

# Weekly economic and market update.

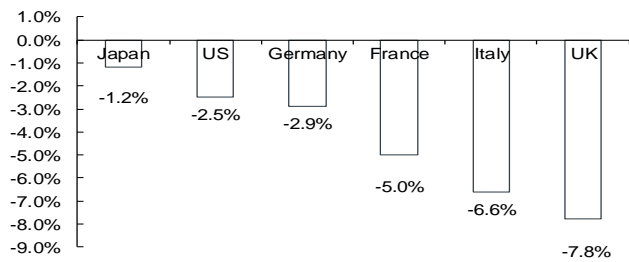
## Overview of markets in the week ended 14 May 2021

### Global economy

According to the latest data released by the Chinese National Bureau of Statistics (NBS), headline inflation rose to 0.9% y/y in April (March: 0.4% y/y) – the highest since September 2020 (1.7% y/y). We highlight that the increase in the headline index was due to a faster price increase in the non-food basket (1.3% y/y vs March: 0.7% y/y) given the surge in airfares and retail oil prices. Specifically, price increase were recorded in transport (4.9% y/y vs March: 2.7% y/y) and utilities (0.4% y/y vs March: 0.2% y/y). Meanwhile, food prices (-0.7% y/y vs March: -0.7% y/y) remained weak following a faster decline in pork prices (-21.4% y/y vs March: -18.4% y/y) as farmers continue to rebuild their pig herds after the African Swine outbreak. **While improved pork supply could moderate the increase in food prices, we expect the headline inflation to rise over the medium term given the (1) base effects from the prior year, (2) pandemic-induced stimulus packages and (3) continued impact of the rally in energy prices.**

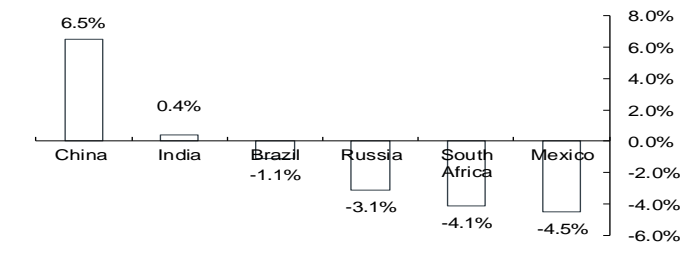
In line with our expectation, the United States' headline inflation sustained its uptrend in April. Based on the data published by the U.S. Bureau of Labour Statistics, the Consumer Price Index increased by 1.6ppts to 4.2% y/y in April (March: 2.6% y/y) – the highest since September 2008 (4.9% y/y). We highlight that the preceding was predominantly due to the (1) unfavourable base effect from the prior year when the COVID-19 pandemic dented domestic demand and (2) increase in energy prices. Accordingly, price pressures was recorded in gasoline (49.6% y/y vs March: 22.5% y/y) and fuel oil (37.3% y/y vs March 20.2% y/y) prices. In addition, supply chain bottlenecks led to a record increase in the prices of used cars and trucks (21.0% y/y vs March: 9.4% y/y). **Over the medium term, we maintain our expectation of a sustained increase in the headline inflation above the Fed's 2.0% target given (1) unfavourable base effect from the prior year, (2) higher gasoline prices and (3) improved aggregate demand supported by the reopening of the economy.**

Fig 1: Annualized GDP growth rate Q4-2020 – D.M.s



Source: Bloomberg, Cordros Research

Fig 2: Annualized GDP growth rate Q4-2020 – E.M.s

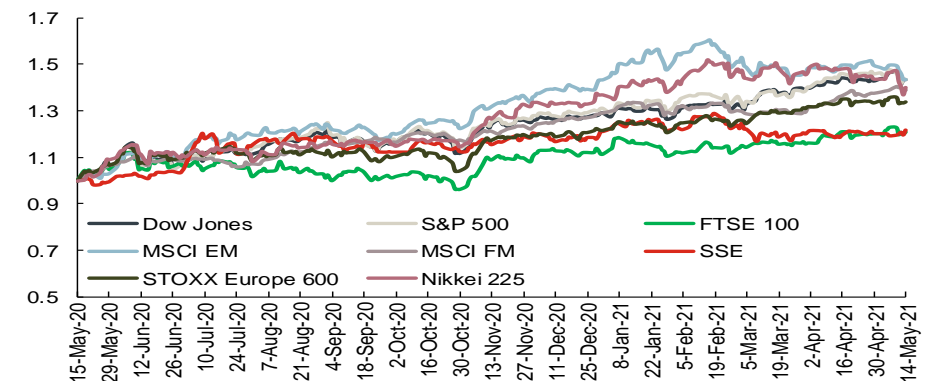


Source: Bloomberg, Cordros Research

### Global markets

Global stocks fell precipitously this week as investors were spooked by a jump in U.S inflation, prompting fears that the Fed will tighten monetary policy. However, global stocks pared losses on Friday after dovish comments from Fed officials allayed fears of an abrupt end to reflation trade. In the U.S, the DJIA (-2.2%) and S&P (-2.8%) suffered huge losses as investors sold off heavyweight "FAANG" stocks, following the Labour Department report which showed that consumer prices increased by the most in nearly 12 years- this made investors re-assess lofty valuations of tech stocks. In Europe, the STOXX Europe (-1.4%) and FTSE 100 (-1.7%) were on course for their worst week since February as risk sentiment waned due to the sell-off in U.S and Asia. In Asia, the Nikkei 225 (-4.3%) mirrored the rout on Wall Street. In comparison, the SSE (+2.1%) bucked the trend in global equities and halted a three-week decline as sentiments were lifted by a resilient U.S labour market report which helped soothe inflation concerns. Emerging markets (MSCI EM: -4.1%) posted losses consequent to the weakness in India (-1.0%), which masked gains in China (+2.1%), while Frontier (MSCI FM: -0.1%) market stocks declined marginally, primarily driven by the sell-offs in Kenya (-3.2%) which masked gains in Nigeria (+0.8%).

Fig 3: Global indices (index of 1)



Source: Bloomberg, Cordros Research

## Nigeria

## Economy

Reflective of the VAT rate hike's impact amidst the tepid economic recovery, the VAT receipt increased by 52.9% y/y in Q1-21 to NGN496.39 billion, data released by the National Bureau of Statistics revealed. For us, the preceding was primarily driven by (1) the 50% increase in VAT in February 2020 to 7.5% from 5.0% and (2) the impact of currency devaluation on foreign VAT (+116.42% y/y to NGN171.66 billion). On a quarter-on-quarter basis, we note that the VAT generated increased by 9.2%, driven mainly by continued improvement in economic activities following the full reopening of the economy. The highest amount of VAT collection was recorded in Other Manufacturing (+25.3% q/q to NGN49.41 billion), Professional Services (+0.3% q/q to NGN42.50 billion) and State Ministries & Parastatals (+59.6% q/q to NGN26.96 billion). **Looking ahead, we expect VAT collections to be supported by the implementation of the new VAT rate amidst a sustained recovery in economic activities. Pertinently, we expect VAT collection in the next two quarters to be better than the prior year, given the knock-on effects of improved consumption levels.**

According to the National Bureau of Statistics (NBS), the total amount of Company Income Tax (CIT) generated increased by 32.8% y/y to NGN392.77 billion in Q1-21 (Q1-20: NGN295.68 billion). Broad classification of the sources of payments showed that the local CIT generated increased by 14.8% y/y to NGN152.33 billion. Similarly, foreign CIT payment (47.0% of total CIT) which involves bulk payment from JP Morgan account, increased by 44.8% y/y to NGN184.59 billion. Other payments (payments through Remitta, E-transact and E-tax pay) increased by 56.9% y/y to NGN55.85 billion. On a quarter-on-quarter basis, the total amount generated from CIT increased by 32.8%, primarily driven by a 190.6% q/q increase in foreign CIT payment, which offset the declines across local CIT payment (-6.0% q/q) and other payments (-20.4% q/q). **Given the improved level of business activities compared to the prior year, we expect CIT payments to increase, albeit moderately over the medium term. In addition to the expected increase in VAT collection, we believe this bodes well for the FGN non-oil revenue over the medium term.**

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 (21st May)
Foreign reserve (USD billion)	34.61	35.37	34.45 (21st May)
Unemployment	33.28%	33.28%	*UR (Q1-21)
Brent crude oil price (USD)	68.45	51.80	65.00 (21st May)

Source: CBN, Bloomberg, NBS, Cordros Research estimates / U.R.: Under Review

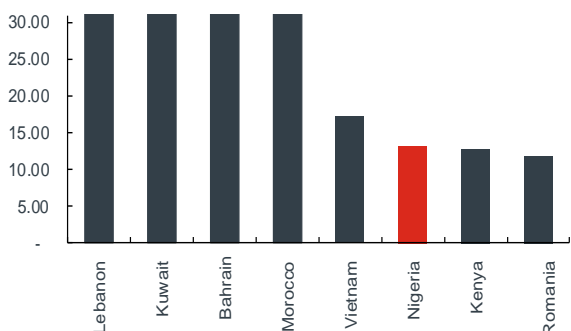
## Capital markets

## Equities

Despite the shortened trading week due to the public holidays on Wednesday and Thursday, the bulls regained control of the market following a flawless victory over the bears in the three trading sessions of the week. We observed that buying interests were largely concentrated in banking stocks. Based on the preceding, the All-Share Index advanced by 0.8% w/w to close at 39,494.70 points. Consequently, the YTD return moderated to -1.9%. However, activity levels were weak, as trading volumes and value declined significantly by 52.4% w/w and 53.9% w/w, respectively. Specifically, investors' interest in INTBREW (+7.6%) and bargain hunting in ZENITHBANK (+6.8%), ACCESS (+3.7%), GUARANTY (+2.7%) and DANGCEM (+1.6%) were the primary drivers of the positive performance this week. Performance across sectors was broadly positive, with the Banking (+3.2%) index topping the gainers' chart, followed by the Insurance (+1.9%), the Industrial Goods (+0.8%), and Consumer Goods (+0.3%) indices. The Oil and Gas (0.0%) index closed flat.

**In the week ahead, we do not think the bulls will repeat the flawless victory that ensued this week as the bears are likely to book profit across most counters. Consequently, we see more of a "choppy theme" as cautious trading takes centre stage ahead of a critical MPC meeting scheduled later in the month. 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	354.25	367.42	↑ 3.7%	↓ -6.5%
Consumer Goods	561.8	563.58	↑ 0.3%	↓ -1.7%
Industrial Goods	1916.55	1,931.54	↑ 0.8%	↓ -5.9%
Insurance	197.06	204.89	↑ 4.0%	↑ 8.1%
Oil & Gas	285.19	285.47	↑ 0.1%	↑ 26.2%

Source: NSE, Cordros Research

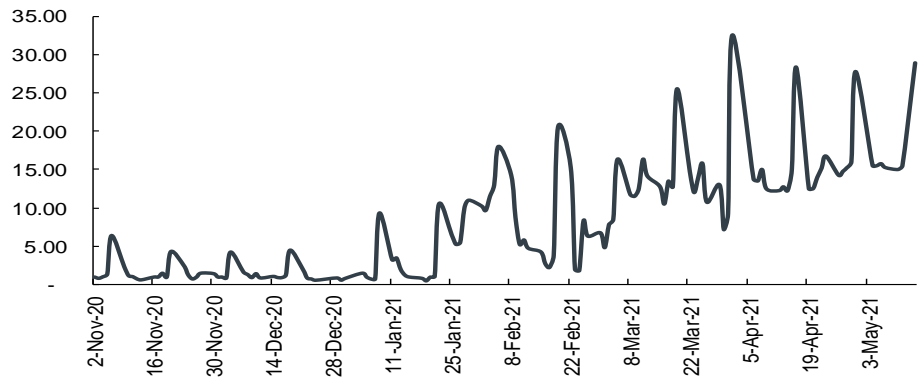
**Money market and fixed income**

**Money market**

The overnight (OVN) rate expanded by 13.63 ppts w/w to 28.9% as debits for CRR and CBN's weekly OMO and FX auctions offset inflows from OMO maturities (NGN90.00 billion).

**We expect the OVN rate to remain elevated in the coming week, as expected inflows from OMO maturities (NGN40.00 billion) and FGN bond coupon payments (NGN8.50 billion) may not be significant enough to saturate system liquidity.**

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



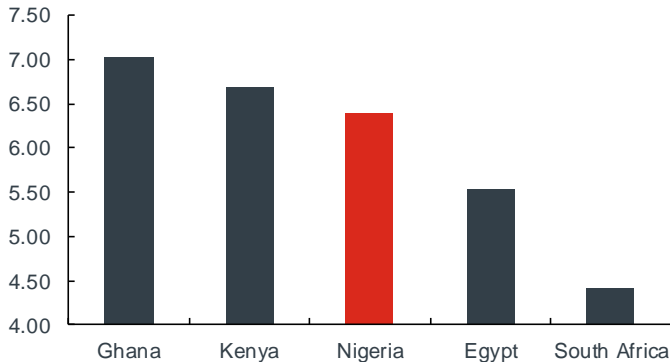
Source: FMDQ, Cordros Research

**Treasury bills**

The Treasury bills secondary market remained bearish this week, as the liquidity squeeze in the system drove sell-offs by market participants. As a result, the average yield across all instruments expanded by 14bps to 7.1%. Across the market segments, the average yield increased by 23bps to 8.6% at the OMO segment and by 21bps to 5.1% at the NTB segment. At the NTB auction, the CBN offered instruments worth NGN117.56 billion – NGN24.67 billion of the 91-day, NGN10.00 billion of the 182-day and NGN82.89 billion of the 364-day – and ultimately allotted NGN138.98 billion, 18.2% higher than offered. The stop rates at the auction increased by 50bps on the 91D bill but was unchanged at 3.50% and 9.75% on the 182D and 364D bills, respectively. The auction was oversubscribed with a subscription level of NGN230.89billion, translating to a bid-cover ratio of 1.7x (previous auction: 1.9x).

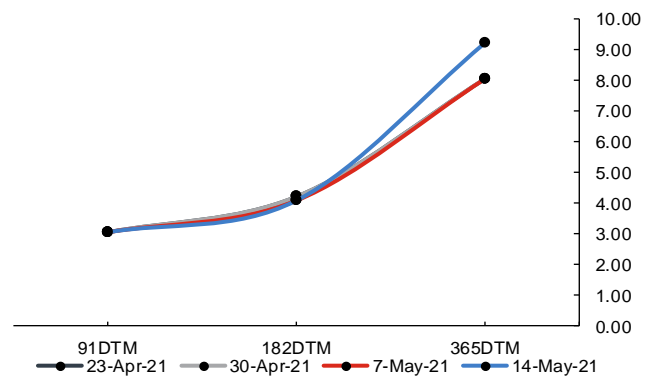
**We see scope for the average yield of T-bills to trend higher next week, as we expect the dearth of liquidity in the financial system to persist.**

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



Source: Bloomberg, Cordros Research

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



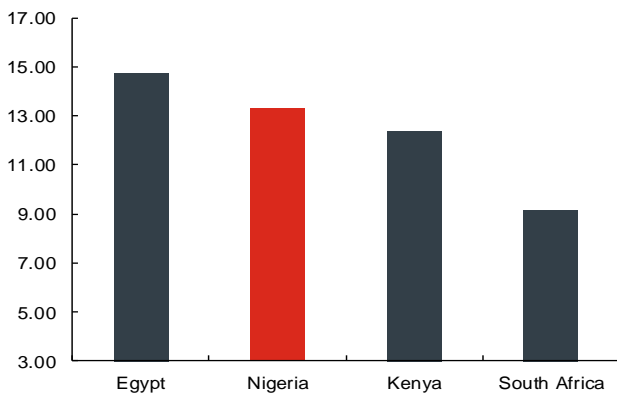
Source: FMDQ, Cordros Research

**Bonds**

The Treasury bonds secondary market closed on a bullish note, as investors cherry-picked on attractive yields at the mid and long segments of the curve. Consequently, the average yield contracted by 8bps to 12.3%. Across the benchmark curve, the average yield declined at the mid (-8bps) and long (-14bps) segments as investors demanded the MAR-2027 (-10bps) and MAR-2050 (-24bps) bonds, respectively. However, the short end was flat.

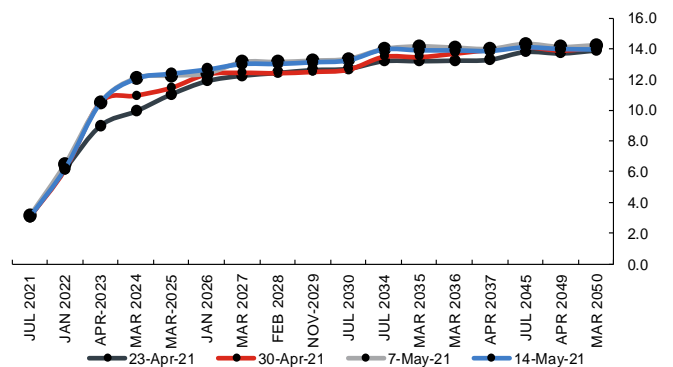
**We expect investors to resume sell-offs on Treasury bonds in the coming week, as we expect the negative sentiments in the market to persist. Thus, we maintain our view of higher bond yields in the short term. Farther into the month, we highlight that the release of key macro indicators will shape market 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 (%)**



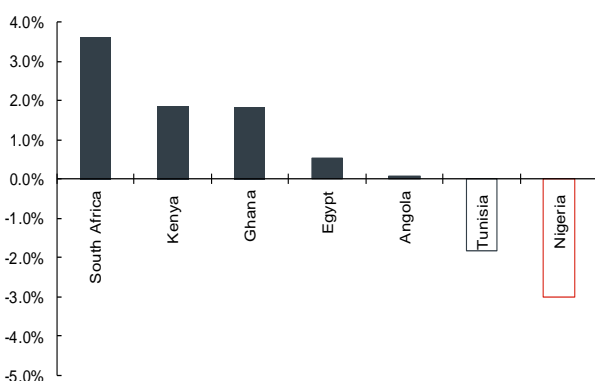
Source: FMDQ, Cordros Research

**Foreign exchange**

Nigeria's FX reserves sustained its decline for the fourth consecutive week, as it dipped by USD11.56 million w/w to USD34.61 billion (14th May 2021). The naira depreciated by 0.3% to NGN411.67/USD and by 0.2% to NGN484.00/USD at the I&E window (IEW) and parallel market, respectively. At the IEW, total turnover (as of 11th May 2021) decreased by 72.0% WTD to USD130.93 million, with trades consummated within the NGN395.00 – 420.23/USD band. In the Forwards market, the rate weakened across the 1-month (-0.1% to NGN413.06/USD), 3-month (-0.1% to NGN418.97/USD), 6-month (-0.1% to NGN427.67/USD) and 1-year (-0.1% to NGN445.50/USD) contracts.

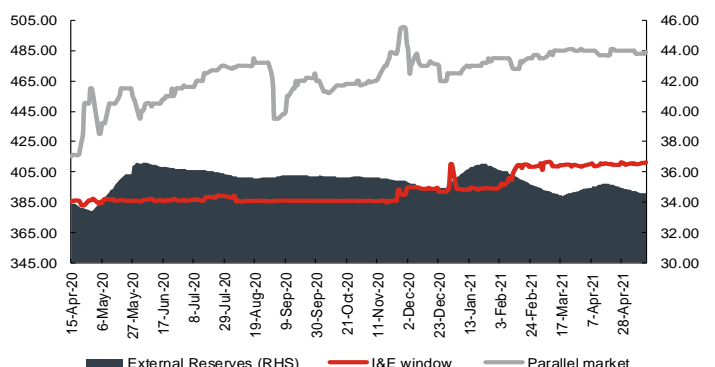
**We expect improved liquidity in the IEW over the medium term, given higher oil prices and an expected increase in crude oil production volume. Accordingly, we expect the naira to remain relatively range-bound (NGN410.00/USD – NGN415.00/USD) at the IEW. Similarly, we believe the CBN will devalue the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

14 May 2021

## Top business headlines of the week

- Trade deficit widens to \$2.51bn after border reopening
- Subsidy removal advice wrong, implementation suicidal, says NUPENG
- Bank deposits rose by N6.95tn in one year – CBN