30 April 2021

Weekly economic and market update.

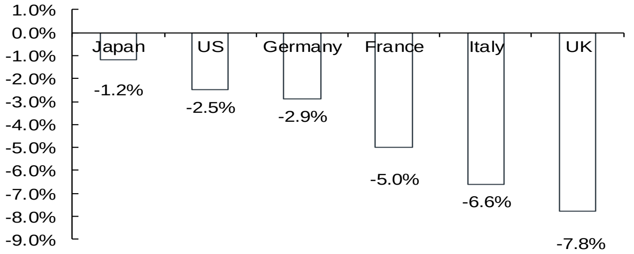
Overview of markets in the week ended 30 April 2021

Global economy

In its third meeting of the year, the Federal Open Market Committee (FOMC) voted to maintain the target range for the federal funds rate at 0.0% to 0.25% for the 10th consecutive time. Like its previous meetings, the Committee also reaffirmed that the Federal Reserve would continue to increase its asset purchase programme by at least USD120.00 billion per month until significant further progress has been made toward the Committee's maximum employment and price stability goals. We highlight the Committee's signal that risks from the pandemic have diminished. It stated that economic activity and employment indicators have strengthened through vaccinations and strong policy support. **Given the temporary nature of the inflationary factors and the slow pace of overall economic recovery, we expect the FOMC to maintain its accommodative monetary policy stance over the rest of 2021 as the Committee will need to see" substantial progress" consistent with its goals.**

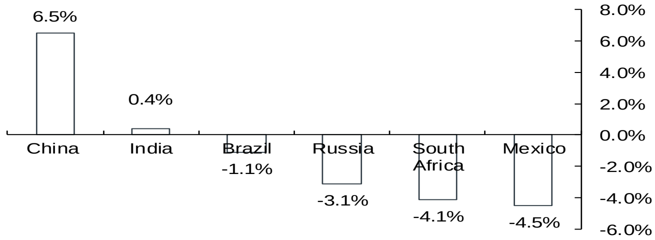
According to the Bureau of Economic Statistics (BEA), the United States economy grew by 6.4% q/q in Q1-21 (Q4-20: +4.3% q/q) – the second-fastest growth since Q3-2003 (8.2% q/q). The preceding reflects the (1) continued economic recovery from the pandemic-induced slump in the prior year, (2) gains from the reopening of establishments and (3) continued Government response related to the COVID-19 pandemic, all of which reinvigorated spending across the country. Accordingly, the economy witnessed a robust increase in personal consumption (+10.7% q/q vs Q4-20: +2.3% q/q), government spending (+6.3% q/q vs Q4-20: -0.8% q/q), and fixed investment (+10.1% q/q vs Q4-20: +18.6% q/q). The reading indicates that the GDP has now retracted c.96.0% of its pandemic-induced decline. On a year-on-year basis, the economy grew by 0.4% y/y (Q4-20: -2.4% y/y). **Given the consumption-driven growth in Q1-21, we expect the trend to be maintained over the rest of the year. We expect the economy to recoup all pandemic losses in Q2-21 amidst (1) a favourable base effect in the prior year and (2) continued impact of vaccinations and Government stimulus package on consumption.**

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



Source: Bloomberg, Cordros Research

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

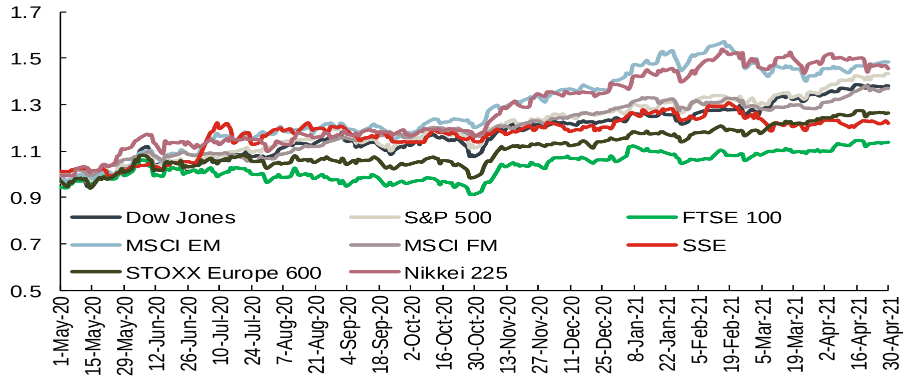


Source: Bloomberg, Cordros Research

Global markets

Global stocks posted mild gains this week as investors' reaction to impressive corporate earnings across developed economies was suppressed by weak economic data in the Eurozone and U.S as well as the growing number of COVID-19 cases in Asia. In the U.S, the DJIA (0.0%) and S&P (+0.7%) posted marginal gains as positive reactions to solid earnings by blue-chip companies was tempered by weak consumer spending data and a sharp rise in jobless claims. In Europe, the STOXX Europe (+0.1%) and FTSE 100 (+0.5%) also recorded little gains as risk sentiment ebbed later in the week after the European Central Bank refrained from increasing its emergency asset purchase program. In Asia, the Nikkei 225 (-0.7%) and SSE (-0.8%) were on course for ending the week in the red due to worse-than-expected earnings report amid worries that China is intensifying a crackdown on tech-based companies to rein in financial risks. Emerging markets (MSCI EM: +0.9%) posted gains consequent to the rally in India (+2.6%), which offset losses in China (-0.8%), while Frontier (MSCI FM: +0.2%) market stocks posted marginal gains, primarily driven by robust gains in Nigeria (+1.4%).

Fig 3: Global indices (index of 1)



Source: Bloomberg, Cordros Research

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Nigeria

Economy

According to the Domestic and FPI report of the Nigerian Stock Exchange (NSE) for March 2021, the total value of transactions traded at the NSE snapped a three-consecutive month of decline as it increased by 6.0% m/m to NGN228.5 billion in March (February: NGN215.58 billion). The preceding was primarily driven by a 22.4% m/m increase in domestic participation to NGN187.86 billion (82.2% of total transactions) amidst a decline in foreign portfolio investment (-34.5% m/m to NGN40.64 billion). We highlight that the total value of foreign participation in March is the lowest since September 2020 (NGN40.05 billion), which we believe was induced by rising bond yields in the U.S at the time amidst lingering foreign exchange illiquidity. On a quarterly basis, the total value of transactions at the NSE printed NGN676.54 billion in Q1-21 (Q1-20: NGN626.87 billion). **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.**

In a letter sent to the Accountant General of the Federation (AGF), the NNPC stated that it would not be able to remit funds to the Federation Accounts Allocation Committee (FAAC) in April for distribution in May. The NNPC attributed the projection to a shortfall of NGN111.97 billion it recorded in February, which was induced by the payment of subsidy following the rise in the landing cost of PMS. Accordingly, the NNPC stated that it would deduct the same amount (NGN111.97 billion) from the April 2021 Oil and Gas proceeds due to the Federation in May 2021. **The deduction (in addition to the CBN's Budget Support facility and ecological fund deduction) implies that the amount to be shared in April will fall below what is usually shared (c. NGN605.00 billion). For us, this would negatively impact states' ability to meet their recurrent operations. On the bright side, it may pave the way for fuel subsidy removal earlier than the six-month grace period initially guided by the Federal Government earlier this month.**

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 (7th May)
Foreign reserve (USD billion)	34.91	35.37	34.74 (7th May)
Unemployment	33.28%	33.28%	*UR (Q1-21)
Brent crude oil price (USD)	67.29	51.80	65.00 (7th May)

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

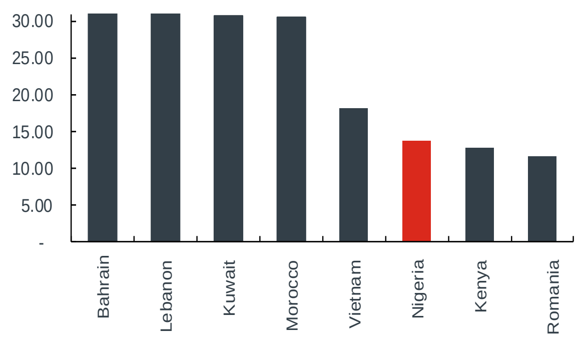
Capital markets

Equities

Although the local bourse kicked off the week on a sluggish note, bargain hunting activities gained steam on the penultimate and last trading days as investors cherry-picked stocks following decent Q1-21 corporate earnings releases. Based on the preceding, the All-Share Index advanced by 1.4% w/w to close at 39,832.61 points. As a result, the YTD loss moderated to -1.1%. However, activity levels were weaker than the prior week, as trading volumes and value declined by 13.3% w/w and 75.1% w/w, respectively. Notably, bargain hunting in large-cap stocks; SEPLAT (+7.5%), BUACEMENT (+7.2%), NB (+7.0%), DANGCEM (+6.4%), and MTNN (+6.0%) drove the weekly gain. Sectoral performance was broadly positive as the Banking (-2.1%) index emerged as the week's sole decliner. The Insurance (+3.8%) index led the gainers' chart, followed by Industrial Goods (+2.4%) and Oil and Gas (+1.9%) indices. The Consumer Goods (0.0%) index closed flat.

We expect mixed market performance in the week ahead as the bulls will likely increase their positions in light of decent corporate earnings released this week. On the other hand, the bears will look to take advantage of the two-week gains in cashing out given improving 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	359.57	352.07	-2.1%	-10.4%
Consumer Goods	558.45	558.32	0.0%	-2.6%
Industrial Goods	1902.76	1,947.64	2.4%	-5.1%
Insurance	194.12	201.49	3.8%	6.3%
Oil & Gas	265.65	270.76	1.9%	19.7%

Source: NSE, Cordros Research

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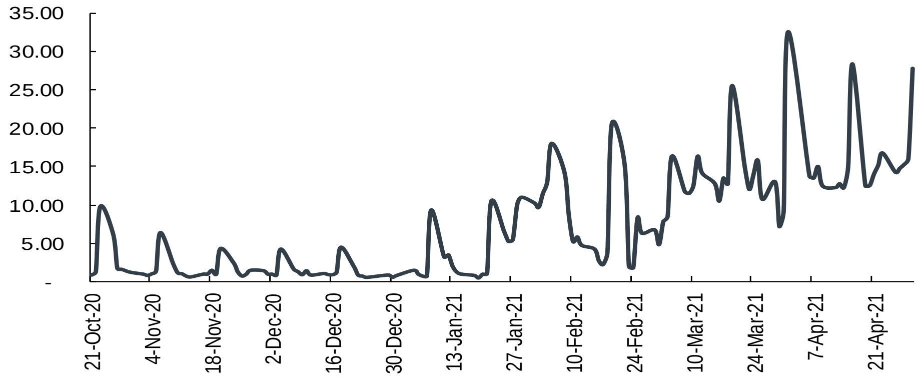
Money market and fixed income

Money market

For the ninth consecutive week, the overnight (OVN) rate ended the week in the double digits region. The rate expanded by 11.00 ppts w/w to 27.8%, as outflows for CRR debits, net NTB (NGN41.00 billion) issuances and CBN's weekly FX and OMO auctions outweighed inflows from FAAC disbursements (*c.* NGN303.00 billion), FGN bond coupon payments (NGN160.32 billion) and OMO (NGN20.00 billion) maturities.

We expect the OVN rate to remain elevated in the coming week following the absence of significant inflows into the system.

Fig 5: Overnight money market rate (%)



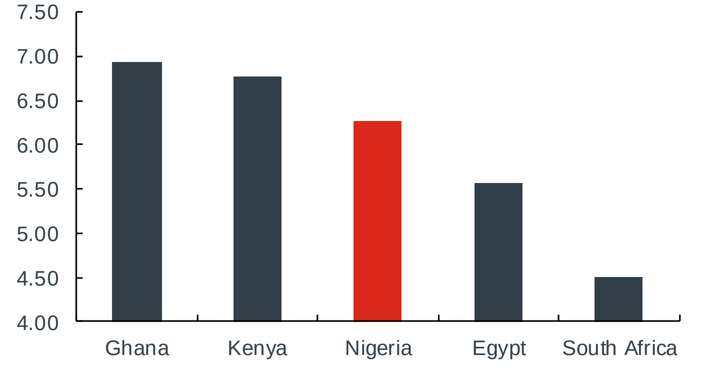
Source: FMDQ, Cordros Research

Treasury bills

The Treasury bills secondary market remained bearish as the average yield across all instruments expanded by 10bps to 6.6%. Across the market segments, sell-offs of OMO instruments (the average yield was higher by 17bps to 7.9%) drove the bearish performance, as market participants sold off in anticipation of renewed supply. Elsewhere, activity level was weak in the NTB secondary market (average yield closed flat at 4.6%) as focus shifted towards the NTB PMA in anticipation of higher yields. At the NTB auction, the CBN offered NGN88.46 billion – NGN11.39 billion of the 91-day, NGN6.00 billion of the 182-day, and NGN71.07 billion of the 364-day –and ultimately allotted NGN 129.46 billion, 46.3% higher than offered. The auction stop rates were unchanged at 2.00% and 3.50% on the 91D, 182D bills but increased by 75bps to 9.75% on the 364D bill. The auction was oversubscribed with a subscription level of NGN242.94 billion, translating to a bid-to-cover ratio of 1.9x (previous auction: 1.6x).

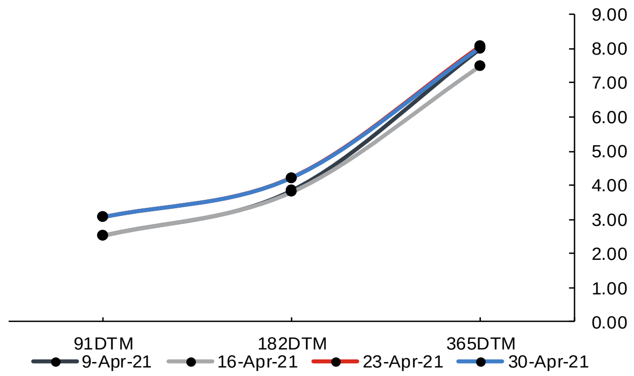
We expect the average yield of T-bills to trend higher next week, as we expect another liquidity dearth in the system.

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

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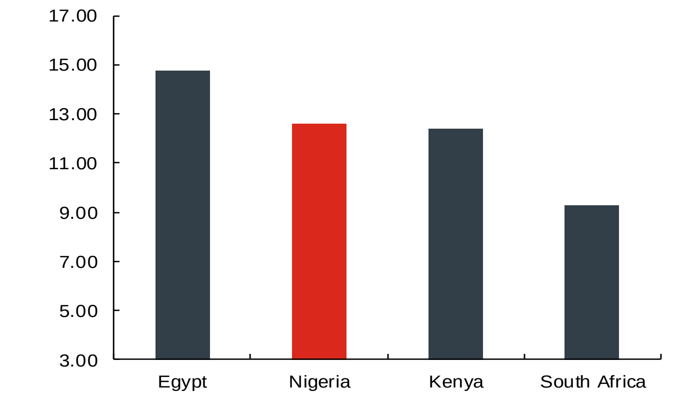
Bonds

Trading in the Treasury bonds secondary market remained bearish as investors continue to anticipate higher yields for FGN bonds. Thus, the average yield expanded by 28bps to 11.9%. Across the benchmark curve, average yield expanded at the short (+58bps), mid (+2bps) and long (+35bps) segments, following sell-offs of the APR-2023 (+155bps), MAR-2027 (+21bps) and APR-2037 (+67bps) bonds, respectively.

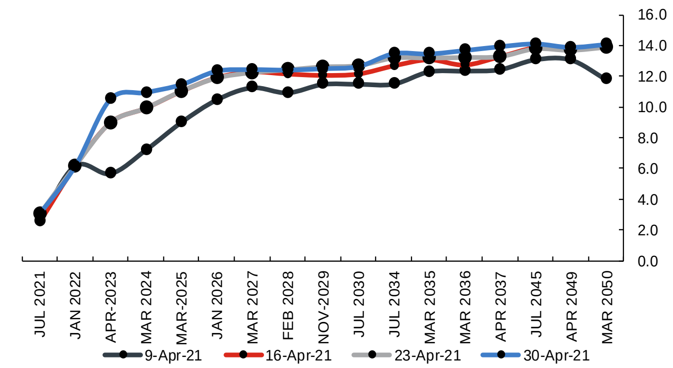
Considering the expectations of uptick in yields and the increased supply of domestic debt instruments as the DMO intends to securitize the Ways and Means balance, we expect the upward retracement in yields to persist in the short term.

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



Source: Bloomberg, Cordros Research

Fig 9: FGN bond yield curve (%)



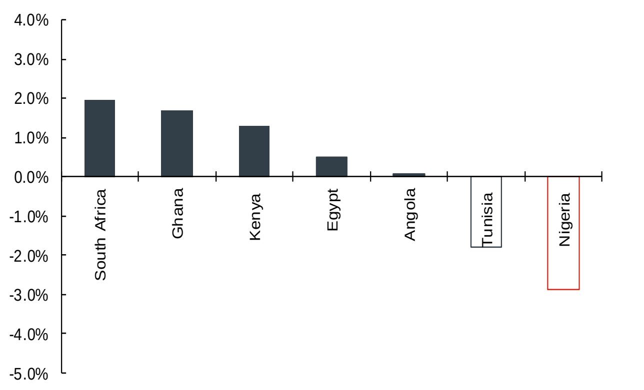
Source: FMDQ, Cordros Research

Foreign exchange

Nigeria's FX reserves sustained its decline as outflows from the reserves outstripped inflows. Thus, it dipped by USD185.39 million w/w to USD34.91 billion (30th April 2021). Elsewhere, the naira was flat at NGN410.00/USD and NGN485.00/USD at the I&E window (IEW) and the parallel market, respectively. At the IEW, total turnover (as of 29th April 2021) decreased by 31.3% WTD to USD239.87 million, with trades consummated within the NGN392.00 – 435.65/USD band. In the Forwards market, the rate appreciated across the 1-month (+0.2% to NGN412.85/USD), 3-month (+0.2% to NGN418.79/USD), 6-month (+0.2% to NGN427.83/USD) and 1-year (+0.3% to NGN446.20/USD) contracts.

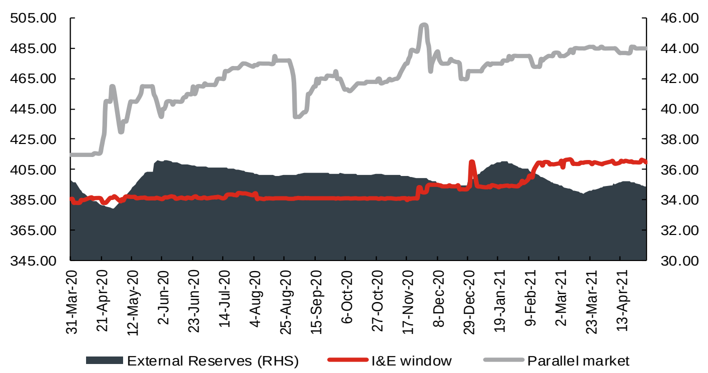
We expect improved liquidity in the IEW over the medium term, given the higher oil prices and an expected increase in crude oil production volume. Accordingly, we expect the naira to remain relatively range-bound (NGN410.00/USD – NGN415.00/USD) at the IEW. Similarly, we believe the CBN will devalue the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

- FG spends N568.5bn annually on power tariff shortfalls – World Bank
- Electricity tariffs may rise in July, NERC plans review
- CBN injects $1.47bn into forex market in one month
- Harsher Times Beckon as NNPC Warns No FAAC Remittance for May
- First Bank directors fired to protect customers, minority shareholders – CBN