MERISTEM

What Moved the Markets this Week?

Nigeria | October 11th, 2024

The US Bureau of Labor Statistics reported that inflation eased to 2.40% in September 2024, down from 2.50% in August, marking the lowest level since February 2021. This decline was primarily driven by falling gas prices, which offset modest increases in food costs, while service sector prices remained elevated. Improved labour market conditions also contributed, with hiring picking up in September and the unemployment rate dipping from 4.20% to 4.10%. Looking ahead, we expect inflation to continue its downward trend, supported by lower gas prices and stronger employment figures. This positive trajectory brings inflation closer to the Federal Reserve's 2.00% target, raising the possibility of a rate cut in their upcoming meeting. However, geopolitical tensions between Iran and Israel pose a potential risk to this outlook, especially if its significantly impacts global energy prices. The UK's economy grew by 0.20% in August, bouncing back after two months of stagnation, according to the Office for National Statistics (ONS). The growth was supported across all major sectors, with strong gains in manufacturing and construction offsetting weaker-than-expected performance in the services sector. However, given the UK's sluggish recovery from the pandemic and lingering uncertainties around the government's long-term economic strategy, challenges remain for sustaining this momentum and attracting significant investment. In Asia, Japan's wholesale inflation edged higher, with the Corporate Goods Price Index (CGPI) rising to 2.80% YoY in September, up from 2.60% in August. This uptick was mainly driven by a surge in rice prices, stemming from weather-related supply shortages and increased demand from tourists. However, a rebound in the Yen contributed to a 2.60% drop in the Yen-based import price index—the first decline in eight months—owed to government subsidies aimed at easing utility costs. Looking ahead, we anticipate that the Bank of Japan (BOJ) may consider further rate hikes to steer inflation toward its long-term targets.

On the domestic front, Nigeria's capital importation for Q2:2024 was reported at USD2.60bn by the National Bureau of Statistics, marking a significant 152.81% YoY increase from USD1.03bn in Q2:2023. However, this figure reflects a 22.85% QoQ decline from USD3.38bn in Q1:2024. The drop was driven by sharp declines in Foreign Portfolio Investments (FPI) by 32.32%, Foreign Direct Investments (FDI) by 74.97%, and a slight dip in other investments by 0.95%. We attribute this QoQ decline to capital flight, as investors capitalised gains amid a marginal appreciation of the Naira during the period. While the current high-yield environment could boost investor sentiment and attract more FPI's in the short term, ongoing FX market volatility and persistent macroeconomic challenges may suppress FDI inflows. Thus, these presents downside risks to our near-term outlook for capital importation. Furthermore, the Central Bank of Nigeria (CBN) has signed a Memorandum of Understanding (MoU) with foreign regulators to enhance oversight and coordination for Nigerian banks with overseas subsidiaries. This initiative is aimed at strengthening regulatory collaboration, ensuring better governance across borders, and is expected to boost confidence in the banking sector, reinforcing trust among investors and the public alike. In another development, the Nigerian National Petroleum Company Limited (NNPCL) has finalized a landmark gas sales-and-purchase agreement with Shell, Total Energies, and Agip for a USD3.30bn methanol plant developed by Brass Fertilizer & Petrochemical Co. Ltd. This agreement, coming nine years after the project was first announced, marks a major step toward monetizing Nigeria's vast gas reserves and diversifying away from crude oil dependence. The plant, located on Brass Island in Bayelsa State, will receive around 270 million standard cubic feet of gas per day and could potentially generate over USD1.50bn annually through exports of fertilizers and petrochemicals. In addition, Brass Fertilizer has secured a logistics partnership with COSCO Shipping, which will provide 16 methanol-powered vessels to support the distribution of products globally. This project is positioned to significantly transform Nigeria's energy sector, attract new investments, and drive economic growth. Lastly, the Federal Government has officially begun implementing zero-Value Added Tax (VAT) and excise duties on pharmaceutical products and medical devices, including Active Pharmaceutical Ingredients (API), medical textiles, needles and syringes. This follows an executive order signed by the President earlier this year and is aimed at alleviating rising production costs amid ongoing inflationary pressures. The move is expected to help reduce the prices of medical products, providing much-needed relief to both manufacturers and consumers in the healthcare sector.

This week, performance in the Nigerian equities market was bullish, as the NGXASI closed up marginally by 0.09% WoW to settle at 97,606.63pts bringing YtD performance to 30.50%. Across sectors, performance was mixed, as **NGXOILGAS** (2.23% WoW) and **NGXINS** (0.13% WoW) closed in the green zone, while the **NGXINDUSTR** (0.24% WoW), **NGXCNSMRGDS** (1.38% WoW) and **NGXBNK** (1.08% WoW) indices closed in the negative territory. Top gainers for the week were **MECURE** (+19.53%), **UPL** (+17.51%), **LASACO** (+17.39%), **FIDELITYBK** (+13.08%) and **PZ** (+11.61%) while, **TRIPPLEG** (59.56%), **DAARCOMM** (25.00%), **AFRIPRUD** (13.15%), **REGALINS** (12.20%) and **TANTALIZER** (10.45%) emerged as the top losers for the week.

Additionally, at the primary market auction for T-biils, NGN81.90bn was offered across the three maturities with total subscription amounting to NGN273.27, while total allotment amounted to NGN81.90bn. Stop rates across the three maturities were 17.00%, 17.50% and 19.86% for the 91-day, 182-day and 364-day maturities respectively. In the secondary market, sentiment was mixed as the average T-bills yield rose to 22.04% from 21.275, while average bond yield steadies around 19.10%. At the OMO auction held during the week, total amount offered was NGN300.00bn while total subscription was NGN908.23bn. Interestingly, only the 361-day instrument saw subscription, hence, a total of NG908.23bn was sold. Also, the stop rate for the 361-day instrument registered at 24.30% down from 24.30% last week. Additionally, at the primary market auction for T-biils, NGN81.90bn was offered across the three maturities with total subscription amounting to NGN273.27, while total allotment amounted to NGN81.90bn. Stop rates across the three maturities were 17.00%, 17.50% and 19.86% for the 91-day, 182-day and 364-day maturities respectively. Sentiment in the fixed income secondary market was mixed as average T-bills yields rose to 22.04% from 21.27%. However, the average bond yield dropped to 19.10% from 19.45% in the previous week.

Meanwhile the Nigerian Eurobonds market was in a slightly upbeat mood this week, as the average yield declined to 9.44% (vs.9.63% the previous week). We observed decent investors' interest across the curve as all maturites witnessed price gains. In line with our expectation from the past week, the dovish monetarypolicy stance in advanced markets bolstered investors' appeal towards emerging and frontier market instrments, particularly in the SSA region. We expect investors to keep cherry picking across high yield instruments with a preference for sovereigns that continue to display fiscal prudence and improving macros.

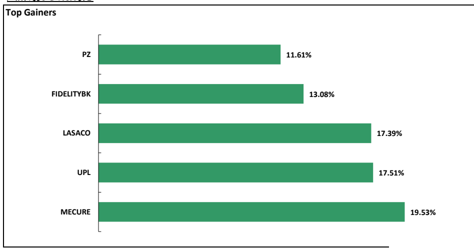
Market Performance

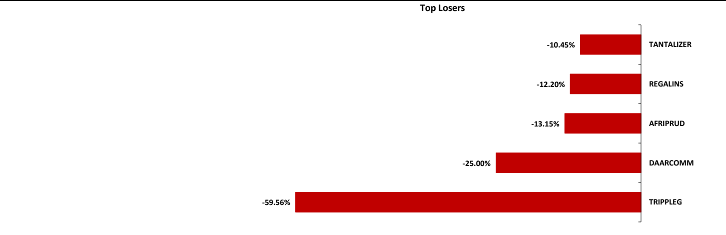
Equities	This Week	Previous Week	% Δ
NGXASI	97,606.63	97,520.54	0.09%
Volume ('bn)	1.94	1.81	7.31%
Value ('bn)	30.99	27.86	11.24%
Mkt. Cap. ('trn)	56.09	56.04	0.09%
Market Breadth	0.54x	1.33x	-59.72%

.	WtD	MtD	YtD
NGXBNK	-1.08%	-2.44%	2.70%
NGXCNSMRGDS	-1.38%	-2.93%	38.53%
NGXOILGAS	2.23%	8.97%	107.99%
NGXINS	0.13%	1.84%	36.12%
NGXINDUSTR	-0.24%	-5.97%	31.97%
NGX-ASI	0.09%	-0.96%	30.50%

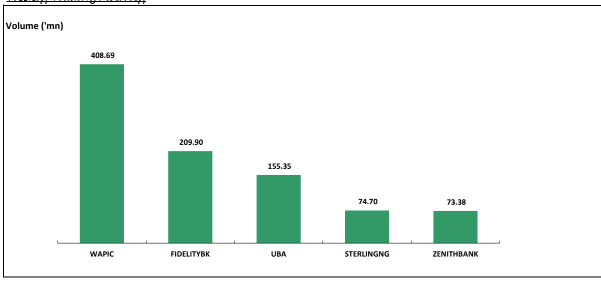
Other Indices	WtD	MtD	YtD
NGX-30	0.49%	-0.29%	30.68%
NGX-PENSION	0.21%	0.30%	24.19%

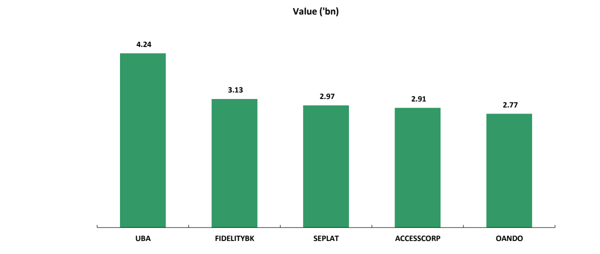
Market Outliers





Weekly Trading Activity





	This Week	Previous Week	%Δ
NAFEM (per USD)	1,641.27	1,631.21	-0.61%

Money Market Rates

	This Week	Previous
OBB	32.36%	32.23%
OVN	33.00%	32.77%
Average	**32.68%**	**32.50%**

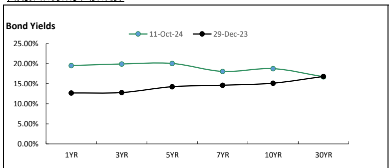
Bond Yields

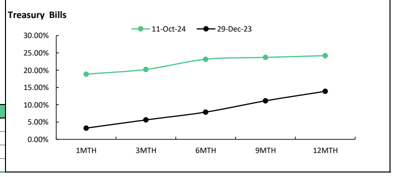
	This Week	Previous Week	%Δ
1YR	19.51%	21.35%	-1.84%
3YR	19.92%	19.08%	0.84%
5YR	20.05%	18.64%	1.41%
7YR	18.06%	20.77%	-2.71%
10YR	18.75%	20.20%	-1.45%
30YR	16.73%	16.64%	0.09%

Treasury Bills Yields

	This Week	Previous
1MTH	18.86%	17.91%
3MTH	20.22%	19.02%
6MTH	23.17%	23.05%
9MTH	23.71%	22.93%
12MTH	24.21%	23.46%
Average	**22.04%**	**21.27%**

Fixed Income Monitor





In Other Markets

	Nigeria	Ghana	Egypt	Kenya	South Africa	Frontier	Emerging	Developed
Today	0.13%	-0.24%	-1.33%	0.09%	0.06%	-0.05%	-0.69%	0.23%
WtD	0.09%	-0.49%	-3.02%	0.55%	-1.09%	-0.45%	-2.63%	-0.10%
YtD	30.50%	38.75%	23.57%	18.24%	11.05%	7.84%	12.16%	7.80%
P/E	11.05x	4.43x	8.12x	5.42x	18.46x	12.09x	15.97x	16.48x

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