United Capital Research | Daily Market Commentary

Tuesday, December 21, 2021

United Capital
The Intelligent Choice

The day in review

- Equity market dropped 1bp
- Interbank rates ticked lower
- Muted activity in NTbills market
- Naira depreciated at the NAFEX window

Looking forward

Q3-2021 Capital Importation Data- NBS

Daily Insight

Implications of impending U.S interest rate hike

At the Dec-2021 Federal Open Market Committee (FOMC) meeting held last week, the committee voted to ramp up the speed at which it reduces its bond purchases, putting the Fed on course to eliminate the emergency quantitative easing (QE) program three months earlier than expected. The decision will see the Fed reduce its asset purchases by $30.0bn, beginning in Jan-2022. The Fed's latest move paves the way for a liftoff in the federal funds rate, which portends a higher interest rate environment in 2022. Notably England became the first G7 economy to hike rates last week, as it increased its key rate by 15bps.

The hawkish shift from the Fed comes on the back of the nearly four-decade high inflation rate and drastic decline in the unemployment rate to nearly pre-pandemic levels, with businesses fervently looking out for workers. To give perspective, the US unemployment rate fell to a pandemic-era low of 4.2% in Nov-2021. On the other hand, annual inflation surged to 6.8% in Nov-2021, the highest level since 1982. In our view, the Fed's decision reflects confidence that the economic recovery from the pandemic is sustainable and will be carried on into 2022, therefore supportive of a withdrawal of emergency support.

Looking ahead, higher interest rates in the US and other developed markets will invariably increase the cost of capital for emerging/frontier markets like Nigeria, increasing debt burdens and capital outflows. Also, tighter financial conditions may see foreign investments slow down significantly. We expect the US Fed decision, as well as global inflationary pressures, to impact the direction of monetary policy domestically, as the MPC may need to hike rates to make Naira assets attractive. That said, we expect higher yields on fixed income assets in 2022 and pressure on equities as a higher risk-free rate increases the cost of equity.

Headline	Level	1 day	YTD
NGX ASI	42,388.6	0.0%	5.3%
Mkt. Cap (₦'bn)	22,125.7	0.0%	
Mkt. Cap ($'mn)	53,302.1	0.0%	
Value (N'mn)	3,935.1	58.3%	
Value ($'mn)	9.5	58.2%	
Volume	275.9	94.1%	
Deals	3,489.0		
Market Breadth	1.4x		

T-Bills Yields	Current	Previous	%Δ
3 months	3.28	3.28	0.00
6 months	3.73	3.73	0.00
12 months	5.63	5.63	0.00

Bonds Yields	Current	Previous	% Δ
3 years	9.25	9.26	-0.01
5 years	11.28	11.28	0.00
7 years	12.48	12.49	-0.01
10 years	12.60	12.60	0.00

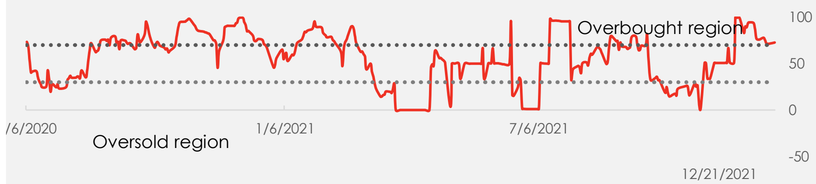
Currencies	Current	Previous	% Δ
NAFEX	415.10	414.80	-0.1%

Other Key indices	Current	Previous	% Δ
OBB	9.5	12.0	-2.50
OVN	10.0	12.5	-2.50
Brent	72.9	71.5	1.99

	1 day	MTD	YTD	P/E (x)	Div. Yld.
Agriculture	0.0%	0.0%	43.3%	na	na
Banks	0.3%	1.5%	0.9%	2.4	8.7%
Consumer	0.0%	0.6%	-4.0%	22.5	3.8%
Industrial	0.3%	-4.8%	1.7%	17.0	3.8%
Insurance	-0.5%	1.3%	0.3%	2.0	3.0%
Oil & Gas	-0.4%	-3.4%	54.4%	8.3	4.3%
Mkt. Avg. P/E	10.0	Mkt. Avg. Div. Yld	4.8%		

*P/Es are based on the last twelve months trailing earnings
*Dividend yields are based on past year dividend payments

Technical Indicator of Market Position: Relative Strength Index (RSI)

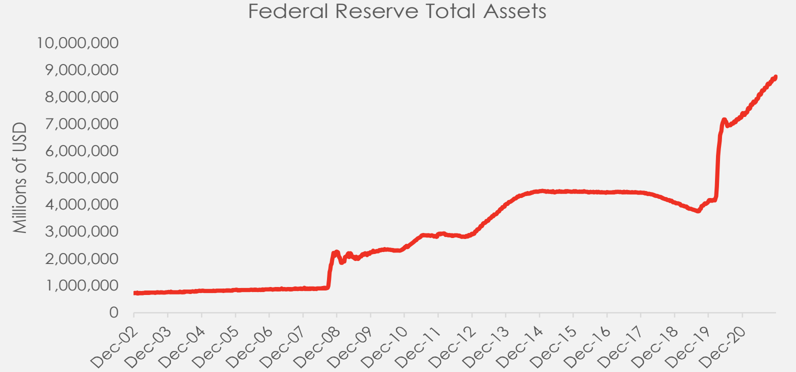


Pan African Market Monitor as at today

Equities	Level	1 day	YTD	P/E (x)	Div. Yld.
BRVM	196.3	-0.3%	35.0%	10.2	5.5%
Egypt	11,514.9	1.0%	6.2%	8.7	1.5%
Kenya	159.1	-0.6%	4.6%	11.7	3.7%
Mauritius	2,024.5	0.7%	22.8%	na	3.0%
Morocco	345.0	0.0%	13.2%	25.5	3.4%
MSCI FM	656.7	-0.8%	14.9%	14.8	2.7%
South Africa	70,896.9	0.1%	19.3%	11.8	4.3%
Tunisia	6,980.9	-0.6%	1.4%	21.8	2.3%
Zimbabwe	289,876.2	3.0%	525.7%	18.5	0.9%

The Fed is set to unwind its asset purchases by Mar-2022

Federal Reserve Total Assets



Source: FRED, United Capital Research

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