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MONTHLY MARKET REPORT
JANUARY 2024

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REPORT SUMMARY

Review

- Global Macros: Mixed growth and inflation trends shape market sentiment.
- Nigeria's Macros: Headline inflation surged to 28.92% in Dec, from 28.20%.
- Money Market: Liquidity contraction, rate hike anticipation, and MPC meeting calendar unveiled.
- Treasury bills: Bullish start to bearish end, driven by multiple OMO auctions and CRR debits.
- FGN Bonds: Bullish start, retirement of 2053 paper, and bearish trend driven by auction results and tight liquidity
- Nigeria's equity: New Record Highs
- Nigeria's Eurobonds: Initial optimism, inflation concerns, and global economic dynamics shape a slightly bearish trend.

Outlook

- Global Interest rate decision: A restrictive rate policy is expected to be maintained in the interim.
- Nigeria's Macros: Higher inflation rate is expected to persist alongside hawkish policies from the CBN.
- Money Market: Interbank rates should stay elevated.
- Treasury Bills: We foresee a prolonged increase in government borrowing costs through the NTB window
- FGN Bonds: Rates should remain at elevated levels.
- Nigeria's Equity: Equity market to lose some of it gains due to likely profit taking and slower bullish momentum.
- Nigeria's Eurobonds: We expect a mixed sentiment in February.

GLOBAL MACROECONOMIC REVIEW

The recent global economic outlook by the International Monetary Fund (IMF) forecasted the global economic growth rate at 3.10% y/y for 2024, which was an upward revision from 2.90% estimated in October 2023. Also, the IMF included 2025 projection, estimating a global growth rate of 3.20% y/y. The IMF's prediction was anchored on the persistent disinflation and steady growth which recedes the possibility of a hard landing.

The IMF estimated a growth rate of 2.50% in 2023 for the US economy. However, the preliminary estimate showed that the US economy grew at 3.3% in Q4'2023 (Est. 2.00%) from 4.90% in Q3'2023 with slowed consumer spending but accelerated exports. Furthermore, the US Non-farm payroll added 353k jobs in January, higher than market expectation and the preceding data, with unemployment rate staying at 3.70%, lower than 3.80% estimate.

US, UK, Euro Area and China

GDP	Q4'23 3.30% Q3'23 (4.90%) Q4'22 (2.60%)	Q3'23 -0.10% Q2'23 (0.20%) Q3'22 (-0.10%)	Q4'23 0.00% Q3'23 (-0.10%) Q4'22 (1.90%)	Q4'23 5.20% Q3'23 (4.90%) Q4'22 (3.90%)
MONETARY/ BANK RATE	Jan'24 5.50% Dec'23 (5.50%) Jan'23 (4.50%)	Feb'24 5.25% Dec'23 (5.25%) Feb'23 (4.00%)	Jan'24 4.50% Dec'23 (4.50%) Jan'23 (2.50%)	Jan'24 3.45% Dec'23 (3.45%) Jan'23 (3.65%)
INFLATION RATE	Dec'23 3.40% Nov'23 (3.10%) Dec'23 (6.50%)	Dec'23 4.00% Nov'23 (3.90%) Dec'22 (10.50%)	Jan'24 2.80% Dec'23 (2.90%) Jan'23 (8.60%)	Dec'23 -0.30% Nov'23 (-0.50%) Dec'22 (1.80%)

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

Considering the trend in consumer prices and economic resilience amongst other pointers, the Federal Reserve maintained a restrictive stance on interest rates with a less dovish tone. The proposed 75bps cut by the Feds would be expected to take effect much later into the year.

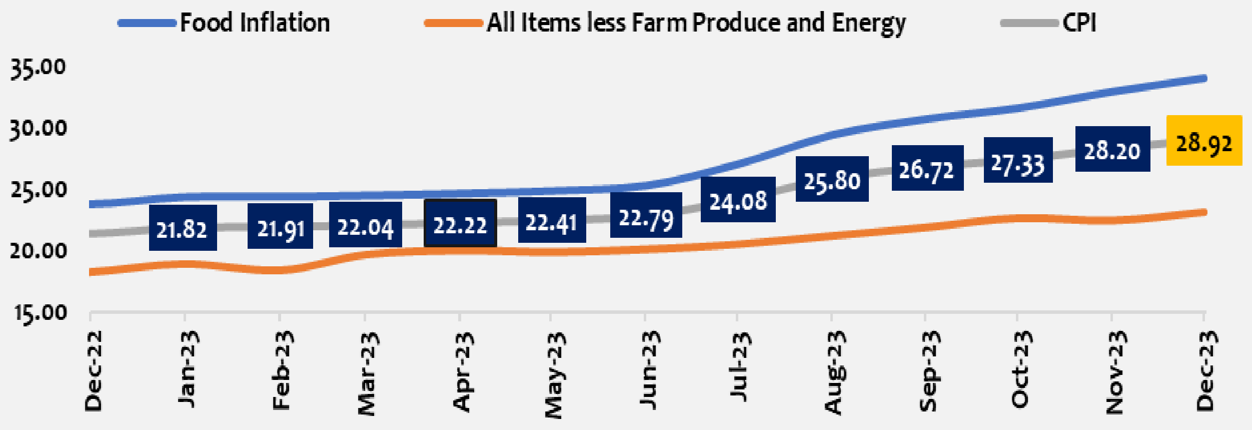
In the United Kingdom and Euro Area, the IMF expect a GDP growth rate of 0.5% for both regions in 2023, and 0.60% (UK) and 0.9% (Europe) in 2024. Nevertheless, the economy continued to embrace the full impact of the aggressive policy tightening.

On the inflation front, monthly core inflation in the United Kingdom increased sharply by 0.6% in December 2023 from -0.3%, while yearly core inflation remained unchanged at 5.10%, slightly above 4.90% market estimate. In the Euro Area, core inflation fell to 3.30% y/y in January, from 3.40% y/y in December.

Elsewhere, IMF expect China's economy to grow at 5.20% and 4.60% in the year 2023 and 2024, respectively. However, China's GDP growth rate was reported at 5.20% y/y in the last quarter of 2023, lesser than 5.30% estimate and 3.00% in 2022.

Also, consumer prices have consistently declined, with January's CPI falling by 0.80% y/y from -0.30% y/y in December 2023, marking the fourth consecutive deflation and the longest streak since October 2009. Core consumer prices, increased by 0.40% y/y in January, the softest rise since June 2023, after a 0.6% gain in the prior three months.

In December, Nigeria's inflation increased at 28.92% y/y, up from 28.20% in November 2023, contributing an additional 0.72 percentage points and surpassing Bloomberg's estimate of 28.60%. In addition, Food inflation also increased to 33.93% y/y from 32.84% y/y in November, while core inflation (i.e excluding food and energy items), grew at 23.06% y/y in December, surpassing the 22.38% y/y recorded in November, as reported by the National Bureau of Statistics (NBS).



Source: NBS, AIICO Capital

Outlook: Considering the current economic situation, inflation is not expected to cool in the interim because the key drivers of upward price pressures namely: Import-driven inflation, poor infrastructures, high energy cost, distribution-driven issues partly linked to insecurity and bad road networks have not been properly addressed. However, we continue to assess & reassess the policies targeted to solve the inflation problem and knock-on impacts in that regards.

MARKET UPDATE

Foreign Exchange Market – Naira devaluation persists amid demand pressures; Gross FX reserves improves

In the past month, the Naira faced a c.21.34% devaluation at the parallel market, closing at $/₦1,516 due to increased demand from various sectors. The official market maintained a range of $/₦800-1000 before a "technical" devaluation to $/₦1,400. This narrowed the spread between official and unofficial rates. NAFEM depreciated by 37.68% to $/₦1,455.59, while NAFEX closed at $/₦1,480.16, a 35.70% depreciation. Gross FX reserves rose by c.$440 million to $33.35 billion, this is in addition to the Central Bank clearing over $2 billion forward obligations. Brent crude eased to $82 per barrel amid market caution and anticipation of the US Federal Reserve's decision.

Outlook: We expect Naira to gradually strengthen against the dollar, backed by recent CBN initiatives like harmonizing reporting requirements on Banks' Foreign Currency exposures, removing allowable limit on Exchange rates by Money Transfer Operators, and revising International Money Transfer Service Guidelines in Nigeria.

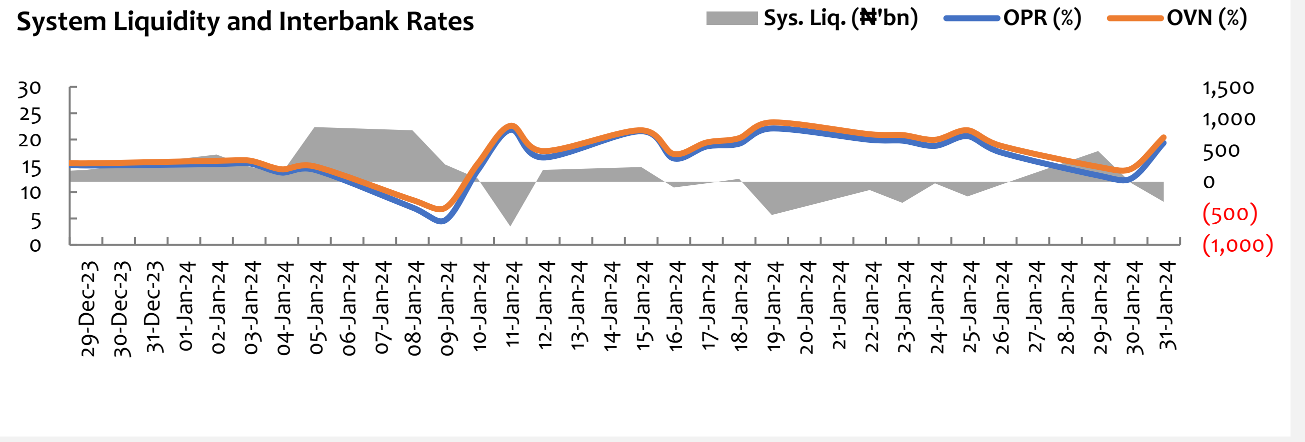
Money Market Review and Outlook – *Liquidity contraction, rate hike anticipation, and MPC meeting calendar unveiled*

In the first few days of the month, ample liquidity prevailed due to delayed crediting of the previous month's FAAC inflows. However, approaching mid-month, liquidity contracted, prompting many Deposit Money Banks to resort to the CBN's repo market for funding. The tight liquidity resulted from various CBN OMO auctions and intermittent CRR debits. Bond coupons and FAAC inflows failed to alleviate the liquidity crunch.

Specifically, January's average system liquidity sharply declined from ₦201.69 billion to ₦56.70 billion. Nevertheless, the average Open Repo Rate (OPR) and Overnight Rate (OVN) settled at 16.49% and 17.56%, respectively, compared to the previous month's 17.25% and 17.95%. Notably, the CBN's MPC, under Governor Olayemi Cardoso, announced that the first meeting of 2024 will take place on February 26 and 27, also hinted at a substantial rate hike to align market rates with prevailing inflation. The MPC also disclosed the schedule for the remaining 6 meetings in the year.

Outlook: We anticipate continued money market tightening, driven by recent CBN circulars, especially the Cash Reserve Requirement (CRR) Framework Implementation Guidelines. We expect upward pressure on interbank rates as the CBN aggressively absorbs excess liquidity. The estimated liquidity for the month: ₦712.57 billion from OMO and NTB maturities, and ₦113.59 billion from FGN bond coupons.

MARKET UPDATE



Source: CBN, FMDQ, AIICO Capital

Treasury Bills – *Bullish start to bearish end, driven by multiple OMO auctions and CRR debits*

The treasury bills market began on a bullish note fuelled by ample liquidity, with banks eager to invest idle cash to avoid CRR debits. The first NTB auction saw significant rate declines across tenors. Post-auction, a bullish trend persisted until the CBN's announcement of a ₦300bn OMO auction, causing a temporary slowdown. Despite profit-taking and a negative liquidity position from CRR debits, the market recovered with improved liquidity from FGN bond coupons.

The final NTB auction witnessed higher stop rates amid bearish investor sentiment anticipating upward yield trends. CBN's subsequent ₦350bn OMO auction signalled a clear upward trajectory for yields, leading to a surge in secondary markets rates.

Overall, the CBN conducted 3 OMO auctions during the month (See table below) and the average mid-rate rose by approximately 229bps, settling at 9.99% m/m.

JANUARY 2024 OMO AUCTION DATA						
Tenor	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Lowest rate (%)	Highest rate (%)	Average rate (%)
Short	225	44	44	10.00%	10.50%	10.25%
Mid	225	59.2	58.2	13.50%	14.00%	13.80%
Long	500	1,364.70	905	17.00%	17.75%	17.40%
	950	**1,467.90**	**1,007.20**			**16.88%**

JANUARY 2024 ABRIDGED NTB AUCTION RESULT				
Tenor	Dec'23 Close	Jan'24 Auc 1	Jan'24 Auc 2	Change M-o-M (basis points)
91	7.00%	2.44%	5.00%	-200
182	10.00%	4.22%	7.15%	-285
364	**12.24%**	**8.40%**	**11.54%**	-70

Source: CBN, FMDQ, AIICO Capital

MARKET UPDATE

Outlook: We expect a prolonged increase in government borrowing costs through the NTB window, as the CBN and DMO align on interest rate direction. Expect the CBN to persist in issuing OMO bills with high yields to attract additional dollar inflows.

FGN Bond Market – *Bullish start, retirement of 2053 paper, and bearish trend driven by auction results and tight liquidity.*

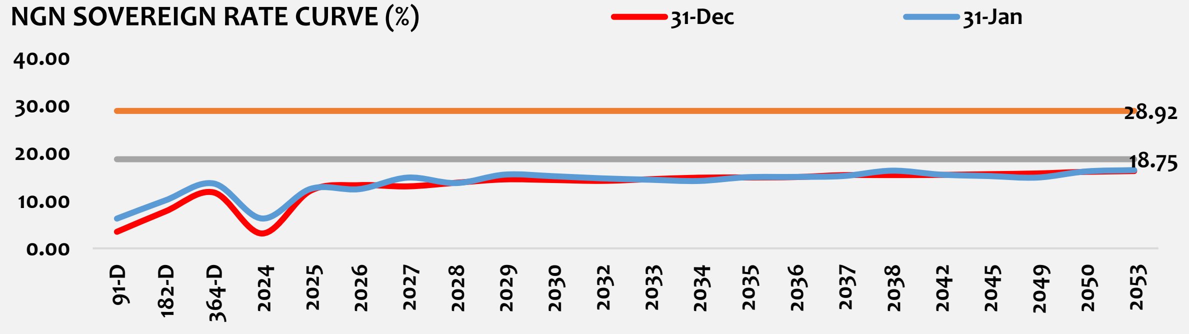
The FGN bonds market witnessed a bullish start with real money players favoring attractively priced papers, particularly those with longer tenors like 2038, 2050, and 2053. The 2053 paper garnered increasing interest amid speculations about its retirement from on-the-run papers. Despite occasional selling due to tight system liquidity from multiple OMO auctions, coupon credits helped offset the impact.

The major news during the month was the release of January 2024 FGN Bond issuance calendar, offering ₦360.00 billion (₦90.00 billion each) from the re-issuance of the 2027, 2029, 2033 and 2038 papers, effectively retiring the 2053 paper and making the 2027 paper the shortest-dated auction paper. Following the release, the 2053 paper initially surged in demand but later faced a bearish market shift, influenced by short openings on other papers (2027, 2029, 2033, and 2038).

JANUARY 2024 BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Marginal Rate	Dec'23 Close	Change M-o-M (basis points)
17-Mar-27	90.00	167.00	86.19	15.00%		
26-Apr-29	90.00	56.84	21.94	15.50%	15.50%	+0.00
21-Jun-33	90.00	68.85	43.35	16.00%	16.00%	+0.00
21-Jun-38	90.00	311.88	266.73	16.50%	16.50%	+0.00
	360.00	**604.56**	**418.20**			

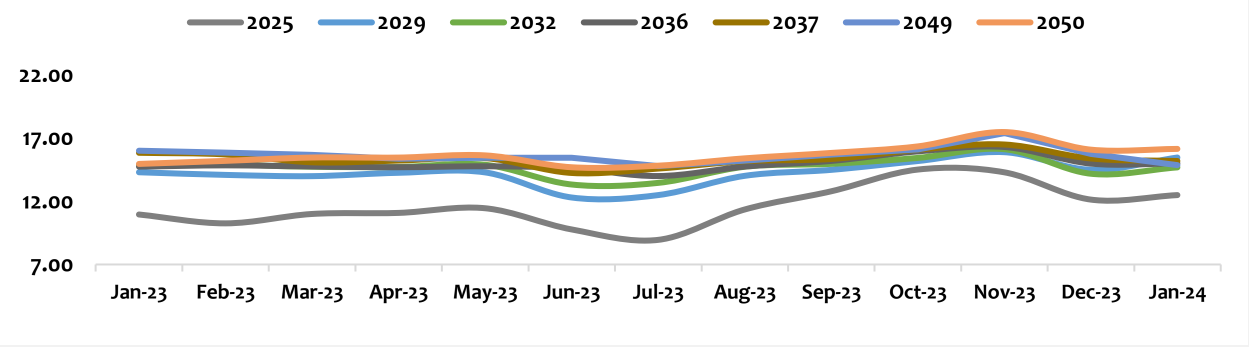
Source: DMO, AIICO Capital

The overall market turned bearish after the FGN bond auction, where rates, though maintained relative to the previous auction, exceeded secondary market levels. The month concluded on a bearish note as tight system liquidity compelled investors to sell holdings for liquidity. The average mid-yield rose by approximately 29bps, closing at 14.38% m/m.



Source: FMDQ, NBS, CBN, AIICO Capital

MARKET UPDATE



Source: DMO, AIICO Capital

Outlook: We expect rising yields due to the CBN's recent hawkish stance, forcing the DMO to secure funds at higher costs.

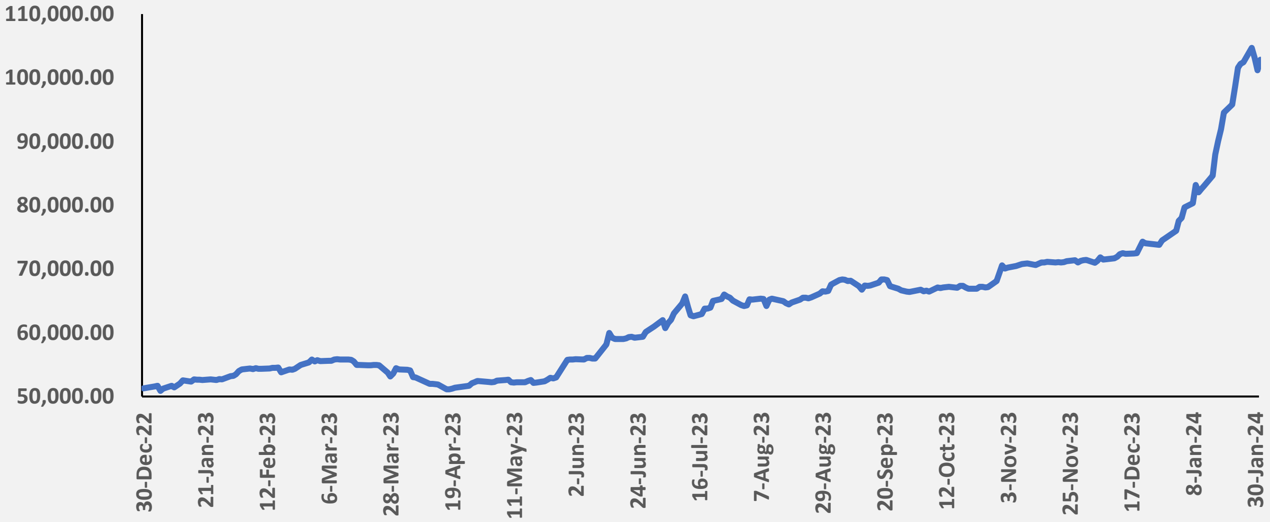
Equities Market Performance in January – *New Record Highs*

In the twist of events, the All-Share Index (ASI) sprung from 74,773.77 points at the end of December, to 101,154.46 points at the end of January, representing +35.28% m/m & YTD.

To elucidate, the year began with investors' strategic positioning ahead of 2023 fiscal year earnings report with optimistic bias the banking and telecommunication sectors. Further into the month, profit taking was observed on major tickers in the banking sector, with concurrent buyside interest om the industrial index, particularly on DANGCEM and BUACEMENT, following Nigerian Billionaire, Mr Femi Otedola's interests in Dangote Cement Plc.

At the end of the month, market sold off in response to CBN's circular on banks' Net Open Position on foreign assets, directing banks to significantly reduce foreign assets exposures amongst other policies. Overall, the ASI appreciated by 35.28% m/m, while the market capitalization increased by 35.29% m/m from ₦40.92 trillion at the end of December to ₦55.36 trillion at the end of January.

NGX ASI YTD Trend



Source: NGX, AIICO Capital

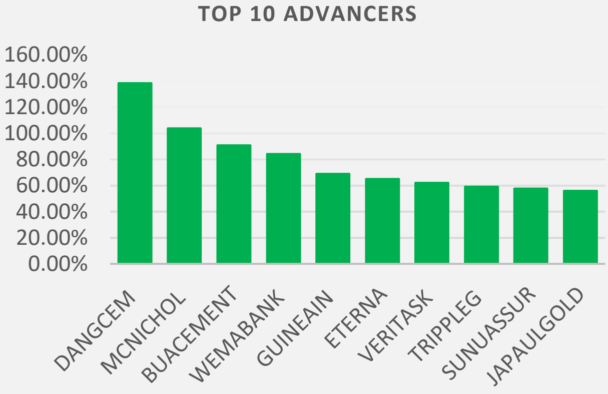
Relatively mixed performance among the sectorial indices

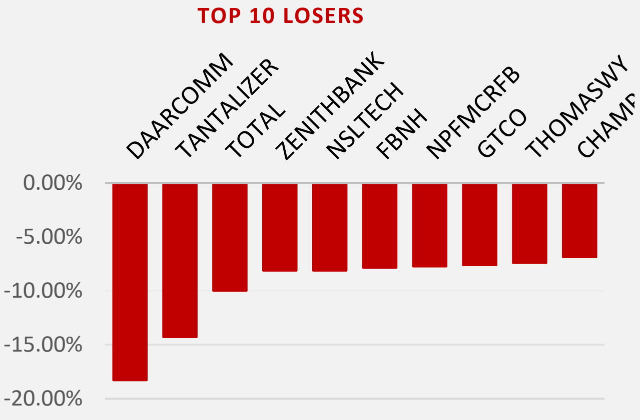
The Industrial Index soared by 107.86%, while the consumer and oil & gas indices gained 24.33% and 19.96%, respectively. On the flip side, the banking index declined by 3.37%.

	MTD	YTD
NGX ASI	35.28%	35.28%
NGX Banking Index	-3.37%	-3.37%
NGX Insurance Index	21.68%	21.68%
NGX Industrial Index	107.86%	107.86%
NGX Consumer Index	24.33%	24.33%
NGX Oil & Gas Index	19.96%	19.96%
Market Capitalization	35.29%	35.29%

Source: NGX, AIICO Capital

MARKET UPDATE





Source: Bloomberg, AIICO Capital

Outlook: The fiscal year earnings result and dividend payout would be at the spotlight for most investors in the coming month. While keeping the earnings outcome in perspective, we expect the equity market to lose some of it gains due to likely profit taking and slower bullish momentum.

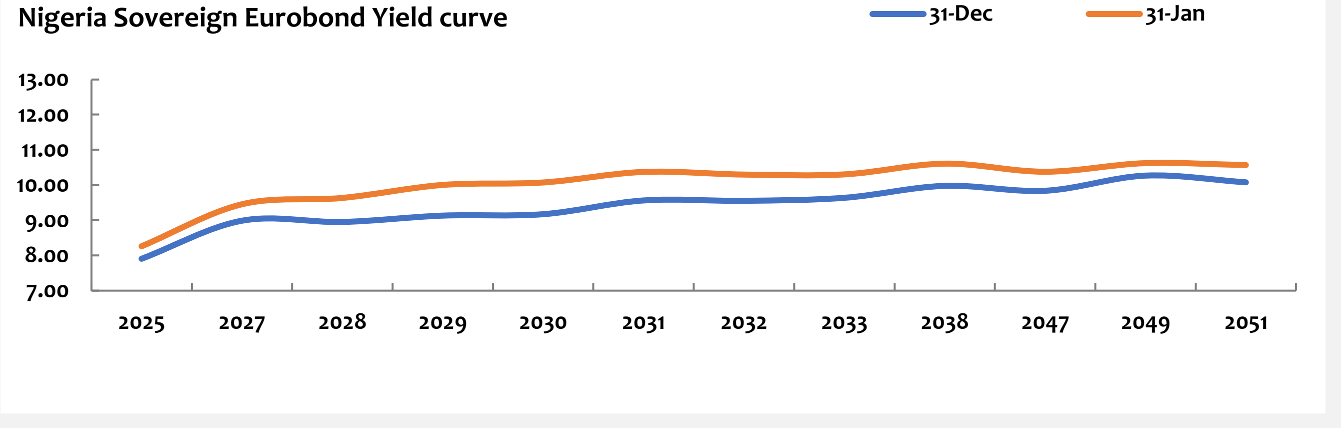
EUROBONDS

Eurobonds Market – *Initial optimism, inflation concerns, and global economic dynamics shape a slightly bearish trend*

The Eurobonds market initially showed optimism, but uncertainty about the timing of the anticipated U.S. Fed interest rate cuts led to a sideways trend. Bearish sentiments prevailed after higher-than-expected U.S. inflation data, with CPI at 3.40% y/y in December (Est. 3.2% y/y) from 3.10% y/y in November. In addition, the monthly core CPI at 0.30% m/m also printed stronger than market estimate (0.20% m/m) and the preceding month (0.10% m/m).

The market found relief with stronger-than-expected U.S. GDP growth at 3.30% (Est. 2.0%) from 4.90% in Q3'2024, and Ghana's Eurobond curve gained after successfully negotiating a debt moratorium with its official creditors until 2026.

The US, UK, and Euro Area maintained benchmark interest rates, also suggesting potential rate cuts later in the year. Positive trends surfaced in North Africa, particularly Egypt, due to a revised IMF financing agreement.



Source: FBN UK, AIICO Capital

Other notable information:

- The International Monetary Fund (IMF) agreed to immediately disburse $684.7 million to Kenya, bolstering the country's external reserves ahead of a crucial Eurobonds repayment in June.

- The World Bank approved $300mn in funding to help Ghana's economic recovery.

Outlook: We expect a mixed market as investors strategize some adopting a long-term approach, banking on future rate cuts for value maximization, while others explore arbitrage opportunities in SSA and African curves. Investors will also closely monitor other key US economic data for guidance.

Contact us now to receive valuable investment guidance today.

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