# Cowry Monthly Economic

# &

# Financial Markets Report

## July 2023

## Cowry Research

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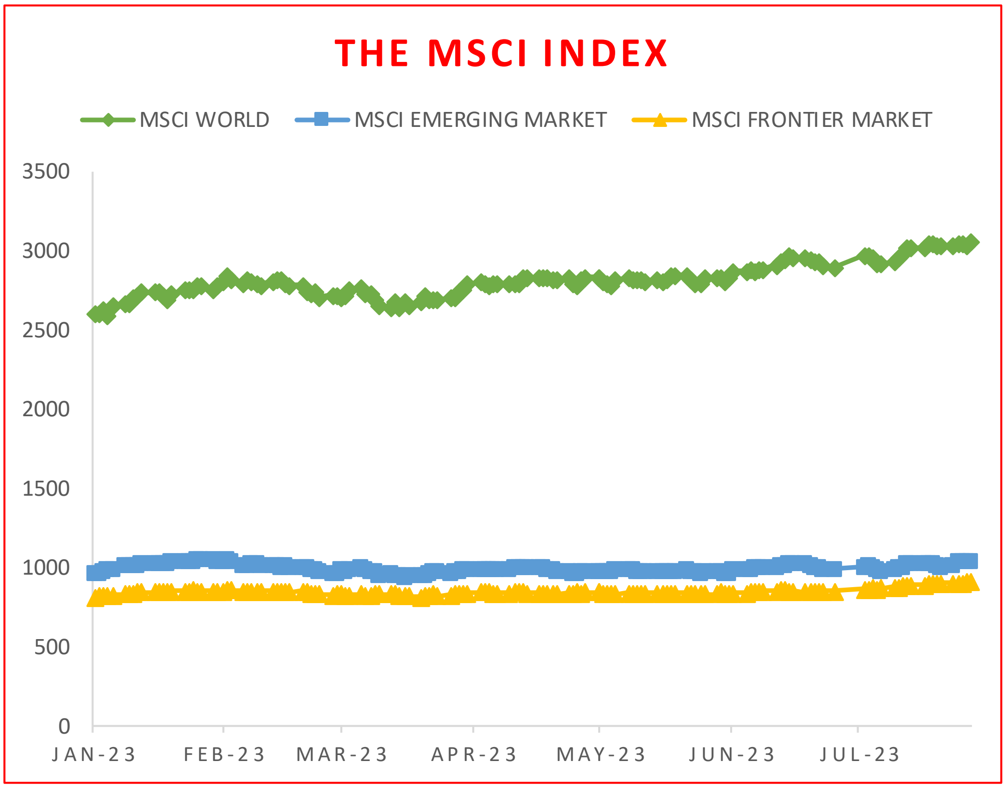
# Global Economy: Slowdown in Economic Growth as Businesses, Consumers Face Heightened Headwinds

The J.P. Morgan Global Manufacturing PMI reports reveals a concerning trend in the global manufacturing sector. At the start of the second half of the year, the sector remained entrenched in contraction, with the July PMI staying at a worrisome 48.7 points, unchanged from the previous month. This indicates that manufacturing activity is still declining, and the situation is exacerbated by the fact that 25 out of 30 countries surveyed reported contractionary readings. The most significant underperforming regions were the Euro area and China, with their manufacturing PMIs falling to 47.1 and 49.5, respectively, in July. This highlights the severity of the slowdown in these key economies and raises concerns about the broader implications for global trade and economic growth.



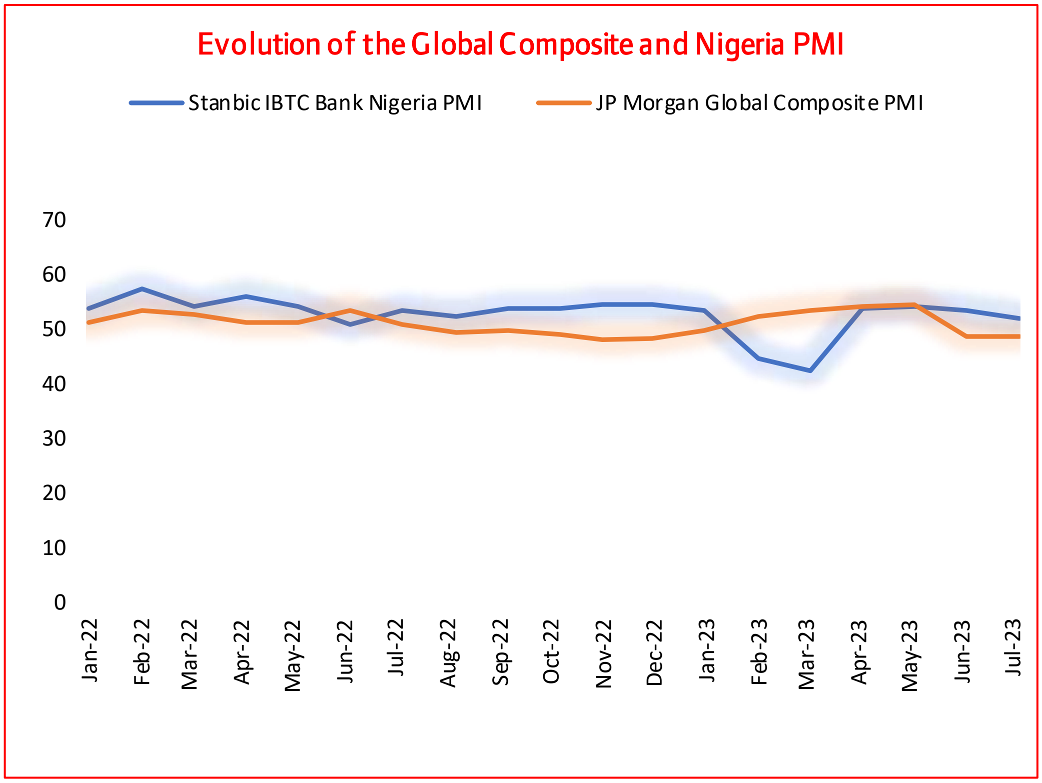

The slowdown in global growth is attributed to several factors, including weak new order intakes, declining international trade flows, and adjustments in stock levels to counter the subdued demand environment. Notably, the level of new work placed has been declining since July 2022, with the latest rate of decline being the most substantial in six months. This decline in new orders has affected major industrial regions like the US, the Euro area, Japan, and China, with the eurozone experiencing its second-fastest downturn since May 2020.

Key performance points from the July data reveal persistent challenges for the manufacturing sector. Output continued to decline for the thirteenth consecutive month, though there was a slight easing of the contraction rate compared to the previous month. New order intakes and purchasing activity also suffered declines for the thirteenth consecutive month, but the rate of decline eased from the previous month. Employment in the manufacturing sector remained broadly flat in July after three consecutive months of decline. Input prices fell for the second consecutive month, indicating potential cost pressures easing, while output prices remained unchanged.

The data also shows that business sentiment deteriorated in July, reaching a seven-month low, reflecting growing concerns about the economic outlook. These concerns suggest that the slowdown in the global economy is likely to persist in the coming months, as businesses and consumers face heightened headwinds. Such a scenario could lead to further declines in manufacturing output and potentially exacerbate the overall slowdown in global economic growth. As an analyst, these findings underscore the need for vigilance and proactive measures to address the challenges facing the manufacturing sector and mitigate the potential impact on the broader economy.

## Domestic Economy: Nigeria's Private Sector Still Faced with Slow Growth, Dampened Confidence

On the domestic scene, the Stanbic IBTC Nigeria PMI report for July 2023 indicates that the Nigerian private sector is facing increasing headwinds from rising inflation and price pressures across sectors of the economy. The report shows that the PMI fell to 51.7 in July, from 53.2 in June. This is the lowest reading since February 2023. The decline was driven by a sharp increase in input prices, which dampened business confidence and slowed the pace of growth in output and new orders.



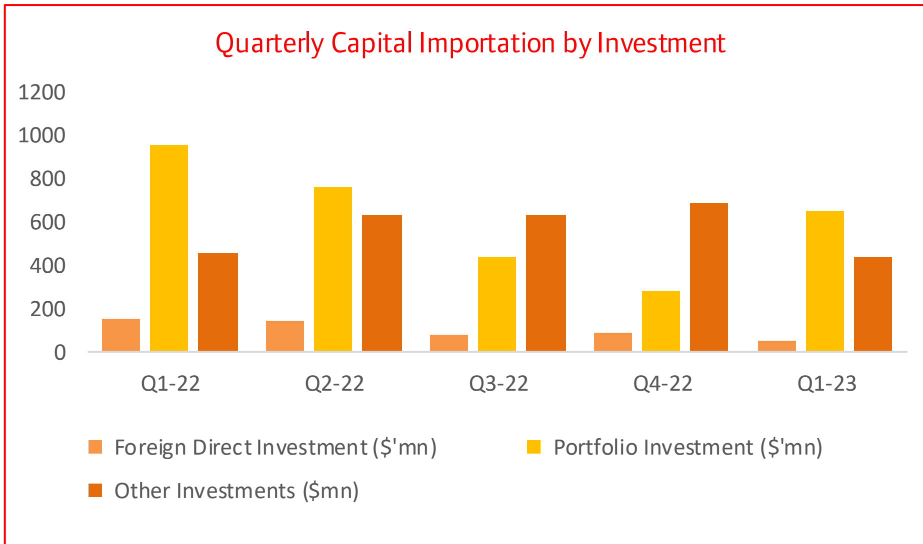
During the review month, there were soft improvement in private sector activities and was reflected in new orders which rose at a slower pace, as firms reported that customers were becoming more cautious in their spending; and output prices that also moved at a rapid pace, as firms passed on higher costs to their customers. While some firms reported having been able to secure new contracts amid rising customer numbers, others highlighted the negative impact on demand of rising prices.

Also, the data signaled that there was steep increase in input prices at the fastest pace in 18 months, driven by higher costs for fuel following the removal of fuel subsidy, energy, and raw materials. Meanwhile, staff cost inflation hit a six-month high as firms increased pay to help staff deal with rising transport costs. Also, over half of companies increased their charges during the month in a bid to keep up with rising input costs which was up rapidly at one of the strongest rate levels on record.

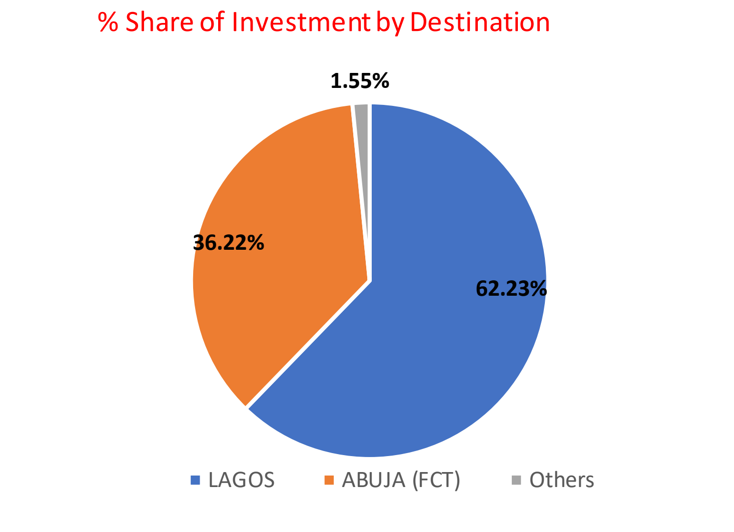
Employment levels continued to grow for the third straight month running to July, albeit at a solid pace to become the fastest rate of increase since the start of the year. Meanwhile, business confidence fell to its second-lowest level on record in nine-and-half years, as firms became more pessimistic about the outlook for the economy.

## Foreign Investors Stay Cautious on Nigerian Waters as Capital Importation Contracts in Q1'23

From the latest data published by the NBS, Nigeria witnessed a modest increase in total capital importation during the first quarter of 2023. The figures indicate that the country attracted a total of $1.13 billion in capital inflows, reflecting a 6.78% growth from the previous quarter (Q4 2022). However, it is important to note that



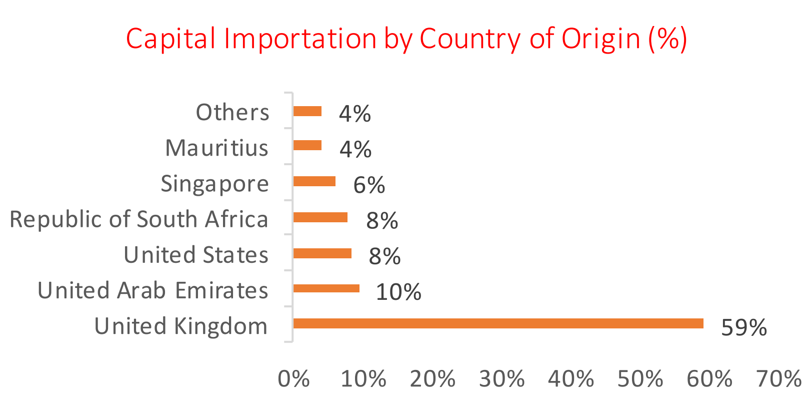
Source: National Bureau of Statistics, Cowry Research this amount represents a significant decline of 28% when compared to the capital importation recorded in Q1 2022, which stood at $1.57 billion.




Source: National Bureau of Statistics, Cowry Research

The decline in capital importation can be attributed to a variety of factors, including the prevailing global economic uncertainty as well as the persistent political instability within Nigeria. These factors have likely contributed to a cautious approach among foreign investors, leading to a decline in capital inflows. Within the various categories of capital importation, portfolio investment emerged as the largest source of inflows during Q1 2023, accounting for $649.28 million or 57.32% of the total capital imported. This surge in foreign portfolio investment can be attributed to the implementation of market-focused and progressive policies advocated by presidential aspirants during the pre-election period. These policies have successfully piqued the interest of foreign portfolio investors, encouraging them to explore investment opportunities in Nigeria's equities market as they test the waters during a period of political transition.

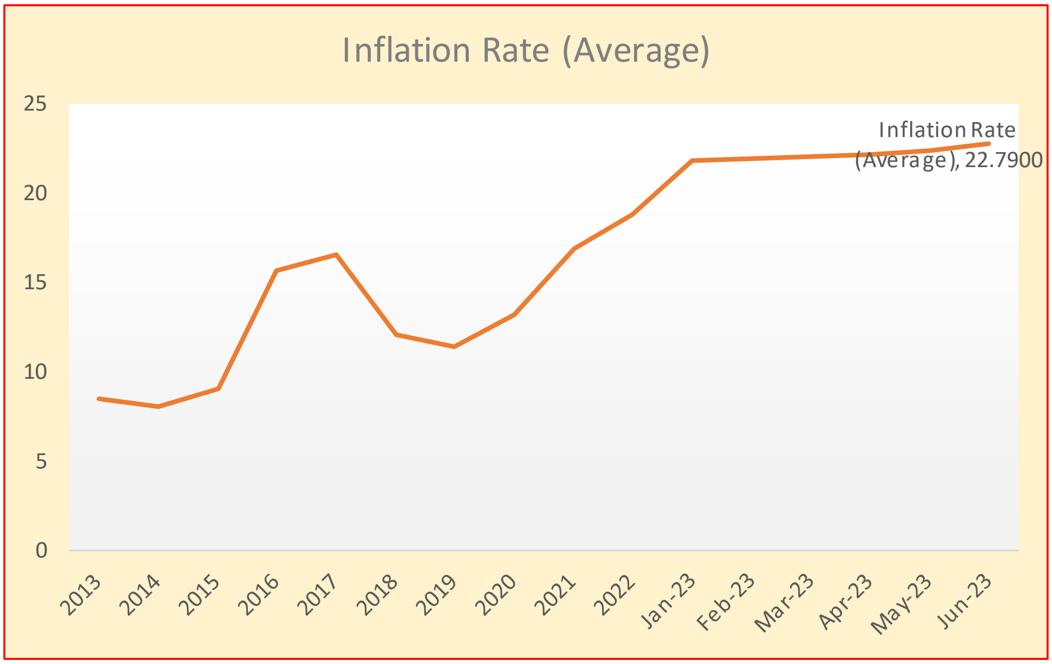
Sectoral analysis reveals that the banking sector attracted the highest capital importation during Q1 2023, receiving $304.56 million or 26.89% of the total capital imported. Following closely behind were the production sector, which received $256.12 million or 22.61%, and IT services with $216.06 million or 19.08%. Conversely, sectors such as consultancy, brewery, oil & gas, and agriculture witnessed relatively low levels of capital importation, indicating an underweight of investments in these areas. Notably, sectors such as construction, drilling, fishing, hotels, servicing, tanning, and weaving have also struggled to attract significant investment.



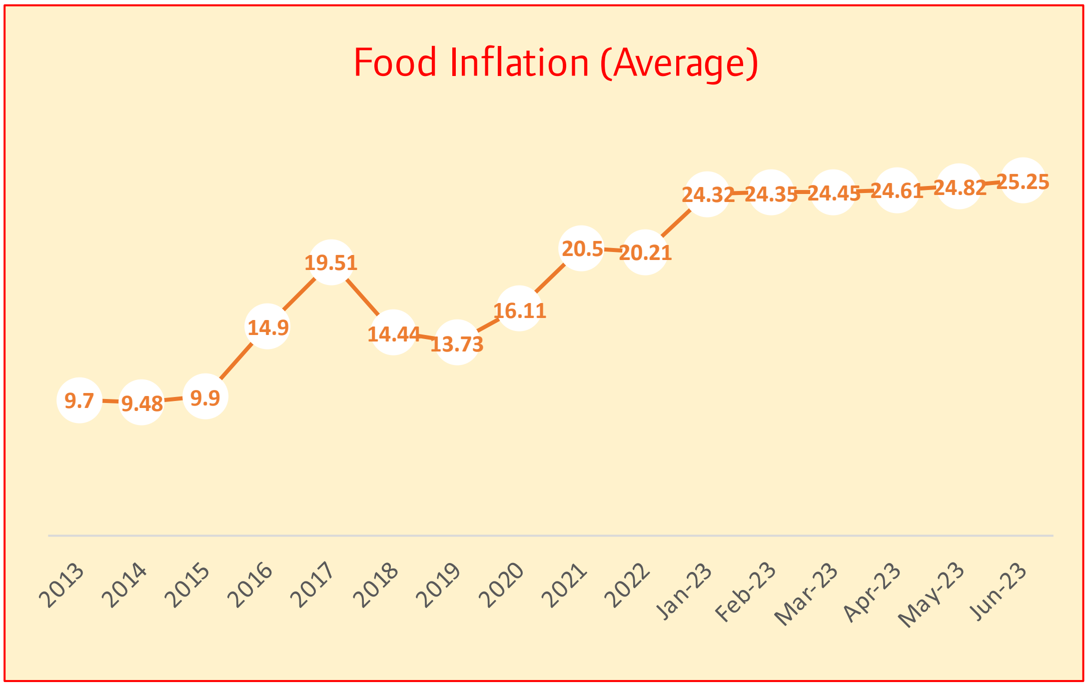

Source: National Bureau of Statistics, Cowry

## Inflationary Twinges Still Hounds Nigeria's Economy with Sixth-Straight Monthly Increase in June 2023

The NBS, in its latest inflation report, revealed that the headline inflation rate rose by 0.38 percentage points to 22.79% in June 2023, relative to 22.41% in May 2023, and 4.19 percentage points higher on a year-on-year basis when compared to the 18.60% reported in June 2022. This indicates the sixth straight month in 2023 of the continued buildup of inflationary momentum in Nigeria, while the current rate of 22.79% indicates the highest since March 2004.




The upward movement is attributed to the price increases in some of the divisional level items on the index, such as food and non-alcoholic beverages (11.81%), housing, water, electricity, gas, and other fuel (3.81%), clothing, and footwear (1.74%), transport (1.48%), furnishings, household equipment, and maintenance (1.15%), amongst other items, which contributed a total of 2.80% to the increase in headline inflation.

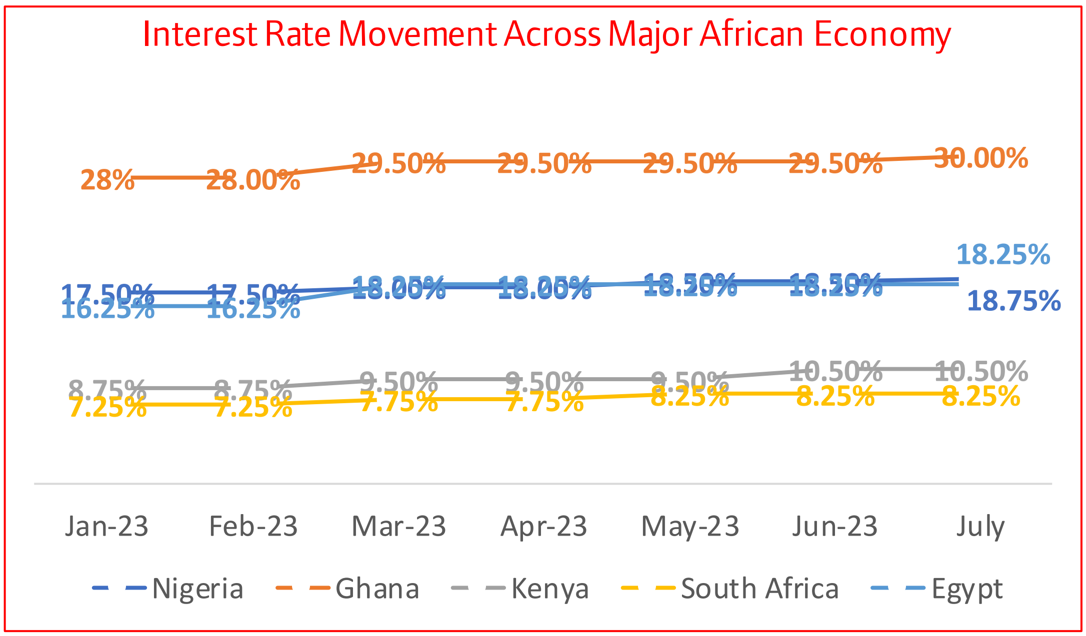



In the month of June, the FG announced the official removal of subsidy on PMS or petrol, which was met with mixed reactions, while the government noted that its removal was necessary to reduce the government's fiscal deficit. An upshot from the move brought about the unexpected increase in transportation costs as a result of the increase in the pump price of fuel. Also, prices of food items in the markets skyrocketed by more than 70% as traders began factoring in the attendant cost from the subsidy removal.

One of the major drivers of the increase in headline inflation was the food inflation, which printed at 25.25%. This level marks the highest since 2005 as the recent increase results from food staples such as increases in prices of oil and fat, bread and cereals, fish, potatoes, yam, and other tubers, fruits, meat, vegetables, milk, cheese, and eggs. Also, core inflation, which excludes food and energy prices, stood at 20.27% year-on-year in June 2023, the highest level since 2003, and suggests that inflationary pressures are broad-based. Meanwhile, the highest increases were recorded in prices of passenger transport by air, gas, vehicle spare parts, liquid fuel, fuels, and lubricants for personal transport equipment, medical services, passenger transport by road, etc.

## CBN Stays Hawkish Again as Inflationary Momentum Lingers on Decision Table

As growing inflationary momentum continues to serve the monetary Policy Committee a la carte, the committee in its first meeting since the suspension of Godwin Emefiele, the CBN Governor, took to a less aggressive tone in its rate, raising the MPR by 25 basis points to 18.75%. This move aligns with our earlier expectations and marks the eighth consecutive meeting since May 2022, during which the committee has adopted a hawkish stance to combat rising inflation.

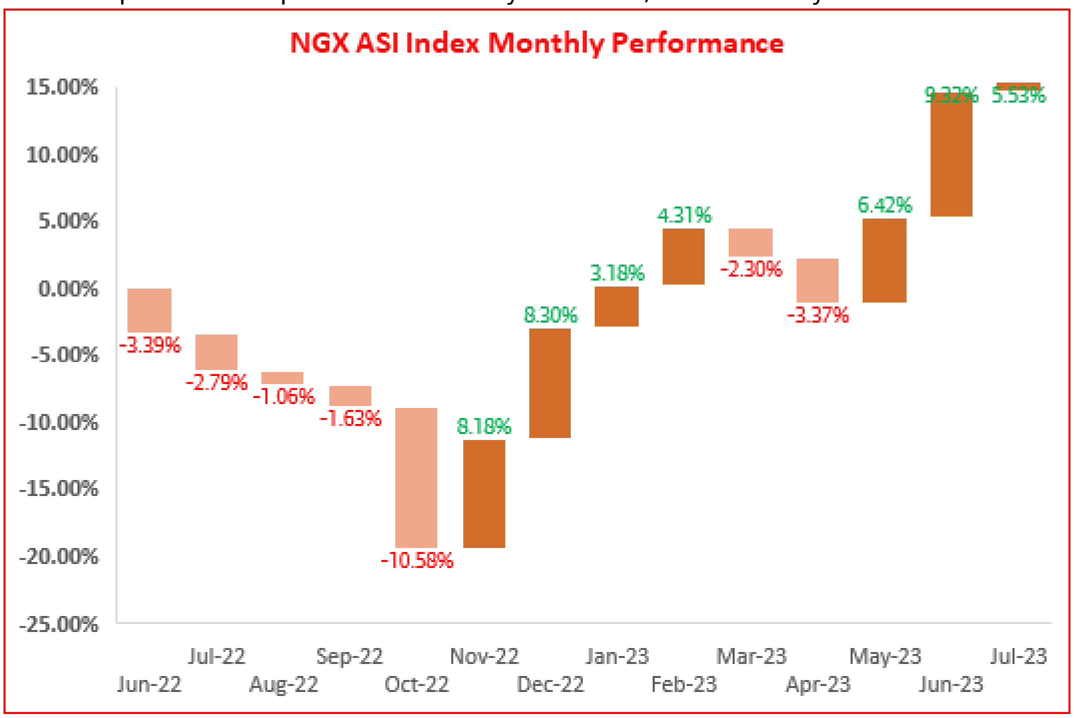


The decision to implement a token rate hike indicates the committee's commitment to addressing inflation concerns amid the heightened outlook. By adopting a moderate tightening stance, the committee aims to demonstrate that the current policy is effectively curbing rising inflation, discouraging excessive aggregate demand in the face of declining output growth, and narrowing the negative real interest rate gap. Though, the committee applied a cautious thread to encourage investments and foster output growth recovery, all members agreed to narrow the asymmetric corridor around the MPR from +100/-700 to +100/-300 basis points while maintaining the Cash Reserve Ratio (CRR) and Liquidity Ratio at 32.5% and 30%, respectively.

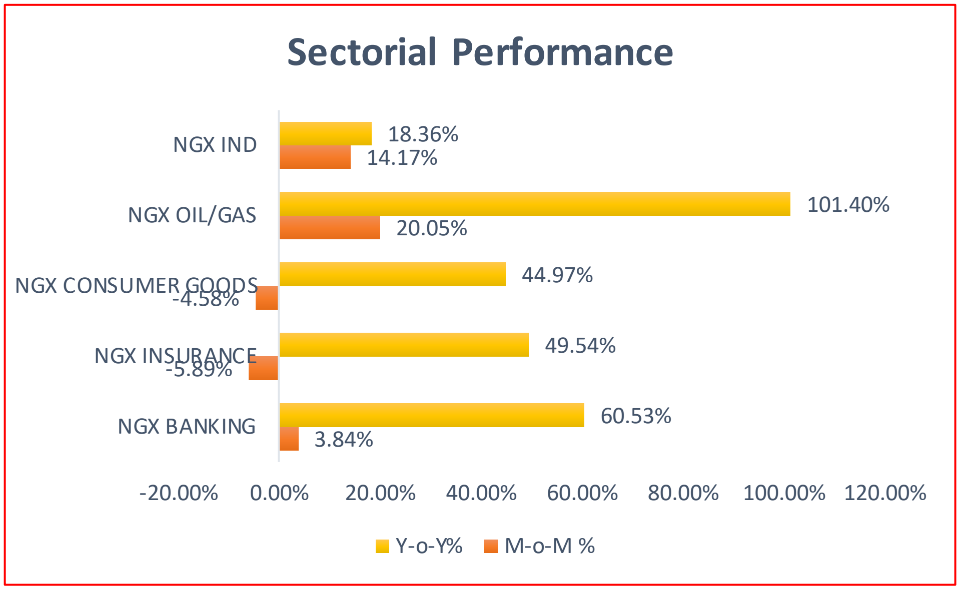
## Domestic Equities Market: Market Sustains Rally on Continued Policy Pronouncements, Reforms

In July, the domestic bourse sustained the positive rally for the third straight month with a 5.53% m/m increase in the ASI to 64,337.52 points on the back of positive sentiment and increased investor confidence evidenced by the rising inflow of foreign investment into the market and the strong performance of sectors such as the oil and gas and the banking sectors on the back of recent government reforms and the impressive half-year corporate releases.

In the same vein as the ASI, the market cap of listed equities advanced by 5.53% m/m in the July to close at N35.01 trillion to give equity investors impressive N1.81 trillion in profit as the year-to-date return of the index printed at 25.53%. Also, the monthly trading activity improved as average traded volume rose 58.6% m/m to 1.1 billion units while the value traded rose 56.5% m/m to N16.7 billion respectively.



Performance across market sectors was majorly bullish for 3 of the 5 sectors under our purview. The Oil & gas sector led the sectoral gains with 20.1% and was driven by strong buying interests in the likes of CONOIL, ETERNA and ETERNA. This was followed by the Industrial goods with 14.2% monthly gains due to positive price movements recorded in BUACEMENT and DANGCEM; and then the Banking index performed by 3.84% due to gains in JAIZBANK and FIDELITY. On the contrary, the Insurance and Consumer goods sectors emerged as the laggards, dipping by 5.89% m/m and 4.58% m/m respectively due to price falls in WAPIC, LASACO, CHAMPION and CADBURY.

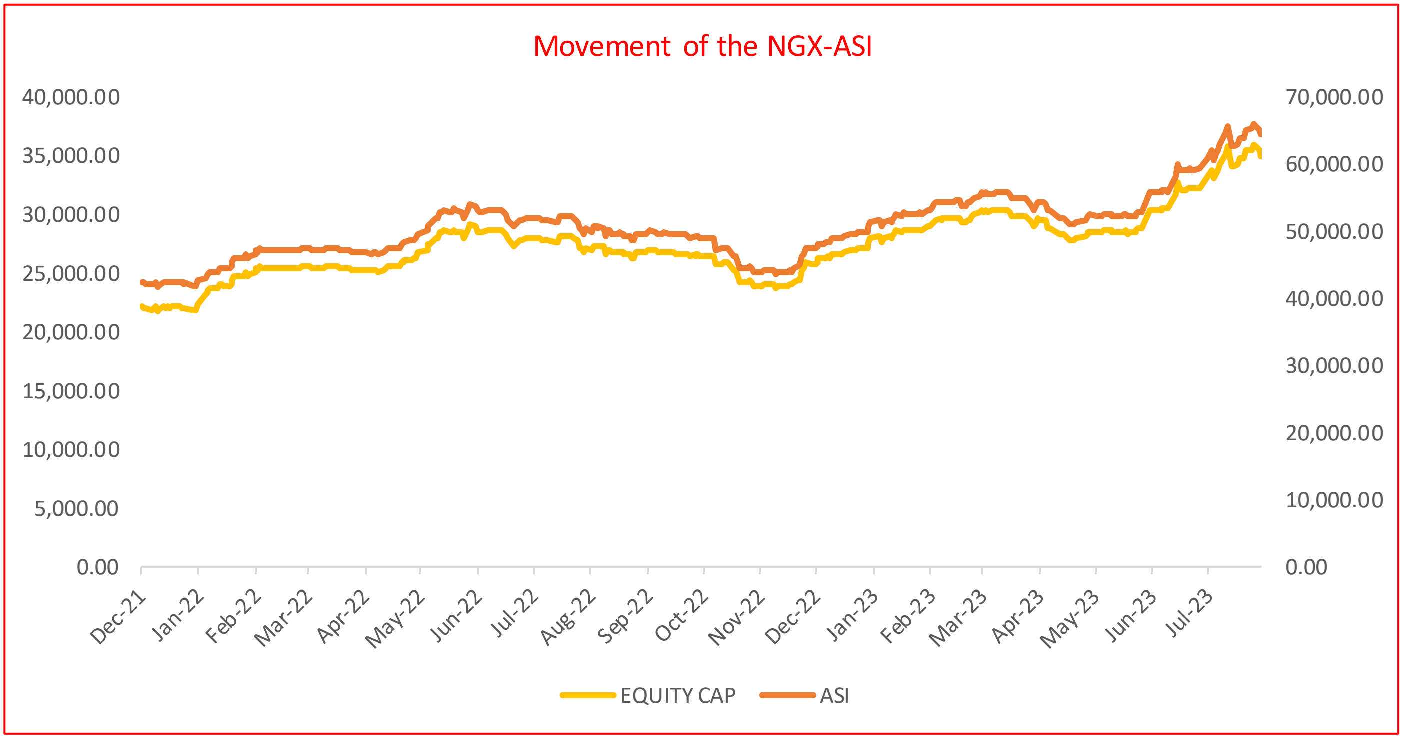



| Top Ten Monthly Gainers | | | | | Bottom Ten Monthly Losers | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Company | 30-Jun-23 | 30-Dec-22 | m/m % Change | y/y % Change | Company | 30-Jun-23 | 30-Dec-22 | m/m % Change | y/y % Change |
| NASCON | 32.50 | 11.10 | 74% | 193% | CHAMPION | 3.40 | 5.50 | -36.8% | -38.2% |
| TRANSCOHOT | 37.95 | 6.25 | 62% | 507% | CADBURY | 11.25 | 11.90 | -35.3% | -5.5% |
| JAPAULGOLD | 1.03 | 0.28 | 47% | 268% | TRIPPLEG | 2.51 | 0.79 | -33.1% | 217.7% |
| CWG | 2.66 | 1.01 | 44% | 163% | IKEJAHOTEL | 2.68 | 1.05 | -32.8% | 155.2% |
| MRS | 109.45 | 14.10 | 39% | 676% | WAPIC | 0.60 | 0.40 | -27.7% | 50.0% |
| CONOIL | 110.00 | 26.50 | 33% | 315% | PZ | 16.35 | 11.35 | -25.7% | 44.1% |
| STANBIC | 69.50 | 33.45 | 29% | 108% | GUINNESS | 59.95 | 69.30 | -25.1% | -13.5% |
| SOVRENINS | 0.63 | 0.28 | 29% | 125% | LASACO | 2.01 | 0.87 | -22.7% | 131.0% |
| FCMB | 6.55 | 3.85 | 28% | 70% | MULTIVERSE | 2.98 | 3.98 | -20.5% | -25.1% |
| LEARNAFRCA | 4.05 | 2.20 | 26% | 84% | CORNERST | 0.88 | 0.60 | -20.0% | 46.7% |

Source: NGX, Cowry Research

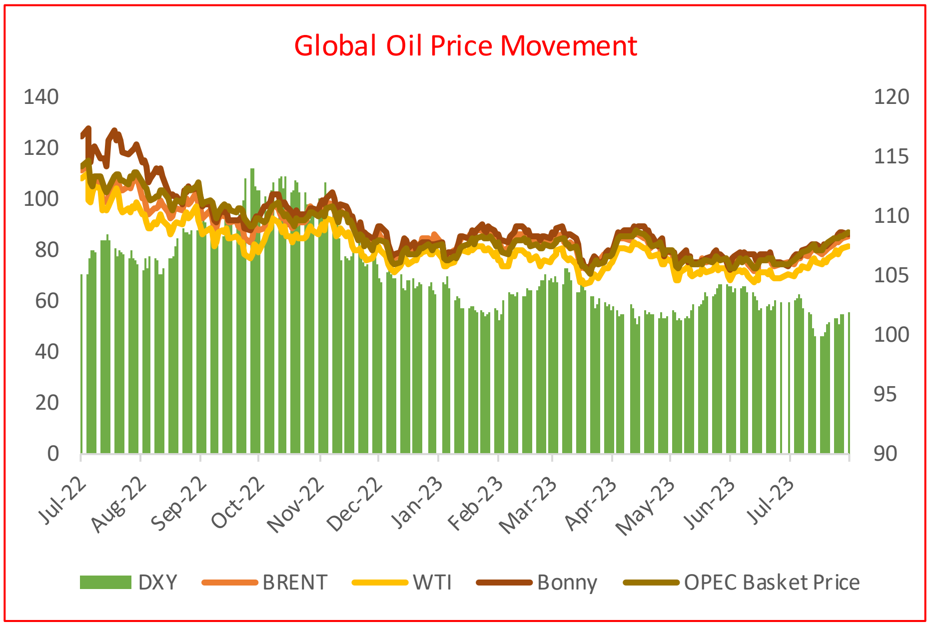
| Companies with FX Gains as at June 2023 | | |
|---|---|---|
| **Company** | Jun-23 **N'000** | Jun-22 **N'000** |
| ETI | 103,628,436 | 63,913,647 |
| FCMB | 50,988,870 | -1,337,419 |
| UACN | 3,667,083 | -337,994 |
| Sterling Bank | 3,634,000 | -804,000 |
| Unilever | 2,934,000 | -430,000 |
| Presco Plc | 2,855,119 | -1,153,340 |
| Vitafoam | 2,793,111 | 641,817 |
| Julius Berger | 915,194 | 3,718,084 |
| Lafarge Africa | 813,896 | -10,621 |
| Wema Bank | 623,021 | 491,130 |
| Beta Glass | 613,521 | -368,033 |
| NAHCO | 73,791 | -53,929 |
| Neimeth Pharma | 40,417 | 22,824 |
| Fidelity Bank | 32,163 | -1,510 |

| Companies with FX Losses as at June 2023 | | |
|---|---|---|
| **Company** | Jun-23 **N'000** | Jun-22 **N'000** |
| MTN Nigeria | 131,452,000 | 13,629,000 |
| Nestle Nigeria | 123,769,000 | 2,126,000 |
| Dangote Cement | 113,626,000 | 40,657,000 |
| Jaiz Bank | 110,305,000 | 69,514,000 |
| FBNH | 98,418,000 | 16,510 |
| Nigerian Breweries | 85,260,000 | 7,281,000 |
| Okomu | 83,096,260 | 1,889,423 |
| Dangote Sugar | 83,096,260 | 1,889,423 |
| Guinness Nigeria | 45,952,999 | 221,984 |
| International Breweries | 33,919,790 | 36,587,156 |
| Cadbury Nigeria | 21,317,138 | - |
| Tourist Company of Nigeria | 20,864,934 | - |
| Seplat Energy | 17,209,000 | 2,456,000 |
| BUA Cement | 10,593,000 | 3,223,000 |
| Eterna | 9,803,557 | 76,146 |
| Transnational Corporation | 4,828,827 | 1,043,939 |
| Notore Chemicals | 2,748,913 | - |
| Total Energies | 1,502,802 | 70,964 |
| Fidson Healthcare | 843,856 | 77,832 |
| Airtel Africa (*$) | 471,000 | - |
| May & Baker | 75,520 | 416,752 |
| Mutual Benefits | 3,658 | 62,879 |
| Nascon Allied Industries Plc | 69 | 411,353 |



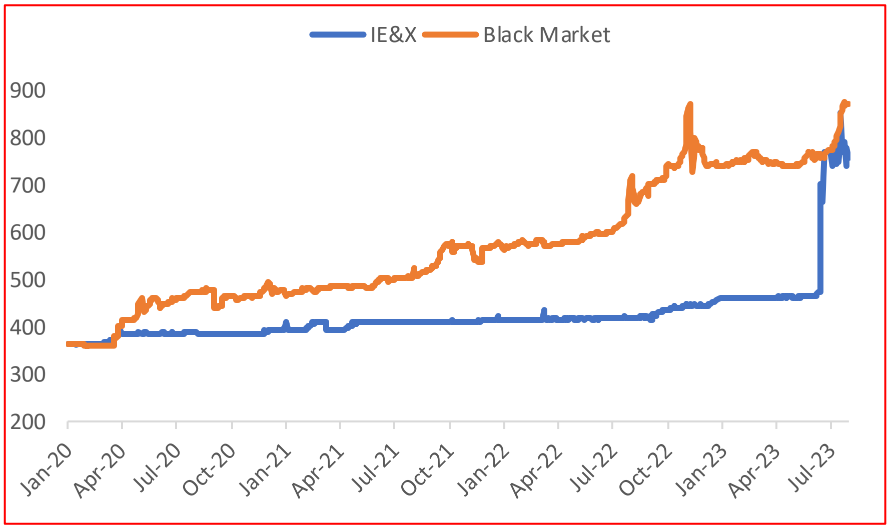
# Foreign Exchange Market: Naira Edges the Dollar at Official Market Despite Reinvigorated Pressure

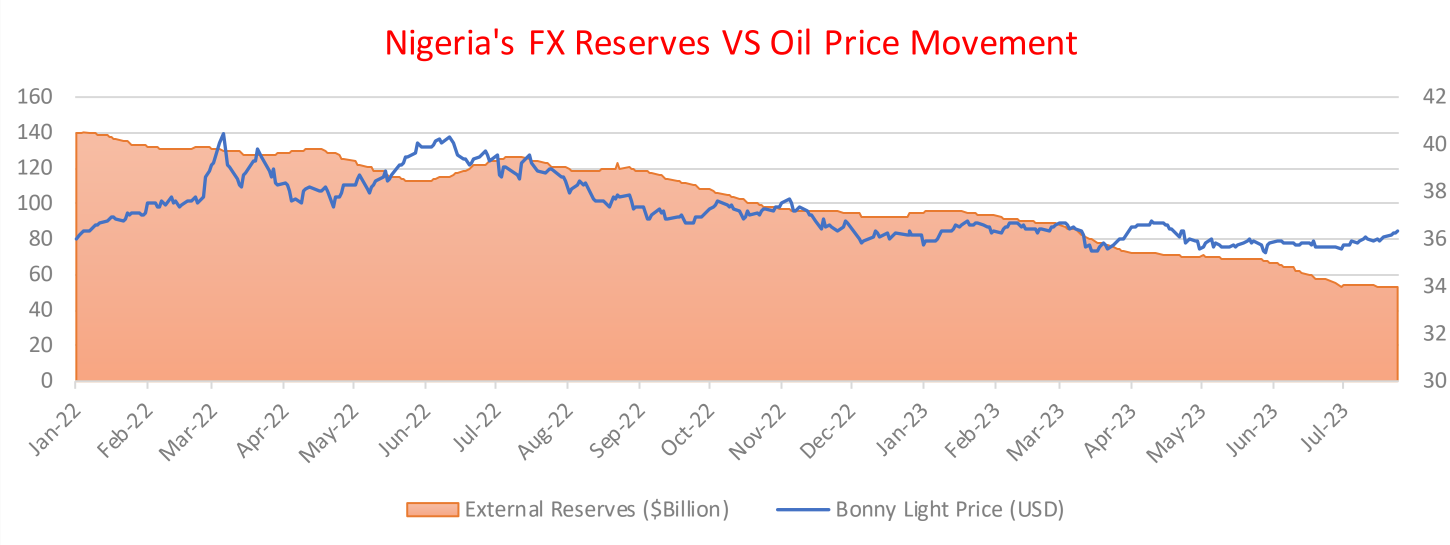
In July, the crude oil market experienced a strong price surge compared to June, with Brent Crude prices averaging $80 per barrel (up from $75/bbl), while West Texas Intermediate (WTI) crude futures closed 7.5% higher at $75/bbl. Market sentiment was spurred by improved macro-outlook, tighter supply constraints, and expected Chinese stimulus. Meanwhile, traders priced in Saudi Arabia's extended voluntary output cut of 1 million barrels per day, scheduled till September.




Meanwhile, in Nigeria, the benchmark Bonny Light Oil averaged $82/bbl in July. while data from NURPC showed that crude oil production climbed to 1.25 bpd in June (from 1.18 bpd in May). Additionally, Nigeria's oil rig count rose to 14 (from 13 in May). However, production could decline, amid suspension of loading at Shell's Forcados crude terminal amid a potential leak.

In the foreign exchange market, the local currency traded in variance across the various FX segments just barely a month after the CBN implemented less restrictive policies in the foreign exchange market. At the I&E market segment, the naira strengthened against the United States' dollar by 1.6% m/m and gaining N12.31 to close at N756.94/$1 while it depreciated by 12.5% m/m at the parallel market to close at N870/$1 from N773/$1 at the close of June 2023.





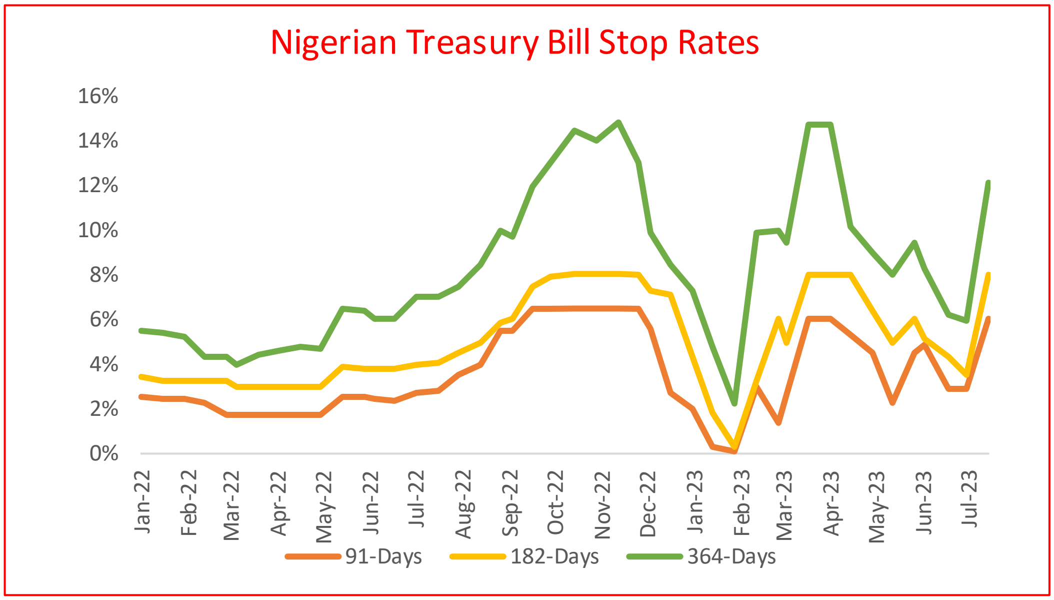

## Money Market: Rates Stay Depressed on the Aftermath of CBN Hawkish Position

In July, money market rates experienced further declines, primarily influenced by CBN's indirect accommodative stance, which had been initiated in June through a shift towards a more equitable Cash Reserve Ratio (CRR) regime and liquidity injections into the banking system. This kept interbank rates at depressed levels, despite zero OMO bill maturities. Specifically, short-term benchmark rates such as the open repo rate (OPR) and the overnight lending rate (OVN), fluctuated within the range of 0.8% to 3%, before spiking mid-month to as high as 22% amid funding pressure stemming from the FGN bond auction.

Nevertheless, this upward trend in rates was short-lived as a substantial FAAC inflow, amounting to approximately N1.9 trillion, led to a significant buildup of liquidity in the system. Consequently, the OPR and OVN settled at 0.92% (down from 1.36% in June) and 1.42% (down from 2% in June), respectively. However, NIBOR for 1 month, 3 months, and 6 months tenor buckets climbed to 11.73% (from 1.75%), 11.43% (from 8.78%), and 12.31% (from 9.85%).

In T-bills, given the liquidity surfeit in the money market, investors and banks channeled their funds into short-term government securities. This was particularly evident during the first fortnightly Treasury Bill in July, as the Apex Bank rolled over N141.77 billion of maturing bills, at lower stop rates, with the average marginal rate closing at 4.10% (from 4.49% in June).

Conversely, the recent bi-weekly T-bill PMA diverged from this trend due to a slightly hawkish policy rate hike of +25 bps to 18.75% by the CBN. Coupled with funding pressures arising from the FGN bond auctions, this move reversed the liquidity influx seen in prior weeks. As a result, stop rates rose, and the average marginal rate increased to 8.72%. Notably, the 91-Day, 182-Day, and 365-Day bill stop rates surged to 6.00% (previously 2.86%), 8.00% (previously 3.50%), and 12.15% (previously 5.94%), respectively. Demand was subdued, with total subscriptions amounting to N398.16 billion compared to N691.86 billion in the previous auction, and bid-to-cover cleared lower at 1.51x (previously 4.88x).




## Bonds Market: Pressured Sell-Offs Pervades the Bonds on Rising Yields

In the secondary market, profit-taking activities across all maturities drove front-end yields higher, with NITTY experiencing expansions for 1 month (3.76% from 2.21%), 3 months (5.28% from 2.99%), 6 months (7.15% from 4.27%), and 12 months (10.38% from 6.96%).

During the monthly bond sale, the Debt Management Office (DMO) offered and successfully sold NGN 360 billion and N657.84 billion, respectively, including non-competitive allotments. The auction witnessed robust demand, facilitated by the substantial liquidity in the system, leading to a bid-cover ratio of 1.44x, marking the highest level since December

2022, after being at 2.01x in June and 1.34x previously. The overwhelming subscription amounting to N945.14 billion allowed the DMO to borrow at a lower clearing rate on average, reducing it from 14.9% to 13.6%. Notably, the marginal rates for the 29s, 33s, 38s, and 53s, were issued at even lower rates: 12.50% (previously 13.90%), 13.60% (previously 14.70%), 14.10% (previously 15.45%), and 14.30% (previously 15.70%).

However, bearish sentiment dominated the bond market in the secondary market, leading to higher bond yields on average, which increased by 12 bps to reach 12.66% m/m. This upward movement was driven by sell-offs across the short and mid ends of the yield curve. Nonetheless, the average secondary market yield still contracted by 23 basis points to 13.79% month-on-month.

Shifting focus to the Eurobond space, the average yield on Nigeria's dollar-denominated bonds experienced a significant contraction of 77 basis points, reaching 10.00%. This favorable development was supported by improved macroeconomic conditions in developed countries, evident from cooling inflation and reduced expectations for future policy rate hikes.