

Yields Rise with Higher Inflation Expectations; Equities Take a Beating

The global economy continued to expand for the eighth consecutive month in February 2021 as output and new business orders continued to grow; notably, new export orders index rebounded to 50.2 points (from a contraction of 49.4 points) while input cost index spiked to 61.6 points (from 59.9 points). This increased cost was partly borne by consumers as output price index rose to 54.0 from 53.5.

While global authorities sustained their accommodative monetary policy stance, as well as fiscal stimuli, the threat of inflation arising from such expansionary policies resulted in higher yields on government debt securities.

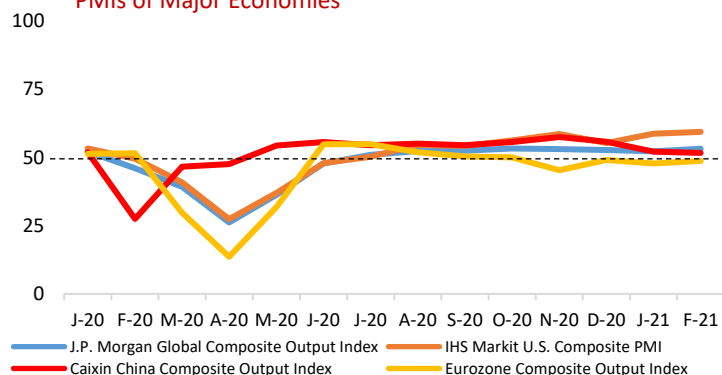
Nigeria's real Gross Domestic Product expanded y-o-y by 0.11% to N19.55 trillion in Q4 2020 (or USD122.44 billion) as households and businesses resumed economic activities amid economic stimulus packages provided by the monetary and fiscal authorities. The non-oil sector rose y-o-y by 1.69%; however, the oil & gas sector fell y-o-y by 19.76% as average daily oil production fell quarter-on-quarter (q-o-q) by 6.6% to 1.56 million barrels per day (mbpd) amid production cuts imposed by Opec+.

Annual inflation rate continued to trek northwards, having risen to 16.47% in the month of January (from 15.75% recorded in December 2020). The higher headline inflation was driven by a rise in food inflation to 20.57% (from 19.56% in December) as heightened insecurity and higher logistics cost impacted food prices. Also, core inflation rose to 11.83% (from 11.37% in December) amid rise in costs of passenger transport, medical & hospital services and pharmaceutical products amongst others.

Meanwhile, the Monetary authority appeared aggressive in its effort to manage liquidity amid the rising threat of inflation by selling short term government securities at higher stop rates. The normal yield curve at the end of February was higher than the yield curve as at the end of January, – especially the 30-year maturity – amid sell offs as investors sought for higher yields and as stop rates at the primary market became more attractive. The Nigerian equities market was generally bearish in February amid profit taking activity. This was against the backdrop of the rising yield environment. The NSE ASI and market capitalization each flagged m-o-m by 6% to 39,799.89 points and N20.82 trillion respectively.

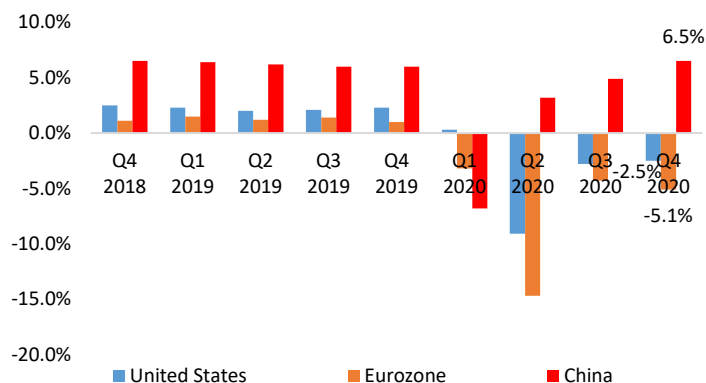
Global Economy

PMIs of Major Economies



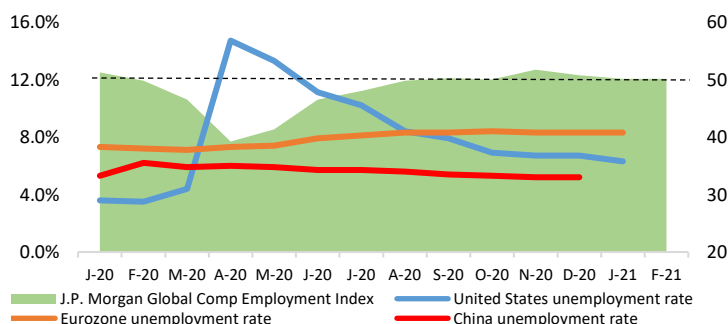
Source: Markit Economics, Cowry Research

GDP Growth Rates of Major Economies



Source: Trading Economics, Cowry Research

Global Employment Index (rhs) vs Unemployment Rate (lhs)



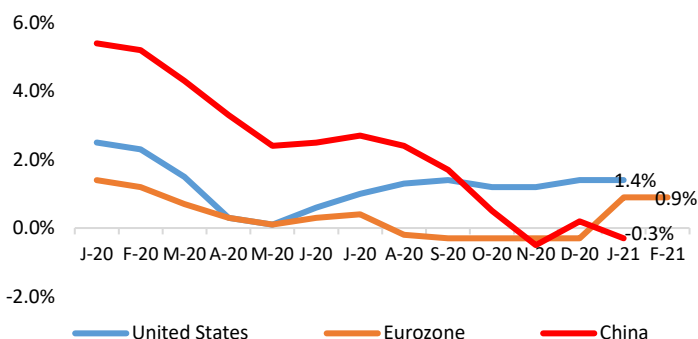
Source: Markit Economics, Trading Economics, Cowry Research

The global economy continued to expand for the eighth consecutive month in February 2021 as output and new business orders continued to grow; notably, new export orders index rebounded to 50.2 points (from a contraction of 49.4 points) while input cost index spiked to 61.6 points (from 59.9 points). This increased cost was partly borne by consumers as output price index rose to 54.0 from 53.5. Expansion in business activity was partly spurred by increased rollout of Coronavirus vaccines which allowed for an easing of lockdowns in several countries. According to the J.P. Morgan Global Composite Output Index, global business activities (manufacturing and services) expanded to 53.2 points in February 2021, faster than 52.3 points in January 2021. Expansions in investment goods, intermediate goods and consumer goods industries helped increase overall manufacturing sector output level. In the services sector, expansions in financial services and business services were partly offset by sustained contraction in consumer services.

The United States registered accelerated output expansion to 59.5 points in February (from 58.7 in January) while China's output expansion slowed to 51.7 points in February (from 52.2 points in January). On the other hand, the Eurozone saw slower output contraction to 48.8 in February (from 47.8).

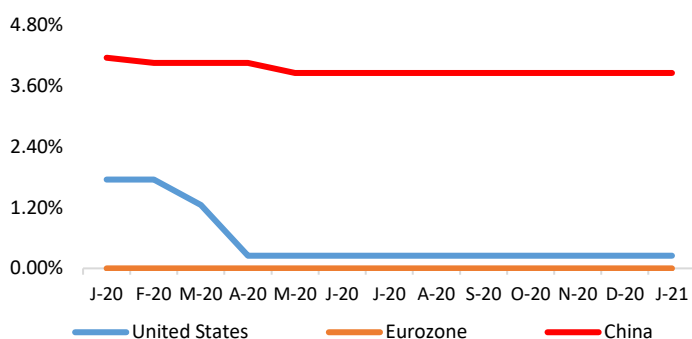
With regard to jobs, the J.P. Morgan Global Composite Employment Index remained at 50.1 points in February as a moderation in headcounts at service providers was more than offset by modest job creation at manufacturers. The United States and Euro Area reported an expansion in staffing levels; however, China registered job losses.

Inflation Rates of Major Economies



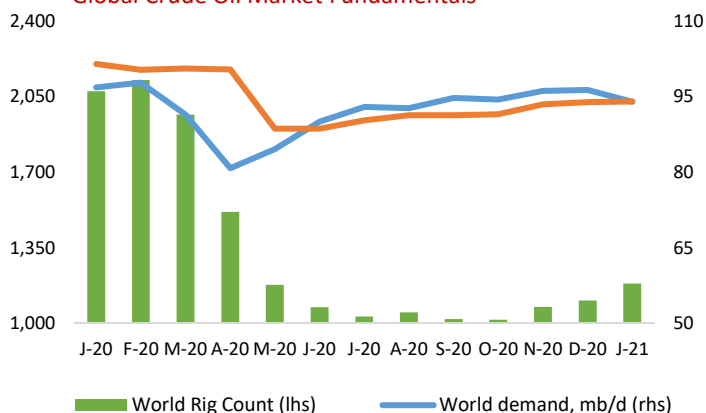
Source: Trading Economics, Cowry Research

Key Short term Interest Rates of Major Economies



Source: Trading Economics, Cowry Research

Global Crude Oil Market Fundamentals



Source: US Energy Information Administration, Opec, Cowry Research

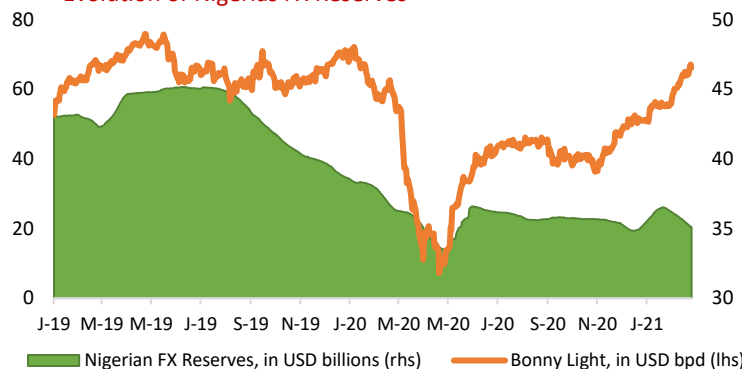
According to a flash estimate, the Euro area recorded an inflation rate of 0.9% in February 2021 (same as in January) amid expected rise in prices of food, alcohol & tobacco prices and non-energy industrial goods.

While global authorities sustained their accommodative monetary policy stance, as well as fiscal stimuli, the threat of inflation arising from such expansionary policies resulted in higher yields on government debt securities. In the United States, the US 10-year bond yield climbed to 1.45% at the end of February (from 1.03% at the end of January) while the US 1-year Treasury Bill yield remained at 0.08% at the end of February. In Germany, Inflation climbed to 1.30% in February (from 1.00% in January) while German 1-year and 10-year bond yields rose to -0.61% and -0.29% respectively at the end of February (from -0.64% and -0.55% respectively at the end of January). China's 10-year bond yield rose to 3.32% from 3.21% over the same period; however, its 1-year bond yield fell to 2.69% from 2.83% having recorded a deflation rate of 0.3% in January.

In the global energy market, latest statistics from the U.S. Energy Information Administration showed that world crude oil consumption fell m-o-m by 2.43% to 93.9 million barrels per day (mbpd) while world crude oil supply rose by 0.14% to 94.0 mbpd as at January 2021. Meanwhile, world rig count rose by 7.16% to 1,183 as at January, suggestive of improved near-term outlook for crude oil consumption. Amid stronger crude oil market fundamentals, global crude oil prices generally rose in the month of January – brent crude oil spot price rose m-o-m by 13.7% to average USD62.28 a barrel in February 2021.

Nigerian Economy

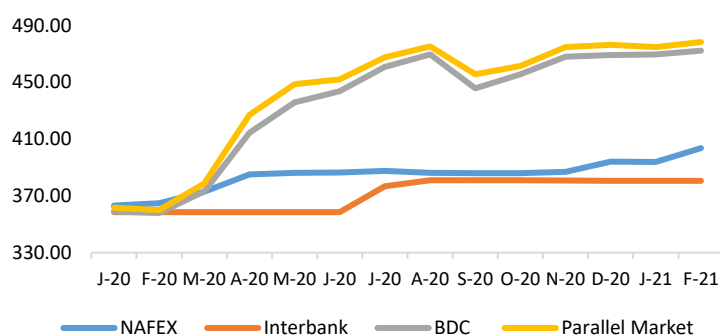
Evolution of Nigerias FX Reserves



Source: Central Bank of Nigeria, Cowry Research

Nigeria's foreign exchange reserves fell m-o-m by 3.31% to USD35.10 billion at the end of February despite increased crude oil prices over the same period (Bonny Light rose m-o-m by 20.12% to USD66.26 a barrel). Consequently, Naira depreciated against the greenback in most forex market segments in February – Naira slacked at the NAFEX, BDC and Parallel markets by 2.44%, 0.54% and 0.77% to N403.62/USD, N472.24/USD and N478.33/USD respectively but was flat at N380.69 at the Interbank FX segment.

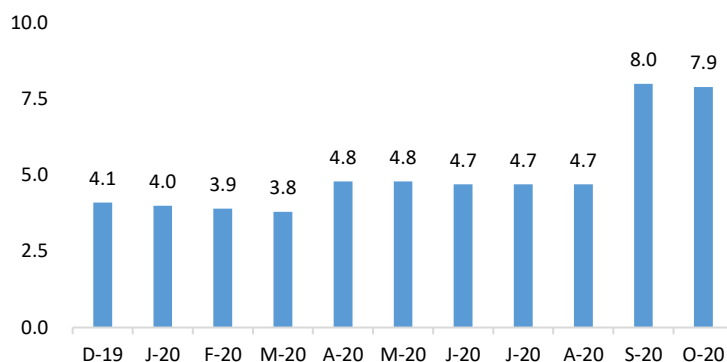
Evolution of Naira/USD Exchange Rates



Source: FMDQ, Abokifx.com, Cowry Research

Latest data showed that goods and services import cover moderated to 7.9 months in October from 8.0 months in September. However, external debt to external reserves ratio rose to 89.5% as at September from 87.0% as at June.

Goods and Services Import Cover (months)



Source: Central Bank of Nigeria Economic Report, Cowry Research

External Debt to Reserves Ratio

	External Debt (1)	External Reserves (2)	(1) as %age of (2)
Dec-19	27.68	38.60	71.7%
Mar-20	27.67	35.16	78.7%
Jun-20	31.48	36.19	87.0%
Sep-20	31.99	35.75	89.5%

Source: Debt Management Office, Central Bank of Nigeria, Cowry Research

National Debt Stock (USD Bn)



Source: Debt Management Office, Cowry Research

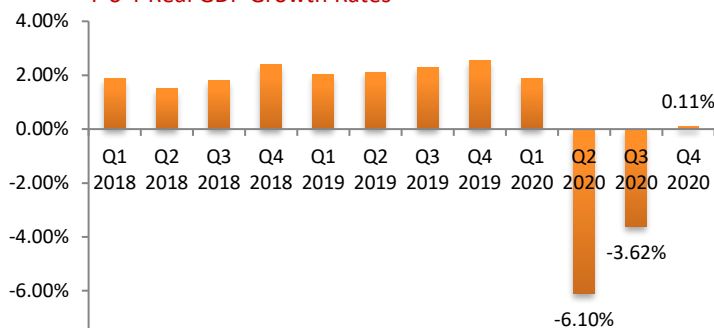
Nigeria Approves New 2020-2023 Debt Management Strategy

The Federal Executive Council (FEC), on February 10, 2021, approved a new Medium-Term Debt Management Strategy (MTDS) for Nigeria for the period 2020-2023 to reflect the current economic realities and the projected trends. Essentially, the new MTDS allows for borrowing from domestic and external sources; however, a larger proportion of new borrowing will be from domestic sources using long-term instruments. External borrowing will prioritize concessional funding from multilateral and bilateral sources.

Nigerian Economy Exits Recession in Q4 2020

Nigeria's real Gross Domestic Product expanded y-o-y by 0.11% to N19.55 trillion in Q4 2020 (or USD122.44 billion) as households and businesses resumed economic activities amid economic stimulus packages provided by the monetary and fiscal authorities. The non-oil sector rose y-o-y by 1.69%; however, the oil & gas sector fell y-o-y by 19.76% as average daily oil production fell quarter-on-quarter (q-o-q) by 6.6% to 1.56 million barrels per day (mbpd) amid production cuts imposed by Opec+.

Y-o-Y Real GDP Growth Rates

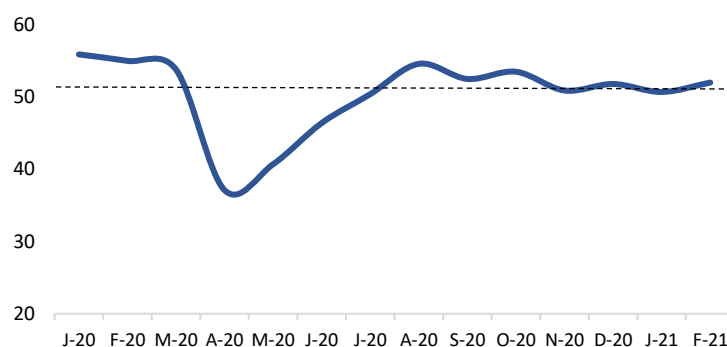


Source: National Bureau of Statistics, Cowry Research

Purchasing Managers' Index Hints at Sustained Growth

Nigeria's business activity remained in expansion territory as the IHS Markit-Stanbic IBTC headline PMI rose faster to 52.0 points in February (from 50.7 points in January). Expansion was driven by strong growth in new orders and output that also stoked an increase in overall input price inflation.

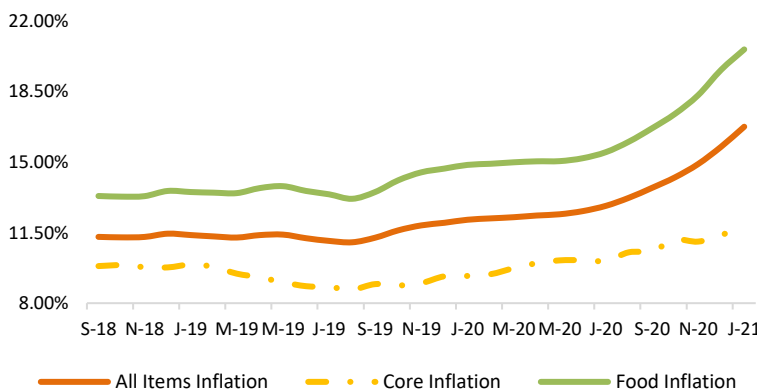
Nigeria Headline PMI



Source: IHS Markit-Stanbic IBTC, National Bureau of Statistics, Cowry Research

Meanwhile, annual inflation (consumer price) rate continued to trek northwards, having risen to 16.47% in the month of January (from 15.75% recorded in December 2020).

Consumer Price Inflation



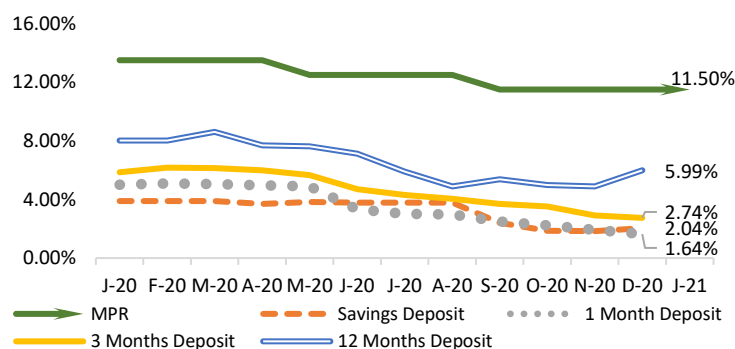
Source: National Bureau of Statistics, Cowry Research

The higher headline inflation was driven by a rise in food inflation to 20.57% (from 19.56% in December) as heightened insecurity and higher logistics cost impacted food prices. Also, core inflation rose to 11.83% (from 11.37% in December) amid rise in costs of passenger transport, medical & hospital services and pharmaceutical products amongst others.

Central Bank Mops Up Financial System Liquidity at Auctions

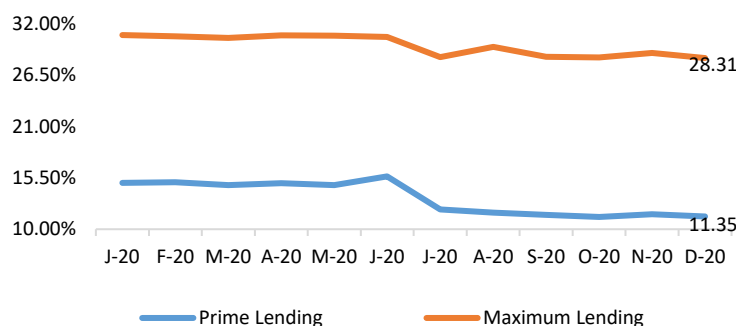
Meanwhile, the Monetary authority appeared aggressive in its effort to manage liquidity amid the rising threat of inflation by selling short term government securities at higher stop rates.

Interest Rates on Commercial Bank Deposits



Source: Central Bank of Nigeria, Cowry Research

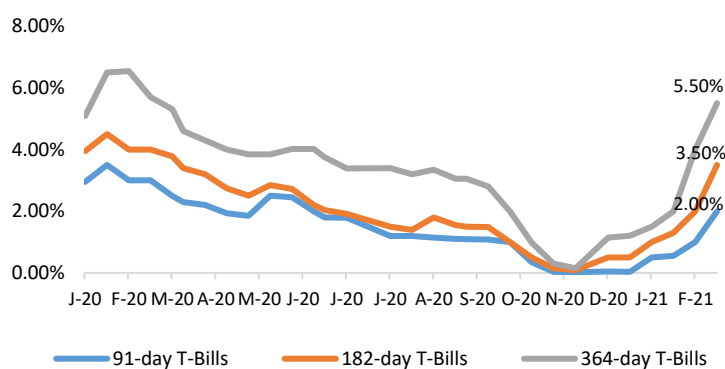
Lending Rates of Commercial Banks



Source: Central Bank of Nigeria, Cowry Research

In line with our fixed income outlook for 2021, stop rates for the 91-day bills, 182-day bills and 364-day bills increased to 2.00% (from 0.55% in January), 3.50% (from 1.30% in January) and 5.50% (from 2.00% in January) respectively. We believe, however, that the rate of increase in stop rates will likely plateau in the near term, thus creating trading opportunities for short term investors.

Nigerian Treasury Bill Stop Rates



Source: Central Bank of Nigeria, Cowry Research

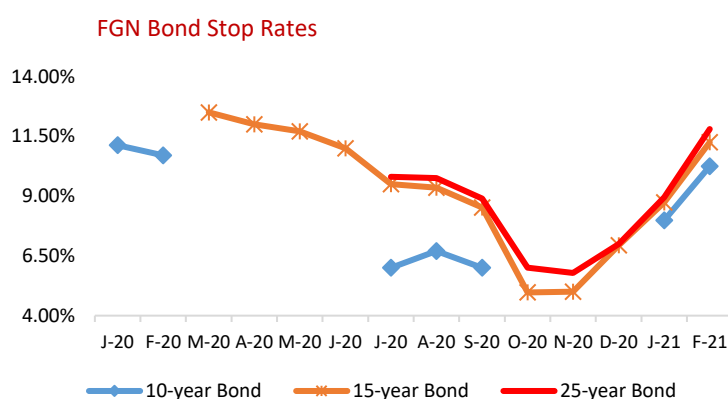
At the secondary market, investors in T-bills remained bearish, driving Nigerian Interbank Treasury Bills True Yields (NITTY) northwards across the board – amid increase in stop rates. Notably, 12 months and 6 months NITTY rose by 2.00ppt and 1.21% to 3.27% and 2.15% respectively in February.

Monthly NITTY Performance

Tenor	Feb 2021 Close	Jan 2021 Close	PPT
1 Month	0.7631%	0.4126%	0.35
3 Months	1.2747%	0.4330%	0.84
6 Months	2.1479%	0.9345%	1.21
12 Months	3.2666%	1.2679%	2.00

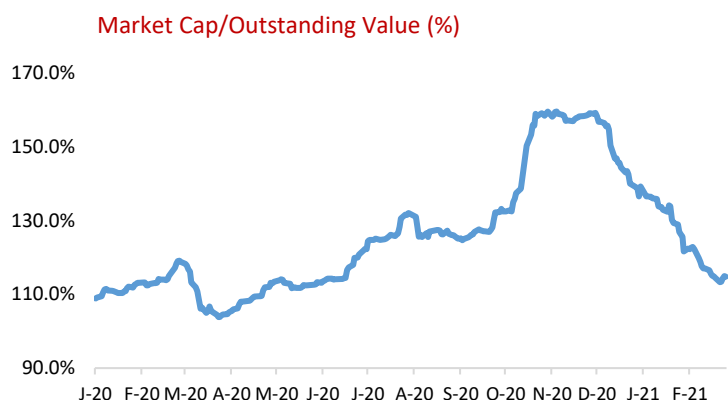
Source: FMDQ, Cowry Research

In January, FGN bonds were auctioned at higher stop rates for the 10-year, 15-year and 25-year maturities as investors continued to push for higher yields. Stop rates for the 10-year, 15-year and 25-year bonds rose to 10.25% (from 7.98% in January), 11.25% (from 8.74% in January) and 11.80% (from 8.95% in January) respectively.



Source: Debt Management Office, Cowry Research

In the secondary market, FGN bonds generally traded at relatively lower premia in February relative to January as Market Capitalization to outstanding value ratio fell, on average, to 117.45% in February from 132.02% in January.



Source: FMDQ, Cowry Research

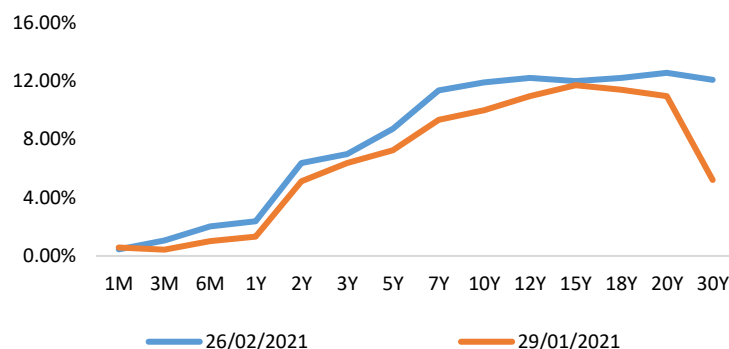
FGN bond prices declined across the maturities and most product variants tracked. The 7-year, 13.53% FGN March 2025 plain vanilla paper shed N0.65; the 7-year, 11.20% FGNSK June 2027 sukuk bond shed N8.07; the 7-Year, 14.50% FGNGB JUN 2026 green bond lost N6.784 while the 7-year, 7.62% FGNEUR NOV 2025 Eurobond tanked by USD0.21.

FGN Bonds	26-Feb-21 Price (₦)	M-o-M ₦ Δ	29-Jan-21 Yield	M-o-M PPT Δ
5-Year, 12.75% FGN APR 2023	111.62	(2.56)	6.87%	0.98
7-Year, 13.53% FGN MAR 2025	123.82	(0.65)	6.74%	0.07
10-Year, 16.29% FGN MAR 2027	127.50	(9.07)	10.10%	1.60
30-Year, 14.80% FGN APR 2049	131.37	(7.56)	11.13%	0.65
7-Year, 11.20% FGNSK JUN 2027	104.85	(8.07)	10.13%	1.61
7-Year, 14.50% FGNGB JUN 2026	123.58	(6.78)	8.82%	1.30
7-Year, 7.62% FGNEUR NOV 2025	114.39	(0.21)	4.24%	0.01

Source: FMDQ, Cowry Research

The normal yield curve at the end of February was higher than the yield curve as at the end of January, – especially the 30-year maturity – amid sell offs as investors sought for higher yields and as stop rates at the primary market became more attractive.

Spot Yield Curve of FGN Bonds



Source: FMDQ, Cowry Research

Evolution of NSE ASI and Market Cap (N Trn)



Source: Nigerian Stock Exchange, Cowry Research

NSE Indices	Feb. Close	Jan. Close	%age Δ	YTD %age Δ
NSE ASI	39,799.89	42,412.66	-6.2%	-1.2%
Market Cap (N trillion)	20.82	22.19	-6.1%	-1.1%

Source: Nigerian Stock Exchange, Cowry Research

Sector Indices	Feb. Close	Jan. Close	%age Δ	YTD %age Δ
NSE Banking	382.76	393.02	-2.6%	-2.6%
NSE Insurance	202.09	189.50	6.6%	6.6%
NSE Consumer Goods	563.85	573.35	-1.7%	-1.7%
NSE Oil/Gas	265.39	226.20	17.3%	17.3%
NSE Industrial	1,898.20	2,052.33	-7.5%	-7.5%

Source: Nigerian Stock Exchange, Cowry Research

Market Activity	Feb-21	Jan-21	%age Δ
Deals	106,663	121,450	-12.2%
Volume (million)	8,921	13,699	-34.9%
Value (N million)	92,238	106,466	-13.4%

Source: Nigerian Stock Exchange, Cowry Research

The Nigerian equities market was generally bearish in February amid profit taking activity. This was against the backdrop of the rising yield environment (stop rates of auctioned government securities trended higher) which attracted safe haven investors. The NSE ASI and market capitalization each flagged m-o-m by 6% to 39,799.89 points and N20.82 trillion respectively – the first negative monthly performance registered in eight months – while year-to-date performance was slightly negative at 1%.

The banking, consumer goods and industrial subsectors closed in the red as investors realized profit. NSE Industrial index fell the most by 7.5%, as shares of Lafarge Africa (trading symbol: WAPCO) tumbled by 23%, while NSE Banking index declined by 2.6%. Also, NSE Consumer Goods index shed 1.7% as shares of Northern Nigeria Flour Mills tanked by 27%.

The general bearish sentiment notwithstanding, a few subsectors – insurance and oil & gas stocks – closed in the green. The NSE Insurance Index rose by 6.6% as shares of Lasaco Assurance spiked by 193% after being lifted from full trading suspension upon completion of the company's share reconstruction exercise. Similarly, the NSE Oil/Gas Index climbed by 17.3% as shares of Eterna, Seplat and Oando buoyed by 10%, 8% and 5% respectively amid rising global crude oil prices.

Market activity was weaker – total deals, transacted volumes and Naira votes fell by 12.2%, 34.9% and 13.4% to 106,663 deals, 8.9 billion shares and N92.24 billion respectively.

Top Gainers and Top Losers

Top 10 Gainers	Prices (N)		
	26-Feb-21	29-Jan-21	%age Δ
SYMBOL			
LASACO	1.23	0.42	193%
MCNICHOLS	0.80	0.51	57%
ACADEMY	0.41	0.33	24%
GUINNESS	23.05	19.00	21%
ETERNA	5.70	5.20	10%
MRS	13.40	12.30	9%
SEPLAT	530.00	490.00	8%
UPDCREIT	5.85	5.50	6%
OANDO	3.45	3.28	5%
LEARNAFRCA	1.05	1.01	4%

Source: Nigerian Stock Exchange, Cowry Research

Bottom 10 Losers	Prices (N)		
	26-Feb-21	29-Jan-21	%age Δ
SYMBOL			
LINKASSURE	0.56	0.90	-38%
ROYALEX	0.27	0.40	-33%
NNFM	7.02	9.68	-27%
CHIPLC	0.33	0.44	-25%
MANSARD	1.06	1.40	-24%
WAPCO	23.10	30.00	-23%
VITAFOAM	7.75	10.05	-23%
ETI	5.20	6.50	-20%
FIDSON	4.90	6.05	-19%

Source: Nigerian Stock Exchange, Cowry Research

Share Capital Reconstruction

Lasaco Assurance Plc: The NSE notified Dealing Members of the completion of Lasaco Assurance Plc's (trading symbol: LASACO) share capital reconstruction; hence, the full suspension placed on trading in the Company's shares was lifted on Monday, 22 February 2021. Consequent to the completion of the reconstruction exercise, LASACO's entire issued share capital of 7,334,343,421 ordinary shares of 50 Kobo each at N0.42 per share prior to the share capital reconstruction was delisted from The Nigerian Stock Exchange's (The Exchange) Daily Official List, while the 1,833,585,855 ordinary shares of 50 Kobo each at N1.68 per share arising from the share capital reconstruction were listed on The Exchange's Daily Official List on the same day.

New Listing

Bricklinks Africa Plc: The NSE notified Dealing Members that 10,000,000 ordinary shares of Bricklinks Africa Plc (trading symbol: BAPLC) were listed by introduction on the Entry Segment of the Growth Board of The Exchange on Friday, 5 February 2021. The listing followed The Exchange's approval of the application to list the Company's entire issued and fully paid 10,000,000 ordinary shares of N1 each at N6.26 per share.



Cowry Monthly Economic Digest: February 2021

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