August 2026

Economic & Market Review

U.S. - Weak Payrolls and Soft Inflation Reinforce the Case for a September Rate Cut

Labor market and inflation data released in August were directionally consistent: economic momentum is decelerating faster than the July FOMC meeting had assumed, materially increasing the probability of a rate cut at the September meeting.

The July employment report showed non-farm payrolls falling by 23,000 against a consensus estimate of roughly 80,000, the first outright monthly decline in payrolls this year. June's previously reported gain was revised down to 20,000, and a preliminary annual benchmark revision cut estimated employment by a further 79,000, reinforcing that job growth over the past twelve months has run well below its previously reported pace. The decline was concentrated in government employment and leisure and hospitality. The unemployment rate fell to 4.1% from 4.2%, though this reflected a drop in labor force participation to a more-than-five-year low rather than job creation. Wage growth also decelerated, to 3.2% year-on-year from 3.4%.

Headline CPI eased to 3.4% year-on-year in July from 3.5% in June, with core inflation at 2.5%, matching its slowest pace since March 2021. Energy and gasoline prices fell for a second consecutive month, and grocery prices fell for the first time since March. Shelter remained the primary source of underlying stickiness in the core measure.

Together, the two releases materially reduce the probability the Federal Reserve resumes hiking at its September 16–17 meeting. Whether this shifts the Committee toward an actual cut, rather than a continued hold, will depend on the August CPI and employment reports due in early September. PMI data stood in contrast to the weaker labor data. The ISM Manufacturing PMI rose to 55.6 in July from 53.3, its highest reading since May 2022, with employment returning to expansion after 33 consecutive months of contraction, a reading inconsistent with the same month's negative payrolls print. The ISM Services PMI held broadly steady at 54.1, a 25th consecutive month of expansion.

UK- *Inflation Reaccelerates on Energy Costs as Growth Data Beats Expectations*

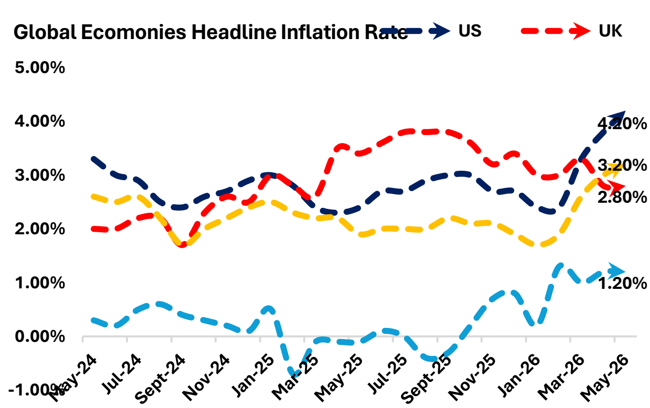
UK data released in August pointed in different directions across price and activity measures, complicating the policy read-through ahead of the Bank of England's next meeting on September 17, for which there is no fresh decision within this reporting window.

Headline CPI rose to 2.9% year-on-year in July, up from 2.6% in June and the first acceleration since March, driven primarily by a 13% increase in Ofgem's energy price cap that took effect during the month; gas prices rose 14.7%, the largest increase since October 2022. Core inflation held at 2.6% for a third consecutive month. The July increase reflects a specific, largely one-off regulatory adjustment to energy pricing rather than a broadening of underlying price pressure, though the effect will persist in the year-on-year comparison until next July.

The unemployment rate held at 4.9% for the three months to June, missing the consensus estimate for a decline to 4.8%. The Claimant Count fell to a one-year low, and job vacancies fell to their lowest level since late 2014. The combination points to a labor market cooling gradually through reduced hiring rather than active job cuts.

GDP grew by 0.4% quarter-on-quarter in Q2 2026, down from 0.6% in Q1. Within the quarter, June's monthly GDP rose 0.3%, beating the consensus for no growth, aided by temporary factors, a major sporting event and unusually warm weather, that are expected to fade in subsequent readings.

PMI data pointed to a stronger start to the third quarter than the GDP and labor figures would suggest. The S&P Global/CIPS Composite PMI rose to 52.2 in July from 49.3 in June, returning to expansion after two consecutive months of contraction, led by a rebound in services activity to a three-month high. Manufacturing eased to 51.9 from 52.5 but remained in expansion for a ninth consecutive month, with input price inflation easing sharply. Construction remained in contraction at 44.7, though this continued a recovery from May's six-year low.



Source: Bloomberg, AIICO CAPITAL

Eurozone- *Manufacturing Momentum Builds as Inflation Ticks Higher and the Labor Market Shows Early Softening*

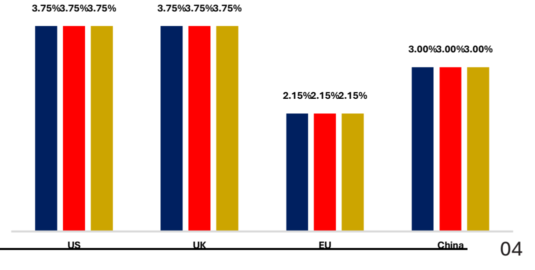
Eurozone data released in August showed a genuine divergence between hard and soft indicators, with survey data pointing to accelerating manufacturing activity even as inflation moved further above target and unemployment posted its first increase in over a year.

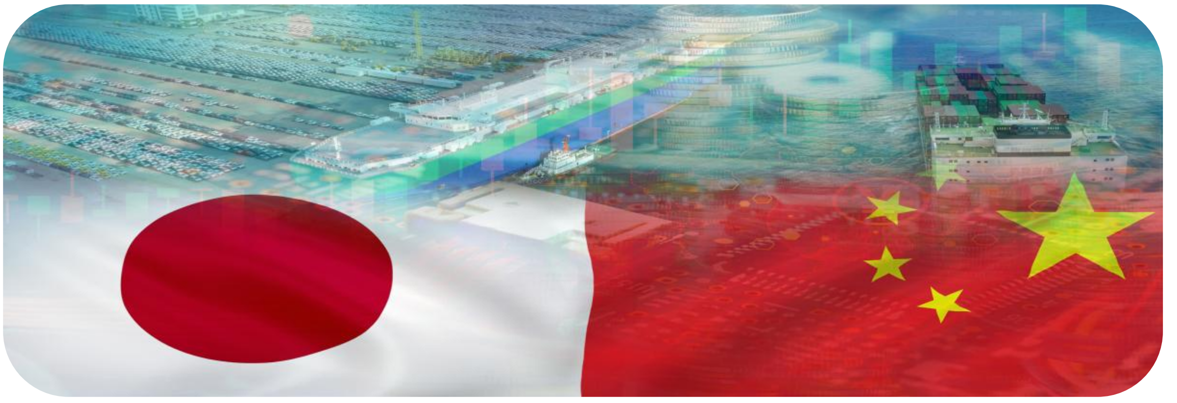
Final July HICP inflation was confirmed at 2.9% year-on-year, up from 2.8% in June, with core inflation also rising, to 2.5% from 2.4%. This keeps inflation running well above the ECB's 2% target for a second consecutive month following July's escalation in the Iran conflict and reinforces the case for the Governing Council to maintain its current restrictive stance when its next meets on September 10–11; there was no ECB meeting within this reporting window, with the deposit rate remaining at 2.25%.

The unemployment rate rose to 6.4% in July from 6.3% in June, missing the consensus estimate for an unchanged reading and marking the labour market's first deterioration in over a year. The uptick was broad-based rather than concentrated in a single member state, though the increase remains modest relative to the scale of the disinflationary and growth pressures the bloc faced earlier in the year.

PMI data told a more encouraging story. The flash Composite PMI rose to 52.1 in August from 52.0 in July, its highest level since November 2025, with manufacturing the primary driver: the flash Manufacturing PMI rose to 52.8, its strongest reading since May 2022, with output expanding at its fastest pace in four and a half years and new export orders turning positive for the first time since February 2022. Germany was the main contributor to the manufacturing improvement, with output expanding at its fastest pace since January 2022, even as the country's composite reading slipped slightly to 51.0 on softer services activity. Services activity across the bloc held steady at 51.7. Notably, the survey's employment component turned positive for the first time this year, a divergence from the same-month unemployment data that warrants monitoring in subsequent releases, as PMI employment intentions and realized labour market outcomes have not always moved in tandem this year.

Source: Bloomberg, AIICO CAPITAL





Asia- *China's Slowdown Deepens as Japan and India Hold Policy Steady*

Asia's three largest economies diverged further in the latest data, with China's activity indicators weakening across manufacturing, retail, and investment, while Japan and India both held policy unchanged despite inflation running above comfort levels in each case.

China's official NBS manufacturing PMI fell to 49.2 in July from 50.3 in June, a second consecutive month in contraction and a larger decline than consensus expected, with weakness reported across firms of all sizes. The non-manufacturing PMI fell to 49.0 from 50.2. The private Caixin/RatingDog manufacturing gauge, which skews toward smaller export-oriented firms, told a more resilient story, easing to 50.9 from 51.7 but remaining in an eighth consecutive month of expansion, supported by new export orders returning to growth and employment rising at its fastest pace since August 2023, a divergence between the two surveys that reflects their differing panel composition rather than a contradiction in the underlying data. Broader July activity data confirmed the deceleration: industrial output rose 4.5% year-on-year, down from 5.3% in June; retail sales rose just 0.6%, down from 1.0%; and fixed asset investment fell 6.7% year-to-date, a deeper contraction than the 5.7% decline reported through June, with real estate investment down 19.2% year-to-date remaining the largest structural drag. CPI rose 0.5% year-on-year, while producer prices fell 0.7% month-on-month despite a 3.5% annual gain, indicating continued deflationary pressure at the factory-gate level.

The Bank of Japan held its policy rate at 1.0% at its July 30–31 meeting, an 8–1 vote with board member Hajime Takata again dissenting in favour of a hike to 1.25%. Core CPI (excluding fresh food) accelerated to 1.8% year-on-year in July from 1.6% in June, its fastest pace since January, while the measure excluding both fresh food and energy rose to 1.9%. The Bank's outlook report reiterated that underlying inflation is expected to move clearly above its 2% target from the second half of fiscal 2026, citing wage pass-through, elevated crude oil costs, and yen depreciation, while trimming its FY2026 inflation forecast to 2.5% from 2.8% to reflect government energy subsidies. The July decision coincided with a currency intervention, reportedly coordinated with U.S. authorities, that pulled the yen back from around 163 to as strong as 157.96 against the dollar. Market pricing continues to build around a possible rate increase as soon as the September meeting.

India's Reserve Bank held its repo rate at 5.25% for a fourth consecutive meeting on August 3–5, a unanimous decision, while raising its FY27 GDP growth forecast to 6.7% from 6.6% and lowering its inflation forecast to 5.0% from 5.1%. Governor Malhotra characterized elevated headline inflation, which has moved above the RBI's 4% medium-term target, as concentrated in specific food and energy items tied to disruption from the Middle East conflict rather than a broad-based increase, noting core inflation has remained stable at 3.5%. The next MPC meeting is scheduled for October 5–7.

Source: Bloomberg, AIICO CAPITAL

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Africa- *Disinflation Broadens Across Ghana and South Africa While Uganda Holds Amid a Modest Inflation Uptick*

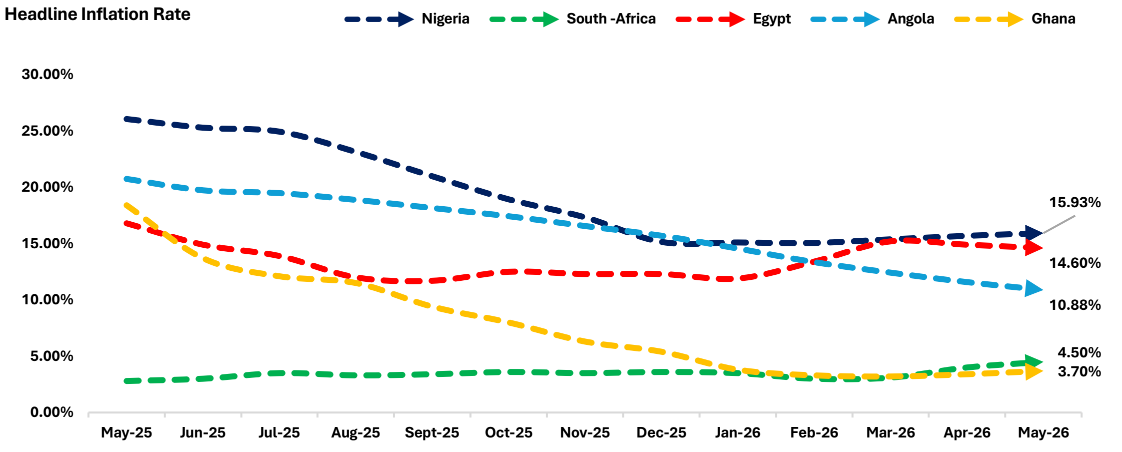
African monetary policy in the latest reporting period showed a broadly disinflationary trend across South Africa and Ghana, even as Uganda's headline inflation ticked higher on energy-driven pressure, with Angola's most recent policy action, a rate cut in mid-July, still standing without a fresh decision in this window.

South Africa's headline CPI eased sharply to 4.3% year-on-year in July from 5.0% in June, the latter having been a two-year high, aided primarily by a temporary decline in fuel prices and a sharp slowdown in food and non-alcoholic beverage inflation to 0.9%, its lowest level in over 16 years. Core inflation moved in the opposite direction, rising to 4.2% from 4.1%, its highest since July 2024, indicating underlying price pressure has not eased at the same pace as the headline figure. The South African Reserve Bank held its repo rate at 7% at its July 23 meeting in a 4–2 vote, with two members favoring a 25-basis-point increase; the Bank's own commentary noted the inflation outlook had improved only slightly and that monetary conditions remain sufficiently restrictive for now. Because July's improvement was driven substantially by fuel-price base effects rather than a broader moderation in core price pressure and given renewed volatility in crude oil prices tied to the Iran conflict, the disinflation is not yet assured to continue into the SARB's next meeting on September 23.

Ghana's headline inflation eased to 4.6% year-on-year in July from 5.3% in June, and now below the Bank of Ghana's 6%–10% target band. The improvement was attributed to slower food price increases, while both locally produced goods inflation (5.9%, down from 6.7%) and imported goods inflation (2.0%, down from 2.3%) declined, the latter consistent with the cedi's stabilization around GHS13.10/USD through the second quarter. The Bank of Ghana held its policy rate at 14% for a second consecutive meeting on July 20–22, citing a need for continued caution despite the improving inflation trajectory. With inflation now below target, the central bank's next decision, expected before the end of August, will be a signal of whether the easing cycle paused in May is set to resume.

Uganda's central bank held its policy rate at 9.75% at its August 13 meeting, an eighth consecutive hold. Headline inflation rose to 4.0% year-on-year in July from 3.7% in June, its highest level since September 2025, driven by a jump in energy, fuel, and utilities inflation to 14.9% from 11.9% on higher global petroleum costs. Core inflation held steady at 3.4%, and the central bank characterized the increase as a contained, supply-side effect rather than a broader inflationary trend, maintaining its GDP growth projection of 6.5%–7% for the 2026/27 fiscal year.

Angola's National Bank last acted on July 14, cutting its policy rate by 125 basis points to 15.75%, and has not held a policy meeting within the current reporting window; its next scheduled decision is September 14–15.



Source: Bloomberg, AIICO CAPITAL

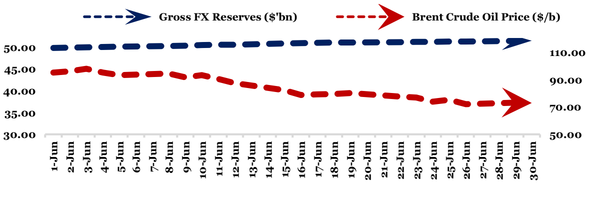
Oil Market- *Oil Prices Whipsaw Between $79 and $92 as Hormuz Negotiations Repeatedly Stall and Restart*

Crude oil extended its volatility into August, with Brent trading in a roughly $13 range over the month as diplomatic progress on reopening the Strait of Hormuz alternated with renewed attacks on shipping, leaving the market without a stable equilibrium price nearly six months into the conflict.

Brent entered August on a downward trajectory, falling to approximately $79 per barrel by August 6 , its lowest level since before July's escalation, as renewed optimism around a potential U.S.-Iran agreement combined with a further OPEC+ production increase for September to ease supply concerns. That de-escalation proved short-lived. By August 10, Brent had climbed back above $82 as doubt grew over whether Washington and Tehran would actually conclude a deal on Hormuz access, and the reversal accelerated sharply after August 11, when renewed attacks on shipping in the Middle East pushed Brent to close near $90 per barrel, up more than 2% on the day. By mid-month, Brent futures for October delivery stood at $89.53, approximately 24% above levels prevailing before the conflict began in late February, with prices holding in the $85–$90 range through the remainder of the month and reaching approximately $92 by August 20–21.

The U.S. Energy Information Administration's mid-August outlook forecast that Middle East oil production is unlikely to return to near pre-conflict levels until early 2027, and projected Brent will average $87 per barrel for 2026. The report noted that OPEC's ability to raise output remains constrained until shipping through the Strait of Hormuz normalizes in both directions, a condition not yet met given continued attacks and disputed claims over control of the waterway between the two sides.

The pattern through August is consistent with the broader dynamic that has characterized this conflict since its outbreak: incremental diplomatic progress has repeatedly been priced in as a durable resolution, only to be reversed by renewed hostilities within days to weeks. For positioning purposes, this suggests the market continues to lack a reliable de-escalation signal, and that Brent's trading range is likely to remain wide and headline-driven rather than settling into a stable band until a verified, sustained reopening of Hormuz shipping is achieved, a condition the EIA itself does not expect before early 2027.



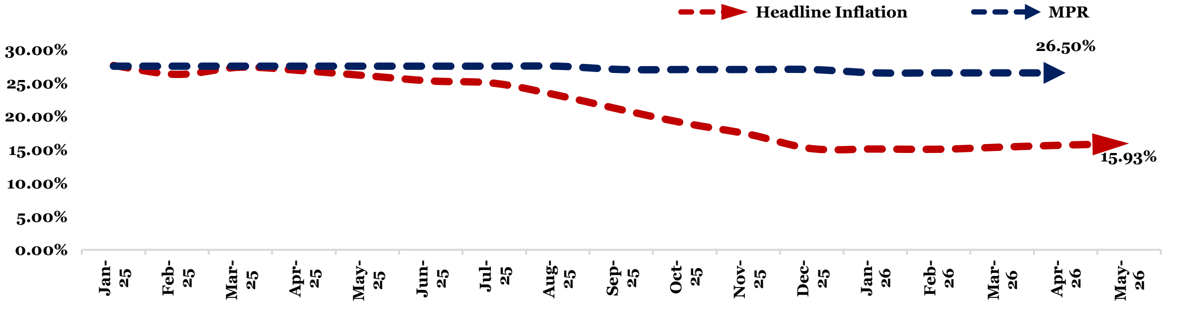
Source: CBN, Oilprice.com, AIICO CAPITAL

***Inflation** – Headline Eases Further as Food Prices Diverge*

Headline CPI eased to 15.43% year-on-year in July 2026, down from 15.91% in June, a 0.48-percentage-point decline and a second consecutive month of improvement following the earlier three-month uptick. The reading was sharply below the 24.94% recorded in July 2025, underscoring the scale of disinflation achieved over the past twelve months even as the pace of further improvement has slowed. Month-on-month, headline inflation stood at 1.57%, down from 1.66% in June, meaning prices continued to rise but at a marginally slower pace than the previous month. The Consumer Price Index itself rose to 145.3 points in July from 143.0 in June, a 2.2-point increase, a reminder that a declining year-on-year rate does not mean prices are falling, only that they are rising more slowly than a year earlier.

Core inflation eased more sharply, to 14.97% year-on-year from 15.92% in June, a decline of nearly one full percentage point, and down from 23.95% a year earlier. On a month-on-month basis, core inflation slowed to 0.15% from 1.66% in June, indicating that price pressure outside food and energy has moderated considerably faster than the headline figure.

Food inflation moved in the opposite direction. On a year-on-year basis, food inflation accelerated to 20.31% in July from 17.52% in June, extending a run that has taken it from 16.96% in May through 17.52% in June to 20.31% in July, a divergence from the broader disinflation, that matters directly for household budgets, since food carries the largest single weight in the CPI basket. The NBS attributed the increase to rising prices for crayfish, fresh pepper, onions, carrots, rice, water yam, Garri, plantain, beef, and eggs, among other staples. This divergence between an improving headline rate and a worsening food-specific rate is the key nuance for a Nigerian readership: the aggregate trend looks encouraging, but the component most directly felt at the household level continued to deteriorate.



Source: CBN, NBS, AIICO Capital

***PMI** – Private Sector Momentum Stalls as Activity Slips Below Growth Threshold*

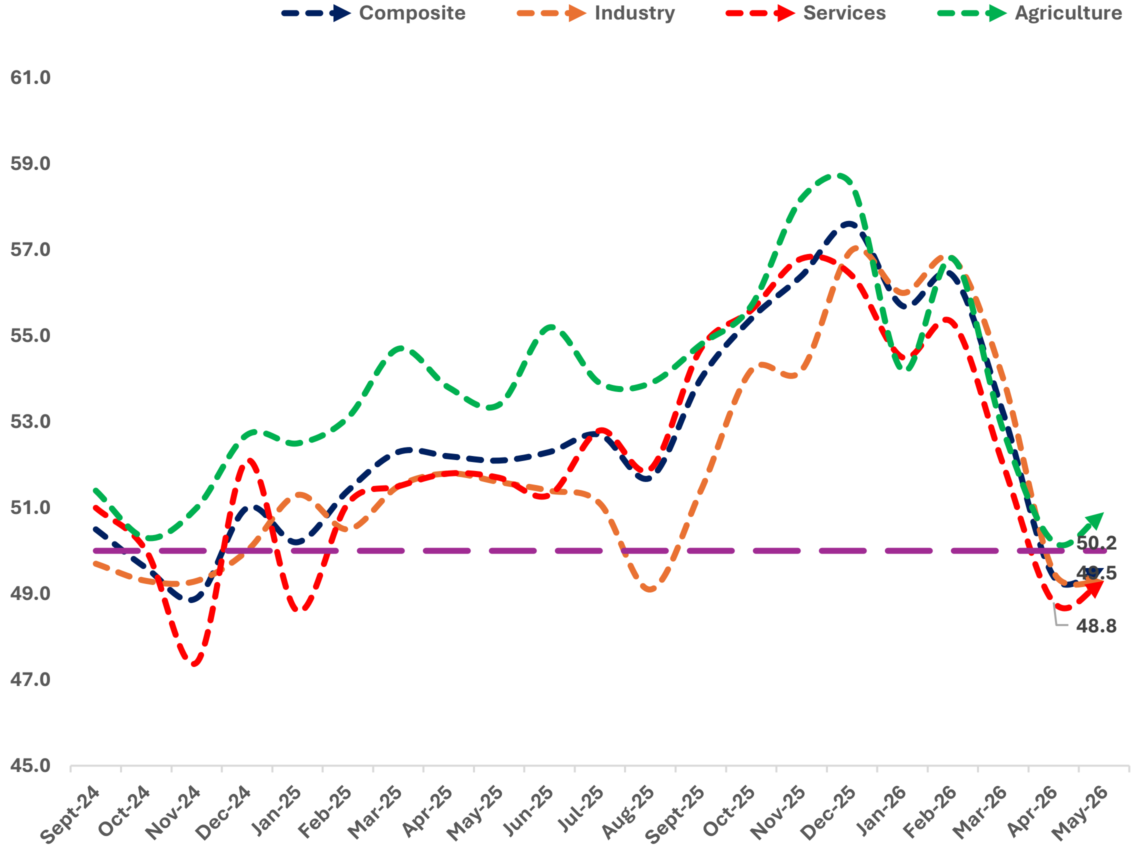
Composite PMI slipped below the 50.0 growth threshold in April, easing further to 49.6 in May from 53.2 in March and 56.4 in February, as a broad-based slowdown in new orders and output spread across the private sector.

Industry and Services PMI mirrored the decline, slipping to 49.3 apiece in May from the mid-50s just three months earlier, indicating the loss of momentum was not confined to one sector but reflected a broader softening in private-sector activity.

Agriculture PMI held up better than the rest of the sector, easing to 50.9 in May from 56.8 in February but remaining just above the 50.0 threshold, the only sub-index still signalling expansion.

Policy context. The CBN held its Monetary Policy Rate at 26.5% at its July 20–21 meeting. A sustained slowdown in private-sector activity could add to the case for policy easing, though the Bank is likely to stay cautious until the deceleration is confirmed over further months of data.

Nigeria PMI



Source: CBN, AIICO Capital

MARKETS

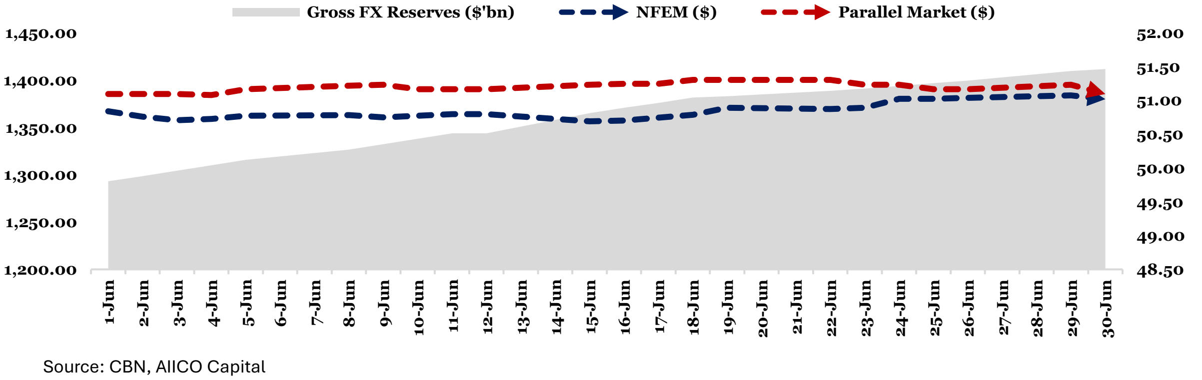
Foreign Exchange Market: *Naira Strengthens as FX Liquidity and Reserves Improve*

The NAFEM rate strengthened from ₦1,368.22/$ at the end of July to ₦1,332.94/$ at the end of August, representing a 2.58% appreciation. The move was persistent, with the naira strengthening through most of the second half of the month and reaching its strongest level since the beginning of the year. This coincided with a sharp improvement in FX market activity; NAFEM turnover rose to $5.05 billion in the week ended August 21, up 146.1% week-on-week, while total turnover had reached $1.41 billion on August 17 alone.

The improvement in FX liquidity was reinforced by the continued accumulation of external reserves. Reserves rose to $53.11 billion by August 24, their highest level in more than 17 years, compared with $51.53 billion at the beginning of July. The stronger reserve buffer provides the CBN with greater capacity to support FX liquidity and absorb temporary demand pressures, while also improving confidence in the naira.

The parallel market, however, showed a more modest appreciation, moving from ₦1,405/$ at end-July to ₦1,395/$ at end-August, a 0.71% appreciation. Consequently, the spread between the two markets widened from about ₦37/$ to ₦62/$ by month-end. This divergence is worth highlighting; while official-market conditions have improved materially , the parallel market has not adjusted to the same extent, suggesting that some underlying FX demand remains outside the formal market. Overall, August marked a clear strengthening of the Naira's fundamental position. The combination of rising reserves, stronger FX turnover and improved liquidity allowed the official exchange rate to appreciate despite intermittent periods of weak trading activity. The CBN's official exchange-rate data identifies the NFEM rate as the volume-weighted average and the official daily exchange rate.

Outlook: We expect the naira to maintain its appreciation bias in September, with the official exchange rate likely to test the ₦1,300/$ level as strengthening external reserves and improved FX market liquidity continue to support supply. However, the widening gap with the parallel market suggests that appreciation may be less pronounced outside the official market, while a resurgence in corporate and importer demand could limit further gains.



Source: CBN, AIICO Capital

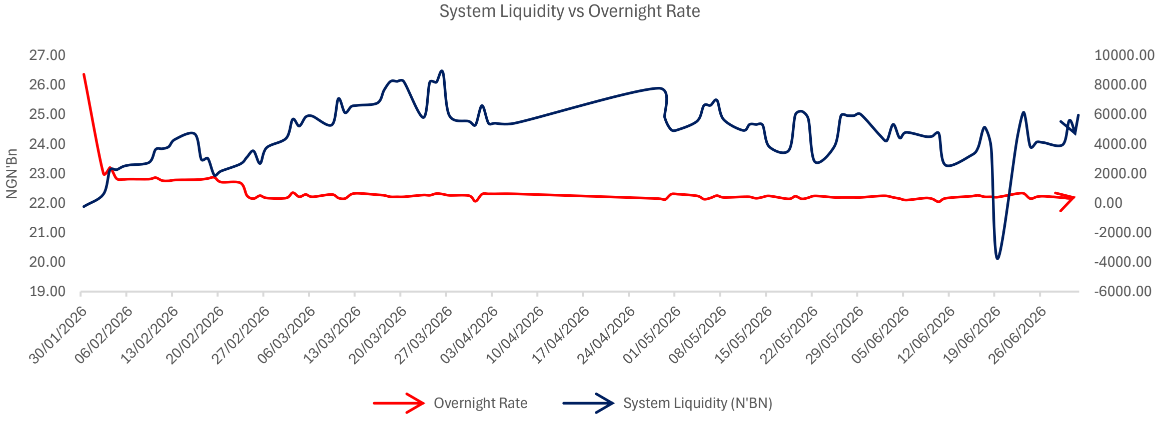
Money Market : *Surplus Liquidity Remains Elevated Despite Periodic Tightening*

System liquidity averaged ₦4.63 trillion in August, up from approximately ₦4.0 trillion in July. It opened the month at ₦2.98 trillion before rising steadily, reaching ₦6.81 trillion on 11 August and ₦6.47 trillion on 12 August. Liquidity subsequently moderated to ₦3.38 trillion on 17 August before strengthening sharply in the final week, reaching a monthly high of ₦7.40 trillion on 26 August. It closed at ₦4.65 trillion, representing a 56.17% increase from July's closing position.

The elevated liquidity environment was primarily supported by substantial primary market maturities and OMO repayments. Primary market maturities, including coupons, amounted to ₦8.14 trillion, while OMO repayments totalled ₦4.70 trillion. These inflows more than offset the ₦7.72 trillion in auction settlements during the month, helping maintain a sizeable liquidity surplus despite significant sterilisation through government and CBN operations.

The low average SLF borrowing of just ₦6.35 billion, compared with average SDF placements of ₦4.15 trillion, further demonstrates that banks generally had ample excess cash and limited funding pressure. The sharp swings in daily liquidity, however, show that the market remained highly sensitive to the timing of primary-market settlements and CBN operations.

Outlook: Expect liquidity to stay elevated into September, supported by roughly ₦500 billion in further OMO maturities and continued FAAC/coupon inflows, with the CBN sustaining aggressive sterilisation to keep the tight monetary stance intact.



Source: CBN, FMDQ, AIICO Capital

Treasury Bills: *Strong Demand for Longer Tenors Amid Heavy Q3 Supply*

The Nigerian Treasury Bills market traded bearish in August, with the secondary-market yield curve sloping upward: yields on the September 2026 maturity rose from 16.86% early in the month to 17.08% by late August, while yields further out the curve climbed to 20.45% on the August 2027 maturity. This suggests that while short-dated liquidity remained strong, investors continued to demand a higher return for extending duration.

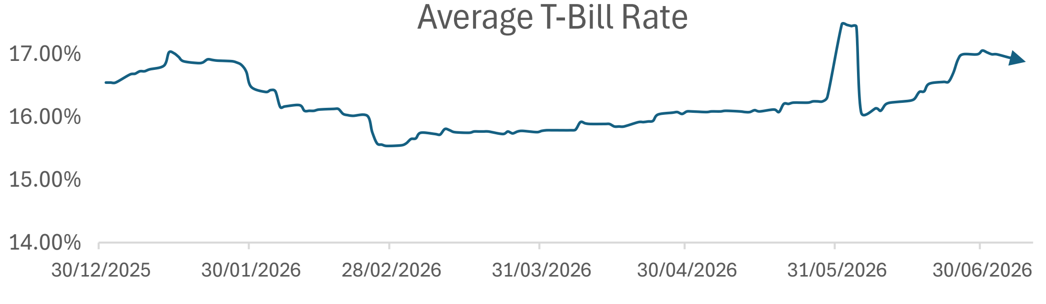
Primary-market demand was particularly strong for the 364-day bills. At the 12 August auction, the 364-day instrument received ₦4.19 trillion in subscriptions against a ₦500 billion offer, representing an 8.4x bid-to-cover ratio. However, the DMO allotted ₦1.26 trillion at a 21.33% yield, up 35bps from the previous auction. At the 26 August auction, subscriptions remained substantial at ₦3.63 trillion, although the stop yield declined to 20.69%, a 64bps reduction. This indicates that demand remained strong even as investors became more willing to accept lower yields at the long end.

In contrast, demand for the 91-day and 182-day bills was considerably weaker. The August auctions recorded subscriptions below the amounts offered for both tenors, while their stop yields remained unchanged at 16.99% and 17.98%, respectively.

This divergence is important: the strongest demand was concentrated in the longer tenor, despite the higher yield, while short-term demand was comparatively subdued.

Overall, the market appears to be transitioning from the broad-based yield compression seen in July toward a more selective pricing environment. The substantial liquidity available in the banking system continues to support demand, but the elevated yields on the longer-dated bills suggest investors are increasingly differentiating between maturities rather than indiscriminately chasing fixed-income assets.

Outlook: We expect the T-bills market to remain supported by elevated liquidity in September, although the significant net issuance planned for Q3 could limit further yield compression. With approximately ₦3.16 trillion of net new borrowing and the bulk of issuance concentrated in 364-day bills, supply pressure is likely to be most pronounced at the longer end of the curve. We therefore expect front-end yields to remain relatively stable, while 364-day yields could trade with a mild upward bias or remain volatile as investors demand higher compensation for absorbing the increased supply.



Source: FMDQ, AIICO Capital

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FGN Bonds: *Primary Market Repricing Drives the Move as Secondary Demand Cools*

The FGN Bond market extended its rally in August, but at a materially slower pace, with the average benchmark yield declining by roughly 26bps to 16.83% August end from 17.08% end of July. Unlike July, where compression was broad-based and accelerated into month-end, August's move was front-loaded around the primary auction and then stalled, with the secondary market drifting slightly higher in the final week as investors trimmed holdings.

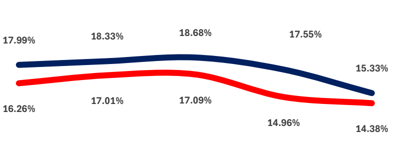
The decisive event was a sharp repricing at the August 17 auction. The DMO cut its offer to ₦1.10 trillion from ₦1.20 trillion in July, received bids of ₦1.73 trillion, and allotted ₦1.56 trillion, well above the amount offered. Crucially, and in contrast to July, marginal rates were cut aggressively: the January 2035 bond cleared at 17.15% and the April 2037 at 17.19%, each down roughly 116–119bps from 18.34% and 18.35% respectively, while the June 2038 cleared at 17.79%, down 61bps from 18.40%. The auction was heavily skewed toward the 15-year June 2038 paper, which drew 225 bids worth ₦821.32 billion, almost half of total subscriptions, and took ₦631.02 billion in competitive plus ₦742.29 billion in non-competitive allotments, above ₦1.37 trillion in total. The 2037 was rationed by comparison, with only 34 of 171 bids accepted and ₦110.01 billion allotted.

The DMO's willingness to reprice downward was underpinned by the July inflation print released the same day. Headline inflation eased for a second consecutive month to 15.43% from 15.91%, widening real returns on naira assets and giving the debt office room to lower borrowing costs. Elevated system liquidity from OMO and fixed-income maturities remained supportive , but the transmission ran in the opposite direction to July: rather than an unchanged auction feeding a post-auction secondary rally, August saw the primary market lead yields lower and the secondary market subsequently struggle to follow at the new, tighter levels.

That disconnect defined the back half of the month. Investor attention rotated toward Treasury Bills, where pricing was seen as more attractive, leaving bond demand subdued and pushing prices modestly lower. Selective buying returned midweek in the final week following a firm Treasury Bills auction, concentrated in the 2028, 2029, 2032 and 2037 maturities, while activity at the long end remained muted as investors cherry-picked. The average yield consequently rose 2bps week-on-week into the 28 August close, ending a month in which the compression was almost entirely an auction-driven phenomenon rather than a broad-based secondary bid.

Outlook: We expect the bond market to remain cautious in the near term, with yields likely to stay elevated relative to primary market pricing amid subdued secondary demand. Further compression is likely to be limited unless the DMO sustains aggressive rate cuts at the September auction, and much will depend on the outcome of the September MPC meeting alongside a third consecutive inflation print. The principal risk is a widening gap between auction clearing levels and secondary market appetite, which could see yields back up if supply is increased or if investor rotation into Treasury Bills persists.

FGN BOND YIELD CURVE



	FGN 3	FGN 5	FGN 7	FGN 10	FGN 20
Current	17.99%	18.33%	18.68%	17.55%	15.33%
Previous	16.26%	17.01%	17.09%	14.96%	14.38%

Source: FMDQ, AIICO Capital

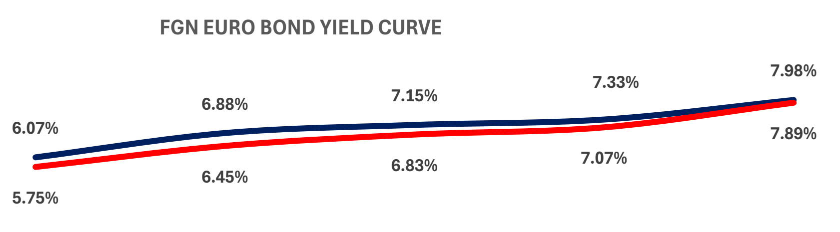
Eurobonds Market : *Frontier Reclassification and Positive Outlook Drive Front-End Compression*

Nigerian sovereign Eurobond yields fell about 4 basis points on average in August, from 7.00% to 6.96%. The dispersion was far wider than the headline suggests. Yields on the 2027–2032 maturities compressed sharply, led by the 2030 (-18bps), January 2031 (-18bps), 2027 (-17bps), 2029 (-14bps) and June 2031 (-14bps) issues, while everything from 2038 out widened: 2051 (+9bps), 2046 (+5bps), 2049 (+5bps), 2038 (+5bps) and 2047 (+3bps). The 2033–2036 segment was effectively unchanged. The 2027–2051 spread widened from 228 to 253 basis points, a 25-basis-point steepening that extends and deepens the pattern first visible in July.

The front-end and belly rally was driven almost entirely by a step-change in Nigeria's credit standing. External reserves rose from $51.94 billion on 3 August to $53.11 billion by 24 August, a 17-year high and roughly $2 billion above the CBN's full-year target, supported by stronger crude earnings and sustained portfolio inflows. Headline inflation eased for a second consecutive month to 15.43% in July from 15.91%, with core inflation at 14.97%.

Two discrete events then repriced the front of the curve: FTSE Russell confirmed on 27 August that Nigeria would move from "Unclassified" to Frontier Market status, and Moody's revised the sovereign outlook from stable to positive on 28 August while affirming the B3 rating, citing a stronger external position, larger current-account surpluses and improved monetary policy transmission. Coming after S&P's upgrade to B in May and Fitch's B affirmation, this represents a converging and improving view across all three agencies, and it is priced most directly into shorter-dated paper where repayment and liquidity risk dominate.

The long end's widening again reflects global rates rather than domestic credit. The U.S. 10-year Treasury yield opened August at 4.75%, dipped to around 4.63% mid-month after a softer-than-expected July payrolls report, then reversed to 4.73% by 28 August and topped 4.75% on 31 August, its highest since January 2025, with the 30-year holding above 5.25%. The move was driven by a crude price spike and firm inflation data that revived expectations of Federal Reserve tightening, with markets pricing roughly a 50% probability of a hike at the September meeting.



	FGN EURO 3	FGN EURO 5	FGNEURO 7	FGN EURO 10	FGN EURO 20
Current	6.07%	6.88%	7.15%	7.33%	7.98%
Previous	5.75%	6.45%	6.83%	7.07%	7.89%

Source: FirstBank UK, AIICO Capital

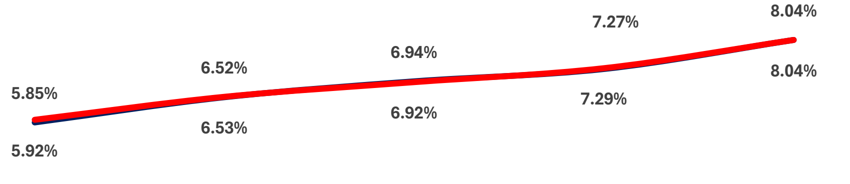
Equity Market

Brent itself traced a wide arc through the month, falling to about $79 in early August on Iran negotiation optimism and an OPEC+ September output increase, then surging to a $94.40 peak on 21 August after the 60-day ceasefire lapsed, before settling near $90.50 by month-end. Longer-dated Nigerian bonds carry more exposure to U.S. duration risk than to domestic catalysts, so they underperformed despite the improvement in Nigeria's own credit metrics.

Overall, August was a month in which Nigeria-specific credit improvement and global rate pressure pulled in opposite directions with unusual force, and the curve resolved that tension by steepening rather than shifting. Relative value continues to favour the front-to-belly segment, where the ratings and index-inclusion catalysts are concentrated, while long-end performance remains a function of U.S. rate expectations and the oil-inflation channel now feeding into them.

Outlook: In September, we expect the front and belly of the Nigerian sovereign Eurobond curve to remain supported, with FTSE Russell's Frontier Market reclassification taking effect from 21 September and potentially attracting passive and benchmark-tracking flows, alongside continued reserve accumulation and a likely third consecutive decline in headline inflation. The long end is expected to stay under pressure and could widen further, as elevated crude prices sustain U.S. inflation concerns and keep a September Fed hike in play, with the 10-year Treasury having already reached its highest level since November 2023 in early September. Risks to this view are two-sided: renewed U.S.–Iran escalation would lift oil and Nigeria's fiscal position but simultaneously push global yields higher, while any announcement on the planned Eurobond issuance would introduce supply into a curve that is currently priced tightly at the short end.

FGN EURO BOND YIELD CURVE



	FGN EURO 3	FGN EURO 5	FGNEURO 7	FGN EURO 10	FGN EURO 20
Current	5.85%	6.52%	6.94%	7.27%	8.04%
Previous	5.92%	6.53%	6.92%	7.29%	8.04%

Source: NGX, AIICO Capital

Equity Market : *Market Corrects from Record High as FTSE Reclassification Offers Fresh Catalyst*

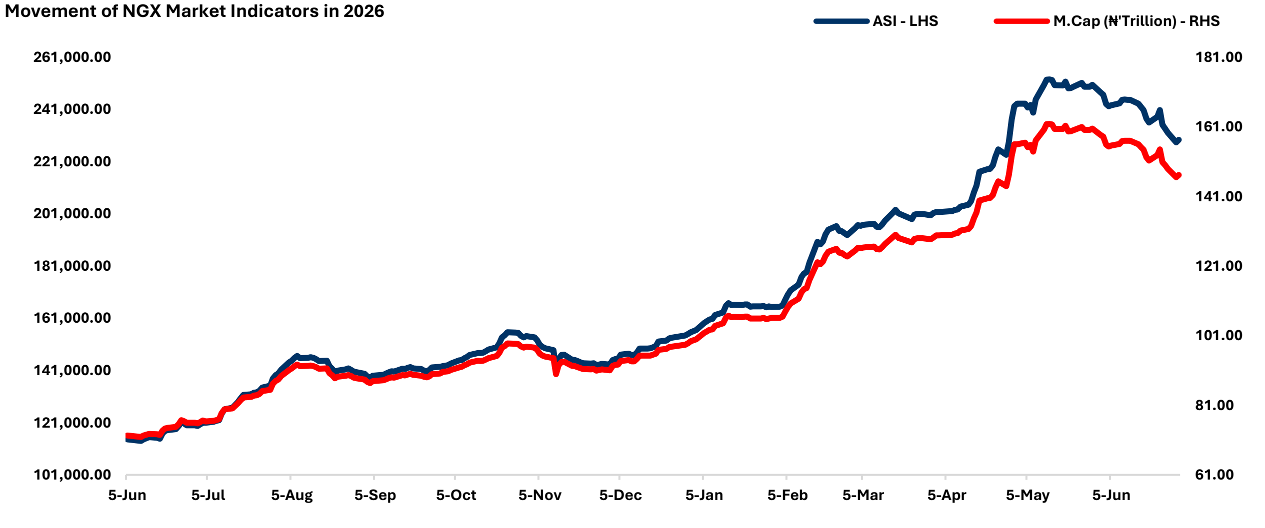
The Nigerian equities market experienced a volatile August, with the NGX All-Share Index (ASI) declining marginally by 0.44% to close at 244,199.39 points, while market capitalization fell to ₦157.74 trillion. The market initially extended its rally, reaching a new all-time high of approximately 248,550 points on August 10, before entering a correction that saw the ASI decline by 3.4% from its peak and lose about ₦5.4 trillion in market capitalization at the trough on August 26.

The correction appears largely valuation-driven rather than reflective of a deterioration in underlying fundamentals. With the ASI already up 50%+ YTD, investors increasingly took profits, particularly in stocks that experienced substantial gains earlier in the year. This was compounded by the absence of a near-term monetary policy catalyst, as the CBN maintained the MPR at 26.50%, while persistent inflation risks from oil prices, geopolitical developments and pre-election fiscal spending continue to limit expectations of an imminent rate cut. Meanwhile, the economy remained supportive, with Q2 2026 GDP growth of 4.43%.

The divergence at the stock level was particularly notable. Haldane McCall (+37.46%), Access Holdings (+22.05%) and UPDC (+18.33%) were among the strongest performers, while Access Holdings' gain was also significant given its large-cap status. Conversely, Zichis Agro Allied (-40.73%), Thomas Wyatt (-37.21%) and International Energy Insurance (-32.05%) recorded the steepest declines. Among larger-cap names, Unilever Nigeria (-22.95%), International Breweries (-16.95%), Ecobank Transnational (-16.81%) and Transcorp (-12.50%) also experienced notable selling pressure. This dispersion reinforces the view that August was increasingly a stock-selection market rather than a broad-based directional move.

Sector performance reflected this rotation. Banking (+3.82%) and Consumer Goods (+3.47%) outperformed, supported by renewed buying towards month-end, while Industrial Goods (-2.03%) and Oil & Gas came under pressure. Insurance was the weakest sector, declining 9.26%, with losses concentrated in several names rather than reflecting a uniform deterioration across the sector. The broadening of market participation at month-end, with 43 advancers against 16 decliners, provided some evidence of renewed risk appetite following the correction.

Movement of NGX Market Indicators in 2026



Source: NGX, AIICO Capital

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