

Weekly economic and market update.

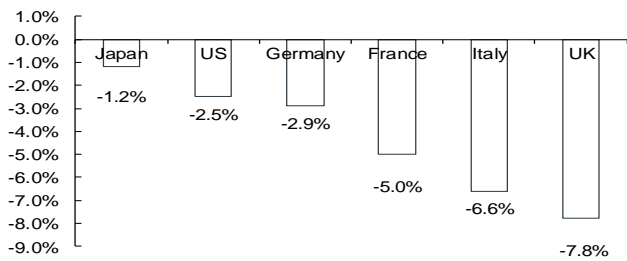
Overview of markets in the week ended 16 April 2021

Global economy

Rising gasoline prices has continued to exert upward pressures on consumer prices in the United States (U.S.). According to the U.S. Bureau of Labour Statistics, headline inflation increased by 0.6% m/m in March (February: +0.4% m/m) – the highest since August 2012 (+0.6% m/m). This increase was primarily attributed to the price increase in the gasoline index (+9.1% m/m vs February: +6.4% m/m), which accounted for c.49.0% of the seasonally adjusted increase in the headline inflation. Meanwhile, food prices (+0.1% m/m vs February: +0.2% m/m) rose at a slower pace, with the food at home index and the food away from home index growing by 0.1% m/m. On a year-on-year basis, the headline inflation grew by 90bps to 2.6% – the highest reading since August 2018 (+2.7% y/y) on account of a low base effect and improvement in economic activity. **Although we think the improvement in economic activities will slowly drive inflation higher on a m/m basis, we expect the low base effect from the prior year to continue to stoke higher y/y readings. Accordingly, we expect headline inflation to be above the Fed's 2% target over the medium term.**

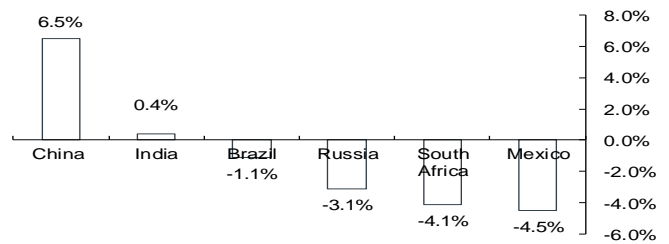
According to the Chinese National Bureau of Statistics (NBS), China's economy grew by 18.3% y/y in Q1-21 – the highest since the NBS started keeping a year-on-year growth record in 1993. For us, the growth was bolstered by (1) solid industrial output, (2) robust export growth given the demand for China-made medical goods and (3) low base effect, and (4) rebound in consumer spending following the re-opening of the economy after the global lockdown. On a quarter-on-quarter basis, we highlight that the economy grew marginally by 0.6% in Q1-21 (Q4-20: +3.2% q/q) largely due to travel restrictions in place over the Lunar New Year holiday amid the increase in new COVID-19 cases. **We understand that China's economy has now recovered all the pandemic-induced loss in economic output since Q3-20. A favourable base from Q1-20 contributed more to the positive outturn in Q1-21 even as export and industrial production increased at a moderate pace. Looking ahead, we expect the magnitude of expansion in GDP to moderate as the impact of the low base effect begins to dissipate.**

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



Source: Bloomberg, Cordros Research

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

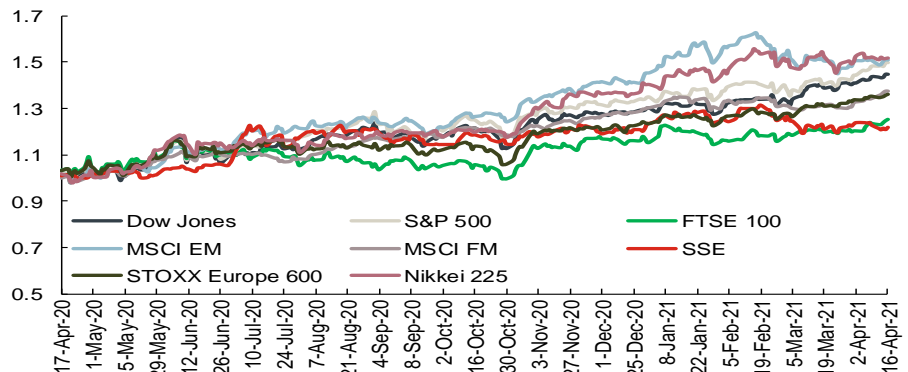


Source: Bloomberg, Cordros Research

Global markets

Like the prior week, Asian markets faltered despite broadly positive sentiments across global markets. The performance of global equities was shaped by economic data from U.S and China, developments on COVID-19 vaccinations, corporate earnings releases for Q1-2021 amidst continued retreat in U.S Treasury yields. In the U.S, the DJIA (+0.7%) and S&P (+1.0%) rallied as investors reacted positively to impressive earnings from the "big" banks and strong retail sales data. In Europe, the STOXX Europe (+0.6%) and FTSE 100 (+1.4%) flirted with uncharted territories on the last trading week as investors sentiments received a massive boost from the region's rapid vaccination rollout amid government fiscal support. In Asia, the Nikkei 225 (-0.3%) and SSE (-1.0%) faltered for the second consecutive week on the back of a surge in COVID-19 infection rates amid expectations that a rollback of ultra-loose monetary stimulus is on the horizon. Emerging markets (MSCI EM: +1.8%) mirrored the bullish trend in global equities, consequent to the gains in Brazil (+2.6%), which offset losses in China (-0.7%), while Frontier (MSCI FM: +0.5%) market stocks posted marginal gains, primarily driven by robust gains in Kenya (+3.6%).

Fig 3: Global indices (index of 1)



Source: Bloomberg, Cordros Research

Nigeria

Economy

Nigeria's headline inflation rate maintained its upward trajectory for the 19th consecutive month. According to the recent data published by the National Bureau of Statistics (NBS), the headline CPI increased by 84bps to 18.17% y/y in March— the highest since January 2017 (18.72% y/y). Aside from the increase in both the food and core baskets, we believe the unfavourable base effect from the prior year also magnified the pressures in the CPI basket amid the existing structural constraints in the economy. Specifically, the food inflation increased by 116bps to 22.95% y/y, while core inflation increased by 29bps to 12.67% y/y. On a month-on-month basis, the headline inflation increased marginally by 2bps to 1.56%. **We believe inflationary pressures is still skewed to the upside over the short term, with food prices being the main pressure point amid a low base effect. We look for m/m headline inflation of 1.51% for April, cascading to a y/y print of 18.75%.**

Barely 24 hours after the NBS published the March 2021 inflation report, the CBN in a Twitter post stated that sugar and wheat have been added to the FX restriction list. Accordingly, importers of sugar and wheat into Nigeria will no longer have FX access at the official FX windows. According to the post, the decision is to ensure all stakeholders work together to produce the items locally rather than relying on imports. **Given the stubbornly high inflation level amid shrinking of consumer wallet, we understand that the consumption of bread and other wheat products are now on the rise as they are considered cheaper and readily available. With the recent policy action of the CBN, we believe importers will source for FX at the parallel market, which will come at a significantly higher rate than previously. Consequently, this will further compound the woes of consumers as they will bear the brunt of the increased import cost.**

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%	12.50% (Next meeting)
CPI	18.17%	15.75%	18.75% (Apr-20)
Exchange rate (USD)	NGN380.00	NGN380.00	NGN380.00 (23rd Apr)
Foreign reserve (USD billion)	35.20	35.37	35.38 (23rd Apr)
Unemployment	33.28%	33.28%	*UR (Q1-21)
Brent crude oil price (USD)	66.77	51.80	65.00 (23rd Apr)

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

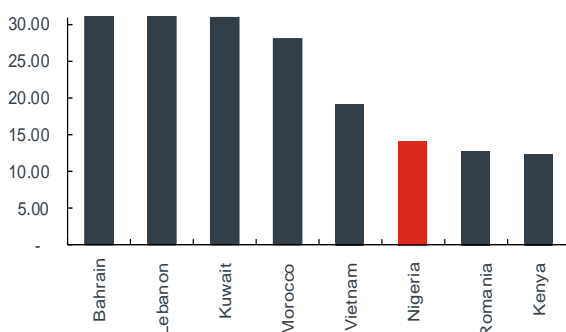
Capital markets

Equities

The bears managed to come out top after defeating the bulls in three of the week's five trading sessions. Consequently, the All-Share Index declined by 0.2% w/w to close at 38,808.01 points. As a result, the YTD loss rose to -4.2%. However, activity levels were stronger than the prior week, as trading volumes and value rose significantly by 42.4% w/w and 17.0% w/w, respectively. Notably, profit-taking in large-cap stocks; STANBIC (-2.3%), MTNN (-0.9%), and ZENITHBANK (-0.5%) drove the weekly loss. Sectoral performance was broadly negative, as the Industrial Goods (+0.9%) index emerged as the week's sole gainer. The Insurance (-4.2%) index led the losers' chart, followed by Banking (-1.5%), Consumer Goods (-0.6%) and Oil and Gas (-0.3%) indices.

With the Q1-2021 earnings season on the horizon, we believe investors will be looking for clues on how corporate earnings will evolve in 2021, given the expected improvement in macroeconomic conditions. However, we expect the lull in the market to persist as investors remain perturbed by the rising yields in the FI market. Notwithstanding, we advise investors to take positions in only fundamentally justified stocks as the weak 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	348.28	343.03	↓ -1.5%	↓ -12.7%
Consumer Goods	556.03	552.65	↓ -0.6%	↓ -3.6%
Industrial Goods	1875.49	1,893.27	↑ 0.9%	↓ -7.8%
Insurance	201.88	193.34	↓ -4.2%	↑ 2.0%
Oil & Gas	265.64	264.88	↓ -0.3%	↑ 17.1%

Source: NSE, Cordros Research

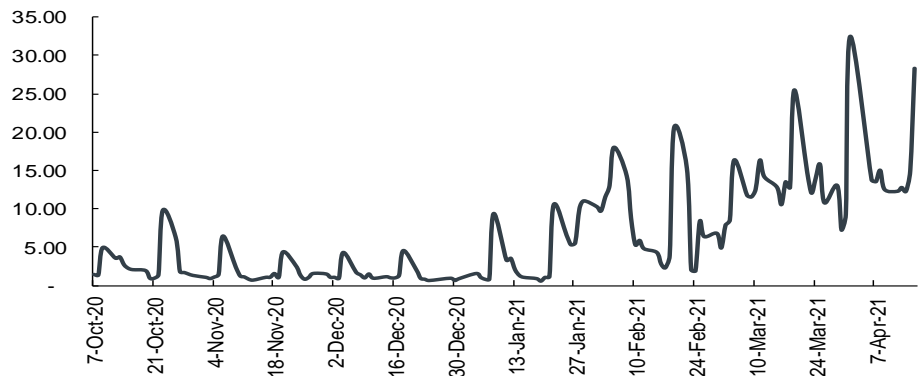
Money market and fixed income

Money market

The overnight (OVN) rate jumped by 15.83 ppts w/w to 28.3% as outflows for CRR debit, weekly OMO (NGN20.00 billion) and FX auctions, and NTB net issuances (NGN83.82 billion) outweighed inflows from OMO maturities (NGN20.00 billion) and FX retail refunds.

In the coming week, we expect the OVN rate to trend lower, but remain elevated, given the low level of inflow – OMO maturities (NGN10.00 billion) – expected in the system with respect to outflows.

Fig 5: Overnight money market rate (%)



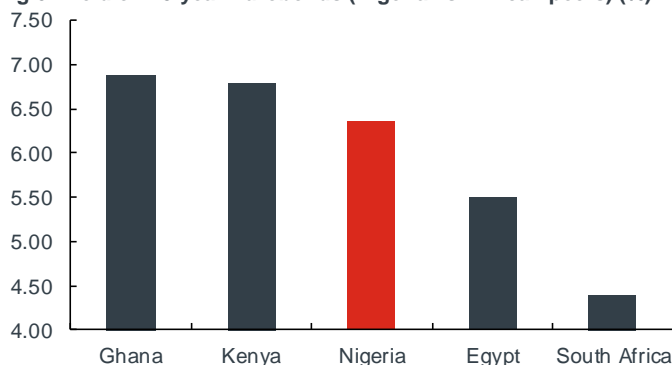
Source: FMDQ, Cordros Research

Treasury bills

As in prior weeks, the Treasury bills secondary market closed on a bearish note, as market participants offloaded positions due to (1) the tight liquidity in the system, (2) and in anticipation of higher rates at the week's auctions. Thus, the average yield across all instruments expanded by 25bps to 6.0%. Across the market segments, the average yield expanded by 44bps to 7.2% at the OMO secondary market but dipped by 6bps to 4.0% 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. At the NTB auction, the CBN offered NGN69.60 billion – NGN15.92 billion of the 91-day, NGN4.50 billion of the 182-day, and NGN49.14 billion of the 364-day – in bills and ultimately allotted NGN153.38 billion, 120.5% higher than offered due to the strong subscription (Bid-cover multiple of 3.6x vs 2.2x at the last auction). The auction stop rates were unchanged at 2.00% and 3.50% on the 91D and 182D bills but increased by 100bps to 9.00% on the 364D bill.

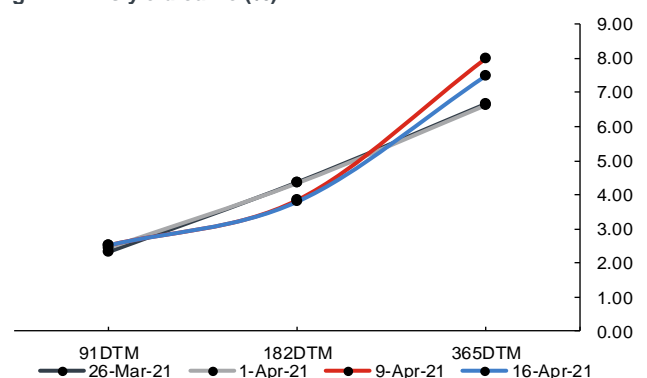
We maintain our stance on higher average yield on T-bills for next week, as we expect the dearth of liquidity to persist in the market.

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



Source: Bloomberg, Cordros Research

Fig 7: T-Bills yield curve (%)



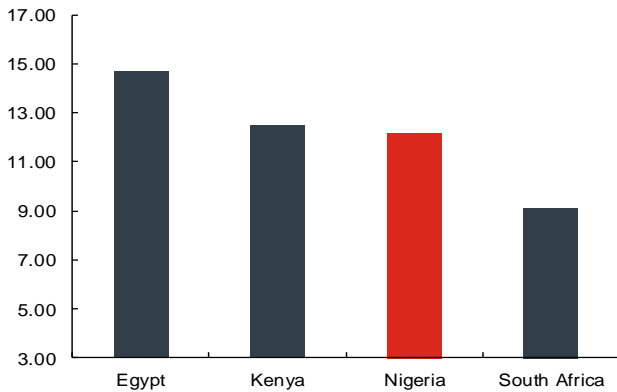
Source: FMDQ, Cordros Research

Bonds

The Treasury bonds secondary market remained bearish, as investors reacted to another uptick in inflation (see the macros section) and stayed on the sidelines, whilst also anticipating higher rates at next week's bond PMA. Consequently, the average yield expanded by 103bps to 11.5%. Across the benchmark curve, average yield expanded at the short (+157bps), mid (+87bps) and long (+98bps) segments, following sell-offs of the APR-2023 (+333bps), FEB-2028 (+122bps) and MAR-2050 (+212bps) bonds, respectively.

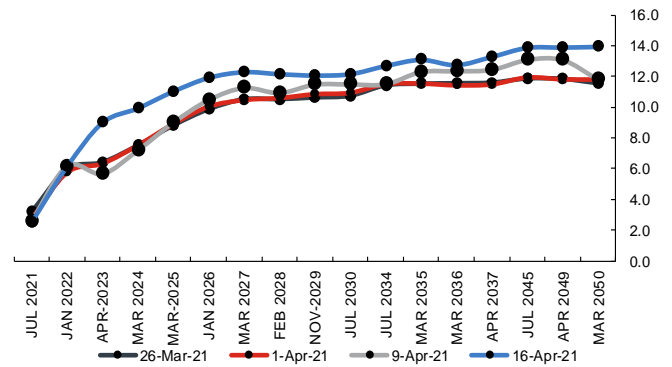
In the coming week, we expect the outcome of the auction to influence the direction of yields in the bonds secondary market. At the auction, the DMO will be offering instruments worth NGN150.00 billion through re-openings of the 16.2884% FGN MAR 2027, 12.50% FGN MAR 2035 and 9.80% FGN JUL 2045 bonds. In the longer term, we maintain stance on continued uptick in yields, as the DMO's intention to securitize the Ways and Means balance portends more supply of domestic debt instruments.

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



Source: Bloomberg, Cordros Research

Fig 9: FGN bond yield curve (%)



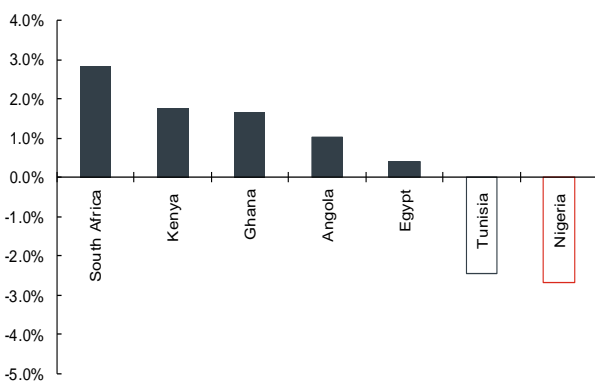
Source: FMDQ, Cordros Research

Foreign exchange

Nigeria's FX reserves recorded another accretion this week, as it grew by USD163.58 million w/w to USD35.20 billion (14th April 2021). The naira depreciated by 0.5% to NGN411.00/USD at the I&E window (IEW) but appreciated by 0.6% to NGN482.00/USD in the parallel market. At the IEW, total turnover (as of 16th April 2021) increased by 17.6% WTD to USD236.97 million, with trades consummated within the NGN392.00 – 437.62/USD band. In the Forwards market, the rate depreciated across the 1-month (-0.2% to NGN412.82/USD), 3-month (-1.0% to NGN419.55/USD), 6-month (-1.9% to NGN428.64/USD) and 1-year (-3.2% to NGN448.27/USD) contracts.

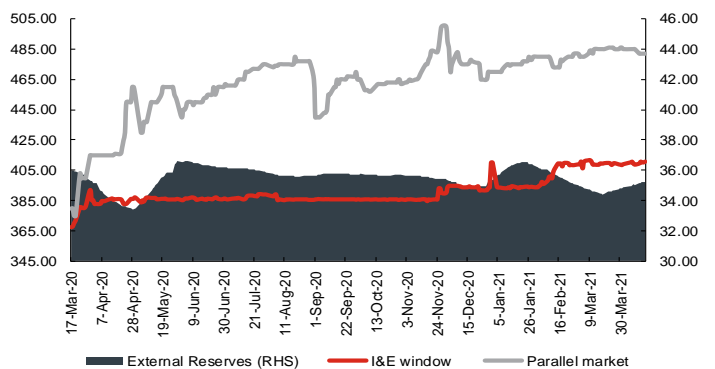
We expect improved liquidity in the IEW over the medium term, given higher oil prices and an expected increase in crude oil production volume. Accordingly, we expect the naira to remain relatively range-bound (NGN410.00/USD – NGN415.00/USD) at the IEW. Similarly, we believe the CBN will devalue the naira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

16 April 2021

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