Cowry Monthly Economic

&

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Cowry Research

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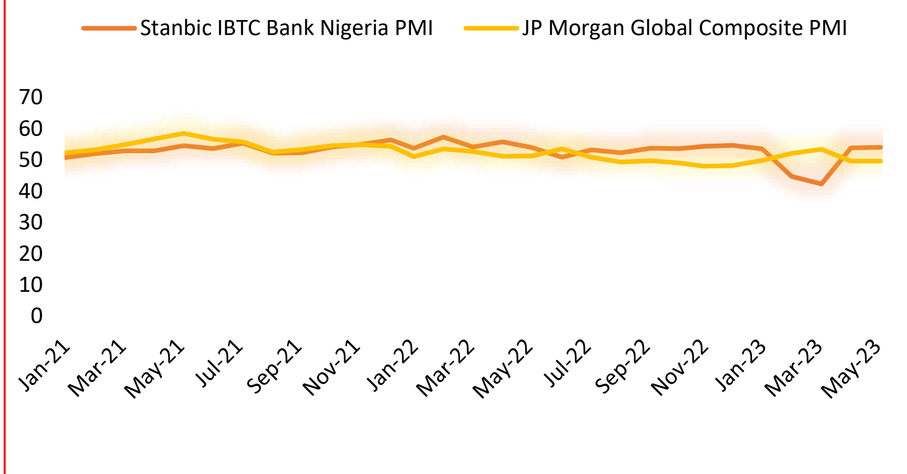
Global Economy: Manufacturing PMI Flattens at 49.6 points as Improvement in Global Supply Chain Bolsters Output

The JP Morgan Global Manufacturing PMI printed an unchanged figure from April at 49.6 points in May and stays below the 50-point mark for the ninth straight month as global factories increased their production capacity for the fourth consecutive month on the back of boosted productive output from supply chains improvement. The growth of manufacturing production rose to an 11-month high in May but was relatively subdued as strengthened performance in Asia offset the weaker expansion in North America and a further downturn in Europe.

During the month, output growth rebounded in China to an 11-month high as Japan's economy grew after 10 months of contraction alongside the UK, Australia and Brazil recorded contractions in production. In the United States, growth was slow while Greece and the eurozone nations all reported expansions while Thailand and India recorded strong increases in output growth. In the meantime, international trade volumes continuously weighed on demand with new export orders dropping for the fifteenth consecutive month and at the fastest pace in 2023 so far. The US, the euro area, Japan, the UK and Brazil were among the nations to see contractions, whereas China and India were among those reporting growths.

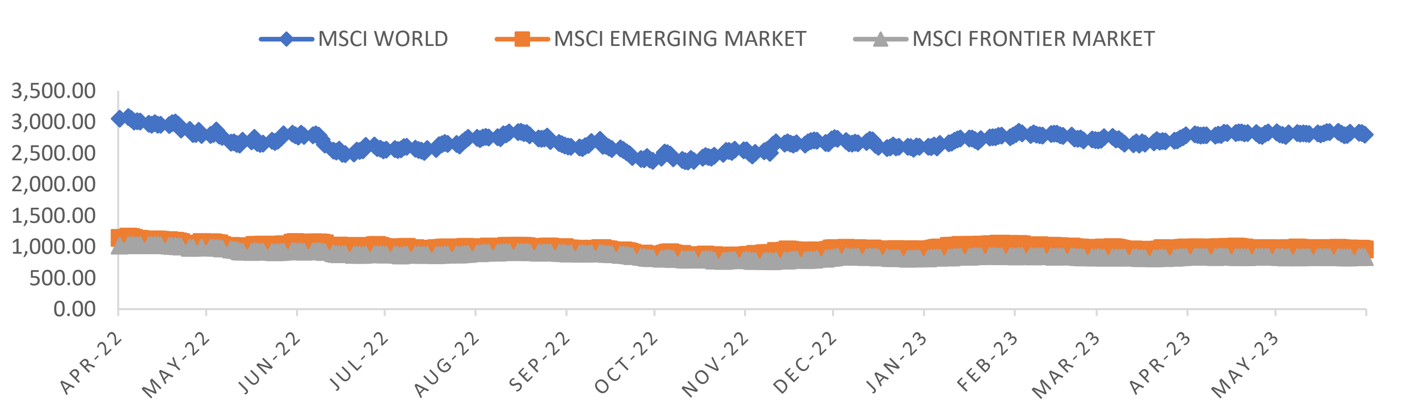
A cursory analysis of the data by sector showed that output grew across the consumer, intermediate and investment goods sectors and signals the first time of concurrent growth since June 2022. On the other hand, only consumer goods registered an expansion of new order intakes and business optimism sustained its downtrend in May. Although global manufacturers expect production to increase on average in the next 12 months, confidence bowl-shaped to its weakest since December filtering through to the trends in employment, purchasing and stock holdings, with staffing levels staying flat since April and decreases to signal input buying volumes and stocks of both raw materials and finished products.

Nigeria & Global Manufacturing PMI



Source: S&P Global, JP Morgan, Stanbic IBTC, Cowry Research

The Morgan Stanley Composite Index (MSCI)



Domestic Economy: Private Sector Sustains Recovery as PMI Rises to 2bps to 54 Points on Easing Cash Crisis

Stanbic IBTC's May Purchasers' Manager Index (PMI) improved solidly to 54 points from 53.8 p in April 2023. Private sector recovery and expansions continue in May 2023 as firms and individuals recover from the cash crunch crisis in May. This signals that there was improved access to cash and a return of business conditions to normality.

Output and new orders expanded for the second month running, with the new orders increasing at the fastest pace in just over a year. With access to cash improving, customer numbers increased, enabling firms to secure greater volumes of new orders in May. New business was up sharply, with the rate of expansion the fastest since April 2022. Also, business activity rose for the second month running across the major sectors, and at a marked pace. At this time, the expansion was slightly softer than in April.

Although higher new orders encouraged firms to increase their staffing levels for the first time in four months during May, the rate of job creation was only marginal amid signs that spare capacity remained in the private sector. The weak pace of employment growth also partly reflected a relatively softer sentiment regarding the year-ahead outlook for activity. Although business expansion plans and predictions of further improvements in new orders supported positive forecasts, confidence dipped and was the second lowest on record. Purchase prices continued to rise sharply, albeit at a slightly softer pace than in the previous survey period. Higher costs for agricultural inputs such as animal feeds, and rising prices for industrial raw materials, were often mentioned. Staff costs were also up as companies offered higher pay to employees to reflect greater workloads.

Uncertainty Clouds Growth Outlook as Nigeria's Economy Expands 2.31% in Q1

According to the recent report from the National Bureau of Statistics, Nigeria's economy grew positively by 2.31% y/y in real terms to N17.75 trillion during the first quarter of 2023. This indicates another positive acceleration in real GDP for the tenth straight quarter but was slower than the 3.11% y/y real growth reported in Q1 2022 and 3.54% y/y experienced in Q4 2022.

Nigeria's growth remains subdued over the past years with an average real GDP growth of 1.45% within the last eight years and majorly dragged by the bane of insecurity and terrorism, low capital inflow and increasing capital flight, corruption, currency devaluations, intensified monetary policy tightening by central banks and unfavourable ease of doing business brought about some of the levels of disruptions in economic activities. Amid these negative headwinds, Nigeria needs to achieve GDP growth of over 6% to achieve more inclusive growth and move closer to its long-run GDP potential.

Sector	GDP				
	2023 Q1 GDP	Contribution	2022 Q1 GDP	Contribution	Y-o-Y Change
Agriculture	3,844,845	21.66%	3,879,732	22.36%	-0.90%
Information and Communication	3,101,305	17.47%	2,811,318	16.20%	10.32%
Trade	2,835,343	15.97%	2,798,776	16.13%	1.31%
Manufacturing	1,797,292	10.13%	1,768,820	10.20%	1.61%
Mining and Quarrying	1,111,852	6.26%	1,157,688	6.67%	-3.96%
Real Estate	943,072	5.31%	927,316	5.34%	1.70%
Financial and Insurance	949,114	5.35%	781,983	4.51%	21.37%
Construction	749,763	4.22%	725,999	4.18%	3.27%
Professional, Scientific and technical services	577,737	3.25%	560,468	3.23%	3.08%
Other Services	561,820	3.17%	702,744	4.05%	-20.05%
Public Administration	289,342	1.63%	283,591	1.63%	2.03%
Education	335,465	1.89%	333,063	1.92%	0.72%
Transportation and Storage	209,377	1.18%	191,448	1.10%	9.36%
Accommodation and Food services	179,634	1.01%	173,407	1.00%	3.59%
Human health and Social services	129,110	0.73%	126,013	0.73%	2.46%
Electricity & Gas, others	35,834	0.20%	32,717	0.19%	9.53%
Water supply & Waste management, Others	41,235	0.23%	39,058	0.23%	5.57%
Arts, entertainment and recreation	54,689	0.31%	51,852	0.30%	5.47%
Administrative & Support services	3,231	0.02%	3,388	0.02%	-4.64%
Real GDP	**17,750,061**	**100%**	**17,349,381**	**100%**	**2.31%**

The deceleration in growth may have stemmed from the impact of the Naira scarcity on aggregate demand, uncertainties about the new administration and existing structural problems. Also, the ongoing fuel shortages experienced at the start of the year brought about disruptions in economic activities and led to higher prices of goods and services; the war in Ukraine which disrupted global trade and the attendant impact of the COVID-19 pandemic which brought about higher unemployment is said to be the driving factors to this slowdown.

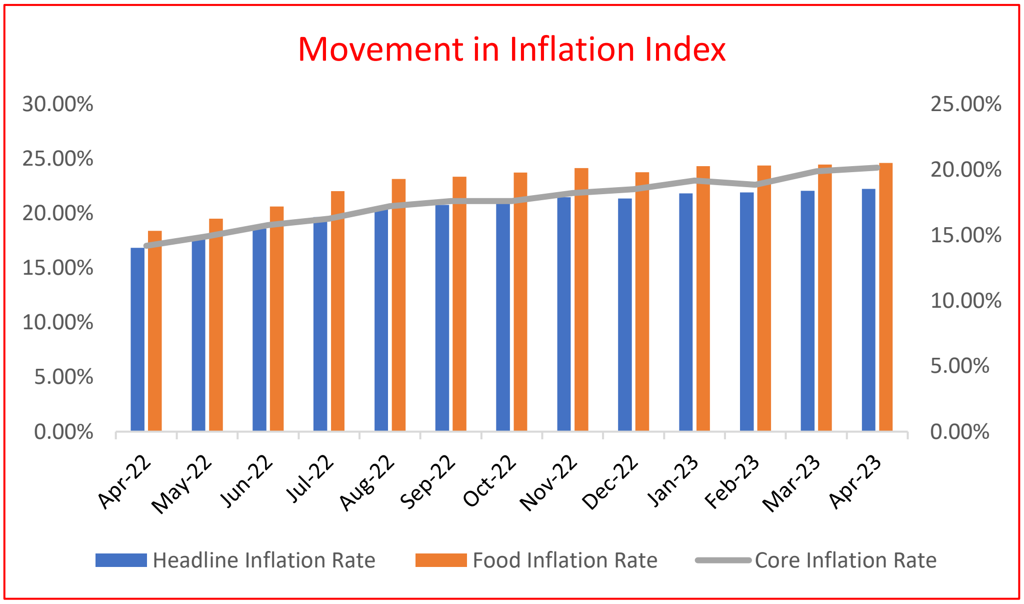
The drivers of growth in Q1 2023 come from the non-oil sector (2.77% in real term) and were the services sector, which grew by 4.35%, and the manufacturing sector, which grew by 0.31%. The services sector is the largest contributor to Nigeria's GDP, accounting for about 57.3% of total output and was driven by the continued expansion of the telecommunications, financial, and real estate sectors. Also, the industries sector is the second-largest contributor to Nigeria's GDP, accounting for about 21.05% of total output during the quarter. The growth in the manufacturing sector was driven by the continued expansion of the food and beverage, cement, and automobile sectors.

On the other hand, growth, during the period was dragged by the oil sector, which contracted by 4.21%, and the agriculture sector, which grew negatively by just 0.9%. The oil and gas sector is the largest export earner for Nigeria, accounting for about 90% of total exports. However, the contraction in the oil and gas sector was driven by the continued decline in oil prices. During the period under review, Nigeria reported an average daily crude oil production of 1.51 million barrels, higher than the daily average production of 1.49mbpd recorded in the same quarter of 2022 by 0.01mbpd and higher than the fourth quarter of 2022 production volume of 1.34mbpd by 0.17mbpd.

Inflation Worries Worsens as Headline Rate Rises Further to 22.22% in April on Cost-Push Factors

In April, there was an acceleration of the headline inflation for the fourth straight month in 2023 to 22.22% in April 2023 from 22.04% in the previous month. This indicates a 0.18 percent points increase m/m and the highest reading since September 2005 (24.3%). This was according to the NBS report for April 2023.

Rising inflation remains on an upward trajectory in 2023, giving further room to policy tightening measures by the CBN at the May 2023 MPC meeting in its the continued battle against stubborn inflation. We note that the rising inflation rate is eroding the purchasing power of Nigerians and making it more difficult for them to afford necessities. As such, the Central Bank of Nigeria is keeping the Monetary Policy Rate (MPR) high and selling foreign exchange to banks at a higher rate.



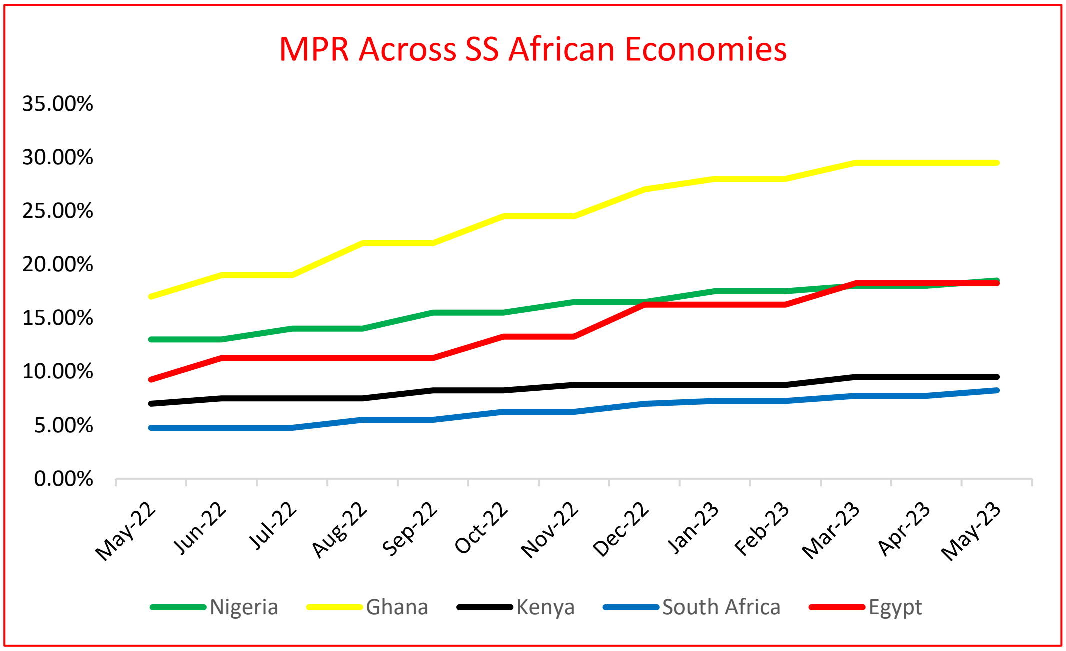
The continued uptrend in the headline consumer price index can be ascribed to the devalued Naira which has made imported goods more expensive; increasing cost of gas, as well as the cost of electricity generation and distribution (3.72%). Also, the contributions of items on the divisional level further precipitated the acceleration. Thus, food and non-alcoholic beverages (11.51%), clothing and footwear (1.70%), transportation cost (1.45%) and household furnishing and equipment (1.12%) stood as major drivers.

The food index has continued to be a driver of the headline index. The index rose to 24.61% y/y in April 2023 as a result of increases in prices of Oil and fat, Bread and cereals, Fish, Potatoes, Yam and other tubers, Fruits, Meat, Vegetable, and Spirits. The April figure increased from 24.45% in March 2023 due to rises recorded in electricity tariffs, energy-diesel and petrol prices, and miscellaneous goods & services in the month. The ongoing conflict in Ukraine has disrupted the global supply of food, which has led to higher prices, the devaluation of the Naira has made imported food more expensive, and the government's decision to ban the importation of some food items has also contributed to the rising cost of food.

The core inflation, which excludes the prices of volatile agricultural produce stood at 20.14% in April 2023 y/y. the highest increases were recorded in prices of Gas, Passenger transport by Air, Liquid fuel, Vehicle spare parts, Fuels, and lubricants for personal transport equipment, Medical services, Passenger transport by road, etc.

CBN Stay Hawkish at the Altar of Growth with 50bps Raise in MPR

The CBN, after its May 2023 MPC meeting, maintained its hawkish tone for the seventh consecutive session since May 2022, by another 50 basis points, to 18.50% in the face of lingering economic headwinds, even as majority of members voted to retain the asymmetric corridor at +100 bps and -700 bps around the MPR, the CRR at 32.50%, and the liquidity ratio at 30%.



The Committee's decision to raise interest rates is just one of several factors that may trigger macroeconomic instability in the Nigerian economy. However, rising inflation has continued to be a front burner in most economies across the globe, including Nigeria. Thus, we think the 50bps hike will help to slow the pace of inflation which is beneficial to households and businesses by reducing the cost of living, and on the other hand, dampening Nigeria's economic growth.

Although the MPC was delighted that monthly inflation has been on the decline, it was convinced that the gradual rate hikes have impacted the targeted parameters and yielded the expected outcome, although slowly. It stated that the policy rate hikes have also moderated growth in new credit and reduced the pent-up aggregate demand contributing to the inflationary pressures. Reviewing the argument to further hike the policy rate in a bid to subdue aggregate demand, Members noted that the current uptrend in inflationary pressure was driven by a combination of both demand and supply side issues. The MPC observed the continued upward risk to price development driven primarily by expectations of rising energy and food prices; unabating security challenges in food-producing areas; as well as persisting exchange rate pressure.

In considering the impact of a tightening stance on rising inflation and real income, the committee opted for a moderate tightening to stamp that its current action is:

(a) moderating rising inflation;

(b) discouraging a further build-up in aggregate demand in the face of declining output growth;

(c) narrow the negative real interest rate gap and moderate the associated consequences, including discouraging domestic savings mobilization and waning investors' confidence;

(d) effectively tame the monetary phenomenon driving inflation by tapering both economic and financial conditions, and sweep-up excess liquidity in the system; and

(e) boost the Bank and Committee's credibility following its earlier forward guidance to continue to tighten when confronted with unabated rising inflation.

Nigerians Brace Up on New Administration's Economic Quest

Key events in Nigeria's macroeconomic landscape in May painted the picture of some vital issues the new administration must tackle to provide all-inclusive solutions to Nigeria's lingering fiscal quagmire among other issues that plague the economy. On May 29th 2023, Nigeria marked a significant milestone with the successful transition of power to Bola Tinubu, the winner of the 2023 presidential elections, as he was sworn in as the 16th President of the Federal Republic of Nigeria.

During his inauguration speech, Nigeria's new President, Bola Ahmed Tinubu, announced the removal of subsidy payment on the premium motor spirit (PMS) and stated that subsidy savings would be redirected to public infrastructure, education, health care, and job creation. This sparked reactions across the country with over 200% spike in the pump prices of PMS. Meanwhile, a look at the President's inaugural address covered a wide range of topics including the economy, security, infrastructure, monetary policy and foreign policy. On the monetary policy and FX unification drive, President Tinubu's speech highlights his commitment to ensuring that international investors and multinationals can repatriate profits and dividends to their home country, which is a pointer to a more coherent foreign exchange policy. To this, there could be a scope to reprice the local currency at the various FX windows especially the I&E window as the apex bank finds ground for the expected convergence or unification of the exchange rates.

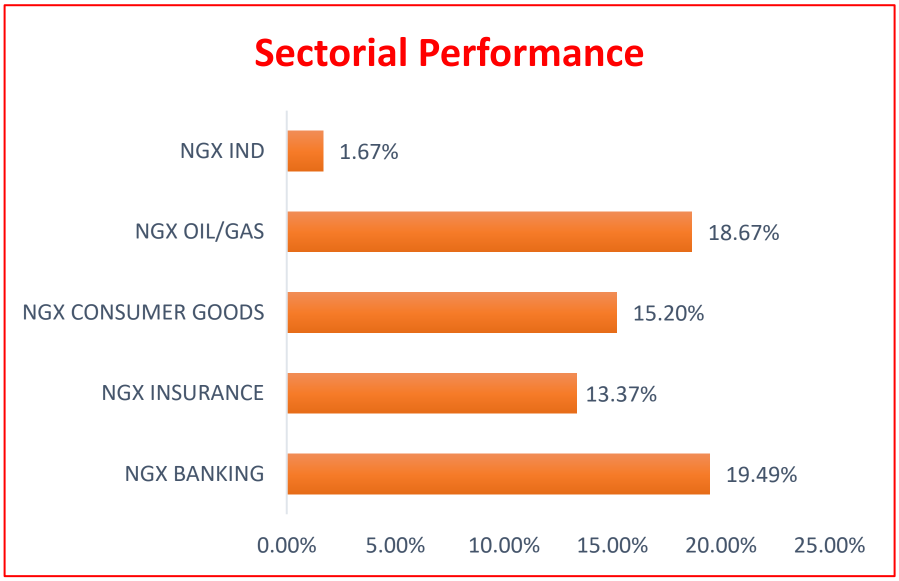
Domestic Equities Market: Positive Outing for the NGX in May as Policy Guidelines Buoy Late Rally

After two consecutive months of bearish run in March and April, the domestic equities market rebounded as the All-Share Index closed positive by 6.42% m/m to close positive at 55,769.28 points in May. The positive gain was supported by insider dealings among companies as directors and related parties sealed their positions as well as positive reactions to the policy statement from the new government after a successful transition of power to President Bola Ahmed Tinubu; to buoy late rally in the market.

Despite the profit-taking and selloffs witnessed within the period, the benchmark index rallied to a 16-year high on a 'buy' sentiment, amidst selloffs and price adjustments. Also, the market capitalisation increased by N1.83 trillion to close at N30.37 trillion, from an opening value of N28.53 trillion, representing a 6.42% appreciation in value and the year-to-date return of the market printed at 8.82%. The market saw buy sentiments for blue chip stocks, highly-priced and others on Q1 scorecards, mixed economic data released and policy statements of the government, as investors digest the numbers and the likely impact of these policy outlines of the government. The month's average traded volume for the month was up by 18.6% at 12.45 billion shares, from 10.50 billion units in the previous month.

The sectoral performance was bullish in the month as all indices closed northward. Topping the gainers' chart was the Banking and Oil & Gas indices which rose by 19.49% and 18.67% m/m respectively on the back of buying interest in ZENITHBNK (+27.2%), FBN HOLDINGS (+32.7%), SEPLAT (+7.6%), and TOTAL (+25.1%). Following next on the ladder were gains in BUAFOODS (+13.9%), NESTLE (+19.8%), MANSARD (+37.1%), and AIICO (+13.0%) which drove the Consumer Goods and Insurance indices higher by 15.20% and 13.37% m/m, respectively while the Industrial Goods index rose 1.67% m/m respectively due to price appreciation in DANGCEM (+7.4%), and WAPCO (+7.9%).

Meanwhile, the level of trading activity for the month was mixed as the average volume traded fell 44.36% m/m to 592.7 million units while the average value traded rose 43.78% m/m to N7.5 billion. The top traded securities by volume for the month were ACCESSCORP (1.1bn units), UBA (1.1bn units), and FIDELITY (0.5bn units), while SEPLAT (N29.4bn), GTCO (N3.6bn), and ACCESSCORP (N12.1bn) led by value in May.

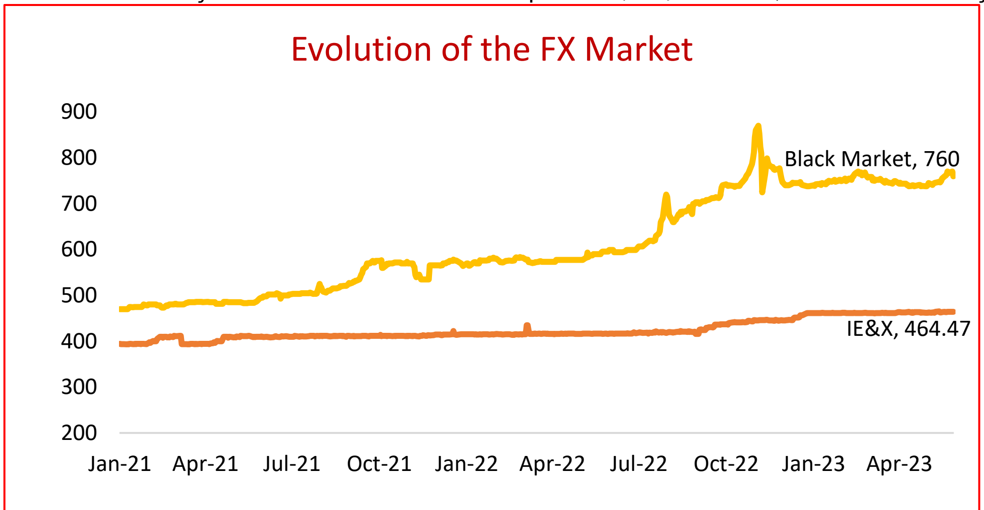


Top Ten Gainers					Bottom Ten Losers				
Company	31-May-23	30-Dec-22	YTD Change	% Gain YTD	Company	31-May-23	30-Dec-22	YTD Change	% Gain YTD
TRIPPLEG	3.90	0.79	3.11	394%	AIRTELAFRI	1,175.00	1,635.00	460.00	-28%
MRS	44.85	14.10	30.75	218%	CHAMPION	4.16	5.50	1.34	-24%
FTNCOCOA	0.81	0.29	0.52	179%	CHIPLC	0.52	0.67	0.15	-22%
TRANSCORP	3.09	1.13	1.96	173%	CAPHOTEL	2.50	2.76	0.26	-9%
IKEJAHOTEL	2.37	1.05	1.32	126%	UACN	9.50	10.25	0.75	-7%
CHAMS	0.49	0.22	0.27	123%	ARDOVA	17.30	18.40	1.10	-6%
CONOIL	57.95	26.50	31.45	119%	BUACEMENT	92.00	97.75	5.75	-6%
NAHCO	13.70	6.40	7.30	114%	UCAP	13.30	14.00	0.70	-5%
GEREGU	309.00	149.00	160.00	107%	UNITYBNK	0.53	0.55	0.02	-4%
BUAFOODS	129.90	65.00	64.90	100%	MAYBAKER	4.20	4.30	0.10	-2%

Source: NGX, Cowry Research

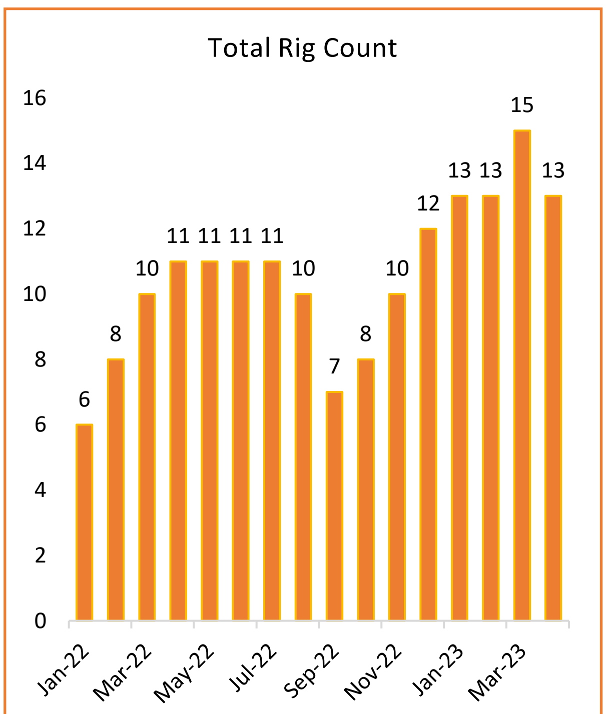
FX Market: Naira Worsens Across FX Segments

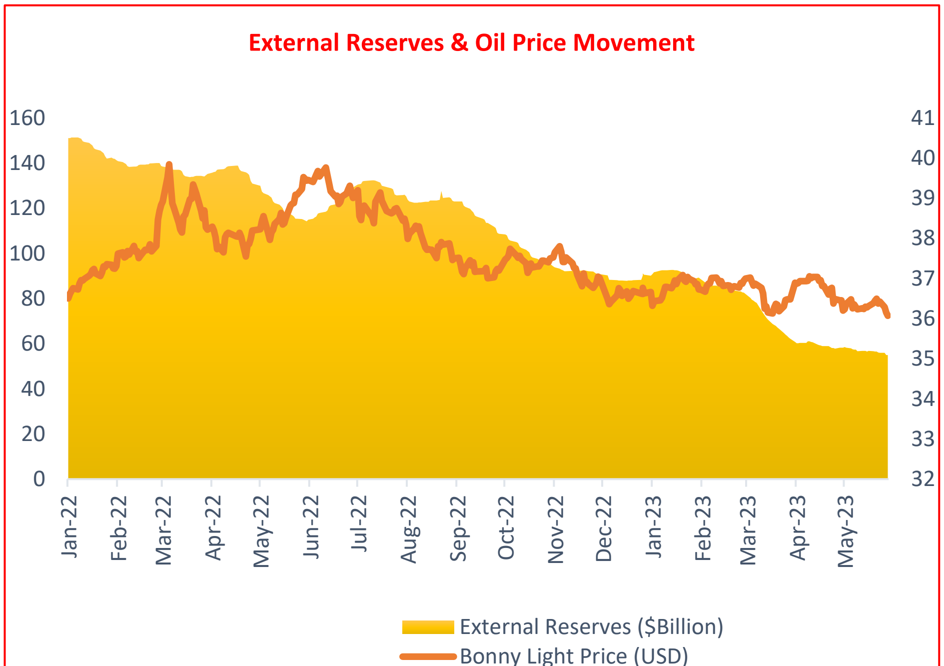
In the local currency market, the performance of the Naira depreciated further across segments. In the parallel market, the naira skidded by 2.84% m/m against the dollar to N760/$1 at the close of May while at the Investors' & Exporters (I&E) Window, the base currency (dollar) gained 0.32% m/m to N464.47/$1. Elsewhere, the gross external reserves dipped $156 million or 0.44% m/m to $35.09 billion in May from $35.25 billion in April resulting from a 9.22% or $7.35 decline in the price of Nigeria's Bonny Light crude to $72.36/bbl in May from $79.71/bbl in the prior month. And then, oil production slumped to 0.99mbpd (from 1.27mbpd in May), partly due to the downtime of the Forcados oil terminal and the impact of a strike by workers' union at Exxon Mobil's Nigeria unit, which forced it to declare a force majeure on several assets, including the Qua-Iboe export terminal.



Source: CBN, FMDQ, Abokiforex, Cowry

On the global scene, oil prices were pressured in May by combinations of both macroeconomic factors and increased sell-offs in the futures market. The month began with prices hovering around $79 to $75 per barrel, primarily driven by fears of a possible US default amid uncertainty around negotiations on the US debt ceiling, surprise rises in the US crude inventory, and a slew of lacklustre Chinese economic data on industrial output (actual: 5.6% y/y, exp: 10.9%). Specifically, Brent crude futures averaged $76/bbl before settling at $72/bbl (down 9.30% from April). Likewise, West Texas Intermediate (WTI) crude futures closed 11.32% lower at $68.09/bbl.

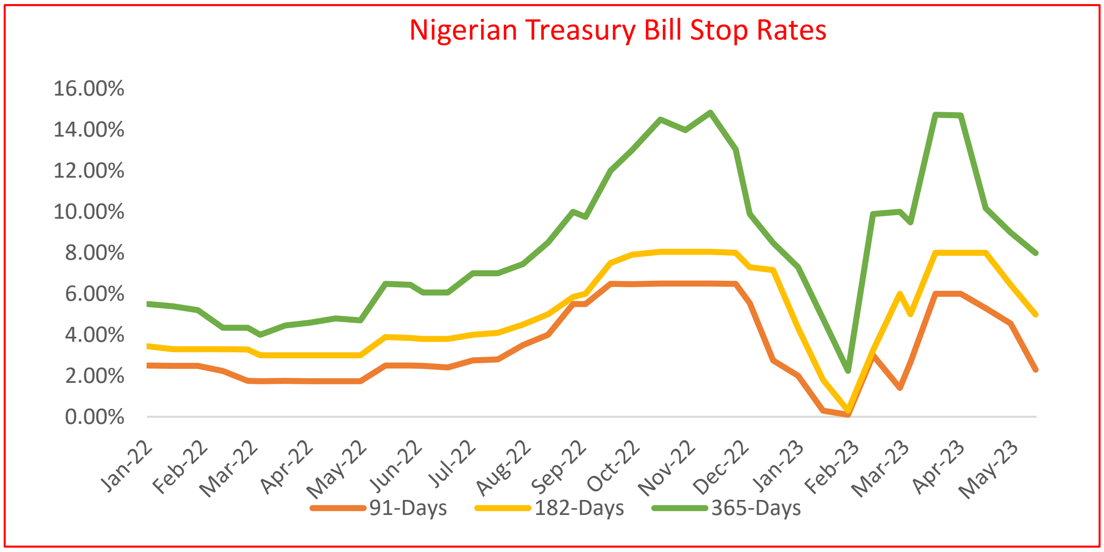




Source: CBN, Oilprice.com, Cowry

Money Market: Improvement in System Liquidity Pacify Market Rates in May

Following the maturity of the April 27 bond as well as coupon payments at the end of April, alongside April's FAAC inflows, we saw banking system liquidity improve in May, resulting in subdued short-term interest rates such as the open repo rate (OPR) and the overnight lending rate (OVN), which moderated to 11.75% (from 12.63%) and 12.50% (from 13.13%), respectively. However, Nigeria Interbank Offer Rates (NIBOR) closed the month higher after the market priced in a 50-basis-point policy rate hike by the Monetary Policy Committee (MPC). Hence, NIBOR for overnight, 3 months, and 6 months tenor buckets climbed to 12.20% (from 11.55%), 12.57% (from 12.51%), and 13.29% (from 12.51%); however, the Nigeria interbank offered rate for banks to borrow one-month Naira from each other fell 14 basis points to 11.70%.



At the bi-weekly Treasury bill auctions, N324.43 billion worth of matured T-bills were rolled over by the Apex Bank, on behalf of the DMO, at lower stop rates for all maturities amid robust system liquidity, with demand improving as evidenced by a 5.03x bid-to-cover ratio, compared to 3.91x in April. Specifically, stop rates for 364 days fell to 7.99%, from 10.17% in April. Also, stop rates for the 90-day bills and the 182-day bills moderated to 2.29% (from 5.30%) and 4.99% (from 8.00%). In terms of demand, the 182-day bill saw the highest demand (10.07x), followed by the 364-day bill (4.96x) and the 91-day bill (3.92x). As of the last auction in May, the total issued T-bill raised by the CBN so far in 2023 stood at N2.20 trillion.

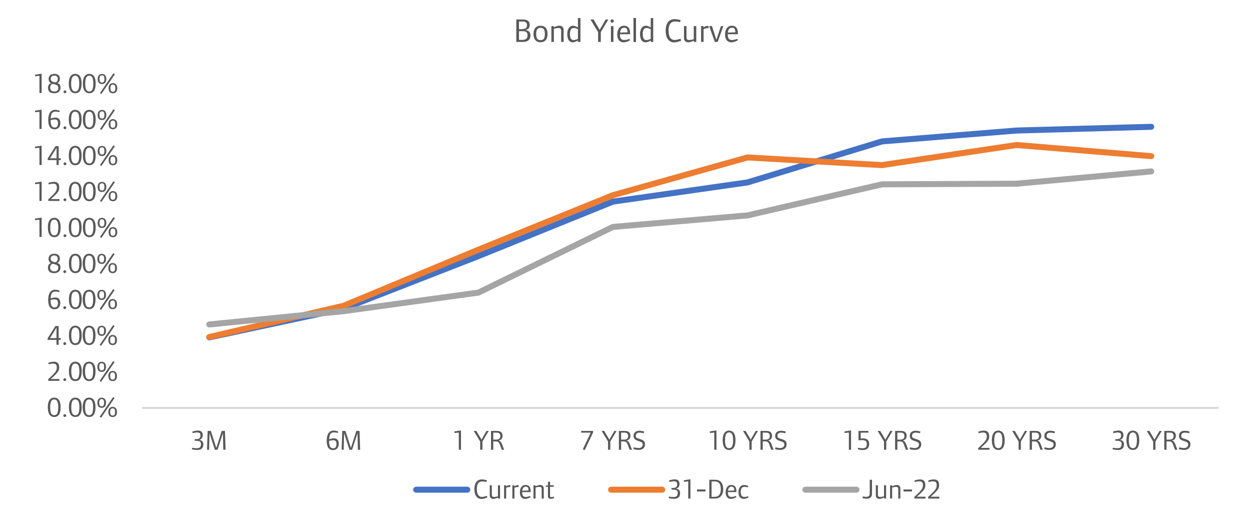
Activity in the secondary market trading in Nigerian Treasury Bills was bullish, as it moved in tandem with moderation in stop rates, consequently, the average yield contracted by 112 bps to 6.18% (from 7.30% m/m). True yields for 1-month, 3-month, 6-month, and 12-month tenor buckets fell to 2.68% (from 4.34%), 3.92% (from 5.76%), 5.52% (from 6.72%), and 8.44% (from 10.15%), respectively.

Bond Market: Market Performance Upbeat in The Domestic Bond Market

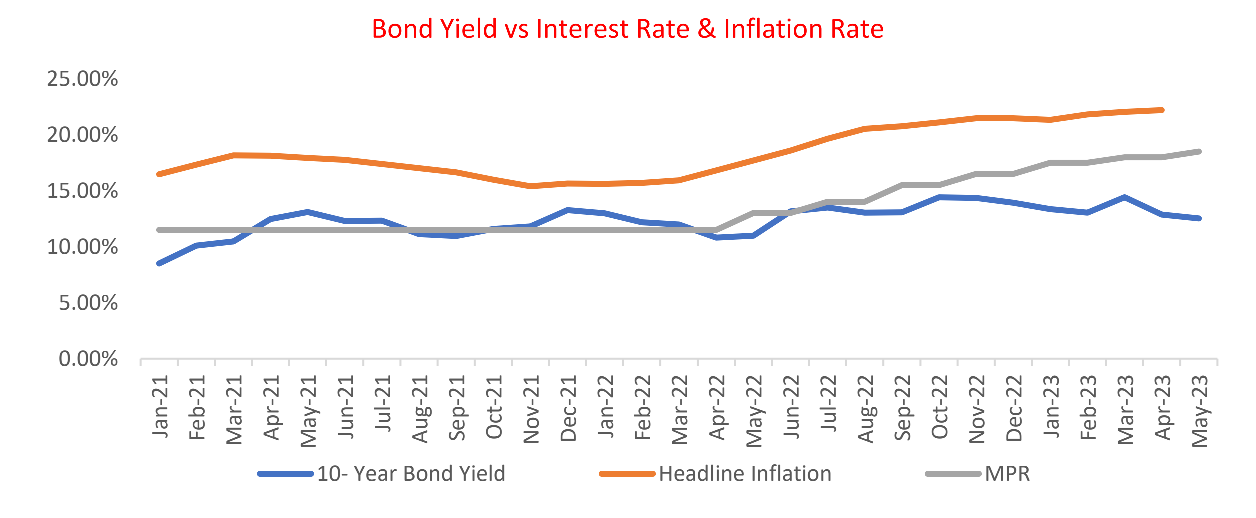
At its monthly bond auction, DMO sold bonds worth N545.26 billion (N177.10 billion inclusive of non-competitive allotments) relative to its initial target of N360 billion. This raised the year-to-date gross bond sales to N3.09 trillion, as DMO closed on its domestic borrowing target of N7.04 trillion. However, we note that this target might change when considering the likelihood of a supplementary budget to be prepared by the new administration. Notably, despite ample liquidity conditions, demand remained soft with a bid-cover of 1.30x (0.88x inclusive of non-competitive allotments), still lower than the Q1 2023 average of 1.31x.

Consequently, the average stop rates closed 10bps higher at 15.10% (from 15.00% in April), with marginal rates for the 2028s, 2032s, and 2042s issued higher at 14.10% (from 14.00%), 14.90% (14.80%), and 15.69% (from 15.40%), respectively, amid lower subscription levels, while the 2050s attracted healthy demand as it was oversubscribed, hence, its marginal rates were left unchanged at 15.80%. Meanwhile, activity in the secondary market was bullish, as buy interest on the short end of the curve outweighed sell pressure at the mid and long ends; hence, the average secondary market yield contracted by 23bps to 13.79% m/m.

Turning to the Eurobond space, the average yield on Nigeria's dollar bonds contracted 123bpts to 11.64%, driven by the broad expectation for a pause on policy rate hikes across major developed countries, particularly the US, as well as a general weakness in the US dollar. Moreover, comments by President Bola Ahmed Tinubu during his Inaugural Speech on May 29th, on the removal of fuel subsidies and possible unification of the existing multiple exchange rate system, was well received by investors, thus pushing the bullish sentiment seen in the secondary market at the closing stage of May.



Source: FMDQ, Cowry Research



Source: FMDQ, NBS, CBN, Cowry Research