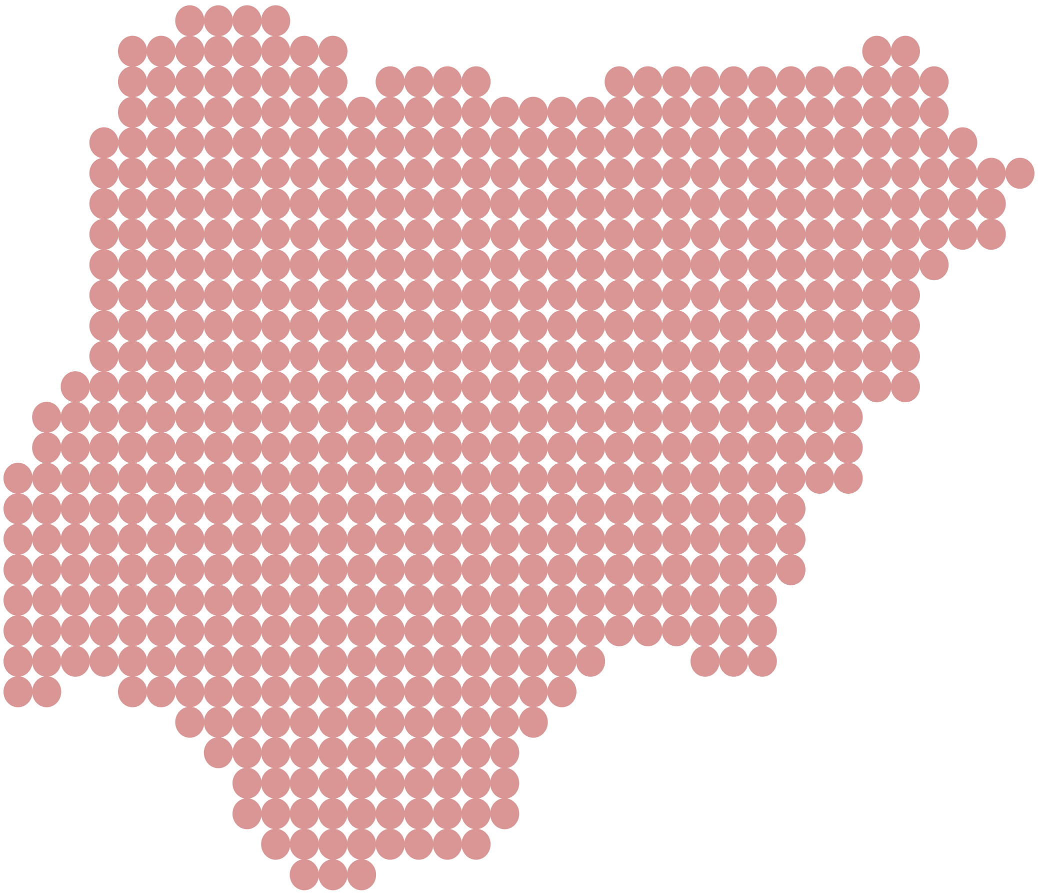


H1 2021 Economic and Financial Markets Review

+

Outlook & Investment Strategies for H2 2021

Table of Content

Executive Summary

The global economy expanded for the eleventh consecutive month in May as growth in output and new business orders was sustained. Notably, indexes for new business and new export orders rose to 58.5 points and 54 points respectively (from 52.2 points and 49.8 points in December 2020). Input cost index also rose to 67 points (from 59 points in December 2020) and was transferred to consumers as output price index rose to 59.1 from 53. Expansion in business activity was partly spurred by increased business confidence amid increased rollout of Coronavirus vaccines which allowed for an easing of lockdowns in several countries. According to the J.P. Morgan Global Composite Output Index, global business activities (manufacturing and services) rose to 58.4 points in May 2021, faster than 52.7 points in December 2020.

In the first quarter of 2021, Nigeria printed a year-on-year (y-o-y) real output growth rate of 0.51% to N16.83 trillion (or USD112.24 billion) as it further recovered from last year's recession, albeit slowly. So far, we have seen FG significantly ease lock down measures as households and businesses were allowed to resume economic activities, but not fully. Although the country's recovery rate from recession appeared rather slow, the several billions of Naira in economic stimulus packages provided by the monetary and fiscal authorities to help households and businesses cope with the effects of COVID-19 supported the fragile economic recovery.

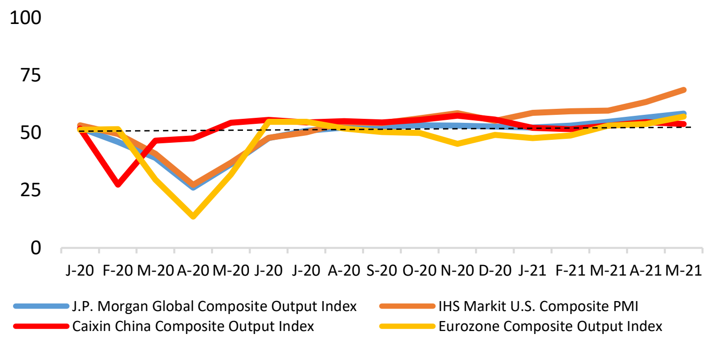
Money Supply (M3) grew by 1.15% to N39.07 trillion as at April 2021 from N38.63 trillion as at December 2020, amid a 3.35% growth in net Domestic Assets to N32.34 trillion which more than offset an 8.25% decline in net Foreign Assets over the same period. Growth in money supply was primarily driven by 3.03% growth in quasi money (near cash instruments such as savings accounts, treasury bills, money market accounts, etc.) to N22.39 trillion and a 1.55% increase in demand deposits to N13.69 trillion

Interest rates moved northward in H1 2021 despite CBN's desire to maintain dovish monetary policy plan throughout the year 2021. The increase in rate which was in line with our expectations became necessary as CBN battled with depreciating Naira against other foreign currencies, and inflationary pressure.

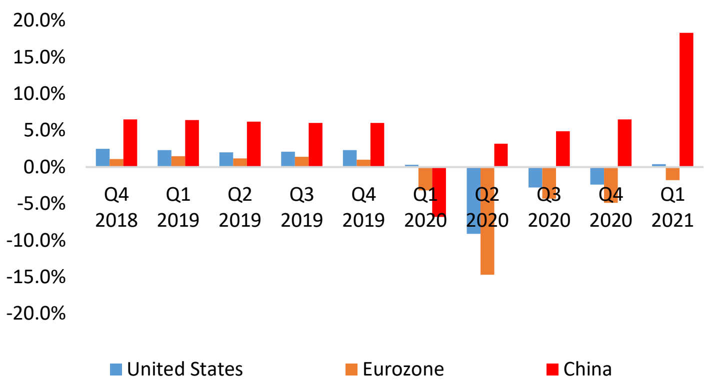
We note the willingness of the monetary authority to sustain its expansionary policy in order to support the fiscal authority on its effort to boost economic activities. However, this complementary effort from the apex bank, despite its gains, has suffered certain level of setback as stop rates bounced back up amid rising inflation pressure and depreciation of the foreign exchange. Hence, these two major factors are expected to remain knotty issues in H2 2021 as CBN keeps tab on them.

Global Economy

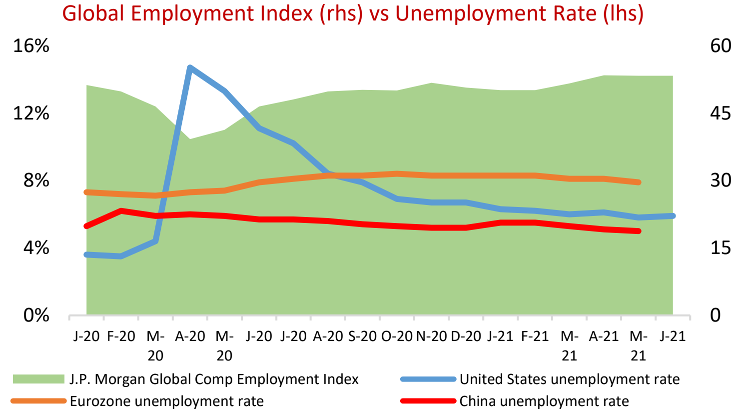
PMIs of Major Economies



GDP Growth Rates of Major Economies



Global Employment Index (rhs) vs Unemployment Rate (lhs)



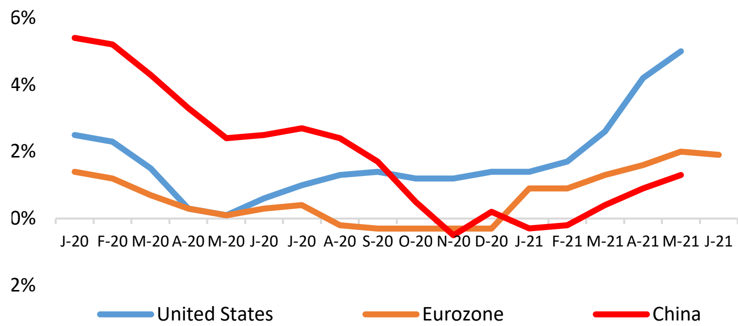
Source: IHS Markit, Trading Economics, Cowry Research

The global economy expanded for the eleventh consecutive month in May as growth in output and new business orders was sustained. Notably, indexes for new business and new export orders rose to 58.5 points and 54 points respectively (from 52.2 points and 49.8 points in December 2020). Input cost index also rose to 67 points (from 59 points in December 2020) and was transferred to consumers as output price index rose to 59.1 from 53. Expansion in business activity was partly spurred by increased business confidence amid increased rollout of Coronavirus vaccines which allowed for an easing of lockdowns in several countries. According to the J.P. Morgan Global Composite Output Index, global business activities (manufacturing and services) rose to 58.4 points in May 2021, faster than 52.7 points in December 2020. Sustained demand for investment goods, intermediate goods and consumer goods helped increase overall manufacturing sector output level. In the services sector, expansions in financial services, business services and consumer services were also recorded.

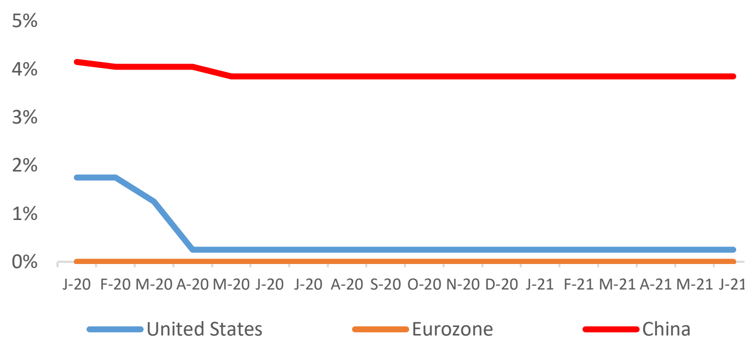
The United States registered accelerated output expansion to 68.7 points in May (from 55.3 points in December) while the Eurozone recorded 57.1 in May (from 49.1 in December). However, China posted slower expansion of 53.8 in May (from 55.8 in December).

With regard to jobs, the J.P. Morgan Global Composite Employment Index expanded to 53.3 points in May (although slower than 50.7 points in December amid improved business activity at both manufacturers and service providers. Strong job creation was seen in the US, Euro Area and the UK. However, staffing levels in India contracted.

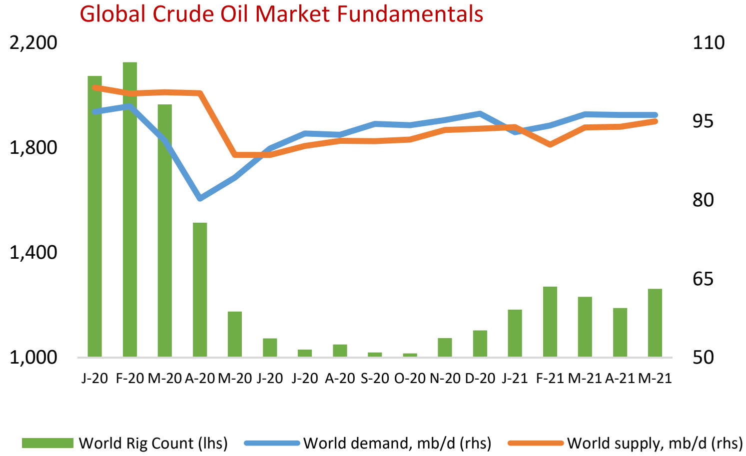
Inflation Rates of Major Economies



Key Short term Interest Rates of Major Economies



Global Crude Oil Market Fundamentals



Source: Trading Economics, US Energy Information Administration, Cowry Research

Meanwhile, global inflation appeared to have increased in May amid expansionary economic policies, expanding input and output prices, rising energy prices and higher global food prices – spot Brent crude oil price increased m-o-m by 5.69% to USD68.49 a barrel in May even as the FAO Food Price Index (FFPI) rose, on average, to 127.1 points in May (from 108.5 points in December) amid rise in prices of vegetable oils, sugar and cereals along with higher meat and dairy prices. Available data showed that Inflation rate in the United States spiked to 5% in May (from 1.4% in December), China recorded an inflation rate of 1.3% in May (higher than 0.2% in December) while Eurozone Inflation increased to 2% in May (from -0.3% in December).

The US 10-year bond yield rose to 1.47% at the end of June 2021 (from 0.91% at the end of December 2020). However, US 1-year T-Bill yield fell to 0.07% from 0.11%. German 10-year bond yield rose to -0.20% at the end of June (from -0.57% at the end of December) while the 1-year yield rose to -0.61% from -0.73%. Over the same period, China's 10-year bond yield fell to 3.11% from 3.26% while its 1-year bond yield fell to 2.32% from 2.69%.

In the global energy market, latest statistics from the US Energy Information Administration showed that world crude oil consumption (demand) moderated year to date by 0.26% to 96.2 million barrels per day (mbpd). Nevertheless, quantity demanded exceeded world crude oil supply which increased by 1.54% to 95 mbpd in May over the same peiod. Meanwhile, world rig count climbed by 14.31% to 1,262 in May 2021 as demand for transportation, travel, logistics and international trade, among other things, continued to grow business and social activities continued to pick up.

FOREIGN SECTOR: Nigeria Sees Decline in Current Account Deficit

Nigeria reported a 66.7% q-o-q decline in current account deficit to USD1.75 billion (and 63.7% y-o-y). This followed a 25% q-o-q decline in foreign trade deficit to USD7.13 billion in Q1 2021 (19% lower than USD8.84 billion in Q1 2020). The lower deficit was amid a 19% q-o-q decline in imported goods to USD11.94 billion, a 4% q-o-q fall in imported services to USD4.09 billion, an 8.6% decline in exported goods to USD7.71 billion and a 10.9% q-o-q increase in exported services to USD1.19 billion. Also, net current income earned by Nigerians abroad fell q-o-q by 52.3% to USD0.68 billion. However, net current transfers into the country grew q-o-q by 7.5% to USD6.06 billion (of which net workers remittances constituted 70.5% or USD4.28 billion).

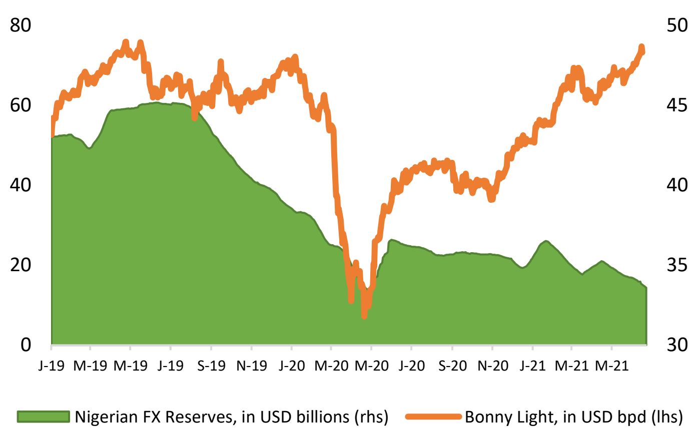
Balance of Payments (Amounts in USD Bn)	Q1 2021	Q4 2020	%Δ
Current Account Balance	-1.75	-5.26	-67%
Trade Balance	-7.13	-9.47	-25%
Primary Income Balance (Earnings)	-0.68	-1.43	-52%
Secondary Income Balance (Transfers)	6.07	5.64	8%
Capital & Financial Account Balance	7.89	-3.37	-334%
Net Errors & Omissions	6.14	-8.64	-171%

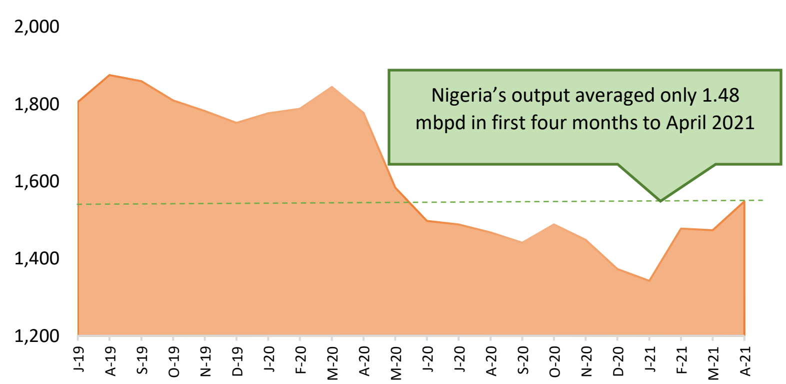
Source: Central Bank of Nigeria, Cowry Research

Despite the reduction in current account deficit, capital and financial account balance came in positive at N7.89 trillion in Q1 2021 (from minus N3.37 trillion in Q4 2020); driven by a return of foreign investments amid higher interest rate environment as well as sustained growth in foreign remittances as global economic conditions improved. Specifically, net foreign direct investments and net foreign portfolio investments rose q-o-q by 387.4% and 609.2% to USD2.14 billion and USD2.43 billion respectively while net remittances by nonresident workers rose by 5.1% to USD4.28 billion.

Meanwhile the external reserves declined year to date by 5% to USD33.6 billion as at June 23, 2021, partly caused by settlement of international debt obligations in the first quarter amid suboptimal crude oil production. Therefore, Nigeria did not maximize the potential benefits of a much stronger recovery in global crude oil prices on account of improved global crude oil market fundamentals as the country's oil output was suboptimal having produced an average of 1.48 million barrels per day (mbpd) in the first four months to April 2021. Nigeria's Bonny light crude oil price appreciated by 46% to average USD64 a barrel in the first half of 2021 (as against USD44 a barrel averaged in the second half of 2020).

External Reserves Decline Despite Improved Global Crude Oil Market Fundamentals

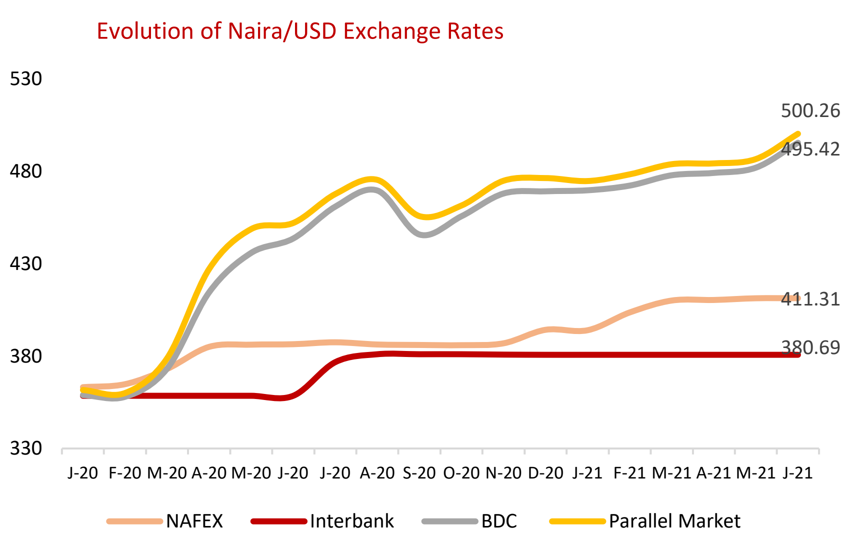




Source: Central Bank of Nigeria, Organization of the Petroleum Exporting Countries, Cowry Research

Naira Depreciates at the Various Market Segments

Owing to sustained disproportionate demand for limited foreign exchange supply, Naira depreciated, on average, against the greenback in most forex market segments. On a year-to-date basis, Naira weakened at the NAFEX, BDC and Parallel markets by 4.3%, 5.6% and 5.0% to N411.31/USD, N495.42USD and N500.26/USD respectively but was flat at N380.69 at the Interbank FX segment. Year-on-year, Naira depreciated even worse by 6.4%, 11.7% and 10.7% respectively. It also depreciated by 6.2% at the Interbank FX market.



In its attempt attract foreign exchange from foreign stakeholders, Central Bank of Nigeria, in June, replaced its erstwhile official forex rate with the NAFEX rate in what may likely be the beginning of the end of multiple exchange rates regime. By this act, the market-reflective NAFEX rate became the new official exchange rate.

Source: Central Bank of Nigeria, FMDQ, Cowry Research

CBN Strives to Meet Genuine FX Demand, Fight Speculative Attacks and Harmonize FX Rates

Against the backdrop of a current account deficit in Q1 2021 and increased pressure on the external reserves (despite relatively higher crude oil prices), the local foreign exchange market witnessed supply tightness as end users experienced difficulty purchasing US dollars. In the first quarter, Nigeria paid part of its Multilateral (USD81.05 million), Bilateral (USD61.38 million) and Commercial loans (USD500 million) which amounted to USD642 million; thus, weakening the central bank's war chest. On the one hand, CBN was pressed for foreign exchange to meet built up demand following the end of the lockdown caused by the global pandemic. On the other hand, it continued to be pressured by calls for more reforms of its rather complicated, multiple exchange rate regime and showed increasing commitment to harmonize the exchange rates to be market-reflective and in line with demands of the World Bank and foreign portfolio investors as conditions for attracting dollar inflows.

Battle against FX Speculators Rages on…

Given limited FX supply in the country, the parallel or black market has been an arena for speculative attacks on the local currency and arbitraging activities. In an attempt to close the gap between officially recognized exchange rates and the higher parallel market rate, and thus limit opportunities for speculators and arbitrageurs, CBN moved to increase foreign exchange availability and supply to the recognized markets where end users could have genuine forex needs met so that they would not have to resort to the parallel (black) market where rates recently crossed the N500/USD level.

Central Bank of Nigeria, on March 05, 2021, introduced the "Naira 4 Dollar Scheme" which offered local beneficiaries N5 for every dollar received from diaspora remittances into their domiciliary accounts. In order the encourage greater acceptance, beneficiaries were allowed the option to cash payments directly in foreign currency or receive payments into the domiciliary accounts. This was against prior unfavorable practice in which beneficiaries were constrained to received payments in their domiciliary accounts, in which case, they were subject to conversion rates determined by the participating banks as against rates closer to the parallel market rates. The Scheme was designed to encourage senders in diaspora and their intended beneficiaries to send and receive foreign exchange through the local banks with the aim of boosting availability of dollar supply via officially recognized channels which was in competition with black market where rates were more attractive. However, we observed that the scheme had limited effect on the stability of the exchange rates even though the beneficiaries effectively wound up getting greater value that was close to what was obtainable at the parallel market.

Again, the apex bank persuaded exporters to sell their dollar proceeds at the Investors & Exporters FX window by giving them the assurance that they would have unlimited access to their export proceeds whenever they needed it. Exporters preferred to change their currencies at the parallel market where rates were more attractive, given them greater value in local currency. By giving such ab assurance, CBN hoped to increase its war chest with export proceeds while at the same time, compete with the parallel market at lower price points, thus bridging the price gap.

The apex bank further announced plans to increase the amount of foreign exchange allocated to banks in order to the meet FX needs by SMEs and individuals for invisible such as BTA, PTA, school fees and medical fees, etc. This would be achieved via imprest-type arrangement in which the apex bank committed to replenish the FX supply to commercial banks subject to the retirement of unused previously allocated amounts to the satisfaction of the CBN. This, it is hoped, would meet these needs at officially recognized rates and thereby reduce demand pressure at the parallel market, thus harmonizing the exchange rates.

Stradling Exchange Rate Harmonization and Import Substitution

In deference to expectations of major stakeholders such as the Bretton Woods Institutions and Foreign Investors, the central bank has, so far, taken concrete steps towards harmonizing the exchange rates. In May, CBN adopted the autonomous, market-reflective rate (NAFEX or I&E FX rate) of N411/USD, effectively ending the official exchange rate of N379/USD. The move signaled its willingness to reform the foreign exchange market and thereby increase the confidence of international lenders, exporters and foreign portfolio investors.

Soon after, the bank also adjusted the exchange rate for import duty payment from N381/USD to N404.97/USD. This appeared to be a two-pronged approach in that while the policy was aimed at harmonizing the exchange rates, the move could increase the cost of imports and serve as a means of discouraging importers in line with the authority’s drive on import substitution. Earlier, on March 26, 2021, CBN stated that it was working to increase local wheat production and reduce importation by 60 percent within a two-year timeframe and in April, it stated it was planning to include sugar and wheat on the list of 44 import items banned from accessing forex.

How Our Predictions Fared

In our outlook for 2021, we stated that: "On a base case, we believe Nigeria will remain susceptible to exchange rate volatility in 2021 as we do not anticipate significant positive changes in economic fundamentals – especially in foreign trade – and there is only so much that monetary authority can do in terms of policy options to reverse volatile trend. In fact, Nigeria's foreign exchange stability precariously hangs in the balance in the event that the world witnesses another rattling occurrence such as a second wave of the pandemic."

Furthermore, "We expect CBN to continue to meet forex demand via its weekly sales to the Bureaux De Change and allocations to the interbank market via its Secondary Market Intervention Sales and to meet demand for Small and Medium Scale Enterprises and invisibles. This will be subject to the production limits stipulated by Opec and its collaborators as they adjust production in consonance with the level of global demand for crude oil. Meanwhile, we expect the autonomous foreign exchange market to remain tight in the short to medium term; hence we anticipate sustained pressure at the Investors & Exporters FX window unless there is a recovery in foreign portfolio investments and an improvement in CBN intervention. That said, a game changer could be the Dangote Oil Refinery Company Limited if it commences production on the scheduled date in early 2021, freeing up scarce foreign exchange to meeting demand of end-users."

To a large extent, our prediction was in line with what actually transpired at the foreign exchange markets. Although CBN continued to meet forex demand via its weekly sales to the Bureaux De Change and allocations to the interbank market via its Secondary Market Intervention Sales and to meet demand for Small and Medium Scale Enterprises and invisibles, revenues continued to be challenged.

Amid production constraints set by the Organization of Petroleum Exporting Countries, Nigeria's crude oil production was suboptimal as the country produced an average of 1.48 million barrels per day (mbpd) in the first four months to April 2021, lower than 1.58 mbpd averaged in the global pandemic year of 2020 and 1.79 mbpd averaged in 2019 before the global pandemic. Therefore, the country could not maximize the benefits of relatively higher global crude oil prices in H1 2021.

At Investors and Exporters Foreign Exchange Market, supply was tight as net inflows from both foreign and local sources of foreign exchange plunged by 85.12% to USD0.05 billion. This was in spite of net inflows worth USD0.17 billion and USD0.96 billion from foreign direct investors and CBN respectively. The I&E FX window registered net outflows from foreign portfolio investors and foreign corporates USD0.29 billion and USD0.05 billion respectively.

H1 2021 Dynamics at the Investors & Exporters Foreign Exchange Market

Sources	Source/Outlet	Inflow (USD 'bn)	Outflow (USD 'bn)	NetFlow (USD 'bn)
International	FDIs	0.21	0.04	0.17
	FPIs	0.66	0.95	(0.29)
	Other Corporates	0.11	0.16	(0.05)
Local	CBN	0.99	0.02	0.96
	Exporters/Importers	0.88	1.05	(0.17)
	Individuals	0.06	0.07	(0.01)
	Non-Bank Corporates	1.52	2.08	(0.56)
Total for H1 2021		4.43	4.37	0.05
Change from H2 2020		-13.15%	-7.82%	-85.12%

Source: FMDQ, Cowry Research

Sadly, the coming onstream of refined products at the Dangote Oil Refinery was rescheduled to the first quarter of 2022 largely owing to logistics delays caused by disruptive effect of COVID-19 lockdowns. The refiner has however begun the production and sale of fertilizers with plans to ramp up production for the purpose of exportation. Howbeit, we remain optimistic of the potential positive impact it can bring to bear on the current account balance and foreign exchange stability once it begins to sell refined petroleum products capable of meeting both local and international demand, thus saving the country billions of dollars incurred in the importation of refined products.

Our Expectations for H2 2021

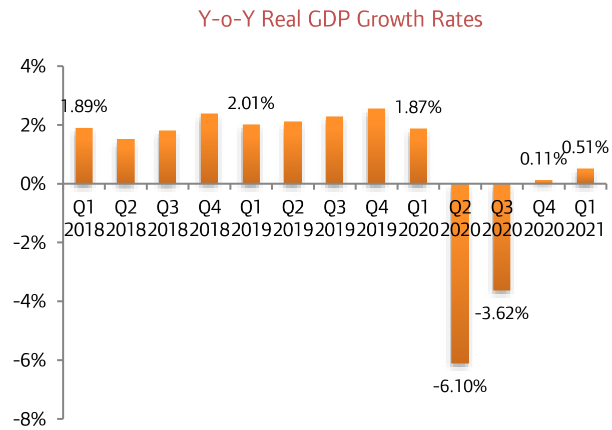
In the meantime, we anticipate interesting times for the foreign exchange market for the remainder of 2021 as CBN follows through with its foreign exchange reform agenda. We expect CBN to continue its exchange rate discrimination, especially in favour of manufacturers which need to import critical capital goods in order to scale up production activities to further pursue the output growth agenda of the monetary authority. The parallel market, however, remains the elephant in the room and in the light of ongoing market reforms, it will be interesting to see how CBN deals with this market segment. We opine that the CBN should put in place mechanisms to unify the foreign exchange markets and encouraging surplus units, especially the participants at the parallel market, to adopt the already established foreign exchange market; in this case, the Nigerian Autonomous Foreign Exchange (NAFEX) market.

REAL SECTOR: Nigeria Records +0.51% Output Growth in Q1 2021

In the first quarter of 2021, Nigeria printed a year-on-year (y-o-y) real output growth rate of 0.51% to N16.83 trillion (or USD112.24 billion) as it further recovered from last year's recession, albeit slowly. So far, we have seen FG significantly ease lock down measures as households and businesses were allowed to resume economic activities, but not fully. Although the country's recovery rate from recession appeared rather slow, the several billions of Naira in economic stimulus packages provided by the monetary and fiscal authorities to help households and businesses cope with the effects of COVID-19 supported the fragile economic recovery.

Specifically, the fragile growth was propelled essentially by a 0.79% growth in non-oil sector; with the Information & Communication, Manufacturing and Agricultural sectors recording the biggest growth rates of 6.47%, 3.40% and 2.28% respectively. The oil & gas sector, however, we saw a 2.21% y-o-y decline in real output to N1.56 trillion (or USD10.40 billion) as average daily oil production fell quarter-on-quarter (q-o-q) by 16.91% to 1.72 million barrels per day (mbpd).

On a quarterly basis, real GDP declined by 13.93% to N16.83 trillion (or USD465.85 billion) from N19.55 trillion in Q4 2020; with the non-oil sector plummeting by 17.02% to N15.27 trillion (or USD101.84 billion). Agriculture, Trade and Information & Communication sectors, the three largest contributors to real GDP at 52.87% (combined), plunged by 28.61%, 13.10% and 19.42% respectively. However, the oil & gas sector growth ballooned by 35.65% to N1.56 trillion (or USD10.40 billion) as crude oil prices increased in Q1 2021.



Major Sectors	Q1 2021	Q4 2020	Q-o-Q %Change
Oil & Gas (N 'Trn)	1.56	1.15	35.65%
Y-o-Y %Change	-2.21%	-19.76%	
Non-Oil Sector (N 'Trn)	15.27	18.40	-17.02%
Y-o-Y %Change	0.79%	1.69%	
Quarter GDP (N 'Trn)	16.83	19.55	-13.93%
Y-o-Y %Change	0.51%	0.11%	

Share of Real GDP (%)	Q1 '21 Share of Real GDP	Q1 '21 y-o-y Growth (%)	Q4 '20 y-o-y Growth (%)
Agriculture	22.35%	2.28%	3.42%
Trade	15.61%	-2.43%	-3.20%
Info & Comm	14.91%	6.47%	14.95%
Manufacturing	9.93%	3.40%	-1.51%
Real Estate	9.28%	-2.19%	2.81%
Mining & Quarrying	5.28%	1.77%	-18.44%
Construction	4.12%	1.42%	1.21%
Profes, Sci & Tech Services	3.77%	-0.46%	-5.43%
Financial Services	3.27%	-3.84%	-3.63%
Education	1.94%	-6.20%	-11.43%
Other Economic Activities	9.54%		
Qtr 2020 Real GDP	N16.83 Trn	0.51%	0.11%

Source: National Bureau of Statistics, Cowry Research

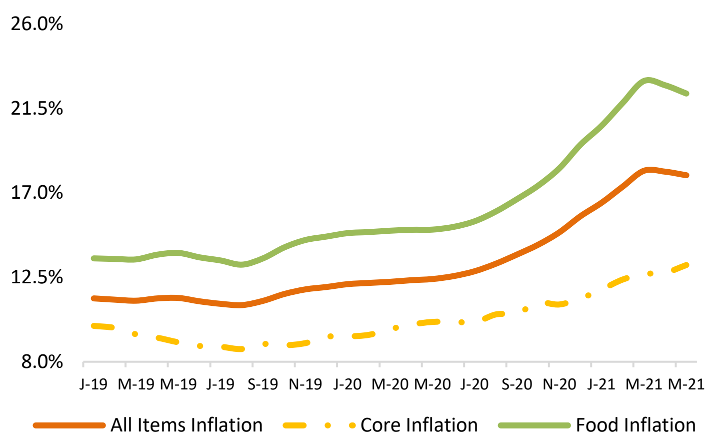
Inflationary Pressure Was Sustained in H1 2021

Recently released data from the National Bureau of Statistics showed that headline inflation climbed to 17.93% in May 2021 (from 15.75% recorded in December 2020). Persistent rise in the food prices continued to exert pressure on the annual inflation rate even as the Non-Food Index also climbed higher in the month of March. Structural challenges, the ongoing planting season, floods and rising insecurity challenges in the food producing areas of the country continued to impact negatively on the food basket. Hence, food inflation advanced to 22.28% in May (from 19.56% in December 2020) driven by rise in prices of bread, tea and cocoa, milk, bread, cereals, meat, fat and vegetables amongst others.

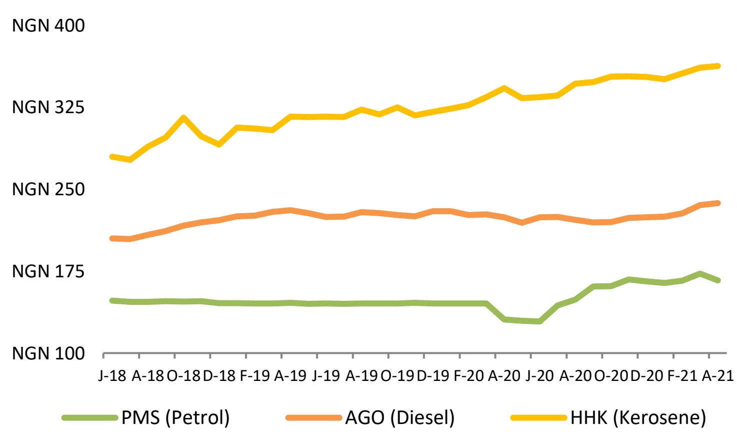
Over the same period, imported food index upped by 16.98% (from 16.64% as at December 2020) as Naira further weakened against the greenback at the BDC and Parallel markets. Amid demand pressure on the foreign currency, Naira weakened year-to-date at the NAFEX, BDC and Parallel markets by 4.3%, 5.6% and 5.0% to N411.31/USD, N495.42USD and N500.26/USD respectively. Also, the FAO Food Price Index (FFPI) rose, on average, to 127.1 points in May 2021 (from 108.5 points in December 2020) amid rise in prices of meat, dairy, cereals, vegetable oils and sugar as their respective indexes rose to 105.0, 120.8, 133.1, 174.7 and 106.7 points in May 2021 (from 94.8, 109.2, 115.9, 131.1 and 87.1 points respectively in December 2020).

On the other hand, core inflation rose to 13.15% (from 12.74% in April) driven by rise in price of pharmaceutical products, shoes and other footwears, fuels and lubricants for transport services, furniture and finishing amongst others.

Consumer Price Inflation



Monthly Average Commodity (Fuels) Price/Litre



Source: National Bureau of Statistics, Cowry Research

On a month-to-month basis, the rise in inflation rate reflected the hike in prices as the country continues to grapple with the structural challenges, worsening insecurity and higher transport cost amid sustained increase in the prices of crude oil at the international market. Hence, headline inflation expanded to 1.01% in May 2021 (from 0.97% in April 2021) amid increases in food inflation rate to 1.05% (from 0.99% in April 2021). Core inflation rose to 1.24% (from 0.99% in April 2021) due to rising clothing and footwear cost (+1.96%), transport (+1.09%) and water, electricity, gas and other fuel costs (+0.69%). Urban and rural annual inflation rates moderated to 18.51% (from 18.68%) and 17.36% (from 17.57%) respectively in May.

Our Expectations for 2021

We expect to see an upward pressure on the m-o-m inflation rate due to the rising insecurity which continues to negatively impact food distributions across the country. More so, the increasing demand pressure on the greenback would further put pressure on cost lines m-o-m. However, we may further witness ease on inflation rate y-o-y given the base effect.

We expect that the relatively high inflation and interest rates, as well as the worsening insecurity would limit the potential GDP growth in 2021 – IMF's 2021 growth forecast was 2.5%.

MONETARY SECTOR: Economy Sees Increased Money Supply but With Less Impact on Output

Money Supply (M3) grew by 1.15% to N39.07 trillion as at April 2021 from N38.63 trillion as at December 2020, amid a 3.35% growth in net Domestic Assets to N32.34 trillion which more than offset an 8.25% decline in net Foreign Assets over the same period. Growth in money supply was primarily driven by 3.03% growth in quasi money (near cash instruments such as savings accounts, treasury bills, money market accounts, etc.) to N22.39 trillion and a 1.55% increase in demand deposits to N13.69 trillion.

Growth in quasi money was amid rising trend in interest rates observed in the most part of H1 2021 as investors scrambled for relatively higher yielding financial instruments compared to what obtained in 2020 and even in the beginning of 2021 when T-bill rates were quite low. Meanwhile, Currency in outside Banks decline by 7.57% to N2.31 trillion, suggestive of slower consumer spending amid low economic activity. Velocity of money slowed to 7.23 in Q1 2021 from 8.56 in Q4 2020.

Depository Corporations Survey (N 'Trn)	Apr 2021	Dec 2020	YTD Δ
Currency outside banks	2.31	2.50	-7.57%
Bank reserves	10.41	10.19	2.07%
Currency in circulation	2.80	2.91	-3.85%
Reserve money	13.20	13.10	0.76%
Demand deposits	13.69	13.48	1.55%
M1 Money	16.00	15.98	0.12%
Quasi money	22.39	21.73	3.03%
M2 Money	38.38	37.70	1.80%
M3 Money	39.07	38.63	1.15%
Monetary Policy Rate (%)	11.50%	11.50%	0.00%
Credit to the Government	12.16	12.40	-1.98%
Credit To the Private Sector	31.82	30.15	5.55%
Net Domestic Credit	43.98	42.55	3.35%
Net Foreign Assets	6.73	7.34	-8.25%
Net Domestic Assets	32.34	31.29	3.35%

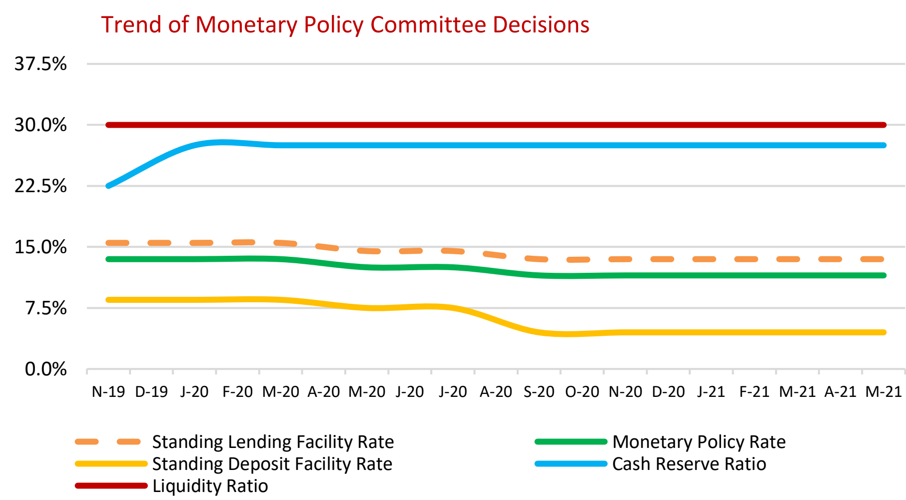
Source: Central Bank of Nigeria, Cowry Research

Growth in Net Domestic Assets was driven by a 5.55% growth in Credit to the Private Sector to N31.82 trillion which more than offset a 1.98% decline in Credit to the Government to N12.16 trillion. Growth in private sector credit was engendered by an expansionary monetary policy environment meant to nurture the real sector towards stronger output growth. Also, commercial banks continued to create risk assets in accordance with the stipulated 65% loan to deposit ratio. This was in addition to intervention programmes by CBN, targeted at priority sectors, based on its development finance agenda.

MPC Maintains Expansionary Course

Meanwhile, the Monetary Policy Committee (MPC) held all key policy parameters constant for the fifth consecutive time. The Monetary Policy Rate (MPR) was unchanged at 11.50% and the asymmetric band was retained at +200 bps and – 700 bps around MPR. Cash Reserve Ratio was retained at 27.50% and the Liquidity Ratio left unchanged at 30%. Some of the Committee's observations include: recovery across global economies due to widespread vaccination, easing of restrictions, reopening of more economies and gradual return to international travel; albeit, it noted that India and Brazil have continued to battle high levels of infections and fatalities, resulting from mutating strains of COVID-19 virus. Also, it observed that Inflation may breach the long-term objective of several central banks in the medium-term, as economic activities continue to recover with more people vaccinated.

The MPC noted that Inflation in Nigeria remained well above the ceiling of the apex bank's 6% to 9% inflation target corridors as a result of deteriorating public infrastructure and insecurity. Hence, its willingness to arrest the current challenge of Stagflation – rising inflation combined with little growth in output – from the supply side (that is, boost production over demand to crash prices).



Source: Central Bank of Nigeria, Cowry Research

Banks Storm the SLF Window, Repo Transactions Spike

Against the backdrop of a budding economy, we observed a sharp rise in Standing Lending Facility (SLF) which may be indicative of strain in financial system liquidity as deficit banks borrowed significantly from that window. SLF spiked by 415% to N9.61 trillion in H1 2021 (from N1.87 trillion in H2 2020). This may have been due to liquidity challenges by deficit banks, perhaps on account of rising default rate of their customers amid harsh economic headwinds such as high inflation levels and foreign exchange volatility amongst other things. The SLF rate, currently 13.5% per annum (i.e., MPR + 2.0%), is the rate at which CBN lends to the banks.

In comparison, Standing Deposit Facility (SDF) plummeted given the low prevailing SDF interest rate and non-remunerability of placements made by banks in excess of N2 billion. SDF plummeted by 56% to N1.82 trillion (from N4.10 trillion in H2 2020). The sharp rise in SLF and the decline in SDF also suggests that the banks were not willing to avail surplus liquidity to one another. The SDF rate, currently 4.5% (i.e., MPR - 7.0%), is the rate which the banks get on placements at CBN.

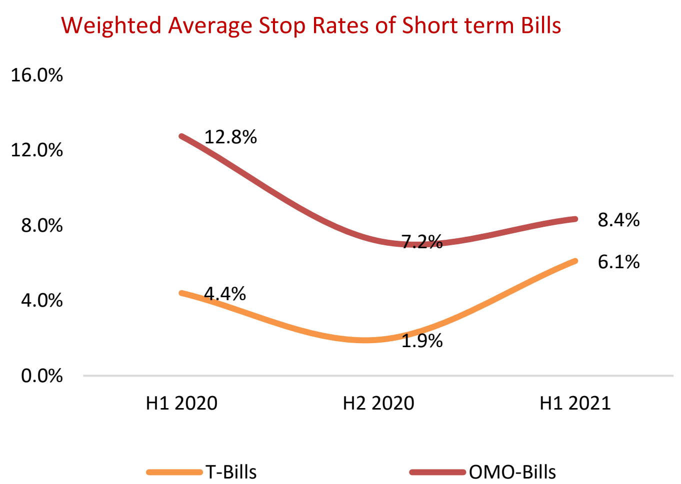
CBN Financial Data (Amounts in N 'Trn)	H1 2021	H2 2020	H1 2020
Standing Lending Facility	9.61	1.87	3.38
Standing Deposit Facility	1.82	4.10	3.15
Repo	6.50	0.15	0.67
OMO Sales	1.80	0.89	3.49
OMO Repayments	3.00	2.67	6.16
Primary Market Sales	3.12	0.85	1.71
Primary Market Repayment	1.49	0.57	1.65

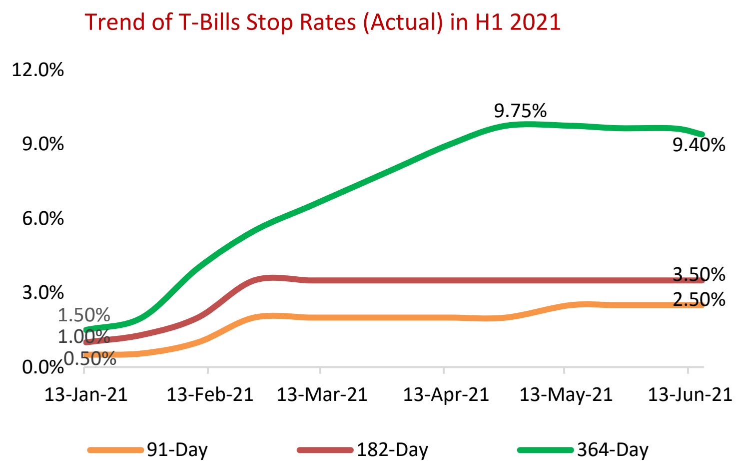
Source: Central Bank of Nigeria, Cowry Research

Meanwhile, CBN entered into repurchase agreements with banks unable to access funds at the interbank market. Repurchase transactions spiked by 4,187% to N6.50 trillion in H1 2021 (from N0.15 trillion in H2 2020). This further corroborates the paucity of funds available to deficit units at the interbank market.

In a modest attempt to attract foreign exchange inflows, CBN sold a total of N1.80 trillion in OMO bills (more than N0.89 trillion in H2 2020, but lower than N3.49 trillion in H1 2020) at a weighted average stop rate of 8.4% (higher than 7.2% in H2 2020).

Similarly, the apex bank issued T-Bills worth N3.1 trillion at the primary market (higher than N0.85 trillion in H2 2020 and N1.17 trillion) in efforts to encourage investors to remain invested locally (as against investing abroad) amid volatility in the exchange rate and high inflation levels. In line with our expectation, stop rates were higher by a few hundred basis points in H1 2021.





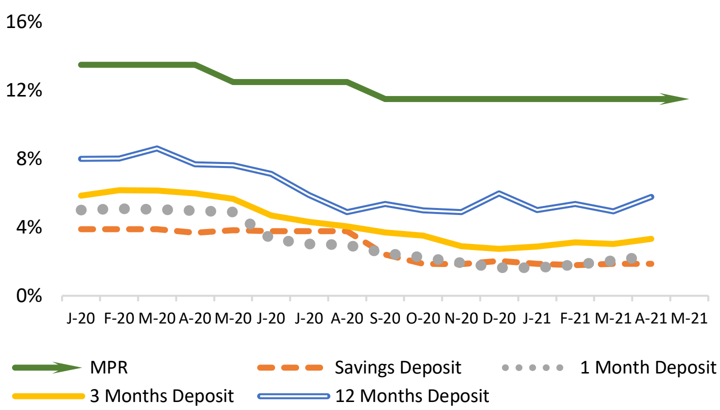
Source: Central Bank of Nigeria, Cowry Research

In our outlook for 2021, we stated the following: "We however think Treasury bills rates are not sustainable at current ground zero levels and will need to move northwards by a few hundred basis points in order to stimulate secondary market trading activities – given that negative interest rates (NITTY fell to negative territory in November 2020) are neither encouraging for traders nor natural – as well as price discovery for corporate issuers of short-term debt instruments in such a manner as would appropriately reflect their risk profiles."

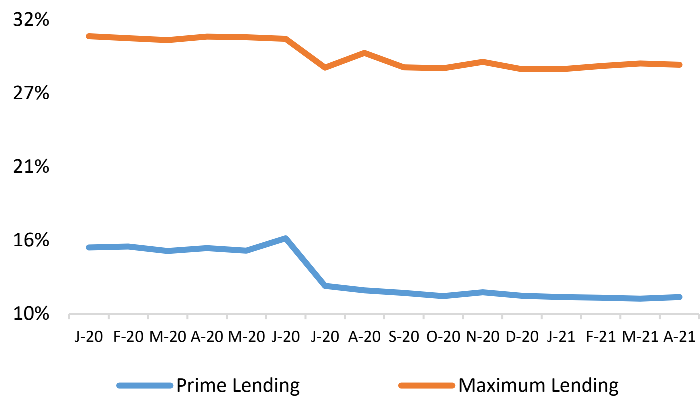
Depositors See Gradual Rise in Interest Earnings; Prime Borrowers See Moderation in Interest Expense

During the period under review, depositors earned better interest on their term deposits as 1-, 3- and 12-month deposit rates rose to 2.33%, 3.32% and 5.78% in April 2021 compared to 1.64%, 2.88% and 5.01% earned, respectively, at the beginning of the year. This was partly due to competition amongst banks for customer deposits. However, the rates were significantly lower than 4.97%, 5.99% and 7.68% earned in April 2020. Average savings rate was flat at 1.86% in April 2021, albeit lower than 3.69% earned in April 2020. Meanwhile, maximum lending rates increased, on average, to 28.64% in April 2021 from 28.30% at the beginning of the year, albeit lower than 30.73% recorded in April 2020. On the other hand, prime borrowers saw an almost consistently lower average lending rates having registered 11.24% in April (from 11.25% in January 2021 and 14.92% in April 2020), disrupting four consecutive months of decline.

Interest Rates on Commercial Bank Deposits



Lending Rates of Commercial Banks



Source: Central Bank of Nigeria, Cowry Research

Our Expectations for H2 2021

Amid signaling by the monetary authority to prioritize economic growth over inflationary concerns, which is largely caused by insecurity and infrastructure deficit, rather than demand pressure from consumers who have suffered significant erosion in their purchasing power, we expect a retention of its accommodative policies. Specifically, we expect the MPR to remain at 11.5% and most other policy parameters to be left unchanged. However, given liquidity strain being experienced at the interbank market, were anticipate a downward adjustment to the Cash Reserve Ratio requirement from the current 27.5% level, so that banked liquidity can freed up to allow lending institutions go about their business activities more smoothly.

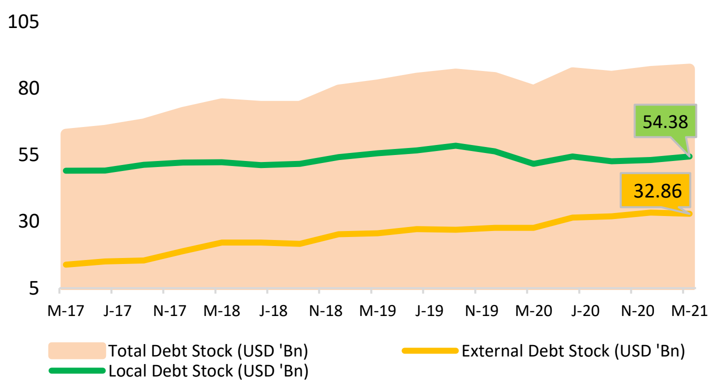
We also expect corporate borrowers to take advantage of the anticipated downward reversal of interest rates at the primary market, in line with recently observed moderation of stop rates of fixed income government securities, in order take reduce their interest expense and boost their bottom lines.

DEBT WATCH: Nigeria's Debt Stock Rises Further in Q1 2021

Meanwhile, Nigeria's total public debt stock jumped year on year (y-o-y) by 15.64% to N33.11 trillion as at March 2021 (from N28.63 trillion as at March 2020). The y-o-y rise in the country's total debt stock was chiefly due to a 24.86% rise in external debt to N12.47 trillion (or USD32.86 billion at N379.50/USD) as at March 2021 from N9.99 trillion (or USD27.67 billion at N361.00/USD) in March 2020.

Within a year, Nigeria received USD3.48 billion worth of loans from International Monetary Fund. Also, additional loan of USD1.43 billion was gotten from IDA. More so, the depreciation of the Naira against the greenback exacerbated external debt; y-o-y, Naira depreciated against the USD by 5.10% to close at N379.50/USD as at March 2021.

Evolution of Total Debt, External & Local Debts



Source: Debt Management Office, Cowry Research

In the quarter under review, Nigeria paid part of its Multilateral (USD81.05 million), Bilateral (USD61.38 million) and Commercial loans (USD500 million) which amounted to USD642 million. Hence, external debt service payments fell to N126.02 billion (or USD332.07 million) in Q1 2021 from N170.60 billion (or USD472.57 million) printed in Q1 2020.

Further breakdown of the total external debt stock in Q1 2021, showed that Multilateral loans accounted for 54.26% (USD17.83 billion) of which loans from International Development Association (IDA) was USD11.09 billion, loan from IMF was USD3.48 billion while others stood at USD3.26 billion. Bilateral loan accounted for 12.73% (USD4.18 billion) of which loan from China (Exim Bank of China) was USD3.40 billion and loan from France was USD0.49 billion in Q1 2021.

Commercial loans accounted for 32.47% (USD10.66 billion) of which Eurobonds was USD10.37 billion while Diaspora bond was USD0.30 billion. Local debt stock increased by 10.71% to N20.64 trillion in Q1 2021 (from N18.64 trillion in Q1 2020).

Breakdown of the domestic debt figure showed that FG's domestic debt stock rose to N16.51 trillion in Q1 2021 (from N14.53 trillion in Q1 2020). Despite the significant rise in FG's domestic loan, local debt service payment increased marginally by 0.59% to N612 billion in Q1 2021 from N609.13 billion recorded in Q1 2020 amid relatively low rate.

Debt Management Performance (Q1 2021)

Debt Indicator	Actual (%age)	Target (%age)
Domestic to External Debt	62-38	70 max-30 min
Long term to Short term Debt	78-22	75 min-25 max
Concessional to Non-Concessional	67:35	To Maximize
Debt to GDP	22	40

Source: Debt Management Office, Cowry Research

Our Expectations for H2 2021

We expect Nigeria's local debt and the implicit interest rate (8.92% annualised as at Q1 2021) to increase in 2021 as the government has made moves to access required funding to executive its various programmes. This follows President Buhari's request in May to the National Assembly to approve N2.34 trillion (USD6.183 billion) meant to partly fund the N5.60 trillion budget deficit appropriated for the 2021 fiscal year. The loan which is expected to be sourced from the international capital market will be deployed to capital projects in various sectors of the economy including power, transport, agriculture and rural development, education, health and water resources that are included in the 2021 appropriation act. Other debt financing requirements include another N2.34 trillion to be sourced domestically and N0.709 trillion to be drawn from multilateral/bilateral loans.

In June, President Muhammadu Buhari sent a Supplementary Appropriation Bill worth N895.84 billion to the National Assembly for their approval. Of the amount, N722.40 billion was budgeted for capital expenditure on defence and security and is to be funded via fresh borrowings; N127.82 billion was earmarked for the payment of salaries & other health-related expenses (N41.69 billion), associated COVID-19 vaccines expenses (N37.93 billion), and the settlement of recurrent components of defence expenditure (N48.20 billion); while another N45.63 billion, to be sourced from the existing World Bank loans and other grants worth USD113.22 million, is to be channeled towards funding COVID-19 vaccination programme.

We expect the government to optimize the concessionary loans component of its debt portfolio so as to minimize the cost of servicing its debt obligations which is expected to rise further. (Total debt service to revenue rose to 66.62% in FY 2020 from 36.67% in FY 2019 as debt stock rose amid revenue short fall experienced in the pandemic year). Meanwhile, as Nigeria turns to bilateral/multilateral lenders, it may have to lean more on market-driven exchange rate policy – which may further have a pass-through effect on inflation rate.

REVIEW OF THE FIXED INCOME SPACE IN H1 2021

Low Interest Rate Gives Way as CBN Battles Inflation, Foreign Exchange Rates Issues

Interest rates moved northward in H1 2021 despite CBN's desire to maintain dovish monetary policy plan throughout the year 2021. The increase in rate which was in line with our expectations became necessary as CBN battled with depreciating Naira against other foreign currencies, and inflationary pressure. The apex bank had to entice investors, even local investors, with other competitive investment options when pressure on the local currency, majorly speculative, became alarming in the period under review. Obviously, the lender of last resort was more concerned about the depreciating Naira, than the structurally- and insecurity-linked inflationary pressure, over which it has little or no control; hence, its move to harmonize the official exchange rate with the market-reflective Investors and Exporters window rate in H1 2021. Given CBN's commitment to drive greater output, it maintained Monetary Policy Rate (MPR) at 11.50% to discourage banks from saving with the apex bank as it further moved asymmetric band to +100 bps and -700 bps (from +200 bps and -500 bps) around the MPR. The reduction in cost of fund at the lending window, contributed to the increase in SLF as we saw it rise to N9.61 trillion in H1 2021 from N1.87 trillion in H1 2020.

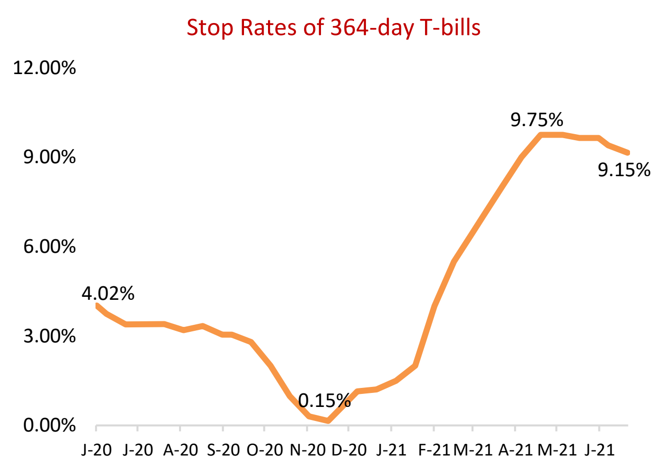
Investors Become Cash Strapped as Yields Spike

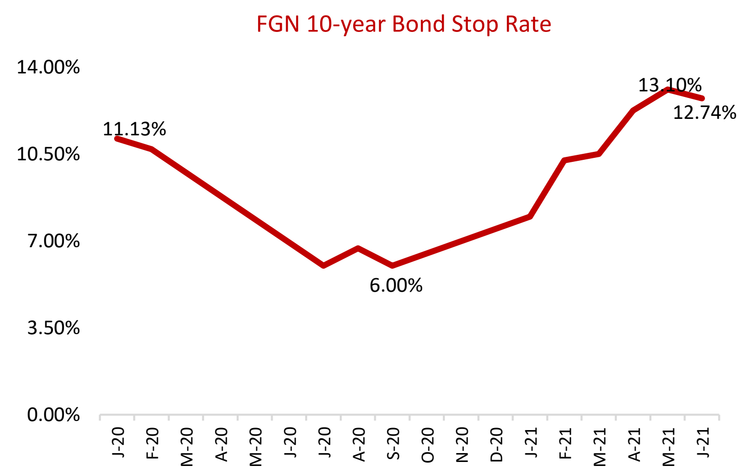
Beginning with our view as earlier stated in our *2020 Economic and Financial Market Review plus Outlook & Investment Strategy* report in January 2021 that "Surprisingly, we saw a sudden jump in 364-day stop rate in December to 3.20% (from 0.15%), albeit it fell back to 1.21% to close for the year 2020. The same trend was noticed on 15-year and 25-year FGN bonds. Hence, given the rising inflation rate and the depreciating Naira against the USD, the surprise hike in stop rate in December, 2020 may be a sign that CBN is pressured to marginally increase rate in 2021, in order to attract foreign funds and stabilize exchange rate".

In line with our expectations, the rise in yields across most maturities, especially the long-dated FGN Bonds as well as the 364-day T-bills, partly contributed to the financial system liquidity strain as investors' funds were locked-in as they try to avoid huge loss that would arise from selling their position which was done at a very low rate. Instead, they searched for new funding – a situation that also contributed to the high Repo transactions, jump in Nigerian Interbank Offered Rate (NIBOR), and the humongous borrowings from CBN in the review period – Repurchase transactions spiked by 4,187% to N6.50 trillion in H1 2021 (from N0.15 trillion in H2 2020).

Against the backdrop of rising inflation rate vis-à-vis the demand pressure on the greenback, CBN moved the stop rate for short-term Federal Government debt instruments higher to partly reduce the speculative attack on the USD; hence, stop rate for 364-day T-Bills rocketed to 9.75%, before settling at 9.15% in June 2021 (from 1.21% in December 2020). In tandem with the upswing in stop rates, Nigerian Interbank Treasury Bills True Yield (NITTY) for 12 months traded upward to 9.52% on June 30, 2021 from 0.77% on December 31, 2020. Meanwhile, Nigerian Interbank Offered Rates (NIBOR) for 6 months tenor bucket surged to 12.75% on June 30, 2021 (from 0.49% on December 31, 2020).

Stop Rates of Auctioned FGN Securities

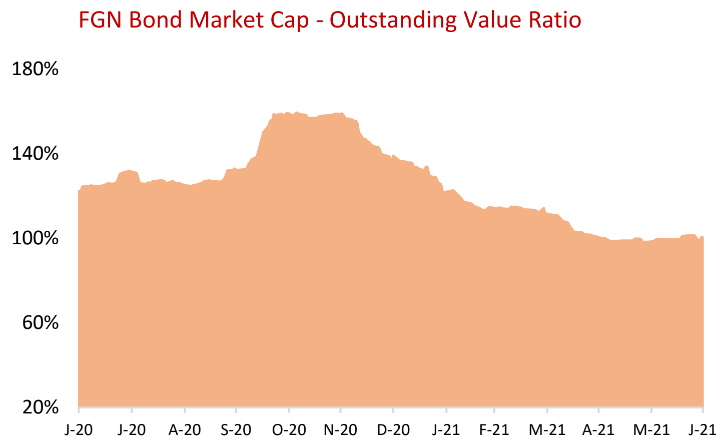




FGN Bonds Prices Moderate as DMO Raise Rates

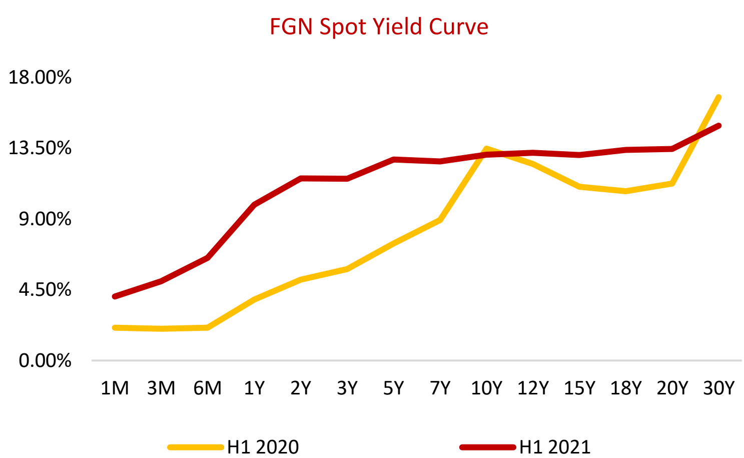
In the first half of 2021, Debt Management Office (DMO) auctioned most of its bond maturities at higher rates in tandem with the rising rates in the money market, especially the 364-day T-bills. The action of the DMO which took most traders by surprise kept them in a tight corner as they were reluctant to sell off their holdings to avoid huge losses. Specifically, the 15-year FGN Bonds stop rate rose to 13.50% in June 2021 (from 6.95% in December 2020). In tandem with the significant rise in rates at the Primary market, the over-the-counter FGN bond market witnessed bearish activity in H1 2021, resulting in price depreciation (and corresponding sharp rise in yields). The ratio market capitalization to outstanding bonds value fell to 100.55% on June 30, 2021 lower than 139.15% on December 31, 2020.

FGN Bond Performance



Bond Prices Traded Lower as DMO Increase Rates…

The performance of the FGN bond market in H1 2021 was bearish, leaving traders with much loss to deal with given the significant rise in yield as DMO consistently increase rates at the primary market. Amid the bearish trend, FGN Bond Prices for most maturities decreased, especially in the month of May. However, we saw gradual reversal in stop rates in the month of June.



Nigerian Fixed Income Yield Curve was relatively normal in H1 2021 as against that of H1 2020 which was Humped…

Against the backdrop of increasing yields on fixed income instruments, the yield curve was more normal as investors demanded for better yields at the longer end of the curve in H1 2021. The yield curve was humped in H1 2020 relative to a more normal curve in the review period as got better yields for 10-year bond than those of 12, 18, 20 and 30-year bonds.

INTEREST RATE OUTLOOK

We note the willingness of the monetary authority to sustain its expansionary policy in order to support the fiscal authority on its effort to boost economic activities. However, this complementary effort from the apex bank, despite its gains, has suffered certain level of setback as stop rates bounced back up amid rising inflation pressure and depreciation of the foreign exchange. Hence, these two major factors are expected to remain knotty issues in H2 2021 as CBN keeps tab on them.

Although inflation rate could remain relatively high on a monthly basis amid insecurity and structural challenges, coupled with the slow influx of foreign investors amid expectation of rising yields in developed economies, we however expect the money market interest rate to trend in single digit while the FGN Bond rate may settle around 10% - 13% in H2 2021 as the authorities' priorities remain to boost real output and reduce unemployment which is fingered as one of the major causes of insecurity in the country. We expect ongoing foreign exchange reforms to attract foreign capital of investors, especially those seeking to execute carry trades in the local fixed income space.

REVIEW OF THE EQUITIES SPACE IN H1 2021

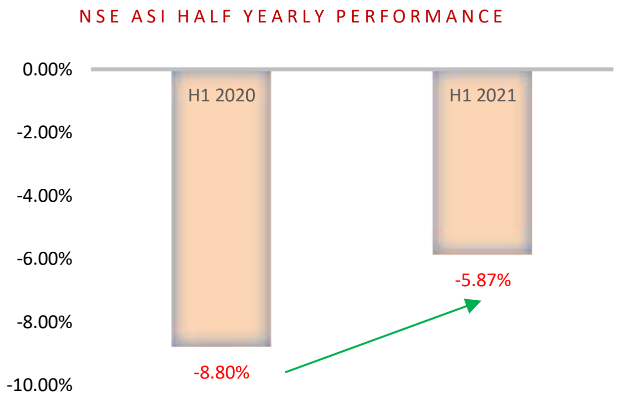
Local Equities Market Sustains Weak Performance as Yield Becomes More Attractive?

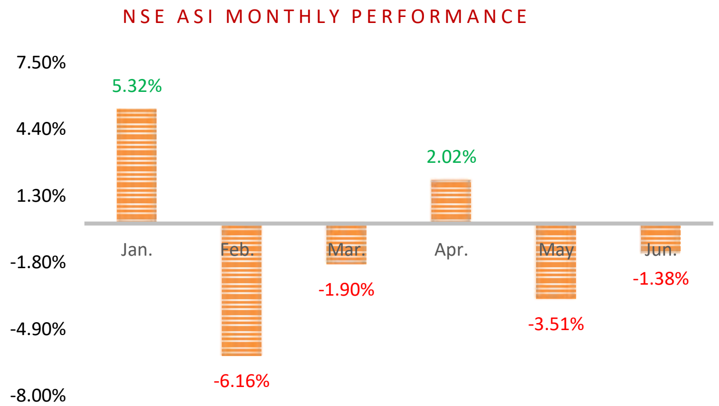
The domestic stock market was generally bearish in the first half of the year as investors shifted base to the fixed income space given the significant rise in rates; thus, taking advantage of the uptrend in relatively less risky interest rates. Specifically, we saw stop rate for 364-day T-Bills surge to 9.75% in June 2021 from a very low level of 1.21% in December 2020. Given investors' bearish sentiment, the Nigerian Exchange Limited All-Share Index (NGX ASI) printed a year-to-date loss of 5.87% to 37,907.28 points at the end of H1 2021; albeit, better than 8.80% loss recorded in H1 2020 which was induced by negative effect of COVID-19 pandemic.

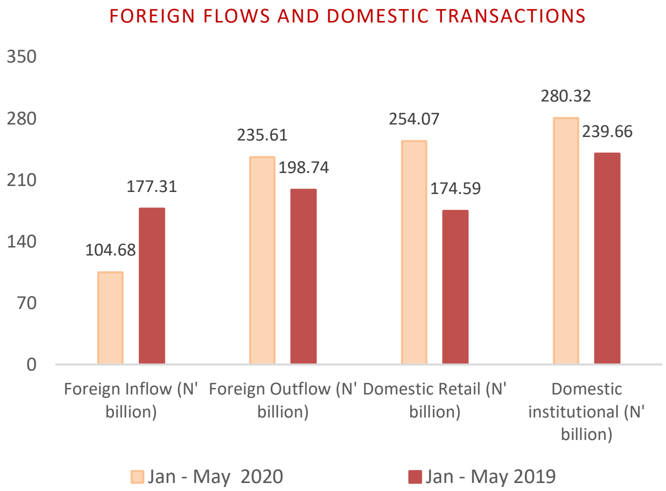
Total Transaction Value Rise amid Sell-off by Domestic Institutional Investors.

The stock exchange witnessed increased activity as total transactions by both foreign and domestic investors stood at N933.65 billion in the first five months of 2021, higher than N874.69 billion printed in the corresponding period of 2020. Breakdown of the total transactions showed that total domestic transactions rose year-on-year to N735.11 billion (from N534.39 billion). On the flip side, the FPI transactions decreased to N198.54 billion from January 2021 to May 2021 (from N340.29 billion printed from January 2020 to May 2020). A further analysis of the FPI transactions showed that foreign portfolio inflows fell to N91.32 billion (from N104.68 billion); also, foreign portfolio outflows reduced to N107.22 billion from N235.61 billion. Notably, we observed that the increased transaction value was triggered by profit-taking activity, especially from the domestic institutional investors. As they reduced their stake in the equities market to take advantage of the rising money market rate – their equities transactions rose to N435.88 billion as at May 2021 from N280.32 billion printed as at May 2020. However, transactions of the retail investors increased to N299.23 billion in the first five months of 2021 (from N254.07 billion in the first five months of 2020).

Stock Market Performance







Market Activity

	YTD 2021	YTD 2020	Change
Deals	534,034	566,697	6.11%
Volume (Mn)	43,850	41,826	4.84%
Value (N 'Mn)	933,650.00	874,690.00	6.74%

Source: *NSE, Cowry Research*

Oil & Gas, Insurance, Consumer Goods Indices Close Positive

Despite the local equities benchmark index closing in negative zone (-6.49%), the oil & gas, insurance and consumer goods sub-sectors still managed to close positive at the end of period under review as investors were bullish on stocks in these sub-sectors. Specifically, the most profitable was NSE Oil & Gas sector which increased sharply by 38.36% to 312.96 points as SEPLAT shares gained 71.51% amid the rising crude oil prices at the international market – spot Bonny light crude oil price increased to USD74.16 per barrel in June 30, 2021 from USD50.59 per barrel it closed in December 31, 2020. Also, the NSE Insurance sector, as expected, rose by 7.61% in H1 2021, returning humongous value to shareholders amid its ongoing recapitalization exercise. Notably, LASACO and REGALINS share prices jumped by 328.57% and 109.09% respectively. Also, the NSE Consumer Goods index rose by 4.78% despite the rising price of goods and services. On the flip side, despite the increase in dividend payout by most Tier-1 banks, ZENITH and GTCO, the banking sector still experience bearish turn. The banking index moderated to 6.79% to 366.32 points. The NSE Industrial also fell by 8.02% as share prices of WAPCO and DANGCEM fell during this period. Notwithstanding, we expect the banking and the industrial sectors to bounce back in H2 2021.

NSE Sector Gauges Performance

	30-Jun-21	30-Dec-20	Year-to-Date %Change
NSE Banking	366.32	393.02	-6.79%
NSE Insurance	203.92	189.50	7.61%
NSE Consumer Goods	600.78	573.35	4.78%
NSE Oil/Gas	312.96	226.20	38.36%
NSE Industrial	1,887.69	2,052.33	-8.02%

Source: *NSE, Cowry Research*

Top 10 Gainers

Company	30-Jun-21	31-Dec-20	Change (N)	Change (%)
LASACO [MRF]	1.50	0.35	1.15	328.57%
CHAMPION [BLS]	2.10	0.86	1.24	144.19%
ROYALEX [MRF]	0.61	0.26	0.35	134.62%
REGALINS	0.46	0.22	0.24	109.09%
VITAFOAM	15.40	7.80	7.60	97.44%
CHIPLC	0.60	0.32	0.28	87.50%
SEPLAT	690.00	402.30	287.70	71.51%
LINKASSURE	0.84	0.52	0.32	61.54%
MBENEFIT	0.43	0.27	0.16	59.26%
GUINNESS	29.00	19.00	10.00	52.63%

Source: *NSE, Cowry Research*

Bottom 10 Losers

Company	30-Jun-21	31-Dec-20	Change (N)	Change (%)
CWG [BLS]	1.15	2.54	(1.39)	-54.72%
FTNCOCOA [RST]	0.33	0.66	(0.33)	-50.00%
DAARCOMM	0.20	0.30	(0.10)	-33.33%
NEIMETH	1.70	2.23	(0.53)	-23.77%
STERLNBANK	1.56	2.04	(0.48)	-23.53%
AIRTELAFRI	667.70	851.80	(184.10)	-21.61%
JAPAULGOLD	0.50	0.62	(0.12)	-19.35%
UNITYBNK	0.53	0.64	(0.11)	-17.19%
ETI	5.00	6.00	(1.00)	-16.67%
UBA	7.30	8.65	(1.35)	-15.61%

Source: *NSE, Cowry Research*

EQUITIES OUTLOOK

We expect the weak performance of the local equities market in H1 2020 to reverse, and set a marginal uptrend, in the second half of the year; however, we do not envisage strong bullish trend as fixed income investment is expected to still be relatively attractive even in H2 2021 given the inflationary pressure and the depreciating Naira against foreign currencies, especially the greenback. Also, as more countries' central banks continue to wind down on COVID-19 intervention programs and its attendant expansionary policies, as more people are vaccinated, we expect yields on fixed income assets of developed economies to rise marginally. Inflation rate in the United States spiked to 5.0% in May (from 4.2% in April) amid a relatively stronger increase in retail sales and building permits. Hence, this may reduce the amount of foreign portfolio inflows into Nigeria's financial markets, and in particular, the equities market.

Having said that, we feel that the marginal recovery of the benchmark index in H2 2021 would be engendered by appreciation in share prices of companies with attractive dividend yields, wider margins, rising earnings per share (EPS) and higher return on average equity. Also, companies that have their share prices trading above their equity value per share (EVS) and record higher profitability with declining leverage ratio should witness certain level of capital appreciation in the concluding six months of 2021.

Hence, we expect increasing transactions from domestic investors as they cherry pick stocks based on the above-mentioned criteria. Transactions from foreign investors are expected to still remain muted given the high possibility of more central banks in developed countries winding down on expansionary programs and policies in order to curb demand pull inflation going forward.

The banking sector appears to be more resilient and remains poised to sustain their performance even in this period that interest rate has shot up. The swing in rates to either direction should continue to favor the banks with high liquidity, which are mostly the Tier-1 banks, as the gains reflect on their interest income line (if rates go higher) or investment securities trading line (if rates crash). Already, we have seen some banks take advantage of the recent financial system liquidity strain, which has continually driven NIBOR upwards, to boost profitability of surplus units. With the rising rates, deposit money banks will also book higher interest margin; albeit, there may be a marginal rise in non-performing loans and funding costs. Hence, we expect the tier one banks, such as Zenith Bank, Guaranty Trust Bank and United Bank for Africa to continue to lead the industry in H2 2021.

For the real sector, the earlier benefit from low interest rate environment to refinance loans cheaply in order to reduce finance cost and increase profitability fizzled out in H1 2021 given the hike in rate. Banks' lending rates have maintained an upward trend as they try to create reasonable margin amid increasing cost of funds. Given the rising rate on federal government backed securities, such as T-Bills and Bonds, depositors now shun banks that offer lower interest payment on deposits, especially fixed deposits, to invest in government issued bills – hence, the increasing pressure on banks to increase rate. This, coupled other infrastructural and insecurity issues may further compress margins of real sector going forward. Also, the rising inflation rate and the pressure on foreign exchange could restrict consumer spending and squeeze company budgets, both of which could pose counterproductive to the real sector. Nevertheless, we expect the building materials industry to be positively impacted by increased construction activities anticipated in H2 2021.

We also expect the healthcare industry to sustain its positive performance in H2 2021, partly due to anticipated sustained demand for pharmaceutical products to further manage the impact of pandemic. Total Federal Government budget for the healthcare sector for 2021 increased by 41% to N547 billion, some of which we expect to trickle down to the local pharmaceutical companies.

INVESTMENT STRATEGIES FOR H2 2021

Fixed Income Space

The apparent move by CBN harmonize the exchange rates should be a confidence builder with the tendency to boost dollar inflows into the country, especially from the World Bank which has been nudging local authorities to harmonize the exchange rate and which disbursed about USD1.5 billion to Nigeria in 2020 on condition of FX reforms. The World Bank (and foreign portfolio investors) should be happy with the latest developments so far. Another implication is that the CBN will no longer need to increase interest rates in order to stem dollar outflows. Indeed, stop rates of auctioned T-Bills and Federal Government bonds have started to decline. Now that stop rates of primary market fixed income government securities have started to moderate, in line with our expectation, we expect increased opportunities for profitable trading by short term investors. On the other hand, passive, long term investors can take advantage of currently high yielding instruments ranging from 1-year T-Bills to 30-year bonds in line with objectives.

Our Proposed Fixed Income Trading Strategy

We expect interest rates to moderate further and therefore advise fixed income traders to take position, particularly at the long end of the yield curve where yields are higher at more than 13% p.a. This is because increasing duration at a time interest rates are falling will result in more profitable trades. That said, we advise investors to be wary of those factors that could create economic headwinds and adjust their portfolios accordingly.

Equities Space

The equities market has shed over 5 per cent of its value as at the end of H1 2021 even though it commenced the year on a bullish note. Nevertheless, against the anticipated growth in real output, expectations of increased corporate profits and an expected moderation in fixed income yields, we expect the equities market climb northwards in H2 2021. Therefore, we expect investors to bargain hunt for undervalued stocks; particularly of those companies likely to sustained, and possibly increase, interim and/or final cash dividend payments. This will be more appropriate for investors seeking passive income on a long-term basis while having enough cash on hand for strategic investing. Active investors/ speculators should focus more on growth and high beta stocks while also looking to by the dip while having enough speculative cash on hand for tactical maneuvers. Again, investors should be wary of those factors that could create economic headwinds and adjust their portfolios appropriately.