Cowry Monthly Market Report

April 2023

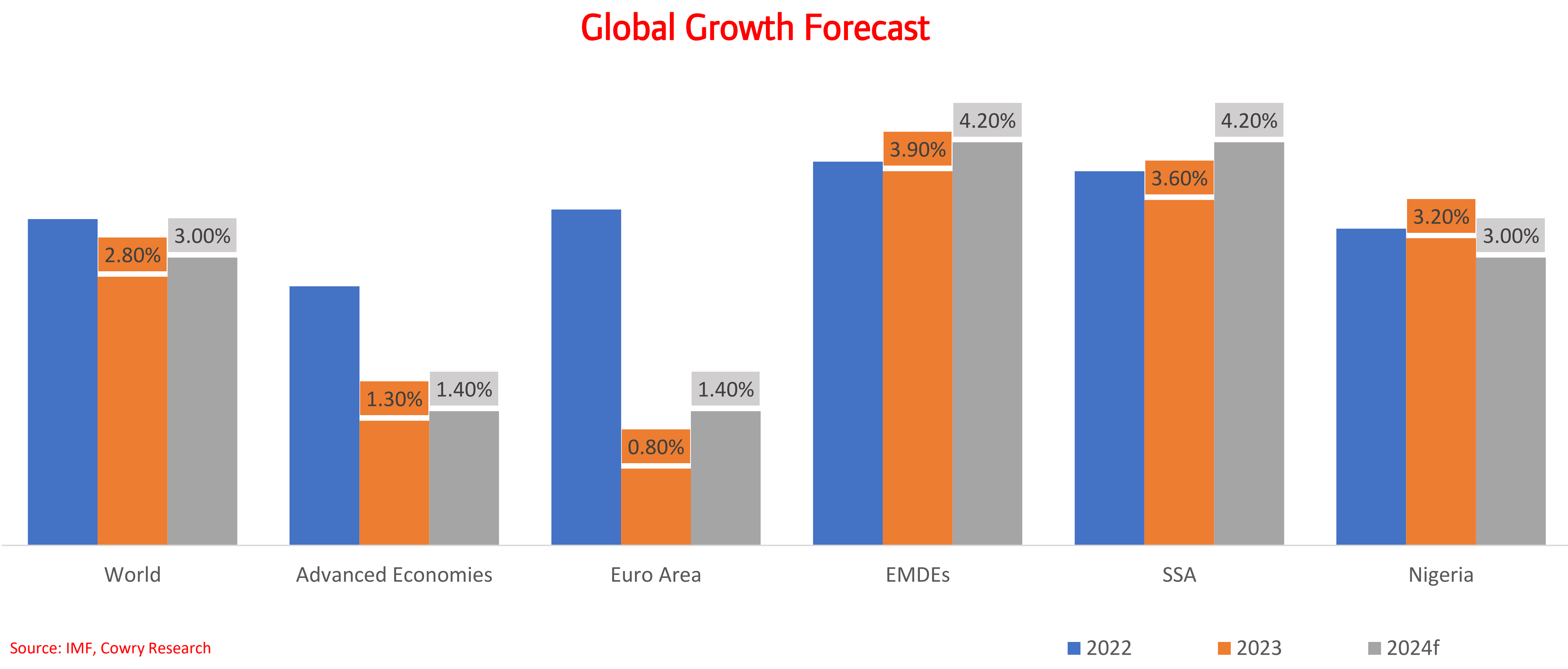
Cowry Research

Uncertainties Threaten Global Growth

- The latest IMF projections in April 2023 World Economic Outlook (WEO) indicates an expected slowdown in medium-term growth. This recent revision may be a reflection of the scarring impact of the Covid-19 pandemic, a slower pace of structural reforms, the increasing real threat of geo-economic fragmentation leading to more trade tensions, less direct investment, and a slower pace of innovation and technology adoption across fragmented 'blocks.'
- From the IMF's economic outlook, global growth is forecast at 2.8% in 2023 down from 3.4% in 2022. However, in 2024 Global economy is expected to recover by 3.0%. The lowered growth expectation is coming on the back of the cumulative effect of the COVID-19 pandemic and the geopolitical unrest in eastern Europe.
- The current forecast is an update from the earlier forecast of 2.9% for 2023 and 3.1% for 2024 released in January 2023. Meanwhile, a significant part of the decline in global growth is attributed to projected slowdown in the growth of advanced economies, of which 90% are forecast to experience declining growth in 2023.
- The global outlook is plagued by uncertainties triggered by the turmoil in the financial sector in mid-March, lingering supply disruptions and the continued spikes in commodity prices, which have seen inflation reach a multi-year high in many countries, thereby spurring advanced economies Central Banks to adopt more hawkish positions with policy rate hikes in the bid to rain in on keep inflation.
- In 2023, the IMF expects Advanced Economies' (AE) growth to decelerate to 1.3% from 2.7% in 2022 while they are projected to grow at 1.4% in 2024. Growth forecast for the Emerging Markets and Developing Economies (EMDEs) looks stronger than that of the AEs given that EMDEs are expected to growth at 3.9% and 4.2% in 2023 and 2024 respectively. Meanwhile, the Sub-Sahara Africa (SSA) region is expected to witness a moderate growth of 3.6% in 2023 down from 3.9% in 2022 but rebound strongly at 4.2% in 2024.

The Global Economy

- Growth across the SSA region is expected to be primarily driven by positive growth in most middle-income and developing economies within the Region, whose growth is expected to rise to an average of 4% next year, while the low income and developing economies (LIDs) are forecast to grow 4.7% in 2023 and 5.4% in 2024.



Source: IMF, Cowry Research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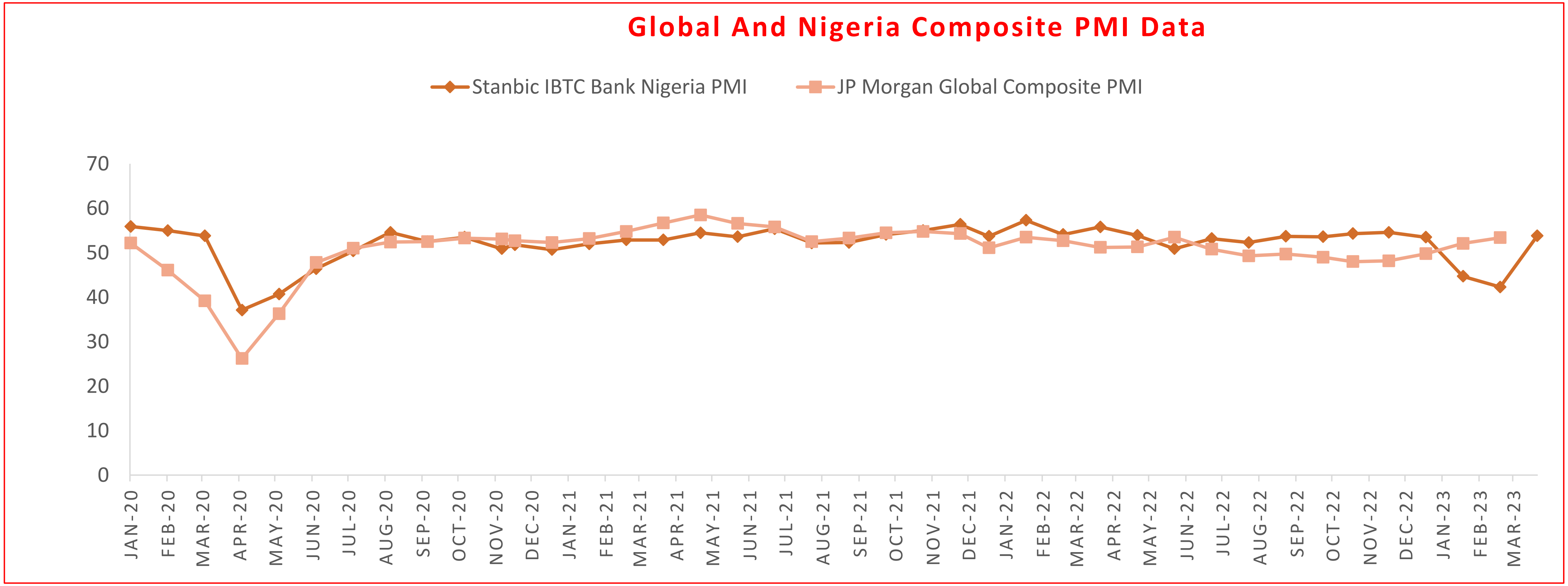
The Economy

- The latest Stanbic IBTC PMI reading for April 2023 saw the private sector returned to growth as the Purchasing Managers' Index (PMI) rose to 53.8 points from 42.3 points in March. This indicates signs of recovery and growth in private sector business conditions in April as the cash crisis eased.
- There was recovery in operating condition which is a reflection of the easing of the cash crisis that affected the economy severely in recent months. This improvement in access to cash further drove an uptrend in customer numbers as well as helped normalize the business environment.
- While the easier access to cash caused business activities to expand across key sectors such as Agriculture, Manufacturing, Services and Wholesales and Retails sectors; businesses were however cautious in hiring more staff due to relatively subdued business optimism.
- There were mixed trends in terms of prices in the month of April as input costs increased at a sharper rate, but efforts to attract customers led firms to increase their selling prices at the softest pace for three years while some firm offered discounts in a bid to stimulate demand.
- Also, some companies increased their purchasing activity in response to higher new orders as their inventories expanded. Efforts to secure inputs were also helped by improvement in suppliers' delivery times during the month.
- The rates of increase in purchase prices and staff costs surged quickly in April. Nigerian businesses linked the purchase price rise to higher raw material costs and currency weakness. Meanwhile, higher wages reflected efforts to help staff deal with the rising cost of living.

The Economy



Global And Nigeria Composite PMI Data
Stanbic IBTC Bank Nigeria PMI
JP Morgan Global Composite PMI
70
60
50
40
30
20
10
0
JAN-20
FEB-20
MAR-20
APR-20
MAY-20
JUN-20
JUL-20
AUG-20
SEP-20
OCT-20
NOV-20
DEC-20
JAN-21
FEB-21
MAR-21
APR-21
MAY-21
JUN-21
JUL-21
AUG-21
SEP-21
OCT-21
NOV-21
DEC-21
JAN-22
FEB-22
MAR-22
APR-22
MAY-22
JUN-22
JUL-22
AUG-22
SEP-22
OCT-22
NOV-22
DEC-22
JAN-23
FEB-23
MAR-23

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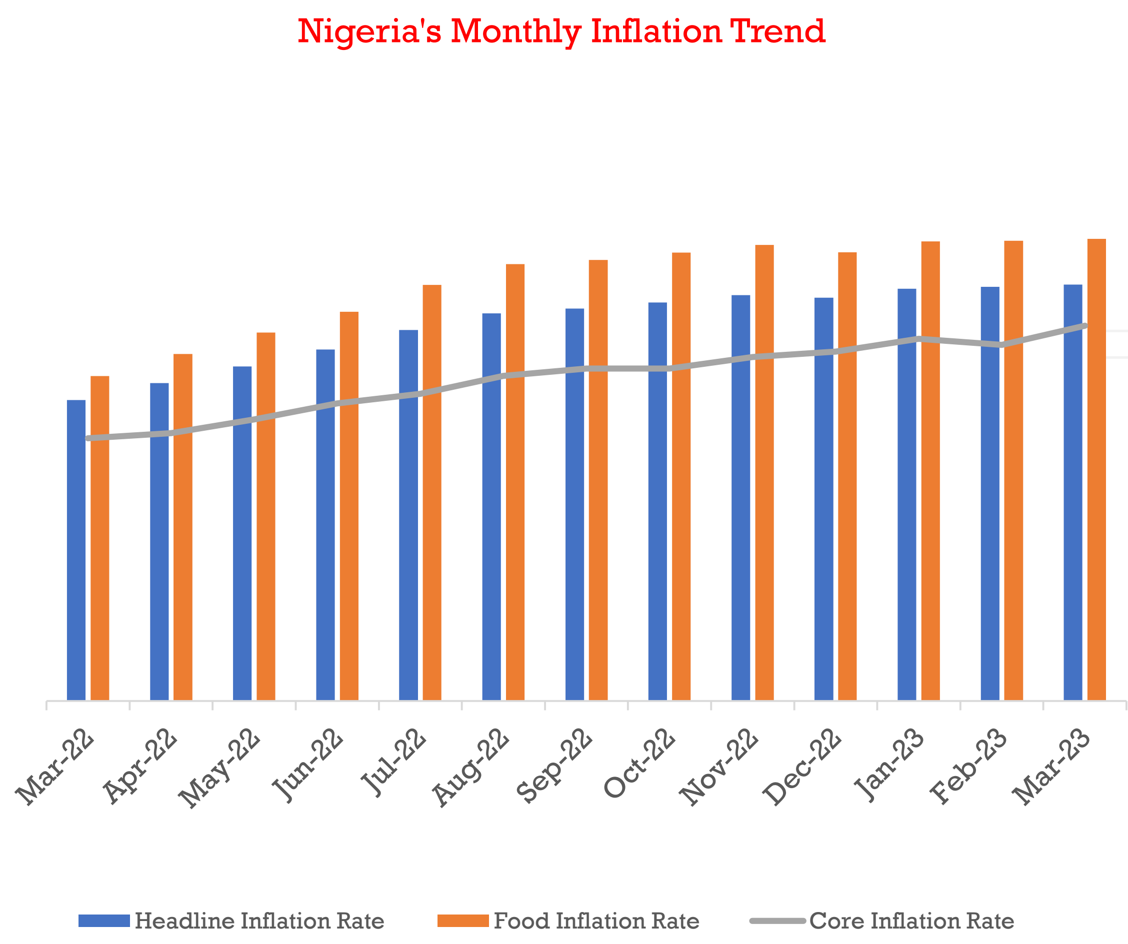
Acceleration in Headline Inflation to 22.04% in March attributed to season-induced cost pressures

- Headline inflation inched up 13bps for the third straight month to 22.04% year-on-year in March up from 21.91% in February due to cost pressures in March and shortage of food supplies.

- The continued rising trend was primarily driven by the increases recorded in the prices of food and non-alcoholic beverages, which contributed 11.4% to the y/y increase of the CPI. Additionally, increased cost of living, education and medical fees, recreation & culture, and communication costs further contributed to the acceleration in inflation numbers during the month.

- A major driver of the headline index was Food inflation which rose to 24.45% year on year from 24.35% in February amid food shortages. This increase was caused by increases in the prices of oil and fat, bread and cereals, potatoes, yam, and other tubers, fish, fruits, meat, vegetables, and spirits.

- Meanwhile, core index accelerated 1.02 percentage points to 19.86% in March from 18.84% in the preceding month. The highest increases were recorded in the prices of gas, passenger transport by air, liquid fuel, fuels, and lubricants for personal transport equipment, vehicle spare parts, and solid fuel, among others.



Source: National Bureau of Statistics, Cowry Research

Capital Importation value falters on Naira devaluation, Incoherent FX policies

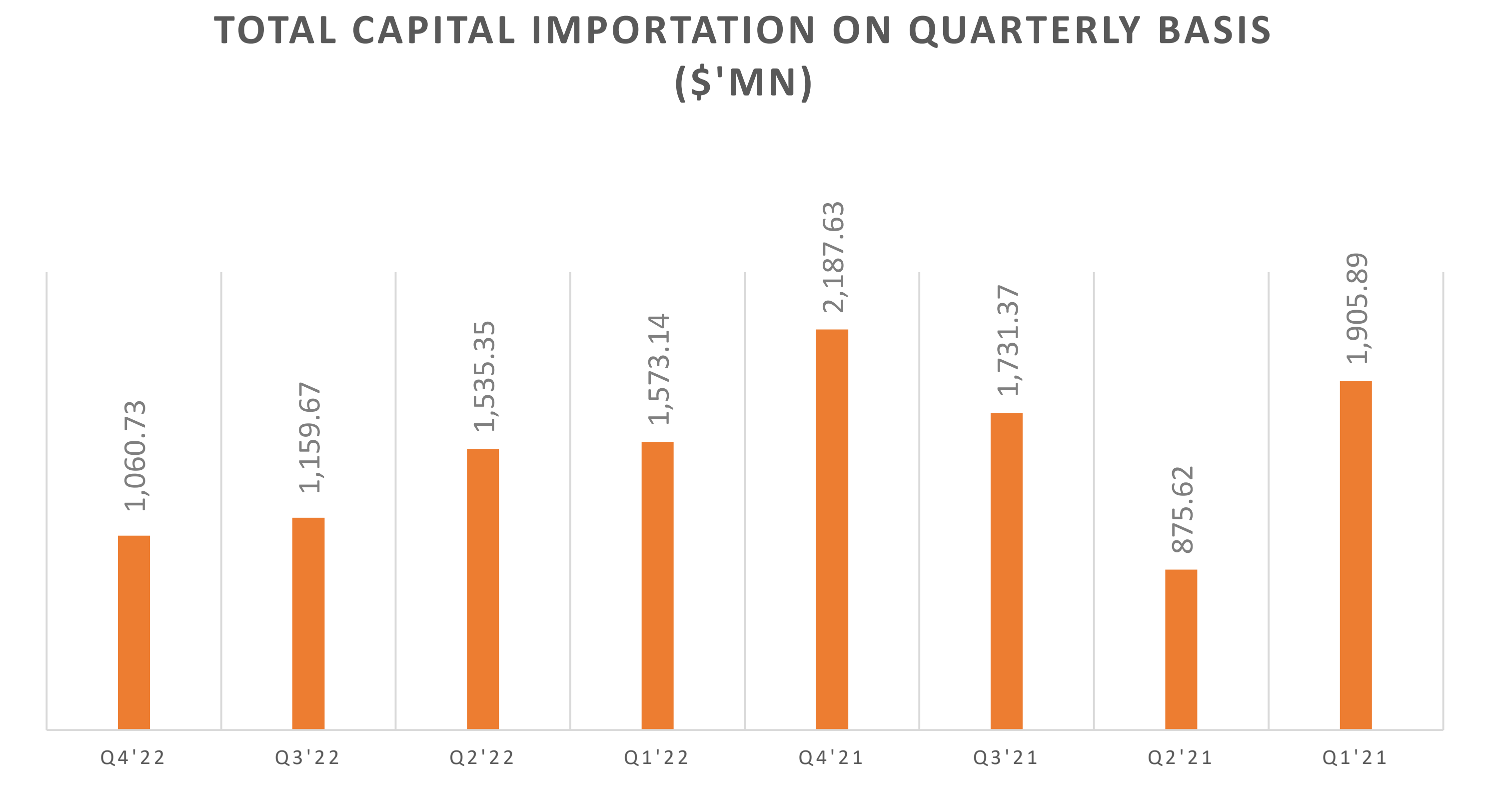
- According to the NBS, total capital inflow into Nigeria plunged 20.5% y/y to $5.33 billion in 2022 from $6.7 billion in 2021. The decline may be partly attributed to the continued tightening of the global financial condition, benchmark rate increases by US Federal Reserve Bank, concerns of economic recession and fears of default by some highly indebted countries as well as capital control measures taken by some economies.

- The decline translates to the lowest amount received in terms of total capital inflow since 2016 ($5.12 billion) and also the lowest since the pre-Covid era ($23.99 billion: 2019), with the majority of the inflow coming from portfolio investment, which amounted to $2.44 billion, and the least inflow (for years) from foreign direct investments at $468 million.

- Nigeria's inability to fund repatriation of foreign capital has continued to be a source of concern to both foreign portfolio investors and foreign direct investors. The failure the the Central Bank to harmonize the multiple Exchange rates has also contributed foreign investors shunning Nigeria's local currency instruments.

- In 2022, Nigeria's largest source of capital importation was through foreign portfolio investment that has always been driven by investments in money market instruments and contributes around 58% ($1.41 billion). While inflow through loans declined marginally by 2.8% y/y from $2.38 billion in 2021 to $2.31 billion in 2022, total foreign direct investment (FDI) plunged to $468 million in 2022, down by over $230 million from the 2021 figures. This is around 10% of the total FDI in 2008 ($4.8 billion).

- On a sectoral basis, the Banking and Production sectors received the highest capital inflow during the year at $2.09 billion and $948 million. They were trailed by the Financial and Shares sectors which printed at $791 million and $469 million, respectively. On the converse, the Consulting and Brewing sectors seem to maintain their positions as bleak hubs for investors. Thus, a paltry $12,000 and $55,000 were received by the sectors respectively in 2022. Other sectors and their capital receipt were Transport ($1.32 million), Hotel ($1.63 million), and Drilling ($1.76 million).



Source: National Bureau of Statistics, Cowry Research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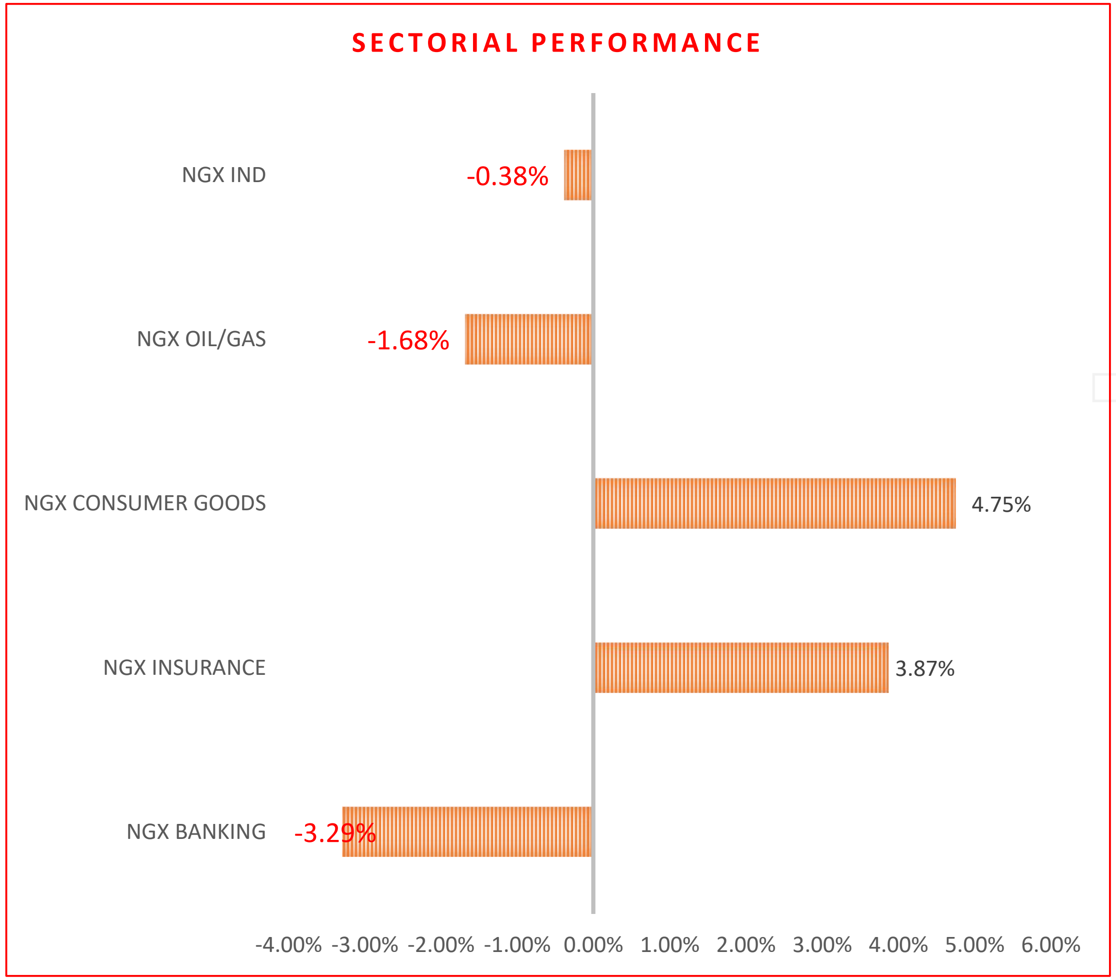
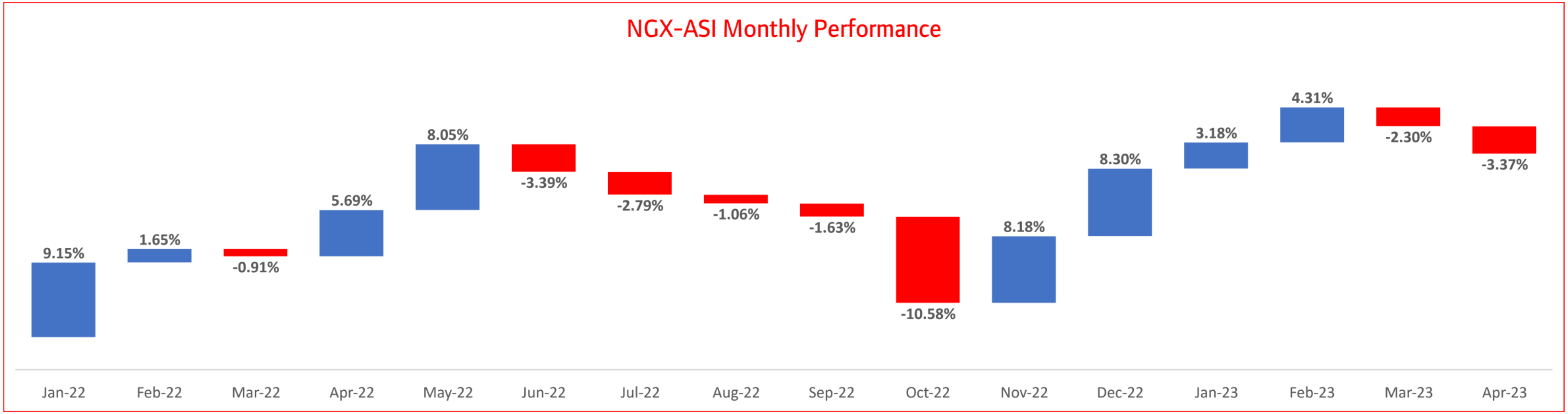
Downbeat Momentum Continues on the Domestic Bourse in April

- The grip of the Bears in the local bourse tightened in April 2023 as the market index declined by 3.38% to 52,403.51 points following an earlier loss of 2.30% in March 2023. This was in spite of benefits declaration/payments and positive Q1 2023 results announced by most quoted companies as the market. Year-to-date return declined to 2.2% at the end of April. Also, the market capitalisation shed 3.42% m/m or N1 trillion further in April to close at N28.53 trillion.
- The weak performance was primarily driven by profit-taking activities in some tickers during the month; rising interest rates and the lack of positive market catalyst to drive sustained trading activities in the market.
- There was however increased level of market trading activities in April as the average monthly volume and value inched 242% and 64.7% to 1.1 billion units valued at N5.2 billion. Top traded securities in terms of volume was led by TRANSCORP (667.2m units) due to strong buy-interest and a sizeable share acquisition by Nigerian billionaire businessmen (Femi Otedola) for a 6.27% stake and Heirs Holdings purchase amounting to 25.6% stake in the company.
- It was a downbeat momentum across the sectors as only 2 out of 5 indices reported gains. The Consumer Goods and Insurance sectors emerged as the only gainers for the month with gains of 4.75% and 3.87% respectively while the banking index led the losers' charts with -3.29% loss m/m. Trailing were the Oil & Gas and Industrial goods sectors at -1.68% and -0.38% respectively.



The Domestic Equity Market



Top Ten Gainers					Bottom Ten Losers				
Company	28-Apr-23	30-Dec-22	YTD Change	% Gain (YTD)	Company	28-Apr-23	30-Dec-22	YTD Change	% Gain (YTD)
TRIPPLEG	8.00	0.79	7.21	913%	MULTIVERSE	2.78	3.98	1.20	-30%
UCAP	36.60	14.00	22.60	161%	UACN	7.75	10.25	2.50	-24%
TRANSCORP	2.81	1.13	1.68	149%	AIRTELAFRI	1,250.00	1,635.00	385.00	-24%
GEREGU	323.00	149.00	174.00	117%	NB	32.00	41.00	9.00	-22%
MRS	27.95	14.10	13.85	98%	CHAMPION	4.37	5.50	1.13	-21%
NAHCO	11.95	6.40	5.55	87%	VITAFOAM	16.90	20.45	3.55	-17%
UBN	11.75	6.40	5.35	84%	ETERNA	5.85	6.69	0.84	-13%
BUAFOODS	114.00	65.00	49.00	75%	CAPHOTEL	2.50	2.76	0.26	-9%
CONOIL	40.00	26.50	13.50	51%	ARDOVA	16.75	18.40	1.65	-9%
OANDO	5.56	3.92	1.64	42%	COURTVILLE	0.42	0.46	0.04	-9%

Source: NGX, Cowry Research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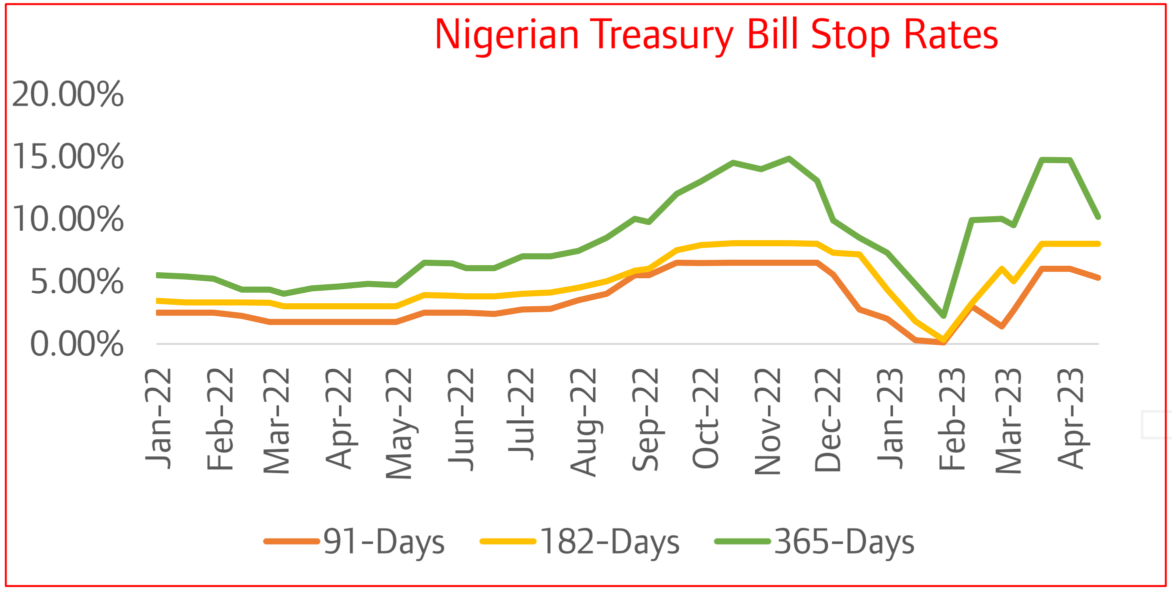
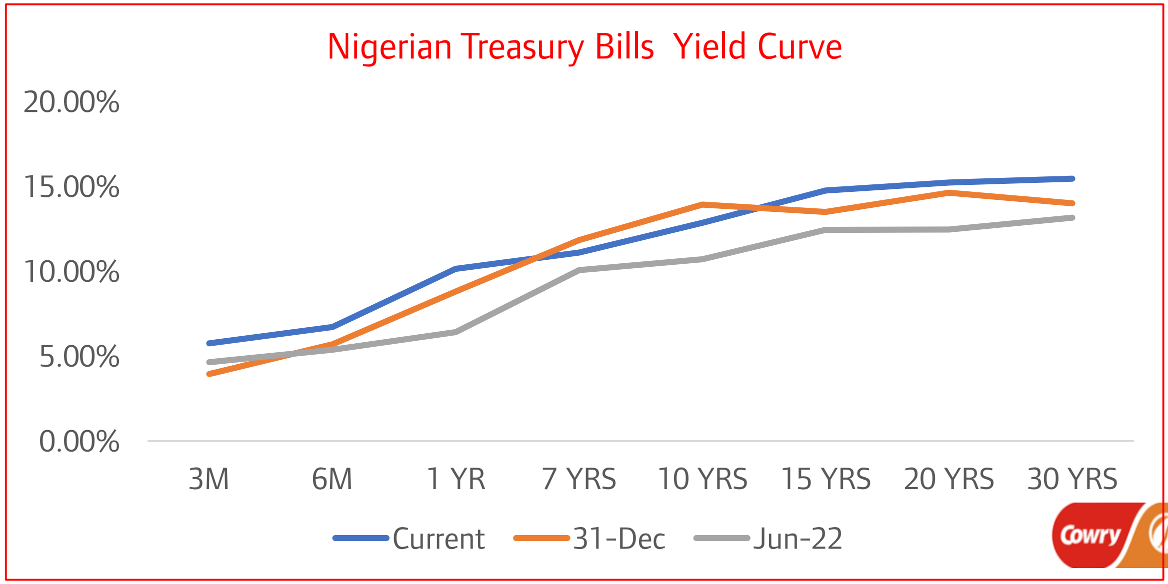
Money Market Funding Rates Retreats as System Liquidity Bolsters

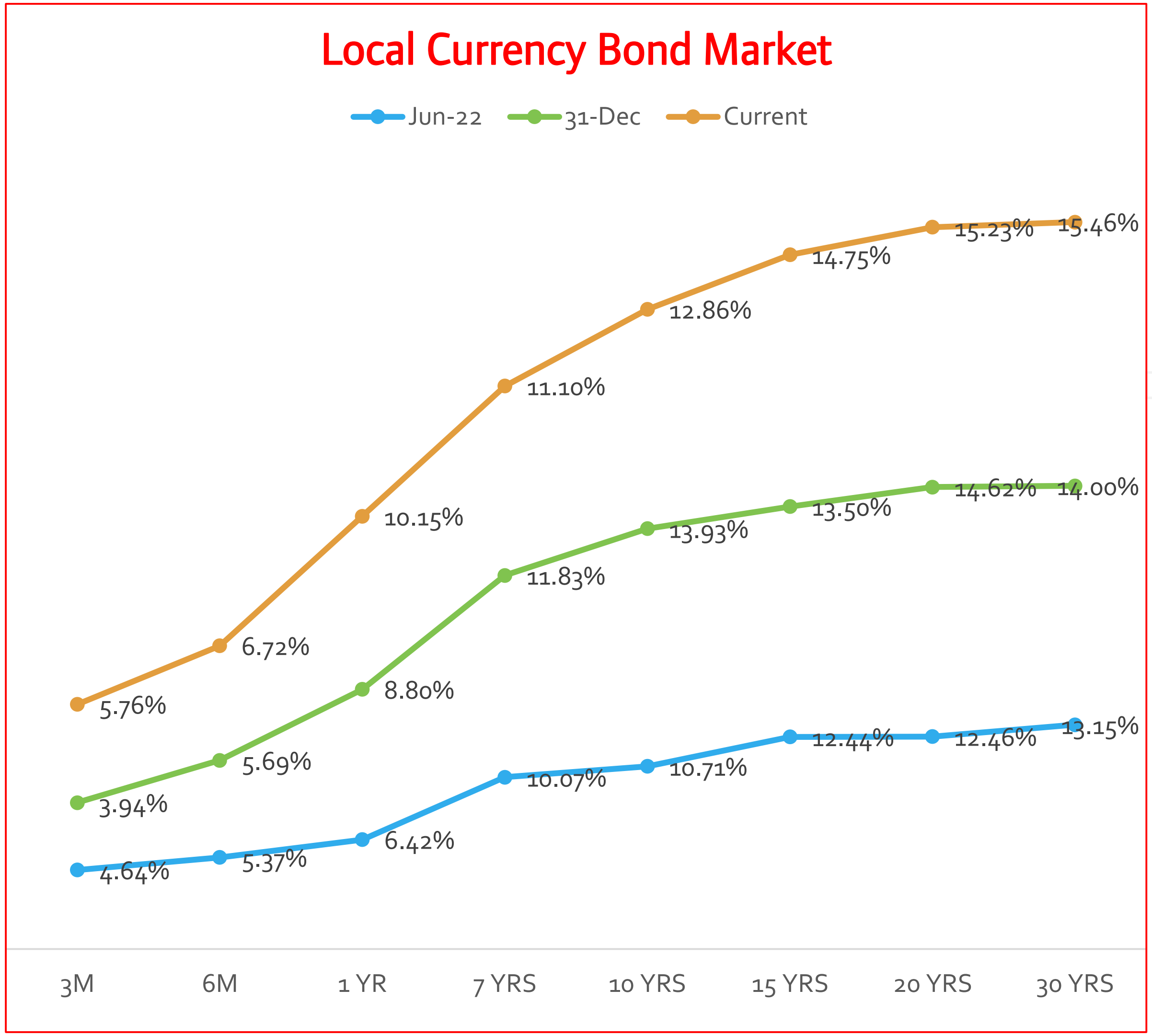
- In April, financial system liquidity was low for most of the month, before reversing towards the month end following a boost from monthly FAAC inflows (N714.63 billion) and FGN 2023 bond maturity and coupon repayments. Hence, short-term benchmark rates such as the Open Repo Rate (OPR) and the Overnight Lending Rate (OVN), crashed to 12.63% (from 18.5%) and 13.13% (from 18.88%), respectively. The Nigerian interbank offered rates for 30-day, 60-day, and 90-day also closed lower at 11.84%, 12.51%, and 12.51%, respectively.
- At the fortnightly Treasury Bill Primary Market Auctions (PMAs), the Apex Bank refinanced N281.10 billion of maturing bills, largely at lower stop rates as the average marginal rate at the last auction stood at 7.82%, compared to 9.58% in March. Specifically, the 91-day and the 364-day Bills were last issued at 5.30% and 10.17%, respectively, compared to 6.00% and 14.74% in March. The 182-day bill stop rate remained unchanged at 8.00%. In terms of demand, the 364-day bill saw the highest demand (4.07x), followed by the 91-day (1.55x) and the 182-day (1.01x). Overall, the bid-to-cover ratio stood at 3.91x, compared to 3.33x at the prior auctions in March.
- In the secondary market, Nigerian Treasury Bill yields were mixed, as longer-dated front-end yields declined, while shorter-dated front-end yields rose. The benchmark 1-year and 6-month NITTY were down 259 bps and 85 bps, respectively, to 10.15% and 6.72% on demand pressure. On the flip side, NITTY for 1 month and 3 months yielded were 4.24% and 5.76%, respectively, compared to 3.99% and 5.46% in March.





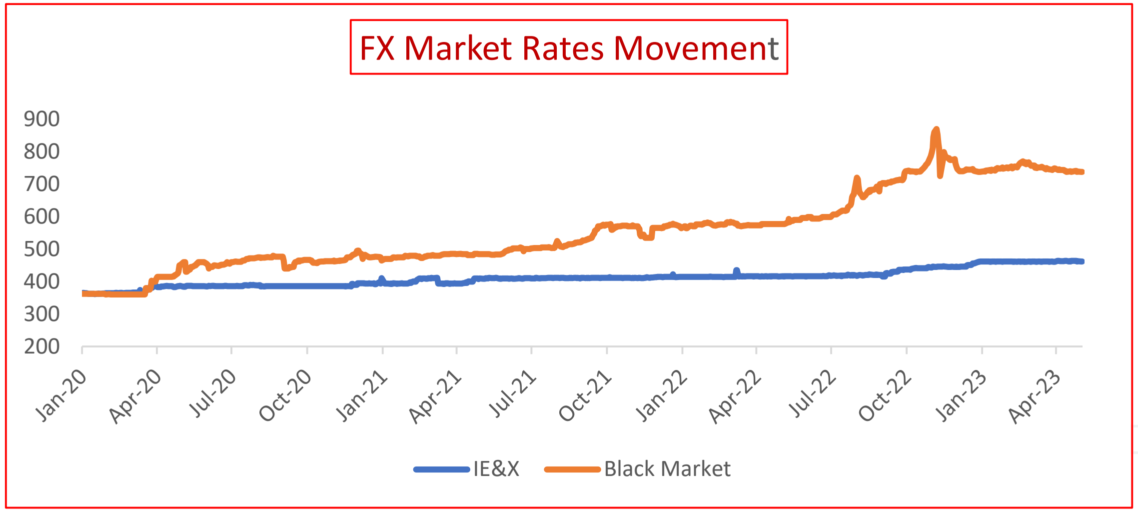
Yields on FGN Papers Spike as Investors Reprice Security

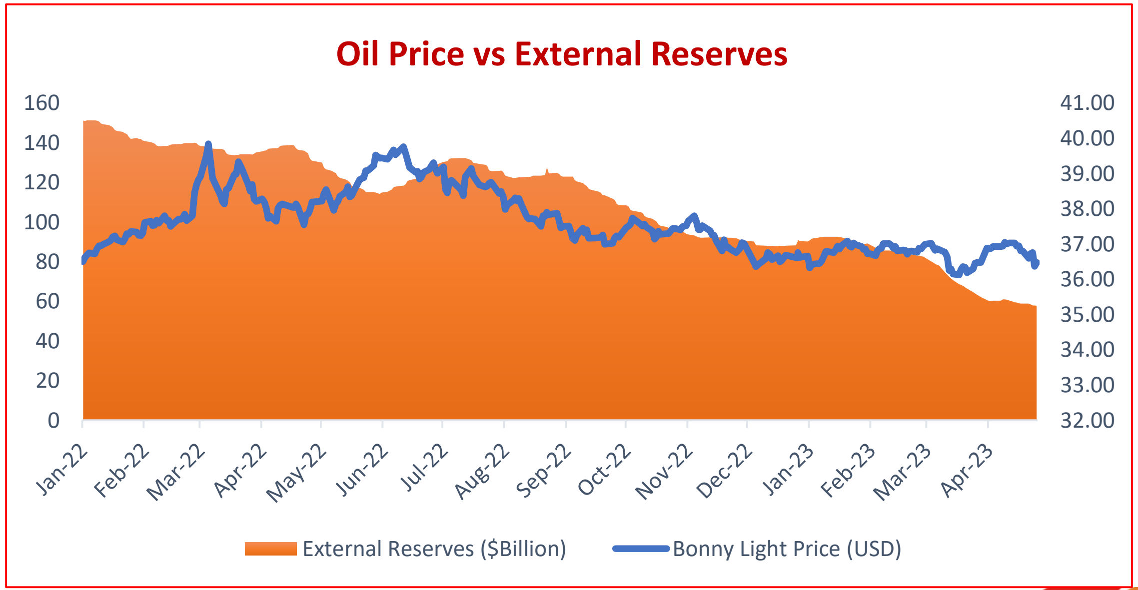
- In the bond space, the DMO sold N368.67 billion worth of bonds (+N84.03 billion more than its planned offer) across four bond re-openings: 13.98% FGN FEB 2028, 12.50% FGN APR 2032, 13.00% FGN JAN 2042, and 12.98% FGN APR 2050. Amidst prevailing banking system illiquidity, the total subscription was weak, amounting to N444.03 billion (its lowest since November 2022). DMO was limited to borrowing only N552.47 billion (N368.67 pre-non-competitive sales). The auction's bid-to-cover ratio was lower at 1.20x (March 1.43x), and 0.8x when adjusted for non-competitive allotments of NGN183.8 billion.
- Total bids stood at 228, but only 173 were successfully allotted at stop rates ranging from 14.00% to 15.80%. Notably, marginal rates for the 28s remained unchanged at 14.00%, but rates for the 32s expanded to 14.80% (from 14.75%). The newly re-issued 42s and 50s were sold at 15.40% and 15.80%, respectively.
- Activity in the secondary market was bearish as the average yield closed higher at 14.13%. The yield on the 10-year paper rose 213 bps over the March closing rate of 12.86%, while the 30-year FGN bond opened the month at 15.47% and closed at 15.47%.
- Meanwhile, the value of FGN Eurobonds traded on the international capital market depreciated for most maturities. Hence, the average yield rose to 12.87% (March: 12.39%) despite improved macroeconomic conditions in developed countries, as indicated by cooling inflation and lower expectations for future policy rate hikes.



Naira Experience Relative Calm Across Markets As Currency Crisis Eases

- In the foreign exchange market, the naira slipped 0.4% m/m to N462.3/$1 at the investors and Exporters' FX window despite the easing of the currency crunch experienced in the prior month. However, there was positive appreciation at the parallel market by 1.34% m/m to N739/$1.
- Oil futures started April strongly as an unexpected 1.6 million bpd output cut decision by OPEC+ members stoked supply concerns, sending oil prices higher, after pressure from the collapse of several US banks in March. Likewise, strong Chinese 4.5% Q1 GDP growth and declining US crude inventory stockpiles also boosted oil prices.
- However, oil prices trended lower toward the end of the month as a combination of recessionary fears amid increased rate hike expectations, a stronger dollar, and rising Russian oil exports despite a pledge to cut production, weighed on the market.
- Specifically, Brent crude futures traded between the range of $87/bbl and $78/bbl before settling at $79.54/bbl (down from $79.77/bbl in March). Meanwhile, West Texas Intermediate (WTI) crude futures closed 8.27% higher at $79.44/bbl, while Nigeria's benchmark Bonny Light Oil spot averaged $86/bbl, up from $81.06/bbl in March.



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