



**NIGERIA
MACROECONOMIC
AND MARKETS REPORT
FEBRUARY 2023**

**COMERCIO
PARTNERS**

TRADING | INVESTMENTS | ADVISORY

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REPORT SUMMARY

The Macroeconomy

Nigeria's 2022 GDP growth came in strong, though lower than 2021 print.

Oil production continued its recovery pace, as production increased.

Inflation resumed its uptrend, printing higher in January 2023.

The Naira was relatively flat in February 2023.

The Financial Markets

Fixed income yields rose during the month.

Eurobond yields equally rose, maintaining the start of the year's bearish trend.

The equity market bucked the trend, as it continued its ascent.

Our Expectations for the Coming Months

We expect oil sector growth to turn positive soon, and the agricultural sector's contribution to growth to increase.

We expect inflation to continue its ascent, though mixed effects of drivers could swing it lower.

We see the Naira remaining pressured in the near term.

The CBN's policy tightening stance could push rates higher in the fixed income space.

Eurobond yields are expected to rise.



NIGERIA'S ECONOMIC WOES, CRUDE OIL PRICE PERFORMANCE, GHANA'S INFLATION & DEBT WOES, AND US INFLATION & JOB NUMBERS

While Nigeria's 2022 GDP growth printed positive, stubbornly high inflation and currency depreciation persisted

Despite numerous positives, the negatives outweighed the positives and pushed crude oil price lower

Ghana's inflation dips for the first time since May 2021, while the country continued to make efforts to resolve its debt crisis

The US Economy stayed hot despite multiple moves to slow it down

The Nigerian economy showed signs of improvement as the real economic GDP grew at a pace of 3.52% with the services sector, agriculture and industries being major contributors. As released by the National Bureau of Statistics (NBS), January Headline Inflation on the other hand skyrocketed to 21.82% YoY which represents a 0.47% increase from 21.34% YoY recorded in the previous month. The country's foreign reserves fell from \$37.01 billion at the end of January to \$36.68 billion. At the investors and exporters window, the Naira depreciated from ₦461.50/\$ to close the month of February at ₦462.00/\$. The country was also burdened with the circulation of the new Naira notes which led to destruction of bank properties and loss of lives. Following the downgrade of the government of Nigeria's long-term foreign currency and local currency rating as well as its foreign currency senior unsecured debt rating to Caa1 by Moody, S&P retained its B-rating, revising its outlook from stable to negative, reflecting same concerns of fiscal deterioration as cited by Moody.

Oil had its highs and lows in the month of February. The highs were hinged mainly on the optimism surrounding China's re-opening, supported by a jump in manufacturing PMI to 52.6 last month against estimates of 50.5. Bolstering oil prices also was Russia's decision to cut production outputs by 500 million barrels per day which was later revised to up to 25% of its production output. Another event which contributed to the rise of oil prices was the unfortunate earthquake in Turkey which raised looming concerns that the incident may have caused severe damage to operations at a 1,000,000 barrel per day infrastructure. Offsetting the gains in oil were the increases in the US crude inventories up to as high as 480.2 million barrels (the highest since May 2021) and the Fed's aggressive hawkish approach in its continuous fight in tackling inflation. In conclusion, Brent Crude closed the month at \$83.89/bl compared to \$84.49/bl at the end of the previous month.

Ghana's inflation dipped slightly to 53.6% in January from 54.1% in the previous month making it the first fall since May 2021. The country, currently wallowing in a debt crisis, struggled with its domestic debt exchange program as a lot of creditors revolted against the program. However, the Ghanaian Finance Minister, Ken-Ofori Atta announced that the domestic debt exchange program closed with an 85% participation rate, a step closer to securing its \$3 billion bailout from the IMF. To provide sufficient time to settle the new bonds in an efficient manner, the settlement date of exchange was rescheduled to 21st February from a previously announced 14th February. Furthermore, the country's finance minister disclosed that the government's planned meeting with Chinese creditors over the country's debt restructuring has been postponed till late March 2023. According to him, this is due to the upcoming National people's Congress of China which is scheduled for early March.

Inflation stayed higher than expected at the start of the year as rising shelter, gas and fuel prices took their toll on consumers. This reflected in the consumer price index data which recorded that inflation decelerated from 6.5% to 6.4% whereas economists surveyed by Dow Jones had been looking for a decrease to 6.2%. This is aligned with Fed Chair Jerome Powell's expectation of a disinflationary process, just at a much slower pace. Also, the Producer Price Index rose 0.7% in January which was higher than the expected rate of 0.4%. On a 12-month basis, headline PPI increased 6%, still elevated but well off its 11.6% peak recorded in March 2022. Looking at other data, retail sales showed a 3% jump easily topping 1.9% expectations with food and drink services surging 7.2% followed by motor vehicles and parts dealers (5.9%) and furniture stores (4.4%) while the jobless claims edged lower to 194,000 which was below the Dow Jones estimates for 200,000.



The closely watched ISM manufacturing index registered a 47.7% in February 2023 from 47.4% in January, which was the lowest since May 2020, but fell short of expectations of 47.8%. Some FED officials also reiterated their stance on rates staying higher for longer.

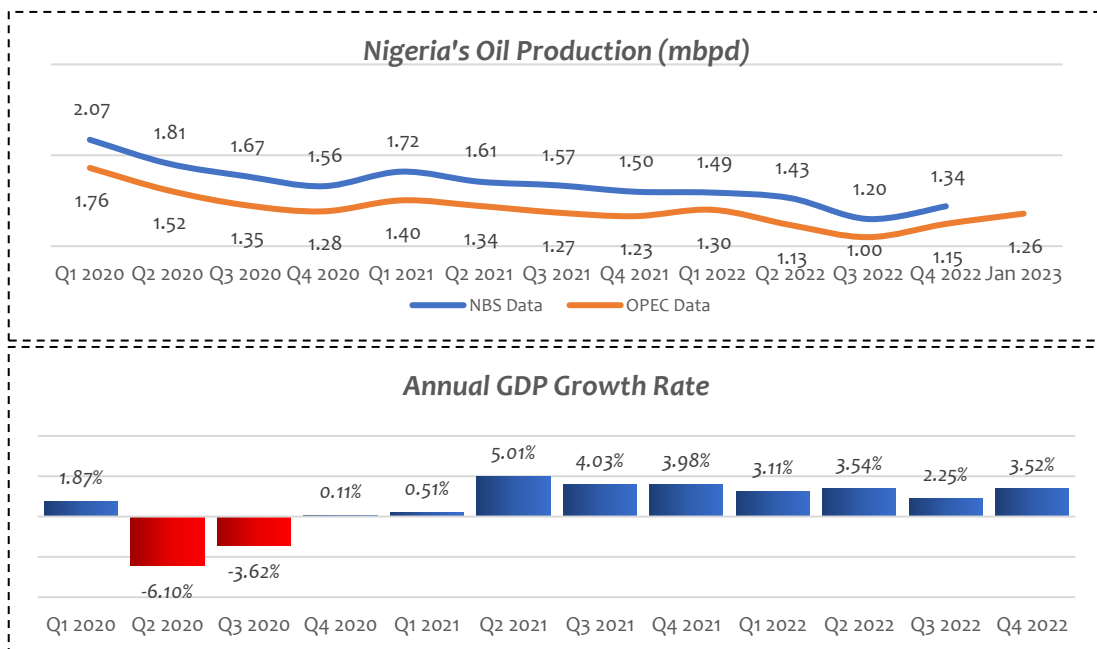
THE MACROECONOMY

GDP Growth & Oil Production

The Nigerian economy recorded a real growth rate of 3.52% YoY in Q4 2022, representing a growth of 1.27% when compared to the preceding quarter (2.25%), and down by 0.47% relative to the real growth rate recorded in Q4 2021 which stood at 3.98%. In nominal terms, aggregate GDP stood at ₦56.76 trillion in Q4 2022, up by 15.18% when compared to the amount recorded in the fourth quarter of 2021 which stood at ₦49.28 trillion.

The oil sector attempted to stage a recovery in Q4 but still remained in the contractionary region, as it recorded a real growth rate of -13.38% YoY in the fourth quarter of 2022. The Q4 2022 negative growth rate seen in the oil sector represents a 5.33% decline when compared to the rate recorded in Q4 2021 (-8.05%), but a 9.29% growth relative to the rate seen in Q3 2022 (-22.67%). The oil sector shrugged off the elevated oil prices seen in the international oil market within the review period to mark its eleventh straight period of contraction. In Q4 2022, oil output stood at 1.34mbpd, reflecting a decline of 0.16mbpd when compared to the production level in Q4 2021 (1.50mbpd). The Q4 2022 oil production level however was higher than the 1.20mbpd output level recorded in Q3 2022.

Elsewhere, OPEC, in its monthly oil market report for January revealed that Nigeria's oil production increased on a month-on-month basis by 1.86% to 1.26mbpd in January 2023. This improvement in oil output rode on the back of the government's deliberate efforts to curb oil theft, as well as the continued operations of the Forcados oil terminal. Meanwhile, OPEC revised its demand growth estimate for 2023 slightly upward by 0.10mbpd to 2.30mbpd, due to improvements in economic activity in some countries and a slight recovery in oil demand in China after the lifting of its zero-COVID-19 policy. On the supply side, OPEC cut its non-member supply growth forecast for 2023 by 0.10mbpd to 1.80mbpd.



Sources: OPEC, NBS, Comercio Partners

Q4 2022 GDP growth rate came in higher than Q3 2022

Oil sector's GDP growth remained negative despite increased oil production

OPEC expects oil demand to grow due to higher economic activity in many countries including China



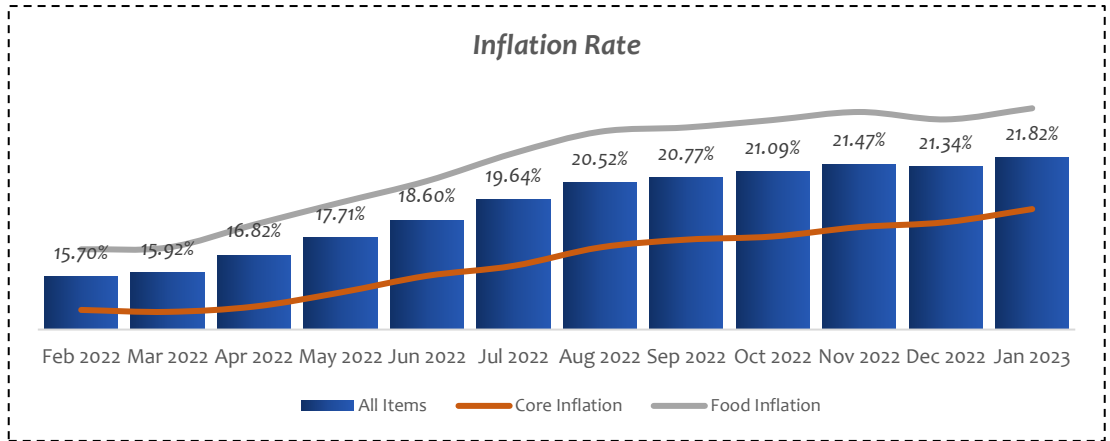
Inflation

Nigeria's inflation abruptly changed course, heading northwards in the first month of the year. Headline inflation increased by 21.82% YoY in January 2023, 0.47% higher than 21.34% recorded in December 2022; food inflation inched up by 24.32% YoY in January 2023, 0.56% higher than 23.75% recorded in December 2022; while core inflation printed at 19.16% YoY in January 2023, 0.66% higher than 18.49% recorded in December 2022. The change in course came as no surprise as the easing seen in December was anticipated to be short-lived with the elections on the horizon and no significant change in the direction of other inflationary drivers. The relentless uptrend in the prices of food and energy items buoyed headline inflation in the review month.

In January 2023, headline inflation rose by 1.87% MoM, representing a 0.15% increase from the rate of 1.71% recorded in the preceding month. The 12-month average rate rose to 19.36%, 0.51% higher than 18.85% recorded in the previous month. Month-on-month headline inflation has maintained an upward trajectory given the relentless uptrend in the prices of food and energy items.

The food subindex rose by 2.08% MoM, reflecting a 0.20% increase from the rate of 1.89% recorded in December 2022. The 12-month average rate rose to 21.53%, 0.59% higher than 20.94% recorded in the preceding month. The cessation of the harvest season compounded by poor macroeconomic conditions and historic flooding in 2022 took a toll on food prices.

Core inflation stood at 1.82% MoM, up 0.49% from 1.33% recorded in December 2022. The 12-month average rate also rose to 16.52% in the month under review, 0.44% higher than 16.08% recorded in the preceding month. The highest increases were recorded in the prices of Gas, Liquid fuel, Passenger transport by Air, Vehicles spare parts, Fuels and lubricants for personal transport equipment and Solid fuel.



Sources: NBS, Comercio Partners

Did You Know...

In a bid to curb rising inflation in the country, which currently stands at 9.2%, the Kenyan government is embarking on a radical policy to drive down food prices by directly importing critical food items, waiving import duties on those items, and capping the margins at which those items would be sold?



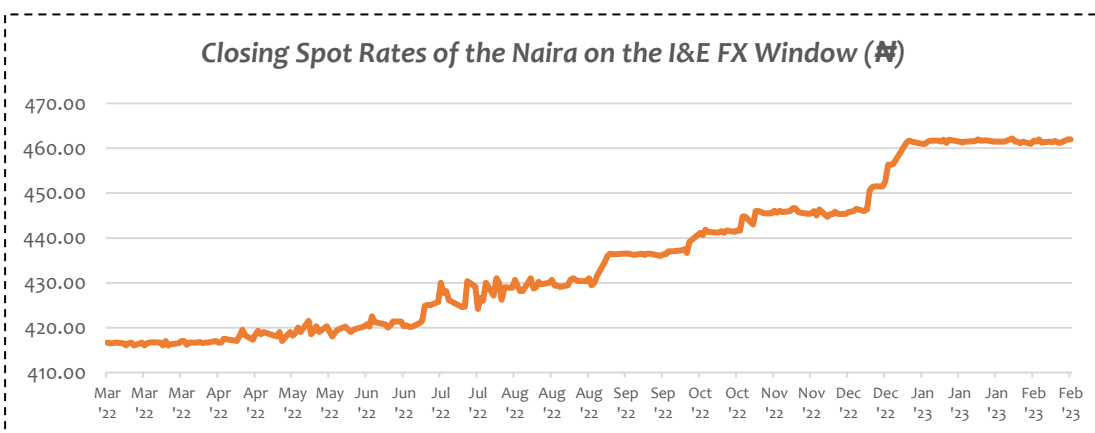
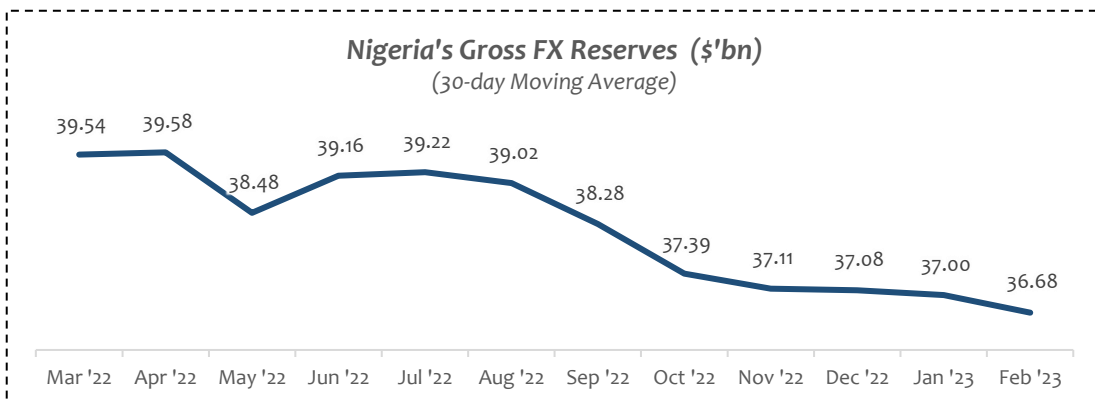
Foreign Exchange Market & Reserves

The CBN's move to mop up excess liquidity in the Nigerian economy by redesigning the 200-, 500-, and 1,000-naira notes put the foreign exchange market under heavy pressure throughout January to February 2023. The initial plan of the apex bank to keep to the 31st January deadline triggered selloffs in the local currency as individuals in custody of the old notes rushed to exchange their funds for other major currencies primarily the U.S. dollar.

Putting the above into context, the average monthly value of the Naira depreciated by ₦10.33 at the I&E FX Window with the average exchange rate of the currency to a unit of the US Dollar rising to ₦461.53 in January 2023 from ₦451.21 in December 2022. The monthly average value remained unchanged in February 2023 at ₦461.53/\$1.

Despite the cash crunch experienced within the period under review, Nigerians continued to seek for both local and foreign currencies to meet their various needs. Another identifiable factor responsible for the decline in the local currency was the 2023 presidential election spending as this further triggered the demand for the naira amid tight supply.

In the same breath, available data on the CBN's website, revealed that Nigeria's foreign reserves declined by 1.09% during the period under review to close at \$36.68 billion in February 2023 compared to \$37.08 billion recorded in December 2022. This sharp decline in the nation's external reserve can be attributed to the intervention by the apex bank in the official foreign exchange market to stabilize the Naira.



Sources: CBN, FMDQ, Comercio Partners

Did You Know...

Africa accounts for just 3.8% of global greenhouse gas emissions, relative to China's 23%, the United State's 19%, and the European Union's 13%?



Local Fixed Income Market

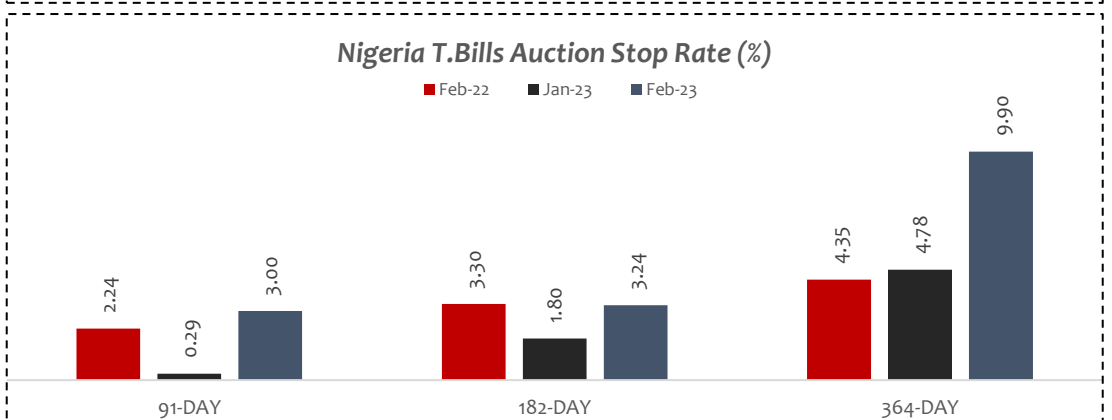
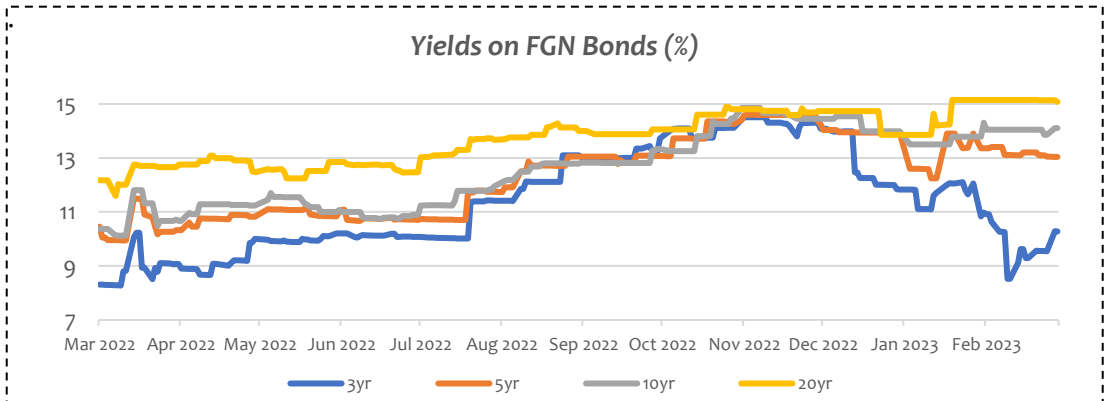
Activities in the FGN local bonds market were largely bearish during the month of February 2023 albeit with some buying interest seen on short-dated bonds. On a monthly basis, average yields for the benchmark securities for sovereign bonds with 5-year, 10-year, and 20-year maturities rose by 10bps, 39bps, and 65bps, respectively, while the yield on the 3-year bond fell by 184bps.

As part of its effort to raise funds to fund the 2023 budget deficit for the financing of critical capital development projects across the country, Nigeria’s Debt Management Office (DMO) held an auction on 13th February 2023. At the bond auction, the DMO re-opened four bonds: 2028, 2032, 2037, and 2049 maturities. Across these maturities, the DMO sold ₦770.57 billion worth of bonds, against ₦360.00 billion offered. The rates on the 2028, 2032, 2037, and 2049 maturities were allotted at 13.99%, 14.90%, 15.90%, and 16.00% respectively. The oversubscription seen from the auction results reveals the strong appetite for federal government bonds among local players.

The bearish sentiment filtered into the treasury bills market, as the stop rates on all three notes rose at the last primary market auction held in the month of February 2023. Overall, rates on the 91-day, 182-day, and 364-day notes were allotted at 3.00%, 3.24%, and 9.90%, respectively, in the last primary market auction in the review month, up by 271bps, 144bps, and 512bps, respectively, relative to the rates at the last treasury bills auction in January 2023. Year-to-date, the rates on the 91-day, 182-day, and 364-day notes inched up by 76bps, 6bps, and 555bps, respectively.

Local bonds yields mostly edged lower in February 2023

The treasury bills space was equally bearish in the month of February 2023



Sources: CBN, FMDQ, Comercio Partners

Did You Know...

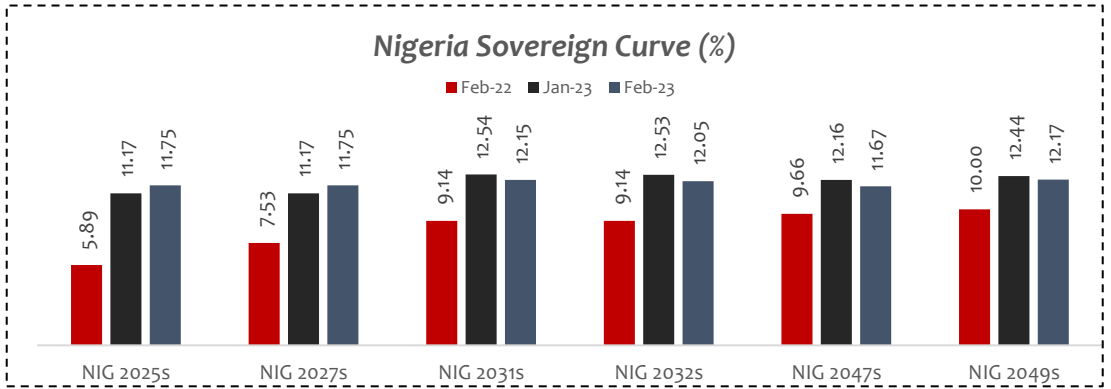
Nigeria is Africa’s largest producer of rice, yet the highest importer of milled rice in the world?



The Eurobond market kicked off the year with bearish sentiments

Eurobond Market

The Eurobond market traded with bearish sentiment in February 2023, albeit buying interest was seen on some higher-yielding maturities. The selloffs were largely driven by the renewed pressure to hike rates from the U.S Federal Reserve as a higher-than-expected inflation print sent a message that the Fed still has a long way to go in its fight against surging inflation. In the same manner, the downgrade of Nigeria's sovereign bond by global credit rating agencies also fueled the selling pressure experienced in the month under review. Year-to-date, the yield on the 2025s, 2027s, 2031s, 2032s, 2047s, and 2049s were up by 586bps, 422bps, 301bps, 291bps, 201bps, and 217bps respectively.



Sources: Bloomberg, Comercio Partners

The Equity Market continued its bullish run in February 2023

Equity Market

Despite the macroeconomic tailwinds like the high inflationary environments, foreign exchange scarcity, naira scarcity and high interest rates, the local equity market kept head above water in the month of February as evident in the benchmark All Share Index which recorded a 431bps improvement from 53,238.67 points at the end of the previous month to 55,806.26 points in the face of impressive Q4 2022 financial earnings releases. The year-to-date return rose higher into the positive territory, strengthening to 8.89% while market capitalization improved from ₦29 trillion on 31st January to close the month at ₦30.41 trillion.

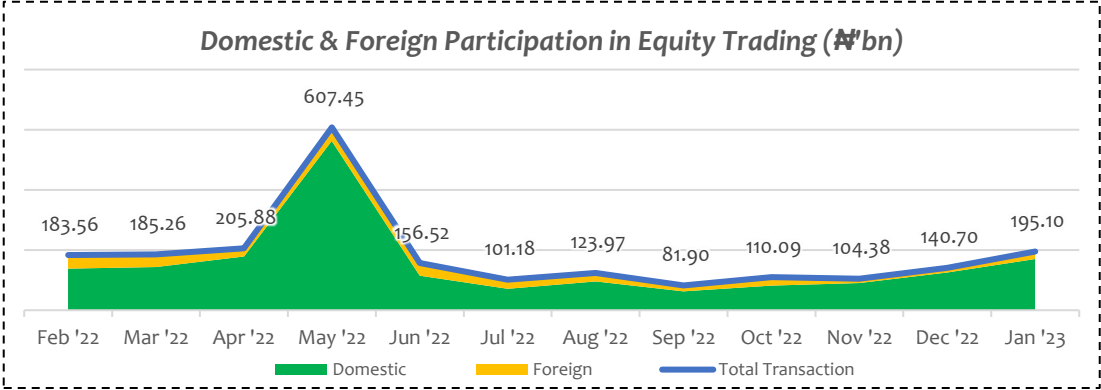
On the flip side, transaction flows showed that volume and value traded on the local bourse ebbed by 5.20% and 25.36% to 237.17 million units and ₦4.39 billion respectively.

Ranking the top performers of the month, TRIPPLEG, MRS and CONOIL struck price appreciations of 173%, 130% and 77%, respectively. The three major losers for the month were MBENEFIT which declined by 15%, followed by JAPAUFGOLD (-15%) and FIDELITYBK (-12%). As reflected by the positive close of the NGXASI, a total of 56 advancers succeeded this month over 35 decliners.

To close the month, it was a bullish run for sectors as the industrial, oil and gas, consumer goods and banking indices posted MoM uptrends of 3%, 16%, 8% and 4%, consecutively. The insurance sector took a different path as it declined by 2%.

With respect to investors participation, domestic investors continued to lead the participation chart with 87.2% of total trades in January 2023, down from 89.2% in December 2022 when trades were usually driven by year-end positioning for Q4 2022 results and dividend declarations.





Sources: Bloomberg, NGX, Comercio Partners

OUR EXPECTATIONS FOR THE COMING MONTHS

While long-standing problems limiting oil output, such as oil pipeline vandalism and oil bunkering, are currently being addressed, we anticipate some modest improvement in supply. Additionally, with the long-awaited operations of the Dangote Refineries now in the offing, we expect to see improved activities that could finally push the oil sector growth into positive territories for the first time since Q1 2020. The agricultural sector could also contribute more to overall GDP growth in the coming quarters with the nightmare of historic flooding during the latter part of the year 2022 now behind us.

February's inflation print is expected to be influenced by pressures from both food supply and the naira redesign policy while taking into consideration the impact of the presidential election. It is projected that these factors could drive inflation hotter in the review month.

In the near term, we anticipate further devaluation in the value of the Naira against the U.S. dollar. This assumption is largely based on the anticipated increase in the U.S. Fed policy rate by 50bps in March 2022 and a projected Fed terminal rate of 6%. Such an increase is expected to strengthen the U.S. dollar against most developing countries' currencies including Nigeria.

The monetary policy committee's decision on interest rates will play a key role to shape the activities in the bond space for the remaining part of the quarter. The last inflation reading shows that in January 2023, the headline inflation rate rose to 21.82% compared to December 2022 when headline inflation printed at 21.34%. Given the record high inflation and the CBN's resolve to fight inflation with higher interest rates, we expect to see at least a 100bps increase in the MPR from the CBN sending bond yields up. On this ground, we expect the bond market to sustain its bearish bias in the month of March 2023.

The Fed has signaled its readiness to hike rates by larger increases if future economic data suggests tougher measures are needed to control rising prices. The market largely expects a 50bps increase to the Fed rate in March 2023. From a risk-reward standpoint, this is expected to drive more demand for higher yielding U.S. treasuries as investors would prefer to hold securities denominated in USD as a preferred alternative to high-risk Eurobond securities. This event could eventually drive selloffs in the Eurobond market.



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