

Weekly economic and market update.

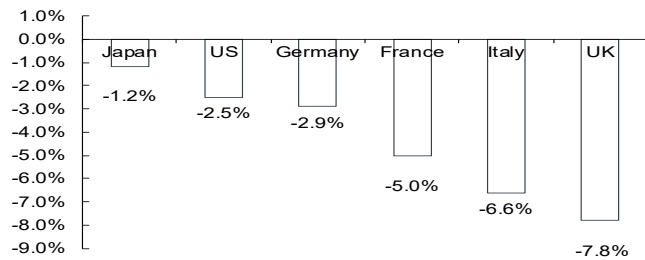
Overview of markets in the week ended 01 April 2021

Global economy

In line with our expectation of improved factory activity as workers return from the Lunar New Year holiday, China's manufacturing PMI rose to the highest in four months. According to the National Bureau of Statistics, the manufacturing PMI notched up by 1.3 points to 51.9 points in March (February: 50.6 points). For us, the robust improvement in the manufacturing sector reflects the combined impact of (1) sustained global economic recovery from the COVID-19 pandemic and (2) Spillover effect of the United States stimulus package on China's export demand. Accordingly, New Orders (53.6 points vs February: 51.5 points) and Output level (53.9 points vs February: 51.9 points) continued to increase while the Export sales (51.2 points vs February: 48.8 points) and Employment (50.1 points vs February 48.1 points) sub-indices returned to expansion during the period. **We expect factory activity levels to remain on a growth pedestal in the short term, supported by the continued global recovery from the pandemic-induced decline in the prior year and high domestic demand amid China's export market's resilient nature.**

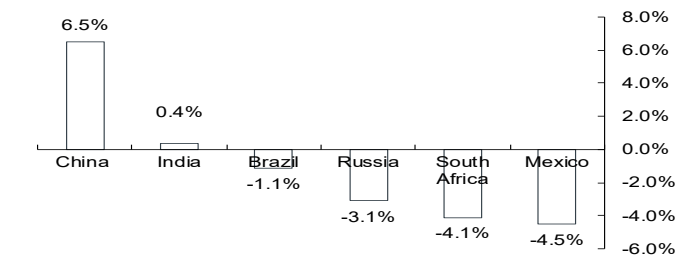
Flash estimates from the Eurostat showed that the inflation rate in the Euro Area increased by 1.3% m/m in March (February: 0.9% m/m) – the highest since January 2020 (1.4% m/m). The increase was due to (1) a rebound in energy prices and (2) a faster increase in prices for services as domestic economic recovery began to improve. Specifically, the growth in energy prices (+4.3% m/m vs February: -1.7% m/m) and prices for services (+1.3% m/m vs February: +1.2% m/m) were enough to offset the decline in the prices of food, alcohol & tobacco (+1.1% m/m vs February: +1.3% m/m) and non-energy industrial goods (+0.3% m/m vs February: +1.0% m/m). We highlight that the inflation rate printed +0.9% y/y in March (+1.1% y/y) on a year-on-year basis. **Over the medium term, we see scope for domestic prices to rise above the 2.0% target of the European Central Bank (ECB) due to the rise in commodity prices and lingering supply chains disruption. However, we think the subdued growth in wages will put some brakes on inflationary pressures amid fading fiscal stimulus in the region.**

Fig 1: Annualized GDP growth rate Q4-2020 – DMS



Source: Bloomberg, Cordros Research

Fig 2: Annualized GDP growth rate Q4-2020 – EMS

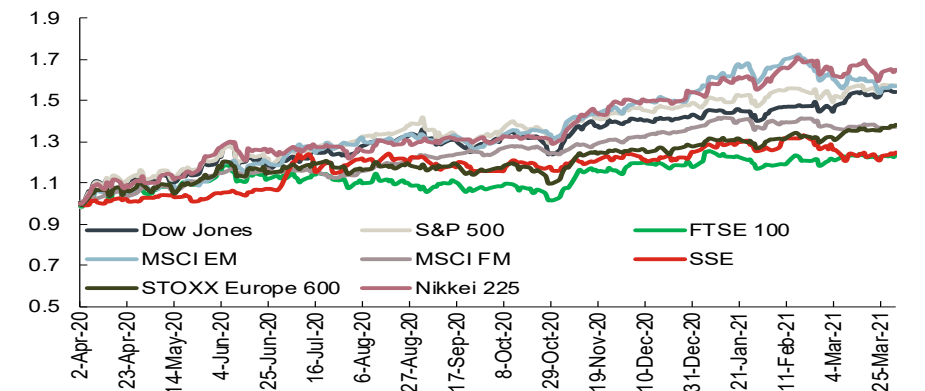


Source: Bloomberg, Cordros Research

Global markets

Global stocks posted bullish performances this week as President Biden's infrastructure spending plans, robust PMI data in China and Europe, and a decline in U.S Treasury yields fuelled investors' appetite for risky assets amid subdued progress on Europe's vaccinations. In the U.S, the DJIA (-0.3%) and S&P (0.0%) were on course to end the week unchanged as investors' sentiments were mixed due to Biden's USD2.25 trillion infrastructure spending plan and a proposed increment in corporate income tax to 28% over the medium term. In Europe, the STOXX Europe (+1.2%) and FTSE 100 (+0.3%) were on course to end the week in the green as optimism about economic recovery came to fur again following robust UK PMI data. In Asia, the Nikkei 225 (+0.7%) and SSE (+1.4%) were boosted by Biden's infrastructure spending plans and rebound in heavyweight U.S tech stocks. Emerging markets (MSCI EM: +1.6%) mirrored the bullish trend in global equities, consequent to the gains in China (+1.4%) and India (+1.8%), while Frontier (MSCI FM: -0.1%) market stocks posted marginal losses, primarily driven by weakness in Nigeria (-0.7%).

Fig 3: Global indices (index of 1)



Source: Bloomberg, Cordros Research

Nigeria

Economy

Based on the February 2021 subscriber data obtained from the Nigerian Communications Commission (NCC), Nigeria's total active telephone subscribers declined by 2.06% m/m to 196.08 million in February (January: 200.21 million). We believe the decline comes on the heels of the December 2020 directive given by the Ministry of Communications and Digital Economy (MCDE) directing all Mobile Network Operators (MNOs) to suspend the sale, registration and activation of new SIM cards in the country until they are all linked with their respective National Identity Numbers (NINs). Accordingly, the total number of active telephone subscribers has declined by 11.83 million over the past four months, given subscribers' inability to reactivate lost SIMs and register new ones. **We understand that the MCDE extended the directive till 6th April 2021. Hence, we believe the failure of the MNOs to add to their subscriber base will moderate the growth of the telecommunications sub-sector in Q1-21 – thus weighing on the overall expected economic growth during the period.**

Total market transactions on the domestic equities market continued to decline as yields continue to rise in the fixed income environment. Based on the Domestic and FPI report of the Nigerian Stock Exchange (NSE) for February 2021, the total value of transactions traded at the NSE declined by 7.3% m/m to NGN215.58 billion in February 2021 (January 2021: NGN232.46billion) – the third consecutive month of decline. The preceding was primarily driven by a drop of 17.0% m/m to NGN153.51 billion in domestic participation (71.2% of total transactions) as the domestic investors began to reshuffle their portfolio, favouring fixed income instruments due to the higher yields in that space. Although foreign transactions increased by 30.6% m/m to NGN62.07 billion, we highlight that they remain net sellers of Nigerian equities, as foreign outflow (NGN39.05 billion) outpaced foreign inflow (NGN23.02 billion) during the review month. **We maintain our expectation of weak domestic and foreign investors' participation on the local bourse in the near term due to (1) sustained rise in yields in the fixed income space and (2) lingering liquidity constraints in the FX market.**

Table 1: Macro indicators

Macro indicators (Nig)	Current	Year start	Forecast
Real GDP growth	0.11%	0.11%	0.94% (Q1-21)
MPR	11.50%	11.50%	11.50% (Next meeting)
CPI	17.33%	15.75%	18.24% (Mar-20)
Exchange rate (USD)	NGN380.00	NGN380.00	NGN380.00 (8th Apr)
Foreign reserve (USD' bn)	34.79	35.37	34.96 (8th Apr)
Unemployment	33.28%	33.28%	*UR (Q1-21)
Brent crude oil price (USD)	62.93	51.80	65.00 (8th Apr)

Source: CBN, Bloomberg, NBS, Cordros Research estimates | UR: Under Review

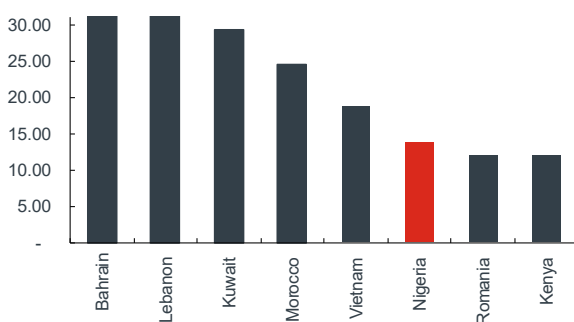
Capital markets

Equities

The local bourse could not consolidate the gains recorded in the prior week as profit-taking dominated activities on three of the week's four trading days ahead of the Easter holidays. Consequently, the All-Share Index declined by 0.8% w/w to close at 38,916.74 points. As a result, the YTD loss rose to -3.4%. Activity levels mirrored the decline in the market's broad gauge, as trading volumes and value declined by 5.6% w/w and 10.7% w/w, respectively. Notably, profit-taking in bellwether stocks; DANGCEM (-4.4%), STANBIC (-2.0%), ACCESS (-3.0%), and UNILEVER (-2.6%) drove the weekly loss. Sectoral performance was broadly negative, as the Industrial Goods (-2.1%), Banking (-1.3%) and Oil and Gas (-0.3%) indices recorded losses. On the flip side, the Insurance (+2.8%) and Consumer Goods (+1.9%) indices posted gains.

Heading into the second quarter, we expect investors to rebalance their portfolios based on an assessment of corporate earnings released during Q1-21 whilst keeping an eye on the movement of yields in the FI market. Considering that the FY 2020 earnings season has run its course, we now expect investors' sentiment to be influenced by developments in the macroeconomic landscape and corporate actions. Notwithstanding, we advise investors to take positions in only fundamentally justified stocks as the unimpressive macro story remains a significant headwind for corporate earnings.

Fig 4: Trailing 12M P/E ratios (frontier market)



Source: Bloomberg, Cordros Research

Table 2: Sectoral performance

	Previous week	Current week	w/w CHANGE	YtD Change
Banking	361.89	357.33	↓ -1.3%	↓ -9.1%
Consumer Goods	539.45	549.87	↑ 1.9%	↓ -4.1%
Industrial Goods	1928.18	1,887.88	↓ -2.1%	↓ -8.0%
Insurance	199.3	204.93	↑ 2.8%	↑ 8.1%
Oil & Gas	267.14	266.47	↓ -0.3%	↑ 17.8%

Source: NSE, Cordros Research

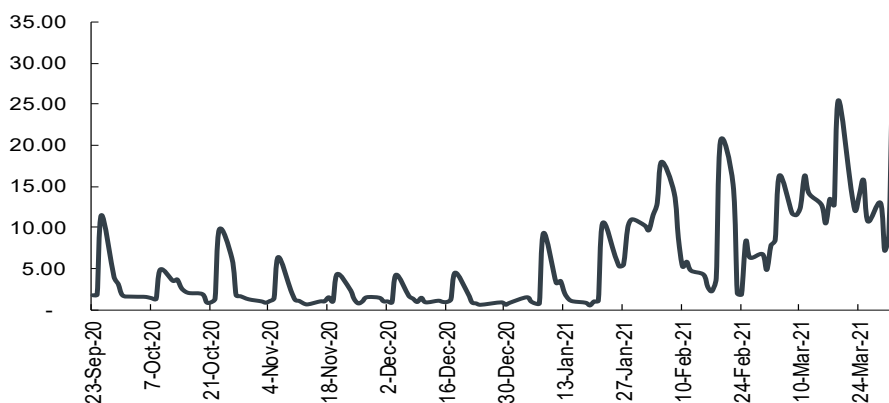
Money market and fixed income

Money market

The overnight (OVN) rate jumped by 21.75ppts, w/w, to 32.5% - its highest level since 16th September 2019 – as outflows from the system for CBN’s weekly OMO (NGN100.00 billion) and FX auctions, CRR debits and NTB net issuance (NGN49.15 billion) edged out inflows for OMO maturities (NGN169.25 billion), FGN bond coupon payments (NGN69.33 billion) and FX Retail refunds.

We expect the OVN rate to remain elevated in the coming week, in the face of reduced inflows – OMO maturities (NGN24.00 billion) – relative to outflows for the week.

Fig 5: Overnight money market rate (%)



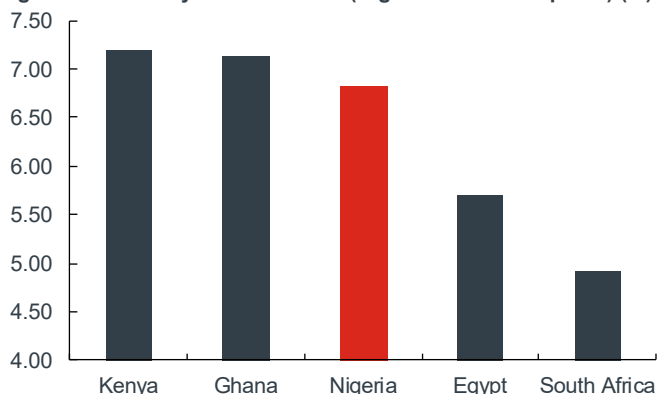
Source: FMDQ, Cordros Research

Treasury bills

This week, the Treasury bills secondary market turned bullish, as the increased liquidity in the system (This week’s average: NGN256.39 billion vs Last week: NGN70.91 billion) supported participant’s appetite for shorter-dated T-bills. Thus, the average yield across all instruments declined by 14bps to 5.4%. Across the market segments, the average yield contracted by 17bps to 6.4% at the OMO secondary market and by 9bps to 4.1% at the NTB secondary market. To limit the excess demand in the T-bills market, the CBN simultaneously floated the primary auctions for OMO and NTB bills – the first time in almost two years. At the OMO auction, the CBN sold NGN100.00 billion worth of bills to market participants and maintained stop rates across the three tenors, as with prior auctions. At the NTB auction, the CBN offered NGN95.68 billion – NGN10.00 billion of the 91-day, NGN17.60 billion of the 182-day, and NGN68.08 billion of the 364-day – in bills and ultimately allotted NGN144.83 billion, 51.4% higher than offered. The auction stop rates were unchanged at 2.00% and 3.50% on the 91D and 182D bills but increased by 100bps to 8.00% on the 364D bill.

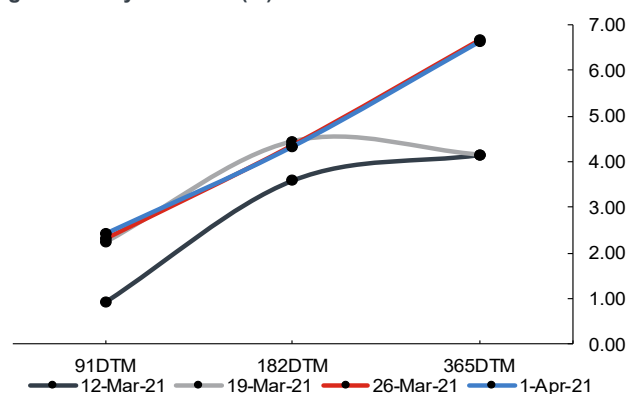
Considering the reduced inflows next week and the subsequent pressure on the system, we expect the average yield on T-bills to trend higher.

Fig 6: Yield on 10-year Eurobonds (Nigeria vs. African peers) (%)



Source: Bloomberg, Cordros Research

Fig 7: T-Bills yield curve (%)



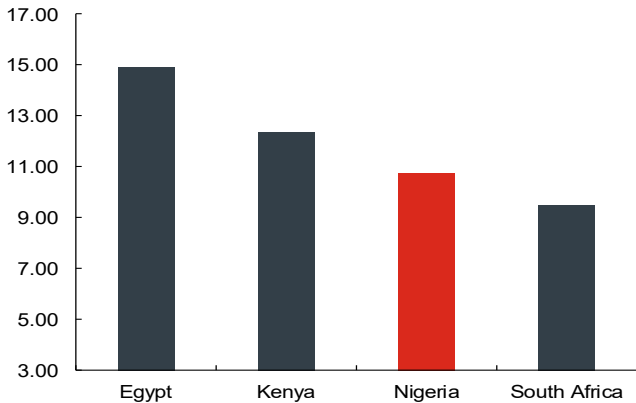
Source: FMDQ, Cordros Research

Bonds

Proceedings in the Treasury bonds secondary market was bearish amid the increased liquidity from the MAR-2035 and MAR-2050 coupon inflows, as month-end activities triggered sell-offs. Consequently, the average yield in the space expanded by 7bps to 9.9%. Across the benchmark curve, the average yield was lower at the short (-7bps) end due to demand for the JUL-2021 (-45bps) bond, while it expanded at the mid (+15bps) and long (+6bps) segments, following profit-taking on the NOV-2029 (+25bps) and MAR-2050 (+30bps) bonds, respectively.

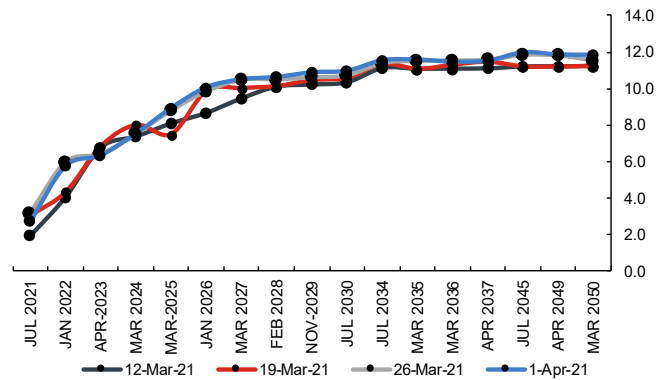
With the current happenings in the market, we expect the uptrend in yields to be maintained as the DMO seeks to securitize the Ways and Means balance. Overall, while pressure points remain that could pressure yields, we expect yields to touch double-digit on the average over the short term.

Fig 8: Yield on 10-year LCY bonds (Nigeria vs. African peers) (%)



Source: Bloomberg, Cordros Research

Fig 9: FGN bond yield curve (%)



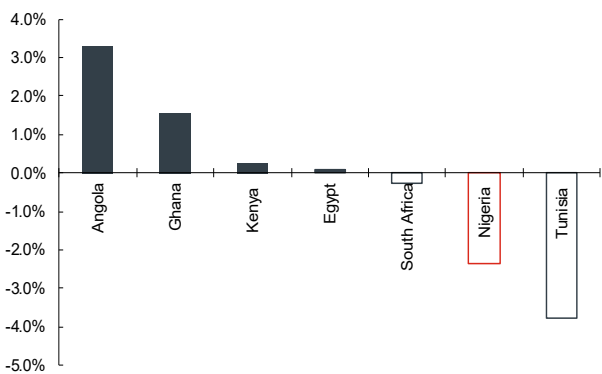
Source: FMDQ, Cordros Research

Foreign exchange

Nigeria's FX reserves recorded another accretion this week, as it grew by USD118.46 million w/w to USD34.79 billion (30th March 2021). The naira appreciated by 0.2% to NGN409.63/USD at the I&E window (IEW) but remained flat at NGN485.00/USD in the parallel market. At the IEW, total turnover (as of 31st March 2021) decreased by 66.2% WTD to USD114.14 million, with trades consummated within the NGN381.00 – 412.00/USD band. In the Forwards market, the rate weakened across the 1-month (-0.2% to NGN412.17/USD), 3-month (-0.2% to NGN418.96/USD), 6-month (-0.1% to NGN427.24/USD) and 1-year (-0.4% to NGN445.42/USD) contracts.

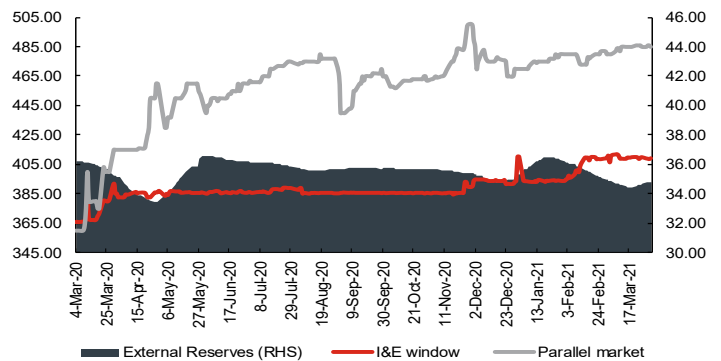
We expect improved liquidity in the IEW over the medium term, given the higher oil prices and an expected increase in crude oil production volume. Accordingly, we expect the naira to remain relatively range-bound (NGN410.00/USD – NGN415.00/USD) at the IEW. Similarly, we believe the CBN will devalue the naira by 5.3% to NGN400.00/USD at the interbank market to narrow the gap with the IEW rate.

Fig 10: USD/NGN vs other African currencies (YtD returns)



Source: Bloomberg, Cordros Research

Fig 11: USD/NGN exchange rate vs. external reserves (USD'bn)



Source: FMDQ, CBN, aboki FX, Cordros Research

Top business headlines of the week

- NIN: Telcos lose 11.8 million subscribers in four months
- FDI drops to \$65m over insecurity, COVID-19 uncertainties
- Court bars FG from blocking SIM cards on April NIN linkage deadline
- W'Bank Revises Nigeria, Others' Growth Forecast to 3.4%

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