Macroeconomic and Market Review

CORONATION

Outlook

Nigerian financial markets continued on their bullish run, with both bond and equity markets delivering positive performance, while pressure remained on the parallel exchange rate of the Naira. In addition, the economic outlook appears to be improving, as GDP grew by 5.01% y/y in Q2 2021, led by the non-oil sector.

Nigeria recorded its third consecutive quarter of growth as the effect of the low base from the prior year magnified the impact of the reopening of the economy. The non-oil sector grew by 6.74%, the fastest pace of growth since Q3 2014. On the other hand, the oil sector contracted by 12.74% y/y, the fifth consecutive quarterly decline. Over the rest of the year, we expect the growth momentum to be sustained, albeit at a slower pace, with the non-oil sector being the primary driver.

Fixed Income

The rally in the fixed income market continued for the second consecutive month amidst still healthy liquidity in the system. In the T-bills secondary market, yields compressed by 118 basis points across the T-bill yield curve, on average, to 4.71% pa, with the yield on the 1-year bill falling by 118 basis points to 7.39%. Stop rates also fell on average across the two T-bill primary auctions held in the month. The stop rate of the 1-year bill decreased by 140 basis points to 6.80% pa (annualised yield 7.29%); the rates on the short and mid-tenor bills were unchanged for the fourth consecutive month. Thus, it seems clear that the monetary authorities have finished with the effective tightening of market interest rates that characterised the first half of the year, and for the time being, are content to see 1-year yields substantially below 10.0%.

Activities in the FGN bond secondary market were also bullish in August, with the average yield falling by 91 basis points during the month. At the short end of the spectrum, the yield of a 2-year bond compressed by 45 basis points to 10.03%. At the long end, the yield of a 10-year bond compressed by 101 basis points to 11.64%. Similarly, at the monthly primary auction, yields fell by an average of 53 basis points following the significant increase in the total subscription (Bid-Offer: 2.40x vs 1.91x in July). We expect bond yields to decline slightly, supported by the significant inflows expected in September – N303.94bn in coupon payments and N313.00bn in OMO maturities. Additionally, the dampened outlook for increased bond supply by the government, on the back of the planned Eurobond issuance, is unlikely to drive rates up in the short term.

Equities

The good fortunes of the NGX All-Share Index (NGX-ASI), as seen in July, were carried over into August, following investor interest in telecoms stocks. The consistent downward trend in fixed income rates also continued to encourage participation in risk assets like equities. As a result, the benchmark index rose by 1.74% m/m to close at 39,219.61 points as of end-August. The YTD performance eased to -2.61% as at end-August. On telecoms stocks, strong positive earnings growth for Airtel Africa (Q1 22 EPS: +200%) and MTN Nigeria (H1 21 EPS: +50%) in results released at the end of July drove their respective share prices up 22.0% and 4.6% in the month of August. Additionally, foreign investor interest in Airtel Africa grew as the spread between its Lagos and London listings narrowed to its lowest level since November 2020.

The first-half results of most listed companies were released at the end of July. However, the six largest Nigerian banks released their H1 21 results in the first couple of weeks of September, following lengthy approvals by the regulator. Overall, the results across the banks were mixed, with exactly half of the leading banks recording net profit growth, while others recorded net profit declines. With most of the reported earnings, when annualised, missing analyst's consensus estimates by wide margins, investors sold down on the banks. Despite expectations of better earnings potential in Q3 21 in general, with the recent change in the trajectory of interest rates, it is difficult to estimate the extent of continued support for the market over the coming month.

Oil

We reiterate that for the benefit of the Federal Government's finances (i.e., the budget of the FGN and the foreign exchange reserves of the CBN), oil prices have to remain over US$60.00. Overall, August saw much volatility in the price of Brent as it traded between the range of US$65.18/bbl to US$73.41/bbl, averaging US$70.51. With expectations of a rise in global oil demand, the Organisation of the Petroleum Exporting Countries and its allies (OPEC+) agreed to ease supply cuts by 400,000 barrels per day (bpd) over H2 21. Further price appreciation in the month was driven by supply disruptions in Mexico and the potential impact of Hurricane Ida on the U.S. Gulf Coast. As expected, OPEC, in its recent report, trimmed its Q4 21 demand forecast to 97.70mbpd due to renewed worries around the Delta variant of the Covid-19. We expect Brent crude price to continue to trend well above the US$60.00/bbl level during the coming months.

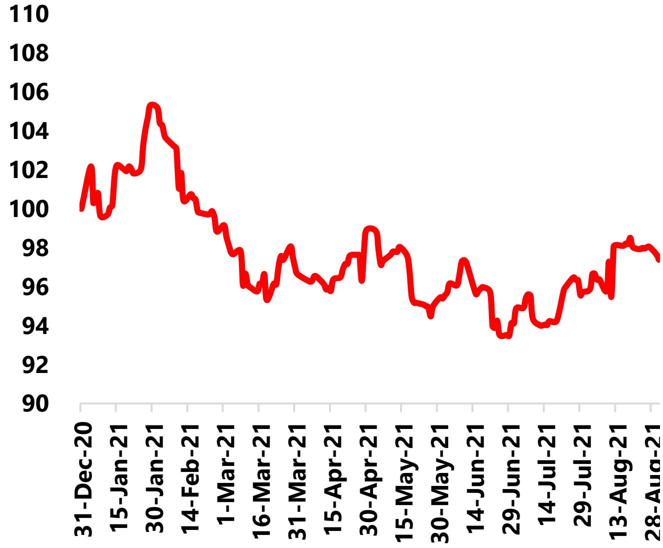
Currency

Following the CBN's move to stop supplying Bureaux de Change (BDC) operators with U.S. dollars in August, the parallel market exchange rate weakened by 2.75% to N526/US$1 at the end of the month. On the other hand, the I&E Window and the NAFEX market rates generally held up and were at the N411/US$1 level as of end-August. Total turnover in the I&E window was largely unchanged at US$2.82bn in the month of August.

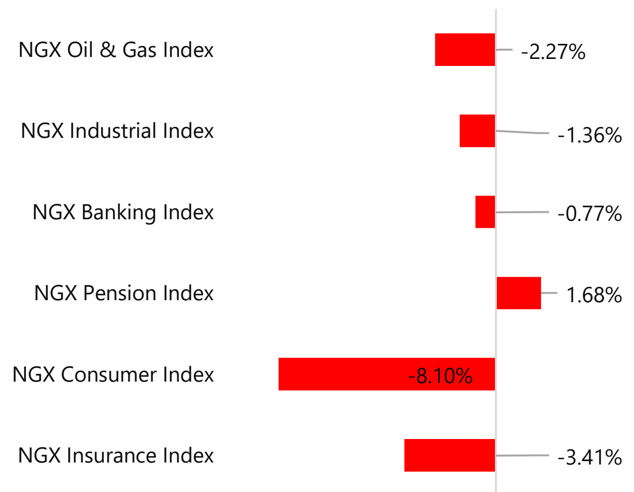
Following improved oil receipts, the foreign exchange reserves of the CBN rose by 1.8% (+US$615.30m) to settle at US$34.02bn by end-August, comfortably above the US$30.00bn level that we consider to be critical. Furthermore, the prospects for stabilising, or even increasing, foreign exchange reserves improved in August as the International Monetary Fund (IMF) announced the availability of Special Drawing Right (SDR) funds and the FGN announced advisers for its long-awaited U.S. dollar Eurobond issue. The SDR could deliver US$3.3bn to Nigeria, and the Eurobond issue could raise a similar amount over the coming months. Both issues would be banked with the CBN.

It, therefore, seems likely that the CBN can avoid the depletion of its reserves. Nevertheless, FX turnover on the official markets remains low. Thus, there may be continued pressure on both the official and parallel exchange rates.

Performance of the NGX All-Share Index – YTD 31 August 2021



NGX Sub-index Performance– YTD 31 August 2021



Global economic outlook

We have become accustomed to forecasts for global growth in the range of 5.0% to 6.0% pa for 2021, with the latest forecast from the World Bank predicting 5.6% pa growth for this year. Of concern is the unevenness of the global recovery, with developed economies set to rebound quickly while other nations will be held back by low vaccination rates and high debt. All forecasts carry a warning over the possible effects of a further waves of the Covid-19 pandemic, following the spread of the Delta variant

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Coronation Money Market Fund

FUND OVERVIEW

The Money Market Fund is an open-ended fund that invests in low risk short-term instruments such as Treasury Bills, Term Deposits, Commercial Papers and other Money Market securities.

Investment Objective:

The aim of the Fund is to generate regular income by actively investing in investment-grade money market instruments.

Investment Strategy:

The Fund Manager shall adopt and maintain an investment strategy that is designed to ensure a steady return on capital and ample liquidity.
The fund will strive to maintain an average duration of not more than 90 days.

Suitable Investor:

The Fund may be suitable for short-term focused investors who are risk-averse and are seeking investments for capital preservation, moderate income and liquidity.

Investment Philosophy

We employ a fundamental investment process to construct a diversified portfolio of high-quality money market securities that aim to deliver steady returns and provide for liquidity needs.

Our bottom-up credit selection and tactical trading in the most liquid instruments and fundamental process combined with robust, top-down rigorous risk management tools designed to meet our objectives of liquidity and consistent excess returns.

Risk management and controls are the foundation of the team's process integrated in the valuation, analytics, trading and portfolio management, which is vetted by the Investment Committees with support from the Research team with market insight to minimise risk exposure.

Risk Management

- High-quality issuer to reduce credit risk and durations limit to mitigate interest rate risk
- Issuers concentration limits and rigorous selection criteria
- Research-based macro risk analysis and multiple level review
- Independent risk and compliance review
- Disciplined investment process and continuous value analysis relative to opportunity set
- Clear accountabilities and cross checks

RISK – REWARD PROFILE

1	2	3	4	5	6	7

Lower risk / Lower return — Higher risk / Higher return

FUND FACTS

Fund launch date	23 September 2017
Fund type	Open - Ended
Asset class	Money Market
Risk profile	Low
Benchmark	91 Day Treasury Bills
Currency	Nigerian Naira
Accounting	Amotized Cost
Fund size	₦4.30 Billion
Offer price	₦1.00
Income distribution	Quarterly
Minimum holding period	90 Days
Minimum initial transaction size	₦10,000
Minimum additional transaction size	₦5,000
Fund rating	

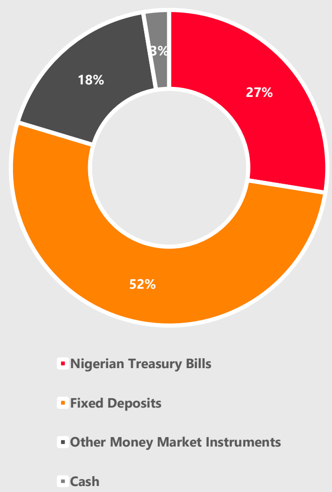
FUND FEES

Management	1.50% p.a.

FUND CHARGES

Entry charge	None
Exit charge	None
Early redemption charge	1.5% of income earned

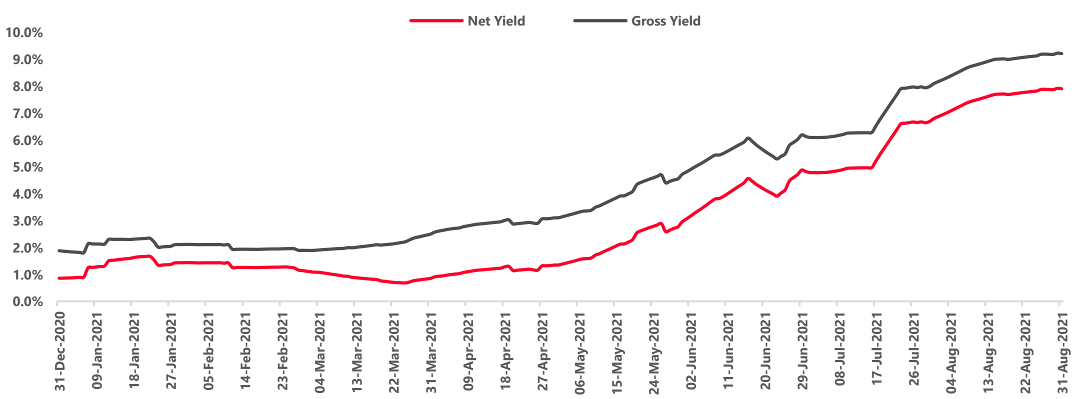
FUND ASSET ALLOCATION



HISTORICAL 30 DAY ROLLING AVERAGE YIELD

	January	February	March	April	May	June	July	August	September	October	November	December
2021	1.45%	1.15%	0.86%	1.36%	2.96%	4.83%	6.80%	7.91%				
2020	5.99%	5.50%	4.67%	4.48%	4.16%	3.78%	3.71%	3.34%	3.32%	2%	1.35%	0.87%
2019	11.96%	13.29%	14.50%	11.94%	12.46%	12.41%	12.86%	11.10%	3.32%	11%	10.65%	9.98%
2018	68.71%	15.20%	15.06%	14.09%	13.19%	12.70%	12.01%	12.33%	14.97%	11%	12.08%	12.47%
2017									2.53%	11%	17.40%	17.33%

YEAR TO DATE 30 DAY ROLLING AVERAGE YIELD



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