

# Weekly economic and market update.

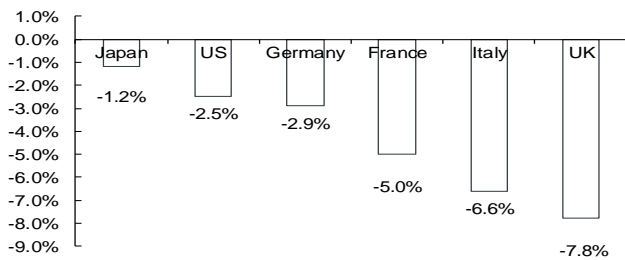
## Overview of markets in the week ended 07 May 2021

### Global economy

Manufacturing PMI in the Eurozone increased for the third consecutive month to 62.9 points in April (March: 62.5 points) according to the IHS Markit. The improvement in the index was primarily due to the surge in domestic demand as economies re-opened following COVID-19 lockdowns despite the fears of a third wave of the pandemic in some regions. Similarly, business activity as measured by the services PMI (50.5 points vs March: 49.6 points) notched up above the 50-points benchmark for the first time since August 2020. Overall, the composite PMI printed 53.8 points (March: 53.2 points) – the highest since July 2020 (54.9 points). **Barring any substantial increase in the number of new infections in the region, we expect sustained improvement in activity level over the medium term. Specifically, we expect domestic demand to strengthen on the back of fiscal and monetary support while administration of COVID-19 vaccines is expected to drive external demand.**

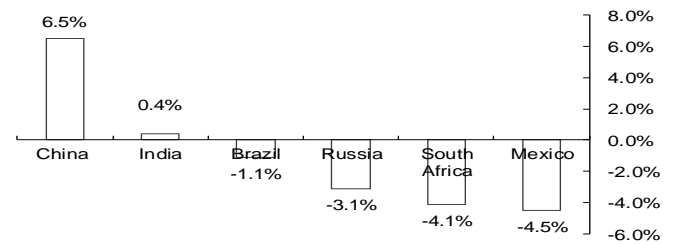
According to the final estimates released by the IHS Markit, economic activity in the United States continued to signal rebound as the composite PMI increased to 63.5 points in April (March: 59.7 points) the highest level in over a decade. Notably, the improvement in the index was due to broad-based expansion across the manufacturing and services sectors. The improvement in the manufacturing PMI to 60.5 points in April (March: 59.1 points) was due to (1) producers working through the backlog of orders and new order inflows and (2) improved export demand from other economies as global economic activities continue to expand. Likewise, the expansion in the services PMI (April 64.7 points vs March: 60.4 points) was supported by the renewed customer demand following the relaxation of COVID-19 restrictions. **As with other major economies, we expect the upturn in business activities to persist in the absence of extensive COVID-19 restriction measures. Specifically, local demand should remain strong in the coming months as consumer's hopes are bolstered with progress in the vaccine administration.**

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



Source: Bloomberg, Cordros Research

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

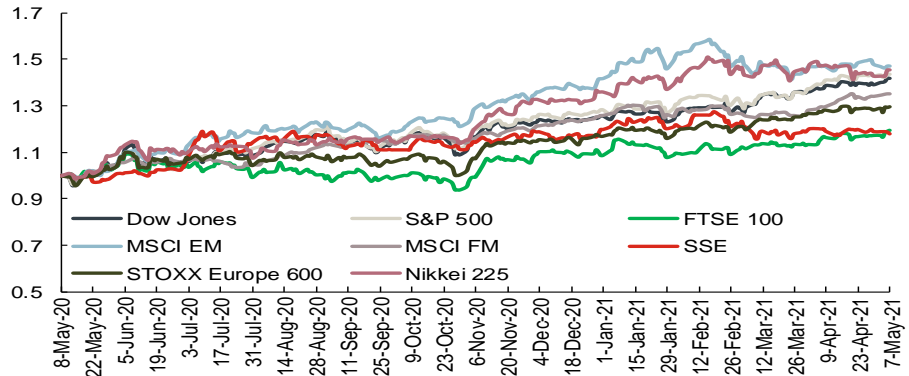


Source: Bloomberg, Cordros Research

### Global markets

Global stocks were in a "party" mood this week as a flurry of positive economic data in the U.S and Europe made investors flock into cyclical and economically-sensitive stocks expected to benefit from the upswing in global economic activities. In the U.S, the DJIA (+2.0%) and S&P (+0.5%) posted gains as strong labour market data, which showed that unemployment claims fell to a new pandemic low bolstered appetite for risky assets. In Europe, the STOXX Europe (+1.1%) and FTSE 100 (+1.9%) also posted solid gains as risk sentiment strengthened following strong economic data from Germany and other major economies, reinforcing hopes of reflation trade expected to drive risky assets. In Asia, the Nikkei 225 (+1.9%) received a massive boost from the rally on Wall Street despite sell-offs on technology-based stocks. In comparison, the SSE (-0.8%) was on course for ending the week in the red due to worries about U.S/China relations, following [reports](#) that the Biden administration is likely to maintain restrictions on overseas investments by some companies in Asia. Emerging markets (MSCI EM: -0.5%) posted losses consequent to the weakness in China (-0.8%), which offset gains in India (+0.7%), while Frontier (MSCI FM: +0.8%) market stocks recorded gains, primarily driven by the market rally in Kuwait (+2.4%).

Fig 3: Global indices (index of 1)



Source: Bloomberg, Cordros Research

## Nigeria

## Economy

At the 'National Policy Dialogue on Corruption and Cost of Governance in Nigeria' organised by the ICPC, the minister of Finance disclosed that President Buhari had directed the salaries committee to work together with the Head of Service to review government payrolls in order to reduce personnel cost. Similarly, the Federal government would also review the number of government agencies in terms of their mandates. We believe this development is a fallout of the strain on public finances, which has been exacerbated by the pandemic. **We believe this is a good step in the right direction given that fiscal spending on capital projects has been constrained by the elevated recurrent expenditure, with personnel cost accounting for a huge chunk. That said, we expect the plan will be met with stiff reactions from the organised labour considering the current frail economic conditions. Consequently, we opine that policies geared towards creating an enabling environment for a thriving private sector remains paramount to reducing the government's employment burden whilst solving its revenue challenges.**

In our March currency note – [Assessing the CBN's attempts in leveraging Remittances](#), we stated that the CBN would either (1) extend the Naira 4 Dollar scheme's duration or (2) increase the minimum amount of inflows that would qualify for the incentive once the pilot phase ends on 8th May 2021. In line with our expectation, the CBN, in a new circular dated 5th May, announced the continuation of the scheme till further notice. Accordingly, all aspects of the operationalisation of the programme remain the same. We believe this development may be connected to the fact that the CBN has started to see some positives with the scheme during the pilot phase. Moreover, the initial three-month timeframe was insufficient to truly assess the effectiveness of the scheme, in our view. **We still expect the CBN to enhance the distribution channels, such as expanding post offices and microfinance banks' service offerings to include acting as remittance agents while targeting other remittance-rich areas.**

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 (14th May)
Foreign reserve (USD billion)	34.74	35.37	34.56 (14th May)
Unemployment	33.28%	33.28%	*UR (Q1-21)
Brent crude oil price (USD)	68.06	51.80	65.00 (14th May)

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

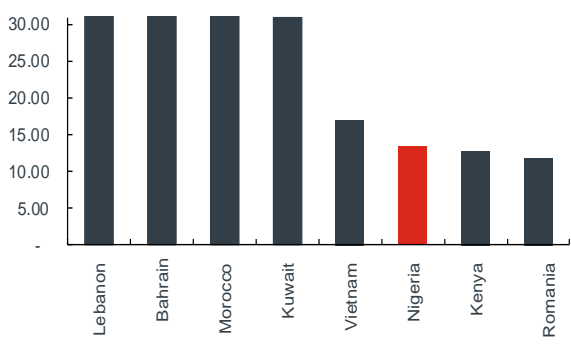
## Capital markets

## Equities

Bearish sentiments dominated the local bourse this week, as the bears took full advantage of the gains over the last two weeks in booking profit on bellwether stocks. Save for the last trading day of the week; the local bourse recorded losses in all of the week's four trading sessions. Accordingly, the All-Share Index shed 1.6% w/w to close at 39,198.75 points. Consequently, the YTD returns moderated to -2.7%. However, activity levels were mixed, as trading volumes declined by -3.8% w/w while value traded rose by 41.8% w/w. Notably, profit-taking in STANBIC (-6.0%), MTNN (-4.1%), GUARANTY (-2.8%), and DANGCEM (-2.5%) drove the weekly loss. Sectoral performance was broadly positive as the Oil and Gas (+5.3%), Consumer Goods (+0.6%), and Banking (+0.6%) indices recorded gains. On the flip side, the Insurance (-2.2%) and Industrial Goods (-1.6%) indices closed in the red.

With the Q1-21 earnings season now out of the way, we believe a "choppy theme" will be the order of the day as investors keep their gaze on yield movements in the FI market. The bears will likely maintain dominance as the absence of positive triggers will limit buying interest from the bulls. 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	352.07	354.25	↑ 0.6%	↓ -9.9%
Consumer Goods	558.32	561.80	↑ 0.6%	↓ -2.0%
Industrial Goods	1947.64	1,916.55	↓ -1.6%	↓ -6.6%
Insurance	201.49	197.06	↓ -2.2%	↑ 4.0%
Oil & Gas	270.76	285.19	↑ 5.3%	↑ 26.1%

Source: NSE, Cordros Research

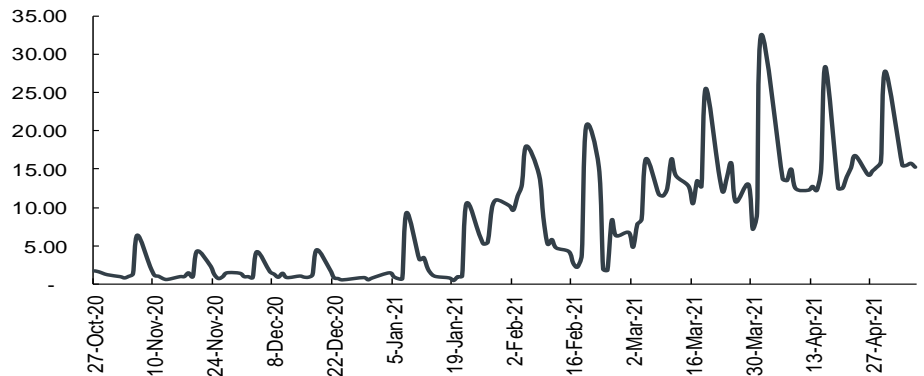
**Money market and fixed income**

**Money market**

The overnight (OVN) rate declined by 12.50 ppts w/w, to 15.3% but remained elevated in the absence of significant funding pressures for CRR debits and CBN's weekly auctions amid thin inflows from OMO maturities (NGN30.00 billion).

Next week, we expect system liquidity to remain depressed as inflows from OMO maturities (NGN20.00 billion) may not be sufficient to outweigh weekly funding requirements for CBN's auctions. Consequently, we expect the OVN rate to remain elevated.

**Fig 5: Overnight money market rate (%)**



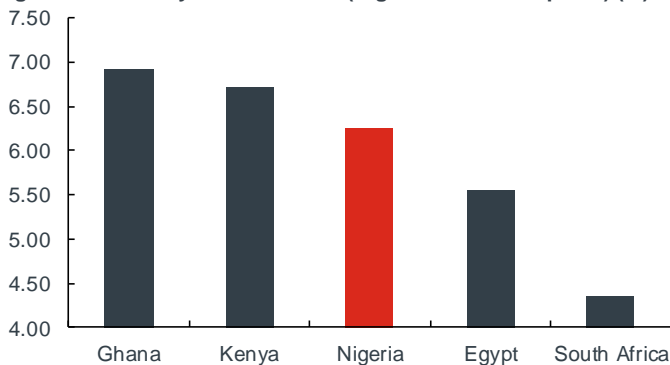
Source: FMDQ, Cordros Research

**Treasury bills**

The Treasury bills secondary market ended the week on a bearish note, as market participants remained apprehensive of the persistent system illiquidity. Thus, the average yield across all instruments expanded by 34bps to 6.7%. Across the market segments, the average yield increased by 48bps to 8.4% at the OMO segment, as market participants sold off in anticipation of renewed supply. Similarly, the average yield at the NTB segment expanded by 12bps to 4.9%. At the OMO auction, the CBN offered instruments worth NGN20.00 billion with allotments of NGN4.31 billion of the 89-day, NGN3.80 billion of the 180-day and NGN8.95 billion of the 348-day – at respective stop rates of 7.00%, 8.50% and 10.10%, all unchanged.

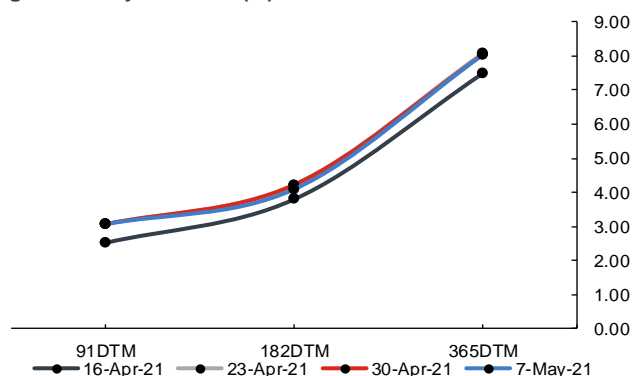
In view of our expectation of liquidity dearth in the system, we expect treasury yields to maintain their upward trend in the short term. Also, we expect quiet trading at the NTB market as participants position for next week's PMA, with NGN117.56 billion worth of maturities on offer.

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



Source: Bloomberg, Cordros Research

**Fig 7: T-Bills yield curve (%)**



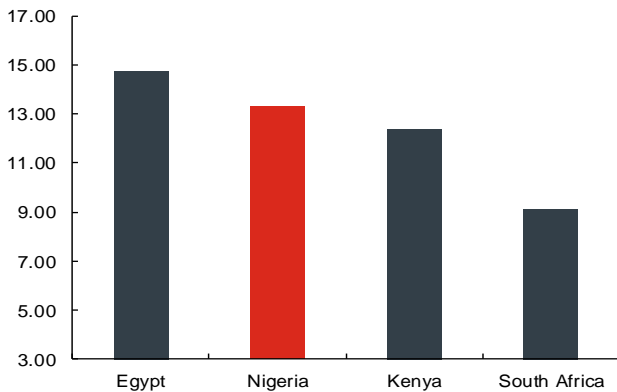
Source: FMDQ, Cordros Research

**Bonds**

Trading in the Treasury bonds secondary market remained bearish as investors continue to anticipate further increases in FGN bond yields. Consequently, the average yield expanded by 44bps to 12.4%. Across the benchmark curve, the average yield was higher at the short (+38bps), mid (+66bps) and long (+26bps) segments, following sell-offs of the MAR-2024 (+110bps), NOV-2029 (+68bps) and MAR-2035 (+64bps) bonds, respectively.

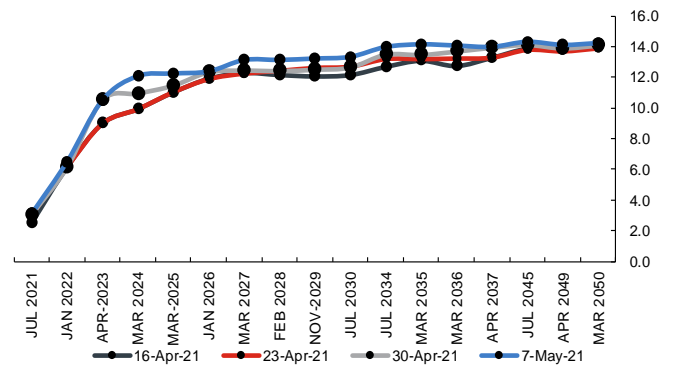
In the coming week, we expect investors to sustain sell-offs on Treasury bonds as we expect the negative sentiments in the market to persist. Thus, we maintain our view of higher bond yields in the short term. Further into the month, we highlight that the release of key macro indicators will shape market sentiments and the direction of yields. Such macroeconomic indicators include April 2021 CPI (Cordros Forecast: 18.75%), Q1-21 GDP (Cordros Forecast: +0.94%) and the MPC's rate decision, which will be largely influenced by the outcome of the Q1-21 GDP number.

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



Source: Bloomberg, Cordros Research

**Fig 9: FGN bond yield curve (%)**



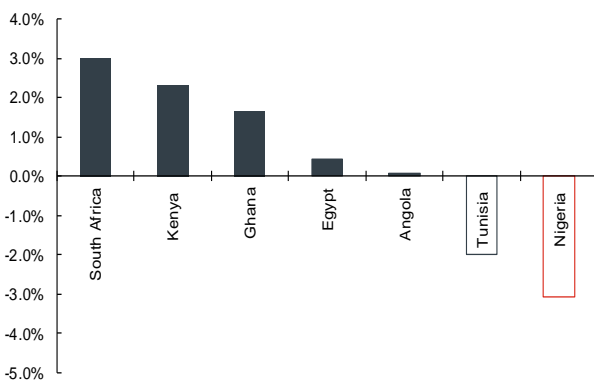
Source: FMDQ, Cordros Research

**Foreign exchange**

Nigeria's FX reserves position sustained its decline, as outflows from the reserves outstripped inflows. Thus, it dipped by USD173.24 million w/w to USD34.74 billion (7 May 2021). The naira depreciated by 0.1% to NGN410.33/USD at the I&E window (IEW) but appreciated by 0.4% to NGN483.00/USD in the parallel market. At the IEW, total turnover (as of 6 May 2021) increased by 8.3% WTD to USD321.45 million, with trades consummated within the NGN400.00 – 420.90/USD band. In the Forwards market, the rate depreciated in the 1-month (-0.1% to NGN412.97/USD), but strengthened in the 3-month (+0.1% to NGN418.51/USD), 6-month (+0.1% to NGN427.48/USD) and 1-year (+0.2% to NGN445.47/USD) contracts.

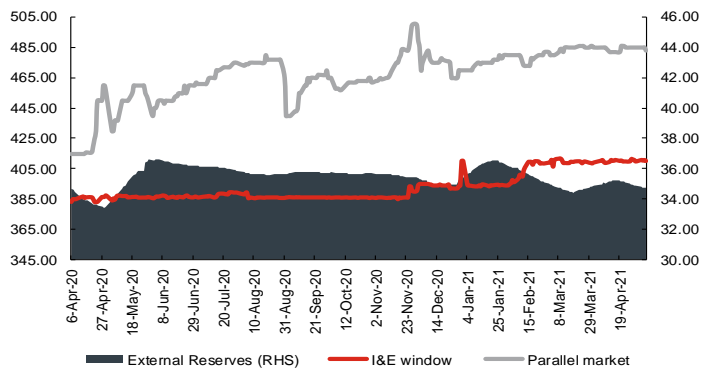
We expect improved liquidity in the IEW over the medium term, given the higher oil prices and an expected increase in crude oil production volume. Accordingly, we expect the naira to remain relatively range-bound (NGN410.00/USD – NGN415.00/USD) at the IEW. Similarly, we believe the CBN will devalue the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

- External reserves lost \$350m in two weeks, says CBN
- Corporate reorganisation approved by shareholders, says GTB
- FG ready to deploy 5G technology
- CBN extends naira-4-dollar deadline to boost remittances