

Weekly economic and market update.

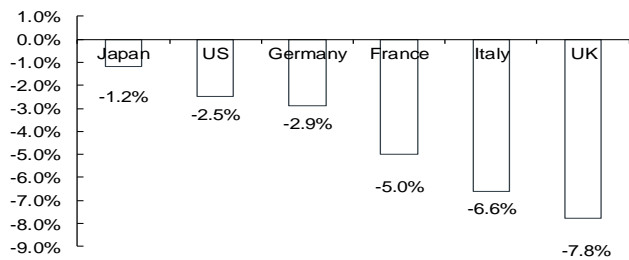
Overview of markets in the week ended 09 April 2021

Global economy

According to the final estimates from IHS Markit, overall economic activity in the United States continued to improve as the composite PMI increased marginally to 59.7 points in March (February +59.5% points) - the highest print since August 2014 (+59.7 points). The mild improvement was due to the 0.6 points increase in the services PMI to 60.4 points (February: 59.8 points) which was supported by (1) gradual relaxation of COVID-19 containment measures and (2) increase in vaccination rate amid the early gains from the recent USD1.9 trillion stimulus package. Meanwhile, the expansion in the manufacturing PMI (59.1 points vs February: 58.6 points) signalled a marked improvement in operating conditions across the manufacturing sector. **For us, the broad-based improvement across the manufacturing and service sectors suggests the economy will likely churn out impressive GDP numbers in Q1-21. Over the medium term, we think the continued administration of COVID-19 vaccine bodes well for sustained expansion in business and factory activities. Consequently, we believe the economy is on course for a robust recovery in 2021 following the pandemic-induced slump in 2020.**

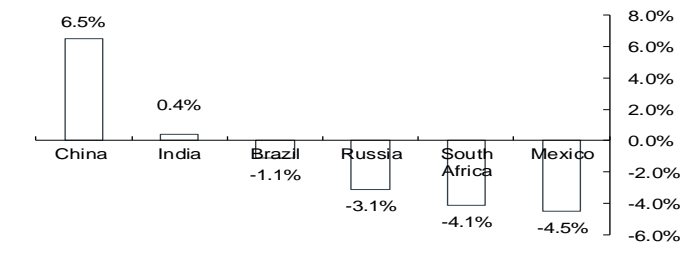
Furlough schemes continue to prevent a considerable jump in the Euro Area's unemployment rate. According to Eurostat, the unemployment rate printed 8.3% in February (vs 8.3% in January 2021 and 7.3% in February 2020). We believe the unchanged reading on a month-on-month basis reflects the impact of short-time work schemes in limiting the region's unemployment situation as the region continues to grapple with the second wave of the pandemic. In absolute terms, we highlight that the number of unemployed citizens in the region increased by 48,000 to 13.571 million in February compared with January (13.523 million). **Despite short term drags on economic activities due to rekindling of COVID containment measures, we do not envisage a surge in unemployment rates due to the furlough schemes. Notwithstanding, we think the slacks in the region's labour market will persist until vaccination efforts gains more foothold.**

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



Source: Bloomberg, Cordros Research

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

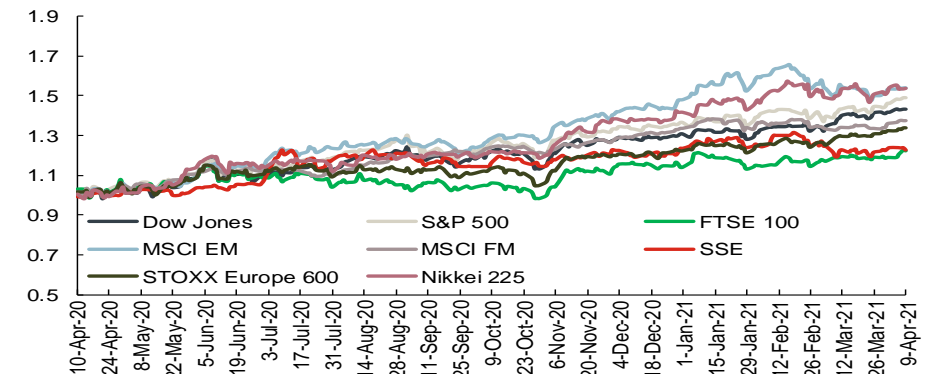


Source: Bloomberg, Cordros Research

Global markets

Save for Asian markets, global stocks fired on all cylinders this week as dovish comments from the U.S Fed Chairman, renewed optimism on the global economic recovery, and a retreat in U.S Treasury yields bolstered risk sentiments despite rising cases of COVID-19 in Asia. In the U.S, the DJIA (+1.1%) and S&P (+1.9%) rallied as investors flocked into heavyweight tech and blue-chip stocks following the fall in bond yields amid expectations of the first-quarter earnings season. In Europe, the STOXX Europe (+1.1%) and FTSE 100 (+2.8%) were on course to end the week in the green as the region's sluggish vaccination campaign showed signs of gaining momentum amid declining infection rates. In Asia, the Nikkei 225 (-0.3%) and SSE (-1.0%) were dragged by pandemic-induced selling pressure and expectations that a rollback of ultra-loose monetary stimulus is on the horizon. Emerging markets (MSCI EM: +1.7%) mirrored the bullish trend in global equities, consequent to the gains in Brazil (+2.6%), which offset losses in China (-0.9%), while Frontier (MSCI FM: -0.1%) market stocks posted marginal losses, primarily driven by weakness in Nigeria (-0.1%).

Fig 3: Global indices (index of 1)



Source: Bloomberg, Cordros Research

Nigeria

Economy

In the April edition of its World Economic Outlook (WEO), the IMF raised its growth forecast for Nigeria to 2.5% in 2021FY (Previous estimates: 1.5%). We believe the (1) early exit from the COVID-19 induced recession in Q4-20, (2) adaptation of economic activity to subdued mobility and (3) increase in crude oil prices informed the substantial increase in the Fund's revised growth forecast for the country. However, the IMF stated that "although faster progress with vaccinations can uplift the forecast, a more prolonged pandemic with virus variants that evade vaccines can lead to a sharp downgrade". **Our growth expectation is in line with the IMF, riding on the back of the positive surprise in the Q4-20 GDP numbers, low base from 2020 and the citizens' continuous adjustment to the new lifestyle brought about by the pandemic. Accordingly, we expect real GDP to grow by 2.75% in 2021FY.**

In line with the country's foreign borrowing plans for 2021, the Director-General of the Debt Management Office (DMO) revealed that Nigeria is working on issuing Eurobonds in 2021. We note that the National Assembly approved NGN2.34 trillion as foreign borrowings by the country in 2021. Recall that the last time Nigeria patronised the Eurobond market was in 2018 where it raised USD5.36 billion (USD2.50 billion in February and USD2.86 billion in November). However, the February sale was used to refinance local currency bonds at a lower cost. Since then, the country has been absent in the Eurobond market, as the COVID-19 pandemic also disrupted its Eurobond borrowing plan in 2020 (USD3.30 billion). The proposed Eurobond issuance is also in line with our expectations as stated in our [2021 domestic macroeconomic outlook](#). **Overall, we see scope for reduced domestic borrowings over the rest of 2021 if (1) the Eurobond sale is at least c. USD3.50 billion, (2) World Bank approves the pending USD1.50 billion loan and (3) the government successfully borrows c.NGN900.00 billion from unclaimed dividends and dormant account balances.**

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 (16th Apr)
Foreign reserve (USD billion)	34.98	35.37	35.13 (16th Apr)
Unemployment	33.28%	33.28%	*UR (Q1-21)
Brent crude oil price (USD)	63.01	51.80	65.00 (16th Apr)

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

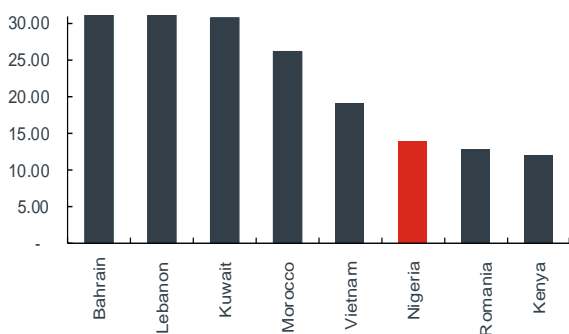
Capital markets

Equities

It was a tranquil trading week as the marginal gains recorded in the last three trading days could not offset the loss on the second trading day of the week. Against this backdrop, the bears regained control of the market after conceding to the bulls in the prior week. Consequently, the All-Share Index declined by 0.1% w/w to close at 38,866.39 points. As a result, the YTD loss rose to -3.7%. Activity levels were weak, as trading volumes and value declined by 38.6% w/w and 51.7% w/w, respectively. Notably, profit-taking in large-cap stocks; GUARANTY (-3.5%), WAPCO (-3.0%), BUACEMENT (-1.0%), and ZENITH (-0.7%) drove the weekly loss. Sectoral performance was broadly negative, as the Consumer Goods (+1.1%) index emerged as the week's sole gainer. The Banking (-2.5%) index led the losers' chart, followed by Insurance (-1.5%), Industrial Goods (-0.7%), and Oil and Gas (-0.3%) indices.

Taking a cue from the trading pattern that ensued this week, we expect market activities to be quiet in the short term as investors keep their gaze on yields direction in the FI market. Considering that the FY 2020 earnings season is gradually coming to a halt, 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	357.33	348.28	↓ -2.5%	↓ -11.4%
Consumer Goods	549.87	556.03	↑ 1.1%	↓ -3.0%
Industrial Goods	1887.88	1,875.49	↓ -0.7%	↓ -8.6%
Insurance	204.93	201.88	↓ -1.5%	↑ 6.5%
Oil & Gas	266.47	265.64	↓ -0.3%	↑ 17.4%

Source: NSE, Cordros Research

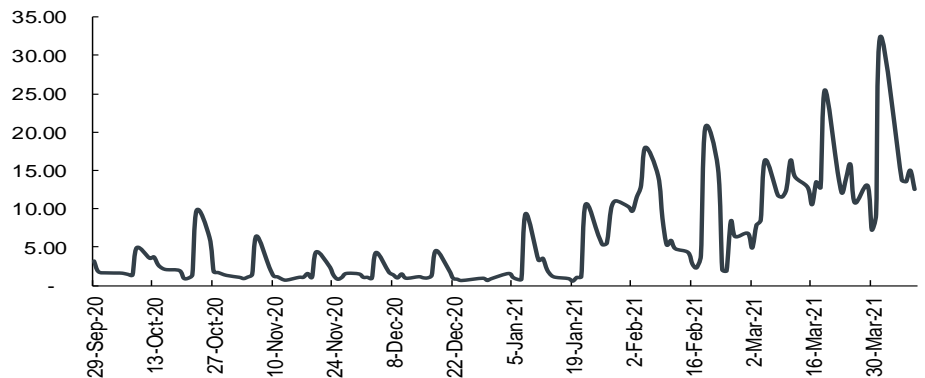
Money market and fixed income

Money market

The overnight (OVN) rate (-20 pts to 12.5%) ended the week lower. Still, it remained elevated due to the reduced level of inflows from OMO maturities (NGN34.00 billion) amid significant funding pressures on the system for CBN's weekly FX and OMO (NGN20.00 billion) auctions.

With NGN10.00 billion expected to come into the system from OMO maturities, we expect the OVN rate to stay elevated due to the impact of outflows for the week.

Fig 5: Overnight money market rate (%)



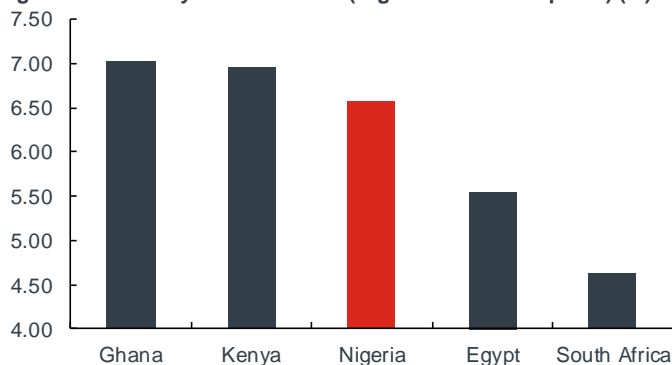
Source: FMDQ, Cordros Research

Treasury bills

As expected, the overall Treasury bills secondary market was bearish, following the liquidity dearth in the system. Thus, the average yield across all instruments expanded by 22bps to 5.7%. Across the market segments, the average yield expanded by 33bps to 6.7% at the OMO secondary market and by 18bps to 4.3% at the NTB secondary market. At the OMO auction, the CBN sold NGN20.00 billion worth of bills to market participants and maintained stop rates across the three tenors, as with prior auctions.

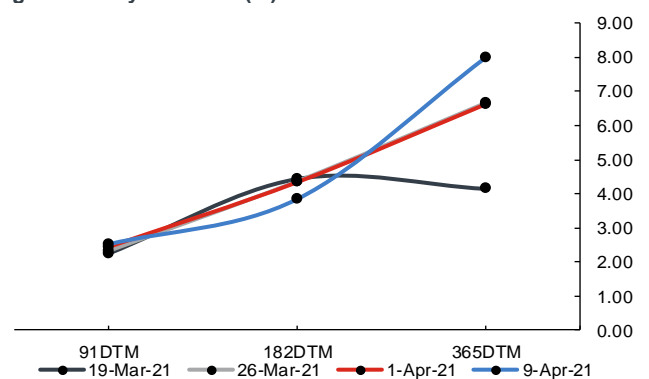
In the coming week, we maintain our stance on higher average yield on T-bills, following the liquidity squeeze expected in the market. Also, we expect quiet trading at the NTB market as participants position for next week's PMA, with NGN69.60 billion worth of maturities on offer.

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



Source: Bloomberg, Cordros Research

Fig 7: T-Bills yield curve (%)



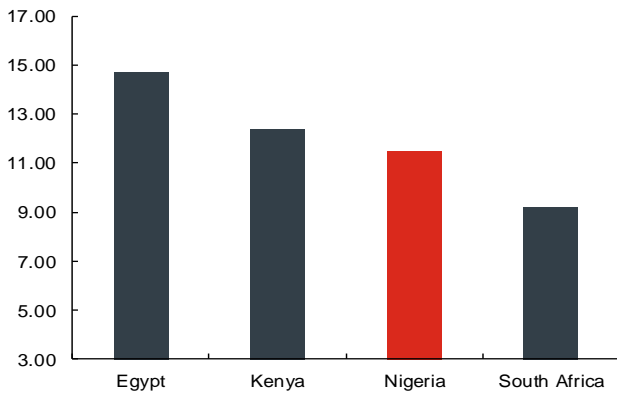
Source: FMDQ, Cordros Research

Bonds

The Treasury bonds secondary market remained bearish, as investors repriced FGN bonds in anticipation of increased supply to the market, as signalled by the release of the Q2-21 FGN bond issuance calendar. Consequently, the average yield in the space expanded by 46bps to 10.4%. Across the benchmark curve, the average yield was lower at the short (-2bps) end due to demand for the APR-2023 (-66bps) bond, while it expanded at the mid (+58bps) and long (+73bps) segments, following sell-offs of the MAR-2027 (+80bps) and APR-2049 (+127bps) bonds, respectively. The DMO, on Tuesday, released its bond issuance calendar for the second quarter of the year, stating its intentions to raise NGN540.00 billion, translating to a NGN90.00 billion increase to what was offered in Q1-21 (NGN450.00 billion). Interestingly, the DMO intends to re-open the APR-2049 bond in May 2021.

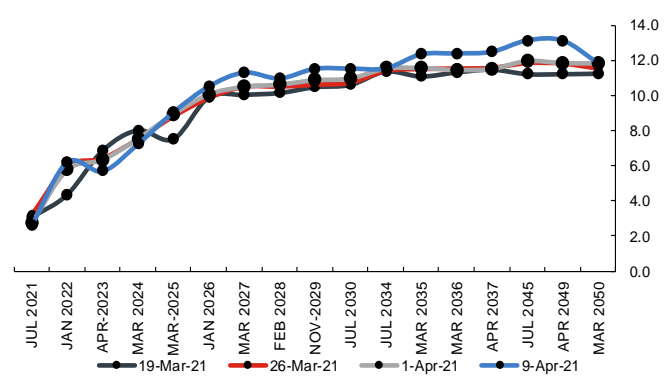
Next week, we expect investors to sustain the sell-offs witnessed this week as they anticipate higher yields at the primary market, following the expected supply increase. Thus, we expect bond yields to close higher. Considering that pressure points remain that could pressure yields in the longer term, we expect yields to remain in double-digit levels on average.

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



Source: Bloomberg, Cordros Research

Fig 9: FGN bond yield curve (%)



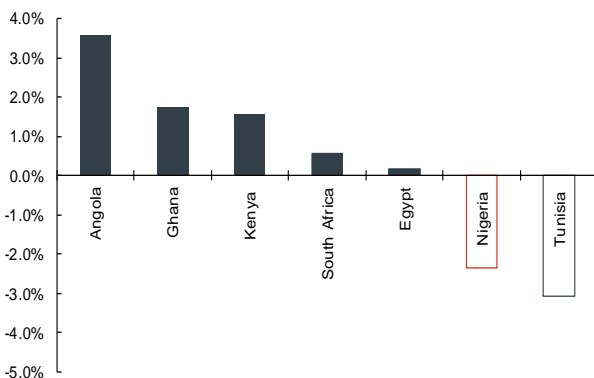
Source: FMDQ, Cordros Research

Foreign exchange

Nigeria's FX reserves grew by USD131.61 million w/w to USD34.98 billion (7th April 2021) as inflows outstripped outflows. The naira appreciated by 0.1% to NGN409.00/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 8th April 2021) decreased by 2.2% WTD to USD146.34 million, with trades consummated within the NGN394.00 – 405.00/USD band. In the Forwards market, the rate appreciated across the 1-month (+0.2% to NGN411.88/USD), 3-month (+0.9% to NGN415.27/USD), 6-month (+1.6% to NGN420.53/USD) and 1-year (+2.7% to NGN433.85/USD) contracts.

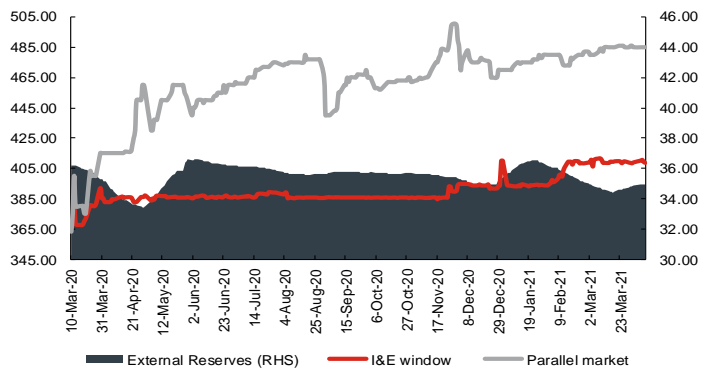
We expect improved liquidity in the IEW over the medium term, given the higher oil prices and an expected increase in crude oil production volume. Accordingly, we expect the naira to remain relatively range-bound (NGN410.00/USD – NGN415.00/USD) at the IEW. Similarly, we believe the CBN will devalue the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

9 April 2021

Top business headlines of the week

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- IMF raises Nigeria's growth forecast to 2.5%
- World Bank to address Nigeria, poor countries' debt overhang
- SEC raises alarm on unregistered online platforms proliferation