

What Moved the Markets this Week?

The Central Bank of Kenya (CBK) reduced its benchmark interest rate by 25 basis points to 12.75% (marking the first rate cut in four years) citing decreasing inflationary pressures and stabilizing exchange rates. For context, Kenya's headline inflation rate dropped to 4.32% YoY in June 2024, the lowest level since September 2020, and the lower band of the bank's target range of 3-7%. The rate cut also reflects the government's efforts to alleviate the cost of living crisis and respond to the aftermath of violent protests against tax increases. Looking ahead, we believe that lower interest rates will likely reduce borrowing costs for both consumers and businesses in Kenya, potentially boosting economic performance. In an unexpected move, the Ethiopian government proposed a reduction in the value of approximately USD1.00bn in Eurobonds to its bondholders (technically introducing a 20% haircut) as part of its debt restructuring process. The government's plan to lower the value of these Eurobonds, which are due in December, contrasts with the terms proposed last year, where creditors were set to receive the full principal amount but over an extended period and at reduced interest rates. Following the G20 common debt restructuring framework, Ethiopia recently reached an agreement on an economic reform plan with the International Monetary Fund after lifting foreign exchange controls and securing over USD20.00bn in financing. This unforeseen proposal could prolong the debt restructuring process, adversely impact Ethiopia's reputation in the international financial markets and potentially hamper future capital raise.

On the domestic front, following the Central Bank of Nigeria (CBN)'s recent reintroduction of the Retail Dutch Auction System (RDAS) to address the increasing unmet foreign exchange demand from end users, the CBN auctioned USD876.20mn to end users at an approved cut-off rate of NGN1495/USD. Subsequently, the Naira appreciated marginally by 0.46% in the official window, reaching NGN1593.62/USD, while it saw a slight decline of 2.17% in the parallel market to NGN1630/USD as of August 8, 2024. In our view, while this move may enhance transparency in the foreign exchange market (by prioritizing legitimate FX demands), facilitate price discovery, and reduce demand pressure in the official window, it could also intensify demand pressure in the parallel market as users whose demands are not met in the official window may turn to the parallel market for their FX needs. Additionally, the CBN has approved the merger between Providus Bank Limited and Unity Bank Plc, marking the first approved merger since the recapitalization directive. The apex bank also authorized a financial accommodation of around NGN700 billion, structured as a 20-year term loan, to support the operational stability of the merged entity. We believe this move presents a significant expansion opportunity for Providus Bank Limited as it absorbs Unity Bank Plc's assets and aims to strengthen the stability of Nigeria's financial system while safeguarding against potential risks. However, concerns remain about a possible rise in non-performing loans in the short term due to Unity Bank Plc's existing liabilities. According to global rating agency Fitch, Dangote Oil Refining Company (DORC) plans to set a 12.75% stake in its refinery to new investors after the Nigerian National Petroleum Corporation (NNPC) Limited reduced its intended acquisition from 20.00% to 7.25%. This decision stems from liquidity challenges, with the sale proceeds intended to service a maturing obligation in August 2024. In our view, while the divestment could offer financial relief and help alleviate the group's ongoing liquidity concerns, the uncertainty surrounding the timely completion of the sale, given the imminent loan maturity, may dampen sentiment towards the group if it fails to meet its debt obligations, potentially affecting its credit rating. In a separate development, IHS Nigeria, a subsidiary of IHS Holding Limited, and MTN Nigeria Communications Plc (MTNN) have announced an agreement to renew and extend their tower Master Lease Agreements until December 2032. The revised contracts introduce updated financial terms aimed at balancing local and foreign currency components more effectively. This includes reducing the USD-indexed component linked to a discounted US Consumer Price Index (CPI), making the leases predominantly naira-linked, and implementing a cap on the Naira CPI escalator component. Additionally, technology-based pricing was discontinued, with payments for new upgrades now based on tower space and power usage. We expect this adjustment to enhance MTNN's operational efficiency by reducing its exposure to foreign exchange fluctuations and potentially moderating foreign exchange losses in subsequent financial periods.

The Nigerian Equities Market concluded the week on a bullish note, with the NGX All-Share Index (NGXASI) rising to 98,605.79pts (+0.88% WoW, bringing the year-to-date return to 31.87%. Sectoral performance was largely positive, with only the **NGXINDUSTR** (-1.67% WoW) posting a decline while **NGXINS** (+1.79% WoW), **NGXOILGAS** (+0.97% WoW), **NGXBNK** (+5.14% WoW) and **NGXNSMRGDS** (+2.35% WoW) closed on a positive note.

At the T-bills auction held during the week, the CBN offered a total of NGN216.10bn, compared to NGN277.96bn at the previous auction. Investor demand surged to NGN486.90bn, up from NGN374.00bn at the previous auction, while the total amount allotted declined to NGN216.10bn (vs. NGN278.00bn at the previous auction). Subsequently, the stop rates for the 91-day and 182-day instruments remained steady at 18.50% and 19.50%, respectively, while the 364-day instrument declined to 20.55% from 21.90%. At the secondary fixed-income market, the sentiment remained bearish, as average T-bills and bond yield increased to 24.41% and 20.64% respectively from 23.86% and 20.55% in the prior week.

Nigeria | August 9th, 2024

Market Performance

Equities	This Week	Previous Week	% Δ
NGXASI	98,605.79	97,745.73	0.88%
Volume ('bn)	2.48	3.39	-26.75%
Value ('bn)	57.96	52.23	10.98%
Mkt. Cap. ('trn)	55.98	55.50	0.87%
Market Breadth	1.33x	1.05x	27.13%

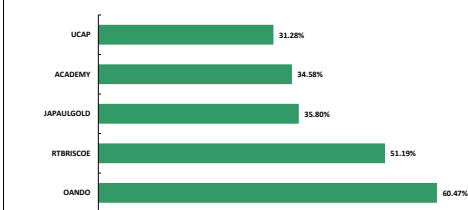
	WTD	MTD	YTD
NGXBNK	5.14%	6.96%	-4.45%
NGXNSMRGDS	2.35%	1.80%	37.19%
NGXOILGAS	0.97%	3.50%	50.89%
NGXINS	1.79%	2.60%	21.39%
NGXINDUSTR	-3.67%	-3.65%	57.51%
NGX-ASI	0.88%	0.85%	31.87%

Other Indices	WTD	MTD	YTD
NGX-30	0.81%	0.79%	30.55%
NGX-PENSION	3.48%	4.07%	16.81%

Market Outlook

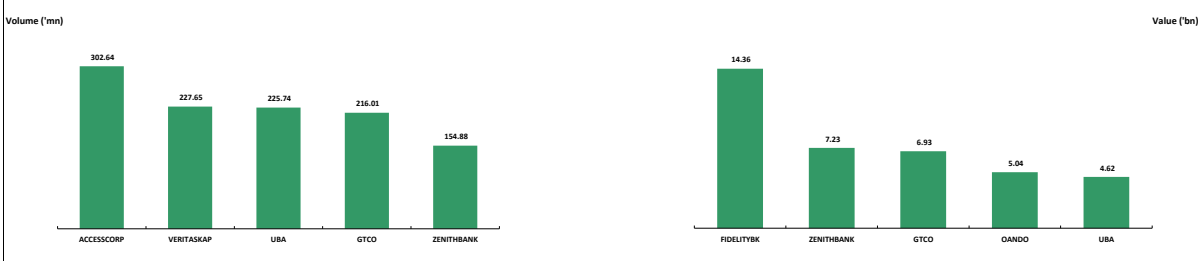
Top Gainers



Top Losers



Weekly Trading Activity



	This Week	Previous Week	% Δ
NAFEM (per USD)	1,574.20	1,617.08	2.72%

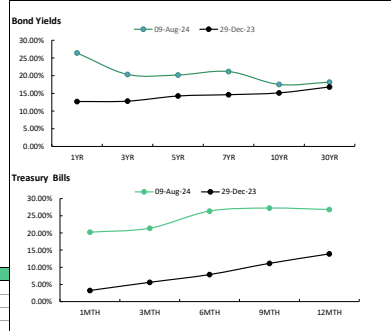
Money Market Rates	This Week	Previous
OBB	33.39%	25.61%
OVN	33.97%	26.06%
Average	33.68%	25.84%

Bond Yields	This Week	Previous Week	% Δ
1YR	26.42%	26.99%	-0.57%
3YR	20.35%	19.84%	0.51%
5YR	20.19%	19.86%	0.33%
7YR	21.17%	20.93%	0.24%
10YR	17.52%	17.52%	-0.00%
30YR	18.16%	18.16%	-0.00%

Treasury Bills Yields	This Week	Previous
1MTH	20.23%	20.48%
3MTH	21.39%	21.15%
6MTH	26.37%	24.03%
9MTH	27.25%	27.42%
12MTH	26.83%	26.21%
Average	24.41%	23.86%

vs. Other Markets	Nigeria	Ghana	Egypt	Kenya	South Africa	Frontier	Emerging	Developed
Today	0.50%	-0.02%	0.43%	0.65%	0.47%	0.36%	-0.38%	-0.31%
WTD	0.88%	-3.22%	0.00%	-1.16%	0.25%	-0.58%	-1.41%	-1.21%
YTD	31.87%	41.86%	15.49%	10.80%	5.00%	1.19%	2.20%	1.23%
P/E	15.13x	6.04x	8.07x	4.96x	23.56x	11.07x	15.11x	15.48x

Fixed Income Monitor



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Meristem Research portal: <https://research.meristemng.com/reports>

Bloomberg: MERI <GD>

Capital ID: www.meristemng.com

ISI Emerging Markets: [www.securities.com/ch.html?pe=NG](http://www.securities.com/ch.html?pe=NG)

Reuters: [www.thomsonreuters.com](http://www.thomsonreuters.com)

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