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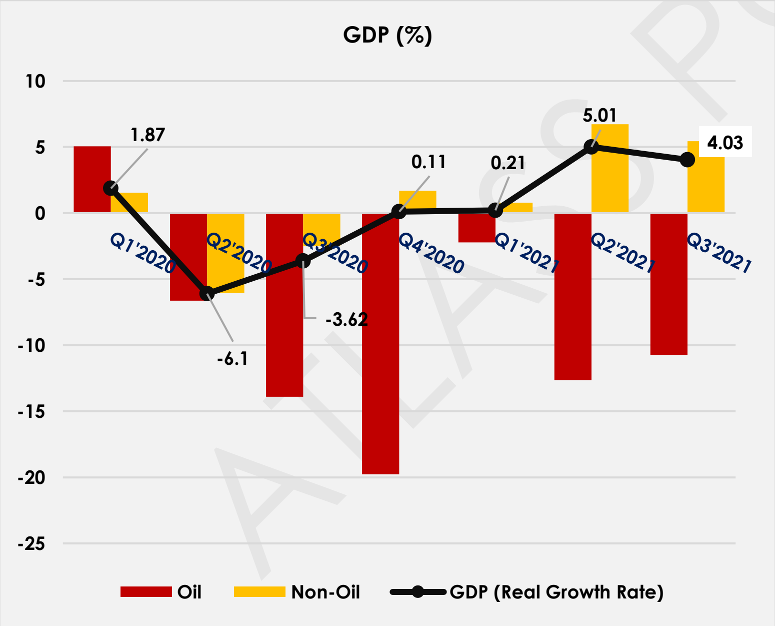
MPC to Weigh Options Amidst Q3'2021 GDP Slow Growth and Decline in Inflation Figures

On Thursday, the National Bureau of Statistics published the third quarter of 2021 Gross Domestic Product (GDP) report, Nigeria most important economic performance indicator to the public. According to the report, Nigeria GDP grew slowly in real-term by 4.03%y/y in Q3'2021, sustaining Q1'2021 and Q2'2021 growth of 0.51% and 5.01%, respectively. On a Quarter-on-Quarter basis, the GDP expanded 11.07% against the -0.79%q/q contraction in Q2'2021.

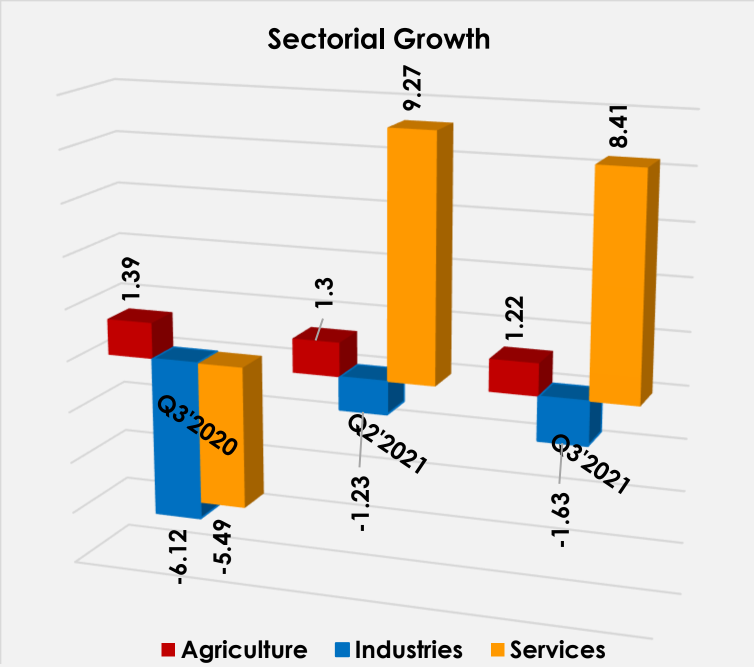
With reference to the components contributing to the GDP, the Non-Oil contribution to the GDP grew by 1.36% (annualized) to 92.51% compared to 91.27% in Q3'2020. On the other hand, the Oil contribution to the GDP declined by 14.19% (annualized) to 7.49% as against 8.73% in Q3'2020.



Source: NBS, Atlass Portfolio

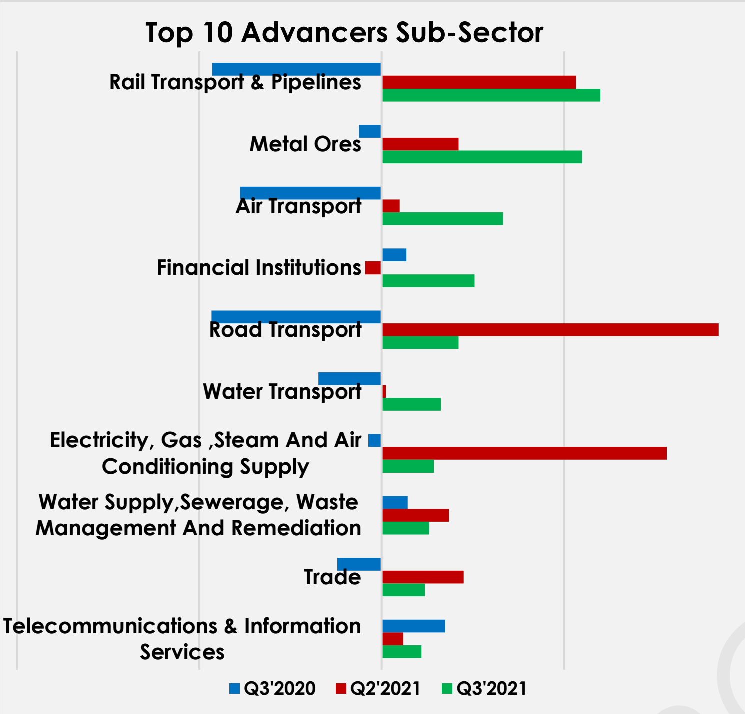
Nonetheless, in terms of growth, the Non-Oil components expanded largely by 5.44%y/y, as against the contraction of -2.51% in Q3'2020 (vs 6.74% faster growth in Q2'2021). We believed this resulted from the base effect when the country began its partial reopening of the economy after the total lockdown in Q2'2021 to curb Covid-19 disease spread. On the other hand, the Oil component of the GDP contracted by -10.73%, compared to the -13.89% and -12.65% contraction in Q3'2020 and Q2'2021, respectively. The contraction was largely driven by the 47.83% contraction in Oil Refining and 10.73%y/y contraction in Crude Petroleum and Natural Gas Sub-Components of the GDP following the decline in average daily oil production of 1.57mbpd in Q3'2021, compared to 1.67mbpd in Q3'2020 and 1.61mbpd in Q2'2021

Breaking down the components of the Non-Oil GDP, both the Services and Agriculture sectors expanded by 8.41%y/y and 1.22%y/y, while the industries sector posted a contraction of -1.63%y/y in Q3'2021 compared to -6.12%y/y contraction in Q3'2021 and 1.23%y/y in Q3'2021).



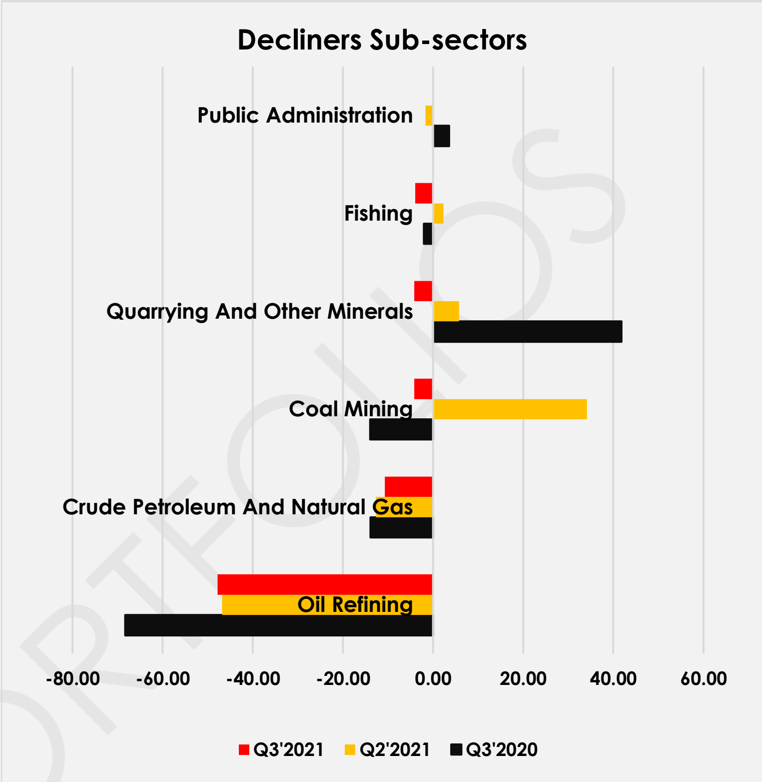
Source: NBS, Atlass Portfolio

The contraction witnessed in the industries sectors was believed to be driven by the high exchange rate of Naira to the US Dolla and high inflation rate, high lending rate, which combined resulted in high misery index.



Source: NBS, Atlass Portfolio

Unsurprisingly, Rail Transport and Pipelines came out as the fastest growing sub-sector in Q3'2021 with 59.93%y/y growth from -46.45%y/y contraction in Q3'2020. This was due to the development of the Nigeria Rail-line system following the commissioning and full operation of the Lagos-Ibadan rail line. The growth in Rail Transport was followed by the expansion in Metal Ores by 54.92%y/y (vs -6.22%y/y contraction in Q3'2020 and 21.12%y/y expansion in Q2'2021), Air Transport by 33.31%y/y (vs -38.86%y/y in Q3'2020 and 4.98%y/y in Q2'2021), while Financial Institutions expanded by 25.50%y/y (vs 6.80% in Q3'2020 and -4.54%y/y in Q2'2021) and Telecommunications & Information Services expanded by 10.87%y/y (vs 17.64%y/y in Q3'2020 and 5.90%y/y in Q2'2021). Other sub-sectors that saw expansion was the Electricity, Gas, Steam and Air conditioning supply sector with 14.36%y/y expansion from -2.51% in Q3'2020 and Trade with 11.90%y/y growth, compared to 3.20%y/y in Q3'2020 when nearly all companies begin partial reopening of operations.



Source: NBS, Atlass Portfolio

On the flipside, Oil Refining recorded the highest contraction of -47.83%, followed closely by the Crude Petroleum & Natural Gas with -10.73%, Coal Mining with -10.56%, and Fishing by -3.97% contraction.

Conclusively, we expect slow growth in Q4'2021 GDP and expansion of 3%, strictly by the base year effect when the GDP contracted by 1.92%.

What Could be MPC Decision?

As the last Monetary Policy Committee (MPC) meeting for the year 2021 scheduled to be held next week, November 22 and 23, where the eleven (11) members of the MPC committee will convene at the CBN headquarter to review and make critical decisions on the direction of key monetary policy variables for the next two months and going into 2022.

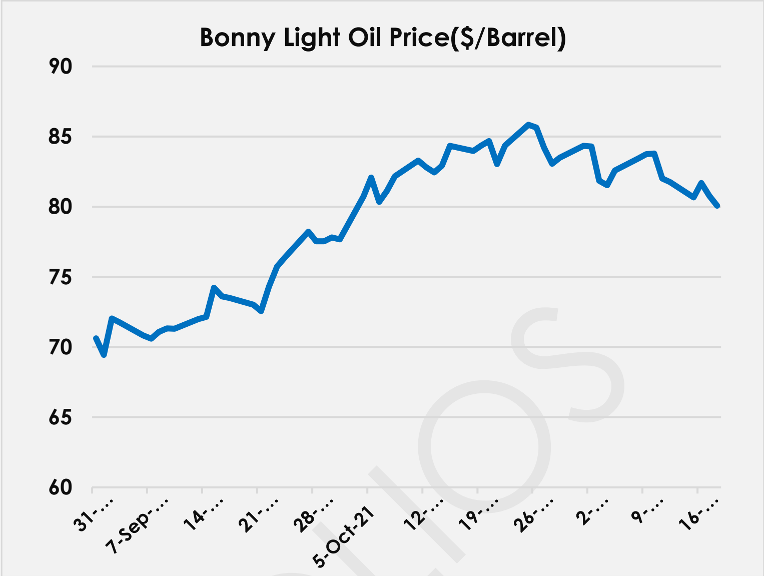
During the last MPC meeting held in September 2021, the committee members unanimously voted in favour of retaining the monetary policy parameters: - the MPR at 11.5% and the asymmetric corridor of +100/-700 basis points around the MPR; the CRR at 27.5%: the Liquidity Ratio at 30% so as to continue the management of the various intervention programmes deployed to help stimulate the economy into full recovery

It is imperative to review the developments in the economy since the last MPC meeting, with a view of projecting what the outcome of the MPC meeting will be as the economy continue to be fragile.

Happenings Since the last MPC meeting

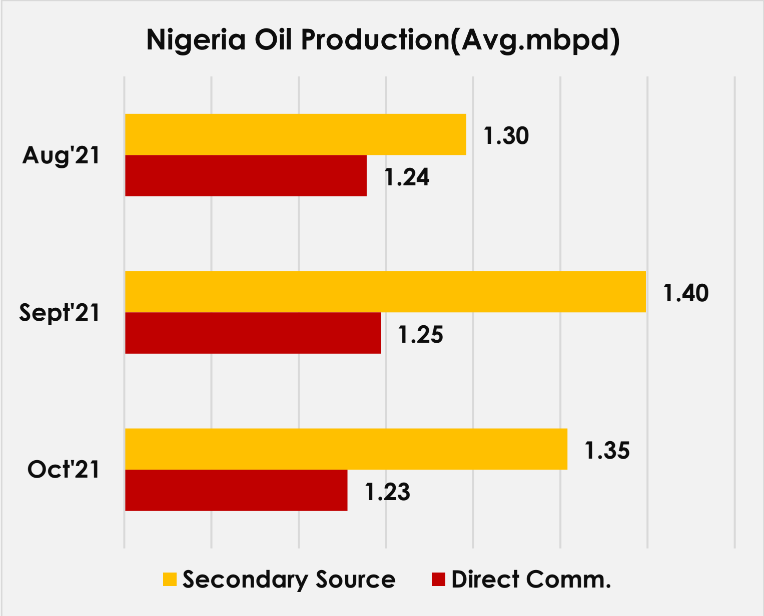
Slow Growth in GDP: According to the GDP data for Q3'2021, released by the NBS on Thursday, the GDP grew slowly by 4.03%y/y compared to 5.01%y/y in Q2'2021. It shows a continued weak economic growth as the Non-Oil component of the GDP expanded by 5.44% compared to the 6.74% expansion in Q2'2021. This was impacted by the 8.41% expansion in the Services Sector and 1.22% slow growth in the Agricultural Sectors, compared to the -5.49% contraction and 1.39% expansion in Q3'2020, respectively. However, the expansion resulted from the base-year effect when the country gradually reopened the economy after the Covid-19 lockdown.

Inflation rate continued to decline amid base year effect: One of the core functions of the central bank is to maintain price stability in the economy by the use of monetary policy indicators. According to the last CPI inflation report for October 2021, Nigeria's headline inflation dropped by 64 basis points to 15.99% (Y/Y) from 16.63% (Y/Y) in September 2021. This represents the seven consecutive months of decline in the headline inflation, despite the increase in food prices and non-farm items as naira continue to fall in the FX market.



Source: Oilprice.com, Atlass Portfolio

Rising crude oil price: Crude oil price (bonny light grade) appreciated by $4.49 from $73.50 on September 2021, to close at $77.99 per barrel as of 19th November 2021 to meet the rising global demand for crude oil as the impact of the shortage of natural gas, which has boosted demand for oil products, at the same time, rising margins signal that crude consumption will remain strong as refiners continue to process more to meet demand. However, Nigeria's oil production decreased from 1.40 million barrels per day in September 2021 to 1.35 million barrels per day in October 2021, according to OPEC secondary sources of data.



Source: OPEC MOMR, Atlass Portfolio

The equity market in bullish mood: Between the last MPC meeting on 17th September 2021, the local bourse recorded bullish sentiment impacted by investors' positive reaction towards the bellwether stocks. Precisely, the Nigeria Exchange All-Share-Index (NGX-ASI), which tracks the performances of the equities in the capital market, gained (10.93%) between the last MPC meeting on Friday, 17th September 2021. Also, the year to date (YTD) of the NGX-ASI rose to (7.27%) from (-3.29%) on the last MPC meeting in September 2021.

Increasing foreign reserve: The foreign reserve strengthened by $5.95million from $35.46 million between the last MPC meetings to $41.41 billion as of 18th November 2021. The increase in the foreign reserve follows the successful sales of $4 billion Eurobond and $3.5 billion from the $650 billion Special Drawing Rights (SDRs) approved by the International Monetary Fund (IMF). However, the foreign reserve has begun to witness a downtrend since the 1st November, after attaining the peak of $41.83 billion.

Unstable foreign exchange rate: Between the last MPC meeting and Friday, 17th September 2021, the Naira depreciated by ₦1.33 against the dollar from ₦413.07 to ₦414.40 at the Importer & Exporter (I&E) window. It is important to note that the MPC, in their last meeting, clamped down on the AbokiFX for manipulating the FX rate and giving Nigeria false exchange rate of the Naira, which AbokiFX subsequently suspended the FX rate update till further notice. As such, the Naira at the black market appreciated by ₦24 (4.21%) to close at ₦546 according to the BDC operators.

Our position

From the above analysis, given the limited option available to the CBN to Reduce, Retain or Increase, we are of the opinion that more members of the committee will likely vote to retain the MPR as a reduction in the MPR will further reduce the cost of capital, facilitate new investments and more employment in the real sector, which will further on the foreign exchange market.

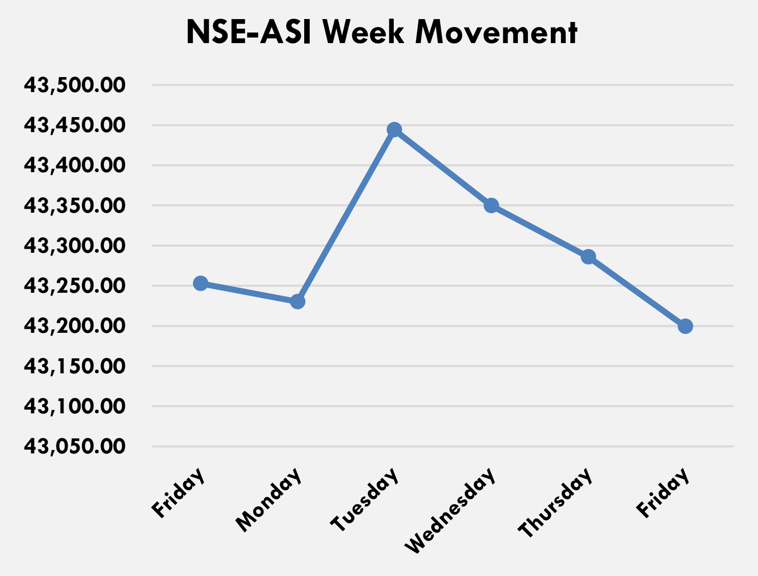
However, an increase in the MPR will help combat the high inflation rate but result in an increase in the cost of borrowing, hamper the economic gradual recovery and new investments needed, especially towards the manufacturing sector.

NIGERIA EQUITY MARKET

Bellwethers Drag Equity Market Lower as NGX-ASI Dips by 0.12%w/w

This week, investors in the Nigeria equities market embarked on profit-taking as the market performance indicators declined in four of the five trading days following price depreciation in some market bellwethers.

Accordingly, the All-Share Index decreased by 53.74 basis points, representing a dip of 0.12 to close at 43,199.27, while the Market Capitalization lost ₦28.05 million, representing a decline of 0.12%, to close at ₦22.54 trillion.

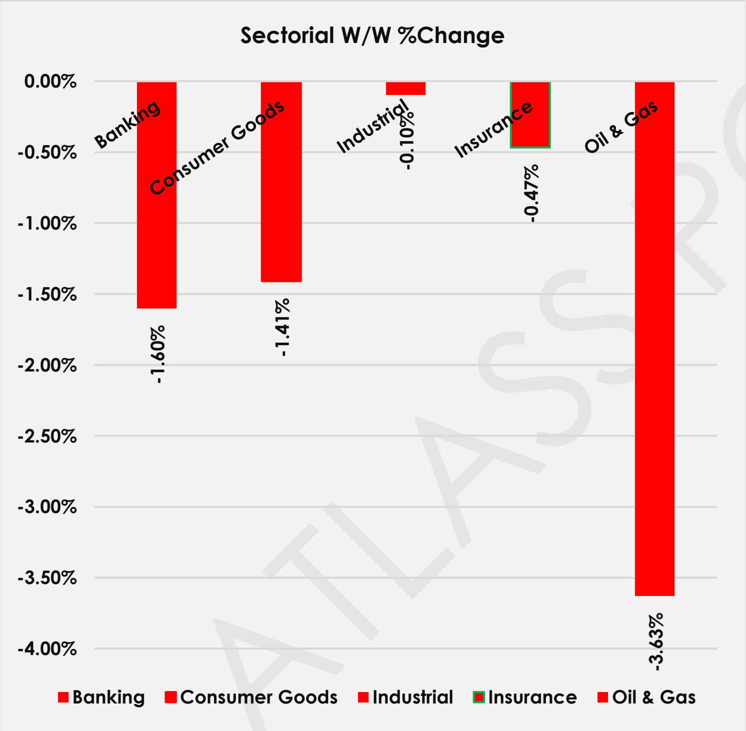


Source: NSE, Atlass Portfolio

The negative sentiment was driven mainly by profit taking in CUTIX, which emerged as the worst performing stock of the week with 42.88%w/w decline, followed by NGXGROUP (-11.88%w/w), TOTAL (-9.97%w/w), ETERNA (-9.03%w/w), GTCO (-7.47%w/w), ARDOVA (-5.38%w/w), FBNH (-3.75%w/w), UBA (-2.96%w/w), NB (-2.86%w/w), WAPCO (-1.96%w/w), DANGSUGAR (-1.75%w/w), FLOURMILL (-1.18%w/w), NESTLE (-0.71%w/w), MTNN (-0.52%w/w), PRESCO (0.11%w/w) as 49 stocks receded in price.

Meanwhile, 15 stocks appreciated in price, led by VITAFOAM (17.11%w/w), trailed closed by AIRTELAFR (4.97%w/w), JAIZBANK (1.56%w/w), CUSTODIAN (1.31%w/w), GLAXOSMITH (0.83%w/w), OANDO (0.21%w/w) and 9 others.

Afterward, all the five major sectors had a negative sentiment, led by Oil & gas (-3.63%w/w), Banking (-1.60%w/w), Consumer Goods (-1.41%w/w), Insurance (-0.47%w/w) and Industrial Goods (-0.10%w/w), respectively.



Source: NSE, Atlass Portfolio

Meanwhile, a total of 1.39 billion shares valued at ₦27.89 billion in 19,990 deals were traded in the week, compared to 1.47 billion shares worth ₦20.94 billion in 20,410 deals traded in the prior week.

Outlook

In further absence of positive catalyst in the equity market, we expect negative investors sentiment in the coming week. However, the decline in high capped stock could drag dividend appetite investors to the market.

FX, FOREIGN RESERVE & OIL MARKET

Naira Traded Mixed Amidst Improved Liquidity

The Naira this week strengthened against the USDollar in the I&E Window by 0.17% to close at ₦414.40/USD, but weakened by 0.18% to close at ₦546/USD in the Parallel Market, according to the BDCs operators. The strength in the I& E window follows the improved system liquidity in the market.

FX Rate	Open	Close	W/W %Change
I & E Window	415.10	414.40	0.17%
Parallel Market	545.00	546.00	-0.18%

Source: FMDQ, BDC Operators, Atlass Portfolio

Oil Price Lower on Supplies From Major Economies and Fresh Covid-19 Cases

The global oil prices dropped to six-week lows as investors wondered about how much crude the major economies would release from their strategic reserves and how much that would ease global crude demand pressures on rising COVID-19 cases in Europe increased downside risks to demand recovery.

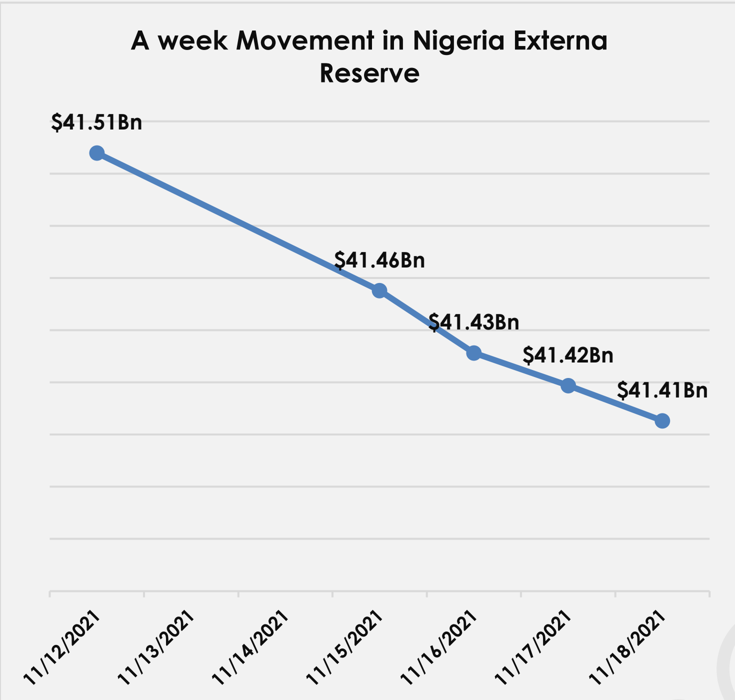
Thus, the Brent dipped by 3.99% to close at $78.89pb, while the Nigeria oil benchmark (Bonny Light) shed 4.61% to close at $77.99pb

Oil Price	Open	Close	W/W %Change
Brent ($)	82.17	78.89	-3.99%
Bonny Light ($)	81.76	77.99	-4.61%

Source: Oilprice.com, Atlass Portfolio

Foreign Reserve

The Nigeria Foreign Reserve upturned last week decline by $74.05 million from the closing position of $33.50 billion (Friday, 20th August 2021) to $33.57 billion on Thursday 26th July 2021.



Source: CBN, Atlass Portfolio

GLOBAL STOCKS

Investors Moves to safe Haven Amidst Fresh Covid-19 Restriction

Mixed sentiment prevailed in the global stock markets as investors piled into the safe havens of Dollar and government bonds following the fresh Covid-19 restriction in Europe, shadowing projections for the global economic recovery.

As a result, the DJIA plunged by 1.38%w/w, while S&P500 and tech-heavy NASDAQ Composite surged by 0.32%w/w and 1.24%w/w, respectively.

Similarly, the European stocks were mixed on concerns over the economic damage from fresh COVID-19 lockdowns that hammered cyclical sectors such as banks and automakers. Consequently, the UK FTSE 100 shed 1.69%w/w as Germany DAX and France CAC 400 grew 0.41%%w/w and 0.29%%w/w, respectively.

The Asian market also finished the week mixed, and safe havens such as government bonds, gold and the yen were supported as a hint of uneasiness crept in over the outlook for interest rates and growth, particularly outside of the United States. Resultantly, China Shanghai Composite and Japan Nikkei 225 rose by 0.60%w/w and 0.46%w/w, respectively, while Honk-Kong HANG SENG, and India S&P BSE dipped by 1.10%w/w and 1.73%w/w, respectively.

More negative sentiment also prevailed in other emerging markets as all other emerging stock markets receded accordingly, except for the South Africa JSE-ASI that grew by 0.65%w/w.

Region	STOCK MARKET	OPEN	CLOSE	W/W % CHANGE
US	DJIA	36,100.31	35,601.98	-1.38%
	S&P 500	4,682.85	4,697.96	0.32%
	NASDAQ	15,860.96	16,057.44	1.24%
EUROPE	France: CAC 40	7,091.40	7,112.29	0.29%
	Germany: DAX	16,094.07	16,159.97	0.41%
	UK: FTSE 100	7,347.91	7,223.57	-1.69%
ASIA	China: Shanghai Composite	3,539.10	3,560.37	0.60%
	Hong Kong: Hang Seng	25,327.97	25,049.97	-1.10%
	Japan: Nikkei 225	29,609.97	29,745.87	0.46%
	Indian: S&P BSE Sensex	60,686.69	59,636.01	-1.73%
SOUTH AMERICA	Brazil: Bovespa	106,334.54	103,035.02	-3.10%
	Mexico: IPC All-Share	51,432.54	50,811.30	-1.21%
	Argentina: Merval	106,334.54	85,695.15	-19.41%
AFRICA	South Africa: FTSE/JSE Africa All-Share	69,921.37	70,376.42	0.65%
	Egypt: EGX 30	11,573.14	11,337.99	-2.03%
	Ghana: GSE Composite	2,971.00	2,919.56	-1.73%
	Nigeria: ASI	43,253.01	43,199.27	-0.12%

Source: WSJ, Atlass Portfolio

In the coming week, we expect mixed reaction from investors over signs that another wave of COVID-19 taking greater hold in the United States as it has in some European countries. This could once again push investors out of economically sensitive stocks and into technology companies, which are expected to better weather short-term growth fluctuations.

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