October 2022

Macroeconomic Review

Nigeria's CPI hits new 17-year High of 20.77% in September

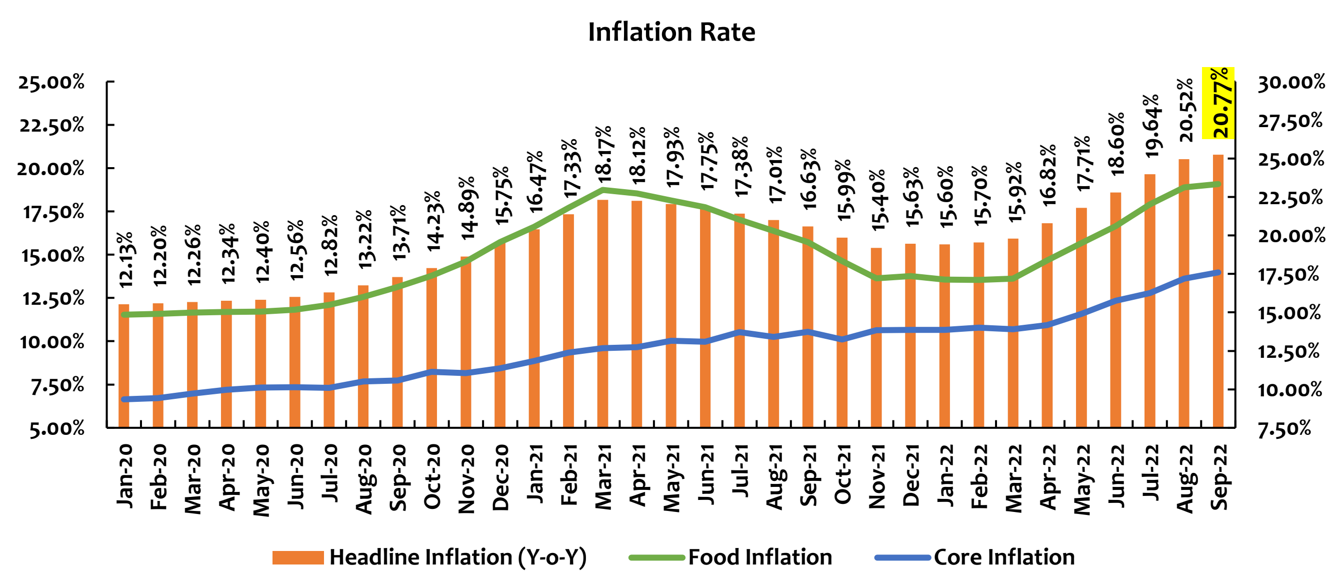
The Nigerian Bureau of Statistics (NBS) reported headline inflation for the month of September 2022 at 20.77%, the highest printed since September 2005. This represents an increase of c.25bps from 20.52% recorded the previous month and c.414bps from 16.63% recorded in September 2021. However, on a month-on-month basis, headline inflation declined for the second consecutive time to 1.36% (vs. 1.77% recorded in August), largely attributed to the food index's increase at a declining rate.

Food Inflation increased to 23.34% on a Y-o-Y basis (vs. 23.12% & 19.57% recorded in August 2022 and September 2021 respectively), while on a month-on-month basis, the index declined by 0.54% from the previous month to 1.43% in September. Core Inflation, which excludes the price of volatile agricultural products and energy, printed at 17.60% on a Y-o-Y basis, (vs 17.20% & 13.74% printed in August 2022 and September 2021 respectively) while on a month-on-month basis, the index remained steady at 1.59% from the previous month.

The continuous increase in core inflation is attributed to structural issues plaguing the nation, particularly persistent currency weakness, high energy costs due to scarcity and the floods hitting food-producing states.

Urban and Rural Inflation rates both rose on a Y-o-Y basis to 21.25% and 20.32% respectively, with c.30bps and c. 20bps increase from 20.95% and 20.12% recorded in the previous month.

Chart 1 – Inflation Trend



Source: NBS, AIICO Capital

Outlook: We expect inflation to continue to rise as structural issues continue to place pressure on prices in coming months, increasing the likelihood of further interest rate hikes by the Monetary Policy Committee at the November meeting.

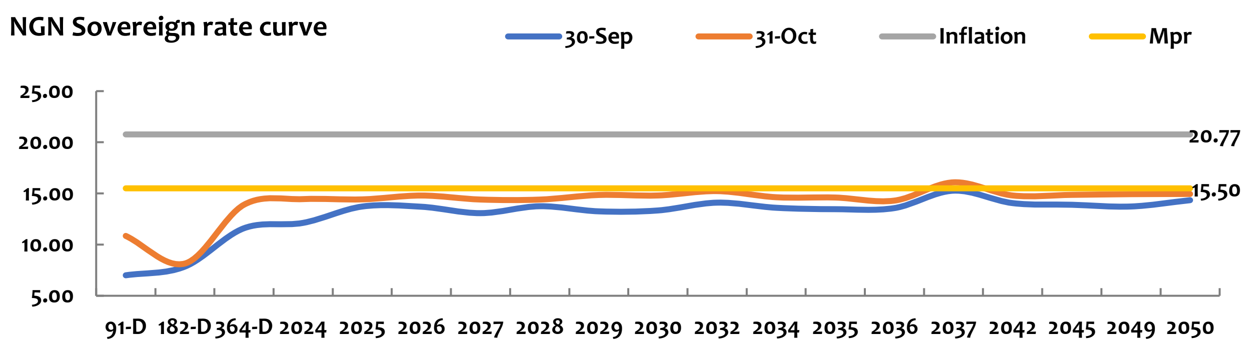
Fixed Income Market Review and Outlook

Overview

The spillover effect of the hawkish September MPC meeting was a bearish theme in the local fixed income market in October. In the treasury bills market, successive mop-ups by the CBN, thus stifling liquidity from the market, led to an extended period of sell-off by Deposit Money Banks to fund their commitments. Similarly, in the FGN bonds market, Investors sold off in anticipation of higher yield levels and more borrowing by the DMO. Overall, the market was bearish, however coupon inflow and late FAAC credits drove a bullish theme to end the month.

Sentiments remained weak in the Eurobond market, with investors still jittery and unclear as to when the US Fed will slow down the pace of rate hikes. Country-specific economic issues in the Sub-Saharan and other African markets also spurred some bearish moves during the month.

Chart 2 – Nigerian Sovereign Yield Curve

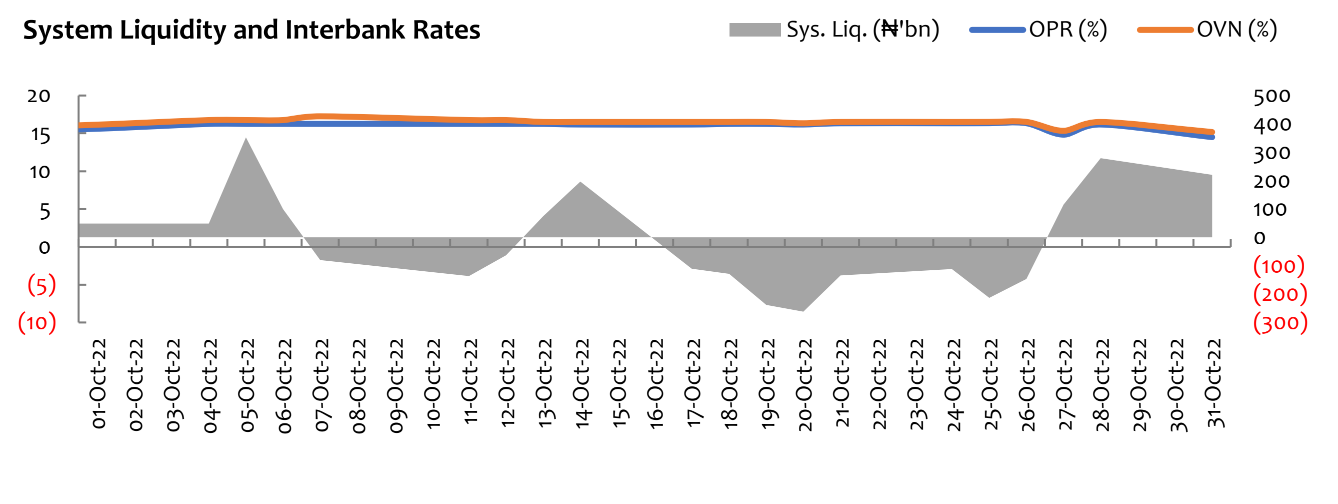


Source: CBN, FMDQ, AIICO Capital

Money Market Review and Outlook – ***Higher interbank rates post-Sept'22 MPC meeting; Liquidity hovered in negative territory***

Q4 2022 started moderately liquid, buoyed by late FAAC credits, OMO maturities and coupon inflows. However, persistent mop-ups by the CBN on the back of revised CRR and the bi-weekly Retail FX SMIS, threw the money market space into negative territory for a major part of the month. Comparatively, system liquidity in October averaged **(-₦12.46bn)** (vs ₦104.86bn in Sep'22), with Interbank rates significantly higher, as the Overnight Policy Rate (OPR) and Overnight (ON) rates printed on average 16.08% and 16.47% from 11.71% and 12.17% in Sep'22 respectively.

Chart 3 – System Liquidity and Interbank Rates



Source: CBN, FMDQ, AIICO Capital

Outlook: We expect the money market to be less buoyant amid expected maturities (OMO- c. ₦100bn; NTB - c. ₦406bn) and bond coupon payments (c. ₦22bn), thus, average OPR and OVN rates should steady at c.15% levels.

T-Bills Market Review and Outlook - ***Bearish market overall, amid tight system liquidity and increased stop rates at the primary auctions.***

Tight system liquidity owing to increased mop-ups by the CBN – a fallout of September's MPC meeting, ensured the month of October was overall bearish in the Treasury bills market. The anticipation of increase in rates amid upward review of the MPR fostered a somewhat bearish theme, albeit coupon inflows towards the end of the month eased the sell-off as investors sought to reinvest the excess cash.

Most of the activity was skewed to CBN Special bills (November 2022, December 2022 and March 2023), February OMO bills and NTBs (April, September and October 2023 papers).

The DMO sustained their bearish theme at the primary auctions with consecutive increase in the stop rates across the usual tenors. The total subscription for the month was c.₦248.90bn, while c.₦431.16bn was offered and only c.₦144bn was allotted. The low subscription and allotment can be attributed to the uncertainty in the magnitude of rate increase at the preliminary auction in October, as market players were jittery.

The market however closed bullish, bolstered by late FAAC inflows and coupon credits.

Overall, the average rate increased by c.215bps M-o-M to close at 10.97%.

Table 1 – Nigerian Treasury Bills (NTB) Auction Result

OCTOBER 2022 NTB AUCTION RESULT				
Tenor	Sep'22 Close	Oct'22 Auc 1	Oct'22 Auc 2	Change M-o-M (bps)
91	6.49%	6.47%	6.50%	1.00
182	7.50%	7.90%	8.05%	55.00
364	**12.00%**	**13.00%**	**14.50%**	250.00

Source: CBN, AIICO Capital

Outlook: The treasury bills market is expected to trade mixed sentiments, albeit with a bullish undertone, as banks may be forced to deploy their excess liquidity (if any) to the short- dated instruments or risk being mopped up by the CBN. Expected liquidity (OMO- c.₦100bn; NTB - c.₦406bn) and late FAAC inflows.

FGN Bonds Market Review and Outlook - Investors sold off in the local bonds market, amid expectation of rise in yields

Selling interest dominated the local FGN bonds market, as investors expected an uptrend in yield levels on the back of a bearish September FGN bond auction and the need for the FGN to borrow excessively to shore up the widening budget deficit.

During the month, there were talks by the Nigerian government to convert the c.₦20 trillion loans taken from the CBN to fund budget deficits, to bonds over a 40-year period at an interest rate of 9%.

Market players mostly played in the money market space: Fixed deposits and short-dated bills, in other to protect their funds against duration risk amid uncertainty in the magnitude of rate increase.

Building up to the auction, the market sold off across the curve, most especially the on-the-run papers: 2029s, 2032s and 2037s in anticipation of more supply and higher yields. Unsurprisingly, at the auction, the DMO increased the stop rates for the 2032s and 2037s by c.115bps and 150bps respectively, to close at 15.00% and 16.00% respectively and printed the 2029s paper at 14.50%.

The market traded mixed to bearish post auction, with sellers offering 2032s and 2037s at 14.95% and 15.95% respectively, as investors sought to offload their winnings. However, as the month drew to a close, coupon credits drove demand on 2029s, 2037s and 2049s, as market players reinvested the excess funds.

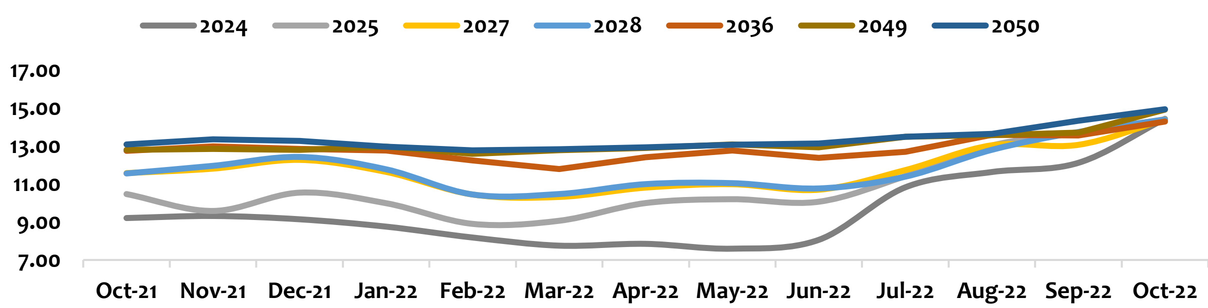
Overall, average yield in the secondary market inched up by 110bps M-o-M to close at 14.78%.

Table 2 – October 2022 FGN Bonds Auction Result

OCTOBER 2022 BOND AUCTION RESULT						
Maturity	Offer (₦'bn)	Sub (₦'bn)	Allot (₦'bn)	Yield	Sep'22 Close	Change M-o-M (bps)
26-Apr-29	75.00	7.43	3.13	**14.50%**		
27-Apr-32	75.00	15.60	11.90	**15.00%**	**13.85%**	115.10
18-Apr-37	75.00	96.15	92.85	**16.00%**	**14.50%**	150.00
	225.00	**119.18**	**107.88**			

Source: DMO, AIICO Capital

Chart 4 – FGN Bond Yield Curve for Selected Maturities



Source: FMDQ, AIICO Capital

<u>Outlook:</u> A muted market is expected in November, albeit with a bearish trace amid dearth of liquidity (Expected coupon – c.₦22bn) to drive buyside activity.

Eurobond Market - Sentiments remain frail amid US Fed's stance and country-specific economic issues

The SSA and other African Eurobond markets started the month with a reversal in the bearish theme that has plagued the market over the past weeks, amid recovery in the stock markets (pushing near 3% gains) after weak U.S. Manufacturing data tempered views on the US Feds' existing hawkish chatters.

The bullish theme was however short-lived amid better-than-expected non-farm payrolls and jobs data report, alongside the US CPI for September printing higher than market expectations at 8.20% (vs Est. 8.10%), thus rekindling another round of selloffs across the SSA markets.

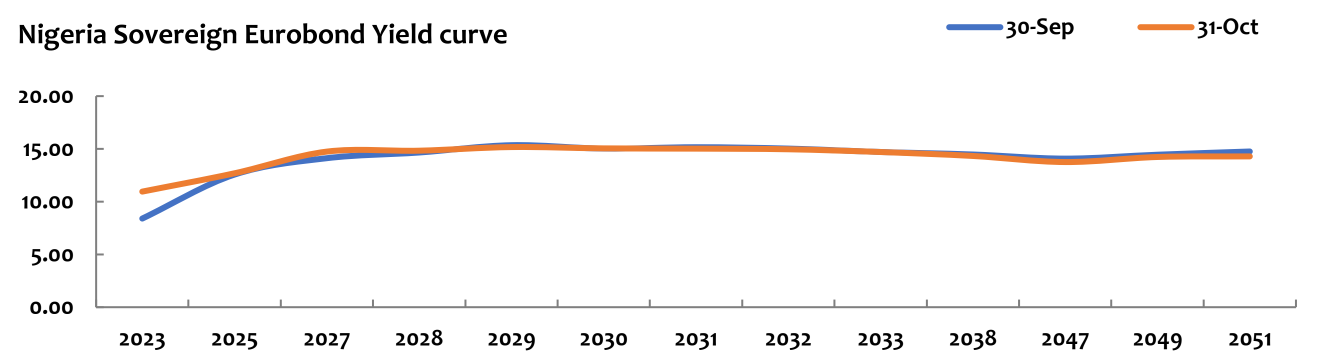
Positive sentiments soon returned to the market to close the month, with a sea of green witnessed across Nigeria and Angola curves, supported by appreciating oil prices. Ghana on the one hand, continued to trade at distress levels amid worsening economic fundamentals, however there are progressive talks with the IMF on the bailout program.

Overall, the average mid-yield across Nigeria's Eurobond curve inched up by c.15bps M-o-M to close at 14.21%

Major News:

- *Misquoted notion about debt restructuring talks by the Nigerian government.*
- *Moody's downgrade Nigeria to B3 from B2 on worsening government finances.*
- *Nigeria's inflation accelerated to 20.77% in September vs 20.52% recorded in August.*
- *Bank of America's forecast of the Naira to be devalued by 20% in 2023.*
- *UK's consumer inflation printed higher than expected (10.10% vs Est. 10.00%)*
- *Egypt reached a preliminary agreement with the IMF on a $3bn loan to combat soaring inflation, hiked its key interest rates by 2% and switched to a more flexible exchange rate system in a bid to combat the country's mounting economic issues.*
- *Ghanaian President, Nana Akufo-Addo, ruled out losses for bond investors because of negotiations with the International Monetary Fund for a $3 billion bailout.*

Chart 5 – Sovereign Eurobond Yield Curve



Source: FMDQ, AIICO Capital

<u>Outlook:</u> With no glimmer of hope of a dovish Fed in the interim, after Fed chair Powell indicated that the hike would persist to higher levels than previously anticipated, albeit at a slower pace at the just concluded penultimate FOMC meeting for 2022, we expect the risk-off sentiments to sustain in the Eurobonds' market.

Foreign Exchange Market Review and Outlook - FX reserves deplete further; free fall of the Naira continues

The downward spiral in USDNGN persisted in October amid the following reasons, causing ample demand pressure in the unofficial market:

- The mass exodus of Nigerians amid worsening economic situation to top foreign countries seeking greener pastures, thus causing them to sell their assets and exchange the Naira proceeds for USD.
- Heavy fees paid by most businesses to import their goods and services to the country.
- Third quarter repatriation of capital in the form of dividends.
- The announcement by the CBN to redesign the existing naira notes (₦200, ₦500 and ₦1000).

The spread between the official and parallel market rates widened to more than $/₦350, as it averaged c.₦770/$1.00 in October and touched the highs of c.₦785/$1.00 by close of the month.

The FMDQ Nigerian Autonomous Foreign Exchange Fixing (NAFEX) depreciated by 1.12% M-o-M to settle at ₦442.63/$1.00, from ₦437.74/$1.00 recorded the previous month

The Gross FX reserves continued to diminish despite price appreciation in the oil market, amid sustained CBN intervention, albeit not sufficient given the unmet demand in the official and unofficial markets. In October, the Nigerian FX reserve decreased by c.$808 million M-o-M to close at $37.44 billion.

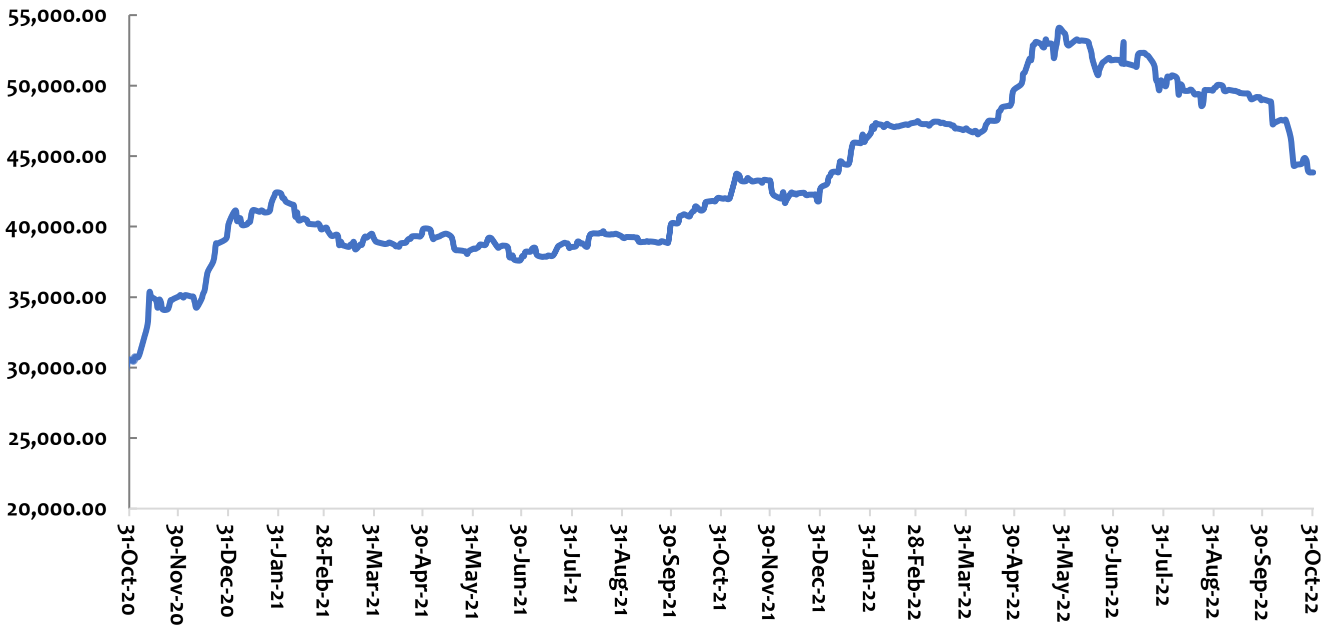
Outlook: We expect further strain on the Naira amid the latest plans to redesign the existing naira notes, as the stashed cash kept by most politicians for the election season will be exchanged for USD. Market players will also keep a close eye on the final MPC meeting for the year, scheduled to hold between November 21 – 22, 2022, to hear the CBN governor's assessment of the current economic state.

Equities Market Review and Outlook

Equities Market Performance in October – Bearish Sentiments Dominated Trading Activities

The overhanging bearish sentiments in the market was sustained in October, as the NGX All Share Index dipped 10.6% M-o-M to close at 43,839.08 points, while YTD returns dropped to +2.6%. This performance was largely influenced by the price depreciation in AIRTEL which amplified the bearish trend. Investors sentiments, measured by gainers against the decliners, was bearish, settling at 0.4x as 22 stocks advanced against 54 decliners.

Chart 6 – NGX ASI YTD Performance



Source: NGX, AIICO Capital

Sell-off Activity Dampens Sectoral Performance

Sector Performance was largely bearish in the month of October, with all indices trending southwards, save for the industrial Index. The Insurance index took the biggest hit, declining by 5.2% M-o-M, on the back of losses recorded in NEM (-18.5%) and LINKASSU (-17.0%). The Oil & Gas index also followed suit, losing 5.1% M-o-M on the back of sell pressure on OANDO (-10.4%). Similarly, the Consumer goods and Banking indices lost c. 2.9% and 1.1%, respectively.

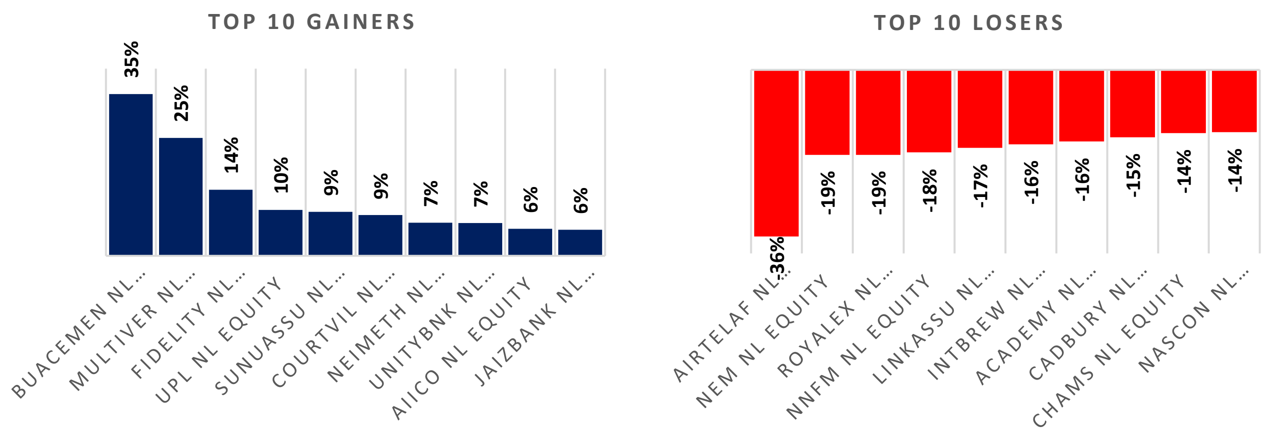
Chart 7 – Sector Performance

	MTD	YTD
NGSEINDX Index	-10.6%	2.6%
NSE Banking Index	-1.1%	-7.7%
NSE Insurance Index	-5.2%	-19.3%
NSE Industrial Goods Index	6.5%	-6.0%
NSE Consumer Goods Index	-2.9%	-3.7%
NSE Oil & Gas Index	-5.1%	39.8%

Source: NSE, AIICO Capital

The Oil & Gas index remain the only advancers YTD, with a positive return of 39.8% while the Insurance, Banking, Industrial Goods, and Consumer Goods indices have a total YTD loss of 19.3%, 7.7%, 6.0%, and 3.7% respectively. The best performing stocks in the month were BUACEMEN, MULTIVER, and FIDELITY while AIRTELAF, NEM, and ROYALEX topped the laggards list.

Chart 8 – Top 10 Gainers and Top 10 Losers in September



Source: NSE, AIICO Capital

Outlook for November… Bearish Sentiments to Persist

We expect the market trend to remain choppy in November, owing to dampened sentiments fueled by the continued rise in inflation and the uncertainty as election season draws near. Nonetheless, we believe that some buying interest will return to the market as fund managers rebalance portfolios for the end of the year.