

# Monthly Market Report

## May 2023

### Gross Domestic Product (GDP)

Nigeria's economic growth slowed to 2.31% in the first quarter of 2023 from the 3.52% recorded in the fourth quarter of 2022 and 3.11% filed in the first quarter of 2022, according to the National Bureau of Statistics (NBS). The Bureau attributed the decline in growth to the cash crunch experienced during the quarter. The report further showed that, performance during the quarter was largely driven by the Service sector which recorded a growth rate of 4.35% and contributed 57.29% to aggregate Gross Domestic Product (GDP).

The Oil sector fell by -4.21% year-on-year (YoY) in Q1'23 indicating a lower contraction rate from 13.38% in the fourth quarter of 2022 and 26.04% in the same quarter of 2022. Overall, the Oil sector contributed 6.21% to aggregate GDP.

The Non-Oil sector grew by 2.77% YoY which is less than 4.44% recorded in the fourth quarter of 2022 and 6.08% in the corresponding period of 2022

**Outlook:** We expect a much better performance in Q2'2023 than in the first quarter of 2023, which will be driven by the performance of the Service sector, as factors affecting Agriculture and Industry, such as foreign exchange scarcity, insecurity, high raw material costs, and so on, continue to affect these sectors. In addition, we anticipate improvement in the Oil sector since efforts to reduce vandalism and theft in the sector have yielded results.



### Inflation

The headline inflation rate in Nigeria increased for the fourth consecutive month in April 2023, increasing by 0.18% to 22.22% year-over-year (vs. 22.04% in March 2023). Food and non-alcoholic beverages made up 11.51% of the divisional level items that contributed to the increase in inflation. On month-on-month basis, headline inflation climbed by 0.05% to 1.91% (from 1.86% in March).

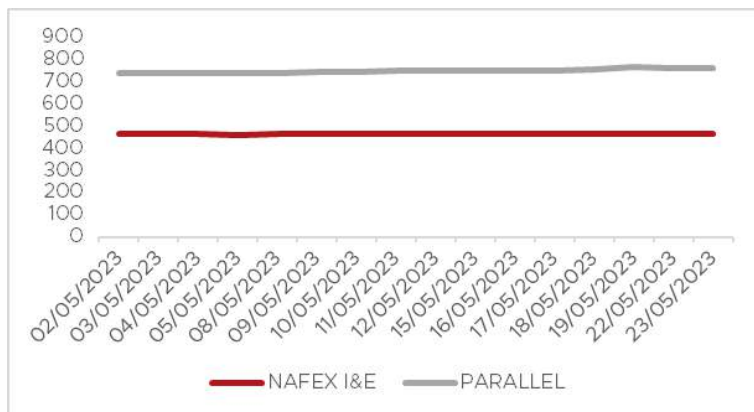
Food inflation increased by 0.16% to 24.61% year on year (up from 24.45% the previous month) while, "All items less farm produce" or Core inflation, which excludes the price of volatile agricultural produce gained by 0.28% to 20.14% YoY (vs 19.86% in March).

**Outlook:** We anticipate that the factors driving food inflation, such as foreign exchange volatility, insecurity in food producing areas, poor storage and transport facilities for agricultural produce etc, will persist, hence moderately pushing headline inflation above current levels in the month of May 2023.

### Foreign Exchange

Brent crude oil prices fell 8.23% during the month due to a combination of a stronger dollar and decreased manufacturing activity in China. Furthermore, Nigeria's foreign reserves fell by 0.44% to close at \$35.10 billion (down from \$35.25 billion the previous month).

The Naira lost 0.36% and 1.76% against the US dollar in the Investors and Exporters Window and parallel market, respectively, to close at N464.67 and N753 (vs N463 and N750 in April).



**Outlook:** In the month of June, we expect rates across the different FX segments to remain relatively stable with the exception of a potential devaluation of the official rate.

### Monetary Policy Rate (MPR)

The Monetary Policy Committee (MPC) raised the benchmark rate by 50 basis points (bps) to 18.50% from 18.00% at its most recent meeting in May. However, they kept the asymmetric corridor around the MPR at +100/-700 bps, the CRR at 32.50%, and the Liquidity Ratio at 30.0%. The Committee voted to raise the key rate in order to tame the rapid rise in inflation.

As the country suffers from cost push inflation, we expect the rate hike to have little to no effect in curbing rising inflation figures. To properly reduce inflationary pressures, the country must also pursue budgetary and other fiscal policy reforms.

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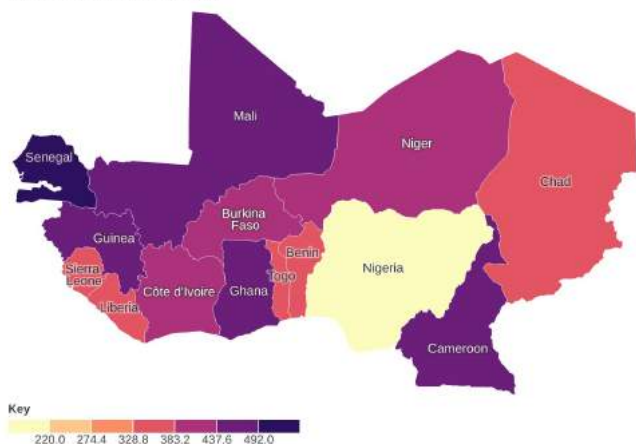
### Petroleum Subsidy removal

President Bola Ahmed Tinubu declared at his inaugural speech on May 29, 2023, that fuel subsidies would be eliminated entirely. Following his statement, the price of premium motor spirit (PMS) jumped as high as N600/litre from N185/litre the day before. On May 31, 2023, NNPC issued a statement announcing a new pricing guide for PMS with prices ranging from N488 to N557 in various States of the country. The NNPC reported that the Federal Government had not provided any subsidy payments since 2022, and was owing the NNPC about N2.3trn in gasoline subsidy funding as of March 2023, hence the reason for the immediate price update.

In our view, the move to remove fuel subsidy by the government is a welcome development, given the poor management of the subsidy programme and the inability of the government to account for daily consumption. The removal should reduce the loans being borrowed by the government to pay for the subsidy, supposed savings from the subsidy removal programme appear to be non-existent however, as the government was borrowing to make the payments initially until it stopped payments entirely in March 2022. This forced the NNPC to recognise the losses as under-recoveries in its books.

Before the present subsidy removal Nigeria stood out among neighbours with its cheap petrol, making smuggling lucrative.

Price of petrol per litre in Nigerian Naira



Source: GasolinePetrolPrices, World Bank, Stearns Business • Created with Datawrapper

Regardless of the long-term benefit of this subsidy removal, the poor communication of the policy, lack of policy structure to help cushion the negative effects of the removal in the short run should have been put in place prior to the removal. The abrupt withdrawal and its evident economic impact, such as increased energy prices and transportation costs, would result in a marked increase in inflation rates

### Dangote Refinery

On the 22nd of May 2023, the Dangote Petroleum Refinery was commissioned, with a production capacity of an estimated 650,000 barrels per day. The widely acclaimed largest single train refinery in the world, is said to be designed to process crude oil grades from the three continents of Africa, Asia and America and should produce a surplus of approximately 38 million litres of petrol, diesel, kerosene and aviation fuel to meet the 100 per cent fuel supply requirement of the country.

According to the Central Bank of Nigeria (CBN), The cost of petroleum products imported into Nigeria, including freight, reportedly doubled over a five-year period from approximately US\$8.4 billion in 2017 to US\$16.2 billion (representing an annual average of US\$11.1 billion), before increasing further to US\$23.3 billion at the end of 2022. Hence, the construction of the refinery provides numerous opportunities for Nigeria, as the cost of importing Premium Motor Spirit (PMS) into the country will be significantly reduced. Furthermore, with the refined produce expected to be sold outside of Nigeria and Africa, the higher export earnings will be beneficial to the country.

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### Equities

The Nigerian stock market reversed its previous two months' losses, rising 6.4% in May to settle at 55,769.28 points (up from 52,403.51 the previous month). The market performance was mostly driven by increased rally at the end of the month as a result of attractive entry prices as well as investors' positive reaction to the policy stance of President Bola Ahmed Tinubu as outlined in his inauguration speech. The market surge led to the market capitalization rising by N1.8trillion to close at N30.3 trillion. Consequently, Year-to-Date return rose to 8.8% (vs 2.2% the previous month).

Specifically during the month, there were major upticks recorded in NB (+32.34%), ZENITHBANK (+30.26%), TOTAL (+25.06%), ACCESSCORP (+21.67%), NESTLE (+19.75%), GTCO (+18.31%), and DANGSUGAR (+12.31%). Market breadth (gainers/losers' ratio), which measures investors sentiments was positive as 71 stocks appreciated while 6 depreciated in price respectively.

Transaction level varied as total volume traded fell 40.75% to N12.93 billion while value traded rose 75.93% to N143.63 billion.

Performance across sectors under our coverage were bullish as all indices closed in green. The Banking sector recorded the highest gain, increasing by +19.50%, followed by the Oil and Gas (+18.67%), Consumer Goods (+15.02%), Insurance (+13.37%) and the Industrial Goods (+1.67%) sectors.

### 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 June, 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, political appointments and developments in the macro-economic space to determine market direction.

### Market Summary

	31-May	28-Apr	% Change
NGX-ASI	55,769.28	52,403.51	6.42%
Mkt Cap (N'bn)	30,366.72	28,533.90	6.42%
Volume (mn)	12,931.86	21,827.00	-40.75%
Value (N'mn)	143,634.91	81,641.00	75.93%

### Sector Index Performance

	31-May	28-Apr	% Change
NGX-BANKING INDEX	523.45	438.07	19.49%
NGX-INDUSTRIAL INDEX	2,488.08	2447.13	1.67%
NGX-INSURANCE INDEX	209.03	184.38	13.37%
NGX-OIL & GAS INDEX	595.99	502.24	18.67%
NGX-CONSUMER GOODS	846.68	736.14	15.02%

### Gainers

S/N	COMPANY	CLOSE	OPEN	GAINS	%CHANGE
1	CHAMS	0.45	0.28	0.17	60.71%
2	IKEJAHOTEL	2.16	1.46	0.70	47.95%
3	MULTIVERSE	4.09	2.78	1.31	47.12%
4	LIVESTOCK	1.52	1.04	0.48	46.15%
5	MRS	40.8	27.95	12.85	45.97%
6	MANSARD	3.38	2.37	1.01	42.62%
7	LASACO	1.61	1.14	0.47	41.23%
8	GLAXOSMITH	8.35	6.30	2.05	32.54%
9	CAVERTON	1.39	1.05	0.34	32.38%
10	NB	42.35	32.00	10.35	32.34%

### Losers

S/N	COMPANY	CLOSE	OPEN	LOSS	%CHANGE
1	ROYALEX	0.56	0.78	-0.22	-28.21%
2	CHAMPION	4.37	5.55	-1.18	-21.26%
3	UACN	8	9.55	-1.55	-16.23%
4	AIRTELAFRI	1,250.00	1,479.00	-229.00	-15.48%
5	MULTIVERSE	2.78	3.24	-0.46	-14.20%
6	ETERNA	5.85	6.8	-0.95	-13.97%
7	NB	32	37	-5.00	-13.51%
8	COURTVILLE	0.42	0.48	-0.06	-12.50%
9	ZENITHBANK	22.8	25.85	-3.05	-11.80%
10	MAYBAKER	4.05	4.50	-0.45	-10.00%

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### Fixed Income

Bullish sentiment was recorded in the fixed income market as buy pressure was recorded in the FGN Bond and the NT-Bills markets.

At the primary market, the Debt Management Office (DMO) FGN reopened the 13.98% FEB 2028, 12.50% APR 2032, 13.00% FGN JAN 2042 and 12.98% FGN MAR 2050 bond instruments with a N90 billion offer respectively. However, all instruments were under-subscribed asides the MAR 2050 instrument. Subscription-to-offer ratio stood at 0.83x, 0.11x, 0.60x and 3.78x respectively. At the end of the auction, the marginal rate for each instrument stood at 14.10%, 14.90%, 15.69% and 15.80% (Vs 14.0%, 14.80%, 15.40% and 15.80% at the previous auction) respectively.

Bulls dominated the FGN Bond secondary market as investors majorly sold off instruments listed at the short end of the yield curve. As a result, average yields decreased by 17bps to 13.96% (vs 14.13% in April).

The CBN conducted two NT-Bills primary market auctions in May, with a total offer of N324.43 billion across board.

The first auction of the month took place on the 10th of May, with stop rates for the 91-day, 182-day, and 364-day instruments settling at 4.50%, 6.44%, and 8.99%, respectively. However, by the second auction on the 24th of May, rates for the 91-day, 182-day and 364-day declined to 2.29%, 4.99% and 7.99% respectively.

The NT-Bills secondary market closed bullish with investors buying into securities listed across the yield curve. Therefore, average yields closed the month at 6.35% (vs 7.30% in April). Furthermore, the market witnessed the maturation of two new instruments (11-May-23 and 25-May-23), as well as the listing of two others (11-Apr-24 and 25-Apr-24).

System liquidity decreased by 89.62% to settle at N114.79 million (vs. N1.11 billion the previous month) as opening balances declined. However, the Overnight and Open-Buy-Back rates decreased by 0.88% each, to close at 11.75% and 12.25% (as opposed to 12.63% and 13.13% in April).

**Outlook:** In the primary market, we anticipate increased confidence in fixed income securities, which should lead to greater primary market participation. As a result, it is anticipated that rates for new auctions in the market for NT-Bills and FGN Bonds will rise.

### Federal Government Bond

	31-May-23	28-Apr-23	%change
2-Year	11.47	11.17	2.69%
4-Year	12.53	13.01	-3.69%
6-Year	14.31	14.17	0.99%
8-Year	14.55	14.47	0.55%
10-Year	14.90	14.75	1.02%

### Nigerian Treasury Bills Auction

Auction Date	Maturity Date	Tenor	Stop Rate	Offer (NGN'million)	Subscription (NGN'million)
10-May-23	10-Aug-23	91-Day	4.50	4,522.0	23,194.9
10-May-23	09-Nov-23	182-Day	6.44	5,439.4	41,935.5
10-May-23	05-May-24	364-Day	8.99	134,020.0	755,723.7
24-May-23	24-Aug-23	91-Day	2.29	9,962.5	33,536.3
24-May-23	09-Nov-23	182-Day	4.99	1,817.9	746,039.3
24-May-23	23-May-24	364-Day	7.99	168,666.3	746,039.3

### Nigerian Treasury Bills Secondary Market

	31-May-23	28-Apr-23	%change
91-Days	3.23	5.53	-41.6%
182-Days	5.61	6.34	-11.5%
364-Days	8.05	13.04	-38.3%

### Foreign Exchange

	31-May-23	28-Apr-23	%change
NAFEX I&E	464.67	463.00	0.36%
CBN OFFICIAL RATE	461.76	460.87	0.19%
PARALELL MARKET RATE	753	740	1.76%

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### Notable Macroeconomic Release Data Calendar for June 2023

Release Dates	Reports
June 15th	CPI and Inflation Report April 2023
June 22nd	Q1, 2023 Terms of Trade Report
June 28th	Federation Account Allocation Committee (FAAC) May 2023 Disbursement
June 28th	Internally Generated Revenue at State Level (2022 FULL YEAR)
June 30th	Prison Statistics 2022