Macroeconomic and Market Review

Outlook

Nigerian financial markets took a turn for the better during July, with both bond and equity markets delivering positive performance, while pressure remained on the parallel exchange rate of the Naira. The economic outlook appears to be improving, as we described in the last edition of this Macroeconomic and Market Review, although the key data on Q2 2021 GDP will not be available for another week or so.

The meeting of the Monetary Policy Council of the CBN in late July concluded with a decision to keep the Monetary Policy Rate on hold at 11.50% pa. Given annual inflation in June of 17.75% this marks a continuation the CBN's pro-growth stance, albeit with considerably higher market interest rates than at the beginning of the year.

Fixed Income

In June the direction of yields on 1-year Treasury bills began to move downwards and this continued in July. Consider that the secondary market yield of a 1-year Treasury bill rose from 4.16% pa at the beginning of Q2 2021 to 9.74% pa at the end of it. In July 1-year secondary market T-bill yields trended down to 8.85% pa, with the rally continuing on into early August. A significant influx of liquidity into the system (c. N1.4 trillion) led to renewed bullish sentiment in the market. T-bill yields compressed by 68 basis points across the T-bill yield curve, on average, to 5.90% pa, with the yield on the 1-year bill falling by 116 basis points to 8.85%. 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 95 basis points to 8.20% pa (annualized yield 8.93%); the rates on the short and mid-tenor bills were unchanged.

Activities in the FGN bond secondary market were also bullish in July, with the average yields falling by 17 basis points during the month. At the short end of the spectrum, the yield of a 2-year bond compressed by 128 basis points to 10.20%. At the long end, the yield of a 10-year bond compressed by 5 basis points to 12.65%. Similarly, at the monthly primary auction, yields fell by an average of 40 basis points after the Debt Management Office opted to allot 42.9% of its total issuance via non-competitive allotments. It seems clear that the monetary authorities have finished with the effective tightening of market interest rates that characterized the first half of the year, and for the time being are content to see 1-year yields substantially below 10.0%.

Equities

The fortunes of the NGX All-Share Index (NGX-ASI) improved during July, as the market understood that interest rates were – at least for the time being – trending downwards and the prospect of inflation-beating risk-free returns remains elusive. These circumstances encourage participation in risk assets such as equities (as well as other risk assets such as long-dated bonds and credit solution funds). The NGX-ASI rose by 1.69% during July after a loss of 2.91% during Q2 2021, with a year-to-date loss of 3.62%. During the first trading sessions of August the market rose again, with particular interest in telecom stocks. Indeed, the trend in earnings expectations for telecoms stocks looks positive, with analysts upgrading their forecasts. Oil & gas stocks also received support.

The first-half results of listed companies are due to be released in August, and it is possible that these will give further support to the market if pessimistic expectations are dispelled. It is noticeable that the market has traded in a quite narrow range, of roughly seven percentage points performance below and above its starting point this year, in contrast to the very high level of volatility recorded during 2020 when the market gained 50.03%. Whereas high volatility plays into the hands of traders, low volatility requires careful stock selection which can be enhanced considerably by paying attention to dividend yields, such as those available from some of the major bank and telecom stocks. In general, it seems that there may be continued support for the market over the coming month, if not months, unless the trajectory of interest rates changes.

Oil

Our stance on oil prices is that, in general, Nigeria's public finances (e.g. the budget of the FGN and the foreign exchange reserves of the CBN) work much better when the price of Brent is above US$60.00/bbl than when it is below this level. Overall, we have seen oil prices trending upwards this year. The average price of Brent crude in Q2 of 2021 was US$69.27/bbl and during July it was US$74.29/bbl, with a high of US$77.16/bbl reached on 2 July. The rise in prices prompted fears that the global economic recovery might be choked. US President Joe Biden spoke about the need for producers to increase supply. U.S. National Security Advisor Jake Sullivan said, "We are engaging with relevant OPEC+ members on the importance of competitive markets in setting prices". We expect Brent crude price to trend above the US$60.00/bbl level during the coming months.

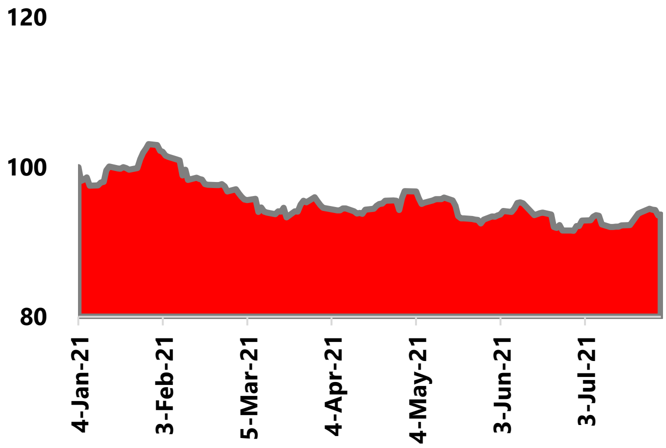
Currency

During July the CBN continued to address issues affecting the foreign exchange market. During the second quarter, the CBN had merged its official rate with those of the principal authorized foreign exchange markets, namely the I&E Window and the NAFEX market, with all three rates settling at around N411/US$1. In the last week of July, it stopped supplying Bureaux de Change (BDC) with US dollars, citing alleged inefficiencies and abuses of the BDC system. In response the parallel exchange rate moved from N505/US$1 to N525/US$1, though it subsequently firmed to stand at N512 by mid-August. The I&E Window and the NAFEX market rates generally held up and were at the N411/US$1 level in mid-August.

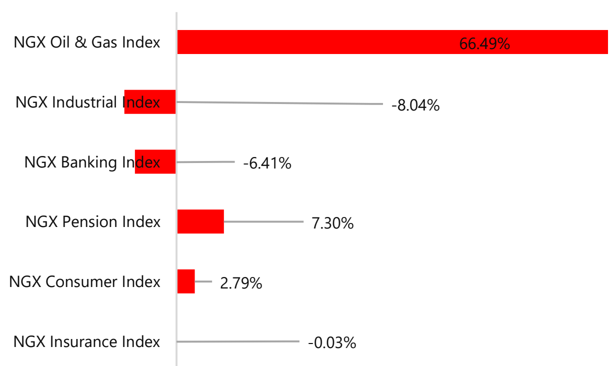
The foreign exchange reserves of the CBN stood at US$33.6bn by mid-August, comfortably above the US$30.0bn level that we consider to be critical. The prospects for stabilizing, or even increasing, foreign exchange reserves improved in August as the International Monetary Fund (IMF) announced the availability of Special Drawing Right (SDR) funds and the FGN announced advisers for its long-awaited US 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 depletion of its reserves. Nevertheless, FX turnover on the official markets remains low, and there may be continued pressure on both the official and parallel exchange rates.

Performance of the Nigerian Stock Exchange – YTD 30 July 2021



NSE Sub-Index Performance – YTD 30 July 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 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.

CORONATION

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
- Durations limit to mitigate interest rate risk
- Issuer's concentration limits
- Rigorous selection criteria
- Research-based macro risk analysis
- Independent risk and compliance review
- Disciplined investment process
- Continuous value analysis relative to opportunity set
- Multiple level review
- Clear accountabilities and cross checks

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%						
2020	5.99%	5.50%	4.67%	4.48%	4.16%	3.78%	3.71%	3.34%	3.32%	2.24%	1.35%	0.87%
2019	11.96%	13.29%	14.50%	11.94%	12.46%	12.41%	12.86%	11.10%	3.32%	11.25%	10.65%	9.98%
2018	68.71%	15.20%	15.06%	14.09%	13.19%	12.70%	12.01%	12.33%	14.97%	11.31%	12.08%	12.47%
2017									2.53%	11.35%	17.40%	17.33%

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	₦4.26 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	

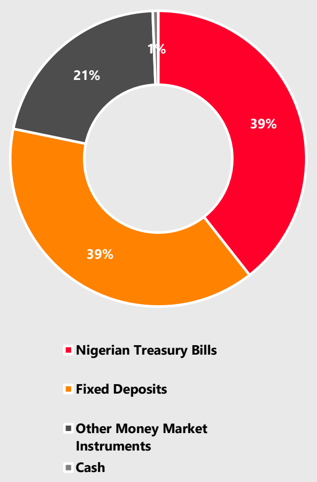
FUND FEES

Management	1.50% p.a.

FUND CHARGES

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

FUND ASSET ALLOCATION



CORONATION

DISCLOSURES & DISCLAIMERS