

ROCKY ROAD TO RESILIENCE

H1:2024 Nigeria Strategy Report



EXECUTIVE SUMMARY

2023FY unfolded as quite an eventful economic odyssey, with the United States showcasing resilience amid shifting monetary policies, marked by the Federal Reserve's cautious approach and a subsequent decline in inflation.

Looking forward, the International Monetary Fund projects a slowdown in US growth to 1.40% in 2024. The 2024 US elections raise concerns due to high debt levels and possible fiscal expansion.

A growing debt and a dysfunctional congress may affect US credit ratings, adding stress to global financial markets in H1:2024.

We anticipate the Fed will likely implement rate cuts in H1:2024 to boost employment amidst weakening inflationary pressures. Globally, unique challenges shaped the economic landscape in 2023; the United Kingdom grapples with stagflation, the Euro Area faces recession risks, Japan is pressured to abandon its ultra-loose monetary policy, China addresses a property market slump, and Sub-Saharan Africa confronts a brewing debt crisis.

The odyssey continues with anticipated geopolitical tensions in H1:2024, fanning flames of uncertainty on the horizon.

Despite these challenges, strategic opportunities abound in carry trade, locking in bond yields, and market timing, underscoring the importance of astute portfolio management amid evolving economic dynamics and geopolitical uncertainties.

As central banks navigate inflation, growth, and political challenges, prudent positioning is crucial to capitalize on emerging market economies with higher interest rates and mitigate potential risks in the dynamic environment anticipated for 2024.

In the domestic space, Nigeria demonstrated economic resilience with a growth of 2.54% in the third quarter of 2023. The non-oil sector drove expansion, particularly in services, agriculture, manufacturing, and trade. The oil sector saw a slower contraction of 0.85% in Q3:2023, with prospects for recovery in 2024. Looking ahead, services sector, led by financial services and ICT, is poised for growth, but challenges like elevated borrowing costs and inflation persist.

Overall, the 2024FY outlook projects economic growth rates ranging from 2.09% to 3.24%, with a base case projection of 2.71%.

On consumer prices, Nigeria has grappled with escalating inflation, driven by pivotal policy reforms like the removal of the Petroleum Motor Spirit (PMS) subsidy and Foreign Exchange (FX) market liberalization, compounded by structural challenges such as insecurity, logistical hurdles, and storage limitations.

The inflation rate surged from 21.82% in January 2023 to a peak of 28.20% Year-on-Year by November 2023, marking the highest since the 2009 Consumer Price Index rebasing.

Executive Summary Cont'd

Looking ahead to 2024, our inflation forecasts consider fuel prices, Naira depreciation, electricity tariffs, FX supply, and food supply. In the base case, an average inflation rate of 24.39% is projected, while the bull and bear cases anticipate 23.51% and 25.76%, respectively, reflecting diverse scenarios in a complex economic landscape.

In a surprising turn of events, the Central Bank of Nigeria (CBN) witnessed a leadership change in H2:2023 and we saw a shift from unorthodox policies.

The CBN revived OMO auctions to absorb liquidity, leading to a decline in system liquidity. In H1:2024, the CBN is expected to maintain a hawkish stance, using various monetary tools to address inflationary pressures, potentially leading to a 50-100 basis points increase in interest rates.

In 2023, despite macroeconomic hurdles, the Nigerian equities market saw an impressive 45.90% gain, surpassing major global indices like the Nikkei 225 (+28.24% YtD), Euro STOXX 50 (+19.19% YtD), and DOW Jones (+13.70% YtD). This performance also outpaced Sub-Saharan indices such as NSEASI (-27.74%

YtD), GGSECI (+28.08% YtD), and JALSH (+5.26% YtD). Local factors, such as the removal of the PMS subsidy and FX liberalization, fueled positive sentiment in the market. Domestic investors played a pivotal role, compensating for reduced foreign participation, representing 88.78% in November 2023. Key sectoral leaders included Oil and Gas, Banking, Consumer Goods, Insurance, and Industrial Goods sector.

The overall outlook for 2024 is positive, but potential risks like FX shortages and inflation should be considered. Overall, investors are advised to focus on high dividend paying stocks with robust fundamentals in sectors such as Consumer Goods, Industrial Goods, Oil and Gas, and Banking.

Elsewhere, Fixed Income yields are projected to move upward in H1:2024 despite an expected liquidity surfeit, with short-term rates rising faster than longer-term ones. Investors are recommended to hold short positions at the short end of the curve and may consider high returns from money market instruments.

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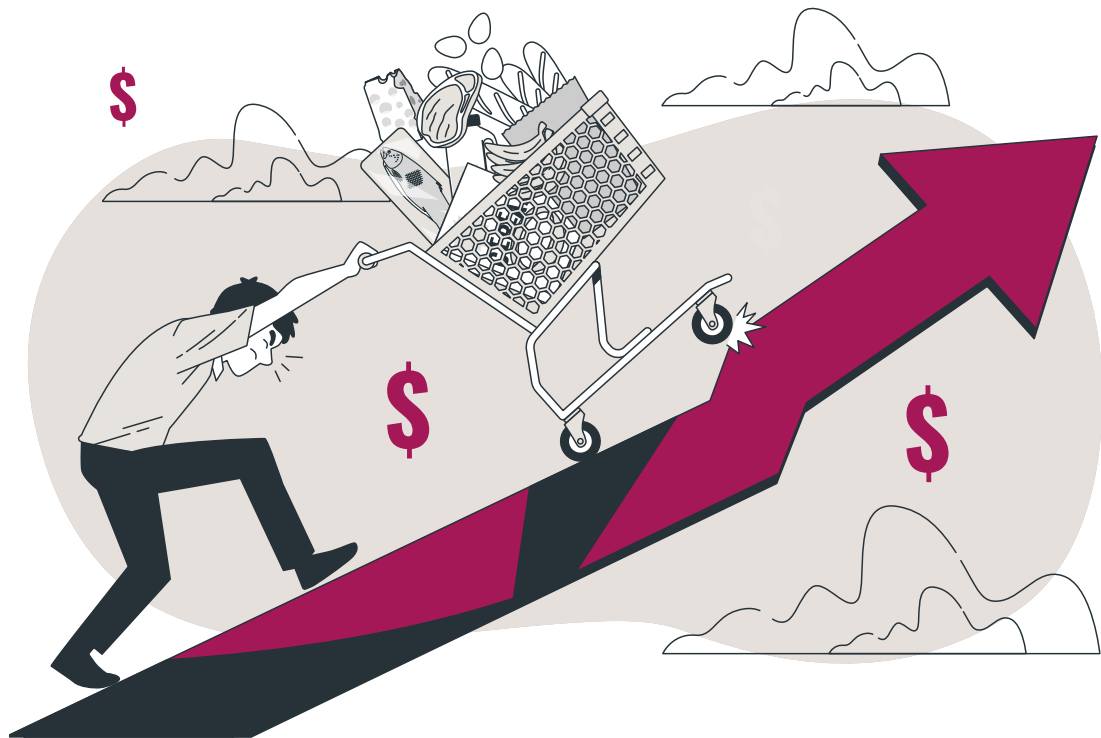
2024 NIGERIA STRATEGY REPORT

GLOBAL REPORT



H2 2023 REVIEW

Peaking Policy Rates and the Battle Against Inflation



The United States: Resilience in the face of challenges

H1:2023 was largely characterized by the decisions undertaken by the Fed to continuously assess the impact of previous rate hikes on the economy. As a result, relative to the cumulative 75bps rate hike in H1:2023, the Fed raised rates just once in July 2023 to a range of 5.25%-5.50% (highest since early 2001), before adopting a hawkish pause for the rest of H2:2023.

Following this, deceleration in prices was observed with inflation declining by 10bps to 3.10% YoY in November 2023 versus the

prior month. 10-year US treasury yields also peaked at 4.98% in October 2023, the highest since 2007, buttressing fears of sustained policy tightening.

However, the resilience of the US markets was underpinned by its jobs market, with unemployment data averaging 3.63% in the months leading to November 2023 relative to an average 3.65% observed in the months leading to November 2022.

Strong employment data is also exemplified in real GDP figures, as

according to the US BLS advance estimate, the US grew by 4.90% YoY in Q3:2023 (vs. 2.10% YoY in Q2:2023).

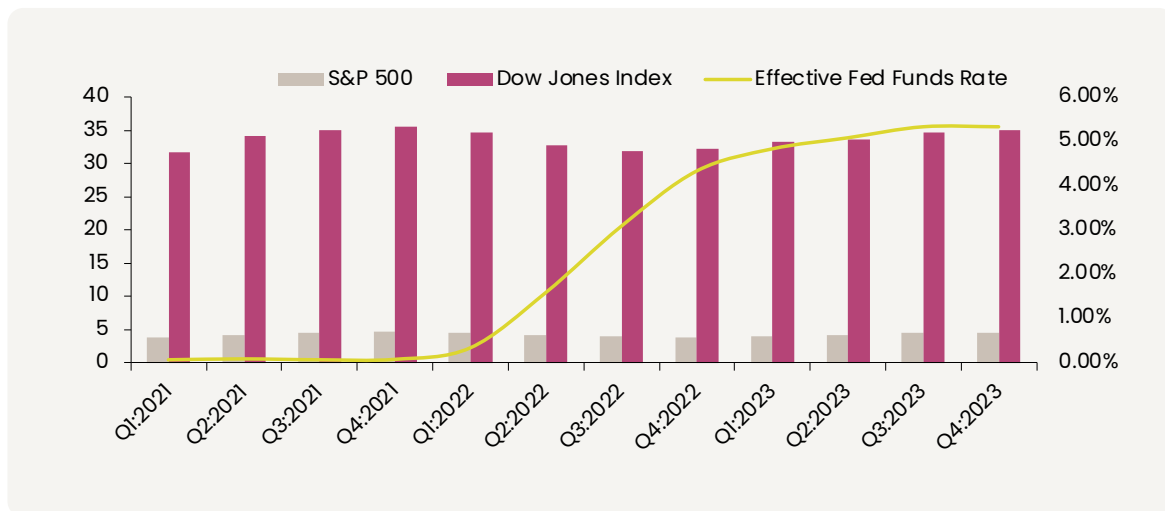
This improvement is alluded to increased private and government spending, which were slightly offset by higher imports.

After the FOMC meeting held in December 2023, the tone of the Fed suggested an end to its hiking campaign, prompting

the market expectation of an early shift toward dovish monetary policies in 2024. The positive response saw the Dow Jones Index reach an all-time high of 37,710.10 index points on December 28, 2023.

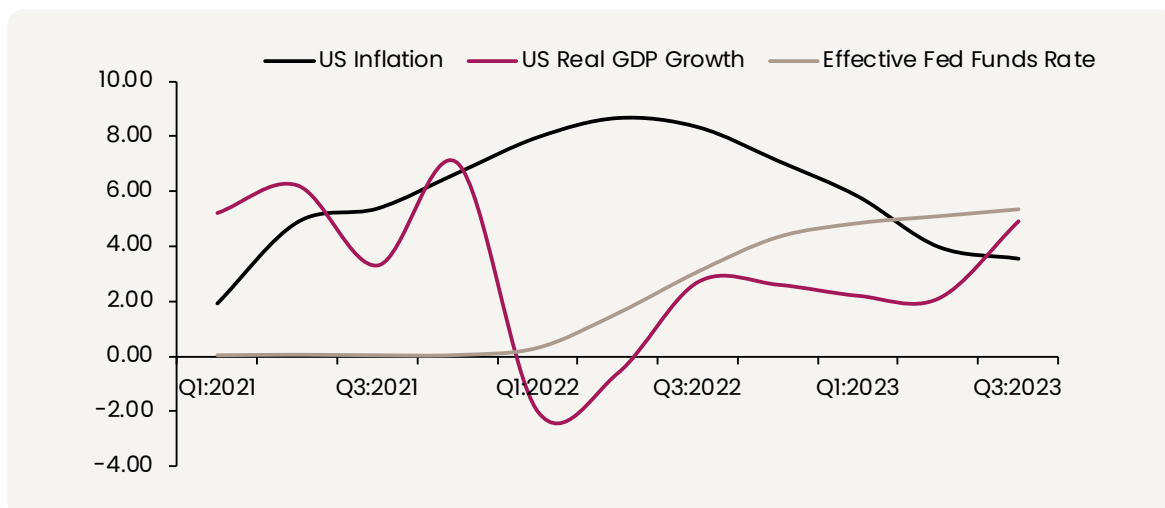
Other indexes, such as the S&P 500, followed suit, closing at a record 4,783.35 index points on the same day, the highest in 2023FY.

Chart 1: Analysis of US Fed Funds Rate, S&P 500, Dow Jones Index



Source: New York Fed, S&P Global, ARM Research

Chart 2: Analysis of US Fed Funds Rate, Real GDP, and Headline CPI (%)



Source: New York Fed, US Bureau of Labor Statistics, ARM Research

Based on the most recent release by the International Monetary Fund (IMF), the US is forecasted to grow by 1.50% YoY in 2023 and slow to 1.40% in 2024.

According to the most recent Fed dot plot, about 90% of the members of the FOMC believe there would be at least one rate cut in 2024, signalling a peak in the Fed Fund rates in the US.

This may precipitate similar measures from other developed economies, prompting an improved economic growth outlook in 2024. However, the risk of higher for longer rates may expose vulnerabilities in the US across its financial

markets, bearing added pressure on debt financing, credit, and real estate activity.

The upcoming US elections in 2024 also serve as a point of contention given current debt levels and the possibility of fresh fiscal expansion.

An increasing debt profile and a dysfunctional congress is likely to impact US credit ratings, potentially inducing further stress on global financial markets in H1:2024. In our view, the Fed is likely to embark on rate cuts in H1:2024, to bolster employment amid petering inflationary pressures.

The United Kingdom: Skirting with Stagflation

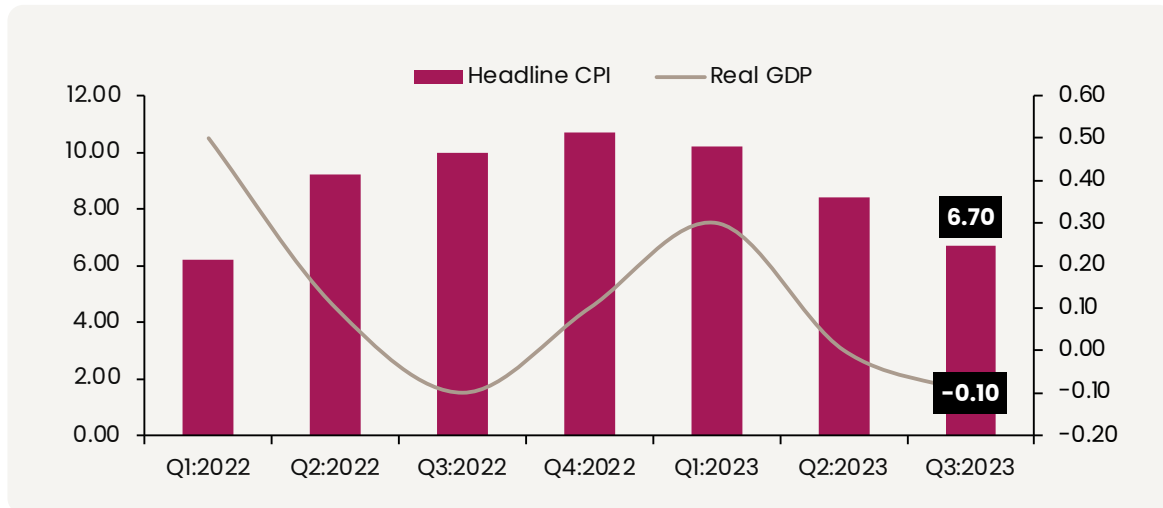
In the UK, the trade-off between inflation and economic growth was more evident in H2:2023. According to the Office of National Statistics (ONS), the headline Consumer Price Index (CPI) rose by 3.90% YoY in November 2023, down from 4.6% in October 2023. Since December 2021, the Bank of England worked tirelessly to rein in inflationary pressures with 14 consecutive rate hikes to 5.25%, which led to effectively lowering prices in the UK to a two-year record low.

However, this was at the expense of growth resulting in what is termed as stagflation. According to the ONS, the UK's economy declined in Q3:2023 (-0.10% GDP), relative to a stagnant growth (0% GDP) in Q2:2023, according to its revised figures.

The UK's paltry growth and surging prices dampened investor interest, with the FTSE 100 recording a meagre 3.78% YtD in 2023FY (vs. 13.70% YtD for the Dow Jones Index). Nonetheless, the Bank of England (BoE) in its statement made it categorically clear that it is committed to sticking with its 2.00% inflation target mandate.

Despite holding its policy rates constant in its last two meetings at 5.25%, the BoE opines it is unlikely to switch to a dovish policy in the short term, until economic data justifies same.

Chart 3: Analysis of UK Real GDP and Headline CPI (%)



Source: Office of National Statistics, ARM Research

Based on the most recent release by the IMF, the UK is forecasted to grow by 0.50% YoY in 2023 and marginally improve to 0.60% in 2024.

Like the US, we expect the possibility of rates staying higher for longer to pose considerable risks to the UK economy.

Refinancing into higher mortgage rates due to elevated policy rates may cause

a drag on consumer and business spending, further depressing economic activity.

In 2024, we also foresee political activity in the UK to take centre stage following a looming mortgage crisis, stagflation fears and limited headroom for highly levered fiscal expansion plans.

The Euro Area: Recession Risks Become Glaring

In the Euro Area, fears of a recession appear to dominate the investment landscape following periods of weak growth.

The stunted growth can be attributed to the geopolitical risks within the region, as the Russia-Ukraine conflict stretches on with little signs of abatement.

The possibility of an escalation in the crisis in the Middle East adds to the fears of heightened political instability. In 2022,

an upward trend in consumer prices coerced the European Central Bank (ECB) to undertake ten (10) consecutive rate hikes, enforcing its single mandate of price stability.

However, after the bank's most recent policy meeting, the interest rate on the main refinancing operations, marginal lending facility and the deposit facility were left unchanged at 4.50%, 4.75% and 4.00% respectively.

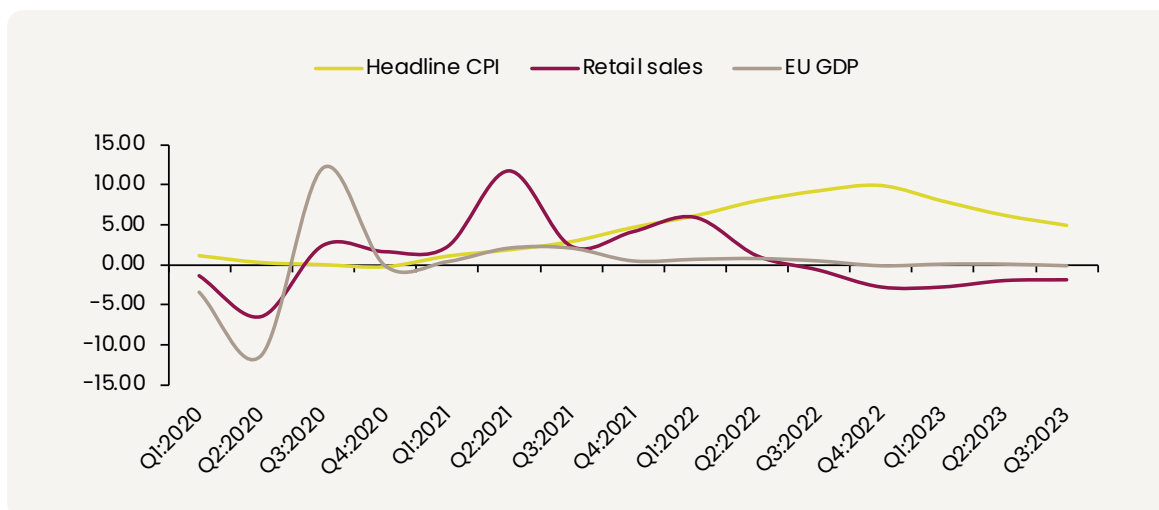
The economic contraction in the Euro Area may be attributed to the high interest expenses and fuel costs, a by-product of significant strides undertaken to diversify from Russian energy.

Nonetheless, slowdown in headline CPI growth induced the ECB to hold rates steady in two consecutive meetings, with

ECB staff projecting a steady decline in prices during 2024 before hitting its 2.00% target in 2025.

This led to a relatively strong stock market performance in 2023, with the Euro STOXX 50 noting a 19.19% YtD performance (relative to FTSE 100: 3.78% YtD and the Dow Jones Index: 13.70% YtD).

Chart 4: Analysis of Euro Area real GDP, Retail Sales, and Headline CPI (%)



Source: Eurostat, ARM Research

Based on the most recent release by the IMF, the Euro Area is forecasted to grow by 0.70% YoY in 2023 and improve to 1.20% in 2024.

Unlike the US Fed, we expect that the ECB may begin its rate cuts later in H2:2024, as price stability remains its sole mandate.

Like other developed economies, we believe policy rates may have peaked in

the Euro Area, but we do not rule out the possibility of a 25bps hike in H1:2024.

Moreover, consumer confidence in the Euro Area appears to be waning, as retail sales are yet to rebound to 2021 levels.

Further shocks to consumer wallets are likely to depress economic output even further in the Euro Area in H1:2024.

Japan: An End to Yield Curve Control?

The Bank of Japan (BoJ) changed its monetary policy in H2:2023 by allowing it to have less control over the yields on its 10-year Japanese government bonds. Having previously set a 0% target, these changes mean its Yield Curve Control (YCC) policy currently references a 1% upper bound for 10-year Japanese government bonds as its limit.

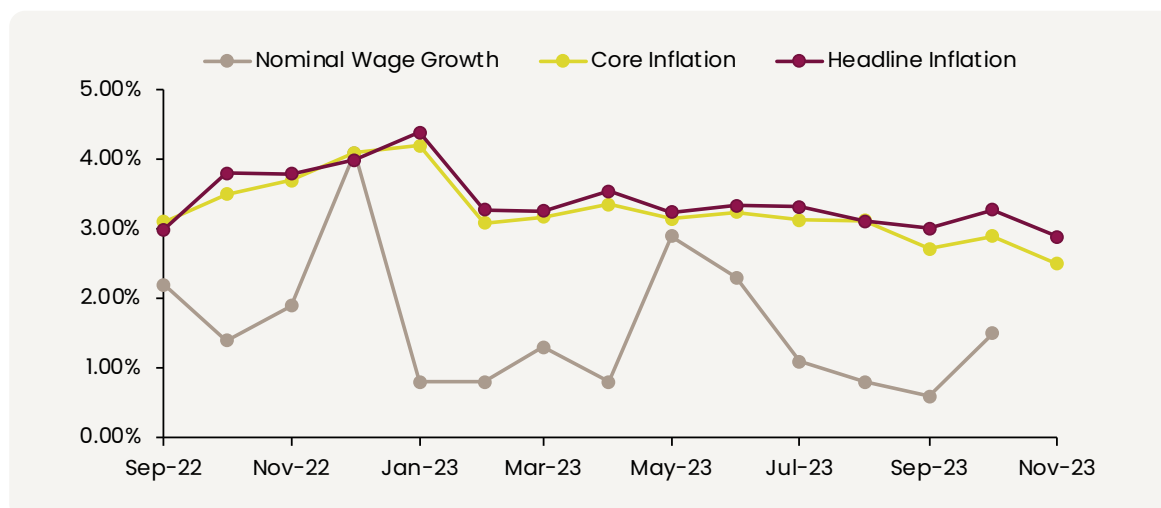
To achieve this, the bank engages in large scale bond purchases and adopts flexible responses for each maturity to bring yields to within the reference range.

Japan also stands as a dovish outlier among its developed peers, with its monetary policy rate set constant at

-0.10% since 2016. However, with core inflation exceeding its 2.00% target rate in over 20 successive months, the BoJ has faced increasing pressure to abandon its loose monetary policies.

The bank has maintained its position, insisting that current price trajectory is largely underpinned by cost driven factors, rather than demand. In 2024, key wage negotiations by the Japanese Trade Union Confederation demanding at least a 5.00% increment from employers will be key in determining the direction of monetary policy.

Chart 5: Trend of Japanese Inflation, Wage Growth (%)



Source: Statistics of Japan, ARM Research

Based on the most recent release by the IMF, Japan is forecasted to grow by 2.00% YoY in 2023 and decline to 1.00% in 2024.

The BoJ is likely to exit its YCC policy when it believes inflation drivers are more

demand-pull than cost-push. The market believes that an end to its YCC policy would precipitate an end to its negative policy rates, which could prove to be costly for financial institutions (including

the BoJ) currently holding its liabilities at ultra-low rates. While we expect the BoJ to maintain its expansionary policies in H1:2024, the market expectation of a

possible policy unwinding will be hinged on strong price growth reflective of a positive wage-inflation cycle.

China: A Property Market Slump

During much of H1:2023, the Chinese government played a passive role during its property market decline which affected much of its economy.

The decline in the value of housing assets (which account for 60-70% of assets of Chinese households, according to Bloomberg) had a major impact on the spending habits of consumers.

This led to a volatile growth path in H2:2023 which underscored the persistent fragility in economic recovery, weak consumer spending, and lower exports. China's GDP is primarily composed of real estate, which makes about 25% of the country's total GDP.

Since Chinese companies utilize real estate as collateral for loans, the housing market slump was more widespread than previously thought.

Additionally, the low prices resulted in even less private investment, household consumption, and job creation. In its response, the Chinese government

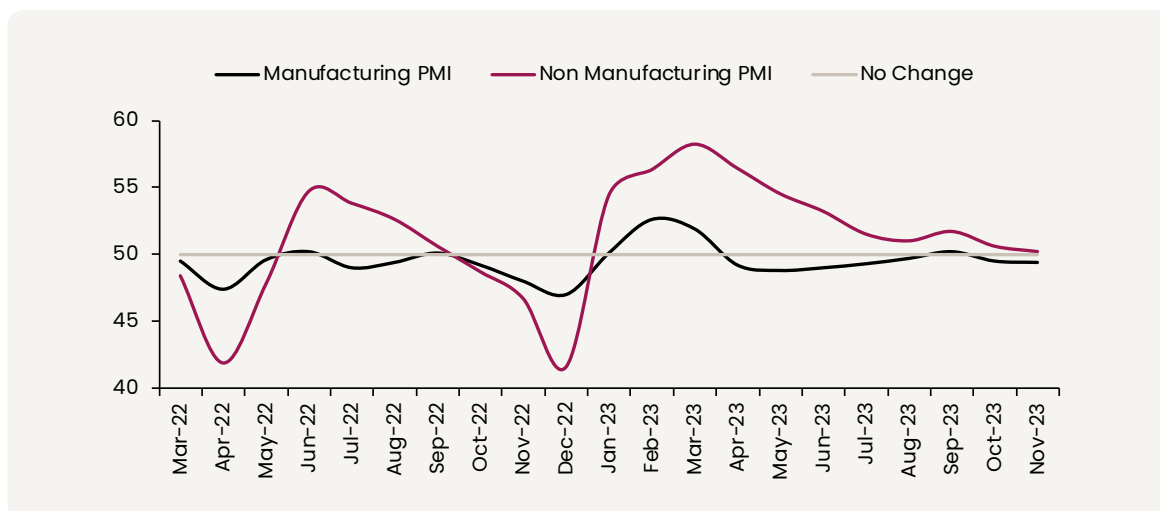
adopted various measures to provide liquidity and shore up economic growth.

In August 2023, the People's Bank of China (PBoC) cut its policy rate, and lowered rates by the largest amount since 2020.

The PBoC lowered the rate on its medium-term lending facility by 15bps to 2.50% and its short-term policy rate by 10bps to 1.80%. In October 2023, the Chinese government announced a mid-year fiscal deficit adjustment for the first time since the Asian Financial Crisis in 1998-2000.

Another noteworthy intervention is the PBoC Reserve Requirement Ratio Cut by 25bps to 7.40%, freeing approximately USD69bn of funds for lending to various sectors.

Chart 6: Analysis of China's Manufacturing and Non-Manufacturing PMI



Source: National Bureau of Statistics of China, ARM Research

Based on the most recent release by the IMF, China is forecasted to grow by 5.00% YoY in 2023 and decline to 4.20% in 2024. The exceptional growth China recorded over the last two decades have begun to fade over fears of property market implosion and subsequently, deflation.

While significant measures have been put in place by the Chinese government, current purchasing managers' index (PMI) data signal that additional support may be needed.

According to the Chinese National Bureau of Statistics (NBS), the official

manufacturing PMI dropped slightly to 49.4 in November 2023 from 49.5 in October 2023.

The official non-manufacturing managers' PMI slipped to 50.2 in November 2023 from 50.6 in October 2023. This was the weakest reading since December 2022.

We expect global growth in H1:2024 to be subdued by weaker China output (and exports), as we expect large fiscal interventions by the Chinese government to be limited by its expanding leverage levels.

Sub-Saharan Africa (SSA): Brewing Debt Crisis

Many countries in Sub-Saharan Africa, due to import dependency and commodity-centric industries, are much more susceptible to business cycles.

This is why many SSA countries were vulnerable to the impact of the Russia-

Ukraine conflict as surging commodity costs alluded to higher import bills and domestic prices.

According to data from Centre for Prospective Studies and International Information (CEPII), Russia and Ukraine

represent about 50% of Africa’s wheat imports. This gravely impacted their revenues and the ability to finance highly levered fiscal deficits, leading to a debt crisis.

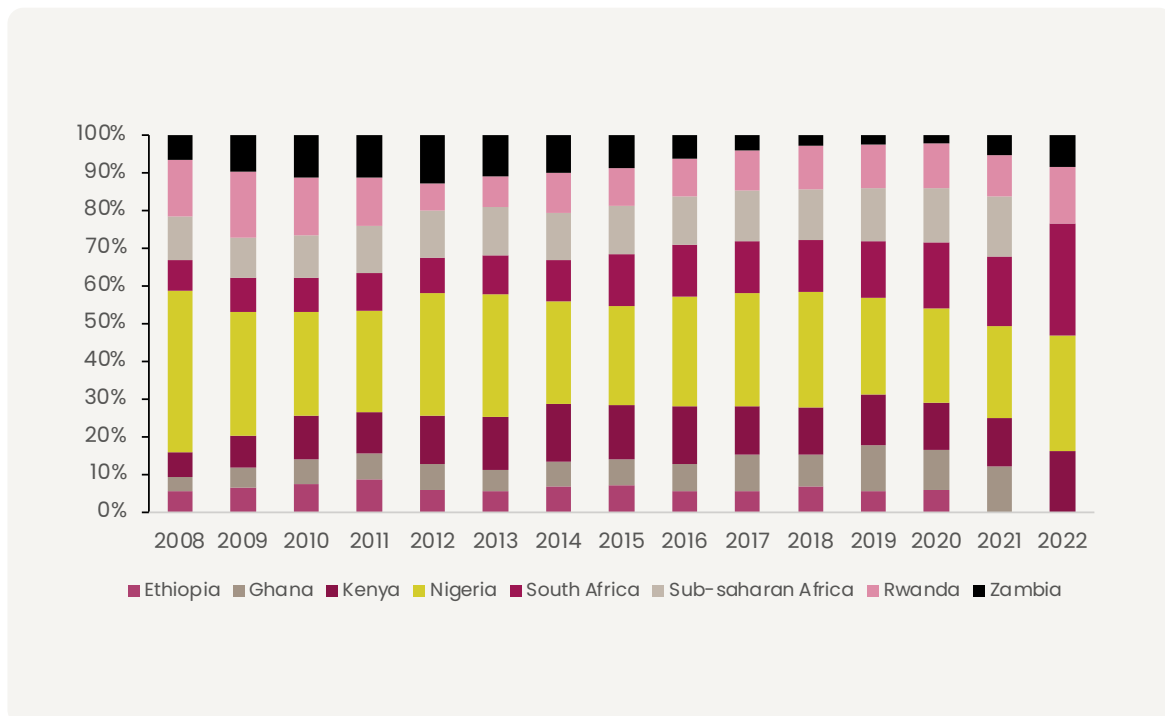
This was evident in countries like Ghana, Rwanda, Kenya, Tanzania, Zambia and most recently Ethiopia.

The aforementioned nations—aside from Ethiopia—are currently actively negotiating with the IMF over the

significant bailout funds required to stabilize their economies.

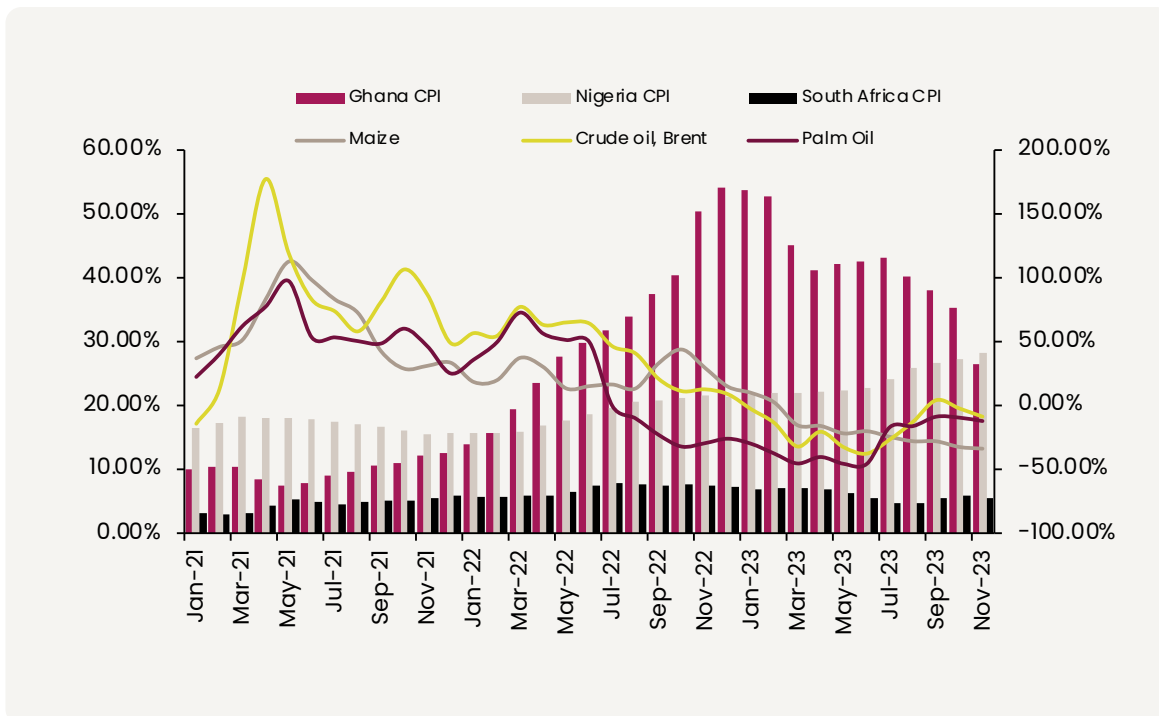
These intervention funds would be focused on revitalizing key industries while supporting welfare schemes in shielding the most vulnerable of its population from the impact of eroded purchasing power.

Chart 7: Analysis of Total Reserves as a % of Foreign Debt in Select SSA Countries



Source: World Bank, ARM Research

Chart 8: Trend Analysis of Select Commodities and Headline Inflation (% YoY growth)



Source: NBS, StatsGhana, StatsSA, World Bank, ARM Research

Based on the most recent release by the IMF, SSA is forecasted to grow by 3.30% YoY in 2023 and improve to 4.00% in 2024.

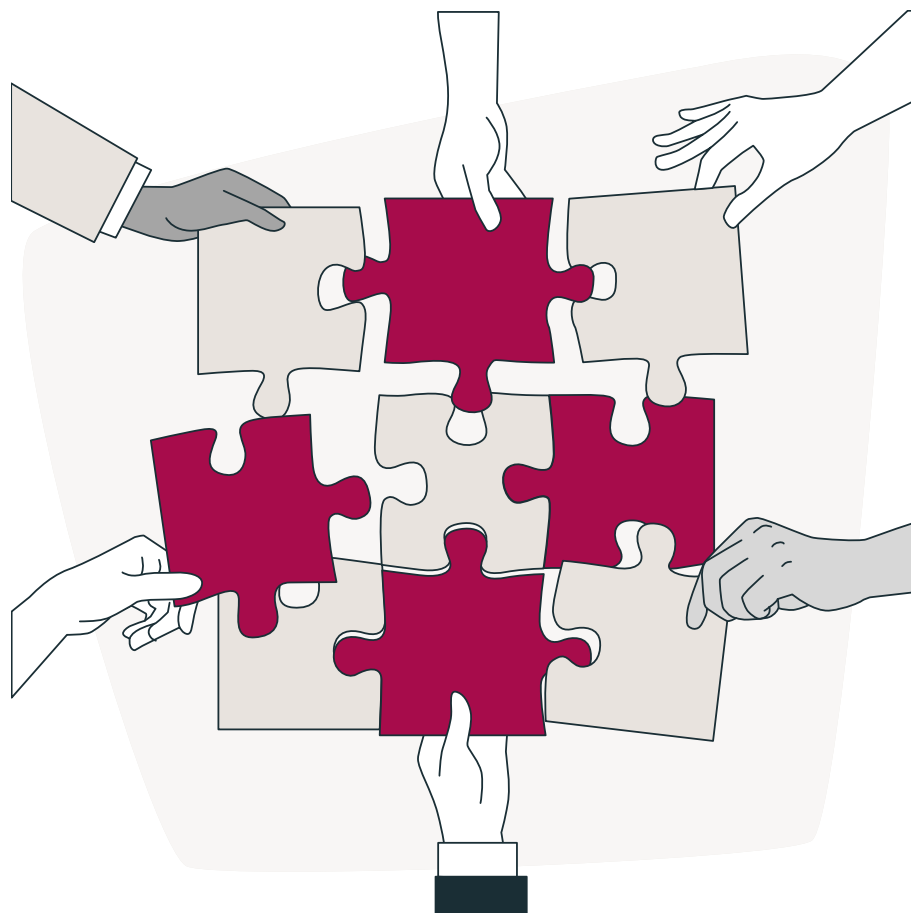
In early H1:2023, SSA provided an opportunity for strong returns relative to developed markets.

However, as major central banks in the US and Europe sustained their hiking spree later into the year, real yield differentials between SSA countries and developed nations narrowed, and a capital flight was observed.

While we do not foresee major changes in H1:2024, we expect some respite in H2:2024 as some developed countries relax restrictive monetary policies as their domestic prices descend.

An escalation of geopolitical tensions is likely to impair already low reserve coffers in SSA with a stronger USD, putting additional pressure on exchange rates and prices.

MACRO STRATEGY



In H2:2023, we witnessed relatively fewer shocks to the macro scene, but we expect geopolitical tensions in H1:2024 to hold sway given the significance of the elections expected to take place during the period.

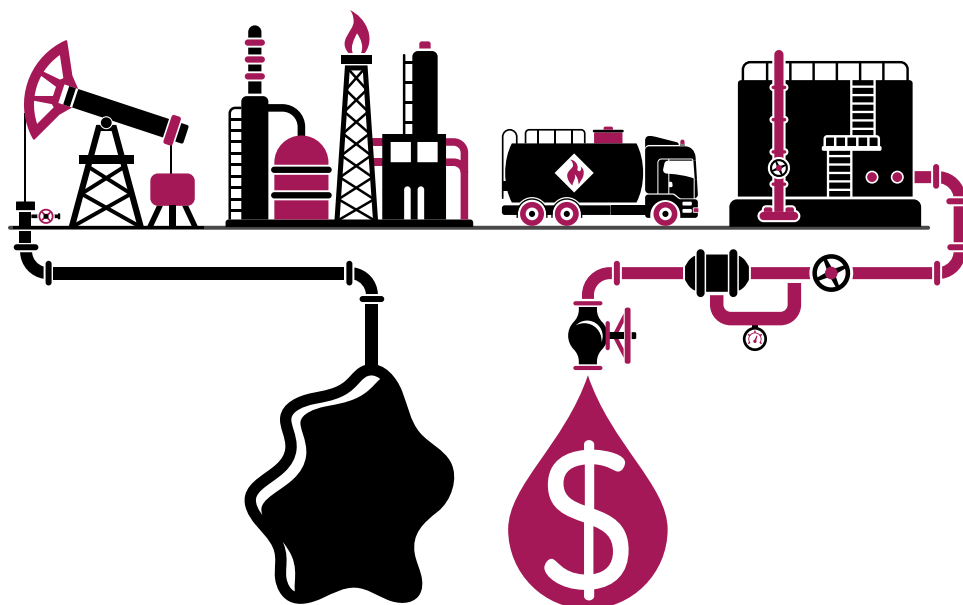
A major focal point being the presidential election in Taiwan, and the elected government's policy posture toward China is one to observe. The thawing relationship between China and US may worsen given the latter's support for Taiwan's formal declaration of independence. Nonetheless, we opine that opportunities for positive risk-adjusted returns abound in the following strategies:

- Carry trade: Many economies today have record high policy rates, however outliers exist in countries like Japan, with a relatively stable

economy and ultra-low rates. These provide an opportunity to capture value by investing low-yielding funds in emerging market economies with higher interest rates.

- Lock in bond yields: The view that monetary policy rates have peaked may provide value by locking in prevailing high bond yields. In summary, locking in yields at current levels would still be compelling in an economic downturn given potential upside from capital gains.
- Market timing: Market timing is key for global equities and if economic growth picks up, fundamentally sound cyclical stocks are likely to outperform

CRUDE OIL MARKET: A RESURGENCE



Crude oil prices experienced significant volatility in H1:2023. A surge in demand from Chinese buyers following the easing of COVID-19 restrictions helped prop up prices in the early months.

However, selloffs in futures markets, rising US crude oil stocks, and a decline in refining margins weighed heavily on the value of spot benchmarks throughout the period. Towards the end of H1:2023, oil prices staged a notable recovery due to a series of supply disruptions, including reduced availability for immediate delivery in Europe, a depletion of US oil stocks, disruptions to oil exports from the Ceyhan port, and production cuts implemented by OPEC and Russia.

In the opening month of H2:2023, average crude oil spot prices rebounded to USD78.09pb, reversing the decline witnessed in June 2023, which had seen prices fall to USD72.55pb.

This rebound was fuelled by a cessation of selling pressure in futures markets and a shift towards positive market sentiment driven by optimism about improving global oil market fundamentals.

Spot prices were further supported by higher refining margins across major refining hubs and increased demand from Asian buyers, including Chinese refiners. Average crude benchmark prices reached new heights in September 2023, with Brent and WTI crude benchmarks soaring by 8.78% MoM and 9.88% MoM respectively, to average USD93.72pb and USD89.43pb – the highest levels recorded since August 2022.

This surge was primarily attributed to extended voluntary production cuts by Saudi Arabia and Russia through the end of the year, as well as exceptionally low crude oil and distillate inventory levels.

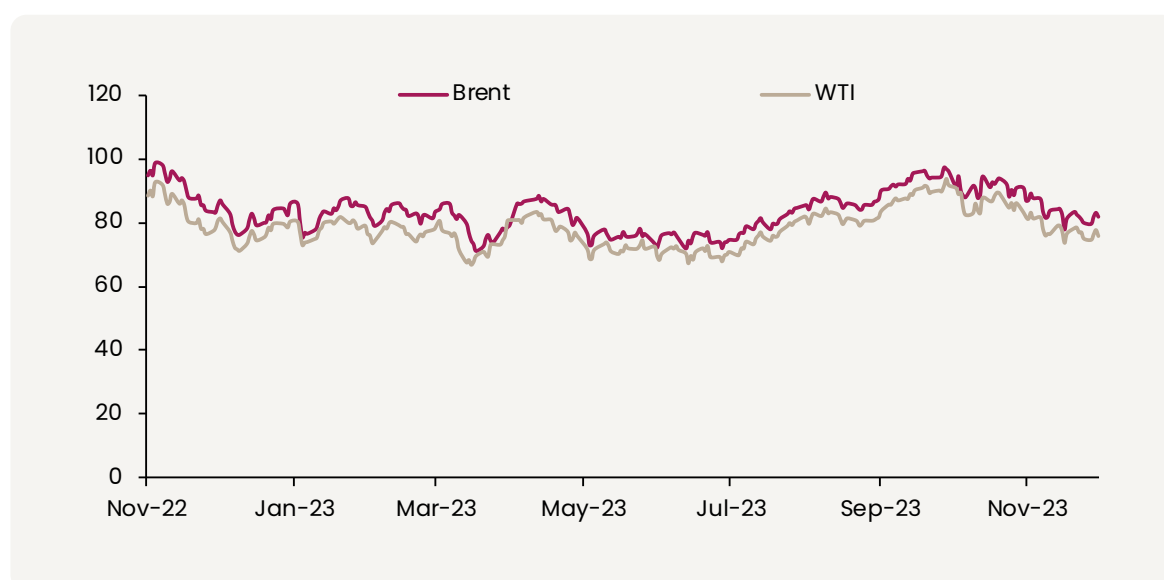
Additionally, crude oil prices were boosted by the sustained rally in futures prices since July 2023 and increased financial flows in futures markets.

Oil prices extended its rally into the first week of October 2023, as traders reassessed geopolitical risk following Hamas' attack on Israel on October 7, 2023. However, later in the month, crude prices began to retreat, averaging USD90.78pb in October 2023 as concerns

surrounding the supply-side impact of the Israel-Hamas conflict subsided and demand concerns emerged from the high-interest-rate environment, which threatened to impede economic growth and consequently diminish oil demand.

Furthermore, increasing crude oil production in the US alongside diminishing consumption levels in China continue to lay downward pressure on crude oil prices.

Chart 9: Crude Oil Price Trajectory (WTI & BRENT)



Source: EIA, ARM Research

Global Production: Rising Global Production Erodes OPEC Cuts

Global crude oil production surged in H2:2023, increasing by 80bps to average 101.90MMbpd compared to 100.94MMbpd in H1:2023.

This uptick occurred despite OPEC's supply cuts and extended voluntary production reductions from Saudi

Arabia and Russia, which saw average total OPEC production within the period decline by 2.68% to 32.95MMbpd from 33.86MMbpd in H1:2023.

The primary driver behind this production increase was a boost in output from non-OPEC countries including Brazil (+22.97%

to 4.61MMbpd), Guyana (+11.79% to 0.40MMbpd), and the United States (+4.50% to 22.25MMbpd) in H2:2023. Expectations are for global production

levels to continue to increase in H1:2024, driven by higher production in the US and other non-OPEC countries.

Global Consumption: A Mixed Bag

Average global oil demand in H2:2023 sustained its upward streak, increasing by 1.32% to 101.35MMbpd (vs. 100.03MMbpd in H1:2023).

oil consumption remains below post pandemic levels as supply constraints arising from the Russia-Ukraine crisis persists.

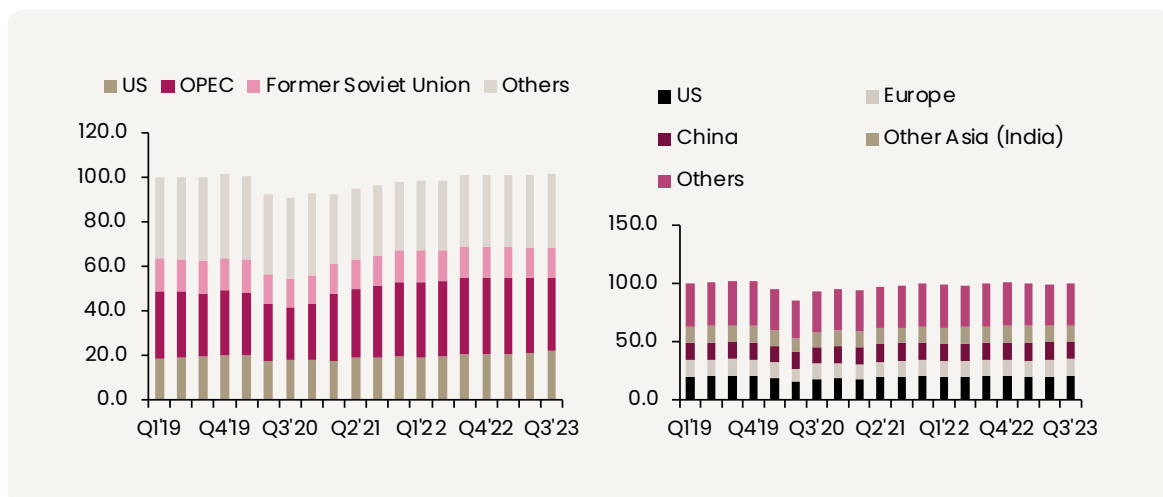
Notably, Europe, US, the Eurasia region (including Ukraine, Tajikistan, Turkmenistan, Azerbaijan, and Lithuania), and Russia witnessed increases in consumption levels in H2:2023.

In contrast, China witnessed a decline in oil consumption during the period at 15.74MMbpd (vs. 15.99MMbpd in H1:2023), underpinning a slowdown in the Chinese economic growth.

Oil demand in Europe witnessed a rebound within the period to 14.76MMbpd (vs. 13.90MMbpd in H1:2023). However,

Chart 10: Global Crude Oil Production

Global Crude Oil Consumption Q1:2019 – Q3:2023



Source: EIA, ARM Research

Volatility Likely to Persist

In H1:2024, the oil and gas sector is poised for a dynamic period marked by a tug-of-war between various influencing factors. Crude oil prices, after a rollercoaster ride in 2023, are expected to continue their volatile journey.

Geopolitical tensions, economic indicators, and the delicate balance of supply and demand will be the major drivers of this price fluctuation. Global crude oil production appears to be on the rise, propelled primarily by non-OPEC nations such as the US, Brazil, and Guyana.

Consequently, the effectiveness of OPEC+'s production cuts might face challenges as non-member countries boost output. Consumption patterns across the globe are a mixed bag. While some regions such as Europe, the US, and Eurasia are experiencing steady growth in oil consumption, there are concerns about potential stagnation or even decline in markets such as China.

The dependence of oil demand on the economic health of these key markets

cannot be overstated, with an economic slowdown potentially dampening oil demand growth.

On the balance of factors, the outlook for H1:2024 hinges on several key factors. Geopolitical developments (conflicts or resolutions) will continue to have an immediate impact on oil prices and global supply chains. Economic indicators, especially in China and Europe, will play a pivotal role in dictating oil demand trends.

Additionally, ongoing decisions made by OPEC+ regarding production levels will significantly influence the dynamics of supply. Against this backdrop, the forecast for H1:2024 anticipates sustained price volatility. Despite increased production efforts, supply might struggle to meet the growing demand, which could potentially support price levels.

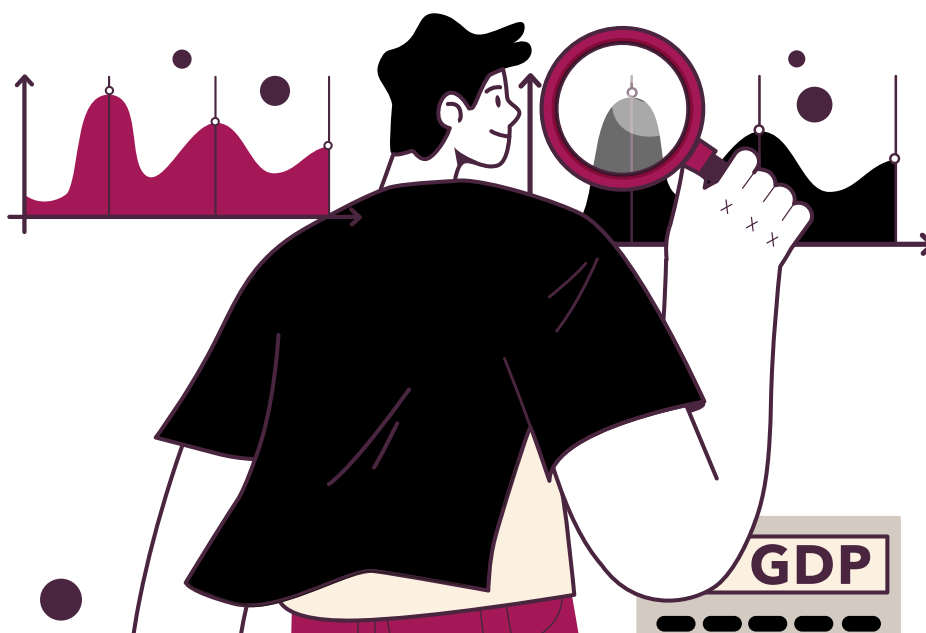
Hence, our base case forecast for Brent is USD80pb, while our bull case forecast stands at USD95pb.

DOMESTIC MARKET



GROSS DOMESTIC PRODUCT

Macroeconomic Headwinds Leave Little Room for Growth



Following a tumultuous beginning in Q1:2023, marked by a modest year-on-year (YoY) increase of 2.31% compared to the stronger 3.52% YoY growth in Q4:2022, the Nigerian economy staged a recovery, demonstrating consecutive growth in both Q2:2023 (+2.51% YoY) and Q3:2023 (+2.54% YoY).

This resurgence occurred against a backdrop of macroeconomic challenges such as FX illiquidity, inflationary pressures, and high interest rates, compounded by persistent structural issues like insecurity, inadequate infrastructure, oil theft, and vandalism.

However, the overall pace of economic expansion throughout 9M:2023 decelerated to 2.45% YoY, down from 2.96% YoY in 9M:2022. As expected, the impetus for growth in Q3:2023 primarily

stemmed from the non-oil sector, despite its moderate uptick of 2.75% YoY, a decline from the more robust 4.27% YoY in Q3:2022.

This deceleration was evident across key sectors, namely Agriculture (1.31% YoY vs. 1.50% YoY in Q2:2023), Manufacturing (0.48% YoY vs. 2.20% YoY in Q2:2023), Services (3.99% YoY vs. 4.42% YoY in Q2:2023), and Trade (1.53% YoY vs. 2.41% YoY in Q2:2023)

Of note, the Oil sector, while experiencing a contraction in the quarter (-0.85% YoY vs. -22.61% YoY in Q3:2022), recorded its slowest decline in thirteen (13) quarters, attributable to an improvement in oil production during this period (1.45MMbpd in Q3:2023 vs. 1.22MMbpd in Q2:2023).

Oil Sector: A Glimmer of Recovery?

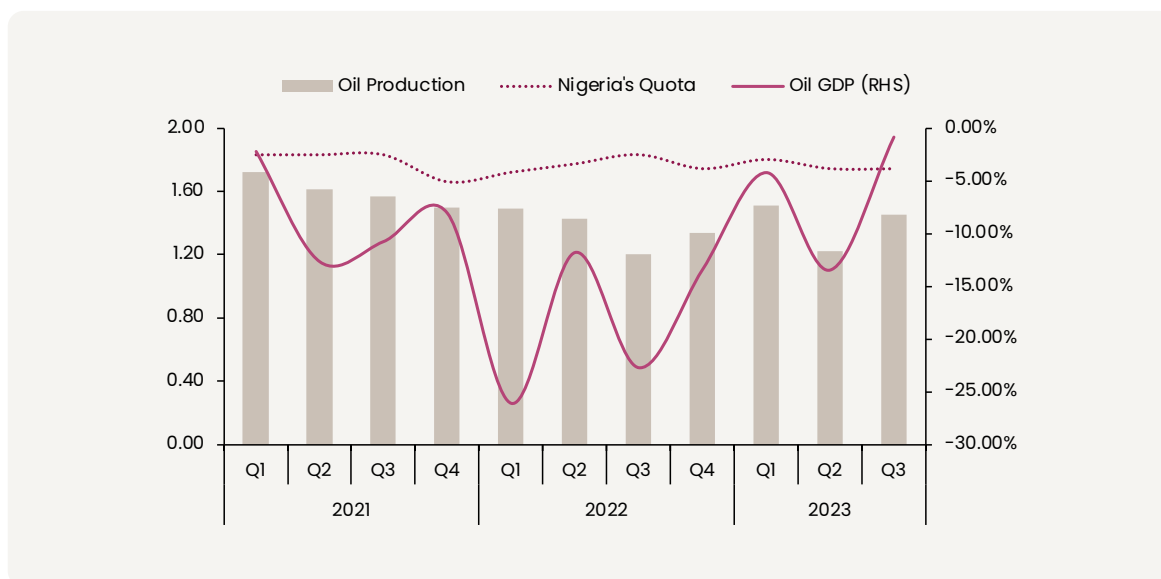
Nigeria’s oil production has continued to be dismal and short of the 2023 OPEC+ quota. For context, average crude oil production in Q3:2023 stood at 1.45MMbpd, representing a 20% shortfall of the 1.74MMbpd OPEC quota.

Average production levels were supported by the sustained increase in production during Q3:2023 (July: 1.09MMbpd; August: 1.18MMbpd; September: 1.35MMbpd). However, we still note the existence of prevailing challenges in the sector, including oil theft, vandalism, pipeline leakages and poor infrastructure.

Consequently, the oil sector declined by 0.85% YoY, the lowest contraction since Q2:2020.

Moving into 2024, barring any further disruptions to oil production, we expect Nigeria’s crude oil production to rise. However, given that OPEC+ in November 2023 cut down Nigeria’s 2024 crude oil quota to 1.58MMbpd, we do not see production levels largely exceeding the quota, despite the 1.78MMbpd projection in the 2024 budget.

Chart 11: Trend in Oil Production vs Nigeria’s Quota and Oil GDP



Source: OPEC, NBS, ARM Research

The non-oil sector moderated by 2.75% YoY in Q3:2023 (vs. 4.27% YoY in Q3:2022), on the back of slow growth in agriculture, manufacturing, trade, and services sectors.

Services Sector: Consistently Driving Growth despite Economic Issues

The services sector, a substantial component of the non-oil segment, recorded a 3.99% YoY growth, marking its slowest expansion since Q1:2021. Notably, the financial services sub-sector emerged as the growth driver, surging by 28.21% YoY in Q3:2023 (vs. -12.70% YoY in Q3:2022).

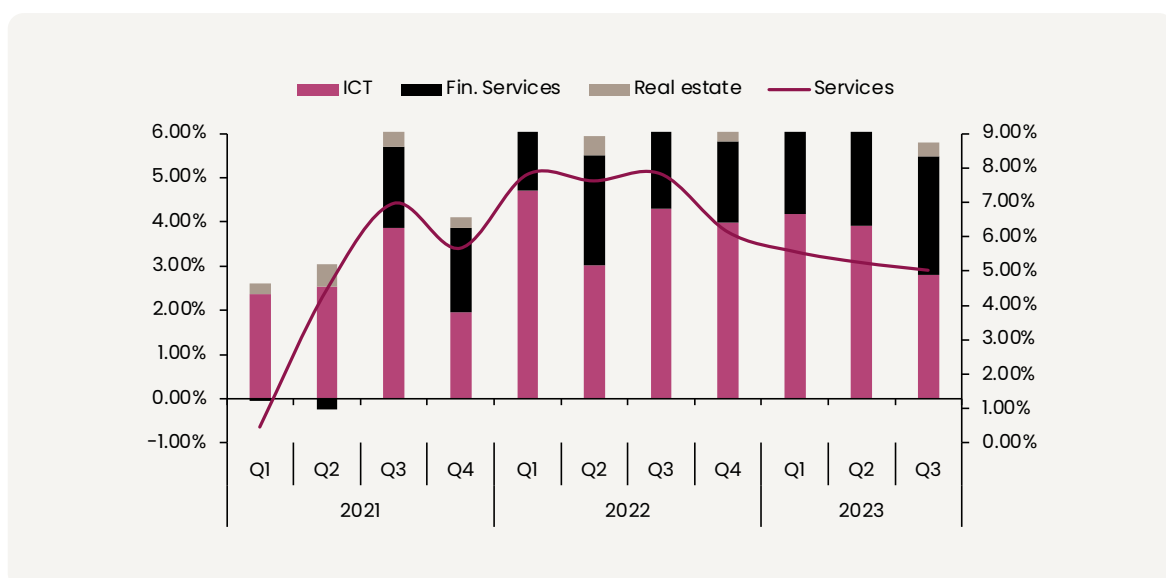
Financial institutions notably expanded by 29.66% YoY, largely benefiting from the ripple effects of the FX liberalization policy, which significantly bolstered banks' earnings during the quarter. This growth trajectory could also be attributed to the increased credit extended to the private sector, amounting to NGN168.74trn in Q3:2023, up from NGN141.26trn in Q2:2023, potentially contributing to the sub-sector's positive performance.

Conversely, the ICT sector experienced a slowdown, clocking in at 6.69% YoY in Q3:2023 (vs. 8.60% YoY in Q2:2023), aligning with a similar deceleration in the telecommunications sector at 7.74% YoY growth (vs. 9.74% YoY in Q2:2023).

Nonetheless, the sector maintained a positive trajectory, largely due to the sustained utilization of digital platforms for transactions, particularly in response to the cash crunch crisis observed in Q1:2023.

This continued reliance on digitization alongside diversified earnings sources likely mitigated the sector's slowdown, showcasing its resilience amidst challenging market conditions.

Chart 12: Attribution Analysis of Services GDP Sector Growth and Key Sub-Components



Source: NBS, ARM Research

For the third (3rd) consecutive quarter, the manufacturing sector maintained its positive momentum. However, growth in Q3:2023 (+0.48% YoY) was the slowest growth since Q4:2022 (+2.83% YoY).

We attribute this sluggish growth to persistent inflationary pressures that have eroded consumer purchasing power, coupled with factors like FX

devaluation and the elevated borrowing costs experienced by manufacturers, all of which have collectively subdued the sector's growth prospects. This is further showcased by the decline in the Stanbic IBTC PMI figures, which showed that the PMI for Q3:2023 fell to 51.0 (vs. 53.67 in Q2:2023).

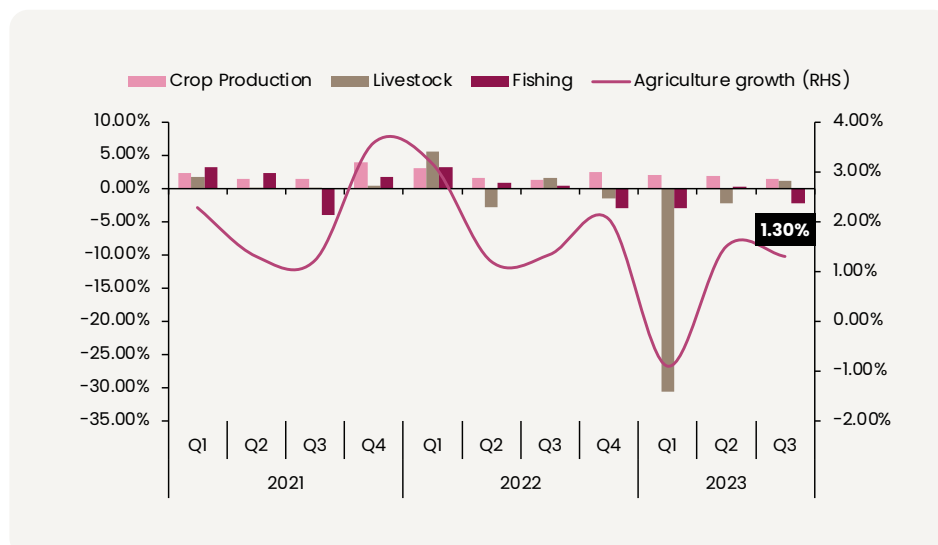
Agriculture Sector: Lingering Issues Resurface

Following a contraction of -0.90% YoY in Q1:2023, the agriculture sector rebounded with a +1.50% YoY growth in Q2:2023.

However, this momentum decelerated in Q3:2023, recording a slower growth of 1.30% YoY. The sector grappled with ongoing insecurity challenges, heightened input costs, and inadequate storage facilities, contributing to this slowdown. Notably,

subsectors like Crop production (+1.35% YoY), Livestock (+1.18% YoY), and Fishing (-2.33% YoY) experienced weaker growth, while Forestry (+2.21% YoY) displayed higher growth, serving as a buffer against the overall slower sectoral growth.

Chart 13: YoY Agric GDP Growth Vs Crop Production, Livestock & Fishing



Source: NBS, ARM Research

Trade Sector: Subsidy Removal and FX Depreciation Weigh on Growth

After a modest recovery from sluggish growth in Q1:2023 (+1.31% YoY) driven by the cash crunch crisis, the sector encountered a setback in Q3:2023 (+1.53% YoY compared to 2.41% YoY in Q2:2023).

This decline followed the removal of fuel subsidies and the depreciation of the Naira during the quarter. These factors

contributed to soaring transport prices, resulting in a substantial contraction (-35.85% YoY) within the transportation sector. Moreover, the depreciation of the exchange rate amplified the cost of operations, stifling growth within the trade sector.

Outlook: Leveraging on Low Base Effect

Oil Sector: We are optimistic about growth in the Oil sector in H1:2024, driven by our expectations of higher crude oil production, given the government's revitalized efforts in curbing oil theft and pipeline vandalism.

Furthermore, the low base effect from 2023FY would help boost the sector's performance in the coming year.

However, we note that the new OPEC+ quota of 1.58MMbpd may limit upside alongside persistent structural challenges (poor infrastructure, shutdown of refineries and oil theft), which have the potential to impede crude oil production and overall sectoral growth.

Non-Oil Sector: Similarly, we believe that the non-oil sector will maintain an upward trend in H1:2024, based on our belief that the economy would recover from the implementation of the recent policy reforms by the new administration

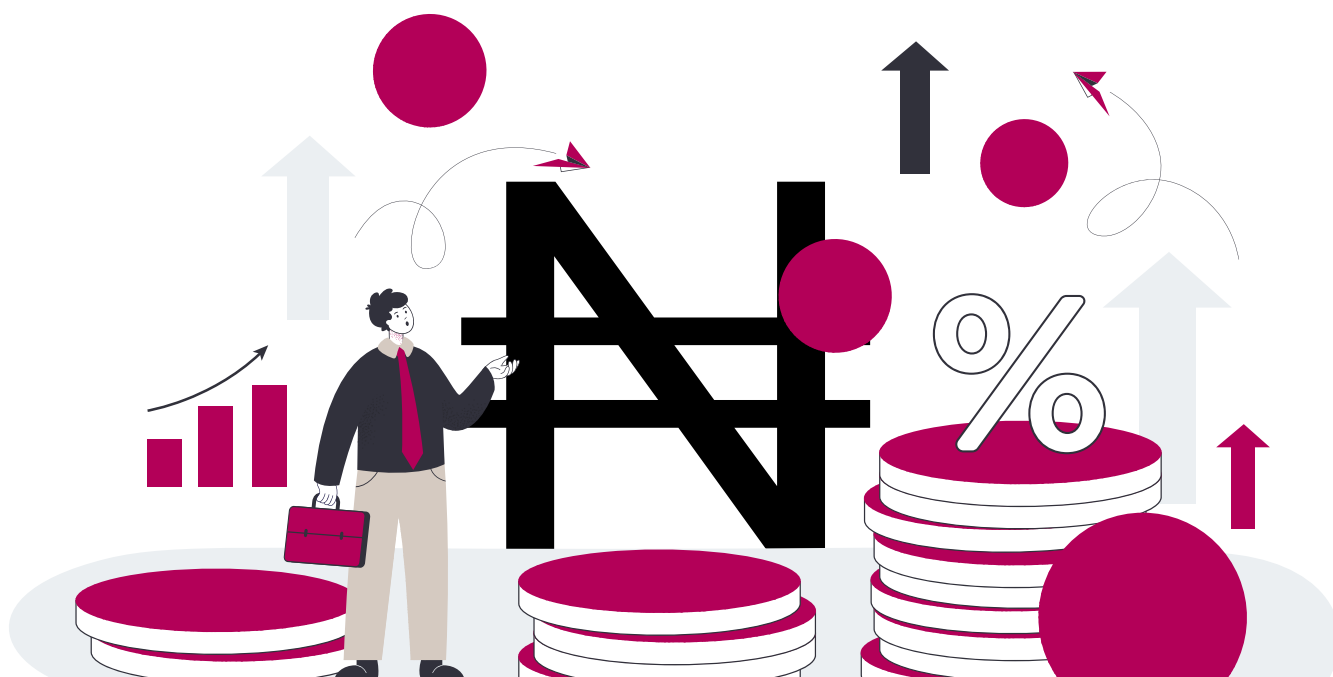
during the period.

Consistent with historical trends, we foresee the Services sector spearheading growth within the non-oil domain, primarily driven by robust performances in Financial Services and Information and Communication Technology (ICT) sub-sectors.

Additionally, we anticipate a notable uptick in the Agriculture and Manufacturing sectors, fuelled by the low base effect from 2023. However, we recognize that elevated borrowing costs, high inflation rate and FX challenges could stifle growth in this sector.

Overall, for 2024FY, we project GDP growth rates at 2.71% for the base case, 2.09% for bear case and 3.24% for the bull case.

INFLATION : A MULTIFACETED CONUNDRUM



During 2023FY, Nigeria experienced unprecedented levels of inflation, maintaining an upward trajectory throughout the entire period.

The price surge in H2:2023 was primarily attributed to the implementation of two pivotal policy reforms—specifically, the removal of the PMS subsidy and the liberalization of the foreign exchange market.

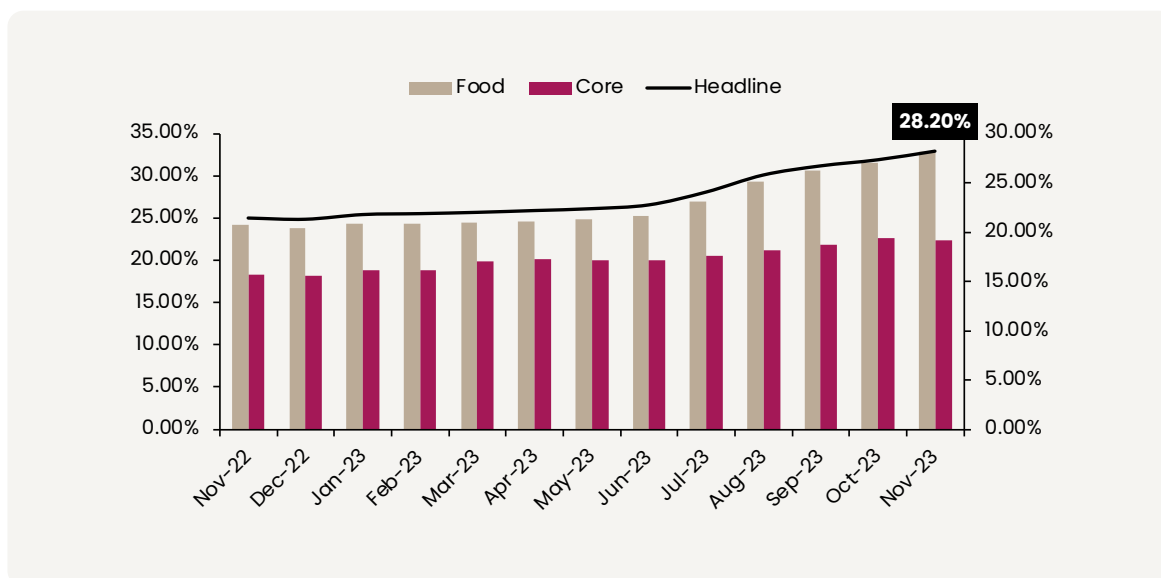
These changes, compounded by structural challenges such as inadequate rainfall, security issues in food-producing regions, logistical hurdles, and insufficient storage facilities, collectively contributed to the inflationary pressures.

Consequently, the inflation rate surged from 21.82% YoY in January 2023 to 28.20% YoY by November 2023, marking the highest rate since the rebasing of the CPI in 2009.

The noteworthy escalation in headline inflation was primarily propelled by substantial increases in both food inflation (+853bps to 32.84% YoY) and core inflation (+351bps to 22.38% YoY) between January and November 2023.

On a month-on-month (MoM) basis, prices exhibited an upward trend, starting at 1.87% in January 2023, reaching a peak of 3.18% in August 2023, before moderating to 2.09% by November 2023.

Chart 14: Trend in Food, Core and Headline Inflation (%) from Nov 2022 – Nov 2023



Source: NBS, ARM Research

In 2023, the escalation of food inflation was remarkable, soaring from 24.32% Year-over-Year (YoY) in January 2023 to 32.84% YoY by November 2023.

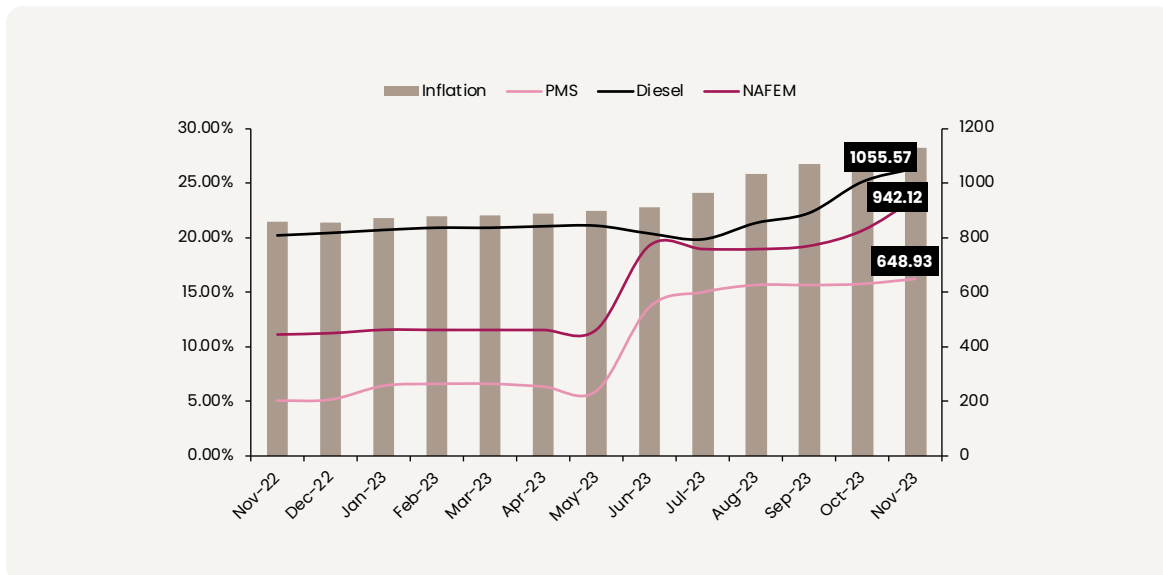
This surge can be attributed to various factors, notably a subpar harvest season, heightened insecurity, inadequate storage infrastructure, and increased transportation costs consequent to the removal of the PMS subsidy.

For context, the prices of PMS experienced a substantial climb, averaging NGN257.12 per litre in January 2023 and surging to NGN648.93 per litre in November 2023.

Notably, a significant leap occurred in June 2023 (from NGN238.11 per litre in May 2023 to NGN545.83 per litre), coinciding with the elimination of the fuel subsidy.

Consequently, between January 2023 and November 2023, we saw rises in Farm produce (+862bps to 32.55% YoY), Processed food (+850bps to 32.93% YoY) and Imported food (+525bps to 23.74%). Similarly, food inflation surged by 33bps from 2.08% MoM in January 2023 to 2.42% MoM in November 2023.

Chart 15: Trend of Headline Inflation, Average PMS and Diesel Prices (NGN) and NAFEM Rate



Source: NBS, ARM Research

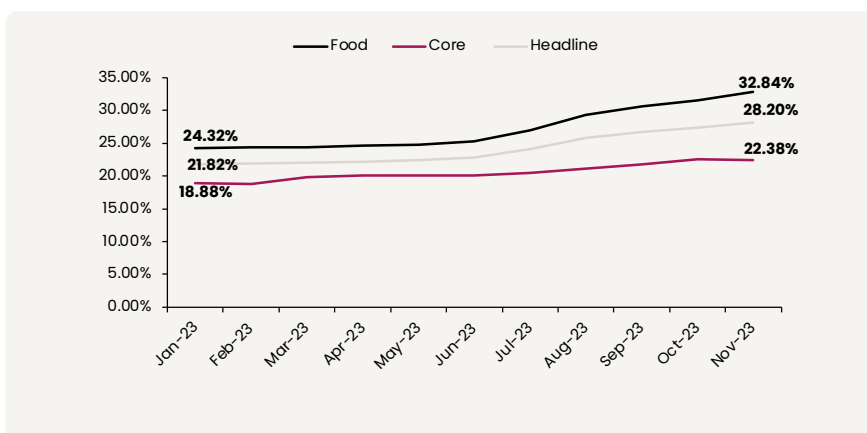
Similarly, core inflation increased from 18.88% YoY in January 2023 to 22.38% YoY in November 2023.

This increase was predominantly fuelled by sustained exchange rate pressures and elevated transportation costs. Notably, in H2:2023, following the elimination of the PMS subsidy and the resultant volatility in energy prices, the National Bureau of Statistics (NBS) revised the definition of

core inflation. It evolved from "All items less farm produce" to "All items less farm produce and energy," reflecting the impact of energy price fluctuations on the core inflation metric.

On a MoM basis, core inflation declined from 1.80% in January 2023 to 1.53% in November 2023.

Chart 16: Monthly Food, Core and Headline Inflation Rate in 2023



Source: NBS, ARM Research

2024 Inflation Outlook

In 2024, our inflation forecast considers various scenarios such as the direction of fuel prices in the year, level of Naira depreciation, possible implementation of the postponed electricity tariffs, increased food supply and possible improvement in FX supply.

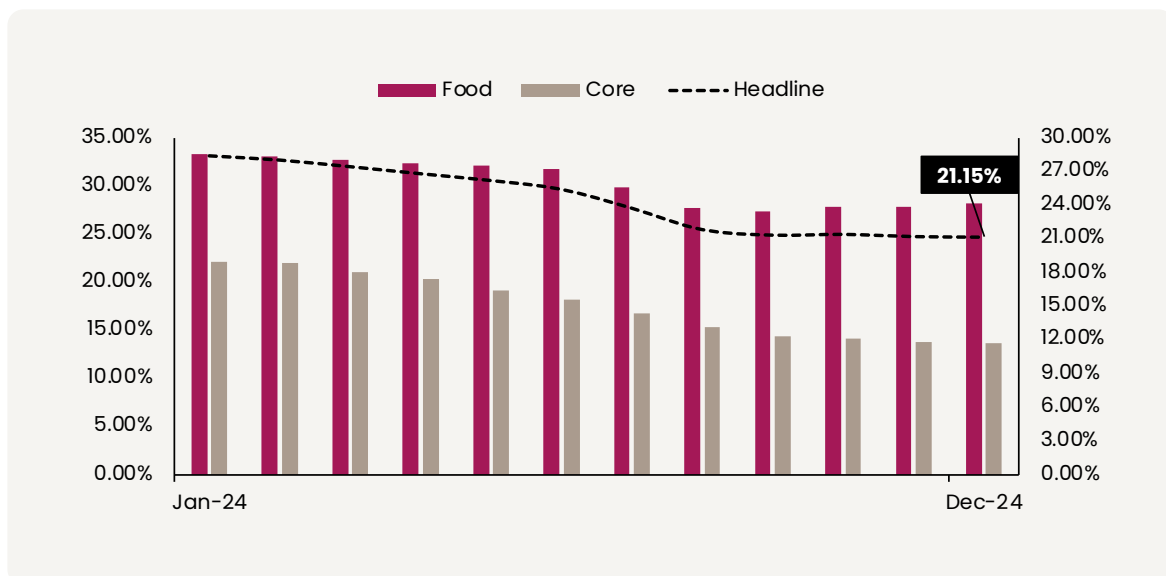
Based on these, we consider three (3) cases (base, bull, and bear) which could influence the trajectory of inflation in 2024.

Considering the base case, we forecast

an average inflation rate of 24.39% YoY in 2024FY.

This is based on a slight improvement in FX supply levels in relation to 2023FY, exchange rate depreciation of NGN800/USD-NGN850/USD, an average PMS price of NGN650 per litre, a 15%-20% enforcement of electricity tariffs and stable food supply.

Chart 17: Monthly Inflation Rate Forecast for 2024 (Base Case)

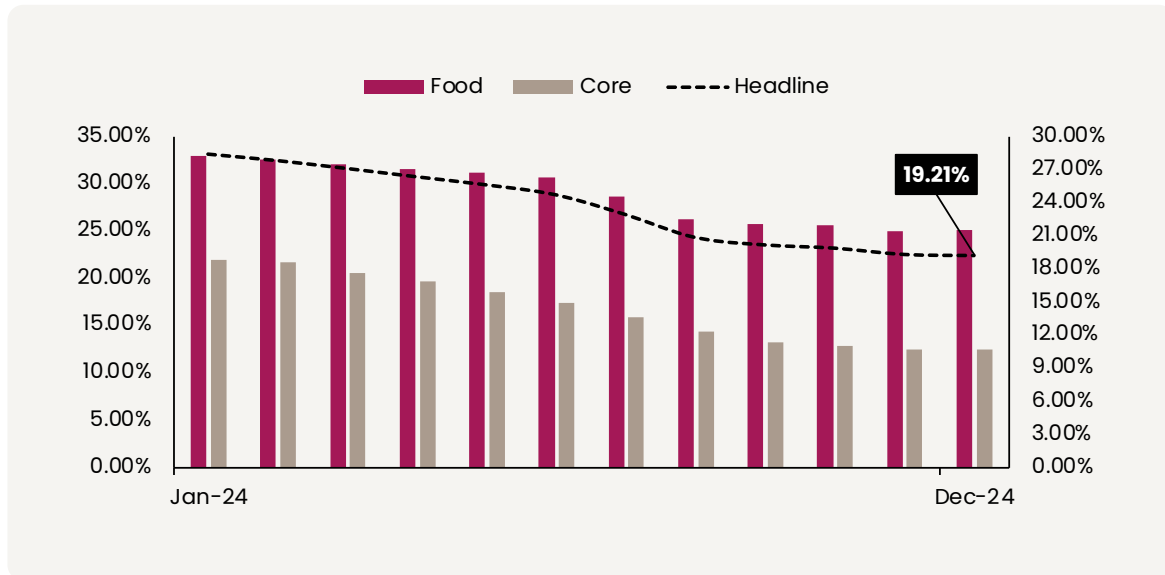


Source: NBS, ARM Research

In the bull case, we consider significant improvement in FX supply levels, currency appreciation to NGN700/USD-NGN750/USD, an average PMS price of NGN600 per litre, no enforcement of electricity tariffs

and increased food supply. Consequently, we forecast an average inflation rate of 23.51% YoY in 2024FY.

Chart 18: Monthly Inflation Rate Forecast for 2024 (Bull Case)

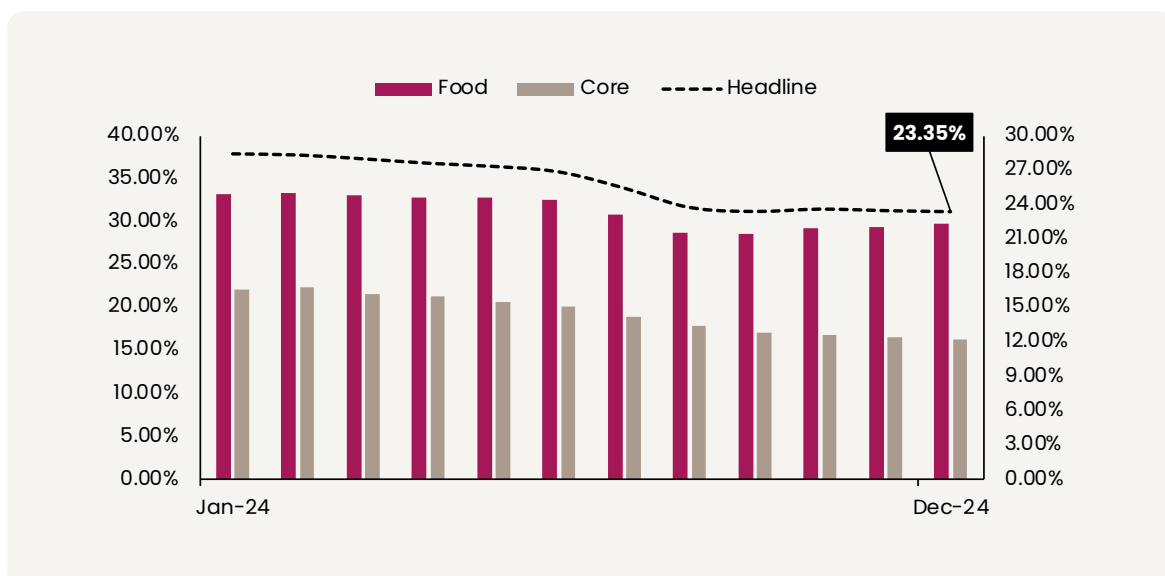


Source: NBS, ARM Research

Finally, in the bear case scenario we anticipate that FX supply will worsen, Naira will stay above NGN850/USD levels, average PMS price will hover around NGN800 per litre, the postponed 40%

electricity tariff will be implemented, and food supply will worsen. On the back of all these, we see average inflation rate for 2024FY reaching 25.76%.

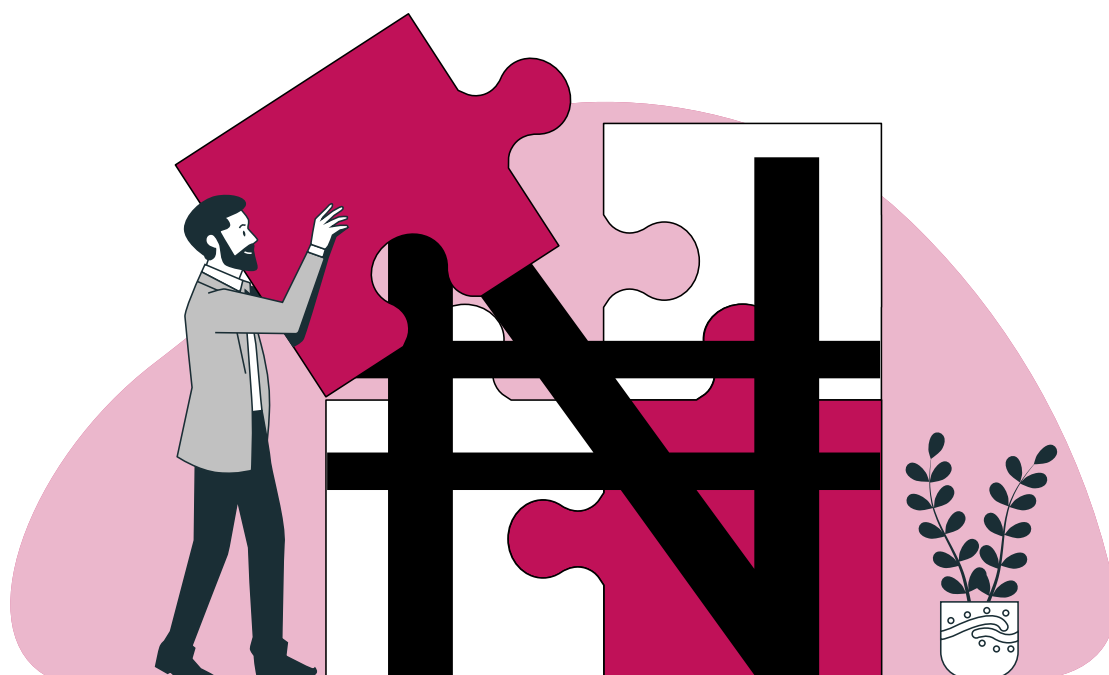
Chart 19: Monthly Inflation Rate Forecast for 2024 (Bear Case)



Source: NBS, ARM Research

MONETARY POLICY

Leadership Transition, Policy Shifts and Inflationary Pressures



In H2:2023, significant developments unfolded at the CBN, specifically marked by a leadership transition and the release of the bank's financial statements.

The ousting of former CBN governor, Mr. Godwin Emefiele, in June 2023 led to the interim administration by deputy CBN governor, Mr. Folashodun Shonubi, until the subsequent appointment of the current CBN governor, Mr. Olayemi Cardoso, in September 2023. Notably, during this period, there was a deviation from the announced schedule of MPC meetings. Only one (1) MPC meeting was held in July 2023, while the customary September and November meetings were deferred.

Nonetheless, it's crucial to recognize that the mandated four (4) meetings per year, stipulated in the CBN Act 2007, were met,

predominantly in the first half of the year (three meetings in H1:2023; one meeting in H2:2023).

At the 292nd MPC meeting held in July 2023, chaired by Mr. Folashodun Shonubi, the Committee opted to raise the MPR by an additional 25bps to 18.75% from 18.50%.

Additionally, for the first time since September 2020, adjustments were made to the asymmetric corridor to +100/-300bps around the MPR, from the previous +100/-700bps around the MPR.

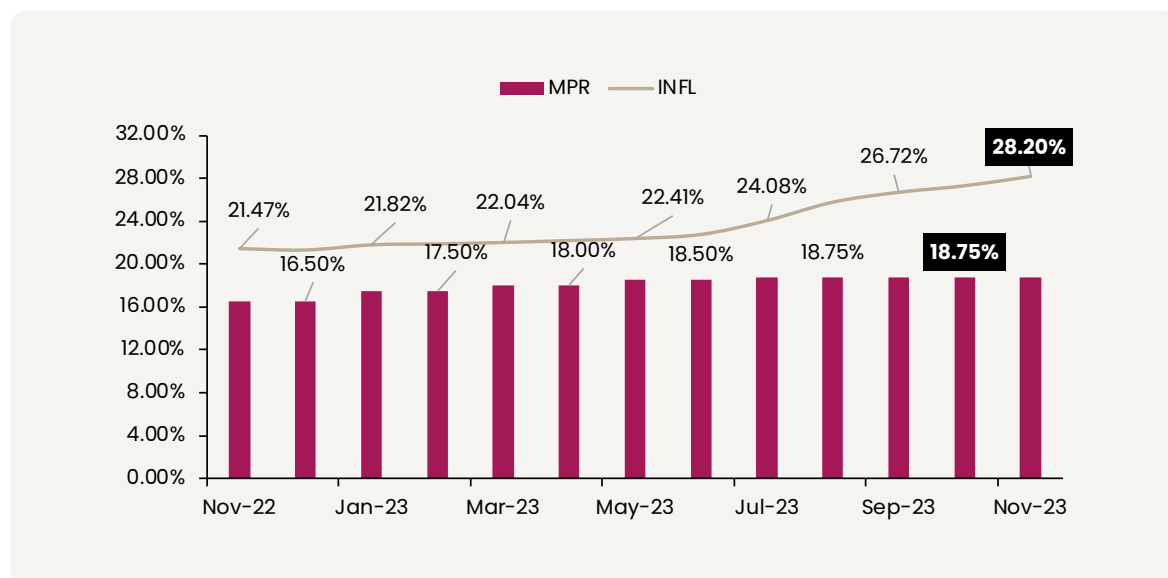
However, the CRR and Liquidity Ratio remained unchanged at 32.50% and 30.00%, respectively. These decisions were influenced by a thorough consideration of both global factors (such as the Russia-Ukraine conflict, global inflation, and China's gradual economic recovery) and

domestic events, primarily centred on the possible effects of the removal of PMS subsidies and FX liberalization on inflation on inflation.

prices. However, inflation proved stubbornly stubborn, constantly reaching new highs in H2:2023, surging from 24.08% YoY in July 2023 to 28.20% YoY in November 2023.

Hence, the committee hiked interest rates with the hope that it would stabilize

Chart 20: MPR Trend vs Inflation from November 2022 to November 2023



Source: CBN, NBS, ARM Research

The Central Bank’s Response to Excess Liquidity

The adjustment of the asymmetric corridor to +100/-300bps around the MPR aimed to tackle excessive liquidity in the banking system and counter the demand-side drivers fuelling persistent inflationary pressures.

[Our July 2023 Post-MPC meeting report](#) highlighted the strategy’s dependency on the CBN’s decision to increase the limit on the SDF. Initially capped at NGN2bn in July 2019, this revision of the SDF rate

from -700bps to -300bps around the MPR incentivizes banks to deposit more funds with the CBN.

The removal of the SDF window limit further facilitates the absorption of surplus liquidity, complemented by reinforcing the 65% LDR requirement for DMBs and imposing a 50% CRR surcharge for banks falling short of the LDR requirement.

In efforts to manage liquidity, the CBN revitalized the OMO tool, holding five (5) auctions in H2:2023 after its near dormancy since December 2022. Consequently, we

observed that system liquidity averaged NGN286.42bn in H2:2023, down from NGN475.99bn in H1:2023.

Declining Foreign Reserves Reflect on Central Bank’s Foreign Assets

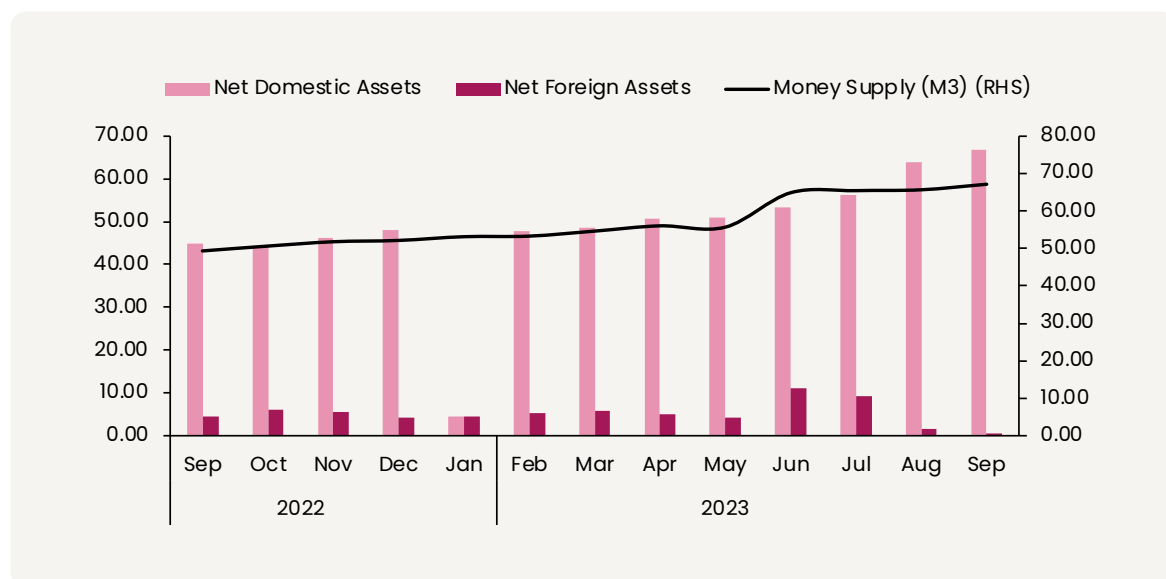
In H2:2023, Broad money supply (M3) recorded increases in July (+0.86% MoM to NGN65.47trn), August (+0.36% MoM to NGN65.70trn) and September (+2.26% MoM to 67.18trn).

Notably, Net Foreign Assets (NFA) relapsed from its upward trend in H1:2023, as it declined significantly by 93.64% from NGN9.30trn in July 2023 to NGN591bn in September 2023.

This was following an upswing in Net Domestic Assets (NDA), which added 18.56% to NGN66.59trn in September 2023 (from NGN56.17trn in July 2023), after Credit to Private Sector (+8.20% to NGN58.60trn in September 2023 vs. NGN54.16trn in July 2023) and Credit to Government (+5.60% to NGN34.12trn in September 2023 vs. NGN32.31trn in July 2023) posted increases.

This dip can be linked to the synonymous reduction in foreign reserves during the period (-2.10% to NGN33.23trn as of September 29th, 2023, vs. NGN33.95trn as of July 28th, 2023), following incessant capital flight from the country because of the macroeconomic challenges (FX depreciation, inflation) and structural issues (insecurity, poor infrastructure).

Chart 21: One Year Trend of Money Supply (M3), Net Foreign and Domestic Assets (NGN’trn)



Source: CBN, ARM Research

HI:2024 Outlook: Rates to Remain Higher for Longer

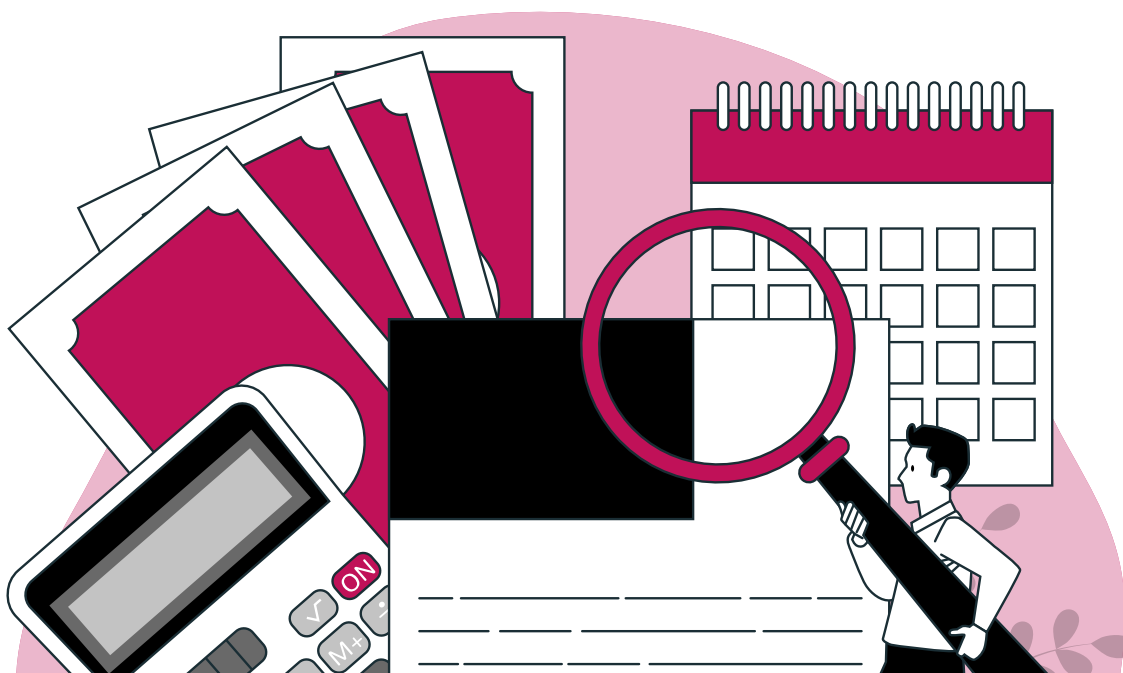
As previously highlighted in our reports, Nigeria's inflation is influenced by both supply-side and demand-side dynamics. In the latter half of 2023, the CBN prioritized addressing demand-side factors propelled by surplus liquidity in the system.

This concerted effort against excess liquidity is anticipated to persist into HI:2024. Consequently, we foresee the

MPC maintaining its hawkish stance during this period.

Moreover, we anticipate the use of monetary tightening measures beyond the MPR to curb inflationary pressures. Overall, we expect interest rates to climb higher by 50bps-100bps in HI:2024.

FISCAL POLICY



A Respite in Sight?

As reported by the budget office as of the end of September 2023, the Federal Government's (FG) prorated aggregate revenue for the 9-month period outperformed the pro-rated budget by 4.46% at NGN8.65trn.

The outperformance is an offshoot of impressive non-oil revenue performance, surpassing the budget by 35.05% to print at NGN2.50trn, riding on the wheels of increased CIT collections (+121.39%) due to improved corporate performance and slightly higher VAT revenue (+11.01%) as consumption remains elevated.

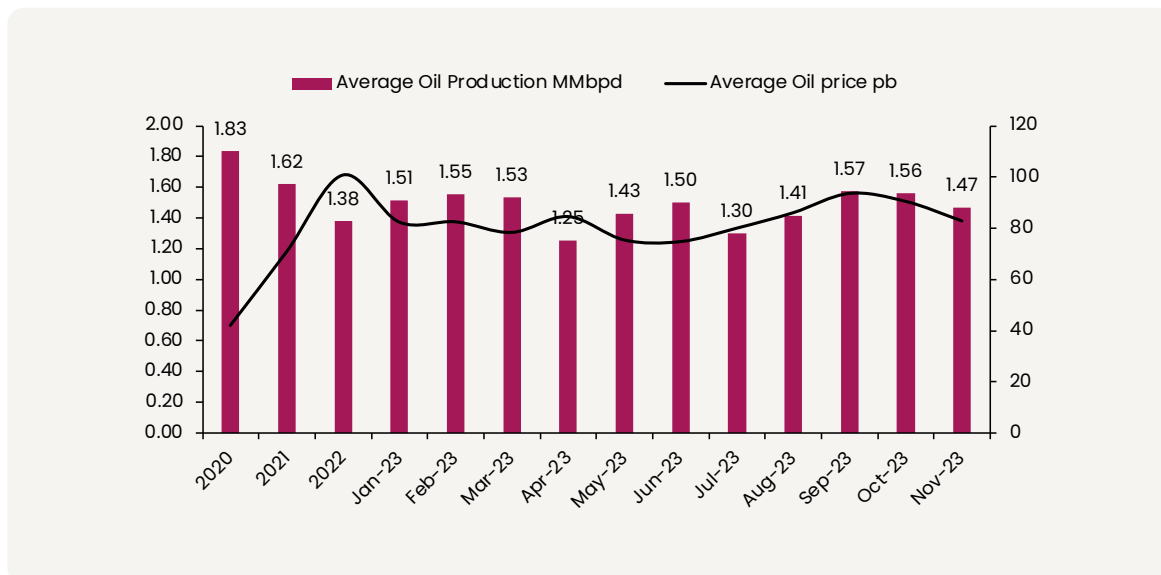
However, customs revenue and federation account levies fell short of target by 23.95% and 44.16%, respectively. Inflows from 'Other revenue' amounted to

NGN4.69trn, 0.19% lower than the budget level for the period as inflows from Special Accounts/Levies and FGN independent revenue underperformed by 83.11% and 46.09% respectively.

The meagre shortfall in other revenue (-0.19%) was largely supported by outperformance from Grants and Donor Funding (+3,111.56%) and Signature bonus/renewals (+439.45%) in the period.

Although oil price averaged USD84.74pb in 9M:2023, oil revenue remained under water due to lower oil production which settled at 1.45MMbpd (vs. budgeted 1.69MMbpd). Consequently, oil revenue in the period underperformed by 15.30% at NGN1.42trn.

Chart 22: Trend in Average Oil Production and Oil Price (USD)



Source: NUPRC, EIA

Elsewhere, on the expenditure leg, a supplementary budget of NGN2.18trn was passed in Q4:2023, bringing total 2023FY budget to NGN24.82trn.

Consequently, the government spent 31.80% less than budgeted in the 9-month period.

This was an offshoot of shortfall in capital expenditure (-75.30%) and non-debt recurrent expenditure – excl. GOEs

(-31.40%). On the flip side, more was spent on debt servicing (+17.70%), driven by higher domestic debt and interest on ways and means.

Overall, fiscal deficit for the 9-month period settled at NGN4.05trn, considerably lower than the pro-rated budget estimate of NGN10.33trn. The deficit was mainly financed from domestic sources including the CBN.

2024 Budget Can Nigeria Navigate the 2024 Fiscal Plan?

The government has put forth a NGN28.66trn budget for 2024 fiscal year. Total revenue is set at NGN19.52trn (vs. 2023 revised budget: NGN11.05trn), premised on oil production volume of 1.78MMbpd, oil price of USD77.96pb, inflation rate of 21.40% and an average exchange rate of NGN800/USD.

Although, the removal of fuel subsidy as well as depreciation of the Naira should help prop up revenue, we do not expect FG’s realisation of its oil revenue estimate.

Our prognosis is based on persistent underwhelming oil production. For context, average daily oil production

settled at 1.46MMbpd for January 2023 to November 2023.

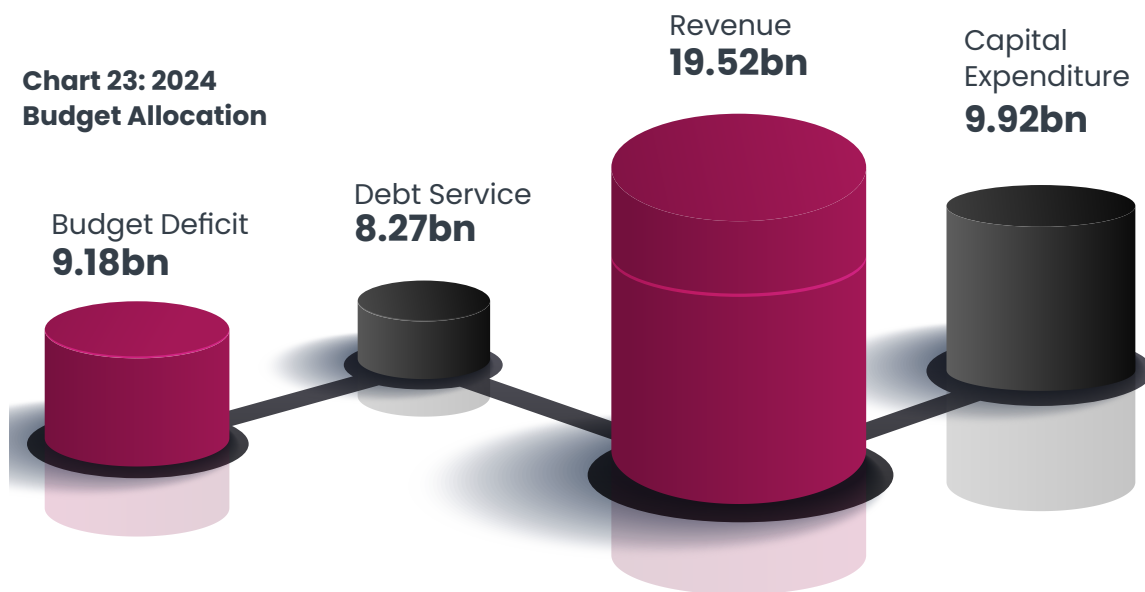
In contrast, we expect non-oil revenue to post decent revenue on account of outperformance from Company Income Tax, feeding from solid corporate performance and effective tax collection.

Elsewhere on expenditure, we assume a 100% implementation rate of the

budgeted recurrent spending in 2024 for our base case scenario based on historical observation.

Similarly, we forecast a maximum implementation rate on the Debt Service. Given the historic low implementation rate in capital expenditure, we expect 2024FY implementation rate of 30%.

Chart 23: 2024 Budget Allocation



Source: Budget Office, ARM Research

Fiscal Deficit – An Unending Gap

To fund the revenue gap for 2024, the Federal Government has planned to source NGN6.06trn and NGN1.77trn from local and foreign sources, NGN1.05trn from Multilateral/Bilateral loan and NGN298.49bn from proceeds from privatization.

We do not expect the government to delve into foreign borrowings (excl. concessionary loans) due to high global interest rates compared to historical trends.

Already, total debt is NGN87.91trn in September 2023 from NGN46.25trn in December 2022.

The wide margin was largely due to the culmination of two factors – the NGN22.7trn ways and means advances approved by the senate for securitization in May 2023 as well as the review of the official exchange rate to NGN768.76/USD as of September 2023.

We are also likely to see a moderation in the use of ways and means by the CBN in 2024, given the commitment of the bank’s new leadership to revert to monetary policy orthodoxy.

CAPITAL IMPORTATION



An Unending Capital Flight

In our H2:2023 report titled "[A Bright Spot in Sight](#)," we emphasized the crucial role that capital importation plays as a key indicator of the Nigerian economy's health and vibrancy.

Notably, capital inflow into Nigeria has been on a downward trajectory since its peak of USD23.99bn in 2019FY.

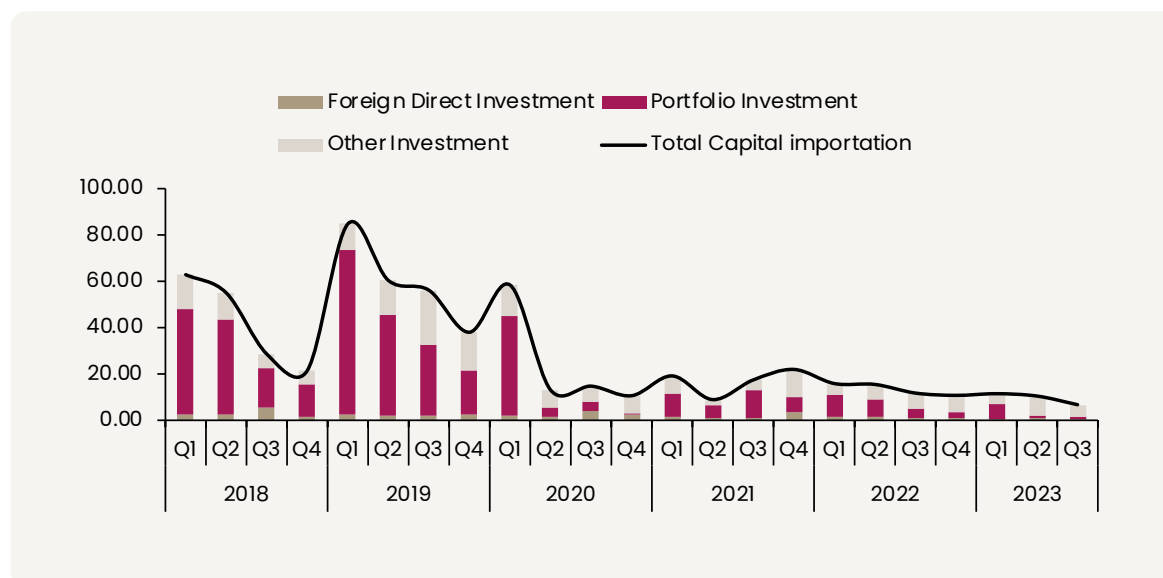
Capital importation in Nigeria continued its downward trend in Q3:2023, dropping 36.45% QoQ and 43.55% YoY to reach USD654.65mn. This followed an initial decline of 30.42% to USD2.16bn in H1:2023 compared to USD3.11bn in H1:2022.

The factors contributing to this capital flight are not new and remain rooted in the nation's structural issues.

From March 2022, major central banks globally adopted a hawkish monetary policy stance, leading to a significant rise in fixed income yields and prompting investors to seek safer havens in developed markets.

In the US, UK, and EU, 10-year government bond yields climbed to 3.88%, 3.54%, and 2.02% respectively (as of 29th December 2023), compared to 1.63%, 1.09%, and -0.122% at the beginning of the 2022 fiscal year.

Chart 24: Trend Analysis of Capital Importation and its Sub-sectors from 2018-2023



Source: NBS, ARM Research

Foreign Direct investment: Short-Term Bounce Masks Continued Investor Malaise

In H1:2023, FDI took a substantial hit, plummeting by 55.77% to USD133.63mn compared to USD302.13bn in the same period the previous year.

Consequently, the contribution of FDI to the total capital imported declined by 3.54% to 6.18% in H1:2023, down from 9.72% in H1:2022.

This negative sentiment extended to Q3:2023 as FDI declined by 30.52 QoQ and 26.86% YoY to settle at USD59.77mn.

Foreign Portfolio investment: A Multi-Pronged Challenge with No Easy Fix

Foreign Portfolio investment (FPI) which is supposed to be the rope of hope for the economy has witnessed

sustained decline over time. In H1:2023, FPI deteriorated by 44.09% YoY and accounted for 34.96% of total capital imported during the period. Furthermore, in Q3:2023, FPI dipped by 30.52% QoQ and 26.86% YoY to USD59.77mn.

The FTSE Russell downgrade and MSCI reclassification of the Nigerian equities from frontier to unclassified and from frontier to standalone respectively, further laid gloom to potential influx of capital into the Nigerian markets.

Additionally, observing the trend since 2017, we noted that foreign investors have been tilted towards Money market instruments.

We believe this to be a strategic play aimed at staying short, while having the leeway to beat repatriation encumbrances.

However, in H1:2023, the tide changed, Money market instruments declined from its lead position to settle at USD138mn (vs USD367.04mn in H2:2022). This is attributed to a surge in Equities (+1813%) and Bond (+11%) instruments.

Looking forward, several promising developments are poised to reignite foreign portfolio investment (FPI) inflows into Nigeria. These factors offer a compelling case for renewed investor confidence in the Nigerian market.

- Afrexim inflows: Increased FX inflows from Afrexim could improve dollar liquidity, making it easier for FPIs to repatriate their investments. This would be a significant positive factor, as FX scarcity was a major reason for FPI outflows in 2023.
- NLNG dividend securitization: Securitized NLNG dividends offer an attractive investment opportunity for FPIs seeking stable, high-yielding assets, especially in infrastructure projects. This could draw FPIs back to the market, particularly if the securitization is transparent and well-structured.
- CBN FX backlog clearing: Efforts by the CBN to clear the FX backlog demonstrate a commitment to addressing liquidity constraints, which could improve investor confidence.
- Short-term interest rate expectations: If short-term interest rates remain attractive relative to other emerging markets, it could incentivize FPIs to park their funds in Nigeria, potentially leading to inflows.

However, while the anticipated events offer some promise for FPI return, global, global uncertainties and political risks remain significant concerns. It is likely to be a gradual process, with FPIs cautiously increasing their exposure to the Nigerian market after assessing the effectiveness of the planned measures and the overall risk-reward environment.

Other Investments

Other Investments declined 4.04% in H1:2023 to USD1.27bn from USD1.33bn in H2:2022. Loans (USD1.21bn in H1:2023) remain the major subcomponent of this Capital Importation type. Other investments plummeted further in Q3:2023 as it dipped by 34.19% QoQ and 20.15% YoY to settle at USD507.71mn.

Sectors with Highest Capital Importation

Over the past decade, investors have consistently leaned towards the Shares, Banking, and Production sectors in Nigeria. This trend continued in Q3:2023, with these sectors attracting the highest capital inflows. Production led the way with USD279.51mn, followed by Financing (USD127.93mn), shares (USD13.06mn), and Banking (USD7.67mn).

Within the Banking sector, specific institutions like Citibank Nigeria Ltd, First Bank of Nigeria, Stanbic IBTC, Standard Chartered, Rand Merchant Bank, and Zenith Bank emerged as notable players, accounting for the highest contributions to capital importation.

H1:2024 Capital Importation Outlook

Capital importation into Nigeria has been on a steady decline since Q2:2020. The initial plunge was triggered by the COVID-19 pandemic, prompting investors to seek safer havens in more advanced markets with lower risk.

This was further exacerbated by a high interest rate environment, pushing capital inflows to their lowest recorded levels. Beyond the pandemic, underlying structural inadequacies have become persistent deterrents to investment. Insecurity, significant infrastructure gaps, foreign exchange illiquidity, and unstable monetary policies implemented by the CBN have all contributed to the dampened capital influx.

The current administration under President Bola Ahmed Tinubu has implemented policies like liberalizing FX windows, scrapping petrol subsidies, and

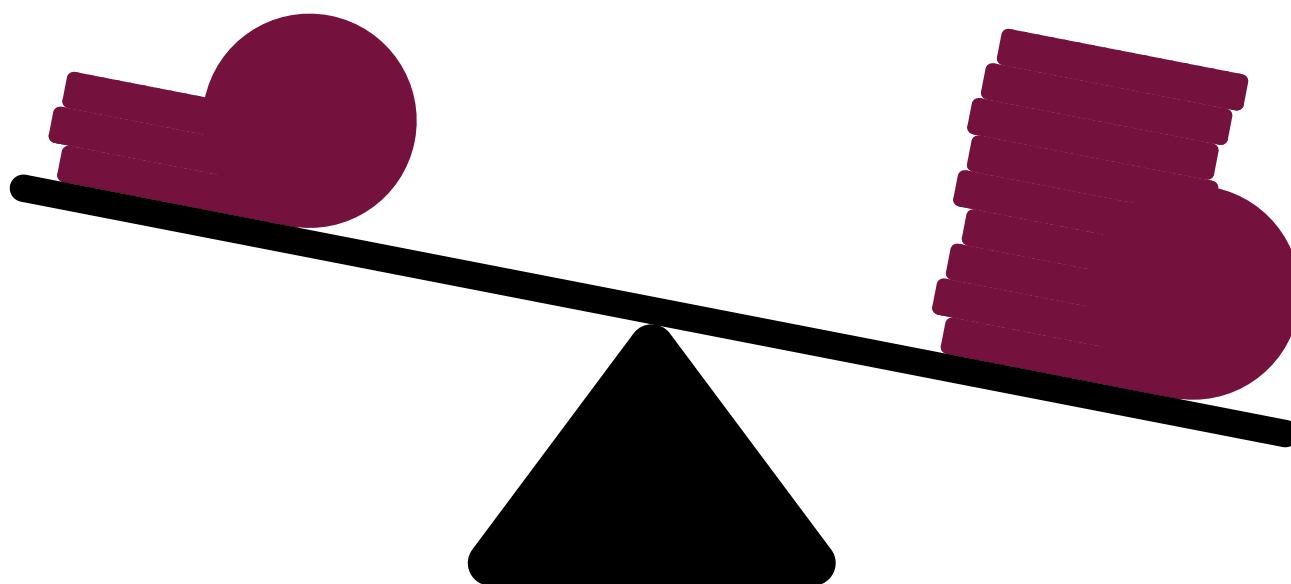
deregulating the downstream oil sector, all aimed at attracting foreign investment.

However, as the Q3:2023 capital importation report suggests, these measures have not yet been able to overcome the entrenched structural challenges, and a reversal in the downward trend remains elusive.

Our outlook for H1:2024 offers little optimism. Global interest rates are expected to remain elevated, domestic inflation continues to hover at multi-year highs, and the persistent structural issues remain unaddressed.

BALANCE OF PAYMENTS

Nigeria's Current Account Stays in Surplus



In Q3:2023, the current account stayed in surplus for the second quarter in a row, following lower import bills compared to export proceeds.

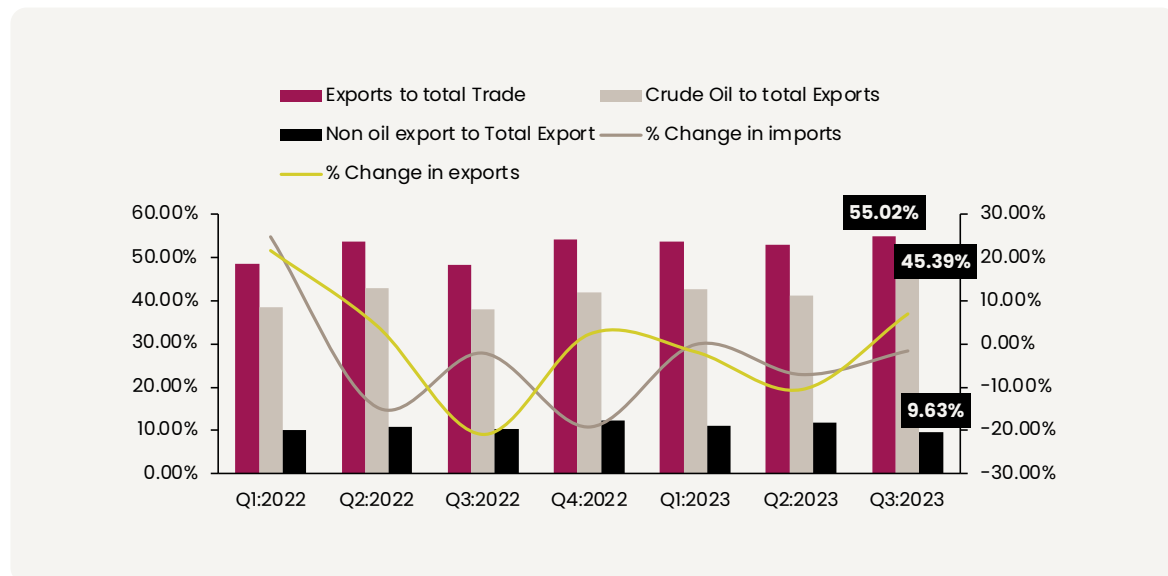
A current account surplus of USD3.28bn was recorded in Q3:2023, attributable to a positive trade balance (and surplus in Goods account) during the quarter. Aggregate export earnings increased by 7.00% QoQ to USD13.170bn in Q3:2023, underpinned by higher oil export proceeds (+13.70% QoQ to USD12.64bn).

Higher oil earnings may be alluded to increased average oil production during Q3:2023 (+2.60% QoQ to 1.43MMbpd),

underscored by the efforts to curtail oil theft. Higher oil prices (+12.81% QoQ to USD89.89pb) also supported increased earnings, as OPEC+ committed to production cuts (1.3MMbpd) which supported elevated prices in Q3:2023. On the other hand, imports fell by 16.70% QoQ to USD10.53bn in Q3:2023, due to lower importation of oil and non-oil products.

This is likely due to the dearth of foreign exchange (FX) during the period, and the impact of a weaker Naira following the FX liberalization policy enacted in June 2023.

Chart 25: Trend Analysis of Trade Statistics



Source: NBS, ARM Research

Capital and Financial Account: Lacklustre Interest in FDI

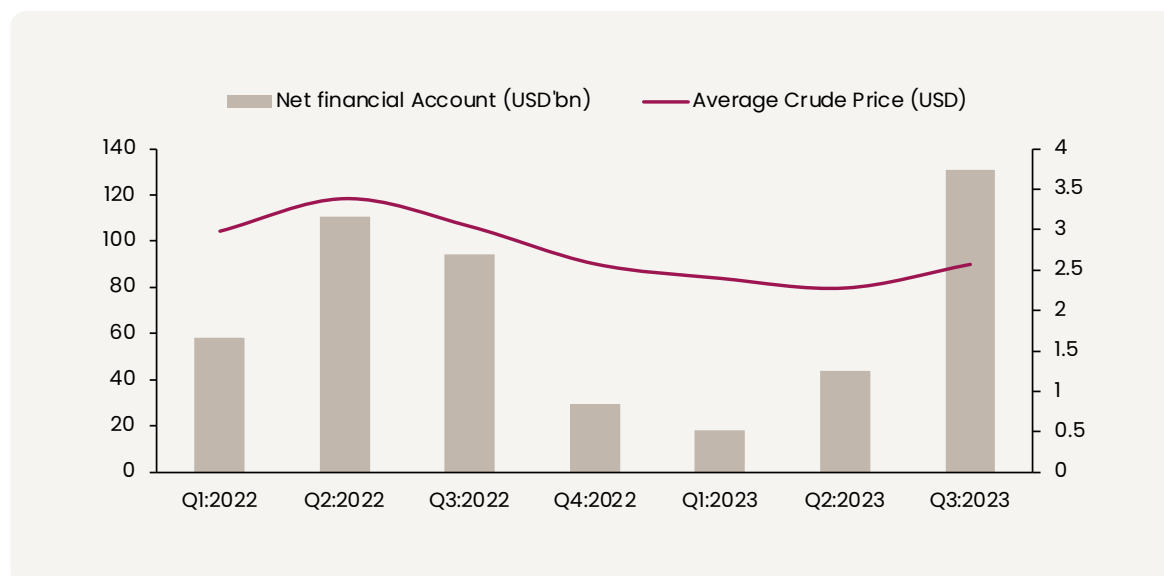
In Q3:2023, the financial account recorded an increase in net liabilities of USD3.74bn, versus USD1.25bn in Q2:2023.

This increase may be linked to the policies by the new Nigerian government which ended fuel subsidies and liberalized its exchange rates.

We observed an inflow of USD2.86bn in FPI in Q3:2023, compared with USD2.23bn

in Q2:2023. FDI declined however, after a divestment of USD0.20bn in Q3:2023 (vs. USD0.07bn in Q2:2023) in direct investment equities. Other investment also recorded an outflow of USD0.31bn in Q3:2023, relative to USD0.02bn in Q2:2023.

Chart 26: Trend Analysis of Net Financial Account and Oil Prices



Source: CBN, ARM Research

Outlook: Slow but Steady

We expect moderate improvement in the balance of payment following increased oil production amid sustained elevated prices.

The Dangote Refinery's full operation in H1:2024 is likely to reduce oil import reliance, improving net trade surplus. We foresee an expansion in current surplus in Q4:2023, supported by lower net imports with a weaker Naira.

We opine that FDI will remain at abysmal levels in Q4:2023, underpinned by macroeconomic headwinds.

However, we foresee an increase in FPI during Q4:2023, as a restrictive CBN reaffirms a return to monetary policy orthodoxy.

CURRENCY

Navigating Torrential FX Markets



FX Scarcity: Poor USD Supply underpin Weak Naira

In H2:2023, we observed a return to monetary policy orthodoxy following the ouster of Godwin Emefiele as the CBN governor and the subsequent appointment of Yemi Cardoso.

The decision to lift restrictions on the access to FX for the importation of 43 items, as well as the gradual clearing of its FX backlog is reflective of this.

The CBN has acknowledged the importance of attracting FX inflows to achieve a stable exchange rate in the short term, and the removal of the NGN2.00bn cap on its SDF underscores this resolve.

Following the cap removal, the narrowing of real interest rates ensued, with the

overnight policy rate (OPR) and overnight (OVN) rates peaking at 25.67% and 26.67%, respectively, in H2:2023 (vs. a peak of 18.67% and 19.00% in H1:2023). In H2:2023, oil prices sustained its ascent as OPEC+ members agreed on a 1.3MMbpd voluntary cut in July 2023, with oil prices briefly crossing USD100pb following the extension to December 2023.

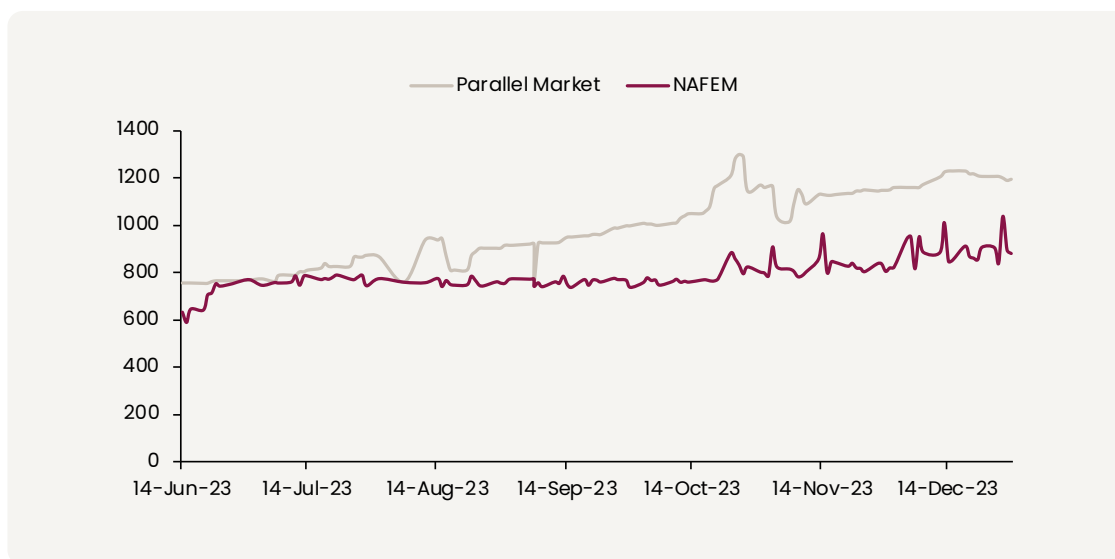
Locally, crude oil production recovered, first topping 1.34MMbpd (a 19-month record) in September 2023. However, the impact of the yet-to-be phased out crude swap forward sales appears to be limiting the pass-through effect to FX reserve coffers.

The FX reserves have declined by 3.27% to USD33.00bn in November 2023, from

June 2023. Consequently, the lacklustre USD supply led to an FX paucity amid the increasing demand for the greenback, which exacerbated the pressure on exchange rates. According to the CBN,

the Naira has depreciated by 18.23% to NGN941.62/USD on the official market in November 2023, following the impact of the FX policy in June 2023.

Chart 27: Trend Analysis of Parallel Market and Official Rates



Source: CBN, FMDQ, ARM Research

Outlook: Improved Prospects Amid Increasing FX Supply

We expect the commencement of operations of the Dangote Refinery to be a positive development in H1:2024.

In H2:2023, the refinery received three batches of roughly three million barrels of the six million barrels expected before the end of the year.

The full receipt of crude supply would support the kickstart of the initial run of the refinery and support the production of diesel, aviation fuel, and liquefied petroleum gas before it moves to refining PMS (or petrol).

The 650,000bpd refinery has the capacity to meet all local demand, with excess available for exports to neighbouring

countries. Supported by increasing oil production (1.58MMbpd OPEC quota), high oil prices (>USD70pb), and reduced dependency on oil imports, we foresee a less volatile Naira in H1:2024.

Furthermore, projected inflows of around USD10bn from a recently finalized USD3bn crude-backed loan from the African Export-Import Bank (Afreximbank) and USD7bn from the securitization of future NLNG dividends are anticipated to stabilize foreign exchange liquidity in 2024.

According to our estimates, we opine that the Naira at the official window would close within a range of NGN800/USD to NGN850/USD in 2024.

DOMESTIC CAPITAL MARKET



CAPITAL MARKETS



Equities: Beating Challenges and Breaking Records

For the fourth (4th) consecutive year running, the Nigerian Equities market closed the year on a strong foot, as the NGX All Share Index (ASI) posted an impressive 45.90% YtD returns to settle at 74,773.77 points.

This impressive performance was amid global rating agencies' downgrades and macroeconomic challenges (inflationary pressures, high interest rates and FX losses).

Notably, during H2:2023, FTSE Russell and MSCI; two renowned global equity indices, downgraded the Nigerian market from Frontier market to Unclassified and Standalone market respectively. Despite

these, the Nigerian equities market stood strong and even broke historic records with the NGX ASI surpassing 70,000 index points on November 1, 2023.

This bullish trend was not limited to Nigeria alone but pervaded the global equities landscape in H2:2023, with most major global equity indexes registering positive returns, barring the SHCOMP index (-3.70% YtD) and NSEASI (-27.74% YtD).

The upswing was propelled by a decline in global inflation rates, favourable earnings reports, and a deceleration in interest rate hikes. In the Nigerian context, several factors fuelled the market's bullish performance, including

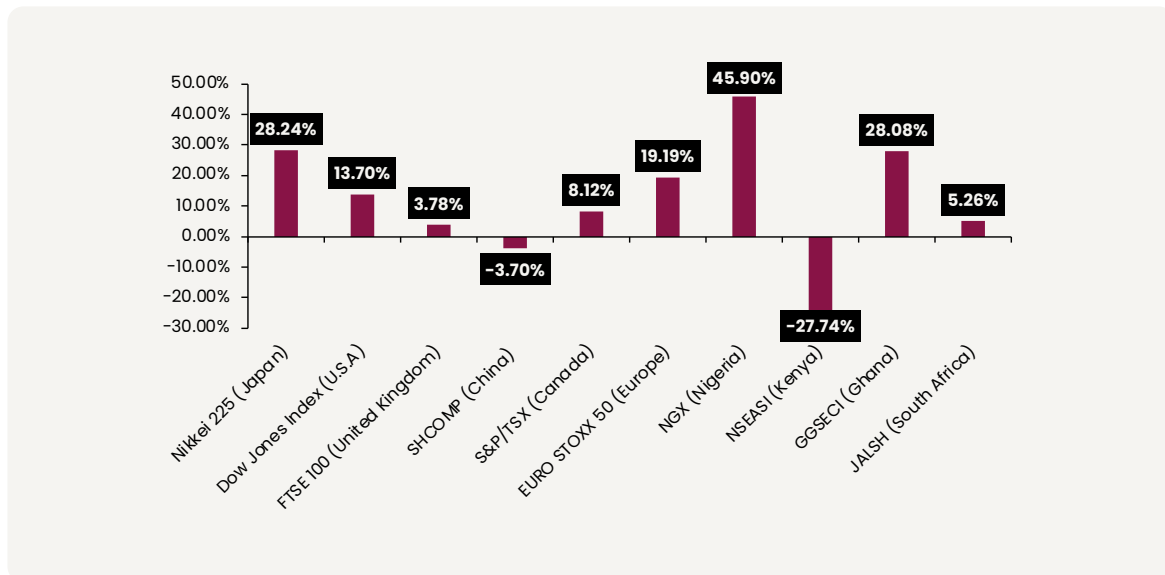
the positive market sentiment stemming from the removal of the PMS subsidy and FX liberalization.

Additionally, robust earnings results, coupled with the remarkable share price performance of BUAFOODS (+197.54% YtD) and GEREGU (+167.79% YtD), contributed

significantly to the positive outing.

The market also witnessed substantial shareholder acquisitions, notably in TRANSCORP (666.37% YtD), showcasing a substantial increase in investor confidence.

Chart 28: 2023 YtD Performance of NGX ASI and Other Major Indices Including SSA Markets



Source: Bloomberg, NGX, ARM Research

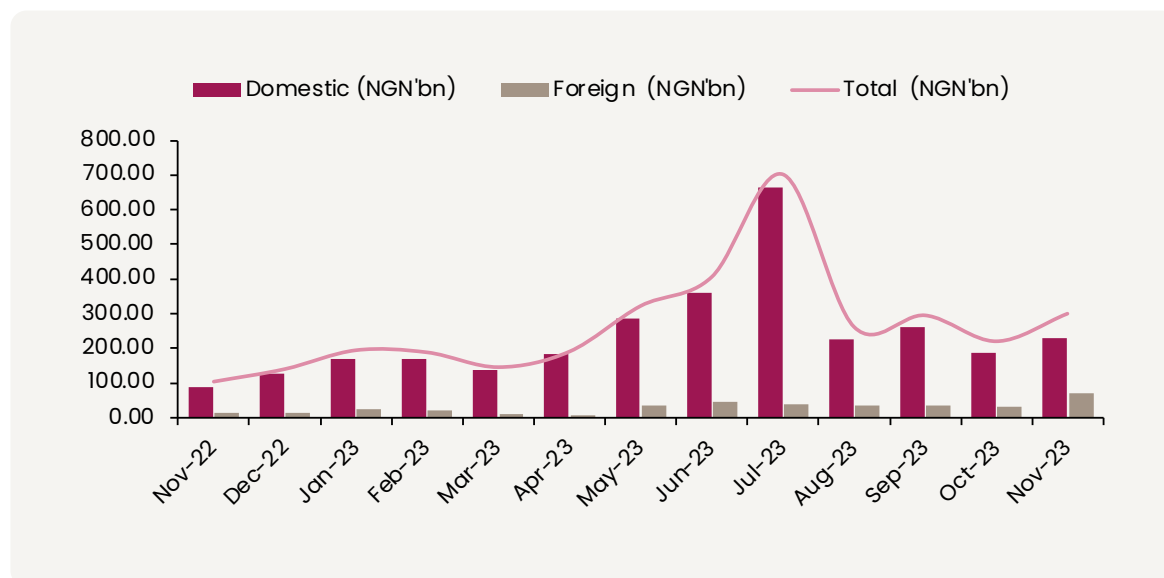
According to data released by the NGX, domestic investors are consistently expanding their footprint, engaging in a significant portion of total transactions within the Nigerian bourse (November 2023: 88.78% YtD vs. November 2022: 83.33% YtD).

In contrast, foreign participation rate continued to dwindle as it settled at 11.22% YtD as of November 2023 (vs. November 2022: 16.67% YtD).

The diminishing involvement of foreign investors in the Nigerian equities market is largely attributable to prevailing macroeconomic challenges, notably FX illiquidity, impeding their ability to repatriate funds.

Despite this, the heightened presence of domestic investors acts as a buffer against adverse global sentiments and market downgrades, contributing significantly to the market's ability to achieve substantial gains.

Chart 29: Domestic vs Foreign Portfolio Contribution to Total Equities Trading from November 2022 to November 2023



Source: NGX, ARM Research

As of November 2023, total value of transactions in the Nigerian equities market went up by 188.05% YoY to NGN300.67bn (vs. NGN104.38bn in November 2022).

This substantial increase can be attributed to heightened investor confidence, catalysed by significant

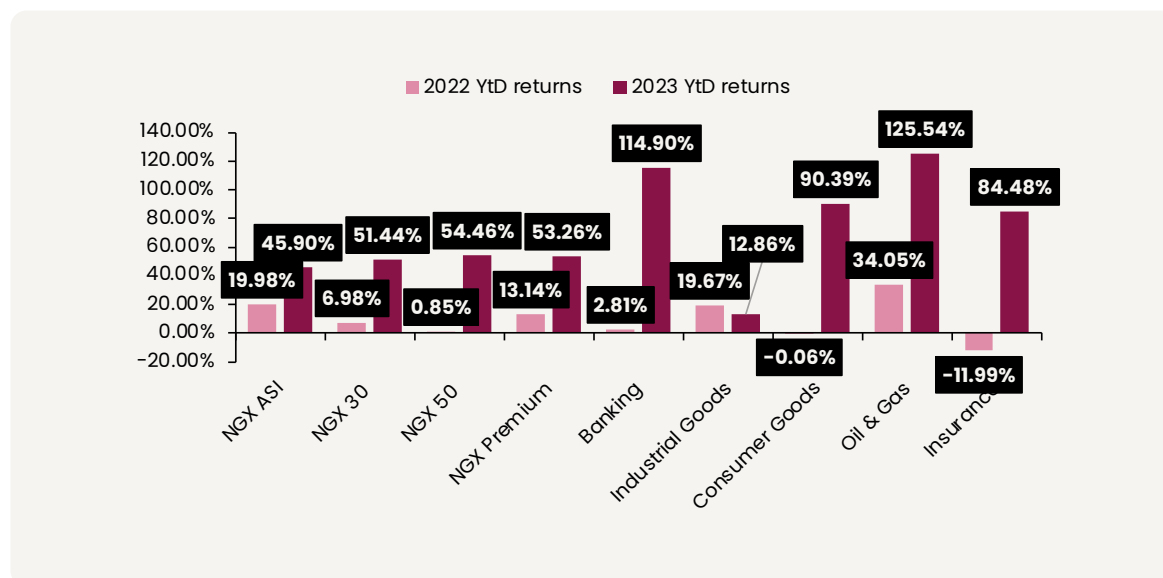
policy reforms (particularly the FX liberalization and removal of the PMS subsidy), which resulted in substantial gains particularly in the Oil and Gas (+125.54% YtD) and Banking (+114.90% YtD) sectors.

Sectoral Performance and Outlook

In 2023, the Oil and Gas sector led sectoral gains by garnering 125.54% YtD returns, followed by Banking (+114.90%

YtD), Consumer Goods (+90.39% YtD), Insurance (+84.48% YtD), and Industrial Goods (+12.86% YtD) sectors.

Chart 30: Sectoral Performance of the Nigerian Equities Market 2023 YtD vs. 2022 YtD 2023



Source: NGX, ARM Research

Oil and Gas Sector: Surfing on the back of Subsidy Removal

The sector delivered an impressive 125.54% YtD returns in 2023, primarily propelled by reforms in the downstream sector (removal of the PMS subsidy) earlier in the year.

Notably, heightened interest in OANDO (+167.86% YtD) due to its dual listing and the takeover plans initiated by its majority shareholder, Ocean and Oil Development Partners, alongside SEPLAT's (+110.00% YtD) revision of the SSPA with Exxonmobil and favourable earnings reports, significantly boosted the performance of major players in the sector (TOTAL: +99.48% YtD; MRS: +644.68% YtD; CONOIL: +216.60% YtD).

We believe that the sector's growth trajectory will stay on course in 2024FY fuelled by higher prices of fuel and other products, increased crude oil production and optimism surrounding the commencement of operations at the Dangote Refinery in 2024.

However, there exists risks to this outlook such as insecurity, crude oil theft, FX illiquidity, poor infrastructure, volatility of crude oil prices and high inflation.

Banking Sector: FX Revaluation Gains Fuels Impressive Returns

The Banking sector finished the year second best, as it recorded 114.90% YtD returns in 2023FY.

This impressive performance was driven by substantial FX revaluation gains resulting from the unification of the exchange rate window, high interest rate environment, and a positive outlook regarding Ghana's debt recovery.

Consequently, key players in the sector, including FBNH (+116.06% YtD), UBA (+237.50% YtD), GTCO (+76.09% YtD), ACCESSCORP (+172.35% YtD) and ZENITHBNK (+61.04% YtD) all posted positive returns in 2023FY.

Looking ahead to 2024, we anticipate the normalization of the FX revaluation gains that substantially boosted bottom-line profitability in 2023FY.

However, considering the expectation of elevated interest rates in 2024, we foresee a likely increase in NIMs, which should provide a buffer and prevent a significant dip in bottom-line revenue due to reduced FX gains.

Nevertheless, we remain mindful of the weak macroeconomic environment and a decline in financial system liquidity, which pose as risks to our outlook.

Consumer Goods Sector: An Overcomer's Tale

The Consumer Goods sector was not left out of the equities market's bullish run as it registered 90.59% YtD returns despite grappling with challenges such as high inflation, elevated borrowing costs, and FX losses that impacted sector profitability.

However, we saw significant returns from NNFM (+639.84% YtD), BUAFOODS (+197.54% YtD), NASCON (+384.23% YtD) and DANGSUGAR (+286.85% YtD).

Gains in NASCON and DANGSUGAR was on the back of positive sentiment surrounding the proposed merger between the two companies during H2:2023.

However, CHAMPION (-24.55% YtD), NB (-12.20% YtD) and GUINNESS (-4.76% YtD) succumbed to the impact of a depreciating Naira and posted losses in 2023FY.

Looking into 2024FY, we anticipate sustained revenue growth within the sector, primarily driven by companies resorting to price increases to counter inflationary pressures.

Nonetheless, we acknowledge the potential for higher cost pressures due to FX shortages sourcing for raw materials, which could pose challenges to profitability in the sector.

Insurance Sector: Secured by Exceptional Gains

The Insurance sector registered 84.48% YtD in 2023FY, driven by strong earnings results during the year.

Impressive gains in SUNUASSUR (+279.31% YtD), MANSARD (+175.00% YtD), CORNEST (+133.33% YtD), LASACO (+118.39% YtD), LINKASSURE (+100.00%) and MBENEFIT (96.30% YtD) helped to drive the sector's gains.

Looking forward, we anticipate a continued upward trajectory in the sector, driven by sustained growth in earnings.

This growth is expected to be propelled by the ongoing implementation of the bancassurance model and increased prospects for securing new insurance contracts, particularly within the public sector.

Industrial Goods Sector: Growth Stifled by Domestic Headwinds

The Industrial Goods sector wrapped up 2023FY with a modest 12.86% YtD returns, marking the smallest gains among all sectors within our coverage.

This subdued performance can be attributed to the sector's earlier struggles, particularly the repercussions of the cash crunch crisis and the impact of general elections, both significantly affecting industry sales volume.

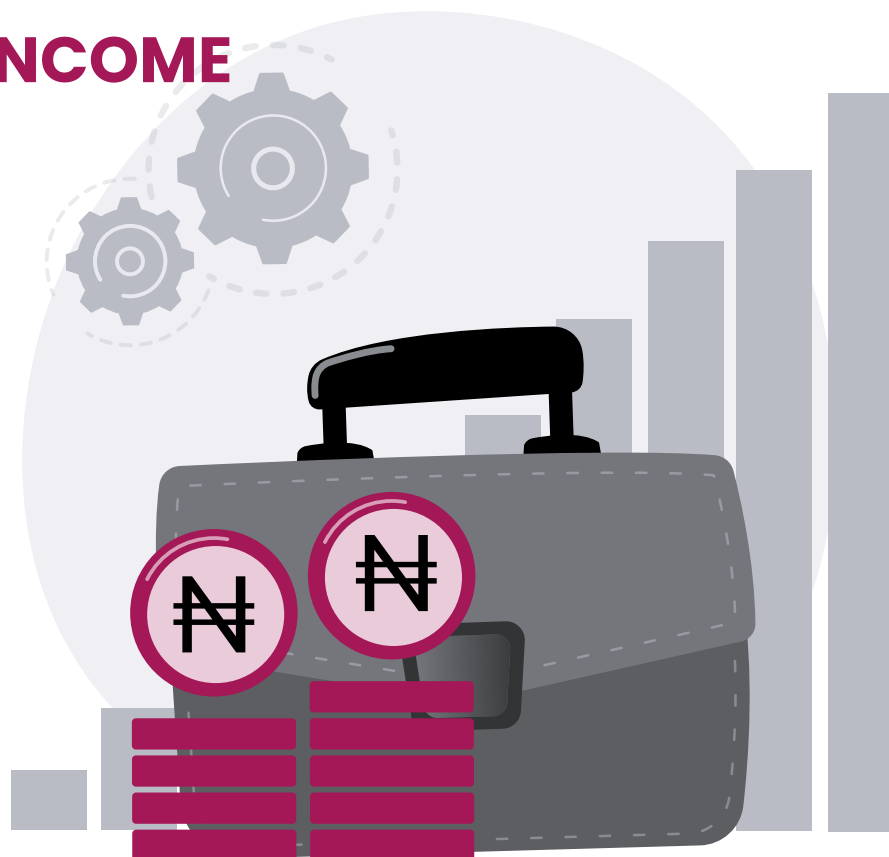
Moreover, the persistent high inflationary environment and FX illiquidity amplified operating costs, impeding the sector's growth momentum.

Nonetheless, impressive gains in TRIPPLEG (+172.15% YtD), MEYER (+58.15% YtD), BETAGLASS (+50.00% YtD), LAFARGE (+31.25% YtD) and DANGCEM (+22.57% YtD) bolstered the sector's performance.

In 2024FY, we expect more substantial returns driven by increased demand by both the public and private sectors.

This surge in demand follows the proposed capital expenditure outlined in the 2024 budget, projected at NGN9.92 trillion (compared to NGN4.93 trillion in 2023FY), along with the rapid pace of urbanization observed across the country.

FIXED INCOME



A Return to Norm

During 2023FY, we witnessed a contrast in the yield curve in both halves of the year. In H1:2023, we observed a flattening yield curve largely underpinned by uncertainty surrounding policy direction ahead of the 2023 presidential elections.

Market participants were majorly long the far end of the curve, with average bond yield declining by 6bps at the end of H1:2023, while the yield on average T-bills in the secondary market was up by 97bps in the same period.

Conversely, in H2:2023, we noted a steeper yield curve, with more clarity after a Tinubu led pro-business government was elected. The new administration undertook a complete overhaul of the CBN and committed to revert to monetary policy orthodoxy with new appointments.

With inflation at its highest since the

rebase in 2009, the new CBN leadership embarked on various monetary policy tightening measures to curb price pressures. However, investors were short on long-term instruments, betting on faster rising bond rates relative to short-term rates amid policies expected to set yields at elevated levels.

The overall fixed income market concluded H2:2023 lower as yields moved higher by 55bps. The average NT-bill rate in the secondary market decreased by 6bps in H2:2023, while the average bond yield increased by 115bps.

In the primary bond market, we observed a decline in average bond issuances in H2:2023 (NGN2.18trn compared to an average NGN3.16trn issued in H1:2023).

This may likely be due to less borrowings as the Debt Management Office moved

closer to its 2023FY borrowing target. Average bond yields rose by 319bps to 16.29% in H2:2023. During H2:2023, we noted a gradual increase in stop rates in each month before peaking at 17.13% in November 2023.

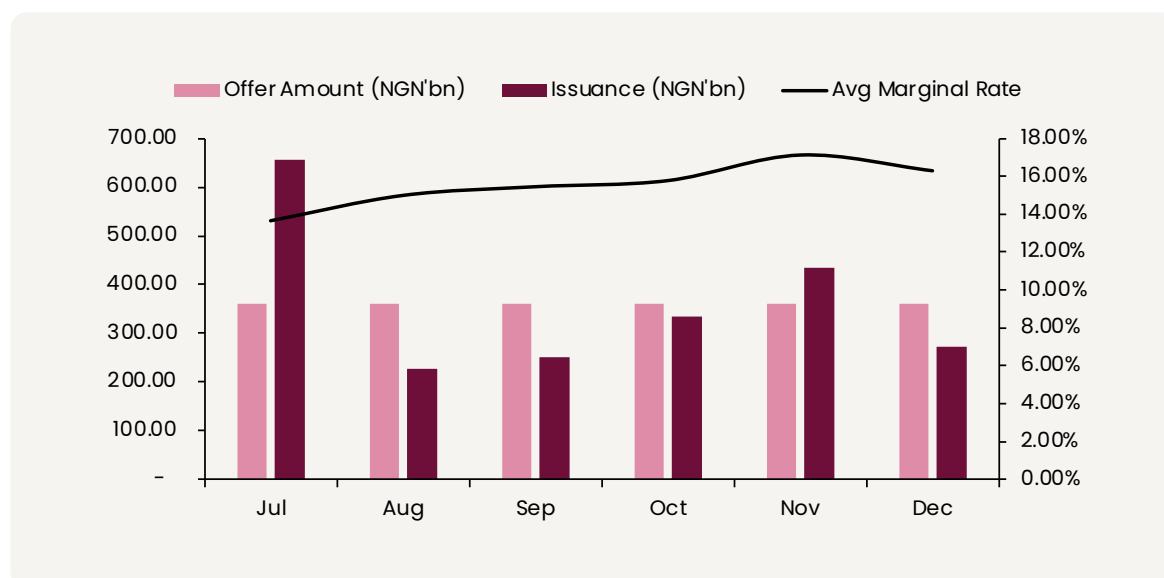
We opine that it remains imperative that the CBN expands real interest rates while keeping the cost to its balance sheet as minimal as possible.

In the primary market for NT-bills, we observed an average issuance of NGN4.06trn in H2:2023, compared to an average NGN3.03trn in H1:2023.

During H2:2023, we observed an average stop rate of 8.84% relative to an average stop rate of 7.56% recorded in H1:2023. To finance unbudgeted expenditures for the new administration, the National Assembly approved a NGN2.17trn supplemental budget in H2:2023.

We may have witnessed the impact in November and December 2023, when the Debt Management Office allocated 2.03x and 6.41x the offered size, likely to finance the expanding fiscal deficit.

Chart 31: Trend in Bond Issuances and Marginal Clearing Rates



Source: DMO, ARM Research

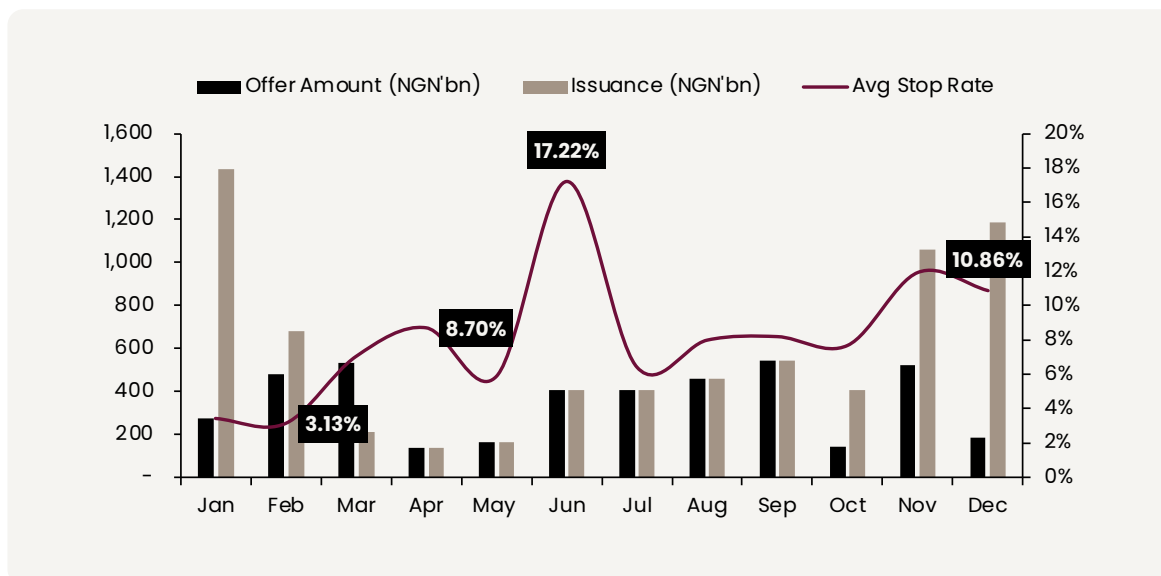
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To finance unbudgeted expenditures for the new administration, the National

Assembly approved a NGN2.17trn supplemental budget in H2:2023. We may have witnessed the impact in November and December 2023, when the Debt Management Office issued 2.03x and 6.41x the offered size, likely to finance the increase in deficit.

Chart 32: Trend in NTBs Issuances and Average Stop Rates



Source: CBN, ARM Research

In August 2023, the CBN resumed its previously suspended Open Market Operation (OMO) sales with an issuance of NGN150bn across its three tenors.

The market responded positively with heavy interest as the average subscription rate of 2.05x implied decent appetite for the instrument. Subsequently, the CBN went on to sell a total of NGN554.50bn during the next three auctions before year end.

Outlook: 2024FY Higher Yields to Persist

Our outlook for the fixed-income market in 2024 is hinged on critical factors that would largely influence yield movement: global and domestic monetary policy direction, maturity profile, and liquidity levels.

We expect the US Fed, as well as other global systemic central banks to adopt a less hawkish stance in 2024, and thus

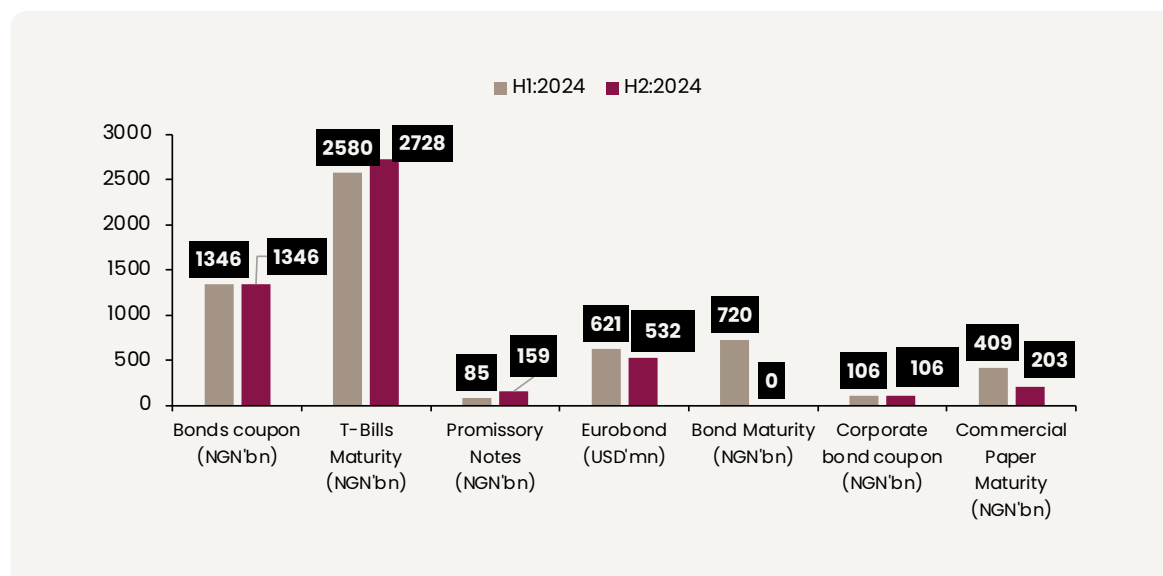
Stop rates on the long end of the curve averaged 16.24%, with strong demand under-scored by an average bid-to-cover ratio of 3.06x across all auctions.

This reflects the bank's reversion to policy orthodoxy, exemplifying its intent to attract foreign investments through high nominal rates.

we expect moderate albeit increasing appetite for Emerging Markets debt as global outlook improves.

The CBN would need to work closely with the fiscal authorities to guide marginal rates at auctions higher to retain flows and steer secondary market yields in the same direction.

Chart 33: Expected Maturities in 2024



Source: FMDQ, ARM Research

For fiscal policy, the 2024 proposed budget already stipulates the government deficit and subsequent domestic borrowings of NGN9.18trn and NGN6.06trn, respectively.

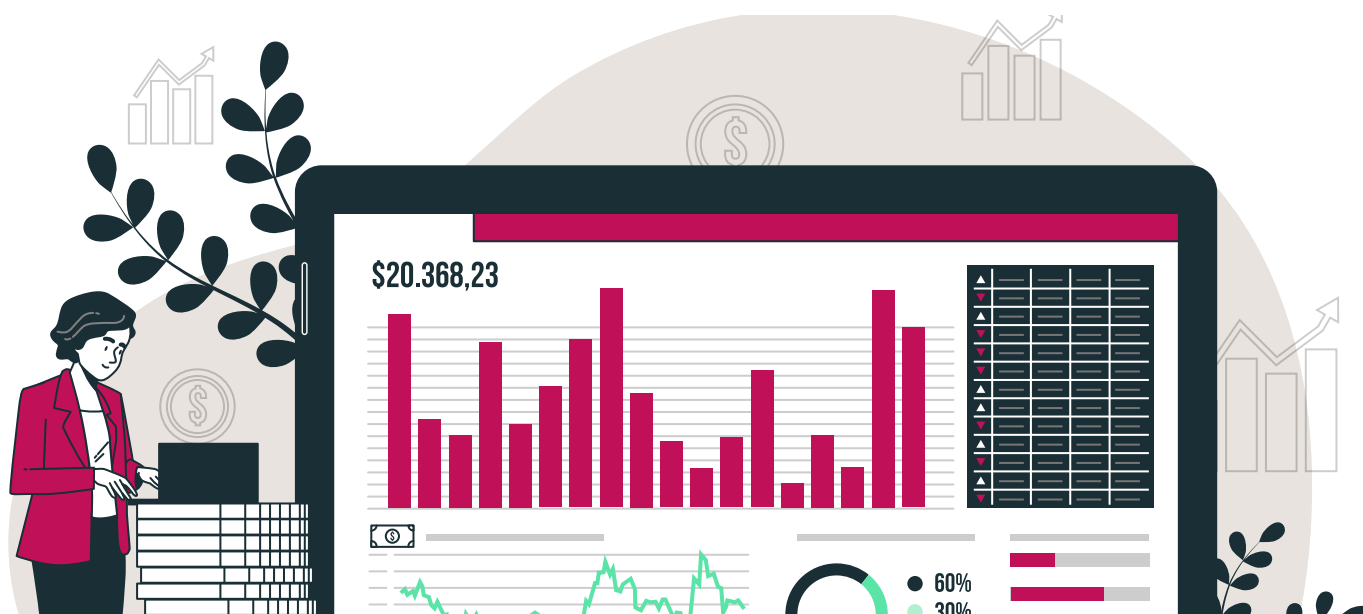
The budgeted NGN6.06trn (66.01% of fiscal deficit) would ensure a sizeable supply of papers to the market in 2024.

On the demand front, the maturities profile for 2024 settled at NGN9.87tn (excl. Eurobond coupons) and 54% of expected liquidity is skewed to H1:2024.

While we expect liquidity to remain elevated in 2024, we opine the CBN would mop up a liquidity glut in the system, in its efforts to rein in the price uptrend.

The efforts to restore the interest rate transmission mechanism may also lead to more effective policies, and potential monetary policy rate hikes would likely offset higher liquidity. Overall, we believe yields are likely to remain on the upside in 2024, assuming the CBN maintains its inflation targeting policy framework.

CAPITAL MARKET STRATEGY



Equities Market Strategy

In the 2023FY, the equities market showed resilience despite challenges and policy changes. Looking ahead to H1:2024, corporate earnings, fixed income yields, the hunt for dividends, exchange rate direction and government policies will play pivotal roles in shaping the market's direction.

H1:2024, particularly in the Nigerian stock market, promises noteworthy developments.

We anticipate the finalization of the NASCON and DANGSUGAR merger, forming "DANGFOODS," listed as an umbrella ticker on the NGX. Additionally, the NGX listing of NNPC, and the potential listing of Dangote Refinery are positive prospects for the Oil and Gas sector.

However, expectations of increased fixed

income yield due to the Central Bank's liquidity control might impact equities performance.

We advise investors to focus on high dividend-paying stocks with robust fundamentals in sectors such as Consumer Goods, Industrial Goods, Oil and Gas, and Banking.

This is underpinned by our optimism toward the DANGFOODS and NNPC listings, and the proposed SEPLAT-Mobil acquisition.

We also anticipate the proposed increase in transfer payments and minimum wage in 2024, as well as higher infrastructure expenditure and higher net interest margins to support equity market performance.

The Fixed Income Strategy

We expect a bear flattening yield curve in H1:2024, as the CBN maintains its hiking campaign to bring inflation down to acceptable levels. In H1:2024, we expect that the yield trajectory would be determined by a host of factors such as:

1. Monetary Policy Rate Direction: We envisage a 50-100bps policy rate increase in H1:2024, backed by the apex bank's commitment to switch to inflation targeting policies.
2. Inflation Rate: Our expectation for inflation by 2024FY is an average headline inflation of 24.39% YoY for a base case and 25.76% YoY for a bear case. Sustained price pressures would likely drive yields higher, underpinned by tighter policy measures aimed at curtailing inflation.
3. Maturity Profile and Financial System Liquidity: In H1:2024, we expect an estimated financial system liquidity (excluding FAAC payments) of NGN5.87trn to buoy financial system liquidity. However, we opine that efforts by the CBN to reduce the liquidity glut will keep short term rates high.
4. Overall, we believe that rates would note upward movements in H1:2024, with short term rates rising faster than longer term ones. We recommend that investors maintain a short position at the near end of the curve and consider locking in high returns from money market instruments.

A risk to our outlook is a scenario where the CBN reverts to unorthodox monetary policies, a further divergence in monetary and fiscal policies, and political pressure on the CBN leadership which limits policy independence.

ESG REPORT



SECTORAL REPORT ON ESG

Environmental, Social and Governance

The Rising Tides of Sustainable Investing in Nigeria

Sustainable practices are pivotal in safeguarding the environment, preserving natural resources, and mitigating the impact of climate change on both present and future generations.

This imperative commitment toward sustainability not only enhances the quality of air and water but also bolsters biodiversity while fostering resilience against climate-related challenges. Moreover, these practices yield considerable benefits for businesses, driving cost savings, and fostering healthier environments for consumers and surrounding communities.

The acronym "ESG" encapsulates Environmental, Social, and Governance standards that serve as benchmarks for evaluating companies' non-financial performances and sustainability practices.

Notably, Nigerian investors have begun incorporating ESG considerations into their investment strategies, spurred by heightened awareness of the societal and environmental impacts of their investments. Concurrently, corporations and financial entities are integrating ESG metrics into their reporting frameworks, fostering transparency and enabling investors to assess performance beyond conventional financial metrics.

Moreover, Nigeria's regulatory landscape is gradually evolving to encompass ESG considerations, with regulatory bodies initiating policies aimed at promoting sustainability and responsible investing.

For instance, in 2021, the Securities and Exchange Commission (SEC) in Nigeria published Guidelines on Sustainable Financial Principles for the Nigerian Capital Market, to ensure the adoption of sustainable practices by all SEC-regulated entities within the country while setting the principles as a benchmark on which their ESG practices must target.

Additionally, in 2023, the Financial Reporting Council (FRC) of Nigeria established the Adoption Readiness Working Group (ARWG) for Sustainability Reporting, tasked with formulating a roadmap for implementing the International Sustainability Standards Board's (ISSB) IFRS sustainability disclosure standards (IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information, and IFRS S2 – Climate-related Disclosures) in Nigeria.

This milestone signifies that Nigerian companies will be mandated to disclose their ESG performance in accordance with the IFRS standards, effective January 2024.

However, despite the burgeoning interest in ESG investing in Nigeria, significant challenges persist. The lack of sufficient accurate data demonstrating a positive correlation between ESG compliance and financial performance dissuades many investors from prioritizing ESG considerations over high-return ventures.

Additionally, the concern about “greenwashing” poses a hurdle, as companies disseminate misleading information about the sustainability of their products or services, aiming to deceive consumers. Infrastructure gaps, socio-political uncertainties, and compliance obstacles further hinder the

Outlook: Where do we see ESG Next in Nigeria?

The ascent of sustainable investing in Nigeria is experiencing a notable upward trajectory, buoyed by a convergence of influential factors.

Heightened awareness, reinforced regulatory backing, and a burgeoning dedication among investors to effect positive societal and environmental

seamless integration of ESG factors into investment decisions.

Nonetheless, these challenges serve as catalysts for innovation, infrastructure development, and collaborative efforts aimed at surmounting barriers and fostering a more conducive investment environment.

Embracing these challenges as opportunities presents a pathway toward embedding ESG principles into investment strategies and cultivating a more sustainable and responsible investment landscape in Nigeria.

change while pursuing financial gains collectively propel this trend.

This upward surge is poised to overhaul the investment terrain, heralding a paradigm shift towards cultivating a more sustainable and conscientious approach to wealth generation within Nigeria.

Table 1: ESG Scores of Select Companies under our Coverage Compared to Peer Group Median Score

Consumer Goods		Median Score (2.56)
Ticker	ESG SCORE	Comment
Guinness Nig Plc	2.73	Above Median
Nigerian Brew. Plc.	2.26	Below Median
Financial Services		Median Score (2.08)
Ticker	ESG SCORE	Comment
Access Holdings Plc	2.24	Above Median
Guaranty Trust Holding Company Plc	1.69	Below Median
Zenith Bank Plc	1.64	Below Median
ICT		Median Score (2.83)
Ticker	ESG SCORE	Comment
Airtel Africa Plc	3.3	Above Median
MTN Nigeria Communications Plc	2.7	Below Median
INDUSTRIAL GOODS		Median Score (3.24)
Ticker	ESG SCORE	Comment
Dangote Cement Plc	3.25	Above Median
Lafarge Africa Plc (WAPCO)	3.56	Above Median
OIL AND GAS		Median Score (4.93)
Ticker	ESG SCORE	Comment
Total Energies Marketing Nigeria Plc	6.84	Leading Peers

Source: Bloomberg, ARM Research, 2023

APPENDIX

PG 7	H2:2023 Review: Peaking Policy Rates and the Battle Against Inflation	<ul style="list-style-type: none"> ■ US Federal Reserve ■ Basis point ■ Year-on-Year ■ According to the US Bureau of Labor Statistics ■ Bureau of Labor Statistics ■ Federal Open Market Committee
PG 17	Crude Oil Market: A Resurgence	<ul style="list-style-type: none"> ■ Organization of Petroleum Exporting Countries ■ Price per Barrel ■ Month-on-Month
PG 18	Global Production: Rising Global Production Erodes OPEC Cuts	<ul style="list-style-type: none"> ■ Million Barrels Per Day
PG 20	Volatility Likely to Persist	<ul style="list-style-type: none"> ■ OPEC + 10 of the world's major non-OPEC oil-exporting nations
PG 27	Inflation – A Multifaceted Conundrum	<ul style="list-style-type: none"> ■ Premium Motor Spirit ■ Consumer Price Index
PG 32	Monetary Policy: Leadership Transitions, Policy Shifts and Inflationary Pressures	<ul style="list-style-type: none"> ■ Central Bank of Nigeria ■ Monetary Policy Committee ■ Monetary Policy Rate ■ Cash Reserve Ratio
PG 33	The Central Bank's Response to Excess Liquidity	<ul style="list-style-type: none"> ■ Standing Deposit Facility ■ Loan-to-Deposit Ratio ■ Deposit Money Banks
PG 34	Declining Foreign Reserves Reflect on Central Bank's Foreign Assets	<ul style="list-style-type: none"> ■ Open Market Operations
PG 36	A Respite in Sight?	<ul style="list-style-type: none"> ■ Company Income Tax ■ Value added Tax
PG 39	An Unending Capital Flight	<ul style="list-style-type: none"> ■ Quarter-on-Quarter
PG 48	Capital Markets Equities: Beating Challenges and Breaking Records	<ul style="list-style-type: none"> ■ Year-to-Date
PG 51	Oil and Gas Sector: Surfing on the back of Subsidy Removal	<ul style="list-style-type: none"> ■ Share Sale and Purchase Agreement
PG 52	Consumer Goods Sector: An Overcomer's Tale	<ul style="list-style-type: none"> ■ Net Interest Margin
PG 59	The Fixed Income Strategy	<ul style="list-style-type: none"> ■ Federal Account Allocation Committee

CREDITS

ARM Research

Oyinkansola Aregbesola oyinkansola.aregbesola@arm.com.ng
 Callista Chileke callista.chileke@arm.com.ng
 Moyosore Taiwo moyosore.taiwo@arm.com.ng
 David Gwatau david.gwatau@arm.com.ng
 Ameerat Adamu ameerat.adamu@arm.com.ng
 Lutfullahi Aderibigbe lutfullahi.aderibigbe@arm.com.ng

ARM Marketing and Corporate Communications

Adebowale Popoola..... debo.popoola@arm.com.ng
 Kayode Adewunmi kayode.adewunmi@arm.com.ng
 Oluwatayo Oshanimi..... oluwatayo.oshanimi@arm.com.ng

ARM Securities Contact		
Research	234 (1) 270 1653	research@armsecurities.com.ng
Institutional Sales & Trading	234 (1) 448 8833	Trading@armsecurities.com.ng
Customer Service	234 (1) 448 8282	customerservice@armsecurities.com.ng

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Lagos

1 Mekunwen Road

Off Oyinkan Abayomi Drive

P.O. Box 55765

Ikoyi Lagos, Nigeria

T: 0700CALLARM (0700 2255 276) | + 234 (1) 2715000

www.arm.com.ng