



H2:2024 Nigeria Strategy Report

Staying Above Water





Global Economy



Global Economy

The United States: Higher for Longer Interest Rates



- **Fed's Stance:** Fed Funds rate held at 5.25%-5.50% since July 2023.
- **Inflation :** CPI fell slightly to 3.30% YoY in May 2024
- **Treasury Yield:** 10-year US Treasury peaked at 4.70% in H1:2024
- **Labor Market:** Unemployment rate averaged 4.00% in early 2024
- **GDP Growth:** Q1:2024 GDP growth at 1.4% YoY, driven by consumer and investment spending
- **Stock Market:** AI boom led by NVIDIA, pushing Dow Jones to record highs
- **Fed Outlook:** First rate cut in H2:2024
- **Outlook:** IMF forecasts 2.60% YoY growth in 2024

The United Kingdom: Resilience and Doggedness



- **Inflation Control:** CPI fell to 2.00% YoY in May 2024
- **Economic Rebound:** Q1:2024 GDP growth at 0.6% QoQ, signaling recovery
- **Interest Rates:** BoE maintained policy rate at 5.25%
- **Stock Market:** FTSE 100 hit an all-time high, buoyed by lower inflation expectations.
- **Outlook:** IMF forecasts 0.70% YoY growth in 2024

European Union: Too Early or Right Timing?



- **Inflation Spike:** May 2024 CPI rose to 2.6% YoY post-ECB rate cut
- **Economic Recovery:** Q1:2024 GDP growth at 0.30% YoY
- **Service Sector:** Sustained expansion propels inflation
- **Inflation forecast:** Inflation to taper to 2.00% target in 2024
- **Outlook:** IMF forecasts 0.90% YoY growth in 2024

Japan: A Historic Change



- **Policy Shift:** BoJ ended negative interest rate policy
- **Wage Inflation:** 5.28% wage increase in H1:2024
- **Economic Impact:** Q1:2024 GDP fell by 0.50% QoQ, exports declined
- **Outlook:** IMF forecasts 0.70% YoY growth in 2024

China: The Export Lifeline



- **Property Crisis:** New home prices fell 0.70% MoM in May 2024.
- **Export Surge:** Exports increased by 11.20% YoY in May 2024
- **Economic Measures:** Government focuses on increased housing credit and lower mortgage rates
- **Outlook:** IMF forecasts 5.00% YoY growth in 2024

Macro Strategy

In H2:2024, the elections in the UK and US are not expected to move markets significantly, given the macroeconomic constraints both nations currently face. Carefully considering the global outlook, we posit that opportunities for positive risk-adjusted returns abound in the following strategies;

Carry Trade strategies

Opportunities to fund carry trades using the Japanese Yen still exist, albeit with the possibility of sustained hawkish policy by the BoJ. This provides an opportunity to capture value by investing low-yielding funds in emerging market economies, with stable exchange rates and higher interest rates

Lock in bond yields

With consensus forecasts gradually converging toward rate cuts, the body language has largely shifted from “if” to “when”. Locking in bond yields at current prices may provide value in the event rates begin to taper

Treasury Inflation-Protected Securities (TIPS)

While the returns on these instruments have historically been lower than equities, they provide a strong hedge against price pressures. The potential for US inflation proving more stubborn over the course of the next 6 (six) months provide an advantage for holders of this instrument

Market timing

Despite concerns around sticky prices, a solid US jobs market and booming Artificial Intelligence (AI) sector continue to support US equities. However, due to the uncertainty surrounding the outcome of the elections and trade and geopolitical tensions; we believe risk averse investors may focus on defensive tickers. However, timing is key for global equities and once economic growth picks up, fundamentally sound cyclical stocks are likely to outperform

Crude Oil Market: Relative Stability

Global Price

H1:2024 saw significant price volatility, with Brent rebounding from USD80.12pb in January to USD85.41pb in March. This was driven by easing futures selling and geopolitical tensions. Brent averaged USD83.00pb in Q1:2024, a slight decline from USD83.72pb in Q4:2023, influenced by Saudi Arabia and Russia's output cuts. Prices surged to USD89.94pb for Brent in early Q2 due to Middle East tensions and OPEC+ production cuts but later dropped to USD81.75pb in May due to economic concerns and geopolitical shifts.

Global Production

Global production dropped slightly to 101.96MMbpd in H1:2024 from 102.12MMbpd in H2:2023, largely due to reduced US output. US oil output fell from 22.41MMbpd in H2:2023 to 22.07MMbpd in H1:2024, impacted by the harsh Arctic blast in January. Also, ongoing OPEC+ production cuts and disruptions in Libya further constrained global output.

Global Consumption

Global demand averaged 102.05MMbpd in H1:2024, a slight decline from 102.22MMbpd in H2:2023, driven by weakening demand in key regions and increased adoption of clean energy. China's demand rose by 3.90% to 16.48MMbpd, suggesting a potential recovery in manufacturing activity.

H2:2024 Outlook

Although factors such as continued OPEC+ production cuts, a robust global economic recovery, and geopolitical disruptions could lead to a sustained rise in oil prices. We are leaning more on the possibility of a relaxation of OPEC+ cuts, and a resolution to geopolitical tensions which could trigger a decline in oil prices. Consequently, our base case forecast for Brent crude is **USD78pb** while our bull case forecast is **USD86pb**.



Domestic Economy & the Capital Market

Gross Domestic Product: A Reflection of Strength Amidst Challenges

Growth in Q1:2024 slowed to 2.98% YoY from 3.46% in Q4:2023. Fourteenth consecutive quarter of growth since H2:2020.



GDP Growth

Growth slowed to 5.70% YoY in Q1:2024 from 12.11% in Q4:2023 despite increased production (1.57MMbpd from 1.55MMbpd).



Oil Sector

Growth at 2.80% YoY in Q1:2024 from 3.07% in Q4:2023. Services sector led with 4.32% YoY growth.



Non-Oil Sector

Financial services expanded by 31.24% YoY, ICT growth slowed, and Real Estate affected by high building costs



Services Sector

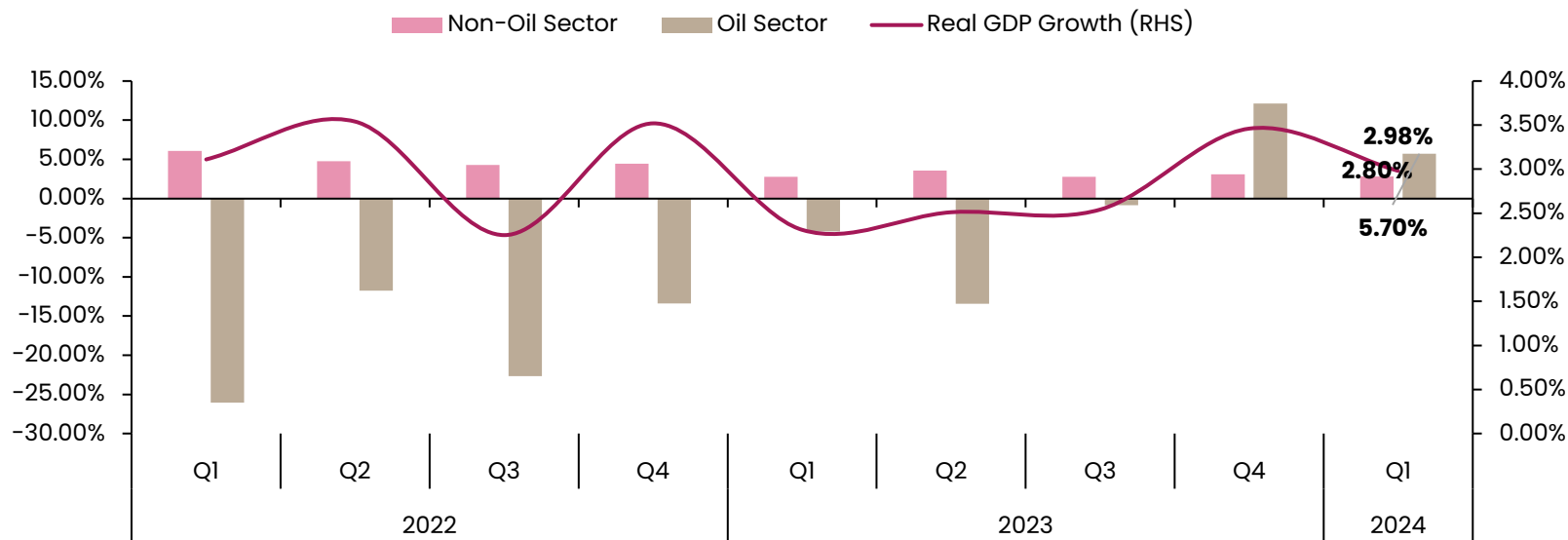
Modest growth at 1.49% YoY in Q1:2024, with improvements in Wood Products and Paper Products.



Manufacturing Sector



Gross Domestic Product: A Reflection of Strength Amidst Challenges



Minimal growth at 0.18% YoY in Q1:2024, hindered by high input costs and security challenges.



Agriculture Sector

Growth slowed to 1.23% YoY in Q1:2024, impacted by inflation and high operational costs.



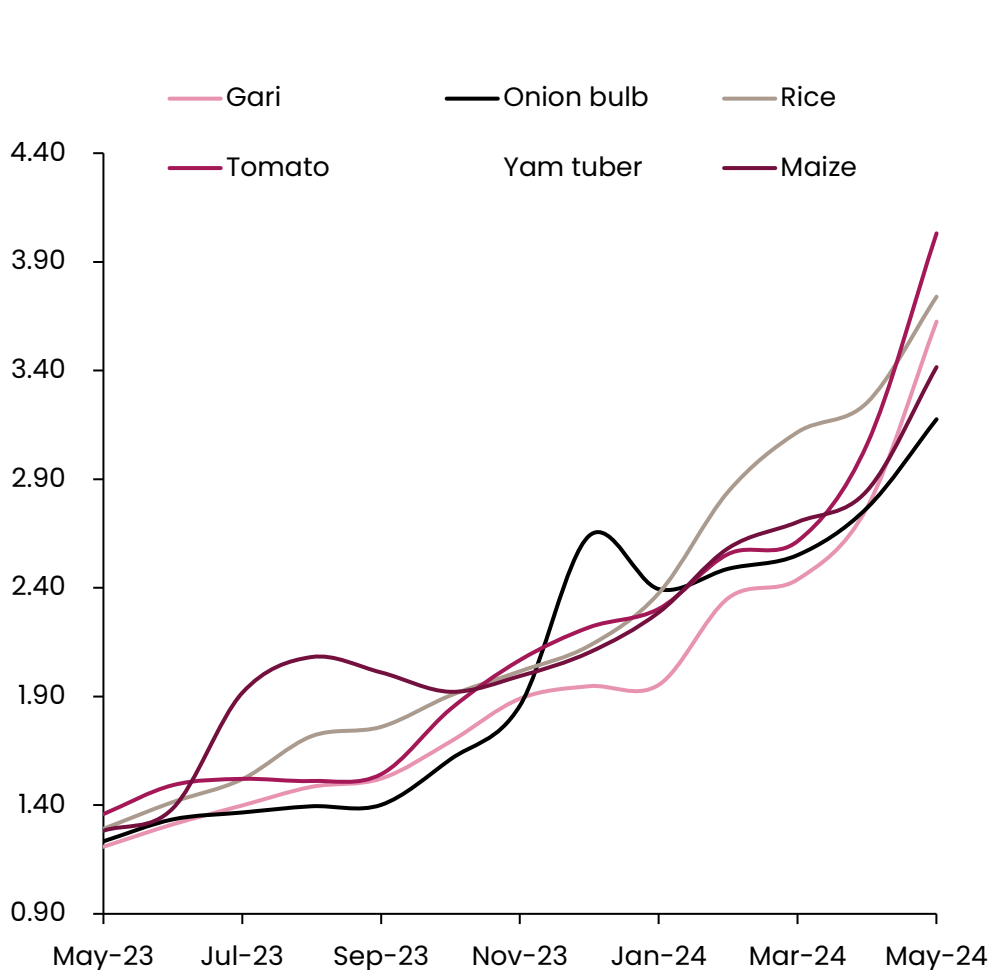
Trade Sector

Positive trajectory for oil sector with expected investments and continued growth in non-oil sector led by services. GDP forecast: **2.71%** base case, **2.09%** bear case, **3.24%** bull case.



H2:2024 Outlook

Nigerian Inflation – Fierce Competition with Consumers’ Wallet



Inflation rose from 29.90% in January to 34.19% in June. On a Month-on-Month basis, it peak at 3.12% in February, decelerating to 2.14% in May. However, inflation rose to 2.31% MoM in June. We note the CBN’s hiking campaign aimed at taming inflation.



Energy Price: Diesel rose by 66.29% YoY to NGN1,403.96. Gas increased by 63.85% YoY to NGN15,627.40/12.5kg. PMS surged by 223.22% YoY to NGN769.62/litre post-subsidy removal.



Food Inflation rose from 35.41% YoY in January to 40.87% YoY in June. Staple Foods like Garri (+200.12%), Tomato (+196.92%), Rice (+189.80%), Yam (+189.20%) all increased in the period. Drivers of food inflation were Insecurity, high energy prices, imported inflation, and Naira depreciation.



Core Inflation rose from 23.59% YoY in January to 27.40% in June.



H2:2024 Outlook: Harvest season is expected to increase food supply, and taper prices. Core Inflation is expected to stay high due to energy costs and currency issues. Headline Inflation is expected to cool to **29.05%** by December, averaging **31.17%** for the year.

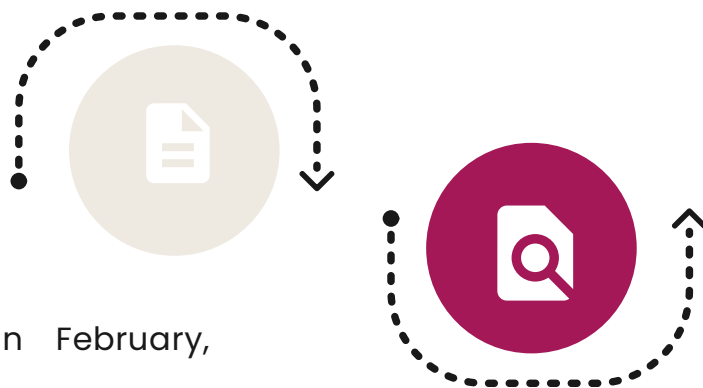


Monetary Policy: Double Edged Sword

MPC Meetings

Three meetings held in February, March, and May.

- In H1:2024, MPR raised by 750bps to 26.25%
- **February:** MPR raised by 400bps to 22.75%, CRR to 45%, liquidity ratio steady at 30%
- **March:** MPR increased by 200bps to 24.75%, CRR for merchant banks to 14%, liquidity ratio unchanged
- **May:** MPR further increased by 150bps to 26.25%, other tools unchanged

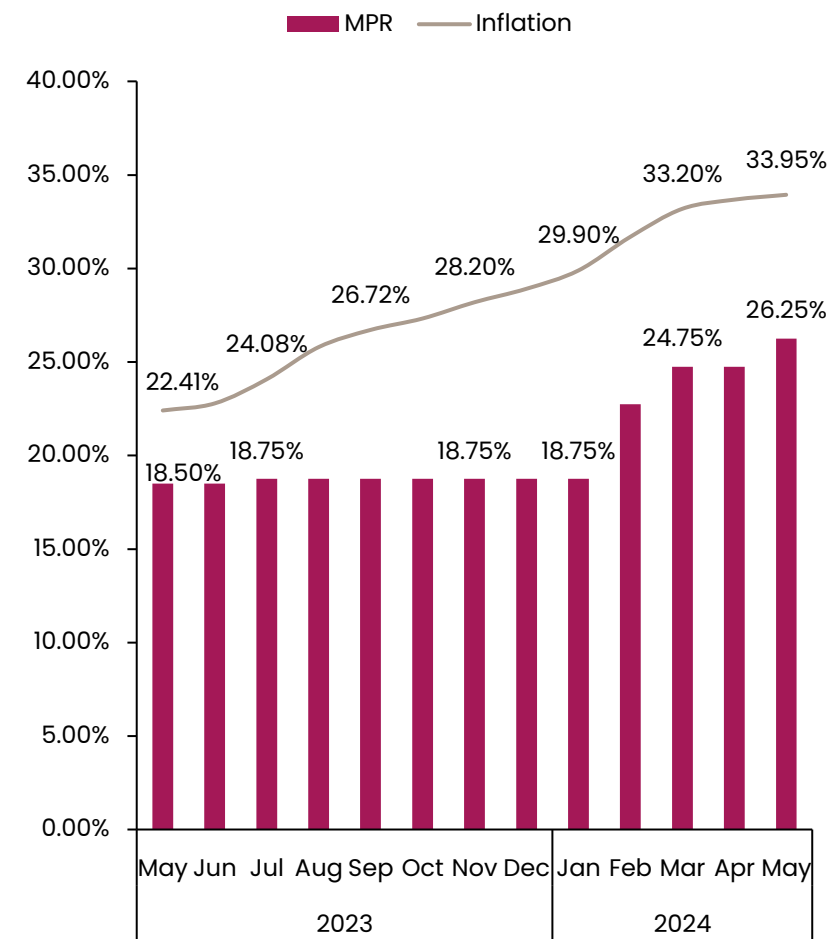


Impact on Inflation

- March: 3.02% MoM (down from 3.12% in February).
- April: 2.29% MoM (down from 3.02% in March)
- May: (-15bps to 2.14% MoM)

H2:2024 Outlook

- Inflation is expected to continue slowing down.
- MPC Actions: Most likely switch to a hold stance. Lesser probability is to hike interest rates by **50-100bps**.



Fiscal Policy: Ballooning Debt



Revenue

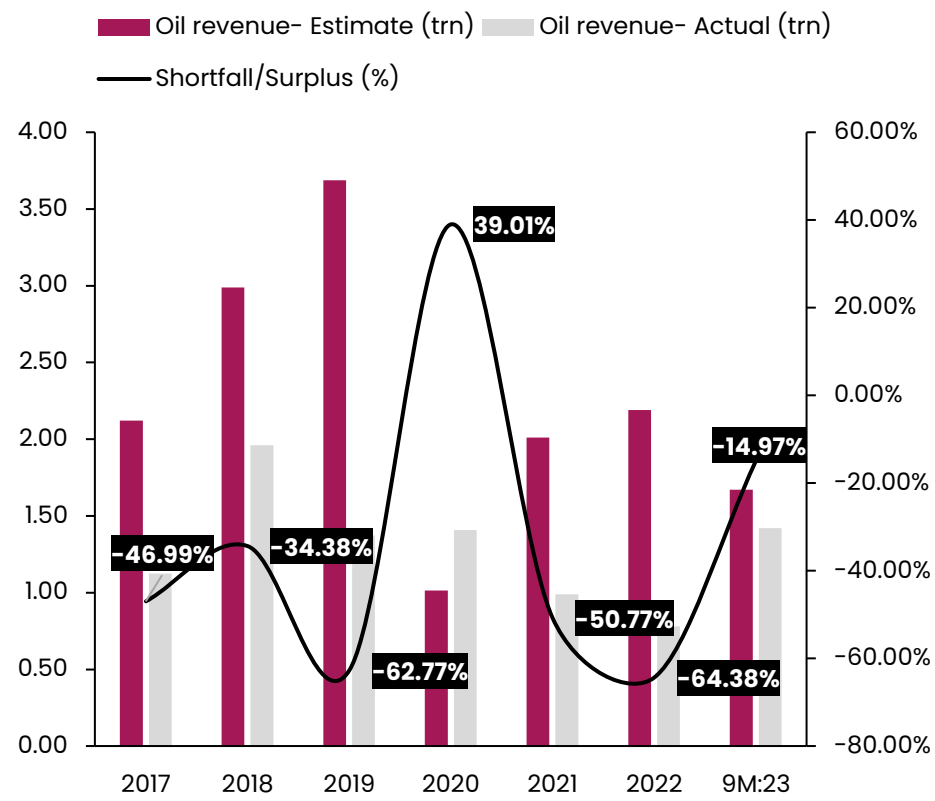
- **Oil Revenue** continues to underperform due to subpar production and market conditions
- Floating exchange rate is expected to provide some revenue boost, but overall optimism is low.
- **Nonoil revenue** is expected to outperform. As of Q1:2024, Company Income Tax increased by 109.93% YoY while Value Added Tax increased by 101.65% YoY

Expenditure

- Expenditure is expected to expand due to implicit subsidies and higher Debt Servicing Costs.

Borrowings

- Domestic Borrowing is expected to dominate due to unfavorable Eurobond pricing influenced by elevated global interest rates since H1:2022.
- Total Debt: Increased to NGN121.67trn in Q1:2024 from NGN97.34trn in December 2023.
- Exchange Rate Impact: Sharp increase (NGN24.33trn) due to exchange rate difference (NGN899.39/USD in Q4:2023 vs. NGN1,330.26/USD in Q1:2024). This is likely to worsen following currency decline to NGN1,514.31/USD by the end of H1:2024



Capital Importation: Policy Shift Spurs Capital Inflow Growth in Nigeria

Despite persistent structural deficiencies (insecurity, infrastructure deficits, and FX illiquidity) and “higher for longer” interest rates in major developed countries, total capital importation increased by a substantial 210.16% YoY to USD3.8bn in Q1:2024.

FDI increased by 150% YoY in Q1:2024 to USD119mn.



Foreign Direct Investment

FPI increased by 219.67% YoY to USD2.38bn in Q1:2024.



Foreign Portfolio Investment

The significant rise in both FDI and FPI signifies a renewed sense of confidence among investors in the Nigerian market following a government new administration and CBN's policies.



Conclusion

Overall, while challenges persist, recent trends and proactive measures by the Nigerian government and CBN offer an encouraging picture for capital inflows in H2:2024. Elevated yields in the Nigerian fixed-income market are expected to attract FPI investors, especially with potential interest rate cuts in developed economies in H2:2024. Improved FX liquidity, driven by multiple initiatives, will further enhance investor sentiment and capital inflows.

Currency: Short Term Funding Insufficient for Stability

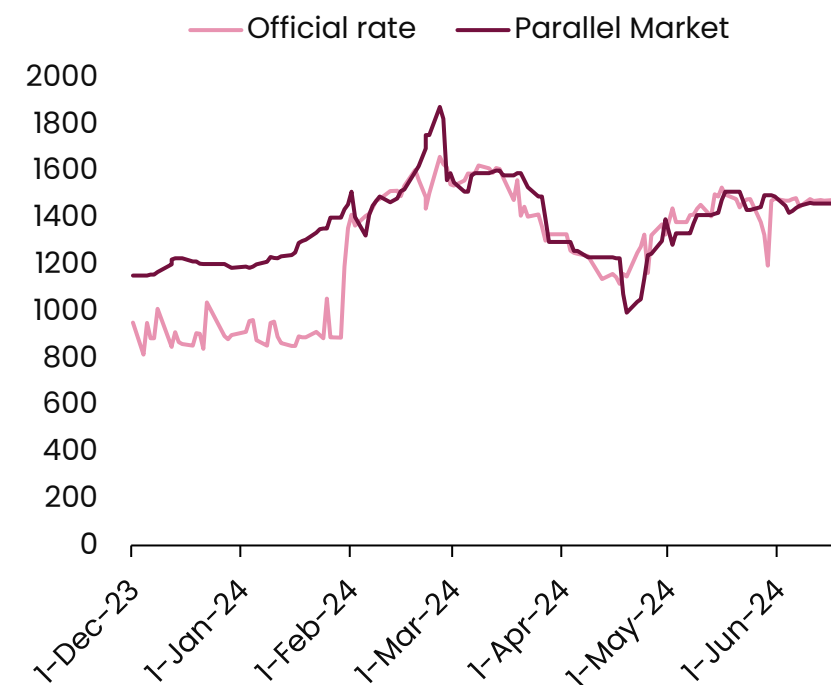
The Battle for Capital: FPI Interest Peaks

In H1:2024, the CBN under Governor Yemi Cardoso cleared USD4.6bn in legacy forward obligations. The bank also raised the policy rate by 750bps, boosting investor confidence. Subsequently, inflows during the period translated to a 3.89% increase in FX reserves to USD34.19bn by the end of H1:2024, from H2:2023. However, persistent fiscal expansion increased the broad money supply by 49.41% from June 2023 to NGN96.97trn in April 2024, undermining inflation-control efforts. Market liberalization and fiscal-monetary policy disharmony resulted in profit taking activities, and currency volatility during much of H1:2024

Outlook: Lower Global Rates May Provide Respite

In H2:2024, Nigeria's FX reserves are expected to benefit from:

- A USD2.25bn World Bank loan
- Inflows from the Dangote Refinery refined crude exports
- Approval of 14 new IMTOs, improved FX remittances
- Potential for interest rate cuts by major central banks, shifting foreign interest to high-yielding emerging market instruments



Equities: Tidal Movements in H1:2024



Market Performance

The NGX ASI reached a record high of 101,571.11 points on January 24, 2024, closing at 101,154.13 points (+35.28% YtD). However, volatility ensued:

- February: Bearish (-1.16% MoM) due to high fixed income yields and weaker-than-expected 2023FY earnings
- March: Rebound (+4.58% MoM) despite a 400bps MPR hike
- April: Decline (-6.06% MoM) due to new bank policies and higher benchmark interest rates
- May: Recovery (+1.09% MoM) from increased foreign participation and Fitch's credit rating upgrade.
- By the end of H1:2024, the NGX ASI closed at 100,057.49 points (+33.81% YtD).



Sectoral Performance

- Industrial Goods: Led with +73.14% YtD, driven by strong performances from DANGCEM, BUACEMENT, and WAPCO
- Consumer Goods: +41.05% YtD, bolstered by BUAFOODS, FLOURMILLS, and UNILEVER despite FX losses affecting other players
- Oil and Gas: +38.12% YtD, spurred by SEPLAT, MRS, and CONOIL's strong performances and sector investments
- Insurance: +21.42% YtD, driven by gains in VERITASKAP, CORNERSTONE, and NEM
- Banking: -7.47% YtD, impacted by negative reactions to new recapitalization requirements despite strong earnings results.

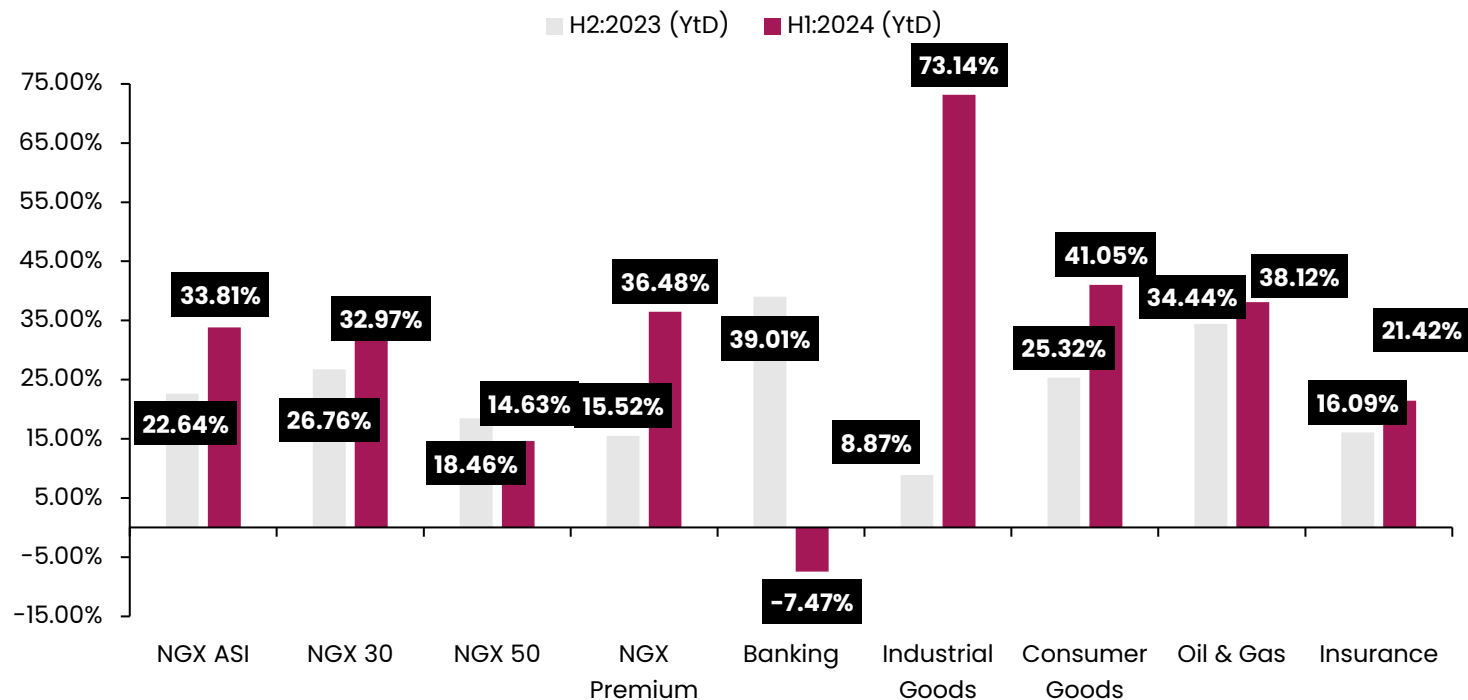


Participation

- Domestic vs. Foreign Participation: Domestic investors dominated, accounting for 79.63% of transactions.
- Foreign participation increased to 20.37%, reflecting growing confidence in Nigerian equities.
- Trading Activity: Total volume surged by 38.27% YtD to 509.71mn units, but total value declined by 22.90% YtD to NGN9.88bn, indicating increased selloffs due to higher fixed income yields.



Equities: Tidal Movements in H1:2024



Despite volatility and economic challenges, the Nigerian equities market showed resilience in H1:2024, with significant contributions from various sectors and increased investor confidence, setting a positive tone for H2:2024.



Outlook

- **Industrial Goods:** Expected to grow due to government projects and improving FX supply
- **Consumer Goods:** Anticipated to continue upward price adjustments to hedge against high input costs, with exchange rate improvements still posing challenges
- **Oil and Gas:** Positive sentiment expected to continue with increased sector investments
- **Insurance:** Continued growth driven by bancassurance model
- **Banking:** Elevated interest rates to support Net Interest Margins, with potential for mergers and acquisitions due to recapitalization requirements



Fixed Income: The Bears Hold Sway

In H1:2024, the global trend of combating inflation through monetary tightening persisted, echoing patterns from 2023FY. Advanced Economies (AEs) like the US, with the Fed maintaining a 5.25%-5.50% range and the BOE holding at 5.25%, exemplified this. In Africa, despite Ghana's rate cut (-100bps), Egypt (+400bps), Kenya (+50bps), and Nigeria - with the CBN increasing the MPR by 750bps to 26.25% - followed suit to tackle rising prices. This high MPR affected marginal rates in Nigeria's primary fixed-income market.

Average yields in the secondary market surged by 10.20%, closing at 20.41% in H1:2024, driven by bearish sentiment in Treasury Bills (15.78% increase to 22.07%) and Bonds (4.62% increase to 18.75%). The primary bond market saw a significant demand increase to NGN4.90trn from NGN3.26trn. The average stop rate rose to 18.90% in H1:2024 from 15.54% in H2:2023.

In the T-Bills primary market, H1:2024 saw a robust average bid-to-cover ratio of 5.21x, with demand rising to NGN19.21trn from NGN13.21trn in H2:2023. The average stop rate increased to 16.47% from 8.93%

H1:2024 experienced elevated bond issuance by the Federal Government, selling NGN3.69trn compared to NGN2.18trn in H2:2023. CBN's T-Bills sales surged to NGN8.39trn, up from NGN2.58trn in H2:2023, accompanied by eleven OMO auctions totaling NGN6.42trn. This activity aligns with the government's 2024 budget deficit and CBN's liquidity management and FX market stabilization efforts.

We anticipate elevated Fixed Income (FI) yields in H2:2024, as rates remain high and investors seeking high real returns amidst ongoing inflationary concerns

Capital Market Strategy

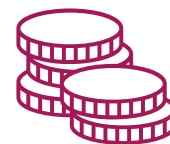


Equities

We expect positive FX measures amid continued strong earnings reports to enhance equities' performance. Favorable ratings from credit rating agencies like Fitch and Moody's will further support influx of foreign investors. The banking sector's response to recapitalization mandates will also play a crucial role.

Overall, we maintain an optimistic outlook for equities in H2:2024.

For strategy, we advise investors to focus on high dividend paying stocks with strong fundamentals in the **Banking, Oil and Gas, and Industrial Goods** sector.



Fixed Income

For H2:2024, we anticipate financial system liquidity (excluding FAAC payments) of NGN6.55trn. The CBN's efforts to control excessive liquidity are expected to keep short-term rates high.

Strategy:

- Short-Term Instruments: Given expected high short-term yields, maintain a short position at the short end of the yield curve.
- Long-Term Bonds: Consider locking in current high yields offered by long-term bonds to benefit from the elevated rates.



ESG

A focus on the Environment

ESG Investing in Nigeria: A Focus on the Environment

Environmental, Social, and Governance (ESG) investing is growing in Nigeria, with organizations like NSIA and SEC leading the charge. ESG supports sustainable practices, promising long-term returns and societal impact.

Sector Performance

Consumer Goods

Guinness: Leading in ESG; initiatives in water conservation and waste management.

Nigerian Breweries: Lagging; improving via water conservation and renewable energy.

Financial Services

ACCESSCORP & ZENITHBANK : Above median; focus on green financing and climate bonds.

Telecommunications

Airtel (3.95) & MTNN : Above median; targeting net-zero emissions by 2050.

Industrial Goods

DANGCEM & LAFARGE: Above median; using alternative fuels to reduce CO2 emissions.

Oil and Gas

TotalEnergies: Lagging; ongoing criticism despite cleaner energy projects and tree-planting.

Environmental ESG Scores of Select Companies

CONSUMER GOODS		
TICKER	ESG SCORE	COMMENT
GUINNESS NIG PLC	3.30	Leading
NIGERIAN BREW. PLC.	0.59	Lagging
FINANCIAL SERVICES		
TICKER	ESG SCORE	COMMENT
ACCESS HOLDINGS PLC	0.04	Above Median
ZENITH BANK PLC	0.05	Above Median
ICT		
TICKER	ESG SCORE	COMMENT
AIRTEL AFRICA PLC	3.95	Above Median
MTN NIGERIA COMMUNICATIONS PLC	3.64	Above Median
INDUSTRIAL GOODS		
TICKER	ESG SCORE	COMMENT
DANGOTE CEMENT PLC	3.09	Above Median
LAFARGE AFRICA PLC (WAPCO)	2.76	Above Median
OIL AND GAS		
TICKER	ESG SCORE	COMMENT
TOTALENERGIES MARKETING NIGERIA PLC	0.90	Lagging

Source: Bloomberg, ARM Research



Thank You







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