

July 2021

THE INVESTOR

Q2 Macroeconomic Review - Nigeria



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AT A GLANCE...

The Nigerian government has been lauded for implementing measures to roll-out Covid-19 vaccines as the country continues towards recovery from the still fresh effects of the pandemic and the just-escaped recession. For an economy highly dependent on oil, prices averaging above \$70 in the second quarter of the year is welcome news. The country reported a second consecutive growth in GDP with the economy growing by 0.51% in Q1 2021 compared to 0.11% in Q4 2020. The consecutive growth indicates strategies are starting to yield results although there is still a long way to go in tackling issues constraining the economy's recovery such as the continued security crisis across the country as well as poor public infrastructure.

On the other hand, inflation appears to have changed direction from its upward spiral in the last nineteen months and reported a further decline from 18.12% in April to 17.93% in May, driven by a decrease in food inflation as well. The Monetary Policy Committee remains focused on reducing inflation and achieving price stability as economic growth will be hampered in the midst of unstable prices. Thus, the Committee unanimously agreed to maintain its policy stance and hold all policy parameters constant in its last meeting in May. Going forward, the economy is expected to continue posing positive growth for the rest of 2021, driven by the non-oil sector as well as increases in oil production.

GDP growth as of Q1 2021	+0.51%		
Inflation as at May 2021	Month-on-Month %	Year-on-Year %	12 Month Avg.Chg%
CPI Inflation	1.01	17.93	15.05
Food Inflation	1.05	22.28	19.18
Core Inflation	1.24	13.15	11.50

*source: NBS

FX Reserves (US\$ bn)	Close	1M%	3M%
As at 28/06/2021	\$33.42	-3.74	-3.81

*Source: Central Bank of Nigeria -30-day moving average figure

Official Rate (USD)	N410
Monetary Policy Rate	11.5%
Crude Oil Price	\$75.39

*Source: CBN as at 30/06/2021

NSE ASI Statistics as at 30/06/2021	
Current	37,907.28
Previous	37,640.75
Day Change	0.71%
YTD Return	-5.87%
YTD High	42,412.66
YTD Low	37,585.25
52wk High	42,412.66
52wk Low	24,026.05

*Source: NSE

GDP posed a 0.51% growth in Q1 2021, a second consecutive growth from the 0.11% reported in Q4 2020.

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MACRO POLICIES

Monetary Policy

In the second quarter of the year, the CBN quickened efforts to ensure that the economy's recovery from the just-escaped recession continues on a positive trajectory. While the monetary policy committee was faced with options to loosen the policy stance to ease credit further, tighten to moderate price development or simply hold, the committee decided to maintain the existing policy stance. Reasons trailing this decision include considerations that tightening the policy stance may be *hustling backwards* as a contractionary stance only addresses the monetary component of price development and hampers the apex Bank's efforts to provide low-cost credit to SMEs and households. Greater concerns such as the persistent security crisis and infrastructure deficits will need to be tackled with precision and fiscal policies to see notable improvements in economic recovery.

Strategies put in place can be seen to slowly yield some results, with headline inflation declining further to 17.93% in May from 18.12% in April, following the continued rise in the previous nineteen months. As a result of the Bank's efforts to boost production and stimulate demand, food inflation saw a decrease from 22.95% in March to 22.72% in April.

However, inflation remains too high to be shifted from focus and with the security crisis in major food-producing regions driving high food prices across the country, the Committee is focused on achieving price stability in the medium term.

FX Policies.

Nigeria's external reserves started on a slightly higher note reaching \$34.88 billion in April but by June had lost \$812.2 million, dropping to \$33.42 billion by the end of May. Due to the CBN's inability to meet FX demands, reserves could not be left untouched and exchange rates have been further tossed to heights of N498/\$1 in the parallel market and N410/\$1 at the NAFEX window in the last month of the quarter.

In other news, while all stakeholders have known for several months that Nigeria's official exchange rate points to the NAFEX, the CBN only officially removed the N379/\$1 from its website in May, reporting an official rate of N410.25/\$1.

Monetary Policy Rate (MPR)

The Monetary Policy Committee noted the giants facing the country's progress to recovery being rising inflation and a simultaneous contraction in output. As a result, all ten members present at the meeting held in May voted in favour of retaining the MPR at 11.5%.

All other parameters were also held constant to enable the Committee continue applying interventions to aid the country's recovery process.

MPR	Retain at 11.5%
Asymmetric Corridor	Retain +100/-700 basis points around the MPR
CRR	Retain at 27.5%
Liquidity Ratio	Retain at 30%

*Data from CBN

Fiscal Policies

The Federal Government remains committed to tackling insecurity in the country as well as curbing the effects of the pandemic on the economy. The Nigerian economy is expected to continue to recover for the rest of 2021. Covid-19 vaccines are slowly being spread across the country, with about 0.7% of the population fully vaccinated. The government still holds the country's oil in high esteem and is targeting Nigeria's dominance of the West African Oil & Gas market.

Some measures implemented by the federal government in the second quarter include:

- Through the ongoing Refinery Revolution and Decade of Gas Initiative, the government aims to place Nigeria as the leading oil & gas market in West Africa. According to the country's director of Petroleum Resources, a focus on utilising the country's vast oil resources has become

paramount and the development of the nation's gas resources will help transform Nigeria to a gas-based economy which translates to job creation opportunities for the populace.

- Planned concession of 36 state-owned assets, up to N5 billion to be earned annually from the concession of Calabar and Kano Free Trade Zones. The concession would increase export earnings from these zones to \$3 billion within 5-7 years.
- As part of efforts to contain the pandemic, the FG approved the set-up of 38 oxygen plants across Nigeria, while a supplementary budget has been submitted to enable the country access additional vaccines for the citizens.

ASSET CLASSES

Equities

Past performance is not a reliable indicator of future returns.

Following the weak performance of the Nigerian Equities market in Q1, the market reported a moderate decrease in Q2.

As at March 2021, the All-Share Index stood at 39,045.13 but declined to 37907.28 in June. Market capitalization also decreased to N19.96 trillion in May from N20.82 trillion in February. This can be attributed to investors trading carefully in the light of uncertain market and macroeconomic developments.

Going forward, investors are expected to continue trading cautiously and holding on to fundamentally sound stocks.

Sector Winners and Losers

With a moderately weak performance in the equities market, the industrial goods sector topped the list of losers declining by 6.16% by the end of Q2. Following the industrial goods sector, the banking

sector declined by 5.67%. On the other hand, the oil and gas sector reported a significant increase of 37.61% with demand for oil returning to normal levels. Also, the insurance sector followed a positive trajectory, up by 7.3%.

Performance by Sector

01/07/2021	MtD	QTD	YTD
	Chg%	Chg%	Chg%
NSE-Banking Index	1.16	1.16	-5.67
NSE Consumer Goods Index	0.01	0.01	4.82
NSE Oil/Gas Index	-0.57	-0.57	37.61
NSE Industrial Goods Index	2.02	2.02	-6.16
NSE Insurance Index	-0.25	-0.25	7.30

*Source: NSE

*Data from NSE

Fixed Income

Since the beginning of the year, the fixed income market has seen yields rise by 608 bps and this trajectory is expected to continue for the rest of 2021 despite bond prices being bearish. According to a report by Vetiva Research, the rate reversal from the low rates seen in 2020 has been attributed to high inflation rates, prolonged pressure on FX reserves and a lack of interest from FPIs.

In June the treasury bills secondary market remained flat as the average benchmark yields across the curve closed at 6.1% compared to the same 6.1% in May. The NTB Primary Market Auctions stop rates for the 91-day and 182-day paper stood at 2.5% and 3.5% respectively, while the 362-day paper decreased by 30bps to 9.4%. On behalf of the FG, the Debt Management Office offered a total of N150bn in FGN Bond Primary Market Auction. On the other hand,

OMO rates at the last auction in June were allotted 7%, 8.5% and 10.1% for 3-month, 6-month and 1-year rates respectively.

Investors are expected to start moving capital away from the equities market to the fixed income market as returns are more guaranteed in the latter.

Rating Agency	Rating	Outlook
Fitch Ratings	B	stable
Moody's Investors Service	B2	negative
Standard & Poor's	B-	-

Commodities

As Covid-19 vaccines continue to be rolled out across the globe and demand returns to pre-pandemic levels, oil prices were averaging around \$70 in June. Although OPEC has decided to increase production by an additional 500,000 bpd in July, this may prove insufficient with the rising energy demand.

For Nigeria, oil production growth remains impeded due to operational constraints as well as its obligations under the OPEC+ production cuts. The oil sector is likely to come under more pressure on the back of fiscal and security issues across the country. In Q2,

there were reports of shut-ins by producers using the Nembe Creek Trunk Line to transport their production to Bonny terminal due to leakages on the line. However, the country is taking steps to cement relations with international oil companies to improve production volumes that are far below the country's capacity.

Top Five Performers

Company	Close	Gain (N)	% Change
IKEJA HOTEL PLC	1.60	0.60	60.00
LINKAGE ASSURANCE PLC	0.85	0.20	30.77
WEMA BANK PLC	0.74	0.14	23.33
TRIPPLE GEE AND COMPANY PLC	0.84	0.14	20.00
BERGER PAINTS PLC	9.20	1.50	19.48

*Source: NSE

Top Five Decliners

Company	Close	Loss (N)	% Change
B.O.C. GASES PLC	8.55	-2.00	-18.96
REGENCY ASSURANCE PLC.	0.42	-0.07	-14.29
ROYAL EXCHANGE PLC.	0.55	-0.08	-12.70
UNIVERSITY PRESS PLC.	1.52	-0.15	-8.98
FTN COCOA PROCESSORS PLC	0.31	-0.02	-6.06

*Source: NSE