

# Weekly economic and market update.

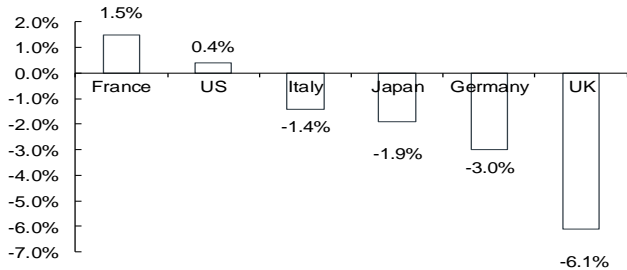
## Overview of markets in the week ended 21 May 2021

### Global economy

The third wave of the COVID-19 pandemic dealt a significant blow to the Euro Area economy in Q1-21, given the containment measures re-instituted to curb the spread of the rising cases of the virus. According to the Eurostat, Euro Area economy recorded its fifth consecutive quarter of contraction at -1.8% y/y in Q1-21 (Q4-20: -4.9% y/y). Given the impact of restrictions on contact-facing activities, we highlight that the service sector was the hardest hit amidst a decline in household spending. On a quarter-on-quarter basis, the economic bloc shrank by 0.6% (Q4-20: -0.7% q/q). **We expect the ramping up of vaccine administration (vaccination rate of 26.9% as of 19th May) over the rest of the year to lift economic sentiments as the government lift restrictions. The preceding will be supported by increased external sector performance amidst the pent-up demand that follows expansionary fiscal and monetary stance. Accordingly, we expect improved economic performance over the medium term barring a further spike in COVID-19 cases.**

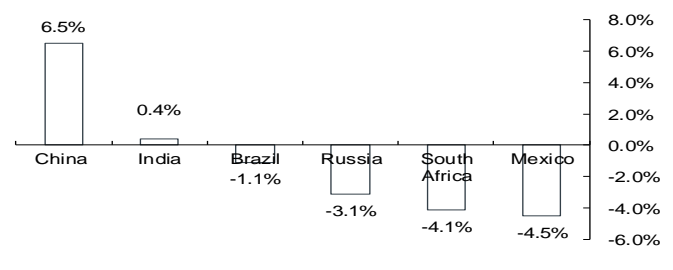
According to the Office for National Statistics (ONS), the United Kingdom's (U.K.) headline inflation doubled to 1.5% y/y in April (March: 0.7% y/y) – the highest reading since March 2020 (1.5% y/y). Aside from the unfavourable base from the prior year, we note that the increase in prices was supported by the ease in lockdown restrictions as shops reopened on 12th April. Accordingly, price increase were most significant in household utilities (+2.4% y/y vs March: -7.3% y/y), clothing (+0.5% y/y vs March: -3.5% y/y) and motor fuels (+13.6% y/y vs March: +3.5% y/y). On a month-on-month basis, prices rose 0.6% (March: 0.3% m/m), with the largest overall contribution to the increase coming from housing and household services. **Mirroring a trend underway in the United States, we expect the inflationary pressures to persist over the medium term, in line with the (1) country's economic recovery, (2) rise in global oil prices and (3) September expiry of the COVID-19 emergency cuts to VAT (from 20.0% to 5.0%) in the hospitality sector.**

Fig 1: Annualized GDP growth rate Q1-2021 – DMS



Source: Bloomberg, Cordros Research

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

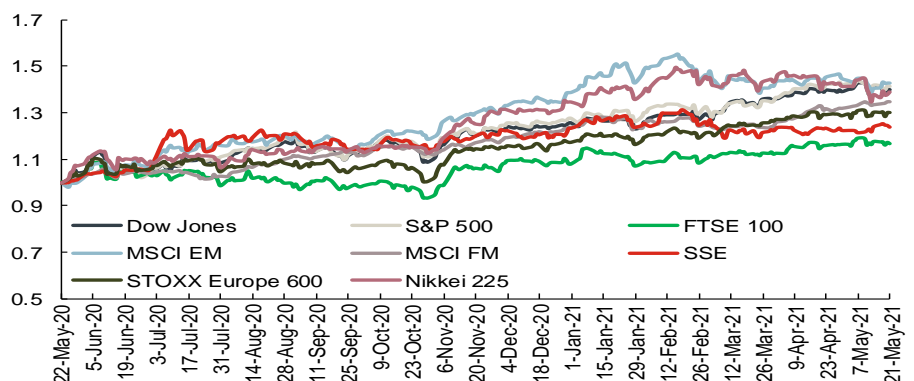


Source: Bloomberg, Cordros Research

### Global markets

Global stocks extended losses to the second consecutive week as investors angst about the Federal Reserve tightening monetary policy to control rising inflation subdued appetite for risk assets. However, global equities pared losses later in the week following resilient U.S labour market data, which reignited hopes of the reflation trade. In the U.S, the DJIA (-0.9%) and S&P (-0.4%) were on course to end the week in the red despite staging a comeback later in the week, following renewed interest in technology stocks. In Europe, the STOXX Europe (-0.1%) and FTSE 100 (-0.8%) were on course for a second consecutive week of losses as risk appetite waned due to FOMC minutes which showed that officials are considering scaling back bond purchases. In Asia, the Nikkei 225 (+0.8%) was poised for a weekly gain following a strong rebound in the latter part of the week induced by the rally on Wall Street. In comparison, the SSE (-0.1%) recorded marginal losses as lingering concerns about global inflation dampened sentiments. Elsewhere, the Emerging (MSCI EM: +1.7%) stocks recorded gains on the back of positive sentiments in India (+3.1%) and Brazil (+0.7%), while Frontier (MSCI FM: +1.0%) stocks were on track to close higher following gains in Kuwait (+0.5%).

Fig 3: Global indices (index of 1)



Source: Bloomberg, Cordros Research

## Nigeria

## Economy

According to the National Bureau of Statistics (NBS), the headline CPI snapped 20 consecutive months of increase, moderating by 5bps to 18.12% y/y (March: 18.17% y/y). The preceding was due to a positive surprise from the food basket amidst the persistently high conflict levels and disruption to trade flows. Thus, we think consumers had anticipated this Ramadan-induced price increase in March, thereby frontloading food items to meet their April needs. Consequently, food inflation moderated by 91bps to 0.99% m/m – the lowest since March 2020 (0.94% m/m), while the core inflation moderated by 8bps to 0.99% m/m – the third consecutive month of decline. **We expect renewed pressure in food inflation due to increased demand amidst a limited supply level given the ongoing planting season. However, we believe the relative stability in the core inflation will moderate headline inflation, barring negative surprises from fuel prices. We now look for a 1.08% m/m headline inflation rate, cascading to a y/y print of 18.01%.**

At its virtual meeting, the Nigeria Governors' Forum (NGF) accepted the complete deregulation of petrol and suggested that the petrol price hovers between NGN380.00/litre and NGN408.5/litre. We believe the preceding is due to the expectation that Federal allocation to the states would decline in the coming months as NNPC continues to deduct subsidy payments before remitting funds to the Federation account. Besides, the CBN also insisted that the states will begin paying back their budget support facility starting from May, thus compounding their woes. To cushion the effects of the price increase, we highlight that the NGF recommended that the FG purchases 113 buses for states and major cities as a palliative. **Using the latest PPMC's pricing template, our estimated minimum pump price of PMS as of May is NGN259.62/litre at an average crude oil price of USD67.05/bbl. We believe the total removal of subsidy at this time is inappropriate as it will further worsen the current economic woes of the citizens. Consequently, we expect that the FG would adopt a gradual subsidy removal to stem the adverse reactions from the organised labour union and the general public.**

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	18.12%	15.75%	18.01% (May-20)
Exchange rate (USD)	NGN380.00	NGN380.00	NGN380.00 (28th May)
Foreign reserve (USD billion)	34.40	35.37	34.25 (28th May)
Unemployment	33.28%	33.28%	*UR (Q1-21)
Brent crude oil price (USD)	66.87	51.80	65.00 (28th May)

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

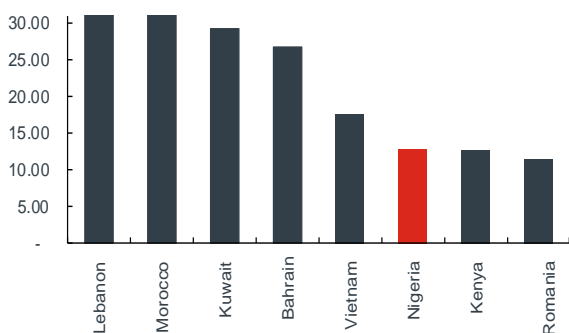
## Capital markets

## Equities

It was a brutal week for equity investors as the local bourse recorded losses in the first four trading sessions of the week, save for the last trading session when the market closed flat. Pertinently, the All-Share Index shed -3.0% w/w to close at 38,324.07 points. Consequently, the YTD loss increased to -4.8%. Activity levels were stronger than the prior week, as trading volume and value rose significantly by 65.4% w/w and 69.2% w/w, respectively. Notably, sell-offs in AIRTELAFRIC (-10.0%), BUACEMENT (-4.7%), DANGSUGAR (-4.2%), ZENITHBANK (-3.0%) and GUARANTY (-2.5%) drove the weekly loss. Sectoral performance was broadly negative as the Oil and Gas (+7.4%) index emerged as the week's sole gainer. The Industrial Goods (-3.3%) index led the losers' chart, followed by Banking (-1.5%) and Insurance (-0.7%) indices. The Consumer Goods index closed flat.

In the week ahead, we believe investors will be focused on the outcome of the highly anticipated MPC meeting to gain further clarity on the movement of yields in the FI market. Consequently, we see more of a "choppy theme" as cautious trading dominates the 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	367.42	361.80	↓ -1.5%	↓ -7.9%
Consumer Goods	563.58	563.43	↓ 0.0%	↓ -1.7%
Industrial Goods	1931.54	1,867.06	↓ -3.3%	↓ -9.0%
Insurance	204.89	203.38	↓ -0.7%	↑ 7.3%
Oil & Gas	285.47	306.58	↑ 7.4%	↑ 35.5%

Source: NSE, Cordros Research

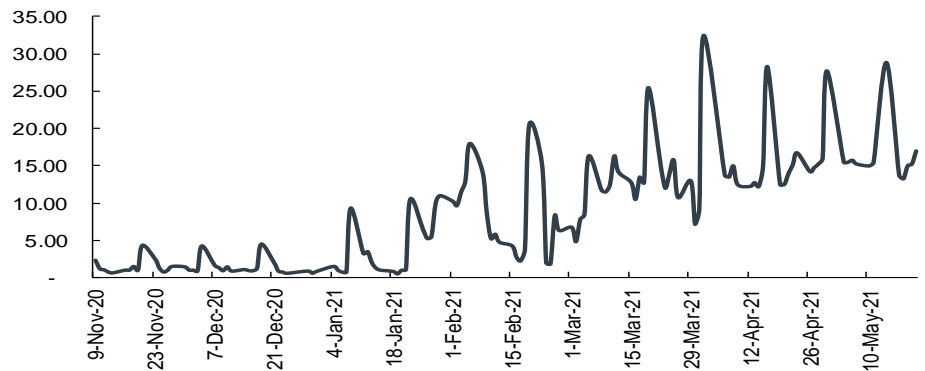
**Money market and fixed income**

**Money market**

The overnight (OVN) rate (+325bps to 17.0%) ended the week higher, as outflows for FGN bond (NGN175.25 billion), OMO (NGN20.00 billion) and FX auctions outweighed inflows from OMO bills maturities (NGN55.00 billion) and FGN bond coupon payments (NGN8.45 billion).

**We still expect the OVN rate to remain elevated in the coming week, as expected inflows from OMO maturities (NGN65.00 billion) and FGN bond coupon payments (NGN17.87 billion) may not be sufficient to ease the tight liquidity in the system.**

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



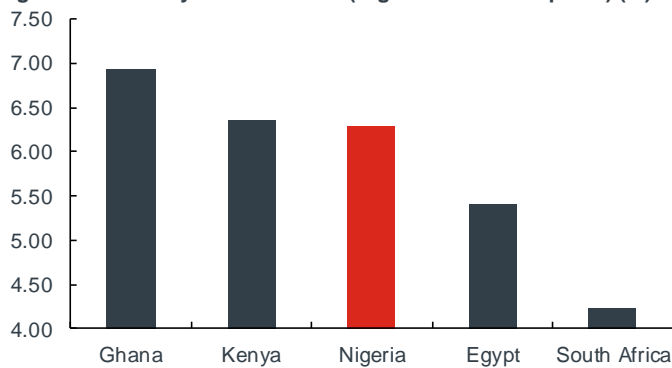
Source: FMDQ, Cordros Research

**Treasury bills**

As expected, the Treasury bills secondary market remained bearish, following the tight liquidity in the system. Thus, the average yield across all instruments in the overall market expanded by 62bps to 7.7%. Across the market segments, the average yield increased by 61bps to 9.2% at the OMO segment and by 70bps to 5.8% at the NTB segment. 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.

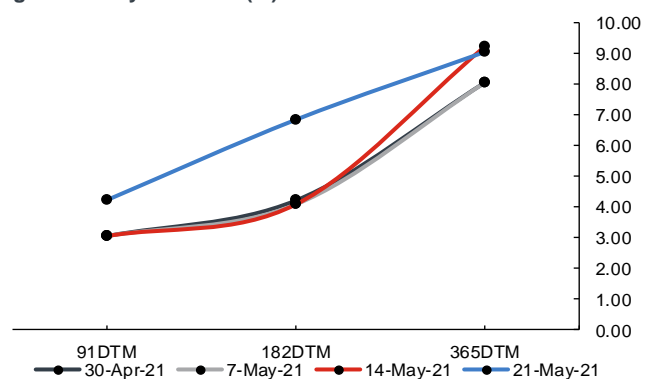
**In the coming week, we maintain our view of a higher average yield on T-bills given that we expect system liquidity to remain strained. Also, we expect quiet trading at the NTB market as participants position for next week's PMA, with the CBN set to roll over NGN63.18 billion worth of maturities.**

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



Source: Bloomberg, Cordros Research

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



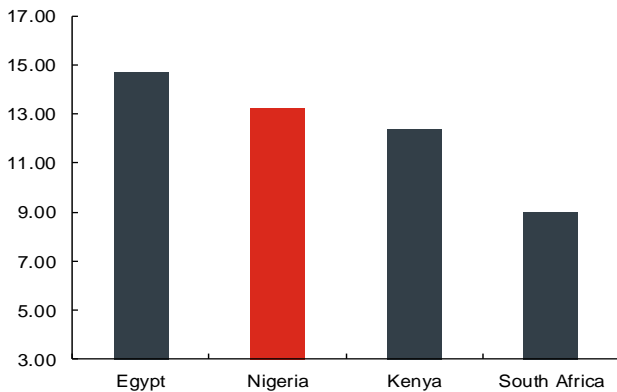
Source: FMDQ, Cordros Research

**Bonds**

The Treasury bonds secondary market closed the week on a bearish note, as yields adjusted to the higher stop rates at Wednesday’s FGN bond auction. Consequently, the average yield expanded by 15bps to 12.4%. Across the benchmark curve, the average yield increased at the short (+24bps), mid (+10bps) and long (+10bps) segments following investor’s sell-offs of the JAN-2022 (+82bps), FEB-2028 (+13bps) and APR-2049 (+27bps) bonds, respectively. At the bond auction, the DMO offered instruments worth NGN150.00 billion to investors through re-openings of the 16.2884% FGN MAR 2027 (Bid-to-offer: 0.74x; Stop rate: 13.10%), 12.5000% MAR 2035 (Bid-to-offer: 1.15x; Stop rate: 14.00%) and 14.8000% FGN APR 2049 (Bid-to-offer: 3.75x; Stop rate: 14.20%) bonds. We note that the demand was stronger (subscription: NGN281.97 billion; bid-to-offer: 1.9x) compared to April (Subscription: NGN265.68 billion; Bid-to-offer: 1.8x). The DMO eventually allotted instruments worth NGN175.25 billion, resulting in a bid-to-cover ratio of 1.6x.

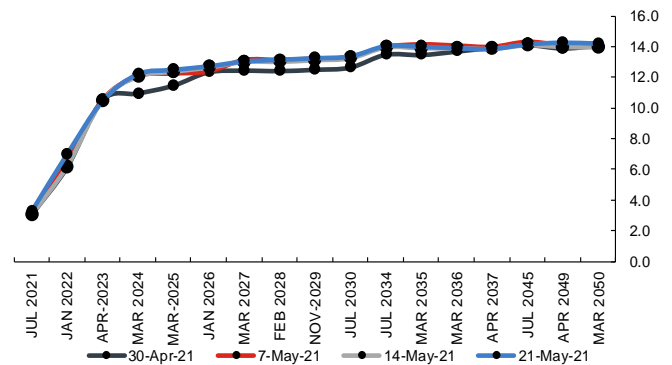
**We maintain our view of higher bond yields in the short term, given the negative sentiments in the market. Nonetheless, we expect investors to cherry-pick long-dated bonds with attractive yields.**

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



Source: Bloomberg, Cordros Research

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



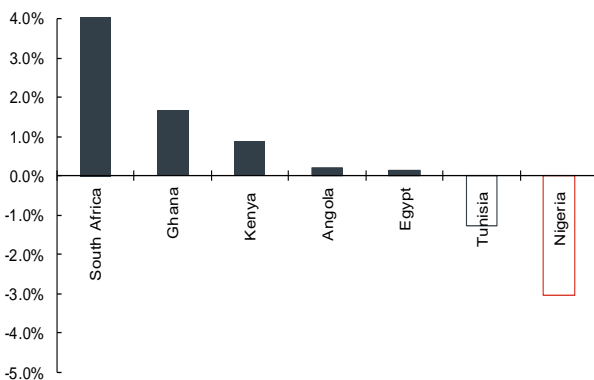
Source: FMDQ, Cordros Research

**Foreign exchange**

Nigeria’s FX reserves position sustained its decline, as outflows from the reserves outstripped inflows. Thus, it dipped by USD102.51 million w/w to USD34.40 billion (18th May 2021). The naira depreciated by 0.1% to NGN412.00/USD and 0.2% to NGN485.00/USD at the I&E window (IEW) and the parallel market, respectively. At the IEW, total turnover (as of 20th May 2021) increased by 26.1% WTD to USD421.46 million, with trades consummated within the NGN386.00 – 421.00/USD band. In the Forwards market, the rate weakened across the 1-month (-0.1% to NGN413.34/USD), 3-month (-0.1% to NGN419.14/USD), 6-month (-0.1% to NGN428.15/USD) contracts and stayed flat in the 1-year (NGN445.42/USD) contract.

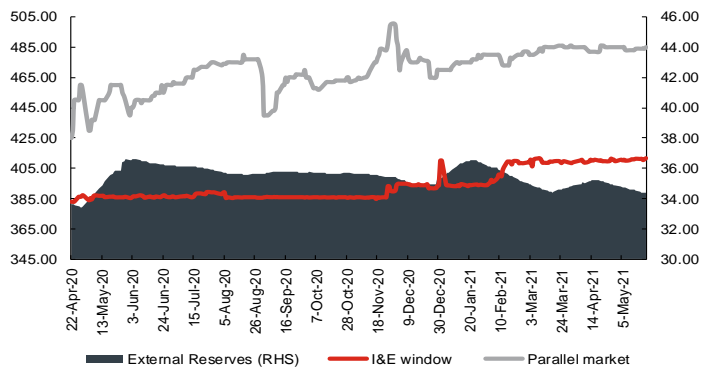
**We expect improved liquidity in the IEW over the medium term, given the higher oil prices and an expected increase in crude oil production volume. Accordingly, we expect the naira to remain relatively range-bound (NGN410.00/USD – NGN415.00/USD) at the IEW. Similarly, we believe the CBN will devalue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

- Petrol price to increase as PEF hikes transporters margin
- Foreign investors' trapped \$2bn dragging down external reserves – Rewane, others
- LCCI, ACCI, others raise concerns as Buhari seeks nod for fresh \$6.1bn loan
- Senate demands 5G deployment's suspension, wants health concern addressed
- NLC meets on gov's N380/litre petrol proposal today, experts warn FG

## Important Disclaimers

This document has been issued and approved by Cordros Capital (Cordros) and is based on information from various sources that we believe are reliable. However, no representation is made that it is accurate or complete. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or fact or for any opinion expressed herein. This document is for information purposes only. It does not constitute any offer or solicitation to any person to enter into any trading transaction.

Investments discussed in this report may not be suitable for all investors. This report is provided solely for the information of Cordros clients who are then expected to make their own investment decisions. Cordros conducts designated investment business with market counter parties and customers and this document is directed only to such persons. Cordros accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for private circulation only and may not be reproduced, distributed or published by any recipient for any purpose without prior express consent of Cordros. Users of this report should bear in mind that investments can fluctuate in price and value. Past performance is not necessarily a guide to future performance.

Cordros and/or a connected company may or may not have a relationship with any of the entities mentioned in this document for which it has received or may receive in the future fees or other compensation. Cordros is regulated by the Securities and Exchange Commission to conduct investment business in Nigeria.