eurobonds.

Outlook: The Eurobond market finds itself at the confluence of multiple market dynamics, setting the stage for an intriguing quarter ahead. Firstly, the global stage casts a compelling shadow over market proceedings. The US Federal Reserve's steadfast commitment to raising interest rates looms large, potentially inducing capital outflows from SSA and MENA markets and exerting upward pressure on Eurobond yields.

Additionally, the specter of a global economic deceleration threatens to crimp demand for SSA exports, potentially dampening regional economic growth. Furthermore, SSA governments bear the onus of deftly navigating their economies through these challenging waters. The challenges are multifold, including grappling with persistent inflation, managing elevated debt levels, and grappling with foreign currency scarcities.

Contact us now to receive valuable investment guidance today.

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