

Monthly Market Report

June 2023

In the month of June, the Nigerian economy was saddled with new policies and events by the new administration indicating tougher times for the average Nigerian in the near term. In our previous monthly report, published in May, we highlighted the government withdrawal of petroleum subsidies, as well as its long and short term benefits. In recent development, the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) stated that starting July, petroleum marketers would be licensed to import petroleum products into the country and currently, six (6) companies have been granted approval. This step is welcomed as it should foster healthy competition in the industry as the Nigerian National Petroleum Company Limited (NNPCL) has lost its monopolistic importation rights.

In other news, a number of Distribution Companies (Discos) in the Nigerian Energy Supply Industry (NESI) allegedly circulated a notice to their clients informing them of a planned increase in the price of energy starting on July 1 of this year. The circular cited the variable currency rate as the cause of the anticipated increase. The exchange rate was fixed by the Multi-Year Tariff Order (MYTO) in 2022 at N441 to \$1; and may now be modified to around N750 to the USD, resulting in a 30–40% increase in electricity units. However, as of July 5th, this increase has not been implemented as the Nigerian Electricity Regulatory Commission (NERC) had not approved the planned increase. In our opinion, the price hike will be implemented because the energy distribution firms (DisCos) in Nigeria’s electricity supply industry have been operating at a loss for some time. As a result, in order to be profitable, a raise would be implemented.

To further contextualize these issues, we have broken down other key macroeconomic highlights below:

Inflation

The upward trend in headline inflation rate continued for the fifth straight month as it rose by 0.19% to 22.41% in May 2023 (vs 22.22% in April 2023), according to the National Bureau of Statistics (NBS). Just like the previous months, food and non-alcoholic beverages made up 11.61% of the divisional level items which contributed to the increase in inflation figures. In a similar vein, month-on-month inflation increased by 0.03% to 1.94% (from 1.91% in April).

Food inflation jumped by 0.21% to 24.82% year on year (from 24.61% in April 2023) while, “All items less farm produce” or Core inflation, which excludes the price of volatile agricultural produce declined by 0.08% to 20.06% YoY (vs 20.14% in April).



Outlook: In the month of June, we expect the headline inflation to rise further due to the removal of fuel subsidy which drove pump price from N187 to a benchmark cost N488, as well the adoption of the floating exchange rate policy.

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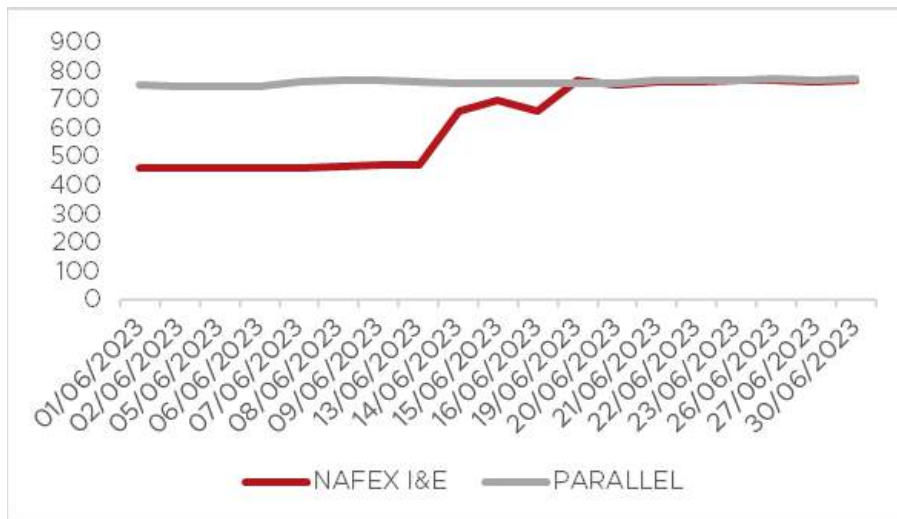
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Foreign Exchange

On June 14, 2023, the Central Bank of Nigeria (CBN) announced the unification of all segments of the currency exchange (FX) market. As a result, the Naira closed at N770.88 at the CBN official exchange rate, N769.25 at the Importer & Exporters Window, and N775 in the parallel market. The CBN noted that this new adoption was in accordance with its goal of moving away from a fixed foreign exchange policy, therefore the "Willing Buyer, Willing Seller" model was reintroduced at the I&E Window.

Although a positive development, we think the devaluation would have an immediate impact on households and companies in the short term since producers would pass along the increased costs of importation to consumers, hence increasing the cost of living. This move should draw foreign investors to the nation as they can more easily repatriate their investment returns from the country. Additionally, as a result of this new adoption, Nigeria's total debt has climbed from the N49.85 trillion previously estimated by the Debt Management Office (DMO) to N83.31 trillion.

Furthermore, the country's foreign reserves fell by 2.54% as of 26th of June 2023 to \$34.22 billion from \$35.09 billion in May 2023, despite the rise in Brent prices to \$75.72 (up from \$73.83 in May).



Outlook: In the month of July, we expect foreign exchange rate remain relatively stable depending on the willingness of the CBN to ensure interventions in the I & E window to keep the exchange rate stable.

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Equities Market

The Nigerian Equities market closed the month of June 2023 with a positive return of 9.32% as the NGX ASI rose by 5,198.99 points to break the 60,000 psychological mark and close the period at 60,968.27 points (vs 55,769.28 points May 2023). The upward trend was driven by increased investor interest in the equities market on the back of the pro-business stance and policy initiatives of the new administration. Hence, this led to increased demand in bellwether stocks such as TOTAL (+28.7%), ZENITH (+18.1%), SEPLAT (+16.7%), AIRTELAFRI (+12.3%), MTNN (+8.9%), NB (+7.7%), BUAFOODS (+4.5%), and BUACEMENT (+0.3%), forcing the market capitalization up N2.8 trillion to close at N33.2 trillion. Consequently, the year-to-date return of the market rose to 19.0% (vs 8.8% in the prior month).

Sectoral performance was also bullish as all the sector indices tracked on the NGX closed in positive territory. The Insurance Index was the top gainer rising by 32.55% followed by the Oil and Gas (+30.18%), Banking (+23.30%), Consumer Goods (+5.68%) and Industrial (+0.13%) Indices.

Trading activities for the period under review showed marked improvement, as average volume and value traded rose 15.5% and 42.1% month-on-month respectively. Market breadth (Gainers/Losers ratio) which measures investors sentiment was also positive at 1.9x as 94 stocks gained, 22 lost while 37 were unchanged.

Outlook

The market has responded positively to the peaceful transition to the Tinubu-led administration as well as initial policy statements made by Mr. President. In the month of July, we expect the upward trend to continue at a moderate pace with intermittent profit taking forcing choppy trades, but further out, we expect more policy pronouncements and signals of the government to follow through with implementation, political appointments, foreign exchange liquidity and developments in the macro-economic space to determine market direction.

INDICATORS	30-Jun	31-May	%Change
NGX ASI	60,968.27	55,769.28	9.32%
Market Cap (N'bn)	33,197.83	30,366.72	9.32%
Volume Traded (Units' m)	998.08	661.51	50.88%
Value Traded (b)	15,956.15	18,998.23	(16.01%)

SECTOR	30-Jun	31-May	% Change
NGX-BANKING INDEX	645.42	523.45	23.30%
NGX-INDUSTRIAL INDEX	2,491.31	2,488.08	0.13%
NGX-INSURANCE INDEX	277.07	209.03	32.55%
NGX-OIL & GAS INDEX	775.85	595.99	30.18%
NGX-CONSUMER GOODS INDEX	894.76	846.68	5.68%

Top Gainers

Symbol	Opening Price(N)	Closing Price(N)	% Change (+)
FTNCOCOA	0.81	2.39	195.06%
ETERNA	7.70	21.00	172.73%
TRANSCOHOT	8.93	23.40	162.04%
GOLDBREW	0.81	1.67	106.17%
JAPAUFGOLD	0.37	0.70	89.19%
SKYAVN	5.50	10.15	84.55%
DMATEK	0.20	0.36	80.00%
MRS	44.85	79.00	76.14%
IKEJAHOT	2.37	3.99	68.35%
LASACO	1.55	2.60	67.74%

Top Losers

Symbol	Opening Price(N)	Closing Price(N)	% Change (-)
JOHNHOLT	1.91	1.04	(45.55%)
MCNICHOLS	0.77	0.67	(12.99%)
ELLAHLAKES	4.00	3.56	(11.00%)
ABBEBDS	1.68	1.52	(9.52%)
CHELLARAMS	1.47	1.33	(9.52%)
MULTIVERSE	4.09	3.75	(8.31%)
CAP	20.45	19.20	(6.11%)
PHARMDEKO	1.89	1.80	(4.76%)
TRIPPLEG	3.90	3.75	(3.85%)
GEREGU	309.00	300.00	(2.91%)

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Fixed Income Market

The fixed income space also recorded positive trading within the period under review as investors' interest in the space grew as seen in the high volume of transactions recorded in the primary market and drop in yields in the secondary space.

At the primary market, the Debt Management Office (DMO) reopened the APR 2029 instrument, and newly auctioned the JUN 2033, JUN 2038 and JUN 2053 bond instruments with N90 billion on offer respectively. Unlike the previous auction in May 2023, all maturities on auction were over-subscribed asides the JUN 2033 instrument, hence, subscription-to-offer ratio stood at 1.71x, 0.38x, 1.70x and 3.26x respectively. At the end of the auction, the marginal rate for each instrument stood at 13.90%, 14.70%, 15.45% and 15.70% respectively (vs 14.10%, 14.90%, 15.69% and 15.80% at the previous auction).

Due to various policies announced by the new administration, the FGN bond secondary market recorded positive sentiments across the yield curve, hence average yields fell by 96bps to 12.98% (vs 13.94% in May). Additionally, during the month, the 21-Jun-33, 21-Jun-38 and 21-Jun-53 were listed at the secondary market.

The Central Bank of Nigeria (CBN) conducted two NT-Bills primary market auctions in the month for a total offer of N221.7 billion across board. The first auction of the month took place on the 14th of June, with stop rates for the 91-day, 182-day, and 364-day bills settling at 4.89%, 5.12%, and 8.24% respectively. However, by the second auction on the 30th of June, rates for the 91-day, 182-day and 364-day declined to 2.87%, 4.37% and 6.23% respectively.

The NT-Bills secondary market recorded an upbeat performance within the period, with investors positioning in near term securities to manage their risk in light of expected hike in the policy rate to combat rising inflation. However, average yields still closed the month higher at 6.35% compared to the 6.18% printed in May), mainly on the back of new listings. Furthermore, the market witnessed the maturation of the 8-Jun-23 bill and the listing of three new instruments (24-Aug-23, 09-May-24 and 23-May-24).

System liquidity rose by 901.51% to settle at N1.15 trillion (vs. N114.79 billion the previous month) as FAAC payment influenced an increase in opening balances.

Consequently, Open-Buy-Back and Overnight rates fell by 1.36% and 2.00% respectively to close at 11.75% and 12.25% (as opposed to 11.75% and 12.25% in April).

Outlook: We anticipate that the FGN Bonds and NT-Bills markets will continue to experience positive sentiment from investors as they sustain optimism towards the nation's economic progress.

FGN BOND	30-Jun	31-May	%Change
2-Year	9.79	11.47	(14.65%)
4-Year	10.91	12.53	(12.93%)
6-Year	12.32	14.31	(13.91%)
8-Year	12.74	14.55	(12.44%)

NT-BILLS	30-Jun	31-May	%Change
91-Days	4.92	3.23	52.32%
182-Days	5.78	5.61	3.03%
364-Days	7.70	8.05	(4.35%)

FOREIGN EXCHANGE	30-Jun	31-May	%Change
I & E Window	769.25	464.67	65.55%
Parallel	775	753	2.92%

Auction Date	Maturity Date	Tenor	Stop Rate	Offer (NGN'million)	Subscription (NGN'million)
30-Jun-23	28-Sep-23	91-Day	2.87%	1,746.83	7,149.78
30-Jun-23	28-Dec-23	182-Day	4.37%	17,156.00	37,426.80
30-Jun-23	27-Jun-24	364-Day	6.23%	168,211.62	708,888.90
14-Jun-23	91-Day	91-Day	4.48%	1,101.07	1,581.15
14-Jun-23	182-Day	182-Day	6.00%	1,284.65	7,272.10
14-Jun-23	364-Day	364-Day	9.45%	32,154.90	277,271.96

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Notable Macroeconomic Release Data Calendar for July 2023

Release Dates	Indicators
July 15th	CPI and Inflation Report
July 17th	Premium motor spirit (PETROL) Price watch June 2023
July 23rd	Federation Account Allocation Committee (FAAC) June 2023 Disbursement