

A GLIMMER OF RESILLIENCE

October 22, 2024



Economic Report

Global Market

In the third quarter of 2024, inflationary pressures began to subside globally, with more countries experiencing inflation rates that were either aligned with or nearing the targets set by major central banks. Despite this positive trend, market sentiment remained cautiously optimistic as geopolitical risks and ongoing uncertainties continued to pose challenges to the broader global economic recovery. While inflation appeared to be stabilising, there were still underlying concerns about global growth. These concerns stemmed from the uneven economic responses among major economies and the disparities in economic health between different regions, which could potentially hinder sustained recovery soon.

In Q2 2024, the U.S. saw a solid 3.00% growth in real GDP, largely driven by robust consumer spending, increased inventory investment, and rising business expenditures. To bolster the economy and address the decelerating labor market, the Federal Reserve enacted a 50-basis point rate cut—its first in four years—bringing the federal funds rate down to a range of 4.75%-5.00%. While some critics considered this move premature, inflation had moderated to 2.50%, nearing the Fed's long-standing target of 2.00%. This shift in inflation, coupled with mounting concerns over a stagnating job market and slower growth, prompted the Fed to act.

In contrast, the Eurozone struggled with lackluster economic growth and declining inflationary pressures. To combat stagnation, particularly in key economies like Germany and Italy, the European Central Bank (ECB) lowered its deposit rate by 25 basis points to 3.50%. This move aimed to encourage lending and spending, hoping to ignite demand in a region grappling with persistent economic sluggishness. While both central banks were focused on stimulating their respective economies, the divergent approaches highlighted the varied challenges they faced, with the U.S. attempting to counteract labor market weakness, while the Eurozone sought to rejuvenate flagging demand.

China continued to face significant economic challenges in the third quarter, primarily driven by a prolonged slump in the property sector and persistently weak consumer and business confidence. Despite these persistent difficulties, Chinese policymakers have avoided implementing large-scale fiscal and macroeconomic stimulus measures. This restraint has left the economy vulnerable to further downward pressure on both prices and profit margins. The cautious stance taken by the government has sparked growing concerns about the possibility of prolonged economic stagnation, especially as growth remains hampered by deeper structural issues, such as demographic shifts and insufficient domestic demand, which continue to drag on the country's recovery prospects.



In the United Kingdom, inflation remained steady at 2.20% throughout the third quarter of 2024, following a 20-basis point month-on-month increase in July, up from 2.00% in June. Given this modest rise in inflation, coupled with other economic factors and a focus on supporting economic recovery, the Bank of England decided to hold its key interest rate steady at 5% for the remainder of the quarter. This decision followed a 25-basis point reduction in July 2024, which had lowered the rate from 5.25% in June. The Bank's cautious approach reflected a balance between containing inflation and providing support for broader economic stability.

In contrast, Japan raised its interest rate by 15 basis points to 0.25% in July 2024, marking the highest rate the country had seen in years. This modest increase was aimed at preventing a resurgence of deflation while gradually working to stabilise the economy. The 0.25% rate was maintained throughout the remainder of the quarter. Additionally, the Bank of Japan announced plans to gradually phase out its extensive bond-buying program, as deflationary pressures had begun to ease. These strategic actions were seen as crucial steps toward achieving the country's inflation target of 2.00%. By raising borrowing costs, the Bank hoped to curb excessive inflation, bolster investor confidence, and stimulate economic activity, particularly in sectors that had been underperforming due to prolonged low-interest rates and deflationary expectations.



Domestic Economy

According to data released by the National Bureau of Statistics (NBS), the Nigerian economy demonstrated resilience in Q2 2024 as Real GDP grew by 3.19% year-on-year, exceeding the 2.51% and 2.98% growth rates in Q2 2023 and Q1 2024, respectively. The Oil sector's strong performance was the linchpin of this growth, while the Non-Oil sector remained tepid.

Oil Sector

The oil sector continued its upward momentum for the third consecutive quarter, posting an impressive 10.15% year-on-year real GDP growth in Q2 2024. This represented a strong recovery from the -13.43% contraction experienced in Q2 2023 and nearly doubled the 5.70% growth seen in Q1 2024. The sector contributed 5.70% to overall GDP growth in Q2 2024, compared to 5.34% in Q2 2023 and 6.38% in Q1 2024.

However, we attribute much of this year-on-year growth to the low base effect from the previous year, rather than a sharp surge in output. According to the National Bureau of Statistics (NBS), daily oil production in Q2 2024 averaged 1.41 million barrels per day (mbpd), which, while higher than the 1.22 mbpd average recorded in Q2 2023, was still lower than the 1.57 mbpd average reported in Q1 2024. This suggests that while the sector is recovering, the pace of production has not yet fully rebounded to earlier levels.

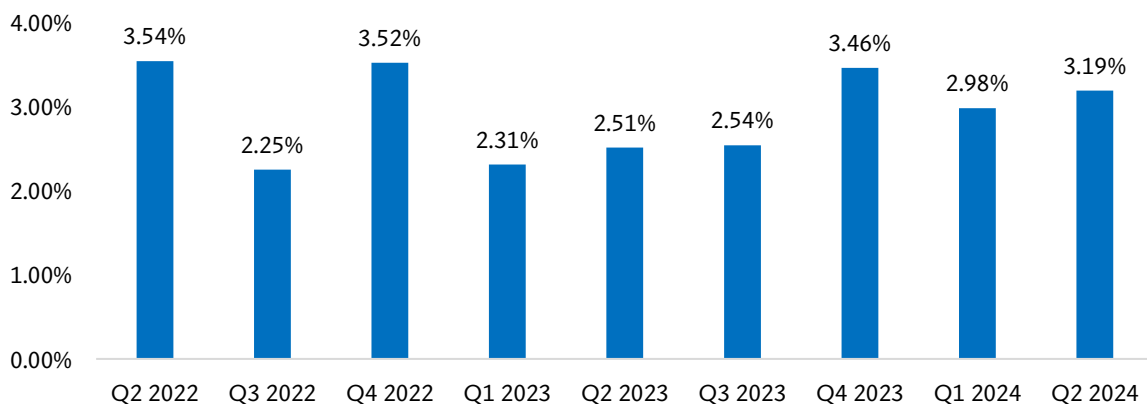
Non-Oil Sector

The sector continued to face significant macroeconomic headwinds in Q2 2024, driven by plethora of challenges such as elevated interest rates, infrastructure vandalism, foreign exchange (FX) illiquidity, and persistent inflationary pressures. These factors not only stifled consumer purchasing power but also increased production costs, creating a challenging environment for growth. As a result, the sector posted a modest year-on-year growth of 2.80% in Q2 2024, which was unchanged from the growth rate seen in Q1 2024 and represented a decline from the 3.58% growth recorded in Q2 2023.

Despite these challenges, the sector remained a dominant contributor to overall economic output, accounting for 94.30% of total GDP growth in Q2 2024. This was slightly lower than its contribution of 94.66% in Q2 2023 and a marginal increase from 93.62% in Q1 2024.

By sector, the Agricultural sector experienced a 1.41% year-on-year growth, contributing 22.61% to total GDP; the Industrial sector saw a 3.53% year-on-year growth, contributing 18.62% to total GDP; and the Services sector recorded a 3.79% year-on-year growth, contributing 58.76% to total GDP.

Nigeria GDP Trend



Sources: National Bureau of Statistics, WSTC Research



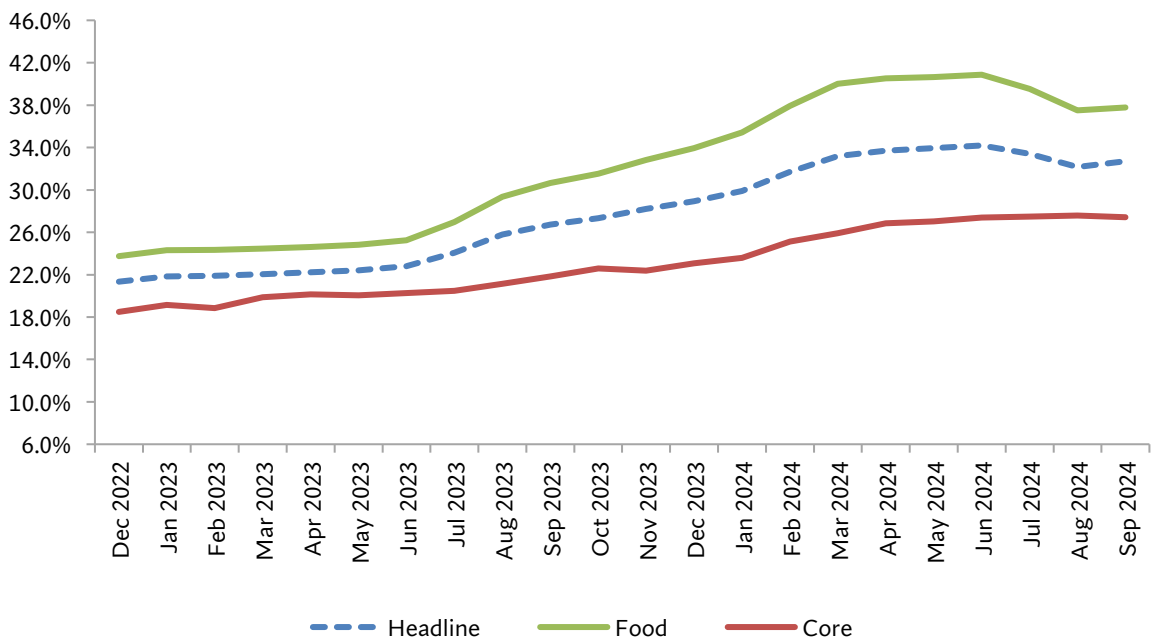
Domestic Inflation

At the start of Q3 2024, Headline Inflation showed signs of moderation, falling to 33.40% in July and easing further to 32.15% in August, down from 34.19% at the end of Q2. This moderation was largely driven by the base effect, as the impact of major economic reforms—such as the removal of the fuel subsidy and the official devaluation of the Naira—began to influence inflation figures from July 2023. However, this downward trend was interrupted in September 2024, when Headline Inflation rose to 32.70%, largely due to an increase in PMS prices. On September 3, 2024, the NNPC raised PMS price by 39% to N858/litre from N617/litre. This severely impacted energy and transportation prices during the period.

In the third quarter of 2024, average inflation fell to 32.75%, showing a slight decrease from the 33.95% average in Q2 2024, due to the earlier mentioned reasons.

Food inflation, the main driver of Headline Inflation, had also decelerated in the first two months of the quarter but surged to 37.77% year-on-year in September 2024 up from 37.52% in August 2024. Severe flooding in Northern Nigeria, which submerged farmlands and made key roads impassable, combined with higher transportation costs, contributed to the rise in food prices. On the other hand, core inflation eased at the end of the quarter, partly due to the slight appreciation of the Naira observed in September 2024.

Inflation Trend





Financial Markets

In Q3 2024, Treasury bill (T-bill) rates exhibited a seesaw pattern, starting with a surge in yields. The 364-day T-bill yield peaked at 26.97% and 28.37% during July's auctions, a notable increase from 26.07% in the last auction of June 2024. However, this bullish trend was short-lived, as yields retreated in subsequent auctions, only to rebound in September 2024's final auction.

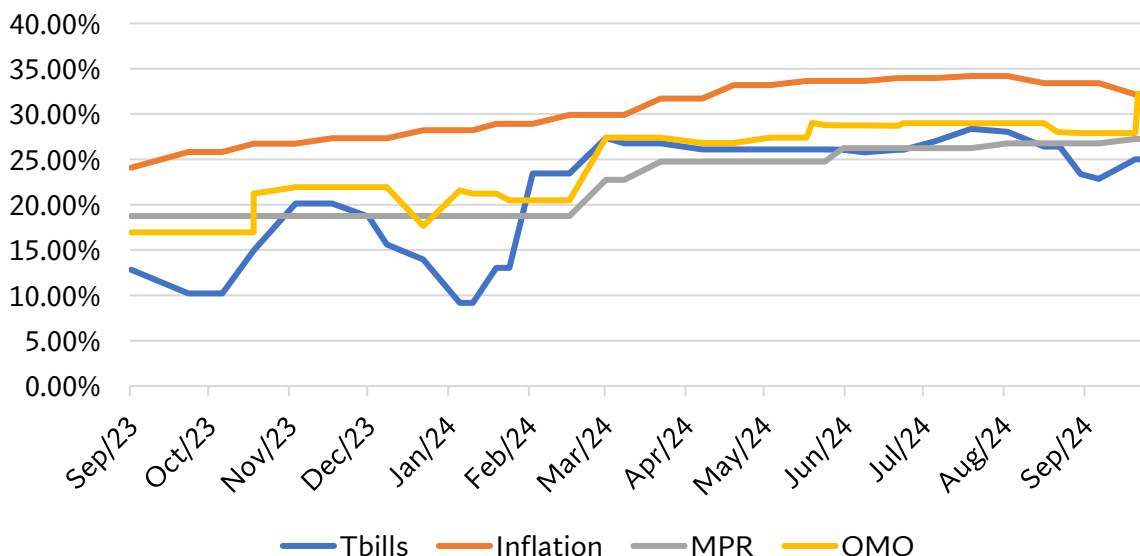
The volatility in yields, despite the Central Bank's sustained hawkish stance, highlighted the Federal Government's debt management strategy amidst the liquidity glut in the financial system. This liquidity surge was primarily driven by higher FAAC allocations and the maturity of T-bills during the quarter.

The September 2024 interest rate hike of 50 basis points by the Monetary Policy Committee prompted a repricing of the Nigeria Treasury Bills (NTB) in the primary auction, leading to a 364-day yield of 25.00% in the final auction of the month. This represented a sharp increase from the previous auction's yield of 22.84%.

A similar trend was observed in Open Market Operations (OMO) bill auctions. In these auctions, two out of four recorded a decline in rates, while the first and last auctions experienced an uptick in yields.

In a landmark move, the Debt Management Office (DMO), on behalf of the Federal Government, launched a US\$500 million domestic dollar-denominated bond auction for the first time ever in Q3 2024. This marked the beginning of a US\$2 billion program. The bond, with a 5-year tenor and an interest rate of 9.75%, was oversubscribed by 80%, with total subscriptions reaching US\$900 million.

Real Return Trend



Sources: CBN, NBS, WSTC Research

Equities Market

Despite the public offers, rights issues, and interim dividend declarations—particularly from the banking sector, bearish sentiment prevailed in the domestic stock market, leading to a -1.50% decline in the All-Share Index. This downturn was largely driven by unfavorable macroeconomic conditions and a high-interest rate environment, which kept fixed-income yields elevated. As a result, the opportunity cost of equity investments increased, dampening investors appetite for stocks.

The Oil and Gas sector stood out as the top performer under our coverage, delivering an impressive +38.19% return in Q3 2024. A key driver of this performance was Oando Plc, whose stock soared by +450.67% following the announcement of the approval and acquisition of Eni’s subsidiary, Nigerian Agip Oil Company (NAOC). Other notable gainers in the sector includes Eterna Oil (+87.50%), TotalEnergies (+73.28%), and Conoil (+60.00%), all contributing to the sector’s strong performance.

The Agriculture sector followed closely with a +31.54% return, while the Banking and Insurance sectors posted more modest gains of +13.77% and +10.08%, respectively.

On the other hand, the Industrial sector experienced the most significant decline, plummeting by -18.94%. This was mainly driven by pronounced sell-offs in key stocks such as BUA Cement (-23.18%) and Dangote Cement (-18.99%). Additionally, the Consumer Goods sector and the Telecommunications (Telco) sector reported losses of -1.10% and -0.66%, respectively.

Sectorial Performance

Description	Q3 2024 Return
Oil & Gas Index	+38.19%
Agricultural index	+31.54%
Banking Index	+13.77%
Insurance Index	+10.08%
Telco Index	-0.66%
Consumer Goods Index	-1.10%
Industrial Index	-18.94%

Sources: NGX, WSTC Research



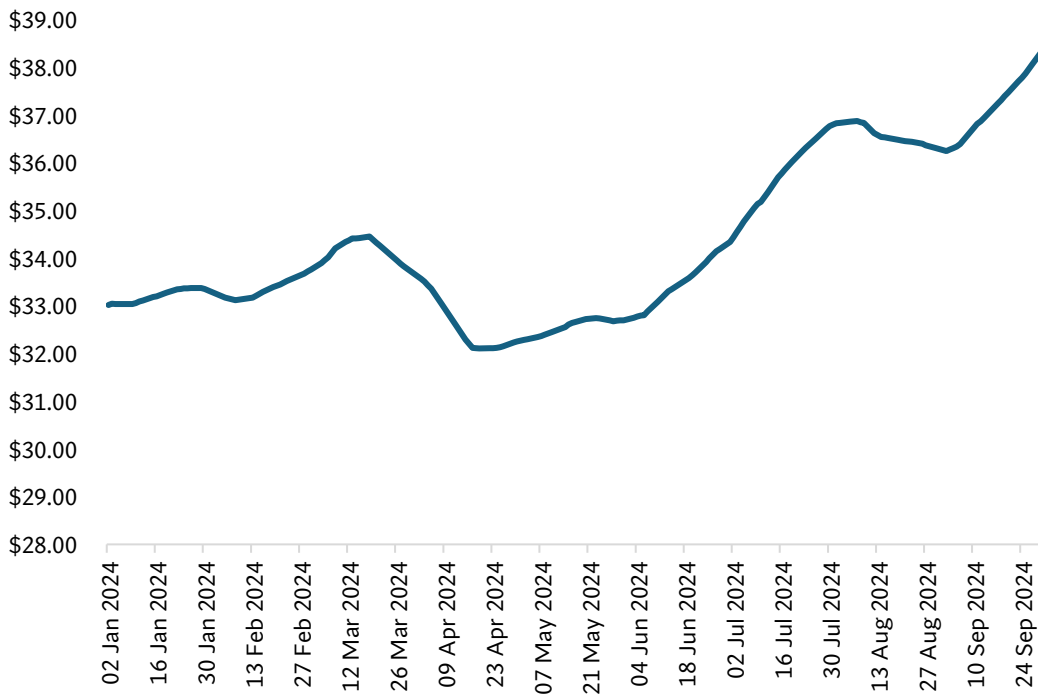
External Reserve and Foreign Exchange Market

Nigeria's external reserves closed at \$38.35 billion in Q3 2024, marking a significant recovery to levels not seen since September 2022, when it stood at \$38.36 billion. This sharp uptick was largely driven by several key factors, including the federal government's issuance of domestic dollar bonds, which attracted significant dollar inflows and external loans.

Despite this notable increase in reserves, the impact on the Naira was minimal, as exchange rate volatility persisted throughout Q3 2024. The Naira weakened to N1,667/\$ at the Investors & Exporters (I&E) window in September 2024 before appreciating slightly to N1,541/\$ by the end of the month. This appreciation was largely due to interventions by the Central Bank of Nigeria (CBN), which conducted dollar sales to Bureau de Change (BDCs) at various intervals during the quarter. However, despite these interventions, the closing rate of N1,541/\$ still represented a 2% depreciation from the N1,505/\$ rate recorded at the end of Q2 2024.

Additionally, as of the end of Q3 2024, the Naira at the I&E window traded at a 7% premium to the parallel (black) market, which closed the quarter at N1,656/\$. This widening gap between the official and parallel market rates underscores the continued volatility and pressure on the Naira amidst the ongoing foreign exchange challenges.

External Reserve Trend



Sources: FMDQ, Nairametrics, Aboki price, WSTC Research



Outlook

Economy

While we expect some improvement in oil production, we remain cautious about the Oil sector achieving the target of 1.78 million barrels per day (mbpd) in the final quarter of the year. Authorities have signaled their intention to encourage industry-wide collaboration to reduce production costs and enhance output. Additionally, plans to upgrade outdated infrastructure and implement a rig-sharing program aimed at ensuring continuous rig availability within the country are expected to deliver significant benefits both in the short and long term. However, these efforts may not be enough to meet the ambitious production targets for 2024.

In the Non-oil sector, a mix of positive and negative trends is emerging. We anticipate that the benefits of the harvest season will provide a boost to the Agricultural sector, supporting growth. Similarly, the recent directive by the Nigerian Communications Commission (NCC) to reactivate barred mobile numbers, as part of the NIN-SIM verification exercise, is expected to positively impact the telecommunications subsector. However, the broader Non-oil sector continues to grapple with significant challenges. Shrinking consumer disposable income, ongoing depreciation of the Naira, and elevated interest rates are all contributing to a difficult operating environment. These factors are expected to dampen demand and investment, casting a shadow over the sector's growth prospects and limiting its potential for recovery in the near term.

Given these dynamics, we anticipate that economic growth will be primarily driven by the Oil sector's performance. Consequently, we are revising our forecast for full-year 2024 real GDP growth to 3.31%, an upward revision from our earlier estimate of 3.20%. This adjustment reflects our expectation that the Oil sector will play a critical role in supporting overall economic activity, even as challenges persist in the Non-oil sector.

Domestic Inflation

Sustaining its trajectory of upward adjustments in PMS price, the NNPC implemented a further increase of 13% in October 2024, bringing the cost to N998/litre. This hike is expected to amplify inflationary pressures in Q4 2024, as rising transportation and energy costs will likely follow, dampening any hopes for inflation moderation.

Furthermore, the delayed implementation of the approved 150-day duty-free import waiver on essential food items as of the end of Q3 2024, compels us to temper our expectations and adopt a more cautious stance regarding its potential to alleviate food prices pressure in Q4 2024.



Fixed Income Market

In Q4 2024, we expect yields across several instrument to not exceed the levels observed in Q3 2024. This outlook is based on our expectation that the liquidity surplus—primarily fueled by coupon payments, maturing instruments, and FAAC allocations—will lead to increased demand for assets as investors seek to deploy their capital. As a result, the surge in demand is likely to put downward pressure on yields, which could cause a slight decline in yields.

Equities Market

Although yields are expected to moderate in Q4 2024, but they are anticipated to remain relatively high, which could dampen enthusiasm for equity investments. However, interim dividend payouts and positive corporate actions could help stimulate activity in the equities market. As a result, we foresee a mixed performance in the equities market.

On one hand, the elevated yields may dampen bullish sentiment in the market. On the other hand, potential selloffs, especially those driven by weak earnings reports due to foreign exchange (FX) losses—particularly in the consumer goods and telecommunications sectors—could present attractive buying opportunities for long-term investors.

Foreign Exchange Market

The demand-supply imbalance in the foreign exchange market is expected to continue for the rest of the year, further intensifying pressure on exchange rates. Although the growth in external reserves enhances the Central Bank of Nigeria's (CBN) ability to intervene, we do not anticipate a substantial appreciation of the Naira in Q4 2024.

Furthermore, the CBN has recently announced the introduction of the Electronic Foreign Exchange Matching System (EFEMS) in the Interbank Foreign Exchange Market, which is slated to become fully operational by December 1, 2024, following a two-week test run in November 2024. This system is designed to improve governance, increase transparency, and promote a market-driven exchange rate, which will be more accessible to the public. The goal is to reduce speculative activities and minimise market distortions.

However, we remain cautious about its immediate impact in Q4 2024, especially given the historically high demand for foreign exchange during this period. Seasonal outflows—such as payments for foreign tuition fees and international travel—are likely to place further strain on the market. We believe the true effectiveness of the EFEMS initiative will be more evident in 2025, assuming its implementation is successful, and the system functions as intended.



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Investment Recommendation

WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is $\geq 20\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 19% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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WSTC Securities Limited has its registered office at 2, Maitama Sule Street, South-West Ikoyi, Lagos, Nigeria.

Email: research@wstc.com.ng

Website: www.wstc.com.ng

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