

An aerial photograph of a winding asphalt road that snakes through a rugged, mountainous landscape. The road is dark grey with white dashed lines marking the edges. The surrounding terrain is a mix of brownish-grey earth and sparse green vegetation. In the background, there are steep, rocky hillsides and a valley. The sky is overcast with soft, grey clouds. The overall tone is somewhat desaturated, giving it a historical or documentary feel.

Beyond the Reform Waves :

Charting a Course Through Uneven Terrain

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Executive Summary

The first half of the year was fraught with challenges both in the global and domestic economy. The global economy struggled under the weight of higher interest rates and sluggish growth.

In the US, GDP growth slowed in the first quarter of 2024 with improvements in the second quarter led by increased consumer spending. Simultaneously, China's industrial production outpaced expectations, but weak domestic retail sales stifled its overall economic health. The UK economy saw improved growth in H1 2024 after a decline in Q4 2023.

The global oil sector was also faced with difficulty as declining import levels and geopolitical tension led to volatility in pricing.

The domestic economy was also not devoid of challenges as real GDP growth grew slowly to 2.98% in Q1 2024, from 3.46% reported in Q4 2023, hampered by severe inflationary pressures and FX illiquidity. The oil sector showed signs of recovery but was insufficient to counteract the broader economic decline. Rising inflationary pressures due to structural issues led the monetary policy committee to implement aggressive rate hikes.

The Nigerian equities market experienced robust growth in activity level at the start of the year as the momentum from December persisted. However, volatility stemming from disappointing corporate earnings especially FMCG and stringent monetary policies pushed the market to a slight decline towards the latter part of H1 2024. Nevertheless, the market saw increased foreign participation.

Looking ahead, we anticipate minimal GDP growth with a large percentage projected to come from the oil sector, the non-oil sector is likely to face continued struggles on the back of elevated interest rates, exchange rate volatility and shrinking consumer spending.

Inflation is expected to start moderating and we do not foresee any further rate hikes. We expect the already elevated rates to attract investors to the fixed income market channelling funds from the equities market. However, we could see some improved activities in the equities market as interim dividend announcements, cheap entry price and improved earnings might spur investor interest.

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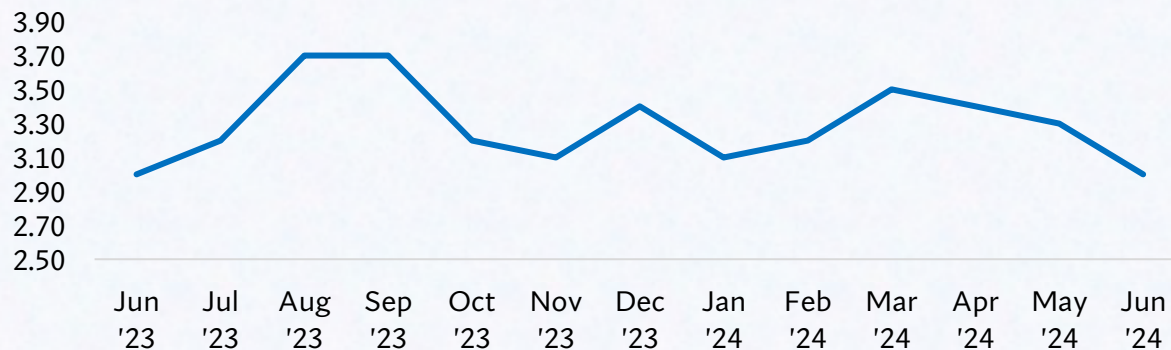
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Global Economy

The global economy continued to defy expectations of slower growth. The US, China, Eurozone, amongst others, experienced significant expansions, buoyed by strong demand which was supported by consumption expenditure, large government spending, strong labour market conditions and disinflationary pressures.

The US economy demonstrated resilience as CPI declined from 3.40% in December 2023 to 3.30% in May 2024 and fell further to 3.0% in June 2024. This signalled an easing of inflation, although still higher than the 2% benchmark of the Fed. Furthermore, the GDP growth rate rebounded to 2.80% in Q2 2024. This came after the growth rate fell from a robust 3.40% increase in Q4 2023 to 1.40% in Q1 2024, its lowest since Q3 2022. Slightly enhanced labour market activity and consistent income growth bolstered consumer spending and led to an improved GDP growth rate.

US Inflation Rate Trend



Source: Statista, WSTC Research

In China, industrial production growth beat expectations with a 5.30% year on year increase. The pro-growth stance to support its housing, infrastructure and advanced manufacturing sector led to the growth in the region. According to the latest global trade update released by UN Trade and Development (UNCTAD), there were increased exports from China (9%), India (7%) and the US (3%). Conversely, Europe's exports showed no growth and Africa's decreased by 5%.

However, domestic retail sales growth in China was quite underwhelming with just 2.00% growth year-on-year. Weak demand and conservative consumption showed the need for further quantitative easing as the high rates instituted towards the start of the year seemed to have taken effect. This led to continued exportation of disinflation.

The Eurozone experienced its strongest growth since Q3 2022, with a 0.30% expansion in Q1 2024. This growth was primarily driven by a rebound in Germany, the region's largest economy, which grew by 0.20% after a contraction in the previous quarter.

The UK economy emerged from recession with its most rapid growth in three years, expanding by 0.60% in Q1 2024. Similarly, inflation returned to its 2% target in May 2024 and was on Hold at 2% in June 2024, the lowest in almost three years.



Global Economy (Cont'd)

OUTLOOK

Global growth is expected to remain stable with IMF growth projections remaining unchanged at 3.20% in 2024 and 3.30% in 2025. Most of the growth will be driven by Asia's emerging economies, as we expect slower growth rates from the Eurozone and the United States. However, falling inflation and tailwinds to consumption should support modest growth in the UK.

Major central banks are likely to start their rate-cutting cycles in the coming months, opening the door for policy easing in the latter half of 2024. Although inflation has yet to return to target in many economies, elevated rates have weakened credit availability and raised debt default rates, we believe the impact of earlier monetary tightening is likely still working its way through.

ELECTIONS

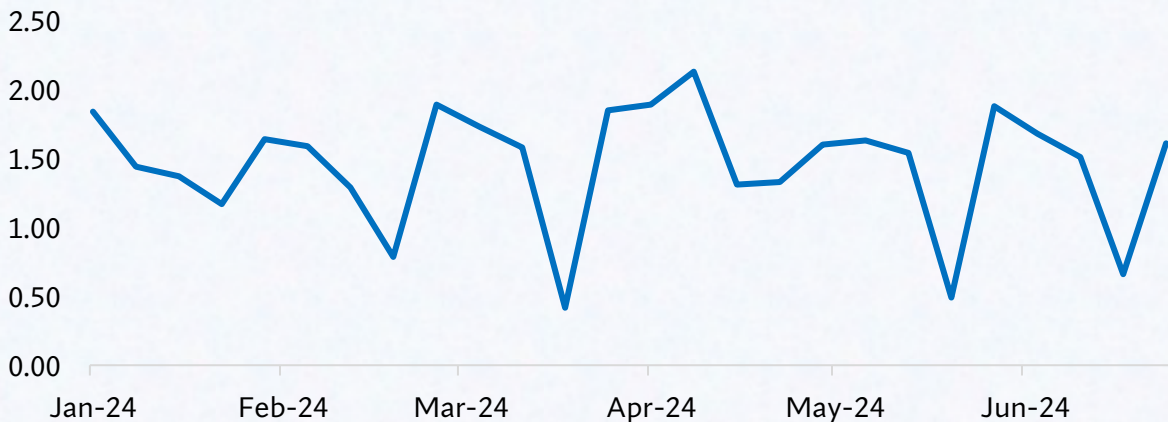
The US presidential election is scheduled for November 2024. The election will be pivotal given the significant influence of the US on the global economy.

The United Kingdom had its election on the 4th of July with Labour Party's Keir Starmer winning the ballot.

Oil

Global crude oil importation levels saw a notable decline in H1 2024 largely owing to lower import levels in China, the world's largest oil importer. Contrary to forecasts, China's daily oil imports averaged 11.08mbpd in H1 2024 down 200,000 bpd in the same period in 2023. This could be due to a slight increase in China's domestic oil production coupled with reduced economic activities at the start of the year. This performance undermined the predictions of major sector players like the IEA and OPEC+ who had forecasted increased crude oil demands during the period. The OPEC+ sanctioned a production cut in April 2024 in a bid to elevate global oil prices by limiting supply. However, this was met with resistance as heightened US oil production posed a challenge, though the output was not enough to bridge the supply gap. This trade off led to a turbulent pricing cycle leaving a major dip in oil prices in its wake.

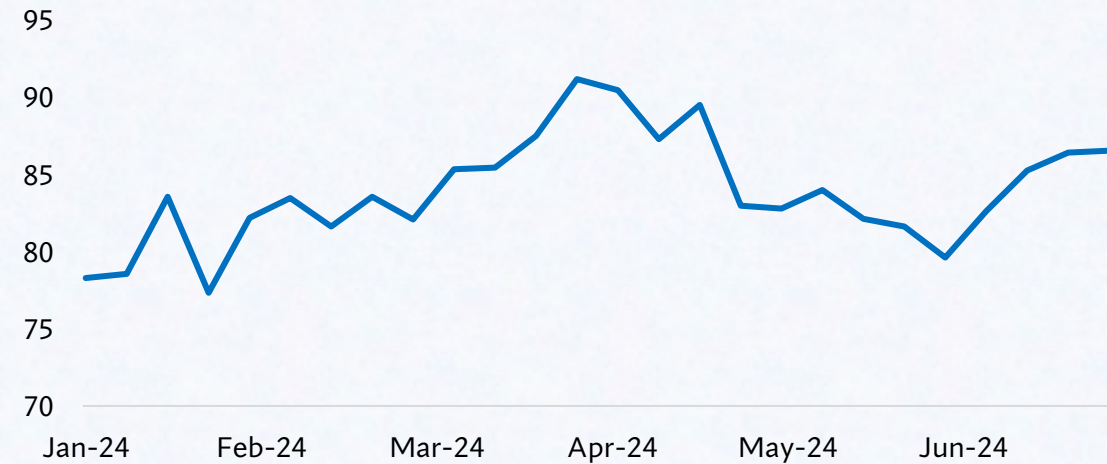
Brent Crude Trade Volume (mbpd)



Source: Investing.com, WSTC Research



Brent Crude Price (\$)



Source: Investing.com, WSTC Research

Outlook

Rising global oil demand and disappointing non-OPEC supply may drive prices higher even if OPEC output cuts are not extended into H2 2024. We expect oil prices to remain bullish as the escalation of geopolitical tensions in the middle east prompts expectations of reduced supply. This could be constrained, however, by uncertainties about the strength of the US and China's oil demand in the coming months.

DOMESTIC ECONOMY

GDP

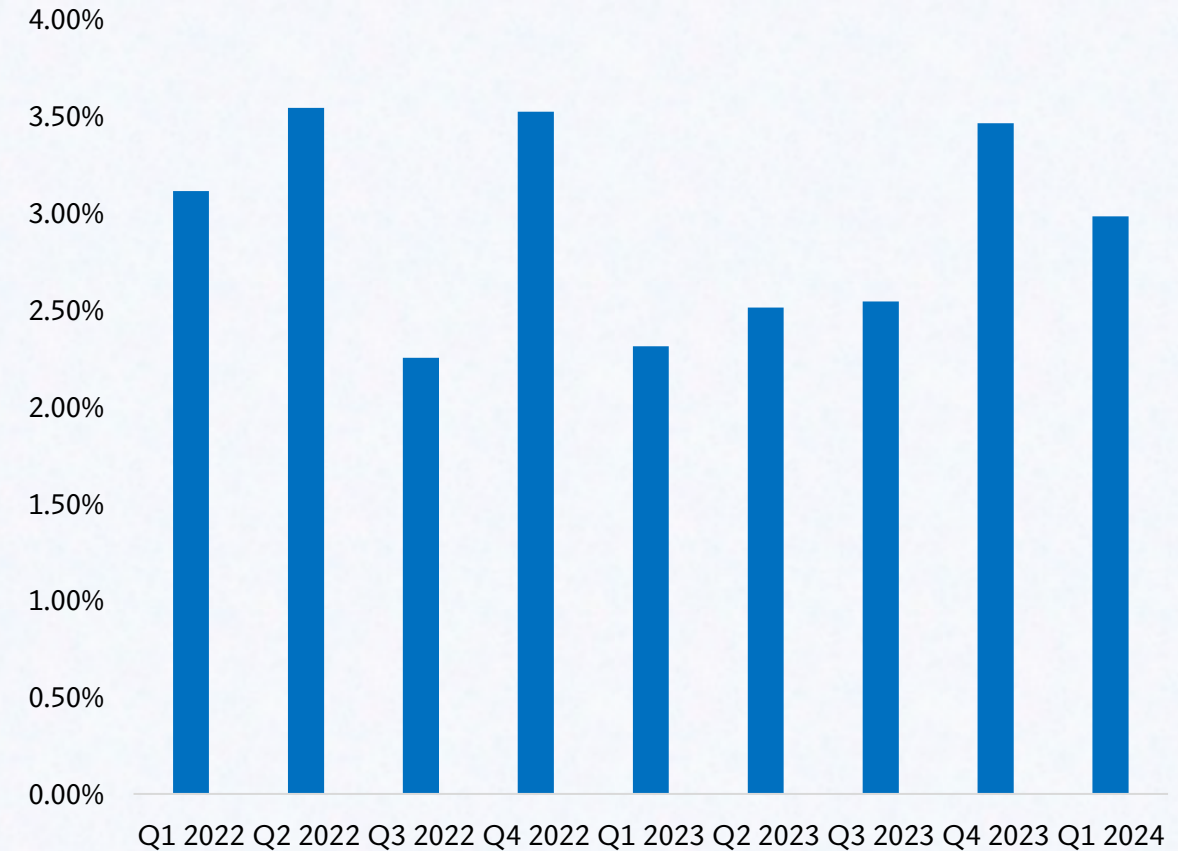


In Q1 2024, Nigeria's real GDP grew by 2.98% year-on-year, a tempered growth from the 3.46% reported in Q4 2023. This slowdown was primarily driven by mounting inflationary pressures which elevated operating costs for companies and dampened consumer spending. Additionally, FX illiquidity exacerbated the cost of raw materials, given the country's reliance on imported goods for production. In an attempt to address these challenges, the monetary policy committee hiked interest rates by 600 basis points in Q1 2024, but this move further strained production by significantly increasing the cost of debt for businesses.

Meanwhile, the oil sector emerged as a beacon of resilience, building on the rebound reported in Q4 2023. The oil sector grew by 5.70% in Q1 2024 (Q4 2023: 12.11%, Q1 2023: -4.21%), and contributed 6.38% to the total GDP (Q4 2023: 4.70%, Q1 2023: 6.21%). The growth was driven by improved oil production which averaged 1.57mbpd in Q1 2024, surpassing the 1.55mbpd and 1.51mbpd reported in Q4 2023 and Q1 2023 respectively. Although still shy of the 1.78mbpd target for 2024 budget, this progress is notable given the sector's ongoing challenges of oil theft, operational and infrastructural inefficiencies.

Elsewhere, the non-oil sector exhibited subdued performance, with a year-on-year growth of 2.80% in Q1 2024, down from 3.07% reported in Q4 2023, but marginally higher than 2.77% reported in Q1 2023. The sector's contribution to total GDP declined to 93.62%, from 93.79% in Q1 2023, and 95.30% in Q4 2023.

GDP Quarterly Trend



Source: NBS, WSTC Research

GDP (Cont'd)



The non-oil sector performance was primarily driven by the Agricultural sector’s modest growth of 0.18% in Q1 2024, down from 2.10% in Q4 2023, and the ICT subsector’s growth eased to 5.43% in Q1 2024, from 6.33% in Q4 2023.

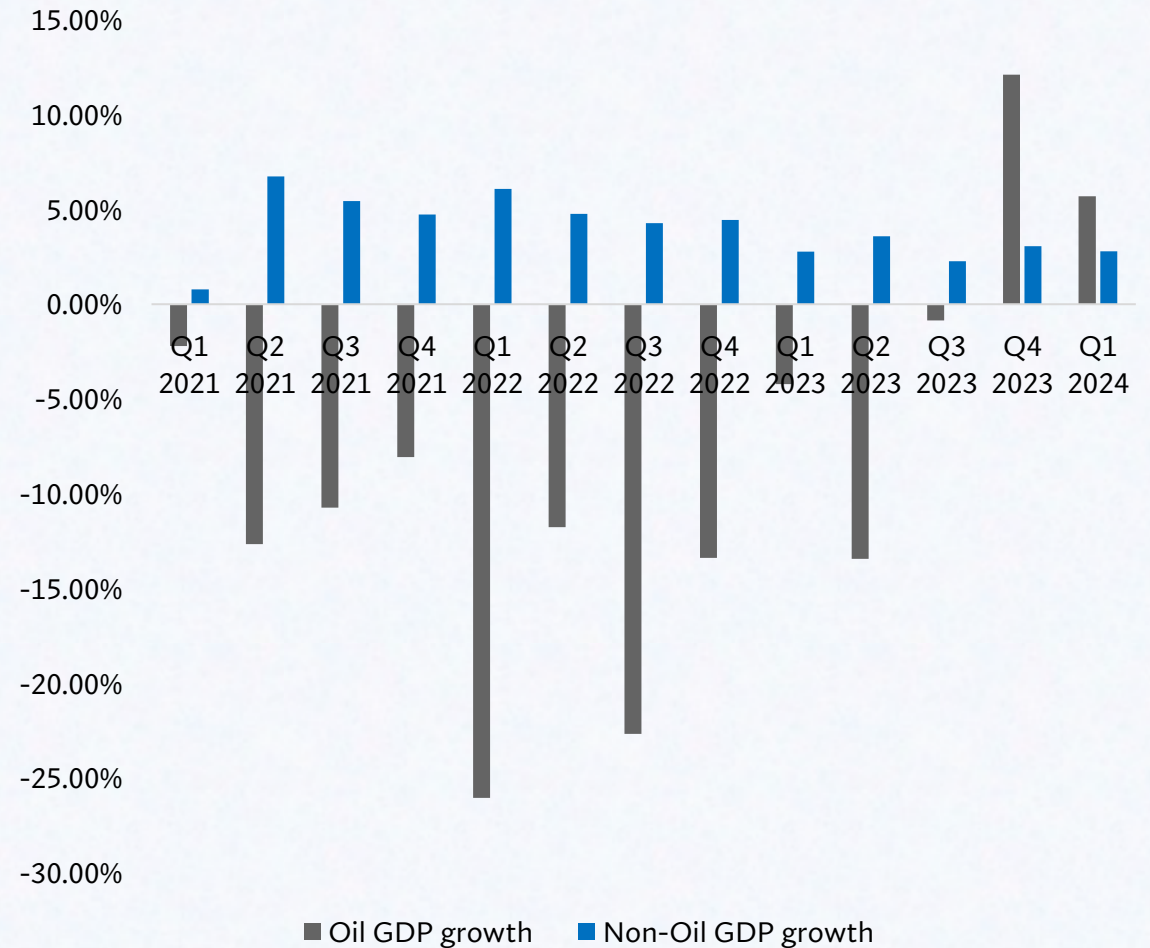
For the Agricultural sector, the performance was due to insecurity in key food producing regions, below average season harvest as reflected in crop production figures (Q1 2024: 1.71%; Q4 2023: 2.44%), and elevated operating and feeding cost for livestock production which led to a significant decline in output (Q1 2024: -23.29%; Q4 2023: -2.09%). These sub-sectors account for 96% of the sector’s performance.

The moderation observed in the ICT subsector largely stemmed from the telecommunication subsector, due to the NIN-SIM linkage exercise in the period, which saw barring of phone lines lacking submitted or unverified NIN.

Notably, the finance and insurance subsector grew by 31.24% in Q1 2024 (Q4 2023: 29.78%). This was on the back of Naira depreciation which positively impacted financial institutions’ foreign assets, and also improved credit to the private sector, which surged to N71.21 trillion by the end of Q1 2024, from N43.01 trillion in Q1 2023 according to data from the CBN.

Manufacturing subsector also inched up to 1.49% in Q1 2024 (Q4 2023: 1.38%). In our view, this growth, while positive, was constrained by the double whammy of elevated interest rate which adversely impacted cost of capital, and also the impact of depreciation of Naira on input costs, which limited the potential for higher expansion.

Oil Sector Vs Non-oil sector



Source: NBS, WSTC Research

GDP (Cont'd)



Outlook

While the weak infrastructure and oil pipeline vandalism led us to be cautiously optimistic about the oil sector achieving the ambitious target of 1.78mbpd in H2 2024, we anticipate that the improvements reported in Q1 2024 will be sustained. The authorities have signaled intentions to foster industry-wide collaboration to reduce production costs and enhance output. Furthermore, plans to upgrade outdated infrastructure, implement rig sharing program to ensure continuous rig availability within the country are expected to yield significant benefits in both the near and long term. Also, the scale-up of production capacity at the Dangote Refinery, slated for H2 2024, is poised to bolster the sector's growth.

In contrast, the non-oil sector will continue facing headwinds including elevated interest rates, currency volatility, and constrained consumer purchasing power. Consequently, we project that the economic growth in H2 2024 will be largely underpinned by the oil sector's performance.

Nigeria to rebase GDP

The NBS is looking to rebase the gross domestic product, a process that involves replacing an old base year structure with a more recent base year to reflect the shift the economy has undergone which includes the expansion of the informal sector. The last rebased was done in 2014, prior to this date, Nigeria's GDP hasn't been rebased since 1990.

The impact of the rebasing includes i) improved accuracy as it provides a clear indication of the economy size, ii) increased GDP size as some sectors weighting will change iii) policy implication as it assists the government in understanding which sectors drive growth and where to focus efforts for economic growth and development.

They are considering 2019 as the new base which is in line with the IMF's guidance. 2020 and above were avoided due to the COVID-19 implications.

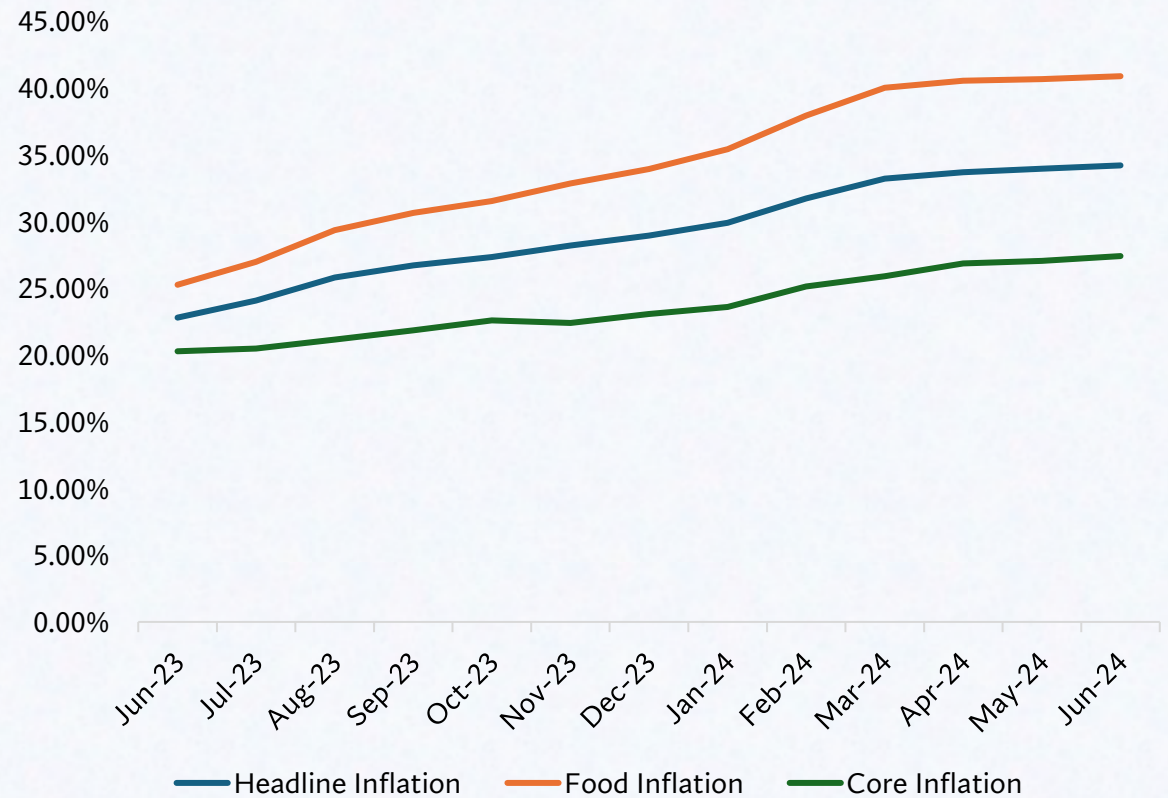
Inflation

In H1 2024, Nigeria's inflation trajectory exhibited upward trend, primarily attributable to the confluence of factors including direct and indirect impact of Naira depreciation, insecurity impeding food production, and elevated energy costs which stemmed from the removal of fuel subsidy. By June 2024, the Headline inflation rate surged to 34.19%, up from 29.90% in January 2024. Similarly, the Food inflation, which remained the primary driver, accelerated to 40.87% from 35.41% over the same period. Compounding the adverse effects of insecurity in key food-producing regions and currency volatility on imported foods, the delayed onset of rainfall in 2024 further constrained agricultural output, exacerbating supply chain disruptions.

Core inflation also trended high on a year-on-year basis, settling at 27.40% as of June 2024, from 23.59% in January 2024. This escalation was driven by a combination of factors, including elevated energy prices, cost cascading from elevated interest rate environment, increased electricity tariff for band A users during the period, and ripple effect of the Naira depreciation which exacerbated import cost for input materials for production. For context, in H1 2024 the Naira averaged 1,363/\$ in the NAFEM market and N1,439/\$ in the parallel market (H1 2023: N483/\$ and N751/\$ respectively).



One-year Inflation Trend



Source: NBS, WSTC Research

Inflation (Cont'd)

Outlook

The economic reforms, including the removal of fuel subsidy and the devaluation of the Naira, began to reflect in the inflation figures from July 2023, leading to a persistent year-on-year uptrend. Building on this elevated baseline, we posit that inflation has reached its zenith and, barring any exogenous shocks, we anticipate a moderation in Headline Inflation in H2 2024 as the effects of these reforms fade.

Specifically, we forecast a moderation in food Inflation, underpinned by the Federal Government's approval for a 150-day duty-free import window for food commodities, suspension of duties, tariffs and taxes on imported maize, husked brown rice, wheat and cowpeas, harvest supplies. Also, an increase in supply of AGO by Dangote refinery at a lower cost will likely reduce transportation costs for farm produce.

Furthermore, the CBN has continued to take proactive step to address the volatility in the FX market. One of the most recent steps taken in a period which lags H1 2024, is the reintroduction of the Retail Dutch auction by the CBN to alleviate demand pressure in the FX market. To this effect, we expect improved currency stability surpassing the levels observed in H1 2024. This stabilisation, coupled with the waning impact of economic reforms, is poised to result in a slower rate of growth in Core Inflation. Overall, we project an average Headline Inflation rate of 31.93% for FY 2024.

Monetary Policy

The intensifying inflationary pressures in H1 2024, which widened the country's negative real return, prompted the monetary policy committee (MPC) to tighten the economy. This strategy aimed not only to combat persistent inflation but also to stabilise the foreign exchange market.

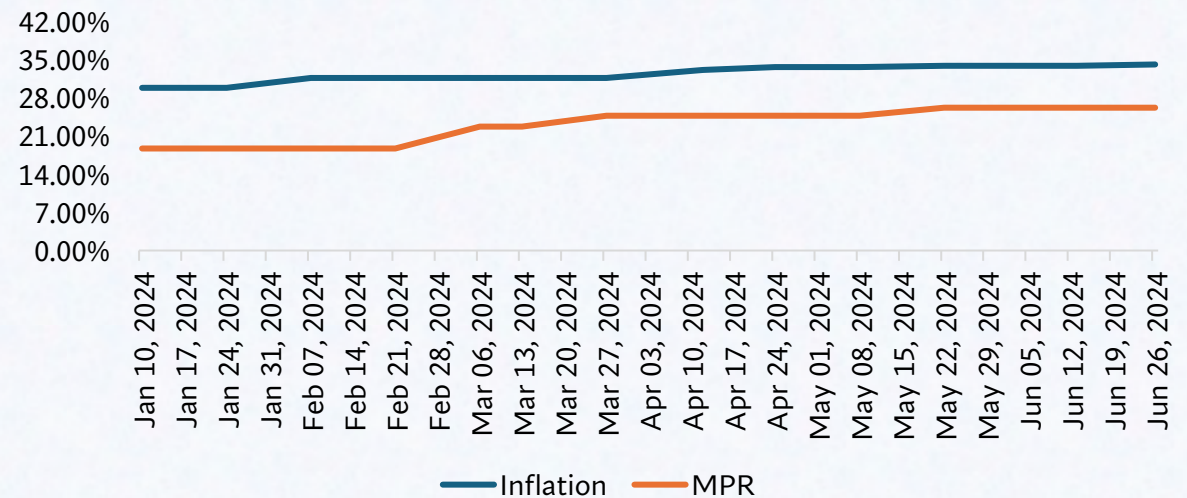
Specifically, the MPC implemented a series of monetary policy rate hikes across its three meetings in H1 2024, culminating in a 750-basis point increase to 26.25% (February 2024: 400 basis points; March 2024: 200 basis points; May 2024: 150 basis points).

In addition to these hikes, the MPC also raised the credit reserve ratio (CRR) for deposit money bank to 45% (previous: 32.50%), and CRR of Merchant Banks to 14% (previous: 10%). Furthermore, the MPC modified the asymmetry corridor twice in H1 2024, initially widening it to +100/-700 basis points in February 2024, before reverting it to +100/-300 basis points in March 2024.

In addition, the Standing Deposit Facility (SDF) rate was increased by 400bps, translating into higher returns on bank deposits at the window and subsequently, higher stop rates at the Primary Market Auctions (PMA) of treasury bills.



MPR Vs Headline Inflation Trend



Source: CBN, NBS, WSTC Research

OUTLOOK

The rate hikes implemented thus far are aimed primarily at achieving price stability and narrowing the negative real returns to attract foreign investment and enhance FX inflows. In light of our expectation of a moderation in inflationary pressures in H2 2024, coupled with the approved multilateral funding, which is expected to provide respite to the monetary authorities in their pursuit of Foreign Portfolio Investment (FPI), we anticipate that a further aggressive tightening of monetary policy is unlikely in H2 2024.

We posit that the 50-basis point hike in the July 2024 MPC meeting could be the terminal rate hike for H2 2024, with subsequent HOLD stance likely to follow.

Fiscal Policy



For the first time in over a decade, it's striking that Nigeria's 2023 budget performance outperformed more than the expected, with Federal Government revenue surpassing projections by 8%. This achievement was largely underpinned by substantial grants and donor funding, totaling N1.57 trillion, significantly exceeding the budgeted amount of N43.03 billion.

Positive variances were also recorded in key revenue streams, including oil revenue, Company Income Tax (CIT), Value-Added Tax (VAT), and education tax. The uptick in oil revenue was primarily driven by elevated oil prices, which surpassed the budgeted benchmark (Actual: \$83; Budgeted: \$75). This price uplift offset the shortfall in actual oil production, which averaged 1.23 mbpd in 2023, compared to the budgeted 1.69mbpd.

On the expenditure front, Federal Government spending declined by 24% relative to budgeted amounts, primarily due to reduction in capital expenditure. Consequently, the projected fiscal deficit for 2023 contracted by 50% to N6.92 trillion.

2023 Budget Performance

Revenue (N'bn)	2023 Budget	Actual (Jan-Dec)	Variance	% Change
Total revenue	11,045.11	11,884.69	839.58	7.60%
Oil revenue	2,315.07	2,429.80	114.73	4.96%
Crude oil receipts	2,229.64	2,377.31	147.67	6.62%
Share of dividend (NLNG)	81.79	46.22	(35.57)	-43.49%
Mineral & Mining revenue	3.64	6.27	2.63	72.25%
Non-Oil revenue	2,465.61	3,312.41	846.80	34.34%
Company income tax (CIT)	933.28	1,923.38	990.10	106.09%
Value-added tax (VAT)	383.09	476.11	93.02	24.28%
Custom revenue	949.59	781.80	(167.79)	-17.67%
Federation account levies	167.19	107.47	(59.72)	-35.72%
Share of electronic money transfer levy	19.09	23.65	4.56	23.89%
Share of oil price royalty	13.37	0.00	(13.37)	-100.00%
Other revenue	6,264.43	6,142.48	(121.95)	-1.95%
FGN independent revenue	3,169.07	1,841.00	(1,328.07)	-41.91%
FGN Drawdowns from Special Accounts/Levies	300.00	168.00	(132.00)	-44.00%
Education Tax (TETFUND)	248.27	719.44	471.17	189.78%
GOEs retained revenue	2,419.11	1,584.55	(834.56)	-34.50%
Grants and Donor Funding	43.03	1,572.50	1,529.47	3554.43%
Others	84.95	256.99	172.04	202.52%
Expenditure (N'bn)				
Aggregate FGN Expenditure	24,823.52	18,802.14	(6,021.38)	-24.26%

Source: Budget Office of the Federation, WSTC Research

Fiscal Policy (Cont'd)

DEBT STOCK

Nigeria's total debt stock surged to N97.34 trillion by December 2023, up from N46.25 trillion in December 2022. This significant increase was primarily attributed to the securitisation of N22.70 trillion ways and means, coupled with the adverse impact of Naira devaluation on external debt.

The upward trajectory continued into Q1 2024, as the Debt Management Office (DMO) reported a further rise of N24.33 trillion, bringing the total debt stock to N121.67 trillion (Q1 2023: N49.85 trillion). This escalation was driven by the continued depreciation of the Naira, more domestic borrowings, and the impact of the securitisation of an additional N7.30 trillion ways and means debt balance approved in December 2023.

OUTLOOK

Following intense negotiations between the Nigeria Labour Congress and the Federal Government, a consensus was reached to adjust the minimum wage to N70,000. To accommodate this increased wages, the Federal Government requested Senate approval for a supplementary budget of N6.20 trillion. Of this supplementary budget, N3.00 trillion is earmarked for recurrent expenditures, while N3.20 trillion is for infrastructure projects.

To enhance revenue generation and support the supplementary budget, the Federal Government proposed a one-time 50% windfall tax on foreign exchange gains realized by banks in their 2023 financial statements. This proposal was subsequently revised to a 70% one-time windfall tax by the house of representative before the finance bill's passage. A windfall tax targets industries that have experienced exceptional profits due to macroeconomic events. In this context, Nigerian banks reported substantial FX gains following the official devaluation of the Naira in 2023.

While this windfall tax aims to mitigate the government's revenue shortfalls, we maintain our projection that the fiscal deficit will exceed the estimated N9.18 trillion to N10.35 trillion (around 4% of GDP), driven by escalating debt costs.

As the Federal Government seeks to enhance revenue generation, a new tax regime has been approved to optimise tax yield and stimulate economic growth. Key changes include addressing tax collection inefficiencies, reducing tax rates for low-margin businesses, consolidating the number of taxes from 62 to 9, among others.

Lastly, we do not rule out a possible return to the Ways and Means window for funding, given that a substantial portion of the extant debt has been financed. We, however, expect this to serve as a last recourse if more multi-lateral and/or bi-lateral funding sources prove inaccessible.

FINANCIAL MARKET

Equities Market



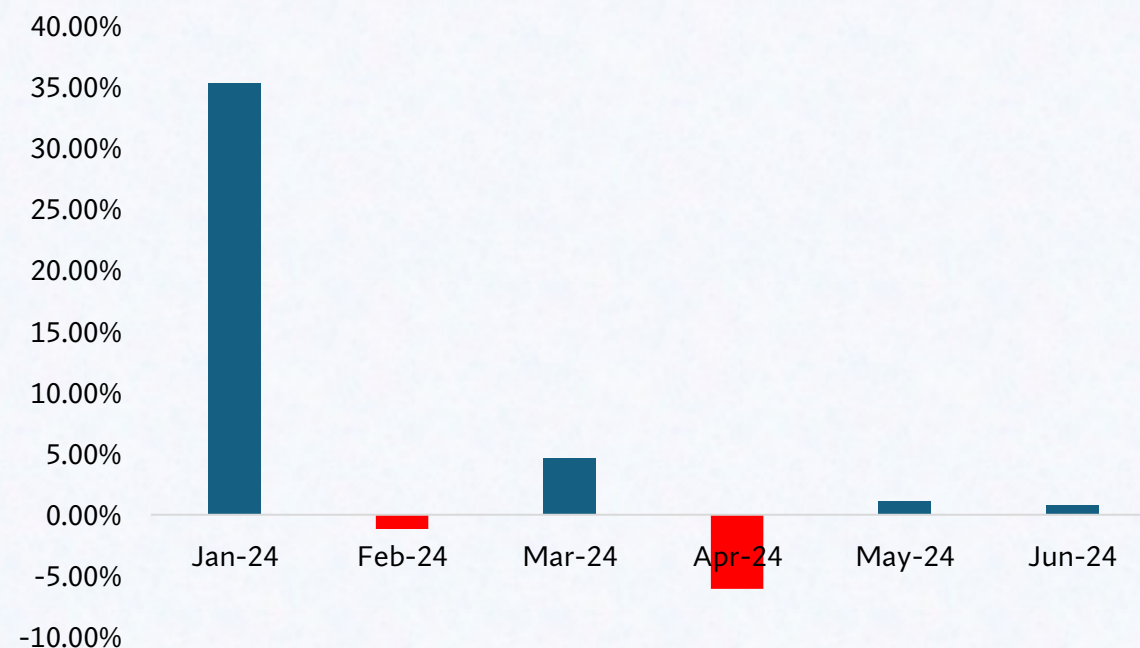
The Nigerian equities market commenced 2024 with a bullish performance, as the momentum from 2023 persisted into the new year. In January 2024, the All-Share Index (ASI) surpassed 100,000-point threshold, posting a remarkable +35.28% return. However, this uptrend was short-lived, as the market recorded fluctuation throughout the remainder of H1 2024.

The market experienced its first downturn in February 2024, triggered by the release of full year 2023 financial results, which revealed net losses for several companies, particularly in the FMCG sector, primarily due to FX losses which stemmed from the Naira devaluation in 2023. Furthermore, the Monetary Policy Committee's (MPC) decision to raise interest rates by 400 basis points dampened investors interest in the equities market, leading to a -1.16% decline in the ASI.

A brief respite occurred in March 2024, as the market rebounded with a +4.58% return, driven by dividend declarations, and the listing of Transcorp Power Plc on the Exchange, which bolstered investor sentiment, and increased trading activities. However, the momentum was short-lived, as the MPC raised interest rates by an additional 200 basis points towards march ending, prompting investors to reallocate funds to the fixed income market in pursuit of higher yields. Consequently, the ASI declined by -6.06% in April 2024.

Buoyed by corporate actions and positive Q1 2024 performance by the banking sector, the equities market rebounded in May 2024 (+1.09%), and this was sustained in June 2024 (+0.76%), notwithstanding the additional 150 basis points rate hike by MPC committee in May 2024. The All-Share Index ended the H1 2024 at 100,057.49 points, posting a return of +33.81%.

NGX ASI Monthly Trend



Source: NGX, WSTC Research

Equities Market (Cont'd)

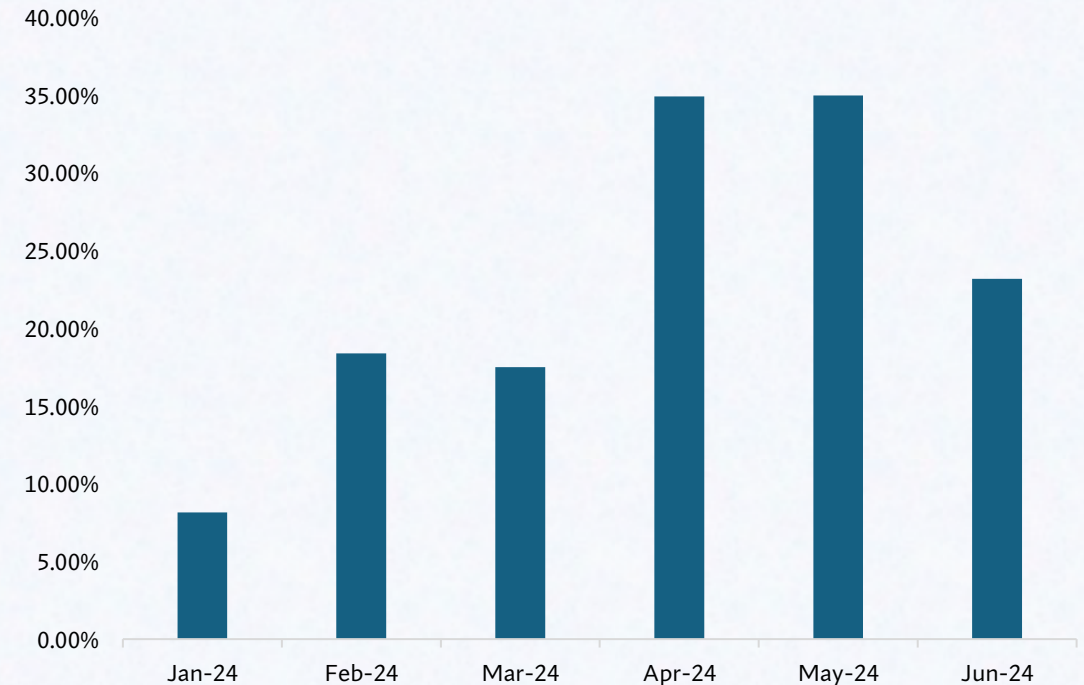
Foreign investors Interest Renewed

Data from NGX reveals a notable surge in foreign investors activities within the equities market. As of May 2024, foreign investors share of the total transacted value for the month soared high by 34.97%. However, by June 2024, their share of the total transacted value for the month moderated to 23.18%.

Notwithstanding this moderation in June, overall, the foreign investors activities in the equities market was robust, with total transaction value soaring to N540.48 billion in H1 2024, outpacing total value of N410.62 billion reported in year 2023. We attribute this heightened interest to the monetary authorities concerted efforts to enhance FX liquidity, address market distortion and foster transparency in the foreign exchange market.

Notably, foreign outflows from the equities market totaled N311.41 billion in H1 2024, surpassing inflows of N229.07 billion. This trend was powered by engines of the Naira's appreciation in April 2024, which peaked at N1,072.74/\$ in the NAFEM market, creating a favorable exit opportunity for foreign investors. Specifically, the equities market witnessed the highest monthly foreign outflow of N78.25 billion in April 2024, accounting for 25% of total outflow in H1 2024.

Trend of Share of Value of Foreign Transaction in H1 2024



Source: NGX, WSTC Research

Equities Market (Cont'd)

H1 2024 Sectorial Performance Trend

Description	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	H1 2024
Agricultural index	17.13%	-10.31%	0.00%	-7.02%	18.65%	23.70%	43.37%
Banking Index	-3.37%	-2.01%	21.21%	-24.79%	2.97%	4.12%	-7.47%
Consumer Goods Index	24.33%	16.45%	-0.78%	-4.04%	1.19%	1.11%	41.05%
Industrial Index	107.86%	-13.33%	-0.92%	-3.19%	0.16%	0.03%	73.14%
Insurance Index	21.68%	-6.08%	10.44%	-6.49%	-3.26%	6.36%	21.42%
Oil & Gas Index	19.96%	4.14%	-0.66%	-2.04%	2.06%	11.32%	38.12%
Telco Index	4.74%	-3.26%	1.45%	-3.45%	1.75%	-4.11%	-3.17%

Source: NGX, WSTC Research

Sectoral Performance

Performance across sectors was largely painted with a bullish brush in H1 2024, as the industrial sector took center stage with a remarkable +73.14% surge, primarily propelled by a 105.28% rise in Dangote Cement's stock. Other stalwarts like CAP (+72.66%), and BUA Cement (+47.63%), also contributed to the sector's stellar performance.

The Agricultural sector blossomed with a +43.37% growth, primarily fertilised by Presco's +83.52% gain, and a +12.12% rise in Okomu Oil. Noteworthy is Presco's acquisition of Ghana Oil Palm Development Company Limited in H1 2024 which was well received by investors.

Equities Market (Cont'd)

Despite facing headwinds from FX losses as reported in FY 2023 and Q1 2024 results, the Consumer goods sector still managed to serve up a +41.50% growth, largely driven by significant gains in BUA Foods (+96.43%), Flour mills (+34.64%), and Unilever (+21.62%), which masked the declines in Nascon (-35.81%), and Dangote Sugar (-24.56%). The latter's decline was influenced by investors reaction to the suspension of the proposed merger between Dangote Sugar Refinery Plc, Nascon Allied Industries Plc, and Dangote Rice Limited.

Another important development in the consumer goods sector in H1 2024 was Tolaram's proposed acquisition of Diageo's 58.02% stake in Guinness Nigeria at N81.60 per share, subject to approval. This news sparked renewed investor interest in Guinness Nigeria, reversing the stock's prior decline, to close H1 2024 with a gain of +1.52%.

The Oil and Gas sector also posted impressive gains of +38.12%, buoyed by positive corporate disclosures which sustained investor interest in the sector. Some of these corporate disclosures included:

- Eterna oil's appointment as a major distributor of Dangote Petroleum Refinery products in Nigeria
- Oando Plc's announcement of the lifting of suspension of securities on the Johannesburg stock exchange, and
- NNPC's approval of divestment of ExxonMobil's stake in Mobil producing Nigeria unlimited (MPNU) to Seplat Nigeria.

The insurance sector, although the least among the gainers, still delivered a return of +21.42% in H1 2024.

On the flipside, the Banking sector and Telco sector took a hit from market headwinds, declining by -7.47% and -3.17% respectively in H1 2024. The banking sector, in particular, faced volatility, shifting from the initial foreign exchange revaluation gain reported in FY 2023 results, to the CBN's recapitalisation policy, and closing of net open positions, all prompting investors to adopt a cautious stance.

The Telco sector's performance mirrored the market's response to MTN Nigeria's FX-induced net losses in FY 2023 and Q1 2024 financial results.

Equities Market (Cont'd)

Outlook

Our outlook for the equities in H2 2024 is cautiously optimistic. We anticipate increased market activity driven by H1 2024 interim dividend announcements from companies which are expected to renew investors interest in the equities market. Additionally, banks undertaking Rights Issue and Public Offerings to meet CBN's recapitalisation requirement are poised to stimulate market participation. Furthermore, we expect that the continued implementation of measures by the CBN to ensure transparency in the FX market, coupled with sustained issuance of OMO bills, and the elevated interest rate environment, will enhance FPI in the country. Hence, we anticipate sustained foreign investors activities in the equities market.

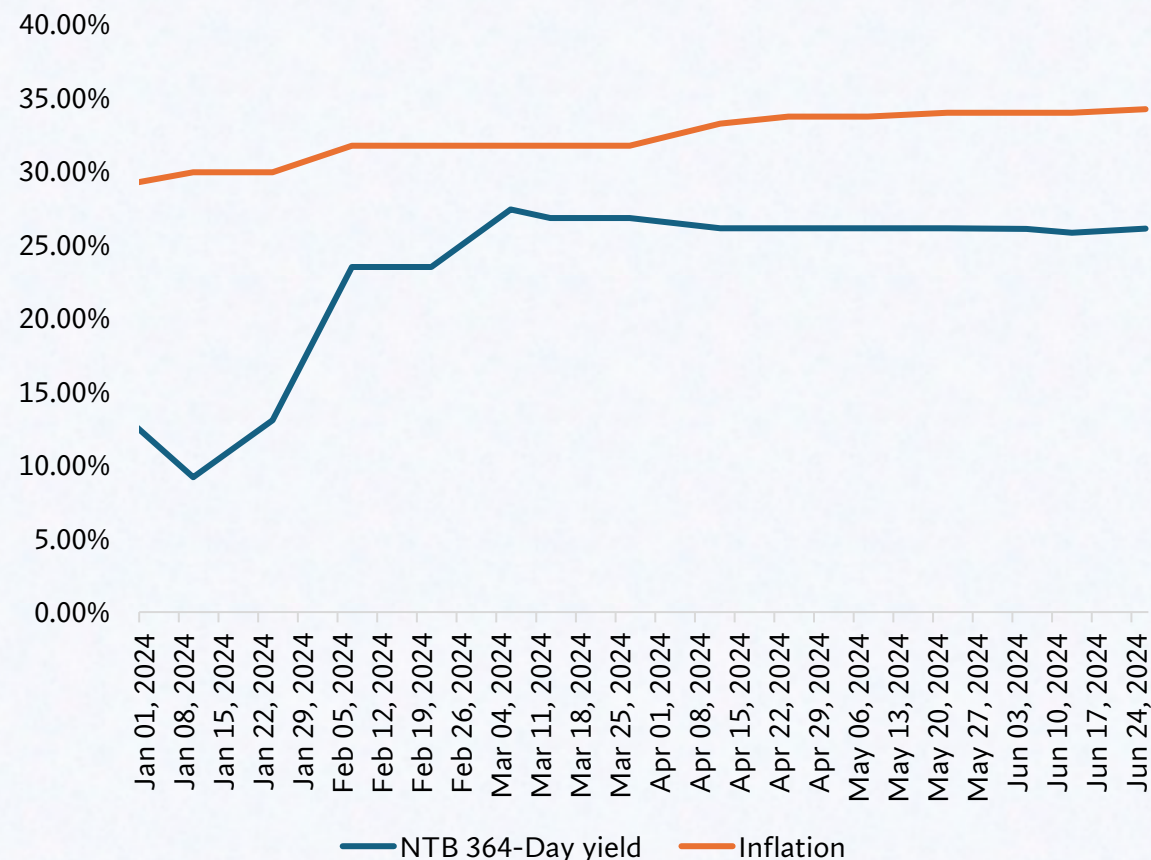
However, we are mindful of the potential negative impact of elevated fixed income market rates, which may influence reallocation of capital from equities market. Additionally, a further depreciation of Naira would continue to hamper Companies bottom-line, and potentially sustain investors reallocation of funds away from the equities market.

Fixed Income

In the first half of 2024, Nigeria's fixed income market experienced a significant rise in yields driven primarily by the Central Bank of Nigeria's efforts to combat inflation and tighten liquidity. The CBN's hawkish monetary policy stance combined with measures to reduce financial system liquidity, led to tighter credit conditions and higher yields on Nigerian Treasury Bills (NTBs) and bonds.

The tightening measures and the Federal Government's borrowing requirements created a perfect catalyst that propelled elevated yield in H1 2024. In the primary market, the CBN offered a total of N3.69 trillion in H1 2024, a 60% increase from N2.30 trillion in H1 2023. Subscriptions soared to N19.21 trillion, up from N9.49 trillion, reflecting a subscription-to-offer ratio of 7.32x compared to 4.59x in the previous year. The average stop rates across tenors - 91 days (14.69%), 182 days (15.69%), and 364 days (19.02%) — were higher than those of the prior year. The 364-day yield averaged 23.74% in H1 2024, up from 9.87% average in H1 2023.

A similar trend was observed in the FGN savings bond, with the two- and three-years rate averaging 15.12% and 16.12% respectively in H1 2024 (H1 2023: 9.97% and 10.97% respectively). Additionally, the CBN conducted a total of 12 OMO bill auctions, with 11 successful bids.



Source: CBN, WSTC Research



Fixed Income

In the second half of 2024, we anticipate a moderation in the general yield curve for the Nigerian fixed income market. This expectation is based on several factors, including disinflation on the back base effects and lower foreign exchange volatility, which should improve confidence and liquidity.

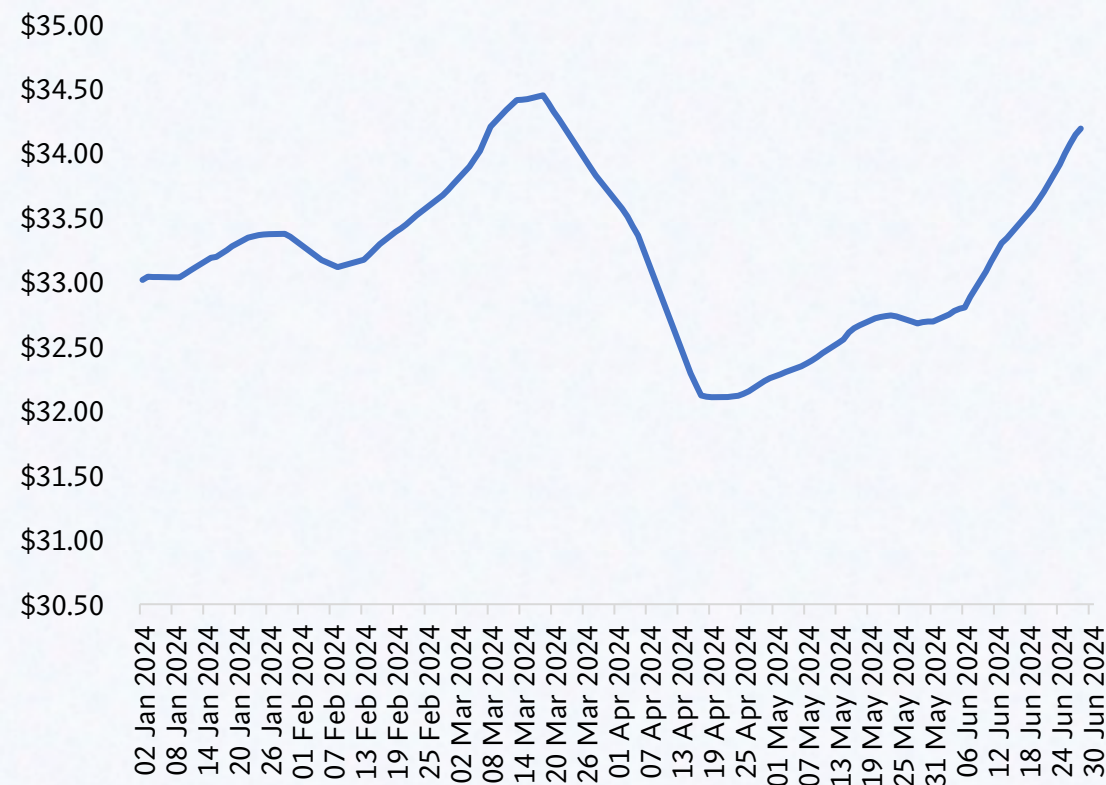
Additionally, the Debt Management Office (DMO) is under less pressure to raise funds, having already secured over 50% of the estimated N20 trillion projected for the debt markets this year. Reflecting this reduced pressure, the third quarter bond issuance calendar has been adjusted downwards. We forecast a moderation across yield curve in H2 2024.

Foreign Exchange and External Reserve

In addition to wielding interest rate as a double-edged sword to tackle inflation and enhance the attractiveness of Nigerian financial instruments to foreign investors, the CBN deployed comprehensive arsenal of measures in H1 2024 to bolster FX supply in the country and stabilise the currency. These measures included clearing of verified FX backlog, revising regulatory and guidelines for BDC's, resuming dollar sales to BDC's, introducing new guidelines for banks' net open positions, and removing the huge spread on FX transactions.

The reserve oscillated throughout H1 2024, with a USD\$2.25 billion injection from the first tranche of Afrixem Bank's syndicated crude oil payment facility, and revitalised foreign investor appetite for Nigerian assets, pushing the reserve up throughout Q1 2024, reaching as high as USD\$34.45 billion in March 2024, before receding to USD\$32.11 billion in April 2024, due to obligatory outflows for debt servicing, and CBN's FX market intervention. However, it regained momentum on June 10, 2024, reaching USD\$33.08 billion, and sustained an upward trajectory, culminating in a USD\$34.19 billion balance at the end of H1 2024. We attribute this accretion to the disbursement of USD\$925 million, a subsequent tranche of the Afrixem bank facility.

External Reserve Trend

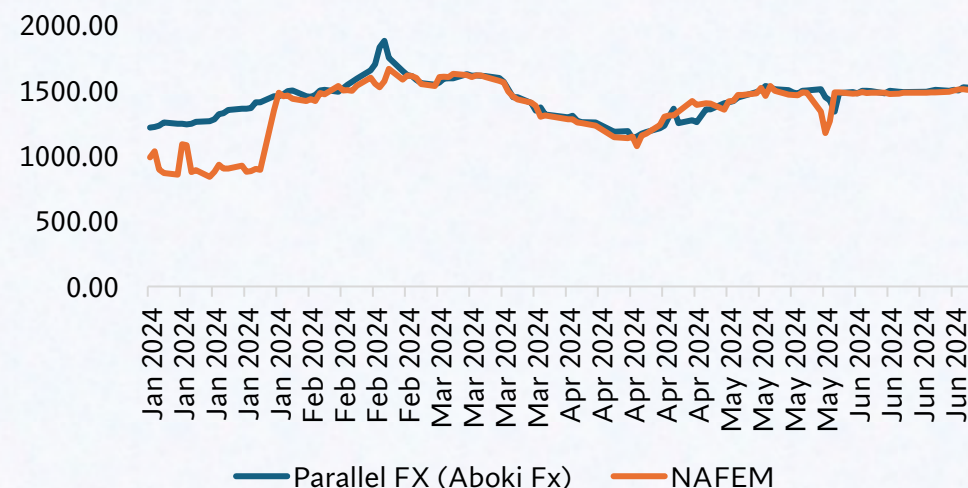


Source: CBN, WSTC Research

Foreign Exchange and External Reserve (Cont'd)

On the currency front, the Naira largely maintained a depreciating trend in H1 2024, with a brief respite in April 2024, when it appreciated to an average of N1,245/\$ in the NAFEM market, and N1,238/\$ in the parallel market (March 2024 average: N1,524/\$ and N1,526/\$ in both markets respectively). However, this was short-lived, as the currency reverted to its downward trajectory due to factors such as demand-supply imbalance, concerns over significant FX contract maturities, and profit-taking by foreign investors. By the end of H1 2024, the Naira had depreciated to N1,505/\$ in the NAFEM market and N1,521/\$ in the parallel market, marking a depreciation of 40% and 20% respectively from FY 2023 closing levels.

Exchange Rate Trend



Source: FMDQ, Naira rates, WSTC Research

Outlook

As H1 2024 drew to a close, the CBN issued a directive outlining measures to enable eligible international money transfer operators (IMTOs) access the CBN window directly or through their authorised dealer banks (ADB) for executing foreign exchange transactions. This measure seeks to facilitate prompt settlements, market-driven pricing, and ensure FX inflows are channeled through formal channel. While this directive may potentially lead to increased demand for forex from operators, thereby putting pressure on the reserve, we anticipate a corresponding uptick in diaspora remittance volumes, driven by seamless operations, to offset this impact.

So far in H2 2024, the CBN has also implemented several key measures including:

- Intervening directly in the FX market
- Reintroducing the Retail Dutch Auction System – which enables direct forex sales to retail end users.

Additionally, the World Bank has approved a \$1.50 billion loan for Reforms for Economic Stabilisation to Enable Transformation (RESET), and a \$750 million loan for Accelerating Resource Mobilisation Reforms (ARMOR). These funds are expected to bolster reserves and if properly implemented, could foster sustained economic growth.

Given these developments and barring any shock, we project Naira to close 2024 in the range of a range of N1,375/\$ - 1,475/\$.



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