4 June 2021

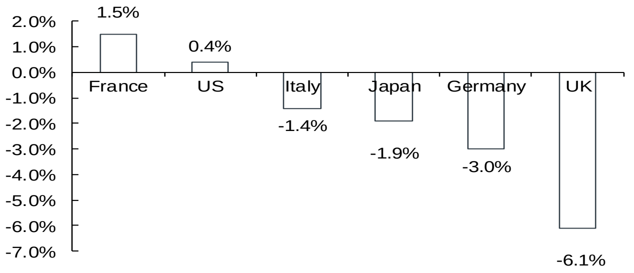
Weekly economic and market update.
Overview of markets in the week ended 04 June 2021

Global economy

According to the Chinese National Bureau of Statistics (NBS), China's manufacturing PMI slowed to 51.0 points in May (vs April: 51.1 points) – the lowest since February (50.6 points) as supply bottlenecks build up in the economy amidst elevated inflationary pressure. Accordingly, new orders (51.3 points vs April: 52.0 points) and employment (48.9 points vs April: 49.6 points) sub-indices slowed down during the review period. Meanwhile, non-manufacturing PMI increased to 55.2 points (vs April: 54.9 points) due to more robust growth in the construction sector (60.1 points vs April: 57.4 points). Overall, the composite PMI increased by 0.4 points m/m to 54.2 points, indicating that Chinese enterprises' overall production and operations continued to expand steadily. **Although the supply chain constraint remains an issue amidst increased COVID-19 cases in Asia, a continued increase in services activities could help neuter the slowdown in factory activity and support growth over the year.**

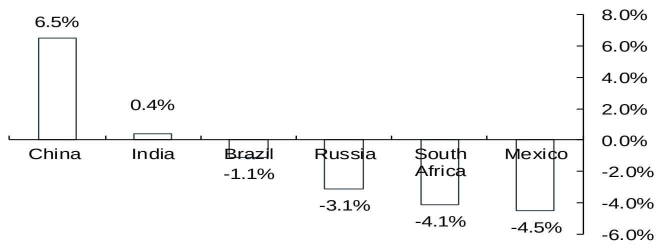
The Eurozone's private sector growth improved in May as majority of the countries in the region eased COVID-19 restrictions amidst rapid vaccination progress. According to the IHS Markit, Eurozone's composite PMI rose for the third consecutive month to 57.1 points (vs April: 53.8 points) – the highest since February 2018 (57.1 points). The preceding was supported by a resurgence in services PMI (55.2 points vs April: 50.5 points) as restrictions were considerably eased after the tight containment measures in April. Similarly, the manufacturing PMI posted a new record high of 63.1 points (vs April: 62.9 points) – the 11 consecutive month of rising above the 50.0 no-change mark amidst strong market demand. **The preceding suggests that the Eurozone will post a strong GDP growth in Q2-21, fuelled by a revival in business activity amidst a booming manufacturing sector. However, the imbalance between growing demand and supply constraints could create room for higher inflationary pressure over 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

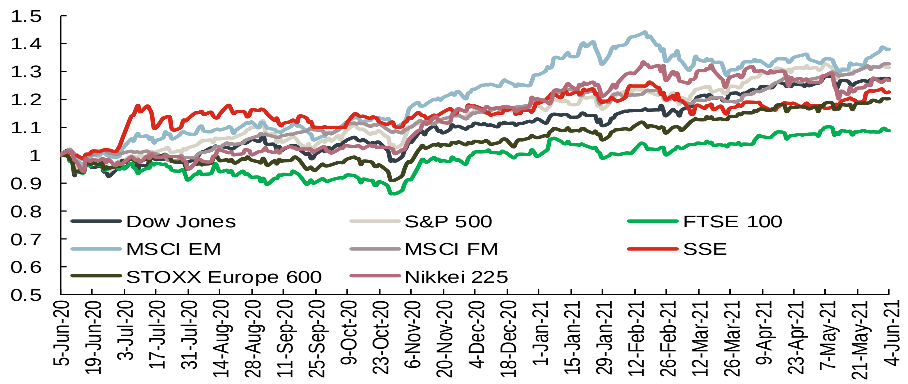


Source: Bloomberg, Cordros Research

Global markets

Global stocks posted mild gains this week as investors' sentiments hung on a balance between economic rebound and inflation concerns. Consequently, US (DJIA: +0.1%; S&P: -0.3%) equities retreated from last week's highs, as investors traded cautiously in anticipation of policy tightening from the Fed, amid positive data showing an increase in US non-farm payrolls in May. European markets (STOXX Europe: +0.4% and FTSE 100: +0.4%) recorded marginal gains in reaction to the positive employment data in the US. In Asia, the Nikkei 225 (-0.7%) and SSE (-0.2%) ended the week in the red as investors were concerned that the positive US employment data would slow down central bank stimulus. On the other hand, Emerging (MSCI EM: +1.7) stocks posted gains consequent to the rally in South Korea (+1.6%), which offset the decline in China (-0.2%). In addition, Frontier (MSCI FM: +0.9%) market index was buoyed by a positive performance in Kuwait (+1.1%).

Fig 3: Global indices (index of 1)



Source: Bloomberg, Cordros Research

CORDROS SECURITIES

4 June 2021

Nigeria

Economy

According to the Central Bank of Nigeria (CBN), credit to the private sector (CPS) increased by 10.1% y/y in April to NGN31.82 trillion (March: +10.6% y/y) – the slowest rise since July 2019 (+9.1% y/y). We believe the preceding stems from the country's weak macro fundamentals, which has caused banks to slow down risk asset creation despite the CBN's 65.0% Loan-to-Funding ratio policy. Besides that, we also think that higher yields in the fixed income market provide little incentive for the banks to rapidly extend loans to the private sector, given the risk that comes with it. On a month-on-month basis, CPS grew slowly by 1.2% (vs March: +3.1% m/m). **As the economic recovery gains momentum over the coming months, we expect CPS to increase. However, a persistent rate increase in the fixed income and interbank markets could moderate the growth in CPS given their less risky nature amidst lenders' reluctance to increase risk in their loan books.**

The Nigerian National Petroleum Corporation (NNPC) recently announced its intention to obtain a 20.0% stake in the Dangote refinery. According to the Group's spokesman, Dr Kennie Obateru, the development was in line with the Federal Government's policy which stipulates the mandatory participation of the Corporation in any privately-owned refinery that exceeds 50,000 barrels per day. Thus, Dangote refinery is amongst the six refinery projects that the Corporation seeks to obtain a stake in. **We understand that the NNPC's intention to buy a stake in the Dangote refinery is to use the deal to secure a collaboration to be the supplier of crude to the refinery once it finally comes on board. Accordingly, we think the preceding is borne out of the growing concern about less use for hydrocarbons with companies announcing their transition to clean energy. Consequently, we expect Dangote refinery to object to the decision as it is advantageous to buy from any supplier rather than a sole supplier, which could be undependable.**

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 (11th Jun)
Foreign reserve (USD billion)	34.22	35.37	34.16 (11th Jun)
Unemployment	33.28%	33.28%	*UR (Q1-21)
Brent crude oil price (USD)	71.53	51.80	65.00 (11th Jun)

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

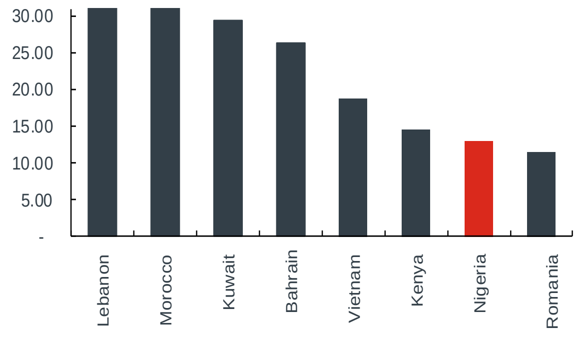
Capital markets

Equities

It was a broadly positive performance on the local bourse, with the bulls dominating in four of the five trading days. As a result, the All-Share Index edged up by 1.2% w/w, to close at 38,726.10 points. Notably, bargain hunting in large-cap stocks; DANGCEM (+3.5%), BUACEMENT (+2.8%), MTNN (+2.6%), and GUARANTY (+2.3%) buoyed market performance. Consequently, the MTD return turned positive (+0.7%), while the YTD loss moderated to -3.8%. Also, the overall activity level was relatively stronger, as trading volume and value rose by 4.3% and 0.8%, respectively. Performance across sectors was mixed, with the Industrial (+2.6%) and Insurance (+1.2%) indices recording gains, while the Consumer Goods (-0.4%) and Oil and Gas (-0.8%) indices closed in the red. The Banking index closed flat.

In the week ahead, we expect alpha-seeking investors to continue rotating their portfolio towards equities amid moderation in the uptick of yields in the FI market. We expect market performance to be dominated by the bulls, as positioning by early birds in dividend-paying stocks ahead of H1-2021 dividend declarations should outweigh profit-taking activities. We reiterate the need for positioning in only fundamentally sound stocks as the weak macro 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	355.3	355.45	0.0%	-9.6%
Consumer Goods	563.06	561.00	-0.4%	-2.2%
Industrial Goods	1859.12	1,907.40	2.6%	-7.1%
Insurance	205.43	207.99	1.2%	9.8%
Oil & Gas	309.2	306.75	-0.8%	35.6%

Source: NSE, Cordros Research

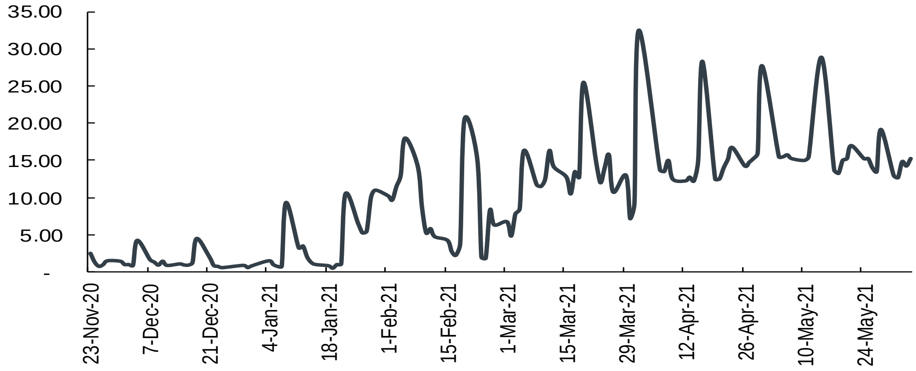
Money market and fixed income

Money market

The overnight (OVN) rate contracted by 392bps w/w, to 15.3%. The contraction was due to an improvement in system liquidity (this week's average: *c.* NGN248.79 billion vs prior week: *c.* -NGN300.55 billion) as inflows from OMO (NGN55.46 billion) offset outflows for CBN's weekly FX and OMO auction (NGN18.30 billion).

We expect the OVN rate to remain elevated in the coming week as expected inflows from OMO maturities (NGN80.00 billion) may not be sufficient to saturate system liquidity.

Fig 5: Overnight money market rate (%)



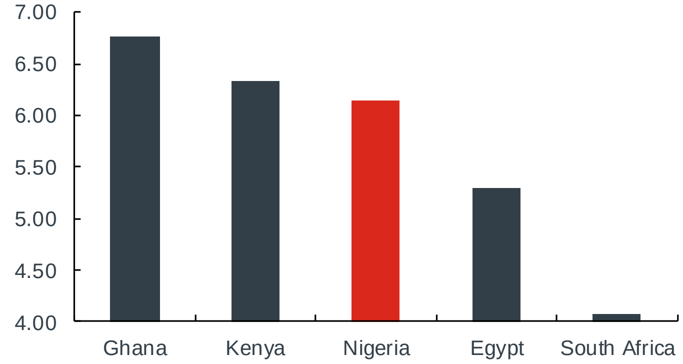
Source: FMDQ, Cordros Research

Treasury bills

It was another week of bearish trading in the Treasury bills secondary market, following the absence of renewed injections despite the improved system liquidity. Specifically, the average yield across all instruments expanded by 28bps to 8.3%. Across the market segments, the average yield closer higher by 39bps to 10.0% at the OMO segment and by 16bps to 6.3% at the NTB segment. This week, the CBN sold NGN18.30 billion worth of bills to market participants at the OMO auction and maintained stop rates across the three tenors, as with previous auctions.

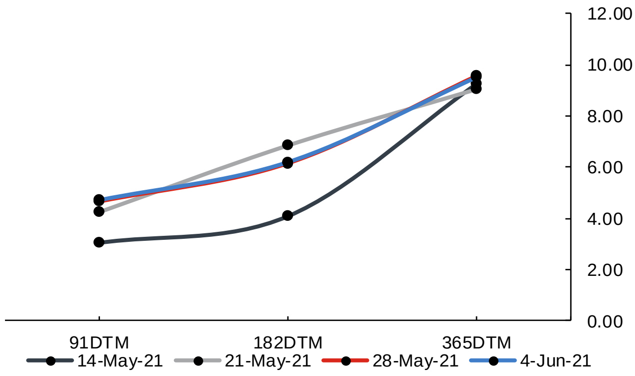
Next week, we still maintain our view of higher average yields on T-bills given as we expect system liquidity to remain repressed. Also, we expect quiet trading at the NTB market as participants' position for next week's PMA, with the CBN set to roll over NGN89.05 billion worth of maturities.

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

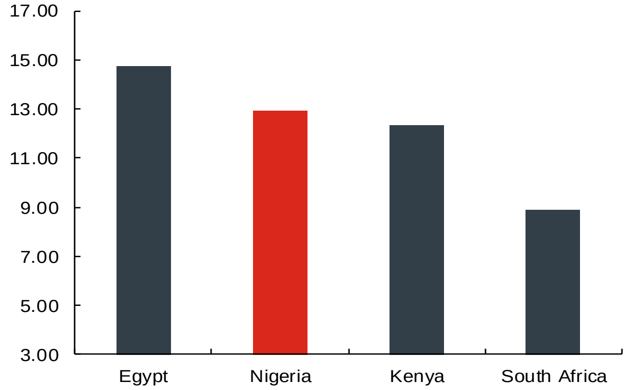
4 June 2021

Bonds

Proceedings in the Treasury bonds secondary market turned bullish as investors' cherry-picked attractive priced instruments across all tenor segments of the Treasury bond curve. Consequently, the average yield contracted by 31bps to 12.2%. Across the benchmark curve, the average yields contracted at the short (-37bps), mid (-29bps) and long (-30bps) segments, with major buying interests, witnessed on the MAR-2024 (-54bps), MAR-2027 (-35bps) and MAR-2036 (-46bps) bonds, respectively.

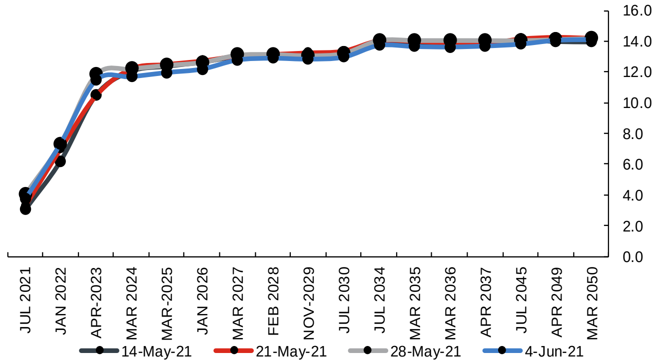
We hold a cautious view of the market, notwithstanding the improved demand in the past two weeks, as institutional investors remain on the sidelines, preferring higher-yielding short term instruments. Thus, we expect the average yield on bonds to remain range-bound at current levels.

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



Source: Bloomberg, Cordros Research

Fig 9: FGN bond yield curve (%)



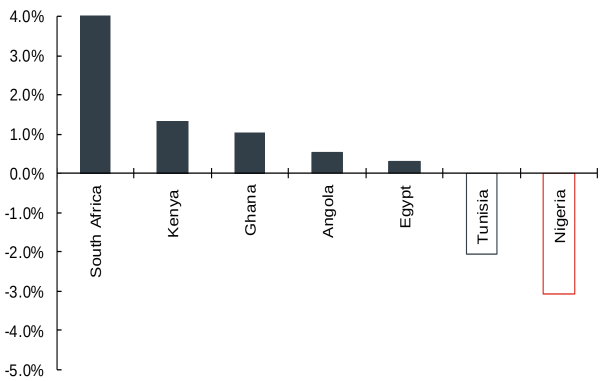
Source: FMDQ, Cordros Research

Foreign exchange

Nigeria's FX reserves sustained its decline, dipping USD23.22 million w/w to USD34.22 billion (1st June 2021). Meanwhile, the naira appreciated by 0.3% to NGN410.75/USD at the I&E window (IEW) but depreciated by 1.4% to NGN502.00/USD at the parallel market. At the IEW, total turnover (as of 3rd June 2021) decreased by 59.6% WTD to USD535.38 million, with trades consummated within the NGN400.00 – 420.47/USD band. In the Forwards market, the rate was flat across the 1-month (NGN413.54/USD), 3-month (NGN420.34/USD) and 6-month (NGN429.34/USD) contracts, but depreciated on the 1-year (-0.1% to NGN448.02/USD) contract.

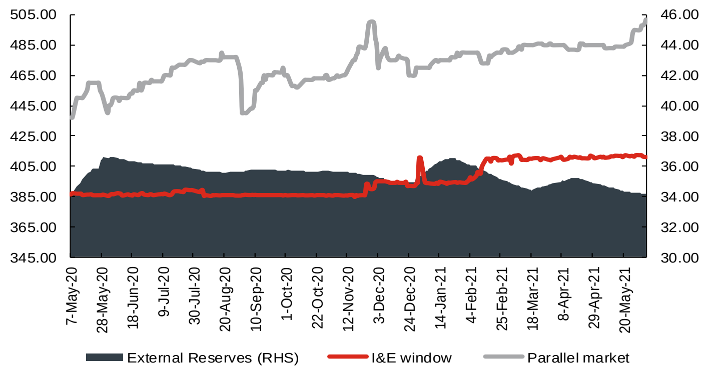
We expect improved liquidity in the IEW over the medium term, given the higher oil prices and an expected increase in crude oil production volume. Accordingly, we expect the naira to remain relatively range-bound (NGN410.00/USD – NGN415.00/USD) at the IEW.

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

4 June 2021

Top business headlines of the week

- NNPC pledges crude supply to 20,000bpd Lagos refinery
- Oil export revenue dropped by 98% in April – NNPC
- External reserves dropped by $640m in May – CBN
- CBN: Forex inflows drop to $43bn in 2020
- Foreign stock investors withdraw N99.94bn in four months