Cowry Monthly Economic

&

Financial Markets Report

August 2023

Cowry Research

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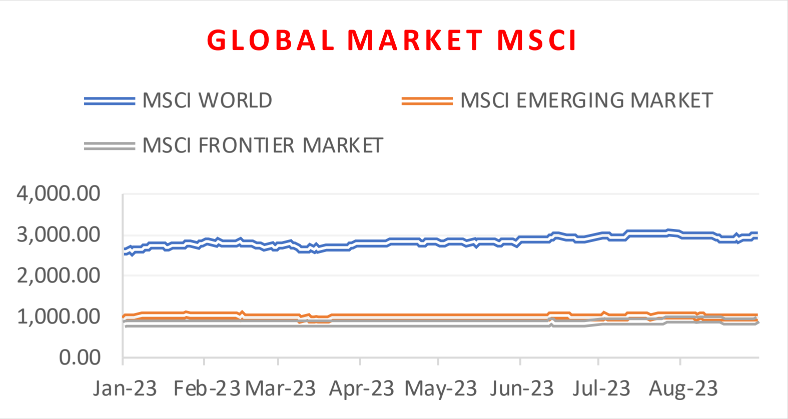
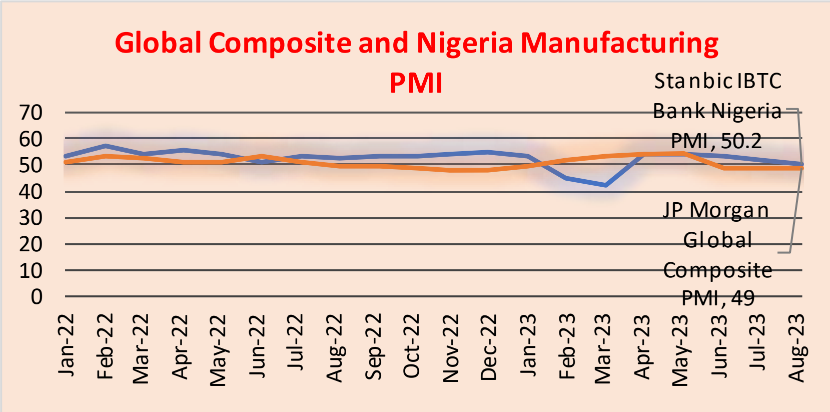
Global Economy: Global Economy Sees Further Downturn as Manufacturers Operate on Lean Footing

In the latest August 2023 global Purchasing Managers' Index (PMI) report published by JP Morgan and S&P, the global economy continues to grapple with a slowdown. The PMI inched up marginally from 48.6 points in July to 49.0 points in August, indicating a persistence of economic contraction, though at a slightly moderated pace.

This deceleration is attributed to several key factors. Firstly, the ongoing trade tensions between the United States and China have been casting a shadow over global economic prospects. Secondly, rising interest rates are adding pressure to an already strained economic landscape. Lastly, there is a notable global slowdown in manufacturing activities, contributing to the overarching trend of economic deceleration.



August saw a third consecutive month of manufacturing production decline. Contractions were especially pronounced in the intermediate and investment goods sectors, offsetting the modest growth seen in consumer goods. This hints at a subdued outlook for the manufacturing sector.



Source: S&P Global, Stanbic IBTC, Cowry Research

New orders also faced a downturn, and business optimism dipped to its lowest level in the past nine months. The ratio of new orders to finished goods inventory remained in contraction territory. Despite the challenges, employment managed to edge higher for the second consecutive month in August. Notably, this growth in workforce numbers was seen in regions such as mainland China, the US, and Japan, partially offsetting job cuts in areas like the eurozone and the UK.

Within the supply chain, stocks of inputs and finished goods decreased due to lower demand for raw materials. This led to shorter vendor lead times for the seventh consecutive month. However, input costs and output charges increased in August, after three

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months of price decreases. This renewed inflationary pressure was particularly notable in emerging markets, while developed n ations saw further decreases in purchase prices.

Regionally, the euro area continued to struggle, with marked contraction in output. Mainland China returned to growth, but the US experienced a decline, and Japan's downturn persisted. Furthermore, the eurozone, US, and Japan all witnessed a contraction in new work intakes, in contrast to modest growth in mainland China. International trade flows have been on the decline for an extended period, spanning one-and-a-half years.

Domestic Economy: Non-Oil Sector Rallies Expansion in Nigeria's GDP Growth to 2.51% in Q2'23….

Nigeria's recent GDP report, released by the National Bureau of Statistics, reveals a mixed economic landscape. The economy grew by 2.51% year-on-year in real terms to reach N17.72 trillion, though this falls short of the robust 3.54% achieved in the same quarter last year, largely due to ongoing economic challenges. However, it's worth noting the resilience shown when compared to the 2.31% growth in Q1'23, despite a slowdown in economic activities and post-election uncertainties. In nominal terms, Q2 2023 saw an impressive aggregate GDP of N52.10 trillion, a significant leap from N45 trillion in the second quarter of 2022, indicating a remarkable year-on-year nominal expansion of 15.77%.

The services sector emerged as a key growth driver, expanding by 4.42% and contributing 58.42% to the overall GDP. Agriculture also displayed resilience, with a growth of 1.50%, an improvement from the previous year. In contrast, the Industry sector co ntracted by -1.94%, though less severe than the prior year. Notably, the economic landscape saw a shift with the Services sector taking the lead in driving growth and economic contribution, as both

Sector	GDP				
	2023 Q2 GDP	Contribution	2022 Q2 GDP	Contribution	Y-o-Y Change
Agriculture	4,077,716	23.01%	4,017,424	23.24%	1.50%
Information and Communication	3,462,423	19.51%	3,188,309	18.38%	8.60%
Trade	2,976,148	16.77%	2,905,993.30	16.75%	2.41%
Manufacturing	1,528,006	8.61%	1,495,122	8.62%	2.20%
Mining and Quarrying	988,363	5.57%	1,125,168	6.49%	-12.16%
Real Estate	937,724	5.28%	920,495	5.31%	1.87%
Financial and Insurance	932,818	5.26%	735,403	4.24%	26.84%
Construction	573,058	3.23%	554,111	3.19%	3.42%
Professional, Scientific and technical services	541,132	3.05%	525,938	3.03%	2.89%
Other Services	481,735	2.71%	473,717	2.73%	1.69%
Public Administration	383,786	2.16%	375,595	2.16%	2.18%
Education	235,134	1.32%	231,848	1.34%	1.42%
Transportation and Storage	157,034	0.88%	318,160	1.83%	-50.64%
Accommodation and Food services	70,482	0.40%	68,173	0.39%	3.39%
Human health and Social services	133,844	0.75%	131,284	0.76%	1.95%
Electricity & Gas, others	126,035	0.71%	118,790	0.68%	6.10%
Water supply & Waste management, Others	73,688	0.42%	61,119	0.35%	20.56%
Arts, entertainment and recreation	36,599	0.21%	35,693	0.21%	2.54%
Administrative & Support services	3,612	0.02%	3,541	0.02%	1.98%
Real GDP	17,719,335	100%	17,285,883	100%	2.51%

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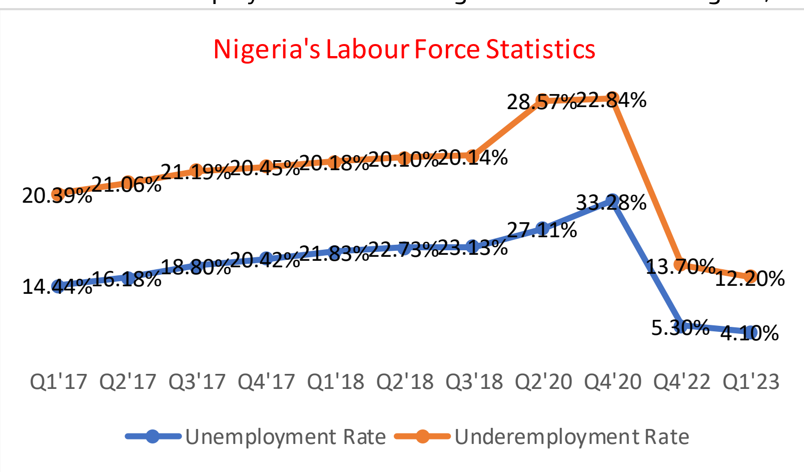
Agriculture and Industry sectors ceded their positions.

The oil sector continued to face challenges, contributing 5.34% to the total real GDP in Q2 2023, down from previous periods. This decline is attributed to factors such as low investment, pipeline vandalism, and oil theft. On a brighter note, the non-oil sector grew by 3.58% in real terms in Q2'23, driven by various sectors including telecommunications, financial institutions, and trade. Its contribution to the GDP increased, highlighting its growing significance.

Flattering Unemployment Numbers at 4.1% in Q1'23; but 133m Nigerians in Multi-dimensional Poverty

In the latest labor force statistics released by Nigeria's National Bureau of Statistics, the country's employment rate declined to 4.1% in the first quarter of 2023, down from 5.3% in the preceding quarter of 2022. This drop in the employment rate is primarily attributed to the expanding economy, which led to increased employment despite a slowdown in economic activities between Q4 '22 and Q1 '23. It's worth noting that this rate, while showing improvement, is still higher than in many neighboring West African countries, except for Cameroon, where the employment rate aligns with Nigeria at 4.1%.

The issue of unemployment remains a significant concern in Nigeria, exacerbated by the economic disruptions caused by the COVID-19 pandemic. The pandemic caused a spike in the unemployment rate, resulting in job losses, business closures, and hindered economic growth. Despite modest economic growth in Q4 2022 and Q1 2023, Nigeria faces challenges such as surging poverty levels, social unrest, and brain drain – the emigration of skilled individuals seeking better opportunities abroad.



Source: National Bureau of Statistics, Cowry Research

According to data from the Nigeria Labor Force Survey (NLFS) in line with International Labor Organization (ILO) guidelines, the majority of working-age Nigerians (around 74% in Q4 '22 and nearly 77% in Q1 '23) were gainfully employed for at least one hour per week, either for pay or profit. Additionally, the proportion of those employed for less than 40 hours per week decreased, particularly among women, individuals with lower education, young people, and rural residents.

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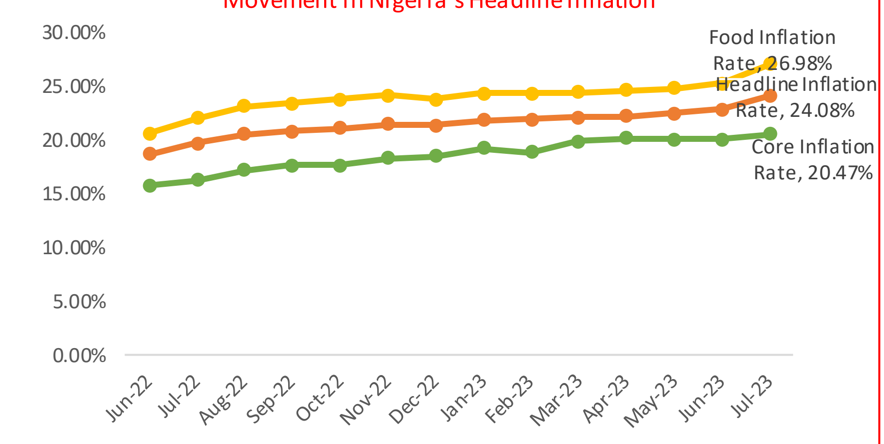
The statistics reveal a growing number of Nigerians turning to self-employment and agriculture, making up a significant portion of the labor force. Moreover, informal employment remains high, with 92.6% in Q1 '23, down slightly from 93.5% in Q4 '22. The underemployment rate, indicating those willing to work more but unable to find additional work, decreased from 13.7% in Q4 '22 to 12.2% in Q1 '23. Wage employment also declined from 13.4% in Q4 '22 to 11.8% in Q1 '23. Furthermore, 20.1% of the working-age population remained outside the labor force in Q1 '23, down from 22.3% in Q4 '22.

Monthly Inflation Readings Maintain Upward Trajectory Since February 2022

In July 2023, Nigeria experienced a significant surge in its inflation rate, which reached 24.08%, up from 22.79% in June. This is the highest inflation rate recorded in Nigeria since September 2005 when it stood at 24.30%. This increase represents a 1.29% point jump from June and a substantial 4.44% year-on-year rise, surpassing the 19.64% figure from July 2022. Both year-on-year and month-on-month measurements indicate a noteworthy upward trend, with July showing a 2.89% increase compared to the previous month's 2.13%.

The persistent inflationary pressure began in February 2022 and has been driven by various factors, including expectations of price hikes, higher import costs due to the depreciation of the naira, increased energy expenses, and adjustments in Premium Motor Spirit (PMS) prices following subsidy removal and rising oil prices.



Source: National Bureau of Statistics, Cowry Research

A closer look at regional inflation reveals that Kogi (28.45%), Lagos (27.30%), and Ondo (26.83%) had the highest year-on-year inflation rates, while Borno (20.71%), Jigawa (20.85%), and Sokoto (20.92%) experienced the slowest increases. On a month-on-month basis, Kogi (4.99%), Abia (4.12%), and Akwa-Ibom (4.07%) saw the fastest inflation rises, while Jigawa (0.16%), Taraba (1.09%), and Yobe (1.10%) had the least noticeable increases.

Food prices, a significant driver of inflation, reached a 74-month high with a 3.45% month-on-month increase and a record-breaking year-on-year spike of 26.98% since 2005. Factors contributing to this surge include decreased domestic output and

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increased manufacturing costs. Various food categories, including oil and fat, bread and cereals, fish, potatoes, yam, fruits, meat, vegetables, milk, cheese, and eggs, experienced price increases. The cost of food and non-alcoholic beverages saw a year-on-year increase of 12.47% in July, primarily due to rising prices in bread and cereals, meat, fish, potatoes, yam, fruits, and vegetables.

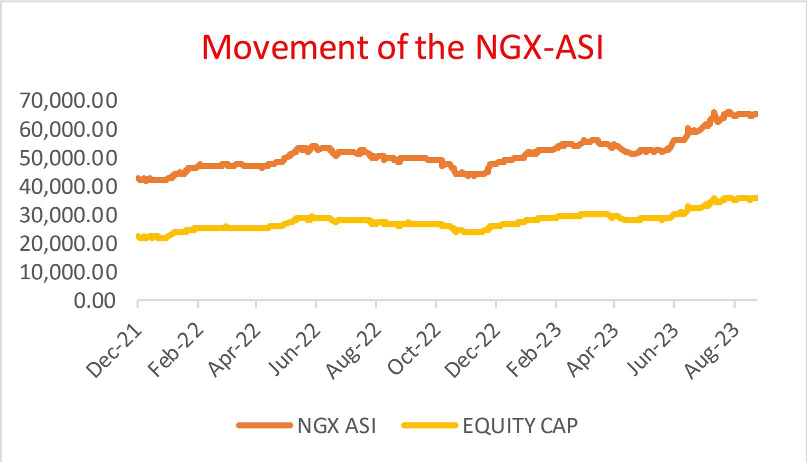
Specific states also experienced varying inflation dynamics, with Kogi (34.53%), Lagos (32.52%), and Bayelsa (31.31%) seeing significant year-on-year increases, while Jigawa (20.90%), Sokoto (21.63%), and Kebbi (22.45%) had slower annual rises. Kogi (6.73%), Akwa Ibom (5.64%), and Bayelsa (4.59%) witnessed the highest month-on-month food inflation, while Taraba (-0.21%), Jigawa (0.28%), and Yobe (0.90%) recorded the lowest increases.

The core inflation index also reached a new high at 20.47% year-on-year in July 2023, up from 16.06% in July 2022. This increase was driven by higher prices for services such as passenger transport, vehicle spare parts, medical services, and personal transport equipment maintenance and repair. Factors contributing to core inflation include PMS-induced inflation, tax hikes on select items, and the impact of the central bank's recent currency harmonization exercise, which weakened the naira.

Meanwhile, contributors to inflation in July included transportation (1.57%), clothing and footwear (1.84%), furnishing, housing, and utilities (4.03%), as well as miscellaneous goods and services (0.40%). Rising fuel prices, influenced by surging crude oil prices, played a pivotal role in higher transportation costs. Housing and utility expenses were affected by foreign exchange harmonization and pump price adjustments. Miscellaneous goods and services prices rose due to increased costs for clothing, footwear, and personal care items nationwide.

Domestic Equities Market: Local Bourse on High Trajectory, Beats a 15-year High on Bullish Sentiments…...

The local bourse continued its positive trajectory for the fourth straight month to August with 3.44% m/m gains to close at 66,548.99 points, beating a 15-year high since March 2008. The bullish performance was spurred by strong investor sentiments in the consumer goods and Insurance sectors. Also, the positive interim dividend payments by corporates and strong search for gains by



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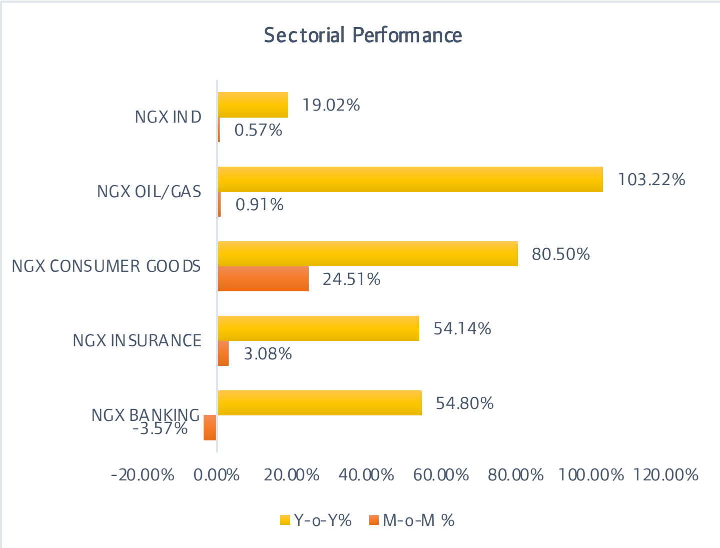

investors drove the rally which gave equity investors a total of N1.4 trillion in the month while the market capitalization of listed equities closed at N36.42 trillion and then the year to date return printed at 29.8%.

However, the sectoral performance was in the green and was led by the Consumer Goods sector which gained massively by 24.51% m/m on the back strong rally recorded in DANGSUGAR, NASCON, GLAXOSMITH and TRANSCORP. This was followed by the Insurance index (3.08%) whose performance was buoyed by the positive price movements in COR NERST, AIICO and SUNUASSURE.

Also, the Oil & Gas and Industrial Goods sectors were in the bullish territories with marginally positive gains of 0.91% and 0.57% m/m respectively and were driven by price appreciations seen in SEPLAT, WAPCO and DANGCEM. On the flip side, the Banking index closed the month of August on a bearish note (-3.57%) due to price declines seen in JAIZBANK, FIDELITYBNK and FCMB accordingly.

Meanwhile, the level of trading activity during the month stayed weak as the total average volume skid 63.29% to 397.8 million units and valued at N5.8 billion.

Top Ten Monthly Gainers					Bottom Ten Monthly Losers				
Company	Aug-23	Dec-22	m/m % Change	y/y %Change	Company	Aug-23	Dec-22	m/m % Change	y/y %Change
DANGSUGAR	55.00	16.05	104%	243%	ETERNA	16.00	6.69	-38.3%	139.2%
GLAXOSMITH	13.90	6.15	88%	126%	SOVRENINS	0.43	0.28	-31.7%	53.6%
ABCTRANS	0.88	0.25	80%	252%	JAIZBANK	1.50	0.92	-19.8%	63.0%
TRANSCORP	6.07	1.13	72%	437%	RTBRISCOE	0.45	0.26	-19.6%	73.1%
CORNERST	1.40	0.60	59%	133%	FIDELITYBK	7.05	4.35	-18.0%	62.1%
NASCON	50.55	11.10	56%	355%	MBENEFIT	0.44	0.27	-15.4%	63.0%
CWG	3.65	1.01	37%	261%	NEM	5.12	4.50	-14.7%	13.8%
BUAFOODS	180.00	65.00	33%	177%	UNILEVER	13.35	11.60	-13.9%	15.1%
NAHCO	23.60	6.40	31%	269%	FCMB	5.65	3.85	-13.7%	46.8%
CADBURY	13.80	11.90	23%	16%	JAPAULGOLD	0.90	0.28	-12.6%	221.4%

Source: NGX, Cowry Research

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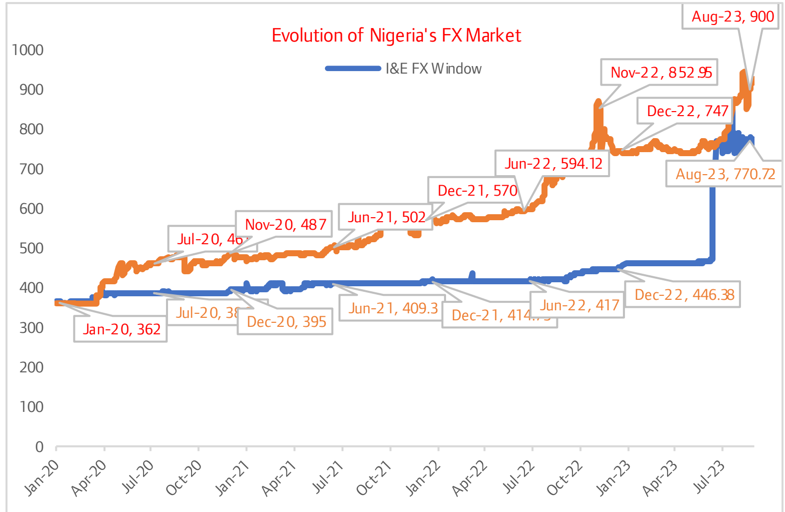
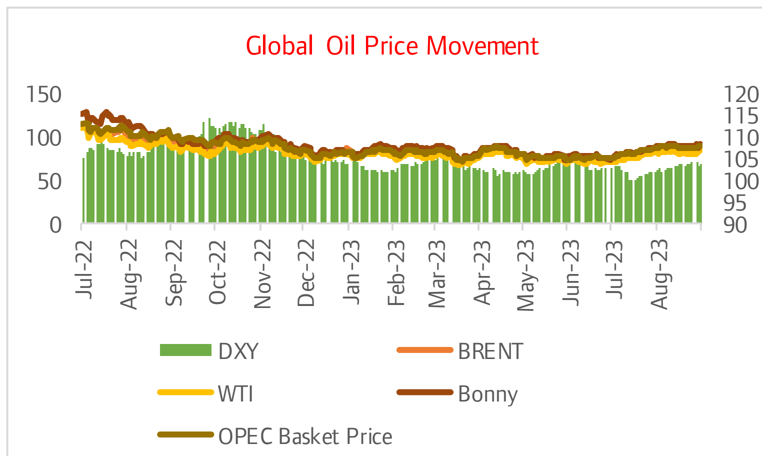
Foreign Exchange Market: Demand Pressure Weakens Naira Across FX Segments….



In August, the crude oil market experienced further bullish fundamentals, spurred largely by tightened global supply. Specifically, Brent crude prices averaged $85 per barrel (July $80/bbl), while West Texas Intermediate (WTI) crude futures closed 7% higher at $81/bbl. Investors factored in an anticipated extension of the OPEC+ output cut, declining US crude inventories, and a weaker dollar due to growing expectations of dovish US policy rates. However, disappointing economic data from China and the potential for increased oil supply from Iran and Venezuela limited the gains.

Meanwhile, in Nigeria, the benchmark Bonny Light Oil averaged $89/bbl (compared to July's $82/bbl), while crude oil production declined to 1.08 million barrels per day in August, reversing previous gains. Additionally, Nigeria's oil rig count increased to 18 from 14 in July. Thus, the Nigeria' gross external reserves inched upward by 0.03% m/m to close at $33.95bn from $33.94bn in the prior month.



Furthermore, in the foreign exchange market, the Naira experienced depreciation by 0.76% m/m and 6.32% m/m against the US dollar at the official and parallel market to close at N762.71/$1 and N925/$1 respectively. This weakness was driven by factors such as heightened foreign exchange demand by market players and speculation about potential CBN-led Naira devaluation. Meanwhile, during the month, the news of NNPC Limited securing a $3 billion emergency crude-oil repayment loan from Afreximbank spurred Naira demand at the early stage of August, as exporters sought to capitalize on the strong currency. On the contrary, the CBN's interventions in the foreign exchange market seems not enough to keep liquidity afloat, contributing to a lower-than-expected dollar supply and further exacerbating pressure on the local currency.

Money Market: Rates Close in the Mix on Lack of Clear-Cut Market Direction

Over the month of August, given the lack of clear direction from the apex bank on liquidity management, we witnessed a slight build-up in system liquidity, which provided an opportunity for the DMO to mop up maturing Treasury bills at lower clearing rates at the first bi-weekly auction. The improvement in system liquidity was evident with the auction bid-to-cover ratio climbing to 5.43x (from 1.51x), while the average marginal rate settled at 6.90% (from 9.05% in July).

Post-PMA, the CBN surprised the market with the resumption of its liquidity-curbing actions via the OMO bills auction, with N150 billion worth of bills on offer, which were sold at a mean stop rate of 12.49%. This thinned out liquidity as system liquidit y indicators

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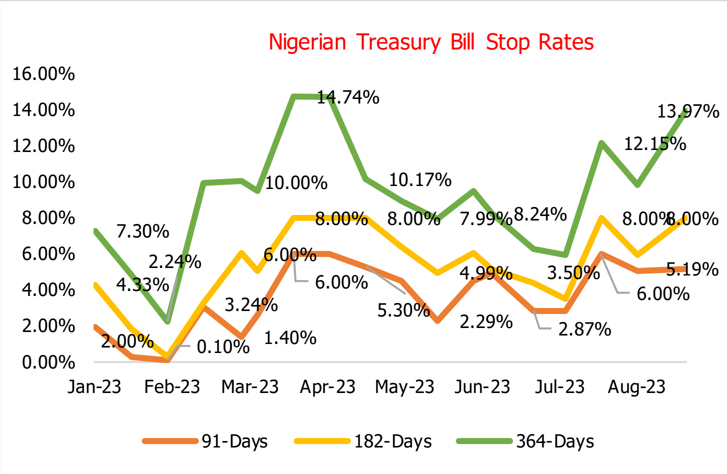


such as the open repo rate (OPR) and the overnight lending rate (OVN) jumped as high as 24.50% and 25.40%, respectively. The re-introduction of the OMO bills auction (since October 2021) at a higher rate, compared to T-bill rates from the last auctioned, drove market expectations for a hawkish bias and played a key role in the bearish sentiment that engulfed the money market.

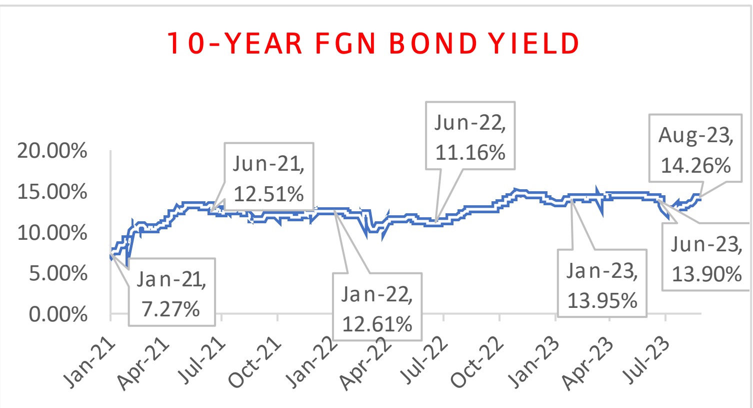
As such, going into the last Treasury bill auction for the month, average stop rates trended higher at 9.05%, while the bid-to-cover ratio was lower at 5.09x. This weighed significantly on the discount rate of the 364-day bill (+417 bps to 13.97%), and the 91-day and 182-day discount rates rose to 8.00% (from 5.90%) and 5.19% (from 5.00%), respectively. Nevertheless, the money market space remained sufficiently liquid at the end of the month as FAAC inflows bolstered system liquidity, hence pushing the OPR and OVN rates to single-digit levels of 1.90% and 2.60%, respectively.

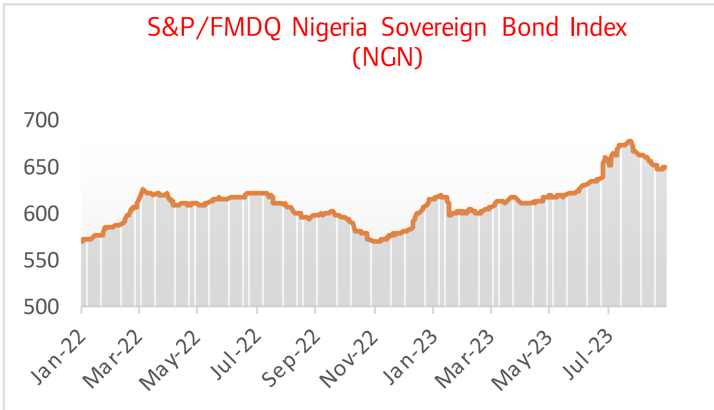
However, in the secondary market, market sentiment was mixed, with NITTY experiencing expansions fo r 3 months (7.83% from 5.28%) and 6 months (9.17% from 7.15%), while yields for 1 month and 12 months tenors moderated to 3.25% (from 3.76%) and 10.00% (from 10.38%), respectively.

Bonds Market: Bearish Market Outing on Tight Liquidity Condition

At the monthly bond auction, the DMO sold N230.26 billion worth of bonds (64% of its planned offer) at higher average marginal clearing rates of 15% (July 13.60%). Given the tight liquidity conditions, the bid-to-cover ratio for the auction came in lower at 1.36x (July 1.44x), inclusive of non-competitive allotments of N2.5 billion. Notably, the marginal rates for the 29s, 33s, 38s, and 53s, were issued at 13.85% (last 12.50%), 15.00% (last 13.60%), 15.20% (last 14.10%), and 15.85% (last 14.30%). Post-auction, sell pressures across the curve, particularly increased on short-end maturities MAR 2025 (+240 bps) and mid maturities APR 2029 (+153 bps), pushed secondary market bond yields upwards to 13.73%.

Shifting focus to the Eurobond space, the average yield on Nigeria's dollar-denominated bonds experienced a significant expansion by 134 basis points, reaching 11.34%. This was influenced by concerns regarding declining oil production, revelations of substantial CBN loan dealings with major US banks as revealed in the CBN full-year performance scorecards, and waning confidence amid a slowdown in economic reforms, and reports of a $3 billion emergency crude repayment loan secured by NNPCL to support the Naira.





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