

# Weekly economic and market update.

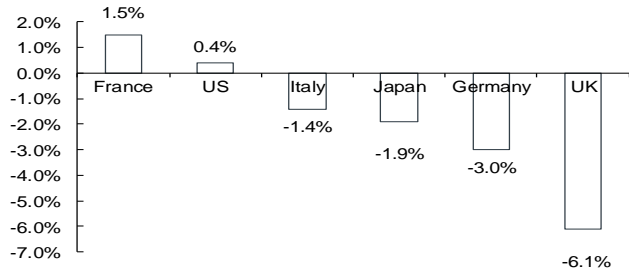
## Overview of markets in the week ended 28 May 2021

### Global economy

Supply shortages continue to hit factories in the United States, following the strong rebound in demand for goods and services in line with the reopening of the economy. According to the U.S. Census Bureau, new orders for manufactured durable goods declined by 1.3% m/m in April (March: +1.3% m/m) – the first decline in 11 months. The preceding partly reflects the global shortages of semi-conductor chip, disrupting auto production during the review period. Accordingly, new orders fell mostly for (1) transportation equipment (-6.7% m/m vs March: -3.1% m/m) and (2) military capital goods (-25.8% m/m vs March: -11.7% m/m). Meanwhile, orders for non-defence capital goods excluding aircraft (a category that tracks business investment) improved by 2.3% m/m (March: +1.6 m/m). **Although the supply chain constraint remains an issue in the economy, business investment, as indicated by the non-defence capital goods orders, contains hopeful signs. Consequently, we believe the manufacturing sector will remain healthy over the medium term as new orders improve gradually, given the latest stimulus package (USD1.90 trillion) rolled out in the economy.**

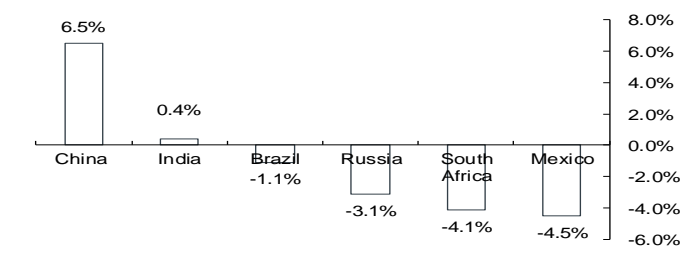
According to the United States Department of Labor, the initial jobless claims in the U.S. fell for the fourth consecutive week to 406,000 in the week ending 22nd May (vs week ending 15th May: 444,000). Although the preceding is still well above the average during the pre-pandemic level (c. 220,000), it is the lowest level for initial claims since 14th March 2020 (256,000). We believe the major contributing factor to the decline is the ease of restrictions on business activities as COVID-19 infections continue to decline amidst the rapid vaccination campaign in the country. Accordingly, several states have begun shutting down their extended benefits programs as businesses reopen, despite debating whether the aid makes it more difficult for employers to hire workers. **Given the sustained reopening of the economy amidst a robust vaccination campaign, we expect the slacks in the labour market to dissipate. Accordingly, we expect the initial jobless claims to continue to decline in the coming months.**

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



Source: Bloomberg, Cordros Research

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

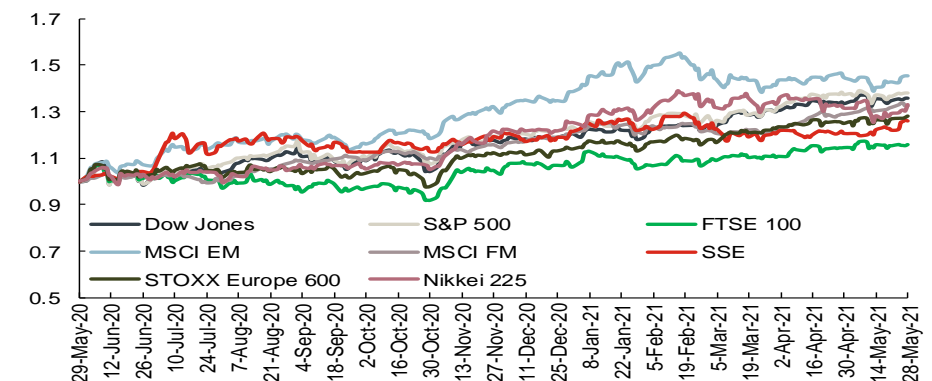


Source: Bloomberg, Cordros Research

### Global markets

Global stocks staged a massive comeback this week as investors' sentiments were buoyed by renewed optimism that the US will spearhead the global economic recovery. This was underpinned by (1) reports that the US President, Joe Biden, will propose a USD6.00 trillion spending plan for the 2022 fiscal year and (2) strong labor market data in the US. In the US, the DJIA (+0.8%) and S&P (+1.1%) were poised for a weekly gain following the bounce in tech stocks earlier in the week, amid strong labor market data, which showed that unemployment claims fell to a new pandemic low. In Europe, the STOXX Europe (+0.9%) and FTSE 100 (+0.4%) posted gains as risk sentiment strengthened, as the strong economic data from the US reinforced hopes of a robust economic recovery. Asian markets posted positive performances, with the Japanese (Nikkei 225: +2.9%) and Chinese (SSE: +3.3%) markets receiving a massive boost from the rally on Wall Street. Similarly, the Emerging (MSCI EM: +1.8) and Frontier (MSCI FM: +0.5%) stocks also mirrored the upbeat mood across global equities consequent on the gains in China (+3.3%) and a robust gain in the Vietnamese (+2.8%) market, respectively.

Fig 3: Global indices (index of 1)



Source: Bloomberg, Cordros Research

## Nigeria

## Economy

Confronted with the twin problems of tepid economic recovery and stubbornly high Inflation, the Monetary Policy Committee (MPC) of the CBN voted unanimously to maintain the MPR at 11.5% alongside other key monetary policy levers. The preceding indicates that the hawks (from March's policy meeting) have now retraced to a more conservative stance. The unimpressive GDP growth of 0.51% in Q1-21 may have prompted the hawks to align with the broader view of the Committee that an accommodative monetary stance is still required to restore the productive capacity of the economy. **Although the meeting's outcome was broadly in line with market expectations, we note that the neutral tone struck by the CBN Governor suggests the MPC may push back the widely anticipated hike in the MPR. Meanwhile, the Committee reiterated its resolve to continue adopting unorthodox measures to manage system liquidity to nullify the indirect channels through which a high level of money supply amplifies inflationary and exchange rate pressures. As things stand, we now expect a hike in the policy rate to come in either of the last two meetings for the year.**

In line with our expectation, the total value of transactions traded at the NGX declined by 30.0% m/m to NGN159.93 billion in April (March: NGN228.50 billion) – the lowest since August 2020 (NGN94.45 billion). The preceding was driven by declines across the domestic (-29.8% m/m to NGN131.91 billion) and foreign (-31.1% m/m to NGN28.02 billion) participation at the local bourse. We highlight that the total value of foreign involvement in April is the lowest in four years (April 2017: NGN22.45 billion), which we believe was induced by rising bond yields in the advanced economies amidst lingering foreign exchange illiquidity in the country. Meanwhile, the weak domestic participation was driven by a 66.4% m/m decline in retail investor's participation which masked the 20.3% m/m increase in institutional investors' participation. **We maintain our expectation of weak domestic and foreign investors' participation on the local bourse in the near term due to (1) sustained rise in yields in the fixed income space and (2) lingering liquidity constraints in the FX market.**

Table 1: Macro indicators

Macro indicators (Nig)	Current	Year start	Forecast
Real GDP growth	0.51%	0.11%	3.37% (Q2-21)
MPR	11.50%	11.50%	11.50% (Next meeting)
CPI	18.12%	15.75%	18.01% (May-20)
Exchange rate (USD)	NGN380.00	NGN380.00	NGN380.00 (4th Jun)
Foreign reserve (USD billion)	34.27	35.37	34.15 (4th Jun)
Unemployment	33.28%	33.28%	*UR (Q1-21)
Brent crude oil price (USD)	69.65	51.80	65.00 (4th Jun)

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

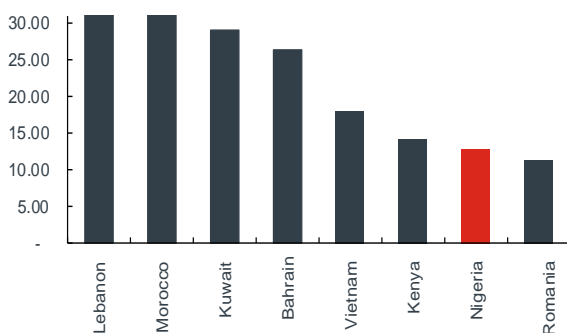
## Capital markets

## Equities

The bears continued to dictate proceedings in the local bourse as the market suffered its second consecutive weekly loss. Save for the last trading day; the local bourse recorded losses in all of the week's trading sessions. Specifically, FLOURMILL (-5.1%), GUARANTY (-4.3%), and BUACEMENT (-3.0%) were the primary drivers of the market loss. Thus, the All-Share index closed the week 0.2% lower at 38,256.99 points. Consequently, the MTD and YTD return dipped further into negative territory, settling at -4.0% and -5.0%, respectively. Activity levels were weaker than the prior week, as trading volume and value declined by 1.0% w/w and 17.9% w/w, respectively. Sectoral performance was broadly negative, following declines in the Banking (-1.8%), Industrial Goods (-0.4%), and Consumer Goods (-0.1%) indices, and gains in the insurance (+1.0%) and Oil and Gas (+1.0%) indices.

**We still expect a choppy theme in the week ahead, with the bears dominating proceedings in the absence of positive triggers to spur a bullish performance. Notwithstanding, we advise investors to take positions in only fundamentally justified stocks as the fragility of the macroeconomic environment 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	361.8	355.30	↓ -1.8%	↓ -9.6%
Consumer Goods	563.43	563.06	↓ -0.1%	↓ -1.8%
Industrial Goods	1867.06	1,859.12	↓ -0.4%	↓ -9.4%
Insurance	203.38	205.43	↑ 1.0%	↑ 8.4%
Oil & Gas	306.58	309.20	↑ 0.9%	↑ 36.7%

Source: NSE, Cordros Research

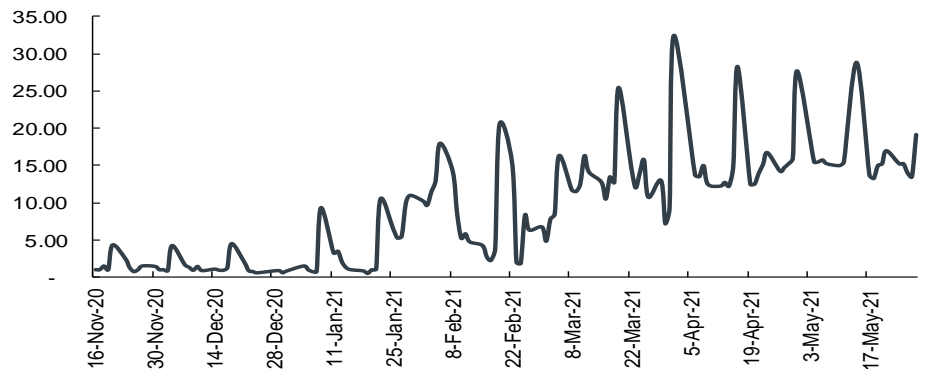
**Money market and fixed income**

**Money market**

The overnight (OVN) rate expanded by 217bps, w/w, to 19.2%, as funding pressures for CRR debits, NTB net issuances (NGN87.95 billion) and CBN's weekly OMO (NGN41.00 billion), and FX auctions offset inflows from FAAC disbursements (c. NGN390.00 billion), OMO maturities (NGN110.00 billion), FGN bond coupon payments (NGN14.91 billion) and FX retail refunds.

**Next week, we expect system liquidity to remain tight and the OVN rate to trend northwards in the absence of any significant inflows to the system.**

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



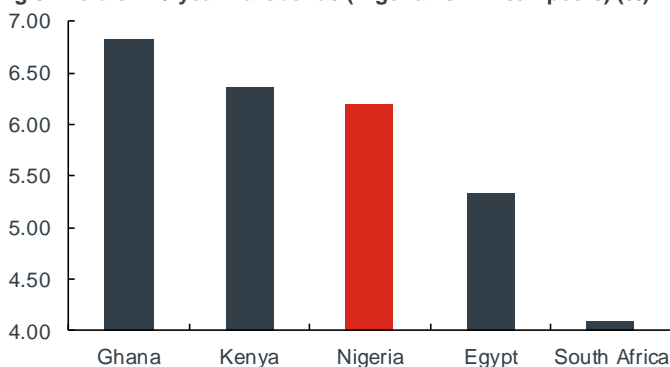
Source: FMDQ, Cordros Research

**Treasury bills**

As in prior weeks, the depressed system liquidity underpinned another bearish performance in the Treasury bills secondary market as local banks continued to sell-off positions to fund their liquidity obligations. Thus, the average yield across all instruments expanded by 31bps to 8.0%. Across the market segments, average yield closed higher by 36bps to 9.6% at the OMO secondary market and by 34bps to 6.1% at the NTB segment. At this week's OMO auction, the CBN sold NGN41.00 billion worth of bills to market participants and maintained stop rates across the three tenors, as with previous auctions. Also, the bi-weekly NTB PMA held on Wednesday. At the PMA, the CBN offered bills worth NGN63.18 billion with allotments of NGN3.12 billion of the 91D, NGN4.12 billion of the 182D and NGN143.88 billion of the 364D – at respective stop rates of 2.50% (previously 2.50%), 3.50% (previously 3.50%), and 9.65% (previously 9.75%).

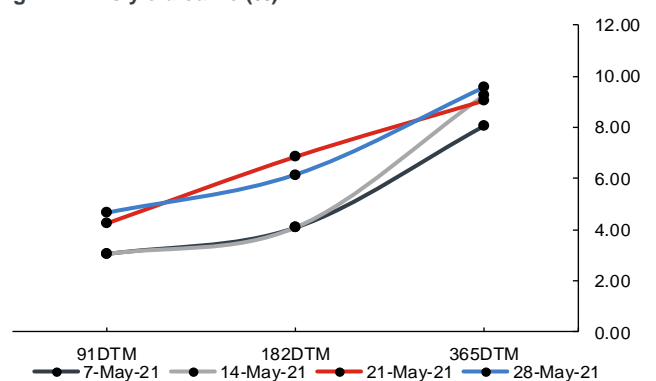
**We still expect the yield on T-bills to maintain its uptick in the coming week, given the expected tight liquidity picture.**

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



Source: Bloomberg, Cordros Research

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



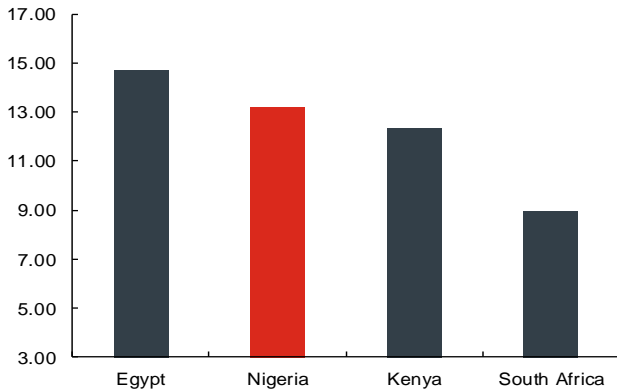
Source: FMDQ, Cordros Research

**Bonds**

Bearish sentiments persisted in the Treasury bonds secondary market following liquidity constraints and investors' expectations of higher yields across the NGN curve. Consequently, the average yield in the space expanded by 8bps to 12.5%. Across the curve, average yield declined at the mid (-7bps) segment, driven by an improvement in bids for instruments at the segment. We note that investors interest here piqued on the NOV-2029 (-18bps) and JUL-2030 (-16bps) bonds. Elsewhere, average yield expanded at the short (+37bps) and long (+5bps) ends, following sell-offs of the APR-2023 (+135bps) and APR-2037 (+21bps) bonds, respectively.

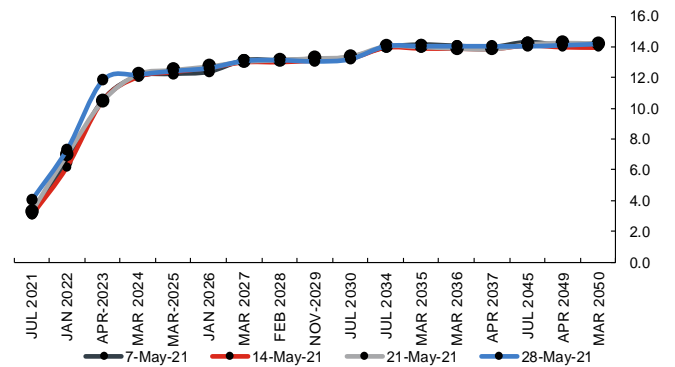
**We maintain our view of higher bond yields in the short term, given the negative sentiments in the market. Nonetheless, we expect investors to cherry-pick long-dated bonds with attractive yields.**

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



Source: Bloomberg, Cordros Research

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



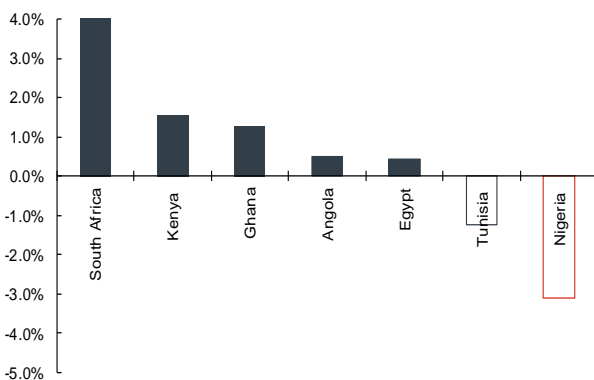
Source: FMDQ, Cordros Research

**Foreign exchange**

Nigeria's FX reserves position sustained its decline, as it dipped by USD62.97 million w/w to USD34.27 billion (26th May 2021). The naira was flat at NGN412.00/USD at the I&E window (IEW) but depreciated by 2.0% to NGN495.00/USD at the parallel market. At the IEW, total turnover (as of 27th May 2021) increased by 126.7% WTD to USD1.16 billion, with trades consummated within the NGN400.00 – 420.25/USD band. In the Forwards market, the rate weakened across the 1-month (-0.1% to NGN413.71/USD), 3-month (-0.3% to NGN420.39/USD), 6-month (-0.3% to NGN429.40/USD) and 1-year (-0.5% NGN447.56/USD) contracts.

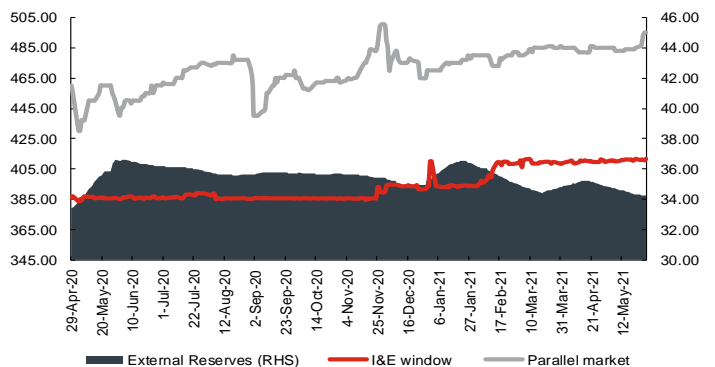
**We expect improved liquidity in the IEW over the medium term, given the higher oil prices and an expected increase in crude oil production volume. Accordingly, we expect the naira to remain relatively range-bound (NGN410.00/USD – NGN415.00/USD) at the IEW.**

**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

- GDP grows by 0.51% in Q1, economy still weak, experts lament
- Currency in circulation dips by N10bn
- CBN retains lending rate, says economic recovery still fragile
- N97.5bn healthcare intervention funds disbursed, says CBN
- NNPC's trading surplus rises to N39.85bn

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