11 June 2021

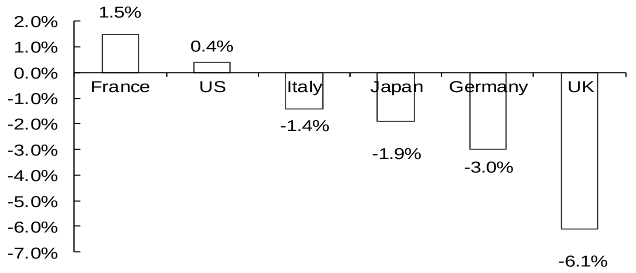
Weekly economic and market update.
Overview of markets in the week ended 11 June 2021

Global economy

According to the latest data released by the Chinese National Bureau of Statistics (NBS), headline inflation rose by 40bps to 1.3% y/y in May (April: 0.9% 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 (+1.6% y/y vs April: +1.3% y/y) given the continued surge in vehicle fuels (+21.3% y/y vs April: +19.4% y/y) and communication facilities (+6.5% y/y vs April: +6.7% y/y). Despite the sustained fall in pork prices (-23.8% y/y vs April: -21.4% y/y), food inflation (+0.3% y/y vs April: -0.7% y/y) rose for the first time in four months on account of higher prices for aquatic products and eggs. **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) pandemic-induced stimulus packages and (2) continued impact of the rally in energy prices.**

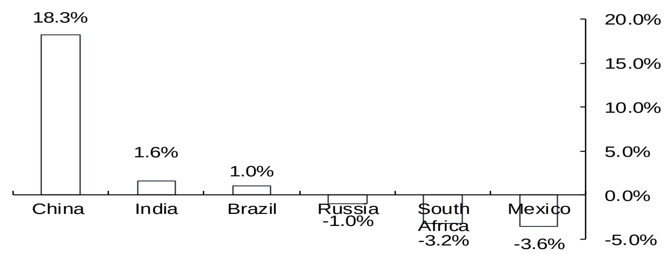
Unfavourable base effects continue to propel consumer prices in the United States. According to the U.S. Bureau of Labour Statistics, the Consumer Price Index rose by 0.8ppts to 5.0% y/y in May (April: 4.2% y/y) – the highest since August 2008 (5.4% y/y) when oil prices rose above USD140.00/bbl.. Asides from the low base effect, we understand that used cars and motor fuels contributed c.60.0% to the jump in the inflation rate for the current month, suggesting that the price increases are concentrated on specific items rather than the total basket. Accordingly, the most significant price pressures were recorded in the prices of used cars and trucks (29.7% y/y vs April: 21.0% y/y) and motor fuels (55.5% y/y vs April: 37.3% 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 the (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 Q1-2021 – DMs



Source: Bloomberg, Cordros Research

Fig 2: Annualized GDP growth rate Q1-2021 – EMs

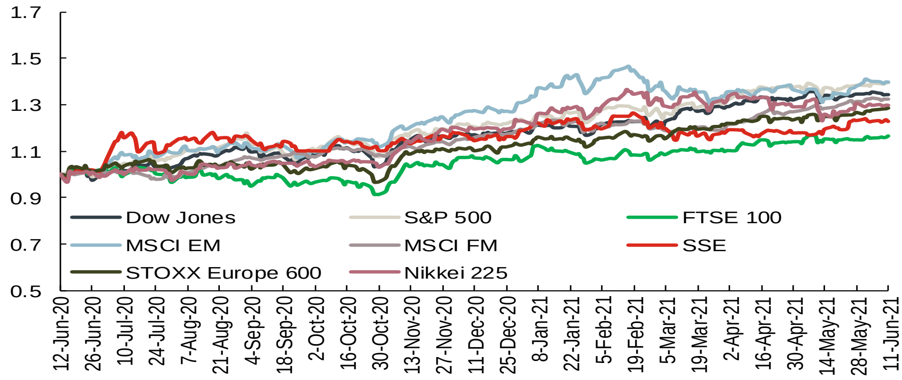


Source: Bloomberg, Cordros Research

Global markets

Global stocks posted mixed performances as concerns over long term inflation in the U.S and divergent views on the outcome of the June FOMC meeting weighed on investors' sentiment. In the U.S, the DJIA (-0.8%) gave up gains accumulated in the prior week as fears of longer-term inflation subdued appetite for risk assets. In comparison, the S&P (+0.2%) posted gains as investors overlooked hotter-than-expected inflation reading amid growing confidence that the Federal Reserve will maintain its ultra-accommodative policies. In Europe, the STOXX Europe (+0.7%) and FTSE 100 (+0.8%) rallied as investors relished the prospects of continued policy support following the ECB upwardly revised inflation projections. In Asia, the Nikkei 225: (0.0%) closed flat in what can be described as a directionless week amid a dearth of positive triggers. In contrast, the Chinese market (SSE: -0.1%) ended the week in the red despite a strong rebound late in the week induced by a rally in the shares of Oil companies. Similarly, the Emerging (MSCI EM: -0.2%) and Frontier (MSCI FM: -0.3%) market stocks also mirrored the weak appetite for global equities consequent to the weakness in China (-0.1%) and sell-offs in the Vietnamese (-1.9%) market, respectively.

Fig 3: Global indices (index of 1)



Source: Bloomberg, Cordros Research

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Nigeria

Economy

We received the Q4-20 budget implementation report from the budget office, and it showed that the FGN's fiscal deficit was wider than preliminary estimates. For one, total revenue in Q4-20 (NGN824.87 billion) was 38.5% below the budgeted amount (NGN1.34 trillion) due to declines across major non-oil revenue sources – CIT (-25.8% y/y), VAT (-14.0%) and FGN's share of signature bonus (-99.9%). Elsewhere, total expenditure of NGN2.68 trillion during the review quarter outperformed the budgeted estimate of NGN2.49 trillion by 7.6%. Thus, the fiscal deficit printed NGN1.86 trillion in Q4-20, bringing the 2020FY actual deficit to NGN6.60 trillion (or 4.3% of GDP) – NGN453.13 billion above the preliminary estimate (NGN6.15 trillion). **Looking ahead, we expect the recovery in economic activities to support FGN non-oil revenue amidst a price-induced increase in oil revenue. However, we expect the government's expansionary fiscal stance to keep expenditure elevated. Overall, we expect the 2021E fiscal deficit between NGN5.01 trillion and NGN5.42 trillion.**

Recent data published by the Debt Management Office (DMO) revealed that Nigeria's public debt stock increased by 0.6% q/q to NGN33.11 trillion in Q1-21 (Q4-20: NGN32.92 trillion). We highlight that the increase in the debt stock was due to a 2.1% q/q increase in domestic debt to NGN20.64 trillion (Q4-20: NGN20.21 trillion), reflecting (1) increased bond issuance and (2) promissory notes issued to settle the inherited arrears of the FGN to State Governments and exporters during the review period. Meanwhile, external debt (37.7% of total debt) declined by 1.9% q/q to NGN12.47 trillion (or USD32.86 billion) following the redemption of the USD500.00 million Eurobond, which matured on 28th January. **Barring the securitisation of the outstanding CBN's Ways and Means, we expect the total public debt stock to hit NGN37.78 trillion in 2021FY in line with the additional borrowing by the States and FGN to fund their 2021 fiscal operations – estimated at NGN4.86 trillion.**

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)	NGN410.13	NGN380.00	NGN410.13 (18th Jun)
Foreign reserve (USD billion)	34.05	35.37	33.95 (18th Jun)
Unemployment	33.28%	33.28%	*UR (Q1-21)
Brent crude oil price (USD)	72.83	51.80	65.00 (18th Jun)

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

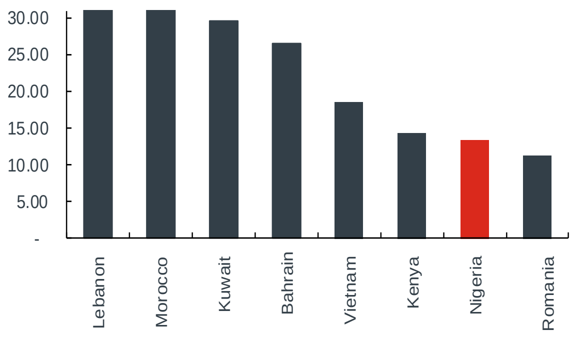
Capital markets

Equities

In line with our expectations, sentiments remained broadly positive for the second consecutive week, as investors continued to cherry-pick stocks with attractive dividend yields ahead of H1-2021 dividend declarations. Notably, foreign investors' interest in OKOMUOIL (+20.7%) and bargain-hunting in STANBIC (+6.1%), FLOURMILL (+5.3%), DANGCEM (+4.6%) and DANGSUGAR (+4.4%) spurred the weekly gain. Pertinently, the All-Share index closed the week 1.1% higher at 39,157.29 points. Consequently, the MTD return printed 1.9%, while the YTD loss moderated to -2.8%. Activity levels were mixed, as trading volume declined by 2.2% w/w, while trading value rose by 34.4% w/w. Sectoral performance was broadly positive, as the Industrial Goods (+2.4%) index led the gainers' chart, followed by the Oil and Gas (+1.4%), Consumer Goods (+1.1%) and Banking (+0.9%) indices. The Insurance (-4.1%) index emerged as the week's sole loser.

In the week ahead, we expect investors to continue cherry-picking stocks ahead of the H1-2021 dividend declarations. With the recent development in the FI market, we are approaching an inflexion point; we, therefore, see scope for increased buying interest from risk-averse investors. Notwithstanding, we advise investors to take positions in only fundamentally justified stocks as the unimpressive 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	355.45	358.61	0.9%	-8.8%
Consumer Goods	561	566.96	1.1%	-1.1%
Industrial Goods	1907.4	1,952.38	2.4%	-4.9%
Insurance	207.99	199.42	-4.1%	5.2%
Oil & Gas	306.75	310.95	1.4%	37.5%

Source: NSE, Cordros Research

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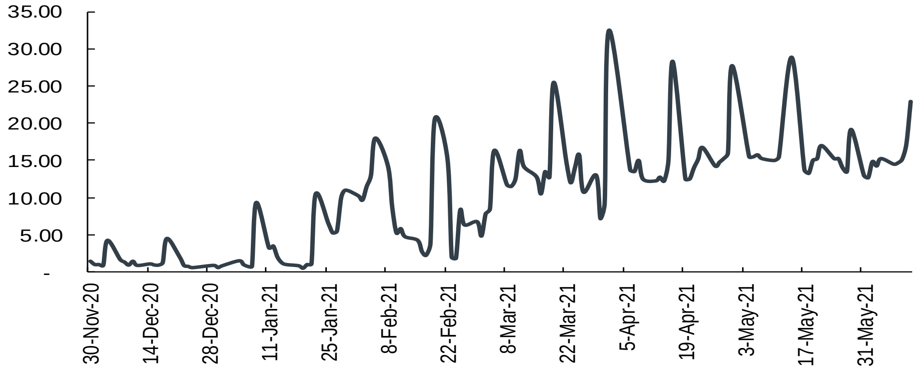
Money market and fixed income

Money market

The overnight rate expanded by 768bps w/w to 22.9%, as debits for CRR, NTB net issuances (NGN79.22 billion), and CBN's weekly auctions outweighed inflows from OMO maturities (NGN80.00 billion).

In the coming week, we expect the OVN rate to temper from current levels but remain elevated, as expected inflows from OMO maturities (NGN46.00 billion) may not be sufficient to offset funding pressures for the week.

Fig 5: Overnight money market rate (%)



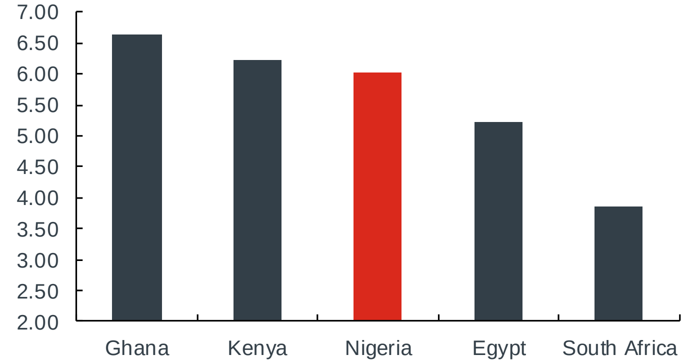
Source: FMDQ, Cordros Research

Treasury bills

Trading in the Treasury bills secondary market turned bullish this week following demand for the mid and long-dated OMO bills. We attribute this to the increased liquidity in the interbank market on Wednesday. Consequently, average yields across all instruments contracted by 13bps to 8.2%. Across the market segments, the average yield at the OMO segment declined by 33bps to 9.7%. In contrast, average yields at the NTB segment sustained its bearish run and expanded by 10bps to 6.4%. Elsewhere, we highlight that CBN's Special bills (+53bps to 9.7%) were keenly traded as some local banks sold off to the secondary market to ease funding pressures. At the PMA, the CBN offered bills worth NGN91.27 billion with allotments of NGN5.06 billion of the 91D, NGN10.09 billion of the 182D and NGN164.11 billion of the 364D – at respective stop rates of 2.50% (previously 2.50%), 3.50% (previously 3.50%), and 9.64% (previously 9.65%). Also, the CBN sold NGN20.00 billion worth of bills to market participants at this week's OMO auction and maintained stop rates across the three tenors, as with previous auctions.

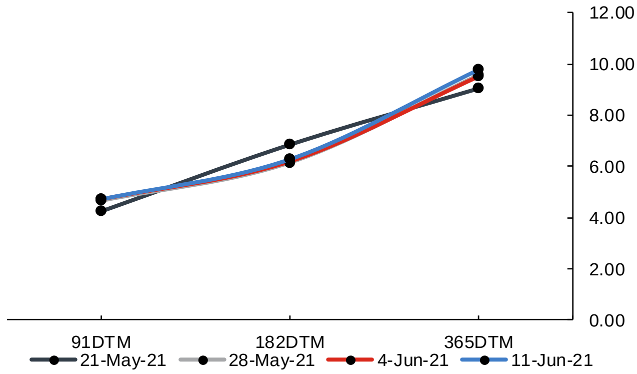
We still maintain our view of higher average yields on T-bills, considering the expected dearth in system liquidity.

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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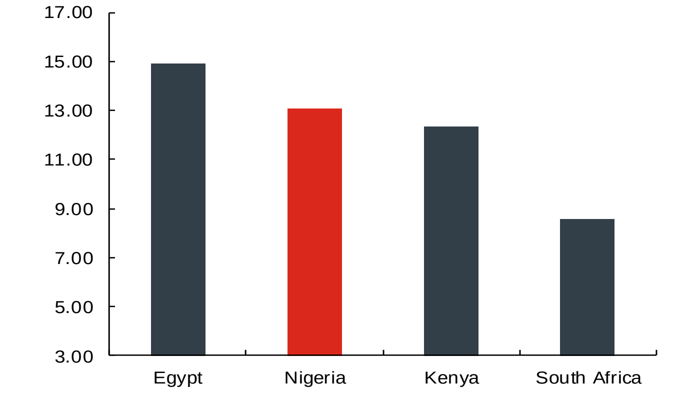
Bonds

Bearish sentiments returned to the bonds market as investors' demand weakened following sustained expectations of higher yields. Specifically, average yields expanded by 6bps to 12.3%. Across the benchmark curve, average yield expanded at the short (+4bps), mid (+10bps) and long (+1bp) segments following sell-offs of the JAN-2026 (+24bps), NOV-2029 (+20bps) and JUL-2045 (+30bps) bonds, respectively.

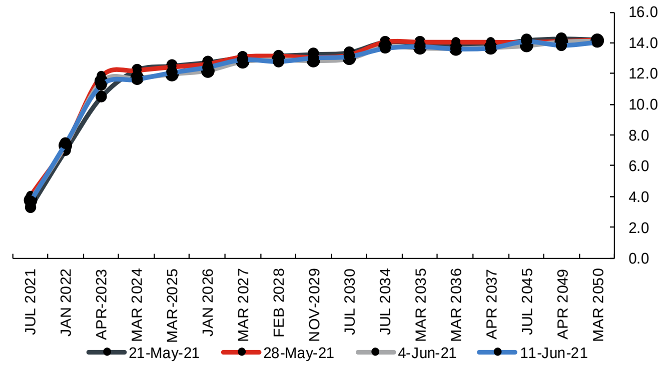
In the coming week, we expect the release of the May 2021 CPI (Cordros Forecast: 18.01%) to shape market sentiments and the direction of yields. In the longer term, we maintain our expectations for higher yields, as institutional investors' preference for higher-yielding short to mid-term instruments persists.

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



Source: Bloomberg, Cordros Research

Fig 9: FGN bond yield curve (%)



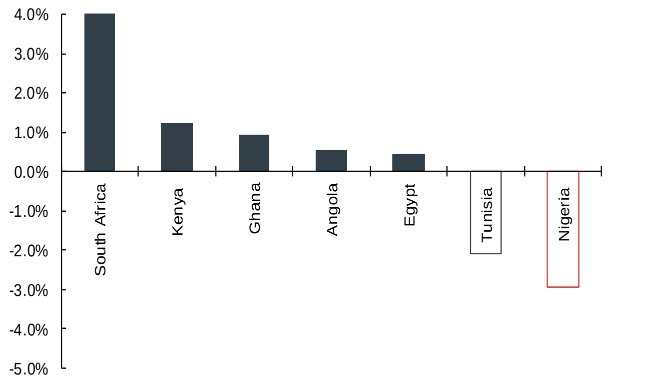
Source: FMDQ, Cordros Research

Foreign exchange

Nigeria's FX reserves sustained its decline, dipping USD122.75 million w/w to USD34.05 billion (9th June 2021) – the lowest since November 2017. Meanwhile, the naira was flat at NGN410.80/USD and NGN502.00/USD at the I&E window (IEW) and parallel market, respectively. At the IEW, total turnover (as of 10th June 2021) decreased by 29.7% WTD to USD538.63 million, with trades consummated within the NGN400.00 – 420.77/USD band. In the Forwards market, the rate appreciated across the 1-month (+0.1% to NGN413.33/USD), 3-month (+0.2% to NGN419.51/USD), 6-month (+0.2% to NGN428.36/USD) and 1-year (+0.3% to NGN446.56/USD) contract.

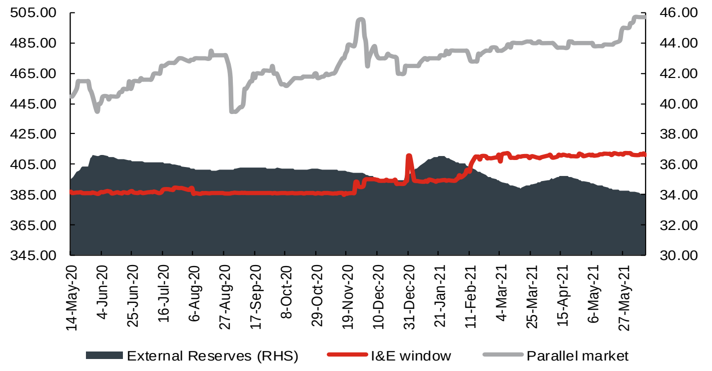
We expect improved liquidity in the IEW over the medium term, given the higher oil prices and an expected increase in crude oil production volume. Accordingly, we expect the naira to remain relatively range-bound (NGN410.00/USD – NGN415.00/USD) at the IEW.

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

Top business headlines of the week

- FG recorded N3.94tn trade deficit in Q1
- OPEC members lost $1trn in 2 years to price slump – Barkindo
- SIM-NIN linkage: Telcos lose 19.20 million subscribers in five months
- Nigeria's total debt rises by N191bn in three months, hits N33.1tn
- CBN's digital currency'll begin before 2022– Bankers' Committee