



## Nigeria

## Economy

According to the January 2021 economic report of the Central Bank of Nigeria (CBN), the retained revenue of the FGN declined by 12.4% y/y to NGN285.26 billion in January, primarily due to the non-realization of revenues from special account and levies during the period. However, aggregate expenditure increased by 31.3% y/y to NGN770.77 billion during the same period owing to the rollover and release of outstanding capital allocations to the MDAs in the 2020 budget. Overall, the FGN's operations led to an 85.7% increase in fiscal deficit to NGN485.51 billion in January 2021 (December 2020: NGN435.39 billion). **Although the rally in oil prices and increase in crude oil production bodes well for oil revenue, we believe the economy's fragile state will continue to hamper non-oil revenue, thereby straining overall revenue. Thus, we expect a widening in fiscal deficits over the medium term as the government sustains its expansionary fiscal stance, which would require an increased level of borrowings.**

According to the data released by the National Bureau of Statistics (NBS), States Internally Generated Revenue (IGR) declined by 3.2% y/y to NGN335.25 billion in Q4-20, bringing the total IGR for 2020FY at NGN1.31 trillion (2019FY: NGN1.33 trillion). The marginal decline (-1.5% y/y) in States IGR was due to the declines across Other Taxes (-24.4% y/y to NGN170.49 billion), Direct Assessment (-22.3% y/y to NGN37.06 billion), and Road Taxes (-6.2% y/y to NGN30.27 billion) which offset the 5.2% y/y growth recorded in revenue from PAYE (NGN851.73 billion). On a quarter-on-quarter basis, we highlight that the IGR increased by 1.0% q/q in Q4-20, reflecting the impact of increased economic activities compared to Q3-20. **Although we expect the gloomy outlook on the labour market to weigh on PAYE, we still see scope for increased IGR in 2021FY compared to 2020, given the continued normalisation of activities in the informal sector supported by the full reopening of the economy.**

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 (30th Apr)
Foreign reserve (USD billion)	35.12	35.37	35.17 (30th Apr)
Unemployment	33.28%	33.28%	*UR (Q1-21)
Brent crude oil price (USD)	65.71	51.80	65.00 (30th Apr)

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

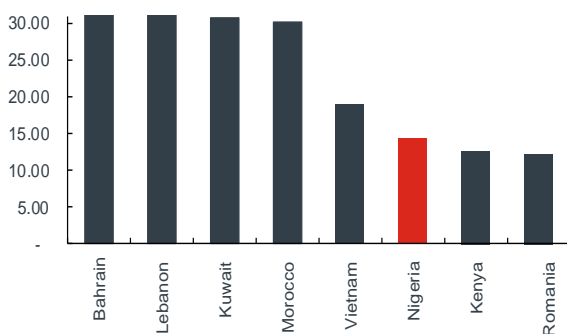
## Capital markets

## Equities

Bargain hunting in banking stocks was the overarching theme during the week as investors flocked into banking names ahead of Q1-21 corporate earnings releases. Based on the preceding, the All-Share Index advanced by 1.3% w/w to close at 39,301.82 points. As a result, the YTD loss moderated to -2.4%. Activity levels were stronger than the prior week, as trading volumes and value rose significantly by 26.2% w/w and 290.6% w/w, respectively. Notably, bargain hunting in large-cap stocks; WAPCO (+8.8%), STANBIC (+8.7%), UBA (+7.9%), GUARANTY (+7.0%), and ZENITH (+3.7%) drove the weekly gain. Sectoral performance was broadly positive as all sectors recorded gains. The Banking (+4.8%) index led the gainers' chart followed by Consumer Goods (+1.0%), Industrial Goods (+0.5%), Insurance (+0.4%) and, Oil and Gas (+0.3%) indices.

**In the week ahead, we expect NSE's floor to be flooded with results as the Q1-2021 earnings season commences in full swing. We believe investors will be looking for clues on how corporate earnings will evolve in 2021, given the expected improvement in macroeconomic conditions. The local bourse is likely to close positive next week as we expect decent earnings releases across the board to temper selling activities stoked 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	343.03	359.57	↑ 4.8%	↓ -8.5%
Consumer Goods	552.65	558.45	↑ 1.0%	↓ -2.6%
Industrial Goods	1893.27	1,902.76	↑ 0.5%	↓ -7.3%
Insurance	193.34	194.12	↑ 0.4%	↑ 2.4%
Oil & Gas	264.88	265.65	↑ 0.3%	↑ 17.4%

Source: NSE, Cordros Research

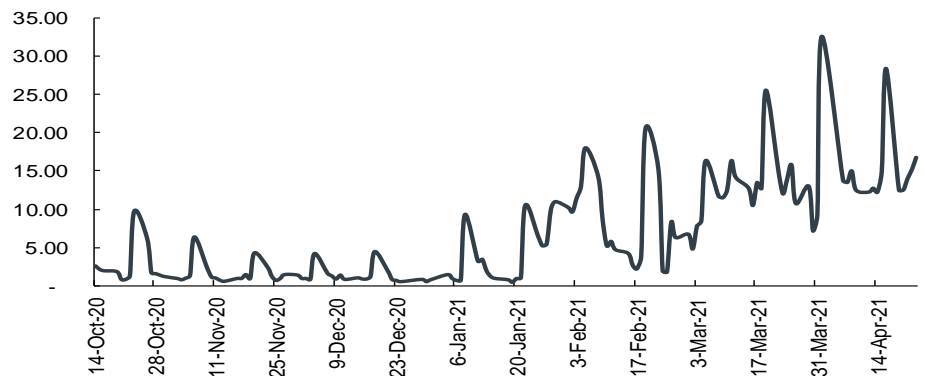
Money market and fixed income

Money market

The overnight (OVN) rate ended the week lower (contracted by 11.58 pts w/w to 16.8%) but remained elevated due to the reduced level of inflows from OMO maturities (NGN10.00 billion) amid significant funding pressures in the system for FGN bond (NGN274.45 billion), CBN's weekly FX and OMO (NGN20.00 billion) auctions.

Considering inflows from FAAC disbursement, FGN bond coupon payments (NGN160.32 billion) and OMO (NGN20.00 billion) maturities, we expect the OVN rate to remain range bound at current level, barring any significant mop-up activity by the CBN.

Fig 5: Overnight money market rate (%)



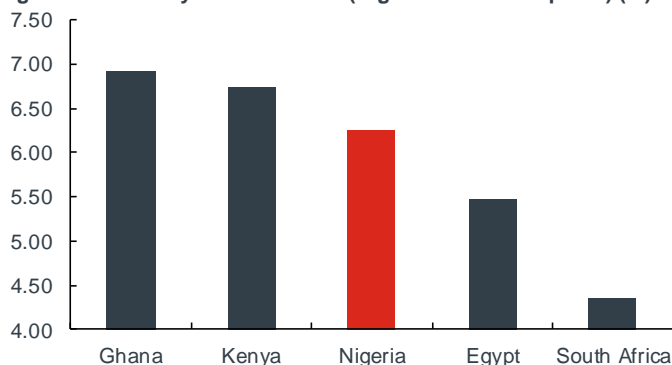
Source: FMDQ, Cordros Research

Treasury bills

The Treasury bills secondary market remained bearish following the persistent illiquidity in the interbank market. As a result, the average yield across all instruments expanded by 52bps to 6.5%. Across the market segments, the average yield was higher by 52bps to 7.7% at the OMO secondary market and by 58bps to 4.6% at the NTB secondary market. At this week's OMO auction, the CBN offered and allotted bills worth NGN20.00 billion with allotments of NGN5.00 billion of the 96-day, NGN5.00 billion of the 187-day and NGN15.00 billion of the 355-day – at respective stop rates of 6.90% (previously 7.00%), 8.48% (previously 8.50%), and 10.10% (unchanged).

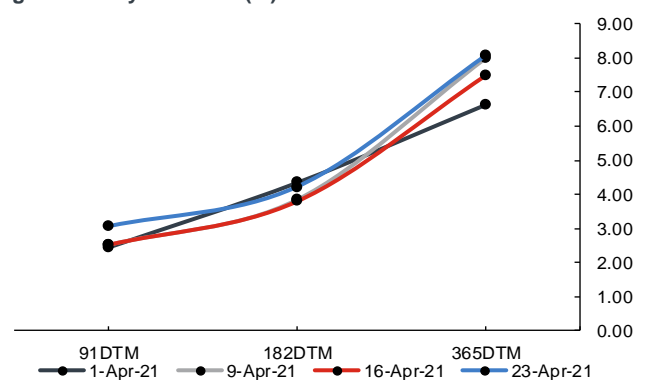
Given our expectation for improved system liquidity next week, we expect increased demand for T-bills and envisage yields will moderate from current levels. Also, we expect quiet trading at the NTB market as participants position for next week's PMA, with NGN88.46 billion worth of maturities on offer.

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



Source: Bloomberg, Cordros Research

Fig 7: T-Bills yield curve (%)



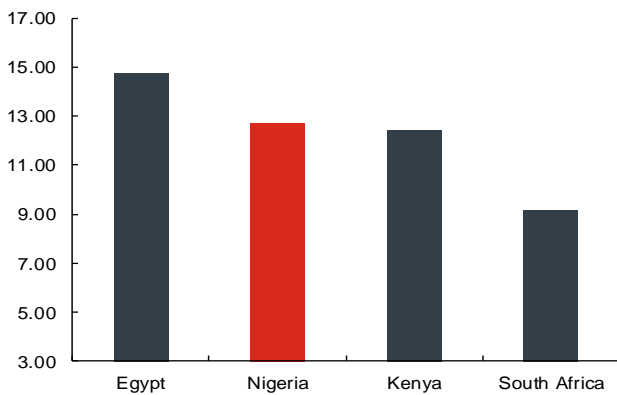
Source: FMDQ, Cordros Research

**Bonds**

Trading in the Treasury bonds secondary market was bearish, as yields adjusted to the higher stop rates at Wednesday's FGN bond auction. Consequently, the average yield expanded by 20bps to 11.6%. Across the benchmark curve, average yield expanded at the short (+6bps), mid (+32bps) and long (+11bps) segments, following sell-offs of the JUL-2021 (+47bps), NOV-2029 (+54bps) and JUL-2034 (+50bps) bonds, respectively. At the auction, the DMO offered instruments worth NGN150.00 billion to investors through re-openings of the 16.2884% FGN MAR 2027 (Bid-to-offer: 0.69x; Stop rate: 12.25%), 12.50% MAR 2035 (Bid-to-offer: 1.12x; Stop rate: 13.34%) and 9.80% FGN JUL 2045 (Bid-to-offer: 3.50x; Stop rate: 13.85%). We note that the demand was weaker (subscription: NGN265.68 billion; bid-to-offer: 1.8x) compared to March (Subscription: NGN333.48 billion; Bid-to-offer: 2.2x). Conclusively, the DMO allotted NGN157.95 billion, and issued an additional NGN116.50 billion as non-competitive allotment, bringing the total sales to NGN274.45 billion.

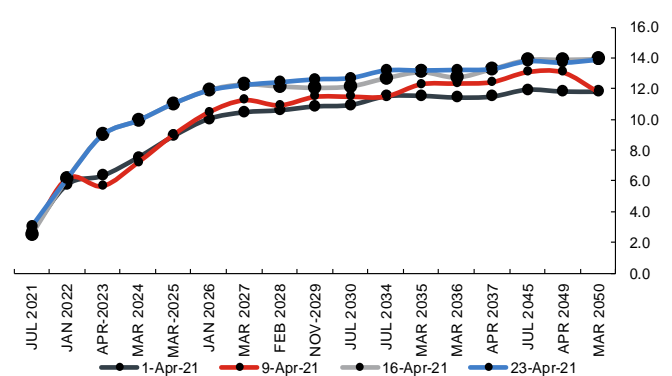
**We expect improved liquidity and in turn, higher demand in the bonds secondary market, following coupon payments on the APR-2023, APR-2029 and APR-2049 bonds. Thus, we expect yields to decline from current levels in the week ahead. Farther out, we maintain our stance on continued uptick in yields, 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 (%)**



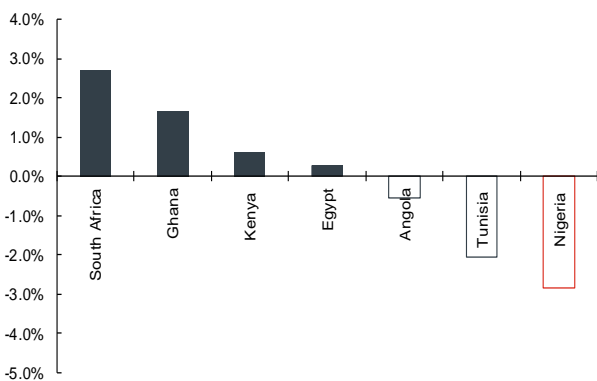
Source: FMDQ, Cordros Research

**Foreign exchange**

Nigeria's FX reserves recorded its first decline in five weeks, as it fell by USD131.97 million w/w to USD35.12 billion (22nd April 2021). Meanwhile, the naira appreciated by 0.2% to NGN410.00/USD at the I&E window (IEW) but weakened by 0.6% to NGN485.00/USD in the parallel market. At the IEW, total turnover (as of 22nd April 2021) increased by 6.3% WTD to USD317.36 million, with trades consummated within the NGN381.00 – 437.41/USD band. In the Forwards market, the rate depreciated in the 1-month (-0.2% to NGN413.70/USD) contract, strengthened in the 1-year (+0.1% to NGN448.27/USD) contract and stayed flat in the 3-month (NGN419.70/USD) and 6-month (NGN428.59/USD) contracts.

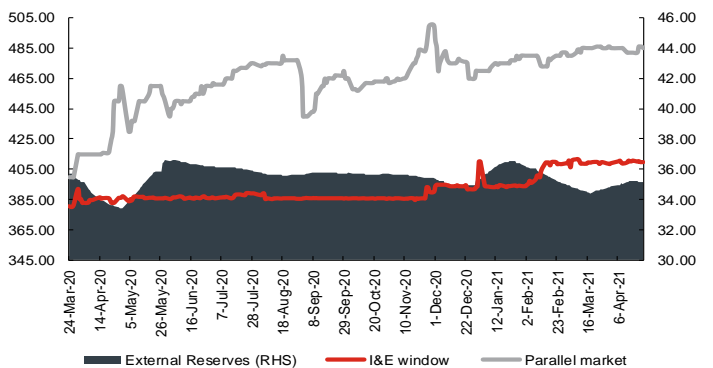
**We expect improved liquidity in the IEW over the medium term, given higher oil prices and an expected increase in crude oil production. Accordingly, we expect the naira to remain relatively range-bound (NGN410.00/USD – NGN415.00/USD) at the IEW. Similarly, we believe the CBN will devalue the naira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

23 April 2021

### Top business headlines of the week

- FG recorded N485.51bn fiscal deficit in January – CBN
- Fuel subsidy rises to N500bn, NNPC rules out price hike
- Higher oil prices push up external reserves by \$409m
- NNPC spends N1.53tn on JV oil assets, priority projects
- States' cash crunch: Govs beg FG to postpone \$2.1bn support repayment, CBN kicks