

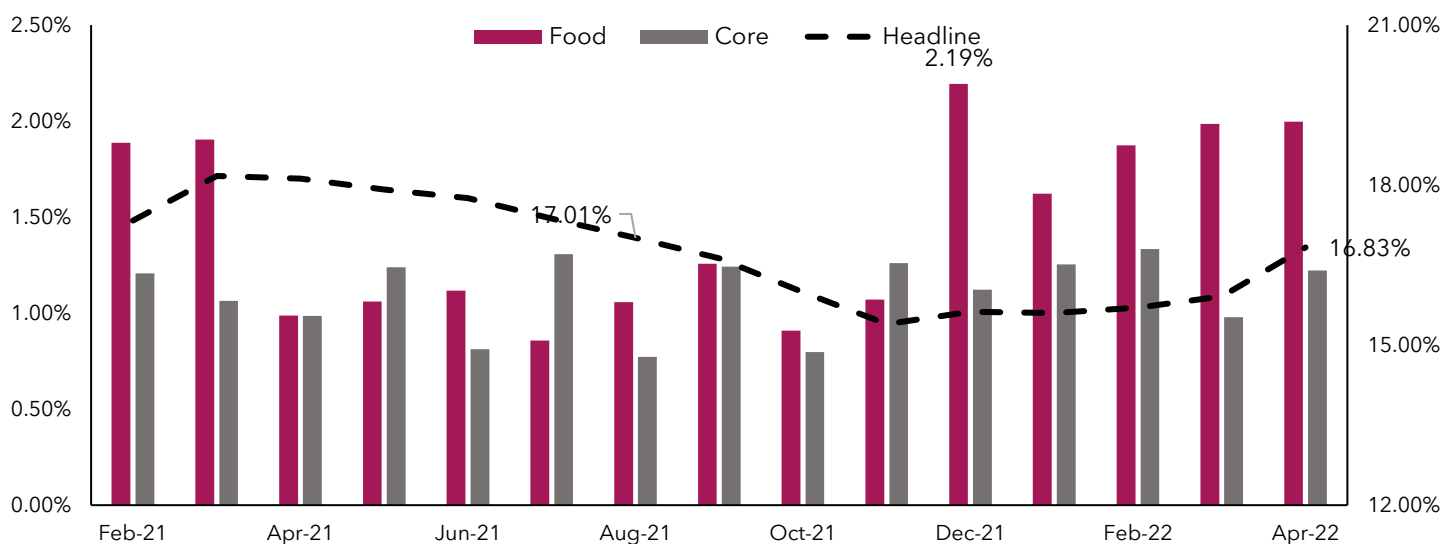


April 2022 CPI Report: Price Surge Continues

Headline Inflation Sustains Uptrend... Widens Negative Real Yields

The recently released Consumer Price Index (CPI) report shows that the prices of goods and services soared even higher in April YoY to 16.83% (ahead of our forecast of 16.6%), representing the highest uptick in eight months. This price surge was driven jointly by the food and core components of the CPI basket. For Food Inflation, we note a sharp rise in prices from 17.2% in March to 18.38% and this is connected to the surge in commodity prices as well as the pass-through effect of higher diesel prices on food items. Similarly, Core Inflation edge higher YoY by 27bps to 14.18% driven by increases across prices in HWEGF (+75bps), Alcoholic Beverage & Tobacco (+64bps), and Transport (+48bps).

Figure 1: Trend in Food, Core and Headline inflation (%)



Source: NBS, ARM Research

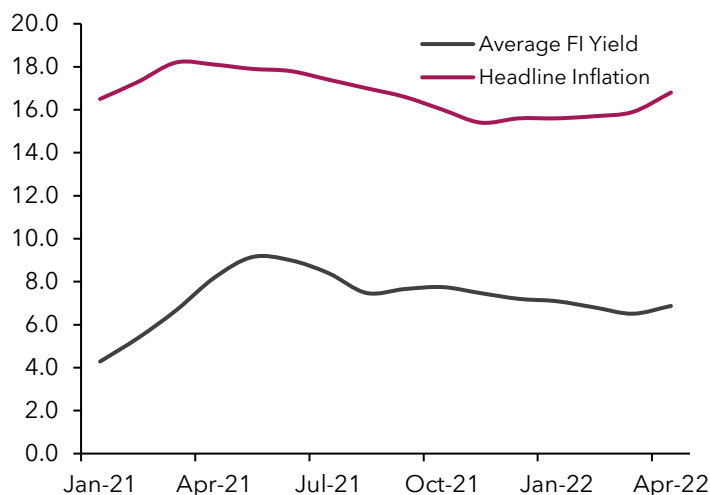
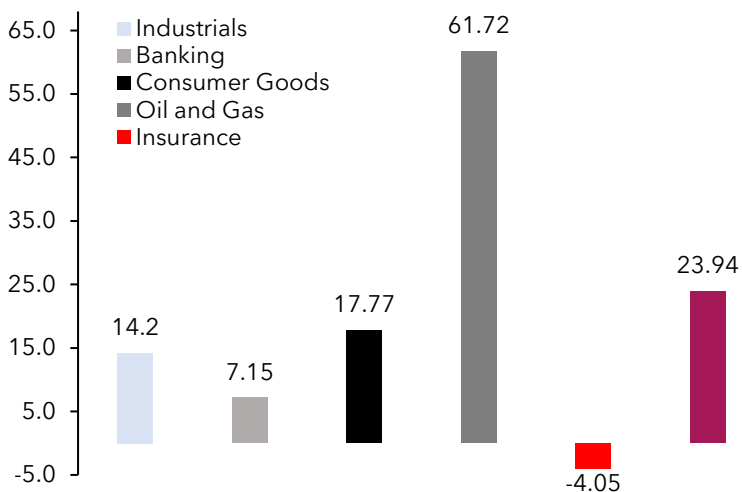
On a Month-on-Month (MoM) basis, we note a trend like that of YoY numbers albeit at a much slower pace. Headline Inflation rose 2bps MoM to 1.76% fueled by a 24bps uptick in core numbers as energy prices remained at record-levels in April (*with diesel prices as of March 2022 soaring MoM by 72.87%*). Adding some extra layer is food prices which reported a marginal (1bp) rise to 2.0%.

For the first half of the year, we see a continuous rise in prices in Nigeria, fueled by higher commodity prices - especially energy and wheat. We see price growth peaking at 17.9% in June 2022 especially as the Russia/Ukraine conflict persists. While we expect the MPC to align with global and regional peers in hiking the MPR, it should be more of a thing at the September meeting. Q1 2022 GDP report, which should be released later this month, would be a major consideration for the committee.

Fixed Income Space: Higher Yields Might Persist

Ordinarily, the rising consumer price variation is usually associated with a period for Investors to demand for higher coupon within the Fixed Income space. While we envisage this would be the case, we do not see it growing enough to compensate for expected inflation levels. Yesterday, outcomes were mixed at the Bond Auction. While the 2032s and 2042s were offered at marginal rates of 12.45% and 13.0%, as opposed the respective 12.50% and 12.90% from the previous auction, the 2025s remained flat at 10.0%. Although that could be ascribed to the fact that the report came after the auction had moved into full gear. At the secondary market, average yields across both NT-bills and Bond remained largely flat. Overall, yields direction have tilted more towards the upside this year.

We took lessons from historical events within the market. Investors usually request for better rates as inflationary concerns mount. In this case, however, considering the outstanding liquidity flow into the market - Maturities - FAAC allocation - Coupon payments, and the deferred commencement of 2022 budget implementation. The supply of instruments (if concentrated in H2:2022) could be overwhelming for expected liquidity. So doing, Investors might request higher yields. The twist, however, is that the FG could spread the implementation of FY 2022 budget into next year and/or use the CBN ways and means (as it has recently been the case) to continue to consummate a sizable part of its financing requirements. We believe this might create a path for liquidity to outpace issuances in H2 2022, meaning, that yields might peak somewhere in the period.

Figure 2: Average FI Yield Vs Headline Inflation**YTD Return of NGX Sector Indices (%)**

Source: NBS, FMDQ, NGX, ARM Research

The Nigerian Equities Market; More Rallies Still on the Horizon

So far in 2022, Nigerian equities market has taken a different path when compared to most bourses across the world. In the period, the local bourse has rallied up a Year to Date (YtD) performance of 23.9%. The underlying sectors in the market have all fared well save for the Insurance sector which so far has shed 4.05% YtD. The performance of the market is not particularly surprising seeing how the Fixed Income space has continued to scare away funds that are usually held for trading within the space. We opine that this has forced the hands of Institutional Investors to patronize the equities market. Our opinion is based on how holding a Marked to Market position at this time could significantly impair their asset performance amid expectation of rise in inflation figures (Note: there is an inverse relationship between fixed income yields and price). We also observed that the market is less susceptible to the impact of Foreign Outflow of funds that usually headlines a pre-election year, as- the market is currently dominated by domestic funds (c.74.0%). The question on most minds, however, remains, how soon before the rally ends?

We believe that the equities market would continue to get traction for as long as uncertainties about yield direction engulfs the fixed income space. For context, we have observed that investors are actively playing along the following sectors (Fast Moving Consumer Goods, Telecommunications, Breweries, Agriculture, and Oil and Gas) seeing as they are constituted majorly by fundamentally sound tickers. We see more tractions on the horizon for those who

can sustain the decent performances recorded in their most recent financials, especially if the current uncertainties within the fixed income space persist.

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